

**Gary Madden**

Professor

Curtin University of Technology

**Co-Author(s):**

T. Randolph Beard, Auburn University

### **Competition between Blended Traditional and Virtual Sellers**

Competition in many electronic markets involves rivalry between 'Bricks and Mortar' firms, which operate both traditional and on-line vendors, and entrants who rely completely on Internet sales. In many cases, the goods being offered are identical-only the channels by which they are distributed differ. This circumstance presents a challenge for economic theory insofar as the simultaneous existence of blended and single-channel firms is difficult to rationalize as a long-run equilibrium outcome. However, this structure is more readily understood as reflecting temporal experimentation by firms operating in an environment of incomplete information about consumer preferences and costs. Both demand characteristics and production costs can be expected to differ between traditional and virtual distribution networks. Further, the blended channel seller faces the issue of cannibalization of demand upon virtual market entry. This article analyzes post-entry performance of a unique sample of Australian virtual entrants who face incumbent blended channel competitors. The fate of these entrants depends not just on their abilities to discern relevant parameters of the underlying environment, but also on incumbent response to entry. The incumbents, in turn, can limit entrant penetration by their virtual operations, but such operations involve loss of sales in the Bricks and Mortar market segment. We seek to identify and characterize those features of product markets and cost conditions consistent with survival of virtual entrants as a long-run equilibrium phenomenon.