

Digital Innovation of Business Models

Topic #2: External Analysis: The Impact of the Internet on the Macro-environment and on the Industry Structure of e-Business Companies

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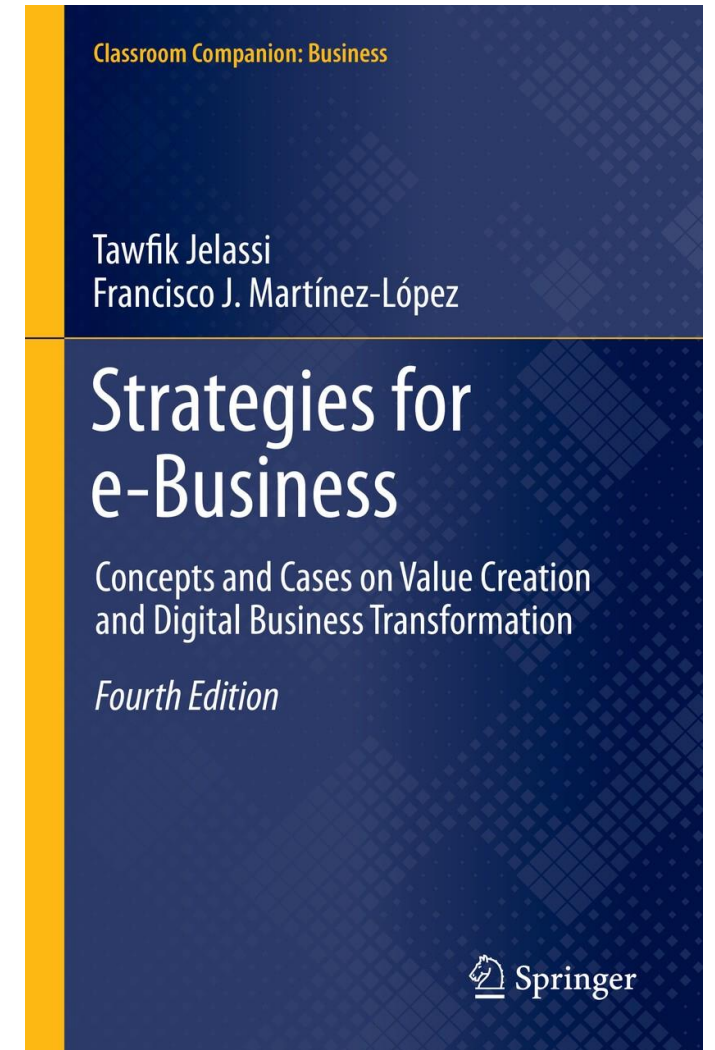
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Required reading

- Chapter 3 · External Analysis: The Impact of the Internet on the Macro-environment and on the Industry Structure of e-Business Companies

Source: Jelassi, T., & Martínez-López, F. J. (2020). *Strategies for e-business: Concepts and cases on value creation and digital business transformation*. Springer Nature.

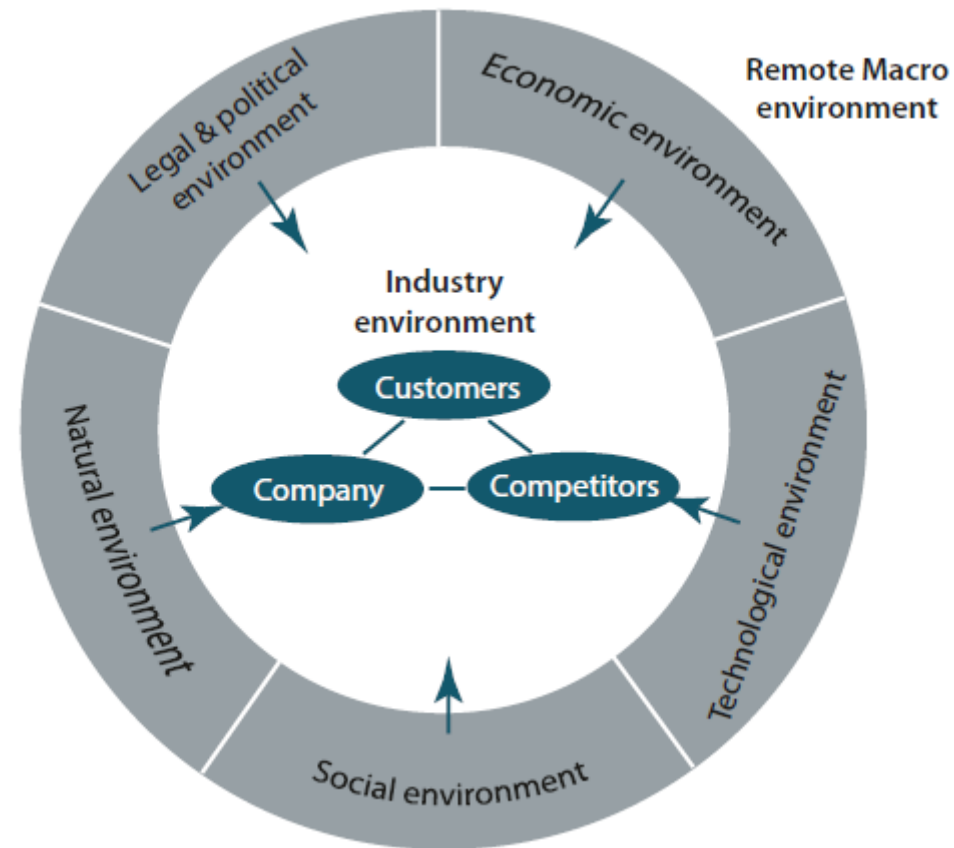


Learning objectives

After completing this chapter the reader should be able to:

- Analyze trends in the macro-environment and explain their implications for e-business ventures
- Understand the value of the five forces industry framework for the analysis of industry attractiveness
- Explain the key characteristics of the co-opetition framework and show how it expands the five forces industry framework
- Define industries, segment, and target markets for e-business applications

Examining Trends in the Macro-environment



Examining Trends in the Macro-environment

PESTLE Analysis

| P POLITICAL | E ECONOMICAL | S SOCIAL | T TECHNOLOGICAL | L LEGAL | E ENVIRONMENTAL |
|---|---|--|--|---|--|
| Example: <ul style="list-style-type: none">• Current tax policy• Brexit• Trade policies• Political stability• Government policy | Example: <ul style="list-style-type: none">• Inflation rate• Exchange rates• Economic growth• Interest rates• Disposable income• Unemployment rate | Example: <ul style="list-style-type: none">• Lifestyle attitudes• Cultural barriers• Population growth• Population age• Health consciousness• Target demographics | Example: <ul style="list-style-type: none">• Level of innovation• Automation• Technological awareness• Cybersecurity• Technological change• Internet availability/speed | Example: <ul style="list-style-type: none">• Employment laws• Discrimination laws• Health and safety• Copyright protection• Consumer safety | Example: <ul style="list-style-type: none">• Weather• Climate change• Environmental policies• NGO pressure• Recycling• Pollution• Sustainability |

Examining Industry Structure with the Five Forces Framework

This is all about the attractiveness of an industry



Industry Rivalry

Industry rivalry occurs when firms within an industry feel pressure or the opportunity to enhance their existing market position.

- *Large number of competitors*
- *Little differentiation between products (internet effect?)*
- *Low growth rate of the industry*

Barriers to Entry

- Barriers to entry determine **the threat of new competitors entering the market of a specific industry**. New entrants, **bringing additional capacity and the desire to gain market share**, have two negative effects on the attractiveness of an industry. Firstly, **new entrants take away market share** from existing incumbent companies. Secondly, **they bid down prices**, which in turn reduces the profitability of incumbents.
- *High fixed costs (internet effect?)*
- *Trust and brand loyalty (internet effect?)*
- *A steep learning curve*
- *High switching costs and strong network effects (Facebook, eBay)*

Substitute Products

- The intensity of pressure from substitute products depends on the availability of similar products that serve essentially the same or a similar purpose as the products from within the industry.
- the real substitutive power of products must also be assessed taking into account the **price** of these products and buyers' **switching costs** as well.
- What is the effect of internet?

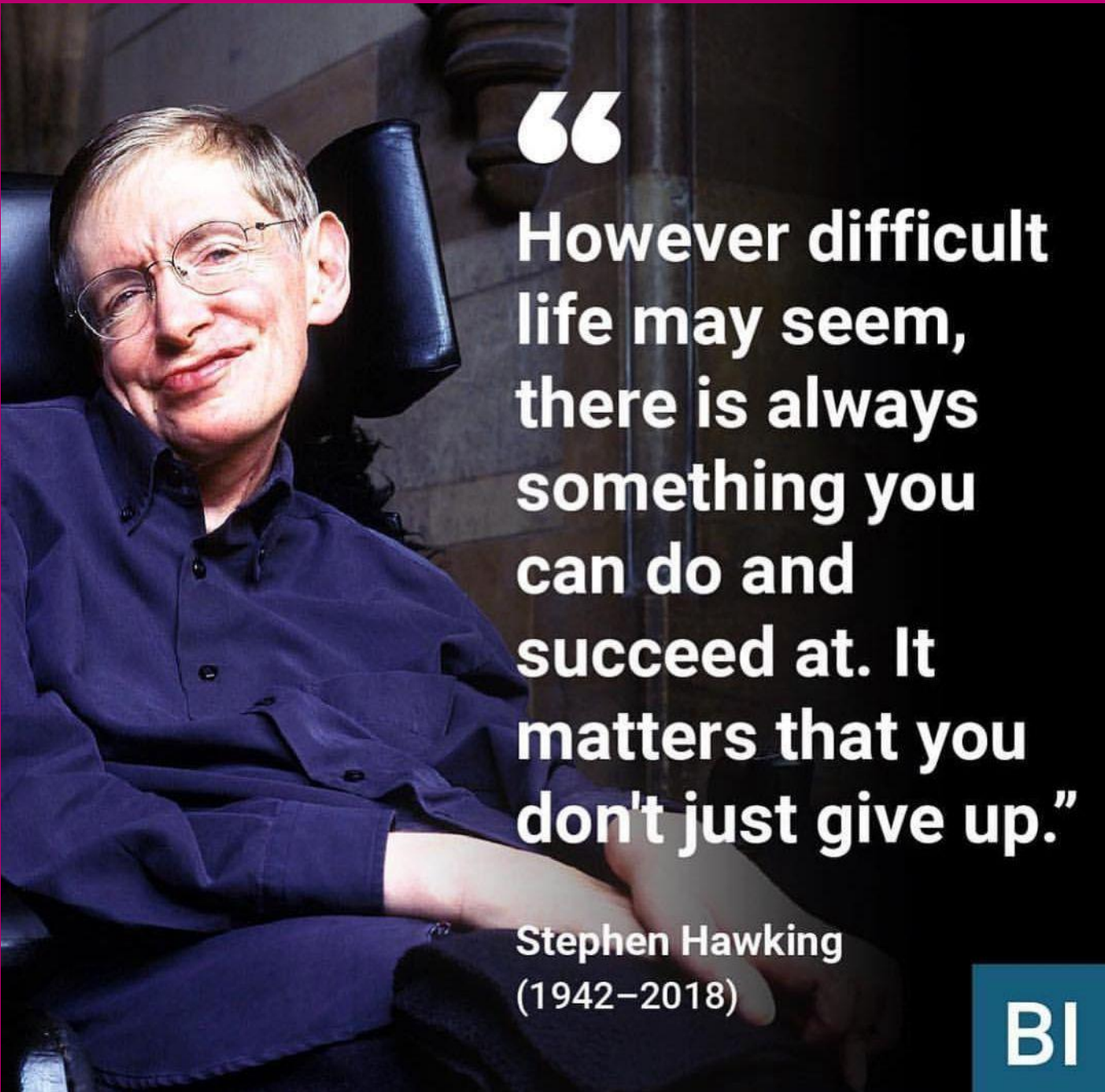
Bargaining Powers of Buyers and Suppliers

The bargaining power of buyers tends to be high (and that of suppliers low) if the industry displays the following characteristics:

- *High concentration of buyers*
- *Strong fragmentation of suppliers*
- *A high degree of market transparency (internet effect?)*
- *Products are increasingly becoming commodities*
- *Low switching costs and weak network effect*

Complementing the Five Forces Framework with the Co-opetition Framework

- While the five forces framework focuses on the potential **negative effects** that market participants might have on the industry attractiveness, the co-opetition framework enriches this perspective by highlighting that interactions with other players can also have a **positive impact** on profitability.
- *Joint setting of technology and other industry standards, to set industry standards for instance.*
- *Joint developments (Covisint developed by General Motors, Ford, and DaimlerChrysler, or some automobile manufacturers joined to compete with Tesla electric cars.*
- *Joint lobbying: for favorable legislation for instance*



“
However difficult
life may seem,
there is always
something you
can do and
succeed at. It
matters that you
don't just give up.”

Stephen Hawking
(1942–2018)



**Thank you for your
attention!**

Questions, comments or remarks?

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