NBA 600: Day 4
Strategy and the Internet
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Today’s Class

- Continue discussion of Porter and Tapscott articles on Internet and strategy
  - Finish covering some of Porter’s points
  - Consider Tapscott’s main points
  - Start tying to IT more broadly not just Internet

- Discuss differences between value, business model and strategy
  - New business models rare but important
    - Particularly for new technologies

- A bit about first short paper assignment
Terminology

- **Value proposition**
  - What the customer is getting and how much they need it

- **Business model**
  - Why and how the customer pays

- **Competitive strategy**
  - How the company achieves and sustains profitability in the business – “focus”

- **Execution**
  - Delivering the value according to the model and strategy
Illustrate Terminology: Amazon

- **Value proposition**
  - World’s largest selection and greatest convenience retailer

- **Business model**
  - Full service retail
    - Same as off-line: list price for most items with selected sales items, coupons, etc.

- **Competitive strategy**
  - Become dominant retailer for books and music where large breadth-of-selection challenges
  - Then broaden segments and sell retail services
Porter: Strategy and Internet

- Internet has been used as excuse to ignore strategy – yielded bad decisions
  - Forfeit proprietary advantage by rushing online
  - Focus on price rather than quality/features

- Winners will use Internet as complement to, not cannibal of, traditional competition
  - Simply another step in IT evolution, like object oriented programming or relational databases

- Internet not necessarily a blessing
  - Tends to dampen profitability and have leveling effect on business practices
Porter: Internet a Complement

- Internet initially viewed as cannibalizing existing businesses and channels
  - Should be viewed as complement

- For instance retailers
  - Walgreens finds online presence increases in-store sales

- How broadly true?
  - Music, movies, broadcast tv?
  - Online marketplaces, other retail segments?
  - Characterize in terms of communication and search costs?
Porter: On Disintermediation

- Notion of Internet connecting producers and consumers directly
  - Eliminating brokers or other middlemen

- Most such businesses have failed
  - Except some online marketplaces with strong backing from dominant players in and industry

- Value of intermediaries
  - Expertise that counterparties may not have
  - Not addressed by just bringing people together
  - Cost of developing the expertise
Porter: Partnering Dangerous

- Internet technology makes it easier to partner and outsource
  - By improved and lower cost communication
- But partnering and outsourcing cause companies to lose control of their business
- Examples
  - Retail leader Amazon
    - Built own infrastructure, sells to others
  - EBay initially outsourced all payment processing then bought PayPal
    - Change in how they view their business?
Porter: On Business Models

- Destructive way of thinking
  - Loose terminology, far cry from creating economic value
  - Invitation to faulty thinking and self delusion

- What matters is strategy
  - Critical to consider competitive forces and industry structure

- Notions of e-business and e-strategy similarly problematic
  - Encourage consideration of Internet in isolation rather than as complement to existing business
Tapscott: Internet Changes Things

- The Internet provides a fundamental improvement in communication
  - Improves outsourcing, contract manufacturing
  - Enables true sales partnerships
  - Challenges industrial age corporate structure

- Porter takes a truth and misapplies it
  - The truth: profitability matters
    - Not eyeballs, hits, stickiness, etc.
  - But does not support false thesis that Internet is simply another incremental change
    - Business as usual; vertically integrated corp.
Tapscott: Impact of Internet

- New piece of wealth creation infrastructure
  - Power grid, railroads/highways, telephone
  - Now Internet too

- Internet different from other infrastructure
  - Taking over other communications mechanisms
    - Voice over IP, Internet radio, cell phones
    - Distribution of content: print, audio, video

- Internet enables new business models
  - Strategy has tended to ignore business models
    - Traditionally each industry has a fixed model that rarely if ever changes
Tapscott: Internet is Different

- For example MIT open courseware initiative
  - Goal of transforming higher education
  - Making all course materials available online, free of charge
    - Counter to trends of increasing privatization of knowledge
    - What is MIT’s value if material available online for free?
- How could initiatives like this happen without Internet?
Difference of Internet

- Back to last week – structure of Internet
  - Internet proper (actual network) routes data
  - What applications?
  - Universality of Internet versus other networks?
- Does this create opportunities and risks for large scale change Tapscott suggests?
  - “Swallowing” other communications media
  - Destroying existing business models?
    - VoIP replacing telephone?
    - TV and radio broadcast over IP?
    - Interaction replacing passive watching/listening?
Tapscott: “B Webs”

- Companies need to draw on all resources to create profitable business
  - Deep partnerships
  - Only possible through Internet communication
    - Coordinating joint sales efforts between two companies
    - Joint product development/testing
  - Not just outsourcing non-critical functions
    - E.g., payroll, accounts, etc.

- Vertical silo model limits ability to respond and grow
Tapscott: Example of IBM

- Customer relationship management (CRM) business
  - Dropped own software, partnered with Siebel and others – joint selling of solutions
    - Now multi-billion dollar business for IBM
    - Also driving DB2 sales and services business

- Operating system (OS) business
  - Will look in more detail at Linux and open source later in semester
  - IBM ceasing OS development and replacing with software from “no company”
IBM Example

- What role has Internet played?
- How close are IBM and Seibel?
- Interacting with independent software vendors
  - Email, web conferencing, how critical to productive marketing, sales, development?
- Note: separate issue that recently CRM market has changed substantially
  - Growth of hosted solutions such as Salesforce.com
    - Clearly requires Internet but not for “b web”
Porter/Tapscott Extent of Agreement

- Both say the Internet is important
  - Companies need to consider how it affects their business; have a strategy

- Extent and type of change
  - Disruptive and new, complementary and similar to other technological changes
  - New business models, improvements on same models

- Impact of more informed customers
  - Bad, lower margins, harder to get lock-in
  - Good, increases focus on true value
Internet and Porter’s 5 Forces

- Increased rivalry: larger geographic regions
- New substitutes: especially digital goods
- Bargaining power of suppliers
- Bargaining power of buyers
- Lower barriers to entry: lower cost and less expertise
- Increased buyer power: better informed, easier to switch

- Threat of Substitutes
- Rivalry among competitors
- Barriers to Entry
Next Week

- New technologies and new business models
- Broader question of IT strategic value
  - Carr article claiming “end of IT” except as cost center
  - Hagel & Seely-Brown, McFarlan & Nolan, Strassman responses
- First short paper due Thursday by start of class