Unit-2

E-Business Strategy

Content

- What Is E-Business Strategies
- Strategic Positioning
- Levels Of E-Business Strategies
- The Changing Competitive Agenda: Business And Technology Drivers
- The Strategic Planning Process
- Strategic Alignment
- The Consequences Of E –Business: Theoretical Foundations
- Success Factors For Implementation Of E – Business Strategies

What is e-business strategy?

- *"The set of plans and objectives by which applications of internal and external electronically mediated communication contribute to the corporate strategy"*

- Strategy defines the future direction and actions of an organization.

Two Forms of Strategy

- Achieving higher-level goals

  – A strategy is developed in order to achieve a goal like implementing an organizational change, of a large software package such as ERP system

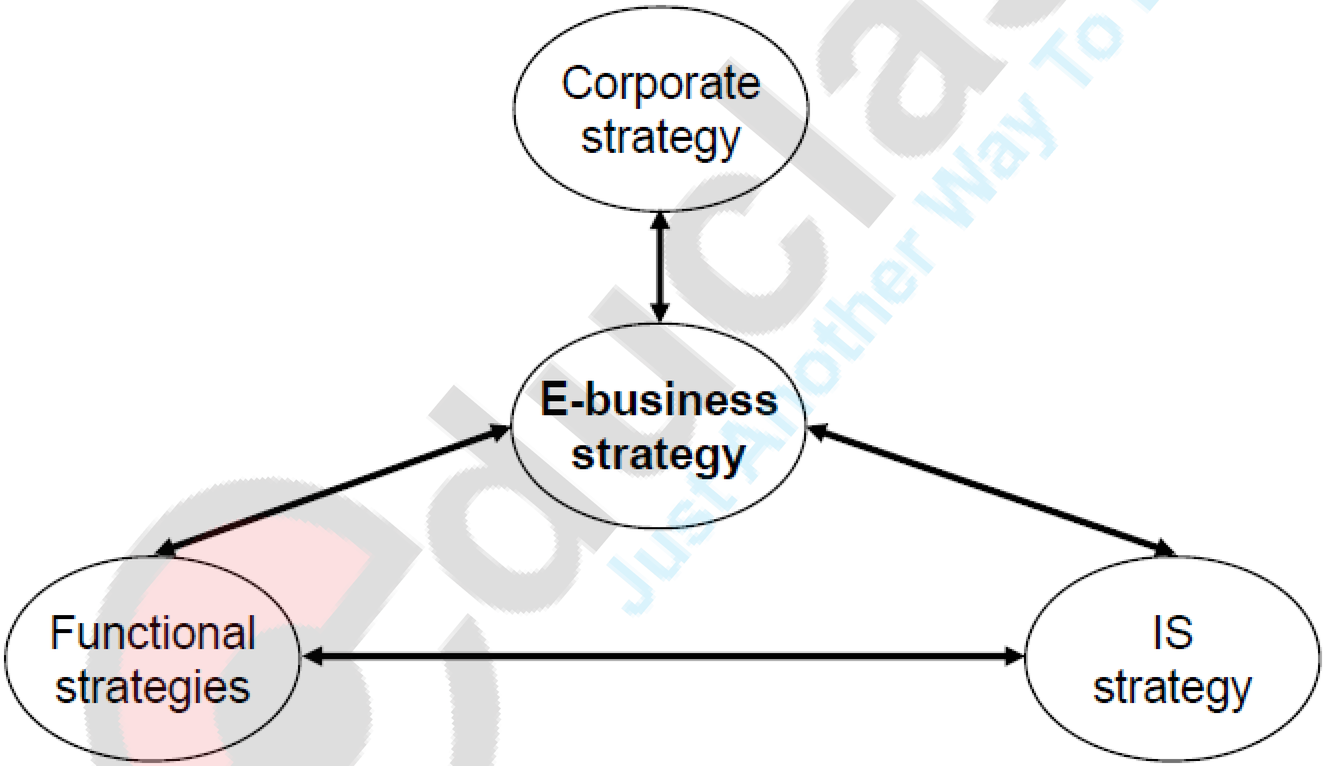
- A strategy related to plans concerning the long term position of the firm in its business environment to achieve its organizational goals.

  – A strategic planning that has to do with the external positioning of the firm in its competitive environment

- Strategic planning defines its fundamental relationship with key stockholders such as customers,competitors,suppliers,stackholders,employees,the government, the general public.
- Strategy is concerned with changes in competitive environment may trigger strategic changes for individual firm so effect roles and functions of market.
- Corporate strategy as:"the direction and scope of an organization over 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 stockholders expectations"

- A firm can decide to implement an e-business strategy for a variety of reasons.
- The goal of implementation can be purely tactical.
- This is the case when the effect of IT applied is to replace existing systems and procedures.
- For eg. Instead of sending orders and confirmation through regular mail, traditional EDI or internet based XML EDI can be used.
- This results in improved data quality and less errors.

Relationship between e-business and other organization strategies



- E-business strategy should support not only corporate strategy objectives but also various functional strategies like marketing and supply chain management and information system(IS) strategy..
- Functional strategies encompass SCM, marketing, purchasing and Hr.
- Double ended arrows indicate relationship between strategies and imply that strategies will inform and impact each other.

SCM Strategy

- Is based on value chain analysis for decomposing an organization into its individual activities and determining value added at each stage.
- In this way an organization can assess how efficiently resources being used at various points within the value chain
- Also requires an understanding of procurement process and its impact on cost savings and implementation.
- Eg. Integrated e-Procurement where the aim is to integrate with supplier's system.

Marketing strategy

- Concerted pattern of action in market environment to create value for the firm by improving its economic performance as is the case when firm offers a new product or lowers prices in competition with its rivals.
- Focused on capturing market share or improving profitability through brand building, investment and efficient contracts.
- Marketing based on demand analysis which examines current and projected customer use of each digital channel within different target markets.

IS Strategy

- Set of goals and plans with regard to use of information systems in an organization to support the objectives of that organization in the long run.
- IS strategy consist of two components: a demand strategy and supply strategy
- The demand strategy(information strategy) defines the requirements or demand for information and information systems from a business point of view.

- supply strategy (IT Strategy) outlines how the company’s demand for information systems will be supported by technology, including h/w, s/w and networks.
- Basic goal of supply strategy is to ensure the alignment of information systems and technology development with enterprise priorities and to facilitate the infusion of advanced technology products in enterprise context.

Strategic Positioning

- Companies can become more profitable than average performer in their industry sector by achieving a sustainable competitive advantage i.e., by operating at a lower cost, by commanding a premium price or by doing both.
- One way to achieving cost and price advantages is through Strategic positioning.
- Strategic positioning means that company is doing things differently from its competitors in a way that delivers a unique type of value to its customers

- Porter suggests six fundamental principles that companies need to follow in order to establish and maintain a distinctive strategic position:

1. **A company must start with the right goals:** Superior long term ROI.
2. A company's strategy must enable it to deliver a value proposition, or set of benefits, different from those that its competitors offer
3. **Company strategy needs to be reflected in a distinctive value chain:** must perform in ways that are different from its competitors or perform similar activities in different ways.
4. Robust company strategies involve trade-offs: may have to abandon or forgo some product features, services or activities in order to be unique at others.
5. **Company strategy defines how all the elements of what a company does fit together**: eg company's product design should reinforce its approach to the manufacturing process, and both should leverage the way it conducts after-sales service.
6. **Company strategy involves continuity of direction**: a company must define a distinctive value proposition to which it will abide even it means forgoing certain opportunities.

Three Levels of e-Business Strategy

1. The *supply chain or industry value chain level;*
2. The *line of business or (strategic) Business Unit* level;
3. The *corporate of enterprise level for each firm* that encompasses a collection of business units

The supply chain or industry value chain level

- E-Business requires a view of a role, added value and position in supply chain
- Important issues
  - Who are the direct customers?
  - What is the firm's value proposal to those customers?
  - Who are the suppliers?
  - How does the firm add value to those suppliers?
  - What are the current problems in the chain?
  - Etc.....

- These are issues that need to be effectively addressed in order to understand the current and future position of the firm in the chain.
- This analyses gives an impetus to insight in upstream(supplier side) and downstream(customer side) data and information flows.

The line of business or (strategic) Business Unit level

- Understanding the position in the value chain is a starting point for further analysis how Internet-based technologies could contribute to the competitive strategy of the individual line of business.
- This is the level where the competitive strategy in a particular market for a particular product and so the strategic positioning is developed.
- There are four generic strategies for achieving a profitable business:
  - Differentiation
  - cost,
  - Scope
  - Focus

Corporate or enterprise level strategy

- This level strategy for each firm that encompasses a collection of business units.
- This level addresses the problem of synergy through a firm-wide, available common IT infrastructure.
- commonalty of e-Business application is needed for 2 reasons:
  - Efficiency: different applications for the same type of functionality in different lines of business is needlessly costly.
  - Effectiveness: there is the need for cross-Line of Business Communication and share-ability of data.

Changing competitive agenda : Business and Technology Drivers

- If an enterprise decided to expand its market, it did so by making incremental, planned modifications to its organization and strategy.
- When it modified organizational design, it considered and managed impact on customers and employee in an attempt to maintain enterprise equilibrium.

- In every business agenda change is a top level priority
  - – From a supplier driven economy to a consumer driven economy
  - – From mass production and mass distribution to customization and customer-driven planning
  - – From a producer focus to a consumer focus

- Internet has created highly competitive market environment.
- Reducing much of transaction and coordination costs associated with old economy business operations and restructuring value chains allowing firms toward integrate and bypass intermediaries

Types of Strategic Systems

- Systems that link the company with customers and suppliers and change the nature of the relationship;
- Systems that lead to more effective integration of internal processes of the organization;
- Systems that enable the organizations to bring new or improved information based products and services to the market;
- Systems that provide the executives with high quality information to support the development and implementation of strategy.

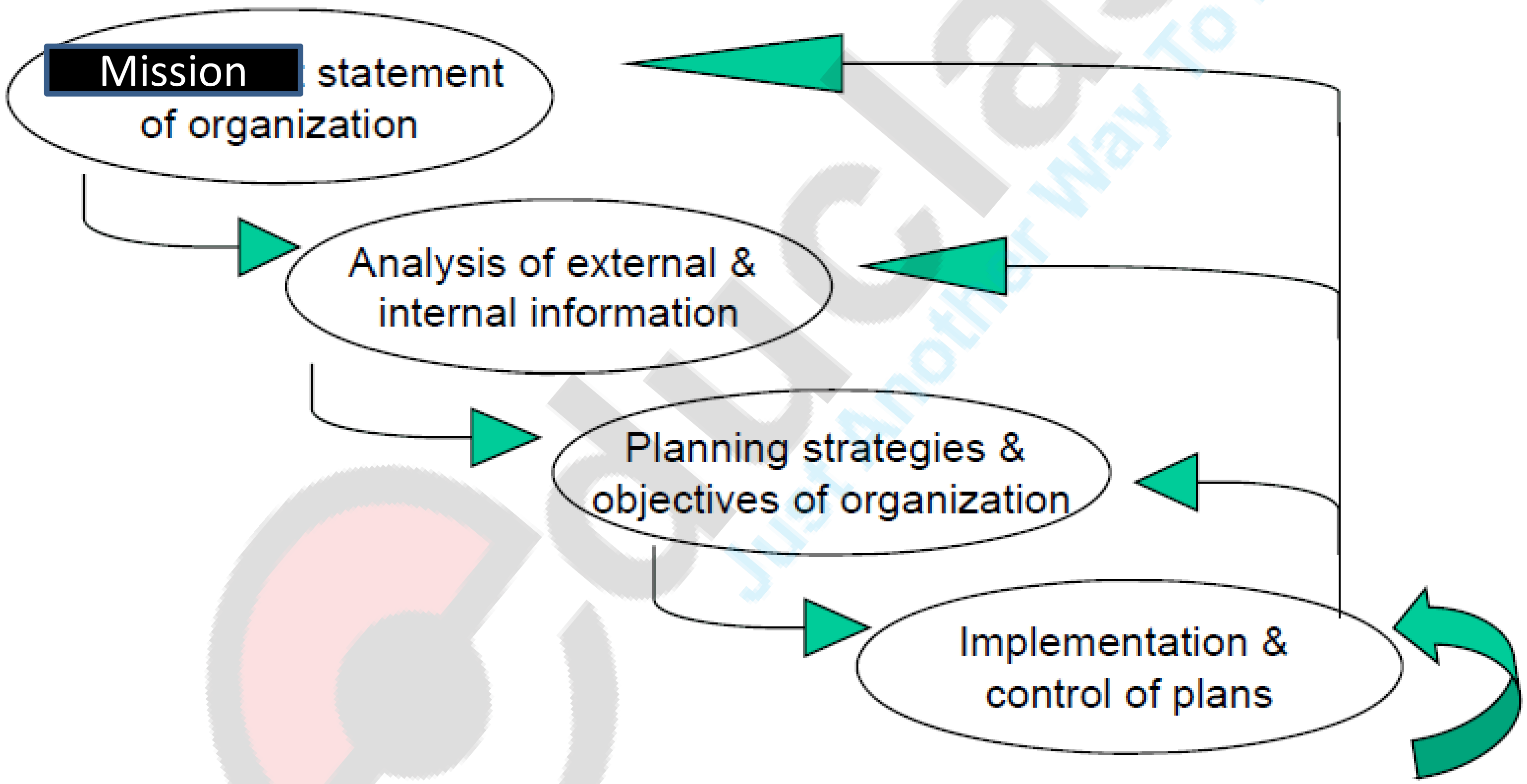
- Special characteristics make internet technology of interest in respect of potential strategic effects. this is affected through its:
  - **Pervasiveness:** it supports direct electronic linkages with business and end-consumers all day and every day, all over the world, thus enabling totally new ways of doing business
  - **Interactive nature** : this not only enables linear transaction communication, but also all kinds of reciprocal relationship which are characteristics for tasks related to problem solving, collaborative planning and negotiation
  - **Virtual nature :** this brings business actions from a physical marketplace to a ‘market space’. Business will have to learn how to deal with implications of online and screen based trading for appropriate business models, trust, service delivery, branding

The strategic planning process

- Strategic planning is a way toward their future desired future position.
- It is the process of developing and implementing plans to reach goals and objectives.
- It gives proper direction to organization
- Most strategic planning methodologies are based on:
  – *Situation; where a company is right now and how did it* get there;
  – *Target; where does a company want to be;*
  – *Path; how can it get there.*

- The strategic planning process involves sequence of steps taken by management to develop new plans, modify existing plans that may require revision and discontinue plans that are no longer justified functionally or financially.
- It requires first establishment and then maintenance of plan of action that everyone in organization is expected to follow.

- The strategic planning process has four key elements:
  - Mission statement
  - Strategic analysis
  - Strategic choice
  - Strategic implementation
- After an organization mission statement is established, analysis of relevant information succeeds and leads to the development of strategic plans and their subsequent implementation by organization.
- Feedback links assure the continuous incorporation of new information at all steps of the strategic planning process.



Strategic planning process

(***1)Strategic planning*** process starts with establishment of organization's mission statement, which is basic description dealing the fundamental purpose of organization's existence and encompasses strategy development, including determination of organization vision and objectives.

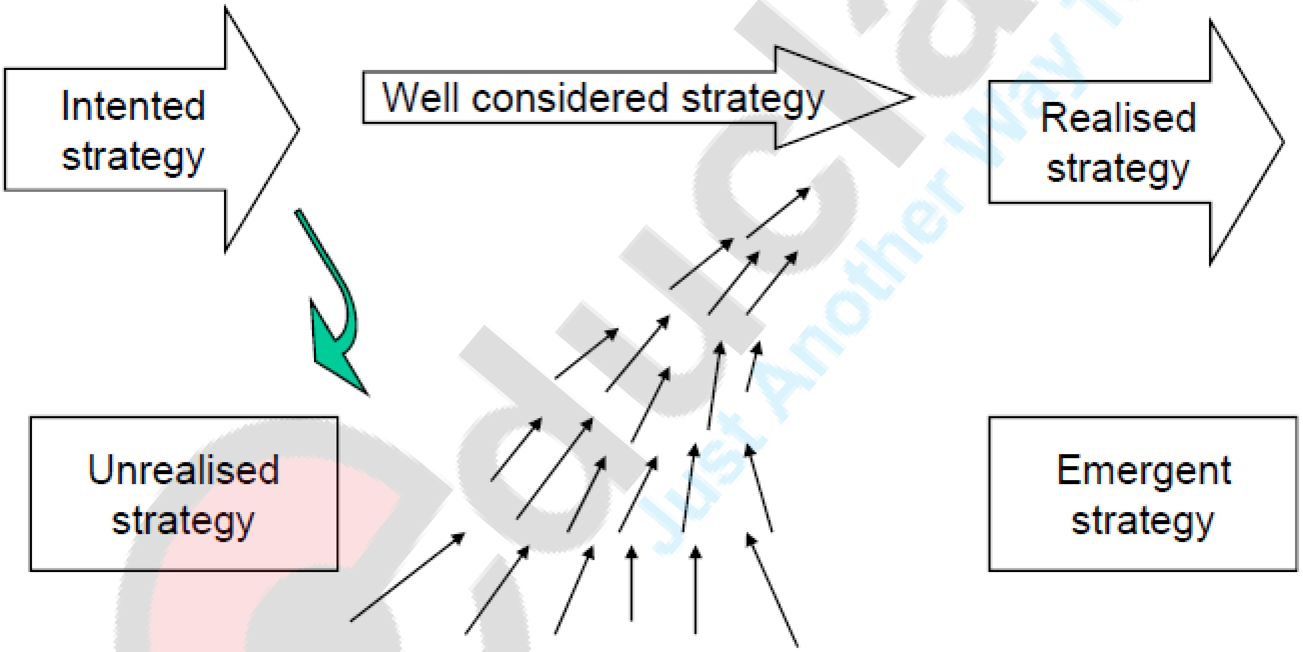
(***2)Strategic analysis*** involves situation analysis, internal resource assessment and evaluation of stockholders expectations. It will include environment scanning, industry or market research, competitor analysis, analysis of market structure and relation ships with trading partners and suppliers and customers to the firm.

- Information delivered from analysis of factors that are both internal and external to the firm
  - External factors include socio-cultural, technological. Legal and regulatory, political, economic and competitive forces
  - Internal factors include organizations human, material, informational and financial resources; operational style; culture and other characteristics that are internal to an organization.

- ***Strategic choice*** is based on strategic analysis and consists of three parts:
  - Generation of strategic options,
  - highlighting possible courses of action,
  - evaluation of strategic options on their relative merits and selection of strategy, which is selection of those options that the organization will pursue.
- It results in **strategic planning**, which is concerned with organizing and detailing of all the strategies that will undertaken throughout organization and their expected target objectives as well as their expected results.

- ***Implementation*** relates to the actual tasks that must be executed in order to realize plan and translate strategy into action
- It includes monitoring, adjustment, control as well as feedback that can direct useful information to various levels of organization that are involved in the ongoing planning process.

Forms of Strategy

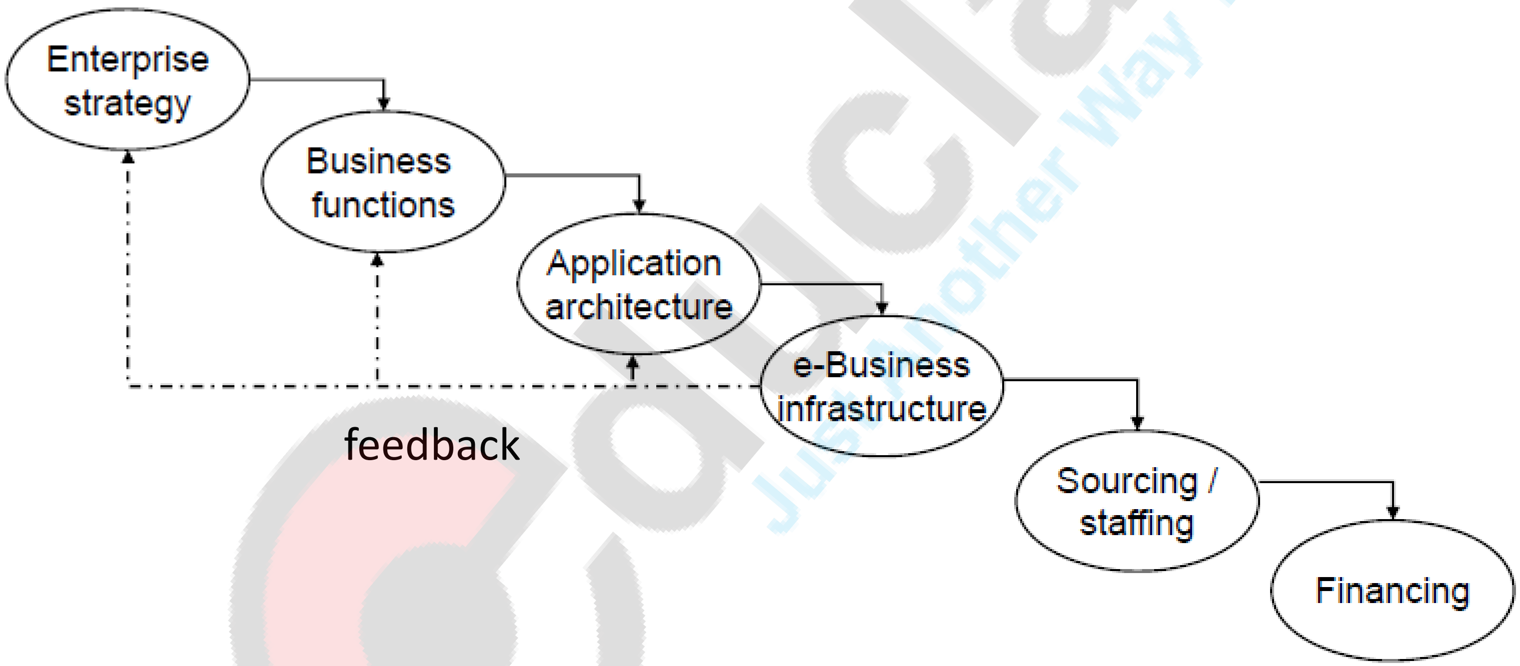


- Strategies are purposefully designed action plans leading to a consistent pattern of actions and so to consistent behavior over time.
- With this assumption comes the supposition that all(successful) actions today are results of purposeful planning activity somewhere in the past, so-called intended (proposed) strategies.
- In real life situations not all realized strategies have been intentional. some appear simply to have emerged over time due to sequence of unanticipated steps: so called emergent(growing) strategies

Strategic alignment

- Alignment between business and IT is not only feasible to design and build a technically sophisticated (inter-organizational) infrastructure for e-Business, but also to formulate business strategies that complement and support this infrastructure.
- If a firm's IT strategic and operational objectives are not in alignment with its business strategies and operations, then this infrastructure is bound to fail.
- Alignment is complex, multifaceted and almost never completely achieved.
- It is about continuing to move in right direction and being better aligned than competitors.

Information Technology supporting e-business strategic objectives



- Any e-business strategy should articulate an enterprise's intention to use information technology based on business requirements.
- When formulating IT strategy, the enterprise must consider:
  - Business obj & competitive environment
  - Current & future technologies and the costs, risks and benefits they can bring to the business.
  - The capability of IT organization and technology to deliver current and future levels of service to the business and extent of change and investment for whole enterprise
  - Cost of current IT and whether this provide sufficient value to the business
  - Lessons learned from past failures and successes.

- Fig shows existence of feedback loop implies that new developments in the e-Business infrastructure may result in revaluation of enterprise strategy, business functions and application architecture.

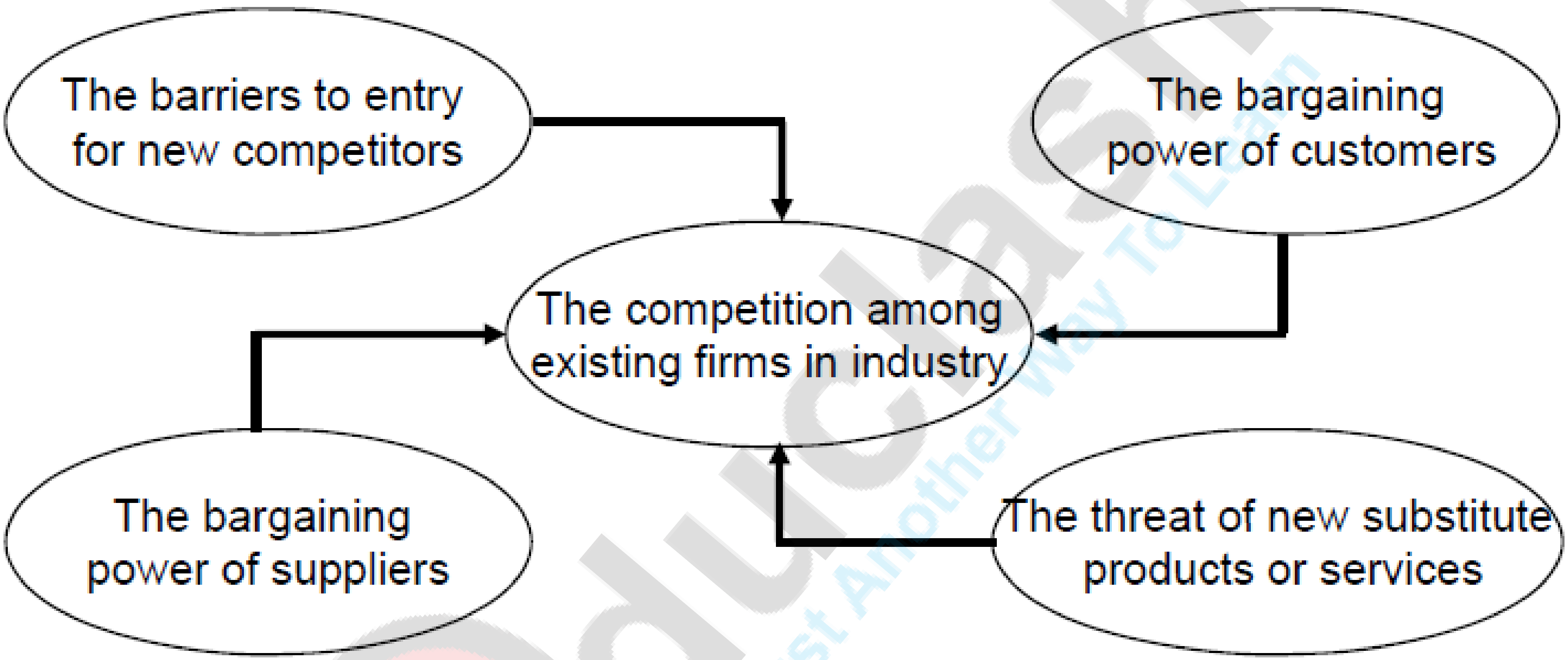
The Consequences of e-Business

- Strategy is about finding right fit between organization and environment.
- When analyzing the business effects of E business consider the following approaches:
  - – The theory of competitive strategy;
  - – The resource based view;
  - – The theory of transaction costs

Theory of competitive strategy

- According to porter structural attractiveness of a firm is determined by five underlying forces of competition:
  1. The bargaining power of customers
  2. The bargaining power of suppliers
  3. The barrier to entry for new competitors
  4. The threat of new substitute products or services
  5. The competition among existing firms in the industry

Porters five forces model of competition:



In combination these forces determine how economic value created by any product, service technology or way of competing is divided between companies in an industry as well as customers, suppliers, distributors, substitutes and potential new entrants

- **The bargaining power of customers**: depends on degree of product differentiation, size of demand and supply.
  - Switching costs are very important: how much will it cost the customer to change to another supplier
  - High switching cost-customer may be in lock-in position
  - Customer moving to another supplier means losing this services
- **The bargaining power of suppliers:** depends on variety of factors, such as relative size, no of suppliers that can deliver critical resources
  - Servicing a final customer directly not through an intermediary organization, is option considered by many industries.
  - Ex, insurance companies, airlines and tour operators bypassing intermediary in order to sell directly to end-customer.
- **The barrier to entry for new competitors**: depends on how difficult it is to join the industry
  - Economic and technology thresholds may prevent outside potential competitors from coming in.
  - Economics of scale, necessary capital and specialized expertise are important factors

- **The threat of new substitute products or services**: depends on whether other products can deliver added value for consumers instead of current products in the absence of switching costs.
  - For ex Internet become threat to post office as email communication resulting loss of business
- **The competition among existing firms in the industry :**depends on various factors like type of market, existing competitive behavior

The resource-based view(RBV)

- Regards a firm as a collection of resources and capabilities.
- The resource-based view(RBV) considers internal resources and competencies and sources of potential competitive advantage, instead of looking at the environment and making strategy plan accordingly.
- RBV looks at available resources first to see how position in business environment can be acquired with them.
- Firm can build a strategic position by picking right resources and building competencies that are unique and difficult to reproduce.
- Resources are considered raw material for building competencies

Transaction Cost Economics

- Transaction Cost Economics attempt to explain firms choices between internalizing and buying goods and services from market.
- Exchange with external firms entail variety of coordination costs associated with various inter-firm transaction.
- These include search cost to find right trading partner ,negotiation, monitoring, settlement and various sales services associated with the exchange.

- Transaction cost economics theory provides a theoretical framework for discussion of market structures and addresses the question why necessary resources are obtained either through the market or through internal production.
- Two key issues concerning firms are:

  – Which activities should a firm keep within its boundaries and which activities should it outsource?

  – In which way should a firm manage its relationship with its customers, suppliers and other business partners?

- According to transaction cost economics a firm has two options for organizing its economic activities:
  - An internal hierarchical structure where it integrates activity into management structure or market like relationship with external firms
- When market mechanism is at work, the flow of material and services takes form of external transaction and is coordinated by market forces.
- Outside procurement is favored when sum of external production costs and transaction costs are lower than sum of internal production and coordination costs.

- Transaction cost includes coordination cost, operation risk and opportunism risk.
- Coordination cost includes
    - search cost,
    - negotiation cost ,
    - financing cost and
    - distribution cost.
  - **Search cost** involves cost of exchanging information on product details and buyer's needs, along with cost of finding right product or service that meets these needs
  - **Negotiation cost** & **financing cost** involves cost of determining appropriate price and payment terms and identifying suitable financing to pay for product or service.
  - **Distribution cost** involves physical transfer of goods to purchaser's location
- **Operational risk** is the risk that trading partner may misrepresent or withhold information or under-perform on the contract.
- **opportunism risk** arise from two sources: buyer and supplier investment is relationship specific and second risk is due to small no.s, bargaining, where doing business with supplier creates situation in which firm has few alternative sources of supply.

Success factors for implementation of e-Business strategies

1. **E-Business transformation as an 'ill-structured problem':**

- Transforming an enterprise from traditional organization to e-Business organization is a complex endeavor

- Its main intention is to make company faster, more efficient and competitive throughout entire value chain

– Two approaches :top down approach and bottom up approach
  - A stepwise methods starting with development of business vision, followed by identification process to be reengineered, identifying opportunities for applying IT and Internet technologies and finally built prototype
  - Top down approach does not guarantee success because reengineering changes jobs, reporting relationships, patterns of collaboration and fear of these breeds resistance.
  - With bottom up strategy business reengineering starts as an experiment in an 'not noticeable' part of an organization
  - Lessons are drawn from this experience and reengineering effort is taken to other and more complex parts of organization
  - unconnected bottom up experiments will only lead to fragmented activities, which can not lead to business-wide transformation
  - Central coordination of transformation activity is mandatory

- E-Business transformation is complex. the complexity basically determined by two factors:

1. The number of different parts of the initial organization and IT environment in which the changes take place
2. The level of uncertainty that characterizes the transformation program

- Besides inherent complexity of an e-Business transformation program described three other obstacles to success.
  - The people involved in the transformation have differing, even conflicting views;
  - They would need to have a good shared knowledge and understanding of the current business.
  - There are conflicts and dilemma’s arising from the need for changes and the ensuing resistance.

- These obstacles turn the goal of having a successful e-business transformation into an ‘ill-structured problem’.
- A problem is ill structured when the problematic situation shows any one of these components:
  - Not all objectives may be known at the onset, multiple objectives exists
  - The identity of all imp. variables that affect the outcomes may not be known at the onset of decision process.
  - The relationship between affecting variables and outcomes are not well known in advance.

2. Need for Program management

- Coordination across the project is essential otherwise result would be loss and inefficient use of resources and fragmented outcome of total transformation effort.
- In order to provide for that central coordination, program management has to be introduced to the system

- Programs are structured, planned and controlled like projects and have their own staff.
- Program needs:
  - A different phase structure, especially in e-Business implementations where initial analysis and piloting may be followed by an extended roll out.
  - A more sophisticated progress reporting system, with focus on overall strategic goals, future delays and bottlenecks.
  - A set of central services to individual projects, regarding process models, methods and tools , communication, experience/know-how databases.
  - A start-up phase in which goals are operationalized , responsibilities defined and priorities assigned.

3. Design characteristics of program management

- Program management contains following key elements:
  - **Program organization**: as the structural organization of a team that plans and controls projects in the program and the related resources.
  - **Policies**: that guide program management to perform within given budgets required acceptance levels and goal adherence.
  - **Plans:** that take the implementation goals and drive the projects within the program.
  - **Communication:** as a means of providing information to teams and other staff, to solve problems within and between the teams and to keep the organization as a whole informed.
  - **Alignment :** the process of adapting information systems to the organization and vice versa, in line with the business direction.

- **Program organization**: the program management team typically contains the following roles:
  - The steering committee, ensures that resources for the program are available.
  - The program manager: has to deliver the program results as defined by the business and IT strategies.
  - Program sponsor: maintains connection with the board
  - User representative: maintains connection with internal users of the systems
  - Various coordinator roles.

- Policies:
  - Programs are not directed by their project/program managers alone, senior managers give direction as they sit on steering committees.
  - A general tendency is to have a loose budget and time policy in the innovation phase of the project.
- Plans:
  - Aspects that are particularly relevant in planning an e-business transformation program are the extent to which implementation projects run in parallel.

- Communication
  - Honest and continuous communication, especially two way is proposed to reduce resistance against the impending change.
- Alignment
  - Continuing alignment between business strategies and IT developments is key.

4. Change Agentry

- Leading change project or business-wide initiatives requires people to plan the change and build business wide support, these is called ‘change agents’
- change agents are part of program management organization

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- IS Specialist's change agent role; three types have been identified:
  - Traditional: in the traditional model the IS specialists focus on the delivery of the implementation of technology, without considering the organizational aspects.
  - Facilitator: in the facilitator model the central belief is that people, not technologies create change. The change agent brings together all the conditions necessary for change.
  - Advocate: in this role, change agents focus on inspiring people to adopt the change.