

Chapter 5

THE SUCCESS STRATEGIES FOR HYBRID BUSINESS MODEL

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Abstract: The advent of Internet technologies has impacted the way we do business. It was once believed that the Internet would bring about a business revolution and all business would be e-business. However, the revolution of the Internet has not yet turned out to be anything we once thought it would be. There is evidenced indicating that not all businesses have transformed to online business and not all consumers prefer to engage in online activities. In fact, some consumers still prefer to engage in traditional business processes. The reality is a hybrid model, which is convergence of traditional and online methods. This paper aims to analyze hybrid consumer behavior and develop a theoretical model, which serves as a guideline to better understanding hybrid consumer behavior and their needs.

Key words: E-commerce, business model, business strategies, and consumer behavior

1. INTRODUCTION

Since the reported failure of dotcom companies, the argument that e-commerce will replace traditional business model is not supported (Steinfeld *et al.*, 2002; Wind *et al.*, 2002). While dotcom companies are struggling to gain competitive advantages in the non-linear and rapid change of business environment, much attention has shifted from pure play Internet based business model to hybrid business model. The hybrid business model is also known as “multi-channel commerce”, “bricks-and-clicks” or “clicks-and-mortar”. It focuses on maximizing the competitive advantage from the

combination of both the web channel and the physical channel (Steinfeld *et al.*, 2001).

Despite the attention focused on the hybrid business model strategies, there is little research that addresses the relationship of hybrid consumer behavior and how it affects the building of a hybrid business model. Research shows that consumers do not change as quickly as the rapid change of technology (Wind *et al.* 2002, p.291). Evidence exists that not all consumers prefer to engage in online activities and some consumers still prefer to engage in traditional business processes. In fact, a consumer can use both online and offline methods. Today, the reality is a “*hybrid consumer*”, which is the convergence of the traditional consumer and cyber consumer (Wind *et al.* 2002, p.xiii).

While the “hybrid consumer” has been defined, there has been little research that identified the behavioral characteristic of such a consumer (Wind *et al.* 2002, p.xiv). However, one piece of research conducted by *Jupiter* showed that 68 percent of American did research online but purchased in store and 54 percent of them did research in store but purchased online (Wind *et al.* 2002, p.xv). The questions are how can we understand the behavior of such a complex behavior, what are the criteria that consumers rely on when choosing their preferences between online and offline methods and how does this affect the development of an organization business strategies?

This paper aims to examine hybrid consumer behavior. By understanding hybrid consumer behavior, organizations can understand both traditional and technology requirements. This will help organizations better understand customer requirements and can be used to model its business according to its customers needs. Thus, this paper proposed a theoretical model to analyze hybrid consumer behavior, which serves as a guideline to better understanding hybrid consumer behavior and their needs.

Three research methods were used to conduct this study namely literature review, observation and interview. The authors spent two months working closely with one of the top local IT companies in Malaysia in order to understand the real world situation and to identify the existing problems and their needs. Firstly, the authors reviewed the existing theories and frameworks related to failure of online business and the emerging of hybrid business model. While the literature identified many of the same problems that were being experienced by the IT company interviewed, there was a gap in the literature with regard to how to solve these problems. We concluded with a theoretical model to examine the hybrid consumer.

2. FAILURE OF DOTCOM AND EMERGING OF HYBRID BUSINESS MODEL

During the Internet bubble, there was a proliferation of e-commerce model and the exponential growth of the Internet as a commercial medium has resulted in the development of a number of frameworks that seek to enable a better understanding of what businesses are doing on the Web (Timmers, 1998). Much attention was paid to the Internet as the only channels that will save cost and reach global markets. Many new online business models were created such as dell.com with its online customization business model, priceline.com with its discount business model and ebay.com with its auction business model. Researchers even predicted that in the long run Internet stores would replace traditional stores (Armbruster, 2002).

In contrast, there is now evidence showing that online businesses are struggling to find a recipe for success (Krishnamurthy 2003, p.4). Some businesses survive such as E-Bay, Homestore.com, Yahoo.com, Amazon.com and Priceline.com (Anajana, 2003). But many failed such as Toysmart.com (Morehead, 2000), eToys (Wired News, 2002), Pets.com (Sullivan, 2000), Violet.com (Glasner, 2000) and Boo.com (Grose, 2003). According to *Internetweek*, more than 500 online businesses, that have obtained more than 1 million of investment, had to stop their operations since January 2000 (Kauffman *et. al.*, 2001). The research conducted by *Merrill Lynch* showed that 75 percent of all e-commerce start-ups fail (Grose, 2003).

The failure of dotcom companies is a widely debated topic. Much research has been undertaken to analyze the causes of failure. Some experts said that online business model failed as they faced problems in cost of setting up and maintaining an online store, requirements of physical distribution, poor financial management and lack of trust from the consumers (Armbruster, 2002 and Grose, 2003). Moreover, one of the most interesting points that caused the failure is misunderstanding the value of consumer (Krishnamurthy 2003, p.4). The literature identified two main causes of failures.

Firstly, in information and communication technologies (ICTs), in particularly, Internet related products and services, the value chain for consumer has increased its importance. The success or failure of the technology providers depends on how well they understand the user perspective (Barr, 2000; Neal 2002, p.4). Many technology providers failed because they tend to start from what they know about technology and what they can offer rather than trying to understand what consumers want (Barr, 2000; Barua, 2001). Thus, participants who wish to succeed in offering these

technologies based products and services need to understand social and culture dimension of the consumers (Barr, 2000).

Secondly, many of dotcom companies proposed new online business model to provide new ways of doing things such as online reservation, online banking, online payment, and online shopping. However, persuading customers and suppliers to change to new ways of doing things is not a simple task because customers do not change as quickly as the rapid change of technology (Wind *et al.* 2002, p.291; Krishnamurthy 2003, pp.4-5). Thus, companies should not “underestimate the ease with which human behavior can change” (Krishnamurthy 2003, p.4).

Even though, many dotcom companies fail. Still, the rapid population growth of the Internet has attracted many people to use Internet as a medium of communication. As the result, many businesses are still seeing the opportunities that underlie the Internet. However, as there is no solid business model when a new technology is launched, many of the remaining online businesses are struggling to sustain themselves in the dynamic and non-linear business environment (Kauffman *et al.*, 2001; Krishnamurthy 2003, pp.14-15).

A paradox situation occurs when the online business world is struggling to find a recipe for success and traditional business are trying to identify their needs to implement online strategies. This has resulted in the emergence of a new business model known as a “Hybrid business model”. The hybrid business model is the combination of business strategies between online and offline strategies. This type of business makes use of traditional commerce and e-commerce to give them competitive advantage from different market places. Today, some businesses choose a business model that integrates physical and online channels because they realized the benefits from both channels.

The success story of a hybrid model, for example, can be seen in the case of Tesco. Tesco uses a hybrid strategy to compete with the past pioneers of online grocer such as Peapod and Webvan. Tesco implemented online service bases on the existing business platform of the retail stores in the UK. By mid 2001, Tesco was handling 70,000 orders per week and increased \$400 million in sales the year before (Wind *et al.* 2002, pp. xiv - xv).

Integrating e-commerce with a physical channel is a challenge as well as integrating traditional commerce with online channel (Stienfield, 2002). Many theorists have long recognized the channels conflict problem, which may occur when there are alternatives paths for delivering products to end consumers (Stern and Ansary, 1992). Inappropriate channel mix strategies may create even more conflict potential. For example, an e-commerce strategy can cannibalize sales from an organization own physical operation (Stenfield, 2002).

It is obvious that many businesses are now facing problems in finding a right business model. The questions rise in what should be an optimal solution in integration online and offline strategies for a business. In the other words, should a business use online or offline strategies, should a traditional business transform to online business, should a business use hybrid strategies and to what extend that they should implement online or offline strategies. In responding to these questions, one of the factors to be considered is to understand consumer behavior.

3. CONVERGENCE OF CONSUMER BEHAVIOUR

The advent of Internet technologies has impacted not only business processes but also on the consumer. Using Internet technologies in business processes, consumers have more channels to interact with companies (Peter *et al.* 2001, p.5). As a result, the behavioral of consumer has also changed. With the Internet, a new kind of consumer has emerged known as “cyber consumer”. Unlike the traditional way of doing business where customers have to go to physical store, cyber consumers prefer to conduct buying activities through companies’ websites.

Before Internet technology was integrated into the business model, consumers conduct buying activities by using conventional ways such as phone, fax and store front. But after the Internet was integrated into business models, some consumers prefer to use online methods to interact with companies. It can be seen that the Internet has lead to the diversity of human behaviors. This phenomenon has created the divergence of consumer belief “which states of almost constant warfare with each other” (Neef 1999, p. 114).

Belief and attitudes towards a specific subject can lead to a specific type of behavior (Fishbein and Ajzen, 1975). The divergence of consumer belief can lead to the creation of two schools of thought (Neef 1999, p. 114; Wind *et al.* 2002, p. xiii) that are traditional oriented group (non Internet-adopter) and technology oriented group (Internet adopter) (see Figure 1).

Two schools of thought,

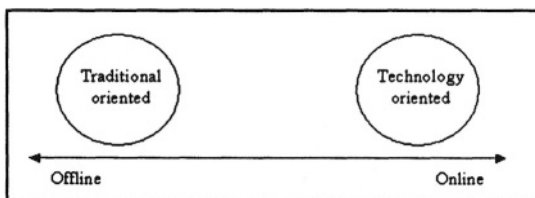


Figure-1. Divergence of consumer belief and behavior

The traditional oriented group is the group of people who do not believe in technology. This might be because of fears of changing, unawareness of technology and prefer physical contact. They prefer to use traditional methods. This group is also known as “traditional consumer” (Wind *et al.* 2002, p. xiv) or “high touch group” (Neef 1999, p. 114). On the other hand, technology oriented group is a group of people who has a strong belief in technology. They believe that technology can solve anything. They tend to be an early adopter of new technology. This group is also known as “cyber consumer” (Wind *et al.* 2002, p.xiv) or “high tech group” (Neef 1999, p.114).

If consumers really could be classified as one or the other, it would not be too difficult for companies to predict consumer’s needs. However, a number of problems occur when the real world cannot clearly separate people into two groups. Even though, an online strategy is viewed as a very efficient communication channel, an individual may use both online and offline methods in a buying process. Thus, today the reality is a “hybrid consumer”, which is the convergence of the traditional consumer and cyber consumer (wind *et. al.* 2002, p.xiii) (see Figure 2).

Two schools of thought,

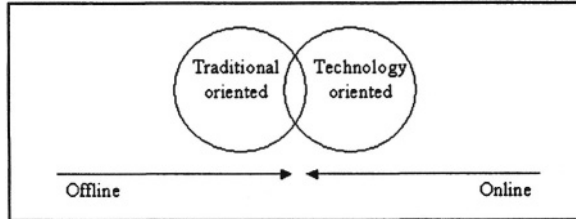


Figure -2. Convergence of consumer belief and behavior

There are several reasons to explain why consumer behavior is moving towards convergence. For example, some people adopt online methods because of the increase in accessible to computer and increase in technological knowledge. On the other hand, some people can move experience from online back to offline. For instance, consumers may have bad online experiences such as security problem, lack of trust and poor user interface design. The problem is how can we understand such a complicated behavior, what are the criteria that consumer rely on when choosing their preferences between online and offline methods are and how does this affect the development of an organization business strategies.

4. THEORETICAL FOUNDATION

To be able to generate an explicit explanation of hybrid consumer behaviors, the theory of reasoned action (TRA) and the theory of planned behavior (TPB), which are among the widely supported theories, were chosen. These two theories form a basis on the concept of attitude towards behavior, which is often applied in marketing research and many consumer theories were derived from (Arnould *et al.* 2002, p.427; Davis *et al.*, 1989 and Schillewaert *et al.*, 2000).

4.1 Theory of reasoned action

In 1967, Professor Martin Fishbein developed a theory of reasoned action. It is an expanded version of the initial Fishbein model. Fishbein suggested that the behavior of intention could be predicted from knowledge of consumers' attitudes, social normative belief, personal belief recognized. Behavior could be predicted from knowledge of behavior of intentions and the judged influence of extraneous events such as time constraint, technology constraint, competitive promotion and economic constraint. Consumers' actual behaviors may not be the same as their intentions. This model awakened a strong influence that other people can have on a person's behavior. In some circumstance, social influences can be as strong as or stronger than the person's own attitude (Arnould *et al.* 2002, pp.474 – 475). This model can be represented as follows (Arnould *et al.* 2002, pp.474 – 475).

$$BI = f(A, NBs * MC, NBp) \quad (1)$$

$$B = f(BI, EE) \quad (2)$$

where,

B = Behavior, A = Attitude, NBs = Social normative beliefs

MC = Motivation to comply, NBp = Personal normative beliefs

BI = Behavioral intention, EE = Judge influence of extraneous events

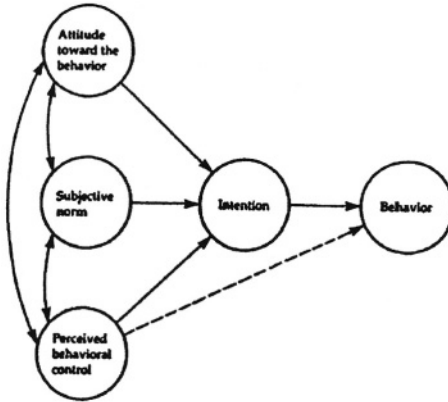


Figure -3. Theory of Planned Behavior

(Source: Ajzen, 1991)

4.2 Theory of planned behavior

The theory of planned behavior (TPB) is a well-established general theory of social psychology developed by Professor Icek Ajzen. In 1988, the Theory of Planned Behavior (TPB) was added to the existing model of reasoned action theory to address the inadequacies that Ajzen and Fishbein had identified through their research using the TRA. TBP asserts that specific salient beliefs influence given behavioral perceptions and subsequent actual behavior. Following TPB, there are three types of beliefs in the TPB that impact three perceptual constructs: behavioral beliefs that influence attitudes, normative beliefs that affect subjective norm, and control beliefs that shape perceived behavioral controls (Ajzen, 1991).

5. A MODEL FOR ANALYSIS HYBRID CONSUMER BEHAVIOUR

To understand the behavior of hybrid consumer, this paper proposed a conceptual model, which serves as a guideline to analyze hybrid consumers. This model applies a basis concept of TPB and TRA. These theories suggest that “attitudes could explain human actions” (Fishbein and Ajzen, 1975). The authors have recognized that the behavior of hybrid consumer can be explained by belief and behavior. The main purposes of this framework are as follows:

- 1. To understand hybrid consumer behavior both actual and intention in adoption of online and offline channels in buying process;
- 2. To identify the hidden potential target market for online and offline strategies;
- 3. To identify the strategies that companies can use to avoid channel conflicts in online and offline channels.

According to the proposed theoretical framework, hybrid consumer behavior both intention and actual behaviors are guided by three main variables of consideration: influence factor; attitude & beliefs; and extraneous.

Influence factors are the consumers’ background and experience that formulate consumers’ attitude and beliefs. Influence factors could be from external source such as social influence and subjective norms and it is also from internal source, which is self-interested.

Attitude and Belief is the feeling and expectation of consumers toward a specific object that could lead to the formation of behavioral intention. It explains the likelihood of consumers’ intention and it predicts the potential of behavioral.

Behavioral intention represents the plan of what consumers have in their minds before the actual process. Behavioral intention explains what consumers’ want or/and need is.

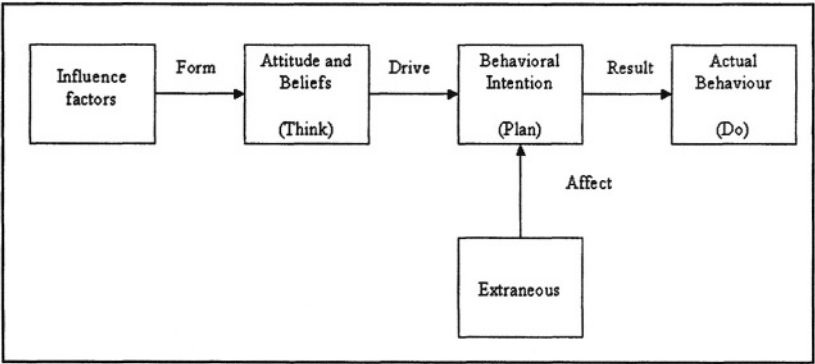


Figure -4. Proposed theoretical model to analyze hybrid consumer behavior

Actual behavior is the fact-based information. It indicates the reality of consumer behavior. Information regards actual behavior can be obtained by research survey such as questionnaire, interview, and observation with consumers. Consumers’ intention behavior may be different from the actual behavior.

Extraneous is the factors that affect consumers’ behavioral intention and it may lead to different actions. It explains why consumers’ actions are not always as they originally plan. For example, extraneous could include time constraint, technology constraint, economic constraint or competitive promotion (Arnould *et al.* 2002, pp. 474-475). Table 1 summarizes the explanation of key terms in this model.

Table -1. Construct and Measurer

Construct	Definition	Question
Influence Factors	The factors that form attitude and belief.	What are the factors that form consumers’ attitude and belief?
Attitude and Belief	Feeling and expectation toward a specific object.	What do consumers think about it?
Behavioral intention	The behavior that plan to perform.	What do consumers plan to do?
Actual Behavior	The actual performance of behavior.	What is the actual behavior?
Extraneous	The factors that make the difference between intention behavior and actual behavior.	What make consumers behave differently from their original plans?

This model can be used to evaluate hybrid consumer behavior towards the adoption of online (through Internet) and offline (without Internet) activities. One can benefit from applying this model to better understanding the current situation and future prediction of consumer behavior, in particularly, hybrid consumer. This will help businesses to create right business strategies for reaching the new hybrid consumer in the convergence era.

6. CONCLUSION AND FUTURE RESEARCH

As there is a growing reliance on the hybrid business model as well as hybrid consumers, little theoretical and empirical research exists on this topic. The theoretical model to analyze hybrid consumer behavior is proposed to fill this gap. This model is based on the underline concept of belief and behavior derived from TRA and TPB. The outcomes from this model is seeking to understand hybrid consumer behavior both actual and intention in adoption of online and offline channels in buying process to identify the hidden potential target market in building online and offline strategies. Future research is currently being conduct to test the efficiency of this model.

ACKNOWLEDGEMENTS

We would like to thank Mr. Eric Sito, General Manager of the Dataprep Group, Malaysia, for his assistance in the development of this paper.

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