IT'S TIME TO REEXAMINE YOUR INVESTMENT AND FIGURE OUT HOW TO MAKE IT MORE PROFITABLE.

Implementing Successful E-Commerce Initiatives

BY MARC J. EPSTEIN

E-COMMERCE can be one of the most important value-creating activities a business can pursue. The key is in its implementation. Unfortunately, during the early days of the dot-com hype, many companies made large investments in this new way of doing business because they had a feeling that it was the right thing to do or because their competitors or colleagues were making the leap. But they took the plunge without thinking seriously about what drives e-commerce success, so many of them failed.

Now it's time to take a step back and apply to an Internet venture what we know about traditional business, management, and information technology so our investments in it can become profitable. These guidelines apply whether we're redesigning our website or whether we're deciding how far to extend those sites, what to sell, how to compete, and how much to invest in technology.

This article draws from Marc Epstein's recent book, *Implementing E-Commerce Strategies: A Guide to Corporate Success after the Dot.Com Bust* (Praeger Publishers, 2004), which is based on extensive research and includes 32 case studies of company experiences, both successes and failures, in 12 industries.

Before making another investment in e-commerce, companies must thoroughly evaluate their business environments—their external environments and their corporate strategies, structures, systems, and resources. Based on the evaluation of these inputs, they must develop proper e-commerce leadership, strategies, structures, and systems. The manner in which these processes will be implemented depends on the inputs, and the effectiveness of these processes will determine customer acquisition and loyalty, channel optimization, cost savings, value, and, ultimately, corporate profitability. See Figure 1 for an overview of how the inputs, processes, outputs, and outcome tie together.

CHARACTERISTICS OF SUCCESSFUL E-COMMERCE

To have successful e-commerce ventures, companies must show strength in four areas: leadership, strategy, structure, and systems. See Table 1 for some of the characteristics of success.

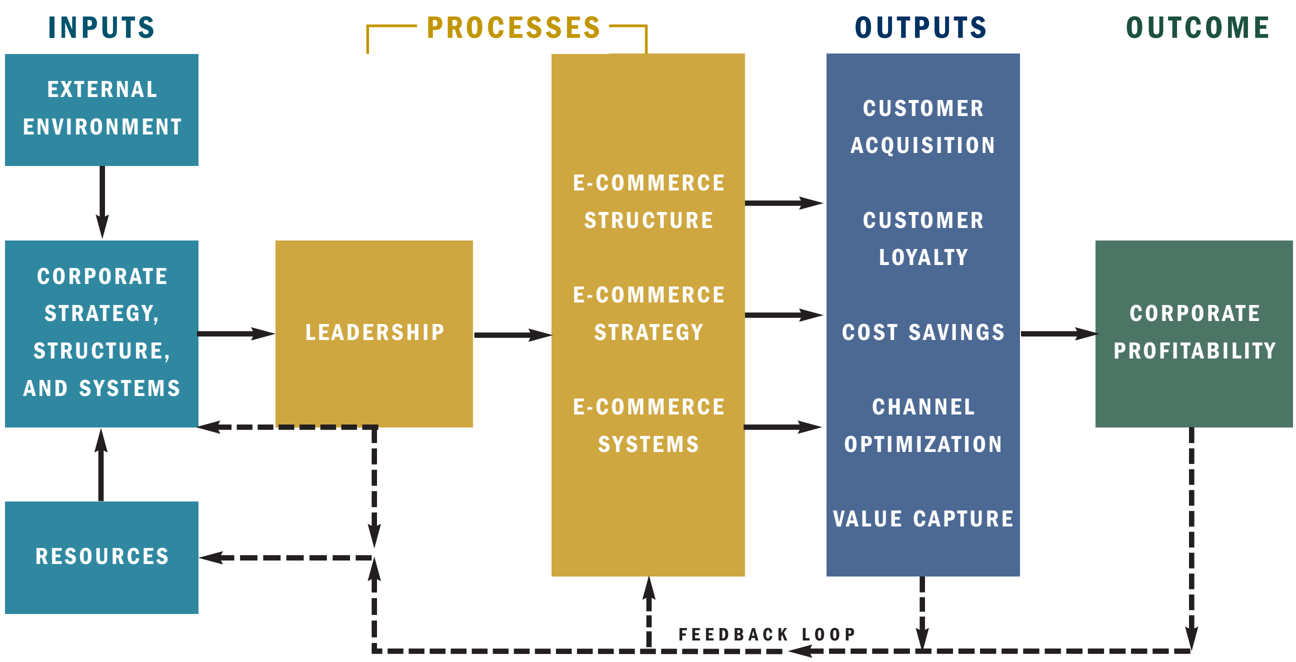
LEADERSHIP

To improve the prospects for a successful e-commerce implementation, dynamic and strong leadership is required. The CEO needs to be a firm believer in the benefits of e-commerce and must make sure other senior executives share this vision. The company must evaluate its position regarding e-commerce, must make resources available, and must make sure the corporate culture adapts. Only then is it prepared to begin developing and implementing an e-commerce strategy.

1. Commitment at the top. Leadership starts with a commitment by the CEO and other senior managers to consider a significant role for e-commerce in the organization. For this to occur, these executives should have a basic understanding of the technologies associated with e-commerce and IT as they need to explain the business implications to internal and external partners so that the company has adequate knowledge with which to make sound business decisions. In addition, senior management must understand some of the technical issues associated with e-commerce so that it doesn't appear they are ceding leadership to the IT specialists.

2. Thorough analysis of a company's e-commerce position. In crafting an appropriate e-commerce strategy, it's vital for the leaders to assess the company's e-commerce position relative to its competitors. Even if it seems that competitors are far ahead, a company can still gain a competitive advantage. For example, with a combination of online and offline services, Charles Schwab was able to build a significant advantage over competitor Merrill Lynch, despite having been preceded online by pure-play competitors such as E*Trade. Although catching up can be difficult, it's possible with a high level of investment and a willingness to explore new business models and

Figure 1: Antecedents and Consequences of E-Commerce Success



From *Implementing E-Commerce Strategies*, Praeger Publishers, 2004

Table 1: Characteristics of Successful E-Commerce Companies

LEADERSHIP

1. Commitment at the top
2. Thorough analysis of a company's e-commerce position
3. Significant financial investment
4. Cultural transformation

STRATEGY

1. Well-positioned online brand
2. Online-friendly offerings
3. Reliable customer service
4. Cross-channel coordination

STRUCTURE

1. Internal investment
2. Integrated management teams
3. IT know-how from within
4. Strategic partnerships

SYSTEMS

1. Modernized internal processes
2. Incentive-laden HR practices
3. Aligned performance measures
4. Improved customer management

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processes. If a company is a late mover into e-commerce, it can still work toward being the first to provide a particular service, combination of services, or other unique value proposition.

3. Significant financial investment. The CEO, along with other key executives, is responsible for determining an appropriate level of investment to devote to the e-commerce initiative. This includes adequate funding for the IT department and the modernization of the company's information systems. Investment decisions should be primarily strategic (for example, is the company going to sell online, and how will these offerings compare to its traditional ones), and returns should be viewed in light of potential impacts. Most importantly, e-commerce and IT should be seen as value creators rather than cost centers.

4. Cultural transformation. For an e-commerce strategy to be implemented rapidly, the company must understand IT and e-commerce basics as well as what it hopes to achieve with e-commerce. Communicating that purpose is one of senior management's most crucial actions. Employees must realize that e-commerce represents an opportunity rather than a threat—that it has the power to transform the company in a positive way. Additionally, whether the e-commerce strategy is to be implemented within a month or a year, senior management must relay a sense of urgency to employees about it.

E-COMMERCE STRATEGY

After the leaders have made a commitment to e-commerce, analyzed the company's position, made resources available, and made sure the company culture is changing, they should begin looking at developing and implementing strategies for e-commerce operations that are consistent with overall corporate strategy.

1. Well-positioned online brand. A brand name will draw customers to the company's site and can help assure them about the quality of the offerings, the accuracy of the information, and the security of the Web transactions there. It can also promote customer loyalty. But the company must provide the level of service and security electronically that the brand name implies or it will fail to attract repeat online customers and may even damage the traditional brand.

The simplest way to initiate e-commerce operations is by transferring the brand name to the Internet using the company's name as the domain name so existing customers and potential new customers can find the website easily. The company can then advertise its website in various physical locations and in all printed materials. All letterhead, business cards, other types of business material, and traditional advertising media should include the site address. In-store signage, kiosks, and advertising on bags and other materials have also been good ways to draw customers to the online channel.

Successful e-commerce brand management requires taking advantage of the innovation and flexibility made possible by the Internet while meeting the expectations associated with a brand name. The trick is to find the spot that permits the brand to develop creativity in an e-commerce venture while maintaining the traditional credibility of the existing business. For example, Charles Schwab found that opening local offices increased online sales because it gave the customers additional brand support and a physical branch with a human touch to fall back on when problems occurred in the online channel.

2. Online-friendly offerings. Decisions concerning what products to offer on the website are critical. A company shouldn't feel compelled to offer precisely the same products online as in its physical stores. In some cases, it can offer more products online because it isn't constrained by store space. Office Depot is an example of businesses that are doing this. Another company might offer fewer products online than in its physical stores. General retailers such as Wal-Mart and grocers have used price minimums, margin requirements, and category restrictions to limit their online offerings. Some companies also require a minimum total purchase on their website.

The decision whether to offer customers unique or uniquely tailored products or information is also crucial in determining e-commerce success. Customization can be a powerful differentiator that creates customer loyalty because it allows customers to control product or service choices and purchase methods, and customers may have to pay more elsewhere if they switch to another site. Personalization gives customers their very own version of the site that can include information and recommendations based on their prior purchases and demographics. In determining its strategy, a company must decide whether or not this customization or personalization will benefit the bottom line.

3. Reliable customer service. Building trust online requires more than a strong brand—it requires strong customer service practices that emphasize the convenience of the online channel. Good website design is crucial. Basic characteristics of the site—such as simplicity, legibility, clarity, and a professional look—are necessities. Accurate information about physical stores, customer service, and delivery and return policies should be easily accessible from the home page. The website also should provide a number of services for customers who need information about the site, its offerings, or the product they purchased. These include comprehensive FAQ (Frequently Asked Questions) sections, easily accessible information on delivery and returns, and rapid e-mail response and technical support, where appropriate. Strong search engines are especially important for companies with a large number of product offerings. And the most obvious note, as we all have learned, is that the website must be functioning properly to ensure accurate and prompt order fulfillment.

4. Cross-channel coordination. The website and physical stores shouldn't be seen as two separate entities that happen to share a brand name. For example, some customers surf a website to get product information, but then they want to go to a physical store to see and buy the product. Kiosks, on the other hand, have been a successful mechanism in physical stores to stimulate online traffic. Many retailers have encouraged customers to use kiosks to order online products that aren't available in the physical store or when delivery of the products is more convenient.

Companies can also use their website to provide more convenience for customers who want to purchase specific items immediately rather than wait for delivery. For example, Office Depot directs online customers to local stores that currently have the product in inventory, saving the customers from the legwork. Even Internet pure-play companies like Amazon can provide customers the ability to obtain books or other materials offline. Through its alliance with Borders, for whom it provides website operations, Amazon can direct a customer to the nearest Borders store that has the product. All it needs is the customer's zip code.

E-COMMERCE STRUCTURE

After deciding on an online strategy, senior management must carefully determine what type of e-commerce structure will accommodate this strategy.

1. Internal investment. A company faces a decision about equity for the e-commerce venture—to retain complete ownership in the venture or spin it off. The lessons are clear. Investment in the venture should be made from within the company because reliance on outside capital typically seems like an indicator that senior management isn't convinced about e-commerce. Spin-offs were popular in the beginning, and the results were generally disastrous. Building up large market capitalizations through initial public offerings (IPOs) was also popular, but it has become less desirable in a weaker and more skeptical stock market. The vast majority of companies that did an IPO—including Wal-Mart, Kmart, Barnes & Noble, and Staples—have bought back their stock from equity partners and folded the e-commerce spin-offs back into the company.

2. Integrated management teams. From the distribution side, e-commerce should often be seen as simply another sales channel, so changes in the management structure should be kept to a minimum. In industries that already have multiple channels, an integrated structure is particularly relevant because business functions such as marketing are easy to coordinate, and organizational territorial conflicts are reduced. A less ideal but viable alternative is to create a separate business unit for e-commerce. Many companies that began with spin-offs and then brought e-commerce back inside chose to adopt separate strategic business units (SBUs).

Some companies started their online operations with entirely separate management teams under the premise that e-commerce wouldn't be given enough attention or independence by senior management at the parent organization. Innovation, flexibility, and creativity are needed to drive a successful e-commerce operation, but they can occur successfully within traditional organizational boundaries. A formal set of management control structures and systems is necessary to balance the desired empowerment.

When separate business units are established, they should function primarily to coordinate the full integration of e-commerce throughout all business units. Sometimes it's desirable to initially establish a central organization to drive and coordinate the new activities, but, as it matures, it should be integrated more fully into the business units. The separate units and the integrated functions within the business units may need their own structures and systems, including unique performance measures and compensation and reward systems, but this can be accomplished within existing organizational boundaries, and there's no need to spin off core capabilities and detach valuable corporate assets.

3. IT know-how from within. Not every company, especially those arriving late to e-commerce, will have invested well enough in IT to create e-commerce independently, so even those with strong IT departments may choose to outsource the development because of the necessity for speed. Once the site is up and running smoothly, the company can reassume control and eventually use the e-commerce systems for traditional commerce as well.

4. Strategic partnerships. Although companies are advised to maintain equity interest, management control, and IT integration, traditional businesses can still benefit from alliances with online companies, particularly when the arrangement gives the traditional company access to supply-chain management, peripheral offerings, and customer bases.

Supply-chain management is a particularly useful area for partnership when a company simply can't supply online customers from the same distribution channels as physical stores. Wal-Mart, Kmart, and Target have made such arrangements to deal with their general merchandizing businesses. Alliances have also been a successful approach to providing peripheral offerings that will only be available online. Neiman Marcus partnered with several other luxury retailers to create a limited scope "luxury portal" of high-end goods within its website. CVS partnered with WebMD to provide medical advice to complement pharmacy services. Finally, traditional companies can gain access to large online customer bases by making strategic alliances with portal and Internet service provider (ISP) companies. Wal-Mart and Kmart entered agreements with AOL and Yahoo!, respectively, to co-brand Internet service packages that would bring their customers online and to their sites in particular.

E-COMMERCE SYSTEMS

Appropriate systems must be implemented to ensure the successful integration of e-commerce. Quality investments in human and physical capital and incentive-laden human resources practices are crucial.

1. Modernized internal processes. The cultural transformation described earlier may be enough to make e-commerce possible, but more must be done to maximize its benefits. As companies develop and implement e-commerce strategies, they must examine the Internet and modify preexisting channels in a way that complements the e-commerce initiative. To get full value from new or expanded e-commerce ventures, there must be good information flows throughout the organization. Coordination among manufacturing, sales, service, shipping, and other areas must occur, must not be hampered by outdated organizational boundaries, and must be positioned for speedy response to internal and external customer needs. Cross-functional and remotely located teams should be assembled with greater frequency, and less emphasis should be placed on hierarchical reporting. Decision makers should also have greater amounts of self-governance and flexibility.

The Internet demands speed and transparency more than ever since delays and misinformation are detected quickly. Thus, decision making and organizational systems must be adjusted to provide for the speed, transparency, and new sales opportunities it provides.

2. Incentive-laden HR practices. Compensation systems must be aligned with strategy and structure for the e-commerce venture to be a success. The CIO must be compensated as a member of the senior management team to signal the importance and respect shown for the IT function and the centrality and commitment to improved IT and e-commerce. At lower organizational levels, compensation systems have additional consequences on alignment. By compensating e-commerce managers the same as managers in traditional commerce, the company sometimes fails to create the necessary incentives for success. Though parallel compensation systems can often work, both market forces and the need for speed, creativity, flexibility, innovation, and extra diligence often require additional incentives and rewards for the online staff.

Differential compensation, often through stock options, can create an incentive for the e-commerce unit to cannibalize or steal from the company's traditional channels, yet other business units in the physical stores will lose business, and those managers may earn less. For example, a bank would like to encourage its Internet banking unit to steal business from other banks but also cannibalize revenue from the branches before competitor Internet banks do. But that requires organizational structures and systems that don't penalize the branches from losing business to their Internet banking unit. This also means you can't place the head of Internet banking under the supervision of the head of branch banking since a conflict would likely arise regarding performance incentives.

The Internet also provides opportunities to improve the hiring process. Cisco is just one company that has found great benefits from hiring online, including lower costs from not dealing with paper applications and interviews, faster filling of positions, and a higher level of competence in the employees hired. Companies may also want to consider specialized HR practices for their IT departments.

3. Aligned performance measures. Strong measurement practices are among the cornerstones of all good systems, yet no company should simply extend its existing performance measures to its e-commerce venture without extensive customization. Still, long-term cost differentials, balanced with a variety of financial and nonfinancial and leading and lagging indicators, are particularly useful for successful e-commerce implementations.

4. Improved customer management. Companies must also reconsider the internal processes required to provide the high levels of customer service necessary in e-commerce. Online customers need access to some level of customer service at all times. There's a trade-off between service that entails a high level of human input and service that's automated and more cost efficient. Finding the proper balance is a function of the company's offerings, customer base, and customer feedback.

Customer data becomes a significant benefit because of the vast amount that can be learned about customers during a website visit in contrast to an in-store visit. Many websites, however, have mistakenly focused only on counting hits and visits while ignoring the more valuable information that can be gathered. Tracking of customers' interactions with the website can be used to identify their price sensitivity and information preferences and gauge their satisfaction with the website design and accessibility. Gathering and using such information is important for refining the value proposition and better allocating internal resources. Marketing strategies for the website can also be continually refined using real-time information gathered from customers during their visits, a practice that Staples has used well.

MEASURING E-COMMERCE SUCCESS

Metrics can help a company capture a more complete picture of whether the e-commerce initiative is meeting its objectives effectively. Given their specific challenges and areas of concern, companies should adopt metrics that are most appropriate for their corporate strategy and objectives. A specific target reflecting best industry practices and the company's commitment to superior e-commerce investments should be identified for each metric, and results should be compared against these targets. All metrics should be part of a causal chain that includes both leading and lagging indicators of performance. See Table 2 for a sample list.

As I said earlier, in order to develop successful e-commerce initiatives, a company must begin by evaluating its external and internal environment. The assessment of the external environments, for example, should include an evaluation of changes in the economy and an analysis of recent technological developments. A company should also assess the e-commerce investments and capabilities of its competitors and the needs and capabilities of its suppliers and customers. These assessments will be crucial in determining the e-commerce initiatives it should implement.

Regarding the internal environment, a business should evaluate its existing corporate strategy, structure, systems, and resources before determining what e-commerce initiatives to implement. It must look at its product and determine what types of e-commerce initiatives would help to market, sell, and distribute this product.

The company must also assess its structure. If it has a large number of strategic business units or networks across a wide geographical area with numerous different languages, this will impact decisions. Its corporate systems are also highly relevant in weighing the appropriateness of a new or expanded e-commerce venture. The corporate systems related to training and technology programs will significantly impact the choice of e-commerce

Table 2: Metrics for E-Commerce System: Inputs, Processes, Outputs, and Outcomes

INPUTS

- Assessment of product and/or service
- Assessment of centralization
- Assessment of training and current technology
- Assessment of existing employees and current company technology and processes
- Assessment of economy/technological developments and competitor e-commerce investments
- Assessment of supplier and customer needs and capabilities

PROCESSES

- Assessment of senior management's commitment to e-commerce
- Assessment of product and/or service to be offered online
- Assessment of marketing and customer service strategy
- Assessment of e-commerce integration internally and externally
- Assessment of employees' commitment to e-commerce and technology

OUTPUTS

- Website hits
- $ value of activities completed through e-commerce sites
- $ saved in data handling
- # of new customers gained through e-commerce
- # of new customers in other channels informed through website
- # of customized and personalized products and service lines being introduced
- Revenues generated through e-commerce initiative

OUTCOMES

- ROI
- Stock price
- Sales
- Market share

From *Implementing E-Commerce Strategies*, Praeger Publishers, 2004

strategy, structure, and systems and will be crucial to determining what e-commerce initiatives should be implemented. Since the most important corporate resources within organizations are people and capital, a company must have these in place for an e-commerce investment to be successful. How many of us have been frustrated when websites were difficult to navigate or purchase from, and how many of us have been frustrated by the lack of post-sales service?

If the e-commerce initiatives are well designed and well executed, the identified inputs and processes I talked about earlier will lead to improved performance, particularly with regard to channel optimization, cost savings, customer acquisition, customer loyalty and retention, and value. These can be measured by looking at increases in website hits, increases in the number of customers, and increases in revenues generated through e-commerce initiatives, to name a few. Ultimately, these inputs, processes, and outputs will increase long-term corporate profitability. This can be seen through increases in ROI, stock price, sales, and market share.

MOVING FORWARD

What should CEOs and other senior managers do today to further e-commerce? They should adhere to traditional business principles and good sense and not allow the easier and less-ordered business practices of the former dot-com bubble to take over.

Companies that haven't made significant forays into e-commerce need to do so soon. But the investments and commitments must be made based on fundamental concepts and principles of good business, and the payoff of potential e-commerce investments must be established. Again, e-commerce can be among the most important value-creating activities for most businesses. The key is in the implementation. ■

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