Class announcements

- Assignment 3 due Monday 4/27 (on web site)
- Project Proposal due Today
- Reading for next class
  - Messerschmitt Ch 4
- Student Presentations Monday 4/27
  - (News) Thomas Rowley
  - One more slot available
  - Today is your last chance to sign up for presentation vs. news folios (see signup sheet)
Today

- News presentation
- Final review of Cisco
- ECommerce
- Alibris presentation
- Alibris Case
Cisco Review

- Team of people from all types of departments
  - “cross-functional team”

- Was this necessary?
Cisco Review

- Vendor Selection
  - KPMG consultants
  - Oracle ERP
  - Good selection? Why were they “hungry?”
Cisco Review

- Top Management made it a priority

- What effect did this have?
Cisco Review

- Rapid Iterative Prototyping?
  - What was this?
  - Was it a good strategy?
  - Was aggressive pace good, or reckless?
Cisco review

- Project justification

  - Did they do a RoR or NPV analysis to justify the project?
Cisco Summary

Success Factors

- Cross-Functional Team of top people
  - People from across the company involved
- Hungry Vendors
  - Oracle and KPMG needed this to succeed
- Strong Support from Top Management
- Favorable Hardware Contract
- Rapid Prototyping
- Aggressive pace

Challenges

- Poor testing Strategy
- Inadequate Hardware
- Software required more modifications than originally hoped.

Good management or luck?
Cisco Summary

Challenges

- Poor testing Strategy
- Inadequate Hardware
- Software required more modifications than originally hoped.
Cisco Summary

What did it cost?

Costs Beyond original budget:

Non-IT Personnel In Project
- 80 personnel X 8 months X 160 hours / month X 100 hour = $10 million

IT-Personnel beyond original 20
- 80 personnel X 4.5 months X 160 hours / month X 100 hour =$5.7 million

Actually cost more than $15 million more than the original budget of $15 million!

Was this really a success?!
E-Commerce

Major Categories

- Consumer (B2C)
  - Example: Amazon.com sells books to consumers.
- Inter-consumer (C2C)
  - Example: eBay
- Inter-enterprise (B2B)
  - Example: online brokerage to banking
E-Commerce Principal Steps

- Matching buyers and sellers
- Negotiating terms
- Consummation
- Customer service
Matching Buyers and Sellers

- **Catalog**
  - Seller publishes a catalog of goods and services
  - Willing buyers access at their initiative

- **Advertising**
  - Attach advertisements to other publications or web pages
  - Example: Spam

- **Intermediary Recommender**
  - Examples?
Intermediaries?

- What rolls should intermediaries play in the networked age?

- What intermediary rolls may change or even be eliminated?
  - Travel Agents?
  - Others?
Negotiating Terms

- Fixed price
- Price based on buyer characteristics
  - History
  - Demographics
  - Behavior
  - Sequential versioning
  - Examples?
    - (Airlines, Hotwire, TurboTax)
- Auctions
Consummation

- Order
- Fulfillment
  - Seller conveys goods to buyer
- Payment
  - Buyer conveys payment to seller
- Security?
  - Need to ensure both fulfillment and Payment occur.
Payment options

(Topic of Chapter 14)
Account transfer authorization
Credit/debit card
Digital cash

Micropayments
- Low transaction costs
- Consolidation
- Examples (toll roads, dining hall charges)
Customer Support

- Often need to provide post-sales service to the customer
  - In person
  - Over telephone
  - Via Network
    - Email
    - Remote conferencing
    - FAQ board
    - Automatic distribution of new versions or patches
The challenge of maintaining the relationship with a customer is called **Customer Relationship Management** (CRM).

CRM software applications seek to provide customer facing employees a complete view of each customer.
- What they’ve bought and returned.
- What problems they’ve reported.
- What other agents they’ve talked to in the past.

An opportunity to add value.
E-Commerce

- **Major Categories**
  - Consumer (B2C)
  - Inter-consumer (C2C)
  - Inter-enterprise (B2B)
Consumer e-commerce (B2C)

- What have you bought on the Internet, or what do you buy most often?

- What are the advantages and disadvantages compared to a retail store or direct mail catalog?
Some Advantages

- **For the Consumer**
  - Check prices at many vendors with minimal effort
  - Price many options
  - Anonymity
  - Order tracking

- **For the Business**
  - Global reach
  - Automate order taking (cost savings)
  - Price Discrimination
Some cautions

- Security of transactions (https://)
- Shipping/handling/return costs and policies
- Stability of seller
Inter-Consumer (E-commerce)

- Prime Example
  - E-Bay

- Other examples?

- What value does something like E-bay add over a simple classifieds listing like craigslist?

- And - how does craigslist make money?
Inter-Enterprise E-Commerce (B2B)

- **Procurement**
  - One enterprise purchases goods or services from another

- **Direct Procurement**
  - Ongoing, consistent, and scheduled procurement

The relationship between firms involved in direct procurement often called a **Supply Chain**

The set of problems associated with managing a supply chain is called **Supply Chain Management (SCM)**
Key SCM Concepts

Each interface in the Supply Chain represents:
- movement of goods
- information flows
- transfer of title
- purchase and sale

Strategic SCM consists of developing smarter ways to
- choose,
- buy from, and
- sell to your business partners.
SCM

- Need to manage the procurement of parts
  - Don’t run out of any one
  - Don’t order too many
  - Order far enough in advance

- Ideally
  - Know in advance
    - # cars
    - features
Thousands of orders per day, each with different requirements!

Adjusting orders from suppliers constantly according to demand

Minimal inventories

- Cut costs
- Much more sensitive to errors or disruptions

*mass customization* requires sophisticated SCM
Networked Computing in direct Procurement

- History predates Internet
- **Electronic Data Interchange** (EDI)
  - Exchange order information between firms involved in direct procurement
  - Usually large firms who could afford proprietary communication links
  - Initially order and invoice
  - Existed since 70's
- **Financial EDI** (FEDI) later added EFT payment capability
Networked Computing in direct Procurement

- XML (Extensible Markup Language) is another data interchange format making an impact on inter-enterprise commerce.

- We will talk more about this later in the quarter.
Indirect Procurement

- Sporadic purchase of goods and services to support organizational objectives
  - Example: Office Furniture
Student Presentation

Julianna’s slides here
Sources


Alibris

A online book store established by Marty Manly, which sells rare books, used books, new books and out of print books. (grew out of Interloc)
History of Alibris

- Interloc established on January 1998
- Interloc changes it to Alibris on April 1998
  - Goes through Business model changes, leadership changes, facilities changes, etc.
- Private investment summer of 1998
- Replace Texis with new Oracle database, which caused problems and leaves the company with low amount of money.
Problems Alibris had to face.

- Migrating all the listings of database from Interloc’s facilities in Massetuttes to Santa Clara.
- Transitioning simple listing of interloc to “salable piece of inventory” (locking the record)
- Two failures at oracle: VAR, “Safe Bet”
How Article Relates to ISM 50 Concepts

10 Competitive Strategies

- Cost of leadership: change in leadership
- Growth: More books were added to the list
- Other Strategies: New Revenue Model
How Article Relates to ISM 50 Concepts

Porter’s Model

- Competitors: “ranged from large retail operations like Powell’s in Portland to individuals with a few hundred books and no retail space.”
- Substitutes: Book sellers such as Barns and Nobles or Borders
- Buyers: Who are asking for the books.
- Sellers: Who owns the books in demand.
Alibris

- Why did Interloc succeed so early on?
Alibris

- If Interloc is so successful, why change it?

- What will change as Interloc becomes Alibris?
Why did Manley feel they needed the Sparks facility?

How does the Sparks facility keep them from becoming disintermediated?
Should Alibris actually buy books and fill up the Sparks facility?
Alibris

- Why is Alibris having so much trouble setting up simple e-commerce capabilities?

- Is this really that hard??

- Is it rare for a new-software product from an established, reputable vendor not to work properly?
Should Alibris stick with Oracle? Or switch back to Thunderstone?
Should Manley take the “white knight’s” offer and fire the whole IT staff??!
Alibris

- Rejects “white knight” offer
- Manley secures another bridge loan
- Goes Live 1998
- Thunderstone’s software works ok
- 1 million books at Sparks warehouse by 2000
  - Originally all on consignment from dealers
  - Later, purchases books
- 2002 - Revenue $31 million, loss $7.2 million
- 2003 - Revenue $45.5 million, loss $4.8 million
- March 2004 files for “auction based” IPO
  - May 2004, withdraws IPO after price too low
  - Still Relying on Private Financing
- August 2006, Alibris acquired by Oak Hill Capital Partners
Alibris: four ecommerce steps

- Messerschmitt, page 85: (1) matching buyers and sellers, (2) negotiating terms and conditions, (3) consummation, and (4) customer service.

- How does the Alibris business model develop a competitive advantage over existing rare book sales channels in each of these four steps?
How does the Alibris business model develop a competitive advantage over existing rare book sales channels in each of these four steps?

1. **Matching buyers and sellers**: an expanded version of Interloc’s database listing helps buyers find their titles.

2. **Terms and conditions**: significant 20%+ markup (hence bigger profits) compared to other rare book sellers. Alibris sells books for more than the brick-and-mortar price.

3. **Consummation**: warehouse provides order consolidation and improves fulfillment performance compared to individual shops.

4. **Customer service**: not mentioned in case study. Could argue that book quality is now guaranteed through warehouse inspections, and customers have a single point of contact (Alibris).
What added value does Alibris offer that Amazon and eBay do not?

Applying Porter’s five-strategy model, what combination of strategies is Alibris using?

- Differentiation based on: (a) innovation, (b) growth, or (c) alliances?