E-Commerce Strategy

Chapter 13 – Ecommerce Strategy and Global Ecommerce (Turban and King)
Learning Objectives

1. Describe the strategic planning process.
2. Describe the purpose and content of a business plan and a business case.
3. Understand how e-commerce impacts the strategic planning process.
4. Understand how to formulate, justify, and prioritize EC applications.
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.
Organizational Strategy: Concepts and Overview

• strategy

A broad-based formula for how a business is going to accomplish its mission, what its goals should be, and what plans and policies will be needed to carry out those goals
Organizational Strategy: Concepts and Overview

• STRATEGY AND THE WEB ENVIRONMENT
  – Porter’s Competitive Forces Model and Strategies
    • The five major forces in an industry that affect the degree of competition and, ultimately, the degree of profitability are:
      1. Threat of entry of new competitors
      2. Bargaining power of suppliers
      3. Bargaining power of customers or buyers
      4. Threat of substitute products or services
      5. Rivalry among existing firms in the industry
Michael Porter on Internet

• The key question is not whether to deploy Internet technology – companies have no choice if they want to stay competitive – but how to deploy it

Organizational Strategy: Concepts and Overview

– The Impact of the Internet

– **e-commerce strategy (e-strategy)**
  The formulation and execution of a vision of how a new or existing company intends to do business electronically

– Strategic Planning for IT and EC
  
  • **strategic information systems planning (SISP)**
  A process for developing a strategy and plans for aligning information systems (including e-commerce applications) with the organization’s business strategies
Porter's Competitive Forces Model: How the Internet Influences Industry Structure

Adapted from Exhibit 8.3 How the Internet Influences Industry Structure

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
    • Specific outcomes from this phase include:
      – Company analysis and value proposition
        » Core competencies e.g Google in information search technology
        » **value proposition**
          The benefit that a company’s products or services provide to a company and its customers e.g Amazon is in the information- about-books business.
      – Forecasts
      – Competitor (industry) analysis e.g SWOT analysis
Organizational Strategy: Concepts and Overview

– strategy formulation

The development of strategies to exploit opportunities and manage threats in the business environment in light of corporate strengths and weaknesses

• Specific activities and outcomes from this phase include:
  – Business opportunities
  – Cost–benefit analysis
  – Risk analysis, assessment, and management
  – Business plan
Organizational Strategy: Concepts and Overview

- **strategy implementation**

  The development of detailed, short-term plans for carrying out the projects agreed on in strategy formulation

  - Specific activities and outcomes from this phase include:
    - Project planning
    - Resource allocation
    - Project management
Organizational Strategy: Concepts and Overview

- **strategy assessment**
  The continuous evaluation of progress toward the organization’s strategic goals, resulting in corrective action and, if necessary, strategy reformulation
EXHIBIT 13.4 The Strategic Planning Process

- **Strategy Initiation**
  - Company analysis, value proposition, competition, mission, objectives, opportunities

- **Strategy Assessment**
  - Monitor performance, compare, assess, improve, or adjust

- **Strategy Formulation**
  - Planning, cost–benefit, budget, risk analysis, business plan

- **Strategy Implementation**
  - Project plan, resource allocation, scheduling teams (what, who, when, where)
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

– **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

– **balanced scorecard (BSC)**
  A management tool that assesses organizational progress toward strategic goals by measuring performance in a number of different areas (financial, customer, internal, people)
Business Planning in E-Commerce

- **business plan**
  A written document that identifies a company’s goals and outlines how the company intends to achieve the goals and at what cost

- **business case**
  A business plan for a new initiative or large, new project inside an existing organization

*Business Plan determines the viability of a company where as the business case assess both the viability of a project and its fit within the firm.*
Why write a Business plan

• To acquire funding
• To acquire other resources
• To make a realistic approach to your business
• To make a you a better business owner
• To keep you on track
• To decided not to develop the business
What’s the E-difference In E-biz plan

• Internet is unlike any other sales channel
• Internet is ubiquitous
• Web storefronts never close
• E-commerce is conducted at Internet speed
• Web allows greater opportunities for personalization
• Internet intensifies customer relationship management
EXHIBIT 13.5 Outline of a Business Plan

- Executive summary. The executive summary is a synopsis of the key points of the entire business plan. Its purpose is to explain the fundamentals of the business in a way that both informs and excites the reader.

- Business description. The business description describes the nature and purpose of the business and includes the firm’s mission statement, goals, and value proposition and a description of the products and services it provides. The purpose of the business description is to objectively explain and justify the business idea in a positive and enthusiastic manner.

- Operations plan. The operations section of the business plan describes the inputs, processes, procedures, and activities required to create what products the business will sell or what services it will deliver.

- Financial plan. The financial plan estimates the monetary resources and flows that will be required to carry out the business plan. The financial plan also indicates when and by how much the business intends to be profitable. Finally, the financial statements (e.g., balance sheet, cash-flow statement) tell a lot about the entrepreneur in terms of business commitment and financial wherewithal to make the business a profitable success.

- Marketing plan. The central part of the marketing plan is the market analysis, which defines the firm’s target markets and analyzes how the organization will position its products or services to arouse and fulfill the needs of the target markets in order to maximize sales. Other aspects of the marketing plan include pricing strategy, promotion plan, distribution plan, and a demand forecast.

- Competitor analysis. The competitor analysis (a) outlines the competitive strengths and weaknesses of rivals in the industry and (b) reveals the firm’s competitive position in the marketspace.
E-commerce Site Outcomes

- increased revenue
- reduced cost
- increase customer satisfaction and retention
E-Strategy Initiation

E-commerce
- facilitates value creation or value enhancement for company stakeholders
- lowers the cost of providing goods and services to the marketplace.

• REPRESENTATIVE ISSUES IN E-STRATEGY INITIATION
  – Be a First Mover or a Follower?
  – Born-on-the-Net or Move-to-the-Net? E.g. expedia, walmart
  – Expanding Scope e.g. Google Apps
  – Have a Separate Online Company? E.g. barnesandnoble
  – Have a Separate Online Brand? e.g. half.com, webvan, nook

• STRATEGY IN THE WEB 2.0 ENVIRONMENT AND IN SOCIAL NETWORKING
Social Media Initiatives

- Create and maintain a corporate Facebook page to serve as a corporate marketing and recruiting tool.
- Establish and operate blogs for all customer- or member-facing divisions or committees.
- Offer free web-enabled telephone conferencing services to customers.
- Create and maintain a CEO blog.
- Establish and operate wikis to create and share “best practices” information.
- Develop and implement training processes on how to employ dedicated blogs in support of project management.
- Create and publicize a network of experts within the organization who can be consulted on business specific topics.
- Establish a secure company wide social bookmarking system to support the tagging and sharing of internal and external information sources.
- Create and test a plan to employ social media and social networking in crisis situations.
- Create and implement a competitor monitoring system to track competitor activities on blogs, social networks, public wikis, feed subscription services, and social bookmarking systems.
E-Strategy Formulation

• SELECTING EC OPPORTUNITIES
• DETERMINING AN APPROPRIATE EC APPLICATION PORTFOLIO MIX
  – Internet Portfolio Map (company fit vs viability of a project) mix of qualitative and quantitative analysis
  – Company fit: Alignment with core competency, fit within the organization structure, technical implementation challenges, etc
  – Viability: market value potential, NPV, time to market, funding, etc
Tjans Internet Portfolio map

Viability of Project

- Sell project
- Adopt project
- Reject project
- Redesign project

Company Fit
E-Strategy Formulation

- e-commerce (EC) risk
  The likelihood that a negative outcome will occur in the course of developing and operating an electronic commerce strategy
  - Security Issues
    - Insider/Outsider attacks
    - Impact of e-strategy on overall organization
    - Technology challenges
• ISSUES IN STRATEGY FORMULATION
  – How to Handle Channel Conflict
  – How to Handle Conflict Between the Offline and Online Businesses
E-Strategy Formulation

• Pricing Strategy
  – Price comparison is easier e.g mysimon.com, shopping.com
  – Buyers sometimes set the price e.g ebay
  – Online and offline goods are priced differently e.g barnesandnobles.com, walmart.com
  – Differentiated pricing can be a pricing strategy
  • versioning
    Selling the same good, but with different selection and delivery characteristics e.g online stock trading
E-Strategy Implementation

• E-STRATEGY IMPLEMENTATION PROCESS
  – 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 time
  – Start with a Pilot Project
  – Allocate Resources
    • Technical (technology, database, hosting, etc)
    • Business (staff, operations, warehouse, etc)
  – Manage the Project
    • Methodology: Waterfall, Agile, Scrum, etc
    • PM Tools: MS Project
E-Strategy Implementation

• STRATEGY IMPLEMENTATION ISSUES
  – Application Development
  – Outsource: What? When? To Whom?
    • outsourcing
      The use of an external vendor to provide all or part of the products and services that could be provided internally
  – Partners’ Strategy (Domestic and Global)
    • Software, Hardware, ERP, CRM, ISP, suppliers, etc
E-Strategy Implementation

– Business Alliances and Virtual Corporations
  • 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.g. airlines star alliance
E-Strategy Implementation

– Redesigning Business Processes and BPR
  • business process reengineering (BPR)
    A methodology for conducting a comprehensive redesign of an enterprise’s processes
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
  – 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
  – EC Metrics
    • metric
      A specific, measurable standard against which actual performance is compared
  – corporate (business) performance management (CPM, BPM)
    Advanced performance measuring and analysis approach that embraces planning and strategy
E-Strategy and Project Assessment

• Strategic planning in CPM includes the following eight steps:
  1. Conduct a current situation analysis
  2. Determine the planning horizon
  3. Conduct an environment scan
  4. Identify critical success factors
  5. Complete a gap analysis (performance vs. goals)
  6. Create a strategic vision
  7. Develop a business strategy
  8. Identify strategic objectives and goals
E-Strategy and Project Assessment

– **strategy map**
  A tool that delineates the relationships among the key organizational objectives for all four balanced scorecard (BSC) perspectives

– **Web analytics**
  The analysis of clickstream data to understand visitor behavior on a Web site
KPIs for Small Business

• Where do people come from?
  – % of visit on the site from different sources (e.g. search engines, affiliates, geography, etc)

• Bounce Rate
  – number of sessions with one page view (Low quality traffic, wrong landing page)

• What content is being consumed?
  – Top 10 entry pages
  – Top 10 most viewed pages
  – Top 10 product pages

• Measure outcomes
  – Clickstream analysis

• Visitor Loyalty
  – (number of times a person visits your site in a given period of time)

• Visitor Recency
  – Visitors gap between two visits
Global E-Commerce

• **BENEFITS AND EXTENT OF OPERATIONS**
  – The ability to do business at any time, from anywhere, and at a reasonable cost

• **BARRIERS TO GLOBAL EC**
  – Cultural Issues
  – Culture and Language Translation
  – Administrative Issues
  – Geographic Issues and Localization
  – 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
## Advantages/Benefits

- Inexpensive sources of information. A Scandinavian study found that over 90 percent of SMEs use the Internet for information search (OECD 2001).
- Inexpensive ways of advertising and conducting market research. Banner exchanges, newsletters, chat rooms, and so on are nearly zero-cost ways to reach customers.
- Competitor analysis is easier. The Scandinavian study found that Finnish firms rated competitor analysis third in their use of the Internet, after information search and marketing.
- Inexpensive ways to build (or rent) a storefront. Creating and maintaining a Web site is relatively easy and cheap (see Chapter 16).
- SMEs are less locked into legacy technologies and existing relationships with traditional retail channels.
- Image and public recognition can be generated quickly. A Web presence makes it easier for a small business to compete against larger firms.
- An opportunity to reach worldwide customers. No other medium is as efficient at global marketing, sales, and customer support.
- Other advantages for SMEs include increased speed of customer payments, closer ties with business partners, reduced errors in information transfer, lower operating costs, and other benefits that apply to all businesses.

## Disadvantages/Risks

- Lack of financial resources to fully exploit the Web. A transactional Web site may entail relatively high up-front fixed costs in terms of cash flow for an SME.
- Lack of technical staff or insufficient expertise in legal issues, advertising, etc. These human resources may be unavailable or prohibitively expensive to an SME.
- Less risk tolerance than a large company. If initial sales are low or the unexpected happens, the typical SME does not have a large reserve of resources to fall back on.
- When the product is not suitable or is difficult for online sales (e.g., experiential products such as clothes or beauty products; perishable products, such as certain foods), the Web opportunity is not as great.
- Reduced personal contact with customers represents the dilution of what is normally a strong point for a small business.
- Inability to afford entry to or purchase enough volume to take advantage of digital exchanges.