Chapter 5:

E-business strategy

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E-Business

1

Learning outcomes

- Follow an appropriate strategy process model for e-business
- Produce and select e-business strategies
- Outline alternative strategic approaches to achieve e-business goals.

2

British Airways case study

- Customers of British Airways make over 40 million trips a year,
  - They demand flexibility in their travel plans
- Therefore, e-Business has become a critical aspect of BA overall business strategy. In 2004, British Airways, launched online services
  - which allowed customers to take control of the booking process, so combining new services with reduced costs.
- BA's objective: British Airways is leading the way in innovating technology to simplify our customers' journey through the airport.
- BA decided to develop a specific online ad campaign to create awareness and encourage usage of its Online Value Proposition (OVP).
  - to give a strong message about what is now available online, over and above booking tickets.
  - The aim of the campaign: educated and changed the way in which BA's customers behave before, while and after they travel.
- The campaign focused on the key benefits of the new online services – speed, ease and convenience – and promoted the ability to check in online and print out a boarding pass.

British Airways case study

- The two main target audiences:
  - **Early adopters** were targeted on sites such as T3.co.uk, Newscientist.com and DigitalHomeMag.com.
  - **Those who use the web occasionally**, but don't rely on it. They were reached through ads on sites such as JazzFM.com, Vogue.com and Menshealth.com.
- Traditional media used to deliver the 'Have you clicked yet?' message included print, TV and outdoor media.
- The print ad copy, which details the OVP, was:
  - Your computer is now the airport. Check in online, Print your own boarding pass, choose your seat, change your booking card and even find hire cars and hotels. Simple.

Michael Porter on the Internet

- The key question is not whether to deploy Internet technology – companies have no choice if they want to stay competitive – but how to deploy it

Porter, M. (2001) Strategy and the Internet, *Harvard Business Review,* March 2001, 62–78.

Definitions of Strategy

- Johnson and Scholes (2006) define

  the direction and scope of an organization over the long-term: which achieves advantage for the organization through its configuration of resources within a changing environment to meet the needs of markets and to fulfill stakeholder expectations.
- Lynch (2000) describes strategy as an organization's sense of purpose, which alone is not strategy; plans or actions are also needed.

Figure 5.1 Different forms of organizational strategy

Sell-side e-commerce strategy (Chapters 8 & 9)

- Sell-side e-commerce is a channel strategy
- Objectives for online contribution percentage should drive our strategy
- Our e-commerce strategy defines how we should
  - Hit our channel leads and sales targets
    - Acquisition, Conversion, Retention, Service, Profitability
  - Communicate benefits of using this channel
  - Prioritize products available through channel
  - Prioritize audiences targeted through channel
  - Select partners for this channel
- need to manage channel integration (**multi-channel e-business strategy)**

Buy-side e-commerce strategy or e-supply chain management strategy

- Buy-side e-commerce strategy is about maximizing operational efficiencies while improving customer service quality
- Operational efficiency KPIs should drive our strategy
- Our buy-side e-commerce strategy defines how we should
  - Automate internal processes
  - Link internal resource management systems with external purchasing systems
  - Prioritize suppliers / partners collaborating using this channel
  - Prioritize applications for E-SCM – create a roadmap
- Involves selection of appropriate strategic partners
- e-business strategy also defines how an organization gains value internally from using electronic networks, such as sharing employee knowledge and improving process efficiencies through intranets

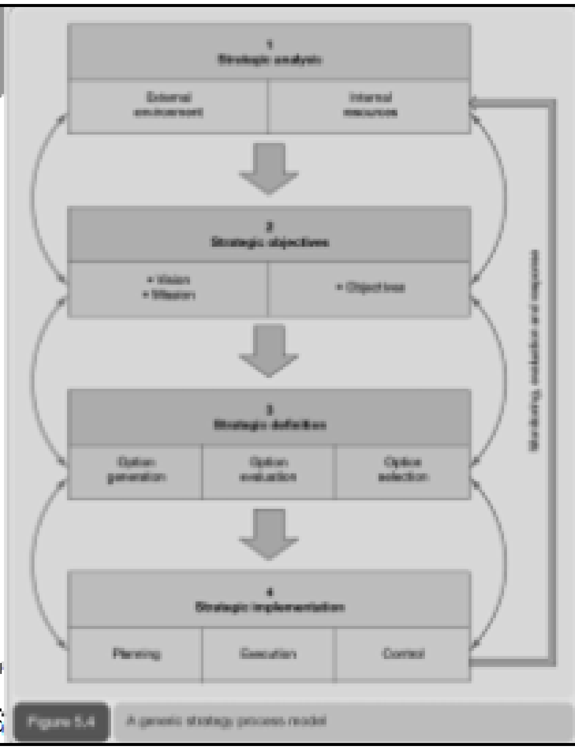
E-Business Strategy Jelassi and Enders (2008)

1 Where will the organization compete? (That is, within the external micro-environment.)

2 What type of value will it create? (Strategy options to generate value through increased revenue or reduced costs with their primary choices of

- (1) a cost leadership position where a company competes primarily in terms of low prices and
- (2) a differentiated position where a company competes on the basis of superior products and services.)

3 How should the organization be designed to deliver value? Includes internal structure and resources and interfaces with external companies.



Common elements in a strategy process model

1. Internal and external environment scanning or analysis is needed.
   - Scanning occurs both during strategy development and as a continuous process in order to respond to competitors.
2. A clear statement of vision and objectives is required.
   - Clarity is required to communicate the strategic intention to both employees and the marketplace.
   - Objectives are also vital to act as a check as to whether the strategy is successful!
3. Strategy development can be broken down into strategy option generation, evaluation and selection.
   - An effective strategy will usually be based on reviewing a range of alternatives and selecting the best on its merits.
4. After strategy development, enactment of the strategy occurs as strategy implementation.
5. Control is required to monitor operational and strategy effectiveness problems and adjust the operations or strategy accordingly.

STRATEGIC ANALYSIS

Strategic Analysis

- Collection and review of information about the external environment and internal resources in order to inform strategy definition
  - Immediate competition (micro-environment), including customer demand and behavior, competitor activity, marketplace structure and relationships with suppliers, partners and intermediaries
  - Wider environment (macro-environment)
  - Internal resources

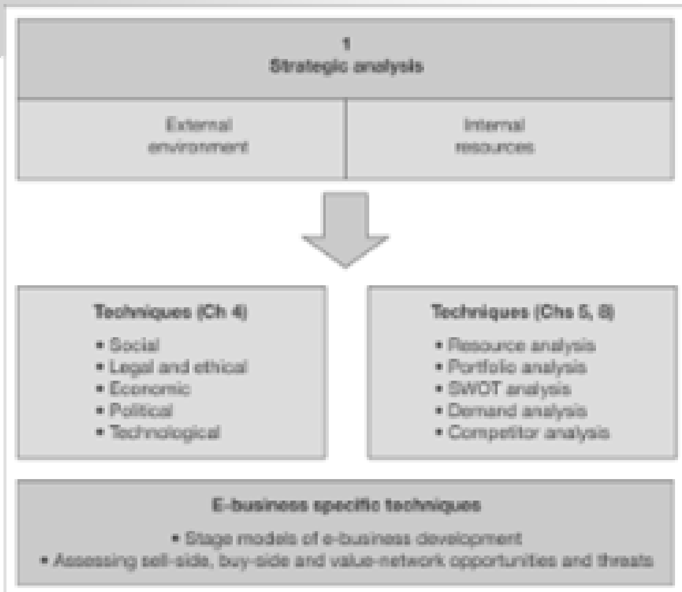


Figure 5.6 Elements of strategic situation analysis for the e-business

Resource & Capabilities

Jelassi and Enders (2008) distinguish between analysis of resources and capabilities:

- Resources are the tangible and intangible assets which can be used in value creation.
  - Tangible resources include the IT infrastructure, bricks and mortar and financial capital.
  - Intangible resources include a company's brand and credibility, employee knowledge, licenses and patents.
- Capabilities represent the ability of a firm to use resources effectively to support value creation.
  - They are dependent on the structure and processes used to manage e-business, for example, the process to plan, review and enhance e-channel performance through web analytics.

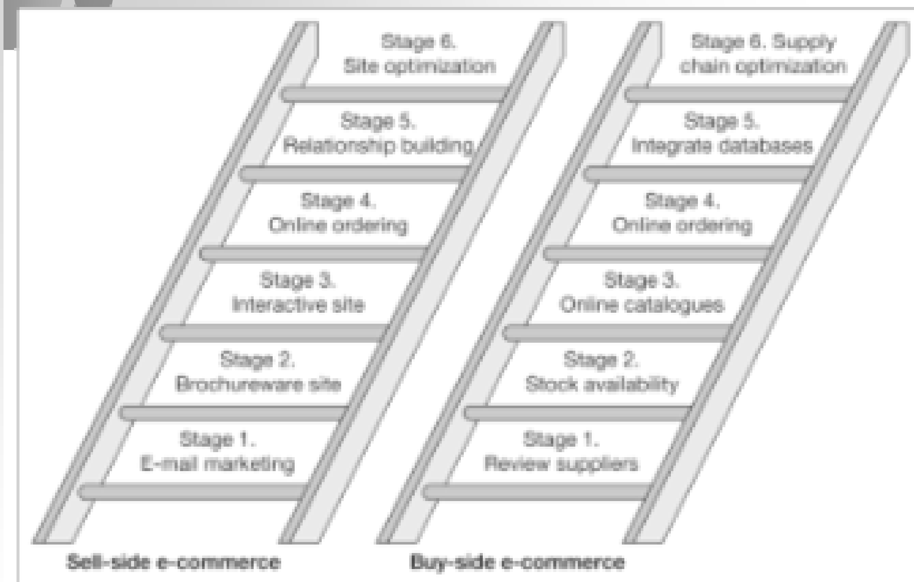


Figure 1.13 A simple stage model for buy-side and sell-side e-commerce

SWOT Analysis

- Strengths, weaknesses, opportunities, and Threats analysis is a useful tool for analyzing the current situation and for formulating strategies
- Next slide shows an example of e-business SWOT analysis

The organisation	Stengths – S 1. Existing brand 2. Existing customer base 3. Existing distribution	Weaknesses – W 1. Brand perception 2. Intermediary use 3. Technology/skills 4. Cross-channel support
Opportunities – O 1. Cross-selling 2. New markets 3. New services 4. Alliances/co-branding	**SO strategies** Leverage strengths to maximise opportunities **= Attacking strategy**	**WO strategies** Counter weaknesses through exploiting opportunities **= Build strengths for attacking strategy**
Threats – T 1. Customer choice 2. New entrants 3. New competitive products 4. Channel conflicts	**ST strategies** Leverage strengths to minimise threats **= Defensive strategy**	**WT strategies** Counter weaknesses and threats **= Build strengths for defensive strategy**

Figure 5.8 SWOT analysis

Balance Internal and External

- A e-Business strategy must be based on the balance between internal capability and external forces
- external factors
  - the proportion of competitors' products or services delivered electronically,
  - proportion of competitors' communications to customers done electronically,
  - proportion of different customer segments (and suppliers or partners on the supply side) attracted to electronic activity
- Internal Factors
  - technical capabilities to deliver through internal or external IT providers,
  - desire or ability to move from legacy systems and the staff capability
  - The cost differential of savings made against implementation costs

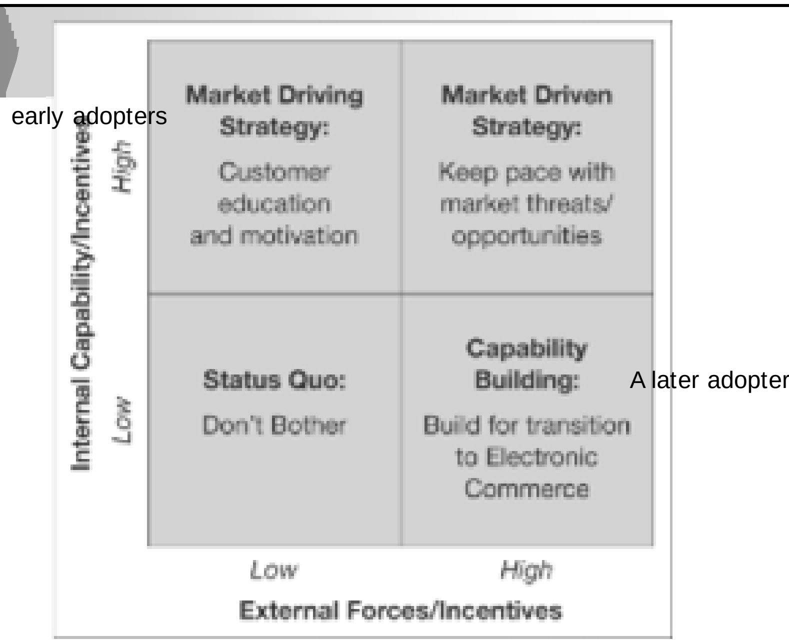


Figure 5.9 Matrix for evaluation of external capability against internal capability

Source: Perrott (2005)

Competitive Environment Analysis Porter's five forces

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STRATEGIC OBJECTIVES

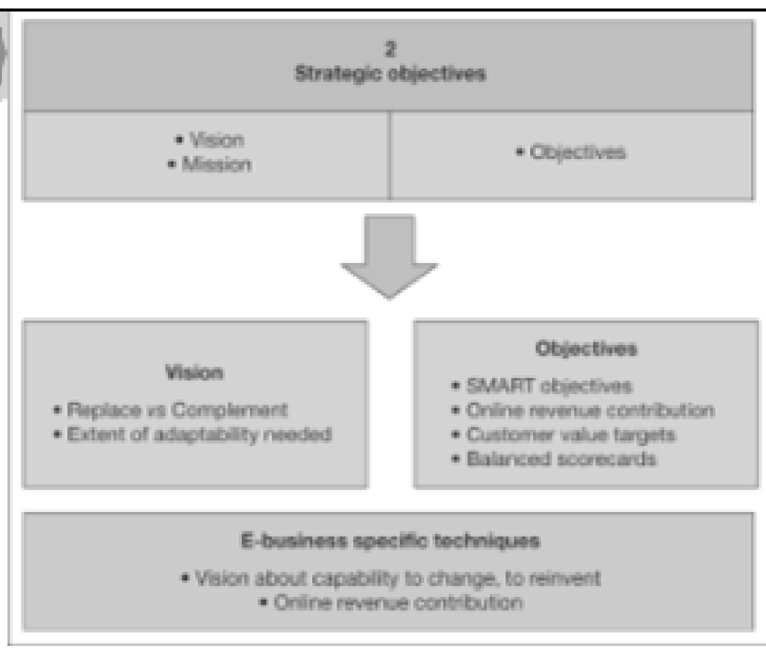

Figure 5.11 Elements of strategic objective setting for the e-business

Vision or mission statements

- Jelassi and Enders (2008) explain that developing a mission statement should provide definition of:
  - Business scope (where?).
    - Markets including products, customer segments and geographies where the company wants to compete online.
  - Unique competencies (how?).
    - A high-level view of how the company will position and differentiate itself in terms of e-business products or services.
  - Values (why?).
    - Less commonly included, this is an emotional element of the mission statement which can indicate what inspires the organization or its e-business initiative.

Vision or mission statements

- **Amazon.com**
  - Our vision is to be earth's most customer-centric company, to build a place where people can come to find and discover anything they might want to buy online.
- **Dell**
  - Dell listens to customers and delivers innovative technology and services they trust and value.
- **Google**
  - Google's mission is to organize the world's information and make it universally accessible and useful.

replacement is most likely to happen when

- customer access to the Internet is high;
- the Internet can offer a better value proposition than other media (i.e. propensity to purchase online is high);
- the product can be delivered over the Internet (it can be argued that this is not essential for replacement);
- the product can be standardized (user does not usually need to view to purchase).

How can e-business create value

- Following methods were proposed
  - Adding values—better quality products and services
    - Better understanding of customers, their needs, and their satisfaction levels
    - Better market understanding and sensing the competitors
  - Reducing cost—making the business process more efficient
    - Better resource planning and allocation
  - Managing risks—improve information flow and availability
  - Creating new reality—create new way that products and or services can be developed

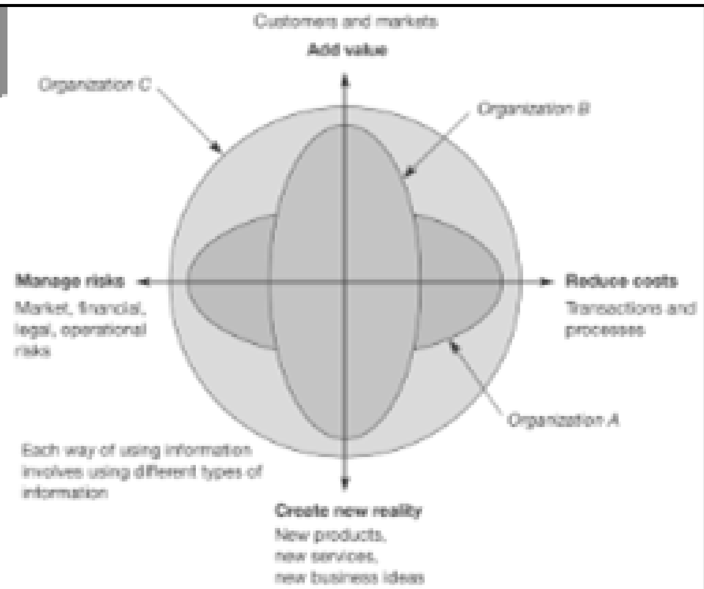

Figure 5.12 An evaluation tool relating information to business value. An organization's use of information on each axis can be assessed from 1 to 10

Source: Marchand *et al.* (2002)

SMART Objectives

- The 2nd phase of strategy development process will produce objectives.
- The objectives should be SMART
  - Specific: Is the objective sufficiently detailed to measure real-world problems and opportunities?
  - Measurable—both efficient and effective
  - Actionable: Can the information be used to improve performance?
  - Relevant: Can the information be applied to the specific problem faced by the manager?
  - Time-Related: Does the measure or goal relate to a defined timeframe?

SMART Objectives

- Online Revenue Contribution--% of company revenue directly generated through online transactions
  - B2B should consider indirect revenue
- Conversion Modeling for B2C
  - Using various conversion rates to measure the effectiveness of e-marketing
- e-channel service contribution gives an indication of the proportion of service-type processes that are completed using electronic channels

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Scorecard for Objective Setting

- Scorecard is a comprehensive framework for setting and monitoring business performance.
- Metrics includes
  - Customer issues
  - Internal efficiency
  - Financial, and
  - Innovation

Table 5.8 An example of an e-business balanced scorecard for a B2B company

Scorecard component	Objective metric
Customer perspective	Customer acquisition rate (leads generated online) Customer retention rate (% using online services) Customer satisfaction index
Process	Average time for new product development (months) Procurement lead times Sales cycle lead time
Financial	Revenue contribution from online channel Margin from online channel Cost savings from partners using different e-services
Innovation and employee development	Number of new product releases per year Training hours attended per employee: target 30 hours/year

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STRATEGY DEFINITION

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Figure 5.16 Elements of strategy definition for the e-business

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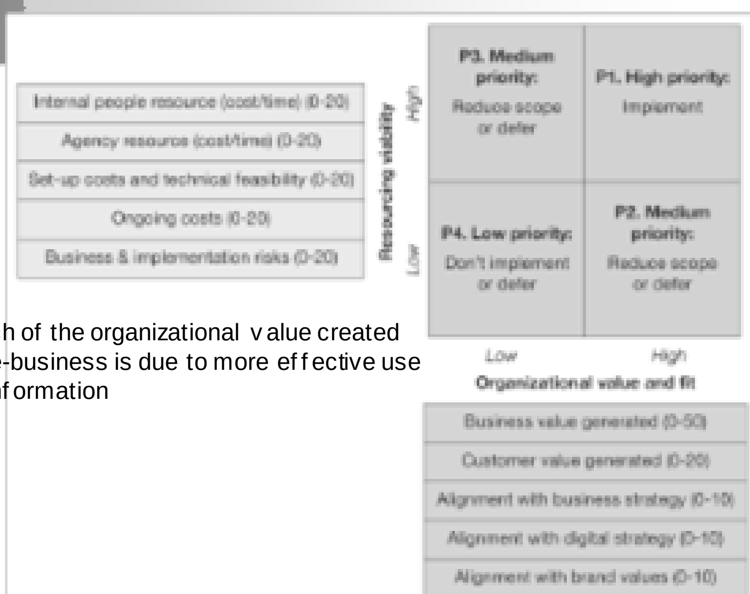
- Econsultancy (2008a) suggests the six criteria used for organizational value and fit (together with a score or rating for their relative effectiveness) are:
  - Business value generated (0–50).
    - Financial benefit, conversion rate, lifetime value.
  - Customer value generated (0–20).
    - assesses the impact of the delivered project on customer sentiment
  - Alignment with business strategy (0–10).
  - Alignment with digital strategy (0–10).
  - Alignment with brand values (0–10).
- The cost elements for potential e-business projects are based on requirements for internal people resource (cost/time), agency resource (cost/time), set-up costs and technical feasibility, ongoing costs and business and implementation risks.



much of the organizational value created by e-business is due to more effective use of information

Figure 5.17 Matrix for evaluating e-business strategy alternatives
Source: Econsultancy (2008a)

Decision 1: E-business channel priorities

- "Getting the right mix of bricks and clicks"
- The next slide shows various options

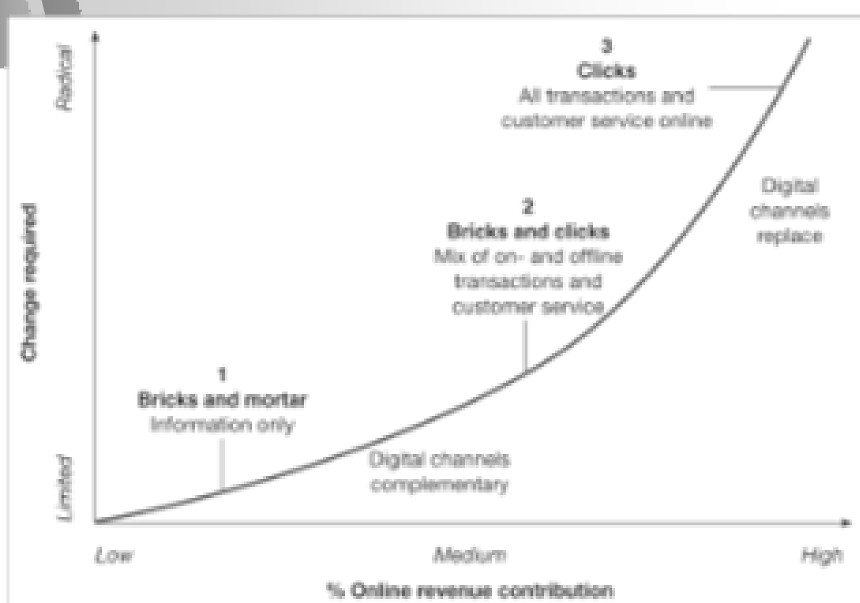


Figure 5.18 Strategic options for a company in relation to the importance of the Internet as a channel

Decision 2: Market and product development strategies

- ◆ which markets to target through digital channels to generate value
- ◆ The next slide shows a matrix with different options to grow market and product development

Figure 5.19 Using the Internet to support different growth strategies

Decision 3: Positioning and differentiation strategies

- Once the market is identified, organizations need to define the best position of our e-commerce services relative to competitors according to four main variables:
  - product quality, service quality, price and fulfillment time.
- Research suggests that customer brand perception is determined by this formula

$$\text{Customer value (Brand perception)} = \frac{\text{Product quality} \times \text{Service quality}}{\text{Price} \times \text{Fulfilment time}}$$

- Strategies can be developed around this formula
- Commonly used Criteria that customers use to benchmark e-tailor performance is presented in table 5.10 on p. 304

Decision 4: Business, service and revenue models

- Review business model (ch2)
- This decision is closely related or similar to D3. However, here it emphasizes new models, e.g., Amazon
- Also need to notice that many companies are successful by sticking to a single business model not far from their original vision

Decision 5: Marketplace restructuring

- Companies should also look at the new opportunities created by Internet in this regard
  - Disintermediation
  - Re-intermediation
  - Counter-mediation

Decision 6: Supply-chain management capabilities

- This might be considered together with decision 5 but could be examined on its own
  - How to interact more closely with suppliers?
  - What to be covered in this e-relationship?
  - Participate in marketplace to reduce cost?

Decision 7: Internal knowledge management capabilities

- How can our intranet be extended to support different business processes such as new product development, customer and supply chain management?
- How can we disseminate and promote sharing of knowledge between employees to improve our competitiveness?

Decision 8: Organizational resourcing and capabilities

- What changes does the organization need to make?
- Available options
  - In-house division (integration)
  - Joint venture (mixed)
  - Strategic partnership (mixed)
  - Spin-off (separation)
- separation is preferable in situations where
  - a different customer segment or product mix will be offered online
  - differential pricing is required between online and offline
  - there is a major channel conflict
  - the Internet threatens the current business model
  - additional funding or specialist staff need to be attracted

Strategy Implementation

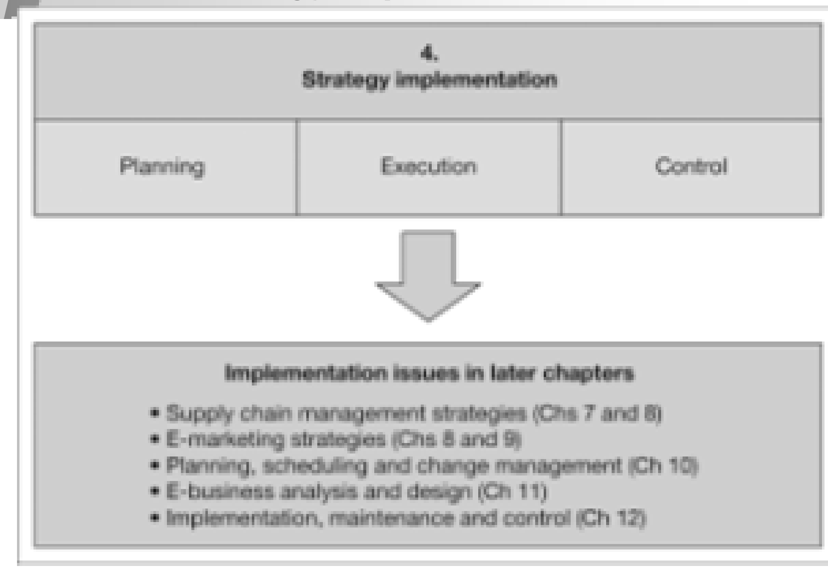


Figure 5.20 Elements of strategy implementation for the e-business

Failed e-Business Strategies

- Some reasons were articulated
  - Overestimate the speed that the marketplace adopts the dot.com innovation
  - Timing errors
  - Lack of creativity
  - Free services
  - Over ambition

Failed e-Business Strategies

- Usually there are more fundamental problems than surfaced
- Major problems occurred at the strategy development and implementation process
  - Situation Analysis—insufficient research on demand and completive forces
  - Object setting—no objectives or unrealistic
  - Strategy definition—poor business models
  - Implementation—problems with customer services and product quality, etc.

IS Strategy and e-Business Strategy

- These two are closely related.
  - Business-alignment approach—top down. Start with business strategy and make IS strategy so that it aligns with business strategy
  - Business-impact approach—bottom up. Examine new IS opportunities to see if they can bring positive impact to business strategy