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The e-commerce as a way to sustain a strategy

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Abstract: *The study explores the impact of the new e-commerce techniques on the business strategy, guided by the idea that it could entrench a possible outcome in diminishing costs. This potential effect is discussed using the present concepts on strategy coined and established by academics. The discussion is based mainly on accustomed opinions about the new form of commerce, stating that the cost figures have a minor relevance in defining strategy. The findings pinpoint that cost leadership could be a strategic option, but the differentiation remains to be discussed as alternative while new forms of retail may perpetrate to redefine strategic approach under challenging times.*

Key-words: *e-commerce, strategy, cost leadership, differentiation.*

1. A link between e-commerce and strategy?

Understanding and studying the ways of expression and the economic aspects of the e-commerce becomes easier if it is connected to addressing the strategies of nowadays companies. Assuming that the theory behind these strategies is coherent, a large number of statements can be made in relation to the business's evolution associated to the e-commerce. Basic strategic concepts which this study refers to are inspired by the current literature and are to be seen as valid.

The e-commerce becomes visible mainly through sales volume expansion of existing products in a mature market, which would correspond to the so-called penetration of the market, according to Ansoff (1965). To a lesser extent we also find elements of the strategy of market (or product) development – based on the typology by the same author - which leads to the idea that e-commerce occurs as a consequence of technological maturity of an economy or a market.

In terms of competitive advantage, as introduced by Porter (1985), the use of the new technologies seems to be guided by the idea of lowering the costs (mainly through staff costs reduction). This impression is induced by the fact that e-commerce tends to exclude direct involvement of personnel in some segments of the business processes.

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More specifically, e-commerce materializes in trading a product with known or readily recognizable features, based on images, and proposed at an attractive price for the buyer. We can envisage, more realistically than the generic Porterian scheme on strategies, that a firm would choose such ways to sustain its offer, because its value is perceived by the seller as better than the classic one. Similarly a presumption can be made related to the buyer: he opts for this type of exchange only when the price-quality ratio appears to be better than in the classic transaction case.

The price becomes significant when e-commerce reduces the number of features on which the buying decision is made. For most products the price seems to be decisive when the choice is made. This assumption will guide both strategy formulation and the research path on the impact of e-commerce.

On the other hand, the new forms of e-commerce are the result of a technology development, so the “push” aspect of the company’s strategy (called technology push) becomes predominant. The advantages related to the operational costs are offset by the marketing costs involving a cultural conversion of the buyer.

In this context, the main focus of the study is given by the relationship between the e-commerce and the costs incurred to the companies that apply them. More specifically, it is to be seen whether e-commerce are a way to support a specific strategy, probably that falls into the generic cost leadership category.

2. Outlook methodology for a realistic approach on strategy

The research of the main topic of this study is carried out by analyzing generic examples of business models that use e-commerce. Studying these business models is focused on key issues about strategy.

Basically the study is exploratory, based on a qualitative analysis of some aspects related to strategies and revealed by academics and experts. Clearly there is a lack of detailed data from companies in the designated area, but trends are picked up from studying the prices evolution for a given good.

The study is made in terms of the theoretical guidelines given by Yin (2003) for the study case. Case studies are used in a way that exemplifies Porter's generic strategies. Specifically, it is used the originator’s initial style for the theoretical approach, and not any subsequent methods brought by the enthusiastic followers of the "positioning school" inspired by the same author.

It could be stated that the data collected are relatively scattered and form a puzzle of information on which, nonetheless, extrapolations can be made on the strategies being followed and their affiliation with cost leadership.

Investigating the visible aspects that reflect the alleged strategy was preferred as tool to an approach based on surveys, which would record opinions on the investigated phenomenon rather than real facts related to it. As most research on e-commerce use the IT technologies - as online questionnaire seems to be quite in fashion - a return to an approach guided by the economic truth seemed, a priori, more applicable to a study on strategies.

3. Findings in business literature and discussions over some conservative strategic approaches

Literature research is conducted on the idea of identifying the link between a certain type of business strategy and e-commerce, related to the company's interest to reduce the costs.

When discussing a business strategy with the intention to focus on costs research, then the easiest reference consists of so-called generic strategies and value chain, put forward by Porter (1980, 1985). He argues that obtaining a competitive advantage can be based either on low cost or on differentiation. Henceforward appears the label of generic strategies such as cost leadership strategy and differentiation strategy. Porter (1980) also claims that organizations that follow one of these strategies can show above average performances in the long-term, while firms that are stuck in the middle perform less well.

Following the opinion of the same author, a cost leadership strategy aims for a firm to be a low-cost producer in the industry. Firms following this strategy place emphasis on cost reductions in every activity of the value chain. Implicitly, the firm will seek to cooperate with other entities following the same strategy and to integrate value chains which aim to support a reduced price through reduced costs.

On the other hand, a strategy is designed to reduce the business risk. Business risk can be defined as the relationship between the company's sales and its earnings before interest and taxes (EBIT). Although operating leverage is an important factor affecting business risk, two other factors also affect it – revenue stability and cost stability. Cost stability is concerned with the relative predictability of input prices such as labour and materials (Keul and Drumea, 2009). Some fiscal consequences could be mentioned in the case of mergers (Baba, 2012).

Laudon and Traver (2014) explain that there are four basic elements associated with costs and price: a) the internet reduces search and transaction costs, b) input and marketing costs are reduced by new technologies associated with a different type of business system , c) prices can be scaled down due to the fact that firms designed from the start to work online ensure a higher reaction speed, following the first-mover category strategies and d) in the case of some industries, the use of e-commerce allows eluding intermediaries, including classic retails, and establishes a direct linkage between the producer and the final consumer.

However, there are disadvantages, and all hopes related to certain positive developments have not occurred in the sense of a decisive leaning of the balance to rule out the offline, classic retail. Among the authors that point out such disproportionate expectations related to the effects of a low-cost strategy, a particular position is taken by Brynjolfsson. Brynjolfsson and Hitt (1996), Brynjolfsson and Smith (2000) and Brynjolfsson, Dick and Smith (2004) point out a number of issues which shows that price is not the only element that guides the consumer in his purchase process. Price is counterbalanced by elements associated with differentiation strategy, such as: trust, brand, reputation, experience or delivery speed.

On the same line of questioning benefits related to a low-cost strategy, Phau and Poon (2000) show that online companies must use price aggressively, even without basing this on low costs, in an attempt to obtain consumer's fidelity. Consequently, the question that arises is whether the price dispersion is rather a reflection of a differentiation strategy, materialized in different levels of quality of service, while the traded products fall within the category of those with converging technical standards (Pan, Ratchford and Shankar, 2002).

In parallel to the "push" technological component that setups retail, it is to assess the behavioural component of the individual consumer and the one of a consumers mass. It should be pursued, for example, a mass of consumers associated to a State or an entity bind by homogeneous characteristics at a cultural and legal level. A research hypothesis in the field literature is the existence of behavioural differences between buyers in Eastern and Western Europe or other similar segmentations of consumers. It is obvious that e-commerce seems to better develop in some Asian countries such as South Korea, than in countries like Romania or Bulgaria.

In this area of individual behaviour, one might find an explanation for ineffective expectations associated to e-tail and the new technologies. This might also explain the failure of some ideas or companies. These could become case studies suitable for tempering the enthusiasm of entrepreneurs inclined to take overstated risks.

Regarding the implicit assumption of this study, that e-commerce is a tool to ensure a more attractive price for a given offer - associated to the cost leadership strategy (Porter, 1985), the mentioned studies revealed a significant emotional constituent: loyalty to a brand or confidence associated to a certain retailer.

This conclusion is in line with the consistent criticism to the Porterian concept of "stuck in the middle" strategy. Some authors (Hambrick, 1983; Jones and Butler, 1988) consider that between the two strategies - differentiation and cost leadership -, there is a continuum of combinations. Other authors (Murray, 1988) argue that simply such a combination confers a competitive advantage to the firm. Miller and Dess (1993), Johnson, Scholes and Whittington (2011) consider "hybrid" strategies as feasible and profitable, bringing about logical arguments, as well as examples from practice.

But the vast majority of studies are carried out in countries with developed economies, which indicate the existence of an infrastructure that promote e-commerce. In the emerging economies of Eastern Europe, such as Romanian economy, enlightenments on the e-commerce phenomenon are only in their early stages.

4. Conclusions

The effect on overall costs, difficultly depictable in an accounting way can be seen from the expansion of industry and of various strategic groups in retail according to similar reasoning as Porter’s (1980, 1985). For large firms listed, those judgments can be supplemented with data from financial and market analysis, as well as statistical data on consumer’s behaviour from various geographical areas in the context of new retail formats expansion. The latter demonstrates, even if there is some fear and resistance to innovation in certain areas or even if the global infrastructure of the economy is not favourable to e-commerce, however new forms of retail that have a positive, sometimes explosive evolution.

The puzzle of information from the current reality of retail industry has been formatted by the benchmarks given by the field literature, enabling the authors to then use them for a number of deductions on the firm’s strategy. The results of these inferences are implicitly validated by the associated retail statistics. Statistics mark the expansion of new technologies, reported by the existence of the subject itself, but also by the explosive evolutions of growth indicators in different retail sectors under discussion.

In parallel, the strategic behaviour of firms, reflected their financial results demonstrate that there is a concern to support an aggressive growth of the turnover, based on both lower prices as well as on the construction of a new type of customer-seller relationship. In establishing this relationship the new technologies play a more visible role in differentiation rather than into operational costs reduction, as one would have thought at first evaluation. Taking into consideration the companies that survive in the market, it is found that although there are signs that new technologies and e-tail do generate lower costs per unit, there is not enough substantial evidence that this is the manifestation of a cost leadership strategy.

The subsequent research direction would be the pursuit and analysis of the way that classic strategies fail or succeed to keep the pace in terms of methodology with an e-tail reality which already gained a self-contained dynamic and to which business models must adapt quickly and reinvent themselves by sometimes contradicting patterns validated by previous economic realities.

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