In the foreword of their book, *Strategies for e-Business Success* (MIT Press, Cambridge, MA, 2001), editors Erik Brynjolfsson and Glen Urban argue that:

‘… the fundamentals are in place for a second generation of e-business that will overwhelm the economic impact of the first.’ (p. 2)

This perhaps optimistic statement begs an important question: What will be so markedly different about the second generation of e-business that will create such an impact? The answer to this question can be found buried like treasure in the compilation of *Sloan Management Review* articles highlighted in the book.

*Strategies for e-Business Success* provides a nice mix of theory and practical insights presented in a straightforward manner, targeted mainly for a practitioner audience from some of the most respected researchers in the field. Although the editors do not explicitly state what the fundamentals for e-business success are, the structure of the books makes it obvious that firms must address three main areas of electronic commerce that are essential to e-business success. (See Figure 1.)
Section I outlines the fundamentals of e-business strategy. This section highlights contains six related articles that detail the importance of sticking to traditional business fundamentals, the concept of brand in e-business, the domains of impact for e-business, and the past and future of competitive advantage. This section is disproportionate in the book in terms of size and importance and truly sets the stage for the discussion of the other fundamentals. Section II discusses the fundamentals of implementing e-business strategies based on creating brand. The four articles in this section place particular emphasis on how suppliers can build trust, understand customers, and leverage online communities. Section III contains two articles which cover the fundamentals of Internet application development and important implications of the open source movement.

Although the book covers a myriad of topics, two striking themes emerge as common threads throughout the book. The first of these is a call for a return to tried-and-true business fundamentals in the e-business arena. The second is the need for e-business companies to develop and exploit brand. Following is a discussion of these themes highlighting key aspects of the book that typify each element.

Brynjolfsson and Urban state, ‘To be successful in the second generation, managers must understand the fundamentals – and then execute by running their business on that basis’ (page 3). This theme is exemplified by Subramanian Rangan and Ron Adler in their chapter entitled, ‘Profits and the Internet: Seven Misconceptions’. Specifically, Rangan and Alder argue that companies must avoid the temptation to implement that which is ‘technologically feasible’ if it is not ‘strategically desirable’. Just because a technology is available to a firm, or even used by a direct competitor, the firm should only adopt if it makes strategic sense. This is a fundamental principle of business that is often violated in the context of rapid and
exciting technological development. A second principle argued by Rangan and Alder is that firms need to stop viewing the Internet as a homogeneous business sector. They rightfully point out that e-business is comprised of many business sectors with different factors that lead to competitive advantage.

Providing further insight on this point, John M. De Figueiredo in, ‘Finding Sustainable Profitability in Electronic Commerce,’ argues that there are basically four types of products in e-business: commodity products, quasi-commodity products, look-and-feel goods that have a standardized level of quality, and look-and-feel goods with variable quality. (See Figure 2.) De Figueiredo makes two points with regard to this categorization of products. First, selling each of these different types of products will require a different e-business strategy. Second, abnormal profits are not likely to come from selling commodity or quasi-commodity products.

Because customers can easily determine the quality of commodity and many quasi-commodity products and information about the prices of competitors is readily available, many e-business markets exhibit qualities of perfect competition. Perfect competition implies that firms can expect to earn zero profits. This is often the case in the first generation of e-business. On the other hand, competition in industries featuring products where the product quality is difficult to convey is likely to resemble oligopolistic competition according to De Figueiredo. This means that it is possible that all firms can maximize their profits in the same market (Fudenberg and Tirole, 1991). From the standpoint of competitive rivalry, firms will prefer to participate in markets for products with quality that is difficult to convey.

It must be remembered, however, that markets will only exist when the participants in the market have sufficient information. George Akerlof (1970) outlines the relationship
between information asymmetry for buyers and sellers and the viability of markets featuring products with quality that is difficult to represent and determine electronically.

‘Consider a market in which goods are sold honestly and dishonestly … There may be potential buyers of good quality products in the appropriate price range; there may be potential sellers of such products in the appropriate price range; however the presence of people who wish to pawn bad wares as good wares tends to drive out the legitimate business.’ (Akerlof, 1970, p. 495)

This is certainly the case for look-and-feel products with standard or variable quality. Often the buyer has very little information about the quality of these products. This creates information asymmetry between the buyer and the seller and increases the probability that sellers will attempt to misrepresent the quality of the goods they sell. This tendency drives the market out of existence. If markets cannot exist for this type of product, then firms selling those products will not succeed in e-business even if there are buyers willing to purchase such products at an appropriate price. This presents a serious dilemma for suppliers in electronic markets. If the assumption that commodity and quasi-commodity markets are not likely to be attractive is correct, then e-business firms must find ways to sustain the viability of look and feel markets or there will be no profitable e-business models.

To overcome this, e-business firms must build a strong brand. In ‘Pathways to E-business Leadership: Getting from Bricks to Clicks’ Leslie Willcocks and Robert Plant remind us that ‘brand provides a valuable shorthand for safe, reliable quality and delivery.’ Underlying the discussions of brand in the book is the argument that in order for a firm to successfully differentiate from other e-businesses, firms must create a strong brand. Put another way, brand provides the consumer with information about the quality of the product sold. This reduces the asymmetry between buyer and seller and acts against those forces that tend to drive look-and-feel markets out of existence.
The key principle for creating brand is trust. Cosmides and Tooby (1992) found that the ability to detect cheating is fundamental for any exchange to take place. In electronic marketplaces, the ability to detect cheating can be compromised by the fact that customers do not have sufficient information to complete look-and-feel transactions. Trust substitutes for the need to detect cheating. Since brand connotes trust, those firms that can successfully create trust will also be successful in look-and-feel marketplaces. In ‘Placing Trust at the Center of Your Internet Strategy’, Glen Urban, Fareena Sultan, and William Qualls outline that e-business firms can earn customer’s trust by maximizing trust cues on their website, using a virtual advisor when appropriate, providing unbiased and compete information, selling competitive products, and keeping promises to customers.

Although the book is strong in defining successful e-business strategies, it does not define well how these strategies exploit known economic principles to deliver success to the competing firms. The book would benefit greatly from a discussion of the roles of network externalities and trust in sustaining look-and-feel markets, the competitive principles of oligopolistic marketplaces, and how electronic markets resemble more traditional markets. This would support the claim that traditional business approaches will be effective for e-business. Such discussions would provide credibility to the claim that the fundamentals are indeed in place and understood for a new generation of e-business that will overwhelm the impact of the first, as the editors suggest. It would also provide evidence that the principles championed in the book are more than buzzwords and theoretical idealism, but true strategies for e-business success.
References List


Figure 1 – Fundamentals of e-Business Success

Figure 2 – Conveying Quality in Electronic Markets

Quality is easy to judge on the web
Commodity Products (paperclips)
Quasi-Commodity Products (books)
Look-and-feel Products w/ Standardized Quality (suits, new cars)

Quality is difficulty to judge on the web
Look-and-feel Products w/ Variable Quality (used cars)