Chapter 14

E-Commerce Strategy and Global EC
Learning Objectives

1. Describe the strategic planning process.
2. Describe the purpose and content of a business plan.
3. Understand how e-commerce impacts the strategic planning process.
4. Understand how EC applications are formulated, justified, and prioritized.
Learning Objectives

5. Describe strategy implementation and assessment, including the use of metrics.
6. Evaluate the issues involved in global EC.
7. Analyze the impact of EC on small and medium-sized businesses.
strategy
A broad-based formula for how a business is going to compete, what its goals should be, and what plans and policies will be needed to carry out those goals.
e-commerce strategy (e-strategy)
The formulation and execution of a vision of how a new or existing company intends to do business electronically
Exhibit 14.1 How the Internet Influences Industry Structure

- **Threat of substitute products or services**
  - (+) By making the overall industry more efficient, the Internet can expand the size of the market
  - (-) The proliferation of Internet approaches creates new substitution threats

- **Bargaining power of suppliers**
  - (+) Procurement using the Internet tends to raise buyers’ bargaining power over suppliers, though it can also give suppliers access to more customers
  - (+) The Internet provides a channel for suppliers to reach end users, reducing the leverage of intervening companies
  - (-) Internet procurement and digital markets tend to give all companies equal access to suppliers, and gravitate procurement to standardized products that reduce differentiation
  - (-) Reduced barriers to entry and the proliferation of competitors downstream shifts power to suppliers

- **Rivalry among existing competitors**
  - (-) Reduces differences among competitors as offerings are difficult to keep proprietary
  - (+) Migrates competition to price
  - (+) Widens the geographic market, increasing the number of competitors
  - (+) Lowers variable cost relative to fixed cost, increasing pressures for price discounting

- **Buyers bargaining power of channels**
  - (+) Eliminates powerful channels or improves bargaining power over traditional channels
  - (-) Shifts bargaining power to end consumers
  - (-) Reduces switching costs

- **Buyers bargaining power of end users**
  - (-) Reduces barriers to entry such as the need for a sales force, access to channels, and physical assets—anything that Internet technology eliminates or makes easier to do reduces barriers to entry
  - (-) Internet applications are difficult to keep proprietary from new entrants
  - (+) A flood of new entrants has come into many industries
Organizational Strategy: Concepts and Overview

- The Strategic Planning Process
  - Strategy initiation
  - Strategy formulation
  - Strategy implementation
  - Strategy assessment
Exhibit 14.2 The Strategic Planning Process

- Strategy Initiation (14.4)
- Strategy Formulation (14.5)
- Strategy Implementation (14.6)
- Strategy Assessment (14.7)
Organizational Strategy: Concepts and Overview

- The Strategic Planning Process
  
  **strategy initiation**
  
The initial phase of strategic planning in which the organization examines itself and its environment
Organizational Strategy: Concepts and Overview

- Specific outcomes from the strategy initiation phase include:
  - Company analysis
    - *value proposition*
    The benefit that a company’s products or services provide to customers; the consumer need that is being fulfilled
  - Core competencies
  - Forecasts
  - Competitor (industry) analysis
strategy formulation

The development of strategies to exploit opportunities and manage threats in the business environment in light of corporate strengths and weaknesses
Organizational Strategy: Concepts and Overview

- Specific activities and outcomes from the strategy formulation phase include:
  - Business opportunities
  - Cost-benefit analysis
  - Risk analysis, assessment, and management
  - Business plan
Organizational Strategy: Concepts and Overview

- The Strategic Planning Process

**strategy implementation**

The development of detailed, short-term plans for carrying out the projects agreed on in strategy formulation
Organizational Strategy: Concepts and Overview

- Specific activities and outcomes from strategy implementation phase include:
  - Project planning
  - Resource allocation
  - Project management
The Strategic Planning Process

**strategy assessment**

The continuous evaluation of progress toward the organization’s strategic goals, resulting in corrective action and, if necessary, strategy reformulation.
Organizational Strategy: Concepts and Overview

- Strategic Planning Tools
  - **SWOT analysis**
    A methodology that surveys external opportunities and threats and relates them to internal strengths and weaknesses
  - **Competitor analysis grid**
    A strategic planning tool that highlights points of differentiation between competitors and the target firm
Organizational Strategy: Concepts and Overview

- Strategic Planning Tools

**scenario planning**
A strategic planning methodology that generates plausible alternative futures to help decision makers identify actions that can be taken today to ensure success in the future.
Business Planning

business plan
A written document that identifies the company’s goals and outlines how the company intends to achieve those goals
Business Planning

• Business Plan Fundamentals
  – Businesses need a business plan to:
    • Acquire funding
    • Acquire nonfinancial resources
    • Obtain a realistic approach to the business
Business Planning

business case
A business plan for a new initiative or project inside an existing organization
Exhibit 14.5 The Role of the Internet in Strategy

Implications of the Internet

Thinking about and planning for the Internet is subsumed into each planning level.
E-Strategy Initiation

- Issues in E-Strategy Initiation
  - Be a first mover or a follower?
  - Born-on-the-net or move-to-the-net?
  - How to determine scope?
  - Have a separate online company?
  - Have a separate online brand?
E-Strategy Formulation

• Selecting EC Opportunities
  – A *problem-driven strategy* may be best when an organization has a specific problem that can be solved with an EC application

• Determining an Appropriate EC Application Portfolio
  – An Internet Portfolio Map for Selecting Applications
    Instead of trading off market potential and market share, the Internet portfolio map is based on *company fit* and *project viability*
Exhibit 14.7 Internet Portfolio Map

<table>
<thead>
<tr>
<th>Viability of Project</th>
<th>Sell project</th>
<th>Adopt project</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reject project</td>
<td></td>
<td>Redesign project</td>
</tr>
</tbody>
</table>

Company Fit
E-Strategy Formulation

- Risk Analysis and Management

  e-commerce (EC) risk

  The likelihood that a negative outcome will occur in the course of developing and operating an electronic commerce strategy
E-Strategy Formulation

• Issues in Strategy Formulation
  – How to Handle Channel Conflict
    • Let the established distributors handle e-business fulfillment
    • Provide online services to intermediaries (e.g., by building portals for them) and encourage them to reintermediate themselves in other ways
    • Sell some products only online
    • Avoid channel conflict entirely by not selling online.
E-Strategy Formulation

• Issues in Strategy Formulation
  – How to Handle Conflict Between the Off-Line and Online Businesses
    Clear support by top management for both the off-line and online operations and a clear strategy of “what and how” each unit will operate are essential
E-Strategy Formulation

• Issues in Strategy Formulation
  – Pricing Strategy
    • Price comparison is easier
    • Buyers sometimes set the price
    • Online and off-line goods are priced differently
    • Differentiated pricing can be a pricing strategy
E-Strategy Implementation

• Create a Web Team
  project champion
  The person who ensures the EC project gets the time, attention, and resources required and defends the project from detractors at all times

• Start with a Pilot Project
• Allocate Resources
• Manage the Project
E-Strategy Implementation

- Strategy Implementation Issues
  - Application Development
    - Should site development be done internally, externally, or by a combination of internal and external development?
    - Should the software application be built or will commercially available software be satisfactory?
    - If a commercial package will suit, should it be purchased from the vendor or rented from an ASP?
    - Will the company or an external ISP host the Web site?
    - If hosted externally, who will be responsible for monitoring and maintaining the information and system?
E-Strategy Implementation

• Strategy Implementation Issues
  – Partners’ Strategy

outsourcing
The use of an external vendor to provide all or part of the products and services that could be provided internally
E-Strategy Implementation

• Strategy Implementation Issues
  – Business Alliances
    virtual corporation (VC)
    An organization composed of several business partners sharing costs and resources for the production or utilization of a product or service
    co-opetition
    Two or more companies cooperate together on some activities for their mutual benefit, even while competing against each other in the marketplace
E-Strategy Implementation

• Strategy Implementation Issues

business process reengineering (BPR)
A methodology for conducting a comprehensive redesign of an enterprise’s processes
E-Strategy Implementation

- Decisions in Redesigning Business Processes
  - To fix poorly designed processes
  - To change processes so that they will fit commercially available software
  - To produce a fit between systems and processes of different companies that are partnering in e-commerce
  - To align procedures and processes with e-services such as logistics, payments, or security
E-Strategy and Project Assessment

• The Objectives of Assessment
  – Measure the extent to which the EC strategy and ensuing projects are delivering what they were supposed to deliver
  – If they are not delivering, apply corrective actions to ensure that the projects are able to meet their objectives
The Objectives of Assessment
- Determine if the EC strategy and projects are still viable in the current environment
- Reassess the initial strategy in order to learn from mistakes and improve future planning
- Identify failing projects as soon as possible and determine why they failed to avoid the same problems on subsequent projects
E-Strategy and Project Assessment

• Measuring Results and Using Metrics

metric
A specific, measurable standard against which actual performance is compared

Web analytics
The analysis of click-stream data to understand visitor behavior on a Web site
Exhibit 14.9 Three Strategies for Pricing on the Internet

Step One: Articulate business strategy
- Market Opportunity
  - Opportunity size?
  - Competitive environment?
- Business Model
  - Unique value proposition?
  - Capabilities vs. competition?
- Marketing
  - How to develop brand?
- Implementation
  - How to go to market?
- Customer
  - How to acquire customers?
  - How will customers change?
  - What is customer experience?

Step Two: Translate strategy into desired outcomes
- Market Opportunity
  - Market size and growth
  - Average age and income
  - Competitor concentration
- Business Model
  - Customer-perceived benefits
  - Exclusive partnerships
  - More invested in technology vs. competition
- Marketing
  - Customer brand awareness
- Implementation
  - System uptime percentage
  - Number of IT staff
  - Percent of inaccurate orders
- Customer
  - Market share
  - Purchases per year
  - Success rate
  - Service request frequency

Step Three: Choose metrics
- Market Opportunity
  - For each metric, determine the metrics that it affects and that affect it
  - Map the linked set of metrics, indicating leading and lagging indicators
  - Ensure that there is a balance between leading and lagging indicators
- Business Model
  - For each metric, calculate current level of performance
  - Determine target level required to meet outcomes described in Step Two
  - Ensure that targets are consistent
- Marketing
  - Customer
  - Implementation

Step Four: Link metrics to leading and lagging indicators

Step Five: Calculate current and target performance
Global E-Commerce

- Benefits and Extent of Operations
  - The drivers behind global EC are the ability to do business at any time, from anywhere, and at a reasonable cost
- Barriers to Global EC
  - Cultural Issues
  - Administrative Issues
  - Geographic Issues
  - Economic Issues
Global E-Commerce

• Breaking Down the Barriers to Global EC
  – Be strategic
  – Know your audience
  – Localize
  – Think globally, act consistently
  – Value the human touch
  – Clarify, document, explain
  – Offer services that reduce barriers
EC in Small and Medium-Sized Enterprises

- Critical Success Factors for SMES
  - Product is critical
  - Payment methods must be flexible
  - Electronic payments must be secure
  - Capital investment should be kept to a minimum
  - Inventory control is crucial
EC in Small and Medium-Sized Enterprises

- Critical Success Factors for SMEs
  - Logistics services must be quick and reliable
  - Owner support
  - High visibility on the Internet
  - Join an online community
  - A Web site should provide all of the services needed by consumers
EC in Small and Medium-Sized Enterprises

- Supporting SMEs
  - Almost every country in the world has a government agency devoted to helping SMEs become more aware of and able to participate in EC
  - Many vendors have set up a variety of service centers that typically offer a combination of free information and fee-based support
Managerial Issues

1. What is the strategic value of EC to the organization?
2. Who determines EC strategy?
3. What are the benefits and risks of EC?
4. Why do we need a plan?
5. What metrics should we use?
Managerial Issues

6. What staffing is required?
7. How can we go global?
8. Can we learn to love smallness?
9. Is e-business always beneficial?
Summary

1. The strategic planning process.
2. Writing a business plan.
3. The EC strategic process.
4. E-strategy initiation and formulation.
5. E-strategy implementation and assessment.
6. Issues in global EC
7. Small businesses and EC.