

# Strategic benefits to SMEs from third party web services: An action research analysis

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Accepted 17 July 2006

Available online 14 September 2006

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## Abstract

Prior research provides evidence that large organizations can derive strategic benefits from developing new applications with web services. This research contributes to the literature by demonstrating that small and medium enterprises (SMEs) can derive strategic benefits from using publicly available web services, and that SMEs may be best able to take advantage of the inexpensive, user friendly third party web services that are emerging. In this paper we describe how one small golf retailer used web services to achieve strategic benefits including higher profit margins and better competitive positioning relative to a large competitor. Specifically, action research methods were used to devise and implement an innovative strategy for applying the web services offered by eBay in tandem with web services offered by related third party companies. The business and IT strategies, first year results, and key success factors are described followed by a discussion of the generalizability of the strategies employed. In conclusion, possible directions for future research are discussed.

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*Keywords:* Web services; Third party; SME; eBay; Action research

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## 1. Introduction

Many large e-businesses have begun offering web services that allow trading partners of all sizes to access various data sources and applications. For example, Amazon, Google,

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and eBay offer either free or inexpensive developer kits that include standard web service APIs, demonstration applications and code as well as complete instructions for connecting to general data sources or specific account information. In addition, a number of new third party web service companies have emerged, offering tools that work in conjunction with the web services of the larger e-businesses to support activities such as data mining and sales assistance.

These offerings present a window of strategic opportunity for small and medium enterprises (SMEs). Small budgets and limited technical expertise have historically been barriers to SMEs interested in IT-enabled business strategies, but emerging web service offerings provide inexpensive, user friendly access to information for all organizations, including SMEs. While prior research provides evidence that large organizations can derive strategic benefits from developing new applications with web services, this research contributes to the literature by demonstrating that SMEs can derive strategic benefits from simply using publicly available web services, and that SMEs may be best able to take advantage of the inexpensive, user friendly third party web services that are emerging.

In this study, action research methods were used to devise and implement an innovative strategy for applying the web services offered by eBay in tandem with web services offered by related third party companies for a small golf retail and service company, Golf Masters. Golf Masters is a privately owned golf retail and service company and has operated since 2000 in its present location. It serves a local market with a variety of golf-related products and services. Annual revenues approximate \$1 million, with retail sales generating 30% of the revenues and services such as golf lessons, repair, and maintenance of golf equipment, and operation of a private Golf Club and indoor golf facility generating the remaining 70% of revenues. In 2003, a major golf-specialty chain-store opened a 24,000 sq. ft. retail space within 1/2 mile of Golf Masters' store. This competitor threatened to reduce Golf Masters' retail revenues by drawing customers and repeat business away.

How Golf Masters used the publicly available web services of eBay and related third parties to meet this competitive challenge is described in the remainder of the paper. Golf Masters' innovative strategies, first year results, and key success factors are presented in this paper followed by a discussion of the generalizability of the strategies employed to other SMEs, including discussion of some reasons why these specific strategies may not work for large companies. We conclude with some possible directions for future research.

## **2. Literature review**

Lessons learned from prior research on strategic investment in information technology (IT) and from prior research on SME investment in IT form the theoretical foundation for this research. The literature on strategic investment in information technology is extensive. Two areas particularly relevant to this research effort are studies on IT-enabled business strategies and research on the valuation of IT investments. After a discussion of relevant research from these areas, a summary of how this study fits with prior literature is presented.

### *2.1. IT-enabled business strategies*

A steady stream of research on IT-enabled business strategies has been produced since the 1980s, in part because the information technologies employed have changed rapidly in

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