



Peer-to-peer selling in online platforms: A salient business model for virtual entrepreneurship^{☆, ☆☆}

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ABSTRACT

Although peer-to-peer (P2P) selling platforms enable entrepreneurs to set-up virtual businesses with relative ease, business models in P2P platforms remain an unexamined area. To address this gap, we use cross-disciplinary theory from marketing, strategic management, and business models to identify new value drivers in this context. Thus, this study makes an original contribution by developing and empirically testing components of a business model relevant to P2P platforms. Data from 366 virtual entrepreneurial firms was analyzed using structural equation modeling. Results highlight the significance of a holistic business model, that is, rather than their independent contribution, a synergistic combination of four value drivers (IPIN: Information processing capability, Product portfolio complexity, Innovative practices and Network membership) is critical to firm performance and satisfaction. The novelty lies in being the first to identify a salient business model in the P2P context that has practical and theoretical implications for virtual entrepreneurship.

1. Introduction

The rapid development of the internet has resulted in a seismic shift in entrepreneurship, allowing it to thrive wholly or partially in the virtual world (Cormode & Krishnamurthy, 2008; Davis, Spohrer, & Maglio, 2011; Kiskis, 2011). More specifically, peer-to-peer (P2P) websites have facilitated virtual entrepreneurship through their hardware and software improvements and new applications in connectivity technologies (Mačiulienė & Skaržauskienė, 2016).

P2P websites act as two-sided platforms connecting two different parties and charging one or more of them a fee for this facilitation. Entrepreneurs are able to use P2P networks to leverage their businesses in ways that were not previously possible. The success of P2P platforms has been remarkable. For instance, Etsy in the US had sales of about \$2 billion in 2016, and the more euro-centric DaWanda sold millions of products. These platforms are only two of the numerous P2P platforms that host millions of entrepreneurial ventures on their websites.

The new context of virtual entrepreneurship (via the latest P2P platforms) differs from the traditional physical context by allowing a seamless connection between businesses and users in myriad ways. In

addition, P2P platforms enable a future based on commons with shared resources managed by community users. These platforms offer the opportunity for social relations, new modes of production and allocation, a scalable technological infrastructure, and an economy rooted in fairness and sustainability (Bauwens & Kostakis, 2017). The full potential of the paradigm-changing P2P context remains unexplored and insights into these newer ways of doing business or what makes them successful remains unknown. In particular, extant research is silent on how new businesses operate and thrive on P2P platforms. Therefore, the research question motivating this study is, “*What is the business model followed by virtual entrepreneurial firms on P2P platforms?*”

The entry barriers faced by new ventures include access to resources, economies of scale, market segment identification and communication, and start-up capital (Porter, 2008). These entry barriers are especially challenging for small or micro-entrepreneurial firms. However, the ubiquity of the internet and access to two-sided platforms for P2P selling (Zhu & Iansiti, 2012), have helped reduce costs and mitigate some of these barriers to entry (Martin, 2004; Martin & Matlay, 2003). Consequently, virtual entrepreneurship becomes an attractive alternative for small and new businesses, as they are able to leverage the advantages provided by P2P platforms (Millman, Wong, Li, & Matlay, 2009).

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The unique features of the P2P context generate implications for scholarship and practice regarding the entrepreneurship concept, process, opportunity recognition, and the individuals engaging in virtual entrepreneurship. Furthermore, the taken-for-granted-assumptions about traditional entrepreneurship may not necessarily hold for entrepreneurship occurring in the online context. As such, scholars suggest that the application of theories and frameworks may have to be adapted to accommodate the features of the virtual context (Amit & Zott, 2001; Whetten, 1989). Indeed, in the realm of economics or in the context of larger corporations, scholars have researched business models and competitive frameworks in platform-based markets (Rochet & Tirole, 2003; Zhu & Iansiti, 2012). However, in the area of P2P selling platforms (an integral part of the current economy), much remains unknown. By taking a closer look at business models for these P2P contexts, entrepreneurs can better understand how to add value in this setting.

It must be noted that many distinguishing factors typically considered in the business model of physical firms (such as value propositions, revenue model, market opportunity and competitive environment) are *not* relevant for businesses hosted on online platforms like DaWanda, Etsy, Artfire, etc. This lack of relevance occurs because when firms use a common P2P selling platform, the net effect is a leveling of the playing field on these factors. Hence, new sources of differentiation may be necessary. Consequently, it raises the question: What would be the business model elements that are salient to a P2P context and how to identify them?

The core elements of a business model for virtual entrepreneurial firms on P2P platforms are explicated using complementary theory on business models in addition to multidisciplinary insights from innovation theory, network theory, information processing-theory, and the literature on product lines. These core elements are termed value drivers (Amit & Zott, 2001) and together, they comprise the business model for the specific context (i.e. virtual entrepreneurial firms operating on P2P selling platforms).

In the following sections, after presenting the IPIN business model, hypotheses tests related to the independent and synergistic effects of its four value drivers (Innovative business practices, Network membership, Information processing capability and Product portfolio complexity) on firm outcomes such as performance and satisfaction, are discussed. The contribution of the paper lies in (a) examining the unique context of virtual entrepreneurial firms operating via P2P platforms and (b) the explication, development and empirical test of the IPIN business model for this context.

2. Value drivers in P2P platforms

2.1. P2P platforms

P2P platforms operate by leveraging the interactivity of the internet and charge a fee for facilitating connections between multiple users. These online platforms generally vary in the service they provide and the parties they connect. For instance, Sony and Microsoft offer their PlayStation and Xbox platforms as a way to connect game players and developers, B2B auction websites connect buyers and sellers, and search platforms like Google connect internet users and advertisers (Zhu & Iansiti, 2012).

In the domain of P2P platforms, prior research has predominantly focused on P2P file-sharing (Xiaohe, 2006). Within the marquee of file sharing, the explored topics include unauthorized music sharing (Yang, Wang, & Mourali, 2015), movie sharing, and sharing other digital content (Swatman, Krueger, & Van Der Beek, 2006). From a commercial perspective, studies on the gaming industry (Davidovici-Nora, 2014), and moneylending or crowdfunding (Gamble, Brennan, & McAdam, 2017; Turi, Domingo-Ferrer, Sánchez, & Osmani, 2017) have been conducted. Other areas examined include e-collaboration and e-community creativity facilitated by P2P interactions (Fedorowicz, Laso-

Ballesteros, & Padilla-Meléndez, 2008). Some researchers have focused on specific attributes of the platform such as the impact of quantity of listings in Airbnb (Xie & Mao, 2017) or peer-networks in Etsy (Kuhn & Galloway, 2015); however, explorations of a business model remain lacking. Thus, it is important to note that while extant literature explores some concepts potentially pertaining to business models for e-commerce and P2P platforms, or information and communication technology developments, a research gap exists with regard to P2P business models.

Well-known P2P platforms come in a variety of forms such as connecting users with similar interests (Microsoft gaming platforms), connecting resource-sharers (Airbnb, Uber) and connecting buyers and sellers (EBay, Etsy). Thus, while research commonly focuses on the more typical formats of two-sided platform sales such as B2B or B2C (Muzellec, Ronteau, & Lambkin, 2015), P2P platforms remain under-researched. The unusual nature of P2P platforms therefore necessitates special attention.

2.2. Value drivers

In the virtual domain, value drivers are sources of value creation that augment the total value created by an e-business. Prior research considers these value drivers as the components of business models (Zott, Amit, & Massa, 2011). Almost two decades ago, Amit and Zott (2001) studied e-businesses with at least 10% of their profits from online transactions. They reported the most relevant value drivers to be lower costs due to transaction efficiency, higher revenues due to complementarities and bundling, lock-in by engaging customers in repeat transactions, and novelty in different aspects of conducting commercial transactions. More importantly, their work indicates *new domains have new value drivers*. Since entrepreneurial ventures engaging in online P2P selling occupy a new domain, it is likely they would have new value drivers. Though there is a continued focus on certain types of online business models (Muzellec et al., 2015), value drivers for the P2P platforms however, (particularly for primarily virtual firms), remain shrouded in mystery.

To address the call to develop new value drivers for new domains, this study relies on insights from extant research and multidisciplinary theory. Aspects of innovation theory (Schumpeter, 1934/1942), network theory (Dubini & Aldrich, 1991; Powell, Koput, Smith-Doerr, & Owen-Smith, 1999), information processing theory (McGaffey & Christy, 1975; Norton, 2004), and the literature on product lines (Kotler, 2002; Kotler & Armstrong, 2013) are the complementary theoretical underpinnings to develop a business model relevant to virtual enterprises on P2P platforms. Presented next, is an explication of each value driver of the IPIN business model: Information processing, Product portfolio complexity, Innovative practices and Network membership.

2.2.1. Information processing capability

The concept of bounded rationality underlies the significance of information processing activities; actors are constrained in their decision-making because of lack of time, information and/or information processing capacity (Simon, 1972). A crucial factor in extending the amount of information that firms can handle in the face of uncertainty, is the access and ability to utilize information processing-tools. Firms attempt to deal with uncertainty by gathering, processing and acting on data from the environment (Daft & Weick, 1984). Consequently, an important strategic activity that falls on entrepreneurs involves choosing what information to process and determining how to process it (Dollinger, 1984; Hartman, Lundberg, White, & Barnett, 1995; Rollins, Bellenger, & Johnston, 2012). While larger organizations can easily handle the challenges of disseminating or processing the vast volume of information necessary to manage a firm (Huber, 1991), it is a daunting task for entrepreneurial firms with fewer resources as they are often owner-managed or have a small team.

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