13 EC Strategy, Globalization, and SMEs

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Electronic supplementary material The online version of this chapter (doi: 10.1007/978-3-319-10091-3_13) contains supplementary material, which is available to authorized users

Learning Objectives

Upon completion of this chapter, you will be able to:

1. Understand the essentials of online business competition and strategy and how the Internet and EC influence Porter's Five Forces model.
2. Describe the performance and strategy cycle.
3. Describe the strategy initiation phase.
4. Understand the activities of strategy formulation.
5. Understand the strategy implementation phase.
6. Describe strategy assessment, including the role of metrics.
7. Describe performance improvements and innovations in e-commerce.
8. Evaluate the issues involved in global EC.
9. Describe how small and medium-sized businesses can use EC.

OPENING CASE: PROCTER & GAMBLE'S E-COMMERCE STRATEGY

Procter & Gamble Company (P&G) is the world's largest multinational company of consumer goods. With over 121,000 employees and over $84 billion in sales (in 2014), the company is considered one of the world's best. Its products include some of the most well-known brands such as Tide, Crest, Pampers, Old Spice, Gillette, and Charmin. The company is known as a global innovator,

E. Turban et al., *Electronic Commerce: A Managerial and Social Networks Perspective*, Springer Texts in Business and Economics, DOI 10.1007/978-3-319-10091-3_13,

introducing revolutionary products and excelling in marketing communication.

THE PROBLEM

P&G operates in a very competitive industry where other large global companies are extremely active (e.g., Unilever, Johnson & Johnson). Brand recognition is a critical success factor, and extensive advertisement is necessary. P&G is known for being a pioneer in the radio and TV production of soap operas (the term "soap opera" is based on P&G's detergents and soaps). P&G sponsors music, TV shows, movies, and sporting events (including the London Olympics in 2012 and the Sochi Winter Olympics in 2014). As of 2000, the company is active on the Internet, sponsoring numerous online communities and operating dozens of websites (one for each brand).

The rise of the social customer (Chapters 1 and 7) contributes to a more intense competition. The customers now can share information and experiences, compare prices, get coupons online, learn about the ingredients of products and their environmental impact, recommend, evaluate, and trash the brands that they do not like. All these make customers less loyal to some brands and more loyal to others. Sales of some of P&G's brands (e.g., Pepto-Bismol) had been flat or even declining, since 2000. In 2010, P&G noticed that Pepto-Bismol users had been discussing the stomach pain reliever online, especially on weekend mornings, after they had overindulged the night before. Therefore, the marketers decided to entice customers to use Pepto-Bismol before they began eating and drinking. Their strategy was to advertise on Facebook by posting the catchy slogan "Celebrate Life." This resulted in an 11% market-share gain in the following 12 months through fall 2011 (see Coleman-Lochner 2012).

THE SOLUTION

P&G has been active online since the late 1990s, and they began using social media in 2005. According to Coleman-Lochner (2012), social networking is taking central stage at P&G. In addition to their traditional marketing research of what customers are doing at home, P&G is now monitoring customers' conversations on the Web, knowing that potential buyers spend a considerable amount of time on Facebook and other social networks. Coleman-Lochner (2012) provides the following examples of P&G advertising on social media: Pepto-Bismol on Facebook and Twitter (see above), Secret Deodorant's anti-bullying drive on Facebook, Cover Girl on Facebook and Twitter, and Iams Pet food on Facebook and in blogs.

P&G's strategy in 2012 was to test the viral effect of social media. The idea was that promotions in social media can be much more cost effective than TV promotions. The company selected Old Spice as their brand for testing social media ads.

THE OLD SPICE BRAND

The Old Spice brand includes dozens of products for both men and women: deodorants, body wash, cologne, and more. The brand is known for its successful social media campaigns. We distinguish between the permanent presence on social networks and social networking and special advertising campaigns.

The Major Social Media Presence

- *Old Spice Website* (**oldspice.com**). This site includes product information, videos, photos, display ads, a webstore, and downloads (e.g., ringtones, screensavers, wallpaper).
- *Presence on Facebook* (**facebook.com/oldSpice**). Similar information as on the brand's website and 'Likes' (over 2,600,000 as of June 2014), comments (posts) by fans, and special campaigns.
- *Presence on Twitter* (**twitter.com/OldSpice**). Old Spice has over 221,000 followers on Twitter, who tweet their questions, requests, and opinions to be answered by Old Spice and shared by other followers.
- *Presence on YouTube.* A large number of related videos (many featuring "The Old Spice Guy") are available (**youtube.com/user/OldSpice**). These videos are popular (over

231 million video views as of June 2014). P&G was recognized for its social media presence at the 2014 Winter Olympics. P&G was the most "buzzed-about brand" with over 27 million YouTube views during the first week of the Games (Horovitz 2014).

- *Using Pinterest*. In 2012, P&G began pinning material onto a Pinterest board (Edwards 2012). Since then, the company is actively pinning material for many of its brands.

The 2010 Campaign

In order to appeal to the younger generation, Procter and Gamble wanted to get both men and women talking about Old Spice. The Widen + Kennedy advertising agency began with a viral marketing campaign during the 2010 Super Bowl, starring "The Old Spice Guy," who became "The Guy Your Guy Could Smell Like."

According to Ehrlich (2010), within 24 hours, there were 5.9 million video views and 22,500 comments posted. According to Lipp (2010), Old Spice became the most-viewed sponsored channel on YouTube. Old Spice gained 80,000 Twitter followers in two days and 740,000 Facebook fans. The campaign's success made it a continuous one. According to Bullas (2011), the number of YouTube views increased to 236 million a month and the sales figures increased by 107%.

For additional results, see a video case study of Wieden + Kennedy's Old Spice Media Social Campaign (posted August 10, 2010), at **wearesocial.net/blog/2010/08/wieden-kennedys-spice-case-study**.

THE RESULTS

As indicated by the results of the Old Spice social media campaign, people's reactions to well organized campaigns via social media can be overwhelming. The number of viewers and interactions reached record highs and sales volume increased as well. Overall, the company is doing well with the new strategy. P&G now advertises heavily on the Internet (e.g., their YouTube channel), but still advertises on TV.

While some are afraid that the social media activities will sink P&G's innovation program (e.g., Baskin 2012), others think that the opposite is true. As described in Chapter 8, crowdsourcing and collaboration facilitate innovation. Additionally, CEO Robert McDonald (as reported by Chui and Fleming 2011), sees improvement in innovations. He wants to make P&G "the most technologically enabled business in the world."

Related to social media is the use of analytics for strategy assessment. To read the case study, see Effie Awards (2011) and P& G Innovations (undated).

In 2014, P&G is shifting from a presence in social media to a convergence of e-commerce and social media, see Cooper (2014) for details.

Sources: Based on Chui and Fleming (2011), Cooper (2014), Coleman-Lochner (2012), Brady (2013), Bullas (2011), and Ehrlich (2010) and **pg.com/en_US/downloads/innovation/factsheet_OldSpice.pdf** (accessed June 2014).

LESSONS LEARNED FROM THE CASE

Appropriate IT and EC strategies, can help companies survive and excel. For global companies such as P&G, digitization is becoming an essential strategy. Lately, using social media has helped increase sales. For such large company, a formal strategy is necessary.

The case illustrates an advertising campaign that was planned by a consultant (an advertising agency), was implemented first on an experimental basis (the Super Bowl), was enhanced (the "Response Campaign"), and then was evaluated for success. We distinguish four major steps in strategy development.

First is *strategy initiation*, this is when P&G decided to use social media; then strategy *formulation*, which included the design of the campaign and the plan of the strategy (e.g., the selection of the brand). The third phase, *strategy implementation* was the detailed plan for how to 'go social' (e.g., how to utilize YouTube, Facebook, and Twitter). Finally, in *strategy assessment*, the results were measured using several metrics.

The focus of this chapter is on the basic steps in the creation of strategic planning as influenced by the Internet and used in EC companies. The chapter also presents and discusses issues related to creating an e-strategy to engage in global EC and the opportunities that EC creates for small and medium-sized enterprises (SMEs).

13.1 ORGANIZATIONAL STRATEGY: CONCEPTS AND OVERVIEW

An organizational **strategy** is a comprehensive framework for expressing the manner in which a business plans to achieve its mission, what goals are needed to support it, and what plans and policies will be needed to accomplish these goals. Strategy also is about making decisions on what activities not to pursue and trade-offs between strategic alternatives. An organization's strategy (including EC and IT strategies) starts with understanding where the company is today with respect to its goals, and where it wants to be in the future. The economic/financial crisis of 2008–2014 has made it even more important to have effective EC and IT strategies as sales continue to grow and global competition intensifies.

Strategy in the Web Environment

Many strategies depend on the goals of increasing revenues, profitability, and shareholder values. An example is Amazon.com's strategy to defer profitability in the short run and instead increase revenue and market share. The data considered by a company are included in the value proposition of the business model, especially concerning customers.

Today, a strategy formulation process must include the Internet, which is more important than ever before. According to Porter (2001), "Many have argued that the Internet renders strategy obsolete. In reality, the opposite is true . . . it is more important than ever for companies to distinguish themselves through strategy. The winners will be those that view the Internet as a complement to, not a cannibal of, traditional ways of competing" (p. 2).

Porter's Five Forces Model and Strategies as Influenced by the Internet and EC

Porter's "F Forces" model has been used by companies to better compete in their industry. It also illustrates how EC can facilitate a company's competitive advantage (see Hanlon 2013).

The model recognizes the following five major forces in an industry that affect the degree of competition and, ultimately, the level 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

The strength of each force is determined by the industry's structure, government regulations, size of the industry, and the global competition. Existing companies in an industry need to protect themselves against newcomers and the five forces. Alternatively, they can use the forces to improve their position, to fight newcomers or to challenge the leaders in the industry. The relationships between the forces are shown in Figure 13.1. The definitions and details are provided by Porter (1980) and Hanlon (2013).

Strategies for Gaining Competitive Advantage

While implementing Porter's model, companies can identify the forces that influence competitive advantage in their marketplace and then develop a defensive or offensive strategy. Porter (1985) proposed three such classical strategies: *cost leadership*, *differentiation*, and *niche strategies*.

In Table 13.1, we list seven strategies for gaining competitive advantage. Each of these strategies can be enhanced by EC, as shown throughout the book.

A popular strategy of gaining competitive advantage is to learn what your competitor is doing. For methodology and tools, see Rayson (2014).

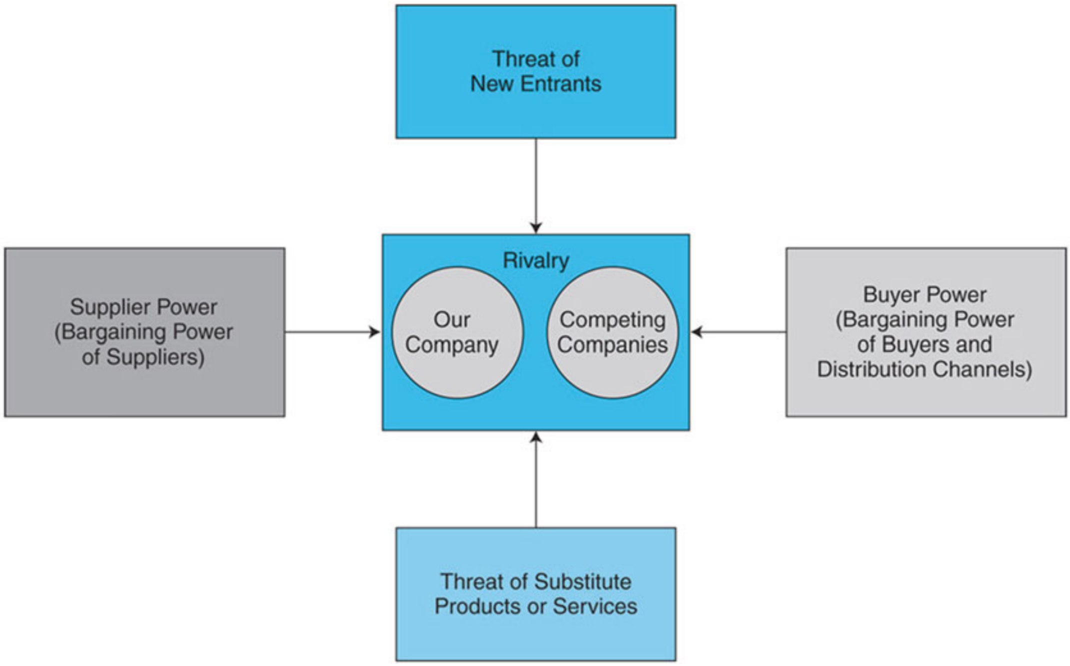

Figure 13.1 Porter's five forces model

Table 13.1 Strategies for competitive advantage

Strategy	Description
Niche	Select a market niche and be the best in quality, speed, or cost in that market
Growth	Increase market share, acquire more customers, or sell more types of products
Alliance	Work with business partners in partnerships, alliances, joint ventures, or virtual companies
Innovation	Introduce new products/services; put new features in existing products/services; develop new ways to produce products/services
Time	Treat time as a resource, then manage it, and use it to the firm's advantage
Entry barriers	Create barriers to entry. By introducing innovative products or using EC business models to provide exceptional service, companies can create entry barriers to discourage new entrants
Customer or supplier lock-in	Persuade suppliers or customers to remain loyal to a company instead of switching to the competition. Reduce customers' bargaining power by locking them to a supplier

The Impact of the Internet

Porter (2001) has identified several ways that the Internet can influence each of the five forces of competitiveness. These five forces and associated Internet impacts are shown in Table 13.2.

Example

Facebook, Google, and others compete for social-network advertising dollars. Google, for example created Google+ to compete with Facebook. In 2014, Facebook paid $19 billion to buy the cross-platform messaging app "WhatsApp." It is recognized as a "strategy to gain both a mobile interface that is not only more user-friendly than anything Facebook created, but that also has certain monetizable features that come along with P2P application use" (ActiveVest 2014).

Many companies are examining the impact of the Internet and EC today and tomorrow on their business. For these firms, an *e-commerce*

Table 13.2 Impacts of e-commerce and social commerce on industry competition

Competitive force	Impacts
Bargaining power of suppliers	**Decreases.** Due to e-procurement, availability of more suppliers and competitors (global), increased use of e-auctions, Internet procurement tends to give all buyers equal access to suppliers. There is more product standardization and reduction of differentiation among suppliers. Not much difference in prices. Finally, the cost of customers switching to other sellers is low
Bargaining power of customers	**Increases.** Due to the ability to compare prices, buy online, use group buying and daily deals (e.g., Groupon), use more recommendations (including from friends), get more power due to social networking, customers are more knowledgeable (e.g., global directories such as Alibaba.com) and have more information, see Brownell (2013). Customers can buy in global markets, reducing switching costs. Customers can negotiate via new models (e.g., Priceline's name-your-own-price model)
Barriers to entry	**Decreases.** Due to the ease of starting online businesses, there is faster access to information that is more accurate, reduced start-up and fixed costs, and new business reputation can spread fast online via word of mouth. It gets easier to clone competitors. Many new startups appear online. New brands can get good reputations quickly
Threat of substitute products and services	**Increases.** New products/services can be developed and advertised quickly on a global basis. Customers (and B2Bs) can find substitutes faster and easier. They also can get reviews and recommendations rapidly. EC and SC facilitate new business models that can create alternative products/services (e.g., e-books, are replacing hardcover books)
Rivalry among existing competitors	**Increases.** Markets are more efficient, and it is easy to get competitive information in a timely manner. However, companies have more competitors to contend with and there is less localization advantage. Global players gain access to local markets, increasing competition. More SMEs are competing. Increased online business facilitates competition. Amazon.com has caused competitors to reduce prices and close stores (e.g., Best Buy; see Dignan 2012). Fierce competition is evidenced in the travel and fashion industries as well as in jewelry. Many competitors are declaring bankruptcy

strategy (e-strategy or EC strategy) can be very helpful.

The process of building an EC strategy will be explained in detail later in this chapter. First, though, we continue our overview of organizational and IT strategies, of which e-commerce strategy is a component.

Strategic Planning for IT and EC

Developing EC strategy requires creativity, planning, resources, good technological skills, and overcoming technical limitations. Technical limitations can often be resolved by spending additional capital, whereas nontechnical limitations involve things such as people's lack of trust in computers or resistance to change, and they are not as easy to overcome.

As time passes, the limitations, especially the technological ones, are becoming less of an issue. In addition, careful planning can minimize the negative impact of some of them, and hopefully, the information provided in this chapter will help you avoid some of the pitfalls associated with e-commerce. The major challenges associated with developing an EC strategy are shown in Table 13.3.

As companies become more experienced with e-commerce and the technology continues to improve, the benefits of EC will far outweigh the limitations. In general, total EC sales are growing 15 to 18% annually. Thus, companies need to have some EC strategy to be able to compete. In the next section, we will discuss the process, tools, and techniques that companies typically use to plan their strategy effectively.

SECTION 13.1 REVIEW QUESTIONS

1. What is strategy?
2. Describe strategy in the Web environment.
3. Describe Porter's five forces model.
4. Describe strategies for gaining competitive advantage.
5. Understand the influence of the Internet and EC on each of Porter's forces.
6. Relate EC strategy to organizational IT strategies.

Table 13.3 E-commerce challenges

Technological	Non-technological
Software standards: lack of universally accepted standards for quality, security, and reliability	**Distrust:** skeptical buyers and sellers. Lack of trust in "virtual" companies
Integration: difficult to integrate new e-commerce applications and software with existing applications and databases	**Regulations**: lack of national and international government regulations and industry standards
Cost to customers: expensive and/or inconvenient Internet access (in some areas)	**Measurement:** immature methodologies for measuring benefits of, and justifying, e-commerce
	Legal: unresolved legal issues
	Security: perception that e-commerce locations are not secure

13.2 THE STRATEGY AND PERFORMANCE CYCLE AND TOOLS

The major objective of a strategy is to improve organizational performance. Therefore, strategy development and performance are interrelated and described here as a five phase cyclical process.

Strategy and Performance Cycle and Tools

A strategy is important, but the *process* of developing a strategy can be even more important. No matter how large or how small the organization, the strategic planning process leads managers to assess the current performance of the firm, then determine where the performance should be, and plan how to get from where a company is to where it wants to be.

Any strategic planning process has five major phases, *initiation, formulation, implementation, assessment,* and *performance improvement*, as shown in Figure 13.2. The major phases of the strategic planning process, and some identifiable activities and outcomes associated with each phase, are discussed briefly in the following text. The phases are then discussed more extensively in Sections 13.3, 13.4, 13.5, 13.6, and 13.7. Note that the process is cyclical and continuous. A brief description of the five phases follows.

Strategy Initiation

In the **strategy initiation** phase, an organization is setting its vision, goals, and objectives. Looking at its environment, strategy initiation includes an assessment of a company's strengths and weaknesses, and examines the external factors that may affect the business. Additionally, a company may undertake a competitive and competitor analysis to determine its strategy. All these activities need to be related to the Internet and e-commerce.

Specific outcomes from this phase include a *company analysis.* One key outcome from this analysis should be a clear statement of the company's *value proposition* (see discussion in Chapter 1). For a description and examples, see Davis (2012) and Skok (2013).

Example: Amazon.com

Amazon.com recognizes that besides selling books, there is also value in providing customers with information about books, personalized services, and outstanding customer care. Amazon is continuously expanding its product line (e.g., adding the grocery same day delivery service; increasing its App store to include 200 countries). This increases the value proposition to its customers. Moreover, since Amazon's inception in 1995, the company frequently changes its business model.

Figure 13.2 The strategy-performance cycle

Typical goals and objectives of EC include:

- Improved performance
- Gain of competitive advantage
- Increased sales and revenue
- Improved customer and partner service and relationships
- Generation of new business models and facilitating innovation

These goals are based on the following concepts and activities:

Core Competencies

A *core competency* refers to the unique capabilities of companies, which are difficult to imitate. For example, Google's core competency is its expertise in information search technology, and eBay's core competency is in conducting online auctions. VeriSign's expertise is in Internet security and Priceline concentrates on travel and hospitality.

- **Forecasts.** *Forecasting* means predicting future behavior and trends of factors that may impact the business.
- **Market Research: Competitor and Industry Analyses.** *Competitor analysis* involves scanning the business environment to assess the strategy, strengths, and weakness of all types of competitors. Several methodologies are available to conduct such an analysis, including strengths, weaknesses, opportunities, threats (SWOT) analysis and competitor analysis (see 'competitor analysis' at **tutor2u.net/business/strategy/competitor_analysis.htm**).

Strategy Formulation

Once the goals and objectives are known and prioritized, a company can start to formulate its strategy.

Strategy formulation refers to the development of specific strategies and tactics to exploit opportunities and manage threats in the business environment in light of corporate strengths and weaknesses. In an EC strategy, the result is likely to be a list of EC applications or projects to *be implemented* (e.g., e-procurement, e-auctions). For details, see Section 13.4.

Specific activities and outcomes from this phase include:

- **Business opportunities.** The strategy initiation may point to future opportunities.
- **Cost–benefit analysis.** Each proposed opportunity must be assessed and justified. More information about conducting a cost–benefit analysis is included in Chapter 14.
- **Risk analysis, assessment, and management.** The risks of each proposed EC initiative (project) must be analyzed and assessed. If a significant risk is suspected, then a risk management plan is required. Of particular importance in an EC strategy are business risk factors such as a transition risk.
- **Business plan.** Many of the outcomes from these first two phases – goals, competitor analysis, strategic opportunities, risk analysis, and more are components of a business plan. The business plan should consider the necessary resources and the budget. The business plan should contain a value proposition section (see Skok 2013).

Strategy Implementation

In this phase, the emphasis is on "How do we do it?" The **strategy implementation** phase includes tactics, plans, schedules, deployment strategies, resource allocation, and project management.

The major specific activities and outcomes from this phase include:

- **Project planning.** Project planning includes setting project objectives, metrics, a project schedule, and EC initiatives.
- **Resource allocation.** All internal and external resources need to be properly planned and allocated.
- **Project management.** Each project needs to be managed during the implementation phases. Activities here range from purchasing parts to developing an Internet security system.

Strategy Assessment

Strategy assessment refers to the continuous performance monitoring, the comparison of actual to desired performance, and the evaluation of the progress toward the organization's goals, resulting in corrective action and, if necessary, in strategy reformulation (see Section 13.7). In strategy assessment, EC metrics are used as a standard against which the performance level of the strategy is compared using analytics. For large EC projects, *business performance management* tools can be employed.

Performance Improvement and Innovations

Obviously, if the analysis shows a negative result, it is necessary to take some corrective action. A key activity here is to improve the performance. However, even if the results are good, the organization may take actions that range from providing bonuses for the best performers identified in the analysis, to raising the desired levels of performance in the future. A key activity here is being innovative, because even good performance can be improved by innovation. In addition, techniques such as competitive analysis can be useful. For details, see Section 13.7.

At times, the strategic planning process requires reassessment of today's strategy, while preparing a new strategy for tomorrow, as demonstrated in Case 13.1.

CASE 13.1: WARNER MUSIC GROUP'S DIGITAL STRATEGY

In 2008, Warner Music Group (WMG) designated Michael Nash as the executive vice president of digital strategy. His responsibilities included key initiatives such as EC applications, social commerce, and innovative online new music-based services and products.

The Opportunity

Nash played a major role in the corporate strategy, strategic partnership relations, and expansions (e.g., new projects) for WMG since 2000. The partnership portfolio includes AT&T, Amazon.com, Google, Microsoft, Motorola, Verizon, and Sony Ericsson.

WMG, an independent spinoff of AOL, was one of the first brands to team up with YouTube. WMG was also a pioneer in licensing their products to other subscription and ad-supported music services. Nash's early assessment of music distribution via the Internet was that, by having numerous partners to sell a product, WMG would increase its profits.

WMG is acquiring companies all over the world (e.g., in June 2013 it acquired Russia's Gala Records Group).

By implementing this strategy, WMG focused on mobile services and online music sites. The company started with a small group known as Outrigger. The purpose was to see how well Outrigger could sell ads on WMG videos on YouTube, and on social networks, blogs, or the artist's website. Thus, the strategy was to sell ads through Outrigger and share the revenue with the video site. This strategy differed from that of other companies in the industry who had licensing agreements with distributors or collected royalties when videos were played.

The Results

WMG's revenue grew substantially between 2005 and the first fiscal quarter of 2009. Digital revenues increased to $184 million, equalling 20% of the company's total revenue. International recorded music revenue climbed 12.7% from the prior year quarter, and U.S. recorded music revenue reached 35%. WMG is and has been in the forefront in digital leadership among the major music companies since 2005, showing the advantage of e-commerce over physical stores. **Sources:** Based on Learmonth (2009), Warner Music Group (2008), and **wmg.com** (accessed June 2014).

Questions

1. Why did WMG change their distribution strategy?
2. Why did it develop a deal with YouTube? Is this a strategic alliance?
3. Why did WMG start its digital-oriented strategy?
4. Explore the ad arrangement with Outrigger. Does it make sense? Why?
5. Identify the activities in strategy initiation and strategy formulation in this case.

Major Tools for Strategic Planning

This section describes a few of the most popular tools used by strategists. The following are the major generic tools: (1) Strategy maps, (2) SWOT analysis, (3) Competitor analysis grid (including competitive intelligence), (4) Scenario planning, (5) Balanced scorecard, (6) Business plan and business case, and (7) Value proposition analysis.

Notes: (a) To learn how to build a business case for social media, see the video "How to Build a Business Case for Social Media" at **youtube.com/watch?v=_59iJrYanw0**.

SECTION 13.2 REVIEW QUESTIONS

1. Describe the strategy-performance cycle.
2. Describe the strategy initiation phase.
3. Describe the strategy formulation phase.
4. What is involved in strategy implementation?
5. What is strategy assessment?
6. Describe the phase of performance improvement.

13.3 E-COMMERCE STRATEGY INITIATION

In the strategy initiation phase, the organization prepares the initial steps needed for starting the strategy development cycle, such as collecting information about the company, its competitors, and its business environment. The steps in strategy initiation include a review of the organization's vision and mission; an analysis of the industry, company, competitive position; and various initiation-related issues.

Representative Issues in E-Strategy Initiation in E-Commerce

With company, competitor, and trend data in hand, a strategist faces a number of questions about its approach to, and operation of, its EC strategy that need to be explored prior to strategy formulation. These activities are generic. The "how to" can be found in many strategy books. Here we describe some issues in strategy initiation relevant to EC.

First-Mover Advantage

The business, IT, and e-commerce worlds all have examples of companies that succeeded with first-mover advantage. However, some companies have failed despite their first-mover advantage. Generally, the advantages of being first include an opportunity to make a first and lasting impression on customers, to establish strong brand recognition, to lock in strategic partners, and to increase switching costs for customers.

Example

Amazon.com operated the first major online bookstore, and laid the groundwork for brick-and-mortar bookstores such as Barnes & Noble to follow suit. Two strategies Amazon used to maintain its first-mover advantage were (1) to partner with Borders (a competitor, now defunct) and (2) to expand its product line to include housewares, apparel, electronics, and toys that attracted customers who were looking for more than just books.

In some cases, being the first mover can have some disadvantages. The risks of being a first mover include the high cost of pioneering EC initiatives, making mistakes, the chance that a second wave of competitors will eliminate a first mover's lead through lower cost and innovation, and the risk that the move will be too early. Although the advantage of a speedy market entry cannot be ignored, followers can be more profitable than first movers in the long run.

Example

One of the first large-scale social networks was GeoCities (acquired by Yahoo! in 1999). However, Yahoo! shut down the site after 10 years of huge losses. On the other hand, Facebook was not a first mover, but it succeeded and replaced MySpace, which was a leader. LinkedIn, Groupon, Foursquare, and Pinterest are also successful first movers.

So what determines whether a first mover succeeds or fails? It has been suggested that the following factors are important determinants of EC success: (1) the size of the opportunity (i.e., the first-mover company must be big enough for the opportunity, and the opportunity must be big enough for just one company); (2) the nature of the product (i.e., first-mover advantage is easier to maintain in commodity products in which later entrants have a hard time differentiating their products); (3) whether the company can be the best and most innovative in the market.

Since a company cannot determine if and when they will gain a first-mover advantage, the following questions should be answered when deciding EC strategies:

- Does the company have to spend capital (and how much) to be a first mover?
- What is the optimal way to conduct market timing should an opportunity present itself?
- From which of the three types of benefits listed above will the first entrant in the market most likely achieve success?
- Can the company afford sufficient resources to maintain its first mover position?
- Will it be difficult to follow someone else that is a first mover?
- What are the advantages of following the first mover?
- Will technology be better or cost less, or will customer needs be easier to determine?

Company strategists can examine the answers to these questions and determine the appropriate approach that has the highest potential for long-term benefits.

Managing Channel Conflict and Disintermediation

As discussed in Chapter 3, channel conflict may arise when an existing company adds an online distribution channel. In general, the strategy today is to add EC as an *additional* marketing and sales channel. This may create a channel conflict. Selling online may result in disintermediation.

Disintermediation refers to the removal of intermediaries in the EC supply chain. This occurs, for example, when consumers buy directly from manufacturers. When a company adds EC as a distribution channel, it may undercut its existing intermediaries who serve the other channels. Here are some possible strategies that sellers can use to ease disintermediation:

- Let the regular distributors fulfill the e-business orders, as the auto industry is usually doing. Buyers can order online, and then receive directions to go to distributors where they can pick up their orders.
- Provide online services to intermediaries (e.g., by building portals for them) and encourage them to re-intermediate themselves in innovative ways.
- Sell some products only online, such as LEGO (**lego.com**) is doing. Other products may be advertised online, but sold only offline.
- Avoid channel conflict entirely by not selling online. In such a case, a company could still have an EC presence by offering promotions and customer service online, as BMW (**bmw.com**) is doing.

Example

To eliminate channel conflict, companies can use a B2B2C model. For examples of two companies that took their B2B business into the world of B2B2C e-commerce, see Taddonio (2011).

E-commerce may require that new intermediaries are added to the distribution chain (e.g., aggregator, e-payments, escrow services), which may add to the problem of channel conflict. For example, delivery to the customer's home is a key to customer satisfaction, leading many e-tailers to hire a delivery company.

Price Conflict and Its Management

Price conflicts may occur when the same product is priced differently when it is sold online (usually lower) than when it is sold in the physical stores of the same company. This is a common practice in selling airline tickets. For a discussion, see Section 13.4.

Both price and channel conflicts can be minimized or eliminated if the EC business is separate from the non-EC business.

Separating Online and Offline Operations

Converting a company's online operations into a separate new company makes sense when: (1) the volume of anticipated e-business is very large; (2) a new business model needs to be developed; (3) the subsidiary can be created without dependence on current operations and legacy information systems; and (4) the online company is given the freedom to form new alliances, attract new talent, set its own prices, and raise additional funding. Barnes & Noble Halifax in the United Kingdom (online banking), and ASB Bank in New Zealand are a few examples of companies that have established separate companies or subsidiaries for their online operations.

Brand Independence

A company faces a similar decision when deciding whether to create a separate brand for its online offerings.

Strategy in the Web 2.0 Environment and in Social Networking

Social networks and Web 2.0 tools and platforms are being used extensively by organizations today. Reported benefits included the ability to provide more innovative products and services, market their products and services more effectively, gain better access to knowledge, maintain lower costs, and raise revenues. For example, because of the current recession, companies are investing heavily in Web 2.0.

Shuen (2008) offers four major reasons why companies should create and use in-house social networks: (1) immediate access to knowledge, expertise, and human connections; (2) growth of social relationships and expansion of affiliations; (3) self-branding through a personal digital identity and reputation; and (4) viral distribution of knowledge through referrals, testimonials, benchmarking, and RSS updating. In 2008, Deloitte, IBM, and Best Buy began seeing benefits from early adoption of internal social networking.

A popular strategy is to start EC projects with small groups of employees to test their response to the Web 2.0 tools. For example, Dell first launched internal blogs before creating IdeaStorm, which is offered to customers to submit ideas, engage in dialog with company representatives, and so forth.

More than ever, marketers are using social networking tools in a wide range of activities, as illustrated in the following examples.

Example

The importance of social media as critical to merchants' e-commerce success was discussed by GoECart (**goecart.com**; 2010), in an interview with the company's CEO. GoECart is an e-commerce vendor that provides retailers with innovative, on-demand e-commerce solutions ("software as a service"). The company helps retailers develop personalized CRM based on data available in social networks (e.g., a florist who has access to a customer's birthdate can send a personalized message, including a promotion or coupons).

It is important to consider the following issues when planning a successful online EC strategy that includes social media:

- Develop an overall e-commerce strategy with clearly defined business and EC goals.
- Develop an innovative, online, and offline brand strategy involving social networks
- Plan for customer engagement activities
- Leverage the top social commerce platforms (e.g., Facebook, Twitter) by creating merchant pages
- Use LinkedIn to create vendor profiles (corporate profile)
- Leverage social networks for mobile strategy
- Create surveys and two-way communication mechanisms to solicit feedback from customers regarding products and service. This will help in strategy formulation.

Shuen (2008) provides a comprehensive guide to Web 2.0 strategy, and Gold (2008) provides a strategic guide for mobilizing applications and modifying them to fit a company's specific needs.

SECTION 13.3 REVIEW QUESTIONS

1. Describe the advantages, risks, and success factors that first movers face.
2. What are the advantages and disadvantages of creating a separate online company?
3. Why might an existing company decide to create a new brand for its e-commerce site?
4. What strategic benefits are associated with using social networks?
5. Distinguish between social strategy and digital strategy.

13.4 E-COMMERCE STRATEGY FORMULATION

The outcome of the strategy initiation phase should be a number of potential EC initiatives that can exploit opportunities on one hand and mitigate threats on the other. In the strategy formulation phase, the firm must decide which initiatives to implement and in what order. Strategy formulation activities include evaluating specific EC opportunities and conducting cost–benefit and risk analyses associated with those opportunities. Specific outcomes include a list of approved EC projects or applications, risk management plans, pricing strategies, and a business plan. These will be used in the next phase of strategy implementation. The following are the major activities in this phase.

Selecting E-Commerce Opportunities

There are many potential ways to get involved in EC (e.g., see Pantic 2013).

Selecting an appropriate EC project(s) involves a justification, ranking, and cost-benefit analysis. Best results can be achieved with input solicited from both internal and external participants. One approach is to use a strategy driven by existing factors. For example, a problem-driven strategy may help a company if its EC strategy can solve an existing, difficult problem (e.g., using forward e-auctions via e-auctioneers such as Liquidation.com to dispose of excess equipment). As noted earlier, a late-mover strategy can be effective if the company can use its brand, technology, superior customer service, or innovative products and strategies to overcome any potential deficiencies resulting from not being the first mover. Examples are Internet Explorer's emergence as the leading browser, and Facebook becoming the top social network.

However, most times it is best to use a systematic methodology that determines which initiatives to pursue.

Determining an Appropriate EC Application Portfolio Mix

For years, companies have tried to find the most appropriate portfolio (group) of EC (or other) projects among which an organization should share its limited resources. The classic *portfolio strategy* attempts to balance investments with different characteristics.

The BCG Model and an Internet Portfolio Map

Boston Consulting Group (BCG) implemented a well-known matrix (called a BCG matrix; also known as a "Boston" matrix or "growth-share" matrix) for cash allocation among projects. The matrix is based on the observation that a company's business units can be classified into four categories. Each business unit can be classified as a star, wild card (or "unknown" or "question marks"), cash cow, and dog. The two levels of the matrix are: "market growth rate" and "market share." Each can be either "low" or "high." The results are placed into four cells, into which the corporation would classify its projects (or business units): stars (high growth, high share), cash cows (high share, low growth), wild cards (high growth, low share), and dogs (low growth, low share). Money can then be moved within the budget, for example, from the business units classified as "cash cows" to projects in stars and wild cards that have the highest upside potential. The model can be used to prioritize EC projects. For details, see **netmba.com/strategy/matrix/bcg**.

The Viability-Fit Model

Tjan (2001) adapted the BCG approach to create what he calls an "Internet portfolio map," which is based on a potential fit between the culture of companies and the project viabilities. The viability area includes success factors such as projected sales, justification, and use of resources. Similarly, metrics such as alignment with core capabilities, alignment with other company initiatives, fit with organizational culture and structure, and ease of technical implementation can be used to evaluate fit. Together, these create an Internet portfolio map (see Figure 13.3).

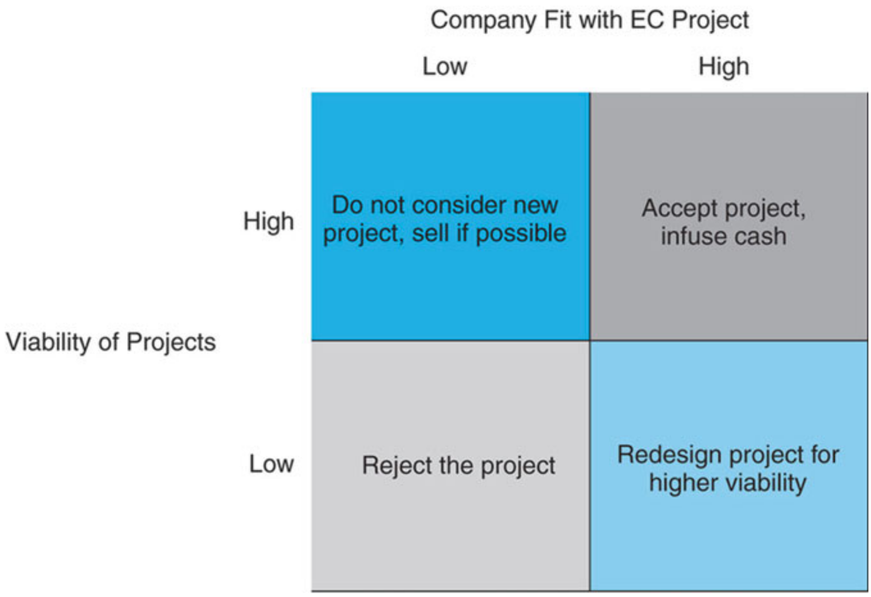

Figure 13.3 The internet portfolio map (**Sources:** Based on Tjan (2001), Sones (2001); and the authors' experiences)

Each company can determine criteria to be used to assess viability and fit. Senior managers and outside experts evaluate each proposed EC initiative (e.g., a B2B procurement site, a B2C webstore, an enterprise portal) on each of these criteria, typically on quantitative (e.g., 1 to 100) or qualitative (e.g., high, medium, low) scales. If some criteria are more important than others are, these can receive more weight. The scores are combined, and average fit and viability scores are calculated for each initiative. Initiatives in which there is high agreement on rankings can be considered with more confidence.

The candidate initiatives are then placed on the portfolio map. If both viability and fit are low, the project is rejected. If both are high, the project is adopted. If fit is high but viability is low, the project is redesigned (to get higher viability). Finally, if the fit is low but the viability is high, the project is not adopted. Senior management must also consider factors such as cost–benefit and risk (discussed next) in making the final decision about what initiatives become funded and in what order.

In addition to the above more well-known strategy methods, there are many special models (some of which are properties). For example, Egol et al. (2014) presents four new models for e-marketing.

Risk Analysis in Strategy Formulation

While Web 2.0 enables new business opportunities, it also may create substantial risks because of the open computing and interactive nature of the technology. **E-commerce risk** is the likelihood that a negative outcome will occur in the course of developing and operating an e-commerce initiative. Risk on the Internet and in EC environments is different from those faced by offline companies. For example, an EC auction company may face unique Internet security threats and vulnerabilities. As a result, a robust Web 2.0 security strategy is essential for fraud protection.

The most dangerous risk to a company engaged in e-commerce is business risk – the possibility that developing and operating an new e-commerce business could negatively impact the well-being of the organization itself. In Online File W13.1, attention is given to additional business and EC risks.

Collaborative Efforts in Strategy Formulation

Strategy formulation is considered a highly secretive process, which is done by a small team that only seldom involves outsiders (e.g., a consultant). However, this situation is changing, mostly due to the trend of companies transforming into social businesses. The basic idea is to open the planning process to be more participatory. According to Gast and Zanini (2012), companies that are experimenting with this approach see two major benefits. One benefit is "improving the quality of strategy by pulling in diverse and detailed frontline perspectives that are typically overlooked but can make the resulting plans more insightful and actionable." The second benefit involves "building enthusiasm and alignment behind a company's strategic direction – a critical component of long-term organizational health, effective execution, and strong financial performance." Such participation usually helps in strategy implementation.

Gast and Zanini (2012) provide the following examples of collaborative (sometimes outsourced) strategy formulation:

- Wikimedia (the owner of Wikipedia) used over 1,000 volunteers to generate ideas (a kind of crowdsourcing) for the company's future direction. The volunteers generated about 900 proposals and participated in task forces in the evaluation of the suggestions submitted and in the formulation of specific aspects of the strategy.
- Red Hat (**redhat.com**), a major provider of open-source software, formed teams that used wikis and other online tools to generate and organize ideas for strategy development; this "idea generation phase" has restructured the way Red Hat conducts strategic planning (see Case 13.2).

CASE 13.2: RED HAT: COLLABORATIVE STRATEGIC PLANNING

This major, open source software company operates in a very competitive global market. Strategic planning is critical for its success; therefore, the company embarked on the following collaborative strategic process:

Step 1: Generated a set of priorities of issues based on the company's mission, objectives, and goals.

Step 2: For each high priority issue the company created a team. The leaders of each team were top executives who were given tasks that were not related to their areas of expertise, with the hopes that they would generate fresh ideas.

Step 3: Each team used traditional, as well as Web 2.0 collaboration tools (e.g., blogs, wikis), to reach any and all Red Hat employees, providing background information on each issue, and requesting ideas and feedback. The ideas were collected, and organized and evaluated by all the participants. For a period of five months, there were discussions, online chats, and debates. At the end of the "idea generation phase," the best ideas were combined into nine strategic priorities.

Step 4: The company created new teams, one for each strategic priority. The teams identified initiatives for each priority (again using feedback from employees). The teams included people who were involved in strategy implementation and were empowered to plan and implement the one or two most important strategic initiatives.

This process resulted in the identification of some innovative ideas. It encouraged creativity commitment for implementation. In addition, there was an increased understanding of others' work and better collaboration. Those who were involved in strategy implementation also participated in strategy initiation and formulation.

Because of the success of the project, Red Hat now updates and evaluates strategy on an ongoing basis, rather than refreshing strategy yearly.

Despite the economic downturn, the company's earnings have grown consistently since the initiation of the process. – The stock price increased by over 500% between 2009 and 2013.

For a detailed description of the process, its benefits, lessons learned, a supporting video ("Jim Whitehurst on Red Hat Strategy"), and the corporation's financial results, see Yeaney (2011).

Source: Based on Yeaney (2011), Gast and Zanini (2012), and Bort (2012).

Questions

1. Red Hat is an open source company. Why was it more likely to use Web 2.0 tools?
2. Relate the case to crowdsourcing (Chapter 8).
3. Identify strategy formulation activities in the process.
4. View the video "Jim Whitehurst on Red Hat Strategy" (2:26 minutes; **youtube.com/watch?v=64V6nV0WnHE**) cited in Yeaney (2011) and summarize the drivers and motivations.
5. Summarize the benefits and the critical success factors in the case.

Security Issues to Consider During Strategy Formulation

Some security issues that need to be considered when setting up an EC strategy include:

- Malware and other technological attack methods.
- Human error and natural disasters.
- Botnet DoS attacks that shut down order taking, or slow it down considerably.
- Extortion, using DoS and DDoS as a blackmail platform.
- Business interruption due to any security attack.
- Relevant penalties and legal expenses due to litigation.
- Damages caused by disgruntled employees.
- Damage to intellectual property (e.g., stolen or reproduced trade secrets).

Other Issues in E-Commerce Strategy Formulation

Different types of issues exist in e-strategy formulation, depending on the company, industry, nature of the applications, and so forth. Here we discuss some representative issues.

Managing Conflict Between the Offline and Online Businesses

In a click-and-mortar business, it may be difficult to allocate limited resources between offline and online activities. The two activities can be viewed as competitors, especially in sell-side projects. In this case, personnel in charge of offline and online activities may behave as competitors. This conflict may cause problems when the offline side needs to handle the logistics of the online side, or when prices need to be determined. The ability of top management to introduce change properly, and the use of innovative processes that support collaboration, will all determine the degree of collaboration between offline and online units in a business. It is essential to have strong support by top management for both the offline and online operations and a clear strategy of "what and how" each unit operates.

Pricing Strategy

Traditional methods for determining price are the *cost-plus* and *competition-based models*. **Cost-plus** means determining the expenses associated with producing a product (production cost) by adding up all the costs involved – materials, labor, rent, overhead, and so forth – and adding an additional amount to generate a profit margin (a percentage mark-up). The *competition-based model* determines price based on what competitors are charging for similar products in the marketplace. For a comprehensive presentation see **netmba.com/marketing/pricing**.

Pricing products and services for online sales changes these pricing strategies in the following ways:

- **Price comparison is easier.** In traditional markets, either the buyer, or more often the seller, has more information than the other party does, and the seller uses this information to determine a product's price. Price comparisons help create the 'perfect market' – one in which both the buyer and the seller have ubiquitous and equal access to all relevant information, frequently in the buyer's favor. On the Internet, search engines, price comparison sites (e.g., **mysimon.com**, **kelkoo.co.uk**), make it easy for customers to find out who offers the product they want at the lowest price.
- **Buyers sometimes set the price.** Name-your-own-price models, such as Priceline.com and auction sites, provide buyers with the option to set their own prices.
- **Online and offline goods are priced differently.** Pricing strategy may be especially difficult for a click-and-mortar company. Setting online prices lower than those offered by the offline side of the same business may lead to internal conflict, whereas setting prices at the same level might hurt the competitive advantage of the online business.
- **Differentiated pricing can be a pricing strategy.** For decades, airline companies have maximized revenues with *yield management,* models – charging different customers different prices for the same product or service. In the B2C EC marketplace, one-on-one marketing can provide price differentiation to a segment of customers (e.g., those buying an airline seat early).

The consumer's buying power is increasing due to Internet technologies that provide easy access to pricing information. Sellers need to implement smarter pricing strategies in order to be profitable and competitive, particularly using the Internet to optimize prices. This can be done by setting prices more competitively, adapting to changing prices, and segmenting customers for differentiated pricing.

Multichannel Strategy

One of the most popular strategies in EC is offering several marketing channels to consumers, including online and m-commerce. This is known as *multichannel or omnichannel* strategy. In some cases, companies need a policy of how to integrate the several channels in order to avoid channel conflicts cited earlier. In addition, several pure EC companies have opened physical locations. For example, Expedia (**expedia.com**) opened Expedia Local Desks, located in select cities. In addition, it was rumored that in 2014, Amazon was going to open physical stores (called "Pantry") where they will sell about 2,000 items that would normally be found in a grocery store. Pantry will be competing with warehouse stores like Costco and Walmart's Sam's Club. As of the time of the writing of this book, no physical stores have opened. For details, see **usatoday.com/story/tech/2013/12/12/amazon-pantry/4001707**. The strategy of opening physical stores by pure online companies can be complex. For example, Vaish (2011) describes the need to create a maturity model with different levels. The levels range from limited presence (Maturity Level 0) to optimization and innovation (Maturity Level 4). For each level, a company needs different strategy initiation, formulation, implementation and assessment. For more on multichannel e-commerce, see Lee (2013).

Acquisitions, Partnerships, Joint Venture, and Multi EC Model Strategy

In contrast with early EC companies, which were not diversified with one website, many EC companies today have multiple online divisions and websites. Furthermore, many collaborate with other companies in joint ventures or other kinds of partnership. For example, Alibaba Group (Chapter 4) includes nine companies (e.g., Alipay, Alibaba.com, Tmall), and Amazon.com is in the business of selling hardware and software in addition to e-tailing. In 2014, China's Tencent Holdings purchased a percentage of Leju Holdings Ltd., an online real estate services company. Tencent wants to broaden their range of online services that can be connected to the popular smartphone messaging application WeChat, which they own. Facebook, Google, Apple and Amazon are aggressively seeking access to a broad range of online services. Google is even investing in robotics and Facebook purchased the virtual reality company Oculus VR in 2014. Alibaba Group purchased a Silicon Valley startup called TangoMe, and the list goes on and on. Many of these acquisitions are purchased at such a high price, like the $19 billion that Facebook paid for WhatsApp. Do all the acquisitions make sense? For example, many wonder if Facebook's acquisition of Oculus VR for $2 billion is a visionary or crazy acquisition (e.g., see Ortutay and Liedtke 2014).

SECTION 13.4 REVIEW QUESTIONS

1. Describe how a company should and should *not* select EC applications.
2. Explain Tjan's Internet portfolio map.
3. List four sources of business risk in EC. What questions exemplify each source of risk?
4. Discuss three strategies for smarter online pricing.
5. Describe the multichannel issues and strategy.
6. Describe the acquisition strategy and its benefits.

13.5 E-COMMERCE STRATEGY IMPLEMENTATION

The execution of the strategic plan takes place during the strategy implementation phase, where EC systems are deployed. Decision makers evaluate options, establish specific milestones, allocate resources, and manage the projects.

In this section, we examine some of the topics related to this implementation process.

E-Commerce Strategy Implementation Process

Typically, the first step in e-strategy implementation is to find a champion and establish an EC team, which then initiates and manages the execution of the plan. As EC implementation continues, the team is likely to introduce changes in the organization. Thus, during the implementation phase, it also becomes necessary to develop an effective *change management* program, including the possibility of utilizing the *business process management* approach. For a comprehensive case study on implementing social media at IBM, see Chess Media Group (2012).

Find a Champion

Every Web project and every Web team requires a project champion. The **project champion** is the person who ensures that the team is ready to move forward and understands its responsibilities. The project champion is responsible for activities such as identifying the project's objectives, prioritizing phases, and allocating resources to ensure completion of the project, and so forth. The project champion may be the Web team leader or a senior executive. In his study of e-strategy in 43 companies, Plant (2000) found that a strong project champion was present in every e-commerce project that was successful, and that the champion was either a senior executive or someone who was able to demonstrate the benefits the project would bring to the organization. Similarly, "top management championship" was identified as a critical success factor for organizational assimilation of Web technologies.

Start with a Pilot Project

A clever way to implement EC is to begin with one or a small number of EC pilot projects. Problems can be determined during the pilot stage, allowing plans to be modified before it is too late.

Allocate Resources

The resources required for EC projects depend on the information requirements, the capabilities of the performers, and the requirements of each project. Some resources – software, computers, warehouse capacity, staff – could be new and unique to the EC project. A project's success depends upon an effective allocation and utilization of shared resources to the project such as databases, the intranet, and possibly an extranet. A variety of tools can assist in resource allocation.

Manage the Project

Project management tools, such as Microsoft Project, assist in determining specific project tasks, milestones, and resource requirements. Standard system design tools (e.g., data flow diagrams) can help in executing the resource-requirement plan.

E-Commerce Strategy Implementation Issues

There are several e-strategy implementation issues, depending on the circumstances. Here we describe some representative ones.

Build, Buy, or Rent EC Elements

Implementation of an EC application requires access to the construction of the company's website and integration of the site with the existing corporate information systems (e.g., front end for order taking, back end for order fulfillment). At this point, a number of decisions of whether to build, buy, or outsource various components or an entire project needs to be made. Some of the more specific decisions include the following:

- Should site development be done internally, externally, or by a combination of the two?
- Is it necessary to build the software application or will the commercially available software be satisfactory?
- If a commercial software package will fit, should it be purchased or rented from an application service provider (ASP)? Should it be modified?
- Will the company or an external ISP (Internet service provider) host the website?
- If hosted externally, who will be responsible for monitoring and maintaining the information and system?

Each option has its strengths and weaknesses, and the correct decisions will depend on factors such as the strategic priority of the application, the existing skills of the company's technology group, and when the EC application is needed.

Outsource: What? When? To Whom?

Outsourcing can deliver strategic advantages for firms in that it provides access to highly skilled or low-cost labor, and provides potential market opportunities. **Outsourcing** is the process of contracting (farming out) the company's products, services, or work to another organization that is willing and able to do the job. Alternatively, the company's own employees could carry out these projects in-house. In the context of EC, outsourcing means the use of external vendors to acquire EC applications.

Example

An interesting tool to help the 'go or no go' outsourcing decisions is *Gartner's Magic Quadrant*. It analyzes companies (providers) along two scales: the *ability to execute* and the *completeness of vision*. Vendors are then placed in one of four resulting quadrants (e.g. high ability to execute and full vision make *leaders*, while low ability to execute and high vision make *visionaries*). Companies can use the quadrant to find the right outsourcers. For details, see (**gartner.com/technology/research/methodologies/magic-Quadrants.jsp#m**).

Successful implementation of EC projects often requires careful consideration of outsourcing strategies, which involves: (1) evaluating when outsourcing should take place; (2) deciding which part(s) of the EC projects to outsource and which to keep in-house; and (3) choosing an appropriate vendor(s).

Software-as-a-Service

In considering outsourcing, a company should look at both software-as-a-service and cloud computing (see Online Tutorial T2) as outsourcing options.

Table 13.4 In-house development versus outsourcing

Criteria	In-house development	Outsourcing
Accessibility to the project	Greater	Limited
Knowledge of the system and its development	More	Less
Retention of staff's knowledge and skills	Higher	Lower
Ownership cost	Higher	Lower
Self-reliance for maintenance, update, and expansion	Greater	Lower
Development times	Longer	Shorter
Experienced staff with technical know-how and specialized areas	Less	More

Outsourcing decisions are often made during EC project implementation. Companies may choose outsourcing when they want to experiment with new EC technologies without spending too much money.

A comparison of the in-house and outsourcing approaches is provided in Table 13.4. Sometimes, after an evaluation of both approaches, a hybrid approach is taken to leverage the benefit of both.

ISPs, ASPs, and consultants are external vendors (business partners) that are commonly involved in EC application developments.

It is important not to overestimate the advantages of outsourcing, since it also can involve a number of risks such as the vendor going out of business. When the vendor is a foreign company, there may be additional risks such as shifts in the political stability and the legal environment. In addition, an organization's lack of experience with outsourcing and contract negotiations in a different culture may create problems.

Chapter 16 discusses several of these options in more detail – build or buy, in-house or outsource, host externally or internally. In many such decisions, one needs to consider partners' strategy and business alliances as described in Online File W13.2.

Redesigning Business Processes: BPR and BPM

During the implementation stage, many firms face the need to change business processes to accommodate the changes an EC strategy brings. Sometimes these changes are incremental and can be managed as part of the project implementation process (e.g., see Harvard Business School Press 2010). In other cases, the changes are so dramatic that they affect the manner in which the organization operates. In this instance, business process reengineering or business process management is needed.

Business Process Reengineering (BPR)

Business process reengineering (BPR) is a methodology for conducting a one-time comprehensive redesign of an enterprise's processes. BPR may be needed for the following reasons:

- To fix poorly designed processes (e.g., processes that are not flexible or scalable)
- To change processes so that they fit commercially available software (e.g., ERP, e-procurement)
- To produce a fit between systems and processes of different companies that are partnering in e-commerce (e.g., e-marketplaces, ASPs)
- To align procedures and processes with e-services such as logistics, payments, or security

For an overview, see Johnston (2012). For a case study about Mary Kay using e-commerce strategies to revamp its business model, see Online File W13.3.

Business Process Management

The term **business process management (BPM)** refers to activities performed by businesses to improve their processes. While such activities usually are not new, software tools called *business process management* systems have made the execution of such activities faster and cheaper. BPM systems monitor the execution of the business processes so that managers can analyze and change processes whenever needed. BPM differs from BPR in that it deals not just with a one-time change to the organization, but also with long-term-consequences and repetitive actions. Business process management activities can be grouped into three categories: monitoring, execution, and design. For details on value-driven BPM, see Franz and Kirchmer (2012).

Change Management

Implementing large scale EC or social commerce projects may require change management approaches, especially if the processes of the business have changed. A business can use a generic change management approach. For how IBM is conducting change management for Enterprise 2.0 applications, see Chess Media Group (2012). For an additional description, see Chapter 14.

SECTION 13.5 REVIEW QUESTIONS

1. Describe a Web (project) team and its purpose.
2. What is the role of a project champion?
3. What is the purpose of a pilot project?
4. Discuss the major strategy implementation issues of application development and BPR.
5. Describe BPM and the need for it in EC development.

13.6 E-COMMERCE PERFORMANCE ASSESSMENT

The last phase of EC strategy development begins as soon as the deployment of the EC project is complete. Strategy assessment includes both the continual assessment of the performance of the implemented systems, and the periodic formal evaluation of progress toward the organization's strategic goals. Based on the results, corrective actions are taken and, if necessary, the strategy is reformulated.

The Objectives of Assessment

Strategic assessment has several objectives. The most important ones are:

- Measure the extent to which the EC strategy and projects are delivering what they are supposed to deliver.
- Determine if the EC strategy and projects are still viable in the current changing business environment.
- Reassess the initial strategy in order to learn from mistakes and improve future planning.
- Identify failing or lagging projects as soon as possible, and determine why they failed or lagged to avoid the same problems in the future.

Web applications often grow in unexpected ways, expanding beyond their initial plan. For example, Genentec, Inc. (**gene.com**), a biotechnology giant, wanted to replace a home-grown online bulletin board system (BBS). It started the project with a small budget but soon found that the corporate intranet had grown rapidly and had become very popular in a short span of time, encompassing many applications. Taking corrective action is part of performance management, a topic we describe in Section 13.7. For a guideline and framework for performance management, see Gosselin (2010).

The Performance Assessment Process

The performance assessment is a process that is based on the stated strategy, tactics, and implementation plans. The process involves the following steps:

1. Set up performance metrics.
2. Monitor the performance of the business.
3. Compare the actual performance to the metrics.
4. Conduct an analysis using analytics, including Web analytics.
5. Combine the analysis with the methodology of the *Balanced Scorecard*.
6. Present the results to management in the form of reports, tables and dashboards.

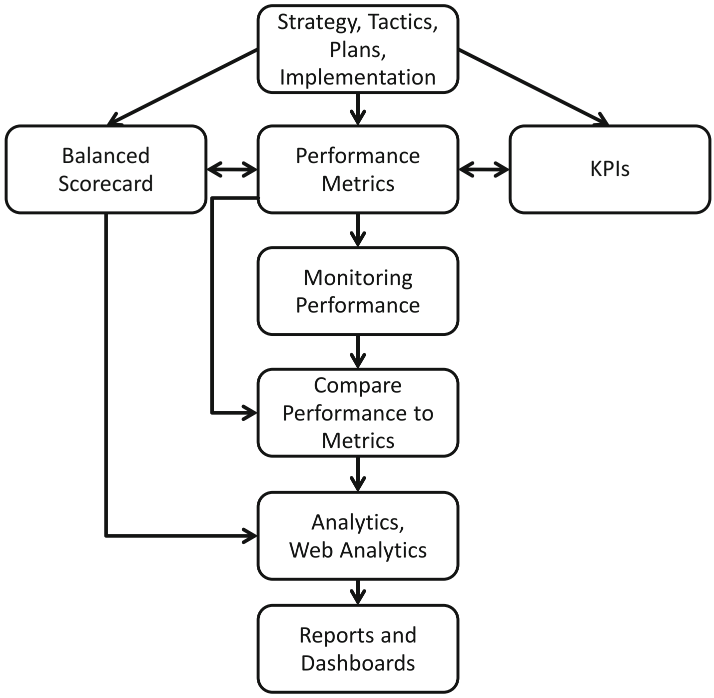

Figure 13.4 The performance assessment process

The process is illustrated in Figure 13.4.

This process is part of the larger cyclical process that starts with strategy initiation and formulation and ends with taking corrective action. The major steps of the process are described in the remainder of this section.

Establish Metrics

The first issue to address here is "what to assess?" The answer to this is to identify the major activities listed in the strategy and plans. For example, if one of the corporate objectives is to improve customer service, it is necessary to find the strategy, tactics, and plans to do so. Then one needs to establish metrics.

A **metric** is a specific, measurable standard against which actual performance is compared. A metric can be an absolute number or a ratio, and it can be tangible or intangible. For example, if the strategy includes the development of an e-auction system for increasing sales, a metric can be the resultant sale volume.

A business metric is a quantifiable measure that is used to track the performance of a business process (see Klubeck 2011 and **klipfolio.com/resources/articles/what-are-business-metrics**). Establishing and measuring performance and comparing it against the metrics is an important key success factor.

Metrics can produce positive results in organizations by driving behavior in a number of ways. Metrics can:

- Be the basis for establishing and assessing specific goals and plans.
- Structure the value proposition of business models.
- Communicate a business strategy to the workforce through performance targets.
- Increase accountability when metrics are linked with performance appraisal programs and rewards.

- Align the objectives of individuals, departments, and divisions to the enterprise's strategic objectives.
- Track the performance of EC systems, including usage, types of visitors, page visits, conversion rate, and so forth.
- Assess the health of companies by using tools such as balanced scorecards and performance dashboards (see Person 2013).

Table 13.5 2012 E-strategy measurement challenges

Description	% of companies concerned
Attracting new customers or clients to the site	40
Improving online marketing effectiveness	38
Retaining existing customers and clients	31
Finding the right staff	25
Managing technology innovation	16
Analyzing and understanding how to optimize performance	13
Planning an international strategy	7
Engaging social medical channels	5

Measurements in Performance Metrics

Metrics need to be defined properly, with a clear way to measure them. For example, revenue growth can be measured in total dollars, in percentage change over time, or in percentage growth as compared to that of the entire industry. *Cost avoidance*, for example, can be achieved in many ways. Defining the specific measures is critical; otherwise, what the metrics actually measure may be open to interpretation. Each metric can be expressed by one or several measures, known as *indicators*. The most important indicators are called *key performance indicators*.

A **key performance indicator (KPI)** is a quantifiable measurement that reflects the critical success factors of a company, department, or project. KPIs are used to measure performance in terms of meeting the company's goals and objectives. There could be several KPIs for one metric or one goal. Different companies measure success or failure by different sets of KPIs. (See Francis 2013 for a discussion.)

Examples

Hayes (2013) provides some examples of goals and 32 suggested e-commerce KPIs. For example, for sales KPIs, he suggests monitoring daily or weekly sales, traffic to the website, and customers' order size. For customer service KPIs, he suggests counting e-mails and service-related chats.

Table 13.5 lists the measurement challenges that companies are facing.

In measuring performance KPIs, some companies may realize that their initial goals were unrealistic, that their Web servers are inadequate to handle demand, or that expected cost savings have not been realized. This calls to some adjustments.

Assessing EC is difficult because of the many real life configurations and impact variables involved in what is being measured. In addition, it is important that the Web team address both the evaluation of project performance and the assessment of a changing environment.

Intangible Variables

When dealing with KPIs and their assessment, one should also pay attention to intangible variables. For dealing with intangible variables, see Hubbard (2010).

E-Commerce Metrics in Action

An example of using metrics in strategy management is provided in the case of Axon of New Zealand (see Online File W13.4). To capitalize on this opportunity and retain its reputation, Axon launched Quality Direct, an online procurement service for small and medium-sized companies, to give them the same service as large companies. The case lists several Web-related metrics.

Performance Metrics

Performance metrics are measures of an organization's performance. They are a subclass of general metrics.

Metrics are closely related to performance management systems and to the balanced scorecard.

Monitoring Performance

Given the diversity of EC activities and websites, it is no wonder there are so many ways companies conduct performance monitoring. The monitoring covers the activities occurring on websites, customers' conversations in social media, financial and marketing success, and more. Hundreds of vendors provide tools and services; therefore, it is not possible to list all of them. For example, AlertSite, a product of Smartbear Software (**smartbear.com**), provides 24/7 website monitoring and provides an alert if there is an issue with the site. For resources on website monitoring, network performance, etc., see **blog.monitor.us**. One major area of monitoring occurs in social media. For instructions on how to monitor your family's Internet use, see Miller (2012).

Monitoring the Social Media Field

The amount of social media data on the Web is increasing exponentially with billions of videos, photos, and endless tweets and other conversations. The problem that companies face is how to monitor the Web for data that are relevant to them. Furthermore, companies need to do this quickly and at a low cost. The solution is selecting appropriate metrics and automating data collection. Companies can set up an automated monitoring system on their own using e-mail, RSS feeds, or special software. For comprehensive coverage see Turban et al. (2015), and for tips for brand marketers, see **forbes.com/sites/cherylsnappconner/2014/03/04/top-online-reputation-management-tips-for-brand-marketers**.

Google offers e-mail *alerts* for any keywords of a user's choice, such as a brand name, or a competitor's brand name, and so forth. Users can set up e-mail alerts for the entire Web, blogs, etc. (e.g., see Beal and Strauss 2008).

Social Media Monitoring Tools

A large number of tools are available for social media monitoring. For a comprehensive list, see **wiki.kenburbary.com**, and Paine (2011).

A number of social media monitoring services provide data to businesses (e.g., **actionly.com**, Radian 6; **salesforcemarketingcloud.com/products/social-media-listening**, **visibletechnologies.com**, and **twelvefold.com**). Most of these services track online content and then feed summaries and other statistics into dashboards. Fee-free services to conduct monitoring are available for smaller companies. For example, Google News, Moreover Technologies, and Yahoo! track news about companies and whole industries. Technorati (**technorati.com**) specifically tracks social media sites. Some of the social media monitoring tools provide analytics as well.

The Balanced Scorecard (BSC)

One of the best-known and most widely used performance management systems is the *Balanced Scorecard* (see **balancedscorecard.org**). Kaplan and Norton first articulated this methodology in their *Harvard Business Review* article "The Balanced Scorecard: Measures That Drive Performance" (see Kaplan and Norton 1992). For an overview, see Person (2013), and for resources, including white papers, examples, basics, and infographics, etc., see **balancedscorecard.org/Resources/AbouttheBalancedScorecard/tabid/55/Default.aspx**. The major objective of the Balanced Scorecard is to monitor the execution of EC strategy-related activities. For details, see Online File W13.5.

Analyzing Performance Data

Once data are collected, they can be compared to metrics and KPIs. Both the performance data and the deviations from the targets are analyzed. Analyzing e-commerce data and information is a comprehensive field that includes many methods and tools. We cover only the major ones in this chapter.

Defining EC Analytics

EC analytics is an umbrella term that includes a number of specialized analysis techniques. For example, in the social media area, one can use social filtering, social network analysis, sentiment analysis, and social-media analytics. In general, *e-commerce analytics* describes the process of measuring, analyzing, and interpreting the results of what we monitor (e.g., interactions and associations among people).

EC analytics is crucial for obtaining a strategic understanding of what is taking place in EC. EC analytics is a subcategory of *Web analytics* (described later).

Major Types of Analysis

Analysis can be done on marketing data, financial data, behavioral data, and on other data. The major types of analysis are text and Web mining, optimization, forecasting and predictions, and sentiment analysis.

Web Analytics and Its Major Tools

One large and growing area of EC strategy assessment is **Web analytics**, which, according to the Web Analytics Association, "is the measurement, collection, analysis, and reporting of Internet data for the purposes of understanding and optimizing Web usage." It also can be used to facilitate market research and performance assessment. Web analytics begins by identifying data that can assess the effectiveness of the site's goals and objectives (e.g., too many visitors to a site map may indicate site navigation problems). Web analytics concentrates on Web traffic patterns and people's behavior online. Next, analytics data are collected, such as the location of site visitors, what pages they view, time spent visiting the site, and the manner in which they interact with the site's content. The data can reveal the impact of search engine optimization or an advertising campaign, the effectiveness of website design and navigation, and, most important, visitor conversion. Because the goal of most EC websites is to sell products, the most valuable Web analytics are those related to the conversion rate, from a visitor to a buyer.

Information about Web analytics is available from Sostre and LeClaire (2007), **emetrics.org**, and **jimnovo.com**. Two of the many Web analytics tools providers are WebTrends (**webtrends.com**) and Google Analytics (**google.com/analytics**).

Example: Google Analytics

This comprehensive tool conducts many statistical activities (e.g., time-series analysis, cross-sectional analysis, scatter diagrams, trend analysis, ROI, and much more. For seven Google Analytics metrics to watch, see **prdaily.com/Main/Articles/7_Google_Analytics_metrics_you_should_monitor_13939.aspx#**).

To learn about the new features of the Google Analytics system and how to use them for optimization, see Cutroni (2014). Several companies have created tools to supplement Google Analytics. Examples are: Agency Platform, Argyle Social, Unilyzer, Social Commerce Insights by Bazaarvoice, and Visible Intelligence from **trucast.net**.

Other Web analytic tools include: Yahoo! Web analytics (**web.analytics.yahoo.com**). Watch the video "SAS® Social Media Analytics" (3:49 minutes) at **youtube.com/playlist?list=PLED821CEF3DF6AB33**.

Social Media Activities

There are many ways to analyze social media. Generic e-commerce tools such as Web mining and text mining can be used in social media too. There are several other tools for data, texting, and Web mining that are useful in social media. For comprehensive coverage of social media platforms, tools to use to find customers, and much more, see Sponder (2012). Following are some examples of analytical tools.

Example 1

IBM SPSS Modeler (**ibm.com/software/analytics/spss/products/modeler**) is a predictive analytics software tool that measures trends in consumer views of products and services that are collected from Web 2.0 tools (e.g., blogs and social networks). The upgraded versions of

Modeler also analyze emoticons and common texting jargon terms. The software covers 180 variables and 400,000 industry-specific terms that can be analyzed.

Example 2

Wendy's International uses software to analyze over 500,000 text-based customer messages collected each year. Using Clarabridge text analytics software, Wendy's analyzes comments from its Web-based feedback forms, e-mails, receipt-based surveys, and social media. Before the emergence of social media, the company used a combination of spreadsheets and keyword searches to review comments in a slow and manual approach.

Example 3

Bazaarvoice and Twitter offer a Social TV analytics. It tool creates rating data for measuring the results of ads.

Other major vendors that provide analytic tools are **clarabridge.com**, **attensity.com**, **sas.com**, and **sap.com**.

Sentiment Analysis

Sentiment analysis or **opinion mining** refers to a type of analysis that aims to determine the attitude of a person with respect to a particular issue as expressed in online conversations. For details, see Pang and Lee (2008). It is measured by techniques such as natural language processing (NLP), computational linguistics, and text analysis to automatically identify and extract subjective information found in social media.

Automated sentiment analysis is a process of training a computer to identify sentiments within content using NLP. Various sentiment measurement platforms employ different techniques and statistical methodologies to evaluate sentiments while some use a hybrid system.

IBM Social Sentiment Index

IBM developed an index that aggregates and gauges public opinion from a range of social media sources. For example, the software identifies the emotional context of the conversation (e.g., between sarcasm and sincerity), and discovers which conversations are important and should be monitored. For details, see **ibm.com/analytics/us/en/conversations/social-sentiment-steampunk.html**.

For success in sentiment analysis, see Valentine (2014). For how Thomson Reuters is incorporating sentiment analysis gained from Twitter to use in their market analysis and trading platform, see Lunden (2014).

SECTION 13.6 REVIEW QUESTIONS

1. Describe the need for assessment.
2. Define metrics and describe their contribution to strategic planning.
3. Describe the corporate performance management approach to strategy assessment.
4. What is the Balanced Scorecard?
5. Describe Web analytics.
6. Describe sentiment analysis.
7. What is the IBM sentiment analysis index?

13.7 PERFORMANCE IMPROVEMENT AND INNOVATION

The final step in the cycle is to determine, based on the results of Phase 4, how to improve performance, or how to change the strategy.

Most organizations consistently trying to improve their performance, which in many cases, is necessary to do in order to stay competitive or even to survive.

In this section, we discuss the following topics: overview, dashboards, and performance improvement via innovation. We also provide examples of innovative strategies.

An Overview of Performance Improvement

There are many ways and tools to improve the performance of organizations and individuals. Which approach to use depends on a diagnosis of what the performance assessment reveals. One approach is to do restructuring by using BPM and

BPR (Section 13.5). Large companies are using *competitive intelligence* (CI; see **whatis.techtarget.com/definition/competitive-intelligence-CI**). This includes the analysis of competitive markets, competitors, and the business environment. Using the Balanced Scorecard to check the 'health' of companies has been recommended by Kaplan and Norton (1996). Kaplan et al. (2010), suggest using the balanced scorecard to avoid failures of partnerships. The field of Industrial Engineering is dedicated to performance improvement, as are several other disciplines. Today, there are tens of thousands of apps that can be used to improve the performance of EC; many of the apps are for smartphones. Therefore, it is impossible to list all the techniques available for performance improvement. Consequently, we have elected to cover only two topics here: *dashboards* and *innovations*.

Dashboards in E-Commerce

Once data are analyzed and summarized in tables and charts, they need to be presented to management for decision making. One popular tool to do just that is a *dashboard.*

What Is a Dashboard?

A dashboard is a control panel. Its most well-known application is the instrument panel in front of a driver of an automobile, or in front of an airplane pilot. It usually involves many gauges and indicators. An **information dashboard** (referred to as a "dashboard" in this chapter) is a visual presentation of data organized in a way that is easy to read and interpret. It is popular user interface. The information is presented through gauges, charts, maps, tables, etc., to reveal the direction and velocity of the measured metrics. Dashboards are very popular business tools for use by executives and managers since they visually summarize and track the important information (usually the status of KPIs and metrics) and point to any deviations from targets using alerts (e.g., red colors), indicating where action needs to be taken. Dashboards are usually interactive and integrate information from multiple sources. Dashboards may be customized.

There are many types of dashboards and they can be very colorful. Over 100 examples can be seen when you use Google to search "photos (or images) of dashboards." For information on getting started with dashboards, a dashboard gallery, articles, and more, see **dashboardinsight.com**, and for a comprehensive guide to dashboards, including infographics and case studies, see **klipfolio.com/guide-to-business-dashboards**.

Innovation for Performance Improvement

Innovation in e-commerce is similar to any other innovation activity. It is the key to improving performance and may determine the success of e-commerce projects as well as the success of the entire organization, and possibly its survival. What is unique today is the development of philosophy, strategy, and tools for both management and employees to engage much more fully in the innovation process. Social media also provides management with new methods of innovation, such as the use of crowdsourcing for idea generation and listening to customers' suggestions (and complaints) as input for product design or redesign.

1. Spigit, Inc. (**spigit.com**; now part of Mindjet Corporation) provides nine keys to innovation in the social media environment (Spigit 2011). A summary of some of the continually changing nine key points is: Treat innovation as a discipline.
2. Create common community space to give everyone in the organization a chance to contribute ideas.
3. Innovation benefits from a diversity of perspectives (e.g., in the composition of crowdsourcing participants).
4. Employees' ideas should be free and unrestricted.
5. Create a culture of constant choices since the markets are constantly changing.
6. Recognize that for innovation to take place, ideas must go through an evaluation process; however, realize the power of rejected ideas.

The innovations must to be measured in order to be managed. Here are few innovation strategies:

- IBM helps their clients innovate their EC business model by enabling the clients to better manage and redefine their value chain and use e-commerce technology (see **ibm.com/smarterplanet/us/en/smarter_commerce/overview**).
- Communication technologies and Web 2.0 tools enable employees to work off site. The virtual office (see Violino 2011) can help increase performance.
- Many companies are integrating war games in their innovations to study strategies for improving their products. By simulating the thoughts and actions of their competitors (to see how their innovations compare with their rivals), they will be able to better seize opportunities (see Capozzi et al. 2012).
- A large number of innovations are related to m-commerce.

Computerized creativity tools can facilitate innovation both for individuals and for groups. For a list of individual and group creativity support tools, see Shneiderman (2007). Note that several Web 2.0 tools are on the list. For many innovation-related cases, strategies, and articles, visit **enterpriseinnovation.net**.

Common ways to improve innovations are: (1) Foster openness to innovation, (2) expand the pipeline of new ideas, (3) triage the most promising ideas, and (4) adopt a 'test and learn' approach.

Innovative Strategies: Some Illustrative Examples

The following are several illustrative examples of strategic EC decisions:

- Target Corporation (**target.com**) matched certain online retailers' prices during the 2012 holiday season to compete with other stores for shoppers. They first decided to match prices until December 24, but in 2013, they decided to offer online price matching year-round. Target is matching prices offered by Amazon.com, Walmart.com, BestBuy.com, and ToysRus.com. Target stores are also price matching items found on Target.com. For details, see Wohl (2012). Toys "R" Us is matching prices at their Babies "R" Us store against competitors.
- Best Buy (**bestbuy.com**) is facing competition from all sides, mostly from Amazon.com and GameStop.com, which provides a serious threat to Best Buy's sales. Best Buy's physical stores have become a showroom for people who visit the stores, use their smartphones to scan product barcodes to compare prices, and then buy the same items at a cheaper price on Amazon.com or another online stores. Due to its losses, Best Buy was forced to close many of their low-level-of-sell stores. Best Buy's strategy now is to sell more products from its online store, but it is still struggling. Best Buy has improved its customer service as well as its loyalty program and is offering free shipping for its loyalty card members. For details, see Dignan (2012).
- Travelzoo Inc. (**travelzoo.com**) operates in a competitive online environment. Their strategy is to increase their reach, expand the sales force and develop new products, especially in mobile and hotel categories. eBay (**ebay.com**) competes with Amazon, Etsy, Bonanza, and others by helping clothing start-up companies put their webstores on eBay's site.
- Facebook (**facebook.com**) offers virtual (digital) gifts. The gifts can be given for any occasion.
- Apple (**apple.com**) and Facebook (**facebook.com**) have teamed up to counter Google by bringing "Facebook Integration" through Apple's iOS 6. With Facebook Integration, users can sign in to Facebook and update their status, share links in Safari, and post photos, with an option to allow Facebook to access their Contacts and Calendar. Apple also introduced Apple Maps (an unsuccessful attempt to compete with Google Maps). However, in an attempt to better Maps, in 2014, Apple purchased Spotsetter, a social search and mapping startup.
- Cars.com (**cars.com**) uses a differentiation strategy by making its website a secure display for world-class cars. It serves both

consumers and dealers for new and used cars. The site enables consumers to compare features, read recommendations, and obtain quotes from dealers. By using Web 2.0 tools and platforms through sites such as Facebook, Twitter, and Google +. For details, see (**cars.com**).
- Google+ is a social network launched in 2011; it uses differentiation to advance its network, building upon its search capabilities. Google+ is offering branding pages in its effort to take advertising business away from Facebook. (Facebook has a huge competitive advantage due to the large number of members and visits.) However, Google's strategy seems to have worked. By August 2011, it became the fastest growing (in percentage) social network.
- To support its Smarter Commerce strategic initiative, IBM acquired several EC companies at high prices (Coremetrics, Sterling Commerce, Unica). IBM's strategy is to meet the demand for social media products and services by tying mobile, social, analytics, and cloud computing together, for both online and offline shopping. For details, see Guinn et al. (2011). In April 2012, Facebook bought Instagram for $1 billion. Many wondered why the company paid so much for a company with no revenue. The answer is: It is a strategic acquisition. Hill (2012) provides 10 reasons for the acquisition. (See discussion questions at the end of this chapter.)

SECTION 13.7 REVIEW QUESTIONS

1. Why do organizations need to improve performance even if their performance is already good?
2. Define dashboards and explain their usage in the strategy-performance cycle.
3. Is it wise for big companies to pay so much money to acquire small EC-related companies?

13.8 A STRATEGY FOR GLOBAL E-COMMERCE

Deciding whether to "go global" is a strategic issue. In a June 30, 2010 report on world Internet use, Miniwatts Marketing Group reported that nearly 2 billion people worldwide are regular Internet users. In the second quarter of 2012, approximately 248 million people were in North America, more than 800 million were in Asia, and nearly a half billion are in Europe (**internetworldstats.com/stats.htm**). These statistics illustrate the enormous potential that exists for companies to expand their market share globally using EC. Today the figures are much higher.

The decision to go global is made for many reasons, both reactive and proactive. Reactive reasons include factors such as competitors that are already selling internationally. Proactive reasons include sellers that are seeking economies of scale, looking for new international markets, gaining access to sufficient or new resources, cost savings, and local government incentives. Regardless of the reasons, expanding globally to realize a company's strategic objectives requires extensive planning and responding quickly to opportunities.

A global electronic marketplace can be an attractive opportunity in an EC strategy. Going global means access to larger markets, opportunity to minimize taxes, and flexibility to employ a less expensive workforce anywhere. However, going global is a complex and strategic decision process for several reasons. Geographic distance is an obviously important issue in conducting business globally; however, frequently, it is not the most important issue. Cultural differences and political, legal, administrative, and economic issues must be considered. This section briefly examines representative opportunities, problems, and solutions for companies that are going global with EC. For an overview of globalization, see Prahalad and Krishnan (2008).

Benefits and Extent of Global Operations

A major advantage of EC is the ability to conduct business at any time, from anywhere, and at a reasonable cost. These are also the drivers behind global EC, and there have been some incredible success stories in this area. For example:

- eBay conducts auctions in hundreds of countries worldwide.
- Alibaba.com (Chapter 4) provides B2B trading services to hundreds of thousands of companies worldwide.
- Amazon.com sells books and millions of other items to individuals and separate retail websites for 13 countries, including the U.S., UK, France, and Brazil.
- Small companies, such as ZD Wines (**zdwines.com**), sell to hundreds of customers worldwide. HOTHOTHOT (**hothothot.com**), a tiny Internet pioneering company reported its first international trade only after it went online; within two years, global sales accounted for 25% of its total sales. Global sales now are done via Hotsouce.com service.
- Major corporations, such as GE and Boeing, have reported an increasing number of international vendors participating in their electronic RFQs. These electronic bids have resulted in a 10 to 15% cost reduction and more than 50% reduction in cycle time.
- In 2013, the NFL opened an e-commerce shop for the Chinese market (**nfl.tmall.com**), which partners with 25 regional TV broadcasters and digital media outlets across China (see *PR Newswire* 2013).
- By recruiting online via social networks (e.g., **xing.com** and **linkedin.com**), many international corporations have considerably increased their success in recruiting employees to work in international locations.

Globalization and Social Networking

Globalization of EC has benefitted greatly from social networking. For example, there are about four times more international Facebook members than in the U.S. Furthermore, companies such as Amazon.com, Google, Groupon, and Yahoo! are very active globally. For insights about going global in the social environment, see Adobe (2012).

Barriers to Global E-Commerce

Despite the benefits and opportunities offered by globalization, there are several barriers to global EC. Some of these barriers face any EC venture but become more difficult when international impacts are considered. These barriers include authentication of buyers and sellers (Chapter 10), generating and retaining trust (Chapter 9), order fulfillment and delivery (Chapter 12), security (Chapter 10), and domain names (Chapter 16). Others are unique to global EC. In this chapter, we will discuss some of these barriers.

iGlobal stores (**iglobalstores.com**) offers suggestions on what to offer international customers: country-specific checkout experience up-to-the minute currency conversion and foreign settlement, global fraud and risk and its protection, calculation of duty and tax, and integration with existing information systems. (Note: The offerings keep changing.)

Cultural Differences

The Internet is a multifaceted marketplace made up of cross-cultural users. The multicultural nature of global EC is important because cultural attributes (such as social norms, local habits and spoken languages) determine how people interact with companies, agencies, and with each other. Cultural and related differences include spelling differences (e.g., American versus British spelling), information formatting (e.g., dates can be mm/dd/yy or dd/mm/yy), graphics and icons (e.g., mailbox shapes differ from country to country), measurement standards (e.g., metric versus imperial system), and so forth. Many companies are globalizing their websites by creating different sites for different countries, taking into account site design elements, pricing and payment infrastructures, currency conversion, customer support, and language translation.

Language Translation

Although the world population is over 7 billion (2014), only about 1 billion people speak English as their native or second language. In contrast, more than 1.4 billion people speak Chinese. In their study of 1,000 top websites, Sargent and Kelly (2010) found that more than 72% of consumers would be more likely to purchase a product with the description in their native language, and 56.2% agree that price is not as important as being able to access information in their native language. In order to reach 80% of the world's population, a website would have to be translated into 83 of the world's 6,912 languages. Therefore, a website offered in only one language can only reach 20 to 30% of the total online population at the most.

Clearly, these single language websites are severely limiting their customer base. It is not surprising then, that language translation is one of the most obvious and most important aspects of creating and maintaining global websites. Sargent and Kelly (2010) also reported that 23 was the average number of languages supported by the 250 sites who participated in their survey. The top 25 global websites support an average of 58 languages. Byte Level Research reviewed 150 corporate global websites, identifying the 25 top "amazing global gateways" – leaders, laggards, and best practice companies **bytelevel.com/reportcard2014/#25top**.

The number one global website in 2011 was Facebook. It replaced Google, which was number one in 2010. (In 2014, Google was back to number one.) Facebook's representative innovations include multilingual plug-ins, an improved global gateway, and multilingual user profiles. The primary problems with language translation are speed and cost. It may take a human translator a week to translate a medium-sized website into another language. For large sites, the cost can be more than $500,000, depending on the complexity of the site and the number of languages for translation and can be a lengthy process.

Machine Translation

Some companies address the cost and time problems by translating their Web pages into different languages through what is called *machine translations.* A list of free translation programs can be found at **xmarks.com/site/www.humanitas-international.org/newstran/more-translators.htm** and **websites.translations.com**. For examples on how Lionbridge Technologies, Inc. uses machine translation to help their clients, see **lionbridge.com/clients**. For example, in November 2013 Lionbridge was selected by Net-A-Porter to (Case 1.1, Chapter 1) to develop and maintain translated content for the Net-A-Porter's global websites. Net-A-Porter ships its luxury fashion products to 170 countries and operates several non-English sites (e.g., Mandarin, French, German). For details, see Sklair (2009).

Example: Ortsbo, Inc.

The company that enables real-time global communication, claims more than 212 million unique users in over 170 countries. Telus International teamed up with Ortsbo in a customer care program to enable Telus's customer service agents to chat in real time online to almost anyone in their native language (as of 2013, the software is available in 66 languages). Telus can offer multilingual support at a lower cost because they do not have to hire additional agents for each language. (See Bach 2013 for details.)

The Droid Translator app, launched in June 2014, offers the capabilities to transform personal and business chat by translating phone, video, and text chat in 29 languages (see Petroff 2014).

Legal Issues

One of the most contentious areas of global EC is the resolution of international legal issues (Chapter 15). An ambitious effort to reduce differences in international law governing EC is the United Nations Commission on International Trade Law (UNCITRAL) Model Law on

Electronic Commerce. Its purpose is to provide national legislators with a set of guidelines that are internationally acceptable, which specify how to overcome some of the legal constraints in the development of e-commerce. It also provides for a safer legal platform to be constructed through the design of fair, current, and consistent guidelines in e-commerce transactions, (see **uncitral.org**).The Model Law has been adopted in some form or another in many countries and legal jurisdictions, including Singapore, Australia, Canada, Haiti, and the United States.

International trade organizations, such as the World Trade Organization (WTO) and the Asia-Pacific Economic Cooperation (APEC) forum, have working groups that are attempting to reduce EC trade barriers in areas such as pricing regulations, customs, import/export restrictions, tax issues, and product specification regulations.

Geographic Issues and Localization

Barriers posed by geography differ based on the transportation infrastructure between and within countries and the type of product or service being delivered. For example, geographic distance is almost irrelevant with online software sales.

Example: Clarins Group

Clarins Group (**clarinsusa.com**), a major player in the skin care, makeup, and fragrance business sector, is significantly increasing its global online presence and its e-commerce analytics to optimize online performance of its trading platform. Its brands, such as Clarins, and Azzaro, are advertised and sold on websites using the EC vendor Intelligent Trader, in more than 15 countries, while the challenges of multichannel, multilanguage, and multicurrency are addressed. For details see **ecommera.com/case-studies/clarins**.

Web Localization

Many companies use different names, colors, sizes, and packaging for their overseas products and services. This practice is referred to as *localization.* In order to maximize the benefits of global e-commerce, the localization approach also should be used in the design and operation of the supporting information systems. For example, many websites offer different language or currency options, as well as special content. Europcar (**europcar.com**), for example, has a global presence in over 150 countries, each with an option for one of 10 languages. The company has a free iPhone app, which is available in eight languages.

Payments in Global EC Trades

The issues facing global payments vary from fraud to banking regulations. Some solutions were discussed in Chapter 11. Companies such as Elavon (**elavon.com**) provide global EC gateway solutions (see *Business Wire* 2012).

Economic and Financial Issues

Economic and financial issues encompassing global EC include government tariffs, customs, and taxation. In areas subject to government regulation, tax and regulatory agencies have attempted to apply the rules used in traditional commerce to e-commerce, with considerable success. Exceptions include areas such as international tariff duties and taxation. Software shipped in a box would be taxed for duties and tariffs upon arrival. However, software downloaded online may rely on self-reporting and voluntary payment of tax by the purchaser, something that does not happen very often. Note that Amazon and other e-tailers have started charging sales tax in many U.S. states for digital downloads (see **taxes.about.com/od/statetaxes/a/sales-tax-for-digital-downloads.htm**; updated April 28, 2014).

A major financial barrier to global EC is electronic payment systems. To effectively sell online, EC firms must have flexible payment methods that match the ways people in different countries pay for their online purchases. Although credit cards are used widely in the United States, many European and Asian customers prefer to complete online transactions with offline payments. Even within the category of offline payments, companies must offer different options depending on the country. For example, French consumers prefer to pay with a check, Swiss consumers expect an invoice by mail, Germans commonly pay for products only upon delivery, and Swedes are accustomed to paying online with debit cards.

Pricing is another economic issue. A vendor may want to price the same product at different prices in different countries based upon local prices and competition. However, if a company has one website, differential pricing will be difficult or impossible. Similarly, what currency will be used for pricing? What currency will be used for payment?

E-Commerce in Developing Countries

Economic conditions determine the degree of the development of countries. Some developing countries are using EC as a springboard to improve their economies (e.g., China, Malaysia, India). Other developing countries are making strides. For a discussion, see Sanayei (2011).

Breaking Down the Barriers to Global E-Commerce

A number of international organizations and experts have offered suggestions on how to break down the barriers to global EC. Some of these suggestions are:

- **Be strategic.** Follow the entire strategy life cycle. A company must consider what countries to target and which languages, and how the websites for the target countries will react. These considerations need to be included in the strategy.
- **Know your audience.** Consider cultural issues and legal constraints, which vary around the world.
- **Localize.** Websites need to be localized, as described in Chapter 8. In certain countries (e.g., Japan, China, Russia), local languages are essential (e.g., Yahoo! has a specific website for Japan: "Yahoo! Japan;" **yahoo.co.jp**); products are priced in local currencies; and local terms, conditions, and business practices are based on local laws and cultural practices.
- **Think globally, act consistently.** An international company with country-specific websites should be managed locally and must make sure that areas such as brand management, pricing, ad design, and content creation and control are consistent with the company's strategy.
- **Value the human touch.** Human translators are preferred over machine translation programs. The quality of translation is important because even a slight mistranslation may drive customers away.
- **Clarify, document, explain.** Pricing, privacy policies, shipping restrictions, contact information, and business practices should be well documented, located on the website, and visible to the customer.
- **Offer services that reduce trade barriers**. It is not feasible to offer prices and payments in all currencies, so provide a link to a currency exchange service (e.g., **xe.com**) for the customer's convenience. In B2B e-commerce, integrate EC transactions with the accounting/finance information system of the major buyers.

SECTION 13.8 REVIEW QUESTIONS

1. Describe globalization in EC and the advantages it presents.
2. Describe the major barriers to global EC.
3. What can companies do to overcome the barriers to global EC?
4. Discuss the pros and cons of a company offering its website in more than one language.

13.9 E-COMMERCE STRATEGY FOR SMALL AND MEDIUM-SIZED ENTERPRISES

E-commerce can be one of the most effective business tactics for small and medium-sized enterprises (SMEs). The potential for SMEs to expand their markets and compete with larger firms through EC is enormous. Some of the first companies to take advantage of Web-based e-commerce were small and medium-sized enterprises (SMEs). While larger, established, tradition-bound companies hesitated, some forward-thinking SMEs initiated online presence and opened web-stores because they realized there were opportunities in marketing, business expansion, cost-cutting, procurement, and a wider selection of partner alliances. An example of an active SME is: Mysterious Bookshop (**mysteriousbookshop.com**).

Clearly, SMEs are still finding it difficult to formulate or implement an EC strategy, mainly because of their inability to handle large volumes of inventory, limited use of EC by suppliers, lack of knowledge or IT expertise in the SME, and limited awareness of the associated opportunities and risks. As a result, many SMEs create static websites that are not used for selling. However, a growing number of SMEs are adopting the EC strategy. Arceo-Dumlao (2012) provides an overview of how digital marketing helps small businesses to grow.

In her article, Burke (2013) describes how 15 year old girl created a successful business inventing flip-flops, which are now sold online, in various boutiques, and at Nordstrom. For the future of EC for small businesses, see Mills (2014).

Choosing an EC approach is a strategic decision that must be made in the context of the company's overall business strategy. On the positive side, the nature of EC lowers the barriers to entry, and it is a relatively inexpensive way of reaching a larger number of buyers and sellers who can more easily search for, compare prices, and negotiate a purchase. However, there are also some inherent risks associated with the use of EC in SMEs. Table 13.6 provides a list of major advantages and disadvantages of EC for SMEs.

Table 13.6 Advantages and disadvantages of EC for small and medium-sized businesses

Advantages/benefits	Disadvantages/risks
• Inexpensive sources of information. A Scandinavian study found that over 90% of SMEs use the Internet for information search (OECD 2001)	• Lack of funds to fully exploit the potential of EC
• Inexpensive ways of advertising and conducting market research. Banner exchanges, newsletters, chat rooms, and so on are frequently cost-free ways to reach customers	• Lack of technical staff or insufficient expertise in legal issues, advertising, etc. These human resources may be unavailable or prohibitively expensive to an SME
• Competitor analysis is easier. A Finnish study found that Finnish firms rated competitor analysis third in their use of the Internet, after information search and marketing	• 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
• Inexpensive ways to build (or rent) a webstore. Creating and maintaining a website is relatively easy and cheap (see Online Chapter 16)	• When the product is not suitable or is difficult for online sales
• SMEs are less locked into legacy technologies and existing relationships with traditional retail channels	• Reduced personal contact with customers
• Image and public recognition can be generated quickly. A Web presence makes it easier for a small business to compete against larger firms	• There is an inability to afford entry, or purchase enough volume, to take advantage of digital exchanges
• An opportunity to reach worldwide customers. Global marketing, sales, and customer support online can be very efficient	

If Judy Can – You Can Too!: The Story of Blissful Tones Webstore

Blissful Tones **blissfultones.com**, sells antique Tibetan Singing Bowls, Nepali jewelry, and meditation items such incense, mala, tingsha, and prayer wheels. It is a tiny online business, hosted by Shopify.com. Creating the website on Shopify involved the following process:

1. Creating a welcoming home page for the site, with a description about the company and products.
2. Uploading all product images and descriptions (see Figure 13.5)
3. Setting the retail price for each item.
4. Grouping the products into "collections." These are pages that hold similar products, such as large singing bowls, medium bowls, and small bowls.
5. Creating additional pages for customer service, "about" Judy the store owner, and educational videos and other material about the history and use of singing bowls.

Another task involved setting the shipping prices for various items, so that the shipping cost

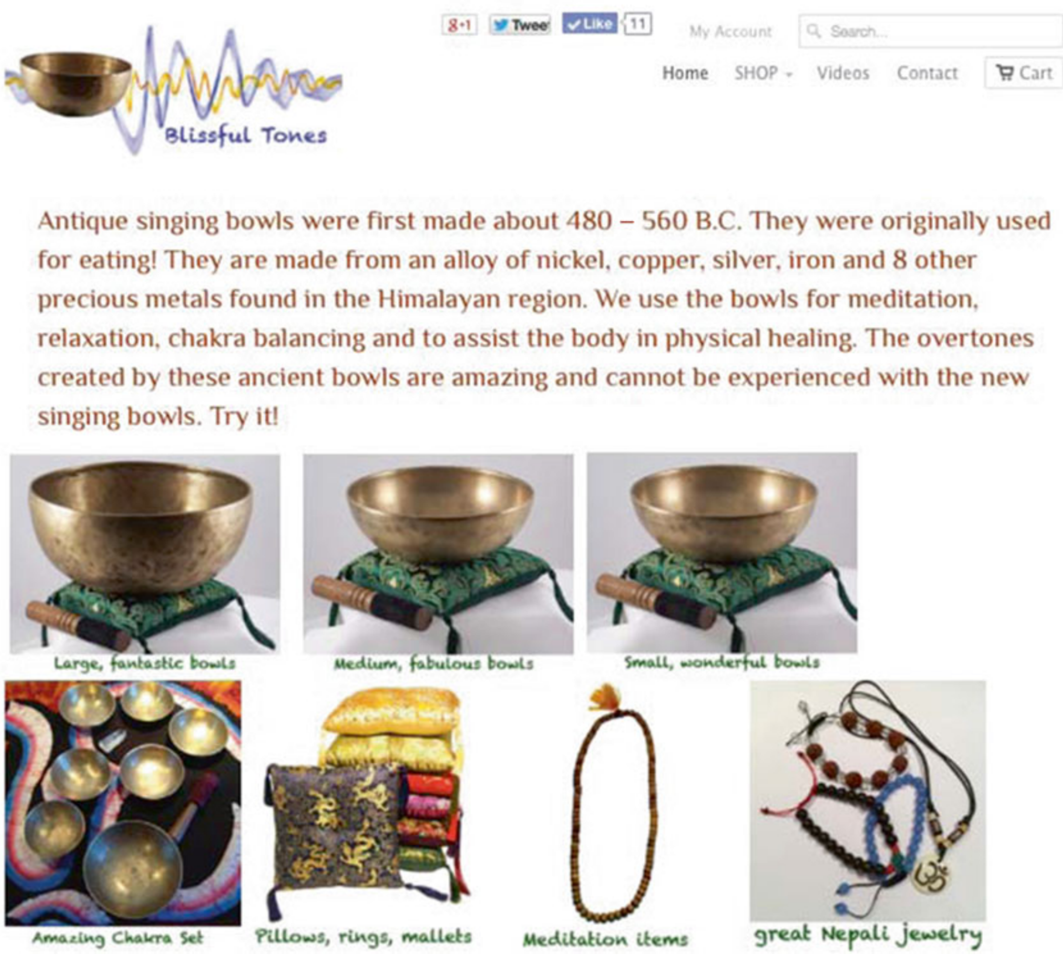

Figure 13.5 Screen shot of BlissfulTones.com

is automatically added to the item price when a buyer checks out. The choice for Blissful is USPS Priority Flat-Rate shipping boxes in small, medium, and large sizes. Free shipping is privileged for all orders over $100.

For marketing the site, Judy is using the Constant Contact e-mail database with nearly 1,500 names. Judy sends occasional discount offers and notifications of new products. In addition Google Ad Words is used to promote the site, which has proven to be a great success. Judy is currently planning marketing campaigns using social media.

When a customer places an order, the Shopify system offers several payment options: PayPal, credit cards, or cash on delivery. Judy opted to use the first two options so the income would be credited quickly. A small fee is deducted from the customer payment for credit card or PayPal fees. Shopify deposits the payments directly into Judy's bank account.

When a customer places an order, Shopify sends an e-mail alert to Judy's e-mail address. This way she can go online and find the customer's specific order and mailing address.

Order fulfillment is a more difficult task. The packaging involves using bubble wrap and Styrofoam peanuts to protect the merchandise. Shopify has a special page for "orders" where the customer's order, address, and e-mail address are kept. Judy labels the package with the customer address and her return address, adds a special thank you note inside, and takes the packages to the post office. Once Judy sent the package, she logs into Shopify and hits the "fulfill" button, and types in the package tracking number. Then the customer automatically receives an e-mail notification that the product is in the mail.

Globalization and SMEs

In addition to increasing their domestic market, EC opens up a vast global marketplace for SMEs, but only a small percentage of them conduct a significant part of their business globally. However, a growing number are beginning to use EC to tap into the global marketplace in some way, but even then, SMEs are more likely to purchase globally than to sell globally. In the June 2010 "The State of Small Business Success" (available at **networksolutions.com/smallbusiness/wp-content/files/Network_Solutions_Small_Business_Success_Index.pdf**), the incidence of global purchasing by SMEs showed an increase in the first six months of 2010 from 11 to 18%. On the other hand, global selling of products and services by SMEs decreased in the same time period. Despite this, SMEs doing business globally report that EC has a "major impact" on their ability to operate on a broader scale. EC activities that SMEs engage in globally include communicating with global customers (41%), buying supplies (31%), and selling their products globally online (27%).

Resources to Support SME Activities in EC

SME owners often lack strategic management skills and consequently are not always aware of changes in their business environment with respect to emerging technologies. Fortunately, SMEs have a variety of private and public support options (e.g., **sba.gov**, **business.gov.au**).

In addition, vendors realize that the large number of small businesses means an opportunity for acquiring more customers. Thus, many vendors have created service centers that offer both free information and fee-based support. Examples are IBM's Small and Medium Business Solutions (**ibm.com/midmarket/us/en**) and Microsoft's Business Hub (**microsoftbusinesshub.com**). Professional associations, Web resource services (e.g., **smallbusiness.yahoo.com**) and small organizations that are in the business of helping other small businesses go online.

Resources to assist SMEs in going global are also emerging as helpful tools for SMEs that want to expand their horizons. For example, the Global Small Business Blog (GSBB) (**globalsmallbusinessblog.com**) was created in 2004 by Laurel Delaney to help entrepreneurs and small business owners expand their businesses internationally.

A good source regarding SMEs' use of e-markets to conduct international trade is **emarketservices.com/start/Case-studies-and-reports/index.html**.

SMEs and Social Networks

Social commerce is one of the fastest growing EC technologies that is being adopted by SMEs.

Small businesses can utilize social network sites to interact with peer groups outside their immediate geographical area in order to exchange opinions about topics of mutual interest and help each other solve problems. SMEs can find websites that are dedicated to small businesses. These sites provide SMEs with opportunities to make contacts, get start-up information, and receive advice on e-strategies. Not only can sites such as LinkedIn be used to garner advice and make contacts, they can be used in B2B to develop networks that can connect SMEs with other small businesses or foster relationships with partners.

Table 13.7 lists 10 steps to success when using social media in SMEs. Note that, social networks facilitate interactions and relationship building, which are very important for SMEs. For tips on how to use YouTube to promote the online content of SMEs, see **masternewmedia.org/online_marketing/youtube-promote-content-viral-marketing/youtube-video-marketing-10-ways-20070503.htm**.

SMEs are following the growing popularity of social networking sites and using social media to build connected networks, enhance customer relationships, and gather feedback about their services and products (e.g., see Knight 2012).

For implementation issues of social commerce, see Chess Media Group (2012).

SECTION 13.9 REVIEW QUESTIONS

1. What are the advantages or benefits of EC for small businesses?
2. What are the disadvantages or risks of EC for small businesses?
3. What are the advantages and disadvantages for small businesses online?
4. How can social networks help SMEs become more competitive?

Table 13.7 Ten steps to a successful social media strategy

Step	Description
1	Understand what social media is and what the benefits of using it are
2	Identify the audience you want to reach
3	Identify the resources you currently have available for use
4	Identify the most appropriate technologies to use
5	Start a blog and create a social culture in your business
6	Build social media profiles for your business on Facebook, LinkedIn, Twitter, and YouTube
7	Make your blog social media friendly
8	Build relationships with your target market
9	Turn friends and followers into customers
10	Decide how you will monitor and measure the performance of your social media initiatives

Sources: Based on Gallagher (2010) and Ward (2009).

MANAGERIAL ISSUES

Some managerial issues related to this chapter are as follows:

1. **What is the strategic value of EC to the organization?** It is important for management to understand how EC can improve marketing and promotions, customer service and sales, and the supply chain and procurement processes. More significantly, the greatest potential of EC is realized when management views EC from a strategic perspective, not merely as a technological advancement. Management should determine the primary goals of EC, such as new market creation, cost avoidance and reduction, and customer service enhancement.
2. **How do you relate the EC activities to business objectives and metrics?** Companies first must choose objectives and design-appropriate metrics to measure the goals and actual achievement. The companies need to exercise with caution, because the metrics may accidentally lead employees to behave in the opposite direction of the intended objectives. The Balanced Scorecard is a popular framework adopted to define objectives, establish performance metrics, and then map them. EC planning needs to identify what the role

of EC is in achieving the goals in BSC metrics.

3. **Should the EC activities in a brick-and-click company be organized as a separate entity?** This is a debatable issue. Sometimes it is useful in eliminating conflicts of prices and strategy. Additionally, using the spin-off as an IPO can be rewarding. Lotte Department Store in Korea spun off their e-commerce business because of its unique growth opportunity. In other cases, the spin-off can create problems and administrative expenses. Walmart, Barnes & Noble, and Sears have suffered from their spin-offs and have merged them back into the offline part of their companies.
4. **How should the e-business scope evolve?** A selling company may handle only one or few items at the beginning stage. However, the number of items will expand with time, as was the case of Amazon.com. As the scope of items expands, the order fulfillment plan has to evolve accordingly, considering an alliance with partners who have strong sourcing capability. Note that the key competitors will change as the scope of business evolves. Management has to envision the prospect of e-business that can create justifiable revenue and profit so that investors can contribute to the funding and wait patiently for success. The community in the social network eventually needs to be linked with the revenue creation.
5. **What are the benefits and risks of EC?** Strategic advantage has to be weighed carefully against potential risks. Identifying CSFs for EC and doing a cost–benefit analysis is an important step in developing an EC strategy. Benefits can be derived not only from the adoption of EC, but also from the reengineering of traditional business processes. Benefits often are difficult to quantify, especially because gains tend to be strategic. In such an analysis, risks should be addressed with contingency planning (deciding what to do if problems arise).
6. **Why do we need an EC planning process?** A strategic plan is both a document and a process. Former U.S. President Dwight D. Eisenhower once said, “Plans are nothing, planning is everything.” A planning process that includes management, employees, business partners, and other stakeholders not only produces a planning document that will guide a business into the future, but also describes to the participants about where the company is going and how it intends to get there. The same can be said for e-business planning – the process is as important as the plan itself.
7. **How can EC go global?** Going global with EC is a very appealing proposition for companies of all sizes, but it may be difficult to do, especially on a large scale or for SMEs that lack the necessary resources. Companies need to identify, understand, and address the barriers to globalization such as culture, language, and law as well as customers and suppliers. An e-business needs to decide on a localization strategy. Some companies, such as eBay, acquire or establish local companies to support local customers, whereas other companies only support the English language site. In B2B, one may create collaborative projects with partners in other countries.
8. **How do you manage the EC project?** Forming an effective team is critical for EC project success. The team’s leadership, the balance between technical and business staff, getting the best staff representation on the team, and having a project champion are essential for success. Reconciling the business objectives and system design is critical. IT sourcing needs to be considered, particularly for SMEs.

SUMMARY

In this chapter, you learned about the following EC issues as they relate to the chapter’s learning objectives:

1. **Strategy concepts and competitiveness.** Implementing EC projects requires a strategy. A common approach is the use of Porter’s Five Forces model and his suggested strategies. The Internet affects the competitive forces and the strategies to deal with them.
2. **The strategy-performance cycle and strategy tools.** The five major phases of developing a business strategy are: initiation, formulation, implementation, assessment, and performance improvements. The major generic tools for

strategic management are: the strategy map, SWOT analysis, competitor analysis, scenario planning, and business plan.

3. **Strategy initiation.** The strategy initiation phase involves understanding the company, the industry, and the competition. Companies must consider questions such as "Should we be a first mover?" "Should we go global?" "Should we create a separate company or brand?" and "How do we handle channel conflict?" With the proliferation of Web 2.0 tools, companies should also consider strategies related to Web 2.0 and social networking.
4. **Strategy formulation.** In this phase, the strategic and tactical planning are executed. Planning issues deal with the portfolio of EC projects to use, the viability of these projects, and the potential benefits, costs, and risks involved. Issues such as security, pricing strategy, and channel and pricing conflicts are considered in this phase.
5. **Strategy implementation.** Creating an effective Web team and ensuring that sufficient resources are available initiate the implementation phase. Other important implementation issues are whether to outsource various aspects of the system development and the need to redesign existing business processes. Assessment begins immediately after implementation.
6. **Strategy assessment.** To assess the success of a strategy, companies establish metrics against which actual performance is compared. To do this, companies need to create a performance monitoring system and establish a system of analytics for the evaluation. Generic tools such as scorecards can be used, as well as special tools developed for different EC categories. Of special interest is the assessment of social media applications.
7. **Performance improvement and innovation.** Once performance is recorded and assessed, it is communicated to management (e.g., via dashboards). Management needs to take action. Not only about increasing inferior performance, but also for how to take advantage of a superior one. Appropriate corrections and rewards can be used. In general, companies should improve any performance level over time. One approach is by introducing innovation into the organization. Innovation can be enhanced by several methods such as crowdsourcing.
8. **Issues in global EC.** Going global with EC can be done quickly and with a relatively small investment. However, businesses must deal with a number of different issues in the cultural, administrative, geographic, legal, and economic dimensions of global trading.
9. **Small and medium-sized businesses and EC.** Depending on the circumstances, innovative small companies have a tremendous opportunity to adopt EC with little cost and to expand rapidly. Being in a niche market provides the best chance for small business to succeed. A variety of Web-based resources are available for small and medium-sized business owners to get help to ensure success.

Key Terms

Business process management (BPM)
Business process reengineering (BPR)
Cost-plus
Disintermediation
E-commerce (EC) risk
Information dashboard
Key performance indicator (KPI)
Metric
Outsourcing
Project champion
Sentiment analysis (opinion mining)
Strategy
Strategy assessment
Strategy formulation
Strategy implementation
Strategy initiation
Web analytics

Discussion Questions

1. How would you identify competitors of your small business who want to launch an EC project?
2. How would you apply Porter's five forces and Internet impacts in Figure 13.1 to the Internet search engine industry?

3. Why must e-businesses consider strategic planning to be a cyclical process?
4. How would you apply the SWOT approach to a small bank in your town that is considering e-banking services?
5. Offer some practical suggestions as to how a company can include the impact of the Internet in all levels of planning.
6. Discuss the pros and cons of going global online to sell a physical product.
7. Find some SME EC success stories and identify the common elements in them.
8. Submit three questions regarding EC strategy for small businesses to **linkedin.com** and **answers.yahoo.com**. Get some answers and summarize your experience.
9. After viewing the video "FiftyOne Global E-commerce Demo" (2:08 minutes) at **youtube.com/watch?v=2YazivwAm2o&fea-ture=related**, consider the following: FiftyOne Global E-Commerce (now called Borderfree; **borderfree.com**) claims to address all major issues associated with global EC. Check what they do. Write a report. currency conversion, fraud screening, payment processing, customer brokering, international freight forwarding, destination country delivery, and management of in-country returns.
   (a) Discuss how a company embarking on global e-commerce would approach each of these challenges without the assistance of a company like Borderfree.
   (b) Would these challenges be insurmountable? For each challenge, explain why or why not.
   (c) Would the type or size of a business affect whether it could successfully navigate these challenges to global e-commerce? Explain your conclusions.
10. Find information about Travelzoo's strategy of accelerating its audience growth by expanding its sales force, enhancing product offerings, launching local deals in new markets, and conducting long term EC projects at the expense of short term profits. Discuss this strategy.

Topics for Class Discussion and Debates

1. Has the availability of EC affected the way we assess industry attractiveness? Develop new criteria for assessing the attractiveness of pure online industries.
2. Consider the challenges of a brick-and-mortar company manager who wants to create an integrated (online/offline) business. Discuss the challenges that he or she will face.
3. As the principal in a small business that already has an effective Web presence, you are considering taking your company global. Discuss the main issues that you will have to consider in making this strategic decision.
4. Examine the seven strategies of Facebook and Twitter at **socialmediatoday.com/christinegallagher/165536/top-7-facebook-and-twitter-strategies** and comment on them.
5. Debate: Is Google Translate effective for the translation of EC websites?
6. Is Amazon.com eBay's biggest competitor? What about Walmart.com? What Alibaba group?
7. Read the paper by Hill (2012) and discuss the 10 reasons cited there for Facebook's acquisition of Instagram. Which of the reasons make sense to you? Which ones do not?
8. Apple has a strategy of having an alliance with Facebook to integrate the social network into its products. Find the status of this alliance and discuss its value.
9. Google is trying to counter Facebook by offering branding pages through Google+. Discuss the value of this strategy.
10. Amazon.com is considering opening physical stores. Find the status of this strategy and discuss its logic.
11. Apple created its own music streaming service (iTunes Radio), similar to Pandora. Is this a good or bad strategy? Discuss.

Internet Exercises

1. Survey several online travel agencies (e.g., **travelocity.com**, **orbitz.com**, **cheaptickets.com**, **priceline.com**, **expedia.com**, **hotwire.com**), and compare the business strategies of

three of them. How do they compete against brick and mortar travel agencies?

2. Enter **digitalenterprise.org/metrics/metrics.html**. Read the material on Web analytics and prepare a report on the use of Web analytics for measuring advertising success.
3. Check Internet retailers specializing in the sale of CDs, music, and movies (e.g., **cduniverse.com**). Do any of these companies focus on specialized niche markets as a strategy?
4. Enter **ibm.com/procurement/proweb.nsf/ContentDocsByTitle/United+States~e-Procurement**. Prepare a report on how IBM's Supplier Integration Strategy can assist companies in implementing an EC strategy.
5. One of the most global companies is Amazon.com. Find stories about its global strategies and activities (try **forbes.com**) and conduct a Google search. What are the most important lessons you learned?
6. Visit **business.com/guides/startup** and find some of the EC opportunities available to small businesses. Also visit the website of the Small Business Administration (SBA) office in your area. Summarize recent EC-related topics for SMEs.
7. Find out how websites such as Nexus and Tradecard (now one company available at **gtnexus.com**) facilitate the conduct of international trade over the Internet. Prepare a report based on your findings.
8. Conduct research on small businesses and their use of the Internet for EC. Visit sites such as **microsoftbusinesshub.com** and **uschamber.com**. Also enter **google.com** or **yahoo.com** and type "small businesses + electronic commerce." Use your findings to write a report on current small business EC issues.
9. Enter **lwshare.languageweaver.com** and locate its product for language translation for multinational corporations. Write a report.
10. Enter **compete.com** and identify all the services it provides. Also identify all lists, ranking, marketing performance, and competitive intelligence reports it provides. Prepare a list of the services and comment on their value to merchants.

Team Assignments and Projects

1. **Assignment for the Opening Case**
   Read the opening case and answer the following questions.
   (a) Why did P&G decide to use a social media strategy?
   (b) Does the strategy of moving from TV to the Internet make sense?
   (c) In what ways do viral videos work?
   (d) Can the large number of video views, comments, and interactions really increase sales?
   (e) View one or two videos of Isaiah Mustafa regarding Old-Spice on YouTube. What makes them so attractive? Write a comment.
   (f) Why is P&G's campaign called "the most popular interactive campaign in history?"
2. Have three teams represent the following units of one click-and-mortar company: (1) an offline division, (2) an online division, and (3) top management. Each team member represents a different functional area within the division. The teams will develop an EC strategy in a specific industry (a group of three teams will represent a company in one industry). Teams will present their strategies to the class.
3. The relationship between manufacturers and their distributors regarding sales on the Web can be very strained. Direct sales may cut into the distributors' business. Review some of the strategies available to handle such channel conflicts. Each team member should be assigned to a company in a different industry. Study the strategies, compare and contrast them, and derive a proposed generic strategy.
4. Each team needs to find the latest information on one global EC issue (e.g., cultural, administrative, geographic, economic). In addition, check how leading retailers, such as Levi's, serve different content to local audiences, both on their websites and on their Facebook pages. Each team prepares a report based on their findings.

5. Google is trying to compete with Amazon.com by opening Google Shopping Express (**google.com/shopping/express**) in selected cities in collaboration with Target and other retailers (see Santos 2013). Find the status of this strategy. Examine the capabilities of Google and Amazon in the various activities of EC. Conduct a competitor analysis and prepare a report on the possible results of this venture.
6. Compare the services provided by Yahoo!, Microsoft, and Web.com to SMEs in the e-commerce area. Each team should take one company and give a presentation.
7. Research the topic of going 'global in the social world.' Start with Adobe (2012). Identify the issues and the practices. Write a report.
8. Read the white paper by dynaTrace (2011). Identify all the suggestions for EC performance improvement. View the demo at **compuware.com/en_us/application-performance-management/products/dynatrace-free-trial.htm**. Prepare a report.

CLOSING CASE: INNOVATIVE WEB AUCTION STRATEGY NETS HIGHER PRODUCTIVITY FOR PORTLAND FISH EXCHANGE

The Problem

In 2009, the Portland Fish Exchange, owned by the city of Portland, Maine, was losing some of its fish-buying wholesalers due to the downturn in the economy. To add to this decline in business, stricter federal regulations to protect the ocean population caused the average annual volume of fish handled through the Exchange to drop by almost 50% from roughly 30 million pounds of fish a few years ago to the current 10 million pounds per year.

There were several reasons the Exchange suffered from this economic distress. Although demand for good, fresh seafood is usually high, the economic downturn had reduced consumers' dining out budgets, plus, commercial fishing is complex and expensive. In addition, rising expenses, increasing competition for the limited pool of wholesale fish buyers, and fewer boat landings due to the stricter government regulations alerted Bert Jongerden, the general manager of the Portland Fish Exchange. He recognized the need to reconsider his existing business strategy to reduce administrative overhead and increase sales. The need to increase sales was the driving factor for Jongerden to invest between $300,000 and $400,000 in an IT including e-auctions. Jongerden also believed that the convenience of bar-coding and an online auction system were appealing to customers, would save administrative overhead, and increase sales. He wanted to create more opportunity for customers to buy, leading to his decision to invest in IT/EC solutions.

The Solution

A Portland Fish Exchange website with an online auction system was developed.

The company began using a warehouse management system from SeaTrak (built with Progressive Software's application development tools and customized by developer DC systems) that was customized to the company's business. The Fish Exchange staff designates bar codes to containers of fresh fish directly on the docks. Using the dock's PC, the staff prints labels that include details on each container of fish (date caught, weight, the boat that brought it in). Previously, while the Exchange staff sorted and weighed the fish each morning, one staff member wrote paper tags to stick on boxes, while a second employee keyed in the data at the end of the auction. The bar coding was the first step in eliminating "soggy paper." There was no longer a need for an auctioneer.

The second step in implementing the improved e-strategy was to deploy an online auction system. The new system uses a private virtual network (see Chapter 10), so wholesalers, seafood processors, and other interested buyers can place bids directly on the secure Web-based auction system remotely. The website lists available fish lots with weights, prices, grades, and current bidders in a simple table format using no images or graphics. Buyers and sellers are now connected more efficiently.

The Results

Revenues are up at the Portland Fish Exchange. Buyers who previously found it too expensive to fly in from Boston or New York to buy fish in Maine can now purchase from the comfort of their restaurants and offices. Others have increased the amount of their purchases and, due to the laws of supply and demand, the increase in demand means that prices are rising.

At the Portland Fish Exchange, three positions have been eliminated – two on the docks and the job of auctioneer. The cost savings of labor amount to approximately $80,000 per year, thus offsetting the cost of implementing the bar-coding and online auction system.

The types of fish handled at the Portland Fish Exchange are not subject to as many federal traceability regulations as does shellfish. However, this situation may change. The bar codes and online auction system already provide the company with data that will be necessary to show compliance whenever needed.

Sources: Based on Nash (2009) and **pfex.org/auction** (accessed June 2014).

Questions

1. What were the drivers for Jongerden's e-strategy?
2. What makes the e-commerce strategy at Portland Fish Exchange effective?
3. Which strategic tools might have been used when formulating his e-business solution?
4. In implementing the e-strategy, what issues needed to be considered?
5. What risks might have been involved in setting up the online auctions at Portland Fish Exchange?

Online Files available at **affordable-ecommerce-textbook.com/turban**

W13.1 Security Risks in E-Commerce and Social Commerce and Mitigation Guidelines
W13.2 Partners' Strategy and Business Alliances
W13.3 Application Case: Mary Kay Combines E-Commerce Strategies to Revamp Its Business Model
W13.4 Application Case: Performance at AXON Computer (Now Datacraft)
W13.5 The Balanced Scorecard

Comprehensive Educational Websites

bizauto.com/net.htm: Business Automation's five-step approach to success on the Internet.
net-strat.com/portfolio.htm: Company offering website design, Internet marketing, online marketing services, and search engine optimization.
monitus.com/internet.htm: Company offering Web design and Internet strategy.
sazbean.com/2008/10/06/creating-an-internet-business-strategy-implementation: Comprehensive coverage on developing an Internet strategy and implementation.
tutorialized.com/tutorials/eCommerce/Strategy/1: Tutorials on how e-commerce affects hosting services, businesses, online marketing strategies, and more.
ecommerce-digest.com/strategy.html: A detailed guide to successful online strategy and implementation.
informationweek.com: A large collection of related material, articles, cases, and videos.
blogs.hbr.org/cs/2011/05/introducing_the_hbrmckinsey_m-.html: HBR/McKinsey M-Prize for Management Innovation.
sba.gov/content/ecommerce-resources: Large collection of resources on many topics (e.g., technology, e-commerce, advertising, etc.).

GLOSSARY

Business process management (BPM) Activities performed by businesses to improve their processes.
Business process reengineering (BPR) A methodology for conducting a one-time comprehensive redesign of an enterprise's processes.
Cost-plus A pricing strategy that determines the expenses associated with producing a product (production cost) by adding up all the

costs involved – materials, labor, rent, overhead, and so forth – and adding an additional amount to generate a profit margin (a percentage mark-up).

Disintermediation The removal of intermediaries in the EC supply chain. This occurs, for example, when consumers buy directly from manufacturers.

E-commerce (EC) risk The likelihood that a negative outcome will occur in the course of developing and operating an e-commerce initiative.

Information dashboard A visual presentation of data organized in ways easy to read and interpret. It is popular user interface. The information is presented through gauges, charts, maps, tables, etc., to reveal the direction and velocity of the measured metrics.

Key performance indicator (KPI) A quantifiable measurement that is considered a critical success factor of a company, department or project.

Metric A specific, measurable standard against which actual performance is compared.

Outsourcing The process of contracting (farming out) the company's products, services, or work to another organization that is willing and able to do the job.

Project champion The person who ensures that the team is ready to move forward and understands its responsibilities. The project champion is responsible for activities such as identifying the project's objectives, prioritizing phases, and allocating resources to ensure completion of the project, and so forth.

Sentiment analysis (opinion mining) Analysis that aims to determine the attitude of a person with respect to a particular issue as expressed in online conversations.

Strategy A comprehensive framework for expressing the manner in which a business plans to achieve its mission, what goals are needed to support it, and what plans and policies will be needed to accomplish these goals.

Strategy assessment The continuous performance monitoring, comparison of actual to desired performance, and evaluation of the progress toward the organization's goals, resulting in corrective actions and, if necessary, in strategy reformulation.

Strategy formulation The development of specific strategies and tactics to exploit opportunities and manage threats in the business environment in light of corporate strengths and weaknesses.

Strategy implementation The "How do we do it?" phase that includes tactics, plans, schedules, deployment strategies, resource allocation, and project management.

Strategy initiation The initial phase of strategic planning in which the organization is setting its vision, goals and objectives. Looking at its environment, strategy initiation includes an assessment of a company's strengths and weaknesses, examining the external factors that may affect the business.

Web analytics "The measurement, collection, analysis, and reporting of Internet data for the purposes of understanding and optimizing Web usage." (per Web Analytics Association)

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