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Teaching Case

GlobePort faces Challenges in its eCommerce Transformation

Biswadip Ghosh
bghosh@msudenver.edu
Computer Information Systems
Metropolitan State University of Denver
Denver, Colorado 80217, USA

Abstract

As more and more retailers are facing competitive pressure from internet sales, it has become imperative for them to have a relevant and functional eCommerce site. Increasingly, consumers are using the internet to make purchases instead of at traditional brick and mortar stores. Large retailers like Amazon and Walmart have been able to use their economies of scale to expand internet business using IT, keep prices low for consumers and making shopping easier than ever over the internet. GlobePort, a nationwide sporting goods retailer with 200+ locations and $1+ billion in annual revenues and $100+ million in profits, recognized this, and had established an eCommerce site using an outsourced IT provider. Recently, GlobePort executives had begun to take steps to expand their lagging eCommerce sales. As they tried to improve their eCommerce site, they ran into problems because it was under a long-term outsourcing contract. The primary question posed in this case is should GlobePort sever their outsourcing contract and bring their eCommerce platform in-house? Secondly, how would they manage this internally? This change would require a new IT department, additional staff and teamwork throughout the organization. More importantly, this would lead to changes in operational business processes, require integration of knowledge across their traditional organizational silos and addressing of several strategic questions so that both electronic and brick and mortar channels worked seamlessly.

Keywords: IT Infrastructure, eCommerce, Knowledge Management, Customer Relationship Management

1. INTRODUCTION

GlobePort was locked into a 10 year contract with an eBay subsidiary who managed their online platform. Although the site had been up and running for over 5 years, GolobePort's board of directors saw the potential for more internet sales revenues/profits than what their current eCommerce site was delivering. The retailer questioned their lack of profitability and poor inventory management on the eCommerce side of the business. There were many issues stemming from the outsourcing of the eCommerce platform. It would take several days to make changes to the website and communicating with the eBay subsidiary was very difficult. Multiple parties would need to get involved to make routine changes such as implementing a marketing campaign or even a product price change. A simple price change would take a minimum of 24 hours, which did not allow for quick reaction. One Black Friday a pair of boots was mistakenly prices at .01. The site sold out of 5,000 pairs resulting in a loss $45,000 and a potential revenue loss of $100,000. This was unacceptable to senior management of GlobePort.

The eCommerce hosting contract with the eBay subsidiary had been going for over half a decade. However, in the last few years eBay had branched out and now had several different companies that

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offered the same type of products as GlobePort. However, GlobePort had never established a contract clause that would restrict eBay from offering similar products from competing companies. As eBay brings more resellers on board, when a purchase is made, the product is sold based on availability, price, and shipping costs. Essentially GlobePort now only has a 20% chance (1 of 5 companies currently selling thru the eBay eCommerce site) of completing the transaction in any situation.

GlobePort has always based their brand on not being the lowest price provider, but rather being the most reliable customer service focused retailer. “We cover a majority of the shipping costs, and we have a no questions asked process of making any situation right and an upfront return policy”, thought Joe Miller, CEO of GlobePort. However, first-time, price conscious customers were not able to understand the value of GlobePort’s excellent customer service. When making a purchase, most consumers were always going to go with the vendor that gave them the lowest cost per item. This clearly left GlobePort with reduced sales from competing with companies that are literally eroding their own profits to gain a sale.

2. BACKGROUND INFORMATION

As Joe Miller stated "We will not engage in a price war to increase sales. We will continue to win over customers because of our superior customer service and dedication to excellence". A perfect example recently happened where a competing company went into bankruptcy after offering 25% off any order. They did this to gain new customers with the assumption that they would gain some sort of customer loyalty. Unfortunately, most customers are only loyal to the lowest price and they moved on to the next vendor, when the discount was no longer being offered. The vendors competed away their entire profit margin in a futile attempt to gain business.

eBay also controlled what items were listed on the website and included many items that GlobePort did not carry in their brick and mortar stores. Items such as stuffed animals and hardware tools would be shown and was diluting the GlobePort brand image. eBay also controlled much of the inventory that GlobePort was allowed to sell from and they could not sell from their brick and mortar inventory. GlobePort began to see that the eCommerce sales were also cannibalizing brick and mortar sales from their physical stores and the IT middleman, eBay, was profiting from this transformation.

GlobePort was only earning 8% of their sales revenue from eCommerce and 2% from mobile site sales. On average, other sporting goods retailers were earning 18% of their net revenues from the eCommerce channel. The board members were all presented the chart in Figure 1, which demonstrated that the sporting goods industry is growing especially in the eCommerce market. It was evident that GlobePort was not keeping up with competitors and was losing its customer base.

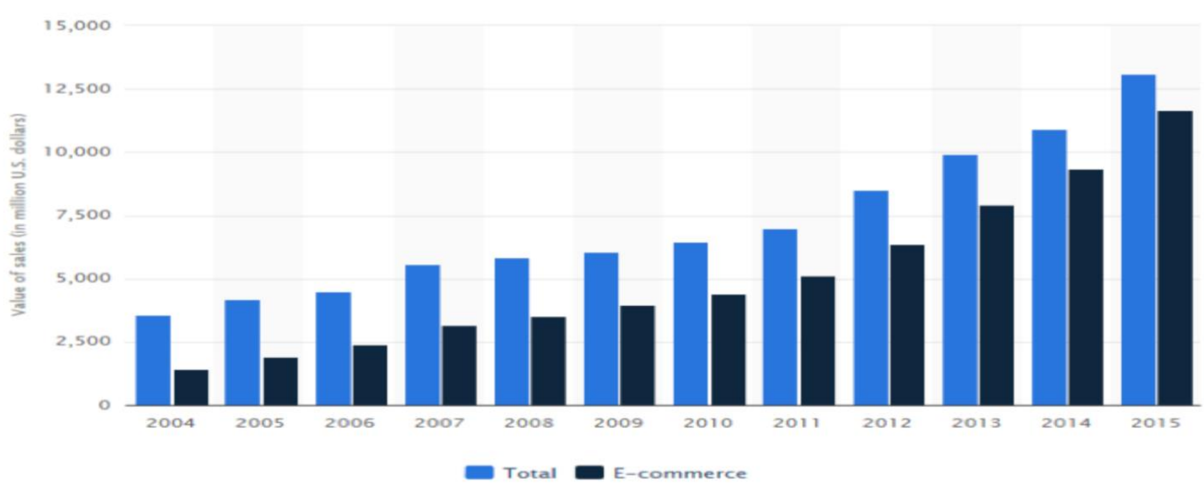

Figure 1. US online and mail-order sales of sporting goods 2004-2015

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GlobePort's Board of Directors knew it was time for a change. Half way through their 10 year outsourcing contract, they decided to break their eCommerce agreement with eBay and pay a $35 million fine (based on forfeiture of site hosting discounts and commissions on projected transactions that eBay would not earn over the next 4+ years), so that they could bring their eCommerce platform in-house and get better control over it.

Joe Miller, the CEO of GlobePort, did not feel comfortable bringing the platform in house from the beginning. He had been in the sporting goods industry for 30 years but had very limited technology experience. He had been pressured by the board of directors to make a change due to the stagnation of their eCommerce business and declining sales for the last several years in spite of the overall growth in the sporting goods retail industry. In the last board meeting one of the directors brought in sales figures from a competitor. The competitor was earning 18% of their sales from eCommerce and 5% from mobile site sales, compared to the 8% and 2% respectively for GlobePort. The GlobePort board was convinced that a 10% year over year sales growth in the eCommerce channel was possible without cannibalizing brick and mortar sales. That would allow GlobePort to target 14% revenues from eCommerce in 5 years. The 40% profit margin was much higher for eCommerce sales compared to 15% for brick and mortar sales.

At the strong urging of the Board, Joe Miller agreed to tackle their eCommerce site problems (Nolan and McFarlan, 2005). He knew that eBay would press for stiffer terms if they tried to renegotiate the contract midstream. Achieving significant growth in eCommerce sales revenue in this scenario would also be very difficult. The best option was bringing the platform in house and organizing a department to manage everything from the website, pricing, inventory and integration with brick and mortar stores. Joe Miller, the CEO of GlobePort, thought it would be best to run everything under the CIO, Cory Williams (Figure 2). Cory knew that building a new department to setup and support a major eCommerce site would not be easy. GlobePort's sporting goods business displayed seasonal fluctuations, regional spikes, multiple inventory zones and wide variation in product and supplier mix by each brick and mortar location. He knew that the eCommerce site would need to be on a cloud platform, such as AWS (Amazon Cloud), so that computing capacity could be dynamically administered. Finding IT talent, who understood their business model and could also work with AWS technology was not trivial. He looked for potential employees who had previous experience hosting a website and started to assemble AWS skillsets. Cory quickly estimated that developing and deploying the eCommerce site would be a $20 million dollar project. Operating the site on AWS would cost $3-5 million a year based on customer transaction volumes in addition to the salaries of the one dozen IT staffers that would be added to the eCommerce department.

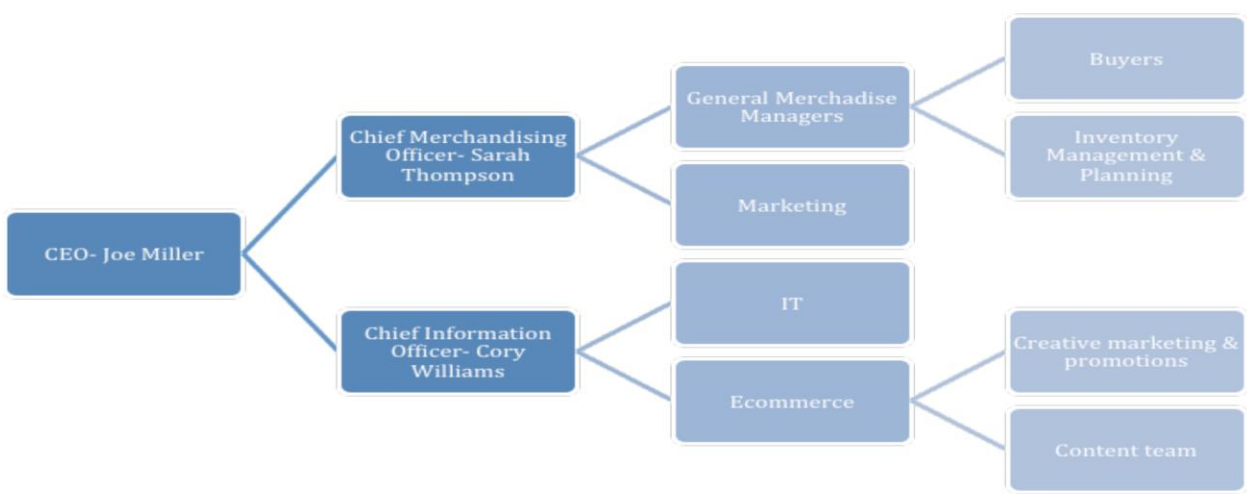

Figure 2. GlobePort Sports Company Organization Chart

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Included in Joe's announcement was his plans for the new eCommerce portion of the business and new organization chart (Figure 2). However, Cory did not initially address how this transformation supported their overall organizational strategy. How would the new expansion in eCommerce play alongside their brick and mortar strategy? Many of the buyers and merchandisers left the announcement meeting feeling excited but confused about what would happen going forward. Who would decide what was on the website? How would it come out of their product inventory and be fulfilled by the brick and mortars? How would all this figure into their own operational processes?

IT & Business Policy Issues

The next several months the IT and eCommerce teams worked on integrating the website platform into the business and taking over from eBay. One of GlobePort's existing warehouses was turned into a specific eCommerce fulfillment center. The new warehouse would store and fulfill additional inventory.

The next buying season was ramping up for spring season sporting goods. Traditionally the buyers were given a brick and mortar budget that they could spend on their department's goods. The buyers would plan the season's purchases working with inventory management and planning. This information would then be approved by the general merchandise managers and disseminated to marketing so they could plan promotions. However, this next buying season would be the first that buyers were given additional budget to purchase for the eCommerce site. Very little direction was given regarding strategy. Cory Williams put pressure on the chief merchandising officer Sarah Thompson to have her teams purchase enough to have a successful season. Cory said that this was an opportunity to expand their selections and offer more colors, sizes and products, that may have been considered risky before. Sarah told Cory the buyers were complaining that they still did not have enough budget to purchase a full eCommerce assortment.

Sarah was also requesting forecasting models specifically for eCommerce sales. Cory told Sarah that her team would have to forecast based on last year's eCommerce sales, which they had access to. There was no time for the buyers to work with the eCommerce team, so they had very little interaction before the new site would go live. It was a rush to get everything up and running.

Figure 3: GlobePort's Interactive Dashboard

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3. CURRENT SITUATION

As the first full season of the integrated business model kicked off, executives requested daily reporting in a dashboard to quickly read facts. They requested eCommerce specific sales data broken down by supplier. Executives also requested in-depth inventory analysis with forecasting. Since the eCommerce sales could be fulfilled from the brick and mortar inventory it was important to be on top of fluctuations in inventory and sharing knowledge and operational business results between these two channels. Cory had his IT team build a dashboard that would query and run fresh data every morning and a link to it would be emailed to the executives. Figure 3 is an example of the dashboard created.

Problems quickly started to mount as the season kicked in. First there was a big discrepancy between what brick and mortar stores were carrying versus the online platform. The marketing department would be running one advertisement in print and the creative marketing department another online. There was no consistency for customers. The content team, which was responsible for data integrity, had product descriptions and pricing incorrect on items causing major suppliers to get upset and claim that GlobePort had violated contract agreements.

Employees and customers started to report issues with product being shown on the website, stating it was available in-store, but the item was not carried in "that" store. Cory started scrolling through items on the website and noticed all items said available in-store, but that was not possible. After reviewing dashboard results, executives commented that eCommerce sales were present but inventory was not declining as expected. Executives also noticed some key suppliers missing from the reports.

Then the inventory management team started to describe discrepancies in sales and inventory. When online sales were fulfilled from a store location, it was not being taken out of the store's inventory. Cory met with the head of his eCommerce and IT team and realized a huge problem. They had not fully integrated the inventory management system; partially because they never met with that team. Cory put his IT team into crisis mode, but they told him it would take several months to fix the system issues.

This was just the beginning of the customer complaints. Before the buyers had only worked with their own inventory management teams. But the company had failed in involving the content team in much needed discussion and meetings. There were now two big chunks of the business, instead of the omni-channel supply chain model that GlobePort's Board, Joe Miller and Cory Williams were trying to achieve.

4. ADDITIONAL BUSINESS CHALLENGES

When strategic systems are outsourced to a vendor, core processes in the primary value chain of the client (such as sales/inventory or supply chain management) become the responsibiity of the vendor. When these systems are brought back in-house, complex and customized enterprise systems need to be deployed across their business to support these core processes (Carmel and Agarwal, 2002). While modularized tools and procedures can easily support non-core processes such as human resources or benefits management (Lacity and Willcocks, 1998), supporting core processes often require differentiated procedures and the integration of tacit knowledge from multiple stakeholders and departments to run effectively. Extensive tacit knowledge needs to be utilized in the case of complex, multi-channel (internet and brick and mortar) sales and marketing processes such as what GlobePort corporate needed to operationaize in their eCommerce transformation project. This tacit knowledge could be situated among any of multiple stakeholders on either the client or the brick and mortar side. Specifically, product knowledge might reside with GlobePort, while local customer and supply chain knowledge resided with the brick and mortar store(s). Such dispersion of business knowledge necessitated the need for a knowledge management/sharing system (KMS) as well in additon to the eCommerce system.

Knowledge exchanges could be required for several situations, such as: (1) addressing unexpected situations when codified explicit knowledge (in the IT system) does not exist to handle an emergent business operational issue, (2) learning to understand the complexity and interdependency of various market scenarios – ie, becoming fully mindful of the undocumented "ripple effect" of various marketing approaches and nuances of each product's features/capabilities. In both cases, interorganizational knowledge manmagement systems (KMS) are needed to complement the redesigned eCommerce platform and support tacit knowledge sharing to allow the business processes to run efficiently.

As Sarah became aware of the diffciulties, she stated - "Our business goals were to improve the service experience of our customers, while at the same time inprove our profitability for our product lines. In our dynamic multi-channel environment, new market developments occurred hourly. It is impossible to get that knowledge to all the stakeholders through the eCommerce system."

Board members started to question Joe Miller about the lack of results. Joe also doubted the board's decision to bring their eCommerce platform inhouse, "this was a bad idea as we were not in the technology business but rather in the sporting goods business". He had to pay money to break their outsourcing contract and their new IT systems have put the company in a worse situation. In addition, GlobePort is now faced with several difficult scenarios. Revenues are also quietly diminishing and competition is increasing. However, their business plan has always been sound. Joe Miller stated - "We are not going to lower our profits for a short-term gain by selling our items at a discounted price. Our biggest revenue generator is still the brick and mortar presence we have. We are not getting as many orders because we are not the lowest priced provider. As many customers as we lose, we actually get back more, because the other companies do not provide the same quality of customer service. But there is always going to be those consumers that will use a competitor because of a lower price. Those consumers need to look out for their own best interests. Once a problem occurs those same consumers return, because they understand the value that we provide. The problem is that we only get customers back once they experience a problem (with another competitor), that we handle routinely for them".

5. OPTIONS TO PURSUE

There are options to increase these lost sales. One way was to integrate local presence into the global eCommerce system. Along with changes to business processes to integrate knowledge in a timely fashion, new information technology has to be developed that allows all business stakeholders to weigh their options based off of changing market conditions. Currently the eCommerce platform only considers what it can sell and execute in a transaction. Since GlobePort is no longer purchasing their eCommerce technology there are a lot of different things that they can now work on to achieve a tighter integration and sharing of knowledge among their business stakeholders. However, changing the very basis of the sales and marketing process is going to be a costly endeavor.

Joe Miller was always able to come up with ideas to stay ahead of the trends. He realized that he needed to get the company on a Knowledge Management system (KMS) to help with the tacit knowledge sharing and build customer histories that will allow them to provide the best product sales prices as well as the most effective service. However, Cory Williams knew that implementing an eCommerce enterprise system (ES) together with a KMS of that magnitude needed careful analysis and planning of organizational impacts. Although companies can spend a large amount of their IT budgets on ES projects, a significant proportion of ES projects do not succeed (Nguyen and Mutum, 2012).

6. SYSTEMS CHANGE MANAGEMENT

In addition to the technology selection, the organization dimensions are very important for capturing the complexity of ES implementations (Pozza, Goetz and Sahut, 2018). When companies need to adopt new mission critical enterprise systems like eCommerce and knowledge management, they need to identify and speak with numerous stakeholders to not only discern pricing, but to determine what can and cannot be done within the established systems implementation plan (Wagner and Piccoli, 2007). Stakeholders will come up with ideas about what options they need in the enterprise system to be able to accomplish their plans and business processes. The implementation team needs to figure out how best to manage these stakeholder's needs and try and make sure the software allows for it. GlobePort also had to worry about training brick and mortar store personnel on the new systems. Joe knew that this is where a lot of trouble was going to originate during the system implementation.

Orders of Change Management

Assessing the orders of change revolve around impacts caused to the basic structure of the company (O'Hara, Watson and Kavan, 1999). A first order change leverages a new software to maintain the basic structure and culture of a company. An example of this would be changing out an account management system, which utilizes paper or electronic interface, to a fully digital environment, which utilizes and leverages network or cloud storage. This change does not

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inherently require users to change the way they do their work,, but does require them to change how they interface with their work. It is realistic that a user could maintain most of the same routines of doing their work.

However, a second order change incorporates a more disruptive effect to the company. This sort of change requires users to not only change the "how" of their work behavior but also the more immediate "why". One example of a second order change would be automation and online book sales. Previously the skillset for book-sellers was to be knowledgeable of where and what a book was. But with an automation of that scale, the salesperson becomes not only a sales individual, whose knowledge of the book or location is useful, but further they have to become a facilitator of the new system to the customer as their knowledge of the product is not so important as their ability to find and access the data about the product. In this way their job description goes from "retail sales" to "retail sales and facilitator".

Finally, a third order change incorporates the most disruptive behaviors to affect a company's structure. The nature of this change is that employees and the company both alter their viewpoint. An example of third order change is Kodak and their change from a one-dimensional producer of film to a digital producer of film and content. In the "old" version of Kodak they produced film, which was used by multiple media houses for various formats of media - film, B&W, color, art, practical. At no point however, did Kodak engage in the content on anything other than a method to provide it to the end-user/customer. During its relatively failed attempt to make a third order change from paper to digital there were growing pains and rejection - many employees saw little need of a "soul-less" digital media and fought the change, while those who embraced the cutting edge considered these people Luddites.

7. CASE STUDY QUESTIONS

Joe Miller realized that if the appropriate order of change was not recognized, planned and addressed during the eCommerce/Knowledge system implementation, problems would quickly mount. Stakeholders had already started to report issues with inventory being shown on their reports but not updated online.

While the decision to end the eCommerce outsourcing contract was already made, several other issues loomed large for Joe Miller. Situations are going to arise where GlobePort's product offerings were not always the top choice, even in this new IT infrastructure. How does GlobePort succeed and thrive without discounting their inventory and undercutting their own profits? They would have to enhance their systems, market offers and business processes at the customer touch points to show the full value that they offer. This value is not always going to be in the form of a lower price, but in the services and bundles that they offer with their products.

The board thought that bringing the eCommerce platform in house would be easy to achieve and lead to better strategic and operational results. While it may seem simple, Joe knew that there would be issues when the new software allowed things that his current system didn't support and vice versa (Hammer, 2004). He would need to break down the silos in which they currently operated their lines of businesses. Integration of knowledge, processes and technologies is going to be needed from multiple stakeholders for this eCommerce transformation project to succeed. A knowledge sharing system is the basis for competitive advantage under dynamic market conditions (Grant, 1996). And in some cases, things are going to change in business processes and these changes need to happen very quickly to keep the company growing in this dynamic marketplace. Joe is going to be tested on what his company's software team is capable of delivering and how it can address the challenging management issues (Comuzzi and Parhizkar, 2017).

After analyzing the situation posed in the case study, answer the following questions.

1. What role and responsibility did Joe Miller play in the case? What could he have done better?
2. Cory Williams created a whole new department to support the website, what other suggestions would you recommend when bringing the eCommerce site in house? Why?
3. What level of change is required to integrate the eCommerce platform? Justify your answer.
4. It seems GlobePort missed the boat on creating value out of using IT, what should have changed in value appropriation once they brought their eCommerce site in house?
5. Did GlobePort have a customer data strategy? How could data have played into their strategy?

6. As an outside consultant, how would you help GlobePort move forward from here? Justify your recommendations to GlobePort.

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