Chapter 2:
Strategic E-Marketing and Performance Metrics

Learning Objectives

Strategic Planning

The managerial process of developing and maintaining a viable fit between the organization's objectives, skills, and resources and its changing market opportunities by identifying the firm's goals in areas such as: growth, competitive position, geographic scope, as well as other objectives.

Environment, Strategy, and Performance
Organizations perform a SWOT analysis to determine what internal strengths, weaknesses are, and external opportunities and threats may be. Performance metrics are measured to determine the success or failure of plans and strategies.

Strategy
Strategy is the means to achieve a goal. It is how a firm will achieve its objectives and the tactics used to succeed.

From Strategy to Electronic Strategy

When business strategies include information technology components, they become e-business strategies. Marketing strategies becomes e-marketing strategy when marketers use digital technology to implement the strategy.

From Business Models to E-Business Models

A business model is a method by which the organization sustains itself in the long term and includes its value proposition for partners and customers as well as its revenue streams. Some factors involved in the decision of which business model to follow would depend on the following factors: customer value, scope, price, revenue sources, connected activities, implementation, capabilities, and sustainability.

E-Business Models

What makes a business model an e-business model is the direct connection with information technology, which includes its value proposition for partners and customers as well as its revenue streams. Even though the Internet spawned the vast majority of e-business models, it is very important to remember that e-marketing and e-business models may operate outside the Internet. The term e-business models include both Internet and offline digital models throughout the rest of our discussion.

Value and Revenue
An organization's way of describing the way in which it creates value for customers and partners. Value encompasses the customer's perceptions of the product's benefits, specifically its attributes, brand name, and support services. Value = Benefits – Costs.

Menu of Strategic E-Business Models
Exhibit 2.3 shows a number of opportunities for firms to provide stakeholder value and generate revenue streams using information technology. A key element in setting strategic objectives is to take stock of the company's current situation and decide the level of commitment to e-business in general and e-marketing in particular. Models may be based on the following:

Activity Level E-Business Models – which may include: online purchasing, order processing, email, content publisher, business intelligence, online advertising, online sales promotions, or pricing strategies.

Business Process Level E-Business Models – these may be used to increase the firm's effectiveness: customer relationship management, knowledge management, supply chain management, community building, affiliate programs, database marketing, enterprise resource planning, and mass customization.

Enterprise-Level E-Business Models – direct selling, content sponsorship, portals, online brokers, online agents, selling agents, manufacturer's agents, metamediaries, purchasing agents, and virtual malls.

Pure Play – Business's that became specifically on the Internet, even if the have subsequently added brick-and-mortar locations.

Performance Metrics Inform Strategy

Performance metrics are specific measures designed to evaluate the effectiveness and efficiency of an organization's operations. If strategy is a means to an end, performance metrics allow the entire organization to know what results constitute successful performance.

The Balanced Scorecard

Firms no longer focus specifically on financial performance and market share. During the dot.com bust era, many focused on growth and suffered for it. The Balanced Scorecard suggests that firms consider vision, critical success factors, and performance metrics in four areas: customer, internal, innovation and learning, and financial.

Four Perspectives
Customer – Time, quality, performance and service, and cost.
Internal – Cycle time, manufacturing quality, and employee skills and productivity.
Innovation and Learning – Penetration of new markets, number of new products and the percentage of sales attributable to each, and the improvement of processes such as CRM or SCM.
Financial – income and expense, return on investment, sales, and market share growth.

Applying the Balanced Scorecard to E-Business and E-Marketing
Although unlimited amounts of information available to e-business firms, measuring and interpreting this information is a vital part to the success of that firm. These metrics are also important to the success of an e-business:

Metrics for the Customer Perspective – measures loyalty, lifetime value, customer perceptions of product value, appropriateness of selected targets, and customer buying patterns.

Metrics for the Internal Perspective – may be affected by human resources, information technology and the entire supply chain

Metrics for the Learning and Growth Perspective – typically falls under the human resources umbrella, except for product innovation and continuous improvement of marketing processes.

Metrics for the Financial Perspectives – two of the most commonly used metrics are profits and return on investment.

Balanced Scorecard for Raytheon's E-Business
This section shows a real-world example of a firm implementing the Balanced Scorecard method and what measures they established for their Web business.

Chapter Summary

A business or e-business needs strategic planning to develop and maintain the proper fit between the organization's objectives, skills and resources and its ever-changing market opportunities. Key goals for growth, competitive position, geographic scope, and other areas must be determined.

Strategy is defined as the means to achieve a goal. E-business strategy is the deployment of enterprise resources to capitalize on technologies for reaching specified objectives that ultimately improve performance and create sustainable competitive advantage. E-marketing strategy is the design of marketing strategy that capitalized on the organization's electronic or information technology capabilities to reach specified objectives.

An e-business model is a method by which the organization sustains itself in the long term using information technology, including its value proposition for partners and customers as well as its revenue streams. Firms deliver value by providing more benefits in relation to costs, as perceived by customers and partners. E-marketing improves the value proposition by increasing benefits, decreasing costs, and increasing revenues.

Companies can become involved in e-business at the activity level, business process level, enterprise level, or through a pure play. Commitment and risk are lower at the activity level and rise with each level. The main e-business models at the activity level include online purchasing, order processing, e-mail, content publishing, business intelligence, online advertising, online sales promotions, dynamic pricing strategies, and social media communications. The main e-business models at the business process level are customer relationship management, knowledge management, and supply chain management, community building online, database marketing, enterprise resource planning, and mass customization. The main e-business models at the enterprise level are e-commerce, portal, social networking, online broker (online exchange and online auction), and online agent (manufacturer's agent, shopping agent, and reverse auction).

Performance metrics are specific measures designed to evaluate the effectiveness and efficiency of an organization's operations. Web analytics helps to analyze user behavior on a website by using server logs, cookie files, and page tags.

The Balanced Scorecard links strategy to measurement by asking firms to consider their vision, critical success factors for accomplishing it, and subsequent performance metrics in four areas: customer, internal, innovation and learning, and financial. The customer perspective uses measures of the value delivered to customers. The internal perspective evaluates company success at meeting customer expectations through its internal processes. The innovation and learning perspective looks at continuous improvement to existing products and services as well as innovation in new products. The financial perspective looks at income and expense metrics as well as return on investment, sales, and market share growth. Each firm selects metrics for the four perspectives based on its objectives, business model, strategies, industry, and so forth. In this way, the firm can measure progress toward achieving its objectives.

Chapter Outline

Opening Vignette: The Amazon Story

Have the class read the opening vignette on the Amazon Story. Discuss with the class the importance of strategic planning and how it was imperative to Amazon.com's success. How is it possible that Amazon.com could operate for 7 years without showing a profit? How important are the co-branding partnerships and how do they drive revenue to Amazon.com? Finally, how has the implementation of auctions and the referral program added to the success of Amazon.com? Have the students browse amazon.com to gain perspective on the vast offerings available.

http://www.amazon.com/

I. Strategic Planning

Strategic planning is defined as "the managerial process of developing and maintaining a viable fit between the organization's objectives, skills, and resources and its changing market opportunities."

A. Part of the process of Strategic Planning is to identify goals in high-level areas such as:
   1. Growth – how much growth and how fast? You must first understand competition, product life cycles and market factors.
   2. Competitive position – how does the firm position itself against other firms in the industry?
      a. Industry leader – Google
      b. Price leader – Priceline
      c. Quality leader – Mercedes
      d. Niche firm – Technorati
      e. Best customer service – Dell
   3. Geographic scope – local, national or international.
   4. Other objectives – number of industries to enter, range of products, core competencies, etc.

B. Environment, Strategy, and Performance (ESP)
   1. Environment -- A SWOT analysis is used to determine the firm's internal strengths and weaknesses as well as the external opportunities and threats. The environment is analyzed and **performance metrics** are used to determine the effectiveness and efficiency of the e-business and e-marketing operation.
   2. Strategy – is the means to achieve a goal. More important than the goals are how the firm will achieve its **objectives.** Strategies are carried out by **tactics.**
   3. Performance **Strategy** – performance measures are used at every level of a firm, from high-level corporate strategic planning to functional and support level objectives.

Discuss the areas outside of the business world that must use strategic planning – athletics, military, political, etc. How might students use strategic planning in assessing their career objectives?

II. From Strategy to Electronic Strategy

Review and explore the U.S. Census Bureau report on the amount of e-commerce conducted. http://www.census.gov/mrts/www/ecomm.html

A. E-business strategy – the deployment of enterprise resources to capitalize on technologies for reaching specified objectives that ultimately improve performance and create sustainable competitive advantage.

B. E-marketing strategy – he design of marketing strategy that capitalizes on the organization's electronic or information technology capabilities to reach specified objectives.

C. Four appropriate types of rationale for e-business projects:
   1. Strategic justification shows how the strategy fits with the firm's overall mission and business objectives, and where it will take the firm if successfully accomplished.
   2. Operational justification identifies and quantifies the specific process improvements that will result from the strategy.
   3. Technical justification shows how the technology will fit and provide synergy with current information technology capabilities.
   4. Financial justification examines cost/benefit analysis and uses standard measures such as ROI and NPV.

III. From Business Models to E-Business Models.

A Business Model is a method by which the organization sustains itself in the long term and includes its value proposition for partners and customers as well as its revenue streams.

The following components might be used by a firm to determine the fit of a business model and its environment.

A. Customer value – create value through product offerings that are differentiated from the competition.
B. Scope – which markets does the firm serve and are they growing?
C. Price – are the products priced to appeal to markets and achieve company share and profit objectives?
D. Revenue sources – where is the money coming from? Is it plentiful enough to sustain growth and profit objectives over time?

E. Connected activities – what activities will the firm need to perform to create value? Does the firm have those capabilities?
F. Implementation – does the company actually have the ability to make it so?
G. Capabilities – does the firm have the financial, core competencies, and human resources available to make the selected models work?
H. Sustainability – will the model selected create a competitive advantage over time?

During the "bust" years of the dot.com era in 2000-2002, over 750 dot.com companies shut down or declared bankruptcy. Many experts feel that inadequate research into the firm's revenue sources were a significant factor in the demise of these companies. (http://news.com.com/2100-1017-277420.html?legacy=cnet)

Look at what CNET.com describes as the Top 10 dot-com busts. http://www.cnet.com/4520-11136_1-6278387-1.html Are there any companies that have tried (and either failed or succeeded) in replicating any of these services?

IV. E-Business Models

E-business models are defined by a method in which the organization sustains itself in the long term using information technology, which includes its value proposition for partners and customers as well as its revenue streams. Even though the Internet spawned the vast majority of e-business models, it is very important to remember that e-marketing and e-business models may operate outside the Internet.

A. Value and Revenue
   1. Value
      a. Value encompasses the customer's perceptions of the product's benefits, specifically its attributes, brand name, and support services.
      b. Value is similar to the **marketing concept**, which suggests that the social and economic justification for an organization's existence is the satisfaction of customer wants and needs.
      c. Value can be determine by determining whether there are more benefits than costs: Value = Benefits - Costs
   2. Revenue
      a. E-business strategies help to decrease internal costs
      b. E-business strategies also increase the enterprise revenue stream.

B. Menu of Strategic E-Business Models – a key element in setting strategic objectives is to take stock of the company's current situation and decide the level of commitment to e-business in general and e-marketing in particular. In exhibit 2.3, the higher the firm travels up the pyramid, the greater its level of commitment to e-business. The Gartner Group poses these questions before embarking on any e-business strategy:
    1. Are the business models likely to change in my industry?
    2. What does the answer to question 1 mean to my company?
    3. When do I need to be ready?
    4. How do I get there from here?

C. Level of Commitment to E-Business
    1. Activity Level E-Business Models – affects individual business activities that can save the firm money, is low risk, and can include:
        a. Online purchasing
        b. Order processing
        c. E-mail
        d. Content publisher
        e. Business intelligence (BI)
        f. Online advertising
        g. Online sales promotions
        h. Pricing strategies
    2. Business Process Level E-Business Model – changes business processes to increase the firm's effectiveness and can include:
        a. Customer relationship management (CRM)
        b. Knowledge management (KM)
        c. Supply chain management (SCM)
        d. Community building
        e. Affiliate programs
        f. Database marketing
        g. Enterprise resource planning (ERP)
        h. Mass customization
    3. Enterprise Level E-Business Models – the firm automates many business processes in a unified system. Some traits of this level may be:
        a. E-commerce
        b. Virtual worlds
        c. Direct Distribution
        d. Content sponsorship
        e. Portals
        f. Social networking
        g. Online brokers
        h. Online agents

i. Selling agents
j. Manufacturer's agents
k. Purchasing agents (shopping agents/reverse auctions/buyer cooperatives)

4. Pure Play – businesses that began on the Internet, even if they add
5. A brick-and-mortar presence. Many experts believe that eBay is the only viable pure play model in existence.

Internetnews.com reports that companies are finally recognizing the importance of multiple communication vehicles (chat, blog, text, etc). Discuss how these alternative forms of communication are affecting the ability to provide customer service.
http://www.internetnews.com/xSP/article.php/3066461/RightNow+Reveals+Top+Customer+Service+Trends.htm

V. Performance Metrics

Performance metrics are specific measures designed to evaluate the effectiveness and efficiency of an organization's operations. Because strategy is the means to the end, performance metrics should be defined along with the strategy formulation so the entire organization will know what results constitute successful performance.

A. To measure strategy effectiveness, metrics must include:
   a. Translation of a vision strategy with measurable outcomes.
   b. Must be easy to understand and use.
   c. Must be actionable.
   d. If tied to employee evaluations, must provide motivation to lead to desired outcomes.
B. Web Analytics – a study of user behavior on Web pages
   a. IP addresses are recorded
   b. Cookie files are written
   c. Page tags are inserted
C. Social Engagement Metrics - Marketers measuring exactly how visitors participate on the site rather than simply measuring whether or not they landed on the page. Items to be measured are:
   a. Time spent viewing a video, playing a game, or listening to music Downloading a white paper, MP3 music file, ring tone, or other content.
   b. Bookmarking a website at a social bookmarking site such as Del.ic.ious.com.
   c. Uploading a user created video, photo, or other multimedia content to a website.
   d. Writing a comment on a blog or other Web page.

e. Rating a book or online retailer by leaving a review or other type of rating measure.
f. Subscribing to a blog or website using an RSS feed.

VI. The Balanced Scorecard

A. Balanced Scorecard

1. Previously many organizations simply focused on financial performance or market share as the most important success measures.
2. The **Balanced Scorecard** was developed in 1990 by two Harvard Business School professors.
3. The Balanced Scorecard looks more toward long-term sustainability rather than short-term results.

B. Four Perspectives – the Balanced Scorecard links strategy to measurement by asking firms to consider performance metrics in the following four areas:

1. Customer Perspective –
   measures of the value delivered to customers
   a. time
   b. quality
   c. performance and service
   d. cost
2. Internal Perspective
   a. meeting customer expectations
   b. cycle times, manufacturing quality, etc
3. Innovative and Learning Perspective –
   aka the Growth Perspective
   a. value is placed on continuous improvement
   b. value is also placed on innovation in new products
4. Financial Perspective
   a. income and expense
   b. return on investment
   c. sales
   d. market share growth

Review with the students the Balanced Scorecard developed by Raytheon's E-Business and discuss how this might differ from a Balanced Scorecard for a brick-and-mortar company.

C. Applying the Balanced Scorecard to E-Business and E-Marketing – firms are experiencing information overload. A firm can use it's website to record virtually anything and everything a customer does on their website. The true test is knowing what information is relevant and how to use this information

1. Metrics for the Customer Perspective
   a. loyalty
   b. lifetime value
   c. product value
   d. appropriateness of selected targets

    e. customer buying patterns
2. Metrics for the Internal Perspective
    a. the entire supply chain
    b. human resources
    c. information technology
3. Metrics for Learning and Growth Perspective
    a. usually falls under the human resources umbrella except for:
    b. product innovation
    c. continuous improvement of marketing processes
4. Metrics for the Financial Perspective
    a. profits
    b. return on investment

What is a Balanced Scorecard? A new approach to strategic management was developed in the early 1990's by Drs. Robert Kaplan (Harvard Business School) and David Norton. They named this system the 'balanced scorecard'. Recognizing some of the weaknesses and vagueness of previous management approaches, the balanced scorecard approach provides a clear prescription as to what companies should measure in order to 'balance' the financial perspective. This philosophy has it's own webpage -- http://www.balancedscorecard.org/basics/bsc1.html

Chapter 2:
Strategic E-Marketing and Performance Metrics

Review Questions

1. **What is strategic planning and why do companies prepare a SWOT analysis during the strategic planning process?**

   Strategic planning is the "managerial process of developing and maintaining a viable fit between the organization's objectives, skills, and resources and its changing market opportunities (Kotler 2003 p. 89)." The SWOT analysis (strengths, weaknesses, opportunities, and threats) examines the company's internal strengths and weaknesses with respect to the environment and the competition and looks at external opportunities and threats. Armed with the results of the SWOT analysis, the firm can set objectives in a number of high-level areas, such as Growth, Competitive position, Geographic scope, and Other objectives. This helps the company develop necessary tactics to achieve their goals.

2. **How does e-business strategy relate to strategy on the corporate level?**

   E-business strategy is the deployment of enterprise resources to capitalize on technologies for reaching specified objectives that ultimately improve performance and create sustainable competitive advantage. Corporate-level or *enterprise-level* business strategies include information technology components (Internet, digital data, databases, and so forth).

3. **Define e-marketing strategy and explain how it is used.**

   Strategic e-marketing is the design of marketing strategy that capitalizes on the organization's electronic or information technology capabilities to reach specified objectives. In a parallel fashion, marketing strategy becomes e-marketing strategy when marketers use digital technology to implement their strategy.

   Technology and its unique properties have given some new life to traditional enterprise and marketing strategies. Some uses of e-marketing from exhibit 2-3:

   1. E-Marketing Increases Benefits -- Online mass customization (different products and messages to different stakeholders), Personalization (giving stakeholders relevant information), 24/7 convenience, Self-service ordering and tracking, and One-stop shopping.
   2. E-Marketing Decreases Costs -- Low cost distribution of communication messages (e.g., e-mail), Low cost distribution channel for digital products, Lowers costs for transaction processing, Lowers costs for knowledge acquisition (e.g., research and customer feedback), Creates efficiencies in supply chain (through communication and inventory optimization), and Decreases the cost of customer service.
   3. E-Marketing Increases Revenues -- Online transaction revenues such as product, information, advertising, and subscriptions sales; or commission/fee on a transaction or referral, Add value to products/services and increase prices (e.g., online FAQ and customer support), Increase customer base by reaching new markets, and Build customer relationships and thus increase current customer spending (wallet share).

4. **Give examples of e-business models.**

   An e-business model is a method by which the organization sustains itself in the long term *using information technology*, which includes its value proposition for partners and customers as well as its revenue streams. What makes a business model an e-business model is the direct connection with information technology:

   Examples can include any at activity, process, or enterprise level that are shown in Exhibit 2.4 and described throughout the chapter.

5. **What is the formula for determining value?**

   Value = Benefits – Costs

6. **What are the four levels of commitment to e-business and what are some examples of each?**

   See Exhibit 2.3

   Activity Level E-Business Models -- Online purchasing, Order processing, E-mail, Content publisher, Business intelligence (BI), Online advertising, Online sales promotions, and Pricing strategies. One example is Amazon e-mail to customers that recommends a new book.

   Business Process Level E-Business Models -- Customer relationship management, Knowledge management, Supply chain management, community building, Database marketing, Enterprise resource planning, and Mass customization. One example is American Airlines Web site that allows customer access to frequent flyer and other account information.

   Enterprise Level E-Business Models -- E-commerce, Direct selling, Content sponsorship, portals, Online brokers, online exchanges, online auctions, and many agent models (Manufacturer's agent, Catalog aggregator, Metamediary, Shopping agent, Reverse auction, Buyer's cooperative, and Virtual mall). One example is Dell computer direct sales from the Web site.

   Pure Plays -- Businesses that began on the Internet, even if they subsequently added a brick-and-mortar presence. Most fallen angels in the dot-com crash were pure plays that lacked viable e-business models. Examples could include E*Trade, Yahoo!, and eBay.

7. **What is customer relationship management (CRM) and why do companies create strategies in this area?**

   Customer relationship management (CRM) involves retaining and growing business and individual customers through strategies that ensure their satisfaction with the firm and its products. CRM seeks to keep customers for the long term and to increase the number and frequency of their transactions with the firm. In the context of e-business, CRM uses digital processes and integrates customer information collected at every customer "touch point." Customers interact with firms in person at retail stores or company offices, by mail, via telephone, or over the Internet. The results of interactions at all these touch points are integrated to build a complete picture of customer characteristics, behavior, and preferences.

8. **How is e-commerce defined?**

E-commerce refers to online transactions: selling goods and services on the Internet, either in one transaction or over time with an ongoing subscription price.

9. What is an Internet pure play, and what are some examples?

Pure Plays -- Businesses that began on the Internet, even if they subsequently added a brick-and-mortar presence. Most fallen angels in the dot-com crash were pure plays that lacked viable e-business models. Examples could include E*Trade, Yahoo!, and eBay. Newer pure plays are Google.com and Classmates.com.

10. What are three ways of collecting Web analytics?

Web analytics can be collected using the following methods:

1. Server logs record the user's IP (Internet Protocol) address, the browser being used, the site visited immediately before the company's site, the time of day, and every mouse click during the site visit.
2. Cookies are recorded on the user's computer that assists companies in tracking repeat visitors and storing habits and/or favorites.
3. Page tags can be inserted into a user's computer to determine when items are removed from a shopping cart and can be activated based on the stored cookie files.

11. What is the Balanced Scorecard and how do companies use it in e-business?

The Balanced Scorecard is a system that measures many aspects of a firm's achievements. Fifty percent of organizations worldwide have adopted the Balanced Scorecard with excellent results ("The E-Commerce Balancing Act" 2000). The scorecard approach links strategy to measurement by asking firms to consider their vision, critical success factors for accomplishing it, and subsequent performance metrics in four areas: Customer, internal, innovation and learning, and financial (Exhibit 2-5). It is important to remember that each firm defines the specific measures for each box—the system is very flexible.

Discussion Questions

12. Why is it important for an e-business model to create value in a way that is differentiated from the way competitors' models create value?

This is no different for business models online than offline. Differentiation is key to winning customers from competition. According to Afuah and Tucci (p. 16), critical e-business model components include creating customer value that is differentiated from competition, and sustainability—creating a competitive advantage over time. This means it will be difficult to imitate and that the environment will be attractive for maintaining the model over time.

13. Based on the opening vignette and your examination of the Amazon.com site (or your experience as a customer), what strategic objectives do you think are appropriate for this e-business? What performance metrics would you use to measure progress toward achieving these objectives—and why?

Amazon.com wants to ***grow*** by building customer wallet share, not share of market. This is why it has ***diversified*** into many new product categories and co-branded with firms such as Target. In addition, it uses technology to suggest new products to current customers and employ other techniques aimed at retaining and growing their business. Thus, ***CRM*** is another strategic objective. Appropriate metrics for CRM include average order value, customer retention rates, and lifetime value of current customers. In addition, it will measure sales for new product introductions as evidenced by the e-mail from Jeff Bezos on 12/9/02 regarding the test marketing of the new clothing product line at Amazon.com:

14. The Balanced Scorecard helps e-business examine results from four perspectives. Would you recommend that e-businesses also look at results form a societal perspective? Explain your response.

Answers will vary, but responses should focus on the social networking and social engagement metrics for businesses. Social networking has created a niche market of non-commerce sites that can, and do, generate a substantial amount of advertising revenue. Web 2.0 technologies have forced the hand of marketers to measure more than simple web hits. By including such social measure in a Balanced Scorecard, companies will have a much more thorough snapshot of it's current performance.

15. Should e-businesses strive to build community with noncustomers as well as customers? Why or why not?

Answers will vary, but responses should focus on the idea that building community with noncustomers is relatively inexpensive, if not free. Noncustomers can turn into customers and building community with everyone and anyone can lead to an unlimited pool of potential clients.

16. Do you agree or disagree that the page view metric is nearly useless in the Web 2.0 environment?

Answers will vary, but responses should focus on the inadequacies created by simply measuring page views. Although not completely useless, it should be noted and explained that many other metrics need to be measured to capture the appropriate information needed.