

# Part 2

## **Strategy and applications**

### Chapter 5

## **Digital business strategy**

# Learning outcomes

- Follow an appropriate strategy process model for digital business
- Apply tools to generate and select digital business strategies
- Outline alternative strategic approaches to achieve digital business

# Management issues

- How does digital business strategy differ from traditional business strategy?
- How should we integrate digital business strategy with existing business and information systems strategy?
- How should we evaluate our investment priorities and returns from digital business?

# Michael Porter on the Internet

*‘The key question is not whether to deploy Internet technology – companies have no choice if they want to stay competitive – but how to deploy it.’*

Porter, M. (2001) Strategy and the Internet,  
*Harvard Business Review*, March 2001, 62–78.

# Alternative definitions of strategy

- What is strategy?
  - ‘Defines how we will meet our objectives’
  - ‘Sets allocation of resources to meet goals’
  - ‘Selects preferred strategic option to compete within a market’
  - ‘Provides a long-term plan for the development of the organisation’.

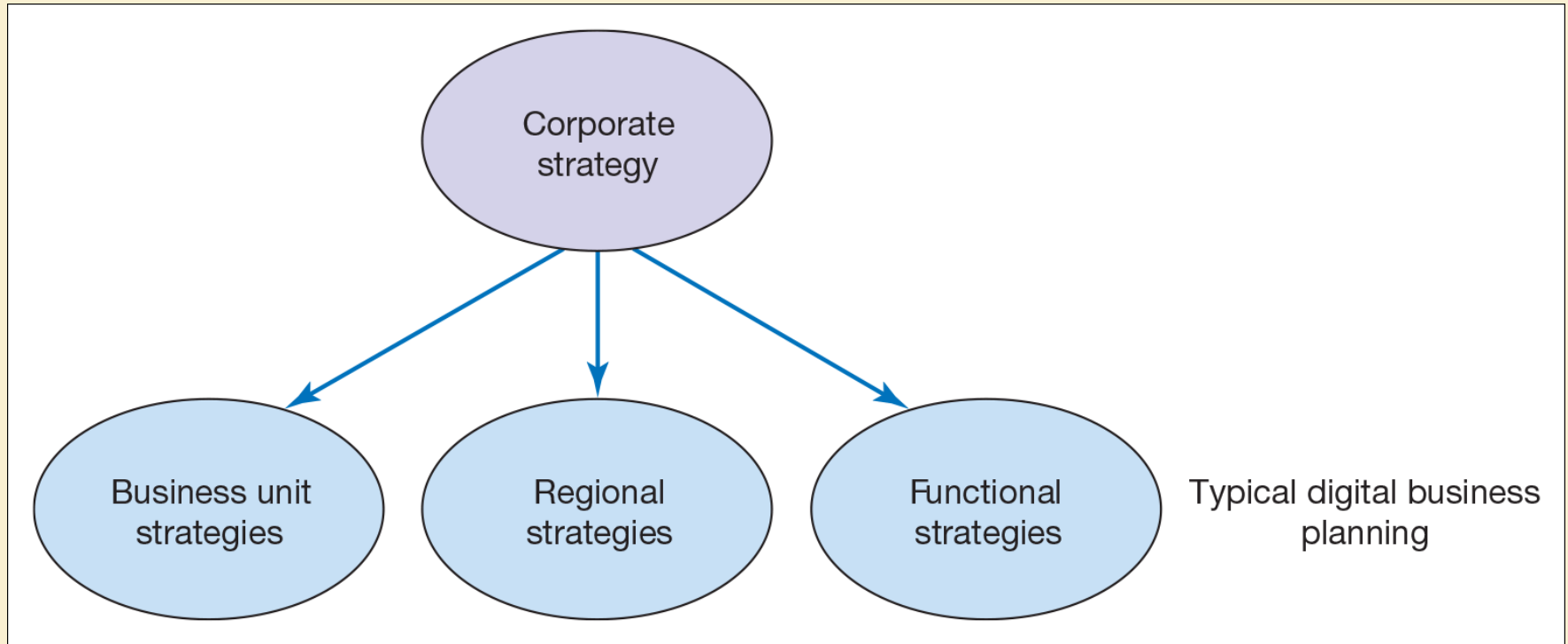


Figure 5.1 Different forms of organisational strategy

# What happens where there is no digital business strategy?

- Missed opportunities for additional sales on the sell-side and more efficient purchasing on the buy-side
- Fall-behind competitors in delivering online services – may become difficult to catch-up, for example, Tesco, Dell
- Poor customer experience from poorly integrated channels.

# What happens when digital business strategy is not clearly defined?

- Missed opportunities from lack of evaluation of opportunities or insufficient resourcing of digital business initiatives.
- Inappropriate direction digital business strategy, e.g. poorly defined objectives.
- Limited integration of digital business at a technical level, resulting in silos of information in different systems.
- Resource wastage through duplication of digital business development in different functions and limited sharing of best practice.



# Digital channel strategies

Examples:

- Mobile commerce strategy
- Social media strategy
- Social CRM strategy
- Supply chain or ERP strategy

## **Multichannel Digital Business Strategy:**

How electronic channels are used in conjunction with other channels?

# ***Sell-side e-commerce strategy (Chapters 8 and 9) or e-marketing/CRM strategy***

- Sell-side e-commerce is a *channel strategy*
- Objectives for online contribution percentage should drive our strategy
- Our e-commerce strategy defines how we should
  - Hit our channel leads and sales targets
    - Acquisition, Conversion, Retention, Service, Profitability
  - Communicate benefits of using this channel
  - Prioritise products available through channel
  - Prioritise audiences targeted through channel
  - Select partners for this channel
- Channel strategy thrives on *differentials*
- BUT, need to manage *channel integration*.

# ***Buy-side* e-commerce strategy (Chapters 6 and 7) or e-supply chain management strategy**

- Buy-side e-commerce strategy is about *maximising operational efficiencies while improving customer service quality*
- Operational efficiency KPIs should drive our strategy
- Our buy-side e-commerce strategy defines how we should
  - Automate internal processes
  - Link internal resource management systems with external purchasing systems
  - Prioritise suppliers/partners collaborating using this channel
  - Prioritise applications for SCM – create a roadmap
- Involves selection of appropriate strategic partners.

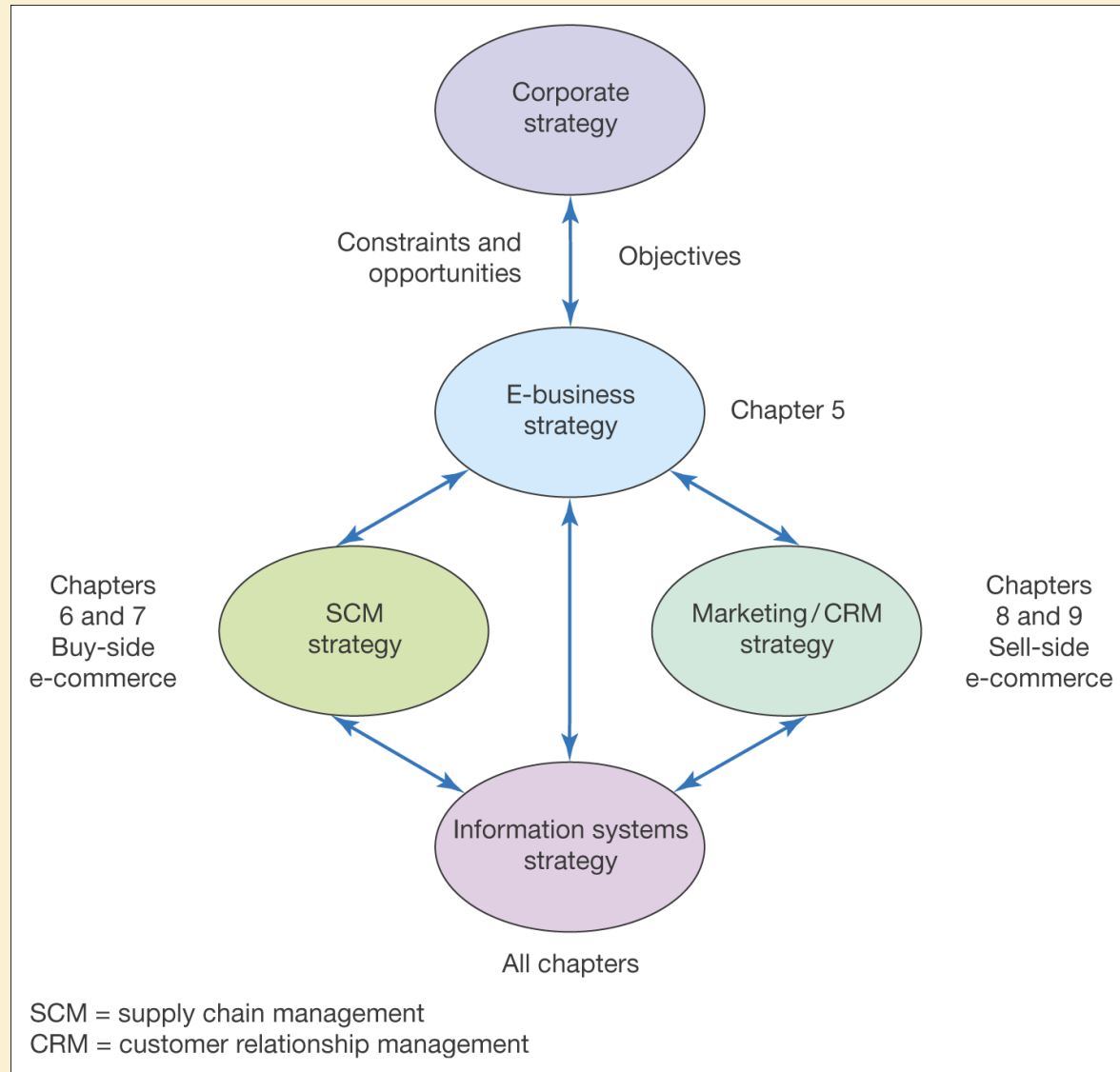


Figure 5.2 Relationship between digital business strategy and other strategies

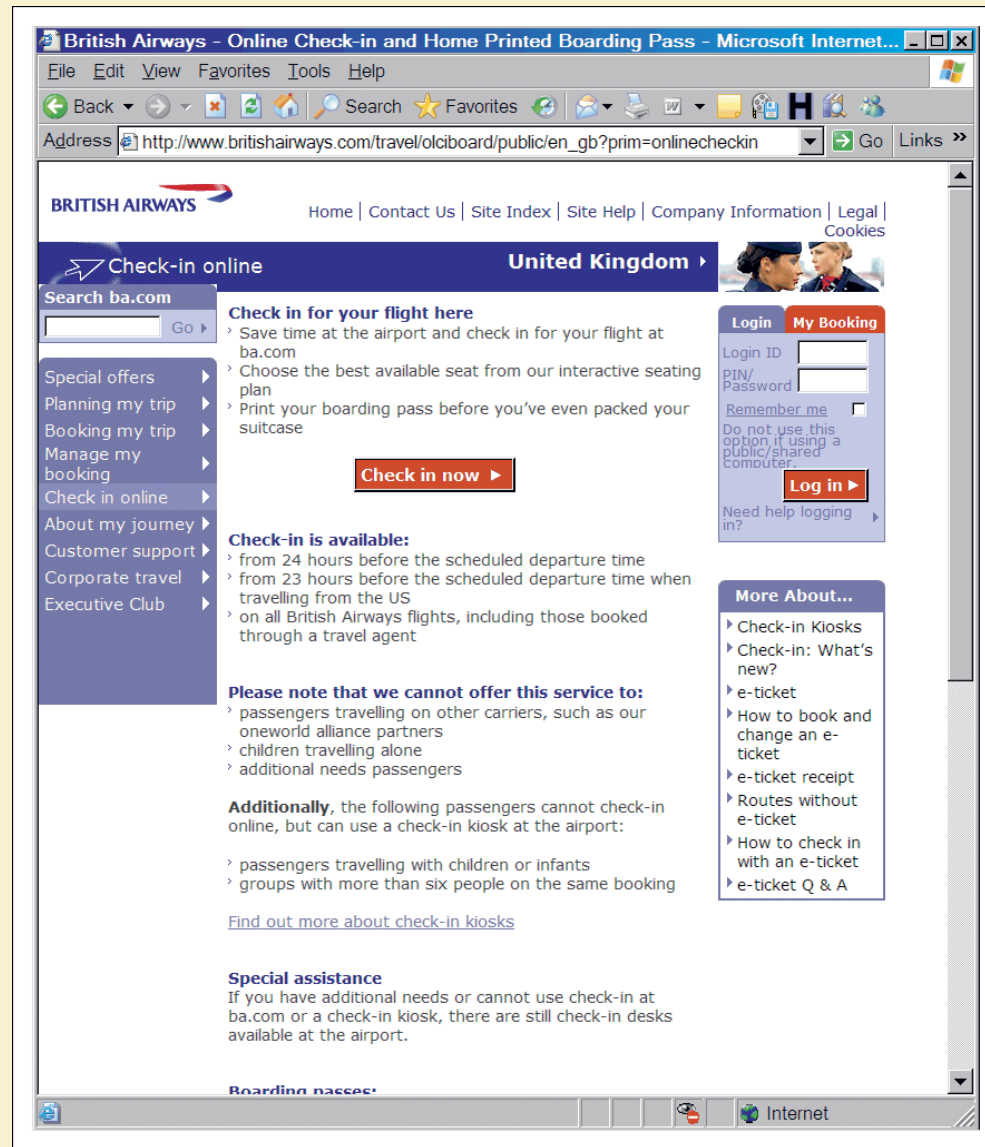


Figure 5.3 BA communicates its online value proposition

Source: Based on *Revolution* (2005); [www.britishairways.com](http://www.britishairways.com)

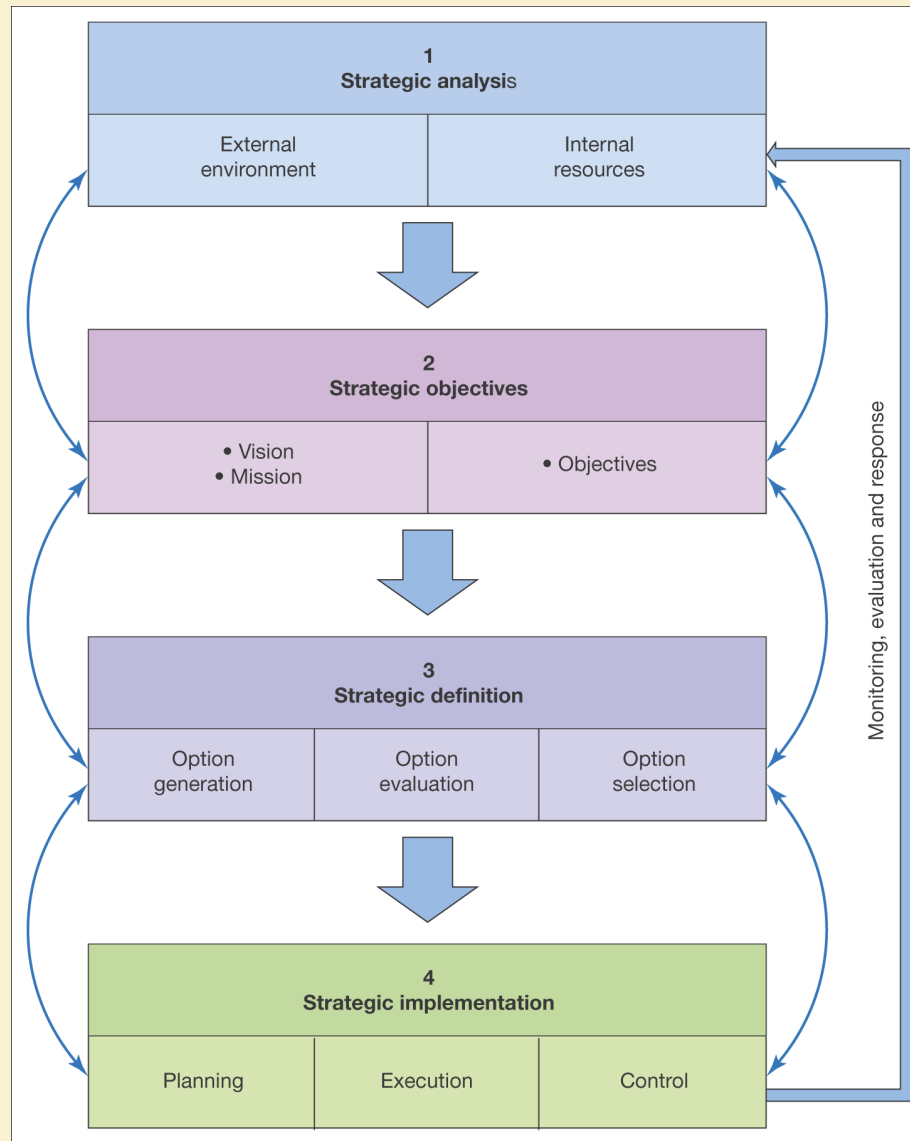


Figure 5.4 A generic strategy process model

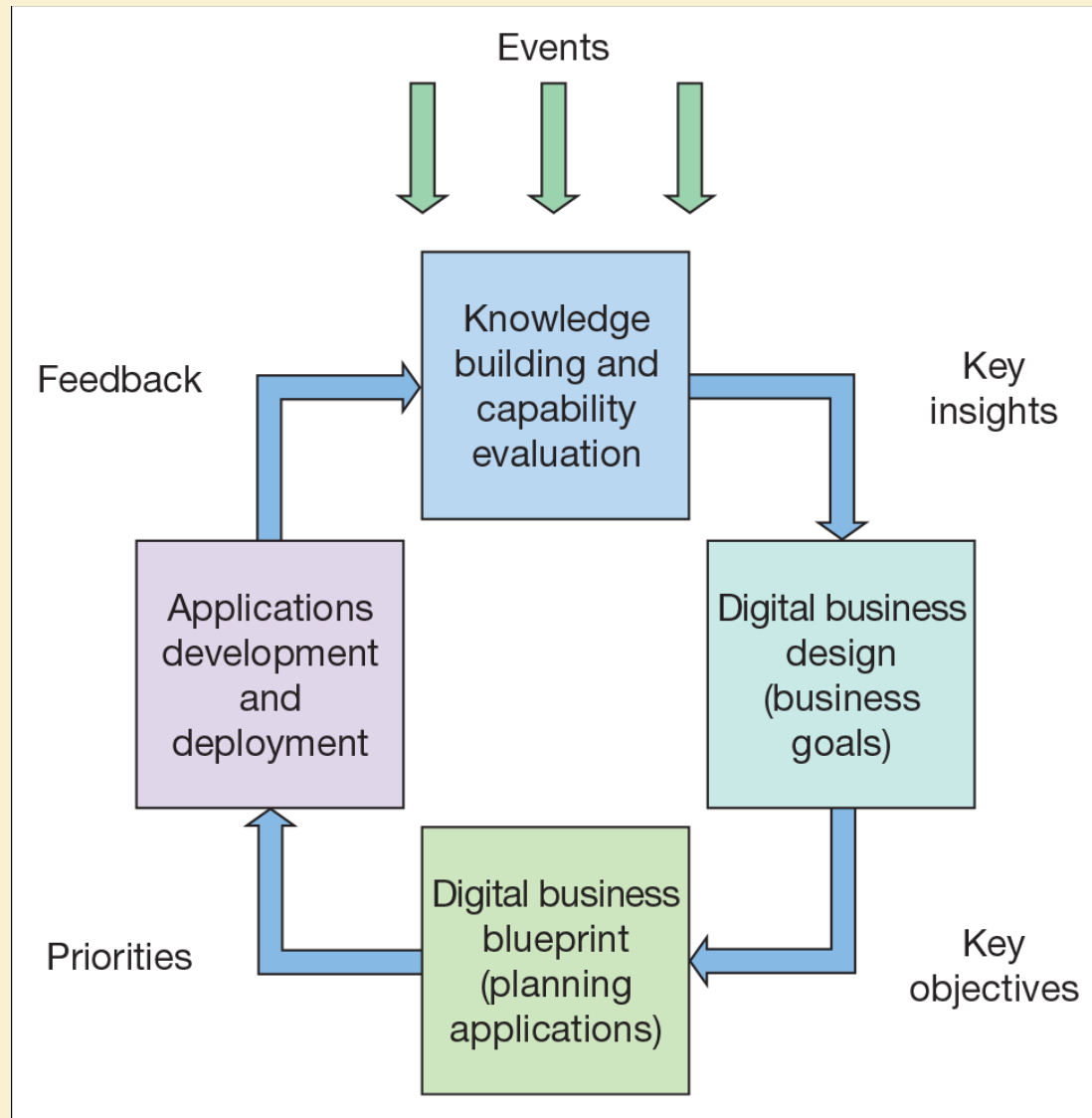


Figure 5.5 Dynamic digital business strategy model

Source: Adapted from description in Kalakota and Robinson (2000).

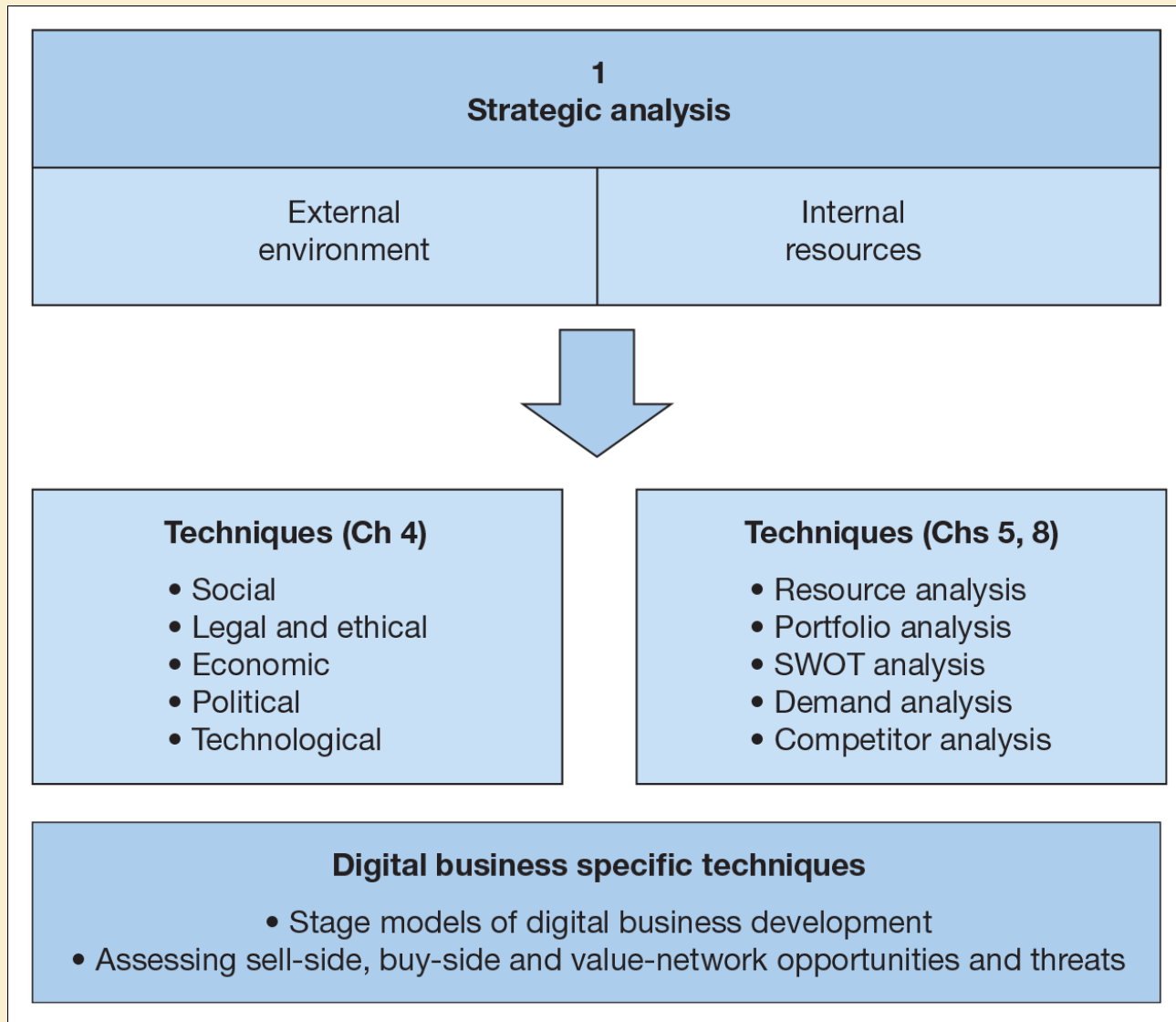


Figure 5.6 Elements of strategic situation analysis for the digital business



# Strategic Analysis – Stage Model

	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

Table 5.3 A stage model for digital business development

# **Strategic Analysis – Resource Analysis**

Review of the technological, financial, and human resources of an organisation and how they are utilised in business processes.

## **Analysis of Resources vs. Capabilities**

Resources -> Assets used in value creation

Capabilities -> Ability to use resources

# Strategic Analysis – Resource Analysis

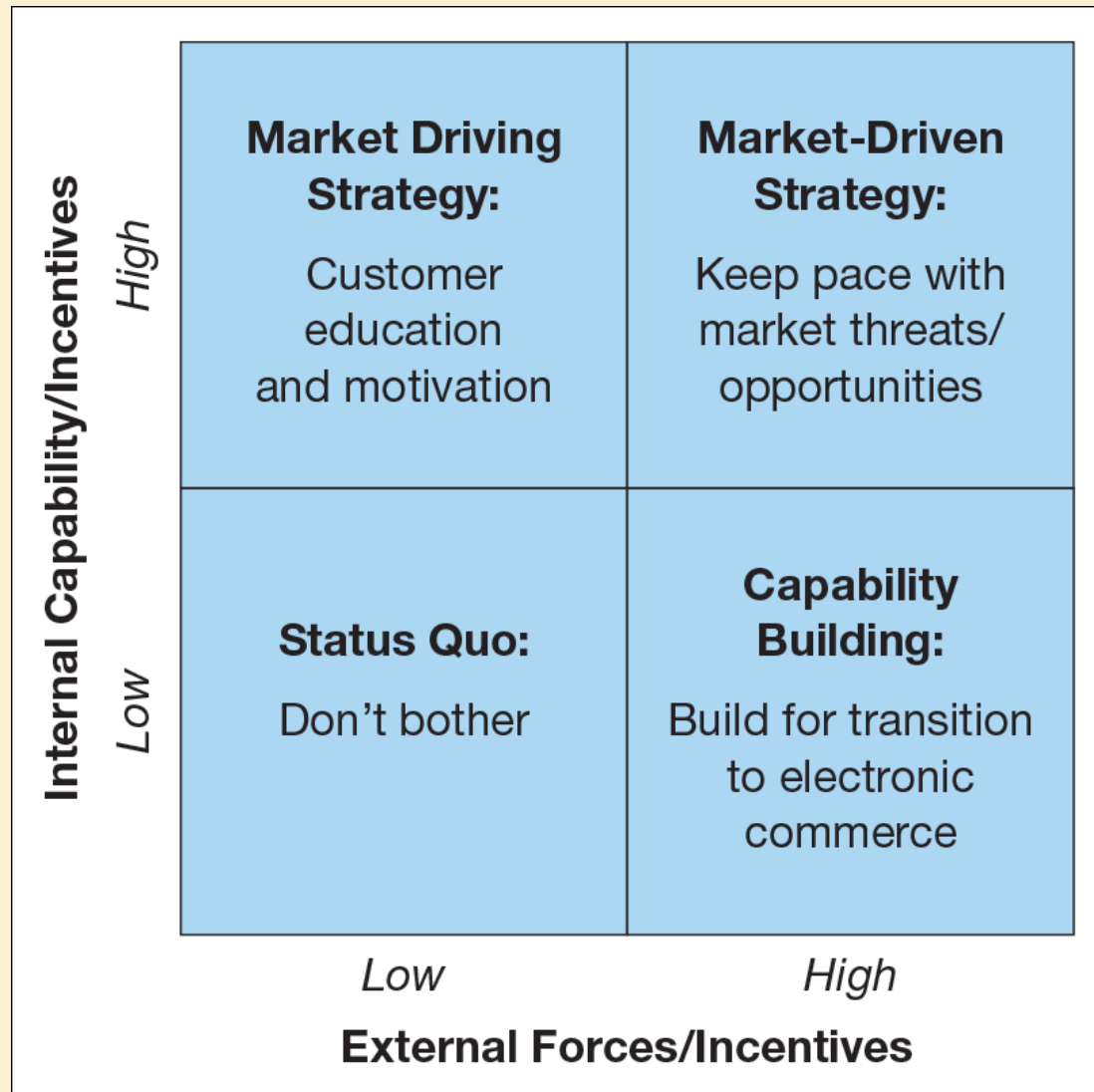


Figure 5.9 Matrix for evaluation of external capability against internal capability

Source: Perrott (2005).

# Strategic Analysis – Resource Analysis

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

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

# Strategic Analysis – Portfolio Analysis

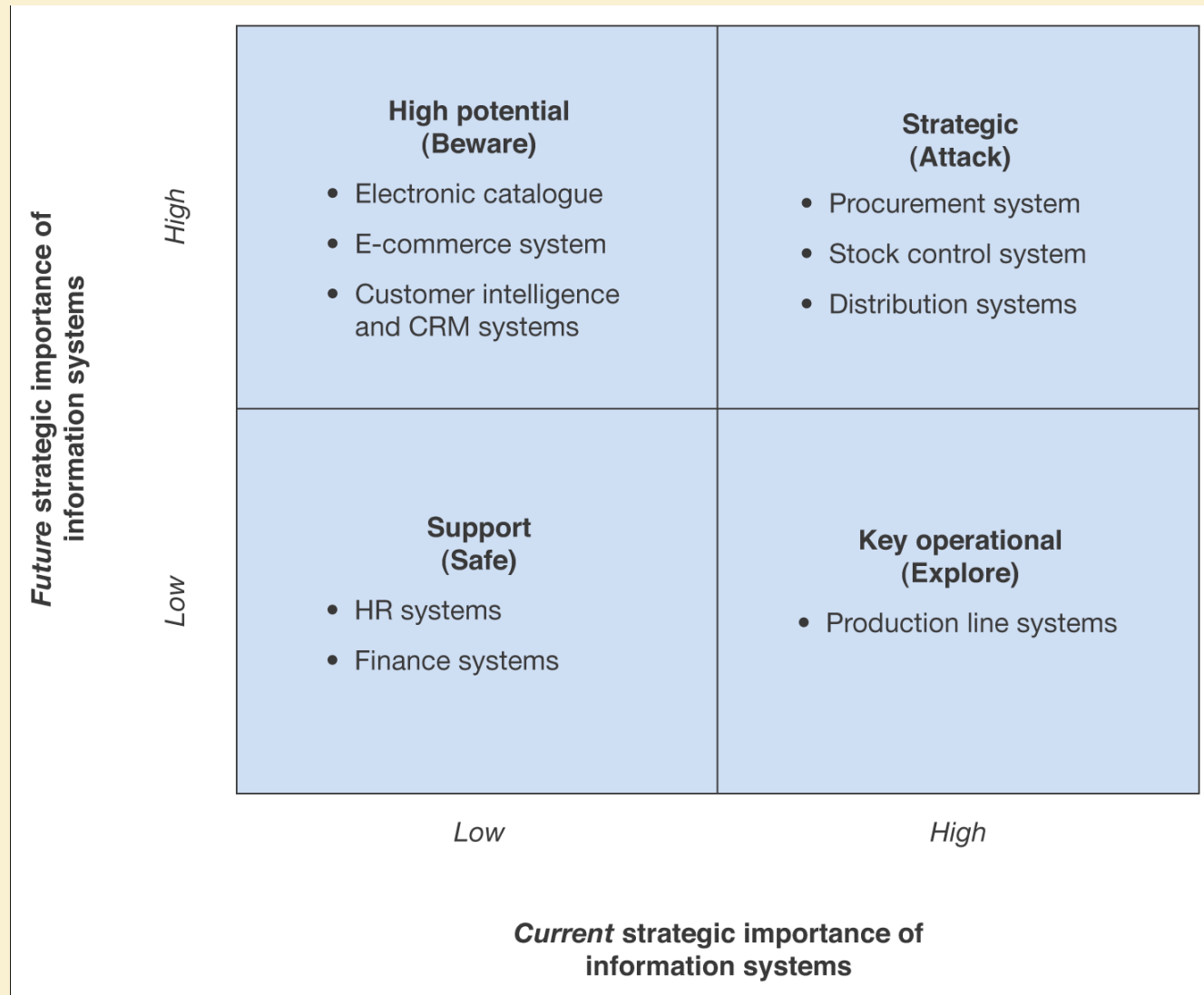


Figure 5.7 Summary applications of a portfolio analysis for an example B2B company

# Strategic Analysis – SWOT Analysis

<b>The organisation</b>	<b>Strengths – S</b> <ol style="list-style-type: none"> <li>Existing brand</li> <li>Existing customer base</li> <li>Existing distribution</li> </ol>	<b>Weaknesses – W</b> <ol style="list-style-type: none"> <li>Brand perception</li> <li>Intermediary use</li> <li>Technology/skills</li> <li>Cross-channel support</li> </ol>
<b>Opportunities – O</b> <ol style="list-style-type: none"> <li>Cross-selling</li> <li>New markets</li> <li>New services</li> <li>Alliances/co-branding</li> </ol>	<b>SO strategies</b> Leverage strengths to maximise opportunities <b>= Attacking strategy</b>	<b>WO strategies</b> Counter weaknesses through exploiting opportunities <b>= Build strengths for attacking strategy</b>
<b>Threats – T</b> <ol style="list-style-type: none"> <li>Customer choice</li> <li>New entrants</li> <li>New competitive products</li> <li>Channel conflicts</li> </ol>	<b>ST strategies</b> Leverage strengths to minimise threats <b>= Defensive strategy</b>	<b>WT strategies</b> Counter weaknesses and threats <b>= Build strengths for defensive strategy</b>

Figure 5.8 SWOT analysis

# Strategic Analysis – Demand Analysis

Assessment of the demand for e-commerce services amongst existing and potential customer segments.

# Strategic Analysis – Competitor Analysis

Review of digital business services offered by existing and new competitors and adoption by their customers.

Internal strengths are identified by ‘**core competencies**’.

# Strategic Analysis – Evaluating Threats

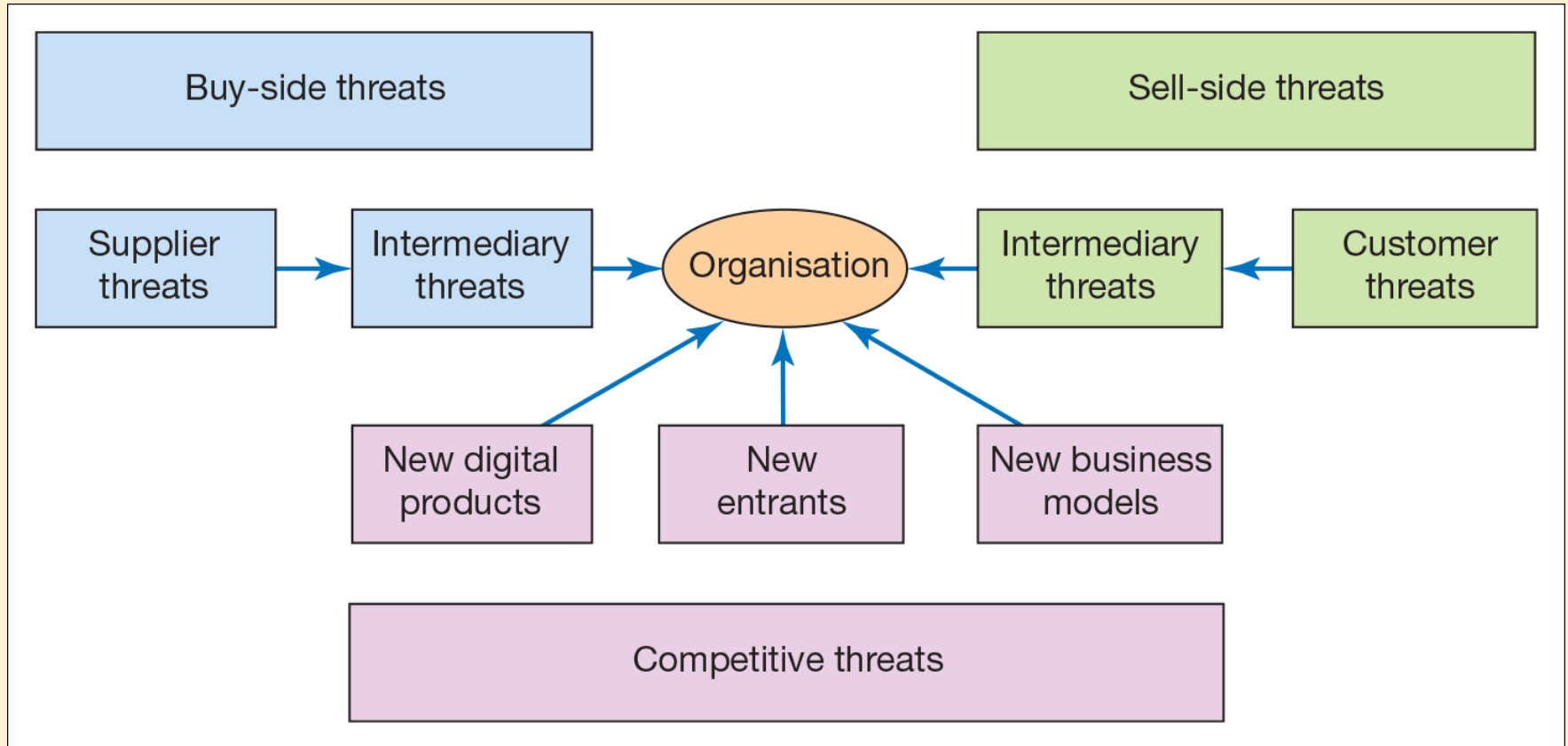


Figure 5.10 Competitive threats acting on the digital business



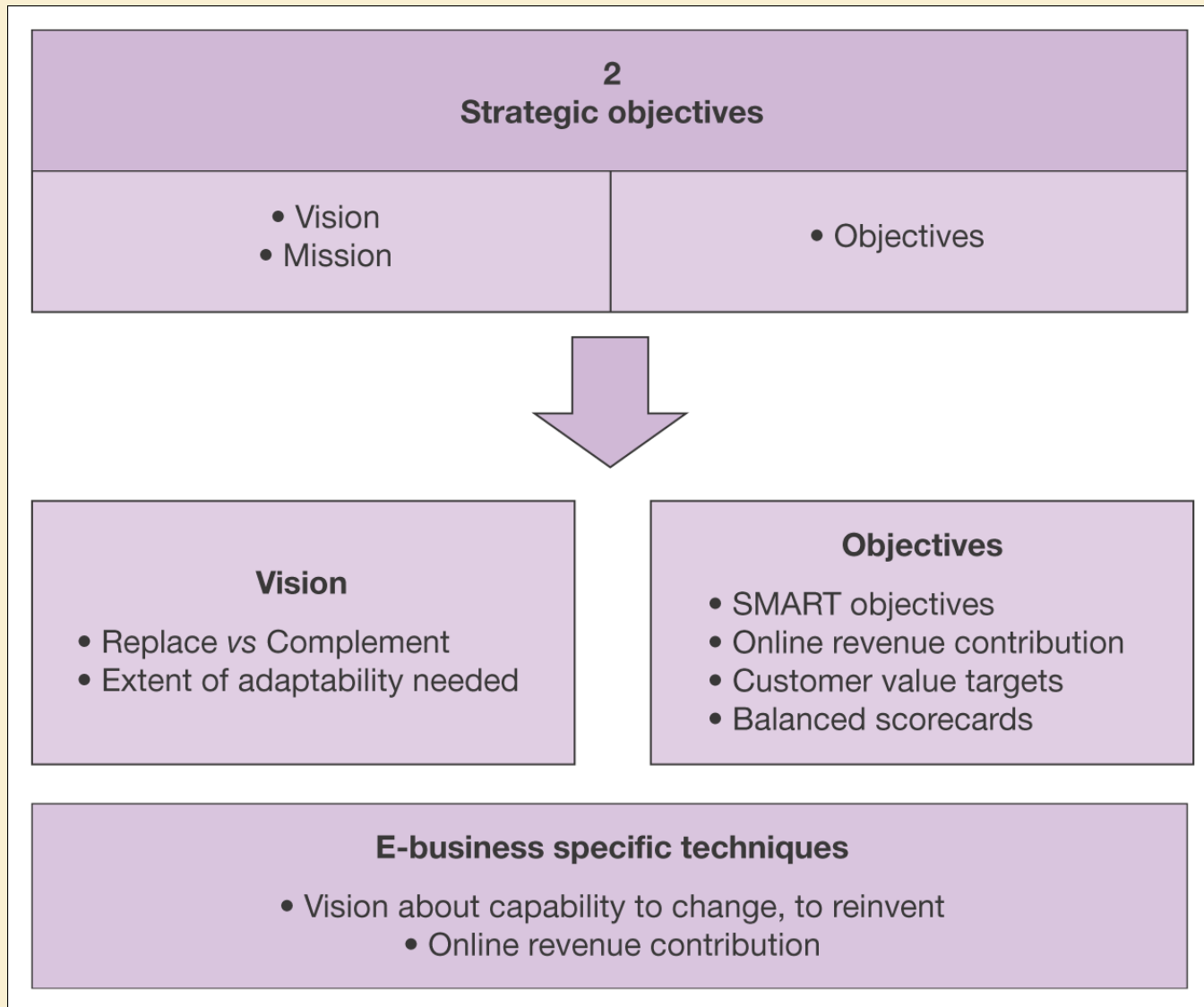


Figure 5.11 Elements of strategic objective setting for the digital business

# Strategic Objectives – Vision

**Mission:** includes ambition of the company and success factors for the business

**Vision:** longer term picture of strategic priorities

**Scenario-based Analysis:** Models of the future environment are developed from different starting points

**How can digital business create business value?**

- Adding value
- Reduce costs
- Manage Risks
- Create new reality

# Strategic Objectives – Creating business value

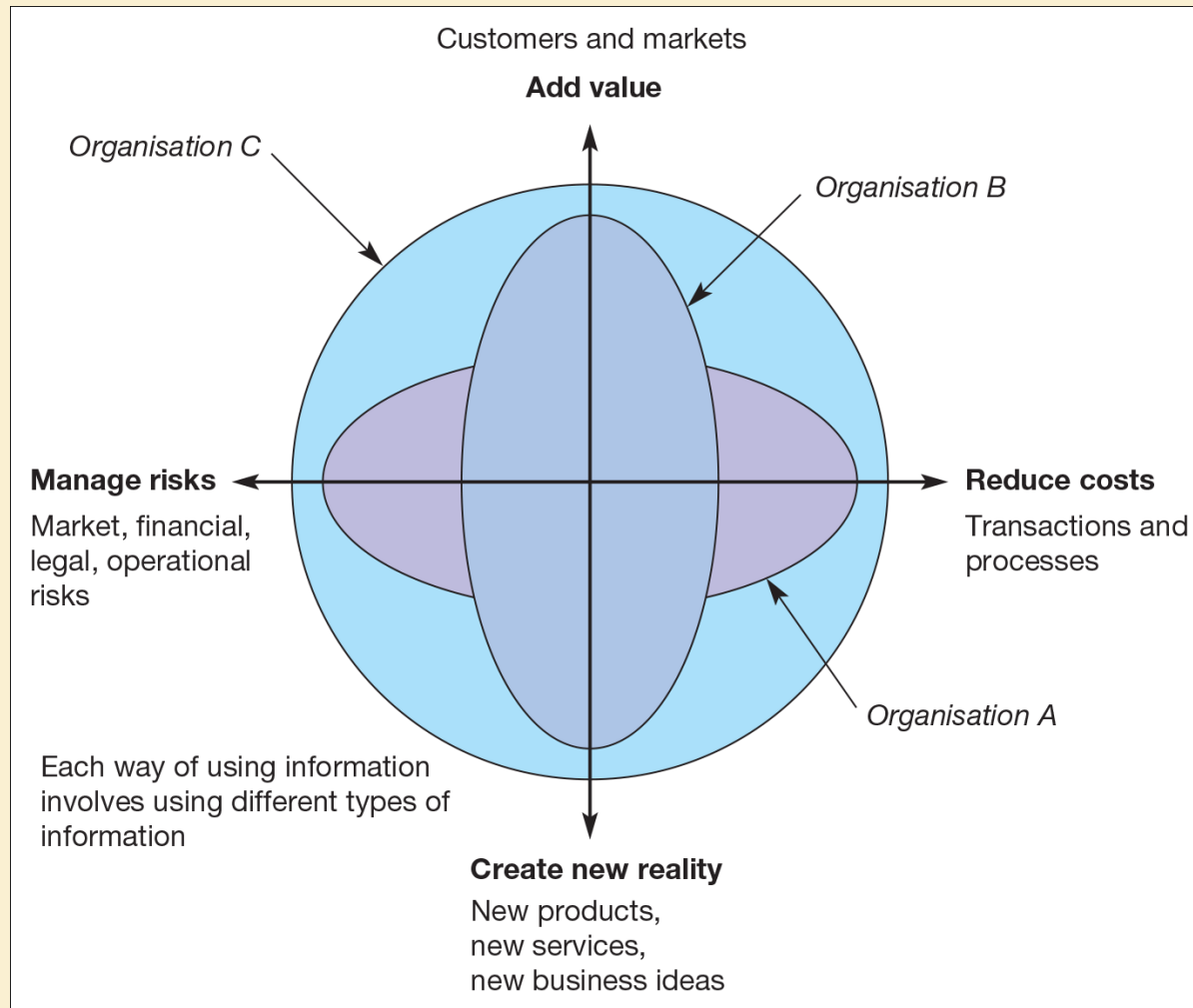


Figure 5.12 An evaluation tool relating information to business value. An organisation's use of information *Source: Marchand et al. (1999).*

# Strategic Objectives – SMART

## Setting SMART objectives

- Specific (Phải cụ thể)
- Measurable (Đo lường được)
- Actionable (Hành động/thực hiện được)
- Relevant (Phù hợp)
- Time-related (Tính thời gian)

## Efficiency and Effectiveness Measures

- Efficiency (Hiệu suất): doing the thing right
- Effectiveness (Hiệu quả): doing the right thing

# Strategic Objectives

## Online revenue contribution

An assessment of the direct or indirect contribution of the Internet to sales, usually expressed as a percentage of overall sales revenue.

## Conversion modelling

- Conversion marketing: Using marketing communications to maximise conversion of potential customers to actual customers.
- E-channel service contribution: The proportion of service-type processes that are completed using electronic channels.

# Strategic Objectives

## Conversion modelling

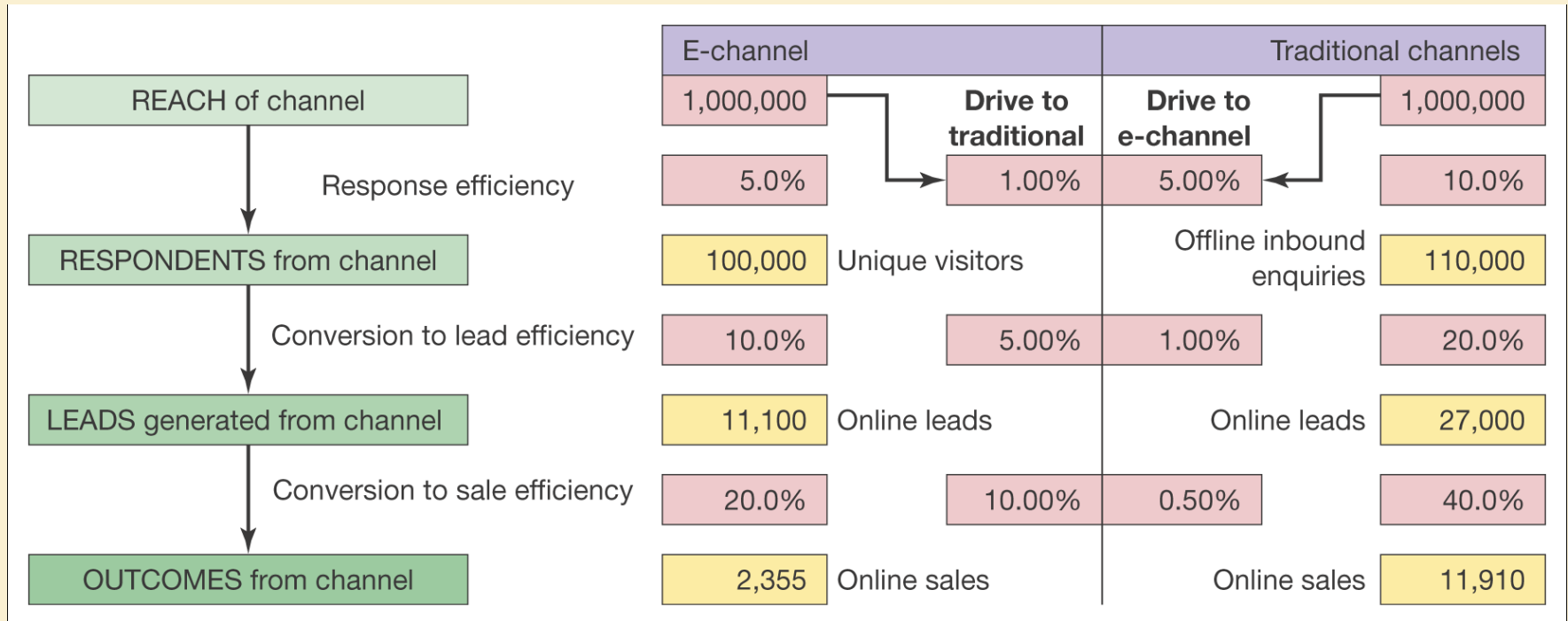


Figure 5.14 An example of conversion modelling for an online retailer

# Strategic Objectives

## Conversion modelling

		Research...	
Mobile buyer		Online	Offline
Purchase...	Online	22%	9%
	Offline	37%	32%

Figure 5.15 Research Online Purchase Online example

Source: Google.

# Strategic Objectives - Balanced Scorecard

A framework for setting and monitoring business performance. Metrics are structures according to customer issues, internal efficiency measures, financial measures and innovation.

The main areas of the balanced scorecard are:

- Customer concerns.
- Internal measures.
- Financial measures.
- Learning and growth.



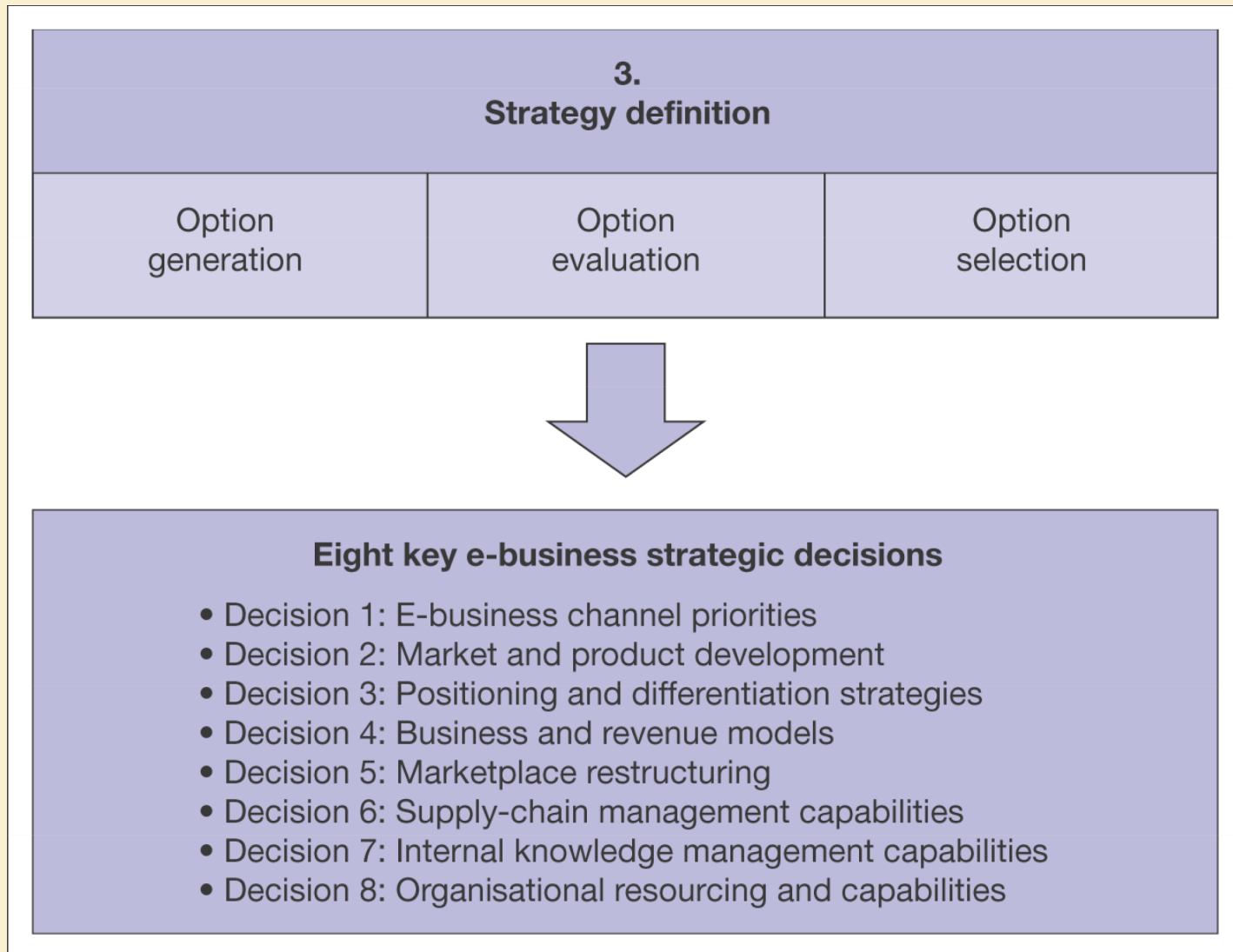


Figure 5.17 Elements of strategy definition for the digital business

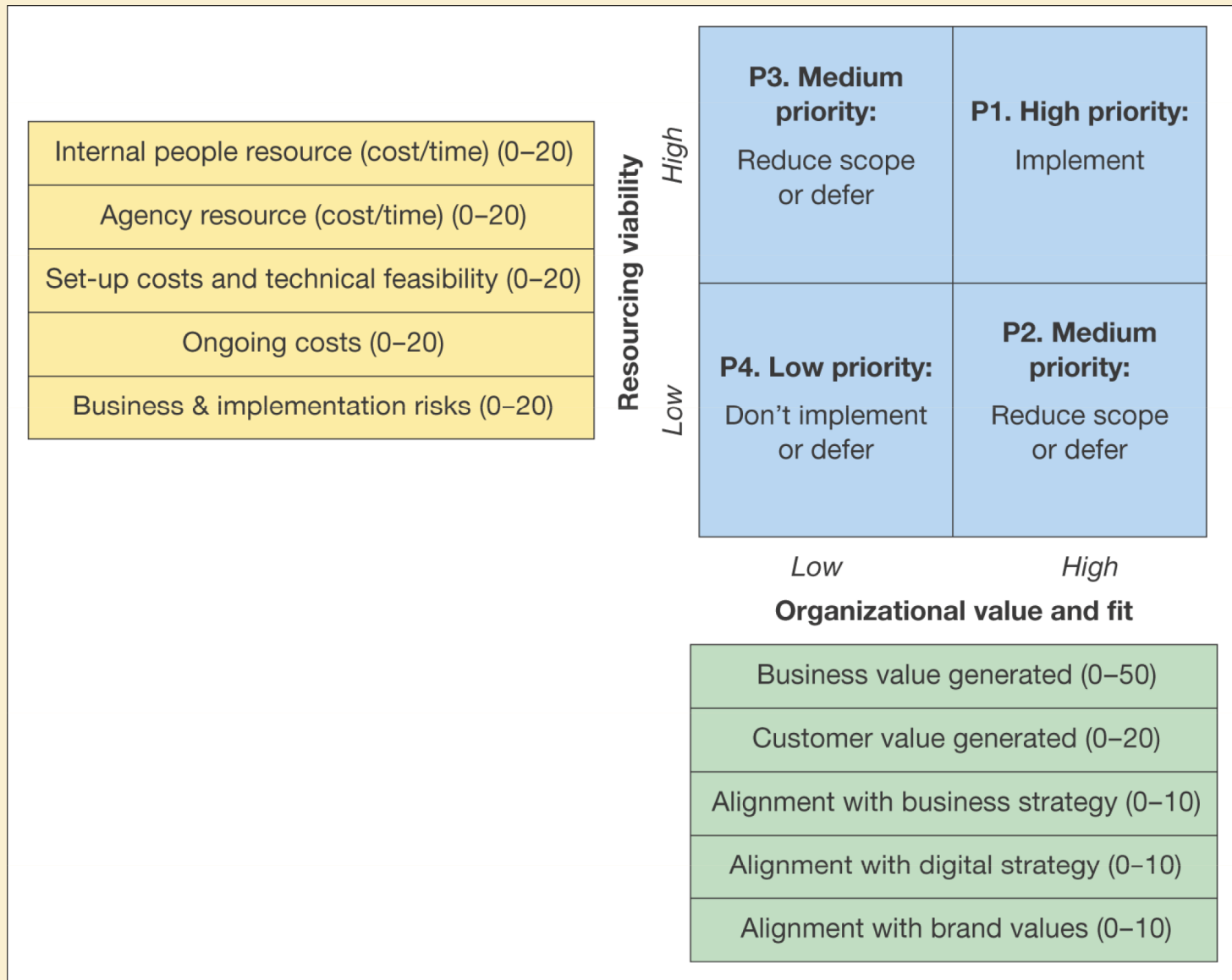


Figure 5.18 Matrix for evaluating digital business strategy alternatives

Source: E-consultancy (2008a)

# Strategic Definition

## e-business Strategic Decisions

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

# e-business Strategic Decisions

## Digital business channel priorities

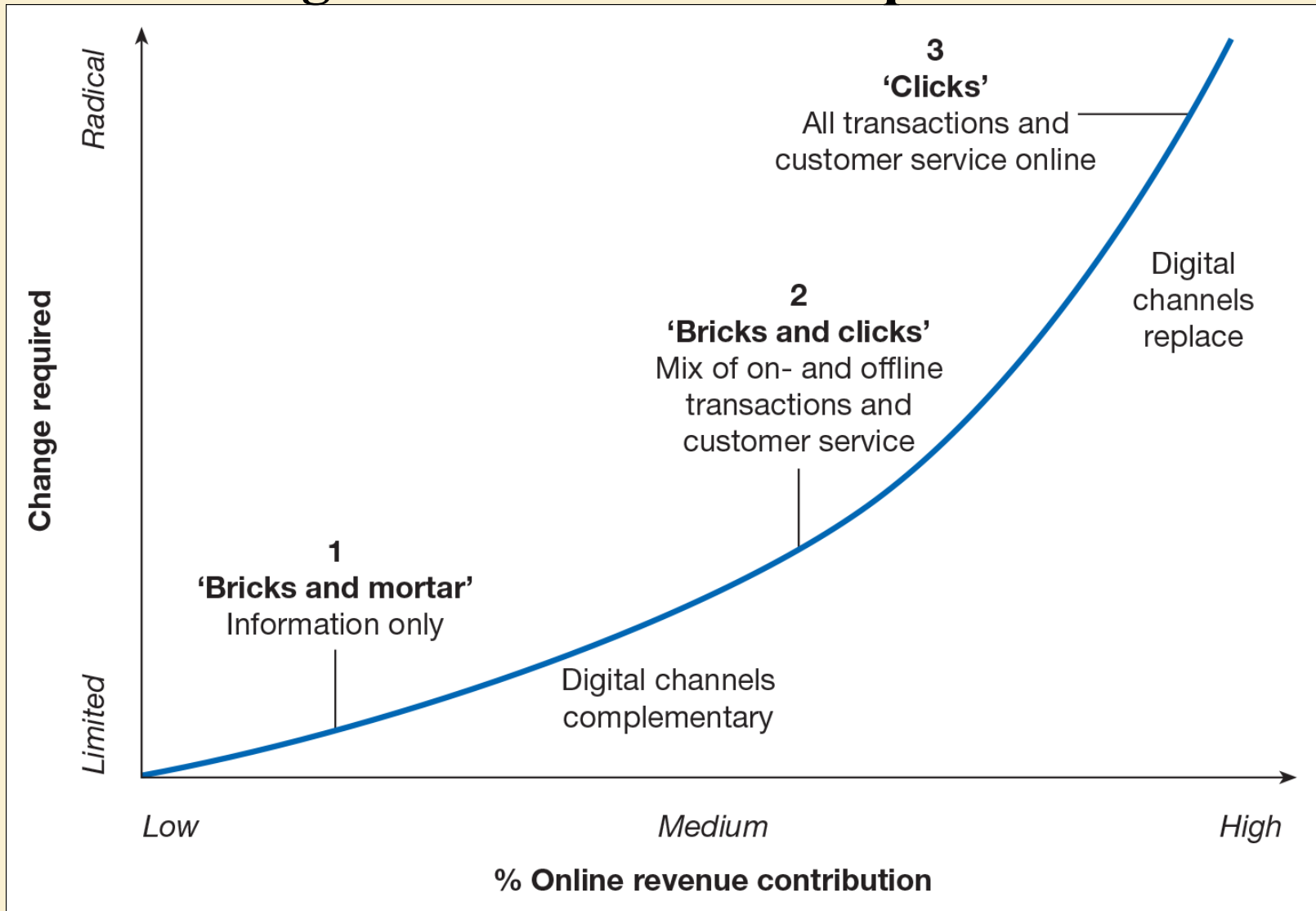


Figure 5.19 Strategic options for a company in relation to the importance of the Internet as a channel

# e-business Strategic Decisions

## Market and product development



Figure 5.20 Using the Internet to support different growth strategies

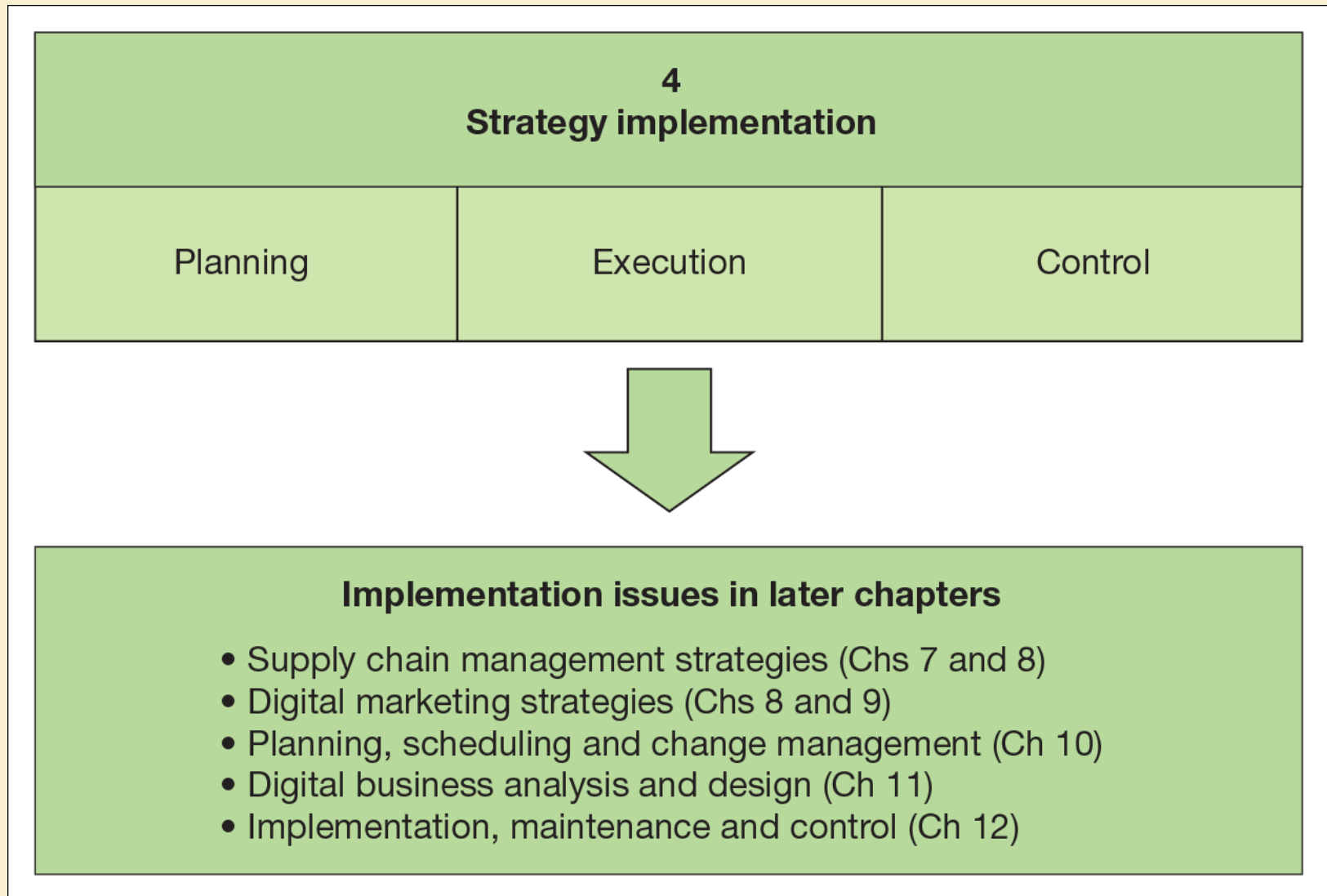


Figure 5.21 Elements of strategy implementation for the digital business