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Chapter XI

An E-Channel Development Framework for Hybrid E-Retailers

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ABSTRACT

Due to the profound impact of e-commerce on organizations, e-channel development emerged as one of the most important challenges that managers face. Unfortunately, studies indicate that managers in most large companies are still unclear about an e-commerce strategy, and tend to lack adequate e-commerce development expertise. Poorly planned and developed e-commerce channels add little value to organizations. Furthermore, these poorly developed e-channels may even have negative impact on their organizations by confusing and disappointing customers who value a seamless cross-channel experience. To develop an e-channel that delivers higher utility to customers and generates sustainable long-term profits, managers need to analyze how an e-commerce channel affects the performance of existing channels and develop a company-wide e-channel development program.

Based on a number of e-commerce case studies, we developed an e-channel development framework that consists of five step-by-step phases: (1) strategic analysis; (2) e-channel planning; (3) e-channel system design; (4) e-channel system development; and (5) performance evaluation and refinement. This framework helps managers evaluate the impact of e-commerce channels on organizational performance and determine the most appropriate channel design and integration mechanisms for the achievement of business strategies. This paper also discusses impact of e-channel structures on organizational performance.

INTRODUCTION

One of the most profound developments of the past decade was the emergence of e-commerce that revolutionized the process of buying, selling, and exchanging products and services on the Internet. According to Forrester research (www.forrester.com), worldwide e-commerce — both business-to-business (B2B) and business-to-consumer (B2C) — will reach $6.8 trillion in 2004, capturing 8.6% of the world's sales of goods and services. While the B2B market has a greater portion of e-commerce business transactions, the growing population of Internet users has provided a large B2C consumer base for e-retailers. Forrester research also predicts that on-line retail sales will reach $269 billion in 2005.

To capture this ever-increasing B2C population, retailers have experimented with a variety of B2C models. Some of the widely used e-commerce models include auction models (e.g., eBay.com); reverse auction models (e.g., Priceline.com); portal models (e.g., Yahoo.com); stand-alone e-retailer models (e.g., Amazon.com); and hybrid e-retailer models (e.g., Walmart.com). While an e-commerce customer base has been growing rapidly, many of the e-commerce models have failed to generate sustainable long-term profits. In times of economic downturn, many stand-alone e-retailers of commodity products suffered the hardest hits due to rising customer acquisition cost, low product differentiation and the lack of financial support of investors. Some e-retailers, such as Garden.com, consolidated with traditional companies to achieve synergy effects. According to Ernst & Young, e-retailers are experiencing growing pains, but the experience will make them stronger in the future. The cost of entering the e-retailing business will rise significantly and become prohibitive for some e-retailers (Shern, 2000).

The success of an e-channel lies largely in developing and implementing a sound e-channel strategy that delivers higher utility to customers and charges lower prices than its competitors. Evidence shows that a misdirected e-commerce channel (e-channel) development leads to costly and frequent revisions of e-commerce strategies. For example, both K-Mart and Wal-Mart experienced a costly revision of their e-commerce strategies. K-Mart initially created a spin-off e-commerce entity, BlueLight.com, in December, 1999, as a joint venture between K-Mart and Softbank Venture Capital. After K-Mart withdrew from a planned initial public

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