
EXPLORING BOOKSTORES ON THE INTERNET: AN ECONOMIC PERSPECTIVE

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ABSTRACT

This exploratory research investigates the current Internet usage of locally and globally active bookstores. It develops a differentiated set of business strategies depending on the core activities chosen and tries to derive the according impacts on inter-company value chains and industry structures.

We propose a three-element providing (1) a typology of bookstores along the dimensions 'Specialization' and 'Degree of Internet Usage', (2) an adapted version of Porter's value chain to analyze the differentiation efforts pursued by bookstores on the Internet, and (3) a detailed cost-benefit analysis of Internet services to be applied to bookstores in different typology clusters.

1. RESEARCH OBJECTIVES AND QUESTIONS

This research investigates current on-line strategies and cost-benefit positions of bookstores integrating Internet services in their various value-chain activities, and to develop a differentiated set of business strategies depending on the core activities chosen.

The following are the questions to be answered:

- (1) How can bookstores active on the Internet be clustered regarding their business strategy (development of a typology showing clusters of bookstores)? What set of additional services have bookstores launched in the Internet era in order to develop a unique selling position?

- (2) How do enhanced Internet services contribute to a bookstore's cost-benefit situation?
- (3) How do enhanced Internet services change inter-company value chains and the according industry structures?

Thus, this research should

- (1) lead to hypotheses regarding the dependence of cost-benefit situations on either a specific cluster or on an unique selling position (e.g., are there any clusters that, in the Internet era, do not allow for positive income contributions),
- (2) result in a proposed customised business strategy per 'bookstore cluster', and
- (3) allow for conclusions related to explicit and implicit changes in inter-company value chains and industry structures.

2. THEORETICAL FOUNDATION

The literature (e.g. BENJAMIN, WIGAND, 1995; ELLSWORTH, ELLSWORTH, 1995; GLOSSBRENNER, GLOSSBRENNER, 1995; HOFFMANN, NOVAK, CHARTEJEE, 1995; QUELCH, KLEIN, 1996; STERNE, 1995) suggests numerous ways in which companies can benefit from the Internet and, more specifically, from the Web. Our research concentrates on those forms of Internet usage that imply service provision (including transaction routines) on the Web.

We develop and apply a research framework that consists of three elements. The first element of this research is to develop a typology of bookstores on the Internet to permit rigorous empirical research. The second element is an adaptation of Porter's value chain (PORTER, 1986) in order to analyze bookstores especially regarding activities that go beyond 'traditional bookstore competencies'. The third element is a proposed approach to cost-benefit analyses of Internet services offered by individual bookstores in different clusters of the typology.

2.1 Typology of Bookstores on the Internet

In order to develop a typology of bookstores on the Internet, we investigated 41 book stores, 32 from the US and 9 from Europe. By screening Web pages, we collected information concerning

- Location of headquarters
- Sales outlets
- Products offered
- Additional services
- Methods of payment
- Links to other book stores
- Cooperations
- Width and depth of on-line catalogues, and
- Other special features

The proposed typology (see Figure 1) with the two dimensions 'Specialisation' (in % of sold books) and 'Degree of Internet Usage' (in % of business activity, estimated) has been developed in order to

- (1) capture as many features as possible in a rather simple framework, and thus
- (2) promote further empirical research concerning the cost-benefit contribution of specific Internet services in the different clusters.

On the dimension 'Degree of Internet Usage', *HIGH* means offering products and services *only* via the Internet. Bookstores with a low degree of Internet usage are present on the Web, but have retained their main business in traditional stores.

'Specialisation' concerns the variety of books offered. Many stores focus on special topic areas in which they provide competent advice and promise fast delivery.

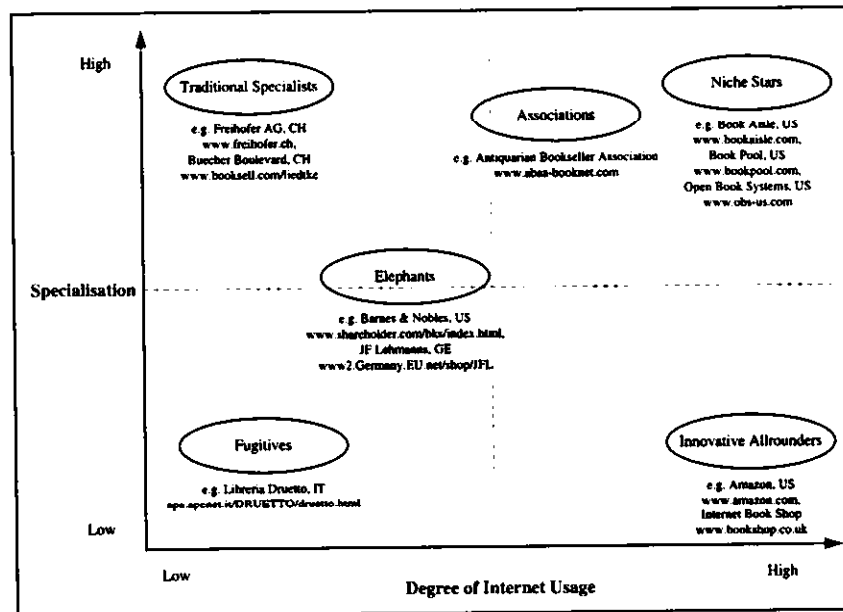


Figure 1. Typology of bookstores on the internet
(after Sicber, Studer, 1997)

2.2 Bookstore Opportunities for Unique Selling Positions: an Adapted Value Chain

'Specialisation' in the above typology (*Traditional Specialists*, *Associations*, *Niche Stars*) can be achieved by either focusing on certain products and topics or by offering specialised services. Furthermore, *Innovative Allrounders* demonstrate their innovativeness not only by heavily using the Web for

marketing and transaction purposes, but also by differentiating themselves via special services that go beyond the traditional bookstore activities.

In such instances, the distinction between 'bookstore activities' and 'publishing activities' diminishes. Furthermore, information brokerage services and software developments are integrated in the range of differentiation efforts. Therefore, we base our empirical research on an adapted version of Porter's value chain (see Figure 2) in order to investigate the full range of Internet services provided by so-called 'bookstores'.

In cases where a company shifts the most of its business away from traditional bookstore activities, the term 'book store' may be questionable. More serious, however, is the issue of deciding which companies to integrate in an analysis of innovative 'bookstores'. In the following, we consider traditional (scientific book) publishers such as Addison-Wesley, Chapman Hall, Gabler, Springer, Wiley etc. as a distinctively different business that we exclude from our research.

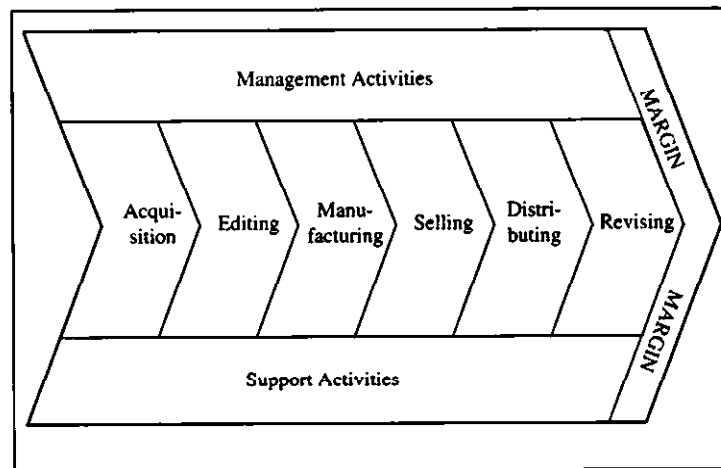


Figure 2. Bookstores opportunities for unique selling (after Porter, 1986; Sieber, Studer, 1997)

2.3 Towards a Cost-Benefit Analysis of Internet Service Provision

While expressing costs and benefits both in monetary terms seems to be the most straight-forward approach to any economic analysis, we only know of a limited number of companies that have been doing so. Accordingly, companies are barely aware of the actual costs caused by their Internet activities (LOEBBECKE, BUTZBACH, 1996). While hardware expenses, set-up costs, connection fees and technical support costs (internal or external) are usually somehow accounted for, the accompanying personnel costs and eventual decreases in turnover via traditional channels are often ignored.

Concerning benefits, there is a profound body of literature (e.g., ALPAR; 1996; CRONIN, 1995; GRIESE, 1996; O'CONNOR, O'KEEFE, 1997) illustrating the potentials of the Internet. However, similar to the cost situation, only few companies try to express these benefits in monetary values.

Table 1 outlines the only four possibilities how a company can make money based on its Internet activities and transfers these general benefit categories to Internet service provisions offered by bookstores (see also LOEBBECKE, POWELL, TRILLING, 1998; LOEBBECKE, TRILLING, 1997).

Table 1. Potential contributions of Internet services to a bookstore's cost-benefit situation

Potential Contribution of Internet Services to a Company's Cost Benefit Situation	Potential Contribution of Internet Services to a Bookstore's Benefits
<p>Larger margin due to</p> <ul style="list-style-type: none"> - Lower internal cost (efficiency) - Higher prices per product sold based on value added for the customer <p>Increased number of products sold</p> <ul style="list-style-type: none"> - PR (for the company) - Product information / marketing <p>Space on web pages offered as additional source of income / product line</p> <p>Internet Services, esp. content provision, as additional product line</p>	<p>Larger margin due to</p> <ul style="list-style-type: none"> - Lower cost of customer service (e.g., answering customer requests), internal communication, etc. - Higher prices for e.g., selling a book with an attached author's biography, or for selling a book during its 'very early days', i.e. charging for up-to-dateness <p>Increased number of books etc. sold due to Internet activities (Internet as marketing tool and sales channel)</p> <ul style="list-style-type: none"> - PR (for the bookstore) - Marketing for selected books <p>Developing a 'storefront' as demonstrated by <i>Associates</i> (see Figure 1) and increasingly also done by including (directly or via links) publishers, authors, and other bookstores (who are charged for being represented)</p> <p>Separately charging for database/search facilities, pay per view (e.g., Book Aisle), software tool & web site development (e.g., Open Book Systems), etc.</p>

3. RESEARCH METHODOLOGY

Our research is exploratory in nature. Understanding the use of the Internet as a medium for providing value-adding services and, at the same time contributing positively to a company's cost-benefit situation, is at a stage where adopting existing theories and even generating new ones is still premature. Thus, we think that research must be theory building instead of theory testing, and the contribution of this work is such to provide insights that can be used in subsequent theory building (see also EISENHARDT, 1989).

As a first step, in 1996, we screened all bookstores to be found on the Internet using popular search engines in order to develop our bookstore typology. [We did not consider it feasible to continuously update our screening. By fall 1997, already more than 500 online bookstores were globally active on

the Web (Herald Tribune, 1997). We think that our 1996 sample provides us with sufficient insight] Drawing upon the literature, previous work and first insights from screening bookstores on the Web, we then developed the other two elements of our research framework. Subsequently, we have been applying the traditional case study approach (e.g. Yin, 1990) to validate our model. Confidentiality turned out to be a major issue since SMEs do usually not publish their financial figures. Our research plan accounts for several iterations for fine-tuning.

4. PRELIMINARY FINDINGS

Companies concentrating on traditional bookstore activities (advice and search for requested information in form of books or customised documents) focus on innovative tasks in the field of 'printing on demand', may it be in the bookstore or 'via the Internet'. In several cases, these companies urge for cooperations with traditional publishers as they see their upcoming competitors being copy shops, libraries, newspaper publishers, or printing companies (see also NUSSBAUM, 1996).

Bookstores that increasingly integrate publishing activities (eventually based on cooperations or M&A) in their business, see the main challenge not in the selection of information, but in providing (possibly outsourced) databases that allow for customised collection of documents (individual publishing, see also LINDENBURG, VAN REEKEN, 1996; SCHIELE, LUBBE, 1996).

Some of the *Niche Stars* (e.g., OBS) expect the overall value chain to change dramatically during the next two to five years. Therefore, they have decided to quit the traditional bookstore business and to sell customised access to ideas and information contained in books instead (FILLMORE, 1996, FILLMORE, 1997). Each time a customer buys a book at a bookstore OBS has an agreement with, the company receives money for its mediation.

Niche Stars like OBS, urging to be *the* innovator, expect the future business to move in their direction. Their unique selling position is not only based on the tagging of content, but also on inter-company relationships which provide a significant entry barrier to later adopters (FILLMORE, 1997).

Booming *Innovative Allrounders* like Amazon or IBS show, however, impressive sales figures and increasingly cover their comparatively fixed operational expenses. In their case, however, it is still questionable to what degree their costly content provision on the Internet with up-to-date and extensive databases contributes to their success or may even have a negative impact on it (KNECHT, 1997; KRANTZ, 1997). Customers appreciate the wide selection of books, basic search features, fast delivery, and - above all - low prices, but are not willing to pay for any of the additional features offered. If however, these features will pay off as pure marketing efforts, still remains to be seen (e.g., LOEBBECKE, 1996).

Generally speaking, investigating causal relationships between Internet activities and sales figures turned out to be very tricky. Considering only on-

line orders (and thus neglecting any marketing effects of Web pages for traditional sales), we have not yet found any 'not purely Internet based operating' company with a positive cost-benefit contribution, this is if we include personnel costs in the analysis.

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