

# A Transition to Physical Retail from E-Business: A Case Study

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## Abstract

Nowadays, “e-business” leads to fundamental changes in methods of doing business. Recently, a lot of traditional businesses change their business method from the current models to the combination of place and virtual space. For example, new economy created virtual companies like amazon.com which don't have physical environment. Due to reduction in the costs and increases in the profit, lots of consultants and academicians guide entrepreneurs to establish a theory to shift from traditional company (brick and mortar towards bricks and clicks).

Specifying the shifting from traditional companies to virtual company and the profits of it is a known and familiar case. The purpose of this study is to examine the e-bebek company as a case and analyze its business model. With this study, apart from many companies that have carried their physical environment to virtual one, the actions, strategies and decision processes of a virtual company that has shifted to physical environment will be examined. Also, by examining the exceptional situation of the company e-bebek which turned into a

traditional company, our study aims developing Enders and Jelassi's (2000) model of shifting from clicks to bricks and clicks providing theoretical contributions to the related literature.

**Keywords:** E-business, Brick and mortar, Bricks and clicks, Case study

## 1. Introduction

The development of e-business has started after the development of Internet after 1995. In the last two decades, with the increase of internet usage, stronger communication infrastructure and the development of security technologies that help the elimination of security concerns made the electronic commerce accepted and spread worldwide quickly (Ünüşan,2007). The popularity of shopping online is increasing rapidly due to low cost and easy shopping chance (Cao et al.,2012). Despite the 20 years presence of e-businesses like Amazon, recently online shopping has become more widespread among all age groups and different classes (Brown et al. 2014).

Another reason that made e-business popular is that companies that only do selling through internet (Pure Click Company) have various advantages against their conventional rivals. These advantages are as follows; anyone connected to the net is a potential customer (Ensari,2003; Xuan, 2007), internet allows having a wide range of products for sale that can't be stored (Levin et al, 2003: Young Kim and Kim, 2004; Turban et al, in 2006, Xuan, 2007), it recommends new methods of doing business without high initiative obstacles (Al-Debei et al, 2008), providing 24 hour customer service (Bozkurt within Kepenek, 2000; Rishi, 2010) and it allows the customer to compare the price with competitors (Manyika and Roxburgh, 2011). Nonetheless, lack of face to face communication during online shopping can be considered as a disadvantage. For example, Burton (2005) states that customer have problems such as trusting the company because of issues like they can't ask questions about the product or touch it. Similarly, businesses argue that online shopping weakens the quality control and creates major obstacles for branding (Enders and Jelasi, 2009). Despite this opinion, study findings state that having practicality, security, protection of personal privacy and the features of product informing in the website increases the trust towards online shopping (Chen and Dibb, 2010; Toufaily et al. 2013).

On the other hand, companies that continue their businesses only with traditional methods have also their advantages having a physical presence. These advantages are; being able to have face to face interaction with the customers, having bargain power against the suppliers, the presence of shop, storage and network for home delivery and allowing customers to see physically the product and touch it. Moreover, establishing a traditional business requires big investments which can be considered as a disadvantage that will cause an entry obstacle (Enders and Jelasi, 2000).

Two different retails have their own pros and cons. E-business comes in view as a result of economic globalization and development in information and technology areas. From 2000s, internet technology leads the dramatically changes in work environment. Some traditional companies achieved unprecedented success with e-business transformation. That is why; e-business transformation has become the focus of organizational studies (Qingfeng and Xinmiao, 2008). Ko and Roztocki (2009) in their study state that clicks and bricks companies are more profitable than traditional companies and companies that do business only through internet, also their costs are lower than the companies that do business only on internet. From

this point of view, unlike common e-transformation, it can be thought that companies with only online shopping will open physical shops to make use of the pros of traditional retail.

At the same time, Qingfeng and Xinmiao (2008) state that various companies considered e-business to be far from their core scope, they also find the transfer process difficult and also they do not have necessary information to achieve it. This is why, it is expressed that it is quite important to create a robust theory for companies that want to get in this job. Jutla et al (2001) state that heading for bricks and clicks model is the most sustainable strategy and internet is one of the useful tools for marketing, sale and distribution. Similarly, Qingfeng and Xinmiao (2008) argue that e-business will change the working methods and many traditional companies will evolve from their current work model towards a combination of e-business and physical place.

## **2. What Is E-business Model?**

There are couples of definitions of e-business; some of them are represented below:

The process of production, promotion, sales, pay and distribution of products via computer network. (Wen et al., 2001)

E-commerce is the sale or purchase of goods or services, conducted over computer networks by methods specifically designed for the purpose of receiving or placing of orders. Even though goods or services are ordered electronically, the payment and the ultimate delivery of the goods or services do not have to be conducted online. An e-commerce transaction can be between enterprises, households, individuals, governments, and other public or private organizations. Included in these electronic transactions are orders made over the web, extranet or electronic data interchange. The type of transaction made is defined by the method of placing the order. Normally excluded are orders made by telephone calls, facsimile or manually typed e-mails. (WTO, 2013)

Changes that have occurred in information technologies and internet has given a chance for e-business to exist and grow (Fingar, 2001 within Liu et al, 2008). E-business application is useful for lowering the transaction costs, increasing the business efficiency and creating a win-win situation with businesses that exist in supply chain (Cassivi et al., 2005 within Liu et al., 2008). E-business offers opportunities such as short processes, lower costs due to reconstruction, accessibility to information, creating continuous relationships and generally a cheaper access (Jutla et al., 2001).

E-business is a business model that shows the transformation of a business management rather than a new technology (Liu et al., 2008). A more comprehensive definition would be; e-business is an addition to all parties and reconstruction process from supply chain to customer relations with the support of internet and computer technologies (Özmen, 2003). Timmers (1998) explains e-business as “an architecture for the product, service, information flows, including a description of potential benefits for the various actors, and a description of the sources of revenue and Afuah (2001) defines e-business model as “how a firm plans to

make money long term using the Internet.” (Philip and Graham, 2004).

### 2.1 E-business Transformation Models

It is possible to come across various model proposals for businesses that want to transform into a virtual business from traditional business. For example, Wilcocks and Sauer (2000) offer a 4 stage model pointing the skills and competencies during the transformation. 1st stage is to exist in web, 2nd stage is to reach the information and transforming the operating systems, 3rd stage is to adapt human resource, process and technologies to e-commerce, in the 4th stage it is possible to get efficiency from e-commerce by focusing on customer and product/service.

Jutla et al. (2001) also offers similar steps for the e-business transition. These steps are; determining the business’ current condition, deciding the business strategy, defining the pros of changing into e-business, determining the most important shareholder for the business (employees, suppliers, partners, management and public), determining the basic skills and lastly determining the gaps in the business and determining the obstacles preventing filling these gaps. In this context, it is seen that Jutla et al. (2001) define e-business transition as an entrance to a new market and associate it with a new market entrance strategy.

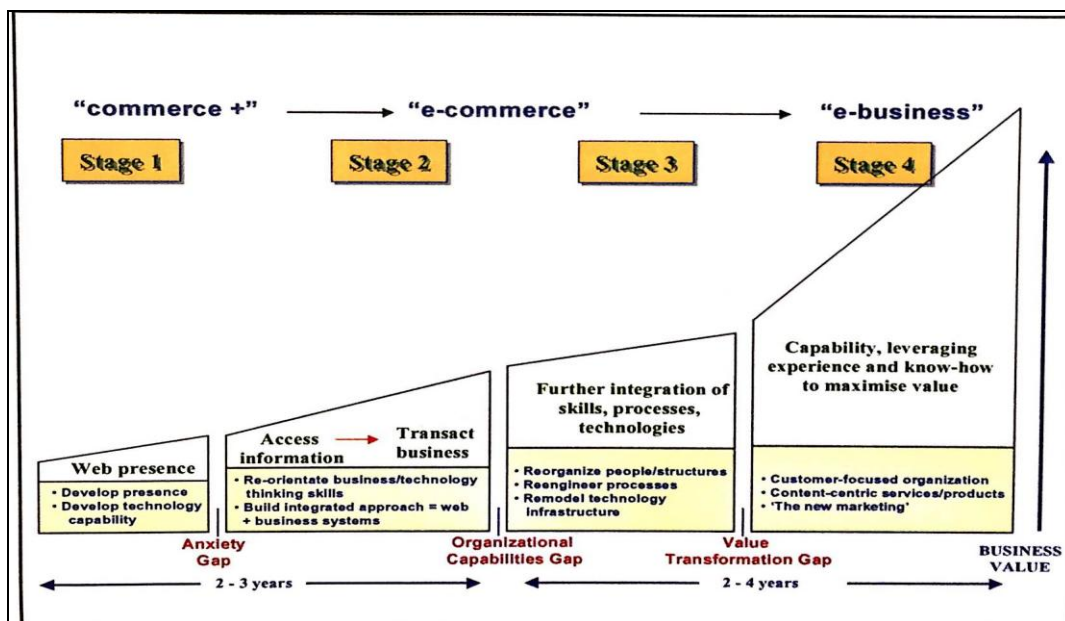


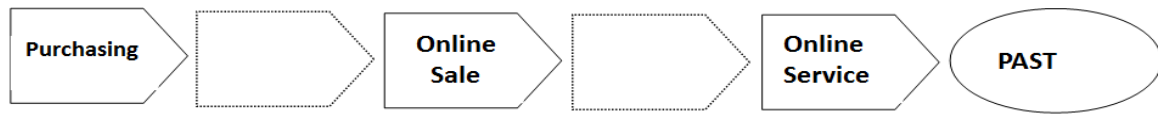
Figure 1. Moving to E-Business (Source: Sauer, C., & Willcocks, L. P. (2000). Moving to e-businesses. Random House Business Books.)

Qingfeng and Xinmiao (2008) also offer a 4 stage e-business model. In this model, the practice and development information technologies, business strategy, information technology skills and network effect are examined. This model states that businesses that want to move to e-business cannot integrate business processes with information

communication in the first stage and because of that this stage will have a low benefit. This is why, it is stated that it is necessary to improve information technology skills to be able to move to second stage. In the third stage cooperation between information technology and network effect should be increased. Due to cooperation, this stage does not only represent the transformation of a single business, it also represents a transformation related to the whole supply chain. The fourth stage, meaning the last stage, needs a mature information technology and network effect. In this stage, it is stated that businesses are living in an extremely cooperative e-business ecosystem and they are in a position where they react nimbly to the changing market demands. This model draws attention to information technologies and cooperation and it is stated that e-business is a longstanding process. Wynn et al. (2013) examined two different companies which transfer their business to e-businesses throughout the Wilcocks and Sauer's (2000) model regarding transformation of SMEs and therefore examined the suitability of the application of the model. They have mentioned the importance of effective leadership in determining the new business methods during the process. Also, they have argued that to overcome the problems that may happen during this transition process, choosing a right software program to help the senior management will add value to e-commerce processes. It is seen that researchers have different opinions regarding the transition object or dimension. For example, Tushman and Romanelli (1985) state that this process is comprehensive and includes business strategy, organizational structure, business process, organizational culture and control systems. Dutta and Biren (2001) considers transition in three dimensions; business strategy and long-term plans, business processes, product and market (Liu et al. 2008). Liu et al. (2008) also make a similar classification and take these dimension as the relations between business strategy, organizational structure, business processes and businesses.

Enders and Jelasi (2000) state the need for working on physical stores is important for e-business due to the increasing difficulty of coordination of wide range of products management and the high competitive environment in internet for businesses. Accordingly, to benefit from advantages of tradition retail they offer a hybrid model for businesses that use only internet shopping. The main pros of this model are physical store being an advertising tool, providing face to face interaction with customers, opportunity for customers to touch the product and eliminating the problems of stocking, distribution of products. With this model it is recommended to internet retail companies that they add storage and distribution services in the background and physical store opening and providing in store services in the foreground of current chain. The model can be seen in Figure 2:

**Value Chain For Online Sale**



**Value Chain for Physical Sale**

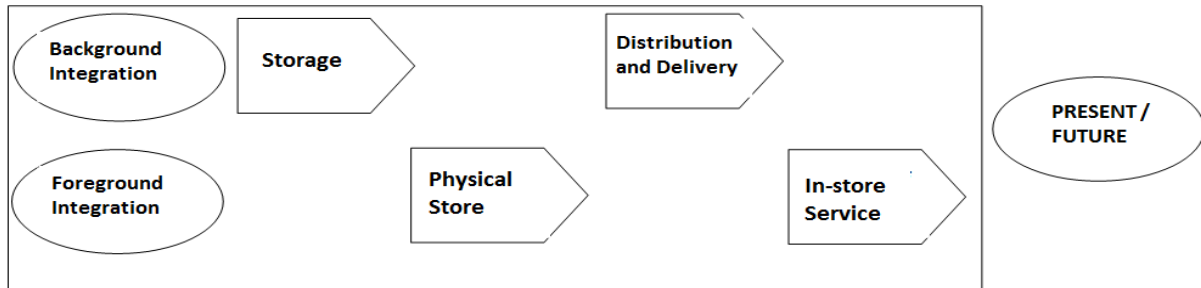


Figure 2. Transformation of Businesses From E-Retail to Brick and Mortar (Enders and Jelassi, 2000)

**3. Research Objectives and Methodology**

The purpose of this study is to analyze and put forth e-bebek.com’s reasons for transition, transition process and the benefits gained after the transition. For this purpose, the process of transition is examined within the hybrid model that Enders and Jelasi (2000) offer for businesses that want to move from internet sale towards traditional commerce. Furthermore, e-bebek.com which moved from e-business to traditional business was examined regarding the changes occurred in different various dimensions offered by Dutta (2001) and Liu, Lu and Yang (2008), especially in organizational structure, organizational culture and supply chain. These dimensions are defined for businesses that want to transform into e-business from traditional business. At the same time, it is assumed that the changes in these dimensions as a result of the experience of reverse transformation might be important.

To examine e-bebek.com which is an example for transition from e-business to traditional business, case study method has been used and face to face meeting that took 2 hours had been held with the company founder.

*3.1 Case Study: E-bebek.com*

*3.1.1 Foundation of E-bebek.com*

The establishment of E-bebek.com is in the beginning of 2000s. Business owner realizes that although a famous website has only 50 pages of baby related products, the counter changes 4000 times and baby care area is quite endearing. The owner creates a business idea for baby products. At first, the site is established in 2000 with being only an informational content site. The only intention was to give information to parents and expectant parents about subjects



such as pregnancy, physical development of infants, mother and baby health. In 2000 where internet was not popular in Turkey, the owner insisted on the internet area and had the opportunity to employ unemployed qualified employees after the economic crisis in Turkey to create the website content. The first sale from the website was in 16 September 2001. In 2003, they opened their first 50 m<sup>2</sup> physical store. The firm operates with one website for online shopping and 60 shops by the end of 2015.

### 3.1.2 Why e-business first?

It is not a coincidence for the owner to start the business through internet. On the contrary, it is a conscious strategy. Entrepreneur explains the insistence of creating an e-business with the words: “Two roads diverged in a wood, and I -I took the one less travelled by, and that has made all the difference.” In this sense, this path has its risks as well as the opportunities and shows the risk taking feature of the owner.

### 3.1.3 The Process of Transformation from E-commerce to Traditional Business

Although the transition to physical environment from virtual has not been in mind until October 2002, there have been various developments which caused E-bebek.com to transform into a traditional business from virtual. First one is that the founder of the company has taken some criticism from the jury about his thesis on B2C in 2002. The jury stated that businesses that are active in e-business in Turkey are usually traditional, however this can be a temporary interest and businesses that are only active in e-business will eventually fade away. The founder of the company, considering this criticism decided that e-business needs to be supported with traditional commerce which has more storage capacity, and this business model is less questioned and gives more power.

The second most important reason to transition to physical environment is that the founder of the company has realized that virtual environment is open to serious dangers. They have managed to become one of the 100 pilot trials by applying for adsl in 2000. In this period, e-bebek.com experienced 4-5 times of internet crashing for 1,5 – 2 days. The reason for this was that the rupture of fiber-optic cables in Red Sea. After these experiences with the worry of this cut may happen again, he decided to protect the existence of the company via transition to physical environment.

The third reason for the transition is that the founder experienced that e-business is not cheap and profitable as it is thought. The company founder points out the costs such as the hosting fees, developers, commission of bank cards, cargo fees and suppliers demanding are higher in e-business and states that the only way to lower these costs is to have a traditional business and have a better purchase and stocking.

The last reason of transition to physical environment is the activity area. It is stated that parents are firstly interested in information sites from the moment that they are having a baby and face their ignorance. Parents do not accredit the opinions of grandmother, grandfather or close friends. This situation has become an opportunity for e-bebek.com. With the word



following it is explained as the last reason of transition.

“Training parents; as providing both necessary information for health and development and for the information about baby products is the job of bebek.com. Parents want to see and touch how to fold stroller. For this, a physical environment is needed. People have the need of touching the products that suddenly become a part of their lives.”

Apart from these main reasons, other factors are summarized by the founder as the following:

- 1) It is needed for company to stock better and purchase cheaper to be able to compete against the conventional rivals.
- 2) It is not possible to reach immense endorsements because only one niche, baby products, are focused on.
- 3) Due to the offered products the customer lifetime is only 3 years. The targeted group is small and served in a limited time range.
- 4) Because the products are used during a period of their lifetime, a physical education for customers is necessary.
- 5) There are various pros of transition to brick from click.

The most important advantage especially in organized retail is that during the first transition period, e-shop promotes the physical store and this way rental costs are lower. For example, in the first year of e-bebek.com’s transition to retail, thanks to their internet shop, while only couples of the stores are in shopping malls the others are located where they can be coincidentally found. This way the rental costs were kept low.

In the process of transition, firstly mini catalogues and promotion of the products were made. After that, there have been various changes in payment methods accepting transfer apart from credit card and telephone order apart from internet. In time, a big part of the sales has become physical. Nevertheless, since a big part of the customers come to the stores having heard it from internet environment, e-commerce has a big importance for the company founder. In this context, the internet shop serves as a promotion and advertisement site for the customers that come to the physical store. Developments and changes with the transition are explained below.

Supply Chain: It is seen that the most positive development of transforming into conventional commerce from e-business is with the suppliers. With the establishment of physical shops, the company gained the trust of the suppliers, embodied the relations and these provided additional discounts and long term payments.

Organizational Structure: With the transition to physical business, the number of the employees has increased a lot and this caused an increase in the number of positions and departments. Organization structure followed more like a development rather than a change. Growing structure needs has shaped according to this and task distribution has been made.

Although various levels have been arisen, to protect the importance of internet shopping, the position of other channels coordinator is kept equivalent to shop coordinator.

Organizational Culture: Established as only an information site, E-bebek.com continues its educational and information based culture by giving training to its employees and maintaining its parent education mission.

#### **4. Findings**

The aim of this study is to develop a strong theory for the businesses which aim to transfer from traditional businesses to e-business by presenting the process of transferring to a hybrid business model from e-business model contrary to lots of cases in literature. In this context, as a result of examining e-bebek.com six steps have been defined as seen in Figure 3.

##### Online Information

The entrance of e-bebek.com into the chosen sector helped meeting the potential customer range for the next step for online commerce web.

##### Web Based Retail Online Shopping

Initially, the business had only information function then started the business as a commerce site and began purchasing and selling online.

##### The Process of Transforming to Physical Retail

In this process, the company decided that only internet promotion won't be enough and published a physical catalogue. For customers that want to touch the product, company opened their first physical shop as a showroom of the products they sell. Customers' doubts about online paying prevented them to shop online, they started to accept traditional payment methods such as by transfer, by phone and payment upon delivery. Next step is to open a physical shop to be able to compete against their conventional rivals, to reach a higher endorsement since a single niche is focused on and to be able to explain the products to customers. In the last step of this process, to carry their virtual information mission in the physical shopping the company started to publish a magazine.

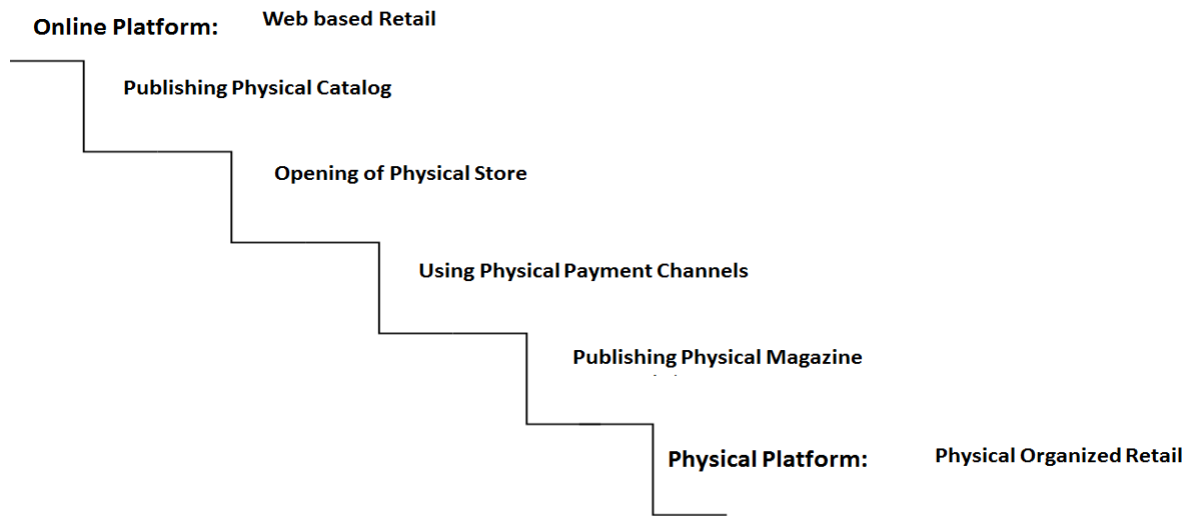


Figure 3. The Process of E-bebek.com Transferring into a Bricks and Clicks Business

As a result, the company started to provide services both in virtual and physical environment by providing storage, delivery, retail, services in the shop and physical information functions. With physical retail environment, the relationship between the suppliers has been started to develop. Due to the need to keep more stock, storage function has been added to the structure and the number of physical shops has been increased. As a result of having a physical retail, the chance to deliver the product to the customer directly has been born. In the context of service in the store, the mission of informing parents about child care continues; applications for child care and development, educations for parents, seminars are held. The development in the supply chain during this process is summarized in Figure 4.

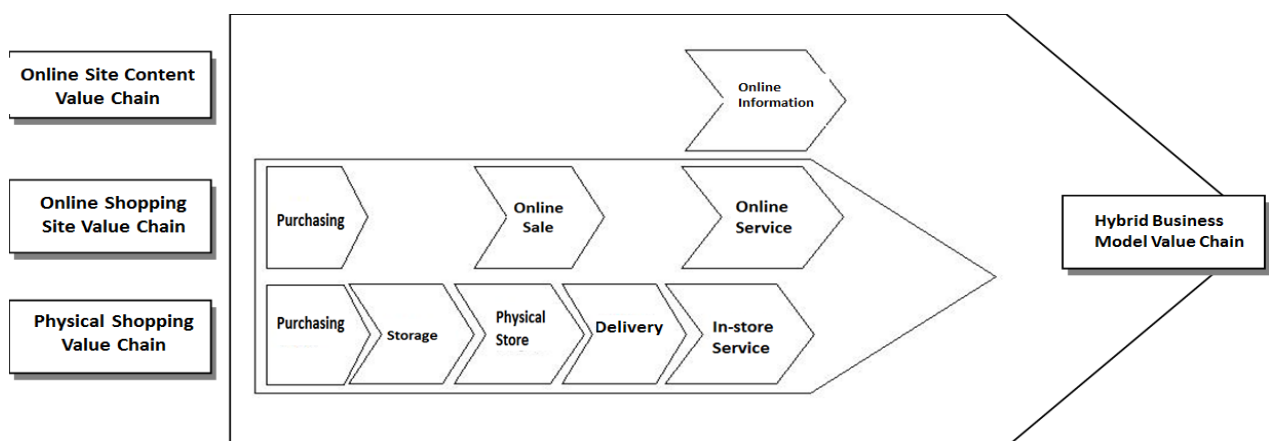


Figure 4. The Process of Supply Chain of E-bebek.com Transferring into a Clicks and Bricks Structure

Enders and Jelasi (2000) express that for business with only internet shopping, to benefit from the traditional retail pros, they need to transit to physical store and for this reason offer “hybrid business model”. Current study, similarly, offers hybrid model due to transforming into a traditional business from e-business that put together online sale, online informing and physical sale supply. This way while it is possible for both models to complete their gaps and collect the benefits from both sides, online informing will continue being the element of advertising and promotion of both retail type. Due to heavy competitive environment and globalization, it is recommended that businesses, especially the ones with only online shopping, should adapt this kind of model to be able to reach a necessary position.

Xuan (2007) summarized the critical success factors that were effective during the transition from traditional retail to e-business. These factors are, e-commerce infrastructure, senior management factor, organization factor, strategy, customer factor and external factors. The success factors that are thought to be effective during the transition from clicks to clicks and bricks were examined below.

E-commerce infrastructure is related to quality of system and content, supplier services and reliability. Due to the economic crises, the business found very good informatics with a reasonable price during the establishment of technical infrastructure. Product variety and diversity were always important; this way the customers were watched. However, it was not possible to direct some customers to use online payment. In this instance, other payment options such as transfer and payment by phone options were offered to customers. At this point, a good e-commerce infrastructure provided a diverse product options and secure shopping environment. However, due to ever changing market conditions and customer needs, it was not enough itself alone and a need to work in a physical environment has been born. In physical environment also worked with strong partners, did not part from the principle of offering wide range of product and huge customer information.

Senior management factor has a critical role during the change and development process. E-bebek.com business does not adopt e-business model just because of financial insufficiency, it goes in action with the vision of the entrepreneur in a period where internet use was not widespread yet. Also, the entrepreneur states that although it was claimed that the costs are lower and internet can offer low prices compared to traditional businesses (Jutla et al, 2001), compared to the past the costs are not lower and the pricing is not cheaper anymore. These statements create evidences for not adopting e-business model just because of lack of financial power and low costs. This is why; entrepreneur’s personality features such as risk taking are important reasons for adopting an e-business model. For example, Jutla et al. (2001) state that the most important obstacle for transforming into an e-business process is senior management. They state that senior management being indecisive about e-business will prevent the business to transfer the necessary source and the attempt of transition will be inconclusive (Jutla et al, 2001). In this context, entrepreneur being the founder and the manager adopting the e-business model, insisting on the decision caused the business to increase the number of physical stores. The importance the founder gives to e-business model

can be seen clearly since they want to see the internet shopping site in the second place and constantly have meetings and trainings to increase the importance of online shopping.

Transforming from e-business to hybrid model, it is seen that the organizational structure develops but remains the same in its basis. Initially having two people working in the company, there are more than 150 employees today. Considering that they have started as a small company where there was no job definition for employees, it can be said that the employees adopted the job and team spirit has been formed. With the lead of a visionary leader, the team adapts to the conditions. During this transition process the example of continuity of the organizational culture can be observed in the sales team in the stores. Originally aiming for only providing information for parents, the sales team are directed into a rather different way of selling compared to mind set of traditional sale. The purpose of the conventional salespersons in retails shops is to sell product which the customers do not realize they need and guide them to buy a mass amount of product. But, the initial aim of e-bebek.com is to give information to the parents and not force them to buy the product until they feel ready to. The best summary of this behavior is hidden in the saying of the entrepreneur “There has been a change in the organizational structure but the basis is still the same.”

The customer profile of the business is consisting of parents who like to research before buying a product; they like innovative products and are also internet users. Although the physical stores are not in popular places, customer range still visits the store to examine the products. Customer profile is also very important for successful stores.

The most important factor to be able to achieve a hybrid form is strategy. Business strategy has been formed thanks to founder being visionary, investing in the future, reading the market conditions and adapting to these conditions.

With this study, it is seen that strategy, senior management, organizational culture and e-commerce infrastructure are important factors that have been effective on bebek.com and e-bebek.com’s coming into the present. At the end of this transition process the business uses both digital and physical channels actively and creates a structure that promotes each other. The business focuses on benefiting from both retail types and covering their missing sides. During the day and at a late night time, while the customers use internet shopping, in the evenings and on weekends they use physical stores. This way a balanced sale synergy comes out in 24 hours.

## **5. Results and Evaluation**

21st century gives businesses the opportunity to revise their business methods and new businesses to introduce themselves in platforms that have never been tried before. E-commerce businesses, becoming popular towards the end of 1990s have been accustomed to our lives. In 2000s with the android based applications, businesses meet with customers, in this way the distance between the business and the customer becomes as much as a mobile phone call and makes the relation time 7/24. Businesses that have realized this situation well

took place in the e-commerce platform from the beginning; amazon.com, e-bay, hepsiburada.com, yemeksepeti.com are examples of those businesses. Right timing gave these businesses fast growing and global recognition. Traditional businesses used the internet for promoting themselves at first, after that they took their position establishing an e-commerce site. Today, while especially SMEs still argue the necessity and reliability of an e-commerce site, Amazon.com which surprised the online commerce world 20 years ago, opened its first physical store in Seattle in 2012. During the period where everybody was trying to adapt to e-commerce, general manager of the company explained this action as the following: “to become an extra ordinary bookstore we benefit from amazon.com’s knowledge.” Similarly, in Turkey hepsiburada.com opened its physical store in 2016. In this context, e-bebek.com business was found worth examined since it is a first example of this reverse transition process started in 2003.

Despite the fast developments in e-commerce platform, in the related literature there is no robust theory regarding e-business modelling. E-commerce being in our lives for 20 years, there is no recommendatory model for the transition to physical platform. This study is an interesting example for the fast transformation experienced in both practice and application by examining a business that transforms from e-business model to traditional business. Enders and Jelasi (2000) aimed to contribute to literature with a hybrid model for the businesses that gives service through internet and want to shift to traditional business.

This study is a first regarding examining a known exceptional application suitable for this model. This study develops the hybrid business model provided by Enders and Jelasi and adds a first step to the process which is “opening an online content site”. This study primarily emphasizes on the success of e-commerce reaching to mass media. The Company takes its powerful position from its web site that served before. At this point, it is recommended that to prepare an informative web site regarding the sector during the first entry to the market due to the legislation throughout the world related to the restriction to send text message and e-mail without permission of the potential customers.

The model also summarizes the transformation to e-business to physical business under 6 steps; from the starting point of existing online business, publishing physical catalog, opening physical store as a showroom, using physical channels for online shopping, using physical media (publishing physical magazine by the name of the company) and at the end physical organized retailing. This process offers to existing e-tailers to catch physical platform customer and meet more customer which the company did not reach via internet before. For businesses that introduced themselves on e-platform, to reach customers or interact with their current customers in the physical platform, it is recommended that they use the steps presented in this case study.

Firms that consider transformation should also be ready for the changes that will occur in their organizational culture, structure and supply chain. It’s important that despite ongoing changes firms should adhere to their mission so that they will not lose customer trust and reputation. Trust issue in e-commerce is still an important drawback for firms. By integrating

physical and online shopping it will be easier to get through this reluctance.

To create a strong theory for businesses that have transformed from e-business to traditional business, it is necessary to determine the businesses that went through a similar process and it is needed to examine this transition process. The results of current study point out that from 2000s until today a fast technological change and innovation is being experienced and it is seen that in a decade this process may be reversed. It is recommended to develop this model with similar examples for future studies.

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