E-Business Strategy

Main Topics

- What is e-business strategy?

- Strategic analysis

- Strategic objectives

- Strategy definition

- Strategy implementation

Focus on .. Information systems strategy and e-business strategy

What is e-business strategy?

Strategy defines the future direction and actions of an organization or part of an organization. Johnson and Scholes (2006) define corporate strategy as:

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 fulfil stakeholder expectations.

E-business strategies share much in common with corporate, business and marketing strategies. These quotes summarizing the essence of strategy could equally apply to each strategy:

- 'Is based on current performance in marketplace.'

- 'Defines how we will meet our objectives.'

- 'Sets allocation of resources to meet goals.'

- 'Selects preferred strategic options to compete within a market.'

- 'Provides a long-term plan for the development of the organization.'

- 'Identifies competitive advantage through developing an appropriate positioning defining a value proposition delivered to customer segments.'

Johnson and Scholes (2006) note that organizations have different levels of strategy, particularly for larger or global organizations. These are summarized within Figure 5.1.

- They identify *corporate strategy* which is concerned with the overall purpose and scope of the organization, *business unit strategy* which defines how to compete successfully in a particular market and *operational strategies* which are concerned with achieving corporate and business unit strategies.

 - Additionally, there are what can be described as *functional strategies* that describe how the corporate and business unit strategies will be operationalized in different functional areas or business processes.

- Functional or process strategies refer to marketing, supply chain management, human resources, finance and information systems strategies.

Figure 5.1 Different forms of organizational strategy

The imperative e-business strategy

Think about the implications if e-business strategy is not clearly defined. The following may result:

- Missed opportunities from lack of evaluation of opportunities or insufficient resourcing of e-business initiatives. These will result in more savvy competitors gaining a competitive advantage;

- Inappropriate direction of e-business strategy (poorly defined objectives, for example, with the wrong emphasis on buy-side, sell-side or internal process support);
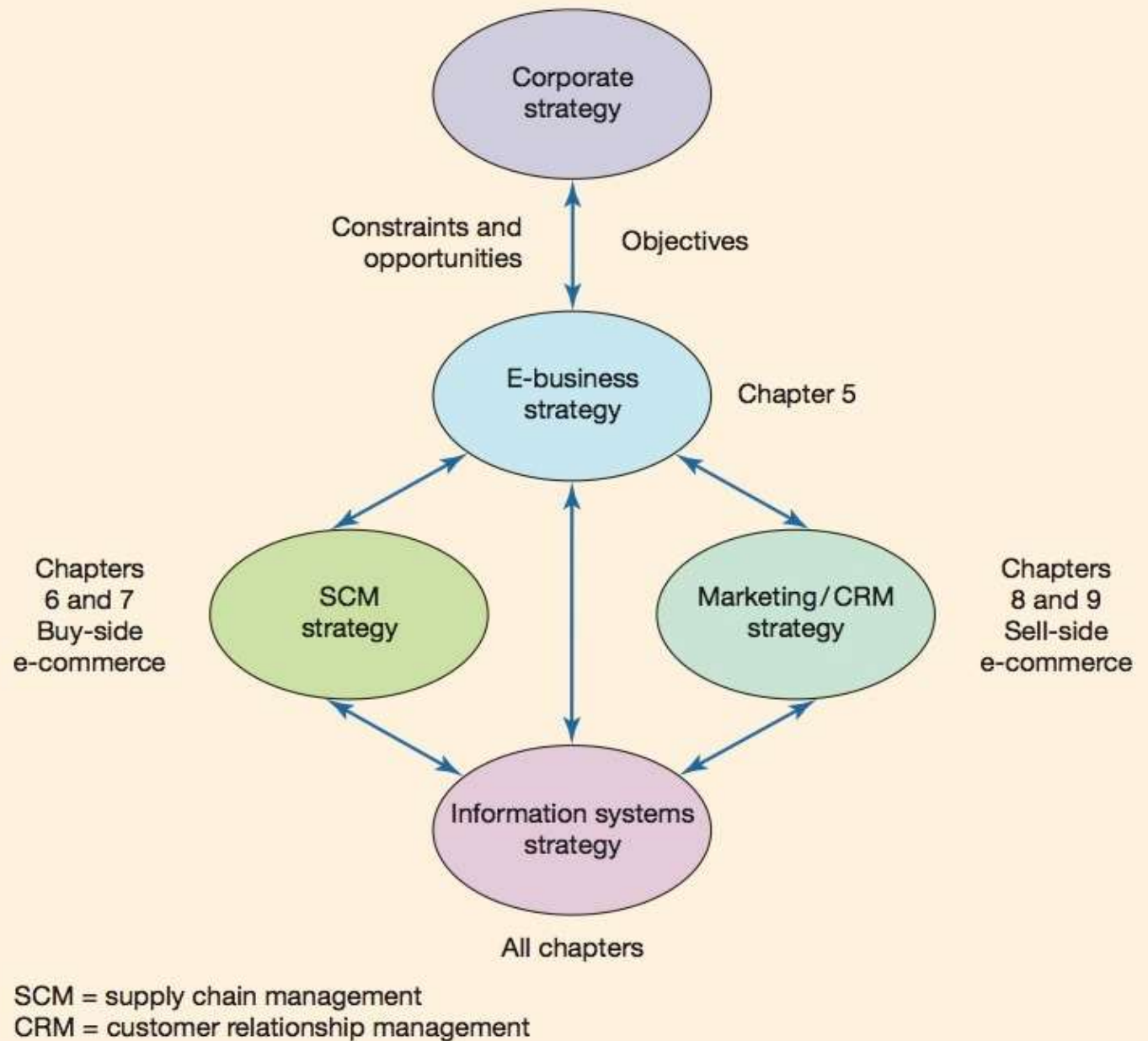
The imperative e-business strategy

- Limited integration of e-business at a technical level resulting in silos (separate organizational team with distinct responsibilities which does not work in an integrated manner with other teams) of information in different systems;

- Resource wastage through duplication of e-business development in different functions and limited sharing of best practice. For instance, each business unit or region may develop a separate web site with different suppliers without achieving economies of scale.

Figure 5.2 Relationship between e-business strategy and other strategies

Corporate strategy

Constraints and opportunities / Objectives

E-business strategy — Chapter 5

Chapters 6 and 7 Buy-side e-commerce

SCM strategy

Marketing / CRM strategy

Chapters 8 and 9 Sell-side e-commerce

Information systems strategy

All chapters

SCM = supply chain management
CRM = customer relationship management

E-channel strategies

An important aspect of e-business strategies is that they create new **'e-channel strategies'** for organizations.

E-channel strategies define specific goals and approaches for using electronic channels.

This is to prevent simply replicating existing processes through e-channels, which will create efficiencies but will not exploit the full potential for making an organization more effective through e-business.

Without specific goals and strategies to communicate the benefit of e-channels for customers and partners, adoption of the new channels will be slow relative to a structured approach.

E-channel strategies also need to define how electronic channels are used in conjunction with other channels as part of a ***multi-channel*** *e-business strategy.*

This multi-channel e-business strategy defines how different marketing and supply chain channels should integrate and support each other in terms of their proposition development and communications based on their relative merits for the customer and the company.

The characteristics of a multi-channel e-business strategy are:

- E-business strategy is a channel strategy;

- Specific e-business objectives need to be set to benchmark adoption of e-channels;

- E-business strategy defines how we should:

- Communicate the benefits of using e-channels

1 Prioritize audiences or partners targeted for e-channel adoption

2 Prioritize products sold or purchased through e-channel

3 Achieve our e-channel targets;

- E-channel strategies thrive on creating differential value for all parties to a transaction;
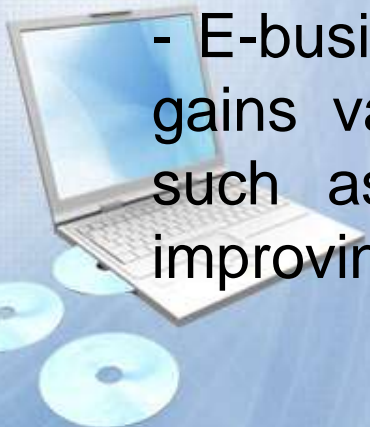
- But e-channels do not exist in isolation, so we still need to manage channel integration and acknowledge that the adoption of e-channels will not be appropriate for all products or services or generate sufficient value for all partners.

Right-channelling can be summarized as:
    1 Reaching the right customer
    2 Using the right channel
    3 With the right message or offering

4 At the right time;

- E-business strategy also defines how an organization gains value internally from using electronic networks, such as through sharing employee knowledge and improving process efficiencies through intranets.

Figure 5.3 BA communicates its online value proposition (www.britishairways.com)
Source: Based on *Revolution* (2005)
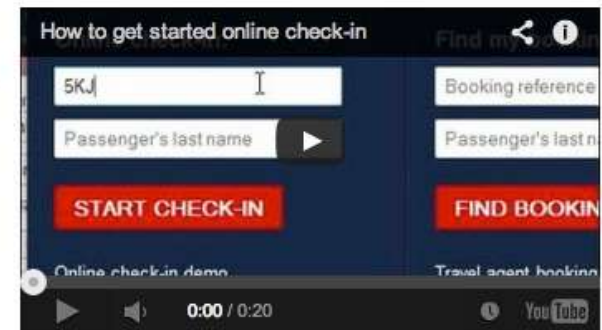
Example, check-in to flight to multi-channel of strategy

Strategy process models for e-business

- Before developing any type of strategy, a management team needs to agree the process they will follow for generating and then implementing the strategy.

- A strategy process model provides a framework that gives a logical sequence to follow to ensure inclusion of all key activities of e-business strategy development.

- It also ensures that e-business strategy can be evolved as part of a process of continuous improvement.

Table 5.1	Alternative strategy process models		
Jelassi and Enders (2008) *E-business strategy framework*	**Johnson and Scholes (2006) *Parallel corporate strategy model***	**McDonald (1999) *Sequential marketing strategy model***	**Smith (1999) *SOSTAC™ Sequential marketing strategy model* (see Chapter 8)**
SWOT summarizing external analysis (e.g. marketplace, customers, competitors); internal analysis (e.g. human, financial and operational)	Strategic analysis (environment, resources, expectations, objectives and culture)	Situation review (marketing audit, SWOT analysis, assumptions)	Situation analysis
Mission and objectives	Strategic choice (generation of options, evaluation of options, selection of strategy)	Goal setting (mission, corporate objectives)	Objective setting
Strategy formulation to create and capture value through sustaining competitive advantage and exploring new market spaces	Strategic implementation (resource planning, people and systems, organization structure)	Strategy formulation (marketing objectives and strategy, estimate expected results, identify alternative plans and mixes)	Strategy
Strategy implementation including internal organization, interaction with suppliers and users or customers		Resource allocation and monitoring (budget, first-year implementation plan)	Tactics Actions Control

Through considering alternative strategy process models such as those of *Table 5.1*, common elements are apparent:

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.

In the *prescriptive strategy* approach he identifies three elements of strategy – strategic analysis, strategic development and strategy implementation, and these are linked together sequentially.

Strategic analysis is used to develop a strategy, and it is then implemented. In other words, the strategy is prescribed in advance. Alternatively, the distinction between the three elements of strategy may be less clear.

This is the *emergent strategy* approach where strategic analysis, strategic development and strategy implementation are interrelated.
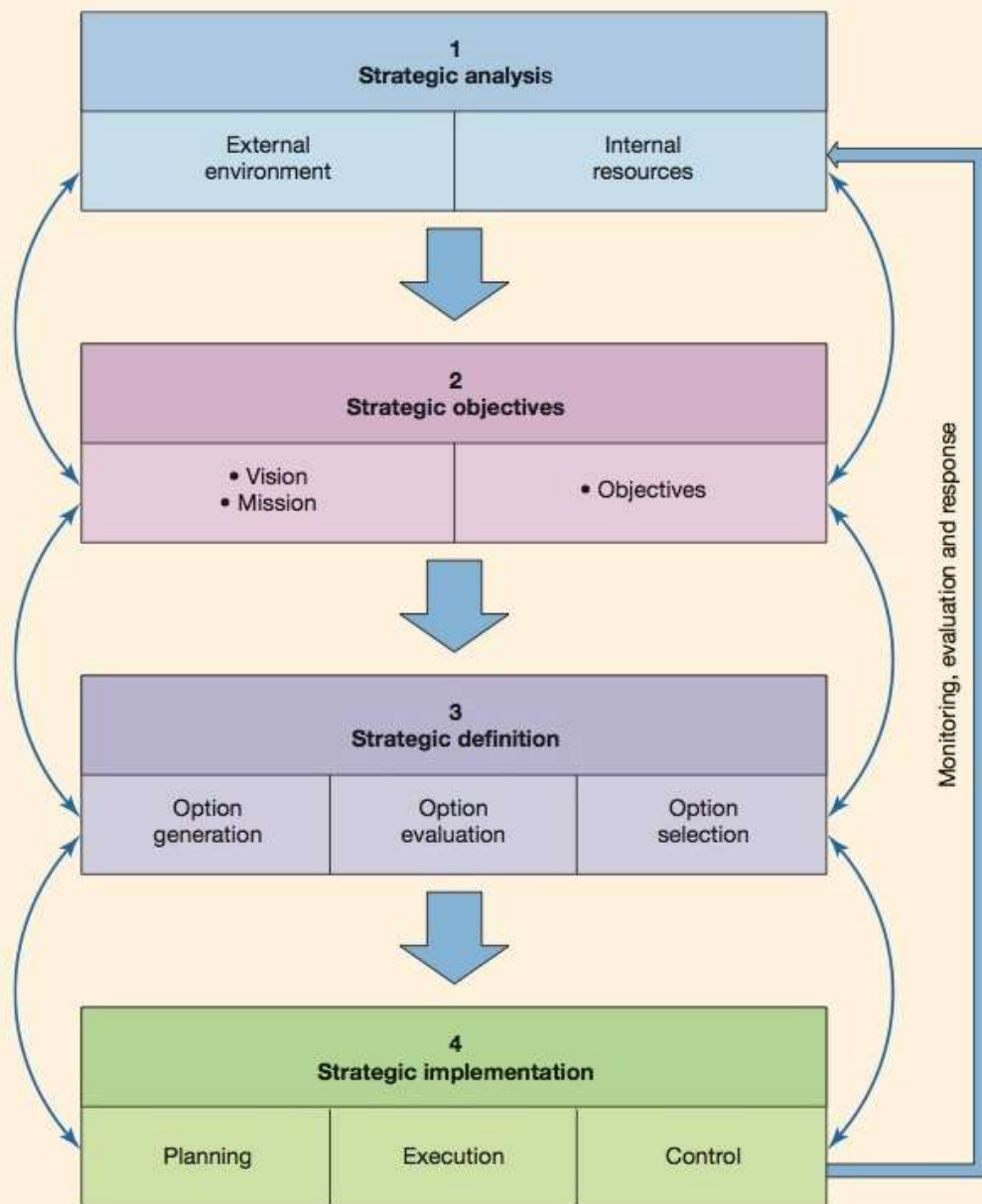
Figure 5.4 A generic strategy process model

20

Events

Knowledge building and capability evaluation

Feedback

Key insights

Applications development and deployment

E-business design (business goals)

Priorities

E-business blueprint (planning applications)

Key objectives
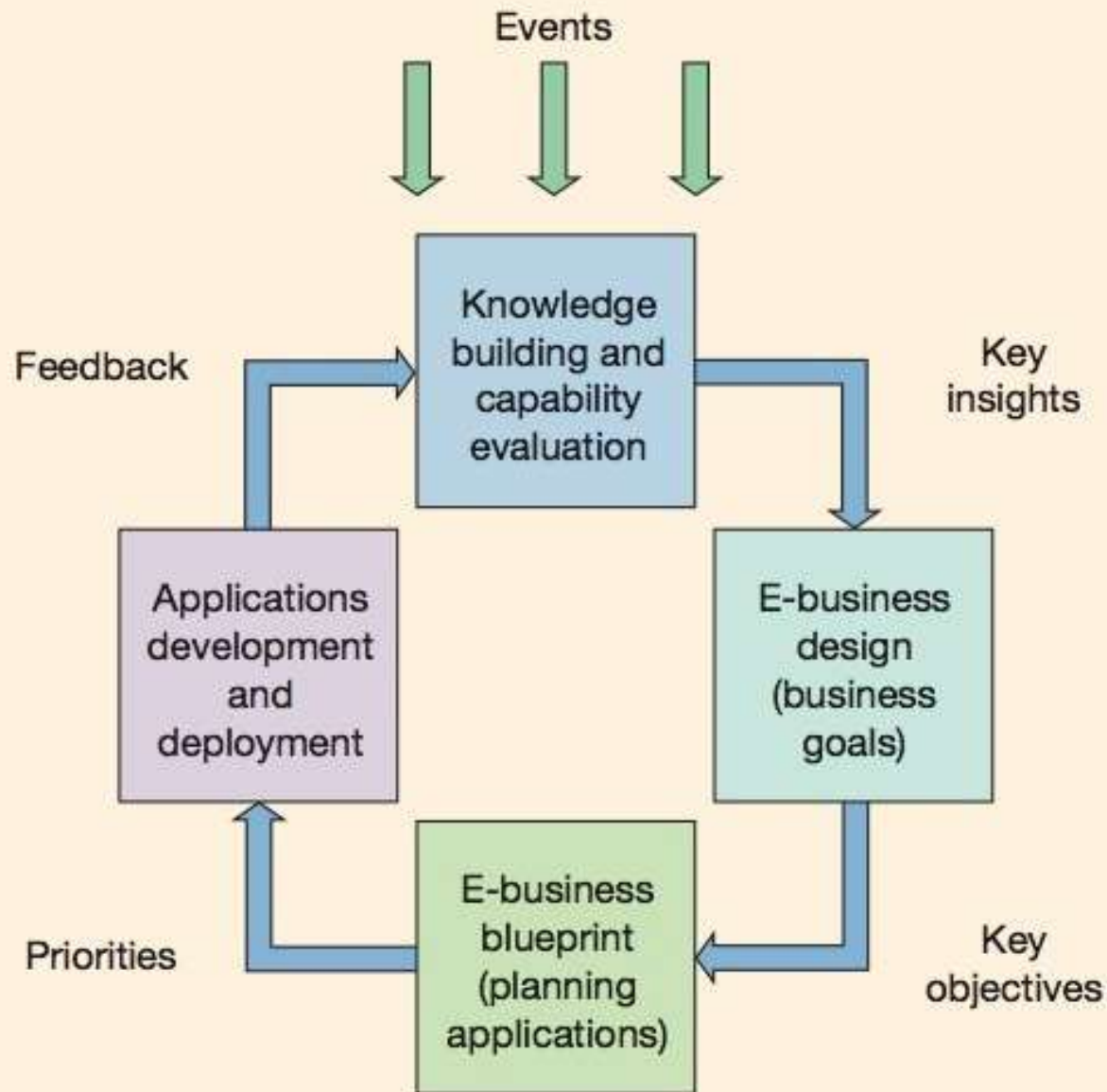
Figure 5.5 Dynamic e-business strategy model
Source: Adapted from description in Kalakota and Robinson (2000)

Strategic analysis

Strategic analysis or situation analysis involves review of:

- the internal resources and processes of the company to assess its e-business capabilities and results to date in the context of a review of its activity in the marketplace;

- the immediate competitive environment (micro-environment), including customer demand and behaviour, competitor activity, marketplace structure and relationships with suppliers, partners and intermediaries as described;

- the wider environment (macro-environment) in which a company operates; this includes economic development and regulation by governments in the form of law and taxes together with social and ethical constraints such as the demand for privacy.

Resource and process analysis

Resource analysis for e-business is primarily concerned with its e-business capabilities, i.e. the degree to which a company has in place the appropriate technological and applications infrastructure and financial and human resources to support it.

These resources must be harnessed together to give efficient business processes.

1
Strategic analysis

External environment	Internal resources

Techniques (Ch 4)

- Social
- Legal and ethical
- Economic
- Political
- Technological

Techniques (Chs 5, 8)

- Resource analysis
- Portfolio analysis
- SWOT analysis
- Demand analysis
- Competitor analysis

E-business specific techniques

- Stage models of e-business development
- Assessing sell-side, buy-side and value-network opportunities and threats

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

State models of e-business development

Table 5.3	A stage model for e-business development

	1 Web presence	2 E-commerce	3 Integrated e-commerce	4 E-business
Services available	Brochureware or interaction with product catalogues and customer service	Transactional e-commerce on buy-side or sell-side	Buy- and sell-side integrated with enterprise resource planning (ERP) or legacy systems. Personalization of services	Full integration between all internal organizational processes and elements of the value network
Organizational scope	Isolated departments, e.g. marketing department	Cross-organizational	Cross-organizational	Across the enterprise and beyond ('extraprise')
Transformation	Technological infrastructure	Technology and new responsibilities identified for e-commerce	Internal business processes and company structure	Change to e-business culture, linking of business processes with partners
Strategy	Limited	Sell-side e-commerce strategy, not well integrated with business strategy	E-commerce strategy integrated with business strategy using a value-chain approach	E-business strategy incorporated as part of business strategy

Application portfolio analysis

Figure 5.7 — Summary applications of a portfolio analysis for an example B2B company

Future strategic importance of information systems

	Low (Current)	High (Current)
High	**High potential (Beware)** • Electronic catalogue • E-commerce system • Customer intelligence and CRM systems	**Strategic (Attack)** • Procurement system • Stock control system • Distribution systems
Low	**Support (Safe)** • HR systems • Finance systems	**Key operational (Explore)** • Production line systems

Current strategic importance of information systems

Organizational and IS SWOT analysis

SWOT analysis is a relatively simple yet powerful tool that can help organizations analyse their internal resources in terms of strengths and weaknesses and match them against the external environment in terms of opportunities and threats.

In an e-business context, a SWOT analysis of e-business-specific issues can combine SWOT related to corporate, marketing, supply chain and information systems, or a separate SWOT can be performed for each.

SWOT analysis is of greatest value when it is used not only to analyse the current situation, but also as a tool to formulate strategies.

To achieve this it is useful once the strengths, weaknesses, opportunities and threats have been listed to combine them as shown in Figure 5.8.

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

TOWS/SWOT Matrix

	Strenghts	Weaknesses
Opportunities	S-O (Maxi-Maxi) Strategies	W-O (Mini-Maxi) Strategies
Threats	S-T (Maxi-Mini) Strategies	W-T (Mini-Mini) Strategies

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TOWS/SWOT Matrix

Human and financial resources

Resource analysis will also consider these two factors:

1 *Human resources.* To take advantage of the opportunities identified in strategic analysis the right resources must be available to deliver e-business solutions. The importance of having a human resources approach that enables the recruitment and retention, 'Change management'.

2 *Financial resources.* Assessing financial resources for information systems is usually conducted as part of investment appraisal and budgeting for enhancements to new systems which we consider later in the chapter.

Figure 5.9 defines a matrix where there are four quad- rants which businesses within a market may occupy according to the development of their e-business strategy:

-Market driving strategy (high internal capabilities/incentives and low external forces/ incentives). This is often the situation for the early adopters.

-Capability building (low internal capabilities/incentives and high external forces/incentives). A later adopter.

-Market driven strategy. Internal capabilities/incentives and external forces/incentives are both high.

-Status quo. This is the situation where there isn't an imperative to change within the marketplace since both internal capabilities/incentives and external forces/incentives are low.
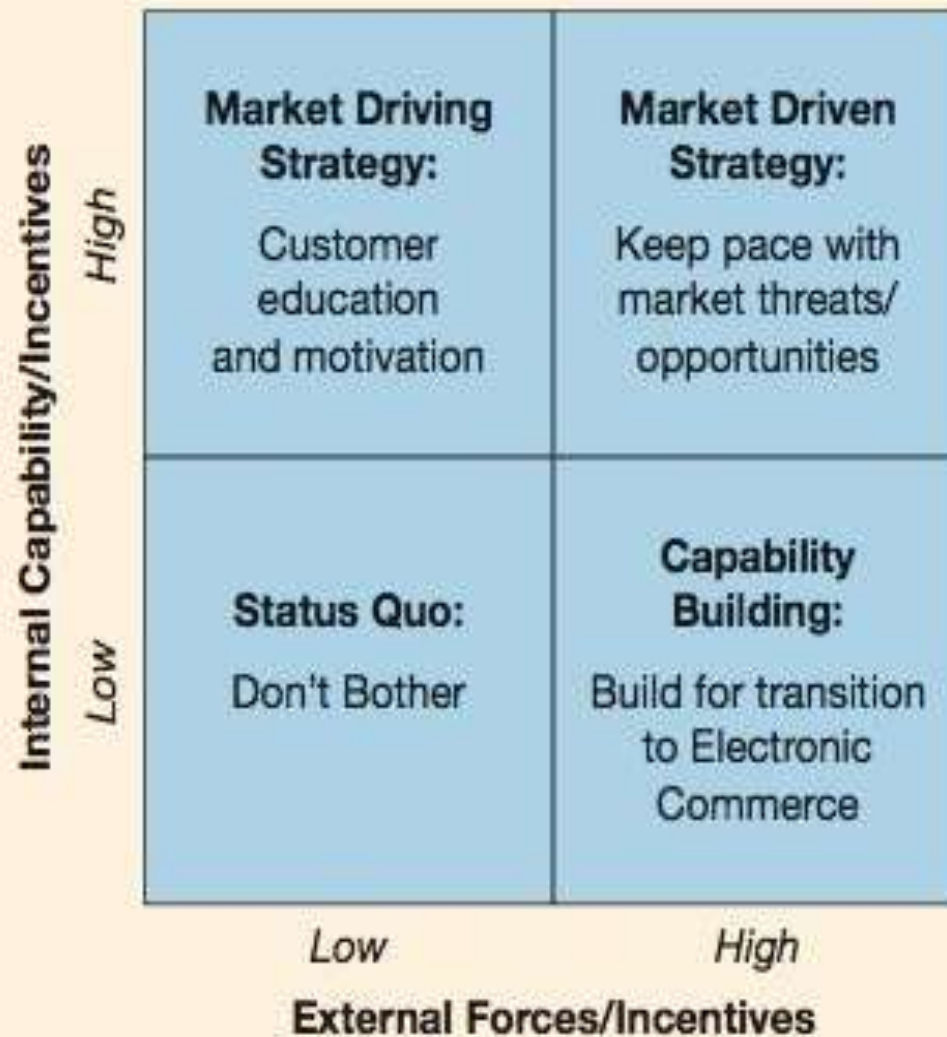
Figure 5.9 Matrix for evaluation of external capability against internal capability
Source: Perrott (2005)

Table 5.4	Capability maturity model of the adoption of e-business

Carnegie Mellon Software development maturity process	Atos consulting e-business capability framework
Level 1. Initial	*E-business unplanned.* E-business initiatives are *ad hoc*, unplanned and even chaotic. The organization lacks the capability to meet commitments consistently
Level 2. Repeatable	*E-business aware.* Basic e-business processes established necessary to repeat earlier successes but not yet part of planning process. The focus is on developing the capabilities of the organization
Level 3. Defined	*E-business enabled.* Central e-business strategy and planning process towards a centralized model (IT and competencies)
Level 4. Managed	*E-business integrated.* E-business part of departmental and business unit planning. Detailed performance measures of e-business process and applications collected and used for control
Level 5. Optimized	*Extended enterprise.* E-business core part of corporate strategy with continuous evaluation of e-business improvements enabled by quantitative feedback, piloting innovative ideas and technologies

Assessing competitive threats

Competitive threats

1 Threat of new e-commerce entrants

2 Threat of new digital products

3 Threat of new business models

Sell-side threats

1 Customer power and knowledge

2 Power of intermediaries

competitive threats example

Competitive Threat Index
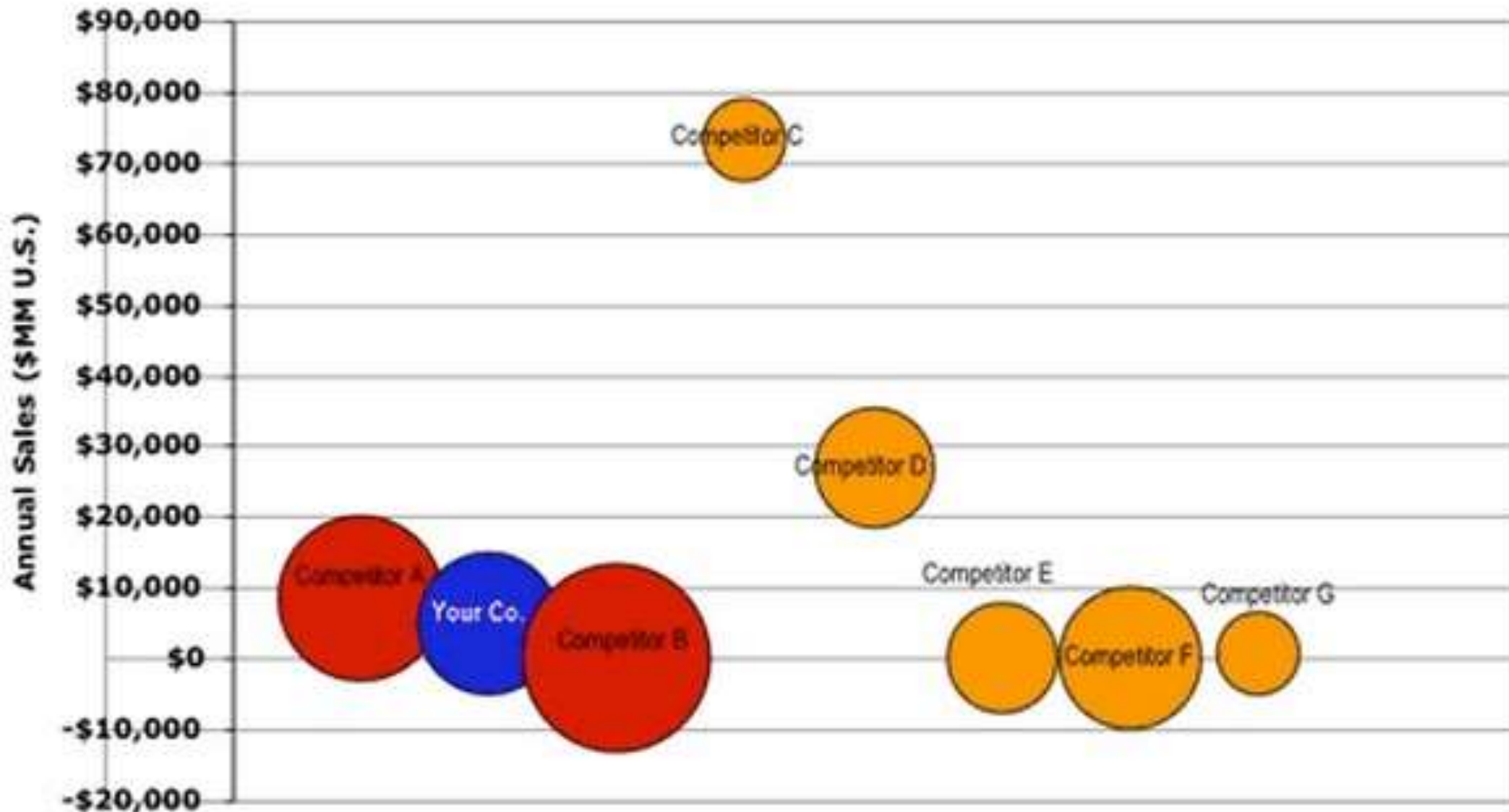
Buy-side threats

1 Power of supplies

2 Power of intermediaries

Figure 5.10 Competitive threats acting on the e-business

Strategic objectives

Defining and communicating an organization's strategic objectives is a key element of any strategy process model since

(1) strategy definition and implementation elements of strategy must be directed at how best to achieve the objectives,

(2) the overall success of e-business strategy will be assessed by comparing actual results against objectives and taking action to improve strategy and

(3) clear, realistic objectives help communicate the goals and significance of an e-business initiative to employees and partners.

2
Strategic objectives

- Vision
- Mission

- Objectives

Vision

- Replace *vs* Complement
- Extent of adaptability needed

Objectives

- SMART objectives
- Online revenue contribution
- Customer value targets
- Balanced scorecards

E-business specific techniques

- Vision about capability to change, to reinvent
- Online revenue contribution
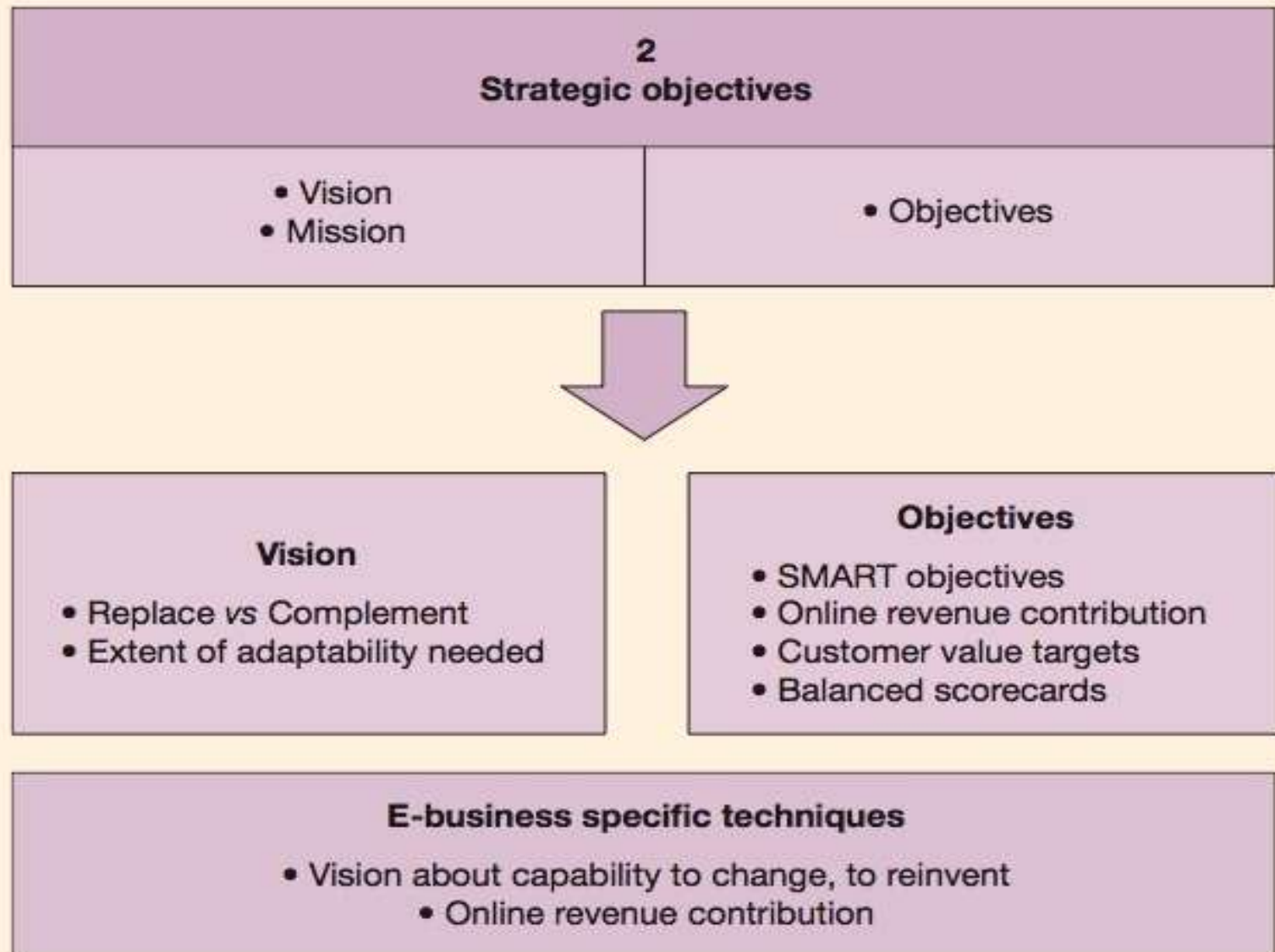
Figure 5.11 Elements of strategic objective setting for the e-business

Defining vision and mission

Vision or mission statements for e-businesses are a concise summary defining the scope and broad aims of digital channels in the future, explaining how they will contribute to the organization and support customers and interactions with partners.

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.

Box 5.3   Example vision or mission statements from e-businesses
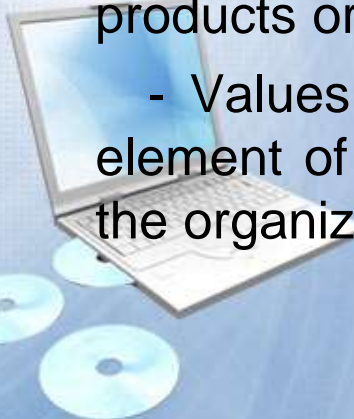
Here are some examples from well-known e-businesses featured in the case studies in this book. Assess how well they meet the criteria we have discussed for an effective vision statement.

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.

eBay eBay pioneers communities built on commerce, sustained by trust, and inspired by opportunity. eBay brings together millions of people every day on a local, national and international basis through an array of web sites that focus on commerce, payments and communications.

Facebook Facebook is a social utility that helps people communicate more efficiently with their friends, family and co-workers. The company develops technologies that facilitate the sharing of information through the social graph, the digital mapping of people's real-world social connections. Anyone can sign up for Facebook and interact with the people they know in a trusted environment.

Google Google's mission is to organize the world's information and make it universally accessible and useful.

How can e-business create business value?

As Chaffey and Wood (2004) have emphasized, much of the organizational value created by e-business is due to more effective use of information. The strategic importance of business information management in an organization can be reviewed and communicated as part of vision using Figure 5.12.

This analytic tool, devised by Professor Don Marchand, shows different ways in which information can create value for organizations.
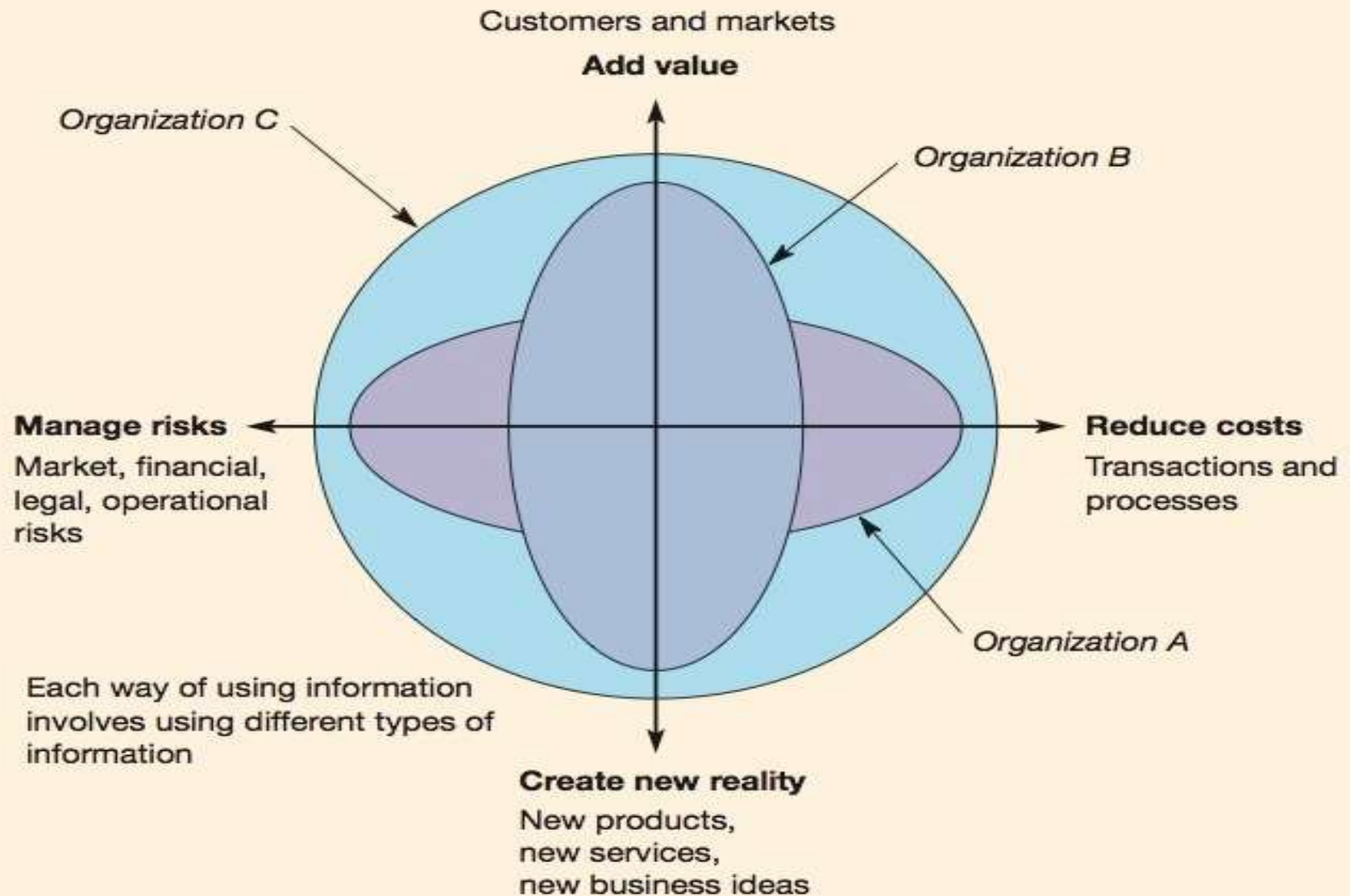
Figure 5.12 An evaluation tool relating information to business value. An organization's use of information on each axis can be assessed from 1 (low use of information) to 10 (high use of information)

Source: Marchand et al. (2002)

Objective setting

Table 5.6	Objectives, strategies and performance indicators for an example B2B company (in order of priority

Objectives	Strategies to achieve goals	Key performance indicators (critical success factors)
1 Develop revenue from new geographical markets	1 Create e-commerce facility for standard products and assign agents to these markets	1 Achieve combined revenue of £1m by year-end. Online revenue contribution of 70%
2 Increase revenue from smaller-scale purchases from retailers	2 Create e-commerce facility for standard products	2 Increase sales through retailers from 15% to 25% of total by year 2. Online revenue contribution of 30%
3 Ensure retention of key account customers	3 Attain soft lock-in by developing extranet facilities and continued support from sales reps	3 Retain five key account customers. Online revenue contribution of 100% from these five
4 Improve efficiency of sourcing raw materials	4 Develop e-procurement system	4 Reduce cost of procurement by 5% by year-end, 10% by year 2. Achieve 80% of puchasing online
5 Reduce time to market and costs for new product development	5 Use collaboration and project management tools	5 Reduce cost and time to market by average of 10% by year 3
6 Protect and increase efficiency of distributor and partner network	6 Create partner extranet and aim for paperless support	6 Reduce cost of sales in each of five main geographical markets by 30%

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Arena Flowers controls its growth through key performance indicators

The balanced scorecard approach to objective setting

Integrated metrics such as the balanced scorecard have become widely used as a means of translating organizational strategies into objectives and then providing metrics to monitor the execution of the strategy.

Since the balanced business scorecard is a well-known and widely used framework, it can be helpful to define objectives for e-business in the categories below.

The main areas of the balanced scorecard are:

- Customer concerns.

- Internal measures or process.

- Financial measures.

- Learning and growth: innovation and staff development.

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

Strategy definition

The *definition of strategy* is driven by the objectives and vision referred to in the previous sections. As strategy is formulated based on vision and objectives, so it is necessary to frequently revisit and revise them.

In this section the key strategic decisions faced by a management team developing e-business strategy are reviewed.

For each of the areas of strategy definition that we cover, managers will want to generate different options, review them and select them as shown in Figure 5.16.

3.
Strategy definition

Option generation	Option evaluation	Option selection

Eight key e-business strategic decisions

- Decision 1: E-business channel priorities
- Decision 2: Market and product development
- Decision 3: Positioning and differentiation strategies
- Decision 4: Business and revenue models
- Decision 5: Marketplace restructuring
- Decision 6: Supply-chain management capabilities
- Decision 7: Internal knowledge management capabilities
- Decision 8: Organizational resourcing and capabilities

Figure 5.16 Elements of strategy definition for the e-business

Selection of e-business strategy options

- transactional e-commerce facility;

- online catalogue facility;

- e-CRM system lead generation system;

- e-CRM system customer service management;

- e-CRM system personalization of content for users;

- e-procurement system for office supplies;

- partner relationship management extranet for distributors and agents;

- social network or customer forum.

(Figure 5.17) as the basis for benchmarking current   e-commerce capabilities and identifying strategic priorities.

| | Internal people resource (cost/time) (0-20) |
| Agency resource (cost/time) (0-20) |
| Set-up costs and technical feasibility (0-20) |
| Ongoing costs (0-20) |
| Business & implementation risks (0-20) |

Resourcing viability (High / Low)

| P3. Medium priority: Reduce scope or defer | P1. High priority: Implement |
| P4. Low priority: Don't implement or defer | P2. Medium priority: Reduce scope or defer |

Low — High
Organizational value and fit

| Business value generated (0-50) |
| Customer value generated (0-20) |
| Alignment with business strategy (0-10) |
| Alignment with digital strategy (0-10) |
| Alignment with brand values (0-10) |

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

8 key e-business strategic decision

- Decision 1: E-business channel priorities
- Decision 2: Market and product development
- Decision 3: Positioning and differentiation strategies
- Decision 4: Business and revenue models
- Decision 5: Marketplace restructuring
- Decision 6: Supply-chain management capabilities
- Decision 7: Internal knowledge management capabilities
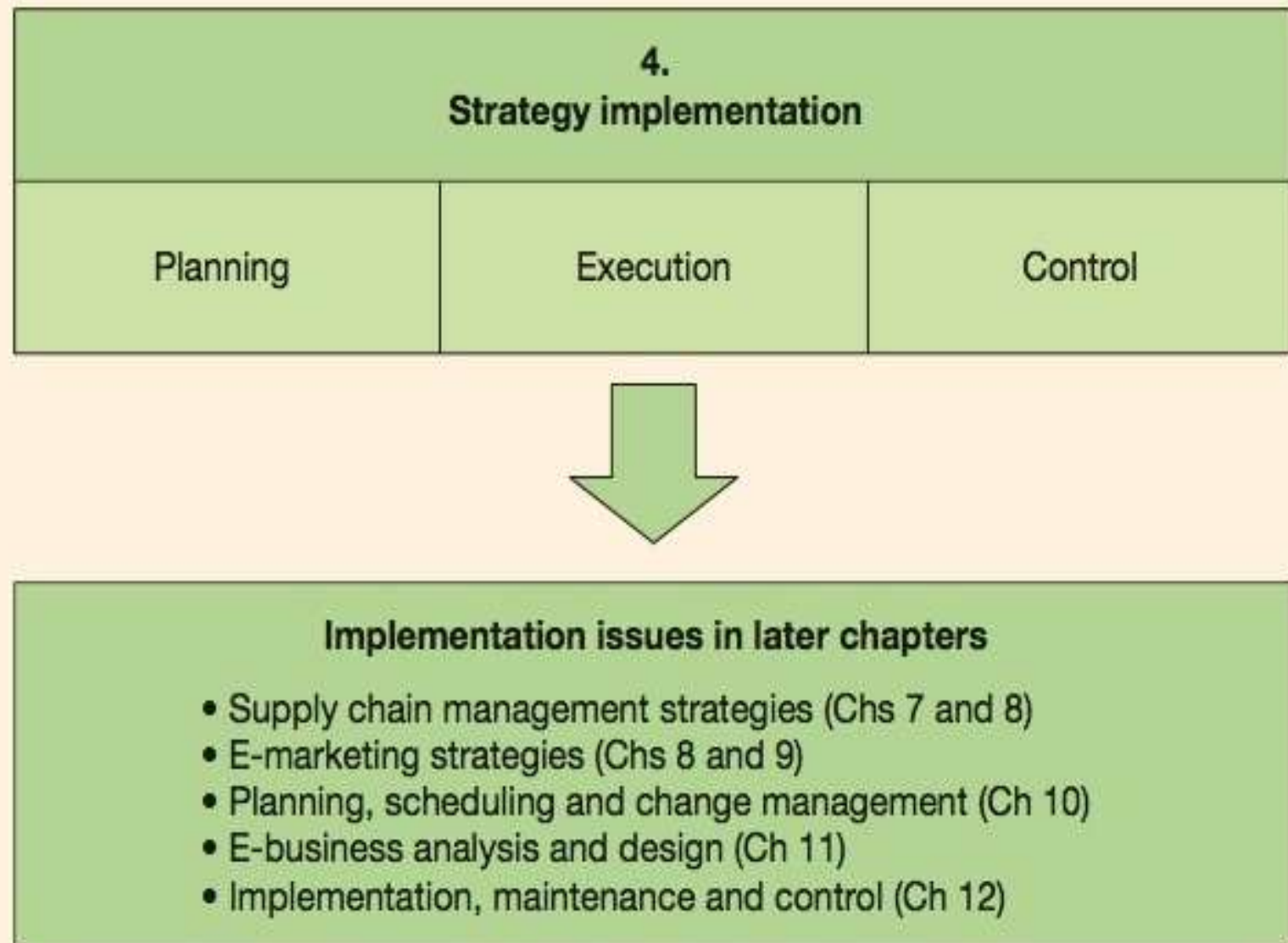- Decision 8: Organizational resourcing and capabilities

Strategy implementation

Strategy implementation includes all tactics used to achieve strategic objectives. The main tactics and actions required are summarized in Figure 5.20.

These actions are described in more detail in the remainder of Part 2 and in Part 3 as indicated in the figure.

4.
Strategy implementation

Planning	Execution	Control

Implementation issues in later chapters

- Supply chain management strategies (Chs 7 and 8)
- E-marketing strategies (Chs 8 and 9)
- Planning, scheduling and change management (Ch 10)
- E-business analysis and design (Ch 11)
- Implementation, maintenance and control (Ch 12)

Figure 5.20 Elements of strategy implementation for the e-business