

# e-Commerce Strategy and Business Modeling (Models)



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## ▼ Agenda\*

- What is strategy? What do you think? [Flip pad exercise]
- Strategy, strategic planning and strategic plans
- Viability of strategic analysis as method
- Components of "strategy"
  1. Mission (Where we are -- descriptive -- present)
  2. Vision (Goals -- future)
  3. Tactics (How we do it)
  4. Metrics (How we measure it)

## ▼ Agenda

- Superior Profits (above average) & Strategy
  - Corporate strategy determined thru industry analysis (where to compete)
    - Domain selection
  - Business strategy determined thru competitive analysis (how to compete)
    - Domain navigation
- Goals and performance
- Examples of strategies
  - Chevron, Dell
- "Strategy" (corporate and business) vis-a-vis "EC business models"
- Industry and Resources Foci

## ▼ Agenda

- Industry versus Firm Foci
- Superior rents through internal capabilities
- "Resource-based View of the Firm" (RBV)
- RBV and core competencies
- Resources needed to be EC-competitive
  - Managing virtual firms
- Sustainable competitive advantage
  - IT as competitive advantage?
- Information asymmetries
- Atomic and hybrid e-business models
  - RBV interpretation of e-commerce models
  - Who owns relationship, data, & transaction

▼ Strategy. What is it?



▼ Strategy. What is it?

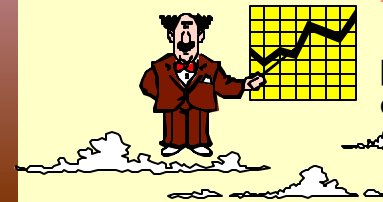
A plan??

[It is mapped out in advance and followed rigorously.]



A wish??

[It is the hopes and dreams of those in the firm.]



▼ Strategy. What is it?

A behavior??

[It is a retrospective. One does not know what it is until it is made manifest thru actions.]



An attitude??

[Strategy is the general sentiment (most specifically of the senior managers) about where the firm should go.]



▼ Strategy. What is it?

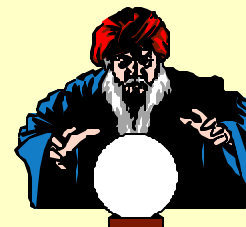
A set of innovations??

[It is continual change and adaptation.]



A prediction??

[It is a forecast of what will happen if the firm does thus-and-so.]



## ▼ Strategy. What is it?

- **Dictionary.** "Strategy, def. The *art of war*, especially the planning of movements of troops, ships, etc into favorable positions; **plans of action or policy** in business or government" -- *Oxford Pocket Dictionary*

*In a whisper... "What is a plan?"*



## ▼ Strategy. What is it?

- **Management Commentator.** "[Strategy is] the determination of the long-run goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals -- *Alfred Chandler, Strategy and Structure, MIT Press, 1962*

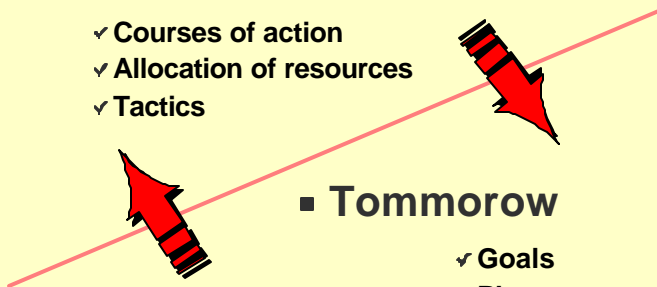
*In a whisper... "What is long-run?"*



## ▼ Strategy. What is it?

### ■ Now

- ✓ Courses of action
- ✓ Allocation of resources
- ✓ Tactics



### ■ Tommorow

- ✓ Goals
- ✓ Plans
- ✓ Objectives

## ▼ Strategy, Strategic Planning, and Strategic Plans

1. As constraints (command-and-control)
2. As loose guides (intended versus realized plans)
3. As inspiration ("strategic intent")

## ▼ Strategy, Strategic Planning, and Strategic Plans (How Rigid?)

1. As constraints (command-and-control) on future actions

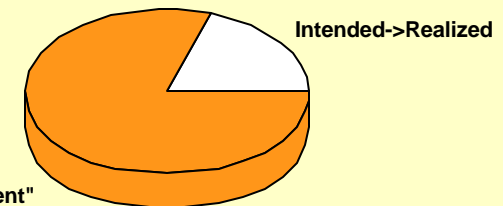


This view of strategy is that they are plans (policies) meant to be obeyed and followed without questioning or alteration, for the most part.

## ▼ Strategy, Strategic Planning, and Strategic Plans

2. As loose guides (intended [leading to realized] goals)

Mintzberg has evidence that there is only a 10-30% match here. Most goals are unspecified, or "emergent."



## ▼ Strategy, Strategic Planning, and Strategic Plans

3. As inspiration

A way of motivating employees to deliver excellence to customers.

"Our stated goal, there on the wall, is to become the most admired company

in Egypt. We are making good progress toward that goal."



-CEO, Click GSM, Mobile Phone Company (from zero to 2.3 million customers in 1 year)

## ▼ Strategy, Strategic Planning, and Strategic Plans

4. As obsession with being dominant player ("strategic intent")



Hamel & Prahalad argue that the strategic goal of a firm should be to achieve leadership in an industry or market niche.

## ▼ Viability of Strategic Analysis as Method

Prior analysis in order to formulate strategy may not result in perfectly realized plans, but it maximizes the potential of the firm in the areas where there is rationality and predictability.



-Robert Grant, *Contemporary Strategy Analysis*, London, Blackwell, 2000

## ▼ Value of Strategic Analysis

If there is little value in analysis, then we have no need to measure performance, because analytical feedback does not necessarily lead to better strategy.



## ▼ Components of Strategy (Strategic Plans)

1. Mission
2. Vision
3. Tactics
4. Metrics

## ▼ Components of Strategies

### 1. Mission



Missions, or mission statements, tend to represent the present, i.e., where the firm is at the current time, with respect to purpose and accomplishments, products/services, markets addressed, client base, geographic dispersion, and sources of revenue.

## ▼ Components of Strategies

### 1. Mission



**Example:** We are the most successful pharmaceutical company in Europe, with EVA exceeding 30% of our gross sales.

## ▼ Components of Strategies

### 2. Vision



Vision, or vision statements, tend to be oriented toward the future, i.e., where the firm will be in a five-ten year period with respect to purpose and accomplishments, products/services, markets addressed, client base, geographic dispersion, and sources of revenue.

## ▼ Components of Strategies

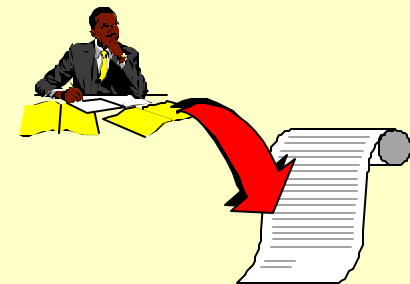
### 2. Vision



**Example:** Maintaining high EVAs, our long term vision is to dominate markets in Asia as well as Europe, by offering lowest cost, highest quality drugs to Asian communities that have previously not been adequately served by regional providers.

## ▼ Components of Strategies

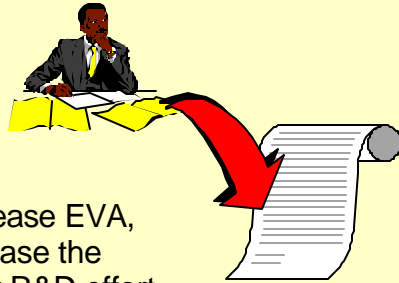
### 3. Tactics



Tactics, or "domain navigation," tend to be detailed plans for realizing the strategic vision. Might also be known as the "implementation" or "deployment" of the strategic vision.

## Components of Strategies

### 3. Tactics



**Example:** To increase EVA, we intend to increase the productivity of our R&D effort by using genetic algorithms to determine which drugs are most effective in treating bacterial cultures.

## Components of Strategies

### 4. Metrics



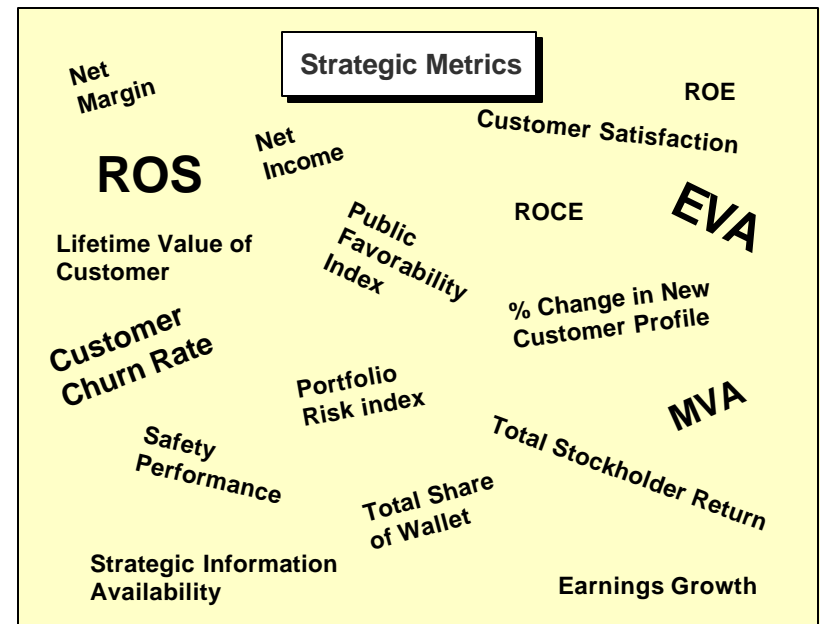
Metrics, or performance measures, are, generally, the means by which management knows that the goals expressed in the vision and/or tactics have been met.

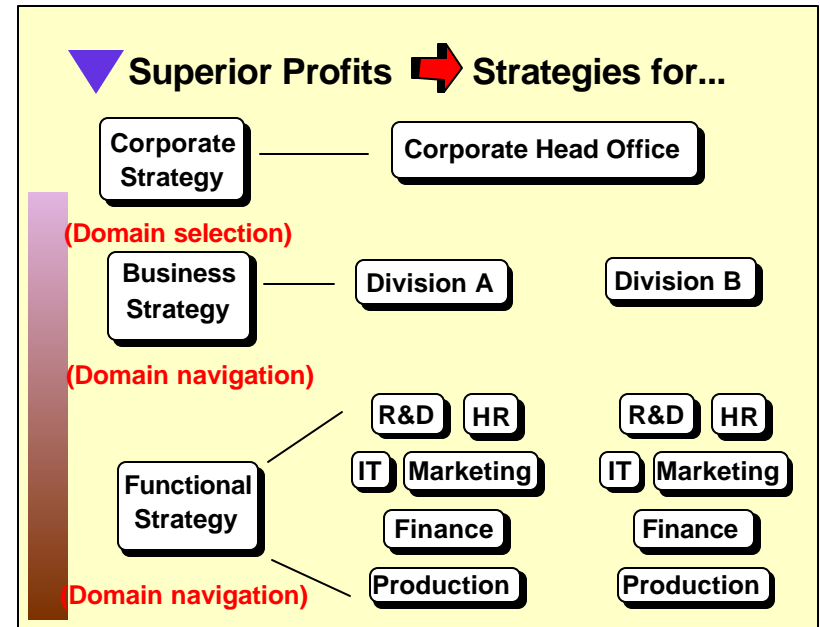
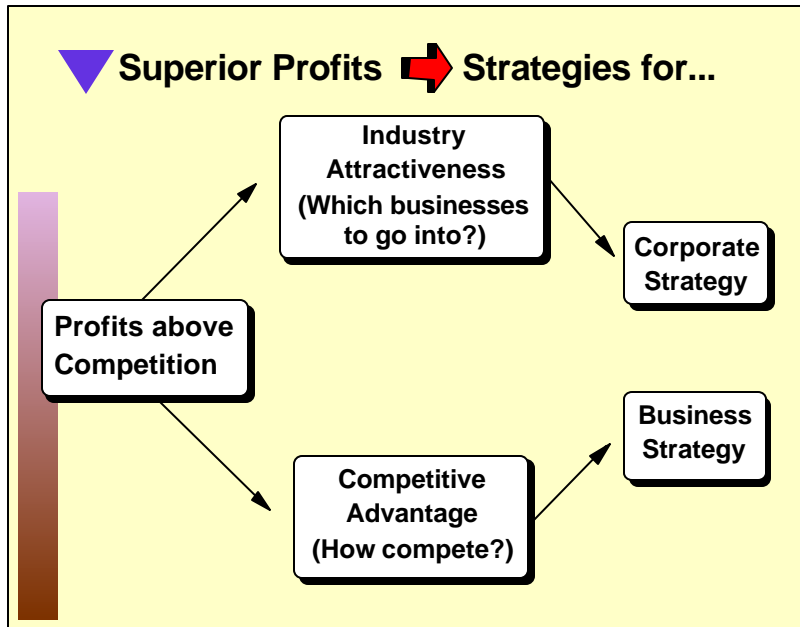
## Components of Strategies

### 4. Metrics



**Example:** We will outperform our historical percentages of drug designs that lead to commercial products by 10%. In any given year, 25% of revenues will come from new drugs introduced during the last five years.





- ▼ Chevron
- ★ Mission
1. Mission deals with domain selection
  2. Metrics stress domain navigation
  3. Vision includes both
  4. Tactics are missing (Should they be? This is a public document, after all.)

▼ Dell.com

★ Example:

|         |   |
|---------|---|
| Mission | Dell - Mission statement.htm                                |
| Vision  | Dell - Vision index.htm<br>Dell - The Dell Direct Model.htm |

★ The Dell Story

★ Their stock price drop? Is their strategy healthy?

## ▼ Strategy vis-a-vis Business Models

Strategy is knowing the customer and the market and designing ways of being successful by delivering the right products and services to the right customers at the right time.

-Peter Weill and Michael Vitale, *From Place to Space*, Harvard Business School Press, 2001

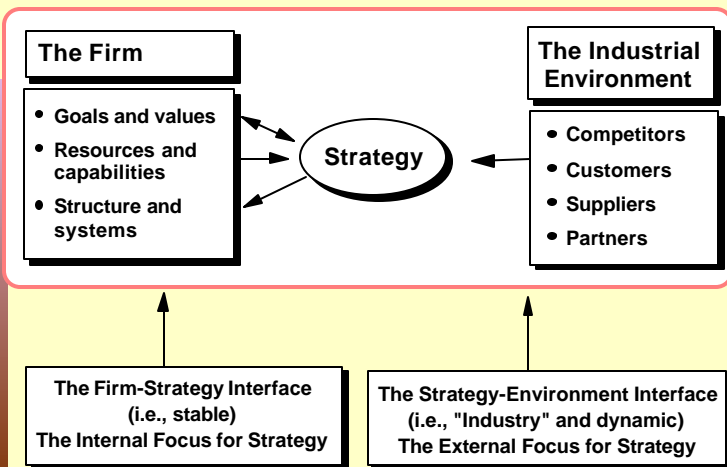
## ▼ Strategy vis-a-vis Business Models

**Business models** involve a set of elements that tend to go beyond strategy. Such as...

1. goals, including targeted market segment
2. industry (competitive) analysis
3. core competencies of management group and employees
4. atomic model schematics
5. revenue model (projected financials) and marketing plan
6. business processes required to carry out vision, including strategic alliances
7. funding requirements

-Based, in part, on Weill and Vitale, *From Place to Space*, Harvard Business School Press, 2001

## ▼ Industry and Resources Foci



## ▼ Focusing on Internal Strengths

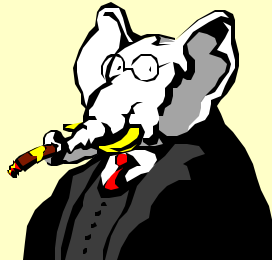


**A complete failure!! Dissolved.**

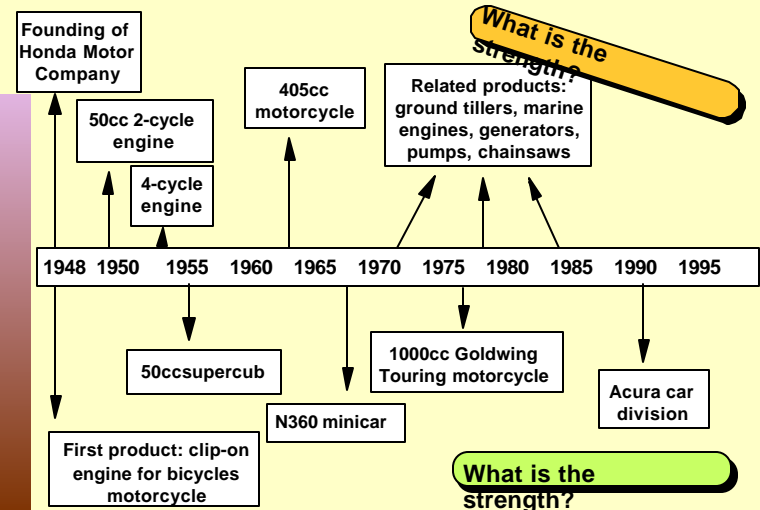
## ▼ Focusing on Internal Strengths

- The decision to form Allegis was based on an industry analysis
  - Opportunity to "serve the needs of the traveler" through an integrated service of airline, car rental, and hotel firms

Failed to take into account the lack of "core competencies" among the group to manage such an integrated service



## ▼ Focusing on Internal Strengths



## ▼ Case Example: Resource Base and Managerial Capability



## ▼ Case Example: Resource Base and Managerial Capability

- Disney Corporation Reborn (1984-1988)
  - 3 years previous to Eisner, declines in income
  - Utilization of current resource bases
  - Revenues tripled over 3 year period
  - Income quintupled
  - Stock price quintupled
- Masterful Use of Current Resources
  - Disneyworld properties enhanced
  - Large film library exploited
  - Resuscitation of Disney Studios

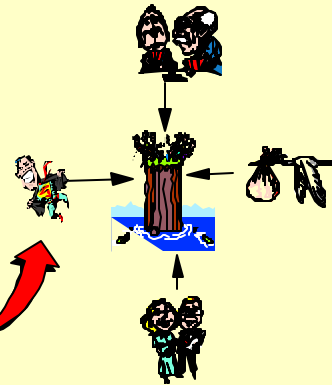


## Resource-Based View of the Firm

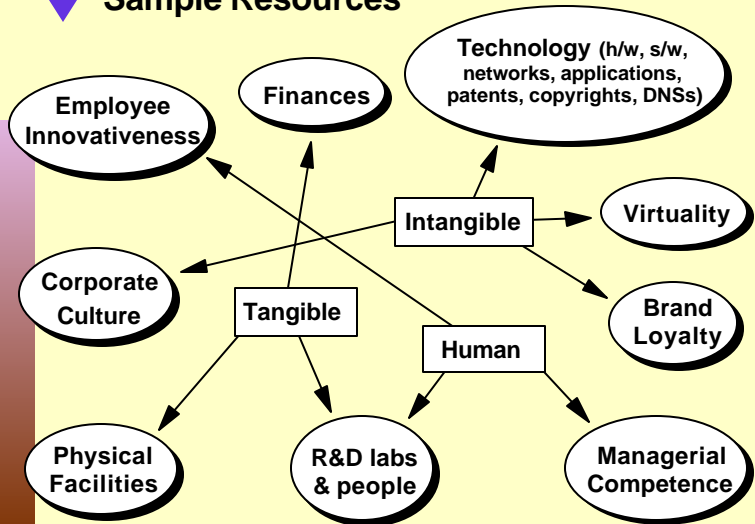
- The line of reasoning is that the firm is a "unique" bundle of heterogeneous resources and capabilities to deploy those resources

- Firms earn economic rents (monopoly [limited competition] or Ricardian [superior profits from superior resources])
- Not entirely separable from industry analysis [e.g., 5 forces model]

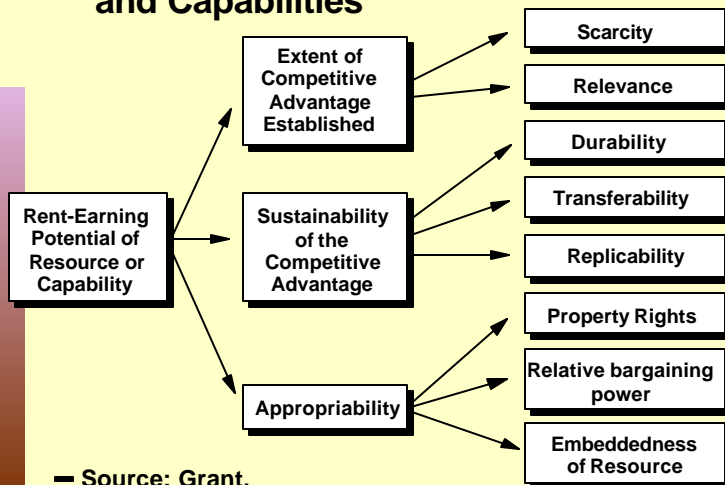
Patents, brands, channels, experience, all impact threat of new entrants!!



## Sample Resources



## Rent-Earning Potential of Resources and Capabilities

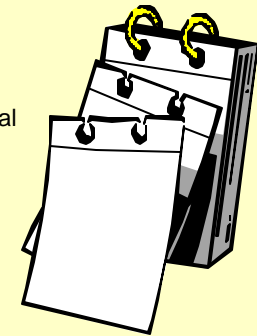


Source: Grant, 1999

## RBV Durability

- Durability is linked to the concept of sustainable competitive advantage
- The longer a resource lasts, the more valuable it is to the firm

- ★ Technological assets wear out fast
  - Necessary to write off before legal requirement to do so
- ★ Reputations (brands) die hard
- ★ Other examples of durable or non-durable assets?



## ▼ RBV Transferability

- **Transferability** means that a resource may not be easily bought and transferred to a new location or new owner
- ✓ **Firm-specific investments ward off competition!**

|                                  | Transfers Well | Transfers Poorly |
|----------------------------------|----------------|------------------|
| Financial assets                 | 👍              |                  |
| Technical and Professional Staff |                | 👍                |
| Standard machines                | 👍              |                  |
| Management                       |                | 👍                |
| Staff with standardized skills   | 👍              |                  |
| Reputation                       |                | 👍                |
| Land                             | 👍              |                  |
| Another asset?.....              | ?              | ?                |

— Source: Grant, 2000

## ▼ RBV Replicability

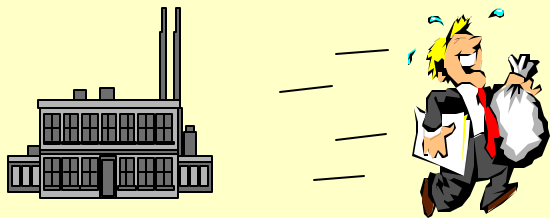
- **Replicability** Assesses Whether the Resource is Hard to Duplicate by Competitors
  - If the resource is inimitable, then rents will be Ricardian
- **Extending Replicability**
  - physical uniqueness
  - path dependency (a resource is unique because of the process of accumulating the resource)
  - causal ambiguity (cannot disentangle the valuable resource from the process by which it was created)
  - economic deterrence (a large investment made in an asset in order to preempt a competitor's move)



— Source: Grant, 2000

## ▼ RBV Appropriability

- **Appropriability** addresses how easily the resource can be appropriated by a competitor
- It assesses the the value that the resource creates and whether or not a given firm has the right to accrue these profits



## ▼ RBV Appropriability

- **Ownership** is a primary issue
  - Who owns the patent or copyright?
  - Who owns the trademark (e.g., DNS)?
  - Violation of non-competition clauses, non-disclosure agreements, trade secrets (US FBI estimates this as a \$250B problem per year)
  - Proprietary plans, software, data may be appropriated by competitors without protections & careful management

## ▼ RBV Stress on Human Capital

- Inability to appropriate resource hampers Accenture
  - Arthur Andersen owns the DNSs
    - [www.andersen.com](http://www.andersen.com)
    - [www.arthurandersen.com](http://www.arthurandersen.com)



## ▼ RBV Stress on Human Capital

- Neither [www.arthurandersen.com](http://www.arthurandersen.com) nor [www.andersen.com](http://www.andersen.com) mentions Accenture
  - To reach Accenture, one must know and enter [www.accenture.com](http://www.accenture.com)
    - Alternatively, [www.ac.com](http://www.ac.com)

Since January 1, 2001, Andersen Consulting has been known as Accenture. All references on our new site to Andersen Consulting refer to Accenture. Since August 7, 2000, the firm has ceased to be associated with Andersen Worldwide or Arthur Andersen.

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You are now being redirected to our new website, [accenture.com](http://accenture.com).

## ▼ RBV Stress on Human Capital

- Huge loss in branding
  - A competitive loss because Andersen owns the property rights on the main highway through cyberspace, [www.andersen.com](http://www.andersen.com)

Welcome to Accenture

The New Name for Andersen Consulting

## ▼ RBV Stress on Human Capital

- Arthur Andersen Consulting has split off into Accenture
  - With their departure into a wholly separate firm, they have lost their brand
- [www.andersen.com](http://www.andersen.com) remains the DNS for Arthur Andersen and their own new consulting arm



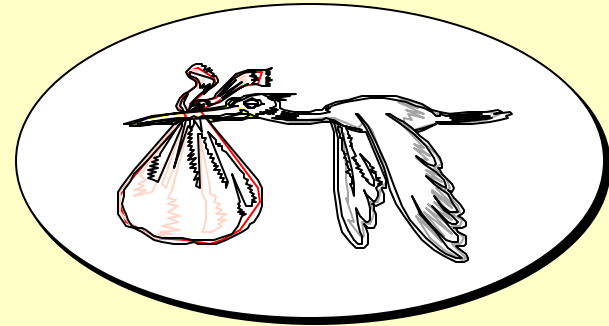
## ▼ RBV Tests (Collis and Montgomery, 1995)

- Alternative list to the preceding list
- They say it must demonstrate one or more of the following:
  1. Replicability
  2. Durability
  3. Appropriability
  4. Substitutability
  5. Competitive superiority



## ▼ RBV Substitutability

- *Substitutability* asks if a unique resource can be replaced by a different resource



## ▼ RBV Competitive Superiority

- *Competitive superiority* addressees:
  - if a resource is actually in demand
  - if a resource is truly superior to that of the competitor



## ▼ RBV Stress on Human Capital

- Discussions of RBV frequently address human and intellectual capital issues
  - A firm gains in competitiveness to the extent to which it has people who can change the resources of the firm into capabilities
  - Knowledge and learning are recognized as competitive weapons



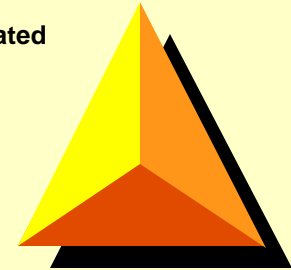
## ▼ RBV Stress on Human Capital

- Firms may also protect their competitive position by making this expertise as firm-specific as possible
- Andersen Consulting as example
  - Analytical systems, methods, and techniques instilled in new personnel (increasing the asset or resource itself)
  - Continuing education to keep the human capital capable of servicing clients (capabilities)

## ▼ RBV and Core Competencies

Definition of "core competency"  
[Quinn & Hilmer, 1994]

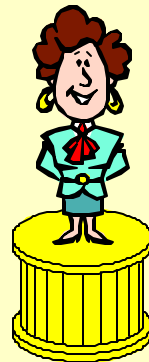
- ★ core = "critical," "key," or "fundamental," p. 44
- ★ "core competencies" associated with "firm's uniqueness," "competitive edge," and "value creation for the future," p. 44



## ▼ RBV and Core Competencies

Definition of "core competency"  
[Quinn & Hilmer, 1994]

- ★ **core competency** = "a central set of corporate skills....[that] create unique value for the customers," p. 45
- ★ **core competency** = "in-depth knowledge bases," p. 45 but also management systems that convert expertise into a "corporate reputation or culture," p. 47



Human and intellectual capital do not appear under "book" value.

## ▼ Capability Theory et al.

- A capability is the realization of the potential of the resource(s)
  - In fact, for our purposes, it is just a matter of timing in that the resource itself and the capability to deploy it effectively are related and sequential acts
  - Having a core competency is a resource, but at the same time amounts to having capabilities to apply resources well

Resources → Capabilities

## ▼ Framework for EC Firm-Focused Strategic Analysis

Assess resource base. Determine which current resources are relevant to the competition, especially those that enhance its EC positioning



Assess capability base. Determine where firm has capabilities to exploit current resources, especially those that enhance its EC positioning



Plan strategy. Build business model. Determine strategy to exploit current resources, especially those that enhance its EC positioning

## ▼ Example: Resource Competition in Book Business

**Assess Resource Base**

Amazon.com's patent for one-click means that Barnes&Noble.com also needs to enhance its Web site resource with an alternative easy-out method for customers. Website, internal and external expertise are the relevant resources.

**Assess Capability Base**

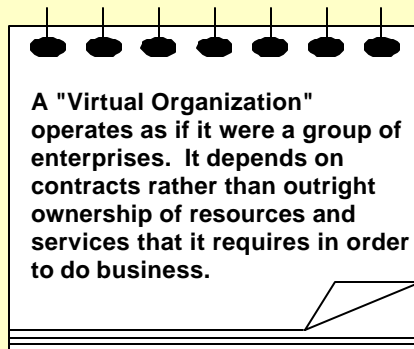
Double-click method could be invented and deployed by internal resources, the IT group, or managed external, outsourced expertise. Or there are other options, based on resources.

**Choose and Plan Strategy**

Choose double-click. Plan for its deployment by combination of resources. Create business model.

## ▼ Resources Needed to be EC- Competitive

- Partnering, Supplier Links → Virtual Model



## ▼ Virtual Designs

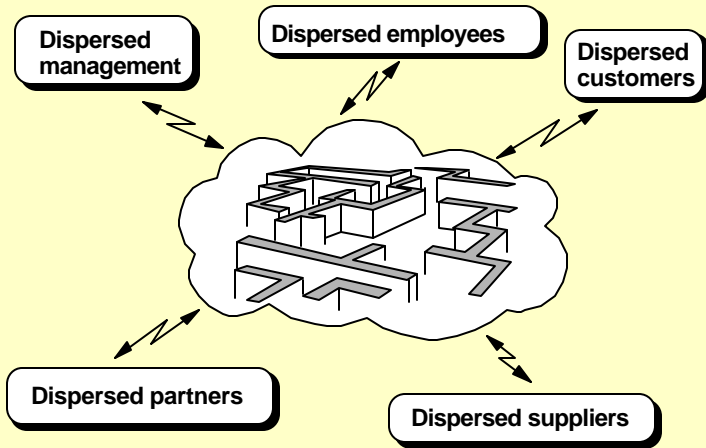
**In a Virtual Corporation,....:**

"...the majority of the activities of the firm are contracted or outsourced."  
(Study Definition based on ...)

This allows the firm to focus on its strategic, core processes (core competencies)

*Strategic alliances....*

▼ **Key Parties in Virtual Designs**



▼ **For EC, the Firm Must Have Core Competency in Managing Dispersed...**

- Customers
- Partners
- Suppliers
- Employees
- Managers

