Winter 12-5-2005

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Abstract: Many companies that have physical channels now also do transactions with consumers online. However, a large part of these companies do not succeed online even if they succeed offline. The literature of explaining and giving advice on such an important challenge is growing, but is still limited. This paper contributes to this field.

In this paper eight strategic opportunities are identified when traditional companies go online. These opportunities are based on personal interviews of general managers who have strategic responsibility for implementing the companies' online channel. While most papers focus on the important role of IT to succeed, the unique findings reported in this paper show that cultural and organizational factors are of higher importance. The paper spells out in detail the content of such factors. In an empirical part at the end of the paper data indicates that the focus on cultural and organizational factors do give higher conversion rates and online sales.

Keywords: E-business Entrepreneurship , E-commerce Management.

I.   Introduction

This paper reviews the innovative opportunities available to retailers and banks that sell goods or services online as well as offline. The retailing industry is in a dilemma because companies are afraid of missing an epochal opportunity (Christensen and Tedlow 2000: 42). In this paper the topic is pursued by interviewing experienced managers about the factors they believe to be critical for generating profitability in terms of the online channel. Based on such interviews with managers, this paper presents unique data about managers' perceptions of factors that have a bearing on the integration of online and offline channels. With reference to the same companies that employ the managers, consumers are interviewed about various issues such as online spending and satisfaction with online solutions.[i]

There are different views about what the Internet is. Basically, it is a channel for taking orders, for marketing and for searching for information about products and services. That interpretation underpins this paper. Channels other than the Internet can perform the same functions, for example stores, telephones, faxes, mobile solutions, direct marketing, and interactive TV. Unlike the store channel, however, the Internet channel is available only through a set of technologies.

Some people see the Internet as a technology. The Internet is typically defined as a world-wide network that provides electronic connections between computers, enabling them to communicate with each other using software such as electronic mail, telnet, Gopher, www browsers (e.g. Mosaic or Netscape) and so on. The Internet is in this respect not a single network, but a collection of interconnected networks.

Finally, some people consider the Internet to be a business model for guiding the decisions of companies that are seeking profit. Elliot (2002: 9) presents various types of B2B and B2C business models and classifies them along two dimensions: by degree of innovation and level of functional integration. The e-shop, which bears the greatest resemblance to the kinds of companies in the current study, is classified as having a low degree of innovation and few functions. In my opinion, this categorisation is rather misleading for people who are trying to develop Internet strategies for e-shops. Appropriate strategies for these companies seem to be much more complicated than an overview of business models would lead us to believe.

II.   Phases of Business Development

It is the Internet channel as such and not the business done there that is new. However, new strategies need to be developed for the channel. For example, online auctions are not really new. There have always been marketplaces like the stock market and other places where auctions have been held.

This paper departs from the theoretical perspectives that present the various phases of business development with a view to electronic commerce. There is not much available on this topic. In fact, the concept of multi-channel business that figures in the media rather often does not have any accepted definition in the literature.[ii]
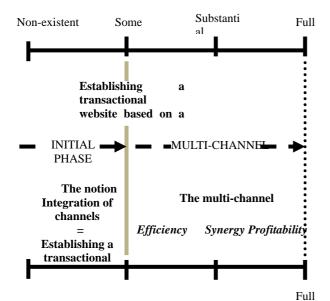
Michael Earl (2000) pointed out that becoming an e-business is an evolutionary journey for most firms. He described the six-stage journey companies are likely to experience. The first two phases are external and internal communication, stage three is e-commerce, and stage four is e-business. The final two phases are called e-enterprise, and transformation. While these steps are stylistic, they present companies in terms of their progress in the work that needs to be done to get a presence online, but they do not give any

hard advice to managers about what challenges they will face or how to handle them.

The benefits of e-commerce arise from the way in which tasks and activities are performed in the retail channel (Burt and Sparks 2003: 284). Burt and Sparks also point out that consumer reactions are not fully understood. In a study of phases of multi-channel retailing, it is therefore important to consider consumers' actions in the light of the way the strategies among companies with transactional websites develop. I will try to move a step in that direction in this paper.

In a recent article, Aldin et al. (2004: 55) pointed to three phases of business development within electronic commerce: Companies initially started with changes on an activity level, followed later by changes in more holistic, business and chain or channel-wide restructuring in an effort to reap the full benefits of electric commerce applications. In the first phase, activities are refined to promote internal efficiency. In the second phase, companies change processes to increase integration and reduce time and costs, enabling service improvements and promoting interplay between the two. In the third phase, companies reshape structures and penetrate new segments and markets. These stepwise refinements are appealing, but they seem too compact in the sense that there are too many factors in each phase, making it impossible for companies to identify appropriate steps in the direction of an online channel. In our opinion, business integration between offline and online channels is a question of degrees. This view is presented in Figure 1.1.

Degree of integration between offline and online channels

Figure 1.1 The two phases of multi-channel retailing

Some degree of integration should be taken to mean that a company that has a physical outlet also sells goods or services online. This is the degree of integration found in most companies with an online channel, and this is the

degree experienced by the companies in this study. However, although there are stronger degrees of integration, i will not focus on them here.

First of all, companies need to establish a website. Websites are generally used for information, marketing or transactional purposes. Companies then need to align their it strategy with their company strategy. The companies included in this study have launched transactional websites. Although websites for information and marketing are also important and represent challenges, such challenges cannot be avoided for companies that have transactional websites. Accordingly, this paper will focus on the challenges facing companies with transactional websites.

Once a company has established a channel for selling goods or services online, the multi-channel strategy starts. Multi-channel goals include making the online channel more efficient, developing synergies between offline and online channels, and achieving profitability in all channels. To reach the multi-channel stage, companies need to take advantage of certain innovative opportunities that are addressed in the current paper.

III. Method

Eleven retail chains and banks in Norway were selected for the purpose of interviewing managers as well as consumers. These companies represent a microcosm of the retailing and banking sectors. A total of 11 of the 13 companies in the research project had transactional websites, five of which were traditional retailers: books, electronics, wine, flowers, and sport equipment. There were four banks or banking service companies among the 11 companies as well as one airline and one cruise line with transactional websites. The 13 included just two companies with websites for information purposes.

Personal interviews of the managers in these companies were carried out in October 2003. The insights from the interviews were presented to all the managers at two different meetings, giving them an opportunity to discuss all the insights and to try to arrive at the content of the eight factors. The paper subsequently reports the insights that are common among the managers. These insights were implemented in the managers' own companies, although to somewhat different degrees. Key figures such as online sales and conversion rates were collected from the companies on a monthly basis from December 2002 until October 2004. That facilitated a comparison of online sales and conversion rates before and after the personal interviews were conducted with the managers. Finally, about 300 customers in each of the retail chains and banks were surveyed in June 2004, receiving a response comprising some 3155 questionnaires.

In the event these customers were to buy more about a year after the managers decided on the success factors, I would be inclined to believe that the success factors the managers pointed out may be a relevant source for

explaining an increase in online sales. Please note that there is no causal relationship between the success factors and consumers' actions. However, as managers were interviewed in a number of industries, their insights may have a bearing on other industries in retailing and banking than those named above. For example, one of the companies sells flowers. They are fresh products like milk and bread, so the insights of the flower company represent some of the same challenges facing online grocers.

IV.   Why It Is Interesting to Study E-Commerce in Norway

Norwegian consumers are innovative and adopt new technologies faster than consumers in almost any other country. Twenty-five per cent of Norwegian Internet users have ordered a product and/or service online during the past 30 days. This is one of the highest percentages in Europe. Furthermore, Norwegian customers plan to order a lot more on the Internet. Fifty-four per cent of Norwegian Internet users will shop online in the next 12 months.   Most customers who shop online spend NOK 1000 to 5000 per month. Customers expect well-known retailers to offer a website with information as a minimum, and a large group of customers even expect retailers to offer a transactional website. Figures from Gallup indicate that 20 per cent of Norwegian customers use the Internet prior to a purchase in a physical store (*Gallup Interbuss* 2003). About 75 per cent of all Norwegian companies have a website and a little over 30 per cent of them have a transactional website (e-Business Watch 2004: 38). These are among the highest percentages in Europe, where only Denmark has higher figures than Norway.

V.   Eight sources of innovative opportunities

This paper will present eight sources of innovative opportunities, or success factors, that managers indicated were of key importance when establishing a transactional website. Each factor presents a choice that companies need to make.[iii] There are two ways to increase a company's competitive advantage, that is positioning and operational effectiveness (Porter 2001), and those eight factors are related to this.

The managers suggested eight innovative opportunities. It appears to me that the first four factors seem to be linked to positioning while the others are linked to operational effectiveness. Some factors are specific and concrete while others are intangible. They are listed here in increasing order of reliability and predictability. The first factors are the ones managers know the least about so special consideration is given to them in this paper. This became apparent during our interviews with the managers.

The first four factors refer to positioning, or to doing different things than its competitors do. These are:

- business culture; my or our customers. In many cases people in stores and banks have personal relationships with customers, but Internet channels make these relationships more distant.
- internal organisation; should there be a separate Internet department? If so, how high up in the organisation should the Internet initiative be located?
- assortment; should assortment in the online channel be the same as in the physical channel. If not, should it be wider or narrower?
- price; should a company charge the same price for identical articles sold online and in stores, or should prices differ?

The second set of factors for innovative opportunities refer to operational effectiveness, or to doing better the same things as competitors do. There are four factors here as well:

- logistics; should a company have a central distribution centre or should it ship goods from stores?
- customer history; how best to make use of customer data.
- IT/ERP; should a company use its original system or should it invest in a new system aimed at taking online orders?
- marketing; should customers see the company as one across various channels, or should the company conduct its marketing in different ways in different channels.

For some of these eight factors, the lines will be blurred and there will be considerable overlap. This will become apparent when the factors are presented in more detail later. Each factor has its own characteristics and therefore requires separate analysis.

VI.   Four Innovative Opportunities Related to Strategic Positioning

Although each of the eight factors presents new challenges, the interviews with the managers indicate that the following four factors need careful consideration when managers identify Internet strategies. During the interviews, when presenting these insights to the managers, it became apparent that these factors were harder to handle than the other four.

The first innovative opportunity is *business culture.* Companies seek a situation where the employees feel ownership in respect of the Internet channel as well as other channels. Companies also want to get divisions and employees to move away from a situation with my customer and over to our customer. This is typical for retailers and banks. For example, when an item is sold online in an area where the retail chain has a store, the manager of that retail store believes the online sale represents a loss for the store.

Management therefore believes it is crucial to have employees understand the benefit of shopping on the Internet, as the consumer sees it, and to indicate that the Internet channel represents a synergy and does not represent a conflict between channels.

One manager of a retail company said:

I would have used a lot more time on each employee in the stores when we launched the Internet channel. That is very important, because you cannot succeed with transactions online if the storekeepers and other employees don't support the online channel and present it to customers in a favourable way.

A manager in another retail company said:

We tell our employees that customers who shop in more than one of our channels visit us more often, spend a higher amount and are more loyal to our retail chain.

Launching an Internet channel therefore represents cultural challenges to a great degree. Apparently, no matter how well a company solves problems of a technical nature, it cannot succeed with online sales unless their store employees have accepted the channel and support it.

Company management believes customers should perceive the company's contact points as one integrated company. However, in the early phase after the launch of the Internet channel, there are typically various opinions inside each company about whether the Internet channel should be an information channel or be for transactional purposes. Companies have experienced that the level of channel conflicts has become lower, but they also realise it takes time to get acceptance for the Internet as a channel in the companies.

As regards *internal organisation,* companies build their organisation around the Internet channel in various ways, but it seems clear that the Internet division has gained a more distinct role in companies over the past few months. A number of companies will also establish service centres in connection with increased internal focus on online sales. The evaluation underlying these choices is that companies are organising to meet customers' needs as well as possible. The availability of customer service for the consumer is a key issue. Experience with these considerations varies among the companies. A growing number of people in the Internet division allow latitude for conflicts, but the experience of the managers in this dataset indicates that the division has also contributed to positive results.

As far as *assortment* is concerned, the companies have different strategies. One company has 20 per cent of its stock keeping units (SKUs) for sales online (in the sporting goods business), other companies have the same assortment both online and offline, while yet other companies have more items online than offline (books for example). Most companies take account of customers' wishes when choosing their online assortment strategy. At the same time, the assortment online is influenced by costs and internal resources. One manager says that: 'It is neither practical nor feasible to sell all products in all channels'. Another manager points to the fact that some products are easier to

handle through online transactions. This represents a risk, however: 'If you choose to have fewer SKUs online than offline, you at the same time choose to turn a great number of customers away from the Internet-channel'.

The companies say they will continue being market-oriented as regards what part of the assortment will be available online. Customer feedback is considered useful for determining which products should be sold online.

The fourth innovative opportunity that the managers pointed to was *price*. The majority of the companies initially use lower prices online than offline in an attempt to draw customers to the online channel. This is typical for retailers and travel companies as well as banks. One retail manager says that:

To drive traffic to the website, with the increase in rivalry among competitors, it seemed obvious to us we needed to introduce lower prices online.

A representative from a bank says that:

The most important technique to motivate consumers to visit the website is a lower price online that offline. For example, we charge NOK 1 when a consumer pays a bill online, but NOK 20 when he or she pays a bill in the branch office.

Generally speaking, companies that set different prices online and offline do so to attract sales online, and to meet the strong competition from online players. They believe online sales cost less than offline sales.

However, most other companies are convinced that having similar prices online and offline is an important part of their strategy. They fear that consumers may get into the habit of expecting lower product prices online, and that in the long run this would undermine the business model of the company.

The companies that use similar prices in both channels do so partly to boost efficiency and partly owing to a desire not to cannibalise the various channels.

VII. Four Innovative Opportunities Related to Improving Operational Effectiveness

I now turn to the innovative opportunities related to improving operational effectiveness. The first factor here is *logistics,* which is a challenge for retailers in particular. Companies state that the integration of systems and the automation of processes are important. Furthermore, managers believe that customers should be given a larger number of delivery options when ordering online. What lies behind these strategic considerations is the fact that logistics is an area where the companies have identified huge potential economic gains. However, several of them have experienced problems realising these potential gains. Their experience is that establishing real-time in-stock databases and an automated flow of products is perceived as a large and challenging process. However, the managers believe that success in this area entails a huge potential for increasing profits.

When it comes to *customer history* it is apparent that

most of the companies collect information. Banks in particular practise this, since customers give a lot more information to banks than they do to retailers. Most companies have customer database systems and CRM systems. Companies also want to merge databases for traditional stores and online stores. Yet the companies in our sample used this information to a very small degree, if at all. Very few companies have the IT systems required to accomplish this kind of integration since they have old systems, but they realise that such databases are necessary for creating loyalty and sales across channels.

As far as *IT/ERP* is concerned, companies believe these systems should be built with a focus on the new distribution channels and the Internet in particular. Most companies develop systems based on internal resources and competence, while one of 11 companies said that it relies on vendors because it has plans to change its whole IT system. One reason most companies use their own resources to alter their IT systems is that they want to maintain control. The companies realise, however, that their current IT systems often complicate the multi-channel process. The companies realise that upgrading their IT systems is a more time-consuming process than they originally believed.

Finally, as regards *marketing,* many believe that companies need integrated marketing across the various channels. They see a considerable potential for making use of the Internet channel to build company and product knowledge in the market. Most companies want to be perceived as a single brand and a single voice in the market, even if they have channels in addition to the store. The rationale behind this is that companies want consumers to have the possibility to shop through multiple channels. It is believed that customers who shop in more than one channel are more profitable. Most companies report good results from placing strong emphasis on the Internet as a sales channel. This has led to an increased number of visits as well as sales online. Companies have also identified a tendency towards a larger degree of selling across the channels. That being said, efforts to become a multi-channel retailer are clearly perceived as being demanding.

In summary, based on personal interviews and two meetings at which the managers discussed their insights, companies tended to select the following strategies for each of the eight factors presented in Table 1.2.

According to the interviews, companies can be positioned better first by making sure that each employee feels a customer is our customer and not his or her personal customer, regardless of the channel in which a transaction takes place. This is an important element in changing company culture for the better once the Internet is launched as a channel for that particular company. It is also important to link the management of the Internet channel to the company's executive management. Most managers point out that a company should present all its products on the online channel as well, then explain it to customers if all items are not sold online.

Finally, as an important element in doing things

differently from most companies, prices should be similar online and offline. Most of the companies that participated in the study implemented these strategies. At the beginning of the data collection period, in December 2002, some of the companies had lower prices online than offline, but that was not the case at the end of the period. The implementation of this strategy means companies have completed the first phase referred to in Figure 1.2 when it comes to factors that will engender a strategic advantage by positioning them better. In fact, some of the companies penetrated the multi-channel phase slightly, finding that the same prices online and offline increased efficiency.

Table 1.2 Strategy suggestions based on the innovative opportunities

Eight innovative opportunities	Suggested strategies for creating a strategic advantage by positioning the company better
Business culture	Make sure each employee feels a customer is ours and not mine regardless of the channel in which a transaction takes place
Internal organisation	Link the management of the Internet channel to executive management of the company
Assortment	Present all items in the stores in the online channel, and include an explanation if all items are not available online
Price	Similar prices online as well as offline
	Suggested strategies for creating a strategic advantage by improving operational effectiveness
Logistics	Give customers as many delivery options as possible
Customer history	Have moderate ambitions regarding the integration of customer databases with CRM systems
IT/ERP	Buy a new IT system sooner rather than later
Marketing	Project your company as representing one voice and one brand no matter which channels the customer meets

There was greater consensus among the managers in this project about factors that would create a strategic advantage by improving operational effectiveness. It is important to give the customers as many delivery options as possible to facilitate convenient delivery for them. Most companies should keep their ambitions for integrating customer databases with CRM systems at a moderate level. In fact, most companies realised that they were in great need of a whole new IT/ERP system rather than building more solutions on top of their original systems. Finally, a company should be presented as having one voice and one brand regardless of the channel in which customers meet the company. The managers pointed out that these decisions

belong in the initial phase of the two phases of multi-channel retailing. For companies to be able to develop synergy, which is one of the three goals in the second phase, the marketing strategy entailing one brand and one voice needs to be in place. In fact, some of the companies adopted such a marketing strategy after the interviews had been carried out. Nonetheless, the companies had barely begun to enter the second phase. I can therefore conclude this section by saying that in the current study, these companies are in transition between the first and second phase of the multi-channel process. The opportunities and strategies presented in Table 1.2 indicate what companies need to do to penetrate further into the multi-channel process.

VIII.   Consumers' Response

Until now the innovative opportunities available to the managers and what they chose to do in terms of each of them have been presented. The next question is what results were achieved about a year after these innovative opportunities were identified. Did consumers buy more from these companies and did they express a higher level of customer satisfaction, or was there no change? Figures 1.4 and 1.5 present key figures from six of the companies participating in the study; the retailers and the cruise line. These figures refer to online sales and conversion rates from December 2002 through October 2004. They enable us to compare month-by-month trends for the two indicators.
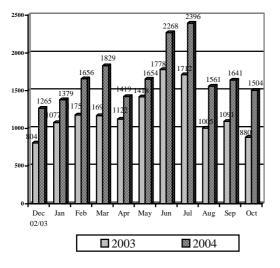
Figure 1.3 The number of online orders among the companies in 2003 compared with 2004

Figure 1.3 indicates that the number of online orders the companies received increased during the period in question. There was an increase in the average figures from 2003 to 2004. Furthermore, there was an increase in the number of online orders from each month in 2003 to the corresponding month in 2004.

The managers were interviewed in October 2003, and

they also shared their insights among themselves at two meetings held right after the interviews. During the period prior to the personal interviews, there was an average of 1203 online orders per month. That figure increased to an average of 1524 online orders per month in the period after the interviews. This represents a 26.7 per cent increase in the number of online orders. The fact that these insights were established does not, however, necessarily explain the increase since there are other variables not accounted for in this study which could influence the number of online orders and conversion rates, for example, the positive e-commerce trend and the fact that consumers are becoming more mature in their use of the Internet.
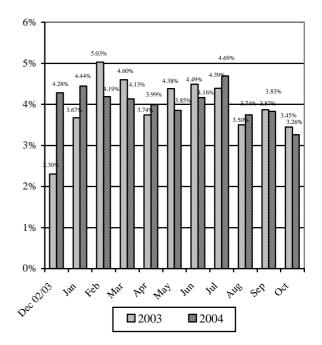
Figure 1.4. Conversion rate among the companies in 2003 compared with 2004

Figure 1.4 presents some results related to the conversion rate, that is, the percentage of website visitors who buy something online. The chart indicates an average conversion rate of 4.5 per cent. In other words, for every 100 people who visit the website, 4.5 people make a purchase there. There was an increase in the conversion rates for half the months in 2003 compared with the corresponding months in 2004, but there was generally little difference from one month in 2003 to the same month in 2004.

Even though the conversion rate remained more or less the same throughout the entire period of data collection, it should be pointed out that the number of unique visits doubled. This means that although the conversion rate remained the same, the number of orders doubled compared with Figure 1.3.

Figures 1.5 and 1.6 refer to a different dataset collected in June 2004. These data were derived from interviews of shoppers or consumers in the companies covered by the

current study. Here the amounts of these consumers' spending online as well as figures that indicate customers' level of satisfaction with the transactional websites of the companies in the current study are presented.

Figure 1.6 compares the amounts customers spent online for retailing and travel with the companies in the current project. The data indicate the amounts of consumers' purchases each time they buy something online. Almost 43 per cent of consumers spend between NOK 200 and 500 each time they buy something from a retailer online, while 23 per cent spend between NOK 500 and 1000 each time. About 20 per cent of consumers spend more than NOK 1000 each time they buy something online from a retailer. Only 3 per cent spend more than NOK 5000.

Consumers spend more online with companies in the travel sector. In fact, 21 per cent of the online customers in the travel sector spend more than NOK 5000. More than 50 per cent of online customers in this sector spend more than NOK 1000. Of the consumers who took part in the survey, on average 33 per cent spent between NOK 1000 and NOK 5000 every time they bought something online.

Products and services typically cost more in the travel sector than in the retail sector. The logistics are often easier for products sold in the travel sector; no matter how much a ticket costs, it can easily be slipped into an envelope, while retailers usually have more logistical problems with the products they sell.
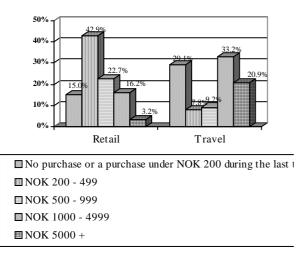

Figure 1.5 Comparison of amounts of consumer purchases for online retailing and travel in Norwegian kroner (NOK). The figures are average amounts each time a consumer buys something online from April through June 2004 (n = 1231)

The next chart examines customer satisfaction when buying online from the companies that took part in this study. The retail, travel, and banking sectors are compared.

Generally speaking, across three sectors consumers are typically either satisfied or very satisfied when they buy something online from the companies participating in the study. As many as 80 per cent of customers in each of these sectors are either satisfied or very satisfied when buying

online.

Customers in the banking sector appear to be the most satisfied when the three sectors are compared. More than 87 per cent are either satisfied or very satisfied when buying online. The banking sector has spent more time and resources in developing multi-channel solutions than the other sectors. It is interesting though to find that consumers are nearly as satisfied with the multi-channel solutions in the retail and travel sectors as with the banking sector.
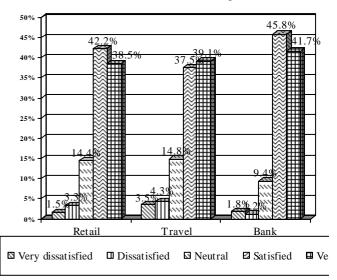

Figure 1.6. Customer satisfaction when buying online: a comparison of three industries (n = 1797)

The numbers presented in the Figures 1.2-1.6 indicate that, generally speaking, the strategies identified by the managers of these 11 companies, as presented in Table 1.2, should not be rejected. Figures 1.5 and 1.6 indicate that consumer spending in these companies is quite high, and that consumers are satisfied with the transactional websites of the companies. It is not possible to determine which of these eight strategies work for increasing orders online and which, if any, do not. Accordingly, they are presented as a set of strategies that should work together.

IX.   Conclusion

Table 1.2 presents eight innovative opportunities and strategies companies can follow when establishing transactional websites. The opportunities were collected and identified through personal interviews conducted in October 2003 with 11 managers who were responsible for developing e-commerce in each of their companies. These managers also shared their insights among themselves, arriving at agreement on which factors are most important and how to use each factor when establishing a transactional website. Key figures relating to online orders and conversion rates were collected from these companies over a 10-month period prior to conducting personal interviews with the managers. Such figures were then collected during a 12-

month period subsequent to the personal interviews. In June 2004, about 300 consumers who shopped in each of the companies were interviewed.

The following insights appear to be the most important for helping a company position itself online. Keep the same price online as offline; have a large assortment online; include the Internet department in the executive management of the company and work with company culture so that all employees care about all or most of the companies' customers and not just his or her customers. Online orders increased by an average of 27 per cent during the 12-month period subsequent to the personal interviews, compared with the 10-month period prior to the interviews. When consumers in the participating companies were interviewed almost a year after the managers had presented information about innovative opportunities, they indicated clearly that they were satisfied with the companies' transactional websites.

All in all, the figures for online sales and customer satisfaction turned out to be positive for these companies. This does not, however, present proof that the eight factors listed in Table 1.2 are among those that drive these positive elements, even though the managers themselves tend to believe in these factors. It is hard to establish these eight factors as the cause of the positive developments or even as *a* cause of these developments. There may be other explanatory factors, such as the positive development in consumers' buying behaviour online and consumers' maturation in terms of online shopping.

However, I would argue that companies should view the eight factors as a set of factors that should be implemented,

[9]

if possible, at the *same* time. The results regarding consumer satisfaction online and the number of orders indicate that the managers have been successful in developing e-commerce. At any rate, I would claim that the strategies presented in Table 1.2 should be considered by managers interested in boosting online sales.

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2 See for example Coelho and Easingwood (2004: 2).
[3] We start out with a broad view of the company, and suggest departing from factors that are either political, economical, social, or technical, as presented in the PEST-analysis. The Internet as a new channel towards consumers influences the company in a wide variety of ways.