ALBERTA efuturecentre

Strategic Planning

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Strategic Planning

Introduction

More and more companies are focused on learning more about e-business. Many firms embark on e-business because their competitors are practicing it or their customers want it. Often very little strategic planning is done before beginning this venture. As with any project or strategic initiative, firms need to ensure their e-business initiative is aligned with their corporate strategy—and that it does not conflict with the current goals, objectives, and values of the firm.

Why Do You Need an E-Business Strategy Model?

Many existing models do not work well for businesses that have a mix of traditional and e-business components. These types of hybrid businesses are often referred to as bricks-and-clicks, or mouse-and-mortar companies. The Internet and the growth of e-business are changing the rules of distribution, sales, industry boundaries, relationships, and competencies, providing small and medium-sized businesses the same opportunities previously available only to large corporations. In addition to the new opportunities, e-business also poses new challenges. Channel competition, brand erosion, and life cycle compression require strategies that have yet to be developed.

Why E-Business Strategies Fail

The main reason why management tools fail is owing to a lack of alignment with the corporate strategy. These management tools are often adopted in isolated regions of the company, with little regard to the intended strategic direction of the organization. For example, if your corporate strategy focuses on driving customers into your successful retail store chain, it doesn't make sense to sell your products online at a discount. If the products you produce usually get to your customers through a successful channel market, you would be undercutting the channel by selling online.
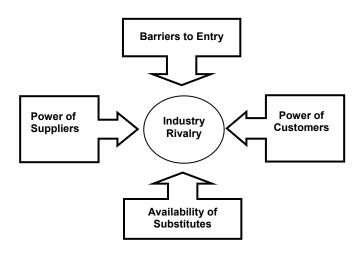
Businesses that have failed to align their activities with their strategy have experienced severe consequences, such as reduced profitability, loss of competitive advantage, and even bankruptcy.

Traditional Strategies

A number of strategy models have been developed to help analyze organizational and business issues in a company, and to determine an effective strategic plan.

Competitive Analysis Model

Source: Michael E. Porter

How Competitive Forces Shape Strategy

The Model examines the influence of five specific forces on competition:

1. **Barriers to entry**

    If the barriers to enter the industry are low, threat to existing competitors that new firms will enter the market is increased. These new competitors will fight for a share of the market and often acquire substantial resources from the industry.

2. **Power of suppliers**

    Suppliers want to charge the highest possible prices for their products, leading to a power struggle between firms and suppliers. The advantage is held by the side with less to lose when the

relationship is terminated. For example, a supplier that sells a unique product to many customers holds a strong position. On the other hand, a supplier that produces most of its output for a single customer is in a weak position, especially if there are substitute products available from other suppliers.

3. **Power of buyers**

    Similar to the power of suppliers, buyers can be powerful if they can dictate prices. This can occur when there are many suppliers and only a few buyers.

4. **Availability of substitutes**

    Companies must assess the potential threat posed by substitute products and be aware that these threats do not always come from traditional competitors. For example, postal services compete with couriers and even fax machines.

5. **Industry rivalry**

    All of the above converge in the fifth force, rivalry. As a result, firms may choose to compete aggressively, coexist, or cooperate in a close alliance. The direction that a firm chooses depends on the relative strengths and weaknesses of the factors involved. For example, it is often the threat of substitutes that leads to the formation of strategic alliances.

    While this approach gives an analysis of the current industry, it does not address new entrants that may come into the market with different assumptions about the industry and market orientations.

SWOT Analysis

A SWOT analysis evaluates the strengths and weaknesses of the organization and the opportunities and threats to the organization in the industry. It is often used as a basis for strategic planning.

Strengths and weaknesses are internal components of an organization and can be difficult to identify. Often, organizations themselves simply do not understand their own strengths or weaknesses.

Opportunities and Threats are external. Organizations must find opportunities to leverage an advantage over the competition and identify potential threats to their own business. Identifying threats can be a problem, as they often come without warning.

SWOT analysis is a useful technique but the questions used during the analysis phase must be carefully structured to ensure that the resultant strategy is based on sound information. This model, too, does not address opportunities and threats that are based upon a new set of business assumptions that involve technology and the Internet.

Resource Based View

The Resource Based View (RBV) of a company builds on the above strategies but takes a wide view of all the resources available. RBV recognizes that companies are not all alike —they have different experiences, skills, and cultures. A company will succeed if it has the necessary resources. These may be physical items, such as buildings, telephones, or computers. Or they may be intangible items, such as ability, knowledge, and/or intellect.

Developing a Strategic Plan

A strategic plan aligns an organization's goals, values and activities, to create a sustainable competitive advantage. It focuses on the long-range goals of the business and defines how the goals will be reached. Strategic plans include the definition of missions, visions and objectives, which provide the basic direction and focus of the organization.

When developing a strategic plan, you first need to answer these questions:
- What business are you in?
- What should be the geographical scope of your operations?
- What are your research and development goals?
- How should products be sourced?
- Where are your organization's weaknesses?
- Where are your organization's strengths?

Bridging the Gap between Traditional and Pure-Play Models

An increasing number of businesses are finding that in order to optimize their business offering, they can no longer rely solely on traditional business models, or on the existing pure-play strategies. These businesses have become hybrid companies that borrow strategies from both model types.

A "Pure-Play" E-Business Model dictates that a business' primary mode of operation is via the Internet. This includes matters of order processing and remediation. In the e-business world, pure-play companies are decreasing, as they discover that the Internet alone cannot effectively sustain every level of their business delivery. For example, Amazon.com began with a pure-play model, but because this model did not effectively support the company's buying and distribution process, Amazon eventually opened its own bricks-and clicks distribution centers to increase efficiency.
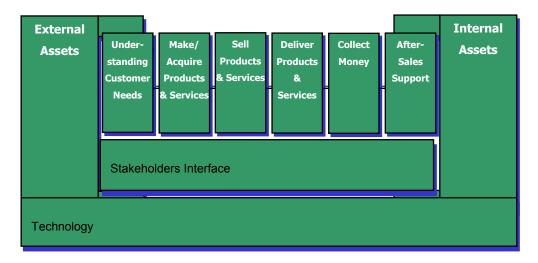
A Business Web is an elaborate network of suppliers, distributors and customers that conduct business via the Internet and other electronic media. A business web is the generic model for wealth creation in the digital economy and is quickly replacing traditional corporate models of the industrial economy.

The industrial economy was characterized by mega corporations that were directly involved in every aspect of the business process, from product creation and sales, to product distribution. Business webs challenge every aspect of this traditional approach to business. They are rapidly emerging as the new corporate form, characterized by businesses coming together to create value for customers, and wealth for shareholders.

The **Core Business Model** was developed to overcome the limitations of the traditional and pure-play models, to bridge the gap between them, and to develop a sustainable competitive advantage in the Internet economy.

The Core Business Model Strategy

External Assets	Under-standing Customer Needs	Make/ Acquire Products & Services	Sell Products & Services	Deliver Products & Services	Collect Money	After-Sales Support	Internal Assets
	Stakeholders Interface						
Technology							

Classic business models do not fully address the unique advantages and challenges presented by the Internet. The *Core Business Model* (CBM) is a new business model specifically designed to assist companies in developing their e-business strategy.

The Core Business Model exploits existing assets (both tangible and intangible) to maximize productivity, or they are leveraged into new opportunities through carefully planned deployment using technology.

The model asks what intangible assets a firm holds in several key areas, including:

- The firm's understanding of its customer requirements
- How it makes/acquires products or services
- Selling its products or services
- Delivering the products or services
- Collecting money from customers
- And providing after sales support (if applicable)

These key areas make up the core business process of most companies with varying degrees of activity in each of the areas. The main advantage of the Core Business

Model is its ability to provide a cross functional view of the elements that comprise your business, and assess the Internet-enablement potential of each.

The Core Business Model makes the following assumptions about a business:

- It will remain in its current lines of business
- It wants to lever existing investments
- Information delivery is important
- It wants to produce a model for sales channel coexistence

Best practices associated with web-enabling each step of the business process will be examined along with some specific requirements of each step.

Understand Customer Requirements

Companies can gain a better understanding of their customers' requirements by creating interactive web sites where customers can offer advice on product or service design and delivery. Techniques such as online surveys are quick and easy ways to obtain feedback directly from customers.

Make or Acquire Products or Services

Some companies have implemented their own online procurement system to manage the purchase of everything from pencils to computers. Rather than completing paper requisitions for office supplies, employees choose items from a web catalogue, which is electronically sent to approved vendors. This method allows the company to capitalize on volume purchases and to find the best deals available. Of course, you don't have to invest in your own system to achieve savings. The Internet provides access to a wide range of products and services, as well as the means to compare prices.

Sell Products or Services

As with any business, to sell a product or service on the web, you need an edge. The 24 hour a day, 7 day a week access provided by the Internet is not enough. You need to provide additional services or added value, such as comprehensive after-sales support.

Some types of goods are ideal for selling over the Internet; others are less suitable. For example, Amazon.com aims to make book buying fast and easy. Most people buy books based on the information contained on the jacket, or after reading a book review. Or, they may simply like the previous work of the author. Because all of this information can be displayed effectively on an e-business site, selling books over the web works well. Other products offer a greater challenge. How would you sell made-to-measure suits, for example?

People buy goods over the Internet if there is an advantage, such as convenience, cost, or speed. But they still need to know what they're buying. This is one important reason why the combination of an online and traditional retail outlet works well. Customers can view information online and then visit the retail store, or they can check out the goods on display in the store and then buy online.

Deliver Products or Services

Dell Computer Corporation provides an excellent system for customers to check the status of their orders. The Dell system provides an increased level of support while reducing the costs. Using the Internet, customers check the status of their orders by specifying order and verification information. Like all Internet-based services, the system is available 24 hours a day.

Single or multiple orders can be tracked to obtain information, such as:

- Build-to-order status
- Estimated shipping date
- Carrier shipping status

Collect Money

In order for a company to find a suitable online payment system that effectively meets its business needs and the needs of its customers, there are a number of things to consider, including technical issues, cost, security and tax implications. Currently, the two most popular methods of online payment for consumers are credit card payments, and micropayments. Even though credit card payment is the ruling method of payment on the Internet today, it is not suited for every kind of online transaction.

Credit card payment transactions are best suited for high value payments, which are generally over $10. Customers submit their order, along with their credit card details, to the seller. Before the seller fulfills the order, the customer's credit details are sent to a trusted third party (typically the credit card company), who verifies the transaction, and charges the seller a processing fee.

From the customer's point of view, there are valid concerns about the security of credit card purchasing over the Internet. Not all credit card payment systems offer an acceptable level of security. In a secure credit card transaction, a credit card company serves as a trusted third party, and the buyer and seller are authenticated by personal identification numbers sent through a secure web connection. If a trusted third party isn't used, the credit card information is sent directly from the buyer to the seller in an encrypted and signed form. Unless the level of encryption is sufficiently high, uninvolved parties can gain access to the credit card information.

Provide After-Sales Support

Customer support is instrumental to the long-term success of any business. Often firms focus on customer acquisition, which costs substantially more than customer retention. Because of this, the tactic of replacing dissatisfied clients with new ones does not support long-term growth. It's important to keep in mind that people who do business over the Internet are inclined to expect service 24 hours a day. In addition, they expect to get at least the same quality, speed, and effectiveness of service that they would if they walked into a store, or placed an order over the phone. Regardless of the type of e-business, effective customer service is marked by certain characteristics. For example, an after-sales support system should strive to solve customer problems, while anticipating difficulties before they arise. Effective customer support also provides customers with quick responses to their concerns, and gives them the ability to track the status of product orders.

External & Internal Assets

In the Core Business Model, the steps within the business process need to be leveraged with respect to the *external* and *internal* assets of the company. Internal assets include not only tangible resources, but also intangible resources such as an employee's skills and knowledge. External assets include all other resources

available to your company. For example, a co-branding relationship you have with another company is an external asset.

In the Core Business Model, these assets are exploited to provide additional products or services, enhance efficiency, or build customer loyalty through the careful use of the Internet. A key aspect of the Core Business Model is that existing assets are leveraged, not damaged, by web-enabling your business.

Stakeholders Interface

Stakeholders in your company can include anyone who has an interest in the success of the business. This may include customers, shareholders, and employees. In the Core Business Model, the interface between stakeholders and the company, along each step of the business process, is examined to focus on the advantages technology can offer. For example, the Internet might be used to facilitate communication between the company and its customers, shareholders, and employees.

The Core Business Model also addresses the interface between stakeholders and your company's *assets*. For example, communication with *potential* employees or business partners might be facilitated using web technology. By posting desired employment traits or partnership criteria on your web site, you could facilitate a dialogue with valuable resources that you might otherwise never have begun.

Technology

In every phase of your business process, the potential use of primarily Internet technology is analyzed. However, the analysis should also include other potential enablers, such as:

- Intranets
- Virtual private networks (VPN)
- Personal digital assistants (PDA)
- Telephony systems such as interactive voice response (IVR)

The distinction between different types of technology, however, is becoming blurred. For example, cell phones now provide access to the web. With the growth in the convergence of technologies, these distinctions will continue to dissolve.

Summary

It is important to develop a strategic plan that includes Internet related goals or objectives. Having strategic goals or objectives that clearly define your organization's Internet or web enablement goals will ensure that they do not conflict with the existing strategy. The Core Business Model assists firms to implement the Internet strategy while still meeting the current practices of the firm.