

LOG 206

M5: Digital business strategy

Department of Logistics

Molde University College

Spring 2018



Høgskolen i Molde
Vitenskapelig høgskole i logistikk

Why failure rate among online businesses is so high?



Why Are So Many Internet Start-Up's Failing Today?

16 39 9 6



This guest post by Don Silver is the FINAL post in the awesome VBL Guest Post Month!

To all of you who contributed, and those that have commented on all the excellent posts from everyone. thank you. sincerely. for making October such a great month – and the one



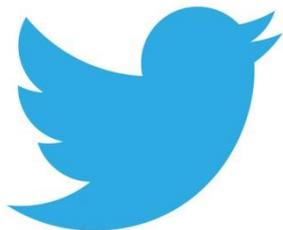
For mange gründerbedrifter dør i oppstartsfasen

Som styreleder i StyreAkademiet Sunnmøre hadde jeg gleden av å være foredragsholder på den store Gründerdagen

Many entrepreneurial firms die at the start-up phase

But, we know some success stories

.....



WHY SOME FIRMS ARE SUCCESSFUL?

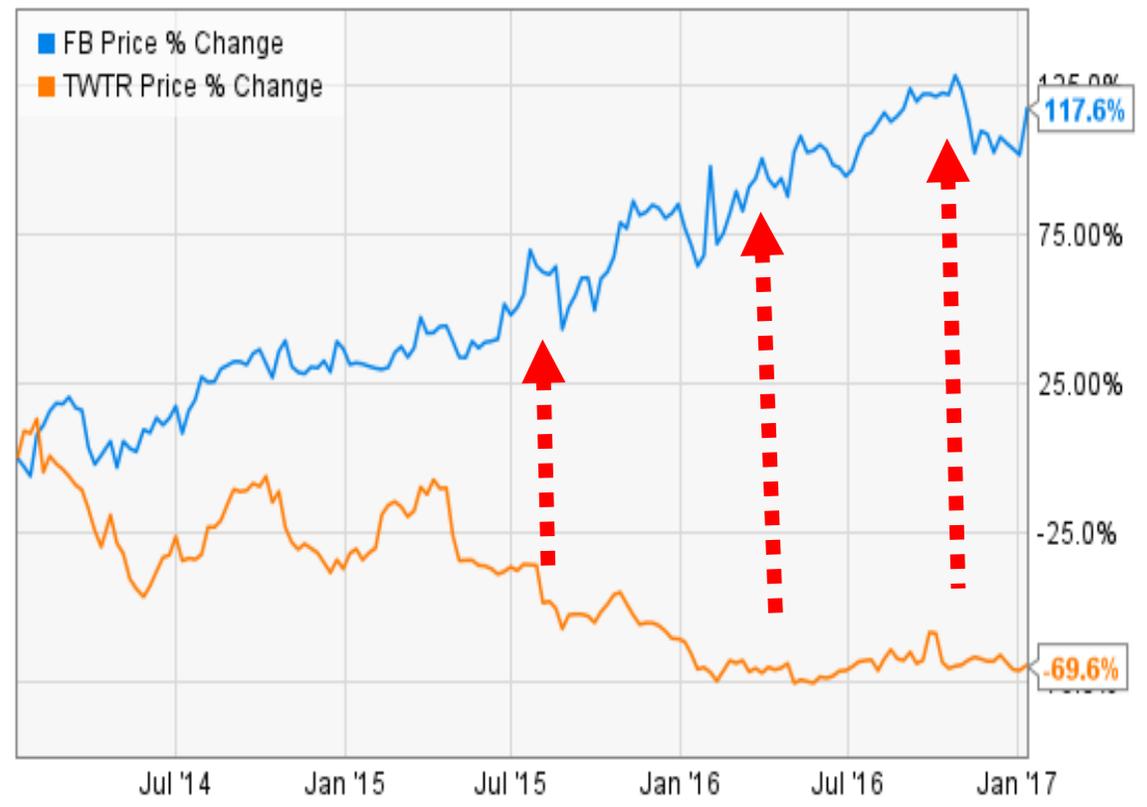
WHILE OTHERS FAIL



WHY ARE SOME PERFORMANCE DIFFERENCES MAINTAINED?



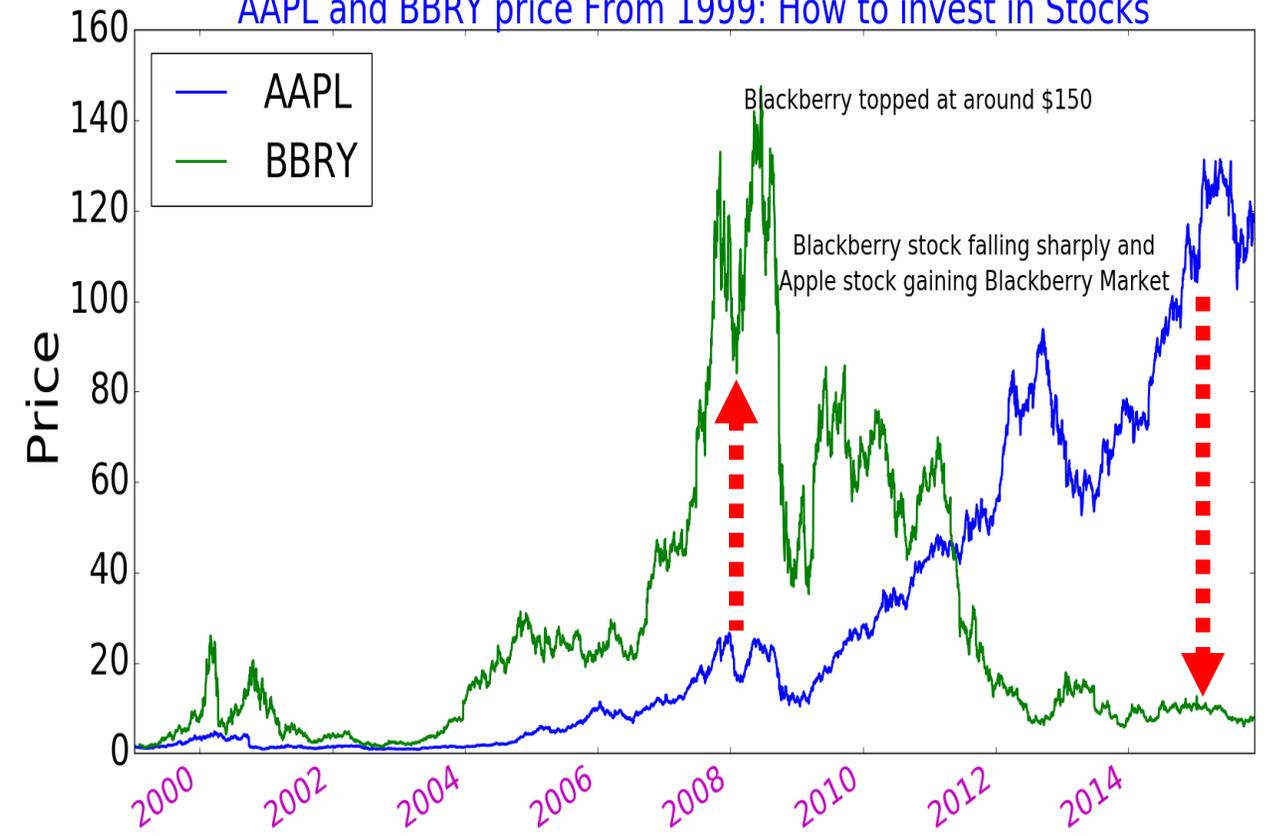
Facebook vs. tweeter



WHILE OTHERS ARE DESTROYED QUICKLY?



AAPL and BBRY price From 1999: How to invest in Stocks



Top 9 Reasons for startups failure

[Based on observation of 101 startups]

- 1.No market need
- 2.Ran out of cash
- 3.Not the right team
- 4.Got outcompeted
- 5.Pricing/cost issue
- 6.Poor product
- 7.Need/lack business model
- 8.Poor marketing
- 9.Ignore customers

Source: CB Insights



Top 9 Reasons for startups success

[Based on observation of 650 internet startups]

1. Founders are driven by impact, resulting in passion and commitment
2. Commitment to stay the course and stick with a chosen path
3. Willingness to adjust, but not constantly adjusting
4. Patience and persistence due to the timing mismatch of expectations and reality
5. Willingness to observe, listen and learn
6. Develop the right mentoring relationships
7. Leadership with general and domain specific business knowledge
8. Implementing “Lean Startup” principles: Raising just enough money in a funding round to hit the next set of key milestones
9. Balance of technical and business knowledge, with necessary technical expertise in product development

Source: Startup Compass Inc.



Strategy matters

- If you look at both the reasons for failure and the factors for success, it is clear that having strategy is key
- In many ways, having strategy improves your chances of success
- In this module we will learn the foundation of digital business strategy





Digital Business Strategy

What is digital business strategy

Plan of action formulated and implemented by leveraging digital resources to create competitive advantage for an organization

DIGITAL | STRATEGY



Competitive advantage

- An advantage that a firm has over its competitors, allowing it to generate greater value.
- There are two main types of competitive advantages: Cost leadership and Differentiation.

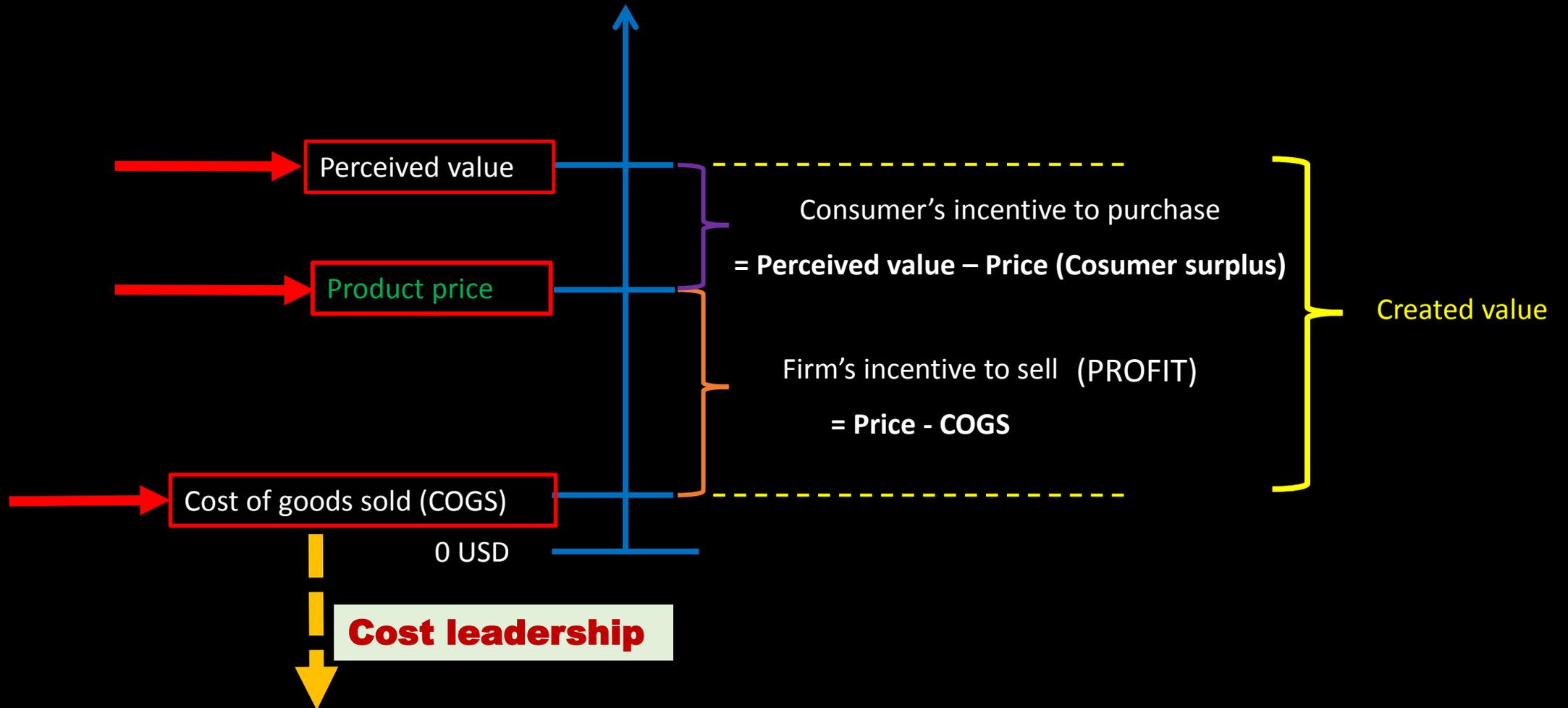


Cost leadership (superior in efficiency)

- Cost leadership, is a firm's ability to produce a good or service at a lower cost than its competitors.
- Company strategies aimed at controlling costs include:
 - Tight control of labor costs
 - Reducing distribution costs
 - Control of overhead costs
 - Etc.

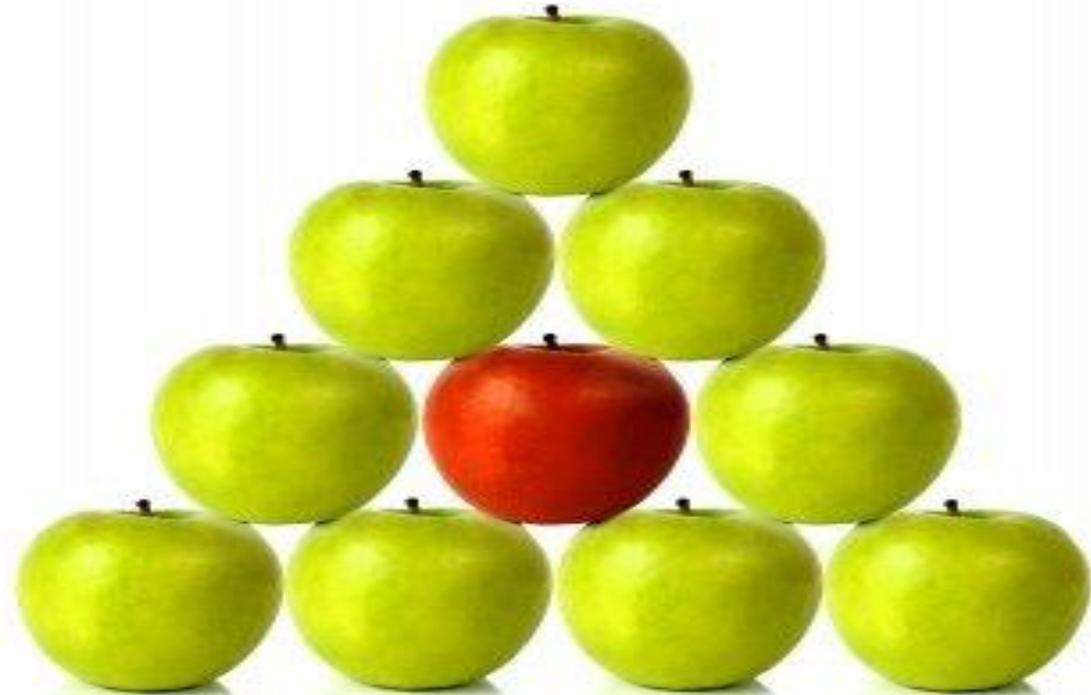


Value creation

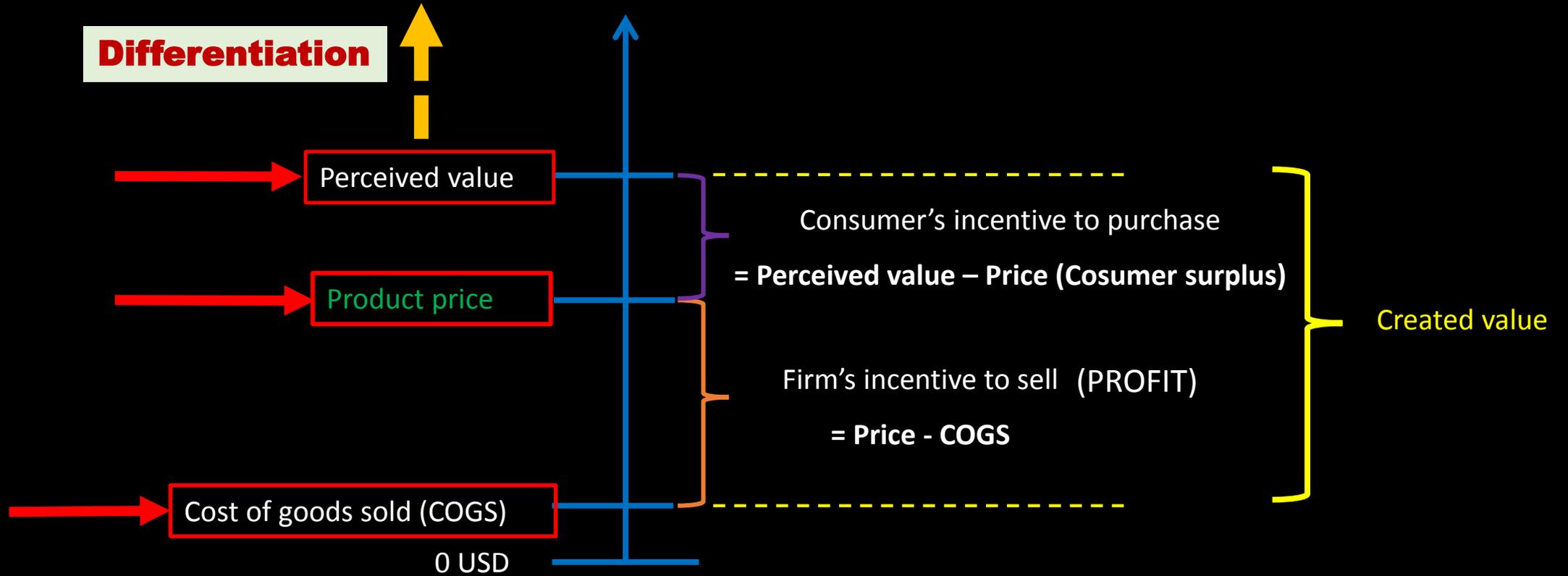


Differentiation

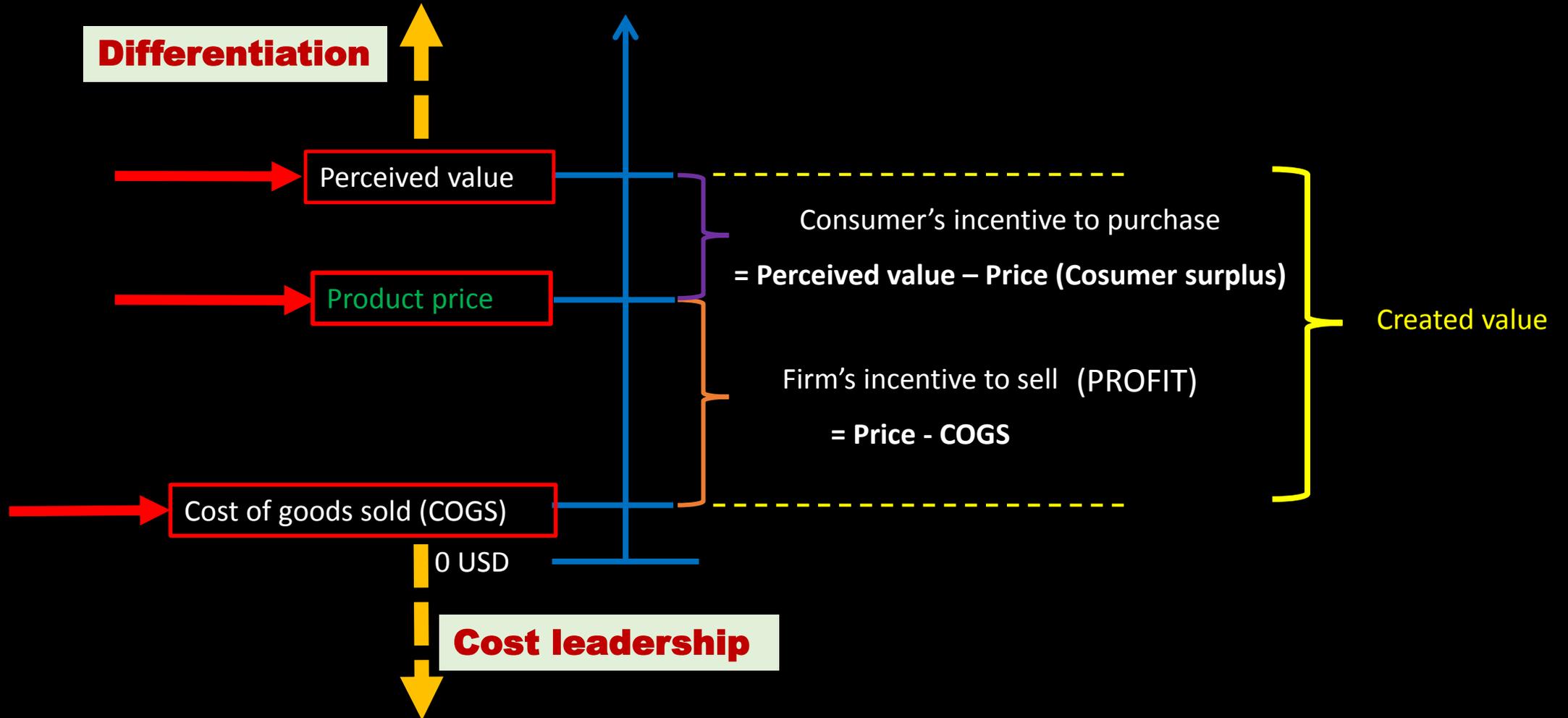
- If the market is large enough to support many firms, a new business can open which imitates an existing idea. Imitated products can sometimes be successful.
- However, businesses become more competitive by making products that stand out from the competition in terms of price, quality or service. This is called **product differentiation**.
- Differentiation could be along dimensions such as **price**, **quality**, **design**, **better customer experience** etc.



Value creation



Value creation



Role of digital technologies

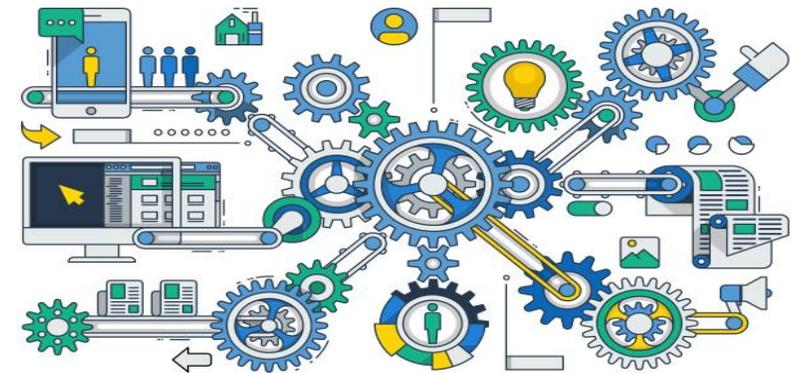
Cost leadership

Example: Automation of processes in order to reduce labour costs. For instance Skandiabanken was among early banks that automated processes such as loan processing, ordering of bank cards, and opening of bank accounts.

Differentiation

Example: Use of digital solutions to provide innovative solutions and functionalities on products that already exist in the market. For instance, Amazon always introduce new functionalities to enhance the experience of customers and sellers that use its platform.

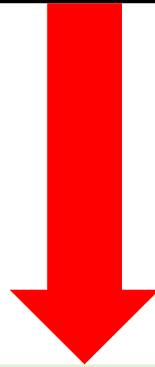
Automation



Digital Differentiation



How do we develop strategy?



We can use existing strategy process models

Strategy process model

- Before developing any type of strategy, a process to be followed must be defined.
- A strategy process model is a framework for approaching strategy development
 - It helps to ensure inclusion of all key activities of digital business strategy development
 - It also ensures that digital business strategy is part of a process of continuous improvement

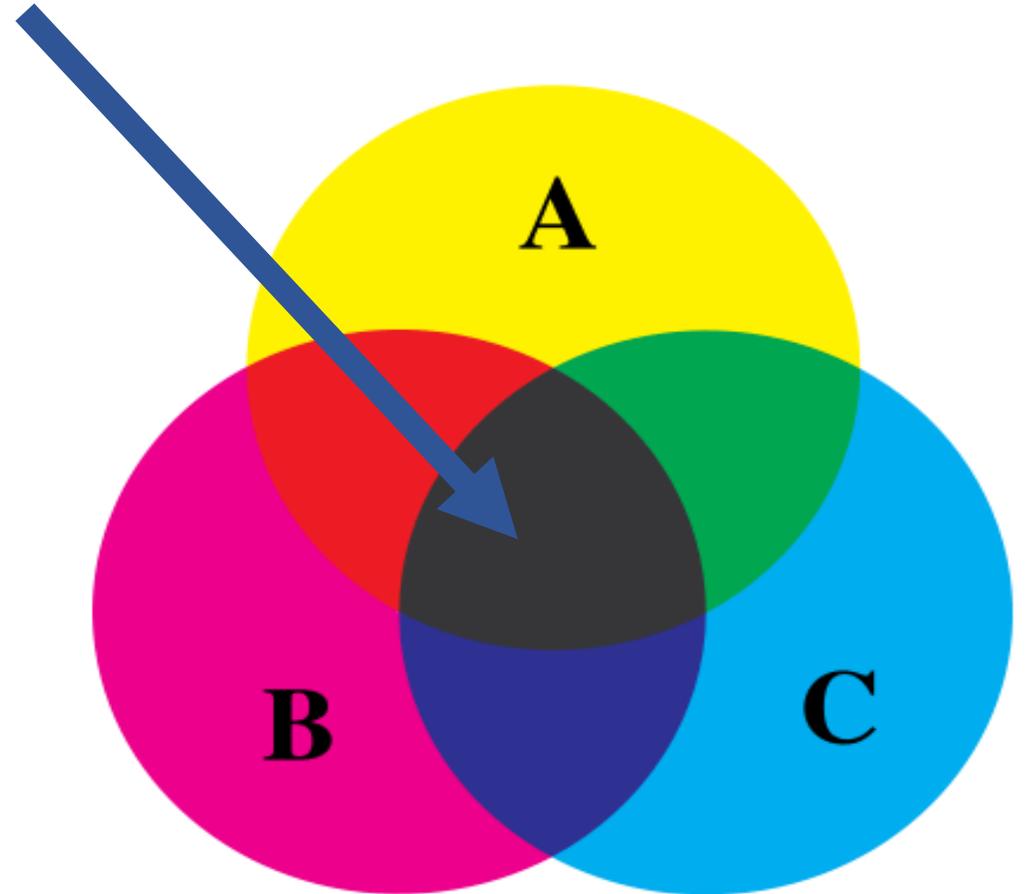


Alternative strategy process models

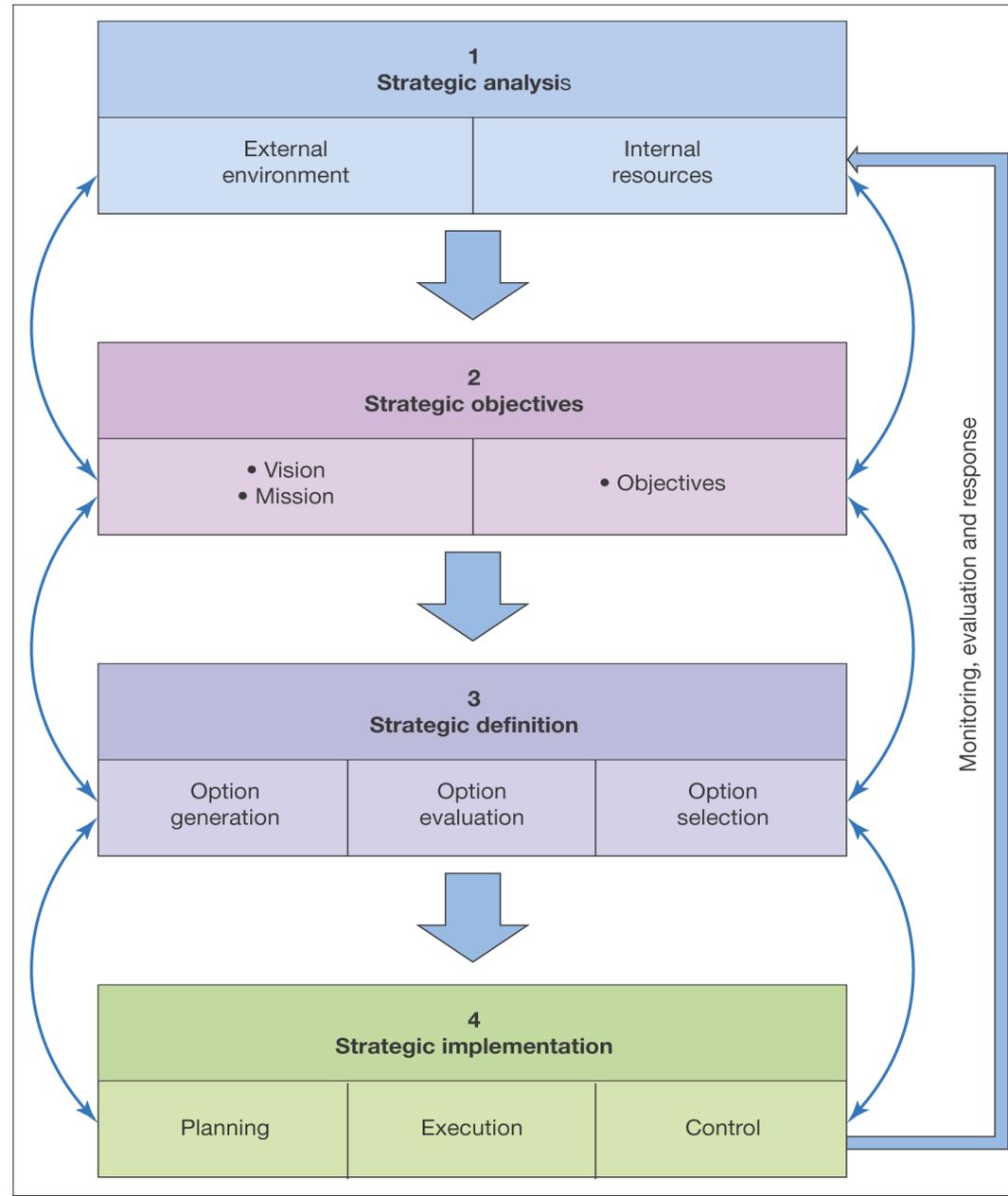
<p style="text-align: center;">↓</p> <p>Jelassi and Enders (2008) <i>E-business strategy framework</i></p>	<p style="text-align: center;">↓</p> <p>Johnson and Scholes (2006) <i>Parallel corporate strategy model</i></p>	<p style="text-align: center;">↓</p> <p>McDonald (1999) <i>Sequential marketing strategy model</i></p>	<p style="text-align: center;">↓</p> <p>Smith (1999) SOSTAC™ <i>Sequential marketing strategy model (see Chapter 8)</i></p>
<p>SWOT summarizing external analysis (e.g. marketplace, customers, competitors); internal analysis (e.g. human, financial and operational)</p>	<p>Strategic analysis (environment, resources, expectations, objectives and culture)</p>	<p>Situation review (marketing audit, SWOT analysis, assumptions)</p>	<p>Situation analysis</p>
<p>Mission and objectives</p>	<p>Strategic choice (generation of options, evaluation of options, selection of strategy)</p>	<p>Goal setting (mission, corporate objectives)</p>	<p>Objective setting</p>
<p>Strategy formulation to create and capture value through sustaining competitive advantage and exploring new market spaces</p>	<p>Strategic implementation (resource planning, people and systems, organization structure)</p>	<p>Strategy formulation (marketing objectives and strategy, estimate expected results, identify alternative plans and mixes)</p>	<p>Strategy</p>
<p>Strategy implementation including internal organization, interaction with suppliers and users or customers</p>		<p>Resource allocation and monitoring (budget, first-year implementation plan)</p>	<p>Tactics Actions Control</p>

Common elements in strategy process models

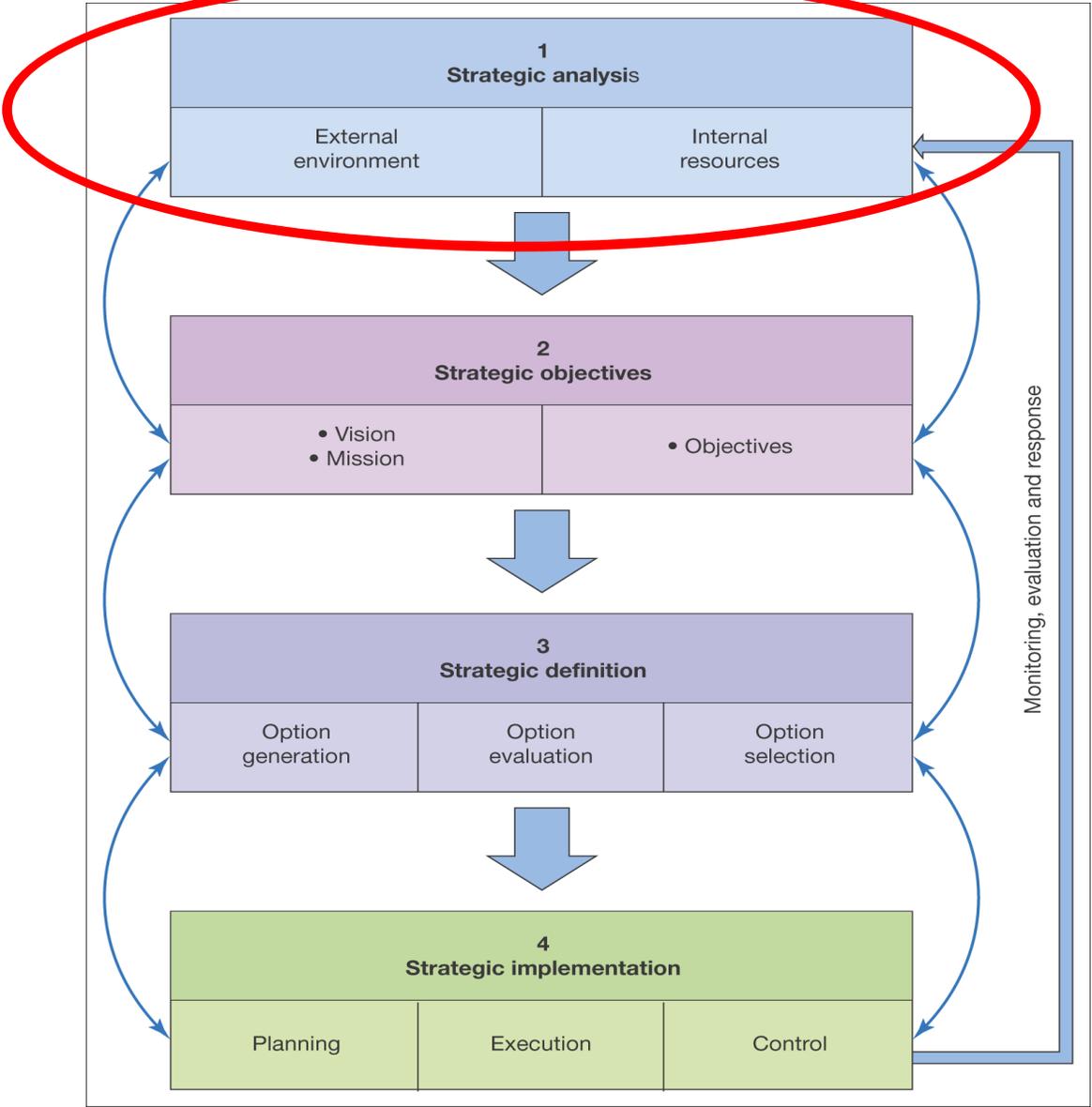
1. Internal and external environment scanning or analysis
2. A clear statement of vision and objectives
3. Strategy option generation, evaluation and selection.
4. Strategy implementation
5. Control to monitor operational and strategy effectiveness



A generic strategy process model



A generic strategy process model



Strategic analysis

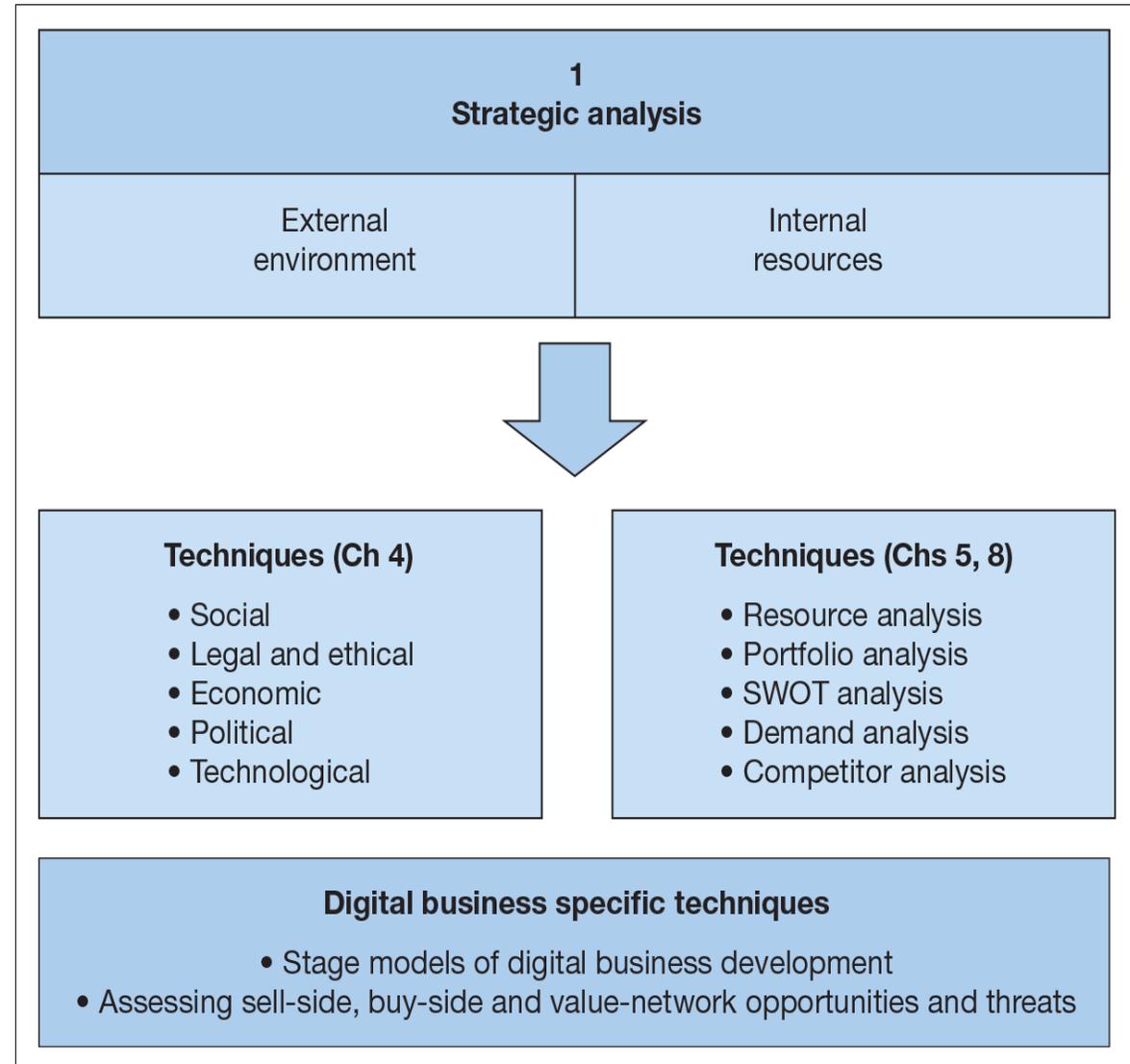
Strategic analysis involves review of:

- The internal resources and processes of the company
- The immediate competitive environment (micro-environment)
- The wider environment (macro-environment)



Elements of strategic situation analysis for the digital business

For effective, responsive digital business, it is essential that situation analysis or environmental scanning be a continuous process with clearly identified responsibilities for performing the scanning and acting on the knowledge acquired.



Resource and process analysis

- Review of the technological, financial and human resources of an organization and how they are utilized in business processes.
- Distinction must be made between analysis of resources and capabilities:
 - Resources are the tangible and intangible assets which can be used in value creation.
 - Capabilities represent the ability of a firm to use resources effectively to support value creation.

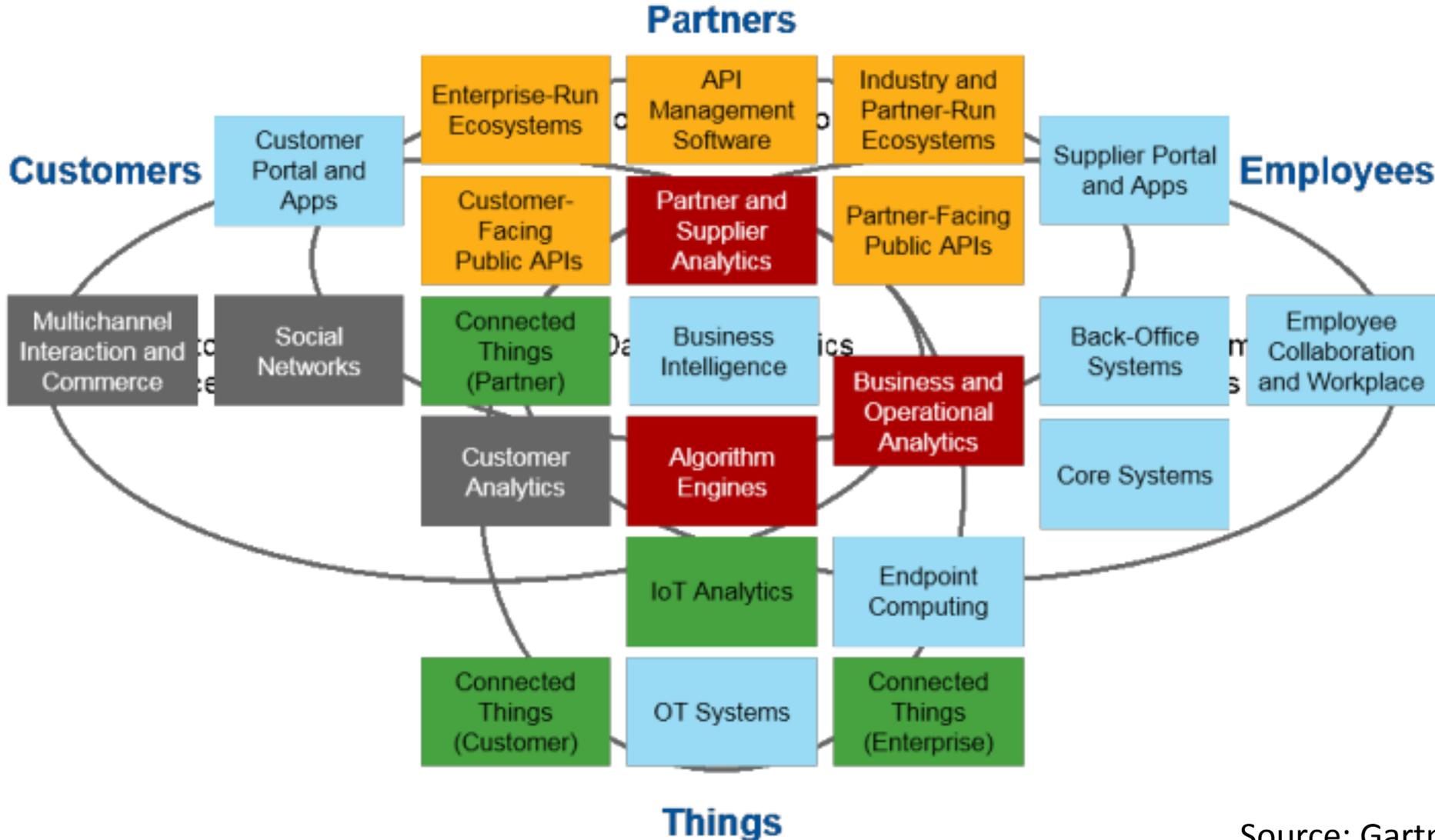


Portfolio analysis

- Analysis of the current portfolio of digital assets and capabilities within a business is used to assess current situation and also to inform future strategies
- Portfolio analysis is also often used to select the most appropriate future digital projects.
- It is the basis for benchmarking current digital capabilities and identifying strategic priorities

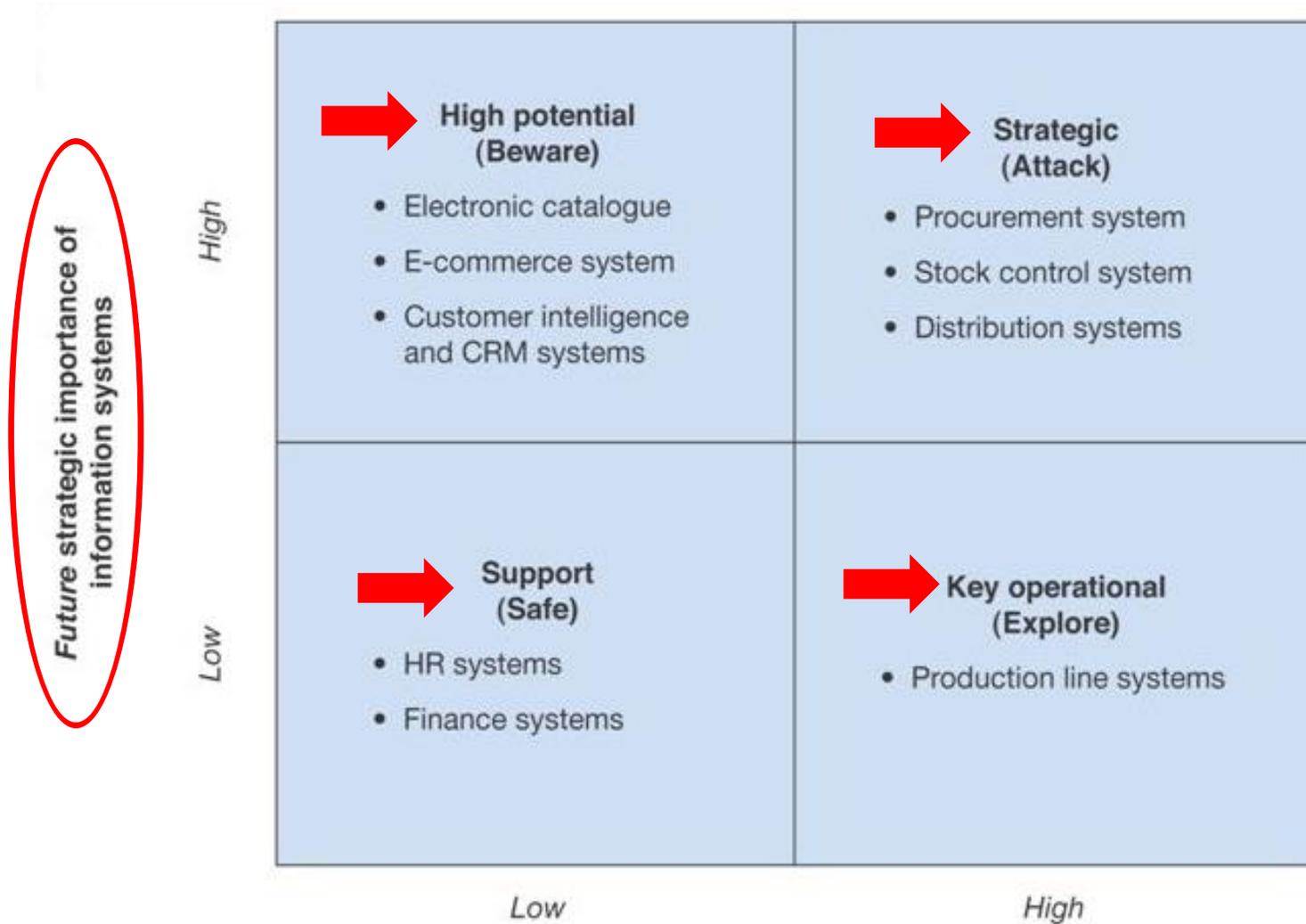


Digital Business Technology Platforms



Source: Gartner

Portfolio analysis for a hypothetical B2B company



Note:

The analysis will differ greatly according to the type of company.

Current strategic importance of information systems

SWOT analysis

S

STRENGTHS

- Things your company does well
- Qualities that separate you from your competitors
- Internal resources such as skilled, knowledgeable staff
- Tangible assets such as intellectual property, capital, proprietary technologies etc.

W

WEAKNESSES

- Things your company lacks
- Things your competitors do better than you
- Resource limitations
- Unclear unique selling proposition

O

OPPORTUNITIES

- Underserved markets for specific products
- Few competitors in your area
- Emerging need for your products or services
- Press/media coverage of your company

T

THREATS

- Emerging competitors
- Changing regulatory environment
- Negative press/media coverage
- Changing customer attitudes toward your company

SWOT analysis

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

Demand analysis

“It is the customer who determines what a business is.”

– Peter Drucker, *The Practice of Management*



Demand analysis

- Demand analysis is a research done to estimate or find out the customer demand for a product or service in a particular market.
- It is used to identify **who** wants to buy a given product, **how much** they are likely to pay for it, **how many** units they might purchase



Importance of demand analysis

- Demand analysis is important for business decisions like:

determining sales forecasting



pricing products/services



marketing and advertisement spending



expansion planning



- For a new company, the demand analysis can tell whether a substantial demand exists for the product/service
- Given other information like number of competitors, size of competitors industry growth etc. it helps to decide if the company could enter the market and generate profit

Competitor analysis

- Competitor analysis refers to an assessment of the strengths and weaknesses of current and potential competitors
- The main goals of a competitor analysis are
 - ✓ to understand who your competitors are,
 - ✓ what strategies they are using and have planned,
 - ✓ how they might react to your company's actions
 - ✓ how to influence competitor behavior to your advantage



Competitor array

One common and useful technique is constructing a competitor array. The steps include:

1. Define the industry – scope and nature of the industry.
2. Determine who the competitors are.
3. Determine who the customers are and what benefits they expect.
4. Determine the key strengths – for example price, service, convenience, inventory, etc.
5. Rank the key success factors by giving each one a weighting – The sum of all the weightings must add up to one.
6. Rate each competitor on each of the key success factors.
7. Multiply each cell in the matrix by the factor weighting.

An example of a competitor array

Key Industry Success Factors	Weighting	Competitor #1 rating	Competitor #1 weighted	Competitor #2 rating	Competitor #2 weighted
1 - Extensive distribution	.4	6	2.4	3	1.2
2 - Customer focus	.3	4	1.2	5	1.5
3 - Economies of scale	.2	3	.6	3	.6
4 - Product innovation	.1	7	.7	4	.4
Totals	1.0	20	4.9	15	3.7

In this example, competitor #1 is rated higher than competitor #2 on product innovation ability (7 out of 10, compared to 4 out of 10) and distribution networks (6 out of 10), but competitor #2 is rated higher on customer focus (5 out of 10). Overall, competitor #1 is rated slightly higher than competitor #2 (20 out of 40 compared to 15 out of 40). When the success factors are weighted according to their importance, competitor #1 gets a far better rating (4.9 compared to 3.7). This information can help a firm to offer customer value superior to the competitors' offerings.

Sprout's Facebook Competitors Report

Track [fundamental metrics](#) for any Facebook Page

sproutsocial

MESSAGES

TASKS

FEEDS

PUBLISHING

DISCOVERY

REPORTS



COMPOSE

- Reports Home
- Group Report
- Engagement Report
- Team Report
- Task Report
- Facebook Report
- Facebook Competitors**
- Twitter Profiles
- Trends Report
- Twitter Comparison
- Twitter Listening
- Instagram Profiles
- LinkedIn Pages
- Google Analytics
- Tag Report
- Sent Messages
- Customize Branding

Sprout Coffee Co.

Starbucks Coffee

Intelligensia

2 More...

This Month

Export

Facebook Competitors Report

About this Report

Audience Growth

FANS GAINED, BY DAY



Competitor Average

Sprout Coffee Co
Company Page

Starbucks Coffee
Company Page

Intelligensia
Company Page

Dollop
Company Page

La Colombe
Company Page

Facebook buys Instagram photo sharing network for \$1bn

🕒 10 April 2012 | 📧

Facebook has announced it is to buy Instagram - the popular photo-sharing smartphone app.

Facebook is paying \$1bn (£629m) in cash and stock for the takeover.



Example of action taken following competitor analysis

CNN tech

BUSINESS

CULTURE

GADGETS

FUTURE

STARTUPS



Facebook buys WhatsApp for \$19 billion

by Adrian Covert @CNNTech

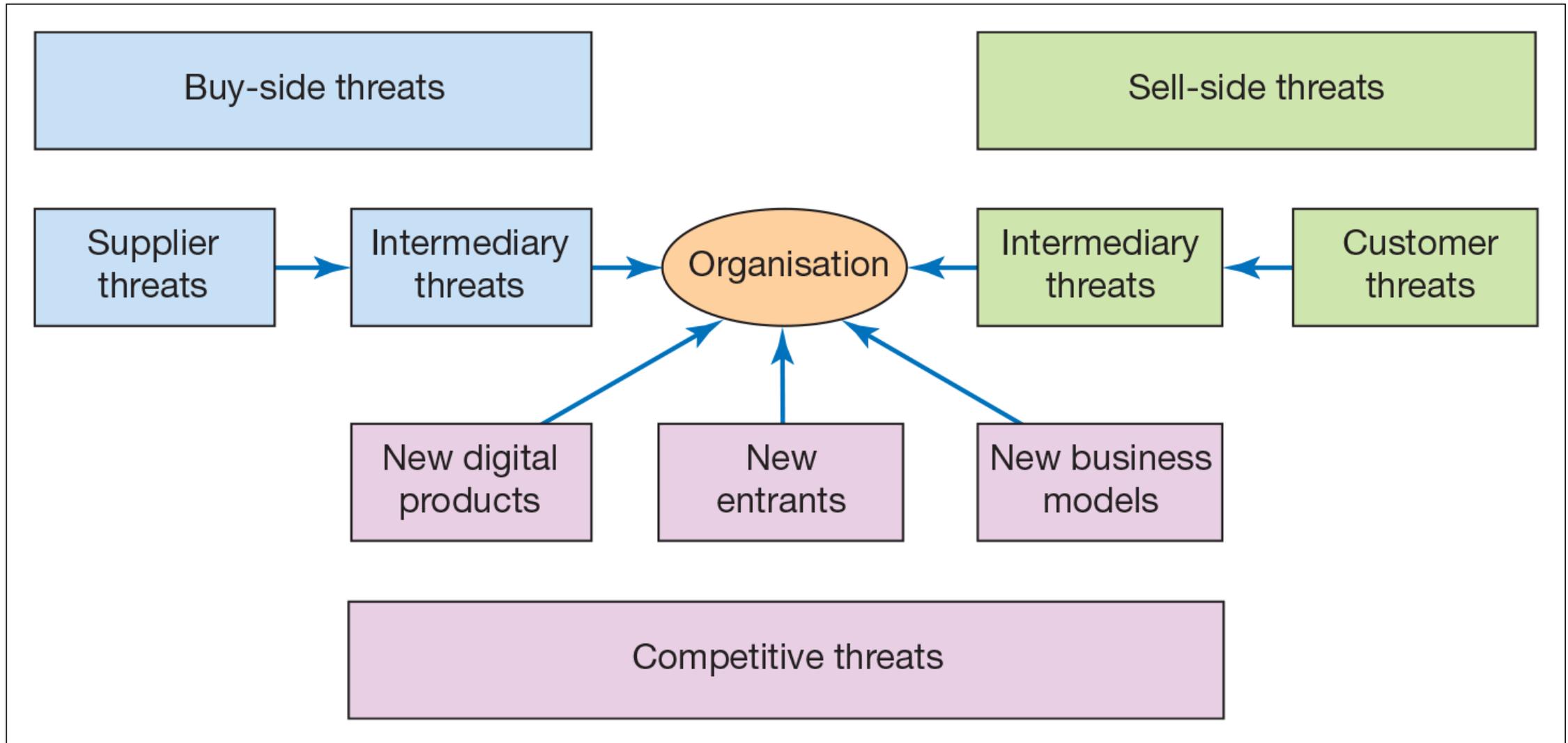
🕒 February 19, 2014: 6:54 PM ET

📌 Recom

In a play to dominate messaging on phones and the Web, Facebook has acquired WhatsApp for \$19 billion.



Broader view of competitive threats

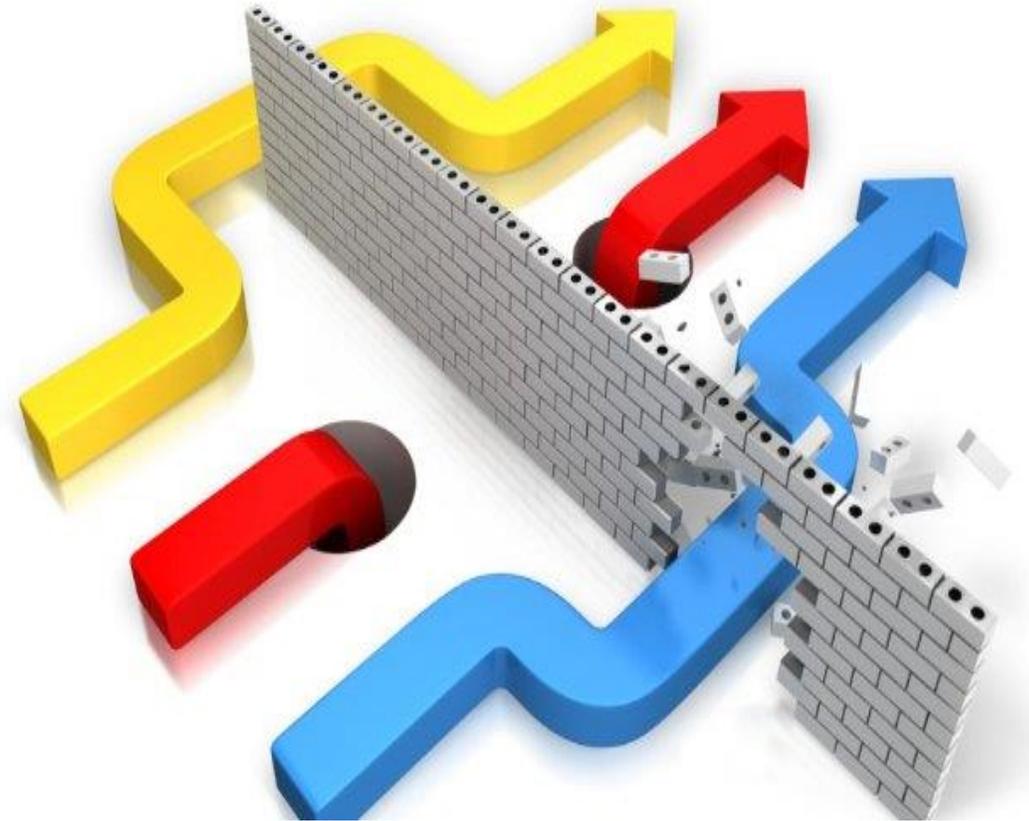


This is an extension of Michael Porter's classic five forces model

Competitive threats

1. Threat of new e-commerce entrants

- The internet has lowered entry barriers for some industries.
- The Internet is all about democratization -- a place where the small guy can effectively fight against the giants and hope to win
- However, even when the entry barriers are low, new entrants may still face *barriers to success*.
- This competitive threat is less common in industries where the investment barriers to entry are much higher



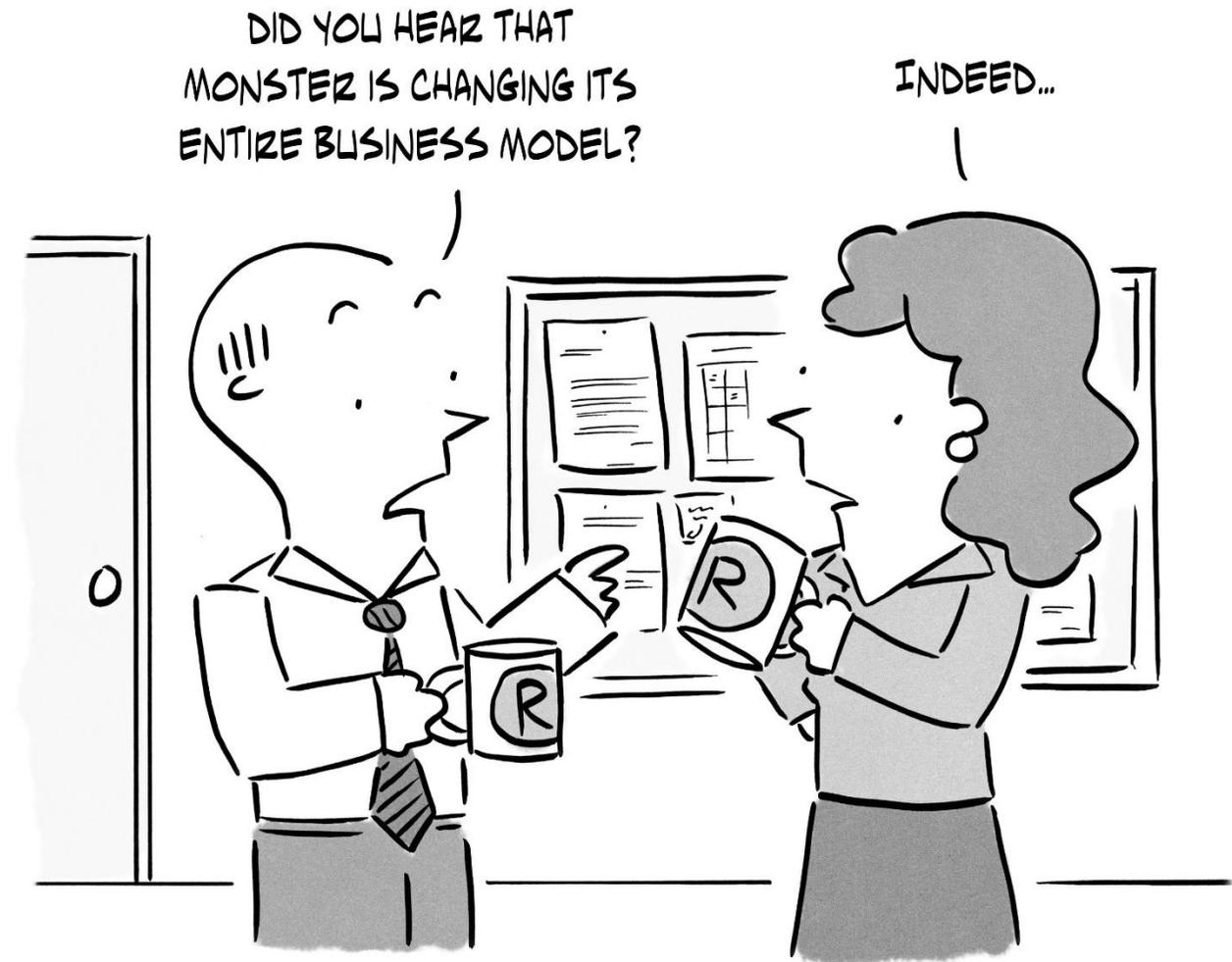
2. Threat of new digital products

- This threat can occur from established or new companies.
- The greatest threats are likely to occur where digital product fulfilment can occur over the Internet
- Examples of businesses that face high threat of new products are newspapers, magazine and book publishing, and music and software distribution.

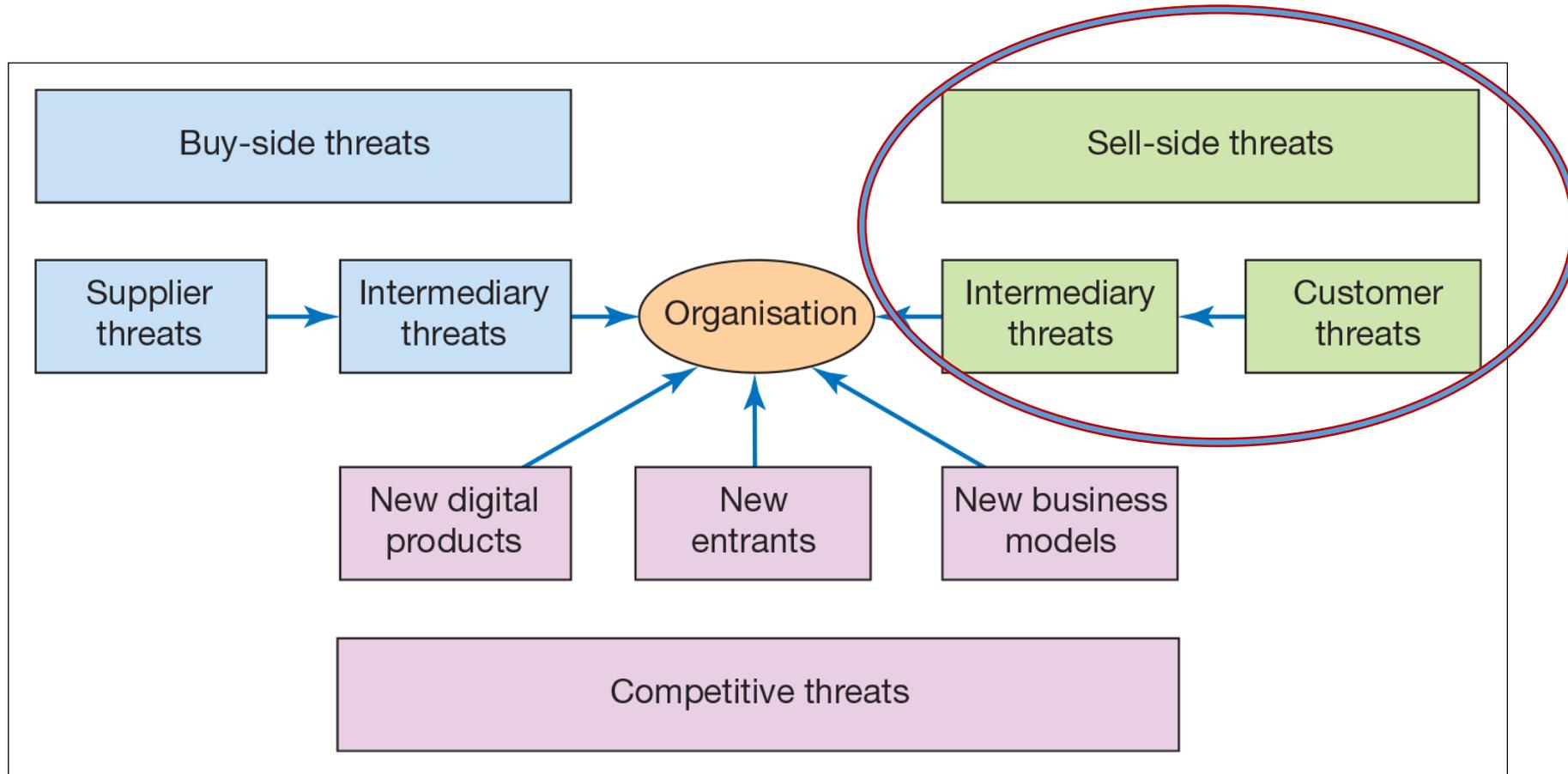


3. Threat of new business models

- This threat also can occur from established or new companies.
- It is related to the competitive threat in that it concerns new methods of service delivery.
- Internet has made it possible for numerous alternative business and revenue models
- There is a need for continual environmental scanning



Assessing competitive threats



Sell-side threats

1. Customer power and knowledge

- This is perhaps the single biggest threat posed by electronic trading.
- The internet has greatly increased the bargaining power of customers
- Customers can compare products, prices and reputations.
- Trading on shoppers' ignorance is no longer possible
- In order benefit, companies must deliver value that customers are looking for



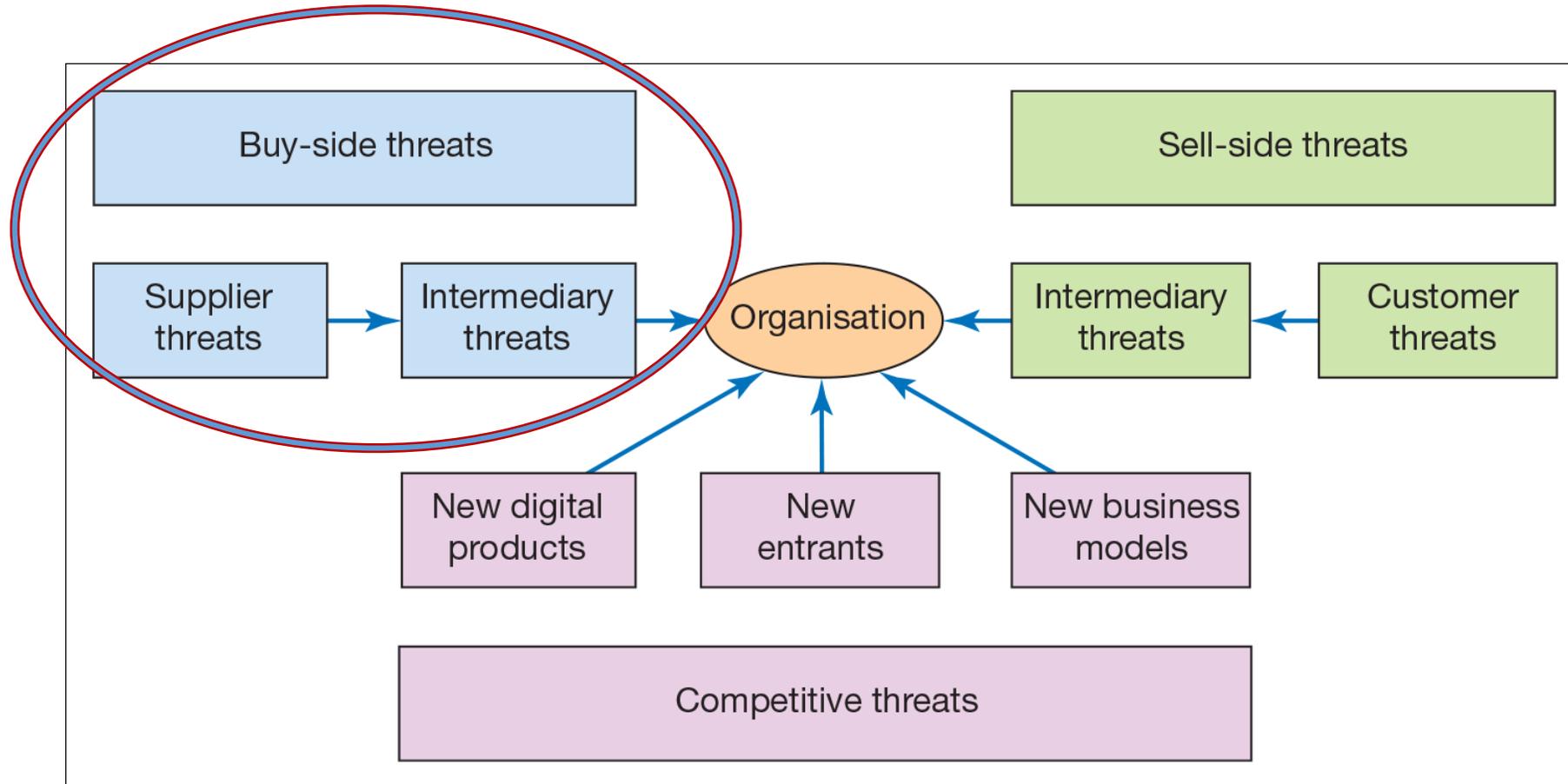
Sell-side threats

2. Power of intermediaries

- A significant downstream channel threat is the potential loss of partners or distributors
- An additional downstream threat is the growth in number of intermediaries
- More so, if intermediaries are in an exclusive arrangement with a competitor, then this can potentially exclude a substantial proportion of the market.



Assessing competitive threats



Buy-side threats

1. Power of suppliers

- This is the pressure suppliers can exert on businesses by raising prices, lowering quality, or reducing availability of their products
- The Internet tends to reduce the power of suppliers since barriers to migrating to a different supplier are reduced
- However, if suppliers insist on proprietary technology to link companies, then this creates 'soft lock-in'



Buy-side threats

2. Power of intermediaries

- Threats from buy-side intermediaries are arguably less than those from sell-side intermediaries
- However, risks arising from using these services should be considered:
 - These include the cost of integration with such intermediaries, particularly if different standards of integration are required for each.'

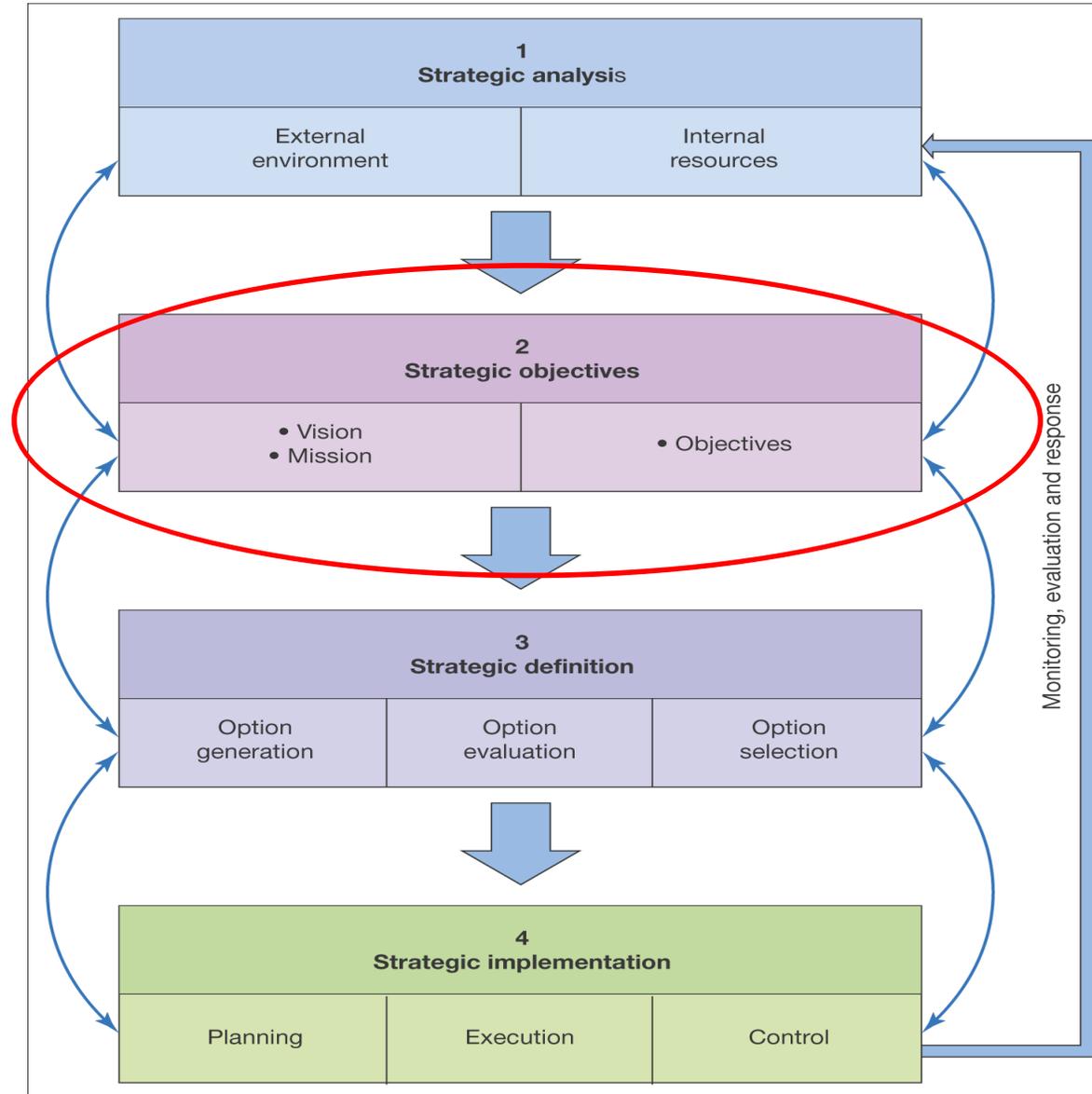


Co-opetition

- The five forces framework overlooks the positive effect on profitability that collaboration within an industry can have
- Examples of interactions encouraged through co-opetition
 - Setting of joint standards
 - Joint developments e.g. a joint purchasing platform such as Covisint by daimlerChrysler, Ford, GM
 - Joint lobbying e.g. for favourable legislation



A generic strategy process model

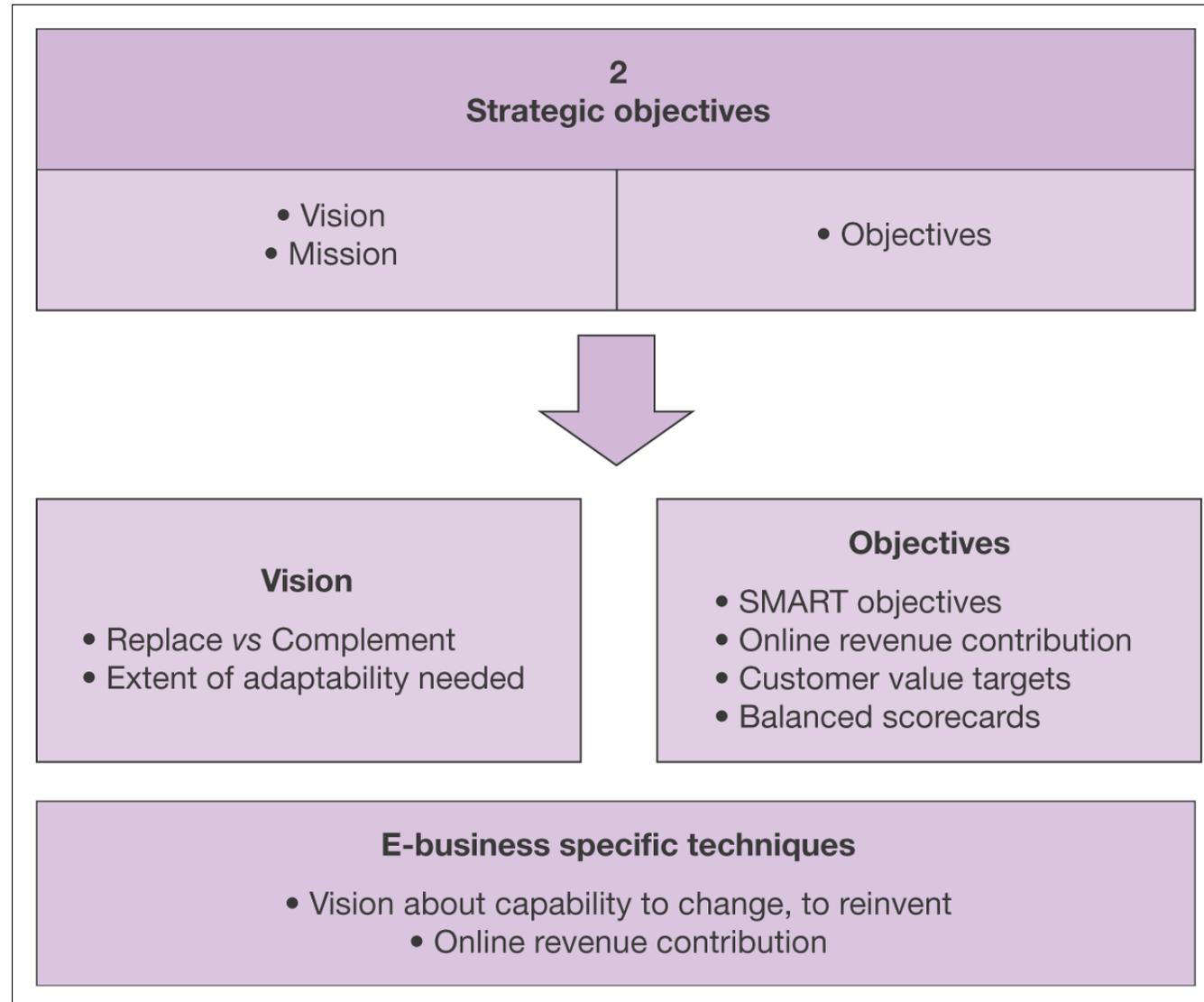


Strategic objectives

- Defining and communicating an organization's strategic objectives is a key element of any strategy process model
- That is because clear, realistic objectives:
 - Provide direction for the strategy definition and implementation
 - Provide benchmark for assessing actual results
 - Help communicate the goals and significance of digital business initiative
- **Objective setting typically takes place in parallel with strategic analysis**



Strategic objectives



Defining vision

- Corporate vision is defined as ‘a mental image of the possible and desirable future state of the organization’
- A clear vision provides a summary for the development of purpose and strategy of the organization.
- Defining a specific company vision is helpful since it contextualizes digital business in relation to a company’s strategic initiatives
- It also helps give a long-term emphasis on digital business transformation initiatives within an organization.



Example of vision



The Vision

To make search engines so powerful they would understand "everything in the world".



Defining mission

- A mission is a company's fundamental purpose, in other words, the reason why a company exists
- Thus, a mission statement is a brief description of a company's fundamental purpose. It answers the question, "Why does our business exist?"
- Every business should have a mission statement, both as a way of ensuring that everyone in the organization is "on the same page"



Defining mission

Thus, a properly crafted mission statements:

- serve as filters to separate what is important from what is not
- clearly state which markets will be served and how,
- communicate a sense of intended direction to the entire organization.

“Google's mission is to organize the world's information and make it universally accessible and useful”

– Google™

Mission Statement:

amazon

“To be Earth’s most customer-centric company, where customers can find and discover anything they might want to buy online.”



Objective setting

- Effective strategies link objectives and performance.
- One method of achieving this is through tabulation each of the performance indicators and provide a timeframe in which to achieve these objectives
- Prioritization of objectives is important since some of the goals that require processes to be re-engineered cannot be achieved immediately
- This can help in communicating the e-business vision to staff and also when allocating resources to achieve the strategy



SMART objectives



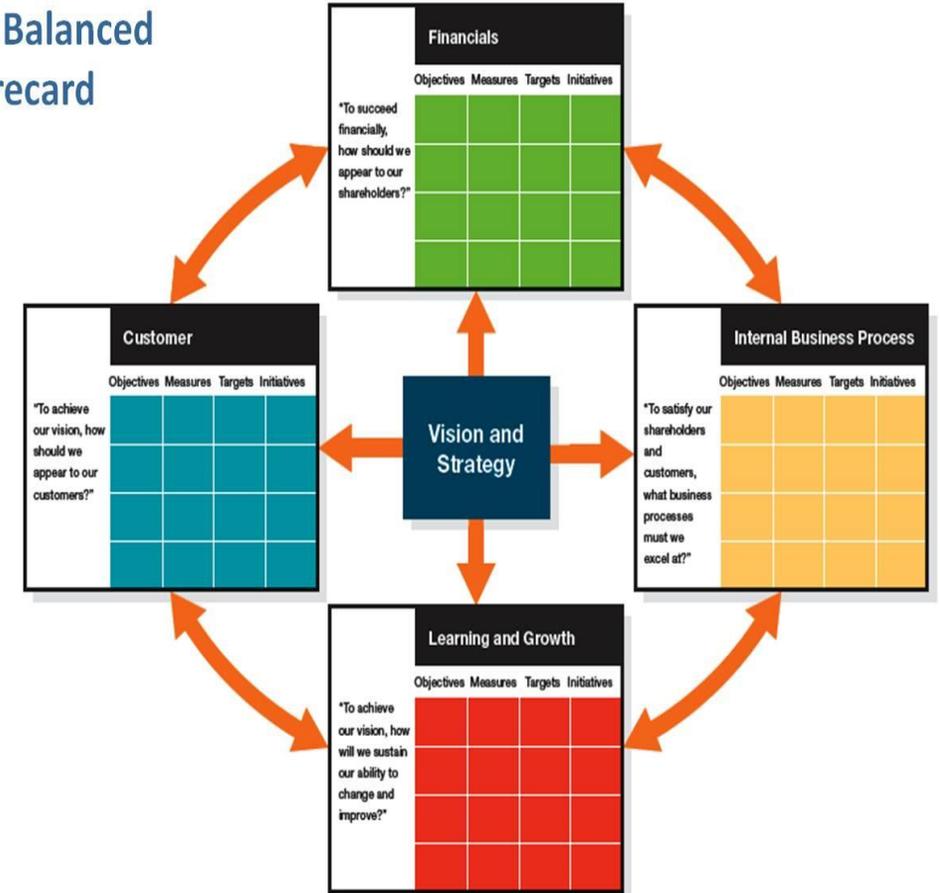
- ✧ **Specific.** Is the objective sufficiently detailed to measure real-world problems and opportunities?
- ✧ **Measurable.** Can a quantitative or qualitative attribute be applied to create a metric?
- ✧ **Actionable.** Can the information be used to improve performance? If the objective doesn't change behaviour in staff to help them improve performance, there is little point in it!
- ✧ **Relevant.** Result-based, results-oriented, resourced, realistic, reasonable
- ✧ **Time-related.** Does the measure or goal relate to a defined timeframe?

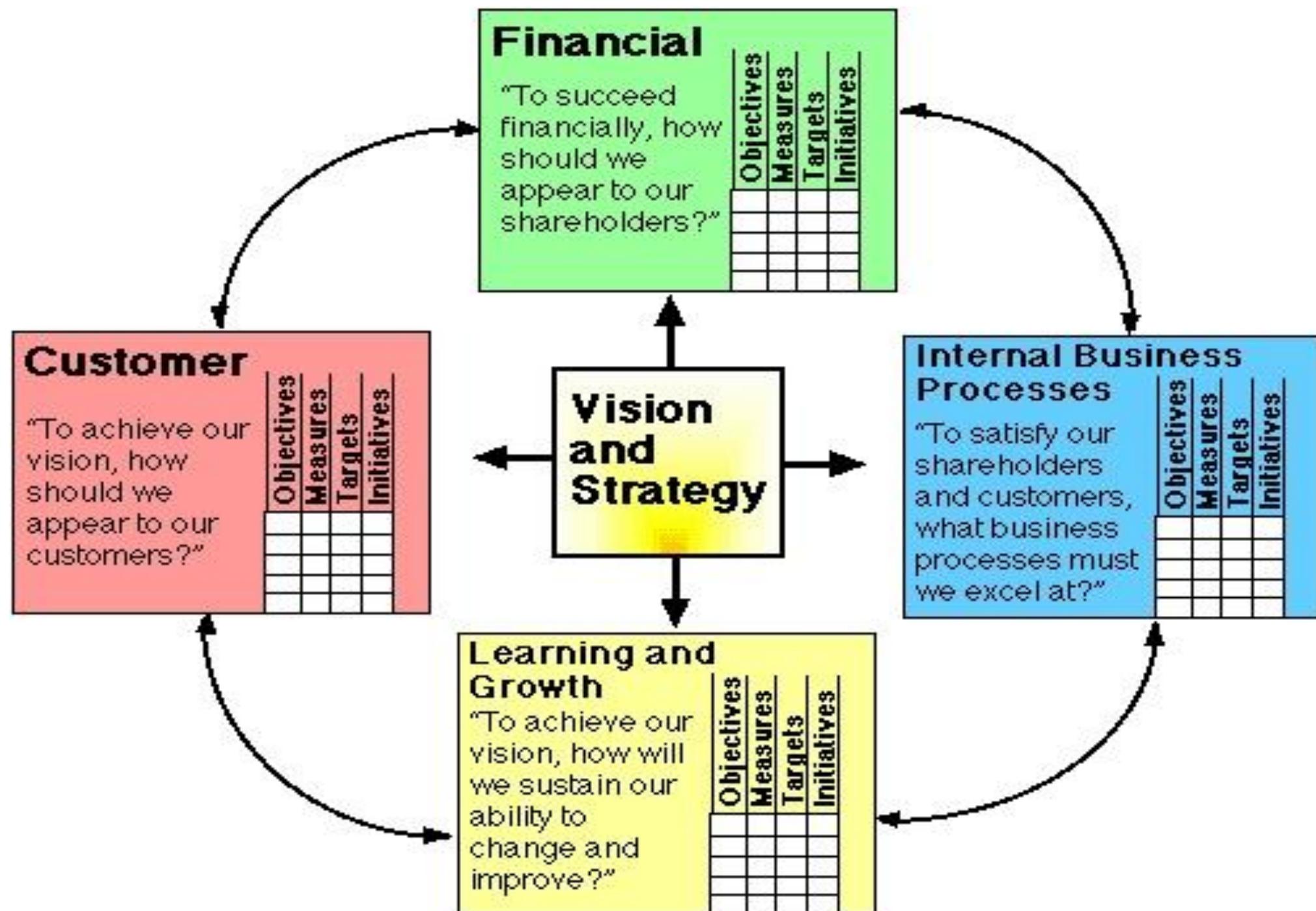
The balanced scorecard

The balanced scorecard as an approach to objective setting

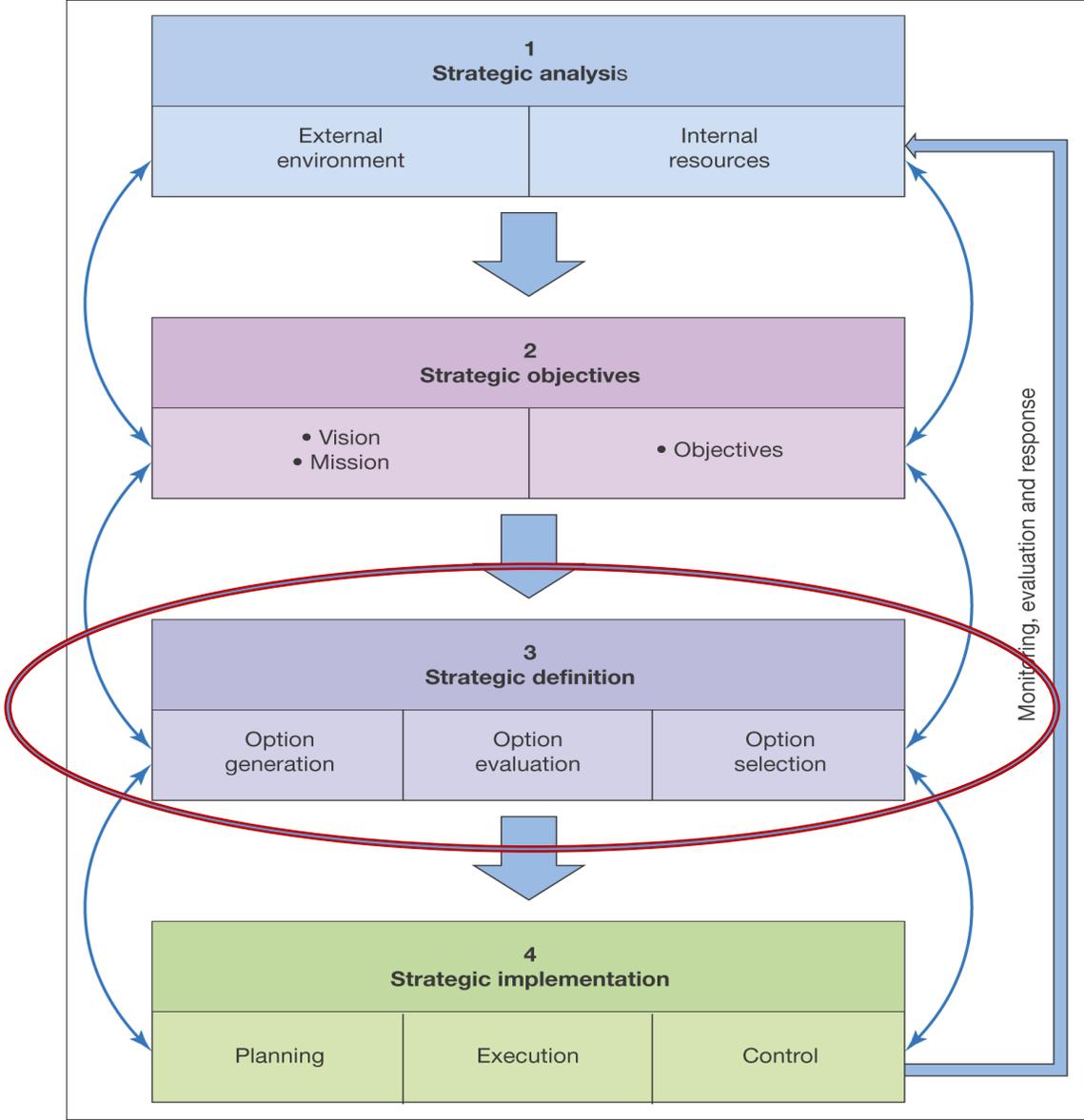
- The balanced scorecard (BSC) is a strategic planning and management system that organizations use to:
 - ✓ Communicate what they are trying to accomplish
 - ✓ Align the day-to-day work that everyone is doing with strategy
 - ✓ Prioritize projects, products, and services
 - ✓ Measure and monitor progress towards strategic targets

The Balanced Scorecard





A generic strategy process model



Strategy definition

- Formulation, review and selection of strategies to achieve strategic objectives.
- The definition of strategy is driven by the objectives and vision
- We will review key strategic decisions faced by a management team developing digital business strategy
- For each of these strategic decisions, managers will want to generate, review and select different options

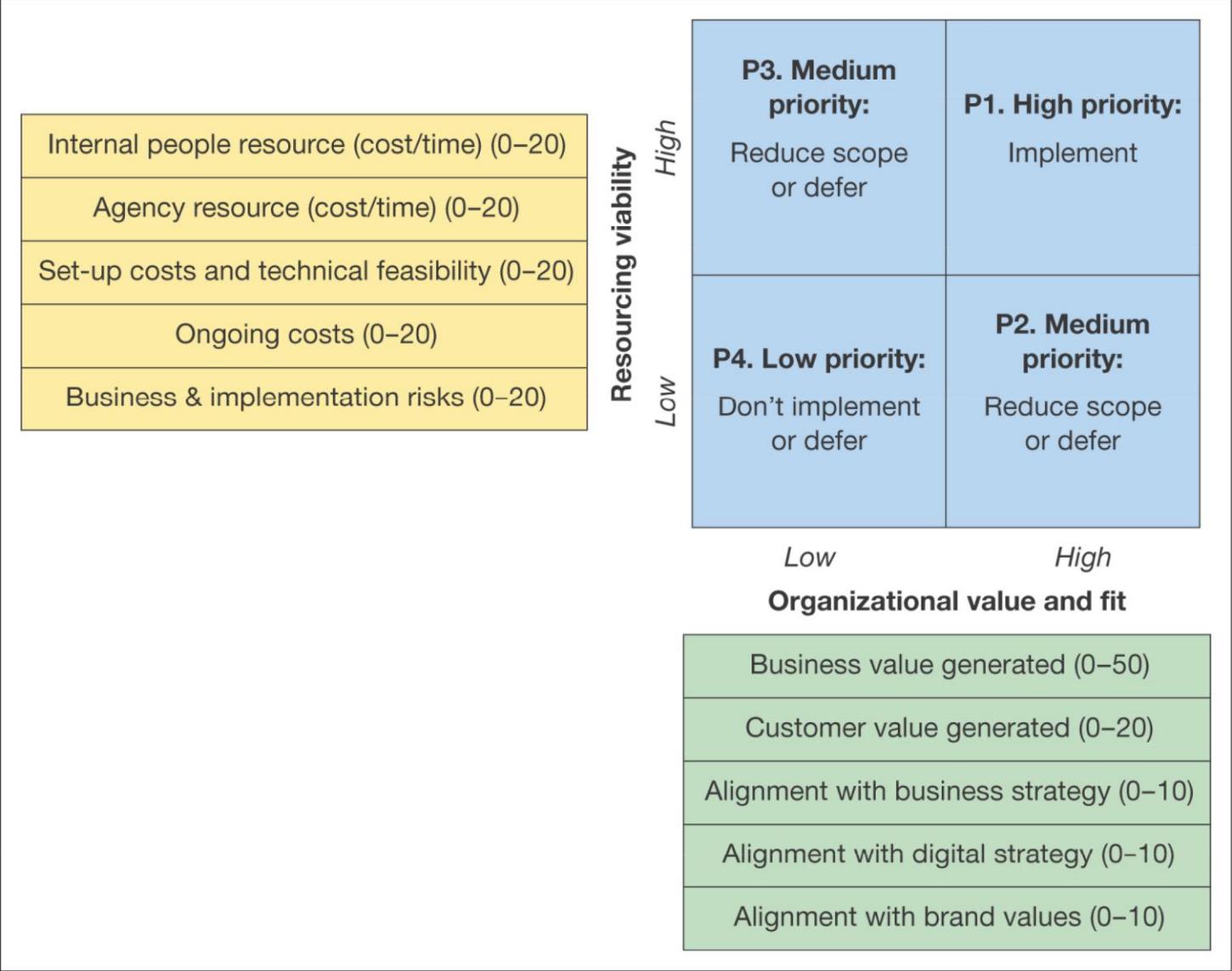


Selection of digital business strategy options

- Managers face a range of possible strategies and digital business service alternatives to be evaluated.
- Due to limited resources, only some alternatives will be practical.
- Portfolio analysis can be used to select the most suitable digital business projects from candidates



Matrix for evaluating digital business strategy alternatives



Key strategic decisions faced by managers

Decision 1: Digital business channel priorities

- Get the right mix of bricks and clicks
- Consider the percentage of the target market who can be persuaded to migrate to use the e-channel
- Consider also the expected sales volume and costs for initial customer acquisition and retention
- Although being internet-only is impractical for many businesses, companies are moving along the curve in this direction.

Key strategic decisions faced by managers

Decision 2: Market and product development strategies

- Decide on which markets to target through digital channels to generate value
- Decide whether to use new technologies to change the scope of their business to address new markets and new products.
- The market and product development matrix can help identify strategies to grow sales volume through varying what is sold and who it is sold to

Using the Internet to support different growth strategies

Market growth	New markets	<p style="text-align: center;">Market development strategies</p> <p>Use Internet for targeting:</p> <ul style="list-style-type: none"> • <i>New geographic markets</i> • <i>New customer segments</i> 	<p style="text-align: center;">Diversification strategies</p> <p>Using the Internet to support:</p> <ul style="list-style-type: none"> • Diversification into related businesses • Diversification into unrelated businesses • Upstream integration (with suppliers) • Downstream integration (with intermediaries)
	Existing markets	<p style="text-align: center;">Market penetration strategies</p> <p>Use Internet for:</p> <ul style="list-style-type: none"> • <i>Market share growth</i> – compete more effectively online • <i>Customer loyalty improvement</i> – migrate existing customers online and add value to existing products, services and brand • <i>Customer value improvement</i> – increase customer profitability by decreasing cost to serve and increase purchase or usage frequency and quantity 	<p style="text-align: center;">Product development strategies</p> <p>Use Internet for:</p> <ul style="list-style-type: none"> • <i>Adding value to existing products</i> • <i>Developing digital products</i> (new delivery/usage models) • <i>Changing payment models</i> (subscription, per use, bundling) • <i>Increasing product range</i> (especially e-retailers)
		Existing products	New products
		Product growth	

Key strategic decisions faced by managers

Decision 3: Positioning and differentiation strategies

- Once market segments have been identified, organizations need to define how to best position themselves with respect to:
 - Product quality
 - Service quality
 - Price and fulfilment time

- Consider four options for strategic focus to position a company in the online marketplace.
 - Product performance excellence. Enhance by providing online product customization.
 - Price performance excellence. Offer favourable pricing to loyal customers or reduce prices where demand is low
 - Transactional excellence. For example by combining pricing information with dynamic availability information
 - Relationship excellence. Personalization features to enable customers to review sales order history and place repeat order

Key strategic decisions faced by managers

Decision 4: Business, service and revenue models

- Companies have to review opportunities from new business and revenue models
- Evaluating new models is important, since if companies do not do so, competitors and new entrants certainly will
- A willingness to test and experiment with new business models is also required

Key strategic decisions faced by managers

Decision 5: Marketplace restructuring

- Electronic communications offer opportunities for new market structures to be created through:
 - Disintermediation
 - Reintermediation
 - Countermediation
- The options for these should be reviewed.

Key strategic decisions faced by managers

Decision 6: Supply-chain management capabilities

- The main digital business strategy decisions that need to be reviewed are:
 - How should we integrate more closely with our suppliers?
 - Which types of materials and interactions with suppliers should we support through e-procurement?
 - Can we participate in online marketplaces to reduce costs?

Key strategic decisions faced by managers

Decision 7: Internal knowledge management capabilities

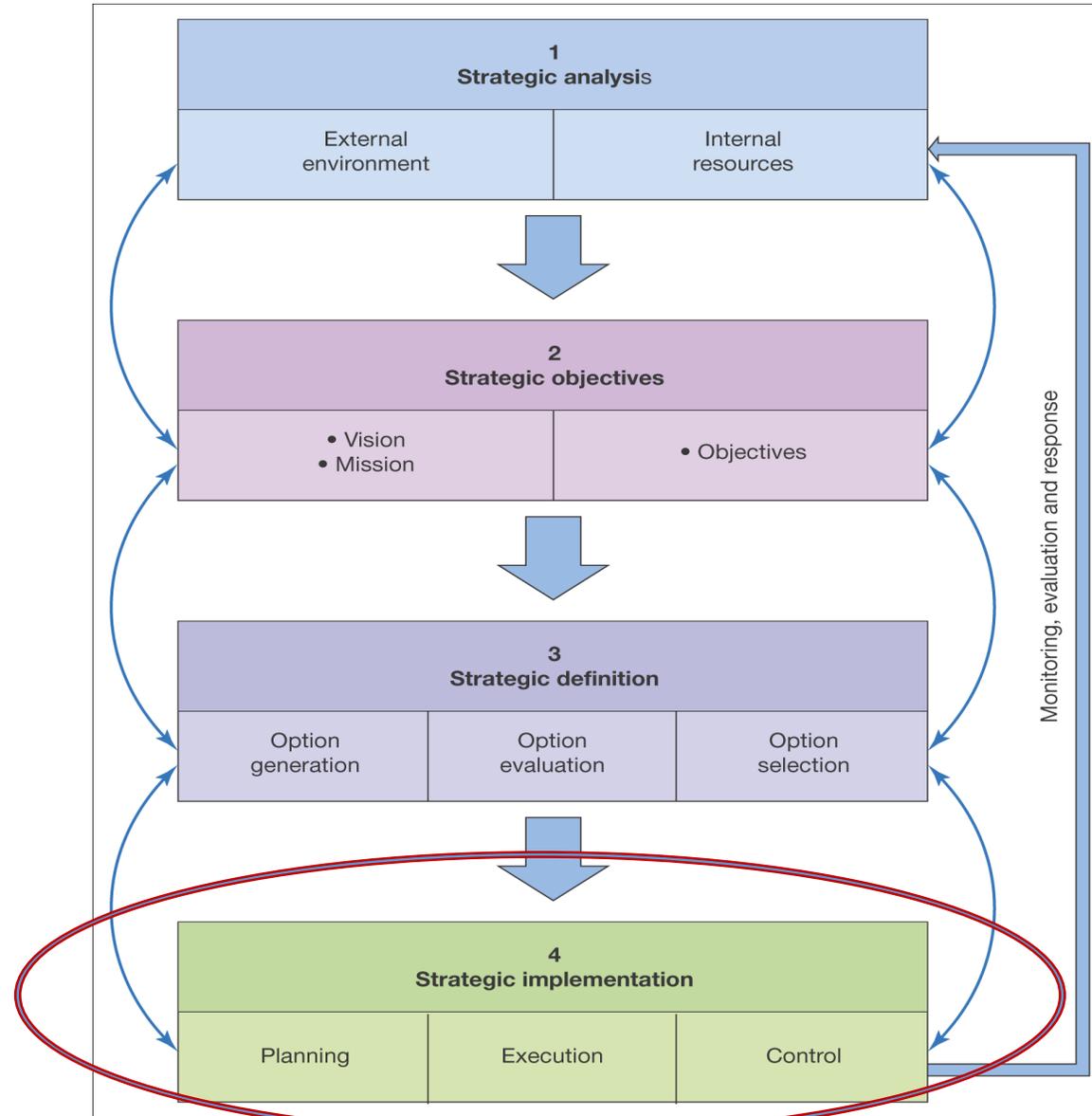
- Organizations should also review their internal digital business capabilities and in particular how knowledge is shared and processes are developed.
- Important questions are:
 - How can our intranet be extended to support different business processes
 - How can we disseminate and promote sharing of knowledge between employees to improve our competitiveness?

Key strategic decisions faced by managers

Decision 8: Organizational resourcing and capabilities

- Here decisions are taken on how the organization needs to change in order to achieve the priorities set for digital business.
- Different aspects of organizational capability that should be reviewed and changed include:
 - Strategy process and performance improvement
 - Structure
 - Senior management buy-in
 - Marketing integration
 - **Online marketing focus:** Customer acquisition, conversion and retention

A generic strategy process model



Strategy implementation

- Planning, actions and controls needed to achieve strategic goals.
- It includes all tactics used to achieve strategic objectives.
- These actions are described in more detail in the remainder of the course



Strategy implementation

