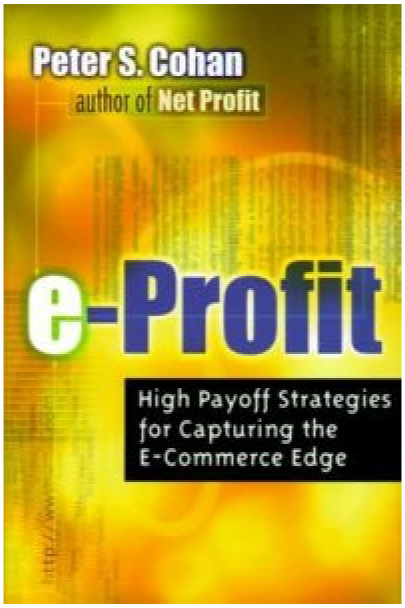

Book e-Profit

High Payoff Strategies for Capturing the E-Commerce Edge

Peter Cohan
AMACOM, 2000

Recommendation

David Cohan’s book is too useful to read in linear progression. Each chapter is a self-contained unit composed of an e-commerce problem, a case study analyzing how one company attempted to solve the problem, and a series of principles for effective problem solving. The book presents all aspects of e-commerce in useful detail, from motivating the reluctant CEO to managing the implementation of an e-commerce project. This book is for senior executives and change leaders, but it is useful to anyone who wants to learn more about the process of designing, developing, and implementing an e-commerce project. Project managers and consultants also will find the book useful because it presents the e-commerce buyer’s perspective in straightforward detail. *BooksInShort* recommends this book to senior executives, change agents, business managers and students.

Take-Aways

- E-commerce requires new methods of project analysis.
- E-commerce financial analysis requires a more flexible view of intangible assets.
- You can evaluate the intangible assets of an e-commerce application using strategic balance-sheet analysis.
- Management’s active involvement is the key to a high-payoff e-commerce application.
- The competitive advantage in Internet retailing is the customers’ experience.
- CEO engagement is necessary for a successful e-commerce application.
- The personality and values of a company determine how the company will react to the challenge of the Internet.
- Companies with change-avoidance personalities are dragged into e-commerce; companies with reinventor personalities lead the charge.
- If you want to inhibit an e-commerce application project, assign the company’s outcasts to the project.
- If you want to sustain change in business, you must win the war for talent.

Summary

E-commerce: Key Concepts

Senior executives often are pressed to make "go or no-go" e-commerce decisions, whether they are ready to make such decisions or not. Five key concepts can help: 1) Strategic balance-sheet analysis, 2) Competitive opportunity and threat analysis, 3) E-commerce risk evaluation, 4) Enterprise value assessment, and 5) E-commerce portfolio analysis.

> "On the Internet, no advantage is sustainable."

Strategic balance-sheet analysis pinpoints which intangible assets have the best potential to increase a company's shareholder value. In this three-step analysis, first a company must identify its intangible assets. Second, it must associate e-commerce applications with those assets. Third, it should estimate how much e-commerce applications will add to its profits. E-commerce applications can make four kinds of intangible assets more valuable:

1. Customer relationships - Web selling means more revenues and better order fulfillment.
2. Customer information - Personalization can increase revenues per customer.
3. Supply purchasing volume - Electronic procurement allows volume discounts and more efficient administration.
4. Technical service information - Web self-service lowers technical service costs.

> "The strategic decision to move ahead with online selling creates the need for a way to generate financial analysis that quantifies e-commerce's incremental benefits and risks."

Competitive opportunity and threat analysis identifies strategic options that encourage valuable competitive opportunities and address competitive threats. The analysis considers how a new or incumbent competitor can use the Internet to grow, to create a competitive advantage, and to satisfy an unmet customer need. You can depict this analysis as a triangle of unmet customer needs, sources of incumbent vulnerability and the Internet's impact.

> "Ultimately, the winner of the battle between amazon.com and bn.com will be the one who understands that the customer experience on the Internet matters the most."

E-commerce risk analysis evaluates the three risks closely associated with e-commerce applications: fraud, security and control. Web authentication technology addresses fraud. Policy-based security management addresses Web security. Embedding business rules in your electronic procurement systems addresses the problem of control.

> "The best way to sustain change is to create a culture that rewards change."

Enterprise value assessment measures those factors that increase value but fall outside traditional financial evaluations. These include the extent to which an e-commerce project enhances the company's profit by lowering costs and/or increasing revenue, and the extent to which an e-commerce application increases the company's price/earnings ratio.

> "Even if the magnitude of e-commerce is grossly overestimated, there is no question that e-commerce is an important business phenomenon."

E-commerce portfolio analysis creates a decision-making framework based on four evaluations: competitive shielding, or preserving market share, minimizing risk, adding customer value, and adding stock value. Competitive shielding evaluates ways the application will protect the company from losing market share. Minimizing risk refers to limiting risk from fraud, security or control problems. Added customer value measures ways the e-commerce solution addresses an unmet customer need. Added shareholder value asks if the application enhances the stock price.

Nine Keys to E-Success

Case-study research of the most successful e-commerce applications, including Cisco System's Cisco Connection Online (CCO), reveals the principles and pitfalls of launching e-commerce applications. Cisco's CCO exhibits all nine of the principles that characterize successful e-commerce applications. The key thread throughout these principles is that management behavior, not technical skill, is the most important driver. Management should follow these nine principles to create a high-payoff application:

1. Create an environment that encourages frugal experimentation at all levels.
2. Make enhanced customer satisfaction the first priority.
3. Encourage an effective working partnership between IT and the business units.
4. Think in non-traditional ways to conceive effective e-commerce applications.
5. Recognize that e-commerce experiments require less rigorous up-front financial analysis.
6. Adopt a pioneering spirit in your e-commerce efforts.
7. Effective e-commerce applications come from understanding significant sources of organizational and customer pain.
8. Before e-commerce goes live, integrate and test front-end and back-end systems.
9. Market e-commerce applications aggressively to reach critical mass.

> "Once a company has established initial customer relationships, the Web is an efficient way to sell additional products to existing customers."

Conversely, to avoid low-payoff e-commerce applications, management must avoid deploying untested e-commerce technologies, avoid investing in e-commerce initiatives where the vision for the technology is clearer than the economic benefit to participants, and avoid skimping on communication, training and compensation.

Measuring the Intangibles

The same case studies fuel the call for a new method of conducting financial evaluation for e-commerce projects. Companies such as IBM and Healtheon/WebMD established successful financial measurement to evaluate e-commerce projects and intangible Internet assets. IBM's internal human resources e-engineering practices are achieving improved performance.

> "It is too early to tell whether e-commerce produces sustainable competitive advantages."

Healthon/WebMD showed that intangible assets are valuable on the Internet if the company goes after the big market, leads the market and develops strategic partnerships. A seven-step approach to e-commerce financial evaluation can help executives conduct a rigorous financial analysis of potential e-commerce projects. The steps call for diagramming the business process, measuring its time and cost, mapping out an e-engineered process, measuring its time and cost, planning the e-engineering, calculating its cost and preparing an integrated cash flow analysis.

> "The short answer to the question about how to get senior executives enthusiastic about e-commerce is that 'it depends.'"

Internet competition has its own rules, including:

- The Internet is the grain of sand, not the pearl.
- Competitive advantage in e-commerce begins with understanding the customer.
- Use the Internet to employ the forces that drive profit in your industry.
- Incumbents enjoy certain advantages in e-commerce.
- Incumbents must also overcome certain disadvantages.
- The Internet upstart must exploit its advantages and compensate for its disadvantages.
- On the Internet, no advantage is sustainable.

Grooming the E-CEO

The first task in managing the transition to e-commerce is getting senior management online. In general, senior managers are more optimistic about the long-term prospects of the Internet and more cautious in the short run. CEO attitudes toward e-commerce are driven by two questions: "How much can e-commerce potentially change the structure of the industry or the company's relative position?" and "How comfortable is the CEO with the Internet?" Follow these steps to keep a CEO engaged and to determine an e-commerce strategy:

- Identify an Internet-only competitor that is growing rapidly in the company's market.
- Study the most dangerous Internet-only competitor's management and strategy.
- Set up teams to war game the company's competition with that competitor.
- Create a new e-strategy for the company based on the insights from war gaming.

Choosing the Right Apps

The next task in managing the transition to e-commerce is evaluating potential applications. The company must understand its corporate values towards adaptation. Companies are either change avoiders or self-reinventors. Change avoiders tend to screen out e-commerce options, entering only when dragged into it. Reinventors are open to e-commerce options, entering early in the game because they believe the survival of the company depends upon it. Taking these differences into account, use these six principles to evaluate e-commerce applications.

1. Senior management must evaluate the firm's e-commerce strategy.
2. Evaluation demands an explicit statement of what matters most to the organization.
3. Strategy demands creative thinking tailored to the firm's specific objectives.
4. E-commerce options must be evaluated in the context of customer value creation.
5. Understand these options in the context of current and potential competitors.
6. The number and sequencing of e-commerce options must match the company's values.

Making the Transition

Leading and sustaining change are the next two tasks in managing the transition to e-commerce. The way change is led depends on whether the source of the e-commerce initiative is internal experimentation or an external threat, and on the extent to which the strategy alters the company's business model. These questions give birth to four kinds of change: incremental, imitative, reactive and controlled. You can apply these managerial principles to sustain or to inhibit change. To sustain change:

- Develop new services and products in close conjunction with customers.
- Go outside for new technologies and products if the customer demands them.
- Win the war for talent.
- Tie employee compensation to customer satisfaction and shareholder value.

> "Despite the hype, the Internet does not change everything."

To inhibit change, just:

- Put the outcasts on change projects.
- Give change projects insufficient resources.
- Promote those who resist change and fire those who lead failed change initiatives.
- Delay change until the company starts to lose major customers.

Building the E-Infrastructure

Designing e-commerce architecture is the first step in building an e-commerce infrastructure. Executives face several build-or-buy decisions pertaining to back-office architecture, front office architecture, and experimental (storefront) architecture. Performance criteria for back-office architecture include cost-effectiveness, integratability, scalability, ease of end-use and supplier participation. Evaluate front-office architecture based on function, which is a more complex criterion because it requires the organization to set its own performance goals. Experimental architecture can often be obtained through outsourcing the entire e-commerce system. Six principles determine your e-commerce architecture. They are:

- Senior management must set the vision.
- Match the architecture to the extent to which the firm embraces e-commerce.
- Senior management must establish performance standards.

- Senior management must drive the company’s compliance with these standards.
- Companies must build e-commerce capacity to anticipate rapid demand growth.
- Companies must respond decisively to network interruptions.

> “Companies must rethink whether or not their entire human resources strategy is appropriate for winning the war for talent.”

The e-commerce transition then requires straightforward project management, including evaluating suppliers, negotiating deals and managing implementation.

About the Author

Peter S. Cohan is president of Peter S. Cohan & Associates, a management-consulting firm specializing in new business opportunities. He is also the author of *Net Profit: How to Invest and Compete in the Real World of Internet Business* and *The Technology Leaders.* He is a commentator for CNBC’s *Today’s Business* and *Squawk Box* and has appeared on CNNfn’s *Before Hours* and ZDTV’s *The Money Machine.*
