TAWFIK JELASSI
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FRANCISCO J. MARTÍNEZ-LÓPEZ

Third Edition
STRATEGIES FOR E-BUSINESS
Creating value through electronic and mobile commerce
CONCEPTS AND CASES

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Strategies for e-Business

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Strategies for e-Business

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Tawfik Jelassi

Albrecht Enders

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Foreword

The emergence of e-business

by F. Warren McFarlan

Harvard Business School, Boston, Massachusetts

We are over a quarter of the way into the second half of the Information Age revolution. Very little of what is now accepted management practice and application opportunity today was even conceived of some 15 years ago. The first half of the Information Age took place between 1955 and 1995. 1955 was the year when IBM built, in short order, its 701, 702 and 703 computers, while Univac launched its Univac I. Large, rather unreliable and with a vastly limited processing capacity in terms of today's machines, those machines and their clumsy (by today's standards) languages nonetheless provoked a revolution in back-office transaction processing, leading to sharp improvements in cost, quality and services. Insurance, banking, airline reservations were where some of the most exciting IT applications took place in those early days, with the structures of those industries being profoundly impacted over a long period of time (over 15 years, for example, one insurance firm's premium notice department gradually withered from 150 people to one). Additionally, a heavy focus, of course, was on financial processes relating to accounting, payroll, etc., with overall IT responsibility being most often housed in the financial function. All of this was done mostly in the context of home-grown systems, where the prevailing model was to build and run. Large IT departments, filled with highly specialised technical skills, emerged to develop and operate these systems. They made intense efforts to learn how to plan their activities, better manage projects and assess and manage risk. This work evolved in a more or less linear way over two decades, creating the great legacy systems, many of which still run today. How to cope managerially with this world was captured by the first generation of IT literature, which was heavily executional in its focus.

In the late 1970s, a sharp shift in the technology cost performance allowed the emergence of the PC, with desktop computing soon becoming a standard part of corporate life. The technology rapidly spread across the desktops of the firm, causing great angst to the operators of large data centres, whose processes were severely challenged. Nevertheless, all through the 1980s much of the prevailing focus of a firm's IT activities still remained in the *build* and *run* category. Near the end of the decade, however, the first big outsourcing of IT resource deals emerged. This fact, combined with the explosion of the applications software industry (SAP, Oracle, etc.), caused the monopoly role of the in-house IT department to *build* and *deliver* systems to begin to disappear. It was increasingly replaced by the *source* and *manage* model. This resulted in a genuine revolution. Early adapters, Eastman-Kodak and General Dynamics, found fundamentally different, and more effective, corporate operating models.

Increasingly, over the next two decades, managers came to focus on how IT could deliver a competitive advantage and they worried less about the mechanics of how to build and operate systems, but turned that over to the burgeoning software and service industry

(represented by companies such as IBM, Accenture, CSC and EDS, plus a host of smaller ones.) Conventional wisdom about how to manage IT and its impact was severely challenged, creating a new literature. For the first time, IT as a competitive weapon began to be extensively talked about.

The thunder clouds of even more dramatic changes, however, were to emerge. Tom Friedman, in his remarkable book *The World is Flat* (Farrar, Straus& Giroux, 2005), identified three dominant events that have shaped this new world. From the 1990s until today, the first was the fall of the Berlin Wall in 1989, which, combined with the emergence of China, effectively delivered more than 3 billion people into the world markets (this topic is not dealt with in this text), creating new sources of supply and demand for all forms of products and services, and turning the IT world inside out.

The second event was the stream of activities that were triggered by the Netscape IPO in October 1995. This is widely seen as the beginning of the Internet I Era, the emergence of e-business, and the concurrent propulsion of the world towards open systems and widely accessible data. The third event was the massive overinvestment by telecommunications companies in fibre networks, which collectively created the wide, almost zero-cost highways for today's digital economy. Tom notes that these trends led to the words insourcing, outsourcing and offshoring, supply chaining and informing, which fundamentally transformed the operation and performance of global enterprises. This text wisely ignores the issues of where work is done globally (a separate book by itself), and chooses instead to focus on the other aspects of this revolution – namely, on how the core processes and products of a firm are shaped by these new opportunities in a world of essentially free telecommunication and Internet-enabled interconnections. In doing this, they bring enormous insight to the task. The text is a tour de force:

1 First, the text is grounded in a deep sense of history. It richly catches the forces that led to the emergence of the e-business world and to its tremendous growth, which ultimately led to the Bubble. They effectively document the Bubble's collapse, the underlying reason for it, and identify the exciting opportunities beyond. As one reads about the brief existence of Webvan, for example, nostalgic memories surge of an exciting, yet fundamentally flawed vision. The text captures brilliantly both the opportunities and the drivers towards excess of the early days. It provides useful warnings for today.

2 Secondly, the text has deep and informed command of the relevant literatures as they relate to company and industry competitive strategy and dynamics (Porter et al.). The discussion of the opportunities and risks of new technologies are firmly rooted in value chain and other contemporary forms of strategic analysis. It is worth noting that there is not a strategic framework the authors use that existed before 1982. They avail themselves of the latest insights in this area. In short, the text combines the latest of strategic thinking with the opportunities posed by the new technologies.

3 The text is built on informed understanding of detailed management practice. A particular strength is the assembly of a rich collection of articles from the *Financial Times*, which illustrate the key moves made by different players during this period and, in so doing, give useful insight on the breadth of applications. Those articles ensure that the book is as well rooted in management practice as theory, and make the text as relevant to the manager as to the MBA student.

4 The text demonstrates a broad command of the general IT literature (summarised in the Appendix, now on the Companion Website, along with an appropriate set of technical

definitions for those new to this area). This link between strategy, theory, IT application literatures and the world of practice makes this a very unusual and impactful text.

5 The text reaches from the past to the absolute current leading edge of practice and application. For example, the chapter on Internet II is as good a piece as I have seen on this rapidly emerging technology.

6 Behind the articles for those readers who are interested in more 'depth of applications' lie a series of intensively researched and comprehensive IT application case studies. Some 23 detailed, leading-edge, field-based case studies from different industries and countries are presented for those who need deeper insight in the issues of contemporary management practice. Combined with the chapters, these cases make this a compelling text for MBAs.

This, however, is much more than just a text for an MBA course, although it has all the material for a first-rate course. It is also a text for the thoughtful practitioner who is trying to position his/her organisation to take advantage of these fast-moving technologies. The text gives a detailed structure and guidance for how to find profitable business opportunities. It contains a panoply of practical, easy-to-understand examples of applications. It also spends an appropriate amount of time on the problems of implementation.

In short, the text is rich, high impact and very well thought-out.

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Preface

People tend to over-estimate new technology in the short run and under-estimate it in the long run.   (**Roy Amara**, Institute for the Future)

Context and positioning of the text

When we talked to colleagues and friends in autumn 2003 about writing the first edition of our e-business book, many of them asked whether we were arriving too late with the text. They reminded us that the Internet bubble had burst three years ago and that most online companies had since gone bankrupt. Since then, the thinking has changed. Both traditional bricks-and-mortar corporations such as Tesco, Sony BMG or Mercedes-Benz and pure on-line companies such as Amazon, Google or eBay have continued to develop and implement e-business strategies, albeit initially with less public attention and media coverage than before. Due to the recent rapid growth of so-called Web 2.0 applications, online companies such as Facebook and Twitter once again dominate the headlines of the business press.

Similar to other important technological revolutions, such as railways or steam engines, the Internet has also undergone a typical cycle of boom and bust. Following a bust, technological revolutions rebound, and it is only then – during the 'golden age' – that they show their true impact. At the time of writing this third edition of the text, it looks as if e-business has entered this golden age.

During our research for this text, we found very few books published after the collapse of the dotcom bubble that specifically address e-business strategy issues. We also noticed that there were many excellent books on strategy and many books on e-business, yet there were relatively few books that attempted to bring the two fields together in a comprehensive and rigorous manner.

This text, as its title suggests, attempts to close this gap. It aims at providing readers with a holistic and integrated view of the realms of strategy and e-business by focusing on strategic management concepts and linking them to actual case studies of companies engaged in e-business activities. It also aims at going beyond the hype by closely analysing examples of failure as well as success, in order to help readers assess the underlying drivers for a successful e-business strategy.

Target readers

Strategies for e-Business is a text targeted at senior managers, business strategists, entrepreneurs and consultants, as well as participants enrolled in MBA, Masters and executive education programmes and students in the final year of their undergraduate education. It should be of interest to general management programmes and seminars, as well as to those

specialising in e-business, electronic commerce, technology management, marketing, entrepreneurship, innovation management and business strategy.

Key features

The key differentiating features of this text include the following:

- *A comprehensive e-business strategy framework*. This framework serves as a comprehensive basis for e-business strategy formulation. It is based on rigorous and time-proven concepts from the field of strategic management, which were adapted to the specific context of e-business.
- *An e-business roadmap*. Chapter 13 of the text contains an e-business roadmap that is meant as a guide to help in the formulation and implementation process of an e-business strategy. It provides an overview of the key issues involved in this process. At the same time, extensive cross-references to the more detailed e-business strategy framework allow the reader to obtain more in-depth information when needed.
- *A detailed study approach for e-business strategy*. Creativity and analytical ability are of fundamental importance in the strategy formulation process. Chapter 14 of this text discusses how to improve these qualities through the use of concepts and case studies.
- *In-depth case studies*. The text contains 23 real-world case studies, which provide in-depth accounts of how companies in several industries (ranging from finance and insurance to manufacturing to telecommunications and media) and different countries (in Europe, North America, Africa and Asia) have developed and implemented e-business, electronic commerce or mobile e-commerce strategies. All the case studies result from first-hand field-based research, which the case authors have personally conducted in cooperation with executives and top-level managers of the companies involved.
- *Geographic focus on developed and emerging markets*. While most of the existing e-business casebooks focus on companies that are based in the USA, this text focuses on companies in developed markets operating in Europe and the USA as well as emerging markets in Africa and Asia. In addition to the USA, developed countries covered by the case studies contained in this text include Canada, Estonia, Germany, Finland, Italy, Norway, Spain, Sweden and the UK. With regard to emerging markets, the case studies cover India, Kenya, Tanzania and Tunisia. In addition to the technological aspects discussed in the case studies, the wide variety of countries that are involved helps to provide insights into the specific business environment and national culture that characterise the different countries covered.

Structure and content

Content-wise, Part 1 presents the broader context of the text. It introduces the key terminology and evolution of e-business and provides an historic overview of the distinct phases that technological revolutions typically go through before reaching their full potential.

Part 2 suggests a strategy framework for the formulation of e-business strategies. Chapter 3 discusses the external environment of e-business ventures. This includes an analysis

of the macro-environment and the industry structure. Chapter 4 focuses on the internal dimension of e-business strategy formulation. Chapter 5 is concerned with generic strategy options, which determine the overall strategic direction of an e-business venture. The issue of sustaining a competitive advantage over time and the dangers that threaten to erode such an advantage are discussed in Chapter 6. Chapter 7 provides a systematic approach for developing innovations that aim to make the competition irrelevant. Chapter 8 presents the value-process framework, which integrates different perspectives of strategy into a holistic model. Chapters 9 to 11 address three strategic issues that are of special relevance for e-business companies. These include the internal organisation of an e-business venture (Chapter 9), its relations with suppliers (Chapter 10) and its relations with customers/ users (Chapter 11). Chapter 12 presents conceptual frameworks that are specific to mobile e-commerce applications.

Part 3 provides a roadmap for the formulation of an e-business strategy. Through the use of cross-references, this roadmap (presented in Chapter 13) is closely linked to the e- business strategy framework presented in Part 2.

Part 4 first provides an introduction to case study work by discussing how the concepts and cases presented in the text can help managers and students interested in e-business strategies to expand their skills along the dimensions of creativity and analytical ability (Chapter 14). Following this, a brief synopsis section provides an overview of the key topics in the cases, which is then followed by the full-length case studies.

Getting the most from *Strategies in e-Business*

In order to benefit most from this text, we recommend that you try to achieve the following when working through the chapters:

- Thoroughly understand the theoretical concepts presented in the e-business strategy framework.
- Critically assess the strengths and weaknesses of each concept and determine the context for its appropriate use.
- Apply the concepts when analysing the case studies and make action-orientated recommendations backed up by logical reasoning and supporting arguments.
- Expand the usage of the concepts and the frameworks into other business situations that you encounter in your daily work or study.

To make your learning experience more effective and enriching, the text contains the following features:

- *Chapter at a glance* at the beginning of each chapter provides a quick overview of the most important topics discussed in the chapter.
- *Related case studies* are included at the beginning of each chapter to illustrate which cases are most relevant for the topics discussed. For more information on this, Exhibit P.1 on p. xxxi illustrates the relationships between the case studies and specific chapters and sections of the text.
- *Learning outcomes* offer a brief description of what you should have achieved after reading the chapter.

- Different types of boxes are contained in the text body of each chapter to provide added information about the concepts that are discussed:
  - *FT articles* are taken from the *Financial Times* to provide a journalistic perspective (within the timeframe context) of the issue discussed in the section.
  - *Critical perspectives* present a different, if not opposing, view to the position taken in the main text of the chapter. For instance, the resource-based view is presented as a critical perspective on Porter's market-based view to strategy formulation. Weighing the merits of each view is a valuable exercise for gaining a more in-depth understanding of the concept that is presented.
  - *Blog boxes* contain excerpts from blog writers, who provide their opinions on current developments in the e-business world. These excerpts provide an additional and at times different perspective to the concepts discussed in the chapters.
  - *Strategy in action* boxes are examples that provide additional background to the concepts discussed in the chapters.
- *Summaries* at the end of each chapter allow you to review the most important points that were discussed in the chapter.
- *Review questions* help you assess your understanding of the material presented in the chapter. In general, the answers to these questions are straightforward since they are based on the material presented in the chapter.
- *Discussion questions* help you to transfer the concepts from the chapter into different business contexts. They are also meant as a starting point for discussion with your colleagues and peers.
- Recommended key reading provides a select list of additional books and articles that you can read if you wish to find out more about a specific topic.
- Useful third-party weblinks provide additional information on some material contained in the chapter.

Exhibit P.1 The cases cover several industries and focus on different themes

Case study type		Case study name	Chapter										
			3	4	5	6	7	8	9	10	11	12	13
			External analysis	Internal analysis	Strategy options	Sustaining competitive advantage	New market spaces	Value process framework	Internal organisation	Relashionship with suppliers	Relashionship with users/ customers	e-Government	Implementation
B2C e-commerce	1	Tesco	●		●●●	●●	●		●●●				●●
	2	Nordea			●●●		●●		●●●				●
	3	Ducati vs. Harley		●●●		●●	●				●●		●●●
	4	American Well	●●	●			●●●	●●	●		●●		
B2B e-commerce	5	IBX				●	●●			●●●			●
	6	SATEC	●	●●●				●●●	●●	●			●
	7	Otis		●●●	●●	●●		●					●●
	8	TopCoder		●		●	●●●		●●		●●●		
	9	Appirio	●●	●			●●●		●				
	10	e-choupal	●●	●		●			●●	●●●		●●	
G2B2C e-government	11	e-Estonia	●						●●		●	●●●	
	12	ICT in Tunisia	●●			●	●	●				●●●	●
	13	Kundra@USgov	●	●●			●					●●●	●●
B2E e-communities	14	KM at Booz		●●					●●●		●●		●●
C2C e-communities	15	Spreadshirt				●●	●●●	●	●●	●●	●●●		●
	16	Brockhaus vs. Wikipedia	●●			●●	●●●		●●		●●		●
	17	Nettwerk	●				●●●	●●	●		●●●		
	18	Licia Chery	●		●●		●●	●			●●●		
m-commerce	19	Novartis SMS for Life	●●		●●	●		●	●●	●●●			
	20	NTT DoCoMo	●●				●●		●●				●
	21	M-PESA	●			●●	●●●	●●●	●●	●●			●●
	22	Tunisiana	●●	●	●●●	●●●							●
	23	12snap	●	●		●●●	●●		●●				●

●●● Primary focus of the case study ●● Secondary focus of the case study ● Tertiary focus of the case study

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Throughout the writing and publication process of this text, we have received valuable support and contributions from many people. Therefore, we would like to thank and express our gratitude to the following individuals:

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- The executives and managers of the companies featured in the case studies contained in the text.

Feedback

We are interested in hearing your comments about this text. We appreciate both critical and supportive feedback, which can help us to improve future editions of this text. You can reach us via email at: jelassi@enpcmbaparis.com, albrecht.enders@imd.ch and fjmlopez@ugr.es. In the spirit of the concepts and case studies presented in this text, we also encourage you to provide feedback on the Amazon.com websites so that others can find out about your opinion.

Tawfik Jelassi, Albrecht Enders and Francisco J. Martínez-López
July 2013

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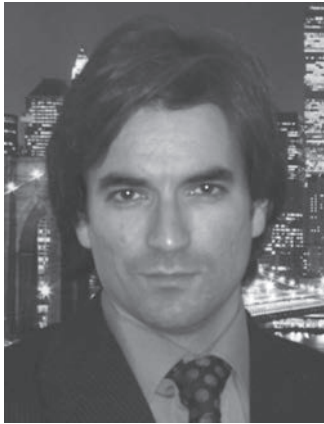
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Publisher's acknowledgements

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Figures

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Introduction

Part overview

This introductory part sets up the overall context for the text. It contains the following elements:

- A definition of the key terminology used throughout the text;
- An overview of the evolution of e-business over time.

The goal of this introductory part is to provide a guide and a context for the content of the text. Chapter 1 starts out with some definitions of the most important terms used in the text, such as e-business, electronic commerce and mobile e-commerce, and the concepts of strategy and value creation. It then provides an overview of the evolution of e-business over the last decade and recognises four distinct periods: (1) the 'grassroots of e-business', (2) the 'rise of the Internet', (3) the 'crash' (or the burst of the dotcom bubble) and (4) the 'synergy phase'.

Key terminology and evolution of e-business

Chapter at a glance

Learning outcomes

After completing this chapter, you should be able to:

- Understand what the terms 'e-business', 'electronic commerce' and 'mobile e-commerce' mean.
- Define the concept of strategy and recognise the different levels of strategy development.
- Describe the life cycle of technological revolutions and illustrate it through different examples.
- Recognise the four main periods of e-business evolution over the past decade and explain the peculiar characteristics of each period.

Introduction

The purpose of this chapter is to set the stage for the remainder of the text. Since, due to the relative novelty of e-business, there is not yet a clear and shared view of what this domain entails, we first want to ensure a common understanding of the key terminology used throughout the text. Section 1.1 includes the definition of e-business-related terms and concepts, as well as some strategy-specific perspectives. Following that, Section 1.2 provides a framework that describes the typical stages of technological revolutions and positions the evolution of electronic business during the past decade within this framework.

1.1 Key terminology

1.1.1 e-business

The term *e-business* is defined here as the use of electronic means to conduct an organisation's business internally and/or externally.[1] Internal e-business activities include the linking of an organisation's employees with each other through an intranet to improve information sharing, facilitate knowledge dissemination and support management reporting. e-Business activities also include supporting after-sales service activities and collaborating with business partners, e.g. conducting joint research, developing a new product and formulating a sales promotion.

In spite of the distinct terminology that is used, e-business should not be viewed in isolation from the remaining activities of a firm. Instead, an organisation should integrate online e-business activities with its offline business into a coherent whole. The *Financial Times* (FT) article 'It's too early for e-business to drop its "e"' provides a further discussion of the importance of the 'e' in e-business.

1.1.2 Electronic commerce

Electronic commerce, or *e-commerce*, is more specific than e-business and can be thought of as a subset of the latter (see Exhibit 1.1). Electronic commerce deals with the facilitation of transactions and selling of products and services online, i.e. via the Internet or any other telecommunications network. This involves the electronic trading of physical and digital goods – quite often encompassing all the trading steps, such as online marketing, online ordering, e-payment and, for digital goods, online distribution (i.e. for after-sales support activities). e-Commerce applications with external orientation are buy-side e-commerce activities with suppliers and sell-side activities with customers.

1.1.3 Mobile e-commerce

Mobile e-commerce, or *m-commerce*, is a subset of electronic commerce. While it refers to online activities similar to those mentioned in the electronic commerce category, the underlying technology is different since mobile commerce is limited to mobile telecommunication networks, which are accessed through wireless hand-held devices such as mobile phones, smart phones, hand-held computers and tablets.

Exhibit 1.1 Electronic business includes electronic commerce and mobile electronic commerce
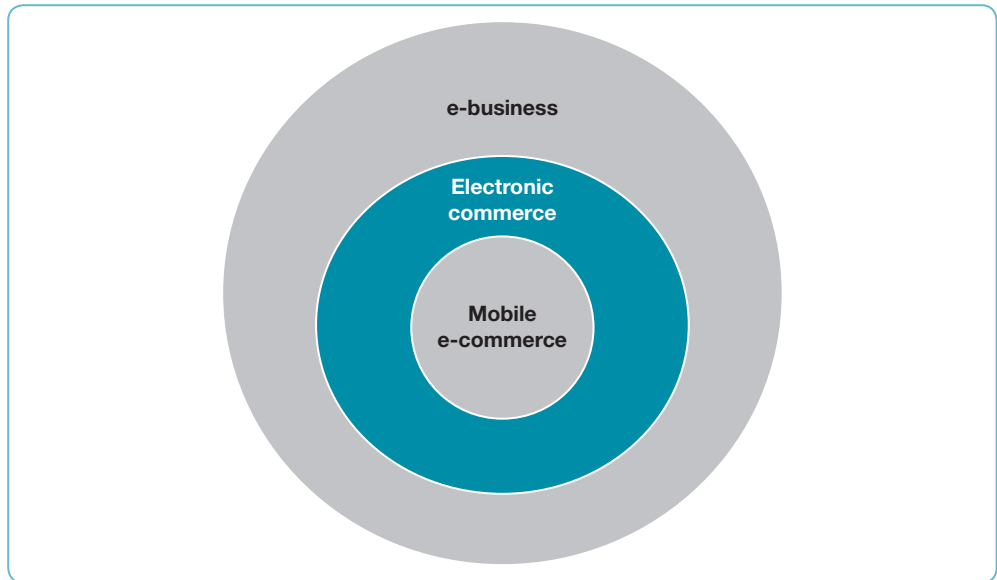
Source: Adapted from D. Chaffey, *E-Business and E-Commerce Management*, FT Prentice Hall, 2002, p. 9.

It's too early for e-business to drop its 'e'

Jargon is used to make the banal sound enthralling, the simple sophisticated. It is often used to disguise the fact that the speaker, or writer, does not know what he is talking about, or cannot be bothered to find a more precise word. In the past five years, one letter has come to symbolize the worst of jargon. The fifth letter in the Roman alphabet, it has been used in front of business, commerce, finance, procurement, learning, enablement, government. Almost any noun you can think of has probably been an e-noun. Companies have used 'e' liberally to give themselves a buzz on the stock market.

Now, 'e' is on its way out. Yet, despite everything I have said, this is bad news. The 'e' has been chased away by the dotcom crash, which transformed it from magic drug to kiss of stock market death. But, even before that, it was going out of fashion. One senior consultant told me in 2000 that the 'e' would be dropped by his organization within a year or two (it was). His argument – widely accepted – was that Internet-based business would become so pervasive that it would be pointless, indeed damaging, to talk about it as a separate discipline.

E-business would and should disappear into business. And so it should; but not yet. At the Richmond Events e-forum last October, several hundred senior managers from blue-chip companies gathered on a cruise ship to be assaulted by a mixture of cabernet sauvignon and hard sell from vendors of e-services of various sorts. There was a 'last days of Rome' feeling about it, as delegate after delegate let slip that he or she had either just left their e-job, or was about to.

What was particularly interesting was that people were revealing their 'real selves' beneath their e-titles: they were either information technology people, or they were something else. While a few could talk strategy and technology with equal fluency, most gave their backgrounds away. They were happy speaking about marketing and strategy, or about integration issues; not both. I have since received a letter from Richmond Events announcing the death of e-forum, saying that its functions would be rolled into either the IT directors or the