Web site evaluations of eBusiness models

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Introduction

This brief report evaluates three web sites for their eBusiness model design, with emphasis on competitive advantages that sustain profitable performance. The evaluation is preceded by a brief background to the arguments underpinning eBusiness model design and the rich set of evaluation tools available from traditional methods of business strategy formulation.

A web site provides a useful window to important aspects of business operation and performance – particularly the degree of customer orientation, channel differentiation, marketing strategy, and customer support functions. A strong customer orientation is fundamental to any organisation's ability to compete.

Closer inspection behind the scenes of a web site helps to see important aspects that contribute to low cost operations – including: ERP systems; procurement linkages; and coordination of logistics. These aspects are very important where low cost operations contribute to competitive advantage and improve margins.

> This case study was prepared by John Loftus as a basis for application of e-business concepts in the unit *BSBEBUS502A – Evaluate e-business models*. The industry resources and research provided with this study are not intended to illustrate effective or ineffective management

Background

Substantial evidence supports arguments that fundamental business strategy development is increasingly important for eBusiness success. Porter (2001) argues that established businesses are more likely to benefit by applying information and communication technologies in ways that improve traditional activities at each stage of the value chain, or by implementing new combinations that were not feasible prior to Internet technologies.

There is no doubt that new technologies expand opportunities for internal productivity improvements, generate mutual benefits through B2B collaboration, and open new ways of building competitive advantage for existing and new business models. Both Porter (2001) and Tjan (2001) observe that organisations' ability to capitalise on new Internet opportunities is closely related to a range of qualitative criteria – particularly the **degree of fit** (synergy) with existing processes, capabilities, and culture.

Basis for choice of web sites

Three web sites have been chosen to help demonstrate how different businesses have employed the Internet to achieve sustainable profit performance and competitive advantages through their respective value chains.

- **Dell** (www.dell.com.au) is a computer supplier with involvement at all stages of the value chain. This choice of web site helps to demonstrate how a large size global enterprise uses the Internet as an **essential link** within a streamlined business operation.
- **Paul Kelly** (www.paulkelly.com.au) is an Australian singer and song writer, signed to EMI records. His business spans all stages of the value chain. This choice of web site helps to demonstrate how a small to medium size global enterprise uses the Internet as a **complementary addition** to an existing successful business operation.
- **Mixonic** (www.mixonic.com) provides digital storage, CD design, duplication and optional online CD distribution services. This choice of web site helps to

demonstrate how a medium size global enterprise uses the Internet to **deliver B2B service value** by lowering costs of production and outbound logistics for business customers.

Basis for method of comparing business models

The business models have been compared from two perspectives: (a) competitive position within the same industry – indexed to a set of weighted criteria as shown in table 1; and (b) relative position across different industries – presented graphically in figure 1.

Over the past 30 years, a wide range of evaluation tools and criteria have been identified and applied to the formulation, evaluation and implementation of business strategy at different stages of the life cycle for industries, businesses and products. Such tools include: the *Growth-Share Portfolio Model* developed by The Boston Consulting Group (1970); the *Strategic Business-Planning Grid* introduced by General Electric; the *Directional Policy Matrix* developed by the Shell Chemical Company and expanded by Brown (1990); the *competitive forces model* and extensions to the *Value Chain Analysis* developed by Porter (1985 and 2001); and various eBusiness evaluation criteria presented by Afuah and Tucci (2003).

These business evaluation tools remain as valid today as they have been over the past 30 years.

> ***"In our quest to see how the Internet is different, we have failed to see how the Internet is the same. While a new means of conducting business has become available, the fundamentals of competition remain unchanged."*** (Porter 2001).

Accordingly, this evaluation applies an adaptation of the *Directional Policy Matrix* with a mix of criteria drawn from the range of methods listed above. The directional policy matrix is useful for positioning each eBusiness model in terms of ***market attractiveness*** and ***ability to compete***. Index ratings of high, medium, and low enable each e-business model to be positioned on a 3 x 3 matrix for overall comparison of e-business models.

The index ratings of 1 to 3 are appropriate for the qualitative research data. An index of three (3) can be read as favourable. A lower index can be read as less favourable.

Comparison of models is a challenging exercise because the models to be compared are at different stages of their life cycle, and are represented by a mix of quantitative and qualitative weighted criteria.

The highest weighting is given to the ability to contribute sustainable positive cash flows toward fixed costs and profit – in the short-term. The ability to generate a positive contribution margin is mandatory. Also highly weighted is the degree of synergy with existing operations.

Other criteria weightings have not been shown directly on the evaluation tool because such weightings were found to vary for each model and life cycle stage. For example, market size and growth criteria have less value when low barriers to entry lead to intensive price competition. However, significance has been given to criteria that contribute to competitive advantage – typically: **low cost leadership**, **differentiation**, and **market segment focus**. These are the advantages that can lead to high market share and sustainable profitability (Porter 2001).

Approaches to resolving complexities of a multi-criteria decision scenario vary from subjective evaluation to complex algorithms such as the French-developed multi-criteria decision aid model known as Electre (Rogers et el 1999). Recognising that this analysis is based on web site inspections, and literature searches (flavoured with hype), a **subjective index** has been applied to each criterion and to the overall position of each e-business model on the directional policy matrix – as shown in Table 1 and figure 1.

The subjective indexes in table 1 are relative indicators only for educational purposes, and are not intended to illustrate effective or ineffective management.

Table 1 – subjective business model evaluations

Three dots are most favourable. Fewer dots are less favourable.

Criteria	Dell	Paul Kelly	Mixonic
Ability to compete			
Revenue sources	OOO	OO	OO
Direct costs	O	OOO	O
Contribution margin (x 10)	OOO	OOO	O
Market segment focus	OOO	OOO	OO
Customer benefits (value proposition)	OOO	OOO	OO
Customer self service	OO	OOO	OO
Customer feedback opportunities	OO	OO	OO
Customer ability to track order	OO	OO	OO
Customer ability to update profile	OO	OO	OO
Customer support after the sale	OOO	OO	OO
Product / Service delivery performance	OOO	OOO	OOO
Distribution channel differentiation	OOO	O	OO
Product differentiation	OO	OO	OO
Brand strength	OOO	OO	
Synergy with an existing business (x 5)	OOO	OOO	OO
Online sales channels	OOO	OO	OOO
Low cost leadership	OOO	O	OO
Competitive Position	OOO	O	O
Weighted average index	**2.8**	**2.5**	**1.7**
Market Attractiveness			
Market size	OOO	OOO	OOO
Market growth	O	O	O
Competitor rivalry	O	O	
Barriers to entry	OOO	OO	
Threat of substitutes	OO	OO	OO
Suppliers bargaining power	OOO	OOO	OOO
Channels bargaining power	OOO	O	OOO
Customers bargaining power	O	O	
Weighted average index	**2.1**	**1.8**	**1.5**

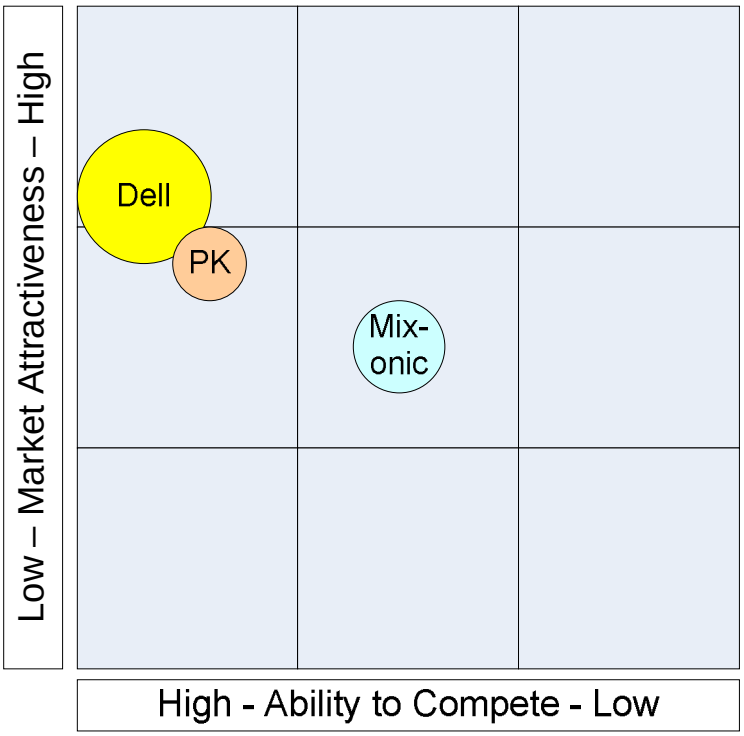

Figure 1: eBusiness models positioned on a directional policy matrix

Dell

Michael Dell's **customer value proposition** is the direct delivery of a reliable customised computer with a solid guarantee at a reasonable price.

Dell **earns revenue** by delivering customer value to two, *large attractive distinct*, market segments (B2B and B2C) using a highly competitive business strategy.

The Dell web site provides product information, interactive product design and order entry functions. The web site is also used to help capture detailed customer profiles. Through this web site, and other channels of communication, Dell satisfies the need for customised computers that can be configured online and sold directly – without intermediaries.

Dell's success can be attributed to a business strategy that is characterised by:

- a strong customer segment focus;
- customer self service for the design and order entry functions;
- differentiated channels of distribution;
- low cost leadership; and
- a respected brand name.

With this model, Dell has achieved a sustainable competitive advantage in a highly competitive industry.

Magretta (2002) explains the story how Dell's ability to compete has grown over the past 10 years. Dell commenced with a clear focus on the profitable business customer segment. A good understanding of customer needs has been maintained by dealing directly with customers. The absence of intermediaries avoids potential for channel conflict and improves profit margins by reducing channel costs. In an industry with rapid

innovation, the absence of intermediaries helps to minimise the high cost of inventory obsolescence.

After building a very strong position in the business market segment, Dell has dedicated additional effort to serve the consumer segment, using the strategic advantage of low cost leadership. To capture the large consumer segment, Dell's marketing communication has expanded to traditional channels – detailed printed brochures and TV advertising. Potential customers are offered substantial incentives to buy online. A direct 1300 phone number is also provided for optional personal service.

In a nutshell, the Dell web site is an essential link in a comprehensive business model that has the ability to compete in a large attractive market. Outstanding results have been built on a solid marketing strategy.

Paul Kelly

Paul Kelly's primary **customer value proposition** is entertainment through live performance and CD recordings. His customer focused website **adds value** by providing free access to musician resources, tour itinerary, and shopping links to online retailers. Since 1994, the web site has hosted a discussion list with a stable dedicated 350 members. Prospective customers can download a free digital recording and experience an example of Paul's performing talent.

Paul's **mainstream revenue** is generated through international live performance tours and royalties from the sale of his entertainment products – including recordings and compositions. His web site generates **additional revenue** through affiliate referrals to established online retailers, and indirectly through the promotion of his CD albums and performance tours.

Strengths that contribute to Paul's ability to compete in a highly competitive industry include:

- strong market segment focus;
- complementary synergy between his web site and mainstream business;
- extensive retail distribution through his contract with the recording major EMI;
- solid reputation (brand loyalty); and
- entry barriers to services provided by the major recording studios.

Main risks associated with Paul's business include:

- the bargaining power of the recording studio;
- the availability of substitute entertainment products;
- the widespread availability of low cost technology for digital distribution of music and pirate copying of CD's; and
- the impact of alternative digital distribution methods on traditional CD sales volumes.

Graham and Hardaker (2003) present a detailed discussion of the impact of on-line technologies and peer-to-peer networking on existing and potential business models for music distribution.

Readily available technology has opened new ways of listening to music – without the need for a physical CD. The increasing availability of low cost micro-payment services, broadband networks, digital compression technologies, hand held portable juke boxes with 40 GB hard disk drives, and peer-to-peer networking, all combine to reduce the power of the major recording companies and dampen the sale of music albums through traditional CD media and physical retail outlets.

Gander and Rieple (2002) refer to the strong bargaining power of recording studios where 80 percent of the music industry is dominated by five 'majors'. These organisations enjoy significant economies of scale and the advantage of global physical distribution networks. In these circumstances, if the need should arise, Paul Kelly's web site is well positioned to leverage a shift towards direct digital distribution of single titles. This strategy could become necessary if Paul's existing channels of distribution were severely damaged by the market forces and technologies outlined above. However, the likely intensity of competition and lower barriers to entry would become a major challenge for survival – new forms of differentiation would help.

Mixonic

Mixonic's **customer value proposition** is a one-stop-shop for outsourcing CD cover design, printing, duplication, and optional retail distribution services. These services are attractive to global business organisations that need to distribute software, video, music or data to any destination. Mixonic's value proposition is attractive to enterprises of any size in any location. A sliding fee schedule provides discounts for high volume orders. There is no set-up fee and no minimum order quantity.

Mixonic **earns revenue** through a schedule of fees for services. Customer acquisition is assisted by rewarding affiliates after referral of a customer and a successful transaction.

Major business partnership arrangements have been completed with:

- Sony Pictures.com for production of movie CDs;
- Wedding Channel.com for production of wedding CDs;
- CMJ – and independent music journal; and
- BMI – a music broadcaster.

Strengths that support Mixonic's model include:

- a strong customer focus;
- tightly integrated design, production, and outbound logistics functions;
- customer self service for the design and order entry functions;
- differentiation derived through a one-stop-shop concept – most competitors are limited to CD duplication and replication functions without attention to outbound logistics support;
- a wide range of design templates to assist customers prepare their own cover designs;
- low cost structures; and
- a large market with a growing customer base.

Weaknesses include:

- risk of obsolescence in favour of new storage technologies – eg. blue laser media;
- threat of substitutes to CD distribution – eg broadband network distribution;
- intensive competition; and
- relatively low barriers to the entry of new competitors, and expansion of services by existing competitors.

Some of these weaknesses could be turned to advantages if Mixonic found a strategy to transition a large customer base towards newer digital storage and distribution technologies.

Conclusion

This evaluation demonstrates that close inspection of an eBusiness web site provides clues to the businesses marketing strategy – particularly the target market, customer value proposition, product or service, marketing communication mix, channels of distribution, and pricing mix. These clues help to evaluate of the underlying e-Business model against a range of criteria for sustainable profit performance within the same industry. An overlay of the implementation and evaluation of each eBusiness model on a directional policy matrix helps to position and compare the relative merits of each model across different industries.

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