Triangular Strategic Analysis for Hybrid E-Retailers

In Lee
Western Illinois University, USA

INTRODUCTION

For traditional retailers, the success of an e-channel lies largely in formulating and implementing a sound e-channel strategy that leverages their resource base. Numerous evidences show that poorly developed e-channels have added little value to retailers (Huang, 2003; Prencipe & McCarthy, 2002). Some of the poorly developed e-channels have had a negative impact on business performance due to an excessive investment, disappointing sales, and low margin (Nataraj & Lee, 2002). The poor performance arose from focusing on the Internet as a separate channel not affected by the activities in other existing channels (Kannan, 2001). For many traditional retailers, their costly and frequent e-channel reorganizations could have been avoided if they had adequately analyzed the strategic fit between their external environment and e-channel organization.

There has been no universally applicable business strategy for e-channels. For many retailers, the right mix of the traditional channels and e-channel is critical to their business success (Gulati & Garino, 2000). Despite the strategic value of the e-channel, there have been only a paucity of frameworks that help managers initiate and formulate the e-commerce strategy (Allen & Fjermestad, 2001; Lee, 2001). A number of strategic analysis models such as SWOT analysis, five forces model, resource-based view, and critical success factors have been applied to the e-commerce strategy development. These models attempted to formulate a business strategy from different perspectives of a business organization, but have not been fully integrated with each other. Formulating a business strategy based on the analysis and integration of multiple perspectives will result in a more competitive strategy than those of a single perspective.

Based on a number of e-channel case studies and strategic management theories, this short article presents (1) an overview of a triangular strategic analysis and (2) an example application of the triangular strategic analysis with an Office Depot case study. Data on the Office Depot's e-channel strategy and implementation were collected through secondary sources such as trade journals and Office Depot's official publications. The triangular strategic analysis consists of (1) competitive forces analysis, (2) resource base analysis, and (3) critical success factor analysis

BACKGROUND

To capture the ever-increasing B2C population, retailers have experimented with a variety of B2C business models (Gulati & Garino, 2000). Some of the widely used e-commerce models include auction models (e.g., eBay.com), reverse auction models (e.g., Priceline.com), portal models (e.g., Yahoo.com), stand-alone e-retailer models (e.g., Amazon.com), and hybrid e-retailer models (e.g., Walmart.com). While B2B e-commerce applications such as e-procurement systems and the Internet-based supply chain management have brought significant benefits to business organizations, many B2C business models have failed to generate sustainable long-term profits.

In the late 1990s, most stand-alone e-retailers of commodity type products suffered the hardest hits due to low margin, rising customer acquisition cost, and the lack of financial support of investors (Stockport, Kunnath, & Sedick, 2001). Numerous stand-alone e-retailers such as Garden.com, Boo.com, and Petopia.com were consolidated with traditional retailers or liquidated (Kujubu & Martin, 2001). These failures were attributed to the poor business plan, weak complementary resources in distribution network and customer services, lack of brand name recognition, and low entry barriers.

Evidence shows that a misdirected e-channel development leads to costly and frequent revisions of e-commerce strategies. Kmart and Wal-Mart experienced a costly revision of their e-channel strategies. Kmart initially created a spin-off entity, BlueLight.com, in December 1999 as a joint venture between Kmart and Softbank Venture Capital. After Kmart withdrew from a planned initial public offering (IPO) for BlueLight.com in 2000, it acquired all of the interests of BlueLight.com in 2001. Walmart.com is another example of the costly revision of an e-channel strategy. Walmart.com was established in January 2000 as an independent company operating as a joint venture between Wal-Mart and Accel Partners. In 2001, Wal-Mart acquired all the minority interest in Walmart.com in order to establish the tight integration between its e-channel and physical stores.

Since each organization is uniquely positioned in a market with a different set of competitive forces, critical success factors, and capabilities, no single e-channel strategy would be suitable for all organizations. The successful deployment of an e-channel requires a thorough review and analysis of all major business activities, including business strategies, processes, functions, and vendor/customer relationships. For traditional retailers, poorly deployed e-channels without cross-channel coordination and integration mechanisms in place cannot create competitive advantages. These e-channels may also have a negative impact on other channels by losing customers who value a seamless cross-channel experience. The triangular strategic analysis will provides managers with a unified view of a business organization by combining and presenting multiple organizational perspectives.

TRIANGULAR STRATEGIC ANALYSIS FOR HYBRID E-RETAILERS

The purposes of strategic analysis are to examine the current and future business environments, to identify new business opportunities and threats, and to develop strategies to counter competition and achieve strategic goals. A number of strategic analysis models have been developed with the emphasis on different perspectives of a business strategy development. Table 1 summarizes major strategic theories/models, their purposes, advantages, and disadvantages. Based on the complementarities of these models, we utilize three analysis models in an e-channel development framework. The triangular strategic analysis consists of (1) competitive forces analysis, (2) resource base analysis; and (3) critical success factor analysis. While each of these strategic analysis methods

Table 1. Summary of major strategic management theories/models

Major Theories/Models	Proponents	Characteristics
Five Forces Model of Industry Competition	Porter (1980)	His basic theory was that dynamics of five competitive forces determine the nature of competitiveness in an industry and influence the strategies available to firms in the industry. The competitive forces are: (1) threat of new entry into an industry; (2) intensity of rivalry among existing competitors; (3) pressure from substitute products; (4) bargaining power of buyers; and (5) bargaining power of suppliers.
Resource Based View (RBV)	Wernerfelt (1984)	RBV suggests that firms compete not just in terms of final products, but more fundamentally in terms of the underlying “resources” which make production and product diversification possible. From a resource-based view every firm has a unique set of resources that the firm can leverage to exploit opportunities and counter threats.
Core Competence	Prahalad and Hamel (1990)	Core competencies are the collective learning in the organization that gives the company a unique advantage over its competitors. Core competence can manifest itself in many ways. Core competence is communication, involvement, and a deep commitment to working across organizational boundaries. It is the skills of individuals who can blend their expertise with that of others in new and interesting ways.
Balanced Scorecard (BSC)	Kaplan and Norton (1996)	The Balanced Scorecard is a method for turning a company’s vision and strategy into a coherent set of performance measures distributed among four perspectives: Financial, Customer, Internal Business Processes, and Learning and Growth. The framework provides a balance between short- and long-term objectives, financial and nonfinancial measures, and external and internal performance indicators.
Critical Success Factor (CSF) Analysis	Rockart (1979)	CSF analysis is a method developed to guide businesses in creating and measuring success. CSFs are key areas where satisfactory performance is required for the organization to achieve its goals. Rockart provided the following as an example of the CSFs: new product development, good distribution, and effective advertising - factors that remain relevant today for many firms.