Lecture 6

Digital Business Strategy

Introduction

Strategy – Defines the future direction and actions of an organisation/ part of an organisation.

Developing a **digital business strategy** involves a fusion of

- Marketing
- Supply chain management
- Information Systems Strategy Development

Key driver of digital business – **disruptive innovation.**

If we think about a product – it is about transforming an expensive & complicated product used by a few people into something more affordable & accessible (creating a brand-new market)

e.g., Sony Walkman to Apple iPod , **Uber** in transportation and **Airbnb** in hotels/ hospitality

Digital Business is not about defining 'how to do business online but 'how to do business differently by applying digital technology to improve profitability and process for customer-facing, partner facing and internal communications

Key Elements of Digital Disruption

1. **Move from product-centric to customer centric** – Focus on what the customer needs rather than what the company wants to sell.
2. **Shift from expensive, risky and slow to market to cheap low risk, fast to market/ fail** – With digital tools companies can produce a 'minimum viable product' (basic product without any additional features), they can test it with a few customers to get feedback. They can adapt/ withdraw it quickly & cheaply
3. **Move away from innovations in niche market, to impacting the mainstream quickly** – use of social media, bloggers, search engine marketing which help to impact the mainstream market far more quickly
4. **Move from long product-development cycles to rapid ideation, iteration, delivery & optimization.** - shorter product development times, ability to test constantly & improve product/ service . Digitization of products takes advantage of production cost savings and more convenience for consumers e.g. books delivered on Kindle instead of high print/ distribution costs
5. **From hardware devices to apps, a sharing economy & crowdfunding** - more apps being developed and organisations operating in a sharing economy i.e., creating value exchanges within communities of like-minded people

What is Digital Business Strategy?

Digital Business Strategy – approach by which the application of new technologies to existing business activities can support/influence business strategy and provide competitive advantage.

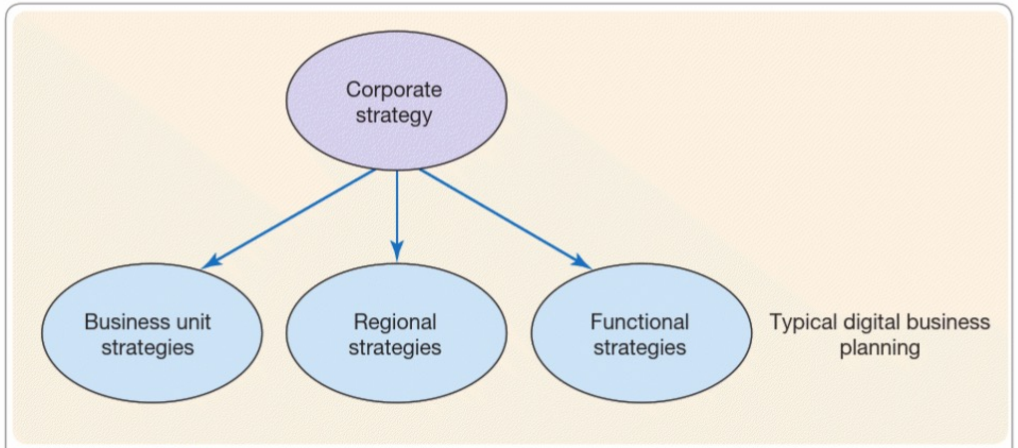


Figure 5.2 Different forms of organisational strategy

Corporate Strategy – concerned with overall purpose and scope of the organisation.
Business Unit Strategy – Defines how to compete successfully in a particular market
Operational Strategies – concerned with achieving corporate and business unit strategies.
Functional Strategies – describes how the corporate/ business unit strategies will be actioned in different functional areas or business processes. They refer to marketing, supply chain management, human resources, finance & information systems strategies
Digital Business Strategy – There is a tendency to incorporate into the functional strategies e.g. marketing plan. Danger it may not be recognized as integral within organizational planning. For successfully digital business, digital business strategy is an element of corporate strategy development

Digital Channels Strategies

An Important part of digital business strategies is they create new 'digital channel strategies' for organisations.

Digital Channel Strategies include

- Digital Channel, Multichannel or omnichannel strategy
- Mobile Commerce Strategy
- Social Media Strategy
- Social CRM strategy
- Supply Chain or ERP planning strategy
- e- Procurement strategy
- Platform strategy

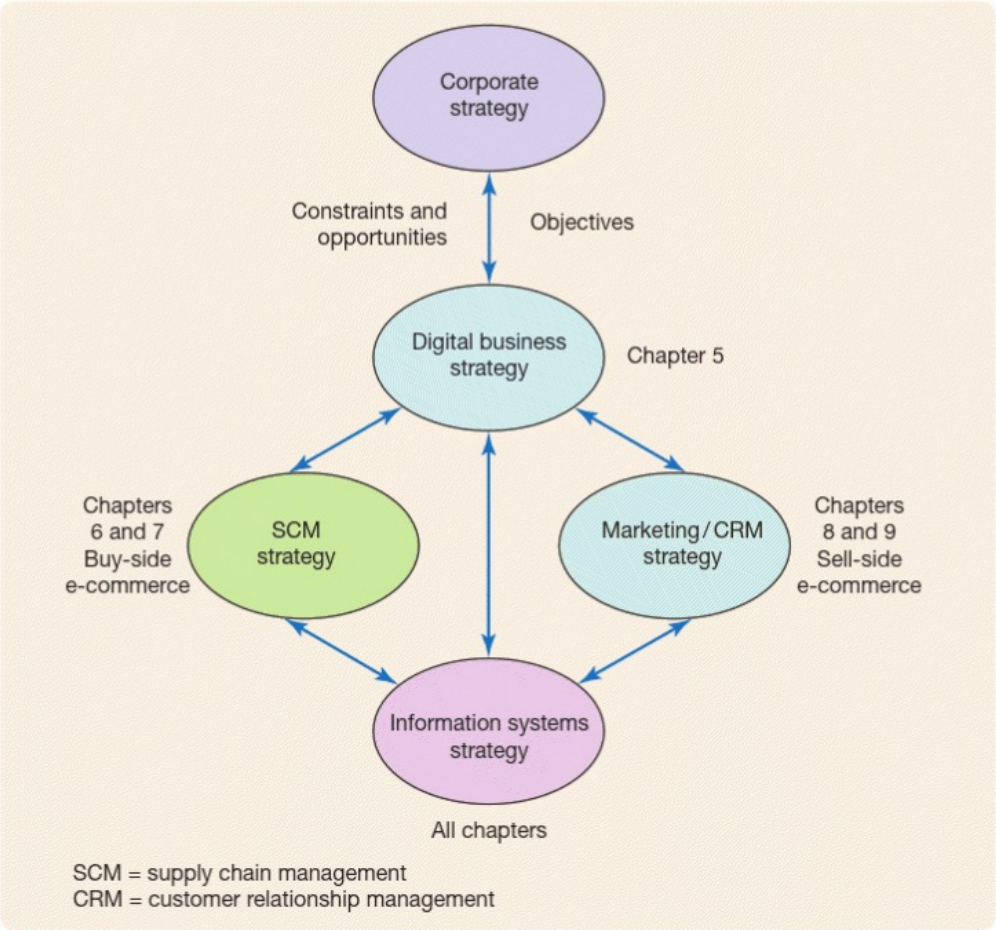


Figure 5.3 Relationship between digital business strategy and other strategies

Digital Channel Strategies – need to define how online channels are used with other channels as part of a **Multichannel Digital Business Strategy.** This defines how different marketing/ supply chain channels should integrate & support each other, in relation to their proposition development & communication - based on their merits for the customer and the company.

Alternatively, the organisation might pursue **Omnichannel business strategy**
Refers to the entire purchase process performed by the customer. It is a cross-channel business model that organisations can use to provide their user/ customer experience – provides a seamless customer experience across offline/online channels i.e., website, phone, physical store, live web chat, mobile application

Digital Business Strategy also defines how the organisation can get **value internally** from using digital network e.g., sharing employee knowledge & improving process efficiencies through company intranet / closed social networks e.g Slack

Platform Strategy

- **Platform Strategy - New type of strategy**
- Involves entering a market that revolves around allowing platform participants benefit from presence of others i.e., creating a community
- Platforms connect different groups and provide benefits from others participating e.g. Etsy, eBay, Facebook
- About 'co-creating' value
- Platforms rely on power of the network effects, as they attract more users they provide a better experience and become more valuable for users.
- Rise of platforms – driven by 3 main technologies – cloud, social and mobile

Success of a platform strategy – determined by 3 things (Bonchek & Choudary, 2013)

1. **Connection** – how easy it is for users to use, join, share and transact.
2. **Gravity** – how well does the platform attract participants (producers & consumers)
3. **Flow** – How well does the platform foster the exchange and co-creation of value.

There are 3 common types of platform

1. **Aggregation platforms** – they bring together broad array of different resources & help users connect with them. Transaction/ Task focused – find a solution, do the deal and move on. 3 subcategories
   - Data/ Information Aggregation Platforms e.g. scientific databases
   - Marketplace/ Broker platforms e.g. Money Supermarket, eBay, App Store
   - Contest Platforms – where people post a problem and offer a reward/ payment to user with best solution.
2. **Social Platforms** – Bring together a lot of people who want to communicate with each other because of a common interest, help to build/ reinforce long term relationships across participants using the platform e.g., Facebook and Twitter.
3. **Mobilisation platforms** – designed to take common interests to next level of action. Moving people to act together to achieve something beyond what's possible as an individual e.g. crowdsourcing to fund business idea. E.g. Crowdfunder and Kickstarter

Strategy Process Model

Strategy Process Model – is a framework for approaching strategy development

Key Elements of Strategy Process Models

1. **Internal & External environmental scanning** needed, during strategy development and as a continuous process. Even more relevant for digital business as new digital technologies/ platforms are created & adopted.
2. **Vision & Objectives Statement**. Needed to communicate strategic intention to both employees & the marketplace. Objectives act as a check as to whether strategy is on track.
3. **Strategic Definition** – Can be broken into Option Generation, Option Evaluation & Option Selection
4. **Strategy Implementation** – comes after strategy development
5. **Control** – need to monitor operation and strategy effectiveness issues and adjust strategy as needed. With Digital Business – optimization is possible using digital analytics e.g. tracking audience behaviour on desktop/ mobile services and feedback from social media channels. This insight is useful to refine implementation.

These elements may appear in a sequence but need reference back to previous stages.

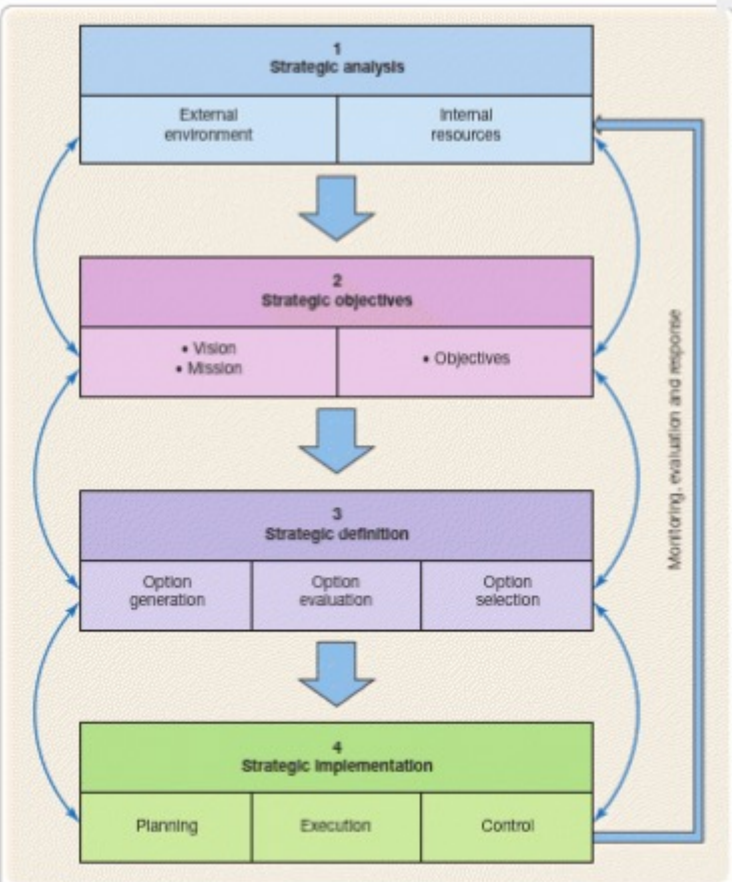


Figure 6.6 A generic strategy process model

Prescriptive Strategy – Strategic analysis, Strategic Development & Strategic Implementation all linked together sequentially

Emergent Strategy – Strategic analysis, Strategic Development & Strategic Implementation are interrelated and are developed together.

Most organizational **strategy development & planning have elements of both** prescriptive & emergent strategies to **allow for strategic agility**

Source: Chaffey et al (2019)

Strategy Analysis

Strategic Analysis – this is the collection & review of information about an organization's internal processes/ resources and the external marketplace factors to inform the strategy

Strategic Analysis/ Situation Analysis reviews

1. **Internal Resources/ Processes of company** – to assess its digital capabilities & results to date.
2. **Microenvironment** – Immediate Competitive Environment e.g. customer demand & behaviour, competitor activity, marketplace structure, relationships with suppliers/ partners/intermediaries.
3. **Macroenvironment** – Social, Legal, Economic, Political Factors

Resource Analysis – Review of the technological, financial, human resource of an organisation & how they are used in business processes . In relation to a digital business this is concerned with whether the organisation has the appropriate technological & applications infrastructure plus financial/ human resources to support it.

Resources – tangible (IT infrastructure, bricks & mortar & financial capital) & intangible assets (company brand & credibility, employee knowledge, licences & patents) that can be used in value creation

Capabilities – represent the ability of the organisation to use resources effectively to support value creation.

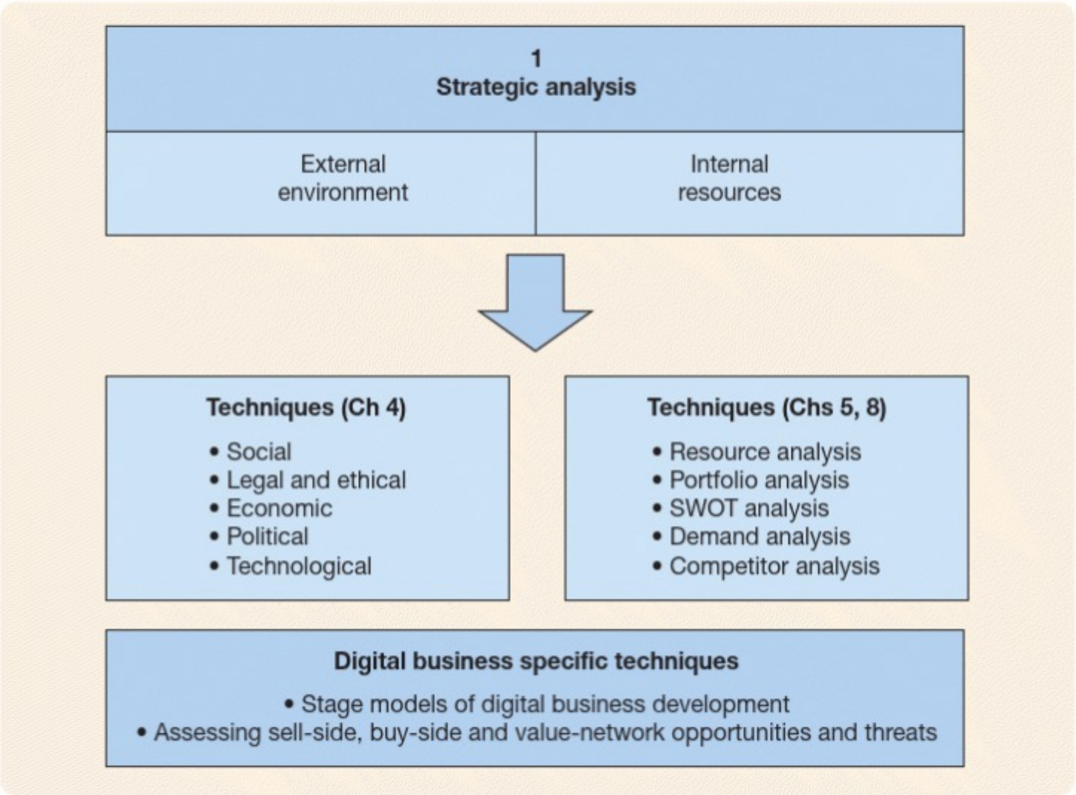


Figure 5.7 Elements of strategic situation analysis for the digital business

Source: Chaffey et al (2019)

Stage Model For Digital Business Development

Stage Models – useful to review how advanced a company is in its use of information & communication technology resources to support its processes.

Chaffey & Ellis – Chadwick (2012) came up with the following 6 options for sell side e-commerce

Sell Side e-commerce
Level 0 – No website or web presence
Level 1 – Basic Web presence. Entry on a website listing. No website
Level 2 – Simple static informational website. Basic company & product information (Brochureware)
Level 3 – Simple Interactive Site. Users can search site & make queries to retrieve information. Queries by email supported
Level 4 – Interactive Site supporting transactions with users. Usually limited to online buying
Level 5 – Fully interactive site supporting whole buying process. Facilitates range of marketing exchanges

Table 5.3 A stage model for digital business development

	1 Web presence	2 E-commerce	3 Integrated e-commerce	4 Digital 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. Personalisation of services	Full integration between all internal organisational processes and elements of the value network
Organisational scope	Isolated departments, e.g. marketing department	Cross-organisational	Cross-organisational	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 digital 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	Digital business strategy incorporated as part of business strategy

Synthes
is of Stage Models for Digital Business Development
Source: Chaffey et al (2019)

Organisational & IS SWOT Analysis

SWOT /TOWS analysis – Strengths, Weaknesses, Opportunities, Threats

- Help organizations analyze **internal** resources – strengths and weaknesses & match them against **external** environment in terms of **opportunities & threats.**
- Most effective when as well as analyzing current situation, used to formulate strategies.
- Once strengths, weaknesses, opportunities, threats listed, combine them into a TOWS matrix – can be used to develop strategies to counter threats and take advantage of opportunities which can be built into a digital business strategy.

The organisation	**Strengths – 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 5.9 SWOT/TOWS analysis

Competitor Analysis

Demand Analysis – Assessing the demand for e-commerce services among existing & potential customer segments

Michael Porter – 5 Competitive Forces – Valid framework for reviewing threats arising the digital business era

Table 5.5 Impact of the Internet on the five competitive forces

Bargaining power of buyers	Bargaining power of suppliers	Threat of substitute products and services	Barriers to entry	Rivalry among existing competitors
• The power of online buyers is increased since they have a wider choice and prices are likely to be forced down through increased customer knowledge and price transparency, i.e. switching behaviour is encouraged • For a B2B organisation, forming electronic links with customers may deepen a relationship and it may increase switching costs, leading to 'soft lock-in'	• When an organisation purchases, the bargaining power of its suppliers is reduced since there is wider choice and increased commoditisation due to e-procurement and digital marketplaces • The reverse arguments also apply for bargaining power of buyers • Commoditisation reduces differentiation of suppliers • E-procurement can reduce switching costs, although use of preferred systems can achieve lock-in	• Substitution is a significant threat since new digital products or extended products can be more readily introduced. • The introduction of new substitute products and services should be carefully monitored to avoid erosion of market share. • Internet technology enables faster introduction of products and services. • This threat is related to new business models, which are covered in a later section in this chapter.	• Barriers to entry are reduced through lower fixed costs, enabling new competitors, particularly for retailers or service organisations that have traditionally required a high-street presence or a mobile sales force • New entrants must be carefully monitored to avoid erosion of market share • Internet services are easier to imitate than traditional services, making it easy for 'fast followers'. The cost of establishing a recognised, trusted brand is a major barrier or cost of entry and new entrants have to encourage customers to overcome switching costs	• The Internet encourages commoditisation, which makes it less easy to differentiate products • Rivalry becomes more intense as product life cycles shorten and lead times for new product development decrease • The Internet facilitates the move to the global market, with potentially lower cost-base also potentially increasing the number of competitors

Competitive Threats

Competitor Analysis

1. **Threat of new e-commerce entrants** – e.g. traditional banks have been threatened by the entry of new start up competitors e.g. Zopa. New entrants need to be market leaders in executing marketing & customer service. The costs of this will be high.
2. **Threat of new digital products** – Can be from existing or new companies. Greatest threat can happen where digital product fulfilment can occur over the Internet e.g. share prices, digital media content or software.
3. **Threat of new business models** – Can occur from new/ established companies. Related to the competitive threat as it concerns new methods of service delivery. Internet has increased rivalry as price comparison is easier/ digital businesses can innovate, undertake new product development/ introduce alternative business & revenue models in less time.

Sell Side Threats

1. **Customer power and knowledge** – Biggest threat from digital trading. Power of customers is greatly increased as they are using the Internet to evaluate products and compare prices. Especially true for standardized products that can be compared through price comparison platforms. Auctions on B2B exchanges can also drive down price for commodities. The purchase of some products, not thought of as commodities traditionally may become more price sensitive. This process is known as **commoditization** e.g. electric goods and cars
2. **Power of Intermediaries** – Potential loss of partners of distributors if there is a channel conflict that results from disintermediation. There can be tensions between intermediaries. Also the growth in intermediaries to link buyers and sellers is also a downstream threat.

Buy Side Threats

1. **Power of Suppliers** – Can be thought of as an opportunity. Companies can insists, giving cost reduction reasons & improved supply chain efficiency, that their suppliers use digital tools to process orders. Internet reduces power of suppliers as barriers to moving to a different supplier are reduced especially with the advent of business to business exchanges. Their can be 'soft lock in' if suppliers insist on proprietary technology to link companies – this would add complexity to change suppliers.
2. **Power of Intermediaries** – Threat of the cost of integration with buy side intermediaries, they may pose a threat from increasing commission once they are established.

Competitor Analysis for Digital Business – review of digital business services offered by existing and new competitors, and adoption by their customers

Core Competencies – Resources including skills/ technology that provide a specific benefit to customers or increase customer value relative to competitors.

Customer Value – dependent on product/ service quality, price and fulfilment time.

Source: Chaffey et al (2019)

Strategic Objectives

Strategic Objectives – Statement & Communication of an organization's mission, vision and objectives.

Defining Strategic Objectives is a key element of any strategy process

- as strategy definition and the actions of the strategy must be directed at how best to achieve the objectives.
- Success will be assessed by comparing actual results against objectives and taking action to improve strategy.
- Clear objectives help to communicate the goals/ significance of digital business initiative to employees and partners.

Objective Setting is done in parallel with strategic analysis – defining the vision/strategy for digital business is inter-related process.

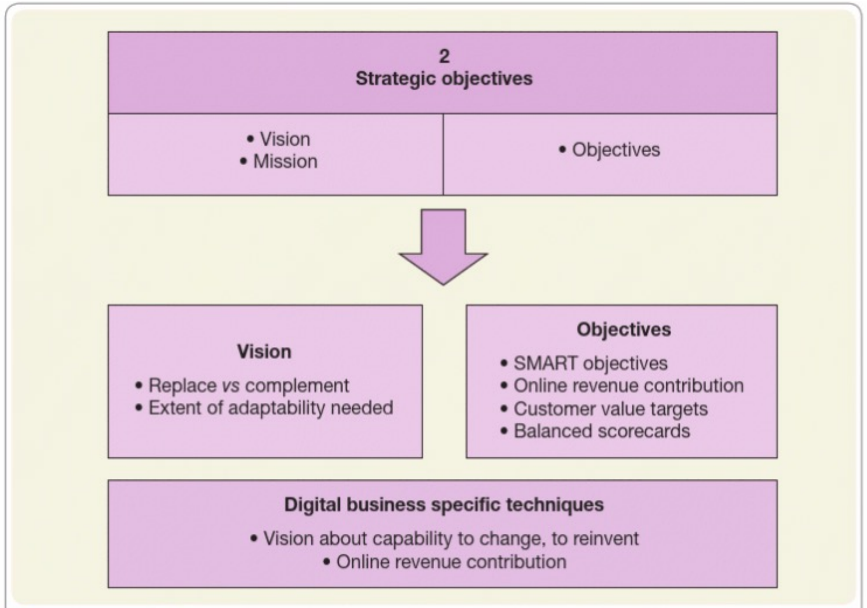


Figure 5.12 Elements of strategic objective setting for the digital business

Vision Statement Organisations clear and inspirational **long term direction**.

Mission Statement
This should communicate **what the organisation does**; its purpose.

Jelassi & Enders (2008) state that the mission statement should define

- **Business Scope** – Markets, Products, Customer Segment & Geographies where company wants to compete online.
- **Unique Competencies** – How the company will differentiate itself in terms of digital business products/ services.
- **Values**: Emotional Element that inspires the organisation or its digital business initiative

VMOST Analysis- Vision Mission Objectives Strategy Tactics
Simple model to outline key elements of the business and help determine strategy.

Figure 5.13 VMOST analysis

How Can Digital Business Create Business Value

1. Adding Value

- Incremental revenue from providing better-quality products & services to customers.
- Information can help us understand customer characteristics & needs and their level of satisfaction with services.
- Information helps sense & respond to markets
- Information about demand trends, competitor products & activities can be monitored so organisations can develop strategies to compete.
- Data mining can be used to understand customer preferences & market products to meet their needs.
- Companies can use ‘sense & respond’ communications. E.g. Amazon’s personal recommendations.

2. **Reduce Costs** – Through making business processes more efficient. Efficiency is achieved through using information to source, market and deliver services using fewer resources. Technology reduces paperwork, reduces human resources needed to operate processes, internal & external processes are improved.

3. **Manage Risks** – Risk Management is a well established use of information within organisations. It has created professions such as finance, accounting, auditing & corporate performance management

4. **Create New Reality** – Refers to how information and new technologies can be used to innovate & create new ways for products/ services to be developed

Objective Setting

Objectives should be **SMART** – Specific, Measurable, Actionable, Relevant, Time-Related

Efficiency – Minimizing resources or time needed to complete a process 'doing the thing right'

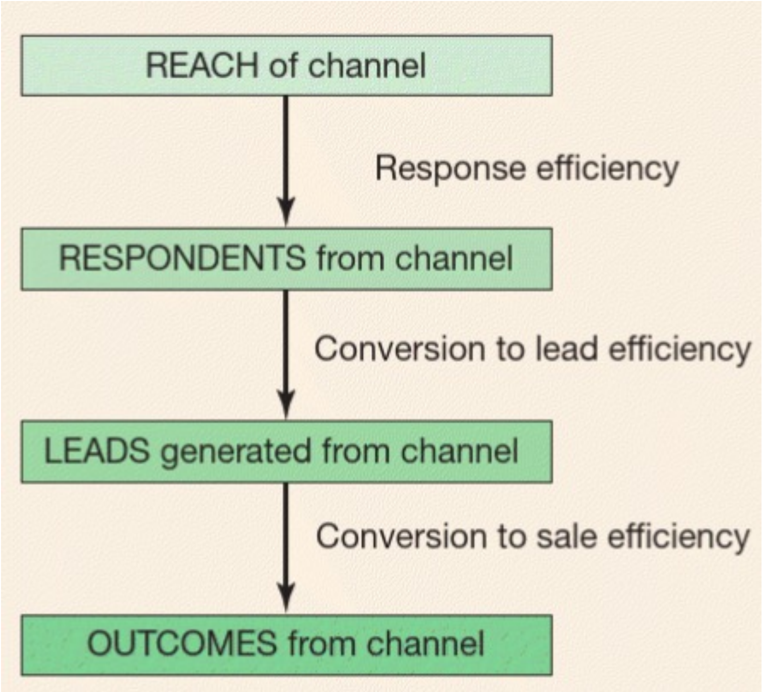
Effective – Delivering the required outputs and outcomes 'doing the right thing'

Online or Internet Contribution – This is an assessment of the direct/ indirect contribution of the Internet to sales, usually expressed as a % of overall sales revenue.

Conversion Modelling –This is a model that assess the efficiency of offline & online communications in bringing the prospect through different stages of the buying decision. Main measures are

1. **Awareness efficiency** – Target web users/ All web users
2. **Locatability/ Attractability** Efficiency – Number of individual visits/ Number of Seekers
3. **Contact Efficiency** – Number of active visitors/ number of visits
4. **Conversion Efficiency** – Number of Purchases/ Number of active visits
5. **Retention Efficiency** – Number of repurchases/ number of purchases.

Conversion Optimization - Using Marketing communications to maximize conversion of potential customers to actual customers



Balanced Scorecard

Balanced Scorecard – This is a framework for setting & monitoring business performance. Metrics are structured according to customer issues, internal efficiency measures, financial measures & innovation.

It was popularized by Kaplan & Norton (1993) in Harvard Business Review.

It was a response to over-reliance on financial metrics such as turnover and profitability.

Main Elements of Balanced Scorecard

1. **Customer Concerns** - Time (lead time, time to quote etc.), quality, performance, service, cost.
2. **Internal Measures** – Business processes that have greatest impact on customer satisfaction – cycle time, quality, employee skills, productivity. Core competencies
3. **Financial Measures** – Turnover, costs, profitability, Return on capital employed.
4. **Learning & Growth** – Innovation & Staff Development. Change in value over time – employee value, shareholder value, % & value of sales from new products.

Table 5.8 An example of a digital 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 for the Digital Business

1. **Digital Business Channel Priorities** – Right mix of 'bricks & clicks' for a multichannel business with physical and online presence. Investment & support for mobile applications. Investment in mobile optimized desktop. Platforms supported for mobile sites. Investment in social media platform support.
2. **Market & Product Development** – Which markets to target through digital channels to generate value. New technologies to address new markets/new products.
   1. *Market Penetration* – using digital channels to sell existing products into existing markets :
      - Market Share Growth - companies can compete more effectively online if their websites are efficient at converting visitors to sales.
      - Customer Loyalty Improvement – Adding value to existing products/ services by developing their online brand proposition.
      - Customer Value Improvement – Decreasing cost to serve so improved price to customer. Also increasing purchase/ usage frequency & quantity

   2. *Market Development* – How online channels are used to sell into new markets.
   3. *Product Development* – Web can be used to add value to existing products
   4. *Diversification* – New products sold into new markets. Lower cost using internet

   Target Marketing Strategy – Segmentation, Different Segments.
3. **Positioning & Differentiation Strategies** – How to position relative to competition –product quality,service quality, price, fulfilment time. *Product Performance Excellence, Price Performance Excellence, Transactional Excellence, Relationship excellence.* ***Online Value Proposition*** *– statement of the benefits of online services that reinforces the core proposition and differentiate from the organisations offline offering & those of competitors.*
4. **Business, Service & Revenue Models** – Business Model - How the company will generate revenue, product offering, value added services, revenue sources, target customers. Revenue Model – Methods of generating income.
5. **Marketplace restructuring** – Disintermediation, Reintermediation
6. **Supply Chain Management Capabilities** – How we integrate with suppliers. Digital Marketplaces to reduce costs.
7. **Internal Knowledge management capabilities** – How knowledge is shared and processes developed.
8. **Organizational resourcing & capabilities** - Strategy process & performance improvement. Location of e-commerce & technological capabilities through the software/ hardware infrastructure & staff skills. Senior Management advocacy. Tech & Marketing teams need to work together closely. Customer Acquisition, Conversion & Retention. Services delivered best through partners.