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Article

How to Respond to Disruptive Innovation in Online Retail Platforms

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Abstract: This paper explores how the traditional incumbents coped with the rapid transition provoked by disruptive innovation in the South Korean retail industry. More specifically, the study concentrates on the challenges incumbents faced and their step-by-step attempts to deal with disruption. Shinsegae affiliates and SSG.COM were chosen as the target companies for our descriptive study. Shinsegae is one of the top three retail conglomerates in South Korea, owning various subsidiary brands. SSG.COM is also one of its subsidiaries, first established as the online distribution channel for Shinsegae affiliates. However, its role has later become expanded and critical, turning into an online marketplace aimed at overcoming disruption in the retail industry. By reviewing SSG.COM's dynamic responses to disruptive innovation, we found that what makes its incumbents vulnerable to sudden disruption lies in their static business model. Furthermore, the platform economy allowed offline retailers to be easily disrupted by the key characteristic of platform business—the "network effect". To counteract online market domination, this study implies that SSG.COM should innovate its business model to integrate its online and offline ecosystems successfully.

Keywords: disruptive innovation; platform business; online marketplace; incumbent response; business model; retail; SSG.COM

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1. Introduction

The internet upended the South Korean retail industry, and the COVID-19 pandemic has accelerated this trend. Online retail in South Korea began with the online shopping store, where suppliers would assume responsibility for designing and providing a digital space for transactions. Next came the online marketplace, e-commerce platforms that acted as intermediaries between buyers and sellers [1]. Online marketplaces were primarily able to substantially reduce consumer search costs [2]. However, increasing numbers of sellers led to intense competition, resulting in sellers offering their products at increasingly lower prices [3]. The online platform successfully penetrated the retail industry and disrupted traditional brick-and-mortar retailers by offering various products at low prices. More accurately, the rapid innovation in information technology brought the online marketplace to the boundaries of the platform economy and provoked fierce price wars. Such a rapid expansion in sellers is partly due to the network effect of platforms [3], where the constant evolution of online retailers, from online shopping malls to online marketplaces, aggressively disrupted the entire retail industry. In other words, the platform economy has disrupted traditional offline retailers.

Rapid changes in the retail industry have destabilized brick-and-mortar retail powerhouses. Earnings from offline retail have plummeted, whereas online retail earnings have skyrocketed [4]. This sudden disruption struck traditional offline incumbents in South Korea, such as Lotte and HomePlus [5,6], and, unfortunately, Shinsegae was no exception. To recoup the retail market power Shinsegae previously enjoyed as an influential conglomerate, it was inevitable that their affiliates had to expand into online retail. Therefore, SSG.COM (hereafter SSG) was launched as an internal division of Shinsegae. In this regard, SSG represented an online shopping mall that unified the dispersed online channels of Shinsegae's offline retailers, which included emart ('emart' without capitalization is the official brand name), emart Traders, and the Shinsegae Department Store [7]. SSG sought to decrease the market power of disruptors and empower Shinsegae by declaring their channel an online marketplace, breaking the image of a Shinsegae-only online channel. With their brand power, their mission seemed simple. However, their core competency—Shinsegae's prestigious image, inherited and applied to SSG to differentiate their online platform—turned out to be a core element of rigidity. Online marketplace disruptors lowered the entrance barrier of suppliers, whereas SSG set a policy to filter sellers in an attempt to prevent cannibalization and protect their respective channels [8].

The dilemma SSG confronted led to the following research question: "What are the difficulties traditional firms face when coping with the disruptive innovation in the industry?" Although plenty of extant research dealt with incumbents' inertia and strategic responses to disruptive innovation, studies that take a longitudinal perspective of incumbents' responses to disruptive innovation are scarce. We still have limited empirical evidence of how companies adapt or change their reaction to overcome actual hardships as the disruption process unfolds. Furthermore, in the case of SSG, despite the transition to online marketplace, it seemed that simply adapting disruptive technology was not the single condition to satisfy in order to recover from disruption. In other words, we notice that technology itself is not the main driver that makes incumbent response difficult. Thereby, SSG allied with Naver, Korea's number one search engine, which is often synonymous with Google. Also, in 2021, Shinsegae acquired eBay Korea, the online marketplace that occupies the third-largest market share in Korean online retail [9]. What other factors made SSG access external assistance will be further discussed by tracking the strategic reactions put into practice by the company. The research question will be demonstrated in detail through two sub-questions:

1. "What aspects of disruptive innovation and the platform economy made the disruptor so powerful while turning the core competencies of incumbents into core rigidities?"
2. "What were the actions that incumbent firms took to respond to disruptive innovation?"

This paper sets two theoretical milestones—disruptive innovation and platform economy—to demonstrate the case of SSG. Disruptive innovation is a powerful way to broaden and develop new markets and provide new functionality that may disrupt existing market linkages [10]. Conversely, the platform economy studies the unique economic phenomena of specific two-sided markets in traditional market economics [11]. The study seeks to answer the questions above by highlighting the meaningful linkages between disruptive innovation and the platform economy by observing the history of the retail industry. By exploring factors that made retail disruptors so powerful, this paper gives deeper insight into handling disruptive threats faced by incumbents.

2. Literature Review and Research Framework

2.1. Disruptive Innovation

The concept of disruptive innovation describes the process whereby a smaller company with fewer resources can successfully challenge established incumbents. Disruptive innovations originate in low-end or new-market footholds [12]. Govindarajan and Kopalle elaborate on this concept using the following process: (i) inferior performance in attributes valued by mainstream consumers, (ii) providing a new value proposition to attract new customer segments or customers who are more sensitive to price, (iii) selling at lower prices, and (iv) expanding from a niche market into the mainstream market [10].

In the book "Innovator's Dilemma", Christensen introduces two types of technologies derived from innovation: disruptive technologies and sustaining technologies [13]. Disruptive technologies do not follow the mainstream industry. However, besides these "greedless" technologies, some technologies are aimed at satisfying the needs of the existing market to retain a competitive advantage. These are the sustaining technologies—new technologies that lead to improved products [13]. In other words, the needs and preferences of modern consumers are the basis for innovation [14]. Therefore, this generates path dependence as long as positive feedback from mainstream consumers and self-reinforcing mechanisms are sustainable, whereas disruptive innovation captures new categories of customers and markets far from accumulated experience or knowledge. Often, sustaining innovation is misconstrued as disruptive innovation since the disruptive innovation seems to induce aggressive change. However, radicality is not the only factor that can diagnose this type of innovation. Rather, the disruptiveness of innovation is distinct from the radicalness of the competency-destroying dimensions of innovation [10]. In addition, other factors, such as target market, target customers, and resource investments, must also be considered.

Disruptive innovation is not always the optimal option that incumbents can choose [15]. Sustaining the competency of a company is far easier and safer than pioneering and attempting a new field of business. As Hannah and Freeman noted, if selection favors reliable, accountable organizations, it also favors organizations with high levels of inertia [16]. This preference is intensified when it comes to older, sizable enterprises [16,17]. This shows the strength of the impact of inertial pressures on organizational structures, creating consequences for the selection process. However, disruptive innovation adds another critical factor to organizational hesitation apart from the typical inertia. One of the critical reasons for their hesitation lies in the range of items. Disruptive products or services are launched in niche markets at lower prices. There is not necessarily a word-of-mouth effect, opinion leadership, or respect among peers at play for niche customer segments that find disruptive innovations attractive [10]. Therefore, incumbents may not wish to allocate resources to markets that are currently small and unattractive to them, preferring instead to concentrate on their existing, profitable markets. Well-established companies will prefer to allocate resources to their primary activities that promise higher profits and cater to their customers' preferences. In other words, since incumbents prioritize their existing customers, they value sustaining innovations over disruptive innovations [18].

The resource–process–value (RPV) framework explains the difficulty in addressing disruptive technologies. The framework was essentially designed to describe organizational capability using three components. Resources are the first component and are the total holdings or assets that determine an organization's capabilities [13]. The second component, the process, describes the patterns of interaction, coordination, communication, and decision-making through which they accomplish the transformation from resource to value [13]. In other words, the process shows why companies with identical resources can grow very differently. The third component is made up of the values of an organization, which are the criteria upon which decisions about priorities are made.

According to Christensen, strong organizational capabilities based upon the RPV framework contribute to successfully developing sustaining technology [13]. However, the reverse is true for disruptive innovation. As incumbents are bound by their established processes and focus on incrementally developing their existing framework, they become incapable of sensing the necessary changes for developing new competencies [19,20]. Therefore, the same competencies that may be an organization's most enduring source of competitive advantage can become competency traps [21] that can hamper significant organizational change.

Despite the role and importance of Christensen's contribution, more developments in disruptive innovation emerged in recent years. Some scholars were skeptical about the theory's essential validity and generalizability, pointing out that many exemplary cases cannot be understood from a single viewpoint. Andrew A. King and Baljir Baatartogtokh (2015) said the full theory of disruptive innovation should only be applied when specific conditions are met while introducing other factors such as legacy costs, changing scale economies, and the laws of probability to offer a better explanation for the patterns of success and failure across companies [22]. Furthermore, Markides proposed that technological, business-model, and new-to-the-world product innovations should be treated as distinct phenomena [23]. He insisted that all three types of innovation may follow a similar process to invade existing markets and have equally disruptive effects on incumbent firms. However, they ultimately produce different kinds of markets and have different managerial implications [23]. In other words, all of these innovations pose radically different challenges and require different responses from incumbents.

Nevertheless, this paper sets the disruptive innovation suggested by Christensen as the theoretical milestone since the case focuses on describing the disruptive phenomena observed in the retail industry. Furthermore, the disruption in the case resulted from all three aspects categorized by what Markides has proposed. In other words, it seems reasonable to follow Christensen's theory, which regards innovation, business-model innovation, and new value network—following the RPV model—as interdependent preconditions, not as discrete factors for disruptive innovation [24].

2.2. Incumbent's Response to Disruptive Innovation

Christensen (1997) suggested three options for determining whether an organization is capable of taking on a new task [13]. Should they lack the capabilities to cope with change, then they can instead achieve their goals in the following three ways: (i) by acquiring a different organization whose processes and values are a close match with the new task, (ii) trying to change the processes and values of the current organization, and (iii) separating an independent organization and developing the processes and values necessary to solve the new problem within this organization. These approaches focus primarily on an organization's capabilities—the "core competencies" based on the RPV framework. Most leading companies already have abundant resources but lack the processes and values to protect them against the threat of disruption. This is supported by the fact that processes and values aligned with a strategy that focuses on an organization's priorities cannot simultaneously make them function in unfocused areas, which are the background of disruptive innovators. Therefore, Christensen (1997) argues that through acquisition, internal development, and spin-out, incumbents can create new capabilities such as processes and values to deal with potential problems.

In contrast, there are other approaches that incumbents can respond to when managing disruptions. Arto Wallin et al. (2021) suggested repositioning strategies as a classic incumbent response to disruptions. This means that incumbents would be forced to reposition themselves in the market when they are faced with disruption to maintain their competitive advantage [25]. Specifically, Kilkki et al. (2018) classified the threat of disruption into three types and the response of incumbents, respectively [26].

Incumbents can strategically reposition themselves within their markets by (i) moving upwards on the scale of product quality (high-end strategy) to avoid entrants that sell inferior products; (ii) moving downwards by reducing costs, diminishing product variety, and lowering quality (low-end strategy) when the main competitive advantage of the entrant is superior quality demanded by high-end customers; or (iii) branching out into another industry or completely retreating from the market. By considering three axes—such as characteristics of industries, product quality, and the potential customer—incumbents will need to manage the effects of disruption by focusing on repositioning themselves within their chosen market.

Recent studies on corporate entrepreneurship (CE) provide four different mechanisms through the framework matrix and link it with different innovation outcomes [27]. Since CE, also known as intrapreneurship, executes innovation within an established company, we thought these corporate entrepreneurial strategies could be a powerful solution for incumbents to leverage existing capabilities as well as uncontrollable factors belonging to the outer environment. Depending on the choice of CE program with two parameters, i.e., idea themes and idea ownership, each model represents a distinct way of fostering corporate entrepreneurship with four different models as follows: employee differentiator, stretch project, innovation quest, and think tank [27]. In other words, it highlights a strategic point for fostering entrepreneurial activity, and this leads to managers searching for tools with which they can create a supportive environment to absorb the essence of "open innovation".

The notion of "organizational ambidexterity" can be used to resolve the innovator's dilemma. Organizational ambidexterity is the ability to simultaneously pursue both incremental and discontinuous innovation and change resulting from hosting multiple contradictory structures, processes, and cultures within the same company [28]. In other words, ambidexterity often refers to a balance or trade-off between two distinct business areas: exploitation and exploration [29]. Exploitation concerns efficiency and increasing productivity where incumbents can outperform their competitors and maintain their existing business, while exploration is about search, discovery, innovation, and embracing variation via emerging businesses [30]. The simultaneous combination of both approaches seems to be the optimal strategy advised for incumbents facing a disruptive threat [29]. However, continuous incremental change, especially in a fast-changing world, will not fit and will result in incumbents falling behind. Therefore, adopting new strategies and structures through discontinuous changes, while reconfiguring existing assets, will be necessary [28,30].

The final approach focuses more on cooperation with new entrants. Scholars of entrepreneurship and innovation have shown that incumbents may seek to co-opt disruptive entrants once they start challenging their market leadership [18]. Since there might be a risk in integrating entrants because they have radically different ways of conducting business, incumbents would attempt to pursue partnerships, strategic alliances, or licensing startups' technology. Marx et al. (2014) suggest that cooperation can be used as a "market test" to resolve uncertainty [31]. Once the entrants' innovation value reaches a certain threshold, the incumbent could license or integrate the technology into their own products and test it in the marketplace.

2.3. Platform Business

In many markets in the current economy, online businesses are increasingly characterized as platform economies, which are very different from offline business models. In this section, we will discuss the key features of platform businesses. More precisely, we will adopt an economic perspective regarding platforms as markets that can explain why platforms become dominant as transaction facilitators [32]. Furthermore, by reviewing the previous literature on the platform business, we aim to establish a connection between platform businesses and disruptive innovation.

The economic perspective focuses on how platforms as markets mediate transactions across different customer groups and how network effects fuel platform competition [32]. Platforms are often referred to as "two-sided" or "multi-sided markets" due to the existence of direct and indirect "network effects".

Unlike traditional businesses organized with upstream suppliers and downstream buyers, multi-sided platforms facilitate value-creating interactions among platform participants that might include users on one side and various suppliers of complementary goods and services on the other [33]. Platforms help their customers connect in various ways and thereby create value that they could not readily obtain otherwise [34]. Many of these two-sided or multi-sided platforms are subject to the network effect, a central feature for facilitating relationships among groups.

The hallmark of the existing literature on platform competition is the concept of network effects, whereby consumers place a higher value on platforms with a larger user base [35]. The increased value accrued by network participants is contingent on the number of other users in the network with whom they can interact [36]. In other words, the concept of the network effect is the fundamental driver of the platform, triggering a self-reinforcing positive feedback loop [32] and increasing returns in supply. Essentially, the greater the number of platform users, the greater the incentive for third-party developers to introduce more relevant products, and vice versa [36]. Therefore, platform ecosystems are reinforced by mutual dependency [36] as increasing numbers of intermediaries seek opportunities to facilitate transactions, and the number of customers joining a network will increase. Since dominance in network markets leads to a "winner-takes-all" mentality, it will be increasingly difficult for other firms, including the incumbents, to penetrate the high entry barrier because the existing platform has already achieved a dominant market share.

This paper will highlight the platform business, particularly in the context of the retail industry. E-commerce is usually associated with buying and selling over the internet or conducting any transaction involving the transfer of ownership or rights to use goods or services through a computer-mediated network [37]. As e-commerce shares the format of the online platform, several features of the platform economy inevitably affect the industry. However, the degree of impact differs by the type of business. There are various kinds of e-commerce, such as business-to-business (B2B), business-to-consumer (B2C), and consumer-to-consumer (C2C). In the past, when it came to online shopping malls, the B2C was the most common type, in which the owner of the website was often the supplier of products and services. However, as the technological evolution spread the use of the internet, more consumers were attracted to engaging in online transactions, and some of them even became providers, selling their own products. As a result, several businesses sought to meet the needs of users and sellers by providing online platforms that welcomed not only buyers but also sellers and that presented a mixed version of B2C and C2C, known as the "online marketplace". The advent of this new retail platform, which is based on a multisided-platform format, fueled the network effect of the platform economy, rapidly expanding supply-side economies of scale followed by demand-side economies of scale, leaving several successful examples, such as Amazon and eBay.

3. Method

This case study illustrates how SSG failed to apply its capabilities to emerging markets on its own and then switched its focus to external development through strategic alliances and acquisitions. SSG was targeted since it is one of the largest retail companies in Korea that recently entered the online marketplace. In this regard, it extended its existing channels to reach a wide audience. Furthermore, SSG is attempting to respond to the rapid changes to the retail environment seen among existing offline companies, which can reflect an exemplary response to disruptive forces within its industry. In short, SSG is representative of large Korean retailers struggling to survive in a competitive, rapidly changing industry.

The study begins with an external environment analysis, explaining the changes in the South Korean retail industry since online disruptors in the form of platform businesses and competitors arrived on the scene. In addition, this paper highlights how SSG attempted to respond to a new retail environment, starting from internal and external development. This approach enables reasoning the optimal explanation of how incumbents perceive disruptive threats and how they could manage them.

Qualitative case studies are used to describe an intervention or phenomenon and the real-life context in which it occurred [38]. It can also effectively explain how and why phenomena occur [39] through an in-depth analysis based on our research questions. A descriptive case study was applied in this research to understand the process and significance of the subject of the case [40]. Prior studies examining the effect of disruptive innovation on incumbents have adopted the case study method, starting from Christensen's study of the disk-drive industry [13]. Accordingly, we considered it appropriate to use a qualitative case study to achieve our research goals. While disruptive innovation and theoretical strategic responses have been addressed in the literature review, a case study enables us to closely examine the data within a specific context [41] by increasing practice and theoretical relevance. This will allow us to gain a more comprehensive understanding by exploring influences of a particular incumbent's characteristics and the specific challenges it faced.

As a qualitative and descriptive case study, we accessed and gathered secondary data from various sources, such as news articles about SSG's performance in the market, SSG's annual reports published on the company's website, and business reports also known as DART (an official database to inform investors of the Korean company's business portfolios, financial situation and business performance) to conduct the analysis. Specifically, during collecting relevant data, we used Naver–most frequently-used Korean searching platform–and Google as major search engines and the search was coded as "SSG", or "SSG online marketplace", "South Korean Retail Industry". In addition, we referred to archival sources, including interviews or letters from the vice chairman and CEO of Shinesegae Group, which helped us explore its vision and plan for managing its business portfolio. By using multiple sources of data known as triangulation, this paper aimed to enhance construction validity and the first two authors compared data and analysis to increase reliability [38]. The authors compared and cross-checked various data sources to promote credibility and converged in the analysis process to align with the phenomenon. Furthermore, we analyzed SSG's platform business, categorized its practices, and compared key characteristics across competitors. Using these data, we have synthesized different pieces of data into recognizable patterns and explored the relationships with relevant literature on disruptive innovation, its impact on the South Korean retail industry, and incumbents' responses.

4. The Background of SSG

The Shinsegae Department Store was established in 1930 by Lee Byungchul, the founder of Samsung Group. The company slowly grew its market share by attempting the first- ever "bargain sale" in Korea and entering the hotel business by acquiring the Chosun hotel group [42]. Nevertheless, they were regarded as a relatively minor part of the Samsung Group before they broke away from the group under the stewardship of Lee Byungchul's youngest daughter, Lee Myunghee, who inherited the business.

With a new leader, and inspired by Walmart in the US, the Shinsegae Department Store set a new milestone by establishing emart in 1993, completing its expansion from department store to wholesaler [43]. In 2001, Shinsegae Department Store Corporation was renamed Shinsegae Corporation, implying their wider vision in the retail industry. Shinsegae aggressively reconstructed not only its marketplaces but its supporting channels, which included fulfillment systems, food and beverage brands, fashion and cosmetic brands, a furniture company, and online channels, leading it to hold the largest share of the South Korean retail market [44].

In 2020, when CEO Lee Myunghee transferred some of her shares to her daughter and son–Jung Yukyeong and Jung Yongjin, the separate management system became clarified, as seen in Appendix A. Despite the two-way division of Shinsegae affiliates, the within-group bondage seemed to be maintained. Although it has been enjoying continuous growth and innovation, Shinsegae now faces an unexpected crisis—the global pandemic. According to the 2021 New Year's greeting from the Shinsegae Group vice chairman, Jung Yongjin, it was implied that the overall reconstruction of Shinsegae affiliates would be as follows: "Can we go back to the past? I can clearly say that the answer is 'no.' Our customers have been changed permanently, which means they would never go back to what it used to be. COVID-19 accelerated and realized the online transformation in the retail industry three years earlier than expected. After consumers experienced the 'contactless era,' they will never give up the convenience and stability that the new online system provided" [45]. As COVID-19 destroyed the ecosystem of the retail industry, SSG, which used to be a minor online channel, became the "relief pitcher".

SSG was founded on 1 January 2014, as an integrated online shopping platform where people could browse all of Shinsegae Group's products and make purchases using a single payment method. It initiated its business by unifying the four online distribution channels and fiercely widened its market by acquiring other subsidiary channels, as presented in Appendix B. Along with the rapid expansion of the online platform, SSG became an independent corporation in 2018 [7].

Since its launch, SSG has grown rapidly with the support of two primary retail giants, Shinsegae Department Store and emart. Figure 1 shows how SSG's revenues are increasing with each passing year. Recently, it has focused more on online services, particularly on its online marketplace, to maintain its leading position in the disruptive, rapidly changing retail industry.

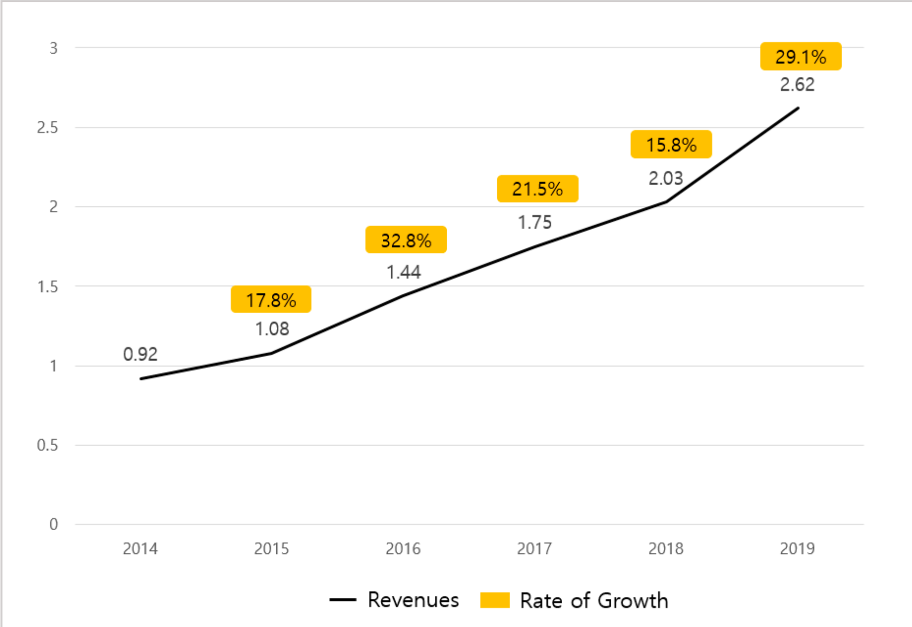

Figure 1. SSG's Rates of Growth and Revenues (USD). Source: News1 (2019) [7]. (Unit: billions, %).

5. The Korean Retail Industry

5.1. Online–Offline Gap in Business Model

Online and offline marketplaces are established upon different business models. As noted in "Reinventing your Business Model" [46], the current structure of a business model is composed of four elements: customer value proposition (CVP), profit formula, key processes, and key resources. The first element, CVP, illustrates a way to create customer value. In other words, it creates a way to help customers get what they want. In order to set the CVP of their business model, a company must clarify who the target consumers will be, what kinds of jobs should be undertaken for the customers (job-to-be-done), and what kinds of products or services the company would offer. The second factor is the profit formula, which describes how the company creates value for itself while providing value to the customer [46]. This segment helps the company blueprint its earnings by testing revenue models, cost structures, margin models, and resource velocity [46]. Lastly, the final two conditions—key processes and key resources—complete the business model. Key processes note the operational and managerial processes that allow them to deliver the company's value [46], whereas key resources cover the assets that will deliver the value proposition to the target customer. Since online retailers have aggressively supplanted offline retailers, it is easy to equate the structure of online retail with the offline market, bundling them into an identical category, such as into a business model for buying and selling. However, an over-simplification of the business model could potentially blind company executives to providing an effective strategy targeting online consumers. In fact, there were meaningful differences in the structure of online and offline marketplaces, especially in CVP.

The CVP in offline retail and online marketplaces cannot be the same. Before the arrival of online disruptors, traditional brick-and-mortar retailers only had to sell the supplied items or services to satisfy buyers' tastes. Their target customers would visit the physical marketplace to purchase products, and traditional retailers would provide what they wanted. Of course, the job-to-be-done—what customers want to achieve through purchasing—would differ slightly by customer. In this regard, some might want the after-service (A/S), while others would need fresh groceries.

However, the macroscopic framework that allowed offline markets to function as transactional hubs for products or services retained its fundamental importance for a long time. Then, online commerce arrived. At the outset, when internet shopping malls were just being established, the major targets were internet-savvy customers. Along with the home-delivery service, online malls created a new job-to-be-done for the consumers: purchasing products with a few clicks on devices without needing to leave home. Nevertheless, this "sudden breeze" blowing in from internet technology was not enough to devastate the offline incumbents since this distant purchasing system could be easily imitated. However, an updated version of the online mall turned the entire retail industry on its head. The online marketplace had arrived.

When online commerce bonded itself to the platform economy, the synergy of the two distinctive fields facilitated a strong network effect and reinvented the traditional structure of the value proposition. A platform retailer would not limit its target segment to product purchasers. The suppliers for offline retailers have become the new targets in online marketplaces, creating another dimension for the traditional job-to-be-done. Sellers-as-customers now expect the fulfillment system, webpage development, and product responsibility. Considering that the previously mentioned services used to be the primary activities of sellers, it appears that the traditional business model is undergoing fundamental change. Moreover, the pivotal change in value proposition has naturally affected the other segment: the consumer group. Fierce price competition and price comparison websites have made consumers ever more eager to purchase the "cheapest" items. Quicker delivery services, realized by cutting-edge fulfillment systems, also add to the list of jobs-to-be-done as customers now expect their orders to be completed and delivered within one working day. Increasing numbers of consumers have become accustomed to the quick delivery and cheap goods that the online marketplace offers. As a result, the traditional approach to value proposition can no longer satisfy the modern consumer. Therefore, CVP must be revised as "purchasing the cheapest product through the quickest channel without visiting the market". The problem is that the radical proliferation of online markets means we need to question whether offline markets are still necessary. Nevertheless, many values cannot be fulfilled online, especially when shopping is undertaken for entertainment or as a social outing. The more disrupted the retail industry, the more unclear the role of offline shopping channels. However, one thing does not change: the online and offline markets have now been separated into two distinct business models with different CVPs.

The distinction between the online and offline markets in CVP unquestionably generated different profit formulas. The advent of a new value proposition has reversed the cost-revenue structure of the retail industry. In the past, offline retailers simply regarded inbound and outbound logistics as part of their primary activities to generate customer value. However, as the online marketplace disguised these services for target suppliers, inbound logistics, which were always regarded as a costly process, became another channel for generating revenue. Additionally, since online platforms offer additional services to sellers, such as data analysis and customer service, additional commission fees are charged to further increase revenue. In contrast, the cost of IT has supplanted renting costs in overheads for brick-and-mortar retailers. Following innovations in CVP and the profit formula, key resources and processes have been adjusted. Additionally, and following the previous factors of the business model, the online market had to secure more human resources in IT, fulfillment, and delivery by reducing the number of people working in physical marketplaces. Of course, the processes also changed. Overall, logistics were reinforced, and the service became more efficient and quicker with the application of cutting-edge technologies such as artificial intelligence and big data.

Similar to the butterfly effect, the relatively low-key arrival of the online mall almost completely changed the structure and role of the entire retail industry, while the small change in value proposition reversed the business model. In other words, although retail executives insist on following conventional approaches to the current retail industry, their strategies will not work. In order to survive, companies must know exactly who their target customers are and what they want and must continuously update their value proposition.

5.2. The Changing History of Online Retail

5.2.1. Disruptive Innovation in Korean Retail Industry

A disruptive innovation gives the illusion of being an extremely aggressive and rapid innovation that can establish itself within one year. However, a disruptive innovation must meet several conditions or stages: (i) the entrance stage, with a market dominated by traditional powers; (ii) the growth stage, where the innovation can develop, and; (iii) the disruption stage, when the developed innovation upends the entire industry. The disruption of the South Korean retail industry took almost 20 years to be fully realized.

Recently, online commerce has begun to dismantle the entire retail industry in Korea. After the e-commerce market took off in the early 21st century, the percentage of online profit for the entire retail industry gradually increased from 2003, resulting in a compound annual growth rate (CAGR) of 23.5% in 2020 (Figure 2). Online marketplaces, online shopping malls, and social media commerce channels contributed equally to stabilizing the use of online purchases during the introductory stage. However, from 2016 to 2020, online retail began to significantly disrupt the offline markets, showing a meaningful increase in the percentage of online transactions of 18 percentage points (Figure 3), with offline retailers failing to stop the inexorable increase in online sales. Both the growth rate and profitability of the department stores, wholesalers, super-supermarkets (SSMs), and duty-free stores have been decreasing since 2012. Wholesalers, in particular, have shown a dramatic drop, which is disconcerting as they make up the highest percentage of offline business.

In summary, the moderate growth shown during the nascent period of the online retail industry sped up dramatically from 2015, becoming a disruptive innovation across the entire retail industry. Then, which factor has accelerated the disruption since 2015? The platform business began to expand and exercise its power. Coupang, the platform that began its business through social commerce, and Naver, the major business of which is to provide the best search engine in South Korea, implemented platform businesses into their online marketplace systems. Instead of designing an online "shopping mall", where the platform owner equals the supplier, these platforms welcomed an unlimited number of suppliers to become customers of the "supplier market". The increase in suppliers leads to increased numbers of customers. This phenomenon is known as a network effect and is also characterized by "demand-side economies of scale", where a given product is more attractive if a large base of consumers is using that product [32,47]. Furthermore, "disruptive marketplaces", where new types of transactions are created, serve to draw in buyers or sellers (or both) who were not already participating in the market [48].

This low-end innovation ushered in by Coupang and Naver devastated the price levels of products and services. Consequently, consumers become accustomed to the low prices of the products that both platforms provide as well as their supporting services, such as their efficient delivery and payment systems. This aspect evolves into lock-in strategies. Combining the characteristics of the platform business with their respective differentiated services has made both Coupang and Naver into retail disruptors, with the market becoming impenetrable.

To sum up, disruption often requires a growth period in which the raw innovation can become disruptive. The dynamic changes in the online retail industry enabled the disruption, accompanied by the expansion of the online marketplace platform business and the sudden arrival of the contactless era. The next section will provide a detailed explanation of the gradual process of the retail market history toward disruptive innovation along with the competitor analysis. To briefly look at the overall dynamics of the South Korean retail market, Appendix C could provide the big picture of disruption and the players in the retail industry.

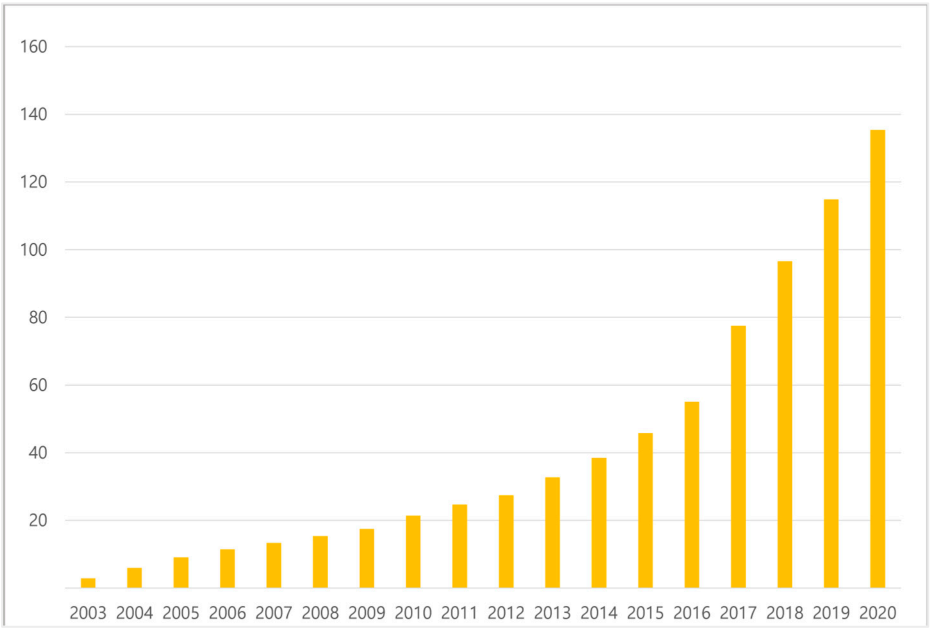

Figure 2. Online Transactions in South Korea (USD). Source: Statistics Korea [49]. (Unit: billions).

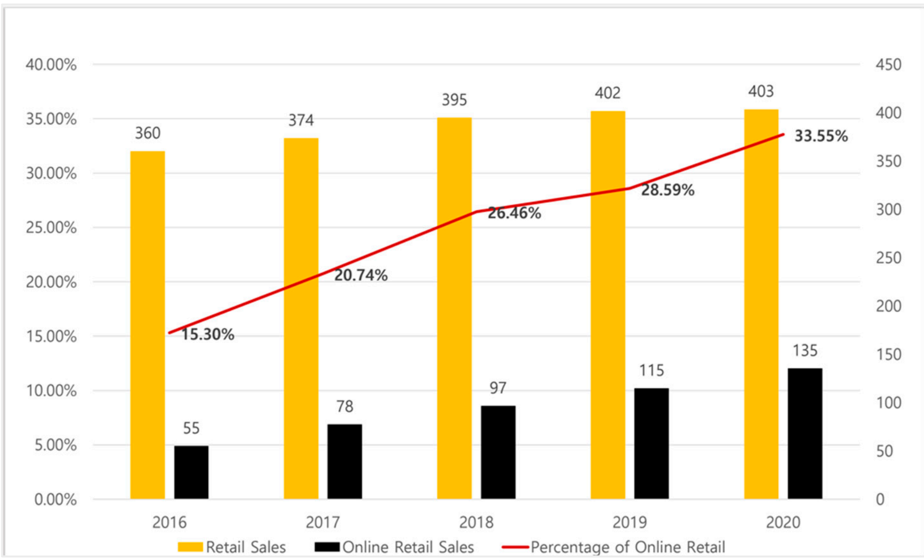

Figure 3. Percentage of Online Transactions in South Korea (USD). Source: Statistics Korea [49]. (Unit: billions, %).

5.2.2. Online Retailers Becoming Disruptors: Competitor Analysis

The First-Generation Online Marketplace: Gmarket, Auction, 11th Street

Before the online retail disruptors embarked on their business, the first-generation online retailers—Auction, Gmarket, and 11th Street—introduced the online marketplace to the Korean retail industry. These three online powers dominated the online retail sector until other competitors arrived. Due to the relative lack of mobile devices and limited internet infrastructure, the growth of the first generation was gradual and slow. The technological gap kept the entry barrier to the industry high, not only for potential competitors but also for the customers themselves. When eBay Korea, the global e-commerce platform that acquired Auction in 2001, attempted to acquire Gmarket in 2009, the issue of monopoly was raised since eBay Korea's market share would have been 87.2% after the acquisition [50]. From this extreme figure, we can note how relatively calm and uncrowded the online retail industry was. It was a wide blue ocean with few predators or prey. The competitive advantage these online pioneers achieved let them enjoy consistent power as the first-movers—eBay Korea is still the third-largest online retailer in Korea's fiercely saturated online retail industry as of 2020. However, due to the rapid penetration of current disruptors, such as Coupang and Naver, the growth in operating margins has declined significantly since 2015 [51].

The First-Generation Social Commerce: Coupang, WeMakePrice, TMON

Social commerce is a subset of electronic commerce that encompasses social media and online media that supports social interaction and user contributions that can assist in buying and selling products and services online [52]. In South Korea, the three representative first-generation social-commerce websites were Coupang, WeMakePrice, and Ticketmonster (TMON). Social commerce has business models that use various social media platforms; however, social shopping, a type of joint purchase that can offer exceptional discounts, is the most dominant form of social commerce [53]. This approach allowed it to initially grow much faster than the existing first-generation PC-based online marketplace operators. However, social commerce recognizes that the existing business model in the form of coupons through information sharing sites and social media is unsustainable and is changing the direction of the online marketplace [54]. Additionally, credibility attributed by consumers continues to decline because of controversy over false and exaggerated advertising regarding excessive promotions [55]. As a result, TMON, which used to boast sales of 500 billion won ($400 million) during its heyday, has seen this figure decrease to 150 billion won ($120 million) and has withdrawn its IPO because of decreased sales and chronic deficits [56]. In addition, WeMakePrice's sales are also declining since its core markets, which include travel and tickets to live shows, have been dealt a huge blow by COVID-19, while its business structure has been hampered by a low proportion of direct purchase products [57].

However, the growth of Coupang is worth noting. Coupang was initially far behind TMON and WeMakePrice in online sales. However, the company, known as "Korea's Amazon", is now one of Korea's top three e-commerce companies. Coupang made its first move into the online marketplace in 2016, transforming from a social commerce into an e-commerce company [58]. Coupang established a fulfillment infrastructure, an integrated logistics management system, through aggressive investment, realizing "rocket delivery" services [55]. The results of its investment in preemptive logistics infrastructure were maximized in 2020, reaching a sales growth rate of 94.7%, and continued to grow in the first quarter of 2021 [59]. Rapid delivery, simple payment methods, and user-friendly interfaces were suitable for the contactless era, particularly during the COVID-19 pandemic. Although Coupang, WeMakePrice, and TMON were launched almost simultaneously in 2010 as social commerce sites, Figure 4 shows that their revenues are very different. Coupang's growth can be attributed to a successful transformation of its business model and an aggressive investment in logistics for differentiated customer service.

Another Online Marketplace Disruptor: Naver

Naver is Korea's most popular search engine, occupying 58.1% of the search engine market in 2021 [61]. This historical record positively influenced its e-commerce channel, successfully converting its users into consumers. Naver Shopping initially offered the portal to search for products consumers wanted to purchase through Knowledge (Ji-sik) Shopping [62]. Whenever the potential customer searched, Naver listed various websites they could use. Even power retailers such as Coupang use Naver's portal to increase the accessibility of its goods. Naver then entered the online marketplace through Nshop in 2012 [63], retaining its own supplier market. Initially, suppliers were charged a fee. However, Naver abolished this system in 2014 and replaced it with Naver Store Farm, the online marketplace that does not take a commission fee from suppliers [63]. Naver Smart Store was also launched, which helped individual sellers set up their respective pages. In this way, Naver offered its platform both to individual suppliers and incumbent websites, effectively expanding its market and significantly increasing its profits and market growth rate. However, Naver still had to overcome its delivery challenge. Since Naver consists of various supplier groups, it was difficult to logistically unify them. However, in 2019 Naver partnered with CJ Logistics and began to provide a delivery service to rival Coupang. Moreover, they presented various lock-in strategies, such as NaverPay or subscription services. As COVID-19 accelerated the expansion of the contactless era, Naver also entered the live-commerce business space through Shopping Live [62]. These continuous service developments led to a 50.6% increase in profits between 2019 and 2020 [64]. Naver's commerce business currently accounts for 41% of its entire business portfolio [62].

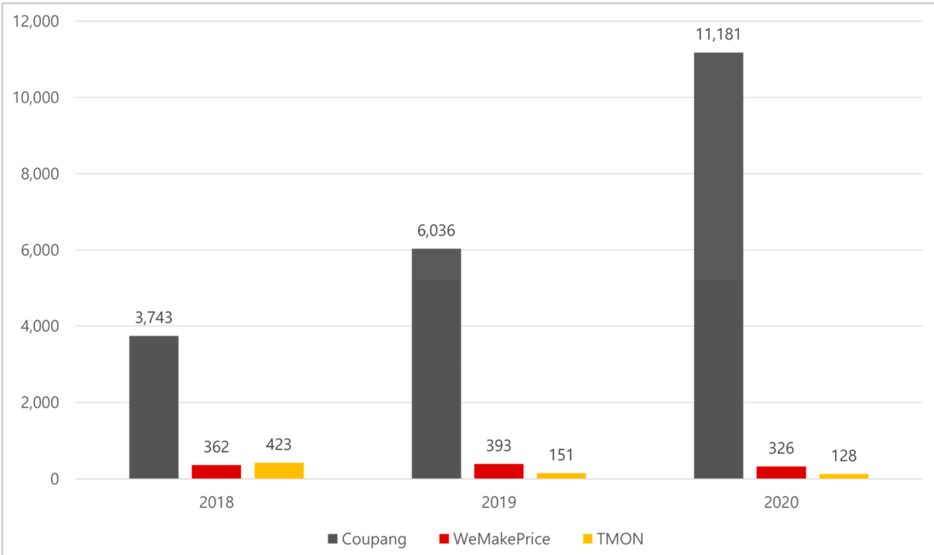

Figure 4. Revenue Comparison (USD) for Coupang, WeMakePrice, and TMON. Source: Newspim (2021) [60]. (Unit: millions).

6. SSG's Response to Disruptive Innovation

6.1. SSG's Internal Attempt to Penetrate the Online Marketplace

Shinsegae affiliates established their own online channel, SSG, in an internal attempt to compete with online disruptors. The two major competencies from Shinsegae affiliates—a reliable brand image and offline market expertise—facilitated the successful beginnings of SSG.

Shinsegae achieved and maintained its premium brand image from its duty-free shop and department store businesses. According to big data statistics from the Korea Institute of Business Reputation, Shinsegae and emart were ranked first in the duty-free [65] and wholesale industries [66], respectively. Moreover, the report reveals that the Shinsegae Department Store [67] is consistently regarded as one of Korea's top three department stores. Thanks to Shinsegae's luxurious brands and fresh daily products from emart, the affiliates solidified its reliable brand image. Additionally, unlike other competitors who began their business from scratch, SSG embraced the two previously operated shopping malls, "emart Mall" and "Shinsegae Mall", motivating users to approach the newly integrated online channel with an open mind. Consequently, SSG, Shinsegae subsidiaries' subordinate channel, now earns stable profits based on its brand credibility and customer loyalty.

Along with its brand image, Shinsegae, as an offline retail giant, had considerable expertise in the fulfillment system. This advantage enabled the NEO center to be established, which boasted a cutting-edge automatic distribution system. Any trivial or physical process was replaced by automatic rails and pickers. Additionally, and because Coupang is mired in controversy regarding worker exploitation, the NEO system achieved cost efficiency by reducing labor costs and creating a worker-friendly environment. Additionally, as emart has been selling fresh groceries for many years, the temperature of the NEO warehouse is kept under eight degrees Celsius, creating an effective cold-chain system where fresh products are processed efficiently and spoilage is minimized [68].

SSG was an online shopping mall that integrated all of Shinsegae's online shopping channels. By combining its channels under a single website, it attempted to sustain its competitiveness against online disruptors. However, the company's sustaining innovation—targeting the major consumers of pre-existing online channels—began to lag as it entered the growth stage of the online marketplace.

6.2. Core Competency Turning into Core Rigidity

When Shinsegae decided to target the online retail industry, its core competency was revealed to be a core rigidity in this new field, as it failed to cope with disruptive innovation. Its internal attempt eventually became a core rigidity when facing disruptive innovation [21] because of an over-reliance on its affiliates and a lack of the core value for the platform economy.

Due to the strong bond between SSG and Shinsegae affiliates, the brand power, which is influential, worked as a core strength of its differentiation strategy to challenge disruptors, enabling SSG to raise the overall quality and sell premium products. However, if innovative disruptors monopolize low-end markets, differentiation as a strategy is no longer effective. Cennamo and Santalo (2013) showed that a differentiation strategy based on distinctive positioning could only improve a platform's performance when it is highly distinctive relative to its rivals [35]. In other words, the slight brand differentiation of SSG could not realize meaningful penetration in the online marketplace. Consequently, as late entrants to online commerce, SSG struggled to gain traction as consumers placed far less value on incremental enhancements to the platform's interface or functionality than on their ability to interact with a large number of other users [69].

However, SSG consistently pursued and relied heavily on the synergy among the Shinsegae affiliates. This synergy was even presented in SSG's sales. According to the Disclosure of Large Corporate Groups from Korea's Data Analysis, Retrieval, and Transfer Sysytem (*DART)*, SSG sales made through its affiliates accounted for 25.6% of its total sales in 2020 [70]. Once SSG decided to protect its core competency, which is the brand power of the affiliates and applied it to the online business, the regulations to prevent brand reliability from market cannibalization were implemented. The problem was that these efforts became the core rigidity of the online marketplace.

From the beginning, SSG restricted items and stuck to its products to maintain reliability. Opening the market to sellers seemed suicidal since this would have promoted fierce competition, depreciating the attractiveness of affiliates' products. However, this self-protecting stance has backfired. By limiting the product diversity of the online marketplace and the entrance of other suppliers, SSG experienced difficulty in achieving the network effect on its platform. Regarding the network effect, raising the number of suppliers increases the influx of potential customers, achieving demand-side economies of scale. Therefore, most competitors struggled to lower barriers and welcome unlimited suppliers to increase the number of products sold. Despite this tendency, SSG retained a conservative operating policy, with food, luxuries, sanitary products, and baby products being absent from its online marketplace [71]. Consequently, SSG only sells 10 million registered products, representing 5% of the total products offered by Coupang and just 1% of what is offered by Naver (Figure 5) [72,73]. Even LotteOn, an offline incumbent that recently entered the online marketplace, sells 35 million products [74]. Thus, SSG's fear of losing its brand competitiveness has turned its traditional core competencies into core rigidities regarding the platform business.

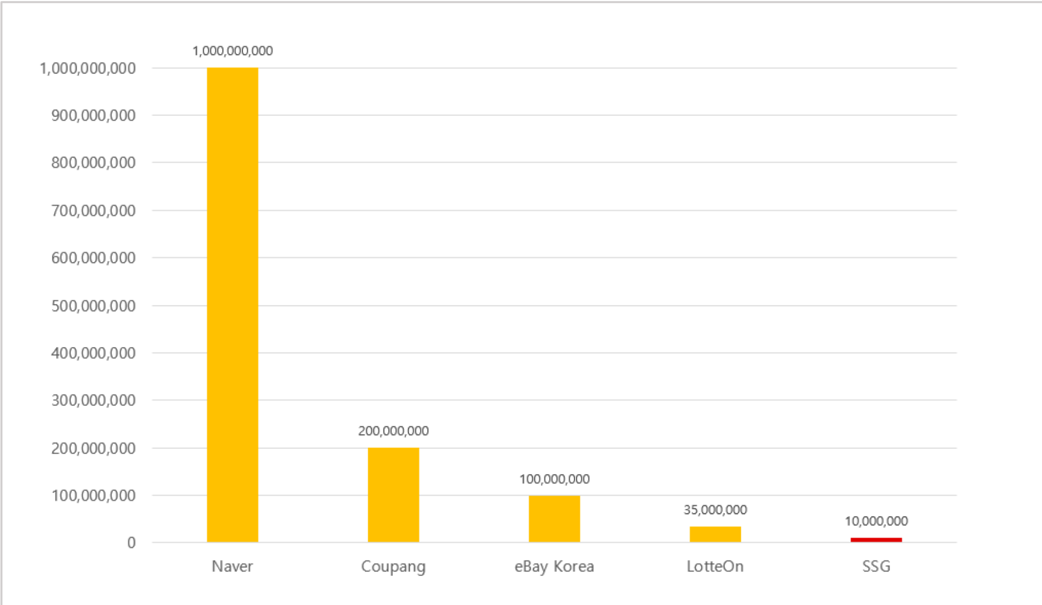

Figure 5. Number of Products Registered. Source: Money S (2021), ChosunBiz (2021) [72–74]. (Unit: EA).

Another factor that causes this grave rigidity is the misinterpretation, or ignorance, of the online market business model. In other words, SSG still seemed to identify itself as a supplier rather than a platform intermediating a group of sellers with buyers. As previously mentioned, online retail is powerful because of the network effect and economies of scale, which are often boosted by the expansion of supplier groups. However, SSG's user interface is not sufficiently supplier-friendly. It uses the "portal" format, which shows the various brand channels within SSG. The first webpage contains several icons linked to the main pages of, for instance, emart, Shinsegae Mall, and emart Traders. When a potential consumer searches for a specific product they want to purchase, SSG provides a list of identical products marked with either "Shinsegae Department Store" or "emart Mall". If the consumer decides to buy from emart Mall and clicks the item, the emart Mall website would pop up. While SSG still adopts the vertical structure for its webpage, other competitors, such as Coupang or 11th, presented the products under a flat structure. To illustrate, Coupang offers identical webpage formats regardless of which companies or suppliers were carrying the items. Naver uses a similar website structure as SSG—the "portal" type—connecting buyers to other websites. Notably, both Coupang and SSG are included on the list of websites. However, Naver only takes the role of "mediator". Thus, it only provides the online space to link sellers with buyers. In other words, both Coupang and Naver have no fixed scope for their "own" brand. This difference could hinder suppliers from registering their products within SSG since its overall "competency" seems to benefit SSG rather than its suppliers.

SSG's seemingly ambiguous stance regarding whether to be the supplier or mediator and whether to secure reliability or open the marketplace to any suppliers also confuses potential consumers. Usually, the major job-to-be-done for the online marketplace involves offering the platform to provoke price competition so that users can easily compare and search for the cheapest product. However, customers of SSG would be slightly different. Due to the policies limited to some suppliers, the supplier group will be downsized, weakening price competition. Therefore, consumers would visit the website only to purchase the products supplied by Shinsegae affiliates, not anticipating the "cheapest" items. In other words, the job-to-be-done for consumers remained unchanged despite its transition from the online shopping mall to the online marketplace.

Due to the obsession with maintaining the core competency inherited from Shinsegae affiliates, SSG's ambitious relaunch as an online marketplace seemed to be a sub-channel for its affiliates. The company's differentiation strategy, high reliability, credible brand image, and various affiliates who could be approached online attenuated the chance to welcome the countless suppliers willing to register their items. Of course, some experts point out that merely increasing the number of sellers might cause an increase in the number of unwanted participants or opportunistic behavior among them, potentially degrading the quality of the platform and causing more desirable participants to leave [75]. However, this explanation makes sense only when SSG has already achieved a certain level of economies of scale or is a distribution channel solely for Shinsegae affiliates. However, the problem is that SSG recently announced its intention to lower its barriers and open the market, and in the online marketplace, achieving economies of scale is the key success factor. Adapting an online marketplace will increase the number of suppliers, thereby generating more traffic to the platform, enticing many customers into using SSG, and achieving economies of scale. In other words, limitations on suppliers did not engender a fair projection of the value proposed to the customers. Rather, it was an attempt to protect the product competitiveness of Shinsegae's affiliates.

In summary, SSG's fear of losing its brand competitiveness has turned its past core competencies into rigidities detrimental to its platform business. In contrast to competitors who endeavor to grow the supplier group to use the network effect as a core strength, SSG is increasing limitations on suppliers to downsize the price competition within its online platform. Securing product reliability and brand power could be critical. Also, cannibalization must be controlled. Still, the latecomer in online retail must be aware of the features of these platforms. In this regard, the smaller the supplier-side, the smaller the likelihood of the demand side. Given SSG's obsession with its core competency as an incumbent brick-and-mortar firm, it ignores the challenges it must face as an online platform— achieving both network effect and economies of scale. Eventually, SSG's uncertain posture as an online marketplace would also blur customer cognition on its platform. According to the Disclosure of Large Corporate Groups in 2020, SSG generated 24.9% of its sales from emart and the Shinsegae Department Store—the powerful brick-and-mortars in South Korea—by charging a sales agency fee [70]. Conversely, SSG purchased 22,680 USD of products from emart to sell online [76]. Given that fresh groceries occupy 47% of SSG's total sales, which is the only item distributed by Shinsegae affiliates [77], this figure implies that most consumers visit SSG to purchase items from affiliates. In other words, customers still recognize SSG as the online distribution channel for its affiliates, seldom as an online retail platform such as Coupang, without noticing SSG's repositioning to the online marketplace industry. The result of this core rigidity means the company is now losing its market share and limiting product diversity in the online marketplace. This outcome will lessen the market's attractiveness, discourage sellers from entering the market, and perpetuate the vicious cycle.

The online marketplace industry is now a red ocean saturated with strong competitors such as Naver and Coupang, known as innovative disruptors. Also, SSG is a latecomer with only a 3% market share, putting it far behind its competitors. Therefore, it seems crucial for SSG to clarify its status—whether to be the online delivery channel for Shinsegae affiliates or be the independent online marketplace—and rebuild its strategy. Furthermore, once SSG identifies itself as an online marketplace, it must be aware that the core competency it previously pursued could become a core rigidity.

6.3. External Development: Strategic Alliance with Naver and Acquisition of eBay

Although SSG is continuously growing and steadily increasing its profits, it cannot afford to be complacent. Korea's e-commerce industry has high-growth potential, but the competition is fierce. Breakthroughs are necessary for SSG to retain its position in the retail market. Over-dependence on its brand and limited recognition by consumers is resulting in a low market share in the online marketplace. As a result, SSG's internal attempts to cope with changes made by disruptors have thus far failed. The company has acknowledged that new capabilities for its online business, such as processes and values, are needed to ensure success. Therefore, it is currently turning to external development, such as forming a joint venture with Naver and acquiring eBay Korea. This approach is indicative of SSG's awareness of its limitations in the online marketplace and its struggle to strengthen its online business capabilities.

SSG formed a strategic alliance with Naver in March 2021, exchanging 250 billion won ($200 million) in stock [78]. The synergy between both companies is expected to produce a win-win outcome, with each compensating for the other's weaknesses and strengthening combined overall competitiveness. From Shinsegae Group's perspective, it could use Naver's platform to raise awareness for its (SSG) mall, affording it easy access to an enormous customer base [79]. By contrast, Naver Shopping lacked an effective logistical system for fast delivery, and it could not handle fresh food. Both companies are in the process of collaborating in various fields, such as promotions for free delivery, integrated membership, or live-commerce service [80], using nationwide offline distribution networks and Naver's online platforms. For example, emart entered Naver's Shopping service, offering fresh food and other Shinsegae brands, such as Starfield [81]. In the long run, it is planning to develop a smart delivery system that utilizes regional bases for logistics centers [82].

Shinsegae acquired eBay Korea in June 2021 for 3.4 trillion won ($2.7 billion) [83], which was one of SSG's most significant online business investments. The company attempted to gain expertise and adopt the business model of the original online marketplace through merger and acquisition. This strategy was supported by the fact that SSG began by using offline distribution, which is completely different from online retail processes. Its existing business model was insufficient to compete with disruptors because incumbent firms are confronted with constraints arising from business-model processes such as path-dependent behaviors and dependence on existing customer resources. Fundamental problems with a business model cannot be solved simply by internal readjustments. In addition, SSG lacked the network effect of a multi-sided platform, the fundamental premise in platform-mediated settings. Product restrictions limited the number of users, eventually attracting neither suppliers nor users to the platform in sufficient numbers. Consequently, SSG was unable to take advantage of the key characteristics of the platform. The acquisition of eBay Korea will afford a new opportunity for SSG to develop and shift to a new business model or even develop an innovative hybrid business model. After achieving the goal of being the online power, "the collaborative model between SSG and eBay Korea is expected to realize the integrative online-offline ecosystem in the end", said SSG CEO, Kang Heeseok [84].

eBay Korea is one of the largest online marketplaces in Korea, operating e-commerce platforms such as Auction, Gmarket, and G9. Its market share is around 12%, putting it third behind Naver (18%) and Coupang (13%) [85]. Given that SSG's market share is 3%, it is expected to be ahead of Coupang by 15% after the acquisition [86]. SSG can expect to gain 2.7 million paid memberships to eBay Korea and realize economies of scale, thereby increasing inflow into SSG by acquiring eBay Korea. Since this is the first case of offline distribution and online marketplace acquisition in South Korea, it is worth considering how SSG can effectively utilize eBay Korea with a differentiated strategy.

7. Discussion: Disruptive Innovation, Platform Business in the Retail Industry, and Open Innovation Dynamics

This study analyzed incumbent companies' inability to respond to disruptive change in the retail industry in Korea by using SSG as a case study. Starting as an online retail platform of Shinsegae affiliates, SSG initially had many strengths in terms of brand awareness, reputation, and retail expertise, supported by its parent company's core competencies. Based on these core competencies, SSG emerged as the new market leader and succeeded in positioning itself in the market. However, according to existing research and analysis, these core competencies are now hindering SSG's expansion and have turned out to be core rigidity. In response to the disruption of innovators, SSG went through various attempts, from internal rearrangements to enlisting the help of external developers to make a successful transition into the online marketplace. Appendix D shows a detailed timeline of the SSG's development in the online retail market. The analysis focused on the characteristics of the industry and the internal and external challenges regarding why Shinsegae affiliates, who were existing brick-and-mortar retail conglomerates, showed this active movement through SSG.

We looked at trends in the retail industry and found them to be similar to the development process of disruptive innovation. The South Korean retail industry changed rapidly and became far more competitive with the development of information technology. Currently, both Naver and Coupang are innovative retail disruptors to the point where incumbent companies feel threatened. In fact, they did not bring about these major changes in the industry from the beginning, such as the concept of disruptive innovation. They started as a niche market, initially regarded as inferior. However, they have now become a mainstream market as they continue to create new values and improve quality for consumers. Combined with platform business in retail, also known as the e-tailing business, the characteristics of the platform business played a significant role in the paradigm shift that took place in the retail industry. The network effect is a virtuous cycle that has the power to lock-in various groups, including buyers and suppliers, in one place. As the number of users increases, the possibility of connection increases, and thus, the value of the network also increases. This means that various products can be offered to consumers at lower prices, especially in an online marketplace, which is considered a low-end market. Within this platform business, network effects among multi-sided markets have been maximized, and winner-take-all laws have been followed. By building business models that were very different from those of incumbents [12] with the characteristics of a platform business, this enabled Naver and Coupang to move into the mainstream market as the progress of disruptive innovation accelerated. In other words, changes in business models caused by platform business have led to disruptive innovation throughout the retail industry, making it more difficult for incumbents to respond. This phenomenon occurred because of the absence of factors for ensuring the success of a platform business by simply applying SSG's core capabilities to an online marketplace. In short, SSG's core competencies, which were suitable when applying to established routines, do not fit in the online marketplace. Having failed with their internal efforts, SSG turned outwards and established a strategic partnership with Naver, and Shinsegae acquired eBay Korea to immediately access new knowledge and skills, moving away from the firm's competencies. In other words, its attempts arose from the limitation of over-reliance on exploitation to avoid internal conflicts and reinforce the value of exploration.

Thus far, the discussion has focused on factors that make disruptive innovation so powerful, explaining its devastating impacts on incumbent firms. However, a question remains as to whether innovative capability or a response strategy needs to be internally developed or to what extent a firm may simply buy. Despite the apparent importance of managerial practices in responding to innovative challenges, empirical studies on how incumbents develop and change their response to the threat of disruptive innovation over time are rarely analyzed. Prior studies tend to view the three approaches—"build, buy and borrow"—as separate and distinct modes. The focus revolved around choosing the right mode to make more effective growth, considering both the pros and cons of each of the different modes. However, this may oversimplify the options, especially in dynamic terms, by considering industry dynamics and innovations. Therefore, in this paper, the sequence with which SSG has adopted the managerial practices showed that the above three approaches could be interrelated. In other words, we highlighted SSG's responses as sequential and evolutionary to disruptive innovation. In particular, SSG has implemented strategies to manage disruptive innovation using the following sequence: (i) exploitation of internal resources and capabilities; (ii) the creation of partnerships, i.e., strategic alliance with Naver, and; (iii) the implementation of acquisitions to absorb external knowledge capital. Therefore, this suggests that the way the incumbents respond to disruptive innovation itself is not static but dynamic. By reviewing the process as

SSG evolves to the next step, we noticed that “strategic fit”, including knowledge and organizational structure, is critical since its core competency could not be applicable in other domains, therefore becoming a core rigidity. Accordingly, a deeper understanding of the link between trends in the South Korean retail industry and SSG’s dynamic responses is gained.

Furthermore, we can understand why SSG’s locus of innovation shifted from internal to external paths in terms of “open innovation”. According to Henry Chesbrough (2006), open innovation is defined as “the use of purposive inflows and outflows of knowledge to accelerate internal innovation, and expand the markets for external use of innovation, respectively” [87]. It has become an important new paradigm for incorporating external ideas and sources in organizations’ innovation processes. A company that is too internally focused—a firm with a closed innovation approach—is prone to miss several opportunities because many will fall outside the organization’s current businesses or will need to be combined with external technologies to unlock their potential [88]. As in SSG’s case, while its core competency is key to a firm’s success and securing its position within the industry, our results show that its internal capabilities are no longer valuable. According to Open Innovation-Complexity Adaptive System Evolutionary Change (OCE) Dynamics [89], the open innovation for SSG has been accelerated by complex adaptive systems, which is, in this case, a business model combined with demand-side economies of the network. In other words, open innovation encourages breaking traditional organizational boundaries and achieving dynamic processes [90]. This made SSG implement open innovation practices in various ways, such as alliances and acquisitions, to promote collaboration with external knowledge and experience. Therefore, open innovation strategically shows how a company can use its business model or innovative process through multiple paths by leveraging internal and external sources of ideas.

To summarize, in SSG’s case, we highlighted that the cause of the difficulties in responding to disruptive innovation from the incumbent’s perspective lies in a different business model. We suggest that online marketplace based on a multisided-platform fueled the network effect of the platform economy, which is the key trigger of disruption. The business model of the platform economy, which differs from that of brick-and-mortar businesses, blinds incumbents from successfully defending against online disruptors. Therefore, the study provides empirical support for Christensen’s (2006) assertion: disruptive innovation is the business model within which technology is deployed that paralyzes incumbent leaders; in other words, it was not a technology problem; it was a business model problem [91] (p. 43). Furthermore, this study takes a longitudinal perspective, showing how SSG’s response strategy evolves over time. We regard the external alliance and acquisition as a means to overcome core rigidities caused by the reconfiguration or misapplication of its existing capabilities. In short, the interplays between disruptive innovation and platform business as well as its incumbent’s dynamic responses are our main findings to the research questions.

SSG must consider how it can change or adopt new business models alongside its established ones. Furthermore, if SSG chooses to keep two business models within one organization after the acquisition, it should effectively manage two separate and distinct units and find ways to concurrently create synergistic effects. However, although many incumbent firms respond to the emergence of a disruptive business model by adding the new business model to their existing ones, this approach does not always guarantee better performance. On the contrary, some incumbents will be worse off with a new business model [92]. Therefore, SSG must find appropriate responses or solutions for its specific context and circumstances to create a new sustainable competitive advantage in order to disrupt the disruptor [93].

8. Conclusions

8.1. Implications: The Theoretical and Practical Value of This Research

The findings of this research provide the following theoretical and practical contributions.

First, the research extends and complements prior studies on disruptive innovation using the example of SSG. There are still disputes and inconsistencies between the theory and the real business practice, which has led to doubt regarding the legitimacy of the theory and its role. This paper gives clear evidence using real-life cases to reduce the gaps between the theory and practice and is expected to fully integrate such research analysis to further contribute to the development of the theory. We used the theory of disruptive innovation to highlight the environmental changes in the Korean retail industry, focusing on e-commerce. Since the early 2000s, several generational changes had occurred before this phenomenon was deemed a major threat to large offline distributors, akin to the concept and phases of disruptive innovation. Disruptive innovation does not appear instantly. Rather, it is initially regarded as inferior to the incumbents' accepted performance dimensions, although it eventually dominates the market. In terms of incumbents' response strategy, this paper systematically subdivided the process of how SSG responds to disruptive innovation. When SSG was oblivious to disruptive innovation in the early stages, it responded by simply integrating its channels online. However, this "routine rigid" approach made SSG fall behind and created proactive steps toward disruptive innovation. By looking at the changes in the domestic retail industry over the past 20 years and SSG's response process, our analysis gives new insights as to why SSG was ultimately forced to actively respond to disruptive innovation. Although previous studies suggest that disruptive innovation does not seem to be an optimal option for incumbent companies, our research showed that the growing market trends through online distribution and the characteristics of platform-based settings make it inevitable that traditional retail conglomerates would have to respond. Overall, our study indicates that the connection between disruptive innovation and the platform business is necessary and worth considering, which brings us to another implication. In the past, disruptive innovation theory was occasionally considered a technology–change framework [18]. However, our analysis highlights the importance of the business model, which is the fundamental factor behind disruptive innovation. According to Christensen et al., this can be a more broadly explanatory causal theory of innovation and competitive response [18]. Maintaining an original business model in the face of the commercialization of disruptive technology or innovation can limit how business is conducted [13,94]. In other words, business models can pose limitations to successful incumbents regarding the difficulties they encounter of the possibility of them going out of business [18,95]. At the same time, it provides an opportunity or a solution for incumbents to position themselves to effectively counter disruptive innovation, which is why Shinsegae acquired eBay Korea. With a dynamically changing market, it is clear that innovation in business models has become a key factor that must be considered in the strategies of all companies [94,96].

Furthermore, this case study gives specific evidence supporting the claim that balancing exploration and exploitation within each mode undermines firm performance because of conflicting routines, negative transfers, and limited specialization [97]. From the perspective of the exploration–exploitation framework, SSG's responses can be categorized as particular modes of operations such as internal organization, alliance, and acquisition, and at the same time, whether SSG should exploit or explore. The failure of its internal attempt can be interpreted as the misapplication of knowledge because its existing knowledge and routines are likely to develop path dependence and delay exploration. In other words, the firm's expertise with established knowledge conflicts with the practice of engaging in boundary-spanning activities and experimenting in a single mode (in this case, internal organization). As a result, as SSG attempts to reach beyond the scope of its business, inevitable reliance on core competencies fostered core rigidities and failed to gain the scale and scope of economies. Therefore, this paper provides new empirical evidence of prior research on ambidexterity, especially the interplay between exploration and exploitation across multiple modes. We contribute to this literature by pointing out the challenges of balancing within mode in the process of analyzing SSG's responses to disruptive innovation, focusing on "success traps". In other words, our findings give deeper insight from different perspectives, into why Shinsegae decided to acquire eBay Korea to maximize the value of exploration, considering some of the impediments when balancing within mode and coordination challenges. Therefore, we suggest balancing across modes as an effective approach for SSG to cope with the ambidexterity challenge and disruptive innovation in the long run.

To this end, our findings also have some meaningful, practical implications for managers who are facing significant challenges in addressing innovative disruptions. Managers from SSG can refer to this study when contemplating specific strategies for utilizing eBay Korea by knowing why SSG could not become a market leader in an online marketplace with a low market share. More specifically, the lack of understanding of platform business and the differences in online and offline business models turned their core competencies into core rigidities. Based on the above results, this study suggests that SSG must strive to compensate for its insufficient online capabilities through platform acquisition in terms of a viable business model, while separating exploration from exploitation. Moreover, both online and offline, discrete features can have meaningful implications regarding the current Metaverse wave. This trend has led tech enterprises to invest their equity into constructing virtual worlds. Following this new technological era, the role of platform creators is becoming critical. However, when initiating business in this computer-generated universe, which goes beyond the physical world [98], executives must realize the past dichotomous approach toward the online and offline environments will oversimplify their business model, repeating the mistake that once turned core strengths into rigidities, just as SSG approached its online channel with its traditional, offline-centered perspective. To illustrate, assume that a company is embarking on a meta-commerce business in the virtual world. In this case, simply constructing the service based on the characteristics of online and offline consumers might lead to an inappropriate strategy. Instead, the company must observe the behaviors of various users and fully understand the nature of the Metaverse, apart from the "old" online–offline approach, so that it can discover the other needs, or job-to-be-done, which can be adopted in the virtual reality. For example, consumers in the Metaverse might be into "spending cyber money effectively, or getting rewarded with their game score" unlike users in online and offline environments whose consuming goal may be focused on getting the cheapest product or shopping for socializing. In this regard, how users recognize tokens could differ from how people treat money. If any distinctive features contrast with the online–offline world, and if any company successfully commercializes them while competitors are struggling to extend their core competency to virtual reality, another disruptive innovation will begin, turning the online platform powers into "incumbents".

8.2. Limitations and Future Research Agenda

A key limitation of our study stems from the qualitative method used and the narrowness of the time range of analysis. Since this study examined the phenomenon of disruptive innovation in the retail industry and SSG's response to it, the findings have a lack of generalizability to other firms both in Korea and other countries. Hence, future systematic empirical validation is necessary regarding whether the findings of this study can be empirically tested. Furthermore, although a single case study serves as an effective means to explain why and how a particular situation has emerged over time in depth [39], future research can extend the findings of this study by conducting multiple case studies that compare the similarity and difference of incumbent responses to disruptive innovation through cross-case analysis.

Since we are in the early stages of the merger and acquisition between SSG and eBay Korea, there is currently no specific plan or business portfolio regarding how it intends to utilize this acquisition. Therefore, it is necessary to continue to observe its process and analyze the quantitative results of actions taken by the firm and the suitability of the business model in the future. In addition, it would be interesting to compare how the motives that caused disruptive innovation differ, expanding to different industries.

This paper focuses on the retail industry, which sees the business model as the key driver in responding to disruptive innovation. However, there might be other variables that would influence how incumbents respond to disruptive shifts in other industries. In other words, managerial solutions and incumbents' responses to disruptive innovation will vary accordingly.

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Appendix A

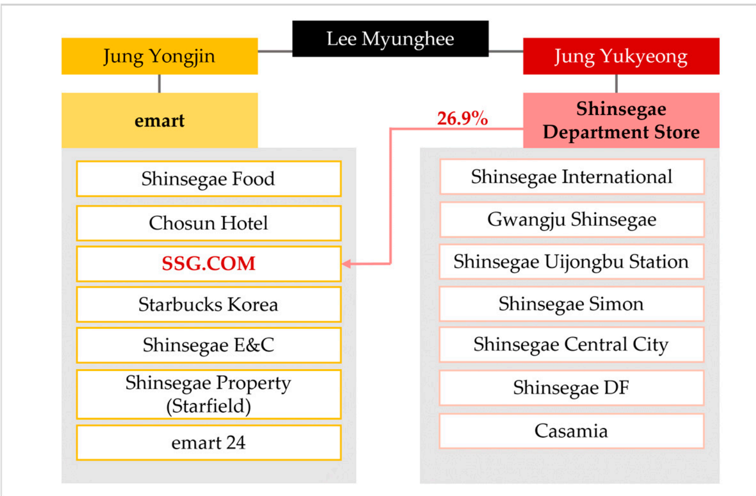

Figure A1. Affiliates System of Shinsegae and the Flow of Ownership [99].

Appendix B

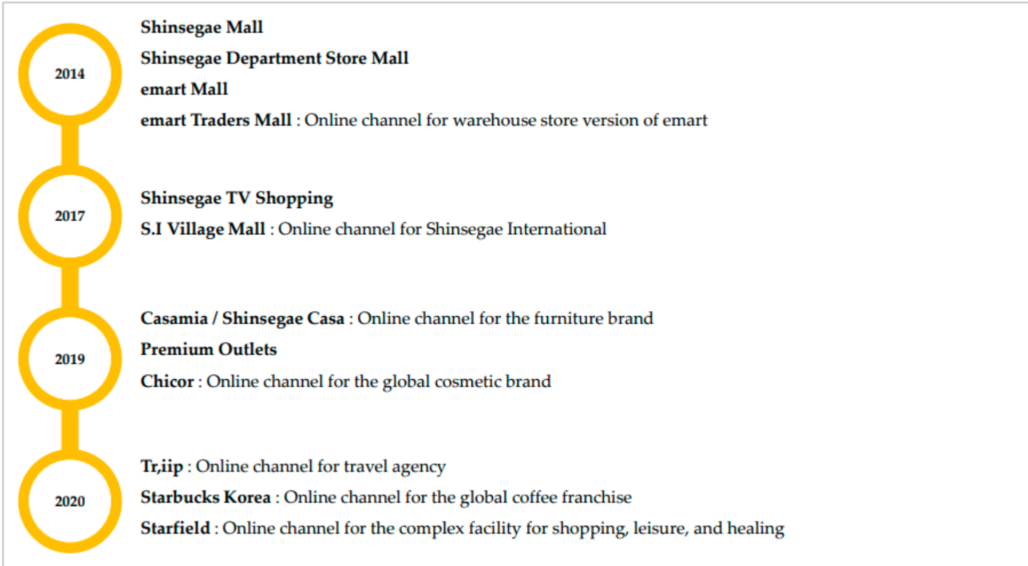

Figure A2. Various Online Channels' Year of Entry into SSG [100–103].

Appendix C

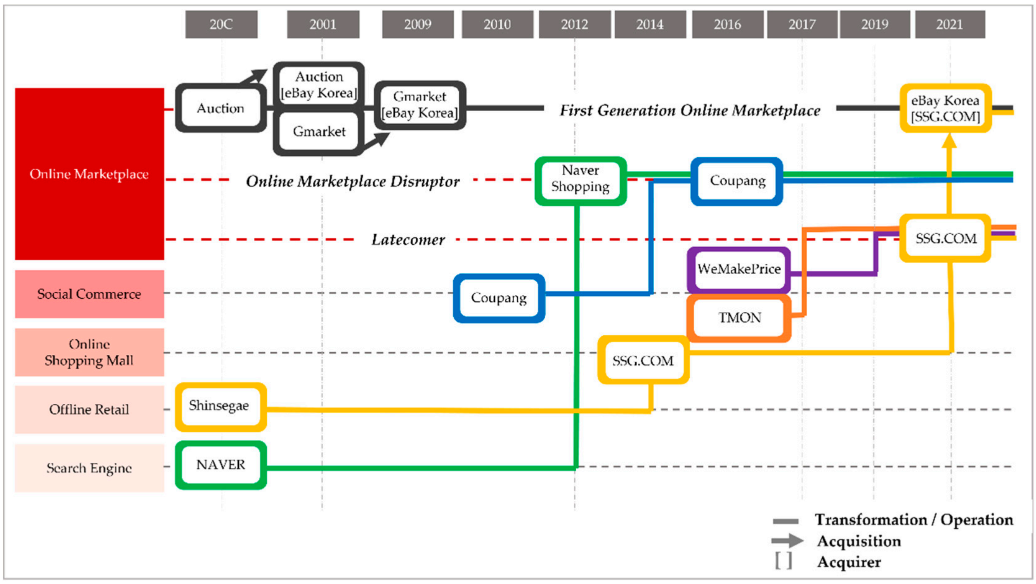

Figure A3. History of Disruption in the South Korean Retail Industry.

Appendix D

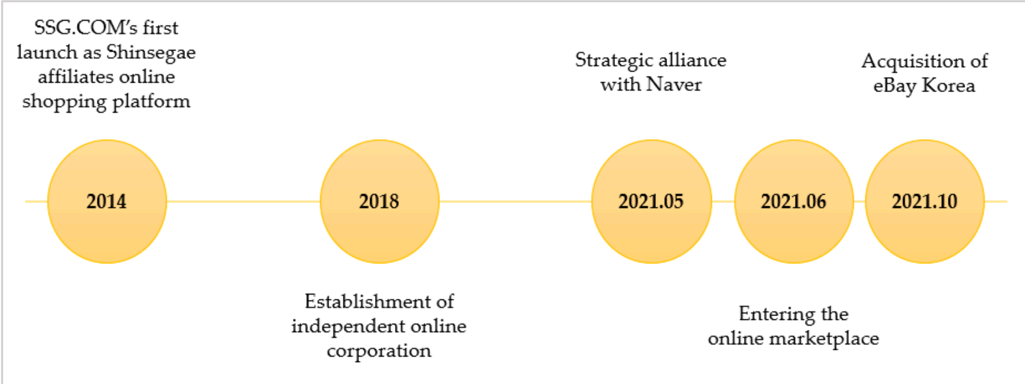

Figure A4. Timeline of SSG's Development [103].

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