

Digital Innovation of Business Models

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

Ahad Zareravasan, PhD

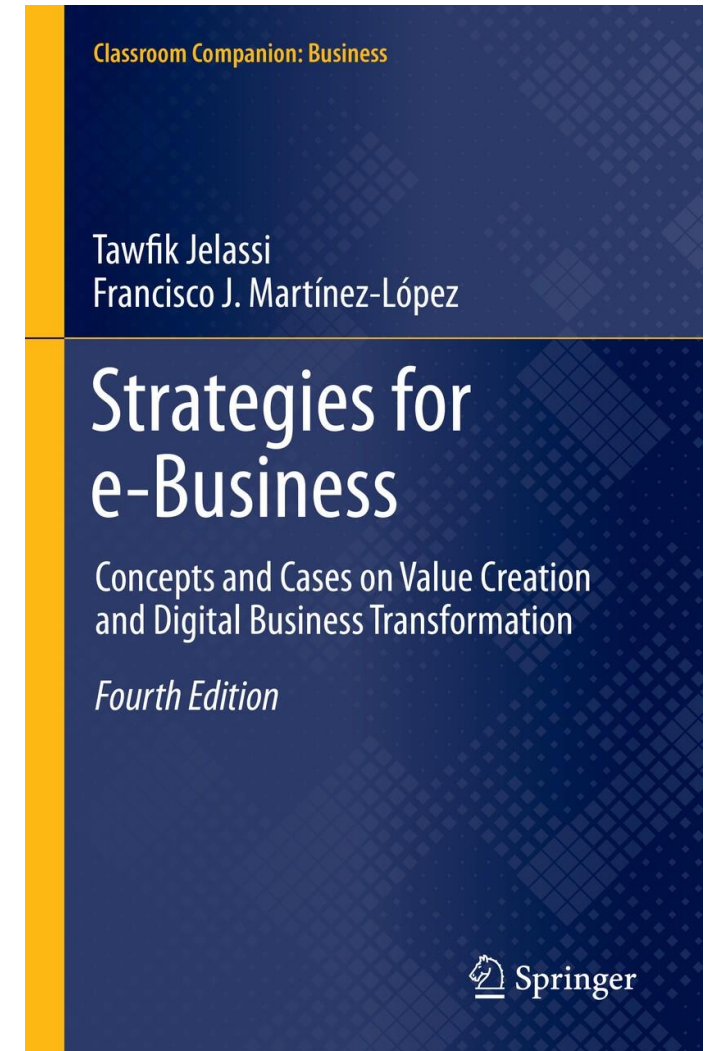
Associate Professor, Masaryk University, Brno, Czech Republic

Email: Zare.Ahad@mail.muni.cz

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 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:

- 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)*
- *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.**

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.

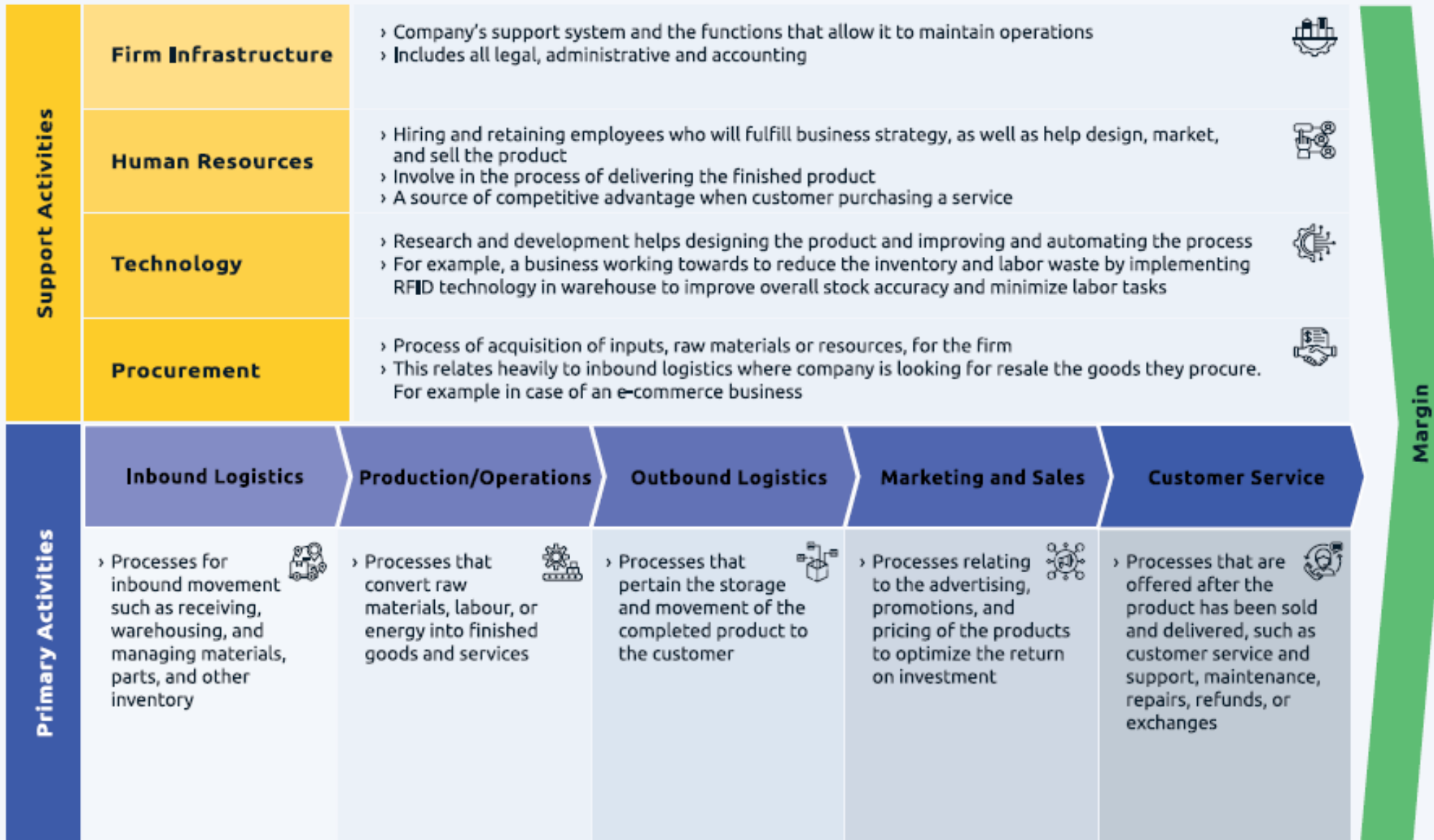
Primary activities include:

- 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

PORTER'S VALUE CHAIN MODEL



Applying Porter's Value Chain Model Steps

- **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.

Applying Porter's Value Chain Model Steps

- **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.

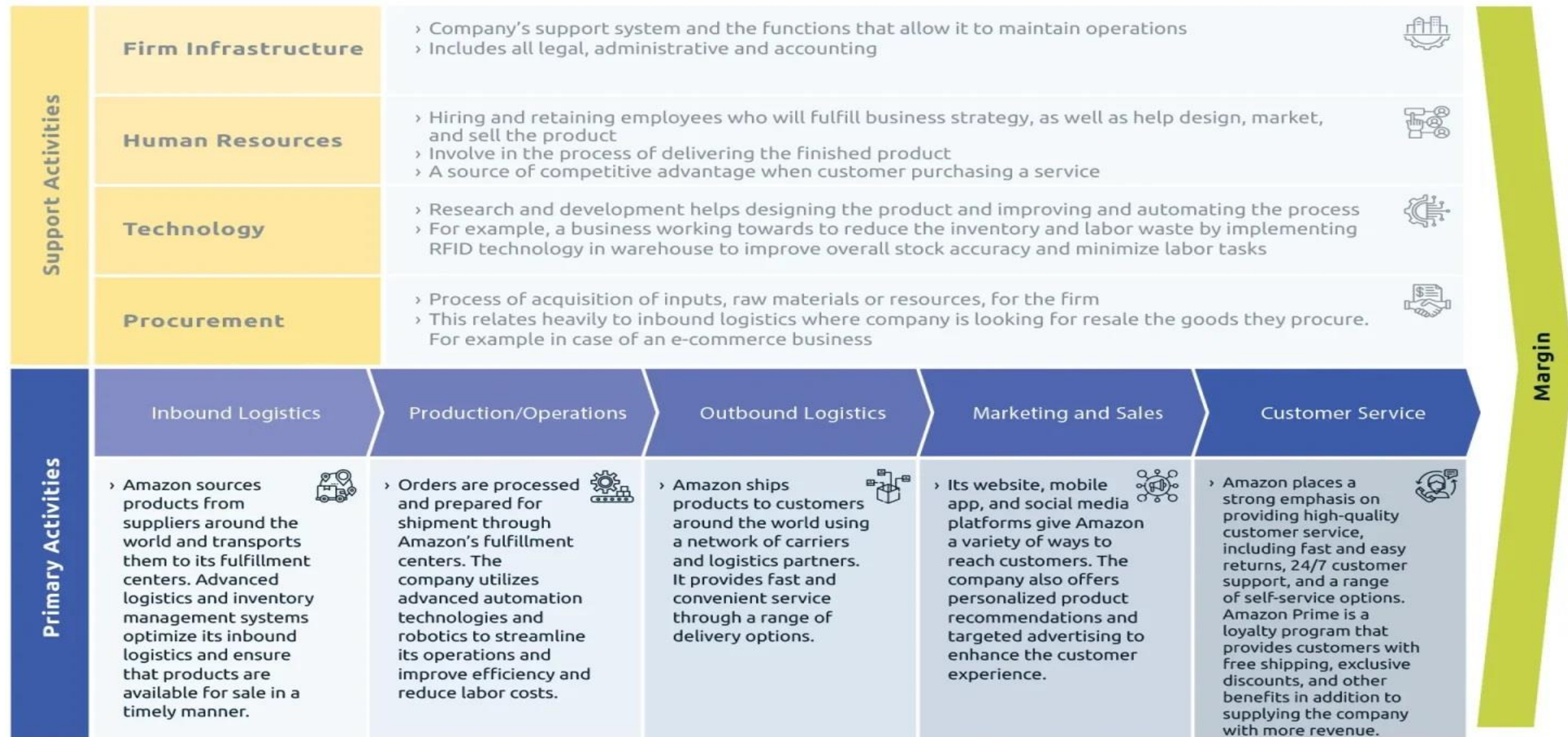
Applying Porter's Value Chain Model Steps

- **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.

Applying Porter's Value Chain Model Steps

- **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: AMAZON



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



Porter's Value Chain Example: Starbucks

Primary Activities

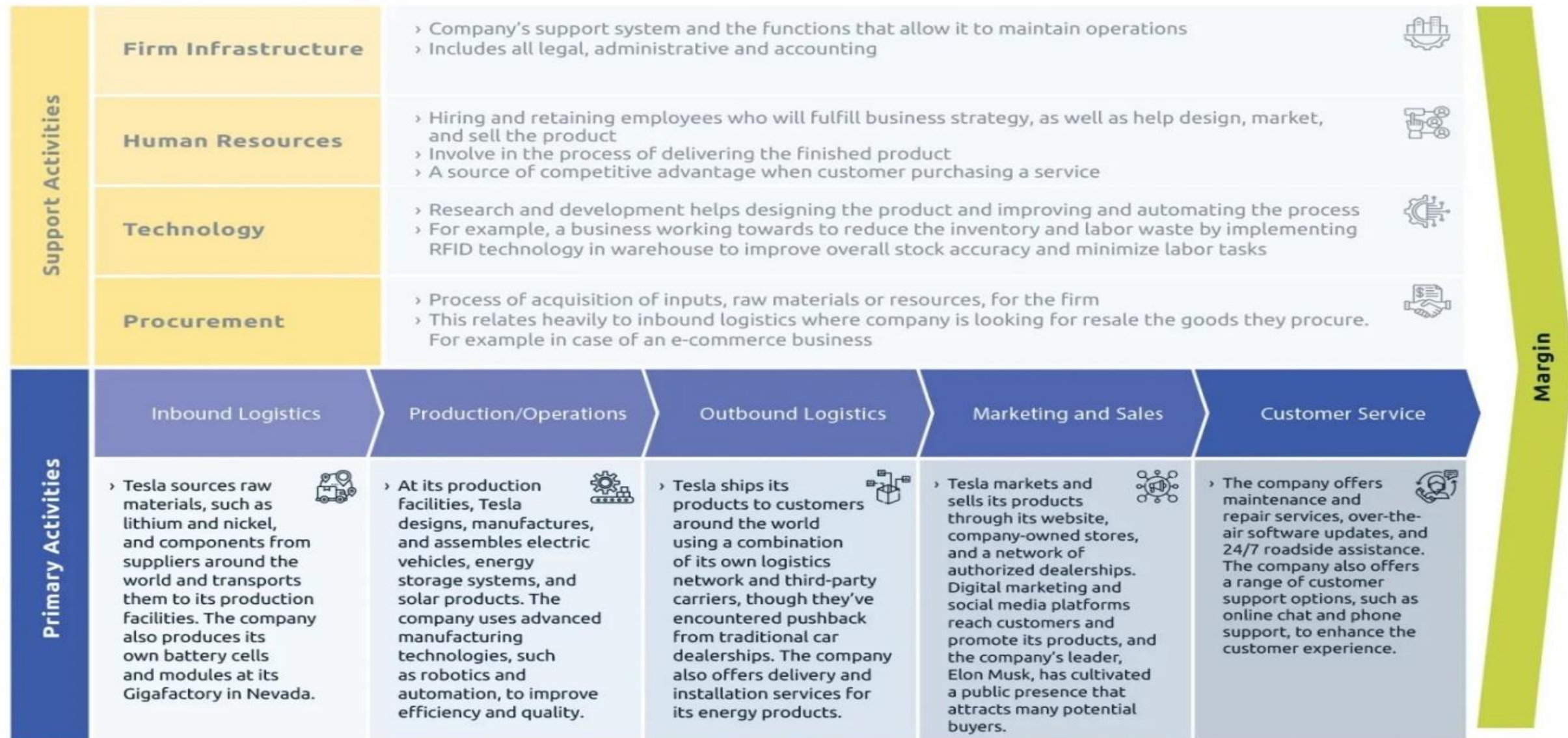
- **Operations:** Starbucks has established state-of-the-art roasting facilities where coffee beans are expertly roasted to perfection. The company's baristas are trained extensively to uphold the highest standards in brewing and beverage preparation, ensuring that every cup of coffee meets customers' 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



Porter's Value Chain Example: Tesla

Primary Activities

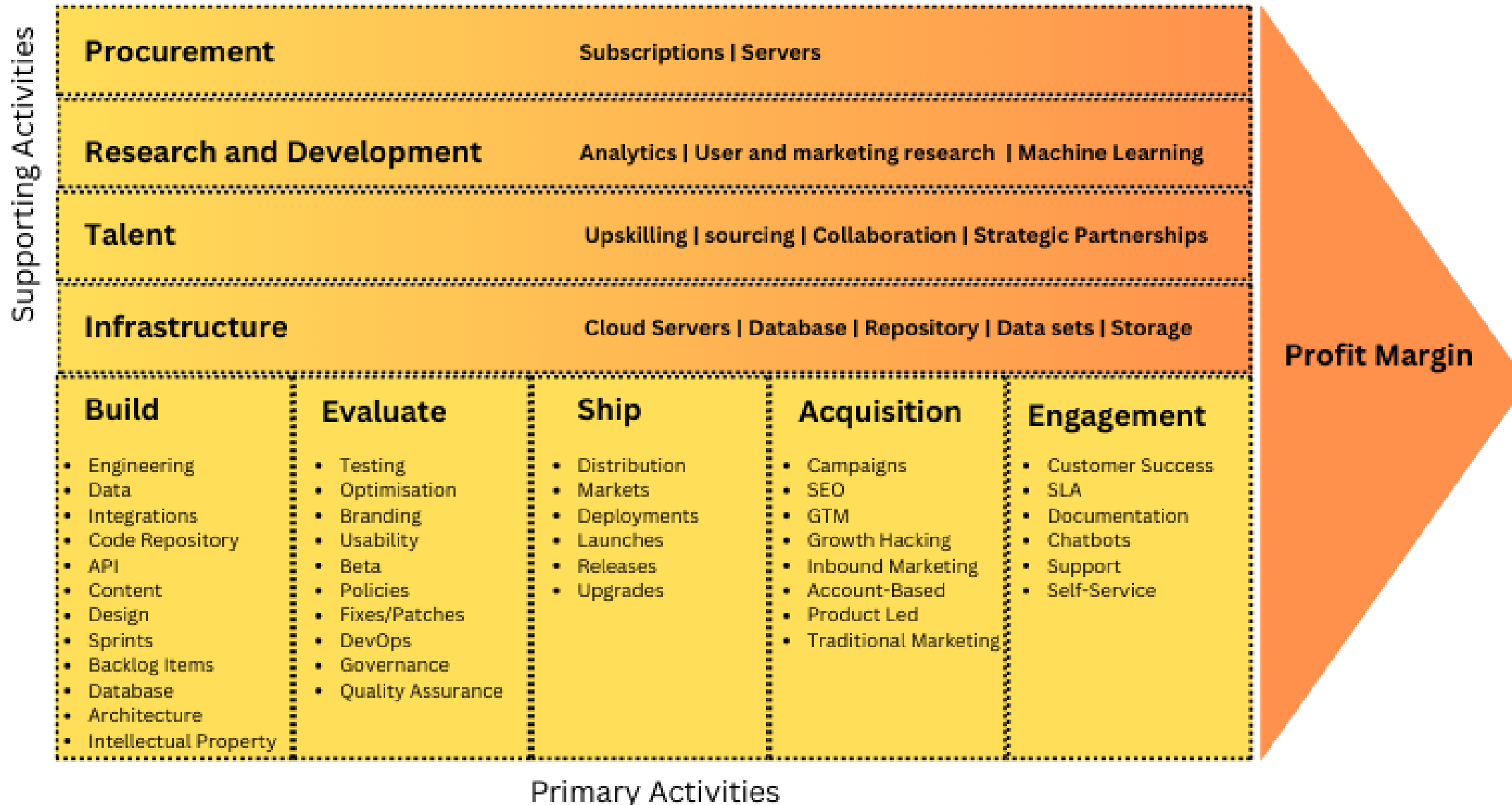
- **Inbound Logistics:** Tesla optimizes its inbound logistics by strategically sourcing raw materials and components for its electric vehicles. By maintaining strong relationships with suppliers and leveraging advanced procurement strategies, Tesla ensures a steady supply of high-quality inputs for 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

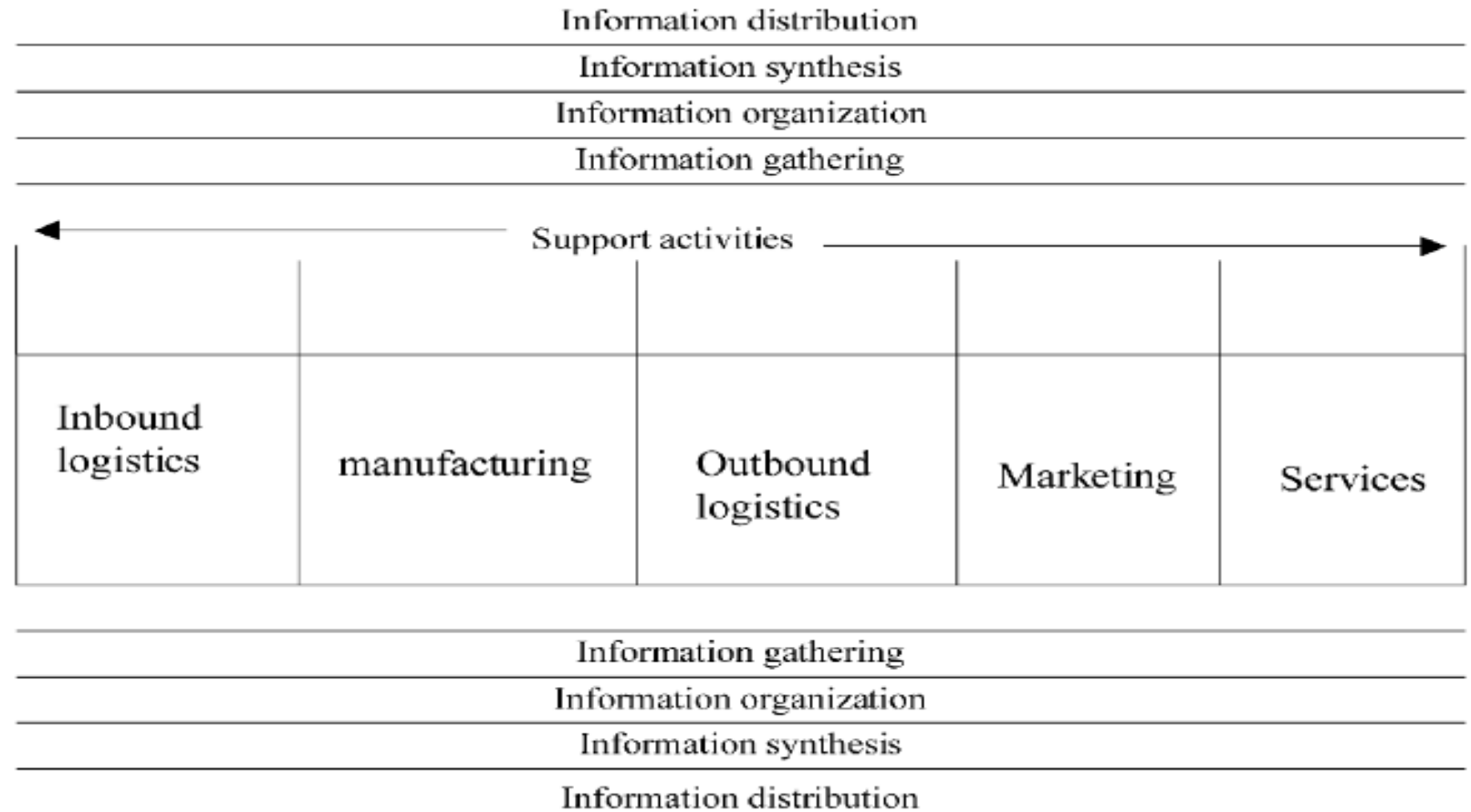
- **Procurement:** Tesla's procurement strategy focuses on securing the best possible terms and pricing from suppliers while maintaining high standards of quality and sustainability. By negotiating long-term contracts and fostering collaborative relationships with suppliers, Tesla minimizes procurement 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



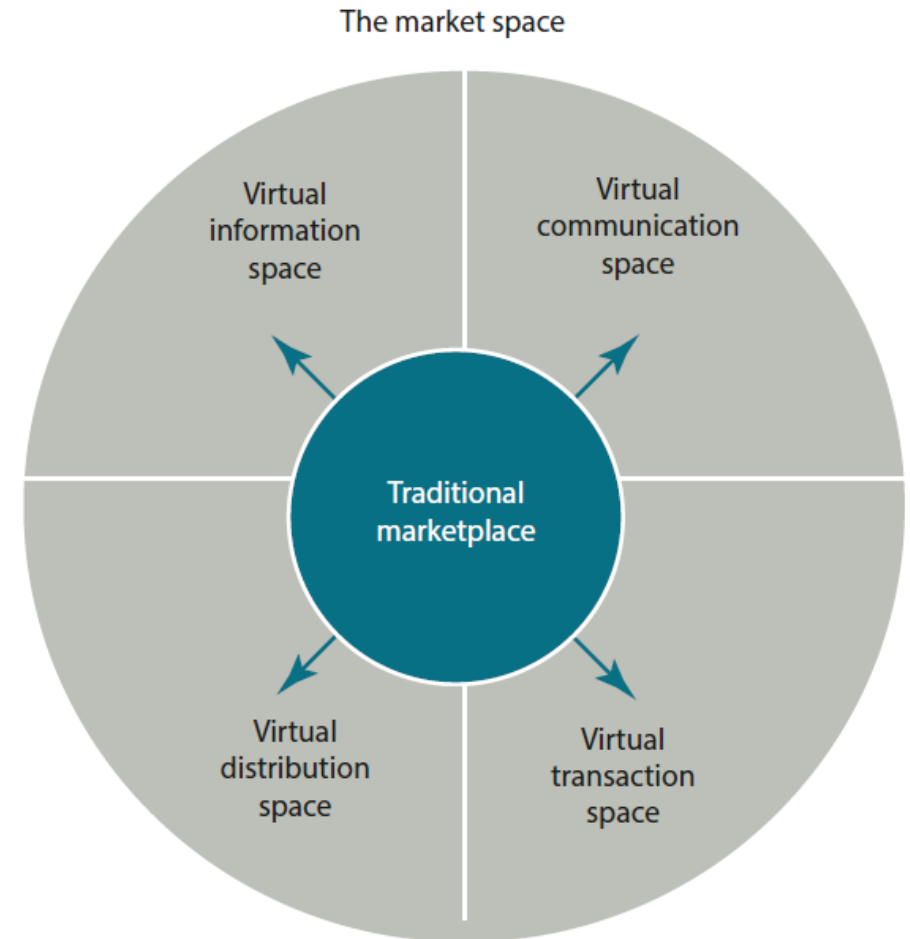
Virtual Value Chain

- Tesco?
- Amazon?

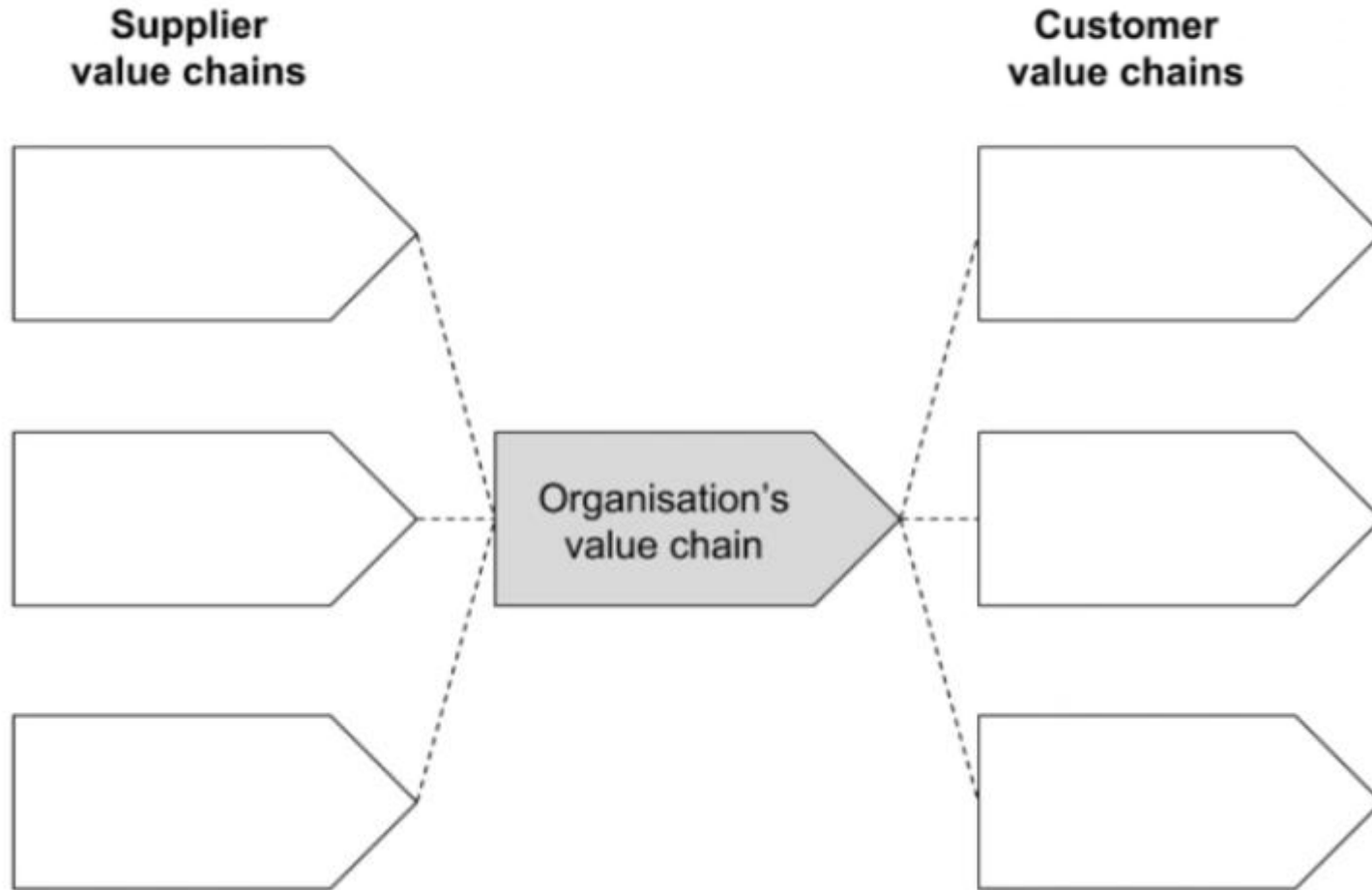


ICDT Framework

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.

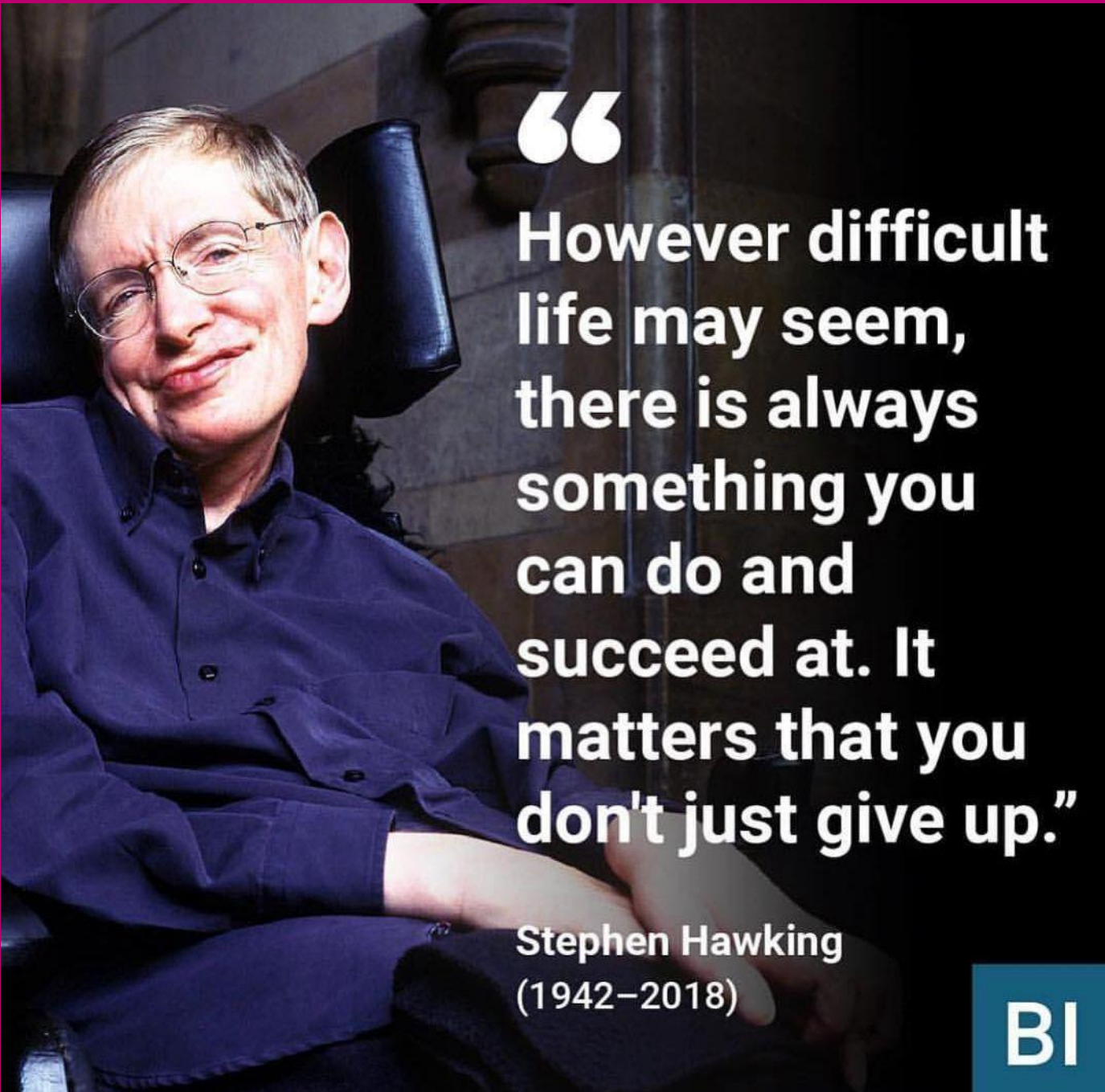


Value Network



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?



“
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?

Email: Zare.Ahad@mail.muni.cz

MUNI
ECON