Developing an E-Business Strategy

Applying Lessons Learned

“You got to be careful if you don't know where you're going, because you might not get there.”

- Yogi Berra

May 24, 2001

Prepared by: Ron Raumer
Raumer & Associates
www.raumer.com
Agenda

- E-Business Strategy – The Beginnings
- The Realities
- The Evolution - Lessons Learned
- Further Readings
Early E-Business Strategy

• Transform established and emerging businesses into leaders of the New Economy

Old Economy → Our Services → New Economy

• Professional e-business services
  – Strategic services for breakthrough business models
  – Creative design for compelling online experiences
  – Rapid site development and deployment
  – Technical architects for mission critical operations
Early Expectations

Client
- New business models
- Time-to-market urgency (1st mover advantage)
- Compelling beyond cool
- A broader mix of talent
- A greater appreciation of brand
- Build it, but also bring them to it
- Put some “skin in the game”

Internet Consulting Investors
- Market rewards infrastructure over revenue.
- Market rewards revenue over profit.
- Build infrastructure.
New Business Models abounded: for example E-business Community

- **Vision:** People-centric solutions for the experience economy
- **Experience:** The community becomes a comprehensive environment for members to:
  - learn or teach
  - collaborate
  - examine or decide
  - process or transact
The Groundswell Approach

Source: Groundswell.net Web Site
Early E-Business Strategy Experiences

• Three Guys with Money:
  – High-end Travel Web Site
  – What is a backend system?

• We want it at Internet Speed:
  – No business plan
  – No time for an e-business strategy
  – Web sites were developed for vaguely defined and unsustainable businesses

• Clients with a “new idea” that wasn’t so new.
  – There were already a dozen sites just like it.

• Who’s the customer?:
  – Barely functional with no traffic
  – Who is the customer?

• What’s an e-business community?

• What is an e-business strategy and how do you develop one?
  – What’s an e-business strategy anyway? Deliverables, tasks?
  – Teams of business, technical and creative staff who had never worked together before:
  – Who’s in charge?
  – Who’s responsible for what?
  – What are the deliverables?
A few reasons for e-failures

- Rushed and incomplete business models
- Standalone e-business projects
- "Me too" strategies
- Inadequate business infrastructure, technology and staff

- "Webification" of old, inefficient or obsolete business processes
- Lack of integration with core legacy systems
- A value proposition with insufficient value
- Not consistent with the corporate brand
What happened to Internet consulting companies?
Lessons Learned
Lesson #1: The metric for measuring e-business success is now ROI.

- Eyeballs
- “Stickiness”
- Page Views
- Discounted Terminal Value

Develop site, build brand, attract eyeballs, find paying customers, then figure out the business and a strategy for getting profitable.
E-business Opportunity Filter – Prioritization Criteria

Contributes to the Business Direction
Aligns with the Business Strategy

Value
Benefits: both tangible and non-tangible
Less Cost

Risk
Meets Business Objective
Organizational Readiness
Information Technology
Deployment

Weighting
50%
40%
10%
100%
Lesson #2: Don’t mistake an e-business strategy for a business strategy.

- Business Strategy

  - Describes how a company is going to be different and achieve a competitive advantage in order to sustain value superior to the competition.

  - Identifies its’ strategic position. For example, as defined by Michael Porter’s six principles:
    - Right Goal – for example, superior long-term return on investment
    - Value Proposition – set of benefits different from those of competitors
    - Distinctive Value Chain – different activities or the same activities in different ways
    - Trade-offs – forgo some features, services or activities to be unique.
    - Fit – mutually reinforcing activities
    - Continuity – forgo certain opportunities to pursue this strategy

  - Not to be confused with implementing “best practices”
    - just continually improving and doing everything better is not a strategy.
Lesson #2: Don’t mistake an e-business strategy for a business strategy.

• E-business Strategy:

  – Lays out how a company will use Internet technologies to do business:
    » Opportunities and Initiatives
    » Internet Technology Architecture
    » Internet Organizational Alignment: Structure, Style, Staffing, Skills and Processes.

  – Aligns with the business strategy
    » E-business technology and the Internet enables and mutually reinforces other activities of the company that make the company distinct
    » Generally, e-business technology does not provide the competitive advantage itself.
Market-leading organizations excel by focusing on delivering one kind of value to their customers, while maintaining threshold standards in the other two.

- **1. Product Leadership**
  - "best product"

- **2. Operational Excellence**
  - "best total cost"

- **3. Customer Intimacy**
  - "best total solution"

Concept introduced 1995 by Michael Treacy and Fred Wiersema, *The Discipline of Market Leaders*
Examples

1. Product Leadership
   “best product”
   – Intel
   – Nike
   – Disney
   – Swatch

2. Operational Excellence
   “best total cost”
   – Southwest Airlines
   – Dell
   – Wal-mart
   – McDonalds

3. Customer Intimacy
   “best total solution”
   – Nordstroms
   – Home Depot

Six Principles of Positioning
» Right Goal
» Value Proposition
» Distinctive Value Chain
» Trade-offs
» Fit
» Continuity
# 1. Product Leadership

<table>
<thead>
<tr>
<th>Value Proposition</th>
<th>Best Product</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Philosophy</td>
<td>Offer products that push performance boundaries</td>
</tr>
<tr>
<td>Core Processes</td>
<td>Invention, R&amp;D, Engineering, Commercialization, Market exploitation</td>
</tr>
<tr>
<td>Major eBusiness Opportunities</td>
<td>B-Web Integration, Knowledge Management, Collaboration, Portal and Application Design</td>
</tr>
</tbody>
</table>
## 2. Operational Excellence

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Value Proposition</strong></td>
<td>Best total cost</td>
</tr>
<tr>
<td><strong>Basic Philosophy</strong></td>
<td>Low or lowest price and hassle-free service</td>
</tr>
<tr>
<td><strong>Core Processes</strong></td>
<td>End-to-end product delivery, Customer service cycle</td>
</tr>
<tr>
<td><strong>Major eBusiness Opportunities</strong></td>
<td>B-Web and Intra-Enterprise Integration, Analytics, Business Process Design</td>
</tr>
</tbody>
</table>
### 3. Customer Intimacy

<table>
<thead>
<tr>
<th>Value Proposition</th>
<th>Best total solution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Philosophy</td>
<td>Delivering what the specific customer wants</td>
</tr>
<tr>
<td>Core Processes</td>
<td>Client acquisition and development, Solution development</td>
</tr>
<tr>
<td>Major eBusiness Opportunities</td>
<td>Customer relationship management, Client Portal</td>
</tr>
</tbody>
</table>
Lesson #3: Emphasis has shifted from creating new “Business Models” to enhancing existing value propositions.

- Dot-coms and established companies are looking for ways to leverage the power of the Internet throughout their organizations.

- Viewed less as a “disruptive technology” even though some Internet businesses have clearly changed the rules (e-brokerages, Napster, etc.).
Value Chain E-Business Opportunities

**Leadership**
- Balanced Scorecard web-based
- Dashboard of Performance Measures
- Investor relations (information dissemination, broadcasts of conference calls)
- Enterprise-wide knowledge management

**Marketing and Sales**
- Online sales channels including Web sites & marketplaces, auctions sites, etc.
- Real-time inside & outside access to customer info, product data, dynamic pricing, inventory availability, online submission of quotes and orders
- Online product configurations
- Customer-tailored marketing via customer profiling
- Push advertising
- Tailored on-line access
- Real-time customer feedback through Web surveys and promotion response tracking.
- Online support of customers: e-mail response, chat, voice over IP.
- Customer self service over web.
- Real-time field service.

**Engineering**
- Collaborative product design across locations and among design partners
- Real-time access by R&D to online sales and service information with search capabilities.

**Operations**
- Real-time integrated scheduling, shipping, warehouse management, demand planning across suppliers and locations.
- Dissemination of inbound, outbound and WIP inventory data.
- Integrated information, scheduling and decision-making for in-house facilities, contractor manufacturers & suppliers.
- Real-time Available to Promise (ATP) to sales force and channels.
- Real-time orders from customers, sales, or channel partners.
- Online customer contracts/agreements
- Integrated channel management including info, warranty and problem resolution.

**Finance**
- Web-based departmental budgeting
- Web-based financial applications.
- Electronic time & expense reporting.
- ASP for payroll.

**Enterprise Infrastructure**
- Collaborate build/deploy systems
- Self-service help desk
- Self-service web content management

**Human Resources**
- Self-service personnel & benefits admin: HR info, 401K, stock options, benefits
- Web-based training

Adapted from Michael Porter, “Strategy and the Internet”, HBR, March 2001
Dell - Integrated Value Chain Example

Traditional value chain in the computer industry

Virtual Integration blurs the traditional boundaries and roles of the value chain

some products, e.g. monitors, can be shipped straight to customer but Dell still gets its mark-up for generating the business

quality supplies, just-in-time

real-time information flows on demand, specifications and $$$

staff expertise, products and services

information on demand, trends and $$$
Companies are foregoing vertical integration in favor of outsourcing non-core functions and are using the Internet to integrate business processes and to collaborate.

1. **Customer Relationship Management:** In a down market, generating more revenue from each customer engagement becomes a higher priority. In fact, some folks on Wall Street may begin using this metric as the primary way they measure corporate value.

2. **Supply-chain automation:** The next big thing to do in a down market is reduce your costs. Automating supply chains to drive costs out of the production process is always popular with the board, but in a down market, it becomes an extremely high priority.

3. **Knowledge management:** To get more out of employees, you need to give them better tools. As workers come and go, you need to retain the knowledge they create. Whether it’s an up market or a down market, people realize that intellectual property is really their core asset, and right now, the primary storage mechanism is organic and mobile.

4. **Content management:** Determining what an organization actually knows is only half the battle. Getting that knowledge to the right place at the right time is the other half. We’re just now exploring the potential of technologies such as XML, which will fully emerge this year as the dominant data format in corporate computing.

5. **Peer-to-peer networking:** This is an old idea whose time has finally come. Most servers today are an impediment to collaboration and create a huge amount of overhead for IT. The more users get in touch with each other directly, the lower the support costs for IT.

6. **Business process integration:** We will only see business-to-business e-commerce really become the true dominant business model if the industry as a whole takes enterprise application integration to the next level. Integrating applications is still too time-consuming relative to the scale of the task at hand. New tools in this area should make a huge difference.

7. **Mobile commerce:** With millions of Internet appliances ranging from phones to handhelds and pagers now in the hands of consumers, the opportunity to completely reinvent tarnished business-to-consumer e-commerce models is great.

8. **Optical computing:** Right now, much of the Internet core is being revamped with optical networking technologies in order to meet increasing bandwidth demands driven by the need to deliver richer content to Web sites. As the cost continues to drop, much of this technology will find its way to the edge of the Internet in 2001.

9. **Application utilities:** The costs of supporting any large scale Internet presence across multiple customers, distributors, and suppliers are beyond the ken of most IT organizations. With more complex business requirements, IT executives will increasingly look to data hosting centers and application service providers to provide and manage all the resources needed for a major online presence.

10. **Application frameworks:** The widely used three-tier application development models in use today will rapidly give way to n-tier models where multiple servers act in concert. Technologies in support of this are still in their infancy, but by the end of this year, the next big step will be clear.

Source: Technology Enablers - Info World Top IT Trends of 2001
Lesson #4: The distinction between an e-business strategy and an information technology strategy has all but disappeared.

- E-business and Internet usage is becoming pervasive throughout organizations everywhere.

- Companies are interested in leveraging all types of technologies – whether it is an Internet technology or not.

- In seeking ways to enable their business strategies, companies are not distinguishing Internet technologies from other information technologies during the strategy process.
Lesson #5: Time moves at the same rate for everyone

• “Internet time” was used too often as an excuse for lack of discipline.

• “We don’t have time for:
  – developing a business strategy, or
  – an e-business strategy, or
  – for preparing a requirements definition or design – just build the web site”.

• Result: Internet infrastructures that were incomplete and did not solve a business problem.
Lesson #6: Don’t confuse your VCs with your customers

• This lesson really applies to new ventures.

• Web development was rushed to have a “real” site to show to VCs to get the next round of funding.

• Often without a business strategy, without a clear understanding of who the audience is or sufficient definition of requirements.
Lesson #7: Don’t forget or underestimate back-end integration
Lesson #8: The E-Business solution must align with the Brand

- The e-business brand identity, brand architecture and site design must be consistent with the corporate brand and strategy.

**Brand Identity**

- **Core**
  - Extended Core

- **Brand as**
  - Product
  - Organization
  - Person
  - Symbol

**Value Proposition**

- Functional, Emotional, Self-Expressive Benefits

**Credibility**

**Brand-Customer Relationship**

*Building Strong Brands, David A. Aaker, The Free Press, 1996*
## Brand - Examples

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dell</strong></td>
<td>Be Direct</td>
</tr>
<tr>
<td><strong>eBay</strong></td>
<td>Focus on trading communities</td>
</tr>
<tr>
<td><strong>Southwest Airlines</strong></td>
<td>Meet the customer’s short-haul travel needs at fares competitive with the cost of automobile travel</td>
</tr>
<tr>
<td><strong>Wal-Mart</strong></td>
<td>Low prices, every day.</td>
</tr>
<tr>
<td><strong>Webvan</strong></td>
<td>Unparalleled customer service from selection, price, convenience, quality and a personalized courier service that is second to none.</td>
</tr>
</tbody>
</table>
Lesson #9: An e-business strategy requires more than just defining the Internet technology direction.

It includes changing the interconnected activities and organizational elements necessary for a successful e-business deployment and operation.
Lesson #10: E-business strategy teams require a wider range of skills.
Lesson #11: There is not a “one size fits all” methodology for developing an e-business strategy.

Examples

- Velocity Discipline
- Strategy Roadmap
- Solution Roadmap
- Solution Design
- Solution Launch

1. clarify
2. architect
3. design
4. implement
5. enhance
R&A E-Business Strategy Framework

I. Assessment
- Understand Business Direction
- Assess Current E-business Technology Capability
- Identify Trends and Competitors

II. Strategy & Architecture
- Identify E-business Opportunities
- Strategy Formulation
- Develop Technology Architecture

III. Roadmap
- Define Initiatives and Projects
- Prepare Organizational Alignment Program
- Prepare Implementation Roadmap
- Define Performance Measures

If you wish further information about the process, please contact me. Ron Raumer
Further Reading

• Business:

• Brand

• Experience:
  – The Inmates are Running the Asylum. By Alan Cooper. SAMS, 1999.

• Technology & Project Management:
So, should you develop an e-business or an IT strategy?

“Accept the challenge, so you can feel the exhilaration of victory!”

- General Patton