

Electronic Commerce and the Value Proposition

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ABSTRACT

The focus of this paper is to provide an analysis on how to create and develop a successful strategy to increase value in electronic commerce.

Analyzed through:

- 1. The research in the different segments of electronic commerce, specifically products and services to fulfill consumer needs.*
- 2. The identification of best practices from existing e-commerce brands including Amazon.com, Southwest Airlines, Sears, etc.*
- 3. The evaluation and understanding of key concepts: Electronic Commerce Market, The Internet, The World Wide Web, Branding, Advertising, Value Propositions, Strategy, Consumers, Competitive Intelligence, Benchmarking, and Customer Value.*

INTRODUCTION

Advances in technology provide important effects on marketing. Technologic improvements create value through the development of new products and the ability to evaluate quality, service, and relationships between business and consumers.

Today, the combinations of the technology have resulted in electronic commerce becoming an industry of more than \$90 billion dollars last year within USA. (Business Journal, 2009) Interactive electronic technology has made possible the implementation of electronic marketing channels that utilize the internet to make goods and services available for consumption by consumers or business buyers. The electronic marketing channels and the effective use of a well-designed marketing strategy have given e-commerce businesses the opportunity to create an excellent value proposition. Becoming an electronic commerce leader through value proposition is the number one goal and key of business success for many American companies.

"Understand what we mean by best value. It isn't always the lowest price. It's the best combination of price, quality, features, service, training, and that confident feeling you have when you're getting a great deal." (Johnson, Weinstein. 2004, pg. 117)

ADDING VALUE

The most widely visible application of electronic commerce exists in business-to-consumer interactive marketing, involving the Internet, the World Wide Web, and commercial online services. "The Internet is an integrated global network of computers that gives users access to information and documents." (Kerin, Berkowitz, Hartley, Rudelius. 2003, pg. 86) The World Wide Web supports a retrieval system and formats information and documents into web pages. (Kerin et al., 2003, pg.89)

Advances in electronic commerce have opened new avenues for reaching buyers and creating customer value. Electronic commerce value is defined as the unique combination of benefits received by the buyer that includes quality, price, convenience, on-time delivery, and both before-sale and after-sale service. (Kerin et al., 2003, pg.189)

Companies that have designed and implemented a value proposition as their core of doing business have achieved competitive advantage within the market place. *"HOFFMAN ESTATES, HI., Dec. 8 /PRNewswire-First Call/Sears Holdings continues its strong leadership in the multichannel retailer space. Today, Sears Holdings announced it was ranked third in overall Web traffic for a multichannel store retailer for the week ending Nov. 28, 2009*, which included Black Friday. Web traffic numbers show that shoppers have been getting their electronics, toys, jewelry, holiday decorations and clothing through the great value, choices and convenience ofSears.com, Kmart.com, LandsEnd.com and TheGreatIndoors.com this holiday season. Holding the number one spot of electronic retail business continues to be Amazon.com ". (PR News, Dec 1, 2009)* The value proposition is the company's promise to the consumer. Jeff Bezos ofAmazon.com states, "If you do build a great experience, customers tell each other about that. Word of mouth is very powerful".

THE VALUE PROPOSITION AS STRATEGY

The definition of value proposition is an offer to a customer that includes elements in terms of target customers, the benefits offered to those customers and the price. Price has a relationship to the competition. Branding advocates believe that the value proposition includes more than product features, price, and benefit. Combining of a total customer experience when selecting, purchasing, and using, the product is the measurement of an effective and well-defined value proposition. The branding customer experience or value proposition as referred by Kerin, et.al (2004) centers around the profound understanding of the customer's experience. The understanding of customer's buying behaviors and loyalty determines the components of a successful value proposition.

On-line value proposition must include distinct elements:

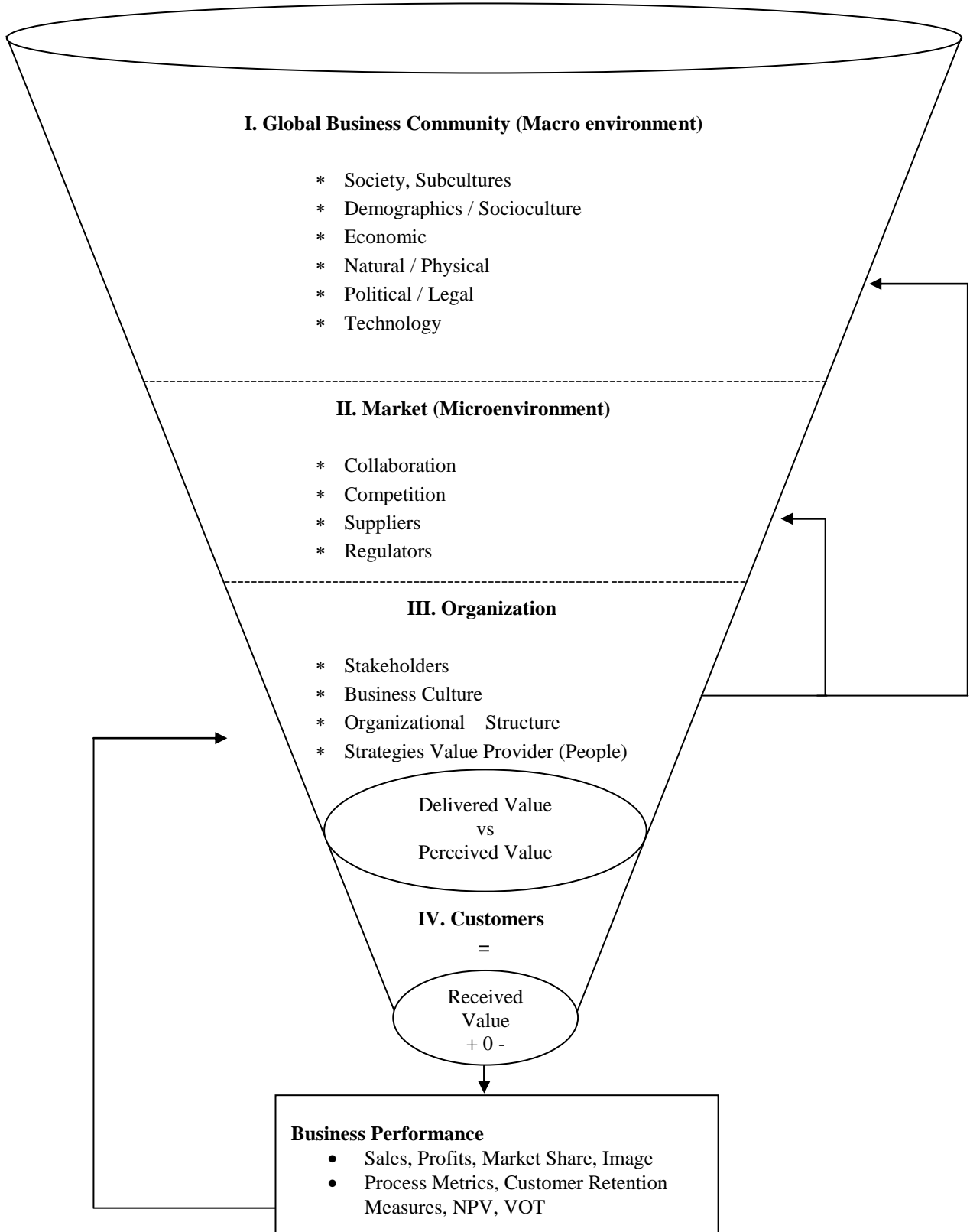
- Specifically developed for a different target customer segments.
- The value proposition should not be limited to the customer experience on-site but is involved in a linkage to other channels as part of a multi-channel buying process
- The product or service offered is based on what factors impact purchase and loyalty behaviors and redefined based on the actual experience of the on-line value proposition by customers
- The value proposition is clear, concise, credible, and consistent over time Some examples of highly recognized and well designed value propositions: (Johnson,etal. 2004, Pg. 119)

COMPANY

VALUE PROPOSITION

| | |
|---------------------|---|
| Fed Ex | When it absolutely, positively has to get there overnight |
| IMB | Global Solutions for a small planet |
| Intel | Intel inside |
| Lexus | Passionate pursuit of perfection |
| Motorola University | Right knowledge, right now |
| Nordstrom | Shopping humanized |
| Publix Supermarkets | Where shopping is a pleasure |
| Visa | It's everywhere you want to be |

Table 1: Model of Customer Value Funnel {Johnson, William C. and Weinstein, Art. (2004)}



Creating an electronic value proposition will not recognize the business unless it is memorable. To become memorable a value proposition requires the articulation of the core elements (service, quality, image, and price). The more memorable the message of a value proposition, the more likely the success. *"According to Amit and Zott, e-business has four sources of value creation: efficiency, complementariness, lock-in, and novelty."* (Johnson, et.al. 2004, Pg. 120) Today, the S-Q-I-P (service, quality, image, and price) approach has been widely used as common practice by most of the electronic commerce entering the industry. It has been determined that the effective use of the elements, service, quality, image, and price within a value proposition, and when aligned with the strategic business decision it results in measurable success.

Amazon.com How to Make it Work Earth's most customer-centric company

On 1995, Jeffrey Bezos, founded Amazon.com, since day one Amazon.com, management and employees are consistent with the execution of the company's value proposition. Amazon's value proposition centers on service and selection. Delivering a first-class customer experience depends upon a focused approach with each transaction. Focused service includes a "value-chain" process from the customer contact to the shipping systems used. Amazon's executives spend millions of dollars each year on improvement of the web site and the value proposition strategy. *"Amazon's web site is rich and resourceful"* (Johnson, et.al. 2004. Pg. 165). The company web site includes a design and graphics specific directed towards a customer value strategy. Amazon's web site includes the most recent internet browser providers within its platform, such that the site uploads quickly and is user friendly.

Amazon.com personalization, multiple electronic order confirmations, and its one-click ordering technology are features valued by its worldwide customers. (Johnson, et. al. 2004, Pg 265) The following are some of the lessons learned:

Customer Service as the Only Focus

Amazon CEO Jeff Bezos has said on numerous occasions he wants to run "the most customer-centric company in the world." Note that they did not say biggest online retailer or immensely profitable company. Those just happen to be the benefits of putting your customers at the forefront. In addition, that is not just about having a sharp call center. As Mr. Bezos told BusinessWeek (Business Week, 2009) when it made Amazon's tops on its list of best customer-service companies, "Customer experience includes having the lowest price, having the fastest delivery, having it reliable enough so that you don't need to contact anyone. Then you save customer service for those truly unusual situations.

Building a Brand

Despite its universal awareness among consumers, Amazon has a miniscule ad budget. Rather than try to buy love, it earns through the aforementioned customer-centric approach and the word-of-mouth it engenders. The brand was developed through smart initiatives. Such as its Frustration-Free Packaging, designed as an alternative to those awful plastic clamshells. While it does seem that, at some point, Amazon will have to find a way to market the Kindle somewhere other than its website, the e-reader, now the company's top-selling product, is doing just fine without much media weight behind it. (Business week, 2009)

Utilize Your Customers as a Resource

Community is not just a way to tap into consumer desires. It also provides a competitive advantage. By amassing one of the world's largest collections of consumer opinions, the site has become a leading source of product reviews. In addition, those reviews are a valuable magnet that lures more consumers to its Web site. "You increasingly look at Amazon for reviews," says Sebastian Thomas, head of U.S. Technology Research at RCM Capital Management, an investment firm with a stake in the company. "It will be hard for someone else to build that scale." Retail experts say one of the most profound changes in consumer behavior over the past few years is the emergence of such information-based shoppers.

Staying true to the company's values that aligned their business strategy: (Amazon.com, 2009, Divestment Relations)

- *Customer Obsession: We start with the customer and work backwards.*
- *Innovation: If you don't listen to your customers you will fail. But if you only listen to your customers you will also fail.*
- *Bias for Action: We live in a time of unheralded revolution and insurmountable Opportunity—provided we make every minute count.*
- *Ownership: Ownership matters when you're building a great company. Owners think long-term, plead passionately for their projects and ideas, and are empowered to respectfully challenge decisions.*
- *High Hiring Bar: When making a hiring decision we ask ourselves: "Will I admire this person? Will I learn from this person? Is this person a superstar?"*
- *Frugality: We spend money on things that really matter and believe that frugality breeds resourcefulness, self-sufficiency, and invention!*

EFFECTIVE VALUE PROPOSITION PRACTICES

Start with core competencies. Evaluating what are you good doing. A value proposition has to be what you *do* and who you *are*. It cannot just be what you *want* to be and what you *say* you are.

Study your customers. Who are your top customers? What problems do you solve for them? What problems do they want solved? Is there a new trend in any of your key customer segments?

Turn core competencies into values. Ask yourself why someone should buy from you instead of a competitor. Using the language of your customers, refine your core competencies as values. If your answer is "best selection", "best customer service" or "fast shipping" your potential success may be limited. These qualities do not make a business unique.

Study the competition. Choose 3 or 4 competitors and study how they market their company and products. What is their value proposition? Can they defend it? Map their core competencies versus yours. Competitive intelligence is used to gather, analyze and distribute information on what the market demands, how your competitors are meeting these demands, and how each company strives to meet the market needs better than the competition. The intelligence is different in that, it allows a manager to have information, which becomes the knowledge a company needs for insight. Competitive intelligence helps reduce the risk of making a wrong business decision. It is almost impossible for a business to succeed without competitive intelligence. The purpose of competitive intelligence is to make the best decisions based on the availability of the knowledge regarding the particular subject.

Competitive intelligence may not predict the future of the business, but it can help make good decisions about the future and growth of the company.

Look at trends in your industry. Are things changing? Can you take advantage of a trend and grab an exciting position in the market?

Articulate or define the company vision. Product Leadership including unique products & services, state-of-the-art features, innovative solutions, customer - quality relationships with customers and offer "complete" solutions, operational excellence that consistently excel at attributes such as price, quality, delivery, selection, availability, etc.

Identify one core value. Sends a clear message to potential customers as to why they should buy from you and to employees as to what they should be doing. Choosing makes a statement as to what your structure, core competencies, business process, and culture will look like, and provides the customer profile upon which you can build a well-constructed business strategy!

Build a value chain. Determine whether you can support your top value across every part of the company. Use product design and channels for delivery as your process for support. Make sure to identify areas in your company where you are weak, to prevent a break in your value chain.

Articulate the value proposition. Refine your value proposition until you can articulate it in one sentence. You should be able to communicate who your customers are, what you provide to them and why they buy from you. You should develop a value proposition statement that everyone in marketing will use as the starting point for developing positioning or messaging for products or services.

Test the Value Proposition. Test the final value proposition with customers to see whether it resonates. As you go through this process, continually ask yourself these questions: Are you and your executives being honest, or are you using wishful thinking when you list your core values? Can you defend your value proposition? What are the proof points? Can you quantify the value to your customers? Are you benchmarking? Benchmarking is best used and described as a framework for strategic planning in that, once the fundamentals of study are identified, metrics can be applied to the key success factors of the industry or marketplace and these measures or benchmarks, are then used to develop future quality and market initiatives for the company to enhance its overall competitive position. Benchmarking is the process of comparing cost, cycle time, productivity, or quality of a specific process or method to another that is widely considered an industry standard or best option. Essentially, benchmarking provides a snapshot of the performance of your business and helps you understand where you are in relation to a particular standard. The result is often a business case for making changes in order to make improvements. Benchmarking measures performance using a specific indicator, the result is a metric of performance in comparison to other companies.

Having a clear online value proposition has several benefits: it helps distinguish an e-commerce site from its competitors (this should be a web site design objective); it helps provide a focus to marketing efforts and enables company staff to be clear about the purpose of the site. Additional benefits include the value proposition be utilized for PR and word-of-mouth recommendations about the company. For example, the value proposition of Amazon on its site is that prices are 40 per cent lower than suggested retail and that a wide range of three million titles is available. Both of these directly link to the value propositions of a company or its product.

CONCLUSIONS

A well-defined value proposition is a strategic business tool that includes but it is not limited to product mix, pricing, and marketing. A value proposition execution allows the business to reach a competitive advantage through offerings, people, process, and technology. Value Propositions are a corporate commitment to pursue a specific strategic direction. Flawless execution of a company's value proposition generates outstanding success. Today, companies that stand out and are highly recognized have acquired a distinct and unique position within the marketplace as result of a well-designed value proposition. Service, quality, image, and value-based pricing are the core elements of an effective value proposition. The study of Amazon.com and top leading electronic retailers established the foundation for additional research of Defining Value in Electronic Commerce. The best practices included within this study would provide effective direction to any business looking to expand into electronic commerce.

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