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Review Paper

A Preliminary Review of Electronic Marketplace Conceptualization and Integrating the Internet into Competitive Marketing Strategy

Natia Beridze[1] and Gela Mamuladze[2*]
[1]-MBA, Invited teacher at Department of Business Administration, Batumi Shota Rustaveli State University,Georgia.
[2]-Professor, Department of Business Administration, Batumi Shota Rustaveli State University, Georgia.

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Corresponding Author:
Gela Mamuladze
Professor,
Department of Business Administration, Batumi Shota Rustaveli State University, Georgia.

Abstract
Competitive strategy is primarily concerned with how a business should deploy resources at its disposal to achieve and maintain defensible competitive positional advantages in the marketplace. Competitive marketing strategy focuses on how a business should deploy marketing resources at its disposal to facilitate the achievement and maintenance of competitive positional advantages in the marketplace. In a growing number of product-markets, the competitive landscape has evolved from a predominantly physical marketplace to one encompassing both the physical and the electronic marketplace. This article presents a conceptual framework delineating the drivers and outcomes of marketing strategy in the context of competing in this broader, evolving marketplace. The proposed framework provides insights into changes in the nature and scope of marketing strategy; specific industry, product, buyer, and buying environment characteristics; and the unique skills and resources of the firm that assume added relevance in the context of competing in the evolving marketplace.

Keywords: *Electronic Marketplace, The Internet, Customization, communication, competitive strategy.*

Introduction

In a growing number of product-markets, the competitive landscape has evolved from a predominantly physical marketplace to a broader marketplace encompassing both the physical and the electronic marketplace. The emergence of the electronic marketplace has been associated with a number of developments, including the following:

- Greater information richness of the transactional and relational environment
- Lower information search costs for buyers
- Diminished information asymmetry between sellers and buyers
- Electronic spatial proximity of buyers and sellers
- Greater temporal separation between time of purchase and time of possession of physical products purchased in the electronic marketplace
- Greater temporal proximity between time of purchase and time of possession of digital products purchased in the electronic marketplace.

Literature Review

Concurrently, scholarly research in marketing has focused on such issues as new models of communication (Hoffman and Novak 1996), buyers' and sellers' incentives to participate in the electronic marketplace (Alba et al. 1997) and the migration of products to the electronic marketplace (Peterson, Balasubramanian 1997). The contextual relevance of factors such as industry structure characteristics (e.g., market dispersion and market thinness), product characteristics (e.g., product digitizability), and buying environment (e.g., information search costs) for competing in the electronic marketplace have also been explored in recent research (Alba et al. 1997; Bakos 1991, 1997; Gurbaxani and Whang 1991; Hoffman and Novak 1996, 1997; Lynch and Ariely 2000. Contributions from strategy (e.g., Porter 2001), management information systems (e.g., Adam and Yesha 1996), economics (e.g., Bakos 199 t, 1997; Gurbaxani and Whang 1991; Shapiro and Varian 1999), and technology (e.g., Clark 1996; Oliver 1996) complement the above research streams in marketing.

Against this backdrop, this article focuses on the implications for marketing strategy of a competitive landscape that is evolving from a physical marketplace to one encompassing both the physical and the electronic marketplace. More specifically, our objectives are to:
-Delineate the nature and scope of competitive marketing strategy in reference to competing in the physical and the electronic marketplace; and
-Develop a conceptual framework that delineates representative industry structure, firm, product, buyer, and buying environment

characteristics pertinent to competing in the physical and the electronic marketplace.

Comparison across Studies
The Internet, a rapidly expanding global computer and communications infrastructure, has facilitated the emergence of computer-mediated environments that serve as electronic marketplaces for buyers and sellers. Bakos (1991) defined the electronic marketplace as "an inter-organizational information system that allows participating buyers and sellers to exchange information about prices and product offerings" (Bakos, 296).

According to Barrett and Konsynski (1982), inter-organizational information systems span organizational boundaries, linking firms to their customers and/or suppliers. This view of the electronic marketplace, while useful, appears restrictive in two respects. First, the term inter-organizational information system seems to suggest an infrastructure created by and for organizations. In reality, the role played by consumer-controlled access devices (e.g., personal computers and personal digital assistants) continues to increase. Therefore, in conceptualizing the electronic marketplace, the broader term networked information system seems more appropriate than the seemingly restrictive term inter-organizational information systems. Second, the nature and scope of activities that occur in the electronic marketplace often extend well beyond the "exchange of information about prices and product offerings." In fact, what often transpires after the exchange of information - a transaction and other activities related to the transaction-- represent important functions that are also facilitated by the electronic marketplace and should, therefore, be noted. While the specific implementation of such functions may vary across firms, any conceptualization of the electronic marketplace must more fully encompass the scope of activities that may occur in such a setting. Accordingly, we conceptualize the electronic marketplace as a networked information system that serves as an enabling infrastructure. For buyers and sellers to exchange information, transact, and perform other activities related to the transaction before, during, and after the transaction. A brief elaboration of this conceptualization follows. As can be noted, an electronic marketplace performs essentially the same set of functions as a physical marketplace--both bring buyers and sellers together. While they both share this important common purpose, electronic and physical marketplaces do have certain distinguishing characteristics. The most obvious salient difference, of course, is that the enabling infrastructure is electronic rather than physical. This difference, in turn, leads to a number of other differences that are worth mentioning. For instance, variations such as the following are increasingly prevalent in the electronic marketplace: private electronic marketplaces that serve either multiple buyers and a seller (e.g., buyers purchasing tickets directly from an airline's Web site) or multiple sellers and a buyer (e.g., sellers participating in a live reverse auction at a prespecified date and time in response to a call for bids posted by a buyer). Such variations can occur in the physical marketplace as well, but they can be scaled much more readily in the context of the electronic marketplace. A second distinguishing characteristic pertains to the increasingly prominent role played by other participants in the electronic marketplace--entities other than buyers and sellers who provide value-added services to buyers and/or sellers. For example, interacting with other marketplace participants may involve activities such as a buyer accessing information about product quality and price of competing brands comprising his or her consideration set from an entity other than a seller and engaging in a conversation about product quality and price of competing brand offerings with past and prospective buyers in an electronic chat room. Again, while such interactions can also occur in the physical marketplace, their prevalence and scalability are greater in the electronic marketplace. As the electronic marketplace evolves, additional distinguishing characteristics relative to the physical marketplace may emerge and thus deserve close attention. How this evolution is likely to occur is the focus of the next section.

Market thinness, customer dispersion, and relative emphasis on competing in the physical versus the electronic marketplace. Among the structural characteristics of a market that favor placing greater emphasis on competing in the electronic marketplace vis-~t-vis the physical marketplace are market thinness and customer dispersion (Gupta and Chatterjee 1997). Thin markets, such as the market for antique cars, tend to have undesirable properties for both buyers (e.g., lack of choice) and sellers (e.g., inability to locate buyers). The electronic marketplace, due to its effectiveness in bringing potential buyers and sellers together, is conducive to improving the working of thin markets. Dispersion of customers over a wide geographical area, as opposed to concentration in one geographical area, results in a market that is thin on the buyer side at the local level. A business focused on a local market may not be viable due to the small number of potential buyers in that market. However, by leveraging the potential of the Internet, a seller, by aggregating buyers dispersed over several local markets, may be able to create a viable customer base and cater to their needs in the electronic marketplace. Network externalities, tippy markets, and market pioneering. Network externalities (or effects) refers to the phenomenon of a product becoming increasingly valuable to its present and potential users as the number of others who adopt, own, or use the product (i.e., the size of the network) increases. For instance, as the installed base of fax machines increases, so does the usefulness of the device to each individual with access to the service. For markets characterized by network effects, the market pioneer, by cultivating a large user base for its product offering prior to the entry of competitors, can achieve a competitive advantage. Such effects are often observed in the case of many communication technologies (e.g., telephones, fax machines, e-mail).

Product digitizability, by facilitating networked intelligence (i.e., products being able to interact with each other and with individuals), can increase substantially a product's functionality. The greater the order of magnitude of network effects, the greater the importance of market pioneering as a source of competitive advantage for digital products vis-a-vis nondigital products. Channel structure characteristics and marketing directly to customers. An inverse relationship can be expected to exist between concentration at the intermediary level and the propensity of producers to transact directly with customers in the electronic marketplace (i.e., resort to disintermediation). An indicator of concentration at the intermediary level is the percentage of industry sales accounted for by the largest intermediaries. In the United States, the airline industry is characterized by low concentration (high fragmentation) at the intermediary level (i.e., several thousand travel agencies that are small in size, relative to the size of commercial passenger airlines). In such industries, producer firms face fewer deterrents to shifting an increasingly larger proportion of their marketing resources to marketing directly to customers in the electronic marketplace. Illustrative of an industry that is characterized by high concentration at the intermediary level is the small electrical home appliances industry (e.g., electric irons, toasters, and blenders). Here, a few large retailers in the United States (e.g., Wal-Mart, Target, Home Depot, and Lowe's) account for a significant percentage of the producer industry's sales. In such industries, there is a lower likelihood of firms in the producer industry committing substantial resources to transacting directly with customers in the electronic marketplace. High concentration at the traditional intermediary level, as well as their attendant ability to retaliate, is conceivably a deterrent to firms in the producer industry pursuing a direct-to-consumer strategy in the electronic marketplace. Established producers in industries characterized by high concentration at the traditional intermediary level are likely to be more selective in their choice of a direct-to-consumer strategy in the electronic marketplace. For instance, a producer that implements a direct-to-consumer strategy involving a limited product line (e.g., refurbished products, niche products, replacements parts, etc.) is less likely to encounter retaliatory actions from traditional intermediaries.

Integrating the Internet into a business's competitive strategy and competitive marketing strategy is increasingly becoming an imperative, with the market environment evolving to encompass both the physical and the electronic marketplaces., firm, product, buyer, and buying environment characteristics that assume added relevance in the context of competing in the evolving hybrid marketplace. In response to the change in the frame of reference for competitive strategy from "How to compete in the physical marketplace?" to "How to compete in the physical and the electronic marketplace?" businesses have instituted a number of changes in their competitive marketing strategies (i.e., their pattern of deployment of marketing resources). Illustrative of such changes are the following:

1. Changes in resource deployments manifesting as relative emphasis on traditional channels versus electronic channels (i.e., the Internet) for
- Providing product-related information to customers,
- Communicating with customers,
- Promoting to customers,
- Transacting with customers,
- Distributing digital/digitizable products, and
- Customer trial/sampling of digital/digitizable products.
2. Changes in resource deployments manifesting as greater emphasis on
- marketing directly to customers in the electronic marketplace versus through intermediaries (traditional, electronic, and/or hybrid intermediaries)
- market pioneering (first to market), and
- strategic alliances.
3. Deployment of resources in an attempt to leverage the potential of the Internet for innovations, customization, and augmentation in the realms of product, price, promotion, and distribution (e.g., product innovations, customization, and augmentation).
4. Deployment of resources in an attempt to leverage the potential of the Internet to pursue new business models and competitive strategies.

The potential of the Internet can be leveraged for enhancing the effectiveness of a business's competitive strategy as well as the efficiency of its operations. The absolute amount of marketing resources a business chooses to allocate toward competing in the electronic marketplace, as well as the allocation relative to the resources allocated to competing in the physical marketplace, will therefore be affected by both efficiency and effectiveness considerations.

Conclusion
Marketing strategy as a field of study is primarily concerned with understanding, explaining, and predicting the marketplace behavior of businesses in the realm of deploying marketing resources at their disposal to facilitate the achievement of competitive advantage and their contextual underpinnings. Regardless of whether a business is competing in the physical marketplace, electronic marketplace, or both, certain fundamental tenets are likely to endure. Among other factors, businesses are likely to continue to base their competitive strategy decisions on an analysis and understanding of factors such as the of the following:

- The industry in which the business competes (e.g., concentrated vs. Fragmented markets),
- The unique skills and resources of the firm (e.g., superior alliance management skills and a large customer base),
- The company's product offerings (e.g., goods vs. Services),
- The buyers (e.g., businesses vs. Households),
- The buying environment (e.g., high vs. Low information search costs), and
- The macro environment in which the firm operates (e.g., legal, political, regulatory, social, cultural, economic, and technological factors).

Building on the extant strategy literature and the emerging literature on e-commerce, this article advances a conceptual framework highlighting the role of the Internet as an enabler and driver of competitive marketing strategy.

Recommendations

The proposed conceptual framework also serves to highlight future research in the following broad areas:

1. The impact of the Internet on the drivers of competitive strategy (i.e., industry structure, firm characteristics and skills and resources, product characteristics, and buyer characteristics and the buying environment).
2. The performance consequences of changes in the competitive strategies of businesses in response to the opportunities afforded by and challenges posed by the evolving hybrid marketplace.
3. A unique and distinctive characteristic of the Internet in regard to digital products is its dual role as both a distribution channel and a promotion channel. In contrast, for the most part, the distribution and promotional channels for marketing of goods in the physical marketplace are distinct. Extant literature focusing on issues relating to distribution and promotion has also, for the most part, evolved as distinct streams. Against this backdrop, exploration of issues and questions pertaining to the use of the Internet as both a distribution and promotion channel for digital products constitutes a promising avenue for future research.
4. For legacy businesses in particular, competing in the evolving hybrid marketplace implies effective and seamless integration of the business's interface with its customers in the physical and the electronic marketplace. Although our focus here was limited to marketing strategy content-related issues, we nevertheless recognize the importance of strategy formulation process and implementation effectiveness-related issues from the standpoint of competing in the evolving hybrid marketplace and the attendant need for future research.

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