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Analytical Study On The Essential Factors Of Success On E-Business
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On E-Business

**DIFFERENT MARKET ADOPTION SEQUENCE**

In the pre-Web days, every product was supposed to move through a predictable market adoption sequence. First, early adopters got the ball rolling. Then the early majority came in. At this point the product demand rises most rapidly and return-on-investment is typically highest. Once the majority begins adopting, the product volumes begin to flatten, and then turn downward. Finally, the late adopters and laggards follow, buying the product at commodity price levels, as sales volumes sink back toward the X axis.

In that scenario, early movers reaped the early adopter margins and volumes, but companies just getting into the market during that phase could still conceivably make profits through very efficient manufacturing. During the late-adopter and laggard phases, most of the early movers had already moved on, leaving the remaining demand to be fulfilled by those companies set up to earn money on commodity-priced products.

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Traditional Life cycle stages are:
Early Adopters, Early Majority, Majority, Late Adopters, Laggards

The time frame involved in the market adoption sequence had grown shorter, giving the advantage to companies who were fleet on foot. But the Internet-based life cycle has created a "winner-take-all" scenario. In this situation, the adoption curve rises quickly and steeply, and then falls quickly and steeply. If a company is not on the early part of the rising side, then it is nowhere.

What that means is that there is very little chance in trying to out-Amzon Amazon i.e. to throw out Amazon in books. Companies have to do something different to excel. One has to write new rules of the game that will force others who follow you to cede your space to you, and in

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turn they have to find their own differentiators. There is very little chance of a successful also-ran in e-business.

**THINK DIFFERENT**

When someone is working up a vision for an e-business crusade, the word that should be kept in the front of the mind is "different." But it should also be remembered, that differentiation can be fleeting.

Consider the sale of music online. First-movers, like CDNow.com, adopted a business model similar to Amazon's. Customers could order, online, from a large and diverse inventory of music CDs. The prices were typically lower than those at brick-and-mortar music stores, even with the delivery charges. The tradeoff, of course, was the loss of instant gratification. Along came a competitor who thought-different. There was no distinction in trying to be another CDNow, competing on the basis of price. Instead, this competitor created a new value offering — customized CDs. Customers could specify only the tracks they wanted. That had appeal to CD buyers who chafed at the idea of having to buy all the tracks in order to hear just the few they really liked. In fact, they were willing to pay a premium for that customization.

CDNow and its first-mover associates were forced to offer customized CDs, too. But the new competitor had the first-mover advantage in that custom-CD space.
Unlike software, which can be easily downloaded, music on CDs is a very data-intensive medium. It used to take several hours, for example, to download a typical CD in native format. But MPEG Layer 3 audio compression technology (MP3) provides 12-to-1 data reduction without noticeable degradation of music quality. With it, a CD that once took four hours to download can now be downloaded in 20 minutes. That is why music has become a product that can be readily delivered online. There are, of course, legal issues to be wrangled with and sorted out, but this genie is out of the bottle. And now there is a way for an online music company to provide convenience, low prices and nearly instant gratification.

If e-books become popular in the market many book-sellers may have to face the same tragedy. But Amazon has thought of it long back and that is why they offer free e-books as well as paid e-books.

**Delivering Function Without The Form Can Be A First-Mover Strategy**

One can also be a first-mover without having to invent something new. Just look for a way to deliver it differently. For example, another way to look at what the MP3-based music sites are delivering is function without the form, that is, music without the CD or cassette tape. And there are lots of positive economic implications when a company does this.

There are two options here; one is directly downloading from the server. But here the legal objections exist if the server is in USA, but in many
other countries it is not. And when users are downloading music without
the form it hardly matters where the server is. All servers are equidistant
that is only one click away. The next is allowing people to share it among
themselves. We have discussed the detailed case study of Napster in this
dissertation.

**Delivering Function Without Form**

When FedEx joined hands with National Semiconductor to become its
picking, packing and shipping arm, it is providing delivery to National.
Thus, National does not have to deal with boxes, bubble pack and tape.
Again, this is function separated from form.

There are many opportunities in e-business to provide this
separation, exploit economies of scale, and offer differentiated services
with greater convenience and lower cost.

**Diagnostic Function Without Form**

A few years ago, HP Labs was toying with the idea of a computer service
station. An HP service person located in Cupertino, California would be
able to download software to a customer in New York, for example, and
diagnose the customer’s computer problem remotely, in real time.
Now, for the sake of discussion, let’s take that idea a bit further. Today,
when a user is having a problem with his computer software, say
Windows 98, he can call a phone number and interact with a real
person. He tells you to reboot, and you reboot. He tells you to select "start," then "run," then type in "msconfig." And etc. etc. He then takes the user through a sequence of steps, asking him questions along the way. Depending upon the nature of the problem, the process can take a long time to complete.

But suppose the user could log onto a Web site, and sit back while a Web site-resident troubleshooting application took control of his computer and raced through all those same manual steps. He could be doing other work at the same time, while his computer was handling diagnosis and troubleshooting. It's just a variation on the theme of separating function from form, with the form, in this case, being your participation in the repair process.

And in fact it is not a far-fetched dream, many Antivirus softwares offers a free scan of your computer. And if the user likes the product's functioning then he may buy the product. In India it is very time consuming because we have a very poor bandwidth, but even now in India the metros are enjoying high bandwidth with cables connection.

**Crm Function Without Form**

In another instance of function separated from form, the company Rainmaker Inc. offers eCRM services to software and other high-technology companies. Rainmaker does not sell hardware, software, or
CRM consulting. It helps its clients to handle their CRM needs remotely. To the client and its customers, Rainmaker is completely transparent. In fact, Rainmaker has innovated in another way, as well. Unlike other marketing groups that charge their clients for activity (e.g. the number of phone calls), Rainmaker does not charge its clients anything. Its business model is based on using its clients' databases to find opportunities to do business. These include sales of upgrades, subscriptions, support services and education services.

Rainmaker collects the fees for these new sales, then deducts its percentage and sends the balance to the client. Like FedEx and Ingram Micro, Rainmaker also provides its clients with back-office services such as order processing, accounts receivable, fulfillment and inventory management. The function is CRM without the costs, integration and training efforts usually associated with it.

**Software Applications Function Without Form**

Finally, here is a different slant on the idea of separating form and function. Today, software companies sell an application, and usually some support services to go along with it. Then, over time, they have to deal with managing different versions of the software, because customers do not upgrade at the same time. It is also at times difficult for the customers to keep on upgrading all the softwares; it is simply not economical to upgrade softwares that one needs occasionally.
Suppose, instead of selling you software, an entity sells access to software, much akin to today's ISP selling its users access to the Internet. The application would, in fact, be resident on a server or servers at the host's site. Let's say that the whole of the software is present in the user's computer barring a few important files, which the user can access from the company's server. Thus the payment can be based on hourly basis also. The user would pay a monthly, quarterly or annual fee that would be recurring, but would be far lower than the cost of the software itself. And there is no trouble of getting it upgraded regularly.

The entities that provide this service are called application service providers (ASPs). They hope to become new intermediaries between customers and software companies. And all of their customers would have access to the latest upgrades, because the master software would always be current. For the software companies, if such a business model takes off (and many market analysts are predicting it will take off in a very big way), it would make their life a lot easier, because they would only have to support one version instead of two or three. They would have to support only the ASPs who would, in turn, support the software end-users.

The Internet is the enabling technology behind ASPs. Without the Internet, it couldn't work. In order for the software end-users to be
satisfied with performance, key parts of the application would have to be resident in their machines. Just think about the frustration if you had to download all of Microsoft Word every time you wanted to create a document. And that problem underscores another problem. Now a days we have huge megabytes of RAM and gigabytes of storage to play with on today's desktop machines, software developers have not been motivated to produce “thin” (i.e., smaller-sized) applications.

That is the reason for the fragmentation of the solution: some code on the user's system, the rest of the code on the ASP's server. But being able to pay for an expensive ERP application on a much lower monthly basis, for example, is an appealing proposition to mid-size and smaller companies. As such, it would expand the software companies' markets as well as that of the ASPs. And, if it does take off on a grand scale, it will mean significantly increased sales of network infrastructure equipment — servers, routers, switches and so on. The ASP business is one example of using the characteristics of e-business to create a new value proposition, based on new relationships with customers (the software end-users) and suppliers (the software companies).

**A Patented Commerce Model**

Priceline.com changed the rules of the game and achieved first-mover advantage. Before Priceline.com, there was the concept of manufacturer's suggested retail price (MSRP). That was back in the days of information
asymmetry, linear supply chains, clear industry boundaries, multi-year product lifecycles and marketing plans.

Priceline.com's founders decided to change the rules. Every industry has the problem of excess inventory — even the so-called "just-in-time" manufacturers. Airlines have unsold seats on flights, hotels have unoccupied rooms, and car rental agencies have cars sitting on their lots. The problem was how to sell the excess inventory, gain incremental revenues and profits, all without cannibalizing regular retail pricing. The solution, in short, was Priceline.com's vision. It was not about being an aggregator, or an online auction company. It was something new and different. In fact, Priceline.com received a patent for its buyer-driven commerce model.

Priceline.com's Web site is deceptively simple. For example, you register, giving Priceline.com your credit card information, and then select an airline embarkation and destination, date and acceptable time range. After that, you enter how much you would be willing to pay for that ticket. You cannot choose your airline, or the number of intermediate stops. But if Priceline.com finds an airline willing to take your deal, you just bought yourself a ticket.

It works the same way for hotel rooms, rental cars, and long distance calling rates. By changing the rules in several different areas, Priceline.com has achieved very noteworthy results. For example, the
airlines in its ticketing program all grew at faster rates than those that were not in it. "We started with two airlines and sold 43 tickets the first day — at substantial loss — but now we've proven our concept and all the airlines have become part of our program," Schulman says. Priceline.com, launched in April 1998, is today driving about four percent of all leisure airline ticket-sales traffic. The company expects to end the year 2000 with revenues in excess of $1 billion. And it will have moved into the Fortune 1000 in less than two-and-a-half years.

We have taken a detailed case analysis in the later part of this dissertation. We shall find that Priceline makes a grievous mistake of moving the same formula in every sector of business. The company just cannot stop touching everything. They even moved to grocery business and that is where they failed. (We shall look over the details of the Priceline.com case study that has been discussed in this dissertation.)

But that is not all what we have discussed so far is only the tip of the iceberg much lies underneath it. There are many ways in which business can still be carried out with the help of Internet. Selling is not the only way we increase our profit pie. Cost saving is another option. The growth of business can be achieved by getting our products in time. It is not without reason that Just in Time or JIT became a catchword in the world of business. Then of course, we need to serve our customers better. We all know this but how can we do that with lesser amount of
money? As we go through the rest of this chapter we shall find answers to many of these questions.

Here we start with a very simple case study of a Minnesota based retail firm who is in the business of selling computer, CD, DVD and other electronic consumer goods.

**BESTBUY.COM**

Best Buy is a Minnesota-based retailer of consumer electronics shop who wanted to use the benefit of the e-revolution that is going on round the planet. And the easiest step was to have a website floating on the web. Initially BestBuy.com was a website of DVDs and videos and its main purpose was to drive more volume to its brick and mortar stores. But it was not a big success. Soon the company figured out what it needs to make clicks-and-mortar retailing really successful.

Barry Judge, vice-president of marketing for BestBuy.com, is of the opinion that even this low-scale marketing effort of just having a website was not inexpensive. And the profit or the gain in business was not substantial. So a major strategic decision was taken to make the best use of the website. It was decided that if one has to be in the e-business then one has to wholly and fully devoted to it and it expanded the site to include everything in its stores. Now the website pushes Best Buy's entire product line, from home computers to CDs and to consumer electronics.
While the site is not profitable on its own yet, the company is convinced of its benefit. Best Buy's brick and mortar stores attract 200m-300m shoppers a year. The website has already attracted 100m visitors in less than 12 months since its redesign with all the products. All web visitors are not shoppers neither the company wants it to be like that; the management does not want each surfer to type in his credit card account and buy something before they leave the website.

In this two years the company has realized that its customers were not committed to any one selling channel; so if the customers are guided intelligently there can be harmony between the two points of selling i.e. website and store. So a new coordination has been struck which drives more revenue from both the stores and its website.

Best Buy is a retail environment and the stores employ a sales force that is not paid on commission. And hence a new website to sell the products of the store does not cannibalize in to the pay packet of the marketing people.

The use of this new technology has indeed been of great help for the company, because the target group of Best Buy is technology friendly and often they are early-adopters of technology. In fact an about 80-90% of Best Buy's core target is already on the web. Thus it has been really of great help to have a web presence for Best Buy. Since customers were
already in the habit of coming into the store and browsing, it made sense to use the website to let them do the same.

For any expensive product such as a computer or big screen T.V. the buying process could easily involve two or three trips to the store before the final purchase is actually made. Customers often compare notes, features and prices and perhaps even consult friends or family members before buying it. Using the web to distribute pricing and product information that is identical to what is found in the company's flagship chain of 400 stores helps the customers greatly to come to a decision. It has been found that the customers, are using the website to do more homework.

Every Sunday the website is refreshed to match the currents promotions and highlights. And 50 million circulars are processed to be mailed every weekend. The costing of sending out 50 million email circulars is much cheaper than any paper circulars. Thus with the help of the website the company has been able to do a lot of cost cutting in the field of promotion.

Best Buy has its own team of E-publishing system with 25 designers and web publishers.

Since last year, Best Buy has been using Interwoven's TeamSite and three related products--Templating, Open Deploy and Data Deploy--as its content management platform. Mr. Perry joined the firm in January.
2000, and he says the original web address was built very simply, drawing upon files stored in a Microsoft Access database and then pushing them to the web with an internally developed tool. Mr. Perry ultimately scrapped the homegrown system because it was not strong enough to support a large-scale web effort. In Best Buy's case, the Interwoven product allows the company to pull data from a variety of sources. For example, product specs are drawn from a Microsoft SQL Server database, while pricing data come from the same mainframe that's supporting the retail stores. Other files, such as "how-to" explanations for installing electronic equipment, are stored in simple text format and are converted by TeamSite into HTML code. Then, they're fed to a staging server. Ultimately, everything is pushed out to the company's web host, Exodus.

This clearly shows the great success of the website. Now they need to upgrade their hardware system to accommodate the their present customer base.

Best Buy is so impressed with the results of the sees a website that's even more closely aligned with the stores. For example, by the time the Christmas shopping rolls around, Best Buy will have installed ten interactive kiosks in each of its stores that will run off the same databases supporting its website.
DELL.COM

Here now we take the example of Dell to illustrate the fact that if the power of Internet and e-business is utilized properly it could do miracles. Throughout Dell's history, the PC business has been crowded with competitors selling highly comparable, near-commodity products based on technology that is constantly evolving. As a result, inventory that does not sell loses its value drastically, causing a devastating impact on the profit as a whole. In this environment, making money is extremely difficult. A similar challenge confronts many manufacturing businesses today, from automobiles and consumer electronics to home furnishings, business equipment, and instrumentation. All companies share a series of cutthroat competition in the market and many potentially profit-killing characteristics, including too many steps in the value chain, too many markdowns, and too much guesswork about demand.

Dell's story is the story of how one company has managed to solve this dilemma through a series of reinventions, starting with a direct selling model and culminating—so far—in a highly successful shift to Electronic Business Model.

In typical textbook case studies we often read the cases of success only, which often give the idea that the CEO is a god and the whole success was hatched from a tea table meeting. But the truth is far from it. Every

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company makes mistakes and the successful ones learn from it and change themselves accordingly.

**Dell: the E-business trendsetter.**

In 1984 by Michael Dell founded the Dell Computer Corporation. Now it is one of the world’s largest direct sellers of computer systems and products that are designed and customized to end-users’ requirements. Dell’s has a wide range of customers; large and small businesses; government agencies, schools, and other institutions; and the general consumer market. Today, nearly half of all Dell products are purchased via the Internet.

The financial results of Dell in this business arena have been phenomenal. In 1988, two years after going public, Dell was worth $1 billion. Three years later, it was worth $2 billion. Five years after that, in 1996, it was worth $4 billion (half the worth of its rival PC maker, Compaq). By 1999, it was worth over $100 billion (more than twice the worth of Compaq). How did Dell achieve all this?

Virtually Dell digitalized almost all of its processes—including sales and marketing, outsourcing, manufacturing, and service. Thus Dell achieved two major things (1) it evolved a powerful value proposition for its customers and (2) it developed a value-capture mechanism that works even in an industry that has become essentially a no-profit zone. This case study explores how Dell has created and
reinvented its unique business model, and considers the strategic options it faces in an always-challenging future.

**DELL BUSINESS ISSUES**

So the central question that Dell faces is how to make money in a no-profit business zone. Since the inception of their business Dell has found that the PC business has been crowded with competitors selling highly-comparable, near-commodity products based on technology that is constantly evolving. And as a result piled up or unsold inventory, creates a devastating impact on the profit as a whole. In this environment, making money is extremely difficult. A similar challenge confronts many manufacturing businesses today, from automobiles and consumer electronics to home furnishings, business equipment, and instrumentation. All share a series of cutthroat competition in the market and many potentially profit-killing characteristics, including too many steps in the value chain, too many markdowns, and too much guesswork about demand.

**THE FIRST DELL BUSINESS MODEL**

From the beginning, Dell has been built on what it calls the Direct Model—selling PCs to customers without any intermediary. Like most other companies in the business of making IBM PC clones, Dell outsourced large portions of its manufacturing processes and handled only
the final assembly of computer systems from components produced to Dell specifications by outside suppliers. However, in the late 1980s and early 1990s, as the North American PC marketplace grew and started maturing, Dell's Direct Model gave it several advantages over most of its competitors:

Because of its direct connection to customers, Dell enjoyed real-time feedback about product offerings, service, and the competition. During the Internet era this feedback came mainly via telephone calls (Dell received over 1,400 customer calls each day, as early as 1987). This feedback helped Dell avoid some of the more serious missteps and miscalculations of its competitors. The lesson here is: A large stream of value can be captured simply by controlling just one crucial link in the process. If we look at it carefully then we shall find that dell choose one very important crucial link in the whole process and thus bettered the whole business proposition. In Dell's case, that link was the connection between customers and the supplier. Everything else could be outsourced. Dell made occasional minor miscalculations about customers' requirements and needs, but it never fell into the disastrous product mistakes that nearly destroyed Apple and other computer companies during this period.
• Dell's Direct Model eliminated the 25-40 percent price markup required by typical retail computer dealers. This enabled aggressive pricing for Dell products.

• Dell developed a specialist sales force. Its representatives had a deep, focused knowledge of and commitment to Dell products. Other PC companies were forced to rely on dealers who carried six to ten lines of products from various companies and had no strong commitment to any of them.

• Perhaps most important, Dell enjoyed a streamlined asset base and consistently low inventory levels because it built products only to fill customers' orders. Rather than build computers and then hope it could sell them, Dell sold the computers first, then built them according to customers' specifications. The refinement and elaboration of this innovative business approach, and the full realization of the financial and other advantages it offers, would prove to be crucial aspects of Dell's success.

BUSINESS MODEL EVOLUTION: LEARNING FROM MISSTEPS

Dell's history includes several major missteps that might have damaged the company. Instead, each mistake became an opportunity for Dell to learn, refine, and recommit to its core business model, and to become stronger with each step.
**INTRODUCTION OF OLYMPICS:**

In the late 1980s, "Olympic" was the internal code name for a proposed family of Dell products that spanned the desktop, workstation, and server markets and were laden with ambitious technology. Dell managers received a respectful but cool response from customers with whom they shared the Olympic plans. Nonetheless, Dell proceeded to develop prototypes and unveiled them proudly at the annual Comdex computer trade show in November 1989.

This time, the negative response from Dell's customers was unmistakable. Some of the elements of the Olympic product line were impressive, but the total package offered no compelling benefits. One customer summed it up: "We don't need that much technology." Chagrined, Dell bit the bullet and canceled the Olympic product line.

**Lessons learnt form Olympic:**

- It is important to incorporate customer needs in the developmental process. Create products that the customers need, not the products you love to make.

- Hear what customers complain about.

- Admit the mistakes as early as possible, and rectify them.
The Road to Latitude

In 1988, Dell entered the notebook computer market—at that time, the fastest growing and most profitable segment of the PC business. The first Dell notebooks were well designed, and they sold well in the market. Later generations of Dell notebooks were increasingly complex—and late to market.

By 1993, a whole range of new Dell notebooks were behind schedule, largely due to feature creep—over-design of the product, not to meet consumers' needs but simply because the features were possible and attractive. Dell then brought in John Medica, who had led the development of Apple's PowerBook. He soon concluded that only one of the notebook products currently under development had a chance to be competitive.

Again, Dell made the right decision, although it was costly and painful. Dell canceled all of the noncompetitive products and refocused the entire division on producing the sole survivor, known as Latitude XP, as quickly as possible.

The Retail Detour

Despite its history of success with the Direct Model, Dell experimented with selling its computers through conventional retail outlets. From 1990 to 1994, Dell products were sold through several retail chains, including CompUSA and Circuit City. Retail sales were growing relatively quickly
(20 percent annually), and the business appeared healthy. Then a new corporate CFO entered the scene. He ran a separate Profit & Loss on the retail business, allocating costs and revenues accurately to that sales channel. He discovered that Dell was making no profits from retail sales—nor, apparently, were Dell's competitors. No identifiable profit core could be found in the retail PC marketplace.

This decisional mistake is very common, for example in another case study of Purple tie.com we shall see that like Dell they too dismantled the main pivotal point of their business. For Dell the cost saving comes from not being in retail brick and mortar business, but they try to do otherwise, and has to face loss. So also for purpletie.com they used other's laundry infrastructure and thus made much-cost saving and profit. But when profit accumulated enough they went into producing a super-huge laundry thus investing much more in an infrastructure that was absolutely needless. It is very similar to the fable of “The man with the Golden Goose” the goose was the source of a golden egg everyday, but the farmer decided to kill it to get more. So also for the main Dell source of cost saving was ‘not going to retail outlets’ but they went to kill the very concept.

But unlike the fabled farmer, Dell made a difficult but appropriate decision: It left the retail business altogether. Because retail sales constituted a relatively modest portion of Dell's revenues, the financial...
hit was of relatively minor importance. Far more significant was the improved focus Dell enjoyed as a result. Dell personnel in sales, manufacturing, marketing, and service could now concentrate with much greater clarity on Dell's core customer set, undistracted by questions such as: "What kind of product will Circuit City want for next Christmas?"

Many media observers and Wall Street analysts considered it a serious mistake for Dell to drop retail sales from its business mix. They predicted that Dell's sales growth would soon slow or stop. Instead, it accelerated, leading to strong growth in shareholder value. By 1995 Dell was worth four times than that of Compaq.

Don't loose focus. The backbone of profit making was not to invest much money on retailers, and in fact when Internet was not there Dell worked out mostly on telephone. Retailers often stocked much hardware spare parts that often lost their value with time and it curtailed the profit margin greatly, so retailers are to be eschewed. This was the main idea when Dell came into Computer business. But with time they lost their focus and went into retail business. But before long they realized their mistake and rectified them. In the later part we shall see in the case study of Purpletie.com did the same mistake and they failed to rectify themselves and eventually had to pull down the shutters.

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DELL GOES DIGITAL

Nineteen ninety-six was a turning point year for digital business. Cisco Systems started selling computer networking gear on-line. Charles Schwab created the eSchwab.com electronic brokerage business. And Dell started selling computers via Dell.com.

Ninety percent of all the businesses out there could have done what Dell, Cisco, and Schwab had begun to do—substituting bits for atoms. Ninety percent chose not to. Because of the choices they made that year, Dell, Cisco, and Schwab are still their industries' leaders today.

Dell had already made it possible to track order status via the Internet. In the late 1990s, customer readiness to use the Web for buying had increased to the point where selling via the Internet was the logical next step—especially for a PC company. By definition, everyone on the Web was part of the target audience for Dell's products.

Dell's transition to e-business was not an overnight event. For a long time, the vast majority of its business was still done by telephone. This transition to a hybrid business model is typical of smart organizations that are in the process of going digital: Schwab, Cisco, and Cemex have all employed similar mixes of on-line and offline business working. But Dell pressed hard to change toward digital very quickly.
The key step was towards this digitalization was the creation of Dell's online configurator; a digital system for designing a customer's own PC and one of the world's first Choiceboards. By permitting customers to design a PC that has only the options they really want, the configurator makes possible a precise fit between the customer's needs and the product's features, rather than the compromise for which customers have traditionally settled.

The Dell configurator still offers the easiest way to buy a PC anywhere. Among its benefits to the customer are:

- **Simplicity**: Dell offers two models of laptops and desktops, and three models of servers, so the differences are quick and easy to grasp. The models' simplicity is balanced by Dell's customization.

- **Customization**: Choosing from among a variety of options (memory size, hard drive capacity, modem type, and so on), customers can configure Dell's computers according to any of over 16 million possible permutations.

- **Instant feedback**: For each choice a customer makes, the exact cost (or savings) is immediately available to them.

- **Digitized human touch**: Customers can easily request additional information to aid in their decision-making.
Less obvious but equally important are the benefits to Dell:

- **Perfect accuracy and speed:** Because no salesperson or order-entry clerk is required to record customers' choices, there is no delay in processing an order, and no opportunity for costly errors or miscommunications.

- **Up selling:** The configurator makes it easy for customers to buy accessories or options that will upgrade the power and quality of their equipment. The fact that customers are no longer forced to spend money on features they don't want may encourage such upgrading.

- **Capture of customer information:** Because the configurator instantly records every customer's preferences, Dell can track buying patterns in real time instead of on a quarterly, monthly or weekly basis.

Dell's configurator works only because of the information-intensive production system Dell has created. This system makes it possible for Dell to build computers to customers' specifications quickly, accurately, and without stockpiling inventory. The system's features include:

- **Radical reduction in parts:** In the PC industry, as in most others, 10 to 20 percent of stock-keeping units (SKUs) account for 90 percent of customer demand. Dell focuses on that vital subset.
• **Digitization of information:** Ordering details and specifications are transmitted down the line electronically—"following" the computer, as it is assembled, and precluding errors and miscommunications.

• **Digital supply network management:** Dell has developed unusually close relationships with a small number of suppliers that are kept fully informed (electronically) of changing order patterns and component needs. They supply parts on a just-in-time basis, limiting the amount of money and space Dell must invest in stocking supplies.

• **Process simplification:** The original standard of 130 "touches" during assembly of a typical PC system has been reduced, over time, to just 60.

Dell engineers are continually working to improve and streamline these processes; collectively, they own over 200 process patents. As a result of these and other digitization steps, the total production time for a Dell PC—from the moment the customer places the order until the computer leaves the assembly line ready for shipping—is only six hours.

**DELL VIS-A-VIS ITS COMPETITORS: THE CUSTOMER PERSPECTIVE**

Dell is not the only company to sell computers on-line. Rivals have copied many of Dell's digital innovations, including its use of the
Choiceboard. However, no competitor has yet managed to match Dell in terms of user friendliness, clarity, speed, cost, and personalization.

Jason is a small-business manager. When he recently needed to purchase a new PC, Jason's busy life and work schedule made on-line shopping the best alternative. His experience is instructive because it mirrors that of thousands of other customers. His shopping began not at Dell's Web site but at the Web site of a neutral information supplier:

"I started by visiting one of my favorite sites, CNET.com, which offers expert advice on tech-related items. They divide customers into several groups: Starving Student, Famlily, Multimedia Maven, and so on. For my category, which is Small Office/Home Office (SOHO), they recommended Dell, Toshiba, and Compaq.

I then visited Dell on-line, looking for a flat screen and a CD-RW (rewritable compact disk) drive, but trying to minimize my cost beyond that. Using the Dell configurator, I got to choose exactly what I wanted. The price was under $2,000—with shipping and tax, $2,175.

My next stop was at Compaq. I was amazed to find that their Web site looked almost exactly like Dell's—same list, same prices, same menus, and same help buttons. (When I last visited them, six months ago, the site looked totally different.) I configured my computer, and the process went pretty smoothly. But the total price ended up being about $200 more than that of Dell.

Then I headed over to Toshiba's site, expecting a similar experience. That's not what I found. Navigating Toshiba's Web site was very confusing, and they didn't offer to configure a computer for me or even to sell direct. So I bailed out early. The fact that I could configure my own product, in addition to their brand name, sent me back to Dell in the end."

For another perspective, consider the experience of Terry, a recent college graduate working at his first "real" job. He needed to buy a PC for the Success- 29
first time since he had started college six years ago. Having decided that
a laptop would better suit his traveling lifestyle, he also started shopping
by visiting CNET.com for an unbiased opinion. CNET offered two recom-
mendations: a Dell Inspiron 3800 and a Quantex W-1410, from a com-
pany Terry had never heard of. Here's what happened next:

"I traveled to my next on-line research destination—peworld.com. I discovered that the Quantex W-1410 was number five in their "Midrange
Computer" category and that the Dell Inspiron was number one in the "Budget Notebooks" category. Both cost around $2,000, which was my
approximate budget. I saw, however, that one big downer on the Dell was its battery life—only two hours compared to Quantex's three hours.

But Dell was rated "Good" on customer support, as opposed to Quantex's "Fair" rating.

I decided to click through to the Quantex web site to see if it would tell me more. However, when I got there, I discovered that I couldn't find
the W-1410. There was a W-1400, but no W-1410. I wondered: Are they the same? I spent a few minutes trying to find out, but I
couldn't, and I gave up.

Should I continue to pursue the Quantex option, despite their somewhat frustrating Web site? And what about some of the other laptops in the
peworld rankings?

After thinking for a couple of minutes, I decided I simply couldn't go wrong with a Dell. I'm a risk-averse person when it comes to purchases
over $1,000. For that reason, I chose Dell. Ordering it on-line was quick and easy, and I'm happy with the machine."

What are some of the lessons about digital business that we can learn
from customer experiences like these?

But why are choice boards becoming so important a factor in the process
of decision-making? Because people love to interact and participate in

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their choice and making of a product. And that what exactly Dell has been able to give to the customers. Internet is not just a medium where we watch or listen passively but here we can interact with the site in real time.

As Jason’s visit to the Compaq Web site illustrates, Choiceboards (like other on-line interfaces) are constantly evolving. Any innovation is likely to be imitated within a few months. Dell and other Choiceboard leaders cannot afford to be complacent. Instead, they must be constantly looking for ways to upgrade their services in order to stay two steps ahead of their rivals.

Being online is not just opening a website, it is a process and very complicated one. It needs to be integrated in the whole business. In an advertisement Arthur Anderson consultancy has very aptly pointed out that Companies often think e-business as an perfume which they can spray here and thus giving the whole company an aroma of e-business, but it much more serious than that. Dell has understood the very fact and has acted accordingly.

The visual appearance of the Dell configurator is easy to copy. But it is much harder to copy the other business design assets that make Dell an industry leader. Among them are:

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• The behind-the-screen accuracy, timeliness, and thoroughness of service that make Dell's configurator more reliable than its competitors' versions.

• The supply-network management expertise that allows Dell to offer high-quality products faster and cheaper than its competitors can.

• And above all the brand name DELL that makes customers feel more comfortable buying from Dell than from less-well-known rivals.

The speed of online selling is startling. In the very first chapter we have pointed out some essential unique features of Internet and hence e-business. Internet does away with the 'informational asymmetry' and physical distance. All companies and brands are lying at an equal distance; that is only one click away. Moving from Dell to Compaq is just a click away. It is like a prophecy coming true "if you don't see Internet as an opportunity it will come to you as a threat." That is what has exactly happened for Compaq and other companies.

A lesser-known brand like Quantex especially needs to do a superlative job of serving customers. All it took was a few moments of uncertainty ("Is the W-1400 the same as the W-1410?") without adequate customer help, and Terry decided that buying from Quantex wasn't
worth the risk. Within seconds, he had traveled to the Dell site instead. Because Dell is just exactly one click away from Quantex.

If we now just compare the above buying behaviour of Terry with others. For decades, IBM thrived on the adage, "No one ever got fired for buying IBM." In much the same way Terry decided, "I can't go wrong buying Dell." This sense of risk reduction—a feeling that, when faced with uncertainty and incomplete information, buying from Dell is a safe choice that the customer is unlikely to regret—is produced not only by Dell's word-of-mouth reputation and history but also by the ease, speed, efficiency and accuracy of Dell's Choiceboard and other digital services.

**REVERSING THE VALUE CHAIN**

One crucial feature of Dell's Digital Business Design is its *reversal* of the traditional value chain. It is the customer who places the order first and only *then* the production process is activated. Thus, Dell has been able to achieve three major advantages.

- Minimize its inventory,
- Virtually eliminate markdowns and unsold product,
- And collect revenues from its customers *before* it must pay suppliers.

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In a market where inventory value crash down every week (one of the crucial reasons the PC business has proven to be a financial black hole for so many of Dell's competitors), this approach is the only way to protect the company economics while delivering great value to the customer.

Compared to traditional business models, Dell's system almost appears as mythical as Harry Porter's magical world. But it's not magic; it is simply a highly sophisticated and thoroughly integrated collective method.

Designing such a system took must have taken an astounding amount of high class thinking. Making it work and maintaining it over time poses additional challenges. Here is what Michael Dell has to say on one aspect of Dell's inventory management:

"Inventory velocity has become a passion for us. To achieve maximum velocity, you have to design your products in a way that covers the largest part of the market with the fewest number of parts. For example, you don't need nine different disk drives when you can serve 98 percent of the market with only four."

Notice what Dell does not say: You can reduce your disk drive offerings from nine to four only if you know for a fact which four drives your customers prefer and can anticipate when and in what direction those preferences will shift. Many manufacturers and retailers have only
sketchy information about issues like these. Dell’s digitization of the customer connection replaces guessing with knowing, lag-time with real-time data.

Michael Dell again says:

“Once you reduce your inventory while maintaining your growth rate, a significant amount of risk comes from the transition from one generation of product to the next. Without traditional stockpiles of inventory, it is critical to precisely time the discontinuance of the older product line with the ramp-up in customer demands for the newer one.”

Again, the challenge of digitization places a high value on the very flow of information that digitization itself makes possible. But note the enormous reward available to companies that can operate this way: In most businesses, a transition from one product line to a newer one inevitably involves unsold goods that now have almost no value and must be written off, usually at great expense. For Dell, this is impossible; there is never a warehouse full of PCs that might suddenly become obsolete. Dell now maintains an average of less than six days' worth of inventory (its European plant has reduced inventory to four days' worth). This is possible because Dell's constant communication—through all channels,
especially the Internet; — it enables them to turn to suppliers when de-
mand for one particular chip, motherboard, or monitor suddenly morphs
into another. Dell calls it "Trading inventory for information."

**EXPANDING THE CUSTOMER RELATIONSHIP**

Michael Dell and Henry Ford are both economic revolutionaries and of
course many things in common. But mirror images in their method of
working. Ford's genius: Create one product—the black Model T,
introduced in 1908—and make it affordable and available to millions.
Dell's genius: Create one Choiceboard and supply network, and let
millions design an infinite variety of products that will meet their indi-
vidual needs. Though at the outset it may sound very different; Ford
offered only one model and Dell offered choice to each individual
customers. But the common factor is both of them severed to million of
customers successfully, because they knew where the market is, what
the customers need. Dell knew that with only 4 hard disk drive he can
cater to 98 percent of the market, this means he exactly knows what the
98 percent needs, in the same way Ford knew what the majority of the
market wants.

Beyond the product customization offered by its PC configurator,
Dell offers an additional layer of customization through its Premier
Pages—customized Web pages that Dell has created for over 40,000 corporate clients. These pages, which are connected to the client's intranet, permit client-authorized personnel to configure their own PC systems, place orders for equipment, and check the status of those orders electronically. The pages also provide direct access to Dell technical support and, when necessary, help from a dedicated account executive.

Premier Pages offer a powerful combination of sales, service, and technical support in electronic form through the Internet. They cut Dell's costs by freeing sales representatives and technical support personnel from handling purely routine problems. They also constitute a powerful selling tool for prospective corporate customers.

Dell has also worked hard to add value to the customer beyond the "box" of the PC. One corporate IT manager comments:

"We've used Dell equipment for seven years, but we also had IBM and Compaq. Now we're buying only Dell, for four reasons. One, the products are built to order. Two, delivery is quick, on time, and consistent. Three, their services are great—we call the 800 number and get excellent response. Four, their prices are competitive."

Right now, we use a purchasing software package that Dell doesn't support, so our ordering system isn't digital. But Dell is working with
us, and within twelve months we expect a completely digital purchasing system to be in place, thanks to Dell's help.

Dell has recently taken another major step in this direction with its fast-growing equipment leasing, purchasing, and financing business, known as Dell Financial Services (DFS).

DFS is a wholly owned joint venture of Dell Computer in partnership with the CIT financial group. Launched in April 1997, it has grown in three years from zero to $1.3 billion in revenues and has a target of nearly $2 billion for 2000. Currently, about 80 percent of DFS's business is in Dell products. The other 20 percent consists of IBM, Compaq, Hewlett-Packard, Cisco, and other computer makers' gear.

In mid-1999, Dell moved to expand its customer relationships even more by creating a network of partnerships with other companies whose products and services can be sold through Dell. The first step was the launching of Gigabuys, an on-line store selling non-Dell products ranging from computer peripherals (printers, monitors, digital cameras, personal digital assistants) all the way to office furniture. More recently, Dell has added Web hosting, data storage, and other information services to its list of offerings. CFO Thomas Meredith describes the strategy as an ecosystem model in which Dell uses its customer expertise to sell goods
and services from dozens of suppliers to millions of customers around the World.

Although Dell started off as a product-centric company, it is evolving toward a services/solutions model that is constantly looking to create the next new layer of value for the customer and the shareholder.

The table summarizes Dell's Electronic Business Model. Its unique value proposition for customers includes fast response and high customization through its configurator system. It also includes ease of interaction, self-service (in numerous functions, from price checking to order-status checking to PC design), and the ability to provide corporate customers with extensive and accurate information about purchase patterns and usage. Through Dell Financial Services and Gigabuys.com. Dell's scope has evolved to include the availability of non-Dell and non-PC products. Dell's unique value proposition for its talent includes:

- A digital infrastructure providing instant availability of data.
- Just-in-time, just-enough training that is closely matched to actual training needs.
- Opportunities for rapid advancement as the company continually segments and divisionalizes its operations.
Dell's configurator system has not only decommoditized the PC buying process but has made it easier for customers to "upsell" themselves. Dell's digital system has dramatically reduced the asset intensity of its business. Dell's strategic control flows from multiple sources:

- Corporate-level customization through Premier Pages.
- Individual customization.
- The superior responsiveness of Dell's supplier network.
- The best-performing Choiceboard with the strongest brand behind it.
- Real-time demand knowledge.

**BENEFITS OF ELECTRONIC BUSINESS MODEL (EBM)**

<table>
<thead>
<tr>
<th>Before Electronic Business</th>
<th>After Implementing Electronic Busi. Model</th>
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</thead>
<tbody>
<tr>
<td>Guessing (about customer needs)</td>
<td>Knowing (about customer needs)</td>
</tr>
<tr>
<td>Mismatch (of products, customers demands/ inventory)</td>
<td>Perfect match</td>
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<tr>
<td>Long Processing time</td>
<td>Real time Processing</td>
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<tr>
<td>Supplier Service</td>
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<td>Low Value Work</td>
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<tr>
<td>Processing was based on Error Fixing</td>
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</table>

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Table: Dell's Electronic Business Model

Customer Selection

- Corporate
- Government
- Education
- Consumer

Unique Value Proposition For Customers:

- Choiceboard/Customization for Customers
- 40,000 Premier pages/Information on usage.
- Speed and flexibility at a good price.
- Self-service (order tracking, design, etc.)

Unique Value Proposition For Talents:

- Digital training ("Just in time, just enough")
- Push-button information availability

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• Rapid career development via divisionalization

Value Capture/Profit

• Few markdowns Model.
• Cross-sell and upsell
• Digital productivity

Strategic Control

• Relentless customer focus
  Differentiation
• Choiceboard evolution trajectory.
• Supplier network cost and responsive-ness advantage.
• Customer relationships, brand recognition.
• Real-time market knowledge

Scope

• Desktops, notebooks, and servers via mail, telephone, or the Internet
• Peripherals and options at Gigabuys.com
Now let’s take a brief looks at what are benefits that Dell are reaping from the practice of this electronic business.

Probably Dell uses bits better than any other company today. Dell's configurator Choiceboard ensures that Dell gets the bits (the information about what the customer really wants) before it commits the processing or 'atoms'. The configurator also ensures a near-perfect match between what customers want and what they get.

As Dell watches these transactions, it gathers real-time data on customers' behaviour. It sees today what its competitors will see in a month,
after the customer data wend their way through the networks of dealers and other channels that stand between most sellers and their customers. Dell's system also enables customers to serve themselves—not just in designing and purchasing the product, but also in other ways. For example, if a customer wants to track the location of a PC that was ordered a week ago, Dell's order-status checking system allows the customer to find out on-line, without talking to anyone.

Dell's talent has seen a huge shift from low-value-added work to leverage and growth. By eliminating most of the low-value administrative and processing work that steals too many work hours, digitization of the whole process has freed up hundreds of hours to be spent with customers rather than on paperwork. Dell's just-in-time, just-enough training program enables workers to learn what they need when they need it, and to apply the learning within hours.

Finally, Dell has experienced the impact of nonincremental, multiplier-productivity improvements. Inventory cycles have increased tenfold; order-status checking and supplier communication costs have nose-dived. These order-of-magnitude improvements have radiated out to the customers. Using the Dell configurator, a customer can accomplish in five minutes what used to take two hours. More important, the customer satisfaction level is far higher than it could ever be under the old system (which still generally prevails at Dell's competitors).

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THE FINANCIAL OUTCOMES

Last but surely not the least; let’s take a look at the financial outcomes. The reversal of the value chain, a key feature of Dell’s Digital Business Design, leads to what we call digital financing. The customer pays Dell for the product; then Dell pays the supplier for components, thus upending the usual relationship between accounts payable and accounts receivable. This negative cash-conversion cycle creates negative working capital, allowing Dell to rapidly upgrade technologies and finance infrastructure improvements.

Dell’s shift to Electronic business model has produced spectacular results. Between 1995 (just before Dell introduced its Electronic business model) and 1999, the following improvements occurred

- **Return on sales**: 7 percent -- 11 percent
- **Profit growth**: 15 percent -- 33 percent
- **Market value/Sales ratio**: 1:1 -- 7:1
Making Successful Business a NO-PROFIT Industry.

Faced, like many manufacturing companies, with the challenge of making money in a no-profit industry, Dell managed to develop an extraordinary value-capture mechanism by reversing the value chain with the help of Electronic business model. Starting with the customer rather than the manufacturing side, Dell has virtually eliminated guesswork, obviated the need for price markdowns, and substituted a flexible, value-added supply network for the traditional rigid, slow-to-respond product pipeline with which most industries are saddled. Perhaps Dell's reinvention of the PC business can point the way for other manufacturers to escape from the no-profit zones in which they're currently mired.

CASE STUDY OF CISCO.COM

When we read about e-business or internet as a whole in newspapers or magazines we always come across names like Amazon.com, Yahoo!, ebay, Rediff.com, Bazee.com etc. We never come across names like Cisco.com or Intel or Dell, or Bestbuy.com. The answer is very simple these businesses lack the razzmatazz of Yahoo! or Amazon.com. Cisco sells
routers and microchips, which are of course far less entertaining than Yahoo, or Glamour.com. But Cisco exactly knows how to do business online; Internet is not only their business but also their way of business. As we go along with the details of the business we keep on giving analysis and commentary of what has been right and what could have been avoided. Along these case studies we learn what can we get from e-business and what should be done for it.

**CISCO.COM**

In 1995, when John Chambers became CEO of Cisco, he faced a classic dilemma. He asked himself: "How can we keep growing our sales and customer base by 40 percent a year without having to grow our service staff—those highly trained and expensive engineers at the same rate?"

The answer lay in the new options that they were creating for most of their own customers; that is by going into a full-fledged electronic business model.

Cisco had been one of the first companies to experiment with the business potential of the Internet. As early as 1993, an Internet-based self-service capability for Cisco's enterprise customers was launched by Doug Allred, Cisco's Vice President for Customer Advocacy.
In an unusual gesture of transparency, every known bug in Cisco's software and equipment was openly posted on the Cisco Web site. In addition, customers began to post messages about their technical problems on the Cisco site, hoping that the company's staff could resolve them. In time, the website became a popular gathering place for Cisco's customers and they began offering suggestions and solutions to one another: "Our network was out for two hours with the same problem, and here's how our engineers fixed it."

To multiply this unexpected benefit, Cisco installed on its website a function that triggered an automatic E-mail to alert a customer that a potential answer to its query had been posted. By capturing the sheaves of ideas and insights thus generated, Cisco produced its own digital library of information about how to use Cisco products more effectively. In time, Cisco.com grew into one of the first on-line corporate communities, a virtual gathering place where IT professionals could exchange ideas and solutions that would improve their networks and their businesses.

Now here it should be noted that Cisco is using the Internet as Internet not as a catalogue or a notice board. As in this thesis we have already pointed out that Internet is probably the most powerful medium in the history of mankind and unlike TV it can create or harbor a two-way interactive communication. And thus they are not only benefiting the
customers but in fact they are benefited themselves too with the feedback that they are receiving constantly. And they note down the problems that are recurring regularly.

As a result, countless customer problems were solved or sidestepped through customer self-service. According to Doug Allred, if not for Cisco's website, Cisco would have had to hire an extra 10,000 engineers just to keep up with the company's growth.

John Chambers and Peter Solvik (Cisco's Chief Information Officer) subsequently digitized virtually every area of activity within Cisco: customer sales and service, manufacturing, administrative processes, and talent recruitment and training. Cisco became one of the leading examples to adopt the electronic business model to transform all aspects of a business.

**CREATING A SCALABLE INFORMATION SYSTEM**

In 1994, Cisco had taken another major step toward going digital. Peter Solvik made the critical decision to stop fixing Cisco's increasingly overburdened IT system. It was time to replace it with a comprehensive enterprise resource planning (ERP) system that could keep up with Cisco's rapidly expanding needs. Cisco clearly felt an integrated system was needed to manage cash flow, manufacturing, human resources, purchasing, and other major functions to form a unified framework.
Oracle, at that time though had little experience in the ERP field, but still it was chosen because like the Cisco culture it too is smart, fast, and aggressive. The new program was initially installed in January 1995. For the first four months, it faced many glitches, but by May it was running effectively. It remains at the heart of Cisco's Electronic Business Model and it is so successful a model that it is studied by many information technology schools, business schools and executives.

Scalability has proven to be one of Cisco's crucial capabilities. Chambers observes:

"We don't do something that, if it works well, we couldn't replicate. So we try to set it up in a way that, if it's really successful, it's replicable across whole company. Without that attention to discipline, you can't scale with the speed that is needed."

Thanks to the Internet, the information captured, generated, organized, communicated, and retained by Cisco's information system can be shared with customers, suppliers, and other outsiders. Cisco's leveraging of this fact (through one of the first and best corporate extranets) is a major source of the productivity gains Cisco has enjoyed since going digital.
ON-LINE SERVICE AND SALES

Today Cisco has one of the most effective and fully developed digital sales chains in the world. It has been a pioneer in Choiceboard development. The customer Web site, Cisco Connection Online, it allows customers to compare products, configure the complex assemblages of networking equipment needed for today's businesses, and then purchase the best package, all on-line. Cisco has moved far down the path, now like Dell it too has gone into 'preventing errors mode' instead of traditional 'fixing error'. Ordering errors, which formerly delayed as many as one-third of faxed orders, have been virtually eliminated. So have configuration errors, an even more common problem with today's complex networks.

One typical Cisco customer—a corporate IT manager Kenneth — notes that other companies have Web sites that permit on-line purchases. Only with Cisco, however, does Kenneth feel comfortable, in his words,

"configuring a system and making a purchase without ever talking to someone. Cisco's site provides all the information I need and makes it easy to drill down through several layers of data. Furthermore, unlike other manufacturers' sites, it alerts me to configurations that won't work."

The resulting benefits are significant. For example, when the Cisco configuration tool warns a customer that a particular combination of products is not appropriate for his needs, he may spend five minutes on-
line fixing the error. By contrast, if the problem were not discovered until he opened the cardboard box containing his new system, even to say the least he would not have been very happy.

The customer would have to invest at least two (average time) hours in calling a service representative, changing the order, and repacking and reshipping the product, a trouble and investment of time not only for the customer but also for the company too.

Is the Cisco Choiceboard perfect? A customer wishes that the Cisco configurator would warn him *immediately* about combinations of products that won't work together, rather than waiting until he is almost ready to confirm the order. Furthermore, the Choiceboard does not track all the equipment purchased by a particular customer. A customer complains that "I bought twenty routers for our West Coast office last year. The Web site should know what I have and be able to tell me what I need without asking."

Such customer complaints are not unique it is quite normal. Once the customer learns how to use a digitalized choice board he keeps for asking more and more. And that is why one needs to upgrade and give better services to its customer on a regular basis.

Many of Cisco's product offerings consist of software, before going online these software were distributed on CDs and delivered via Federal Express. Now, 90 percent of Cisco's software upgrades (over 20,000 per
week) are downloaded by customers from the Internet. Resulting in a huge savings and improved efficiency for customers and Cisco alike.
But what is more important is that the quality and accuracy of service are greatly enhanced by customer self-help and digital delivery. One Cisco customer says:

"Cisco has hundreds of software versions, and it's important for me to order the right one for my needs. The way Cisco's Web site walks me through the process—looking at the equipment I'm using, the features I want, and so on—I can't download the wrong software."

Downloads using the proprietary CiscoWorks software generally take only five minutes or so, and thus customers' use of a network is disrupted minimally, if at all. By comparison, software upgrades from other networking companies often require system shutdowns, and it is not started again until new software or patches are delivered by the vendor, which cost time and money.

Cisco currently receives more than 90 percent of its revenues through on-line sales, up from 57 percent in 1998, 13 percent in 1997, and just 1 percent in 1996; by contrast, Dell, another digital innovator, gets about 50 percent of its revenues on-line. Unlike Amazon.com, Cisco has offline human contact and sales support system. The digitized service
only leverage the value of human contact and multiply its impact on the customers.

Every customer relationship begins with a face-to-face meeting, and Cisco maintains a network of 2,000 direct sellers, another 2,000 value-added resellers, a team of on-site system engineers, and call-in centers staffed by 150 technical experts who are able to respond to questions in thirty different languages. All of these human resources are available to customers before, during, and after a sale. Most customers are eager to take advantage of the convenience of online ordering and customer service. Currently, 85 percent of Cisco's customer support requests are handled on-line (up from 10 percent in 1994). It needs to be noted that since 1995, sales have increased by 600 percent but the support staff required has only doubled. Cisco account managers are able to devote their time to problem solving and customer dialogue, not to paperwork or routine transactions. Thus, without going online, Cisco's hyper-growth would have never been possible to manage.

A library of nearly ten million pages of product information is available to customers electronically through the Cisco Connection Online, which has over 150,000 registered users. Customers can access support information and on-line training sessions at their convenience. When problems arise, they can be communicated via E-mail, where they are tracked electronically. If a problem is not solved within a specific time
frame, it moves up rapidly through a hierarchy of human contacts. Within forty-eight hours, an unfixed problem lands on John Chambers's desk, where, as Chambers notes, "the fact that we focus on it so heavily helps us to resolve it quicker but also helps us to prevent it."

It needs to be noted here that a problem passes through different layers of filter and only the toughest problem get to the desk of John Chambers. The day-to-day problems or the common mistakes while handling are solved with the online help board, or even at times by the other customers. If it is not then there are engineers and technicians to solve it and even when they fail it reaches Chambers's desk. It should be noted that John Chambers is not the ultimate engineer who can solve any problem, but he initiates a solution process.

In a typical month, customers access the Cisco Connection over 1.5 million times, including 300,000 times to check the status of orders and 380,000 times to download software. They can access human help too immediately, but it is needed less than one-quarter of the time. The customers who declared themselves satisfied with Cisco's service rose from 65 percent in the mid-1990s to 85 percent as of 1998. Cisco estimates that over $380 million is saved annually because of the digitization of its sales and service operations.

Servicing the customers is not a waste of time for Cisco; it is a major source of revenues and profits. One customer estimates that, for
every $6,000 router he buys, he spends about $1,100 annually on a Cisco service contract. It’s relatively pricey, he admits, but he adds,

"Considering how crucial this equipment is to my business, I’d be crazy not to spend the money." And how many times a year does he actually need on-site service? "On average, zero. Before we switched to Cisco, our network was up about 95 percent of the time. With Cisco, it’s more like 99.9 percent. And when we do have a problem, a simple reboot usually fixes it."

Note the cascading benefits of Electronic Business Model. The product quality enhancements, customer self-service, and accuracy and timeliness of information enabled by digitization all help to reduce customer downtime and increase the profit margins on Cisco’s service revenues.

**LEVERAGING THE TALENT**

The value growth of Cisco since 1994 has needed to be supported by employee growth, both in numbers and in the mix and depth of talents available. Meeting this need is difficult in an economic climate characterized by low unemployment and an acute shortage of high-tech talent. But even if talent were abundant, the task would be different but still difficult: the challenge would change to finding and keeping the best employees available.
By 1997, Cisco's value was more than six times greater than that of its chief rivals.

Cisco has been very public about its ambitious plans in the human resources area. It has announced its intention to employ the top 15 percent of the best talent in the industry. The only way to find, train, and retain enough people to meet this goal is to recruit digitally.

**Recruitment**

Eighty percent of Cisco's incoming resumes are now managed electronically. (The recruitment Profiler on Cisco's Web site draws thousands of job-search hits every month, and over 100,000 electronic profiles are received every year.) As a result, Cisco's cost per hire is $6,000 versus an industry average of over $10,000. More important, the cycle time for attracting candidates is greatly shortened; and, most important of all, the quality of the people hired is unexcelled.

The Profiler is also a source of competitive information. For example, Cisco tracks the E-mail addresses and current employers of job applicants; a sudden influx of queries from a particular rival firm may suggest internal turmoil there.

The "Make Friends @ Cisco" program links Cisco employees (who volunteer to participate) with potential hires of similar backgrounds. Discussion topics include common interests, life at Cisco, and potential jobs. As with all aspects of its business design, Cisco's recruiting

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integrate smart design choices with smart digital implementation. Employees receive a $1,000 bonus for every successful recruitment referral; such referrals now account for over half of all new hires.

Training and the keeping the talented people in the company are very adeptly done by Cisco. And most of the training in now done online by video. As it does not come within the purview of this thesis to deal with the HRM problems and solutions we are omitting that part. But it needs to be mentioned that the electronic business model has helped them immensely in this sector too.

Training

Mike Cousens, Cisco's Director of Communications and Training, describes the challenge; "Everyone, across the board, finds it hard to justify hours on a plane and in a classroom to receive training. The net result is:

Training takes a low priority, which in today's skill-starved IT industry is a bad thing. By contrast, the Internet offers a way of training people in a cheap, convenient, effective way."

The three adjectives Cousens uses are given in ascending order of importance. Cost is important, of course. The convenience of being able to access training anywhere, at any time, is even more significant. But most important is the effectiveness of digital training, thanks to the level
matching it enables. That is, Cisco employees can study precisely the topics they need to know about, when they need to know them, at the appropriate level of detail and complexity—a dramatic shift from mismatch to perfect fit.

To digitize the training process, Cisco set up video servers in twenty-five global sites. It was estimated that moving 10 percent of the training on-line would repay the investment; instead, within one year, twenty-five percent of training had been moved on-line. Cisco expects on-line training to reach 50 percent by the end of 2000. (The long-term goal is 80 percent.) Internal staff members are now taking twice as many courses as before. They realize that they can access training modules two or three times a day for twenty minutes at a time, rather than take a day or more out to learn, so they have started fitting courses in around their jobs. Participation, relevance, and timeliness of learning have all increased sharply.

**The Impact on Talent**

Cisco benefits financially from its digitization of employee recruitment, training, and other functions. A recent estimate of the total savings is $58 million, including $25 million in reduced travel costs for training alone. Far more important, however, are the nonfinancial benefits derived from Cisco's unique value proposition for its talent.
Cisco's digital culture, including its efforts to digitize repetitive, costly, and uninteresting tasks, offers an enormous attraction to the industry's best minds. The typical Cisco employee taps the company's internal Web sites an average of thirty times a day. Digitization means less low-value work: fewer administrative hoops to jump through, less searching for data, fewer dead-end ideas to explore. Everything from purchasing and invoicing to time and expense reports is handled electronically. Time and money are saved, and countless sources of employee frustration are eliminated.

ELECTRONIC MANUFACTURING AND DESIGN

Cisco's products are manufactured in thirty-four plants scattered round the globe. Cisco owns just two of the plants, but, by using the Internet, Cisco is able to maintain quality control and production schedules across operations in a manner that is transparent to suppliers, customers, and employees alike. The community this represents in one of the most powerful Value Nets in operation. Every week, suppliers can tap into Cisco's own enterprise resource planning (ERP) software to receive an updated twelve-month sales forecast. They can then adjust their own production plans accordingly. The result has been a 45 percent reduction in inventory with no negative impact on on-time shipping.
By outsourcing production of 70 percent of its products, Cisco has quadrupled output without building new plants. Outsourced products built and shipped directly to customers, never touching Cisco's hands, account for almost 40 percent of total revenues.

The process of designing new products has also been streamlined. Formerly, each of the four or five prototype versions of a new product would take about a week to complete, and much of the time was spent in gathering, disseminating, and comparing information and ideas among engineers. Cisco developed a New Product Information database that reduces this entire process to about thirty minutes and has saved almost half of its engineers' days and an estimated $100 million per year.

What needs to be noted is that when people talk about Cisco and Dell they only look at the customer service, choiceboard, and the net sales. But as we can see that there is lot more than mere sales that electronic business model can provide, if it is used correctly

**CISCO'S BUSINESS DESIGN**

The Table on the next page shows, Cisco today has one of the most highly evolved Electronic Business Models in the world.

Cisco's customer selection includes enterprises, Internet service providers, and small businesses, plus an expanding reach into the con-
sumer marketplace. Its unique value proposition for customers includes a wide range of product line that matches the full spectrum of rapidly evolving customer needs, end-to-end solutions, and risk reduction. Buying Cisco products is like insurance to your own business.

Cisco's unique value proposition for its talent is compelling. It includes:

- A high probability that good engineering work will get to market quickly.
- Enormous leverage; routine tasks, from customer inquiries to daily internal processes, are handled on-line, which leaves time available for higher-value interactions with customers.
- The push-button availability of real-time data supports better decision making.

Cisco's profit model relies not only on hardware and software margins but also on a powerful base of recurring service revenues. Large-scale cost savings gained from digital productivity enhances profitability. The company protects these profits by owning and managing the de facto industry standard, by nurturing very powerful customer relationships, and by earning a high level of commitment from its talent.
TABLE: Cisco’s Electronic Business Model

Customer Selection

• Enterprise customers
• Internet service providers (ISPs)
• Small business market
• Moving into consumer

Unique Value Proposition for Customers

• Risk reduction (superior product, service, brand)
• Positioned as the end-to-end solutions provider
• Configurator-enabled system

Unique Value Proposition for Talent

• Creative work has the highest probability of getting to market
• On-line customer service (frees time for value-added work)
• Digital recruiting
• Digital training
• Real-time information availability
  (internal and external)

Value Capture/Profit Model

• Hardware/Software margins
• Recurring service contract revenue
• Installed base upgrades and product extensions
• Productivity advantage over competitors

Strategic Control/ Differentiation

• Dominant share, with embedded de-facto standard
• Low-risk option compared to competitors
• Executive level customer relationships
• Partnerships with leading technology suppliers

Scope

• Outsourced R&D (via acquisitions)
• Outsourced manufacturing and software design
- Internal knowledge management

Organizational System

- Product-based divisions
- Ability to rapidly and successfully integrate Acquisitions
- Customer- and talent-centric culture

Bit Engines

- Choiceboards
- Internal ERP
- Electronic links to customers and supply chain
- Digital software distribution
- Remote diagnostics
- Database of frequently asked questions

(Boldface = digitally enabled.)

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BENEFITS OF ELECTRONIC BUSINESS MODEL (EBM)

The impact of EBM on Cisco's operating style is all encompassing. The business model centers on managing bits. Manufacturing has been outsourced, and most functions are digitized to the deepest root. Thanks to the Cisco Marketplace, Cisco does not have to guess what customers want. It knows, and it can match those wants with near-100-percent accuracy.

Cisco's digital model has also moved information flow from lag time to real time for customers' orders, suppliers' communications, and internal functions like finance (the "virtual close").

Tools like the Cisco Connection Online, the Cisco Profiler, and others, have moved the company from a supplier-serve mode to a customer-self-serve mode. Customers perform more of the functions in their relationship with Cisco, and their satisfaction scores are higher because they're enabled to do so.

Digitization has also driven Cisco far along the spectrum from low-value-added activities to maximum leverage and growth for its talent. Routine repetitive work and "administrivia" have been largely eliminated. The probability that an employee's creative work will get to market
quickly has been greatly enhanced—one major reason why many very good engineers are deeply committed to Cisco.

**CISCO IS STILL GROWING:**

No company that has enjoyed 40 percent-plus growth can normally expect to maintain such a pace for long, especially when it has achieved the significant size that Cisco has attained. Remarkably, however, trends in today's technological developments open up the potential that Cisco may continue to grow at a tremendous pace for years to come. Over 75 percent of all Internet traffic today is handled by Cisco products. With the world's wired population expected to nearly quadruple in the next five years (from 275 million to one billion), there is clearly room for enormous growth for Cisco. Yet there are serious strategic challenges as well. Cisco could fail—spectacularly. Anything from sheer hubris to a single fatal misperception of the next customer shift could threaten its leadership.

**Customer Evolution**

Cisco's customer mix and the needs of those customers continue to evolve rapidly. Cisco's product and service offerings must continue to evolve at the same rate as well. Enterprises now constitute 50 percent of Cisco's market; service providers are another 35 percent. The emerging market is small businesses, which are now about 15 percent of Cisco's
market base but are growing. This new customer base primarily demands networking

THE FINANCIAL IMPLICATIONS

Last but surely not the least lets take a brief look at the financial performance of the company that we are discussing for so long. Cisco's high profitability and unparalleled track record of growth have produced an enormous reservoir of company value. As of mid-2000, Cisco has the largest market cap of any company in the world. Its market value has far outdistanced that of its original rivals. Cisco is perhaps the most fully evolved digital business in the world today. But all of Cisco's digital functions—the on-line sales and service, the Cisco Connection, the virtual close, and so on—would be meaningless if Cisco's business design had not been built around responding effectively to customers' priorities.

If Cisco hadn't developed its model for outsourcing R&D through company acquisitions (an essentially nondigital strategy), it probably couldn't have kept pace with the speed of customer evolution.

If Cisco hadn't been able to keep pace with its customers' needs, it wouldn't have experienced the past half-decade of hypergrowth.

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Is Cisco a digital business? Yes—but, more important, it's a business that understands the how to use the Internet medium. It does not use Internet to sell its product only but it understands the needs of its customers and does whatever it takes to respond to their priorities. That's the solid foundation on which Cisco's Electronic Business Model is built.

****** ****** ******

The following case study harps upon us the age-old notion that in business one has to be focused. A brand name stands for a single thing or a value; it cannot be extended to everything. "The essence of marketing is narrowing the focus. You become stronger when you reduce the scope of operations. You can't stand for something if you chase everything." (Al Ries & Jack Trout 1997). The concept of positioning is popularized by this duo Ries and Trout, Positioning for them is "something that you do to the mind of the people and not to the product."

Amazon.com became famous because it was not only first in the market but also it dealt in books only. Cdnow.com was the first site to deal in music CDs only. Focusing helps you to be in the mind of the people. If you are into everything then you are into nothing. Yahoo.com is a web portal it has succeeded because it is the first of its kind. But

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later AltaVista.com, Exite.com and Hotbot.com also ran in the market but they were me-too products and are still struggling for existence. Yahoo too is loosing its market; people come here just to have a check their emails. When it comes to searching they all rush to Google.com. But why Google.com? Because they are more focused, Google.com is a search engine and a search engine only, it offers you nothing else. And hence it has no web banners or any other clutter in the site. Google has a profit of $300 million in the year 2003, but on the other hand Yahoo.com has a profit of $237.88 million in the year 2003, (as reported by Forbes.com). Google in spite of being new in the market has a larger share of profit pie than Yahoo! it is because they are more focused. So also we shall see how Ebay never loses its focus and sticks to it main business of auctioning and succeeds in the market.

BACKGROUND OF EBAY.COM

Pierre Omidyar, an engineer at General Magic, and his fiancée was an avid Pez collector and trader. During a casual conversation his fiancée commented how great it would be if she were able to trade items with other collectors over the Internet. As an early Internet enthusiast, Omidyar knew that people needed a central location to buy and sell unique items and to meet other users with similar interests. He started
the first online auction website to fulfill this need.

With a BS degree in computer science from Tufts University and years of experience running start-ups, Omidyar was not a newcomer to the Internet industry. He brought in his friend Jeff Skoll, a Stanford MBA, as the company’s first president. Together, they wrote the company’s first business plan and launched the first online auction service, Auction Web, in September 1995. Within a few weeks, buyers and sellers came flocking to the service as news of it spread by word of mouth. A few months of heavy traffic later, Omidyar realized he had a company on his hands and decided to quit his job. Auction Web was incorporated in 1996. Auction Web changed its name to eBay.com and from 1997 it began promoting itself through banner ads and other offline advertisements. There was a tremendous growth and by the middle of that year, eBay was boasting nearly 800,000 auctions each day. eBay was profitable from the beginning and unsolicited offers from venture capitalists began to pour in. It secured $3 million round of venture financing from Benchmark Capital that it put in the bank and never touched. “We wanted a good mentor, not money,” explained Jeff Skoll.

In early 1998 Omidyar turned over the CEO position to Margaret (“Meg”) Whitman, who had a vast experience of many companies (Bain Consulting, Procter & Gamble, Disney, StrideRite, FTD, and Hasbro) so he could concentrate on strategy. eBay’s highly successful IPO occurred
in September of that year. With heavy marketing through national advertising campaigns and alliances with America Online and WebTV, eBay had become synonymous with online auction trading. The number of registered users had grown to more than 6 million and eBay was deemed the “stickiest” site on the Internet, according to the Nielsen/NetRatings research in the first quarter of 1999 (Refer table given below). One year after its initial public offering (IPO), eBay now had a market capitalization of $19 billion. Unlike most of the Internet start-ups, eBay was actually making a mention worthy profit - $2.4 million on sales of $47.3 million in fiscal year of 1998.

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</tbody>
</table>

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**HOW DOES EBay WORK?**

**Online Auction Process:**

Conceptually, the online auction was similar to that of physical auctions, in a nutshell, it went thus: Items were listed and viewed, bids were entered, and items were purchased and delivered. Since only very expensive rare items were typically sold at physical auctions, an online auction filled the void for all other inexpensive goods.

Functioning as an Internet-based garage sale, consumers participated in eBay’s online trading community for four main reasons: It was fun, you met people with similar interests, you got a great deal (most of the time), and you found valuable collectibles. Goods were sold through an auction that lasted several days. Many bids were usually acquired for each item. Each day, more than 2 million new auctions were conducted and over 200,000 new items were listed.
Before bidders could bid and sellers could list items for sale, each had to register with eBay, indicating some personal contact and credit card information, and acknowledging acceptance of disclaimer and disclosure rules. Like the off-line world, a bid invoked a legally binding contract.

To list an item for sale, a seller had to choose which category to list it under. Categories included antiques, collectibles, sports memorabilia, dolls, jewelry, pottery, toys, and so forth. Each category was divided into more specific subcategories. For example, the computer category was subdivided into hardware and software; the hardware subcategory was divided into areas such as modems, printers, monitors, and so on. Once selected, the seller indicated the duration of the auction (three days minimum), lowest bid acceptable, purchase description and photo (if available), payment (currency specified), and delivery terms.

During the auction period, eBay updated bidders about the status of their bid—whether they were high or had been outbid. To avoid having to monitor an auction continuously, bidders could invoke the “bid proxy.” Here, bidders specified up front the maximum they would pay for an item; eBay then monitored the auction and adjusted the bid as needed without exceeding the maximum level. Upon auction closing, eBay sent e-mail messages to seller and bidders notifying them of the
results and reminding the high bidder of the need to contact the seller within three business days to claim the item.

Security and Technology Issues

Trust was an important element in the online auction environment. eBay.com addressed fraud and unscrupulous deals in two primary ways: a feedback system that encouraged users to rate each other and indicate comments regarding the reliability and credibility of the buyer or seller, and an optional escrow system (i-Escrow) through which payment would be released to the seller only when the buyer gave approval. With these additional value-added services, eBay was able to address consumer concerns about security and to attract more users to its site.

Another factor vital to eBay's existence was technology. In the second and third quarters of 1999, eBay experienced several outages that resulted in the company's loss of millions of dollars in revenue. While eBay traditionally relied chiefly on internal resources to maintain and service its technology infrastructure, it announced that it would outsource its back-end Internet technology to Abovenet Communications and Exodus Communications. Thus, the maintenance and performance responsibilities for Web servers, database servers, and Internet routers would switch to an external provider. As eBay continued to grow, it hoped these measures would help ensure success.
The other details of ebay.com's security has been discussed in an earlier chapter of this thesis so we are not going through it again in details about it.

OVERVIEW OF GROWING COMPETITION.

The public has embraced online bidding ever since eBay pioneered consumer-to-consumer online auctions. The Internet has zeroed the distance between buyers and sellers, thereby creating a dynamic marketplace where prices are more fluid than ever. Now, the market had evolved to include not only personal collectibles, but also surplus inventory offered by retail merchants. The auction market had become increasingly crowded because barriers to entry were very low. Auction technologies such as LiveExchange and AuctionNow were readily available, essentially allowing any online merchant to offer these services. In the consumer auction space, eBay competed with many players, including Amazon, Yahoo!, and FairMarket.

Amazon.com

Amazon.com is the largest consumer retailer in the Internet, with more than 12 million registered customers (as per second quarter of 1998). Though they started with books, but the company's mission is to help people find almost anything they wanted to buy online, including...
books, toys, pets, and furniture. In March 1999 Amazon moved into the online auction space to compete head-to-head with eBay. Its online auction house was called “zShops” and it conducted both person-to-person and business-to-consumer auctions.

To add value to its auction services, Amazon provided a $250 guarantee for consumers, and a $1,000 guarantee if the transaction was conducted through its 1-Click ordering capability. These guarantees addressed the fraud issue. The well-known brand name, an established customer base, and the ability to cross-market its retail and auction merchandise certainly helped Amazon build a strong presence in the online auction world.

**Yahoo.com**

Yahoo, a portal founded in 1995, even today is the gateway millions of people. It offered a branded network of comprehensive information, communication, and shopping services, to millions of users daily, and it boasted more monthly usage hours than any other site on the Internet. Yahoo charged no auction fee to its customers; auction was free. It naturally attracted lots of customers. The revenue came from only from advertising. Yahoo could afford such a revenue model because Yahoo being a portal had many sources of earning revenue.

**FairMarket AuctionPlace**

FairMarket, founded in 1997, represented the newest competitor
in the online auction market and it posed a considerable threat to eBay. In September 1999 it announced a plan to aggregate the bidders and sellers across 100 different sites and allowed goods to be shared among these member sites. Websites ranging from portal, retail, and community sites, and it included the big shots like MSN, Excite, Lycos, Dell, and Ticket-master Online. This meant that someone listing a used Palm Pilot for sale on Lycos, for instance, would automatically have the gadget posted on the auction sites of Microsoft and Excite as well. Pulling together an instant critical mass of a combined 50 million users, FairMarket was helping companies to extend their reach to consumers and challenge the leading auctioneer eBay. People would naturally be attracted to this auction site because it gave their products a greater exposure and hence a greater chance of getting sold.

But however eBay is more of community than a mere auction site, it already had a strong security check and most of it was developed directly by the customers or by the advise of the customers. As we are taking the detailed study of eBay we are also giving a very interesting details of their security system:

**Security at eBay:**

Most auctions (including 98% of the auctions in this author's experience) are finalized to both parties' satisfaction. But security threats--and
perceived security threats--abound at eBay and other auction sites, and when threats become reality they are often heavily publicized. When the Today show listed an autographed jacket for sale on eBay with the proceeds to benefit charity, for instance, bids got as high as $200,000; the highest legitimate bid turned out to be just $11,400, however, prompting a large donation from eBay's corporate coffers (Buel, 1998). The reason for problems like this one is that underage bidders occasionally drive up auction prices with no intention of paying, such as the 13-year-old who bid more than $3 million on various items in 1999 ("13-year-old," 1999).

**EBay's Community Model of Trust**

EBay's "community trust" model includes seven elements. These elements, not listed hierarchically, synergistically work together to create motives for ethical action and allow the community to become its own safety net. Not all users might rely equally on all seven of these elements; those elements of community reinforced by the feedback forum, for instance, are probably the most obvious. All seven in concert, however, allow eBay to construct online the kind of community that can maintain a safe environment for users. Significantly, these elements operate as norms. There may be sanctions if norms are violated, but the norms
serve as "intrinsic motivations" for users rather than as incentives or sanctions that force compliance (Conte & Castelfranchi, 2001).

**Individual Identities**

Individual identities are one critical element of online communities (Baym, 1998; Donath, 1999). Identities also pose one of the great challenges to online trust (Nissenbaum, 1999), but eBay actually uses online identities as a strength of its community trust model. The most obvious manifestation of community members' maintaining individual identities is in their selection of usernames. This aspect of community serves a trust-building function at eBay, however, when combined with feedback ratings and icons.

Feedback ratings are based on the comments in the feedback forum, the online report card for eBay users. The number that appears next to a person's username is the difference between the total number of positive comments about the user's transactions and the total number of negative comments about the user's transactions. The higher this number is, the more confident most bidders and sellers will feel participating in an auction with that person. Though only the single number appears next to a person's username, a click on that number reveals a chart offering the total number of negative, positive, and neutral comments, as well as access to all of those comments.
Various icons are also automatically placed after usernames, depending on the status of the user. A pair of sunglasses appears with new usernames or usernames that have recently changed. This icon serves as a caution to potential bidders or to sellers, because it indicates either a recent change in status as a member of the eBay community or a person with little experience at eBay. In contrast to this sign of inexperience, stars of different colors are assigned to people who attain increasing feedback ratings: yellow for 10-99, turquoise for 100-499, and so on. Taken together, the individually chosen username, the feedback rating that illustrates the amount of positive experience a person has on eBay, and the icon that generalizes based on the feedback number create an individual identity for each eBay user. This author's eBay identity, for example, is username (118) (turquoise star).

**Common Symbol System**

A second element that calls eBay's community into being is a common symbol system. A phrase or expression with special community meaning "expresses one's identification with the online community--it is akin to moving to a new region and picking up the local accent" (Donath, 1999, p. 39). McMillan and Chavis (1986) included a common symbol system in their description of membership as a community trait, and Hogan (1998a) also identified special vocabularies as characteristic of communities. eBay users have developed a simple but specialized set of
phrases and terms, especially on the subject of security, to describe their experiences. A "deadbeat bidder" is a person who wins an auction but never sends payment. To be "NARUed" (Not a Registered User) is to be suspended from eBay for some transgression. "To neg" someone is to leave a negative feedback comment for someone who was not ethical or fair in a transaction. The development of insider words and phrases such as these informs many community interactions at eBay. When CM sarahc asked AuctionWatch eBay Outlook members for advice on what to do with a seller who never delivered, for instance, she got an answer-"neg them" ("Preparing for first Neg.," 8 August 1999).

**Reciprocal Influence**

Reciprocal influence is a third part of community security at eBay. Jason (1997) wrote that mission and reciprocal responsibility contribute to a sense of community, and McMillan and Chavis (1986) discussed the importance of influence to community--both the ability of the group to influence its members and the ability of individual members to influence the group. That influence potential is present at eBay. The "eBay Community" (1998) Web page reinforces this idea: "eBay also encourages open and honest communication between the community and the company. Frequently, members of the community organize grassroots movements to improve the environment in which they work and play."
As an example of the community's ability to influence the direction of the site, outcry on the eBay bulletin boards about new fees for reserve auctions prompted eBay to reduce proposed fees (Thurm, 1999). Consider also the proposed Verified User (now IDVerify) program (announced in January 1999 to begin in March 1999). Senior vice president Steve Westly acknowledged that one reason the Verified User program was delayed for months is the vocal opposition of users on eBay's bulletin boards. EBay does rely on user feedback when contemplating changes, and eBay also relies on users for some enforcement of terms of service. Rather than having a systematic way to spot questionable auctions and abuses such as shill bidding, eBay depends on users to spot and report them (Seyfer, 1999). This reflects eBay's dependence on community trust; a perspective based instead on more absolute social control would require sanctions that are "always severe and certain so as to lower the utility of transgression compared to the utility of compliance" (Conte & Castelfranchi, 2001, p. 56).

Wellman and Gulia (1999) argue that people tend to be more willing to interact with others helpfully online than they would be to help strangers in the offline world. It is possible, then, that eBay users enact the community-building action of reciprocal influence on the site even more than in their traditional offline communities. The fact that the feedback forum works at all is an indication that the reciprocal nature of
community thrives at eBay. There is no requirement for people to leave feedback, and yet users do—not all users, but enough that people can accumulate meaningful feedback profiles. This kind of reciprocity and supportiveness reinforces the notion that eBay is truly a community and that the community is willing to self-police (Wellman & Gulia, 1999).

One of the simplest ways eBay reinforces the idea of reciprocity is in its use of the term "community members" rather than "customers" or "clients." As Smith and Eisenberg (1987) have shown, such labels do have meaning to the people upon whom they are imposed. In a letter to the "eBay community," for instance, CEO Whitman (1999b) thanked users for their loyalty: "I want you to know how grateful I personally am to you—our community members—for having stood by us through all of this." In his letter to users about new security features in the SafeHarbor program (including insurance, the long-delayed Verified User program, and new feedback policies), founder Pierre Omidyar (1999) affirmed that "community participation is the foundation upon which eBay was built."

A press release credited the site's success to "the close relationship eBay has built with its community" ("eBay soars," 1999).

At least publicly, eBay management affirms its commitment to be influenced by the rest of the community. Whitman says eBay's method of researching its publics "is so far superior [to the offline world] I can't even describe it to you. We get instant feedback on eBay about almost
everything that we do. You know instantly . . .. It's also far easier to
survey the user base . . . . You really can do polling and surveying and try
to see what needs are not being met far faster" (Anders, 1999b, p. R70).

**Shared Narrative**

A fourth element of community at eBay is shared narrative. Arnett
(1986) called this the most fundamental part of community formation:
"For a community to survive, it must have a story. That story must be
one that individuals can relate to, feel a part of, and affirm. It is a
communicative vision of where they are going and why that keeps a
community vibrant and healthy" (Arnett, 1986, p. 173). The ritual
repetition of a community narrative reinforces community ideals (in this
case, particularly those regarding trust and responsibility) and also
maintains a baseline against which users can measure progress.

Not all users might share all narratives, but common stories about the
eBay community are very much part of its identity (Herschlag & Zwick,
2000). The founding of eBay is lore that provides one such shared
narrative. Founder Pierre Omidyar created eBay as a place for his
girlfriend to build her collection of Pez dispensers (Hazlewood, 1998).
Categories grew, users increased, Omidyar started hiring help, and since
September 1995, eBay has flourished.

Among other shared narratives, get-rich-quick stories abound (e.g.,
Grant, 1999; Chatzky, 1999). Chatzky (1999) wrote about Glenn Wright,
for instance, a building contractor who "will make seven figures this year selling a stash of antique fruit-crate labels he and a partner had sat on for years" (p. 24). Whitman (1999a) told of a woman who has transformed her entire small town into eBay land, and of people living with illnesses but still able to earn money because of eBay. At a small-town auction recently, this author overheard a woman explaining to someone the tax problems she had encountered by making $7000 in the five months prior selling old postcards on eBay.

*EBay Life* contained a section each month called "How Has eBay Changed Your Life?" The answers become part of this shared narrative, almost in the style of a conversion story. Belinda, who was not close to her father as she grew up, now spends every Thursday evening surfing eBay with him and maintaining a close relationship even though he is seriously ill ("How has," 2000). Donna, thanks to her eBay business, gushed about her new life: "I am able to stay at home all day with my daughter, and my husband and I have time to spend with each other" ("How has," 1999).

**Emotional Connection**

A shared history like the eBay founder's narrative and stories of people whose lives have changed because of eBay contribute to the fifth element of eBay's community: emotional connection (McMillan & Chavis, 1986). Personal investment is another aspect of this fifth community
characteristic, and on eBay that investment includes time spent searching and listing, money invested in an eBay business or a collection, the emotion that goes with the competitive nature of an auction, and the investment of oneself in finding friends and interacting with buyers and sellers through auctions and through bulletin boards.

"Uncommunity"

Not only does the eBay community share narratives about insiders, it also shares an antagonism towards outsiders—a sixth element of the eBay community. Hart (1998) has argued that for every community, "there is also an 'uncommunity,' an assembly of the befouled and besotted who have heard the Word and rejected it" (p. xxv). Hate, he charged, paradoxically builds community with "enmity in the service of amity" (p. xxvi). The "uncommunity" that reinforces eBay's community is made up of all those who threaten the security of the online auction—deadbeat bidders, NARUs, frauds, and sellers who gouge buyers on shipping and handling costs. Dialogue on eBay's bulletin boards often focuses on condemning people who have become or deserve to become members of this uncommunity. By putting the transgressors in the category of "them," the "us" of community is more clearly defined.

Status

Status is the seventh and one of the most important catalysts for eBay's community. The desire to gain or maintain privileged status
motivates loyalty to the community and provides a self-interested motive for behavior that improves the entire community. When status is an issue, "newcomers are bent on improving their position and the established groups are bent on maintaining theirs" (Elias & Scotson, 1974, p. 38). And when feedback ratings and colored stars are at stake, status is definitely an issue on eBay.

The feedback forum is one vehicle through which community members gain and confer status. Sellers and buyers alike encourage their counterparts to leave feedback after each transaction. More positive feedback means a higher feedback rating, a more desirable icon next to it, and, ideally, more confident bidders or sellers in the auctions that person will participate in. This desire for status also makes the very threat of negative feedback a strong motivation to follow eBay's community guidelines. Online communities create situations where people can be shamed into following norms by making their transgressions public (Baym, 1998). The feedback forum is the place where that happens on eBay.

One revered form of status can never be acquired by newbies, no matter how high their feedback ratings: the status of longevity. EBAY employees are conscious of this sort of status--most know the order in which they were hired relative to everyone else in the company. Westly (personal communication, August 11, 1999), senior vice president and
general manager of international and premium services, announced with apparent pride that he was the 22nd employee at eBay, which now, of course, employs hundreds. The author's wife (an occasional bidder and seller) prides herself on having followed eBay since before it was eBay (it started as AuctionWeb). Longtime users posting on bulletin boards often refer to the pre-eBay "old days" of AuctionWeb.

EBay has created some special relationships to benefit "Power Sellers" from time to time, creating another motive to gain status. The most difficult status symbol to reach, however, remains the shooting star, an icon posted next to the usernames of people with a feedback rating of more than 10,000. When the shooting star was first reached in 1999, its owner was featured in eBay's online newsletter, eBay Life ("First 10,000," 2000).

Individual identities, a common symbol system, reciprocal influence, shared narratives, emotional connections, recognition of an "uncommunity," and status: all of these rhetorically constructed elements of eBay help bind together eBay's bidders, sellers, and overseers in the fabric of community. These seven elements work together to create a virtual community where members are accountable to one another and where they have some social expectation of trustworthy behavior.
**Growth Strategy**

As the pioneer of online person-to-person trading, eBay had been able to exploit its first-mover advantage into the creation of critical mass. With roughly 80 percent of the person-to-person auction space on the Internet and the largest offering of individual auctions (over 3 million items), eBay had created a solid brand name and a loyal customer base. And as a result many others companies who started later became a me-too company, and Internet hardly has any space for a me-too company.

Over the years, the company had employed an aggressive growth plan to solidify its leadership position in the auction market. This included a focus on product and service offerings, and regional and international expansion.

**Offering Different Product and Service**

Since eBay was a virtual company—one that never actually physically handled merchandise—the company believed that it must offer better customer service and marketing than most. To foster a stronger community, eBay offered a number of venues such as News Features, Library, and Charity to help users meet and exchange information. Additionally, the company forged innovative partnerships with companies like Kodak (for digitizing customer photos), Mailboxes Etc. (for shipping), i-Escrow (for releasing funds after items are received), and Collectors Success.
Universe (for authenticating auction items) to improve its customer service. In 1999 the company acquired Billpoint to enable customers to pay with credit cards.

To expand its product portfolio, eBay took an unprecedented step in April 1999 to acquire Butterfield & Butterfield, the 134-year-old auction house, for approximately $260 million. A month later it bought Kruse International, the high-end automobile auction house. Before these acquisitions, eBay had focused on collectibles that were worth less than $500. These new businesses signaled eBay’s drive in hosting higher-value auctions. But more importantly, they also marked the beginning of the company’s off-line strategy.

**Regional Auction Strategy**

In October 1999 eBay shocked the market again by creating yet another source of new revenue. It rolled out regional auctions in 10 new markets and the list continued to grow. For example, "the San Francisco site has a Grateful Dead section, bundled-up Minneapolis residents can buy ice-fishing equipment, and Atlantans might bid on Braves paraphernalia." Through further segmentation of the auction market, eBay attempted to
reach more customers and capture the share from smaller regional and niche market players.

**International Expansion**

As eBay continued to penetrate the auction market in the United States, it also planned to leverage its knowledge in this core market across international borders. In June 1999 eBay purchased www.alando.de, a German online trading community. In addition, the company developed separate Web pages for several communities abroad and mechanisms to allow cross-border trading. EBay had been building up its management team according to specific markets, including (1) Germany, Switzerland, and Austria, (2) the U.K., France, and Scandinavia, (3) Asia (Japan and Korea), (4) China, and (5) Australia and New Zealand. It was expected that eBay would invest aggressively in these target markets to secure a leadership position in the online auction market.

The success of eBay lies in its focus. It is into online auction and online auction only. It never diversified into offering free emails, or selling books or downloading Mp3. As Ries and Trout (1998) says that marketing is game of the mind, it is important to get in to that share of mind. It is often the first mover that has the advantage to getting the mind space. It is very true for ebay.com they too diversified but it was a concentric diversification, from USA they moved on to many other countries but there too they were into auctioning and not into something

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else. The competition from the stalwarts of e-business like msn.com or Amazon did not shake them, they were sure that such business competition will come and go, but the brand name EBAY will remain in the mind of the customers forever as an auctioning site. And when it comes to auctioning they will come to ebay.com and when they need to purchase a book they will go to Amazon.com when they need to search something they will go to Google.com

Ebay has championed the market with their positioning skill

CASE STUDY OF REFLECT.COM

Reflect.com:

At Reflect.com, supplies the customers with state-of-the-art skin care, hair care and cosmetic products, but in fact none of the products are there ready to be bought; the customers have to make the product and then order them to get it delivered at their doorsteps. Create your own stuff to make yourself beautiful. Here reflect.com offers free delivery and unconditional guarantee, even if you don't like your self-made products.

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It is indeed a unique beauty model and it is targeted to those who are beauty conscious and is ready to spend much time and money over cosmetics and beauty products. The truth is irrespective of age and nationality most women are beauty conscious and loves to spend a lot of time over it. So the market was not small for them.

Reflect.com says the following about themselves in their website:

"It started with an idea. Now it's the passion of an entire company.

If every woman is an individual, then how can she be satisfied with products that are not made uniquely for her?

It started with an idea. Now it's the passion of an entire company. From our home in San Francisco, Reflect was born from a desire to meet the individual beauty needs of women.

Our vision of the ideal beauty company was inspired by this question and our timing was fortuitous. With the evolution of internet technology, we patented a revolutionary customization process. Now, you can voice your specific beauty needs and desires with a precision that has never been available before. At Reflect, we interact with you through specific questions composed by our top beauty experts and research scientists, to mirror your needs creating one-of-a-kind products just for you.

In the new millennium, a personalized beauty dimension is more essential than ever. Women want and deserve individualized attention. Reflect is a modern vehicle, enabling women to express their own beauty and style. Thousands of women visit our website each day to custom design beauty products that don't exist until they help create them.

Welcome to the world of Reflect, where your individual beauty is our greatest inspiration."
Before going in to the depth of reflect.com lets take a brief look at scenario of the online beauty market

**COSMETIC INDUSTRY OVERVIEW**

The health and beauty care industry, a $24 billion market, was one of the fastest growing and most profitable sectors in the United States over the past 50 years. It was expected to top $29 billion in 2003. According to Jupiter Communications, online beauty sales were projected to reach $100 million 2001 and perhaps $360 million by 2003.

The total cosmetics market (approximately $10 billion in sales) comprises of two segments: the mass market and the prestige market. Mass products were sold through drug stores, grocery stores, health and beauty stores, and merchandisers. According to Information Resources Inc., mass cosmetic sales (excluding the nail segment) rose 10.5 percent to $2.8 billion for the 52-weeks period ending May 21, 2000. Including the nail segment, sales were $3.2 billion. Prestige products were sold through department stores and upscale retailers. In 1999, prestige beauty market sales were $6.5 billion in the U.S. Over-all growth for the market was 3 percent (Dimond, 2000).
Online Consumer Trends

Both mass and prestige products were sold on the Web, either directly by manufacturers or through third-party vendors. By 1999 a Media Metrix/NPF E-Visory Report estimated that more than one-third of Internet users had ventured onto a beauty e-tail site, with women making up the majority of beauty buyers. The most popular purchases were in the bath and body category, while color cosmetics was the least-purchased category. Women’s scents led the sales and profit too. The study also found that buyers were not very experimental: only 6 percent said they bought things they had never tried before. The websites that had the highest recognition were totally virtual companies, that is, they do not have any offline stores, and focused mainly on health and beauty. (Ozzard, 2000). Nevertheless, the market was quite promising. Women comprised nearly half of Internet users in 1999 - representing 27 million women online in the U.S. In addition, approximate 58 percent of new Internet users were women, up from 44 percent in 1998. (Aktar, 2000)

Competition: Chaos and Confusion in Online Cosmetics

Reflect.com competed for the same wallet share like all of its competitors -- mass, prestige, online, or offline. However, first and foremost, it had to compete against traditional manufacturers and
marketers such as Procter & Gamble, L’Oreal, and the Estee Lauder Companies.

A comparative price table is given below:

<table>
<thead>
<tr>
<th>Items</th>
<th>Refect.com</th>
<th>Lancôme</th>
<th>Oil of Olay</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lipsticks, shampoos, conditioners</td>
<td>$12.00</td>
<td>$18.00</td>
<td>$8.29.</td>
</tr>
<tr>
<td>Foundation makeup</td>
<td>16.00</td>
<td>32.50</td>
<td>10.99-12.99</td>
</tr>
<tr>
<td>Moisturizers</td>
<td>19.50</td>
<td>36.00 - 77.00</td>
<td>7.59.</td>
</tr>
<tr>
<td>Facial mask</td>
<td>24.00</td>
<td>22.50 - 27.00</td>
<td>N/A</td>
</tr>
<tr>
<td>Eye gel</td>
<td>28.00</td>
<td>44.00</td>
<td>9.99.</td>
</tr>
<tr>
<td>Night Cream</td>
<td>29.50.</td>
<td>59.00</td>
<td>9.99.</td>
</tr>
<tr>
<td>Fragrances</td>
<td>40.00</td>
<td>32.00- 80.00</td>
<td>N/A.</td>
</tr>
</tbody>
</table>

The online beauty shops that were thriving just a year ago suddenly seem to be deep trouble and many had to pull down their shutters.

**Beauty.com** was acquired by drugstore.com in February 2000; in late October 2000, the site terminated 10 percent of its workforce and announced that it would close its New York office.
**Beautyjungle.com** laid off 60 percent of its staff and undertook a review of its strategic operations in late October 2000. The site closed its doors for business by mid-November 2000.

**Beauty scene.com** went out of business in late November 2000.

**Bliss/Blissworld.com** a growing spas and cosmetic company, developed successful lines of skin care and home spa products under the brands Remede and Bliss, which were distributed in selected locations. Bliss also distributed a wide variety of its distinctive beauty products through its Blissworld.com website. They too were running through severe cash crunch.

**Eve.com** shut down operations on October 20, 2000, less than 24 hours after its parent, Idealab, pulled financing from the site. Eve.com's domain name and leftovers have been acquired by competitor Sephora.com.

**Gloss.com** relaunched in March 2001. It featured all of the Estee Lauder Cos. brands as well as Clarins and Chanel. Industry sources believed Estee Lauder's presence might have a significant impact on the online industry by drawing more customers online. And with their second life, they were very careful and cautious in spending money. But it needs to be noted that it is not their gross sales
but low spending that gave them a decent looking balance sheet.

**Ibeauty.com**, a certified AOL merchant had trouble with their management so, hired a new CEO, Gabriella Forte.

**Lab2l.com** was an online laboratory that formulated skincare products to a customer's specific needs and requests. The site claimed it was capable of formulating 21 million unique skincare products. Customers answered an online questionnaire about their skin and its needs. However the price was a bit higher than that of reflect.com. If we compare then we shall see that products like (fragrance, hair and skin care items, lipstick etc) ranged from $12 - $45. But for lab21.ocm it was $35- $85. But all in all it was quite successful, and was doing decent business.

**Sephora** was an international beauty-retailing venture owned by LVMH, which drew wide client and industry praise for its innovative store design and fresh approach to merchandising presentation. Sephora.com, launched in October 1999, extended the Sephora retail beauty concept to a worldwide audience.

While most online cosmetic sellers are either in serious trouble or are
pulling down their shutters, how reflect.com plans to survive. Let's take a brief look at it.

**REFLECT.COM**

Reflect.com was financed with $35 million from Procter & Gamble and $15 million from Institutional Venture Partners (IVP), the investment firm famous for backing Excite Inc. IVP's Geoff Yang summed up his enthusiasm for the deal saying, "What energized us was that this wasn't just another e-tailing deal. They were going to do something no one's done before."

The Investors and the venture capitalists provided much more than mere money.

<table>
<thead>
<tr>
<th>INSTITUTIONAL VENTURE PARTNERS</th>
<th>PROCTER AND GAMBLE.</th>
</tr>
</thead>
<tbody>
<tr>
<td>15 million dollars</td>
<td>35 million dollars</td>
</tr>
<tr>
<td>Extensive Silicon valley network</td>
<td>Branding/Marketing expertise</td>
</tr>
<tr>
<td>Internet start-up experience</td>
<td>Extensive R&amp;D infrastructure.</td>
</tr>
<tr>
<td>-----------------------------</td>
<td>-------------------------------</td>
</tr>
<tr>
<td>High-tech recruiting muscle</td>
<td>Launch team</td>
</tr>
<tr>
<td>Speed</td>
<td>Lab facilities and cosmetic formulas</td>
</tr>
<tr>
<td>Credibility with net establishment.</td>
<td>Credibility with media and Wall street.</td>
</tr>
</tbody>
</table>

**The Site**

The Reflect.com’s site was launched in December 1999. It positioned itself not just me-too product but as a personalized and customized line of beauty products that is exactly needed for your personal beauty care (which includes skin and hair care and cosmetics). Its services were created for and available solely through the Internet, using a patent-pending system for a mass-customization model.

With access to P&G’s global supply chain and R&D facilities, the site had the capability to create more than 300,000 different products and packages. By asking the consumer a series of questions and letting her control the experience, the site created customized products and packages. Additionally, Reflect.com owned its unique manufacturing process that resembled a virtual plug-and-play. The company was able to produce product in very small lots (25 vs. 10,000 for competitors), and

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reduced changeover time from 7 minutes to 5 minutes. While the industry average was 90 minutes.

The site capitalized on P&G's beauty care expertise while leveraging the Internet's capabilities to create a consumer experience that could not be duplicated in a typical bricks-and-mortar environment. Using an interactive question-and-answer process to determine each woman's needs and with P&G's research and development lab; Reflect.com successfully created unique products for each customer.

The product creation process began on the site and ended with a fulfillment center in Cincinnati called Direct Site. Sourcing from multiple suppliers along with technology as a delivery tool dictated order fulfillment. This process, from front to back end, was proprietary and was pending patent approval. Reflect.com also enjoyed the benefits of lower inventories and reduced cost of sales.

The company allowed a customer to build her own brand of upscale beauty products that were created, manufactured, packaged, and distributed on an individual basis. David Ticoll reports "Reflect.com acts as a channel to serve the high-performance sector of the beauty product market. Its target customers were 'beauty involved,' meaning that they were willing to invest the extra time in designing their own beauty product solutions. They were also experienced Internet buyers who were
comfortable with e-commerce and online interaction."

In September 2000, Reflect.com launched a patent-pending online process that allowed women to create their own perfume. Women were guided through the creation of their signature scents by answering questions that revealed the components of their ideal fragrance. Each selection was made through “an interactive visual experience designed to capture both her imagination and her scent preferences to create the perfect fragrance” (Cox, 2000). The customer was sent three samples of her creation from which to choose. Three days after a customer’s order was shipped, first-time buyers received a live orchid as a thank-you. Browsers who registered on the site and created a product but did not buy it received a surprise “delight sample” with their name on the bottle. If a customer was not satisfied with the product, Reflect.com would customize it until she was.

Now if we look at reflect.com carefully then we shall find that two main points that have resulted in success while others have burnt out:

1. **Positioning**: reflect.com had a clear cut different positioning from the very beginning. It offered customized products to its customers. Unlike other online beauty shops that offered market available branded products, reflect.com’s offering was distinctly different. If
we look at the literature of positioning we have to refer to the gurus of Positioning, Ries and Trout. The Law of Focus is as essential in offline business as it is in online business. "The essence of marketing is narrowing the focus. You become stronger when you reduce the scope of your operations. You can’t stand for something if you chase everything" (Ries & Trout 1993.) reflect.com stands for customized personal products. That is their forte, or strong point of selling. They offer products that are not available in the market, because it made by the customer herself.

Now there is a big question why did P&G offer money to create a new online brand of cosmetics? Why are they inviting cannibals to their profit pie? (Reflect.com did not have the mark of P&G on their products.) A woman may have 3 different perfumes but surely she is not going to use three hair-oils or three shades of lipstick at the same point of time.

It is not a case of cannibalization. It is a stroke of marketing genius. When it comes to fashion, makeup, or any other form of personal statement the market is broadly divided into two categories: “belonging to the popular group” or “we are different”. If we recall the classical case study of Apple computers we shall find one of their first slogans was “Computers for the rest of us”. That is, those who do not like to follow the market trends and want to have something different. Here also P&G felt
the market is clearly divided. They are serving with their own popular brands (e.g. Cover girl, Oil of Olay, Max factor etc.) But they are not bought or used by the group “we are different”. Reflect.com is a perfect answer to their needs. So there was absolutely no question of cannibalizing. In fact they have a wide grip over the beauty market.

2. **Knowledge**: it is very important to know how to run a business.

Fawn Shawning of Napster.com was no doubt a great computer wizard but he had no idea how to run a business. He lost millions of dollars in not opting for banner advertising. Borders.com was a technologically sound business but they failed to run and catch up with the day-to-day operations, so it was handed over to Amazon.com. When Priceline.com went for grocery selling that lacked the very infrastructure and capacity. They simply failed to keep their promise. It very important to have a knowledge and infrastructure to fulfill the promises that a company is making to its customers. (Here I just can’t help but quote a limerick that I found long back in David Aaker’s Advertising Management book): ....

*Said a tiger to a lion as they drank beside a pool,

"Tell me, why do you roar like a fool?"

"That is not foolish," replied the lion with a twinkle in his eyes.

"They call me the king of all the beast because I advertise"

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A Rabbit heard them talking and ran home like a streak.

He thought he would try the lion's plan,

But his roar was a squeak. A fox came to investigate ---

And had his launch in the woods.

The Moral: "When you advertise; be sure you have got the goods"

And here reflect.com not only promised something very special (offering customized cosmetic products) but they truly had the (goods) or in other words the strength and capability of creating new products. Because, they had the full backup of P&G's laboratory facilities, and their knowledge about the women's beauty market. Michael Parent (2000) has very rightly pointed out that it is a misconception that e-commerce can only be handled by young and new entrepreneurs. He says that the youth has the stamina, energy and enthusiasm. But they lack seasoning and experience. Here in this case of reflect.com we find that P&G provides the most important thing the understanding of the market they are serving and the R&D back up

Next we take up the case of Fabmat.com to explain even how simple but realistic moves in business can lead to success:
The Case study of Fabmart.com

Bangalore-based Fabmart is a Bangalore based e-tailer; it began its operations in October 1999. While it was founded and maintained by Indian IT specialists, it has indirectly received foreign investment through a venture-capital (VC) firm, Chrysalis Capital. Investors in Chrysalis include big names like Microsoft, Stanford University, EDB of Singapore and others. Chrysalis has invested Rs250m ($5.4m) into Fabmart. Along with an Indian company that has invested Rs55m ($1.2m), it holds about half of Fabmart's equity.

K Vaitheeswaran, vice-president (marketing) and one of the founders of Fabmart, says that the market feedback and information from common suppliers was really very impressive, and Fabmart was the leading Indian e-tailer (in terms of sales, customers and so on) in the product categories that it sells. While there are no independent statistics to verify this claim, there is little doubt that Fabmart is a popular site. It has won several awards and praises from leading Indian IT magazines. But the size of the e-tailing market with which Fabmart's operates or in other words the customer base is relatively small—just about 26,000 independent customers. Of these, about one-third are repeat customers. (Fabmart's goal for this year (2001) is to increase the number of repeat customers to 10,000.) As is the case with e-tailing worldwide, interest is much
higher than actual orders. People come and surf goes through the items but then do not buy it. At present (2001), Fabmart secures about 6,000 visitors a day, while orders total about 500. Twenty to twenty-five per cent of the orders are for jewellery, with the balance equally split between books and music. While Fabmart did not reveal its current revenues, but it expects sales of around Rs50m during 2000-01. (Mr. Vaitheeswaran claims that the business plan does not have a revenue figure, since the company is still in the customer acquisition and investment stage.)

Customers are not spread all over the country. Mostly the major cities dominate Fabmart's customer base (e.g. Bangalore and Mumbai alone account for more than 40% of customers), buyers also come from smaller cities and towns, testifying to the attraction of e-tailing in places where retailing is undeveloped.

A number of factors have constrained the growth of e-tailing in India, including a strong preference for 'real' shopping and the security concerns of credit-card holders. But low But presently Internet penetration is no longer considered to be a major concern. The number of Internet users is growing exponentially. (According to the National Association of Software and Service Companies' estimates, there were about 1m Internet connections and 3.7m Internet users in June 2000.) But if we look in to the true picture
then we shall find that bandwidth is still a big problem and Internet connectivity is still very costly. So the would-be virtual shoppers get turned off by the time it takes to download even the most simple pages. Fabmart has adopted a variety of strategies to address these constraints and to win over shoppers away from bricks-and-mortar retail outlets:

* Exclusive focus on retailing. Fabmart has modelled itself after Amazon.com and is focused solely on business-to-consumer (B2C) e-tailing, unlike several Indian horizontal portals that offer e-tailing along with many other services. Mr. Vaitheeswaran says that unlike most online stores in India that view the business mainly from an Internet and technology angle, Fabmart believes that it is in the business of retailing and that the only difference between fabmart.com and bricks-and-mortar retailers is the address. The strategic objective is to 'offer a shopping experience that is as good or better than what the consumer is getting today in the physical world' rather than obsessing about the technical sophistication of the website. Mr. Vaitheeswaran does not believe that there is any distinction to be made between online and offline shoppers--there is only one kind of shopper and he will shop in the store that gives the best value, whether it is real or online. Each shopper has his or her own two or three favourite stores, for each product category, from
where he loves to shop. Fabmart's objective is to be on top of this list of favourites. Hence it has emphasised the quality of the online shopping experience, including the product information available (such as contents, excerpts/samples, reviews, etc, of books/music), ease of use and navigation, range of choice, competitive prices, multiple payment options, the way the order is transacted, the regular communication of order status to the customer and the physical delivery of the package.

* Store-by-store approach. Fabmart's product portfolio also sets it apart from other Indian e-tailers. Most e-tailers offer multiple product categories, though the number of items within each is limited. Fabmart believes that offering a little bit of everything is not enough to lure customers away from their comfortable offline shopping habits. Fabmart's approach has been to build its business store by store, devoting time and effort to each so that customers are offered a strong value proposition. In September 1999 it started with music and began offering books only six months later. This was followed by a jewellery store in June 2000. Fabmart now has more than 25,000 book titles, over 13,000 music titles and about 1,200 jewellery items. In October it launched a groceries store and plans to begin selling computers and toys later this year (with plans to sell
garments early next year). In choosing which products to sell, Fabmart has used five criteria:

--The cost of the purchase must be affordable enough so that customers shall be willing to at least try the product.

--The logistics of shipping across the country in terms of packaging, size and weight must avoid complication.

--The customer must be made sure that the product is the same irrespective of where it is bought.

--The Internet as a technology can bring unique value to the industry.

--No one has established a good online store in India for this product.

Fabmart started with music since it was the only product that fulfilled all five criteria, followed by books. The logic for the jewellery store was based on additional criteria like attracting a fresh set of customers and increasing order value. However, all three products are impulse purchases, and Fabmart realised that it cannot have a business model based on unpredictable sales. Hence, for its next store, the company has zoomed in on groceries, a need-based product. The company hopes that customers will come back to Fabmart on a preappointed day and buy a reasonable amount regularly. Mr. Vaitheeswaran says that groceries are a good
candidate for online sales, since there is no 'great shopping experience' in buying items like soaps and toothpaste in a bricks-and-mortar store. Hence Fabmart believes that the business opportunities from groceries are huge.

* Price discounts and promotions. Fabmart regularly uses discounts to attract new customers—typically 8% for music and 10% for books. There are also regular promotions, offers and festivals. Price reductions are not based on e-tailing being cheaper than physical retailing since the initial costs of acquiring online customers are high (offsetting the savings from not having physical stores). Fabmart's costs of customer acquisition (including marketing and advertising) have totaled about Rs40m over the past year. Looking ahead, however, Mr. Vaitheeswaran believes that as the customer base and sales volume increase, e-tailing will have lower costs, which will be translated into lower prices. Fabmart is also clear that while price is a key trigger to get the customer to buy for the first time, he will buy again only if the online shopping experience is positive.

* Payment options and security. Fabmart has gone beyond secure socket-layer (SSL) technology, which encrypts credit-card information. Along with Citibank, it has introduced a special service called "Suvidha" (convenience). By this facility Internet banking
account holders in Bangalore can buy products from Fabmart by entering a password that is used to debit their accounts directly (making the transaction fully secure). Fabmart claims that it was the first online store in the world to introduce such an option (in December 1999). Fabmart now has similar arrangements with other banks offering Internet banking such as ICICI Bank and HDFC Bank. Fabmart has also recognised that many Internet users in India do not have credit cards. In July 2000 it introduced 'FabMoney' in the top six Indian cities, in select upper-end cyber-cafes called FabPoints. This FabMoney works like a prepaid card; it has a secure 17-digit number and comes in a tamper-proof pouch.

* **Outsourcing.** Unlike many Indian companies, Fabmart has adopted the policy of outsourcing with great enthusiasm. The basic strategy is keep themselves focused to the key business that is e-tailing, the other related works should be outsourced. The functions outsourced include website design, software development, hosting, network management, facilities management, accounting, finance, legal services, taxation, human-resource development and the "FabMoney" programme. (Incidentally, this has generated business for several foreign companies or joint ventures that provide these services such as Ernst & Young, Citibank and Blue Dart (the Indian

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partner of Fedex and Bharti BT). Because of such outsourcing, Fabmart is able to operate with just 27 employees in five offices. NASSCOM estimates that the Indian e-tailing market will grow rapidly, to Rs18bn ($391m) in 2001-02. Not surprisingly, Fabmart is optimistic about the potential for e-tailing in India. The company hopes to break even and generate a small profit in the third year of operations (2002-03), when sales revenue is expected to be about Rs500m ($11m). Fabmart wants to go global in near future. It wishes to cater not only the NRIs who loves to be in touch with their home town but also all those customers in middle east and far off who loves to have Indian jewellery and silk. While shoppers overseas can order from Fabmart, delivery is made only to 850 cities and large towns in India. Next year, however, Fabmart plans to start shipping overseas, starting with the US and with jewellery. Fabmart hopes that the strong US network of its financier, Chrysalis, will be useful. To fund its expansion, Fabmart is confident to attract more venture capital, and it is interested in partnerships with investors who can bring some strategic value rather than mere cash.

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