E-Commerce or Bust?

The year 2000 is an exciting time to be writing about prospects for retailing and e-commerce. The past few months have demonstrated yet again that dynamic change is an inescapable feature of the retail industry, even within the supposedly mature UK and European marketplace. The global ambitions of the European super league of retailers appear lofty, not least with the recent merger of Carrefour and Promodès, displacing Metro to constitute Europe’s largest retailer. The equally determined objectives of major US players such as Wal*Mart and Gap continue to surprise and impress. But as the growth of e-commerce continues apace, OXIRM’s research programme on business-to-consumer e-commerce nevertheless shows that internet ‘pure plays’ and established retailers have a long way to go before matching the rhetoric.

The immediate prospects for e-commerce are the big unknown. Just over 1.4 per cent of total US retail sales in 1999 ($31bn of $2.7tn) were online, compared to just under one per cent in 1998. In some sectors, holiday sales were particularly dominant: eToys estimated that $39m of its annual $44m of sales were made during the nine weeks before Christmas. Last year was different for a number of reasons. Many traditional retailers had operational web sites by 1999 and so were able to take their share of online business and use their sites to reinforce existing stores and vice versa. In 1998 new internet start-ups in the US were dogged by server outages caused by heavy demand, while inadequate stocking and fulfilment arrangements held up delivery. By 1999, most companies had remedied these problems.

While sales growth among many UK online retailers exceeded that of many conventional businesses, market shares showed that this is still very early days for business-to-consumer e-commerce. UK online retailing turned over around £200m during the run up to Christmas – equivalent to online sales in the whole of 1998. Heavy discounting and marketing costs meant, however, that these same companies made substantial losses. Other estimates put UK online trading at nearer £400m during this period. Yet both estimates mean that Christmas online accounted for only between 0.9 per cent and 1.3 per cent of total retail sales.

Jonathan Reynolds, Templeton Fellow in Retail Marketing and Director of the Oxford Institute of Retail Management (OXIRM). As a member of faculty of the Said Business School he teaches an elective in e-commerce on the Oxford MBA.
The most successful online sector, book retailing, managed a maximum market share of around four per cent in the UK during the Christmas period, according to book trade organisation BookTrack. But, despite major marketing efforts and much media hype, conventional shops still overwhelmed the five major internet retailers, selling over 30.8m titles, compared with fewer than half a million online – a market share of only 1.6 per cent. The major difficulty proved to be consumers’ concerns about delivery: orders slumped from 11 December as real or imagined deadlines discouraged online purchasers.

Elsewhere in Europe, results were mixed. In France, media hype was extensive but actual performance over the Christmas period was disappointing. Best estimates suggest that France only accounted for some six per cent of European online sales: some £65m. There was some good news: FNAC.com claimed to be taking up to 3,000 orders per day.

What can we conclude from these experiences for the immediate future prospects of business-to-consumer e-commerce? Here are five implications of e-Christmas 1999:

– Many retailers did their Christmas online trading at a loss, apart from those (like Tesco Direct, Dell and Egghead) which had already established a workable economic model. The loss was exacerbated by artificially high stock levels to avoid out-of-stocks and by the price deflation particularly apparent in the UK and accentuated by the internet itself.

– While fulfilment worked better than in 1998, there were still some horror stories and this, rather than concerns about security, may have affected consumers’ willingness to trade online in 1999. In particular, early order cut-off dates proved a real turn-off for consumers who contemplated a switch to electronic channels too late in the period. This was made more apparent by those few companies which traded right through until Christmas Eve – such as lastminute.com.

– What is now becoming apparent is that the ‘acid test’ has moved on from technical aspects of web site maintenance, through fulfilment to post-sales service. Few online retailers are reportedly dealing with customer service issues, returns or complaints in a timely or friendly manner (or even at all).

– The much heralded trumpeting about the strength of established brands has proved a mixed blessing. Some conventional retailers were out-of-stock earlier, or had more restrictive delivery times, than pure internet businesses. Of course, conventional retailers had less at stake and less to prove than their online competition.

– Our view is that while e-Christmas 1999 was not a damp squib, it shows how far online retailing must go to provide serious competition for conventional retailers. We are likely to see much consolidation as online players fall by the wayside having failed to convince their prospective customers or their investors of the merits of their offer or performance. There are likely to be many joint ventures and partnerships and not a few acquisitions over the next few months.
These included a number of European-based programmes for Johnson and Johnson, and a series of top executive programmes for NatWest, which he directed.

He has carried out applied research in more than 50 businesses, mainly in the areas of manufacturing strategy, operations strategy, supply chain management, product/service profiling and inventory analysis, and is the author of numerous articles and chapters, as well as several books. The most recent of these are *Manufacturing Strategy* (3rd edition 2000, Irwin McGraw-Hill), *Operations Management: Strategic Context and Managerial Analysis* (2000, Macmillan Press) and *Manufacturing Strategy: Text and Cases* (2000, Macmillan Press).

Perhaps his most unusual book is *The Strategy Quest* (1998, AMD Publishing), a novel on the subject of operations strategy. The protagonists are a man who manages a traditional manufacturing company and his wife who runs a much smaller service business. While the woman understands her business and has developed appropriate operations strategies, the husband is struggling to run the much larger company effectively. The story shows how he overcomes the difficulties inherent in a large company serving a range of markets. The novel was designed as an easy read. ‘Adults remember things the second time around,’ says Terry Hill, who is currently working on a sequel, ‘and *The Strategy Quest* reinforces, in a digestible form, the points made in my textbooks. Many executives have said to me that it is a great read after a course.’

Terry Hill aims to divide his time equally between writing, teaching and research: ‘Each aspect of my work feeds the other two, and spending roughly a third of my time on each works well.’ He fully appreciates the independence of the academic life. ‘The academic world is a meritocracy,’ he says. ‘It’s a very privileged life, and a very exciting one. The real key is being able to handle the freedom it embodies.’
Focus on Research: HR and Organisational Performance

Marc Thompson
Templeton Research Fellow in Employee Relations

Despite the outlandish market to book values of many .com businesses, it is still a truism that intangible assets are a key source of competitive advantage for firms. These intangibles are the knowledge, the know-how and the intellectual property that a firm can create and sustain over time. What that means to a researcher in the field of human resource management is really quite simple – value is created by people, held by people and potentially destroyed by people. This means that the human resource systems, processes and routines that firms put in place to manage employees are a real differentiator in today’s marketplace.

Straightforward, you may think. However, there is still considerable resistance by UK top management to the idea that a strategic and coherent approach to managing people really does deliver bottom-line benefits. Thankfully, the evidence that HR management does make a difference is beginning to grow.

High performance work practices include appraisal systems, teamworking, broad grading structures, regular provision of business information, job rotation, high investment in training and use of problem solving groups (such as Kaizens).

A three year study of the performance of nearly 600 firms in the UK aerospace sector funded by the Department of Trade and Industry (DTI) and the Society of British Aerospace Companies (SBAC) shows that firms adopting high performance HR systems generate much higher levels of value-added per employee. Firms with these practices generate up to 20 per cent more value-added, controlling for size, position in supply chain and activity.

However, detailed case study work in seven aerospace firms from across the industry supply chain found that senior managers in many firms were not acting upon these findings. The lack of a strategic approach to HR system design was generating low levels of morale amongst employees (and managers) leading to sub-optimal performance. Where there were high levels of consistency in HR practices, employee attitudes were more positive and firm performance higher.

This research has unearthed an important development need for top management teams in the aerospace sector; a need that Templeton College is in an excellent position to address.
Reed Elsevier is one of the world’s leading publishers and information providers. Its activities include scientific, professional and business publishing, with principal operations in North America and Europe. The company’s Scientific segment consists of worldwide scientific and medical publishing and communications businesses such as Elsevier Science and ScienceDirect. The Professional segment serves the legal, tax, reference and educational markets with businesses which include LEXIS-NEXIS, Butterworths Tolley and Heinemann Educational, the largest educational publisher in the UK. The four companies within the Business segment cover business publishing and exhibitions in the UK, Europe, the USA and Asia Pacific and publish journals including such household names as New Scientist, Estates Gazette, Flight International and Variety.

The company is changing rapidly. In February this year CEO Crispin Davis announced its new strategy for growth in the electronic age. ‘Our principal objective is for Reed Elsevier to be the indispensable partner to our target customers for information-driven services and solutions across our three core areas of focus, Science, Legal and Business,’ he stated. Capitalising on the potential of the internet is vital to this strategy. ‘Reed Elsevier has powerful and valuable assets: leading brands and market positions, high quality and in-depth content, scale, professional people and financial strength,’ he continued. ‘Coupled with the exciting opportunities opened up to us by the internet, this represents a strong platform for growth. We are determined to build aggressively on this with a new management team and new strategy in place.’

The Templeton Executive Development Programmes aim to help the organisation grow through the development of executives who are current or future directors of the operating businesses. The first of the series of one-week programmes was held at Templeton...
in March 1999. A second programme followed in September and a third in February this year. The next course is scheduled to run in September 2000. ‘We are committed to management development, especially at a senior level – and the Templeton programme is a lynchpin in that,’ states Crispin Davies.

Templeton has designed a programme to encourage close interaction between participants and faculty, which focuses on helping participants develop their strategic thinking in an era of new opportunities. Particular emphasis is placed on the impact of electronic information transmission and developing strategies that balance traditional aspects of the business with the development of technology-based new business. By bringing together senior executives from Reed Elsevier companies all over the world, skills and knowledge successful in one business can be shared, adapted and used in other businesses. ‘We have to continue to develop the traditional hard copy products,’ says Ruth Gillespie, the organisation’s management development consultant. ‘But we must keep abreast of the technical innovations that are having a major impact on our industry.’ Reed Elsevier has a clear focus on internet delivery, additional high value added content and services, and greater ease of use and functionality.

One important aspect of the week is that delegates seize the opportunity to share information and challenge each other in a direct and forthright way. This sense of co-operation, plus an eagerness to work together and help one another, is motivated by a strong desire to see the company succeed in the international marketplace. ‘It was an opportunity to identify and discuss RE-wide issues, particularly those pertaining to our electronic activity, within a ‘safe’ environment and with like-minded colleagues,’ says Sabine Buckley, who then worked for Reed Business Information. Since attending the Templeton course, she has been promoted to a publishing director’s role in Butterworths.

‘This programme has taught us that there is more scope for collaboration across Reed Elsevier,’ says Ruth Gillespie. Because companies within the organisation have similar objectives – though products and markets differ – identifying the information and experience available and considering how it could be re-used is one element that would determine successful growth. During the week, participants are asked to identify the ideas that have real potential as business opportunities. The last day is then spent discussing these ideas and examining ways of implementing them; representatives from the main board of directors participate in these discussions and encourage delegates to take their initiatives forward.

Graham Shaw, Finance Director, Reed Educational and Professional Publishing, Oxford attended the programme in February of this year. ‘It was a very stimulating week,’ he says, ‘successfully blending the “bleeding edge” of management theory with a high degree of understanding of commercial realities. I would recommend this course to all my colleagues within Reed Elsevier as a must-do.’
Templeton Research Shows Significant Growth in IT Outsourcing

‘Outsourcing is becoming a routine part of IT management,’ says Leslie Willcocks, *Templeton Fellow in Information Management*.

A new report shows that the practice has outlived the five-year period typical of a management fad. Global revenues will exceed $120 billion by the year 2002, reflecting a 16 per cent growth rate in the 1997–2002 period. On average, 35 per cent of most corporations’ IT budgets will be outsourced by 2003.

The report, by Leslie Willcocks and Mary Lacity, a Research Affiliate at Templeton and Associate Professor of MIS at the University of Missouri-St Louis, is based on a new in-depth 1999 survey into IT outsourcing in the USA and UK and consolidates the authors’ previous research.

‘There are important lessons for organisations considering outsourcing and for IT suppliers,’ Leslie Willcocks states. ‘Organisations should involve more stakeholders in outsourcing evaluations, improve communications with in-house IT staff during evaluation, insist on more clearly defined, comprehensive contracts and improve their post-contract management infrastructure. Finally, they should beware of outsourcing too many key people.’

The report concludes that IT suppliers would benefit from helping their customers to set realistic expectations. They need to develop their relationship and customer management capability beyond customer service and account management. ‘They should note the checklist of serious and difficult problems encountered by a sizeable minority of customers during outsourcing and take pre-emptive action to ensure the risk of these happening is minimised,’ adds Leslie Willcocks. ‘Finally, they could reconsider their strategy and market offerings, given that many customers prefer shorter contracts, selective IT outsourcing and multiple suppliers.’
Moving to E-Business

15 June 2000
Templeton College

Global e-commerce revenues are forecast to rise from $32bn in 1998 to at least $426bn in 2002. How can you ensure your company will be one of the winners? How should you manage your way through the competitive threats? Everyone has read the hype – this programme provides answers based on new unpublished research carried out at Templeton.

Topics include:
- models for organising e-business derived from leading edge companies
- approaches to achieving the necessary corporate transformation
- capturing attention in the new economy
- impact of e-business on the future of consumer and industrial brands
- building the e-business infrastructure.

This programme will give participants fundamental insights into the managerial issues that face them in moving to e-business, including strategy-making, marketing, re-engineering and delivery.

For further information or to reserve your place, please contact:
Carole Priestley
Tel +44 (0)1865 422751
Email carole.priestley@templeton.oxford.ac.uk

Research Workshops: the World Trade Organisation (WTO)

Trade policy is a vital issue for business. Templeton recently held four workshops – three in the Michaelmas term and one in the Trinity term – to develop ideas on the content and implications of the WTO’s next ‘round’ of trade liberalisation talks, due to be held in Seattle last December. This round was of course not launched, as the meeting broke up following intervention from issue groups and NGOs.

The workshops were chaired by Alan Rugman, Thames Water Fellow of Strategic Management and Robin Pedler, Associate Fellow. Speakers at the first three included Roy Maclaren, Canadian Ambassador, Tom Hamby from the US Embassy and Bernard O’Connor, Philip Morrison and Geert van Calster, specialist trade lawyers. Keynote speaker at the fourth was Sylvia Ostry, former Canadian Ambassador to the GATT/WTO and now a distinguished academic at Toronto University. Its theme was ‘Whither the WTO after Seattle?’

The workshops brought together those who research and write on trade policy and business managers who focus on trade issues. They were encouraging and Templeton will certainly be running more as events at the WTO develop.
Faculty News

Karl Moore, Fellow in Strategic Management | published an article on knowledge management in the medieval and ancient world in the September/October issue of Knowledge Management Review and one on strategies for multinational subsidiaries in medium size economies in the recent issue of Management International Review. He has written two articles with David Lewis; one comparing international business in Phoenicia with the keiretsu system in modern day Japan, published in the April issue of Business History, and one entitled ‘Should the World Adopt the American Form of Capitalism?’ in the March issue of the Business Strategy Review. In January, Karl Moore presented a talk at the University of London’s School of Oriental and African Studies on his research into forms of capitalism.

Deborah Pretty, Marsh Research Fellow | has been sponsored by the following companies to present her research on Risk and Value: Marsh – Insurance Industry Panel in Zurich; Munich Re – workshop in Munich; BDI (German equivalent of the CBI) Legal and Finance Division in Cologne; Marsh Italia – Product Tamper Conference in Milan; Hill and Knowlton – workshop in Barcelona; Storebrand – Symposium in Oslo; and Deutsche Bank – Convention in Barcelona. She has been invited and sponsored by ARIMA (the Australian Risk and Insurance Managers Association) to give the keynote presentation at its annual convention in Tasmania. Articles on her research have appeared in CFO Europe, Risk Financier and FTMMR and, together with Rory Knight, in Accountancy, The Antidote, Marketing Week, International Accountancy Magazine and Corporate Reputation Review.

Alan Rugman, Thames Water Fellow in Strategic Management | has been awarded a £40,000 grant by the ESRC to carry out research into the performance of large multinational enterprises. His most recent book is The End of Globalization (Random House Business Books, May 2000) and he co-authored and contributed to Deepening Integration in the Pacific Economies (Elgar, October 1999). He was recently made a member of the editorial board of The Academy of Management Executive, and continues to serve as Associate Editor of the Journal of International Business Studies and on five other journal boards, as well as refereeing some 50 articles a year for academic journals.
**Templeton Briefings Currently Available**

- *The Value Discount for Off-Balance-Sheet Risk* by Deborah Pretty
  
  An evaluation of the relationship between off-balance-sheet risk and shareholder value.

- *Diversification of Risk and its Effect on Value* by Deborah Pretty, with Rory Knight
  
  An exploration of the relationship between corporate diversification strategies and key financial performance variables.

- *Value Creation among Europe’s Leading Companies* by Rory Knight, Dmitry Dragun and Marc Bertoneche
  
  A league table of the largest firms in the UK, France and Germany, ranked by the amount of business value created per Euro of financial capital absorbed. Available as a two-volume set with the full country league tables, price £85.00.

- *The 1999 Fast Track 100: UK’s Fastest-Growing Unquoted Companies* by Hamish Stevenson
  
  The annual league table of the UK’s fastest-growing unquoted companies.

- *Templeton Global Performance Index 2000* by Michael Gestrin, Rory Knight and Alan Rugman
  
  The winners and losers of globalisation: this study of 214 *Fortune Global 500* companies ranks the world’s largest multinationals by the profitability of their international operations.

These publications are all available from:

Dave Hall
Templeton College
Oxford OX1 5NY
England
Tel +44 (0)1865 422515
Email dave.hall@templeton.oxford.ac.uk

Price £65.00 each (except where otherwise stated).
AMP Alumnus Appointed Vice President

Susan Story, who attended The Oxford Advanced Management Programme in October 1998, has just been appointed Vice President of Procurement by Southern Company Generation in Birmingham, Alabama, the business unit responsible for all Southern Company’s non-nuclear generating plants in the southeast region. She joined Southern Company with Alabama Power in 1982. Susan Story was recently chosen as one of 12 women worldwide to participate in the 1999–2000 Leadership Foundation Fellows Program sponsored by the International Women’s Forum. Southern Company is the largest producer of electricity in the United States and one of the world’s largest independent power producers.

Cover picture:

The Oxford International Executive Programme is an intensive general management programme run jointly by Templeton and the Singapore Institute of Management and held in Singapore. The highly successful fourth programme, run in March this year, focused on the theme ‘Business Value Creation and the Effective Management of Knowledge’.

David Feeny, Fellow in Information Management, Rory Knight, Dean and Fellow in Finance, and Robert Davies, Associate Fellow, Templeton and Programme Director are pictured with this year’s programme participants.

Programmes & Events

Trinity Term 2000

Major Projects Association Programme
14–19 May

The Oxford Strategic Leadership Programme
14–19 May

Moving to E-Business
15 June

The Oxford Advanced Management Programme
18 June – 15 July

For further information about any of these events, please contact:

Stephanie Parsons
Business Support Manager
Templeton College
University of Oxford
Oxford OX1 5NY
England
Tel +44 (0)1865 422770
Fax +44 (0)1865 422501
Email enquiries@templeton.oxford.ac.uk

Further information about Templeton can be found on our web site:
www.templeton.ox.ac.uk