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E-Business Environment

Chartered Accountancy
Business Level 2
Digital Business Strategy (DBS)

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BL -8 Digital Business Strategy
## CA Business Level 2

E-Business Environment

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E-Business Environment

The **general environment** (or macro-environment) covers all the political/legal, economic, social/cultural and technological (PEST) forces which affect not only individual organizations but also the other actors in the micro-environment.

The **task environment** (or micro-environment) relates to the factors in an organization's immediate environment which affect its ability to operate effectively in its chosen markets, such as customers, competitors, customers, distributors and suppliers.

An organisation's environment
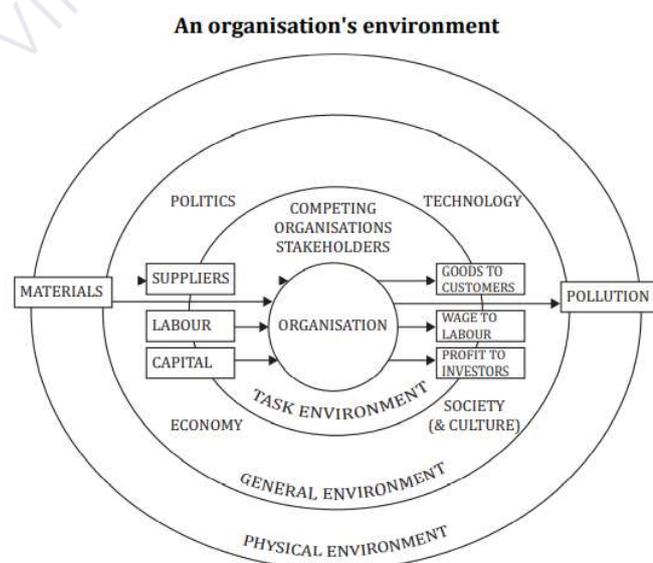
PEST Analysis

Management can use the PEST framework to analyse the macro-environment and to identify the opportunities and threats which could affect the organization. The mnemonic 'PEST' stands for political, economic, social and technological; but increasing public concern for the natural environment, corporate social responsibility and sustainability in recent years has led to the inclusion of a second 'E' in the mnemonic, standing for 'environment'. Equally, if legal matters (such as employment law, anti-discrimination policies, consumer protection and health and safety law) are given their own heading, the mnemonic becomes expanded to 'PESTEL'

Political

Government policies affect national economies and governments are responsible for creating and maintaining a stable framework in which business can be carried out. Government policies can also be important in relation to:
• Physical infrastructure (transport, broadband networks)
• Social infrastructure (education, welfare, law enforcement, equal opportunities)
• Tax
• Trade regulations
Political stability in a country can also affect the macro-economic environment in which a business operates. organization's decision about whether or not to undertake business in that country.

Economics

A business can be affected by national and international economic factors, such as:
- Inflation
- Interest rates
- Exchange rates
- Unemployment levels
- Business cycles and trends in national income
- International trade (and balance of payments)

Social

Demographics (such as birth and death rates, average age and ethnicity) and cultural factors are important for understanding the market and developing marketing strategies. They can also be important in developing an organization's HR policies. Other important social factors include:
- Income distribution
- Levels of education
- Attitudes to work and leisure
- Attitudes to consumption, and lifestyle choices

Technological

Developments in technology affect all aspects of business, through reducing costs, improving quality, and leading to innovation and new product development. Technological developments can result in new:

- Products and services
- Methods of producing or providing products and services (which, in turn, could lead to changes in an organisation's cost base)
- Sales channels (such as e-Commerce) and media for communication (eg internet; social media)

Environmental

This can include public concern for the natural environment, corporate social responsibility and sustainability. It is important to recognise that environmental factors can operate at local, national and global levels. (This recognition of the global level could be particularly important to multinational companies, assessing the opportunities and threats that are present in different countries.)
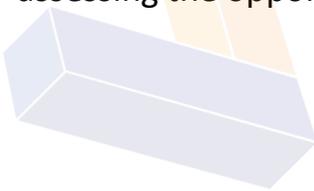
Legal

Factors can include legal matters in relation to employment law, anti-discrimination policies, consumer protection and health and safety law.

LongPEST

	Political	Economic	Social	Technological
Local				
National				
Global				

Limitations of PEST Analysis

- External factors are dynamic, and can change frequently and rapidly (for example, due to advances in technology). As such, the factors identified in a PEST analysis could quickly become obsolete, meaning they have little value for any future strategic planning.

- Alternatively, if an organization keeps updating its PEST analysis – to reflect changes in the external environment – this means the analysis will become a time consuming and costly exercise.

- Often the output from PEST analysis becomes little more than a list of environmental factors that can affect an organization or a project. However, unless these factors are prioritized – in terms of their potential impact and the likelihood of them occurring – the value of the environmental analysis in terms of helping an organization identify the key opportunities and threats it faces is reduced.

Limitations of PEST Analysis

- Equally, there is no guarantee that the organisation will identify all the environmental factors that could affect it.

- On a related point, although PEST analysis can provide useful information to assist strategic planning, the strategic options that an organization can actually pursue successfully are determined not only by the opportunities and threats in the external environment but also by its own internal resources, competences and capabilities.
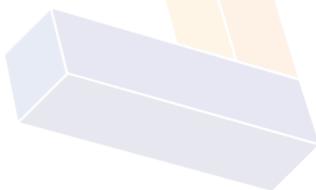
Triggers

The external environment is the source of opportunities and threats for an organisation. In order to respond effectively to those opportunities and threats, the organisation may need to make changes to its current products, markets or processes. In this way, the environment can act as a trigger for change in organizations

Indirect Triggers
- Changes in the economic cycle (for example, an economic downturn, or recovery from recession into a period of economic growth; either domestically or internationally)
- New laws or changes in customer expectations and tastes; responding to customer pressure (for example, car manufacturers moving towards producing more environmentally friendly cars in response to customer concerns about carbon emissions and pollution)
- Changes in product or process technology (for example, the impact of faster communications and digital downloads on the music and film entertainment industries)
- Changes in communications media, in particular the growth of e-Business and e-Commerce

Triggers

- Arrival of new entrants into the market, or mergers/acquisitions between existing competitors in the industry
- Changes in level or intensity of competition (prompting a need to gain or protect market share)
- Changes in supply chain or distribution networks

Triggers

Globalization - Reductions in transportation, information and communication costs, new technologies and e-Business, and the growth of new trading blocs such as the 'Tiger' economies of South-East Asia mean that the geography of world trade has changed dramatically since the 1960s. Organizations (particularly in developed, Western countries) have had to plan how to respond to the increasing competitive pressures which result from the growth of rivals based in locations with lower cost bases. Globalization also opens up opportunities for organizations to shift production internationally, or to sell to customers in a number of countries. Such changes could have a significant impact on how a company manages its supply chain.

Triggers

Natural Environment - The increased importance of social responsibility and sustainability indicates that the potential impact of businesses on the natural environment is becoming increasingly recognized. The potential exhaustion of supplies of natural resources; concern about levels of waste and pollution being created; and the threat of climate change and global warming will force organizations to change their behavior sooner or later. Organizations are now increasingly keen to show they are responsible corporate citizens, so changes may be introduced sooner so that they can demonstrate their corporate social responsibility.

Triggers

Changing workplace structure - Historically, the traditional organisation structure has seen businesses staffed by a core, permanent workforce. However, this model is changing to one where an increasing number of organisations are using a mix of core and peripheral workforces (for example, using home workers) and outsourcing their labour requirements for certain services.

Triggers

Continuing impact of advanced communications technologies - Since the 1980s, most of the developed economies in the world have been riding the 'third wave' of an industrial revolution which is bringing changes as profound as those that followed the earlier two waves of steam power and the internal combustion engine.

Advanced communications technologies have created new industries, new products and new lifestyles and have enabled the fragmentation of firms into 'virtual businesses' such that activities that were once all conducted in-house are now being factored out around the globe. The new technologies have also brought new organizational structures and have led to organizations having enriched information about individuals and groups of customers. However, these technologies have also raised new concerns about privacy and surveillance.
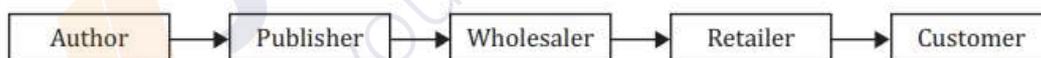
E- Marketplace types functions and features

Disintermediation is the removal of intermediaries in a supply chain that 'formerly linked a company to its customers' (Chaffey, 2007: p.45). Chaffey (2007) highlights that instead of going through traditional distribution channels, with intermediaries such as a distributor, wholesaler, broker or agent, companies may now deal with every customer directly via the internet. Dell computers have taken this option and removed any intermediaries from their downstream supply chain (between them and their customers).
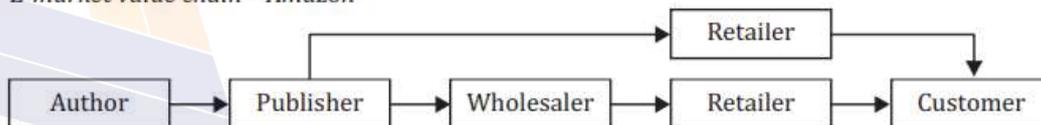
E- Marketplace types functions and features

Disintermediation

Traditional value chain in publishing

Author → Publisher → Wholesaler → Retailer → Customer

E-market value chain – Amazon

Author → Publisher → Wholesaler → Retailer → Customer; Publisher → Retailer → Customer

E-market value chain – the print on-demand paradigm

Author → Publisher → Wholesaler → Retailer → Customer
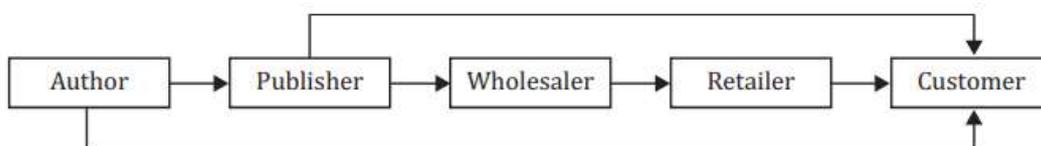
E- Marketplace types functions and features

Re-intermediation Chaffey (2007) notes that re-intermediation is the establishment of new intermediary roles for traditional intermediaries that were disintermediated. In some cases, a new element of a supply chain simply replaces a single displaced element, such as Amazon replacing retailers. In other cases, a re-intermediating entity replaces multiple supply chain elements. These new intermediaries do one of two things:

(a) Provide customers with new, important value-added services not provided in the new direct customer-supplier relationship. An example is Kelkoo, which is a shopping/price comparison search engine.

(b) Provide customers with more efficient means of transacting business.

E- Marketplace types functions and features

Counter mediation Chaffey (2007) notes that counter mediation is the creation of a new intermediary by an established company in order to compete via e-business with established intermediaries. Chaffey (2007) notes that B&Q set up its DIY site to help people who want to do their own DIY, and the Opodo site was set up by a collaboration of nine European airlines.

Example : Airlines , Travel Agents, Financial Services

E- Marketplace types functions and features

- **'E-tailers'** or consumer shopping sites such as Amazon. While starting out as simply a bookshop on the web, it has added a variety of products and types of services. By contrast, Tesco is an offline retailer which is offering web-based order and delivery services.
- **Malls** are sites that group together different online stores as tenants. Malls provide cyber-infrastructure, but do not own inventory or sell products directly. (Chaffey, 2007).
- **Auction sites** such as eBay support online auctions.
- **Publisher websites** are traffic generators that offer content of interest to consumers.

E- Marketplace types functions and features

- **Virtual resellers** are intermediaries that exist to sell to consumers. (Chaffey, 2007). They are able to obtain products directly from manufacturers, who may hesitate to go directly to consumers for fear of alienating retailers upon which they still largely depend.
- **Website evaluators** direct consumers to a producer's site via a new type of site that offers some form of evaluation, which may help to reduce some of the risk. (Chaffey, 2007).
- **Forums**, fan clubs and user groups can play a large role in facilitating customer/producer feedback and supporting market research. (Chaffey, 2007).
- **Financial intermediaries**. Any form of e-Commerce will require some means of making or authorizing payments from buyer to seller. (Chaffey, 2007).

E-procurement

Supplier centric modal An individual supplier gives access to its website or computer system to buying organizations for a pre-negotiated product range. Buyer and supplier have a contractual relationship.

Buyer centric modal : ndividual companies have contracts with a number of different suppliers. The catalogue and ordering system are maintained within the buying organisation. The system is fully integrated into corporate financial control and reporting systems.

B2B market place: An independent third party has agreements with a number of buying and supplying organisations. Buyers and suppliers deal with each other through a marketplace. Both are bound by agreements with the marketplace.

Models

The model of Rao et al (2003) suggests the following stages of e-Commerce development and their characteristics

Stage1	Stage 2	Stage 3	Stage 4
Presence	**Portals**	**Transaction integration**	**Company integration**
Content Window to the web No integration Email	Profile Two-way communications Email Order placing Cookies No online financial transactions	B2B/B2C Communities E-Marketplaces Auctions Third party e-Marketplaces Low-level collaboration Online financial transactions	B2B Full integration E-Business Uses e-Commerce systems to manage CRM and supply chain Value chain integration High-level collaboration

New types of intermediaries

Search engines and directories

Search engines such as Google provide search facilities based on data generated by software engines that search the web. Directories such as Yahoo provide a general index of a large variety of different sites. Search agents (search bots) gather material from other sites.

Auctions

Reverse auction sites allow consumers to specify an item they wish to purchase, allowing producers and others to bid on the item. There are also third-party aggregators or buyers' clubs that link consumers with producers to obtain lower prices.

New types of intermediaries

Portals

Portals provide a gateway to the web and may also offer signposting, selected links and other services to attract users. Chaffey (2007) notes that a range of portal types exist. Internet service providers' (ISP) home pages such as AOL are an example of portals, and the large ISPs offer a wide range of added value services. Variations on the portal as a gateway are: a horizontal portal or user customized gateway (eg My Yahoo); a vertical portal or special interest portal, eg CNET – a portal for users interested in developments in IT; and an enterprise information portal, which is an organization's home page for employees, including corporate info and selected links.

Consumer Online Behavior

Portals

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