

BACK TO FUNDAMENTALS – E-COMMERCE 101

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I'm a medium sized paint company contemplating E-commerce out of fear I may be at a competitive disadvantage. I'm confused by all that is written about e-commerce, and afraid to proceed because of the dot-com crash. How should I proceed?

The time has come to take a clearer view of the Internet. The key question is not whether to deploy it, rather how to deploy it. You have no choice but to deploy it to stay competitive. But your challenge is to learn from the mistakes of those who failed.

The fundamental advantage of the Internet is "*making information readily and widely available.*" Unfortunately, that may come at the expense of profitability depending on *each value chain* your company participates in. A fundamental issue that dot-coms failed to account for.

Dot-coms distorted the view of fundamental business. They multiplied so rapidly because of widely available capital without demonstrating viability. In fact, their distortion of business principles began with expansive definitions of top line revenue growth. They offered free services for registered users to attract customers because they felt they could make money on the back end, e.g. click-through revenues, advertising, or a percentage of the transactions, etc. To generate revenue, reduce expenses, or provide services on the Internet, while useful, is not sufficient evidence that value has been created. In their rush to deploy, dot-coms failed to understand the true economic value of their business.

ITS TIME TO RETURN TO FUNDAMENTALS: The creation of economic value is the only true arbiter of business success. Sustained profitability is the only reliable measure of economic value.

So how can you use the Internet to create economic value? The answer lies in two fundamental factors that determine profitability: *Industry structure*- which influences the degree of competition and hence the profitability of competitors, and *Sustainable competing advantage*- which allows a company to outperform its competitors.

These two drivers transcend any technology or type of business. They are universal to fundamental business strategy.



The error made by many businesses is the delegation of the Internet strategy to their IT department, or viewing it as somehow separate from their daily strategic decisions related to customers and competitors. The Internet is a great channel, it needs to be incorporated into your existing strategic thinking. Use it as a tool to deploy your strategy.

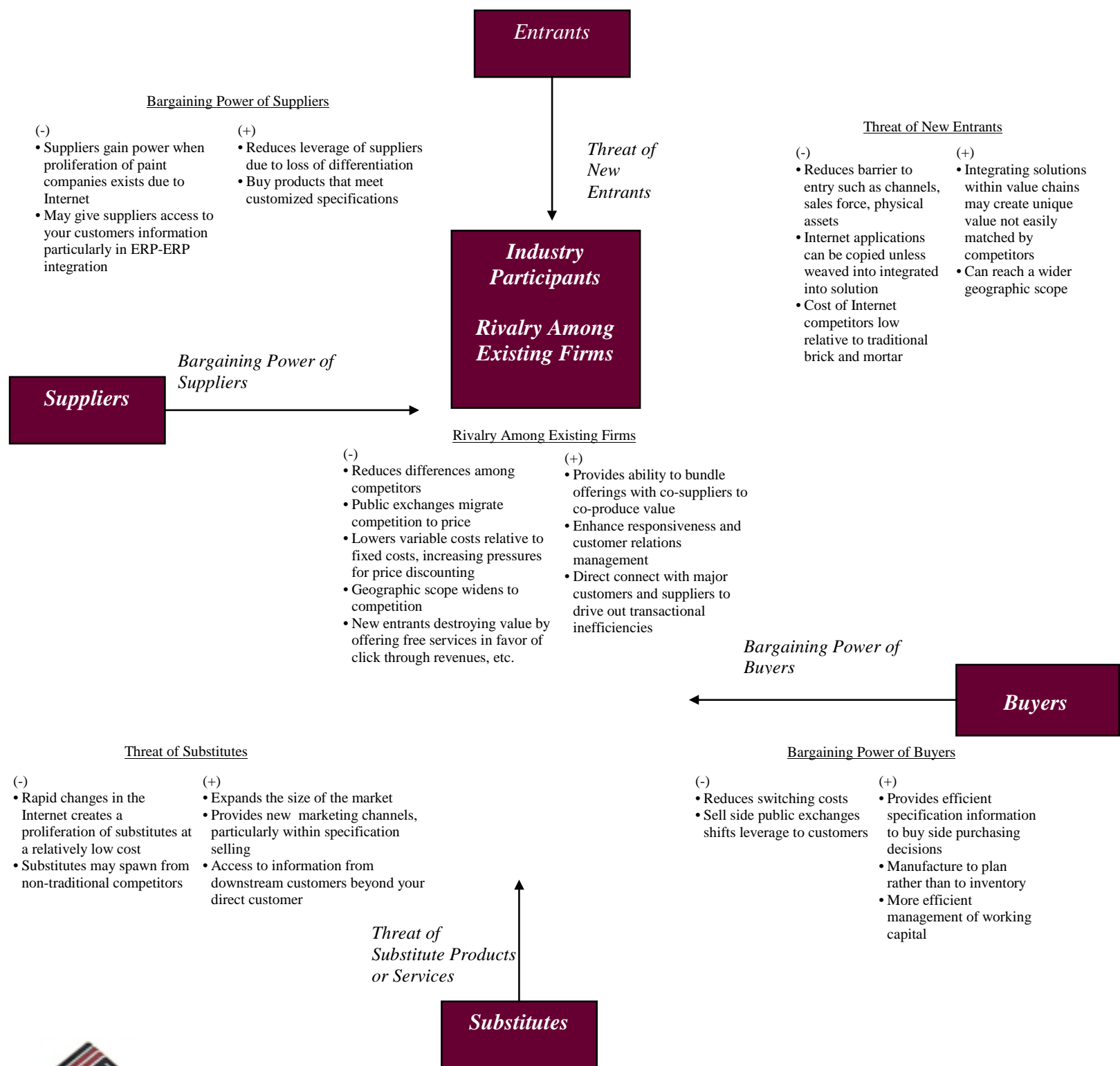
The basic value chains for your company provide a framework of activities through which a product or service is created and delivered to customers. Each value chain may be uniquely different. Each discrete activity has a cost. So understanding how the influence of the Internet will impact such costs will provide leads as to how you use it in your strategy. While deploying the Internet can expand the market, doing so may come at the expense of profitability. Fundamentally, the Internet is a great PARADOX. Its benefits of making information widely available, reducing the difficulty of purchasing, marketing, distribution, and allowing buyers and sellers to transact business more easily- also shifts leverage, lowers barriers and makes it more difficult for companies to capture those liberated costs and benefits as profits. Therefore, the key is in *integrating* as many activities as possible to *weave unique solutions* that build barriers. Simply selecting one or two activities does not provide *sustainable competitive advantage*. Your competition is smart enough to do the same and quickly.

In order to assess the attractiveness and sustainable profit potential of your e-Commerce strategy, think of the fundamental forces underlying each of your value chains. Michael Porter, distinguished professor at Harvard University defined five competing forces to determine the structural integrity of a business: the intensity of rivalry among competing firms, the bargaining power of buyers, the bargaining power of suppliers, the threat of substitute products or services and the barriers for new competitors.

Evaluate your business strategy while integrating the strategic influence of the Internet on each of the five forces for each of your value chains. The example below refers to a generic coating value chain as seen from the perspective of a paint company:



How The Internet Influences Industry Structure



So you see, gaining a competitive advantage using the Internet does not require a radically new approach to business, rather it requires incorporating new thinking and building the proven principles of effective strategy.



About The Author



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