

second edition

# introduction to e-commerce

jeffrey f. rayport  
bernard j. jaworski



## Chapter 1

# Framework for e-Commerce

## *Key questions covered in this chapter:*

- What are the categories of e-commerce?
- What are the new views of strategy in the networked-economy?
- What is the framework for the field of e-commerce?
- Why does a senior manager need to know all four infrastructures?
- What are the roles and responsibilities of senior e-commerce managers?
- What key challenges do senior leaders face today?

- ❑ ***The networked economy business traits can be summarized as:***
  - Create value largely through gathering, synthesizing and distribution of information
  - Formulate strategies that make management of the enterprise and technology convergent
  - Compete in real time rather than in “cycle time”
  - Operate in a world characterized by low barriers to entry, near-zero variable costs of operation and shifting competition
  - Organize resources around the demand side rather than supply side
  - Manage better relationships with customers through technology

# How Do We Define e-Commerce?

Technology-mediated exchanges between parties as well as electronically-based intra- or inter-organizational activities that facilitate such exchanges

# Exhibit 1.1: Four Categories of e-Commerce

**Business originating from...**

**Business**

**Consumers**

**And Selling to...**

**Business**

**Consumers**

**B2B**

**C2B**

**B2C**

**P2P**

<b>Business</b>	<b>B2B</b>	<b>C2B</b>
<b>Consumers</b>	<b>B2C</b>	<b>P2P</b>

# Distinct Categories of e-Commerce

- ***Business to Business (B2B)*** refers to the full spectrum of e-commerce that can occur between two organizations.

This includes purchasing and procurement, supplier management, inventory management, channel management, sales activities, payment management & service and support.

Examples: FreeMarkets, Dell and General Electric

- ***Business to Consumer (B2C)*** refers to exchanges between business and consumers, like the ones managed by Amazon Yahoo and Charles Schwab & Co.

The activities tracked are consumer search, frequently asked questions and service and support.

# Distinct Categories of e-Commerce (cont'd)

- **Peer to Peer (C2C)** exchanges involve transactions between and among consumers. These can include third party involvement, as in the case of the auction website Ebay.  
Examples: Owners.com, Craigslist, Monster
- **Consumer to Business (C2B)** involves when consumers band together to present themselves as a buyer in group.  
Example: [www.speakout.com](http://www.speakout.com)

# Exhibit 1.2: Convergence of e-Commerce Categories

Business originating from...

And Selling to...



# Strategy Making in a Rapidly Changing Environment

**How can a company faced with the changing online environment set a strategy?**

## ❑ ***Classical Strategic planning***

- This begins with the specification of the mission and vision of the firm.
- A careful balance of internal and external analysis leads to a choice of strategy for the company as a whole called “corporate strategy”.
- Strategies that relate to specific divisions within a company are termed as “business-unit strategies”.

# Exhibit 1.3: Classic Framework for Strategy Management



# New Views of e-Commerce Strategy

- Speed of change and adaptation must be figured into the classical strategic management equation.

# New Views of e-Commerce Strategy (cont'd)

## □ ***Sense and respond paradigm:***

- It provided an approach to strategic thinking that was intuitive, actionable and easy to implement.
- It made companies focus on listening in a new manner to customers to reduce the high levels of uncertainty.

## **Drawbacks:**

- Its very reactive and the starting point is always the customer.
- This is more appropriate for traditional offline companies.

- ***Strategy as rules:*** Focus on “simple rules” rather than complex strategic planning exercises.
- Simple rules help the senior e-commerce manager recognize positive (or negative) situations and react accordingly.

# The Three Approaches to Strategy

- Position approach: “Where should we be vs. our competition?”
- Resources approach: “what resources should we possess?”
- Simple rules approach: “What processes should we follow?”

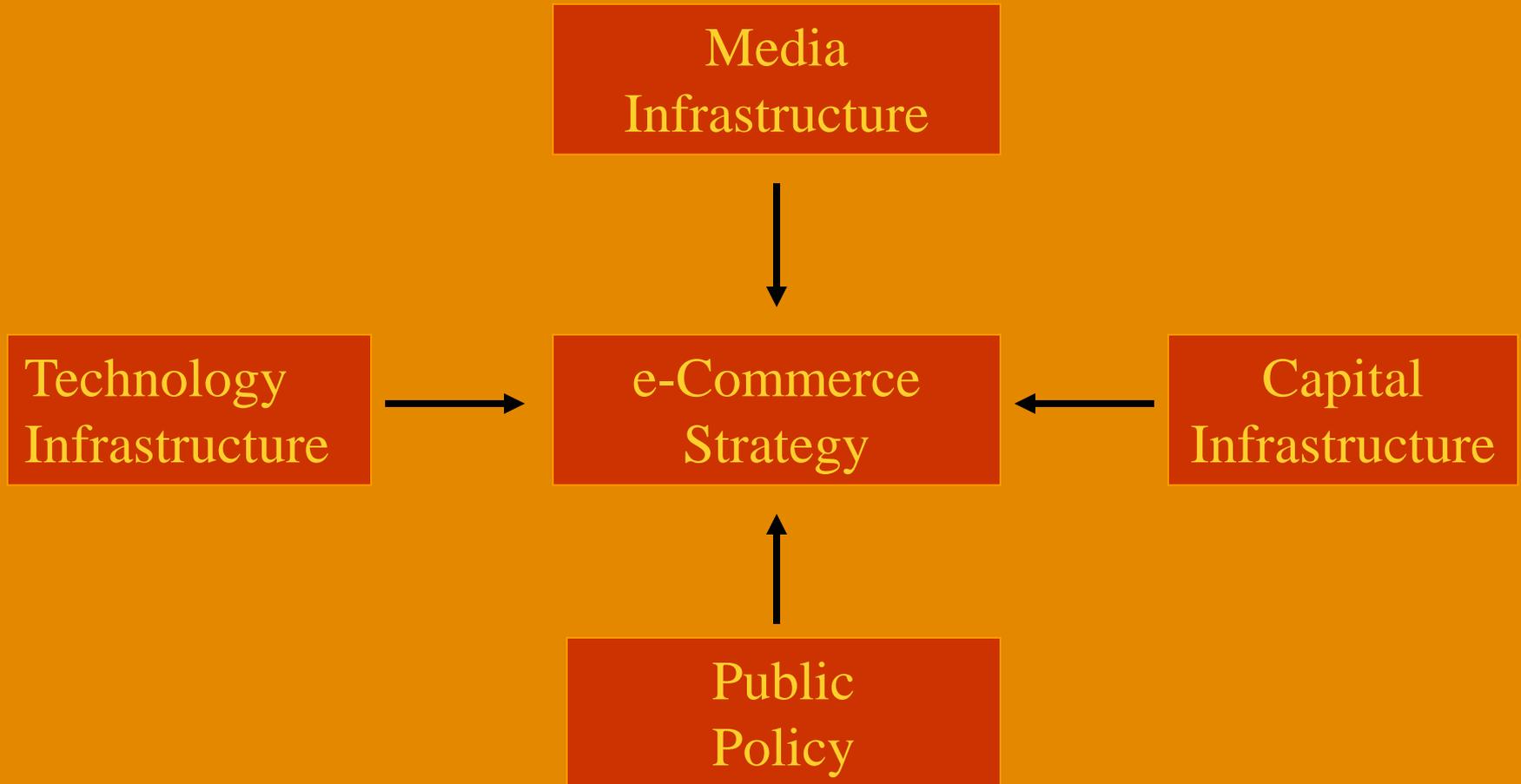
# Exhibit 1.4: Three Approaches to Strategy

	<b>Position</b>	<b>Resources</b>	<b>Simple Rules</b>
<b>Strategic Logic</b>	<ul style="list-style-type: none"> <li>• Establish position</li> </ul>	<ul style="list-style-type: none"> <li>• Leverage resources</li> </ul>	<ul style="list-style-type: none"> <li>• Pursue opportunities</li> </ul>
<b>Strategic Steps</b>	<ul style="list-style-type: none"> <li>• Identify an attractive market</li> <li>• Locate a defensible position</li> <li>• Fortify and defend</li> </ul>	<ul style="list-style-type: none"> <li>• Establish a vision</li> <li>• Build resources</li> <li>• Leverage across markets</li> </ul>	<ul style="list-style-type: none"> <li>• Jump into the confusion</li> <li>• Keep moving</li> <li>• Seize opportunities</li> <li>• Finish strong</li> </ul>
<b>Strategic Question</b>	<ul style="list-style-type: none"> <li>• Where should we be?</li> </ul>	<ul style="list-style-type: none"> <li>• What should we be?</li> </ul>	<ul style="list-style-type: none"> <li>• How should we proceed?</li> </ul>
<b>Source of Advantage</b>	<ul style="list-style-type: none"> <li>• Unique, valuable position with tightly integrated activity system</li> </ul>	<ul style="list-style-type: none"> <li>• Unique, valuable, inimitable resources</li> </ul>	<ul style="list-style-type: none"> <li>• Key processes and unique simple rules</li> </ul>
<b>Works Best In</b>	<ul style="list-style-type: none"> <li>• Slowly changing, well-structured markets</li> </ul>	<ul style="list-style-type: none"> <li>• Moderately changing, well structured markets</li> </ul>	<ul style="list-style-type: none"> <li>• Rapidly changing, ambiguous markets</li> </ul>
<b>Duration of Advantage</b>	<ul style="list-style-type: none"> <li>• Sustained</li> </ul>	<ul style="list-style-type: none"> <li>• Sustained</li> </ul>	<ul style="list-style-type: none"> <li>• Unpredictable</li> </ul>
<b>Risk</b>	<ul style="list-style-type: none"> <li>• It will be too difficult to alter position as conditions change</li> </ul>	<ul style="list-style-type: none"> <li>• Company will be too slow to build new resources as conditions change</li> </ul>	<ul style="list-style-type: none"> <li>• Managers will be too tentative in executing on promising opportunities</li> </ul>
<b>Performance Goal</b>	<ul style="list-style-type: none"> <li>• Profitability</li> </ul>	<ul style="list-style-type: none"> <li>• Long-term dominance</li> </ul>	<ul style="list-style-type: none"> <li>• Growth</li> </ul>

# Factors of Consumer Behavior in the Online Environment

- *The 2 key factors that are of paramount importance in the online environment are:*
  - Customization: This refers to the personalization of communications between users and a website.
  - Interactivity: is defined as the user's ability to conduct two-way communications. This includes use to user and firm to user communication.

# Exhibit 1.5: A Comprehensive Framework



# The Strategy Formulation Process

- *There are six interrelated, sequential decisions to strategy:*
  - Framing the Market Opportunity
  - Business Model
  - Customer Interface
  - Market Communication and Branding
  - Implementation
  - Metrics

# Exhibit 1.6: e-Commerce Strategy

**Framing the  
Market  
Opportunity**

**Business  
Model**

**Customer  
Interface**

**Market  
Communication  
and Branding**

**Implementation**

**Metrics**



# The Context of Strategy Formulation: The Four Infrastructures

- ***Technology infrastructure:*** This is both an enabler and driver of change. The hardware backbone of computers, routers, servers, fiber optics, cables, modems, etc. provide half of the technology equation. The other half includes the software and communication standards including the core protocols for the www.
- ***Capital Infrastructure:*** Deals with getting the money to launch new businesses and finding the right people to build the business plan and seek funding sources.

# The Context of Strategy Formulation: The Four Infrastructures (cont'd)

- **Media infrastructure:** The e-commerce managers must make choices about the types of media employed (e.g., print, audio, video), the nature of the media and editorial policy (including style, content, look and feel).
- **Public Policy Infrastructure:** All the decisions related to strategy, technology, capital and media are influenced by laws and regulation, i.e., public policy decisions. It not only affects specific business but also direct and indirect competitors.

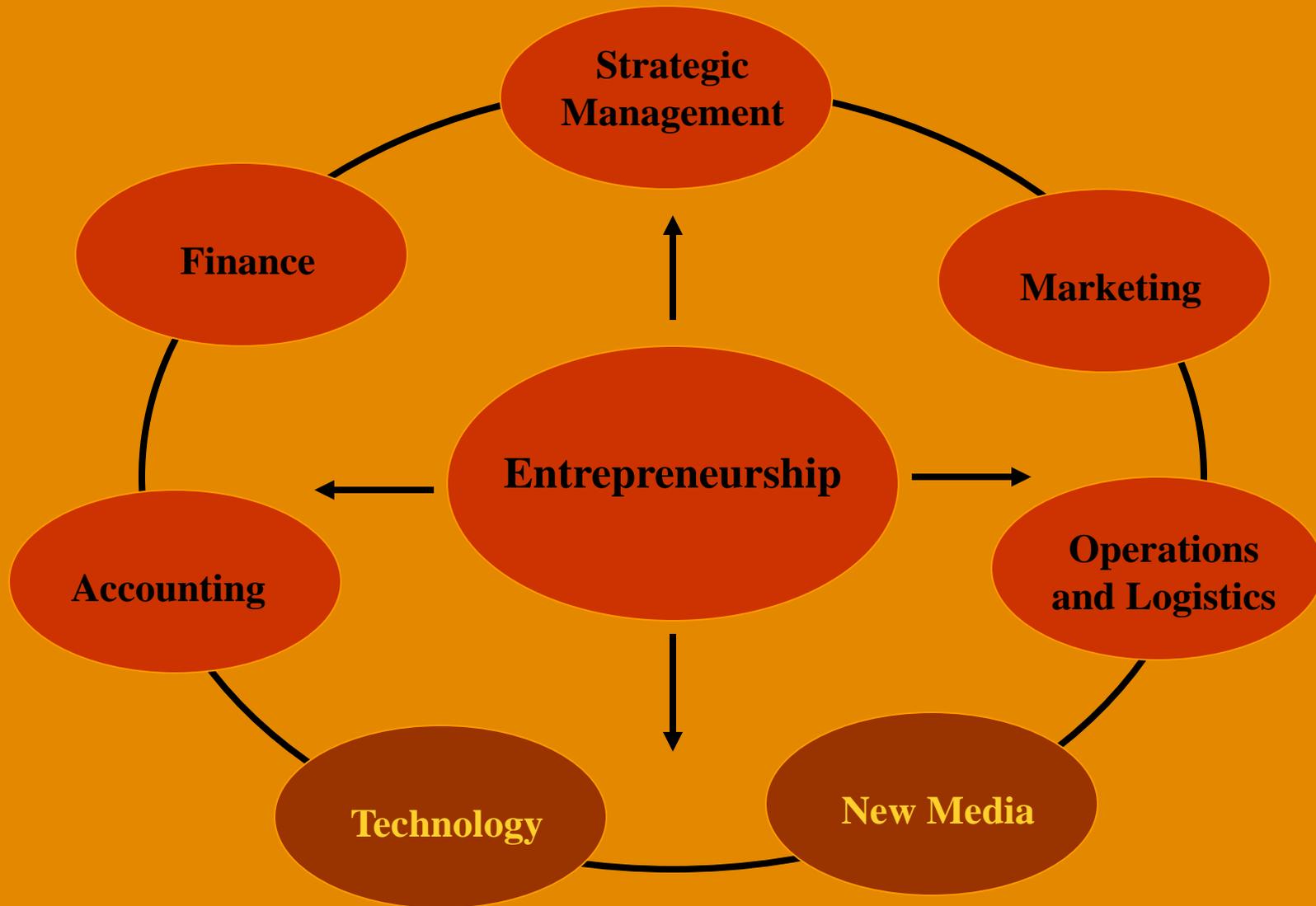
# Roles and Responsibilities of a Senior e-Commerce Manager

- ❑ ***Senior managers need to have the basic business skill set of traditional managers but must also incorporate new knowledge, skills and capabilities. The roles and responsibilities include:***

## **Cross Discipline, Integrative position:**

- Entrepreneurship is at the heart of any online business. The manager should be able to make strategic decisions quickly and authoritatively.
- They should be trained in a variety of disciplines including marketing, logistics, accounting, and finance.
- They should also add two new disciplines to the mix: technology sophistication and media knowledge.
- They should also understand the role of mass communication in a media business.

# Exhibit 1.7: Relevant Disciplines for a Senior e-Commerce Executive



# Roles and Responsibilities of a Senior e-Commerce Manager (cont'd)

- The day to day responsibilities of a senior e-commerce manager include:
- Provide vision for the online business.
- Set process and outcome goals by specifying clear performance targets.
- Formulate strategic direction and choice by making concrete choices- and associated tradeoffs- related to each phase of the e-commerce strategy process, including market opportunity, business model specification and design of the customer interface.

# Exhibit 1.8: A Flow Diagram of the Strategic Responsibilities

**Set Vision**



**Establish Goals**



**Formulate Strategy**



**Drive  
Implementation**



**Be Accountable  
for Performance**

# Roles and Responsibilities of a Senior e-Commerce Manager (cont'd)

- Drive implementation: Strategy implementation is about making the right choices related to people, structure, systems and processes to execute the strategy.
- Accountable for performance: The senior manager is responsible for the performance of the organization.

# Location of the Sr. Manager in the Organization

- **Line Executive:** The senior manager may be a line executive who is responsible for the profit and loss of an online initiative.
- **Staff Executive:** A staff executive does not have formal profit and loss responsibility for a business. Their role is to support the efforts of the line executives in the execution of their strategy.

# Exhibit 1.9: Where to Find Senior e-Commerce Managers Within Existing Bricks-and-Mortar Companies

	<b>Corporate</b>	<b>Business Unit</b>	<b>Stand-Alone</b>
<b>Line Executive</b>	<ul style="list-style-type: none"> <li>•Corporate site management</li> <li>•Cross-business-unit integration site</li> </ul>	<ul style="list-style-type: none"> <li>•Report to general manager of business unit</li> </ul>	<ul style="list-style-type: none"> <li>•Separate business from corporate parent</li> </ul>
<b>Staff Executive</b>	<ul style="list-style-type: none"> <li>•Supports corporate-wide initiatives</li> </ul>	<ul style="list-style-type: none"> <li>•Supports and advises strategic business unit e-commerce initiatives</li> </ul>	<hr/>

# Key Challenges for Senior Leadership in Today's Environment

- **Understanding Customer Evolution:** The challenge here is to invest heavily in understanding the customer needs and invest in advance so that the launch of the innovation coincides exactly with the customer needs.
- **Charting Changing Technology:** The senior executive must be well schooled in the basic and emergent technologies. Picking the right technologies and investing ahead of the curve is a constant, high-stakes gamble for the senior management team.

# Key Challenges for Senior Leadership in Today's Environment (cont'd)

- **Balancing Irrational Exuberance and Irrational Doom:** The executive must continually reassure that the business model makes sense, spell out the path to profitability and paint a vision that can rally all relevant stake holders, including partners, customers and employees.
- **Integration of Offline and Online Activities:** Customer- facing activities need to be made ready for the web.
- **Identifying the Key Levers of Competitive Advantage:** The best senior leaders are able to reallocate their resources and capabilities in anticipation of evolving competitive landscape.