

## 1.4. BUSINESS STRATEGY

### 1.4.1. Introduction

A business strategy is a set of plans for achieving superior long-term returns on the capital invested in a business firm. A business strategy is therefore a plan for making profits in a competitive environment over the long-term. Profit is simply the difference between the price a firm is able to charge for its products and cost of producing and distributing goods.

Profit represents economic value. Economic value is created anytime customers are willing to pay more for a product than it costs to produce. Why would anyone pay more for a product than it costs to produce? There are multiple answers. The product may be unique (there are no other suppliers), it may be the least costly product of its type available, consumers may be able to purchase the product anywhere in the world, or it may satisfy some unique needs that other products do not. Each of these sources of economic value defines a firm's strategy for positioning its products in the marketplace. There are four generic strategies for achieving a profitable business:

- 1) Differentiation,
- 2) Cost,
- 3) Scope, and
- 4) Focus.

### 1.4.2. Strategic Implications of IT

IT initially used for administrative automation. ICT (Information and Communications Technology) used for:

- 1) Intra-organisational systems,
- 2) Inter-organisational systems,
- 3) Public access networks (Internet), and
- 4) Mobile data communications.

The use of ICTs can have strategic implications for small and large organisations.

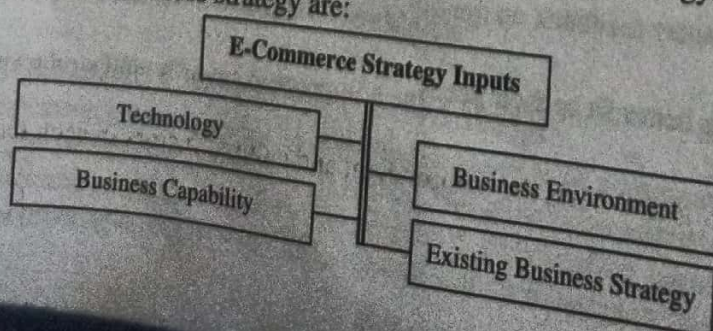
IT has and will continue to revolutionise management. Following are few contributions of IT:

- 1) Provides new ways to design organisations and new organisational structures.
- 2) Creates new relationships between customers and suppliers who electronically link themselves together.
- 3) Presents the opportunity for electronic commerce, which reduces purchasing cycle times, increases the exposure of suppliers to customers and creates greater convenience for buyers.
- 4) Enables tremendous efficiencies in production and service industries through electronic data interchange to facilitate just-in-time production.
- 5) Changes the basis of competition and industry structure, e.g., in the airline and securities industries.
- 6) Provides mechanisms through groupware for coordinating work and creating a knowledge base of organisational intelligence.
- 7) Makes it possible for the organisation to capture the knowledge of its employees and provide access to it throughout the organisation.
- 8) Contributes to the productivity and flexibility of knowledge workers.
- 9) Provides the manager with electronic alternatives to face-to-face communications and supervision.
- 10) Provides developing countries with opportunities to compete with the industrialised nations.

### 1.4.3. E-Commerce Strategy Inputs

Traditionally an IT strategy would be subservient to the business strategy. For e-commerce the IT strategy becomes a central component (or the determinant factor) in business strategy.

Inputs to an e-commerce business strategy are:





### 1.4.3.1. Technology

An E-commerce technology includes:

- 1) **EDI:** Streamline supply logistics and facilitate decreases in trade cycle times.
- 2) **Electronic Markets:** Re-define the operation of a market sector.
- 3) **Internet E-Commerce:** Provides new direct sales opportunities and novel business to business and business to consumer applications.

Internet e-commerce can be used to improve, transform and re-define business value:

Organisation	Source of Business Value
i) Improve it	a) Product promotion b) New direct sales channel c) Direct savings d) Time to market e) Customer service f) Brand image
ii) Transform it	a) Technological and organisational learning b) Customer relations
iii) Re-define it	a) New product capabilities b) New business models

### 1.4.3.2. Business Environment

All businesses operate within an external environment. They can influence that environment but their activities are also enabled or constrained by that environment. **Needle** identifies the environmental factors as the economy, the state, technology, labour and cultural factors. All of these factors need consideration in developing a business strategy; some of the ways they might be relevant to an e-commerce strategy are:

- 1) **Economy:** The economy in general and as it affects the relevant market sectors are obvious factors in strategy formulation. The view taken of the economy needs to focus on long-term trends as opposed to immediate problems. E-commerce can give an organisation the opportunity to spread its reach and hence the spread of any economic analysis needs to be broader.
- 2) **State:** The State influences the economy and sets the regulatory framework within which businesses operate. E-commerce has (or can have) a global spread and the applicability of the regulation of any individual state to this activity is often ambiguous; this can and does cause problems but is also seen as an opportunity by some less scrupulous online operations. E-commerce is generally seen as a positive development by governments and there can be initiatives to assist companies in its adoption.
- 3) **Labour:** The labour market will determine if an organisation can get the people and skills it needs for its operations. The regulation of the labour market and the strength of trade unions can also be a determinant in re-structuring a company. For e-commerce the availability of people with the requisite technical skills can be an issue. Also an issue is trade union reaction to any re-structuring or downsizing resulting from e-commerce implementation.
- 4) **Culture:** Culture varies in different countries and an appropriate way to operate in one country would not necessarily be successful in another; the differences between Japanese and western business cultures are frequently quoted examples of this. For an organisation wishing to use internet e-commerce the availability of home computers and the acceptance of their use for e-commerce, within a society, are important factors.

Analysing the environment is not an easy task. Some organisations will carry out a study generating masses of data, not all of which will be accurate or readily applied. For some aspects of the environmental analysis a model or method can be used and Porter's model to analyse the competitive environment is one such example.

Given that e-commerce operates on a global basis the environment and cultural factors in each target market are important factors.



### 1.4.3.3. Business Capability

A business idea, backed up by the imaginative use of technology, will only work if the business has the skills and infrastructure to operate it. Before any business goes into a new market, or massively expands in an existing market it needs to make sure it can do the job.

According to Needle, "knowledge of the resources and organisation possesses, and what can be done with them, is a prerequisite for future plans and establishes whether a gap exists between what management would like to do and what they can do".

This analysis is often referred to as **gap analysis**. At the basic level, the need is to check that existing capacity can cope with the expected demand or can be expanded to do so. Any requirement for expansion requires capital, people with appropriate skills and a management structure that can make a success of the larger organisation; the expansion may force a change in the organisational culture.

The introduction of e-commerce needs new skills and, in all probability, alters the way that business is done. The organisation needs to be sure that it can make a success of the new sales channel and also that its administration and production capacity can respond in a timely manner to the demands of an electronic sales channel.

The following are business capability of e-commerce:

- 1) **Improved Productivity:** Using e-commerce, the time required to create, transfer and process a business transaction between trading partners is significantly reduced.  
Furthermore human errors like duplication of records are largely eliminated with the reduction of data entry and re-entry in the process. This improvement in speed and accuracy plus the access to document and information will result in increase in productivity.
- 2) **Cost Savings:** The cost savings stem from efficient communication, quicker turnaround and closer access to market.
- 3) **Streamlined Business Process:** Use of internet and with automation of business process can make business more efficient.
- 4) **Better Customer Service:** Customer can enjoy the convenience of shopping at any hour and anywhere in the world.
- 5) **Opportunities for New Business:** Business over the internet have global customer reach. There are endless possibilities for business to exploit and expand their customer base.
- 6) **Local Proximity:** Local proximity (closeness) may no longer be a significant factor in retaining customer. Local markets will be replaced by global markets. Indeed it may bring to reality the goal of making the whole world as one family.

The businesses can have virtual project team, virtual learning space so that the employees who are dispersed over various countries can work together as if they are together in one physical room. Business can be connected to the retail points in order to ascertain market trends, demand of the products and with the suppliers upstream to order the desired requirements. Better demand forecasting and stock replenishment can lead to significant reduction in the cost.

- 7) **Transparency and Openness:** It will continue and will continue, to be effective business strategy. Already many businesses have started recognising key customers, employees and suppliers more like a partner in the business. E-commerce will lead to better customer service, more personalised products, reduced costs, supply chain efficiency and faster time to market. The most significant aspect of e-commerce is new market development. The e-commerce links and infrastructure, initially set up, can be successfully used in other sectors.

### 1.4.3.4. Existing Business Strategy

Very possibly the organisation already has a business strategy and this can and should be part of the evaluation of the e-commerce strategy.

The adoption of e-commerce by an organisation may be in a marginal activity or may involve the automation of an existing process, part of the normal evolution of business practice. Alternatively the adoption of e-commerce may imply a major change in the infrastructure of a business or the way that it conducts business.

#### E-Commerce and Business Strategy in an Electronic Age (Unit 1)

Examples of where e-commerce strategy could radically affect business strategy might be:

- 1) A decision to close down retail outlets and serve customers online.
- 2) Expansion into new geographical markets where the company previously did not operate.
- 3) A move from selling through local agents to selling direct.

In all cases the corporate business strategy needs to be an input to the e-commerce strategy. In cases where e-commerce is seen as a strategic system the business strategy will be modified or re-shaped by the adoption of the e-commerce strategy making the business strategy an output from the process.