CHAPTER II
LITERATURE REVIEW

2.1 E-Business and E-Commerce Definition

The term E-business was initially crafted in a thematic campaign by IBM in 1997 and subsequently defined as "a secure, flexible, and integrated approach to delivering differentiated business value by combining the systems and processes that run core business operations with the simplicity and reach made possible by Internet technology" (*http://www.ibm.com*). Prior to the offering of this definition, the term E-business and E-commerce were often referred to interchangeably. The offering of this formal definition marked the coming of age of the adoption of the Internet and its technology to go beyond the function of E-commerce and encompass other functionalities such as e-marketing, e-franchising, e-mailing and many more.

In a nutshell, E-business is the function of deploying technology to maximize customer value while E-commerce is the function of creating exchange (i.e., buying and selling) over digital media (Kalakota and Robinson, 1999). Another statement from Dr. Ravi Kalakota: "e-commerce is buying and selling on the Internet; e-business is about what an organization has to look like to enable commerce online". There are some typical interactions within e-business, which are B2C, B2B, and B2G. B2C means doing business with the customer, B2B doing business with other business whereas B2G means doing business with the government.

As recognized above, the new paradigm of E-business that is being currently defined is simply technology driven. This changes everything.

Kalakota and Robinson map this dramatic paradigm shift by presenting the following as the rules governing e-business:

Table 2.1 Rules Governing e-Business

Rules	
# 1	Technology in no longer an afterthought in formulating business strategy, but the actual cause and driver.
# 2	The ability to streamline the structure, influence, and control of the flow of information is dramatically more powerful and cost-effective than moving and manufacturing physical products
# 3	Inability to overthrow the dominant, outdated business design often leads to business failure
# 4	The goal of new business designs is to create flexible outsourcing alliances between companies that not only off-load costs, but also make customers ecstatic
# 5	E-commerce is enabling companies to listen to their customers and become either “the cheapest,” “the most familiar,” or “the best.”
# 6	Don’t use technology just to create the product. Use technology to innovate, entertain, and enhance the entire experience surrounding the product, from selection, and ordering to receiving and service.
# 7	The business design of the future increasingly uses reconfigurable e-business community models to best meet customer’s needs
# 8	The tough task for management is to align business strategies, processes, and applications fast, right and all at once. Strong leadership is imperative

2.2 The Value of E-Business: ROI

Even though technology is the actual driver for transforming traditional business to be e-business, still it is an investment for the company. If the initiative does not bring benefit for the bottom line, then management should not consider doing it. Benefit for the bottom line also known as Return on Investment (ROI). ROI is a key metric organizations use to determine where they should place their investment. A prudent manager should always consider the ROI before spending resources on a new process, machine or employee.

And just as this business/economic principle has been used to determine "physical" capital investments, ROI should be a key determinant in a firm's decision to implement an e-business solution. The single most important factor determining success when devising an e-business strategy is to approach the issue as a business issue, not a technology issue.

Technology is a tool, an enabler, which is to be used to further the business goals. E-business for small and medium-sized firms (SME) is not about technology or dot com "glitter". It is all about pursuing a healthy return on investment.

2.3 E-Business is a Strategic Decision

Since one need to approach e-business strategy as a business issue, not as a technical issue, then we should consider overall strategic analysis regarding e-business implementation. Why e-business decision should be consider as strategic one? It is simply because e-business will make some changes in the ways that business should be done. CEO of the company surely does not want any initiatives that contradict or challenge business objectives that already defined. Thus, strategic planning is surely needed before starting any e-business initiatives. As with any project or strategic initiative, firms need to ensure their e-business initiative is aligned with their corporate strategy – and that it does not conflict with the current goals, objectives and values of the firm.

Many existing e-business strategy model do not work well for businesses that have a mix of traditional and e-business components. These types of hybrid businesses are often referred to as bricks-and-clicks, or mouse-and-mortar companies. The Internet and the growth of e-business are changing the rules of distribution, sales, industry boundaries, relationships, and competencies, providing small and medium-sized businesses the same opportunities previously available only to large corporations. In addition to the new opportunities, e-business also poses new challenges. Channel competition, brand erosion, and life cycle compression require strategies that have yet to be developed.

The main reason why many e-business strategies failed is owing to a lack of alignment with the corporate strategy. For example, if the corporate strategy focuses on driving customers into our successful retail store chain, it doesn't make sense to sell our products online at a discount. If the products we produce usually get to our customers through a successful channel market, we would be undercutting the channel by selling online.

Businesses that have failed to align their activities with their strategy have experienced severe consequences, such as reduced profitability, loss of competitive advantage and even bankruptcy.

2.4 Key Considerations On Deciding E-Business Model

Moving to e-business is a vital decision for a company. Therefore, there are some points need to be considering carefully, especially by SMEs:

- Strategic analysis about the company and the competition
- Competitive advantage that should be exploit with focus on traditional business functions
- Look for e-business solutions that can increase productivity and efficiency, never use technologies that could slow down the business
- Company bottom line, such as payback period, ROI, etc

2.5 Critical Success Factors

And below is the Critical Success Factors implementing e-business:

- **Management Commitment**

  E-business is an investment issue and, like all investment issues, will not go forward unless the CEO or senior management is committed to the project. Demonstrating a strong case of ROI should go a long way in securing management commitment. In addition to commitment, however, senior management, preferably the President and CEO, must also demonstrate strong leadership. Management must be the champion driving the initiative forward as many of the required changes will be cross-functional. Such leadership and commitment will filter down throughout the organization strengthening the enthusiasm and dedication of employees.

- **Change Management**

  Any e-business transformation initiative brings with it an element of organizational change. Introducing innovative information technology solutions to streamline business processes will have a direct impact on the structure of an organization. The most common examples of organizational change are in the areas of human resources, skill requirements and communication/information flows. It is crucial that an organization considers these potential changes when developing an e-business strategy, and maps out the new, more efficient processes before moving to the technology/implementation phase.

- **Employee Training**

  Providing the proper employee training is an essential yet often overlooked element of a successful e-business implementation strategy. The maximum benefits derived from implementing new technologies and processes may go untapped if employees are not trained properly. It is important to remember that investment in human capital is also a strategic investment, especially when introducing new technologies, procedures and processes.

2.6 Application Framework: Extended Enterprise

There are significant terminology problems when business application modules are discussed. Applications have already been referred to as ERP, e-business, CRM, Order Management, SCM, etc. Figure 2.8 is an attempt to show how all these different type of business modules or applications fit together.

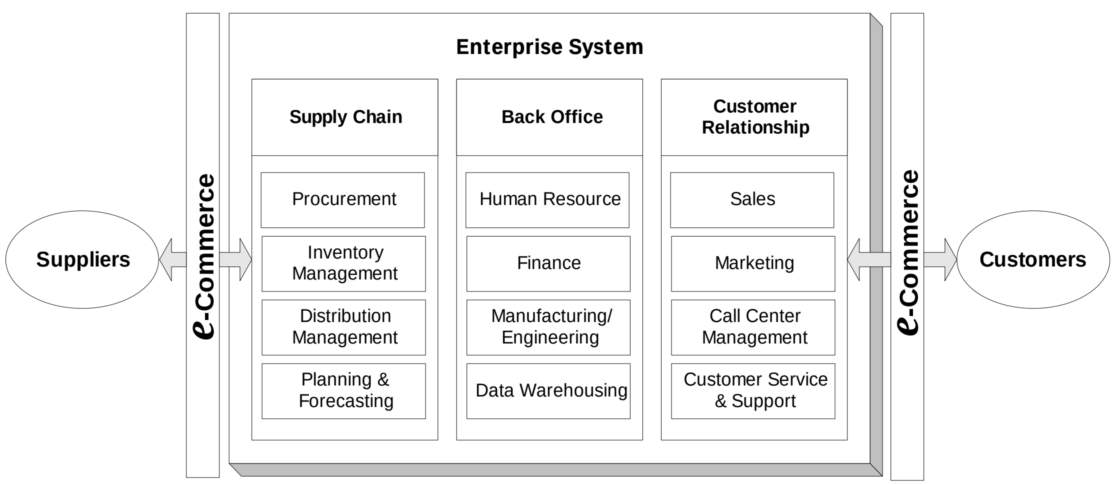

Figure 2.1 Extended Enterprise Framework

- **Customer Relationship**

Since the ultimate goal of enterprises is to create value to shareholders through selling goods and services, any customer-facing front-end systems should work to make it easy for customers to select, purchase, and be serviced. Business module that supposes to serve customers and deliver value to them, commonly called Customer Relationship Management (CRM). Frequently, CRM work together with e-commerce and Internet technologies to reach wider customer segments, enabling new business opportunities, and to create new customer experience through user-friendly online purchasing, which should be secure and reliable. Two examples on this category are CRM application from Siebel, and Order Management application from Art Technology Group.

- **Back Office**

Nevertheless, the value to the customer cannot be delivered without back-end operations. Enterprises have been implementing Enterprise Resource Planning (ERP) systems to integrate and optimize their internal operations, such as Manufacturing, Financial controlling, Human resources and Data Warehousing. Increasingly, those enterprise systems are integrating web connections to leverage the speed and ubiquitous nature of the Internet. For example, SAP's R/3 system is Internet compatible and can be combined with other types of software under the enterprise umbrella. Moreover, application packages from PeopleSoft, JD Edwards and others are able to serve specific functional needs, such as human resource management.

- **Supply Chain**

At the other end of the value chain, there are also many applications, web-based or non-web-based, that companies use to increase their procurement efficiency and manage the collaboration and coordination with their suppliers. This business module also commonly utilizes e-commerce and the Internet to enable online transactions with its business partners globally. The enterprise procurement packages from Ariba and CommerceOne and the supply-chain management application from i2 Technologies are the well-known examples in this category.