

Sustainable Competitive Advantage through e-Commerce

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Lecture



Agenda

- Organizational Structuring of the e-Commerce Effort
- Creating Sustainable Competitive Advantage
 - IT as competitive advantage?
- Cost Reductions
- Proprietary Data as Edge
- Information Asymmetries

E-Commerce was being championed at the highest levels of the firms, according to respondents

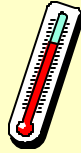


Study Findings: Organizational Structuring of the e-Commerce Effort

- Highest level executive supporting the e-Commerce initiative?
 - In large part, they were at the CEO/CIO/Vice President level
 - A few named the marketing manager or IS manager



▼ Findings: Organizational Structuring of the e-Commerce Effort

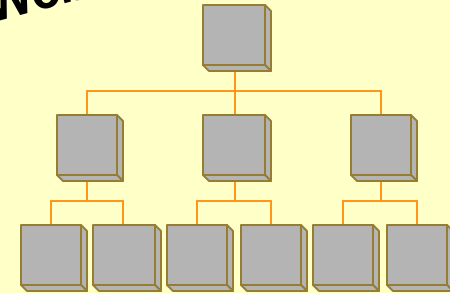


- Level of manager in charge of e-Commerce function/effort?
 - Most were IS managers or general managers (e.g., PR or marketing manager)
 - A smaller but not insignificant percentage were appointed at the Vice Presidential level
 - A few were programmers or very low level managers...When a programmer was in charge, these tended to be small organizations

▼ Action Plan



Structuring Your Web Initiative



▼ Action Plan



- Place the responsibility for e-Commerce as high up in the structure as possible
- Sufficient resources need to be allocated to the effort
 - e-Commerce is becoming a strategic necessity for all firms
 - Firms are increasingly information intensive

▼ Findings

- One large Fortune 500 firm set up an entire division on e-Commerce and other business transformations
 - The manager of the unit reports directly to the CEO
 - The unit has grown to 200 professionals in a short period



▼ Sustainable Competitive Advantage

- Superiority in following resources...
 - Human resources/expertise
 - Technology
 - Relationships
- ...can lead to a sustainable competitive edge



-Source: Ross, Beath & Goodhue (1996); Weill & Broadbent (1997)

▼ Sustainable Competitive Advantage

1. Human resources/expertise
2. Technology Infrastructure
3. Relationships

Core Competencies
(You are better than others at this!)

Proprietary Information (about partners in relationship, including customers)

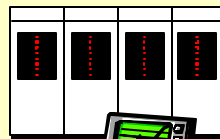
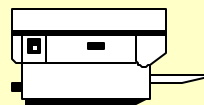


-Source: Evans & Wurster (1997)

▼ Sustainable Competitive Advantage

1. Human resources/expertise
2. Technology Infrastructure
3. Relationships

Not a differentiator?



▼ Technological Advantage is Likely Not the Answer



- If the resource bases are not terribly dissimilar in an industry, it is difficult to sustain a competitive advantage in technology
- Competitors can appropriate the same technology



▼ Sustainable Competitive Advantage

1. Human resources/expertise
2. Technology Infrastructure
3. Relationships

Under what conditions would the technology resources of the firm make a difference, competitively speaking?

▼ Sustainable Competitive Advantage

- Strategic Information Systems (SISs) do not yield inherent competitive advantage because systems can be readily imitated by competitors who can recapture production and transaction economies
 - But, when SISs leverage differences in strategic resources in general, then they can lead to a sustainable advantage



-Source: Clemons and Row (1991)

▼ Sustainable Competitive Advantage

- Firms may not be successful because of any particular leading-edge Web site or business model, but because they apply resources to ever-changing opportunities. These resources & capabilities include:
 - Staff trained to provide rapid solutions to the most pressing business needs,
 - Cost-effective, well-managed IT infrastructure that complements organizational needs, and
 - Effective IT-business relationships led by a proactive CEO

-Source: Ross, Beath & Goodhue (1996); Weill & Broadbent (1997)

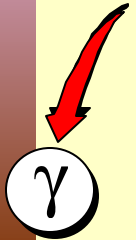
▼ Creating Information Asymmetry with Competitors for the Long Run

Customer proprietary data can create information asymmetries through the strategic vision of smart people (core competency)!!

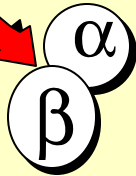


▼ Polarization of Firms Engaged in EC

- Firms are polarizing into those that are focusing on cost reductions
- and those that are looking to more revolutionary, but less concrete and immediate benefits



The first is essentially explained by a classical transactions explanation



▼ Cost Savings Galore

- Network-aided buying/selling short circuits conventional marketing and distribution patterns
 - It reduces the costs of negotiating and consummating deals
 - It reduces search times by helping buyers find the best supplier
 - In short, it shifts the balance to sourcing arrangements that favor markets rather than internal provision



-Source: Malone, Yates, & Benjamin (1987); Bakos (1991)

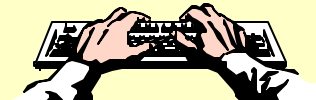
▼ Study Findings

- In fact, most participants in study report that transaction costs are dramatically lower
 - Average cost cuts in the 50% range



▼ Production Costs Also Lower

- Moreover, the production costs of business exchanges are also lower
 - Customers are themselves effectively serving the role of clerical and data entry personnel
 - A few Web servers with back-end connections to legacy systems are inexpensive processors compared to thousands of local, physical data terminal devices
 - Could lead to lower cost paperless offices



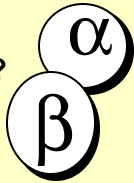
-Source: Kalakota & Whinston (1996)

▼ What is Really Happening?

- Where are the sustainable competitive positions, if any, in EC?

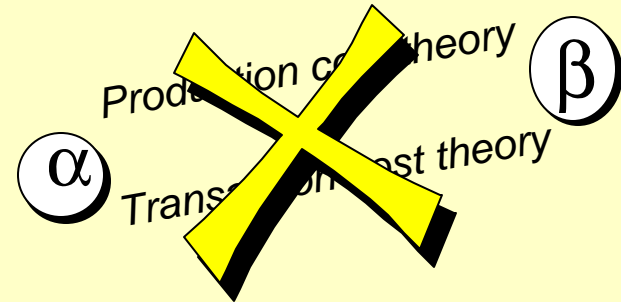
- ★ Production costs lowered?
- ★ Business exchange costs down?

γ ★ Or...exploitation of information asymmetries?



▼ Remember ATMs? No Sustainable Competitive Advantage

- e-Commerce applications can be readily imitated by competitors who then recapture production and transaction economies
- In RBV, they are high in replicability, and therefore, not terribly valuable resources



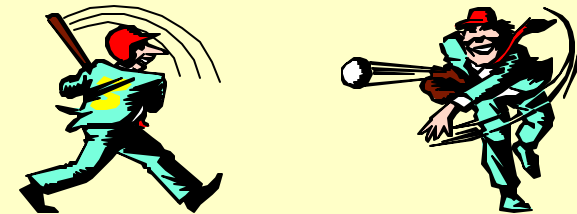
▼ Information Asymmetries

- Numerous thinkers base their assumptions and/or postulates on differences in information between parties in a transaction or entities in competition with each other
 - These differences are known as information asymmetries



▼ Information Asymmetries between Competitors

- Hayek (1948)
 - A firm that lacks competitive information is disadvantaged (the firms are "asymmetrical" in what they know)
 - It places one at a competitive disadvantage



▼ Atomic & Hybrid e-Business Models

- RBV argues that firms that can appropriate resources for their use are more competitive
- Which EC business models take advantage of certain resources and, therefore, make their firms more competitive
 - Short term and long term?

