FROM BRICKS-AND-MORTAR TO CLICKS-AND-MORTAR:

How Traditional Retailers Can Leverage Online Market Opportunities through Internet Malls

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Overview

The rapid adoption of the Internet by the mainstream population has led to the rise of the Web as a critical retail channel. Success in the new economy makes it necessary that firms execute clicks-and-mortar strategies that bridge the physical and virtual worlds. This project examines Internet malls as shopping centers in the online market space and the role they play in enhancing the retailers' competency in the electronic medium. We propose a typology of Internet malls on the basis of their business model and identify strategies they adopt to compete in the electronic channel. Further, we identify factors associated with traditional bricks-and-mortar and online retailer decision to maintain membership with Internet malls. We find that pure-Internet firms and clicks-and-mortar firms differ in both their service expectations from Internet malls and their intentions to join and maintain membership. Anchor stores are very selective in their alliances with Internet malls and are able to obtain preferred status in their

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placements and sharing of consumer information. These findings were obtained from the empirical data we collected at three different levels. In the first study, we surveyed Web sites of online malls to collect data on their organizational structure at an aggregate level. In the second study, we collected data from mall owners and their merchants (pure-Internet and click-and-mortar) to identify factors influencing retailer decision to join and maintain membership in an Internet mall. Insights gained from the research will help understand how Internet malls will evolve over time in composition of members, and their role in the retailing sector.

Introduction

The concept of online shopping or shopping with a personal computer was virtually unknown until 1989 when ComputServe created an electronic mall for its online service members. Commercial reports suggest that consumer e-commerce will grow from $11.8 billion in 2000 to $1.1 trillion by 2010 (ActiMedia Research, 2000). While this represents only 2 to 3% of all retail sales in 2000, online sales are rapidly increasing in sales and revenue. Given the increasing e-commerce trend towards hubbing, or agglomeration of retailers and consumers, this exploratory research investigates Internet malls (I-malls) or cybermalls as shopping centers in the online marketplace. Specifically we address the following points:

i. Classification of different business models underlying online malls,
ii. Study the benefits and disadvantages I-malls offer to their different merchant customers—pure Internet, click-and-mortar and large anchor retailers,
iii. Investigate factors influencing traditional bricks-and-mortar retailers' decision to maintain membership in I-malls,
iv. The implications of growth in I-malls on traditional malls.

Adapting research findings in physical shopping environments to the online medium, we consider the following variables:

- retail firm characteristics (industry, sales revenue, years in business, years as member of the mall, pure-Internet or multichannel, proportion of revenues online),
- mall characteristics (industry/category specific or hosting service,
revenue model, number of retailers, growth, years in business, services provided).
• contractual characteristics (compensation structure, data sharing arrangement, exclusive contract, period of contract).
• outcome measures (satisfaction with sales obtained from l-malls, satisfaction with revenues from retailers, traffic growth, decision to continue with membership).

In the next section we provide a description of l-malls, and a typology of their business models. In section II, we discuss the benefits retailers accrue by becoming members of l-malls and strategies undertaken by l-malls to survive and succeed in the online marketplace. Section III describes our research methodology to collect empirical data. We discuss the results of our analyses in section IV and conclude with implications for pure-Internet, clicks-and-mortar merchants and physical malls in section V.

1. L-Malls as Shopping Centers

An l-mall is a collection of online retail storefronts assembled in one electronic domain, either physically or through links. According to the directory listing from Yahoo, there are more than 500 l-malls in the United States alone. l-malls are expected to comprise 40% of online sales by 2002 as companies expand their e-commerce functions (Internet Retailer, 1999).

In October 1999, retailing giant Amazon.com made a big splash when it launched its zShops online marketplace with more than 500,000 unique items where other merchants can sell their wares on its site for 10 cents per item or a monthly fee of $9.99 for 3,000 items. Typically, l-malls or cybermalls attract smaller businesses with promises of directing traffic to them because of other “brand name” sites in the mall similar to the mall model in the physical world. However, l-malls differ from physical shopping centers in organization, purpose, contractual arrangements and their core competencies.

Online merchants are interested in attracting the attention of online consumers. l-malls appear to serve as a catalyst in bridging e-commerce’s clientele gap by eliminating the chaos of thousands of Web sites and confusing search engines and by presenting a genuine “one-stop” shopping mechanism. The main difference between the traditional malls and these l-malls is that the latter can have one checkout for all stores in the mall, a model that physical malls may find difficult to execute. l-malls offer all of the attributes of a department store’s Web site, but with the
benefits of retailer competition and the breadth and depth of selection. From the retailer's perspective, l-malls offer the opportunity to strengthen awareness and increase sales. New entrants and small e-tailers can rent the technological expertise and reputation of the cybermall which, because of its scale, length of operation and reputation is trusted by consumers. In turn, l-malls seek to attract dominant brand-name retailers, trusted third-party consumer service and payment security providers. Online malls make money by charging for their "real estate" by locating at consumer traffic hubs, for advertising, and by taking a cut of transactions. Not surprisingly, the performance of online malls has been mixed (Industry Standard, 2001). Big merchants, from Eddie Bauer to FAO Schwarz, continue to buy space. Last holiday season, America Online Mall was among the most successful shopping destinations on the Web, turning more than one million first-time shoppers in December 2000 alone and generating sales of $1.2 billion at its stores over the holiday season. If anything, AOL's success shows that well-known brands of online shopping malls inspire confidence among timid shoppers.

**Typology of l-malls**

Malls in the physical world are classified on the basis of market coverage and types of tenants in terms of superregional, regional or local (strip shopping centers). In the online medium, the concept of travel time becomes irrelevant and, given the ubiquity of Internet access market coverage, cannot be used effectively as a classification criterion. Given the hypertext nature of the Web and a wide variety of business models l-malls can be classified on the basis of their organization structures into three types. The first type is a category-based collection of links to numerous independent retailer Web sites. A presence in one of these malls can be obtained free of charge or for a nominal fee. There are thousands of these virtual shopping aggregators where retailers can list, promote and sell their products and services. This type of l-mall can be thought of as one kind of portal—a portal specifically dedicated to retail sales. The l-mall (www.internetmall.com) that is part of the www.shopwow.com network is an example of this type, featuring links to several thousand merchants and storefronts.

A second type of l-mall assumes the role of a landlord. Portals, including Yahoo, America Online, ExciteAtHome, MSN and Lycos are major players in this category. The mall owner collects information, creates Web pages and hosts them on their servers. Obviously one pays a relatively large fee upfront and possibly a monthly fee based on the number of pages. For example, the www.excitestores.com offers several options for site building, adding e-commerce capabilities to your current
Web site. As a fine point of distinction from the earlier category-based model, this i-mall typically provides the back-end hosting services for all of the storefronts. In contrast, the previous portal generally is a site with a search engine and a collection of links to other retail sites that are hosted elsewhere. If a Web site has an online brochure but lacks ordering and order processing capabilities, this type of i-mall helps attach a shopping-cart technology, start up a merchant account and generate sales reports.

Most i-malls have independent retailers who are responsible for billing and credit card processing, and consumers have to check out their purchases at each store similar to physical malls. In a variation of this model—the Integrated Retailer-Landlord—the i-mall may require all merchants to adopt a common shopping cart and payment mechanism. In this case, consumers can shop across several retailers and go through the checkout process only once after their entire shopping is complete.

The third type of i-mall is a hybrid of the two. For example, the www.awesomei-mall.com is a hybrid full-service mall as well as a directory. It offers both full-service storefront hosting and advertising and directory options.

**Composition of i-malls**

Broadly defined, the i-malls comprise two types of merchants—clicks-and-mortar merchants and pure Internet merchants. For example www.day-at-the-mall.com features both types of merchants. In its bed and bath category, one finds LinensNThings, which is primarily a bricks-and-mortar store, as well as Bathclick.com, a pure Internet merchant.

It is a well-established fact that consumers are attracted to malls because of the presence of well-known anchors—department stores with recognized names. Anchors generate mall traffic that indirectly increases the sales of lesser-known mall stores. In the context of the online marketplace lesser-known stores and online malls can free ride off the reputations of better-known stores, typically bricks-and-mortar stores. Mall owners internalize these externalities by offering anchor stores premium placement in mall Web pages and directories, featuring them in offline and online advertising and in some cases offering them rent subsidies.

**Benefits for Merchants**

**Clicks-and-Mortar**

The clicks-and-mortar stores derive two primary benefits by joining i-malls: traffic building potential and enhancing their brand identity. For
established businesses, joining 1-malls is inexpensive and brings additional traffic to their sites. However, the traffic building capability of 1-malls may be different depending on the size or type of the merchant. In a recent survey of two large 1-malls conducted by Paul Marshall (1997), it was reported that 84% of the respondents were very dissatisfied with the loads or sales they had received from their sites, and more than half of the respondents (55%) did not receive any business from their site. Therefore, traffic generation is a difficult issue to answer.

In physical malls, having a store in a prestigious mall signals some aspects of the business to the customers; in other words, the presence may help build brand equity. In general, brand equity is a set of assets and liabilities linked to the brand’s name and symbol that add to or subtract from the value provided by a product or service to a firm and/or that of its customers (Aaker, 1991). The assets and liabilities on which brand equity is based may be grouped into four categories: brand associations, perceived quality, brand loyalty, and brand awareness. Brand associations are the issues linked directly or indirectly in the consumer’s memory to a brand. For example, Bloomingdale’s is a fun place to shop that carries high-fashion merchandise; Tiffany is difficult for customers to judge the actual quality of a product, and what counts most is the perception of quality in the consumer’s mind. For example, in some studies it has been found that the quality of stereo speakers is judged by the largeness of the speakers (Zeithaml, Berry and Parasuraman, 1988). Brand loyalty is a measure of resilience to switching and brand strength. Finally, brand awareness serves to differentiate a brand along recall/familiarity dimension. While perceived quality, brand associations and brand loyalty are perhaps harder to foster through 1-malls, it is the last component—brand awareness—that has the most potential for enhancement through 1-malls. Larger and well-known merchants like Gap Inc., already have established brand awareness, but their presence in 1-malls may enhance the familiarity even further. The larger the number of customers ordering through the Internet, the greater the scope for these merchants to enhance their brand loyalty. The presence of Barnes & Noble in several 1-malls makes it easier for readers to shop online while in these malls. Therefore, clicks-and-mortar merchants have a good scope of increasing brand awareness and brand loyalty through 1-malls.

**Pure Internet**

For pure Internet merchants, 1-malls provide several key benefits: advertising, brand identity and technological advantages. Advertising expenditure for Internet companies are astronomical. A recent report from ICSC (www.icsc.org/rubs/wecomecommerce/marketingofanetcomp.html) reports that between January and November 1999, Internet companies spent $4.2 billion in advertising, of which 40% ($1.7 billion) was spent on online
channels and the rest ($2.5 billion) on offline channels. Table 1 below provides data for four companies reported by the ICSC study. Note that in the table, the marketing and sales data also include some expenditures for items other than strictly advertising—such as payroll for staff involved in marketing—but still provide a broad picture. The marketing and sales expenditures of these Internet companies from a significant percentage of their actual sales, in the case of Pets.com being 20 times its sales. Therefore, for pure Internet companies, any exposure and advertising obtained through outside sources such as the L-malls is a significant issue.

<table>
<thead>
<tr>
<th>Company</th>
<th>Sales</th>
<th>Marketing and Sales Expense</th>
<th>For the YTD Ending</th>
<th>Marketing Expense as % of Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amazon</td>
<td>$653,797,000</td>
<td>$235,222,000</td>
<td>1/1/00–9/30/99</td>
<td>24.2</td>
</tr>
<tr>
<td>EBay</td>
<td>$21,281,000</td>
<td>$31,385,000</td>
<td>3/30/99–9/30/99</td>
<td>148.4</td>
</tr>
<tr>
<td>CDNow</td>
<td>$94,062,348</td>
<td>$63,817,000</td>
<td>1/1/00–9/30/99</td>
<td>67.9</td>
</tr>
<tr>
<td>Pets.com</td>
<td>$630,000</td>
<td>$11,815,000</td>
<td>2/1/99–9/30/99</td>
<td>1008.7</td>
</tr>
</tbody>
</table>

(Source: www.i-sc.org/reports/remote/MarketingExpenditure.htm)

Most of the Internet companies are under a lot of pressure to improve profit (if they have any) and sales rapidly. Sometimes this fact is strengthened by the investors and the venture capitalists involved with the company. Increasing brand awareness is a key way to spread your name. Therefore whether a company is large or small, association with L-malls with several other well known merchants serves as a means to enhance brand identity. For example, Officeworks.com receives some amount of brand awareness being placed in the baby and kid category and being listed along with Baby Gap, Gap Kids, Gap Maternity in the www.Day-at-the-Mall.com. Often particular stores are listed in these malls, and that offers these companies additional opportunities to build brand awareness.

L-malls most often provide numerous technological tools for the companies, albeit at a cost. These range from Web page building, providing the shopping cart technology to the more sophisticated issues of data mining technologies. Yahoo Stores tracks numerous data for each purchase and makes them available to the merchant for analysis. For a specific merchant, for example, it will track sales, revenues, price, item code, method of payment, click trails, co-opeter database and other items of information in multiple formats, including Excel. This makes data
analysis a much simpler job for the retailers and they can track the exact amount of sales revenues generated through the I-mall. Moreover, the customer database is extremely rich and may be further used in the future for customized promotions and advertising to these clients. For smaller merchants, these capabilities provide a huge benefit, as it would be extremely costly to set up a protocol to collect such data.

Security on the Internet is a major concern for shippers. Recent studies have shown that it ranks fairly high (GOV, 1990) on the shopper’s mind for online shopping. I-malls offer links to specific payment collection companies that makes it easier for the merchants, particularly the smaller merchants, to avoid the hassle of payment and collection in a secure environment. Additionally, other types of data are also vulnerable to hackers. Several sites like Yahoo Stores provide merchants a secure environment to store customer data.

Pure Internet merchants can only rely on Internet traffic for sales, unlike their bricks-and-mortar counterparts. Therefore, presence in the I-malls, even if it is in addition to their Web sites, provides additional traffic-building capability.

I-mall Compensation Structure

Rent/Lease Space

There are three fundamental sources of revenue for I-malls: initial fee (if there is any), rental income from leasing space, and a percentage of sales revenues of the stores. Yahoo! Stores, for example, does not charge any initial or upfront fee, no per-transaction fee and does not have any minimum time commitment. Instead, it charges by size of stores: small stores pay $100/month and can have up to 50 items for sale; large stores pay $300/month and can have up to 1,000 items, and larger stores pay $300/month for the first 1,000 items, plus $100/month for each additional 1,000 items, so a 5,000-item store would cost $700/month. On the other hand, a comparison of nine I-malls in Japan (see Table 2) reveals a rather interesting pattern of compensation structures. Four out of the nine fined charge an initial fee of about 50,000 yen, then charge a per month fixed fee. Yet others charge a flat percentage of sales, with one exception charging 100 yen/click, which is rather unusual. Some I-malls charge lease fees. For example, I-mall www.shopatmymall.com charges a fee of $495 for its office lease package. An electronic storefront lease applicable to ‘those who require a commerce solution for a limited quantity of products (actually up to 10 products)’ goes for $1,195, with separate charges for extra images, pages, e-mail forms, etc. In Table 3 we list the compensation structure for seven randomly selected I-malls in our sample.
TABLE 2. JAPANESE 1-MALLS, A COMPARISON

<table>
<thead>
<tr>
<th>Name of Mall</th>
<th>Orico Mall <a href="http://www.oricomall.or.jp">www.oricomall.or.jp</a></th>
<th>Bay Side <a href="http://www.bayside.jp">www.bayside.jp</a></th>
<th>Ecap24 <a href="http://www.ecap24.co.jp">www.ecap24.co.jp</a></th>
<th>Yahoo Shopping <a href="http://www.shopping.yahoo.co.jp">www.shopping.yahoo.co.jp</a></th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating company</td>
<td>Orico (Otera Corp) April 1, 1999</td>
<td>NTT Software July 1, 1999</td>
<td>Battlesink August 29, 2000</td>
<td>Yahoo, Japan September 9, 1999</td>
</tr>
<tr>
<td>Date of opening</td>
<td>30-50</td>
<td>7</td>
<td>3</td>
<td>27</td>
</tr>
<tr>
<td>Number of tenants (as of December 1999)</td>
<td>36</td>
<td>3</td>
<td>200</td>
<td>12,000</td>
</tr>
<tr>
<td>Number of product categories</td>
<td>1,000</td>
<td>N/A</td>
<td>13,000</td>
<td>23,000</td>
</tr>
<tr>
<td>Number of items</td>
<td>50,000 yen per month + 12% of sales</td>
<td>N/A</td>
<td>N/A</td>
<td>50,000 yen/month +5% of sales</td>
</tr>
<tr>
<td>Tenant</td>
<td>5% of monthly sales</td>
<td>Under planning</td>
<td>HP building, support in shop management</td>
<td></td>
</tr>
<tr>
<td>Tenant fees</td>
<td>HP building, information service, credit system rental mall (within the mall)</td>
<td>Under planning</td>
<td>HP building, support in shop management</td>
<td></td>
</tr>
<tr>
<td>Services for the tenant</td>
<td>HP building, information service, credit system rental mall (within the mall)</td>
<td>Under planning</td>
<td>HP building, support in shop management</td>
<td></td>
</tr>
<tr>
<td>Membership</td>
<td>Yes, 50,000 members</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Payment methods</td>
<td>Credit cards, methods each tenant chooses</td>
<td>Credit cards</td>
<td>Bank transfer, COD, credit card</td>
<td>Tenant decides payment method</td>
</tr>
<tr>
<td>Shopping charges</td>
<td>Up to 3% of tenant system Orico</td>
<td>Tenant decides No</td>
<td>End-user pays except for food, Sony Finance</td>
<td></td>
</tr>
<tr>
<td>Affiliates (if mall has contract with other co to sell payments)</td>
<td>Yes, 30,000</td>
<td>N/A</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>Sales projections 2000</td>
<td>N/A</td>
<td>N/A</td>
<td>None</td>
<td>N/A</td>
</tr>
<tr>
<td>Projected tenants 2000</td>
<td>N/A</td>
<td>N/A</td>
<td>None</td>
<td>N/A</td>
</tr>
</tbody>
</table>
### Table 2: Japanese I-Malls, A Comparison (Continued)

<table>
<thead>
<tr>
<th>Name of Mall</th>
<th>Shopping at Nifly</th>
<th>Rika Ichi</th>
<th>Hudin Yume Ichiba</th>
<th>Rakuten Ichiba</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating company</td>
<td>Nifly.com</td>
<td>Rika Ichiba</td>
<td>Hudin Ichiba</td>
<td>Rakuten Ichiba</td>
</tr>
<tr>
<td>Date of opening</td>
<td>November 1, 1999</td>
<td>November 1, 1999</td>
<td>January 1, 2000</td>
<td>May 1, 1997</td>
</tr>
<tr>
<td>Number of tenants</td>
<td>100</td>
<td>10</td>
<td>105</td>
<td>13</td>
</tr>
<tr>
<td>Number of products</td>
<td>20,000</td>
<td>20,000</td>
<td>20,000</td>
<td>129,300</td>
</tr>
<tr>
<td>Number of tenants</td>
<td>November 1, 1999</td>
<td>November 1, 1999</td>
<td>June 1, 2000</td>
<td>May 1, 1997</td>
</tr>
<tr>
<td>Renting fee</td>
<td>50,000 yen/month, annual fee for the first time</td>
<td>100,000 yen/month</td>
<td>120,000 yen/year</td>
<td>150,000 yen/year</td>
</tr>
<tr>
<td>Services for the tenant</td>
<td>Initial fee of 900,000 yen/year</td>
<td>No</td>
<td>Info sharing, HP building, newspaper</td>
<td>Consulting services, Rakuten Ichiba services to learn from sources of others</td>
</tr>
<tr>
<td>Membership</td>
<td>System support, promotion by provider system, info sharing</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Purchase cards</td>
<td>Tenant decides</td>
<td>Tenant decides</td>
<td>Tenant decides</td>
<td>Tenant decides</td>
</tr>
<tr>
<td>Affiliation (if mall has contract with other ICs to offer payment)</td>
<td>Fujitsu, Sakabe Bank</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Sales Projection 2000</td>
<td>120 million yen by October 2000</td>
<td>3,000 million yen</td>
<td>10,000 million yen by December 2000</td>
<td>N/A</td>
</tr>
<tr>
<td>Projected tenants, 2000</td>
<td>500 by March 2000</td>
<td>500 by December 2000</td>
<td>5,000 by December 2000</td>
<td>N/A</td>
</tr>
</tbody>
</table>

(Shopper's Delivery: The Latest in Online Shopping)
### Table 3. Compensation Structure for Malls

<table>
<thead>
<tr>
<th>Name of Mall</th>
<th>Tenant Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mall.com (<a href="http://www.mall.com">www.mall.com</a>)</td>
<td>$500.00 monthly fixed fee for two pages on Choice Mall for $1,699, which includes design and setup, technical support, order processing and other support materials. Page activation costs $15 per page per month, and there is an annual activation fee of $85 per site. Additional packages with increased benefits are available for five to more than 20 pages.</td>
</tr>
<tr>
<td>ChanceMall.com</td>
<td>Free</td>
</tr>
<tr>
<td>USA Mall—www.usa-mall.com</td>
<td>$400.00 per month.</td>
</tr>
<tr>
<td>Mall on the Net—</td>
<td>Free</td>
</tr>
<tr>
<td><a href="http://www.mallonthenet.com">www.mallonthenet.com</a></td>
<td></td>
</tr>
<tr>
<td>Get More Discount—</td>
<td>Free</td>
</tr>
<tr>
<td><a href="http://www.getmorediscount.com">www.getmorediscount.com</a></td>
<td></td>
</tr>
<tr>
<td>Five-N-Dime—</td>
<td></td>
</tr>
<tr>
<td><a href="http://www.fiven-dime.com">www.fiven-dime.com</a></td>
<td></td>
</tr>
<tr>
<td>The Road Mall—usa-mall.com</td>
<td></td>
</tr>
<tr>
<td>GlobalStore.com</td>
<td></td>
</tr>
</tbody>
</table>

### II. Strategy of I-malls

#### Niche Market

A niche market is a group of potential consumers with common characteristics that is large enough for a company to profit from, yet small enough for larger competitors to ignore. For example, Paul Mitchell has styling products that are distributed only through salons and beauty parlors and has carved out a niche market. Cybermall2.com has storefronts for left-handed people. It has also been predicted that in the long run, niche businesses are the ones that will survive. Research firm ActivMedia reported recently that niche products are winners online. In its “Online Marketing Practices for Premium Specialty Goods” and its “The Niche E-Tailing Report” (1999) ActivMedia reported that 52% of premium specialty goods retailers are profitable, while only 35% of business-to-business Web retailers, in a previous study, were reported to be profitable. Therefore, I-malls that expose niche companies and businesses may have a potential to perform better than their competitors without such niche strategies. For example, online malls that cater to hobbies ([www.](http://www.)
stitching.com and www.cross-stitch-mail.com in the needlecraft category; and needs of the business community (AIEA Business Network, www.ainc.ca.com) have more stable financial returns compared to many online malls.

**Broad Based—Inter-category versus Intra-category**

Most bricks-and-mortar malls are broad based, and so are most 1-malls. The majority of malls in the survey were broad based, featuring a wide array of stores organized by categories: health and beauty, pets, books, art, etc. Like their physical counterparts, these 1-malls are trying to draw the largest audience possible by providing them with one-stop shopping convenience by reducing their search costs. The disadvantage is that each mall store is subject to more direct competition from competing stores within the mall. For example, Mall.com features several hundred nationally-known brand name stores. Marvin Latham, CEO of Mall.com, has remarked: “For years I have recognized that shopping online is not as easy as it should be. It still requires too much searching and surfing. Our Internet property offers a solution to time consuming online shopping by offering one place where you can shop for name brand items from your favorite merchants, all at the click of a button.” (Dancy, 1999)

A second major thrust of general purpose 1-malls is simulation of the real mall shopping experience. Rather than listing names of mall merchants on the net, Internetmalls.com (www.internetmallsamerica.com) displays virtual venues by creating mall-like merchant storefronts. These stores are organized as in actual malls—one story across from another store. It even includes elevators to several floors and a food court. President Cheryl Augén commented that “[T]he virtual mall is based on its brick-and-mortar counterparts. It gives the perception of a physical mall. . . . This makes visitors more interactive” (Garcia, 1999).

**Repeat Visitors**

Customer satisfaction and loyalty programs are key features in physical malls. 1-malls also provide numerous incentives for customer repeat purchases, either in the form of points, cash back schemes or contributions to non-for-profit organizations. For example, Yahoo Stores offers Yahoo Points for shopping at its stores. Charity mall (www.charitymall.com) promises to donate 5% of sales price of products sold through its mall to a predetermined list of non-for-profit organizations.
III. Research Methodology

To address our research questions, empirical data for this study were collected at three levels.

Study 1: Given the lack of any rigorous studies of l-malls as a retail entity, exploratory analyses of the l-mall industry were conducted by the research team to identify the relative distribution of l-malls in terms of their business models and composition. To develop a classification scheme, Web sites of l-malls were surveyed and key operational and organizational characteristics were noted. There were many l-malls with no contact information and therefore, these were discarded and resulted in 404 errors or dead links or malls that had fewer than five operating retail merchants. The team found as many live l-mall sites as possible within the project planning process. A total of 478 l-malls in operation were identified through four different search engines and l-mall directories between June 1 and July 30, 2000.

Study 2: The second stage of data collection was conducted to identify variables that influence retailer and mall owner relationships. Malls identified in Study 1 were solicited as the research setting for our study. The context examined in this study is quite different from those studied in the past because the l-mall environment reflects a wide variety of dependence levels between partners. Resources involved in these mall alliances may be market access, financial, functional, reputation, technological and knowledge/Intelligence. Contractual agreements we typically short or open-ended, allowing for more flexibility to terminate their relationship.

The research design is unique in that both retailers and mall owners were studied. Initial contact was made by August 1, 2000 to solicit participation in the study and identified key informants within the organization (either owners, or those with significant financial responsibility to reduce informaiton bias). Key informants were identified in 446 mall owner-merchant pairs in which both partners belonged to the online retailing sector. Each firm in the alliance pair answered the questionnaire independently and was assured of anonymity. An initial version of a Web survey was piloted in August 2000 to develop and calibrate our measures with a group of 69 alliance pairs. We received complete questionnaires from 82 respondents who were key informants in 78 firms. The response rate was 13%. We collected data on retailer firm characteristics, mall characteristics, contractual characteristics and outcome measures to investigate factors influencing retailer decision to join and maintain membership in l-malls.

Study 3: In order to focus on the relationship between anchor stores and l-malls we selected traditional retailers with online storefronts as the
research setting for this study. Retailers were identified as anchors if they were ranked on the basis of their 1999 sales volume in the National Retail Federation. Ninety-four department stores that participated in 1-malls and 74 mall owners (with anchor stores) were solicited to participate in this study through mall questionnaires and Web survey. A cash incentive of $25 was offered to respondents completing the detailed survey. A total of 32 retailers (response rate 34%) and 17 mall owners (response rate 22%) answered the survey. Given the sensitive nature of the information and to protect respondent confidentiality, respondents were assured of anonymity. As in Study 2, we collected information on retailer firm characteristics, mall characteristics, contextual characteristics, outcome measures and the effect of online malls on physical malls.

IV. Analyses of Results

Mall Characteristics

Investigation of 478 1-mall Web sites in Study 1 indicated that 57% of 1-malls only offer category-based links, 22% offer e-commerce and hosting services to their retailers and the rest follow a hybrid model. Table 4 lists descriptive statistics at an aggregate level for 1-malls categorized on the basis of their business model. Please note that this information was collected by surveying Web sites, hence only information that is publicly available has been noted.

Of the 92 mall owners who were surveyed in Study 2, approximately half (45.2%) had been in operation for three or more years, and a significant 41% had started operations within the last 12 months at the time the survey was conducted. The average number of participating retailers was 48, while some had more than 200 retailers. There is a huge variation in the number of visitors that visit each day (average = 24,617, maximum = 250,000, standard deviation = 74,516) and the growth in traffic (average = 62.2%, maximum = 200%) as reported by mall owners. We were able to corroborate visitor statistics for 22% of the malls (primarily the large ones that determine most of the traffic statistics) under consideration from reports at Nielsen Network. 63.6% of mall owners reported annual growth in revenues of more than 40% and 20% reported growth of between 30% and 20%. Despite this seemingly high revenue growth, 45.5% were unsatisfied with revenue performance. E-mall newsletters and affiliate networks were rated as most effective in driving traffic to the mall Web site. Twenty-three and seven tens percent provided shopping cart technology, 8.3% provided transaction clearing services and 14.5% provided search engine and product comparison services to their retailers.
TABLE 4. DESCRIPTIVE STATISTICS OF INTERNET MALLS (N = 478)

<table>
<thead>
<tr>
<th>Mall Organization Structure</th>
<th>Category-based Links</th>
<th>Independent Retailer- Landlord Model</th>
<th>Integrated Landlord Model</th>
<th>Hybrid Listing &amp; Landlord Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sample size</td>
<td>276</td>
<td>74</td>
<td>27</td>
<td>101</td>
</tr>
<tr>
<td>1-malls with multiple</td>
<td>211</td>
<td>71</td>
<td>16</td>
<td>97</td>
</tr>
<tr>
<td>categories</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of 1-malls</td>
<td>39</td>
<td>52</td>
<td>6</td>
<td>99</td>
</tr>
<tr>
<td>with anchor stores</td>
<td>5.1</td>
<td>4.8</td>
<td>4.2</td>
<td>4.9</td>
</tr>
<tr>
<td>1-mall average years in</td>
<td>(missing = 34)</td>
<td>(missing = 11)</td>
<td>(missing = 11)</td>
<td>(missing = 14)</td>
</tr>
<tr>
<td>operation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average number of stores</td>
<td>357</td>
<td>210</td>
<td>54</td>
<td>240</td>
</tr>
<tr>
<td>Share detailed consumer data with retailers</td>
<td>24</td>
<td>17</td>
<td>18</td>
<td>23</td>
</tr>
</tbody>
</table>

The majority of malls provide site creation (63.7%), administration (74.2%) and hit measurement services (69.6%) to their retailers.

Retailer Characteristics

In Study 2, we collected data on retailers’ motivations for joining an 1-mall. In response to the open-ended question, traffic generation was the most popular reason (96%), followed by need for server space and hosting services (61%), ordering software (31%) and online store building tools (12%). Most Internet-only retailers choose 1-malls for technology support (74%) while other multichannel retailers are more interested in marketing support. Retailers participated in an average of eight malls (minimum three, maximum 28, mode six) at the time of the survey. A significant proportion of retailers use multiple channels of distribution.

Retailers in this study were members of the mall for an average of 2.2 years. Of the 92 retailers who answered the survey in Study 2, 84% had stand-alone online stores, 41% had a catalog operation, 33% had stand-alone stores in commercial areas and 12% had stores in physical malls. Since the sample of respondents in this study included a significantly large number of pure-Internet only and catalog retailers, on an overall basis, most firms (54%) were primarily dependent on their online Web store, followed by catalog operations (31%) and stand-alone stores (27%). A significantly large number of retailers (64%) think the competition in 1-malls from retailers selling similar merchandise is "too much."
Comparison of Successful/Unsuccessful 1-mall–Merchant Relationships

Characteristics of successful versus unsuccessful 1-mall–retailer relationships can be categorized into three parts: composition, compensation structures and satisfaction of merchants. Data collected in Study 2 were used to address the nature of relationships between retailers and mall owners. Responses to the question on intention to continue being a member of the 1-mall were used to distinguish between successful and unsuccessful relationships.

Composition
Analyses of empirical data collected in Study 2 were used to reveal the following patterns.

There are size effects in the decision to join and retain membership in an online mall. Specifically, the larger the retailer in terms of reported sales revenues, the more likely they are to join an online mall. However, of those that are already members of a mall, the larger the retailer the less likely they are to continue their membership.

Overall, single-channel or pure Internet retailers are more likely to continue with their mall membership.

Compensation Structures
Most membership contracts are open-ended in nature (81%). Retail leases in physical malls typically have two rental components: a base rent and an "above" rent equal to a percentage of the tenant's gross sales above some threshold level. In the case of 1-malls, most retailers pay a monthly (67%) or an annual (22%) fixed fee to the mall owner. In addition, 47% of retailers paid an initial set-up fee when they joined the mall. Only 5% of retailers had to pay a commission based on sales revenues generated in the 1-mall, 21% of retailers had to pay on a contingency basis if they wanted to update their product databases or store interfaces; 14% of retailers paid a variable fee per month based on the number of products they listed in the mall databases. While traffic and hit information were provided as part of the service by most 1-malls, 23% of retailers had the option of paying a fee to get access to more detailed consumer clickstream data; 39% of retailers noted that according to their knowledge, their 1-mall did not have the capability of providing them with detailed clickstream data.

Satisfaction of Participating Merchants
Satisfaction with 1-malls was measured with a number of items: satisfaction with 1-mall traffic performance; satisfaction with sales generation; satisfaction with 1-mall marketing efforts; satisfaction with technological assistance; willingness to recommend the 1-mall to others and intention of renewing contract with the 1-mall. The following graph shows the proportion of retailers and their ratings of 1-malls on the different perfor-
mance measures. Significantly more retailers' expectations are met or exceeded with the 1-mall performance in generating traffic and advertising assistance; however, significantly more are dissatisfied with sales' generation, although they note that lack of sales cannot be entirely attributed to 1-mall performance. What is alarming, however, is the number of retailers who are dissatisfied with the technical assistance provided by 1-malls, the main reason why many retailers join 1-malls and entirely under the mall owner's control. Twenty-four percent of retailers interviewed would recommend the 1-mall to others and 64% mentioned they would continue their membership with the 1-mall.

Role of Anchor Stores

Study 3 was designed to collect information about major retailer experiences with 1-malls and mall owner perception of their role in the retailer distribution strategy. Retailers were given the option of selecting an 1-mall of their choice in answering the questionnaire. Of the 32 retailers participating in the study, 81% have been selling through the Internet for more than two years, but most of them (80%) have been members in the 1-mall for less than a year. Most retailers have joined the 1-mall for traffic generation purposes (71%), generating experience with 1-malls (63%) and awareness of their mall Web site (41%). Experimenting with cross-links to 1-malls was often mentioned first in response to the open-ended question.

Retailer Characteristics.

These large retailers differ significantly from those surveyed in Study 2 on most firm characteristics. These retailers participate in an average of 2.5
1-malls at the time of the survey. This is significantly lower than those engaged in by the sample as a whole in Study 2. This can be attributed to retailer strategy to maintain exclusivity and protect its brand associations with 1-malls. All retailers have physical and catalog operations and use multiple channels of distribution. Most firms (64%) are primarily dependent on their physical mall stores, or stand-alone stores in commercial districts (29%) followed by catalog operations (3%). Most retailers (69%) think the competition in 1-malls from retailers selling similar merchandise is none (60%) or reasonable (40%).

**Contractual Characteristics**

Most retailers have an annual contract (62%) with the 1-mall owner and either pay no fee (20%), or one (20%) on a contingency basis. Sixty percent of retailers pay a fixed fee, and do not have to pay an additional fee for getting access to detailed consumer clickstream data. Further, 40% of large retailers were allowed to conduct surveys, a benefit not offered to small retailers in Study 2. This follows the norm in physical malls where mall developers offer rent subsidies and other benefits to attract well-known stores and charge rent premiums to lesser-known stores (Pushgara and Gould, 1998). This is because most Web pages for large retailers are hosted on their own servers and clickstream data collected on those servers belong to the retailers and do not have to be shared with the 1-mall. They differ from smaller retailers in that 37% pay additional fees as a commission on sales.

**Outcome Measures**

All retailers mentioned that increase in revenues due to the 1-mall was less than 10% but only 20% felt it was below their expectations. This could be attributed to the fact that only 10% paid a fixed fee, and do not have to pay an additional fee for getting access to detailed consumer clickstream data. Further, 40% of large retailers were allowed to conduct surveys, a benefit not offered to small retailers in Study 2. This follows the norm in physical malls where mall developers offer rent subsidies and other benefits to attract well-known stores and charge rent premiums to lesser-known stores (Pushgara and Gould, 1998). This is because most Web pages for large retailers are hosted on their own servers and clickstream data collected on those servers belong to the retailers and do not have to be shared with the 1-mall. They differ from smaller retailers in that 37% pay additional fees as a commission on sales.

As in Study 2, satisfaction with 1-malls was measured with a number of items: satisfaction with 1-mall traffic performance, satisfaction with sales generation, satisfaction with 1-mall marketing efforts, satisfaction with technical assistance, willingness to recommend the 1-mall to others and intention of renewing contract with the 1-mall. The following graph shows the proportion of retailers and their ratings of 1-malls on the different performance measures.

In contrast to findings in Study 2, significantly fewer retailers' expectations are met with the 1-mall performance in generating traffic; however, significantly more are satisfied with advertising, sales generation and technical assistance provided by 1-malls. While 80% of retailers noted an increase in visitors over the past year due to membership with the 1-mall, 40% experienced an increase in traffic of less than 1%, much below their expectations. Only 20% would recommend the 1-mall to others, and 60% would consider another 1-mall when the contract expires. The reputation
V. Implications for Practice

The main focus of this primary research study was to study l-malls as retail entities and determine the elements that lead to successful relationships with retailers. Most significantly, through our research efforts we attempted to examine various l-malls in terms of their business model, branding contracts, technological arrangements, information-sharing provisions and advertising promotion practices. We collected data at the individual level from retailers, anchor stores and mall owners to identify factors that influence retailer–mall owner relationships.

Challenges Facing l-malls

Consumer patronage and retailer participation are critical to the survival of online malls. Consumer traffic is the main currency in attracting retailers to the mall. Consumers patronize malls that offer significant breadth and depth of assortment and merchandise, user-friendly interface and good service. Online malls have to adapt themselves to market conditions to stay relevant and the primary destination of choice for online shoppers. The need to shop at online malls is further reduced as comparison shopping sites (e.g., MySimon.com and DealTime.com), search engines and Internet portals are getting more sophisticated in providing the same one-stop shopping convenience. In addition, they help consum-
ers make product choices based on price and feature criteria, provide community support in terms of reviews and discussion groups and link them to stores that sell the product. More importantly, commercial surveys indicate that a relatively low percentage of consumers like l-malls. The NE-Trainspoot (Langford and Langford, 1997) survey found that only 20% of the people who responded like to shop in l-malls, 73% do not like l-malls or have never been to one, and a small group (4.5%) intensely dislikes l-malls. While this research does not attempt to address these issues they have implications for any study on the viability of l-malls.

Merchants are skeptical, too. Our study showed that 38% of merchants perceive little value—e.g., slow traffic and pitiful sales in l-malls. In our data we find that pure-Internet and clicks-and-mortar retailers alike are dissatisfied with overall service provided by l-malls. In addition to the findings discussed in the analyses section, an overwhelming 64% of retailers in Study 2 find store categorization unorganized and request for updates delayed.

Langford and Langford (1997) report a number of interesting issues about l-mall problems. l-malls do not have the same benefit as real malls. While location is an asset in real malls, prime locations in l-malls are very different; a featured store may be a "prime location" one month but that can change easily. l-malls are not conducive to impulse shopping, as the consumer has either bought into a store of a product category. Most malls create Web pages rather than a Web site. Successful businesses on the Internet, particularly in a mall, have to be content-rich and are capital-intensive. The lack of a content-rich shopping environment is less conducive to converting browsers to buyers and attracting customers in the first place.

While l-mall owners promise visitors and foot traffic, most of it could be elusive. Just because there is a lot of traffic to the mall (even if there is) is no guarantee that there will be traffic to one specific store. This problem exacerbates as the number of stores in the mall increases. In this research, data from Study 2 indicate that as an individual level, retailers are more likely to be dissatisfied with the mall performance as the number of participating retailers increases.

The cost of joining and maintaining stores in l-malls can be steep, especially for small merchants. As our data show, stores often have to pay extra for little additional details and updates. In fact, smaller merchants who are generally on tighter budgets perceive costs to be high, while anchor merchants with the capability of spending more find these costs to be insignificant. It is ironic that many services that smaller retailers get charged for are offered free to anchor stores.

Our analyses indicate that size effects play an important role in retailer–mall owner relationships. Smaller retailers are more likely to join
and stay as members of l-malls even if they are dissatisfied with the mall performance. In contrast, larger retailers are more likely to terminate their contracts if they are dissatisfied with the mall performance. While the practice of subsidizing rents for anchor stores parallels that in the physical world, l-mall owners need to devise strategies to reward smaller retailers for their loyalty since they account for a large portion of the mall owner’s revenues and offer a more stable base. If present trends continue it appears that l-malls will primarily comprise small pure-Internet and bricks-and-mortar retailers, and larger well-known firms will favor stand-alone Web stores.

Anchor Merchants
Retailers with established channels participate in l-malls because it offers them an additional venue to access customers and gain awareness. Most of these retailers have developed independent Web sites with full e-commerce capabilities and are less likely to integrate their transaction databases with those at l-malls. In our study we find that most of them have started participating in online malls in the last two years, and are still uncertain about the role l-malls play in their online marketing strategy.

Impact on Traditional Malls and Shopping Centers
Bricks-and-mortar malls are experimenting with online malls in an effort to contemplate how the Internet is changing buying patterns. Many physical mall developers have developed online Web sites for their physical locations and use them for community building, customer service and information by providing maps, timings, events and directory services for their physical malls. Very few offer online ordering from their retailers. These Web sites are used for announcing special offers and sales and distribution of mall-wide certificates much like local newspapers. For example, Crown American Realty Trust has aided special holiday functions to each Web site of the company’s 26 regional shopping malls as part of the company’s on-going l-mall marketing strategy (PR NewsWire, 2000). Designed to complement the physical shopping experience, Simon Property Group, with 326 malls, lets shoppers buy online from several Atlanta-area malls. Simon is majority owner of Clickmortar.com, which has developed FastFrog.com, a pilot project at two Atlanta malls that enables consumers to shop the malls from home.

Both mall owners and retailers in our study do not consider physical malls as competitors to l-malls. In response to our open-ended questions, retailers surmised that l-malls have a very small portion of the overall market and lack the richness of shopping experience that physical malls
are able to offer. As such, their participation in L-malls does not affect their growth strategy in physical malls. E-mail owners suggest that their customer base is looking for benefits physical malls cannot provide, and L-malls carry cot and do not want to compete for the physical mall market. However, the question of whether physical mall developers should enter the L-mall business remains. Given their experience in the industry, ties with retailers and financial power, they could change the market scenario of L-malls drastically. In the future, as more physical mall Web sites offer e-commerce services, studies investigating retailer experiences in those L-malls will provide a wealth of information to researchers and practitioners.

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