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E-BUSINESS STRATEGY, WHAT HAPPENED IN 2000?

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Resumo: *O ano 2000 representou uma ruptura na forma como o e-business é entendido como um canal independente ou complementar para servir o cliente final. Até essa altura, havia um excessivo reconhecimento das suas potencialidades mas, depois do crash NASDAQ, ocurrido em meados daquele ano, quebrou as expectativas geradas. Numa primeira fase, esta ruptura, originou uma onda de descrédito em relação ao e-business. Depois, essa ruptura inspirou diversos académicos e investigadores a desenvolverem estudos acerca do realmente aconteceu e as suas causas. Neste artigo é desenvolvida uma revião bibliográfica tendo em vista a identificação das diversas perspectivas, e estabelecer um quadro comparativo. Procurando evitar os erros cometidos no passado e retirar partido da maturidade proporcionada pela crise, a bibliografia é restringida a publicações posteriores ao primeiro semestre de 2000.*

Palavras chave: *E-business; B2C; Estratégia*

Abstract: *2000 represents a change in the way e-business is seen as an independent or complementary channel to serve the end-client. Until then there was an excessive enhancement of its potentials, but the NASDAQ crash, which occurred in the middle of that year, frustrated initial expectations. Initially, that change originated a wave of discredit in e-business. Afterwards, it inspired several scholars and researchers to study the phenomenon and its causes. A literature review is led in order to identify the several perspectives and establish a comparison table. In an attempt to avoid the previous errors and to take advantage of the learning and the maturity generated by the crisis, the bibliographical analysis is restricted to work published after the first semester of 2000.*

Keywords: *E-business; B2C; Strategy*

Introduction

In the last five years of the 20th century, e-commerce and e-business became common words (and buzzwords) in our daily business life. The first years of this relatively short period were shaped by some inexperience and lack of knowledge which rapidly led to an unfounded and unjustified euphoria. Meanwhile, some economic and management newspapers and reviews at that time suggested that business firms should abandon the «physical» market and invest decisively on the e-commerce «train». If they didn't do that, they advocated, business firms would loose the opportunity forever.

This unreasonable alarmism led to a wave of heavy investment that would later reveal questionable profitability.

This turning point took place in the middle of 2000, the period of the crash of technological stocks, which occurred at the same time as several failures, such as that of Boo.com. Since then, there has been a change in the way e-business is understood, and a more carefully thought and fact-based approach has emerged to e-commerce and e-business investments decisions. For this reason, it is important to bring new academic perspectives to management, avoiding situations as unfounded and as extreme as the ones described by Starr (2003). This author refers that during euphoria phase, the use of traditional brick and mortar shops was negatively seen because it was connected to the "old economy". The 2000 crisis led to extremely negative opinions about e-commerce being expressed, as extreme as the previous positive ones.

The studies on e-commerce produced until 2000 obviously reflect the context of the time. As this context changed dramatically after that year, these studies are no longer pertinent. As OECD indicates, e-commerce is still in its infancy and the markets need maturity to reach critical mass (OECD, 2003), the academic community has felt the need to further research this topic.

Methodology

In order to understand what happened, a literature review carried out to identify perspectives on the phenomenon and its causes. Bibliography selection and inclusion depended on its relevance for this article and, of course, on the date of publication (2000 onwards). The next step would be the creation of a comparison table to determine common perspectives and frequencies and reach a conclusion on its causes.

Literature Review

In order to understand how the facts evolved, it is best to establish a timeline. Vijayasarathy (2002) presents a retrospective where he considers that e-commerce began when the digital technology was introduced in the 1950s and, since then, it has been progressively adopted by companies and organizations. Naturally, the technology that allowed for e-commerce to appear has changed and improved dramatically over the last fifty years. During this period, the role of technology and its business usage have increased significantly (Vijayasarathy, 2002). In the beginning, operational activities, supported by software applications created for network environment connected business firms and clients, thus creating a link between business and technology.

Kalyanam and McIntyre (2002) establish specific dates for the different periods, indicating that the one of euphoria began in April, 1995, and ended on the same month of 2000, lasting 5 years. This era is called «dot.com boom», characterized by hundreds of companies having their main business activity on the Internet, and their capital in stock markets.

The next period, called «dot.com bust» occurred between April 2000 and December 2001 and is characterized by the downfall of most of those companies, as soon as there was a drastic reduction of their market value. Castells (2001) also associates this crisis to that of technological assets in the financial markets, namely the crisis of March 10, 2000. Reibstein (2002) presents one explanation for this fact considering that too much attention was given to the advantage of being one of the first, thus allowing for a short period of time to decide what makes things work online (or not).

One of the most extreme opinions on this is that of Tapscott (2001), who states that the years between 1997 and 2000 were the dark days of strategy (qualifying this phase as «shameful» or of «irrational exuberance»). During this time, immediate profit mentality led to a perception that the Internet offered a field for stock valuation in a market where business firms developing absurd or non existent business models could strive. Some explanation is advanced by Taylor and Terhune (2001), who remark some of the reasons for this initial euphoria, namely, that it's not necessary to invest on brick and mortar shops to have more profit and that there was excessive investment in advertising without any economic justification.

Porter (2001) presents another perspective, considering that, until recently, the negative effects resulting from the Internet euphoria were hidden by the positive signals of the market.

Besides these strong opinions, more moderate perspectives can be considered, though all acknowledge the crisis. A less dramatic view of this phenomenon is presented by Jeffcoate et al (2002), who associate the great explosion of interest around these subjects over the last years to a restrict number of North American companies.

One of the inherent problems of the overvaluation crisis is pointed out by Starr (2003), who considers that, during the phase of euphoria, the use of traditional shops (brick and mortar) led to seeing them in a a pejorative way because they were related to the "old economy". This attitude made it easy for Internet initiatives to have access to venture capital and caused a stock overvaluation. On the other hand, with the crisis of 2000, negative and extreme opinions emerged, just like positive ones about Internet potential had emerged before.

A more intermediate or moderate point of view is presented by Oinas (2002). This author considers that not only radical and big scale changes on business procedures didn't occur, but also thatthis should be understood as a novelty when compared to the previous forms of retail commerce. On the other hand, he evidences enthusiasm for the proposed solutions, saying that people acknowledge that this evolution in content and extension is covered by a mist of technological and economical levels of uncertainty.

In this context, he considers that moderation should prevail because we've gone from a «dot.com» mania to a crisis, two extremes that must be thoroughly analysed.

Castells (2001) believes that *business plans were too fragile to survive the market changes of humour* (p. 103) and that *B2C e-commerce underestimated the costs and complexity of real product delivery to customers* (p. 135).He also states that the observed growth wasn't speculative or «exuberant». He compared it to other technological revolutions in the past and their economical and social benefits, and realised that important outcomes were expected from the «new economy», as long as there was some level of rationality in the process of decision making. On the other hand, stock value growth caused a change in traditional standards, evidencing an unusual growth rate. Probably, even after the fall in stock value, there still were overvalued companies, which shows that the market still believed they could become profitable and viable. As referred by Guijarro and Moya (2002), over the last years, Internet companies have come fourth in terms of stock valuation.

After considering several perspectives on the 2000 crisis, it is important to describe its reasons by means of a bibliographic review.

The first point of view analysed is that of Mahajan et al (2002), who presented several motives for dot.com fall based on news in the popular press. These reasons are as follows:

- Excess of enthusiasm for Internet's potentials by venture capital business firms;
- Lack of viable business models;
- Questionable profit potential of several Internet ventures;
- High customer acquisition costs;
- Lack of methodologies to determine the market value of Internet initiatives;
- Lack of managerial skills and experience.

Later, Constantinides (2004) approaches this "new economy" crisis systematically, demonstrating it occurred after the seven-year period of irrational exuberance, proposing the following list of possible causes for the phenomenon:

- Lack of commercial and managerial experience;
- Insufficient market and competion analysis;
- Inadequate knowledge of consumer behaviour;
- Ignorance of business basics;
- High rates of capital expenditure;

- Weak planning and financial control;
- Technological traps;
- Fast money mentality;
- Product orientation;
- Implementation weaknesses;
- Organizational problems.

Based on these elements, this author concludes that one of the essential factors for success is the combination of future planning with organizational adaptability and flexibility.

All these aspects confirm the importance given to the absence of planning procedures also mentioned by Saban (2001), Porter (2001), Magretta (2002) and Kao and Decou (2003).

So, the drive to gain a position in Internet's potential market led companies to ignore the importance of e-business strategy, giving priority to building the website. A consequence of this managerial orientation is the use of tactics and other fragmented attempts, with very weak results (Saban, 2001).

The fact that companies acted first and planned later made them adopt a tactical orientation rather than a strategic one. This author underlines the words of Intel CEO, Andy Grove, who said that companies that weren't on Internet business would not survive. This time of euphoria, in this author perspective, also reflected the ideas conveyed by marketing and management manuals. Analysing 13 e-business related publications, he concluded that only two of them included a chapter on strategy and six others analysed this theme superficially. Other factors such as leadership, organization and marketing were marginally considered, too. On the other hand, operational aspects were very well documented. This excessive emphasis on tactical aspects led to three misunderstood messages (Saban, 2001:31):

- E-commerce only requires a tactical domain;
- It is acceptable to act first and plan later;
- Integration is not a critical component of e-commerce strategy.

Kao and Decou (2003) also say that e-commerce's high failure rate is a result of lack of planning, as well as inadequate financing, which can be related to:

- Incorrect planning of costs and investments;
- Insufficient external financing;
- Lack of evidence in terms of economic viability.

Porter (2001) considers that the crisis resulted from the incorrect interpretation of market signals; especially the fact that forecast reliability was very low, due to:

- Most companies keeping prices artificially low in order to attract costumers and establish a positioning;
- Experimentation and curiosity justifying first purchases, but customers being also attracted by low prices. When prices rise, people tend to adopt previous purchasing behaviour;
- Results coming mostly from stock investment rather than from real money.

These aspects were intensified by the exceptional growth of Nasdaq and other markets. However, there was a huge problem is measuring this growth and its relation to value creation. Examples of methods used are the number of website visitors or of clicks.

Magretta (2002) reinforces Porter's (2001) idea when he says that, in this phase, companies needed no strategy or special skills because they searched an Internet-based business model that promised high returns in a distant and undefined future. Thus, the author concludes that business models were a buzzword created around Internet growth.

One of the consequences of lack of planning is presented by Burke (2002), who considers that, during the phase of euphoria, business firms raced to obtain new costumers, investing a lot of money in marketing, extravagant advertising campaigns, substantial price reductions and free mailing. Of course, these costs were expected to be covered through repetitive buying and customer loyalty. But, customer satisfaction and the consequent return on investmen cannot be guaranteed.

Farrell's (2003) opinion reflects these perspectives, since he declares that illusions, the forces involved and inspiration were the factors that caused e-business to grow. The underlying premise was that information and communication technologies and the Internet would change everything (that was also Tapscott's opinion, 2001). Today this change is considered a mirage.

Ours is a moderate perspective, just like the one advocated by Castells (2001), who considers the the dot.com failure resulted from financial market analysis, which led to a Darwinian correction, and was useful in terms of world economy. The problem lies in the consequences: innovative and profitable business firms were also dragged down because of the 2000 crisis.

Now that we have analysed several perspectives, it's important to underline the challenges the Internet created (Yang et al, 2003):

- Internet is a relatively new and unpredictable channel;
- Online consumer behaviour is not perfectly understood.

We believe that, besides the dot.com crisis and the negative cycle, there is a «impressive» growth in online retail (Pan et al, 2002), that being the reason for our research.

Conclusions and further research

The group of authors reviewed suggests several causes for the 2000 crisis, summarized in Table 1.

A variety of reasons is put forward, from simple ones, such as entrepreneurs, managers and investors' enthusiasm, to more complex (but immediate) ones, such as lack of planning or of experience and management skills. There are others, in between, though, such as lack of reasons for decision making, organizational weaknesses and lack of customer orientation.

For systematization purposes, Table 2 establishes a comparison between the several authors in terms of the following list of causes:

1. Lack of planning;
2. Lack of experience and management skills;
3. Lack of reasons for decision making;
4. Enthusiasm;
5. Organizational weaknesses;
6. Lack of customer orientation.

Three major causes stand out: lack of planning, lack of reasons for decision making and excess of enthusiasm; the first two being related and consistent with the literature review. As far as management enthusiasm is concerned, it led to the underestimation of planning, strategy and customer guidance.

Enthusiasm can be considered a cause, but a parallel can be drawn with other situations in the past, in which disruptive innovations like cars or TV sets demanded a more based approach.

Table 1. Causes of 2000 Crisis in E-commerce, according to author

Author	Causes
Burke, 2002	• Emphasis on gaining customers (reducing prices and investing excessively in marketing campaigns) but not in gaining their loyalty
Castells, 2001	• Business plans too fragile to survive environment changes; • E-commerce B2C underestimated the costs and complexity of value of delivery to clients
Constantinides, 2004	• Lack of management and commercial experience; • Insufficient competitive and market analysis; • Inadequate knowledge of consumer behaviour; • Ignorance of business basics; • High level of capital expenditure; • Lack of financial planning and control; • Technological traps; • "Fast money" mentality; • Product orientation; • Weaknesses in implementation; • Organizational problems.
Farrell, 2003	• Illusions; • Forces involved; • Inspiration.
Jeffcoate et al, 2002	• Big explosion of interest about the Internet
Kao and Decou, 2003	• Lack of planning • Inadequate financing.
Mahajan et al, 2002	• Excess of enthusiasm for the Internet by venture capital investors; • Lack of effective business models; • Questionable return potential; • High costs associated to gaining customers; • Lack of methodologies to determine market value of initiatives; • Lack of management and experience skills.

Porter, 2001	• Negative aspects hidden behind the positive signs of capital markets • The reliability of the market potential was very low resulting from three reasons: o Most business firms reduced prices in order to keep them artificially low, attract clients and get market positioning; o Low prices, experimentation and curiosity attracted the first clients; o The results depended more on stocks than on real money.
Reibstein, 2002	• Excessive attention to Internet pioneers • Lack of motive in decision making
Saban, 2001	• Being first implies reducing the importance of strategy (act now, plan later) • Fragmented market approaches • Lack of leadership, organization and market orientation
Starr, 2003	• Excessive access to venture capital causes inflation of value of business firm
Tapscott, 2001	• Unviable business models
Taylor and Terhune, 2001	• Euphoria for lower investment (brick and mortar) • Unjustified advertising investment

Table 2. Causes of 2000 Crisis in E-commerce according to author

Author	1	2	3	4	5	6
Burke, 2002						x
Castells, 2001	x		x			x
Constantinides, 2004	x	x	x	x	x	x
Farrell, 2003				x		
Jeffcoate et al, 2002				x		
Kao and Decou, 2003	x					
Mahajan et al, 2002		x	x	x		x
Porter, 2001	x		x			x
Reibstein, 2002	x		x			
Saban, 2001	x	x			x	
Starr, 2003				x		
Tapscott, 2001			x			
Taylor and Terhune, 2001			x	x		

Legend: 1. Lack of planning; 2. Lack of experience and management skills; 3. Lack of reasons for decision making; 4. Enthusiasm; 5. Organizational weaknesses; 6. Lack of customer orientation

Thus, it can be concluded that strategy and planning are as important in e-business as in the real market, since they share common rules.

Enthusiastic behaviour like the one observed in the early years of dot.com boom result from unfounded decisions, and show, at least partly, that entrepreneurs and managers understood the market signals as an opportunity for a new marketing channel and a more effective costumer service, forgetting that strategy must be considered first.

In terms of management, one may conclude from that phase of euphoria that strategy should be a starting point for any e-business iniciative. Tactical and operational programs are important but they must be coherent and closely connected with strategy, adequate market analysis and action planning.

Constraints and further research

Further research is needed based on data collected in business firms so as to prove these conclusions, as well as theoretical approaches on the definition of market variables (which must be monitored) and more effective business models.

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