Financial Impact of E-Business Initiatives in the Retail Industry

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Electronic business (EB) on the Internet has been promoted as a revolutionary technology that will transform "the way we do business." This paper presents the results of an exploratory study, which compares the financial performance (FP) of 73 publicly held U.S. corporations from the retail industry over a ten-year period. The study analyzes the financial statements of these companies to determine whether EB initiative have had an impact on their financial performance. The results indicate that companies with EB initiatives experienced improved performance in the post-EB era, though not overwhelmingly or across the board. In order to reassure that the observed improvement was not a result of the favorable economic climate of the late 1990s, the 36 companies with EB initiatives were compared against 37 companies with no EB initiatives (nEB) during the same time period. This comparative analysis of 730 sample data points indicates that the EB companies did perform better in some areas than their nEB counterpart, albeit marginally.

Keywords: IT investment; electronic commerce; electronic business impact; corporate performance, RDI

INTRODUCTION

The Internet (or World Wide Web) has experienced a phenomenal growth in attracting people and commerce activities over the last decade. From a few thousand people in 1993 to 150+ million in 1999, the Web is expected to attract over one billion by 2004 (Bingi, Mir & Khamalah, 2000). This growth has motivated a variety of organizations, initially to provide marketing information about their products and services, customer support, and later to conduct business transactions with customers or business partners over the Web. These EB initiatives could be a simple implementation of Internet website, or more complex intranet and/or extranet applications like B2C, B2B, Web-CRM, Web-ERP, Web-Marketing, and others. These initiatives allow companies to take advantage of the Web-based economic
model, which offers opportunities for internal efficiencies and external growth. For the purpose of this exploratory study, we assume that companies, as a group, have a varying degree of sophistication in the implementation phase of their EB initiatives. This paper does not concern itself with the impact of EB investment on performance at individual company level; rather its objective is to determine the macro-industry impact of these EB initiatives on the collective performance of the subject companies in Retail industry.

According to the Census Bureau of the U.S. Department of Commerce (Piesto, 2000), just the retail e-commerce sales in the third quarter of 2000 was $6+ billion, up by 15.3% from the second quarter and more than 2.5 times the 1998 holiday Internet sales (Bingi, Mir, & Khamalah, 2000). Internet retail sales skyrocketed more than 66% to $44.5 billion in 2000, despite the demise of many dot-com companies in the slowing economy. According to Porter (2001), Internet has been hyped to make revolutionary changes to the fundamental business model. For example, Hoffman and Novak (1996) found many researchers and business practitioners claiming that Internet “will change the way we do business” and make a dramatic impact on the performance of companies in a variety of industries. However, many investors and executives feel that they were duped into investing millions of dollars more than they needed. Consequently, the last thing that they want to do now is invest millions more on EB projects of dubious merit. This does not mean that investors are reluctant to make strategic technology investments. But, what it does mean is a closer monitoring of the investment in the new EB initiatives.

Nonetheless, the Web-based economic model is staggeringly more efficient at the transaction cost level (Wigand & Benjamin, 1995). For example, the cost of processing an Airline ticket through traditional approach is eight dollars, but is only one dollar through the Web. Similarly, other operational efficiencies can be derived from logistics and e-procurement, online information processing with forms that are electronically linked to databases and online customer support (Hoffman & Novak, 1996). Elimination of middleman in the distribution channel (or disintermediation) can have a big impact on the market efficiency (Michalski et al., 1995). Other efficiencies are generated due to less or no inventory, storage or real estate space, and 24x7 hour customer service at no additional cost (Steinfield & Whitten, 1999). This results in improved operational performance for companies that adopt the EB model.

In addition to the improvements in operational performance, EB also allows organizations to expand their sales revenues and accelerate their market growth. The initiation of the EB model provides immediate access to and from global markets (Economist, 1997). The Web reduces geographical and economic barriers for companies that desire to conduct global commerce. While traditional commerce relied on value-added networks
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