Abstract

What determines a market leader when business models and technologies can be easily imitated? This work examines this question within the context of the market for free, consumer-oriented Web portals. Factors considered include the length of time a service has been offered, the brand-related make effects of various leading players, and product features that create virtual communities and other switching costs. This analysis demonstrates that there are strong make-related premiums...
among leading portal players, suggesting that brand value may be a critically important asset for industry players. The study also offers qualified support for the first-mover hypothesis and the benefits of chat and gaming features and notes a lack of significant benefit from leadership in various technology-based service innovations.

Introduction

Creating and sustaining a competitive advantage is challenging for most firms; however, this challenge may be particularly difficult for businesses offering services over the World Wide Web. By 2003 over 2,000 Internet start-ups had gone under or merged with other companies (Mullaney, Green, Arndt, Hof, & Himelstein, 2003). Those few sector-dominating firms were beginning to emerge from their respective packs of competitors. Many of these firms, such as eBay, Yahoo, and Monster.com, are what can be referred to as “bits-based” businesses (Negroponte, 1995), firms that hold no inventory and provide products and services that are entirely digital. Identifying the determinants of market leadership among technology-dependent firms remains an ongoing challenge despite extensive research into the strategic value of information systems. Examining the factors associated with market leadership among Internet rivals is particularly interesting, given that firms use identical technology based on open standards to interface with the customer and given that one’s competition is typically just “a click away.” While Internet firms use technology almost exclusively to interact with their customer base, resource-based theory suggests that technology alone cannot yield sustainable competitive advantage (Clemons, 1991; Mata, Fuerst, & Barney, 1995). The question remains then—how are firms able to dominate their market and capture the broadest customer base when competitors can easily match a firm’s feature innovation?

This chapter examines previous literature as it relates to IS strategy, market entry, brand value, and Internet features in an attempt to assess those factors at work in early stage competition among the major free consumer Web portals. Accepted techniques from prior IS research used to examine competition in software markets are applied to measuring and assessing online competitors. Results of this study provide insights regarding the factors at work in the early stage competition and indicate where competitive advantage lies and why the market has evolved as it has. The conclusion of this chapter corroborates the
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