DIGITAL BUSINESS

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SUMMARY OF SESSION

- Digital Marketplace Analysis
- Multichannel Strategy & Omnichannel Strategy
- Trading in the e-Business or Electronic Marketplace – The Importance of Intermediaries
- Business Model Canvas

LEARNING OUTCOMES

o Explain what is a digital marketplace analysis and its online elements.

o Identify the importance of intermediaries in the digital business.

o Explain what is meant by disintermediation & reintermediation.

o Explain what is a business model.

Digital marketplace analysis & its online elements

What Is A Digital Marketplace?

A Digital Marketplace refers to how information & commercial transactions are exchanged between consumers, businesses and governments, through various forms of online presence e.g. search engines, comparison sites, social networks and destination sites.
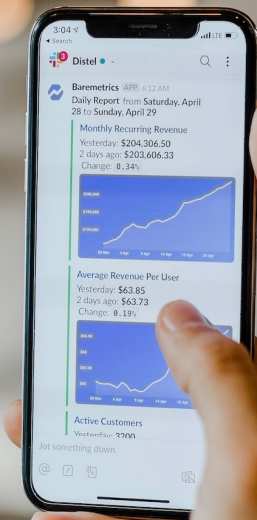
Situation Analysis

Situation analysis is an extremely important part of developing a digital business strategy. Situation analysis refers to reviewing & collecting information about an organisation's internal resources and processes, as well as its external environment, in order to inform its strategies.

Environmental Scanning & Analysis

An organisation should continuously monitor its environment, events that occur, and should respond accordingly.
Having knowledge of the opportunities & threats present in the marketplace is necessary for all those tasked with defining business & marketing strategy.

Macro-environment & Micro-environment of Digital Business

Macro-environment

▶ **Technology** including innovation and trends.
▶ **International** factors including economic factors, legal constraints and cultural factors
▶ **Society** including public opinion, moral constraints and ethical constraints.
▶ **Country Specific** factors including economic factors, legal constraints and cultural factors.
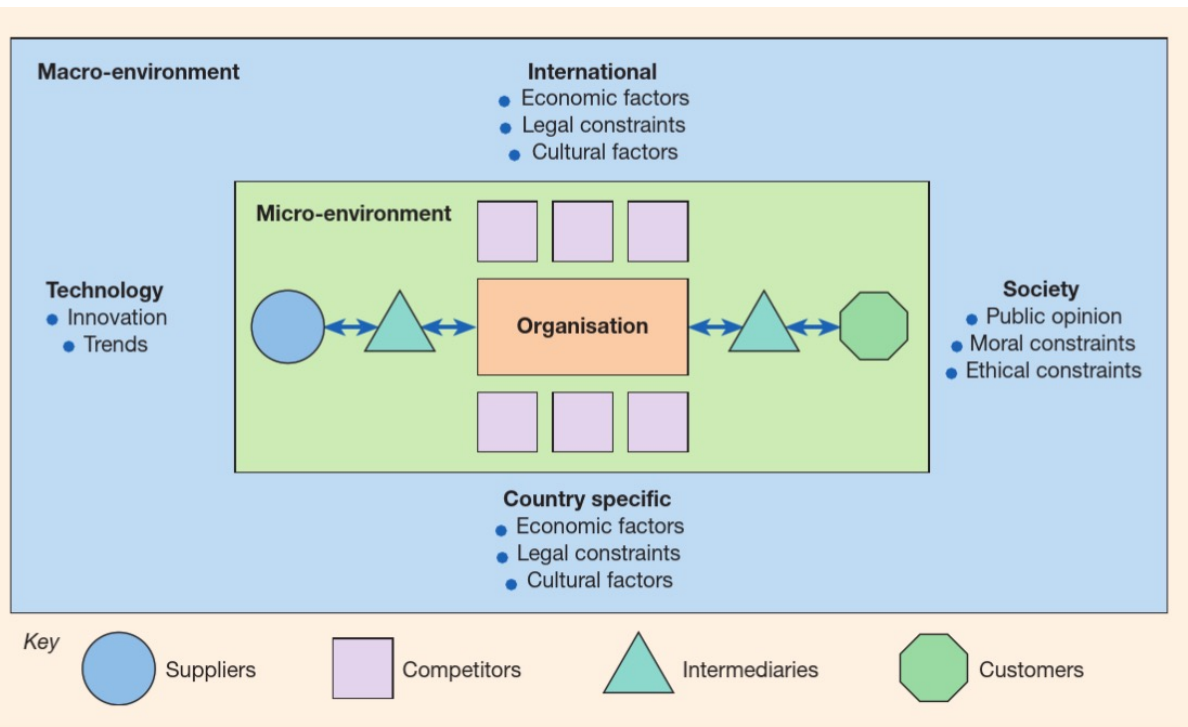
Micro-environment

▶ **Supplier**

▶ **Intermediaries**

▶ **Competitors**

▶ **Customers**

Figure 2.2 The environment in which digital business services are provided

(Source: Chaffey et al, 2019)

Strategic Agility

What do we mean by Strategic Agility?

❑ Strategic Agility refers to the ability of an organisation to innovate which helps it gain a competitive advantage, by monitoring what is happening in its marketplace, evaluating different strategies, then selecting, reviewing & implementing those strategies.

❑ Read through Unilever case study you are given that refers to when Unilever acquired online-only subscription service Dollar Shave Club for a rumoured $1 billion.

❑ Dollar Shave Club disrupted the the shaving market in the US, which had been dominated by Gillette. Gillette's share of this market from from 71% to 59%.

"Digital Marketplace Analysis

(Source: Chaffey et al, 2019)
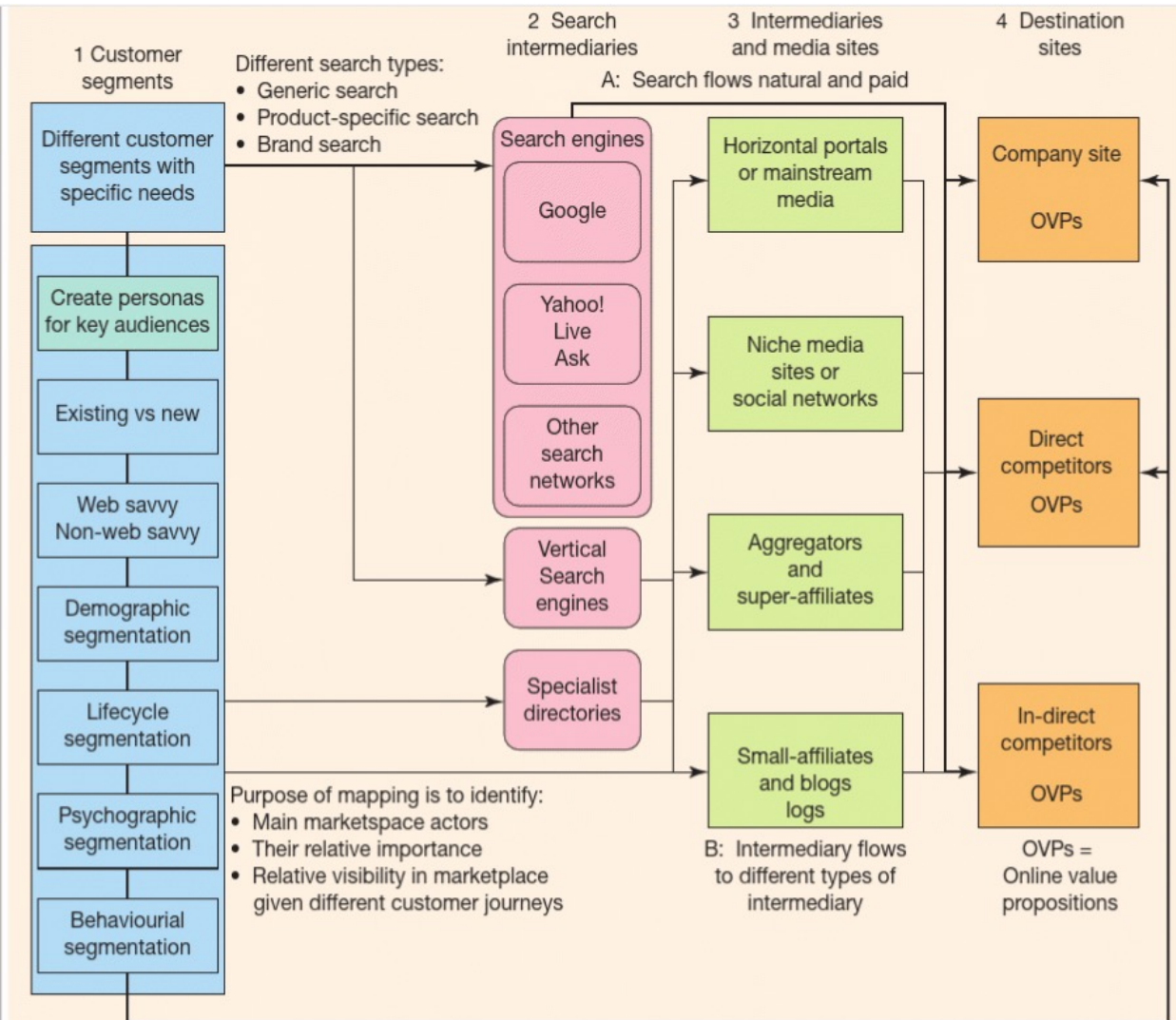
Figure 2.8 — A digital marketplace map

Analysing the digital marketplace is essential for developing a long term digital business plan.

It helps define the main types of online presence that make up the 'online ecosystem'.

The online ecosystem describes the behaviour of customers or how online visitors flow between search engines, media sites, intermediaries to an organisation and its competitors.

The 4 main elements of the Digital Marketplace Map include:

- Customer Segments
- Search Intermediaries
- Intermediaries & Media Sites
- Destination Sites

The importance of intermediaries
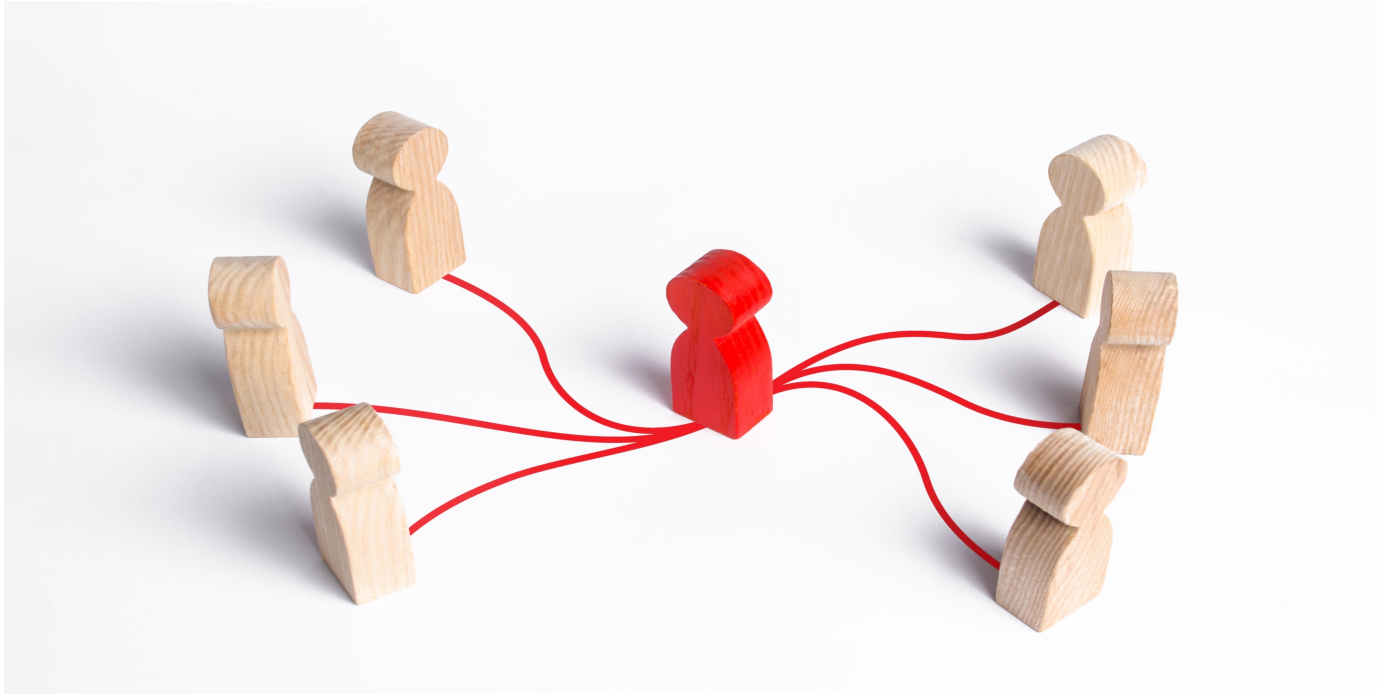
- Unlike traditional marketplaces which have a physical location, digital marketplaces have no physical location.

- Goods and services are still bought and sold so you need to understand how trading takes place in these virtual marketplaces.

- One of the first things a business needs to identify are the **distribution channels** through which a business gets its products and services to the consumer.

Types of Intermediaries, Influencers & Media Sites

In the digital environment, companies must assess potential online media and distribution partners in the following categories:

Mainstream news media sites – Traditional e.g. Financial Times or aggregator news e.g. Google news.

Social Networks – Facebook, Instagram, Snapchat, Pinterest, Twitter, LinkedIn.

Niche/ Vertical Media Sites – e.g. Smart Insights, e-Consultancy.

Price Comparison Sites/ Aggregators – Revenue model are affiliate revenues, Pay per click advertising and display advertising e.g. Money Supermarket, u-Switch.

Super Affiliates – affiliates gain revenue from a merchant when they refer traffic to using a commission-based arrangement.

Niche Affiliates/ Influencers/ Bloggers/ Vloggers – e.g., Zoella has more YouTube subscribers than BBC . Martin Lewis of Money Saving Expert has millions of visits per month.

Reintermediation

The explosion in ways of buying goods and services digitally has also led to an expansion of comparison sites and other support sites to help lead consumers to goods and services they want.

This is called reintermediation, another form of intermediary is created.

Disintermediation

One of the advantages of new digital technology is that businesses have found they can '**cut out the middle man**' and go direct to retailers or to the consumer.

This process is called disintermediation. Amazon, eBay and ASOS are all examples where retailers who would in the past have sold using stores or catalogues can now sell direct to customers and other businesses.

Disintermediation & Reintermediation

Figure 2.12 From original situation (a) to disintermediation (b) and reintermediation (c)
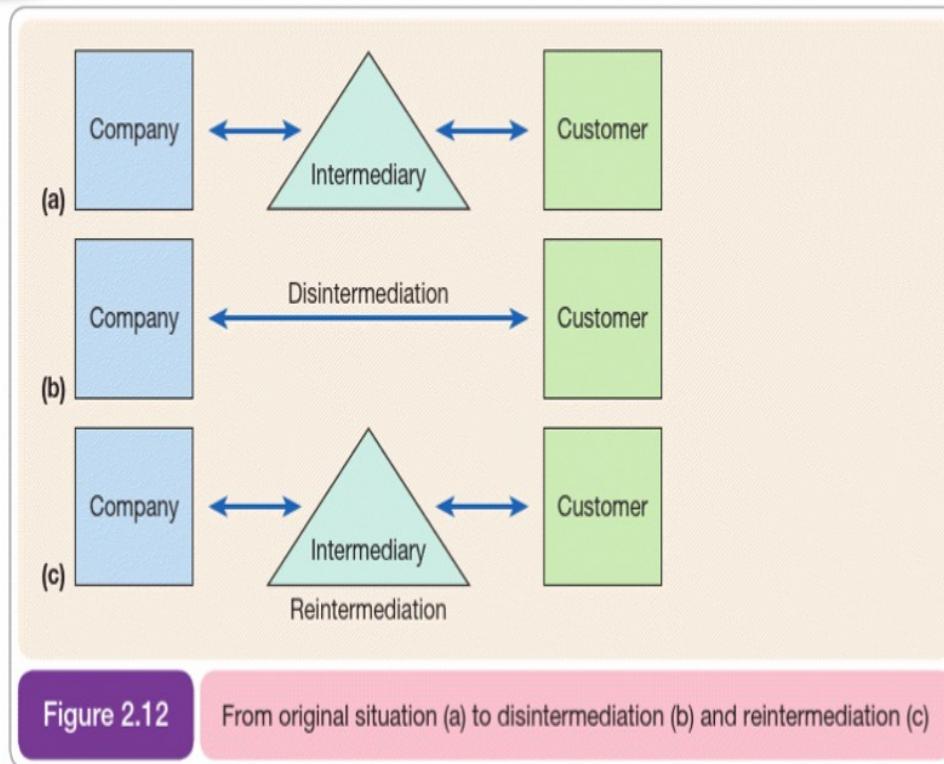
Original Situation e.g., sales through brokers e.g. The AA

Opportunity to use remove traditional intermediaries and use call centres or websites e.g., Directline.

New intermediaries needed for companies to function properly as online businesses even though they have disintermediated traditional intermediaries e.g. retail stores.

(Source: Chaffey et al, 2019)

Multichannel Strategy & Omnichannel Strategy

❑ **Macy's - using omnichannel growth strategies to improve customer experience.**

Omnichannel Strategy
Fully integrates all customer touchpoints and data sources to provide consumers with a seamless experience regardless of how/where they choose to interact with the brand.

Multichannel Strategy
Offers a range of direct/indirect channels for consumers to interact with, but channels have little/ no integration and consumers forced to repeat steps/ receive different messages as they switch channels e.g. websites, retail stores, mail order catalogues, direct mail, email, mobile.

Macy's department store
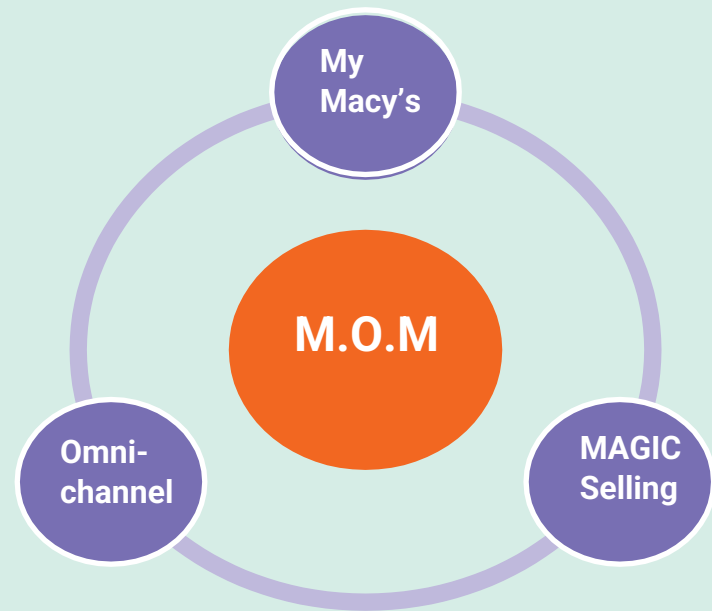
Macy's MOM customer engagement strategy

M: My Macy's localization – delivering a merchandise collection and shopping experience in each location that meets the needs of the local customer.

O: Omnichannel integration – creating a seamless experience for the customer.

M: Magic selling – selecting products to meet the needs of specific consumers.

Understanding Business Models

Before we look at digital business models, we must first look at a definition of 'business model' and we will develop that later in the session to define what a 'digital business model' is.

In his book 'The Business Models Handbook', Hague (2019) says that when people talk about their business model 'they mean the way their business is organised to make money'.

He said business models also have another meaning. He said business models can also refer to the 'frameworks and analytical tools that are used in strategic planning'.

According to Hague (2019) business models give us confidence and they are used like a map to focus on where the business is now and where the business wants to go.

He identifies 51 different business models in his book which you can find https://ebookcentral.proquest.com/lib/herts/detail.action?docID=5615290

Business Model Definitions

"All it really meant was how you planned to make money" (Lewis, M., 2014)

"assumptions about what a company gets paid for" (Drucker, P.F., 1994)

"at heart, stories — stories that explain how enterprises work. A good business model answers Peter Drucker's age-old questions, 'Who is the customer? And what does the customer value?' It also answers the fundamental questions every manager must ask: How do we make money in this business? What is the underlying economic logic that explains how we can deliver value to customers at an appropriate cost?" (Magretta, J., 2002)

❑ **The overall meaning of a business model is the company's economic model which, for a profit-making organisation, is focused on revenue & profit generation.**

❑ **In relation to a Not-for-profit organisations attention needs to be on how they raise or attract funding.**

BUSINESS MODEL CANVAS

1. **Customer Segments.** An organisation serves one or several customer segments. These segments are target audiences to whom the value propositions will appeal. In the Business Model Canvas the alternatives recommended are mass market, niche market, segmented (broken down further) or a range of diverse segments.

2. **Value proposition**. This seeks to solve customer problems and satisfy customer needs. This is at the heart of what the business offers to its audiences and is arguably most important to success.

3. **Channels**. Value Propositions are delivered to the customer through communication, distribution or sales channels. It relates to methods by which the organisation's services will be delivered and it's audiences reached.

4. **Customer relationships**. Customer Relationships are established & maintained with each customer segment. The types of relationships that will be formed, for example self-service, automated services, communities or more personal assistance. Co-creation of content may be part of this.

5. **Revenue stream**. Revenue streams are as a result of value propositions successfully offered to customers. This is the method by which a business derives income. Common online options are: ad revenue, subscription fees, sales of physical or virtual goods or affiliate- based commission arrangements. Licensing and leasing are other alternatives.

6. **Key Resources**. These are the assets, processes & people required to deliver the value proposition, build customer relationships & deliver the revenue streams. Different types of process and people to complete the activities to create and deliver the value proposition.

7. **Key Activities**. The main activities that need to be performed to deliver the value proposition to develop revenue.

8. **Key partnerships**. Some activities are outsourced and some resources are acquired outside of the enterprise. To exploit online and offline value networks, forming partnerships gives an opportunity of expanding reach and taking advantage of existing organisations and online influencers that have built an audience.

9. **Cost structure.** The Business Model elements results in the cost structure. Different cost-elements; these should be checked against activities and resources. Costs are classically broken down into fixed and variable costs and economies of scale.

CS 1 Customer Segments
An organization serves one or several Customer Segments.

VP 2 Value Propositions
It seeks to solve customer problems and satisfy customer needs with value propositions.

CH 3 Channels
Value propositions are delivered to customers through communication, distribution, and sales Channels.

CR 4 Customer Relationships
Customer relationships are established and maintained with each Customer Segment.

R$ 5 Revenue Streams
Revenue streams result from value propositions successfully offered to customers.

KR 6 Key Resources
Key resources are the assets required to offer and deliver the previously described elements …

KA 7 Key Activities
… by performing a number of Key Activities.
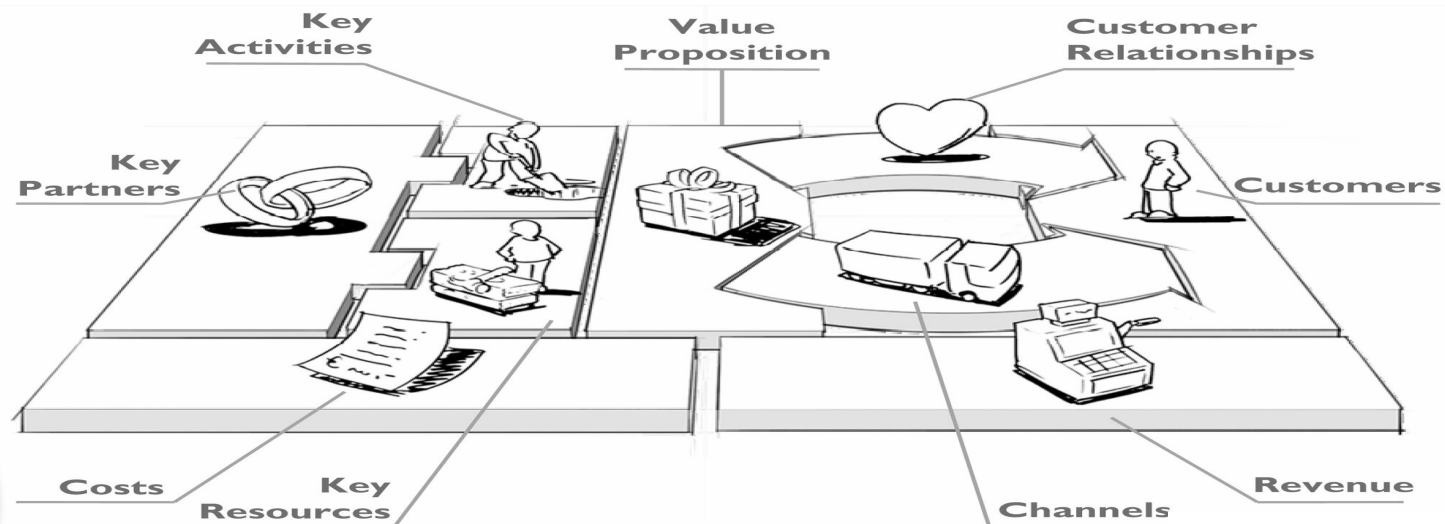
KP 8 Key Partnerships
Some activities are outsourced and some resources are acquired outside the enterprise.

C$ 9 Cost Structure
The business model elements result in the cost structure.

(Source: Osterwalder, 2010)

BUSINESS MODEL CANVAS

Key Partners

Who are our Key Partners?
Who are our key suppliers?
Which Key Resources are we acquaring from partners?
Which Key Activities do partners perform?

MOTIVATIONS FOR PARTNERSHIPS
Optimization and economy
Reduction of risk and uncertainty
Acquisition of particular resources and activities

Key Activities

What Key Activities do our Value Propositions require?
Our Distribution Channels?
Customer Relationships?
Revenue streams?

CATERGORIES
Production
Problem Solving
Platform/Network

Key Resources

What Key Resources do our Value Propositions require?
Our Distribution Channels? Customer Relationships?
Revenue Streams?

TYPES OF RESOURCES
Physical
Intellectual (brand patents, copyrights, data)
Human
Financial

Value Propositions

What value do we deliver to the customer?
Which one of our customer's problems are we helping to solve?
What bundles of products and services are we offering to each Customer Segment?
Which customer needs are we satisfying?

CHARACTERISTICS
Newness
Performance
Customization
"Getting the Job Done"
Design
Brand/Status
Price
Cost Reduction
Risk Reduction
Accessibility
Convenience/Usability

Customer Relationships

What type of relationship does each of our Customer Segments expect us to establish and maintain with them?
Which ones have we established?
How are they integrated with the rest of our business model?
How costly are they?

EXAMPLES
Personal assistance
Dedicated Personal Assistance
Self-Service
Automated Services
Communities
Co-creation

Channels

Through which Channels do our Customer Segments want to be reached?
How are we reaching them now?
How are our Channels integrated?
Which ones work best?
Which ones are most cost-efficient?
How are we integrating them with customer routines?

CHANNEL PHASES
1. Awareness
   How do we raise awareness about our company's products and services?
2. Evaluation
   How do we help customers evaluate our organization's Value Proposition?
3. Purchase
   How do we allow customers to purchase specific products and services?
4. Delivery
   How do we deliver a Value Proposition to customers?
5. After sales
   How do we provide post-purchase customer support?

Customer Segments

For whom are we creating value?
Who are our most important customers?

Mass Market
Niche Market
Segmented
Diversified
Multi-sided Platform

Cost Structure

What are the most important costs inherent in our business model?
Which Key Resources are most expensive?
Which Key Activities are most expensive?

IS YOUR BUSINESS MORE
Cost Driven (leanest cost structure, low price value proposition, maximum automation, extensive outsourcing)
Value Driven (focused on value creation, premium value proposition)

SAMPLE CHARACTERISTICS
Fixed Costs (salaries, rents, utilities)
Variable costs
Economies of scale
*Economies of scope*

Revenue Streams

For what value are our customers really willing to pay?
For what do they currently pay?
How are they currently paying?
How would they prefer to pay?
How much does each Revenue Stream contribute to overall revenues?

TYPES
Asset sale
Usage fee
Subscription Fees
Lending/Renting/Leasing
Licensing
Brokerage fees
Advertising

FIXED PRICING
List Price
Product feature dependent
Customer segment dependent
Volume dependent

DYNAMIC PRICING
Negotiation (bargaining)
Yield Management
Real-time-Market

Amazon Business Model Canvas

In the beginning.....
Amazon's original model was designed to receive orders from the customer, pass these on to the publisher and then the publisher would send the books directly to customer. Amazon thought that this could done within two days.
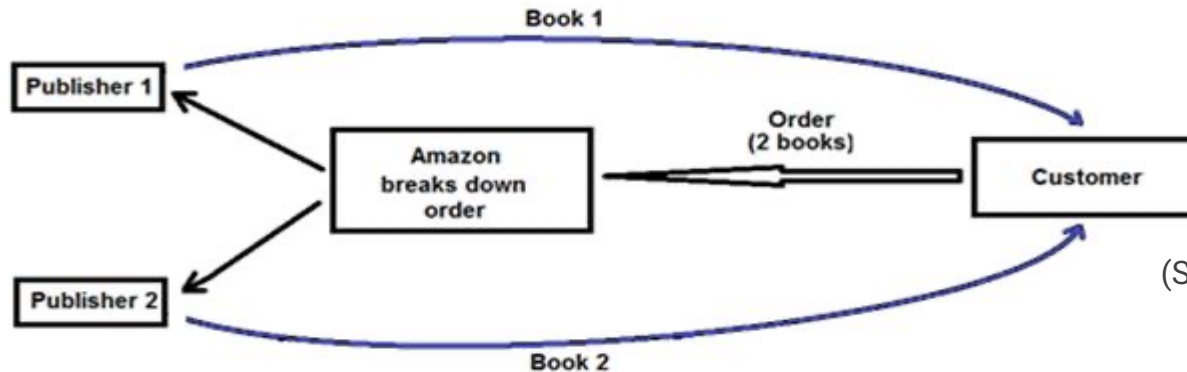
(Source: Hobson, 2008)

- Much has changed since then. In some ways Amazon is like many other e-tailers. It has a web-based catalogue and sells product direct to consumers. It also sells products which are fulfilled by other retailers, in this way providing a gateway or channel for those businesses to sell direct to consumers that Amazon attracts.

- And of course Amazon charges for that service. It also links consumer to consumer in terms of reselling goods. Other e-businesses offer such services but it is the scale and size of Amazon's operations that make it different.

- Amazon also has some of the features of B2B companies. It offers companies who want to sell their products through Amazon's marketplace, support with marketing, finance and other business functions.

- Behind the scenes, it will have many of its business functions - for example, it human resource management system based on online services.

- You can begin to see that an e-Business model needs to take account of most of the activities of a business or organisation and we will discuss the integrations of the different functions of the digital business infrastructure in our next lecture.

Thank You