2

Creating an Integrated E-commerce Strategy

Chapter 1 considered some of the issues that underlie e-commerce strategy formulation and noted that the strategy employed will vary depending upon

- The nature of the organization—*born on the net* or *move to the net*
- The nature of the product—*service based, manufacturing*, or *mixed*
- The online model the organization wishes to adopt—*B2C, B2B, and so forth*

In order to understand the process of e-commerce strategy better, a more systematic examination of the strategic factors involved has to be considered. To do this we'll use a model, which with modification can ultimately be utilized across the differing portal environments such as B2C and B2B.

Seven Dimensions of an E-commerce Strategy

The e-commerce strategy of over 40 leading U.S. and European organizations has been closely examined for this book. They represent a variety of industry sectors ranging from manufacturing to service; whose origins range from the most established and traditional of blue chip companies to born-on-the-net

start-ups; with revenues ranging from $1 million to over $100 billion; in groups we could label *e-commerce leaders* to those we could label *laggards*. It became clear that the differentiation between those companies that have a successful e-commerce strategy and those that do not is a function of achieving balance among seven major factors (see Figure 2.1):

- Four *positional factors*
  1. Technology
  2. Service
  3. Market
  4. Brand
- Three *bonding factors*
  1. Leadership
  2. Infrastructure
  3. Organizational learning

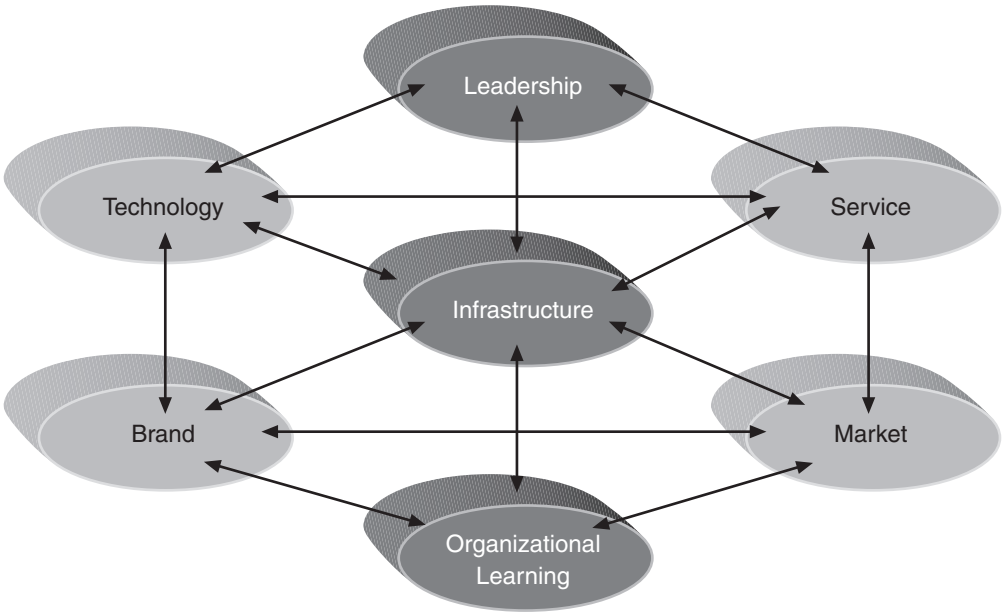

Figure 2.1
The Seven Dimensions of an E-commerce Strategy

It can be argued that the model in Figure 2.1 can be applied to all forms of organization in the traditional industrial and service sectors. This is in fact true, and it is an intentional component of the model's construction. The model is based upon the understanding that all organizations need to continuously address these seven issues, whether they are traditional organizations addressing an investment decision regarding the deployment of a new technology required to speed up a production line, a specialized financial services company on Wall Street determining its ability to operate in the electronic market, or a company born on the Internet that needs to assess its branding. Organizations will always be adjusting their strategies to meet the changing environment in which they operate, and the model aims at assisting executives in understanding the importance and weighting that need to be applied to each factor. However, the model is especially applicable to assisting the needs of e-commerce strategists and is applied to that domain throughout this book. The model is flexible enough that it can be used by giant traditional organizations in their e-strategy formulation processes as they move to the Net, just as it aims to meets the needs of start-up entrepreneurs looking at defining their marketspace and e-strategy from scratch. Furthermore, the nature of the model allows an organization to map its strategy onto any form of vendor-client relationship, whether that relationship is between two businesses, a business and a customer, or any other entity. The basic building blocks are consistent in their structure once the target relationship is determined. For example, should an organization be in a vertical B2G relationship, the dimensions of strategy formulation are no different from those of a B2B relationship. The decisions still involve branding, service levels, marketspace, and technology, but the balance and focus of their interactions change. For example, branding may be less of an issue in a B2G environment than in a B2B environment. However, global fulfillment and the ability to satisfy the agency's service levels may be more of an issue. Thus the aim is to present a flexible framework for e-strategists that facilitates their gaining an understanding of the interactions of the environment within which they are to operate and then developing a successful counterstrategy for their organizational entity.

First let's consider the bonding factors of leadership, infrastructure, and organizational learning. This will enable us to understand both their importance as foundations upon which an organization's e-commerce strategy is based and as a springboard from which all development emanates. This will pave the way to consideration of the four focal points around which a balanced strategy is created: technology, brand, market, and service. Each of these areas

presents complex and intricate issues of its own, compounded through the need to achieve a balanced, integrated solution overall—a complete analysis is presented in subsequent chapters. Finally, in order to show how the strategy works in action, we step through a real-world case study of Royal Caribbean International Cruise Lines and its successful online e-commerce strategy through the lenses of this model.

The Bonds of an E-commerce Strategy

The foundations of a strong e-commerce strategy lie in the preparation of the ground before the functional issues are addressed. In this section we will consider three of those issues—leadership, infrastructure, and organizational learning (see Figure 2.2). As we have already seen, the creation of successful e-commerce can reap major rewards for an organization; failure can mean that even the most senior managers are vulnerable and frequently are replaced following an e-commerce strategy failure.

Clearly there is a strong interaction between these three components. For instance, when eBay had its outages, the leadership learned from the experience, upgraded the systems infrastructure, and moved on. Other organizations fail to learn from their experiences and consequently diminish or, like Levi's, are forced to leave the Internet space completely while they rethink their overall strategy.

Leadership

Previous research has shown that the primary drivers of change and the creators of strategic vision in an organization are the CEO and senior executives, a finding mirrored in this research. In every successful e-commerce project studied for this book, a strong project champion was present in the form of a

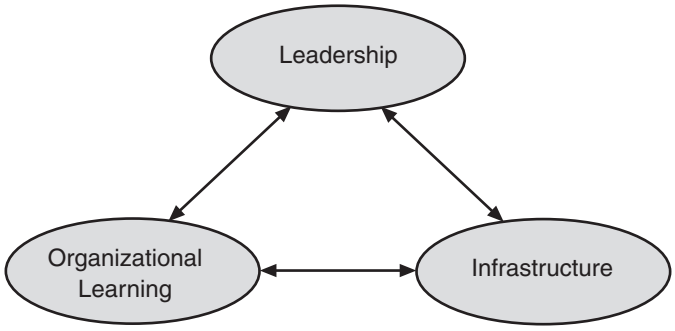

Figure 2.2
The Bonds of an E-commerce Strategy

senior executive or someone in a position to demonstrate to a senior executive the potential added value such a project could bring to the organization.

☞ An example of such a leadership-technology meld can be found at Motorola Corporation. Bob Clinton, Director of the Internet Business Group, describes the discovery process:

> Originally we had started back in the summer of 1994 and at that time—this was even before we were aware of the Web—one of the things we were looking at was trying to find a communications vehicle so we could better communicate with our partners. These are channel partners, folks who would sell or resell our equipment. So we created a concept and we called it MOCA for Motorola On-Line Channel Access. Fortuitously, just about this time, around August 1994, going into September, a Motorola employee called me to say he had found a little thing called Mosaic, and we went back to his office and saw him all excited about it and trying to pull it up on the screen, and the thing kept crashing and he kept swearing at his computer. But he said when you finally get around to seeing it, it's really cool! We did see it. The graphics capabilities were pretty limited at the time—just a few icons—primarily text. But the whole concept of this as an available technology was amazing. We saw the opportunity with the Web, we started kicking it around, and I put together a business plan.[1]

This mimics the experience at many other organizations, including:

☞ Charles Schwab, who had a similar moment of Web enlightenment when a group of his researchers put together an experimental demo system for Web-based transactions. They demonstrated it to their chief information officer (CIO) and subsequently to Schwab himself, who subsequently refocused that organization to be a Web-based organization rather than following a traditional brokerage model (see case study, chapter 5).

☞ IBM's Louis Gerstner, who repositioned and transformed that organization based upon the e-business concept.

☞ Ford's Jacques Nasser, who has made e-business an integral part of Ford's strategy.

1. Phone interview with author, January 19, 1999.

The search for excellence in leadership within the e-commerce arena and the value corporations place on it can be seen by the rabid activity of the headhunter community and the speed and volume at which senior executives of traditional organizations are leaving or being poached by dot-com operations. Perhaps the best example of this is the move by George Shaheen from Anderson Consulting to start-up Webvan.com, becoming its president and CEO. Shaheen had been Anderson's managing partner and CEO since the firm became an independent unit in 1989, building it into a $9 billion organization. However, the challenge of developing a very well-funded start-up—in addition to receiving 1.25 million shares of Webvan.com plus an option for 15 million more[2]—was too good an opportunity to turn down.

The market for intellectual capital in the form of experienced, proven, and successful leadership has never been more extreme. However, it is also a time for executives to expand their vision for their organizations and develop creative strategies that can be effectively executed. Failure to transition or demonstrate leadership will inevitably lead to a subsequent change in leadership.

The lessons for executives here are clear:

1. Keep an open mind with regard to all new technologies.
2. Don't get isolated from new and experimental technologies that are coming over the technology horizon.
3. Encourage a "skunks works"[3] (a quickly thrown together, in-house) research team thinking and philosophy.
4. Be ready to make the necessary amount of change in corporate strategy as indicated by the "seismic shock wave" of the technology.

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2. *Fortune* 140, no. 8, October 25, 1999, p. 44.

3. "The Skunk Works was created to design and develop the P-80 Shooting Star, America's first production jet aircraft. Lockheed Martin Skunk Works is a research and development division that continues to serve as a wellspring of innovation for their entire organization and, indeed, the industry itself—one of the world's preeminent sources for advanced aerospace prototypes, technology research, and systems development. They aim to continue to follow in the footsteps of the first alliance of dedicated engineers formed and led by legendary innovator Clarence L. 'Kelly' Johnson. As in Kelly's era, we're also not big on titles or protocol—just getting the job done, regularly meeting schedules on time and under budget." Adapted from www.lmsw.external.lmco.com/company_overview.html

Webvan.com

Webvan is a full-service, online grocer and drugstore that provides free delivery, offering customers the most convenient and affordable way to shop. Customers simply place their order online 24 hours a day, 7 days a week, at www.webvan.com and select a 30-minute delivery window at the time most convenient for them. Orders are then hand-delivered to the customer's desired location on the same day or up to 7 days later.

Source: www.webvan.com

Infrastructure

Once the need to develop e-commerce in some form had been identified, the single most important issue facing the executives and technologists charged with developing Internet-based projects is infrastructure. This spans the technology spectrum from a single Internet file server connected to a commercial Internet service provider (ISP) all the way to the information-intense online transaction processing of a company like UPS, the giant global parcel delivery company. UPS's site assisted customers in tracking 12.92 million packages a day during 1999, hitting a peak of 18.7 million packages in a single day during the busy holiday peak shipping season as customers increasingly embraced the Internet and retail e-commerce and tracked their parcels online. Online tracking activity at UPS's Website established a new all-time record of 3.3 million requests in a single day.[4] To handle the volume, UPS employed 90,000 additional workers, adding more than 3,000 additional trucks to a fleet of 149,000 tractor-trailers, vans, and delivery vehicles, as well as coordinating the activities of the world's tenth-largest airline composed of 229 aircraft.

UPS's infrastructure also includes a growing set of online partners and tools utilized by over 15,000 of its customers to improve its efficiency at both the B2C and B2B levels.

The infrastructure needs to be considered at several levels:

- strategic
- organizational
- physical

4. Press Release: UPS, "UPS's Record 4th Quarter Results Cap Year of Outstanding Financial Returns," Atlanta, January 31, 2000. www.ups.com/news/20000131results.html

At the *strategic level*, the focus is on determining the impact future technologies will have on the market and the organization.[5] The aim is to align future business planning initiatives with the new technology challenges. This issue is considered fully in chapter 4. The first level at which the implications of technology and strategic change become apparent is the *organizational*. At this level, the challenge is to align the work practices, process flow, and structure of the organization to execute the strategic goals effectively and efficiently. The execution occurs through the *physical layer*: the hardware and software of the computing environment, in conjunction with the telecommunications infrastructure. Keith Butler, Director of Internet Commerce at Office Depot.com comments on the balance required between the strategic, organizational, and physical levels, together with the role of executive sponsorship:

> the [online] initiative was triggered internally; it was a champion inside the company who knows the industry well enough and knows the opportunity of e-commerce and said, "Look at this…", and two things came into play. First of all, the infrastructure that we had in place could support a move to the Web very robustly. And second, the web itself had reached critical mass or mass enough that it represented a great opportunity to generate new revenue. It was really driven from the fundamental get-go internally. It was a corporate decision that this was the right thing to do.

However, not all organizations have the ability to be nimble in responding to these challenges. Frequently, in mature organizations the infrastructure has grown old and lethargic, unable to adequately cope with change when asked to, at least within the allowable cost and time parameters. Successful organizations and their CIO's have recognized this and worked toward a fluid and flexible architecture that allows for change, whether that change be of organic growth through corporate acquisition, or of streamlining through divestiture, or of a complete strategic turnaround due to the pressures of new technology.

It is clear that it is easier to create a brand-new value chain that is based upon a Web pipeline philosophy than it is to change an established value chain which has inertia built into its practices and processes. Butler of Office Depot indicates that an organization needs a solid infrastructure to succeed in deploying an Internet channel: "All of our delivery centers currently operate

5. "Gerstner on IBM and the Internet," *Business Week*, December 13, 1999, p. EB40.

under a common order processing system, common warehouse management system, common inventory system"—an eclectic approach to infrastructure may not have worked so well.

Again, several lessons for executives can be distilled:

1. Create a flexible infrastructure that can act as the "shock absorber" of change.
2. The factors that influence the infrastructure come from strategic, organizational, and physical levels.
3. Infrastructure creation requires open levels of communication at and across all levels of the organization.
4. Create a technology solution that is scalable, secure, and robust
5. Maintain awareness of all standards as they evolve and attempt to influence the development of standards where possible. Plan for their integration as soon as is feasible, so that actual integration will not occur in a pressurized environment.
6. Executives cannot divorce themselves from technological understanding: the Techno-CEO is the leadership model of the future.

Organizational Learning

The ability of established organizations to react, understand, and deploy an e-commerce solution is very dependent upon the ability of an organization to effectively leverage its organizational learning. Roy Stata, Chairman of Analogue Devices, Inc., has stated that "organizational learning occurs through shared insights, knowledge, and mental models… [and] builds on past knowledge and experience—that is, on memory."[6] Organizational learning, however, is not an isolated process; it is clearly linked to our earlier discussion on leadership. The learning that occurs in formulating and creating brand, technology, market, and service leadership positions as well as the interconnection between these focuses are just as important as if not more important than the individual elements themselves. Leadership with vision facilitates, encourages, and allows an environment to develop within the organization where institutional learning and memory thrive. A few factors drive this: senior executives place trust in their colleagues at all levels; they stimulate an environment of

6. Ray Stata, "Organizational Learning—The Key to Management Innovation," *Sloan Management Review*, Spring 1989.

intellectual curiosity; they facilitate new concepts and technologies even when a traditional return-on-investment metric may not be applicable.

Successful organizations have always been able to internalize the learning brought about by developing an understanding of their processes and functions. Henry Ford, for example, internalized process control, while American Airlines internalized passenger yield management. In doing this, these enterprises gained a dominant position in their respective fields. Therefore, it would not be unexpected, within the emerging e-commerce arena, to find organizations exhibiting similar leadership characteristics developed through superior organizational learning skills. The front-runners such as Priceline.com, Officedepot.com, and BMW.com all demonstrate great creative and visionary leadership, but they also differentiate themselves through their ability to execute that vision. Two of the keys behind the success of the leaders in e-commerce are their ability to understand the metrics that drive their e-commerce marketspace, and their ability to understand their own relationship with their customers. From these two issues, the leading organizations have determined how to respond to those metrics and then improve the processes, structure, and communication accordingly. Many organizations start this process through the use of easily accessible metrics; for example, Alamo Car-Rental measures the yield ratio between metrics such as click-throughs and reservations, building upon its strong organizational understanding of yield management.

Leading organizations clearly understand the importance of metrics. BMW's Carol M. Burrows constantly assesses the customer and retail feedback through BMW's site, which attracts over 1 million hits a day. BMW then builds this into retail connectivity. Burrows states, "We communicate with retailers all the time. They are very, very complimentary of our site and very pleased with the amount of individuals that come to our site and who then use our link to their local retailer, to whom we refer someone for a test drive and to get a close-up look of a car. We provide a kit for all of our retailers to help them get on-line and to do it in a way that we think is complimentary to the brand."[7] Not only is BMW measuring its hit rate; it has also created a mechanism to involve all dimensions of the organization in the creation of its site, including customer service, dealer network, and financial services, to provide reinforcement of the BMW brand. In doing so, BMW has aligned the e-commerce strategy with the organizational strategy as a whole.

7. Phone interview with author, September 1998.

Several key drivers with regard to organizational learning can be gleaned:

1. Create an environment that stimulates and fosters organizational learning. This is vital not only for the successful introduction of technology but for long-term organizational survival.
2. Organizational learning has to have a focus and that focus has to be driven from the strategic objectives of the organization as a whole, taken one at a time in the areas of brand, technology, service, and market and then combined to provide holistic learning.
3. Organizational learning creates an environment of positive change and continuous process refinement. Should this not be present, organizational inertia will cause the organization to "stall in flight."

Four Positional E-strategic Directions

In creating an e-commerce strategy, it is clearly necessary to align and integrate the four main areas of positional strategic focus: technology, brand, service, and market (see Figure 2.3). This is a challenging task that must be deeply considered at the outset of strategy formulation since both the dollar and opportunity costs of dramatic strategic change after execution can be high. This is not to say that change is not occurring; change in this arena is inevitable and continuous, with victory coming to those who can adapt fastest and be nimble in the face of change. The remainder of this chapter will introduce the

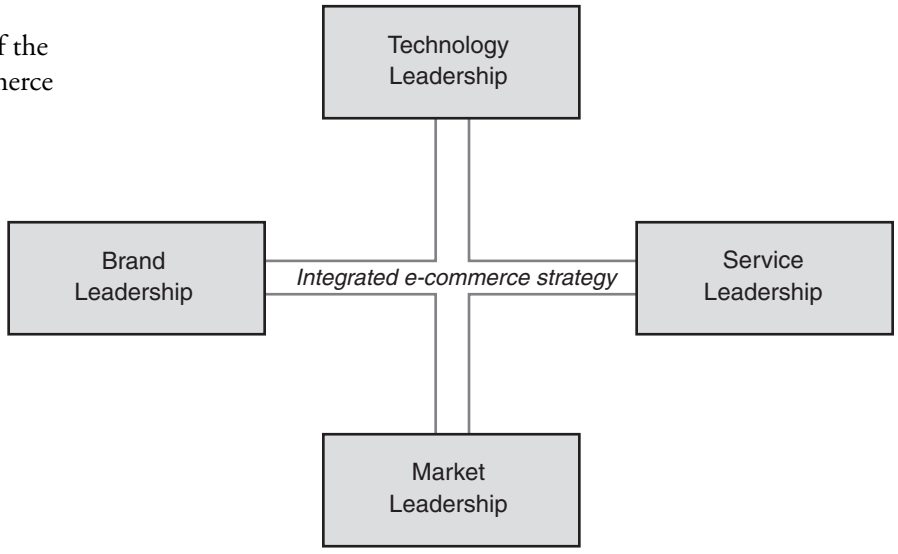

Figure 2.3
Integration of the Four E-commerce Leadership Propositions

basic strategic issues in each of these leadership propositions and consider some of the key interactions between them.

Technology Leadership

We can find e-commerce strategies that are focused on leadership through technology in all industry sectors. Technology leadership involves the early adoption of an emerging technology to achieve a preemptive position. Many of the companies studied for this book followed this strategy or viewed technology leadership as an integral part of their overall leadership strategy, including UPS, Nortel, SUN Microsystems, Motorola, and Dow Jones.

At the World Economic Forum in Davos, Switzerland, Nortel Networks issued the statement on page 43 illustrating the technical and strategic challenges facing the company in an evolving Internet- and communications-driven marketplace.

B2G & B2B Technology Leadership

An example of B2G-mandated technology change is that originating from the regulatory conditions decreed by the U.S. Department of Energy, which, under the auspice of the Federal Energy Regulatory Commission and the Open Access Same Time Information System (OASIS), mandated that the Internet be used to buy and sell natural gas, as well as to make nominations for gas and pipeline capacity.

The utilities, which through other deregulation have been forced to relinquish monopoly power and become competitive, have been quick to recognize the potential that a technology leadership position offers in the B2B and B2C markets. With their ability to rapidly pass through the learning and experience curves, internalize their learning, and create new infrastructures, utilities such as Florida Power & Light (FPL) have rapidly moved to the front of the technology leadership arena. Utilities such as FPL aim through the use of technology to increase the strength of their customer relationship by offering more informational services and decreasing power costs, thus locking in market share for both residential (B2C) and corporate (B2B) consumers.

While their mandate is to reduce their customers' power consumption, they balance this with a strategy of increasing their market share. Through the deployment of Internet technologies they can achieve this at a lower cost than would have been possible even 5 years ago. The technology leverages the ability of the power utilities to monitor their customers' usage and offer them

January 30, 2000 Davos, Switzerland

Internet, eBusiness to Fuel Trillion Dollar Economic Growth, Nortel Networks Research Says Explosive Growth of Internet Economy Driving Demand for High-Performance Internet

Construction of the high-performance Internet is essential to support the massive increase in eBusiness and other investment fueling the growth of the Internet Economy, according to Nortel Networks' research unveiled at the Annual Meeting of the World Economic Forum.

Produced in conjunction with IDC, a leading global consulting firm, the research projects the Internet infrastructure segment of the Internet Economy is expected to more than quadruple to reach $1.5 trillion, larger even than spending on e-Business in 2003. This massive investment will be required to create a high-performance Internet with the reliability, quality, speed and economics that business and consumer demand.

The global Internet Economy is forecast to reach $2.8 trillion to become the world's third largest economy by 2003, larger than the gross domestic product of Germany, France or the United Kingdom.

The study also found that eBusiness is expected to grow by 86 percent annually to reach US$1.3 trillion. Europe will be the fastest-growing region for eBusiness over the period with annual growth of 118 percent. eBusiness growth will be driven by the decisions of thousands of businesses to shift billions of dollars of commerce from traditional methods such as EDI (electronic data interchange) to Web-based alternatives.

"This is further evidence of what Nortel Networks has been saying for years," said Ian Craig, executive vice-president and chief marketing officer, Nortel Networks. "The explosion in demand for bandwidth and the growing reliance of business and industry on the Web requires building a new, high-performance Internet as a matter of urgency. This is the task on which Nortel Networks is focused. We are leading the way with the Optical Internet, but the opportunity remains huge."

"Far from any bandwidth glut, there is a shortage of available bandwidth in both the US and the European market," Craig said. "Nortel Networks has been doubling the bandwidth and halving the cost of fiber optic networks every nine months as we improve the performance of the Optical Internet. The challenge facing us is to deliver an Internet with the reliability, quality, speed and economics that users need and demand."

Other key findings of the research include:

- Faster business-to-business growth expected, accounting for 87 percent of all eBusiness by 2003.
- Forecast continued bottleneck in the 'first mile,' with 87 percent of homes still relying on narrowband connections to the Web. Cable modem and DSL connections should continue to grow rapidly, but is expected to reach only a modest 7.7 percent and 4.4 percent of homes worldwide.

Source: www.nortelnetworks.com/corporate/news/newsreleases/2000a/01_30_0000037_davos_ecommerce.html

suggestions on how to be more power efficient. This is a win-win strategy for both the utility and the customer, but it simultaneously changes the nature of competition within the industry. No longer is it based on the lowest-cost solution per kW-hour; it is based on a technology added value strategy that allows the utilities to get closer to the customer and create wider market coverage. The issues surrounding technology leadership strategies are discussed further in chapter 4.

Brand Leadership

The emergence of the Internet as a dynamic branding mechanism has done much to fuel the debate over how to most effectively utilize this benefit within the development of the organization's overall brand strategy. Potentially the most important of these debates focuses on the Internet's ability to influence, change, or reinforce corporate branding. The Internet is unique in modern times as it is a truly new conduit to the customer, and as such it has extensive ability to create a new corporate branding position, to reinforce the existing brand, or to enable the existing brand to be repositioned.

Louis Gerstner, Chairman & CEO: IBM

Branding—it is a very important issue and it will dominate business thinking I suspect for a decade or more.

Source: IBM Executive Conference on Information Systems, Latin America, Miami, FL, September 1, 1998.

The development of an e-commerce branding strategy will clearly mean something different to a new entity than it will to an established organization. The *born-on-the-net* category is epitomized by Amazon.com, a company that only just commenced selling books on the Web in July 1995 but that had by 2000 sales of $1.64 billion (net sales for fiscal year 1999, as reported in its SEC filing)—a staggering growth rate of 169% over the net sales of $610 million for 1998. Amazon is not only the Internet's dominant bookseller; it is potentially the Internet's most dominant brand. To most North American Internet users, Amazon is a reflection of the Internet's e-commerce potential; to most executives, it is the *specter* on the horizon, and they do not want to be caught cold like the "café latte" high street booksellers. To the book-buying public, the added value is financially clear—everyday low-cost pricing. However, cost alone is not the only added value factor; convenience and service are the key. The customer feels connected to the company rather than disconnected by the technology. The secret of the branding at Amazon.com is also more than its

efficient, quality customer service. It is based on the added value of mass customization. The customer is dealt with the way customers wish to be dealt with—as a valued and familiar client with whom a store worker has built up a long-term relationship. Thus, value comes from recognizing the customer's patterns of purchasing and through making subtle suggestions to the customer rather than using overt direct marketing techniques. The key to mass customization is getting close to the customer and providing the product on demand at a low cost while maintaining sufficient margins for the supplier.

Brand reinforcement comes through reflecting the values of the physical product through the medium of the Internet. A brand reinforcement strategy does not necessarily imply the Internet is used to transact, merely to interact.

The goal of being a leader and developer of Internet sales may not be the goal of every organization. Many established organizations do not actually wish to develop a new sales channel at the current time and hence have determined that a *brand reinforcement* strategy is a suitable complement to their existing corporate strategy. The goal of this channel is to reinforce the organization in the eyes of the customer. In order to do this the organization has to utilize the added value of "information provision" to its viewers, providing information and building a quality relationship with the customer on a continuing basis through that information content. This is not a static information interchange relationship but a dynamic one in which the customer will expect change and continual value from the relationship or the linkage will be severed, potentially for a significant amount of time. An example of a leading brand reinforcement strategy can be found in the automotive area where BMW is continually stimulating its customers through subtle incremental changes to its site. BMW utilizes the technology to increase the involvement level of potential, current, and past customers. In the past the site has allowed customers to build their own dream car or, at the launch of the M series Z3 roadster, to listen to its engine. However, unlike Amazon, BMW would prefer the potential new owner to visit a traditional dealer subsequent to visiting the site. This is not because BMW is not capable of creating the technology to sell a vehicle via the Internet, but because the company feels that the interrelationship between customer and organization is best served by human reinforcement and bonding.

Even though this channel is not directly generating revenue, the *brand equity* (discussed in chapter 10) is developing tangible benefits to those that understand and execute effectively in this marketspace. An automobile manufacturer

confirmed during the research for this book that there is a tangible return through retail feedback and retail connectivity and that the insights gained through the online channel are superior to those of traditional marketing channels. The issues surrounding branding are considered more fully in chapter 7.

The Service Payoff

An obsessive focus on all information surrounding the customer at all contact points is the most effective way to establish service leadership via the Internet. Service should not always be expected to translate immediately into purchases by customers because its value often consists simply of building relationships with, and gathering information about, potential customers and maintaining relationships with existing ones.

The value-adding effects of building virtual communities have been well documented by management consultants John Hagel and Arthur Armstrong in their 1997 book *Net Gain*.[8] Their communities are developing in parallel to the e-consortia relationship within the B2C and B2B environments. Over time, e-consortia will attract more and more customers (and potential new sellers to add to the consortia) through their service strength. This derives from the specialized nature of the individual organization's information being available under the umbrella of the consortia to service the needs of the customer from a data and information provision perspective.

Healtheon.com: an E-consortium

A fundamental feature of e-consortia is that the value increases exponentially even as they grow incrementally. Over time, the companies that nurture e-consortia can look forward to more customer transactions and greater revenue. One growth area in which communities and consortia will proliferate is healthcare. Currently there are many stand-alone Websites—e.g., WebMD and Dr.Koop.com. However e-consortia, of which Healtheon is a variant, look at becoming a dominant force in this arena. Healtheon's mission statement is "to leverage advanced Internet technology to connect all participants in healthcare, and enable them to communicate, exchange information and perform transactions which cut across the healthcare maze. This will simplify

8. John Hagel and Arthur G. Armstrong, *Net Gain: Expanding Markets Through Virtual Communities*, Harvard Business School Press, Cambridge, MA, 1997.

healthcare, reduce costs, enhance service and result in higher quality, and more accessible healthcare."[9] Healtheon is forming alliances with the necessary groups within a healthcare framework to ensure its consortium is effective, including preferred provider organizations (PPOs) and other partners in ancillary fields. The value here is in providing 24 × 7 access to information, prescription drugs, and so on, thus creating services that are not possible in the modern health management organization (HMO)-run physicians' surgeries where interaction is the most valuable service item but the provision of which has become too expensive and too rarefied.

UPS.com—A B2C, B2B, and B2G Enterprise

Other companies have taken less radical—but nevertheless profitable—approaches to service over the Internet. Consider UPS, the world's largest package distribution company, which transports more than 3 billion items a year. Through adoption of the Internet and Net technologies UPS has repositioned itself as a deliverer not just of packages but of information. UPS's Document Exchange service enables businesses to transmit documents cheaply and securely over the Internet, with the same benefits—such as package tracking and delivery confirmation—UPS offers with physical packages. The Internet also makes it easier for UPS to customize logistics for its customers—for example, by ensuring that parts from different countries arrive where needed at the same time.

The Internet allows organizations to offer innovative types of service variations to more and more customers. There are examples in all industries: utilities such as Entergy, serving the Louisiana, Texas, and Mississippi areas, and Florida Power & Light analyze their customers' bills and power usage; biotechnology companies such as Genentech support community activities; American Express provides tools for customers to carry out their own financial portfolio management; and companies across the board provide investor information to shareholders.

Furthermore, the Internet makes it possible for international companies to offer a level of service to all markets that was previously restricted to their home countries and major markets, a realization of a long-held dream. The development of service leadership strategies is discussed further in chapter 6.

9. www.healtheon.com/com/index.html

In Search of Market Growth

Nimble, creative, and agile corporations have achieved disproportionate market growth via the Internet through responding to changing market conditions with product offerings as well as through their approach to understanding the market within which they operate. One successful approach has been to combine marketing, service, and information systems groups to focus on issues as a cross-functional team. Some examples of organizations innovatively using the Internet to spur market growth follow.

- **Royal Caribbean International**, one of the world's largest cruise lines, evolved from a *Technology* leadership focus in 1997, through a process of brand enhancement, to a more recent *Market* focus, achieving significant market growth through online sales.
- By contrast, **American Express** first focused on brand reinforcement. As one marketing executive stated:

  > The Internet is where the home run is—when you leverage what you are good at already and you use online systems in a way that cannot be duplicated. It reinforces what your products and services are, makes them better, and reinforces your brand and what it means.[10]

  Building upon its early Internet learning experiences, American Express has subsequently moved into a *market growth mode*. Some examples include helping customers to trade stocks online; providing consulting services and expertise to customers; and assisting business to identify and implementat direct and indirect cost savings. In addition to its more traditional business areas, American Express is offering real-time air, hotel, and car reservations, as well as last-minute travel bargains.
- **Office Depot**, the U.S.-based office supply company, receives over 300,000 orders a day for its products through its straightforward, user-friendly Internet site. The company aims to retain customers by providing a convenient and efficient service. It's building market share by creating free services for office managers and small businesses and by providing real-time inventory checking, along with its traditional customer call centers.
- Car rental company **Alamo** is aggressively pursuing a strategy of being the first to facilitate wider market coverage and closer relationships with

10. Personal interview, September 1998.

customers. Naturally, this has influenced the speed at which it is developing its Internet activities. The company reports that the Internet is not only more profitable than traditional channels, but that it tends to receive a fairly constant amount of use. In Japan, Alamo's Internet revenue has grown significantly compared to revenue growth through traditional channels.

Companies with this level of success clearly see the new business model made possible by the Internet and are willing to commit to the hilt the financial, technical, and management resources needed. As an executive at the American Bankers Insurance Group remarked: "It's a bit like ATMs [automated teller machines]. Everybody was getting them and if you didn't you lost customers. But the Internet also reinforces organizations, adding new channels. It is a real transition in business, one of those points where huge differences can be shown and made."

The issues surrounding the development of market leadership strategies are discussed in more detail in chapter 5.

A Case Study: Royal Caribbean Cruises[11]

Royal Caribbean Cruises is the world's largest cruise-based leisure company, with revenues of $2.64 billion for 1998. It carries over 4.5 million passengers a year to Alaska, the Bahamas, Bermuda, Canada, the Caribbean, Europe, Hawaii, Mexico, New England, the Panama Canal, and Scandinavia.

Leadership and Organizational Learning

Since its inception in 1970, Royal Caribbean has tried to be an innovator in ship design and construction techniques, logistics, and reservation systems. Building upon this reputation, the company created its first Website in February 1996. The site was redesigned in 1997 to incorporate a stronger brand message and sales and marketing initiatives. The amount of information provided for—and obtained from—visitors was increased.

The relationship between technology and the strategy of the organization is acknowledged at the highest levels. According to Jack Williams, president of Royal Caribbean International: "Royal Caribbean recognised long ago the potential that the automation held for us as a company.… The past decade has been spent identifying how this new tool could be incorporated into every aspect of our

11. Based on personal interviews, conducted May 1999.

business to bring more information about our brand into the homes and offices of our customers and our travel partners worldwide." This vision of technology at the executive level is critical: it drives all sections of the organization toward a common goal through the medium of technology.

Some elements of the system are done out-of-house, however. As with other advertising media, the company employs an interactive agency to be creative on its behalf. According to the director of Royal Caribbean's Marketing Automation Group, this is so that the company can gain access to "the latest and greatest ideas" on the creative side while focusing its own energies on other areas of marketing. The organization uses a partnering model: it gains external expertise where necessary and carefully manages the relationship with its in-house information systems department.

Technology

Companies such as AOL, Amazon.com, and eBay that have mastered the technology of e-commerce ahead of their competitors have been able to create and dominate new markets. Established companies also see a technology focus as crucial to successful competitive positioning.

Royal Caribbean uses a variety of information systems to manage its shore- and ship-based operations—in other words, its business-to-business customers such as travel agents and its liners. With the former, the existing technology of its traditional booking channels—Sabre's Cruise Director, Galileo's Leisure Shopper, Worldspan's CruiseLine Source, and Amadeus Cruises—accounts for 30% of its bookings (the highest degree of automation in its industry). Royal Caribbean is aiming to increase this percentage by introducing CruiseMatch 2000 Online, a Web-based reservation system, through which agents can access its logos, interior and exterior ship photography, information on reduced rates, and downloadable advertisements. It is also planning to enable long-standing customers to book directly online.

Marketing

The Internet has two attributes that guarantee its success: Websites can be accessed by a global audience 24 hours a day, 365 days a year, and those sites can be made to appear personalized for individual users. Marketers can finally realize their dream of mass-customized, one-to-one marketing when they structure Websites effectively.

Royal Caribbean Cruises operates two cruise brands: Royal Caribbean International and Celebrity Cruises. By 2002 the combined fleet will consist of 16 vessels with a capacity of 21,700 berths. In addition to the many different countries the ships visit, the company offers a wide range of trip durations, from three-day cruises to epic voyages that take in several continents. This complexity of offerings necessitates a complex pricing structure.

Sales are traditionally made through travel agents. If Royal Caribbean were to bypass these agents by selling directly to customers online, it might provoke a hostile and perhaps even damaging reaction from the agents.

The company, however, sees an opportunity to colonize an underdeveloped marketplace. Research has shown that 93% of the public has not been on a cruise, and that only 31% of travelers use a travel agent; the company's internal studies show a high correlation between its existing customers and the fastest-growing segments of Internet users.

Its strategy is thus to exploit the power of information systems to inform this set of customers of its complex array of products and services. Customers can book directly through Royal Caribbean's telephone call center or use the online reservation request form to check availability. Internet-based online booking is the next step.

Service

As with the ability to create a perception of individualized marketing through the Internet, organizations can also service the needs of their customers on a global, 24-hour-a-day basis.

Success in the premium sector of the leisure industry depends heavily upon quality of service. So like many companies in this sector, Royal Caribbean aims to deliver a branded, high level of service whenever a customer comes into contact with the organization. This especially includes the customer's interaction with the Website; after all, the site is a direct channel to the retail customer.

Royal Caribbean's strategy consists in gently shepherding the customer toward the greater resources of professional travel agents (where this does not conflict with the segmentation strategy outlined above) while attempting to provide total customer support and satisfaction. E-commerce should be about total customer service as well as transactions. A Website is not simply a low-cost sales channel but a means of giving customers greater choice and detailed, relevant information.

Branding

Branding is a process that creates within a consumer's consciousness a heightened awareness and recognition of a trademark or product, creating a brand-image. The term "brand-image" was coined in the 1950s by David Ogilvy of the Ogilvy, Benson & Mather advertising agency. Ogilvy conceived of marketing strategy as the reinforcement of a product's brand to the point where the product is elevated above products of equal quality but of unknown brands.

The positioning of the Royal Caribbean brand as a "quality" brand is of vital importance to the organization. Jack Williams has said that the company's brand identity "needs to illustrate the quality product that we offer and needs to signify the international scope with which we operate our ships and sell our vacations."

Through its Website, the company aims to communicate this at all stages of its relationship with a customer: for the first-time cruiser, there is the visual "electronic experience" of the ship and cruise; for prior customers, there is a loyalty program;

and for stockholders, there is an online investor relations channel. The Website brings together many normally disparate points of contact. Thus a key task for Royal Caribbean—as for other companies that rely heavily on their brand associations—is to ensure that these are presented in a coherent way.

Developing a Winning E-strategy

Several keys to the successful development of an e-commerce strategy have been highlighted:

- Ensure the project is backed by a senior executive.
- Develop a strategy before developing a Web presence.
- Develop a strategy by focusing on technology, branding, marketing, and service.
- Develop an IT infrastructure capable of matching the strategic objectives.
- Identify and use knowledge in the organization.
- The strategy must add value for customers, and it must change as the requirements of those customers change.

It is possible for companies that were not "born on the Web" to create similar Internet-based channels to those that the newer competition has so far exploited. By focusing on the factors outlined above they stand a good chance of success; by monitoring their performance and responding to changes in their markets, they can sustain that success. The established fixed-asset company of today can be the nimble Internet company of tomorrow.

Summary

It became clear after researching the e-commerce strategies of more than 40 companies, over half of which had revenues in excess of a billion dollars, that, in order to be successful in the creation of an e-commerce strategy, the strategic positional focuses of technology, brand, service, and market leadership require careful consideration in order to achieve a balanced strategy. In order to support a balanced strategy, at least three further drivers, some quite traditional in nature, were required to bond the organizational strategy and the IT strategy together. Most important among them are:

- ☞ The necessity for a senior management champion, preferably the chief executive.
- ☞ The basis of a strong and flexible IT infrastructure upon which to deploy the organization's e-strategy.

- ☞ Active support by the organization's *content owners* (that is, groups and individuals that have a direct stake in the positional e-strategy mix—leaders in the corporation's technology, marketing, service, and branding groups).
- ☞ The ability to climb the learning curve quickly. The companies that make the best use of e-commerce are identifiable by the speed at which they developed online projects and the wealth of future online options that they considered.
- ☞ Belief that R&D for online activities is a strategic investment. The research for this book found that funding for net projects sparked no serious return-on-investment questions in leading online companies.
- ☞ Adoption of a sourcing option that reflects the mission-critical nature of the Internet. Often companies start with an in-house group thrown together quickly (often dubbed a "skunk works") or opts for complete outsourcing. Then as the importance of the Internet and the technology becomes recognized, other options are considered. This includes *partnering*—working with a set of specialist providers. Partnering differs from traditional outsourcing in the sense of the relationship being developed. Traditionally outsourcing has been a useful mechanism to more effectively use internal resources while maximizing the efficiency of vendors. Partnering on the Internet, however, is focused upon developing working relationships. This stems from the fact that the technologies being incorporated into corporations' e-commerce systems are new and continually being updated. The vendors are also often new and they wish to build relationships, place their software in successful companies, and go through learning curves with their customers. Corporations are also constantly adjusting their e-commerce sites and strategies, making a partnering relationship preferable to long-term outsourcing options.

The issues surrounding ownership, technology leadership, market, brand, service, and development of corporate e-commerce strategies are discussed more fully in subsequent chapters.

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