Chapter 9  
E-Commerce: Digital Markets, Digital Goods

Learning Track 1: E-Commerce Challenges

Internet technology has provided businesses with powerful new tools to innovate and to execute much more efficiently, and it has also created a new series of management challenges.

Opportunities

The Internet and Internet technology have created extraordinary opportunities for new and traditional businesses to exploit digital technology. Firms are using these technologies to create new products and services, new channels for sales and marketing, and even entirely new businesses. These technologies have also strengthened traditional business models by helping firms reduce supply chain costs, increase production efficiency, and tighten relationships with customers. No company can afford to ignore the Internet and Internet technology, even if it does not do business online.

Management Challenges

Although digitally enabling business processes and relationships with other organizations can help companies achieve new levels of competitiveness and efficiency, it does pose challenges for managers. Many new Internet business models have yet to prove enduring sources of profit. Web-enabling business processes for electronic commerce and electronic business requires changing the way the organization works. The legal environment for electronic commerce has not yet solidified, and companies pursuing electronic commerce must be vigilant about establishing trust, security, and consumer privacy.

Finding a Successful Internet Business Model

The Internet has clearly changed business models in a number of key industries, including the media (books and music), financial services, travel, and automobile retailing. But not all Internet business models have been successful. Hundreds of retail dot-com firms, including Kozmo.com, Webvan, Garden.com, Chinese Books Cyberstore, Productopia.com, and Pets.com, have closed their doors. Only a fraction of the independent exchanges that were operating in the spring of 2000 survive today.

Doing business over the Internet is not necessarily more efficient or cost effective than traditional business methods. Virtual retailers may not need to pay for costly storefronts and retail workers, but they require heavy outlays for warehousing, customer service call centers, and customer acquisition.

Challenges also confront businesses that are trying to use the Web to supplement or enhance traditional business models. Businesses that are unclear about their online strategy—and its relationship to their overall business strategy—can waste thousands and even millions of dollars building and maintaining Web sites that fail to deliver the desired results (Pinker, Seidmann, and Foster, 2002). Introducing a Web site with self-service technology may undermine the business model—and competitive advantage—of a firm that relies on traditional sales representatives to provide unique personalized services to customers (Schultze and Orlikowsi, 2004). And even if a company has a viable Internet business model, it can fail if that business model is poorly executed.
ORGANIZATIONAL CHANGE CHALLENGES

E-business and e-commerce often require new organizational designs and management processes to take advantage of Internet technology. Companies may need to redesign entire business processes rather than trying to graft new technology on existing business practices. Companies must consider a different organizational structure, changes in organizational culture, a different support structure for information systems, different procedures for managing employees and networked processing functions, and, perhaps, a different business strategy.

Traditional boundaries between departments and divisions, and companies and distributors may be impediments to collaboration and relationship building. Companies with traditional retail outlets or sales forces can expect channel conflict if they use the Web for online sales and marketing. Their sales force and distributors may fear that their revenues will drop as customers make purchases directly from the Web or that they will be displaced by this new channel.

TRUST, SECURITY, AND PRIVACY

Electronic commerce cannot flourish unless there is an atmosphere of trust among buyers, sellers, and other partners involved in online transactions. Because online relationships are more impersonal perhaps than those in bricks-and-mortar commerce, some consumers remain hesitant to make purchases over the Web from unfamiliar vendors. Consumers also worry about the security and confidentiality of the credit card number and other personal data that they supply over the Internet. Internet-based systems are even more vulnerable to penetration by outsiders than private networks because the Internet was designed to be open to everyone.

The Web provides an unprecedented ability to learn about and target customers. But the same capability can also undermine individual privacy. Using Web site monitoring software and other technology for tracking Web visitors, companies can gather detailed information about individuals without their knowledge. In other instances, Web site visitors knowingly supply personal information, such as their names, addresses, e-mail addresses, and special interests, in exchange for access to the site without realizing how the organization owning the Web site may use the information. For companies collecting detailed customer information over the Web, the challenge is balancing the desire to profit from such information with the need to safeguard individual privacy.

Solution Guidelines

Digitally enabling the enterprise with Internet technology requires attention to these issues and careful management planning.

DETERMINING HOW INTERNET TECHNOLOGY CAN PROVIDE VALUE FOR THE BUSINESS

Managers need to understand precisely how Internet technology can provide value for their company.

Companies need to think carefully about whether they can create a genuinely workable business model on the Internet and how the Internet relates to their overall business strategy. Internet technology alone is not a substitute for an effective business strategy (Rangan and Adner, 2001; Willcocks and Plant, 2001).

MANAGING BUSINESS PROCESS CHANGES

Before embarking on e-commerce or e-business initiatives, managers will need to identify carefully the organizational changes required to make them work. They should then put in place a change management plan for dealing with impacted groups within the firm as well as with suppliers and other business partners in the company’s network of value creation. Also essential are well-defined policies and procedures for sharing data with other organizations, including specifications for the type, format, level of precision, and security of the data to be exchanged (Barua, Konana, Whinston, and Yin, 2001).
Channel conflict merits special attention. One way to deal with this problem is to compensate sales representatives for online sales in their territories even if they do not work on the sale or meet the buyer. Another solution is to offer only a portion of the company’s full product line on the Web. The importance of traditional channels and the level of resistance to Web sales will help determine the appropriate response.

SAFEGUARDING SECURITY AND PRIVACY

Both electronic commerce and electronic business require companies to be both more open and more closed at the same time. Companies need to be open to outsiders such as customers, suppliers, and trading partners, yet these systems also must be closed to hackers and other intruders and protective of customers. Firms engaging in e-commerce and e-business need a new security culture and infrastructure that enable them to straddle this fine line. They also need to reexamine corporate privacy policies to make sure they are properly respecting the privacy of customers and Web site visitors.