Creating Competitive Advantages in the E-Commerce Industry

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Executive Summary

All internet success stories tell a similar story: an innovative idea delivered with impeccable service. E-commerce is a business where if you set it up right, it will grow on its own. Word of mouth may be fast, but it is not nearly as fast as word on the web. Good, reliable, trustworthy customer service is exceedingly important for the online retailer since with the tap of a few keys, consumers can make or break the reputation of an online store. Low price and convenience are great, but when there’s a plethora of stores all vying for the same customer pool, it’s not good enough to keep customers coming back. So, how do you keep them coming back? A trend in most major e-businesses is their creation of interactive websites that provide platforms for virtual communities and personalization\(^{15}\). These are commodities that cannot be easily imitated by rivals, thus leading to a sustainable competitive advantage and a long-run economic value.

The Web is truly a global marketplace where every store is open 24-hours a day and 7-days a week. This being a novelty, in the early years of e-commerce development, entrepreneurs believed the Internet to be an ideal place to launch a new business. This belief created a web rush and electronic retailers (e-tailers) quickly marked their territories in the limited market space. What seemed to be an exponential growth path,
however, quickly unraveled. Venture capitalists began to question the value of e-commerce firms in the late 1990s, closing off their funding pipeline and leading to the failure of one e-tailer after another\textsuperscript{16}. They became reluctant to provide cash to companies that were struggling to report even one year of profitability. The late 1990s burst of the IT bubble signaled the beginning of a brand new phase for the e-commerce industry\textsuperscript{6}. Unsustainable growth was no longer a promising strategy, but rather, e-tailers had to develop competitive advantages that would reshape them as sustainable and profitable entities. Companies desperately sought and are still seeking to find prominent value-drivers to keep them afloat.

In this paper, I will identify the key success factors in the e-commerce industry – the factors that are essential in winning customer satisfaction, and thus customer loyalty. The two main issues to be addressed are the following:

1. What factors create a competitive edge in the e-commerce industry? Having identified such success factors, how can a firm implement these into its business strategy?

2. Should an electronic retailer focus on targeting certain groups of people who may be more susceptible to shop online? If so, who are they?

The goal is to answer the above questions through literature review, empirical findings, as well as case studies of e-commerce firms.

This paper is structured in the following fashion: first, literature review will provide information to help understand the importance of virtual communities and
Satisfying your customers has never been as important as it is now. Online retailers are constantly being challenged by competitors in every aspect of their business: prices, selection, availability, convenience, customer service, personalization, and virtual communities. Of these, personalization and virtual communities are the hardest to replicate since much of what makes them valuable is intangible. An excellent example is the website that is highly personalized, and therefore, increases the switching costs for the consumer. Given that all else remains the same, the consumer is much less likely to use another provider since they have already put in the initial effort and time to receive their individually tailored information. This highlights the importance of recruiting new customers: once a member, consumers need more of an incentive to switch, whereas, all vendors may have been of equal status previously.

The same can be said about virtual communities. Virtual communities were founded on the premise of the advantages of information sharing. By sharing information on a
product or experience, consumers can shift the balance from the seller to the buyer. When the buyer can directly influence the sale of a product by posting comments about the product or services rendered, pleasing each individual buyer becomes more important. This shift, however, creates a motive for the seller, as well, because it provides valuable information on the detailed interests of the consumer. Direct feedback from the consumers helps minimize the time and money spent on trial and error. As the community flourishes, the value of this information increases and both parties benefit: the consumer benefits from better services and the retailers benefit from increased spending.

The paper will give a conclusion that virtual communities and personalization features have become crucial assets to e-businesses. Understanding consumer preferences in multiple dimensions and tailoring Web experiences to their relative needs will separate winners from losers in the game of e-business. How well individual Web brands meet customer expectations will determine who keeps users loyal, and who will fall prey to more savvy competitors that lure customers away by offering more of what they want online. Reaching for customers through virtual communities and personalization is an important step to provide those components that create a good consumer experience.