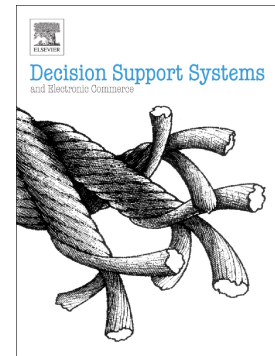


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Cannibalization and Competition Effects on a Manufacturer's Retail Channel Strategies: Implications on an Omni-Channel Business Model

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Abstract

This paper analyzes two effects caused by “channel conflict”, which occurs when firms newly add a direct online channel via the Internet or a mobile device. The first is an “intra-cannibalization effect” between the firms’ existing retail channel and the new online channel, and the second is the “inter-competition effect” between manufacturers and retailers in the supply chain. In particular, this paper investigates a manufacturer’s retailing channel strategy considering the relative market power between a manufacturer and a retailer in the supply chain, which has been rarely considered in previous studies.

This paper shows the manufacturer’s channel strategies: (i) if customers are very heterogeneous with regard to their receptiveness to online shopping, the manufacturer may use a multi-channel strategy, (ii) if the customer sector becomes homogeneous, the manufacturer will become more willing to adopt an omni-channel strategy. (iii) if customers are neither similar nor very different, the manufacturer uses a brick-and-mortar strategy. This paper also shows results on the issue of channel conflict in terms of market power: (i) the retailer may voluntarily limit its market power and thus, self-created competition in the retail market alleviates the problem of double-markup to some extent. (ii) the manufacturer can use an online channel when inter-competition effect becomes severe.

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