Abstract
With the increasing importance of e-commerce (electronic commerce) for marketing and distributing consumer goods to end users, companies will have to face new challenges. Traditional retailers and manufacturers have to develop a corporate strategy to establish their presence on the Internet. Companies entering e-commerce have different prerequisites, assets and capabilities. Depending on their origin as a traditional ‘brick-and-mortar’ business or a new intermediary, they are likely to pursue different strategic approaches. At the Institute for Marketing and Retailing we therefore make a distinction between a transaction-based and a trust-based conceptual approach to e-commerce.

Authors
Ben Birkhofer
(ben.birkhofer@unisg.ch) is a doctoral student and research assistant at the Institute for Marketing and Retailing at St Gallen University. His research focuses on business models and marketing strategies in e-commerce.

Marcus Schögel
(marcus.schoegel@unisg.ch) holds a PhD in Business Administration from St Gallen University. He is a lecturer in marketing at the University St Gallen and head of the centre of competence for distribution management and cooperative marketing at the Institute for Marketing and Retailing at St Gallen University. His research focuses on management of innovative distribution channels (e.g. e-commerce) and cooperative marketing strategies.

Torsten Tomczak
(torsten.tomczak@unisg.ch) is professor in business administration at St Gallen University and head of the Institute for Marketing and Retailing. His research focuses on strategic marketing, brand- and distribution management.

Transaction- and Trust-Based Strategies in E-commerce – a Conceptual Approach

FROM RETAILING TO VALUE-ADDED RETAILING

The Internet is a new distribution channel generally available to every enterprise for offering its goods and services. Companies who wish to utilize this distribution channel have to develop an adequate strategy, find a suitable corporate project management, and define an effective implementation process. Existing offers in e-commerce are particularly characterized by a high degree of substitutability of the products and services offered. Under such market conditions, companies urgently need to develop strategies to differentiate themselves. Here, the inherent lack of habitual customer purchasing experience on the Internet makes this challenge even more difficult.

For the customer the major benefit of a distribution system lies in the availability of company services and products corresponding to customer needs and expectations (Schögel 1997: 14). In addition, individual sales points offer particular additional offerings that bring customers corresponding added value. The situation is similar in e-commerce. Although the customer essentially expects convenient and faultless ordering and delivery of goods, nonetheless, this benefit is also available through traditional mail order or stationary retail outlets.

To create genuine added value in a distribution channel, technology is only a necessary condition: ‘Technology is not the object, but merely the enabler that facilitates the delivery of value to the end users.’ (Hagel et al. 1996: 67). The potential of a technology must be developed and exploited by a company’s particular strategy. Applying the technology to meet the specific expectations and demands of target customer groups can generate real added value for innovative distribution systems. The acquisition effect of the added value offered in e-commerce must always be judged against the background of the benefit expected by the customer, the spectrum of services offered by the competing distribution channels and the specific purchasing situation.

In that regard, e-commerce is based on assumptions other than those found in traditional distribution and classical retail trade. New technologies, diversity of possible configurations and absence of physical ties to a stationary outlet require novel and innovative approaches by e-commerce, to deliver a benefit that meets the specific needs of the addressed customers.

Companies are faced with the challenge of finding profitable approaches to e-commerce. A starting point is to understand the innovative distribution systems in e-commerce as value added retailing. The concept of ‘value added
retrailing’ (VAR) has been borrowed from the IT industry. In the trade practised by hardware and software suppliers, a VAR is a specific type of dealer who specializes in the configuration and implementation of computer hardware and software and customizes it for individual clients or customer segments by offering specific services (e.g. consulting, engineering or after sales services). Suppliers also benefit from VAR as they are able to concentrate on their own core competencies (e.g. innovative products or operational excellence) (cf. Kotler 1997: 397).

In general, the essence of value added retailing can be defined as offering new services, from which both the end customer and the suppliers benefit, that go beyond the generic elements of traditional retail trade (e.g. stationary outlets, shopping convenience, product range etc.). For the customer, these services can consist of various delivery services, comprehensive consulting services, personalized products or infotainment.

In this regard, recent discussion about value-added products is not fundamentally new. In industries where goods quickly became largely interchangeable and comparable, companies already began to intensify the supply of added value in order to set themselves apart from their competitors (e.g. IT-industry, telecommunications or even consumer goods markets). What is new in e-commerce is the range and variety of possible services, the speed with which a value adding service is to be adopted by competitors and, hence, turns to be expected by customers as a standard service (Schögel et al. 2000: 38).

THEORETICAL FOUNDATIONS

A Theoretical Basis for Customer-Oriented Marketing in E-Commerce

Value describes the measure of need satisfaction that an individual experiences through the use or consump-

satisfaction of elementary needs, leads to the greater expression of additional needs, which companies address in the added-value approach through enhanced offerings of value added services and products (Becker 1998: 702).

A marketer must generate added value greater than a product’s original basic value to differentiate it in the market place and counter the threat of interchangeability. In e-commerce, new technologies enable the creation of new and innovative services that further enhance the added value. The purchase decision and the decision to enter into a long-term supplier relationship are made by the customer after comparing the offered total customer value and the total customer costs, on the basis of the expected customer delivered value (Kotler and Bliemel 1999: 51).

Which of the two benefit components prevails in a given market situation depends directly on the particular goal of the corporation, the competitive situation and, last but not least, the relevant customer needs. Current market developments, particularly the

![Figure 1. Products always supply basic and added value](source: According to Becker 1998: 702f)
Interplay between Transaction, Added Value and Trust

Customer trust from an already existing customer relationship or the offering of superior transaction processing are the two potential starting points for a buyer-seller relationship in e-commerce. In the long run both a high level of transaction and customer trust are necessary to keep and grow the number of customers. From a corporate perspective this is the most important task in e-commerce because recent research from different industries shows that a customer relationship only gets profitable over time (cf. Reichheld and Sasser 1990). Therefore, any consideration based on the principles of value theory must focus on the interplay between the factors added value, trust, and transaction with the customer’s buying decision. The starting point is the fundamental relationship between the added value offered to a customer and the trust that the customer shows to a company in return. A positive correlation between trust in a supplier and the added value offered is assumed. Suppliers can generate added value in a more targeted way, the better they know their customers and similar market segments (Hagel and Rayport 1997b: 61 cf. also Hagel and Rayport 1997a). However, to learn more about the needs and habits of their customers, companies must interact with them. Hence, a corporation must draw upon as many transactions as possible in order to gain the necessary information in the form of customer data. As a necessary condition for transactions to occur, trust provides the link to added value and thus is the starting point in the interactive loop. As a consequence of the confidence-building effect of increased added value, the frequency of the transactions will also increase. This in turn leads to optimized customer data, which then leads to renewed adaptation of the product and service offerings and additional added value for the customer (Figure 2).

In the ideal case, this interactive loop develops and leads to a situation from which both the supplier and the customer profit and that ultimately can contribute to a long-term supplier–customer relationship. The interactive relationship, illustrated in Figure 2, opens up the opportunity for companies to choose different starting points to profit from a value-added understanding of their Internet presence.

ALTERNATIVE STRATEGIES IN ONLINE RETAILING

From the current situation in e-commerce and the particular approaches of companies for building innovative distribution systems, essentially two different basic groups of suppliers with specific strategies in online retailing can be distinguished:

- On the one hand, there are companies that concentrate on the technological possibilities with e-commerce and focus their strategies on perfecting transaction processing and offering specific added value (cf. Quelch and Klein 1996). Here, the benefit lies in innovative value-added services that differentiate what is increasingly becoming a commodity in e-commerce, namely, the basic value of transaction processing.
- On the other hand, companies exist that enter e-commerce with products and brands that have already been developed ‘in the real world’. They take up already existing supplier–customer relationships and aim to offer an added value to the customer through their already established brand. These ‘brick-and-mortar’ businesses are thereby clearly addressing basic value. They utilize existing customer trust and offer the benefit of reducing the perceived risk of buying from online stores.

Thus, companies have a fundamental choice between an approach that is either more transaction or more trust-based. These so-called ‘value-added strategies’ in effect represent a company’s basic marketing strategy in e-commerce and at the same time direct attention to the way the company emphasizes to set itself apart and further develop its products. In this regard, it should be emphasized that mutually exclusive alternatives are not involved, but rather two different starting points in one and the same basic interactive loop (Figure 2).

Which value added strategy is appropriate for which company can only be assessed in regard to the company’s specific situation. One might assume that companies with a real-world presence (brick-and-mortar) always tend to start with a trust-based
strategy and new businesses without a real-world presence (dot coms) only have the option to start with a transaction-based strategy. These conclusions are shortfalling and overlook important issues and corporate options in making this decision. It is obvious that a start-up company without a real world presence is more likely to start with a transaction-based strategy. But this is much more in favour of the advantage to built-up processes and systems with state of the art technologies and partners than in fear of a inherent lack of trust in the initial phase. These investments are prerequisites to offer products and services valued by the customer and to establish a trustful relationship over time. Customer trust can also derive from a company’s offering tailored to a specific need or a selection of strong established and well-known brands. These brands need not necessarily be a company’s own brands.

Any company wishing to build up an e-commerce presence has the option and can choose to start with a transaction-based or trust-based strategy. Some examples from existing companies are given to illustrate that this decision is more a question of a company’s strategic approach, future plan and competitive situation than determined by its origin as ‘brick-and-mortar’ or ‘start-up’ business. The German retail chain Metro decided to launch its online shop Primus Online under a new brand and with a transaction-based approach although there would have been a large existing customer base and connection to their stationary lines of distribution (cf. Bachmann 1999). Florissimail the first online service offered by the Swiss retailer Migros followed a very similar strategy. Although more than 350 of its stationary outlets include a high quality flower shop the management decided to set up a new value chain with an external supplier and a logistic partner under a separate brand. The transaction-based strategy in this business area included the development of special transport units. The leading European catalogue retailer Otto Versand opened its Internet mall under the new label ‘Shopping 24’. In cooperation with currently 22 partners they do not only offer a much broader selection of goods but also innovative services that improve the transaction processing and add value for the customer. Figure 3 gives an overview of the essential strategic approaches to e-commerce based on the preceding discussion of the interactive loop. In the long run both strategies aim to simultaneously reach a high level of transactions and a trustful relationship with customers.

Transaction-Based Strategy

Companies following a transaction-based strategy invest extensively in technology to improve their operational performance and to offer convenient services. Their main challenge is to add value to an exchangeable transaction and to differentiate it from its competitors in order to achieve a competitive advantage (see Porter 1985 on competitive advantage). Thus, they focus on the technological opportunities of e-commerce. This approach is typical for companies who have developed their innovative distribution system as a ‘green field’ start-up or spin-off and have no opportunity or interest to link up with stationary lines of distribution. The main challenge is to accumulate and link the ongoing transactions with innovative services (value-added services). These then basically differentiate the supplier’s services from the competition beyond generic transaction processing and supply customers with added value, which in turn ties them to the supplier. For example, Amazon started with that approach by challenging traditional book retailing with the clear advantage of buying through the Internet. Here, the customer receives added value during the course of ongoing interactions, while at the same time the offer can be increasingly tailored to suit him or her (customization). The most important task of the supplier is to continue generating new added value for the targeted customer group, thereby developing a long-term relationship of trust.

However, they are faced with the challenge that, for the most part, they can only address Internet users. Acquiring new customer groups is problematic because this approach hampers efforts to overcome prejudices against e-commerce held by existing non-customers. In addition, the extreme belief in technology held by suppliers can lead to over engineering, thereby losing sight of the genuine benefits for the customer. The sheer number of already available information and products in e-commerce is so large that it is difficult for customers to get an overview of the products and services currently available.

One company, following a transac-

![Figure 3. Two starting points for added value: transaction and trust-based strategies](Source: Schögel et al. 2000: 42)
tion-oriented strategy is the Swiss online retailer Le-Shop. Le-Shop has developed its innovative business model (see Schögel et al. 1999b) on the basis of new information and communication technologies. Value is added through a variety of specialized partners (e.g., the Swiss Postal Service for warehousing and delivery). The company started with a small selection of ‘easy to handle’ products but with a nationwide home delivery service for a reasonable delivery fee. Le-Shop is gradually adding new categories and products and has now reached a selection that covers the majority of a household’s grocery products. The competence to scale the physical distribution infrastructure and secure a flawless and efficient order picking and delivery is supplied by the Swiss Post. Le-Shop acts as a ‘bottleneck’ (see Schögel et al. 1999a) between manufacturers and customers and focuses on customer and supplier relationship management. This start up could be described as a typical ‘infomediary’ because its primary characteristic in formulating its e-commerce offerings is geared towards delivering custom-built value based on customer data (Hagel and Singer 1999). The value added derives from a wide range of technology-based value-added services (e.g., Shopping Assistant ‘Max’). Max guides the customer through the shopping process and provides useful tools like sorting abilities, shopping lists, special offers and the customer’s shopping history. These services not only make shopping more convenient but also deliver a distinctive added value that could not be offered economically without the new web-technologies. This service is meant to improve the customer retention rate. The key success factor for the company, along with the constantly increasing depth and breadth of the product assortment can be seen in the development of professional customer-relationship management.

In summary, the key future success factor of the transaction-oriented approach can be seen in the building and establishing of a brand. Brands appear to be one of the central links for industry and retail trade permitting independent customer recognition (Schwartz 1997: 173). Building a brand in this approach is closely related to the continuous enhancement of transactions with innovative value added services. Businesses rely on the fact that the image and trustworthiness of a brand associated with relevant, differentiated services will create more enduring brand loyalty than will an image that has been acquired more or less irrationally over the years (Werner and Richter 1998: 34).

Trust-Based Strategy

The trust-based strategy is built on an established buyer–seller relationship from traditional channels (marketplace) or the assets of a trusted brand name. Companies try to offer added value to their customers through a process that follows the pattern ‘from trust to transaction’. The general idea is to minimize the perceived risk of customers concerning online shopping. Customer trust can be based, for example, on a long-term customer–supplier relationship, a company’s positive public image, or a personal attitude towards an established brand. However, once expressed, customer trust is a volatile matter. Should a customer be disappointed, such trust can easily change into mistrust (Bleicher 1995: 214).

In the trust-based approach, the particular challenge is to exploit and safeguard the added value of a brand that has been built up through the classical media in the different environment of the Internet. In contrast to the transaction-based approach, an existing supplier–customer relationship from the market place is used to offer added value. In this connection, the supplier focuses on transferring a product already introduced to and accepted by the customer (for example, a brand) in a kind of image transfer into the innovative distribution system. Here, the benefits that customers already know from this product are transferred with an innovative distribution system into e-commerce and the trust existing in the supplier’s performance is highlighted as the central added value.

In a trust-based approach, companies rely on the reputation of their existing products to reach customers in e-commerce. This frequently results in the risks of a new distribution system being more heavily weighted than the opportunities. Companies are reluctant to establish their own website because they anticipate problems with the new technologies or have too little confidence in their own competence in e-commerce. For these reasons, trust-oriented manufacturers and retailers often seek to form a partnership with other companies to build a joint innovative distribution system.

The leading Swiss supplier in retail trade, Migros, is pursuing a trust-based strategy in developing its home delivery business for its already existing lines of grocery products (Migros Online). In its offerings, the supplier largely refrains from offering innovative services, but rather borrows heavily from the ‘look and feel’ of the stationary outlet. This is expressed in a product range that is comparable to that of the stationary outlets. The corporation’s policy to offer as much private labelled goods as possible is consequently transferred to the Internet. This clearly shows an effort to utilize the trust, built up over the years in the supplier–customer relationship in traditional retail trade, for the new distribution channel.

Contrary to Le Shop’s approach Migros Online started with a wide and deep selection of products and services very similar to its stationary supermarket range. They follow a regional expansion strategy. They started their home delivery service in selected, densely populated urban areas (e.g. Zürich, Bern) and are now gradually increasing their market coverage. Order picking is done from a central company-owned warehouse in Bern. Transport is organized with the existing fleet of refrigerator trucks and two logistical partners (Swiss Post and
City Trans). In addition to the home delivery of goods, Migros offers a delivery to selected pick-up locations within its stationary outlets.

A competitive advantage is the opportunity to exploit the already established database (e.g. by starting a club concept called ‘Cumulus Card’ three years ago). In the online shop Cumulus Card-members are offered a discount of 2% in vouchers as reward for their anonymized customer data (Sieber 1999: 18). This discount rate is twice as high as in the traditional outlets. The other big advantage is to involve the existing stationary outlets in establishing the link between marketplace and marketspace. The mentioned pick-up points are located in the photo- or flower-shops, which are already separated from the main areas in the shops. Future plans include the installation of further pick-up locations in company-owned filling stations to increase the number of potential contact points.

As a whole, the chances for success of such a trust-based strategy, despite existing restrictions and barriers, are excellent. Trust is the decisive success factor for the acceptance and diffusion of new services if these services are handled via electronic media and communications technology such as the Internet (Winand and Pohl 1998: 252). This represents a clear advantage over a transaction-oriented approach because established suppliers are assumed to have the competency to satisfy customers with this new medium as well. Start-up companies have to earn this reputation over the course of a business relationship. Table 1 gives a brief overview over the characteristics, challenges and key success factors of transaction and trust-based strategies.

### CONCLUSION

Both strategies are successful and can even be complementary, but they require a clear vision of the specific value offered to the customer and the goals that are to be reached by the company. The benefit of both strategic approaches only becomes apparent in the middle to long term. Hence, transaction-oriented products are not yet fully realized until the knowledge about the supplier–customer relationship suffices to provide genuine added value. Even so, trust-based approaches are only effective if customers are prepared to carry over existing goodwill for the product to e-commerce. Furthermore, the two approaches are complementary. Thus, it is possible to build up trust with the end customer over time via a transaction-oriented approach and to eventually represent a brand to the customer. Conversely, it is also possible as a trust-based supplier to offer additional benefits to the customer and thereby to improve the company’s image through e-commerce in the middle to long term.

### Notes

1. For a critical treatment of distinctions between basic and added value based on a strict behaviorist model see, for example, Wiswede (1974) Scherhorn (1992).

2. In addition, there are a variety of situational factors influencing customer buying behavior that a company can influence or control to a very limited degree.

### References


