# MUNI ECON Digital Innovation of Business Models

Topic #3: Internal Analysis: e-Business Competencies as Sources of Strengths and Weaknesses

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# **Required reading**

Chapter 4 · Internal Analysis: e-Business
 Competencies as Sources of Strengths and
 Weaknesses

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

Tawfik Jelassi Francisco J. Martínez-López

### Strategies for e-Business

Concepts and Cases on Value Creation and Digital Business Transformation

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Fourth Edition

# Learning objectives

#### After completing this chapter the reader should be able to:

- Understand the meaning of core competence in e-business
- Assess the impact of the Internet on the value chain
- Appreciate how a company can leverage the virtual value chain
- Understand the four virtual spaces of the ICDT (Information, Communication, Distribution, and Transaction) framework
- Apply the ICDT framework for selecting activities suited for e-business
- Recognize that companies move from managing an internal value chain to operating along a value network

### **Competencies**

a *competence* is a combination of resources and capabilities:

- Resources are all the tangible and intangible assets of a firm that can be used in the value creation process. Tangible resources include assets such as IT infrastructure, bricks-and-mortar infrastructure, and financial capital. Intangible resources include employee knowledge, licenses, patents, brand name, and corporate reputation.
- Capabilities represent the ability of a firm to use resources efficiently and effectively. Skills manifest themselves in the design of processes, systems, and organizational structures.

### **Core Competencies**

not all competencies of a firm are necessarily *core competencies*. In order for a competence to be considered as core, it needs to be:

- Valuable
- Unique
- Hard to imitate (tightly interlinked participation of many functions or divisions of the firm, causal ambiguity)

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– Valuable across different products or markets

# **Background to Porter's Value Chain Model**

#### Why we use it

Understanding the diverse ways a business expends its limited resources can be a considerable challenge.

Porter's Value Chain Model is a framework that helps analyze a company's internal processes and activities to identify areas where value can be added and costs can be reduced.

As a tool for business strategy, it helps us understand the sources of value creation in a company and how that company can improve its competitiveness.

#### How it works

The Value Chain Model unpacks all your business activities following these steps:

1. Identify the primary and support activities in your value chain

2. Assess the cost and value of each activity

3. Identify areas for improvement,

based on the cost and value analysis.

- 4. Develop an action plan for
- implementing changes to the value chain.
- 5. Implement and monitor.

#### What is the goal

The Value Chain Model 's goal is to help you understand all the activities that occupy your business's resources and **identify areas of potential savings, development, and innovation.** 

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### **Porter's Value Chain Model Definition**

Understanding the diverse ways a business expends its limited resources can be a considerable challenge. Porter's Value Chain Model attempts to make this process easier by dividing everything a business does into two baskets: primary activities and secondary activities. According to the model, primary activities include all the work and investment necessary for the business to bring value to its customers. **Primary activities include:** 

- 1. Inbound Logistics
- 2. Operations
- 3. Outbound Logistics
- 4. Marketing and Sales
- 5. Service

#### Secondary activities include:

- 1. Procurement
- 2. Technology Development
- 3. Human Resource Management
- 4. Infrastructure
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#### PORTER'S VALUE CHAIN MODEL

	Firm Infrastructure	<ul> <li>Company's support system and the functions that allow it to maintain operations</li> <li>Includes all legal, administrative and accounting</li> </ul>					
Support Activities	Human Resources	and sell the product > Involve in the process o	<ul> <li>&gt; Hiring and retaining employees who will fulfill business strategy, as well as help design, market, and sell the product</li> <li>&gt; Involve in the process of delivering the finished product</li> <li>&gt; A source of competitive advantage when customer purchasing a service</li> </ul>				
Support /	Technology	<ul> <li>For example, a business</li> </ul>	s working towards to reduce t	duct and improving and autom the inventory and labor waste ock accuracy and minimize lab	by implementing		
	Procurement	This relates heavily to in	nbound logistics where comp	<ul> <li>Process of acquisition of inputs, raw materials or resources, for the firm</li> <li>This relates heavily to inbound logistics where company is looking for resale the goods they procure.</li> <li>For example in case of an e-commerce business</li> </ul>			
	Inbound Logistics	Production/Operations	Outbound Logistics	Marketing and Sales	Customer Service		

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- Step 1: Understand the Value Chain: Before diving into analysis, it's crucial to have a comprehensive understanding of the entire value chain. This involves mapping out all the activities involved in the creation, production, and delivery of your product or service.
- Step 2: Identify Primary and Support Activities: Once the value chain is understood, the next step is to identify both the primary and support activities within your organization.
   Primary activities directly contribute to the creation of value, while support activities enable the primary activities to function efficiently.

- Step 3: Analyze Each Activity: With the primary and support activities identified, analyze each activity to determine its contribution to value creation and competitive advantage.
   Assess how each activity impacts product quality, customer satisfaction, and overall profitability.
- Step 4: Identify Areas of Competitive Advantage and Opportunities for Improvement:
   During the analysis, identify areas where your company holds a competitive advantage
   compared to rivals. Simultaneously, pinpoint areas where improvements can be made to
   enhance efficiency, reduce costs, or differentiate your offering.

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- Step 5: Identify Cost Drivers: Understanding the cost structure associated with each activity is crucial. Identify the key cost drivers for each activity and evaluate their impact on overall profitability. This analysis helps prioritize areas for cost reduction or optimization.
- Step 6: Develop Strategies: Based on the analysis conducted, develop strategies to capitalize on areas of competitive advantage and address areas for improvement. These strategies may involve process optimization, technology adoption, or strategic partnerships.

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Step 7: Implement and Monitor: Once strategies are developed, implement them across the organization and closely monitor their effectiveness. Regularly assess performance metrics to ensure that the implemented strategies are achieving the desired results. Adjust strategies as needed based on monitoring and feedback.

### PORTER'S VALUE CHAIN MODEL:

	Firm Infrastructure	<ul> <li>Company's support system and the functions that allow it to maintain operations</li> <li>Includes all legal, administrative and accounting</li> </ul>					
Activities	Human Resources	and sell the product <ul> <li>Involve in the process or</li> </ul>	<ul> <li>&gt; Hiring and retaining employees who will fulfill business strategy, as well as help design, market, and sell the product</li> <li>&gt; Involve in the process of delivering the finished product</li> <li>&gt; A source of competitive advantage when customer purchasing a service</li> </ul>				
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	Inbound Logistics	Production/Operations         Outbound Logistics         Marketing and Sales         Customer		Customer Serv	vice		
Primary Activities	Amazon sources products from suppliers around the world and transports them to its fulfillment centers. Advanced logistics and inventory management systems optimize its inbound logistics and ensure that products are available for sale in a timely manner.	<ul> <li>Orders are processed and prepared for shipment through Amazon's fulfillment centers. The company utilizes advanced automation technologies and robotics to streamline its operations and improve efficiency and reduce labor costs.</li> </ul>	Amazon ships products to customers around the world using a network of carriers and logistics partners. It provides fast and convenient service through a range of delivery options.	<ul> <li>Its website, mobile app, and social media platforms give Amazon a variety of ways to reach customers. The company also offers personalized product recommendations and targeted advertising to enhance the customer experience.</li> </ul>	Amazon places a strong emphasis on providing high-quality customer service, including fast and eas returns, 24/7 custom support, and a range of self-service option Amazon Prime is a loyalty program that provides customers w free shipping, exclusi discounts, and other benefits in addition t supplying the compar with more revenue.	sy er is. vith ive o	

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### **Porter's Value Chain Example: Amazon**

#### **Primary Activities**

- Inbound Logistics: Amazon optimizes inventory management and transportation to ensure the timely availability of products.
- Operations: Utilizing advanced technologies like robotics, Amazon streamlines its e-commerce platform and fulfilment centres for efficiency.
- Outbound Logistics: With an extensive distribution network, Amazon offers various delivery options for swift and accurate order fulfilment.
- Marketing and Sales: Amazon employs targeted marketing and its Prime membership program to drive customer engagement and loyalty.
- Service: Amazon prioritizes customer service, offering round-the-clock support and hassle-free returns for an enhanced customer experience.

### **Porter's Value Chain Example: Amazon**

#### **Support Activities**

- Procurement: Amazon negotiates favourable terms with suppliers and fosters strong supplier relationships for a reliable supply chain.
- Technology Development: Continuous innovation in AI and logistics optimization enables Amazon to enhance operational efficiency and customer experience.
- Human Resource Management: Amazon invests in talent acquisition and development, offering competitive compensation and a diverse work environment.
- Firm Infrastructure: Amazon's leadership ensures strategic direction, financial management, and regulatory compliance for sustained growth and success.

### PORTER'S VALUE CHAIN MODEL: STARBUCKS

	Firm Infrastructure	<ul> <li>Company's support system and the functions that allow it to maintain operations</li> <li>Includes all legal, administrative and accounting</li> </ul>					
Activities	Human Resources	and sell the product > Involve in the process o	<ul> <li>Hiring and retaining employees who will fulfill business strategy, as well as help design, market, and sell the product</li> <li>Involve in the process of delivering the finished product</li> <li>A source of competitive advantage when customer purchasing a service</li> </ul>				
Support /	Technology	<ul> <li>For example, a business</li> </ul>	working towards to reduce t	luct and improving and autom he inventory and labor waste ock accuracy and minimize lab	by implementing		
	Procurement	> This relates heavily to in	f inputs, raw materials or reso abound logistics where comp an e-commerce business	ources, for the firm any is looking for resale the g	oods they procure.	a	
	Inbound Logistics	Production/Operations	Outbound Logistics	Marketing and Sales	Customer Service		
Primary Activities	<ul> <li>Starbucks sources high-quality coffee beans from around the world and transports them to its roasting facilities. The company also purchases other raw materials, such as milk and syrups, to be used in its beverages. Focusing on quality allows them to charge higher prices and sell the experience of visiting one of their stores.</li> </ul>	At its roasting facilities, Starbucks roasts and packages the coffee beans into various blends and flavors. In its stores, the company prepares beverages and food items, trains employees, and maintains equipment and facilities. These centralized facilities allow for economies of scale without sacrificing quality.	Starbucks distributes its packaged coffee and merchandise products to its retail stores and other distribution channels. The company also uses a network of suppliers and distribution centers to supply its stores with raw materials and other products.	<ul> <li>Starbucks is an excellent example of brand development utilizing marketing efforts, including advertising, social media, and in-store promotions. Their stores are designed to provide a unique and comfortable environment for customers. Employees are trained in providing a particular customer service experience.</li> </ul>	<ul> <li>Starbucks places         <ul> <li>a strong emphasis on             providing high-quality             customer service,             including personalized             interactions and             customized beverage             options. A loyalty             program, mobile             ordering, and other             services enhance the             customer experience.</li> </ul> </li> </ul>	5	

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### **Porter's Value Chain Example: Starbucks**

#### **Primary Activities**

- Operations: Starbucks has established state-of-the-art roasting facilities where coffee beans are expertly roasted to perfection. The company's baristas are trained extensively to uphold the highest standards in brewing and beverage preparation, ensuring that every cup of coffee meets customers' expectations
- Outbound Logistics: Starbucks operates a vast network of stores worldwide, strategically located to reach a broad customer base.
   The company's efficient distribution system ensures that freshly roasted coffee beans and other supplies are delivered promptly to each store, maintaining product availability and freshness.
- Marketing and Sales: Starbucks is renowned for its innovative marketing strategies and iconic brand image. Through captivating advertising campaigns, social media engagement, and experiential marketing initiatives, Starbucks effectively communicates its brand values and fosters emotional connections with customers. The company's loyalty program, mobile app, and seasonal promotions further drive customer engagement and sales.
- Service: Starbucks prioritizes customer satisfaction by delivering exceptional service at every touchpoint. Whether in-store or through digital channels, Starbucks ensures a personalized and seamless experience for customers. The company's friendly and knowledgeable staff, coupled with its commitment to product quality and consistency, reinforces customer loyalty and advocacy.

### **Porter's Value Chain Example: Starbucks**

#### **Support Activities**

- Procurement: Starbucks meticulously selects suppliers and partners who share its commitment to ethical sourcing and sustainability.
   The company's Coffee and Farmer Equity (C.A.F.E.) Practices promote fair labor practices, environmental stewardship, and community support across its supply chain.
- Technology Development: Starbucks embraces technological innovation to enhance operational efficiency and customer convenience. The company's mobile ordering and payment systems, along with its digital loyalty program, leverage cutting-edge technology to streamline transactions and drive customer engagement.
- Human Resource Management: Starbucks invests in its employees through comprehensive training programs, competitive compensation packages, and opportunities for career advancement. The company's inclusive and diverse workplace culture fosters employee satisfaction and retention, contributing to operational excellence and customer satisfaction.
- Firm Infrastructure: Starbucks maintains robust systems and processes to support its global operations. From supply chain management and inventory control to financial management and regulatory compliance, Starbucks' infrastructure ensures operational resilience and organizational effectiveness.

### PORTER'S VALUE CHAIN MODEL: TESLA

	Firm Infrastructure	<ul> <li>Company's support system and the functions that allow it to maintain operations</li> <li>Includes all legal, administrative and accounting</li> </ul>					
Activities	Human Resources	and sell the product > Involve in the process o	<ul> <li>Hiring and retaining employees who will fulfill business strategy, as well as help design, market, and sell the product</li> <li>Involve in the process of delivering the finished product</li> <li>A source of competitive advantage when customer purchasing a service</li> </ul>				
Support /	Technology	> For example, a business	s working towards to reduce t	luct and improving and autom the inventory and labor waste ock accuracy and minimize lab	by implementing		
	Procurement	This relates heavily to in	of inputs, raw materials or res nbound logistics where comp an e-commerce business	ources, for the firm any is looking for resale the g	oods they procure.		
	Inbound Logistics	Production/Operations	Outbound Logistics	Marketing and Sales	Customer Serv	vice	
Primary Activities	<ul> <li>Tesla sources raw materials, such as lithium and nickel, and components from suppliers around the world and transports them to its production facilities. The company also produces its own battery cells and modules at its Gigafactory in Nevada.</li> </ul>	<ul> <li>At its production facilities, Tesla designs, manufactures, and assembles electric vehicles, energy storage systems, and solar products. The company uses advanced manufacturing technologies, such as robotics and automation, to improve</li> </ul>	<ul> <li>Tesla ships its products to customers around the world using a combination of its own logistics network and third-party carriers, though they've encountered pushback from traditional car dealerships. The company also offers delivery and installation services for</li> </ul>	<ul> <li>Tesla markets and sells its products</li> <li>through its website, company-owned stores, and a network of authorized dealerships.</li> <li>Digital marketing and social media platforms reach customers and promote its products, and the company's leader, Elon Musk, has cultivated a public presence that attracts many potential</li> </ul>	<ul> <li>The company offers maintenance and repair services, over-lair software updates, 24/7 roadside assista The company also off a range of customer support options, such online chat and phon support, to enhance la customer experience</li> </ul>	, and nce. fers n as e the	

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### **Porter's Value Chain Example: Tesla**

#### **Primary Activities**

- Inbound Logistics: Tesla optimizes its inbound logistics by strategically sourcing raw materials and components for its electric vehicles. By maintaining strong relationships with suppliers and leveraging advanced procurement strategies, Tesla ensures a steady supply of high-quality inputs for its manufacturing process.
- Operations: Tesla's manufacturing operations are characterized by innovative production processes and cutting-edge technology. The company's vertically
  integrated manufacturing facilities enable it to control the entire production process, from battery production to vehicle assembly, resulting in greater
  efficiency and quality control.
- Outbound Logistics: Tesla's outbound logistics focus on delivering vehicles to customers in a timely and cost-effective manner. The company utilizes a combination of direct sales, online ordering, and efficient distribution channels to streamline the delivery process and minimize lead times.
- Marketing and Sales: Tesla employs a unique marketing and sales strategy that emphasizes brand awareness, product differentiation, and customer engagement. Through innovative marketing campaigns, word-of-mouth referrals, and a strong online presence, Tesla has successfully built a loyal customer base and achieved widespread recognition for its electric vehicles.
- Service: Tesla prioritizes customer service and support to enhance the ownership experience for its customers. The company offers comprehensive warranty coverage, proactive software updates, and responsive customer support to address any issues or concerns promptly.

### **Porter's Value Chain Example: Tesla**

#### **Support Activities**

- Procurement: Tesla's procurement strategy focuses on securing the best possible terms and pricing from suppliers while maintaining high standards of quality and sustainability. By negotiating long-term contracts and fostering collaborative relationships with suppliers, Tesla minimizes procurement costs and ensures a reliable supply chain.
- Technology Development: Tesla is at the forefront of technological innovation in the automotive industry, continually investing in research and development to enhance its product offerings. The company's focus on developing advanced battery technology, autonomous driving systems, and energy storage solutions sets it apart from competitors and drives long-term value creation.
- Human Resource Management: Tesla places a strong emphasis on talent acquisition, development, and retention to support its ambitious growth objectives. The company attracts top engineering and design talent from around the world and offers competitive compensation packages and career advancement opportunities to its employees.
- Firm Infrastructure: Tesla's firm infrastructure encompasses its organizational structure, corporate governance, and strategic decision-making processes. The company's dynamic leadership team, led by CEO Elon Musk, sets the strategic direction and drives innovation across all aspects of the business.

### **Porter's Value Chain Example: Digital Products companies**

Procurement		Subscriptions   Se	ervers		
Research and	Development	Analytics   User a	nd marketing research	Machine Learning	
Talent		Upskilling   sourc	ing   Collaboration   Str	ategic Partnerships	
Infrastructure		Cloud Servers   D	atabase   Repository   [	Data sets   Storage	Profit Margin
Build	Evaluate	Ship	Acquisition	Engagement	
<ul> <li>Engineering</li> <li>Data</li> <li>Integrations</li> <li>Code Repository</li> <li>API</li> <li>Content</li> <li>Design</li> <li>Sprints</li> <li>Backlog Items</li> <li>Database</li> <li>Architecture</li> <li>Intellectual Property</li> </ul>	<ul> <li>Testing</li> <li>Optimisation</li> <li>Branding</li> <li>Usability</li> <li>Beta</li> <li>Policies</li> <li>Fixes/Patches</li> <li>DevOps</li> <li>Governance</li> <li>Quality Assurance</li> </ul>	<ul> <li>Distribution</li> <li>Markets</li> <li>Deployments</li> <li>Launches</li> <li>Releases</li> <li>Upgrades</li> </ul>	<ul> <li>Campaigns</li> <li>SEO</li> <li>GTM</li> <li>Growth Hacking</li> <li>Inbound Marketing</li> <li>Account-Based</li> <li>Product Led</li> <li>Traditional Marketing</li> </ul>	<ul> <li>Customer Success</li> <li>SLA</li> <li>Documentation</li> <li>Chatbots</li> <li>Support</li> <li>Self-Service</li> </ul>	

Primary Activities

Supporting Activities

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### **Virtual Value Chain**

- Tesco?
- Amazon?

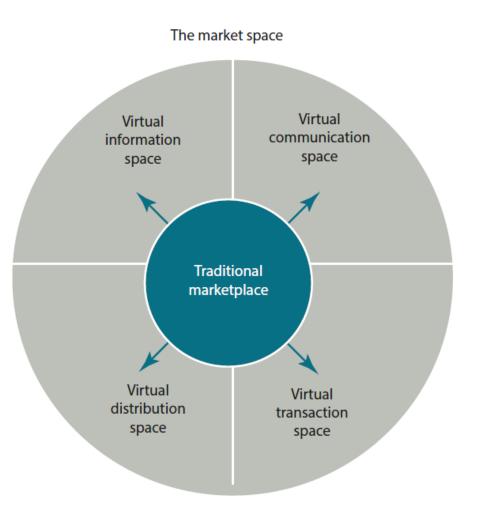
Information distribution
Information synthesis
Information organization
Information gathering

	Support activities					
Inbound logistics manufacturing Outbound logistics Marketing	Services					

 Information gathering	
Information organization	
Information synthesis	
Information distribution	

### **ICDT Framework**

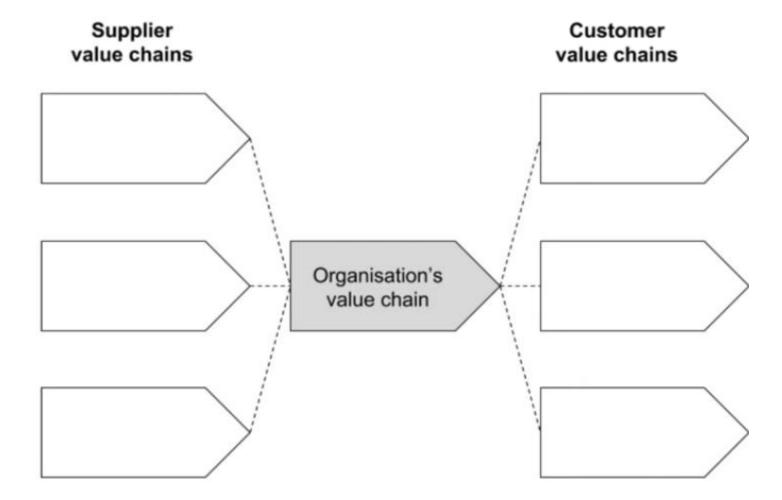
Q2. Describe the ICDT framework and outline how a company can use it for selecting e-business activities and how a company can profit from these activities.



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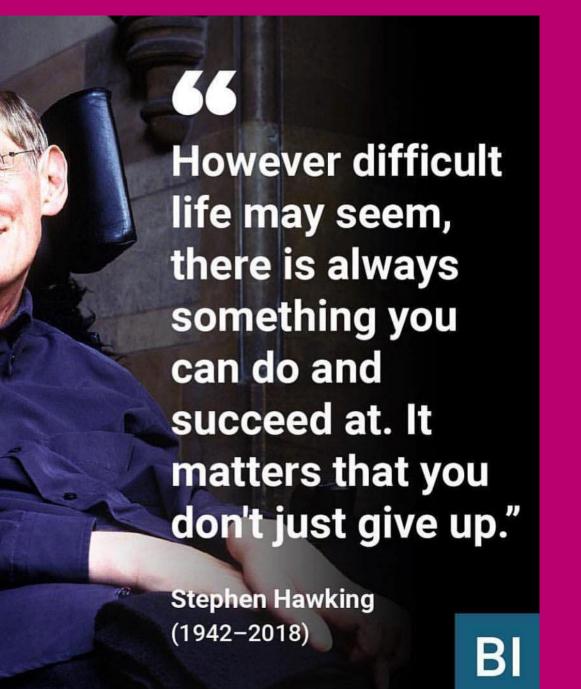
### **Value Network**





### **Discussion Questions**

- 3. What is a value network and who are its main partners? What specific issues does a company face when it moves beyond a value chain to become part of a value network?
- 4. Think critically of possible applications of the virtual value chain concept within specific industries and business sectors. Are there some specific business sectors where this concept fits better than in other sectors?



# Thank you for your attention!

Questions, comments or remarks?

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