EXTENDING CHAKRAVARTHY’S STRATEGY FRAMEWORK TO COPE WITH CONSTRAINED AND UNSTABLE ENVIRONMENTS: IMITATIVE CATCHING-UP E-COMMERCE AT PATAGON.COM

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ABSTRACT

Most of the extant electronic commerce models implicitly assume a developed country environment that is technologically advanced and information rich, with a stable, nondisruptive political and economic climate that favors free markets, and with unconstrained access to technological, financial, and human resources. Unfortunately, these are not features found in most less-developed country environments.

This study empirically analyzes the history of Patagon.com, a pioneer in Latin American Internet-based financial services. Its primary contribution is to extend Chakravarthy’s strategy framework for coping with turbulence to conceptualizing imitative catch-up electronic commerce strategy in constrained and unstable environments, such as those in less-developed countries. The case analysis also suggests some practical implications that should help to better understand how organizations that are not pioneers of novel breakthroughs in developed countries can participate in electronic commerce.

Keywords: international information systems, electronic commerce strategy, electronic commerce in less-developed countries, case study
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Electronic commerce is like a Tsunami, which is a huge wave that sometimes 
appears in the seas of Japan. You can understand that it’s coming and try to 
catch it at a safe point or try to find a safe harbor. What you can never do is 
pretend it doesn’t exist, because then it will hit you hard.

Eduardo Da Costa, president of Nest Boston
Buenos Aires Herald, September 13, 1999

I. INTRODUCTION

The potential of the Internet and its associated technologies to enable global electronic 
commerce (EC)\(^1\) has been widely documented in both scholarly [2]-[6] and trade publications 
[7]-[10]. A primary emphasis in most discussions of EC is the scope of the Internet and the lower 
cost of reaching consumers throughout the world (e.g., Amazon.com, which did not exist four 
years ago, now sells books in more than 150 countries). The rhetoric of global markets has 
persuaded companies worldwide to go online [11]. The reality, however, differs a great deal 
depending on what part of the world we consider. According to a recent study conducted by the 
Inter-American Development Bank, the greatest volume of EC is now located in the United 
States, where more than 75 percent of all EC takes place [12]. Europe generates more than 20 
percent of total electronic transactions; the rest of the world accounts for less than five percent. 
For EC to reap the expected benefits, it needs to bridge gaps rather than further divide the global 
economy into information-rich and information-poor peoples.

New models of EC are starting to appear as the current practices (e.g., business-to-
customer, within-a-business, and business-to-business) evolve, driven by new capabilities and 
new demands. These models emphasize that the value-adding steps in EC are performed through 
and with information. In this virtual marketspace, information is captured and used to improve 
internal operations, to develop more detailed and timely understanding of market dynamics, and 
to fine-tune both their product line and price to continuously drive customer expectations to 
higher levels [13]. In the past, the primary resources that were typically used to gain competitive

\(^1\) EC is taken here to include all stages in an economic exchange—search and evaluation before purchase, ordering and delivery during purchase, 
and service after purchase [1].
advantage were tangible and intangible assets, which are difficult to either procure or imitate. In contrast, in EC, the resources that give a firm competitive advantage are its information, know-how, and skills. And since intangible assets degrade quickly in rapidly changing Internet markets, they must be built in “Internet time.” Most of the extant models, however, implicitly assume a developed country environment that is technologically advanced and information rich, with a stable, nondisruptive political and economic climate that favors free markets, and with unconstrained access to technological, financial, and human resources. Unfortunately, these are not features found in most less-developed country (LDC) environments. In fact, many of the “new” capabilities required to harness the economic value of information—abstract thinking, intellectual skills, and know-how—are very scarce in the vast majority of LDCs.

In the spirit of beginning to investigate EC in constrained and unstable environments, such as those in LDCs, this article presents an in-depth field study of Patagon.com, a pioneer in Latin American Internet-based financial services. Founded in Argentina in January 1998, Patagon.com entered the market when niche Internet financial service firms were emerging daily in the United States, but no local or regional company had as yet laid claim to Latin American online trading. At the time, Argentina was suffering from high instability in its telecommunications and financial industries, and local market conditions did not support an immediate demand for EC in general or for online trading specifically. Initially, Patagon.com learned from the successes and failures of its U.S. predecessors and from reverse engineering (i.e., copying components from various sources for online products and services). But the firm was more than just an imitator; unique to Patagon.com’s strategy was its recognition of strong Latin American cultural commonalities in language, sociology, and behavior, balanced with a full recognition that people

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2 In November 1990, ENTel, the Argentine state-owned telecom company, was privatized into two companies: Telecom Argentina (with Telecom France as a majority shareholder, which was assigned the northern half of the country) and Telefónica de Argentina (with Telefónica from Spain as the major shareholder, covering the southern half of the country). These companies were granted temporary monopolies over basic voice telephony in their respective territories. The telcos’ monopolies were scheduled to end on November 8, 1999, when the Argentine government was to award two additional licenses for the provision of local, long-distance, and international voice services. One year later, three other licenses are to be granted for the provision of local, long-distance, and international services. And by November 2001 the international telephone services are to be totally liberalized.

3 The Asian markets’ slump in 1997 and the Russian default and Brazilian economic crisis in 1998 sent financial markets tumbling in Latin America and the rest of the world. Argentina’s country risk, measured as the premium yield between U.S. and Argentine bonds, rose to a high of more than 7%. Foreign direct investment slowed down in the country, interest rates went up, and a credit crunch put a halt to the expansion of the economy [14].

4 At the end of 1997, there were 400,000 Internet users in Argentina. The number of buyers was only 5% of that, and only $13 million was spent in local electronic commerce. In addition, the number of Web sites featuring Argentine-specific content was low—4,000—and only one-third of these Web sites had direct transaction capabilities [14].

5 The volume of stock trading also fell from as high as $100 million trades a day during the heyday of 1993 to as low as $13 million in 1998. During the same period the number of firms quoted on the Buenos Aires Stock Exchange fell from 180 to 128, and only about 50 of them were trading actively [14].
have strong local affinities and biases. In July 1998, Patagon.com closed its first round of financing when an Argentine angel investor provided $1 million of seed capital in the company. In April 1999, it raised $4 million at $12 million pre-money valuation from private investors in the United States to fund its growth plans. By June 1999, the company’s Web site was receiving more than 200,000 visitors per month. With trading ultimately executed by a broker in the Buenos Aires Stock Exchange, Patagon.com had become one of the top 10 brokerages (measured by number of trades) in Argentina. Patagon.com’s immediate plans included growing beyond its current base in Argentina to serve the local markets of Brazil, Mexico, and Chile with up-to-date, tailored content by the end of the year 2000.

Patagon.com’s rapid surge raises several research questions: (1) How did Patagon.com acquire the organizational capability to develop its EC strategy so expeditiously? (2) How does catch-up strategizing in an LDC differ from pioneer strategizing in advanced countries? (3) Can Patagon.com’s EC strategy be emulated by other catch-up firms? (4) What are the implications of Patagon.com’s approach for future research?

The findings suggest that Patagon.com’s competitive advantage depended fundamentally on its organizational capabilities and assets. It coped with the constraints and instabilities of the environment by continuously reconceptualizing its EC strategy, by sharing the responsibility for the strategy broadly within the firm, and by focusing on its organizational capabilities. Most of these practices very closely resemble those recommended in Chakravarthy’s [15] strategy framework for coping with turbulence in developed countries. However, others seem specific to LDC environments. Thus, the primary contribution of this paper is to extend Chakravarthy’s strategy framework to conceptualizing imitative catch-up EC strategy in constrained and unstable environments. This research should help to better understand how LDC organizations can participate in EC, but also should be important to firms in advanced counties. Not all firms can be pioneers of novel breakthroughs even in developed countries. Most firms must invest in second-hand learning to remain competitive. Nevertheless, much less attention is paid to imitation than to innovation [16].

To provide some additional context for this study, section II reviews the literature on the resource-based view of the firm and on Internet adoption in developed and less-developed countries. Section III describes the research approach used to study the Patagon.com case and to develop the framework inductively. Section IV presents the background of Patagon.com and its
EC strategy. Section V introduces the framework, using the Patagon.com case facts to illustrate the extension of Chakravarthy’s three-component framework for coping with turbulence. While the framework proposed here is derived from and explained within the context of a single case study, it seems to afford a simple, yet powerful, analytical lens for conceptualizing EC strategy in LDCs. For each component of the framework, propositions are also formulated to guide future research. Section VI concludes the article by discussing implications of this study for research and practice.

II. RESEARCH BACKGROUND

A. The Resource-Based View of the Firm

A prevailing paradigm for understanding how and why firms gain and sustain competitive advantage is the resource-based view of the firm [17][18]. From this perspective, strategy can be viewed as a “continuing search for rent” [19], where rent is defined as return exceeding the resource owner’s opportunity costs [20]. In the literature on information systems, the resource-based view of the firm has been used to explain how firms can create competitive value from information technology (IT) assets [21] and IT-enabled competencies [22], and how sustainable advantage resides more in the organization’s managerial skills to leverage IT than in the technology itself [23]. It has also been used to analyze information services industry in Mexico [24] and on the Internet [25], as well as the transformation of Japan Airlines [26].

Research using the resource-based view [27]-[29] suggests that resources are heterogeneous across firms, and that some valuable resources are rare, difficult to imitate, or nonsubstitutable, giving the firms that have them distinctive core capabilities. Resources that provide sustainable advantage tend to be (1) causally ambiguous (e.g., transformational leadership), (2) socially complex (e.g., culture), (3) rare (firm specific), or (4) imperfectly imitable (e.g., distinctive location) [30]. Thus, sustainable competitive advantage is viewed as the outcome of rational managerial choices, selective resource accumulation and deployment, strategic industry factors, and factor market imperfections. Michael Porter’s industry and competitive framework has proven effective in analyzing the generation of above-normal rates of return (i.e., rents) as a source of competitive advantage [31]. He explains that the economic and competitive forces in an industry segment are the result of five basic forces: (1) bargaining power of suppliers, (2) bargaining power of buyers, (3) threat of new entrants into the industry segment, (4) threat of substitute products or services, and (5) positioning of traditional industry
rivals. Although Porter’s work emphasizes the important role of industry structure in
determining the firm’s strategy, his framework is useful only if the competitive forces
represented by competitors, suppliers, buyers, and substitutes are relatively stable and
independent. Then a company can find an appropriate strategy for each industry configuration
and erect the necessary barriers for protecting this strategy.

In today’s fast-paced, “hypercompetitive,” and increasingly global markets, other authors
(e.g., [29] [32]-[36]) argue that the “sustainability” model may no longer work because
competitive advantage is now based less on scale and “bricks-and-mortar” physical assets and
more on “invisible assets” [37] that are mobile, easily imitated, and easily circumvented by
substitution. According to this “hypercompetitive” view, the purpose of strategy is not to build
and then defend large, sustainable competitive advantages, but rather to create a constantly
changing series of small, temporary competitive advantages, thereby keeping competitors off
balance by forcing them to respond.

More recently researchers have begun to focus in detail on how some organizations first
develop firm-specific capabilities and then how they renew competencies to respond to shifts in
the business environment (see, for example, [38] and [39]). Teece et al. [40] extended the
resource-based view to explain how firms can develop “dynamic capabilities” to “integrate,
build, and reconfigure internal and external competencies to address rapidly changing
environments” (p. 516). The more rapid the technological change, the more essential dynamic
capabilities are to sustained competitive advantage [40]. Reinforcing the concept of dynamic
capabilities, Hamel and Prahalad argue that the role of strategy should not be to accommodate an
existing industry but rather to change it [33]. They maintain that for a firm to influence the
trajectory of industry development, the organization needs (1) to have the capability to build and
manage coalitions that leverage resources and capabilities across firms, (2) to be the market
leader in the capabilities that will provide customer value, (3) to continually accumulate market
learning through experimentation faster than competitors, and (4) to have a dominant market
position and perhaps more importantly the “share of mind” among its future customers.
Following Hamel and Prahalad, a firm must not only respond to rapid environmental changes,
but influence and even control those changes as well [33]. This requires the concept of
stretching strategic intent to cover long-term market and competitive position.
Chakravarthy [15] goes further by proposing a strategy framework for coping with turbulence. Examining the mega-industry he calls infocom—information providers, information processors, communication providers, and communication support—in the United States, he proposed a three-element framework:

1. Focusing on organization capabilities as the source of competitive advantage. Companies must leverage, strengthen, and diversify their competencies.

2. Sharing responsibility for strategy broadly within the firm. Employees must share a vision that is purposely vague but describes the firm’s guiding philosophy. Strategy must come from the bottom up and form small, focused units.

3. Reconceptualizing strategy. Companies must repeat innovation, build customer networks around products and services, and be able to sense market flow.

Although this framework was derived from an industry where many firms have deep pockets and easy access to assets and skills, its focus is on coping with a highly complex, fast-changing environment. Some popular frameworks for formulating competitive strategy assume an even more benign environment, as shown in Table I. In LDCs, where the environment is characterized not only by turbulence but also by instability and scarcities, a firm’s context tends to carry more significant implications than in developed countries [41]. Unfortunately, the existing strategy and management models have tended to ignore the environmental factors that are so influential in LDCs [41] [42]. Thus, the Patagon.com case provides an opportunity to empirically test the adequacy of Chakravarthy’s framework by investigating how one firm developed its EC strategy and renewed its organizational capabilities to create value in an LDC environment.

B. Internet Adoption in Developed and Less-Developed Countries

The existing literature on the use of the Internet presents an aggregate story of success and an interesting description of global technological diffusion. However, there is a growing debate whether the Web and the Internet are sources of sustained competitive advantage. To say “the Web and the Internet will be used by managers to transform the way in which companies do business” is simple, but in practice it is difficult to give more detail about generic strategies for Internet market dominance. Recent studies have suggested that small and medium-size
companies are, in general, ill-prepared to take full advantage of EC, and thus are unlikely to see any gains from it [43]. Anecdotal evidence points to the plight of local merchants who attempt to go online with limited resources, and end up selling little or nothing through their online ventures.  

Obviously, in LDCs the picture is even more clouded. Little has been written about how a local firm can overcome these environmental factors and create competitive value from adopting the Internet. Optimism is tempered by the awareness that most fundamental and technological progress is still “outside and has to be imported,” and that a polarization of “haves and have-nots” is underway that could exacerbate differences among national groups.

LDCs firms embarking on EC initiatives face many of the same problems that affect organizations in developed countries, but they also face distinctive obstacles to IT diffusion [44]-[46]. Governments often exert considerable influence over industries and organizations operating within LDCs, controlling, for example, access to key resources and setting costs and prices. Scarcity of financial resources [47] [48], inadequate physical and social infrastructure [41] [49], geographic, cultural, and resource constraints that limit mobility [50], and political barriers that modulate and distort market and competitive forces all limit the types of innovation a company can implement. Frequently, a handful of companies exercises disproportionate power, leading to implicit or explicit market-sharing arrangements and/or ruthless actions against competitors. The rules of the competitive game are often unclear and unstable, reflecting the underlying instability of the political and economic environments. Finally, LDCs are generally more vulnerable than developed countries to external economic shocks [41]. Shifts in international prices of key exports or imports or access to primary export markets can dramatically affect competitive dynamics.

Austin suggests that given the fragile national contexts in which LDC organizations operate, managers who plan to introduce a new technology must systematically analyze the business environment in which that technology will be implemented [41]. In particular, existing research on IT transfer to LDCs has recognized the need to develop skilled manpower [51]-[53], to learn from the mistakes of other countries [54], to develop national IT policies [55] [56], to use proven technologies (i.e., established or blending edge versus leading edge) [57]-[59], and to employ consultants or develop international partnerships to import expertise along with the technology [60].

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Web startup firms in LDCs face significant barriers in their attempts to attract customers. The sheer number of new Web businesses reduces the likelihood that people will chance upon a Web store, necessitating large marketing and advertising expenditures to get noticed. An LDC firm also may not have the business systems in place to serve distant customers adequately, even if it does attract them. The ability to process electronic orders, verify payments, ship to distant customers, properly apply sales tax regimens, handle returns, etc. need to be acquired. Moreover, despite the increasing sales activity on the Web, lack of trust remains a strong inhibitor. Unknown virtual stores located in an LDC are more likely to experience problems due to lack of trust than established companies whose brand names are known worldwide. And, probably most importantly, given their lack of technical and managerial personnel, LDC firms seem less likely to have the resources or skills to create the kind of sophisticated, highly interactive sites that now populate the Web. How can an LDC organization pioneer EC in such a constraining and unstable environment?

III. RESEARCH APPROACH

The research approach used in this study can be broadly classified as an interpretive epistemology [64] using a single case study. Given that the purpose of the study was not to produce empirical results that would be generalizable to other firms, but rather to “expand a theory” [62], and the exploratory nature of the research question [61]—“how” the firm developed its EC strategy and “why” it succeeded despite the instability and scarcities in its environment—the case research method was chosen. This method permits the phenomena to be studied in a natural setting, and it allows for theory building and expansion. The contemporary nature of this case also meant that extensive documentation was accessible, and the key actors were available for interviewing.

The strategy for data collection can be described as triangulation; it involved multiple methods for collecting historical and longitudinal data. Interviews were arranged with all middle and top managers (16 people), members of the board of directors (4 people), and Patagon.com clients and users (18 people). All interviews were tailored to each person, focusing on the interviewee’s perceptions of what happened and why, how decisions and actions were influenced and made, and how conflicts were resolved. Interviews also addressed the interviewee’s role, attitude, and motivations. The interviews were tape recorded and transcribed, and additional observations were noted at the time of the interview. At the end of each interview, the subject
was asked to suggest other individuals who would be important sources for understanding the implementation of the company’s strategy. Written data included both primary sources (business plans, annual reports, company archival analyses, organizational charts, minutes of meetings, Patagon.com documents, and internal correspondence and memos) and secondary sources (investors’ reports, industry and stock exchange documents, trade magazines, newspapers, and relevant Internet publications).

In accordance with a suggestion by Yin, a case study database was used to manage the voluminous data generated by the various collection methods [62]. The database was organized for easy storage and retrieval of documents, archival records, and interview data. One file within the database, for example, was set up to store newspaper articles, organized in chronological order. Another section of the database was devoted to the individuals who were interviewed, with separate files for each person. Each file contains a record of the name and contact information for the individual, the role that s/he played in the history of the company, and typed interview transcripts indicating the date(s) when that individual was interviewed and what was said. The actual interview tapes are also stored in the database, along with an index of who was interviewed and when. Finally, there is a section of the database for storing documentation.

The value of constructing a case study database is that it allows other researchers to review the data directly rather than be limited to a published paper based on inferences drawn from the data. Such an approach increases the reliability of the entire study [62]. In addition, it was the basis for creating a detailed narrative history of the company initiative in the form of a case study. Together, the database and the written case study allowed others, including the various informants, to follow the derivation of the conclusions presented here.

The analysis of the data was conducted in several steps. First, notes taken from the documentation review were used to outline a broad picture of the background, the general path of the strategy development, and the major decisions over time. Second, the interview transcripts were verified against the tapes. Third, data sources (multiple informants associated with the Internet initiative at Patagon.com) and data collection methods (documentation and interviews) were triangulated to write the initial case descriptions. Since individuals were interviewed about events that had transpired years earlier, there may have been some failures in memory, and, more importantly, their interpretation of events may have changed with the passage of time.
Therefore, in the historical reconstruction every effort was made to distinguish between participants’ views at some point in the past and their later recollection of those views. 7

Chakravarthy’s [15] three-part scheme for coping with turbulence—reconceptualizing strategy, sharing the responsibility for strategy, and focusing on organizational capabilities—was used initially to guide the analysis of the Patagon.com case. As Campbell [63] and Yin [62] recommend, pattern matching was used to move back and forth between the empirical data and this possible theoretical conceptualization. The data analysis was shared with the key informants within Patagon.com in order to verify accuracy.

IV. CASE STUDY

A. The Electronic Commerce Strategy at Patagon.com

Phase 1--Developing the Business Idea: Wenceslao Casares was born and grew up in the isolated Argentine region of Patagonia. From his early years, Casares began to develop not only computer skills, but also a far more valuable skill: making money. He and his siblings developed several businesses, including a T-shirt painting shop, the publishing of the annual “Patagonia Telephone Directory,” and even the establishment of the first private Internet service provider in Argentina—Internet Argentina.

In early 1997, when he was enrolled in the business administration program at Universidad de San Andres in Buenos Aires, Casares was working at internships at two different banks. He met Adrian Ashkenazy during this time. Casares explained,

Adrian was learning Spanish and traveling through Argentina after finishing his M.B.A. at Harvard. We became good friends, and began to develop an idea to use the Internet to establish an online trading company.

We took a two-week trip to the Silicon Valley in the United States to learn more from the successes and failures of every Web-based financial retailing company that was willing to talk to us. The advantage was that I had been introduced to many of these companies, like Yahoo!, while I was developing Internet Argentina. We were also able to talk with E*Trade and Schwab. I have always found the Silicon Valley a great place for inspiration. What you read about them is very different than having the opportunity to observe and talk with them. So we went and just talked with them. Then we spent two months developing a business plan.

In May 1997 Casares decided to drop out of the university and embark full steam ahead on this venture. With Ashkenazy, he went back to different places in the United States to try to

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7 Where possible, historical information obtained from interviews was cross-checked with published sources of data, such as archived project
raise capital. But the time was not right for the initiative. Many of these companies were not ready to finance Internet start-ups outside the United States. “A well-respected Silicon Valley investor told us: ‘Come back once you have received start-up capital,’” Casares recalled.

However, they all provided us with great feedback. It was after this trip that we decided to build a broader financial services site rather than a traditional electronic trading place, as found on the Web. This would also allow us to distinguish ourselves from other local brokerages still conducting most of their business outside the Internet. So we came back without funding, but with the clear intention to keep going.

As they came back to Argentina, however, Ashkenazy received an offer to work for J.P. Morgan on Wall Street, New York, and decided to take it. A few months later, Casares partnered with Constancio Larguía, whom he characterized as “an entrepreneur by nature, and a very methodical and organized individual,” to keep his Internet initiative alive. Larguía recalled,

It was at the university that I met Casares. We never were classmates; as class-skipping fellows, we met at the library, often reading the same types of magazines about new projects, sophisticated technology, and innovations. Casares was starting a company called “Internet Argentina.” From that moment on, we shared ideas, and each of us participated informally in the project of the other. Over time we became very good friends, and when the opportunity came we began working together.

Phase 2—Starting Up Patagon.com: In January 1998, Casares and Larguí̃a founded Patagon.com. Their first step was to create a Web site providing information about the stock market and investments in Argentina. To begin the Web site development they hired two people: one to program the Web site, and the second to design the interface. By June 1998, seven people (including Casares’s two younger sisters, Azul and Maria) believed in the idea enough to work full time out of a small office in Buenos Aires.

Azul, who was one year younger than Wenceslao Casares and had experience working as an administrative assistant at a brokerage house, was in charge of customer services. Her first assignment was to look at different financial Web sites, learn what customers wanted and expected from a financial service Web site, and pass her requirements to the Web site developers. Maria, Wenceslao Casares’s third sister, was the network administrator. While working in the same position at Internet Argentina, she had been trained by Microsoft in several of its products, and had developed good friendships with people inside that company.
Developing the Web site was not as difficult as raising start-up cash for the venture. Despite Casares’s expertise with the technology and Larguía’s understanding of the startup’s context in Argentina, investors were not keen to commit themselves to a new local technology-based company. This was especially true in a year when many international players came to regard emerging markets as pariahs. Casares remembered,

I visited presidents of 33 banks in Argentina presenting my idea without any success. Then the economic situation in Argentina went very bad. The $20,000 that I had received from Internet Argentina was soon gone. I had to borrow an extra $40,000. We also had to begin offering Internet courses to finance our operations. One month I even had to sell my car for $600 in order to pay part of my employees’ salaries.

Larguía even wondered “if maybe we had gotten into the wrong business at the wrong time.”

In the end, the 1998 financial crisis was a blessing in disguise for Patagon.com, since brokerage firms were selling at very low prices as market conditions forced owners to bail out of the business. Casares recalled,

We began noticing that many brokerage houses were for sale. So we began analyzing the idea of buying. We could then legally operate as a brokerage house. We focused on discount brokers that would have good back office operations. Out of this analysis, we realized that InvestCapital was an ideal target.

InvestCapital was already recognized as an active trader on the Buenos Aires Stock Exchange. The clients of InvestCapital had the right trading characteristics for online brokerages: they traded much more frequently than the average client (84 percent of the clients traded more than twice a week, versus the industry average of slightly more than twice a month); the majority were characterized as “financial scalpers” and tended to generate a high volume of trade during turbulent periods; and they traded large dollar volumes (they averaged more than $15,000 per trade).

Zsolt Agárdy, a Hungarian investor, was the head of InvestCapital and also owned other real estate, technology, and textiles companies. His son Federico, then 26 years old, became the general manager of InvestCapital in 1996. Given the poor economic situation, Federico decided to convert it into a discount brokerage. By June 1998 its personnel had been reduced from 60 employees to 12.

In July 1998, Casares and Larguía presented Federico Agárdy with the idea that they wanted to acquire InvestCapital, rename it Patagon.com, and transform it into Argentina’s first broker to offer Internet-based trading on the local stock exchange. Federico recalled,
At first I didn’t like the idea. But the very next day, I decided that it was a great opportunity. So Casares, Larguía, and I went to talk with my father. We basically told him that if he gave us $1 million, he would receive a 15% ownership of this “transformed” company. He laughed hard about us. But the following day he said he was ready to accept the contract if he received 51% ownership of the company. We finally agreed that it would be 51% ownership, unless Patagon.com could return his $1 million in a six-month period. If that was the case, he would keep only 15% ownership. We all accepted.

Phase 3—Launching the Web site: In early August 1998, when Zsolt Agárdy suddenly announced at InvestCapital that he was bringing in some new partners, the staff at this traditional Argentine brokerage was more than a little surprised. But when he introduced a couple of 20-somethings, surprise soon turned into wide-eyed disbelief. “This has got to be a joke, right?” Casares recalled one of the brokers saying at the sight of him and Larguía walking into the room. Carlos Maslaton, an InvestCapital associate, said,

It bothered me very much to see them [Casares and Constancio and their team] at the office—until one day when Casares came and asked me, “I beg you to listen my ideas for five minutes.” I must admit that after the presentation I was very impressed, not so much with the content of his plan, but with the political and convincing capacity of Casares. He is capable of lying just the right amount…. He has a great capacity to conduct presentations, manage conflict, and develop working teams. He is not an individualist. He has a great team. There is a lot of communication among everyone in that team.

… They [the Patagon.com original team] were good with the technology but were not experts in stock markets. They understood their limitation and asked me to deliver a course on that topic. I had a course that I usually gave to J.P. Morgan/Argentina. I taught the course on Sundays, from 10 a.m. to 8 p.m. It is a hard course, but they all understood the concepts very well. They are very intelligent, but most important: they were interested in learning…. They also taught us [brokers] a course about technology.

From August 1998 to January 1999, both organizations worked toward integrating operations and learning each other’s business. In the spirit of the new company’s youthfulness, but also to bring expenses down, offices were moved from Buenos Aires’s financial center, called La Citi by locals, to a loft in the trendy San Telmo district, where official dress soon became trousers and blue shirts with the company logo emblazoned on the front pockets. InvestCapital was renamed Patagon.com Argentina in December. During the six months ending in December, its trading activity increased by almost 15%. The company ended the year with $7.4 million under management. In addition to the revenue stream and access to the stock
exchange that this acquisition provided, Patagon.com leveraged many aspects of this relationship.

- Using its understanding of the InvestCapital clients, Patagon.com began targeting potential clients with similar characteristics. A series of client focus groups enhanced its insight into the clients’ behavior and characteristics.
- Patagon.com used the financial consultants of the former InvestCapital as advisers and “beta” users of its financial consultant Internet platform.
- The team of InvestCapital worked with Patagon.com to automate the back office processes.
- In November 1998 Patagon.com launched the “Virtual Trading Floor” chat forum. During the day a trader of InvestCapital was chatting online to the Patagon.com community using live data from the trading floor. Monitoring activity as it was happening and answering questions as needed made the community very attractive.

At the same time, Patagon.com also began generating strategic alliances with different information providers, for example the Wall Street Journal, Multimedios America, Capital Market, and other newspapers from around the world. In December 1998, it established the first listing service of investment funds in Latin America anywhere, the Latin American Fund Super Market, which included the following funds: Boston Asset Management S.A. (Banc Boston), INVESCO, Banco Río SuperFondos, Fondo Rioplatense, Fondos de Inversión Numancia (Banco Ciudad de Buenos Aires), Banque Nationale de Paris Asset Management, and Capital Markets Argentina Fondos de Inversion.

Patagon.com also began developing software for trading (buying and selling bonds and stocks). It contracted with Boom.com—a virtual financial development company associated with the Hong Kong & Shanghai Bank, then the majority partner of the Roberts Bank—to provide the knowledge specific to this type of operation. On January 18, 1998, after months of trials, Patagon.com officially opened as the first electronic operator of the Buenos Aires Stock Exchange.

**Phase 4—Growing the Business:** Casares and Larguía and their advisor Zsolt Agárdy knew that to capitalize on the momentum of the company and to invest in the future, they needed a capital infusion quickly to further develop the Patagon.com brand, build out the technological infrastructure, and develop the online trading business. They also were aware that an obvious extension of the pipeline model of providing financial services in Argentina was to expand.
geographically to all Latin America. The money raised from Agárdy, however, was just enough
to pay the payroll and day-to-day operating expenses for a few months. Thus, the decision to
seek outside financing was a result of both strategic necessity and financial reality.

In December 1998, in preparation for attracting outside investment, Casares and Larguía
grew to Brazil and Mexico to better understand the financial markets in these countries. They
also enlisted another classmate from Universidad San Andres, Guillermo Kirchner, as the Chief
Financial Officer. Kirchner had been named the best business administration student of his class,
and had worked for J.P. Morgan in New York on the privatization of the Brazilian
telecommunication company, Telebras.

For his part, Zsolt Agárdy asked Clive Cook, a Canadian strategy consultant who was
working in his company, to help Patagon.com develop a business plan to find outside
investment. Later Cook, the old man of the group at 35, joined the company as chief strategy
officer, becoming, with Casares, Larguía, and Kirchner, one of the key four people in the
management team.

As Patagon.com and InvestCapital were integrating their operations and planning for a
joint future, and Cook was reworking the business plan, Endeavor—a nonprofit organization
founded by Yale and Harvard graduates to help start-up companies in emerging countries—had
just established its offices in Argentina. Its mission was to search for local entrepreneurs of
companies with annual income between $1 million and $15 million, and put them in contact with
investors in the United States. The first companies selected were a regional airline company and
Patagon.com.

Another important stimulus for outside investors was the apparent success that StarMedia
Network, Inc. had achieved in attracting the interest of U.S. investors to Internet ventures in
Latin America. Founded in 1996, StarMedia operated a major Spanish and Portuguese
languages Web site that soon was able to attract high-premium online advertising revenues from
major U.S. companies, forge special agreements with many big U.S. Internet players and content
providers, and successfully negotiate transaction-oriented agreements that involved selling co-
branded calling cards and computer hardware and software on the site. In October 1998,
StarMedia was able to raise $80 million in a private stock offering—the largest equity placement
ever for a closely held Internet company, according to capital research firm VentureOne.8

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8 For comparison, Yahoo!, the Internet directory that by 1999 had become a leading destination on the Web, was able to raise only $64 million in
Casares commented, “StarMedia did a brilliant job on Wall Street. They spent a lot of money in advertising. We [other companies also tapping Latin America’s growing Internet Market] benefited from that campaign.”

In April 1999, the Patagon.com management team presented its business plan to more than 40 investors in New York, Miami, and San Francisco. It eventually raised $4 million at $12 million pre-money valuation from Chase Capital Partners and Flatiron—both of which had numerous Internet investments, including StarMedia—as well as from Jeremy Rosenkrantz, an angel investor in StarMedia.

More important, these investors were not passive. They understood and had access to key financial institutions in Latin America. Their presence and backup could help Patagon.com enormously. Casares reflected,

Our valuation by Chase Capital Partner and Flatiron was lower than the ones that we received from other investors. We received a valuation as high as $60 million. But when each of these investors made its offer, we also requested names of other companies it had invested in. I called several of these companies. The difference was like day and night. Some of these investors behaved as bankers, lending money and then asking for periodical financial reports. Chase and Flatiron were more in an advising mode. They could be a great sounding board for our company plans. I was aware that I was only 25 years old, and besides the money, I was looking for individuals willing to work with me.

The Patagon.com team and its new advising partners were on the same page. Both parties wanted to enable the investors to get a return on investment by going public in 18 months.

**V. ANALYSIS**

This section links Chakravarthy’s [15] strategy framework to LDCs, which are not part of his original work (see Table II). The strategy adopted in this analysis is to make Chakravarthy’s unique terms and abstractions more accessible to readers by interweaving the discussion of these terms with examples from the case study.

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Insert Table II here

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**A. Focusing on Organizational Capabilities**

As the case study shows, the development of organizational capabilities at Patagon.com was a cumulative, expansive, evolving process very dependent on the way resources and competencies were *leveraged, strengthened*, and *diversified*. Table III summarizes core
resources and competencies that were found to be the basis of Patagon.com’s EC strategy. The table is intended merely to present systematically the firm’s capability to balance the levering, strengthening, and diversifying of its core competencies and resources throughout the four-phase history. No claim is made that the resources and competencies presented are exhaustive.

Competence Leverage refers to the firm’s ability to share and exploit the competencies that it has in the pursuit of new opportunities [65]. In seeking to get the most out of the existing resources, Patagon.com developed a panoply of initiatives that included leveraging its own resources, investing in key technological resources, and co-opting resources available outside the organization. For example, during the first phase of Patagon.com’s history, Casares’s knowledge of technology and passion for businesses was leveraged with Ashkenazy’s formal business training to develop an idea to establish a Web-based electronic trading service. Casares had already been the founder and CEO of the first private Internet service provider in Argentina, but rather than just jump onto the Internet wagon, he used Ashkenazy’s Harvard M.B.A. training to investigate the competitive situation.

Patagon.com was especially effective at leveraging its knowledge of the market with the resources and competencies of other firms to build the information content provided in its Web site. In the second phase, for example, it began to systematically collect information about the stock market and investments in Argentina, mainly from public sources. By the next phase, it began generating formal strategic alliances with prestigious information providers within Argentina. In the last phase, it was getting financial information for all Latin America, provided by international information providers, such as AméricaEconomía—half owned by the Dow Jones Group—and Reuters Ltd. Reuters provided delayed quotes for all stocks and options, and some bonds, for Argentina, Brazil, Mexico, Chile, Peru, Venezuela, and Colombia. In addition, Patagon.com received Stock Indexes, World Foreign Exchange Rates, and NYSE ADR quotes.

With relation to IT, the management team at Patagon.com, and Wenceslao and Maria Casares in particular, believed in avoiding undertaking initiatives in new, emerging technologies. Rather, the company established important strategic alliances with Microsoft and IMPSAT—the leading Internet service provider in Latin America.
**Competence Strengthening** is the articulation of the firm’s tacit know-how and the combination of multiple competencies. Patagon.com built its success not on any single distinctive competence but rather on its ability to combine competencies (in which it was not a world leader) into a distinctive metacompetence. For example, although IT was perceived as a core competence of the business, the firm began with only one computer and two programmers, who did not even have experience in Internet systems development. By mid-1999, it had eleven computers, an Ethernet network, nine analysts/programmers, five servers, one project manager, and one database administrator. This is a considerable accomplishment in an LDC, where the types of resources required to adopt IT, including managerial, technical, and financial resources, are very scarce [4][24][45][46].

**Competence Diversification** is the importing of skills, knowledge, and assets from other firms, to build new tacit skills and know-how within the firm [15]. The importing of competencies at Patagon.com took place in different ways, ranging from trips to the Silicon Valley by the founders “to learn more from the successes and failure of every Web-based financial retailing company that was willing to talk to us,” and to Brazil and Mexico to better understand their financial markets, to active imitation by reverse engineering (i.e., copying the components of successful Web sites by inspection), and to contracting outside advice and accepting the second round of capital not from the highest bidders, but from the most potentially active bidders.

Chakravarthy also suggests that retiring an old competence is a key component to competence diversification: “without retiring old competencies, a firm may have difficulty developing or assimilating new competencies.” Given that Patagon.com was a new company embarked on very fast growth, there were few opportunities for observing the retirement of old competencies. However, it is interesting to notice that, when Patagon.com acquired CapitalInvest, most of the “old” brokers left, signaling the retirement of the traditional skills sets required for trading.

**Discussion:** Distinctive competencies have typically been regarded as the bases for a firm’s competitive advantage [67][68]. For example, Hamel and Prahalad [65] suggest that a key to competitive advantage is competence leverage—the firm’s ability to share and exploit the competencies that it has in the pursuit of new opportunities. In LDCs many firms do not have deep pockets and are relatively undifferentiated in their assets or skills. Patagon.com achieved its
strategy not by outspending other companies, but rather by focusing on strengthening a relatively small number of core competencies; by diversifying skills, knowledge, and assets imported and imitated from other firms; and by leveraging competencies from its external and internal context. These findings are in alignment with Chakravarthy’s concept of organizational capabilities. Accordingly, Proposition 1: Given the imperfection and scarcities of an LDC environment, an EC strategy is more likely to become a source of competitive advantage when it is supported by leveraging, strengthening, and diversifying the firm’s core competencies.

B. Sharing Responsibility for the EC Strategy

Relying on a Guiding Philosophy as Well as on a Stretching Strategic Intent: Hamel and Prahalad [65] propose that innovations are sparked by a stretching strategic intent—a gap between where a company is and where it wants to be. The strategic intent is analogous to Collins and Porras’s [68] “tangible image.” It consists of a mission that clearly focuses the organization’s efforts and a vivid description by which the mission becomes alive and engaging. It helps focus an organization’s energies in the face of ambiguity [69]. Chakravarthy, on the other hand, claims that it is difficult to define an enduring strategic intent in a turbulent environment. Indeed, such an intent may lock the firm into an investment path that is unsuitable to a changed environment. He advises that “a successful coping strategy in a turbulent environment requires constant experimentation with several images until the firm finds a successful flow,” and warns that “holding on to one tangible image, no matter how carefully crafted, can trap a firm into a market that it cannot dominate.” Instead, he recommends a guiding philosophy, accompanied by a vision that merely states what industry niche the company is betting on and clarifies where employees should look for opportunities.

At Patagon.com, both stretching strategic intent and guiding philosophy were primary drivers of its EC strategy. For the creation of the stretching strategic intent, the leadership of Casares, in particular, was crucial. Patagon.com’s management spent considerable time developing the firm’s business plan, “where the company wants to be,” even though it did not have a detailed roadmap on how to get there. Patagon.com entered online trading without even a developed local market base, but with the strategic intent of capturing the Latin American market. To develop and grow Patagon.com, its managers knew that they had to do it fast,

9 A guiding philosophy is defined, according to Collins and Porras [68], as a system of fundamental motivating assumptions, principles, values, and tenets.
innovatively, and with world-class quality, but also with few people, modest IT facilities, and a small budget. The misfit between Patagon.com’s resources and its aspirations would have led most observers to challenge the feasibility of its goals, if not the sanity of its founders. Its ambitions belied its meager resource base. However, management, particularly Casares, was capable of articulating and describing manageable immediate steps, and this articulation set a force into action. This finding is in line with Prahalad and Hamel’s [66] suggestion that strategic renewal depends on the strategic intent of the CEO or corporate management, which is in turn based on industry foresight, and with Day’s [70] statement that the direct role of top management is often crucial, especially in strategic renewal projects that require substantial resources during development and cooperation across a company.

On the other hand, a guiding philosophy shared throughout the company was critical in developing the roadmap. Employees were expected to hold six values as the foundation for how the company operated internally and toward all stakeholders: integrity, respect for the individual, delivering value to users, creating value for shareholders, respect for the online community, and continuous innovation and break-through thinking. Management emphasized an open and respectful exchange of ideas, believing that members of the company could contribute significantly outside their field of expertise. To give everyone an incentive to work cohesively in the long-term interests of the company, every employee was a stock option holder in the company, which had allocated 15% of its equity toward the stock plan. Employees understood the need to create revenue in order to survive, but they also felt passionate about Patagon.com’s potential for becoming the first financial destination Web site in Latin America.

*Context Awareness:* Where a firm can go is a function of its current position and the path ahead [40]. In LDCs, any initiative of strategic importance requires a deep understanding of the distinctive nature of the firm’s environment [41], including the difficulty of obtaining reliable information, which leads to market inefficiencies and increased transaction costs. In LDC environments, the management of “surprises” is even more important than the management of change [41] [71].

Because Patagon.com had a shared guiding philosophy as well as a stretching strategic intent, strategy making was not a top-down process; the impetus for strategic innovation was also coming from bottom-up entrepreneurship. Management met every Monday morning to review current objectives, schedules, news, initiatives, crises, and successes. In addition, every week
Casares posted an e-mail stating his vision of the company. He was open to comments from everyone in the organization. Carlos Maslaton, one of Patagon.com’s brokers, confessed,

In his weekly message, Casares always reminded everyone that we were growing very fast and that under no circumstance should we become complacent. He kept reminding us to pay attention to the business and not believe everything that newspapers were saying about us.

This openness enabled the founders to create a small, highly focused company that could innovate in the face of turbulence and uncertainty, by collectively and individually communicating why change was needed and how it was to be accomplished. The initial uncertainty concerning outcomes and the ambiguity of fit with the firm’s intent was progressively reduced through intense communication within the company. Communication also allowed Patagon.com to test new ideas and initiatives without disrupting its present operations. This is in accordance with the existing literature on strategy making in new ventures. Burgelman [72], for example, in describing the social learning process associated with the development of a new venture, connects the opportunistic action of frontline managers with the vision of top management. It is also in agreement with Chakravarthy’s advice: “successful entrepreneurship requires both the willingness to experiment outside a plan and the ability to communicate freely and debate openly the value of the resulting outcome” [15].

This continuous reconciliation between opportunistic actions and the stretching strategic intent would have been impossible without a top team that was well versed in both the context of the firm’s business and its technologies. Casares represented this new breed of top managers. He did not shape every innovation at Patagon.com, but he certainly had the savvy to evaluate innovative ideas proposed by the frontline. Of course, a major challenge for the future, as Patagon.com was expanding into different countries, was to keep that guiding philosophy intact, while benefiting from the importing of new skills, knowledge, and assets. As Casares explained,

Patagon.com is a Latin American company and as such is building a unique online Latin American culture. At present the majority of our staff is Argentine. However, we are seeking non-Argentines to fill key senior management and staff roles as we grow, to enrich the diversity of our staff and tap into unique local market perspectives.

Discussion: A key to strategizing in LDCs is the capacity to analyze the forces enveloping the firm [41]. Strategic foresight, which is based on deep insights into trends in industry, business, technology, demographics, and regulations as well as internal core
capabilities and resources [33], is critical in rewriting the company’s rules and creating new competitive space in LDCs. Understanding the potential implications of such trends at Patagon.com required creativity and imagination, but also the encompassment of many people’s visions. A *stretching strategic intent* helped focus the firm’s energies in the face of uncertainty, and a *guiding philosophy* told employees where they should look for opportunities. A primary role of an EC strategy leader is to foster conditions that will let management capture and exploit the knowledge that exists throughout the organization. Accordingly, Proposition 2: In an LDC environment, broad sharing of responsibility for an EC strategy within the firm is more likely if it is supported by a *guiding philosophy* and a *stretching strategic intent*.

C. Conceptualizing the E-Commerce Strategy

*Continuously Imitate Globally to Innovate Locally:* This aspect of the Patagon.com experience is different from Chakavarthy’s framework, and from his claim that to maintain leadership in a turbulent industry, a firm must repeat innovation strategies and be able to make “old” strategies obsolete quickly enough before being attacked by a competitor. For most LDC firms, entering late may be the only realistic option, given their competitive dynamics and an environment where markets are underdeveloped, scientific and technological knowledge lags, related industries are poorly developed or nonexistent, and other country-level factors constrain indigenous firms from moving first in the world market.

By world standards Patagon.com was a late entrant to the online trading industry, but it was a first mover in Argentina and an early mover in the Latin American region. This industry is very young, is highly fragmented, and has grown rapidly during the past five years. It is an industry where entry is relatively easy, new product/service innovations are easily imitated, the life cycle of an innovation is very short, and the number of product categories has proliferated rapidly. In this type of environment, the resources that give a firm a competitive advantage are its know-how and skills. Because online trading changes so fast, core competencies are often not imitated but, rather, replaced by substitutes. Thus, the fundamental threat to a first-mover strategy in online trading comes from substitution.

When Casares and Ashkenazy began developing the idea of creating a Latin American online trading company, they did not focus simply on the first local mover opportunity, but also on having clear foundations. They took the time to understand the business and its industry. By
entering late, Patagon.com benefited from the shared experiences of early movers (skipping trial and error). Its founders understood from the outset, for example, that online trading companies had become no more than “trade execution facilities,” and therefore, moved immediately into developing a financial information destination site even before founding the company. Patagon.com also derived advantage from the evolution of the market and the technology. Although Argentina did not have previous online trading firms, plenty of information about online trading was available in the general media, in financial journals, and on the Internet itself. Thus, Patagon.com avoided the cost of educating consumers about the concepts of online trading. By partnering with Microsoft, it also avoided the cost of developing specialized technology. The observability of Internet technology also generated benefits for Patagon.com as a latecomer, enabling reverse engineering (i.e., copying components by inspection). In essence, the company modeled its offerings after a group of successful single-purpose Web sites in the United States, and brought them together into one integrated platform, as illustrated in Fig. 1. The lower cost of imitation significantly reduced research and development costs. Finally, by following StarMedia into the Latin American EC market, Patagon.com was able to base judgments on more concrete information about the response of customers, sponsors, investors, and providers. Even the cost of advertising and education about the potential of EC in Latin America was lower for Patagon.com, because of the spillover effects from the multimillion-dollar, multicountry advertising campaign generated by StarMedia.

For a strategy to be viable, distinct resources must defend it.10 And as Chakravarthy prescribes, “while entering a market first is a necessary condition for success, it is insufficient.” The Internet has shown that competitors can emerge from numerous sources, from those historically associated with the industry in question (in the case of Patagon.com, financial services in Latin America) to new, “unforeseen” innovators. As Table IV illustrates Patagon.com was soon challenged from several sources.

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10 Distinction is defined by the degree of difficulty in procuring, imitating, or replacing these resources [28].
Patagon.com was able to retain its leadership role by continuously pioneering services that were innovations by local standards. It was the first online trading firm in Argentina. Then it was the first to introduce a financial destination offering financial community forums, free quotes, free news, and free financial research. A few months later, it introduced the first mutual funds supermarket service. By the end of May 1999, it began to offer the first “Latin American trading game,” in which members of the free community were given $100,000 of funny money to invest in local markets. The users who produced the highest return every month won a week-long trip to Brazil. By the end of this study, Patagon.com was working on being the first online broker to provide facilities not only in Buenos Aires, but also in the Brazilian, Mexican, and Chilean markets. At every phase of its development, Patagon.com kept capitalizing on its local knowledge effectively against distant virtual online traders—for example, by making references to local landmarks, showing awareness of important local events, and presenting locally focused political and economical analysis in the community boards and chat forums. As Bouwman [73] points out, in many parts of the world there are local or regional differences that can be captured in the Web content to increase the appeal of the site.

Managing Various Stakeholder Networks Effects: Chakravarthy suggests that in addition to being a first mover, a firm aspiring to lead in a turbulent environment must also quickly build a customer network centered on its products or service offerings. At Patagon.com, this network was even more important given the spiral typical of Internet products and services: as they are adopted by more users, they become more developed and hence more useful. Advertisers and sponsors also are willing to pay higher prices to join a Web site with higher traffic rates than they would pay to join a small customer network. Unique to Patagon.com’s strategy was its recognition of strong Latin American cultural commonalities in language, sociology, and behavior, balanced with a full recognition that people have strong local affinities and biases. Thus, the main attractions of the site were (1) its provision of information in Spanish, Portuguese, and English; and (2) its careful attention to the interaction of a community of users particularly interested in emerging financial markets.

Since the company was founded, Azul Casares was in charge of Patagon.com’s customer service. Her job was to learn what customers wanted and expected from a financial service Web site. She personally followed up each customer inquiry. Close interaction and feedback from the firm and users led to early detection of deficiencies, so the relationship turned into a “virtuous
circle” beneficial to the firm. Additionally, after buying InvestCapital, Patagon.com carefully analyzed its customers in order to understand the behavior and special information needs of potential clients. In online trading, well-informed consumers are unlikely to remain loyal to an inferior service. Patagon.com continually upgraded its product and service through its own offerings and the complementary offerings of its alliance partners to prevent customers from switching to rival offerings.

But a customer network is not the only network that a firm can benefit from managing its effects. Patagon.com management believed that to ensure success it was critical to manage at least three other networks: the network of technology partners, the network of information providers, and a social network (as shown in Fig. 2).

*The network of technology partners: Management understood that its technology must be at least on par with that of its competitors. Wenceslao and Maria Casares’s experience at Internet Argentina helped them develop a good relationship with individuals inside Microsoft. They also knew that it was easier and cheaper to find people in Argentina who could use Microsoft products than to train employees to use other software. And more importantly, they understood that their focus had to be on the business and not on developing proprietary systems. As Maria explained, “We preferred to use Microsoft research and knowledge in developing systems.” Patagon.com signed an agreement designating Microsoft as its exclusive supplier of software—it was the only broker in the world that was a Microsoft shop. As the announcement was made, Casares explained,

Microsoft is trying to understand our needs. It has two consultants dedicated full-time to Patagon.com not only to improve the use of the tools but also to help us organize our information systems people. I also went to Boston and met with a Microsoft consulting company dedicated to learning more about online trading.

In addition, Patagon.com had developed an agreement with IMPSAT Corp. and Compaq. IMPSAT had locations in almost every major city in Latin America, and also in Miami, and was to be used as Patagon.com’s primary Internet service provider throughout Latin America. Patagon.com’s relationship with IMPSAT includes joint marketing programs and preferred pricing for Patagon.com Internet links. Compaq became Patagon.com’s computer hardware
supplier. As Maria Casares explained, “All these companies are very interested in EC, and they want to be with the first one to have success.”

*The network of information providers:* Patagon.com also developed similar agreements with information providers. It was receiving information content services from AméricaEconomía and Reuters Ltd. A fee for service agreement had also been negotiated with Multimedios America, an Argentine financial information provider, to use its listing service for investment and mutual funds on the Patagon.com site. In addition, several Argentine Internet-based companies had agreed to direct traffic to Patagon.com from their sites and to exchange banners.

*A social network* is particularly important in societies that, like most Latin American countries, emphasize interpersonal relationships and strong group affiliations [24][74]. Patagon.com managers cultivated strong relationships with stakeholders inside and outside Argentina, to help them implement plans, bounce ideas around, and seek insight from people with different experiences and perspectives. The managers of Patagon.com had informal advisory networks with respected business leaders in Argentina, used the venture catalyst group Endeavor to gain access to entrepreneurs in the United States, and treated the members of the board of directors as their advising partners.

As Chakravarthy suggests, “left unmanaged, the [customer] network can become useless very quickly.” The Patagon.com example suggests an extension of this advice: a well-managed stakeholder network can be not only a powerful launching pad for related products and services, but a source of leverage through the complementary offerings of alliance partners.

*Sense the Flow of Each Innovation:* Chakavarty notes that it is very important for a company to sense the flow of each innovation and avoid entry when a product market is close to lock-in. He warns that “being a first mover creates options for a firm, but it has to be backed by investments in a customer network in order for the innovation to pay off.” According to Chakravarthy, the challenge for a firm is to be both flexible and committed.

Patagon.com’s stretching strategic intent required a long-term view, and the case shows that its managers and employees were committed to this view. It avoided a “Patagon.com centric” approach and sought partnerships for those areas where the firm did not have particularly strong competencies, thus, gaining a fighting chance to compete. At the same time, the firm had to be flexible to accommodate new opportunities as well as to minimize constraints.
encountered as it was expanding. For example, Patagon.com’s expansion plan called for almost
50 people to be working across Latin America. Larguia said, “The skill sets we are looking for
and the type of people who can be successful in our environment are not common in Latin
America. Staff who can work in a multi-language environment, specifically English, Spanish,
and Portuguese, are in high demand in all Latin American countries.” Patagon.com’s flexibility
enabled it to move its headquarters to Miami in less than a month. Largúa continued,

Our headquarters office in Miami allows us to attract more talented individuals, keeps us
closer to technology and innovation, makes travel and communication to all places more
convenient, improves our service quality (products, marketing launches, advertising
sales), and puts us closer to our investors.

**Discussion:** The idea that the firm’s long-run survival and growth depend on its ability to
develop new products and new methods of organizations is far from new (see, for example [75]
and [76]). As a latecomer, Patagon.com benefited from many of the free-ride effects identified
by Liebermean and Montgomery [77]. Especially being able to make decisions and judgments
with more concrete information captured from the evolution of the market and technology. But
at the same time, within its regional market, Patagon.com was able to create the advantages
described for first-movers and early-movers [78]-[81].

It is frequently underemphasized that imitation of an innovation rests upon the imitating
firm’s organizational capabilities. Too often, the context-dependence of the original performance
is poorly appreciated, so unless firms have replicated productive knowledge on many prior
occasions, the act of replication is likely to be difficult, warns Teece [82]. Competencies and
capabilities, and the routines upon which they rest, are normally rather difficult to replicate, adds
Szulanski [83]. It may not be easy even to understand what all the relevant routines are that
support a particular competence, suggest Lippman and Rumelt [84], arguing that some sources of
competitive advantage are so complex that the firm itself, let alone its competitors, does not
understand them. Furthermore, in most LDCs, these types of capabilities are not as widely
diffused as in developed nations, so successful imitation is often determined not by owning a
capability, but by knowing how to get access to it (e.g., through strategic partnerships). Moreover contextual conditions, such as poor infrastructure or unstable governmental and
economic situations, will also influence imitative activities. Thus, managers must sense the flow
of each innovation with commitment and flexibility. Accordingly,
Proposition 3: In LDCs, an EC strategy is more likely to become a source of competitive advantage when it is continuously reconceptualized by **imitating globally to innovate locally, managing the various stakeholder network effects, and sensing the flow of each innovation with commitment and flexibility.**

VI. IMPLICATIONS AND CONCLUSIONS

Although there is great excitement generated by the Internet’s potential to globalize commerce, there is also widespread evidence that it has had mixed success in LDCs. There is little doubt that EC will continue and probably accelerate throughout the world in the next decade. The rapidly developing nations of the world are building their plans for economic growth at least in part on EC. Thus, managers in LDCs are faced with great challenges and opportunities. It is their responsibility to ensure that their companies are prepared to compete in this new environment. They cannot afford to ignore it. However, managers cannot simply make fashionable investments for the company without understanding its needs, its individuals, its resources, and its environment. The real issues for managers in LDCs are whether EC will be adopted belatedly, in a crisis atmosphere, or with foresight, in a calm and considered manner; whether the transformation agenda will be set by a company’s more prescient competitors or by its own point of view; and whether the transformation will be spasmodic and brutal or continuous and peaceful.

The purpose of this study was to uncover how a local firm in an LDC coped with the instabilities and constraints of its environment, renewed its organizational capabilities, and created value from an EC strategy. The initial analysis framework was the resource-based-view of the firm and Chakravarthy’s [15] strategy framework for coping with turbulence. His framework has three elements: (1) focusing on organizational capabilities as the source of competitive advantage, (2) sharing responsibility for strategy, and (3) reconceptualizing strategy. The current study further extends his framework to conceptualizing imitative catching-up EC strategy in constrained and unstable contexts—where in addition to a turbulent business environment, access to financial, human, and technological resources were constrained.

The case of Patagon.com demonstrates that the fast pace of today’s EC development can create a potential for imitative catch-up by late entrants, especially in LDCs. But in order to sustain economic rents, a firm using EC strategy in an LDC must not simply take the opportunity to use the technology within an imperfect or incomplete resource market. The findings bring forward the power of focusing on organizational capabilities throughout all phases of the EC
strategy evolution. Patagon.com focused on its organizational capabilities by leveraging, strengthening, and diversifying its core competencies. Clearly, Patagon.com initially did not possessed all the required resources to materialize the strategic intent of becoming the first online financial services destination company in Latin America. By the end of this study, Patagon.com had been able to set up offices in North and South America, managing sales and support from the United States, while keeping development teams in Buenos Aires. That let them avoid problems associated with recruiting and retaining skilled staff as well as getting easy access to technology, venture capital, and markets—while keeping local teams in charge of establishing links with local communities, financial institutions, information content providers, and obtaining regulatory approvals.

The second condition for coping with turbulence is to share the responsibility for strategy broadly within the firm. This is especially important in LDCs, where responding to environment constraints as well as influencing them proactively is a key to success [41]. At Patagon.com the encompassment of many people’s visions included not only a guiding philosophy, as suggested by Chakravarthy, but also a stretching strategic intent helped focus the firm’s energies in the face of uncertainty and told employees where they should look for opportunities.

The final condition for coping with turbulence is reconceptualizing strategy. Chakravarthy suggests that to maintain leadership, a firm must repeat innovation strategies. This aspect of Chakravarthy’s framework is different from Patagon.com experience. Patagon.com entered late in the financial online market. However it was able to continuously reconceptualize its strategy by repeatedly copying the latest proven global innovation to change its regional and local markets. This may be the only realistic option for most LDC firms, given the country-level factors constraining them from moving first in the world market. Patagon.com was also able to develop its strategy further not just by building a network around products and services, as suggested by Chakravarthy, but also by managing the effects of at least three other networks: technology partners, information providers, and social networks. This is in accordance with Austin [41] who suggested that mainly in an effort to overcome or capitalize on imperfections in the marketplace, where needed inputs such as management, information, capital, are scarce, managing various networks is particularly critical. In addition, in sensing the flow of innovations flexibility and commitment played central roles. Flexibility and commitment meant that not only was the firm able to respond to the distinctive nature of the environment, but it had
the capacity and management repertoire to influence and even control those environmental constraints as well [85].

These extensions to Chakravarthy’s framework have important implications for both research and practice. For researchers, this study is significant in that it represents one of the first in-depth case studies to consider EC in the context of LDCs. Although the framework and propositions presented above are grounded in the processes that unfolded at Patagon.com, aspects of this framework should generalize to other cases of EC strategy. Further research is clearly needed in order to test the applicability of the framework in other LDC contexts. This calls for longitudinal research studies that explore the evolution of organizational capabilities of firms developing EC strategies in LDCs. In addition, though this investigation focused on LDCs, where the imperfection and resource scarcities of the environment are specially pressing, today’s business environments are also pressuring firms in developed countries for flexibility, speed, and innovation. Thus, researchers might also conduct comparative studies across strategic groups, industries, or countries to uncover how dynamic capabilities development may be enabled or inhibited by different contextual factors. This suggests historical, cross-sectoral, or cross-cultural research designs.

For practitioners, this study provides useful insights into development and implementation of EC strategies in constrained and unstable environments. Of course, nearly every company these days claims to be “doing strategic business over the Internet.” But there is a qualitative difference in the approaches that have been followed. Companies in LDCs might have the capacity to imitate individual generations of Web sites, but might not be able to keep up with a high pace of EC development. The Patagon.com case underscores the need for managers to integrate their EC strategy with their organizational capabilities in the pursuit of the business objectives. Further research into the framework described here holds the promise of providing even more meaningful guidance to managers who seek to develop EC strategies in constrained and unstable environments. But as there are no universal sources of advantage [31] and there are no two LDCs alike [41], additional study is required to understand more fully the dynamics of strategy formation and implementation and the extent to which the findings observed in the Patagon.com case can be generalized.
VII. REFERENCES


# Table I

## Contrasting Various Strategy Approaches

<table>
<thead>
<tr>
<th>Industry Context</th>
<th>Porter*</th>
<th>Hamel and Prahalad**</th>
<th>Chakravarthy***</th>
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<tbody>
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<td>Low Complexity</td>
<td>Low Complexity</td>
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<td>Low Rate of Change</td>
<td>Moderate Rate of Change</td>
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<td>High Accessibility to Resources</td>
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<td>High Environment Stability</td>
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<thead>
<tr>
<th>Basis of Competitive Advantage</th>
<th>Porter*</th>
<th>Hamel and Prahalad**</th>
<th>Chakravarthy***</th>
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<tbody>
<tr>
<td>Entry and Mobility Barriers</td>
<td>Core Competencies (Leveraging)</td>
<td>Organizational Capabilities (diversifying and strengthening core competencies)</td>
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<thead>
<tr>
<th>Primary Drivers of Strategy</th>
<th>Porter*</th>
<th>Hamel and Prahalad**</th>
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<tr>
<td>Strategic Plan Based on Competitors Analysis</td>
<td>Strategic Intent</td>
<td>Guiding Philosophy</td>
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<td>Context Awareness</td>
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<tr>
<th>Concept of Strategy</th>
<th>Porter*</th>
<th>Hamel and Prahalad**</th>
<th>Chakravarthy***</th>
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<tr>
<td>Fit Strategy to Industry Structure</td>
<td>Competitive Innovation (Changing the rules of the game)</td>
<td>Repeat First Mover</td>
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<td>Manage Customer Network Effects</td>
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<td>Go with the flow</td>
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1. Adapted from Chakravarthy [15].
Table II
Contrasting Various Strategy Approaches to the Imitative Catching-Up Approach

<table>
<thead>
<tr>
<th>Industry Context</th>
<th>Porter*</th>
<th>Hamel and Prahalad**</th>
<th>Chakravarthy***</th>
<th>Imitative Catching-Up Approach</th>
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<tr>
<td>Concept of Strategy</td>
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<td>Competitive Innovation (Changing the rules of the game)</td>
<td>Repeat First Mover</td>
<td>Imitate Globally to Innovate Locally</td>
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<td>Manage Customer Network Effects</td>
<td>Manage Various Stakeholder Networks Effects</td>
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<td>Go with the flow</td>
<td>Sense the Flow of Each Innovation</td>
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### Table III

Organizational Capabilities (Core Competencies and Resources) of Patagon.com’s EC Strategy

<table>
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<th>Phase 1: Developing the business</th>
<th>Competence Leverage</th>
<th>Competence Diversification</th>
<th>Competence Strengthening</th>
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<tr>
<td>- Casares’ technology skills and business passion were leveraged with Ashkenazy’s formal training at Harvard to pursue a new venture in online trading.</td>
<td>- Casares and Ashkenazy visited U.S. Web-based financial companies, like Yahoo!, E*Trade, and Schwab, to learn from their successes and failures. - Firms across the U.S. were visited to raise capital. Although capital was not secured, the feedback was useful in deciding to build a broader financial services site instead of an online trading site.</td>
<td>- The skills and knowledge Casares’s and Ashkenazy gained were used to develop Patagon.com’s first business plan, which became the map that focused the firm’s energies.</td>
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<tr>
<td>Phase 2: Starting up the company</td>
<td>- This phase was funded through Casares’s personal savings. - Financial information was collected from public sources.</td>
<td>- The firm modeled its offerings after a group of successful single-purpose U.S. Web sites (see Figure 1).</td>
<td>- In addition to Casares and Larguía, five people were hired. - IT inventory: 1 computer, 2 programmers. - The first Web site was developed.</td>
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<td>Phase 3: Launching the Web site</td>
<td>- Financial support was received from an “angel investor,” Agardy. - Strategic alliances were established with information providers (Wall Street Journal, Multimedios America, Capital Market, and other newspapers in Argentina). - Casares said, “StarMedia did a brilliant job on Wall Street. They spent a lot of money in advertising. We [other companies tapping Latin America’s growing Internet market] benefited from that campaign.”</td>
<td>- The financial consultants of InvestCapital were used as advisers and “beta” users of a new financial consultant Internet platform. - Focus groups with InvestCapital’s clients enabled Patagon.com to understand client behavior and characteristics. - In preparation for attracting outside investment, Casares and Larguía went to Brazil and Mexico to learn about their financial markets. - Boom.com, a virtual financial firm associated with Hong Kong &amp; Shanghai Bank, was hired to advise on developing trading software issues.</td>
<td>- The workforce grew from 7 to 15 people. - The InvestCapital office became the headquarter office. - IT inventory: 3 computers, 4 programmers, and 1 server. - The back-office processes were automated, the trading software was developed, and the “virtual trading floor” chat room was implemented.</td>
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<tr>
<td>Phase 4: Growing the business</td>
<td>- $4 million was raised from U.S. investors. - A partnership was established with AméricaEconomía to receive information and access its sales force. - A fee-for-service agreement was signed with Reuters and Multimedios America. - Agreements with several Web-based companies for reciprocal links to direct traffic and exchange banners. - Agreements were signed with Microsoft, IMPSAT, and Compaq. - As the media child of EC in Argentina, Patagon.com was featured in numerous major business and financial publications.</td>
<td>- The firm’s investors also became advising partners. - Kirchner’s experience working for J.P. Morgan in New York on the privatization of the Brazilian telecommunication company, Telebras. - Cook’s experience as an international strategy consultant. - Endeavor provided contact with U.S. investors. - Two Microsoft consultants were dedicated to Patagon.com. - Microsoft provided access to its Boston-based consulting company dedicated to online trading. - An informal advisory network with respected business leaders in Argentina was nurtured.</td>
<td>- The workforce grew from 15 to 26 people, including new chief financial and chief strategy officers. - The firm was composed of a team of people with expertise in Internet technology, finance, and marketing. - Patagon.com’s headquarters were moved to Miami. Country offices were opened in Sao Paulo, Santiago, and Mexico City. - IT inventory: 11 computers, 9 programmers, 5 servers, 1 LAN, 1 project manager, and 1 database administrator.</td>
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### Table IV

**Patagon.com’s Competitors: Major Sources of Competition on Internet Financial Services in Latin America**

<table>
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<tr>
<th>Sources of Competition</th>
<th>Example of Competitors</th>
<th>Focus of Competitors</th>
</tr>
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<tbody>
<tr>
<td><strong>Established financial service companies</strong> (creating Internet channels)</td>
<td>Banco Santander, Itau, CitiBank</td>
<td>Although traditionally Latin America had not been a primary focus of attention for financial firms with large resource bases (brand and marketing budget), the competitive landscape was making them rethink their strategies.</td>
</tr>
<tr>
<td><strong>Traditional media companies</strong> (launching themselves on the Internet)</td>
<td>Clarin, El Economista, Reforma</td>
<td>In every Latin American country the media groups (in Argentina, Clarin; in Mexico, Reforma) had taken strides to establish themselves over the Internet. In fact, these groups were sometimes the traffic leaders in their countries. Many of the media groups were planning to offer free quotes on their sites.</td>
</tr>
<tr>
<td><strong>Traditional brokerage houses</strong> (launching Internet services)</td>
<td>Rava, Socopa, Coinvalores, Souza Barros, Banco Cidadde, Hedging-Riffo, and Novacao</td>
<td>One broker in Argentina, Rava, and six in Brazil had introduced alternative Internet channels that complemented telephone, direct sales, etc. Rava in Argentina was targeting clients in the interior of the country with a small subset of services. But the Internet represented less than 2% of revenue for the Brazilian brokers, companies were not providing any service beyond trading shares, and no company had an Internet development team to grow the site. In addition, in February 1999 the Sao Paulo Stock Exchange began offering a home trading system.</td>
</tr>
<tr>
<td><strong>New media companies</strong> (expanding services and geography)</td>
<td>StarMedia, America On-Line, Universo Online, Yahoo!, CompuServe</td>
<td>In June 1998, Yahoo! launched <em>Yahoo! En Español</em> as an exploratory venture in Latin America. By January 1999, it was receiving 19 million page views per day. In December 1998, American On-Line (AOL) announced that it was teaming with Grupo Cisneros (in a $100 million joint venture) to enter the Latin American market. AOL was hosting links to E*Trade and other financial sites on its U.S. Web page. StarMedia Money and Universo Online Finance—a major Brazilian Internet portal—provided limited links to financial news and listings and hosted proprietary content. In January 1999, CompuServe launched its Latin American services.</td>
</tr>
<tr>
<td><strong>Local Internet companies</strong> (launching financial services)</td>
<td>Mutual fund companies locally focused</td>
<td>Traditional brokerages were still in the early stages of augmenting capabilities with Internet based links. A very few were developing trading sites on the Internet. Financial services companies were using the Internet to market products and deliver information about their services.</td>
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<tr>
<td><strong>Regional Internet financial service companies</strong> (expanding geographically)</td>
<td>Schwab, Merrill Lynch, CitiBank</td>
<td>Charles Schwab was planning to open offices in all the major markets across the region. &quot;Internet usage is growing at approximately four times the rate of growth of all the other markets, and our growth within the region will be a function of that,&quot; said Lionel Baugh, Schwab's vice president and regional manager for Latin America and the Caribbean. Schwab was already providing Latin clients the ability to trade ADRs on the NYSE. Both Merrill Lynch and Citibank were in the process of launching Internet sites for their clients. Merrill Lynch was offering services to high-value clients only at a premium price. Citibank was wrestling with what services to prioritize for its clients. The e-Citi site was already the most visited bank Web site in the United States.</td>
</tr>
<tr>
<td><strong>Niche Internet financial service companies</strong> (marketing aggressively)</td>
<td>Specialist financial boutiques</td>
<td>An Internet savvy company has a distinct advantage over financial services companies adding another client channel, in terms of focus, agility, and freedom to innovate.</td>
</tr>
</tbody>
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Fig. 1. Patagon.com’s Financial Destination Site Concept and Its U.S. Models
Fig. 2. Patagon.com’s Business Model

**Customer**
Individuals interested in Latin American financial markets: Investors, researchers, analysts, journalists, finance professionals

**Information (Content Providers)**

- **AméricaEconomía (AE)/Dow Jones Partnership**
  - Patagon.com provided 10% equity, support in establishing AE’s Internet strategy, and advertising
  - AE provided links to Dow Jones, its own financial information, access to its sales force, and advertising

**Internet Service Provider**

- **Multimedios América**
  - Joint marketing and preferred pricing programs, and primary ISP through Latin America

**Membership Fees**

- Reciprocal links to direct traffic, and advertising exchange relationships

**Product Sales**

- Preferred computer hardware supplier

**Commissions**

- Patagon.com was offering its information content, and signing Microsoft as its exclusive supplier. Microsoft provided support, and a preferred customer status

**Advertisement**

- Preferred computer hardware supplier

**Fee for service agreement to receive financial information.**

**Other Ad hoc Partnerships**