MBA 7301. Business Strategy In an Electronic Age

@MBA 2024

Outline of Presentation

1. The Value Chain
2. Trade Cycles
3. Competitive Advantage
4. Business Strategy

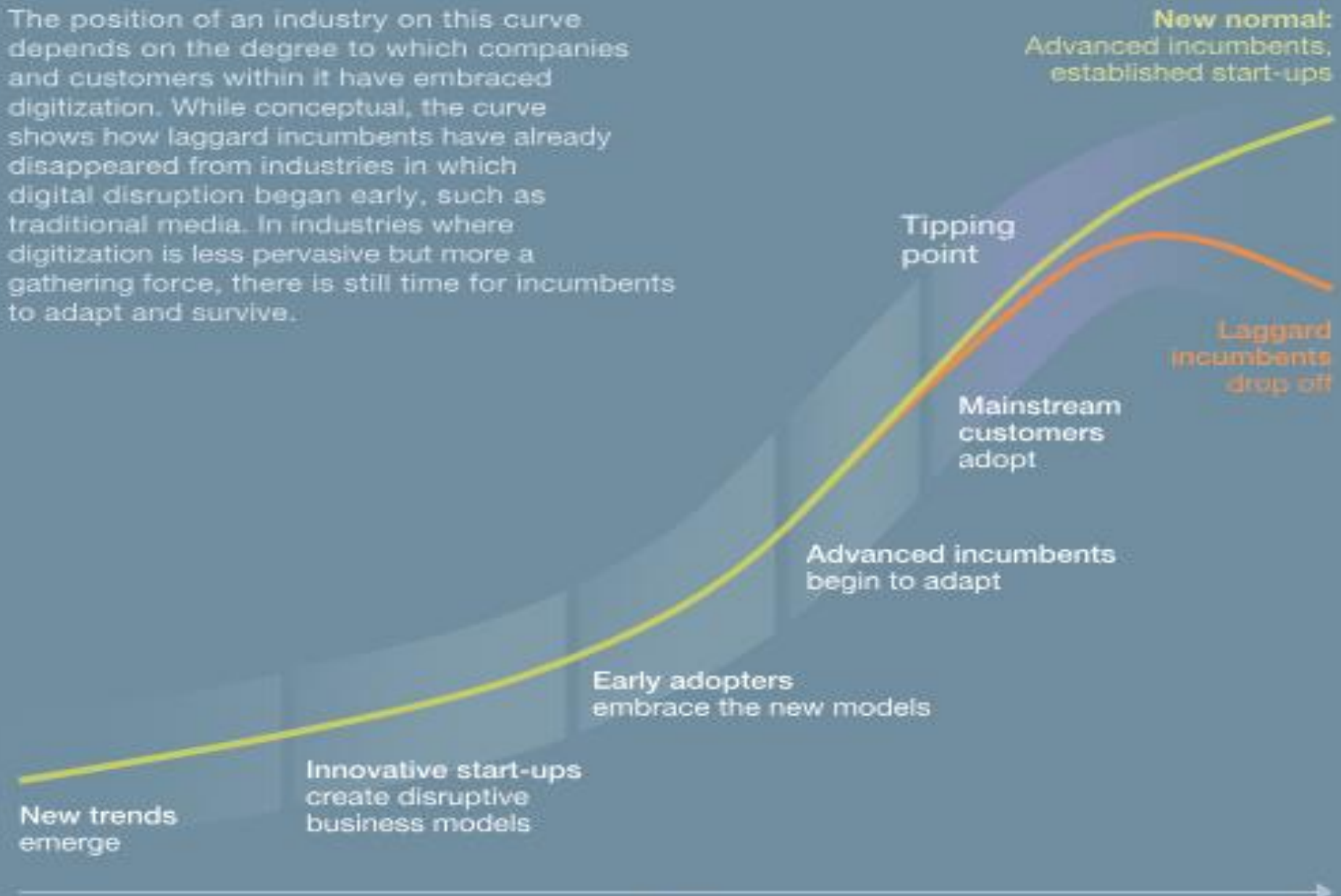
Introduction

- Digital transformation is widely affecting various industries particularly healthcare, telecommunications, automotive, banking and manufacturing sectors. It enables innovation practices, improved designs, and new business models, and shapes how organizations create value on the Internet .
- Companies can leverage robust customer relationships and increase cross selling opportunities through successful digital transformation.

Introduction

- Digital transformation is not solely about acquiring and deploying the fit for purpose technologies; rather it is a significant approach in tackling managerial issues such as human resources, business efficiency, and business process redesign

How digitization transforms industries



The Value Chain & e-commerce value chain

- All eCommerce platforms have a value chain. Professor **Micheal Porter** coined the idea of a value chain at Harvard Business School in 1985 in one of his books, **"Competitive Advantage: Creating and Sustaining Superior Performance."**
- Every single executive in the world certainly spends time thinking about how their goods and services stand out and how they can ensure maximum profits. It is the biggest dream of any business.

The Value Chain & e-commerce value chain

- The value chain model helps businesses establish their competitive edge and refine their business practices to operate efficiently and have the largest possible gain margins.
- Let’s explore value chains in eCommerce businesses in detail, their importance, the components that make up the value chains, and more.

The Value Chain & e-commerce value chain

- The eCommerce value chain is where a business creates and delivers goods and services to buyers over the Internet. The chain includes six major components, mainly:
- Infrastructure
- Content
- Customer service
- Security
- Payment
- Order fulfillment

The Value Chain & e-commerce value chain

- **Content:** means digital products or data businesses offer on their platforms. Infrastructure includes all the business's hardware, software, and networking capabilities to run all their operations**.**
- **Order fulfillment** is simply the process of completing customer orders, including all the warehouse and inventory management, order processing, and shipping.

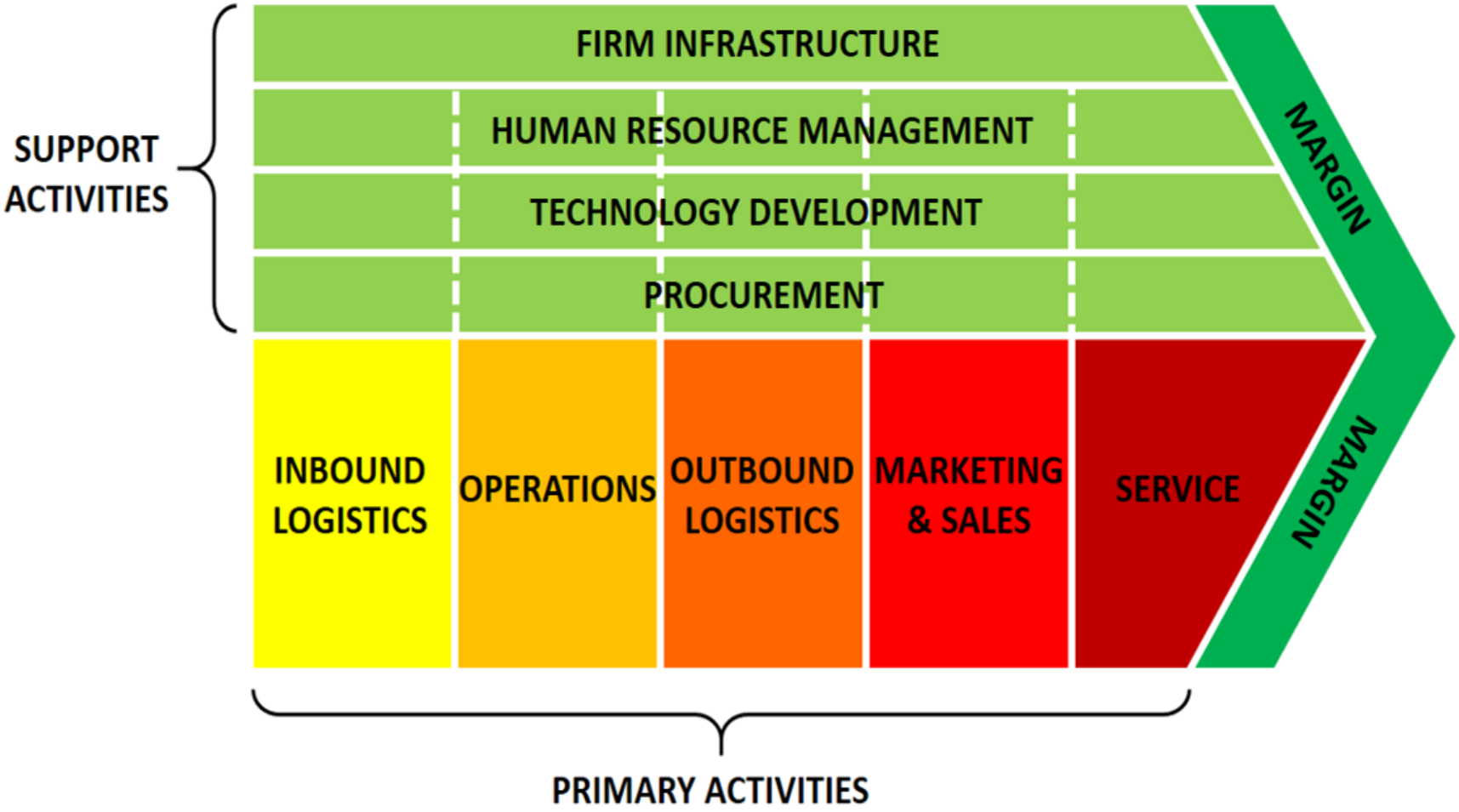
The Value Chain & e-commerce value chain

- **Consumer services** include all these activities businesses undertake to assist buyers before, during, and after purchasing.
- **Protecting all eCommerce** data and systems from unauthorised access, cyber threats, and thefts is a part of security.
- **Payment**. The mode of enabling monetary transactions for goods and services. eCommerce businesses can ensure a successful operation by effectively managing these components.

Key Activities in the E-commerce Value Chain

- Analyzing and understanding all the activities and sub-activities value chains and their relationships helps eCommerce platforms understand them and their interdependent functions.
- It is known as a value chain analysis when value chain concepts are implemented in their activities. Here are the essential components of the value chain:

Key Activities in the E-commerce Value Chain



Key Activities in the E-commerce Value Chain

- **Primary activities (Core)**

These activities help you enhance your product's physical creation, maintenance, sale, and support. The activities included:

- **Inbound operations**

The internal handling of resources and their management comes from outside sources like external vendors and other supply chain contacts and sources. Such outside resources flowing into your business are called "inputs."

Key Activities in the E-commerce Value Chain

- **Operations**

Workflows and processes that convert inputs to outputs are a part of the operations processes. The outputs are the integral core products that allow you to sell the completed goods and services for a higher cost than the cost of the raw materials plus production to create higher gains.

Key Activities in the E-commerce Value Chain

- **Outbound operations**

The outbound operations include all the delivery outputs to the customers. Workflows involve different storage, collection, and distribution methodologies to the buyers. These include managing all the internal and external systems for your business.

Key Activities in the E-commerce Value Chain

- **Marketing and sales**
- All the branding and advertising are also value chain activities. They strive to enhance visibility, reach a larger target audience, communicate with buyers, and advise them on what to purchase to suit their needs.

Key Activities in the E-commerce Value Chain

- **Services**
- Customer services and product support activities that reinforce a long-term and reliable relationship with the buyers who have bought your products and services.
- Because the inefficiencies and management problems are extremely easy to look out for, preliminary activities are a source of business advantages. It means the business can make a product or service at a reduced cost than its competitors.

Key Activities in the E-commerce Value Chain

2. Secondary activities (Support)

- The secondary activities support the primary ones. These include:
- **Acquisition and buying**
- One of the key secondary activities is finding outside vendors, building and maintaining vendor relationships, negotiating costs, and other such activities connected to bringing in the required materials and resources to assemble a product or service.

Key Activities in the E-commerce Value Chain

- **Development of technology**
- Research and development strategies, IT, and cybersecurity management that help you build and maintain a business's technology comprise an important value chain activity. It ensures seamless operations throughout the supply chain.
- **Business's infrastructure**
- All legal, administrative, general management, finance, accounting, public relations, quality, and safety assurance are a part of the company infrastructure activities.

Key Activities in the E-commerce Value Chain

- **Management of human resources**
- It includes the complete management of the human capital. It includes all the functions like training, hiring, maintaining, and building a business's culture. It helps in creating a healthy work environment and positive employee relationships.

Value Chain Vs Supply Chain in e-commerce

In the eCommerce world, value and supply chains are two important supporting factors of the supply chain. They are intricately connected, and people use these terms interchangeably. There are several conceptual differences between these two terms in any eCommerce model.

Value Chain Vs Supply Chain in e-commerce

The value chain process includes acquiring and manufacturing the completed product. On the other hand, the supply chain involves the services needed to deliver the finished product to the end customer.

The value chain model elaborates on the methods to enhance product values as it progresses through stages, from assembly and manufacturing to distribution.

Real-Life Value Chain Model Example

The **supply chain** helps you determine consumer satisfaction methods when an order is placed within an eCommerce platform.

The **supply chain** helps you determine consumer satisfaction methods when an order is placed within an eCommerce platform.

With a **value chain analysis**, businesses can assess activities and steps to enhance the final product. With supply chains, planning, coordination, and integration of stock flows and inventories within the business becomes easier.

Real-Life Value Chain Model Example

- Understanding the value chain becomes much easier with a real-life instance. Let us consider Amazon, the eCommerce giant. It is a very client-centric corporation, and it follows the below primary activities:
- **Inbound activities**
- The Amazon fulfillment services and data centers that form the heart of Amazon Web Services (AWS) supply products that are the key inputs of the business. By outsourcing, they minimise costs per unit.

Real-Life Value Chain Model Example

- **Operations**
- They go beyond in-house distributions and capabilities due to co-sourcing and outsourcing from locals. By using robotics in warehouses, they also reduce labour costs.
- **Outbound activities**
- This is the stage where Amazon converts its inputs to outputs. Their bi-directional delivery processes allow them a substantial benefit over their competitors.

Real-Life Value Chain Model Example

Sales and marketing

Amazon has a wonderful sales and marketing team that has effectively demonstrated a large economic power to hold its position among the best brands in the world including customization.

Discussion

What could be the challenges that managers face in the e-commerce value chain?

Up next

- Competitive advantage for e-commerce firms
- Roles of Information Technology in value chains and enhancing competitiveness
- E-Commerce Business Strategy

Creating Competitive Advantage

- In any company, information technology has a powerful effect on competitive advantage in either cost or differentiation. The technology affects value activities themselves or allows companies to gain competitive advantage by exploiting changes in competitive scope. Information technology competitively enables the following;

Creating Competitive Advantage

- **Enhancing differentiation**.
- The impact of information technology on differentiation strategies is equally dramatic. As noted earlier, the role of a company and its product in the buyer's value chain is the key determinant of differentiation. The new information technology makes it possible to customize products.

Creating Competitive Advantage

- **Changing competitive scope.**
- Information technology can alter the relationship between competitive scope and competitive advantage. The technology increases a company's ability to coordinate its activities regionally, nationally, and globally. It can unlock the power of broader geographic scope to create competitive advantage. **Consider the newspaper industry**

Creating Competitive Advantage

- **Spawning new businesses**
- The information revolution is giving birth to completely new industries in three distinct ways. First, it makes new businesses technologically feasible.
- Second, information technology can also spawn new businesses by creating derived demand for new products. One example is Western Union's EasyLink service, a sophisticated, high-speed, data-communications network that allows personal computers, word processors, and other electronic devices to send messages to each other and to telex machines throughout the world.

steps to take advantage of opportunities that the information Technology revolution has created.

- **1. Assess information intensity.** A company's first task is to evaluate the existing and potential information intensity of the products and processes of its business units.
- It is very likely that information technology will play a strategic role in an industry that is characterized by :Potentially high information intensity in the value chain and Potentially high information intensity in the product. A product that mainly provides information, a product whose operation involves substantial information processing.

steps to take advantage of opportunities that the information Technology revolution has created.

- **2. Determine the role of information technology in industry structure.**
- Managers should predict the likely impact of information technology on their industry's structure. They must examine how information technology might affect each of the five competitive forces. Not only is each force likely to change but industry boundaries may change as well. Chances are that a new definition of the industry may be necessary.

steps to take advantage of opportunities that the information Technology revolution has created.

- **3. Identify and rank the ways in which information technology might create competitive advantage.** The starting assumption must be that the technology is likely to affect every activity in the value chain. Equally important is the possibility that new linkages among activities are being made possible. By taking a careful look, managers can identify the value activities that are likely to be most affected in terms of cost and differentiation.

steps to take advantage of opportunities that the information Technology revolution has created.

- **4. Investigate how information technology might spawn new businesses.**
- Managers should consider opportunities to create new businesses from existing ones. Information technology is an increasingly important avenue for corporate diversification..

steps to take advantage of opportunities that the information Technology revolution has created.

- **5. Develop a plan for taking advantage of information technology.** The first four steps should lead to an action plan to capitalize on the information revolution. This action plan should rank the strategic investments necessary in hardware and software, and in new product development activities that reflect the increasing information content in products.
- Organizational changes that reflect the role that the technology plays in linking activities inside and outside the company are likely to be necessary.

seven trends that could redefine competition.

- 1. **New pressure on prices and margins**
- Digital technologies create near-perfect transparency, making it easy to compare prices, service levels, and product performance: consumers can switch among digital retailers, brands, and services with just a few clicks or finger swipes

seven trends that could redefine competition.

- **2. Competitors emerge from unexpected places**
- Digital dynamics often undermine barriers to entry and long-standing sources of product differentiation. Web-based service providers in telecommunications or insurance, for example, can now tap markets without having to build distribution networks of offices and local agents. They can compete effectively by mining data on risks and on the incomes and preferences of customers.

seven trends that could redefine competition.

- **3. Winner-takes-all dynamics**
- Digital businesses reduce transaction and labor costs, increase returns to scale from aggregated data, and enjoy increases in the quality of digital talent and intellectual property as network effects kick in. The cost advantages can be significant: online retailers may generate three times the level of revenue per employee as even the top-performing discounters. Comparative advantage can materialize rapidly in these information-intensive models not over the multiyear spans most companies expect.

seven trends that could redefine competition.

- **4. Plug-and-play business models**
- As digital forces reduce transaction costs, value chains disaggregate. Third-party products and services digital Lego blocks, in effect can be quickly integrated into the gaps.
- Amazon, for instance, offers businesses logistics, online retail “storefronts,” and IT services. For many businesses, it may not pay to build out those functions at competitive levels of performance, so they simply plug an existing offering into their value chains.

seven trends that could redefine competition.

- **5. Growing talent mismatches**
- Software replaces labor in digital businesses. It is estimated, for instance, that of the 700 end-to-end processes in banks (opening an account or getting a car loan, for example), about half can be fully automated.
- Computers increasingly are performing complex tasks as well. “Brilliant machines,” like IBM’s Watson, are poised to take on the work of many call-center workers.

seven trends that could redefine competition.

- **6. Converging global supply and demand**
- Digital technologies know no borders, and the customer's demand for a unified experience is raising pressure on global companies to standardize offerings.
- In the B2C domain, for example, many US consumers are accustomed to e-shopping in the United Kingdom for new fashions (see sidebar, "How digitization is reshaping global flows"). They have come to expect payment systems that work across borders, global distribution, and a uniform customer experience.

seven trends that could redefine competition.

- **7. Relentlessly evolving business models at higher velocity**
- Digitization isn’t a one-stop journey. A case in point is music, where the model has shifted from selling tapes and CDs (and then MP3s) to subscription models, like Spotify’s. In transportation, digitization (a combination of mobile apps, sensors in cars, and data in the cloud) has propagated a powerful non-ownership model best exemplified by Zipcar, whose service members pay to use vehicles by the hour or day. Google’s ongoing tests of autonomous vehicles indicate even more radical possibilities to shift value

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e-Commerce Strategy

Formulating an Internet Strategy in a Networked World

- As a first step toward a new model for organizational e-commerce, let's consider the Internet world from three different viewpoints :
  - The new organization, which was *born on the Internet* in the e-commerce marketspace
  - Established organizations traditionally positioned in the offline marketspace *moving to the Net*
  - Those organizations that are coming together in a new organizational form—the *e-consortia*— whose aim is to leverage the unique strengths associated with each company and partner through the "virtual structure" of an online organization

Established, Online, and Consortium Organizations in the Marketspace

Born on the Net: Pillars of Success

- Organizations that were born on the Internet and have prospered did so through a strong position in four key pillars of success: technology, marketing, service, and branding
- **Technology**
  - The technology goal must be understood for that organization within its industry and market.
  - An organization must determine if it is going to be an advanced technology leader or follow a technology agenda that relies upon more stable systems An organization must determine what is the necessary relationship between the company's technology or product strategy and the operational aspects of that strategy.

Technology (continued)

- The technology employed by an organization must service the customers' needs and expectations from a technology perspective.
- Organizations must ask themselves questions such as "Are we a technology company? Can the technology be used to create barriers to entry? Can technology be used to lock in a customer base?" Organizations must have clearly defined the answers to these questions and must work them into their business plan.

Market

- An organization must determine its target market and whether it is still realistically open to new entrants.
- An organization must understand how the market is going to segment and grow over the near and longer term and know whether the organization will be able to move rapidly enough to meet those changing needs.
- Being born on the Net requires that the organization understand the possible moves from major established organizations and utilize its own nimbleness to counter them.

Service

- An organization must know its customers' expectations regarding service level.
- An organization must understand its own Internet service value chain, the components of which are
  - Understanding the relationship between attracting customers and service levels.
  - Understanding how an organization creates service value during a transaction for a customer.
  - Understanding how service plays a role in the customer fulfillment process, where the purchase is dispatched.
- Understanding the role of customer service in retaining customers and maintaining site adhesion.

Brand

- An organization must understand whether it has the ability to create a strong brand.
- An organization must understand the basis of its brand. Is it
  - Technology leadership?
  - Service provision?
- Market positioning?

Move to the Net: Pillars of Success

- **Technology**
- An organization must understand what the total technology implications are for that organization—Internet, enterprise resource planning, data warehouse, etc.
- Organizations must know whether their processes are aligned to an Internet technology-based approach.
- An organization must understand how its customers view and use technology within the marketspace and must leverage that knowledge to build an effective infrastructure that facilitates an agile and flexible e-commerce strategy.
- An organization must assess its internal value chain as well as those of its suppliers and build to minimize costs and maximize efficiencies.

Marketing

- An organization must understand what the implications of e-commerce and technology are for the marketspace in which the organization is to compete in terms of:
  - Branding
  - Relationship management
- An organization must determine whether its target market is the same as its traditional bricks-and-mortar marketspace or if it has moved.
- If its core marketspace has moved, is it still realistically open to traditional organizations moving onto the Net?
- An organization must understand how the market is going to segment and grow over the near future due to the impact of the Internet Organizations must assess the impact of pure Internet-based organizations.

Service

- An organization must determine the new service level expectations of the customer.
- An organization must understand what the customers' new value proposition requirements are in terms of cost, service level expectations, and information-based service.
- Organizations must reassess their service value chain.
  - How are we going to acquire customers?
  - How are we going to develop customer relationships through the new medium?
  - How can we best fulfill the customers' needs—bricks and mortar, clicks and mortar, or online?
  - How do we support our customers during purchase and through order fulfillment?

Brand

- Organizations need to determine how to best leverage their existing brand.
  - Do we have the ability to create a strong dot-com brand?
  - What is the basis of that brand?
  - What are the implications for our brand in terms of the technology we employ, develop, or use?
  - What are the challenges for creating a new dot-com brand
  - Does the Internet demand an amendment or a completely new service provision?
- Will new brand positioning change our existing brand?

Bonding Factors

- **Leadership**
- Does the CEO have a vision for e-commerce?
- Does the CEO have a track record of taking technology change in stride?
- Do the senior executives share a technology vision? Also, do they understand its impact upon their functional area and the organization as a whole?
- Is the leadership stable or in a continual state of flux?

Infrastructure

- Can the organization's technology infrastructure support the new model of e-business?
- Can the organization's technology infrastructure support the move to mass customization?
- What are the implications for the organizational changes needed to be competitive in an e-commerce environment?
- Does the organization's infrastructure interface with the infra-structures of their suppliers and customers in the electronic marketspace?

Organizational Learning

- Does the organization support internal learning?
  - Scanning the technology horizon for change and then adopting that change where appropriate
  - Developing a self-awareness inside the boundaries of the organization to drive practice and process change
- Can the learning of the organization with respect to markets, product, technology, processes, etc., be quickly refocused into a new technology-based method of production?

e-Consortia

- The marketspace of the Internet is no longer composed of just two organizational types—the online born-on-the-Net organization and the established traditional organizational form that is attempting to move to the Internet.
- A third competitive force has evolved—the *e-consortium*—in which a set of organizations form a consortium to create an online entity in an area in which their individual strengths can be better leveraged to create future value.
- The effect of e-consortia is to cut down on the customer's search effort and to provide products to the customer's needs.
- An e-consortium is an online entity positioned within a marketspace through which a group of organizations' individual strengths can be combined and leveraged to create future value.

E-Consortia (Continued)

- The future of e-consortia is vast; it represents a major step away from the one-to-one business-to-customer (B2C) experiences currently offered through individually branded Websites. Other e-commerce category types include the business-to-business (B2B), business-to-government (B2G), and government-to-business (G2B) e-commerce marketspace.
- B2C (business to customer). The enterprise services the needs of the retail customer.
- B2B (business to business). An enterprise services the needs of other businesses. This is accomplished through either a *vertical portal* or a *horizontal portal*. Vertical portals offer a service or product to a single industry type, while horizontal portals offer a service across multiple industries.
- B2G (business to government). An enterprise services the needs of a government or its agencies.
- G2B (government to business). Governments interact with businesses (or citizens) through government portals.

THE END