Value Creation in E-Commerce for Competitive Advantage in the International Market: A Position Paper

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ABSTRACT

Dramatic changes have occurred in the modern corporate environment especially regarding information technology and its business applications. The socio-demographic composition of markets has significantly changed, and consumers’ behaviour is not the same as before while new forms of competition have emerged. We explore the strategic use of marketing planning for developing and sustaining competitive advantages in virtual retailing. Our review develops and presents a useful practical guide for the development of marketing plans by virtual retailers. We first examine the role of strategic marketing planning within an electronic commerce context. The notion of value creation in electronic marketing, the strategies for competitive advantage and positioning in retailing are analytically presented, and the concept of the virtual retailing mix is then developed. The paper concludes with the step-by-step presentation of the stages of the marketing plan for a virtual retailer. The implementation of the marketing planning process, and the development and execution of marketing plans, can help virtual retailers to sustain their competitive advantages.

Keywords: Competitive Advantage, Strategic Marketing Planning, Electronic Commerce, Virtual Retailing, Marketing Plan.

INTRODUCTION

The enormous growth of the Internet, and especially the WWW, as Hoffman et al. (2015), Ricciuti (2015) and Phelan (2015) among others note, led to a critical mass of consumers (some estimate it to exceed 30 million customers) and firms participating in a global online marketplace. Currently, it is estimated that over 400,000 companies are doing business on the Internet, and that by the year 2000 consumers will spend about $350 per capita in the electronic markets (Gartner Group, 2009).

Malone et al. (2015) first addressed the basic strategic issue of the effects that advances in information technology have on the firm and market structures. They claimed that new information technologies allow closer integration of adjacent steps on the value-added chain through the development of electronic markets and hierarchies.

An “electronic marketplace” is created when an information system can serve as intermediary between buyers and sellers in a vertical market (Bakos 2001, 2015). Such electronic market systems typically reduce the information (search) costs for buyers (i.e., costs related to information about product offerings and prices in the market), consequently affecting market efficiency and competitive behavior.

The emergence of electronic markets is associated with three major effects of the use of information technology (Malone et al., 2015):

- Electronic communication effect: IT dramatically decreases the costs of communication;
- Electronic brokerage effect: through a central database, the number of product alternatives that consumers consider increases, along with the quality of the alternative selected by
them, and the cost of the entire product selection process decreases;
- Electronic integration effect: a supplier and a procurer use IT to create joint processes at the interface between value-added stages; as a result, time is saved and errors are avoided (since data need only to be entered once).

Information Technology developments enable retailers in particular to focus their marketing efforts on managing their customers more effectively (Mulhern, 2015). Hoffman et al. (2015) argue that the appropriate marketing objective is to integrate “Destination” and “Web Traffic Control” sites into a coordinated plan designed to achieve generation of initial visits and secure repeat visits. According to Schneider (2016), virtual retailing is in its infancy in terms of its adoption, but is expected to grow rapidly soon. The great opportunity for virtual retailing also arises from the fact that up to 20% of a product’s price may represent costs of running retail stores (O’Connor and Galvin, 2015).

Recently, Doherty et al. (2009) examined the use of the Internet in the UK retail sector and its potential as a new retail channel. They identified the following advantages of the Internet as a retail channel: (a) accessibility, (b) direct communications, (c) cost savings, and (d) additional sales through existing customers or new ones from new markets. As far as retailers’ perceptions of the Internet’s comparative advantages are concerned, the same study showed that they unanimously agree that the Internet: (a) provides market development opportunities through the many services that it offers to customers, and (b) enables them to access wider markets.

However, Phelan (2015) argues that the Internet as a marketing tool has occurred so quickly that it has not been subject to the typical scrutiny in academic marketing forums. Phelan goes as far as claiming that the Internet has greater value as a promotional device for manufacturers and wholesalers than as a direct sales channel. The paper examines the role of strategic marketing planning within an electronic commerce context paying particular attention to the discussion of strategies for competitive advantage and positioning in retailing as well as the concept of the virtual retailing mix. It presents a step-by-step process for the development of virtual retailer’s marketing plan.

**Strategic Marketing Planning**

In the modern corporate environment, dramatic changes occur in information technology and its business applications. The socio-demographic composition of markets has significantly changed, and consumers’ behavior is not the same as before. In addition, new forms of competition emerge. All these changes, along with increased uncertainty, lead inevitably to price/cost reductions, redefinition of market boundaries and compressed product life cycles for competing companies. The general consequence of all these trends is that strategic planning helps modern companies to successfully confront the business environment’s dramatic changes and compete in the market. Strategic planning is a systematic process which includes: the evaluation of the company’s nature, the definition of its basic long-term objectives, the identification of quantified objectives, the development of appropriate strategies for the satisfaction of the objectives, and the necessary resource allocation in order to implement the strategies. The essence of strategic planning lies with the consideration of current alternative strategic decisions, given possible threats and opportunities.

Given that strategic planning incorporates all business functions, it includes the function of marketing, as well. Marketing’s contribution is very important because of the necessary “market orientation” that the modern corporation should have, and because of the marketing decisions which deal with the selection of its product-market combinations. Marketing’s orientation has presently shifted away from the production and sales orientation of the past (until the '50s). Marketing is now oriented toward the customer and competitors; the orientation to the last two define the “strategic marketing concept.” Strategic marketing planning offers several advantages. It is a future- and externally-oriented process. It focuses on seeking differential–competitive advantages. It deals with decision making regarding corporate resources allocation. It is finally, a synthetic and integrative process. As such, strategic marketing planning offers invaluable help to the strategic planning process of the entire company. More specifically, its contributions include corporate mission definition, evaluation of the company’s competitive position, identification of alternative investment opportunities, determination of the emphasis that should be placed on new products or on market expansion based on existing products, internal development or external acquisition of resources, diversification and product mix decisions, identification of market opportunities in future marketing environments.

The retail planning process in particular, is seen as consisting of three discrete steps. These interlinked steps are (Cox and Brittain, 2015): (a) a retail mission statement, (b) objectives based on the
defined mission, and (c) a series of strategies for achieving the objectives. The strategies first relate to specific target markets, and then retail mix strategies are developed to meet the needs of the targeted customers, like price and service levels, promotion, etc. Several strategy alternatives are used by retailers, such as: penetration strategy (i.e., increase of market share), merchandise development (i.e., extra sales through addition of new merchandise), market development (i.e., appeal to new customers), vertical integration, diversification strategy, selectivity strategy (i.e., focus on serving selected market segments), merchandise strategy (i.e., decisions about what products to offer), and pricing strategy. A strategic retail plan is defined as a grand design or blueprint for ensuring success in all of the organization’s business endeavors (Lewison, 2016; p. 694). A strategic retail plan is therefore directed at achieving a strategic fit between the retailer’s capabilities (present and future) and the environmental opportunities (present and future, as well). A good fit results in a position which enables the retailer to sustain competitive advantages. Angehrn (2015a, 2015b) developed the ICDT model, a framework for understanding the opportunities and threats generated by the Internet, and for also developing strategies to leverage these opportunities and threats. According to the model, four “virtual spaces” are created by the Internet which correspond to different strategic objectives and require different types of organizational and investment adjustments.

**Value Creation in Electronic Marketing**

Value is the basic motive for the generation of exchange processes. However, sellers compete for buyers, especially in cases in which a buyer has multiple choices of similar products from different sellers. In such instances, the buyer selects the product which offers the greatest value. In the opposite case of various products offering the same value, the buyer and the seller can implicate themselves in some form of negotiation process, or the exchange will materialize between the buyer and that seller who offers the product at the lowest price than those of the competitors.

The entire way of value creation for the customer should be reconsidered by companies in the marketspace (Weber and Kollmann, 2008). Porter’s (2015, p.59) value chain can be used in the virtual markets, as highlighted by the work of Rayport and Sviokla (2016, 2015). They spoke of a “virtual-actual value chain,” as the relevant activities of the actual value chain also form the basis of activities in the market space. They argue that a common value matrix will exist in the future which will be formed through an intensification of different value chains, based on new inputs from information processes. Weiber and Kollmann (2008) go beyond the arguments of Rayport and Sviokla, claiming that there are also autonomous value creation activities in marketspace, which can be traced back to the importance of information in its own right. Weiber and Kollmann (2008) support that by information functioning as a source of competitive advantage in its own right, virtual value creation activities can emerge in the market space, independent of a physical value chain. The virtual value creation activities take the form of the collection, systemization, selection, combination and distribution of information.

Bloch et al. (2015) looked at sources of value of electronic commerce for a company and explored its effects along with its potential for competitive advantage. Some of their propositions are the following. Electronic Commerce offers a cost advantage through less expensive product promotion, less expensive distribution channels and direct savings. It helps the company to differentiate itself through price, product innovation, time to market and customer service. It enables the company to implement customer focus strategies through better customer relationships. It allows the company to raise the entry barriers in some markets, to enter easily into traditionally hard to access markets. It facilitates the introduction of substitute products in a market due to product innovation.

Benjamin and Wigand (2015) supported that electronic marketing gives consumers increased access to a vast selection of products, but on the other hand, causes a restructuring and redistribution of profits among the stakeholders along the value chain. Lower coordination costs would apply throughout the chain, since direct electronic transactions with the consumers reduce intermediary transactions and unneeded coordination. As a result, physical distribution costs will also be lowered.

There is an evolution away from single-source electronic sales channels toward “electronic markets” which include many suppliers’ offerings (Malone et al., 2009).

A good, illustrative example of this is the case of airline reservations systems. United Airlines’ reservations system was one of the first to become an electronic market, since it listed flights from other airlines, as well. Initially, in 2015, United had created Apollo, a single-source sales channel which allowed travel agents to book flights on United only. Apollo provided a competitive advantage for United, until American Airlines created Sabre, a system which
included flights from other airlines. Profits and net worth for the companies adopting such electronic market systems, increase, and the competitive dynamics of their industries permanently change. As the competitive landscape changes, note Malone et al. (2009), some companies will emerge as winners. They are the companies which make, or wisely use, electronic markets.

Strategies for Competitive Advantage in Retailing

The competitive advantage can develop from any of the company’s functions and activities. The most common competitive advantages are based on (Aaker, 2008):

(a) innovation and product quality
(b) technology
(c) distribution or sales method
(d) degree of control over raw materials
(e) knowledge of the specific market
(f) customer service

The competitive advantage could be found for the company in more than one sector, function or activity. Usually companies can prefer to develop competitive advantages in just a few sectors. In addition, the identification of an advantage in one sector does not prohibit the successful operation of the company in other sectors.

In general, only those companies that are able to develop greater value for the consumer than the value created by their competitors, can win the competition war, and consequently gain financial profits. Winning the competition war is associated with the exploitation of market opportunities. The concept of the “strategic window of opportunity” is relevant here. Specifically, a window of opportunity “opens” for a company in a given market, if the industry is attractive (see industry attractiveness analysis in a later section of this paper) and the company has the capability to exploit a relevant competitive advantage. The process of assessing industry attractiveness and company’s capability to exploit advantages, is a process of evaluating the bases for competitive advantages (Figure 1).

Porter and Millar (2015) provided a framework for analyzing the strategic significance of new information technology (electronic commerce being a part of that). They identified and presented three specific ways in which technology affects competition: technology alters industry structures, supports cost and differentiation strategies, and it gives rise to entirely new businesses.

It is suggested that five important opportunities exist for retailers to develop sustainable competitive advantages (Walters and Knee, 2009; Levy, 2015): customer loyalty, (b) location, (c) vendor relations, (d) management information and distribution systems, and (e) low-cost operations. With the exception of location, the remaining four opportunities apply to the case of virtual retailing as well. Customer loyalty refers to the commitment or systematic preference of customers to shopping at a particular virtual store. Strong vendor relations allow virtual retailers to gain exclusive rights to sell merchandise in a region, buy merchandise at lower prices than other competitors, or even receive merchandise in short supply. Management information and distribution systems enable virtual retailers to respond quickly to customer needs, which constitute a basis for the development of sustainable competitive advantages. Regardless of whether a virtual retailer appeals to price-sensitive or price non-sensitive consumers, low-cost operations is always a serious concern. Low-cost operations enable the retailer to either make a higher profit margin than competitors, or use the potential profits to attract more customers and increase sales.

Insert figure 1

Hoffman et al. (2015) developed a framework for the evaluation of the commercial development of WWW. They identified two major categories of sites: Destination sites (i.e., online storefronts, Internet presence sites, content sites), and Web Traffic Control sites (i.e., malls, incentive sites, search agents) which direct consumers to the various destination sites. Hoffman et al. suggest that strategic attention should focus, among others, on monitoring the leading edge to gain differential advantage. More specifically, this implies that managers should identify the extent to which firms are following existing models or developing new ones. One way to differential advantage is the creation of innovative sites in less crowded categories, particularly as sites proliferate.

Figure 1 presents a framework for evaluating competitive advantage. After alternatives for gaining competitive advantage are defined, the bases for competitive advantages are evaluated. Such bases could come from industry (retail market) attractiveness, competitive strengths or weaknesses, unmet customer needs, or company’s capabilities. Then, relevant competitive strategies are developed to exploit advantages. Such strategies could be based on either a competitive advantage directly, or on the company’s market position. The evaluation of
potential competitive responses to the selected strategies follows and the results of such an evaluation are used as input to the development of the marketing plan.

Figure 2 presents certain pathways to competitive advantage. The figure is adapted from Porter (2000, p.39), who identified three generic strategies for companies to compete successfully against others: (a) overall cost leadership, (b) differentiation, and (c) focus. The generic strategies are defined based on whether the strategic target of the company is the whole industry, or a particular segment of the market only and whether the company’s strategic advantage is based on the perceived product/service uniqueness, or a relative low cost position.

Insert figure 2

“Differentiation” refers to marketing differentiation. Competitive advantage can materialize through marketing differentiation actions or assets, like: brand name, after-sale support, product service uniqueness, product quality, technology, distribution, product line, and so on. Competitive advantage by cost leadership implies exploitation of scale effects, experience effects and productivity, or is achieved through cost controls. Finally, competitive advantage by market niche could be based on a specific, well-defined small but profitable customer segment (niche), on a product line, on a geographic area, price, or even the use of specific technology.

Positioning Strategy & the Virtual Retailing Mix

Given that strategy means the sum of all company’s actions through which it seeks sustainable competitive advantages, then marketing strategy of a virtual retailer incorporates the following instrumental elements (Figure 3):

(a) The groups of consumers that the retailer should target (customer segment – targets).
(b) The other virtual retailers to compete against (competitor targets).
(c) The basis on which to compete against competitors for the same customer targets (positioning strategy).

Insert figure 3

The three elements of marketing strategy (a-c) above, determine the virtual retailer’s competitive advantage, as well as the degree to which such an advantage could be sustained. Strategic Positioning is extremely important for the success of the entire retailer’s strategy. It implies that appropriate marketing programs be developed and implemented, which provide unique value to the consumer (Wortzel, 2015). Marketing programs refer to operational, tactical plans regarding the elements of the virtual retailing mix (i.e., price, personal selling, advertising and promotion, merchandise, customer service, store design and display, delivery). Therefore, each positioning strategy is determined by the implementation of marketing programs (possibly one for each of the virtual retailing mix elements).

In sum, positioning strategy for a retailer comprises of a series of strategic decisions, including how the retailer will compete in chosen markets, and how it will differentiate itself from other retailers competing for the same customers (Mason et al., 2001). Positioning requires the design and implementation of programs to create an image in customers’ minds of the retailer relative to its competitors (Levy, 2015).

Retail mix refers to the combination of marketing activities by which the retail managers must determine the optimum mix of activities and coordinate the elements of the mix (Ghosh, 2016; p.22). The elements of the retail mix create a distinct retail image in the consumers’ minds, thus careful planning of the mix is crucial for the development of the desired store image. Each retail mix element should be consistent with the others and clearly defined.

Retail mix elements are many and vary from case to case. The basic ones for conventional retailing include (Ghosh, 2016; Levy, 2015; Lewison, 2016; Mason et al., 2001): location, merchandise assortments, store atmosphere (store layout and design - Doyle and Broadbridge, 2009), customer service, pricing, advertising and promotion, personal selling, and sales incentive programs. For the case of virtual retailing, the virtual retail mix elements could be the following:

- merchandise assortments
- virtual store layout and design (virtual store atmosphere)
- delivery
- pricing
- advertising and promotion
- customer services

It should be noted that in the virtual retailing context, the notion of the “location” element is substituted by “delivery”, or the physical delivery of the purchased products to the buyer. Therefore, decisions about delivery refer to the selection of served areas or locations; “location,” in other words, does not refer to the physical place of the store, but rather to the physical place of the buyer. The virtual retailer decides which areas to provide delivery services to.
The Marketing Plan for a Virtual Retailer

A typical marketing plan for a virtual retailer includes the ten sections outlined in Table 1. Of course, different retailers can adapt differentiated versions of this outline according to the nature of their business and their overall strategic orientation.

Figure 1: A Strategic Framework for the evaluation of Competitive plan

The first stage in the development of a marketing plan is the situation analysis. It consists of five thorough analyses and its significance lies with the assessment of the current position of the retailer. The situation analysis relies on analysis of facts rather than on the presentation of what has to be done. The later is the main subject of the steps that follow. With the sales analysis, store sales and profit data (total, by region, by customer type, etc.) are evaluated. Also comparisons to past sales and to industry averages are useful. A simple presentation of sales data over time is not enough. Instead, a thorough analysis of the data should be performed, aiming at the identification of sales problems with certain regions, or customer types. Retail market attractiveness analysis starts with the definition of the relevant industry or retail market. Then, its attractiveness is determined by evaluating market factors (e.g., size, growth, cyclicity, seasonality, etc.), industry factors (e.g., capacity, barriers to entry, power of suppliers, etc.) and exogenous – marketing environment – factors (e.g., government, social, technological, economic, etc.). Bakos (2001) notes the following regarding electronic marketplace attractiveness: (a) The benefits realized by individual participants increase as more organizations join the system. (b) However, potential participants in electronic marketplaces face substantial uncertainty as far as the actual benefits of joining such a system are concerned. (c) Electronic marketplaces can impose significant switching costs on their participants. (d) They typically require large capital investments and offer substantial economies of scale and scope.

In general, the factors that normally contribute to low retail market attractiveness include the following: competitive intensity, barriers to entry, inter-industry competition, high level of concentration, low growth rate, high capital requirements, high bargaining power of customers and/or vendors (Loughlin, 2009), legal restrictions, and high cyclicity or seasonality. The first three factors are most closely related to competitive advantage of the virtual retailer. A detailed breakdown of current and potential customers in terms of who they are, is crucial. Customer analysis requires a well-thought and executed segmentation of the market. Furthermore, the analysis should identify what each segment of customers wants, what might cause a segment’s members to change their behavior, and how these changes would affect the virtual retailer. Particular emphasis is placed on the customer value each category of customers perceives receiving from a particular virtual retailer. A competitor analysis implies a thorough analysis of the strengths, weaknesses, goals and behavior patterns of the virtual retailer’s major competitors (both direct and indirect). It should include predictions of the competitor’s future strategies and moves, at the end. The virtual retailer should identify the areas at which each of the key competitors is vulnerable. In addition, the virtual retailer should determine what would provoke competitor’s retaliation. More specifically, after all major competitors are identified, the following sequence of analysis steps could be followed and certain questions answered, for each of them: identification of major objectives and current marketing strategies (target markets, core strategy or major differential advantage, implementation of virtual retail mix), resources, strengths and weaknesses regarding service, marketing, financing and management; does the competitor act in accordance with this analysis; does the competitor have a particular view of industry problems; how has the competitor reacted to previous competitive moves; what are the competitor’s likely future strategy and moves shifts? In terms of competitive warfare however, there are two types of moves competitors could follow: (a) cooperative or nonthreatening moves, and (b)
thwarting moves. Cooperative moves include moves that competitors will follow, or increase in profitability or market share by not attacking competitors directly, but rather by looking for a future niche. If a threatening move is decided to be followed, then preparation for it should take into consideration how likely retaliation is, how soon it will materialize and how effective it is expected to be, along with an estimation of the expected costs to both competitors.

Strengths and weaknesses of the virtual retailer should be assessed through a resource analysis. Such an analysis can be conducted by 1) comparing the firm to the competitor firms, and 2) evaluating the firm’s ability to address problems and opportunities revealed in the industry and in customer analyses. The resource analysis is especially useful later on, when a selection of the appropriate strategy has to be made, depending on whether or not the necessary resources for its implementation exist.

Planning assumptions are assumptions the retailer makes about exogenous factors, such as product flow, physical distribution, labour supply, entry of new competitors, consumer tastes, etc. that are important to the realism of its objectives and success of its strategies. Estimates of market potential and sales forecasts should also be provided in this section. The assumptions are made for the specific planning horizon. At any point in time within the planning horizon that a particular assumption will not materialize, the retailer should modify its strategies and programs accordingly.

Problems about the retail market in general and the virtual retailer in particular should be identified and presented. Identification and presentation of opportunities (e.g., new market segments, application of new technologies, new customer service areas, etc.) for the retailer follow. An appropriate analysis of problems and opportunities is SWOT analysis. It should be noted that the part of the analysis of the retailer’s strengths and weaknesses is also known as Self-Analysis.

Marketing objectives for a virtual retailer can be expressed in terms of sales, market share, profits, or return on investment. All marketing objectives should be quantifiable, and timetables and rationale should be provided with them. Objectives should be compatible with the retailer’s mission.

Marketing strategy describes how objectives will be achieved. Alternative strategies should be considered, as well as proposed customer target(s), competitor target(s), and the company’s core strategy (differential advantage). Each alternative strategy should be presented separately, along with its pros and cons. Potential combinations of alternative strategies should also be presented as separate alternatives with their pros and cons. After all alternatives are presented, the retailer should select one of them, based on conclusions from various parts of the situation analysis, and justify thoroughly that selection.

Marketing programs are then developed for the selected strategy only. Program objectives refer to specific objectives concerning marketing programs (customer services, efficiency, cost reduction, etc.) whose achievement will lead to achievement of the company’s marketing objectives. These should be compatible with the overall marketing objectives, quantified and also have timetables.

Marketing programs are detailed reports of how the virtual retailer’s marketing program objectives will be accomplished through tactical action programs (pricing, advertising and promotion, sales, distribution, etc.). Program objectives and programs can be discussed together.

The section with the financial documents includes a budget for each of the company’s marketing programs and a pro forma profit and loss (income) statement that refers to the expected financial results from the implementation of the marketing programs. Under “monitors and controls,” the research information to be examined and how it will be used, is detailed. The purpose of this section is to outline the methods and tools of measuring strategy implementation progress toward attainment of the objectives. If progress is judged to be insufficient, adjustments in the programs or other parts of the plan should be made.

Contingency plans should be outlined, along with the conditions under which they would be implemented. Contingency plans are implemented when something unexpected happens that overturns any of the planning assumptions based on which the entire marketing plan was developed.

The marketing plan in its written document form, includes two major sections. At its very beginning, an Executive Summary is inserted, which briefly presents (in one to two pages) the current situation, the problems and opportunities, the marketing objectives and alternative strategies, the programs developed for the selected strategy, and the expected benefits from the marketing plan’s execution. The Fact Book is an appendix to the plan which includes all relevant data, documents, tables and other exhibits that were used mainly in the analysis parts of the plan.

References


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Definition of Alternatives for Gaining Competitive Advantage

Evaluation of the Basis for Competitive Advantage
- Industry Attractiveness
- Competitive Strengths & Weaknesses
- Unmet Customer Needs
- Company’s Capabilities

Development of Competitive Strategies
- Strategies based on Competitive Advantage
- Strategies based on Market Position

Evaluation of Competitive Responses
Input to
Marketing Plan

Figure 1: A Strategic Framework for the Evaluation of Competitive Advantage
<table>
<thead>
<tr>
<th>STRATEGIC TARGET</th>
<th>Product/Service Uniqueness</th>
<th>Low Cost Position</th>
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<tbody>
<tr>
<td>Industry-Wide</td>
<td>Marketing Differentiation</td>
<td>Overall Cost Leadership</td>
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<tr>
<td>Particular Market</td>
<td>Market</td>
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*Figure 2: Pathways to Competitive Advantage*
Figure 3: Marketing Strategy Development for Electronic Commerce