



## An electronic commerce strategic typology: insights from case studies

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### Abstract

Growth in electronic commerce (EC) continues to exceed growth rates in traditional markets and continues to offer new and different opportunities than traditional businesses. Its failures, however, suggest that many firms are not following successful strategies and have failed to align their EC strategies with business strategies. Observing practices at 12 companies provided insight into the impact of EC alignment on organizational profitability. A framework for its strategy types, derived from the Miles and Snow typology, was found to be useful in examining the strategic practices of the companies and results were generally consistent with the ideal profiles. Data suggested that companies with medium to high alignment exhibited higher planning formality and were more profitable. Analyzers displayed the highest alignment and online commitment. Both analyzers and prospectors had high profitability but prospectors displayed low alignment. Reactors exhibited the lowest alignment and were the least profitable.

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### 1. Introduction

Following the economic downturn from 2000 resulting in loss of venture capital and increased investor apprehension, management adopted a more rational and cautious perspective towards e-business investment. Despite tremendous losses, both business-to-consumer (B2C) and business-to-business (B2B) electronic commerce (EC) continue to expand at rates

in excess of their traditional counterparts. The primary question facing managers today is not whether EC investments are worthwhile, but how to best manage the investments to increase returns.

In a recent analysis of CEO letters to shareholders, it was concluded that EC performance can be improved by emphasizing it in business strategies and that failure to integrate EC and business strategies decreased the likelihood of success [3]. In a survey conducted by the London Business School [4], two-thirds of responding CEOs stated that their companies had separate EC strategies.

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Aligning EC strategies with business strategies—that is, applying proven business approaches and achieving consistency in terms of future direction—has the potential to increase returns on EC investments. At the same time, the online business can reflect the unique opportunities offered by the electronic marketplace and create organizational synergies. There is general agreement that proper alignment is critical to strategic IT success, yet little is known about the implications of EC alignment. A recent review of the literature showed that less than 10% of 275 articles on EC-related topics took strategy into consideration and that none addressed alignment issues [22].

Three streams of research are available for deriving prescriptive approaches to strategic alignment: surveys of alignment practices; case studies; and conceptual studies [17]. Using a combination of the case and survey approaches, this study examined EC strategic behaviors adopted by various organizations. The theoretical background provided is that proposed by Miles and Snow [18]. The study attempted to answer two research questions:

1. How does EC alignment affect organizational profitability?
2. Are formal planning mechanisms more likely to support EC alignment?

Another purpose was to develop a framework of EC typologies that could be used to evaluate EC strategic behavior.

## 2. Theoretical background and propositions

### 2.1. Strategy

Goldsmith [9] was one of the first to suggest that information technology (IT) strategies should be developed using business strategy techniques. This is especially true when IT strategies are driven by business strategies, which are identified according to their textual, multivariate, or typological approaches [10,12,19]. A number of typologies have used broad, generic categorizations that encompass most industries to examine organizational strategies [1,23]. Of these, the best known is the Miles and Snow model,

which has been empirically examined and shown to be rigorous [26]. Extensive and diverse use has established its codification and prediction strengths [13,29].

Their typology identifies four strategy types: prospector, defender, analyzer, or reactor. Firms select a particular strategy to match their conditions:

- *Prospectors* are considered innovators and market leaders; they accept higher risk levels and are more willing to invest in new technologies and to explore new markets. Their planning methods are broader and more exploratory, which matches their need to identify technologies and markets with greater potential for growth. This may entail disrupting markets and taking advantage of the resulting turbulence. Prospector success requires differentiation and flexible organizational structures that reflect changing markets. Informal planning mechanisms support the need for agility and adaptability.
- *Defenders* are associated with stable and established market niches. Relying on the trust and loyalty of a solid customer base, they emphasize quality and cost leadership by exploiting existing technologies and are not likely to invest in basic research or take risks. Defenders use formal planning mechanisms and are adept at modifying proven strategies and maintaining alignment.
- *Analyzers* combine the best qualities of prospectors and defenders. Considered opportunistic, they rely on research, quickly examine special opportunities, and accept risks that are commensurate with the expected outcomes of adopted strategies. Analyzers depend on well-formed strategies to minimize risk and to leverage existing technologies at the same time that they search for new ones. Stable product lines with acceptable quality–price ratios are exploited using formal planning approaches common to established markets. In turbulent markets, they use informal, adaptive strategies to create alignment.
- *Reactors*, generally considered the least successful, pursue strategies that actually impede business performance. They often recognize change but rely on formal planning methods that have failed to keep pace with evolving environments. Their failures are frequently tied to miscalculations of environmental

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