

Electronic business Strategy Formulation

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The article gives a valuable presentation on development of an e-business strategy. The most current key elements of e-business strategy formulation are mentioned and practical examples of e-companies with successful strategies are presented. It can be used as a practical guide for managers and entrepreneurs.

Introduction

Today most companies have online presence by means of a web site or online advertisement. Does it make them an e-company or a part of e-business? The answer is NO. E-business does not mean having a web site or being present on the Internet in any way, it means incorporating e-business strategy on a high level through all value chain of a company. Often many of such companies are called virtual companies (e.g. Google, Amazon, Ebay etc). However, after “dot.com” industries bubble collapse this term is avoided to some extent. Moreover, more traditional businesses have been shifting its focus to e-business such as banking, industrial manufacturers and health care and so on. The impact of e-business applications in public sector is still not clear and it is in its earliest stage, whereas commercial e-business applications have proved to bring in a competitive advantage. In this work, taking into account pervasive nature of today’s business, I do not apply e-business or e-company exclusively to a virtual company as e-business strategy formulation ideas presented here may be used eventually by any company aiming to do business or a part of it electronically.

As this work is concerned with terminology that is may be interpreted differently by different people I will look through key terms’ definitions in context in first part of article. In the second part I will present a roadmap for e-business strategy formulation. The conclusion will attempt to sum up the approaches to strategy and views on strategic importance of ICT (Information Communication Technology) for e-business.

Part 1 Theoretical concepts of e-business and strategy

The term e-business is defined here as the use of electronic means to run company’s business. This includes all business activities within an organization both internal (Intranet) and external (Internet). The latter is often associated with selling of products and services online, that is E-

commerce. Microsoft clearly defines e-commerce as “the use of the Internet, especially the World Wide Web, as a commercial sales and marketing medium”. The e-commerce is more specific than e-business, and we can basically consider it as a subset of e-business. Likewise, mobile commerce is e-commerce through mobile telecommunication networks, may be viewed as a subset of e-commerce. In fact e-business has become so pervasive that many American business consultants suggest to “drop” “e” because it is pointless to talk about it as a separate discipline. In today’s business environment e-business is just business. This all is only about names. Yet e-business uses its “e” here to emphasize electronic nature and/or capabilities for business.

Strategy is another key term in this article. There are a number of definitions for strategy in fundamental management literature, often too broad or confusing that make hard to obtain a clear understanding of the meaning of strategy. That is why the term is often overused. For instance the most recent definition from “strategist” author Hiroyuki Itami “Mobilizing Invisible Assets” “Strategy determines the framework of a firm’s business activities and provide guidelines for coordinating activities so that the firm can cope with and influence the changing environment”.

The components of strategy are product/market portfolio, the operations mission, and the resource portfolio. The product/market portfolio determines what to sell and to whom, for example, Business to business (B2B) e-markets may be of a help to assess the potential of a product in such market. The operations’ mission - what to do in-house is supposed to provide a clear picture of what activities in the operation flow (value chain) a firm will do internally and which to outsource. The resource portfolio - what resources are required for those activities, it basically determines capabilities of a firm. Each of the components represents strategic decision in itself.

Many definitions have some aspects in common. For example *competitive* strategy according to Porter is "about being different." He adds, "It means deliberately choosing a different set of activities to deliver a unique mix of value." In short, strategy is about competitive position, about differentiating yourself in the eyes of the customer, about adding value through a mix of activities different from those used by competitors.

Based on the multiple concepts of strategy, the following aspects are critical for strategy formulation:

Long-term direction of the firm;

Overall plan for deploying the resources;

*Trade-offs to choose between different directions and between different resources distribution;
Unique value proposition or unique positioning against competitors;*

Competitive advantage over rivals as a central goal of strategy. (based on Elassi T. and Enders A. “Strategies for e-business)

Strategy is often used interchangeably with a term tactics that, in turn, may lead to limited understanding of strategy. “Tactics are schemes for individual and specific actions that are not necessarily related to one another” whereas the strategy covers not just one activity or course of actions at a time but all activities of a firm over an extended time horizon at the same time attempting to achieve consistency among them. Together, strategy and tactics bridge the gap between ends and means.

In today’s business environment, the long-term direction of a firm has no clear-cut answer. The emerging innovation may redefine the basis of competition making previous strategy worthless. This was the case of Amazon.com e-tailer with its online bookstore platform having changed the book selling market. Fast-paced environment strategy is also about changing the strategy. A company can get the better trade-offs by giving up long-term strategy in return for short-term flexibility. Apart from that trade-offs are very important for strategic planning to sustain a competitive advantage and positioning a company on the market. A successful strategy especially in e-business can be easily imitated as there are no regulations and barriers to enter are low. The strategic trade-off implies the choices among activities, that is, finding such a fit among them or performing them differently from the firm’s competitors can render strategy hard to copy. Fit is important because discrete activities often affect one another. In fact, rather than seeing the company as a whole, managers have turned to “core” competencies, “critical” resources, and “key” success factors. A good example is low budget airlines that chose to eliminate the “old” activities or perform them differently (small airports, only short-haul flights, no meals, no seats assignment etc) in their cost competitive edge and also redesigning travel agencies’ costs in favor to only online booking.

In formulation of strategy a firm, especially large one should recognize the following three different levels of strategy.

1. corporate-level strategy
2. business unit level strategy
3. operational strategy

The corporate level strategy is concerned with the overall purpose and scope of the firm, such as how to allocate resources between business units; mergers, partnerships, in e-business context the choice of distribution and sales channels is very important on this level. The business unit strategy deals mostly with how to compete within individual markets. The operational strategy is about implementing business unit strategy with focus on everyday operations. The truly strategic decisions are made on first two levels and talking about strategy here I mean those two, not operational one.

Part 2 E-business strategy formulation roadmap

Now we can look at e-business strategy build-up in detail. The development of e-business strategy addresses six interrelated issues or steps: Vision, Quantifiable objectives, Value creation, Target market, Organizational set-up and Business model. Any manager or entrepreneur must formulate each aforementioned step for successful development of strategy. As these steps are inter linked they should not be taken in isolation.

Vision (or vision statement)

The vision is the starting point of strategy formulation. In practice vision and mission get jumble up. So what is the difference? As long as they both serve a strategic development of a firm it does not matter. However in theory:

*A **Vision** is a description of the business as you want it to be. In dictionary terms it is, 'a mental image produced by the imagination'. It involves seeing the optimal future for the business, and vividly describing this vision. The description might include HOW things will be, WHERE, WHO with, WHAT you'll be doing and HOW you'll feel.*

*A **Mission** is the definition of the 'special assignment' being undertaken by the business. It is likely to cover the customer groups that are being served and the customer needs that are being met. (by buildingbrands.com)*

Vision is more about company future to reach and mission is where you're in now and who your customer is.

This will only be achieved if the Vision and Mission are able to:

Bring focus and clarity to the desired future of the business (and what makes it distinctive)

Give people idea and guidance about future targets

Amazon vision aims to be “the earth's most customer centric company, where customers can find and discover everything they might want to buy online” Google’s mission is nothing less than "Organize the world's information and make it universally accessible and useful."

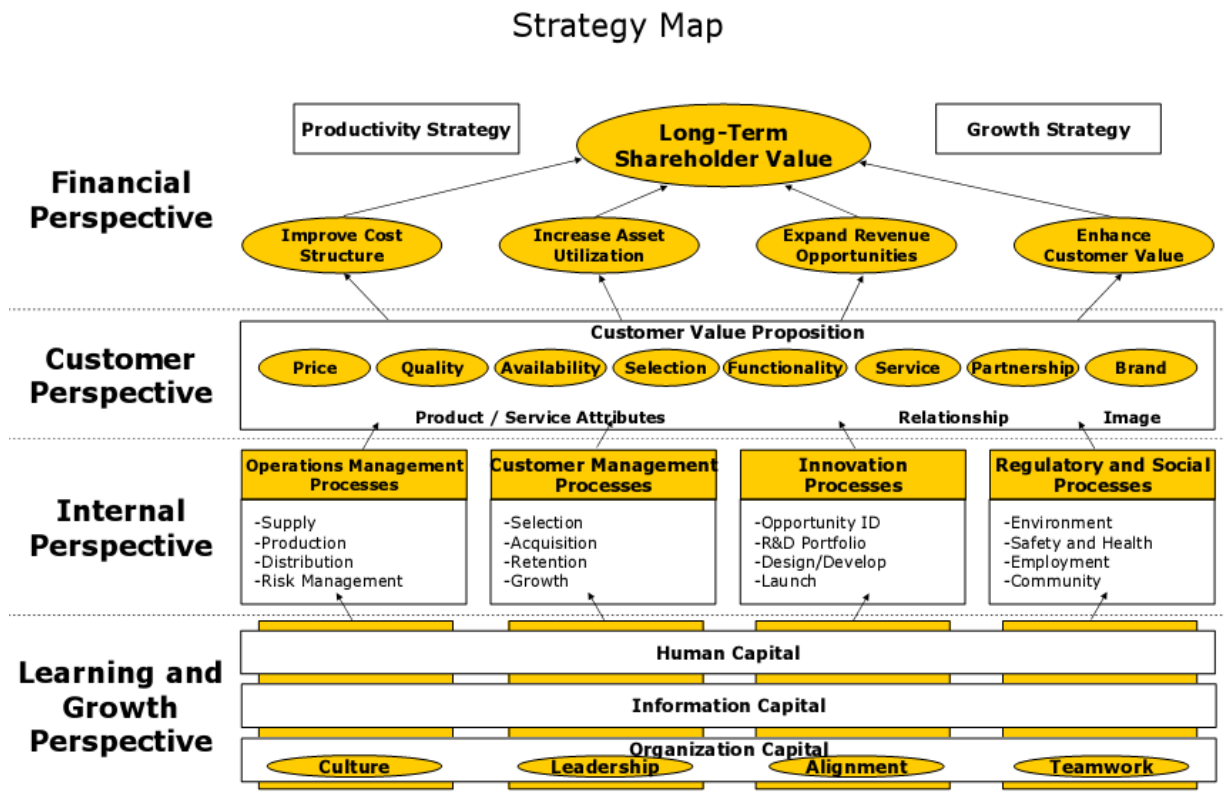
Establishing a vision/mission gives you a direction to take, encourage creativity and innovation as you go beyond existing boundaries of the firm.

Quantifiable objectives

Once vision or/and mission is established it makes sense to set parameters to measure the firm success. The parameters are the quantifiable objectives, which may include financial (profit, ROI, sale etc) and non-financial (customer’s satisfaction) measures. The strategy implies a plan for achieving objectives with central goal to beat the competitors. Hence not only are quantifiable objectives vital for measurement of company’s performance but for benchmarking against competitors. All objectives should be measured and quantified. Only then can they provide goals for the employees to strive for and consequently the clear targets for actions to take.

Consider the example of B2B e-market place Covisint.com where the major American car makers stated to achieve 6 billion of savings per year trough online collaboration with car dealers using e-procurement and e-supply chain management. At this point an effective technique to formulate objectives and communicate them properly might be mapping a strategy, that is, to create a so-called strategy map.

Figure 1



“A Strategy Map is a diagram that describes how an organization creates value by connecting strategic objectives in explicit cause-and-effect relationship with each other in the four Balanced Score Card objectives (financial, customer, processes, learning and growth). (Kaplan and Norton “The strategy-.focused organization) These four BSC perspectives are strategic themes in a firm. See the **figure 1 above**.

Value creation

Value creation is concerned with decisions about what value your business adds to customers or, in other words, why customers would want to buy your product/service. On strategic map see Customer Perspective.

Basically you can chose to compete on price and become a cost leader within your market or niche (EasyJet) or compete on quality- offering anything better (service, brand etc) that will differentiate you from rivals. FedEx added value to its customer by allowing them to track and trace online the physical movement of their parcels that gave the company the differentiation edge before others introduced this service. Eventually you can opt for both cost leadership and differentiation advantage at the same time similar to Amazon and Ebay, however that entails bigger investment and risk of being “in the middle” among others competitors. Therefore strategy underlines trades-offs between resource distribution for different activities and creation of the fit between them according to the direction of a firm.

The value creation stage urges for creativity as it enables a creation of something new or different from the existing competitors such as new ways of conducting business or, moreover, opening-up new markets.

Target Market

Closely linked to value creation is decision about who are your customers. Here it is important to determine market segmentation and then, based on this decide which segment to target. The e-business market segmentation matrix classifies different types of interaction between a consumer, business and government. It is based on *supplier/provider to buyer/recipient* model see Figure 2.

Figure2

		Buyer/recipient		
		Consumer/peer/citizen	Business	Government
Supplier/provider	Consumer/peer/citizen	Consumer-to-consumer e.g. eBay Peer-to-peer e.g. Napster Citizen-to-citizen (e.g. US 2004 election campaign)	Consumer-to-business e.g. Amazon.com	Citizen-to-government e.g. online tax return forms
	Business	Business-to-consumer e.g. Ducati.com	Business-to-business e.g. Covisint.com	Business-to-government e.g. online filing of corporate tax returns
	Government	Government-to-citizen e.g. information about pension statements of citizens	Government-to-business e.g. information about most recent legal regulations	Government-to-government e.g. exchange of diplomatic information

(From Strategies for e-business Jelassi T; Enders A. Prentice Hall 2005)

Organizational set-up

This stage is the largest one and encompasses a variety of decisions. First, depending on how large your company should be you need to determine the required scale of e-business activities along the value chain and analyze their cost structure.

In this context organizational set up deals also with decisions about quickness of entering markets and growth.

Second, the breadth of product/services you want to offer should be thought in terms of trade-offs involved. It especially applies to expanding product scope while increased sales and market share can be resulted in loss of internal focus (leadership in a niche) and dilution of the brand name.

The Internet itself offers a great possibility to establish partnerships to do e-business (e.g. Covisint.com).

In contrast to traditional business, e-business has a great influence of Internet. The Internet has reshaped industries' rivalry, barriers to entry, substitute products and the bargaining powers of buyers and suppliers, and actually making some industries more attractive for e-business potential. The Internet has just created new possibilities for value adding in non-technological industries such as in travel, cargo and stock trading.

E-commerce sites can address the question as to what else would the customers want to buy in addition to the current products/services (Amazon, Ebay).

E-business can be set up purely virtual, just consider new business opportunities that Web 2.0 offers. The mashup sites, sites that combine online content into integrated hybrid from different providers using application programming interfaces (APIs) are the latest development in virtual business opportunities.

Housingmaps.com “uses cartographic data from [Google Maps](#) to add location information to real-estate data from [Craigslist](#), thereby creating a new and distinct web service that was not originally provided by either source”.

Typically those specializing in real estate and in travel services are attracting venture capitalists and advertisers. In addition, Google and Microsoft are planning to place ads on their maps, and revenue from those ads could be shared with mashup operators.

The bricks-and-mortar companies embarking on e-business activities should align their physical world strategy and its e-strategy because the latter will definitely affect the strategic issues such as branding, pricing, IT and channel conflict. Another way of doing so in terms of organizational structure is, at the one end of the spectrum, complete integration of e-business into the existing organization or at the other end, setting up a new entity or a spin-off.

Finally, when identifying and analyzing e-business activities you need to decide which ones to perform in-house and which ones to outsource to external providers. There are a number of reasons in favor to “make” decisions as well as in favor “buy” decisions. As Dell examples shows, making the right “make-or-buy” decision can give sustainable competitive edge, however internal activities (in-house) ensure differentiation from the competitors. So far Dell approach of manufacturing, selling and servicing computers has been hard to imitate.

Business model

IT advances have brought considerable change in our economic world modifying or completely changing previous way of doing things. In fact, the Internet was quoted as the most significant innovation since the weal. The Internet has given rise to new kinds of business models. A business model is an essential part of a strategy. It concerns financials involved in business, both cost and revenue structures. In other words, business model spells out how a company makes money. The web is also likely to reinvent old models. Auctions and Brokerage are a perfect example. “The Web has popularized the auction model and broadened its applicability to a wide array of goods and services (e.g.Ebay).

Michael Rappa has made an attempt to present taxonomy of business models observable on the web. It is by no means definite as Internet business models continue to evolve. The basic categories of business models are following:

- **Brokerage**
- **Advertising**
- **Infomediary**
- **Merchant**
- **Manufacturer (Direct)**
- **Affiliate**
- **Community**
- **Subscription**
- **Utility**

For detailed description see Rappa’s site <http://digitalenterprise.org/models/models.html>

The cost structure in e-business probably focus on this question: How can we use the Internet to lower cost across the value chain? Ultimately, the cost determines the gross margin that has to cover the overheads and generate profits. For instance, high cost infrastructure or high marketing costs from the beginning will limit your business opportunities in small markets, since they are unlikely to generate enough revenues to cover costs.

The revenue structure based on aforementioned business models is likely to be as follows:

Advertising revenues (all segments) and *usage fees*, as is the case in P2P (peer-to-peer) e-commerce;

Transaction fees (B2B, B2C, C2C) and *information postage fee* (C2C); *Hosting fees*, *membership fees*, *subscription fees* (B2C, B2B);

Conclusion

The strategy formulation as a strategy per se is a very broad and ambiguous topic for a company. I tried to narrow it to my definite understanding by providing paper with quick look at the core concepts of strategy and its formulation roadmap. As you have noticed the formulation of strategy seems to be a challenging task. It really is, as long as you do not step up for its implementation. The implementation of a constructed strategy is the biggest challenge. Therefore the properly defined strategy – ends and means – is step for successful implementation. What we should bear in mind about strategy that people use it in four common ways highlighted by Henry Mintzberg:

1. Strategy is a plan, a "how to get from here to there,"
2. Strategy is a pattern in actions over time; for example, a company that regularly markets very expensive products is using a "high end" strategy.
3. Strategy is position; that is, it reflects decisions to offer particular products or services in particular markets.
4. Strategy is perspective, that is, vision and direction.

Finally, competitive advantage over rivals is the central point passing throughout all others components of strategy.

E-business companies persistently review strategy if better trade-offs can appear in changing reality. Managing strategy is a value adding activity that enables companies to play with strategy components like with Rubik's cube for greater benefits of the companies. Strategy should constantly sustain a company competitive advantage and growth. In fact, American business mantra for success is growth. No growth no successful company.

Strategy formulation roadmap is all about asking the right questions and giving the right answers. I presented the roadmap that contains six steps concerning decisions about: 1) vision; 2) quantifiable objectives; 3) a type of customer value; 4) target markets; 5) organization structure; 6) business model. Alternatively, you can come up with your own understanding or meaning of strategy and its formulation.

As we all agreed the Internet has changed the way of doing business. Nowadays, the rise of Internet-based start-up companies, such as revolutionary Amazon.com and Ebay.com is still possible. Yet, it is unlikely as the technology matures and e-business applications become established and standardized.

Over the last decade there has been a great debate over strategic importance of IT for an organization. The business people tend to overestimate the business savvy and underestimate IT. Their bottom line is *strategic value is how an organization sets itself apart from its competitors, sells more products at a lower cost and thereby increases shareholder wealth* but once every company has access to the same hardware, the same packaged software and the same network services, IT ceases to be a strategic differentiator. It is probably true; nevertheless it is hardly applied to Internet-related technology and e-business.

Strategic importance of Internet applications for e-business opportunities has been proved by many successful e-brand started by IT people or software engineers (Google, Amazon, Ebay, Yahoo and many others). Being there first often gives a great competitive edge in e-business.

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