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Investigating Internet Channel Opportunities and Challenges: Managers' Experiences Across Five Industries

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Investigating Internet Channel Opportunities And Challenges: Managers' Experiences Across Five Industries

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Managers of established businesses attempting to transform current business models with the Internet have experienced numerous challenges. How and to what extent can or should they incorporate the Internet with existing channel strategies and business models? Issues such as multichannel retailing, the role of the Internet medium as a branding mechanism, and the relational effects of firms' use of the Internet on their channel intermediaries have become important considerations. The Internet represents a significant change in the competitive landscape, yet despite its relevance to managerial practice there is little empirical research that provides insights as to how managers are deciding how to incorporate this new technology into existing strategy.

The development and execution of business models is a complex process to begin with, and it becomes even more complex when we factor in the Internet. The purpose of our study is to understand how organizations, in an effort to transform business practices, incorporate the Internet and integrate it with their existing marketing channels. This exploratory investigation uncovers the opportunities and challenges facing five organizations in their efforts to transform their existing channel strategies to incorporate the Internet. The study reveals the intricate manner with which strategies are applied in order to balance the opportunities afforded by the Internet with the challenges of channel strategy transformation.

In the tradition of other qualitative approaches used in previous business research (e.g., Bendapudi and Leone, 2002; Noble and Mokwa, 1999; Workman, 1993), we conducted a series of in depth-interviews with senior executives from five nationally recognized firms in order to build a grounded understanding of Internet channel transformation. This study discusses the results and implications of this investigation. Our article is organized in five sections. We begin by briefly reviewing literature that identifies advantages to adding the Internet channel. This is followed by a review of our study methodology. Next we discuss the findings from the in-depth interviews organized by the opportunities and challenges that accompany Internet use. Then we discuss the managerial implications of this study and offer conclusions and directions for future research.

PERSPECTIVES ON FIRMS' INTERNET USE

In this section, to place our data within proper context, we review three important perspectives on firms' use of the Internet discussed in the literature that were prominently mentioned in our interviews with marketing executives: leveraging information, direct-to- consumer marketing, and value-chain efficiency.

Leveraging Information

Leveraging information is the process in which firms collect, process, and use information to add value to their business processes and outcomes. The degree to which firms leverage information using technology in ways that benefit the firm as well as its customer is a factor critical to business success (Glazer, 1991). Rayport and Sviokla (1995) point to the importance of creating value through physical product as well as informational offerings. Additionally, marketers are often interested in how interfirm communication practices help firms to manage business outcomes (Mohr *et al.*, 1996; Anderson and Narus, 1990). The Internet enables the direct provision of multimedia information from firms to consumers, independent of location. In the business-to-business context, the Internet can facilitate the flow of information between firms.

One method by which firms are able to leverage incoming or outgoing information involves interactivity. Interactivity signals a shift from broadcast marketing to firm-customer conversations (Deighton, 1996) and is defined as the two-way communication and provision of hypermedia content between individuals and firms (Alba *et al.*, 1997; Hoffman and Novak, 1996). Of particular importance to our research is how the Internet has influenced the two-way flow of communication between firms and their customers, resulting in strengthened customer-firm relationships. Firms are moving from traditional mass marketing practices to strategies based upon leveraging information and developing interactive relationships with consumers. Established business models may give way to new approaches that use information technology to transform existing business processes and strategies (Day, 1998).

Direct-to-Consumer Marketing

Direct-to-consumer marketing takes place when the manufacturer communicates and engages in selling activities directly to the end consumer. In so doing, the manufacturer often disintermediates the retailer and takes on new channel functions. The literature has suggested that the Internet channel offers opportunities for firms to refocus their marketing efforts on their end users. For instance, the Internet provides firms with the capability to create new markets or enhance service to existing markets by eliminating the former constraints of location or distance in the physical marketing context (Sheth and Sisodia, 1999). Business strategies that attempt to shift current channel structure and proactively drive markets (e.g., Jaworski *et al.*, 2000) provide the manufacturer with more control over market outcomes. With the Internet, firms may attempt to establish a more focused customer orientation as well as alter the industry value-chain through disintermediation or reintermediation.

The ability to shape market behavior can result in providing customers either with previously unconsidered attributes or services, or with really new offerings. An opportunity enabled by the Internet channel is that firms may more closely match production with demand through mass customization practices (Avlonitis and Karayanni, 2000). Firms such as Dell and Nike have begun to use the Internet as a channel that offers their consumers individualized web pages and products. Hence, the literature suggests that direct-to-consumer marketing strategies can play a significant role as firms attempt to establish greater channel control and power through a renewed focus on the customer and end-user.

Value-Chain Efficiency

Value-chain efficiency is gained as firms improve upon the set of activities that transform raw input into final products and services (Laudon and Traver, 2002). Managers instituting and supporting an Internet-enabled business infrastructure are also concerned with identifying opportunities for added value-chain efficiency within both the business-to-consumer and the business-to-business contexts. Given that a firm's value chain represents a series of activities (e.g., operations, marketing and sales, service) whose execution influences the firm's ability to compete, interactive marketing efforts enabled by networked information technologies are mechanisms for facilitating value-chain efficiency and performance (Rayport and Sviokla, 1995; Webster, 1998). The value chain concept (Anderson and Narus, 1990; Borders *et al.*, 2001) recognizes that success in delivering value to suppliers or end-consumers depends on firms' abilities to navigate and conduct business within networked supply chain environments.

Given these perspectives, along with the extant body of research investigating the Internet and its business applications, this study expands upon previous research in several ways. We focus on managers and executives and offer a rich description of their actions, perceptions, and challenges related to incorporating the Internet within their firm's established business model. We investigate these issues across five industries in order to illustrate different contexts and issues. Finally, we offer implications from a managerial perspective that incorporate past research with new empirical insights.

METHODOLOGY

Research Design

Our research is discovery oriented and is based upon multiple-case design methodology (Bonoma, 1985; Yin, 1994) and the grounded-theory perspective (see Noble and Mokwa (1999) and Gilly and Wolfinbarger (1998) for the use of grounded theory in marketing). We chose grounded theory development due to our interest in examining a new business phenomenon (i.e., firms' incorporation of the Internet within existing business practices) and because this approach is more likely to generate new and accurate insights than would past research or survey-based methods (Strauss and Corbin, 1998). Our analysis relies on the relevant literature as well as on multiple case findings in order to enhance our sensitivity to the research issue at hand (Strauss and Corbin, 1994) and to apply our findings to practice and theory.

Data Collection

Following our multiple-case design, in-depth interviews were conducted with executives and managers at five firms purposively selected across five distinct industries in order to offer insights as to how these firms incorporate the Internet with their existing sales, distribution, and communication channels. Table 1 describes these five firms in terms of their respective industry size, Internet-enabled channel strategies, and the interview schedules at each firm. The in-depth interviews were conducted in a non-directive and semi-structured manner (McCracken, 1988) to allow the informants to communicate their perceptions and understanding of the issues relevant to the research. The interviews were based upon a protocol developed with input from four expert colleagues and two marketing executives, and were conducted so as to cover the wide range of potential strategic issues that firms might face as they integrate the Internet with their existing sales, distribution, and communication channels. Data collection in the primary research phase took ten months, with the time spent at individual firm sites varying from one to two days. The interviews lasted from 60-120 minutes, and all were audio taped. In total, fourteen interviews at these five firms were conducted over a nine-month period.

Sampling Strategy

A purposive sampling strategy was employed to ensure that the interviews represent varying types of firms and management perspectives. As shown in Table 1, the firms and respective industries vary by size, product type, and the extent to which they employ the Internet as an informational and direct e-commerce channel. Also, both business-to-consumer and business-to-business firms and digital and non-digital product offerings are represented. *Mutual Fund* represents the digital product and service environment, while *Printing Equipment* represents the business-to-business segment of the supply chain. The key informants within the firms were chosen not on a random basis, but because they had specialized knowledge and experience (Kumar *et al.*, 1993) in terms of their involvement in their firm's channel strategy development, knowledge of the channel issues being studied, and willingness to discuss these issues.

Data Management and Analysis

Data management and analysis followed a multiple-step process as out-

Table 1
Overview of Firms, Industry Size, Channel Strategy, and Interview Schedules

Firm	Industry and Size	Internet-Enabled Channel Strategy	Number of Interviews and Titles
Athletic Shoe	• Athletic Footwear • $12 billion[1]	Primarily informational to support products, fitness programs, and retailers and to promote endorsed athletes.	1) Vice President, Global Brand Marketing 2) Director, Affiliate and Internet Marketing
Auto Manufacturer	• Automotive • $700 billion[2]	Primarily informational to support products and retailers. Future plans to institute build-to-order systems enabled by the Internet channel.	1) Director, Retail Strategies, Systems, and E-Commerce 2) Manager, Retail Strategies, Systems, and E-Commerce 3) Director of Process Re-Engineering 4) Manager, Build-to-Order group
Mutual Fund	• Financial Services • $7 trillion (total assets)[3]	Informational in support of mutual fund offerings, associated research, and client account access. Highly developed e-commerce systems in support of online transactions and customer service.	1) Senior Vice President, Sales, Service, and Operations 2) Senior Vice President, E-Commerce
Personal Stationery	• Business and Personal Stationery • $500 - 600 million[4]	Primary focus on both informational and e-commerce elements.	1) Vice President, Business and Social Papers 2) Director, Retail Operations 3) Director, E-Commerce
Printing Equipment	• Printing Equipment • $650 million[5]	Primarily informational in support of extensive field sales and service network.	1) Senior Vice President, Marketing Strategy and Digital Systems 2) Vice President, Sales 3) President and CEO

[1] 2000 annual U.S. wholesale sales (SGMA, 2001); [2] 2000 annual U.S. wholesale sales (source: *Auto Manufacturer* company interviews); [3] 2000 mutual fund market size (source: *Mutual Fund* company interviews); [4] 2000 U.S. wholesale personal stationery market sales (est.) (source: *Personal Stationery* company interviews); [5] 2000 U.S. printing equipment sales (est.) to small (0-19 employee) commercial printers (source: *Printing Equipment* company)

lined by Miles and Huberman (1994). First, each interview was coded based upon *a priori* categories derived from the literature (e.g., Internet strategy, channel control, interdependence, conflict), as well as themes that emerged over the course of the interviews (e.g., product or service customization, interactivity and the personalization of information, affiliate partnerships). The two co-authors as well as a graduate assistant undertook the coding process. Manual coding methods as well as a qualitative analysis software program (QSR NVivo, 1999) were employed to generate topics and themes, link common themes across interviews, and help generate data displays.

Our use of NVivo allowed us to generate coding reports at three levels of analysis: the individual transcript, firm, and across-firm levels. Following Glaser and Strauss' (1967) constant comparative method, we compared each new coding topic to existing codes as part of an iterative process of generating or building themes and categories and investigating possible relationships between these themes. We distributed the final results (based upon the transcribed documents) for review of content and accuracy by the primary contact at each respective firm. This resulted in each primary contact concluding that the transcript accurately reflected their firm's position.

INSIGHTS INTO INTERNET CHANNEL OPPORTUNITIES AND CHALLENGES

Corresponding to perspectives on firms' Internet use identified in the literature, we report in this section some of the opportunities and challenges facing firms as they incorporate the Internet into their existing business models and channel strategies. We first discuss our firm- specific research findings in the context of the three opportunity areas shown in Table 2: leveraging information, direct-to-consumer marketing, and value-chain efficiencies. Then, we examine these areas in terms of the challenges and impediments to Internet channel use facing these firms and shown in Table 3: channel conflict, product characteristics, and intra-firm coordination.

Leveraging Information

Information Power. *Athletic Shoe* recently contemplated selling its products directly to consumers online, but this project was discontinued because management perceived *Athletic Shoe*'s market position as precarious and the firm did not want to risk further conflict with its retail base. Consequently, the firm attempted to increase market penetration through a comprehensive, informational-based Internet-enabled channel strategy based upon website content. The Internet channel enabled *Athletic Shoe* to leverage information relevant to its target: the fitness enthusiast and the consumer. Consumers can access information about fitness programs developed by the firm, workout tips from expert instructors, and fitness-related products ranging from shoes and apparel to heart-rate monitors. The firm's website is positioned as a central hub from which information about its products, athletes, fitness programs and resources, and retailers is disseminated.

Athletic Shoe views its physical product (footwear) as a commodity-like item that is less differentiable from its competition, whereas its digital offerings (information content, e.g., *Athletic Shoe* University) are viewed as its core competency and a more defensible resource. By separating its physical product offerings (e.g., footwear and apparel) from its online information offerings, *Athletic Shoe* management feels it is better able to exert control and deliver customer value directly in a channel environment characterized by stiff competition and significant retail power.

Auto Manufacturer management feels that the Internet has helped the consumer to become more educated about cars, their availability, and purchase alternatives; in short, to become more empowered. Management believes that Internet presence is crucial because car consumers are now narrowing their consideration set before they even go look at a vehicle. So, even though the same number of cars may be sold with the addition of the Internet channel, firms that establish an effective Internet

Table 2
Channel Opportunities Using the Internet

Opportunities	Strategies	Key Findings
Leveraging Information	Information Power	• Information content is seen as a point of market differentiation where physical products are less differentiable. • Internet offers firms a channel with which to communicate rich informational content (e.g., wedding etiquette and advice) that complements and adds value to their primary product or service offering(s).
	Customer Interactivity	• Firm-customer interactivity allows customers greater control over channel communications and access to relevant information which builds brand loyalty. • Personalization benefits firms by enabling increased capabilities to customize communications or outputs (e.g., fitness programs or personalized web pages that allow online service scheduling) to consumers based upon these consumers' individual preferences.
Direct-to-Consumer Marketing	Driving Market Actions	• Internet offers firms with strong brand equity and products or services conducive to online distribution and sales the ability to expand their distribution channel alternatives and increase market control. • Internet also enables firms to expand market reach and control by forming relationships with online affiliate partners. Affiliate partnerships enable firms to target and increase penetration of specific consumer markets without significantly altering existing distribution structures. • Firms may attempt to lock-in customers through increased convenience of doing business and enhanced value-delivery.
	Customer-Enabled Production	• Firms may use the Internet to more accurately articulate demand through product customization and build-to-order efforts.
Enhancing Value-Chain Efficiency	Distribution Efficiency	• Firms with digital offerings benefit from distribution efficiencies enabled by the Internet. • Firms with multiple physical product offerings (e.g., *Printing Equipment*) may use the Internet for a replenishment channel for relatively standardized goods, such as frequently-ordered supplies. The Internet may serve as a more efficient channel (from both the suppliers' and customers' perspective) for replenishment of frequent and standardized purchases.
	Communication Efficiency	• Intra-firm communication across functional, yet interdependent, departments can be made more efficient using the Internet as an integrated communications platform.

Table 3
Challenges to Internet Use

Challenges	Internet Use: Leveraging Information	Internet Use: Direct-to-Consumer Marketing	Internet Use: Enhancing Value-Chain Efficiency
Channel Conflict	• Content-rich websites and interactive communications co-opt the traditional retail intermediary's channel function. • Channel intermediaries may not understand the benefits of the Internet channel in terms of customer information management.	• Market-driving actions (e.g., direct online sales models) conflict with independent retailer channel functions. • Firms may separate secondary informational offerings from primary physical goods as a countervailing strategy to minimize conflict yet maintain market-driving efforts.	• Manufacturer-direct sales of standardized replenishment goods (e.g., consumables or supplies) may conflict with dealer or retailer channel functions. • Channel intermediaries may be slow to adopt new technology or resistant to changing existing value-chain processes and roles.
Product Characteristics	• Firms with complex supply and manufacturing chains may find it more difficult to initiate mass customization practices.	• Product type (e.g., experiential and attribute-intensive goods such as cars or high-end printing equipment) limits the degree to which firms pursue online direct sales models.	• Internet channel may shift value-chain roles dependent on product type and level of firms' customer-orientation (e.g., its pursuit of efficiency and convenience on end-customer's behalf).
Intra-firm Coordination	• Digital and information-based exchanges may result in redundant channel efforts, particularly in exchange settings dependent on personal service and trust where other channels are perceived as more personal. • Informational components may include e-commerce as well as more general corporate branding initiatives, leading to issues of integrating these functional areas and overall Internet site responsibility.	• Firms' ability to leverage the Internet within internal processes and gain competitive advantage through direct-to-consumer marketing may be limited by the extent to which functional silos can be spanned by enhanced information flow.	• Firms' use of the Internet may lead to increased intra-firm communication inefficiencies in instances where its use leads to internal redundancies (e.g., redundant firm-customer communications via phone centers and Internet channel).

presence may ultimately command a bigger piece of the total market:

> Our whole e-commerce mission. . . is to extend our superior shopping, purchase, and ownership experience to the Internet. And the customer-friendly brand promise that we have to the market place is to make sure that we're known on the Internet space for the same brand values and characteristics as we have in our core values. We are launching a whole new company web site and at the same time we're introducing a personalized owner area where as an [*Auto Manufacturer*] owner you can put your VIN number in and have a user ID and going to that space, it's yours where you can chat with us, schedule appointments. That will allow personalization of an owner's time and the way they want to get things handled relative to their transportation needs [Director, Retail Strategies, Systems, and E-Commerce].

Auto Manufacturer management views the Internet not as its primary marketing channel but as a value-added and information-intensive channel that, as it grows in share of total car sales, may help the firm enhance its brand image.

Customer Interactivity. A sub-strategy in *Athletic Shoe* management's quest for the firm's website to be the industry's most complete and interactive source for fitness on the Internet involves creating an interactive communication platform with which fitness consumers can organize and personalize information relevant to their needs. Despite management's perception that the Internet's potential is limited as a commercial channel, *Athletic Shoe* management believes that the Internet possesses several strengths as an interactive marketing channel, particularly with regard to *Athletic Shoe* University:

> *Athletic Shoe* University is one of the key points of difference with us, through its content and information. So the best, really good way to get that out is through the Web. We created a whole consumer version of *Athletic Shoe* University. We took all the content and everything we've developed over the last ten years and consumerized it—articles for consumers, tools that they can use to—that they can use to educate themselves on fitness. And the heart of that site is that you can go online and customize your own workout [Director of Affiliate and Internet Marketing].

The underlying strategy these firms seem to follow in their use of the Internet as a communication channel is that they separate the informational product offering from the physical, where the physical product may be less differentiable. The end result is these firms' ability to deliver increased value to the customer through interactivity (e.g., service schedules and appointments), personalization (fitness workouts designed specific to individuals), relationship building, and rich informational content specific to the purchase context (e.g., advice on wedding etiquette).

Direct-to-Consumer Marketing

Driving Market Actions. *Personal Stationery* views intermediary dependence as a crucial issue that influences the firm's ability to maintain and increase market penetration. The firm is concerned about over-reliance upon a dealer base that is characterized by both a lack of support for what management feels is a proper array of the firm's products and a diminishing market presence (e.g., with the independent retailer). *Personal Stationery*, therefore, adopts a substantially more aggressive direct-to-consumer marketing strategy than do the other firms in this research (e.g., *Athletic Shoe*). *Personal Stationery*'s aggressive Internet strategy follows from its desire to exert more control over its distribution breadth:

> Our main fear is leaving our destiny to those independent retailers. That's what I'm most afraid of, and I feel like I am in a contest to shift my own distribution before that starts to crumble more. We can't rely on the channels that would potentially not carry a full line of our product. We manage to open up new accounts every year, but those independent retailers, especially when you look at the good ones, are people who've been at it a long time. They are either going to die or retire, and those businesses tend to end [VP of Business and Social Papers].

Two factors seem to account for *Personal Stationery*'s aggressive Internet-enabled approach to growing market penetration: (1) the firm possesses significant brand equity with the end-consumer and independent retailer, and (2) the firm's product offerings (personalized stationery) are easily designed and configured online by consumers.

Another type of tactic used to drive markets involves the development of affiliate partnerships. *Athletic Shoe*, *Mutual Fund*, and *Personal Stationery* establish relationships with online channel partners in order to increase control of their sales and distribution channel through direct access to specific consumer groups. The Internet facilitates the development of this relationship triad among the manufacturer (or service provider), affiliate partner, and these online communities of target consumers.

Athletic Shoe seeks to increase its penetration with fitness enthusiasts and develop an Internet site designed as an interactive communication and e-commerce tool exclusively for 65,000 authorized fitness instructors located around the world. The Internet forms a communication link among the affiliate partners (e.g., influential fitness instructors), the target end-consumer, and the firm's website that now allows *Athletic Shoe* the opportunity to reach significant numbers of prospective customers worldwide. In the interviews, this approach is described as similar to the "Tupperware" direct sales model:

> The Internet is a very powerful way of communicating interactively with the consumer . . . The Instructor Alliance is a network of 65,000 professional fitness instructors worldwide . . . who are professional aerobics instructors and members of the Alliance. We have decided for the immediate future, let's say for the next 18 months, to use the Internet very, very aggressively . . . these 65,000 instructors each conduct aerobics classes, and on average interact with 100 people in a month. If you do the numbers, there are 6.5 million consumers each month. So, we want to use the Instructor Alliance in a direct marketing experiment, like Tupperware and Avon and others. Instead of having Tupperware parties, you would have the aerobics instructor at the end of class promoting our product, and they would get a commission [VP, Global Brand Marketing].

Prior to the Internet, *Mutual Fund* depended heavily on its independent channel intermediaries to sell its forty-plus managed funds to individual investors. Now with the Internet, the firm targets affluent retirees with an affiliation partnership with the AARP (formerly known as the American Association for Retired Persons). The retirement market is an attractive one for *Mutual Fund*; in 1999 mutual funds represented $2.5 trillion, or almost 20%, of the total individual retirement investment market (Schneider, 2000). Accordingly, the firm has developed an investment program that is targeted directly to the AARP's 43 million members.

Customer-Enabled Production. *Auto Manufacturer*'s long-term strategy is to develop build-to-order systems that emphasize customer-oriented "pull" production, in which cars are built based upon customer specifications and actual orders, resulting in improved market responsiveness. *Auto Manufacturer* views customization and its Internet-based build-to-order initiatives as a process with which to better match supply with product demand and gain market advantage. Management discusses plans to pursue Internet-based build-to-order strategies to communicate, collect, and process information toward manufacturing cars based upon individual consumer preferences:

> We are trying to see how far and to what depth we can take the personalization, accessorization, and customization of vehicles. Ultimately, we'd like to get to a one-of-a- kind system where you come online and say "let's personalize a car." There are configurators today where I could go out and say I want a paisley print fabric on the seat and I want deep purple exterior and I want chrome, whatever; we should be able to provide that [Manager, Process Re-Engineering Division].

By utilizing a build-to-order process via the Internet, *Auto Manufacturer* is attempting to reach out to a new segment of car buyers who seek greater control of the car buying process. From the demand side, *Auto Manufacturer* seeks to better coordinate supply with demand and thus enhance the online car buying experience, increase customer loyalty, and strengthen long-term relationships. From the supply side, potential benefits to *Auto Manufacturer* include lower inventory carrying costs and increased profit margins.

These findings illustrate efforts that firms undertake to incorporate the Internet to implement direct-to-consumer marketing strategies. Such strategies allow them to derive demand from customer-enabled production.

Enhancing Value-Chain Efficiency

Distribution Efficiency. *Printing Equipment* views the Internet channel as a mechanism for increasing customer ordering and transactional efficiency. *Printing Equipment* management believes that its Internet-enabled channel strategy begins to confront two of the firm's fundamental channel issues: (1) how to increase customer retention, and (2) how to enhance its service offerings to the end user:

> I see the Internet being clearly a better channel for consumables [supplies] because once I get them set up, it's a return process, it's a repetitive process. So to me the Internet works for a very repetitive type of experience. It also is established to help me as a customer to determine what I need. For example, it could tell me what I bought last month, it can tell me my average usage rates, it can give me those things that I need to be able to make quick decisions on small purchases. It can also then take the cost out of my customer touches [i.e., customer contacts]. And the customer's going to feel better serviced, and I'm going to improve the quality and efficiency of my distribution because I'm not going to make as many errors [President and CEO].

Through efficiencies afforded by the Internet channel in easing customer interactions and repetitive supplies purchases, management views the Internet as an important channel for replenishment functions that complements its existing channel structure.

Eventually, as *Printing Equipment* establishes the Internet as a replenishment channel, it may receive less incoming requests for basic transactions and enable its telemarketing group to focus on new-business development and more value-added end-customer communications.

Communication Efficiency. The success of *Auto Manufacturer*'s build-to-order strategy depends heavily on efficient internal as well as external communications. For example, one objective of the firm's build-to-order initiative is to shorten customized production lead times. Without an integrated communication platform that connects internal functional areas with common, customer-based objectives, or silos, distinct functional areas may not work towards, or even be aware of, customer requirements:

> Everybody talks about the e-business organization structure and what it means to compete in a digital world. Everything we hear is integration, integration. Companies run functional silos and that's where I think we're seeing our industry being affected by e-commerce. What we're trying to do here is ask how do you integrate so that different functional silos understand better what to put together. Many times you take a detour though functional silos before you end up at the consumer. So what you typically get is this middle area where corporate politics conflict with internal functions. You change the new process, you go back to the normal process and you say, "OK, that's good enough because I don't care about my customer, I care about my silo" [Director, Process Re-Engineering].

In another example, which relates to the firm's efforts to enhance communication efficiency, *Personal Stationery* works with online retail partners and traffic-generating sites to reduce communication and traffic-building costs as it expands the role of the Internet within its overall marketing strategy. *Personal Stationery* forms affiliate partnerships with firms whose business models depend on generating online traffic in order to more efficiently expand its market reach and establish its personalized business in the online setting.

Challenges to Internet Use

Channel Conflict. In our interviews, we also uncovered several instances in which firms began to deal with conflicts with channel partners as a result of the firm's Internet use. For instance, *Athletic Shoe* attempts to straddle a cooperative and competitive orientation with its retail base. On the one hand, the firm adopts a cooperative channel orientation; on the other, its direct selling model through its Alliance members lies more in its own interests than in those of its retailers'. Viewing conflict as an evolving and dynamic process, *Athletic Shoe* takes actions to limit conflict through open communications with its retail partners:

> . . . Retailers would always say that they were going to sell over the Internet, that they were going to have stores, and that "you [*Athletic Shoe*] are our partners," and they would make sure we [*Athletic Shoe*] would have presence on the web, so why would you want to do your own direct selling? And you know, because we see otherwise, a conflict is there all the time. So the thrust of our Internet activity, and the direction of using it, is as an interactive marketing tool. We let the shoes and apparel be sold through the traditional bricks and mortar channels. We avoid conflict that way and we don't fight with chains that serve the customers who want to try the shoes before they buy [VP, Global Brand Marketing].

Athletic Shoe explicitly communicates to its retailers what it is *not* seeking to do with the Internet (e.g., to use it as a direct commercial channel) as a signal of cooperation with and commitment to the retailer and the retailer's role in the channel process.

Printing Equipment faces a history of strained relations between the firm and its dealer base. In the past, the firm had developed new printing press products, sold these products to its dealers, and then abandoned the product lines. In other instances, conflict issues resulted from *Printing Equipment*'s dependence on its dealer and distributor channel that was based upon past agreements granting dealers exclusive territory status:

> When a dealer became an authorized dealer, it had exclusive distribution rights in that area. One of the things that happened over the years is that as the dealer's business grew, if it had a product void, the dealer would go out and make arrangements with another manufacturer. In other words, this wasn't a two-way street. We were exclusive to the dealer, but the dealer wasn't exclusive to us [VP, Sales].

In response to this perceived interdependence imbalance, *Printing Equipment* adopts a channel strategy that centers on the degree to which value is delivered to its end-user, the small commercial printer, rather than how these channel actions affect its dealer base. The firm's primary focus is now on how it may better serve its end-user:

> They're [*Printing Equipment* dealers] deathly afraid of the Internet. Because a lot of their business comes from supplies, and they're afraid that the customer can come to us direct, which they will, and we will have channel conflict. And that's when I go back to them and tell them "they're your customers, if they want to buy direct from us . . ." well, the dealer should be able to show their value [President and CEO].

Another facet of channel conflict resulting from firms' channel transformation involves the need to consider the speed with which the firm incorporates new channels such as the Internet and dealer resistance to change. *Auto Manufacturer*'s strategy to aggressively incorporate the Internet within its overall business model may be moderated by slower acceptance, or complete lack thereof, among its independent dealers:

> As in any new strategy in the market place, you've got a bell curve of acceptance, and you have retailers that are in the front of the curve that are dragging us along and we can't move fast enough for them. They collect e-mail addresses from other owners, they have e-mail direct mailing instead of letter direct mailing, and some of them, a lot of them, are allowing the service appointments to be set up over the Internet. The other retailers don't want anything to do with it. And so they don't learn about it, they don't embrace it, they don't hire people to know it, they don't want to understand it, they just don't want to have to mess with it [Director, Retail Strategies, Systems, and E-Commerce].

Product Characteristics. These findings also suggest several issues related to how product characteristics may hamper firms' efforts to incorporate the Internet as a commercial channel. In many respects, as firms re-configure their channel structure, they must still meet consumer requirements for traditional processes. *Auto Manufacturer*'s in-house research has shown that the test drive is a pivotal step in the car-buying process. For the dealer, an advantage of the test drive is that it offers the opportunity to make face-to-face contact with prospective car buyers. *Printing Equipment* faces similar issues with its digital printing press products. The primary selling mechanism for new printing presses is the physical demonstration. Although the Internet channel may complement the personal selling process, *Printing Equipment* management does not see the Internet as an alternative selling channel in light of its customers' needs for pre-purchase demonstration.

Intrafirm Coordination. *Mutual Fund* faces issues regarding intra-firm coordination and channel redundancy as it attempts to integrate the Internet with its existing channels. When it first offered online transactions to its customers, these clients would call the firm to ensure that the transaction actually went through. The challenge facing *Mutual Fund* as it incorporates the Internet is illustrated by the Vice President of Sales, Service and Operations, who states that "I've reduced the cost of one [web-based] side but I just created a call or at least duplicated the call on the other [phone] side. We're literally growing backwards by adding the e-channel and then having to retrofit our normal call patterns with now what is happening on the web. And as you make that transition, it's expensive and you lose performance." By introducing online transactions in an unintegrated fashion, *Mutual Fund* now faces the issue of productivity losses from pulling people out of productive modes in one channel (e.g., the phone center) and placing them in a non-productive mode in another channel.

Auto Manufacturer also faces intra-firm coordination issues involving the Internet. Two distinct *Auto Manufacturer* departments are responsible for delivering value-added content to the the firm's website. Corporate brand management based in one state determines how the overall brand is communicated on the firm's website, whereas the retail strategy and e-commerce group based in another state determines how the website fits into the firm's existing retail and planned build-to-order systems. Intra-firm coordination issues result from decisions regarding which *Auto Manufacturer* departments are responsible for the multiple sources of value delivered by the website. These coordination issues arise because of the distributed nature of the Internet and the difficulty in segmenting and locating its value-added components (e.g., customer communications and interactivity) within specific departments or functions.

Within a more narrow organizational scope, *Auto Manufacturer* faces similar intra-firm coordination issues with the development of its build-to-order system. Management foresees potential areas of conflict between the functional silos responsible for the build-to-order process, resulting from disparate front-end (e.g., speed of delivery to the consumer) and back-end objectives (e.g., logistics issues such as freight costs) and performance metrics. In this way, *Auto Manufacturer* views the Internet as a common informational linkage that synchronizes the front- end buyer interface and back-end production and logistics systems, in effect spanning previously dis-integrated functional silos and creating value by building connections across the critical functional areas within this build-to-order process.

MANAGERIAL IMPLICATIONS

The major contribution of this research is that it integrates managers' perceptions, decisions and actions regarding how and to what extent they incorporate the Internet with existing channel strategies and business models. These findings illustrate how business strategy involving the Internet must be developed in concert with existing business practices, structures, and channel relationships, and that strategy development must take into account the apparent challenges to firms more aggressively employing the Internet.

Implications for Leveraging Information

First, these findings suggest that firms' bases for competitive advantage and channel control lie not with their products or services exclusively, but also with the informational value that accompanies these products or services. In our study, firms employed the Internet as an alternative communications channel in order to separate physical product offerings from the products' informational components. Hence, managers need to consider that information can be a primary differentiating factor. This finding extends previous work (e.g., Rayport and Sviokla, 1995) in value delivery by revealing the compensating role of the informational component and how it enhances the perceived commodity status of a firm's physical offering.

By focusing on the informational elements that complement or enhance their firm's core product or service offering, managers can attempt to influence market behavior (particularly with the end-user) and communicate previously unconsidered attributes or services as well as new offerings to their customers. The Internet is an efficient medium with which to complement existing commercial strategies with value-added information and customer interactivity and, in turn, to establish or enhance channel control and power. Perhaps the overarching opportunity apparent to these firms lies in their use of the Internet to establish new and better ways to meet existing customer needs and manage customer relationships by focusing on the informational component of their offerings.

Implications for Direct-to-Consumer Marketing

Second, this research illustrates how firms (e.g., *Athletic Shoe* and *Printing Equipment*) use direct-to-consumer marketing strategies to neutralize channel power exerted by established retailers. By focusing on the end consumer, managers must balance the firm's pursuit of channel control enabled by the Internet (hence risking the development or escalation of conflict with their intermediaries) with cooperative actions meant to countervail the impact of these efforts to drive markets and gain channel control. By pursuing direct-to-consumer marketing while applying countervailing tactics in order to maintain relationships with their intermediaries, managers may obtain results (e.g., market penetration, customer retention) that might not be possible if they relied exclusively upon traditional, established channels. Although managers may aggressively establish online affiliate partners and virtual communities that circumvent their channel intermediaries, they need to be aware that these efforts should be balanced with cooperative actions taken with their more valued channel partners. As shown by the data, the extent to which managers undertake customer-focused strategies depends on their firm's existing commercial and communication channel structures and can vary depending on the firm's marketing position and product offering.

Implications for Value-Chain Efficiency

Third, these findings suggest alternative inter-firm and intra-firm mechanisms by which firms seek to gain value-chain efficiencies by use of the Internet. These results also illustrate how online affiliate partnerships can enable firms to share or offload costs of generating website traffic, in effect enhancing communication efficiency. Potentially more widespread in importance than the pursuit of external distribution efficiencies, managers may employ the Internet as an internal spanning device among functional departmental silos in order to generate intra-firm communication efficiencies and integration.

The results also suggest that managers should leverage relationships with complementary online firms that invest heavily in traffic generation. In addition, firms can create value-chain efficiencies by looking for ways to employ the Internet to automate repetitive buying situations and by proactively recommending purchase options to customers based upon past usage patterns. Finally, the Internet offers managers of projects involving multiple departments an opportunity to break down internal silos and streamline inter-departmental communications.

Managerial Challenges

This study provides a greater understanding of the challenges five firms face as they alter their channel structures to include the Internet channel. More importantly, our findings illustrate the various ways in which managers at the firms attempt to manage channel transformation in the face of channel conflict, perceived customer needs for pre-purchase product trials, resistance to change, intra-firm issues regarding communication across functional silos, and channel redundancy. The implications for managers are that these challenges can be overcome by viewing their firms' information component as a resource and a competitive advantage that can be leveraged with the Internet channel, pursuing customer-focused strategies where appropriate, and finding approaches for enhancing communication and distribution efficiency. Furthermore, this study illustrates the challenges that managers face in maintaining channel relationships as they incorporate aggressive commercial and communication strategies enabled by the Internet medium. The data reported here illustrate several ways that firms can attempt to offset or countervail their efforts to establish or increase channel power and control in order to maintain critical intermediary relationships.

CONCLUSIONS

There have been few empirical studies regarding the questions that firms face as they attempt to transform their current business models through the use of the Internet. This study illustrates the intricate manner with which firms apply strategies that are designed to balance market opportunities afforded by the Internet with the challenges of channel strategy transformation. Our research suggests three important themes that emerge as firms attempt to overcome the challenges of transforming channel structure in order to benefit from the opportunities of the Internet.

1. The Internet fosters expanded capabilities for firms to leverage information and increase communication power and control with end-customers, primarily through interactivity and personalization.
2. By pursuing direct-to-consumer marketing strategies with the Internet, firms exercise behaviors that drive their respective markets, yet also attempt to balance these actions with cooperative efforts meant to moderate their efforts to shift channel control and power. The Internet also facilitates product management

efforts (e.g., build-to-order strategies) through enhanced demand articulation.

3. Firms may employ the Internet in order to gain value-chain efficiencies through distribution as well as (and perhaps more importantly) intra-firm and inter-firm communication efficiencies.

In interpreting these findings it is important to be aware that the data for this research are based upon practices, experiences, and perceptions of managers at five firms and industries. Because of the narrow sampling frame, though it represents an array of firms that differ based upon market characteristics and extent of Internet-enabled channel strategies, and although it allows for an in-depth examination of channel transformation issues, the relevance of these findings to other firms and industries may be limited and is left to the individual evaluator.

The qualitative insights from this study can serve as a stepping-stone for future survey-based research investigating emergent constructs and relationships. For instance, a compelling question for future research is to what extent countervailing strategies (meant to balance firms' aggressive actions to drive markets) help firms to maintain the desired relational balance with important channel partners and what factors (e.g., market conditions, market position, perceived dependence on channel intermediaries) influence the extent to which firms pursue this balancing act.

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