E-Commerce Strategy

- Being Physical or Virtual?

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Acknowledgements

This study is the result of our bachelor thesis within business administration at Stockholm University. It has been a very interesting field of study and we think that we have found a somewhat interesting and unique approach within e-commerce. We want to give our thanks to our fellow students who gave us constructive criticism during the seminars and during the opposition in particular. We also want to give our thanks to our tutor Reiner Beck, who provided us with guidelines and interesting views on how to conduct our investigation. Finally we want to give our thanks to our respondents who enabled our interviews.
Abstract

The developments of Electronic Commerce applications origins back to the early 1970s and were primarily used within the financial sector. As the potential of E-commerce was recognized its use also reached into other sectors. The trend according of intensively, increasing sales is persistent and areas such as music, books and tickets are predicted to have the largest increase. The purpose of this thesis is to investigate how traditional companies, as we call click-and-mortar corporations, perceive threats and opportunities of E-commerce. We will also investigate how pure internet firms, what we call Virtual corporations, view the same threats and opportunities of e-commerce. We will also try to find changes made by both of our research groups in different strategic directions.

To obtain new data in the extremely fast changing e-commerce area, semi-structured qualitative interviews with four respondents within a specific industry was conducted.

What we can conclude after interviewing two click-and-mortar corporations and two virtual or “pure” internet corporations is that they take different strategic positions. Virtual 1 is closer to the market and Virtual 2, who is owned by a larger corporation, cannot act as fast but has a better financial support. Traditional 1’s position is closer to their core competence such as more complex and tailor-made products and Traditional 2 seams to be more innovative and channel integrated. Regarding price differences, the theories states that online pricing is generally lower, which our empirical results confirm, with the anomaly of Traditional 1’s pricing. The theories also say that the price differences may cause conflicts for click-and-mortar corporations. These theories concurred with our empirical study where the interviewed click-and-mortar corporations did experience some channel conflicts.

Further neither of the traditional corporations considers competition from pure e-commerce as a major threat. The explanation given is due to different customer groups, more customized products and that competition is more about products, range and price. The pure e-commerce corporation does not consider traditional and click-and-mortar corporations as major threat. Competition comes more from the charter industry going online and also that competition is more about prices, product range and brand recognition. The Search Engine Optimization (SEO) and the use of price comparison pages are tools to meet competition. None of our four corporations has any plans on adding or reducing physical stores as opposed by the theories. The traditional corporations do feel competition or confusion between the sales channels and that it is important to communicate a deeper understanding of the positive synergy effects.
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1 Introduction

Chapter one will contain the introduction and background of this report. The discussion based in the introduction part will lead to questions in chapter 1.1; to answer those questions will be the report’s purpose in part 1.3.

Electronic Commerce applications were first developed in the early 1970s. Innovations like EFT (Electronic Fund Transfer) were among the first, used mainly by large financial institutions. Then EDI (Electronic Data Interface) evolved, which extended the usage from solely financial transactions, to other types of business such as manufacturing. Later in the early 1990s, as the Internet became more commercialized and users rushed to participate in the World Wide Web, the term electronic commerce was invented (Turban et al., 2002).

The escalating development of e-commerce and e-business in the era of information technology has had its ups and downs. Recently the tone in media has been increasingly positive. From the negative tone during the early “pre-bubble” period, to a much more positive atmosphere in contemporary articles and research. The first gloomy forecasts about the so called Hackers, security faults, and unserious vendors, did well in implementing scares and lack of trust in the eyes of the customers. But myths and generalizations were certainly not the only reasons for those reactions by the customers. Many examples that actually proved these accusations added to this view. There are certainly additional risks involved when putting e-business into practice. A recent example is when one of the largest banks in Sweden Nordea, as well as the German Deutsche Bank, were in the line of attack from hackers using a method called phishing, which intends to lure internet users to hand out sensitive information, which later can be used in fraud, e.g. withdraw money from a victims bank account (DI, 2005).

Overall the sales conducted through the internet is steadily increasing, and at an intensified rate (NUA Internet Surveys, 2003a; 2003b; 2003c). An article by Wallström (2005), interpreting a global ranking by EIU (Economist Intelligence Unit), shows that Sweden is at a third place globally in e-commerce topped only by Denmark, followed by USA. However, some things are truly in the “eye of the beholder”, because in another recent article, based on data from VISA, shows that Sweden is below the European and Scandinavian average in online transactions. Only 54 percent of Swedish internet users, do shopping online, compared with for example 92 percent in Norway (Berg, 2005). In the article from Berg (2005), VISA believes in a growth of 400 percent until 2007. Another positive outlook is given by Turban et al. (2002), referring to a Forrester Research Institute prediction, that in 2008 the number of Internet users worldwide is predicted to reach 750 million and that as many as 50 percent of the users will shop online.

A very recent article in DI (Dagens Industri) written by Huldschiner (2005), analyzing the HUI research about Swedish e-commerce, shows that the trend of intensely, increasing sales are persistent. The accumulated growth for 2005 is 30 percent, which is close to two percent of the total retail trade in Sweden compared to the 1.5 percent in 2000. However, the total Swedish e-business is considerably larger than what the figures from HUI’s research shows. In the statistics, areas like traveling, event ticket-sales and financial services, are not included. These are all areas where a large proportion of traditional sales have been

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1 ”Pre-bubble” allude to the metaphor given to the period of 1995-2000, when investments in the IT sector grew substantially and was called the “IT-bubble”.

moved to the Internet (Huldschiner, 2005). In the HUI research, also based on interviews with close to 300 companies with internet sales, it gets clear that the companies experience intensified competition online (Huldschiner, 2005). With this in mind the core problems this thesis will investigate gets clearer in chapter 1.2.

1.1 Background

Fölster (2002) predicts that music, books and tickets are some areas which will contribute with the biggest increase in the long run and that the boundaries between traditional commerce and e-commerce will eventually be eliminated. There is a tendency in the US that pure e-commerce companies invests in physical channels as a complement to their online channels and eventually e-commerce will be a natural element of commerce in general.

The dramatic changes during the early 2000 has boosted the recognition that internet is unlikely to displace the traditional channels anytime soon and that the traditional companies has started to include the e-commerce channel more as a supplement. In the early stage of e-commerce most efforts was put into the advantages internet channels has over traditional ones and not the possible synergy effects that could arouse (Steinfield 2002).

In one article by Bohlin (2004), a Swedish consultant firm (Know How Information) explains of the change work that has to be done in many traditional companies form using Internet merely as a “Virtual shopping window” for the traditional business, to become another sales channel, and IT issues to become important strategic matters. The consultants also claim that even though the market has matured, there is still a lot of potential. But the corporations have to change their internal structure to suit e-business to follow (Bohlin, 2004).

Fölster (2002) further states that actual price comparisons which have been made do not give a clear picture. By looking a price comparison made in 1999 by HUI (Handelns Utrednings Institut) (figure 1) it shows that organizations that sell purely on the Internet has about 10 percent lower prices than companies that offers both Internet trade and physical channels. The established pure Internet companies has further about 6 percent higher prices then the smaller “challenging” Internet firms and an explanation proposed by Fölster (2002) is that pure Internet firms, especially the newly established smaller Internet firms are still to some extent subsidized by financial investors and are often not delivering a profit.

It is evident that pure e-commerce companies can cut the price on their products since they operate solely on the Internet compared to traditional companies. The following figure shows price differences in 2000 between newly established smaller pure e-commerce firms (‘utmanare’), established pure Internet firms (‘etablerade’) and click-and-mortar firms (‘kombinerade’).
The reason why pure Internet firm’s offer lower prices can be explained by the fact that they can fully exploit the new technique but also that click-and-mortar firms are in competition with their own physical stores since their internet channel most probably offers a lower price. The author further states that there is a critical point in E-commerce where the greater mass of consumers starts using the Internet channels. This will in turn lead to major price competition due to easier access to product information and accessibility to wider markets.

### 1.2 Problem Questions

What is the present state of e-commerce in our selected research objects? How are traditional companies which has started to do business online, so called click-and-mortar organizations (Turban et al., 2002), perceiving the market opportunities and threats? How are pure e-commerce companies, or so called Virtual corporations (Turban et al., 2002), putting pressure or inspiring the click-and-mortar corporations in Sweden? Some of our general questions that we have identified and want to answer are presented below:

- How does the selected Swedish national sales companies that conducts e-business, perceive threats and opportunities of e-commerce?
- Which are the foremost important changes in the marketing and sales strategies due to the rapid growth in e-commerce?
- Have or will the traditional click-and-mortar corporations researched, change their online strategies due to pressure from pure e-commerce companies, Virtual corporations?
- Will the Virtual corporations researched, change their strategies towards click-and-mortar corporations, adding physical stores to their sales channels?
1.3 Purpose
The purpose of this paper is to investigate how traditional companies, as we call *click-and-mortar* corporations, perceive threats and opportunities of E-commerce. We will also investigate how pure internet firms, what we call *Virtual corporations*, view the same threats and opportunities of e-commerce. We will also try to find changes made by both of our research groups in different strategic directions.

1.4 Definitions
The term *commerce* is by some defined as “transactions conducted between business partners”. However, using this definition within *e-commerce* (electronic commerce) might be too narrow. Therefore many also use the term *e-business* (electronic business), which also include serving customers, collaborating with partners, and electronic transactions within an organization (Turban et al., 2002). We will use the broadest meaning of electronic commerce, which is basically equivalent to e-business. The two terms will be used interchangeably in this paper. There are various e-business definitions of in which business areas e-commerce function, the most used are so called; B2C (Business to consumer) or B2B (Business to business) (Turban et al., 2002).

Organizations can further be divided into Brick-and-mortar organizations which only use physical channels, Click-and-mortar organizations who have integrated e-commerce as a supplement to their physical channels and purely e-commerce oriented organizations.

The different positions within e-business or e-commerce are showed in Figure 2, where 8 different positions are displayed. Three different dimensions are taken into consideration, the Product-, the Agent-, and the Process-dimensions. This means that a product, store or delivery can be either physical or virtual. Depending on these three dimensions a company can be placed anywhere between *“The Core of Electronic Commerce”* or at *“Traditional Commerce”*.

![Figure 2](image)

Figure 2 taken from Choi et al. (1997) in Turban et al., (2002)
1.5 Delimitations

This thesis will focus on the strategic changes made by our research companies due to e-commerce and the alternative definition e-business, in traditional, click-and-mortar corporations as well as pure, Virtual corporations. We will only investigate the B2C area of e-commerce and we have limited us to include one industry.

1.6 Disposition

Chapter 1

Chapter one will contain the introduction and background of this report. The discussion based in the introduction part will lead to questions in chapter 1.1; to answer those questions will be the report’s purpose in part 1.3.

Chapter 2

The overall strategy for this thesis will be described, followed by a discussion and argumentation of the methodology of choice. Further on, a description will be given of how primary and secondary data will be gathered. Finally the analysis method of the collected data will be described, concluded by a very important critical evaluation of the chosen method.

Chapter 3

This chapter will try to show the present framework and knowledge within the area of the research questions.

Chapter 4

Here the empirical findings will be presented. The empirical findings or the reports primary data, will be summarized for a simplified more readable text.

Chapter 5

In this chapter the question stated in the Problem Questions chapter (chapter 1.2) will get analyzed, by using the empirical interviews and trying to measure and distinguish similar patterns or deviations with the empirical data and the theoretical framework.

Chapter 6

This chapter contains the conclusion derived from the analysis.

Chapter 7

Here a final critical evaluation of the study is explained.

Chapter 8

This chapter will give suggestion for further research within the area of scope of this thesis.

2 Method

The overall strategy for this thesis will be described, followed by a discussion and argumentation of the methodology of choice. Further on, a description will be given of how pri-
mary and secondary data will be gathered. Finally the analysis method of the collected data will be described, concluded by a very important critical evaluation of the chosen method.

2.1 Method Strategy

Regnell (1982) writes that an important part of understanding the world is the structures and patterns, so called stereotype structures. Whenever there is a deviation to the stereotype structures, questions rise which are the basics for all research. Method strategy is a vital part in describing the work process in detail on how to go from raised questions, to answer these questions in an analytic, scientific and valid way.

All scientific work is done within the framework of set rules. The selection of rules is among others dependent on the science-theoretical starting point. Two scientific starting points are positivism and hermeneutics (Lundahl & Skärvad, 1992). Out of the two general starting points, this thesis is based on a hermeneutic view. Research within information technology (IT), business administration and management often gets in contact with both positivistic and hermeneutic science philosophies, since the research can touch more positivistic “suitable” areas such as: programming, system architecture, financial models, accounting. But also more hermeneutic areas like: Change work, Business renewal, HUI, organizational changes, strategy or knowledge management. This thesis will have its focus in strategy and therefore its base scientific starting point is in hermeneutics.

Electronic commerce as a discipline is relatively new and unexplored; therefore, this paper is mainly explorative. Whenever a discipline or research area is not surveyed or explored and there are no similar problems which have been treated earlier, an investigative or explorative method should be used (Sekaran, 2000). Some parts, mainly the secondary data or theoretical framework, are descriptive. That is, describing where facts gets categorized and sorted to explain and inform. Finally, this paper also has the ambition to provide comparable data.

2.2 Data Collecting Methods

Both secondary and primary data was used to fulfill the thesis purpose in alignment with the method strategy. Secondary data is data or information collected from already printed sources. Like newspapers, internet documents, books and scientific papers or journals. Primary data is the first known version, collected data or information which there is access to (Repstad 1999). To reach a higher degree of validity regarding the results of this thesis, we have used different data collecting techniques. Collected data can be both secondary and primary in its nature. Secondary data is information which is collected from others whereas primary data is information which is collected by the author himself (Lundal & Skärvid, 1992).

2.2.1 Secondary data

Most of the information that we have studied is secondary data which includes contemporary theoretical literature, published articles, web-pages as well as published thesis within E-commerce. When searching on databases and web based search engines, the following words have been used: e-commerce, e-business, click-and-mortar, Virtual corporations, click-and-mortar organizations versus Virtual corporations and e-commerce strategies. It has sometimes been hard to find new and relevant secondary data to base this thesis on. Much information regarding e-commerce in general is available and from the boom in 2000-2001 but new in-
formation regarding strategies and comparisons of click-and-mortar and Virtual corporations is somewhat lacking. There are however much written literature within general e-commerce. Due to the rapid pace within this field there are many articles on the Internet as well as in the Stockholm University library. Information regarding our selected companies, such as price information, was gathered from the respective web pages.

2.2.2 Primary data

"Data does not speak for themselves, they has to be interpreted" (Repstad, 1999, p. 94).

With the support of the introducing citing and with the complexity of e-commerce and strategy research in mind, we choose to perform qualitative interviews for collecting primary data. This was also based on the fact that we did not only desire to find out facts about the companies or their situation, but also about complex matters such as how they perceived threats or opportunities and formulation of strategies. Lundahl and Skärvard (1992), describe ways of separating different kind of interview techniques after the degree of standardization. In standardize interviews, the formulation of questions, as well as the order of questions, is decided in advance. In non-standardized interview there is the opportunity to more freely choose the formulation and the order of the questions during the interview. There is not only a differentiation between standardized and non-standardized interviews, but also between structured and non-structured interviews. The standardized interview is always structured, but the non-standardized interview can be both structured and non-structured (Lundahl & Skärvad, 1992).

2.3 Discussion about the Chosen Respondent Companies

The process of finding and choosing suitable subjects for deeper research or gathering empirical data from was difficult and we had to put effort in finding suitable objects. After discussion with our supervisor and with the decision of using a qualitative research method with interviews, we selected 4 different companies which could be of interest for this study. The selected companies had to fit your question statements and be within the delimitations of our study, as well as get paired with the definitions click-and-mortar and Virtual corporations. Finally they should be national companies, meaning they should conduct sales nationally. There will be two pairs of companies, one pair of traditional firms, clicks-and-mortar and one pair of pure internet firms, Virtual corporations. In respect of the company’s integrity and also to get more detailed strategic information we offered them to be anonymous.

2.4 Method of Analysis

Open answers are more qualitative in its character then quantitative, but open answers can also be broken down into different categories and be quantified. The difference between the two methods lays in how the collected information is used (Andersson, 1994).

The interview technique that we have used generates at a greater extent open answers as compared to for instance a survey which is more closed. We tried to analyze the open answers and the empirical data that we have received from our respondents through the interviews. We then interpreted this data and compared or combined it with our theoretical framework in chapter 3.
2.5 Critical Evaluation of Chosen Method

According to Repstad (1999), it is crucial in scientific work to perform a critical reflection about the bias with the study. But he also claim that there exist no absolute objectivity, just more or less trustworthy interpretations of reality, and that applies to all social sciences, regardless the method chosen (Repstad, 1999). The bias that could occur in the case of this paper could be if we solely relied on one source to form our method or theoretical framework. Another source of bias could be if the authors are to close-minded or interpret data just to make it fit a pre-set idea. An example would be if data, secondary or especially primary, is taken out of its context to fit a personal view. To prevent these things to happen, and to stay as objective as possible the following aspects should be taken into consideration.

2.5.1 Validity

Ericsson & Wiedersheim-Paul (1999) defines Validity as an instrument to measure the things you are supposed to measure. A sort of exactness of measuring the things asked to be measured, for example in the purpose. Ericsson & Wiedersheim-Paul (1999) explains external validity as the conformity between the measured value one obtains when using a measurable definition, and the reality, meaning that even if there is an internal valid definition; one has to collect the empirical data properly and in conformity with ones definition.

2.5.2 Reliability

Ericsson & Wiedersheim-Paul (1999) defines Reliability by that the instrument of measuring data should give reliable and stable results. A high reliability is also obtained if a repeated research generates the same results, independent of who is performing the research, place or time of research. Ericsson & Wiedersheim-Paul (1999) also claim that reliability is a big issue within interpretation (such as hermeneutic) research, since there is almost impossible to experience exactly the same environmental conditions. Although, the authors also state that even measurement with scales, timers or clocks, can be incorrect. Usage of numbers in a report can give a greater impression of exactness, than what is true in reality (Ericsson & Wiedersheim-Paul, 1999).

2.5.3 Generalization

According to Bonniers Lexikon (1995), Generalization means to make something generally applicable, universal and to draw general conclusions. Ericsson & Wiedersheim-Paul (1999) writes that the conclusions of a scientific research should be useful for someone or somebody. They can be useful for a specific situation in an organization at a given time. But when generally applicable knowledge is sought, which should be generalized to different occasions and over time, it is obvious that there are huge demands on one research, to make it universal. Repstad (1999) claim there is no way to generalize without being critical, if it is based on research from one or a few examples (e.g. case studies). But much qualitative research has resulted in inductive hypotheses and conceptions which has deepens the understanding of social environments. Then the process can move on with more quantitative focused and generalizing researches (Repstad, 1999).
3 Theoretical Framework

This chapter will try to show the present framework and knowledge within the area of the research questions.

3.1 E-Commerce

Electronic Commerce (EC) applications were first developed in the early 1970s. Innovations like EFT (Electronic Fund Transfer) were among the first, used mainly by large financial institutions, banks, and a few bold small businesses. Then EDI (Electronic Data Interface) evolved, which extended the usage from solely financial transactions to other types of business, like manufacturing. Other EC applications followed ranging from stock trading to travel reservation systems. Later in the early 1990s, as the Internet became more commercialized and users rushed to participate in the World Wide Web, the term electronic commerce was invented (Turban et al., 2002).

The internet has in many ways revolutionized the way in which consumers and firms interact with each other. The Internet has further dramatically changed the information enjoyed by the various market participants in the value chain. That the customers get access to broadband, increase in confidence for Internet and that the consumers are becoming more risk aware are all perquisites for advancement in e-commerce (Abrahamson, 2003). During 2004, according to Höij (2005), the Swedish citizens increased their online purchases in other European countries with 74 percent.

A new report published by Handels Utredningsinstitut (HUI, 2005), states that purchases over the Internet increased heavily during the period May-August 2005. During 2004 the estimated e-commerce covered 1.6 percent of the total retail. Even though 1.6 percent seems to be a small figure of the total retail, the growth is solid. During the period May-August of this year the estimated growth is 28 percent higher than that of 2004. The article further states that the competition is growing even more intense for the vendors. 57 percent of the respondent e-vendors’ feels that the competition is harder and only two percent feels that the competition has decreased during the last 12 months. Handels Utredningsinstitut states that the increase in the e-commerce is far greater than that of the increase in retail overall. An increasing growth of the mail-order vendors is a major contributor to the overall growth of the e-commerce. HUI estimates that the year 2005 will have a turnover of 8-9 billion SEK\(^2\) in e-commerce. The increased competition is due to the fact that e-commerce seams to be established as a channel of purchase. The general view of the Internet as major growth enabler is also a factor influencing the increase in competition (HUI, 2005).

3.2 Benefits and Limitations of E-commerce

Few innovations in human history have as many possible benefits as e-commerce. The possibility to reach people all over the world, the variety of possibilities of its use as well as the rapid growth of supporting technologies such as the Internet will most probably generate benefits for organizations, consumers and the society as a whole. These benefits will continue to increase in line with the expansion of e-commerce.

\(^2\) SEK is the Swedish currency the “Krona”. Current currency rate: 1 USD = 7.55 SEK; 1 EURO = 9.25 SEK (Gathered from www.di.se 2006-01-26).
Turban et al. (2002) proposes some significant benefits of e-commerce.

**To Organizations:**

- Access to national as well as international markets.
- E-commerce lowers costs of creating, processing, distributing, storing and retrieving process by for instance using an electronic procurement system.
- E-commerce allows a high degree of specialization that would not be possible in the physical world.
- E-commerce reduces the time between invested capital and the receiving of products and services.
- E-commerce reduces telecommunication costs as well as enables efficient e-procurement that can reduce administrative costs.
- E-commerce enable companies to interact more closely with it’s customers as well as improved corporate image, improved customer service, less time to market, increased flexibility and productivity and increased access to information.

**Benefits to the consumer:**

- E-commerce gives the consumer a greater selection, enable quick comparisons and makes is possible for the consumer to locate relevant product information.
- Enables offers the consumer less expensive products and services.
- E-commerce allows the consumer to make purchases 24hours a day.
- E-commerce further facilitates competition which leads to lower prices.

**Benefits to Society:**

- By enabling distance work, people travel less which results in less traffic and less pollution.
- Consumers in third world countries and other disadvantaged areas may enjoy products and services that normally are unavailable.
- Lower costs allow consumers to with less income to increase their standard of living.

**Limitations of E-commerce can be technical such as the following:**

- Bandwidths and telecommunications may be insufficient in many areas
- Security aspect such as reliability and standards
- E-commerce software may be incompatible with certain operating systems as well as problems with integration.

**Limitations may also be of a non technical nature:**
• Security and privacy issues and the general view of consumers having disbelieves in secure online transactions and the fact that many customers may not trust a face less seller.

• Internet access is not always obvious and is still inconvenient and/or expensive for many possible consumers.

• Consumers may want to touch the products in order to know what they are buying.

• A loss in the social interaction may affect human relationships.

### 3.3 Strategies for E-commerce

Strategy can be defined according to Turban et al. (2002) as the formula for how a company competes, its goals and what plan and policies will be needed to carry out those goals. There are many different ways to view strategy and Porter (1996) views strategy as the creation of fit among a company’s various activities.

Turban et al. (2002) further states that there are various levels of strategy within an organization such as corporate strategy, IT-strategy, E-commerce strategy and E-commerce functional strategy. Deciding upon a suitable strategy starts with identifying threats and opportunities. The need for tracking changing environments, understanding customer groups and establishing methods of meeting the customer needs calls for forming strategies and to plan their implementation.

Formal strategy in general is not always necessary for an organization and many can do well without them. Strategic planning can be expensive for many organizations especially small- and-medium sized companies and can also obstruct fast adoption to a change in the environment. However, e-commerce initiatives are critical to many organizations and can be very complex to implement and therefore, a strategy is needed.

Turban et al. (2002) outlines three different types of strategy:

• Strategic planning – Preparing for the future, which means long-term planning.

• Strategic response – Making strategic decisions in response to changes in the environment.

• Strategic innovation – Instead of awaiting actions that triggers a strategic response an organization can be proactive and have an innovative strategy.

Turban et al. (2002) shows activities involved in forming a sound strategy as; forecasting where the organizations scan technological, political and economic environments. The organization then turns to resource allocation. These are resources that are available to the organizations such as human, financial, technological and knowledge resources. Core competence is the unique combination of resources and experiences of the organizations. This “unique combination” takes time to build and is difficult to imitate and are crucial for an organizations competitive advantage. Strategy formulation is concerned with how to take the organization from the current point to a desired point which is the desired output of the strategy. Environmental analysis is necessary on order to interpret the relevant information collected from the environment, usually an industry analysis. Company analysis includes the business strategy, capabilities, constraints as well as strengths and weaknesses. Finally a Company
analysis should be made. This includes the business strategy, the company capabilities and their strength and weaknesses (Turban et. al, 2002).

Leintz and Rea (2001) gives example of four different strategies for e-business; Separation – e-business as a separate activity, Overlay – e-business implemented on top of standard business, Integration – e-business integrated with your regular business and Replacement – to replace some of the existing regular business transactions with e-business.

The Separation strategy can be attractive if there is a wish to reach different customer segments compared with the regular business, but also expensive due to redundant business activities being implemented. The Overlay strategy could be seen as a quick way of getting an e-business activity, controlled from the existing business. But normally the internal culture has to be changed towards e-business, and this can be threatening to the organization and the employees. The Integration strategy, to integrate e-business with normal business, is seen as the most complex strategy for e-commerce by Leintz & Rea (2001). The complexity comes from changing the current business practices while at the same time implementing e-business and keeping the operations going. Finally, the Replacement strategy is an e-business strategy, meaning that some specific sets of business activities are transformed or replaced with using e-business.

According to Morath (2000) the strategic considerations, when implementing what he calls eVenture (e-business), are pretty similar from launching any other type of business or investment. But in addition to those standard considerations, it is important to think about what NOT to do, due to the increasing speed of changes with internet technology. With internet it is also easier to outsource many areas of the operation and therefore it is important to start the business focusing on the core competencies, meaning to start small, and outsource all areas that are not critical for the success. But it is equally important to be prepared to re-configure and to grow fast (Morath, 2000).

### 3.3.1 Implementation Strategies

Turban et al. (2002) mention several strategic initiation issues for e-commerce implementation. One is to be a first mover or a follower. Major advantages of being a first mover are; Chance to capture larger market shares, your brand name gets established and there are possibilities to establishing exclusive strategic alliances. Major disadvantages of being a first mover are; the cost of developing e-commerce initiative is usually very high, the risk of failure is high, the system may be obsolete compared with the second wave of system arrivals, and no support services are available at the beginning. Another strategic issue for e-commerce implementation is to evaluate what e-commerce will be used for, and if there is a need for it? Major e-commerce contributions for an organization can be: Enhancing the sales channels by advertising and sales; enhancing the procurement channel; enhancing the customer service channel, and facilitating value-chain integration. And a finally strategic issue could be if one should have a separated or integrated online function.

Leintz and Rea (2001) conclude that regarding e-business there is no time to use a “wait-and-see”-approach. They state that e-business implementation is different in many ways from traditional process change and system implementation. This due to three aspects: the business dimension – Marketing and management has to be involved from the start; outside forces – Customers, suppliers, competitors and technology change, all affect the e-business effort. The third aspect is that e-business implementation is continuous and recurring - There is a need to put continuous focus and adapt to on-going changes. All these factors combine
to make e-business implementation one of the most complex, but also rewarding areas at the moment (Leintz & Rea, 2001).

**Pricing strategy**

It may be a difficult decision how to price products and services online for a click-and-mortar company. Setting lower prices than the offline business may lead to internal conflict, while setting the price at the same level on all channels will hurt the competitiveness (Choi & Whinston, 2000). Fölster (2002) further states that actual price comparisons which have been made do not give a clear picture. By looking a price comparison made in 1999 it shows that organizations that sells purely on the Internet has about 10 percent lower prices than companies that offers both Internet trade and physical channels. The established pure Internet companies has further about 6 percent higher prices then the smaller “challenging” Internet firms and an explanation proposed by Fölster (2002) is that pure Internet firms, especially the newly established smaller Internet firms are still to some extent subsidized by financial investors and are often not delivering a profit.

### 3.4 E-commerce and Critical Success Factors

Turban et al. (2002) gives some examples of and suggestions on how to succeed with e-commerce: Create new partnerships, alliances and to stay with your core competency; deliver high-value service offerings that include products; Optimize natural scale and range of business and look at mass customization; use proactive strategy approaches to avoid being locked out; leverage intangible assets, competences, and relationships – unleash undeveloped assets; as well as, compete with your web sites to control access to and relationships with customers.

Morath (2000) writes about emerging best practices from e-business and gives new approaches for e-business start-ups and larger companies. The author stresses the importance of accelerating the e-business projects. He gives examples of two change strategies; the “Stepwise approach” and the “Thinking ahead approach”. While the stepwise approach will place the company behind its competition, the thinking ahead approach is more performance related and works from a vision. Both are goal related, but the Thinking ahead approach works to accelerate to the vision and then deduces the necessary activities to get there (Morath, 2000). According to Morath (2000), due to the stepwise approach often used by large organizations they often stagnate or do not make enough progress.

Below some of the best practices or recommendations given by Morath (2000) are outlined:

- Establish a clear vision and communicate it early to the prospective partners.
- Prepare an aggressive, but solid project plan
- Document your processes and interaction with your customers and partners throughout the organization.
- Strive for ongoing improvements in the organizational efficiency and effectiveness
- Outsource whatever that is not the core business
- Integrate closely with partners in order to provide a seamless process across the organizations boundaries.
• Implement excellent software for the customer facing areas.
• Use a credit card based approach for starting the e-business; allow cheaper payment types for those customers which have a good risk profile.
• Reflect the balanced scorecard aspects in the Enterprise Resource Planning (ERP).
• Maintain a clear customer focus.
• Build an organization with a flexible staff, able to perform different tasks and close interactions between the company, suppliers and customers.

3.4.1 E-commerce Potential
Several more recent articles (NUA Internet Surveys, 2003a; 2003b; 2003c; HUI, 2005; Huldschiner 2005) but also authors like Turban et al. (2002) all have present reports of the present increasing growth, but also the rapid expansion of the future to come. In the HUI report analyzed by Huldschiner (2005), the accumulated growth for 2005 is 30 percent, which is close to two percent of the total retail trade in Sweden. However, the total Swedish e-business is considerable larger than what the figures from HUI’s research shows. In the statistics, areas like traveling, event ticket-sales and financial services, are not included. These are all areas where a large proportion of traditional sales have been moved to the Internet (Huldschiner, 2005). In the HUI report it is evident that the competition is growing even more intense for the vendors in Sweden. 57 percent of the respondent e-vendors’ feels that the competition is harder and only two percent feels that the competition has decreased during the last 12 months. The report also show that the increase in the e-commerce is far greater then that of the increase in retail overall and HUI estimates that the year 2005 will have a turnover of 8-9 billion SEK in e-commerce (HUI, 2005).

In the future Fölster (2002) means that the boundaries between traditional commerce and e-commerce will eventually be eliminated and that there is a tendency in the US that pure e-commerce companies invests in physical channels as well. Fölster further states that e-commerce will be a natural element of commerce in general. In the article in Computer Sweden by Bohlin (2004), a Swedish consultant firm (Know How Information) explains of the change work that has to be done in many traditional companies form using Internet merely as a “Virtual shopping window” for the traditional business, to become another sales channel, and IT issues to become important strategic matters. The consultants also claim that even though the market has matured, there is still a lot of potential. But the corporations have to change their internal structure to suit e-business to excel (Bohlin, 2004).

3.5 Click-and-Mortar Organizations Vs Virtual Organizations
In the spring of 2000 there was about 250 pure Internet firms selling to consumers and at the same time there were somewhat 7000 retailing firms which also offered an online channel besides their physical channel (Föslter, 2002).

Click-and-mortar organizations can be described as organizations that are purely physical but conducts some e-commerce activities as compared to Brick and Mortar organizations that are purely physical. Basically Click-and-mortar organizations can be seen as a company that has succeeded in integrating the Internet into the existing business channels and that
they generally target consumers (B2C). Virtual corporations are purely e-commerce orien-
ted (Turban et al, 2002).

According to Steinfield (2002) the dramatic change in e-commerce during 2000 and 2001 has estab-
lished a growing recognition that Internet is unlikely to displace traditional chan-
nels anytime soon, at least when it comes to B2C e-commerce. Steinfield (2002) states fur-
ther that traditional corporations have moved to integrate e-commerce into their channel mix and thus using internet more as a supplement. This strategic movement has indeed contributed to the failure of many struggling dot-com companies. Integrating the physical channel with e-commerce channels makes it possible for the “click-and-mortar” firms to benefit from these synergies that may not be available to companies that treat these channels as independent from each other.

In the beginning of internet-based commerce, much effort was placed on sources of the com-
petitive advantage that internet firms had over the traditional firms such as greater oper-
ating and transaction efficiencies as well as lower search costs. Previous work has strongly criticized the view that internet firms will drive out the traditional ones. These works emphasize the theoretical advantages of combined/hybrid approaches to e-
commerce. They suggest that advantages does not only arise from the opportunities that multi-channels brings for reaching new customers but also that each channel can affect another channel by increased purchases or reduced costs. The authors’ use a framework for describing how to reach synergy benefits and to avoid channel conflicts by following some managerial actions as presented below (Steinfield et al., 2002).

The synergy of click-and-mortar organizations arises from the fact that they have common infrastructures, operations, marketing as well as customers. Benefits can emerge from the fact that Virtual and physical channels shares resources and assets. The authors mentions a critical challenge for the click-and-mortar organizations which is that the various channels capitalizes on sales from each other which may lead to customer confusion, limited coop-
eration and possibly even sabotage between the channels. Alternative means to reach cus-
tomers which may come into conflict with already established channels is however nothing new to e-commerce. The authors’ further stresses the importance of having an active man-
gement working towards diffusing conflicts and to enable an alignment of goals. Having common goals across both physical and Virtual channels implies that everyone involved re-
 realizes that the parent organization benefits from either channel. A problem faced by click-
and-mortar organizations is that it may be difficult to measure the contribution made by the Internet channel due to its intangible nature and it is further important not to only evaluate the Internet channel purely on their own sales and profits. Agreements on which customers that are targeted by the e-commerce channel are important. Coordination and control mechanisms includes inter-related operations between channels which enables customer to move freely across the channels and to use each channel to promote the other and coordinate customer services thus utilizing the strengths of each channel (Steinfield et al., 2002). The authors’ further states that traditional firms may lack the necessary competences of reaching synergy benefits with e-commerce, such as web-development competences or logistical competences.

The figure outlines four synergy benefits which are;

- Lower costs savings in labor, inventory, marketing and distribution, for instance that costs are switched to the customers in searching for product information.
- Differentiation through value-added services and pre-purchase services such as online information aids as well as opportunities to test out products in the physical store.
- Improved trust, such as having an established physical store as compared to pure internet firms
- Geographic and product market extension, adding a Virtual channel enables a reach beyond traditional physical stores (Steinfield et al., 2002).

The increased growth of online sales compared to offline suggests that established retailers can gain benefits from developing an e-commerce strategy. Earlier studies according to Laudon & Traver (2003) shows that established retailers have become more prominent compared with pure internet firms after the dot-com crash.

In the beginning of internet commerce much of the efforts was placed on identifying competitive advantages that pure internet firms had over established ones and primarily focusing on the costs that buyers and sellers are faced with such as information gathering and searching, negotiation and settlements as well as ensuring that business partners follow the agreements. Internet further reduces the costs for buyers in finding sellers in distant geographic markets that offers lower prices, better services and quality. (Steinfield et al, 2002) further states that instead of just explaining the growing importance of click-and-mortar organizations, the transaction cost theory is primarily discussing the expected dominance of Internet business models. It explains how and why pure internet firms will successfully compete with physically present businesses instead of discussing the reasons why physical businesses may be better at exploiting the Internet compared with pure Internet firms without any physical presence. Much other analysis (Steinfield et al, 2005) focus on the economic advantages that Internet firms possess over physical such as:

- Access to wider markets
- Operational, cost, scale and scope advantages
- Lower inventory and building costs
- Flexibility in sourcing inputs, improved transactions
- Ability to bypass intermediaries
- More rapid response to market changes, 24/7 accessibility and accessibility to quick information (Steinfield et al, 2002).

The authors however stresses that these analysis’s primarily target the differences between physical businesses and Internet firms and pays little attention to the benefits of synergies of a combination between the two. More recently the focus has turned to focusing on these synergies and focuses on the benefits of Click-and-mortar firms which has the ability to exploit complementary assets which gives Click-and-mortar firms an advantage over emerging Internet firms such as existing suppliers and distributors, experience in the market, having a customer base and having a recognized brand et cetera. Ward (2001) further stresses that advantages arises from providing multi-channels that enables a longer reach for new customers and offering new services as well as having a so called “spill over” effects which can lead to an increase in profits and reduced costs in the other channel.

Information system research has for a long time pointed at the advantages of electronic networks and how they can realize competitive advantages such as the geographic reach and various cost savings. According to the authors it is easy to see how the advantages of electronic networks can be derived from exploiting the synergies between physical and Virtual channels. The authors’ further stresses that the most important advantage that Click-and-mortar firms has over pure Internet firms is that of trust. Lyer et al. (2004), means that the biggest problem facing pure Internet firms is the lack of trust.

Steinfield et al. (1999) proposes the following Click-and-mortar benefits:

- Improved trust – Customers who sees Internet stores as an extension of an existing business tends to feel more legitimate
- Reduced consumer risk – For instance being able to return goods at a physical store
- Broader coverage of diverse shopping preferences
- Complementaries between the two channels – For example, making purchases online while a physical store can be used for service.

### 3.5.1 Possible Barriers to Click-and-Mortar

The following points are noted in (Steinfield et al, 2005) to be possible barriers to Click-and-mortar organizations;

Problems in pricing and differences in channels and the variety of customer characteristics hinder traditional retailers to come to terms with their traditional operations with their Internet channel

Channel conflict may impede the development of Internet channels such as price competition and there is further no reliable way for retailers to segments its market, leading to consumers switching between channels to achieve the greatest benefits. It is common that customers search information and make comparisons on the Internet and makes the actual purchase in the physical store. A report made by Forrester Research (2004) states that 65 percent of the online consumers are cross-channel buyers.
There may be a problem in finding resources and competence since an integration of physical and Virtual channels requires IT-investments.

The introduction of a Virtual channel may have harmful effects on a firm’s brand due to, for instance lack of effective integration of operations (Steinfield et al, 2005).

4 Empirical study

Here, first the methodological approach with the interview is argued for, then the empirical findings will be presented. The empirical findings or the reports primary data, will be summarized for a simplified more readable text.

4.1 Methodological approach for the interviews

A structured interview is distinguished as (Lundahl & Skärvad, 1992):

- The interviewer set a fixed goal of the interview in advance
- Both the designed questions as well as the follow up-questions have been designed to support a systematic review of the areas which the interviewer is interested about.
- The interviewer is information-concentrated and focused

The non-structured interview is distinguished as following:

- The purpose with the interview is not as narrowed delimited and the direction is wider and less focused.
- The interview aims to entice the respondent’s valuations, attitudes and perceptions just as much as pure facts about a situation.
- Instead of mainly information-searching questions, also dialogue-developing questions are used

However, everything is not either black or white, and therefore it is also possible to perform interviews half-structured or sometimes called “semi-structured”. When doing interviews with the so called, half-structured method, the areas of subjects and what kind of information that is desired is decided in advance. And there is also an attempt to comply answers with follow-up questions (Andersson, 1994; Lundahl & Skärvad, 1992). But according to Andersson (1994), using a half-structured interview, one has not decided the exact formulation or wording, and neither what sequence the questions will follow. This is more determined based on how the conversation turns out. For this thesis, non-standardized, half-structured or semi-structured questions were most suitable. This was based on that we desired to get flexible interviews with a non-structured order of questions, since we wanted to get a good flow during the interview and to get the maximal amount of information. But still the questions was based on the same template, since this paper addresses to compare different respondents answers inter-related with each other, and compared with our theoretical framework. Repstad (1999) writes that if there is a to rigid interview guidance, the risk is greater that respondents who might be short and quiet from the beginning, gets even more quiet and passive. We will also try to find attitudes and perceptions with answers about strategic and competitive matters. Therefore, summarizing everything, we were best
fit to use the qualitative interview method, with a non-standardized, but half-structured template.

Although most of the non-structured interviews are performed through physical presence, structured interviews can be performed by physical presence or via telephone, depending on the complexity of the area and area questions (Sekaran, 2000). Since we judged our questions to be within a highly complex area, we thought the interviews should be performed with physical presence. To obtain higher objectivity and reliability, we did audio recording during all of the interviews. For best protection and to keep the data “fresh”, audio recording is recommended by for example Repstad, (1999). We asked the questions based on a question template (appendix 2), which was translated from appendix 1, and was developed to answer questions generated from the problem discussion (chapter 1.2). The interviews was performed by using the so called “funnel-technique”, which means that one goes from more general questions to more specific. This is to not go too hard on the respondent during the initial phase of an interview (Andersson, 1994). In our case this means that we first asked general questions about the interviewed company’s e-commerce history or status, and then moved on to more complex questions such as how the respondents perceived threats and opportunities and future strategies. According to Ericsson & Wiedersheim-Paul (1999), since nothing is self evident, it is important to try to formulate more questions to illustrate a problem from several different directions. Therefore we did not use only three or four questions but up to 8 half-structured questions, and some with follow-up questions whenever it was required or suitable.

4.2 Interview with “Virtual Company 1”

- What is your official title? Tell us about your company?

There were three founders of “Virtual 1”, which also are part owners and they handle everything from text design to marketing as well as handling the booking process. Everyone assists when needed. One is responsible for the booking, one is responsible for economics and one is expert on tickets. The respondent is the president of Virtual 1. They thought that since they have great knowledge of the traveling market, and relations with a system supplier and good connection with companies who made advanced booking engines which meant that they could launch a good web page with a fairly small amount of money and assist these customers who previously had never booked before.

- How does your company conduct B2C e-commerce?

When Virtual 1 first started, they realized that there were a very large number of Internet user that browsed their site but had never booked a trip online before.

According to the respondent the customers finds Virtual 1 in 99 percent of the cases on the Internet. They use their search engine as a sales channel. When a customer makes a reservation, the booking is put in a control queue, they then verifies that the booking is correct and then the customer pays online which is registered in the economy system, the invoice is processed and then the ticket is sent to the customer and if the customer has chosen e-ticket, the ticket is sent by e-mail. The respondent thinks that it is important to have partners and as well as their own sales. Virtual 1 use Internet as a base, and they have no other marketing channel. They do not want to define themselves as a "pure" online firm since it is possible to call them in order to make a booking. Virtual 1 wants to give the customers the comfort of being able to call a support, which assists with the booking from the start to the end. Many online traveling offices have chosen only to offer online booking
and have a limited telephone support. Virtual 1 offers longer opening hours on the phone support in order to help those who feel insecure. The goal of Virtual 1 is not to become the largest, but to offer a good service where the customers can book their tickets.

During this year, many new competitors have emerged and specifically the traveling market is exposed to competition according to the respondent, everyone wants in on the Internet.

Major online traveling stores in Scandinavia is entering the market in Sweden and many established companies are entering the Internet. The respondent explains that it has becoming more expensive to “buy” new customers.

- How does your company perceive opportunities and threats of e-commerce?

The possibilities with the Internet for a new company are that if one finds a good name, it gives the impression that it has been around for a long time. The respondent means that on the Internet, it is possible to appear a lot bigger and more established than you actually are. One cannot just open a web page from nowhere without any money. Knowledge about the industry is needed on which you enter, and financial funding, as well as relations with others in the business and suppliers. The respondent mentions letsbuyit.com as an example. They had a great web page and great marketing but they could never deliver their products which of course have a negative affect on the brand. Eventually one will die as a company if they cannot live up to the expectations. It is further important to have a logistical function that works well. A threat for Virtual 1 can be that it is relatively easy to open to open a store. The engine of Virtual 1 has also been launched at other traveling stores, and other web pages.

Possibilities are that if you find a partner, it is possible to do a lot with little means. Virtual 1 has apart from their main traveling page also opened a web page, for rental cars in collaboration with a major a rental car agent which has all the 25 bigger, established rental car agencies such as Avis, Hertz as well as smaller local agencies. The respondent further explains that it would not be as easy for them to get this partner if they were entirely new, then they would have to prove themselves first in order to get a search engine from the rental car partner. It is easier for existing businesses on the Internet and traditional businesses to attract partners. Threats specifically for their industry are when major players enter the market. With a strong brand and lots of money invested in marketing they can enter the market. They usually buy existing businesses while completely new firms acquire market shares directly from us. The informant states that it could be an opportunity for them to be purchased by a bigger firm but so far there has been no such interest. They have not chosen to buy shares from price comparison web pages since they are very expensive. Currently there are about 25 different traveling firms included in one of these comparison sites, and if Virtual 1 would like to enter there, they would have to bid over all the others in order to get a booking. Another threat proposed by the respondent is that the existing companies with a greater cash flow can buy these shares and operate without a profit for a while just to sell flights in order to increase the volume. A final threat explained by our respondent is the search engines in the sense that they new or changes in their technique may lead to less visitors to our web page.

If the Euro was implemented in Sweden, it would have been a lot easier for a German firm to open a web page in Sweden. All they have to do is to translate the page into Swedish. It would also be easier for Virtual 1 to open up their web page in other countries. But by looking at advertisement costs in the bigger Euro countries, an advertisement may cost 50 000 SEK there and 5 000 in Sweden.
- Are there possibilities for streamlining or efficiency improvement when using e-commerce?

According to the respondent there is a clear advantage with online compared to offline sales since the customer can do everything themselves except from printing the ticket. As it is today Virtual 1 goes through all bookings manually in order to see if they can find better prices and increase the marginal.

- Which are the foremost important changes in your marketing and sales strategies due to e-commerce?

Virtual 1 first tried out to put there advertisements in newspapers but it only generated phone calls from people who were out chasing cheap tickets. It generated a lot of phone calls and a low amount of bookings. The respondent feels that it is easier to get bookings from online advertisements. The respondent has worked in a traveling store before and mentions that back then, they had advertisements in newspapers just to get as many phone calls as possible. “Fake” prices was often used which in reality did not exist. There is a great difference between online and offline, where the customer is supposed to search for tickets. This is then made in real time with the lowest available price.

The informant further describes that when it comes to offline firms, they often have a price rise of maybe 10 percent on each booking, while Virtual 1 have a more fixed price setting. They get the net price from the airline company including taxes, and then they add 99 SEK for domestic flights and 120 SEK on tickets to London and 200 SEK on tickets to the US among some examples. Regardless of how expensive a ticket is they have a fixed price. Therefore the customer is better off with buying an expensive ticket from Virtual 1 instead of at a traditional traveling store since they have relative price settings.

- (Virtual corporations) How do you deal with the competition from traditional, companies (click-and-mortar)?

The respondent explains that since it is getting more difficult to market yourself due to the increase of competition, they feel that they have to put more effort into SEO³, search engine optimization, in order to be as prioritized as possible in the search engines, among the top 10. If you search on the word “travel” in Google and receive 100 hits, then it will mostly contain advertisements. It is very expensive to acquire new customers this way since firms has to bid on these words. The aim of Virtual 1 is to get as much as possible, as cheap as possible. The informant stresses that the bigger firms has the best search words and it makes the competition very hard for this type of marketing. Virtual 1 has about 40 percent of their traffic in the evening and this is a result of not paying as much for these search words.

The respondent further explains that they do not have a market plan, everything changes very fast on the Internet today and one month something may work and another month something else may work. Virtual 1 tries new things all the time.

Another competition factor as mentioned before is that the bigger firms has more money and can therefore always develop new services and new functions and even have tracking modules in order to see from where the bookings come. Virtual 1 has a tracking system but

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³ SEO = Search Engine Optimization – A method to optimize ones results in various Internet Search Engines (e.g. Google)
it does not always show this information. This enables the bigger firms to optimize their marketing more than Virtual 1 can.

The respondent thinks that they have to enter price comparison web pages. They believe that these will grow a lot in the future. Virtual 1 are not involved in any price comparison web pages but in the future they may enter if they can find the right business model.

- Have this made you change your sales and marketing strategies?

The respondent points out that they are currently talking to a price comparison web page in order to try to acquire their traveling department as well as other major web pages that already has a lot of traffic and try to influence them to open up an own traveling brand which Virtual 1 can run for them. A very cost efficient way to grow is to supervise web pages for others who already has traffic on their pages. It would not cost more to guide the traffic to their own brand instead of guiding it to different advertisers.

- Are there any plans on adding physical stores to your sales channels?

The respondent explains that they will not open up any physical stores as it is today. In a longer perspective it may be a solution if they grow a lot bigger. If so Virtual 1 may open in Gothenburg, Malmo and in Stockholm. However, the respondent does not think that this will happen. They will most probably only be active on the Internet. Another solution could be that to share some kind of physical store with one of their partners for instance having a salesperson in one of their partner’s stores.

- Is there any competition between your internal sales channels?

The respondent explains that there is competition since they sometimes market themselves on the same places such as for instance, their own web page as well as on their partners’ pages. Virtual 1 runs these web pages.

- How do you think your customers perceive this?

It is clear that it is confusing for the customers if Virtual 1 has too many partners.

4.3 Interview with “Virtual Company 2”

- What is your official title?

The respondent is a marketing manager, which in “Virtual 2” is a divided position. They have divided the position into different areas of responsibility. The other person is only focusing on online activities and ROI (Return on Investment), and the respondent have a more overall role.

- Background information about the company

Virtual 2 is an internet travel agency which was started in 1997. They were purchased by a small travel company in the beginning of 2002. This new owner was acquired by a European network of travel agencies named in 2001. This owner has business in 14 European countries. It is only in Sweden and Denmark they are called “Virtual 2”. Earlier this year Virtual 2 was in their turn acquired by another big player, the second biggest travel group in the world. The respondent refers to the new mother company as a “giant”. They own several travel-related products around the world, such as hotel chains, rental car chains.
They own among other things, one of the biggest online travel agency in the USA called “Orbits”.

- **How does your company conduct B2C e-commerce?**

"The web" is Virtual 2’s primary channel towards their customers. And the main idea is to get people to check the homepage and find the product which seems interesting. According to the respondent people mainly check for cheap flight tickets. The idea is to make them stay on the website and also book their hotels and rental cars to collect a finished product and doing the reservation directly on the internet. Payment and everything is done in one action. Virtual 2 also has packages (bundling) but they cannot be purchased online, but has to be reserved and handled manually.

- **How does your company perceive opportunities and threats of e-commerce?**

According to the respondent threats that are most specific for e-commerce is lack of trust, due to fraud or hacking. These are very dependent on what kind of payment solution one is using. However, the respondent deems these kinds of events very unlikely but still threats.

One aspect mentioned by the respondent is to have both the company’s, and the customers view of threats in mind. The interviewee said that “we could never really become a pure e-marketplace, rather we must always have customers service which you can call to.”

One always has to listen to the customers’ risk evaluations according to the respondent. Some people might pay directly through the internet and some prefer to call the customer service. Other external threats mentioned are new tsunamis or terror attacks. The respondents do not think that competitors should be seen as a threat, but as a challenge. But they constantly, even daily, have to monitor their competition since they work in an extremely transparent business. E-business and the internet are very fast moving channels, information must be exchanged quickly. This fast flow of information is however also perceived as an opportunity or a possibility since Virtual 2 can just as quick change wrong information, or for example wrong pricing. If there is a new campaign or offer, then it can be processed immediately.

Other opportunities are mentioned to be the acquisition of smaller vendors and firms by the bigger actors. Since Virtual 2 is owned by a very big organization they have more financial assets, however smaller entrepreneurial firms can use a faster decision making process compared to slow moving giants. But then again strengths with a big sized owner is given as having access to more products, and better opportunities negotiating with other organizations for strategic alliances or greater networks.

Finally some more threats for Virtual 2 in their business are if the taxation on oil increases or if some player from media criticizes their e-commerce solution.

- **Are there possibilities for streamlining or efficiency improvement when using e-commerce?**

The respondent says that although the majority might search for traveling information on the net, doing price comparisons or reading about the destinations, there is still a large proportion which still read printed magazines or brochures. E-business vendors still have a very small proportion of the total market share. Virtual 2’s system development is outsourced to India and is also perceived as a strength and cost efficient, but also a possible source of culture collisions and finally, the hierarchy of the bigger organization make change work time consuming.
- Can you describe your e-business strategy?

Given the information collected during the interview, key areas for Virtual 2’s e-business strategy is price competition, excellent range of products, and working on brand awareness to build trust. Virtual 2 used to conduct business travels as well, but since their last owner got in charge, they focus on their core business, and that is not business travels.

- Which are the foremost important changes in your marketing and sales strategies due to e-commerce?

During the “IT-boom” Virtual 2 invested millions of SEK in marketing, in every possible project. They tried everything; they sponsored everything and tried marketing to cellular phones and e-mail, which in the end got exceedingly expensive. However a positive side effect was that Virtual 2 became a relative well-known brand. The first owner believed Virtual 2 did not need any customer service function; everything would be processed via the internet. The next owner made severe cut-downs and opened a customer service function which resulted in fantastic sales increase.

The contemporary strategy for Virtual 2 is to still do various advertising in magazines and newspapers, but more focus in on creating brand awareness. The interviewee says that Virtual 2 does not want to be associated with only offering low-priced offers. The strategy is to get customers to act non-stop, to book their entire trip package or get it served. This calls for a different alignment, one have to communicate that the whole package is on the site, that Virtual 2 knows their products, and are reachable and trustworthy. According to the respondent Virtual 2 have recently started to focus on this and have started to attain more qualitative customers, providing better sales margins.

About price differences, the respondent say that even thought is always should be cheaper to book online, in reality Virtual 2 have similar costs as clicks and mortars due to their customer service function and the rent for their office. But the difference is that for B2C e-commerce the customers do most of the work, check prices, dates and reserves and pay’s by themselves. A physical travel agency takes extra fees for that kind of service, and Virtual 2 does not.

- How do you attract new e-business consumers?

The interviewee says that there certainly exist larger proportions of skeptics for e-commerce compared with physical businesses. And if you have a well established brand and starts with e-businesses, it will generate a higher level of credibility or trust. The respondent believes it is harder to create credibility or trust when starting a pure e-commerce brand. It takes time to create trust and get a brand that people recognize. The most important marketing channel, says the respondent, is the single one that is very hard to dictate, the so called “mouth-to-mouth” channel. That is were trust is built. So even if one has a well known brand, one should ask what the brand is well known for.

The respondent says that Virtual 2 wants to get as high as possible on internet search hits, and this calls for an excellent bidding strategy. It is very expensive to buy travel related words for searching and it is a balance act. But Virtual 2 aim to be number 1 in search engines. They mainly focus on search words which convert into sales after clicks. Sales generating search words. Right now Virtual 2 has a third part vendor which runs the search engine optimization, but they are considering internalizing that function.
- (Virtual corporations) How do you deal with the competition from traditional, companies (click-and-mortar)?

The most visible change noticed by the respondent is the charter travel companies which have moved to online. This calls for a very clear, focused positioning for Virtual 2. The respondent said: “…charter is charter and travel agencies are travel agencies”.

She continues with saying that as a travel agency today, you don’t survive if you are not online. In the end it all comes down to: 1 – who has the most known brand; and 2 – obviously, who has the best offers or selection. In first hand it is about the price, and then second hand is about having price worthy products. The scale of product range is another important aspect.

The travel industry is according to the interviewee rather predictable, so they all have their cash cow’s or as the respondent explained it, their “bread and butter destinations”. The respondent also believes everything will get more and more standardized and less and less vendors due to take-over’s and acquisitions by increasingly larger organizations. The interviewee says that their owner’s products also end up at their competitors’ portfolio and that in the end all money will end up in the same pocket. Then it is more up to having the most appealing brand. And also about life-style and what the customers associate the brand to, and certainly the offers and the prices as well.

- Have this made you change your sales and marketing strategies?

According to the interviewee Virtual 2 has not changed their sales or marketing strategies worth mentioning due to competition from “click-and-mortar”-companies. Again the comparison is made with charter travel competitors is made. They offer different type of travels with less freedom of choice, than Virtual 2 offers. The respondent does not really think of the charter companies as competitors actually, since they are not associated with specific hotel bookings or rental car reservations. And between Virtual 2’s more direct competitors, it is more about a “price-war” and a question about product range.

- Are there any plans on adding physical stores to your sales channels?

The respondent say it is not currently interesting for Virtual 2. She is convinced that Virtual 2 will continue to invest in the online business and to increase sales volumes. The interviewee also gives information about a competitor who actually has decreased their amount of physical stores, and only keeps the ones in the larger cities in Sweden. One usage of physical stores could be for use of event marketing and other marketing campaign events.

- How do you think your customers perceive your different sales channels?

Since Virtual 2 is a pure e-commerce company, and that is their business, the respondent believes the customers think of phone service as reassuring. One cannot assume that everyone is ready to book their trip online. And one cannot be assured that the potential customers find exactly what they want online. And as the respondent said: “Regardless, e-commerce is runned by relatively simple systems”.

- What is your view of the technological development, future technological solutions?

The respondent believes it is critical to keep up with the technical progress, and mainly for competitive purpose. Technical systems rapidly gets obsolete and gets more vulnerable, possibly exposed for attacks. And that is not desirable, Virtual 2 want to have system
which is as safe as possible. The interviewee deems the future to deal more and more about volumes and the sales will get less and less personal. And a negative aspect is that many producers, or in this case airline systems, are rarely optimized for the customers. More focus on the customers, the more one can get a two-way interaction or at least try to give the illusion of a two-way interaction.

4.4 Interview with “Traditional Company 1”

- What is your official title? Tell us about your company?

The respondent is a marketing manager and hired both for marketing and online sales, which the respondent think is very good. They do not have this structure in the other countries but the respondent think that it is on its way. “Traditional 1” operates primarily in Scandinavia.

- How does your company conduct B2C e-commerce?

Traditional 1 conducts B2C e-commerce through their webpage, the primarily feature is the flight booking engine. The respondent feels that the difference between them and pure online traveling stores is that they are not as far ahead, technically. Traditional 1 does not use a shopping basket which means that it is not possible to gather several different products and then purchase it. They provide a booking engine and then in the last step they try to promote hotels, insurance and other complementing products. Traditional 1 has primarily focused on flights and not on complementing products. The respondent feels however that it will be an interesting challenge to increase the sales on the complementing products.

- How does your company perceive opportunities and threats of e-commerce?

The respondent states that they have a lot of advantages due to their strong brand and long experience in selling trips. However building an exclusive brand is difficult. According to the respondent customers are ever so disloyal as within the travel industry. Traditional 1 is according to the respondent good at keeping low prices, having the right products as well as having a good connection with target customers. The respondent further states the long experience in this industry is an advantage when selling in stores and through call centers. However Traditional 1 is not as good in the e-commerce field as other purely online traveling stores. There is no real lack of technical instruments, but what they lack is to be able to tie everything together for the customer, such as having a customer basket where the customer can collect different products before paying. The respondent feels that Traditional 1 has both the competence and the technical knowledge to be successful in this area. The pure online travel stores have a background primarily within the Internet and not traveling primarily and have then added competence from the traditional industry. That is why they are technically more developed then the traditional travel stores. The respondent feels that it takes time to “get on the road” in this field and that it indeed is a weakness. There are a lot of other threats towards this industry such as catastrophes and terrorist attacks and once major disaster strikes, the amount of traveling declines. The respondent feels however that the industry has recovered pretty fast since the tsunami and this is due to past disasters for example terrorist attacks or deceases like SARS. However, people have a tendency to not worry as much or for long on these things, “people want to travel” the respondent said.

Threats towards e-commerce in the traveling industry are foremost competence, such as technical know-how, and branch specific competence. Another problem for Traditional 1 would be if they lose their e-commerce specialist’s since it takes time to acquire new com-
petence and for new employees to understand their e-commerce platform. The respondent means that because of their strengths there are tremendous opportunities with e-commerce and there is a need to turn to additional techniques such as SMS-services and mobile portals since their target customers are mainly young people. Unfortunately for older businesses, they tend to be quite slow towards change and to acquire new techniques. The respondent further points out that pure online travel stores has the advantage of not having this background. It is evident that online travel stores can have cheaper prices since they do not have stores, no call centers and most communication trough e-mail.

- Are there possibilities for streamlining or efficiency improvement when using e-commerce?

Traditional 1 has not really any plans on changing the current structure since it would mean closing down some of the stores in order to lower the costs. This is however not anything that Traditional 1 plans to do since they want to have sales from their stores with staff and call service and sees the e-commerce more as an adding or complement service. The respondent states that they work a lot with complicated tailored traveling solutions such as trips around the globe, adventure trips and these trips are not easy to put together alone as a customer. This segment is still very complicated and many online traveling stores have entirely given up this segment to us and other stores that have consultants. This is Traditional 1’s core business and e-commerce is more about adding volume to sales such as the point-to-point trips without any stops. The respondent stresses that there are not many rationalizations and efficiency improvements to be made within the e-commerce; they are pleased with their current situation. However it is important to point out that the e-commerce channel is seen as a complement which adds value to the existing business.

- Can you describe your e-business strategy?

To build a brand and to be a “first mover”, or to have a brand which signals that it is hip or cool and worth more, is not possible for the travel industry according to the respondent. They still have to be very price worthy. “It is down to the penny” says the interviewee. And about the e-commerce it is even more pronounced to use a low-price strategy, which is the only strategy to use according to the respondent. This due to the low customer loyalty, they shop where ever it is cheapest. But business customers’ distinguish themselves since they sign contracts with prices already set.

The increasing difficulties with acting as a middle man within e-commerce make value-adding strategy important according to the respondent. Traditional 1 has to validate their know-how, and wide range of products. This means including all players, differentiating Traditional 1 from the airline companies own e-business. This is why the respondent believes in the strategy with core business of complicated trips, custom made travels, around the world and so on. That is where Traditional 1 can add value for the customer and charge reservation fees for it.

- Which are the foremost important changes in your marketing and sales strategies due to e-commerce?

Number one right now is to transfer a greater share of the marketing budget to the Internet and what they do on the Internet is supposed to be the most effective and generates most sales. The respondent states that it is very hard measure these results. It is possible to see how much e-sales it generates but it is very hard to measure how much sales for instance a banner campaign generates in the stores. Even though it may be hard to track this marketing the respondent feels that if successful e-commerce activities are made then it will most
probably generate sales in the other sales channels as well. Traditional 1 works with SEO, search engine optimization in order to make sure that their web page is found. They further work with “ad words” or search words and this is something the respondent feels strongly for since it enables customers to search by themselves on the various search engines. The strategy when it comes to ad words is to be as high up as possible both within the organically search list such as well as the sponsored word in Google for instance. The respondent says that only about 15-20 percent moves further from the first search page which is presented

- How do you attract new e-business consumers?

The respondent believes attracting new customers an important aspect. New customers also include the ones which do not even consider Traditional 1 for domestic flights. They are already actively focusing on a segment of students in Sweden and should try to go both up and down in ages when looking for new customers. Attracting new customers can primarily be made on the internet says the interviewee. Traditional 1 performed a big marketing campaign in October where they used banners on several different sites, with a major newspaper site as an example. That campaign added to quite a lot of new traffic and new customers. This type of bigger campaign is performed twice a year to attract also other customers besides their target segment.

Traditional 1 has a lower price rise and smaller reservation fee online. They have higher margins for store or call-center sales and lower for online sales. This is being motivated by the increased efficiency when the customers find their products and tickets by themselves. The time usage is much less for an online sale so this is a correct distribution according to the respondent.

Regarding search engine strategies Traditional 1 wants to get as high as it is possible both on the organic search list and the sponsored one. It is important to be on the first search page, “…otherwise one is out”. For sponsored search words, it is about bidding, and words related to travels are not cheap says the respondent.

- (Click-and-mortar corporations) How do you deal with the competition from pure e-commerce companies (Virtual corporations)?

The respondent means that today, fortunately there is no one acting towards our target customers, there is no online traveling store that specifically targets younger people. There are primarily traditional traveling stores that compete with their customers. There are some online traveling stores that compete with the same customer as us and all they can do there according to the respondent is to position themselves with the technique and competence when it comes to e-commerce. The respondent stresses that it is a fact that they are not at far ahead in this area as the pure online traveling stores.

The biggest threat with the competition is actually the suppliers; the flight companies themselves and the hotels. The technique has made it possible for the end customers to go straight to the source and the respondent stresses that it is similar in other businesses like for instance, Dell. It is common to invest in direct sales instead of using agencies which makes it harder to act as a “middleman”. The respondent further points out that in order to act as a “middleman” it is important to have a strategy and ad value to the services such as the trips around the world and other tailor made trips. This is where the core competence is and the core business in general for Traditional1.

- Have this made you change your sales and marketing strategies?
The respondent means that it has clearly affected sales and marketing strategies. The Internet and the technical advancement have pushed us to follow the development and to move more money into online communication and change the sale strategies to benefit from e-commerce. The informant feels that the technical progression has caused dramatic changes.

- Are there any plans on reducing the amounts of your physical sales channels or stores?

The informant stresses that this is constantly being evaluated if there are stores that has enough of clients or not. At the moment there are stores that are close to the limit of not having sufficiently clients. But they are on the other hand very good at selling through the call center for instance. We have no plans on declining any stores because of success on e-commerce. If a sales channel is profitable is should be kept, if a store is not profitable it should be shut down. If there are good sales staffs, a store will be able to sustain themselves. The respondent finally says that no new strategies have been made to try to move customers from traditional stores to e-commerce.

- Is there any competition between your internal sales channels?

The informant means that there is competition between the channels and that it is something for the informant to handle. It was obvious that e-commerce was something that created conspicuousness and irritation in the beginning, primarily because of the lower booking fees. It is important that everyone understands that all channels are important – it is continuously the same customers, on the Internet as well as in the stores. It is crucial that the sales personnel have the knowledge of how e-commerce works. The respondent informs that they have tried different techniques such as call centers for the online store between a specific time as well as just offering an e-mail service. The informant explains that is has from time to time been confusing with the different solutions and today they only have a few hours open each day.

- How do you think your customers perceive this?

The informant means that this is confusing. It is confusing for them internally so of course it is confusing for the customers as well. A client may call Traditional 1 and both seller and customer may find themselves confused with the situation due to unclear communication guidelines. For instance a customer calling after the call center opening hours and chooses another alternative leading to a sales person in one of the stores, who has little knowledge of the online services. Another problem for online sales staff is that a booking does not always go through even though it is shown as available on the site, and this is because the major flight booking systems that Traditional 1 are connected to do not show the latest information due to the heavy data traffic. The informant stresses that it is important to communicate this information to the sales person. The flight booking system is pretty old and this has been a reason why low-price companies have been able to reach such success. They have in large extent built their own systems and sell straight to the end consumer instead. This is a very interesting development according to the respondent and puts pressure to change the system structure that we have.

- What is your view of the technological development, future technological solutions?

The airline companies systems are quite old according to the respondent, and this is one of the main reasons why low-priced airlines have got their success. They have built their own systems directed directly to the customers, completely independent of the old systems. The
respondent says that this has been an interesting progress and a strong incitement to change the current system structure for the other larger airline companies.

A big threat is that the technological development has made it possible for Traditional 1’s suppliers to sell directly to the customers, which makes it more and more difficult to act as a middleman if you are a middleman.

### 4.5 Interview with “Traditional Company 2”

- **What is your official title? Tell us about your company?**

  The respondent’s title is: "Sales Manager Internet", that area of responsibility include two aspects. One is the pure sales generated on the internet, and the other is to be responsible for and have governance of the technical platform. The platform is self developed, or specified by “Traditional 2” and build by a supplier. The big advantage with this is that Traditional 2 has completely managed to integrate it with their back-office systems which were used by their traditional channels. Another big advantage with this custom made system is that Traditional 2 can be in charge of the direction of development and have more control. The big disadvantage is that is a cost intensive system to maintain. But the standard system on the market does not offer the same type of customization compared with their platform.

- **How does your company conduct B2C e-commerce?**

  The respondent says that Traditional 2’s solution has two main directions. There is one online direction, and by online they mean that the customer can search for a product, make a selection, reserve this product and also make a complete payment of the product. In short, meaning that the customer can handle the full purchase process by themselves. The other direction is for products which are not available online. These are more complex travel solutions or packages. Then the customer has to send an inquiry which is processed with manual treatment by Traditional 2’s sales staff. After that a personal contact is taken with the customer and the purchase process can continue through telephone or get handled in one of Traditional 2’s physical stores in Sweden. This type of reservation inquiry or other customer requests via telephone is handled by the Virtual sales service network and by doing like this Traditional 2 can use their existing infra structure of dispatched sales competencies spread out over the country. Traditional does not have to grow their business with telephone customer service, since they just use their existing sales representatives for this purpose as well.

- **How does your company perceive opportunities and threats of e-commerce?**

  The big threats with e-commerce for Traditional 2 and our business is that suddenly the products have been very transparent for the customer. According to the respondent it is extremely easy to do a price comparison between the different vendors in the market. In the traditional business model, Traditional 2 has been a pure retailer of other companies travel products. But now Internet and e-commerce has suddenly made possible for their suppliers to go directly to the customer instead. And the interviewee considers this to be a major threat to their position in the traditional business model. The opportunity they find here is that the range of product is enormous. There is such an overwhelming range of vendors on the markets offering hotels and flights, which makes it extremely difficult for the customers to make a selection based on other aspects then price. And here Traditional 2 sees their opportunity to still find their role as a type of advisor in the jungle of offers provided.
Other threats regarding e-commerce the last couple of years are the impact of new players on the market like Google as a search engine. It is not a completely new phenomenon, but the impact and influence on the travel industry has been escalating the last years. Today about 70 percent of all Scandinavians start their travels by typing things like “cheap trips” into google’s search engine says the interviewee. Travels are products with a low loyalty factor from our customers, which makes it extremely important to appear in google’s search results.

The respondent also see other opportunities with e-commerce in that is helps making the customers more qualified handling the purchase process. So when the customers eventually get into contact with Traditional 2’s sales staff, the customers are much more knowledgeable and determined with what kind of product they are looking for. This often means a faster purchase process. But then the respondent say there is also a threat related with this, since the customers demand more of Traditional 2 to add competency and value to the customer, since traditionally this was handled by the company. This has changed the way that Traditional 2’s sales staff got to work; it is not sorely about searching for flights or trips, but more to validate and add to what the customer already has found.

A weakness viewed by the respondent compared with competitors is to keep and uphold the information flow within the infrastructure they got. What has to be altered or added within the product offers? There is a great challenge to stay close to real-time online but also to transfer that ability to their physical stores.

- Are there possibilities for streamlining or efficiency improvement when using e-commerce?

According to the interviewee, the internet and opportunities with e-commerce will in the long run offer rationalizations with the way they work. The big improvements are partly evident on the marketing side, or rather in the product mix side, meaning that the company much faster and simpler can change their offerings based on what the consumer demands. The interviewee says that Traditional 2 is up to 12 times as cost efficient online compared with a regular store with handling a customer relation. And then there is tremendous possibilities to manage the more simple sales of trips combined with hotel or a rental car says the respondent. Those kinds of sales are much more efficient to handle through Traditional 2’s online channel. Since Traditional 2 act in an extremely low margin business, it is very important that the back-office process includes as little manual treatment as possible

- Can you describe your e-business strategy?

The respondent says there is a complete business plan for Traditional 2’s e-business. There is an outspoken strategy or vision. “Traditional 2 shall be the best market place for searching and booking your travels on the Scandinavian market”. For this Traditional 2 works with two aspects, to increase the product range, this should be the most extensive one that exists. The whole range of travels which one can find in Traditional 2’s physical stores shall be found on the internet. Traditional 2 are constantly working with transferring offline products to become pure online products. To become the best site in reservations, more advices, information and recommendations are needed, as well as offering personal service if it is needed. One position which Traditional 2 is not strategically aiming at is to become the inspiring part of traveling. The respondent does not believe they can manage that, and it is a very costly position. Other operators like “Vagabond”, or online Newspapers can work with that position. “So, to be inspired by those operators and to purchase at Traditional 2, that is the role we are trying to achieve.”
- Which are the foremost important changes in your marketing and sales strategies due to e-commerce?

This business has traditionally been more runned by whatever the suppliers (Airline companies) wanted to promote or sell. The respondent now identifies a change towards customers demand, and that it is making the distributors finding whatever demanded by the customers.

Regarding the marketing strategy, Traditional 2 has changed their approach the latest 2 years from using more traditional media or marketing methods, to focusing a greater part of their marketing effort on the internet and especially work with their presence in search engines, which is seen as the most important market space. The sales strategy has evolved to, from using a two-channel strategy using telephones or physical stores, to sell travels on the internet which is on its way to become the absolutely most important sale channel for Traditional 2. The interviewee says that one year ago internet grew to be an equal sale channel next to the other two, but today it is the most important. This has also been a great challenge for Traditional 2, to allow the customers to move freely between the three different channels, and maintain the same identification or data.

- How do you attract new e-business consumers?

According to the interviewee Traditional 2 tries to continue working with the traditional players in the traditional media, like newspapers, where Traditional 2 already is big customers. But they also work to become these newspapers preferred choice for their respective online pages related to traveling. Traditional 2 also work a lot with search engine optimization for their site. They are trying to find a balanced mix of what is cost efficient and attractive, and a balance between the organic search engine positioning and the sponsored links. Traditional 2 has one full dedicated job for works with search engine optimization. The interviewee also inform that Traditional 2 are working with finding new ways of cooperation and partnership with different kinds of market places like customer clubs for food chains or banks, and to add value to their business model. Nevertheless, Traditional 2 also try to get contact information on every moment of physical customer encounter.

The respondent says that the search engine marketing is a huge jungle. Traditional 2 works with a term called “The sweet spot”, which means the optimal mix between organic positioning and what to pay to gain positions for specific search words. The complexity and the importance of this made Traditional 2 get a single job position working on identifying the sweet spot 365 days a year.

- (Click-and-mortar corporations) How do you deal with the competition from pure e-commerce companies (Virtual corporations)?

The respondent says that the lead these participants once hade against Traditional 2, was that they were very quick with utilizing platforms, which were fully optimized for the level of that time. Traditional 2 struggled at that time with however they should join the same path, but with the consequence of getting an isolated business unit or channel, which were far away from their traditional role. So Traditional 2’s strategy was more about producing an e-business platform which enabled them to be totally integrated with their existing business structure. This has taken Traditional 2 a very long time to get in place.

Today the respondent judge that technically wise, Traditional 2 is on the same level as their competitors. And from being a “technical race”, today what separate companies from each others has become a battle of products, range, and pricing. The traditional actors’ product
range has been flight tickets, hotels, car rentals by mentioning some. And here Traditional
2’s strength is that they have a much larger range of products to add if they can make this
accessible online for their customers. To handle Traditional 2’s competitors they rather try
to position away from them, and promote that they now exists through three channels.
And Traditional 2’s sales volumes enable other price levels then their competitors today.

Another advantage Traditional 2’s competitor used to have been about marketing, where
Traditional 2 realized very late on the importance of market places like Google to get traffic
to their site. The interviewee claims that Traditional 2 has about 1 year experience of e-
commerce, whilst many of their competitors have 5 or 6 years of experience. And this is
something that Traditional 2 is working on regaining the knowledge and experience glitch
by for example hiring key staff to the market department with long experience of e-
commerce.

Traditional 2 started very early with e-commerce according to the respondent. They had in
the late 1990’s and in the beginning of 2000’s a gigantic project, where they spent a great
deal of money to build a “fantastic” e-business solution. However, the technology and the
market were not mature enough for it and here Traditional 2 wasted a lot on e-commerce
ventures. After that the interviewee says that everything about e-commerce was taboo
within the company, until about 2 years ago when they decided to make another invest-
ment.

- Have this made you change your sales and marketing strategies?

Traditional 2 do have a strategy to make it cheaper to purchase on the internet according to
the respondent. The price difference varies some depending on what type of travel, and
what kind of season it is. This is driven by that their direct competitors have forced this
type of price setting. The respondent also says that the customers seem to accept paying a
higher price if they turn to a physical person.

- Are there any plans on reducing the amounts of your physical sales channels or
stores?

According to the respondent Traditional 2 do not have these kinds of plans. Their strategy
is still the three channel strategy. Although Internet within itself is a major factor, and with
marketing view perhaps the most important channel. Every single physical store is valued
from their profit criteria and their own ability to deliver profitable sales to Traditional 2.
The respondent says that e-commerce has rather become an aid to keep a specific physical
store, for example a store in a smaller place, which can sustain a profitable business due to
handling phone calls or reservation requests. So the respondent views e-commerce as a way
to maintain a physical network of stores.

- Is there any competition between your internal sales channels?

The interviewee says that there has been, and still exist single individuals that view internet
and e-commerce as a threat. From when Traditional 2 started with their new commitment
on e-commerce, they had a smaller unit at their head quarter office, handling orders, cus-
tomers and phone calls. When the e-commerce volumes increased Traditional 2 realized
they had to move out this service to their existing infra structure. And since the customers
have been directed to the store network, there has been a dramatic change of attitudes.
From that the physical stores perceived internet as a threat, they now see the opportunities
to increase sales to their channels. The respondent also sense a more active will by the store
staff to intensify the e-business solution due to the synergy effects.
- How do you think your customers perceive this?

So far the customers have only perceived Traditional 2's 3 channel system as positive according to the respondent. Presently their phone services are open from 8 in the morning until 8 in the evening. Traditional 2 are evaluating however a 24-hour service will be possible. The respondent believes this kind of availability is difficult to reach if one does not have the right competencies in-house. Even though the customers do most of the work by themselves online, they still want verification. With an uncomplicated trip between two single destinations, there is no contradictory offer between Traditional 2's channels. However, if there is a more complex trip, then a sales person might find an alternative which can be faster or cheaper compared with what the system suggests. But the respondent says Traditional 2 does not see this as a problem, but the sales representative might have initial resistance towards cheaper online pricing, while it is much more understandable in the customers’ point of view.

- What is your view of the technological development, future technological solutions?

According to the respondent, right now “technical race 2” is taking place. The vendors which use platforms that were constructed in the early 2000's will have to undertake large investments in their technology to stay alive in the new technical race and to survive in the low margin, travel industry. Where more functionalities surrounding counseling is essential, more integration with back-office is crucial to gain from more efficient processes. Traditional 2's technical platform is now about 1 year old, and they are currently undertaking a project with renovating it again, and applying a new platform. “The customers will not be satisfied with the present functionality, but will demand better counseling, better and larger product range and quality assurance”

### 4.6 Ticket Price Evaluation

To be able to do some kind of comparison and to check the respondents’ respective information given about their price strategies, we undertook a quick but effective study on their respective website to evaluate their prices. The variables used on their search platforms were: One week (from 27 of December 2005 until 03 of January 2006), and the two first offers tax included were noted, and finally trips to London, Bangkok and New York were the ones investigated. For each destination there is an alternative price offer to increase the reliability.

Results:

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<td></td>
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<td></td>
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4.7 Critical Evaluation of the Empirical Data

Given the “discussion about the chosen respondent companies” in chapter 2.3, the empirical data had to be collected from both our criteria’s of Virtual corporations and click-and-mortar corporations. Due to time constraints and lack of interest from invited companies, it was not possible to get companies to interview from different industries. The type of interviewed companies was all situated in the travel or flight ticket industry, which might have impact on our results since the generalization gets limited. However, we were still very satisfied with the results of the interviews and believe we got high quality data, which still could be generalized to some extent for the trends within e-business.

5 Analysis

We will analyze the question stated in the Problem Questions chapter (chapter 1.2), by using the empirical interviews and try to measure and distinguish similar patterns or deviations with the empirical data and the theoretical framework.

5.1 Contemporary E-commerce

In this sub-chapter we will analyze how the selected Swedish national sales companies conduct their e-business.

Virtual 1 and Virtual 2 use their web pages as a window to their businesses. The respondent of Virtual 1 explained that the search engine for Virtual 1 is used as their sales channel where as the respondent of Virtual 2 said that the “web” in general is used as their primarily sales channel. The respondent of Virtual 1 outlines the process such as when a customer makes the reservation, it ends up in a control queue where it is verified, paid for and then registered in their economy system and sent out to the customer either by e-mail or regular
mail. The respondent of Virtual 2 is not as thoroughly regarding the buying process, but mentions that their idea is to enable the customer to make complementary reservations and pay everything in one action. Virtual 1 puts great emphasizes on the fact that they offer longer opening hours for their phone support than other pure online travel stores. When turning to the traditional companies, it is obvious that Traditional 1 uses their web page, with their booking engine as the way of conducting e-commerce. The respondent however means that there is a great difference between pure internet travel stores and the traditional travel stores in the sense of the technological advancement such as a shopping basket where the customer can add complementary products. Traditional 1 does not have this and instead tries to promote complementary products such as hotels for rental cars. More complicated tailored solutions are made either through phone or at the local stores. Traditional 2 has according to the informant one online channel and one offline channel, where a customer can handle the entire buying process himself. For the offline channel there are products that are not available online which can be handled by a sales person either in a store or over phone. It is clear that both the Virtual and the Traditional firms conduct their e-commerce through their web pages and various search engines. Where the traditional firms have stores and call centers to assist their customers, the Virtual firms are focused on the customer handling the buying process themselves, thus offering shorter service telephone hours.

5.2 Opportunities and Threats of e-commerce

How the selected Swedish national sales companies perceive threats and opportunities of e-commerce will be summarized and analyzed in this sub-chapter.

5.2.1 Virtual companies Limitations and threats

Opportunities

Virtual 1 thinks a good domain name could give a professional impression, which enables an appearance of being bigger and more established. This is also mentioned as “improved corporate image” as one of the benefits for companies using e-commerce by Turban et al. (2002). Other possibilities are that if you find a partner, it is possible to do a lot with little means. Both virtual companies believe partnerships and acquisitions are good opportunities. For Virtual 1 it could be if they would get acquired by a bigger firm. And for Virtual 2 it is an opportunity if smaller vendors got acquired by bigger organizations like themselves which give them more financial assets and thus having access to more products, and better opportunities negotiating with other organizations for strategic alliances or greater networks.

Threats

Virtual 1 mentions the intensified competition due to the relative simplicity with getting a standardized technical platform and to open an online store, as a threat. This complies with Turban et al.’s (2002) view of benefits for customers with e-commerce, that it facilitates competition which leads to lower prices. Virtual 2 does not view competitors as threats but as sources of inspiration, nevertheless they constantly, even daily, have to monitor their competition since they work in an extremely transparent business. The much smaller Virtual 2 deems major players who enter the industry with strong brands and finances as threats. They can operate and buy market shares without a profit for some time just to increase volumes. An interesting aspect is that the larger Virtual 2 find a threat in the oppo-
site, that smaller entrepreneurial firms can use a faster decision making process compared to slow moving giants. Finally Virtual 1 sees quality, delivery accuracy and well-functioning logistics, as well as the importance of the search engines, as crucial for survival. And Virtual 2 finds fraud or hacking as threats that are most specific for e-commerce and can lead to lack of trust. Security and privacy issues and disbeliefs in online transactions or lack of trust in the view of many customers, is also seen as one of the limitations with e-commerce by Turban et al. (2002).

5.2.2 Click-and-mortar companies

Opportunities

Traditional 1 believe they have an advantages due to their strong brand and long experience in the travel industry which is seen as an advantage when selling in physical stores and by phone. Traditional 2 find an opportunity in the increased range of competitors, offers and products, which makes it extremely difficult for customers to make a selection based on other aspects than price. Then they can act as travel consultants, or a type of advisors. Another opportunity viewed by Traditional 2 is that e-commerce is helping the customers to get more knowledgeable and determined with what they are looking for, resulting in a faster purchase process. This conforms to the statements that e-commerce gives the consumer a greater selection, enable quick comparisons and makes is possible for the consumer to locate relevant and less expensive product information by Turban et al. (2002).

Threats

Traditional 1 find they are still being slightly behind some pure e-commerce vendors in technical development, lacking solutions like for example an online shopping basket where the customers can collect different products before paying. Both Traditional 1 and 2 believe that travels are products with low loyalty from customers. And here Traditional 2 believe it is vital to get high appearance in search engine results, just as Virtual 1 mentioned. Traditional 2 just like Virtual 2 finds threats in the transparency between sites for the customers. Also the whole business model for the industry is changing when suppliers sell directly to customers, and retailers like Traditional 2 and 1 will be unnecessary. Traditional 1, just like Virtual 2, mentioned about external threats like catastrophes and terrorist attacks, which affect the amount of travelers. Traditional 1 thinks it is evident that pure online travel stores can have cheaper prices since they do not have stores, no call centers and most communication through e-mail. This is confirmed by Turban et al. (2002) writing that e-commerce facilitates competition which leads to lower prices. And just as Virtual 2, Traditional 1 experience that the pure Virtual competitors tend to act faster than traditional companies. Finally Traditional 2 finds a great challenge in keeping their physical product range as updated as their online counterpart.

5.3 Comprehensive E-business Strategies

Here the foremost important changes made by the interviewed companies in the marketing and sales strategies due to evolution of e-commerce will be analyzed

Virtual Companies

Virtual 1 does not have a marketing plan according to the respondent. They try different things and will do so until they find something that works well. This corresponds well to what Turban et al. (2002) wrote about formal strategy and that in general it is not always
necessary for an organization and many can do well without them. The authors also wrote that especially for small-and-medium sized companies strategic planning can be too expensive and hinder fast adoption to change in the environment (Turban et al., 2002). So we can clearly understand why the small entrepreneurial Virtual 1 does not have the time or incitements for a formal strategic plan. Virtual 1 can also be seen as using strategic innovation and strategic response type of strategies as they are explained by Turban et al. (2002).

Key areas for Virtual 2’s e-business strategy are: price competition, excellent range of products, and working on brand awareness to build trust. Virtual 2 used to conduct business travels as well, but since their last owner got in charge, they focus on their core business, and that is not business travels. This complies with what Morath (2000) said was important for strategic e-commerce considerations, that it is important to think about what NOT to do, due to the increasing speed of changes with internet technology. Virtual 2 seems to have taken a greater focus on the strategic planning but also the strategic response type of strategy as it is described by Turban et al. (2002) and the respondent several times mentions the actions taken by their latest owner to make Virtual 2 focus on core competencies and to outsource functions. This applies with Morath’s (2000) suggestions to focus on the core competencies, and to outsource all areas that are not critical for business success. But Morath (2000) also emphasize the importance to be prepared to re-configure and to grow fast. Since Virtual 2 were thinking of retaining some services that currently was outsourced, such as for example their search engine optimization, they seem to fulfill this requirement by Morath (2000) as well.

The respondent of Virtual 2 states that their focus is to create brand awareness and they do not want to be associated with low-price offers only. The aim is to allow the customer to book the entire trip package. This strategy is somewhat similar to Virtual 1 who wants to get the customer to book complementary things as well such as hotels and rental cars. The reasons for Virtual 2’s more manifested focus on core competencies and Virtual 1’s lack of ditto could be explained by Turban et al. (2002) saying that core competence or the “unique combination” takes time to build and is difficult to imitate. Based on the information given during the empirical interviews Virtual 2 could be seen as a first mover and Virtual 1 perhaps as a follower, as described by Turban et al. (2002). Giving the implications of the theories of a first mover and what the respondents informed, Virtual 2 seems to have capitalized on some of the advantages like getting an established brand name, establishing exclusive strategic alliances, here mostly due to the acquisition by their big owner. And some of the disadvantages were visible as well, the initial costs were huge, and no support services were available from the start.

**Clicks-and-mortar Companies**

The respondent at Traditional 1 explained a wish to build an exclusive brand which signals status or value, but said it was impossible to achieve in the travel industry. In the end, the price is all that matters. And for e-commerce low-price strategy is the only strategy to use according to the interviewee. This due to the low customer loyalty, they shop where it is cheapest. The increasing difficulties with acting as a middleman within e-commerce make value-adding strategy important according to the respondent. Traditional 1 has to validate their know-how, and wide range of products. This means including all players and differentiating Traditional 1 from the airline companies own e-business solutions. This is why the respondent believes in the strategy with core business of complicated trips, custom made travels, and trips around the world, which is where Traditional 1 can add value for the customer. Traditional 1 can be seen as using both the strategic planning as well as the strategic response described by Turban et al. (2002), as their type of strategies. In the view of Leintz and
Rea (2001) Traditional 1 seems to use the Overlay strategy, meaning that the e-business is implemented on top of standard business, but they are attempting to transcend to the Integration strategy, meaning the e-business is integrated with the regular business.

Traditional 2 has a complete business plan for Traditional 2’s e-business. There is an outspoken strategy or vision. “Traditional 2 shall be the best market place for searching and booking your travels on the Scandinavian market”. Traditional 2 seems to be the only respondent company that facilitates the Strategy formulation (Turban et al., 2002) concerned on how to take the organization from the current point to a desired point which is the desired output of the strategy. For this Traditional 2 works with two aspects, to increase the product range, this should be the most extensive one that exists. The whole range of travels which one can find in Traditional 2’s physical stores shall be found on the internet. To become the best site in reservations; more information and recommendations are needed, as well as offering personal service if it is needed. One position which Traditional 2 is not strategically aiming at is to become the inspiring part of traveling. The respondent does not believe they can manage that, and it is a very costly position. Other operators like online Newspapers can work with that position where the customers can get inspired, and then purchase their tickets from Traditional 2. This complies well with what Morath (2000) said was important for strategic e-commerce considerations, that it is important to think about what NOT to do, due to the increasing speed of changes with internet technology. From the different types of strategies explained by Turban et al. (2002), Traditional 2 uses all of them (strategic planning, strategic response and strategic innovation). Applying Leintz and Rea’s (2001) strategic theory Traditional 2 can be seen as using the Integration strategy, since their e-commerce is well integrated with their other sales channels.

None of the click-and-mortar companies had any plans on using the Replacement strategy by Leintz and Rea’s (2001), meaning to replace some or all of the traditional business activities with e-commerce. If only the click-and-mortar companies are compared Traditional 2 could be seen as the first mover and Traditional 1 as the follower, applying theories from Turban et al. (2002).

5.3.1 Strategic Changes to Marketing – Virtual

Virtual 1 has previously been marketing themselves in newspapers but switched to online advertisements. Although the newspaper advertisement generated an increase in phone calls that the respondent did not think it resulted in enough reservations and that it is easier to get reservations from online marketing activities. This strategy differs from Virtual 2, who still markets themselves in newspapers and magazines. When they started, Virtual 2 invested heavily in marketing for everything from cellular phones to e-mail during the “IT-boom”. This resulted in a strong brand recognition but was too expensive and after being acquired by another firm they tried to operate without a customer service function until another acquisition which led to cut downs and the opening of a customer service function which resulted in a sales increase. Virtual 1 does not have a marketing plan according to the respondent. They try different things and will do so until they find something that works well. The respondent of Virtual 2 states that their focus is to create brand awareness and they do not want to be associated with low-price offers only. They aim to allow the customer book the entire trip package. This strategy is somewhat similar to Virtual 1 who wants to get the customer to book complementary things as well such as hotels and rental cars. Finally the respondent at Virtual 1 thinks that they have to enter price comparison web pages. They believe that these will grow a lot in the future. Virtual 1 are not involved
in any price comparison web pages but in the future they may enter if they can find the right business model.

5.3.2 Strategic Changes to Marketing – Click-and-mortar

Both Traditional 1 and Traditional 2 has changed their approach from using more traditional media or marketing methods, to focusing a greater part of their marketing effort on the internet which they both think is most important for sales or marketing strategy right now. And the travel industry is just one of the areas where a large proportion of traditional sales have been moved to the Internet according to Huldschiner (2005). Traditional 2 also perceive their presence in search engines as crucial, and it is seen as the most important market space. However, Traditional 2 continues working with the conventional media, like newspapers. Traditional 1 believes that transferring a greater share of the marketing budget to internet marketing is most important, but it is very hard to measure the results from this kind of marketing, for example a banner campaign, according do the respondent. Even if this is the case the respondent believes that successful e-commerce activities will generate sales in other channels as well. This view is supported by the respondent from Traditional 2. Attracting new customers is an important aspect for Traditional 1, and new customers also include the ones which usually do not consider Traditional 1, for example within domestic flights. The internet also enables marketing to a wider segment than Traditional 1 usually target and new customers can primarily be attained through the internet. Bigger internet banner campaign twice a year is performed to comply with these new strategies and the respondent perceive this as adding new traffic and customers to their site.

The respondent at Traditional 2 experienced a shift from supplier or airline runned promotion and sales, to a customer demanded business, from push to pull market strategies. Within Traditional 2’s three-channel sale strategy, including telephones and physical stores, the e-commerce or internet channel is becoming the absolutely most important sale channel. It has been a great challenge for Traditional 2 to allow the customers to move freely between the three different channels, and maintain the same customer identification or data. In the article by Bohlin (2004), the importance of using internet as another sales channel is explained and that it offers a lot of potential. But the corporations have to change their internal structure to suit e-business to excel. This is what Traditional 2 has been working with and Traditional 1 is still struggling with. The interviewee also inform that Traditional 2 are working with finding new ways of cooperation and partnership with different kinds of market places like customer clubs for food chains or banks, and to add value to their business model.

5.3.3 Pricing Strategies

When it comes to price differences Virtual 1 means that offline traveling firms often has a price rise of about 10 percent where as Virtual 1 has a fixed price. Virtual 1 gets the net price from airline companies and then they ad a fixed price depending on where the flight is. A customer can therefore buy their tickets cheaper at Virtual 1, especially if it is an expensive ticket. The respondent of Virtual 2 states that even though it should always be cheaper to book online, in reality they have similar prices as clicks-and-mortars due to their customer service function and the rent for their office. A physical travel agency charges extra for their service while Virtual 2 does not.

Also both Traditional 1 and Traditional 2 have lower prices for their online sales. Both the informants at Traditional 1 and Traditional 2 explained they had higher margins for store
or call-center sales and lower margins for online sales. This is motivated by the increased efficiency of customers performing most of the work in the sales-process and that the resource usage from Traditional 1’s staff, thus gets lower. Traditional 2 also say that the customers seem to accept paying a higher price if they turn to a physical person. What Choi & Whinston (2000) wrote about pricing decision difficulties for a click-and-mortar company, and that lower online then offline prices might lead to internal conflicts, was evident. Complications for Traditional 1 and Traditional 2 was to decide for a price difference of online and offline sales. However, this was not a problem for their customers, but rather their sales staff, who had a resistance to the new sales channel, the internet.

When applying the “Ticket Price Evaluation” from chapter 4.6 (see table 1), it appears like the results about price comparisons described by Fölster (2002) are accurate. That is, smaller pure internet vendors or “Virtual companies” tend to have the lowest prices and traditional, or “click-and-mortar companies”, tend to be more expensive. This gets most obvious if Virtual 1 is compared with Traditional 2. However, anomalies are evident if Virtual 2 is compared with Traditional 1, where Traditional 1 is having substantial lower prices and price average. Actually Traditional 1 did have the lowest price average of all the four investigated companies. The reason for this can be a matter of coincidence based on the specific prices invested. But it can also depend on the fact that Traditional 1 has a targeted market segment of students and young people, which calls for very low prices.

### 5.3.4 Search Engine Strategies

During the interviews with our respondents we found out that search engines like Google are perceived extremely important as a fairly new market place on the internet. Therefore we have dedicated a sub-chapter for this phenomenon. And since the literature did not focus on this it is not covered in our theoretical framework.

The respondent at Virtual 1 explains that since it is getting more difficult to market yourself due to the increase of competition, they feel that they have to put more effort into “SEO”, search engine optimization, in order to be as prioritized as possible in the search engines. Their goal is to be among the top 10. According to the respondent of Virtual 2 they want to get as high as possible, they aim to be number one in search engine hits and this calls for an excellent bidding strategy. The informant at Virtual 1 emphasize that the bigger firms has the best search words and it makes the competition very hard for this type of marketing. But both Virtual 1 and Virtual 2 think that the traveling related words are very expensive to bid on. Virtual 2 mainly focus on buying search words which are generating actual sales. Virtual 1 has about 40 percent of their traffic in the evening and this is a result of not paying as much for these search words. Right now Virtual 2 has their search engine optimization outsourced, but they are considering internalizing that function.

Both Traditional 1 and Traditional 2 said they work with SEO (Search Engine Optimization) and that it is a balance act to get high on both organic and sponsored links. Traditional 1’s strategy is to go get as high as possible both on the organic search lists and the sponsored ones. The respondent for Traditional 1 says that only about 15-20 percent moves further from the first search page which is presented, so it is important to be on the first page. The search words or “ad words” enables customers to search by themselves on the various search engines. And for sponsored search words, it is about bidding, and words related to travels are not cheap says the interviewee. Here they agree with Virtual 1 and Virtual 2, even if they are bigger. Traditional 2 works with a term called “The sweet spot”, which means the optimal mix between organic positioning and what to pay to gain positions for.
specific search words. The complexity and the importance of this made Traditional 2 get a single job position working on identifying the sweet spot 365 days a year.

5.4 Clicks-and-Mortars versus Virtual

In this sub-chapter the question however the interviewed traditional (click-and-mortar corporations) have changed their online strategies due to pressure from pure e-commerce companies (Virtual corporations), will be analyzed.

The respondent of Traditional 1 explains that no other traveling agency is in direct competition with Traditional 1 since their target customers are young people. Traditional traveling agencies compete with Traditional 1 to a greater extent then the pure Internet firms. This is because Traditional 1 offers more complicated tailored trips then the Internet firms’ usually do. There are of course some competition from these firms and all Traditional 1 can do is to try to position themselves according to the respondent. The respondent actually sees the competition from the suppliers as a greater threat then the other traveling agencies and this is because some flight companies has began to sell tickets straight to the end customer. This puts extra pressure on Traditional 1 as well as other brokers to add value to the services in order to attract customers. This is where the core competence lays for Traditional 1 according to the respondent. It is clear that the pressure from pure e-commerce has had an effect on sales and marketing strategies. It means that Traditional 1 has to move more money into the online sales channel and to form strategies as to benefit from e-commerce.

Traditional 2 has previously been behind the pure e-commerce firms technically and they were according to the respondent late at realizing the potential of market places like Google. This has in a way been the result of Traditional 2 not being able to decide whether they should follow the same path as the pure e-commerce firms which according to the respondent would lead to an isolated channel. Instead, Traditional 2 wanted to develop an online channel which is integrated with their existing business structure. This is something that Steinfeld (2002) stresses as important. Traditional corporations have moved more towards integrating e-commerce into the channel mix and thus using Internet more as a supplement. This can be seen more as the strategy for both Traditional 1 and Traditional 2.

As for today the respondent feels that they are at the same level, technically as their competitors. Today’s competitive arena is more about products, range and price. Traditional 2’s strength lies in their product range and they need to make these reachable online as well. The strategy of Traditional 2 is to try to position away from their competitors and to promote that they offer three channels; online, by telephone and through the stores. Traditional 2 first introduced e-commerce in the end of the 1990’s but as many other Internet firms during this time, they faced the harsh reality of an immature market and technology. It was not until 2003 when they gave the Internet a second chance. A strategy towards the competition from the pure e-commerce firms is according to the respondent of Traditional 2 to make it cheaper to buy tickets on the Internet. The respondent further states that customers in general tend to accept paying a higher price if they get served by a physical person.

As for Traditional 1, it was said that if a store can not sustain itself, it should be shut down. Stores that do not have enough clients may on the other hand sell more through the call center. Success through e-commerce does not mean that Traditional 1 will close any stores and there is no strategy of trying to move customers to e-commerce. If we look at Traditional 2, they as well do not have any plans on closing any stores. The respondent of
Traditional 2 stresses that they use the three channel strategy and e-commerce is actually more seen as a mean to keep the network physical stores. When looking at the overall strategy of the traditional firms it is evident that they see their physical channels as competitive advantage and that they handle around the world trips with and tailor made trips with many stops and customers tend to want to sit down with a physical person in order to make these arrangements.

To some extent we can state that both Traditional 1 and Traditional 2 see some competition between the online and offline channels. Irritation and conspicuousness is common according to the respondent of Traditional 1 and it is crucial that everyone understands e-commerce and that all channels are important. This is something that the informant of Traditional 1 must handle. As for Traditional 2, there are still some people who consider e-commerce as a threat. However there has been a dramatic change in attitude from that the physical stores perceived internet as a threat, they now see the opportunities and the positive synergies it brings. This conflict is according to Steinfield (2003) common for click-and-mortar organizations and the author mentions that even sabotage between the channels are common. The author stresses that the management needs to work towards diffusing these conflicts and to enable alignment of goals. After all, the parent organization benefits from either channel.

Traditional 1 explains that this is of course sometimes confusing for the customer since it is confusing for Traditional 1 internally. The customers may also perceive it confusing that the flight search engines does not always show updated information due to heavy traffic. As for Traditional 2 it appears that their three channel system eliminates any confusion from the customers.

5.5 Virtual versus Clicks-and-Mortars

In this sub-chapter the question however the interviewed pure e-commerce companies (Virtual corporations) will change their strategies towards traditional (click-and-mortar corporations) or add physical channels, will be analyzed.

The respondent of Virtual 1 is of that view that due to the competition, they need to put more effort into SEO, search engine optimization in order to be prioritized in the search engines. Using this kind of advertising on the Internet is very expensive and involves bidding on search words, and the proposed strategy according to the respondent of Virtual 1 is to "get as much as possible, as cheap as possible". The bigger firms make the competition climate very harsh since they have more resources. The bigger firms can as well develop new services and functionality at a greater range which thus allows them to optimize their marketing. As mentioned previously, Virtual 1 does not have a market plan. They usually try various things in order to find the most suitable. An explanation to this may be that Virtual 1 is a fairly small company. The respondent further stresses that they are currently looking into entering price comparison web pages, since this area is something the Virtual 1 believes in. By entering price comparison web pages, Virtual 1 will try to influence them as well as other major web pages to open up their own traveling brands which Virtual 1 then can supervise. Supervising web pages for others is a very effective way to grow according to the respondent. This is in line with Turban et al. (2002) who give some examples of how to succeed with e-commerce and the authors mentions new partnerships and alliances as important factors for growing and succeeding in e-commerce. This is in line with the respondent of Virtual 1’s view of possible ways to grow and acquire more sales.
The respondent of Virtual 2 explains that changes in charter industry which has at a greater extent moved to online calls for a more focused positioning for Virtual 2. In order to survive in the traveling industry you have to be online. Brand recognition, being able to offer price worthy products and the scale of product range are all crucial elements for surviving. The respondent further predicts that standardization and fewer vendors will be the receipt of the future due to mergers and acquisitions and increasingly larger organizations. Virtual 2 has not really changed any strategies due to competition or pressure from traditional “click-and-mortar” companies. The respondent is more focused on the charter industry, even though they are not considered a real competitor. Competition is more when it comes to prices and product range.

At the moment it appears that neither Virtual 1 nor Virtual 2 has any plans on adding any physical stores to their sales channels. These particular case does not correspond to the theory outlined by Fölster (2002) who meant that there is a tendency that pure e-commerce companies invests in physical stores, at least not for now. Virtual 1 stresses that if they grow larger it may be a possible solution to open up stores in the larger cities in Sweden or share a store with one of the partners. As for Virtual 2, investments on online businesses is prioritized and not to open up any physical stores. However, the respondent of Virtual 2 may consider a physical store for marketing events. We can see that the longer trips such as around the world trips are not the primarily products that the Virtual firms offer due their complicated nature. The Virtual firms target more “point to point” trips as one of the Virtual respondents explained.

Some competition exists for Virtual 1 since they market themselves on their own web page as well as on their partners’ pages. This is however competition within the same sales channels. Virtual 1 has a phone service as well but the respondent did not mention any competition between the two. The amount of partners that Virtual 1 has may be confusing for the customers. Virtual 2 is a pure e-commerce company as well and the respondent states that the phone service provided makes the customers feel safer. Respondent to Virtual 2 does not mention any competition between these two channels.

5.6 Future success factors

From Turban et al.’s (2002) suggestions on how to succeed with e-commerce, the “Create new partnerships, alliances and stay with core competencies” was fulfilled in different ways by all of the interviewed companies. To stay with core competencies was most in focus for Virtual 2, but also both Traditional 1 and Traditional 2 viewed their traditional sales channels and personal services as core competencies. Although all four interviewed companies wanted to deliver “high-value service offerings”, it was primarily the click-and-mortar companies who could actually accomplish this with their more extended personal service. To “optimize natural scale and range of business and look at mass customization”, especially Traditional 2 mentioned this several times during the interview. Perhaps Traditional 1 was most focused on “leveraging intangible assets, competences and relationships”, with their focus on complex travel solutions and highly personalized services for a focused target group. However, there was no clear evidence that any other then Virtual 2 and Traditional 2 of the interviewed companies used “proactive strategy approaches”, and none of the researched companies mentioned anything about how to “compete with your web sites to control access to and relationships with customers”, as suggested by Turban et al. (2002).

Applying the best practices and recommendations given by Morath (2000), mainly Virtual 2 and Traditional 2 had established clear visions. Although all companies except Traditional 2
had fully outsourced their platform development, it was most clear that Virtual 2 had outsourced parts of their business which were not core business. All of the respondents expressed a clear customer focus. And both Virtual 1 and Traditional 2 had a flexible staff, able to perform different tasks, however for Virtual 1 this meant that all three of the owners worked with different tasks, and for Traditional 2 it meant a far more paramount task to maintain this within their considerable larger organization.

In the future Fölster (2002) means that the boundaries between traditional commerce and e-commerce will eventually be eliminated and that there is a tendency in the US that pure e-commerce companies invests in physical channels as well. Fölster further states that e-commerce will be a natural element of commerce in general. Fölster’s (2002) future view and Bohlin’s (2004) advice for change work, where the boundaries between traditional commerce and e-commerce should be eliminated and that e-commerce will be a natural element of commerce, is most applicable on our investigated click-and-mortar companies. Especially Traditional 2 seemed most successful with integrating their e-commerce as a fully sales channel next to telephones and physical stores, just as proposed by Bohlin (2004).
6 Conclusion

This chapter contains the conclusion derived from the analysis. This chapter will also contain our own reflections and give suggestion to further research.

Strategic change

The most evident strategic changes made by the respondent companies are explained in the Diagram below, where key strategic concepts described in various theories and frequently used by the respondents (Figure 4) The Diagram is developed by the authors of this thesis and is not based on any similar one in theory. The arrows indicate more previous strategic position, and are based on the empirical gathered data.

![Diagram over the strategic positioning of the interviewed companies.](image)

Virtual 1 survives on being close to the market, and to swiftly trying to adapt to technical changes and solutions. Virtual 2 is owned by a larger corporation and cannot act as quick, but have better financial support. They have a clear focus on core competences and have some functions outsourced to proceed with this focus. The customers are also in the heart of Virtual 2’s strategic focus for the future. Traditional 1 is almost in the very center of the Diagram’s two axels, this could indicate that they have a good mix in all directions, or that they are not focused enough. They tend to strategically focus slightly more on their target customers and their core competencies, with for example specialized, complex travel packages. For Traditional 2 they are the most channel integrated company in this study, and they seems to lean over to a more innovative focus, with discussions about their integrated platform and the “technical race 2”. Finally this also showcase that Traditional 1 in some perspectives are closer to Virtual 2. Which conclude our study that just because a company can get categorized as “virtual”, or “click-and-mortar” company in theory, it does not have to indicate that it will be perfectly reflected in reality.

Pricing strategies

The theories say online pricing should be lower. And this is also the general conception among all respondents. The use of lower pricing for online sales compared with offline
could be a source of conflicts for click-and-mortar companies according to the theory. This also seems to be the case for both interviewed click-and-mortar companies. Virtual 1 have fixed pricing and claim that most traditional firms use relative pricing which should make short domestic or for example London tickets cheaper for click-and-mortar companies like Traditional 1, but longer trips to for example Bangkok cheaper for smaller virtual companies like Virtual 1. This proves to be comparatively correct if the “Ticket Price Evaluation” (Chapter 4.5) is analyzed.

However, anomalies are evident if Virtual 2 is compared with Traditional 1, where Traditional 1 is having substantial lower prices and price average, of all the four investigated companies. The reason for this can be a matter of coincidence based on the specific prices invested. But it can also depend on the fact that Traditional 1 has a targeted market segment of students and young people, which calls for very low prices.

**Average prices on respective online sales platform:**

- **Average price Virtual 1:** 6206
- **Average price Virtual 2:** 7439
- **Average price Traditional 1:** 5738
- **Average price Traditional 2:** 7590

**Search engine strategies**

One area of particular interest which evolved during the primary data collection was the unified respondent opinion about the importance of search engines in general, and namely Google in particular. This calls for more strategic and operative focus on issues like SEO (Search Engine Optimization), paying for sponsored links or specific search words, or finding the "sweet spot", meaning the optimal mix between organic positioning and what to pay to gain positions for specific search words. All these issues are seen as highly important matters for the marketing strategies online by all respondents.

**Virtual companies vs. Click-and-brick companies**

If we look at the question of how the traditional, click-and-mortar corporations deal with the competition from the pure e-commerce companies. We can conclude that neither Traditional 1 nor Traditional 2 considers the competition from pure e-commerce as a major threat. Traditional 1 means that there is no one actually targeting their target consumers and the competition comes more from other traditional or click-and-mortar companies than from pure e-commerce agencies. The explanation is that complex, tailor made and “around the world” trips towards younger people are their core competence and solely other companies that offer these products are considered real competitors. Traditional 1 competes more with pure e-commerce companies when it comes to “point-to-point” products. For Traditional 2 competition is more about products, range and price. Traditional 2’s strategy of offering products through online activities, by phone, as well as having physical stores is a way to position themselves away from especially the pure e-commerce companies. It is further clear that neither Traditional 1 nor Traditional 2 considers reducing physical stores as proposed by some of the theories. A major part of these traditional companies’ business concept is to offer longer, more complex and often tailored trips. Consumers tend to favor a physical store or at least to speak to someone physically when buying these products. Regarding competition between the sales channels, both Traditional 1 and 2 feel that it has been an element of confusion and irritation. However the respondent of Traditional 1 will work actively with eliminating these elements and promote a common
understanding that all channels are important. The respondent of Traditional 2 has already seen a change towards a common understanding of the positive synergies. We can also conclude that Traditional 1 feels that since all staff does not know everything about for instance online activities it may result in confusion for the consumers. Where as Traditional 2 see no confusion at all.

When turning to the virtual corporations we can conclude that Virtual 1 is prioritizing the Search Engine Optimization in order to be prioritized in the search engines and a strategy of “getting as much as possible, as cheap as possible”. Another tool towards competition from the bigger and more established corporations is a possible entry into price comparison pages and to grow by operating others online traveling vendors platforms. Virtual 2 does not really see competition from the traditional, click-and-mortar corporations as a threat and is more focused on the charter industry going online. Competition is more about prices, product range and brand recognition. Competition internally exists for Virtual 1 in the sense that they market themselves on their own web pages as well as their partners. The amount of partners may further appear confusing for the customers. As for Virtual 2 we can conclude that they experience no competition internally.

We can also conclude that neither Virtual 1 nor Virtual 2 has any plans on opening up physical stores anytime soon. Possible reasons for doing so for Virtual 1 is if they grow bigger and for Virtual 2 for marketing events. And mentioned, neither Traditional 1 nor Traditional 2 has any plans on reducing their physical stores, but rather perceives them as competitive advantages for better customer service. Both of these conclusions direct contrary with our theories.
7 Critical Reflection of Chosen Methodology

In the subchapter 2.5.1 about Validity, the most possible way for this study to get high validity was to have clear and detailed definitions, delimitations and to pick respondent companies which fit to the purpose and delimitation. We have, in our opinion, followed these directions for reaching the highest possible validity, given our conditions. Since the interviews are done in a more open semi-structured fashion, there is harder to reach the validity in a strict sense comparing the interviews. This has to be done with a scientific attitude and the highest level of objectivity. Being two authors can also help preventing an excessively subjective analysis.

Further in chapter 2.5.2 the problem that Ericsson & Wiedersheim-Paul mentioned with hermeneutic interpretations could be agreed upon for this thesis. We found it hard to make the research more reliable by using semi-structured interviews, since the answers might be difficult to compare with each other. This is also the case in our empirical results, where sometimes the questions for different respondent might not be exactly similar. But we also agree that not even statistical research with numbers might show a perfect objective reality. What was done to make the thesis more reliable was to follow the templates and to use recording devices during the interviews to guarantee the exactness of the interview reproduction. We also tried to avoid leading questions. One aspect that occurred during the interview process was that during different interviews, different questions were discussed more deeply, which can have a negative effect on the comparability between the interviews.

About the ability to generalize the study, explained in sub-chapter 2.5.3, we faced another problem, to get the results of this thesis generalized or universally applicable, would be a paramount task, especially given our qualitative approach. However, we were still able to draw strong or obvious conclusions within our research area and based on indications these might be generalized in a hypothetical level. Although we cannot, in a rigid statistic view, generalize from 4 examples, in a longer perspective, these results might be used for hypotheses to be tested on bigger statistical samples.

\[4\] questions intended to suggest to a specific answer
8 Suggestions for Future Research

After the outcome of this research paper, some new areas of interest evolved. Especially due to the interest and attention given to search engine optimizations and strategies, we found that this area is a highly interesting future research subject. Since no big irregularities were found between the Click-and-mortar and the Virtual companies, in case of their perception of each others, another approach could be made in the method of comparison. For example instead of comparing Click-and-mortars with Virtual companies, pure internet companies could instead be compared with so called “Brick-and-mortar” organizations, that is companies which does not at all conduct any e-commerce.

The results from this study could be used for a so called hypothesis testing research. For example: “Online pricing (within a specific industry) is lower than offline pricing”

Also a study based on more than one industry could be of interest, as well as performing a quantitative study for more reliable or generalizing results.
References


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Appendix 1 – Question template for interviews (English)
(We first explain the background and purpose with the thesis to the respondent).

- What is your official title?

- How does your company conduct B2C e-commerce?

- How does your company perceive opportunities and threats of e-commerce?
  - Are there possibilities for streamlining or efficiency improvement when using e-commerce?

- Which are the foremost important changes in your marketing and sales strategies due to e-commerce?
  - Can you describe your e-business strategy?
  - How do you attract new e-business consumers?

- (Click-and-mortar corporations) How do you deal with the competition from pure e-commerce companies (Virtual corporations)?
  - Have this made you change your sales and marketing strategies?
  - Are there any plans on reducing the amounts of your physical sales channels or stores?

- (Virtual corporations) How do you deal with the competition from traditional, companies (click-and-mortar)?
  - Have this made you change your sales and marketing strategies?
  - Are there any plans on adding physical stores to your sales channels?

- Is there any competition between your internal sales channels?
  - How do you think your customers perceive this?

- What is your view of the technological development, future technological solutions?
Appendix 2 – Question template for interviews (Swedish)
(Vi förklarar först bakgrunden samt syftet till studien för respondenten)

- Vad är din officiella titel?
- Hur bedriver ert företag B2C e-handel?
- Hur upplever ert företag möjligheter och hot med e-handel?
  o Finns det möjligheter till rationaliseringar eller effektivitetsförbättringar genom att använda e-handel för ert företag?
- Vilka är de i första hand viktigaste förändringar i era marknadsförings- och försäljningsstrategier på grund av e-handeln?
  o Kan du beskriva er e-handels strategi?
  o Hur attraherar ni nya kunder till e-handeln?
- (Click-and-mortar corporations) Hur hanterar ni konkurrensen från rena e-handelsföretag (Virtual corporations)?
  o Har detta fått ändra era försäljnings- och marknadsföringsstrategier?
  o Har ni några planer på att reducera antalet fysiska försäljningskanaler eller butiker?
- (Virtual corporations) Hur hanterar ni konkurrensen från traditionella företag (click-and-mortar)?
  o Har detta fått ändra era försäljnings- och marknadsföringsstrategier?
  o Har ni några planer på att lägga till fysiska butiker till era försäljningskanaler?
- Finns det någon konkurrens mellan era interna säljkanaler?
  o Hur tror du detta uppfattas av era kunder?
- Hur ser ni på teknikutvecklingen, framtida tekniklösningar?