

Research on Latecomer Strategy of Internet Business Model Innovation

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1 Introduction

Business mode innovation is the foundation of enterprises' survival and development, as well as the key concept of business strategy research [1, 2, 3]. Owing the features of internet, internet business mode innovation has its own characteristics. The emergence of the internet and the wireless internet provides unlimited possibilities and diversities for business model innovation which is crucial to help enterprises become bigger and stronger. In many western countries, it is a trend to apply original internet business model for patent. Take the United States for examples, some key parts of business model which meet certain conditions, can obtain patent protection. Thus, business mode innovation is an important competing arena for multinational enterprises [4].

Information technology companies providing internet infrastructures promotes the rapid development of internet businesses. More importantly, internet enterprises applying internet and web technologies to create new business model and to reform traditional business model, such as Amazon, DELL, Google, etc., drives the internet business go ahead. It is internet business mode innovation that is the most important tool for network rookies and traditional enterprises to create new market

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spaces and make profits. So, new business models based on internet have been created in developed countries [4, 5, 6].

Compared with these countries, China is lagging behind in internet business model innovation. It is of theoretical and practical significance to study the theories and practices of internet business model innovation for latecomer enterprises. Theoretically, it will enrich internet business mode innovation research. In practice, it will help Chinese enterprises compete with rivals abroad.

No consensus of the concept of internet business model has made in academia and industry. The ambiguous meaning of internet business model hindered the researchers and limited progress was made in providing a feasible innovation strategy and method. With reference of management and biology literatures, a hierarchical and analytical concept framework was constructed, including classification, operation and implementation level. The framework provides a necessary foundation for internet business model innovation.

Compared with eBay, Facebook and Google, internet business enterprises in China are latecomers and how to compete with these giants is an interesting problem. Based on the research on the hierarchical and analytical concept framework [7], this paper focuses on latecomer strategy of internet business model innovation. This paper is structured as follows. In the second part, the hierarchical and analytical concept framework will be elaborated. In the third, a latecomer strategy for internet business model innovation will be studied. And the fourth part will be the conclusions.

2 The Hierarchical and Analytical Concept Framework of Internet Business Model

Drawing on management science and biology theories and methods, viewing from the static and dynamic perspectives, a hierarchical and analytical framework is constructed, as figure 1 shows. The framework treats the internet business model as "model", allowing cognition of classification, operation mechanism, and implementation.

Recipe Model	implementation level
Model Organizm	operation level
Scale Model	classification level
Role Model	

Fig. 2.1. Hierarchical and analytical framework for internet business model.

2.1 Levels of Classification

It is classification that is the elementary meaning of internet business model. Enterprises in the real world can be classified into different categories according to differences and similarities of their behaviors.

Attention should be paid that the classification methods of internet business model include two types, taxonomy and typology. Taxonomy is a bottom-up inductive classification and typology a top-down interpretation. Role Model and Scale Model are mainly used for classification, classifying the different enterprise models into different internet business models of categories. Role model is used for induction by the bottom-up classification, while scale model for the top-down interpretation of the classification. The role of the two is different, so does the meaning.

2.2 Model Organism

After studying and abstracting the behavioral characteristics of enterprises, we have recognized the behavioral characteristics of any category. However, we still could not answer questions such as "why this model succeed?" Why a certain internet business model would succeed is not always obvious and self-evident. Take www.taobao.com for example, what are its critical factors for success? Which factors make the model work and must be combined in the model? What factors are just the occasional and not belonging to the internet business models in essence?

Classification can solve the unique characteristics of its own existence of these models. But it is insufficient as to explain questions above. With particular reference to the extensive literature in biology, we propose the next level meaning of internet business models: model organism. To study the model organism will help researchers get a better understand of the internal operation of this model, knowing the reason why the model should survive well, grasping a better knowledge of the internal mechanism of this model.

For internet business model researchers, it is the typical internet business enterprise that is their case and the case analysis of typical internet business enterprise is exactly to analyze model organism. For instance, by analysis of TAobao as a model organism, we can find out its operating method, the linkages between its value activities, the similarities of behavioral characteristics to TAobao mode, and the characteristics which are only enjoyed by the specific enterprise of TAobao.

Model organism is further study of business model based on role model and scale model. The model organism is to analyze a role model, that is, a certain internet enterprise, such as TAobao. But the results of the study are applicable not only to TAobao, but also to a high level of scale model.

2.3 Recipe Model

The meaning of these two levels above is static analysis of internet business models. Its' significance lies not only in understanding what the world is, but also in guiding the practices in real world. In other words, researches obtained by analysis of classification and operation of internet business models can guide the internet business model innovation in practice. On this level, the internet business models focused on the meaning of recipe model, including some certain principles, components, and certain operating procedures. Although the recipe is the same, but dinner made according to recipe is different in different kitchens and (or) restaurants. Similarly, different entrepreneur, in different business situations, internet business model innovated according to the same recipe is different.

Recipe model indicates that theory is not enough when creating a new internet business model. Local situations and conditions must be taken into account. Only making a perfect combination of local actual situation and recipe model, the internet business model innovation may be successful.

2.4 Hierarchy

In the analytical and hierarchical framework of internet business model, the relationship between these levels is of step by step progression: the lower level model is the cognitive basis of the top, and the upper model is an evolution and deepening of the lower. In the bottom of the framework is the classification which is the basis and starting point for internet business model innovation. The model organism in intermediate level, based on the classification level, investigates the internal operation mechanism of the specific internet business model by case study, and the results obtained not only applicable to specific enterprises, but also to this type of internet business model represented. On the implementation level, when applying the theory of the first two levels to internet business model innovation, attention must be paid that innovation is not equal to copy, but the process of making individual dishes in specific situation, according to the recipe.

3 Latecomer Strategy of Internet Business Model Innovation

The industry and academia are concerned about how enterprises innovating their internet business model. Compared with the United States and other developed countries, china is a latecomer in internet business model innovation research and practice. For the industry and academia in china, it is a very interesting question how enterprises in developing countries conduct business model innovation. According to the conceptual framework of internet business model above, a latecomer strategy of internet business model innovation is proposed, which includes three stages of classification research, operation mechanism research and implementation research.

3.1 The Disadvantages and Advantages for the latecomer

The Disadvantage for the latecomer comes from the network externality. As the value of the network is proportional to the square with the network scale, so the first comer enterprise can form a necessary network size in the early and it can be increasing quickly to hinder the latecomer forming a necessary network size. In addition, owning their own resources, the first comer enterprise can make obstacles to the latecomer.

But compared with foreign, internet business enterprises in China still have advantages.

Firstly, as soon as market size concerned, China has the largest population of net citizens in the world whose online consumption behavior has become mature. So, the market potential of Chinese Internet economy is huge. After the occupation of their domestic market, many foreign giants will choose china as their second battlefield. Therefore, in China, Chinese enterprises and the world giants compete on the same starting line.

Secondly, compared to the foreign enterprises, domestic firms understand more deeply about China's local culture, public psychology, conditions. After all, whether advanced or not, only in the soil and atmosphere of Chinese culture, can internet business model blossom and bear fruit. Misunderstanding or refusing to understand Chinese culture, people, and national conditions, and copying the successful experience of foreign companies to practice, are often difficult to have a good ending.

Thirdly, companies in China are good at learning and can innovate their internet business model by learning and modifying experience of enterprises in developed countries according to the characteristics of the Chinese market.

Given China's huge market size and unique culture characteristics that provides opportunities for Chinese enterprises, a latecomer strategy of internet business innovation is proposed.

3.2 Latecomer Strategy of Internet Business Model Innovation

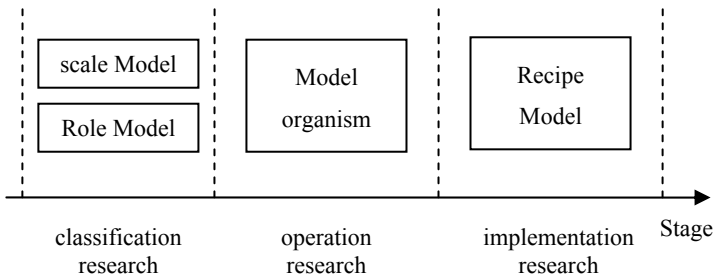


Fig.2.2. Latecomer Strategy for internet business model innovation.

In this paper, we propose an innovation strategy of internet business model for latecomer firms, which include stages of classification research, operation mechanism research and implementation research, as shows in figure 2.2.

3.3 Classification Research Stage

As a latecomer enterprise, when conducting the EBM, firstly, we need to draw on existing internet business model, define which type the targeted internet business model belongs to. This is the so-called "classification research".

However, high degree and short cycle of internet business model innovation results in theory lagging behind the innovative practice. Frequently, when an internet enterprise starts a new business, the relevant scale model has not yet to be established. When conducting the internet business model innovation, firstly, latecomer companies should study the internet business model of first comer enterprises. That means, the latecomer enterprises first need to study the "role model", that is, example business. Studying the example company is the starting point of taxonomy which is the bottom-up classification. Through this we can abstract the characteristics of the example company, find out common features of these enterprises, build an ideal type, and establish scale model. By classification research, latecomer enterprises will get a good knowledge of and grasp the basic features of internet business model they interested in. Classification can be considered as dividing into different themes, such as portals, search engines, SNS, and so on. Understanding which theme they belongs to is the beginning of position, but also the beginning of business model innovation for the latecomer.

3.4 Operation Research Stage

Grasping the characteristics of targeted internet business model is not able to answer why it succeeds. After classification research stage, we have to study how specific example enterprise succeeds. This can be investigated from the perspectives of value activities of targeted enterprise, the linkages between value activities and the value activities performer, which will uncover the target company's operation mechanism in certain ecological environment. Firstly, we must examine the specific environment of targeted companies. Different environments need different adaptation. Only matched to their specific environment, certain behaviors can contribute to the success of enterprise. Otherwise, the same actions may result very differently. Previous studies focused on enterprises themselves and neglected environment, with the result unavoidably biased. Secondly, investigate the value activity system of the targeted enterprise, including the content of value activity system, structure and management (content, structure and governance). The management tradition is expert in this field. Finally, it is crucial to considering the match relation between the targeted value activities and the specific environment. Through closer examination, we can know that only in that environment, a particular value system, will play its role.

3.5 Implementation Research Stage

It is how to make dishes taste for Chinese in China's kitchen and dining room according to the recipe that is the key of implementation research stage. Therefore, we must first study the similarities and differences between Chinese consuming behavior and those of target country. Take the United States, a developed country, as examples. The American's consumer culture tends to enjoy experience, while China's consumer culture, in general, gives much height to function, emphasizing excellent quality and reasonable price. Second, we examine the differences in production characteristics between China and the country of the targeted internet business model. Finally, we conduct implementation of internet business model. The implementation of one mode created in one certain context to another has to be adjusted and modified.

3.6 Case Study

This paper takes example of taobao.com to illustrate the innovation strategy of internet business model for the latecomer companies in China.

Taobao (www.taobao.com), the Asia Pacific's largest online retailer, aimed to be the world leader in this arena, was established by Alibaba Group in May 10, 2003. In 2002, eBay, the largest U.S. internet auction enterprise, invaded the Chinese internet business market of B2C and C2C. In response to the attack of the international internet business giant, Alibaba Group considered to conduct internet retail business. So, Taobao launched by Alibaba in China, was later than eBay in the United States, and was a latecomer company. The first stage of Alibaba Group's innovation strategy was to study eBay as a role model. The eBay is a platform agency model for buyers and sellers. The key to success is to reach the critical mass and obtain the network externality's advantages. In the second phase, Alibaba studied eBay's operation mechanism. They found that in the United States, a developed country, the main motivation of people shopping online is stimulation and experience. The eBay started their business by offering auction service which matched the consumption characteristics of the United States. The United States' unique payment system and credit system was the essential production supporting feature to auction. Under this circumstance, auction made eBay grow rapidly to get network externality advantage.

In the implementation phase, Alibaba's recipe in China includes a platform agency model for buyers and sellers and the key to success is to reach the critical mass quickly. In the implementation phase, the key to make dishes to meet the tastes of Chinese was to have a profound understanding of production and consumption characteristics of Chinese market. Chinese online consumption focused on cost-effective and cheap price. And China's credit system, payment system and other production characteristics were not perfect. Therefore by creating an online retail rather than auctions, Alibaba quickly achieved the critical mass. By taking a variety of value activities, Alibaba improved the credit system, payment system and other production infrastructure. Because eBay ignored the Environmental differences between China and the U.S, it didn't pay any attention to the production and

consumption characteristics of Chinese market. Just as eBay had did in the United States, it still expected to get the market share by providing auction service. As a result, Taobao defeated eBay in China.

The case of Taobao clearly shows that when competing with multinational internet business giants, local enterprises in China adopting innovation strategy can achieve competitive advantages, because they are familiar with local market in China as well as its unique characteristics of culture, production and consumption.

4 Conclusions

This paper analyzed the advantages and Disadvantages for the latecomer companies in internet business in China. The disadvantages are mainly due to the network externality and the main advantages lies in the opportunities offered by the huge market and unique characteristics of culture, production and consumption. Based on the hierarchical framework of internet business model, we proposed the latecomer strategy of internet business innovation, including stages of classification research, the operation research and implementation research. In this paper, we have emphasized that the correct recipe and correct understanding of local environment is the key of internet business model innovation strategy. The latecomer strategy of internet business model innovation we proposed will help entrepreneurs in internet business model innovation.

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