The objective of this paper is to examine the strategic utilization of electronic commerce by traditional supermarkets through strategic alliance with Internet based companies. The paper explores how a clicks and bricks alliance can transform the traditional marketplace; from re-engineering their business processes, to enhancing the bricks and mortar retailers business models, and further contributing to changes in the market structure. Thus by re-engineering their business process to allow enhanced business models, they will be able to improve their overall performance and thus gain competitive advantage. From the research undertaken, this paper draws conclusions on both bricks and clicks benefits and how these alliances fit into the broader context of the business strategy of the traditional supermarket.

INTRODUCTION

Electronic commerce (e-commerce) is the buying and selling of goods and services via the Internet. E-commerce supports an entire range of activities viz. product design, manufacturing, advertising, product support, commercial transactions (Schneider and Perry, 2000). Thus e-commerce has the potential and capability to transform the business process of retailers, by shaping their business models, thereby contributing to changes in their market structure and finally offering competitive advantage over major competitors. Given the opportunities offered by the Internet, major traditional supermarkets now provide on-line services to their customers. However, with future forecasts of increased use of online shopping, traditional supermarkets are considering ways by which they can meet the growing need for online shopping. This involves, strategic alliances with their newest competitors (Internet based retailers), who claim to be able to meet customer requirements, such as order and delivery fulfillment faster than traditional supermarkets. This new phase of the dotcom evolution, gives traditional supermarkets an easier inroad to the online world, as they can get into the e-market more quickly, take advantage of innovative technologies and create a new sales channel. Despite the obvious benefits of such alliances, traditional supermarkets still must
The Utilization of E-commerce

sift through a variety of issues to ensure that their companies make a smooth transition from bricks and mortar to clicks and mortar. Thus, although traditional supermarkets have what Internet based retailers don’t namely market share, market experience, capital physical facilities customer loyalty etc., which are critical to retail, Internet based retailers typically have lower overhead costs, web experience, on-line customer base and can survive on smaller profit margins in the long run.

OBJECTIVES

The research objectives of the paper were to provide an insight into the strategic utilization of the Internet by traditional supermarkets through strategic alliances with Internet based companies. This is done by looking at how they can gain competitive advantage, the process of change and, the advantages and opportunities offered by strategic alliances.

The main objectives of this research include:
- Analysing the growth of online services provided by traditional supermarkets.
- The importance of strategic alliances for traditional supermarkets.
- Impact of clicks and bricks alliance on their existing business processes.
- Impact of clicks and bricks alliance on their traditional business models.
- Identifying the critical success factors of such alliances.
- Delineating advantages, problems and future forecast of such alliances.

E-commerce

The definition of e-commerce according to the Oxford English dictionary is, ‘The buying and selling, and the exchange of merchandise or services especially on grand scale’. Another definition refers to e-commerce as the forms of transaction relating to commercial activities, including both organizations and individuals that are based upon the processing and transmission of digitized data, including text, sound and visual images (Single 2001). Single suggests that e-commerce can be divided into:
- E-tailing or ‘Virtual storefronts’ on Web site with online catalogues, sometimes gathered into a ‘virtual mall’.
- The gathering and use of demographic data through Web contacts
- Electronic Data Interchange (EDI), the business to business exchange of data.
- E-mail and fax and their use as media, reaching prospects and established customers (for example, with newsletters).
Business-to-business buying and selling.

The security of business transaction.

An important aspect of e-commerce, ‘e-tailing’ can be defined as retailing via e-commerce. This is to conduct business and financial transactions by electronic means. E-commerce presents enormous potential opportunities for consumers and businesses in the UK. Its rapid implementation is an urgent challenge for commerce and the industry. E-commerce makes it possible to trade at low cost across national frontiers. It is already bringing profound structural changes to many organizations and many competitors have already resolutely seized opportunities offered by electronic commerce.

Nature of Services Provided by Supermarkets

This research includes nature of services provided by the major supermarkets in the UK. These supermarkets include: Asda, Sainsbury’s Tesco, Safeway etc. These supermarkets are consumer-item or grocery retailers who provide many products and services to their customers. They provide services within and outside their stores. Products and services provided within the store include:

- Products such as food items clothing, drugs, wine, fragrances, body creams etc.
- Financial and banking services such as pet insurance, motor insurance travel insurance life insurance, customer banking etc.
- Refund policy VAT receipts, customer orders, local bus timetable, gift vouchers etc.

Services provided outside the store include:

- Re-cycling centres, fuel stations, car service stations etc.

The numbers of services and products provided by these supermarkets to their customers daily are immense. With many services provided on-line, they are increasingly finding it difficult to provide on-line services efficiently and effectively. Many of these supermarkets outsource Internet services to smaller companies who can handle web designs, order fulfillment’s, financial services, etc. However with more and more services being provided online and increasing competition from internet based retailers, traditional supermarkets are considering strategic alliances as an important option, in order to ensure continuity and provide better on-line services to their customers.

Strategic Analysis

There is probably no industry that has felt the impact of the Internet as strongly as the retail industry. The rise of e-commerce has changed
The Utilization of E-commerce

180 The Utilization of E-commerce

traditional retailing, as retailers now communicate with customers and suppliers directly. The business world has witnessed the development of a wide array of innovative virtual businesses, markets and trading communities. Many companies now handle many business activities over the Internet and even outsource such activities as; order receiving and fulfillment to companies who specialise in the activities. The traditional bricks and mortar retailer is restricted to particular locations and is highly location-driven. In other words being local in nature, a traditional retailer has to identify a good location for his operations and wait for customers (Mark and Mirvis, 2000). On the other hand an e-tailer has to virtually attract a customer to his site and offer him exemplary services. In fact, location is no longer the key to success if e-tailing is what we are talking about. Thus while the target customer remains the same both in traditional retailing and e-tailing, the mode of conducting business is changing dramatically (Baker 1999). Despite the strength of brand name, high profits and customer base enjoyed by major retailers in UK such as Tesco, Sainsbury, Asda, Safeway, etc, they have all tried to establish e-commerce as an increasing part of their business process due to the growth of on-line shopping and its future prospects.

The truth in this is that, the web offers a host of advantages. For one the Internet world could transform much of the traditional economics of retailing, while a traditional retailer caters only to particular localities, the Internet allows trading across borders (Schneider and Perry 2000). Also in e-tailing the e-tailer goes for a bigger and wider audience and is still in touch with individual preferences. Another approach that is emerging in e-tailing is to re-examine the normal retailing value chain. The web makes it possible to dispense with much of the traditional value chain altogether, thanks to direct sales by manufacturers to consumers. Web retailing also creates new points in the value chain i.e. Internet portals that act as shopping malls or intermediary aggregators such as Vasool.com that offer a new way of amassing buying power. Certainly, the economics of the Internet offers a powerful first mover advantage. Many retailers are now looking to gain competitive advantage over competitors by investing heavily in the Internet. An e-commerce operation on the web can be scaled up at a low cost in such a way that its physical equivalent cannot.

THE GROWTH OF SUPERMARKET E-TAILING AND ON-LINE SHOPPING

Indeed, the Internet and networked applications have created a new economy for retailers in general, bringing them significant opportunities
to transform the way people do business. Major supermarkets in UK have enjoyed profit and customer base as bricks and mortar grocery supermarkets. However, backed by the increasing number of people shopping on line, they have taken huge steps into providing on-line services. Taking Tesco’s success for example, Terry Leahy of Tesco saw the future potential on-line shopping could offer and invested heavily in on-line retailing. Today, Tesco’s on-line shopping services has made it one of the biggest online grocery retailers in the world and the biggest supermarket on-line in the UK, currently having a total of 1 million users and weekly sales of £6 million. Meanwhile, rival stores Sainsbury and Asda are building vast warehouses to act as delivery hubs for online grocery shopping. They believe the success in their on-line business will be in constructing huge warehouses, or picking center, which will service net shoppers only. When supermarket group Iceland, started its nationwide Internet shopping in October 1999, Malcolm Walks, Iceland Chairman said he was overwhelmed by the response from shoppers and from the fact that shoppers ordered mainly low-margin, bulk commodity goods (Bizreport. com June 2001).

The growth of on-line services offered by supermarkets has been massive over the decade, however, the questions is to what extent they are achieving their set targets. As recently as five years ago, supermarkets used the internet simply to create ‘vanity pages’ static information without interaction or transaction capabilities and with negligible impact on total sales. Over the past years, supermarkets have realized that the Internet allows them to do business and service customers in innovative ways. They now take advantage of the internet not only for e-commerce, but to properly integrate their supply chains and re-define their business process to improve overall profitability. Besides, gaining 24 hour access to customers, they can now extend physical store processes into the Internet through such applications as ‘buy here/pick up there’ reservation application offered by Asda, which does not only increase profitability, but enhances customer service. Most importantly they can transform their business models through the use of networked applications that allow them to acquire and retain customers, interact with current and new customers regardless of time distance and finally customize service to enhance customer experiences.

COMPETITIVE ANALYSIS–SUCCESS OF E-TAILING FOR BRICK AND MORTAR SUPERMARKETS:

Major supermarkets like Asda, Sainsbury, Tesco etc, have enjoyed undeniable success as bricks and mortar (traditional) grocery chains. However, the changing technologically advanced business world in
The Utilization of E-commerce

which they operate has forced them to invest in better business process. In 2000 Tesco.com sold £237 million worth of goods on-line, delivering a £9 million loss. However, according to its latest set of year-end results Tesco.com is now selling £6m of groceries per week, confirming its position as the world’s number one Internet grocer. It claims it now receives in excess of 70,000 orders per week over the Internet, which it claims is at least four times as much as its nearest rival, Peapod which sells only $2 m (£1.4m) of groceries per week. While rivals Asda, Sainsbury and Waitrose have recently invested huge sums of money into on-line shopping none of them can match Tesco’s success on-line. Tesco’s business on line seems years ahead of its other competitors in the UK. Realising that besides customer services and welfare, the Internet can help improve other services such as logistics and supply chain management, data and stock storage enhancement, employee services, financial and strategic benefits etc. most retailers today know the time has come to get serious about re-inventing their business for the Internet, however they don’t always know how to go about developing a strategy and road map (Mougayer 1998).

As innovative and profitable as the use of the internet sounds to retailers in improving their services, the difficulty in web-enabling their traditional practices and then achieving increased profitability, enhanced customers services, enhanced logistics and supply chain management is not an easy process, for they are yet to claim good profit from their on-line services. For example, Sainsbury’s abandoned its partnership with IBM and looked to a three-year deal with Computer Sciences, to host its Internet shopping site. Why? Well, because they can only enjoy success on-line when they achieve the following through on-line processes and presence —
1. How to significantly increase sales and profitability?
2. How to significantly save time, labour and other business costs?
3. How to improve customer service by enhancing the buying experience and exceeding expectations, thereby increasing customer retention levels and customer loyalty?
4. How to develop the image of being the best choice among competitors?
5. How to increase supply chain management between suppliers and customers?
6. How to improve quality control?
COMPETITIVE ADVANTAGE

Strategic Alliance

The new economy is fuelling the formation of strategic alliances. Every day new alliances are formed. Globalization mandates alliances and makes them essential to strategy (Doz and Hamel, 1998). It is not surprising then that strategic alliances are assuming an increasingly prominent role in the strategy of leading firms large and small. Essentially, a strategic alliance can be defined as: a form of inter-firm collaboration between two or more firms that combine their competencies, so as to create a competitive position in the market that neither could achieve alone (Oum, et. al., 2000). Such alliances usually occur when a single firm finds it either too difficult or too costly to pursue worthwhile business objectives on its own (Das and Teng, 1999). According to Contractor and Loragne (1988) a theoretical definition of strategic alliances is based on the degree of interdependency between the parties involved. Too often in assessing strategic alliances this factor has been taken into consideration. Lorange and Roos (1993) considered strategic alliances as an alternative to internalization on the one hand and market exchanges on the other hand. That is for a given factor (product or service), a firm may choose to: produce it on its own; purchase it from the spot markets; or make it jointly with partner firms. Three characteristics underlying these include:

1. Its goals and values
2. Its resources and capabilities
3. Its organizational structure and systems.

![Figure 1: Strategic Alliance Options](image)

Source Lorange and Roos (1993) Strategic Alliance, p3

The diagram shows the various forms of strategic alliance option available and which are practiced by many companies. As venture capital is reducing in the business to business environment traditional
companies are ready to take on dotcoms at their own game. Traditional supermarkets and emerging dotcoms should be scooping out opportunities for strategic alliances. While traditional supermarkets expect tremendous growth by moving some of their customer base online, they are only introducing many of their shoppers to online purchasing for the first time. On the other hand, Internet based companies typically have a more solid base of online shoppers, who are more comfortable with that mode of purchasing and probably more likely to have positive online experience. Therefore, they should consider alliance as a strategy to make their online presence felt and obtain competitive advantage over competitors. In choosing who to form these strategic alliance with, traditional supermarkets and dotcoms can either choose comparable or complementary partners. Comparable companies are nearly identical to each other in that they offer similar services and have close customer targets and segments. A partnership from comparable companies will create a solid base for identifying potential buyers, assessing individual company values, initiating talks and conducting negotiations. This will typically build a good customer base and reduce costs as they are both focusing on offering particular and similar services. On the other hand, a traditional supermarket can identify a complementary company; this is one which has no significant overlap of products and services and no overlap of target customer segments. In this case, two companies can offer similar services, but the alliance means one might sell the products, manage inventory, while the other handles taking of orders and delivery of these goods and services. In such a case, both companies, complement each other.

**STRATEGIC IMPLICATION**

A good way of characterizing strategic alliance motives is by looking at the strategic positions of each prospective partner's position in two dimensions (Loragne and Roos, 1993).

1. How it fits into the overall corporation strategy and overall portfolio of both partners.
2. The second area of concern is looking into the supermarkets relative position in such an alliance.

Traditional supermarkets can act as the leaders in such an alliances and not followers as they have the larger market share, possess superior service quality, established brand-name huge capital base, high inventory management etc. While on the other hand, dotcoms have
superior technology, on-line customer base and possess the capability to offer better on-line services. For success in such an alliance, both companies must engage in more complex and meaningful alliances, which are built on volume discounts between competing and non-competing companies. Companies have been known to engage in alliances in different forms and over varying periods. For example the alliance between Toys ‘R’ US and Amazon is an alliance by which members put resources into the alliance in order to complement each order in meeting business demands (Toysrus.com) A fundamental concern in every alliance is how much of resources to put into and retrieve from the strategic alliance (Leonard-Barton, 1992). The depth of such an alliance can come in four forms:

1. **Ad hoc pool**: in such a situation supermarkets merely put in minimum set of resources often on a temporary basis.

2. **Consortium type of strategic alliances**: an example of such a situation is where both firms put in certain resources and capabilities such as inventory for technology but the benefits go back to both companies at the end.

3. **Project based**: in such a situation both companies form an alliances in order to carry out a particular task or area of business. Such an alliance terminates after the project has been carried out.

4. **Full-blown**: in this scenario both companies put in resources in abundance, allowing resources generated in the alliance to remain within the alliance. This form can lead to creating a wholly new company.

<table>
<thead>
<tr>
<th>Business market position</th>
<th>Leader</th>
<th>Follower</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic importance in partner’s portfolio.</td>
<td>Defend</td>
<td>Catch up</td>
</tr>
<tr>
<td>Core</td>
<td>Remain</td>
<td>Restructure</td>
</tr>
<tr>
<td>Peripheral</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Source: (Lorange and Roos (1993), Strategic Alliances, p.7)*

Figure 2: Generic Motives for Strategic Alliances
Importance of Such Alliances

Strategic alliances offer an array of benefits. Due to forces in the market, such as globalization, intense competition, convergence and the need for firms to fill capacity gaps and access new markets, the environment for strategic alliances has become increasingly favorable (Miller and Shamsie, 1996). There are many traditional supermarkets in the dotcom space that don’t have an on-line presence or have an un-successful presence. The dotcom here can help facilitate an instant on-line presence in either a comparable or complementary manner. Following reason are important for such alliances:

1. **Technology**: Traditional supermarkets need technological know-how in-order to provide good on-line services and they need to find dotcoms who can provide such services. For example an alliance between Asda or Tesco and AOL or Amazon would mean gaining technological know-how in providing on-line services to customers and rapid technological developments, leading them to put together scarce competencies and to leverage the outputs for a broad commercial gain.

2. **Customer base**: Major traditional supermarkets in UK have huge customer base teaming up with dotcoms such as AOL or Amazon.com would mean even more customer base.

3. **Time advantages**: Faster responses to changes in the environment and reduction in development time through cooperative R & D. Also the benefit from an alliance could lead to enhanced resource management to gain time advantages.

4. **Knowledge advantages**: Reduction in knowledge deficits through mutual learning, particularly in high-technology.

5. **Cost advantages**: External synergies can be achieved through combining value chain activities.

6. **System competence advantages**: Expansion of competencies via synergy of core competencies. Thus allowing higher demand for systematic solutions involving several type of competencies, product and service offerings. Hence allowing the best from both partners in order to serve customers properly.

7. **Shared risk advantages**: The alliance between Toys ‘R’ Us and Amazon would mean sharing resources and capabilities, thereby spreading of risks over both parties.
Strategic Framework

A strategic alliance must be structured so that it is the strategic intent of both parties that it would actually succeed. However, it has been argued that, different strategic intents among strategic alliance partners are healthy (Ohmae 1990). According to Lorange and Roos (1993), strategic intent encompasses two dimensions: strategic intent envisions a desired leadership position and establishes the criterion the organization would use to chart its progress. Secondly, strategic intent also encompasses an active management process that focuses on motivating management using intent. The foundation of a successful strategic alliance is laid during the initial formation process. It is at this time that the analytical and political dimensions and issues have to be dealt with in such a way that clear and realistic intents are established and that the foundation for trust and behavioural consonance is laid. Lorange and Roos (1993) have also identified three characteristics regarding what strategic alliance encompass:

1. They capture the essence of winning
2. They stress on a time bound program
3. They set a target that deserves personal effort and commitment.

Effective strategic management in the era of strategic alliances is a highly debated issue, immense and many views and opinions exist within its literature. Effective strategic management is the core of the success or failure of most business decisions (Andrews, 1971). The concept of corporate strategy; defined strategy as ‘the match between what a company can do (organizational strengths and weaknesses) within the universe of what it might do (environmental opportunities and threats)”. The SWOT analysis views strategy as forming a link between the firm and its external environmental (Grant, 2000). Looking into the traditional SWOT analysis, 4 principles are critical to the design of successful strategies from the analytical foundations (strengths, weaknesses, opportunities and threats). Strategic alliances will allow common pooling of resources and capabilities possessed by both companies. Thus allowing companies merge their strengths against weaknesses thereby providing the opportunity to serve customers in new and innovative ways.
Porters Five Forces

It will be advantageous for one retailer to combine its upstream strengths with the others downstream strengths or vice versa. Through such a strategic alliance, supermarkets can gain access to technology such as dotcoms might possess, thereby saving time and resources. By using Porter’s five forces framework (Grant, 2000), it would be better to explore how retailers can gain competitive advantage from such alliances, as it shows how competitive strength can be gained from a unified point of view. Competitive strength can be created in the following areas.

1. **Suppliers**: such an alliance provides the opportunity of shifting the focus of power down the supply chain. It will provide manufacturers and wholesalers with simple, cheap access to these supermarkets, augmented by enhanced on-line customer services. This may also open new channels to market and strengthen brands between retailers and their suppliers, thus combined efforts related to suppliers in creating a stronger bargaining strength in terms of purchasing power and developing favourable long-term contracts.

2. **Buyers**: similarly the power of buyers can be affected by the same reasons above. Combining efforts vis-a-vis customers, by offering a fuller range of products and maintaining a stronger marketing channel on-line, thereby being in a better position to satisfy customer needs thus these could lead to lower transaction costs and higher customer base.

3. **Competitive rivalry**: e-tailing offers the potential to significantly re-shape many industries. Thus, entrants may be encouraged to enter, which is likely to mean enhanced competition. However such an alliance allows both companies to combine and develop new technology by joint efforts and combined complementary technologies thus this might lead to possibilities of surpassing competition.

4. **Threat of new entrants**: combining efforts to achieve a size that pre-empts new entrants (Grant 2000). That is the creation of more effective entry barriers and combining efforts to restrict the number of traditional supermarkets coming on-line.

5. **Threat of substitutes**: the involvement of commercial on-line intermediaries specializing in on-line retailing should help focus the transition from bricks to bricks and clicks. Critically such alliances will give competitive advantage over competitors and only well established traditional supermarkets can engage in alliances with potentially well experienced Internet based companies, which will narrow down the threat from substitutes.
Threat of new entrants
Brand enhancement service
differences, access to distribution
access to low cost inputs,
economies of scale etc.

Power of suppliers
Brand identity
Supplier volume
Supplier information
Etc.

Competitive rivalry
Strategic alliance
Competitive position
new technology
better services etc.

Power of customers
Service differences
buyer volume, buyer
information etc.

Threat of substitutes
New technology cost
effectiveness of
alternatives, increased barriers etc.

Adapted from: Robert Grant (2000) Contemporary Strategy Analysis

Figure 3: Porter’s Five Forces

Three Generic Strategies

Porter stated that with this understanding of the five forces, the three competitive positions available to a firm are cost leadership, differentiation and focus. Thus, in such an alliance, it is important to make a clear selection of strategy. Each of the generic strategies involves a fundamentally different route to competitive advantage, combining a choice about the type sought with the scope of the strategic target in which competitive advantage is to be achieved. Thus the strategy chosen by a firm entering such an alliance should clearly fit its goals and objectives and should fit its corporate portfolio.

Uniqueness perceived
by the customer
Low cost position

Industry
wide

Cost leadership
Differentiation

Particular
segment
only

Focus

Source: Michael Porter (1980) Competitive strategy

Figure: 4 Three Generic Strategies

Journal of Services Research, Volume 8, Number 1 (April-September 2008)
The resource-based view suggests that, the rationale for alliances is the value-creation potential of the firm’s resources that are pooled together (Rigsbee and Rigsbee, 2000). Certain resource characteristics, such as imperfect mobility, imitability, and substitutability, promise accentuated value-creation, and thus, facilitate alliance formation (Eisenhardt and Schoonhoven, 1996). Wernerfelt (1984) defines resources as ‘those (tangible and intangible) assets which are tied semi-permanently to the firm. Unlike traditional industrial organization economics, which relies heavily on the analysis of the competitive environment, the resource-based view focuses on the analysis of various resources possessed by the firm. Because many resources are firm-specific and not perfectly mobile or immutable, firms are continuously heterogeneous in terms of their resource base (Kogut & Singh, 1988). One area that remains under-explored is the resource-based view of strategic alliance even through such alliances are rapidly increasing in importance in today’s competitive landscape. A resource-based view seems particularly appropriate for examining strategic alliances because firms essentially use alliances to gain access to or over other firms’ valuable resources. Conlon and Giovagnoli (1998) found essentially that alliances are more likely to be formed when both firms are in vulnerable strategic positions (i.e. in need of resources) or when they are in strong social positions (i.e., posses valuable resources to share). Thus looking at the traditional resource-based approach to strategy analysis.

Source: Robert Grant (2000) Contemporary Strategy Analysis

Figure 5: A Resource-Based Approach to Strategy Analysis: A Practical Framework
Resource-Based Rationale of Alliance

Strategic alliance are voluntary cooperative inter-firm agreements aimed at achieving competitive advantage for the partners. The proliferation of strategic alliances in recent years marks a shift in the conception of the intrinsic nature of competition, which is increasingly characterized by constant technological innovations and speedy entry into new markets (Mowery Oxley and Silverman 1998). The critical part played by technology and speed in the new competitive calculus among other factors, has led to the contention that the key to success in the coming years lies in the creation of collaborative advantage through strategic alliances. From a resource-based perspective, Eisenhardt and Schoonhoven (1996) view alliances as ‘cooperative relationships driven by logic of strategic resource needs and social resource opportunities’ (Van de Ven 1976) noted that the process of building inter-organizational relationships can be studied as a flow of resources among organizations. For example, a joint venture is formed when two or more firms pool a portion of their resources within a common legal organization (Kogut and Singh, 1988).

Many traditional supermarkets obviously have different core competencies, products and services, but they still share some common vital traits. Chief among these traits is using alliances as part of a multi-channel strategy, and the capacity to form and execute alliances quickly. Traditional businesses have evolved through a series of archetypal stages: from start-up to growing firm to established company, to mature as a market leader. Successful companies do not succeed when they slow down or follow traditional business models. In the past few years, a handful of supermarkets have achieved quick and substantial competitive advantage in the world of e-tailing. Companies like Tesco, Wal-Mart, Toys ‘R’ Us were quickly identified as category leaders and they secured their positions by establishing sizeable gaps between them and their nearest competitors.

For a traditional supermarket to allow customers enjoy and feel its on-line presence, it should be able to provide up to date and technologically satisfactory services on-line. Major supermarkets in UK, such as; Asda, Safeway, and Sainsbury have long invested huge sums of money into providing on-line services (company web-sites): However none of them have been able to ensure increased long-term profits and improving on line services. However a recent alliance between ASDA under Wal-Mart Europe and AOL allows ASDA to be integrated into the AOL UK Shopping Interests and Lifestyle Channels as a preferred food and drink retailer and thus further allowing ASDA
special online promotions on AOL UK In addition, ASDA will be promoted across the AOL UK service and via special online marketing programs for specific ASDA initiatives (Asda@home).

BUSINESS PROCESS REDESIGN

Business Process Redesign (BPR) often referred to as ‘re-engineering’ can be defined as ‘the analysis and design of workflows and processes within and between organizations’. (Davenport and Short, 1990). Teng, Grover and Fielder (1994) defined BPR as ‘the critical analysis and radical redesign of existing business processes to achieve breakthrough improvements in performance measures’. Thus strategic alliances between traditional supermarkets and Internet pure-players will mean a huge change in both of their existing business processes. In order to successfully reengineer existing processes, new goals must be set, a new foundation must be laid and finally they must ensure proper implementation of the new business process into their existing business process, as often the good intentions of re-engineering are lost due to the inability to translate them into action. (Teng et al., 1994). According to Jackson and Twaddle (1997) BPR techniques focus on the reduction of internal costs and the enhancement of operational efficiency in internal business processes. Thus, these could be done by several techniques such as: ‘identifying and removing hand-offs’ this is a situation where an organization hands part of its business process over to another thereby removing responsibility for tasks such as delivery. A business process can be defined as a set of logically related tasks performed to achieve a defined business outcome (Davenport and Short, 1990).

However business process redesign in such a situation would highly depend on the form of strategic alliance engaged in. For example, a fully blown strategic alliance would have a significant change in both organisations. However in the case of an ad hoc pool type of alliance where both companies put limited resources into the strategic alliance, it might have a small impact on the existing business process. Business Process Re-engineering (BPR) techniques can be very beneficial to many retailers as they can be modified and used by retailers to understand where they fit in the market place in terms of the services they provide and the interactions they have with their customers, distribution channels and suppliers BPR can also be very beneficial when it comes to planning adapting and understanding the effects of change in their core systems.
Re-engineering the Business Process

There are two critical dimensions to conceptualize in order to capture the characteristics of a business process degree of mediation and degree of collaboration (Teng et. al., 1994). Processes with a degree of mediation involve most of the participants contributing directly, often simultaneously to the final outcome. Thus, a process with a high degree of mediation involves a large number of steps in a sequential manner. Degree of collaboration on the other hand, involves a situation where participants in a process regardless of the pattern of mediation exchange information with each other and make mutual adjustments to facilitate the accomplishment of the business process outcome. Morris and Brandon (1993) reported that seven capabilities must be part of re-engineering for it to succeed. These include:

1. The ability to conduct re-engineering in accordance with a comprehensive and systematic methodology.
2. The ability to coordinate management of change for all the affected business functions.
3. The ability to assess plan and implement change on a continuing basis.
4. The ability to analyze the full impact of proposed changes.
5. The ability to modulate and simulate the proposed changes.
6. The ability to use these models on a continuing basis.
7. The ability to associate all of the management parameters of the company with each other.

Information Technology related BPR, is not a new phenomenon, it has seen dramatic recognition from many organizations, as it can be designed to control change, improve operational responsiveness and quality and help business compete in this new business age.

The Degree of Mediation Dimension of a Business Process

The sequential flow of input and output among participating functions in a business process constitutes the degree of mediation (Teng, et. al., 1994). The degree of mediation involves a lot of functions, with each participating function consisting of many inputs and outputs in the business process. A clicks and mortar strategic alliance, for example might involve the customers ordering goods through Internet based companies and the traditional retailers hosting warehouses, where ordered goods can be sent to the customers. Thus this input-output situation involves the actual ordering and transfer of goods ordered from one function to another. If for example Asda and AOL where involved in the process of a new product launch, such as a new financial
The Utilization of E-commerce

service. In this case several functions contribute directly to the process outcome without the mediation of a sequential step by both parties involved, as contribution from both companies can involve research and development and advertising of the new product thus reducing the number of sequential steps involved in the process. In this case both functions provide input to product promotion and sales.

The Degree of Collaboration Dimension of a Business Process

The second dimension of the business process is related to the degree of collaboration. As mentioned earlier the degree of collaboration, regardless of the pattern of mediation, involves participants exchanging information with each other and making mutual adjustments to facilitate the accomplishment of the business process outcome (Teng et. al., 1994). In this case the degree of collaboration can be more or less, meaning the frequency and intensity of information exchange between two functions can range from zero level to a high degree of collaboration. The success of the exchange of goods and services between the clicks and mortars, and the customer can be affected by the degree of collaboration between the bricks and the clicks. For example, a higher degree of collaboration between Safeway and Grocery Works.com will provide a better possibility of both companies understanding customer needs and requirements as they both exchange information about customer needs and wants. Thus a low level of collaboration can lead to lengthy delays in orders and delivery, potential loss of sales loss of strategic opportunities etc.

Strategic Approach to Business Process Re-engineering

Many strategy theorems are based on developing competitive advantage. Thus the formation of strategic alliances takes place at a multi-step gradual process leading up to the commitment to go for an alliance over time (Lorange and Roos, 1993). The pursuit of alliances as strategic management mode, is an advanced and complicated way of executing strategies requiring a keen understanding, of how to handle a series of typical problems, as well as an ability to sort out major challenges that tend to emerge. Thus, to ensure that the functions are engineered in a strategic alliance, the first step of a strategic approach to BPR by a retailer should focus on the identification of certain functions that are critical to the strategic objectives in the alliance. For example, such a function can be new supply chain management or new customer service focus such as customer satisfaction and retention through enhanced IT related and enable services. Many organizations adopt a systematic approach to ensure a through linkage between BPR and corporate strategy.
According to Porter and Millar (1985), one technique of identifying business processes in an organisation is the value chain method. Thus, the identification of business processes of critical importance in an organisation can be traced by dividing them into upstream and downstream processes. Upstream processes relate to in-bound logistics through operations, while downstream processes include marketing sales and services. If the major strategic objectives in such an alliance are related to downstream processes, each process can be evaluated as to its strategic importance. This will enable both firms identify the functions which are most important to their strategic performance, thus enabling them recognize functions to be re-engineered through the strategic alliance. The engagement of firms in clicks and mortar and alliances would certainly allow these firms to increase the amount of collaboration and possibly help reduce the amount of mediation in their existing business processes, such as supply chain management customer satisfaction and retention capabilities etc. Since they are critical business factors for many retailers especially traditional supermarkets these would inevitable help them to develop new co-ordination intensive structures that would enable them co-ordinate their activities in ways that were not possible before. According to Jackson and Twaddle (1997), modified BPR techniques that can be used to help companies deal with the changes they are facing can be referred to as ‘Customer Business Processing (CBP).

CUSTOMER PROCESS RE-DESIGN

According to Jackson and Twaddle (1997) CBP concentrates on the end to end processes and how to deal with direct interfacing within the business process. Thus in a clicks and mortar alliance both retailers may be involved in the provision of the goods or services, as Internet enabled customer ordering services and order delivery can be handled by different parties. Thus each area of a business is identified as a provider or consumer of goods and services and is treated as through it is an autonomous service provider. According to Lorange and Roos (1993) by building a model on top of these process models and looking at services level agreements sensible decisions can be made on how much of services initially provided by these retailers should be engaged in the alliance.

NEW AND BETTER SUPPLY CHAIN MANAGEMENT

Supply Chain Management (SCM) is a generic term that encompasses the co-ordination of order generation, order taking, and order fulfillment, distribution of products services and information (Kalakota and Whinston, 1997). Thus, it links manufacturers, suppliers, retailers and customers.
As e-commerce becomes more and more reliable, traditional retailers are increasingly developing strategies for taking their products on-line and in the process Internet based companies are getting edged off. Traditional supermarkets and Internet based companies together are able to bring better efficiency to their business supply and distribution systems. Clearly, the path to on-line selling is wide open for traditional supermarkets. However to succeed, they must develop an online strategy that leverages their existing infrastructure, while complementing rather than cannibalizing their main business (Lewis, 2000). For example, Toys ‘R’ Us was unable to meet the high demand for its online sales not because it lacked the experience and expertise to ensure proper supply chain management but because it lacked a supporting supply chain infrastructure that would enable it handle online orders and delivery of goods to its online customers. This shows that there is a lot more to e-tailing than putting product photos on a web-site.

However, the strategic alliance between Toys ‘R’ Us and Amazon.com promises a better supply chain and distribution system. Internet based companies have the capability to provide intranets within stores, with point of sale (POS) system that are browser-based for access both in stores and at home. These POS systems will connect to the headquarters locations and the distribution center as well as to extranets at these supermarket’s facilities. This Integrated System will also facilitate the flow of inventory, information and funds allowing these supermarkets to measure total business as well as e-business gather information about top selling products and under performers, fulfil orders replenish goods. Thus such a supply chain infrastructure will need to be properly implemented into the existing activities of these supermarkets and also such infrastructure will require proper management. Internet based companies can supply such infrastructures and ensure that they are properly managed. Such a system will provide both companies with better B2B and B2C business models thus improving their supply chains. An integrated supply chain and value chain can effective connect these organizations with other organizations, connect resources and activities and ensure delivery of value in the form of products and services to end consumer.

CUSTOMER SATISFACTION AND RETENTION

The task of developing a web-site that allows easy access to both on-line and off line activities between a retailer, its customers and suppliers is not an easy task (Gitomer, 1998). To meet the increasing growth of Internet enabled business activities, these retailers should be able to ensure the success of marketing activities such as; intelligent on-line and off
line communication. Thus, given the time required to build these capabilities, it may make sense for retailers to consider entering alliances instead of trying to do it all by themselves. In fact for developing value added features, partnerships with companies experienced in Internet enabled business activities such as dotcoms might be the only way to offer the right information for the customer online. Another important advantage is that the company that secures the best website partners such as Amazon has an inherent first-mover advantage that will be hard to duplicate. Obviously, such alliance will open up completely new territories for most retailers. For example, an alliance between Sainsbury’s and an experienced Internet pure-player, such as foodferry.com will allow Sainsbury access to a large number of on-line customers. Partnerships and alliances like this can help retailers increase website content, reach critical mass quickly and supplement missing competencies and skills (Lewis, 2000). Building a profitable website that retains customers and forges a strong community of users is a lot more complicated that designing lots of colorful web pages and waiting for the revenue to roll in (Gitomer, 2000).

On-line retail can be a retailer’s dream come true, as information individual customers can be made available through a digitized format, thus enabling the retailer to tailor offered products and services to specific customer needs. For example, a retailer can obtain information about a consistent customer who purchases only organic food products or is a vegetarian by storing information about customers. The Internet provides new and different opportunities to do business and service customers. According to the American Customer Satisfaction Index (ACSI), overall customer satisfaction represents a cumulative evaluation of a firm’s market offering rather than a person’s evaluation of a specific transaction. According to (ACSI) there are three measures of overall customer satisfaction, an overall customer satisfaction, a measure of the extent to which an offering’s performance falls short or exceeds expectations and a measure of offerings performance relative to customer’s ideal product or service in the category.

Thus on line retailing helps increase customer satisfaction which in turn encourages customer loyalty as it brings about the feeling of attachment to a retailer’s service or products. Only when customers are satisfied can they be retained (Baker, 1999). A retailer should cater for the customers’ desire by anticipating and satisfying the customers’ needs. Added value not only ensures that the customer comes back to the website but it also provides the retailer opportunities to increase profitability.
The Utilization of E-commerce

In order to be able to provide the added value services necessary to support the customer’s buying decisions, the retailer might have to invest heavily. The option of a strategic alliance will help provide information about on-line customers buying patterns and decisions. However in order to obtain the full benefit from the alliance the value added services must be fully incorporated into the retailer’s website and must interact with the retailer’s offerings (Gitomer, 1998). For example, simple links from a website for groceries where the customer has to key in all the basic requirements about the product or services required is neither likely to impress the user nor to enforce customer retention; what seems like such a sure-fire alliance may very likely turn customers off.

BUSINESS MODELS

The new information age has presented an array of opportunities and virtually all organizations are trying to position themselves to take advantage of the Internet phenomenon. The Internet has not only led to the birth of new forms of businesses but it has promised to changes the way many traditional businesses are run. Like any other alliance a bricks and clicks alliance will have an impact on the business models of both companies involved. A good example of this will be the partnership between Stater Bros a South California chain of 155 stores and online delivery service’ WhyRunOut.com which enabled enhanced B2B and B2C relationships with their customers and suppliers. According to Timmers (1998) a business model can be defined as an architecture for product service and information flows; including a description of the various business actors and their roles, a description of the potential benefits for the various actors and a description of the sources of revenues. Thus, the business model of a firm comprises of linked components and strategies, which allow a firm to build and use its resources, to offer its customers better value than its competitors and make money over a period of time (Timmers, 1998). A business model includes a firm’s plans and strategies as to what scope of products or services to offer, to which segments of customers and what it must do to sustain competitive advantage. The business model spells out where it is positioned in the value chain and thus tells how a company makes money.

By understanding the differences between the electronic and the physical business models, the fusion will make it possible to improve the value of on-line services offered to customers. Responding to the challenges and exploiting the opportunities of the new electronic business model, however requires, systematic development. According to Smaros (2001) the existing category management process in the case of a
supermarket needs to be adapted to the on-line shopping environment in order to improve product organization and selection. In addition, service management is needed in order to take advantage of the new opportunities to interact with the customer. The diagram shows the process of adapting category management to the electronic environment as well as for developing service management. Thus, by responding to the new opportunities and challenges that electronic grocery shopping presents, supermarkets can further increase the value of their offerings to consumers. Looking into the new dimension of opportunities provided by such alliances, Safeway in partnership with GroceryWorks.com hopes to make the consumers product selection process much easier and faster as one of its many goals. Therefore, by taking advantage of such opportunities as enhanced interaction with customers and suppliers they can support the consumers whole purchasing process and make every step of it more efficient and convenient Smaros (2001). The diagram below shows how much their services can be improved through the adaptation of enhanced e-commerce business models.

Source: Adapted from Johanna Smaros (2001)

Figure 6: Demand Management in the E-grocery Business

Source: Adapted from Smaros (2001)

Figure 7: Demand Management in the E-grocery Business
The Utilization of E-commerce

BUSINESS (SUPERMARKET) TO CUSTOMER MARKETS

The business to customer market is concerned with the selling of products by organisations directly to final consumers. It has become clear that the e-commerce can enable companies become much more customer focused, as an electronic transaction is in essence a one to one transaction, information about each customer can be stored, such as a customers shopping habits and preferences. This will allow these supermarkets to tailor promotional material to suit each individual and thus allowing closer links with their customers (Brown, 2000). The success of B2C enterprise hinges on the experience they can provide to consumers. Companies like Amazon.com have built quality online services largely on their reputation for impeachable customer satisfaction. Thus, the goal is to develop a trust-based relationship with customers, thereby enabling the opportunity to sell a wide array of products and services (Hagel and Armstrong 1997).

Bricks and clicks alliance researchers, feel that the bricks and clicks B2C model will prove to be the most successful because established traditional supermarkets such as Tesco Sainsbury, Asda etc., have the financial resources and brand recognition to build successful online endeavours with the help of Internet based companies. It is undeniable that such strategic alliances will bring about better customer services and thus improve the quality of services customer loyalty customer base etc. The rationale is that, while traditional retailers have already gained a huge customers base and a reputation to offer products and services at good and affordable prices, Internet based companies can provide superior on-line services. Thus clicks and bricks alliance will surely improve the overall quality of on-line customers services.

BUSINESS (SUPERMARKET) TO BUSINESS (MANUFACTURERS OR SUPPLIERS) INTERACTIONS

Traditional retailers of all sizes want to develop an online presence and compete with existing e-business by integrating e-commerce with their traditional operations. By committing to alliances they can avoid competition and revolutions their business to business e-commerce. The business to business market is concerned with business selling products or providing services to each other, with one organisation buying and the other selling. A large percentage of typical firms, revenues such as Sainsbury’s goes to paying for goods and services it acquires from suppliers, thus firms increasingly focus on their supply and purchase practices in order to improve profitability. Top traditional distributors are gaining more power over the emerging online distribution by the creation of an effective e-marketplace which concerns the Internet as
both a market place and a delivery medium.

In the business to business (B2B) e-commerce environment, partnership is the key word as new alliances are announced on a continuous basis. Most bricks and mortar retailers appear to be focused intently on getting products from suppliers to customers faster and more efficiently, thereby constantly reducing inventories. Thus taking Toys ‘R’ Us and Amazon.com as an example, traditional retailers together with Internet pure-players can receive products and services, and also provide services more effectively and efficiently to their suppliers and other business customers. Looking at business models from the B2B and B2C perspective, the Internet offers new opportunities and ways of conducting business; even better strategic alliance will further enhance the opportunities offered by the Internet. Electronic commerce offers an array of business models to retailers, which can be used to enhance services and management processes. Through these business models traditional supermarkets can reach their customers and suppliers in ways in which they couldn’t as bricks and mortar. Thus, through alliances Internet pure-players can help provide new e-commerce enabled business models to bricks and mortar retailers.

TIMMERS TEN BUSINESS MODELS

Timmers (1998) identified ten business models that are being used or experimented with. Using a process of identifying architectures for business models based on a value chain, he classified these models as follows:

1. **E-shop**: Timmers explained e-shop as the web marketing of a company as it facilitates the order and payment of goods. The benefits that can be achieved by the company are immense and these include increased demand and a low cost way of establishing global presence. While for customers the benefits include reduced costs, increased variety information etc.

2. **E-procurement**: Timmers identified this as the electronic tendering and procurement of goods and services. Large organisations usually make some form of e-procurement available on the web such tendering specifications which are downloadable by suppliers or customers. Thus this can help achieve a wider choice of suppliers and reduce costs, increase quality improve delivery services and reduce cost procurement.

3. **E-auction**: Internet auctions offer an electronic realization of the bidding mechanism also known from traditional auctions. This can be supplemented by multimedia presentation of goods as hosted by Yahoo.com. Timmers argues that usually they are not restricted to this single function, but that they also offer integration of the bidding

---

*Journal of Services Research, Volume 8, Number 1 (April-September 2008)*
The Utilization of E-commerce

process with contracting payments and delivery. Thus there are increased efficiency benefits to be gained by both suppliers and buyers.

4. **E-mail**: An electronic mail in its basic form consist of a collection of e-shops, usually enhanced by a common umbrella. For example a well known brand, which might be enriched by guaranteed payment period. By specializing in a particular market segment, these malls become more of an industry market place such as Industry. Net Benefits for the e-mail members include; lower costs reduced complexity experienced in web presence and supplicated hosting facilities such as electronic payments.

5. **Third-party market place**: The third market place is an emerging model that is appropriate for retailers to outsource their web-marketing to a third party. This can be added on to their existing channels as it does not mean it is their exclusive channel to the market. Timmers (1998) contends that they all have a commonality in that they present at least a user interface to the suppliers product catalogues. Several other features such as branding, payment, logistics, ordering and ultimately the full scale of secure transaction can be included to third party market places. An example for business to customer would be to have mutual marketing around a special one-off event supported by well known brand-names.

6. **Virtual communities**: Timmers argues that the ultimate value of virtual communities comes from the participants, who add their information onto a basic environment provided by the virtual community company. Thus virtual communities give retailers the opportunity to understand their customers better than ever before, by giving those customers the ability to interact with each other and with companies. Virtual markets are groups of people with common interests and needs who come together on-line, allowing them the opportunity to share a sense of community with like minded people, regardless of physical location, thus draws people together.

7. **Value chain provider**: Value chain service providers specialise on an individual function for the value chain, such as electronic payments or logistics. Supermarket value chain processes for example are beginning to change as they are now outsourcing to such value chain service providers. Thus new processes are emerging in production and stock management systems, where new intermediaries offer specialised expertise needed to analysis and fine-tune production (Timmers, 1998).

8. **Value chain integrator**: Timmers (1998) views value chain integrators as focusing on the integration of the multiple steps of the
value chain, with the potential to exploit the information flow between those steps as further added value. Thus revenue is generated from either consultancy fees or transaction fees. Timmers uses the example of Marshall which provides its customers added-value from transaction information, which is provided through extranet solution like PartnerNet and MarshallNet.

9. Collaborative platforms: collaborative platforms supply a set of tools and an information environment for collaboration between organizations. This can focus on specific function, such as co-operative design and engineering or in providing product support with a virtual team of consultants. Business opportunities are in managing membership or usage fees and in selling the specialist tools e.g. for design, workflow, document management.

10. Information brokerage, trust and other services: A whole range of new information services are emerging to add value to the huge amounts of data available on the open networks or coming from integrated business operations, such as information search (yahoo.com) customer profiling business opportunity brokerage, investment advice etc. A special category is trust services as provided by certification authority and electronic notaries and other trusted parties. Revenue is generated from a variety of sources including subscription fees, one-off service fees, software sales and consultancy.

Who is actually to gain from these alliances?

The focus of the paper so far has been on how traditional supermarkets can gain from these alliance and how bricks and clicks can merge their strengths to cover their weaknesses. Therefore the focus of this section is how and what clicks can gain from these alliances. During the recent overwhelming rise of e-commerce, it seemed possible that new Internet based retailers such as Amazon.com, E-bay, etc., might take over from traditional retailers. Internet based companies seemed to have all of the new economy advantages such as personalized shopping and access to home communication with customers. These new retailers were able to do without disadvantages of the old economy, like expensive stores, costly sales staff, inefficient and expensive distribution etc. Internet-based retailers started from selling stocks to airline tickets, branched into books and consumer goods and now sell vehicle, houses, groceries items, etc. Internet based retailers lack such resources and capabilities as brand-name, inventories, warehouses, etc., and many brick companies are not yet ready and capable to take complete advantage of the opportunities offered by the Internet.
Furthermore, old economy advantages are still important. Things such as brand recognition, proven products, customer knowledge is lacking in most Internet based companies but available to retailers, like Tesco and Asda. Also the failure of many potential Dotcoms such as Boo.com and Toysmart.com has led potential investors to invest their money elsewhere. However, alliances with traditional retailers will bring these web-based-e-tailers opportunities and capabilities they alone can not acquire and provide to their customers. For example, Boo.com is lack of readily available inventories made it difficult to deliver goods to customers on time. Also its lack of capital to support its technologically advanced websites made it difficult to constantly upgrade its website to support its increasing customer base. Internet based companies have much to gain from traditional retailers and some of these include:

1. **Capital support:** One of the key lessons that is fast becoming apparent is that the survival and success of any pure Internet player depends on the ability to conduct business and ensure long-term profits. This is one success factor pure-players over the years have not been able to achieve. However, strategic alliances with well established traditional retailers like Asda and Tesco will provide Internet-based companies with the capital they require to ensure continuity and further provide them the ability to invest in new technologically advanced and user-friendly websites, thereby allowing customers to purchase goods online with ease.

2. **Customer knowledge and market experience:** Even though pure-players such as Amazon.com claim to be able to offer personalized services to customers, operating with customers face to face has allowed traditional retailers the ability to fully understand customer needs and wants and has also the ability to develop market experience.

3. **Brand name and recognition:** Supermarkets such as Sainsbury’s or Asda are well established traditional retailers with a huge brand name and recognition, they also sell many products under their own label. Pure players, however, lack inventory and only act as a medium between suppliers and customers. Therefore, alliances with companies with good brand names will help develop their own existence.

4. **Inventory availability and management:** Many Internet pure-players have suffered losses due to their inability to provide customers with goods at point of need. The main idea of being an Internet pure-player is to be fully virtual and still be able to provide customers with physical goods and services online. As they do not manufacture or store the product they offer to their customers, they can gain the advantage of constant inventory availability and management through
their alliances neither traditional retailers. However entering into strategic alliances might be as difficult for the pure-player as the traditional retailer. Most traditional retailers, who decide to go on-line through strategic alliance have been known to acquire ownership interest in the Internet pure-players an example of this will be the case of Safeway and Grocery Works.com or vice versa in the case of Amazon and Toyrus.com owned by Toys ‘R’ Us. There are also other important issues, such as differences in culture, management practices and, companies’ goals and objective. Such elements have to be complemented before pure-players and even traditional retailers can gain from such alliances. Some of the important factors they should take into consideration are:

a) Potential partner’s vision.  

b) Where does it want to go as business?  

c) What are its strategies to achieve its vision?  

d) What are its aims and objective?

CASE AND CRITICAL SUCCESS FACTORS

Cases of Safeway and Grocery Works.com

Safeway, a Fortune 50 food drug retailing company with 1,663 bricks and mortar stores in North America alone and many more in Europe, and the rest of the world, recently invested $30 million into privately held GroceryWorks, a Dallas based online food and groceries distribution company. Under the terms of the agreement, GroceryWorks will become Safeway’s exclusive online grocery channel and Safeway will supply products to GroceryWorks pursuant to a long-term product purchase agreement. The letter of intent as agreed by both companies contemplates that GroceryWorks will receive $30 million in capital contributions from a subsidiary of Safeway and an additional $20 million will be invested by one or more third parties. In exchange for the capital contribution and the product purchase agreement, a subsidiary of Safeway will receive preferred stock in GroceryWorks that will be convertible into 50 percent of GroceryWork full diluted common stock. GroceryWorks will also use Safeway’s well established products and brand names such as vons, Dominick’s Carrs, Randall’s and Tom Thumb. In addition Safeway will provide Grocery Works with advertising and promotion assistance. The alliance will help Safeway strengthen its online value chain and also help Safeway to easily implement its e-commerce strategy. On the other hand, the alliance will allow Grocery Work significant financial backing, cost savings, an affiliation with a known national brand, and quick entry into top markets.
The Utilization of E-commerce

Case of Toy’s ‘R’ Us and Amazon.com

Amazon.com and Toy ‘R’ Us are joining forces to create a co-branded toy and video games store. The deal is designed to exploit the strengths of the individual companies; brand, merchandise selection and marketing strength of Toys ‘R’ Us and the brand, e-commerce expertise and the fulfillment capabilities of Amazon. In addition, both companies stand to benefit from gaining access to the other’s customer base.

CRITICAL SUCCESS FACTORS

The phenomenon of e-commerce has gained acknowledgement all over the world, as it has enabled retailers to provide customers more effective and efficient services as it has helped many retailers to reduce costs, enhance business transaction, encourage trading across boundaries, directly linked buyers and sellers, allowed digital information exchange between buyer and seller, etc. However, for click and brick alliances to be successful, they have to clearly recognize and understand their critical success factors (CFS). Critical success factors are the elements and issues which determine the survival and continuity of companies engaged in e-commerce; meaning that they are the detrimental micro and macro environment factors that help to achieve the desired level of organizational objective (Jones and Field, 2000). These success factors include:

1. Good Business Plan: E-commerce as the definition implies, is about the automation of commercial transactions using computer and computer technologies. A company starting up or an already existing company who decides to integrate e-commerce into its operations will require a very good business plan. The e-commerce business environment is extremely complex in nature and retailers should have realistic business plans that will enable them to implement the business process of the pure – players into their business process and vice-versa for internet pure-players.

2. Goals and Objective: When two retailers form an alliance, they should co-ordinate their efforts into pursuing shared goals. Thus, both parties must have clearly defined mutual goals. One of the major success factors in any alliance is the essentiality of parties involved to share common goals and objectives. The main purpose of many alliances is the need to achieve certain goals together, goals which they alone could not achieve effectively. Therefore for the alliance between Toys ‘R’ Us and Amazon.com to work they have to share
common goals and objectives. As one the main purposes of the ‘Toys ‘R’ Us and Amazon.com alliance was for both companies to merge their strength and ensure they provide better services to their customers, therefore Toys ‘R’ Us should share the same vision.

3. Strategic Alignment: The performance of any system is a function of how well the parts fit and work together, in other worlds how well they are aligned (Jones and Field, 2000). Strategic alignment enables retailers in alliances to act as a whole in serving customers. This includes the ability of both companies to adapt and tolerate their differences. Such differences include management practices, cultures, accounting practices, etc. Many companies form alliances only to face difficulties in adopting or tolerating their differences. Therefore it is important for retailers engaged in such alliances to ensure that they form alliance with other companies who can be a better fit with them.

4. Capital: Capital is a very important for any business. The need to ensure profitability and invest in new technology key to any retailer’s survival. In this case bricks and clicks need huge capital to ensure they implement the other business processes into their existing business. While traditional retailers have capital to invest in new business process pure players mostly act as members of the supply chain, thereby helping to improve the quality of the valve chain. Therefore, a critical success factor for clicks and mortar alliance will be the ability of one or both companies to ensure that there is enough capital to ensure survival.

5. Privacy and Security: A critical success factor in e-commerce is being able to maintain privacy and security. Information goods and services are transferred via the Internet; an increasing concern is the ability to safeguard customer privacy and security. Customers and suppliers are usually reluctant to provide their suppliers with data on their operational information, such as buying patterns and product needs. Therefore, online retailers should be able to ensure customer privacy and security by taking more measures to safeguard customers’ privacy and security.

6. Organizational Learning: This is a very important success factor that applies to retailers’ whether in alliance or operating on their own. A learning organisation continuously shortens the time it takes to transform data into value added actionable information and apply it to achieve outstanding results (Handy, 1999). Thus both retailers should be able to learn and acquire knowledge about how both operate and how best they can provide services to their customers. The ability of these retailers to learn about their working environment
and the nature of customers, competitors and suppliers are very essential to ensure profitability and survival.

One of the main concerns of companies engaged in e-commerce should be to evaluate and strategise their critical success factors and ensure that they are compatible with the changing Internet environment. Internet today has become the single most powerful marketing tool and has gained immense recognition from traditional retailers, which has been one of the main reasons behind the alliance mergers and acquisitions of Internet pure-players. They should be able to meet their objectives and change should be well accepted and structured within and between both retailers’ business processes, which should support easy communication with their customers and suppliers.

FINDINGS AND RECOMMENDATION

The major bricks and mortar companies are increasingly re-inventing their businesses to support e-commerce. This also applies to traditional supermarkets in UK, such as Asda, Sainsbury’s, Tesco, Safeway, etc. who now provide on-line services. Many traditional supermarkets have provided online services with virtually little, sometimes no success. However, Tesco has been able to gain first mover and competitive advantage over competitors. Tesco which has been recognized as one of the most successful traditional supermarket online, has not been able to convince critics that its online presence will continue to be felt over time, as there have been an increasing number of problems such as web-traffic, lack of online experience, website maintenance and cost, retaining online customers, etc. Even rival supermarkets such as Asda and Safeway have engaged in strategic alliance in order to gain competitive advantage, make their online presence’s felt and easy transition from bricks and mortar to clicks and mortar.

Even though it is a capital intensive and highly complex transition from bricks and mortar to clicks and mortar, strategic alliances with Internet based companies will help facilitate their transition process. The transition will have an impact on their traditional business process, as they have to implement online retailing into their existing business process. The new business process will however enhance the online arm of their business process, such as the value chain supply chain management skills, link them directly with customers and suppliers, etc.
The new business process will also enhance the degree of collaboration and mediation involved between them and their customers and suppliers. Furthermore, changing their business process to support Internet enabled activities bound to enhance their business models.

During the course of research, it was realized that companies engaged in these alliances have similar reasons for engaging in such partnership. Looking at the Safeway and GroceryWorks.com alliance, it was realized that, Safeway as a traditional supermarket, hopes to make an easy transition from bricks and mortar to clicks and mortar through the alliance. It also hopes to use this to make its on-line presence felt, acquire web experience and gain a huge online customer base. GroceryWorks.com on the other hand, needed to ensure continuity by acquiring capital from Safeway as an investor quick entry into new markets, cost savings and affiliation with a well known brand.

Some critical success factors, which are essential and applicable to supermarkets, were identified. They include strategic alignment, mutual aims and objectives organisational learning, communication, added value, capital, etc. If such factors can be met, these alliances will prove to be the most effective and successful, as each will be able to learn about how the other operates, thereby allowing both retailers acquire intellectual, marketing and operational skills of the other over time. It was also realized that, it will be difficult to say exactly how successful these alliances will be or how long they will last over time. E-commerce environment is very complex and smartest alliances have not always been the best alliances. With the coming of the World Wide (WWW) the use of the Internet as a communication channel for businesses to contact current and potential customers has become a massive market place and environment for many business. The growth of the Internet as a world wide accepted communication channel gave rise to the possibility of widespread e-commerce (Bloch et. al., 1996).

However, for supermarkets to fully avail the opportunity offered to them by the Internet, they should put their on-line business in the hands of those who can properly manage it and ensure competitive advantage. Many supermarkets can set up a web-site and hope to make an online presence. However, what will separate major traditional supermarkets from smaller ones, in the highly complex e-commerce environment, will be those who can make their online presence felt and ensure continuity online. These alliances therefore, can be advantageous to both
companies as they tend to show better current and future potentials as opposed to doing it alone. Bricks and clicks alliances will allow both companies to share risks. Secondly, these alliances will encourage more investors in both companies, especially the Internet based companies who will now be able to promise growth and continuity to their investors.

A dimension of critical importance is the capital intensity that will be required to carryout these alliances. It is obvious from the case of Safeway and GroceryWork, that a huge amount of capital is required to engage in such alliances. Also, the return on capital employed might take years to cover, which can be an issue of concern. However over the long run, these alliances promise lower costs and domination of the giant supermarkets over smaller ones, which is a means of gaining and sustaining competitive advantage. Therefore, even though it might cost more for the traditional retailer to engage in strategic alliance with Internet based companies as opposed to doing it alone, it is a means of ensuring a proper strategic online business.

REFERENCES


Mohammed Shahedul Quader, is Assistant Professor, Faculty of Business Administration, University of Science and Technology, Chittagong, Foy’s Lake, Pahartali, Chittagong, Bangladesh.

Mohammed Rashiedul Quader, is Student of MBA, University of Sunderland, Waterloo Road, London, UK.