**Theme 2: Getting real about virtual commerce-philip evans and Thomas s wurster**

* Electronic commerce has been a landgrab- retail space on the net claimed by whoever got there first with enough resources to create a credible business. Took speed willingness to experiment and alot of cybersavvy.
* Investors buying sites have concentrated on growth. However phase is now over, sites are bought time to create revenut.
* Second generation of electronic commerce is emerging one shaped by strategy rather than experimentation. Battle for competitive advantage will ve waged aling 3 dimensions reach, affiliation and richness.

**Navigation as a separate business:**

* Broad search for a product is time consuming, difficult and incomplete. Consumers rely on product suppliers and retailers to help them navigate among the choices.
* Businesses in turn exploit customers to build competitive advantage by creating navigational tools.
* Sellers exercise some control over the navigation function as it is difficult for consumer to naviage the web of information themselves.
* Internet- information exchange directly quickly and for free. Navigatin and selectin occur independently of physical wareshouses and distribution.
* Product suppliers can sell directly to customers.
* Importance of shift – navigation separate business un bundled from production distribution.
* NAVIGATION IS THE BATTLEFIELD ON WHICH COMPETITIVE ADVANTAGE WILL BE WON OR LOSE
* Navigation has 3 dimension **reach**-access and connection. **Affiliation**- whose interests the business represents. **Richness-** depth and detail of information. Struggle for these 2 dimensions is where competitive advantage will take place.

**Competing on Reach:**

* Before internet competed by offering convenint locations and broad selections. Largest book stores carries 200000 book but Amazon has 4.5million located on 25million different computer screens.
* Navigation function is separated from physical function(inventory)
* Explosion extend beyond conventionally defined industry boundaries.
* For e-retailors this raises terrifying prospect of unstable business boundaries.
* The erosion of category boundaries will continue as electronic retailers encroach on one another territories and probe the true boundaries of consumer searchh domains.
* Explosion or reach on the net also raises acute dilemma for product suppliers.-looks like opportunity to break free from retailers and build direct relationship with customer but this is navigation most producers welcome extra attention
* Small companies welcome it as their products are advertised to a wider audience that are interested in their niche market. Larger companies tend to dislike it.
* Reach is about access and connection
  + Means how many customers a business can connect with and what product it can offer these customers.
  + Richness is the depth and detail of information as well as depth and detail of info it collects from customer.
  + Trad businesses have always had to amek a trade off between richness andreach.
  + Doing both- getting highly detailed customized info to and from a massive audience was expensive.
  + For little money e commerce businesses can provide a wide base of customers (reach) with access to broad range of products and detailed complete info about each product (richness). Can collect info bout customer and use it to sell more products
  + Opens up affiliation. Hasn’t been a serious competitive factor in the past.
* The knee jerk reaction of product suppliers is to try to keep the new navigators from achieving critical mass.
* Could not allow navigators access to site but has problem-technically difficult to stop a navigator from parsing information, it is not obvious that it is in any single sellers interest to block their site. Navigator is still a source of incremental business to a seller. Deny access from navigot is interest of sellers collectively but not individually.
* May require a joint venture to access the critical mass needed.
* Physical retailers need new approach, most use web to drive traffic to physical locations. Need to fulfil orders in ways that are most efficient for the electronic business.must expect new business to canabalise the old one.
* Catalog companies are best positioned to make the shift. Lines of business already defined around brand idenfification and search domains that make intuitive sense to customers.
* Other product suppliers see internet as arena for marketing and promotion.

**Competing on affiliation:**

* E commerce tilting their affiliation away from suppliers toward the consumer. Product placement online.
* Also a consequence of the blowup of trade off between reach and richness.
* Navigators not necessarily paid but get advertising and affiliation form customer.
* When consumer affiliation matters the product supplier has a problem.
* One respone is to exploit the way that navi business evolve beyond product categories.
* Offer a navi service that solves customers problems not pushes products.
* Provide objective info about products that you do not sell.

**Competing on Richness:**

* Retailers have always been well positioned to collect and use info about their customers bu the net enhances ability to do so.
* Web offers unparalled opporutinit y for this kind of cheap and infinitely discriminating customisation fo offers, products and ads.
* Data mining techniques applied to browsing behaviour –purchasing behaviour.
* More and more sites recording customer info the doing product placement to customers.
* Great advantage of physical retailers is rich date they collect from other sources.
* Web derived info is surprisingly thin database compard with those developed by grocery stores and credit cards.
* 2 factors limit strategies based on rich consumer info, first is privacy second is consumers option to search and organise info for themselves. These factors limit the power of rich customer info but they have a wapon.
* Manufacturers have distinc advantages when it comes to rich product info.
* Rich product info is powerful but uncertain weapon for product supplier.
* Brands-manufactures use brandin all the time to communicate rich product specific info to customers.
* Sony –superiour quality? Coke- experience emotions flavour?
* Branding enhances experience of owning product- Barbie.
* Where brands are already defined in terms of experience rather than belief the evoliving medium will strengthen them.

**The incumbents dilemma:**

* Logic of reach affiliation and richness poses a profound organisation dilemma for incumbent product suppliers and retailers.
* They have to recognise that their value chain is being deconstructed.
* Aspects of navigation are no longer functions they are becoming businesses.
* Can only compete if they break down current business into its components understand the evolution of new business models from the outside in and free their new business managers from any obligation to prop up the old.
* New will probably compete against the old
* Only anser is to separate the new venture as much as possible form the established organisation perhaps even to spin it out.
* We have argued that richness is the incumbent greatest strength. How can it achieve the autonomy motivation and freshness of an internet start up and simultaneously exploit ist uniquely rich customer and product centered infor?
* For many incumbents their first attempt to reinvent themselves may also be their last.

**From your prospective:**

**If you are a pure navigator:**

* Never take your business definition for granted. Must compete with other navigators on reach and richness
* Recognise that close affiliation with consumers is a major competitive advantage for you. Part of your identity.cultivate it.
* Build richness fast, when incumbent suppliers get serious that is where they will attack.

**If you are an electronic retailor:**

* Define your business in terms of a coherent consumer search domain
* Be sceptical of exclusives with product suppliers. Sacrifice of reach and consumer affiliation is likely to cost you more in competitive eadvantage than the gain in margin is worth.
* Beware of category killer physical retailers. They often have better consumer info and better logistics.

**If you are an incumbent produc manufacturer:**

* Adding richness especially product specific richness is the most powerful way for u to compete.
* Mentally deconstruct your own business. Look at its informational components as businesses in their own right. Develp independent strategies for them. Create an organisation that takes those strategies seriously.
* Reach is a 2 edged sword might enable you to escape retailer but simultaneously exposes you to new navigators who potential reach is greater than yours..
* Look at alliance to address affiliation and reach problem.

**If you are an incumbent category killer retailer:**

* Youve been beating dep stores and general merchandisers in reach game through overwhelming selection and mastery of logistics. New reach game is about information. Need to redefine business.
* Your going to be attacked do it yourself before someone else doe, understand the multiplicative effects that even sligh revenue erosion can have on profitability of a high fixed cost physical business. Make fixed costs variable.
* You ought to win in new world of e commerce. Start with reach, high consumer affiliation, physical distribution rich consumer dat. Option for multichanell marketing brands.compete against yourself.
* Know that your operating managers let to themselves will never make changes. The threat to core business is simply too great. Create a separate entity and give its mangers the authority to exploit the assets of trad business . synergy must be a one way street form old business to the new.