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Success Factors of Internet-based Business Models

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1. Abstract

The NASDAQ crash in April 2000 and the widespread stock market upheavals seem to question the success of the Internet economy. Alongside spectacular failures of dotcoms such as boo.com and webvan.com, however, there are also very successful e-businesses such as eBay. In this paper, key results of empirical studies on critical success factors of Internet-based business models are presented and discussed. Because of several research limitations and the premature stage of development of e-business, much more sophisticated studies are needed in this new field of empirical research.

2. Introduction

In November 1999, analysts of Gartner Group presented to the public a lifecycle model of e-business that outlined the future development of such "new economy" businesses quite realistically. These analysts predicted that many e-companies would tumble into a period of e-business disillusionment by 2001, with 75% of projects failing to deliver on their promises (Gartner Group 1999).

This prediction has become reality to a high degree. Since 2000, a heavy dotcom shakeout has taken place in the U.S. as well as in Europe. Moreover, many brick-and-mortar companies had to face the failure of their e-business projects because of immature technology, unready market, and poor e-business strategies. Events like the NASDAQ crash in April 2000 and the closure of the German New Market in 2003 seem to indicate the beginning of the end of e-business.

But Gartner Group's lifecycle model of e-business predicts not only a "Trough of Disillusionment", but also a "Slope of Enlightenment" with the emergence of "true" and sustainable e-business models in the long run. The surviving business models would have made a transition, most likely to a brick-and-click mix, and pure e-business itself would cease to exist (Gartner Group 1999).

This last prediction seems to be questionable. Besides spectacular failures of pure dotcoms (e.g., boo.com, webvan.com) and failures of e-businesses of brick-and-mortar companies (e.g. Karstadt's myworld.de, and Bertelsmann's bol.com), very successful pure e-businesses can be found that should survive in the long run (e.g., eBay). These "e-commerce winners" have been described in detail recently (see Albers, Panten, and Schäfers 2002; Fischermann 2002; Mahajan, Srinivasan, and Wind 2002).

This paper presents a review and meta-analysis of empirical studies on key success factors of Internet-based business models. These key success factors should separate e-commerce winners from e-commerce losers and should characterize "true" e-business models. It is also shown that, because of several research limitations and the premature stage of development of the "new economy", much more sophisticated studies are needed in this new field of empirical research.

3. Conceptual Background

3.1 The Success Factors Approach

The empirical research on key or critical success factors (KSF or CSF) of old economy businesses has a long tradition. The idea that there are a few factors that are decisive for the success of a business was first discussed by Daniel (1961) and elaborated later mainly by Rockart (1979) in the context of designing management information systems (Leidecker and Bruno 1984, p. 23; Grunert and Ellegaard 1993, p. 246). Later on, the concept of critical success factors was transferred to the fields of business strategy research, where it was used in different ways. In strategic marketing and management, the Profit Impact of Market Strategies project (PIMS) initiated by Harvard Business School has stimulated a wide range of research primarily in the field of industrial firms (Buzzell and Gale 1987). The success factors approach has influenced empirical research in many other areas such as retailing (e.g., Hildebrandt 1988) and even in accounting (e.g., Hinterhuber 2002). Even a few decades after the success factor research commenced, methodological questions of the success factors research are usually discussed by making references to the PIMS data (Hildebrandt and Buzzell 1998; Annacker 2001).

Although the success factors approach is recognized in many different areas of business studies for over two decades, no coherent scientific research program has emerged until today. Many different and specific approaches can be found instead: confirmatory vs. exploratory research designs; studies focusing on financial success only vs. studies using a more comprehensive, multiple indicators set of success including non-financial and even perceived measures of success; studies based on single cases vs. studies based on data from big, representative and international samples analyzed by sophisticated multivariate techniques; etc. (see in detail Fritz 1990, 1992, 1995, and 1997).

It is not surprising that the success factors research has spawned a considerable variety of results, and many of these results are controversial even after two decades (see e.g. Hildebrandt and Annacker 1998; Annacker 2001). A meta-analysis of 40 empirical studies has shown, however, that "quality of human resources", "closeness to the customer", "innovation potential", "quality of products", and "pattern of leadership" are the most frequently mentioned key factors of corporate success (Fritz 1990 and 1997). Moreover, empirical research in the U.S. and in Germany has proven correspondingly that the "market orientation" of a firm must be regarded as a fundamental key success factor (Kohli and Jaworski 1990; Narver and Slater 1990; Fritz 1992 and 1996; Jaworski and Kohli 1993; Homburg 1995). Against this background, recent criticism by March and Sutton (1997) or Nicolai and Kieser (2002), after which the success factors research must be regarded as completely unsuccessful, cannot be taken as serious.

Although a variety of conceptual views of key success factors (KSF) or critical success factors (CSF) can be discerned in the literature (Grunert and Ellegaard 1993, pp. 246), most KSF-CSF approaches share a number of crucial aspects. First, it is postulated that success and failure of a firm or a business can be traced back to a limited or small number of key factors. Second, these key variables establish a causal relationship with the firm's or business's success and therefore explain a major part of the variance in the success indicators. Third, these KSF or CSF can be shaped or managed and therefore represent skills or resources a business should invest in (see e.g. Leidecker and Bruno 1984, p. 24; Hildebrandt 1988, p. 92; Grunert and Ellegaard 1993, p. 264; Fritz 1995, p. 594).

3.2 Business Models on the Internet

Several different definitions of the term "business model" exist. Timmers (1999, p. 31) uses a comprehensive conception and defines a business model "... as the organization (or 'architecture') of product, service and information flows, and the sources of revenues and benefits for suppliers and customers." According to *Elliot* (2002, p. 7), "Business models specify the relationships between different participants in a commercial venture, the benefits and costs to each and the flows of revenues". Thus, the revenue model can be considered as one of the core concepts within a business model (Elliot 2002, p. 8). On the whole, a business model comprises – in addition to the revenue (or better yet, the capital) sub-model – a market sub-model, a supply sub-model, a production sub-model, an offering sub-model, and a distribution sub-model (Wirtz 2001, p. 211).

Attempts have been made to distinguish several different types of business models on the Internet (e.g. Choi and Whinston 2000, p. 104; Shaw 2000, pp. 10; Turban, Lee, King, and Chung 2000, pp. 202; Timmers 1999). For business-to-consumer (B2C) e-commerce, the focus of this article, a typology by Wirtz seems to be widely accepted. According to Wirtz, at least four different types of business models can be distinguished (Wirtz 2001, pp. 217; Wirtz and Kleineicken 2000):

- *Content* (e-information; e-entertainment; e-education);
- *Commerce* (attraction; bargaining/negotiation; transaction);
- *Context* (search engines; web catalogues);
- *Connection* (virtual communities; online networks).

In most cases, the core focus of an online business could be characterized by one of the four basic types of business models. For example, e-zines like HotWired belong to the "content" category, online bookstores like Amazon are examples of "commerce", search engines like Alta Vista are directed to "context", and online networks like AOL provide "connection". The focus of an online business, however, could change over time or could be augmented by elements of other businesses. This may lead to hybrid and multifunctional business models. One famous example is Yahoo!, which extended its core "context" business in multiple ways, assimilating elements of most of the other three basic e-business models (Wirtz and Kleineicken 2000, pp. 634).

Furthermore, as predicted by Gartner Group, the evolution of business models may create a type of hybrid e-commerce that integrates online and offline businesses. One example is Gateway 2000, a direct seller of computers that uses the telephone and the Internet as its sales channels. To overcome some disadvantages of being only a virtual organization, the company opened Gateway Country Stores in key markets and began to advertise that customers could "call, click, or come in" (Dholakia and Dholakia 2002, p. 25). It is therefore useful to extend Wirtz`s typology of business models in the way that is suggested in Table 1.

Table 1. A Typology of Business Models on the Internet

Degree of Virtuality \ Business Focus	Content	Commerce	Context	Connection
Pure-click-Business	e.g. Genios Web Search	e.g eBay	e.g. Yahoo!	e.g. AOL
Brick-and-click Business	e.g. Time Inc.	e.g. Otto	e.g. Stiftung Warentest	e.g. Deutsche Telekom

4. Success Factors of Internet-based Business Models: Empirical Findings

Empirical research on key success factors for e-businesses should be directed towards each of the eight basic types of business models for the Internet profiled in Table 1. With the exception of two Mc Kinsey studies (Agrawal et al. 2001; Kemmler et al. 2001), no comprehensive empirical study exists aiming at each of the eight fields simultaneously and trying to discover the specific success factors within each field on a large-scale base. Therefore, this article distinguishes primarily only between studies aiming at the success factors of pure-click businesses on the one hand and brick-and-click businesses on the other hand.

4.1 Success Factors of Pure-click Companies

The years after 2000 have been crucial for most pure-click companies because a heavy dotcom shakeout took place during 1999-2000. While spectacular failures grabbed the headlines, in this process the wheat was separated from the chaff. Some very successful e-businesses emerged and demonstrated that e-commerce could even be profitable against the backdrop of an overall decline of the dotcom and Internet-driven economy. But what are the reasons why businesses such as Google, eBay, DoubleClick, Overture, Expedia, Yahoo!, PayPal (now acquired by eBay), and Webex were more successful than others (Fischermann 2002)? Table 2 compares the results of several studies that have tried to answer this question and to identify the key success factors of e-businesses on an empirical basis in 2001 and 2002.

Table 2. Some Empirical Studies of E-business Key Success Factors (2001-2002)

Study	Analyzed Business Models	Type of Research	Sample	Definition of Success	Key Success Factors
A. Pure-click Businesses					
Albers, Panten, and Schäfers (2002)	Content Commerce Context Connection	Exploratory Qualitative	10 cases of successful e-companies in Germany and Austria	• Profit • Positive cash flow	• High degree of digitization • Matching of supply and demand and creating high transparency • Transaction-based revenues • Network effects • Core business furthered by technological advantage • Marketing at low expenses • Outsourcing of functions to customers • Reducing and monitoring costs • Little venture capital • Focus on core business
Elliot (2002)	Commerce	Exploratory Qualitative	30 cases of successful Internet retailers in 6 countries on 4 continents and additional interviews with executives	Not given	• A viable business model for the whole organization • Clear priorities • Adequate funds for expansion • Understanding of target markets and learning from customers and competitors • Product type • Branding • Reliable suppliers • Website and fulfillment capability • First-mover advantage • Generating sales and profits
Mahajan, Srinivasan, and Wind (2002)	Commerce	Confirmatory Qualitative	48 Internet retailers in the U.S.	• Change in stock price since the IPO • Stock options underwater	*Profile of the winner:* A firm that offers • Search goods • Existing products • With offline expertise.

B. Brick-and-click Businesses					
Agrawal, Arjona, and Lemmens (2001); Kemmler et al. (2001) (McKinsey)	Content Commerce Context Connection	Exploratory Qualitative	650 million visitors to web sites of 224 firms in North America, Europe, and Latin America	E-performance scorecard comprising 21 indicators of customer attraction, conversion, and retention	• Focus on core product or service proposition that fit the needs of well-defined consumer segments • Control of extensions of product lines and business models • Avoidance of bleeding-edge technology • Commerce sites were more successful than content and community sites • Clothing is the most profitable e-tailing category • Best e-tailers outperform offline competitors • Incumbents' offspring outperform pure plays in e-tailing • Pure plays outperform incumbents' offspring in content
Böing (2001); Meffert and Böing (2001)	Commerce	Confirmatory Quantitative (primarily)	135 firms in various German industries and 93 additional expert interviews	Perceived attainment of e-commerce goals	*Basic orientation:* • Technology and innovation orientation • Market orientation *Strategy and organization:* • Detailed market entry planning • Conflict and cooperative strategy towards dealers • Building strong brands • High autonomy of e-commerce department *Measures:* • Online communications • Web site design (added value; transaction) • Short period of delivery • Strong monitoring
Geyskens, Gielens, and Dekimpe (2002)	Content	Confirmatory Quantitative	93 announcements of adding an Internet channel to the traditional business by 22 publishers in 4 European countries	Firm's stock market return caused by the announcement	*Most Internet Channel additions were successful,* especially for • Powerful firms with a few direct channels • Early followers • Introductions supported by a high publicity
Strauss and Schoder (2002)	Various	Exploratory Qualitative (primarily)	1308 interviews with e-business managers of various industries in Germany, Austria and Switzerland	Perceived attainment of e-commerce goals	• Elaborated e-business strategy • Differentiation of hybrid strategy • Realistic assessment of obstacles and opportunities • Effective channel management • One-to-One marketing and CRM • Process Orientation • Autonomy of e-business department

Part A of Table 2 summarizes the findings of three empirical studies of pure-click companies. The study by Albers, Panten, and Schäfers (2002) analyzes 10 pure-clicks in Germany and Austria that are successful in terms of profit and cash flow. These e-commerce winners can be found nearly in each industry. It follows that the economical success of e-business is not restricted to a single or specific business model. In terms of key success factors, these e-commerce winners offer products and services exhibiting an extremely high degree of digitization and benefit from network effects. Furthermore, these e-commerce winners generate revenue by participating in e-commerce transactions (sales commissions) and make profits by monitoring and reducing costs systematically.

One overall good example of e-commerce success is eBay, the world-wide leading Internet-based B2C auction site. As Lührig and Dholakia (2002) have pointed out, the company has reached such a magnitude that it will be very difficult and expensive for competitors to overtake its market-share leadership. Because of this high market share, eBay can enjoy the biggest scale effects and benefits from ongoing market growth. Furthermore, eBay takes full advantage of network effects and economies of scale, because the more people use its auctions, the better the site becomes. "The rising numbers of eBay users generate a growing tide of content for the site. This growing content, in turn, attracts more people to the site" (Lührig and Dholakia 2002, p. 117).

The international study by Elliot (2002) covering six countries on four continents (focusing on Australia, Denmark, Greece, Hong Kong/China, United Kingdom, and United States) was originally designed to explain the adoption of and implementations of Internet-based retail e-commerce (p. 301). In addition, executives were asked to identify the overall determinants of success for online retailers (p. 333). Although no definition of success was given, the author claims that he has identified a broad range of major success factors in Internet retailing (pp. 333, and Table 2). Some of these success factors correspond to those discovered by Albers, Schäfers, and Panten (2002), e.g., "clear priorities/focus on core business", "produce profits/outsourcing of functions, reducing and monitoring costs" and "first-mover advantage/network effects". Other findings of Elliot (2002) and Albers, Schäfers, and Panten (2002) do not support each other and seem contradictory in parts. According to Albers, Schäfers, and Panten (2002, pp. 216, 223), the products most suited to e-commerce are digital products, and e-commerce winners did not make the detour of branding to attain a high degree of awareness. In the Elliot study, however, not only digital but also standardized physical products (e.g. books, computers, consumer electronics) are regarded as well suited for e-commerce, and branding is presented as a major success factor (Elliot 2002, p. 334).

Both studies focus on successful e-businesses solely. A comparative sample of non-successful e-firms was not included. Thus, both studies cannot demonstrate that the factors analyzed are characteristics of successful businesses exclusively and do not exist for non-successful firms. The next study will show that this objection may be relevant.

Mahajan, Srinivasan, and Wind (2002) conducted a study of 48 dot.com retailers in December 2000. They identified 1-800contacts.com as the sole winner, using two performance indicators: percentage change in stock price since the initial public offering (IPO) and stock options "underwater". A stock option is said to be underwater when the price of the stock drops below the price at which the stock option was issued to an employee and thus the employee has lost the investment in the stock (p. 476). Based on a conceptual framework, the authors derived a specific profile for the hypothesized winner (see Table 3). They argued that the hypothesized winner should offer an existing (not new) and customized digital product with a search quality, and that the winner retailer should have offline experience (e.g. traditional offline stores) and a high number of alliances (pp. 477). 1-800contacts.com, the only dotcom retailer whose stock options were not underwater and whose stock prices showed an increase since the IPO (105%), however supports only three of these six assertions. As shown in Table 3, contrary to the hypothesized profile of an "e-commerce winner", 1-800contacts.com offered a physical product (contact lenses) without customization and without having alliances. This finding cannot be generalized, however, because the six firms in the sample that had filed for bankruptcy showed nearly the same profile in most cases (see Table 3). The only remaining difference was that the winner had offline experience, as hypothesized.

These findings demonstrate very clearly that one cannot identify key success factors by analyzing a sample of winners solely, because the losers may show some of the same characteristics as the winners. The Mahajan, Srinivasan, and Wind (2002) study suggests the only distinct overall key success factor to be the offline experience of online retailers. To understand the traditional retail business seems to be critical to the success of online retailing. In these authors` opinion, global retailers such as Wal-Mart, Carrefour, and Metro are clearly well positioned to take advantage of the market opportunities offered by the Internet (Mahajan, Srinivasan, and Wind 2002, p. 484).

Table 3. The Profile of the Winner and of Other Dotcom Retailers

Product and Firm Characteristics	Hypothesized Winner	Actual Winner: 1-800contacts.com	Bankrupt Firms (n=6)
Product characteristics			
Product type	Digital product	Physical product	83 percent physical
Product properties	Search good	Search good	67 percent search
Product newness	Existing product	Existing product	100 percent existing
Product customization	Yes	No	83 percent no
Firm characteristics			
Offline experience	Yes	Yes	100 percent no
Number of alliances	High	None	5 (average)

(Source: Mahajan, Srinivasan, and Wind 2002, p. 482)

4.2 Success Factors of Brick-and-click Companies

In Part B, Table 2 shows some major findings of several studies conducted in the field of brick-and-click business. The study by Geyskens, Gielens, and Dekimpe (2002) differs from the other studies because it addresses the question of whether it is beneficial for a traditional firm to invest in an additional new Internet channel. By using event-study methodology, the authors show that in most cases adding an Internet channel to the traditional channels increases the firm's stock market return in the newspaper industry (pp. 112). The probability of successful channel addition is especially high for powerful firms with only a few direct channels, for early followers, and for introductions being supported by a high level of publicity (pp. 114). The authors show that Internet channel investments are positive net-present-value investments especially for these firms. But the study fails to address the question of whether such Internet channel additions are profitable in the longer run, years after their introduction. Recent experience from the German newspaper industry creates some doubts in this regard.

The first of the two McKinsey studies reported here shows that three principles of the old economy are beneficial even for pure-click businesses (Agrawal et al. 2001, pp. 38): (1) Matching the value proposition of products and services to the needs of well-defined consumer segments, (2) extending of product lines and business models not too far beyond the core business, and (3) avoiding an overemphasizing of technology. But the authors of the study that was in parts already conducted in 1999, do not show empirically the causal relationships in detail.

According to the findings of the second study (Kemmler et al. 2001), commerce sites are more successful than content and community sites. Within commerce business models, clothing is the most profitable e-tailing category. E-tailers launched by incumbent offline firms are doing better than pure-click retailers because they benefit e.g. of existing brands and order-fulfillment systems.

The studies by Böing (2001), Meffert and Böing (2001), and Strauss and Schoder (2002) show correspondingly that an elaborated and comprehensive e-business strategy and a high organizational autonomy of the e-commerce department are important prerequisites for the success of brick-and-click companies in e-commerce (Böing 2001, pp. 157, 199; Meffert and Böing 2001, pp. 462; Strauss and Schoder 2002, pp. 28). These findings seem to contradict the widespread conviction that only the integration of online and offline activities, in the form of amalgamated concepts of multi-channel management, would lead to success.

It is also becoming evident that a balanced technology and market orientation is needed to prevent firms from overemphasizing the technological aspects of e-business – a disastrous mistake that often occurred in the past (see Böing 2001, pp. 152). In line with a strong market orientation, the building of strong brands and a short delivery cycle for goods are regarded as important key success factors of brick-and-click businesses in e-commerce. With the exceptions of online communications, website design, one-to-one marketing and eCRM, many of the reported key success factors of brick-and-click companies do not appear to differ very much from those of traditional firms beyond the Internet economy.

5. Discussion

The current state of research reported in this article delivers no clear picture of the key success factors of Internet-based business models. Reasons can be found first on the methodological level.

The empirical success factors research in e-commerce is still a relatively young and immature in methodological terms. Thus, no dominant research design has yet emerged. Exploratory studies with very small sample sizes can be found just as confirmatory studies based on large-scale surveys. A wide range of non-comparable success indicators is used in the different studies, ranging from perceived success measures to profit indicators and to stock market-based measures. In many cases, perceived success measures as well as stock prices do not reflect realized operating performance of a firm and should be replaced by profit and cash flow (see Geyskens et al. 2002, p. 117). However, profit and cash flow figures are of course hard to come by for many e-commerce firms.

Moreover, each reported study here offers only a snapshot of the firms at a specific point in time. Since the Internet economy changes very rapidly (and hence the firms' success may change just as fast), longitudinal analyses are needed (see Mahajan, Srinivasan and Wind 2002, p. 485). As already mentioned, another serious problem may be the internal validity of the findings of those studies that analyze samples of successful firms solely. In addition, most studies do not have a sufficient theoretical grounding (see Böing 2001, p. 33).

Against this backdrop, the prevalence of multiple, different, and in parts contradictory findings is not surprising. Perhaps only a few very general overall principles of success in e-commerce can be derived from some of the studies today. For example, a balance between technology and market orientation appears to be an important prerequisite for e-business success. More specific and indisputable success factors, however, can hardly be identified in the cited studies, because many findings seem to be contradictory. Some examples of such contradictions are worth noting:

- It seems that digital products are most suited for e-commerce. But the winner firm in the Mahajan, Srinivasan and Wind (2002) study sold physical products successfully online – but so also did six firms that filed for bankruptcy. According to McKinsey, clothing is the most profitable e-tailing category.
- It seems that search goods are most suited for e-commerce. The growing online demand for travel services, however, shows that goods whose quality must be experienced can also be successfully sold online.
- It seems that network effects are very often responsible for success in e-commerce. While this can be shown for some business models (e.g., eBay), for others it is not so clear (e.g., Dell).
- It seems that branding is an important success factor in e-commerce. But the e-commerce winners in the Albers, Panten and Schäfers (2002) study were successful without a branding strategy.
- It seems that a multi-channel management is well suited for brick-and-click companies. Three studies show, however, that it is not the brick-and-click integration, but instead the organizational separation and autonomy of the e-business activities that must be regarded as a key success factor.

Under the prevailing state of research, the approaches and findings of the empirical key success factors (KFS) research in e-business are very heterogeneous and sometimes conflicting and confusing. The studies reviewed and compared in this article, however, characterize only the first steps into a fascinating new field of empirical research. Many more steps are needed and should be undertaken in order to overcome the shortcomings and limitations of these early-stage KFS-CFS studies on e-business.

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