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As seen in the

HANDBOOK OF E-BUSINESS

D7

The Finance Department's Role in the Development of e-Business

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D7.01 E-BUSINESS AS A STRATEGIC EVENT

The development of, or transition to, an e-business is a critical strategic event for any business, and as such, the CFO and finance department should be involved in the strategic planning and implementation process as they would be for any significant business decision. In addition to the traditional role of Finance in the e-business strategic planning process, there are unique characteristics of the e-business model that set this business decision apart from other strategic decisions and that require the finance department to play a broader role in the development of the e-business.

While the e-business strategy plan contains many elements of a traditional strategic business plan, it also has unique characteristics that need to be identified and considered. First, e-business, what is it? e-Business as a concept means many things to many people; for strategic-planning purposes, a broad definition works best since it is more inclusive and encompasses the evolutionary aspects of the e-business model. "e-Business" from this perspective is the level, degree, and time frame in which a company chooses to utilize the Internet and its underlying technologies to further its basic business proposition or to create a new one.

Second, the e-business decision is not whether to do it, but how to do it; not to have an e- strategy in the new millennium is a close-the-doors strategy. Recognizing this simple fact moves the strategic discussion to how best to participate. At the most basic level, an e-business strategy is simply what resources can be devoted to this effort; over what time frame; and will this be enough to allow the organization to survive, thrive, and accomplish the business value proposition.

Third, the single most defining aspect of the e-business model versus the traditional business model is communication. Enhanced communication is the common thread that ties together all of the various iterations of the e-business model across industries, disciplines, goods, and services. The cycle time and style of communications with constituents (customers, employees, vendors, investors, neighbors, competitors, etc.) has accelerated and changed.

Analyzing and understanding how best to develop, promote, respond to, and deliver your business model in this seemingly limitless environment is critical to the development of an effective e-business strategy. The challenges in e-business are as many and varied as the technology itself.

Presented here is an overview of e-business planning issues and a conceptual framework to guide the CFO and finance professional in the development and implementation of an e-business strategy.

D7.02 FINANCE DEPARTMENT AS A CHAMPION

As with all strategy plans, the finance department's role in the e-business strategic planning process is critical. While the finance department usually plays an important supporting role in the development and analyzing of strategic alternatives, in the e-business model the Finance role can, and should, be more that of a sponsor or champion than supporter. Specific elements of Finance's role are explored in detail here; however, there is one element of Finance's role that is absolutely critical to the success of the e-business initiative and that is focus.

One of the truly unique, and frustrating, aspects of the e-business model and e-business strategic planning is that they mean many things to many people; depending on background, perspective, prism, or agenda, the e-business model can be radically different among members of the same management team. That, combined with the fast pace of technological and competitive change, can result in an e-business strategy plan that more resembles a kaleidoscope than a focused business-development plan. This is why the e-business world is, and will continue to be, littered with failed initiatives; companies with great talent, terrific ideas, and deep pockets that lose their focus and ability to adapt will never make it.

Focus is not blind adherence to a static plan but, rather, maintaining a strategic vision that is flexible in the face of a changing landscape, e.g., changing technology, changing resources, internal interests, external competitors, The e-business strategy must incorporate an ongoing process that identifies and recognizes when key variables have shifted that require cycle-back and adjustment to the strategic plan in real time. The finance department is uniquely qualified to bring their critical thinking and analysis skills to the e-business strategic planning process and then, through their traditional measurement and reporting roles, to monitor the e-business implementation in the changing landscape, identifying changes that warrant cycle-back and plan adjustment. The finance department is uniquely equipped and positioned to be a champion of the e-business proposition.

D7.03 TRADITIONAL PLANNING

How does e-business fit into your existing business strategy? Will your e-business initiative augment or ultimately replace existing elements of your business? What resources, intellectual and monetary, will developing your e-business require? Do you have them in-house? If not, where and how will you get them? What is the expected return on those resources? Is your strategy supported by top management? Who are the champions and the spoilers? What is going on in your industry? What are your competitors doing? Are there new competitors? These questions, and others, all raise classic strategic planning issues; replace e-business with "new plant'! or "new service" and you would still be having a meaningful strategy discussion. For purposes of this overview, we focus on three traditional elements of strategic planning that are critical to the e-business strategic planning process: (1) core competency, (2) capital resources, and (3) competitors.

Core competencies are those things that your business does exceptionally well, are valued by the customer, and are not easily duplicated by others. Your core competencies should be a critical part of your customer-value proposition and a barrier to entry for your competitors. In the long term, all businesses must have certain core competencies that set them apart from the competition and allow them to add value to the supply chain; if not, they will not survive. Having a clear understanding of what these are, e.g. technology, process, people, etc., allows management to identify e-business strategies that complement and enhance the existing core competencies. For example, a core competency of a commodity-type business, in a competitive market, is its customer-relationship management. In developing its e-business strategy this business must determine how best to support and enhance this competency. Web-enabled communication s ideally suited for this role. The challenge is identifying how best to utilize the various Web options that are available, determine what types of customer-touch programs would work with your customers (push, pull, etc.), and what types would not, and how best to develop, implement, and roll-out these programs on a TQM basis in real time.

Another relatively recent development in business, enabled by e-business technology, is outsourcing of nonessential, noncore functions. Ten years ago most businesses were required to maintain a certain traditional infrastructure in support of the core business initiatives. Now, due to technology-based communication and work processes, most noncore functions can be effectively outsourced. This is at once liberating and threatening. Now a business can really focus on its core competency and raise it to new levels; on the other hand, a lot of the structure, processes, and culture developed in support of the core business may now be a liability. What was once a differential advantage, a barrier to entry, a needed but not core competency, can now be effectively outsourced, thus allowing competition from new and perhaps unexpected entrants. A great example is book retailing. Barnes & Noble and Book of the Month Club were blindsided by Amazon.com, which after a few short years is now the largest book retailer in the United States. But wait, Amazon.com has been spending millions to develop a logistics infrastructure in support of its book entailing; the 1999 holiday shopping season saw an explosion of entailing dot-com companies. Are all of these companies building logistics centers? Some are to be sure, but most are outsourcing this aspect of their business to other companies that have this core competency-experts like catalog companies, e.g. Fingerhut. Stay tuned.

For purposes of this discussion all capital resources are either intellectual or monetary in nature. Lets look at monetary capital first. Having deep pockets, and a willingness to spend, can be a big advantage; but not always, as evidenced recently by all of the dot-com commercials on Super Bowl XXXIV. Resources must be viewed not only in the context of how much can be deployed in support of an e-business strategy, but at what cost? What other business initiatives will not be done? Are you utilizing too much of the business cash, equity, loan capacity in the e-business? Will product development, customer satisfaction suffer? Alternatively, lack of monetary resources can thwart an e-business strategy; too little, too late is wasted. Monetary resources are also, to a certain degree, a proxy for time. If time in space is critical, then deep pockets are usually essential; having the resources to purchase the intellectual capital that is needed is critical. Recent examples are Amazon.com, Double-Click, Yahoo!, and others who were first in their space and who are now using their equity capital to purchase other niche players to provide content for their space.

Personnel, human resources, head count, and now intellectual capital, are important. Intellectual capital was always important in the pre-e-world as a factor of production and is now a critical capital resource that must be deployed to differential advantage in the e-business strategy. Make or buy? Does the company have the technologists, IT professionals, creative talent to develop and implement the e-business strategy in-house? Do we burden them with this extra initiative on top of the regular day-to day,or do we take them off-line to work on this? What will not get done as a result of this exercise? Which clients will be unhappy? Will we be too slow to capture our space? Will the extra burden on our people send them for the door? Can we outsource this e-business development, implementation effort, or parts of it? All of the foregoing are important, critical business decisions; answers to these and other people questions will flow from where the e-business strategic initiative fits in the overall business strategy. If the e-business strategy initiative is mission-critical to business survival, you get one set of answers; if the initiative is a necessary future direction for the business but not currently essential, you get another set of answers.

Competitors, what are they doing? Knowing who the existing competitors are and what they are doing is always important. From an e-business strategy perspective this is absolutely critical. Using the example of a manufacturer of a commodity-type product in which customer service is a core competency, if your largest competitor is preparing to roll out a Web-enabled order-entry system that provides customers with complete access to warehouse inventories, order and delivery status, and their account balances, and your e-business strategic initiative is a Web-based brochure, which of you is going to have serious core-business problems? You also need to be aware of potential competition from unfamiliar sources. Looking at Amazon.com, did the retail music business recognize them as a threat? Once Amazon.com began the massive investment in logistics infrastructure, it needed to leverage this investment over multiple business lines. The writing was on the wall. With Amazon.com now also in the retail music business, Columbia House is struggling and Virgin Records has announced they are exiting the business. Stay tuned.

The best way to anticipate your competition in an e-business strategic plan is to know what is currently doable technologywise, what is on the horizon, and to have an understanding of costs and other potential barriers involved. The bottom line is to pay particular attention to those technologies and developments that can impact your core competencies.

D7.04 E-BUSINESS PLANNING

Existing versus new business; SCM, CRM, ERP, ASP, if you do not know these acronyms, learn them. These pithy abbreviations, and others, form the backbone of what is currently taking place in e-business. While providing a reasonable summary of these topics is beyond the scope of this discussion, providing a conceptual framework in which to view these items, in the context of developing an e-business strategy, is the goal of this section. First is the question of the basic business proposition itself: is it an existing business?, a new business?, or a new part of an existing business? Answers, to a large degree, will determine the road we take in developing an e-business strategic plan.

An existing business, while hopefully providing resources and an existing customer base, also contains a traditional business infrastructure, which will undoubtedly influence the e-business decision process. A new business, while perhaps resource-constrained and with an untested business proposition, can be much more adept at adopting the e-business infrastructure advantages since there are fewer embedded interests. Establishing the e-business initiative as a new part, or division, of an existing business is intriguing; the goal is to combine the experience and resources of the core business with the clean slate of a new venture: The best of both worlds. Obstacles can be just as difficult, since ultimately the e-business strategy must integrate with and develop into the existing business. Not a bad short-term solution though, allowing the e-business to develop its legs while continuing to serve customers through existing processes and structures. There will undoubtedly be wasted resources during the development stages, but the migration should be easier. Consider the added costs as migration expense. No easy answers here for the existing business; capital resources should determine the path taken. A new business, resource-constrained although not impeded by an existing business infrastructure, needs to develop a new customer value proposition. No small task in the burgeoning world of dot-coms.

D7.05 E-BUSINESS PLANNING CONCEPTS

In the traditional business model you could safely define your business's customer value proposition (CVP) through a set of recognized and established boxes. Usually government or industry dictated standards (e.g. SIC, NAICS). While never completely comfortable with this business definition, it was relatively straightforward, accepted, and perhaps most importantly, easy to do (e.g. manufacturer, wholesaler, retailer, service provider). This definition was further refined by identifying the products and services offered and the customers served (e.g. equipment supplier to the chemicals industry, tax services to business).

This fill-in-the-box, checkoff, standard definition will not work in e-business. To be successful in the world of e-business you must identify the "real" value you provide to the customer. This is critical because the e-business strategy decisions flow from this exercise. A miss here will send the e-business development plans down a path that will consume critical time, resources, and most importantly, customer goodwill. All this while your competitors develop the appropriate e-business model and take your space. For example, a manufacturer of equipment for the chemical industry might decide that their real value-added is installation and service. In this case, their e-business strategy plan should focus on customer service and installation. Why devote limited e-business resources to manufacturing or procurement efficiencies when this does not enhance your basic customer-value proposition? The customer-value proposition should become the starting point for defining your e-business efforts. The role of the CFO and finance department here is to stimulate and help focus a real strategic planning discussion. Participants must really think about the business and its unique contribution to the customer-value proposition. Incremental sprinkling of e-business resources will not succeed in the long-term.

The phrase "speed in space" is often used in e-business contexts; but isn't this really true of any new industry/product/market? Early adopters capture the customer's initial loyalty and it becomes increasingly more difficult for followers to establish market share and customer loyalty. So, speed in space does provide some of the same traditional barriers to entry for those that follow. It also sets the bar for others in your industry: Meet what we have done or prepare to lose market share. Being a late adapter to the e-business model for your industry can also be a significant drag on the traditional business. As your customers are struggling with their own e-business efforts they want to be dealing with other B2B-savvy companies. Ignore e-business at your own peril. The CFO and finance department should be helping to drive a real-time development and rollout process. Identify the quick hits, low-hanging fruit, etc., then establish short-term goals and deliverables in the context of the overall e-business plan. Schedule periodic updates to the process where the champions get together to evaluate the progress to date, identify external factors that may impact the overall blueprint, adjust the plan as appropriate, reestablish goals and deliverables for the next measurement period, and move on.

D7.06 BRAND CAPITAL

Brand capital, always important to a business, serves to identify you and your products and services in an increasingly cluttered and noisy marketplace. In the world of e-business, brand capital serves the additional critical role of validation. As customer relationships evolve in the virtual world, having a sense of who you are dealing with and what you are purchasing is critical. Brand is a powerful way of assuaging the customer's concerns in transacting e-business. Developing, maintaining, and managing brand capital has become even more critical in the virtual world of e-business. One of the double-edged swords of the enhanced communications provided by the Internet is that the "message," whether positive or negative, can be delivered essentially in real time. As with other channels of communication, the negative message usually travels faster. The role of the finance department is to recognize the enhanced value of brand in the e-business world and to ensure that this valuable asset is properly protected and developed.

D7.07 DIGITAL PLUMBING

Digital plumbing is the infrastructure required to compete in the e-business world, defined for our purposes as all hardware, software, telecom, and other infrastructure investment required to develop an e-business. Another way to look at it would be all nonintellectual capital invested in the e-business venture. In simple terms, if you view the Internet as a marketplace in which you wish to develop a presence or build a business, there are basically a few groups of vendors working the market: Content providers, facilitators, and digital plumbers. In the context of your e-business planning, the digital-plumbing decisions are a significant area for the finance department to contribute in terms of the make-or-buy analysis, own-or-lease decisions, in-house or outsource. Analyzing and assisting in these decisions is a critical function for resource allocation, both intellectual and monetary. Decisions made in this area will have an impact not only on the e-business proposition but on the basic business proposition as well. Critical in this area is vendor validation. With all of the new technologies and firms on the scene, selecting vendors that fit with your organization and can deliver on time and in specification is critical. Finance can play a crucial role in validating your prospective e-business vendors and partners.

D7.08 CHANNEL/INFRASTRUCTURE/COMMUNICATIONS

Channel/infrastructure/communications, what is it? You have developed a multiphased plan for developing an e-business. You are starting with an enhanced customer-relationship management proposition, developing a vertical portal strategy forward to your customers and backward to your vendors. You plan to have a robust presence on the Internet within six months. Your customers will be able to access progressively more information on your products and services and ultimately select and order directly from your secure site. Customers will eventually be able to access their accounts to check on the status of items ordered, shipped, and paid for; all billing and payment will be done electronically. In addition to servicing existing customers, your Web site(s) are also promoting who you are and what you do. Marketing is establishing relationships with other businesses up and down the supply chain, which enhances both your company's and your partners' products and services to each other's customer base; this opens up new avenues and opportunities for all. New customers are finding your Web site and are now establishing accounts and purchasing your products and services. Internal communication is now done almost exclusively on Web-enabled intranets. Salesorder processing is being input in the field or on the Web and goes directly to order fulfillment. The new accounting system is being provided by an ASP and most accounting functions are now being outsourced.

Your e-business can be all of the foregoing and more. The challenge is finding the right fit for your business and developing a progressive, phased strategy that allows your business activities to migrate onto or into Web-enabled technologies at the appropriate time. Recognizing that the influence of the Internet and its underlying technologies are increasing and that business will increasingly be transacted through this medium is the beginning. Implementing these changes into your organization in a manner that allows you to enhance your value to the customer while maintaining a competitive advantage is the deliverable. The CFO and finance department are uniquely positioned to facilitate this transition of business to e-business through their critical thinking and analytical skill sets, familiarity with evolutionary technology, and their ability to focus and maintain a strategic direction in an environment of constant change.

D7.09 ABOUT THE AUTHOR

Christopher W. Frey is President & Managing Director of CFO Solutions, Inc., a financial and business advisory firm that provides Chief Financial Officer services to technology and other high-growth companies (www.cfosolutionsinc.com). Prior to founding CFO Solutions, Inc., Mr. Frey was Chief Financial Officer for the Manufacturing, Retailing & Distribution operations of KPMIG; he has also served as Controller for Grace Cocoa, a global partnership of W.R. Grace & Co., and as a consultant for Price Waterhouse. Mr. Frey has an MBA from Columbia University, a BS from Lehigh University, and is a Certified Public Accountant.