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E-services: operating strategy—a case study and a method for analyzing operational benefits

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Abstract

The Internet's influence in creating e-services has been revolutionary for providers and their customers. Unfortunately, there has been a wide gap between inspiring applications of the Internet that help increase service customization while maintaining or even improving delivery efficiency, and downright flops in which companies that have made bold promises have failed to deliver on even a portion of their pledges. This paper provides an examination of e-services utilizing three approaches in order to provide guidance on how to fly rather than flop. First, we develop a model of the e-service customer retention. Second, we offer a case study of Sothebys.com to illustrate how a well-known, but not typically technologically adventurous, company can utilize e-services to expand its offerings and streamline its services. Finally, we offer a profiling technique for analyzing the benefits and challenges of e-services for particular industries.

Keywords: E-services; Operations strategy; Internet services

1. Introduction

Despite the fact that the Internet has been around since the 1960s, it was only a decade ago that the World Wide Web was born as a second segment of cyberspace. Only in the mid-1990s, when a flurry of Internet service providers began offerings of dial-up access, did e-services become widely available to mass consumers. In this paper, we will define e-services as being "comprised of all interactive services that are delivered on the Internet using advanced telecommunications, information, and multimedia technologies." Clearly, the Internet's influence in creating e-services has been revolutionary for providers and their customers. This paper examines e-services utilizing three approaches. First, we employ a model of e-service customer retention. Second, we offer a case study of Sothebys.com to illustrate how a well-known, but not typically technologically adventurous, company can utilize e-services to expand its offerings and streamline its services. Finally, we offer a basic methodology for analyzing the benefits and challenges of e-services for particular industries. This profiling method borrows from the product profiling method developed by Terry Hill for use in operations strategy (Hill, 1989).

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E-services provide a unique opportunity for businesses to offer new models for service design strategies and new service development. First, all service providers, whether they are traditional 'brick-and-mortar' or pure Internet players, now have more delivery channel options for competing. Second, many new services can be offered more economically with both greater geographic reach and product variety. Yet, to date there have been very conflicting results in e-services. Some services, such as airlines (Southwest Airlines, www.iflyswa.com, with online ticketing), stock trading (www.schwab.com) and office supplies retailers (Office Depot sold US$ 850 million of goods online in 2000) have seized the benefits from the Internet revolution, while others have seemingly spun their wheels by spending millions without improving delivery or cost. Clearly, not all e-services have lived up to their billing: stories of e-service failures are rampant. Service startups have been hit hard by the harsh realities of competition, as have many of the traditional players that were not able to fully leverage the Internet. In early 2001, the crash of Internet pure players was significant and gathering force, with 210 companies having closed shop, with other notables such as Webvan soon following suit (Mullaney, 2001). Online customers are extremely finicky when services do not match their expectations. So much, so that, numerous companies learned (often the hard way) that e-service is less about hype and more about delivering to promise—in more interactive, convenient and personal ways. Robert Mann of Accenture Consulting in Atlanta reported that e-tailers did somewhat better at fulfilling orders during the 2000 holiday season than in the chaotic 1999 holiday season, with 92% of online purchases rated by customers as successful, compared with 25% failure rates from the previous year (Robert Mann of Accenture, 2000).

While there are a number of ways, in which bad business models can be separated from good ones, we argue that delivering effective e-services is not as simple as waving a magic wand; instead e-services must be carefully planned and implemented in order for e-services to become a valuable and strategic channel. One irony of providing e-services is this: as many companies have jazzed up their websites so customers can have instant access to services and as technology has become more powerful, the more complicated it has become to customers. Yet, one of the biggest challenges of e-services is balancing the greater customization possible (which typically results in more complex websites) with a simple, accessible and easy to use web interface (Meister et al., 2000).

In this research, we provide some conceptual frameworks for advancing research and practice in e-service operations strategy. Developing conceptual frameworks is an important first step in the gradual process of theory building and theory testing (Glaser and Strauss, 1967). To date, there has been little rigorous development of conceptual frameworks and almost no empirical testing of such frameworks. While there are thousands and thousands of articles about electronic commerce, the vast majority of these articles are very shallow, primarily hype-oriented and lacking in theoretical or empirical justification. Therefore, we seek to develop a more grounded and rigorously developed set of frameworks for future validation and refinement. In particular, we show how two dominant paradigms of service operations strategy can be adapted to e-services. The first of these extends Heskett et al. (1997) concept of Service Profit Chains to develop an E-Services Customer Retention Model that links marketing and operations strategies to e-loyalty. The second model, building on the Huete and Roth (1988) product–process matrix for services, indicates that a third dimension of *proximity* provides a useful complement for conceptualizing e-services. The resulting product–process–proximity (or P^3) matrix provides a conceptual foundation for understanding the added complexity of delivering world-class services in a multiple channel environment.

2. Towards an E-Services Customer Retention Model

Customer loyalty and retention is a qualitative indicator of profitability in services. As little as 5% increase in customer retention has been shown to improve bottom line profitability by 25–95% (Heskett et al., 1997). So, it is not surprising that e-loyalty has been found to be a critical, albeit intangible, economic asset in e-services. Reichheld and Schefter (2000) found that attracting new customers in pure play Internet businesses was up to 40% more difficult than in traditional brick-and-mortar services.