Adoption of Internet-Based Marketing Channels by Small- and Medium-Sized Manufacturers*

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ABSTRACT

This paper analyses factors influencing manufacturers’ adoption of Internet-based marketing channels using models based on marketing channel and organisational innovation theory. Survey data from 1,163 Danish, Finnish, and Swedish manufacturers form the empirical basis for testing the models using LISREL analysis. The results stress that adoption of Internet-based marketing is influenced by willingness to cannibalize, by management support, by market pressure, and by a firm’s knowledge of IT. A willingness to cannibalize mediates the effects of future market orientation, ownership, specialized investments, and management support. This is mainly the case in small firms, as the importance of the various drivers and the adoption pattern varies among size categories. Market-pull factors have relatively more explanatory power in medium-sized and large companies.

Keywords: distribution channels; e-commerce implementation; e-commerce in SMEs; internet marketing; organizational innovation; organizational size; small to medium sized enterprises (SMEs); willingness to cannibalize

INTRODUCTION

It is now conventional wisdom that both customers and manufacturers have strong incentives to use Internet-based marketing channels (Alba et al., 1996; O’Cass & Fenech, 2003). It has been argued that the Internet is changing the structure of marketing channels, especially in industries such as retail banking, news media, and music, where an important part of the output is in digital form (Mols, Bukh, & Flohr Nielsen, 1999). However, even many small and medium-sized manufacturers have adopted Internet-based marketing channels, though great differences can be observed in how these firms have actually gone about this.

This paper examines possible explanations of the adoption. Some of the drivers of such radical innovations have been identified in previous research. Notably,
willingness to cannibalize (Chandy & Tellis, 1998) and recent findings in the USA stress the importance of the sense-and-respond capabilities of firms in e-business (Srinivasan, Lilien, & Rangaswamy, 2002). As our study is based on a large European sample, including several small and medium-sized manufacturers, the intention is to allow more rigorous analyses using structural equation modeling and to trace how size may influence the models. In continuation, the path to successful implementation is explored.

First, the paper briefly reviews the literature on changes in marketing channels and on organizational innovation. Then, it proposes a basic research model for examining the adoption of new channels, and the model and its 11 hypotheses are explained in detail. After describing the methodology, we present the results of our survey of Nordic manufacturers, stressing the role of willingness to cannibalize. Finally, the results and the theoretical and managerial implications are discussed.

THEORETICAL BACKGROUND

Inertia of Marketing Channels

Internet-based marketing channels may radically interfere with the work and communication connected with getting products and services from producer to consumer. However, the literature on marketing channels stresses that distribution systems are usually rigid and stable because of persistent inertia. Firms wanting to convert from one type of marketing channel to another often face resistance, conflict, and customer confusion (Anderson, Day, & Rangan, 1997; Weiss & Anderson, 1992). Thus, Stern and Sturdivant (1987) contend that of all marketing decisions facing firms, those that concern the design of distribution systems are the most far reaching, resource demanding, and time consuming. The right investments in distribution channels have traditionally provided long-term protection against competition, and few researchers have been concerned with proposing strategic design principles focusing on the dynamics of marketing channels or on feedback mechanisms that continually monitor the design of distribution channels (for an exception, see Anderson, Day, & Rangan, 1997). The economic approach to analyzing marketing channels has been concerned with understanding efficient channels (Bucklin, 1966, 1970; Mallen, 1973). Taking this as a starting point, normative models for the design of customer-driven distribution channels have been proposed (Rangan et al., 1992; Stern & Sturdivant, 1987; Stern et al., 1996). For example, Bucklin (1966) argues that the starting point for changes in distribution channels is innovations in marketing technology and changes in consumer wants. These start an adaptation process in which the existing channel gravitates toward the new normative channel. The adaptation process is revealed by changes occurring in the functional and institutional structure. However, Weiss and Anderson (1992) conclude that many firms do not change their distribution channels in the frictionless way suggested by normative theory, and that the conversion process meets with substantial inertia. Bucklin (1966) also notes that such adaptation is unlikely to happen overnight because of barriers and temporal constraints related to existing distribution channels.

Perspectives on Innovation

Research from various perspectives has helped show how to overcome this inertia. As pointed out by strategic analysts,
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