UNIT I

Business Strategy in an Electronic Age:

A **supply chain** is a system of organizations, people, activities, information, and resources involved in moving a product or service from supplier to customer. Supply chain activities transform natural resources, raw materials, and components into a finished product that is delivered to the end customer. In sophisticated supply chain systems, used products may re-enter the supply chain at any point where residual value is recyclable.

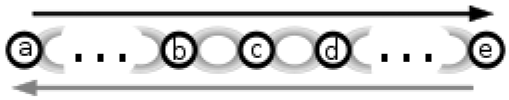
The Council of Supply Chain Management Professionals defines supply chain management as follows: "Supply Chain Management encompasses the planning and management of all activities involved in sourcing and procurement, conversion, and all logistics management activities. Importantly, it also includes coordination and collaboration with channel partners, which can be suppliers, intermediaries, third-party service providers, and customers. In essence, supply chain management integrates supply and demand management within and across companies. Supply Chain Management is an integrating function with primary responsibility for linking major business functions and business processes within and across companies into a cohesive and high-performing business model. It includes all of the logistics management activities noted above, as well as manufacturing operations, and it drives coordination of processes and activities with and across marketing, sales, product design, finance and information technology."

A typical supply chain begins with the ecological, biological, and political regulation of natural resources, followed by the human extraction of raw material, and includes several production links (e.g., component construction, assembly, and merging) before moving on to several layers of storage facilities of ever-decreasing size and increasingly remote geographical locations, and finally reaching the consumer.

Many of the exchanges encountered in the supply chain are therefore between different companies that seek to maximize their revenue within their sphere of interest, but may have little or no knowledge or interest in the remaining players in the supply chain. More recently, the loosely coupled, self-organizing network of businesses that cooperates to provide product and service offerings has been called the *Extended Enterprise*.[citation needed]

Guaranteeing acceptable conditions in a global supply chain can be a complex challenge. As part of their efforts to demonstrate ethical practices, many large companies and global brands are integrating codes of conduct and guidelines into their corporate cultures and management systems. Through these, corporations are making demands on their suppliers (facilities, farms, subcontracted services such as cleaning, canteen, security etc.) and verifying, through social audits, that they are complying with the required standard.[3]

Supply chain modeling



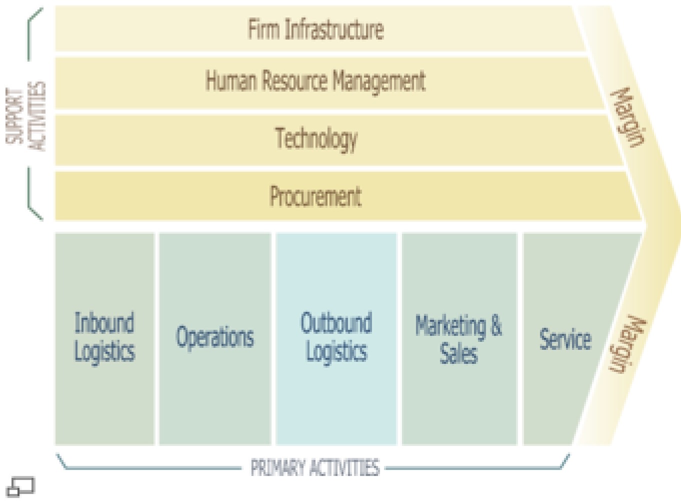
A diagram of a supply chain. The black arrow represents the flow of materials and information, and the gray arrow represents the flow of information and backhauls. The elements are (a) the initial supplier (vendor or plant), (b) a supplier, (c) a manufacturer (production), (d) a customer, and (e) the final customer.

There are a variety of supply chain models, which address both the upstreamm and downstream sides. The SCOR (Supply-Chain Operations Reference) model, developed by the management consulting firm PRTM, now part of PricewaterhouseCoopers LLP (PwC) has been endorsed by the Supply-Chain Council (SCC) and has become the cross-industry de facto standard diagnostic tool for supply chain management. SCOR measures total supply chain performance. It is a process reference model for supply-chain management, spanning from the supplier's supplier to the customer's customer.[4] It includes delivery and order fulfillment performance, production flexibility, warranty and returns processing costs, inventory and asset turns, and other factors in evaluating the overall effective performance of a supply chain.

The Global Supply Chain Forum has introduced another supply chain model.[5] This framework is built on eight key business processes that are both cross-functional and cross-firm in nature. Each process is managed by a cross-functional team including representatives from logistics, production, purchasing, finance, marketing, and research and development. While each process interfaces with key customers and suppliers, the processes of customer relationship management and supplier relationship management form the critical linkages in the supply chain.

The American Productivity and Quality Center (APQC) Process Classification Framework (PCF) SM is a high-level, industry-neutral enterprise process model that allows organizations to see their business processes from a cross-industry viewpoint. The PCF was developed by APQC and its member vbgbbvbas an open standard to facilitate improvement through process management and benchmarking, regardless of industry, size, or geography. The PCF organizes operating and management processes into 12 enterprise-level categories, including process groups, and over 1,000 processes and associated activities.

Porter`s Value chain Model



Popular Visualization

A **value chain** is a chain of activities that a firm operating in a specific industry performs in order to deliver a valuable product or service for the market. The concept comes from business management and was first described and popularized by Michael Porter in his 1985 best-seller, *Competitive Advantage: Creating and Sustaining Superior Performance*.

"The idea of the value chain is based on the process view of organizations, the idea of seeing a manufacturing (or service) organisation as a system, made up of subsystems each with inputs, transformation processes and outputs. Inputs, transformation processes, and outputs involve the acquisition and consumption of resources - money, labour, materials, equipment, buildings, land, administration and management. How value chain activities are carried out determines costs and affects profits."

The concept of value chains as decision support tools, was added onto the competitive strategies paradigm developed by Porter as early as 1979. In Porter's value chains, Inbound Logistics, Operations, Outbound Logistics, Marketing and Sales and Service are categorized as primary activities. Secondary activities include Procurement, Human Resource management, Technological Development and Infrastructure.(Porter 1985, pp. 11-15) According to the OECD Secretary-General(Gurría 2012) the emergence of global value chains (GVCs) in the late 1990s provided a catalyst for accelerated change in the landscape of international investment and trade, with major, far-reaching consequences on governments as well as enterprises.

Interorganizational Value Chain

An **interorganizational system (IOS)** is one which allows the flow of information to be automated between organizations in order to reach a desired supply-chain management system, which enables the development of competitive organizations. This supports forecasting client needs and the delivery of products and services. IOS helps to better manage buyer-supplier relationships by encompassing the full depths of tasks associated with business processes company-wide. In doing these activities, an organization is able to increase the productivity automatically; therefore, optimizing communication within all levels of an organization as well as between the organization and the supplier. For example, each t-shirt that is sold in a retail store is automatically communicated to the supplier who will, in turn, ship more t-shirts to the retailer.

Organizations might pursue an IOS for the following reasons:

1. Reduce the risk in the organization
2. Pursue economies of scale
3. Benefit from the exchange of technologies
4. Increase competitiveness
5. Overcome investment barriers
6. Encourage global communication

Porter's Model :

Porter five forces analysis is a framework for industry analysis and business strategy development. It draws upon industrial organization (IO) economics to derive five forces that determine the competitive intensity and therefore attractiveness of a market. Attractiveness in this context refers to the overall industry profitability. An "unattractive" industry is one in which the combination of these five forces acts to drive down overall profitability. A very unattractive industry would be one approaching "pure competition", in which available profits for all firms are driven to normal profit.

Three of Porter's five forces refer to competition from external sources. The remainder are internal threats.

Porter referred to these forces as the micro environment, to contrast it with the more general term macro environment. They consist of those forces close to a company that affect its ability to serve its customers and make a profit. A change in any of the forces normally requires a business unit to re-assess the marketplace given the overall change in industry information. The overall industry attractiveness does not imply that every firm in the industry will return the same profitability. Firms are able to apply their core competencies, business model or network to achieve a profit above the industry average. A clear example of this is the airline industry. As an industry, profitability is low and yet individual companies, by applying unique business models, have been able to make a return in excess of the industry average.

Porter's five forces include - three forces from 'horizontal' competition: the threat of substitute products or services, the threat of established rivals, and the threat of new entrants; and two forces from 'vertical' competition: the bargaining power of suppliers and the bargaining power of customers.

This five forces analysis, is just one part of the complete Porter strategic models. The other elements are the value chain and the generic strategies.[citation needed]

Porter developed his Five Forces analysis in reaction to the then-popular SWOT analysis, which he found unrigorous and *ad hoc*.[1] Porter's five forces is based on the Structure-Conduct-Performance paradigm in industrial organizational economics. It has been applied to a diverse range of problems, from helping businesses become more profitable to helping governments stabilize industries.[2]

Benefits Of Ecommerce

E Commerce is one of the most important facets of the Internet to have emerged in the recent times. Ecommerce or electronic commerce involves carrying out business over the Internet with the assistance of computers, which are linked to each other forming a network. To be specific ecommerce would be buying and selling of goods and services and transfer of funds through digital communications.

The benefits of Ecommerce:

- Ecommerce allows people to carry out businesses without the barriers of time or distance. One can log on to the Internet at any point of time, be it day or night and purchase or sell anything one desires at a single click of the mouse.
- The direct cost-of-sale for an order taken from a web site is lower than through traditional means (retail, paper based), as there is no human interaction during the on-line electronic purchase order process. Also, electronic selling virtually eliminates processing errors, as well as being faster and more convenient for the visitor.
- Ecommerce is ideal for niche products. Customers for such products are usually few. But in the vast market place i.e. the Internet, even niche products could generate viable volumes.
- Another important benefit of Ecommerce is that it is the cheapest means of doing business.
- The day-to-day pressures of the marketplace have played their part in reducing the opportunities for companies to invest in improving their competitive position. A mature market, increased competitions have all reduced the amount of money available to invest. If the selling price cannot be increased and the manufactured cost cannot be decreased then the difference can be in the way the business is carried out. Ecommerce has provided the solution by decimating the costs, which are incurred.
- From the buyer’s perspective also ecommerce offers a lot of tangible advantages.
    1. Reduction in buyer’s sorting out time.
    2. Better buyer descisions
    3. Less time is spent in resolving invoice and order discrepancies.
    4. Increased opportunities for buying alternative products.
- The strategic benefit of making a business ‘ecommerce enabled’, is that it helps reduce the delivery time, labour cost and the cost incurred in the following areas:
    1. Document preparation
    2. Error detection and correction
    3. Reconciliation

4. Mail preparation
5. Telephone calling
6. Credit card machines
7. Data entry
8. Overtime
9. Supervision expenses

- Operational benefits of e commerce include reducing both the time and personnel required to complete business processes, and reducing strain on other resources. It's because of all these advantages that one can harness the power of ecommerce and convert a business to ebusiness by using powerful turnkey ecommerce solutions made available by ebusiness solution providers.

Introduction to Business Strategy :

1. What is Strategy? Strategic management strategic and day-to-day management the components of strategic management strategic analysis strategic choice strategic implementation different business types big or small business manufacturing or service provider business domestic or multinational business private-sector or public-sector business for-profit or not-for-profit organisations
2. Strategic Analysis Factors affecting strategic choices The business environment PEST analysis Porter's five forces model the bargaining power of suppliers the bargaining power of buyers the threat of potential new entrants the threat of substitutes the extent of competitive rivalry
3. Industry competitors Porter's Five Forces Model Source: Michael E. Porter Competitive Strategy: Techniques for Analyzing Industries and Competitors, (The Free Press, 1980)
4. Industry competitors Rivalry among existing firms Porter's Five Forces Model Source: Michael E. Porter Competitive Strategy: Techniques for Analyzing Industries and Competitors, (The Free Press, 1980)
5. Potential entrants Industry competitors Rivalry among existing firms Threat of new entrants Porter's Five Forces Model Source: Michael E. Porter Competitive Strategy: Techniques for Analyzing Industries and Competitors, (The Free Press, 1980)
6. Substitute products Potential entrants Industry competitors Rivalry among existing firms Threat of new entrants Threat of substitutes Porter's Five Forces Model Source: Michael E. Porter Competitive Strategy: Techniques for Analyzing Industries and Competitors, (The Free Press, 1980)
7. Suppliers Substitute products Potential entrants Industry competitors Rivalry among existing firms Threat of new entrants Bargaining power of suppliers Threat of substitutes Porter's Five Forces Model Source: Michael E. Porter Competitive Strategy: Techniques for Analyzing Industries and Competitors, (The Free Press, 1980)
8. Buyers Suppliers Substitute products Potential entrants Industry competitors Rivalry among existing firms Threat of new entrants Bargaining power of suppliers Bargaining power of buyers Threat of substitutes Porter's Five Forces Model Source: Michael E. Porter Competitive Strategy: Techniques for Analyzing Industries and Competitors, (The Free Press, 1980)

9. Strategic Analysis Porter's five forces model (cont.) Factors affecting each of the forces the bargaining power of suppliers the bargaining power of buyers the threat of potential new entrants the threat of substitutes the extent of competitive rivalry Limitations of the five forces model
10. Strategic Analysis Value chain analysis nature of value chain analysis sustainable competitive advantage the value chain primary activities inbound logistics operations outbound logistics marketing and sales service secondary activities procurement technological development human resources management firm infrastructure
11. Inbound logistics The value chain Firm infrastructure Technological development Human resource management Procurement Operations Outbound logistics Marketing and sales After-sales service
12. Strategic Analysis Vision and mission attitudes towards various stakeholders influences on a firm's vision and mission
13. Factors influencing organisational purpose Organisational purpose Stakeholder views Cultural context Business ethics Corporate governance
14. Strategic Choice Environment or market-based strategy types cost leadership differentiation focus importance of establishing:- the basis of a firm's competitive advantages the nature of the target market Resource-based strategy exploiting core competencies defining and establishing core competencies
15. Business Strategy in a Global Economy Why go global? market size increased profitability location economies scope for significant cost reductions using core competencies learning from experience in diverse markets spreading risks keeping up with rivals The global strategy trade-off economies of scale or higher costs of customisation? determinants of trade-off
16. Strategy: Evaluation and Implementation Evaluation importance of weighing up alternative strategies how feasible are they? how do they relate to the firm's goals? how will they affect the firm's competitive position?

Global business and the Internet

There was a time when resources and markets were generally co-located. A company would set up business where the resources - what used to be labelled the four Ms (men, machines, materials and money) - were readily available. It would use these resources to manufacture a product. It would then build up and serve a local (sometimes national) customer base.

Progressively "home" markets became saturated and companies started to export excess production to more distant markets - essentially, in descending order of GNP or cultural proximity [Hofstede 1985]. Growing demand from these markets sometimes warranted establishing a local sales office or manufacturing operation. Occasionally, it even led to a token R&D presence, to adapt the offering to local tastes.

Alongside the dispersal of markets, came the dispersal of resources. Initially, it was just a question of capitalizing on cheaper sources of materials or labour in remote locations - while the strategic competencies remained buried in-house. But over time, many of the overseas producers used the low-cost platform to build up real expertise in a particular domain with the result that pockets of excellence have sprung up around the world [Porter 1985] - a striking example being the emergence of India's software industry.

Finally, companies themselves have grown increasingly dispersed and decentralised in order to 'get close' to these emerging markets and technologies. Global coverage allows companies to be responsive to market needs and gives them rapid access to far flung strategic resources. At the same time, however, it impedes the internal flow of communication.

Dispersion on all fronts has therefore dramatically changed some of the rules of business competition. Companies no longer own all the key resources but must locate and access them; the attractive growth opportunities have to be actively identified as the domestic market is not necessarily the lead market; and corporate competencies are not all co-located at HQ but have to be pooled from distant nodes. All this puts a premium on the movement of information - internally and externally - as a competence. This is where the strategic value of the Internet lies. It can significantly enhance the quality of a company's linkages. Externally, it helps the company to sense new markets and to access new knowledge as these emerge. Internally, it allows information acquired or generated on the periphery to circulate throughout the group.

The other key feature of global competition is speed. Speed in detecting markets, in the first place. Speed in finding out which are the required resources and where they lie. Speed in internalising them and combining them with existing competencies. And ultimately, speed in exploiting markets before competitors acquire similar competencies. Here again, the Internet promises to be a powerful weapon.

What to make of the Internet: the ICDT Model

The Internet, and its related basic services, such as electronic mail and the World Wide Web, have created a new space in which to do business [Press 1994; Cockburn & Wilson 1996]. This has given economic agents - whether individuals or companies - alternative channels for exchanging information, communicating, distributing different types of products and services, and initiating formal business transactions. The ICDT model [Angehrn 1997] (see figure 1 below) takes its name from the four "virtual spaces" created by the Internet: a Virtual *I*nformation Space, a Virtual *C*ommunication Space, a Virtual *D*istribution Space, and a Virtual *T*ransaction Space. The four spaces are treated separately because they correspond to different strategic objectives and require different types of investment, and organizational adjustments.

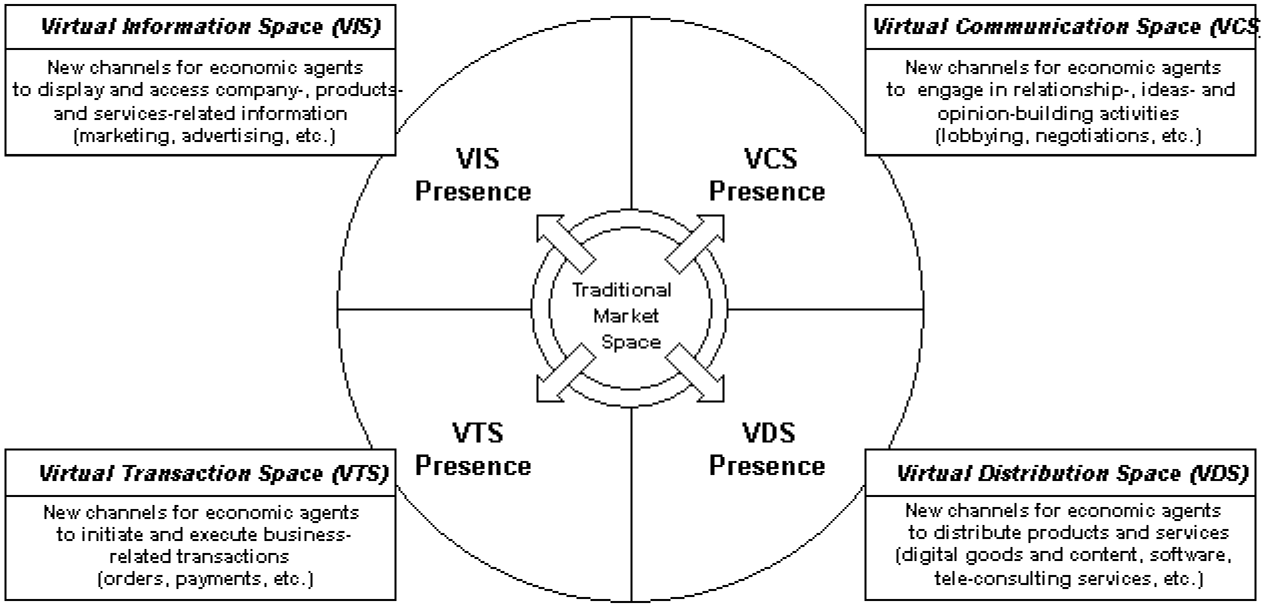


Figure 1: The four Virtual Business Spaces

The Virtual Information Space (VIS) is about visibility. It operates like a large billboard. It shows who's who, what's available, how much it costs and so on. It may offer flexible access which allows visitors to "choose their own path" but it remains a one-way communication channel.

The Virtual Communication Space (VCS) is about interaction. Like a café, it is provides a "space" for engaging in relationship-building, exchange of ideas or opinions. The "space" itself can range from a simple chat-line to a sophisticated 3D space in which individuals "meet". Members of the virtual community can communicate at high speed, low cost, and bypass traditional physical and geographical constraints.

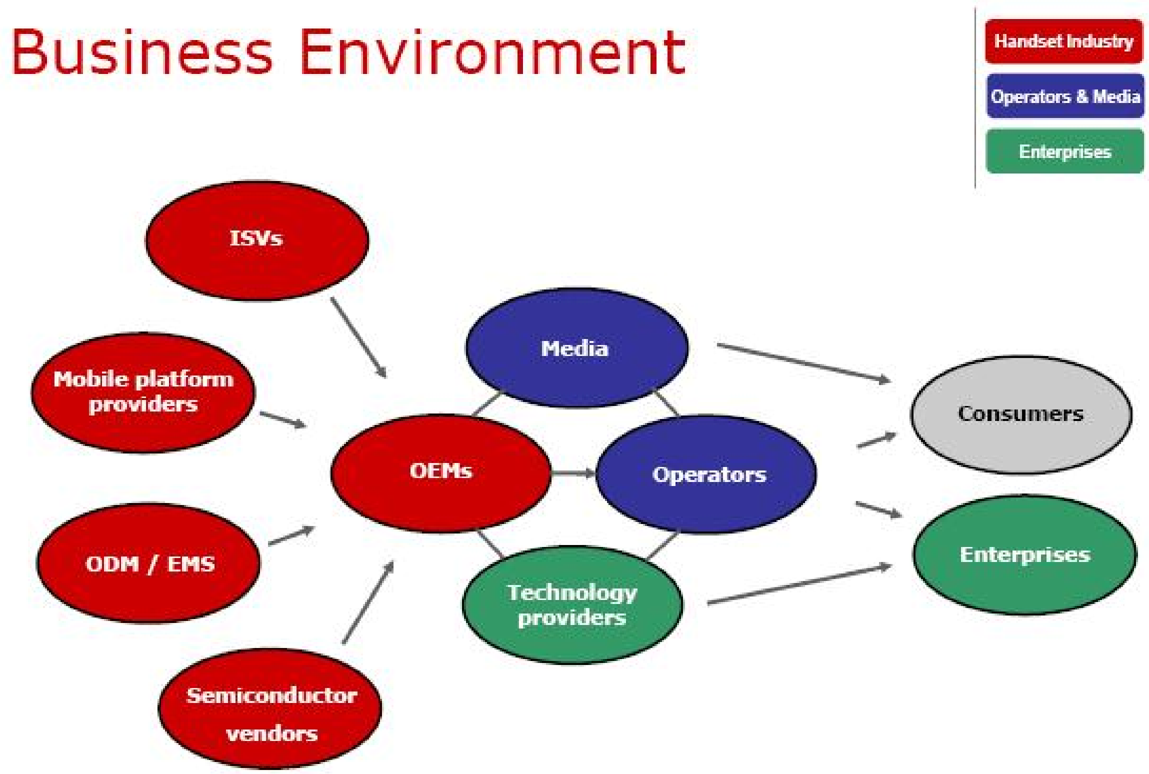
The Virtual Distribution Space (VDS) is about service delivery. As with the postal service, there are constraints on the types of items that can be delivered through this channel - it is only suitable for products and services which can be wholly or partly digitalized. Also the recipient takes "something" away, but payment itself happens elsewhere.

The Virtual Transaction Space (VTS) is about trading. It is a bit like a stock exchange in that goods and services are not transferred in this space - only orders, commitments, invoices or transfers of payment.

The ICDT Model is generic. It has already been used to diagnose the Internet "maturity"/strategies of whole sectors, such as banking [Angehrn & Meyer 1997]. It also serves to structure and detect opportunities in individual companies. Our aim here is to use it to consider separately how the Internet potentially improves a company's external linkages (with markets and resources), and can be used to enhance internal communications and processes.

Business environment

The combination of internal and external factors that influence a company's operating situation. The business environment can include factors such as: clients and suppliers; its competition and owners; improvements in technology; laws and government activities; and market, social and economic trends.



Different types of Business Environment

A. Internal environment

Internal environment includes all those factors which influence business and which are present within the business itself. These factors are usually under the control of business. The study of internal factors is really important for the study of internal environment. These factors are:

(i) Objectives of Business, (ii) Policies of Business, (iii) Production Capacity, (iv) Production Methods, (v) Management Information System, (vi) Participation in Management, (vii) Composition of Board of Directors, (viii) Managerial Attitude, (ix) Organisational Structure, (x) Features of Human Resource, etc.

Note:

All the above factors do influence the decisions of business, but since all these factors are usually under the control of business, they cannot be wholly included in the business environment.

B. External Environment

External environment includes all those factors which influence business and exist outside the business. Business has no control over these factors. The information about these factors is important for the study of the external environment.

Some of these factors are those with which a particular company has very close relationship. However, there are some other factors which influence the entire business community.

Micro environment means that environment which includes those factors with which business is closely related. These factors influence every industrial unit differently. These factors are as under:

(i) Customers (ii) Suppliers (iii) Competitors (iv) Public (v) Marketing Intermediaries.

(i) Customers:

Customers of an industrial unit can be of different types. They include household, government, industry, commercial enterprises, etc. The number of different types of customers highly influences a firm.

For example, suppose a firm supplies goods only to the government. It means that firm has only one customer. If because of some reason their relations get soured, the supply of goods will stop and in that case the closure of that firm is certain.

This clearly indicates that the customers do influence business. Therefore, a firm should make efforts to have different kinds of customers,

(ii) Suppliers:

Like the customers, the suppliers also influence business. If a business has only one supplier and he gets annoyed because of some reason, the supply of goods can be stopped and the very existence of the business can be threatened or endangered. Hence, efforts should be made to have various suppliers.

(iii) Competitors:

The competing firms can influence business in a number of ways. They can do so by bringing new and cheap products in the market, by launching some sale promotion scheme or other similar methods.

(iv) Public:

Public has different constituents like the local public, press or media, etc. The attitude or behaviour of these constituents can affect business units. For example, the local population can oppose some established firm whose business is excessively noisy.

Similarly, if the media gives some favourable report about a particular company the price of its share can register an increase on this count.

(v) Marketing Intermediaries:

The marketing intermediaries play a significant role in developing any business unit. They are those persons who reduce the distance between the producers and agents.

For example, a company sells its goods with the help of agents and if because of some reason all the agents get annoyed with the company and refuse to sell its goods, there can be a crisis for the company.

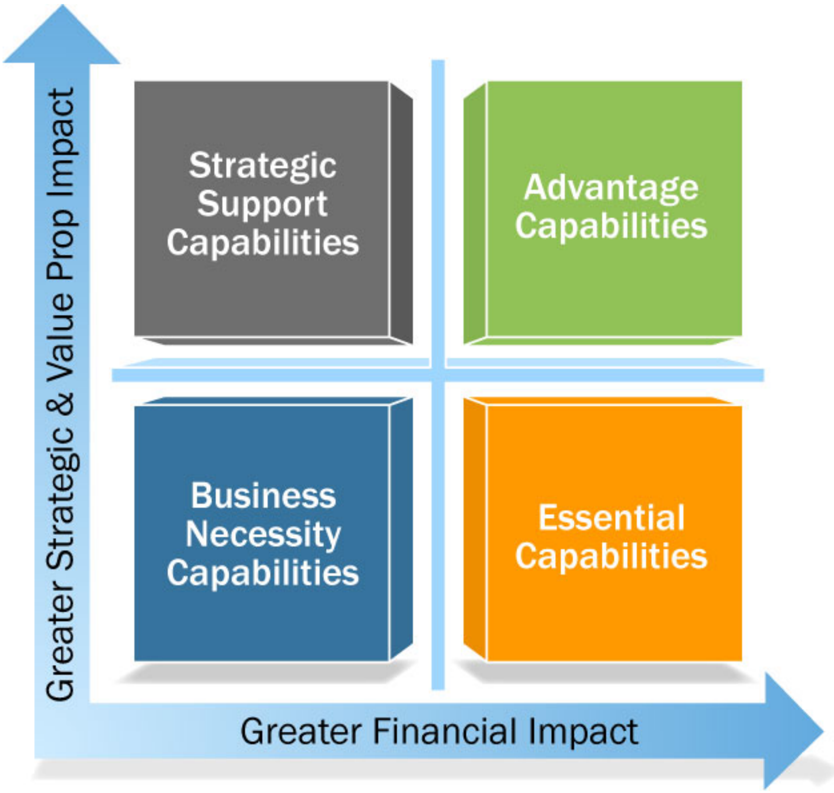
Business Capability

Business capability is the expression or the articulation of the capacity, materials and expertise an organization needs in order to perform core functions. Enterprise architects use business capabilities to illustrate the over-arching needs of the business in order to better strategize IT solutions that meet those business needs.

Systems architects will frequently begin by making a business capability map that takes stock of all the essential functions of an enterprise. Business capability mapping is a useful tool for documenting the relationships between a businesses' core function and software applications, computing systems and components in the enterprise architecture. The goal of capability mapping is not only to align technology with business, but to discover waste and streamline operations.

Business capabilities are sometimes confused with other concepts in business process management such as business processes and business functions. Business processes describe the methods an organization employs in order to provide and leverage business capabilities. Business functions describes the roles that individuals and units within the business play in regards to meeting business objectives.

While functions and roles tend to change rapidly as new employees enter the business, business capabilities remain relatively stable. High-level business capabilities include concepts such as sales and supply chain management that can be met by a number of various business processes, which in turn can incorporate a variety of business roles. Business capabilities can also be broken down into more granular levels. Supply chain management, for example, could be split into product flow, information flow, and finances flow.


Strategic Support Capabilities
Advantage Capabilities
Business Necessity Capabilities
Essential Capabilities
Greater Strategic & Value Prop Impact
Greater Financial Impact