A Competitive Strategy Framework for E-Business Start-Ups

by
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I Declaration

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II Summary

The strategic tools and insights that e-business start-ups require to better formulate their competitive strategies are obscured by the staggering amounts of strategy literature that is available. Yet at the same time, given the relative recency of the Internet, research in the e-domain is still in its infancy. An opportunity for strategic sense-making and integration was therefore identified to make these tools and insights more accessible, while simultaneously deepening the understanding of e-business.

The objective of this study was to develop a conceptualisation that could assist e-business start-up competitive strategy formulation. Competitive strategy in this context refers to how a business intends to compete in the market and how it intends to defend its chosen competitive position.

In conducting the research, a constructivist philosophical perspective and a practice-oriented approach was embraced, which required the developed conceptualisation to present a more informed and sophisticated perspective than previously existed, while also providing practical utility in the real world. A basic systems engineering process was followed for this exploratory theory building study. This involved creating a set of requirements that needed to be met by the conceptualisation, designing the conceptualisation and its sub-models, and verifying and validating that the conceptualisation met the requirements.

The research endeavour investigated four main domains of interest, namely e-business, business models, blue ocean strategy and red ocean strategy. Four sub-domains were also investigated, namely fundamentals of e-business strategy, business model innovation, e-value creation and e-customer retention. Together these domains produced 46 content requirements that needed to be addressed in addition to the 17 research question requirements and 18 theoretical model building requirements.

The output of the study was a competitive strategy framework that exists on three levels of complexity. It consists of five primary elements (customer need exploration, value proposition, customer lock-in, strategic assessment, renewal and growth), nine sub-elements, 18 sub-models, various relationships and a flexible sequence. The validation process (local, international and via workshops) confirmed that the developed competitive strategy framework has achieved its goal and is capable of assisting e-business start-up competitive strategy learning, formulation and analysis, resulting in enhanced cognition. In addition, e-business practitioners regarded the framework as a better methodology for formulating competitive strategies than their previous approaches.

This study scratches at the surface of all the aspects and complexities related to competing in the e-domain. The competitive strategy framework for e-business start-ups, however, is an important stepping stone towards developing a better understanding of the e-environment itself, how to formulate business strategies for this environment and how to successfully compete within it.

III Opsomming

Die strategiese modelle en insigte wat e-besighede benodig om beter kompeterendestrategieë te formuleer word verbloem deur die verbysterende hoeveelheid strategieliteratuur wat beskikbaar is. Maar terselfdertyd, gegewe die relatiewe nuutheid van die Internet, is navorsing in die e-ruimte steeds in sy kinderskoene. Die geleentheid vir strategiese integrasie is daarom geïdentifiseer om relevante strategiese modelle en insigte meer toeganklik te maak, en terselfdertyd die begrip van e-besigheid te verdiep.

Die doel van hierdie studie was om 'n konseptualisering te skep wat kompeterendestrategieformulering in e-besighede kan ondersteun. Die kompeterendestrategie van 'n besigheid verwys na hoe daardie besigheid beplan om in die mark te kompeteer en sy gekose markposisie te verdedig.

'n Konstruktivistiese filosofiese perspektief en 'n prakties-georiënteerde benadering is gebruik vir die uitvoer van die navorsing. Dit het genoodsaak dat die ontwikkelde konseptualisering 'n meer ingeligte en gesofistikeerde perspektief voorstel as wat voorheen bestaan het, en terselfdertyd praktiese nut bied. 'n Basiese stelselsingenieursweseproses is vir hierdie verkennende teorieboustudie gevolg. Eerstens moes 'n lys van vereistes geskep word waaraan die konseptualisering moes voldoen. Daarna moes die konseptualisering en die sub-modelle ontwerp word, en die konseptualisering geverifieer en geldig verklaar word.

Die navorsing het vier primêre velde ondersoek, naamlik e-besigheid, besigheidsmodelle, blou-oseaan-strategie en rooi-oseaan-strategie. Vier sub-velde is ook ondersoek, naamlik die grondbeginsels van e-besigheidstrategie, besigheidsmodelinnovasie, e-waardeskepping en e-kliëntebehoud. Hierdie velde het 46 inhoudsvereistes opgelewer waaraan voldoen moes word, tesame met die 17 navorsingsvraagvereistes en 18 teoretiesemodelbouvereistes.

Die uitset van die studie was 'n kompeterendestrategieraamwerk wat op drie vlakke van kompleksiteit bestaan. Dit omvat vyf primêre elemente (kliëntebehoefteverkenning, waardestelling, kliëntebehoud, strategiese assessering, vernuwing en groei), nege sub-elemente, 18 sub-modelle, verskillende verhoudings en 'n buigsame volgorde. Die geldigheidsverklaringsproses (plaaslik, internasionaal en via werkswinkels) het bevestig dat die kompeterendestrategieraamwerk wel sy doel dien en in staat is om die aanleer, formulering, en ontleding van kompeterendestrategie in e-besigheid te ondersteun. E-besighede het ook die raamwerk beskou as 'n beter benardering tot kompeterede strategieformulering as wat hulle voorheen gebruik het.

Hierdie studie raak slegs aan die oppervlak van al die aspekte en kompleksiteite wat gepaard gaan met e-besigheidkompetisie. Nogtans vorm die kompeterendestrategieraamwerk 'n belangrike bousteen vir die oorhoofsedoel om 'n beter begrip te kry van die e-omgewing, asook hoe om strategieë vir die e-omgewing te formuleer en daarin te kompeteer.

IV Acknowledgements

Before this study, I have never quite been able to articulate who my role models were besides my parents. This study has provided me with some clarity. I want to extend my greatest and sincerest regard and gratitude to extraordinary authors such as Michael Porter, Alexander Osterwalder, Yves Pigneur, W. Chan Kim, Renée Mauborgne, Kevin Kelly, Christoph Zott, Raffi Amit, and Clayton Christensen. Without these authors' respective insights that served as intellectual inspiration, this thesis would not have been possible. Furthermore, thanks to all of the other strategists and e-business practitioners who laid the foundation upon which this study is based.

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- Other friends and family – For listening even though my words make no sense. Thanks for the motivation, encouragements and shelter. It all means the world to me.

V Prelude

"*Competitive Strategy* was written at a different time, and spawned not only extensions but competing perspectives. Yet in a curious way, appreciation of the importance of strategy is growing today. Preoccupation with issues internal to companies over the last decade had limits that are becoming apparent, and there is a renewed awareness of the importance of strategy. With greater perspective and less youthful enthusiasm, I hope we can now see, more clearly than ever, the place of competitive strategy in the broader palette of management, and develop a renewed appreciation for an integrated view of competition." – (Porter, 1980, p. xvi)

Michael E. Porter
Brookline, Massachusetts
January 1998
On his book *Competitive Strategy* (1980)

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1. Introduction

This chapter introduces the research need, defines the problem and highlights the research questions. The research methodology, philosophical perspective, research domains, limitations, assumptions and document outline are also discussed.

1.1. Background

The advent of the Internet and the network economy was one of the most profound creations of the previous century. Not only does the Internet serve to enhance and simplify almost every aspect of modern day life, but it also provides an abundance of new opportunities for innovative businesses and wealth creation (Manyika & Roxburg, 2011, p. 1). Resultantly, many new entrants are attracted to the e-environment (Porter, 2001, p. 11).

However, the large number of e-business failures attests that it is by no means easy to make a success online (Entrepreneurship 2020 Action Plan, 2013, p. 13; Perlroth, 2013; Starting an Online Business, 2012). Between 30 and 80 percent of e-business start-ups fail within the first five years of operation (Hathaway, 2013, p.21; Ghosh, 2012; Song, Podoynitsyna, van der Bij, & Halman, 2008, p. 8; Knaup & Piazza, 2007, p. 6), and some sources even quote failure rates of up to 85 percent within 10 years (Luo & Mann, 2011, pp. 19, 23).

Numerous reasons for these failures may exist, though given the relationship between strategy and business performance (Hussy, 1998, p. 42), some of these failures can undoubtedly be attributed to strategic errors. Broadly speaking, strategy may be divided into two sub-categories, namely strategy formulation and strategy execution. In the more traditional strategy domains, strategy formulation usually precedes strategy execution. This indicates that in an attempt to make a contribution to e-business strategy, strategy formulation should serve as a point of departure rather than strategy execution, as investigating both of these on a detailed level is overly optimistic. Support for the need of strategy formulation research is provided by Kraus, Harms and Schwarz (2008, p. 381) who found that the degree of strategy formalisation of small businesses has a positive and highly significant impact on firm performance. Similar results were obtained by Veettil (2008, p. iv) who found that strategic planning helps to improve the relative competitive performance of businesses in highly dynamic and highly hostile environments, such as the Internet.

Strategy formulation is still a very broad field of research. Resulting from the problem that many e-businesses are not effectively competing online, the scope of this study was refined to focusing on the competitive strategy of a business. The competitive strategy of a business deals with how the business intends to compete in the market and how it intends to defend its chosen market position (Porter, 1980, pp. xxiv, 4).

A primary literature review revealed that there is no shortage of strategy and management literature. On the contrary, a staggering amount of general strategy literature was found that could potentially assist e-business start-up competitive strategy formulation. It therefore is not necessarily the case that the knowledge, insights or tools to assist start-ups do not exist; it's just that they are disjointed. The literature is also sometimes paradoxical, which compounds problems and makes it very difficult for any non-strategy expert to sift through and make sense of (Blank, 2013, p. 70).

Yet at the same time, given the relative newness of the Internet, research in the e-domain is still in its infancy (Kalboneh, Khattab, & Shbeeb, 2015, p. 74; Mattoo, Stern, & Zanini, 2008, p. 459; Bharati & Tarasewich, 2002, p. 25). The opportunity for advancing the field of e-business therefore exists. Within this scope, the opportunity for strategic sense-making and integration exists in order to make relevant strategic insights and tools more accessible to e-business start-ups, while simultaneously deepening our understanding of e-business. The logic of this exposition can be depicted as shown in Figure 1.1 below.

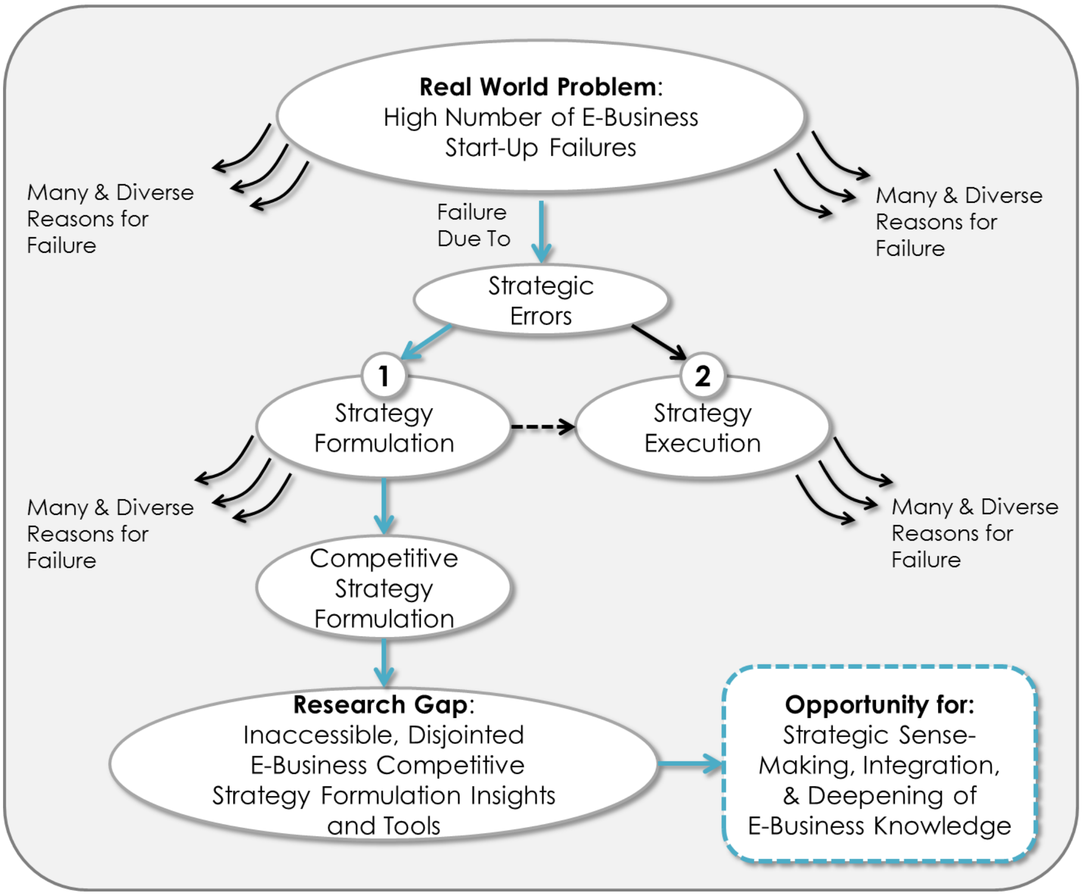


Figure 1.1 – Research Opportunity

In light of how important the Internet economy and small business success is to any nation, research that supports their development and growth is of the utmost importance. This study therefore sought to assist e-business start-up competitive strategy formulation.

Many vehicles exist that could be utilised to realise this objective, however due to the intangible nature of strategy, the envisioned output of this study was a conceptualisation that enhances an e-business's cognition, enabling them to think more holistically and clearly about competing in e-business, which in turn assists their strategy formulation.

1.2. Problem Statement

The strategic insights and tools that e-business start-ups require to better formulate their competitive strategies are fragmented and obscured by the staggering amounts of strategy literature available. Yet at the same time, given the relative newness of the Internet, research in the e-domain is still in its infancy. The opportunity to make these insights and tools more accessible as an integrated, coherent whole and assist e-business competitive strategy formulation therefore exists.

1.3. Research Questions

The main research question of this study is: ***What conceptualisation can assist e-business start-up competitive strategy formulation?***

In order to address the main research question, several sub-research questions needed to be addressed[1]:

1. What are the core conceptual elements of competitive strategy?
2. What sub-elements can assist the formulation of these core elements?
3. What relationships exist between these elements?
4. What possible sequence could these elements be formulated in?
5. What existing models, tools and insights (and new integrations of these) can assist the formulation of each of the sub-elements?
6. What core principles underlie competitive strategy?

1.4. Research Methodology

This section describes the philosophical perspectives employed to conduct the study, the research design used, the research domains investigated (which forms the basis of the solution to the problem) and the conceptualisation type that was selected to be developed.

1.4.1. Philosophical Perspective

The purpose of scientific inquiry is the discovery of "truth" or "truthful knowledge" (Gay and Weaver, 2011, p. 29; Mouton, 2001, p. 138). Every researcher though, has a prior commitment to certain assumptions or beliefs regarding the nature of reality and the way that it can be investigated. This commitment, also termed philosophical perspective or paradigm of the researcher, influences what is considered to be the

[1] These sub-research questions were derived from (1) the principles of systems engineering that seek to decompose problems into workable sub-elements and then integrate them into a total solution; and from (2) the theoretical model building requirements discussed in Chapter 4.2.

"truth" and suitable approaches to obtain it. A researcher's philosophical perspective should therefore be made explicit. (Lincoln, 2010, p. 7; Guba & Lincoln, 1994, p. 116)

Four common philosophical perspectives employed are that of positivism, post-positivism, critical theory and constructivism. These perspectives are often contrasted and compared in terms of their ontological perspective (what constitutes the nature of being or reality), epistemic perspective (what constitutes truth or knowledge), methodological approach (how knowledge is obtained and scientific inquiries are made) and axiological perspective (the study of values). (Gay & Weaver, 2011, p. 24; Guba & Lincoln, 1994, p. 109)

Briefly describing each of the above mentioned philosophical paradigms, in the ***positivist*** and ***post-positivist paradigm***, the primary purpose of research is to rigorously test hypotheses to discover if they have observed empirical support (and can therefore explain phenomena); are generalizable across populations; and can be used for prediction and control (Gay & Weaver, 2011, p. 27; Guba & Lincoln, 1994, p. 113). Positivism deals with verifying priori hypotheses, whereas post-positivism deals with falsifying such hypotheses (Guba & Lincoln, 1994, p. 110). The hypotheses in both these cases are usually expressed as mathematical (quantitative) propositions that express functional relationships (Guba & Lincoln, 1994, p. 106).

Between the two, post-positivism has recently become a more favourable paradigm. The argument is that a million white swans can never establish, with utter confidence, that all swans are white, but one black swan can completely falsify it. (Guba & Lincoln, 1994, p. 107)

Positivism's ontological stance is that of naïve realism where an apprehendable reality is assumed to exist and it is believed that research can converge on the "true" state of affairs (Guba & Lincoln, 1994, p. 109). Post-positivism's ontological stance on the other hand, is that of critical realism, where reality is assumed to exist, but is only imperfectly apprehendable, because of flawed human intellectual mechanisms and the fundamentally intractable nature of phenomena. It is therefore possible to closely, but not perfectly apprehend reality. Replicable findings in the case of positivism reflect actual truth, whereas replicable findings in the post-positivist view are regarded as probably reflecting the truth. (Guba & Lincoln, 1994, p. 110)

Critical theory assumes an ontological perspective of historical realism. In this view, the natural and immutable reality as perceived today was once plastic, but has over time been crystalized into its current form because of a series of social, political, cultural, economic, ethnic and gender factors (Guba & Lincoln, 1994, p. 110). Reality is therefore historically moulded. Critical theory focuses on critique of oppositions, conflicts and contradiction in contemporary society and the elimination of the causes of alienation and domination (Meyers & Avison, 2002). It can be said that critical theory has an insistence on knowledge becoming an emancipatory and transformative force in society (Babbie & Mouton, 2001, p. 34). According to Guba and Lincoln (1994, pp. 113) for critical theory "the criterion for progress is that over time, restitution and emancipation should occur and persist."

Lastly, ***constructivism*,** also termed interpretivism or naturalistic inquiry (Guba & Lincoln, 1994, pp. 105, 109), is a paradigm that advocates ontological and epistemological relativism rather than realism. Guba and Lincoln (1994, pp. 110, 111) stated that in the constructivist paradigm "realities are apprehendable in the form of multiple, intangible, mental constructions, socially and experientially based, local and specific in nature … and dependent for their form and content on the individual persons or groups holding the constructions. Constructions are not more or less "true", in any absolute sense, but simply more or less informed and/or sophisticated. Constructions are alterable, as are their associated realities."

Both critical theory and constructivism are predominantly qualitative in their nature. Another core difference between positivism/post-positivism and critical theory/constructivism is that the first mentioned set assumes that the investigator and the object of inquiry are independent entities that have no influence on each other. The latter set however, embraces the subjective nature of the investigator and assumes that the investigator and the object of inquiry are inexorably linked. In fact, in the case of constructivism, knowledge is actually created and refined via the interaction between the investigator, respondents and the object of inquiry. (Guba & Lincoln, 1994, pp. 109-111) Guba and Lincoln (1994, p. 107) also noted that "the notion that findings are created through the interaction of the inquirer and phenomenon… is often a more plausible description of the inquiry process than is the notion that findings are discovered through objective observation as they *really* are, and as they *really* work."

A recurrent debate in literature concerning the philosophy of science is that of determining which philosophical perspective is superior (Lincoln, 2010, p. 3; Guba & Lincoln, 1994, p. 105). The dominant and unquestioned paradigm of the first half of the 20th century was that of positivism (Denzin & Lincoln, 2000). More recently however, the constructivist view and even mixed methods have become more accepted (Creswell, 2009; Lincoln, 2010, p. 4). Regarding the over-all debate, Guba and Lincoln (1994, p. 108) eloquently stated that, "paradigms, as sets of basic beliefs, are not open to proof in any conventional sense; there is no way to elevate one over another on the basis of ultimate, foundational criteria… In our opinion, any given paradigm represents simply the most informed and sophisticated view that its proponents have been able to devise". Similarly, Cresswell (2009, p. 102) stated that he is tired of the incompatibility argument between paradigms and has no intention of dealing with it anymore.

Finally, Gay and Weaver (2011, p. 28) mentioned that many researchers consider a mix of methods to be, not only appropriate and valid, but perhaps even necessary. The advantage of mixed methods research is that the researcher is free to use all methods possible to address the research problem, making it very practical (Creswell & Plano Clark, 2010, p. 10).

The main philosophical perspective embraced in this thesis are that of *constructivism*, together with a *practical utility orientation*. Constructivism is fitting as the nature of the research is exploratory. The "hypotheses" to test did not exist yet and needed to be discovered. The research context of e-business competitive strategy is volatile and dynamic, involving numerous decision variables that interact in complex ways, creating an uncertain and ambiguous environment. It is exactly in environments such as these that a constructivist perspective is fitting, as constructivism seeks to better understand phenomena, while admitting that an absolute truth is unlikely to be found. Rather, multiple truths exist. Theories are socially constructed and improved through participant interaction. The goal of constructivism is therefore relative consensus between participants and the introduction of constructions that are more informed and sophisticated than any of its predecessors (Guba & Lincoln, 1994, p. 111), resulting in utility in the real world.

The importance of practical utility cannot be over-emphasized. Its inclusion as a core orientation is partly derived from the engineering orientation that seeks to solve problems. As mentioned at the start of this section, the purpose of scientific inquiry is the discovery of "truth" or "truthful knowledge" (Gay and Weaver, 2011, p. 29; Mouton, 2001, p. 138). Gay and Weaver (2011, p. 29) added that "what makes one theory preferred over another is the significant (albeit incremental) progression and advancement of knowledge toward the truth… Yet, "truth" (i.e. theory) merely for the sake of truth, absent practical usefulness (scientific or pragmatic), is rarely sufficient." The same sentiment is echoed by Lewin (1952, p. 169), who wrote that "there is nothing more practical than a good theory." It is therefore a key goal of this study to not only make a scientific contribution, but a practical one as well.

Together, the philosophical perspective of constructivism and a practice-oriented approach concurrently influenced the research world-view and approach as will be seen in subsequent chapters.

1.4.2. Research Design

The intended output of this study was a conceptualisation that assists e-business competitive strategy formulation. The research was exploratory and made use of inductive reasoning to expand and refine existing theories. The study therefore falls into the theory and model building research category defined by Mouton (2011) as shown in Figure 1.2 below.

A mixed methods approach was used that makes use of both textual and numeric data to create the competitive strategy conceptualisation. The reason for this is that quantitative data aids with making generalisations, while qualitative data adds depth and richness, not possible with quantitative data. Furthermore, a hybrid data collection approach was followed that mainly made use of secondary, non-empirical data obtained through the literature study, however, primary data was captured through semi-structured interviews with field experts in the validation chapters. Primary data capturing from actual e-business start-ups via workshops and an accompanying questionnaire was also done.

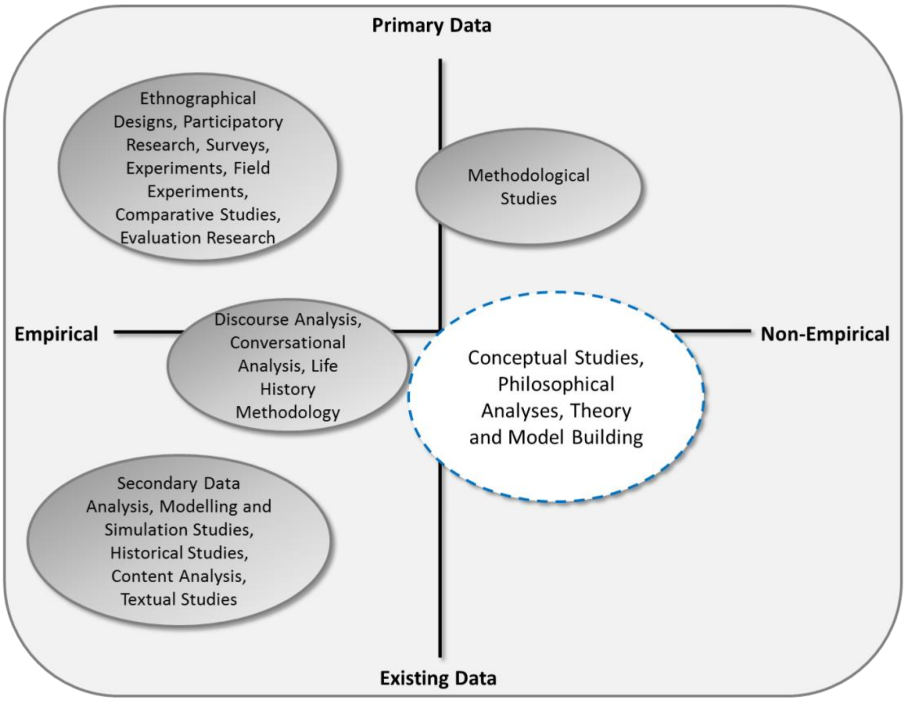


Figure 1.2 – Mapping Research Designs (Mouton, 2011, p. 144)

Interviews were decided on as the best choice for primary data collection, as the complex nature of the competitive strategy conceptualisation requires a deep understanding of the research domain to sensibly validate it. This is also aligned with the constructivist approach. Guba and Lincoln (1994, p. 111) explained that for constructivism "knowledge consists of those constructions about which there is relative consensus… among those competent… to interpret the substance of construction." One-on-one interviews were therefore the best suited for facilitating this interaction. A semi-structured interview design was chosen, because it allows the researcher to validate specific aspects of the created conceptualisation in the structured parts, while also allowing the capturing of valuable insights that can improve the conceptualisation in the unstructured parts. A thematic analysis was then conducted in order to identify recurring themes among the interviewees. By analysing and reflecting on these, meta-insights emerged.

The workshop and questionnaire combination on the other hand was deemed the best choice for practically implementing the competitive strategy conceptualisation. In contrast to the experts, the goal of the questionnaire was not to validate the theoretical aspects of the framework, but rather the practical aspects thereof. The questionnaire did not seek to capture in-depth knowledge of the research domain, but rather to capture how the start-ups practically experienced the competitive strategy conceptualisation during the workshop. Another added benefit of the questionnaire was that a lot more responses could be collected with less effort.

The research investigation was carried out within Stellenbosch's enterprise engineering research group at the faculty of industrial engineering. Briefly elaborating on industrial engineering, the field is essentially about increasing business performance through effectiveness and efficiency improvements. Similarly, the competitive strategy conceptualisation is intended to improve and assist start-up's competitive strategy formulation. The topic of investigation is therefore suited for the intended degree.

Enterprise engineering is a sub-discipline of systems engineering and seeks to design enterprises as a whole or in part, and includes the engineering of products, processes and business operations. Enterprise engineering makes use of a wide array of business tools, methodologies and theories in order to achieve its aims, and although enterprise engineering originated as a sub-discipline of systems engineering, the systems engineering approach still forms part of enterprise engineer's toolkit (du Preez, Essman, Louw, Schutte, & Marais, 2010, p. 50). Within enterprise engineering, there is a strong focus on practical utility, hence the practice-oriented approach adopted by the study. Dietz, Hoogervorst, *et al*. (2013, p. 93) mentioned that "There is a large chasm between what science knows and what enterprises do. It is the ambition of the discipline of enterprise engineering to further increase that knowledge and to make it practically useable".

Dietz, Hoogervorst, *et al.* (2013, p. 92) further described enterprise engineering as "a new holistic approach to address enterprise changes, of all sizes and in all kinds of enterprises. Because of its holistic, systematic approach, it resembles systems engineering (Sage, 1992; Stevens *et al*., 1998). But it differs from it in one important aspect: enterprise engineering aims to do for enterprises (which are basically conceived as social systems) what systems engineering aims to do for technical systems." Systems engineering is an interdisciplinary field that utilises a systematic, iterative and holistic approach to design and manage high quality technical systems over their lifecycles (Sage, 1992; Forsberg & Mooz, 1995; NASA Systems Engineering Handbook, 1995; Haskins, 2006, pp. 20–22). Classical systems engineering referred only to the engineering of physical systems, but more recently systems engineering has evolved to include a broader meaning especially where humans are seen as a critical component of the system.

Systems engineering applies to all sorts of systems (Kasser, John, & Weng, 2008, p. 14) and provides a rigorous method for developing complex systems that functions as an integrated, coherent whole. As this study sought to design a rather complex conceptualisation not yet in existence, it was fitting that the research methodology used, drew on the principles and approach of systems engineering, although not systems engineering in its purest form. Similar to a typical systems engineering process, the model building process involved identifying a set of requirements from literature that had to be fulfilled by the conceptualisation; developing the theoretical model at increasing levels of detail; and verifying and validating the model at each of its levels of complexity. This process is graphically depicted in Figure 1.3 below, together with the chapters that the process steps correspond to.

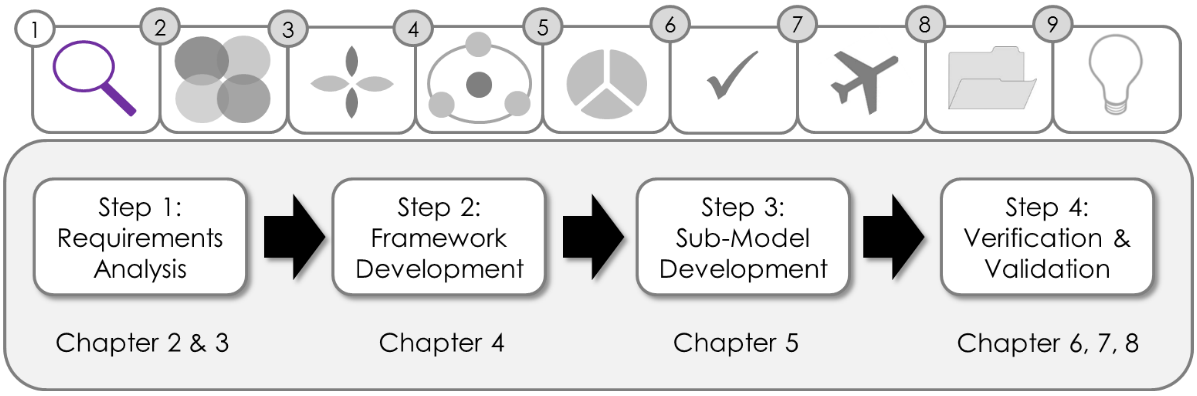


Figure 1.3 – Simplified Systems Engineering Process

Apart from the systems engineering approach used and consistent with the practice-oriented approach, this study also resonates with the principles of design science of being problem-solution oriented (March & Smith, 1995, p. 256; Nunamaker & Chen, 1990, p. 90). Similarly, from the constructivist paradigm, this study draws on the principles of action research where meaning and understanding are created through iterative interactions between the researcher and the research problem (Checkland & Holwell, 1998, p. 12). As a result, three sequential validation cycles (Chapters 6, 7, 8) were used to continually improve the quality of the research output. The research and validation questions were also updated based on new insights that emerged from this process. Furthermore, it is likely that output of this research will be updated and improved in future in response to newly gained theoretical and practical insights from the interaction with practitioners and domain experts alike, as prescribed by constructivism and the scientific method.

1.4.3. Research Domains

Concerning the first stage of the systems engineering approach, the requirements analysis, four main research domains were explored, namely e-business, red ocean strategy, blue ocean strategy and business models. E-business was the first and obvious choice, as it defines the context within which this study was executed and illuminated the research domain. Red ocean strategy is strategy for competing in existing market spaces. It is also the paradigm that is the most closely associated with competitive strategy. It was initially only investigated to uncover the elements of a competitive strategy (one of the sub-research questions), but several principles that add robustness to the developed conceptualisation were additionally discovered.

A side-intent of this study has been to embrace dual perspectives and paradoxical thinking to produce a more integrated account of competing in e-business. The goal for the study was thus to investigate a complete “strategic perspective”. Given that the structuralist red ocean strategy perspective (fixed market boundaries) had already been decided on, the reconstructionist blue ocean strategy perspective (malleable market boundaries) was the next domain choice. Blue ocean strategy is strategy for creating new market space and proved invaluable for providing principles and tools for creating innovative value propositions and strategies.

Other possible domains considered that could have provided similar coverage as the red and blue ocean combination, were those of a resource based and market based view, or a strategic planning and emergent strategy view. The first mentioned pair was not sensible though, as the study does not explore strategy execution (see Chapter 1.5). The full potential of resource based strategy would therefore not have been realised. Similarly, strategic planning and emergent strategy would also be possible choices. However, they do not provide the same amount of valuable tools and principles required by the study as their red and blue ocean counterparts. All these perspectives are concurrently employed during the study though – they just do not serve as primary research domains.

Business models were also decided upon as a primary research domain, as business model conceptualisations roughly serve the same goal as the intended conceptualisation to be developed: to assist businesses in shaping their strategies and aid them in clearly articulating it. The business model research therefore provided a visual approach to strategy formulation and also aided in better understanding the different business elements involved in creating and delivering value. This provided additional structure for the developed conceptualisation.

Other areas of interest also emerged from the elements of a competitive strategy, namely the fundamentals of e-business strategy, business model innovation, e-value creation and e-customer retention. The fundamentals of e-business strategy domain relates to the generic strategy element of a competitive strategy in that it dealt with uncovering the strategic basics for competing online. The business model innovation and e-value creation domains relate to the value proposition element of competitive strategy. The business model innovation domain investigates ways of shaping the value proposition in a more general way, whereas the e-value creation domain is more e-specific. Lastly, the e-customer retention domain relates to the customer segments and strategic control point elements of a competitive strategy, and serves to uncover ways in which customers can be locked-into a relationship with the business.

These areas of interest are depicted in Figure 1.4 as the intersections of two of the main research domains. Though these sub-domains are not exactly reflective of the merger of the two primary domains, it does create a fitting image as the sub-domains do have a relationship with the adjacent primary domains.

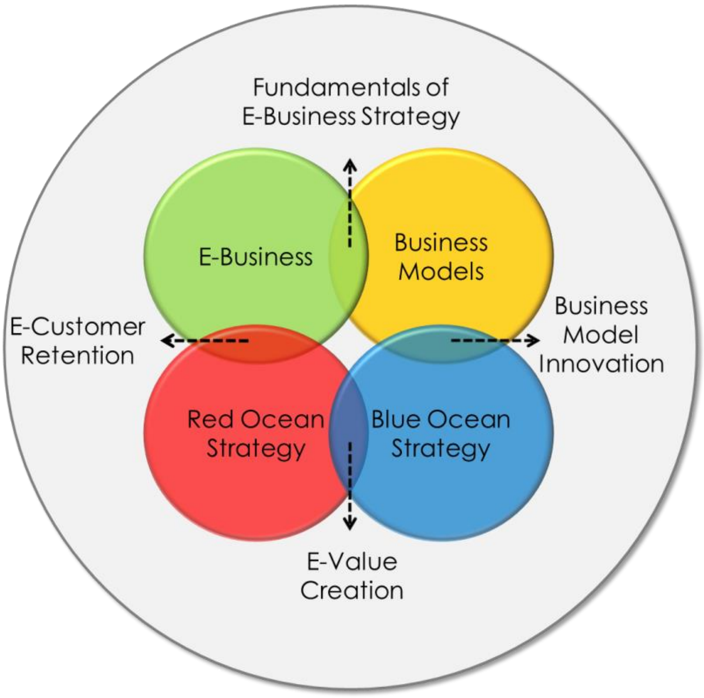


Figure 1.4 – Research Domains

These eight domains were thus investigated to derive a set of requirements that the created conceptualisation had to fulfil. Additionally, these sections provided the needed knowledge and models for creating the envisioned competitive strategy conceptualisation. The intersection between e-business and blue ocean strategy, and the intersection between business models and red ocean strategy were not investigated however, as they become redundant due to the other domains already under investigation.

1.4.4. Conceptualisation Type

To minimise confusion and avoid over abstraction, this section aims to answer the implied sub-research question following from the main research question: ***What conceptualisation type best describes the envisioned output and is a suitable vehicle for assisting e-business competitive strategy formulation?***

Following from the simplified systems engineering research methodology previously outlined, the first step is to construct a set of requirements for the conceptualisation to fulfil, where after the selection is made. Validation regarding the choice will not be done at this stage, but will implicitly be validated in the validation sections (Chapters 6, 7, 8) if the created conceptualisation is deemed fit for use e.g. being able to assist e-business competitive strategy formulation.

The requirements that the conceptualisation need to fulfil are as follows:

1. It must be an academically accepted conceptualisation/term;
2. It must be able to depict elements on different hierarchical levels;
3. It must be able to depict the relationships between elements;
4. It must be able to specify the sequence that the elements are to be formulated in;

5. It must be able to act as a repository for sub-models and tools;
6. It must conform to all the requirements and associations of the term.

Three possible conceptualisation types were identified that fulfil the first five requirements. They are a methodology, a reference architecture and a framework.

A methodology refers to a system of methods or principles used in a particular discipline or activity. Methodologies' core focus is typically on the procedure or sequence in which something is done. (Dictionary.com: Methodology Definition, 2014; Merriam-Webster.com: Methodology Definition, 2014) Though the envisioned conceptualisation is eventually paired with a sequence, this is not the primary focus of the conceptualisation. The elements or content of the conceptualisation are of primary importance. A methodology therefore does not correctly portray the envisioned output.

Reference architectures on the other hand are used to structure the design of architectures in a given domain. They provide a unified terminology, describe the role and functionality of components, provide template components, and define a development methodology. Reference architectures serve as the basis for defining specific architectures or creating specific system instantiations. (Camarinha-Matos & Afsarmanesh, 2008, p. 2458) However, as this thesis only deals with a sub-set of business model components (refer to the limitations in Chapter 1.5), it cannot be regarded as a reference architecture, as reference architectures are used to generate architectures, which by definition are complete systems. (Camarinha-Matos & Afsarmanesh, 2008, p. 2458) Therefore, the only remaining choice is to call the developed conceptualisation a framework.

A framework refers to the essential structure of an object or entity. It can also be defined as a skeletal structure designed to support, contain or enclose something. (Collins English Dictionary: Framework Definition, 2013; Dictionary.com: Framework Definition, 2013) It may for instance include a number of models, templates, procedures and methods, rules or tools (Camarinha-Matos & Afsarmanesh, 2008, p. 2457). This description is a very appropriate fit and the created conceptualisation will hence forth be referred to as the competitive strategy framework or simply the framework.

1.5. Scope and Limitations

A precisely defined scope is required for theoretical models, as vague delineations lead to misplaced expectations and ineffective models that make implausible claims on reality (Mouton, 2011, p. 177). This section therefore aids in defining what this thesis is and what it is not. It also provides some limitations pertaining to the approach used.

To reiterate, the study's goal was to assist e-business start-up competitive strategy formulation. The intent was to assist start-ups by providing a conceptual, generic and strategic point of departure for thinking about competing in the e-environment.

The limitations of the study are listed below:

- It is not the goal to re-write the domain of strategy research and only literature that supports the development of the framework is included.
- Strategy execution and operational aspects are not explored. Rather, the focus of this study is on strategy formulation, with an emphasis on the value proposition, revenue and customer aspects of a business model; strategic positioning; value creation; and choosing how to compete in the e-domain. Consequently:
  - activity system key success factors are not explored; and
  - the key partners, key resources and cost components of the business model are not explored, as these are inherently operationally oriented.
- The core aspirational description of a business (vision, mission, values), leadership, culture and political issues involved with establishing or reinventing the enterprise's strategy, business model or competitive approach also falls outside of the scope of this study.

Limitations of the framework are listed below:

- The framework is conceptual and generic. It needs to be applied and made more instance specific to derive value from it. Innovation and creativity are required in this process. The framework therefore does not guarantee business success or improvement as the developed competitive strategy is the users' responsibility. The framework does however, provide a better point of departure than a pure green fields approach.
- The framework does not model the whole enterprise or complete strategy. The focus of this thesis is on the competitive strategy of an enterprise.
- The framework does not replace strategy formulation as a whole. Rather, it acts as a complement to existing strategy formulation literature and methodologies.

- The framework does not facilitate the structural analysis of the industry and environment, and assumes the user has adequate knowledge regarding the competitive environment in which they want to compete.
- The framework does not address the physical value chain aspects of hybrid e-businesses. The framework only addresses the e-domain.
- The framework does not explain e-business success or failure *per sé*. The success of a business relates not only to strategy formulation, but also to strategy execution which does not form part of this thesis.

1.6. Assumptions

As became apparent in the introduction already, this study is based on a few fundamental assumptions. The first assumption is that (1) ***duality and multiplicity are superior to singularity***. This assumption stems predominantly from the constructivist philosophical perspective that tries to reconcile the complexities and paradoxes that exist in reality by stating that multiple, relative truths exist. At the same time, this assumption is also reflective of our current age and society which advocates diversity, freedom of speech and the reconciliation of nations and cultures. So in the academic world it is also necessary to assume a more mature perspective that tries to reconcile opposing scientific views. Lastly, this assumption relates to systems engineering in that it embraces holistic thinking. Relative to the study, this assumption's consequence is that the study attempts to produce a superior, more sophisticated perspective of competing in e-business through the integration of multiple perspectives.

The second assumption is that (2) ***enhanced cognition is the doorway to better decision-making***. This assumption translates loosely into "knowledge is power". Being an engineering based study, this study resides very much in a logical, rational paradigm that believes that the causes and effects of phenomena may be studied and somewhat uncovered (within our limited capacity for certainty); situations may be analysed; and the causes may be implemented to have the desired effects. This assumption therefore relates to the planning, design and positioning schools of strategy (Mintzberg, Ahlstrand, & Lampel, 2009) that seek to formulate strategies prior to implementation.

On the other hand, there are proponents who profess that ignorance is conducive to entrepreneurship, as knowing too much beforehand will prevent start-ups from starting. The way that knowledge may hamper start-ups, is that it may confront them with aspects that they might not have considered and might not have the solution to. Still, ignorance is not necessarily bliss. Ignorance robs an entrepreneur of the opportunity to make adequate preparations for problems that may very well arise. In this sense, it is better to face these challenges early on, than face them at inappropriate times.

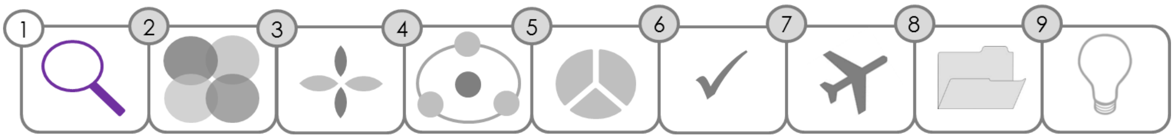
Finally, continuing with the clichés, it can also be said that "you do not know what you do not know".

Knowledge at the very least opens the mind to the different optionalities available. Knowing about the different optionalities is already an advantage as opposed to not knowing. Furthermore, forgetting knowledge or not using tools is relatively easy (when they do not suit your *modus operandi*) compared to generating these from scratch. Relative to the study, the consequence of this assumption is that the competitive strategy framework tries to make its users aware of the different competitive strategy elements that need to be considered when developing a competitive strategy.

The third assumption is that (3) ***businesses are malleable and are shaped dynamically through their learning over time***. This assumption somewhat reconciles the prior two assumptions. The second assumption oriented the study in a strategy design paradigm. This study however, also embraces the polar opposite, an emergent strategy paradigm. Both these perspectives add value and can attenuate each-other's flaws.

Strategy by design is required as it provides structure to strategy, formalises and explicitly articulates it. This is often lacking in emergent strategy approaches. The benefit that these provide is that it helps to focus the business; helps in gaining a holistic perspective; and reduces the likelihood of making contradictory decisions. Strategy by design however, is often criticised of being too excessive (analysis paralysis), static, and erroneously assumes that all the variables of a business can be figured out beforehand. Emergent strategy on the other hand embraces uncertainty and relies on an iterative hypothesis-testing driven approach to learn and gain insights. In this way, emergent strategy allows businesses to dynamically adapt and adequately cope with the changes occurring in the volatile e-business environment. Relative to the study, the consequence of this assumption is that the competitive strategy framework tries not only to provide a solid structure for strategic design, but also provide elements that are conducive to emergent strategy.

The fourth assumption of the study is that (4) ***the users of the framework are e-business start-ups who are sufficiently competent to use the framework***. The implication of the start-up assumption is that it is assumed that a green fields approach will be used in formulating the competitive strategy of the business. Further it is assumed that the capital and workforce available to these start-ups are limited. At the same time it is assumed that that users have selected the industry which they wish to enter; either have sufficient prior knowledge of this domain or are resourceful enough to acquire the necessary knowledge in order to make informed strategic decisions. In reality, this assumption may be a big ask, but it is by no means insurmountable through commitment and diligence. Relative to the study, the consequence of this assumption is that the users of the framework will be limited to a specific group and the framework is not necessarily a mass-market "solution".



1.7. Document Outline

The outline of the study is depicted in Figure 1.5 below. The context, research need, objectives and approach followed in conducting this study have been discussed in this introduction chapter. Chapter 2 and 3 will form the study's theoretical foundation and the requirements of the framework will also be derived from these literature study sections, as specified by the systems engineering process. Chapter 2 will deal with the primary domains under investigation and Chapter 3 will deal with the secondary domains. The core structure of the competitive strategy framework will then be developed in Chapter 4, followed by the development and selection of sub-models (that fit inside the framework) in Chapter 5. Chapter 6 will then verify that the framework was built according to specification and will also discuss the first round of validation. Chapter 7 will then discuss the second round of validation, and Chapter 8 the third. This then concludes the systems engineering process. Conclusions about the study will then be drawn in Chapter 9.

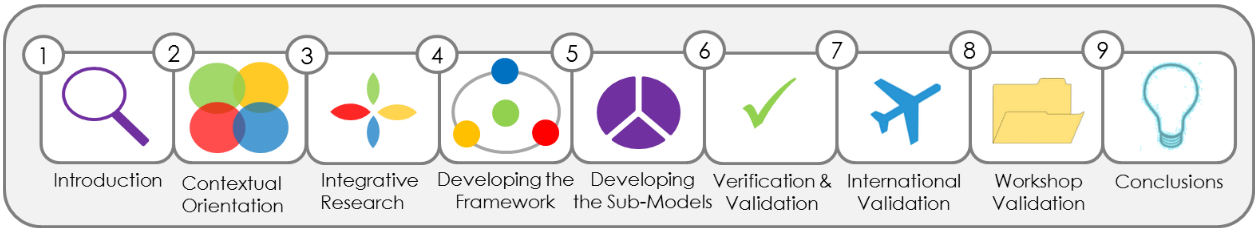


Figure 1.5 – Structure and Outline of the Study

1.8. Chapter 1 Conclusion

The strategic insights and tools that e-business start-ups require to better formulate their strategies are obscured by the staggering amounts of strategy literature available. The purpose of this study was to develop a competitive strategy framework that makes relevant insights and tools more accessible as an integrated, coherent whole and thereby assist e-business strategy formulation. This chapter introduced the research need, highlighted the research context, defined the research questions and research methodology. Furthermore, the limitations, assumptions, and the logical flow of the document were discussed.

2. Contextual Orientation

This chapter contextualises the study by introducing its four main research domains, namely e-business, business models, blue ocean strategy and red ocean strategy. The core content of these domains relevant to the study are discussed. Subsequently, framework content requirements are derived.

2.1. E-Business

This section defines e-business, provides an introduction to the Internet economy, and highlights the importance of web technologies for start-up's existence.

2.1.1. Introduction

***"Given the fact that, for most organisations, the Internet functions as an enabling tool for communications, collaboration and transactions, it could well be described as the quiet engine of the South African economy"* – (Goldstuck, 2012, p. IV)**

"E-businesses", "electronic businesses", "online businesses" or "dot-coms" are synonyms for businesses who largely or exclusively compete online; have a fundamental reliance on the Internet for their existence; and more generally, conduct business electronically (Nelson, 2005). E-business is commonly confused with the term "e-commerce", which refers to conducting commercial transactions on the Internet. E-commerce is explicitly associated with the process of buying, selling, and transferring products, services, and information (Gordjin, 2002, p. 14) via open computer networks such as the World Wide Web (WWW) or Internet (OECD, 2003); whereas e-business is more of an over-arching, holistic term that envelops e-commerce as one of its facets.

There are two broad types of e-businesses that can be distinguished between, namely "pure play e-businesses" and "hybrid e-businesses". Between the two types, pure play e-businesses are the most digitally oriented and hybrids are the most physically oriented. Pure play e-businesses usually offer digital products or services (in this study referred to as "digital pure plays"). Examples include Facebook, Google, YouTube, Twitter, Netflix and VeriSign. Pure players can also sell physical products, but their interactions still remain digital. These "physical pure plays" therefore act as intermediaries that connect buyers and sellers. Physical pure plays do not take ownership the physical products traded, do not own warehouses, and do not directly get involved in order fulfilment. Examples include eBay, Alibaba and Esty.

"Hybrid e-businesses" on the other hand sell physical products that they own through their e-commerce interface, make use of warehouses, and partake in physical order fulfilment. Examples include online retailers such as Amazon, Zappos and GeekFuel. Yet, the line that distinguishes hybrid e-businesses from the more traditional "brick-and-mortar" businesses is becoming increasingly blurred. Typical hybrid e-businesses only possess an online customer interface. The new tech-enabled brick-and-mortar businesses on the other hand, are providing customers the choice of either a physical shopping experience (through their physical outlets) or a digital shopping experience (through their e-commerce websites). This web presence does not warrant these businesses as e-businesses though, as they would still be able to function via their physical channels even if the Internet were not to exist. This is not the case with e-businesses as defined in this study.

2.1.2. E-Business Landscape

***"The Internet is changing the way we work, socialize, create and share information, and organise the flow of people, ideas, and things around the globe"* – (Manyika & Roxburg, 2011, p. 1)**

The advent of the Internet and the network economy was one of the most profound creations of the previous century. Not only does the Internet serve to enhance and simplify almost every aspect of modern day life, but it also provides new opportunities for innovative businesses and wealth creation. Large enterprises and national economies have reaped major benefits from the technological revolution initiated by the Internet, but consumers and start-up entrepreneurs may possibly be some of the greatest beneficiaries of the Internet's empowering influence and the opportunities that it presents. (Manyika & Roxburg, 2011, p. 1)

The Internet has fundamentally benefitted consumers in three ways, namely (1) it has given consumers real-time access to unprecedented amounts of relevant information; (2) it has equipped consumers with a myriad of new digitally enabled capabilities; and (3) it has enhanced consumer's ability to share, interact, socialise, communicate and collaborate.

The Internet allows consumers to easily search for and access an abundance of information that is both contextually relevant and suit their preferred level of detail (Manyika & Roxburg, 2011, p. 4). One major benefit of consumer's enhanced access to information is an increase in price transparency. Increased price transparency drives prices down as a result of aggravated competition between rivals. On average, online prices are 10 percent lower than their offline counterparts, and in 2009 Internet-related savings in the United States alone accrued to $64 billion (Manyika & Roxburg, 2011, p. 5).

Secondly, the Internet also empowers consumers by allowing them to efficiently self-service themselves via new digitally enabled capabilities and services. Examples include the online ordering of products, making movie reservations, doing Internet banking, and making flight or accommodation bookings. The possibilities are virtually endless and all contribute towards saving time, saving money, providing convenience and enhancing customer satisfaction. (Manyika & Roxburg, 2011, p. 5)

Thirdly, the Internet improves consumers' ability to share information. This in turn enhances consumers' ability to communicate, interact, socialise and collaborate; and increasingly people are using the Internet to seek personal connection, public information and new knowledge (Manyika & Roxburg, 2011, p. 5).

But it is not just consumers who have benefitted. The Internet is also allowing organisations to engage with customers on a deeper level, be increasingly flexible, multifaceted and efficient. The Internet is changing organisational structures by allowing the integration of organisational silos through social networks that link employees, customers and stakeholders; allowing them to engage, collaborate and more efficiently solve problems (Manyika & Roxburg, 2011, p. 7). The practice of employing communities of Internet participants to develop, market and support products and services, known as open innovation, is also becoming a more mainstream phenomenon (Manyika & Roxburg, 2011, p. 7).

Two other phenomena that will continue to grow and could serve as a prime sources of competitive advantage are cloud computing and big data analysis. Cloud computing refers to accessing computer resources provided through networks such as the Internet, rather than running software or storing data on a local computer (Bughin, Chui, & Manyika, 2010, p. 10). A business or consumer's data storage and computing capabilities are therefore moved online or to "the cloud". Except for accessibility benefits, cloud computing also provides significant cost benefits. For information technology enabled businesses, the amount of start-up capital required is reduced by an order of magnitude when they use cloud services, because it is no longer necessary to purchase servers, software and other IT infrastructure. The necessary applications, functions or capabilities can simply be acquired online as they become necessary. (Manyika & Roxburg, 2011, p. 6)

Big data analysis on the other hand refers to the capture and analysis of overwhelming amounts of data (Bughin, Chui, & Manyika, 2010, p. 7) in order to enhance or even automate decision-making. Big data analysis has the potential not only to fundamentally transform the private sector, but also government operations, healthcare and education. It is estimated for instance that the United States could save more than $300 billion per year on healthcare costs through the increased efficiencies attainable through the widespread use of big data. (Manyika & Roxburg, 2011, p. 6)

As a result of all these aforementioned benefits that the Internet provides, Internet technology adoption (and consequently growth) is rapidly proliferating. Since Facebook was founded in 2004, it has grown from a few thousand students accessing Facebook to more than 1.44 billion users around the globe, including many leading businesses that regularly update their pages and share content (Facebook's Stats, 2015). Globally there are roughly two billion people connected to the Internet (Manyika & Roxburg, 2011, p. 1) and the size of the Internet economy in 2010 in the G-20 economies[2] alone was almost $2.3 trillion (Dean, Digrande, Field, Lundmark, O'Day, Pineda, Zwillenberg, 2012, p. 3), which accounted for roughly 4.1 percent of their GDP (gross domestic product) on average (Dean, *et al.*, 2012, p. 3). In terms of growth, over the past 15 years the Internet accounted for ten percent of the GDP growth in the G-20 economies; and for 21 percent of the GDP growth over the past five years (Manyika & Roxburg, 2011, pp. 1, 3). It is expected that Internet-related growth is only going to accelerate as more people are connected to the Internet via their smart-phones and other mobile devices. It is therefore projected that by 2016 there will be three billion Internet users and that the Internet economy will be worth about $4.2 trillion in the G-20 economies (Dean, *et al.*, 2012, p. 3).

[2] The G-20 economies refers to the 20 major economies in the world, namely Argentina, Australia, Brazil, Canada, China, the EU, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the U.K. and the U.S. (Dean, *et al.*, 2012, p. 5)

The Internet economy is therefore massive and its growth is rapidly increasing. The prosperity benefits that the Internet provides is also astounding. Even though the Internet has made some jobs obsolete, McKinsey's global SME survey (2011) suggests that the Internet creates 2.6 jobs for every one destroyed (Manyika & Roxburg, 2011, pp. 3, 4). A clear connection exists between the maturity of a country's Internet ecosystem and rising living standards. An increase in Internet maturity (the extent of a country's Internet access infrastructure and Internet usage, calculated via McKinsey's e3 index that accounts for a country's e-engagement, e-environment and e-expenditure) correlates with an increase in $500 per capita GDP on average over the 15 year study period in the G-20 economies (Manyika & Roxburg, 2011, p. 3). To put this economic growth into perspective, it took 50 years for the industrial revolution of the 19th century to achieve the same results. This demonstrates not only the magnitude, but also the speed of the positive impact that the Internet delivers to all levels of society. The opportunity to utilise the Internet to drive economic growth and prosperity should therefore not be neglected, especially by developing countries who have the most to gain (Manyika & Roxburg, 2011, p. 3).

The digital revolution however, is still in its infancy and a vast number of dormant opportunities are still waiting to be seized. Many more technological innovations and new businesses that provide enabling capabilities are still likely to emerge. It is also likely that the Internet's ability to connect people and things, and its ability to be used to engage customers on a deeper level will continue to expand exponentially. (Manyika & Roxburg, 2011, p. 1)

Unfortunately the Internet's adoption has not come without risks. Invasion of privacy, online fraud, identity theft and the hacking of sensitive information and databases are still areas of concern. These legitimate policy concerns, however, need to be weighed against the ability of the Internet to enrich lives, build businesses and give consumers enhanced choices in future. (Manyika & Roxburg, 2011, p. 9)

2.1.3. E-Business and Start-Up Survival

***"In our view, every business needs to go digital – and fast"* – (Dean, *et al.*, 2012, p. 14)**

According to the Organisation of Economic Co-Operation and Development, digital products and information services are playing an increasingly significant part in the economy and provide important opportunities for small firms (Vickery, Sakai, Lee, & Sim, 2004). As noted in the previous section, cloud services can significantly reduce the amount of capital required to start an e-business (Manyika & Roxburg, 2011, p. 6). Advances in software architecture, development tools and modularity additionally make application development increasingly easy and affordable. These decreased costs and enhanced accessibility lower the barriers to entry into the market and enable smaller firms to compete on an equal footing with larger firms (Porter, 2001, p. 11).

It can therefore be said that the biggest impact of the Internet on start-ups has been that it acted as a great leveller, strengthening start-ups' position relative to larger corporations. Contrary to offline business, the Internet makes it possible for small firms to be "born global", enabling them to compete and transact globally from day one (Dean, *et al.*, 2012, p. 15; Manyika & Roxburg, 2011, p. 3). The Internet empowers start-ups with the reach and capabilities that only large companies could once possess. In this way, start-ups are enabled to better reach customers, find suppliers, tap into talent on the other side of the world, market themselves, build their brand, and build a dynamically managed supply chain that operates with a global workforce (Manyika & Roxburg, 2011, pp. 4, 5). The Boston Consulting Group (Dean, *et al.*, 2012, p. 15) suggested that the main advantages that the Internet provide e-businesses include (1) an extended global reach, (2) enhanced marketing, (3) enhanced customer interaction, (4) access to cloud services, and (5) simplified staff recruitment.

In a McKinsey survey that included over 4 800 SMEs in 12 countries, it was found that small businesses who have a high web technology utilisation rate grew twice as fast; brought in twice as much revenue through exports as a percentage of total sales; and also created more than twice as many jobs as their small business counterparts who had a minimal web presence (Manyika & Roxburg, 2011, p. 4). These observations held true across all sectors of the economy. The results are shown in Figure 2.1 below.

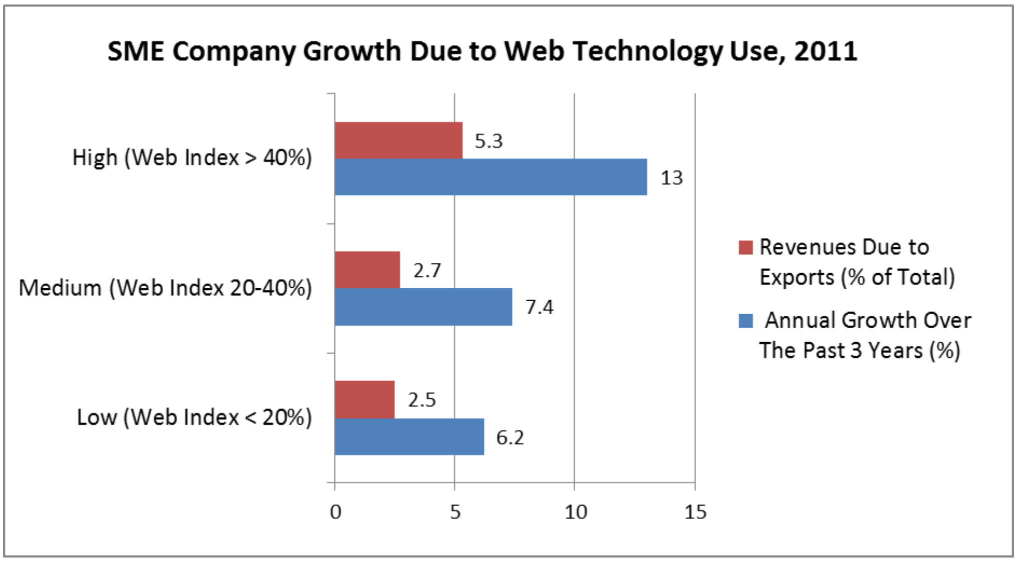


Figure 2.1 – Growth and Exports of SMEs Analysed by Maturity of Web Technology Use (2011)
Source: McKinsey SME Survey (Manyika & Roxburg, 2011, p. 4)[3]

Similarly, Goldstuck (2012, pp. 10, 11) found that SMMEs with a website or an online presence are much more likely to be highly profitable than companies without a website. Around 63 percent or 410 000 SMMEs in South Africa have a website. Of these businesses with a web presence, 27 percent are strongly profitable with only five percent making a loss. Conversely, only 11 percent of the remaining 37 percent of SMMEs who do not have an online presence are strongly profitable, with 16 percent making a loss. SMMEs

[3] The Web index accounts for the number of technologies that a company possesses and the number of employees, customers or suppliers who have access to those technologies.

who are therefore neglecting the online business environment are in greater danger of making themselves irrelevant to customers, as they are losing out on a major communication and sales channel.

The message is clear. Start-ups need to utilise Internet technologies in order to enhance their survivability in the modern day economy. Poorly formulated strategies, however, will not suffice in creating a sustainable competitive advantage. One of the major factors that contribute to start-up failure is poor strategy formulation. In the words of Jennings and Beaver (1997), “The root cause of either small business failure or poor performance is almost invariably a lack of management attention to strategic issues”. A means to assist e-business start-up competitive strategy formulation is therefore required.

2.1.4. E-Business Framework Requirements

From this section two framework requirements emerge that need to be reflected by the framework. Firstly, the framework needs to be designed specifically for e-business start-ups. The framework needs to be tailored to the e-environment, in order to reflect its nature and the most current thinking about competing online. At the same time, the framework must be designed to be accessible to start-ups, as a solid start-up foundation is critical in eventually becoming a powerful and influential incumbent. Secondly, the framework should stress that the strategic choice of between being more digitally or more physically oriented exists for every e-business, and that it is a key choice that will eventually have to be made. These requirements are depicted in Figure 2.2 below.

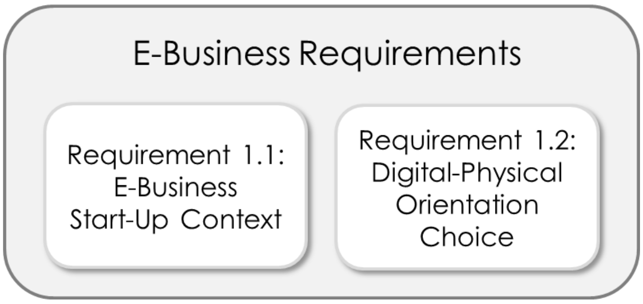


Figure 2.2 – E-Business Framework Requirements

2.2. Business Models

This section introduces and defines the concept of business models, discusses Osterwalder's business model canvas, and concludes by exploring the proximity between business models and strategy.

2.2.1. Introduction

***"A good business model remains essential to every successful organisation, whether it's a new venture or an established player… the business model's great strength as a planning tool is that it focuses attention on how all the elements of the system fit into a working whole." –* (Magretta, 2002, pp. 87, 90)**

As briefly mentioned in Chapter 1, business models provide structure to certain aspects of strategy. Business models are important as they serve as a critical mechanism for highlighting and articulating pivotal elements that need to be considered in when formulating a strategy and planning for the future. However, great disparity still exist surrounding business models' definition and elements.

Scholars believe that the advent of the Internet, interest in the "bottom-of-the-pyramid", the rapid growth of emerging markets, deregulation, globalisation, sustainability, and organisations dependent on post-industrial technologies all contributed to the prevalence of the business model concept (Zott, Amit, & Massa, 2011, p. 4; Casadesus-Masanell & Ricart, 2011, p. 101). Yet despite the overall surge in the literature on business models since the 1990s, scholars still have little consensus on the definition, components and scope of a business model (Zott, *et al.*, 2011, p. 2; Mahadevan, 2000). According to Timmers (2000, p. 32), "The literature... is not consistent in the usage of the term *business model* and, moreover, often authors do not even provide a definition of the term". Researchers often adopt idiosyncratic definitions of a business model that are aligned with their particular research field and as a result cumulative progress in the field is hampered (Zott, Amit, & Massa, 2011, p. 2).

Three primary research areas that typically give attention to business models include research related to (1) e-business and the use of information technology in organisations, (2) strategic issues, such as value creation, competitive advantage and firm performance, and (3) innovation and technology management (Zott, Amit, & Massa, 2011, p. 2).

Zott *et al*. (2011 p. 10) stated that scholars focused on e-business models have largely concentrated on understanding the gestalt (strategic archetypes) of firms engaging in e-business and the roles that these firms play in their respective ecosystems. Scholars have therefore focused on defining or representing generic business models and/or developing typologies and taxonomies. The contributions of scholars have mostly been descriptive and some commonalities have emerged. The notion of value, financial aspects and aspects related to the architecture of the network between the firm and its exchange partners all play an important role. These aspects may thus constitute part of a generic business model, which could serve as a source for differentiation among business model types. However, it is important to make the distinction that a business model is not a value proposition, a revenue model, or a network of relationships by itself, but rather the combination of all these elements. (Zott, Amit, & Massa, 2011, p. 10)

Some scholars that have focused on business models from a strategic and value creation perspective have focused on a firm's activities with its network ecosystem, but increasingly scholars are acknowledging that firms do not execute their business models in a competitive vacuum and can thus compete through their business models (Zott, *et al.*, 2011, p. 11; Hamel, 2000). Innovative business models can therefore lead to superior value creation (Morris, Schindehutte, & Allen, 2005) and act as a source of competitive advantage. As such, the business model can be a driver *for* innovation as well as a subject *of* innovation (Zott, Amit, & Massa, 2011, p. 16).

From a technology and innovation management perspective, business models are primarily seen as the mechanism that connects a firm's technology to customer needs and other firm resources (Zott, Amit, & Massa, 2011, p. 16). It is therefore conceptually placed as intermediary between a firm's input resources and market outcomes. The business model may therefore be seen as a new unit of analysis that spans both the firm and their network. However, some authors place the business model closer or further away from the firm and network, depending on their approach (Zott, Amit, & Massa, 2011, p. 18). From a more functional perspective, technology is seen as an enabler of the business model, but in the same manner, a business model acts as complement to technology (Zott, Amit, & Massa, 2011, p. 16). From this technology and network perspective, competition is considered as a part of the business model concept. Rather, the core logic of a business model revolves around a firm's revenues and costs, its value proposition to the customer and the mechanisms to capture value.

Regardless of the research perspective, some common themes emerge: business models assume a system-level, holistic approach to how firms "do business"; the business model is seen as a new unit of analysis that is centred on a focal firm, but with its boundaries wider than that of the firm; the firm's "activity system" and partners play an important role in conceptualising what a business model entails; and a business model strives to explain both how value is created and captured by the firm (Zott, Amit, & Massa, 2011, p. 2).

2.2.2. Different Definitions of a Business Model

"We need a business model concept that everybody understands: one that facilitates description and discussion. We need to start from the same point and talk about the same thing... Without such a shared language it is difficult to systematically challenge assumptions about one's business model and innovate successfully." **– (Osterwalder & Pigneur, 2009, p. 15)**

Great disparity exists in business model literature. In a study conducted by Zott *et al.* (2011 p. 4) it was found that business models have been referred to as a statement, a description, a representation, an architecture, a conceptual tool or model, a structural template, a method, a framework, a pattern and a set. Furthermore, business models have been attempted to be represented through a mixture of textual, verbal and ad hoc graphical representations; schematics including different classes of objects, such as participants, relationships and flows of money, information, products or services; and through ontologies. For conciseness and consistency's sake, only textual descriptions are explored in this section. Various definitions of a business model are chronologically listed in Table 2.1 below.

Table 2.1 – Summary of Business Model Definitions

Reference	Business Model Definition
(Timmers, 1998, p. 2)	A business model is "An architecture for the product, service and information flows, including a description of the various business actors and their roles; a description of the potential benefits for the various business actors; a description of the sources of revenues".
(Linder & Cantrell, 2000, p. 2)	"An operating business model is the organisation's core logic for creating value".
(Amit & Zott, 2001, p. 511)	A business model depicts "the content, structure, and governance of transactions designed so as to create value through exploitation of business opportunities".
(Osterwalder & Pigneur, 2002, p. 2)	"We understand a business model as the conceptual and architectural implementation of a business strategy and as the foundation for the implementation of business processes".
(Rappa, 2002)	"A business model is the method of doing business by which a company can sustain itself -- that is, generate revenue. The business model spells-out how a company makes money by specifying where it is positioned in the value chain".
(Magretta, 2002, pp. 87, 91)	"Business models describe, as a system, how the pieces of the business fit together." A good business model answers Peter Drucker's age-old questions: 1. Who is the customer? 2. What does the customer value? 3. How do we make money in this business? 4. How we can deliver value to the customer at an appropriate cost?
(Chesbrough & Rosenbloom, 2002, p. 529)	A business model is "the heuristic logic that connects technical potential with the realization of economic value".
(Afuah & Tucci, 2003, p. 3)	A business model is a unifying construct for explaining competitive advantage and firm performance and defines it as "the method by which a firm builds and uses its resources to offer customers better value and to make money in doing so".
(Osterwalder, 2004, p. 15)	"A business model is a conceptual tool that contains a set of elements and their relationships and allows expressing the business logic of a specific firm. It is a description of the value of a company offers to one or several segments of customers and of the architecture of the firm and its network partners for creating, marketing, and delivering its value and relationship capital, to generate profitable and sustainable revenue

Reference	Business Model Definition
	streams”.
(Morris, Schindehutte, & Allen, 2005, p. 727)	A business model is a “concise representation of how an interrelated set of decision variables in the areas of venture strategy, architecture, and economics are addressed to create sustainable competitive advantage in defined markets”. There are six fundamental components, namely a value proposition, the customer, internal processes or competencies, external positioning, an economic model and other personal or investor factors.
(Seelos & Mair, 2007, p. 53)	A business model is a “set of capabilities that is configured to enable value creation consistent with either economic or social strategic objectives”.
(Johnson, Christensen, & Kagermann, 2008, p. 52)	Business models “consist of four interlocking elements, that, taken together, create and deliver value”. These four elements are customer value proposition, profit formula, key resources, and key processes.
(Osterwalder & Pigneur, 2009, p. 14)	“A business model describes the rationale of how an organisation creates, delivers, and captures value”.
(Teece, 2010, p. 173)	A business model “embodies nothing less than the organisation and financial “architecture” of the business”.
(Teece, 2010, p. 179)	“A business model articulates the logic, the data and other evidence that support a value proposition for the customer, and a viable structure of revenues and costs for the enterprise delivering that value”.
(Ungerer, Pretorius, & Herholdt, 2011, p. 153)	“By “business model” people mean everything from how a company is organised internally, to how the company generates profit or delivers its products to customers...a business model refers to the dynamic representation of a system – everything that is put together in an organised and intelligent manner to attain certain objectives, either to make a profit or to add some other type of value”. Their model has four main components: a participation (product & customer) strategy; a resource strategy; a competitive strategy and a profit strategy.

From the above lists of definitions, some themes are recurrent. A business model is concerned with the firm’s economic exchanges with external parties, the essential details of a firm’s value proposition for its various stakeholders, as well as the activities required to deliver value to its customers (Zott, Amit, & Massa, 2011, p. 13). Business models also simultaneously consider the content (what a firm does) and process (how a firm does it) of doing business, while taking a holistic, systems-level perspective (Zott, Amit, & Massa, 2011, p. 19).

Zott *et al*. (2011 pp. 13, 14) further explained business models in terms of what they are not. A business model is not the same as a supply chain that involves linear mechanisms for value creation from suppliers to the firm’s customers; business models are more complex and interconnected, yet abstract in the way that they depict the exchange relationships and activities among multiple players; and therefore, business models cannot be reduced to mere internal organisational issues, such as control mechanisms. A business model also is not the same as the product market strategy or corporate strategy of a firm. However, it could be argued that aspects of these types of strategy could be embodied within the business model concept.

In this study, the widest possible definition of a business model is assumed as it is the aim to make a generic contribution to competitive strategy literature. Although the articulation and definition of how a business model is understood by the author would undoubtedly attract critique as definitions are never all-inclusive, it is attempted regardless: In this study, a business model is understood as a conceptual abstraction that consists of various elements and relationships; and expresses the core logic of how a business intends to create, deliver and capture value.

The primary business model representation that is used in this study is Osterwalder and Pigneur's business model canvas, as it coincides with the definition provided above and the majority of the definitions mentioned in Table 2.1; it is one of the more recent developments; it has drawn global interest and popularity; and is flexible in that it provides generic components. The business model canvas is discussed below.

2.2.3. Osterwalder's Business Model Canvas

The business model canvas is a generic business model representation. It is intended to be used as a reference architecture or ontology[4] to be made more specific to a specific firm or situation. It provides generic "placeholders" or components, which businesses need to "fill in", "colour in" or "populate" to explicitly express their business model. The business model canvas was developed by Alex Osterwalder and Yves Pigneur, in collaboration with an online community of 470 business practitioners and researchers who co-created the business model canvas by supplying cases, examples and critical comments. These inputs were then used in refining the canvas. (Osterwalder & Pigneur, 2009, p. 5)

The business model canvas consists of four main elements, namely an offering element, a customer element, an infrastructure element and a finance element (Osterwalder, 2004, pp. 48-95). These were broken down into smaller sub-elements to result in nine basic building blocks of a business. Together, these nine basic building blocks allow the logic of how a company intends to make money to be expressed and is a blueprint for how a business's strategy is to be implemented through organisational structures, processes, and systems (Osterwalder & Pigneur, 2009, p. 15). The business model canvas is depicted in Figure 2.3 below.

[4] Ontologies refer to conceptualisations and formalisations of the elements, relationships, vocabulary, and semantics of an entity, which are broken down into several levels of decomposition with increased depth and complexity (Zott, Amit, & Massa, 2011, p. 8).

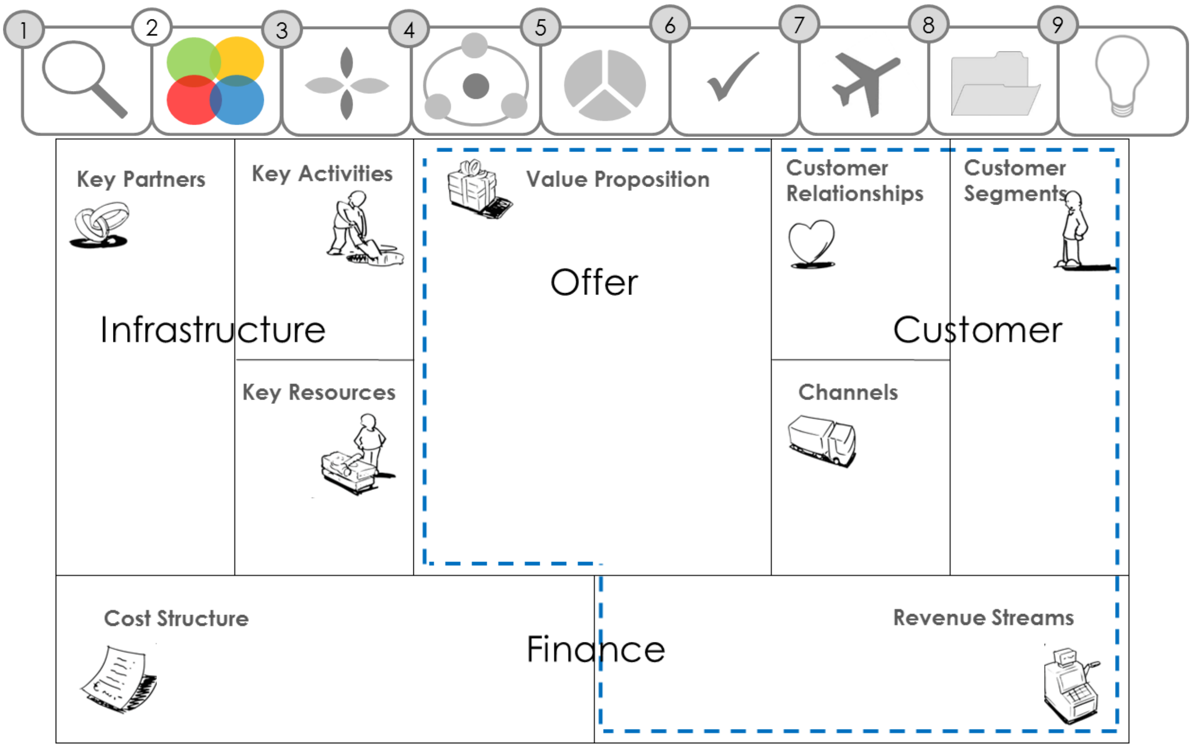


Figure 2.3 – Business Model Canvas (Osterwalder & Pigneur, 2009, pp. 18, 19) and Research Focus

Following from this figure and related to the research design, it was stated in Chapter 1.5 that the focus of this study was primarily on the value proposition, revenue and customer aspects of the business model. This is because the right-hand side of the business model canvas is more closely aligned with strategy formulation, whilst the left-hand side, namely the infrastructure and cost components are more closely aligned with the execution of the intended strategy. Regardless, all of the nine elements are defined below for completeness' sake.

2.2.3.1. Offering

The offering refers to the value proposition – the bundle of benefits promised to the customer. A value proposition seeks to solve customer problems or satisfy customer needs and describes the combination of products, services and other elements that create value for a specific customer segment (Osterwalder & Pigneur, 2009, pp. 16, 22). A non-exhaustive list of elements can contribute to customer value creation is shown in Table 2.2 below.

Table 2.2 – Value Creation Examples (Osterwalder & Pigneur, 2009, pp. 23-25)

Examples of Elements That Can Lead to Value Creation	
1. Newness	7. Price
2. Performance	8. Cost reduction
3. Customisation	9. Risk reduction
4. "Getting the job done"	10. Accessibility
5. Design	11. Convenience or usability
6. Branding or status	

1. ***Newness*** refers to value offerings that satisfy an entirely new set of needs that customers possibly did not even perceive they had. Newness is often related to technology, but this need not always be the case. (Osterwalder & Pigneur, 2009, p. 23)
2. ***Performance*** refers to fitness for use and achieving the desired output. Improving product or service performance is a classic example of creating value (Osterwalder & Pigneur, 2009, p. 23). It involves doing things better, faster, with fewer resources, producing fewer defects and acting more efficiently and effectively overall.
3. ***Customisation*** refers to tailoring products and services to the specific needs of individuals or customer segments. Recently, mass customisation and customer co-creation have gained traction, as they allow for customised products and services, while taking advantage of economies of scale. (Osterwalder & Pigneur, 2009, p. 23)
4. The "***getting the job done***" element refers to helping customers to get particular jobs done, thereby creating value for them (Osterwalder & Pigneur, 2009, p. 24).
5. ***Design*** is another element that can lead to value creation, but this element is often difficult to measure (Osterwalder & Pigneur, 2009, p. 24). It may refer to aesthetic stylising to fit with newer fashion trends, but on a more functional level, it may also refer to designing for modularity of components, designing for fewer components to ease assembly, and designing for environmental friendliness.
6. Value can also be unlocked for the customer through a company's ***brand*** or status (Osterwalder & Pigneur, 2009, p. 24). Customers may want to express themselves through a brand and intentionally or unintentionally show society certain aspects of themselves. Wearing a Rolex for instance, could signify that a customer wants to be perceived as rich. Buying organic food at Woolworths on the other hand could signify that a person may want their friends to think that they are environmentally conscious.
7. Another way to unlock value is to offer customers similar value products and services, but at a ***lower price*** (Osterwalder & Pigneur, 2009, p. 24).
8. Helping customers ***reduce their costs*** in doing certain things is another element that creates customer value (Osterwalder & Pigneur, 2009, p. 25). An online customer relationship management application, online recruitment or an online accounting software package are all examples of ways to reduce customers' costs for doing necessary things.
9. ***Reducing customer risk*** by employing warranties, guarantees or service-level agreements also create value for customers (Osterwalder & Pigneur, 2009, p. 25).
10. Making products and services ***accessible*** to previously untapped customer segments also creates enormous value. This can result from business model innovation, new technologies or a combination of the two. (Osterwalder & Pigneur, 2009, p. 25)
11. Lastly, value can be created by making things more ***convenient*** or ***easier to use*** (Osterwalder & Pigneur, 2009, p. 25).

2.2.3.2. Customer

The customer element of the canvas is broken down into a customer segment, customer relationship and a channel sub-elements. The ***customer segment*** sub-element describes the different groups of people or organisations which a business targets with their value proposition (Osterwalder & Pigneur, 2009, p. 20). This could involve customer segmentation by means of geographic location, demographics, social standing, common needs, common behaviours or other attributes.

Osterwalder and Pigneur (2009, p. 20) stated that customer groups represent separate segments if:

- Their needs require and justify a distinct offer;
- They are reached through different distribution channels;
- They require different types of relationships;
- They have substantially different profitabilities; and
- They are willing to pay for different aspects of the offer.

The ***customer relationship*** sub-component deals with ensuring that the bond with specific customer segments is established and maintained, to ensure repeat sales. Customer relationships can range from personal to automated. Customer relationships deeply influence the overall customer experience (Osterwalder & Pigneur, 2009, p. 28) and may be driven by the following motivations:

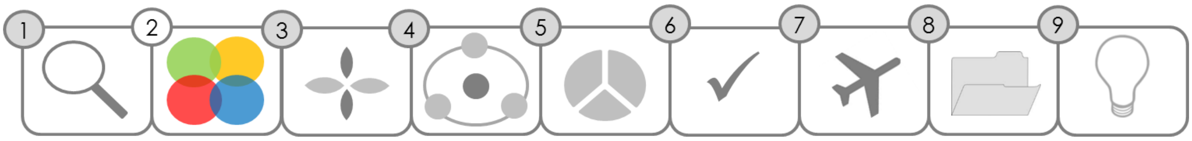
- Customer acquisition;
- Customer retention;
- Increasing sales (up-selling).

The approach taken to customer relationships may vary depending on the different stages of the enterprise, industry or in the face of new technological developments. Some companies for instance may want to invest heavily in customer acquisition in the early stages to build market share, and later convert to a strategy that focuses on customer retention and increasing the average revenue per customer (Osterwalder & Pigneur, 2009, p. 28).

The ***channel*** sub-element deals with how the offering reaches the customer. It involves how the offering is communicated, distributed and where and how it is presented to the customer for sale. This element has to do with the business's interface or touch points with customers and play a vital role in customer experience. Value propositions are thus delivered to customers through communication, distribution, and sales channels. (Osterwalder & Pigneur, 2009, pp. 16, 26)

Functions that channels serve include:

- Raising awareness among customers about a company's value proposition;
- Helping customers evaluate a company's value proposition;



- Allowing customers to purchase products and services;
- Delivering a value proposition to customers;
- Providing post-purchase customer support.

Osterwalder and Pigneur's (2009, p. 27) channel phases and channel types are depicted in Figure 2.4 below.

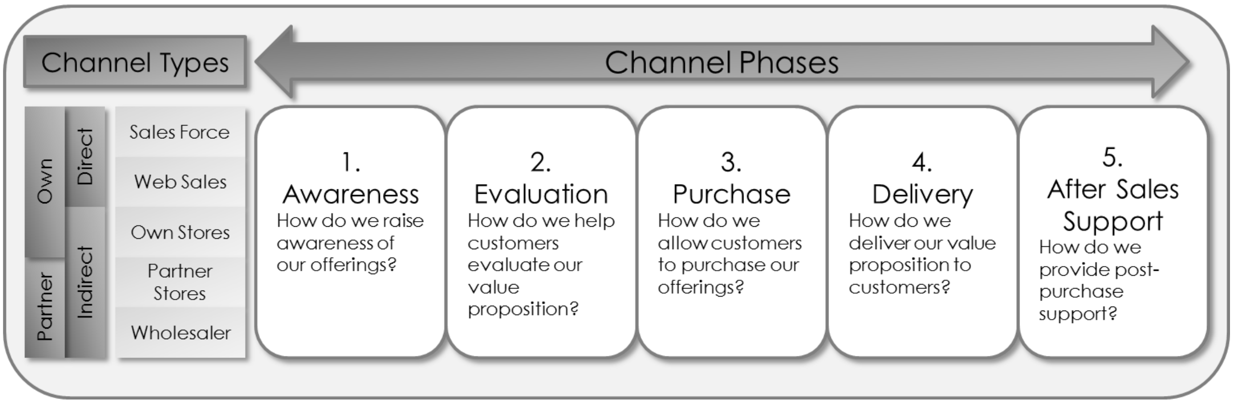


Figure 2.4 – Channel Types and Phases (Osterwalder & Pigneur, 2009, p. 27)

Similar to Osterwalder and Pigneur's (2009) channel phases, McGrath and MacMillian (2005) introduced a model that consists of five phases, namely (1) awareness of need, (2) search for alternatives, (3) make a selection, (4) purchase and (5) use.

More relevant to e-business, these types of channel phases are very similar to the social consumer decision journey described by Divol, Edelman and Sarrazin (2012). These authors stated that companies often fail to harness the power of social media and describe a process for better understanding how consumers interact with a company during purchase decisions. Understanding these interactions allow companies to better affect consumer behaviour and reap the maximum benefits from social media (Divol, Edelman, & Sarrazin, 2012, pp. 1, 4). The consumer decision journey is depicted in Figure 2.5 below.

Lastly, Divol *et al.* (2012, pp. 4, 5) stated that social media have four main functions, namely to monitor consumers, to respond to customer comments, to amplify positive sentiment and activity, and to lead consumer behaviour, possibly during each stage of customers' interaction with the company.

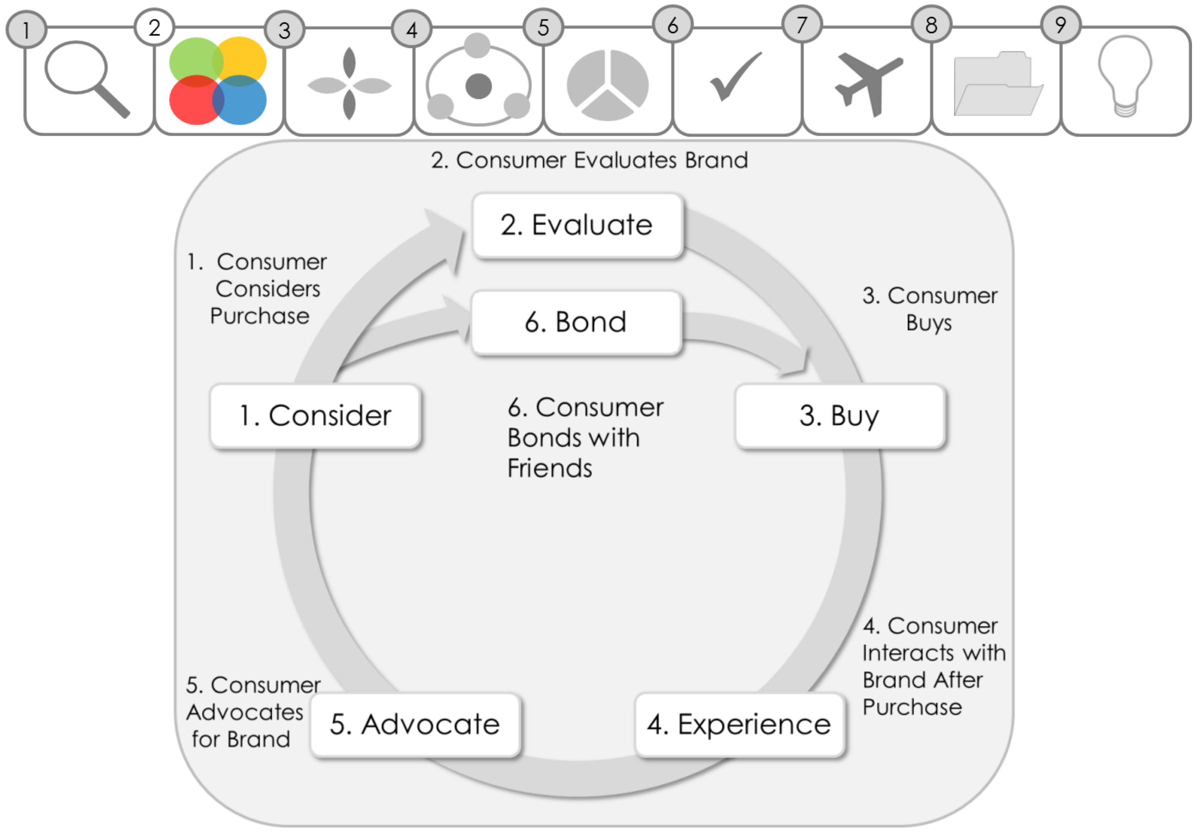


Figure 2.5 – Consumer Decision Journey (Divol, Edelman, & Sarrazin, 2012, p. 4)

2.2.3.3. Infrastructure

The infrastructure element deals with the realisation of the business model. This means that all the required inputs and resources which will be used to target customers and realise the value propositions are defined within this element. The infrastructure element's sub-elements are key activities, key resources and key partners.

The ***key activities*** refer to the critical activities that need to be performed for the business model to function (Osterwalder & Pigneur, 2009, pp. 17, 36). As mentioned in the preceding section, the activity system required to deliver value to customers plays a vital role in the business model construct.

Osterwalder and Pigneur (2009) distinguished between three types of activities, namely

- Production activities;
- Problem solving activities; and
- Platform or network activities.

Production activities involve designing, manufacturing and delivering products. Problem solving activities relate to finding solutions to individual customer problems, such as repairing a car, helping a sick patient or doing consulting work for a customer with a specific problem. Lastly, when business models are designed with a platform as a key resource, then platform or network activities are required, such developing, managing and maintaining platforms. (Osterwalder & Pigneur, 2009, p. 36)

The ***key resources*** refer to all the assets, competencies, people, information and other resources that are needed to realise the business and other business model components. Key resources can be physical, intellectual, human or financial and can be owned, leased or acquired from key partners (Osterwalder & Pigneur, 2009, pp. 17, 34).

Physical resources include physical assets such as manufacturing equipment, buildings, vehicles, computer systems and distribution networks, and are often very capital-intensive. Intellectual resources on the other hand include proprietary knowledge, intellectual property rights such as patents and copyrights, brands and customer databases. Intellectual resources are difficult to develop, but can lead to substantial value once acquired. Human resources refer to people, their skills and competencies which are required to realise the business model. Financial resources refer to the creative ways in which financing options, such as financial guarantees, cash, lines of credit or stock options are employed to support the business model. (Osterwalder & Pigneur, 2009, p. 35)

The ***key partners*** element define all those key allies who will be required in the realisation of the business model. Businesses establish partnerships for many reasons, but often to:

- Optimise their business models;
- Reduce risk; or
- Acquire resources.

Companies who create partnerships can increase the effectiveness of their business models by sharing infrastructure, resources and activities, in order to take advantage of economies of scale and thereby increase productivity and cut costs. Secondly, partnerships can reduce risk and uncertainty. Sometimes companies form partnerships in certain aspects of their business to create market stability, while competing head-on in other aspects of their business. An example of this is when companies collaborate to introduce a new technology, while designing and competing head-on with their own products that make use of this technology. Thirdly, partnerships allow companies to gain access to particular resources and activities. It is often unfeasible to perform all activities in-house, with just in-house resources. Companies can thus extend their own capabilities by relying on partnerships. (Osterwalder & Pigneur, 2009, pp. 38, 39)

2.2.3.4. Finance

The finance element of the business model canvas has revenue streams and a cost structure as its sub-elements. ***Revenue streams*** refer to the different sources and ways that a company generates revenue that results from value propositions successfully offered to customers. A few revenue stream types are shown in Table 2.3 below. A business may possess various revenue streams, and they may be unique for each type of customer segment, product and service type.

Table 2.3 – Revenue Stream Types (Osterwalder & Pigneur, 2009, pp. 31, 32)

Revenue Stream Types	
1. Asset sale	5. Licensing
2. Usage fee	6. Brokerage fees
3. Subscription fee	7. Advertising
4. Lending/ Renting/ Leasing	

Asset sale refers to when the ownership rights of a physical product are sold. This includes the sale of objects such as books, electronic devices, cars, houses and so forth, where the new owner gains total control over the object. In contrast to this, services generate revenues through a ***usage fee***. The more the service is used, the more the customer pays. (Osterwalder & Pigneur, 2009, p. 31) Examples of this includes Internet data usage, phone calls, delivery or taxi services.

Subscription fees refer to when revenue is generated by selling continuous access to a service (Osterwalder & Pigneur, 2009, p. 31). Subscription fees are usually time related, but need not always be. A customer may for instance also subscribe to a maintenance type service, where the customer has access to maintenance whenever it is required, but only for a fixed number of times. ***Lending, renting, or leasing*** revenue is generated by temporarily granting someone the right to use a particular asset for a fixed period. The advantage to the lender is that recurring revenues are generated, while the lessee enjoys the usage of the product for a limited amount of time and need not bear the full costs of ownership (Osterwalder & Pigneur, 2009, p. 31). Zipcar.com is a good example of this. The company allows customers to rent cars, which they are billed for by the hour. Customers can thus enjoy the usage of a car for an amount of time, without having to own it.

Licensing revenues are generated by giving customers permission to access and use protected intellectual property, which they pay for. Licensing allows rights-holders to profit from their property without having to commercialise a product or service. Licensing is often used in the media industry, where content owners retain copyright and licences can be bought by third parties for the usage. Similarly, patent use is granted in the technology sector in return for a licence fee. (Osterwalder & Pigneur, 2009, p. 31) Revenues can also be generated through ***brokerage fees***, which is the intermediation service performed on behalf of two or more parties. Examples of this include recruitment agencies, credit card providers who get a percentage cut from each transaction, and real estate agents who earn commission each time they successfully match a buyer and a seller. (Osterwalder & Pigneur, 2009, p. 32)

Lastly, ***advertising*** revenues can be generated by advertising a particular product, service or brand in some way. Traditionally, the media industry relied heavily on revenues generated from advertising, but recently other industries such as software, services and online offerings have also started relying more on advertising revenues. (Osterwalder & Pigneur, 2009, p. 32)

Furthermore, these revenue streams may involve different pricing mechanisms. Pricing mechanisms play a vital role in terms of revenue generated, and there can be differentiated between two broad types: Fixed and dynamic pricing (Osterwalder & Pigneur, 2009, p. 32). These pricing mechanisms are summarised and defined in Table 2.4 below.

Table 2.4 – Pricing Mechanisms (Osterwalder & Pigneur, 2009, p. 33)

Pricing Mechanisms			
Fixed Pricing Predefined prices are based on static variables		**Dynamic Pricing** Prices change based on market conditions	
List price	Fixed prices for individual products, services and other value propositions	Negotiation (Bargaining)	Price is negotiated between parties
Product feature dependent	Price depends on the number or quality of value proposition features	Yield management	Price depends on inventory and time of purchase (used for perishable resources, such as hotel rooms and airline seats)
Customer segment dependent	Price depends on the type and characteristics of a customer segment	Real-time-market	Price is established dynamically based on supply and demand
Volume dependent	Price is determined as a function of the quantity purchased	Auctions	Price is determined by outcome of competitive bidding

The ***cost structure*** then flows directly from the infrastructure element. Costs accrue as resources are obtained, activities performed and partnerships are utilised. The cost structure therefore deals with all the expenses required to realise the business model. Intuitively, it is desirable that costs be minimised in every business model. However, for some business models, these cost reductions are more important than to others. Osterwalder and Pigneur (2009, p. 41) differentiated between two broad business model cost structure classes, namely cost-driven and value-driven models.

Cost-driven business models focus on cost minimisation. This type of business model focuses on creating lean cost structures to enable it to pitch low price value propositions. These models typically try to maximise automation and extensively outsource whenever it is the cheapest option. Value-driven models on the other hand are less concerned with the cost implications, and instead focus on creating value for customers. These models often have a high degree of personalised service, high quality and functionality features. (Osterwalder & Pigneur, 2009, p. 41)

All cost structures involve some type of fixed costs and variable costs, as well as economies of scale and scope. Fixed costs refer to the expenditures that remain the same despite the volume of goods or services produced. This could include salaries, building rent, leasing agreements and so forth. Variable cost conversely scale in proportion to the amount of goods or services produced. Economies of scale refer to the cost advantages that a company enjoys, as its outputs are increased. This means that the cost per unit decreases as more output is produced. Bulk purchases for example positively influence the company's economies of scale. Lastly, economies of scope refer to the cost advantages enjoyed by offering a wide array of products that all possibly make use of the same activities and resources. Therefore, by employing the same resources and activities, a wider variety of products and services can be delivered, increasing revenue, while also reducing costs. (Osterwalder & Pigneur, 2009, p. 41)

In conclusion, these nine generic elements enable companies to holistically define their business model and depict their current state, as well as envisioned future states. Osterwalder and Pigneur (2009) advised that constructing a business model works the best when it is printed on a large surface, which allows groups of people to simultaneously work on it. It is also advised to use words, images, colours, sticky-notes and board-markers to depict one's business model on the canvas. Colours allow related ideas to be colour coded, while sticky-notes promote mobility of ideas. Lastly, the canvas is intended to be used as a hands-on tool that fosters understanding, discussion, creativity and analysis of business models and it is advised to create multiple business model alternatives for the same product, service or technology in order to fully explore all the business model innovation possibilities. (Business Model Canvas, 2011; Osterwalder & Pigneur, 2009, p. 42)

2.2.4. Business Models Versus Strategy

***"Today, "business model" and "strategy" are among the most sloppily used terms in business; they are often stretched to mean everything – and end up meaning nothing."* – (Magretta, 2002, p. 92)**

A historical and recurring question that often plague inexperienced managers and entrepreneurs is whether they should use business models or strategy (Mansfield & Fourie, 2004, p. 35). In defining strategy, strategy can be seen more or less as "top management's plans to attain outcomes consistent with the organisation's missions and goals" (Wright, Pringle, & Kroll, 1992, p. 3). Strategy is complex and requires a holistic understanding of the different subcomponents and their interrelatedness for it to be effective (Mintzberg, Ahlstrand, & Lampel, 2009, p. 3). From this perspective, Mintzberg *et al.* (2009, pp. 9-16) stated that strategy requires several definitions rather than one, and can be roughly understood by the five P's for strategy, namely strategy as plans and patterns, strategy as positions and perspectives and strategy as a ploy.

Strategy can be seen as a plan which determines the course of action to reach a goal. It therefore describes the intended direction that the company wants to move in (Mintzberg, Ahlstrand, & Lampel, 2009, p. 9). However, in between some intended strategies do not realise, leading to deliberate strategies. At the same time, other strategies emerge as a dynamic response to the environment. These responses may create a ***pattern of consistent behaviour*** over time. Together the combination of deliberate and emergent strategies create a company's realised strategy. Both deliberate and emergent strategy are necessary, as a purely deliberate strategy implies that the organisation does not learn anything and a purely emergent strategy implies that the organisation has no planning or control (Mintzberg, Ahlstrand, & Lampel, 2009, pp. 9-13). This natural occurring strategic process is depicted in Figure 2.6 below.

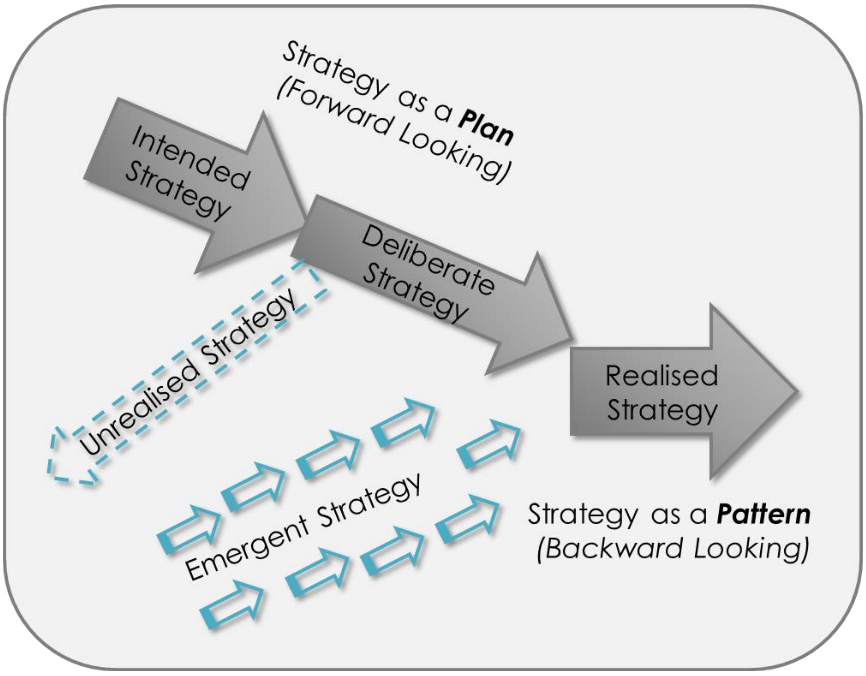


Figure 2.6 – Deliberate and Emergent Strategies Adapted from (Mintzberg, Ahlstrand, & Lampel, 2009, p. 12)

Strategy as a position refers to the location of particular products and services in distinct markets to meet customer needs. The positioning view is external to the enterprise (Mintzberg, Ahlstrand, & Lampel, 2009, p. 13). Porter (1996, pp. 10, 20) elaborated on the positioning perspective by saying that "Strategy is the creation of a unique and valuable position, involving a different set of activities… It is the continual search for ways to reinforce and extend the company's position". Strategy from this point of view is about making trade-offs in competing and choosing what to do and what not to do (Magretta, 2012, p. 2). Strategy therefore involves creating a "fit" among a company's activities to create a unified and focused business (Porter, 1996, p. 1).

Strategy as a perspective assumes an internal perspective and refers to an organisation's fundamental way of performing activities. It is therefore concerned with the grand vision of the enterprise (Mintzberg, Ahlstrand, & Lampel, 2009, p. 13). Lastly, a ***strategy as a ploy*** refers to "a manoeuvre intended to outwit an opponent or competitor" (Mintzberg, Ahlstrand, & Lampel, 2009, p. 15).

Mintzberg *et al.* (2009, pp. 16, 17) stated that there may not be one simple definition of strategy, but some general areas of agreement do exists:

- Strategy is concerned with both the organisation and the environment;
- The substance of strategy is complex;
- Strategy affects the overall welfare of the organisation;
- Strategy involves issues of both content and process;

- Strategies are not purely deliberate;
- Strategies exist on different levels; and
- Strategy involves various thought processes.

In summary, Osterwalder (2004, p. 16) stated that previous authors have made the case that "strategy is about providing a company vision, designing an organisation that achieves a fit between internal strengths and weaknesses and external threats and opportunities (Learned & Christensen, 1965), positioning the company in the market (Porter, 1985), defining a set of goals and objectives (Kaplan & Norton, 1992; Drucker, 1954), the steps to achieve them and the way to measure them (Kaplan & Norton, 1992)".

It is possible to further continue with the discussion on various strategic perspectives and definitions, but the author diverges from a deep analysis into these to explore instead the business models versus strategy debate.

Strategists are very adamant about the specific distinction between strategy and business models, as they regard strategy to be superior. This is due to the main distinction, which is that business models do not take the competitive positioning of the firm into account and have less of a focus on competition, capturing value and creating competitive advantage (Zott, *et al.*, 2011, p. 13; Seddon, Lewis, Freeman, & Shanks, 2004, p. 429; Mansfield & Fourie, 2004, p. 35; Magretta, 2002, p. 91; Linder & Cantrell, 2000). Rather, business models are more customer centric and have more of an emphasis on value creation, cooperation and partnerships (Zott, *et al.*, 2011, p. 13; Mansfield & Fourie, 2004, pp. 35, 41). To strategists this is heresy, as it means that business models can exist that do not create any competitive advantage.

Other factors that are not readily identifiable in business models, but are favoured by strategy, are those of the strategic intent, objective setting and environmental analysis (Mansfield & Fourie, 2004, p. 41). Also, as mentioned in Chapter 2.2.1, the term business model started to become popular with the advent of the Internet and e-businesses (Zott, *et al.*, 2011, p. 4; Magretta, 2002, p. 89). In light of this, Porter (2001, p. 13), with specific reference to e-business, stated that many of the e-industry's problems arose due to the vocabulary or lexicon it used when they formulate strategies. In Porter's (2001, p. 13) words, "The misguided approach to competition that characterises business on the Internet has even been embedded in the language used to discuss it".

Porter (2001, p. 13) strongly disagrees with e-businesses talking in terms of business models and would prefer it if companies started thinking in terms of strategy and competitive advantage. But what is Porter's true quarrel with business models? Firstly, business models describe how companies do business and how they generate revenue. Generating revenue according to Porter, is a very low bar to set for a business, because even if it generates revenue, it is not necessarily profitable. Secondly, because business models do not explicitly take competitive positioning into account, the risk is that businesses can be led on a path of faulty thinking and self-delusion, as no business model can be evaluated independent of its industry structure. Thirdly, Porter (2001, p. 13) dislikes the terms e-business and e-strategy, as it encourages managers to view their Internet operations as separate entities, which can lead to simplistic approaches to competing using the Internet (such as competitive imitation). The risk is therefore that established businesses fail to integrate their Internet operations into their proven, existing strategies and never harness their most important advantages.

By analysing these reasons why Porter dislikes the terminology, it is not quite necessary to throw out the baby with the bathwater. According to Linder (2001, p. 13), "Just because some people went overboard with ill-considered investments based on flimsy valuation methods in the recent past does not mean that we should throw business model thinking away". If it can be established upfront that the main goal of any (e)business is to make a profit; that it is important to take the industry structure into account when designing an (e-business) business model; that these solutions are not simplistic and that Internet activities must be tightly integrated with the rest of the business; then the business model approach can actually serve as a very structured approach to (e)strategy creation.

Hence, the debate between business models and strategy loses wind. Looking at the issue from another perspective, if a good strategy can hypothetically be forged separate from the business model mind-set, then surely that strategy can once again be translated into a business model format. Similarly, when this business model is analysed, it should be possible to deduce the strategy used to create it, by looking at the consistencies between the elements. Strategy and business models are therefore fundamentally linked, and the process is bi-directional and not uni-directional.

In reality, a debate between business models and strategy should not exist. Neither is a replacement for the other; both should be used; and can harmoniously co-exist (Mansfield & Fourie, 2004, p. 42). This concurs with Zott and Amit (2008, p. 1) who stated that "Business model design and product market strategy are complements, not substitutes". Also, according to Richardson (2008), the business model explains how the activities of the firm collaborate to execute its strategy, thus bridging strategy formulation and execution.

Osterwalder (2004, p. 17) added that business models and strategy talk about similar issues, but that they exist on different business layers. Osterwalder (2004, p. 17) stated that "I understand the business model as the strategy's implementation into a conceptual blueprint of the company's money earning logic. In other words, the vision of the company and its strategy are translated into value propositions, customer relations and value networks".

It can therefore be said that a business model is the corporeal form of (some aspects of) strategy. The point about business models not focusing on competitive advantage is still valid, but there is no reason why it is not possible to use the business model approach due to its superior, less ambiguous and more communicatable structure, and infuse it with a competitive advantage creation mind-set to enable the creation of competitive strategies.

Lastly, the existence of a business model and a strategy does not guarantee business success (Mansfield & Fourie, 2004, p. 42). No guarantees exist and the only way to try and create a sustainable business is by doing the hard work required to forge good strategies and flawlessly executing them. This is supported by Linder and Cantrell (2000, p. 2) who stated that companies succeed when, "They choose an effective business model and execute it superbly. They relentlessly renew their distinctiveness as competitors threaten."

2.2.5. Business Model Framework Requirements

Aligned with the systems engineering process followed for this study, it was mentioned in Chapter 1 that the framework would structurally draw on the business model canvas' strategy formulation aspects. These relate to the right-hand side aspects of the business model canvas. Hence, five framework requirements emerge from this section, namely the inclusion of a value proposition, customer segments, customer relationships, channels and revenue stream elements. These business model canvas requirements are depicted in Figure 2.7 below.

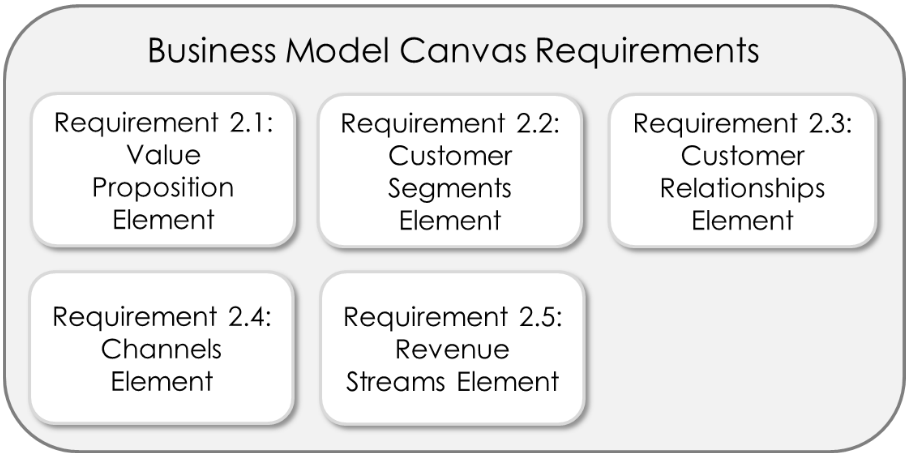


Figure 2.7 – Business Model Canvas Framework Requirements

2.3. Blue Ocean Strategy

This section introduces blue ocean strategy, explains value innovation as its primary construct, and describes the blue ocean strategy principles and tools.

2.3.1. Introduction

Blue ocean strategy is a term first coined by Kim and Mauborgne, and refers to strategy based on a fundamental paradigm shift of creating uncontested market spaces in which competitors are “irrelevant”. According Kim and Mauborgne (2004, p. 69), “Competing in overcrowded industries is no way to sustain high performance. The real opportunity is to create blue oceans of uncontested market space”. In Kim and Mauborgne’s (2004, p. 72) paradigm the business universe consists of two types of spaces, namely red and blue oceans. Red oceans represent all the business industries in existence today, whereas blue oceans represent all the industries not in existence today. It can be otherwise stated that red oceans are the overcrowded, known market spaces and blue oceans are the empty, unknown market spaces.

In red ocean industries, the industry boundaries are defined and accepted and the rules of the game are well understood. Kim and Mauborgne (2004, p. 72) argued that companies in red oceans try to outperform rivals head-on in an industry where supply is overtaking demand, in order to obtain a bigger share of the existing demand. The more saturated this market space becomes, the fiercer the competition gets, causing profit and growth prospects to diminish. Competitors often engage in excessive benchmarking leading to a decline in differentiation between competitors, forcing customers to increasingly base their buying decisions on cost. The result is the commoditisation of products and services, which in effect leads to price wars and diminishing profit margins. (Kim & Mauborgne, 2004, p. 73)

Creators of blue oceans conversely redefine the industry boundaries and the rules of the game, thereby creating *new* markets which are untainted by competition and allow demand to be created rather than fought over. Blue ocean strategy aims to assail competitors by moving around them rather than compete directly with them. This approach leads to opportunity for rapid and profitable growth, while creating barriers that make it difficult for competitors to mimic.

In a study conducted by Kim and Mauborgne (2004, p. 73) of 108 business launches, 86 percent of the new ventures were line extensions that aimed to be incrementally better than the current industry offerings, with a mere 14 percent of the new ventures aiming at creating new markets or industries. While the line extensions accounted for 62 percent of the total revenues, they generated only 39 percent of the total profits. In contrast to this, the 14 percent aiming at new markets and industries delivered 38 percent of the total revenues, but generated 61 percent of the profits. This showcases the dramatic imbalance between red and blue ocean profitability.

The reason for this imbalance is due to red ocean industries accepting the boundaries of the market space in their so-called *structuralist view,* and being forced to compete against others in order to capture a larger piece of the existing market share. Kim and Mauborgne (2004, p. 73) however, noted that by focusing on competition, scholars, companies, and consultants have ignored two very important aspects of strategy, namely (1) finding and developing market spaces where there is little or no competition; and (2) exploiting and protecting these spaces.

Blue ocean strategy believes that industry and market boundaries may be reconstructed, in what is called a *reconstructionist view* (Kim & Mauborgne, 2004, p. 77). There are two ways in which blue oceans may be created, namely (1) creating totally new industries; or more commonly by (2) breaking through or altering a red ocean industry boundary.

Kim and Mauborgne (2004, p. 72) found that companies who succeeded in creating new markets or industries all had a consistent pattern of strategic thinking in common and termed this pattern of strategic thinking blue ocean strategy. This approach parts with traditional models focused on competing in existing market spaces, and the main paradigm differences are highlighted in Table 2.5 below.

Table 2.5 – Red Ocean Strategy vs. Blue Ocean Strategy Paradigms (Kim & Mauborgne, 2004, p. 76)

Red Ocean Strategy	Blue Ocean Strategy
Compete in existing market space	Create uncontested market space
Beat the competition	Make the competition irrelevant
Exploit existing demand	Create and capture new demand
Make the value and cost trade-off	Break the value and cost trade-off
Align the whole system of a company's activities with its strategic choice of differentiation *or* low costs	Align the whole system of a company's activities in pursuit of differentiation *and* low costs

2.3.2. Value Innovation

The key driver of blue ocean strategy is value innovation. Value innovation rejects the fundamental idea that a trade-off exists between value and cost exists. The conventional paradigm is one where companies can deliver higher value only by raising costs, or deliver reasonable value by lowering costs. It is traditionally believed, as introduced by Porter (discussed in Chapter 2.4), that strategy is essentially a choice between differentiation and low cost options. Blue ocean strategy on the other hand states that it is possible for organisations to simultaneously pursue differentiation and low cost strategies (Kim & Mauborgne, 2004, p. 76).

Buyer value is essentially determined by subtracting the price of an offering from its utility. Value for the organisation is determined by subtracting the cost to of the offering from its price. This relation is described by the two equations below:

1. $Buyer\ value = Utility - Price$
2. $Organisational\ value = Price - Cost$

Value innovation requires businesses to break the value and cost trade-off and to make a leap in value for both the business and its customers. This is done by delivering more value or utility to customers, while streamlining costs. This allows the creation of uncontested blue ocean market spaces. (Kim & Mauborgne, 2004, p. 76) This is depicted by Figure 2.8 below.

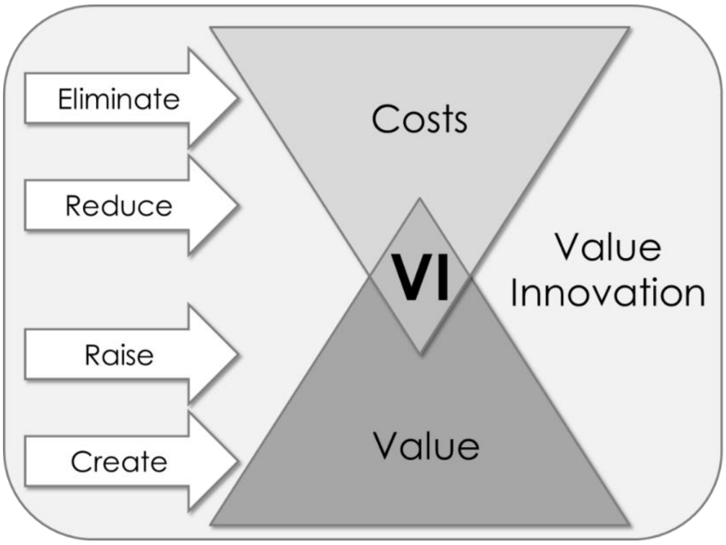


Figure 2.8 – Value Innovation Adapted from (Kim & Mauborgne, 2004, p. 77)

Kim and Mauborgne (2004, pp. 72, 79) stated that although the conceptual understanding of blue and red oceans is relatively new, these two oceans have always coexisted and always will. The current business landscape is dominated by red oceans, spurring the need to create blue oceans. Businesses that understand the underlying logic of blue ocean strategy will be able to create many more blue oceans in the future. Research by Kim and Mauborgne (2004, pp. 75-78) highlighted the following:

1. ***Creating a blue ocean is not necessarily about technology innovation.*** Blue oceans seldom result from technological innovations, but rather from the linkage between existing technology and what customers find valuable.
2. ***Company and industry are the wrong units of analysis.*** Company and industry analysis have little explanatory power regarding how and why blue oceans are created and the most appropriate unit of analysis is the strategic move. This refers to the set of managerial actions and decisions involved in making a major market-creating business offering.
3. ***Large R&D budget does not ensure the creation of new market space.*** The key to creating new markets is making the correct strategic moves. When organisations understand the drivers behind a good strategic move, they are empowered to create multiple blue oceans over time, creating continuous growth and profits over a sustained period. The creation of blue oceans is therefore a product of strategy, meaning the power lies with managerial action.

4. ***It is not necessary to venture into distant waters to create blue oceans.*** Most often it is possible to create blue oceans within existing red oceans or within an organisation's core business.
5. ***Blue ocean strategy never uses competition as a benchmark.*** Benchmarking is a trap that causes organisations to be caught in the current industry paradigms of value creation and prohibits the creation of new markets and industries.
6. ***Blue ocean strategies create barriers to imitation***. The barriers created by blue oceans allow creators to experience a period without any credible challenges from would-be competitors.
   6.1. ***Blue ocean strategies create economic barriers to imitation***. Blue ocean strategies allow the rapid accumulation of large volumes of customers, leading to economies of scale, which place competitors at a cost disadvantage. Imitation also requires competitors to change their whole system of activities, which in itself is not an easy or cheap accomplishment. These drastic changes could additionally lead to organisational politics which could impede the change to the new business model.
   6.2. ***Blue ocean strategies create cognitive barriers to imitation***. Blue ocean creators are the first movers and creating a blue ocean assists in building a brand. Almost all of the organisations studied by Kim and Mauborgne are still remembered today for the blue oceans that they created. The leap in value offered by blue oceans builds brand loyalty, and very expensive marketing campaigns are required to overthrow a blue ocean creator. At the same time, imitation of a blue ocean strategy is unlikely as such imitation could lead to a conflicting brand image within the organisation.

2.3.3. Principles of Blue Ocean Strategy

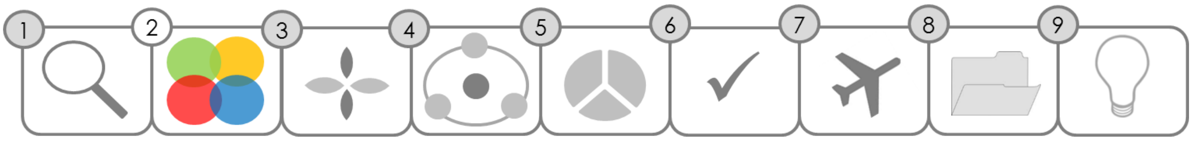
Blue ocean strategy consists of six key principles, summarised in Table 2.6 below. Four of these principles deal with strategy formulation, with the remaining two dealing with strategy execution. This study focuses solely on the four formulation principles and the execution principles will not be discussed.

Table 2.6 – The Six Principles of Blue Ocean Strategy (Kim & Mauborgne, 2005, pp. 47-143)

Formulation Principles	Execution Principles
1. Reconstruct market boundaries	5. Overcome key organisational hurdles
2. Focus on the big picture, not the numbers	6. Build execution into strategy
3. Reach beyond existing demand	
4. Get the strategic sequence right	

2.3.3.1. First Principle: Reconstruct Market Boundaries

The first principle of blue ocean strategy is that market boundaries must be reconstructed. Kim and Mauborgne created a framework called the six paths framework (Kim & Mauborgne, 2005, pp. 47, 48), which is intended to challenge six fundamental assumptions that companies make in strategy formulation,



and thereby help businesses to reconstruct their market boundaries. These six paths are graphically visualised in Figure 2.9 below.

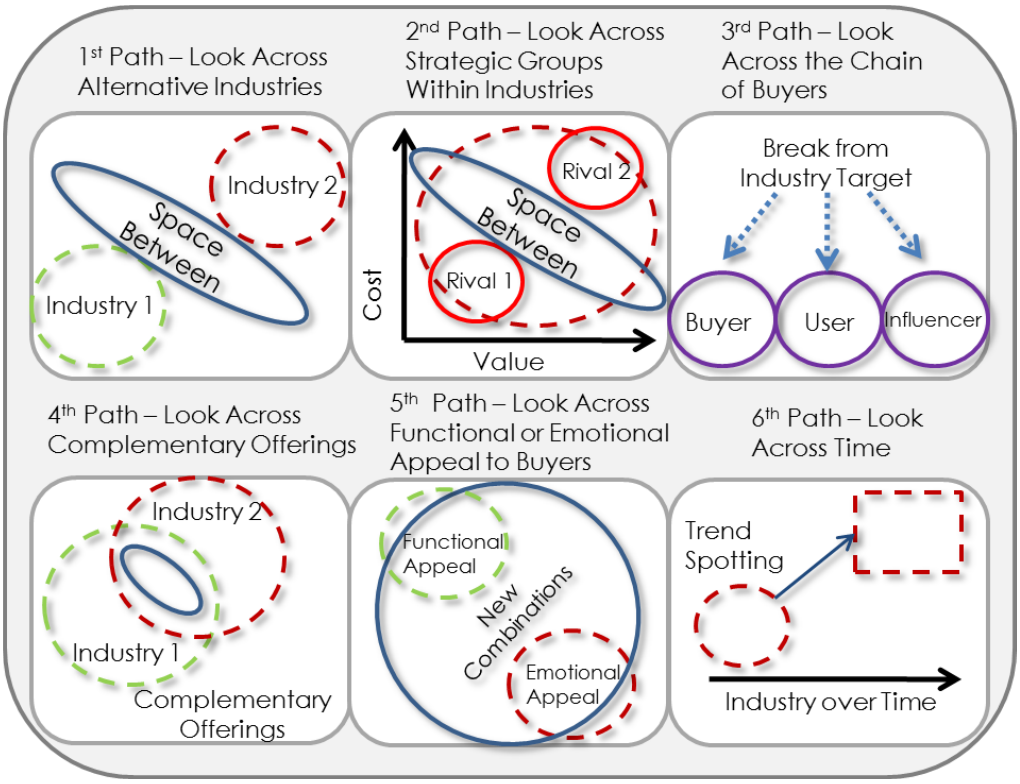


Figure 2.9 – Six Paths for Reconstructing Market Boundaries

The first path to reconstruct market boundaries is to ***look across alternative industries***. Companies do not only compete with firms in their own industry, but also with firms in other industries that produce substitute or alternative products and services. (Kim & Mauborgne, 2005, p. 49) Substitute offerings have different forms than a company's own offerings, but offer the same functionality and are intended for the same purpose. An example of this is that finances can be done with a pencil, via Internet software or by hiring a certified public accountant (CPA). Alternative offerings are broader than substitutes and refer to offerings that have different functions and forms than a company's own offerings, but are used for the same purpose. An example of an alternative is visiting a cinemas versus going to a restaurants. These two industries are totally different in form and function, but both fulfil the purpose of entertainment in the form of conversational and gastronomical pleasure. (Kim & Mauborgne, 2005, p. 49) It is therefore important to think about the trade-offs that customers have to make with other industries when deciding what to do or buy. The space between industries is what often provides opportunity for value innovation.

The second path that can be taken is to ***look across strategic groups within industries***. A strategic group refers to a group of companies within an industry that follow a similar strategy (Kim & Mauborgne, 2005, pp. 55, 56). Strategic groups can generally be classified on the basis of two dimensions, namely price and performance. A higher priced strategic group usually delivers higher performance. Many companies focus on improving their competitive position within a strategic group. Instead, they should to fill gaps between strategic groups. This however, requires a fundamental understanding of the factors that influence a customer's decision to trade up or down from one group to another.

The third path is to ***look across the chain of buyers***. In most industries, competitors converge around a common definition of who the target buyer is, but in reality a chain of buyers exists who are involved in the buying decisions. There are *purchasers*, who pay for the products or services, *users*, who use the products or services and there are *influencers*, who influence the buying decision. These three user groups may overlap, but when they do not, frequently the different groups have different perceptions about what offering features matter and what is valuable. By looking at offerings from these different perspectives and breaking away from the industry assumption of who the target customer is, it may be possible to create a blue ocean. (Kim & Mauborgne, 2005, p. 61)

The fourth path is to ***look across complementary product and service offerings***. In most cases products and services are not used in solidarity and usually rely on other products and services, which in turn affect their value. Yet, rarely do companies consider complementary products and services in determining their own offering. The key is to define the total solution buyers seek when they choose an offering. This can be done by thinking about what happens before, during and after a product or service is used. Kim and Mauborgne provided the example of a movie theatre. Two issues arise that could prevent a couple from going to the movies. Firstly, parking is a problem and secondly, a babysitter needs to be hired. A blue ocean could be created if both these complementary aspects were to be taken into account. Therefore, the context within which an offering is used is very important, and blue oceans can be created by eliminating pains that users have by providing complementary offerings. (Kim & Mauborgne, 2005, p. 65)

The fifth path is to ***look across functional or emotional appeal to buyers***. Usually industries appeal to customers through a conventional combination of rational utility and emotional attractiveness. However, over time, companies' behaviour shapes buyers' expectations in a reinforcing cycle. Therefore, blue oceans can be created by challenging the traditional functional or emotional orientation of their industry. In a functional industry elements can be added to make the industry more emotional. In contrast, in an emotional industry elements can be removed to make it more functional. (Kim & Mauborgne, 2005, pp. 69, 70)

The sixth path is to ***look across time***. Business is dynamic and every industry is subject to external trends over time. Technology advancements, regulatory changes or other factors might be the influencing the industry. Companies usually respond incrementally to these changes in the environment, but Kim and Mauborgne (2005, pp. 75, 76) suggested that instead of looking at the trends itself, a company should focus on how the trends change the value to the customers and how the trends impact the company's business model. It is important to look at how value is delivered today and think about how value might be delivered tomorrow. Doing this can spawn a new blue ocean. However, there are three principles that are critical to assessing trends across time; that is, the trends must be decisive to the business, they must be irreversible and they must have a clear trajectory.

Diverging from typical blue ocean strategy, but relevant to reconstructing market boundaries, Hamel (1996) also defined ways in which products, services, market space and the structure that define an industry can be revolutionised. His findings, called the "nine routes to industry revolution", are listed in Table 2.7 below.

Table 2.7 – Nine Routes to Industry Revolution (Hamel, 1996, pp. 72, 73)

Nine Routes to Industry Revolution	
1. Dramatically improve the value equation	6. Increase accessibility
2. Separate function and form	7. Rescale the industry
3. Achieve joy of use	8. Compress the supply chain
4. Push the bounds of universality (Target the total imaginable market)	9. Drive industry convergence
5. Strive for individuality	

An industry can firstly be revolutionised by dramatically ***improving the value equation*** in the industry. Every industry has some ratio that dictates how much money can buy how much performance. Breaking this ratio can lead to a reconception of the product or service. ***Separating the function*** that something performs ***from the form*** that it is currently embedded in can also lead to new offerings that can revolutionise an industry. Sometimes the same function can be embodied by a new and better form, whilst other times the same form can be used for a new function. An example is the banking function that can now be performed online, instead of physically going to the bank; whereas the form of a magnetic card can be used for both paying for items or gaining access to doors. (Hamel, 1996, p. 72)

Additionally, industry revolution can be achieved by moving from ease of use of a simple, mundane product or service to ***joy of use*** of that product or service. Customers want products and services to be whimsical, tactile, informative and fun. Furthermore, industries can be revolutionised by ***breaking the industry assumption of who the targeted customers are***, and offering products that serve customers that have never before been imagined as customers. The targeted customer can for instance shift from exclusive customers to mass customers; from adults to children; from professionals to consumers; from national to global customers and so forth. (Hamel, 1996, p. 72)

Customers at their core are individuals with unique needs. ***Offering customisation*** can therefore cause industry revolution. Tailoring clothes for customers or developing medicine based on a person's DNA are examples of such customisation. ***Increasing access*** to products and services can also spur industry revolution. Transcending temporal boundaries and geographic locations can deliver unprecedented access and convenience. (Hamel, 1996, p. 73)

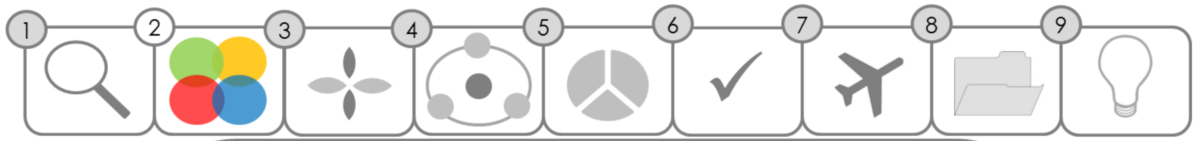
Rescaling the size of businesses in an industry can also lead to industry revolution. Rapid consolidation of a fragmented industry can lead to economies of scale in purchasing, capital utilisation, marketing and administration. Conversely, scaling down the size of businesses in an industry can lead to niche businesses that are able to better serve narrow or local customer segments. Furthermore, removing intermediaries from the supply chain and ***compressing the supply chain*** can also disrupt the current industry. Doing this gives companies enhanced control over the supply chain, which can lead to increased coordination, efficiencies and cost savings. This can thus be seen as a type of vertical integration. Lastly, industries can be revolutionised by blurring the boundaries between them and ***making industries converge***. Factors such as deregulation, the ubiquity or information, and new and growing customer demands are presenting the opportunity to reshape industries. (Hamel, 1996, p. 73)

2.3.3.2. Second Principle: Focus on the Big Picture, Not the Numbers

The second principle of blue ocean strategy is that a business's strategic planning process should focus on the big picture, instead of being paralysed by numbers. Many strategic planning processes are driven by numerous goals and initiatives to increase market share, capture new market segments and cut costs. (Kim & Mauborgne, 2005, pp. 81, 82) A process that focuses too much on the numbers, leads to analysis paralysis that reduces the business's ability to generate blue oceans. The second principle tries to mitigate the risk presented by investing excessive amounts of time and resources in planning, by proposing a new way of strategy formulation, namely using a strategy canvas.

A strategy canvas is the main diagnostic and action framework of blue ocean strategy. On the horizontal axis all the critical factors that the industry compete on are listed, and on the vertical axis the offering levels which buyers receive across these competitive factors are captured. A strategy canvas is therefore a graphic depiction of a company's relative performance across its industry's critical competitive factors. This is depicted in Figure 2.10 below.

The strategy canvas serves three purposes. Firstly, it captures the current industry state of affairs of the known market space. This allows companies to understand the way in which competitors are competing and the factors on which they are competing. Secondly, it compels companies to action by reorienting their strategic focus from *competitors* to *alternatives* and from *customers* to *non-customers* of the industry. Thirdly, the strategy canvas shifts the focus of the business to the big picture, rather than becoming immersed in the numbers of operational details (Kim & Mauborgne, 2005, pp. 82-83).



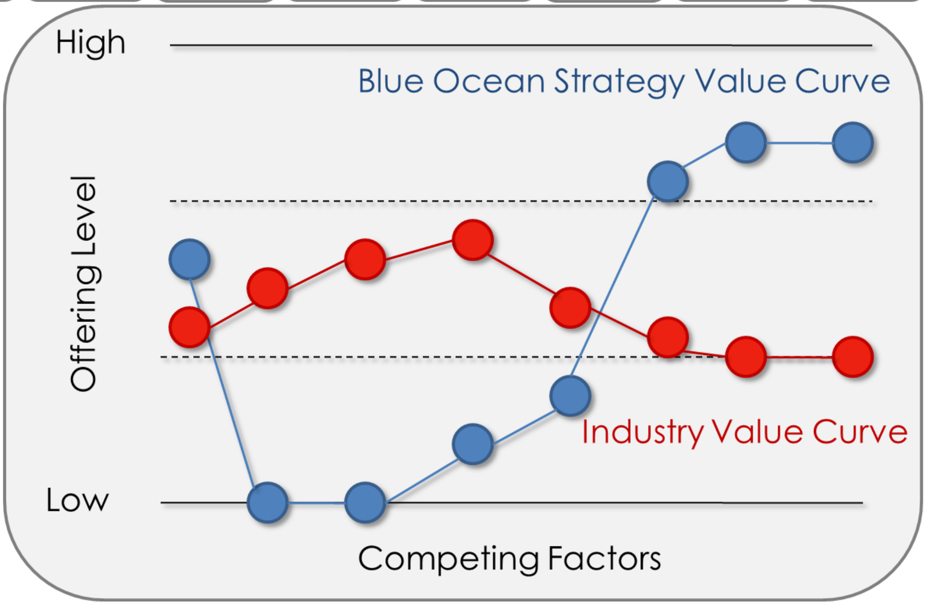


Figure 2.10 – Strategy Canvas (Kim & Mauborgne, 2005, p. 26)

Kim and Mauborgne (2005, p. 39) further stated that three key factors that are important for a good blue ocean strategy value curve: focus, differentiation and a compelling catch-phrase or tagline. Finally, by using a strategy canvas the strategic planning process shifts from one that focuses on numerical analysis and document creation to a conversational process where collective wisdom is built in a creative top down and a bottom up fashion.

2.3.3.3. Third Principle: Reach Beyond Existing Demand

As competitive pressure increases, businesses traditionally strive to retain and expand their existing customers by making use of customised offerings that cater to finer market segments. The risk of this is creating market segments which are too small to profitably serve. Blue ocean strategy in contrast utilises the reversed approach and tries to maximise the number of customers that it attracts. Instead of concentrating on current customers and customer differences, blue ocean strategy focuses on non-customers and the commonalities in what they value. This approach allows a company to reach beyond the existing demand and unlock a new mass of customers that did not previously exist. (Kim & Mauborgne, 2005, pp. 101, 102)

Kim and Mauborgne (2005, p. 104) made a distinction between three types of non-customers, which range from customers nearest to the business's market at tier one, to customers the furthest away at tier three. This is depicted in Figure 2.11 below.

First tier non-customers are customers who are on the verge of the company's current market and occasionally purchase an industry's offerings out of necessity, but are ready to leave the industry as soon as the opportunity presents itself. These customers are mentally non-customers. If a leap in value is presented to them however, they will not only become customers, but the frequency of their purchases will increase, unlocking a huge amount of dormant demand. (Kim & Mauborgne, 2005, p. 104)

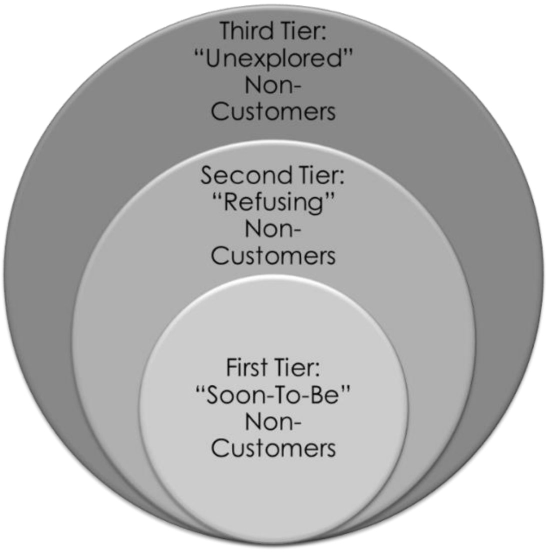


Figure 2.11 – Three Tiers of Non-Customers (Kim & Mauborgne, 2005, p. 104)

Second tier of non-customers are customers who are consciously choosing against the company’s industry. They have seen what the industry offers, but have chosen against it. These customers have needs, but these needs or requirements are not being fulfilled by current industry offerings and they therefore have not become customers. (Kim & Mauborgne, 2005, p. 104)

Third tier of non-customers are customers who are in markets distant or separate from the company’s and have never even considered the offerings of the company as an option, nor has the industry ever considered these customers as a viable target group. This is because these customers’ needs and the business opportunities that they present have somehow always been assumed to belong to other markets. By focusing on the commonalities between these non-customers and current customers, companies can devise how they will pull these non-customers into the market. (Kim & Mauborgne, 2005, pp. 105, 109)

In conclusion, Kim and Mauborgne (2005, pp. 114, 115) stated that there are no hard rules that govern when and which of these non-customers have to be targeted, except that it makes sense to target the largest proportion of non-customers first. Also, simply maximising the size of a company’s blue ocean is not the goal. Market share can be gained rapidly. Whether this can be done profitably, is another question.

2.3.3.4. Fourth Principle: Get the Strategic Sequence Right

The last formulation principle is that blue ocean strategies should be constructed in the correct strategic sequence. This sequence is depicted in Figure 2.12 below. The sequence shows that a blue ocean strategy should start with an idea that delivers exceptional buyer utility. If the idea does not offer exceptional buyer utility, then there is no compelling reason for people to buy it and the idea should be rethought. The second step is to determine the price that customers will be willing to pay, to make this offering accessible to the target mass of buyers. Thirdly, the organisation must determine if they have the ability to create the innovation at a cost which will still deliver a profit to the company. Lastly, the organisation must determine the hurdles to adoption of the business idea and overcome them up front to arrive at a commercially viable blue ocean idea. (Kim & Mauborgne, 2005, pp. 118, 119)

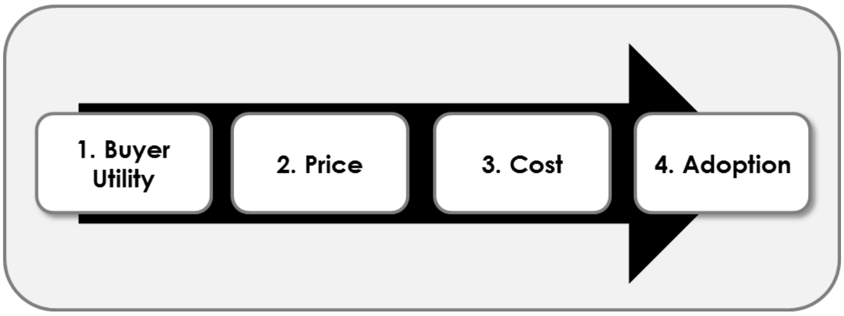


Figure 2.12 – Sequence of Blue Ocean Strategy (Kim & Mauborgne, 2005, p. 118)

Discussing each of the elements of the strategic sequence in more detail, the first step deals with delivering exceptional buyer utility. A very useful blue ocean strategy tool that can help in this regard is the buyer experience cycle (BEC), otherwise known as the buyer utility map (BUM). The buyer utility map is a tool that develops a blue ocean offering from the perspective of the customer, by considering the utility that the business provides during each phase of the customer experience. As shown in Figure 2.13 below, the six stages of the buyer experience cycle on the horizontal axis, and the six levers of utility on the vertical axis create a buyer utility map.

Figure 2.13 – Buyer Experience Cycle/ Buyer Utility Map (Kim & Mauborgne, 2000, p. 133)

The six stages of the buyer experience cycle usually follow more or less sequentially on each other from purchasing to disposal. The six levers of utility on the other hand represent the different ways in which a business can provide utility to customers. It is therefore possible to map the ways that the industry is currently providing utility to customers and to identify ways in which a product or service may be altered to provide utility to buyers in new ways (Kim & Mauborgne, 2000, pp. 130-133).

The second step in the strategic sequence is to determine the strategic price that customers will be willing to pay, and which makes the offering accessible to the target mass of buyers. A strategic price in Kim and Mauborgne's (2000, p. 132) lexicon, is the price that not only attracts customers in large numbers, but also retains customers in that they are convinced that they will not find better value with an imitator.

The "price corridor of the mass" is a model that can assist companies in determining their strategic price. As previously mentioned, the company is not just competing against its own industry, but also against alternative industries and offerings. In setting a strategic price, the goal is to attract current customers and non-customers. From this perspective, three different product types include (1) those with the same form as the company, (2) those with a different form but same functions, and (3) those with different forms and functions, but with the same objective. Using the price corridor of the mass requires businesses to graphically plot the market volume and price of these alternatives, as shown in Figure 2.14 below. This allows the business to see where the largest groups of customers are located and what price they are willing to pay for the offerings that they currently use. The price bandwidth that captures the largest number of customers is what is referred to as the price corridor of the mass. (Kim & Mauborgne, 2000, p. 134)

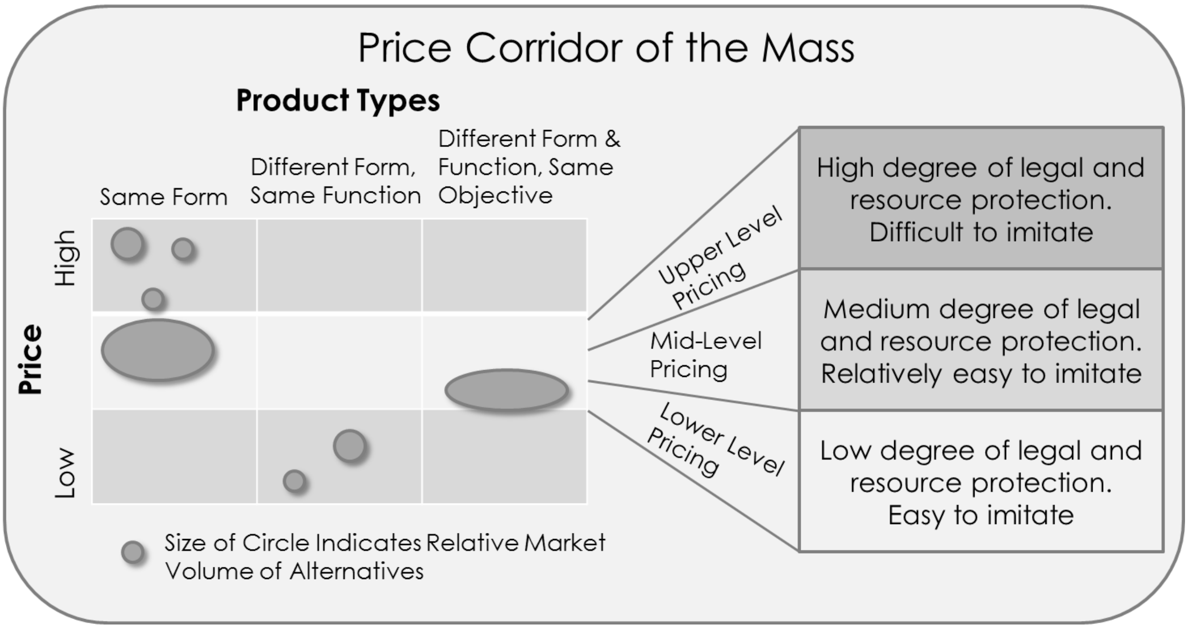


Figure 2.14 – Price Corridor of the Mass (Kim & Mauborgne, 2000, p. 134)

Once the price corridor of the mass has been identified, it is necessary to establish how high the price can be set, without inviting competition from imitators. This price level is dependent on the degree of legal protection through patents and copyright, and the company's ownership of some exclusive or proprietary assets, such as a strong brand name (Kim & Mauborgne, 2000, p. 134). Having a high degree of legal protection and exclusive assets allows a premium price to be set within the corridor, as there will be little competition. However, having no such protection means that the company needs to set the price at a lower level in order to ward off imitators, for who the profit margin may be too narrow if they match this price.

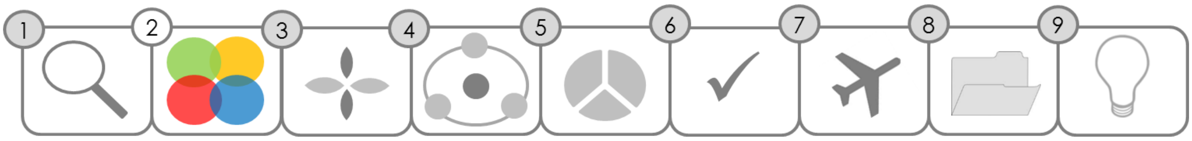
Kim and Mauborgne (2000) warned however that a company does not want to rely solely on price to create demand, but that the mass of buyers must have a convincing ability to pay for the offering. Additionally, their view is that building a large volume of customers is becoming more critical than it used to be. This is because in an increasingly knowledge-intensive environment, much of the costs are covered during design and product development, rather than in manufacturing. This means that once the initial investment has been covered, sales fall straight to the bottom line. Other factors such as network externalities also create winner-takes-all effects which makes choosing the correct price for a product critical to building a large customer base. (Kim & Mauborgne, 2000, p. 132)

The third step in the sequence is to determine whether the business has the ability to create the offering at a cost which will deliver a healthy profit to the company, while keeping the strategic price fixed. The cost target is calculated as the strategic price minus the profit margin. Costs should not drive prices and nor should the utility for the company be decreased because of high costs that prevent the company from profiting (Kim & Mauborgne, 2005, p. 119). If the business idea appears unprofitable, then business model innovation (infrastructure components, including key partnerships, key resources and key activities) is required to hit the cost target. However, sometimes, no matter how hard companies try, the cost target cannot be attained. In such cases, it is required to re-evaluate the strategic price that drives the cost target. Successful innovators never assume that there is only one way to price a product. Expensive products can be brought into the reach of the mass market by leasing it; using time-share models; or using slice share models. Slice-share models work in the same way as time-share models, except that they are not time bound (Kim & Mauborgne, 2000, pp. 135, 136). The goal is thus not to compromise on the strategic price, but to hit the target through a new price model.

Lastly, the organisation must determine the hurdles to adoption of the business idea. Blue ocean ideas are often radical relative to the red oceans people are used to. Overcoming cognitive adoption hurdles up front, such as fear and resistance, are critical to arrive at a commercially viable blue ocean idea. The key is to educate a business's three primary stakeholder groups, namely employees, business partners and the general public and gain their support before rolling out a blue ocean idea. Taking a transparent approach and making time to talk to these stakeholders can save a lot of money and ensure that one's blue ocean strategy is executed successfully. (Kim & Mauborgne, 2005, pp. 137-139)

2.3.4. Blue Ocean Strategy Framework Requirements

Aligned with the systems engineering process, six competitive strategy framework requirements emerge from this section. These requirements specifically highlight the principles of blue ocean strategy that need



to be embodied by the framework. These requirements are depicted in Figure 2.15 below. The first four blue ocean requirements are taken from Table 2.6, the six principles of blue ocean strategy (Kim & Mauborgne, 2005, pp. 81-143). Only the four formulation principles were selected as this study does not include strategy execution in its scope. The remaining two requirements then, reflect the underlying logic of value innovation (Kim & Mauborgne, 2004, p. 76).

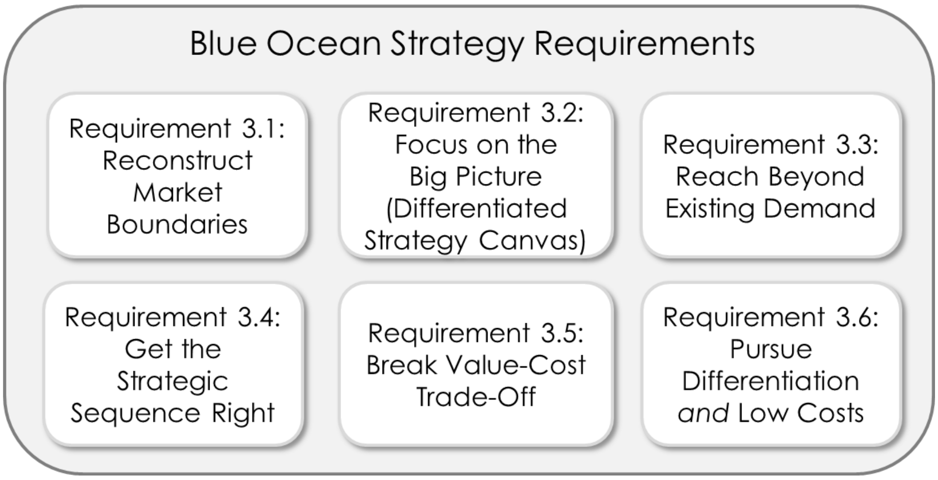


Figure 2.15 – Blue Ocean Strategy Framework Requirements

2.4. Red Ocean Strategy

This section discusses red ocean strategy and its origin, the positioning school of strategy and the elements of competitive strategy.

2.4.1. Introduction

In the preceding section red oceans were defined as all the business industries in existence today. It was stated that in red ocean industries, the industry boundaries are defined and accepted and the rules of the game are well understood. Kim and Mauborgne (2004, p. 72) argued that companies in red oceans try to outperform rivals head-on in an industry where supply is overtaking demand, in order to obtain a bigger share of the existing demand in a market segment. The more saturated this market space becomes, the fiercer the competition becomes, causing profit and growth prospects to diminish. Competitors often engage in excessive benchmarking which leads to a decline in differentiation between competitors and forces customers to increasingly base their buying decisions on cost. The result is the commoditisation of products and services, which in effect lead to price wars and diminishing profit margins. (Kim & Mauborgne, 2004, p. 73)

The picture painted by this description is very grim. This description defines the red ocean market space as a cut-throat environment. At the same time, it should also then be mentioned that companies who manage to succeed in this harsh environment are robust, battle-hardened companies capable of attacking and beating competitors head-on. These successful red ocean players clearly know something about competition and competitive advantage. From this perspective, it makes sense to explore red ocean strategy in order to learn how to develop robust, competitive businesses.

2.4.2. Red Ocean Strategy Origin

"Every morning in Africa a gazelle awakens knowing it must today run faster than the fastest lion or it will be eaten. Every morning a lion awakens knowing it must outrun the slowest gazelle or it will starve. It matters not whether you are a gazelle or a lion, when the sun rises in Africa, you better start running." **– African Proverb**

Red ocean strategy refers to competitive strategy conducted in existing market spaces. The competitive strategy of a business refers to how the business intends to compete in the market and how it intends to defend its chosen market position (Porter, 1980, pp. xxiv, 4). Competitive strategy is therefore concerned with creating a sustainable competitive advantage and outperforming rivals (Porter, 1987, p. 43). A competitive advantage refers to the combination of elements that create a gap between the business and its closest competitor and enables it to better satisfy customer needs in its environment than competitors.

Red ocean strategy assumes a *structuralist* view, where industry boundaries are defined and accepted and the rules of the game are well understood (Kim & Mauborgne, 2004, pp. 72, 73). The term "red ocean strategy" did not historically exist, until Kim and Mauborgne's (2004) writings on "blue ocean strategy". However, knowing that red ocean strategy is rooted in the *structuralist* perspective, certain historically defined types of strategy can be appropriated to the term. In this way, red ocean strategy has diverse theoretical origins and a number of foundation writers who contributed to this strategic perspective.

Mintzberg *et al.* (2009, pp. 368-373) defined ten types of strategic "schools" of thought. Seven of these schools are descriptive and three of them are prescriptive. It is these prescriptive schools which are the most closely related to the *structuralist* perspective, and hence to red ocean strategy. These three schools are the design, planning and positioning schools of strategy.

The design school of strategy postulates that (organisational) structure follows strategy, and an organisation's strategy should align with the configuration of its internal and external environments (Andrews, 1965; Chandler, 1962; Selznick, 1957). The design school focuses on matching internal capabilities of an organisation with external possibilities or opportunities. The key method of this school is the SWOT analysis, where a company's strengths and weaknesses are evaluated in conjunction with the opportunities and threats that its environment poses (Mintzberg, Ahlstrand, & Lampel, 2009, pp. 24-47). Following this, various strategies are designed, evaluated and the most appropriate one is chosen. After this, implementation follows. This basic design school process is shown in Figure 2.16 below.

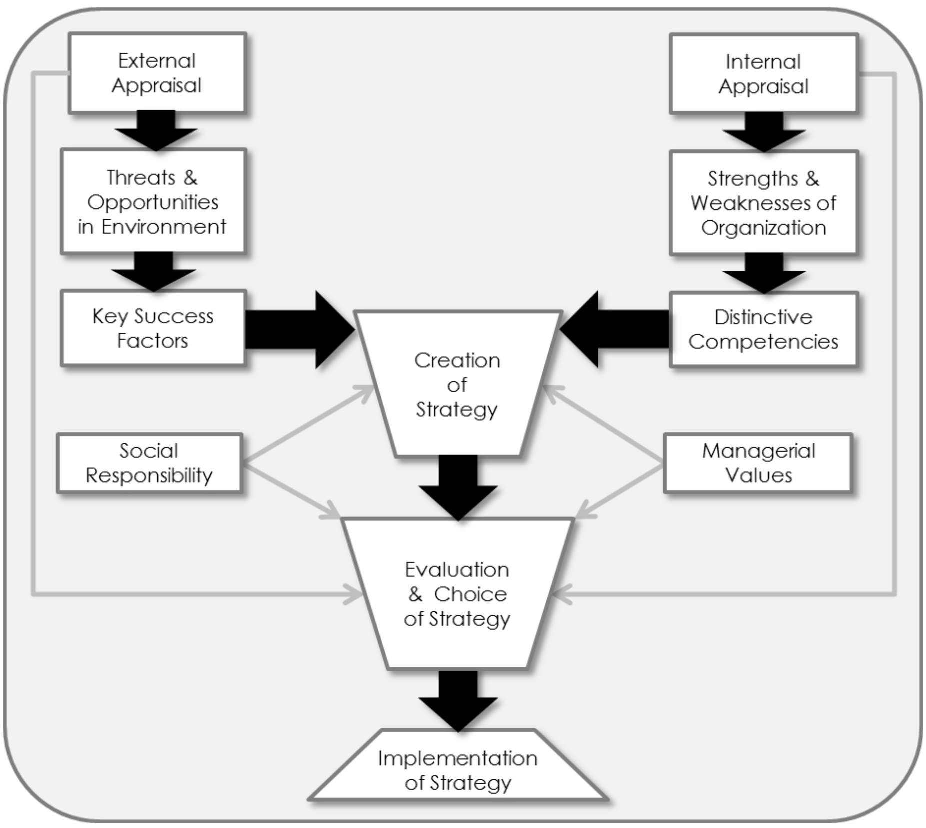


Figure 2.16 – Basic Design School Process (Mintzberg, Ahlstrand, & Lampel, 2009, p. 26)

The planning school of strategy sees strategy as being a deliberate, manageable and formal process. The planning school is concerned with formal procedure, formal training, formal analysis and numerical analysis to perform strategic planning. The basic idea of the planning school is that the strategy process can be decomposed into distinct steps, which can be supported by planning tools, checklists and techniques. (Mintzberg, Alhastrand, & Lampel, 2009, pp. 50-84; Ansoff, 1965) It is believed that the quantification of goals can be used as a means of control and special attention is thus given to objectives, budgets and operating plans.

Lastly, the positioning school of strategy's main protagonist is Michael Porter (1980, 1985). In the strategic positioning frame of mind, specific, generic, valuable positions exist in the market. Companies therefore compete to obtain these market positions. Strategy formulation is thus about selecting generic strategies based on a process of formalised analyses of industry situations. The level of a company's competitiveness in turn is a function of how they position themselves in the market space. (Mintzberg, Ahlstrand, & Lampel, 2009, pp. 87-89)

All three of these strategic paradigms inform our understanding of red ocean strategy; however, the positioning school presents the most recent link in the evolutionary chain of the *structuralist* perspective, as it evolved from the foundations laid by the design and planning schools (Mintzberg, Ahlstrand, & Lampel, 2009, pp. 28, 29). The positioning school is therefore the primary subject of investigation in the subsequent red ocean strategy discussion.

2.4.3. Red Ocean Strategy, Strategic Positioning and Generic Strategies

***"A company can outperform rivals only if it can establish a difference that it can preserve"* – (Porter, 1996, p. 5)**

Companies in red oceans often try to outperform one another based on performing activities better, faster, with fewer inputs or producing less defects. This type of competitive behaviour is known as improving a business's operational effectiveness. Porter (1996, p. 6) stated that operational effectiveness is essential to, but not sufficient for achieving superior long-term performance. The problem with operational effectiveness is that such incremental, operational improvements are easily mimicked by rivals, causing business homogeneity over time. This causes the basis of competition, or productivity frontier, to shift outward, causing increased benefits for customers as the entire industry is lifted to a new level of productivity, but leading to no relative competitive advantage between competitors. (Porter, 1996, p. 3)

In the red ocean frame of mind, the only viable strategies are those that are defensible against competitors (Mintzberg, Ahlstrand, & Lampel, 2009, p. 87). Viable strategies are those that lead to sustainable competitive advantages that are capable of beating competitors. According to Porter (1985, p. XV), "Competition is at the core of the success or failure of firms… and competitive advantage is the heart of a firm's performance in competitive markets". But how are sustainable competitive advantages created?

Porter (1996, p. 17) suggested that a sustainable competitive advantage is derived from six major components: (1) a unique competitive position, (2) activities tailored to strategy, (3) clear trade-offs, (4) a strong fit between a company's activities, (5) sustainability derived from the activity system, and (6) operational effectiveness assumed as a given. These factors are summarised in Table 2.8 below and are contrasted to the implicit strategy model of red ocean strategy that aims at achieving operational effectiveness.

Table 2.8 – Two Perspectives of Red Ocean Strategy (Porter, 1996, p. 17)

Implicit Model for Red Ocean Strategy (Operational Effectiveness)	Porter's Principles for Sustainable Competitive Advantage
One ideal competitive position	Unique competitive positions
Benchmarking and best practices of all activities	Activities tailored to strategy
Aggressive outsourcing and partnering to gain efficiencies	Trade-offs with respect to competitors
Advantage depends on a few key success factors, resources and core competencies	Fit between activities
Flexibility and rapid response to all competitive and market changes	Sustainability from activity system and not its parts
	Operational effectiveness assumed as a given

Interestingly enough, in the implicit strategy model for red ocean competition the world is seen as having only one ideal competitive position. All competitors would therefore compete to obtain this position. Porter (1996, pp. 10, 12) however, stated that strategy is about creating unique and valuable positions that involve a different set of activities. As there is only one ideal competitive position in the implicit model, all companies would use the same activities to deliver all things to all customers. There would be no differentiation and making trade-offs in activities would be irrelevant, meaning that strategy would be irrelevant. Clearly this implicit model for red ocean strategy is flawed.

To elaborate on the strategic positioning perspective, competitive advantages can be captured by securing valuable and generic positions in the market space and by choosing how to compete. This involves choosing which industries to compete in and how to position oneself within that industry; choosing which customer segments to target; which products and services to offer; and which activities to perform in realising these. However, trade-offs exist between deciding what to do.

In red ocean strategy a fundamental trade-off exists between value and cost. Companies can only deliver higher value by raising costs, or deliver reasonable value by lowering costs. Strategy is therefore essentially a choice between differentiation and low cost options. (Kim & Mauborgne, 2004, p. 76)

According to Porter (1996, p. 5), competitive advantages are derived from the activities that are involved in creating, manufacturing, selling and supplying products and services, and beating competitors is only achievable by establishing and preserving a company's distinctiveness. There are two ways in which companies can achieve this distinctiveness. The first is by performing different activities than rivals, and the second is by performing similar activities, but performing them in different ways. Analogously, companies can either supply differentiated offerings that create unique value and enable a premium price to be charged; or companies can supply similar products and services, but perform the activities more efficiently and economically than competitors, leading to a cost advantage.

To summarise, within the strategic positioning paradigm, strategy is about the creation of a unique and valuable position, involving a different set of activities (Porter, 1996, p. 10). Porter (1980) strongly emphasised the (1) *differentiation of activities*, but also highlighted that (2) *costs* can play a significant role in creating competitive advantages. Both of these strategic approaches however, can only be realised when a company has (3) a clear *focus*. Focus describes how it aims to penetrate the market and which customers to target. These three factors led to the creation of Porter's four generic strategies, as depicted in Figure 2.17 below.

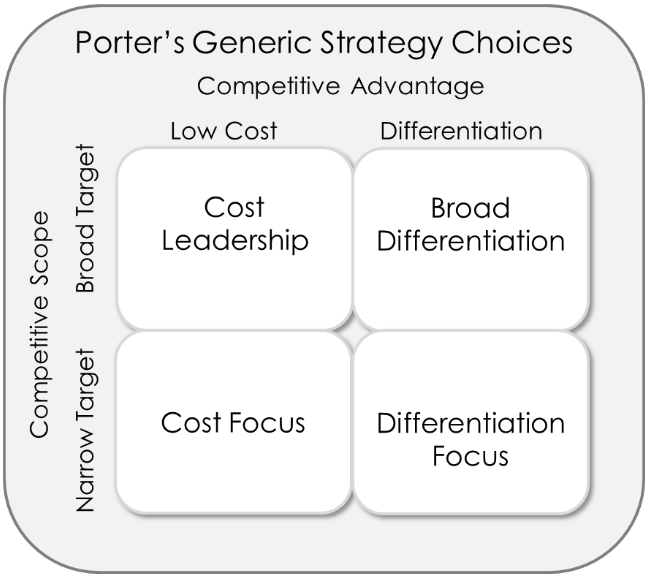


Figure 2.17 – Porter's Generic Strategies Adapted from (Porter, 1980, p. 39)

The ***cost leadership generic strategy*** refers to when a company is able to achieve lower overall costs, while offering products that appeal to a wide range of customers. This type of positioning is closely associated with economies of scale, a large market share and aggressive cost cutting techniques. In return, low cost strategies provide very good defences against both buyer and competitor bargaining power, as profit margins can still be maintained even in face of strong competitive threats. (Porter, 1980, pp. 35-37)

Examples of cost leadership companies include Wal-Mart, Shoprite, Dell Computers, AirBnb and Amazon. A ***cost focus generic strategy*** also achieves lower overall cost benefits, but provides its offering to a smaller niche of customers. Examples of cost focus companies include Capitec, Southwest Airlines, Priceline, Expedia, and Agoda.

A ***broad differentiation generic strategy*** focuses on providing a differentiated offering, while appealing to a wide array of customers. The advantage of differentiation strategies is that differentiated offerings are often perceived as exclusive, warranting a premium price, brand loyalty and customer lock-in (Porter, 1980, pp. 37, 38). Examples of companies who employ broad differentiation strategies include Facebook, Microsoft, Symantec and Dropbox. Lastly, a ***differentiation focus generic strategies*** provide differentiated offerings aimed at a niche customer segment. Examples of such companies include DStv, Porche, Zynga, Prezi, 9gag and various niche online communities.

There is a fifth generic strategy type that emerged not specifically by Porter's design, but by retrospective reflection. This generic strategy type represents blue ocean strategy and is known as the ***best cost provider strategy***. A best cost provider strategy is not constrained by red ocean strategy rules, and simultaneously pursues both differentiation and low cost advantages. Porter's extended generic strategies (Thompson & Strickland, 2001, p. 134) are depicted in Figure 2.18 below.

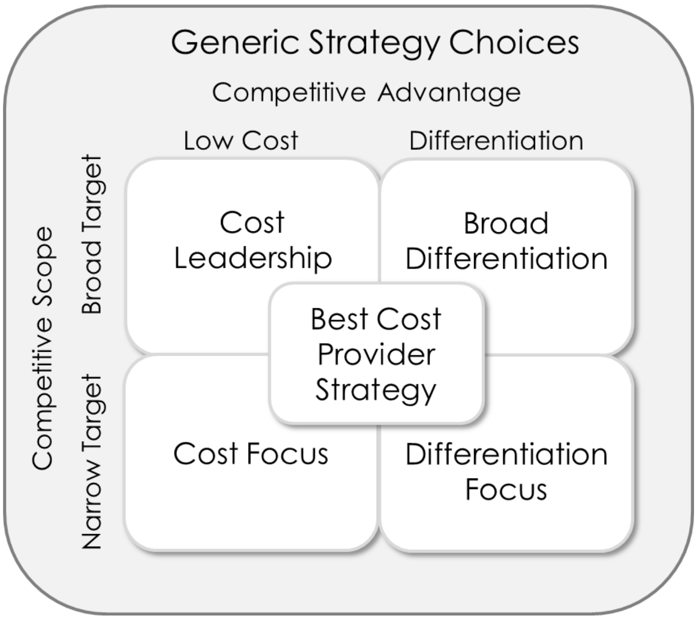


Figure 2.18 – Extended Generic Strategies (Thompson & Strickland, 2001, p. 134)

In order for competitive advantages to be sustainable, explicit trade-offs in choosing how to compete is required (Porter, 1996, pp. 10-17) to create a tight "fit" between activities. Fit creates an interrelated web of activities (often termed an "activity system") that cannot easily be untangled from one another, creating barriers to entry and imitation. Two types of imitators that need to be guarded against are "repositioners" and "straddlers". Repositioners copy valuable strategic positions of competitors, whereas straddlers keep their own strategic position, but copy additional activities, features or services of a superior competitor (Porter, 1996, pp. 10, 11).

Trade-offs protect against imitation due to three reasons. Firstly, different products and services require different activities, equipment, configurations, employee behaviour, skills and management systems. It is impossible for a company to compete on all frontiers, because competing in some areas directly prohibits the ability to compete in another area due to incompatibility. Activity incompatibility therefore prevents imitation. Secondly, even if activities are not completely incompatible, value is destroyed if activities are over-designed or under-designed for a specific use. Therefore, though activities may be copied, the value of the activity may be diminished for the imitator. Thirdly, trade-offs help with focusing a company as to avoid internal or external confusion. Inconsistencies in a business's image and reputation create external confusion, which leads to distrust of a product or service. Internal confusion on the other hand, may arise from a too diverse set of products and services offered, blurring organisational priorities, coordination and control. This leads to employees who are confused about company goals, which values to exhibit, or how to approach customers. These all results in sub-optimal daily operations. Trade-offs therefore ensure that a company remains focused and prevents imitation. (Porter, 1996, p. 11)

Fit also introduces the idea of designing a business holistically, whereby the system is more than its constituent parts. Three different tiers of fit exist. First tier fit is when there is a *consistency* between activities and the overall goal, vision and strategy of the company. Consistency allows competitive advantages to be compounded and focuses the internal co-ordination of the business. Second tier fit is created when activities are *reinforcing*, meaning that activities support and improve the functioning of the other activities. Lastly, third tier fit is created when second tier fit is *optimised*, leading to near ideal execution of activities. (Porter, 1996, pp. 13-15)

Fit prevents imitation in the following way: if an activity is linked to two others and a competitor has a 90 percent chance to copy an activity, then the likelihood of copying that part of the system is $(0.9)^3$, equalling 72.9 percent. With more activities entangled by a tight fit, imitation of activities becomes increasingly difficult. (Porter, 1996, pp. 15, 16) Companies should therefore seek to deepen their strategic positioning (rather than broadening and compromising it) by offering products and services which are aligned with their existing activity system, and which would be too expensive and difficult for competitors to supply on a standalone basis. (Porter, 1996, pp. 18, 19)

Porter (2001, p. 12) summarised strategic positioning as consisting of six basic principles, as shown in Figure 2.19 below.

Figure 2.19 – Six Principles of Strategic Positioning (Porter, 2001, p. 12)

The first principle states that businesses should pursue ***superior long term return on investments***. Only by being profitable can a business survive. The focus should be on economic value creation and sustained profitability of strategies. Economic value is created when customers are willing to pay a higher price for a product or service than what it costs to produce it. The second principle states that it is necessary to provide a ***differentiated value proposition***. A set of benefits must be provided that differs from those provided by competitors. Businesses do not need to find the universally best way of competing and neither do they have to be all things to every customer. The business only needs to deliver unique value to a specific customer segment. (Porter, 2001, p. 12)

The third principle is that businesses need to develop a ***distinctive value chain***. Businesses must reflect their distinctiveness by performing differentiated activities, or similar activities in different ways. Best practices benchmarking erodes distinctiveness and makes it difficult to establish a competitive advantage. Fourthly, a robust strategy requires a business to make ***trade-offs*** in how it decides to compete. A company cannot be all things to all customers. Trade-offs are required and the business has to explicitly decide which products, services and activities it will perform. (Porter, 2001, p. 12)

The fifth principle states that a strategy must define how all elements of a company ***fit*** together in a mutually reinforcing way. Not only does the fit between activities increase competitive advantage, but it also makes a strategy harder to imitate. Activities that are locked in a tight, reinforcing web of activities are much more difficult to imitate than stand-alone activities. Lastly, the sixth principle focuses ***on continuity of direction*** and consistency of purpose. A business needs to maintain its strategic direction, even if it means foregoing certain opportunities. Without this consistency, businesses will find it difficult to focus, develop skills, develop assets and forge long-term relationships with customers. (Porter, 2001, p. 12)

2.4.4. Competitive Strategy and Its Elements

Competitive strategy was previously defined as strategy concerned with how a firm intends to compete in a certain market space and how it intends to defend the resultant competitive position. The oddity of competitive strategy is that although it is often referred to, and despite the gravity of the subject, there has been a severe lack of systematic investigation into its definition, meaning and elements. A vague understanding of its definition and meaning exists, but the elements that constitute a competitive strategy are dubious at best.

This section sought to address the first research question of this study: ***What are the core conceptual elements of competitive strategy?***

The challenge with answering this research question is that because the definitions of what competitive strategy entails are so vague (largely due to the complex, dynamic, situational and ambiguous nature of competition and factors that lead to success), different authors use different perspectives that vary in their level of abstraction when representing the elements of a competitive strategy. This makes comparisons between the existing models extremely difficult and ultimately, there is no consensus on the matter.

Because of this complexity and situational diversity, it is questionable whether it will ever be possible to uncover the elements of competitive strategy in a broad, absolute sense. But this is not what was attempted in this section. What was sought and attempted here, was to uncover the *core conceptual elements* or *higher level choices* that constitute competitive strategy, for use in strategy formulation, which is devoid of operationally oriented elements and adheres to the limitations of the study as defined in Chapter 1. If there was any hope of uncovering these higher level core elements, it would be found by analysing the available definitions or descriptions of competitive strategy. From the analysis of various of these (Appendix F), the following insights emerged:

1. Competitive strategy involves the **selection** of the most **attractive industry** in which to compete based on a **structural analysis** of the industry and its competitors (**5 forces analysis**). This **environmental analysis** clarifies the context in which the competitive strategy is to be executed; identifies the key competitive factors in the industry; and informs subsequent competitive decisions. (Porter, 1985, p. 4; Porter, 1980, pp. 3, 4)
2. Competitive strategy involves the creation of a **unique and valuable position within the chosen industry** (**strategy positioning**). (Markides, 1999, p. 56; Porter, 1985, pp. 4, 11; Porter, 1980, pp. xviii, 4)
3. Carving out this position can involve a plethora of **offensive and defensive moves** to thwart competitors, gain an upper-hand over the five forces of competition, and strengthen one's competitive position. Typical approaches involve targeting the position where the competitive forces are the weakest; influencing the competitive forces in the company's favour; or anticipating

trends affecting the key competitive factors in the industry and positioning the company to capitalise on these. (Porter, 1980, pp. xxi, xxiv, 29)

4. Competitive strategy is management's **plan** for creating a **sustainable competitive advantage**, with the aim of reaping **above average returns** relative to the other competitors in the industry. (Hough, Tompson JR, Strickland III, & Gamble, 2011, p. 148; Chesbrough, 2010, p. 355; Bowman & Ambrosini, 2000, p. 5; Porter, 1985, p. 11)
5. In the simplest form, two **core competitive advantage choices** exist, namely striving for low costs or striving for differentiation (**generic strategies**). (Porter, 1985, p. 11)
6. **Every company has a competitive strategy** whether implicit or explicit. The creation of a competitive advantage is the ideal, but not necessarily the outcome. Competitive strategy therefore is not equal to competitiveness in the market. Rather, competitive strategy describes the **approach of how a business "goes to market"**. Therefore, even "blue ocean" businesses possess a competitive strategy and it is not a term solely related to "red ocean" markets. (Porter, 1980, p. xxi)
7. A **competitive advantage is sustainable** when customers have a **preference** for the company's **value proposition** rather than competitors' and when the basis for that preference is durable. Competitive strategy is therefore closely aligned with the **creation of value** to meet specific **customer segment needs,** the **capturing of value**, and **defence of the chosen strategic position**. The latter is done both by employing **strategic control points** (isolating mechanisms) that lock competitive advantages in for the company and by **adapting to changing circumstances**. (Casadesus-Masanell & Tariján, 2012, p. 6; Hough, Tompson JR, Strickland III, & Gamble, 2011, p. 7; Ungerer, Pretorius, & Herholdt, 2011, p. 182; Rumelt, 1998, pp. 3, 4; Lai, 1995, pp. 386, 387)
8. **Competitiveness** is essentially about being **different** than competitors. Differentiation is achieved by performing different activities or performing activities differently than competitors. The notion of a highly integrated **activity system** is also important in competitive strategy, as it provides barriers to imitation. (Nielsen & Bukh, 2012, p. 43; Magretta, 2002, p. 91; Markides, 1999, p. 56; Rumelt, 1998, p. 4; Porter, 1996, pp. 6, 7, 10)

Following these insights, it was necessary to arrive at core conceptual elements of a competitive strategy for use in the competitive strategy framework. The three major themes identifiable in competitive strategy literature are (1) environmental analysis, (2) strategic positioning, and (3) the creation of a sustainable competitive advantage. The latter however, is an ideal consequence of the prior two and is not guaranteed.

Considering the competitive strategy insights highlighted above, the core strategic choice that relates to environmental analysis is the selection of an attractive industry in which to compete. Porter (1980, p. 3) stated that "The essence of formulating a competitive strategy is relating a company to its environment… The key aspect of the firm's environment is the industry or industries in which it competes." This makes industry selection the first core element of competitive strategy.

The theme of strategic positioning on the other hand presents a myriad of strategic choices as it includes all the offensive and defensive competitive moves that a business can make to position itself in the market. Markides (1999, p. 56) described the core of a strategic position as the sum of answering the who-what-how questions of a business. Who should the company target as customers? What should be offered to them? And how should the strategy be executed? Thus, which activities should be performed and how will they be performed to efficiently deliver the offering? If this description is used as a point of departure and the preceding competitive strategy insights are considered, then three core elements of competitive strategy reveal themselves, namely customer segments (who); a value proposition (what); and an activity system (how).

Lastly, the pursuit of a sustainable competitive advantage highlights the pursuit of a competitive advantage and the need for its sustainability and the defensibility. By investigating the remaining competitive strategy insights, three other core elements of a competitive strategy reveal themselves, namely the core competitive advantage choice of a firm (Porter's generic strategies), strategic control points, and strategic evolution. The basic derivation logic of the core elements of competitive strategy from the identified core themes are depicted in Figure 2.20 below.

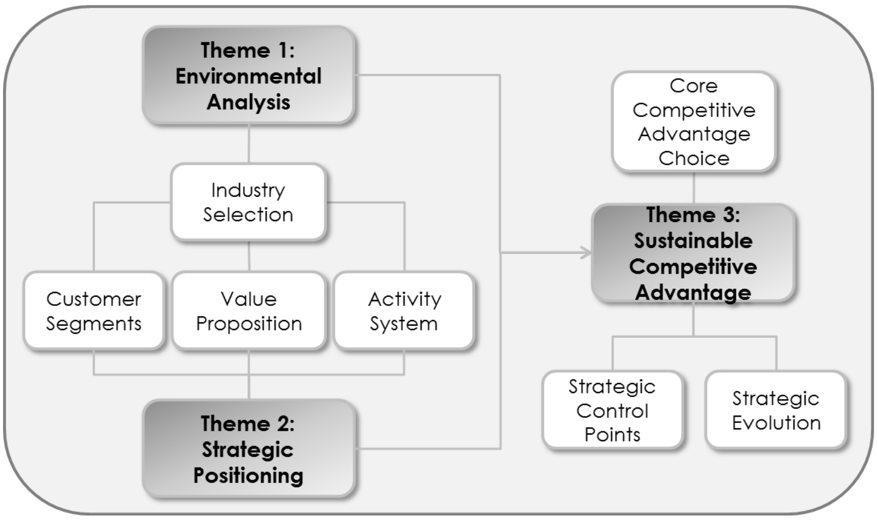
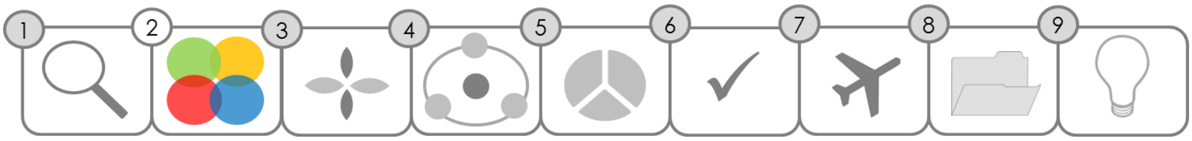


Figure 2.20 – Deriving the Core Elements of Competitive Strategy

Subsequent to this, these elements were compared and benchmarked against two other models that attempted to articulate the elements of a competitive strategy (that fit the author's level of abstraction) in order to check the derived elements' coherence and substantiate it.

The first model used is from Teece (2010, p. 180), who stated that "Coupling competitive strategy analysis to business model design requires segmenting the market, creating a value proposition for each segment, setting up the apparatus to deliver that value, and then figuring out various "isolating mechanisms" that can be used to prevent the business model/strategy from being undermined through imitation by competitors or disintermediation by customers." Teece's (2010) model is shown in Figure 2.21 below.



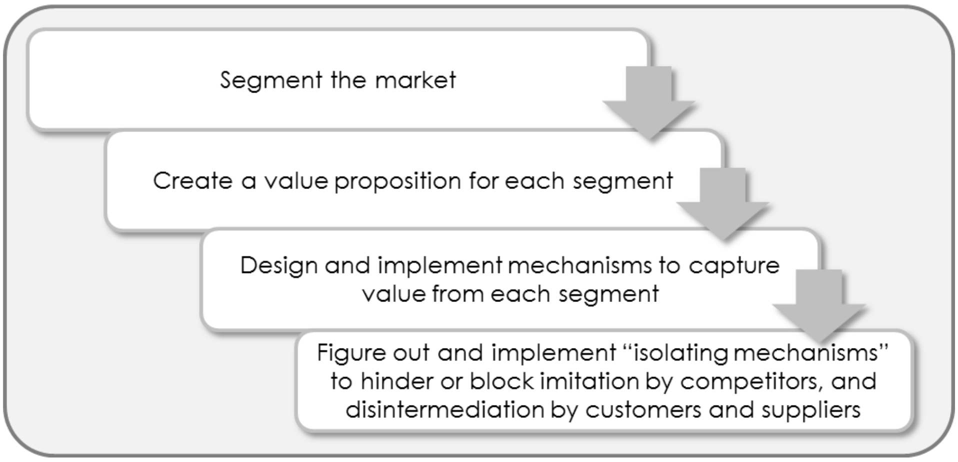


Figure 2.21 – Steps to Achieve Sustainable Business Models (Teece, 2010, p. 182)

Similarly, Ungerer, Pretorius and Herholdt (2011, p. 182) defined the elements of a competitive strategy as consisting of a value proposition, a core competitive advantage choice, strategic control points and an activity system. The value proposition is described as consisting of four sub-elements, namely an offering, relationships, the delivery channel and pricing. Their model is shown in in Figure 2.22 below.

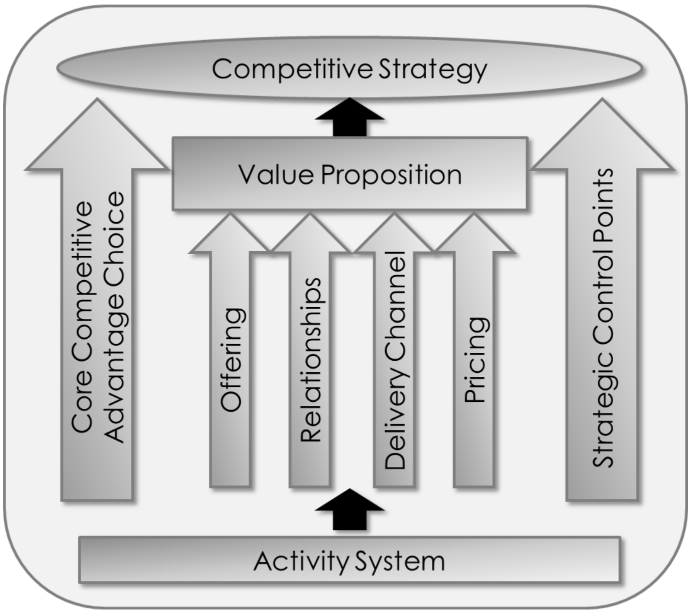


Figure 2.22 – Competitive Strategy Architecture (Ungerer, Pretorius, & Herholdt, 2011, p. 182)

In combination, these two models match extremely well with the derived core elements of a competitive strategy. Both these models stress the need for a value proposition and strategic control points/isolating mechanisms. Teece (2010) additionally identified customer segments, while Ungerer (2011) identified a core competitive advantage choice and an activity system as elements of competitive strategy. What both these models neglect however, is the selection of an attractive industry in which to compete; and sustaining the business by evolving to changing circumstances. Regardless, from these two models it is clear that there is a rationale for the posited core elements of competitive strategy.

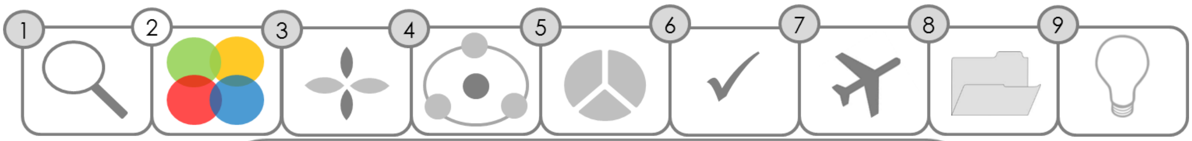
Other models considered for input, but which were not on the same level of abstraction and were therefore subject to the reconciliation problem, was Porter's (1980, p. xxv) wheel of competitive strategy, Porter's (1980, pp. 127-129) dimensions of competitive strategy, and Porter's (1985) value chain.

It must be noted however, that the problem with this assembly of elements (industry selection, customer segments, a value proposition, an activity system, a core competitive advantage choice, strategic control points and strategic evolution) is that although they embody core choices that relate to competitive strategy in general, not all of them adhere to the limitations of this study. Firstly, the activity system of a business represents all the activities that a company performs to realise its strategy. Activity systems are inherently operationally oriented. In Chapter 1 it was noted that execution factors fall outside of the scope of this thesis. For this reason, the activity system is eliminated as a core element of the competitive strategy framework. This element remains conceptually important however, and will still feature a lesser, unifying role in the created framework.

Secondly, although industry selection is extremely important, it is also eliminated as a core element of the competitive strategy framework for e-business start-ups, in order to focus the framework developed in Chapter 4. The framework assumes that its users have already performed an environmental analysis and have already selected the industry in which they intend to compete in. This is not an unfounded assumption, given that environmental analysis, which includes a five forces analysis (suppliers, buyers, competitors, new entrants, substitutes), trend analysis and macro-economic analysis are well defined concepts. Knowledge of the competitive domain in which one intends to compete can therefore be seen as the minimum entry barrier for using the competitive strategy framework. Industry selection remains an important subject however, and its role is still visible in the framework's larger context as will be shown in Chapter 4.5.

2.4.5. Red Ocean Strategy and Competitive Strategy Elements Framework Requirements

Aligned with the systems engineering process, eight red ocean strategy framework requirements emerge from this section that need to be reflected by the framework and are depicted in Figure 2.23 below. The first red ocean requirement reflects that red ocean strategies compete in existing market spaces and therefore seek to capture the existing demand (Kim & Mauborgne, 2004, p. 72). The next four requirements were taken from the alternative views of red ocean strategy (Table 2.8), with the remaining three requirements being taken from the six principles of strategic positioning (Figure 2.19). (Porter, 2011, pp. 12, 17) Only three of the six principles were needed here, as the six principles of strategic positioning overlap with the alternative views of red ocean strategy. All the necessary elements were thus included.



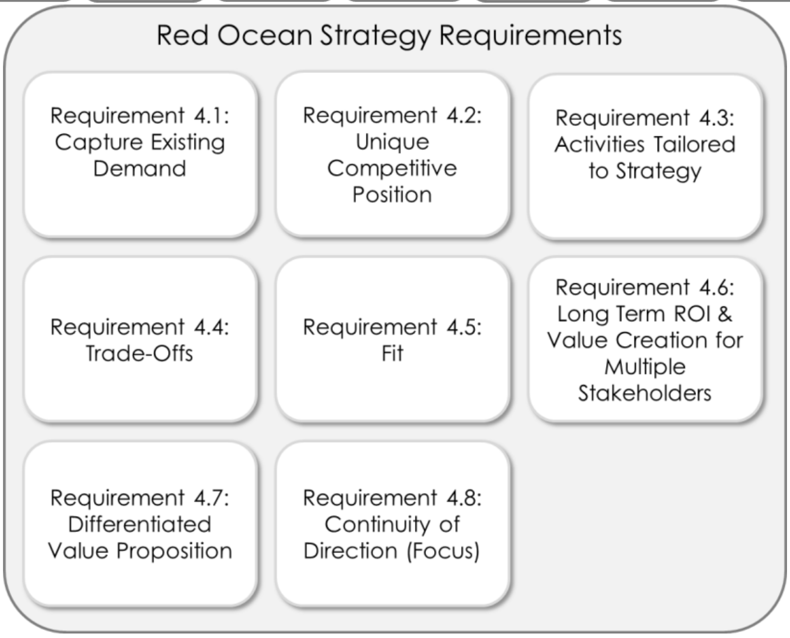


Figure 2.23 – Red Ocean Strategy Framework Requirements

Furthermore, seven additional framework requirements emerged from the definitions of competitive strategy (refer to Chapter 2.4.4 and Appendix F) and are depicted as shown in Figure 2.24 below. These include a customer segment element, core competitive advantage choice or “generic strategy choice”, a value proposition, strategic control points, strategic evolution, industry selection and an activity system element. It was mentioned in the previous section that industry selection and activity systems will not play a major role in the framework. However, they are included here as requirements as they are conceptually important and will again feature in Chapter 4.5 to highlight the larger context of the competitive strategy framework. In this way, they still play an integral part in understanding the competitive strategy framework, although they are not explicitly elements of it.

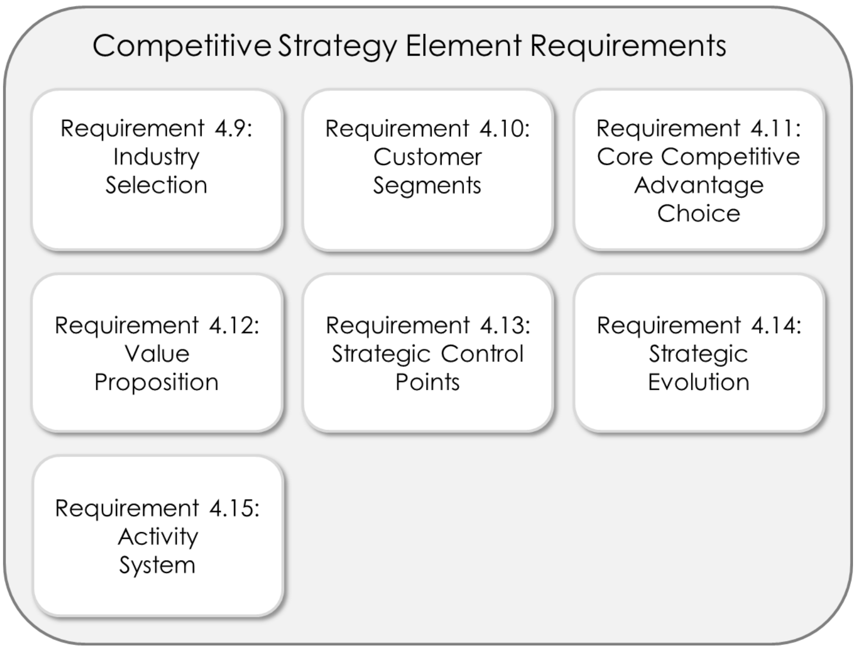


Figure 2.24 – Competitive Strategy Elements Framework Requirements

2.5. Chapter 2 Conclusion

This chapter contextualised the study by introducing its four main research domains. The section on e-business introduced the environment in which the competitive strategy framework resides. The section on business models provided a structural point of departure for thinking about a business's core operating logic. Finally, the blue and red ocean strategy sections provided conceptual tools and perspectives for shaping a business's strategy. Several framework content requirements also emerged from this chapter and these will subsequently be used to develop the competitive strategy framework.

3. Integrative Research

This chapter introduces four sub-domains of interest, namely fundamentals of e-business strategy, business model innovation, e-value creation and e-customer retention. The core content of these domains relevant to the study are discussed. Subsequently, framework content requirements are derived.

3.1. Fundamentals of E-Business Strategy

This section explores the role of strategy in the digital economy, the Internet's effect on industry structure, e-business misconceptions and fundamentals of e-business strategy.

3.1.1. Introduction

***"Internet commerce is disruptive to the traditional way of doing business in that it is transforming the rules of competition and inventing new value propositions and business models."* – (Lee & Vonortas, 2004, p. 166)**

The creation of the Internet gave rise to the "new economy", the "networked economy" or the "digital economy". Van der Heijden (2001, p. 13) noted that, "The overwhelming view was that this was a new era, not just a technological change, but a new economy". Several ways in which the digital economy was different to the old economy, was that it focused on information-based technology and digital products and services, supplied to a global market, and enabled the mass customisation of offerings; whereas old economy was hinged on manufacturing-based technology and the production of physical goods and services, supplied to local markets, and reliant on efficiencies through mass production (Von Leipzig, 2012; Lee & Vonortas, 2004, p. 169).

These differences created the illusion that the old rules of competition were no longer valid and that the Internet presented a marketplace built on "new rules" (Van der Heijden, 2001, p. 13). United in their confusion, many e-businesses seemed to abandon all precepts of good strategy (Porter, 2001, p. 11), while investors rewarded them with funding and over-optimistic valuations. When warning signs started to indicate that these e-businesses might have profitability issues, it resulted in the dot-com crash of 2000, where a global collapse in technology equities took place. (Mansfield, 2005, p. 5)

Some differences between the old and new economy are summarised in Table 3.1 below.

Table 3.1 – Old Economy vs. New Economy Developed from (Von Leipzig, 2012; Lee & Vonortas, 2004, p. 169)

Old Economy	New Economy
Manufacturing-based technology	Information-based technology
Focus on goods	Focus on services
Information supports physical transformation	Information as source of value
Mass production	Mass customisation
Cost minimisation	Value maximisation
Economic principle of scarcity	Economic principle of abundance
Local markets	Global markets

This section explores whether strategy is still needed or relevant in the Internet economy; how the Internet affected the competitive environment; misconceptions of the Internet; key success factors for competing in the e-environment; as well as other fundamental questions that Porter (2001, p. 2) proposed one should ask in order to better understand the Internet competitiveness:

1. Who will capture the economic benefit that the Internet creates?
2. Will customers end up enjoying all the value or will companies be able to reap a share of it?
3. What will be the Internet's impact on industry structure?
4. Will the Internet expand or shrink the pool of profits?
5. What will be the impact on strategy?
6. Will the Internet bolster or erode the ability of companies to gain sustainable advantages over their competitors?

3.1.2. The Internet Killed Strategy

***"Strategy without tactics is the slowest route to victory. Tactics without strategy is the noise before defeat."* – Sun Tzu, The Art of War**

The dot.com crash of 2000 suggests that early Internet firms believed that the process and content of traditional business strategy is not needed anymore, and that a business model alone is sufficient for survival in an environment characterised by change and uncertainty (Lee & Vonortas, 2004, p. 164; Mansfield & Fourie, 2004, p. 35; Turban, King, Lee, Warkentin, & Chung, 2002, p. 47; Barrow, 2000, p. xi). These e-businesses did not think that they needed a strategy, a special competence or even customers. All that they needed was a web-based business model that promised good profits in some ill-defined future (Magretta, 2002, p. 86). As noted in Chapter 2.2, there is nothing wrong with the business model concept, but that the problem lies with its distortion and misuse (Magretta, 2002, p. 86).

During the early days of the Internet, many companies wrongly assumed that the Internet has changed everything, rendering all the old rules of competition obsolete (Porter, 2001, p. 2). This led them to make decisions that violated nearly all precepts of good strategy (see Chapter 2.4.3). Instead of focusing on profits, they focused on maximising revenue, growth and market share (Porter, 2001, p. 11). Instead of delivering real value to customers that allows them charge a premium price for offerings, they indiscriminately pursued customers through discounting, giveaways, promotions and channel incentives (Porter, 2001, p. 11; Van der Heijden, 2001, p. 13) and relied on indirect revenues generated through advertising and click-through fees. Instead of making trade-offs, maintaining a continuity of direction and establishing a fit, they attempted to offer customers nearly every conceivable product, service or type of information (Porter, 1996, pp. 7, 12). This in turn prevented them from building key capabilities in a specific aspect of business. Lastly, instead of building a distinct value chain, they copied the activities of rivals (Porter, 2001, pp. 11, 12) and rushed into misguided partnering and outsourcing relationships that eroded their distinctiveness and caused them to forfeit important proprietary advantages (Porter, 2001, p.

2). Other mistakes include an over-estimation or non-exploitation of network effects; ignoring low barriers to entry; and lacking ideas on how to protect the business in the future (Van der Heijden, 2001, pp. 17, 18).

Many dot-coms assumed they would be successful because of their first mover advantages. However, emulation is so much easier in the digital world than in the physical world, making it very possible for competitors to catch up (Van der Heijden, 2001, p. 16). These low barriers to entry and imitation foster hyper-competitiveness, which requires businesses to rapidly adapt to changes in their dynamic environment (Mansfield & Fourie, 2004, p. 37) or risk becoming obsolete. It was therefore postulated that key factors for success in the digital environment are speed, surprise and innovation (Brown & Eisenhardt, 2002).

Porter (2001, p. 11) stated that, "Believing that no sustainable advantages exist, they seek speed and agility, hoping to stay one step ahead of competition". Instead of attempting to sharpen their distinctiveness through strategic positioning, these companies defined competition involving the Internet almost entirely in terms of operational effectiveness. By pursuing operational effectiveness through benchmarking, they shifted their basis of competition away from differentiators such as quality, features and services, towards price (Porter, 2001, p. 2, 19). Price became the primary, if not exclusive competitive variable (Porter, 2001, p. 12). This led to competitive convergence, which undermined their own competitive advantages, eroded the attractiveness of the entire industry, and made it more difficult for anyone in the industry to be profitable (Porter, 2001, pp. 2, 12). Instead of emphasising the Internet's ability to support convenience, service, specialisation, customisation, and other forms of value that justify premium prices, these companies inversely turned competition into a race to the bottom. The tragedy about this is that once competition has been defined in this way, it is very difficult to turn back. (Porter, 2001, p. 12)

It is odd that companies chose to compete in this way, because when it comes to reinforcing a distinctive strategy, tailoring activities, and enhancing fit, the Internet actually provides a better technological platform than previous generations of IT. However, in order to gain these advantages companies need to tailor their Internet technologies to their particular strategies, instead of adopting generic "off-of-the-shelf" applications. This might be a somewhat more difficult route, but the difficulty of the task contributes to the sustainability of the resulting competitive advantage. (Porter, 2001, p. 13)

Porter (2001, p. 3) noted that the Internet it is not necessarily a blessing. The Internet alters industries in ways that lessen overall profitability and have a levelling effect on business practices, which reduces companies' ability to establish sustainable operational advantages. Instead of diminishing the need for strategy, the Internet has actually amplified its need, because it is now more important than ever for companies to distinguish themselves through strategy (Magretta, 2012, p. 3; Porter, 2001, p. 3).

It is also time to stop viewing the Internet as a new revolution or a new industry, but rather as an enabling technology (Porter, 2001, p. 2). It is time dismiss the notion of the "new economy" and to see the Internet for what it is – "a powerful set of tools that can be used wisely or unwisely, in almost any industry and as a part of almost any strategy" (Porter, 2001, p. 2). This concurs with Percy Barnevick who stated that there were never two economies, but always just one economy: One where new technology was trying to find its way (Van der Heijden, 2001, p. 13). Realising that e-business is founded on the same economic principles of traditional business can only be healthy to e-entrepreneurs, as it eliminates the confusion that has been so destructive in the Internet's adolescent years. In the quest to see how the Internet is different from traditional business, it has often been overlooked to see how the Internet is the same. Therefore, even though a new means of conducting business has become available via the Internet, the fundamentals of competition remain unchanged. (Porter, 2001, p. 19; Van der Heijden, 2001, p. 13)

3.1.3. The Internet's Effect on Industry Structure

"The essence of formulating competitive strategy is relating a company to its environment… the key aspect of a firm's environment is the industry or industries in which it competes." **– (Porter, 1980, p. 3)**

Porter (1999, p. 5) noted that any industry's structural attractiveness is determined by the five forces of competition: (1) the intensity of rivalry among existing competitors, (2) the barriers of entry for new competitors, (3) the threat of substitute products or services, (4) the bargaining power of suppliers and (5) the bargaining power of buyers. These competitive forces in combination determine how the economic value created by any product, service, technology or way of competing is distributed between the company, customers, suppliers, rivals, substitutes and potential new entrants in the industry. By therefore analysing the forces, the industry's underlying drivers of average industry profitability and future profitability can be uncovered. (Porter, 2001, p. 5) The five forces of competition are depicted in Figure 3.1 below.

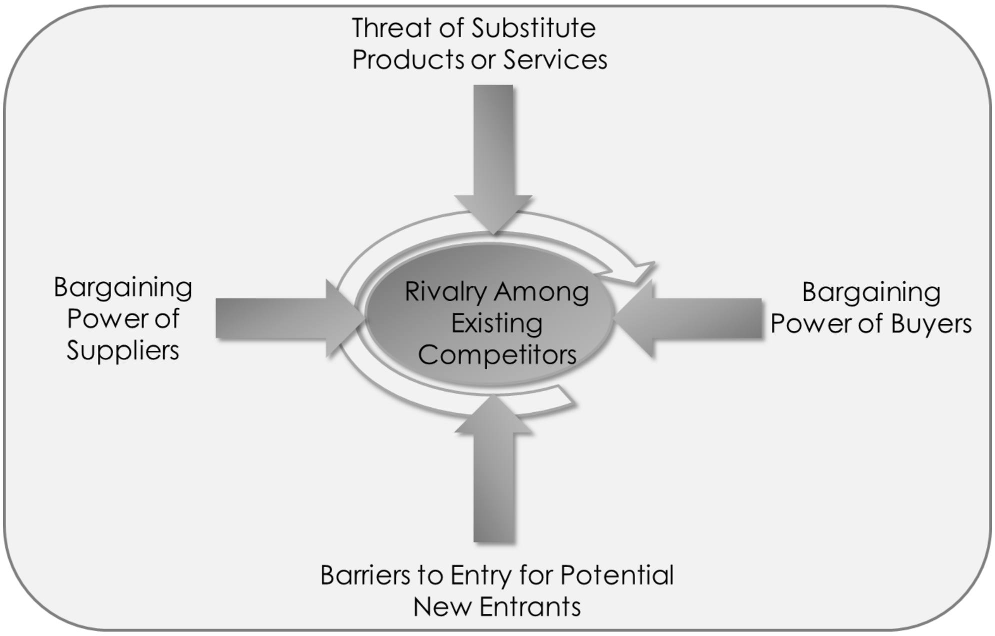


Figure 3.1 – Porter's Five Forces Model (Porter, 2001, p. 6)

The structural impact of the Internet on the five forces of competition is provided in Table 3.2 below. A tick in the table indicates a positive impact for the core business, while crosses indicate a negative impact.

Table 3.2 – The Effect of the Internet on the Five Forces of Competition (Porter, 2001, p. 6)

Bargaining Power of Suppliers	Bargaining Power of Buyers
× The Internet provides a direct channel to customers, reducing the leverage of intermediaries.	× Increased access to channels raises buyer bargaining power.
× The Internet gives companies equal access to suppliers, which leads to standardised products and reduced differentiation.	× Increased access to product and supplier information shifts bargaining power towards buyers.
× Reduced barriers to entry allow more entrants into the market, shifting the bargaining power to suppliers as they are not as reliant on their previous customers.	× Switching costs are reduced by the Internet.
Rivalry Among Existing Competitors	**Barriers to Entry for Potential New Entrants**
× The differentiation between competitors is reduced, as offerings are difficult to keep proprietary.	× Entry barriers are reduced by anything that Internet technology eliminates or makes easier to do. Examples of things that are no longer needed include a sales force and various physical assets.
× The geographic market is widened, increasing number of competitors.	× Internet applications are difficult to keep proprietary from new entrants.
× Competition shifts towards price competition. The Internet reduces the variable cost of doing business creating even greater pressure to engage in price competition.	× A mass of new entrants have entered many industries.
Threat of Substitute Products or Services	
✓ The Internet makes the overall industry more efficient, increasing the size of the market.	× The continued growth of the Internet and its uses create new substitution threats.

As stated in the previous section and deducible from this table, the Internet is not necessarily a blessing for businesses. The Internet alters industries in ways that lessen overall profitability and has a levelling effect on business practices, which reduces companies' ability to establish sustainable operational advantages (Porter, 2001, p. 3). The paradox of the Internet is that its very benefits, such as the widespread availability of information, the reduced difficulty of purchasing, marketing, distribution and transacting, also makes it more difficult for companies to capture value from these benefits as profits (Porter, 2001, pp. 6, 7).

The Internet has raised the bargaining power of buyers and sellers in some ways, and intensified the rivalry between competitors, new entrants and substitutes. Perhaps the only solace is that the situation is the same for most online participants.

Over-all, end-consumers have benefitted the most. Consumers have enhanced access to product and service information, as well as an array of channels and qualified suppliers. Furthermore, the costs of switching suppliers on the Internet are even cheaper and convenient than it is traditionally, requiring only a few mouse-clicks (Hess & Ricart, 2002, p. 6; Porter, 2001, pp. 7, 8). At the same time, lower entry barriers (decreased costs and increased ease of application development) allow many more new entrants into the market, giving consumers enhanced choice, while intensifying rivalry in the market. With the proliferation of the Internet, many more substitutes are also created. Then, given the low imitability barriers, it is difficult to establish and maintain operational advantages, causing the productivity frontier to shift outward and resulting in price competition, again to the benefit of customers.

However bleak the situation, online competitors have to do their best to cope with their industry structure. Porter (1996, pp. 18, 19; 2001, p. 13) advised that companies should seek to deepen their competitive position, enhance their fit and distinctiveness, rather than broadening their position and compromising it. Furthermore, however small the actual impact of efforts aimed at retaining customers and increasing firm profitability, it is still better than doing nothing and relying on dumb luck. It is for this precise reason that an understanding and implementation of mechanisms such as strategic control points and switching costs are required.

3.1.4. The Internet is a Cannibal

Another unfounded myth (besides strategy being irrelevant) is that the Internet is cannibalistic and that it will consume and replace all conventional ways of doing business, and overturn all traditional advantages. This is a vast exaggeration. It is true that the Internet will replace or adapt certain elements of an industry, but it is unlikely that the Internet will completely cannibalise an entire industry. (Porter, 2001, p. 13)

In many cases, the Internet complements rather than cannibalises companies' traditional activities and ways of competing (Porter, 2001, p. 14). Frequently, Internet applications address activities that facilitate business, but are not decisive in competition, such as informing customers, processing transactions and procuring inputs. These activities, however, can have an important influence on cost and quality, but they are neither the only nor the dominant influence. Porter (2001, pp. 13, 15, 18) stated that core competitive advantages are still derived from conventional factors such as unique products, proprietary content, distinctive physical activities, superior product knowledge, strong personal service and relationships, scale, skilled personnel, proprietary product and process technology, efficient logistics systems and other investments in physical assets.

As such, virtual activities do not eliminate the need for physical activities, but often amplify their importance. The link between physical activities and virtual activities arises because the introducing of Internet applications in one activity often places greater strain on physical activities elsewhere in the value chain; and because the Internet has limitations in comparison with conventional methods (Porter, 2001, p. 16). These limitations include:

1. The inability to transfer tacit knowledge from skilled personnel, as interactions are restricted to codified knowledge.
2. The lack of face-to-face contact restricts learning to observing customers purchasing habits.
3. The lack of human contact eliminates a powerful tool for encouraging purchases, going beyond the boundaries of normal terms and conditions, providing advice, providing assistance, reassurance, and closing deals.
4. The elimination of a sales forces, distribution channels and purchasing departments in turn eliminates low-cost, non-transactional, value-adding services which may be performed by these.
5. The absence of physical facilities restricts some functions and reduces the extent to which a company can differentiate itself in terms of image and performance.
6. Smaller, customised shipments incur extra logistical costs to assemble, pack and move.
7. Attracting new customers is difficult, as there is a myriad of buying options and an overload of information available.

Conversely, Internet technologies may be used to compensate for some of the limitations of traditional activities such as (Porter, 2001, p. 17):

1. A lack of real-time information;
2. High cost of face-to-face interaction; and
3. High cost of producing physical versions of information.

Consequently, traditional approaches and Internet technologies can be mutually beneficial. Once managers begin to see the potential of the Internet as a complement, they will be able to organise their online ventures in a way that reinforces their existing competitive advantages. This can be done by integrating one's Internet technology into the traditional activities, to enhance service, increase efficiency and leverage existing strengths. (Porter, 2001, pp. 17, 18) Alternatively, companies who keep their traditional and online businesses separate, forego the opportunity to obtain any real competitive advantage.

In conclusion, the Internet is not a cannibal of existing means of competing and it is rarely disruptive to existing industries or established companies. The Internet also rarely nullifies the most important sources of competitive advantage, but can rather be used to amplify those sources of competitive advantage (Porter, 2001, p. 18). Employing the Internet, however, in itself does not create a competitive advantage, as all companies will embrace Internet technology over time or be left behind. Basic Internet technology will become mere qualifiers and no company will be able to survive without it. The key question is thus not *whether* to deploy Internet technology, but *how* to deploy it (Porter, 2001, p. 3).

3.1.5. E-Business Competition

Following from the previous sections that concluded that the fundamentals of competition remain unchanged in e-business (Porter, 2001, p. 19; Van der Heijden, 2001, p. 13) and Lee and Vonortas' (2004, p. 171) notion that it is important for e-businesses to understand the disruptive attributes of the Internet, some basic principles for e-business competition are explored in this section.

3.1.5.1. Business Basics

In the age old paradigm, value is associated with scarcity. When something is scarce, profitability tends to disperse towards these points of scarcity, away from points of abundance. Entrepreneurs are forced to seek the "bottle-necks" in the system. They are forced to pay attention to unfulfilled customer needs and unrealised potential customer value. (Mansfield & Fourie, 2004, p. 38; Van Der Heijden, 2001, p. 14) However, the world is dynamic and a source of scarcity today could turn into a source of abundance in future, redistributing value to somewhere else in the system. Scarcity is therefore closely related to original invention, because if the solution had been available already, then others would have exploited it and the scarcity would not have existed. (Van der Heijden, 2001, p. 14)

The basics of success are therefore simple: (1) Invent an offering that addresses a real scarcity in the world; (2) charge a price for it; (3) and invent it in such a way that it is cheap enough to leave a high profit margin (Van der Heijden, 2001, p. 14). This logic is similar to Kim and Mauborgne's (2005, pp. 117-199) blue ocean strategy sequence discussed in Chapter 2.3, that states that businesses need to (1) provide exceptional buyer utility to customers via their offering; (2) identify and charge the strategic price that will make the offering accessible to the target mass of buyers, while convincing them that they will not find better value with an imitator; (3) invent the offering at a cost which will still deliver a profit to the company; and (4) overcome the hurdles to adoption.

Magretta (2002, p. 91) eloquently summarised that "A competitive strategy explains how you will do better than your rivals. And doing better, by definition, means being different. Organisations achieve superior performance when they are unique, when they do something no other business does in ways that no other business can duplicate... That's what strategy is all about – how you are going to do better by being different. The logic is straightforward: When all companies offer the same products and services to the same customers by performing the same kinds of activities, no company will prosper".

Porter (1996, p. 5) mentioned that there are two ways in which a competitive advantage can be established: (1) producing a differentiated offering, with unique features that provide value which customers are willing to pay extra for; or (2) producing a non-differentiated offering, but at a lower cost than competitors, which allows it to enter the market at a cheaper price.

Van der Heijden (2001, p. 15) additionally advised that any healthy business idea is built on two pillars: (1) building the business; and (2) protecting the business. Successful businesses are therefore those who are able to protect their initial success by erecting barriers to lock in the situation for themselves. In protecting their business, companies need to create positive feedback loops where they reinvest in those distinctive resources and competencies that are the main drivers of their competitive advantage (Van der Heijden, 2001, p. 16). This will allow them to sustain their advantages into the future. Van der Heijden (2001, p. 16) represented this logic as shown in Figure 3.2 below.

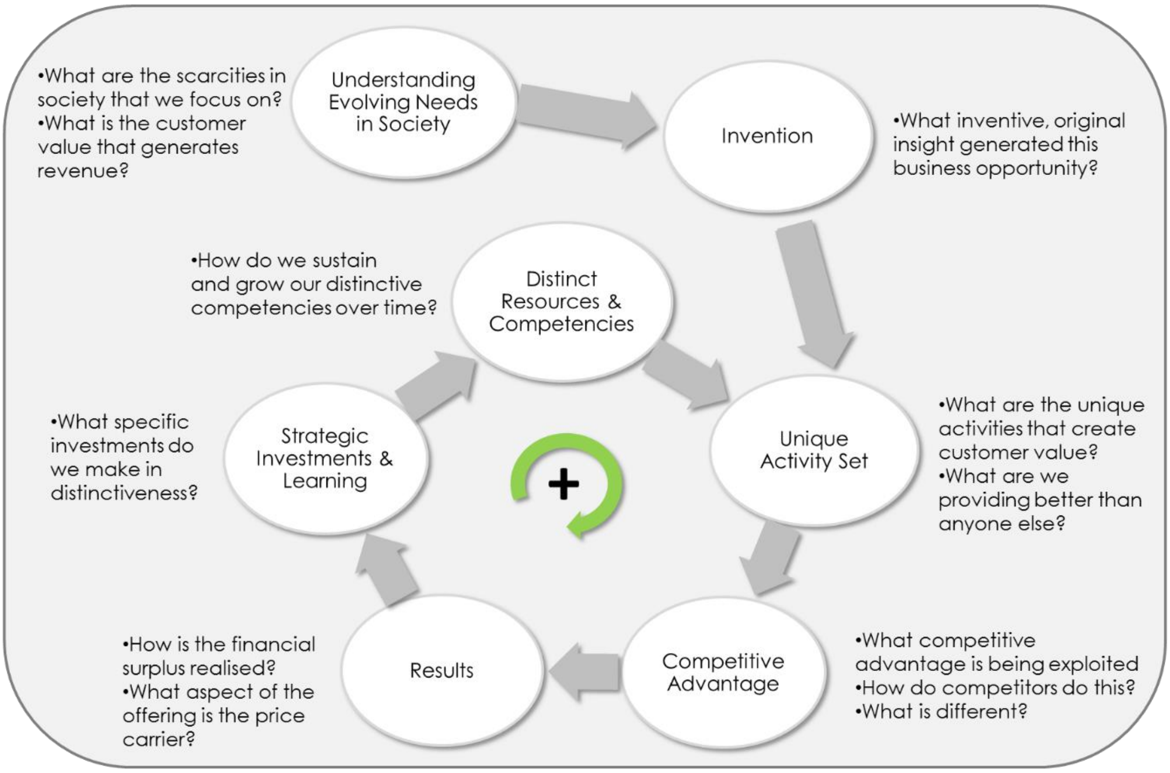


Figure 3.2 – The Business Idea: Creating a Sustainable Business Adapted from (Van der Heijden, 2001, p. 16)

As seen above, the business idea constitutes two parts:

1. An on-going awareness of the evolving scarcities in the world, leading to innovations that keep the firm's activities in line with the dynamic needs of the world; and
2. A loop that ensures continued success and growth.

Both of these parts are required to build sustainable businesses, as the one part is concerned with the external reality and the other with the internal operations of the company. Furthermore, as discussed in Chapter 2.3, the quantifiable aspects of the business idea often are not as important as the softer aspects in understanding the success formula (Kim and Mauborgne, 2005, pp. 82, 83; Van der Heijden, 2001, p. 17). However, it only makes sense to move forward with a business idea when both the hard and the soft aspects have been satisfactorily defined.

3.1.5.2. Disruptive Attributes of the Internet

Lee and Vonortas (2004, pp. 165, 166) stated that a firm's business model must capitalise on the disruptive attributes of the Internet to enable them to offer innovative solutions and value to customers, or otherwise face the threat of becoming irrelevant to customers. Some of these disruptive attributes are discussed below:

1. Network effects

Network effects are much more powerful in the digital economy than in the industrial economy. In the industrial economy, network effects through products such as landline telephones were large, but the effects are even larger for knowledge-intensive products such as software operating systems (Lee & Vonortas, 2004, p. 166). Because of their complex nature, these products require user training and learning. These high initial learning costs create customer lock-in that lead to increasing returns (Arthur, 1996, p. 103). This makes a critical mass of installed customers vital for success.

2. Open platform

The Internet as a non-proprietary platform provides an open channel for information sharing, communication and collaboration (Lee & Vonortas, 2004, p. 166). This disruptive characteristic enables open source software development, open innovation and the overall connectedness of the world.

3. Connectivity and interactivity

The Internet more closely connects businesses with their customers, suppliers and business ecosystem partners' information systems, enabling advantages such as real-time pricing, flexible product and service versioning, customer data mining, very low costs for the distribution of digital goods, enhanced integration, collaboration and supply chain synchronisation (Lee & Vonortas, 2004, pp. 166, 169).

4. Information sharing and exchange

The Internet eradicated the notion of a trade-off between richness and reach of information. As such, information in the digital age can reach all intended parties without sacrificing the richness of the contents. (Lee & Vonortas, 2004, p. 166)

5. Convergence of production and consumption (Prosumption)

The term "prosumption" was first coined by Alvin Toffler (1980) to describe the convergence of the production and consumption process. The e-environment allows businesses to leverage external knowledge by enabling customers and partners to partake in the design and production process of offerings, reducing both concept-to-design and design-to-production cycle times. (Lee & Vonortas, 2004, pp. 166, 170)

6. Digital assets as inputs into the business transformation process

Information can serve as a disruptive asset to e-businesses that know how to capitalise on it. In e-business, information is a source of value and hence a source of revenue. Firms could therefore utilise customer information to create new businesses or reinvent customer relationships, in order to provide value across many different and disparate markets. (Lee & Vonortas, 2004, p. 166; Lee, 2001; Rayport & Sviokla, 1995)

7. Price transparency

The Internet provides unprecedented price transparency by supplying an abundance of free, accessible information regarding product pricing, product features, supplier reliability, services, and competitors (Lee & Vonortas, 2004, p. 167). Price transparency shields buyers from being over-charged, but creates pressure on competitors to reduce prices. Price transparency is therefore a bane for companies who rely on the asymmetry of information in pricing to be successful. A way for e-commerce companies to safe-guard themselves against this, is to implement creative pricing strategies that go beyond traditional price-cutting, such as bundling products and services to hide their prices or by otherwise innovating. (Lee & Vonortas, 2004, p. 175; Sinha, 2000)

8. Virtual display of merchandise

Another advantage of e-commerce is that an enormous variety of merchandise can be displayed virtually, foregoing the costs of having to build large display areas (Lee & Vonortas, 2004, p. 167).

9. Speed and frequency of change

The nature of e-business is one of fast changing dynamism, requiring e-businesses to learn how to quickly adapt to changing business and economic environments. This can be done by anticipating the next wave, figuring out what shape it will take, and positioning the company to take advantage of it. (Lee & Vonortas, 2004, p. 167; Arthur, 1996)

10. Wider industry boundaries

The industry boundaries of Internet-enabled businesses are wider than those of traditional sectors. As such, businesses must provide unique, customisable solutions to individual customers, instead of merely one-size-fits-all products and services (Lee & Vonortas, 2004, p. 167), which can be found all over the web.

3.1.5.3. Economies of Scale and Scope

Supply-side economies of scale exist when the cost per unit decreases as output is increased (Lee & Vonortas, 2004, p. 171). In traditional manufacturing firms, economies of scale are associated with larger firms and lower unit costs. However, in the digital economy it is possible for even smaller companies to achieve low units costs, hence enabling them to compete in markets dominated by large companies (Lee & Vonortas, 2004, p. 171; Rayport & Sviokla, 1995). A value proposition exhibits ***demand-side economies of scale*** when the value proposition becomes more valuable to users, the more users use it (Lee & Vonortas, 2004, p. 171). Demand-side economies of scale refer to network effects and positive network externalities as previously discussed. Interestingly, research conducted by Shapiro and Varian (1999) indicated that the success or failure of an offering with strong network effects is equally dependent on consumer expectations and luck, as by the underlying value of a product. This is not intended to dishearten entrepreneurs in their quest to create businesses, but rather points towards the importance of a good marketing strategy to influence consumer expectations in order to achieve a critical mass of users. (Lee & Vonortas, 2004, p. 171)

Supply-side economies of scope refer to the cost advantages enjoyed by offering a wide array of products that all possibly make use of the same activities and resources. Economies of scope thus exist when producing good “A” reduces the cost of producing good “B”. (Lee & Vonortas, 2004, p. 171) In the digital economy, however, it is possible to redefine the economies of scope by drawing on a single set of “digital assets” and making numerous copies of it at a zero cost, to create an abundance of resources. ***Demand-side economies of scope*** come into play when this single digital asset or piece of information can be provided to many different and disparate markets to create value for them (Lee & Vonortas, 2004, pp. 168, 171; Tapscott, Ticoll, & Lowy, 2000, p. 5; Rayport & Sviokla, 1995).

Supply- and demand-side economies of scale are mutually reinforcing. As demand-side economies of scale increase, the more valuable the product becomes and the more customers are attracted. On the other hand, the more customers are attracted, the more products are offered, meaning an increase in the supply-side economies of scale. This reduces costs which, if passed on to customers, again increase the demand-side economies of scale. This creates a reinforcing loop. However, there are limits to this type of growth, which is dependent on the nature of the product, technology and the market. (Lee & Vonortas, 2004, p. 171) Similarly, economies of scope also behave in a reinforcing way. The wider the range of products that are offered, the more customers are attracted. This enables an even wider range of products to be offered, which again attracts more customers and allows for supply-side economies of scope.

An understanding of these four concepts can be used to drive specific advantages in e-business. Pursuing a large customer base for instance, will be more easily attained when including some type of demand-side economies of scale in the business model. Similarly for demand-side economies of scope, a company will be able to offer a wider range of customised offerings to customers when they are able to use a single set of data obtained from a customer, and extend that information to other product lines. Additionally, on the supply side, companies will be able to save money when they can find ways to enjoy scale advantages as output increases, or scope advantages when there are synergistic effects present in providing complementary products.

From this discussion t it may seem like scarcity economics, as introduced in Chapter 3.1.5.1, are no longer relevant in the networked economy, but this is only partially true. It is true that the networked economy provides the opportunity for information abundance and that this abundance can be created and distributed at a near zero cost. However, the basic principles of online competition are still those of scarcity and trying to find the bottlenecks in the system in order to deliver unique value to customers.

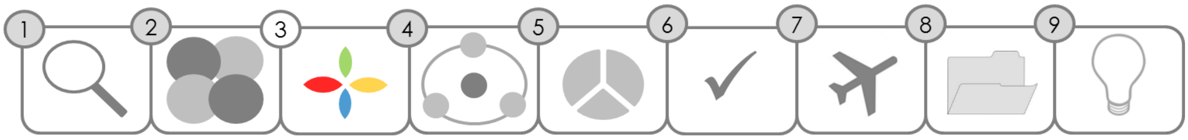
One business model particularly supported by the economies of scale and scope made possible via the Internet is that of "Long Tail" businesses. The "Long Tail" concept was coined by Chris Anderson and refer to businesses who focus on selling a wide scope of "niche" products in relatively small quantities, rather than focusing on selling a few "popular" products in high quantities (Osterwalder & Pigneur, 2009, p. 68). The Long Tail therefore almost functions counter to the logic of the Pareto principle, which states that in many cases 80 percent of effects (for instance revenues) are derived from 20 percent of causes (for instance products). Economies of scale and scope in combination with reduced search costs, the democratisation of production tools, and the democratisation of distribution enabled by the Internet all contribute to making Long Tail businesses viable online alongside their "Short Tail" counterparts.

3.1.5.4. Additional Strategic Imperatives

One of the biggest mistakes that many e-businesses make is to fall into the trap of imitating established companies. Simply copying conventional activities will not add any competitive advantage. E-businesses need to create strategies that involve new hybrid value chains which integrate virtual and physical activities in a unique configuration (Porter, 2001, p. 17). An example of this is Ray William Johnson, who started a video channel on YouTube where he reviewed trending YouTube videos. After gaining a vast following, he decided to sell t-shirts with printed catch-phrases on them that he had used several times in his videos. He had already established a user base and subsequently found a way to monetise via a physical product.

E-commerce provides the opportunity for companies to generate revenue in new ways. Information services for instance can be offered in addition to, or sometimes independent of traditional products or services (Lee & Vonortas, 2004, p. 175). Additionally, new opportunities exist for companies to test prices, segment customers, and make real-time adjustments to adapt to changes in supply and demand (Baker, Marn, & Zawada, 2001). Some authors additionally state that e-commerce products and services can even be provided below unit cost or for free, as long as it can be justified by advertising, referral and click-through revenues from third parties (Lee & Vonortas, 2004, p. 175). However, there are also those who oppose this. Porter (2001, p. 17) for instance stated that e-businesses must create strategies that create real economic value, and therefore create benefits that customers will pay for, rather than pursuing indirect revenues.

Porter (2001, p. 3) also urged dot-coms to seek out trade-offs between the Internet and traditional approaches, where only an Internet model offers real advantages. This occurs either when customers' needs are best met online; or when a product or service can best be delivered through an online channel and does not require physical assets (Porter, 2001, p. 19). As such, the main challenges are to determine



such trade-offs and to craft truly distinctive strategies that provide real value to customers and simultaneously addresses low entry barriers (Porter, 2001, pp. 17, 19).

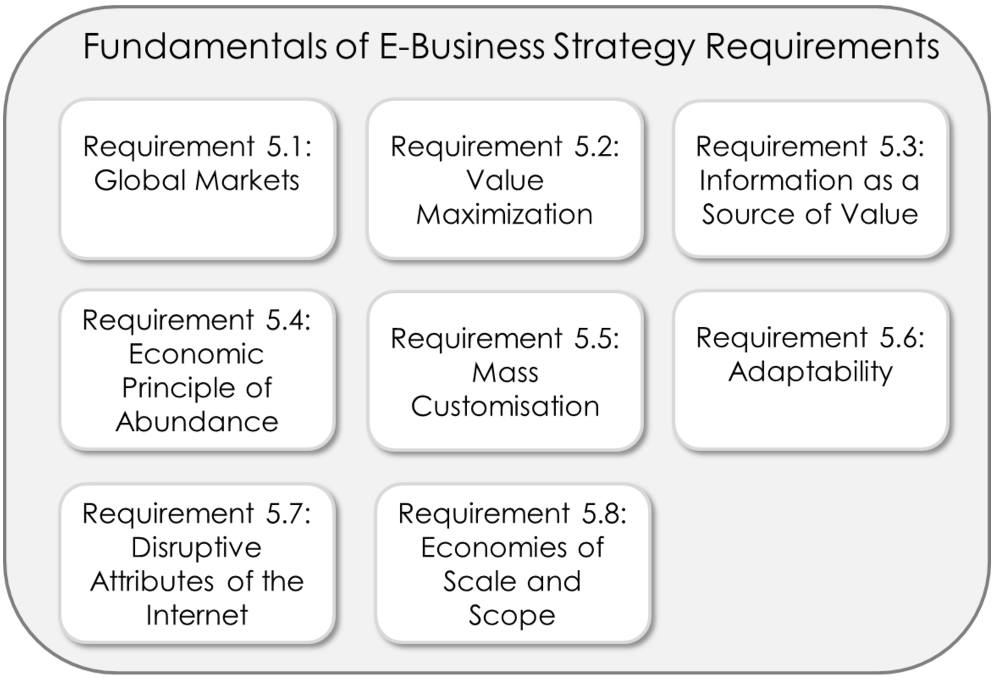
Characteristics that successful e-businesses will share include (1) strong capabilities in Internet technology; (2) a distinctive strategy that is founded on a clear focus and meaningful advantages relative to established companies or other e-businesses; (3) an emphasis on creating customer value and charging directly for it, rather than relying on secondary forms of revenue; (4) distinctive ways of performing physical functions and assembling non-Internet assets that complement the strategic position; and (5) deep industry knowledge that allows proprietary skills, information and relationships to be established (Porter, 2001, pp. 17, 18).

Lee and Vonortas (2004, p. 178) added that companies need to:

1. Capitalise on Internet network effects to achieve a critical mass of customers;
2. Leverage a single digital asset to provide value across many different and disparate markets;
3. Build trust relationships with customers and partners, to increase their switching costs;
4. Transform value propositions to deliver enhanced value to customers; and
5. Generate synergy effects on e-commerce product and service offerings.

3.1.6. Fundamentals of E-Business Strategy Framework Requirements

Aligned with the systems engineering process, six framework requirements emerge from this section that specifically highlights characteristics or principles of competing in the e-environment that need to be reflected by the framework. These requirements are depicted in Figure 3.3 below.



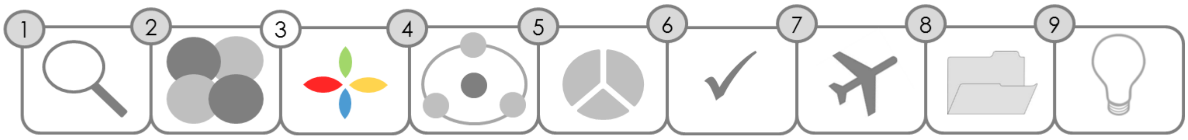


Figure 3.3 – Fundamentals of E-Business Strategy Framework Requirements

The first five e-business principles are taken from Table 3.1, the old economy versus the new economy (Von Leipzig, 2012; Lee & Vonortas, 2004, p. 6). Adaptability is additionally added to these to reflect e-business as a hyper-competitive, fast changing, dynamic environment that requires continuous adaption to fend off competitors and maintain one's competitive advantage (Mansfield & Fourie, 2004, p. 37; Lee & Vonortas, 2004, p. 167; Brown & Eisenhardt, 2002; Van der Heijden, 2001, pp. 16, 17). Lastly, the disruptive attributes of the Internet and the necessity of employing economies of scale and scope in the business model (Lee & Vonortas, 2004) was also added.

3.2. Business Model Innovation

This section discusses business model innovation and related concepts such as disruptive innovation, business growth and change, and characteristics of good business models.

3.2.1. Introduction

***"Ultimately, business model innovation is about creating value, for companies, customers, and society. It is about replacing outdated models."* – (Osterwalder & Pigneur, 2009, p. 5)**

Business model innovation refers to the revitalisation and rejuvenation of business models. As highlighted in the quote above, business model innovation is sometimes required, as the competitive landscape changes, necessitating the need for business adaption.

In the domain of innovation and technology management, two complementary ideas exist, namely that companies commercialise innovative ideas and technologies through their business models and that the business model represents a new subject of innovation (Zott, Amit, & Massa, 2011, p. 14). The business model can therefore be a driver *for* innovation as well as a subject *of* innovation (Zott, Amit, & Massa, 2011, p. 16). It is therefore recognised that innovative business models are a source of superior value creation and competitive advantage (Morris, Schindehutte, & Allen, 2005; Christensen, 2001), and there is an increasing consensus that business model innovation is critical to firm performance (IBM, 2012, p. 47; Zott *et al.*, p. 15).

Factors that are driving this surge in interest in business model innovation include pressures to nudge open markets in developing countries, particularly those at the middle and bottom of the pyramid (Casadesus-Masanell & Ricart, 2011, p. 101); the decreasing length of product life cycles and design life cycles; inter-industry competition involving new low-cost rivals and other technological developments; and the potential value of disruptive business models that offer better customer experiences (McGrath, 2011, p. 96). Industries are being reshaped, which enhances the need for business model innovation for incumbents and new entrants alike (Casadesus-Masanell & Ricart, 2011, p. 101). Osterwalder and Pigneur (2009, p. 5) substantiated this point by saying that "Business model innovation is hardly new... But the scale and speed at which innovative business models are transforming industry landscapes today is unprecedented".

A well-known business model innovation example is that of Apple who introduced the iPod, together with the iTunes store in 2003. This combination revolutionised portable entertainment, the music industry, created a new market and transformed the company all at the same time. This business model innovation increased Apple's market capitalisation from around $1 billion in 2003 to over $150 billion at the end of 2007. (Johnson, Christensen, & Kagermann, 2008, p. 59)

Yet, despite the hype surrounding business model innovation, it is odd that more success stories regarding business models do not exist. In the last decade, very few of the major innovations have been business model related (Johnson, Christensen, & Kagermann, 2008, p. 60). Although executives know that business model innovation is important, "Most enterprises have not fully come to grips with how to compete through their business models" (Casadesus-Masanell & Ricart, 2011, p. 102).

Johnson *et al.* (2008, p. 60) suggested that two problems exist. The first is that precious few companies understand their current business model well enough to know when change is required, or how to change it. Companies thus do not know when they can leverage their core business, or when they should rather switch to an entirely new model to be successful. The second is that there is a lack of definition regarding the dynamics and process of business model development. The rest of this chapter therefore explores the conditions that warrant and means of executing business model innovation.

3.2.2. Identifying Outdated Models

***"One secret to maintaining a thriving business is recognizing when it needs a fundamental change."* – (Johnson, Christensen, & Kagermann, 2008, p. 59)**

Drucker (1994, p. 96) stated that a company's paradigm of operation is based on the assumptions that the company makes about its customers and competitors, the technology, its industry dynamics and its strengths and weakness. These assumptions, which Drucker (1994, pp. 99, 100) calls "the theory of the business", have three parts. Firstly, there are assumptions about the environment of the organisation, which includes society, the organisation's structure, the market, customers and technology. Secondly, there are assumptions about the specific mission of the organisation and what it considers to be meaningful results. Thirdly, there are assumptions about the core competencies needed to accomplish the organisation's mission and which the organisation must excel at in order to maintain leadership. Business model innovation according to Drucker (1994) is needed when a business's "theory of the business" is no longer valid.

Drucker (1994, pp. 100, 101) defined a criteria which can be used to evaluate the validity of the business's assumptions:

1. The assumptions about the environment, mission, and core competencies must fit reality;
2. The assumptions in all three areas have to fit one another;
3. The theory of the business must be known and understood throughout the organisation;
4. The theory of the business has to be tested constantly.

Drucker (1994, p. 104) stated that "...a theory's obsolescence is a degenerative and, indeed, life-threatening disease... A degenerative disease will not be cured by procrastination. It requires decisive action". This "re-assessment" of assumptions can thus be seen as the first step to business model innovation. According to Drucker (1994, p. 102) there are two preventative measures that can be taken to prevent the obsolescence of a business's theory of business. The first is called *abandonment*. It requires an organisation to challenge every product, service, policy, and distribution channel with the question: If we were not in it already, would we be going into it now? This question forces an organisation to test its assumptions and re-evaluate what needs to be changed or abandoned.

The second preventative measure is to look towards the market for signs of a business's theory of business becoming obsolete (Drucker, 1994, pp. 102, 103). When unexpected failure occurs, then clearly some assumptions need to be revised. McGrath (2011, p. 96) additionally stated that a business model might be under threat when customers or non-customers are becoming more open to the idea of alternative products or services. She stated that the earliest sign that a business model is starting to become outdated, is when the next-generation of innovations offer smaller and smaller incremental improvements and if employees are struggling to think of new ways to enhance a company's offering. The last sign of an outdated model is when the results start showing in the company's financial outputs and other performance indicators.

The problem is that most top managers or executives climbed the corporate ladder using the current business model, and therefore often ignore signs of a decaying model. The result is that action is taken far too late, causing much more disruption than would have been required if the problem had been tackled earlier (McGrath, 2011, p. 96). Businesses therefore have to install mechanisms that proactively and constantly re-evaluate the assumptions of the business (Johnson, Christensen, & Kagermann, 2008; McGrath, 2011, p. 97; Drucker, 1994).

Johnson *et a*l. (2008, p. 58) stated that the following circumstances often require business model changes:

1. When there is an *opportunity* to
    1.1. address the needs of large groups who find existing solutions too expensive or complicated;
    1.2. capitalise on new technology by wrapping it in a new business model, or leverage existing technologies in new markets;
    1.3. bring a jobs-to-be-done focus where it does not exist. This is commonplace in industries where companies increasingly focus on product or customer segments; or
2. When there is a *need* to
    2.1. fend off low-end disruptors; or
    2.2. respond to shifts in competition. Often what is thought of as an acceptable solution today will change over time, leading to commoditisation of core market segments.

3.2.3. Business Model Innovation Principles

In addressing how business model innovation should be executed, a more holistic understanding of what business model innovation entails is required. Firstly, business model innovation is very closely related to the resource-based view of strategy, which states that competitive advantages are created by leveraging firm specific and unique competencies, resources and capabilities (Barney, 1991). The source of a company's competitive power originates from within the company and competing in the competitive market space is about maximising and exploiting a firm's internal capabilities in order to overpower competitors. Business model innovation from this point of view is thus about altering or rearranging the firm's internal mechanisms to be more competitive.

However, business model innovation is also very closely tied to the learning and entrepreneurial schools of strategy, as well as the market-based view of strategy. Common to these three perspectives are that they scan the external environment, try to learn from past endeavours, and try to adapt to the current external environment, which includes customer and competitor behaviour. The focus is thus more on a type of incremental evolutionary process to remain competitive. (Mintzberg, Ahlstrand, & Lampel, 2009, pp. 186-240)

Sometimes, an outside-in approach can also be used, by means of open innovation as introduced by Chesbrough (2003). The primary premise of open innovation is that it is impossible for a company to have all the knowledge and innovation capabilities within the business entity itself, and therefore inputs from external sources, such as customers and partners, are required. Therefore, instead of a company trying to research and identify solutions in the external market, solutions can be *funnelled into* the organisation from outside by external entities. A summarised view on business model innovation's duality is depicted in Figure 3.4 below.

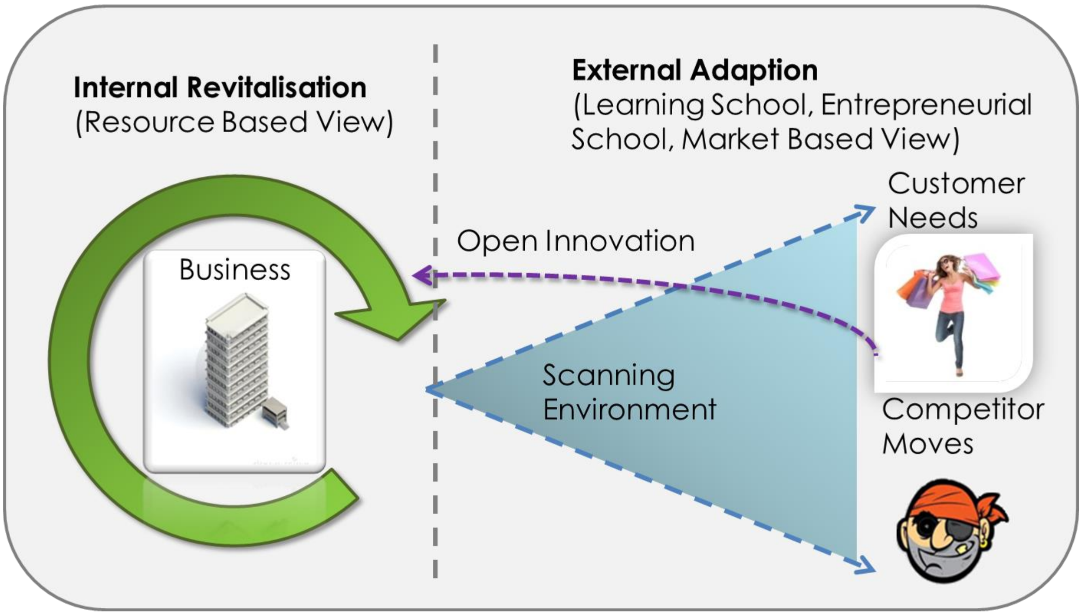


Figure 3.4 – Business Model Innovation Strategic Relatedness

Business model innovation in its nature is thus about growth, adaption and competitiveness. It is also about challenging assumptions and changing the "rules of the game". This is done by (1) taking a customer centric, jobs-to-be-done approach; (2) obliterating barriers to consumption; and (3) making offerings available to customers in a new way. Business model innovation is about creating game-changing convenience (Johnson, Christensen, & Kagermann, 2008, p. 57) and growing companies by creating new markets or creating disruptive business models that are capable of competing in existing markets. (Schwartz, 2012; Anthony, 2008; Johnson, et al., 2008, p. 62) These principles are subsequently interwoven in the discussions of the following sections.

3.2.4. Business Model Innovation Process

Johnson *et al.* (2008, pp. 58, 59) provided a simple process that addresses both the issues of helping companies to understand their business model and business model development:

1. Articulate what makes the current business model successful.
    1.1. What customer problem does it solve?
    1.2. How does the model make money for the firm?
2. Develop a business model blueprint.
3. Decide whether reinventing the business model is worth it.
    3.1. The answer is yes only if the new model is game-changing to the industry or market.

The first step is not to think about business models, but about the opportunity to satisfy a real customer who needs a job to be done. A successful company is one that can create value for its customers, by helping them get an important job done. “Job” in this sense, means a fundamental problem in a given situation that requires a solution. The more important the job is, the lower the current satisfaction with available offerings, and the better the solution is than existing alternatives, the better the customer value proposition will be. The most important attribute of a customer value proposition is its precision. That is, how perfectly it gets the customer job done and nothing else. A lack of precision diverges from the main goal, creating openings for competitors to better fulfil the need. If companies attempt to simultaneously do a lot of things, then they do nothing exceptionally well. (Johnson, Christensen, & Kagermann, 2008, pp. 61, 62)

One means to attempt to create a precise customer value proposition, is to break through four common barriers that prevent people from getting a particular job done (Johnson, Christensen, & Kagermann, 2008, p. 62): (1) Insufficient wealth; (2) insufficient access; (3) insufficient skill; or (4) insufficient time.

Ratan Tata from the Tata Group for instance saw that a huge need exists for people in developing countries for safer family transport, rather than using an overloaded scooter. This led to Tata’s focus on producing an affordable, safer, all-weather alternative for scooter families (Johnson, Christensen, & Kagermann, 2008, p. 61). Similarly, Hilti realised that contractors do not make money by owning tools; rather they make money by finishing projects. Therefore, if the required tools are not available and functioning properly, then the project does not get finished. They therefore adapted their business model from selling the tools, to selling no-hassle tool use, charged for at a monthly rate (Johnson, Christensen, & Kagermann, 2008, p. 61). Hilti literally understood Ted Levitt's notion that customers do not want a quarter inch drill, instead they want a quarter inch hole (Christensen & Raynor, 2003, p. 99).

The second step is to develop a business model blueprint (refer to Chapter 2.2) that defines how the company aims to fulfil this need. Thirdly, the model must be compared against the existing model, to evaluate how much change will be required to capture the opportunity. Adapting the business model is only worth it if it changes the industry or market (Johnson, Christensen, & Kagermann, 2008, p. 60). Additional questions (Johnson, Christensen, & Kagermann, 2008, p. 65) to consider are:

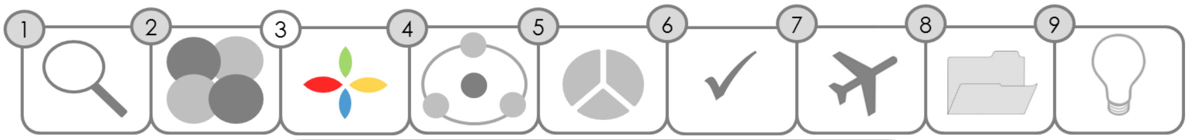
1. Can you nail the job with a focused, compelling customer value proposition?
2. Can you devise a model in which all the business model elements work together to get the job done in the most efficient way possible?
3. Can you create a new business development process unrestricted by the often negative influences of the core business?
4. Will the new business model disrupt competitors?

The third point is further discussed in the following section.

3.2.5. Cultivating Disruptive Innovations

According to Christensen and Overdorf (2000, p. 72), sustaining innovations are those innovations that improve performance characteristics of products and services that existing customers already value. In this sense, sustaining innovations include both incremental improvements to offerings, as well as breakthroughs in performance improvements (Christensen, Johnson, & Rigby, 2002, pp. 23, 24). Disruptive innovations, on the other hand, are those innovations that create an entirely new market, by providing a new bundle of performance attributes, which existing customers do not initially value. Disruptive innovations actually perform worse in the performance characteristics that existing customers value. However, these disruptive innovations improve so rapidly that they ultimately address the needs of mainstream customers as well. (Christensen & Overdorf, 2000, p. 72) At this point mainstream customers will convert, enabling the disruptive innovation to invade established markets (Bower & Christensen, 1995, pp. 44, 45). This logic is depicted in Figure 3.5 below.

Bower and Christensen *(*1995, pp. 44, 45) stated that waiting for technologies to become viable for mainstream customers is too late for companies to enter; and pioneers will already have dominated the market. Firms will then have missed this "technology wave". Firms therefore have to pre-emptively spot these technologies, protect them from processes and incentives that favour serving established customers and commercialise them. Sometimes, the only way for larger organisations to do this, is to create smaller, independent organisations.



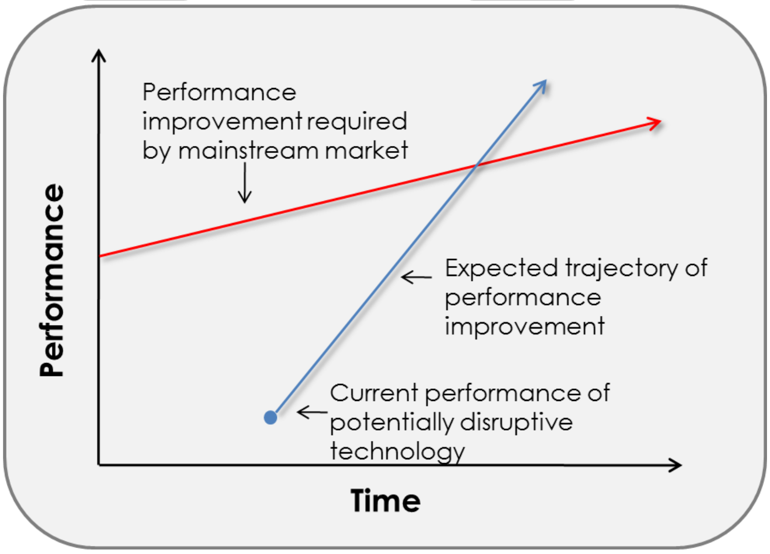
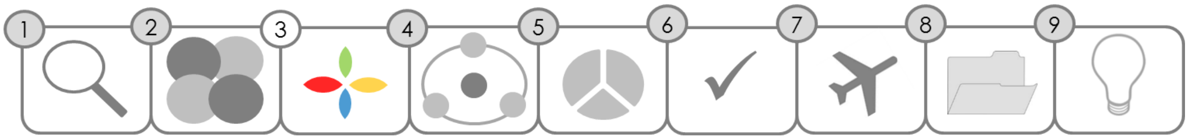


Figure 3.5 – Performance Trajectories (Bower & Christensen, 1995, p. 49)

Bower and Christensen (1995, p. 43) stated that leading companies consistently fail to stay on top of their industries when technologies or markets change. Though bureaucracy, arrogance, poor planning, and short-term investment horizons play a role, the main reason for these companies falling from grace is that they stay too close to their customers. What is meant by this is that companies invest aggressively in technologies that are needed to retain their current customers. They therefore make incremental investments to continue serving their current customer base, but they are incapable of making investments in disruptive technologies required for capturing non-customers, or future customer needs.

Larger corporations are predominantly geared towards capitalising on sustaining innovations, while being constrained when it comes to pursuing disruptive innovations. Large corporations are perfect for developing and launching new, incrementally improved products. It is embedded in their processes and values to do so. (Christensen & Overdorf, 2000, p. 72) The rational, analytic approach used by most well-managed companies however, makes it nearly impossible to build a business case for diverting resources from known customer needs in established markets, to emerging markets and customers that seem insignificant or do not exist. The processes installed by these companies are specifically designed to weed out proposed products and technologies that do not address customers' needs. (Bower & Christensen, 1995, p. 44) When larger corporations make investment decisions, they firstly consider their customers: Will customers want the offering? How big will the market be? And will this investment be profitable? (Bower & Christensen, 1995, p. 43)

From a financial perspective, disruptive technologies usually look unattractive to established companies. The potential revenues from identifiable new markets are small, and it is also unclear how large these markets could potentially grow. Sustaining technologies on the other hand represent more certain, larger potential revenues. This results in powerful asymmetries of motivation, and as a result, disruptive opportunities are deemed insignificant to larger corporations and are not pursued (Bower & Christensen,



1995, p. 47). Additionally, managers are usually evaluated based on their ability to place bets on the right investment options, which by analysis appears to be the risk-averse projects that focus on current customers, and large, obvious markets (Bower & Christensen, 1995, p. 48). The irony is that every attractive market that exists today was small and poorly defined at its inception. The major markets of the future are thus the small and poorly defined markets of today. (Christensen, Johnson, & Rigby, 2002, pp. 23, 24) The sad fact is that large companies' own processes impede their ability to capitalise on disruptive opportunities, because they do not fit the criteria of their mainstream customers.

It should be noted that even though industry incumbents are designed to capitalise on sustaining innovations, they are not necessarily always the first to market with a new sustaining innovations. But due to their superior resources, and having more at stake, they almost always end up winning this battle with new entrants. (Christensen, Johnson, & Rigby, 2002, pp. 23, 24) In contrast, start-ups are actually better equipped to pursue disruptive innovations and emerging growth markets, and new entrants almost always win the disruptive battle (Christensen, Johnson, & Rigby, 2002, pp. 23, 24). It is because start-up's values can embrace small markets, and endure low profit margins. They're also not confined by strenuous processes that demand tedious market research, and can operate in a more intuitive manner. All of these add up to give start-ups the ability to embrace and initiate disruptive change (Christensen & Overdorf, 2000, p. 73).

To summarise the two main growth choices that companies face, Figure 3.6 below is provided.

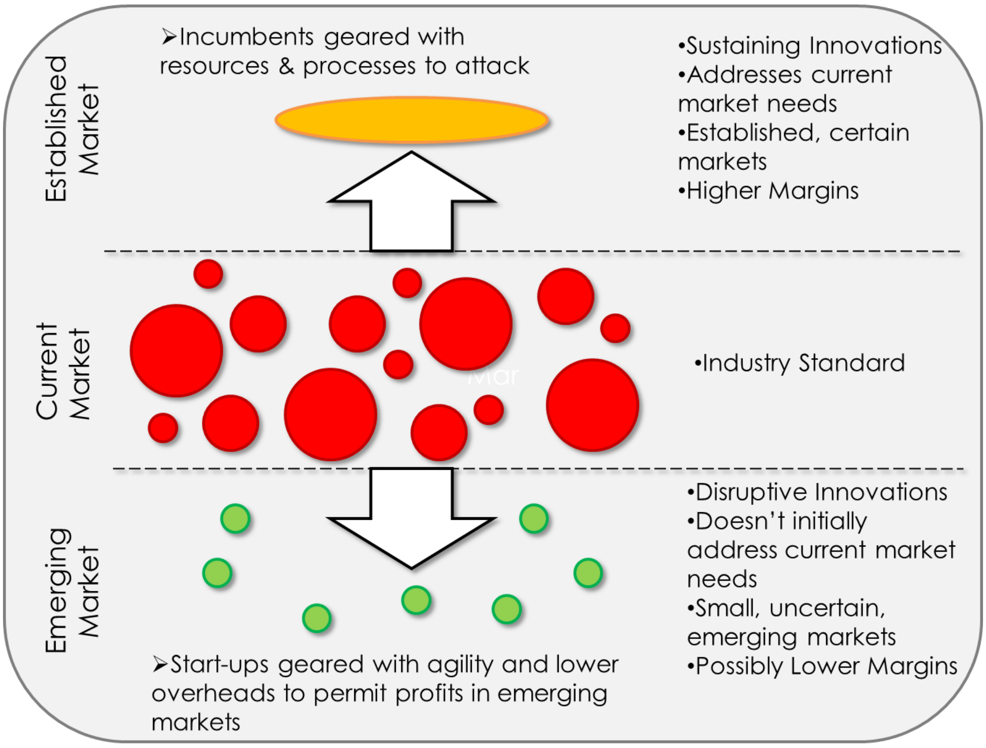


Figure 3.6 – Moving Into Established or Emerging Markets

Bower and Christensen (1995, p. 49-53) proposed a method for cultivating disruptive technologies:

1. ***Determine whether the technology is disruptive or sustaining.*** Sustaining technologies are important for serving existing customers, but disruptive technologies are the gems that unlock un-served markets.
2. ***Define the strategic significance of the disruptive technology.*** If the performance trajectory is anticipated to be steeper than that of the market's demand for performance improvement, then it might be a worthwhile opportunity.
3. ***Locate the initial market for the disruptive technology.*** Larger organisations may want to form smaller start-ups to do this, as they are more agile and able to quickly respond to customer feedback.
4. ***Place responsibility for building a disruptive technology business in an independent organisation.*** Creating independent companies is required only when the disruptive technology has a lower profit margin than the mainstream business, and seeks to serve the unique needs of a new set of customers. An independent company is further required when new resources, processes and values that diverge from the mainstream business are required (Christensen, Johnson, & Rigby, 2002, p. 29).
5. ***Keep the disruptive organisation independent.*** Disruptive businesses need to be kept separate, in order to prevent the situation of the disruptive business needing to compete against the mainstream business for resources. Disruptive technologies need to be managed strategically in a context where small orders create energy, where fast low-cost attacks on ill-defined markets are possible, and where overhead is low enough to permit profit even in emerging markets.

In conclusion, opportunities for disruptions may seem insignificant today, because the lens of the current customer needs is used. Instead, companies should create smaller organisations that can actively pursue emerging markets, which are more difficult for larger organisations to pursue, due to the asymmetries of motivation created by their analytic processes.

3.2.6. Business Model Innovation Strategies

Following from the previous section's notion that companies essentially have either a choice between targeting emerging markets or targeting established markets, there are two general types of strategies that can be used to create disruptive growth businesses. The first strategy is to create a new market that can serve as the basis for disruption. The second strategy is to disrupt the prevailing business model from the low end. (Christensen, Johnson, & Rigby, 2002, pp. 22-24)

3.2.6.1. Creating a New Market as a Base for Disruption

A company's endeavour to create disruptive growth should start by searching for ways to compete against non-consumption. That is, companies should look for customers who are unable to use available products or services, because they are too expensive, complicated or inconvenient to use. (Christensen, Johnson, & Rigby, 2002, p. 24) Targeting potential customers who are not buying at all is much easier than stealing customers from incumbents. It is therefore required that strategies that disrupt by creating new markets meet the following tests:

1. Does the innovation target customers who have historically not been able to "do it themselves" for lack of money or skills?
2. Is the innovation aimed at customers who will welcome a simple product?
3. Will the innovation help customers do more easily and effectively what they are already attempting to do?

The first test is directed towards evaluating whether the innovation is addressing problems that have historically been too expensive or complex for mainstream customers to solve themselves. Passing this test is critical, because if the innovation does not then the innovation may succeed in satisfying some customers, but it will not create significant new growth. (Christensen, Johnson, & Rigby, 2002, p. 24)

The second test seeks to identify whether the innovation is targeted at a market that will be happy with a simple, technologically straightforward product (Christensen, Johnson, & Rigby, 2002, p. 25). Successful disruptive innovations always target customers who welcome simple products. The huge Tamagotchi craze is a prime example. A Tamagotchi is a small electronic hand held device that acted as a virtual pet that had to be cared for, or it would die. The digital pet also grew and evolved into a more mature version of itself over time and the device also provided a few other mini games. The product was cheap, the idea simple and millions were sold worldwide.

The third test reminds innovators to remember the essential fact that fundamentally, things that people want to accomplish (the jobs they want to get done) in their lives do not change quickly. Due to this stability, if an idea for a new growth business is based on customers wanting to do something that had not been a priority previously, there is little chance for success. (Christensen, Johnson, & Rigby, 2002, p. 25)

3.2.6.2. Disrupting the Business Model from the Low End

The second strategy is to disrupt the business model from the low end. Some ideas for innovations will never pass the first set of tests. This does not mean that these ideas have to be automatically discarded. These ideas do not compete against non-consumption and therefore compete directly against existing products and markets. The strategy here is thus to disrupt the industry leader's business model from the low end. This strategy also harnesses the power of asymmetries of motivation. (Christensen, Johnson, & Rigby, 2002, p. 26) The logic follows that if new entrants target less profitable customers in less attractive markets, then incumbents will be motivated to move towards more profitable customers and away from competition. (Christensen, Johnson, & Rigby, 2002, pp. 23, 24)

In order for this strategy to succeed, two tests must be passed:

1. Does the innovation target a market where the prevailing products are more than good enough?
2. Is it possible to create a different business model for this innovation?

The first test ensures that the least-demanding tiers of a market are targeted, in which prevailing products are so good that they "over-serve" or "over-shoot" customer expectations. Thus, customers who will be happy with a good-enough and cheaper product than those currently offered must exist. Also, by the same reasoning, if the current products are not yet good enough and do not satisfy or overshoot customer expectations, then an innovation that aims at even lower performance is very unlikely to disrupt the market. (Christensen, Johnson, & Rigby, 2002, p. 25)

Managers can determine whether an opportunity for a new growth business exists by rigorously examining the extent to which customers are willing to pay premium prices for additional enhancements in functionality, reliability, convenience or other performance attributes of a product or service, in a tier by tier fashion. Thus, if companies are able to raise prices in a given tier when they introduce an improvement, then these customers are not yet over-served and that tier cannot be disrupted. (Christensen, Johnson, & Rigby, 2002, p. 25)

The second test aims to ensure that the business model is made and marketed within a disruptive business model, which enables the new entrant to compete profitably against incumbents while pricing at deep discounts. This will allow the business to steal business at the low end. A disruptive business model, according to Christensen *et al.* (2002, p. 26), functions at lower profit margins, but has higher net asset turns. This type of model creates the asymmetric motivation required for disruptive success. This type of model gives incumbents no other choice than to shy away from competition and retreat towards the higher end of the market.

If it is not possible to adjust the business model to earn attractive returns on low margins, then it will not be possible to acquire the capital investments needed to sustain the upward market march inherent in building a business. Though the strategy of disrupting from the low end of the business model is not as common as competing against non-consumption, it can be very effective. However, a last heed of warning is that entrepreneurs who decide to follow this strategy need to be sure that the market targeted is unattractive to *every* powerful incumbent, or face the risk of being demolished by an industry player with superior resources and experience. (Christensen, Johnson, & Rigby, 2002, p. 27)

3.2.7. Business Growth, Expansion and Change

The quest for profitable growth is becoming increasingly difficult, as companies are forced to adapt faster than ever before in an increasingly complex environment (Zook & Allen, 2011, p. 114). Christensen and Overdorf (2000, p. 68) stated that managers often see disruptive change approaching and have the resources to confront them, but they still end up being disrupted.

The problem does not necessarily lie with the businesses failing to generate new ideas. In Christensen *et al.*'s (2002, p. 30) words, "In our interviews with managers of companies that failed to capitalise on disruptive opportunities, not once did anyone say, "we just never thought of it"". Zook and Allen's (2011, p. 14) study produced similar results. Only 15 percent of executives surveyed stated that a lack of attractive opportunities was a major barrier to growth. Far more obvious barriers were internal complexity and barriers to speed of adaption. Another problem is that usually a robust, repeatable process for creating and nurturing new, disruptive growth businesses does not exist (Christensen & Overdorf, 2000, p. 73; Bower & Christensen, 1995, p. 49).

Most managers also do not make new investments in disruptive innovations because starting new initiatives for growth seem unnecessary when times are good and the core business is growing steadily. However, businesses inevitably mature and become vulnerable. When times are bad, it is already too late to make investments in dusruptive technologies (Christensen, Johnson, & Rigby, 2002, p. 22). Managers therefore need to react earlier and not wait until decline, when it is too late. Christensen *et al.* (2002, p. 22) therefore stated that "The only way a corporation can maintain its growth is by launching new growth businesses when the core units are strong".

3.2.7.1. Organisational Capabilities and Change

"It's no wonder that innovation is so difficult for established firms. They employ highly capable people – and then set them to work within processes and business models that doom them to failure." – (Christensen & Overdorf, 2000, p. 66)

Organisations usually lack the habit of carefully examining an organisation's capabilities in the way that they examine their employees' capabilities (Christensen & Overdorf, 2000, p. 68). Organisations, independent of the people who work there and the resources they employ, have capabilities as well. Organisations also have certain disabilities though. A universal disability is that limits exist to the extent that businesses can be changed (Magretta, 2012, p. 11).

Concurring with the writings of Christensen and Overdorf (2000, p. 68), Zook and Allen (2011, p. 108) stated that the worst possible approach to counteracting major disruptions in one's environment is to make dramatic changes to the organisation. Making drastic changes can instantly destroy the very capabilities that actually sustain the business. It is therefore necessary for managers to fundamentally understand what types of change existing organisations are capable or not capable of handling.

There are three types of factors that affect what organisations can and cannot do, namely its resources, its processes and its values (Christensen & Overdorf, 2000, pp. 68, 69). Resources refer to its tangible and intangible assets. Processes refer to patterns of interaction, routines, coordination, communication and decision making that help employees to transform resources into products and services of higher value. Processes are not meant to change, and through repetition, processes are performed consistently and efficiently by employees. By its very nature, if an efficient process is used to perform another task, it will most likely perform that task sluggishly. If a process thus grants an organisation the capability to do something, it then implicitly creates a disability to do something else. This concurs with Porter's (1996, p. 17) notion of trade-offs and also with Casadesus-Masanell's (2011, p. 103) notion of strategy being concerned with choices that lead to consequences, that determine future choices. Thirdly, values refer to the way that employees prioritise certain activities over others in different situations, and also to the principles that guide their decision-making logic (Christensen & Overdorf, 2000, p. 69). When values are displayed by default, rather than by conscious choice, they are commonly referred to as "organisational culture". Christensen and Overdorf (2000, p. 69) stated that a good metric for good management is whether clear, consistent values have diffused through the company. But just like processes, broadly understood values also define what an organisation cannot do.

When it comes to attributing a company's success, initially it might be reliant on a few key people (resources), but as time goes on, its locus of capabilities shifts towards its established processes and values, making the company's success more dependent on these. Highly successful companies like McKinsey for instance, have such good processes and values that it almost does not matter which people (resources) get assigned to which projects. Thus, when an organisation's capabilities reside primarily in its people, changing resources to address a new problem is relatively easy. However, when the organisation's capabilities are embedded in its processes and values, change can be much more difficult. (Christensen & Overdorf, 2000, p. 71)

Christensen and Overdorf (2000, p. 76) stated that it is necessary for companies to ask themselves the following questions when presented with change:

1. Does the organisation have the resources required to succeed?
2. Does the organisation have the processes and values it needs to succeed?
3. Are the processes by which work habitually gets done in the organisation appropriate for this new problem?
4. Will the values of the organisation cause this initiative to get high priority or not?

Answering no to these questions means that either resource, process or value change is required in order to build the needed organisational capabilities. There are therefore three ways in which larger corporations can change to create organisational space where the needed capabilities can be fostered, to capitalise on disruptive opportunities. (Christensen & Overdorf, 2000, p. 73) Managers can:

1. Create new organisational structures within corporate boundaries in which new processes can be developed; or

2. Spin out an independent organisation from the existing organisation and develop within it the new processes and values required to solve the new problem; or
3. Acquire a different organisation whose processes and values closely match the requirements of the new task.

Capitalising on disruptive opportunities will sometimes require new processes. When it is decided to create new organisational structures within the corporation, it might be necessary to extract certain resources and people and enclose them in a new organisational boundary. This will allow them to break fostered habits, which in turn will allow them to create new patterns and forge new processes that are different from those in the mainstream organisation. (Christensen & Overdorf, 2000, p. 73)

Alternatively, a spin-out organisation can be established. This is needed when the mainstream organisation's existing values would prevent it from allocating needed resources to an innovative project that does not serve existing customers' needs. Christensen and Overdorf (2000, p. 74) also stated that creating such an organisation is only necessary when a different cost structure is required, or when the current size of the opportunity is insignificant relative to the growth needs of the mainstream organisation.

Lastly, companies can decide to acquire capabilities through acquisition. When the capabilities are embedded in the people or resources, it is relatively easy to move them around and perhaps consolidate with the main business. But when the capabilities are embedded in the processes and values, then the worst thing that can be done is to merge the acquired business with the existing business, as it will destroy the capabilities that it sought to acquire. (Christensen & Overdorf, 2000, p. 74)

3.2.7.2. The Great Repeatable Business Model

***"Differentiation is the essence of strategy, the prime source of competitive advantage... The sharper your differentiation, the greater your advantage."* – (Zook & Allen, 2011, p. 107)**

Zook and Allen (2011, p. 108) found that in 80 percent of companies that have sustained a high level of performance over several years, have a well-defined and easily understood differentiation at the core of their strategy. According to them, a company's strategic differentiation and execution are two key factors in determining a company's performance. These factors matter far more than the industry that the company happens to be in – at least four times as much. "Every industry has its leaders and laggards, and the leaders are typically the most highly differentiated" (Zook & Allen, 2011, p. 108).

The problem is that differentiation typically degenerates with age. But this is not necessarily only because competitors try to replicate and undermine a company's differentiation. Often, the degeneration is generated internally. This is because, as company grows due to successful differentiation, it gets more complex. Product lines extend and acquisitions take place, which offset the company from its core, resulting in front-line employees losing their sense of the company's strategic priorities. Growth therefore makes it difficult to remember what the company was initially good at and also what the guiding principles of the company are. (Zook & Allen, 2011, p. 108)

A key issue in business model innovation is deciding whether to incrementally adjust the business model, or to completely revamp the business model when change is needed. Companies that are struggling with complexity and fading differentiation often believe that they must re-imagine their entire business model or else be overthrown by start-ups with disruptive innovations. However, the truth is that (as mentioned in the previous section) consistency in values is required. Zook and Allen (2011) stated that really successful companies do not follow a "binge and purge" pattern where they try to periodically reinvent themselves. Instead, they relentlessly build on their fundamental differentiation. They pass their differentiation on to the front-line, which creates an organisation that lives and breathes its strategic advantages every day. This creates a *repeatable business model* that a company can apply in new contexts and to new products and markets, to create sustained growth. The simplicity and consistency of sticking to core guiding principles allows everyone in the organisation to be focused, coordinated and centred on that which the organisation is good at. (Zook & Allen, 2011, pp. 108, 109)

Zook and Allen (2011, p. 108) also stated that "You earn money not just by performing a valuable task, but by being different from your competitors in a manner that lets you serve your core customers better and more profitably". Differentiation is a company's most valuable asset. Most management teams however, spend little time discussing or measuring their differentiators and often do not agree on what they are (Zook & Allen, 2011, p. 109). This lack of clarity obscures the company's strategic priorities. Having consensus on a company's core differentiators is critical, as it enables companies to focus their attention and resources on the crucial aspects of the business, and on areas under threat that are in a need of change (Zook & Allen, 2011, p. 110).

Zook and Allen (2011, p. 110) postulated that the best way to grow a business is usually to replicate its greatest strategic advantage in new contexts. There are four ways in which companies typically grow:

1. Creating new or purchasing new products and services;
2. Creating or entering new customer segments;
3. Entering new geographic locations; or
4. Entering related lines of business.

By bearing these growth mechanisms in mind and consistently pursuing the company's key differentiators, a repeatable business model can be created. The real power of this repeatable business model is that a company's sources of differentiation can be converted into routines, behaviours and activity systems that everyone in the organisation can understand and follow. This enables a company to maintain its differentiation, even when set on a new growth path. (Zook & Allen, 2011, p. 110)

The fundamental cornerstone of repeatability is therefore non-negotiable principles, as they keep the organisation focused and tightly aligned on strategic goals. Zook and Allen (2011, pp. 111, 112) found that shared core principles and front-line behaviour were more highly correlated with business performance than any other factor they studied. Another critical factor for a business is a robust learning system. While clear differentiation provides competitive advantage, this advantage only lasts for a certain duration of time. Robust learning systems are therefore required to ensure that the organisation learns over time to enable them to adapt to new circumstances.

In summary, Zook and Allen (2011, p. 114) suggested that simple strategies, built around sharp differentiators provide the hidden advantage of clarity, allowing front-line employees to react quicker than competitors. Key differentiators that are deeply integrated and understood by the organisation make it possible for the organisation to quickly and efficiently move in the same direction, while learning and improving the business model as they progress. It also leads to continuous and remarkable performance.

3.2.7.3. Multiple Business Models

The endeavour undertaken to reinvent a business model should not be taken lightly. Often, new products and services can be created that disrupt competitors without fundamentally changing the company's business model. The old model will do when the new customer value proposition can be fulfilled with the current profit formula, using most or all of the current key resources and processes, and using the same core metrics, rules and norms usually used to run the business. (Johnson, Christensen, & Kagermann, 2008, p. 64)

However, sometimes the old business model is not suited for the new opportunity, but at the same time the company simply does not want to adapt its existing structures. Instead, they want to expand by adding business models, instead of changing existing business models. "Managers think that developing a new operation necessarily means abandoning the old one, and they're loath to do that since it works perfectly well for what it was designed to do. But when disruptive change appears on the horizon, managers need to assemble capabilities to confront that change before it affects the mainstream business. They actually need to run two businesses in tandem – one whose processes are tuned to the existing business model and another that is geared towards a new model" (Christensen & Overdorf, 2000, p. 74). A new model therefore does not necessarily warrant the current model obsolete, and often a new model reinforces and complements the core business.

Casadesus-Masanell and Tariján (2012, p. 132) stated that sometimes companies want to operate with more than one business model, in order to serve specific customer segments, to expand into new markets, to crowd out competitors, to forestall potential disruptors in the market, to efficiently utilise physical assets and other resources, or to develop new income streams.

Netflix for instance, have two distinct business models. The one they use for their DVD-by-mail aspect of their firm, and the other model is utilised for their streaming-videos services. However, operating multiple business models at the same time has often been cited as one of the leading causes of strategic failure. So, how does one safely run multiple models in tandem? (Casadesus-Masanell & Tariján, 2012, p. 132)

This starts by having a subtle appreciation for the way that the different business models related to one another (Casadesus-Masanell & Tariján, 2012, p. 133). Some business models conflict and are substitutes for each other rather than complements. In those conflicting cases it is better to run the models separately and perhaps only sequentially. However, two different business models can be complementary and mutually reinforcing to one another. In these cases, two models can turn otherwise unviable possibilities in to real opportunities. Another advantage that two business models could have is that they make the company more robust as a whole against market factors. Therefore, when the one business model is under pressure, the other one is not necessarily affected. (Casadesus-Masanell & Tariján, 2012, p. 134) Also, customers often value the convenience of one-stop-shopping, which is enabled by complementary products (Gossain & Kandiah, 1998).

It is important to realise that recognising the potential of multiple business models and capitalising on them are very different things. Having two or more business models is often very difficult to manage and business models that have steep learning curves, favour those who climb the ladder first. Burdens of additional business models are that they add complexity to the organisation and require different organisational skills, additional investments and different organisational structures. (Casadesus-Masanell & Tariján, 2012, p. 135) These can all lead to a firm's demise, if not approached in the way proposed by Zook and Allen (2011), and Christensen and Overdorf (2000), as discussed above.

A last concluding remark from Casedesus-Masanell and Tariján (2012, p. 137) is that "Competitive strategy is all about building advantage by protecting a unique position and exploiting a distinctive set of resources and capabilities. Viewed in this light, the implementation of multiple business models is not a risk but rather a new tool for strategists. Properly applied, it will help firms boost their ability to create and capture value – and to gain durable advantage".

3.2.8. Building Good Business Models

Casadesus-Masanell and Ricart (2011, p. 102) proposed that the problem why so many new business models fail lies in that companies are evaluating their business models in isolation, while they should be evaluating their models by taking other competitors in the industry into consideration. Isolated analysis leads to faulty assessments of strengths and weaknesses, resulting in bad decision making. This concurs with Porter's (2001, p. 13) notion that no business model can be evaluated independent of its industry structure. Casadesus-Masanell and Ricart (2011, p. 102) argued that "Almost any business model will perform brilliantly if a company is lucky enough to be the only one in the market. Because companies build them without thinking about the competition, they routinely deploy doomed business models".

The difficulty in developing excellent business models stems from the difficulty to predict whether the business model will be a success, as business models are often not directly comparable (Casadesus-Masanell & Ricart, 2011, p. 102). Different business models require different elements to function; make use of different performance metrics; and need to excel in different factors to be successful. The first time a business model can therefore be tested is when it is presented to the market (Van der Heijden, 2001, p. 14).

Linder and Cantrell (2001) and McGrath (2011, p. 96) stated that some business models in fact do perform better than others, but no single model guarantees superior financial results. No silver bullet, kill-all model exists. The key lies in the execution of the models. Linder and Cantrell (2001, p. 14) defined three common characteristics that successful models share. These are that they provide unique value (and that often results from a combination of product and service features); they are hard to imitate and build barriers around their income streams; and they are grounded in reality, meaning they are founded on accurate assumptions about customer behaviour. McGrath (2011, p. 96) additionally suggested that any kind of model that creates "customer stickiness" or loyalty is good.

According to research done by Weill, Malone, D'Urso, Herman & Woerner, (2005, p. 26), "We found that business models based on non-physical assets were more profitable (and associated with higher market capitalisation) than those based on physical assets. These benefits of idiosyncratic and non-physical assets (e.g. knowledge, customer relationships) may have been particularly significant (especially for market valuation measures) in the year 2000 when the value of online and intangible assets was at a peak. However, the trend toward selling services and use with a reliance on non-physical assets and relationships appears to be continuing today in the U.S. economy if at a more modest and realistic pace". Their (2005, pp. 3, 25) research also showed that selling the rights to use assets is more profitable and more highly valued in the market than selling the ownership of assets.

According to Casadesus-Masanell and Ricart (2011, p. 102) there are three characteristics that a good business model displays. Firstly, a good business model is aligned with company goals. The decisions made in designing the business models, must lead to consequences that enable companies to reach their goals. Secondly, good business models are self-reinforcing. That is, the choices made in creating the business model are complementary to one another, creating virtuous cycles. An internal consistency thus exists. Business models that lack this type of reinforcement can be refined by abandoning some choices and making new ones. Thirdly, a good business model is robust, meaning that it is capable of fending off threats to ensure the company's longevity. These factors mentioned above are similar to those of Porter (1996, p. 1), who noted that companies need to create a tight fit between their activities, make trade-offs in deciding what to do and not to do (to create internal consistency), and hence establish a business that is capable of defending against the five forces of competition.

According to Magretta (2002, p. 88), a successful business model represents a better solution than existing alternatives. It creates more value for a specific group of customers or it completely replaces the old way of doing things. This in turn sets the standard for the next generation of enterprises to try and beat. Furthermore, really powerful business models create new, incremental demand. Magretta (2002, p. 88) also stated that all businesses are variations based on the generic value chain, which consists of two parts. The first part is concerned with all the activities associated with creating something, with the second part concerned with activities associated with selling this. Business models at their core are about stories – stories about how an enterprise works (Magretta, 2002, p. 87) . A new business model's storyline may thus be based on designing a new product for an unmet need, or it may involve a process innovation, which betters the way that something is made or sold.

Magretta (2002, p. 90) stated that for a business model to work, it needs to pass two tests, namely the narrative test and the numbers test. The narrative test is concerned with whether the story of the business makes sense, thus referring to logical consistency. This is also supported by Osterwalder and Pigneur (2009, p. 15) who stated that a good business model concept is simple, relevant, and intuitively understandable, while not oversimplifying the complexities of how enterprises function. Secondly, the numbers test simply refers to whether the costs and revenues associated with the story enable a profit to be generated. Afuah and Tucci (2003, p. 161) added that "there is no better way to measure how good a business model is than to compare its profitability to that of its competitors". This is obviously not applicable to non-profit organisations, but in profit-driven organisations should sustain themselves by maintaining good profits.

At the same time, it is important to remember Kim and Mauborgne's (2004, p. 75) principle of never using competitors as the benchmark. Benchmarking constrains the creativity and innovation required to break away from established paradigms needed in building superior, differentiated business models. Greatness therefore lies in differentiation, as differentiation is the prime source of competitive advantage (Zook & Allen, 2011, p. 107), but also in logical consistency, robustness and execution.

3.2.9. Business Model Innovation Framework Requirements

Following from this section and aligned with the systems engineering process, seven framework requirements emerge that specifically highlight the principles that business model innovation is based on, that need to be reflected by the framework. These requirements are depicted in Figure 3.7 below.

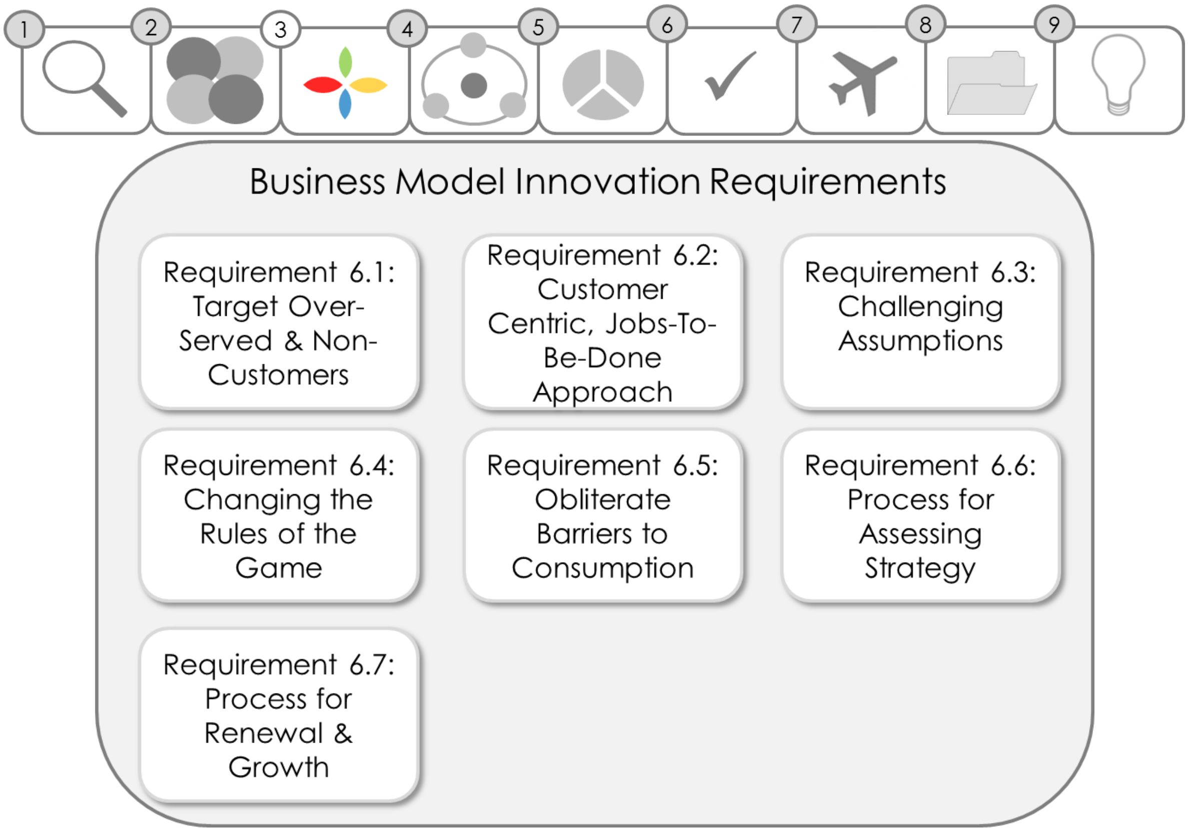


Figure 3.7 – Business Model Innovation Framework Requirements

The first requirement was derived from Christensen *et al.*'s (2002, pp. 22-24) two disruptive growth strategies, namely creating a new market that can serve as the basis for disruption (non-customers) or disrupting the prevailing business model from the low end (over-served customers). The next four requirements emerged as principles or attitudes often adopted to successfully accomplish business model innovation (Schwartz, 2012; Anthony, 2008; Johnson, *et al*., 2008, p. 62; Christensen *et al*., 2002). Next, the systematic analysis or "testing" of strategies as introduced in this section (Johnson, *et al*., 2008, pp. 58-65; Christensen, *et al*., 2002, p. 24; Drucker, 1994, p. 100) highlighted the need for an element in the framework that assesses the developed strategy. Lastly, Christensen *et al*. (2002, pp. 30, 73) stated that companies do not necessarily fail to capitalise on disruptive growth opportunities because they did not identify the opportunity, but because a robust process for creating and nurturing new growth businesses does not exist. (Christensen & Overdorf, 2000, pp. 30, 73; Bower & Christensen, 1995, p. 49) Consequently, a process for renewal and growth is needed.

3.3. E-Value Creation

This section explores various perspectives regarding value creation in e-business. Amit and Zott's sources of e-value, Kevin Kelly's generative qualities, and Wells and Golebi's 3R framework are specifically explored.

3.3.1. Introduction

***"Companies that solely focus on competition will ultimately die. Those that focus on value creation will thrive."* – Edward de Bono**

Over the years, the business environment has seen many shifts in the emphasis that companies place on their approach to business and competition. One of the newer paradigms is the emphasis on value creation to satisfy customer needs (Johnson, *et al.*, 2008; Bettencourt & Ulwick, 2008; Kim & Mauborgne, 2005; Lee and Vonortas, 2004; Amit & Zott, 2001). A product or service can be regarded as valuable, when the benefit, utility or gain outweighs its price. According to Golub and Henry (2000), "A product's value to customers is, simply, the greatest amount of money they would pay for it. In other words, a product will rarely be purchased when its price exceeds its value to the customer. Conversely, whenever the value of a product exceeds its price, customers can improve their lot by buying it". It should be noted that the price of the product or service need not be only in the form of monetary compensation. The cost could also imply a trade of some sort, an investment in time, or the effort required to obtain the product or service.

Value is also a relative term and is deeply influenced by a customer's perceptions of the given product or service. It is therefore very important to determine exactly which benefits customers want and how much they will pay for them. Ohmae (1988, p. 59) stated that "Unless you step back and ask, "What are the customer's fundamental needs, and what is this product really about?", you may find yourself winning heroic battles in an irrelevant war". Lanning and Michaels (2000, p. 53) also added that "Delivering superior value – through higher benefits, lower prices, or some combination of the two – lies at the heart of any winning business strategy". The remainder of this section deals with uncovering sources of e-value.

3.3.2. Different Perspectives on E-Value Creation

Value is such an elusive and fickle concept that several perspectives and models have to be used to gain an understanding of e-business value creation. According to Amit and Zott (2001, p. 493) "Our finding suggests that no single entrepreneurship or strategic management theory can fully explain the value creation potential of e-business. Rather, an integration of the received theoretical perspectives on value creation is needed". These are briefly discussed below.

3.3.2.1. Resource and Market-Based Views

The first view from which value creation can be seen is from the view of the organisation, which is known as the resource based view of the firm. The second view is from a customer perspective, known as the market based view. In the resource based view, internal examination is done to determine which products or services can be provided to the market. Hence, the firm is seen as a bundle of resources and competencies which are uniquely combined to create value. (Amit & Zott, 2001, p. 497) In this paradigm, a firm's resources and capabilities "are valuable if, and only if, they reduce a firm's costs or increase its revenues compared to what would have been the case if the firm did not possess those resources" (Amit & Zott, 2001, p. 497; Barney, 1991, p. 147). On the other hand, the market based view the organisation looks towards the market, thus to customer needs, to determine its strategic perspective regarding value creation and obtaining a valuable market position.

These two views are important because they influence how value is defined. In this study, value creation is discussed in terms of total value creation, which involves the sum of all value created by participants in e-business transactions, including value created by the organisation, customers, suppliers or any other constituent (Amit & Zott, 2001, pp. 494, 503; Bradenburger & Stuart, 1996).

3.3.2.2. Schumpeterian Innovation

Schumpeter's (1934, 1942) theory of economic development and value creation views innovation as the source of value creation. Later termed, Schumpeterian innovation, Schumpeter's view emphasises the importance of technology and technological change, and considers novel combinations of resources as the foundation of new products and production methods. These then lead to the transformation of industries and markets and create economic growth. Innovation is therefore a powerful, disruptive force and the source of value creation. (Amit & Zott, 2001, pp. 496, 497) Furthermore, Schumpeterian innovation is also linked to the notion of "creative destruction", where competitive advantages derived from technological break-through are subject to self-destruction. This is because as time progresses, the knowledge stemming from these initiatives and entrepreneurial insights becomes common knowledge, diminishing their competitive advantages. (Amit & Zott, 2001, pp. 496, 497) Similarly, newer technological breakthroughs also accelerate the destruction of the previous generation of technology's advantages.

3.3.2.3. Strategic Networks

Strategic networks may be defined as "stable inter-organisational ties which are strategically important to participating firms. They may take the form of strategic alliances, joint ventures, long-term buyer-supplier partnerships, and other ties" (Amit & Zott, 2001, p. 498; Gulati, Nohria, & Zaheer, 2000, p. 203). The network perspective is necessary for understanding wealth and value creation in e-business, due to the importance of the networks and ties that exist between firms, suppliers, customers and other partners in e-business (Amit & Zott, 2001, p. 498; Prahalad & Ramaswamy, 2000; Shapiro & Varian, 1999).

Strategic networks in the digital economy offer the potential to tap into valuable sources of information, gain access to markets and technology, share risk, generate economies of scale and scope (Shapiro & Varian, 1999; Katz & Shapiro, 1985), share knowledge, facilitate learning (Anand & Khanna, 2000; Dyer & Nobeoka, 2000; Dyer & Singh, 1998), and reap the benefits of interdependent activities (Amit & Zott, 2001, p. 498; Blakenburg & Johanson, 1999). Other benefits reaped through strategic networks include shortening time to market (Kogut, 2000), enhancing transaction efficiency, reducing asymmetries of information and improving coordination between firms (Amit & Zott, 2001, p. 498; Gulati, *et al*., 2000).

3.3.2.4. Transaction Cost Theory

Transaction costs or interaction costs are the costs associated with the time and money spent whenever people or companies interact, e.g. when they exchange goods, services or ideas (Hagel & Singer, 1999, p. 139). These exchanges can occur within companies, between companies or between companies and their customers. Transaction costs also span the costs of planning, adapting, executing and monitoring task completion (Amit & Zott, 2001, p. 499; Williamson, 1983). Taken together, transaction costs can thus be seen as any organisational activity or expenditure related to doing transactions.

Transaction cost theory is concerned with choosing the most efficient governance form given a transaction that is embedded in a specific economic context (Amit & Zott, 2001, p. 499). This means that companies inherently try to minimise these interaction costs. Interaction costs thus in a sense determine the way companies organise themselves and form relationships with other parties. If an activity's interaction cost is lower when performing it internally, the activity will usually be performed internally, whereas if an activity could be performed more economically externally, it would rather be outsourced (Hagel & Singer, 1999, p. 133). Transaction cost economics therefore propose that transaction efficiency is a major source of value, as enhanced efficiency leads to reduced costs (Mansfield & Fourie, 2004, p. 38).

3.3.2.5. Value Chain Analysis and the Virtual Value Chain

In the value chain perspective the firm is analysed to identify the activities that the firm performs and seeks to study the economic implication and value of those activities (Mansfield & Fourie, 2004, p. 39; Amit and Zott, 2001, p. 496). The goal is thus to create value by determining which activities a firm should perform and how they should be performed. Aligned with this, value can be created by differentiating along every activity of the value chain, resulting in products and services which either lower buyers' costs or raise buyers' performance (Amit & Zott, 2001, p. 496).

Porter's (2001) value chain model is shown in Figure 3.8 below. This value chain model however, is not really as suited to e-business firms as it is to traditional manufacturing firms. This is because this model inherently deals with physical products and does not fully capture the essence of the value creation mechanisms of service (e-business) firms (Stabell & Fjeldstad, 1998, p. 414). The problem lies with the value chain stages that relate to a firm's transformation process (Lee & Vonortas, 2004, p. 167). A different value chain view is therefore required for e-business than for manufacturing businesses.

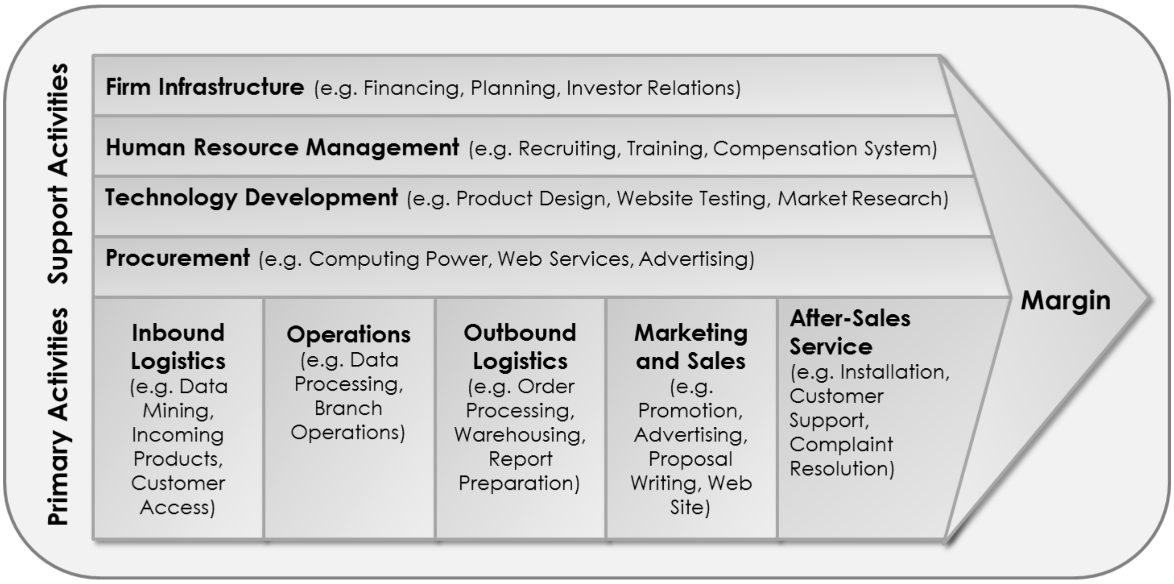


Figure 3.8 – Porter's Value Chain (Porter, 2001, p. 15)

Meredith and Schaffer (1999) stated that the traditional physical transformation process involves at least one of the following value-adding activities, namely alter, transport, inspect and store. Similarly, Rayport and Sviokla (1995) proposed that the virtual value chain involves five transformation steps, namely gathering, organising, selecting, synthesising and distributing information (Lee & Vonortas, 2004, p. 167) These differences are summarised in Figure 3.9 below.

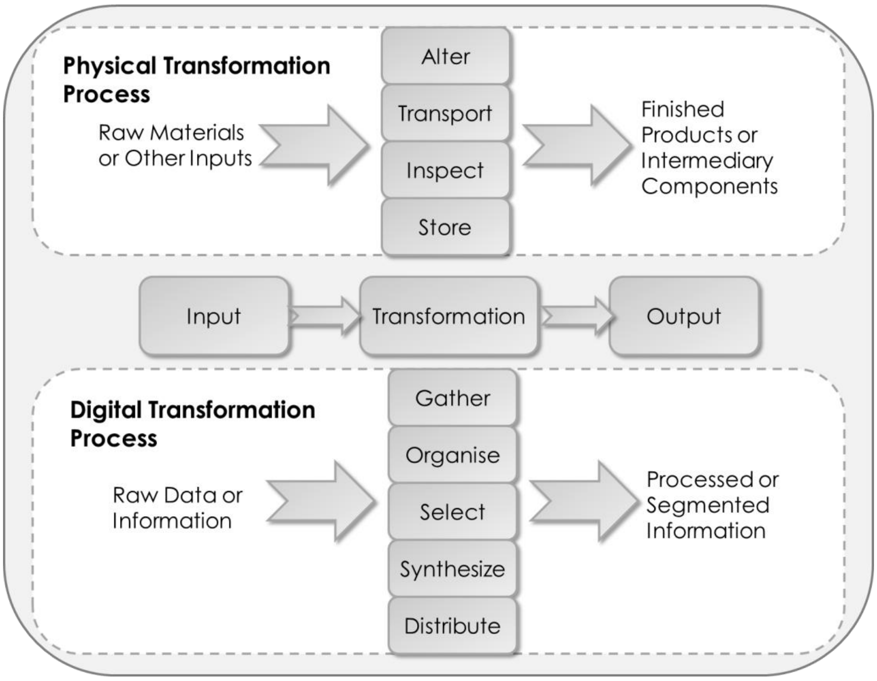


Figure 3.9 – Physical and Digital Transformation Processes Graphically Synthesised from Lee and Vonortas (2004, pp. 168, 169)

Though Figure 3.9 provides an interesting perspective, it is more concerned with the process of how a value proposition is created in e-businesses, than describing what should be offered. An identifiable source of value from this however, is that in the digital economy, data and information itself is a source as value, as it can directly be used to create value for individual customers. Information also has the unique qualities that it is not consumed in the transformation process and that it serves as input and output. This means that a firm can redefine economies of scale and scope by drawing on a single set of "digital assets" and making numerous copies of it at a zero cost, to create an abundance of resources. This information can then be provided to many different and disparate markets to create value for them. (Lee & Vonortas, 2004, p. 168; Tapscott, *et al.*, 2000, p. 5; Rayport & Sviokla, 1995)

3.3.3. Amit and Zott's Sources of Value Creation in E-Business

Amit and Zott (2001, p. 504) postulated that the value creation potential in e-business is hinged on four interdependent sources, namely efficiency, novelty, complementarities and lock-in. These elements are depicted in Figure 3.10 below and subsequently explained.

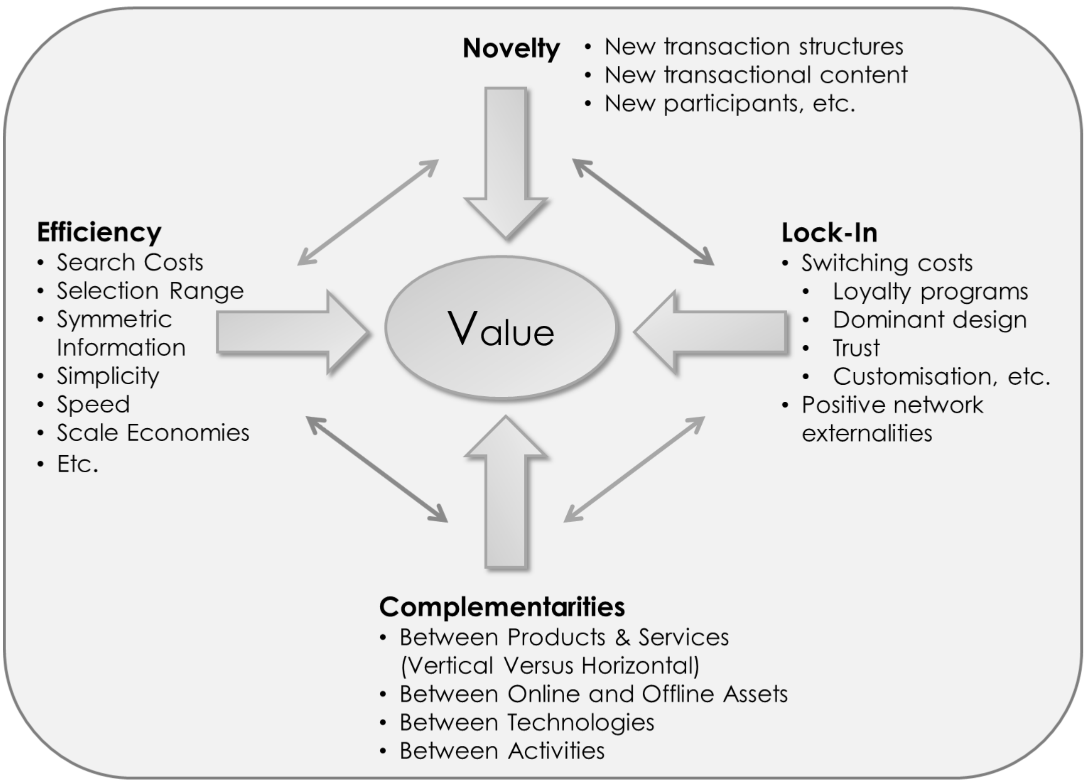


Figure 3.10 – Sources of Value Creation in E-Business (Amit & Zott, 2001, p. 504)

3.3.3.1. Efficiency

Efficiency refers to transaction efficiency. This element coincides with transaction cost theory, which suggests that transaction efficiency increases when the cost per transaction decreases, where costs are broadly defined. Therefore, the higher the transaction efficiency, the lower the costs, and the more value is created. (Amit & Zott, 2001, p. 503)

The inexpensive interconnectivity of the Internet can be leveraged to enhance transaction efficiency by enabling faster and more informed decision making. Information asymmetries that exist between parties can be reduced by supplying up-to-date and comprehensive information to both parties via the Internet. Marketing costs, sales costs, transaction-processing costs and communication costs can all also be reduced in an efficient e-business, with cumulative savings accruing from scalability – the more frequently transactions are done through the e-business platform, the more valuable the platform becomes. The Internet also enables the provision of a greater selection of products at lower costs, by reducing distribution costs, simplifying transactions, streamlining the supply chain, and speeding up transaction processing and order fulfilment. Overall efficiency gains however, are still dependent on a company's partner network. A company may for instance achieve unprecedented internal efficiencies, but if its partner ecosystem does not function at an equal efficiency level, then the overall efficiency of the system is eroded, destroying the value gains. (Amit & Zott, 2001, pp. 503, 504)

3.3.3.2. Complementarities

Complementarities are present whenever having a bundle of goods together provides more value than the total value of having each of the items in isolation. Complementarities add value to the core offering by making it more convenient to use. Complementarities may be vertical, such in the case of after-sales services, or horizontal, such as one-stop shopping where related products can be bought. An example of this is selling a data contract and cross-selling an Internet modem from a partner firm. Information can also often be provided as a complementarity. Products can be displayed virtually together with their product attributes for instance. Complementarities however do not need to be directly related. Complementarities to an airline website may for instance be access to real-time information regarding currency exchange rates, country specific visa policies or weather forecasts. Complementarities may also exist between online and offline assets, such as customers who purchase products through e-commerce channels but want to receive the products or after-sales services at brick-and-mortar retail outlets. Furthermore, value can also be created by capitalising on complementarities between activities and complementarities between technologies. (Amit & Zott, 2001, pp. 504, 505)

3.3.3.3. Lock-In

Lock-in refers to the act of creating barriers that prevent the migration of customers and strategic partners to competitors. The basic premise of this element is that more value can be created or derived from multiple interactions with customers and partners than a single interaction. Hence, the desire to lock customers in and competitors out. Motivating customers to engage in repeat transactions, building relationships with them and motivating partners to maintain and improve their associations are all critical to increasing the transaction volume and the value derived. (Amit & Zott, 2001, p. 506)

Lock-in may be created via various mechanisms, namely by installing switching costs (the cost, effort or loss of benefit that arises from switching from one business to another), making use of network externalities (positive consumption externalities, where the benefit or value that a single user derives from the system increases as the number of total users in the system increases), cultivating a strong brand name, installing loyalty programmes, becoming the dominant design standard, installing trust building mechanisms, facilitating customer learning, providing customisation and building virtual communities. The other value creation elements, such as efficiency and complementarities can also act as mechanisms for creating customer lock-in. When the benefits derived from these elements are too much to give up or cannot be obtained from a competitor, then lock-in is additionally created. (Amit & Zott, 2001, pp. 506, 507)

3.3.3.4. Novelty

Novelty refers to doing new things in new ways to entice customers and build a competitive advantage. Traditionally, innovations in products and services, methods of production, distribution, marketing or markets have been sources of value creation. The Internet provides additional sources of differentiation, namely through novel exchange mechanisms and transaction structures that are not present in more traditional organisations. (Amit & Zott, 2001, pp. 494, 508)

The restructuring of transactions refers to introducing new ways of conducting commercial transactions. This creates value by connecting previously unconnected parties, eliminating inefficiencies in the buying and selling process, catering to dormant customer needs and creating entirely new markets (Amit & Zott, 2001, p. 508). eBay for instance restructured their transactions by introducing customer-to-customer auctions on a large scale, allowing smaller items to be efficiently traded between individuals. Priceline.com on the other hand made use of a novel reverse market model, where customers are able to name their own price for their purchases, which are then subject to acceptance by sellers. A third restructuring technique is to integrate several complementary companies and thereby enable convenient, 24 hour one-stop shopping. (Amit & Zott, 2001, p. 508)

Furthermore, being first to market with a novel business idea makes it easier to create customer lock-in, as it enables the business to establish a strong brand and reputation advantage before competitors can penetrate the market (Amit & Zott, 2001, p. 508). First mover advantages are especially important in markets that are characterised by network effects or “winner-takes-most” markets, as it allows the first mover to achieve a critical mass of customers before competitors do (Amit & Zott, 2001, p. 508; Shapiro & Varian, 1999; Arthur, 1996). Lastly, e-business innovators can also create a competitive advantage through learning and the accumulation of proprietary knowledge and competencies, and by pre-empting and obtaining scarce resources (Amit & Zott, 2001, p. 508).

3.3.4. Kevin Kelly's Generative Qualities: Better Than Free

***"The Internet is a copy machine. At its most foundational level, it copies every action, every character, every thought we make while we ride upon it. In order to send a message from one corner of the Internet to another, the protocols of communication demand that the whole message be copied along the way several times... Every bit of data ever produced on any computer is copied somewhere. The digital economy thus runs on a river of copies. Unlike the mass-produced reproductions of the machine age, these copies are not just cheap, they are free."* – (Kelly, 2008)**

The Internet could be regarded as a super-distribution system, where once a copy has been introduced it will flow endlessly throughout the network. This super-distribution system has become the foundation of the digital economy. In the past, the industrial economy was built on selling precious copies. The notion of free copies upsets and undermines the established order of the traditional, industrial paradigm. A key question in the digital economy is therefore: How does one make money selling free copies? (Kelly, 2008)

The answer is tied to van der Heijden's (2001, p. 14) scarcity economics and Kelly (2008) eloquent stated that "When copies are super abundant, they become worthless. When copies are super abundant, stuff which cannot be copied becomes scarce and valuable".

Kelly (2008) introduced eight generative qualities that he believes customers are willing to pay for, instead of simply obtaining a free copy. According to Kelly (2008), "A generative value is a quality or attribute that must be generated, grown, cultivated, nurtured. A generative thing cannot be copied, cloned, faked, replicated, counterfeited, or reproduced. It is generated uniquely, in place, over time. In the digital arena, generative qualities add value to free copies, and therefore are something that can be sold". These generative qualities are therefore in a very real sense, better than free. Kelly's (2008) generative qualities are listed in Table 3.3 below and subsequently discussed.

Table 3.3 – The Eight Generatives (Sources of Intangible Value)

Generative Qualities	
1. Immediacy	5. Accessibility
2. Personalisation	6. Embodiment
3. Interpretation	7. Patronage
4. Authenticity	8. Findability

3.3.4.1. Immediacy

Generally speaking, a person will eventually be able to find a free copy of whatever they want. However, obtaining that copy immediately, at the moment when it is released or created, is valuable. This phenomenon is seen worldwide when considering new movie releases for example. A free, pirated version will be available at some later stage, but seeing the movie when it is released on the opening night is what attracts many to movie theatres. Moreover, not only are they attracted by the immediacy of the product, but they are also willing to pay a premium price for it. Therefore, often being first in line commands a higher price for exactly the same product purchased at a later stage. (Kelly, 2008)

3.3.4.2. Personalisation

Generic versions of something might be free, but having that product or service specially tailored to a customer's specific needs and circumstances are extremely valuable. An easy example is suits. People are willing to pay much more for a perfectly tailored suit, than for an off-the-shelf suit, which fits relatively well. The same can be said for any software that a business uses that is personalised to perfection. One might be willing to pay a lot for this tailoring. Furthermore, personalisation is deeply generative, iterative, time consuming process, and consequently, it is impossible to copy the personalisation that a relationship presents. (Kelly, 2008)

On a semantic note, it is necessary to highlight that the correct term for what Kelly (2008) described is customisation and not personalisation. Customisation refers to individualisation initiated by the customer whereas personalisation refers to individualisation initiated by the e-business (Amit & Zott, 2001, p. 506).

3.3.4.3. Interpretation

In the digital age, interpretation is a valuable source of value creation. Kelly (2008) pointed towards the joke that goes: The software is free, the manual however, costs $10 000. This is exactly how many businesses make their money – they provide paid support services. The software therefore only becomes valuable when an expert is able to assist and help with the interpretation of the product. (Kelly, 2008)

3.3.4.4. Authenticity

Something is more valuable if it is authentic. This is because authenticity is also almost synonymous with trust. Trust needs to be earned over time and cannot be copied, purchased, or downloaded. Intuitively, when customers are faced with a choice between two products, one from an unknown source and another one from a trusted source, they will always prefer the trusted source. (Kelly, 2008) A customer may perhaps gain access to a free version of a computer program, but due to the code not originating from an authentic source, the possibility always exists that the software is not error free, reliable or warranted. People will thus pay for authenticity. (Kelly, 2008) Another example where authenticity is crucial is when choosing an Internet security or anti-virus program. The catastrophic consequences of a defect in the product serves as a strong motivator for convincing customers to opt for the trusted source instead.

3.3.4.5. Accessibility

Very often, ownership of a product does not equate to a pleasant experience. Often, ownership implies extra responsibility and burdens, including product maintenance, routine sorting and archiving, and in a digital sense, ensuring that one's data is backed-up and stored safely. In the digital world, actually owning the data, carrying around hard-drives and having it physically at all times is not valuable. It is inconvenient. What is valuable is having access to what the hard-drives contain. The true value lies in the accessibility of the data. It therefore makes much more sense to subscribe to these possessions and gain access to them wherever and whenever, rather than actually owning them (Kelly, 2008). One could therefore, for example, pay Dropbox to back-up and store one's data, and then gain access to it via the cloud. However, accessibility transcends just digital data. Accessibility also relates to the services or competencies that a person could possess. Having software is not valuable. What's valuable is what can be done with the software and having access to those services and competencies.

3.3.4.6. Embodiment

A digital copy at its core is intangible and without a body. It is possible, however, to manifest this intangible copy in a tangible form. It is possible to project it on a screen or even play it through speakers. Embodiment has to do with creating experiences that are larger than life. It's about making the digital world more real, by giving it a corporeal form. People will always chase the next big experience, whether it is high definition display, 3D display, laser projection, holographic display or anything else. Words can be read on a screen, but sometimes it just feels good to have the same words printed on bright white cottony paper, bound in leather. Similarly, playing a free game is fine, but the experience is taken to a whole new level when playing the game with a few good friends in the same room. (Kelly, 2008) People always look for ways to capture their digital experience and digital interactions and make it more real. A free digital experience may therefore be possible, but the embodiment of the digital experience is what is valuable and what people will pay for. (Kelly, 2008)

3.3.4.7. Patronage

Kelly (2008) believes that audiences *want* to pay creators. Even though people can get free versions of something, fans like to reward artists they love with their tokens of appreciation, because it allows them to connect with the artists. A few requirements for this compensation include:

1. It must be very easy to pay;
2. The payment amount must be reasonable;
3. People must feel that the money will directly benefit the creators.

A good example of where creators relied solely on the patronage of people to generate revenue is the band Radiohead. In 2007, Radiohead allowed people to download their "In Rainbows" album for free and then relied on fans to pay them whatever they wished for the free copy. The average that fans paid was $5 per download. Sometimes audiences pay just because it feels good to do so. The intangible link that exists between creators and appreciative customers is therefore valuable. (Kelly, 2008)

3.3.4.8. Findability

Nothing is more frustrating than looking for something, but being unable to find it. Even the greatest invention ever created, best book, best movie, the best website or best software program has no worth if it cannot be found (Kelly, 2008). The world is evolving into an era of “big data”. This means that finding something specific in the masses of content available on the Internet will only become more difficult in future. Finding things in general will become easier, as there will be much more content, but finding exactly what is sought will most probably become more difficult. How does one choose which movie to watch from the 100 new action titles released this month alone? People’s attention need to be directed towards things, in order to improve the chance of finding what they are looking for (Kelly, 2008). The primary function of giant e-business aggregators such as Amazon and Netfilx is to connect audiences with what they seek. They channel customers’ attention. Findability is therefore valuable and something that content creators who want their work to be found or content seekers looking for the perfect fit are willing to pay for. (Kelly, 2008)

In conclusion, “These new eight generatives demand an understanding of how abundance breeds a sharing mind-set, how generosity is a business model, how vital it has become to cultivate and nurture qualities that cannot be replicated with a click of the mouse” (Kelly, 2008). The e-business environment is therefore based on a different set of rules that determine what is valuable. Money in the networked economy does not follow the path of the copies, but rather travels along the path of attention. (Kelly, 2008)

3.3.5. The 3R Framework

In order to effectively compete in the e-environment, the unique characteristics of e-business must be leveraged to attain and sustain a competitive advantage (Wells & Gobeli, 2003, p. 5). Wells & Golebi (2003, p. 6) postulated that the three characteristics, reach, richness, and range of a firm’s activities can significantly influence a company’s performance. Companies should thus strive to obtain higher levels of each of these to achieve success.

Reach is about connecting customers to the product or service. It is about the degree to which a company can manage its value chain activities to make its value offering accessible to customers. Reach is closely linked to the variety of channels utilised and the management thereof to deliver products and services to customers. Furthermore, reach is also bidirectional, including the customers’ ability to reach the company and the company’s ability to reach the customers. Therefore, it is not only about marketing offerings, but also involves the ability to deliver offerings, and creating the necessary means for customers to reach the company. (Wells & Gobeli, 2003, p. 6)

Richness, is about the quality, depth and detail of the information exchange between customers and the company, and the company's ability to leverage this information to deliver customised offerings. Achieving high richness is dependent on firstly capturing customer information and secondly, converting the information into individualised products. (Wells & Gobeli, 2003, p. 7)

Range refers to the scope of offerings provided to customers. It is about the breadth or variety of products and services offered, and unlocking the complementarities between these. It is for instance possible to expand a company's range via strategic alliances that offer complementary products or services, which alleviates some of the overhead burdens. (Wells & Gobeli, 2003, p. 7)

Reach can only be maximised through digital channels, as digital offerings can be produced and distributed at minimal cost (Wells & Gobeli, 2003, p. 8). Maximising richness on the other hand can be achieved by managing customer demand more effectively, for instance by only producing a product once the order for it is received, thereby shifting to a more demand-centric model. This allows the company to create customisable products that can fulfil customers' exact desires instead of pushing pre-built, standardised products on customers. (Wells & Gobeli, 2003, pp. 9, 12) Lastly, maximizing a company's range can have synergistic effects for the company, while being highly valued by e-business customers who expect a cohesive customer offering. However, it might be infeasible for a single company to offer all related business offerings, in which case the seamless integration of multiple related business partnerships and offerings are crucial.

3.3.6. E-Value Creation Framework Requirements

Aligned with the systems engineering process, the framework requirement that emerges from this section is the necessity to create and capture customer e-value. An implicit sub-requirement of this is the identification of the sources of value creation in e-business. In this regard, the e-value creation perspectives of Amit and Zott (2001), Kevin Kelly (2008) and Wells and Golebi (2003) have been introduced in this section and need to be reflected by the framework. This section's requirement is depicted in Figure 3.11 below.

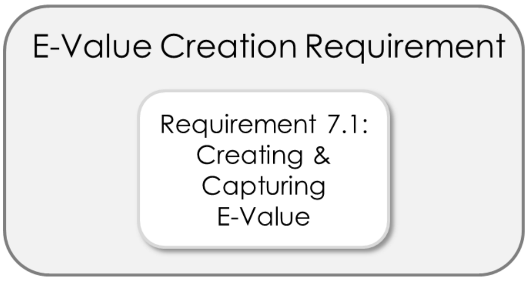


Figure 3.11 – E-Value Creation Framework Requirement

3.4. E-Customer Retention

This section explores e-customer segmentation in more detail, with a specific focus on the mechanisms that allow companies to better retain their customers and lock them into a relationship with the company.

3.4.1. Introduction

"The issues that face the new e-commerce entrepreneurs remain the same as for "old economy" businesses, namely maximising customer retention, minimising loss and optimising new customer acquisition." **– (Clarke, 2001, p. 160)**

Customer retention refers to a company's pursuit of retaining existing customers and preventing their defection. The basic principle which customer retention is based on is that the costs of acquiring new customers are much higher than the costs of retaining them (Clarke, 2001, p. 161). Hence the need to lock customers in and lock competitors out arises.

Customer retention has widely been acknowledged as a critical aspect of business. Some argue that customer retention is even more critical in the digital economy, as the high costs of customer acquisition make many customer relationships unprofitable during the early years (Valvi & Fragkos, 2012, p. 3; Anderson & Srinivasan, 2003, p. 123; Srinivasan, Anderson, & Ponnavolu, 2002, p. 41; Clarke, 2001, p. 161; Reichheld & Schefter, 2002, p. 106). Only at a later stage, when the costs of serving loyal customers fall and their purchase volumes rise, do these relationships generate significant returns (Srinivasan, 2002, p. 41; Clarke, 2001, pp. 161, 168). A strong correlation between customer retention and profitability therefore exists. Reichheld and Schefter (2000, p. 16) for instance found that a five percent increase in customer retention leads to an increase of between 25 to 95 percent in profitability. Other research that utilises a lifetime perspective similarly showed that a loyal customer may be up to ten times as valuable as an average customer (Anderson & Srinivasan, 2003, p. 123; Newell, 1997).

From a theoretical point of view, the literature on customer retention largely revolves around the antecedents or factors that lead to or influence customer loyalty, and hence customer retention. A more structural approach to customer retention however, is often neglected. This latter approach acknowledges that customers can be retained when the barriers to defect are too high; when a company can foster unique resources; or when unprecedented value can be provided, making it unnecessary to go anywhere else. This latter approach is further discussed in Chapter 5.5.

Fundamentally though, companies cannot expect to retain customers if have no comprehension of who their customers are. This section therefore starts off by first considering e-customer segmentation and then continues with the more traditional e-loyalty literature.

3.4.2. E-Customer Segmentation

Customer segmentation is simply the classification of the different customers that exist in a market, based on similar needs, product or service requirements, or some other characteristics (Ries & Trout, 2011, p. 217). Osterwalder and Pigneur (2009, p. 20) stated that customer groups represent separate segments if:

- their needs require and justify a distinct offer;
- they are reached through different distribution channels;
- they require different types of relationships;
- they have substantially different profitabilities;
- they are willing to pay for different aspects of the offer.

The purpose of market segmentation, according to Ries and Trout (2011, p. 218) is to be able to meaningfully leverage scarce resources and target specific needs of different customer groups. What this definition hints at is that different customer segments have different needs, and it is therefore imperative to tailor specific offerings to them (Lin, Narasimhan, & He, 2011, p. 3; Mafé & Navarré, 2010, p. 2; Rohm & Swaminathan, 2004; Keng, Tang, & Ghose, 2003; Swinyard & Smith, 2003). However, companies cannot provide all customers with all possible products and services. Companies must consider their innate capabilities and resources and choose which customer segments they can most profitably target, whilst avoiding the least profitable ones (Ries & Trout, 2011, p. 218; Forsyth, Lavoie, & McGuire, 2000, p. 1; Slywotzky & Morrison, 1997; Porter, 1980, p. 110).

Reichheld and Schefter (2000, p. 109) additionally stated that due to the up-front investments in starting a business, companies are often tempted to amortise these costs over as many customers as possible, leading them into a frenzy of indiscriminate customer acquisition. Given that the Internet also allows a company to extend its reach to nearly any customer segment also does not help. Reichheld and Schefter (2000, p. 109) stated that, "The fact that careful customer selection has always been a foundation of business success gets completely ignored". Subsequently, as e-businesses require repeat buyers to recoup their customer acquisition investments (Anderson & Srinivasan, 2003, p. 123; Srinivasan, *et al.*, 2002, p. 41; Reichheld & Schefter, 2000, p. 106), the strategy of obtaining customers as quickly as possible without regard of their long-term viability can have very bad consequences (Reichheld & Schefter, 2000, p. 110).

Companies are very much responsible for the customers they cultivate. Customer segmentation is required as enticing customers through promotional discounts and general, untargeted advertising is likely to attract bargain hunting butterflies, who exhibit minimal amounts of loyalty (Reichheld & Schefter, 2000, p. 110). Furthermore, customers want websites that are simple, fast, and easy to use. Hence, when trying to be all things to everyone, the site inevitably becomes more complex and harder to use, essentially ambushing the company's efforts (Reichheld & Schefter, 2000, p. 109). Clarke (2001, p. 160) added that due to the fast pace of technological advancement, performance advantages enjoyed by a manufacturer only last a few months. Companies that therefore try to be all things to everyone bear the risk of becoming an undifferentiated competitor. Reichheld and Schefter (2000) and Clarke (2001) are therefore very much attuned with Porter's (1996) call for business focus. Customer segmentation is therefore essential in e-business.

3.4.2.1. E-Customer Segmentation Taxonomies

In the past various e-customer segmentation taxonomies have been defined. Lin, Narasimhan, and He (2011, pp. 2, 3) for example segmented Chinese e-consumers into seven different types based on the amount of time users spend online, the devices that they use and the different online activities that they engage in. Lin *et al.*'s (2011) taxonomy included (1) basic users, (2) traditionalists, (3) online traders, (4) info-centrics, (5) mobile mavens, (6) gamers and (7) digital junkies.

Discussing specific segmentation instances however, is unlikely to lead to a generic solution. Different businesses with different products and services require different levels of segmentation (Goldstuck, 2012, p. 22). People will therefore most likely use different segmentation attributes (that make sense to their situation) to base their segmentation taxonomies on. Between the two approaches, investigating customer segmentation attributes is more sensible than investigating the taxonomies themselves, as segmentation attributes exist on a higher conceptual level, are more broadly applicable and timeless.

3.4.2.2. E-Customer Segmentation Attributes

Ries and Trout (2011) defined attributes that can be used for customer segmentation and this is depicted in Figure 3.12 below.

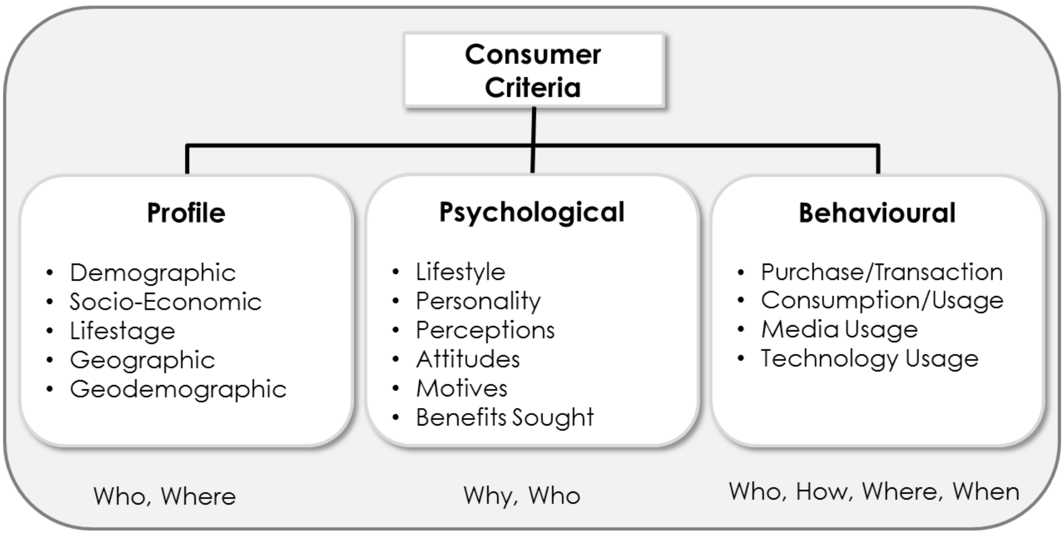


Figure 3.12 – Segmentation Criteria for Consumer Markets (Ries & Trout, 2011, pp. 223, 224)

A customer's ***profile*** can be segmented according to demographic factors that include attributes such as age, generation, gender, sexual orientation, ethnicity, nationality, level of education, religion, social class, occupation, employment status, income characteristics, parenthood status, family size and so forth. Furthermore, different customers in different life stages (childhood, adulthood, young couples, parents, retired etc.) have different needs and therefore purchase differently. Also, it is believed that people in different geographic regions have different needs, based on climate, distance between cities, size of the town, population density or customs and traditions. Geodemographic segmentation on the other hand is based on combining demographic and geographic data. The belief is also that there is a relationship between the type of house a person lives in, and their purchasing behaviour. (Ries & Trout, 2011, pp. 224, 225)

For ***psychological or psychographic segmentation***, studying the different activities, interests, personality traits and opinions of people can lead to the identification of different lifestyles or patterns of behaviour. Additionally, by analysing people's attitudes and motivations for buying certain products and services, the needs that customers have can also be derived, which can lead to creating offerings that are better suited to those customers. (Ries & Trout, 2011, p. 224)

Lastly, considering ***behavioural segmentation***, data about customer transactions can indicate what customers buy, how much they spend, how often they spend and which channels they make use of (Ries & Trout, 2011, p. 224). This also gives an indication of their loyalty, which ranges from no loyalty to absolute loyalty (Mafé & Navarré, 2010, p. 3). Additionally, considering the technology, products and brands that customers use can also serve as a basis for segmentation (Ries & Trout, 2011, p. 224). Coleys and Gokey (2002, p. 86) added that the five structural factors that influence an industry's behavioural patterns include (1) the rate of purchases, (2) the frequency of other kinds of interactions, (3) the emotional or financial importance of the purchase, (4) the degree of differentiation among competitor's offerings, and (5) switching costs. More specifically related to e-business, e-customers can be segmented based on their media attributes, namely by considering the segments' usage frequency, duration of use, usage variety, breadth of use, depth of use and time of the day when users consume the media (Ries & Trout, 2011, p. 239; Lin, Narasimhan, & He, 2011, p. 2).

Using a similar criteria as above, Sen, Padmanabhan, Tuzilin, White and Stein (1998) provided a short summary of the different segmentation variables that are applicable to the online environment. These are displayed in Table 3.4 below.

Table 3.4 – Online Segmentation Variables (Mafé & Navarré, 2010, p. 3)

Original Source: (Sen, Padmanabhan, Tuzhilin, White, & Stein, 1998)

Criteria	Online Specific Segmentation Variables
Demographic Segmentation Relevant variables for identifying the Internet consumer	• Visitor e-mail address or web page • Knowledge of the web • Navigator programme (browser) and version
Geographical Segmentation Physical location of website access	• Connection network • Place of connection
Psychographical Segmentation Attitude towards the website	• Attitude towards privacy of data and security • Attitude towards delay and problems with purchases • Attitude towards website innovations
Behavioural Segmentation Variables associated to website use	• Method of access (direct or via links) • Time of access (weekends, week days) • Frequency of Internet access • User category (new, regular) • Shopping behaviour • Level of interactivity of the user (feedback) • Pattern of information search on the website and between websites

From the higher-level techniques, demographic and geographic segmentation has the lowest predictive power, with behavioural and psychological observation having the best predictive power. The logic is that humans are creatures of habit. Past purchases can therefore serve as a relatively accurate estimate of future behaviour, subject to influences of marketing and the market environment (Ries & Trout, 2011, pp. 224-225). In e-business, behavioural and geographic segmentation are the easiest to conduct, as these can invisibly be monitored, click by click. Demographic factors on the other hand need to be obtained via invasive techniques such as surveys or other online forms, making the data harder to obtain. The most difficult in e-business then is psychological segmentation, which seeks to intimately understand the motives that drive consumer behaviour.

3.4.2.3. E-Customer Needs

E-customer needs relate to psychological segmentation and refer to the generic needs or expectations that customers exhibit online. As noted in Chapter 3.1.3, *The Internet's Effect on Industry Structure*, the Internet has reshaped the competitive environment by giving customers more bargaining power than ever before. Customers are generally more informed and this raises customer expectations to new heights. Customers are constantly demanding a higher level of service, better quality products, better prices, and more innovative and customised offerings (Seybold, 2001). Seybold (2001) defined 12 factors, "the digital dozen", which describes the new major customer demands. These are listed in Table 3.5 below.

Table 3.5 – 12 Customer Needs in the Digital Economy (Seybold, 2001)

Customer Demand	Description
1. Open, equal access	Want after hours trading and real-time feeds.
2. Real-time information	Want to know what inventory is on hand when their shipments will arrive.
3. Specialist information	Want technical information on various subjects.
4. Convenient access	Want efficient, timely interactions and convenient online services.
5. Information portability	Want to be able to move purchasing information from supplier to supplier.
6. Process transparency	Want to know the status of any process they have started or are dependent on.
7. Logistics transparency	Want to know the status of their order's distribution.
8. Pricing transparency	Want to know prices and compare them.
9. Fair, global pricing	Do not want to be overcharged.
10. Setting prices	Want to choose what prices they pay, for example as on Priceline.com.
11. Choice in distribution channels	Want direct shipping and pickup from some physical outlet choices. They also like aggregators who can offer the best availability, smoothest business processes and most convenient, reliable delivery system.
12. Control over personal information	Want companies to track their online behaviour, so that companies can offer them more tailored products in future, but they also want to be in charge of how their information is handled. They still want their privacy.

In addition to the factors listed above, Seybold (2001) further stated that customers have an increased need to interact with a company, demand trust, and seek a seamless online experience. Regarding the latter point, customer experiences are essential as these influence the feelings generated by a brand, which affects their loyalty. Customers are also more vocal about their experiences and share stories with their friends – the good and the bad.

Koiso-Kanttila (2005, pp. 64-66) proposed three additional ways in which online customer behaviour differ from offline behaviour. Firstly, time online is a scarcity, highlighting the need for instant gratification and short download times. Secondly, e-customers have limited attention spans, while simultaneously having an increased need for greater choice. This necessitates that companies carefully plan the visual elements of the website. Thirdly, online customers are on a quest for authenticity. (Gummerus, 2011, p. 47; Koiso-Kanttila, 2005, pp. 64-66) These e-customer demands are synthesized and visualised as shown in Figure 3.13 below.

The logic is that if a company can better understand customer needs, then they are better equipped to develop products that customers want and are able to forge better relationships with them. Seybold (2001) posited that in the digital era *every* company needs to be customer centric. Furthermore, the value of a company depends on the strength of its customer relationships (Seybold, 2001). Although the Internet has undoubtedly made customers more demanding, it also provides unique characteristics and capabilities that should be utilised to improve customer communication, enhance organisational learning about customer needs, increase responsiveness, reduce transaction costs, enhance convenience and influence overall customer experiences (Reichheld & Schefter, 2000, p. 113). All of these serve to build strong and durable customer relationships, and thus company value.

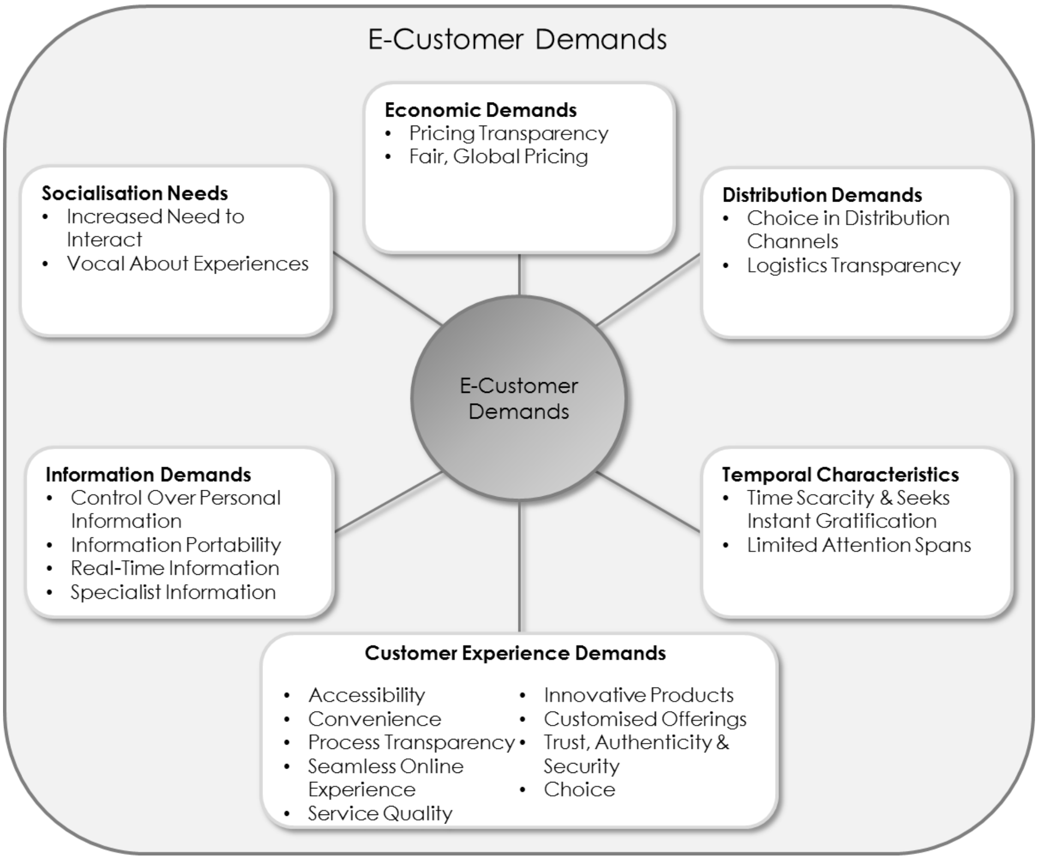


Figure 3.13 – E-Customer Demands

3.4.3. Antecedents of E-Loyalty

"E-loyalty will continue to be a key success factor in e-commerce. Building and maintaining e-loyalty will be a challenge in the highly competitive and fickle world of online shopping. Understanding the drivers and dynamics of how customer loyalty is developed and maintained in cyberspace with the help of an integrated theoretical framework is critical to developing future marketing strategies in this area." –

(Gommans, Krishnan, & Scheffold, 2001, p. 54)

Loyalty in retail refers to the characteristic where people exhibit repeat purchase behaviour (Yang & Peterson, 2004, p. 802; Srinivasan, *et al.*, 2002, p. 41; Czepiel & Gilmore, 1987). Some researchers suggest however, that such a definition is insufficient, as it only accounts for behavioural aspects that do not distinguish between true loyalty and false loyalty that result for example, from a lack of other alternatives (Srinivasan, *et al.*, 2002, p. 42; Clarke, 2001, p. 162). From an attitudinal perspective, loyalty can also refer to the desire to continue a relationship (Yang & Peterson, 2004, p. 802; Czepiel & Gilmore, 1987). The problem, however, is that intention does not necessarily lead to action, and repeated action does not reflect intentions (Yang & Peterson, 2004, p. 802). True loyalty requires both a behavioural and an attitudinal dimension. The study therefore makes use of Srinivasan *et al.*'s (2002, p. 42) definition of e-loyalty as "a customer's favourable attitude toward the e-retailer that results in repeat buying behaviour".

Benefits of being loyal include reducing customers' search costs for locating and evaluating alternative offerings, and avoiding the learning process involved with switching to a new vendor (Yang & Peterson, 2004, p. 802). From a business perspective, benefits of loyal customers are that they purchase more, are more likely to forgive company mistakes, have a decreased sensitivity towards price and also spread positive word-of-mouth reviews about the company (Zhou, Dai, & Zhang, 2007, p. 55; Yang & Peterson, 2004, p. 802; Gommans, Krishnan, & Scheffold, 2001, p. 42; Reichheld & Schefter, 1996). Additionally, strong customer loyalty serves as a barrier to new entrants and provide synergistic advantages of brand extensions into related product or service categories (Gommans, *et al.*, 2001, p. 43; Reichheld & Schefter, 1996).

The creation of loyal customers in e-business is a daunting task. Millions of websites are simultaneously clamouring for attention, and as competitors are only a few mouse-clicks away, customers can easily compare and contrast offerings with minimal effort (Srinivasan, *et al.*, 2002, p. 41; Gommans, *et al.*, 2001, p. 46). There is also a widely held belief that customers in the e-space are very fickle natured and that they quickly flock to the next newest idea (Reichheld & Schefter, 2000, p. 106). Reichheld and Schefter's (2000, p. 106) research has conversely shown that this belief does not hold true and that the Internet is actually a very "sticky" space. Most customers exhibit a clear inclination towards loyalty and companies who can correctly utilise web technologies will be able to reinforce their customer loyalty (Reichheld & Schefter, 2000, p. 106). This section therefore sets about the task to identify those marginally actionable factors that impact e-loyalty.

3.4.3.1. Common E-Loyalty Drivers

The most common way that researchers approach the task of identifying e-loyalty drivers, is to utilise factor analysis and correlation analysis to uncover those factors that have a direct or indirect correlation with e-loyalty (Wolfinbarger & Gilly, 2003, p. 185). The results from different authors vary drastically. As such, there is yet no consensus regarding a common set of determinants of e-loyalty. The factors that most literature cite however, are (1) e-service quality, (2) e-trust, (3) perceived value and (4) e-satisfaction (Arya & Srivastava, 2012, p. 148).

A reason for the discrepancy in loyalty factors is firstly because the research focuses are often different. This leads to heterogeneity in the samples as well as the methodologies employed by authors (Arya & Srivastava, 2012, p. 154; Wolfinbarger & Gilly, 2003, p. 185). Secondly, different customers have different needs and different purposes for visiting websites. Therefore, as needs change the factors that influence customers also change (Arya & Srivastava, 2012, p. 154). Nevertheless, for this study's purposes it was not necessary to find or determine the absolute best, most highly correlated e-loyalty antecedents, and a more general collection of factors would suffice.

Figure 3.14 below displays some typical e-loyalty models.

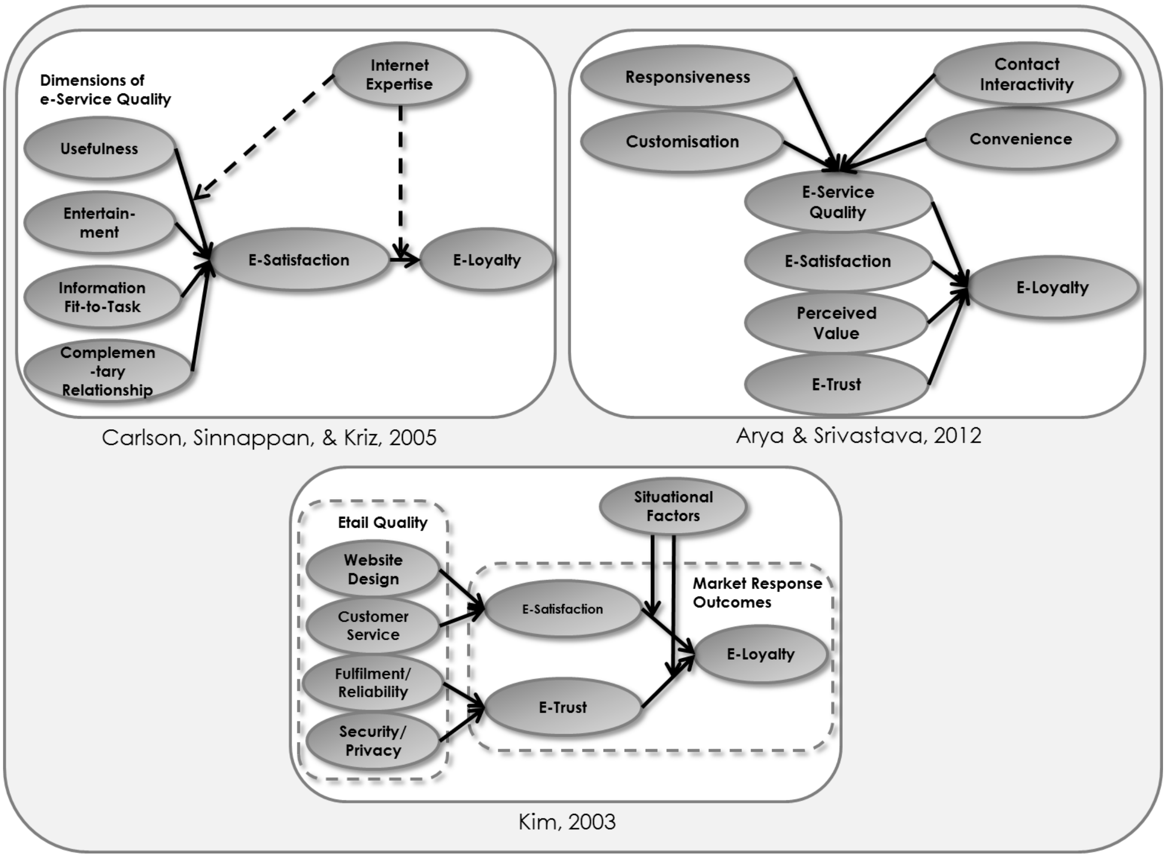


Figure 3.14 – Different E-Loyalty Models (Kim, 2003, p. 19; Carlson, Sinnappan, & Kriz, 2005, p. 2; Arya & Srivastava, 2012, p. 149)

Covering the important definitions, ***perceived value*** refers to the customer's overall assessment of the value offered by the website (Arya & Srivastava, 2012, p. 151). It is the net utility derived from a provider, based on the customer's evaluation of the relative rewards and sacrifices associated with an offering. Customers thus evaluate what is fair, right, or deserved in relation to the perceived cost of the offering. These costs or sacrifices may be monetary, but may include non-monetary sacrifices, such as time, energy and stress experienced. Consequently, customers will perceive a product as valuable when they evaluate their ratio of output to inputs to be aligned with that of the company's ratio, benchmarked against industry offerings. (Yang & Peterson, 2004, pp. 802, 803)

Customer satisfaction can refer to either transaction-specific satisfaction or over-all satisfaction. Transaction-specific satisfaction refers to an emotional response by the customer to the most recent transactional experience with the company, whereas over-all satisfaction refers to a customer's cumulative impression of the company (Gustafasson, Johnson, & Roos, 2005, p. 210; Yang & Peterson, 2004, pp. 804, 805). The latter typically serves as a better predictor of customer loyalty. In this study customer satisfaction is therefore defined as the over-all negative or positive feeling regarding the net value derived from a supplier (Yang & Peterson, 2004, pp. 804, 805).

E-service quality can be defined as the extent to which e-customer needs are fulfilled (Arya & Srivastava, 2012, p. 150). Otherwise stated, e-service quality refers to the extent to which a website facilitates efficient and effective shopping, purchasing, and delivery of products and services (Valvi & Fragkos, 2012, p. 31). ***E-trust*** on the other hand, refers to the confidence of customers in the website's reliability and integrity (Arya & Srivastava, 2012, p. 151; Valvi & Fragkos, 2012, pp. 31, 32). It can also refer to the confidence that a company can be relied on to serve the best interests of customers (Mascareigne, 2009, p. 9).

Related to the above-mentioned factors is the model of Valvi and Fragkos (2012, p. 26), who conducted a critical review of e-loyalty literature, spanning 217 academic papers. Their conceptual framework for e-loyalty is depicted in Figure 3.15 below. In this model, the pre-purchase stage variables do not directly influence e-loyalty. During-purchase factors on the other hand affect both e-loyalty and after-purchase factors. Lastly, after-purchase factors directly affect e-loyalty.

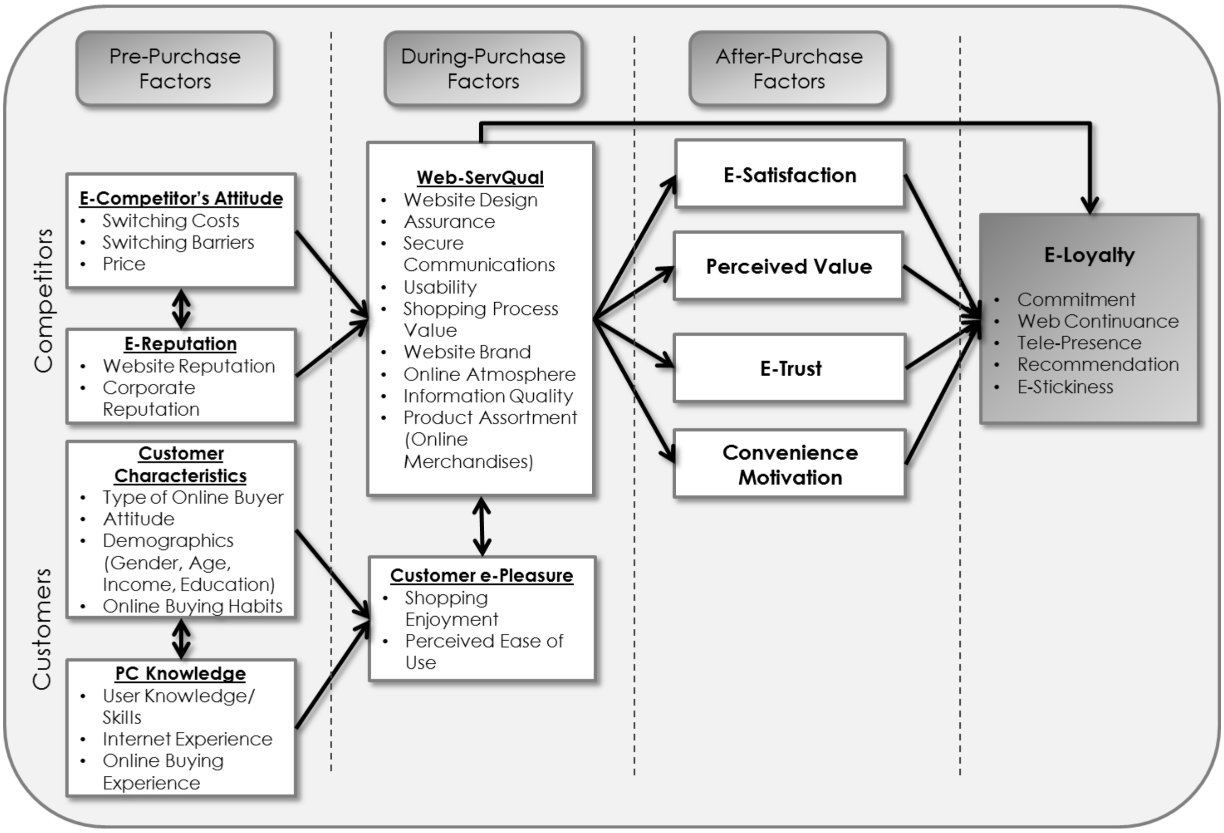


Figure 3.15 – Conceptual Framework of Antecedents Leading to E-Loyalty (Valvi & Fragkos, 2012, p. 27)

The pre-purchase phase consists of two groups of variables, namely competitor-related variables and customer variables. These in combination take the dynamic nature of the online market into account. The competitor-related variables include competitors' attitudes and reputation. ***Knowledge of competitors'***

attitudes is crucial to meaningfully employ factors such as switching costs or switching barriers, and price variations (Valvi & Fragkos, 2012, p. 28). ***Reputation*** on the other hand sustains competitive advantages and is very important in online business. Caruana and Ewing (2010, p. 1104) stated that "many customers have difficulty remembering even prominent websites and are reluctant to pay for products from online retailers they know little about. Thus, a strong corporate reputation can be a major asset to online retailers". The second group of variables deals with customers' specific unchangeable characteristics and their PC knowledge. ***Customer characteristics*** are constants that make up a customer's profile. These cannot be altered and need to be accounted for. Carlson, Sinnappan and Kriz (2005) noted that ***a user's Internet expertise*** determines how they perceive e-service quality and it therefore influences their satisfaction, loyalty and online buying behaviour.

For the during-purchase factors, e-service quality and customer pleasure (e-enjoyment) are very important. These two groups of factors are interrelated, as web service quality can affect customer enjoyment and vice versa (Valvi & Fragkos, 2012, p. 30). Key factors that affect ***e-service quality*** include customisation, responsiveness, usability, contact interactivity and convenience (Arya & Srivastava, 2012, p. 149; Valvi & Fragkos, 2012, p. 31). In addition to this, Reichheld and Schefter (2000, p. 112) stated that old-fashioned, customer-service basics such as quality customer support, on-time delivery, compelling product presentations, convenient and reasonably priced shipping and handling, and clear, trustworthy privacy policies are essential online. ***E-pleasure*** occurs when a customer's expectations for quality are exceeded. A strong correlation has been found between enjoyment and customers' repurchase intentions, making e-pleasure an antecedent of e-loyalty (Valvi & Fragkos, 2012, p. 31).

Lastly, after-purchase factors are comprised of e-satisfaction, perceived value, e-trust and convenience motivation. ***Satisfaction*** is by far the factor that is the most discussed in the literature in relation to e-loyalty, and most studies find a significantly positive link between these (Valvi & Fragkos, 2012, pp. 31, 32). Some authors have argued, however, that the relationship between satisfaction and loyalty is not linear (Balabanis, Reynolds, & Simintiras, 2006, p. 221; Oliver, 1999, p. 33). Satisfaction does not necessarily lead to loyalty, nor does loyalty necessarily point towards satisfaction. Others conversely state that customer satisfaction used to be a key metric to understand customer loyalty, but that today it can only be seen as a minimum requirement to enter an industry (Clarke, 2001, p. 160). Regardless of the perspective used, customer satisfaction remains pivotal.

Perceived value is related to concepts such as perceived usefulness, benefits, usability, overall utility and the ratio of outcomes to inputs. Perceived value is critical to loyalty, as customers who perceive that they are not receiving the best value for money will start to consider alternatives (Valvi & Fragkos, 2012, p. 33; Anderson & Srinivasan, 2003, pp. 132, 133). Kim and Mauborgne (2000, p. 132) stated that in the past companies could launch products aimed at novelty-seeking, price-insensitive buyers and then over time drop prices to attract mainstream buyers. In the new economy it is no longer possible to test the market in this way anymore. A company's reputation and customer loyalty have to be earned on day one, as brand building relies heavily on word-of-mouth recommendations that spread rapidly through the networked economy. Furthermore, people often make inferences about the value of a product from its price, which affects their willingness to pay (Welch, 2010, p. 4). Products must therefore be positioned carefully.

Another important factor is switching costs. ***Switching costs*** are positively associated with e-loyalty, but the effect of switching costs varies at different levels of customer satisfaction and perceived value. At low levels of customer satisfaction or perceived value, switching barriers have less of an effect on e-loyalty than when these factors are high (Balabanis, Reynolds, & Simintiras, 2006, p. 221; Yang & Peterson, 2004, p. 818). It can be reasoned that if customer satisfaction or perceived value is low, then a customer's current needs may possibly not be fulfilled sufficiently, meaning that switching costs plays a marginal role in determining whether they will switch to a new supplier who is able to fulfil their needs. At a moderate satisfaction level, economic switching barriers and loyalty programmes are more effective than when customers are highly satisfied. Finally, when satisfaction is high, emotional switching barriers are more effective. (Balabanis, Reynolds, & Simintiras, 2006, pp. 221, 222)

Similarly, ***e-trust*** positively and directly affects loyalty, as trust affects a customer's intent to purchase or repurchase (Valvi & Fragkos, 2012, pp. 31, 32; Sumanjeet, 2005, pp. 2, 3; Anderson & Srinivasan, 2003, pp. 132, 133; Gommans, *et al.*, 2001, p. 47). Trust is essential in online business, where business is conducted at a distance and risk and uncertainties are magnified. Jack Brennan from Vanguard stated that "Trust is our number one asset at Vanguard. We recognise you cannot buy trust with advertising or salesmanship; you have to earn it – by always acting in the best interests of customers. We did not design our website to sell more products and services. We designed it to educate our customers and provide better and more timely information and advice so that they can make better decisions" (Reichheld & Schefter, 2000, p. 108).

Finally, different customers have different motivations for shopping online. ***Convenience*** as one of them has shown to have a direct impact on e-satisfaction and e-loyalty (Vlavi & Fragkos, 2012, p. 33; Mafé & Navarré, 2010, p. 19; Rohm & Swaminathan, 2004; Anderson & Srinivasan, 2003, pp. 132, 133). Convenience can be defined as the extent to which customers experience a website as simple, intuitive, and user friendly. It also includes factors that affect ease of use, saves time, makes browsing easy and minimise customer efforts (Arya & Srivastava, 2012, p. 150; Srinivasan, *et al.*, 2002). Reichheld and Schefter (2000, pp. 107, 110) found that the majority of online shoppers are not bargain hunters who want the absolute minimum price. Rather, the majority of customers seek convenience and use the Internet to make their lives simpler and easier. Balabanis *et al.* (2006, pp. 221, 222) further found that ensuring the absolute lowest price is not necessarily essential, but a desirable package of payment options and price is. Conversely, a study by Jayawardhena, Wright and Dennis (2007, p. 521) found that price sensitive shoppers were the largest customer segment, with convenience oriented shoppers being the second largest. This inconsistency however, has not adversely affected this study. The take-out is that both these factors are important.

Considering other online shopping motivations, Korgaonkar and Wolin (1999, pp. 56-59) suggested that social escapism, security and privacy concerns, information needs, interactive control, socialisation and economic benefits are factors that drive consumers to engage online. Mafé and Navarré (2010, pp. 19, 20) posited that the most significant factor that motivates non-online shoppers the most to start shopping online, is the information that can be gained to assist purchasing decisions. Similar evidence is provided by the fact that users who are more experienced at shopping online have a greater ability to find information, and as a result have more satisfactory online experiences (Valvi & Fragkos, 2012, p. 29).

3.4.3.2. The 8C E-Loyalty Model

Srinivasan *et al.* (2002) conducted empirical research on 1211 online customers and proposed that eight factors potentially impact e-loyalty in the business-to-consumer (B2C) context. These factors are shown in Table 3.6 below.

Table 3.6 – E-Loyalty Factors (8C's) (Srinivasan, Anderson, & Ponnavolu, 2002, p. 42)

E-Loyalty Factors (8C's)	
1. Customisation	5. Community
2. Contact interactivity	6. Choice
3. Cultivation	7. Convenience
4. Care	8. Character

Customisation refers to the ability to tailor products, services and the transactional environment to individual customers (Arya & Srivastava, 2012, p. 151; Srinivasan, *et al.*, 2002, p. 42). Srinivasan *et al.* (2002, p. 42) described customisation as being contingent on the ability of a website to recognise individuals and then tailoring the shopping experience for them. These authors are therefore actually referring to personalisation, which is individualisation initiated by the e-business; rather than customisation, which is individualisation initiated by customers (Amit & Zott, 2001, p. 506). Regardless, personalisation can influence customer loyalty as it eases navigation, minimises customers' search time, facilitates a match between customer needs and product offerings, reduces frustration, and creates the perception of increased choice and higher product quality (Srinivasan, Anderson, & Ponnavolu, 2002, p. 42). Hagel and Armstrong (1997, p. 7) added that "Consumers appreciate – and often pay premium prices for – the customised products and services companies can deliver when making thoughtful use of personal information".

Collecting information about customers is critical because it enables companies to target their most valuable customers more effectively, identify opportunities for new products and services, improve customer satisfaction and also retention (Hagel & Armstrong, 1997, p. 4). A perk of online business is that it is possible to track customers, their behaviour, their purchase history and preferences much more easily than in offline business. In the offline world, a record of customer behaviour is only created when a purchase is made. However, in virtual stores, customers can be monitored click by click, to see how they navigate and respond. A much more holistic view of customers can therefore be generated. (Reichheld & Schefter, 2000, pp. 110, 111) Furthermore, companies' knowledge of customer preferences and needs are continuously updated and improved as more interactions take place. This decreases the incentive for customers to defect to competitors who need to build such a database from scratch (Srinivasan, Anderson, & Ponnavolu, 2002, p. 43).

Contact interactivity refers to the dynamic nature of the customer and website engagement. Srinivasan *et al.* (2002, p. 42) defined it as the availability and effectiveness of customer support tools and the degree to which bidirectional communication and tailored communications with customers can be facilitated. Typical features of contact interactivity include ease of navigation and product/service search, sufficient product information, product comparison tools and a timely response to queries (Lociacono, Watson, & Goodhue, 2002, pp. 19, 20). High levels of contact interactivity lessens the burden placed on customer memory and increases the amount of information that can be provided to customers (Srinivasan, Anderson, & Ponnavolu, 2002, pp. 42, 43).

Cultivation refers to the frequency of relevant information and cross-selling offers provided to customers. Cross-selling refers to the selling of related offerings (possibly via partners) to existing customers. Cultivation is aimed at encouraging customers to increase their breadth and depth of purchases over time. Ways in which to cultivate customers is to reach out to them via email, alerting them of promotions and new offerings, and providing them with useful information that would otherwise be difficult for them to obtain. Cultivation increases loyalty, as it reduces the likelihood of customers doing additional searches for products at other sites (Mascareigne, 2009, p. 65; Srinivasan, *et al.*, 2002, p. 43). Cultivation also serves to remind customers of services that are being provided, that customers are often oblivious of under normal circumstances, and they only notice when there is a lack of service delivery. Reminding customers of these services is critical, so that the occasional accident fades in relative importance (Levitt, 1981, p. 100).

Care refers to the efforts made by the company to minimise disruptions in service. It involves the attention that is paid to the pre- and post-purchase customer interface activities that facilitate transactions and customer relationships; promptly preventing or resolving breakdowns in service; and the extent to which customers are kept informed about the availability of preferred products and the status of their orders (Arya & Srivastava, 2012, p. 152; Srinivasan, *et al.*, 2002, p. 43). Service failures reduce loyalty as it lowers customer perceptions of service quality, making repeat purchases less likely (Srinivasan, Anderson, & Ponnavolu, 2002, p. 43). Exhibiting proper care is therefore critical in e-business, as breakdowns and hence customer complaints, have more severe repercussions online due to the extended reach that this medium provides (Zhou, Dai, & Zhang, 2007, p. 55). Poleretzky (1999, p. 76) stated that, "In the physical world, if I make a customer unhappy, they'll tell five friends, on the Internet they'll tell 5 000".

On the other hand, the positive effect of word-of-mouth referrals and recommendations is also amplified by the Internet. Not only does word-of-mouth serve as free advertising, but it also lessens the need of customer service agents, as people tend to rely on other customers for advice rather than making use of a support desk (Reichheld & Schefter, 2000, p. 107). Furthermore, referred customers are also much more loyal than those who were enticed through promotional discounts and general, untargeted advertising (Reichheld & Schefter, 2000, p. 110). In effect, a reinforcing loop is therefore created.

Virtual communities refer to online social entities that consist of existing and potential customers that are organised and maintained by the company to facilitate the exchange of opinions and information regarding current offerings and related matters. Users can for instance review and recommend products to one another. As this knowledge repository of information grows, the site learns more about its users while users are provided with an incentive to return, gain from and add to this knowledge repository. All of these factors can increase the perceived value of the site, as well as give users a feeling of increased choice and control. Furthermore, virtual communities facilitate word-of-mouth, ease decision making for community members who draw on the knowledge of other members, and often also create a sense of belonging, making such communities a very good breeding ground for fostering strong relationships. (Srinivasan, Anderson, & Ponnavolu, 2002, pp. 43, 44)

Choice refers to the range or scope of products and services that are offered. A wide variety of offerings give customers a wider choice. Srinivasan *et al*. (2002) noted that traditional retailers are constrained by warehouse floor space and costs in the variety of products that they can offer, whereas e-businesses are not limited in the same way. E-businesses can make use of a wide partner network and coordinate their back-end processes to deliver customers seamless access to an entire range of products offered by their alliances. Many consumers value one-stop shopping, and in this way enhanced choice increases convenience, reduces search costs and can thus stimulate e-loyalty. (Wolfinbarger & Gilly, 2003, p. 197; Srinivasan, *et al.*, 2002, p. 44; Vrechopoulos, *et al.*, 2001)

Convenience is a very broad quality, but Srinivasan *et al.* (2002, p. 44) defined it as the extent to which customers feel that the website is simple, intuitive and user-friendly. It also has to do with the way that information is presented, searched for and accessed, and the simplicity of the transaction process. Their definition therefore relates more to interface convenience than over-all convenience. Schaffer (2000, p. 174) stated that 30 percent of users who do not purchase anything on a website, do so because of navigational difficulty. Information must thus be located in a logical place, in a meaningful format, whilst not being buried too deeply within a website. Furthermore, a convenient website will have a short response time, 24 hour access, facilitate fast and efficient transactions, and minimise customer effort and mistakes. These all add to making the customer experience more satisfying. (Wolfinbarger & Gilly, 2003, p.

197; Srinivasan, *et al.*, 2002, p. 44; Schaffer, 2000, p. 174)

What is strange about Srinivasan *et al.*'s (2002) research is that from the eight factors identified, they deemed convenience as having the least impact on e-loyalty. An explanation of this is that the interface convenience referred to in their study is closely linked to website quality, which is probably more of a qualifier to get into the market and hence will not foster strong loyalty bonds. As such, lacking this type of convenience can be disastrous, making it an even more important factor rather than deeming it less so.

Lastly, ***character*** refers to the overall image, personality or brand that the e-business projects to customers. Companies can employ creative website design involving different text fonts, styles, graphics, colours, logos, slogans and themes to create a unique website personality. The goal of this is to create a website that emotionally appeals to customers, and evokes shared associations, positive shopper attitudes, enhances website recognition, builds a positive reputation and consequently leads to e-loyalty. (Srinivasan, *et al.*, 2002, pp. 44, 45; Lociacono, *et al.*, 2002, pp. 19, 20)

3.4.3.3. Gommans' E-Loyalty Framework

Gommans, Krishnan, and Scheffold (2001) proposed an e-loyalty framework that suggests that issues relating to the value proposition, brand building, trust and security, customer service, and website and technology are the five main drivers of e-loyalty. Gommans *et al.*'s (2001) model was modified for use in this study by grouping some operational factors into new conceptual categories. The adapted model is shown in Figure 3.16 below, with the grouped factors being depicted with square bullets.

Considering the ***value proposition*** elements, customisation positively influences e-loyalty as it fosters strong affective bonds between the customer and the brand due to the high interactivity and customer involvement required in designing a customer's ideal product (Mascareigne, 2009, p. ii; Lociacono, *et al.*, 2002, pp. 19, 20; Gommans, *et al.*, 2001, p. 49). High customer involvement in conjunction with a variety of well-known, high quality brands, and product guarantees also increases the probability that product performance will meet customer expectations (Gommans, Krishnan, & Scheffold, 2001, pp. 46, 49). Lastly, as competitors are within easy reach online and price comparisons are easier to do, being within a competitive price range is important for developing and maintaining customer loyalty in e-business (Gommans, *et al.*, 2001, p. 49; Reichheld & Schefter, 2000).

Regarding ***trust and security***, it is widely believed that transactional security and overall concerns for privacy are some of the most significant issues that discourage people from shopping online (Mascareigne, 2009, p. 21; Sumanjeet, 2005, pp. 2, 3; Wolfinbarger & Gilly, 2003, p. 183; Gommans, *et al.*, 2001, p. 50; Korgaonkar & Wolfin, 1999, p. 56). The other fact, as shown by behavioural economics, is that people are more concerned about negative consequences than they are about equal potential benefits (Welch, 2010, p. 3). Therefore, in the online environment customers are more concerned about perceived risks than they are with perceived gains (Zhou, *et al.*, 2007, p. 54; Bhatnagar & Ghose, 2004). This amplifies the importance of reducing online shopping uncertainty and risk to create e-loyalty.

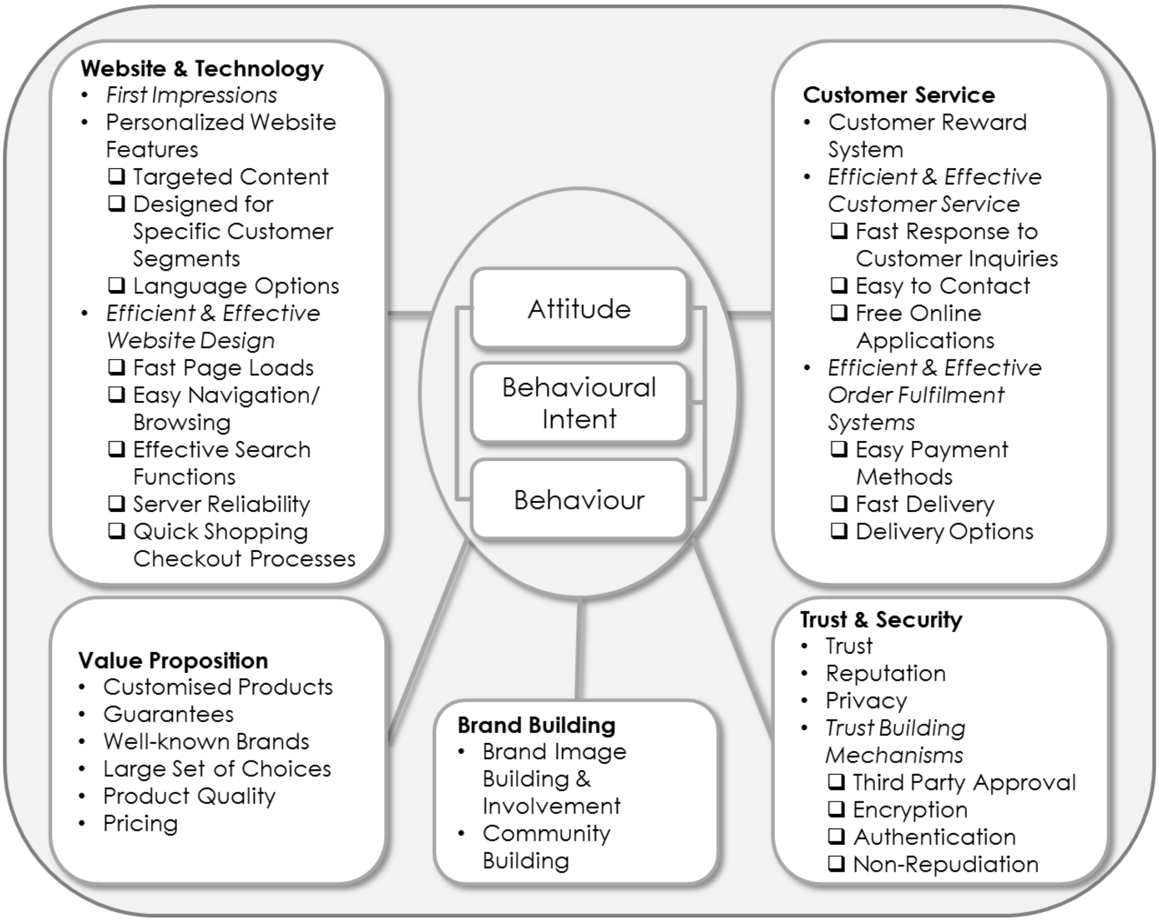


Figure 3.16 – Adapted E-Loyalty Framework (Gommans, Krishnan, & Scheffold, 2001, p. 48)

E-businesses can enhance customer trust through trust building mechanisms such as encryptions, authentication mechanisms, displaying terms and conditions on the site, disclosing their performance history and by making use of third party privacy and security approvals (Sumanjeet, 2005, p. 10; Gommans, *et al.*, 2001, p. 50). Encryptions serve to secure data transmissions, whereas authentication (most commonly enforced via passwords) verifies the identity of the participants in the electronic contact. Additionally, to prevent repudiation, where a customer rejects or claims that a transaction is void, companies should maintain an authentic transcript of the specific terms and conditions of the contract agreed to by both parties. Lastly, third party service companies such as VeriSign, TRUSTe or digicert should be used to authenticate the identity of the website, and assures that certain standards of consumer privacy and transactional security are met. (Gommans, Krishnan, & Scheffold, 2001, p. 50)

Companies can additionally create a trusting relationship with customers by consistently providing a seamless, high quality e-commerce experience (Summanjeet, 2005, p. 10; Lee & Vonortas, 2004, p. 175), as it appears as if new customers initially make inferences about the security and privacy of the website from other website design factors, such as a professional look and feel, functionality and company reputation.

Professional sites that are user friendly are therefore perceived as having gained enough resources and investments to deliver a secure site, which inspires greater consumer trust. (Wolfinbarger & Gilly, 2003, p. 196)

Regarding the ***brand*** aspect of Gommans' (2001) e-loyalty framework, Levitt (1981, p. 98) stated that when products cannot be experienced fully before purchase, consumers are essentially asked to buy promises of satisfaction. This requires trust. "Common sense tells us, and research confirms, that people use appearances to make judgements about realities" (Levitt, 1981, pp. 96, 97). Users translate appearance into confidence about performance. Packaging is therefore a key element. Tangible reassurance surrogates have to be provided for that which cannot be directly experienced before purchase. A great looking an inviting website is therefore extremely important in convincing potential customers to become paying customers (Goldstuck, 2012). Additionally, brand building is critical in e-business as customers are faced with an immense number of competitive choices online. Aspects of brand building, such as domain names that are easy to remember, and targeted web content, and even virtual communities play a vital role in enhancing the overall brand image of a website (Gommans, *et al.*, 2001, pp. 47, 49; Reichheld & Schefter, 2000, p. 108).

Considering the ***website and technology*** element, first impressions created by a website and its ease of use are critical to creating e-loyalty (Luarn & Lin, 2003, p. 162; Gommans, *et al.*, 2001, p. 51). As mentioned above, image is very important. Sites that initially disappoint will not necessarily be granted a second chance. Factors that influence ease of use include ease of navigation, ease of understanding, intuitive operations, website design and structure, efficient search functions, efficient shopping and checkout processes, simple payment systems, customisable language settings and other personalised interfaces. The latter mentioned again highlights that websites should be designed with a specific customer segment in mind and deliver relevant, possibly local or cultural-specific content to those customers (Lociacono, *et al.*, 2002, pp. 36, 64-65; Gommans, *et al.*, 2001, pp. 50-52). Hutt, Le Brun, and Mannhardt (2001, p. 12) stated that it is content, above all, that attracts consumers to a website and persuades them to return. Technical issues such as fast page loads, fast response times and server reliability can also influence e-loyalty (Lociacono, *et al.*, 2002, pp. 36, 64, 65; Gommans, *et al.*, 2001, pp. 50-52).

Lastly, ***customer service*** also significantly influences e-loyalty. The difficulty however, is that customer service spans several channel phases. Attention therefore need to be paid to each of those phases. During the logistics phase for instance, Gommans *et al.* (2001) stated that a variety of delivery options, such as direct shipment or collection from physical premises should be available, while delivery itself should be fast and efficient. During the purchasing or after-sales support phase customer service functions such as links to frequently asked questions (FAQs) and links to online representatives that can assist customer purchasing decisions are also important. Furthermore, although online assistance is useful, offline support in the form of a toll free phone number can also alleviate many customer grievances. Fast responses to email inquiries, installing customer reward systems and generally making it easy for customers to initiate contact with the company are also key to customer service. (Gommans, Krishnan, & Scheffold, 2001, p. 52)

3.4.4. Customer Retention Framework Requirements

Aligned with the systems engineering process, two broad customer retention framework requirements emerge from this section that need to be reflected by the framework and are depicted in Figure 3.17 below. Firstly, the framework must address e-loyalty antecedents as loyalty is key in retaining customers and becoming profitable. Secondly, the framework must address switching costs that make even non-attitudinally loyal customers behaviourally loyal, additionally aiding in the sustainability of the business.

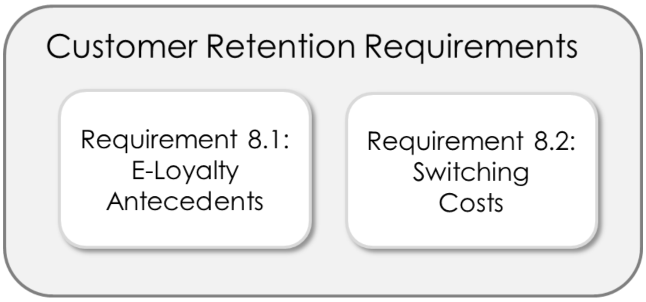


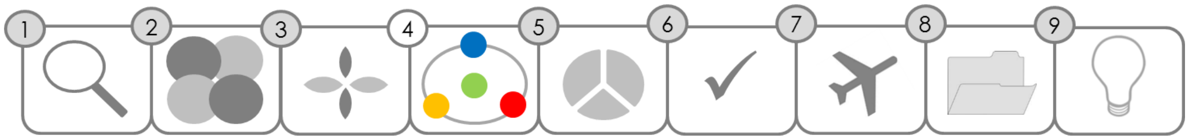
Figure 3.17 – Customer Retention Framework Requirements

3.5. Chapter 3 Conclusion

This chapter introduced four additional research domains of interest. The fundamentals of e-business strategy section discussed strategy's applicability in the e-domain, the effect of the Internet on the competitive environment, and e-business pitfalls and imperatives. The business model innovation section dealt with business disruption, growth and sustainability. The e-value creation section investigated sources of e-value creation. Finally, the customer retention section addressed e-customer segmentation, customer relationships, and e-loyalty antecedents. Several framework content requirements also emerged from this chapter and these will subsequently be used to develop the competitive strategy framework.

4. Developing the Competitive Strategy Framework for E-Business Start-Ups

This chapter partially realises the intent of the study by developing the core structure of the competitive strategy framework. This chapter investigates the principles of good theoretical models, reviews the framework's content requirements and documents the development process of the competitive strategy framework.



4.1. Introduction

This chapter sets about the task to develop a framework that is able to assist e-business start-up competitive strategy formulation. This chapter deals with the second step of the systems engineering approach, as depicted in Figure 4.1 below.

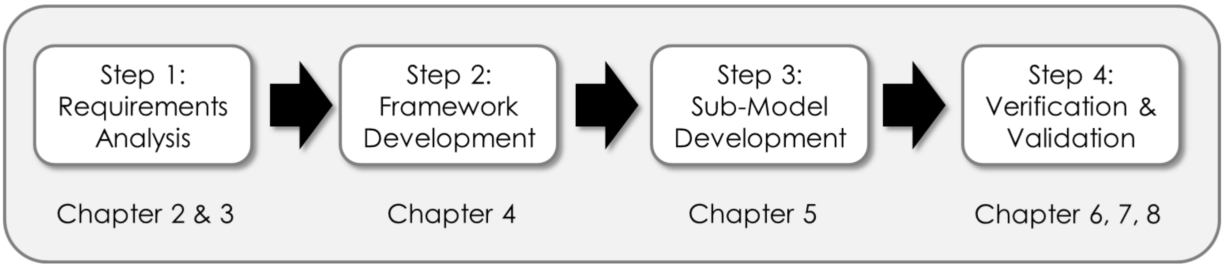


Figure 4.1 – Simplified Systems Engineering Approach

The requirements that the framework need to fulfil are firstly discussed, followed by a description of how the core structure of the competitive strategy framework was developed. This development process was largely guided by and sought to answer the following research questions:

1. What are the core conceptual elements of competitive strategy? (Uncovered in Chapter 2.4.4)
2. What sub-elements can assist the formulation of these core elements?
3. What relationships exist between these elements?
4. What possible sequence could these elements be formulated in?

Following the framework development, the sub-models of the framework will be described in Chapter 5, and their collective verification and validation thereafter in Chapter 6, 7 and 8.

4.2. Competitive Strategy Framework Requirements

The requirements that the competitive strategy framework and its sub-models have to adhere to are described below.

4.2.1. Theoretical Model Building Requirements

***"The outcome of research is new knowledge, obtained through an orderly, investigative process."* – (Swanson, 1997, p. 10)**

In Chapter 1 this study was deemed a theory building study. Theoretical and conceptual studies are aimed at developing new models and theories, or refining existing models and theories (Mouton, 2011, p. 177). New theories or models are developed to create new meaning; explain certain phenomenon; link theoretical propositions; check theoretical coherence; or to explain and predict outcomes (Mouton, 2011, p. 176). Dubin (1976) added that theories are developed because the real world is so complex that it has to be simplified to be understood.

Sutherland (1975, p. 9) described theory as "An ordered set of assertions about some generic behaviour or structure assumed to hold throughout a significant broad range of specific instances." Theory is thus about defining a set of constructs (concepts) in a certain domain and specifying the relationships among these, with the goal of explaining and predicting the phenomena (Mouton, 2011, p. 177; Gay & Weaver, 2011, p. 25; Osterwalder, 2004, p. 5; Wacker, 1998, p. 364; Torraco, 1997, Kerlinger, 1986, p. 45). Consequently, theory is often embodied in the form of a model (Torraco, 1997).

A model is simply a conceptual or abstract representation of the phenomenon, environment, system, or entity (Camarinha-Matos & Afsarmanesh, 2008, p. 2457). Models can be presented at different levels of abstractions, ranging from very abstract models to models closely resembling the phenomenon. Furthermore, two models of the same phenomenon may be very different, due to different selected features, different requirements, different conceptual approaches, aesthetic preferences, and different past experiences. Therefore, clearly defining the purpose, scope and assumptions of a model is crucial. (Mouton, 2011, p. 177; Camarinha-Matos & Afsarmanesh, 2008, p. 2457)

Moreover, model building is founded on what is known in areas closely related to the topic investigated (Torraco, 1997). As such, the theoretical models developed in this thesis relate to the preceding literature domains, again shown in Figure 4.2 below.

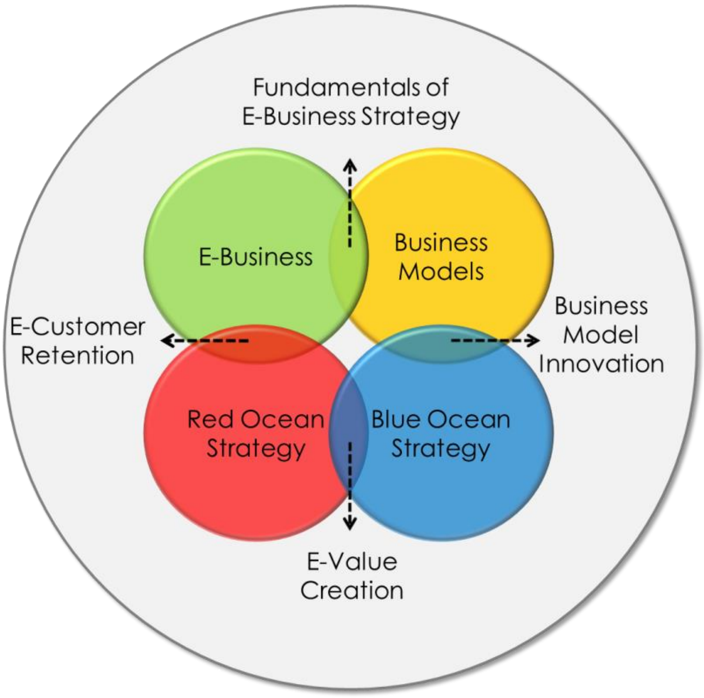


Figure 4.2 – Research Disciplines

Regarding the requirements of theory or model building, Dubin (1976, p. 26) noted the following features of the theory building process:

1. The variables that are the subject of interest are specified, and imaginary variables that have not previously existed may be created;
2. The relationship or interaction between the variables are described or shown;
3. The boundaries of the theory are clearly defined;
4. The system states within which the theoretical model operates must be specified;
5. Propositions based on logical deductions about the model are specified.

Whetten (1989, pp. 490-492) stated that four elements can be used to judge the completeness of a theory:

1. **What** does the model include? Which factors (variables, constructs and concepts) should logically be considered as part of the explanation of the phenomena of interest? A further two aspects inform judgment on the extent to which the "right" factors have been included:
    a. Comprehensiveness, namely whether all the relevant factors are included;
    b. Parsimony, thus whether some factors should be omitted because they add little additional value towards creating understanding.
2. Indicating **how** elements are related. This could be shown by using arrows to connect the different concepts. This step also creates order and indicates patterns and causality.
3. What underlying psychological, economic or social dynamics justify the selection of factors and their causal relationships? This element thus deals with **why** the selected factors were chosen, illuminates the theory's assumptions and seeks to explain the underlying logic of the model.
4. What are the boundaries of the theory? **Who** is involved? **Where** is the model applicable and **when** is it applicable? This element takes time dependent variables and the general context into account.

Furthermore, good theories and models have the following characteristics (Mouton, 2011, p. 177; Weick, 1989, p. 517):

1. They provide causal accounts of the world;
2. They allow predictive claims to be made, subject to certain conditions;
3. They are conceptually coherent, internally consistent and unambiguous;
4. They simplify the way of understanding the world;
5. They are testable;
6. They are based on valid assumptions;
7. They are plausible;
8. They are interesting, rather than obvious, irrelevant or absurd;
9. They are obvious in novel ways;
10. They provide a source of unexpected connections;
11. They are high in narrative rationality;
12. They are aesthetically pleasing; and
13. They are comparable with presumed realities.

This is similar to March and Smith (1995, p. 261) who stated that constructs are usually evaluated based on their completeness, simplicity, elegance, understandability and ease of use. These authors continued to state that models on the other hand are usually evaluated in terms of their fidelity with real world phenomena, completeness, level of detail, robustness and internal consistency.

Using these descriptions as a primary point of departure, several theoretical model building requirements were identified, as shown in Table 4.1 below. These framework requirements were broken down into three categories. The first category includes basic requirements that any basic theoretical model should fulfil. The purpose, scope and assumptions of a theoretical model should be defined; as well as its constructs, the relationships between these, and any propositions related to the model. Lastly, a theoretical model should create new meaning and have predictive power.

The second category deals with characteristics that good quality models often portray. This includes that they are fit for their intended use, meaning that they are relevant and possess utility. In this study, this aspect is further expanded and requires that the sub-models must make a direct strategic contribution to the sub-element that it belongs to, either in the form of describing the strategy content of the element, or facilitating the strategy formulation process. Additionally, good theoretical models are plausible, credible, comparable with presumed realities, conceptually coherent, internally consistent, and unambiguous. They also balance comprehensiveness and simplicity, are parsimonious, novel and have aesthetic appeal.

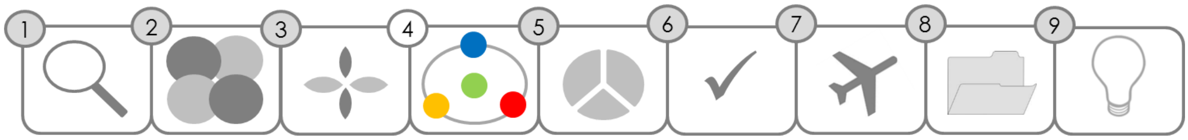
The third requirement category deals specifically with sub-models that are attempted to be included in the framework directly from literature. Here, the self-imposed requirements of these models (beyond those already mentioned) are that these sub-models must have proven academic merit (which relates to the credibility of the original author) and they must further have proven practical benefits. Only if these two requirements are met, do the existing models become eligible for direct inclusion.

Taken together, these requirements guided the framework and sub-model development and is further used in Chapter 6.2 for verification, to ensure that the developed and selected models conform to these requirements.

Table 4.1 – Theoretical Model Building Framework Requirements

Theoretical Model Building Framework Requirements										
Requirement	**Related Concepts**	(Mouton, 2011, pp. 176, 177)	(Torraco, 1997)	(Kerlinger, 1986, p. 45)	(Whetten, 1989, pp. 490-492)	(Dubin, 1976, p. 26)	(Camarinha-Matos & Afsarmanesh, 2008, p. 2457)	(March & Smith, 1995, p. 261)	(Weick, 1989, p. 517)	**Miscellaneous**
Theoretical Model Basic Requirements										
1. Define purpose, scope	Boundaries; system states	✓			✓ (Who, Where, When?)	✓	✓			
2. Define constructs		✓	✓	✓	✓ (What?)	✓				
3. Specify relationships		✓	✓	✓	✓ (How?)	✓				
4. Define assumptions		✓			✓ (Why?)		✓			
5. Specify propositions						✓				
6. Create new meaning and have predictive power		✓	✓	✓						
Theoretical Model Quality Requirements										
7. Fit for intended use										
7.1. Relevance	Sub-model relevant to the sub-element it needs to assist in formulating; relevant to the study as a whole; applicable	✓			✓		✓		✓	(Kuhne, 2005, p. 2)
7.2. Strategic contribution	Sub-model's direct contribution to sub-element • Strategy content related (preferred); • Strategy process related									Self-imposed requirement by author. Strategy content oriented models were given preference over strategy process oriented models, due to their ability to enhance cognition of users.
7.3. Utility	Fulfil the objective of the model; ability to solve the problem; usefulness; potency; individual and collective merit of elements							✓		(Gay & Weaver, 2011, p. 29; Kuhne, 2004, p. 2; Nunamaker & Chen, 1990, p. 90; Lewin, 1952, p. 169)
8. Basic quality requirements										
8.1. Plausible, credible, and comparable with presumed	Congruency with reality; good representation of the	✓					✓	✓	✓	(Dubin, 1976)

realities	phenomenon under investigation; makes sense; is sensible; appears truthful; face validity									
8.2. Conceptually coherent, internally consistent, and unambiguous	High in narrative rationality; logical order; not confusing	✓						✓	✓	(Gay & Weaver, 2001, p. 24; Fox & Gruninger, 1998, p. 113; Eisenhardt, 1989, p. 532)
9. Balances comprehensiveness and simplicity										
9.1. Comprehensiveness	Completeness; coverage of the domain; level of detail				✓			✓		(Fox & Gruninger, 1998, p. 115)
9.2. Simplicity and understandability	Simplify the way of understanding the world; accounts for the limit of human understanding capacity; aimed at start-ups; ease of use	✓						✓		(Fox & Gruninger, 1998, p. 115; Dubin, 1976, p. 26)
9.3. Parsimoniousness	Fulfil the objective of the model with the minimum amount of elements required; elements must be distinct and complementary and have minimal overlap				✓					(Gay & Weaver, 2011, p. 24; Eisenhardt, 1989, p. 532) It was the goal to include a minimum amount of sub-models in the framework, with at least one sub-model contained per sub-element.
10. Novelty and aesthetic appeal										
10.1. Novelty	Interesting, rather than obvious, irrelevant or absurd; obvious in novel ways; provide a source of unexpected connections; uniqueness	✓							✓	(Gay & Weaver, 2011, p. 24)
10.2. Aesthetic appeal	Elegance						✓	✓	✓	(Fox & Gruninger, 1998, p. 113)
Existing Sub-Model Additional Quality Requirements										
11. Academic merit of sub-model	Credibility of author									Self-imposed requirement by author.
12. Practical evidence of benefits of sub-model	Proven strategic worth									Self-imposed requirement by author.



4.2.2. Content Requirements

Following from the relevance requirement mentioned in the previous section, certain content requirements are needed to assure that the framework does indeed address the applicable subject matter. Throughout Chapter 2 and 3, the framework requirements related to the different literature sections were summarised at the end of each section. These requirements are reiterated in Figure 4.3 below.

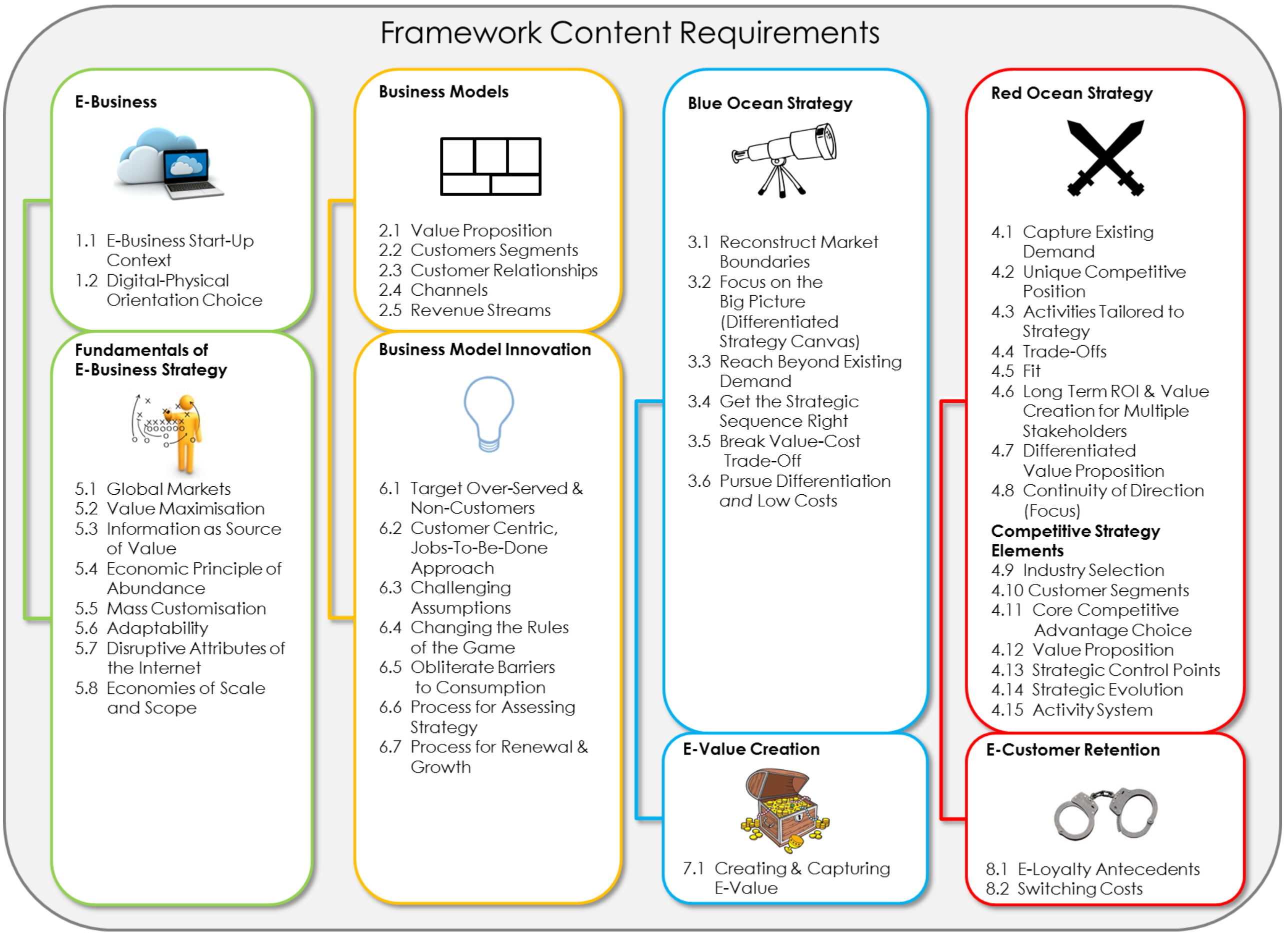


Figure 4.3 – Content Requirements for the Competitive Strategy Framework for E-Business Start-Ups

Briefly mentioning the origin of these requirements, the two e-business requirements reflect that the framework should be designed specifically for e-business start-ups, and that the start-up should be aware of its choice of position on the digital-physical continuum. Next, the five business model canvas requirements were taken directly from the right-hand (strategy formulation) side of the business model canvas (Figure 2.3). The first four blue ocean strategy requirements were taken from the six principles of blue ocean strategy (Table 2.6). Only the formulation principles were selected here, as this study does not include execution in its scope. The remaining two requirements then reflect the logic of value innovation (Kim & Mauborgne, 2004, p. 76).

For red ocean strategy, the first requirement reflects the fact that red ocean strategies compete in existing market space and therefore seek to capture the existing demand (Kim & Mauborgne, 2004, p. 72). The next four principles were taken from the alternative views of red ocean strategy (Table 2.8), with the remaining three principles being taken from the six principles of strategic positioning (Figure 2.19). Only three of the six principles were needed here, as the six principles of strategic positioning overlap with the alternative views of red ocean strategy. All the necessary elements were thus included.

Additionally, seven core elements of competitive strategy were identified as industry selection (outside scope of study), customer segments, a value proposition, an activity system (outside scope of study), strategic control points, strategic evolution and a core competitive advantage choice. These therefore also became key requirements of the framework.

Looking at the related secondary domains, the first five fundamentals of e-business strategy requirements were taken from Table 3.1, the old economy versus the new economy (Von Leipzig, 2012; Lee & Vonortas, 2004, p. 6). Adaptability has additionally been added to these to reflect the e-environment as a hyper-competitive, fast changing, dynamic environment that requires continuous adaption to fend off competitors and maintain one's competitive advantage (Mansfield & Fourie, 2004, p. 37; Lee & Vonortas, 2004, p. 167; Brown & Eisenhardt, 2002; Van der Heijden, 2001, pp. 16, 17). The disruptive attributes of the Internet and economies of scale and scope (Lee & Vonortas, 2004) were also deemed necessities in e-business and were added as requirements.

For business model innovation, the first requirement was derived from Christensen *et al*.'s (2002, pp. 22-24) two disruptive growth strategies, namely creating a new market that can serve as the basis for disruption (non-customers) or disrupting the prevailing business model from the low end (over-served customers). The next four requirements emerged as principles or attitudes often adopted to successfully accomplish business model innovation (Schwartz, 2012; Anthony, 2008; Johnson, *et al*., 2008, p. 62; Christensen *et al*., 2002). Next, the need for a process for assessing the developed strategy also implicitly emerged from the business model innovation literature (Johnson, *et al*., 2008, pp. 58-65; Christensen, *et al*., 2002, p. 24; Drucker, 1994, p. 100). Lastly, the need for a process of renewal and growth to create an nurture new growth businesses were also identified (Christensen & Overdorf, 2000, pp. 30, 73; Bower & Christensen, 1995, p. 49).

The only e-value creation requirement identified was the necessity to create and capture customer e-value. This implicitly involves uncovering the sources of e-value creation. Lastly, for customer retention the framework must address e-loyalty antecedents as loyalty is key in retaining customers and becoming profitable. The framework must also address switching costs that make even non-attitudinally loyal customers behaviourally loyal, aiding in the sustainability of the business.

These content requirements will be used in Chapter 6 to verify that the framework addresses at least the relevant content. Furthermore, these requirements can be represented in various different ways, as they originate from such a diverse background. One way to represent them is to categorise them into specific functional categories as shown in Figure 4.4 below. The functional categories that were created to establish a higher level of order include contextual requirements, target market requirements, structural requirements, competitive approach requirements, strategy formulation sequence requirements, ideal strategic output principles and robustness principles.

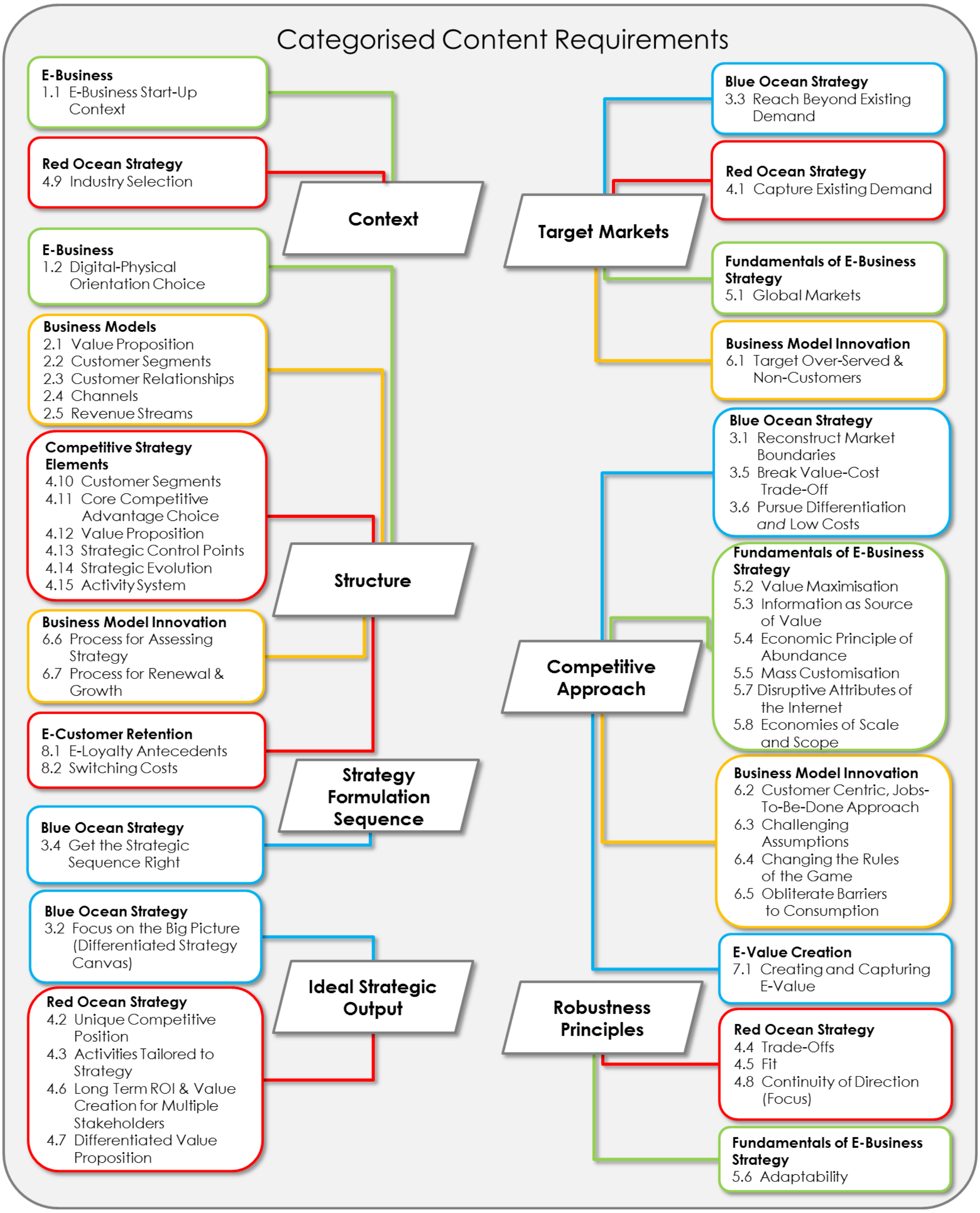
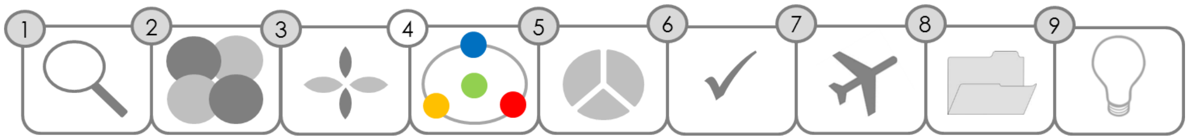


Figure 4.4 – Categorised Framework Content Requirements

This categorisation serves a dual purpose. Firstly, it aided the author's logic in developing the competitive



strategy framework for e-business start-ups and pairing it with the sub-models described hereafter in Chapter 5. Secondly, it clearly shows that the competitive strategy framework is intended to present an integrated view of the chosen domains.

4.3. Developing the Competitive Strategy Framework for E-Business Start-Ups

"A theoretical model is limited only by the imagination of the theorist" **– (Dubin, 1976, p. 26)**

The competitive strategy of a business refers with how the business intends to compete in a selected market space and how it intends to defend its chosen market position. The competitive strategy framework's actual development occurred simultaneously on different levels of logic, but it is narrated here as a sequential process running from the highest conceptual level to the lowest, most detailed level. This is done to enhance readability and systematically convey the evolution of the framework to its eventual form.

Starting with the core elements, in Chapter 2.4.4 seven elements that are central to competitive strategy were uncovered from literature definitions. These included industry selection, customer segments, a value proposition, activity system, a core competitive advantage choice, strategic control points and strategic evolution. These seven elements and the key themes from which they were derived are again shown in Figure 4.5 below.

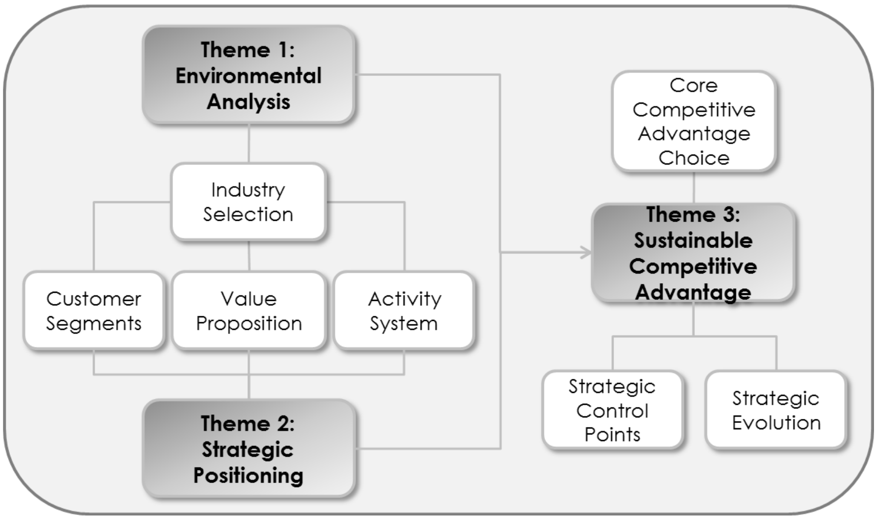
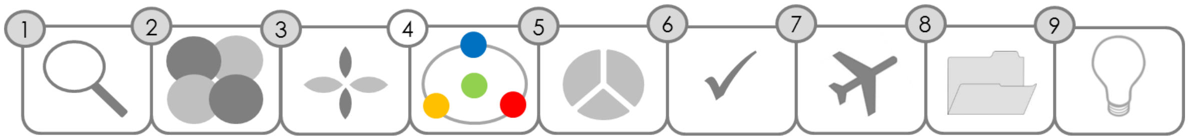


Figure 4.5 – Deriving the Core Elements of Competitive Strategy

Given that environmental analysis and industry selection are well defined concepts, it was stated in Chapter 2.4.4 that they fall outside the scope of this study. It is therefore assumed that the users of the framework will already have conducted their environmental analysis, chosen the industry that they wish to compete in, and possess adequate knowledge of that domain (refer to the limitations in Chapter 1.5). These are thus the entry barriers that have to be overcome to use the framework. Demarcating the study in this way allowed the author to focus on other interesting research areas.



The activity system element was also judged to fall outside the scope of this study, as activity systems are inherently operationally oriented and this study does not focus on strategy execution elements. It was mentioned in Chapter 2.4.4 though, that the activity system is still conceptually important and will play a unifying role in the competitive strategy framework as a logical enclosure that envelops the other elements. This will be discussed a bit later.

This left five elements (customer segments, value proposition, core competitive advantage choice, strategic control points, strategic evolution) that were eligible to form the core of the competitive strategy framework. Another core element emerged from literature that had to be included in the framework. This element was not derived from a competitive strategy perspective, but from a strategy formulation perspective. The element that emerged was strategy evaluation. Rumelt (1998, p. 1) eloquently stated that "Strategy can neither be formulated nor adjusted to changing circumstances without a process of strategy evaluation". Strategy evaluation is required to judge whether the developed strategy is fit for its intended purpose and whether it is feasible. It is thus a quality assurance mechanism. The need for this element is also substantiated by the basic design school process, which is again shown in Figure 4.6 below.

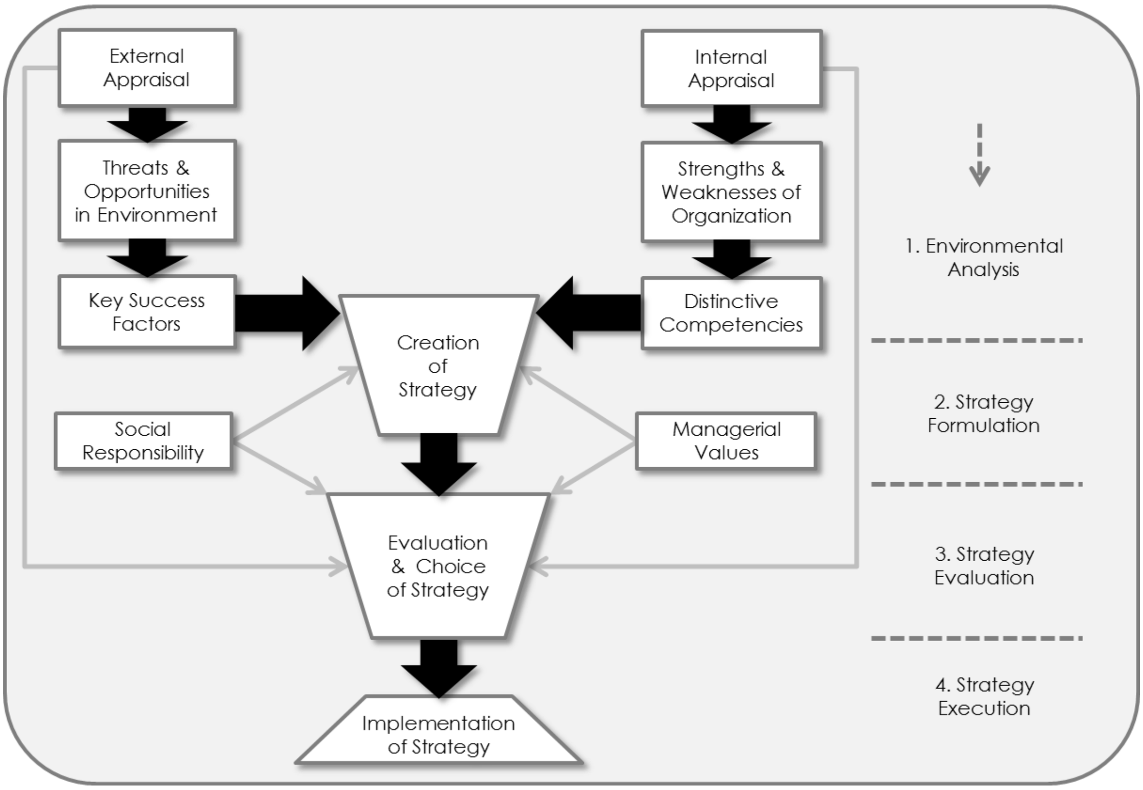


Figure 4.6 – The Basic Steps of Strategic Design Adapted from (Mintzberg, Ahlstrand, & Lampel, 2009, p. 26)

This model can be broken down into four basic phases (as shown on the right hand side) namely environmental analysis, strategy formulation, strategy evaluation and strategy execution. Implicit to this model are the adaptive processes that ensure that adjustments are made to the strategy in response to changes in the environment (strategy evolution). This is embodied in the model by restarting the cycle in an iterative process of analysing the environment, formulating a response, evaluating whether the response is appropriate, and executing it.

By adding the strategy evaluation element, the competitive strategy framework consisted of six core elements, namely customer segments, a value proposition, a core competitive advantage choice, strategic control points, strategy evaluation and strategic evolution. From Figure 4.6 and its brief discussion, it is also known that strategy evaluation only occurs after the initial competitive strategy has been formulated. Only subsequent to this does strategic evolution occur. The two last elements in the strategy formulation sequence have thus been identified (see Chapter 4.4). This means that the other four elements create the initial strategy.

Because customer centricity has been a key theme throughout the study, it should also be strongly reflected via the framework. Having practical experience with Osterwalder *et al.*'s (2009) business model canvas, it was found that it is sometimes preferable to develop multiple business model canvasses when a business has more than one customer segment[5]. Each canvas then describes the business model elements serving that particular customer segment. In this way, all the individual canvasses would then collectively reflect the business's entire business model. The exact same logic can be applied to populating the envisioned competitive strategy framework. Customer segmentation was thus selected as the first element of the framework (see Chapter 4.4) in order to place the customer at the centre of the universe. Customers would therefore firstly be segmented and the business's competitive strategy could then be formulated per customer segment.

The remaining three elements (core competitive advantage choice, value proposition and strategic control points) are thus the competitive strategy elements that fulfil customer needs and sustain the business. Porter (1996, p. 17) stated that sustainability is derived from the activity system and not its isolated parts. The activity system can thus be used as a logical enclosure for these three elements, to express the need for them to be highly integrated and fit well together. Creating this fit would require making trade-offs and maintaining continuity of direction. Although not much attention is paid to the activity system in this study, it conveys key principles that are conceptually important[6].

Furthermore, given that all the elements of the framework are related to competitive strategy, they are all also interrelated. Changes in one aspect of the framework could therefore possibly affect any of the other elements (depending on what was changed). As an example, changing from a differentiation core competitive advantage choice to a low cost one can have major repercussions on the types of customers that can be targeted, the value proposition offered, and the types of strategic control points that can be

[5] A variation to this technique is to develop different business model canvasses for each category of offerings. This is useful when a business does not have many different customer segments, but has groups of offering that require unique activities. This technique is not customer-centric and not as relevant at this stage.
[6] The activity system as logical enclosure is abandoned in Chapter 6 in favour of the actual principles that it seeks to represent. This simplified and clarified the framework.

employed. The strategy will also again have to be re-assessed and strategic evolution will again be needed depending on occurrences in the competitive environment. Unifying these insights, the core structure of the competitive strategy framework can be depicted as shown Figure 4.7 below.

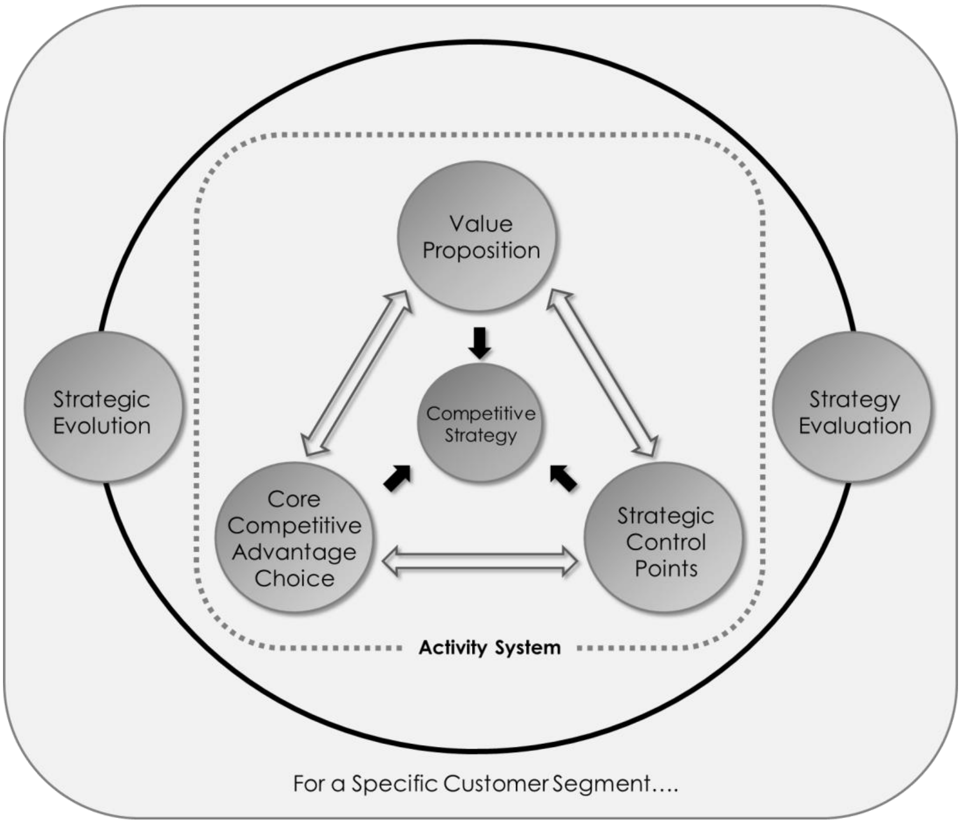


Figure 4.7 – Core Structure of the Competitive Strategy Framework

This figure shows that the competitive strategy framework is intended to be used per customer segment. The core competitive advantage choice, value proposition, and strategic control points form the core of the competitive strategy framework and a tight activity system fit underlie these elements. Strategy evaluation and strategic evolution are also elements of the competitive strategy framework. Lastly, all the elements of the framework are interrelated, depicted by the arrows and the unity created by the outer circle.

Referring back to the categorised framework content requirements (Figure 4.4), a few structural elements that have not yet featured in the framework. These are a digital-physical orientation choice, customer relationships, channels, revenue streams, e-loyalty antecedents and switching costs. In order to accommodate these elements, two generalisations were required (scope broadening). The core competitive advantage choice element was generalised to "generic strategies" and the strategic control points element (henceforth referred to as just control points) was generalised to "customer lock-in". Both these new elements retain the primary goals of their predecessors. This will be clarified in the subsequent paragraphs. Further, to minimise possible confusion between the strategy evaluation and strategic evolution elements, they were renamed "strategic assessment" and "renewal and growth" respectively. These changes are shown in Figure 4.8 below.

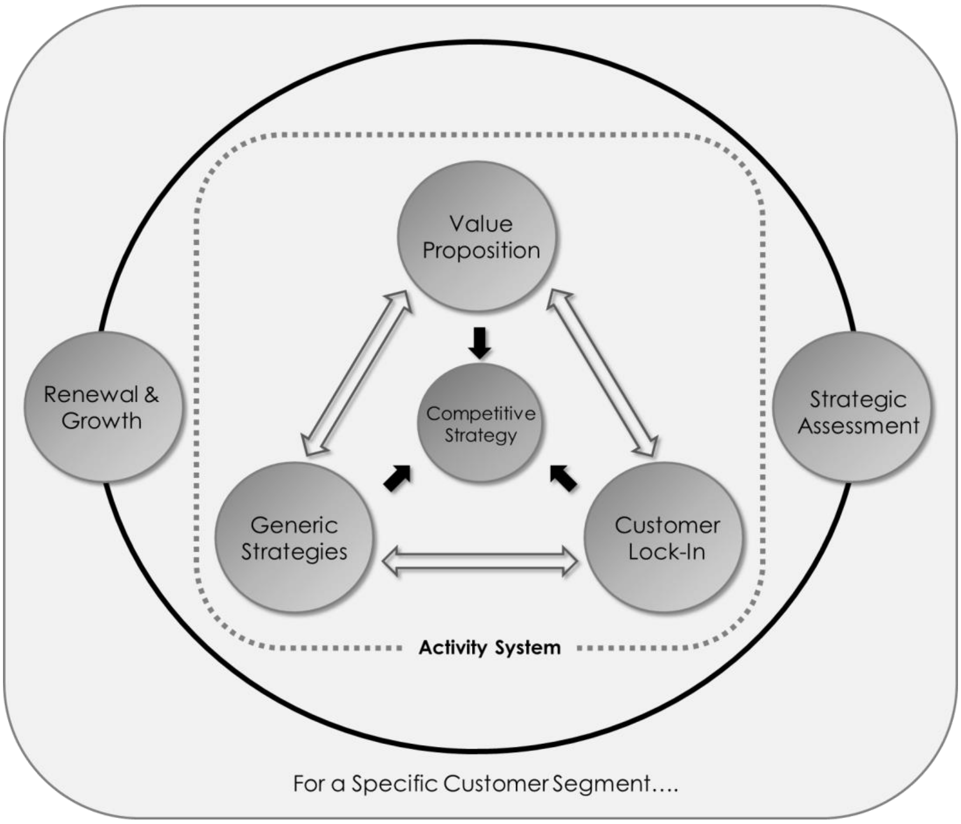


Figure 4.8 – Revised Core Structure of the Competitive Strategy Framework

After the core structure of the competitive strategy framework was defined, it was necessary to uncover fitting sub-elements that could assist their formulation. Returning to the neglected framework content requirements, the core competitive advantage choice of a business (content requirement 4.11) refers to Porter's (1980, 1985) notion that a firm can at a basic level, pursue either a low cost or a differentiation advantage. By combining these dimensions with the market scope (broad or niche) of a business, Porter created a two-by-two matrix which he named generic competitive strategies (see Chapter 2.4.3). This later became known as Porter's generic strategies. Given that the new generic strategies core element was proposed as a generalisation of Porter's generic strategies, Porter's generic strategies therefore implicitly became a sub-element of the generic strategies core element. In doing so, the original core competitive advantage choice element was fully preserved.

The generic strategies core element also provided the opportunity for the inclusion of other generic strategies in the framework. One such generic choice is deciding on the digital-physical orientation choice of the business (content requirement 1.2). This refers to choosing the position of the business on the digital-physical continuum. This choice is made almost unconsciously in traditional strategy literature, however given its dramatic impact on the strategy of the rest of the business, it was only logical to explicitly include it in the framework. The digital-physical orientation choice of the business therefore became the second sub-element of the generic strategies core element.

Moving on, a value proposition refers to the bundle of benefits promised to customers. A value proposition seeks to solve customer problems or satisfy customer needs and describes the combination of products, services and other elements that create value for a specific customer segment. (Osterwalder & Pigneur, 2009, pp. 16, 22) It therefore involves the creation and delivery of value to customers.

Considering this description, suitable sub-elements that could assist the formulation of a value proposition include the products and services (offerings) provided to customers (content requirement 2.1), the relationships established with them (content requirement 2.3), the price at which these are provided via the revenue strategy employed (content requirement 2.5), and the channels through which all these are made available (content requirement 2.4). These four elements are also consistent with Ungerer *et al*.'s (2011, p. 182) sub-elements of a value proposition. It should be noted that the term "channels" is preferred over "delivery channels", as Osterwalder and Pigneur's (2009) research suggested that channels involve not only delivery channels, but also sales and communication channels. Further, the sub-element "revenue and pricing strategies" was preferred over either "revenue generation strategies" or "pricing", as an offering's price is dependent on the type of revenue strategy pursued (see Chapter 5.4.4). The relationship between these two were therefore made explicit.

Then, as mentioned above, the control point element was generalised to customer lock-in. Control points therefore implicitly become the first sub-element of customer lock-in. The reasoning for this is unclear however. Control points refer to the mechanisms that a business can leverage to lock competitive advantages in for themselves. These competitive advantages can be employed to lock customers into a relationship with the business. Otherwise stated, control points serve as competitor lock-out mechanisms, as they prevent competitors from accessing a business's customers. However, given the framework's customer-centricity (content requirement 6.2), the term customer lock-in was preferred.

The goal of control points and customer lock-in is essentially to defend the business's income streams. The new customer lock-in core element provides the opportunity for including other elements that serve this purpose, namely switching costs and e-loyalty antecedents. Switching costs (content requirement 8.2) refer to all the costs incurred by a customer in switching to a competitor's offerings (Hess & Ricart, 2002, p. 1). Switching costs deter customers from existing the relationship with the business, thus acting as a "negative" type of customer lock-in. Switching costs was an interesting element to include in the framework, as many authors postulated that switching costs are lower in e-business than they are traditionally. Instead of diminishing the importance of switching costs though, this amplifies the importance of understanding the types of switching costs that exist, which can be used to create customer lock-in. E-loyalty antecedents (content requirement 8.1) on the other hand refer to factors that create e-customer loyalty. E-loyalty antecedents attempt to lock customers in from a "positive" perspective. E-loyalty antecedents recognise that customers have certain needs and that certain factors influence a customer's propensity to stay with the business.

Following these developments, all the structural requirements of the framework (Figure 4.4) were assigned and incorporated as shown in Figure 4.9 below.

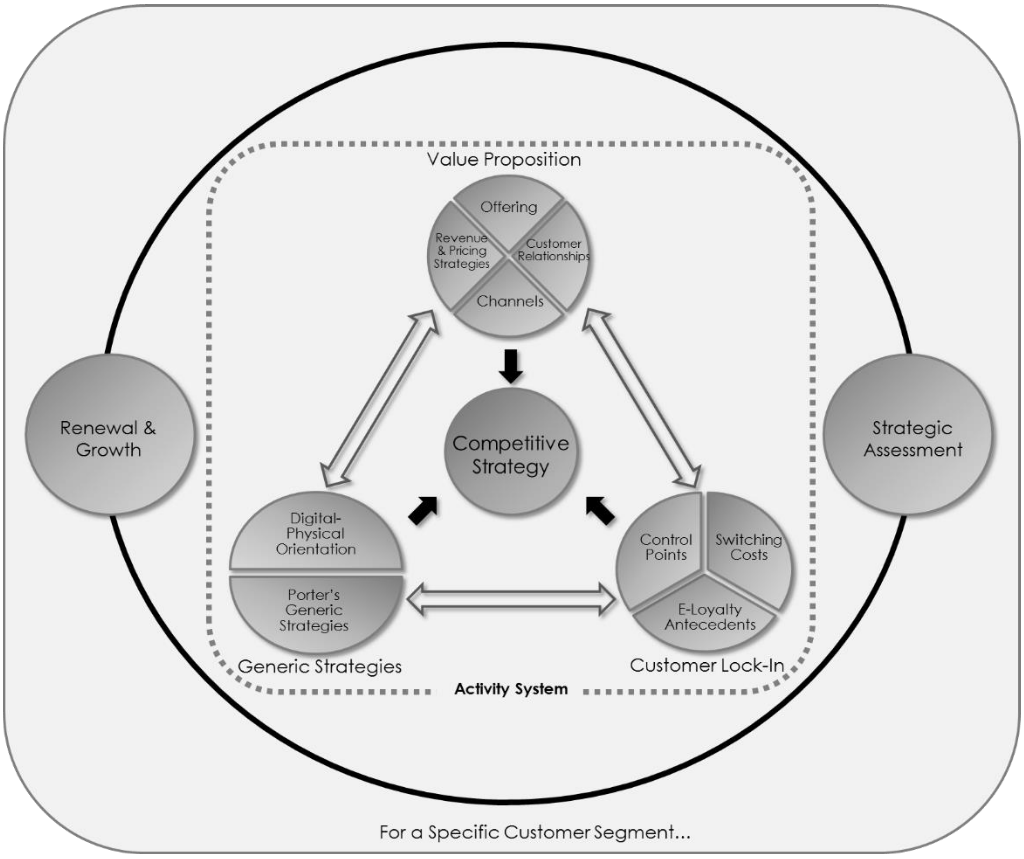


Figure 4.9 – Core Structure of the Competitive Strategy Framework with Expanded Sub-Elements

The composition of the competitive strategy framework as shown above, has not been arbitrary. Van der Heijden (2001, p. 15) noted that any good business idea consists of two parts, namely building the business and protecting the business. The competitive strategy framework has been arranged in a similar way, via an invisible vertical divide running through the middle of the framework. This logical divide is made explicit in Figure 4.10 below.

Figure 4.10 shows that the left-hand half of the framework deals with building the business and the right-hand half deals with protecting the business. From a customer perspective, this translates into the left-hand side dealing attracting customer attention and the right-hand side dealing with customer retention. The generic strategies element was intentionally moved to the left, as it deals with the general strategic course of the business (building the business). The customer lock-in element was also intentionally moved to the right, as it is the purpose of the customer lock-in to create customer retention.

The value proposition element was equally split between the attention and retention sides, with the revenue and pricing strategies sub-element residing on the attention side, and the customer relationship sub-element residing on the retention side. The reason for this is that the price of an offering is important for attracting initial customer attention, but on its own does not guarantee customer lock-in, as customer often defect to other offerings that provide greater value. Customer relationships conversely are very important in establishing strong customer lock-in, but are not as prominent in attracting customer attention.

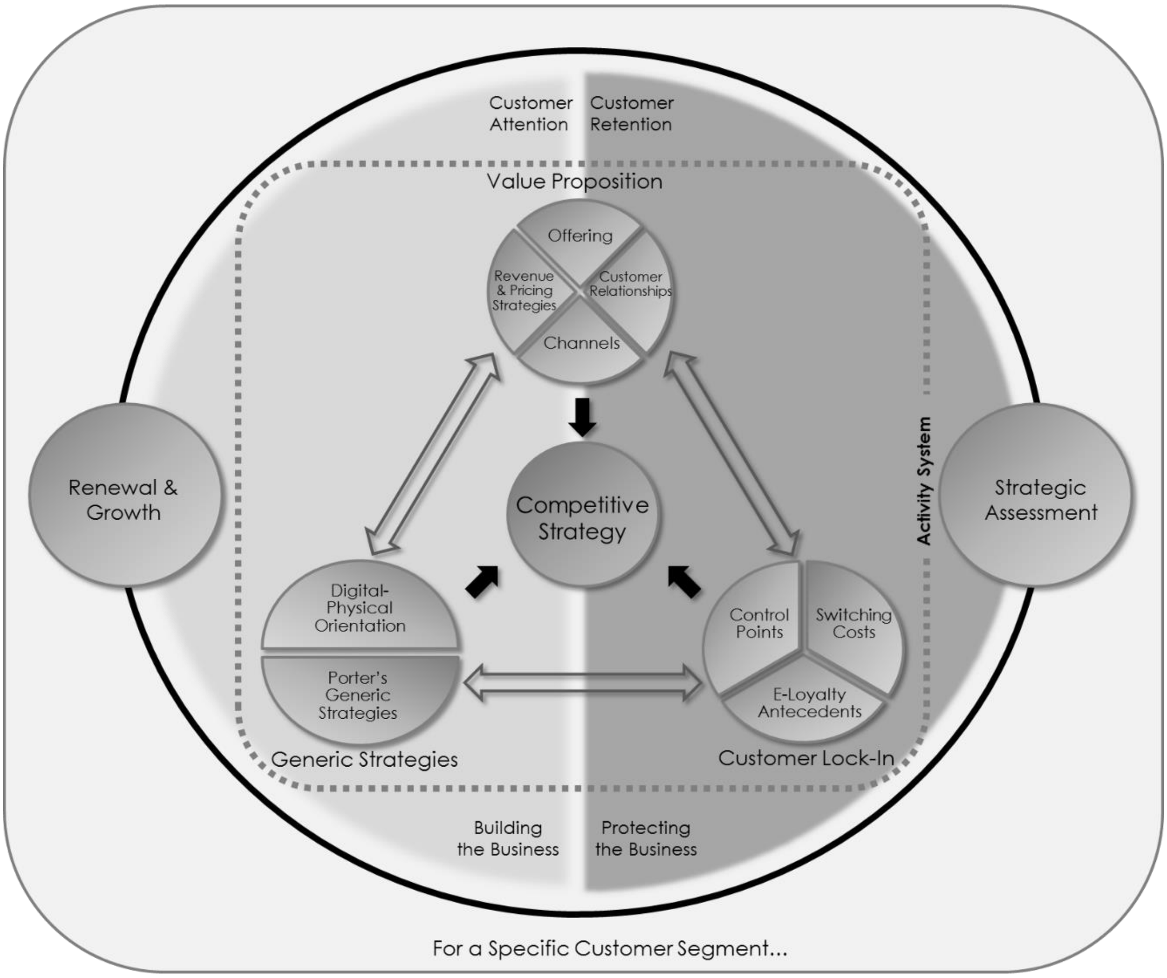


Figure 4.10 – Preliminary Competitive Strategy Framework for E-Business Start-Ups

The offering and channel sub-elements were split half-way between the customer attention and customer retention divide, as both these elements make contributions to both sides of the logical divide. Customers may for instance become aware of certain offerings via a certain channel, whilst the convenience of this channel simultaneously creates customer lock-in. Similarly, a novel offering can attract customer attention and also create customer retention. Lastly, it was stated that the activity system is important due to the robustness principles (fit, trade-offs, continuity of direction) that it relates to. For this reason, it was also moved to the right-hand side of framework (protecting the business).

Renewal and growth is also located on the left-hand side of the logical divide as it resonates with building the business, growing it in future and renewing the strategy to adapt to the changing business environment. This is essential in e-business (Mansfield & Fourie, 2004, p. 37; Lee & Vonortas, 2004, p. 167; Brown & Eisenhardt, 2002; Van der Heijden, 2001, pp. 16, 17). Lastly, the strategic assessment element relates to protecting the business as it is as a quality assurance check that seeks to increase the robustness of the developed strategy.

From this section the following propositions emerge:

- **Proposition 0.1**[7]: The six core elements of the competitive strategy framework for e-business start-ups (customer segmentation, generic strategies, value proposition, customer lock-in, strategic assessment and renewal and growth) are core elements that need to be addressed when formulating the competitive strategy of a firm.
- **Proposition 0.2**: The sub-elements of the competitive strategy framework are suited to the core elements to which they belong.
- **Proposition 0.3**: All the elements of the competitive strategy framework are interrelated and the framework suitably reflects these relationships.

4.4. Framework Sequence

This section proposes a possible sequence in which the competitive strategy framework could be populated. Figure 4.4 indicated that the principle that guides the framework sequence is that of "getting the strategic sequence right" from blue ocean strategy. This strategic sequence is again depicted in Figure 4.11 below.

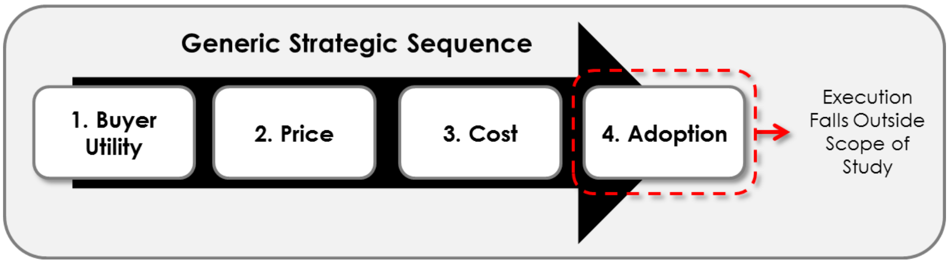
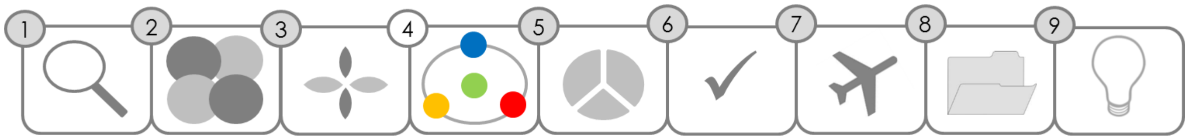


Figure 4.11 – Generic Strategic Sequence (Kim & Mauborgne, 2005, p. 118)

This sequence shows that a strategy should start with an idea that delivers exceptional buyer utility (customer value). If the offering does not provide exceptional buyer utility, then there is no compelling reason for people to buy it and it should be rethought. Next, it must be determined what the strategic price is that would make the offering accessible to the largest mass of buyers (the price that most customers would be willing to pay). Having determined this price, the business must then determine if they have the ability to deliver the offering at a cost which will still allow the company to generate a healthy profit. Lastly, the business must determine what the hurdles to adoption are, and whether the business is able to overcome them. This last element is more closely associated with strategic execution than strategic formulation however, and therefore will not be given any further attention.

[7] This first set of propositions intentionally start at zero to allow the subsequent proposition's numbers to coincide with the core elements of the framework that they relate to (Chapter 5).



The core elements of the framework are customer segmentation, generic strategies, value proposition, customer lock-in, strategic assessment, and renewal and growth. It was thus necessary to fit a sequence to these elements. In the previous section, the strategic assessment and renewal and growth elements have already been identified as the last two elements in the sequence. The strategic assessment evaluates the developed strategy. It assesses the whole strategy and not just parts thereof, so all the elements preceding the strategic assessment would form the core of the competitive strategy framework. After the assessment is done and the strategy is deemed "complete", it is tested in the market, where after the renewal and growth element becomes relevant and is used to rejuvenate the initial strategy. This sequence is thus similar to that of Figure 4.6, the basic process of strategic design.

Further, it was also mentioned in the previous section that customer segmentation has been selected as the first element in formulating the competitive strategy framework, as the framework is intended to be formulated per customer segment. Checking the validity of this choice, it resonates with the generic strategy sequence that proposes that formulating a strategy should start with creating exceptional buyer utility. This can only be done when a keen understanding of the customer and their needs exist. Osterwalder and Pigneur's (2009) point of departure for formulating a business model canvas is also to start with defining the business's customer segments, which further lends credence to this choice.

Only three elements (generic strategies, value proposition, and customer lock-in) that needed to be fitted in position, two, three and four remained. According to the generic blue ocean strategic sequence, buyer utility should be created first, followed by setting the strategic price, and then checking to see whether the cost target (calculated by deducting the profit margin from the strategic price) is feasible. Working backwards, the only element in the competitive strategy framework that relates to costs, is the strategic assessment (evaluates the feasibility of the strategy), which has already been positioned. The only remaining hint that the generic strategy sequence provided was that buyer utility should precede the strategic price. From the three remaining core elements, only the value proposition includes a pricing aspect, but at the same time it is primarily buyer utility oriented. The hint was therefore not very useful. Entering somewhat uncharted territory, it was proposed that the business's generic strategies should be selected first, as generic strategy choices are higher level choices that significantly influence the rest of the strategy. Having clarity about one's generic strategies could be beneficial before attempting to address the other strategic elements. After the business has selected its generic strategies, it can then formulate its value proposition and thereafter its customer lock-in strategy. The final framework sequence is depicted as shown in Figure 4.12 below.

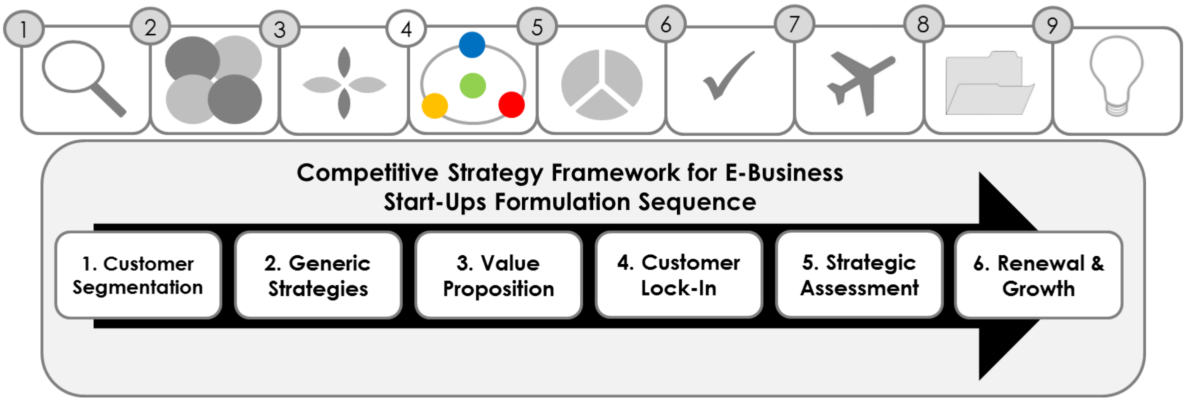


Figure 4.12 – Competitive Strategy Framework Formulation Sequence

By simply transferring the sequence in Figure 4.12 to Figure 4.10, Figure 4.13 below could be constructed. Figure 4.13 presents the first complete iteration of the competitive strategy framework for e-business start-ups. In addition to the sequence, arrows were added to the outer circle of the model to enhance the natural flow from the strategic assessment to the renewal and growth element. These arrows also create a sense of recurrence, reflecting the need to keep the strategy updated.

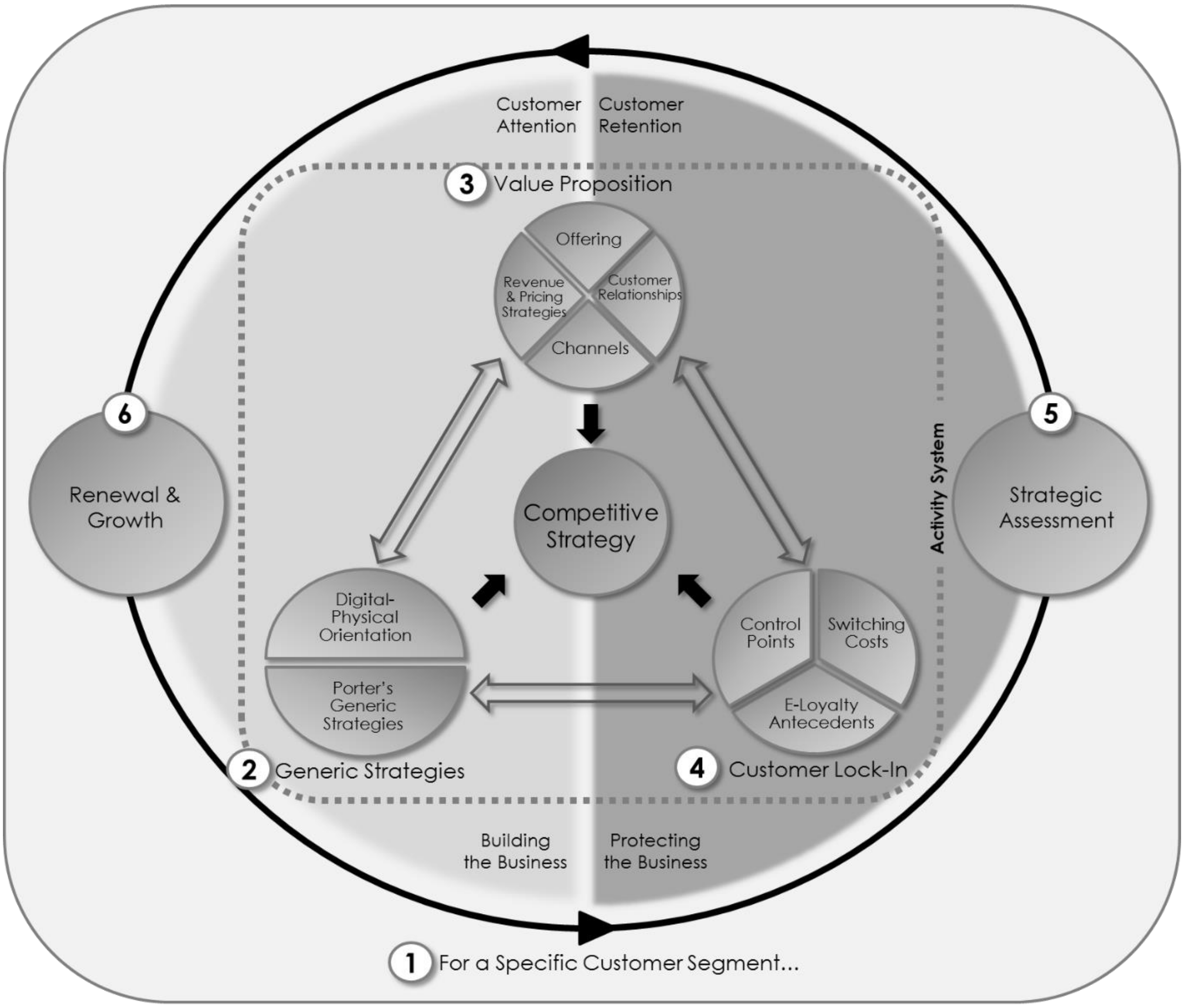
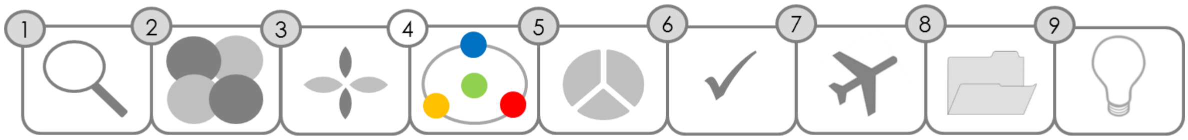


Figure 4.13 – Competitive Strategy Framework For E-Business Start-Ups

It should be noted that the proposed sequence is only a possible sequence. Strategy formulation can occur



in numerous ways[8] and this proposed sequence will not always be followed in practice. This relates to Osterwalder and Pigneur's (2009, pp. 138, 139) notion of business model epicentres, where innovation in a specific part of the business model drives the over-all strategy. Therefore, having an epiphany about a certain aspect of e-business can drive all the other components of the strategy. As such, strategies can be formulated in various different sequences and the sequence outlined above is merely provided as a baseline for businesses that are unsure of a sequence to use. The most important aspects to remember are that all the components are related and should be adjusted to reflect a tight, consistent fit; and that the strategy should be complete, meaning that thinking about *all* the elements are necessary.

From this section the following proposition emerges:

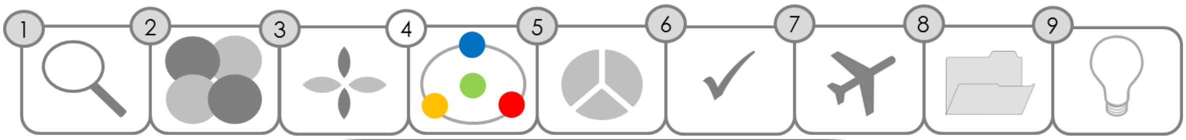
- **Proposition 0.4**: A possible sequence in which the competitive strategy framework could be formulated in is to start with customer segmentation, followed by choosing generic strategies, defining the value proposition, defining the customer lock-in elements, doing a strategic assessment and lastly renewing and growing the business.

4.5. Competitive Strategy Framework Context

One of the most sensible and simplest depictions of a basic entrepreneurial (start-up) process is that of the lean start-up methodology (Ries, 2011). The term "lean start-up" was coined by Ries in 2004 and was developed as combination of the customer development process (Blank, 2013, p. 68) and agile product development practices. The lean start-up methodology was initially designed to create fast-growing tech ventures (therefore superbly fitting and relevant to e-business start-ups) and differs from the traditional start-up process in that it advocates experimentation over elaborate planning, customer feedback over intuition, iterative design over big upfront designs, fast failures over costly late failures, and the creation of minimum viable product prototypes over fully functional product prototypes (Blank, 2013, pp. 66, 67, 70). The basic lean start-up process is shown in Figure 4.14 below.

The lean start-up process resonate with the entrepreneurial and learning schools of strategy (emergent strategy) and is essentially a process of wayfinding (Chia & Holt, 2009). Its point of departure is pragmatic in that it states that pre-customer feedback, all start-up business ideas are basically a series of untested hypotheses (Blank, 2013, p. 67). These hypotheses (assumptions) need to be tested in the market to gain customer feedback. Based on the feedback, the business then learns which hypotheses need to be rejected and which ones cannot. The business can then adapt its strategy and the process is restarted. Blank (2013, p. 67) also mentioned that one of the key differences between existing companies and start-ups is that existing companies execute a business model, while start-ups are searching for a repeatable and scalable business model. It is this distinction that makes the iterative and emergent nature of these processes so fitting to start-ups.

[8] Refer to Mintzberg, H., Ahlstrand, B., & Lampel, J. 2009. *Strategy Safari*. Edinurgh Gate: Prentice Hall.



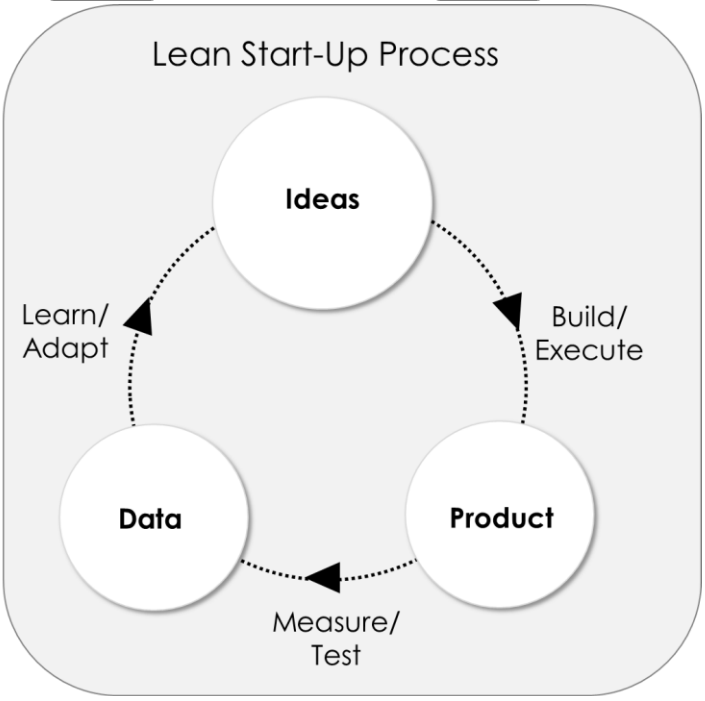


Figure 4.14 – Lean Start-Up Process Adapted from (Ries, 2011)

A similar, but alternative depiction of the lean start-up process is depicted in the form of the customer development process in Figure 4.15 below. The customer development process is somewhat more linear than the lean start-up process and better clarifies the boundaries between strategy formulation and execution.

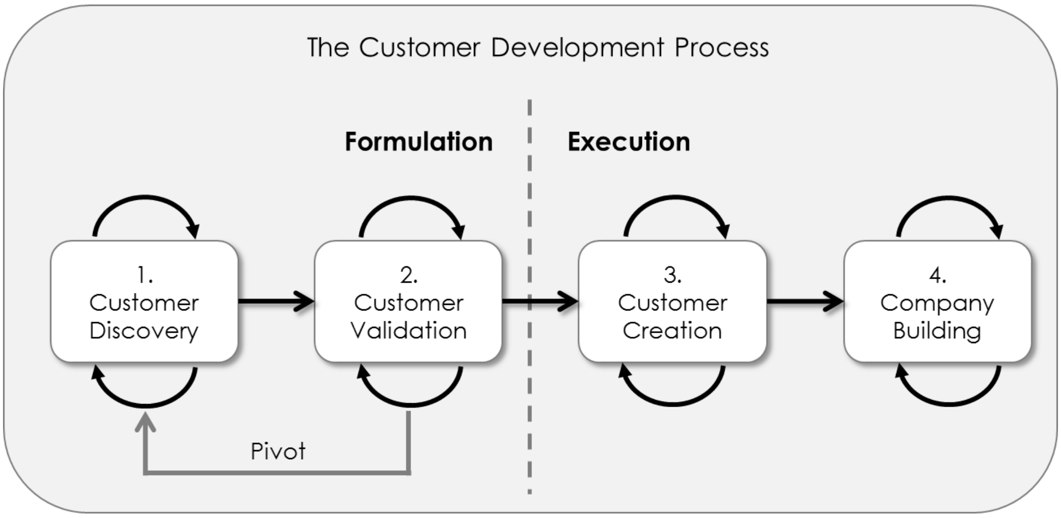
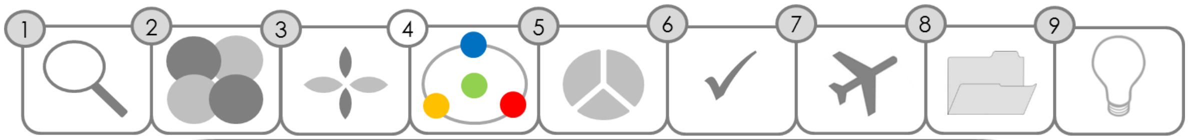


Figure 4.15 – Customer Development Process Adapted from (Blank, 2013, p. 68)

The customer development process consists of four phases. The first two phases deal with strategy formulation with the last two phases dealing with strategy execution. In the first phase, customer discovery, the start-up sketches all its hypotheses on the business model canvas. It is then necessary to "get out of the building" and establish whether the hypothesized customer need actually exists. A minimum viable product is also created as a solution to this need. In the second phase, customer validation, the start-up then proceeds to test its proposed solution and all its other hypotheses against customers. Based on the feedback gained, it is then possible to make small adjustments (iterations) or substantial adjustments (pivots) to the business model. This process is continues until a need and a suitable solution with enough customer interest is determined. The third phase, customer creation, deals with scaling up the business. At this stage the product is deemed refined enough to sell, and scale is built by generating demand through marketing and sales expenditures. In the fourth phase, company building, the business shifts from a start-up searching for an effective business model to functional departments executing its model.

The lean start-up methodology and customer development process does not claim that they will make individual start-ups more successful, though they do boast that lean methods will result in lower failure rates across a broad portfolio of start-ups (Blank, 2013, p. 69). Blank (2013, p. 67) additionally stated that the basic assumption of conventional design oriented approaches is that it is possible to figure out most of the unknowns of the business in advance, before executing the idea. He also stated that start-ups do not unfold in accordance with master plans. Rather, the ones that succeed quickly test their ideas in the market, fail, learn, adapt, and iterate (Blank, 2013, p. 67). The attack on strategic design as a suitable approach is therefore blatant. Strategic design cannot be regarded as obsolete and just discarded though. Its benefits of greater clarity and focus, enhanced communication, integration and a greater competitive contextual awareness (possibly leading to better decision making) are just too valuable. Both strategic design and emergent strategy have their vices though. In a similar way that there is a line that distinguishes good strategic design and excessiveness, there is also a line that distinguishes good emergent strategy from ignorance and foolishness. The task however, is to draw on the virtues of both of these approaches and avoid their vices.

Lean start-up principles are not exclusive to proponents of emergent strategy. In fact, lean start-up principles are actually a part of any good strategy design framework. For this reason, it makes sense to include the lean start-up and customer development processes in this study, to strengthen the emergent nature of the framework in addition to the existing renewal and growth core element. By embedding the competitive strategy framework in the lean start-up process, Figure 4.16 below could be developed.



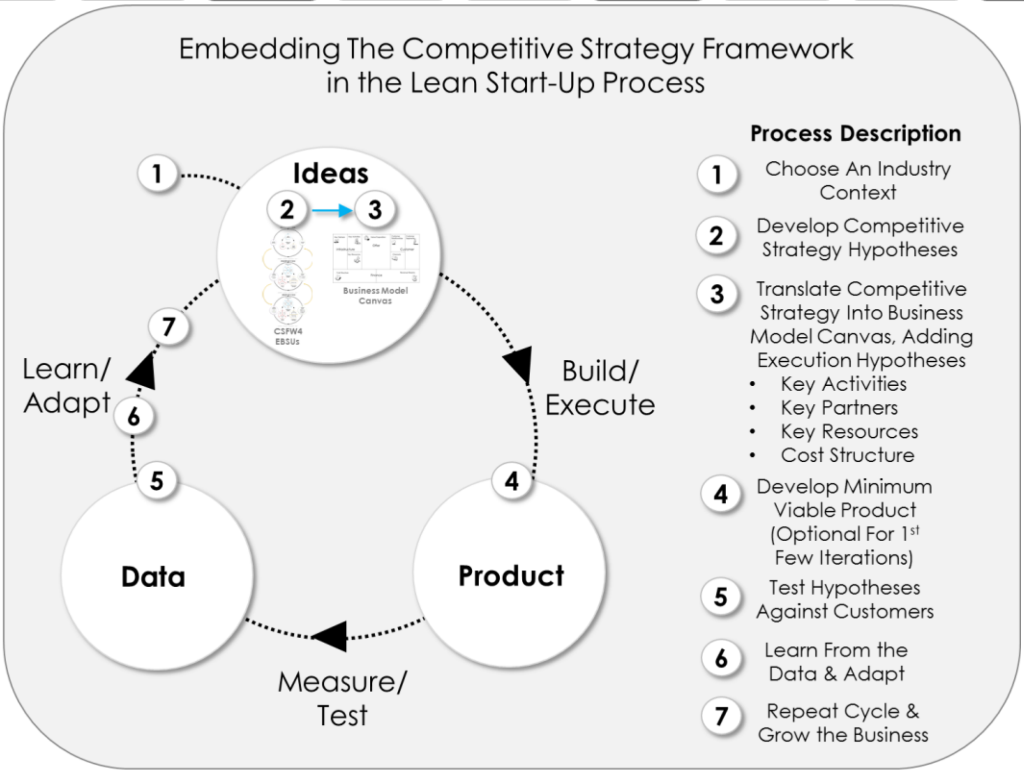
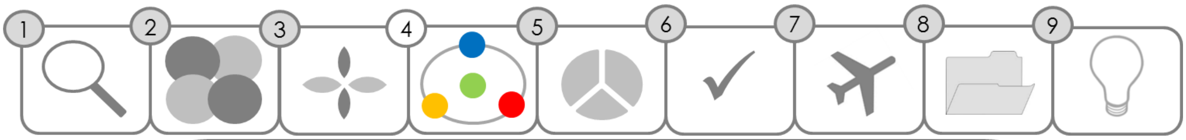


Figure 4.16 – Embedding the Competitive Strategy Framework in the Lean Start-Up Process

The figure above shows that the first step to developing a business is industry selection (content requirement 4.9). This is followed by using the competitive strategy framework to develop your competitive strategy hypotheses. These hypotheses are then supplemented by hypotheses about elements of the business model canvas that fall outside the scope of the competitive strategy framework, namely key activities (activity system; content requirement 4.15), key partners, key resources and the cost structure of the business. The business then optionally develops a minimum viable product to test in the market, or proceed directly to test the developed hypotheses. Based on the data, the hypotheses are then confirmed or refuted and the process starts again. In this way, the competitive strategy framework acts as supplement to the overall start-up process.

The competitive strategy framework can similarly be positioned in the customer discovery phase of the customer development process, as shown in Figure 4.17 below.



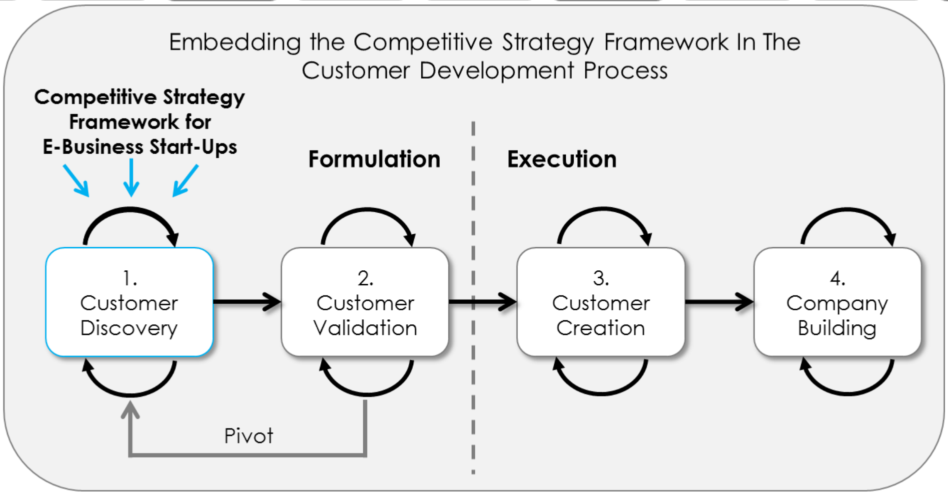


Figure 4.17 – Embedding the Competitive Strategy Framework in the Customer Development Process

By looking "look into" the front view of this horizontal process and drawing on Osterwalder and Pigneur's (2009) business model environment (see Figure 5.22), it is possible to construct Figure 4.18 below. Figure 4.18 shows that the competitive strategy of a firm is executed in a competitive environment includes the industry five forces (customers, suppliers, competitors, substitutes, and new entrants), macro-economic forces and key trends. This figure additionally contextualises the competitive strategy framework relative to the business model canvas and shows that the boundaries of the framework include the customer segment, customer relationship, channels, value proposition and revenue stream aspects of the business model (in accordance with Figure 2.3 and Figure 4.16). It further shows that the framework includes aspects not covered in the business model canvas (generic strategies, customer lock-in, strategic assessment, renewal and growth), as its boundaries are wider than the confines of the business model canvas.

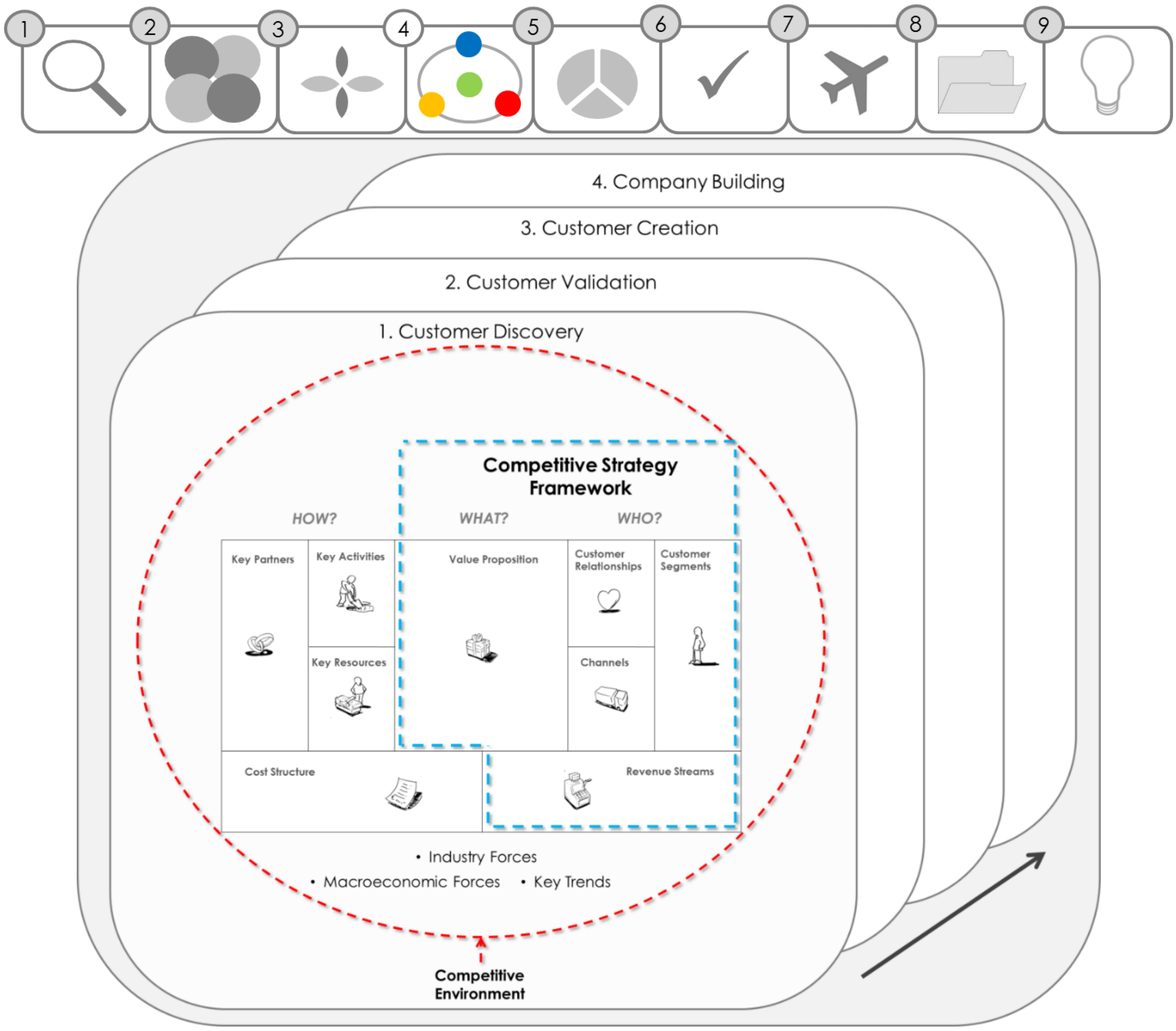


Figure 4.18 – Environmental Context of the Competitive Strategy Framework

It must again be mentioned that the intent of the framework is to be used as a supplement that assists the formulation of the competitive strategy hypotheses of a firm. The logic is thus that by using the structured approach of the competitive strategy framework, a more comprehensive and perhaps even more accurate initial set of hypotheses can be developed, meaning that fewer pivots will eventually be required to arrive at an effective strategy.

Similar to the lean start-up process, it could be that competitive strategy framework will lead to an increased number of specific strategic applications that compete more effectively in the e-domain (over a broad portfolio of start-ups), than in the absence of the framework. This is visualised as shown in Figure 4.19 below. In the figure, the amount of arrows flowing out are not indicative of actual percentages, but rather serve a symbolic purpose. The figure additionally contextualises the framework based on its level of abstraction, showing that the competitive strategy framework is more specific than generic business models and strategy, as it deals specifically with the e-business start-up competitive strategy formulation.

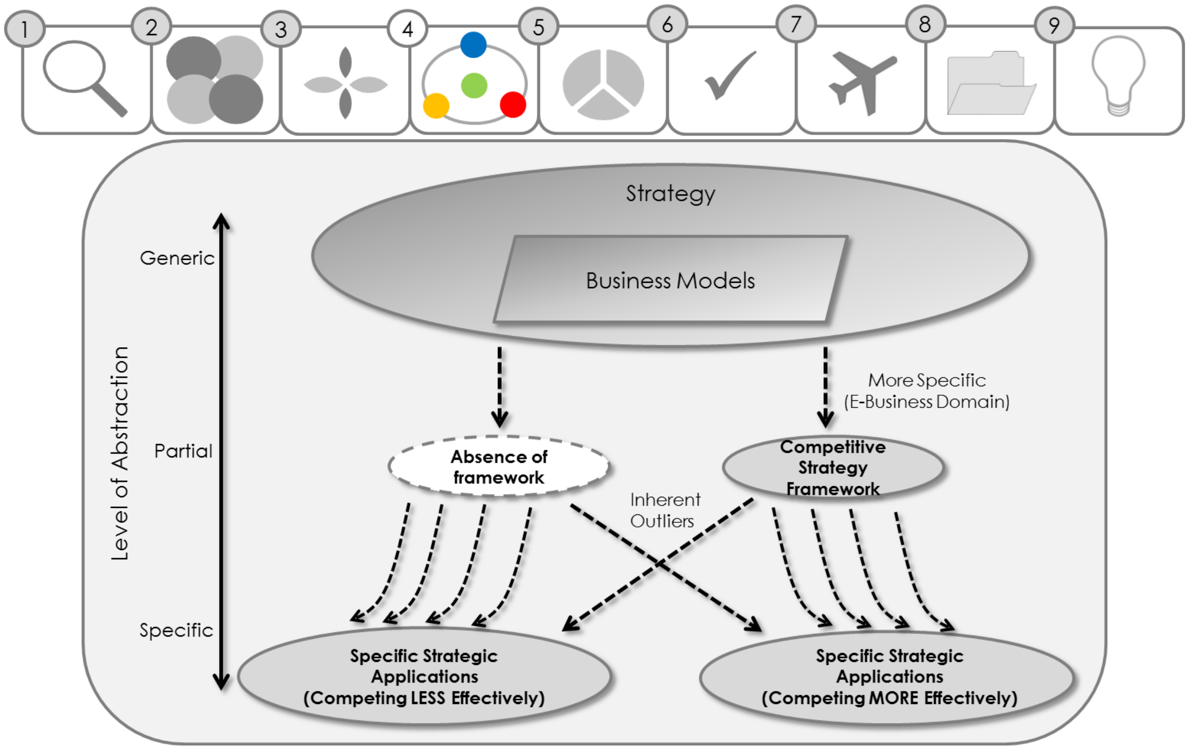


Figure 4.19 – Conceptual Domain of Study

4.6. Conclusion

This chapter developed the core structure of the competitive strategy framework for e-business start-ups. Six core elements, nine sub-elements and their interrelationships were graphically proposed. A possible sequence in which these elements can be formulated in were also proposed, namely (1) segmenting customers, (2) selecting generic strategies, (3) specifying the value proposition, (4) creating customer lock-in, (4) assessing the strategy and (6) renewing and growing the business.

5. Developing the Sub-Models of the Competitive Strategy Framework for E-Business Start-Ups

This chapter investigates strategic tools that are able to assist e-business start-up competitive strategy formulation and describes the development process of the sub-models contained in the core structure of the competitive strategy framework.

5.1. Introduction

The competitive strategy framework for e-business start-ups is shown in Figure 5.1 below.

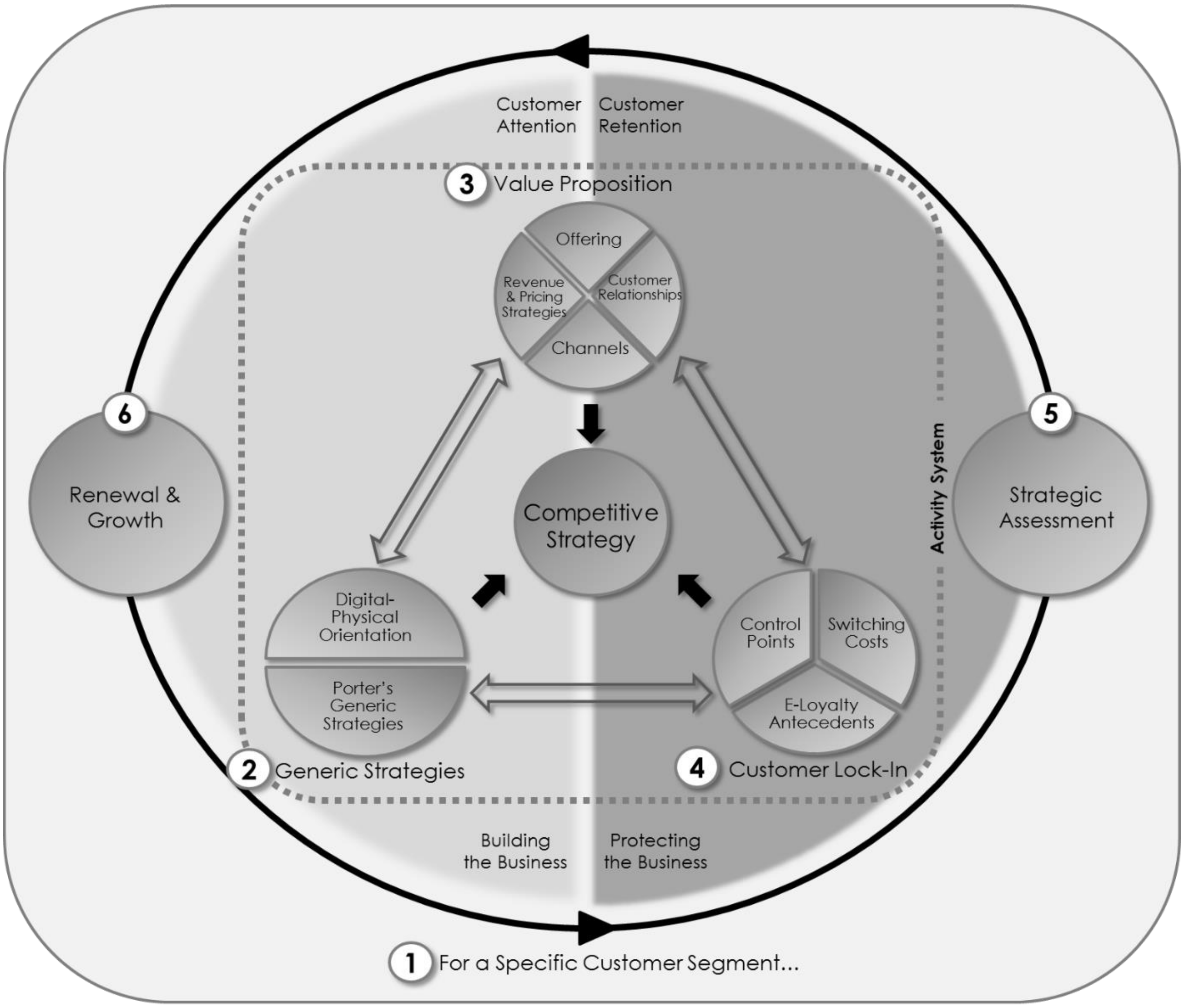


Figure 5.1 – Competitive Strategy Framework for E-Business Start-Ups

The sub-elements of the competitive strategy framework above are discussed in this chapter. The customer segmentation elements are explored first, followed by the generic strategy elements, value proposition elements, customer lock-in elements, strategic assessment and renewal and growth elements. This chapter seeks to provide answers to the research question posed in Chapter 1 and its implicit meta-questions:

5. What existing models, tools and insights (and new integrations of these) can assist the formulation of each of the sub-elements?

   Customer segmentation

   5.1. What model(s) can assist e-business start-ups in segmenting customers?[9]

[9] Developments in Chapter 6 will expand this research question to: What model(s) can assist e-business start-up customer segmentation, need identification and exploration? The extensions will be discussed there.

Generic strategies[10]

5.2. What model(s) can assist e-business start-ups in selecting their digital-physical orientation?

5.3. What model(s) can assist e-business start-ups in selecting their Porter's generic strategies?

Value proposition

5.4. What model(s) can assist e-business start-ups in formulating their offering?

5.5. What model(s) can assist e-business start-ups in selecting their customer relationship strategies?

5.6. What model(s) can assist e-business start-ups in formulating their channel strategies?

5.7. What model(s) can assist e-business start-ups in selecting their revenue and pricing strategies of offerings?

Customer lock-in

5.8. What model(s) can assist e-business start-ups in formulating their control point strategy?

5.9. What model(s) can assist e-business start-ups in formulating their switching costs strategy?

5.10. What model(s) can assist e-business start-ups in formulating their e-loyalty strategy?

Strategic assessment

5.11. What model(s) can assist e-business start-ups in assessing their created strategy?

Renewal and growth

5.12. What model(s) can assist e-business start-ups in renewing their strategy and growing the business?

It should be noted that in the endeavour to uncover models for inclusion in the framework, the goal was not to be completely exhaustive in the range of models considered. Nor was the goal to find the most comprehensive, most sophisticated, most elegant or "best" models that exist. Such pursuits are overly optimistic, because in order to adequately address these goals, complete or absolute knowledge of the domain is required. This is simply impossible. Rather, the goal was to explore the literature with sufficient intensity until a suitable model or models were found that fulfils the design criteria (refer to Chapter 4.2), or would allow for the creation of a conceptualisation that would fulfil it.

The implication of this approach is that other relevant models that are capable of better explaining the phenomenon under investigation may possibly exist, but have been overlooked. In order to minimize this risk, a multi-staged validation process was employed where such models could be brought to the attention of the author. Befitting scientific research, alterations would then be made to the competitive strategy framework, to account for the new insights. In summary, the competitive strategy framework merely seeks to provide a *more* integrated perspective of competing in e-business. The framework certainly does not provide a perfect or fully integrated perspective – that is the unattainable, elusive ideal – but it should provide a better point of departure than what existed.

[10] Developments in Chapter 6 will amalgamate these two research questions into: What model(s) can assist e-business start-ups in selecting their generic strategies.

5.2. Customer Segmentation

Customer segmentation refers to the classification of the different customers that exist in a market based on similar needs, offering requirements, or other personal characteristics (Ries & Trout, 2011, p. 217). Practically, customer segmentation involves market research, followed by clustering. The goal is usually to either get a general sense of the current market, to identify customer needs, to identify market opportunities, or to assist strategic decision-making (for instance establishing whether the target market is large enough to be financially feasible). Most fundamentally however, customer segmentation serves to focus the efforts of a business.

As previously mentioned, focus is critical to business success (Johnson, Christensen, & Kagermann, 2008, pp. 60, 65; Porter, 1996, pp. 9, 17). A business cannot be everything to everyone (Porter 2001, p. 12; Clarke, 2001, p. 160; Reichheld & Schefter 2000, p. 109; Porter, 1996, pp. 10, 12). Different customers have different needs. Offerings should therefore be designed with specific customers in mind (Ries & Trout, 2011, p. 218; Lin, *et al.*, 2011, p. 3; Mafé & Navarré, 2010, p. 2; Johnson, *et al.*, 2008, p. 58; Rohm & Swaminathan, 2004; Keng, *et al.*, 2003; Swinyard & Smith, 2003). Customer segmentation is required as it is necessary to identify those customers that the business can most profitably target, whilst avoiding the least profitable ones (Ries & Trout, 2011, p. 218; Forsyth, *et al.*, 2000, p. 1; Slywotzky & Morrison, 1997, Porter, 1980, p. 110). In this way, customer segmentation aids in ensuring the longevity of the business (Anderson & Srinivasan, 2003, p. 123; Srinivasan, *et al.*, p. 41; Reichheld & Schefter, 2000, pp. 106, 109-110).

Furthermore, if the proliferation of the Internet continues its current trend, then it is probable that in future the whole world will be online. Given that any e-business has access this total global market of potential customers via the extended reach of the Internet, focusing a business becomes more critical than ever before, and in turn makes customer segmentation more important than ever before.

The main question that this section sought to address was: ***What model(s) can assist e-business start-ups in segmenting customers?***

Although tools exists that can assist in operationally performing the market research and clustering involved in customer segmentation, in accordance with the conceptual, abstract level of this study, the main pursuit of this section was to identify conceptual models that could possibly enhance the cognition of users and thereby assist their e-business customer segmentation.

At its core, customer segmentation seeks to uncover different customer attributes. Customer segmentation is highly situational and instance specific though, and a deep analysis into all the possible customer segmentation attributes that are important to different e-businesses were not pursued here. Rather, this section sought to uncover the basic, generic customer segmentation approaches exist. The logic being that assisting start-ups in understanding the generic customer segmentation approaches that exist, could probe them into thinking about the approaches that are the most appropriate to their situation, and thereby assist their customer segmentation from a higher level perspective.

From the literature covered in Chapter 3.4, Table 5.1 below was constructed. This table shows the integration process of different authors' views on the basic customer segmentation types that exist. The approach followed was to identify the higher level elements that are commonly mentioned and keeping these, while discarding the lower level elements.

Table 5.1 – Construction of the Customer Segmentation Approaches Model

Customer Segmentation Approaches										
No.	(Ries & Trout, 2011, pp. 223, 224)	(Volberda, Morgan, Reinmoeller, Hitt, Ireland, & Hoskisson, 2011, p. 170)	(Mafé & Navarré, 2010, p. 3) based on (Sen, Padmanabhan, Tuzhilin, White, & Stein, 1998)	(Larsen, 2010, p. 6)	(Pearce & Robinson, 2009, pp. 117, 118)	(Kotler & Keller, 2009)	(de Wet, 2008, p. 81)	(Ward, 2008, p. 35)	(Zhou, Dai, & Zhang, 2007, pp. 42-44)	Basic Customer Segmentation Approaches
1.	Profile									1. Demographic
2.	Demographic	Demographic	Demographic	Demographic	Demographic	Demographic	Demographic	Demographic	Demographics	
3.	Socio-economic	Socio-economic								
4.	Life stage									
5.	Geographic	Geographic	Geographical	Geographic	Geographic	Geographic	Geographic	Geographic		2. Geographic
6.	Geodemographic									
7.	Psychological	Psychological	Psychographical	Psychological	Psychographic	Psychographic	Psychographic	Psychographic	Psychological perception	3. Psychological
8.	Lifestyle									
9.	Personality								Personal traits	
10.	Perceptions									
11.	Attitudes	Perceptual factors							Normative beliefs	
12.	Motives								Shopping orientation/ motivation	
13.	Benefits sought									
14.	Behavioural	Consumption patterns	Behavioural	Behavioural	Buyer behaviour	Behavioural	Behavioural	Behavioural characteristics	Internet/ online experience	4. Behavioural
15.	Purchase/ transaction									
16.	Consumption/ usage									
17.	Media usage									
18.	Technology usage									

From the above table, four common customer segmentation categories emerged, namely demographic, geographic, psychological and behavioural segmentation. These are visualised in Figure 5.2 below.

Demographic segmentation refers to segmenting customers on personal attributes such as age, generation, gender, sexual orientation, ethnicity, nationality, level of education, religion, social class, occupation, employment status, relationship status, income characteristics, parenthood status, family size and so forth. ***Geographic segmentation*** refers to segmenting customers based on the locations where they live, work or interact. ***Psychological segmentation*** refers to segmenting customers based on their different interests, personality traits, beliefs, opinions, attitudes and motivations. Lastly, ***behavioural segmentation*** refers to segmenting customers based on how they actually behave, and includes uncovering which technologies they use, what they purchase, which brands they purchase, how often they purchase, how much they spend, which channels they make use of, and so forth. (Ries & Trout, 2011, p. 224)

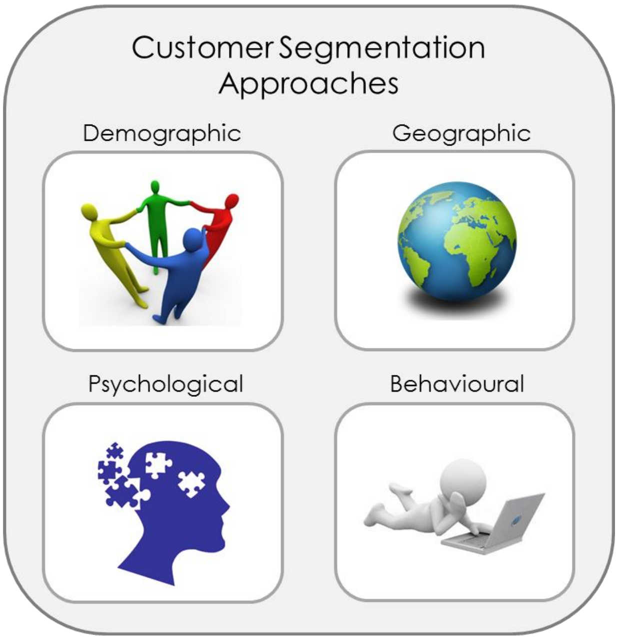


Figure 5.2 – Customer Segmentation Approaches

These four segmentation approaches can be used in combination to develop a complete customer persona. Some approaches may be more applicable to use for certain e-business than others, depending on the situation. Hybrid e-businesses would for instance be more concerned with geographical segmentation, as they need to be able to deliver physical products to physical locations. Digital e-businesses on the other hand might be less concerned with geographic segmentation and more concerned with a user's media usage frequency, duration, depth and breadth (Ries & Trout, 2011, p. 239; Lin, *et al.*, 2011, p. 2). The intent of this basic model is to make start-ups aware of these different approaches, and thereby enable them to choose the approaches befitting their situation.

Regarding e-commerce use and apprehensiveness, Zhou *et al.* (2007, pp. 42, 43) observed that demographic factors such as being male, being financially affluent, and being part of an individualistic culture increase the chances of making use of e-commerce. Zhou *et al.* (2007) also found that psychological factors such as the shopping intentions or motivations directly influence their risk perception. A keen intention to make a purchase and high perceived benefits decrease customer risk perceptions, making them more likely to purchase. On the other hand, customers become more apprehensive of web purchases as the cost of the purchase increases. Companies therefore have to strive to increase their offerings' perceived value, but at the same time the paradox that arises is that high value items that are lucrative to sell online are also those products that customers feel particularly uneasy about purchasing. Zhou *et al.* (2007) further highlighted that factors such as a user's Internet experience, which includes the amount of time spent online (Goldstuck, 2012, p. 20), frequency of use, comfort with the Internet and satisfactory past transactions relate to a decrease in web apprehensiveness and perceived risk of Internet purchases. Companies can therefore cultivate less web apprehensive users and increase their shopping tendency by providing satisfactory online shopping experiences (see e-loyalty antecedents, Chapter 5.5.3).

Lastly, the Internet is a very conducive medium for customer segmentation. The online world creates the opportunity to track customers, their behaviour, their purchase history and preferences much more easily than in offline business. In the offline world, a record of customer behaviour is only created when a purchase is made. However, in virtual stores, customers can be monitored click by click, to see how they navigate and respond, which subsequently delivers a much more holistic view of customers (Reichheld & Schefter, 2000, pp. 110, 111). Moreover, customers are also often willing to share additional personal information (beyond tracking analytics) with trusted online vendors, which can then be used to create offerings for their specific needs (Reichheld & Schefter, 2000, p. 107). Alternatively, businesses may even sell this information to other businesses and leverage their digital assets across many different and disparate markets (Lee & Vonortas, 2004, p. 166; Tapscott, *et al.*, 2000, p. 5; Rayport & Sviokla, 1995).

From this section the following proposition emerges:

- **Proposition 1.1:** The customer segmentation model is a suitable representation of the basic, generic customer segmentation approaches that exist. It can assist e-business start-up customer segmentation.

5.3. Generic Strategies

Generic strategies refer to the broad, strategic choices available to businesses in an industry. Otherwise stated, any taxonomy (typology or scheme of classification) that attempts to classify or define the broad, total number of businesses in a particular way within its confines can be considered generic strategy classifications. More loosely defined, taxonomies simply refer to classifications based on a certain number of common characteristics (Osterwalder, 2004, p. 26).

A myriad of business model or competitive strategy related classifications exist. Following from the epicentres of business models (Osterwalder & Pigneur, 2009, pp. 138, 139) it is likely that numerous taxonomies exist for each one of the business model components. In a side-avenue of the study, at least 20 taxonomies related to e-business models were identified that could be used as generic strategy models in the framework. In the broader scope of competitive strategy, additional taxonomies exist. However, evident from the development process of the previous chapter, all the structural requirements have been addressed by corresponding elements in the competitive strategy framework. The structural requirements that found their functional home underneath the umbrella of the generic strategy sub-element were that of the digital-physical orientation choices of an e-business and Porter's generic strategies.

It is recognised that the opportunity still exists to make integrative advancements in the area of e-business generic strategies or to include additional generic strategy models as-is underneath this umbrella in the framework, but due to the gravity of the subject[11], this was not pursued in this study, but forms part of future work.

5.3.1. Digital-Physical Orientation

A business's digital-physical orientation refers to its relative position on the digital-physical continuum. This choice is usually made implicitly based on the products that a business sells and the way that they decide to do business and make their offering available to customers. An explicit consideration of the different optionalities could be useful however, as different orientations present different challenges and provide different benefits.

The main question that this section sought to address was: ***What model(s) can assist e-business start-ups in selecting their digital-physical orientation?***

Unable to discover interesting models related to the digital-physical orientations of an e-business, the creation of such a model was pursued. Two conceivable models that could assist e-business start-up digital-physical orientation selection include (1) a strategy content oriented model and (2) a model that proposes which orientations are more or less viable for e-entrepreneurs to start up as. In an attempt to remove complexity from the eventual users of the framework, the latter pathway was chosen. As will become apparent in Chapter 6, this approach was fundamentally flawed. In Chapter 6 the first mentioned approach will therefore be pursued.

To reiterate, pure play e-businesses operate largely or exclusively online. ***Digital pure plays*** provide digital services or sell and distribute digital products to customers. Pure plays can sell physical products or services as well though, given that their role remains digital. These ***physical pure plays*** do not take ownership of physical products and do not engage in order fulfilment themselves. Rather they generate sales through their website for which they get commission and make use of partnerships to deliver the physical products (or a similar business model). ***Hybrid e-businesses*** on the other hand partake in physical activities in addition to their digital ones. Typical hybrid businesses that come to mind are e-retailers, or e-tailers. E-tailers make use of the Internet as a customer interface and sell physical products (that they own) through their website. Hybrids require warehouses, inventory, order fulfilment systems and so forth to do business. Further, depending on the type of hybrid, the business may require either more or less physical activities (therefore a digital-physical continuum).

Regarding the benefits of the different orientations, Hagiu and Wright (2013, pp. 103-105) investigated when it is better to be a multisided platform (pure player) versus being a pure reseller (hybrid). An advantage that hybrids possess compared specifically to pure players who sell physical products is that

[11] A myriad of taxonomies exist. At the same time, taxonomies provide diverse and disparate perspectives that are not easily reconcilable or integrateable (Lambert, 2003).

hybrids have more control over customer interactions. Hybrids can impact various factors that influence buying decisions, such as providing more enticing physical product presentations, better customer service, greater convenience, and quicker, more reliable delivery. They also have the ability to instil greater trust, reduce uncertainty, and provide a better overall experience. Furthermore, hybrids can better capitalise on both economies of scale (through bulk purchases) and on aggregation or synergy effects (through bundling) than physical pure players usually can. Additionally, as hybrids own the products, they also have more control over pricing and can introduce loss leaders (products that are sold very cheaply) with the aim of attracting additional purchases of products with higher profit margins (Hagiu & Wright, 2013, p. 104). Such tactics are not necessarily possible when in a pure play position, due to partner's policies.

The conclusion drawn from Hagiu and Wright's (2013) study is that because pure plays require less capital to start and have lower operating costs, they are cheaper to finance and should therefore be used when capital is an issue. During later stages, when more capital becomes available, it is still possible for these companies to switch to a hybrid model. An example of a business that followed this route was Zappos, the online shoe retailer. Zappos launched in 1999 as a multisided-platform (pure play) and later switched to being a reseller (hybrid). Zappos realised that customers' need for a great retail experience would not be possible without taking ownership of shoes, using its own warehouses and taking control of the interactions with end users. Previously Zappos had relied on partnerships with shoe manufactures for order fulfilment. At that stage they were still a pure player. However, by shifting to a hybrid model and becoming resellers, they could guarantee fast delivery, install a favourable and universal return policy and provide customers with reliable and standardised information about products' characteristics and availability. (Hagiu & Wright, 2013, p. 105)

Porter (2001, p. 18) also stated that it is likely that hybrid strategies that integrate Internet and traditional competitive advantages should beat pure players in many industries. He argued that most customers will value the combination of online service, personal services, and physical locations over stand-alone web distribution. Customers will value the choice in channels, delivery options and ways of interacting and doing business with companies.

Though this sounds ideal, the operationalisation may be more difficult. Barsh *et al.* (2000, pp. 100, 102) for instance argued that hybrids will not ever be profitable unless they reach Amazon.com-like scale. This conclusion is drawn from the fact that many e-tailers already operate at low profit margins as customers are not willing to pay significantly more for online products than they would pay for offline ones. Then, when fulfilment and shipping costs and high customer acquisition costs are taken into account, many e-tailers may actually be making a loss on each transaction. This necessitates massive scale in order to sufficiently "dissipate" the fulfilment costs.

The obvious solution to this is to shift fulfilment costs to customers, but as previously mentioned, customers are not necessarily willing to pay for this. To compound problems, small, customised shipments, such as toys for instance, are difficult to assemble, pack and ship and therefore incur extra logistical costs (Porter, 2001, pp. 16, 17). Other woes of new hybrid e-businesses include a lack of experience in merchandising and sourcing, a lack of scale, problems with inventory management and product returns, intense price competition, small orders, high customer acquisition costs and few repeat sales. (Barsh, Crawford, & Grosso, 2000, pp. 100, 102, 107)

For these reasons, traditional, experienced retailers are probably more suited to executing a hybrid off-and-on-line strategy, instead of start-ups who try to create a hybrid e-business (Barsh, Crawford, & Grosso, 2000, p. 98). Experienced traditional retailers already have an established infrastructure which they can leverage, as well as brand recognition that reduces customer acquisition costs. Furthermore, in very brand sensitive markets, established retailers only have to spend about one third to one quarter as much on customer acquisition, than hybrid rivals would have to invest (Barsh, Crawford, & Grosso, 2000, p. 102). Incumbents' advantages over start-ups in this case are therefore clearly evident.

Advice that Barsh *et al*. (2000, p. 108) provided for hybrids was that free shipping should only be reserved as an explicit vehicle to acquire new customers, or as a prize to loyal customers and heavy buyers. What's more, e-tailers should focus on their most successful categories as a hybrid and act as pure players for the rest, namely making use of partners and receiving commissions for the referrals (Barsh, Crawford, & Grosso, 2000, p. 108). Moreover, expensive, or hard-to-bring-home items such as refrigerators and washing machines could be good items to sell over the web, as customers become less price sensitive to shipping costs. However, as mentioned in the previous section, the paradox that arises is that high value items that are lucrative enough to sell over the web are also those products that customers feel particularly uneasy about purchasing online (Zhou, Dai, & Zhang, 2007, pp. 42, 43).

Customers cannot physically examine, touch or test the products of hybrid e-businesses or physical pure players. No tactile quality assurance or demonstrations of the product's function or quality can be provided to build confidence and trust in the products and e-tailer. Digital pure players in comparison can often allow users to test trial versions of a product. Another downside to hybrids or physical pure players is that there is always a delivery delay (Porter, 2001, pp. 16, 17). Pure players on the other hand can provide digital content and instant access to products.

Following on the fulfilment cost argument above, it is clearly important to eliminate physical activities in e-business, as they consume profits. Evidence is provided by Jeff Bezos, founder of Amazon, who stated that the capital expenditure to build and maintain their physical supply chain is enormous (Jones, 2007, p. 116). Amazon realised that they could be more profitable if they eliminated some physical aspects of their business. Consequently, they invented and started selling their own tablet device, the Kindle, which allows the company to provide customers with books in a digital format and thus save on warehousing and distribution costs. Netflix acted in a similar manner. Netflix was originally a hybrid e-business that delivered DVD-by-mail. They then shifted their entire business online and now use live streaming via the Internet to deliver an all-you-can-watch movie and television streaming service to customers (Sabbagh, 2012).

The lesson from this is that pure dot-coms should seek trade-offs between the Internet and traditional approaches, where only an Internet model offers real advantages. This occurs when either these customers' needs are best met online, or when a product or service can best be delivered through an online channel that does not require physical assets. (Porter, 2001, p. 19) Furthermore, Weill *et al.*'s (2005, p. 26) research also showed that business models that are based on non-physical assets (pure players) are more profitable and associated with higher market capitalisation than those based on physical assets (hybrids).

Additionally, all the more opportunities are emerging which pure play e-businesses can capitalise on. As Internet, smartphone and tablet use become more ubiquitous, all the more opportunities are created to deliver content to customers in a digital format. This could for instance involve opportunities in cloud computing, big data analysis, social media, customer analytics, customer relationship management, collaboration tools, content management, search engines, new digital channels, digital platforms, digital applications and content for digital devices (IBM, 2011, p. 26). The biggest advantage of pure play strategies is that digital products can be reproduced and distributed at a near zero cost (Lee & Vonortas, 2004, p. 171; Tapscott, *et al.*, 2000, p. 5; Rayport & Sviokla, 1995). This translates into lower operating costs, superior profit margins, quicker breakeven and lower risk. The research and development costs to invent those digital products should be kept in mind however.

Again considering hybrid e-businesses, it should be mentioned that the product characteristics determine how difficult it is to create the business. The product's shape and the intended scale of the operation impacts whether warehouses will be required or if the business can be run from a garage. It also impacts how difficult and expensive logistics are. Furthermore, if the product's nature makes customers willing to pay for shipping without regard of an amazing customer experience (including benefits such as customer service, fast delivery, more aesthetic product presentations, prior product testing and a favourable return policy) all the easier it is to establish a hybrid. Many elements can therefore be erased that can make hybrids low cost operations. The downside is that these "lean hybrids" have to sacrifice a lot of benefits that customers may actually require. This may still suffice in a niche environment where no competitors exist, however it may be less viable in more densified market spaces. Pure players in comparison do not have to make any sacrifices. They can capitalise on all and any benefit that their channel provides.

To conclude, it is proposed that pure play e-businesses are easier and less costly to create, and are therefore more viable start-up strategies. The option of starting as a hybrid cannot be dismissed however, as these businesses may have numerous advantages. The disadvantage of hybrids however, are that they require extra physical value chain elements that add costs and complexity to the business. In this way, they essentially forgo key e-business advantages. From this, the first element within the generic strategy element of the competitive strategy framework for e-business start-ups was constructed as depicted in Figure 5.3 below. The numbers indicate the order of viability of the different digital-physical orientation strategies, with "one" indicating the most viable strategy.

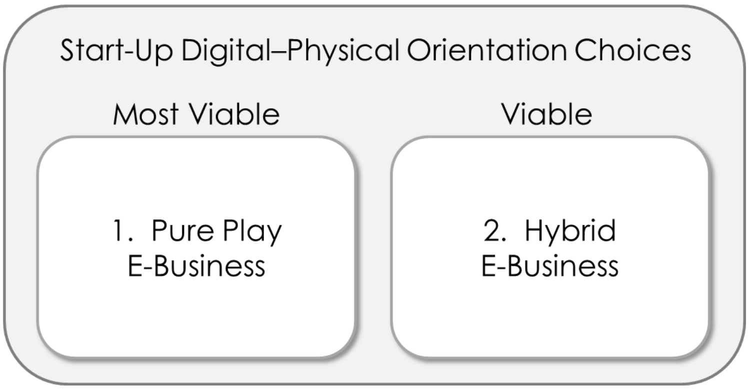


Figure 5.3 – Viable Digital-Physical Orientation Choices for E-Business Start-Ups

From this section the following proposition emerges:

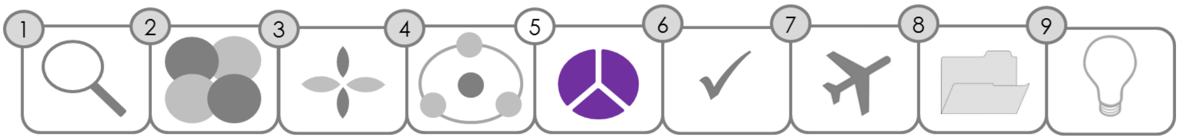
- **Proposition 2.1**: The digital-physical orientation model suitably reflects the viability of the two digital-physical orientations for e-business start-ups.[12]

5.3.2. Porter's Generic Strategies

In 1980 Porter revolutionised strategy literature, specifically the positioning school of strategy, with his book *Competitive Strategy* (Mintzberg, Ahlstrand, & Lampel, 2009, p. 86). One particularly intriguing subject introduced is that of generic competitive strategies, which later became known as Porter's generic strategies as shown in Figure 5.4 below. Subsequently, his model has been under the scrutiny of various authors and it has served as a source of discussion, contemplation and research for studies across a wide range of industries. Three key questions that are repeatedly investigated, are whether Porter's generic strategies are applicable to particular industries or countries; which of these strategies have the greatest effect on performance in particular industries or countries; and whether Porter's generic strategies are still applicable given technological advances, industry trends, changes in macro-economic forces, changes in market needs and so forth.

The main question that this section sought to address was: ***What model(s) can assist e-business start-ups***

[12] Due to a lack of accuracy, the viability argument will be abandoned in Chapter 6. Instead, the arguments that informed the viability conclusions will be presented, which thereby informs start-ups' digital-physical orientation choice. This proposition will then be replaced with "The digital-physical orientation model suitably reflects the digital-physical orientation choices available to e-business start-ups and can assist them with selecting their generic strategies".



in selecting their Porter's generic strategies?

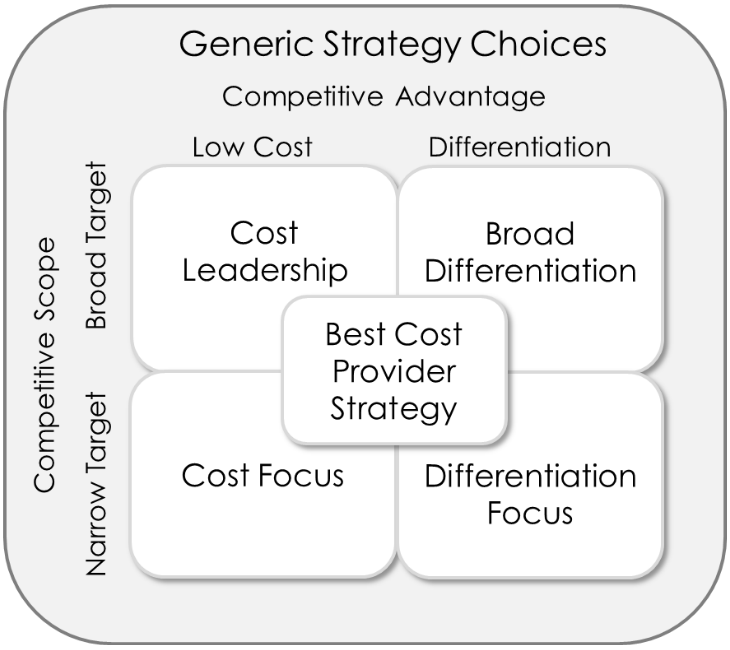


Figure 5.4 – Extended Generic Strategies (Thompson & Strickland, 2001, p. 134)

Similar to the previous section, in an attempt to assist e-business start-ups with selecting their Porter's generic strategies and at the same time attempt to remove complexity from the eventual users of the framework, this section proceeded to investigate and propose which of Porter's generic strategies are more or less viable for e-entrepreneurs to start up as. Again, as will become apparent in Chapter 6, this approach was fundamentally flawed. In Chapter 6 a more content-oriented approach will therefore be pursued.

This section starts by considering the two dimensions of Porter's generic strategies, and subsequently drawing conclusions about the five positions from the discussion.

Firstly, the competitive scope of a business corresponds to the markets that they target. Businesses can choose to target the broad, total market or alternatively, companies can choose to focus on a niche customer segment within the total market. Niche strategies, focused strategies, or specialist strategies therefore cater to specific customers which may be segmented based on particular customer needs or other segmentation variables.

As the name suggests, the competitive scope is linked to the scope of a company. When a niche company for instance expands its offerings to cater to more and more customer segments, then soon it could possibly fulfil the needs of the entire market and become a broad business. An example of this is Amazon, who started off in the niche category of selling only books online, but expanded so drastically that it is now possible to purchase almost anything from them. Broad businesses can similarly reduce the scope of their offerings to become more niche. Regarding classification, the "nicheness" or "broadness" of a company is a relative position on a continuum rather than two distinct, fixed positions, as depicted in Figure 5.5 below.

As it is a continuum, it creates ample room for debate regarding the classification of specific instances.

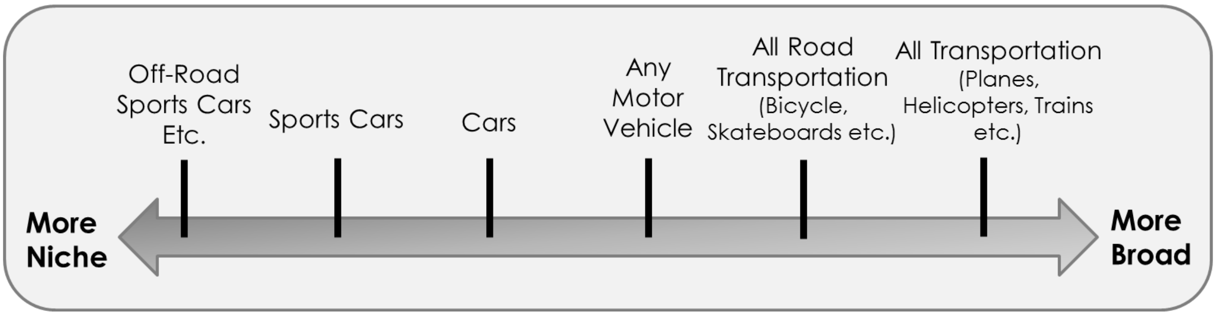


Figure 5.5 – Competitive Scope Continuum (Motor Vehicle Example)

From these two broad classifications, ***niche strategies*** are the most viable for e-business start-ups. Niche strategies target specific customer segments whose particular, niche needs are currently being under- or over-served. Niche strategies therefore target opportunity spaces that pose low barriers to entry, but allows the first mover to build e-loyalty (Gommans, Krishnan, & Scheffold, 2001, p. 54) and establish barriers against similar specialists (Kim, Nam, & Stimpert, 2004, p. 22). This relates to Johnson *et al.* (2008, p.61, 62) who stated that the most important attribute of a customer value proposition is its precision, e.g. how perfectly it gets the customer job done and nothing else. As soon as a company lacks precision, it creates an opening for competitors (niche entrants or specialists) to better address the need. Companies cannot be all things to all customers (Clarke, 2001, p. 160; Porter, 1996, pp. 7, 12). Too much diversity diminishes distinctiveness. Therefore, if a company attempts to simultaneously do a lot of things, then they do nothing exceptionally well (Johnson, Christensen, & Kagermann, 2008, pp. 61, 62).

Porter (1980, p. 146) posited that small firms may be more profitable in industries where economies of scale in production, distribution, or other functions are not really that substantial (such as pure e-business), as it allows them to follow a specialist strategy that competes on a more equal footing with larger firms. Another factor that supports niche strategies online is that the lower start-up costs of e-businesses enable lower breakeven points. This means that even targeting small market segments could be viable (Kim, Nam, & Stimpert, 2004, p. 22; Porter, 2001, p. 17). Also conducive to targeting small markets, is the Internet's inherent reach that makes it easier to connect a firm and its niche market (Kim, Nam, & Stimpert, 2004, p. 6). Finally, as mentioned in the previous section, customers are not willing to pay significantly more for products online than they would in brick-and-mortar stores. This makes selling commodities with low margins particularly dismal online (Barsh, Crawford, & Grosso, 2000, pp. 100, 102), which again signifies that niche strategies are more viable.

Broad strategies in contrast pose a few problems. Firstly, broad businesses usually seek to fulfil a wide range customer needs. In attempting to do so, these businesses compete by providing a wide range of offerings to customers. Because so many offerings are provided, there are many more adjacent competitors. Broad strategies are therefore more likely to incite competitive retaliation. In an attempt to stay competitive and risk becoming irrelevant, companies may for instance be forced to expand into unrelated markets (beyond their core market), because competitors are targeting them. This creates inherent inefficiencies. For this reason, broad strategies are more reliant on economies of scale to achieve efficiencies across its broad scope.

Broad businesses are lucrative however, as they focus on the entire market instead of just a sub-set of the market. Because of this, it is likely that every mature industry already possesses a powerful industry leader or leaders. Start-ups may therefore find it particularly difficult to compete in broad markets as incumbents with superior resources usually exist in these spaces, and are likely to win the scale and scope battle (Gommans, Krishnan, & Scheffold, 2001, p. 54).

Moving on to the core competitive advantage choice, ***differentiation*** strategies focus on providing new, novel and differentiated offerings, which deliver unique value and are usually accompanied by a more expensive price. Alternatively, low-cost strategies involve providing similar offerings, but performing activities more efficiently and economically than competitors, leading to a cost advantage. (Porter, 1996, p. 5) Combining these two strategies creates the best cost provider strategy, where both differentiation and a cost advantage are pursued.

Several authors in literature are in agreement that differentiation is critical in achieving success. Magretta (2002, p. 91) eloquently summarised that "A competitive strategy explains how you will do better than your rivals. And doing better, by definition, means being different. Organisations achieve superior performance when they are unique, when they do something no other business does in ways that no other business can duplicate...That's what strategy is all about – how you are going to do better by being different. The logic is straightforward: When all companies offer the same products and services to the same customers by performing the same kinds of activities, no company will prosper". Hamel (2000) supported this by arguing that the uniqueness of a business model influences its profit potential. Differentiation is required as the more similar business models are, the less probable is the chance of earning above-average profits.

Zook and Allen (2011, pp. 107, 108) similarly stated that "Differentiation is the essence of strategy, the prime source of competitive advantage. You earn money not just by performing a valuable task, but by being different from your competitors in a manner that lets you serve your core customers better and more profitably. The sharper your differentiation, the greater your advantage… In studying companies that sustained a high level of performance over many years, we found that more than 80 percent of them had this kind of well-defined and easily understood differentiation at the centre of their strategy… Every industry has its leaders and laggards, and the leaders are typically the most highly differentiated".

Porter (1980, pp. 19, 24-26) also noted that when there is a lack of differentiation between rivals, then customers base their decisions on price and service, which can lead to fierce competition. However, product differentiation creates barriers against competitive warfare, because customers have preferences and loyalties to particular sellers. Additionally, the more differentiated the company's offerings, the less customer bargaining power becomes.

Similarly, a few arguments can be posed why ***low cost strategies*** may not be as viable as differentiation strategies online. Firstly, the ingenuity of low cost strategies is contingent on the ability to do things more cheaply than competitors. Gaining a cost advantage is critical, as low cost companies can then either match the average competitor's price and be rewarded handsomely, or match the nearest competitor's price and still be profitable. The problem with low cost strategies online however, is that there are often competitors (who for the sake of competition) or individuals (who for the sake of society's benefit) that provide the same offerings as the company for *free*.

This unsettles the fundamental economics that low cost companies are based on. Low cost companies strive to provide offerings at an equal or below market price. However, it is impossible for them to match a price of zero. If both the free competitor and the low cost competitor's products are of relatively equal value, then rational customers would use the free offering, thereby completely destroying low cost companies' profits.

How do low cost companies then compete against free offerings? Intuitively, an intense price war will not suffice, as the free competitor already commands the lowest price possible. Low cost companies must therefore give customers reasons to pay for the offerings. While the free offering could provide the very basics, this may not suffice for many users. Companies have to differentiate themselves from the free competitors, and provide features that customers value and will pay for. Kevin Kelly's (2008) "generative qualities" may help in this regard. The result is that a product's price becomes more of a function of its novelty, rather than being influenced by the product's cost and a profit margin alone. This again advocates the need for differentiation.

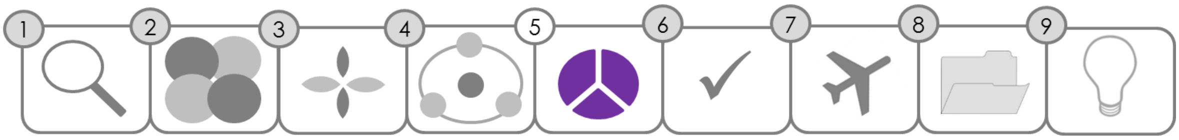
This is also aligned with Porter's (2001, p. 19) call on companies to break away from competing solely on price and instead to focus on product selection, product design, service, image, and other areas in which they can differentiate themselves. Lee and Vonortas (2004, p. 170) echoed this same sentiment by stating that it is important to look beyond costs as the sole arbiter of value in e-business.

Secondly, the other disadvantage that low cost providers face is the existence of an immense amount of content on the web. If a company's offerings are not differentiated, then it could easily get lost in the myriad of other offerings. Furthermore, low cost providers' offerings do not even command the lowest price, giving customers even less reason to take notice, making chances of discovery even less. Additionally, characteristics such as trust, credibility, recognition and brand names are even more important in the e-environment, as there is little or no physical contact between customers and the company. This makes differentiation strategies even more appealing (Kim, Nam, Stimpert, 2004, p. 38; Brynjolfsson & Smith, 2000, p. 565).

Are low costs then still relevant in e-business? The answer is yes, as many customers online are still price sensitive. The extent to which customers are price sensitive is largely debateable though (Jaywardhena, Wright, & Dennis, 2007, p. 521; Balabanis, Reynolds, & Simintiras, 2006, pp. 221, 222; Reichheld & Schefter, 2000, p. 107). A study by J. P. Morgan (1999) showed for instance that price was only relevant to approximately 19 percent of respondents who purchased items online (Mansfield & Fourie, 2004, p. 50; Morgan, 1999), while a Korean study by Kim and Kim (2000) found that 71 percent of first time shoppers indicated that price was their most important consideration. Furthermore, as price comparisons are easier to do online and the fact that competition is just one click away, being within a competitive price range is important for e-businesses in developing and maintaining customer loyalty (Kim, Nam, & Stimpert, 2004, p. 38; Gommans, *et al.*, 2001, p. 49; Reichheld & Schefter, 2000).

As such, being successful on the Internet is not an argument between low cost and differentiation strategies, but instead is an argument for low cost *AND* differentiation. This logic is independent of, yet consistent with the empirical findings by Kim *et al*. (2004, pp. 19, 34, 38) who found that Porter's cost leadership strategy exhibits the lowest performance, whilst a strategy that combines cost leadership and differentiation (best cost provider strategy) exhibits the highest performance. Furthermore, when analysing a sub-sample of firms following a best cost provider strategy, pure players achieved superior performance to those that followed a hybrid bricks-and-clicks strategy. This coincides with arguments of the previous section.

To conclude, differentiation strategies are superior to low cost strategies in e-business, because the threat of free competitors imply that one has to create value that customers will pay for. Niche or focused strategies are more suited to e-business start-ups than broad strategies, because broad market spaces are inherently lucrative and most likely already dominated by resource rich incumbents. This makes it very difficult for a start-up to successfully compete in such a space. Finally, best cost provider strategies that combine low cost and differentiation strategies perform the best in e-business (Kim, Nam, & Stimpert, 2004, p. 38), because customers want value, but they also want it at a low cost. Consequently, a best cost provider strategy is the most suited to e-business start-ups. The second element within the generic strategy component of the competitive strategy framework for e-business start-ups could be constructed, as depicted in Figure 5.6 below. The numbers indicate the order of viability of the different generic strategies, with "one" indicating the most viable strategy and "five" indicating the least viable strategy.



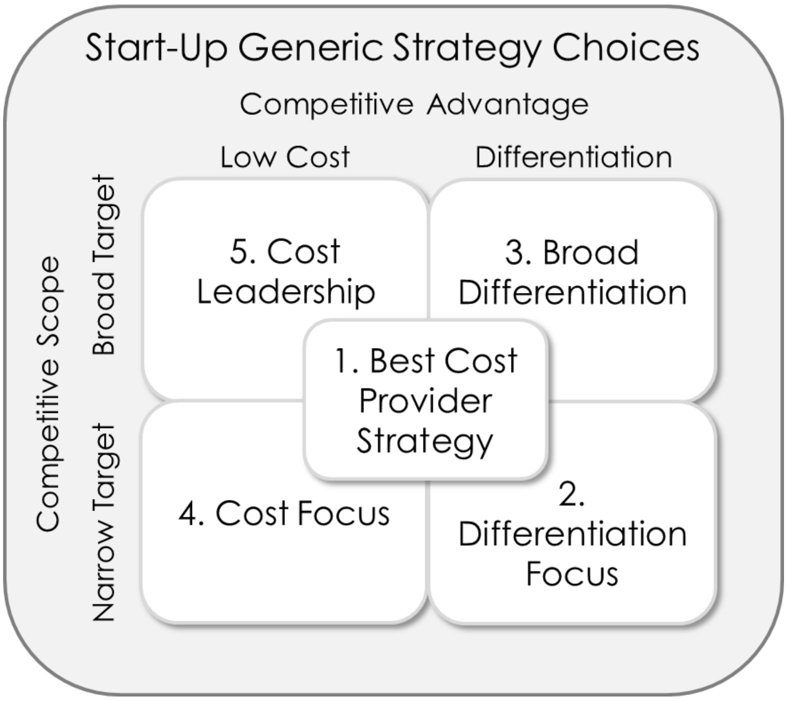


Figure 5.6 – Viability of Porter's Generic Strategy Choices for E-Business Start-Ups

From this section the following proposition emerges:

- **Proposition 2.2:** The generic strategy model adequately reflects the viability of Porter's generic strategies for e-business start-ups.[13]

5.4. Value Proposition

The value proposition of a business relates to the creation and delivery of value to customers. A differentiated value proposition encapsulates the essence of competitiveness of a firm (Ungerer, Pretorius, & Herholdt, 2011, p. 184). Following from the business model canvas (Osterwalder & Pigneur, 2009, pp. 18, 19), a value proposition is simply a promise to a specific customer segment that a certain offering will be provided and a certain relationship will be established by utilising certain channels, at a certain price. Utilising the semantics of this study, this section discusses a business's (1) offering, (2) customer relationships, (3) channels, and (4) revenue and pricing strategies.

[13] Due to a lack of accuracy, the viability argument will be abandoned in Chapter 6. Instead, the arguments that informed the viability conclusions will be presented, which thereby inform start-ups' Porter's generic strategy choice. This proposition will be replaced with "The generic strategy model suitably reflects Porter's generic strategy choices available to e-business start-ups and can assist them with selecting their generic strategies".

5.4.1. Offering

"Companies that solely focus on competition will ultimately die.
Those that focus on value creation will thrive." **– Edward de Bono**

The offering of a business refers to the bundle of benefits that is promised to the customer. The offering seeks to solve customer problems, satisfy customer needs, and describes the combination of products, services and other elements that create value for a specific customer segment (Osterwalder & Pigneur, 2009, pp. 16, 22). The offering of a business exists to create value for customers. At the same time, it is the element that is largely responsible for the creation of a differentiated strategy canvas. The latter mentioned is important, as it was deemed a property of ideal strategic formulation output (Figure 4.4).

The main question that this section sought to address was: ***What model(s) can assist e-business start-ups in formulating their offering?***

Numerous avenues existed (and still exist) that could be explored, including various innovation, entrepreneurship, and market analysis techniques and models. However, given the description above of offerings existing to create value for customers, informed by the strategic positioning perspective that some positions and markets are more structurally favourable than others, and inspired by the blue ocean vigour for reconstructing market boundaries and creating uncontested market space, it was endeavoured to focus on two key facets, namely (1) new market space creation and (2) e-value creation.

New market space creation is an important topic as it seeks to disrupt the status quo by breaking through and adapting the current market boundaries and creating new differentiated offerings that deliver unprecedented value. E-value creation on the other hand is important as it informs our understanding of the factors that really matter in e-business, and which e-businesses would do well to create or capture.

Given the content oriented nature of this study, the first task was to create an integrated market boundary expansion model. This model drew on the six paths framework (Kim & Mauborgne, 2005, pp. 47-80), the nine routes to revolution (Hamel, 1996, pp. 72, 73) and the ten different approaches for creating new market space (Ungerer, Pretorius, & Herholdt, 2011, pp. 92-133). In order to be concise, these different models are not depicted again here but the integration process is shown in Table 5.2 below. The basic approach was to identify factors between the different models that are essentially the same and integrate those, therefore removing the redundancies, while preserving the independent, unique factors. Additionally, some factors were removed as they play a more dominant role in other models discussed later. The result of this integration has been named the "10 techniques for creating new market space".

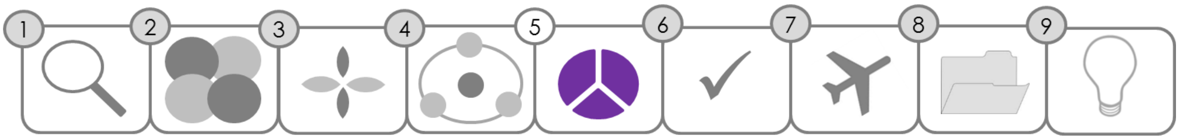


Table 5.2 – Construction of the 10 Techniques for Creating New Market Space

Market Boundary Expansion Models				
No.	**6 Paths for Reconstructing Market Boundaries** (Kim & Mauborgne, 2005, pp. 47-80)	**9 Routes to Industry Revolution** (Hamel, 1996, pp. 72, 73)	**10 Different Approaches for Creating New Market Space** (Ungerer, Pretorius, & Herholdt, 2011, pp. 92-133)	**10 Techniques for Creating New Market Space**
1.	Look across alternative industries	Separate function and form	Look across alternative industries	1. Look across alternative industries
		Drive industry convergence		
2.	Look across strategic groups within industries	Dramatically improve the value equation	Look across strategic groups within industries	2. Look across strategic groups within industries
3.	Look across the chain of buyers		Look across the chain of buyers	3. Look across the chain of buyers
4.	Look across complementary product and service offerings		Look across complementary product and service offerings	4. Look across complementary product and service offerings
5.	Look across functional or emotional appeal of buyers		Look across functional or emotional appeal of buyers	5. Look across functional or emotional appeal of buyers
6.	Look across time		Look across time	6. Look across time
7.		Achieve joy of use		*Included in 18 sources of value in e-business (convenience/ embodiment)*
8.		Push the bounds of universality (Target the total imaginable market)		*Included in the customer need saturation scale (see Chapter 6.5.6)*
9.		Strive for individuality (Customisation)		*Included in 18 sources of value in e-business*
10.		Increase accessibility		*Included in* 18 sources of value in e-business
11.		Rescale the industry		7. Rescale the industry
12.		Compress the supply chain		8. Alter supply chain structure
13.			Creating market space through digital space	9. Look for markets in digital space
14.			Creating market space through excellence in customer service quality	*Included in e-loyalty antecedents model*
15.			Creating market space through customer empowerment or giving customers control	*Included in 18 sources of value in e-business*
16.			Creating market space through choke points	10. Create market space through strategic control points

The first six techniques were taken directly from the six paths framework, with the following two originating from the nine routes to industry revolution. The last two techniques were taken from the ten different approaches for creating new market space. The 10 techniques for creating new market space are visualised in Figure 5.7 below.

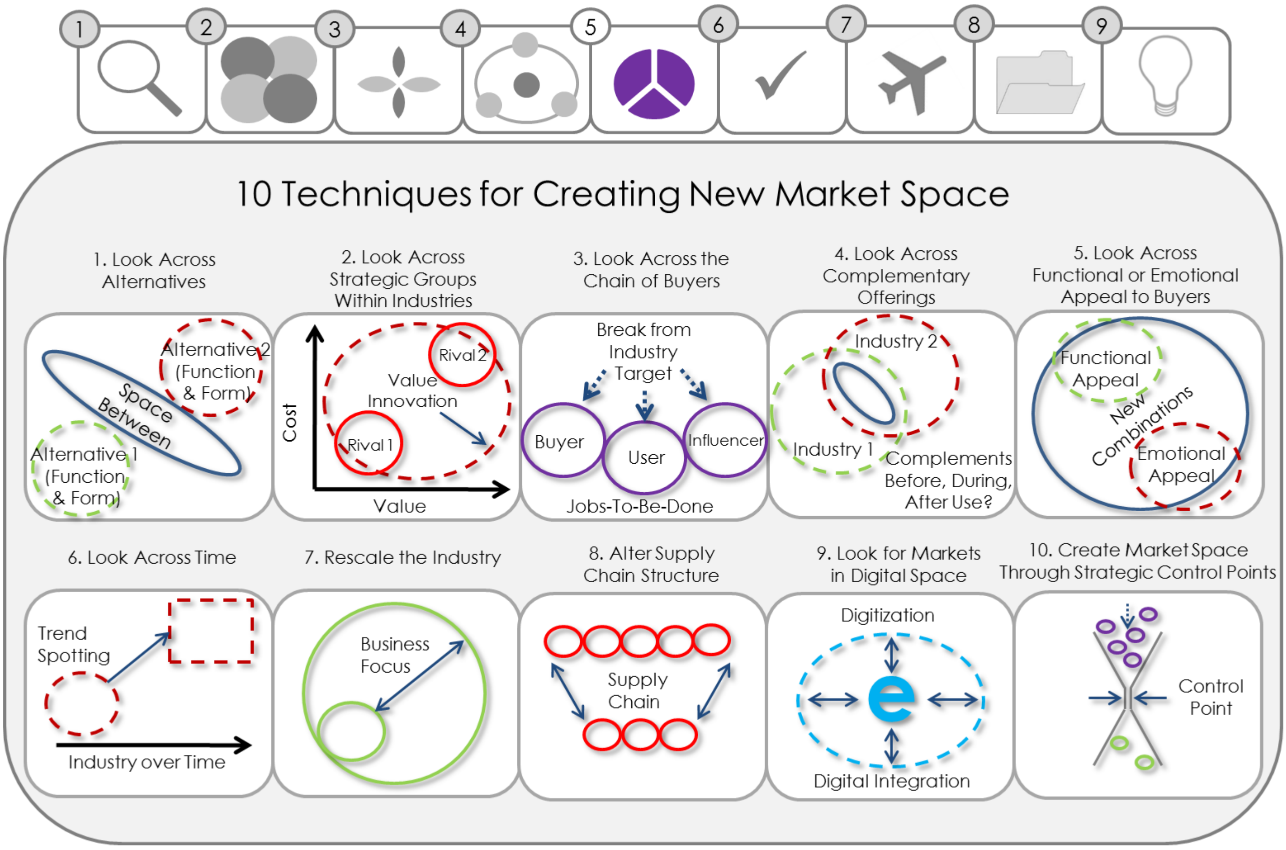


Figure 5.7 – 10 Techniques for Creating New Market Space

In defining each of these elements, ***looking across alternatives*** refers to looking across alternative offerings, which may or may not have different functions and forms, but are used to broadly achieve the same goal. This is useful as it can lead businesses to identify trade-offs that customers have to make between different offerings. Opportunities for value innovation that resides in the space between industries can thus possibly be identified. Similarly, this approach can identify opportunities to embody a function in a new and better form or use the same form for a new function. (Kim & Mauborgne, 2005, p. 49; Hamel, 1996, p. 72)

Looking across strategic groups within industries refers to looking within an industry at the different groups of companies that follow a similar strategy. Generally strategic groups have pre-conceived ideas of the value that can be offered at a certain price point. Therefore, by improving the value equation a new position can be carved out between the strategic groups within an industry. Breaking the value-cost ratio can therefore lead to a reconception of the product or service. (Kim & Mauborgne, 2005, p. 56; Hamel, 1996, p. 72)

Looking across the chain of buyers refers to evaluating all the parties that are involved in the buying process. Considering the chain of buyers, *purchasers* pay for the products or services, *users* use the products or services, and *influencers* influence the buying decision. These three user groups may overlap, but when they do not, frequently the different groups have different perceptions as to what is valuable. By looking at a product or service from these different perspectives can possibly lead to the identification of a new opportunity. (Kim & Mauborgne, 2005, p. 61) This perspective is also aligned with customer centricity and a jobs-to-be-done approach, where users are scrutinised to identify the essence of what they really need to accomplish and providing only that (Johnson, Christensen, & Kagermann, 2008).

Looking across complementary product and service offerings refers to considering the total solution buyers seek when they choose a product or service. In most cases products and services are not used in solidarity and usually rely on other products and services (possibly from other industries), which affect their value. By inspecting the context that an offering is used in, and considering what happens before, during and after a product or service is used, complementary products can often be identified that will eliminate user pains. This in effect significantly increases the value of the offering. (Kim & Mauborgne, 2005, p. 65)

Looking across the functional or emotional appeal to buyers refers to considering the conventional utility and emotional attractiveness of industry offerings. By challenging this functional or emotional orientation of an industry, value can be unlocked. In a functional industry for instance, elements can be added to make the industry more emotional. In contrast, in an emotional industry elements can be removed to make it more functional. (Kim & Mauborgne, 2005, pp. 69, 70)

Looking across time refers to identifying how industry trends affect how customers perceive value and how these trends impact a company's business model. It is thus important to look at how value is currently being delivered and to think about how value might be delivered in the future. Doing this can lead to a new opportunity. However, there are three principles that are critical to assessing trends across time: the trends must be decisive to the business; they must be irreversible; and they must have a clear trajectory. (Kim & Mauborgne, 2005, pp. 75, 76)

Rescaling the industry refers to rescaling the size or focus of businesses in an industry. Rapid consolidation of a fragmented industry can lead to economies of scale in purchasing, capital utilisation, marketing and administration. Conversely, scaling down the size of businesses in an industry can lead to niche businesses that are able to better serve a narrow or local customer segments. (Hamel, 1996, p. 73)

Altering the supply chain structure refers to either removing or adding intermediaries to the supply chain to either compress or lengthen it. Hamel (1996, p. 73) originally only mentioned compressing the supply chain (vertical integration) to give companies enhanced control, increased coordination, efficiencies and cost savings. Here this technique is expanded by noting that businesses may actually want to act as additional intermediaries, therefore lengthening the supply chain, if it is possible to provide value to customers not obtainable otherwise. In South Africa, an example is MWeb which acts as an intermediary and facilitates the process of obtaining ADSL instead of the core provider, Telkom.

Looking for markets in digital space refers to digitising products or services in order to capitalise on the benefits that the e-space provides, such enhanced access and cost benefits. The digital space also allows for better information sharing, better integration and coordination. Additionally, Davis (1996) noted that the Internet eliminates restrictions such as time, space and mass. Thinking about digital space can therefore lead to the identification of valuable opportunities (Ungerer, Pretorius, & Herholdt, 2011, p. 94).

Lastly, ***creating market space through strategic control points*** refers to utilising control points to capture value. Control points refer to mechanisms which may be leveraged to prevent imitation and lock competitive advantages in for the business. Control points therefore act to retain customers and prevent competitors from entering specific strategic spaces. Skarzynski and Williams (1998) defined it as "The ability to direct or command a key aspect of competition". This relates to scarcity economics where the goal is to identify valuable bottlenecks and capturing them (Van der Heijden, 2001, p. 14). Control points therefore present valuable strategic spaces and excellent opportunities for those who can pre-empt it.

In summary, these 10 techniques can be used to rethink competition, challenge conventional wisdom, expand current market boundaries and create new market spaces.

The second task was to identify the marginally actionable factors that create e-value. E-business specific models and generic value creation models were considered in this regard. The generic value creation models may seem out of place, however these models are by definition applicable to all industries and hence also to e-business. The e-business specific models that served as primary input include Amit and Zott's (2001, p. 504) sources of value creation in e-business, Kelly's (2008) generative qualities and Wells and Golebi's (2003, p. 6) 3R framework. The generic value creation models used include Osterwaler and Pigneur's (2009, pp. 23-25) generic sources of value, Kim and Maubrogne's (2000, p. 133) generic levers of utility and Johnson *et al.*'s (2008, pp. 61, 62) and Christensen *et al.*'s (2002, pp. 24, 25) obliterating barriers to consumption perspectives.

In order to be concise, these models are not depicted again here but the integration process is shown in Table 5.3 below. The basic approach was to assume a customer value point of view and identify factors between the different models that are essentially the same and integrate those, while keeping the independent, unique factors. The result of this integration has been named the "18 sources of e-value".

The first three sources of value (novelty & newness; affordability & cost reduction; range & complementarities) were taken from Amit and Zott's (2001) sources of e-value. Amit and Zott's fourth source, lock-in, was removed from the integrated model, as lock-in in itself does not create value from a customer point of view. Lock-in does however create value for the company by retaining customers for longer periods of time, which essentially increases profitability. Lock-in is extremely important however. So important in fact, that the core element, customer lock-in, was dedicated to it and is discussed in the following section.

Table 5.3 – Construction of the 18 Sources of E-Value

Value Creation Models								
	E-specific Models			Generic Models			Mixed	Integrated Model
No.	**Sources of E-Value** (Amit & Zott, 2001, p. 504)	**3R Framework** (Wells & Gobeli, 2003, p. 6)	**Generative Qualities** (Kelly, 2008)	**Generic Sources of Value** (Osterwalder & Pigneur, 2009, pp. 23-25)	**Generic Levers of Utility** (Kim & Mauborgne, 2000, p. 133)	**Obliterating Barriers to Consumption** (Johnson, Christensen, & Kagermann, 2008, pp. 61, 62)	**Miscellaneous**	**18 Sources of E-Value Creation Element**
1.	Novelty			Newness				1. Novelty & newness
2.	Efficiency			Price		Affordability		2. Affordability & cost reduction
3.				Cost reduction				
4.	Complementarities	Range					(Lee & Vonortas, 2004, p. 178)	3. Range & complementarities
5.	Lock-in							*Included in customer lock-in element of framework*
6.		Reach	Accessibility	Accessibility		Accessibility	(Hamel, 1996, pp. 72, 73)	4. Reach & accessibility
7.		Richness					(Lee & Vonortas, 2004, pp. 168- 175)	5. Richness of information exchange
8.			Immediacy			Timeliness		6. Timeliness & immediacy
9.			Personalisation	Customisation			(Lee & Vonortas, 2004, p. 166; Hamel, 1996, pp. 72, 73)	7. Individualisation
10.			Interpretation					8. Interpretation
11.			Authenticity	Risk reduction	Risk reduction			9. Authenticity, trust & security
12.			Embodiment		Fun & image			10. Embodiment
13.			Patronage					*Removed – Not valuable in itself*
14.			Findability					11. Findability
15.				Performance				12. Efficiency
16.				Getting the job done		Jobs-to-be-done approach		
17.				Design				13. Aesthetics and brand attractiveness
18.				Branding/ Status				
19.					Simplicity	Simplicity		14. Simplicity

Value Creation Models								
	E-specific Models			Generic Models			Mixed	Integrated Model
No.	**Sources of E-Value** (Amit & Zott, 2001, p. 504)	**3R Framework** (Wells & Gobeli, 2003, p. 6)	**Generative Qualities** (Kelly, 2008)	**Generic Sources of Value** (Osterwalder & Pigneur, 2009, pp. 23-25)	**Generic Levers of Utility** (Kim & Mauborgne, 2000, p. 133)	**Obliterating Barriers to Consumption** (Johnson, Christensen, & Kagermann, 2008, pp. 61, 62)	**Miscellaneous**	**18 Sources of E-Value Creation Element**
20.				Convenience/ Usability	Convenience	Convenience	(Hamel, 1996, pp. 72, 73)	15. Convenience
21.					Customer productivity		(Ungerer, *et al.*, 2011, pp. 104-110)	16. Customer empowerment
22.					Environmental friendliness			*Removed – Not a huge online concern*
23.							(Lee & Vonortas, 2004, p. 166; Korgaonkar & Wolin, 1999, p. 57)	17. Connectivity & socialisation
24.							(Hoegg, Martignoni, Meckel, & Stanoevska-Slabeva, 2006, p. 10)	18. Personal fulfilment

The next two factors (reach & accessibility; richness of information exchange) were taken from Wells and Golebi's (2003) 3R framework, with the next six factors (timeliness & immediacy; individualisation; interpretation; authenticity, trust & security; embodiment; findability) originating from Kelly's (2008) generative qualities. The generative quality, patronage, was removed from the model as patronage is a consequence of value already experienced, instead of a source of value itself. Stated differently, another type of value must be provided to a customer for them to become patriotic about it.

The next two sources of value (aesthetics & brand attractiveness; efficiency) were taken from Osterwalder and Pigneur's (2009) generic sources of value. The next three sources of value (simplicity; convenience; customer empowerment) were taken from Kim and Mauborgne's (2000) generic levers of utility. Environmental friendliness was not included in the 18 sources of e-value model, as environmental friendliness does not play such a prominent role in e-business as it does in the offline world. Lastly, connectivity and socialisation, and personal fulfilment was derived from miscellaneous sources (Lee & Vonortas, 2004, p. 166; Korgaonkar & Wolin, 1999, p. 57; Hoegg, Martignoni, Meckel, & Stanoevska-Slabeva, 2006, p. 10). These 18 sources of e-value can be visualised as shown in Figure 5.8 below.

Novelty and newness refer to doing new things in new ways to entice customers. The value of novelty and newness lies in the ability to satisfy an entirely new set of needs that customers possibly did not even perceive they had (Osterwalder & Pigneur, 2009, p. 23). This could involve innovations in products and services, processes, distribution, marketing or markets. It can also involve novel transaction structures, transactional content and transactional participants. (Amit & Zott, 2001, pp. 494, 508) Lastly, newness relates updatedness, where customers derive value from having the latest, best functioning product version or most up to date content.

Affordability and cost reduction relate to finding innovative ways to lower expenses. Affordability relates directly to offerings and involves lowering the price of an offering to make it acceptable to customers. Customers must still decide to buy this offering though. Cost reduction on the other hand relates to reducing a customer's expenses in things that they are already doing or are necessary for them to do (Osterwalder & Pigneur, 2009, p. 24). Both affordability and cost reduction therefore deal with being efficient and utilising as few as possible resources to complete a job. This relates to transaction cost theory, which suggests that transaction efficiency increases when the cost per transaction decreases. Therefore the higher the transaction efficiency, the lower the costs are and the more value is created. (Amit & Zott, 2001, p. 503)

Figure 5.8 – 18 Sources of E-Value

Range and complementarities refer to the scope of offerings provided to customers. It deals with the breadth or variety of products and services offered (Wells & Gobeli, 2003, p. 7) and the synergies or complementarities that exist between these. Complementarities are present whenever having a bundle of goods or services together provides more value than the total value of having each of these in isolation. Complementarities may exist between products and services (horizontal or vertical), between online and offline assets, or even between technologies and activities. Complementarities not only serve to provide more value to customers, but also serve to more tightly integrate and create fit between business components.

Reach and accessibility refer to the degree to which a company can make its offerings accessible to customers (Wells & Golebi, 2003, p. 6; Osterwalder & Pigneur, 2009 p. 25). Reach refers to the potential geographical or demographic penetration of the company's offerings, whereas accessibility is concerned with the ways in which to connect customers with offerings (Kelly, 2008). In e-business, together with the prospects of entering an era of big data, ownership of data and software programs is becoming less appealing. The true value lies not in the possession of a physical hard-drive or the possession of an installed program, but in the accessibility of the data, digital capabilities and competencies. It therefore makes much more sense to subscribe to these possessions and gain access to them whenever, wherever, than actually owning them (Kelly, 2008).

Richness of information exchange refers to the degree to which a company can effectively exchange information with customers. Richness is concerned with the quality, depth, detail and interactivity of the information exchange, and the company's ability to leverage gained information to deliver customised offerings (see the *individualisation* source). Deriving value from the richness of the Internet medium is therefore dependent on the ability to capture customer information, converting it into individualised products (Wells & Gobeli, 2003, p. 7), use it to reinvent customer relationships (Lee & Vonortas, 2004, p. 166), sell it to other businesses, or leverage a single digital asset to provide value across many different and disparate markets (Lee & Vonortas, 2004, pp. 168, 171; Tapscott, *et al.*, 2000, p. 5; Rayport & Sviokla, 1995).

Information is therefore a source of value in e-business. It can be a double-edged blade too though. The Internet provides unprecedented information abundance. While the virtual display of merchandise, specialist information, real-time information, and logistic transparency create value for customers (Seybold, 2001) that simultaneously have little repercussions for companies, pricing transparency conversely is a bane for companies who rely on asymmetries of information in pricing to be successful. A way for e-commerce companies to combat this transparency is to implement creative pricing strategies such as bundling (refer to Chapter 5.4.4) to hide their prices (Lee & Vonortas, 2004, p. 175).

Timeliness and immediacy refer to meeting customers' need for instant gratification. Time is a scarcity for online users (Gummerus, 2011, p. 47; Koiso-Kanttila, 2005, p. 64). Customers do not want to wait for products or services to be delivered. They want short download times and require offerings immediately or in the timeliest possible manner. Immediacy is valuable to them. This is proven by the fact that often, being first in line or being able to obtain something at the moment when it is released or created commands a higher price than purchasing exactly the same product at a later stage (Kelly, 2008).

Individualisation involves the tailoring of offerings to an individual customer's needs and circumstances. Personalisation, customisation and prosumption are all examples of ways to individualise offerings. Personalisation refers to individualisation that is initiated by the e-business (through customer data-mining), whereas customisation is individualisation that is initiated by the customer (Amit & Zott, 2001, p. 506). Personalisation thus usually involves the individualisation of interfaces; making recommendations based on past customer purchases and behaviour; and targeting customers with specific advertisements. Personalisation is valuable as it helps companies to more effectively target customers. Customisation conversely involves more specific tailoring of offerings itself by the business, based on a customer's specified needs. Similarly, prosumption (also known as co-creation) refers to the convergence of the production and consumption process (Osterwalder & Pigneur, 2009, p. 23; Lee & vonortas, 2004, p. 170). This means that a more intimate relationship is established where customers play a more hands-on role and help with the design or production of their final product. The end result is individualised offerings that better fulfil customer needs, creating value that they are willing to pay for (Kelly, 2008).

Interpretation refers to the creation of clarity or understanding. It deals with explaining how something works or is intended to be used. In the digital age, interpretation is a source of value as many software solutions only become useful when an expert or someone with a thorough understanding of the package is there to assist and help with the interpretation (Kelly, 2008). Consequently, many businesses make their money not from the software per sé, but by providing paid support services that help customers use the software. Inversely, these interpretation services can be offered for free, raising the attractiveness and value of the software.

Authenticity, trust and security all revolve around the central theme of making customers feel at ease with purchasing products from a company. Transactional security and overall concerns for privacy are some of the most significant issues that dissuade people from shopping online (Sumanjeet, 2005, pp. 2, 3; Wolfinbarger & Gilly, 2003, p. 183; Gommans, *et al.*, 2001, p. 50; Korgaonkar & Wolin, 1999, p. 56). Furthermore, most people are risk averse and more concerned about negative consequences than they are about equal potential benefits (Welch, 2010, p. 3; Zhou, *et al.*, 2007, p. 54; Bhatnagar & Ghose, 2004). This therefore amplifies the importance of reducing online shopping uncertainty and risk, to increase the likelihood of customers doing business with the website.

Authenticity refers to genuineness. Security relates to the safety of transactions and customer privacy. Lastly, trust refers to the confidence in the website's reliability and integrity (Arya & Srivastava, 2012, p. 151; Valvi & Fragkos, 2012, pp. 31, 32), and that the company can be depended on to serve the best interests of customers (Mascareigne, 2009, p. 9). Authenticity, trust and security are valuable in the e-business. When customers are faced with a choice between two products, one from an unknown source and another one from an authentic, secure, trusted source, customers will always prefer the latter product (Kelly, 2008). All three of these are also very important antecedents of loyalty (refer to Chapter 5.5.3).

Embodiment is about creating superior experiences by making the digital world more real. It is about embodying the digital world, digital experiences, or digital functions in a corporeal form or simply in a different form to deliver a great experience. People are inherently drawn to the next big thing, whether it is high definition display, 3D display, holographic interfaces, surround sound and the like. People will always look for ways to capture their digital experience and digital interactions in new ways to make it more real, more enjoyable and fun. A free experience may therefore be possible, but the embodiment of the experience in a better form is what is valuable and what people will pay for (Kelly, 2008).

Findability refers to the ability to find something or be found. It is related to search and filtering capabilities. In the age old paradigm, value is associated with scarcity. When something is scarce, profitability tends to disperse towards points of scarcity, away from points of abundance (Mansfield & Fourie, 2004, p. 38; Van der Heijden, 2001, p. 14). Given this and the fact that the e-environment is closely associated with information abundance, it is possible that this scarcity in e-business (and the point of value) has shifted toward customer attention (Kelly, 2008).

Millions of websites are already all clamouring for attention (Srinivasan, *et al.*, 2002, p. 41; Gommans, *et al.*, 2001, p. 46), while at the same time Internet users possess only a limited attention span (Gummerus, 2011, p. 47; Koiso-Kanttila, 2005, p. 65). Failing to get noticed is a sure route to failure. It is therefore likely that the struggle for Internet user attention will only increase in future, as more e-businesses are created, more websites are designed, and more data is generated. Findability is a source of value in e-business, as people's attention needs to be directed to improve the chance of finding that which they really seek. Findability is therefore the only mechanism that will help businesses and users alike cope with the chaos of the approaching digital information overload.

Effectiveness refers to doing a job well and obtaining the desired result. This source of value is related to the performance quality, reliability and functionality of offerings, and can involve doing things better, faster, more accurately, consistently, and producing fewer defects (Osterwalder & Pigneur, 2009, p. 23). Maximising effectiveness therefore involves creating an offering that is superior in the consequence that it produces.

Aesthetics and brand attractiveness refers to the aesthetic appeal, brand image or style of an e-business or offering. It is intuitive and even research confirms that people use appearances to make judgements about realities (Levitt, 1981, p. 97). This makes a website's design and first impression critical (Gommans, Krishnan, & Scheffold, 2001, p. 51), as users translate appearance into confidence about performance. Tangible reassurance surrogates need to be provided for that which cannot be directly experienced before purchase, to create confidence in the offerings (Levitt, 1981, p. 96). Similarly, a brand's attractiveness also possesses immense value and can create a personal resonance with customers. A brand has a certain reputation; projects certain values; and promises a certain level of quality, functionality and emotional appeal among other factors. Aesthetics and brand attractiveness are therefore key elements in convincing Internet users to become paying customers (Goldstuck, 2012) and can aid in creating long-term e-loyalty.

Simplicity refers to making things simple and easy to do. Complexity by definition increases the difficulty to use and understand something. Simplicity works in the opposite direction to erase complexity, to make things easy to use and understand. Simplicity is therefore a key source of value in e-business, as the online environment is inherently complex. From an obliterating barriers to consumption view, simplicity relates to breaking through the skills barrier. The aim is to make offerings so simple and straightforward that they become accessible to new groups of customers (Johnson, Christensen, & Kagermann, 2008, pp. 61, 62).

Convenience is about making customers feel like they are exhibiting zero effort (Arya & Srivastava, 2012, p. 150), therefore making it extremely comfortable to do something. Convenience is an over-arching concept that relates to many of the other sources of value, including simplicity, timeliness and immediacy, findability, reach and accessibility, range and complementarities, richness of information exchange, connectivity and socialisation, individualisation, interpretation and customer empowerment. It involves making things simpler, more intuitive, and user friendly (Arya & Srivastava, 2012, p. 150; Osterwalder & Pigneur, 2009, p. 25; Srinivasan, *et al.*, 2002, p. 44). Further, in e-business it has to do with the way that information is presented, searched for, accessed, and the simplicity of the transaction process (Srinivasan, Anderson, & Ponnavolu, 2002, p. 44). Hamel (1996, p. 72) introduced the term "joy of use". Though this term in his definition does not exactly refer to convenience, it provides a fitting image. Finally, convenience is something that customers are willing to pay for (Reichheld & Schefter, 2000, p. 110) and a source of e-value.

It could be argued that convenience should not be one of the sources of value, as it is actually a composite of many of the other sources. Convenience cannot be omitted as an element however, as it is such a powerful concept that embodies more than the sum of its parts. Convenience is cited as one of the primary reasons for customers shopping online. Removing it would therefore make the model appear incomplete. Lastly, the goal of the 18 sources of e-value is to act as triggers for creating innovative products and services. This small redundancy is therefore allowed as it supports this goal.

Customer empowerment refers to enabling and authorising customers. Essentially, it is about giving customers enhanced control over interactions and business processes. A business's role in customer empowerment is thus to assist customers in helping themselves. This can involve assisting customers in learning about offerings and their features; giving customers more access; enabling customers to make independent decisions and to execute those decisions and preferences (Ungerer, Pretorius, & Herholdt, 2011, pp. 104-106). Customers can be empowered by equipping them with digital capabilities made possible through cloud computing, or other self-service terminals. Furthermore, Loewe and Bonchek (1999) pointed out that, "We are entering an era of unprecedented consumer power. What I want, where I want it, when I want it, and how I want it is the credo of the emerging consumer". As such, customer empowerment is aimed at raising customer productivity, increasing convenience and delivering a more satisfying experience.

Connectivity and socialisation relate to Internet users' increased need to interact with a company and friends, share stories, connect with others and socialise (Seybold, 2001; Korgaonkar & Wolin, 1999, p. 57). All of these are enabled by the extended reach and openness of the Internet that provides a channel for information sharing, communication and collaboration (Lee & Vonortas, 2004, p. 166). The Internet's extended reach is also conducive to network effects (Lee & Vonortas, 2004, p. 166), which positively impacts the socialisation or interaction experience. This is because as users' network grows, they are better able to collaborate in real-time, coordinate and execute tasks. Network effects through social media websites or virtual communities also make word-of-mouth communication more effective, meaning users can more easily get recommendations about offerings from friends, contacts, or genuine past users. This adds a level of authenticity, allowing users to make more confident decisions.

Lastly, ***personal fulfilment*** refers to giving customers the opportunity to achieve a sense of happiness or satisfaction as a result of some deed or achievement that caters to an emotional need or assists their identity building. The emergence of Web 2.0 (basically refers to the second generation of web applications that provide enhanced interactivity) gives Internet users the opportunity to address the top three tiers of Maslow's hierarchy of needs, namely being able to gain a sense of belonging, gaining prestige or fulfilling themselves (Hoegg, Martignoni, Meckel, & Stanoevska-Slabeva, 2006, p. 10). Practically, personal fulfilment involves giving customers the opportunity to express themselves, gain prestige, social recognition, self-esteem, and providing them with the opportunity to self-actualise. Building virtual communities in particular can help to fulfil these desires (Gummerus, 2011, p. 47; Hoegg, *et al.*, 2006, p. 10), as a virtual community can be a place where recognition and respect can be earned by peers through certain achievements. This builds self-esteem and creates a sense of belonging. Not all businesses will be able to equally tap into this source of value, but those who can manifest a personal fulfilling or emotionally satisfying aspect in their offering will be able to create deeply loyal customers.

Although not shown there, these 18 sources of e-value were also subjected to and influenced by several robustness tests that assessed the 18 sources' ability to "cover" adjacent value creation literature domains (refer to Appendix E). Four tests were conducted in this way: (1) Comparing the 18 sources of e-value to an integrated e-customer demands model, (2) comparing the 18 sources of e-value to the competitive strategy framework's integrated e-loyalty antecedents model, (3) comparing the 18 sources of e-value to an integrated dimensions of e-quality model, and (4) comparing the 18 sources of e-value to an integrated generic dimensions of customer value model.

What these analyses brought to light is that the 18 sources of e-value has a very high coverage and correlation with other models found in literature. It is thus postulated that these 18 sources of represent types of value that customers find valuable online and which businesses should incorporate in their offerings to maximise the potential of the Internet and enhance their survivability in the e-environment. It is recognised that these 18 sources of e-value are not reflective of all the types of e-value that exist, but represent commonly cited and ubiquitously manifested sources of e-value, which at the very least provides a good point of departure for thinking about value creation in e-business.

Finally, the 10 techniques for creating new market space and the 18 sources of e-value are intended to be used in tandem. The 10 techniques for creating new market space are intended to be used to arrive at the sources of e-value, whereas the 18 sources of e-value are intended to clarify and focus thinking while using the 10 techniques.

In conclusion, two main propositions emerge from this section:

- **Proposition 3.1**: The 18 sources of e-value is a suitable representation of sources of value in the e-environment. It can assist e-business start-ups with formulating their offering.
- **Proposition 3.2**: The 10 techniques for creating new market space is a suitable representation of ways to reconstruct market boundaries. It can assist e-business start-ups with formulating their offering.

5.4.2. Customer Relationships

"With digital technology, it's now possible to have a one-on-one relationship with every consumer in the world. The more intimate the relationship, the more indispensible it becomes." **– Robert McDonald, President and CEO of P&G** (Chui & Flemming, 2011, p. 1)

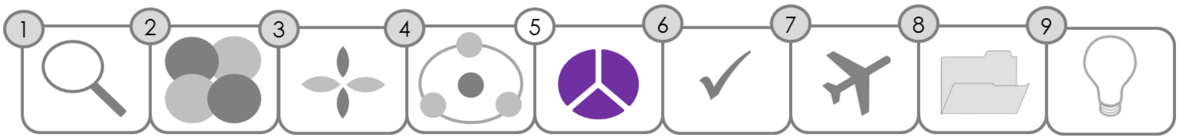
Customer relationships deal with establishing and maintaining a bond with customers. The three primary reasons why businesses try to create such bonds with customers are to acquire new customers, retain current customers or to convince customers to buy more (Osterwalder & Pigneur, 2009, p. 28). Additionally, customer relationships are established to enhance the customer experience, create warmth, build trust, and manage customer loyalty. Customer relationships are therefore an integral part of any business.

The main question that this section sought to address was: ***What model(s) can assist e-business start-ups in selecting their customer relationship strategies?***

The early exploration of this topic revealed that customer relationships is a very instance specific domain. The type of relationship that needs to be established with customers to create the right fit depends on the unique customer segment, as well as the type of business. Some businesses require sparse relationships with minimum interaction, whereas other businesses require deeply intimate relationships.

Given the competitive strategy framework's conceptual level of abstraction, the main pursuit of this section was not a deep analysis of customer relationships, but rather to identify conceptual models that covers the basic content; could possibly enhance the cognition of users; and thereby assist their e-business customer relationship selection.

One model that fit the desired level of abstraction and complexity, was Osterwalder and Pigneur's (2009, pp. 28-29) customer relationship taxonomy. Osterwalder and Pigneur (2009) mentioned six generic types of customer relationships which a company may establish with particular customer segments. Multiple of these relationships may co-exist within a business and in relation to different customer segments. These customer relationship types are graphically depicted in Figure 5.9 below.



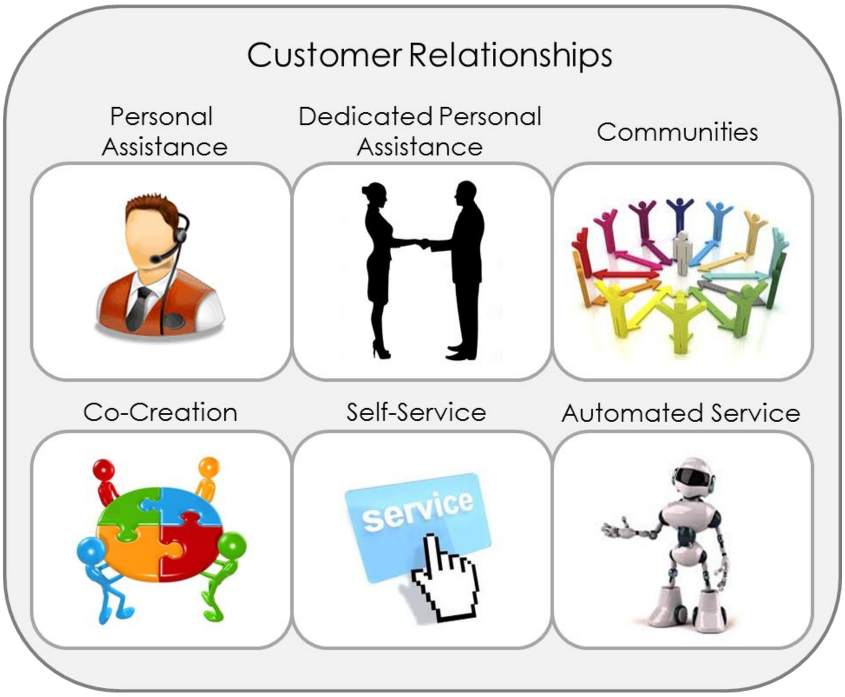


Figure 5.9 – Customer Relationships Adapted From (Osterwalder & Pigneur, 2009, p. 29)

Personal assistance refers to when the relationship is based on human interaction. For some jobs there is no replacement for people's innate knowledge, skill, compassion and ability to adapt to a situation. Examples of ways that personal assistance can be given are when customers communicate and interact with real people either face-to-face, through a call centre, by e-mail, through video conferencing or other means (Osterwalder & Pigneur, 2009, p. 29).

Dedicated personal assistance refers to when a customer representative is dedicated specifically to an individual client. This type of relationship is the most intimate and usually takes a long time to foster (Osterwalder & Pigneur, 2009, p. 29). These relationships are also usually the most enduring, as both parties have to invest in the relationship (Kelly, 2008). Examples of this type of relationship are those formed by a personal financial planner, a favourite hairdresser, doctor and the like.

Another form of customer relationship management is by creating ***communities*** where users can share knowledge and solve each other's problems. Communities can also aid companies in better understanding their customers and help maintain a connection with them (Osterwalder & Pigneur, 2009, p. 29).

Some companies are even further transforming their customer relationships by allowing customers to ***co-create*** products and services (Osterwalder & Pigneur, 2009, p. 29). In this arrangement, customers play a more hands-on role and help with the design or production of their final product, together with the company. This creates value for both parties as customers are rewarded with individualised offerings that better fulfil their needs, while companies receive valuable content and suggestions.

Self-service is when the customer performs all stages of the interaction with the company by themselves.

In this case, the company provides all the necessary means for the customer to help themselves, but establishes and maintains no direct relationship with the customer (Osterwalder & Pigneur, 2009, p. 29). ATMs or making an online movie reservation are examples of self-service relationships.

Lastly, ***automated service*** is when technology is employed to perform a more sophisticated form of customer self-service. At its best, automated services are so good that they can actually simulate a personal relationship. This includes personalisation functions such as individualising customer interfaces or webpages or offering book or movie recommendations based on an individual customer's profile or past purchases (Osterwalder & Pigneur, 2009, p. 29).

In summary, Osterwalder and Pigneur's (2009) customer relationship taxonomy describes six generic types of customer relationships that can be established, ranging from very personal, individualised human contact to automated relationships with zero human interaction.

The following proposition emerges from this section:

- **Proposition 3.3**: The customer relationship model is a suitable representation of the different generic types of customer relationships that exist. It can assist e-business start-ups with selecting their relationship strategies.

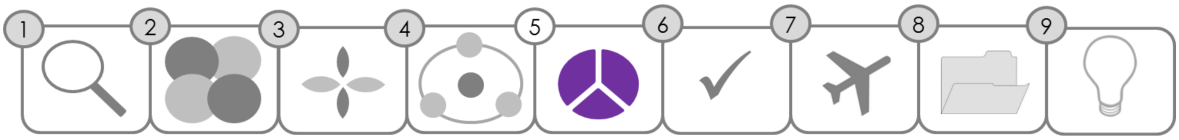
5.4.3. Channels

Channels refer to the ways through which a business reaches customers and makes its offerings accessible to them (Osterwalder & Pigneur, 2009, p. 26). It is about connecting customers with offerings and all the interactions that take place between the business and customers in doing so. This element has to do with the company's interface with customers and therefore plays a vital role in the customer experience.

The main question that this section sought to address was: ***What model(s) can assist e-business start-ups in formulating their channel strategies?***

Similar to the preceding elements, a content oriented approach was taken that endeavoured to uncover the generic types of channel phases customers go through in making online purchases, in order to enhance e-business start-up's understanding of the strategy content related to channels, which could in turn assist their channel strategy formulation.

Four such channel phase models have already been introduced in this thesis, namely the channel phase model of Osterwalder (Osterwalder & Pigneur, 2009, p. 27), the consumption chain (McGrath & MacMillan, 2005), the buyer experience cycle (Kim & Mauborgne, 2000, p. 133) and the consumer decision journey (Divol, Edelman, & Sarrazin, 2012, p. 4). Given the slight variances between the models, an integration fitting the scope of this study of was attempted. In order to be concise, these different models are not



depicted again here, but the integration process is shown in Table 5.4 below. The basic approach was to identify factors between the different models that are essentially the same and integrate those. Some factors were also removed for the sake of parsimony. The result of this integration is named the "integrated channel phase model".

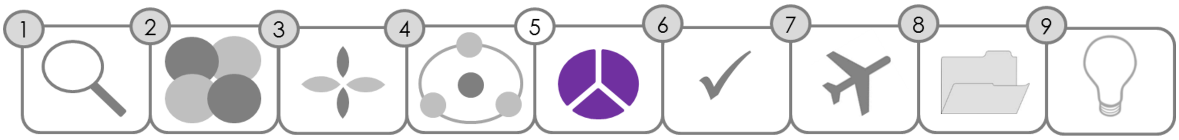
Table 5.4 – Construction of the Integrated Channel Phase Model

Channel Phase Models					
No.	**Channel Phases** (Osterwalder & Pigneur, 2009, p. 27)	**Buyer Experience Cycle/ Buyer Utility Map** (Kim & Mauborgne, 2000, p. 133)	**Consumption Chain** (McGrath & MacMillan, 2005)	**Consumer Decision Journey** (Divol, Edelman, & Sarrazin, 2012, p. 4)	**Integrated Channel Phase Model**
1.	Awareness		Awareness of need	Consider	1. Awareness
2.			Search for alternatives		
3.	Evaluation		Make a selection	Evaluate	2. Evaluation
4.	Purchase	Purchase	Purchase	Buy	3. Purchase
5.	Delivery	Delivery			4. Delivery
6.		Use	Use	Experience	5. Use
7.	After sales support	Supplements			6. After sales support
8.		Maintenance			
9.				Advocate	
10.				Bond	
11.		Disposal			*Removed – Not as applicable in e-business*

As can be seen above, the integrated channel phase model essentially consists of Osterwalder and Pigneur's (2009) channel phase model with an added "use" phase borrowed from the buyer experience cycle. "Searching for alternatives" from the consumption chain was grouped under the "evaluation" phase, while "supplements", "maintenance", "advocate" and "bond" elements were grouped under the umbrella term "after sales support". These groupings were done purely for the sake of creating a more condensed channel phase model. Lastly, the disposal phase was removed, as disposal is not as an applicable phase in e-business as it is for physical materials in offline business. The preliminary integrated channel phase model is visually depicted in Figure 5.10 below.

Figure 5.10 – Preliminary Integrated Channel Phase Model

The ***awareness*** phase deals with how customers are made aware of offerings. Following this, the



evaluation phase deals with how customers are aided in deciding whether or not to purchase offerings. Next, the ***purchase*** phase deals with purchase transactions, which is followed by the ***delivery*** phase where the offering is distributed to the customer. Customers then ***use*** the offering, and lastly customers interact with the company again for ***after sales support*** if they require it. In this phase customers may for instance need supplementary offerings, maintenance, instructions on how to use the offering and so forth.

Osterwalder and Pigneur's (2009, p. 26) research further suggested that three different types of channels exist, namely communication channels, sales channels and distribution channels. As such, it could therefore be said that the channel element deals with how businesses bi-directionally communicate with customers, where and how offerings are presented to the customer for sale, and how offerings are distributed to them. Analysing the general pattern of the preceding four models, it is proposed that these three channel types follow sequentially on each other. The sequence is that communication channels are followed by sales channels, which are followed by distribution channels. This cycle continually repeats regarding a customers' interaction with a business. Transferring these channel types to the integrated channel phase model, Figure 5.11 below was constructed.

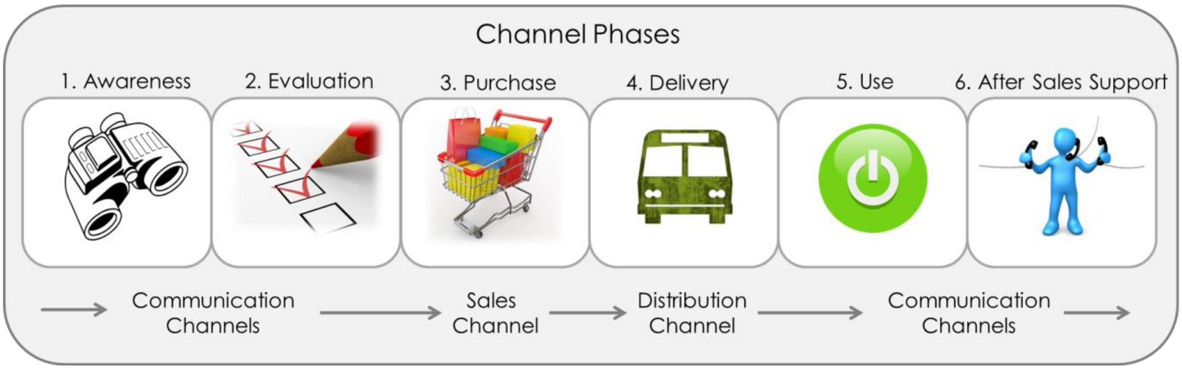


Figure 5.11 – Integrated Channel Phase Model

Figure 5.11 shows that the awareness and evaluation phases are communication channels where the offering is introduced to customers, and support is provided to help customers evaluate the offering. The purchase phase is clearly a sales channel, with the delivery phase being a distribution channel. The cycle then resets, with the use and after-sales support phases being communication channels. In these last two phases the business again interacts with customers, possibly offering them supplementary or maintenance offerings. Customers then become aware of these, and the awareness phase restarts.

It has to be mentioned that the integrated channel phase model is a simple generic channel phase model that depicts the phases that customers go through when partaking in e-commerce and making an online purchase. Given the novel transaction structuring possibilities in e-business (Amit & Zott, 2001, pp. 494, 508), it is likely that many e-business's customers will not go through these exact phases. Regardless, the value of the model is making e-entrepreneurs aware about channel phases as a conceptual tool, which gives them the opportunity to construct their own unique customer value chain. In this way, the integrated channel phase model still assists their channel strategy formulation.

Moving on, Kim and Mauborgne (2000, p. 133) used an interesting approach for brainstorming for new strategies with their channel phases through their buyer utility map model (Figure 2.13). These authors plotted their channel phases (buyer experience cycle) on the horizontal axis and have certain "levers of utility" on the vertical axis. Businesses can then map the ways that the industry is currently providing utility to customers during certain phases and identify ways in which an offering may be altered to provide utility to buyers in new ways.

By using the same thinking, it is possible to plot the newly created 6 element integrated channel phase model on the horizontal axis, and plot the 18 sources of e-value on the vertical axis to arrive at a similar result. This however is not depicted, simply because the result is intuitive and rather excessive. Using a more intelligent approach, it is possible to depict during which specific channel phase each of the 18 sources of e-value is especially important. Having such a perspective is valuable, because it provides a point of departure for thinking about value creation across the different channel phases.

The result of this construction process is depicted in Figure 5.12 below. Again, it must be emphasized that this figure does not imply that one specific phase is the only phase where a source of value is applicable. It merely seeks to show in which specific phase a source of value is particularly important.

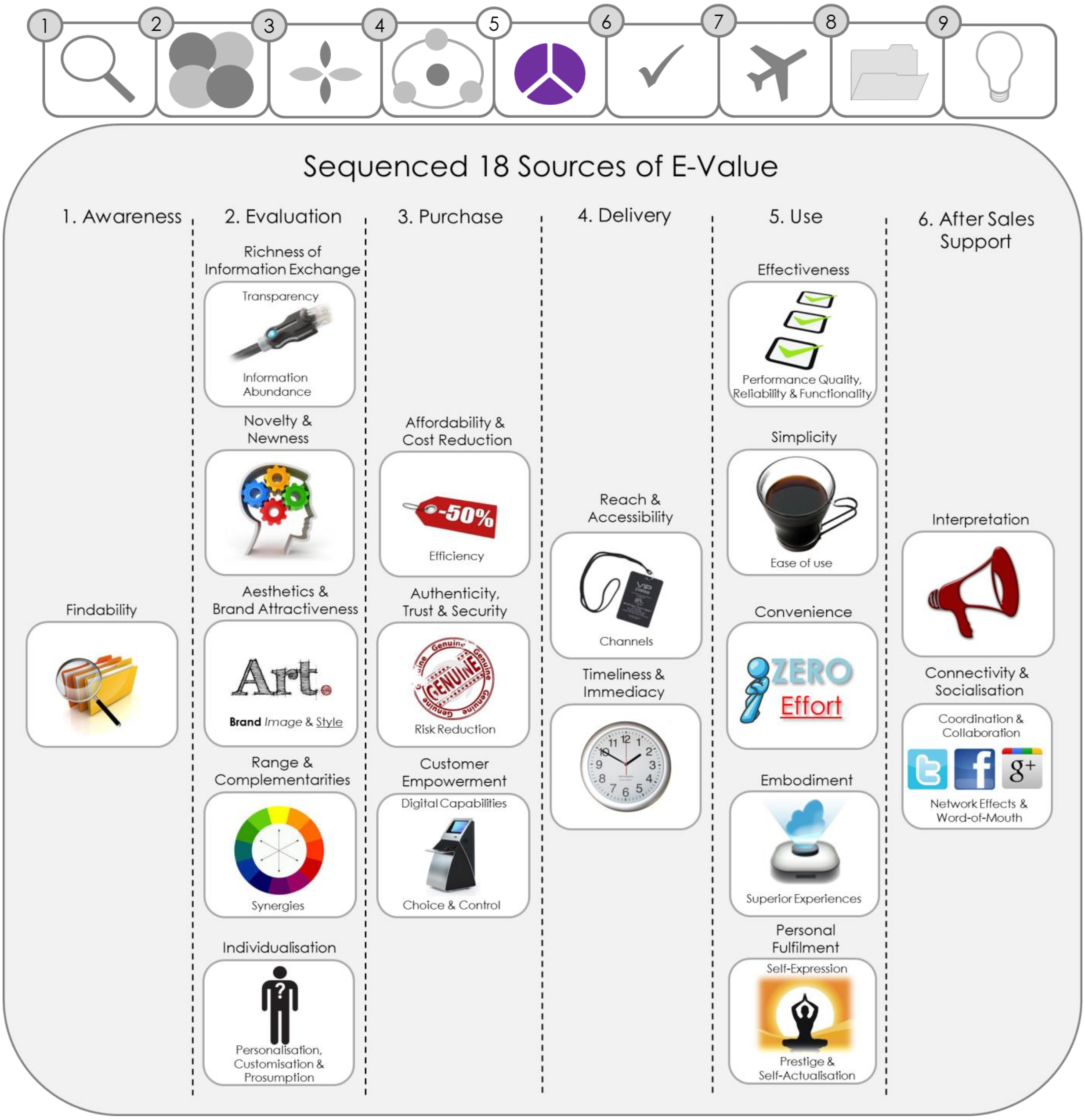


Figure 5.12 – Sequenced 18 Sources of E-Value

The process for assigning each source of value to a channel phase was as follows:

1. It was considered what the goal of channel phase is and what should ideally happen during the specific channel phase; and
2. It was judged whether the source of value has a positive impact on achieving the goal of the channel phase and whether this relationship has a stronger fit than any of the other channel phases that it relates to.

The relationships established in this way had to be intuitive and the logic for matching certain sources of value with certain channel phases is explained in Table 5.5 below.

Table 5.5 – Construction of the Sequenced 18 Sources of E-Value 2

Channel Phase	Phase Goal	Source of Value Assigned	Reason for Assignment
Awareness	Make customers aware of offerings	Findability	Findability makes things easy to find and is critical to making customers aware of offerings. Findability is therefore critical during the awareness phase.
Evaluation	Aid customers in evaluating whether the offering would be able to fulfil their needs	Richness of information exchange	It is important to provide customers with all the necessary facts when they evaluate offerings. Richness of the information exchange is therefore important during this phase.
		Novelty & newness	Novelty and newness deal with innovations that unlock customer interest and curiosity. An offering needs to be enticing or else customers will not buy it. Novelty and newness is therefore critical during the evaluation phase.
		Aesthetics & brand attractiveness	First impressions created by aesthetics and brand attractiveness are critical, as customers translate appearances into confidence about performance. It thus affects the perceived value of the offering and is critical in luring customers into making a purchase.
		Range & complementarities	Customers value one-stop-shopping and will often be concerned about the range of offerings and complementarities that a business provides. If they evaluate the business as not offering the features that they want, they will go somewhere else.
		Individualisation	Many customers seek offerings tailored to their needs and tastes. Making customers aware of the business's ability to provide such individualised offerings is critical in the evaluation phase, otherwise the customer might defect.
Purchase	Facilitate the purchasing process/ monetary transaction	Affordability & cost reduction	In this phase, the final decision to purchase an offering at a specific price point takes place. It could be argued that costs play a large role in the evaluation phase, but evaluations are separated from the commitment to transact and pay for the offering. It is during this phase that the actual monetary transaction takes place and affordability and cost reduction are thus assigned here.
		Authenticity, trust & security	Transactional security is critical during the purchase phase. No customers will do business with a company that it does not trust and does not perceive as authentic and secure. This source of value is therefore clearly critical during this phase.
		Customer empowerment	Customer empowerment deals with enabling customers with enhanced choice and control over business interactions. Customer empowerment in the form of a range of payment options is critical, as payments need to be as convenient as possible to increase the chances of customers executing a transaction.
Delivery	Deliver or make the offering available to customers	Reach & accessibility	The geographic or digital reach and accessibility of a business is the most important during the delivery phase, because it is in this phase that the geographic distance needs to be traversed or digital access needs to be granted.
		Timeliness & immediacy	After the completion of the purchasing phase, customers are entitled to their goods, just like they would have been if it were a physical transaction in a shop. The timeliness of the delivery of the goods is therefore critical.
Use	Customers use and experience the offering	Effectiveness & efficiency	Once customers receive their goods, they want it to function according to their expectations. The effectiveness and efficiency of the offering, as well as all the other performance related qualities are therefore critical during the use phase.
		Simplicity	Customers want offerings that are simple, intuitive and easy to use. They do not want to study large user manuals before they can make use of the offering. Simplicity is therefore critical during this phase.
		Convenience	Customers want offerings that are extremely convenient to use. It can be argued that convenience can be provided throughout all the other channel phases, however, as customers will spend most of their time in the use phase, convenience should be provided here.
		Embodiment	Embodiment deals with creating joyful experiences and experiences that are larger than life by embodying functions in a different or superior form. Embodiment can relate to the entire experience; however it is extremely important during the use phase.
		Personal fulfilment	Customers can derive some sense of personal fulfilment from using offerings. Unlike convenience and embodiment, this source of value is very much related to the use phase of the offering.
After-sales support	Assist customers with queries and restarts a new awareness phase	Interpretation	During or after the use phase of the offering, customers may require additional help or customer service. The ability of the business to create clarity or understanding about using the product (therefore the interpretation of the product) is critical.
		Connectivity & socialisation	Sometimes after-sales support do not manifest via direct communication between the business and the customer. Often virtual communities consisting of other users provide this support, which in turn alleviates the business of this burden. Providing customers with the opportunity for socialisation, interactivity and connectivity is therefore very important during the after-sales support phase.

From this section, the following propositions emerge:

- **Proposition 3.4**: The integrated channel phase model is a suitable reflection of different basic, generic channel phases that customers go through when making an online purchase. It can assist e-business start-ups with formulating their channel strategies.
- **Proposition 3.5**: The sequenced 18 sources of e-value is a suitable reflection of the most important sources of e-value during each of the channel phases. It can assist e-business start-ups with formulating their channel strategies.[14]

5.4.4. Revenue and Pricing Strategies

"*Every industry that becomes digital eventually becomes free.*" – Chris Anderson, editor-in-chief of Wired Magazine (Osterwalder & Pigneur, 2009, p. 101)

A business's revenue strategy refers to the approach it uses to generate revenue for the business. Its pricing strategy on the other hand refers to the way that offerings are actually priced depending on market demand, offering features and customer segments. These two elements are of extreme importance, as they enable the revenue generation capabilities of a business. It is important to note that the aim of any business is to generate a profit in order to be sustainable, and not merely just to generate revenue (Porter, 2001, p. 11; Van der Heijden, 2001, p. 13). In other competitive strategy or business model depictions this element is therefore sometimes referred to as the business's "profit strategy". The name revenue and pricing strategies is preferred here as it is a better reflection of its actual content and it simultaneously highlights the direct relationship that exists between the revenue strategy utilised and pricing.

Following the ideal strategic output (Figure 4.4), the ultimate goal of business is to achieve a long-term return on investment, while also creating value for multiple stakeholders (Porter & Kramer, 2011, p. 65). The return on investment or profitability aspect has been articulated several times throughout this thesis. The value creation for multiple stakeholders (shared value creation) aspect on the other hand, has not. Essentially shared value creation refers to the fact that businesses cannot just be ruthless profit engines. Businesses must also consider the greater good of society and the environment in their business dealings, and hence create value for multiple stakeholders. Shared value creation adds an ethical business practice element. This ethical attitude is assumed as a given and no further attention is given to it.

The main question that this section sought to address was: ***What model(s) can assist e-business start-ups in selecting their revenue and pricing strategies of offerings?***

Again utilising a content oriented approach and in an attempt to remove complexity from the eventual users of the framework, this section proceeded to firstly investigate the types of revenue strategies

[14] In Chapter 7, the channel and value assignments will be abandoned in favour of the more simplistic six by eighteen grid. The model will then be renamed the "e-value map".

available and subsequently propose which of these are more or less viable for e-entrepreneurs to start up as. Again, as will become apparent in Chapter 6, this viability approach was fundamentally flawed. The second part of this section dealt with uncovering conceptual models that could assist e-business start-up pricing strategy selection and pricing.

Regarding the creation of an integrated revenue generation strategy choice model, Osterwalder and Pigneur's (2009) revenue stream types were already introduced in Chapter 2.2. Additional revenue strategies that were also uncovered include those mentioned by Kim and Mauborgne (2000) and Bryce, Dyer, and Hatch (2011). In order to be concise, these different models are not depicted again here but the integration process is shown in Table 5.6 below. The basic approach was to identify factors between the different models that are essentially the same and integrate those, while preserving the independent, unique factors.

By bundling the different revenue generation strategies identified in Table 5.6 based on whether they generate revenue directly or indirectly and whether the strategy contains free elements or not, Figure 5.13 below could be created.

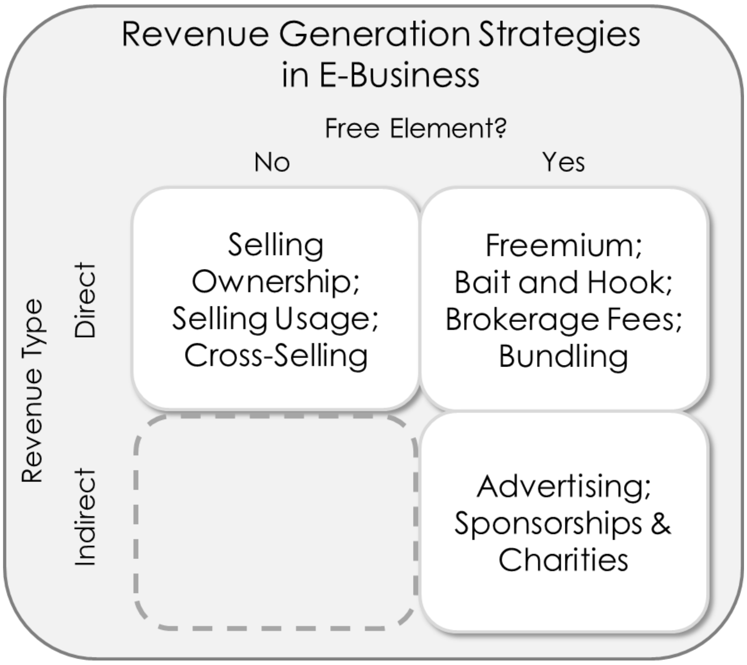


Figure 5.13 – Revenue Generation Strategies in E-Business

Selling ownership refers to the selling of the ownership rights of an asset (Osterwalder & Pigneur, 2009, p. 31). The typical example of this is physical assets, but intangible assets such as domain names can also be sold. ***Selling usage*** in contrast refers to the broad practice of selling the usage of services or products, but not the ownership thereof. Several models can be grouped under the revenue strategy of selling usage.

Table 5.6 – Construction of the Integrated Revenue Generation Choice Model

Revenue Generation Models										
No.	**Revenue Stream Types** (Osterwalder & Pigneur, 2009, pp. 31, 32, 88-105)	**Price Models** (Kim & Mauborgne, 2000, p. 135)	**Free Strategies** (Bryce, Dyer, & Hatch, 2011, pp. 108, 109)	**Business Model Analogies** (Johnson, 2010)	**Four Basic Business Model Archetypes** (Weill, Malone, D'Urso, Herman, & Woerner, 2005, p. 31)	**Rappa's Business Model Taxonomy** (Rappa, 2002)	**Bambury's Business Model Taxonomy** (Bambury, 2006)	**Internet Business Models** (Afuah & Tucci, 2003)	**Miscellaneous**	**Integrated Revenue Generation Strategies**
1.	Asset sale	Direct selling			Selling ownership of asset	Manufacturer model/ Merchant model	Mail-order model/ Real estate model	Mark up/ Production		1. Selling ownership
2.	Usage fee			Pay-as-you-go / Product-to-service	Selling use of asset	Utility model	Access provision model/ Website hosting	Fee-for-service		2. Selling usage
3.	Subscription fee					Subscription model	Subscription model	Subscription		
4.	Lending, renting and leasing	Leasing		Leasing						
5.	Licensing					Infomediary model	Information barter model/ Digital products and digital delivery			
6.		Time-share		Fractionalization						
7.		Slice-share								
8.			Cross-selling							3. Cross-selling
9.	Freemium		Up-selling	Freemium			Freeware model			4. Freemium
10.	Bait and hook			Razor-and-blades/ Reverse razor-and-blades			Free trial model			5. Bait and hook
11.	Brokerage fees			Brokerage	Matching of buyer and seller	Brokerage model		Commission		6. Brokerage fees
12.			Bundling	Bundling						7. Bundling
13.	Multi-sided platform based on advertising		Third party monetisation			Advertising model/ Affiliate model	Advertising model/ Direct marketing model	Advertising/ Referral	Referrals/ affiliate programmes (Porter, 2009, p. 73; Hagel & Singer, 1999, p. 141)	8. Advertising (including referrals and affiliate programs)
14.				Crowdsourcing/ User community		Community model			Sponsorships/ charities (Kim & Mauborgne, 2009, p. 79)	9. Sponsorships & Charities

The first is ***usage fees***, where the more a customer makes use of a service, the more they pay. This is the classical "pay-as-you-go" model. ***Subscription fees*** on the other hand refers to the strategy where revenue is generated by selling continuous access to a service (Osterwalder & Pigneur, 2009, p. 31), such as cable television. ***Lending, renting***, or ***leasing*** refers to when revenue is generated by temporarily granting the lessee the right to use a particular asset for a fixed period. The advantage to the lender is that recurring revenues are generated, while the lessee enjoys the usage of the product, but need not bear the full costs of ownership (Osterwalder & Pigneur, 2009, p. 31). ***Time-share*** refers to making a product or service available to a group of customers, all of whom have access to it for a portion of time. ***Slice-share*** models work in exactly the same way as time-share models, except that they are not time bound and the different parties permanently buy a "slice" of the total value proposition. Lastly, ***licensing*** refers to when revenues are generated by giving customers permission to access and use protected intellectual property. Often licensing allows rights-holders to profit from their property without having to commercialise a product or service (Osterwalder & Pigneur, 2009, p. 31). Licensing however also includes the purchases of digital products where the rights to the actual intellectual property is not obtained, but rather the right to use the digital software is bought.

Cross-selling refers to the practice where a different product or service (related or unrelated) is sold to an existing customer. Ryanair for instance generates roughly 25 percent of its revenue through the sale of add-on services and products, such as seat reservations, priority boarding, food and beverages, MP3 players, digital cameras, perfume and so forth on its flights (Ryanair's Business Model, 2011, p. 12). The company envisions a shift to a totally free-flight model in future, whilst monetising only from ancillary services and activities (Korsaa, Jensen, & Varnes, 2010, p. 83). Requirements of this strategy are either a broad product line or partners that are able to sell products that possibly complement the offering (Bryce, Dyer, & Hatch, 2011, p. 108).

Up-selling, also known as the "***freemium***" model, provides some basic part of the offering for free, but charges users for access to the premium version, content or services that provide added benefits. Many apps work on this principle. Users are allowed to test the free version, but have to pay for the full version. Similarly, Skype enables free calling services via the Internet, but also offers a premium paid service (SkypeOut) where users can call landlines and mobile phones (Bryce, *et al.*, 2011, p. 106; Osterwalder & Pigneur, 2009, pp. 96-99). For freemium strategies to work, either a free product that appeals to a wide range of users is required where even low conversion rates will generate large profits; or a free offering is required that results in high premium version conversion rates for a specific customer niche (Bryce, Dyer, & Hatch, 2011, p. 108).

Bait and hook or "razor-and-blade" models refer to when free or inexpensive initial offers lure customers into repeat business. This model is the most closely related to typical "loss leader" models. Loss leaders are products that are sold very cheaply (or provided for free), with the aim of attracting additional purchases of products with higher profit margins (Hagiu & Wright, 2013, p. 104; Osterwalder & Pigneur, p. 104-105). Gillette for instance, provides a relatively inexpensive razor and lures customers into subsequently buying blades. Cannon and HP on the other hand sell relatively cheap printers, but earn good margins on subsequent ink cartridge sales. (Osterwalder & Pigneur, 2009, pp. 92-105) Online examples are collectable trading card games such as Hearthstone or Pokémon. Players are awarded some initial free cards and are able to buy more powerful cards in-game. The free cards act as the bait, and losing against other players is the hook that persuades people to repeatedly buy more powerful cards.

Revenues can also be generated through ***brokerage fees***, which is the intermediation service performed on behalf of two or more parties. Examples of this include credit card providers who get a percentage cut from each transaction, and recruitment agencies and real estate agents that earn commission each time they successfully match a buyer and a seller (Osterwalder & Pigneur, 2009, p. 32).

Another revenue strategy is ***bundling***, where offerings are combined together to obscure their prices. Free offerings can for instance be bundled with paid offerings. In this case the free offering is largely psychological, but it may serve to attract more customer attention. Businesses may for instance give away a printer with the purchase of a computer, or mobile phone manufacturers can offer free phones, but bundle it with a service subscription (Osterwalder & Pigneur, 2009, pp. 92-105). Non-related free offerings are also often bundled, for instance receiving a free iPad when opening a new bank account (Bryce, Dyer, & Hatch, 2011, p. 109).

Revenue can also be generated through third parties in the form of ***advertising, referrals and affiliate programmes.*** In the constructed model, they are lumped together as "advertising", as they all function roughly the same. In the classic advertising model, companies display banner or pop-up ads on the business's website and revenue is generated per impression or "per-click". Newer forms of advertising have also emerged based on the content of the website, such as search engine ads (Google), video ads (YouTube), audio ads (Spotify), in-game or in-app ads (Snapchat), or native ads (Digg). For the latter, the displayed ad matches the form and function of the platform on which it appears, meaning the ad is tailored for the specific platform and audience. This makes the ad less intrusive and more likely that users will pay it attention. Revenue can also be generated through affiliate programs where the referred party rewards the referrer. Depending on the contract, affiliates may be paid per lead generated, or paid only once a sale is generated, a form is completed, or some similar action has taken place. Finally, revenue can be generated through the altruism of the community, in the form of ***sponsorships and charities***.

Considering the viability of the different strategies, it needs to be said that businesses never want to give anything away for free. Companies want their customer to pay for every little service or product offered, as they cost money and providing them for free adversely affects profits. Following from this, why would anyone want to have any free elements in their business model? The answer is provided by Kartik

Hosanagar, an assistant professor at Wharton, who stated that "The demand you get at a price of zero is many times higher than the demand you get at a very low price" (Osterwalder & Pigneur, 2009, p. 101). Free offerings are essentially employed to attract large numbers of users (Osterwalder & Pigneur, 2009, p. 89). However, a business is only sustainable if it makes profit. Users thus still need to be converted into paying customers and profits. Monetisation starts with the simple realisation that somewhere, some customers will need to pay. All free businesses thus consist of two customer segments. One segment is able to continuously benefit from a free offering, whilst another segment pays for offerings and is indirectly financing non-paying customers (Osterwalder & Pigneur, 2009, p. 89). To make this scenario viable, free businesses require very lean cost structures to enable them to quickly cover their costs through their paying customers (Bryce, Dyer, & Hatch, 2011, p. 106). It does not make sense to give away offerings for free that are really expensive to produce.

Regardless if the free business eventually leads to its own demise, in the mid-term they still pose a very large threat to incumbent businesses who are used to "business-as-usual". Bryce, Dyer and Hatch (2011, p. 111) investigated how incumbent businesses should react when faced with a threat from free competitors. According to them, the seriousness of the free threat (and the success factors for companies seeking to deploy free strategies) depends on the new entrant's ability to cover their costs quickly; the rate of growth of their customer base; the rate at which they can convert non-paying users into paying customers (or their ability to find third parties willing to pay for access to their customer base); and the rate at which the business's paying customers defect to the new entrant's free offering (Bryce, Dyer, & Hatch, 2011, p. 106). These authors further stated that when a free offering poses a threat, few strategies are available besides introducing a free offering of one's own. However, it simply is not always possible or desirable to compete on price (Porter, 2001, p. 12). The solution provided by Kelly (2008) is that companies can compete against free threats by including product attributes in one's offering that customers are willing to pay for. Examples of these attributes have already been discussed (see the 18 sources of e-value, Figure 5.8).

Following from above, the problem of free strategies is that they propagate the disease of focusing on growing the business's customer base. A company's focus should always be on profits, not market share nor revenue maximisation (Bryce, *et al.*, 2011, p. 109; Turban, *et al.*, 2002, p. 47; Porter, 2001, pp. 11, 13; Van der Heijden, 2001, p. 13). The fact remains that potential sources of revenue (such as a large user base) do not necessarily translate into actual profits. There *is* a difference between users and customers. Non-paying user growth does not mean anything. Their fickle nature will make them defect to a new and exciting free opportunity just as quickly as they joined. This may seem contradictory to Reichheld *et al.*'s (2000, p. 106) research that showed that the Internet is actually a very "sticky" space, where most customers exhibit a clear inclination towards loyalty. However, Reichheld's (2000) argument is applicable to paying customers, not free users.

The reliance on large user bases for monetisation therefore make free businesses risky. Even Bryce *et al.*

(2011, p. 111) admitted that the business of free is risky and requires some experimentation. But worse still than the assumption that high volumes and a large market share ensures profitability, is the belief that stalling monetisation is necessary as monetisation will slow user growth rate. Delaying monetisation just helps to accrue debt. From that perspective, failing at a low cost is better than failing once a company owes incomprehensible amounts.

Then, considering direct revenue generation (where revenue is generated from actual sales) versus indirect revenue generation (where revenue is generated indirectly from ancillary sources), it is not advisable that *all* businesses attempt to monetise via indirect revenues obtained from third parties. Firstly, charities and sponsorships are limited, making it highly unlikely that many companies will receive funds from these sources. Secondly, sustaining oneself from advertising, affiliate programs or referrals require a huge number of users or "eye-balls" to obtain enough page impressions or "click-throughs" to make these strategies profitable.

By conducting a simple thought experiment, it is easy to see that these sources cannot sustain everyone. Imagine a reality where no one online generated revenue directly and everyone pursued advertising, affiliate or referral revenues. With the entire online space clamouring for attention from users, and imagining a perfectly balanced market, where no market leader exists and attention is divided equally, it is likely that absolutely no one will prosper. Funds will be spread too thinly across the vast number of participants to sustain any business. Furthermore, every additional new entrant will decrease the amount of attention that every other individual company gets, and therefore decrease everyone's profits. Conversely, in an imperfect market with a few clear market leaders, all the attention will be focused on the market leaders. Kelly (2008) noted that in the networked economy, money travels along the path of attention. Market leaders will thus be very profitable, whilst a vast number of followers are unprofitable. The perfectly balanced market scenario does not reflect reality. Reality is much more like the second scenario. Though, even here, only a few businesses are profitable from indirect revenue generation.

The case can therefore be made that the online environment requires companies that create real value and sell real products or services directly. The Internet enables businesses to create convenient, valuable products and services, which justifies charging a premium price for it (Porter, 2001, p. 12). As such, monetising offerings through indirect means is totally unnecessary. Porter (2001, p. 17) stated that "The most successful dot-coms will focus on creating benefits that customers will pay for rather than pursuing advertising and click-through revenues from third parties". Lastly, the other problem with indirect revenue generation is that although it is true that online advertising spend is increasing annually, Internet users' attention spans are not increasing. It is therefore possible that a saturation point is approaching where online advertising becomes ineffective, which will decrease its viability as revenue strategy.

In conclusion, e-businesses should preferably generate revenue directly rather than indirectly, as indirect revenue generation cannot sustain everyone online. Secondly, free strategies are not the ideal point of departure for competing online, as they require either a large customer base or a high customer conversion rate to be successful – both difficult and quite risky. Free strategies should therefore rather be reserved as a last resort, as no business actually ever wants to give anything away for free. Translating these arguments into viability ratings, selling ownership, selling usage and cross-selling are deemed the most viable strategies as they contain no free elements and charge for revenue directly. Freemium (up-selling), bait and hook, brokerage or bundling strategies are the second most viable, as they charge directly for revenue. These strategies however, do contain free elements and are more susceptible to a user base focus. Lastly, the least viable strategy then is providing free offerings and monetising them indirectly. Updating Figure 5.13, Figure 5.14 below could be constructed. The numbers indicate the order of viability of the different revenue generation strategies, with "one" indicating the most viable strategies and "three" indicating the least viable strategies[15].

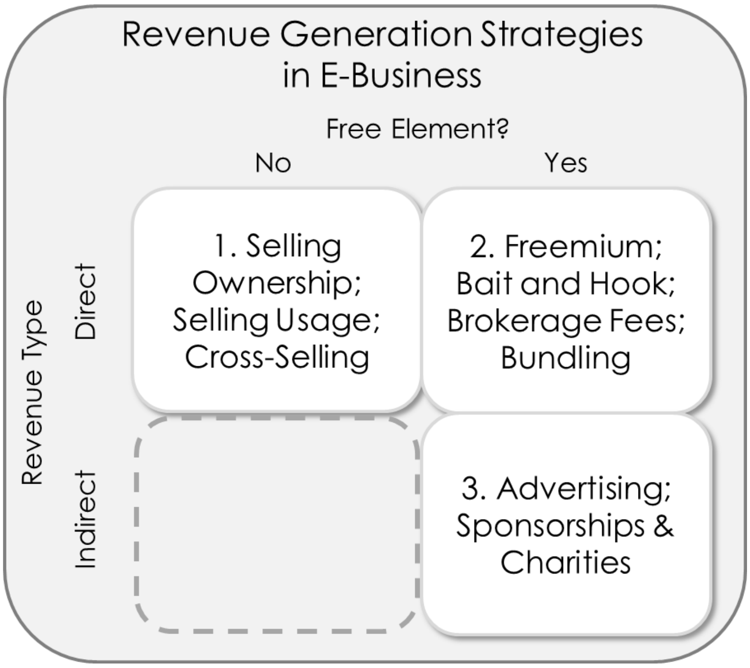
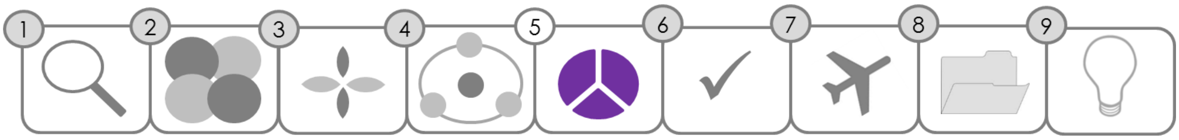


Figure 5.14 – Viable Revenue Generation Strategies in E-Business

Finally considering pricing, two models have already been mentioned that can aid e-business start-up pricing strategy selection. The first one is the pricing mechanisms described by Osterwalder and Pigneur (2009). In their classification, two types of pricing mechanisms can be distinguished between, namely fixed or dynamic pricing. These pricing mechanisms are again shown in Figure 5.15 below, with their respective definitions.

[15] The viability argument will be abandoned in Chapter 6 in favour of a more content oriented approach.



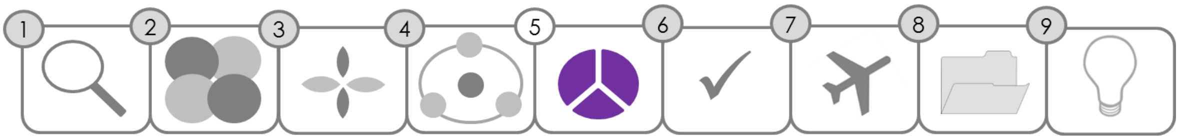
Pricing Mechanisms

Fixed Pricing Predefined prices are based on static variables		**Dynamic Pricing** Prices change based on market conditions	
List Price	Fixed prices for individual products, services and other value propositions	Negotiation (Bargaining)	Prices are negotiated between parties
Product Feature Dependent	Price depends on the number or quality of value proposition features	Yield Management	Price depends on inventory and time of purchase (used for perishable resources, such as hotel rooms and airline seats)
Customer Segment Dependent	Price depends on the type and characteristics of a customer segment	Real-Time-Market	Price is established dynamically based on supply and demand
Volume Dependent	Price determined as a function of the quantity purchased	Auctions	Price determined by outcome of competitive bidding
Price maker Price taker			

Figure 5.15 – Pricing Mechanisms (Osterwalder & Pigneur, 2009, p. 33; Osterwalder, 2004, p. 100)

The second pricing model is the price corridor of the mass (Kim & Mauborgne, 2000, p. 134). The price corridors of the mass help companies identify the strategic price that unlocks the largest mass of buyers for their specific offering. A strategic price in Kim and Mauborgne's (2000, p. 132) definition is the price that not only attracts customers in large numbers, but also retains them as they are convinced that they will not find better value with any other competitor.

The way that the price corridor of the mass works is that companies graphically plot, as shown in Figure 5.16 below, the market volume of customers that make use of different alternatives at their respective price points. The logic is that the company is not just competing against its own industry, but also against alternative industries with offerings that have the same form; a different form, but performs the same function; or has a different form and function, but is essentially used for the same objective. Plotting these allow managers to see where the largest groups of customers are located and what price they are willing to pay for products and services that they currently use. The price bandwidth that captures the largest number of customers is thus what is called the price corridor of the mass. (Kim & Mauborgne, 2000, p. 134)



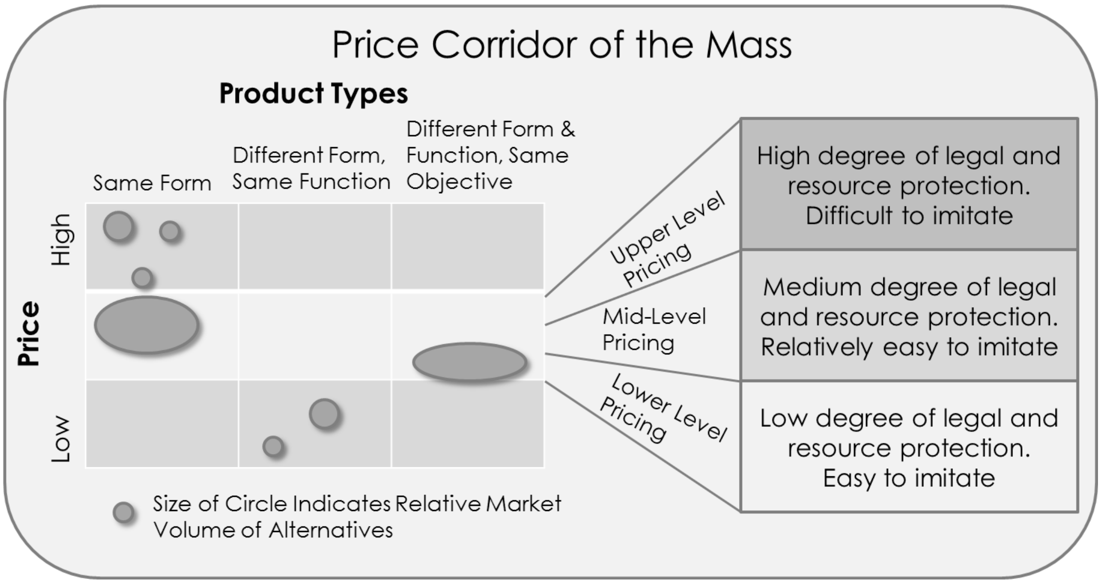


Figure 5.16 – Price Corridor of the Mass (Kim & Mauborgne, 2000, p. 134)

Once the price corridor of the mass has been identified, it is necessary to establish how high the price can be set, without inviting competition from imitators. This price level is dependent on the degree of legal protection through patents and copyright and the company's ownership of some exclusive or proprietary assets, such as a strong brand name. Having a high degree of legal protection and exclusive assets allows a premium price to be set within the corridor, as there will be little competition. However, having no such protection means that the company needs to set the price at a lower level in order to ward off imitators for whom the profit margin may be too narrow. (Kim & Mauborgne, 2000, p. 134)

The sequence in which the revenue strategy and pricing element of the framework is thus intended to be formulated is as follows. Firstly, a suitable revenue strategy (Figure 5.14) must be selected for a specific customer segment and value offering. Next, a specific pricing mechanism (Figure 5.15) must be chosen to determine the way that the product will be priced. Following this, the price corridor of the mass (Figure 5.16) can be used to determine the exact price of the offering for a specific revenue strategy and pricing mechanism that will unlock the greatest mass of buyers. This sequence is chosen as it is intuitive for instance that the price for the sale of an asset and the price for the usage of the asset (different revenue strategies) will vary greatly. The price corridor of the mass will thus vary greatly depending on the chosen revenue strategy.

From this section the following propositions emerge:

- **Proposition 3.6**: The revenue generation strategies model adequately reflects the viability of the different revenue generation strategies for e-business start-ups.[16]

[16] The viability argument will be abandoned in Chapter 6 and this proposition will be replaced with "The revenue generation strategies model is a suitable reflection of different revenue generation strategies available to e-business start-ups and can assist them with selecting their revenue strategies.

- **Proposition 3.7**: The pricing mechanism model suitably reflects the different pricing strategies available to e-business start-ups and can assist them with selecting their pricing strategies.
- **Proposition 3.8**: The price corridor of the mass model is suitable for determining what price range will unlock the largest mass of current customers.[17]

5.5. Customer Lock-In

Customer lock-in refers to all the over-arching actions that lock customers into a relationship with the business. Customer lock-in is about retaining customers and preventing their defection. These two aspects are critical to any business, firstly because the costs of acquiring new customers are generally much higher than the costs of retaining them (Clarke, 2001, p. 161). Secondly, customer retention prevents rivals from making competitive inroads on a business's customer base, which protects its income streams. Customer lock-in is therefore very important to a business's long-term profitability. (Anderson & Srinivasan, 2003, p. 123; Clarke, 2001, p. 161; Reichheld & Schefter, 2000, p. 106) This section discusses the three sub-elements that have been identified in Chapter 4 that can assist the formulation of a business's customer lock-in strategy, namely (1) control points, (2) switching costs and (3) e-loyalty antecedents.

5.5.1. Control Points

"There are places on the landscape, places in the value chain, that are ten times more valuable than others in terms of profit, power and control. These special places are the control points of the business landscape." **– (Slywotzky, 2002, p. 108)**

Strategic control points refer to the mechanisms that companies can specifically control and leverage to prevent imitation and lock competitive advantages in for themselves. Control points are employed to retain customers and prevent competitors from entering a specific strategic space. The term strategic control points was first introduced by Slywotzky and Morrison (1997), and Ungerer *et al.* (2011, p. 187) defined it as "The barricades that are erected around income streams and for which the trade-offs, for competitors to enter or customers to defect, are just too high". Control points are also sometimes referred to as isolating mechanisms, which Oliver (1997, p. 704) described as imitability barriers that protect a firm's competitive advantages.

The main question that this section sought to address was: ***What model(s) can assist e-business start-ups in formulating their control point strategy?***

Given that control points are one of the less well known topics, a content oriented approach was again taken that endeavoured to uncover different types of control points that exist, in order to enhance e-

[17] This model and proposition will be retracted in Chapter 7, as it becomes apparent that the model is too simplistic to sensibly aid any pricing decision.

business start-up’s understanding of the strategy content related to control points, which could in turn assist their control point strategy formulation.

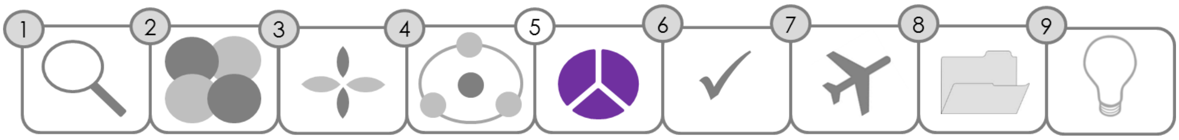
Three specific control point descriptions were discovered, namely those provided by Ungerer *et al*. (2011), Van der Heijden (2001) and Slywotzky and Morrison (1997). Additionally, a pattern was recognised in the control point elements that made it appear as if control points are essentially rooted in the resource base view of the firm. The resource based view advocates that possessing resources (skills, knowledge, assets and positions) that are valuable, rare, durable, difficult to copy, idiosyncratic, non-tradable and non-substitutable lead to firm differentiation and supernormal profits (Barney, 1991; Oliver, 1997, p. 697; Hough, Thompson JR, Strickland III, & Gamble, 2011, p. 117; Volberda, Morgan, Reinmoeller, Hitt, Ireland, & Hoskisson, 2011, p. 107; Pearce & Robinson, 2009, p. 173). Descriptions of such valuable and inimitable resources were thus also used to inform the created strategic control model.

A last perspective that was used to construct the control point model was that of entry barriers. Carlton and Perloff (1994, p. 110) defined entry barriers as anything that prevents an entrepreneur from instantaneously creating a new firm in a market. This description resonates with the description of control points as mechanisms that prevent competitors from entering a specific strategic space.

The integration process of the different descriptions is shown in Table 5.7 below. The basic approach was to identify factors between the different models that are essentially the same and integrate those, while keeping the independent, unique factors. Altogether, 14 different types of control points were identified in the integrated control point model. The first seven control points were essentially taken from Ungerer *et al*.’s (2011) description, with the next three control points taken from Van der Heijden’s (2001) description. An additional three control points were derived from Slywotzky *et al*.’s (1997) description. Lastly, an additional control point was derived from Pearce and Robinson’s (2009) description of valuable and inimitable resources. Visualising the integrated control point model, Figure 5.17 below was created.

Table 5.7 – Construction of the Strategic Control Point Model

Strategic Control Point Sources								
Strategic Control Point Models				Entry Barriers	Resource Based View		Mixed	Integrated Control Point Model
No.	(Ungerer, Pretorius, & Herholdt, 2011, p. 188)	(Van der Heijden, 2001, pp. 14-16)	(Slywotzky & Morrison, 1997, p. 53)	(Porter, 1980, pp. 7-13)	(Pearce & Robinson, 2009, pp. 173-175)	(Volberda, Morgan, Reinmoeller, Hitt, Ireland, & Hoskisson, 2011, p. 107)	Miscellaneous	
1.	Choke point effect	Patents, design rights, copy right and other intellectual property protection	Own the standard, patents and other intellectual property protection/ De facto standard	Government policy	Patents			1. Choke point effect
2.	First mover advantage		One or two-year product development lead	Product differentiation/ Proprietary product technology	Capacity pre-emption			2. First mover advantage
3.	Lock-in	Lock-in/ Sunk costs		Switching costs				3. Switching costs
4.	Advantages in scale and scope		Commodity with 10 to 20% cost advantage/ Dominant market share	Economies of scale/ Capital requirements	Economies of scale/ Economic deterrence			4. Advantages in scale and scope
5.	Law of increasing returns	Increasing returns					(Arthur, 1996 ,p. 100; Amit & Zott, 2001, p. 507)	5. Network effects
6.	Learning effects	Learning/ Distinctive competencies		Learning effects	Path dependent assets/ Unique skills and knowledge	Historically created capabilities	(Slywotzky, 2002, p. 146)	6. Learning effects
7.	Fit or complementarity of elements in a business model						(Casadesus-Masanell & Ricart, 2011, p. 102)	7. Business model complementarities
8.		Well-recognised brand	Brand, copyright or trademark ownership		Brand loyalty/ Reputation/ Employee satisfaction	Valuable brand name	(Slywotzky, 2002, p. 87)	8. Brand advantage
9.		Geographic location		Favourable locations	Unique locations		(Magretta, 2002, p. 91)	9. Geographical control
10.		Creation of scarcity or identifying bottlenecks			Scarce, unique assets	Valuable, rare, costly-to-imitate, non-substitutable capabilities	(Slywotzky A. , 2002, p. 109)	10. Creation of scarcity or capturing bottlenecks
11.			Control over supply arrangements or distribution channels/ control over or managing the value chain	Favourable access to raw materials	Unique assets			11. Control over supply
12.			Control over supply arrangements or distribution channels/ control over or managing the value chain	Access to distribution channels				12. Control over distribution channels
13.			Owning the customer relationship or having proprietary information about customer preferences				(Slywotzky A. , 2002, p. 109)	13. Control the customer Interface
14.					Causal ambiguity	Ambiguous cause		14. Causal ambiguity
15.						Social factors (Interpersonal relationships, trust and friendships)		*Removed – Included in switching costs*



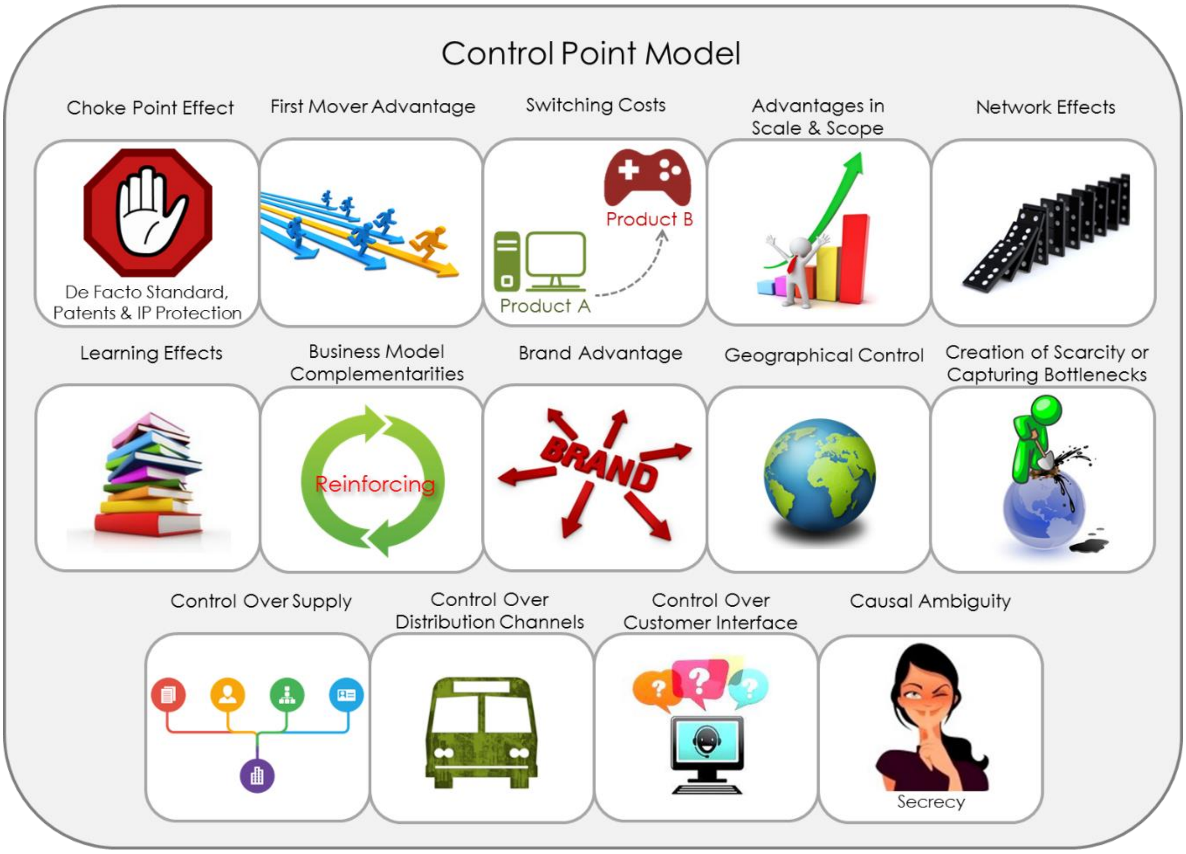


Figure 5.17 – Control Point Model

Choke points are the most powerful type of control point and refer to when a position is obtained where all other related activities are dependent on the business. This happens when businesses obtain legal rights over a certain domain or when they are regarded as the *de facto* standard (Ungerer, Pretorius, & Herholdt, 2011, p. 188). Choke points therefore deal with creating "monopoly" effects. Mechanisms that companies can use to gain legal rights over a certain domain include patents, design rights, copyrights, creating and owning the standards, strategic partnership agreements, and utilising other forms of intellectual property protection (Van der Heijden, 2001, pp. 14, 15; Slywotzky & Morrison, 1997, p. 53). Becoming the *de facto* standard can also happen by being the first mover or simply being superior and thus being preferred by most customers.

A ***first mover advantage*** is gained when a business is first to market with a new offering or proprietary product technology, requiring competitors to catch up. A first mover advantage is contingent on innovating in some way or utilising the innovation in the market before competitors can. Maintaining a firm's first mover advantage lead is said to be particularly difficult in e-business. Van der Heijden (2001, p. 15) stated that "Copying what others are doing is relatively easy in the digital world, and every good idea quickly has many followers". However, the rate of imitation is still subject to the complexity or novelty of the innovation. Regardless, a first mover advantage allows the business to establish a brand advantage and create switching costs, which can possibly lock customers into a long-term relationship, regardless of imitators.

Switching costs refer to all the costs incurred by a customer in switching to a competitor's offerings (Hess & Ricart, 2002, p. 1). Switching costs involve the hassle or inconvenience of switching suppliers, investments in specific complementary and durable assets, and customer perceptions of a product or service that prevent their switching. It can also refer to the advantages that will be foregone once two parties have traded, in comparison to trading with other, new parties (Lee & Vonortas, 2004, pp. 172, 174). Furthermore, it involves hassles such as registering, constructing a new contract, re-entering data, learning how to use a different product or service, integrating the new system with one's own or any other type of expense, inconvenience or effort required when changing suppliers (Porter, 2001, p. 7).

Advantages in scale and scope refer to the supply-side economies of scale and scope enjoyed by larger businesses. Supply-side economies of scale exist when the cost per unit decreases as output is increased. Supply-side economies of scope on the other hand, refer to the cost advantages enjoyed by offering a wide array of products that all possibly make use of the same activities and resources. Economies of scope thus exist when producing good "A" reduces the cost of producing good "B". (Lee & Vonortas, 2004, p. 171) Subsequently, advantages in scale and scope allow larger businesses to establish a price or production quantity advantage over smaller firms (Ungerer, Pretorius, & Herholdt, 2011, p. 188). Additionally, advantages in scope can also translate into synergy effects or complementarity benefits that customers enjoy because of the extended range of choices.

Network effects refer to demand-side economies of scale, where the value proposition becomes more valuable, and individual users are able to extract more value from the offering, as the total number of users in the system increases (Lee & Vonortas, 2004, p. 171; Porter, 2001, p. 8; Amit & Zott, 2001, p. 507). Network effects therefore have a close relation to the law of increasing returns, which Arthur (1996, p. 100) described as "the tendency for that which is ahead to get further ahead, and for that which loses advantage to lose further advantage".

Learning effects refer to the diligent development of knowledge, competencies and distinctive resources over a long period of time, which places a company in a position where no one else can provide the expertise required. Learning effects is a very strong control point. (Ungerer, *et al.*, 2011, p. 189; Amit & Zott, p. 508; Van der Heijden, 2001, p. 16) Tacit knowledge embedded in people can only be learned through a long, slow process, and is often the most difficult to imitate (Van der Heijden, 2001, p. 16). This also speaks volumes about how critical it is in the e-environment to retain employees and their knowledge within an organisation, and not let them slip into the hands of competitors. Furthermore, the experience curve can also aid businesses in gaining a cost advantage.

Business model complementarities refer to elements which reinforce the primary offering of business model, resulting in superior performance (Ungerer, Pretorius, & Herholdt, 2011, pp. 188, 189). Business model complementarities go beyond first tier fit where there is a *consistency* between activities and the overall goal of the company. Business model complementarities exist when second or third tier fit is achieved where activities are *reinforcing*, meaning that activities support and improve the functioning of the other activities; or when activities are *optimised*, referring to near ideal execution (Porter, 1996, pp. 13-15). In these latter two cases, the business model may be so well constructed that it itself constitutes a strategic control point.

A ***brand advantage*** is achieved when a well-recognised, trusted brand image is established (Van der Heijden, 2001, p. 15; Slywotzky & Morrison, 1997, p. 53). A brand advantage is often most easily established by being a pioneer in a certain field, but can also be earned over time by being regarded as a consistent, reliable supplier of certain offerings. Furthermore, a brand advantage is sustained by brand, copyright or trademark ownership.

Geographical control refers to gaining control over a geographic or digital location. This also constitutes a control point, as it represents a space where competitors cannot follow (Van der Heijden, 2001, p. 15). Owned geographic locations or domain names can thus act as a lock-out mechanism for competitors. Walmart for instance put up stores in rural areas that are too small to sustain two retail chains, creating clear barriers to any competition (Magretta, 2002, p. 91). Digital space can similarly be controlled, for instance by creating proprietary or closed systems that only a selected few businesses have access to, or have the rights to trade on.

The ***creation of scarcity or capturing bottlenecks*** also constitutes a control point. In the age old paradigm, value is associated with scarcity. When something is scarce, profitability tends to disperse towards these points of scarcity, away from points of abundance. Entrepreneurs are forced to seek the “bottle-necks” in the system and they are forced to pay attention to unfulfilled customer needs and unrealised potential customer value. (Kelly, 2008; Mansfield & Fourie, 2004, p. 38; Van der Heijden, 2001, p. 14) Scarcity can thus be created by differentiating (Porter, 1996, p. 5); making an offering exclusive; tailoring specific offerings to customer needs; or capturing and controlling other bottlenecks in the system in order to deliver unique value to customers.

From a value chain perspective, ***control over supply*** refers to controlling the supply arrangement or resources (Slywotzky & Morrison, 1997, p. 53). Capturing this control point can lead to significant bargaining power. This control point is also related to learning effects previously discussed, as learning effects can lead a business into becoming a specialised supplier that is solely capable of providing specific competencies.

Control over distribution channels refer to controlling the physical or digital flow of offerings, by having control over the channels through which the offerings are intended to flow. Controlling the distribution channel can be a significant control point, as new entrants may require the use of the channel, but are not able to access it because incumbents are already fully utilising it. New entrants must then persuade the distribution channels to accept their new offering, for instance by having promotions. This reduces profits and acts as an entry barrier. Intuitively, the more limited or scarce the distribution channel, the fiercer the competition for the channel and the higher the entry barriers are. (Porter, 1980, pp. 10, 11) In the worst cases, the barriers to entry are so high that companies have to create a totally new distribution channel for their offerings.

Similarly, ***control over the customer interface*** refers to controlling the customer relationship; having proprietary information about customer preferences; or controlling the customer interface or channel through which purchases are made (Slywotzky & Morrison, 1997, p. 53). Controlling the customer interface is a powerful control point as it affects how offerings are presented and influences how much customer trust and perceive offerings.

Lastly, ***causal ambiguity*** refers to inimitability that results from difficulty in determining the source of advantage that a business enjoys. This ambiguity often results from a subtle combination of tangible and intangible assets, culture, processes and organisational attributes (Pearce & Robinson, 2009, pp. 174, 175). The agenda of causal ambiguity can additionally be furthered through secrecy, thereby protecting a firm's knowledge capital, management practices and strategy.

The elements of the integrated control point model are thus intended to help businesses think about the different ways that they can capture value, create leverages and lock competitive advantages in for themselves. Slywotzky and Morrison (1997, p. 52) stated that every good business design has at least one strategic control point, with the best business designs having two or more. The authors further stated that, "A business design without a strategic control point is like a ship with a hole in its hull. It will sink much sooner than it has to". Control points are therefore critical in creating sustainable businesses.

The following proposition emerges from this section:

- **Proposition 4.1**: The integrated control point model is a suitable reflection of types of control points that exist and can assist e-business start-ups with formulating their control point strategy.

5.5.2. Switching Costs

***"The most valuable asset in the new economy is not manufacturing prowess or raw materials. It's an installed base of customers, kept loyal by switching costs that deter them from changing brands." –* (Shapiro & Varian, 2009, p. 1)**

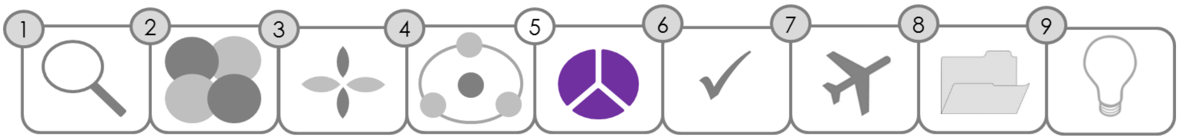
Switching costs refer to the costs that deter customers from switching to a competitor's offerings (Hess & Ricart, 2002, p. 1). More concretely, switching costs involve the hassle or inconvenience of switching suppliers, investments in specific complementary and durable assets, and customer perceptions of a product or service that prevent their switching. It can also refer to the advantages that will be foregone once two parties have traded, in comparison to trading with other, new parties (Lee & Vonortas, 2004, pp. 172, 174). Furthermore, it involves hassles such as registering, constructing a new contract, re-entering data, learning how to use a different product or service, integrating the new system with one's own or any other type of expense, inconvenience or effort required when changing suppliers (Porter, 2001, p. 7).

Switching costs have historically been recognised as an important element for achieving a competitive advantage (Hess & Ricart, 2002, p. 1; Sharma & Patterson, 1999; Kotler, 1997; Lieberman & Montgomery, 1988; Rumelt, 1987; Porter, 1985; Porter, 1980) and is hence one of the control points that enjoy the most attention in literature. Kotler (1997) also posited that there are fundamentally two ways in which to retain loyal customers, namely by increasing customer satisfaction or raising switching costs (Hess & Ricart, 2002, p. 3).

Looking at some of the characteristics of switching costs, Edlin and Harris (2013, p. 9) highlighted that switching costs are dynamic and change as the business environment changes. The advent of the Internet has in turn dramatically lowered switching costs, searching costs, shopping costs and uncertainty costs (Edlin & Harris, 2013, p. 9; Yang & Peterson, 2004, p. 806). Hess and Ricart (2002, p. 6) added that while switching costs are being reduced on the one hand by the characteristics of the networked economy, on the other hand the opportunity for new switching costs is also created. Furthermore, some switching costs are tangible and relatively easy to measure, whilst others are more intangible and more difficult to measure or observe (Edlin & Harris, 2013, p. 9).

The main question that this section sought to address was: ***What model(s) can assist e-business start-ups in formulating their switching cost strategy?***

Similar to the other elements, a strategy content oriented approach was used that sought to uncover types of switching costs that exist and integrate them into a holistic perspective. Six primary switching cost classifications were used, namely those provided by Edlin and Harris (2013), Shapiro and Varian (2009), Burnham, Frels and Mahajan (2003), Hess and Ricart (2002), Klemperer (1995) and Porter (1980). Additionally, Porter's (1980) writings on exit barriers were also investigated, as exit barriers describe the



barriers that competitors face when they want to exit their current industry. This is highly similar to switching costs that prevent customers from exiting their current relationship with a business. Table 5.8 below shows the integration process of the different switching cost elements. The basic approach was to identify factors between the different authors' descriptions of switching costs that are essentially the same and integrate those, while keeping the independent, unique factors.

It should be noted that the integrated switching cost model created below has been somewhat simplified, as Hess and Ricart (2002) originally sub-divided their switching cost taxonomy into three categories, namely previous investments, potential investments, and opportunity costs. This sub-division has not been done here, as these sub-categories make it necessary to duplicate some switching costs. The switching costs defined here should therefore be considered in the broadest possible sense, including past investments, future investments, and opportunity costs. In order to visualise the integrated switching cost model, Figure 5.18 below was created.

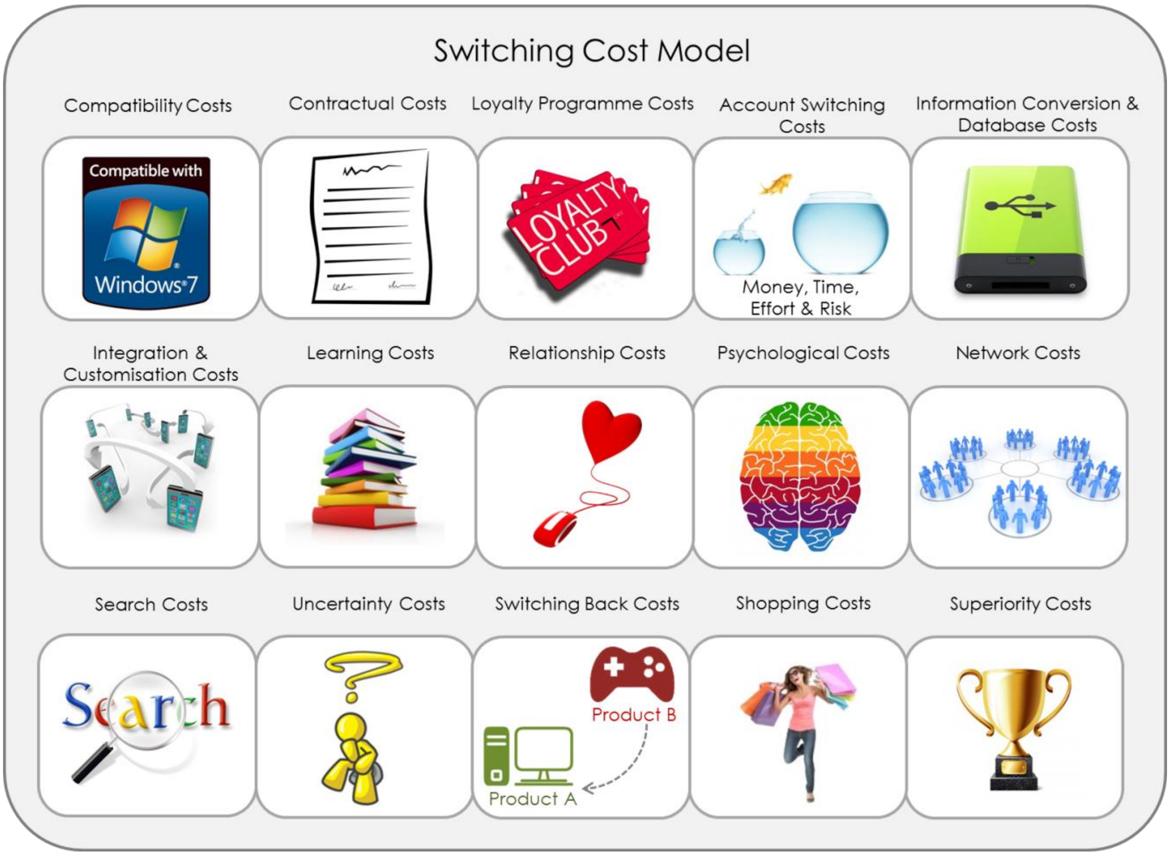


Figure 5.18 – Switching Cost Model

Compatibility costs arise when there is an incompatibility between some feature of the current offering and the new offering. These incompatibilities are often caused because the initial offering makes use of complementary products, which creates a type of lock-in. Customers thus have to buy the complementary products for the whole offering to function, or bear the switching costs.

Table 5.8 – Construction of the Switching Cost Model

Switching Cost Models									
	Switching Cost Models						Exit Barriers	Mixed	Switching Cost Model
No.	(Edlin & Harris, 2013, pp. 9-13)	(Shapiro & Varian, 2009, pp. 1, 2)	(Burnham, Frels, & Mahajan, 2003, pp. 111, 112)	(Hess & Ricart, 2002, p. 8)	(Klemperer, 1995, pp. 517, 518)	(Porter, 1980, pp. 10, 21, 120)	(Porter, 1980, pp. 20, 21)	Miscellaneous	
1.	Compatibility costs	Durable purchases		Durable purchase/ Complementary purchase	Compatibility with existing equipment	New equipment costs	Investment in specialist assets		1. Compatibility costs
2.	Contractual costs	Contractual commitments	Benefit loss cost	Contractual commitment			Strategic interrelationships		2. Contractual costs
3.		Loyalty programmes	Benefit loss costs	Loyalty programmes	Discount coupons and similar devices				3. Loyalty programme costs
4.	Transaction costs		Monetary loss costs		Transaction costs		High fixed cost of exit		4. Account switching costs
5.	Transaction costs	Information & databases		Information & database					5. Information conversion and database costs
6.	Transaction/ Learning costs		Setup costs			Product redesign cost		(Coyles & Gokey, 2002, p. 88; Porter, 2001, p. 7; Riggins & Rhee, 1998)	6. Integration & customisation costs
7.	Learning costs	Brand-specific training	Learning costs	Learning/ Training	Learning costs	Retraining costs/ Reliance on technical assistance	Specialised skills	(Porter, 2001, p. 7)	7. Learning costs
8.			Personal relationship loss costs	Relationship costs		Psychic cost of severing a relationship	Emotional barriers	(Lee & Vonortas, 2004, pp. 170, 172; Porter, 2001, p. 7)	8. Relationship costs
9.			Brand relationship loss costs	Psychological costs	Psychological costs		Governmental & social encouragement		9. Psychological costs
10.				Network costs				(Lee & Vonortas, 2004, pp. 170, 172)	10. Network costs
11.	Search costs	Search cost	Evaluation costs	Search costs		Time and money spent on qualifying new supplier			11. Search costs
12.	Uncertainty costs		Economic risk costs (Performance, financial and convenience risk)	Risk of failure	Uncertainty costs				12. Uncertainty costs
13.				Switching back costs					13. Switching back costs
14.	Shopping costs								14. Shopping costs
15.		Specialised suppliers	Benefit loss costs	Specialised supplier		Specialised skills	Specialised skills	(Lee & Vonortas, 2004, pp. 170, 172; Forbis & Metha, 2000, p. 50)	15. Superiority costs

As information, goods and services in the networked economy function in systems, this makes switching costs more important than ever before (Shapiro & Varian, 2009, p. 1). For instance, changing a single component often requires that many other components in the system have to change with it, imposing large switching costs. Examples include hardware requiring software, videos requiring video players, and durable products requiring consumable complements, such as printers requiring ink cartridges (Edlin & Harris, 2013, p. 9; Shapiro & Varian, 2009, p. 1). The strategic choice of incompatibility between or among complementary products can therefore create "proprietary" or "closed" systems.

Another means for creating switching costs is to create ***contractual costs***. Contractual costs are costs that users incur if they defect from the contract. The benefit for a company making use of contractual costs is that switching costs can often be created in a market where they are otherwise low. (Edlin & Harris, 2013, p. 11) Some mobile phone carriers for instance, partly subsidise the price of a new smartphone. In return, customers are locked into a contract which bears penalties for early termination. Conversely, contracts can also be used to reward loyal customers. A loyalty programmes at its core is nothing else than a contract between a supplier and a buyer that certain benefits will be obtained, if the service or product is purchased often enough. Discounts can also be rewarded when large enough purchases are made. (Edlin & Harris, 2013, p. 11; Shapiro & Varian, 2009, p. 2) Conversely, companies themselves can benefit through affiliate programs similar to those that Amazon.com employ, where the referred party rewards the referrer (Shapiro & Varian, 2009, p. 2). ***Loyalty programme costs*** then are the loyalty benefits that customers forego when they switch suppliers.

Account switching costs involve the time, effort, risk and once off financial expenditures such as deposits or initiation fees (Burnham, Frels, & Mahajan, 2003, pp. 111, 112) incurred when actually moving from one supplier's account to a new account. Essentially, it is what is commonly referred to as "switching costs". Edlin and Harris (2013, p.12) call this type of switching costs "transactional switching costs", however, this can create confusion with transaction costs that are the costs involved with each transaction as explained in Chapter 3.3.2.4. The term account switching costs were therefore preferred.

Apart from account switching costs, two other types of costs which may be incurred when switching suppliers are "information conversion and database costs" and "integration and customisation costs". ***Information conversion and database costs*** refer to the cost of upgrading one's system, converting historical data into new data formats and maintaining incompatible systems (Shapiro & Varian, 2009, p. 1). In software and online services, moving data from one supplier to another may be particularly costly and the degree of data portability is therefore a big determinant of information conversion and database costs (Edlin & Harris, 2013, p. 13).

Considering ***integration and customisation costs***, switching costs can be raised by convincing customers to design the firm's product into their products (Porter, 1980, p. 120) or by allowing customers to make customised changes to the firm's offerings for enhanced convenience and performance. Companies can for instance give partners access to specific information about their internal functions to allow partners to make more informed decisions. In this way partners may become dependent on the firm, raising switching costs. (Riggins & Rhee, 1998) Additionally, conveniences such as default values, automatic payments, automatic subscription renewals, minimal repeated data entry and other customised settings all act as switching barriers (Coyles & Gokey, 2002, p. 88). These settings will need to be re-entered at the new supplier and depending on the difficultly of changing and customising the default settings, significant time and effort can be required (Edlin & Harris, 2013, p. 12). Collectively then, customers would not want to incur the costs and go through the effort required to switch to a competitor and integrate their operations with a new system. (Porter, 2001, p. 7; Burnham, Frels, & Mahajan, 2003, pp. 111, 112)

Relating to above, some products do not merely require the consumption of the product, but rather the active participation of the customer in its use. For offerings such as these, ***learning costs*** are incurred when switching to a new supplier as it requires the user to learn and adapt to the new product, system or interface. Sometimes this learning can require significant effort, creating high switching barriers when learning is complete. (Porter, 2001, p. 7) Firms can thus lock customers in by training the customer's personnel to use the firm's specific products (Porter, 1980, p. 120) or by providing continued technical assistance and advice (Porter, 1980, p. 21). Industries where learning costs are significant are those where products in the industry vary widely and the products are more technically complex to use (Edlin & Harris, 2013, p. 14).

The next switching cost type is ***relationship costs***. Relationship costs refer to the affective loss involved in breaking the relationship bonds with people that the customer used to interact with. Switching costs are created as the customer will not immediately experience the same level of comfort with the new supplier as the old one (Burnham, Frels, & Mahajan, 2003, pp. 111, 112). Hax and Wilde II (2001) stated that deep customer relationships and customer focused options are able to create unassailable competitive advantages (Hess & Ricart, 2002, p. 2). Customers who have fostered a strong, trusting relationship with suppliers will not easily defect. An even higher level of lock-in can be achieved when customers are involved in the design and production process, also known as "prosumption". Customers who are involved in this way usually feel a sense of ownership, which further raises switching costs (Lee & Vonortas, 2004, pp. 170, 172).

Customers can also face ***psychological switching costs*** due to their inherent preferences. They may for instance be unwilling to give up a brand simply because they like it and feel loyal to it for non-economic reasons. (Hess & Ricart, 2002, p. 8) The definition of psychological switching costs is also expanded here to include behavioural switching costs, which relate to customers' unwillingness to switch because they like their current habits and way of doing things (DeVine & Gilson, 2001, p. 2; Yang & Peterson, 2004, p. 805). Ways in which psychological switching costs can be created are by fostering strong customer relationships, by creating an online community and otherwise emotionally appealing to customers.

Once a user has become a member of an online community, ***network costs*** discourage them from leaving the network. Network costs entail the cost of forfeiting benefits that would have been gained if the customer did not leave the network. Network costs are therefore closely related to network effects, where more users in the online community increases the benefit of a single user. Online communities are therefore able to raise users' switching costs. (Lee & Vonortas, 2004, pp. 170, 172)

Search costs are the costs that are incurred when a customer searches for new alternatives. Customers first need to find alternative suppliers, and then gather enough information to evaluate whether switching would be beneficial. The unique characteristic of search costs is that these costs are incurred regardless of whether the customer decides to ultimately switch suppliers or not. (Edlin & Harris, 2013, p. 13)

Following from above, ***uncertainty costs*** are the costs involved when customers are not able to adequately evaluate the benefits of the offering, without first using and experiencing the offering. Only by experiencing the offering itself, will a customer be able to evaluate whether it suits their needs, level of expertise and whether the whole business for instance will be able to adapt to it. But since customers are not able to experience the offering beforehand, they remain uncertain about whether the offering will truly be beneficial. Advertising may provide information and claim certain benefits, but as advertisements originate from suppliers, they are often perceived as being biased. Increasingly important then, is the use of consumer ratings and reviews from experienced users to help reduce uncertainty costs. (Edlin & Harris, 2013, p. 15)

Edlin and Harris (2013, p. 15) also noted that uncertainty costs are only significant when other switching costs are high, otherwise users could test all available products and choose the one best suited to their needs. However, when other switching costs are high, uncertainty costs compound these effects leading to particularly significant switching costs that they named "the fatalism effect". Because users are unsure about whether other suppliers' offerings are better than their current offerings, and other high switching costs prevent the customer from trying the new offerings to find out, consumers may never switch, even if they are very dissatisfied with their current supplier.

Furthermore, uncertainty costs are inherently linked to risk. Switching to a new supplier bears a certain amount of risk that is often perceived higher by consumers than they actually are. Mistakes may be made in the switching process, which would cause the switching costs to outweigh the total benefit gained. (Edlin & Harris, 2013, p. 12) Also, if it is blindly decided to switch to a new system, and it does not perform as expected, then ***switching back costs*** will need to be incurred to revert to the old system or product (Hess & Ricart, 2002, p. 8).

Shopping costs are the additional costs involved in actually making purchases (Edlin & Harris, 2013, pp. 15, 16). In the online world, shopping costs have been significantly reduced (Edlin & Harris, 2013, p. 9; Yang & Peterson, 2004, p. 806), but some still exist. Examples include data usage costs, credit card costs and delivery costs. Essentially shopping costs arise out of needing to "shop around" at multiple stores for multiple products. If a customer makes a purchase at multiple stores, then multiple transactions are needed and they will be billed for each individual delivery. Therefore if a business can provide a wide range of brands or products, then consumers' shopping costs will be reduced. Stated differently, an alternative's shopping costs present a switching barrier to consumers who are already shopping at a company that offers a wide range of offerings.

Lastly, ***superiority costs*** refer to the lock-in that can be created by simply offering superior products and services (Lee & Vonortas, 2004, pp. 170, 172). Customers will have little desire to go anywhere else if their needs are already being fulfilled by a superior offering. Stated differently, customers will experience a loss of benefit if they defect. (Burnham, Frels, & Mahajan, 2003, pp. 111, 112)

The elements of the integrated switching cost model are thus intended to help businesses think about the different ways that they can lock customers into a relationship with the business and prevent them from defecting to competitors. It would therefore be beneficial for businesses to try to employ as many of these switching costs as makes strategic sense.

The following proposition thus emerges from this section:

- **Proposition 4.2**: The integrated switching cost model is a suitable reflection of types of switching costs that exist and can assist e-business start-ups with formulating their switching cost strategy.

5.5.3. E-Loyalty Antecedents

"E-loyalty will continue to be a key success factor in e-commerce... Understanding the drivers and dynamics of how customer loyalty is developed and maintained in cyberspace with the help of an integrated theoretical framework is critical to developing future marketing strategies in this area." –

(Gommans, Krishnan, & Scheffold, 2001, p. 54)

E-loyalty refers to a customer's favourable attitude toward an e-business that results in repeat buying behaviour (Srinivasan, Anderson, & Ponnavolu, 2002, p. 42). E-loyalty antecedents refer to the factors that drive e-loyalty. E-loyalty is critical to any e-business as it contributes to long-term profitability. Other benefits of e-loyalty for companies are that loyal customers purchase more, are more likely to forgive company mistakes, have a decreased sensitivity towards price and also spread positive word-of-mouth reviews about the company (Zhou, *et al.*, 2007, p. 55; Yang & Peterson, 2004, p. 802; Gommans, *et al.*, 2001, p. 43; Reichheld & Schefter, 1996). Additionally, strong customer loyalty create synergistic advantages of brand extensions into related offerings and serves as an entry barrier to new entrants (Gommans, *et al.*, 2001, p. 43; Reichheld & Schefter, 1996).

The main question that this section sought to address was: ***What model(s) can assist e-business start-ups in formulating their e-loyalty strategy?***

Following from Gommans *et al*.'s (2001) quote above and the mentioned benefits, an understanding of the antecedents of e-loyalty was required. But, currently there is no consensus on a common set of determinants of e-loyalty and research results from different authors vary drastically (Arya & Srivastava, 2012, p. 148). A content oriented approach was therefore used that endeavoured to identify those marginally actionable factors that impact e-loyalty, in order to enhance e-business start-up's cognition, which could in turn assist their e-loyalty strategy formulation. The degree of impact of these factors on e-loyalty is not investigated here, which eliminates a great source of discrepancy in literature.

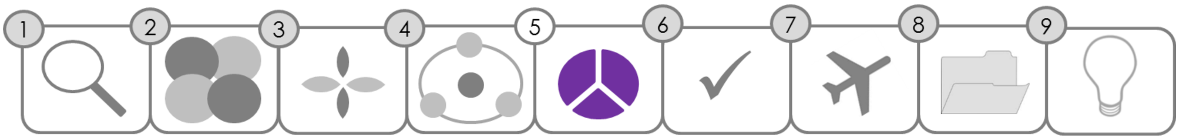
Two primary models were used in the endeavour to identify the antecedents of e-loyalty, namely Gommans *et al*.'s (2001) e-loyalty framework (Figure 3.16) and Srinivasan *et al.*'s (2002) 8C e-loyalty model (Table 3.6). Various other models and writings of authors were also consulted. In order to be concise the different models are not depicted again here, however, the integration process is shown in Table 5.9 below. The basic approach was to identify factors between the different authors' descriptions of e-loyalty antecedents that are essentially the same and integrate those, while keeping the independent, unique factors.

Visualising Table 5.9, Figure 5.19 below was constructed. This figure shows that loyalty does not only consist of behavioural loyalty (which can be created artificially through lock-in mechanisms), but also consists of attitudinal loyalty (which is dependent on specific customer attributes). Behavioural intent therefore mediates the relationship between a customer's attitude and behaviour (Gommans, Krishnan, & Scheffold, 2001, p. 48). This figure roughly categorises e-loyalty into eight categories. Five of these categories (brand building, value proposition, trust and security, website design and customer service) were derived from Gomman *et al*.'s (2001) e-loyalty framework, while the remaining three other categories (order fulfilment, customer attributes, and lock-in mechanisms) emerged as logical enclosures for the other e-loyalty antecedents identified. Additionally, the four most commonly cited antecedents of e-loyalty, namely e-trust, perceived value, e-service quality and e-satisfaction (Arya & Srivastava, 2012, p. 148) were also added as key elements to the model.

Table 5.9 – Construction of the E-Loyalty Antecedents Model

No.	**Adapted E-Loyalty Framework** (Gommans, Krishnan, & Scheffold, 2001, p. 48)	**8C E-Loyalty Model** (Srinivasan, Anderson, & Ponnavolu, 2002, p. 42)	**Conceptual Framework of Antecedents Leading to E-Loyalty** (Valvi & Fragkos, 2012, p. 27)	**Antecedents of E-Loyalty Adapted from** (Arya & Srivastava, 2012, pp. 160-162)	**E-Loyalty Model** (Kim, 2003, p. 19)	**Conceptual Framework for E-Loyalty** (Carlson, Sinnappan, & Kriz, 2005, p. 2)	**Drivers of Online Engagement** (Korgaonkar & Wolin, 1999, pp. 56-59)	**E-Loyalty** (Reichheld & Schefter, 2000, p. 112)	**Online Loyalty & Switching Costs** (Yang & Peterson, 2004, p. 818)	**Miscellaneous**	**E-Loyalty Antecedents Model**
	Brand Building										**Brand Building**
1	First impressions									(Levitt, 1981, p. 97)	1. First impressions
2.	Brand image building	Character	Online atmosphere	Brand loyalty/image						(Van der Heijden, 2001, p. 15)	2. Brand image & character
3.	Well-known brands		Website brand								
4.	Community building	Community		Virtual community			Socialisation			(Hoegg, *et al.*, 2006, p. 10)	3. Virtual community
5.		Cultivation									4. Cultivation
	Value Proposition										**Value Proposition**
6.	Product quality					Usefulness		Compelling product presentations		(Volberda, Morgan, Reinmoeller, Hitt, Ireland, & Hoskisson, 2011, p. 218)	5. Quality
7.	Pricing		Price	Efficiency			Economic benefits	Reasonable price		(Jayawardhena, Wright, & Dennis, 2007, p. 521)	6. Price
8.	Large set of choices	Choice	Product assortment						Product portfolio	(Volberda, Morgan, Reinmoeller, Hitt, Ireland, & Hoskisson, 2011, p. 218)	7. Choice/ Range
9.	Customised products	Customisation		Customisation						(Madu & Madu, 2002, pp. 250-253)	8.Customisation
10.		Convenience	Convenience	Convenience				Convenience		(Mafé & Navarré, 2010, p. 19; Rohm & Swaminathan, 2004)	9. Convenience
11.										(Shapiro & Varian, 2009, p. 2; Amit & Zott, 2001, p. 506)	10. Loyalty Programmes
	Trust & Security			E-trust	E-trust		Security		Security	(Madu & Madu, 2002, pp. 250-253)	**Trust & Security**
12.	Third party approval									(Sumanjeet, 2005, p. 10)	11. Security mechanisms
13.	Encryption		Secure communications							(Sumanjeet, 2005, p. 10)	
14.	Authentication									(Sumanjeet, 2005, p. 10)	
15.	Non-repudiation									(Sumanjeet, 2005, p. 10)	
16.	Privacy			Privacy	Privacy/ security		Privacy	Trustworthy privacy policies	Privacy	(Zeithaml, Parasuraman, & Malhotra, 2002, p. 362)	12. Privacy protection
17.	Guarantees		Assurance	Assurance						(Madu & Madu, 2002, pp. 250-253)	13. Guarantees
18.	Reputation		Reputation							(Madu & Madu, 2002, pp. 250-253)	14. Reputation
	Website & Technology		Website design		Website design						**Website Design**
19.	Fast page loads									(Yoo & Donthu, 2001, p. 5)	15. Fast page loads
20.	Easy navigation/ browsing	Contact interactivity (Ease of navigation/ search)	Usability/ Perceived ease of use	Contact interactivity			Interactive control		Ease of use	(Yang, Peterson, & Huang, 2000, p. 9)	16. Ease of Use/ Navigation/ Search
21.	Effective search functions									(Lociacono, *et al.*, 2002, pp. 19, 20)	
22.	Server reliability	Care (Site availability and reliability)								(Lociacono, *et al.*, 2002, pp. 36, 64, 65)	17. Server reliability
23.	Content	Contact interactivity (sufficient product information)	Information quality			Information fit-to-task	Information needs			(Mafé & Navarré, 2010, p. 19; Hutt, Le Brun, & Mannhardt, 2001, p. 12)	18. Information Quality
24.	Personalised website features	Customisation (personalisation)								(Lociacono, *et al.*, 2002, pp. 36, 64, 65)	19. Personalised website features
	Customer Service				Customer service			Customer support	Customer service		**Customer Service**
25.	Easy to contact									(Lociacono, *et al.*, 2002, pp. 36, 64, 65)	20. Ease of contact
26.	Fast response to customer inquiries	Contact interactivity (timely response to queries)		Responsiveness						(Zeithaml, Parasuraman, & Malhotra, 2002, p. 362)	21. Responsiveness
27.		Care (Preventing and resolving breakdowns in service)								(Zhou, Dai, & Zhang, 2007, p. 55)	22. Preventing and resolving breakdowns in service
				Fulfilment	Fulfilment				Order fulfilment		**Order fulfilment**
28.	Easy payment methods									Payment options (Balabanis, 2006, pp. 221, 222)	23. Payment ease/ options

No.	**Adapted E-Loyalty Framework** (Gommans, Krishnan, & Scheffold, 2001, p. 48)	**8C E-Loyalty Model** (Srinivasan, Anderson, & Ponnavolu, 2002, p. 42)	**Conceptual Framework of Antecedents Leading to E-Loyalty** (Valvi & Fragkos, 2012, p. 27)	**Antecedents of E-Loyalty Adapted from** (Arya & Srivastava, 2012, pp. 160-162)	**E-Loyalty Model** (Kim, 2003, p. 19)	**Conceptual Framework for E-Loyalty** (Carlson, Sinnappan, & Kriz, 2005, p. 2)	**Drivers of Online Engagement** (Korgaonkar & Wolin, 1999, pp. 56-59)	**E-Loyalty** (Reichheld & Schefter, 2000, p. 112)	**Online Loyalty & Switching Costs** (Yang & Peterson, 2004, p. 818)	**Miscellaneous**	**E-Loyalty Antecedents Model**
29.	Quick shopping checkout processes		Shopping process value								
30.	Fast delivery							On-time delivery		(Lociacono, *et al.*, 2002, pp. 36, 64, 65)	24. Delivery speed/ options
31.	Delivery options									(Porter, 2001, p. 18)	
32.					Reliability					(Zeithaml, Parasuraman, & Malhotra, 2002, p. 362)	25. Reliability
											Common E-Loyalty Drivers
33.			Perceived value	Perceived value					Perceived value	(Zhou, Dai, & Zhang, 2007, pp. 42, 43)	26. Perceived value
34.			E-satisfaction	E-satisfaction	E-satisfaction	E-satisfaction			E- satisfaction	(Luarn & Lin, 2003, p. 158)	27. E- satisfaction
35.			Shopping enjoyment	Enjoyment		Entertainment	Social escapism			(Liu & Arnett, 2000)	
36.			Web-ServQual	E-service quality	E-tail quality	E-service quality				(Zeithaml, Parasuraman, & Malhotra, 2002, p. 362)	28. E-service quality
											Customer Attributes
37.			PC knowledge/ Internet experience			Internet expertise				(Zhou, Dai, & Zhang, 2007, pp. 42, 43)	29. PC/ Internet experience
38.			Online buying experience/ habits							(Goldstuck, 2012, p. 20; Mafé & Navarré, 2010, p. 19)	30. Online buying experience
39.			Type of online buyer							(Zhou, Dai, & Zhang, 2007, pp. 42, 43)	31. Other segmentation attributes
40.			Attitude		Situational factors					(Yang & Peterson, 2004, p. 802; Srinivasan, *et al.*, 2002, p. 42)	
41.			Demographics							(Ries & Trout, 2011, p. 224)	
											Lock-In Mechanisms
42.	Customer reward system		Switching costs/ barriers						Switching costs	(Balabanis, Reynolds, & Simintiras, 2006, p. 221)	32. Switching costs
43.										(Ungerer, *et al.*, 2011, p. 188; Van der Heijden, 2001, pp. 14, 15; Slywotzky & Morrison, 1997, p. 53)	33. Control points



The individual elements depicted below are quite intuitive and have previously been defined in Chapter 3.4.3. They are not defined here again. Further it has to be mentioned that businesses would do well to regard the e-loyalty antecedents identified here as hygienes in Herzberg's (1968) motivator-hygiene theory. In other words, these e-loyalty factors can be seen as the minimum entry barriers that have to be overcome in order to create a favourable environment for loyalty. The factors in isolation or even all of them in combination do not guarantee loyalty. They just enhance the probability of creating customer loyalty.

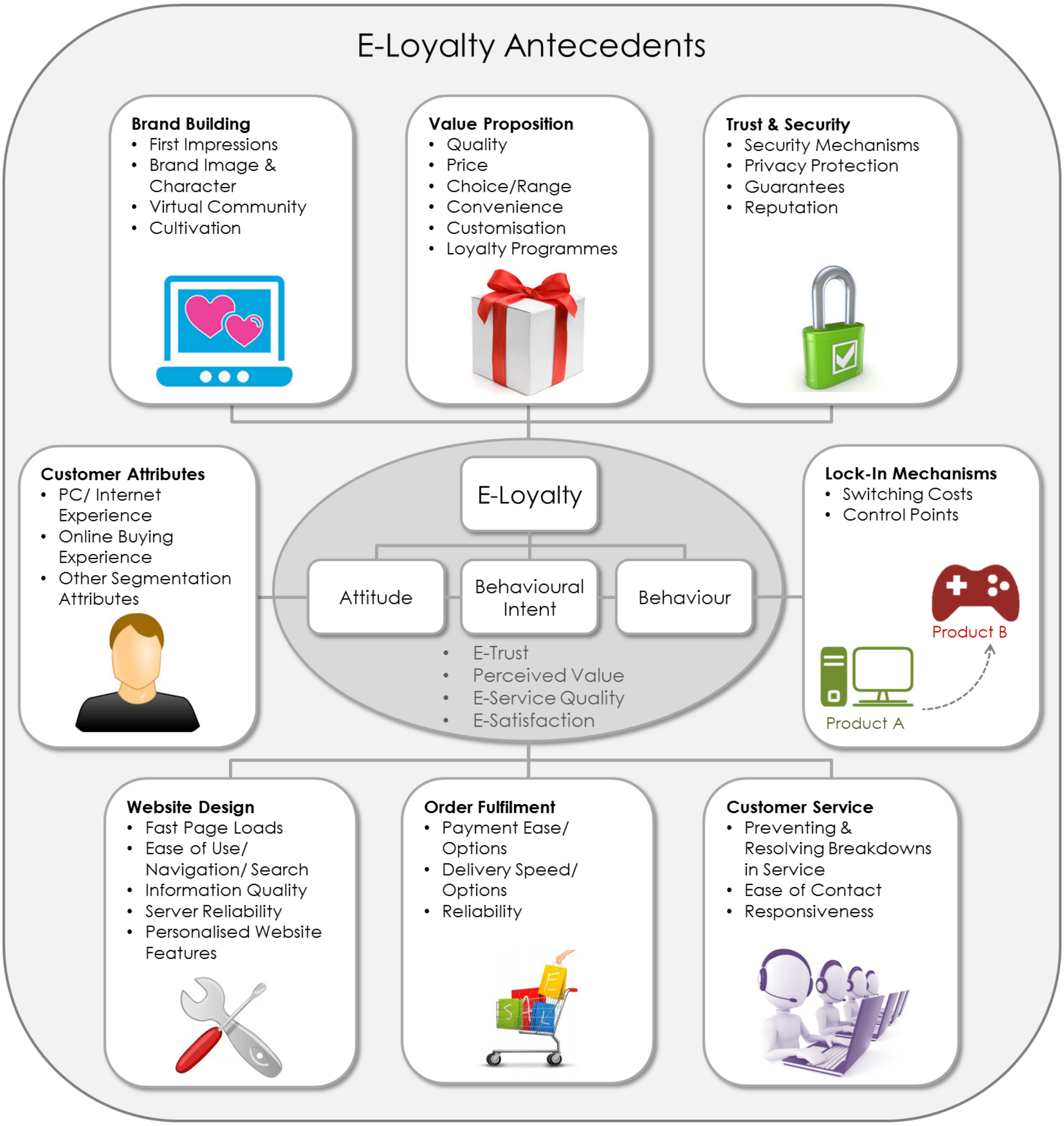


Figure 5.19 – E-Loyalty Antecedents Model

The following proposition emerges from this section:

- **Proposition 4.3**: The integrated e-loyalty antecedent model is a suitable reflection of factors that drive e-loyalty and can assist e-business start-ups with formulating their e-loyalty strategy.

5.6. Strategic Assessment

***"Strategy can neither be formulated nor adjusted to changing circumstances without a process of strategy evaluation."* – (Rumelt, 1998, p. 1)**

Strategy evaluation refers to the appraisal of a business's strategy, in order to establish its utility, truth or efficacy. (Rumelt, 1979, pp. 196–199; Rumelt, 1998, pp. 1, 9, 10; Rumelt, 2011, p. 39) "Its special focus is on the separation between obvious current operating results and those factors which underlie success or failure in the chosen domain of activity. Its result is the rejection, modification, or ratification of existing strategies and plans." (Rumelt, 1998, pp. 9, 10)

The main question that this section sought to address was: ***What model(s) can assist e-business start-ups in assessing their created strategy?***

A content oriented model building approach that results in an integrated conceptual model was again envisioned. In the domain of strategy evaluation, four perspectives that are often employed include (1) a goal-centred approach, which assesses the degree to which pre-determined strategic goals were achieved; (2) a comparative approach, which assesses the effectiveness of the company in relation to other companies; (3) an improvement approach, which assesses how the strategy has evolved or adapted over time; and (4) a normative approach, which assesses how the strategy compares against that of a theoretically ideal strategy (Acur & Englyst, 2006, pp. 70, 71).

Porter (2001, p. 11) noted that in the past many e-businesses violated nearly all precepts of good strategy, which led to their demise. A strategic assessment tool that serves as a logical check to see whether the conceived strategy conforms to the precepts governing good strategies would therefore be useful, as it could increase the quality and robustness of the formulated strategy. The construction of a normative strategic assessment was therefore pursued.

None of the other types were suitable approaches. The competitive strategy framework does not address the core aspirational description of a firm (vision, mission, values), so there are no explicit goals to compare against. Further, the comparative approach requires accurate information of key performance metrics of the firms being compared to make evaluations. Not only is this type of rigorous benchmarking extremely time consuming, but also contradictory to the blue ocean strategy thinking employed in this study. Lastly, as this study assumes a green fields approach, evaluating the changes that occurred in the strategy also is not appropriate.

The normative approach to strategy evaluation does not compare the developed strategy against a single, defined theoretically ideal strategy (because it does not exist), but rather evaluates whether the developed strategy possesses characteristics that are commonly associated with successful, well-performing strategies. The advantage that this provides is that strategies can be evaluated before significant financial investments are made, while at the same time providing entrepreneurs with greater confidence that their strategic choices will lead to successful results (Acur & Englyst, 2006, p. 70).

It must be noted that it was never the goal to create a summary of all the possible strategic tests that exist for every imaginable situation. Rather, the goal was to investigate the literature in sufficient detail to be able to present a more integrated, and thus sophisticated perspective on normative strategy evaluation. Drawing on the perspectives already mentioned in this study as well as a few others, Table 5.10 below was constructed which shows the integration process of the developed strategic assessment model. The basic approach was to identify factors between the different authors' that are essentially the same and integrate those, while keeping the independent, unique factors. Visualising Table 5.10, Figure 2.18 below was constructed.

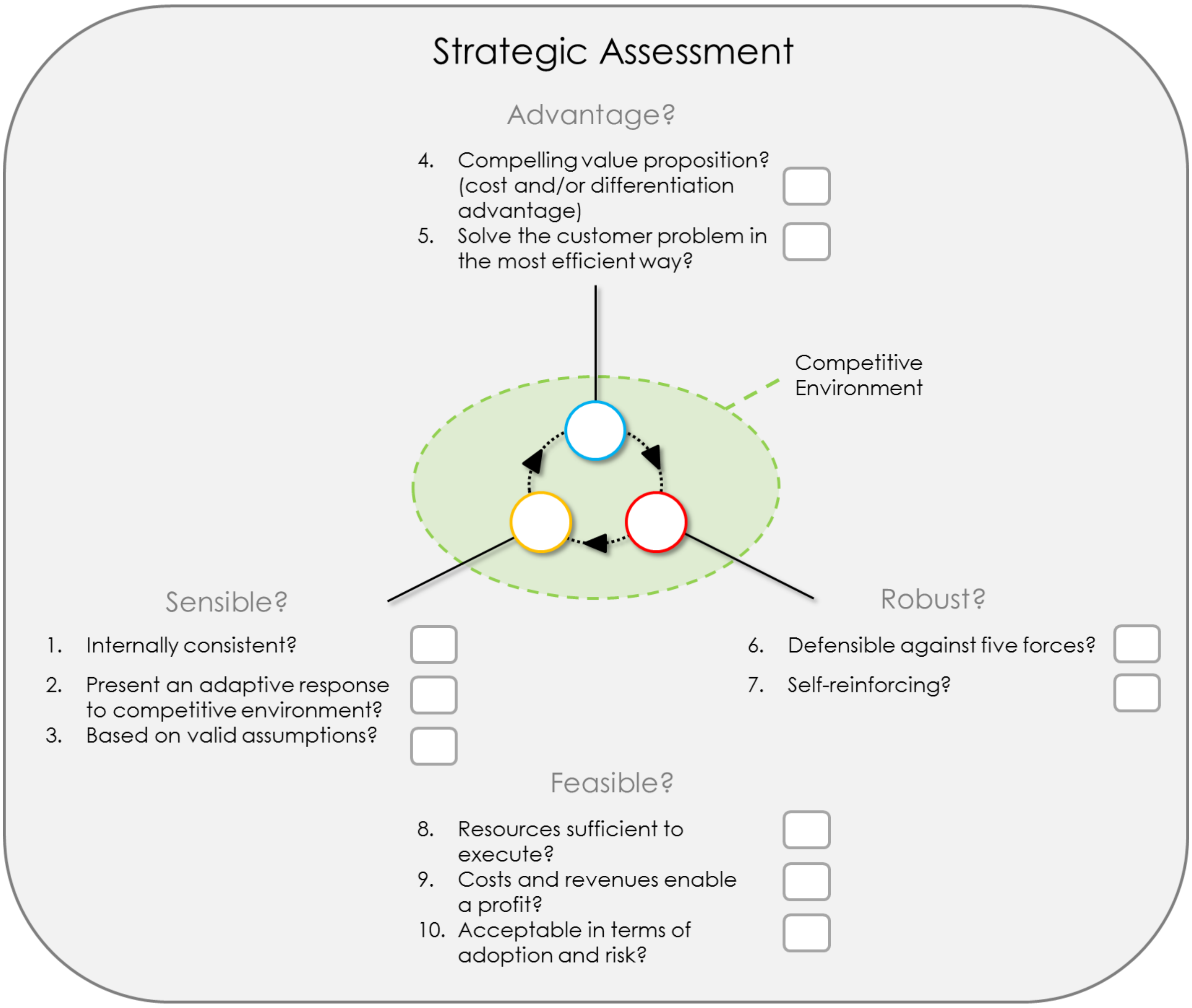


Figure 5.20 – Strategic Assessment

Table 5.10 – Construction of the Strategic Assessment

Strategic assessment																				
No.	(Tilles, 1963, pp. 114-121)	(Rumelt R. P., 1979, pp. 199, 203)	(Porter, 1980, pp. xxvii, 34-47)	(Porter, 1996, pp. 9, 17)	(Rumelt R. P., 1998, pp. 1-7)	(Hamel, 2000)	(Linder & Cantrell, 2001, p. 14)	(Van der Heijden, 2001, pp. 15, 16)	(Magretta, 2002, p. 90)	(Sumanjeet, 2005, pp. 5, 6)	(Kim & Mauborgne, 2005, p. 118)	(Johnson, Scholes, & Whittington, 2005, pp. 357-372)	(Casadesus-Masanell & Ricart, 2007, pp. 9-13)	(Johnson, Christensen, & Kagermann, 2008, pp. 60, 65)	(Teece, 2010, pp. 172-194)	(Casadesus-Masanell & Ricart, 2011, p. 102)	(Zook & Allen, 2011, pp. 108-112, 114)	(Cusumano, 2013, pp. 26-29)	**Miscellaneous**	**Integrated strategic assessment model**
1.	Internal consistency; Any strategy, once made explicit, can quickly be evaluated and improved	Goal consistency test	Internal consistency; Communication and implementation	Competitive advantage arises from fit across activities; Trade-offs vis-à-vis competitors	Goal consistency test: Are the objectives/ major policies of the business appropriate?	Fit			Narrative test: Does the story of the business make sense?				Alignment to goal; Reinforcement: Internal consistency			Business model aligned with company goals	Simple enough to be understood throughout organisation		Fit between activities; Continuity of direction; Trade-offs in deciding what not to do (Porter, 2001, p. 1); Fit and Alignment (Weill & Vitale, 2001) Simple, relevant and intuitively understandable (Osterwalder & Pigneur, 2009, p. 15)	1. Internally consistent
2.	Consistency with the environment	Frame test: Focus on the critical aspects of the situation	Environmental fit		Consonance test: Adaptive response to external environment and changes occurring within it				Narrative test: Does the story of the business make sense? (repeat intentional)	Does the offering's nature and appeal suit the Internet?		Suitability			Adaption to competitive environment	Business model evaluation w.r.t. competitors	Robust learning systems; Continuous learning and improvement	An attractive market; Flexibility in strategy and technology	Demand-capacity relationship in the area being considered (Ansoff, 1965)	2. Present an adaptive response to the competitive environment
3.			Accurate assumptions		Do the results obtained to date confirm or refute critical assumptions on which the strategy rests?		Grounded in reality: Based on accurate assumptions												Assumptions about environment, mission and core competencies must fit reality and fit one another (Drucker P. F., 1994, p. 100); Processes that challenge assumptions (McGrath, 2011, p. 97)	3. Based on valid assumptions
4.		Create a competitive advantage	Differentiation or cost advantage	Unique competitive position; Activities tailored to strategy	Advantage test: Create and maintain a competitive advantage in the selected area of activity	Uniqueness	Provide unique value				Exceptional buyer utility; differentiated strategy canvas			Nail the job with a focused, compelling value proposition (Precision)	Compelling value proposition; Differentiation		Core differentiators	A compelling new product or service; Strong evidence of customer interest		4. Compelling value proposition (cost and/or differentiation advantage)
5.				Use the best set of activities; Operational effectiveness as a given		Efficiency								Get the job done in the most efficient and way possible	Effective and efficient					5. Solve the customer problem in the most efficient way
6.				Sustainability from the activity system, not the parts	Protecting the incumbent's customer base from attack	Profit boosters (Increasing returns, competitor lock-out, strategic economies, strategic flexibility)	Hard to imitate: Build barriers to entry that protect their profit streams	Protect the business: Put barriers in place to lock in the situation		What value added services and technologies can be used to encourage lock-in?			Robustness: Ability to sustain business model effectiveness over time		Robust: Difficult to imitate; Significant value capture	Robust			Barriers to entry (Ansoff, 1965) Customer stickiness/ loyalty (McGrath, 2011, p. 96)	6. Defensible against the five forces
7.					Positive feedback			Positive feedback loops; Increasing returns					Virtuousness: Dynamic reinforcement		Complementary (Cospecialized)	Self-reinforcing			Potential synergy (Ansoff, 1965)	7. Self-reinforcing
8.	Appropriate w.r.t. available resources; Appropriate time horizon	Competence test: The strategy creates solvable sub-problems that fit organizational resources, skills and competence	Resource fit		Feasibility test: Neither overtax resources, nor create unsolvable sub-problems							Feasibility						A strong management team	Available funds; Available level of general management skills (Ansoff, 1965)	8. Resources sufficient to execute
9.	Workability: Adequacy of results achieved	Workability test: Does it/ will it work?			Returns enough value to warrant its continued maintenance				Numbers test: Costs and revenues enable a profit?		Price accessible to the mass of buyers; Attains cost target to deliver profit at strategic price				Advantageous cost structures; Super normal profits			Potential for a large investor payoff; Demonstrating early growth and profit potential		9. Costs and revenues enable a profit
10.	Satisfactory degree of risk				Acceptable to those who must lend their support						Addresses organisational hurdles to adoption	Acceptability			Advantageous risk structures			Overcoming "credibility gap"		10. Acceptable in terms of adoption and risk

Figure 5.20 shows that four underlying traits of good strategies emerged, namely that (1) they are logically sensible, (2) they create a competitive advantage, (3) they are robust and can sustain the business's competitive advantages, and (4) they are feasible to execute. Furthermore, the integrated strategic assessment consists of ten tests that the strategy preferably needs to pass.

Test 1: Internally consistent?

Theoretically ideal strategies are internally consistent (Casadesus-Masanell & Ricart, 2011, p. 102; Magretta, 2002, p. 9; Weill & Vitale, 2001; Hamel, 2000; Rumelt, 1998, pp. 1–6; Porter, 1996, pp. 9, 17; Porter, 1980, p. xxvii; Rumelt, 1979, pp. 199, 203; Tilles, 1963, pp. 114–121). Internal consistency relates to Magretta's (2002, p. 90) narrative test, which states that the story of the business must make sense. This means that the business must possess mutually consistent goals and policies (Rumelt, 1998, p. 2; Tilles, 1963, p. 114) that fit seamlessly together (Porter, 1996, pp. 9, 17) to create a continuity of direction that deliver optimal results. Optimal results are possible because consistent strategies do not possess discontinuities that hinder their cumulative effectiveness.

Test 2: Present an adaptive response to the competitive environment?

Theoretically ideal strategies present an appropriate and adaptive response to the competitive environment in which they are executed (Johnson *et al*., 2005, pp. 357-361; Rumelt, 1998, p. 3; Porter, 1980, p. xxvii; Tilles, 1963, p. 115). Where the previous test dealt with internal consistency, this test deals with external consistency. The developed strategy must fit its competitive environment. A harmony must exist. If the strategy does not represent an appropriate and adaptive response to its environment, then its business story is flawed (Magretta, 2002, p. 9) and more likely to result in failure. Furthermore, the competitive environment is constantly changing, and an acute awareness of this environment is required at all times to effectively compete. This test therefore also introduces an element of strategic learning.

Test 3: Strategy based on valid assumptions?

Theoretically ideal strategies are grounded in reality, meaning that they are based on valid assumptions (Drucker, 1994, p. 100; Linder & Cantrell, 2001, p. 14; McGrath, 2011, p. 97; Porter, 1980, p. xxvii; Rumelt, 1998, p. 1). If a strategy is based on flawed assumptions then it has lost touch with reality, which can spell the business's doom. When a strategy is initially formulated, all that is formulated is a set of untested hypotheses (Blank, 2013, p. 67). These hypotheses have to be confirmed or refuted through data gathered in the real world (Ries, 2011; Collins and Hansen, 2011, p. 96). Similar to above, this test also largely deals with strategic learning and adaption in a dynamic environment (Chia & Holt, 2009; Mintzberg, Ahlstrand, & Lampel, 2009, pp. 175–232), but its interpretation is broader and can be expanded to be responsible for checking the validity of the ratings of the other strategic tests.

Test 4: Compelling value proposition (cost and/or differentiation advantage)?

Theoretically ideal strategies provide compelling value propositions (Cusumano, 2013, pp. 27, 28; Hough *et* *al.*, 2011, p. 7; Zook & Allen, 2011, pp. 107–114; Teece, 2010, p. 174; Johnson, Christensen, & Kagermann, 2008, pp. 60, 65; Kim & Mauborgne, 2005, p. 118; Linder & Cantrell, 2001, p. 14). If a compelling value proposition is not provided, then customers have no reason why they should notice, let alone choose the business's offerings above those of competitors. As previously discussed, Porter (1980, pp. 34-46; 1985, p. 11) proposed that there are two primary competitive advantages can be pursued, namely a cost or a differentiation advantage. Given that sustainable competitive advantages that result in super normal profits is the fundamental goal of competitive strategy (Teece, 2010, p. 173; Rumelt, 1998, pp. 4–6; Rumelt, 1979, pp. 202, 203), achieving either or both of these advantages are extremely important.

Test 5: Solve the customer problem in the most efficient way?

Theoretically ideal strategies solve customer problems in the most efficient way possible (Teece, 2010, pp. 173; Johnson *et al.*, 2008, pp. 60, 65; Porter, 1996, pp. 9, 17). This test goes beyond the previous, and aims at optimality. Although it is possible to develop a strategy that creates a differentiation and/or a cost advantage, it does not necessarily mean that it is the best possible strategy or provides the best possible solution. When a strategy solves a customer problem in the most efficient way possible, it means that it gets a customer job done and nothing else. Johnson *et al.* (2008, p. 60–62) describes this as the business's "precision". When a business is very precise, it is almost impossible for competitors to make inroads on its established customers. Finally, as this tests aims at optimality, it is very difficult to pass. Nonetheless, enough brainstorming can provide an indication of where market disruption may come from, which gives businesses the opportunity to prepare.

Test 6: Defensible against five forces?

Theoretically ideal strategies are defensible against the five forces of competition, namely against customer and supplier bargaining power and the threats presented by existing rivals, new entrants and substitutes (Porter, 2008, p. 4; Porter, 1980, p. 4). Ideal strategies not only create competitive advantages, but are also able to sustains them over time and amidst fierce competitive pressures (Casadesus-Masanell & Ricart, 2011, p. 102; Rumelt, 2011, p. 39; Hough *et al.*, 2011, p. 7; Teece, 2010, p. 180; Casadesus-Masanell & Ricart, 2007, pp. 12, 13; Linder & Cantrell, 2001, p. 14; Van der Heijden, 2001, pp. 15, 16; Hamel, 2000; Rumelt, 1998, p. 6; Porter, 1996, pp. 9, 17). Mechanisms that can contribute to the robustness of the business include entry barriers, switching costs, control points and loyalty antecedents previously discussed.

Test 7: Self-reinforcing?

Theoretically ideal strategies are self-reinforcing (Casadesus-Masanell & Ricart, 2011, p. 102; Teece, 2010, pp. 179–181; Casadesus-Masanell & Ricart, 2007, pp. 10–13; Van der Heijden, 2001, pp. 15, 16; Hamel, 2000; Rumelt, 1998, p. 6), meaning that they build in their strengths over time (Casadesus-Masanell & Ricart, 2007, p. 11). Self-reinforcement involves the creation of "virtuous cycles" or positive feedback loops that sustain the business's competitive advantages and allows it to create and capture *increased* value over time (Casadesus-Masanell & Ricart, 2011, p. 102; 2007, pp. 8–12). Essentially, self-reinforcement is about create synergies in the strategy that increase the entire strategy's effectiveness (Casadesus-Masanell & Ricart, 2011, p. 102; Teece, 2010, p. 180; Porter, 1996, pp. 13–15; Ansoff, 1965).

Test 8: Resources sufficient to execute?

Theoretically ideal strategies have sufficient resources at its disposal to execute (Johnson *et al*., 2005, pp. 371–373; Rumelt, 1998, p. 7; Rumelt 1979, pp. 200, 201; Ansoff, 1965; Porter, 1980, p. xxvii; Tilles, 1963, pp. 115–118). Resources refer to assets of the business, which could be financial, physical, human, intangible (Weill *et al*., 2005; Rumelt, 1998, p. 7). Resources represent a business's action potential (Tilles, 1963, pp. 115, 116). If sufficient resources are not available or acquirable, it is paralyzed. A strategy whose resource demands therefore exceed those available or acquirable is unfeasible and should be rejected.

Test 9: Costs and revenues enable a profit?

Theoretically ideal strategies deliver super normal profits in a given industry (Cusumano, 2013, p. 29; Teece, 2010, p. 174; Kim and Mauborgne, 2005, p. 118; Magretta, 2002, p. 90; Rumelt, 1998, p. 5). High profitability is one of the key features of good strategies and relates to Magrettas (2002, p. 9) numbers tests, which states that the costs and revenues of the business must enable a profit. If the basic finance story of the business is flawed, then the business will not be able to sustain itself. Strategies that therefore do not enable a profit are unfeasible and should be rejected.

Test 10: Acceptable in terms of adoption and risk?

Theoretically ideal strategies are acceptable in terms of adoption and risk (Teece, 2010, p. 174; Johnson *et al*., 2005, pp. 361–371; Kim and Mauborgne, 2005, pp. 147–170; Rumelt, 1998, p. 3; Tilles, 1963, pp. 118–120). Adoption refers to stakeholder's willingness to embrace the strategy and value proposition, whereas risk can be defined as the possibility of a negative consequence occurring, e.g. business failure. Regarding adoption, if there are some conflicting values (Rumelt, 1998, p. 3), moral dilemmas, motivational barriers, cognitive barriers, political barriers (Kim and Mauborgne, 2005, p. 147-170) other trade-offs that stakeholders are not willing to make, then the strategy is unfeasible and should be reworked.

These 10 tests thus serve to evaluate whether the conceived strategy conforms to the precepts governing "theoretically ideal" strategies. Passing these tests makes it likely that a good strategy has been formulated, however this is not assured. The only thing that can be claimed is that passing these tests provide a better strategic point of departure than not passing the tests (Rumelt, 1998, p. 10). Thus, failing some of these tests indicate that the strategy should be reformulated. On the other hand, if it is not possible to reformulate the strategy in such a way that it passes all 10 tests then it merely indicates that the strategy involves a higher degree of risk than if it were to pass these tests (test number 10). If these risks are acceptable to stakeholders, then the strategy is "right" for the business (Rumelt, 1998, p. 1; Tilles, 1963, p. 114).

The following proposition thus emerges from this section:

- **Proposition 5.1**: The strategic assessment model is suitable for assessing whether a business strategy exhibits characteristic typically portrayed by ideal strategies.

5.7. Renewal and Growth

"Establishing a strategy is like aiming at a moving target: you have to be concerned not only with present position but also with the speed and direction of movement." **– (Tilles, 1963, p. 115)**

Renewal refers to the revitalisation and rejuvenation of a business's initial strategy. This element is crucial in e-business, as e-business has been characterised as a hyper-competitive, fast changing, dynamic environment that requires continuous adaption to maintain a competitive advantage and fend off competitors (Lee & Vonortas, 2004, p. 167; Mansfield & Fourie, 2004, p. 37; Brown & Eisenhardt, 2002; Van der Heijden, 2001, pp. 16-17). Growth on the other hand refers to building a business and expanding it. The quest for profitable growth is becoming increasingly difficult, as companies are forced to adapt faster than ever before in a dynamic and increasingly complex environment (Zook & Allen, 2011, p. 114). Usually though, the problem is not a lack of attractive opportunities (Zook & Allen, 2011, p. 114; Christensen, *et al.*, 2002, p. 30), but rather that a robust, repeatable process for creating and nurturing growth does not exist within businesses (Christensen, *et al.*, 2002, p. 30).

The main question that this section sought to address was: ***What model(s) can assist e-business start-ups in renewing and growing the business?***

Firstly, it has to be said that the research area related to growth is immense. It consists of various research streams involving generic or industry specific growth stage models, state models, lifecycles, maturity evaluation tools, change models and so forth. It was not the quest here to evaluate this research domain in its entirety to create an integration of these or to select the best of these tools. Complete exhaustiveness is impossible, but the opportunity for a greater exploration into these are still possible in future. Instead, this section sought to expand on Christensen *et al*.'s (2002, p. 30) above idea of a process for creating and nurturing growth. This section therefore endeavoured to develop a general process that depicts core considerations required when renewing and growing a business based on the business model innovation and strategy literature already covered in Chapter 3.2. Admittedly, this approach is limited by the scope of literature covered. As with all the preceding models, the validity and utility this model will therefore be tested during the validation Chapters. As will be noted in Chapter 7, the competitive strategy framework is not really sequence or process oriented, but rather content oriented. This chapter's developed renewal and growth model will therefore then be expanded with additional content.

As a point of departure, Drucker (1994, pp. 99-101) stated that a company's *modus operandi* is based on the assumptions that the company makes about its environment, its mission and the core competencies needed to accomplish this mission. Adaption is required when these assumptions are no longer valid. Therefore, a business should install mechanisms that constantly re-evaluate whether these assumptions are valid (McGrath, 2011, p. 97; Drucker, 1994, pp. 102-104). The first step to renewal and growth then, is to ensure that the assumptions that the business is based on are still valid.

Secondly, it is intuitive that businesses only want to grow on a set path given that the chosen path has some future viability. It does not make sense to grow on a path that knowingly leads to failure. Therefore, the second step to renewal and growth is to establish whether the current strategy needs to be renewed. Only when a suitable path has been determined, does it make sense to thirdly attempt to grow the business. This basic approach is visually depicted in Figure 5.21 below.

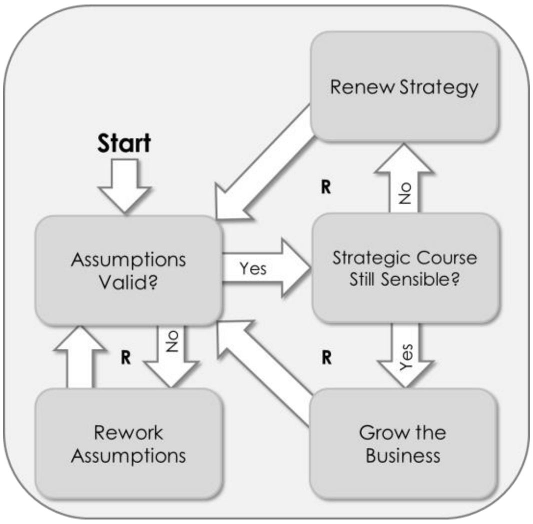
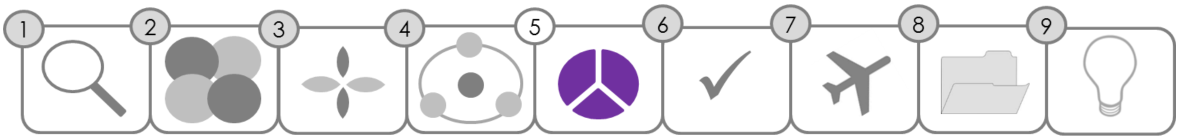


Figure 5.21 – Renewal and Growth Model Part 1

Figure 5.21 shows that using the strategy output from the strategic assessment phase (or any iteration thereafter) as departure point, it is necessary to assess whether the business's assumptions are still valid. If they are not, they should be reworked. This creates a reinforcing cycle. When the assumptions that the business is based on are deemed valid, then it should be determined whether the strategy is still sensible or if it needs adjustment. If adjustment is required, then the strategy should be renewed where after assumptions should again be checked. This also creates a reinforcing loop. Lastly, if the assumptions are valid and the strategic course is still sensible, then the business can be grown. This basic renewal and growth process continues indefinitely.

A lot more detail can be added to Figure 5.21. Osterwalder and Pigneur (2009) for instance noted that business models are designed and executed in specific, unique and dynamic environments. This necessitates constant environmental analysis to enable the initial generation and later renewal of competitive business models (Casadesus-Masanell & Ricart, 2011, p. 102; Osterwalder & Pigneur, 2009, p. 200; Porter, 2001, p. 13). The four main environmental areas highlighted by Osterwalder and Pigneur



(2009, p. 200) include the analysis of industry forces, market forces, key trends and macro-economic forces. This is depicted in Figure 5.22 below.

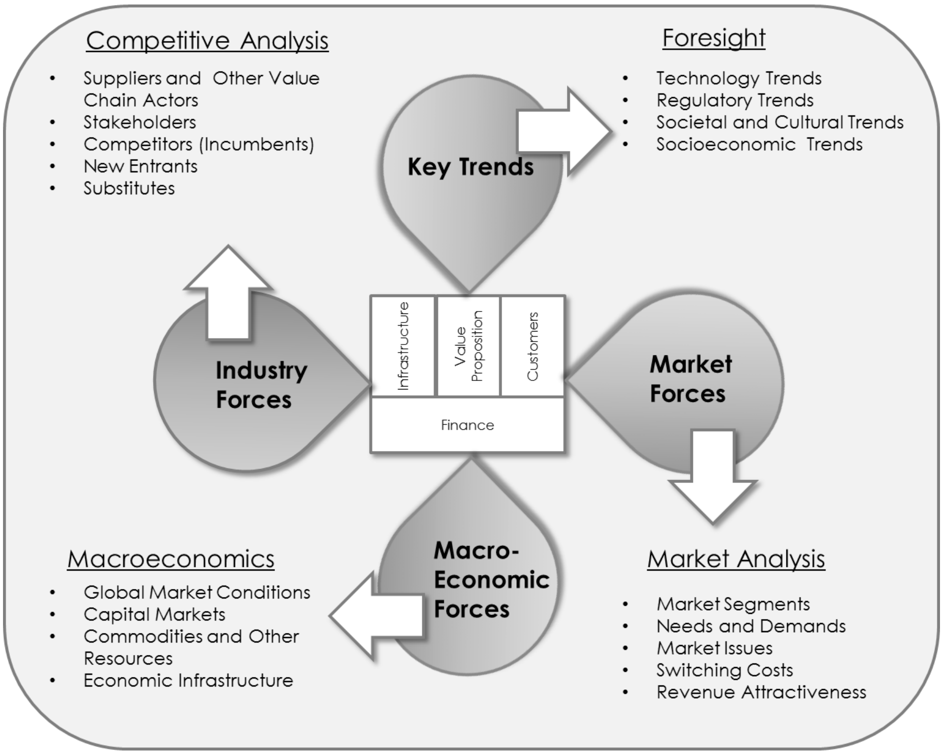


Figure 5.22 – Business Model Environment Adapted From (Osterwalder & Pigneur, 2009, p. 201)

Moving away from the assumption assessment, towards the assessment of whether a business's current strategy is still sensible or showing signs of requiring adjustment, Johnson *et al.* (2008, p. 58) noted that businesses often have to change when there is a need to fend off low-end disruptors (low cost offerings or free competitors, discussed in Chapter 5.4.4), or when there is a need to respond to shifts in competition (alternatives). As such, businesses often have to change because what is thought of as an acceptable solution today will change over time, leading to commoditisation of core market segments. Aligned with this, McGrath (2011, p. 96) also stated that the first sign of a decaying business model is when customers or non-customers are becoming more open to or interested in alternative products or services. Conversely, one of the last signs of a decaying business model is when poor results start showing on the company's financial performance indicators.

Drucker (1994, p. 104) furthermore stated that a strategy's obsolescence is a degenerative and life-threatening disease, which will only be cured by taking decisive action. Drucker therefore proposed a process of abandonment to prevent a strategy's obsolescence. Abandonment requires a business to challenge every product, service, policy and channel with the question: If we were not in it already, would we be going into it now? This question forces an organisation to test its assumptions and re-evaluate what needs to be changed or abandoned (Drucker, 1994, p. 102; Johnson, Scholes, & Whittington, 2005, p. 372). By compiling these insights, Figure 5.23 below was constructed.

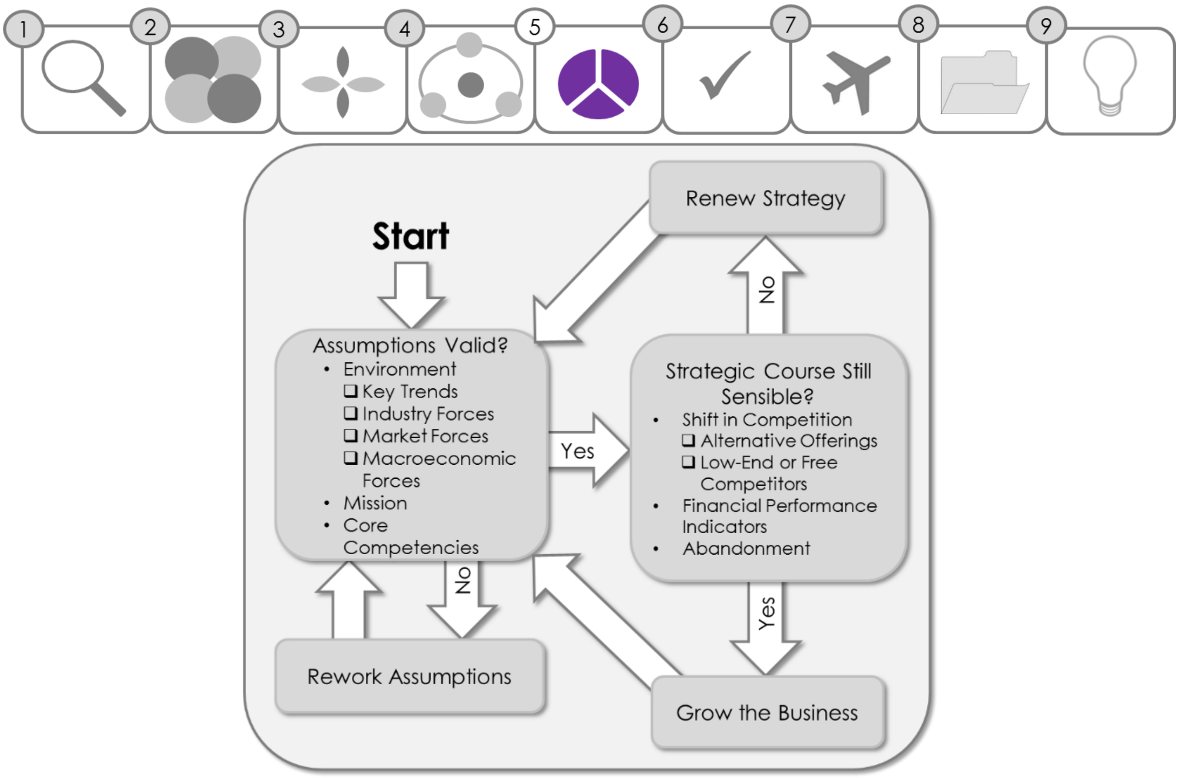


Figure 5.23 – Renewal and Growth Model Part 2

Next, regarding the renewal of strategies, Christensen and Overdorf (2000, p. 68) proposed that organisations have inherent capabilities, which limits the extent that businesses can be changed. There are three types of factors that affect what organisations can and cannot do, namely its resources, its processes and its values. ***Resources***, as previously defined, refer to its tangible, intangible, financial and human assets. ***Processes*** refer to patterns of interaction, routines, coordination, communication and decision-making that help employees to transform resources into products and services of higher value. ***Values*** refer to the way that employees prioritise certain activities over others in different situations, and also to the principles that guide their decision-making logic. (Christensen & Overdorf, 2000, p. 69)

When it comes to attributing a company's success, initially a company might be reliant on a few key people (resources), but as time goes on, the company's locus of capabilities shifts towards its established processes and values, making its success more dependent on these (Christensen & Overdorf, 2000, p. 71). Highly successful companies often have such good processes and values that it almost does not matter which people (resources) get assigned to which projects. When an organisation's capabilities reside primarily in its people, changing resources to address a new problem is relatively easy. However, when the organisation's capabilities are embedded in its processes and values, change can be much more difficult. (Christensen & Overdorf, 2000, p. 71)

Following from this, two main approaches have been identified to renew strategies, namely going through a complete revamp of the current strategy or making incremental adjustments to the strategy. Zook and Allen (2011, p. 108) and Christensen and Overdorf (2000, p. 68) stated that the worst possible approach to counteracting major disruptions in one's environment is to make dramatic changes to the organisation. This is because dramatic changes can actually destroy the resources, processes and values that are currently sustaining the company.

In practice, most executives avoid radical transformation at all costs as well. Research has shown that most radical transformations do not pay off and fail to meet expectations 60 to 75 percent of the time (Linder & Cantrell, 2001, p. 15). Moreover, radical transformation is a slow process that causes significant "down-time", which just is not viable in extremely competitive markets such as e-business. Instead, organisations should rather opt for smaller incremental changes to their business models that accumulate over time, therefore growing in a more evolutionary manner (Linder & Cantrell, 2001, pp. 14, 15).

This is also aligned with Zook and Allen's (2011, p. 108-110) notion that successful companies have well-defined and easily understood core differentiators at the heart of their strategy. Instead of following a "binge and purge" pattern where they periodically reinvent themselves, these successful businesses build on their fundamental differentiators. They replicate their greatest strategic advantages in new contexts, which lead to a "repeatable business model" that creates continuous and remarkable performance. However, there is a time and a place for everything. A total revamp of a business may be required for instance when the needed resources, processes and values have been evaluated, and the business has been deemed broken beyond repair. In this case, restarting from scratch may be more efficient than trying to change the business incrementally. By summarising these findings, Figure 5.24 below was created.

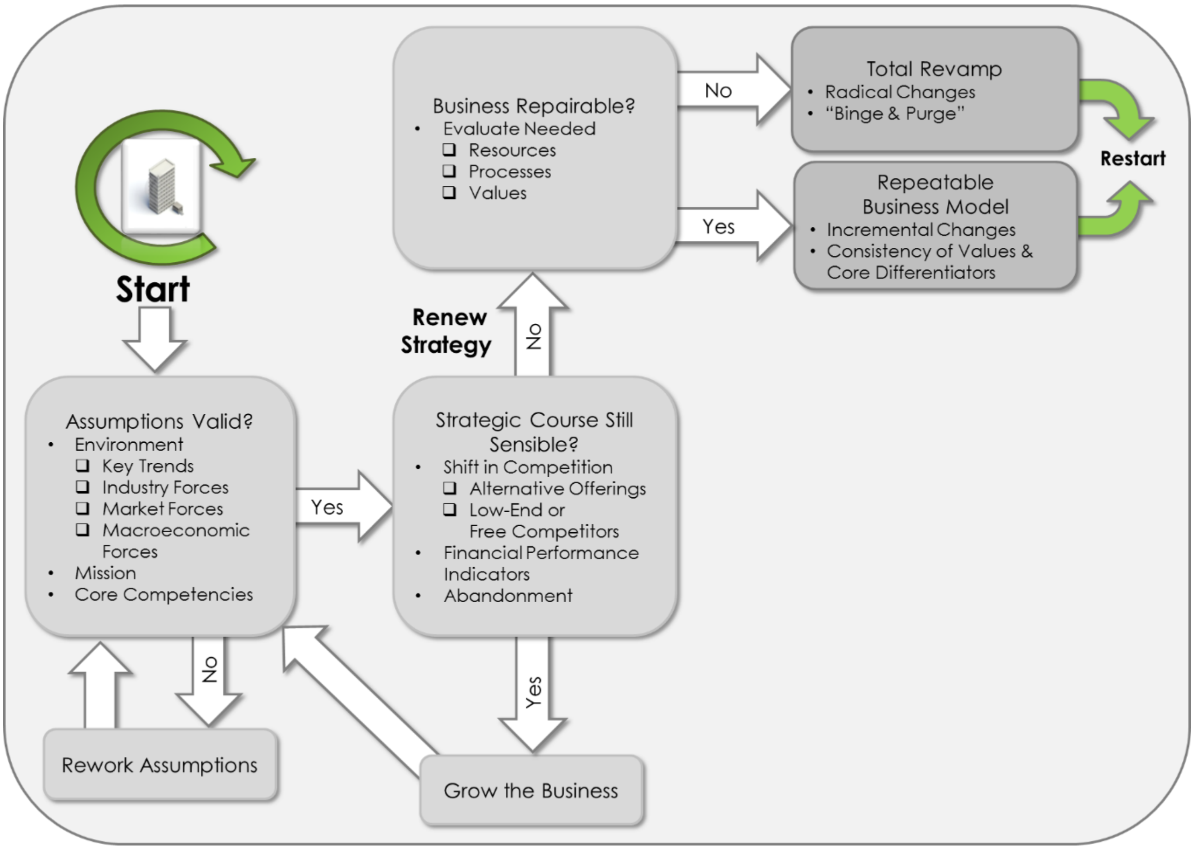


Figure 5.24 – Renewal and Growth Model Part 3

As for growing the business, three different ways to grow have been identified from a market based orientation, namely sustaining growth, disruptive growth and complementary growth. ***Sustaining growth*** is closely related to changing in an incremental and evolutionary manner, as discussed above, and involves creating sustaining innovations that improve performance characteristics of products and services that existing customers already value. Sustaining innovations thus target existing markets and include both incremental improvements to offerings as well as breakthroughs in performance improvements. (Christensen, Johnson, & Rigby, 2002, pp. 23, 24)

Disruptive growth seeks to create disruptive innovations, which create an entirely new market by providing a new bundle of performance attributes that existing customers do not initially value. However, these disruptive innovations improve so rapidly that they ultimately address the needs of mainstream customers as well (Christensen & Overdorf, 2000, p. 72), at which point mainstream customers will convert, enabling them to invade established markets. (Bower & Christensen, 1995, pp. 44, 45)

Disruptive growth is often very difficult to create in-house for two reasons. Firstly, the core business processes and values may not correspond with those required by the disruptive innovation (Christensen, Johnson, & Rigby, 2002, pp. 23, 24, 29). Secondly, the rational, analytic approach used by most well-managed companies makes it nearly impossible to build a business case for diverting resources from known customer needs in established markets, to emerging markets and customers that do not seem significant or do not exist (Bower & Christensen, 1995, p. 44). Christensen and Overdorf (2000, p. 73) therefore proposed three ways in which businesses can create an environment in which disruptive innovations will thrive, namely (1) creating a new organisational structure within the corporate boundary; (2) spinning out an independent organisation from the existing organisation; or (3) acquiring an outside organisation whose processes and values closely match the requirements of the disruptive growth business.

Lastly, ***complementary growth*** targets related markets by adding business models and running multiple models simultaneously, instead of changing the existing business model. This is often done to serve specific customer segments, to expand into related markets, to prevent competitors from entering the market, to efficiently utilise physical assets and other resources, or to develop new income streams (Casadesus-Masanell & Tariján, 2012, p. 132). A new model however does not make the old model obsolete. Rather, a new business model often reinforces and complements the core business and makes the company more robust as a whole against the competitive forces (Christensen & Overdorf, 2000, p. 74). For instance when the one business model is under pressure, the other one is not necessarily affected (Casadesus-Masanell & Tariján, 2012, pp. 133, 134).

By summarising all of these insights, the final renewal and growth model as shown in Figure 5.25 below was constructed. The model shows that the business starts by evaluating and renewing its current assumptions. They then either move on to a renewal phase that results in incremental or radical changes to update the strategy; or they move on to a growth phase where either sustaining growth (growing current markets), disruptive growth (entering new markets) or complementary growth (targeting related markets) is pursued. Depending on how well the new business opportunity (disruptive or complementary growth) fits with the core business, it may be necessary to either run multiple business models (in-house) or run multiple businesses (outside organisation). The process then restarts. This creates a never ending cycle where the environment is constantly being scanned for threats and changes and adjustments are made to ensure the longevity of the business.

From this section, the following proposition emerged:

- **Proposition 6.1**: The renewal and growth model reflects core considerations required when renewing and growing a business.

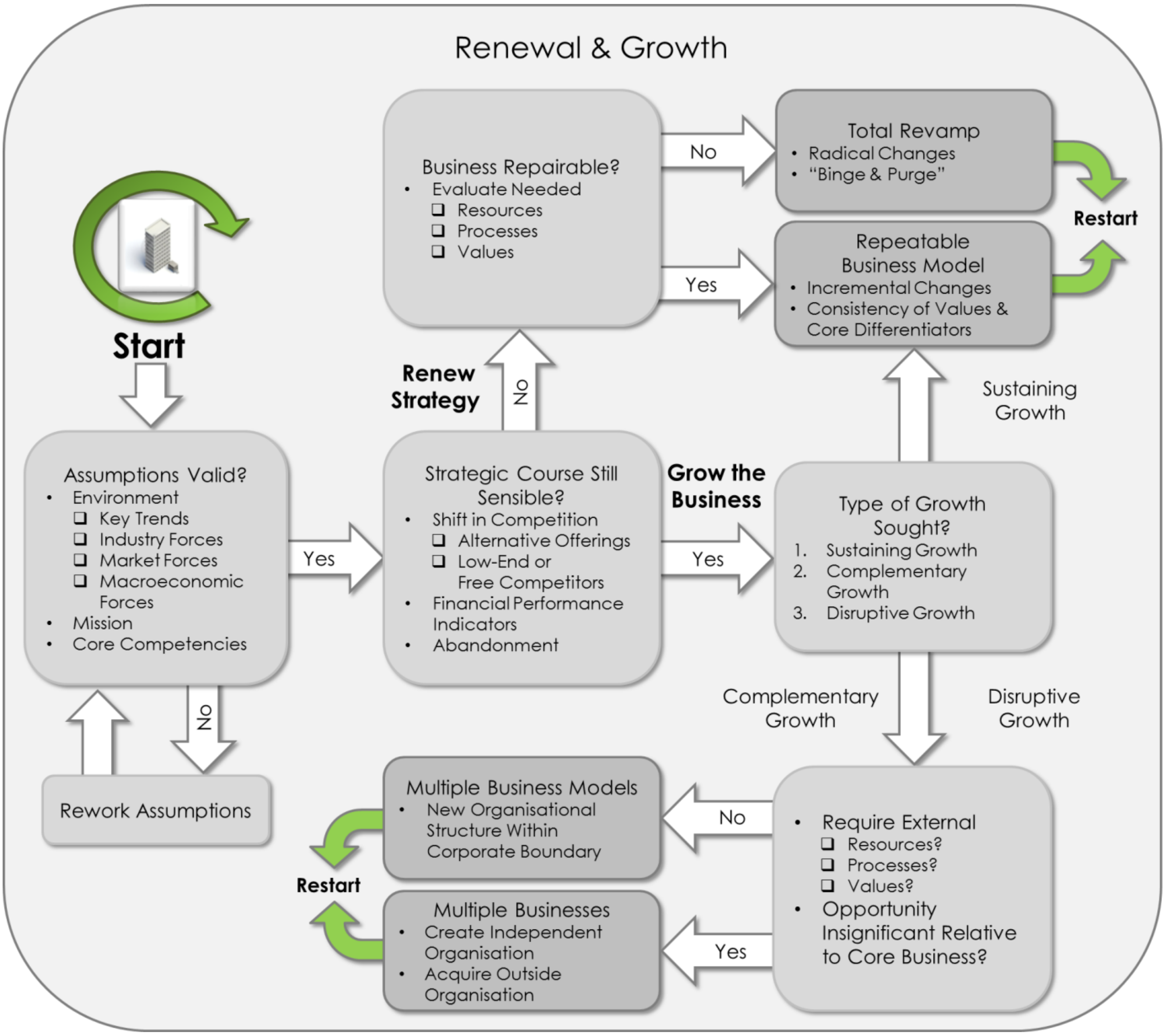


Figure 5.25 – Renewal and Growth Model

5.8. Core Principles of Competitive Strategy

Four core principles underlie the competitive strategy framework and competitive strategy in general namely focus, differentiation, robustness and adaptability. These principles emerged as observed, omnipresent and relevant factors either explicitly or implicitly discussed in competitive strategy literature. ***Focus*** relates to consistency, continuity of direction and alignment that compounds the effort and advantages of the business. It also relates to clarity, fluent communication and the setting and pursuit of achievable goals. ***Differentiation*** allows one business to be distinguished from the next and relates to novelty, uniqueness and innovation. Differentiation is the core source of competitive advantage and competitiveness as even a low cost advantage can be considered a cost differentiator.

Robustness relate to the durability or sustainability of a business. It deals with installing mechanisms and acquiring resources and positions that make the business, its customers and income streams defensible against competitor onslaughts. Finally, ***adaptability*** relates to the learning, growth, flexibility and resilience of the business. Adaptability could be described as dynamic robustness and it is this virtue that allows the business to shape itself to the competitive environment to remain relevant and competitive.

It is therefore theorized that businesses that are able to master all four these fundamental principles will be immensely competitive and prosperous.

5.9. Competitive Strategy Framework for E-Business Start-Ups Model Summary

The competitive strategy framework for e-business start-ups consists of six core elements that contain 16 different sub-models. The first core element, customer segmentation, helps to focus the business. The different customer segmentation approaches that were identified include demographic, geographic, psychological and behavioural segmentation.

The second core element, generic strategies (consisting of the business's digital-physical orientation and Porter's generic strategies), refer to the higher level generic strategic decisions that focus the business and provide continuity of direction for all the other business elements. It was also theorised that a pure-play e-business start-ups that follow a best cost provider strategy are the most likely to be the most viable online.

The third core element, the value proposition, lies at the heart of a company's competitiveness and is largely responsible for the creation of a differentiated strategy canvas. A value proposition consists of four parts, namely an offering, relationships, channels and revenue and pricing strategy elements. For the offering element two models were developed, namely the 10 techniques for creating new market space and the 18 sources of e-value. While the first mentioned can help companies to identify new blue oceans, the second model highlights what customers find valuable online.

For the relationships element, Osterwalder and Pigneur's (2009, p. 29) customer relationship taxonomy was included that depicted the generic types of relationships that can be established. For the channel element, an integrated channel phase model was constructed, which also led to the creation of a sequenced 18 sources e-value model. This latter model showed which value elements are particularly important during the different channel phases when customers perform online purchases.

The revenue and pricing strategies element included a revenue generation strategies in e-business model that identified revenue strategies that generate revenue directly, without giving away elements of the value proposition for free as the most viable online. Ostewalder and Pigneur's (2009, p. 33) pricing mechanism taxonomy was also included that highlights the different ways that an offering can be priced. Lastly, Kim and Mauborgne's (2000, p. 134) price corridor of the mass was included as a tool for determining the largest number of customers at different price points.

The fourth core element, customer lock-in, protects a business's income streams by retaining customers, therefore adding to the business's robustness. Three models were developed here, namely an integrated control point model, an integrated switching cost model and an integrated e-loyalty antecedents model. These different models approach customer lock-in in different ways. Control points focus on creating and sustaining advantages that retain customers. Switching costs strive to erect barriers that make it very costly and difficult to exist the relationship with the business. Lastly, e-loyalty antecedents focus on delivering superior value to customers to earn their loyalty.

The fifth core element, the strategic assessment, seeks to ensure that the developed strategy is based on sound strategic principles. Only one model was developed here, namely the strategic assessment model. This model aids in aligning a business's strategy with the principles of theoretically ideal strategies. It therefore adds to the robustness of the business.

Lastly, for the renewal and growth core element only one sub-model was developed. The developed renewal and growth sub-model sought to highlight core considerations that are required for building the business, growing it in future and renewing it to adapt to a changing business environment. This model also ultimately adds to the robustness and sustainability of the business.

By summarising this, Figure 5.26 below was constructed.

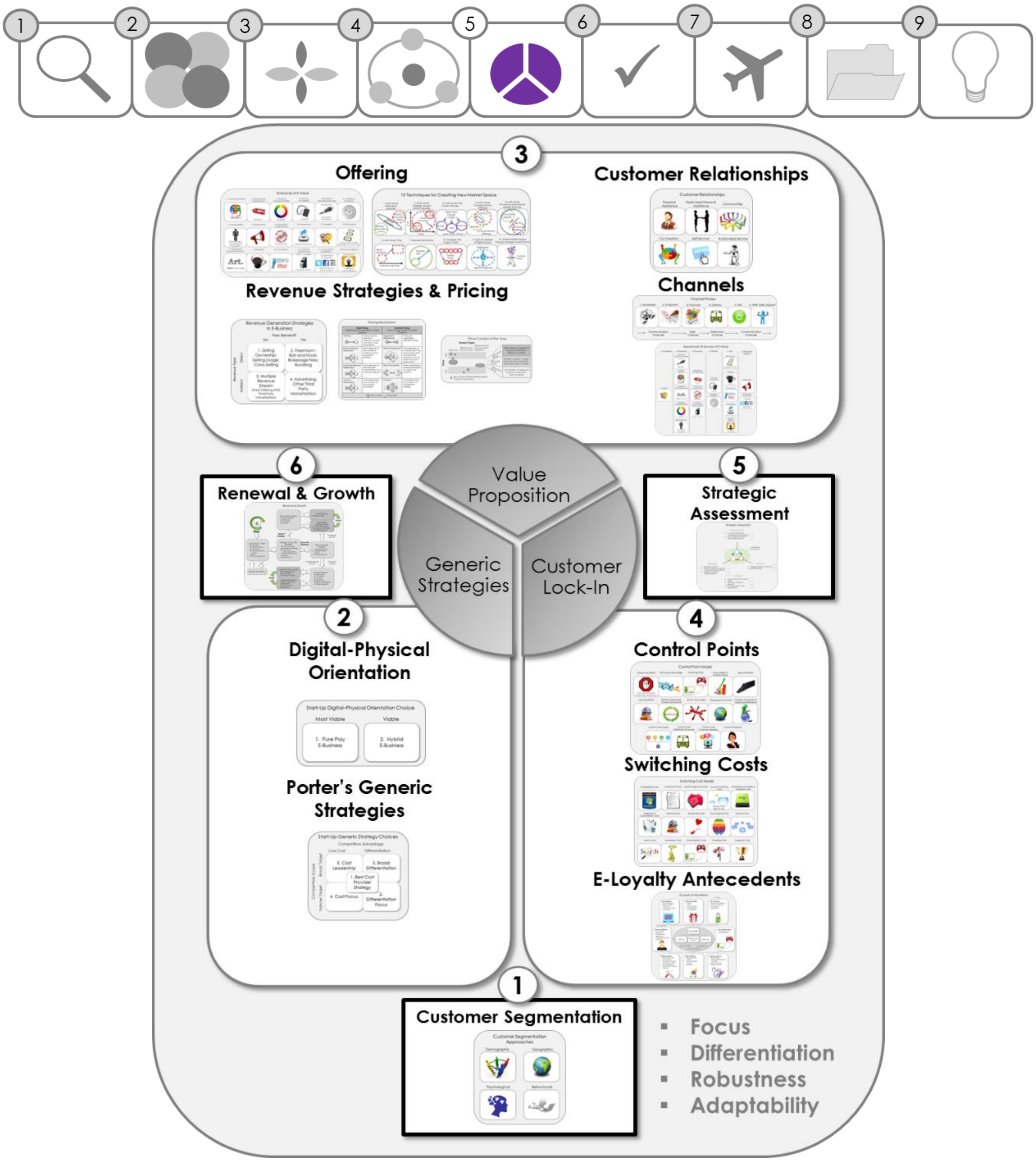


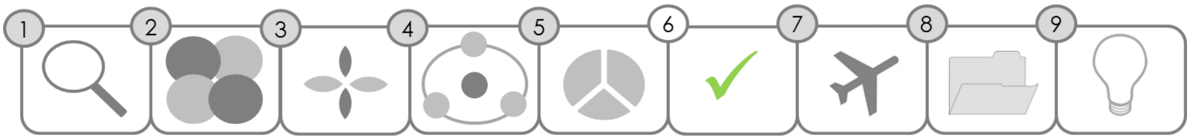
Figure 5.26 – Competitive Strategy Framework for E-Business Start-Ups Model Summary

5.10. Conclusion

This chapter investigated and developed a set of content oriented strategic models that are capable of assisting e-business start-up competitive strategy formulation. The development process and sub-models themselves were discussed. Altogether, sixteen sub-models were included in the framework, eleven of which were newly created integrations.

6. Verification and Validation

This chapter deals with the first part of a three stage validation process that seeks to internally and externally establish that the framework has achieved the stated goals of this study. This chapter discusses the verification and local validation of the competitive strategy framework for e-business start-ups. The improvements made to the framework based on the feedback obtained from the validation process are also shown.



6.1. Introduction

***"The argument about the adequacy of the theoretical model is always and only an argument about the logic employed in constructing it."* – (Dubin, 1976, p. 26)**

The developed competitive strategy framework for e-business start-ups is an explorative theoretical framework. This section aims at evaluating the logic employed in constructing the framework. A dual approach was taken that sought to internally verify and externally validate the framework. Verification in systems engineering relates to evaluating whether the system has been developed according to specification (developed correctly). Validation on the other hand relates to evaluating whether the system is suited for its intended purpose (correct system has been developed). (NASA Systems Engineering Handbook, 1995, pp. 23, 40) These two issues are subsequently discussed.

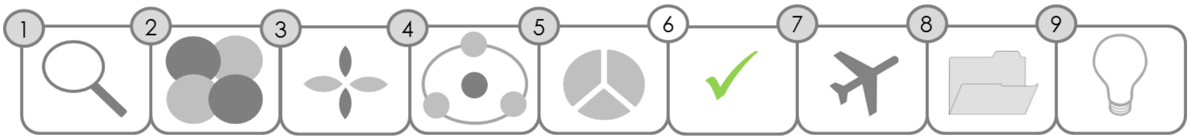
6.2. Framework Verification

Verification deals with evaluating whether the proposed solution adheres to the design specification. Three design specifications were used in constructing the framework, namely the content requirements, the study's research questions, and the theoretical model building requirements. These three perspectives could therefore be used as cross-verification criteria for verifying the framework.

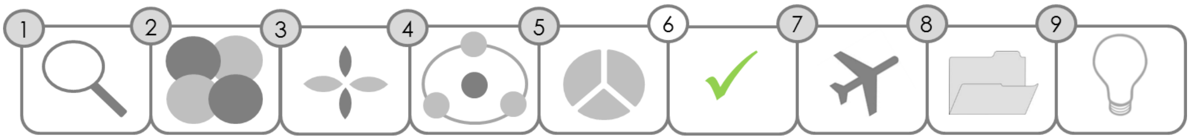
The framework content requirements were derived from the eight literature domains of the study and sought to ensure that the framework covers the relevant strategic content. Altogether 46 requirements were derived. Table 6.1 below shows how each of these content requirements (y-axis) were addressed by a corresponding element in the competitive strategy framework (x-axis). At least one tick could be made for each of the requirements, verifying that the relevant content has been included in the framework.

Table 6.1 – Competitive Strategy Framework Content Requirements Verification

Competitive Strategy Framework for E-Business Start-Ups Content Requirements	Competitive Strategy Framework Elements							
	1. Customer segmentation	2. Generic strategies	3. Value proposition	4. Customer lock-in	5. Strategic assessment	6. Renewal & growth	7. Framework Context	8. Framework sequence
E-business								
1.1 E-business start-up context		✓	✓	✓	✓		✓	
1.2 Digital-physical orientation choice		✓						
Business model canvas								
2.1 Value proposition			✓		✓			
2.2 Customer segments	✓				✓	✓		
2.3 Customer relationships			✓					
2.4 Channels			✓			✓		
2.5 Revenue streams			✓		✓			
Blue ocean strategy								



Competitive Strategy Framework for E-Business Start-Ups Content Requirements	Competitive Strategy Framework Elements							
	1. Customer segmentation	2. Generic strategies	3. Value proposition	4. Customer lock-in	5. Strategic assessment	6. Renewal & growth	7. Framework Context	8. Framework sequence
3.1 Reconstruct market boundaries			✓			✓		
3.2 Focus on the big picture (Strategy canvas)			✓		✓			
3.3 Reach beyond the existing demand	✓		✓			✓		
3.4 Get the strategic sequence right							✓	✓
3.5 Break the value-cost trade-off		✓	✓					
3.6 Pursue differentiation *and* low costs		✓	✓					
Red ocean strategy								
4.1 Capture existing demand	✓		✓	✓				
4.2 Unique competitive position			✓	✓	✓			
4.3 Activities tailored to strategy			✓				✓	
4.4 Trade-offs	✓	✓			✓			
4.5 Fit					✓	✓		
4.6 Long-term ROI & value creation for multiple stakeholders	✓	✓	✓	✓	✓	✓		
4.7 Differentiated value proposition			✓		✓			
4.8 Continuity of direction (Focus)	✓	✓			✓	✓		
Competitive strategy elements								
4.9 Industry selection							✓	
4.10 Customer segments	✓							
4.11 Core competitive advantage choice		✓						
4.12 Value proposition			✓					
4.13 Strategic control points				✓				
4.14 Strategic evolution						✓		
4.15 Activity system							✓	
Fundamentals of e-business strategy								
5.1 Global markets	✓				✓		✓	
5.2 Value maximisation		✓	✓		✓			
5.3 Information as source of value			✓	✓				
5.4 Economic principle of abundance			✓					
5.5 Mass customisation			✓					
5.6 Adaptability					✓	✓	✓	
5.7 Disruptive attributes of the Internet			✓	✓				
5.8 Economies of scale and scope			✓	✓				
Business model innovation								
6.1 Target over-served & non-customers	✓		✓					
6.2 Customer centric, jobs-to-be-done approach	✓		✓	✓	✓		✓	
6.3 Challenging assumptions			✓		✓	✓		
6.4 Changing the rules of the game			✓					
6.5 Obliterate barriers to consumption			✓					
6.6 Process for assessing strategy					✓			
6.7 Process for renewal & growth						✓		
E-value creation								
7.1 Sources of e-value			✓					
Customer retention								



Competitive Strategy Framework for E-Business Start-Ups Content Requirements	Competitive Strategy Framework Elements							
	1. Customer segmentation	2. Generic strategies	3. Value proposition	4. Customer lock-in	5. Strategic assessment	6. Renewal & growth	7. Framework Context	8. Framework sequence
8.1 E-loyalty antecedents				✓				
8.2 Switching costs				✓				

Regarding the research questions of the study, it should be noted that at the time when this first round of validation and verification was conducted, the study's research questions were somewhat different. What had been research questions at that stage (see Figure 6.1 below) largely became meta-research questions of the final study; and what had been implicit meta-questions at that stage eventually became research questions (see Chapter 1.3). These changes occurred subsequent to the first round of verification and validation, and were necessary to more accurately portray the study's true pursuit. In this chapter, the verification and validation is therefore done based on the historical research questions, as they were at that stage. This is done to avoid over-complication and enhance the study's transparency. The research question verification will be repeated in Chapter 7, using the eventual research questions to assure that the framework qualifies on all criterions.

The research questions of the study reflects the study's over-all purpose and what it intends to achieve. Verification of the research questions therefore serves to confirm that the study researched what it intended to research. The historical sub-research questions and the elements of the framework which they relate to are depicted in Figure 6.1 below. Each sub-research question has a corresponding element, verifying that the framework addresses these questions. As a whole, the framework addresses and answers the historical main research question of the study.

Relevant to validation that is discussed in the following section, from this depiction the only visible anomaly is that the pricing mechanisms (Osterwalder & Pigneur, 2009) and price corridor of the mass (Kim and Mauborgne, 2005) were not validated. It was assumed at this stage that these models would automatically be accepted as fit for their respective uses. These models were validated in the following chapter, and it turned out this assumption for the price corridor of the mass was flawed.

Lastly, it needed to be verified whether the framework adhered to the theoretical model building requirements identified in Chapter 4.2. The theoretical model building requirements sought to assure that the framework conforms to the quality standards expected of theoretical models. These requirements, together with the reasonings why they have been met by the framework and its sub-models are shown in Table 6.2 below.

This concludes the framework verification, which has shown that all the specifications of the framework have been met.

Historical Research Questions (HRQ)	Related Validation Question (V1Q)	Related Proposition (P)
Main RQ: Can a competitive strategy framework that assists e-business start-up competitive strategy formulation be developed?	V1Q1, V1Q3, V1Q4, V1Q5	
1. Customer Segmentation		
HRQ 1: Which basic, generic customer segmentation approaches exist?	V1Q 2.1	P 1.1
2. Generic Strategies		
HRQ 2: Which digital-physical orientation is more suited to e-business start-ups?	V1Q 2.2	P 2.1
HRQ 3: Which of Porter's generic strategies are more suited to e-business start-ups?	V1Q 2.3	P 2.2
3. Value Proposition		
HRQ 4: What are the sources of value creation in e-business?	V1Q 2.4	P 3.1
HRQ 5: How can new market space be created?	V1Q 2.5	P 3.2
HRQ 6: Which generic types of relationships can be established?	V1Q 2.6	P 3.3
HRQ 7: Which generic channel phases exist?	V1Q 2.7	P 3.4
HRQ 8: Which sources of value are the most important during which channel phase?	V1Q 2.7	P 3.5
HRQ 9: Which revenue strategies are the most viable in e-business?	V1Q 2.8	P 3.6
HRQ 10: Which types of pricing strategies exist?		P 3.7
HRQ 11: What models can assist in selecting the price of offerings?		P 3.8
4. Customer Lock-In		
HRQ 12: What types of strategic control points exist?	V1Q 2.9	P 4.1
HRQ 13: What types of switching costs exist?	V1Q 2.10	P 4.2
HRQ 14: What factors lead to e-loyalty?	V1Q 2.11	P 4.3
5. Strategic Assessment		
HRQ 15: What general strategic tests help to formulate good strategies?	V1Q 2.12	P 5.1
6. Renewal & Growth		
HRQ 16: What is the core logic to renewing and growing a business?	V1Q 2.13	P 6.1

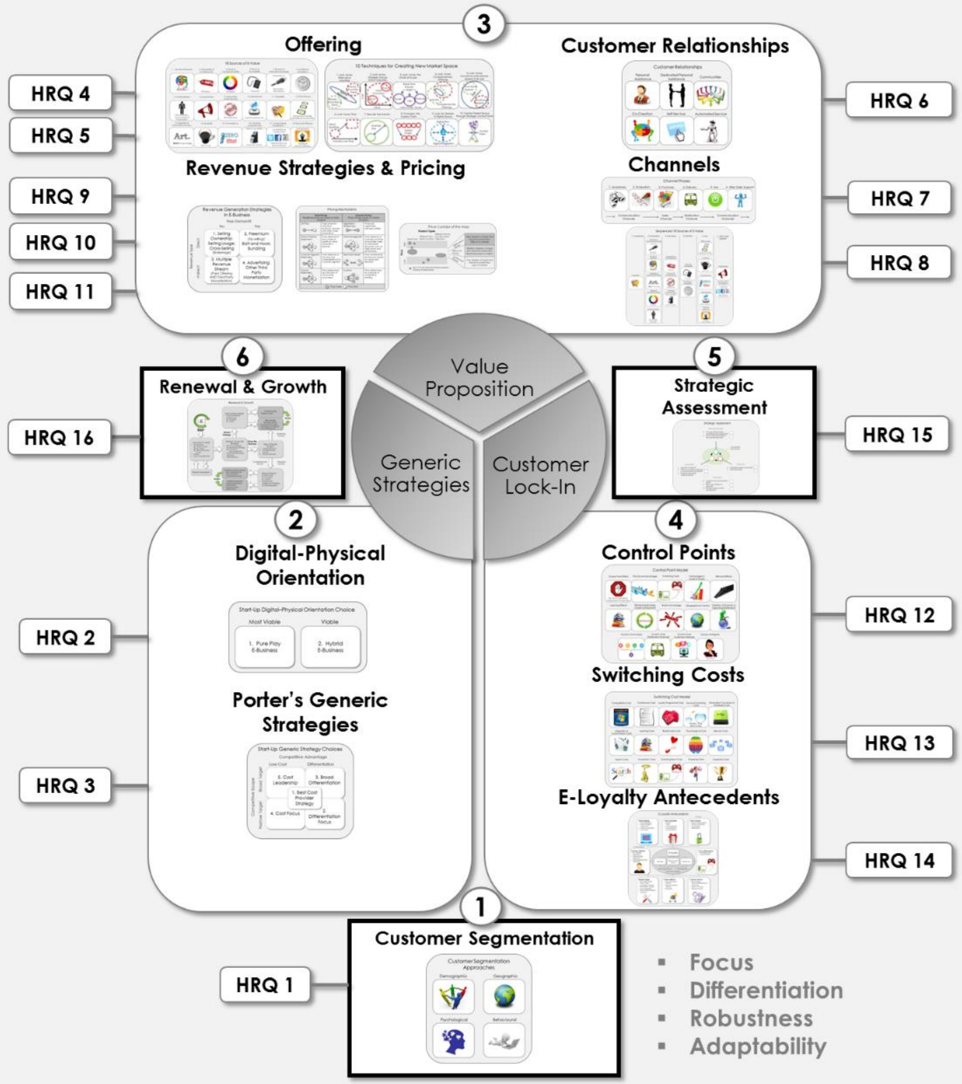


Figure 6.1 – Historical Research Questions Verification[18]

[18] These propositions relate to the propositions generated in Chapter 5 and not directly to the proposition updates at the end of the chapter.

Table 6.2 – Theoretical Model Building Requirements Verification

Theoretical Model Building Requirements Verification				
Requirement	**Competitive Strategy Framework for E-Business Start-Ups**		**Competitive Strategy Framework Sub-Models**	
Theoretical Model Basic Requirements				
1. Define purpose, scope	The purpose, scope and limitations of the framework were clearly articulated in Chapter 1 and throughout the study. The initial system state of the framework is a clean slate with zero entries. All the decisions regarding a business's competitive strategy still have to be made.	✓	The purpose of every sub-model was specified through-out the model building process and again in Table 10.1.	✓
2. Define constructs	The core and sub-elements of the framework were defined. Refer to Chapter 4.3.	✓	The variables and definitions used in all the sub-models were explained. Refer to Chapter 5.	✓
3. Specify relationships	Relationships between the elements of the framework were explained. Refer to Chapter 4.3.	✓	The relationships within and between models were specified in Chapter 5 where applicable. Ample scope for future research exists however.	✓
4. Define assumptions	The assumptions were articulated in Chapter 1.	✓	The sub-models adopt the assumptions of the study.	✓
5. Specify propositions	Propositions for the competitive strategy framework were specified in Chapter 4 and 5, and are subsequently updated.	✓	Propositions for each of the sub-models were specified in Chapter 5, and are subsequently updated.	✓
6. Create new meaning and have predictive power	The framework contextualises and embodies the competitive strategy of a business in a new, integrated and comprehensive manner. It hints towards the core principles of a competitive strategy, which creates new meaning. The framework also possesses partial predictive power of e-business success. Only partial, as success is contingent on the business's ability to devise an innovative strategy and flawlessly executing it in a dynamic and changing business environment.	✓	New meaning and greater understanding was created by providing an integrated view on the various issues covered by the sub-models.	✓
Theoretical Model Quality Requirements				
7. Fit for intended use				
7.1. Relevance	The competitive strategy framework is absolutely relevant. Not only does it address issues relating to current events (the digital economy), but it also addresses start-ups' existing needs in the real world.	✓	Each sub-model is relevant to its corresponding sub-element and the study as a whole.	✓
7.2. Strategic contribution	The competitive strategy framework makes a strategic content and process contribution. It defines aspects of a competitive strategy (content) and provides a sequence for formulating this competitive strategy (process).	✓	Each sub-model makes a contribution to the strategic content of its corresponding sub-element. All sub-models include leading questions (added later in this chapter) to somewhat facilitate the strategic process.	✓
7.3. Utility	The competitive strategy framework fulfils its intended purpose and can assist e-business start-up competitive strategy formulation.	✓	Each sub-model fulfils its intended aim, which is to assist e-business start-up competitive strategy formulation.	✓

8. Basic quality requirements				
8.1. Plausible, credible, and comparable with presumed realities	The competitive strategy framework is plausible, credible, and comparable with presumed realities (see validation in Chapter 6 and 7).	✓	Each sub-model still included in the framework upon conclusion of Chapter 7 is plausible, credible, and comparable with presumed realities.	✓
8.2. Conceptually coherent, internally consistent, and unambiguous	The competitive strategy framework is sufficiently conceptually coherent, internally consistent, and unambiguous (see validation in Chapter 6 and 7).	✓	Each sub-model is sufficiently conceptually coherent, internally consistent, and unambiguous (see validation in Chapter 6 and 7).	✓
9. Balances comprehensiveness and simplicity				
9.1. Comprehensiveness	The competitive strategy framework is sufficiently comprehensive (see validation in Chapter 6 and 7).	✓	Each sub-model is sufficiently comprehensive (see validation in Chapter 6 and 7).	✓
9.2. Simplicity and understandability	The competitive strategy framework is sufficiently simple (see validation in Chapter 6 and 7).	✓	Each sub-model is sufficiently simple (see validation in Chapter 6 and 7).	✓
9.3. Parsimoniousness	The competitive strategy framework is sufficiently parsimonious.	✓	Each sub-model is sufficiently parsimonious. Some overlaps exist between elements within models, but each element is distinct enough to merit its existence.	✓
10. Novelty and aesthetic appeal				
10.1. Novelty	The competitive strategy framework is novel and interesting (see validation in Chapter 6 and 7).	✓	Each sub-model is sufficiently novel and interesting.	✓
10.2. Aesthetic appeal	The competitive strategy framework is aesthetically appealing.	✓	Each model possesses aesthetic qualities. Some models (e.g. the digital-physical orientation choices, Porter's generic strategies model and the revenue generation strategies model) can subsequent to the three staged validation process still be made more visually appealing, but this forms part of future research.	✓
Existing Sub-Model Additional Quality Requirements				
11. Academic merit of sub-model	N/A		The six existing models that were included directly (see below) were all created by esteemed academics and authors, namely Porter (1980), Kim and Mauborgne (2005) and Osterwalder and Pigneur (2009).	✓
12. Practical evidence of benefits of sub-model	N/A		• Porter's generic strategies: Widely taught models in business schools and often used by strategy practitioners (Jarzabkowski, Giulietti, & Oliveria, 2009, p. 8). • Strategy canvas (included in Chapter 6) and the price corridor of the mass: Over 3.5 million blue ocean strategy books sold; widely used as strategic tools by strategy consultants (Kim W. , 2015). • Customer empathy map (included in Chapter 6), customer relationship taxonomy & pricing mechanisms: Over 1 million business model generation books sold; tools widely used for formulating and describing business models (van der Pijl, 2015).	✓

6.3. Framework Validation

Validation deals with evaluating whether the proposed solution is fit for its intended purpose. Various types of validation exist. The techniques that were considered include:

1. Interviews,
2. Questionnaires,
3. Practical implementation,
4. Workshops, and
5. Case studies.

From these, one technique that appealed to and made sense for this study was to conduct one-on-one interviews with industry experts. This technique was appealing because the competitive strategy framework is complex in its nature and requires a deep understanding of its research domains to sensibly validate the framework's theoretical integrity. It could therefore not be validated by the mass market through opinions gathered in a broad questionnaire or survey. Experts were required to validate it. In this regard, the goal was to interview a diverse set of experts that were able to provide both academic and practical perspectives. Furthermore, by conducting one-on-one interviews, the author's physical presence could enable the use of visual aids and additional assistance could be given to achieve the required level of understanding of the framework. This type of theoretical validation is discussed here and in Chapter 7.

Considering the third validation technique, the study's nature made it impractical and infeasible to implement. Using the framework to brainstorm an idea and taking that idea to market may take years to implement. Even then, the success of the implementation will depend on various other factors (all the variables involved in strategy execution etc.) that fall outside of the scope of this study. Therefore, despite the effort, a full implementation would not "purely" evaluate the usefulness of the framework, and was not a viable option.

Another possibility was to implement the framework by having workshops where the framework is used to facilitate entrepreneurs' e-business strategy formulation. These entrepreneurs could then be questioned after the session about whether they felt that the framework enhanced their ability to formulate their competitive strategy. If the entrepreneurs believed that their strategy has improved as consequence of the workshop, then the framework succeeded in its purpose. This type of practical validation is discussed in Chapter 8.

Case studies do not reflect the true usefulness of the competitive strategy framework. Cases only provide a retrospective perspective. Furthermore, the businesses being analysed did not have the framework at hand when their strategic decisions were made. A case study therefore presents no real reflection of the framework. However, there is still value in populating the competitive strategy framework for an established business as it could reveal particular strategic weaknesses, and possibly provide insights as how to mitigate these. Therefore, in order to showcase what the output of the competitive strategy framework process would look like, an analysis of Dropbox's competitive strategy is presented in Appendix B.

Staying true to the mixed methods approach used in this study, all the applicable types of validation were therefore incorporated to validate the framework.

Regarding the primary means validation, the one-on-one interviews, a mixture of criterion and convenience based sampling was used to select the validators. The primary, broad criterions were that the validators needed to be (1) founders, CEOs, managers, professors, lecturers or specialists (2) that have a sound history of participating in fields relating to the study, namely e-business, business models, strategy, innovation, technology and entrepreneurship. Although the author attempted to contact the leading digital minds for interviews, these requests were unfortunately declined for various reasons. Unintentional convenience sampling was therefore necessary as the interviewees needed to be willing participants. Regardless, the author still managed to interview very capable validators at top institutions.

The validators' details and the author's reason for including them as validators are shown in Table 6.3 below, listed according to their core contribution and the date of each interview. The identities of the validators are kept anonymous for privacy purposes.

Table 6.3 – Validator Description and Reasons for Inclusion

Validator	Experience	Reason for Inclusion as Validator	Core Contribution	Date and Location
Dr. L	Current: Founding member of **Thinkworx Consulting** – a specialist provider of capabilities and resources in IT strategy, enterprise architecture, IT risk management, IT governance, IT portfolio and project management (Thinkworx Services, 2013). Previous: CIO Media24; General Manager of IT Strategy and Risk Management at ABSA; Head of IT at DBSA.	Dr. L specialises in IT strategy development; IT scorecards and dashboards; IT governance; risk management; and project management. He was included because of his academic background in informatics and broad knowledge of IT management.	Academic [1]: E-business and IT	15 July 11h00, Bellville
Dr. E	Current: Project Manager of Commercial Strategy at **Brandhouse** – a leading premium alcohol beverage company in South Africa (The Brandhouse Story, 2013). Previous: Business Engineering Service Manager at Indutech; Consulting Manager at Frost & Sullivan.	Dr. E is a business consultant and innovation specialist. He was included due to his academic background in innovation, innovation capability maturity and rigidity.	Academic [2]: Innovation	16 July 11h00, Observatory
Dr. W	Current: Chairman of **VASTech SA** – a telecommunications and networking services firm that provides network recording and passive surveillance solutions (VASTech, 2013). Previous: MD of Caledon Suiwel; Chairman of THRIP (DTI Programme); Chairman of the board of NMI group; CEO of KWV Ltd; Member of the Advisory Board of University of Stellenbosch Business School; Member of the Board of University of Pretoria; Extraordinary Professor of the University of Pretoria and the University of Stellenbosch; MD of Dorbyl.	Dr. W is a systems engineering and strategy expert with many years of experience across a broad array of industries. He was included due to his academic background in strategy and wide-ranging industry experience.	Academic [3]: Strategy	22 July 15h00, Techno Park
Mr. N	Current: Founding partner of **Africa Internet Accelerator** – an e-commerce start-up incubator that provides expertise and support in the areas of marketing, supply chain management, sourcing, customer relationship management, business intelligence, finance, engineering and product management (About Africa Internet Accelerator, 2013). Previous: CEO Kalahari.com; General Manager of Price Comparisons at Pricecheck.com; Country Manager (South Africa) at VeriSign Inc.; Sales Director at Attix5; Senior Project Manager of Internet Services at Telkom.	Mr. N was included due to his extensive e-commerce knowledge (specifically in the hybrid retailing domain), and knowledge in starting, managing and advising start-ups.	Industry expert [1]: Online retailing	22 July 9h00, Techno Park

Validator	Experience	Reason for Inclusion as Validator	Core Contribution	Date and Location
Mr. V	Current: Founder and CEO of **Fundamo** – a specialist in mobile financial services. Their services include person-to-person payments, bill payments, wireless airtime top-up, and ticketing. (About Fundamo, 2013) Previous: Group CIO at Sanlam; Director at Infomet (Pty) Ltd.	Mr. V has extensive experience in the application of technology in business and has also been involved in several successful start-ups. He was included due to his expertise in online payment systems.	Industry expert [2]: Payment systems	30 July 14h30, Bellville
Mr. G	Current: Co-founder and Head of **MIX Digital** – a full service e-marketing agency that specialises in the strategizing, planning and implementing desktop and mobile Internet marketing campaigns. (MIX Digital, 2013) Previous: Founding member of KRAZYBOYZ Digital.	Mr. G is a digital marketing strategy and website design expert. He has been active in the industry for over 17 years and has project managed the roll-out of over 80 websites. He was included for his practical and digital marketing experience.	Industry expert [3]: Digital marketing and website design	6 August 16h00, Lonehill
Ms. L	Current: Head of Product Strategy at **Praekelt Digital** – a mobile technology business that develops mobile platforms, applications and campaigns (About Praekelt, 2013). Previous: Head Strategist at Praekelt Consulting; Guest Lecturer at University of Witwatersrand; Guest Lecturer at Vega School of Brand Communications; Digital Strategist at Praekelt Foundation.	Ms. L has a diverse background that includes experience in interactive media design, digital products and platform design. She was included due to her expertise in application development.	Industry expert [4]: Application development	7 August 11h30, Milpark
Mrs. J	Current: Head of Marketing at **OLX** South Africa (MIH Internet) – a free online classifieds business that allows people to sell, buy and trade products with others in their vicinity (About OLX, 2013). Previous: New Business Development Manager at MIH; Product Marketing Manager at VeriSign; Product Manager for Mobile and Voice at MWEB; Sales Manager at Nashua.	Mrs. J has extensive experience in the development, management and marketing of digital businesses. She was included due to ther expertise in online advertising, especially online classifieds.	Industry expert [5]: Online advertising	22 August, 12h00, Cape Town Central

From Table 6.3 it is clear that a diverse, but balanced set of academics and practitioners were chosen as validators. Furthermore, a minimum bias exists between them. The only biases that exists is that both Mr. N and Mrs. J worked for VeriSign during some stage in their careers; and that Mr. G and Mrs. J both have a marketing background.

The validation process involved providing validators a 15 page summary of the study, its outputs and the validation questions that were going to be posed prior to the interview. This hand-out (updated to the most current framework perspective) is provided in Appendix A. This document contextualised the study, easing the interview process and minimising confusion. On the day of the interview, the author presented his work, covering the research need, research design, the developed framework, sub-models and intended use of the framework. After the presentation, a discussion usually ensued. This was followed by posing several validation questions to the interviewees that they had to rate on a 5 point scale, which ranged from strongly agree to strongly disagree. These research questions are shown in Table 6.4 below. The origin of these questions can be traced back to the historical research questions (and therefore intent of the study), as were shown in Figure 6.1.

Table 6.4 – Validation Design

Validation Questions (V1Q)	**Validator's Response**				
	Strongly Agree (4)	Agree (3)	Unsure (2)	Disagree (1)	Strongly Disagree (0)
Core Components					
1. *To what extent do you agree that the six core components of the framework are core aspects that need to be addressed by a competitive strategy? Why?*					
Sub-Models					
2. *To what extent do you agree with*					
2.1. The basic, generic customer segmentation approaches identified?					
2.2. The suitability ranking of the digital-physical orientations for e-business start-ups?					
2.3. The suitability ranking of Porter's generic strategies for e-business start-ups?					
2.4. The sources of e-value creation identified?					
2.5. The 10 techniques for creating new market space?					
2.6. The generic types of relationships identified?					
2.7. The generic channel phases identified and					

Validation Questions (V1Q)	Validator's Response				
	Strongly Agree (4)	Agree (3)	Unsure (2)	Disagree (1)	Strongly Disagree (0)
the placement of the sources of e-value within these?					
2.8. The suitability ranking of revenue strategies for e-business start-ups?					
2.9. The types of strategic control points identified?					
2.10. The types of switching costs identified?					
2.11. The factors that lead to e-loyalty?					
2.12. The general strategic tests that help to formulate good strategies?					
2.13. The core logic to renewing and growing a business?					
Research Goal: Assist Strategy Formulation					
3. *To what extent do you agree that the competitive strategy framework can assist e-business start-ups with designing strategies that are capable of more effectively competing in the e-environment? Why?*					
Theoretical Contribution					
4. *To what extent do you agree that the framework makes a contribution to the fields of e-business/ strategy/ business models/ strategic management? What contribution does it make?*					
Implementation Capability					
5. *To what extent do you agree that it is intuitive to derive value from the framework? Why?*					

The results obtained from this validation design is shown in Table 6.5 below. A consensus of 69 percent or more was achieved on each individual validation question and the over-all average was 81 percent. This is an exceptional result, especially considering the broad scope of topics covered in this study. This result therefore serves as a true indication of the consistency in the quality of the work done. Broadly summarising the results, the validators agreed that the competitive strategy framework succeeds in its purpose and is able to assist e-business start-up strategy formulation. The validators also agreed that the framework makes a contribution to the fields of e-business, strategy, business models and strategic management.

Table 6.5 – Validator Ratings

Validation Question (V1Q)		Dr. L	Dr. E	Dr. W	Mr. N	Mr. V	Mr. G	Ms. L	Mrs. J	Average (%)	Result
1.	Core components	4	3	4	3	4	4	3	4	**91**	**2nd Best**
2.1	Customer segmentation	3	3	3	4	2	4	4	3	**81**	
2.2	Digital-physical orientation	3	3	4	1	4	4	4	4	**84**	
2.3	Porter's generic strategies	3	3	4	3	2	3	4	2	**75**	**3rd Worst**
2.4	18 Sources of e-value	4	4	2	3	3	4	3	4	**84**	
2.5	10 Techniques	4	3	3	3	3	3	3	3	**78**	
2.6	Customer relationships	3	3	3	3	3	4	4	3	**81**	
2.7	Channel phases & sequenced 18 sources of e-value	4	4	3	3	4	4	4	4	**94**	**Best**
2.8	Revenue generation strategies	4	4	4	1	2	4	3	3	**72**	**2nd Worst**
2.9	Control points	3	2	3	3	3	4	3	4	**78**	
2.10	Switching costs	4	3	4	3	3	4	3	4	**88**	**3rd Best**
2.11	E-loyalty antecedents	3	3	4	3	3	4	3	4	**84**	
2.12	Strategic assessment	3	2	2	3	3	4	3	4	**75**	**3rd Worst**
2.13	Renewal & growth	4	2	3	3	3	4	3	4	**81**	
3.	Research goal: Assist strategy formulation	3	3	4	3	3	4	4	3	**84**	
4.	Theoretical contribution	3	3	4	3	3	4	3	3	**81**	
5.	Implementation	3	1	3	3	1	4	4	3	**69**	**Worst**
Average (%)[19]		**83**	**71**	**83**	**71**	**69**	**97**	**86**	**86**	**81**	

6.4. Validation Results Discussion

Drawing on Table 6.5 above, this section discusses the key issues highlighted during the interviews. The questions that were unanimously agreed with (no unsure, disagree, or strongly disagree responses) are discussed first, followed by the questions that were only partially agreed with (contains one or more unsure, disagree, or strongly disagree responses). For unanimous agreement the elements are ranked from best scoring to worst scoring, and for partial agreement the elements are ranked from the worst scoring to the best scoring. General comments are also provided. Subsequent to this, recommendations made by the validators are highlighted, as well as the improvements made in response to them. Interested readers can find a summary of additional discussions had with the validators in Appendix C, which are followed by the full interview transcripts in Appendix D.

6.4.1. Unanimous Agreement

The sequenced 18 sources of e-value (Best result, 94%)

The sequenced 18 sources of e-value was the highest scoring element of the framework. Reasons for this

[19] Percentages obtained by multiplying the average result by 25.

might be that it not only presents a novel combination of elements that describe how value is created in the e-environment, but also provides structured phases where each of these sources of value is the most important. Comments included:

- "If you look at e-business, because you have to engage with your customer and you have to get your product to them, it's about your channels. And your channels online is fantastic, because you can set up your channels so well to engage. However, I think very few people have that picture (sequenced 18 sources of value). They do not understand this. This stands out to me as absolutely valuable… I think it is an absolute winner. It is very good." – Dr. L
- "I love this cross-map, because this makes a lot of sense. It's fantastic. Because really, it's your business model… It's beautiful." – Mr. G
- "I think it's perfect… I do not see anything missing." – Mrs. J

Core components of the framework (2nd Best result, 91%)

The core components of the framework was the second highest rated. This validates that the core components (customer segmentation, generic strategies, value proposition, customer lock-in, strategic assessment, renewal & growth) are crucial to the creation of a competitive strategy. Comments included:

- "It makes sense and it is comprehensive." – Dr. L
- "I accept it as the best way to do so. It conforms to the latest theory and technology in the area of strategic management. You have not missed a single one of the important points there and you present it in a way that all experienced and informed strategists at this level will accept that it is a very valid model." – Dr. W
- "There are elements in here that I would not normally consider… but certainly some of them are triggers for me to delve deeper into, because there are levels of modelling that I think is worth exploring and worth questioning in terms of the marketing strategies that I write for businesses. A part of that is looking at competition and how to position yourself against competition. So there is a lot of strong box ticking going on here in terms of the elements that you've looked at." – Mr. G
- "I can see where the problems that we've discovered as an organisation fit in. So going through this I can see the points at which if we had a more rigorous framework to begin with, we could have prevented those problems." – Ms. L
- "If you leave any of those out then you have a glaring hole." – Mrs. J

Switching costs (3rd Best result, 88%)

The switching costs model was also rated quite well. Reasons for this could be that most of the validators were familiar with switching costs; or it could be that the switching costs model is merely one of the simpler models in the framework, therefore received a high rating. Comments included:

- "It also looks good." – Mr. V
- "It makes sense. Definitely." – Mr. G

- "I agree with this completely." – Mrs. J

Research goal: Assist competitive strategy formulation (84%)

The validators unanimously agreed that the framework will be able to assist e-business start-up competitive strategy formulation. An interesting comment here was that the framework might actually be more applicable as a conventional strategy formulation process for medium and larger organisations than for small, entrepreneurial start-ups. The argument was that entrepreneurs follow a more emergent strategy process and that a framework such as this might be too formalised and intimidating for start-ups. This issue is further discussed in the recommendations and improvements section. Other comments included:

- "What this framework gives you is an environment wherein you can navigate to the choices that you have to make." – Dr. L
- "It would be dangerous to attempt a start-up if some of the aspects in this framework you are not aware of." – Mr. V
- "Strongly agree that this would help a lot. Because the risk in the old swot analysis based business model is that it is extremely simplistic, and I do not even think that a lot of business owners know how to set up their own business plans firstly, and secondly, they do not understand the elements that they need to consider. So this does provide some very good guidance around that. And this is only the competitive element, never mind the other aspects that are required too… Competitive structuring is extremely important, because if you go to market with a product that's just being replicated and that has no differentiation, then you're going to suffer… This makes sense because I think you've made something very complex very simple through the diagrams... The way that you've cross-mapped a lot of the information makes it extremely attractive… I can see it being applied very well. But it would require guidance. Undoubtedly." – Mr. G
- "I think it can be useful. Mainly because I can see the growth of our company, and how it has been influenced by those things (in the framework). I think that one of the problems with start-ups is that they generally do not model their strategy to begin with. So, I think having something that is stepwise would be very useful." – Ms. L
- "If I were starting a small business, this would definitely help me." – Mrs. J

E-loyalty antecedents (84%)

The e-loyalty antecedents model was rated quite well. It did not receive that many accolades, but it was not deemed absurd either. Comments included:

- "It's a very well developed concept." – Dr. W
- "This also looks comprehensive and I would agree with it." – Mr. V
- "It's ticking all the right boxes in terms of e-loyalty, and again, for me, this is a very nice element to look at and map back your own behaviour in a space and/or to drive additional behaviour." – Mr. G

Theoretical contribution (81%)

The validators also unanimously agreed that the framework does make a theoretical contribution to the fields of e-business, strategy, business models and strategic management. Comments included:

- "Novelty and integration (of the domain)." – Dr. E
- "Almost the beginners guide to the saying, you do not know what you do not know." – Mr. N
- "I think it focuses the mind of the reader and of the manager who possibly wants to enter (the e-business space), on all the important factors to consider, while working through the logic of making a decision." – Dr. W
- "A comprehensive repository of information." – Mr. V
- "A model like this not only bring the reality of considerations to book, and make it far more real, but it solidifies the business plan extensively and forces you as a business owner to think about things that you would not traditionally have considered. If you pitch it at the small business level, a model like this would undoubtedly contribute, but I guess it might in some cases constitute over-kill. But as you pitch it up into larger small businesses, going up into medium businesses, huge applicability every step of the way. I guess even at a small business level, you should at least consider a lot of the points that sit within this. So yes, high validity irrespective of where you pitch it." – Mr. G
- "I think that you've included aspects here… I've never come across those (aspects) specifically and I think that taking the key bits and putting it in a new framework with nice little icons is something that's very tangible and understandable… I think that's really good." – Ms. L
- "I think it fills in a lot of gaps that people leave out… Because they did not think it through, they do the wrong things." – Mrs. J

Customer relationships (81%)

This model's content was taken directly from Osterwalder and Pigneur (2009). The author visualised it and the result was rated quite well. Comments included:

- "Sound." – Dr. E
- "I agree. That's fine" – Dr. W
- "I cannot think of any others. It's quite nice." – Mr. G
- "I think those are perfect." – Ms. L
- "I do not see anything missing." – Mrs. J

10 Techniques for creating new market space (78%)

There was a general concern regarding the 10 techniques for creating new market about the possibility of having overlap between the different techniques and whether it is possible to really define all the techniques for creating new market space. Complete exhaustiveness was not the model's intent. The model's intent is to provide a point of departure for thinking about new market space creation. Each element is unique enough to warrant its inclusion in the model, and because an individual's creativity gets spurred by different triggers, the slight overlap is acceptable. Regardless, the model was unanimously agreed upon. Comments included:

- "I think in general a comprehensive look at the creation of new market space. I have not given a "strongly agree" purely because I think that it is impossible to perfectly capture all techniques and impossible to ensure that all techniques deserve individual classification." – Dr. E
- "The framework is comprehensive and well researched." – Dr. W

6.4.2. Partial Agreement

Implementation capability (Worst result, 69%, 2 disagrees)

The ability to implement the framework was the worst scoring element. Some validators experienced the framework as too formalised and comprehensive. It includes too many concepts, which makes it difficult to understand. Other validators did not have the same problem. Regardless, it points towards the possible need to simplify the framework. Some steps are taken in this regard in the recommendations and improvement section. Comments included:

- "What would be concerning to me is that we've chatted now for what, 45 minutes and it's hard to fully grasp the model. Maybe that's because it's so thorough and we had to go through so much so quickly." – Dr. E
- "I think it's going to be difficult to implement, because of the complexity." – Mr. V
- "If you sat with me and went through all the elements and work-shopped it through with me as a business owner, I would find immense value in it… I would have had to study a MBA or would have to buy fat books to only derive aspects of this." – Mr. G
- "I think it is very intuitive. Particularly the way that you've laid it out makes it quite obvious the journey that you need to think about to get to where you want to be." – Ms. L
- "At least it's asking the right questions… I think that's one of the biggest problems that business people have – they do not (ask the right questions)." – Mrs. J

Revenue strategies (2nd Worst result, 72%, 1 unsure, 1 disagree)

An over-all problem here was that some of the validators felt that the model was simplifying the complexities of reality. Surely, the model is an abstraction of reality. It is therefore important to understand the intent and limitations of such a model. However, this issue will be more thoroughly discussed in the recommendations and improvement section. Comments included:

- "Again, a framework to stimulate discussion – but need to avoid trivialising the complexity." – Dr. E
- "This cannot be looked at isolation to factors like cost of goods sold, labour costs, acquisition and retention costs etc. Some physical products sold online have great margins and terrible bottom

lines (fashion). Some virtual products have great margins (i.e. SSL certificates) and great bottom lines, while others (i.e. flight bookings) have terrible margins but ok bottom lines. Product versus services also play a role – and some very successful companies provide ad or impression based revenue models (Google)." – Mr. N

- "Once again, unsure about this. There are too many factors that affect it, and it's influenced over time by what competitors do." – Mr. V
- "It made sense... I see no reason why not." – Mr. G
- "I would agree. You've definitely put them in the correct graphics, I just would not have said direct and no free element would be the ultimate way to start-off. For me, I would say freemium." – Mrs. J
- "It is as good as you can get." – Dr. W

Porter's generic strategies (3rd Worst result, 75%, 2 unsure)

The validators generally agreed on the logic employed in creating the model, however, it was highlighted that for start-ups, the best cost provider strategy might be too difficult to initially attain. Two validators therefore advocated that a differentiation focus strategy may be the most viable start-up orientation. This is further discussed in the recommendations and improvement section. Comments included:

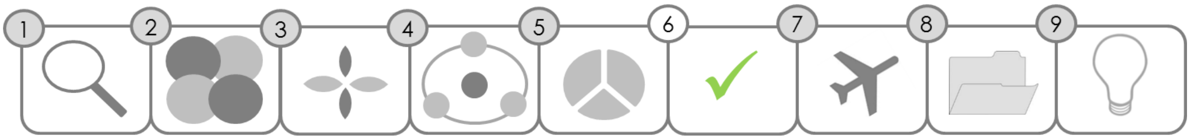
- "I would make differentiation focus the number 1 rather than the best cost provider strategy." – Ms. L
- "For a start-up you cannot always get best cost, because you do not have those economies of scale when you're buying from the suppliers. So, for this one, for a start-up, I would probably have put number two (differentiation focus) as the first place, because of the fact that there is so much out there, that if you want to catch attention, you have to be different." – Mrs. J
- "All three (of the generic strategies) offer sound (proven) simplifications of complex choices. Be aware of trivialising though." – Dr. E
- "Yes, it makes logical sense." – Mr. G

Strategic assessment (3rd Worst result, 75%, 2 unsure)

The strategic assessment did not score as well as expected. No real recommendations for improvement were provided though. Comments included:

- "I think that's good. I like it." – Ms. L
- "This is very generic, but with this I strongly agree." – Mrs. J
- "You will not get yes to all those questions. Most strategies have a flaw somewhere. The problem with a strategy is that it's such an integrated ecosystem of things that you would say, I'm happy for it to be not simple, but then therefore it is very efficient." – Mr. V

Related to last comment, strategic assessment portrays characteristics that are often identifiable in ideal,



high performing strategies. The goal is therefore to align the business's strategy as closely as possible to that theoretical ideal. If not all the strategic tests are passed, then it merely means that a higher level of strategic risk is accepted, but optimally all the tests should be passed.

Control points (1 unsure, 78%)

The strategic control point model was not rated as well as expected, possibly because control point theory is generally less well known. Regardless, this only amplifies the need to include control points in the framework in order to disseminate this knowledge. Comments included:

- "I think that that was very well done." – Dr. W
- "This looks quite comprehensive." – Mr. V
- "I quite like this as well. Again, it's an easy way of just identifying where opportunities lie… and possibly how you can leverage them." – Mr. G
- "I agree with all those. The creation of scarcity is the thing we struggle with, because everything is super super abundant online." – Ms. L

Customer segmentation (1 unsure, 81%)

The customer segmentation model performed relatively well. A good comment was that customer segmentation can actually be taken to a next level where customer personas are built. This is further investigated in the recommendations and improvements section. Comments included:

- I think it is tough to perform segmentation generically – it is very business specific. But the structure offered here is a good starting point." – Dr. E
- "I would say that my assessment of customer segmentation here in terms of the typical e-application was well done." – Dr. W
- "Yes, you're ticking all the boxes there. Certainly in terms of what we use." – Mr. G
- "Yeah, these are kind of standard." – Ms. L
- "The generic segmentation I agree with, but you can really go further by building personas." – Mrs. J

Renewal and growth (1 unsure, 81%)

The renewal and growth model's logic made sense to most validators. Comments included:

- "You start off with this and you run through it a couple of times as you gain insights. So this is also a very powerful part of your model." – Dr. L
- "Look I mean, you constantly have to go through this (renewal and growth). So the process of questioning whether you are still doing the right thing, I suppose this is the process that you would kind of go through." – Mr. V
- "I mean I have no reason not to agree with this… It seemed to flow logically and made sense." – Mr. G

- "Purely academically, I totally agree with it." – Mrs. L

Digital-physical orientation (1 disagree, 84%)

Most of the validators deemed pure play e-businesses as the most viable start-up orientation. Only one validator, whose experience lies in hybrid e-business retailing, disagreed with the model. This response however, was expected. Comments included:

- "This is something that you have done very well." – Dr. W
- "It is easier to start a pure-play." – Mr. V
- "I think everything should be digital!" – Ms. L
- "Hybrids are definitely more expensive, and you can do a web-based business in like 20 minutes. And free perhaps even." – Mrs. J
- "I think it's premature to pick a winner in this scenario. Bricks and mortar companies are going online with some success, online only companies are opening physical stores, companies that with digital only products are selling physical, and vice versa." – Mr. N

18 Sources of e-value (1 unsure, 84%)

The 18 sources of value were rated very good, but received one unsure vote. This vote was given because the one validator was of the opinion that there are three major sources of value: functionality, user-friendliness, and minimising cost of ownership. The validator was unsure whether the last mentioned source of value, minimising cost of ownership, was adequately being portrayed by the 18 sources of e-value. The author on the other hand is content with having the "affordability and cost reduction" element fulfil that role. Other comments included:

- "Very interesting. There may be some overlapping sources, but a very thorough look at sources of value." – Dr. E
- "I think that's good. I do not think there's anything else that I would add. There's nothing else that comes to mind that you have not got. I also think that you've covered that from tangible to non-tangible." – Ms. L
- "I do not see anything missing in it, so I strongly agree." – Mrs. J
- "The fact that you have 18 of them is huge. It's something that I want… Stuff like this for me as a marketer, allows me to go back to my customers and ask them, what are you offering that's completely different from your competitors? Because you are a small firm, you are competing against these megaliths, and yet you are offering customers exactly the same thing. So what is different and unique? Where is the value? Where is the value add? These are marvellous triggers for (discovering) exactly that." – Mr. G

6.4.3. General Comments

General comments on the framework included:

- "Over-all I think you did great work. Your storyline is great… The biggest need (for entrepreneurs) is to navigate to the right choices. So what you framework gives them is a comprehensive environment that they can navigate in. It provides all the factors that they have to consider to arrive at a viable competitive strategy." – Dr. L
- "This is a very comprehensive piece of work. The assimilation of the concepts across domains to form an integrated whole is clearly evident… All models are wrong and some models are useful. It never precisely represents something, and this (the competitive strategy framework) also will not precisely represent what an e-strategy must look like, but it is a framework to begin a discussion with." – Dr. E
- "In a start-up environment, ideas pivot and new ideas often happen on impulse when an opportunity to meet a need is met, and via quick iterations a business is launched. In this type of environment, a competitive strategy framework may not be the ideal option, but rather a scaled down version. However, in corporate environments where time to market is secondary to doing it right, this model could definitely be the framework for delivering an online solution." – Mr. N
- "Over-all, this is very good piece of work and as far as I am concerned, the quality of the presentation and the visual side of it matches the integrity of the theory behind it." – Dr. W
- "It would be dangerous to attempt a start-up if some of the aspects in this framework you are not aware of, because then you would not have knowledge of the domain in order to deal with it." – Mr. V
- "This is powerful stuff… You can actually use it to shape your strategy… This is a really good soundboard to make me think about things that I would not normally think about." – Mr. G

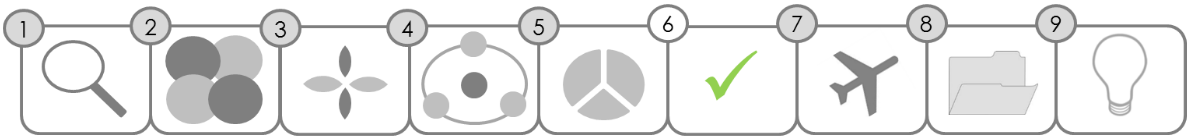
6.5. Recommendations and Improvements

The recommendations made by the validators, the post-interview reflections of the author, and the resulting model improvements are discussed below.

6.5.1. Structural Framework Improvements

Suggestion 1: More concrete highlight that an e-business has to fulfil some customer need – Mr. N
Suggestion 2: Include the framework principles in the framework – Author
Suggestion 3: Simplify the framework to make it more accessible – Dr. E, Mr. N, Mr. V

Any business should satisfy a real customer need. Identifying such a customer need is the first step to creating a business. This aspect was an intuitive part of the previous version of the competitive strategy



framework, however, given its importance, it needed to be explicitly highlighted. Customer need identification was therefore added to customer segmentation, as shown in Figure 6.2 below. The first step of formulating the competitive strategy framework is thus to identify a real need that exists for a specific customer segment. In this way, this first phase is more clearly communicated as an "exploration" phase. The framework also now more resonates with Johnson *et al.*'s (2008, pp. 58-60) customer centric, jobs-to-be-done approach to business model innovation. For the second suggestion, it was also necessary to update Figure 6.2 below with the core principles of the framework as introduced in Chapter 5.8, Figure 5.26, for unity and consistency's sake.

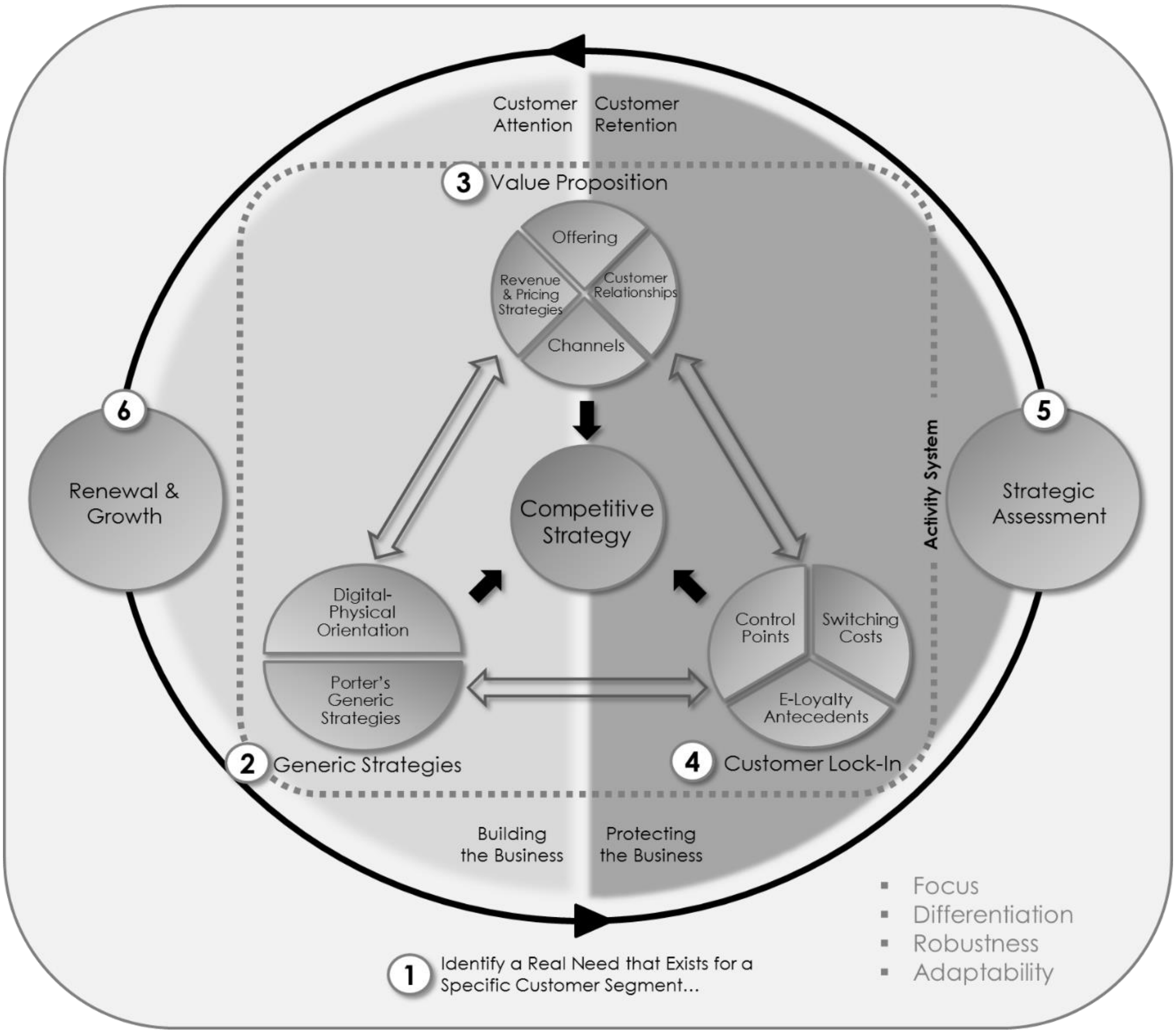
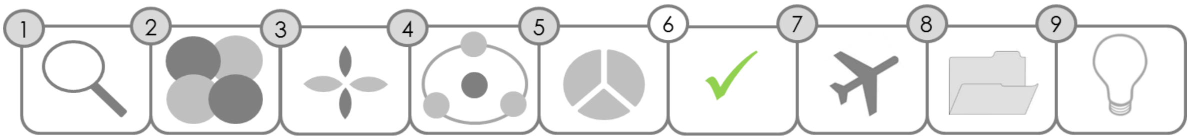


Figure 6.2 – Validation Round 1: Competitive Strategy Framework for E-Business Start-Ups Update

The changes necessitated by the third suggestion is more radical. Firstly, speed of execution is typically essential to entrepreneurs who already have an e-business idea. They want to quickly launch their business venture, test it in the market and discover what works and what does not. In this case, the previous versions of the competitive strategy framework may be too comprehensive, formalised, and complex, and may inhibit these start-ups' ability to quickly progress with their business development. Academics on the other hand thrive in complexity and are concerned with the integrity and rigour of the framework.



In order to cater the needs of multiple stakeholders, it was realised that the framework needed to be presented on three different levels of detail. Different stakeholders would therefore make use of the framework at the level of detail that is sensible to them. This approach aligns perfectly with the systems engineering approach employed, as systems engineering also typically deconstructs systems into levels of expanding detail and complexity.

The three levels of detail identified in the framework include a core element level, a sub-element level, and a sub-model level. Revising the competitive strategy framework, the first level is depicted in Figure 6.3 below.

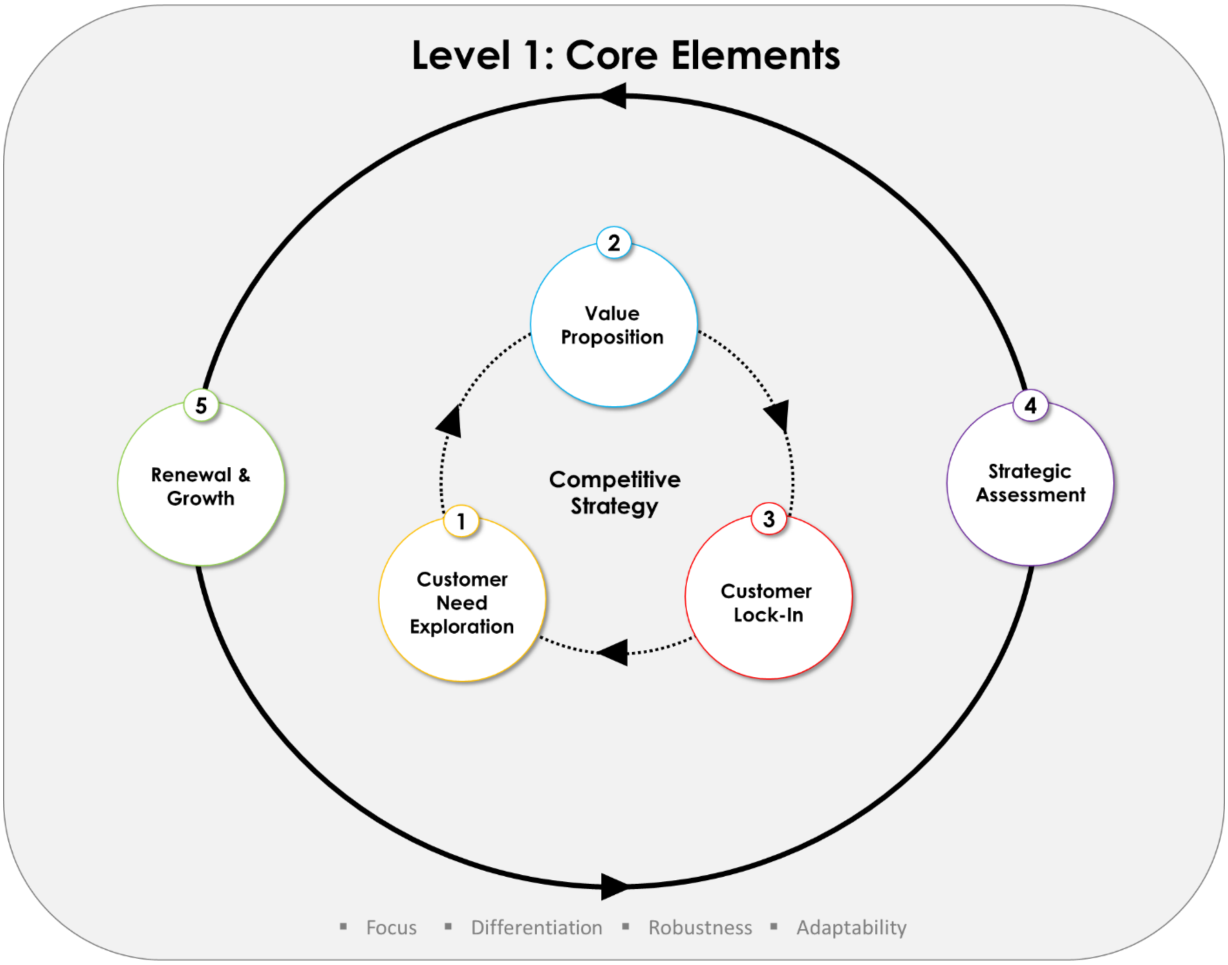
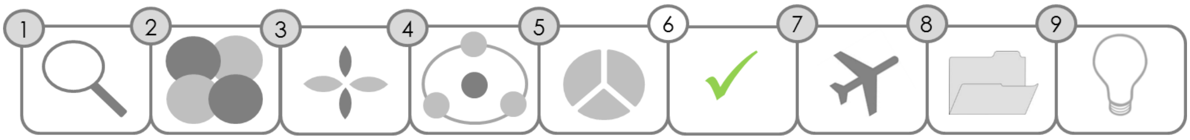


Figure 6.3 – Level 1: Core Elements of the Competitive Strategy Framework for E-Business Start-Ups

The figure above shows the competitive strategy framework in its most simple form. Following from the first suggestion that emphasized the importance of focusing on customer needs, it was decided to elevate the customer segmentation and need identification element by creating a new core element called customer need exploration, which combines the customer segmentation and need identification and generic strategy elements.

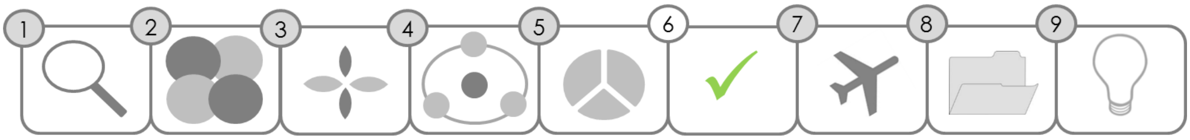


Doing this simplified the model to five core elements and added to its visual appeal. Additionally, it made great sense to combine the generic strategy and customer oriented elements. Need identification, customer segmentation and generic strategies all serve the same higher level purpose of focusing the strategy. Customer centricity has been a key theme throughout the study. Therefore, combining the generic strategy elements with the customer oriented elements (instead of the other way around) made sense as it preserves this customer oriented perspective. Additionally, bringing the generic strategy elements into a closer proximity with the customer oriented elements is good as well. Generic strategy selection should not occur without consideration of customer needs. The generic strategy that the business employs should be a consequence of the customer needs that it seeks to fulfil. Therefore, by exploring customer needs, a business can actually uncover the generic strategies that it should adopt, subject to what is logically feasible. The hope is therefore that by making the generic strategy elements a sub-element of customer need exploration, that businesses will adopt more of a market based perspective in their generic strategy selection.

Admittedly, the generic strategy elements become somewhat obscured through this merger. The strategic content is fully preserved however, although it only becomes visible at a deeper level of detail (see Figure 6.4 and Figure 6.5). Unfortunately, this is the trade-off that had to be made to simplify the framework. Additionally, the reference to the activity system was also removed from the framework, as its primary goal as logical enclosure was to reflect the robustness principles of fit, trade-offs and continuity of direction. This duty has in the meanwhile been taken over by the core principles that were added to the framework. The integrity of the framework is therefore maintained. Activities remain an important subject however, and their role are still visible in the framework's context as were shown in Chapter 4.5.

Furthermore, the building the business and growing the business divisions were removed from the framework, as they add unnecessary complexity. These divisions still implicitly influence the composition of the elements (refer back to the framework construction in Chapter 4.3). The varying arrows in the middle of the figure previously created some confusion. These were removed and replaced with a simpler, clockwise circular flow between these three core elements. The same meaning is still conveyed by this circular flow, as it indicates that these three core elements are bi-directionally related and influence each other. It also establishes greater unity between the elements. In this regard, it must again be mentioned that all the elements of the framework affect each other and changes in one aspect will often require adjustments in other sections. This unity is further established via the large outer circle that binds all the elements contained within together.

Additionally, each of the core elements were colour-coded in order to enhance the framework's learnability and memorability. The choices in colour were somewhat deliberate. Firstly, the competitive strategy framework consists of three "primary" core elements (customer need exploration, the value proposition and customer lock-in). There are also three primary colours, namely blue, yellow and red. These three



colours were therefore arbitrarily matched with these elements as shown in Figure 6.4 below. For the two remaining core elements, secondary colours were assigned to them depending on their position in the model. As the renewal and growth element is situated between the blue value proposition and the yellow customer need exploration element, green was chosen for it as green is the resulting colour when mixing blue and yellow. Similarly, purple was chosen for the strategic assessment, as a result of mixing blue and red. Finally, the core principles were also moved to the bottom to visually balance the model.

Level 2 of the framework is shown in Figure 6.4 below.

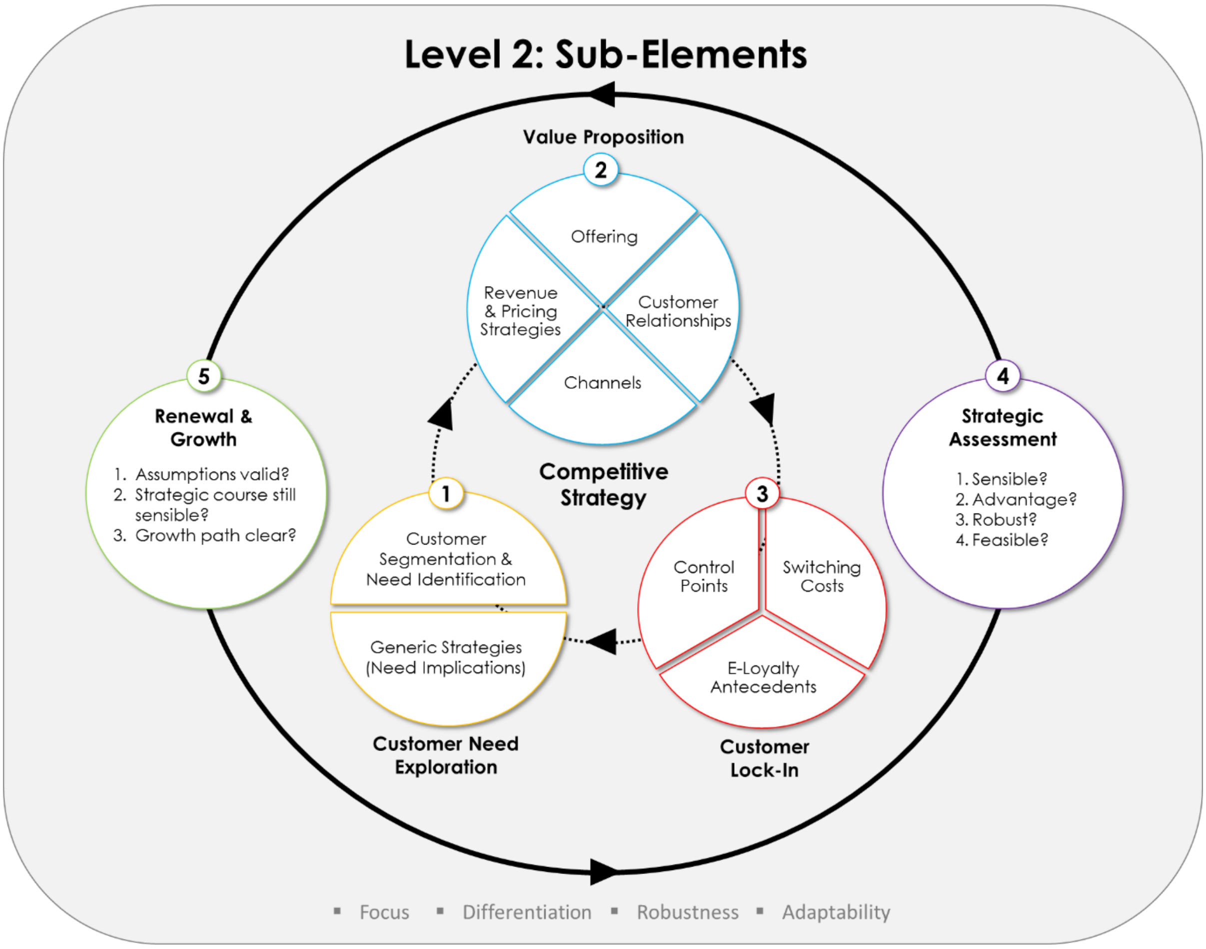
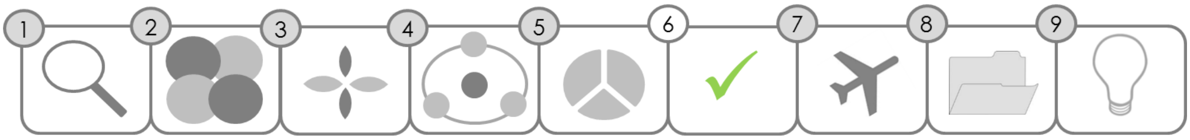


Figure 6.4 – Level 2: Sub-Elements of the Competitive Strategy Framework for E-Business Start-Ups

On level 2, the framework is expanded into its different sub-elements. Most of these elements are recognisable from Figure 6.2. As discussed above, customer need exploration expands into (1) customer segmentation and need identification and (2) generic strategies. Further, the core logic of the strategic assessment and renewal and growth elements are also shown. This was done in order to reflect a deeper level of detail for these core elements (similar to sub-elements), in the absence of them having sub-elements. Level 2 framework therefore enable entrepreneurs who are not interested in unnecessary complexity and additional tools to work through the competitive strategy framework in a “tick-box” fashion. They can therefore quickly evaluate whether they have considered all the essentials of their



competitive strategy before launching. Users who are interested in additional detail and tools may then use level 3 of framework (Figure 6.5 below) to elaborate and expand their competitive strategy.

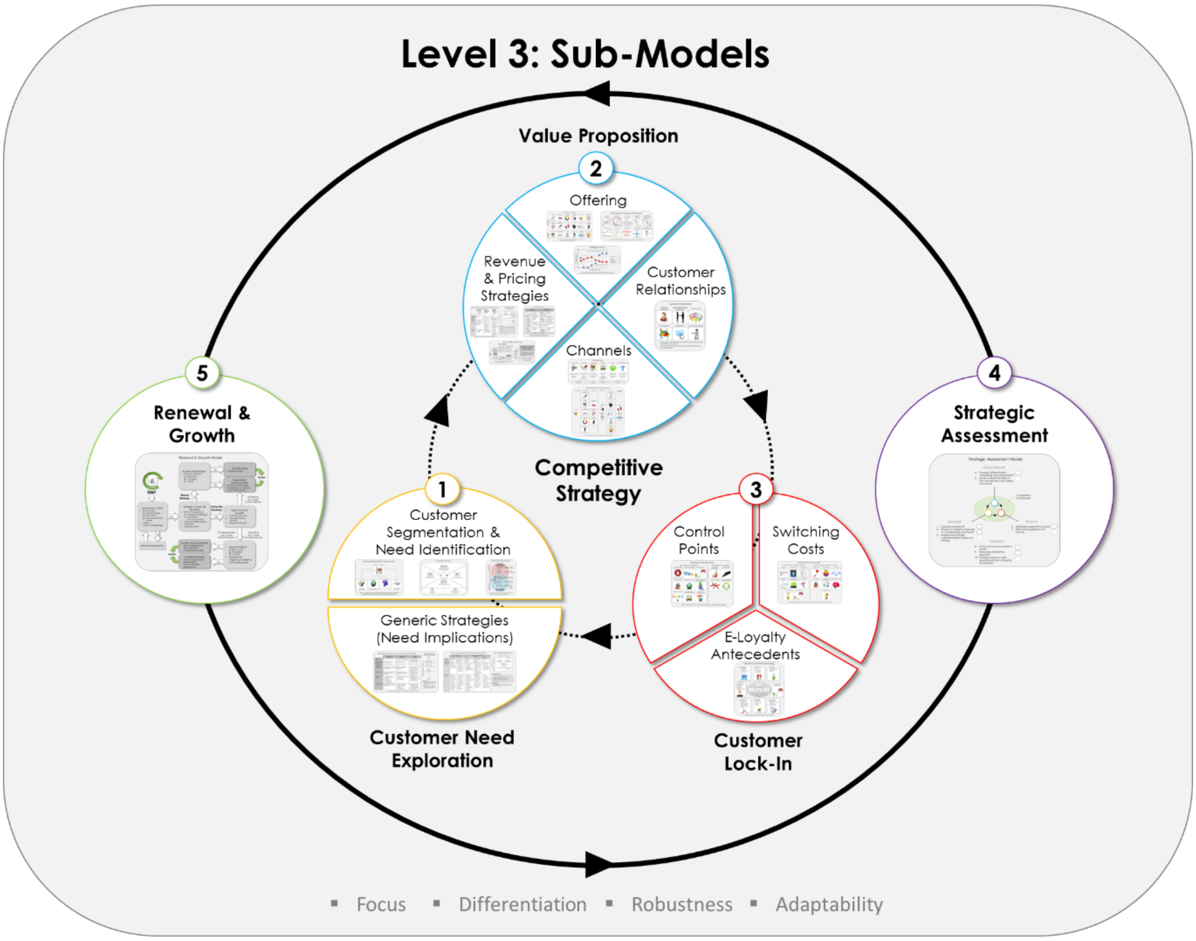
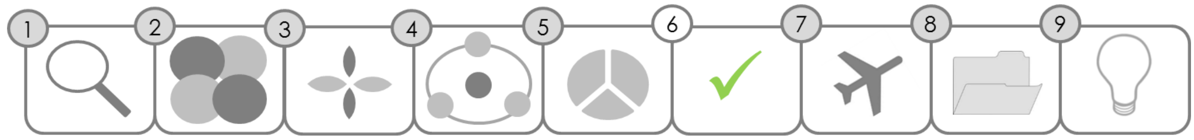


Figure 6.5 – Level 3: Sub-Models of the Competitive Strategy Framework for E-Business Start-Ups

The level 3 framework shows how the different sub-models are contained within the framework. This figure has been updated to include the updated models and new additions up to the end of this chapter. In total, the competitive strategy framework consists of 19 sub-models that are all capable of assisting e-business competitive strategy formulation. Users of the level 3 framework would therefore work through the individual sub-models to craft their competitive strategy. It should be noted however, that using all the sub-models are not compulsory and users may use any combination that suit their needs. In this way it is possible to move seamlessly between the different levels of the framework.

Combining these three levels, Figure 6.6 below was created. This figure depicts the competitive strategy framework in its entirety.



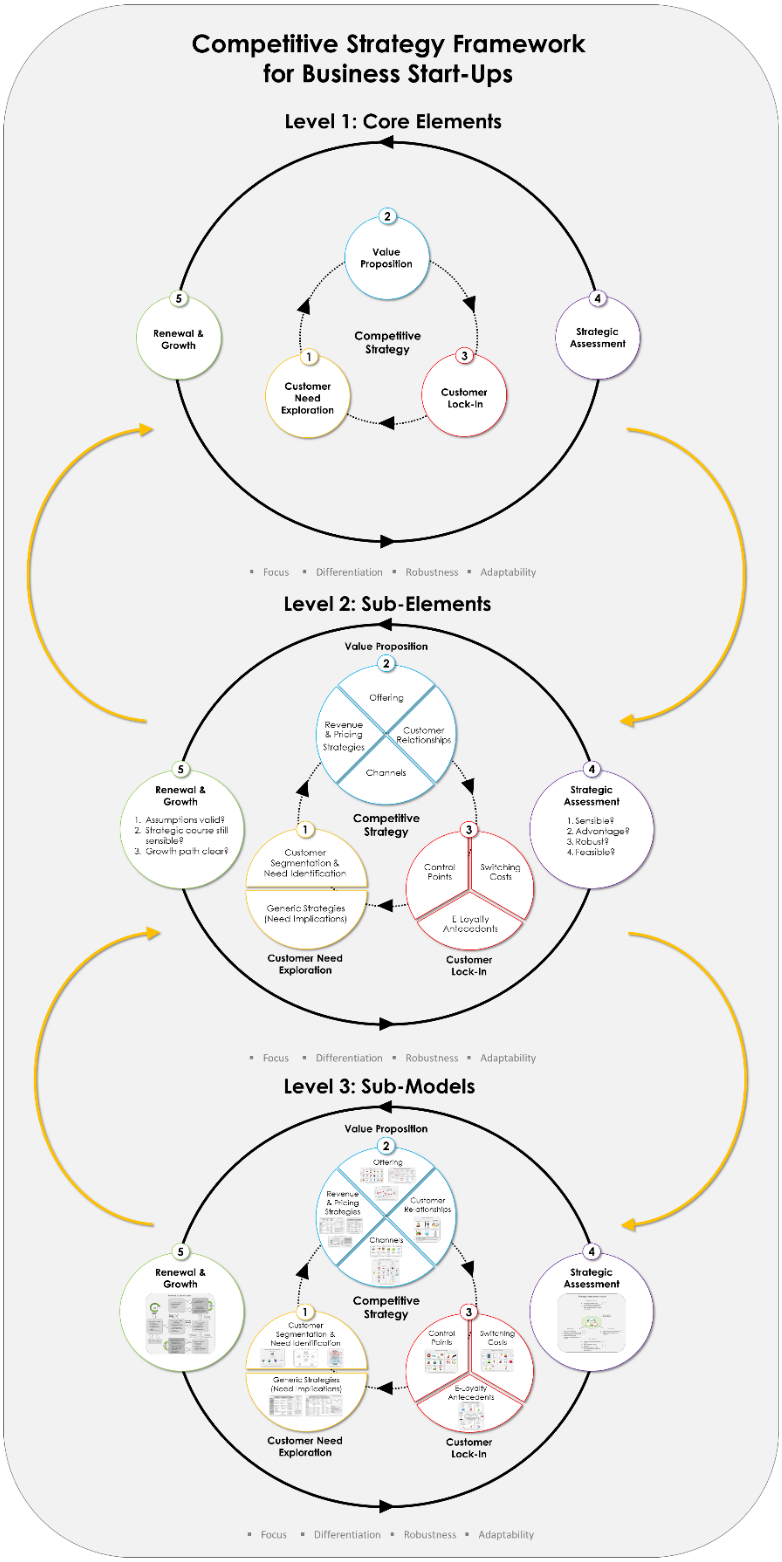


Figure 6.6 – Validation Round 1: Competitive Strategy Framework for E-Business Start-Ups Structural Update

6.5.2. Customer Need Exploration Improvements

This section discussed the updates that were made to the customer need exploration models subsequent to the first round of validation.

6.5.2.1. Customer Segmentation Approaches Update

Suggestion 1: Combine the various segmentation approaches to create customer personas – Mr. G, Mrs. J
Suggestion 2: Include leading questions to clarify the model's purpose – Author

From the validation discussions it became apparent that the customer segmentation approaches model was lacking in two ways. Firstly, it does not show all the possible segmentation possibilities. For instance, geographic and demographic segmentation can be combined to yield geodemographic segmentation, and so forth. Secondly, it does not show that customer personas can be built. These problems have been simultaneously solved by showing that the four basic segmentation approaches, namely demographic, geographic, psychological, and behavioural segmentation can be used in combination to create complete customer profiles or personas, therefore covering the whole spectrum of customer segmentation approaches.

This approach is validated by Pearce and Robinson (2009, p. 117) who stated that "the traditional approach to segmenting customers is based on customer profiles constructed from geographic, demographic, psychographic, and buyer behaviour information."

For the second suggestion and drawing on the writings of Slywotzky and Morrison (1997), the following leading questions were added to the model to clarify its purpose and act as probes:

- Which combination of customer segmentation attributes will create a customer persona that is sufficient to base our decisions on?
  Purpose: Probes the identification of factors that are critical for decision-making, leading to the creation of a rounded customer persona. Having such a persona in mind will focus the business's efforts in catering to this segment's needs.
- Which customers do we want to serve? Which customers do we not want to serve?
  Purpose: Probes the identification of the ideal customer and customers that the business consciously chooses not to target. Making these trade-offs deepens a business's strategic position.
- To which customers can we add real value? Which customers are the most profitable?
  Purpose: Probes the identification of customers that will be delighted the most by the business's offerings as well as customers who will yield the highest return to the business.

Incorporating these changes, Figure 6.7 below was created.

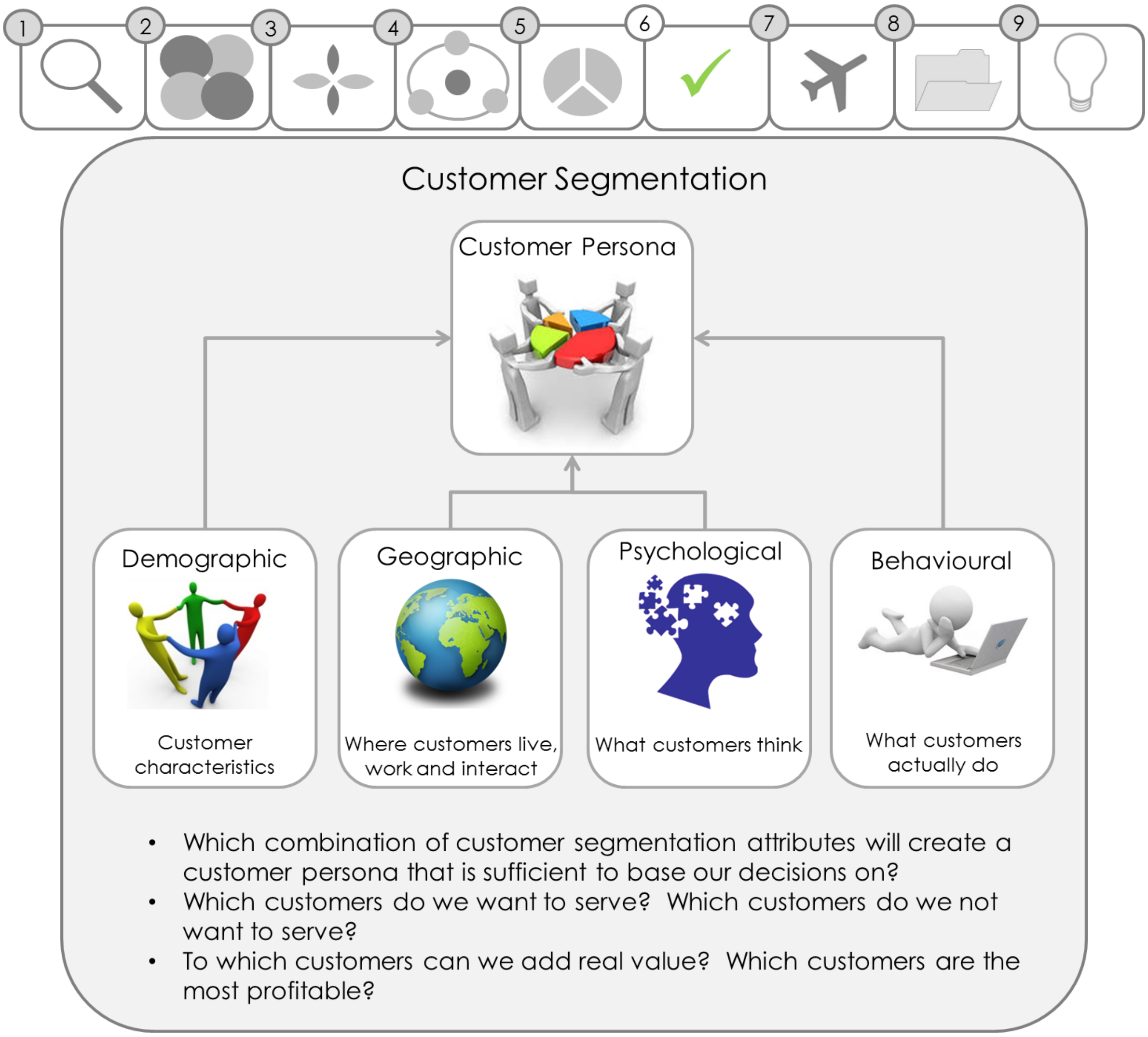


Figure 6.7 – Validation Round 1: Customer Segmentation Update

6.5.2.2. Digital-Physical Orientations Update

Suggestion 1: Avoid trivialising the complexities of reality (Dr. E, Mr. N, Mr. V) by not rating the digital-physical orientation choices. Rather, provide users the logic that informed the initial rating decision and allow them to choose the digital-physical orientation that makes sense to their situation – Author

Suggestion 2: Include leading questions to clarify the model's purpose – Author

Suggestion 3: Highlight that a business's digital-physical orientation may shift over time – Prof. D (Chapter 7)

The goal of the digital-physical orientation model is to assist e-business start-ups in making a more informed choice regarding the digital-physical orientation of their business, and making this choice explicit. The digital-physical orientation model (Figure 5.3) was lacking in that it trivialised the complexities of reality by attempting to rate the viability of the different digital-physical orientations for e-business start-ups. The problem with the model was that it did not inform users as it did not provide the reasoning and logic that influenced the viability ratings. Both these problems are addressed below, firstly by abandoning the viability ratings, and secondly by providing descriptions of the different digital-physical orientations, which serves to inform the model's users. The key take-outs of Chapter 5.3.1 are summarised in Table 6.6 below.

Table 6.6 – Digital-Physical Orientation Choices Fundamental Characteristics

	Digital pure play e-business	Physical pure play e-business	Hybrid e-business
Orientation definition	Sells digital products online, usually by employing an e-commerce interface	Sells physical products online, but interactions remain digital. Physical pure plays do not take ownership of products and do not partake in physical order fulfilment	Sells physical products online and partakes in physical order fulfilment
Ease of business development	Typically less difficult. Website development and programming can prove challenging, but automated services reduce operating complexity.	Typically less difficult. Physical pure plays neither create complex digital products, nor do they manage large, integrated physical value chains.	Typically more difficult. Physical value chain elements add complexity to the business and require a larger integrated and synchronised network ecosystem.
Cost of business development	Typically less expensive. Costs contingent on: • Complexity of e-business website/platform developed • Inherent programming capabilities of start-up team • Web development tools and partnership opportunities available	Typically less expensive. (Hagiu & Wright, 2013, p. 105) Unlike hybrids, physical pure plays do not require inventory, warehouses, physical order fulfilment systems or labourers.	Typically more expensive. • Hybrids require inventory, warehouses, physical order fulfilment systems and labourers. • This translates into requiring higher start-up capital and leads to higher operating costs than pure plays of similar scale. (Hagiu & Wright, 2013, p. 105) • “Lean” (inexpensive) hybrids can be created; however they sacrifice many benefits (e.g. customer service) that customers may actually require.
Distinguishing advantages	• Can capitalise on any and all of the benefits that the online medium provides: ○ Can provide digital content instantly; (Gummerus, 2011, p. 47) ○ Can allow users to experience and test trial versions before purchasing the full offering; (Porter, 2001, pp. 16, 17) ○ Inherently global; ○ Can reproduce and distribute digital products at a near zero cost. (Lee & Vonortas, 2004, p. 171; Tapscott, *et al.*, 2000, p. 5; Rayport & Sviokla, 1995) • Opportunity for (Lee & Vonortas, 2004, pp. 169, 174): ○ Information as a source of value; ○ Mass customisation; ○ Economic principle of abundance.	• A cheaper version of hybrid e-businesses, however a lot of advantages are foregone by not taking ownership of products (Hagiu & Wright, 2013, pp. 103-105) • Reach as widespread as partnership network	• Can provide a combination of online and offline products and services (Porter, 2001, p. 18). This enhances choice, convenience and can possibly provide a better overall experience. • Taking control of order fulfilment grants the opportunity to better control and affect customer interactions. In comparison to physical pure plays, hybrids can provide (Hagiu & Wright, 2013, pp. 103-105): ○ More enticing physical product presentations; ○ More reliable and standardised information about product characteristics and availability; ○ Quicker and more reliable delivery; ○ A more favourable return policy. ▪ These latter three reduces uncertainty and instils greater trust. Hybrids can also better capitalise on: ○ Economies of scale (through bulk purchases); ○ Synergy effects (through bundling); and ○ Pricing flexibility. (Baker, Marn, & Zawada, 2001)
Typically suited to	Innovative entrepreneurs with good programming skills and deep IT knowledge	Entrepreneurs with good programming skills and sales experience (Cusumano, 2013, p. 26)	• Incumbent retailers with a strong brand, installed customer base, established infrastructure, experience and scale in logistics (Barsh, Crawford, & Grosso, 2000, p. 98) • Entrepreneurs with experience in retail and logistics
Largest challenges	• Creating innovative offerings that customers will pay for (Lee & Vonortas, 2004, p. 170; Porter, 2001, pp. 17, 18) • Staying ahead of competitors in the innovation game • Combating piracy (Teece, 2010, p. 174)	• Building strong partnership networks and negotiating with partners • Reducing buyer apprehensiveness (Zhou, Dai, & Zhang, 2007, pp. 42, 43)	• Reducing and off-loading logistical costs. Customers are not willing to pay significantly more for an online offering than an offline one (Barsh, Crawford, & Grosso, 2000, pp. 102, 107), and odd product geometries are difficult to assemble, pack and ship, which incurs extra costs (Porter, 2001, pp. 16, 17). • Increasing “basket” value (Barsh, Crawford, & Grosso, 2000, p. 100) • Reducing buyer apprehensiveness (Zhou, Dai, & Zhang, 2007, pp. 42, 43)
Core Strategies	Seek trade-offs between the Internet and traditional approaches, where only an Internet model offers real advantages (Porter, 2001, pp. 3, 19). This occurs when: ○ Customer’s needs are best met online; ○ Product or service can be best delivered through an online channel and does not require physical assets.	• Focus on particular product categories, enabling the provision of expertise and enhanced choice to customers. Also target popular or unique brands that are in high demand. • Build strong partnership networks • Cultivate secondary revenue streams (Lee & Vonortas, 2004, p. 177)	• Build huge scale to sufficiently “dissipate” high operating costs (Lee & Vonortas, 2004, p. 174; Barsh, Crawford, & Grosso, 2000, pp. 100, 102). Building a large physical value chain is enormously expensive however. • Focus on niche product categories, hard-to-bring-home products and expensive products as these reduce customer’s sensitivity to fulfilment costs, have higher profit margins, and lower customer acquisition costs (Barsh, Crawford, & Grosso, 2000, p. 108) as customers typically seek out the company instead of vice versa. The paradox however, is that it is these high basket value items that customers are especially apprehensive of buying online (Zhou, Dai, & Zhang, 2007, pp. 42, 43). • Eliminate physical activities to improve profit margins (Jones, 2007, p. 116)

The table above forms the base of the newly constructed model. It shows that there are not just two digital-physical orientations (pure play and hybrid), but really three basic types of orientations facing e-business, namely being a digital pure play, a physical pure play, or being a hybrid. These orientations exist along a relative digital-physical continuum, and a figure is provided in the newly created model (Figure 6.8 below) to depict this. What this continuum implies is that though definitions for each of the orientations exist, the boundaries separating them are somewhat malleable. Stated differently, businesses of the same basic digital-physical classification can be more digital or more physical relative to one another.

The table defines these three orientations; discusses their typical ease of development; typical cost of development; distinguishing advantages; characteristics of entrepreneurs typically suited to starting such a business; typical challenges facing the different orientations; and core strategies often employed by these different businesses. This table is therefore meant to raise awareness of the typical differences between these orientations and as such assist the digital-physical orientation choice of e-business start-ups.

For the second suggestion, the following leading questions were added to the model to clarify its purpose and act as probes:

- Which of these orientations are the most efficient at delivering offerings that our customers require?
  Purpose: Probes thinking about how customers would like offerings to be delivered (digital versus physical) and questions which digital-physical orientation is the most suited for doing this.
- Which of these orientations do we have the highest chance of successfully starting up as?
  Purpose: Probes the consideration of which orientation the start-up is most likely to result in success, taking into account factors relating to the internal environment (available resources, skills and partner network) and external environment (market dynamics and competition).

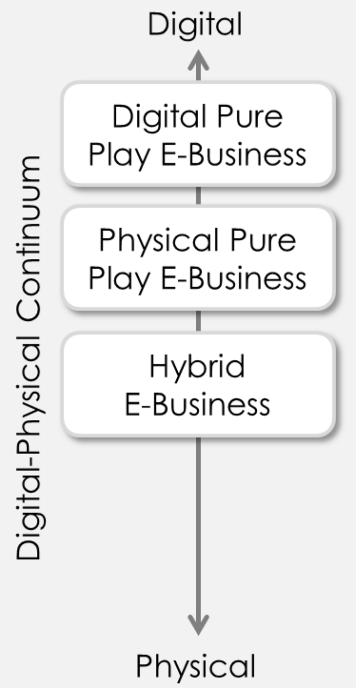
The third suggestion stems from feedback obtained during the international validation (Chapter 7). It is included here as it is a minor change. The suggestion was that a business's digital-physical orientation is not necessarily fixed and may change as the business develops. The words "A business's digital-physical orientation can shift over time" was thus added to the framework.

Incorporating these changes, Figure 6.8 below was created.

Digital–Physical Orientation Choices Fundamental Characteristics

	Digital Pure Play E-Business	Physical Pure Play E-Business	Hybrid E-Business
Orientation definition	Sells digital products online	Sells physical products online, but interaction remains digital	Sells physical products online and partakes in physical order fulfilment
Ease of business development	Typically less difficult	Typically less difficult	Typically more difficult
Cost of business development	Typically less expensive	Typically less expensive	Typically more expensive
Distinguishing advantage	Can capitalise on any and all of the benefits that the online medium provides	Cheaper than hybrids, but forego many of the advantages	Can provide a combination of online and offline products and services, which enhances choice and experience
Typically suited to	Entrepreneurs with good programming skills and deep IT knowledge	Entrepreneurs with good programming skills and sales experience	• Incumbent retailers • Entrepreneurs with experience in retailing and logistics
Largest challenges	• Creating innovative offerings that customers will pay for • Staying ahead of competitors in the innovation game • Combating piracy	• Building strong partnership networks • Reducing buyer apprehensiveness	• Reducing and off-loading logistics costs • Increasing basket value • Reducing buyer apprehensiveness
Core strategies	Seek trade-offs where only the Internet model offers real advantages	• Focus on particular product categories • Build partnership networks • Cultivate secondary revenue streams	• Build huge scale • Focus on niche or hard-to-bring-home product categories • Eliminate physical value chain activities

Digital–Physical Orientation Choices



Key Questions

1. *Which of these orientations are the most efficient at delivering offerings that our customers require?*
2. *Which of these orientations do we have the highest chance of successfully starting up as?*

*A business' digital-physical orientation can shift over time

Figure 6.8 – Validation Round 1: Digital-Physical Orientation Choices Update

6.5.2.3. Porter's Generic Strategies Update

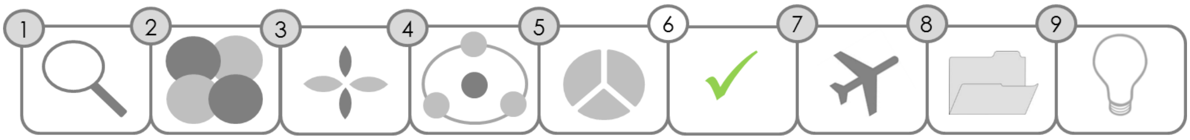
Suggestion 1: Avoid trivialising the complexities of reality (Dr. E, Mr. N, Mr. V) by not rating Porter's generic strategy choices. Rather, provide users the logic that informed the initial rating decision and allow them to choose the generic strategy that makes sense to their situation – Author
Suggestion 2: Include leading questions to clarify the model's purpose – Author
Suggestion 3: Highlight that a business's generic strategy may shift over time – Prof. D (Chapter 7)

The goal of the generic strategy model is to assist e-business start-ups in making a more informed choice regarding the market scope and core competitive advantage choice of their business, and making those decisions explicit. The generic strategy model (Figure 5.6) somewhat trivialised the complexities of reality by trying to rate the viability of the different generic strategies in an e-business start-up context. The problem with the previous model was that it did not inform users as it did not provide the reasoning and logic that influenced the viability ratings. Both these problems are addressed below, firstly by abandoning the viability ratings, and secondly by providing descriptions of the market scope and core competitive advantage choices, which serves to inform the model's users. The key take-outs of Chapter 5.3.2 are summarised in Table 6.7 below.

The table below forms the base of the newly constructed model. It shows that there are two basic market scope choices, namely targeting a broad market space or a niche market space; and that there are three basic core competitive advantage choices available, namely pursuing low costs, differentiation, or low costs and differentiation. The table defines these market scope and core competitive advantage choices; highlights each's primary business driver; discusses their distinguishing advantages; and largest challenges. This table is thus meant to raise awareness of the typical differences between these generic options and thereby assist the Porter's generic strategy choice of e-business start-ups.

Table 6.7 – Porter's Generic Strategy Choices Fundamental Characteristics in E-Business

	Market Scope Choice		Core Competitive Advantage Choice		
	Broad Market	**Niche Market**	**Low Cost**	**Differentiation**	**Low Cost & Differentiation**
Orientation Definition	Target the broad, total market	Target a niche customer segment within the total market	Produce offerings at a lower cost than competitors	Produce differentiated offerings that deliver something attractively different	Pursue both low costs and differentiation to deliver more value for money
Business Driver	Generalising	Specialising	Efficiency	Differentiation	Value
Distinguishing Advantages	• Serves a large range of customers with similar needs • Lucrative businesses as they focus on the entire market instead of just a sub-set of the market. • This maximises the possible target market size	• Better serve the niche than any other competitor(Hough, et al., 2011, p. 6) • Low barriers to entry as few competitors usually exist in niche spaces • Lower costs of e-businesses enable lower breakeven points, increasing viability of small market segments (Kim, Nam, & Stimpert, 2004, p. 22; Porter, 2001, p. 17) • Capable of building stronger e-loyalty (Gommans, Krishnan, & Scheffold, 2001, p. 54) • Often have lower customer acquisition costs as customers seek out companies that can serve their needs	• Can pass cost savings on to customers and under-price competition (Hough, Thompson JR, Strickland III, & Gamble, 2011, p. 6) • Can earn above average profits despite the presence of strong competitive forces in the industry (Hough, *et al.*, 2011, p. 158; Porter, 1980, p. 36)	• Capable of higher profit margins (Hough, *et al.*, 2011, p. 159; Porter, 1980, p. 38) • Creates barriers to competitive warfare, as customers have preferences and loyalties to particular sellers (Hough, *et al.*, 2011, p. 159; Porter, 1980, p. 19) • The more differentiated the offering, the less customer bargaining power becomes (Porter, 1980, pp. 24-26) • Differentiation aids in drawing customer attention (Hough, *et al.*, 2011, p. 159) • Can defend against threats from free competitors	• Can earn above-average returns and be very powerful and robust when executed correctly. (Volberda, Morgan, Reinmoeller, Hitt, Ireland, & Hoskisson, 2011, p. 191) • Online customers value low costs and differentiation (Kim, Nam, & Stimpert, 2004, p. 19) • Incorporates upscale attributes at a lower cost than competitors (Hough, *et al.*, 2011, p. 165)
Largest Challenges	• Entering such a space successfully, as every mature industry usually possesses large, powerful incumbents with enormous amounts of resources, which creates high entry barriers • Protecting the broad market space, as there are so many adjacent competitors due to the often extensive product lines required to serve the total market	• Carving out a niche where the number of customers are sufficient to economically sustain the business (Hough, et al., 2011, p. 170) • Getting noticed and building a viable customer base • Pursuing precision. If a company attempts to simultaneously do a lot of things, then they do nothing exceptionally well (Johnson, Christensen, & Kagermann, 2008, pp. 61, 62). Precision prevents competitive gaps where competitors can "out-focus" the business (Volberda, et al., 2011, pp. 187, 188; Porter, 1980, p. 46) • Establishing competitor entry barriers (Hough, et al., 2011, p. 171) • Pre-empting customer need changes (Volberda, et al., 2011, pp. 187, 188; Porter, 1980, p. 46)	• Creating and sustaining a cost advantage (Volberda, *et al.*, 2011, pp. 178, 179; Hough, *et al.*, 2011, p. 158) in an industry where economies of scale in production, distribution and other functions are not that substantial (Porter, 1980, p. 146) • Balancing the cost reductions with minimum desirable product features (Volberda, *et al.*, 2011, pp. 178, 179; Hough *et al.*, 2011, p. 150; Porter, 1980, p. 45) • Withstanding destructive price competition (Hough, *et al.*, 2011, p. 158) • Getting noticed amidst the myriad of other offerings • Combating competitors with free offerings • Pre-empting competitor innovations and technologies that beat the cost advantage or produces additional features at a similar price (Volberda, *et al.*, 2011, pp. 178, 179; Porter, 1980, p. 45)	• Differentiating and sustaining differentiation (Volberda, *et al.*, 2011, p. 182; Hough, *et al.*, 2011, p. 6) in a fast paced industry where barriers to entry are low and competitive mimicking is relatively easy • Raising perceived value of offering (Hough, *et al.*, 2011, p. 162) • Correctly pricing the differentiated offering. Higher price should be comparable and justifiable. (Volberda, *et al.*, 2011, p. 182; Porter, 1980, p. 38) • Not overspending and over-differentiating (Hough, *et al.*, 2011, p. 163, 164) • Pre-empting customer need changes, other trends and technology shifts that render differentiating features obsolete (Volberda, *et al.*, 2011, p. 182; Hough, *et al.*, 2011, p. 159)	• Successful execution. (Hough, *et al.*, 2011, p. 166) Simultaneously pursuing efficiency and differentiation is a daunting task as trade-offs (in the typical frame of mind) are abundant. If the strategy were easy, everyone would pursue it. • Having focus and escaping the "stuck-in-the-middle" syndrome, where the business is not excelling at low costs, nor differentiation, and definitely not both (Volberda, *et al.*, 2011, p. 191; Hough, *et al.*, 2011, p. 212)



For the second suggestion, the following leading questions were added to the model to clarify its purpose and act as probes:

- Is the identified customer segment a part of a broad target market or a niche market?
  Purpose: Challenges the identification of the market scope orientation of the target market.
- How will the business successfully compete against a resource rich incumbent in the market space that it intends to enter?
  Purpose: Directed at businesses targeting broad market spaces, it questions how the business will compete against powerful incumbents. The hope is that businesses will adapt their venture if they cannot provide adequate answers.
- Is the target market large enough to be economically viable?
  Purpose: Directed at businesses targeting niche markets, it questions whether size of the market is economically viable. The hope is that businesses will adapt their venture if they realise that the target market is unviable.
- Does the customer primarily value price or differentiation or both?
  Purpose: Questions what customers really want. This answer gives an indication of the type of competitive advantage that the business should pursue.
- How will the business ensure that it gets noticed amidst the myriad of competitors?
  Purpose: Questions the business's ability to attract attention. Not having adequate answers could indicate that the business should pursue even higher levels of efficiency, differentiation or value.
- How will the business defend itself against threats from free competitors?
  Purpose: Questions the business's ability to fend off free competitors. Indirectly highlights that any business needs to create value that customers will pay for.
- What combination of market scope and core competitive advantage strategies do we have the highest chance of successfully starting up as?
  Purpose: Probes the start-up to consider which generic strategy type is most likely to result in success, taking into account factors relating to the internal environment (available resources, skills and partner network) and external environment (market dynamics and competition).

The third suggestion stems from feedback obtained during the international validation (Chapter 7). It is included here as it is a minor change. The suggestion was that a business's generic strategy is not necessarily fixed and may change as the business develops. The words "A business's generic strategy can shift over time" was thus added to the framework.

Incorporating these changes, Figure 6.9 below was created.

Porter's Generic Strategy Choices Fundamental Characteristics

	Market Scope Choice		Core Competitive Advantage Choice		
	Broad Market	Niche Market	Low Cost	Differentiation	Low Cost & Differentiation
Orientation Definition	Target the broad, total market	Target a niche customer segment within the total market	Produce offerings at a lower cost than competitors	Produce differentiated offerings that deliver unique value	Deliver more value for money
Business Driver	Generalising	Specialising	Efficiency	Differentiation	Value
Distinguishing Advantages	• Serves a large range of customers with similar needs • Targets largest possible market	• Better serve the niche than any other competitor • Low barriers to entry • Lower costs of e-businesses enable lower breakeven points, increasing viability of small market segments	• Can pass cost savings on to customers and under-price competition • Can earn above average profits despite the presence of strong competitive forces	• Higher profit margins • Creates barriers to competitive warfare, as customers have preferences and loyalties to particular sellers • Differentiation aids in drawing customer attention • Can defend against threats from free competitors	• Can earn above-average returns and be very powerful when executed correctly • Online customers value low costs and differentiation
Largest Challenges	• Entering a broad market successfully, as every mature industry usually possesses large, powerful incumbents with enormous amounts of resources • Protecting the broad market space, as there are many adjacent competitors	• Carving out a niche where the number of customers are sufficient to economically sustain the business • Not diverging from the niche focus. Pursuing precision to prevent competitive gaps where competitors can "out-focus" the business • Establishing competitor entry barriers	• Creating and sustaining a cost advantage in an industry where economies of scale in production, distribution and other functions are not that substantial • Withstanding destructive price competition • Getting noticed amidst the myriad of other offerings • Combating competitors with free offerings	• Differentiating and sustaining differentiation in a fast paced industry where barriers to entry are low and competitive mimicking is relatively easy • Raising perceived value of offering • Not overspending and over-differentiating	• Successful execution. Simultaneously pursuing efficiency and differentiation is difficult • Escaping the "stuck-in-the-middle" syndrome, where the business isn't excelling at low costs, nor differentiation, and definitely not both

Porter's Generic Strategy Choices

Market Scope Questions

1. *Is the identified customer segment a part of a broad target market or a niche market?*
2. *How will the business successfully compete against a resource rich incumbent in the market space that it intends to enter?*
3. *Is the target market large enough to be economically viable?*

Core Competitive Advantage Choice Questions

4. *Does the customer primarily value price or differentiation or both?*
5. *How will the business ensure that it gets noticed amidst the myriad of competitors?*
6. *How will the business defend itself against threats from free competitors?*

Key Start-Up Question

7. *What combination of market scope and core competitive advantage strategies do we have the highest chance of successfully starting up as?*

*A business' generic strategy choice can shift over time

Figure 6.9 – Validation Round 1: Porter's Generic Strategy Choices for E-Business Start-Ups Update

6.5.3. Value Proposition Improvements

This section discussed the updates that were made to the value proposition models subsequent to the first round of validation.

6.5.3.1. 18 Sources of E-Value Update

Suggestion 1: Order or categorise the sources of value to ease understanding – Dr. W, Mr. V
Suggestion 2: Include leading questions to clarify the model's purpose – Author
Suggestion 3: Specifically mention that the 18 sources relate to the unique selling proposition (USP) of a business – Mrs. B (Chapter 7)

The first suggestion requires categories into which to order the sources of value. Customer value literature (Gummerus, 2011, p. 29; Boztepe, 2007, p. 59; Smith & Colgate, 2007, pp. 10-14; Holbrook, 2005, p. 47; Woodall, 2003, p. 9; Seth, Newman, & Gross, 1991; Lai, 1995, p. 382) provide many value themes for such categorisation. Key themes that emerged was that of functional value, social value, emotional value, epistemic value, conditional value, aesthetic value, hedonistic value, spiritual value and ethical value.

These classifications are quite complex and classifying the 18 sources of e-value into these categories is no menial task. Some sources of value overlap with multiple categories and as there are so many categories, this approach does not lead to simplification or understanding. Following from Kim and Mauborgne's (2005, pp. 69, 70) fifth path for creating new market, looking across functional or emotional appeal to buyers, the functional and emotional value themes were selected for categorising the 18 sources.

Again, the problem is that most sources of value have a functional and an emotional aspect to them. The categorisation of the elements, as shown in Figure 6.10 below, therefore merely depicts which sources of value gravitate slightly more toward being functionally or emotionally oriented. The figure categorises 12 sources of value as being more functionally oriented (effectiveness; affordability and cost reduction; range and complementarities; reach and accessibility; findability; timeliness and immediacy; authenticity, trust and security; richness of information exchange; interpretation; simplicity; convenience; and customer empowerment), with six sources of value being more emotionally oriented (novelty and newness; aesthetics and brand attractiveness; embodiment; individualisation; connectivity and socialisation; personal fulfilment). Most of the classifications are quite intuitive, but some choices need clarification as they can be argued either way.

Authenticity, trust and security, customer empowerment, novelty and newness, embodiment, individualisation, and connectivity and socialisation all possess strong traits of both functional and emotional value. Authenticity, trust and security serves to instil peace of mind. This however, can only achieved through the function of security, which is to protect a user from viruses, invasion of privacy and

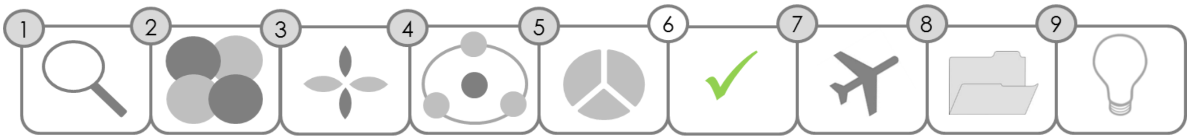
Internet fraud. This source of value was thus categorised as being more functionally oriented. Similarly, customer empowerment can evoke emotions related to enhanced control, but its primary purpose remains a functional one – equipping customers with digital capabilities that allows them to perform some function.

Classifying novelty and newness is even more difficult. The newness aspect of it is functional, for instance having the most current information or up to date software. Novelty on the other hand is more emotionally oriented. It is about intriguing customers and evoking curiosity and excitement in them. This possibly leads to spontaneous purchases of offerings that do not necessarily provide enhanced functional benefits. Novelty and newness is therefore categorised as being emotionally oriented. Embodiment faces the same duality. Some types of embodiment do provide enhanced functional benefits, such as regular monitor display versus high definition display. Embodiment was classified as being emotionally oriented however, as its true meaning and value transcends functional value. A music video can be viewed on YouTube, but seeing the band live and experiencing the atmosphere is what is valuable (regardless of whether the sound quality is worse and your relative position to the stage makes it difficult to see anything).

Similarly, individualisation can bear functional benefits, such as setting up default settings that eventually makes it easier for someone to do things. It can however also be highly emotionally oriented, for instance choosing an avatar on a website or changing the background picture of your computer. These actions carry no functional value, but it is emotionally pleasing. Individualisation was therefore categorised as being more emotionally oriented as it is inherently a preference-based value. Lastly, connectivity and socialisation has functional value in the form of coordination, collaboration and other functional benefits obtained from network effects and word-of-mouth. The need to connect and socialise however, is an emotional, human need. It is this need that dictates behaviour, and not vice versa. Connectivity and socialisation was therefore classified as being more emotionally than functionally oriented. A last remark is that room for future research relating to the relationships and classification of the sources of value exist, but these will be further discussed in the conclusion of the study, Chapter 9.4.

For the second suggestion, the following leading questions were added to the model to clarify its purpose and act as probes:

- What types of value are the most important to our customers?
  Purpose: Probes the identification of the most important types of customer value.
- How can we incorporate these types of value to create a desirable offering?
  Purpose: Probes the translation of above customer values into value propositions.
- What types of value can we excel at providing?
  Purpose: Probes the identification of the business's value creation competencies. An alignment between the business's competencies and customer value needs indicate a good fit. Discrepancies



between the two could lead to the identification of new markets to target by utilising the business's competencies.

The third suggestion stems from feedback obtained during the international validation (Chapter 7). It is included here as it is a minor change. The additional leading question was added to the model:

- What is our unique selling proposition?

  Purpose: Probes the identification of exactly what value the business provides that differentiates it from its competitors.

Incorporating these changes, Figure 6.10 below was created.

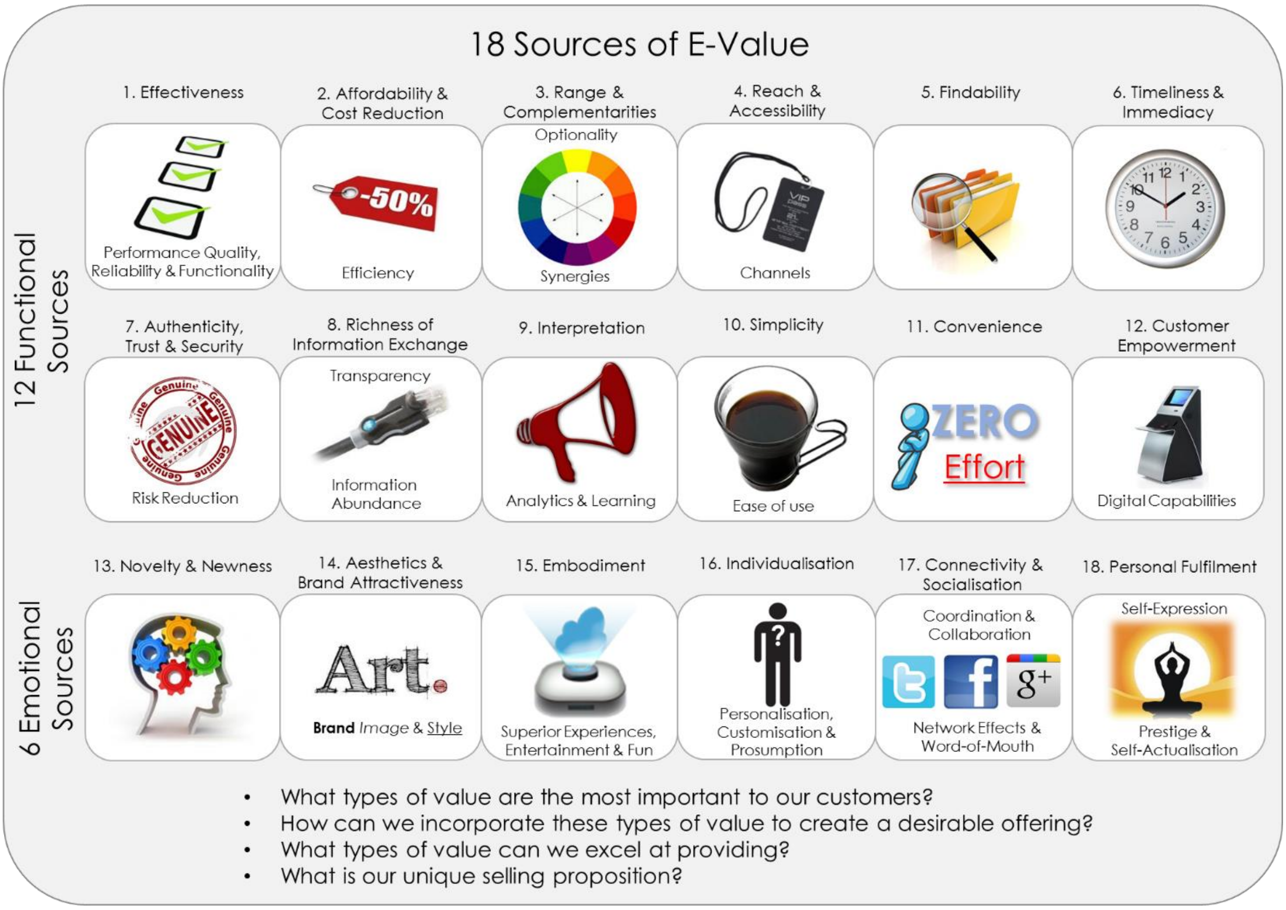


Figure 6.10 – Validation Round 1: 18 Sources of E-Value Update

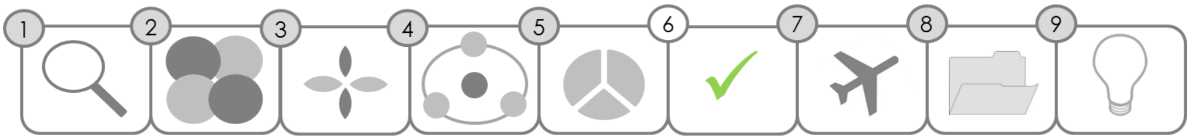
6.5.3.2. 10 Techniques for Creating New Market Space Update

Suggestion: Include leading questions to clarify the model's purpose – Author

The following leading question was added to the model:

- How can we apply these techniques to create new market space?

Purpose: Clarifies the model's purpose and probes market space creation oriented thinking.



Incorporating this change, Figure 6.10 below was created.

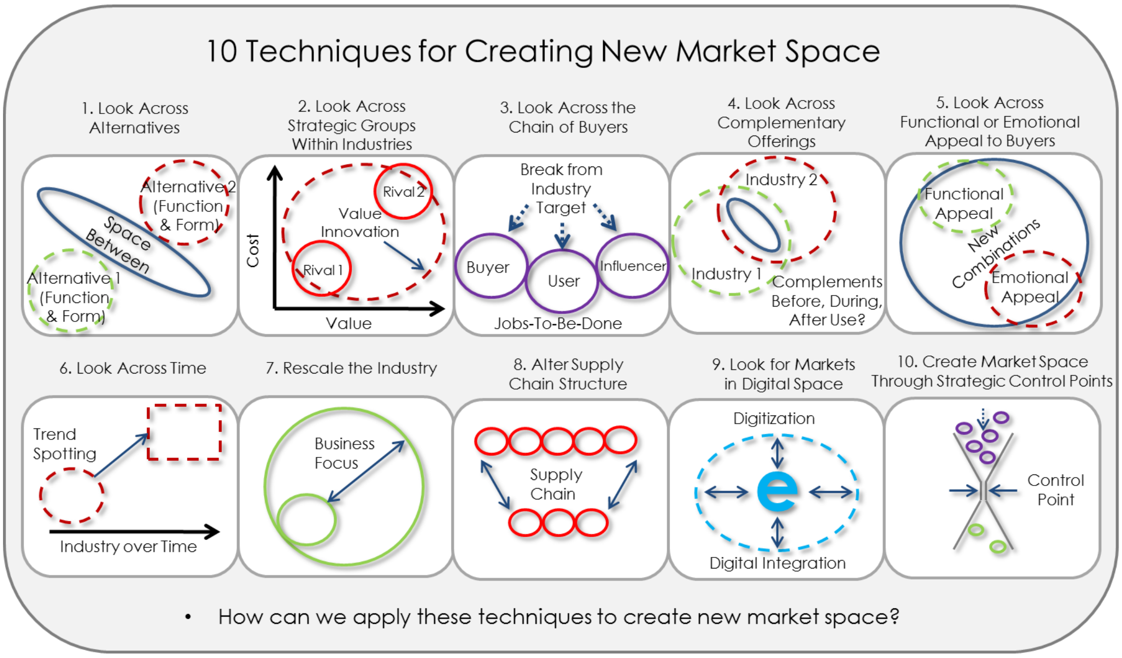


Figure 6.11 – Validation Round 1: 10 Techniques for Creating New Market Space Update

6.5.3.3. Customer Relationship Taxonomy Update

Suggestion: Include leading questions to clarify the model's purpose – Author

The following leading questions were added to the model to clarify its purpose and act as probes:

- What type of relationship do customers want the business to establish with them?
  Purpose: Probes the identification of customer relationship needs.
- How can these interactions be optimised for efficiency and experience?
  Purpose: Challenges the business to think about what can be done to maximize the customer interaction or relationship experience and to think about ways in which inefficiencies can be minimized.

Incorporating this change, Figure 6.12 below was created.

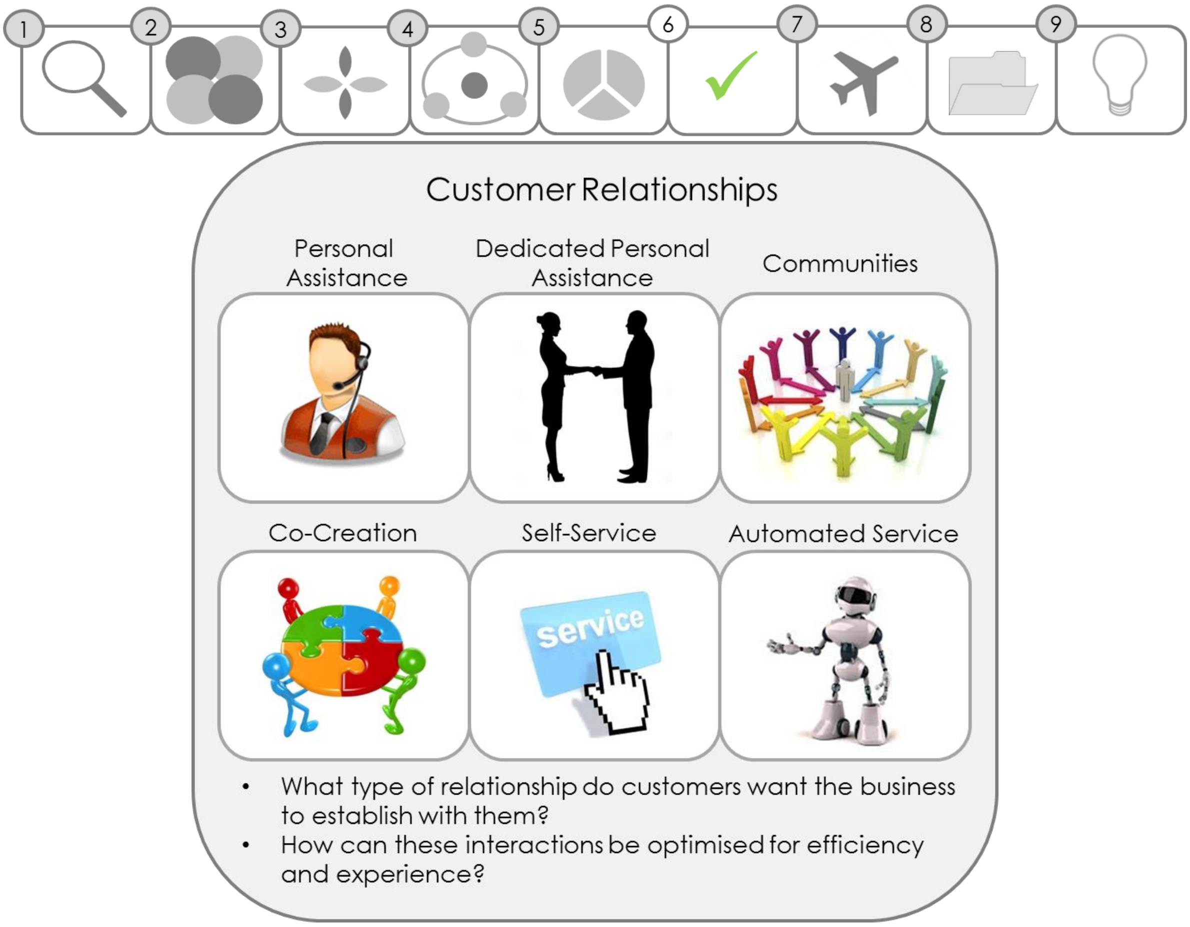


Figure 6.12 – Validation Round 1: Osterwalder and Pigneurs's Customer Relationships Taxonomy Update

6.5.3.4. Channel Phases Update

Suggestion: Include leading questions to clarify the model's purpose – Author

The following leading questions that draws on Osterwalder and Pigneur (2009, p. 27) were added to the model to clarify its purpose and act as probes:

- How do we make customers aware of our offerings?
- How do we help customers evaluate our value proposition?
- How do we deliver our value proposition to customers?
- How do we increase the usability of our offering?
- How do we provide after sales customer support?

  Purpose: These five questions simultaneously explain the individual channel phases and act as a probe for thinking about the channel phase.

Incorporating these changes, Figure 6.13 below was created.

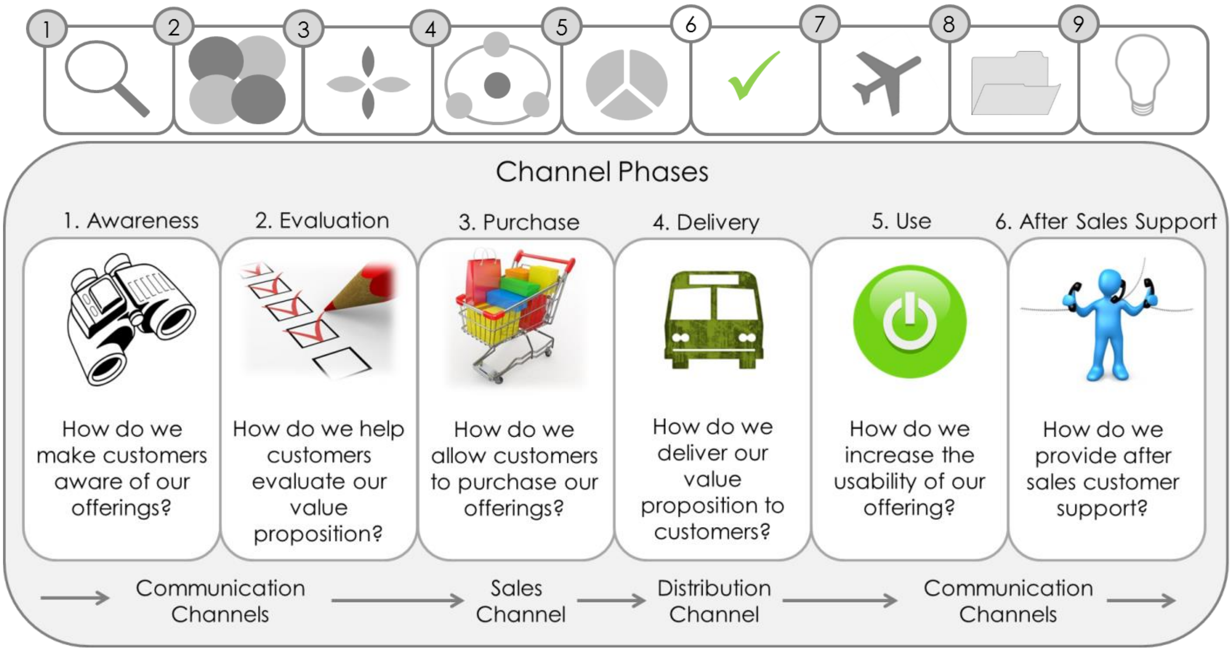


Figure 6.13 – Validation Round 1: Channel Phase Update

6.5.3.5. Sequenced 18 Sources of E-Value Update

Suggestion: Include leading questions to clarify the model's purpose – Author

The following leading questions were added to the model to clarify its purpose and act as probes:

- How do we create value across each of the channel phases?
  Purpose: Probes the identification of how value is currently being provided per channel phase.
- How can we provide any of the 18 sources of e-value in a channel phase to sensibly differentiate ourselves?
  Purpose: Probes differentiated value creation thinking across channel phases and highlights that any of the 18 sources can be provided in a channel phase.

Incorporating these changes, Figure 6.14 below was created.

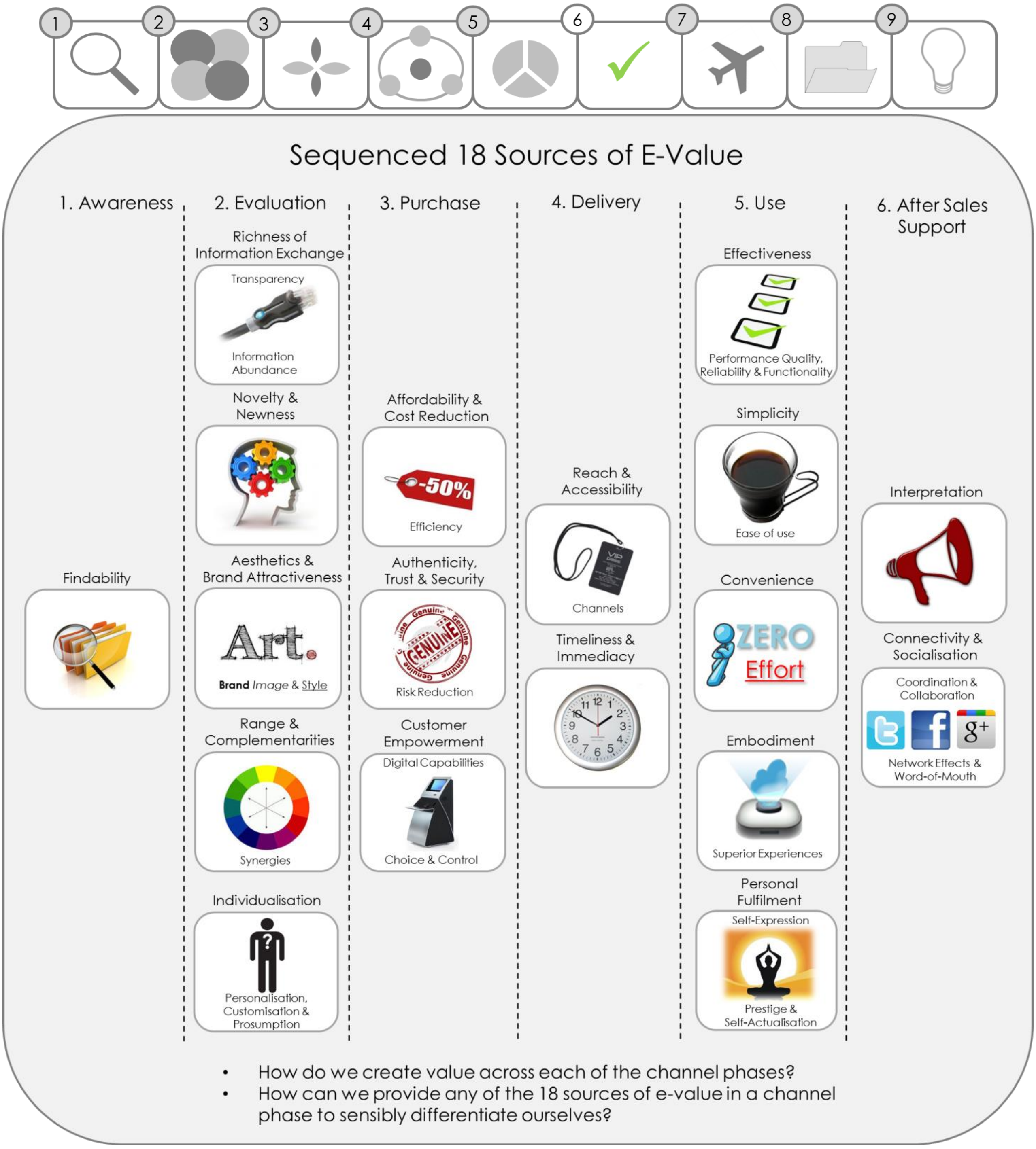


Figure 6.14 – Validation Round 1: Sequenced 18 Sources of E-Value Update

6.5.3.6. Revenue Generation Strategies Update

Suggestion 1: Avoid trivialising the complexities of reality (Dr. E, Mr. N, Mr. V, Mrs. J) by not rating the revenue strategies. Rather, provide users the logic that informed the initial rating decision and allow them to choose the best revenue strategy that makes sense to their situation – Author

Suggestion 2: Include leading questions to clarify the model's purpose – Author

Some validators felt that rating the different strategies trivialises the complexities of reality. The initial model was flawed in that outlier examples of e-businesses exist that do not conform to the ratings of the model. Though it was never the goal to make an absolute judgement regarding the effectiveness of the different revenue generation strategies, the model was perceived as attempting to do this. The goal of this model is and has always been to probe e-business start-ups to critically think about their revenue strategies and assisting them in making better and more informed choices. The problem with the previous model was that it did not inform users as it did not provide the reasoning and logic that influenced the viability ratings. Both these problems are addressed below, firstly by abandoning the viability ratings, and secondly by providing descriptions of the different revenue generation strategies, which serves to inform the model's users. The key take-outs of Chapter 5.4.4 are summarised in Table 6.8 below.

Table 6.8 – Revenue Strategies Fundamental Characteristics

Revenue strategy	• **Selling ownership**
	• **Selling usage**
	  o Usage fees
	  o Subscription fees
	  o Lending/ renting/ leasing
	  o Time/slice-share
	  o Licensing
	• **Cross-selling**
		• **Freemium**
		• **Bait & hook**
		• **Brokerage fees**
		• **Bundling**
			• **Advertising** (Including Affiliate Programmes & Referrals)
			• **Sponsorships & Charities**

Revenue type	Direct	Direct	Indirect
Free element	No	Yes. For bundling an aspect of the offering is perceived as free.	Yes
Multisided-platform	No	Yes. Paying customers support free users.	Yes. The more users view the site, the more advertisers or partners are attracted.
Distinguishing advantages	• Generates money with each transaction • No free uses to sustain	Free offerings attract attention more easily from customers (Osterwalder & Pigneur, 2009, p. 101) because there are no initial investment costs.	Free offerings attract attention more easily from customers (Osterwalder & Pigneur, 2009, p. 101) because there are no initial investment costs.
Most suited to	• Offerings of high value that cannot economically be provided for free • Multi-staged offerings that create opportunities for cross-selling complements	• Offerings that can be versioned. An entry level version is offered for free to lure customers, but a premium version exists for customers who have needs that extend beyond the basic offering. • Durable products with consumable complements • Unique products that require effort to obtain	• Offerings that cannot easily be monetised directly. • Offerings that involves user generated content or offerings that have high social value, but users are not readily keen on paying for. • Offerings targeting customers that can be segmented, or offerings targeting a particular customer segments. This is required for advertising purposes. (Bryce, Dyer, & Hatch, 2011, p. 109)
Largest challenges	• Creating value that customers will pay for • Combating free competitors	• Converting free users to paying customers (Bryce, Dyer, & Hatch, 2011, p. 108) • Maintaining a low cost structure to sustain free users and enable a profit	• Generating or obtaining quality content that will attract a large number of users • Building advertising partnerships (Bryce, Dyer, & Hatch, 2011, p. 109) • Not becoming over-reliant on suppliers and combating supplier bargaining power (Porter, 1980)

The table above forms the base of the newly constructed model. The table discusses three revenue generation strategy archetypes that are distinguishable based on whether they generate revenue directly or indirectly, and whether they contain free elements in their value proposition or not. One of these combinations – businesses that generate revenue indirectly without giving away elements of the value proposition for free – is a contradiction and is not discussed. The table further highlights which of these three archetypes are multi-sided platforms (included to show that any type of free business is essentially a multi-sided platform); discusses the distinguishing advantages of these archetypes; describes which types of offerings are most suited to these archetypes; and describes the largest challenges that these revenue strategy archetypes are likely to face. This table is thus meant to raise awareness of the typical differences between these revenue strategy archetypes and thereby assist the revenue generation strategy selection of e-business start-ups.

Regarding the second suggestion, the following leading questions were added to the model to clarify its purpose and act as probes:

- Does the nature of the offering allow it to be charged for directly? Would customers actually pay for the offering?
  Purpose: Challenges critical thinking about the offering and whether a paying market exists. If the offering cannot be charged for directly, then indirect monetisation is required.
- Is it necessary to provide an aspect of the offering for free to attract attention? How will we convince users to buy the offering?
  Purpose: Questions the true value of the offering and its ability to gain traction. Also questions the mechanisms that will be used to convince users to convert free users to the paying customers if the free route is chosen.
- Via which revenue strategy would customers like to obtain the offering?
  Purpose: Challenges conventional wisdom about revenue strategies employed in the industry and questions the way in which customers would ideally like to pay or not pay for offerings.
- Which revenue strategy makes the best economic sense and do we have the highest chance of successfully starting-up as?
  Purpose: Probes choosing the revenue strategy that, after consideration of all the aforementioned details, makes the best economic sense and is feasible from a resource and market perspective.
- How will the business be affected and react when facing threats from free competitors?
  Purpose: Questions the business's defences against attacks from free competitors.

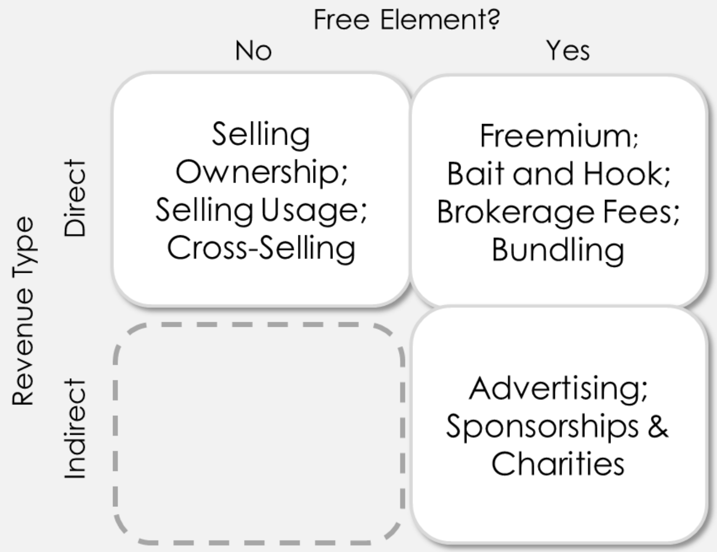
Additionally, the words "multiple revenue generation strategies may simultaneously pursued" was also added to Figure 6.15, to indicate that multiple income streams may be pursued.

Incorporating these changes, Figure 6.15 below was created.

Revenue Generation Strategies Fundamental Characteristics

	• **Selling Ownership** • **Selling Usage** o Usage Fees o Subscription Fees o Lending/ Renting/ Leasing o Time/Slice-Share o Licensing • **Cross-Selling**	• **Freemium** • **Bait & Hook** • **Brokerage Fees** • **Bundling**	• **Advertising** (Including Affiliate Programmes & Referrals) • **Sponsorships & Charities**
Revenue Type	Direct	Direct	Indirect
Free Element	No	Yes	Yes
Multisided-Platform	No	Yes. Paying customers support free users.	Yes. The more users, the more advertisers/ partners are attracted.
Distinguishing Advantages	• Generates money with each transaction • No free users to sustain	Free offerings attract attention more easily	Free offerings attract attention more easily
Most Suited To	• Offerings of high value that cannot economically be provided for free • Multi-staged offerings that create opportunities for cross-selling complements	• Offerings that can be versioned (basic/premium) • Durable products with consumable complements • Unique products that require effort to obtain	• Offerings that can't easily be monetised directly • User generated content/ offerings with high social value • Offerings targeting customers who can be segmented
Largest Challenges	• Creating value that customers will pay for • Combating free competitors	• Converting free users to paying customers • Maintaining a low cost structure to support free uses and enable a profit	• Generating or obtaining quality content that will attract a large number of users • Building advertising partnerships • Combating supplier bargaining power

Revenue Generation Strategy Choices

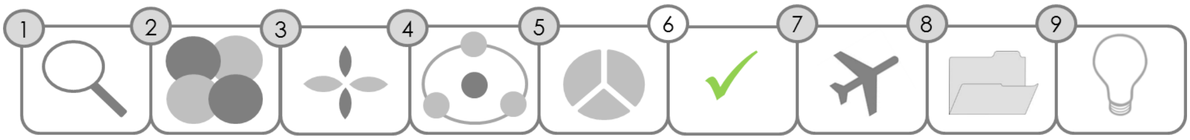


Key Questions

1. *Does the nature of the offering allow it to be charged for directly? Would customers actually pay for the offering?*
2. *Is it necessary to provide an aspect of the offering for free to attract attention? How will we convince users to buy the offering?*
3. *Via which revenue strategy would customers like to obtain the offering?*
4. *Which revenue strategy makes the best economic sense and do we have the highest chance of successfully starting-up as?*
5. *How will the business be affected and react when facing threats from free competitors?*

*Multiple revenue strategies may simultaneously be pursued

Figure 6.15 – Validation Round 1: Revenue Generation Strategies Update



6.5.3.7. Pricing Mechanisms Update

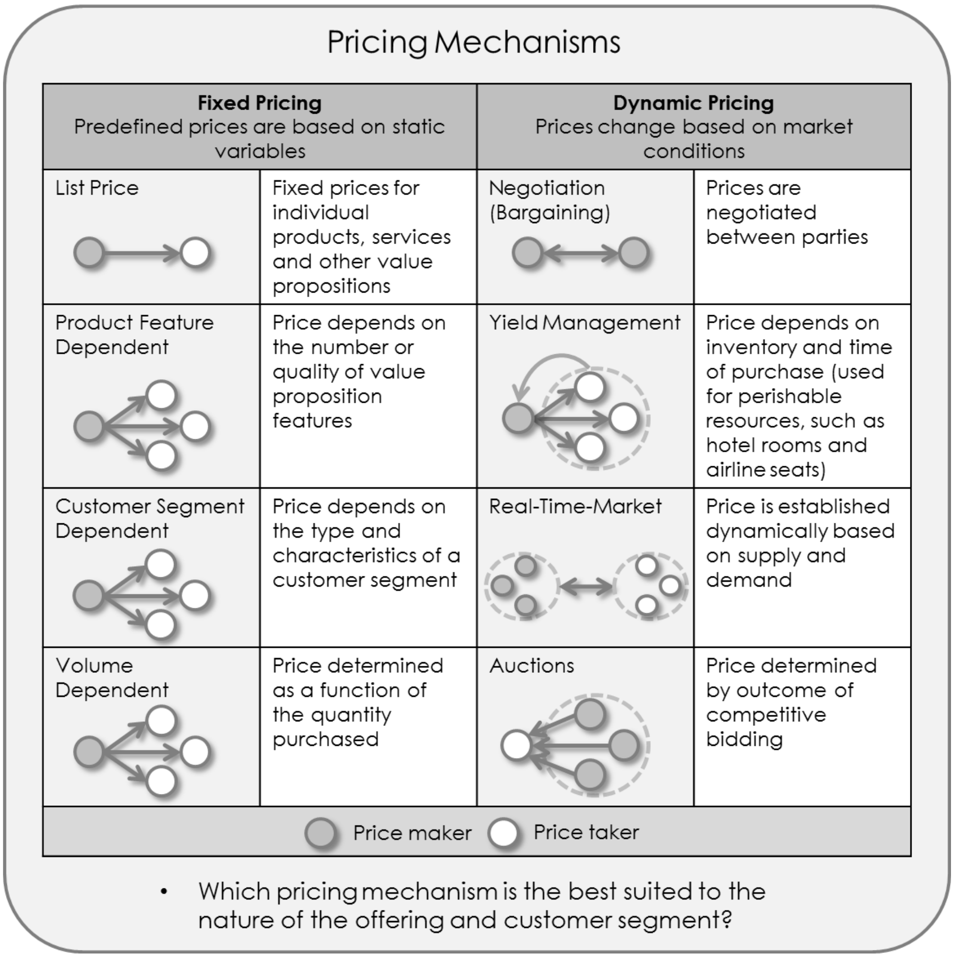
Suggestion: Include leading questions to clarify the model's purpose – Author

The following leading question was added to the model:

- Which pricing mechanism is the best suited to the nature of the offering and customer segment?

Purpose: Clarifies the model's purpose and probes the selection of a pricing mechanism that aligns the best with the nature of the offering and the needs of the customer segment.

Incorporating this change, Figure 6.16 below was created.



Pricing Mechanisms

Fixed Pricing Predefined prices are based on static variables		**Dynamic Pricing** Prices change based on market conditions	
List Price	Fixed prices for individual products, services and other value propositions	Negotiation (Bargaining)	Prices are negotiated between parties
Product Feature Dependent	Price depends on the number or quality of value proposition features	Yield Management	Price depends on inventory and time of purchase (used for perishable resources, such as hotel rooms and airline seats)
Customer Segment Dependent	Price depends on the type and characteristics of a customer segment	Real-Time-Market	Price is established dynamically based on supply and demand
Volume Dependent	Price determined as a function of the quantity purchased	Auctions	Price determined by outcome of competitive bidding
Price maker Price taker			

- Which pricing mechanism is the best suited to the nature of the offering and customer segment?

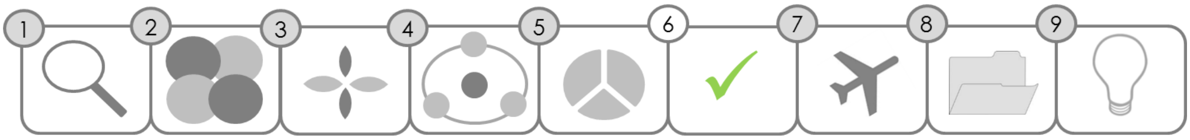
Figure 6.16 – Validation Round 1: Pricing Mechanisms Update

6.5.3.8. Price Corridor of the Mass Update

Suggestion 1: Simplify the price corridor of the mass – Author

Suggestion 2: Include leading questions to clarify the model's purpose – Author

The opportunity to simplify the price corridor of the mass to enhance its usability was identified. Kim and Mauborgne's (2000, p. 134) original price corridor of the mass depiction makes strategic sense, but its



language can be challenging for new users. The price corridor of the mass essentially states that companies should plot the market volumes of competitors at different price points on a high, medium and low grid. The resultant figure will give an indication of the percentage of customers who are making use of broadly similar offerings at a specific price point. The price cluster that contains the highest percentage of customers is the price corridor of the mass. The thinking is then that targeting this price segment will allow the business to target the largest amount of potential customers.

To simplify the model, the price corridor of the mass (Figure 5.16) was reduced from three competitor columns (same form; different form and same function; different form and function, same objective) to two columns (competitors; substitutes), with the substitutes being specified as optional.

For the second suggestions, the following leading question was added to the model:

- What price will unlock the greatest mass of buyers?
  Purpose: Clarifies the model's purpose and probes the identification of the price corridor of the mass.

Incorporating these changes, Figure 6.17 below was created. As will become apparent in the Chapter 7, this update was in vain as the model will be retracted. The price corridor of the mass is flawed in that it simplistically reduces pricing decisions to a market volume and resource protection decision which does not take many economic variables into account. This is further discussed in the following chapter.

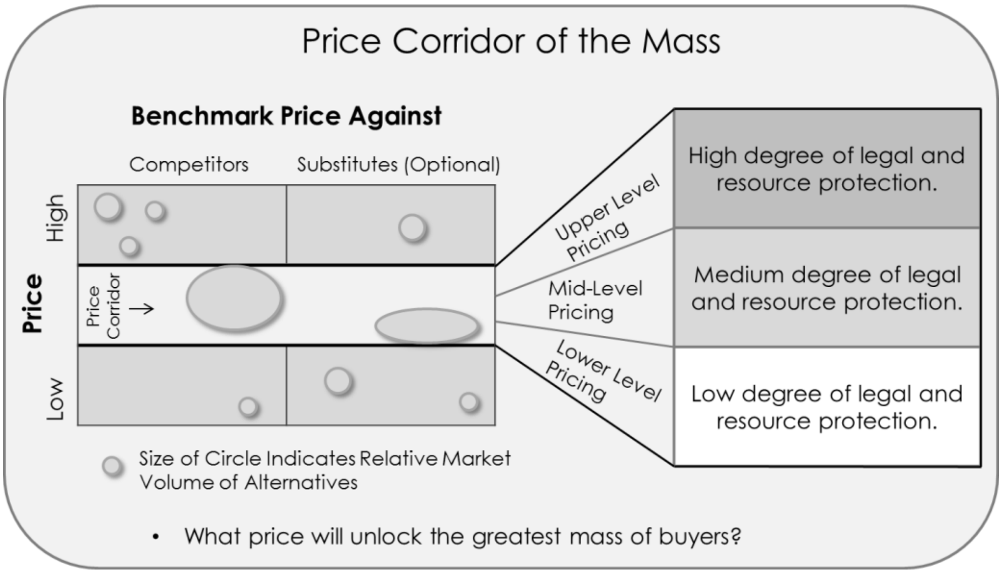
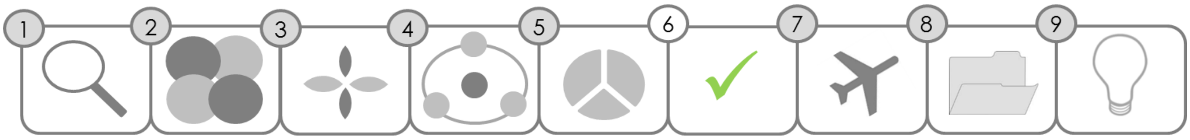


Figure 6.17 – Validation Round 1: Price Corridor of the Mass Update

6.5.4. Customer Lock-In Improvements

This section discussed the updates that were made to the customer lock-in models subsequent to the first round of validation.



6.5.4.1. Control Points Update

Suggestion 1: Categorise the control points to ease understanding – Dr. W, Dr. E

Suggestion 2: Include leading questions to clarify the model's purpose – Author

One critique regarding the customer lock-in elements (specifically control points and switching costs) was that when these elements are made too visible, they can often create negative perceptions that discourage customers from buying the offering in the first place, as customers do not want to be locked-in. The exact opposite result that is desired will thus be obtained. These elements therefore require subtlety in their execution, otherwise they will ward-off potential customers.

It is therefore important to understand which of these elements create negative perceptions and which do not. Resultantly, the control point model was categorised as either being beneficial to customers (thereby creating a positive lock-in) or not being beneficial to customers (which could create negative perceptions). From the 14 identified control points, six control points (first mover advantage, advantages in scale and scope, network effects, learning effects, brand advantage, business model complementarities) are beneficial to customers and eight control points (choke point effect, switching costs, geographic control, control over supply, control over distribution, control over customer interface, creation of scarcity or capturing bottlenecks, causal ambiguity) are not beneficial to customers.

A first mover advantage is beneficial to customers as they are able to access this new and novel offering. Advantages in scale and scope allow customers to benefit from the enhanced reach and possibly cost savings of the business. Network effects raise the value of the offering for customers. Learning effects allow the business to improve their offering, benefitting customers. A brand advantage increases the emotional satisfaction that customers derive from the offering. Business model complementarities allow the business to function better, providing either service or product synergy benefits. The remaining control points allow the business to protect its competitive advantages, which dissuade competitors from entering the market. These control points are therefore not beneficial to customers, as customers benefit from decreased prices that result from price competition between rivals.

For the second suggestions, the following leading question was added to the model:

- Which control points can we pursue to create or sustain a competitive advantage?
  Purpose: Clarifies the model's purpose and probes the identification of control points that the business can pursue.

Incorporating these changes, Figure 6.18 below was created.

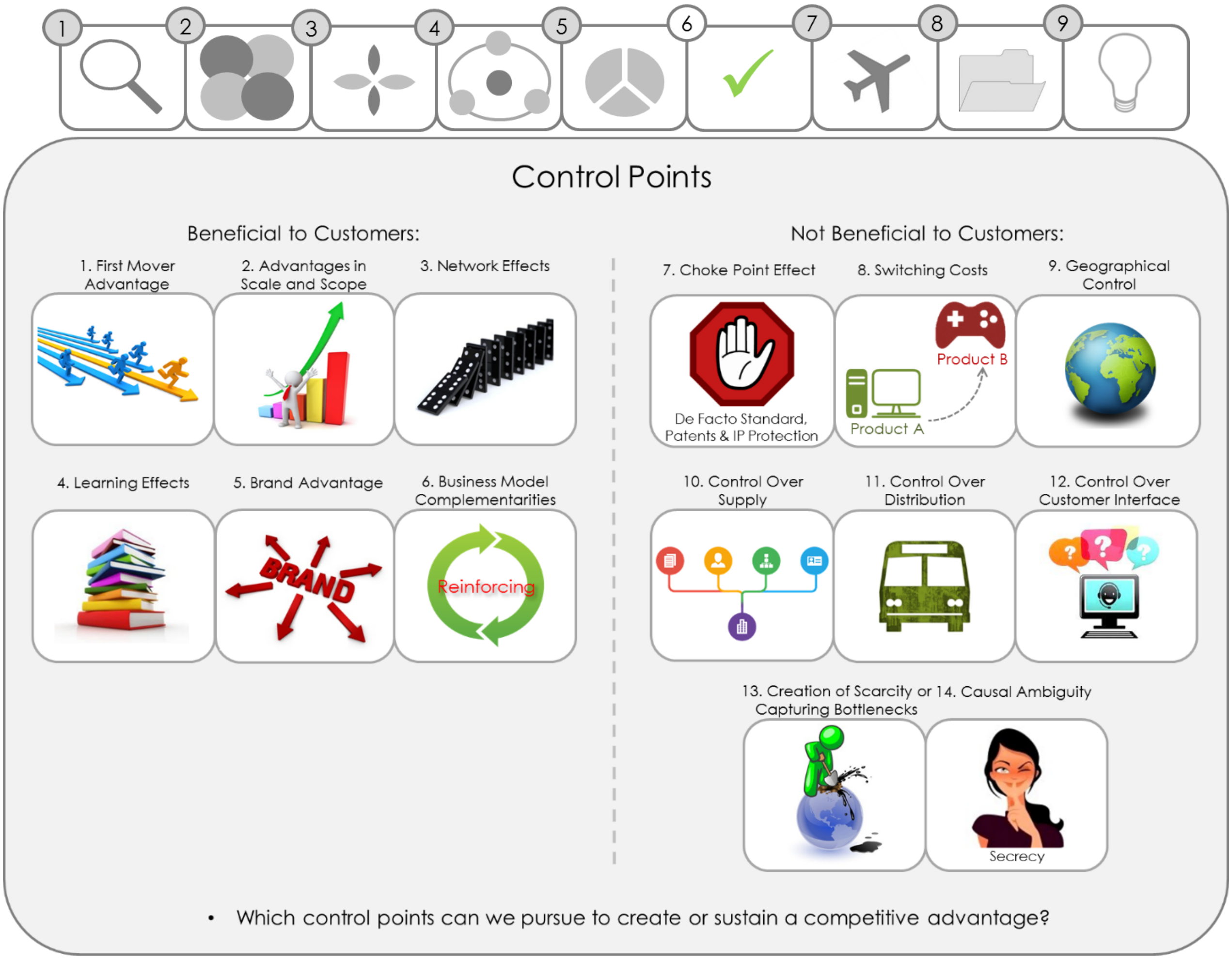


Figure 6.18 – Validation Round 1: Control Point Model Update

6.5.4.2. Switching Costs Update

Suggestion 1: Categorise the switching costs to ease understanding – Dr. W, Dr. E

Suggestion 2: Include leading questions to clarify the model's purpose – Author

Following from the previous element, it is important to understand which of the switching costs create negative customer perceptions and which do not. The switching cost model was categorised below as either being beneficial to customers or not being beneficial to customers. Businesses can therefore possibly try to balance their lock-in portfolio to maintain their customer satisfaction, or otherwise just be aware of the negative lock-ins that they create and attempt to obscure these.

For the second suggestion, the following leading question was added to the model:

- Which switching costs can we pursue to lock customers into business with us?
  Purpose: Clarifies the model's purpose and probes the identification of switching costs the business can pursue.

Incorporating these changes, Figure 6.19 below was created. As will become apparent in the Chapter 7, this update was in vain as some validators objected to this beneficial and non-beneficial categorisation. A new categorisation will therefore be proposed in the following chapter.

Figure 6.19 – Validation Round 1: Integrated Switching Cost Model Update

6.5.4.3. E-Loyalty Antecedents Update

Suggestion: Include leading questions to clarify the model's purpose – Author

The following leading question was added to the model:

- Which factors should we excel at to drive customer loyalty?
  Purpose: Clarifies the model's purpose and probes the identification of e-loyalty antecedents relevant to the business.

Incorporating this change, Figure 6.20 below was created.

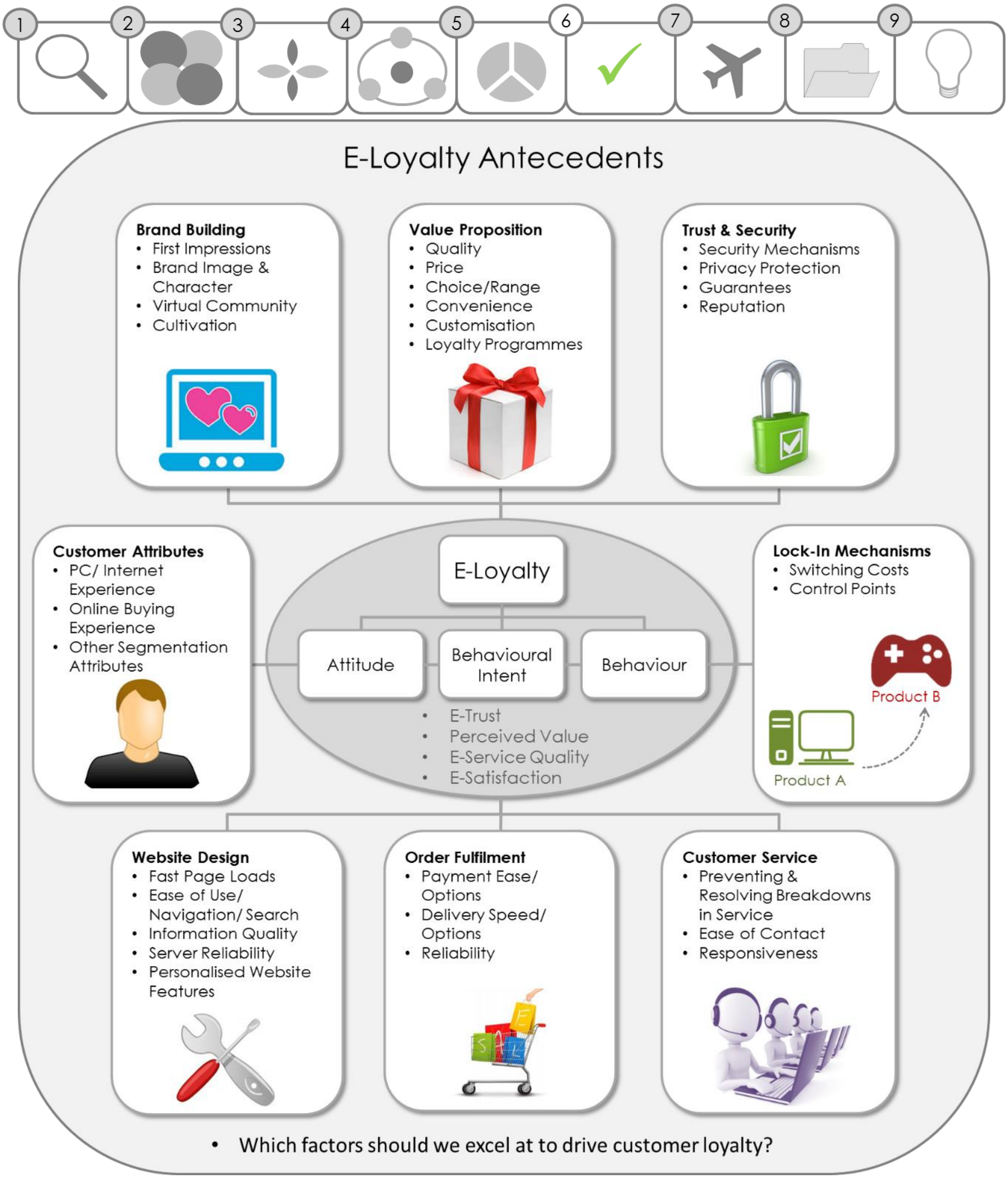
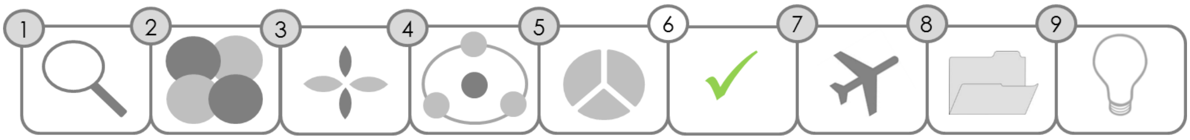


Figure 6.20 – Validation Round 1: Integrated E-Loyalty Antecedents Model Update

6.5.5. Renewal and Growth Improvements

Suggestion: Update the renewal and growth model to show that market development is only one of the possible strategies – Dr. W

Any of the 15 grand strategies of strategic management can be used to grow the business. The 15 grand strategies are (1) concentrated growth, (2) market development, (3) product development, (4) innovation, (5) horizontal integration, (6) vertical integration, (7) concentric diversification, (8) conglomerate diversification, (9) turnaround, (10) joint ventures, (11) strategic alliances, (12) consortia, (13) divestiture, (14) liquidation and (15) bankruptcy (Pearce & Robinson, 2011). The original renewal and growth model assumed a customer perspective to growing the business, which could be confusing and too limiting for



some users. The renewal and growth model was therefore updated to express that any of the 14 grand strategies are viable growth strategies by adding the abbreviation "e.g." to each of the growth paths. Market development is therefore only an example of ways to grow. This is shown in Figure 6.21 below.

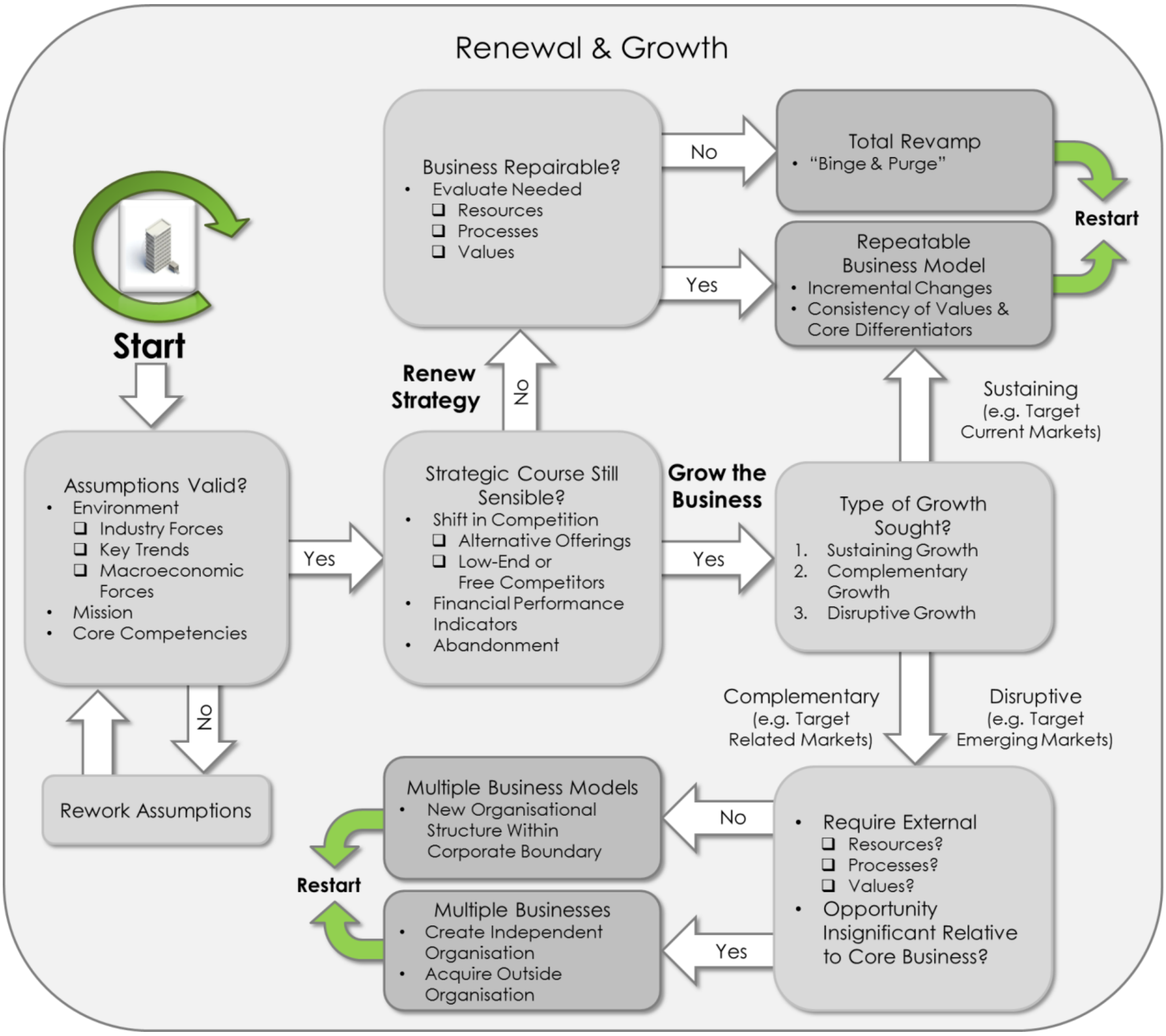


Figure 6.21 – Validation Round 1: Renewal & Growth Update

As will become apparent in the Chapter 7, problems with the renewal and growth model persists. In the following chapter this model will therefore more explicitly be expanded to include the 14 grand strategies. These strategies will be discussed in more detail there.

6.5.6. New Model Additions

The fifth research question of this study questions what existing models, tools and insights (and new integrations of these) can assist the formulation of each of the sub-elements. Following the structural framework improvements that introduced the core element of customer need exploration and its new customer segmentation and need identification sub-element, the opportunity was utilised to more broadly survey the domain for applicable need identification tools. One other very applicable model suited to the offering of the business (and derived directly from the framework content requirements) was also identified during this stage. These models are discussed below.

6.5.6.1. Customer Empathy Map

The customer empathy map is a visual and interactive tool for developing customer insights. The way that it works is that it places the identified customer segment at the centre of the discussion; the customer persona is then extended and explored by conceptually imagining what the customer sees, hears, thinks, feels, says and does. It is also imagined what the customer's greatest pains and obstacles are and what customers really want, need, and seek to gain. Assuming the customer's persona as a group activity can unlock customer insight that have otherwise been overlooked.

This tool is perfectly aligned with the newly introduced customer need exploration element of the framework. Although the customer segmentation approaches model is useful for identifying customer segments, the customer empathy map is superior in exploring customer needs. This tool is therefore intended to be used to gain a better understanding of customers, their environment, behaviour, concerns and aspirations (Osterwalder & Pigneur, 2009, p. 131), with the ultimate goal of using these insights to craft better value propositions. The customer empathy map is shown in Figure 6.22 below.

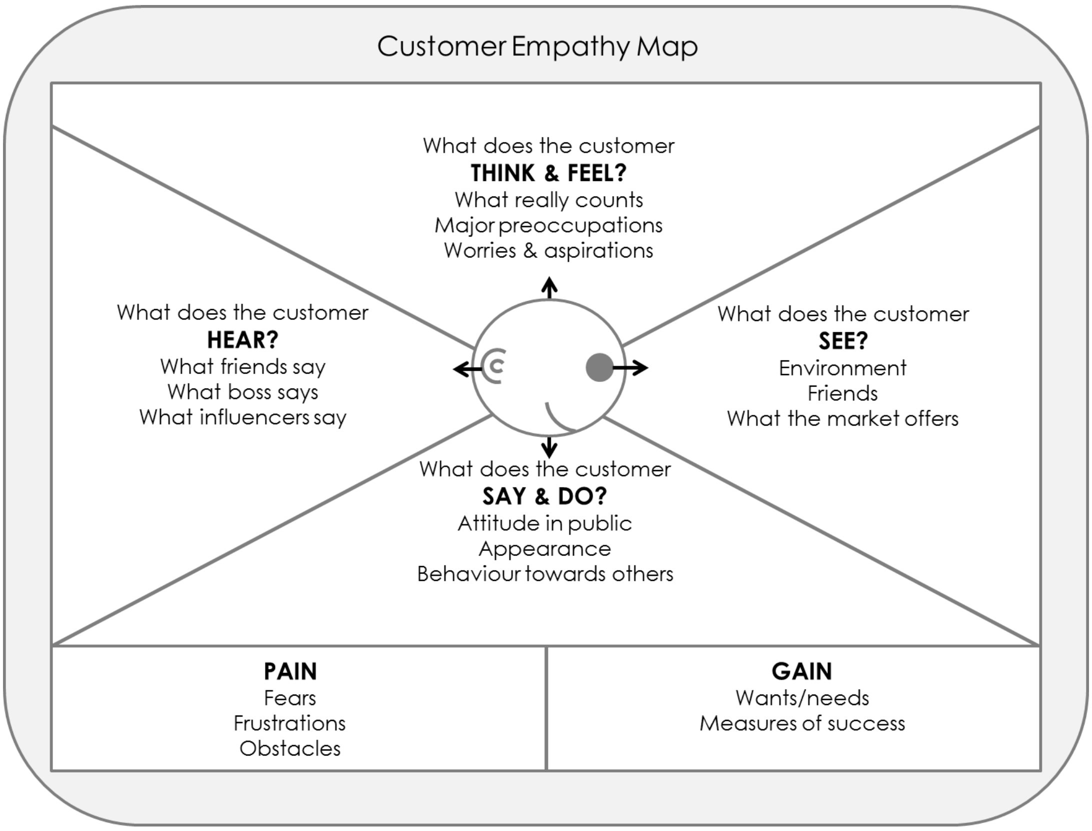
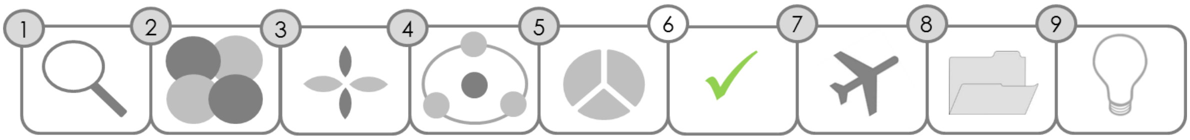


Figure 6.22 – Customer Empathy Map (Osterwalder & Pigneur, 2009, p. 130) Creator: XPLANE



6.5.6.2. Customer Need Saturation Scale

The customer need saturation scale is a newly developed model that draws on blue ocean strategy's principles of capturing new demand and the corresponding three tiers of non-customers model (Kim & Mauborgne, 2005, p. 104), and Christensen, Johnson, and Rigby's (2002, pp. 23-25) business model innovation's thinking surrounding over-served customers. The customer need saturation scale follows on the customer empathy map in the customer need exploration element. It is intended to help businesses think beyond the current realm of possibilities, while assisting them with their competitive approach. As the name suggests, the customer need saturation scale is used to rate the extent to which the identified customer need is currently being fulfilled in the market (its saturation). Based on this, it is then possible to determine the generic competitive action that would be the most suited to the business. The customer need saturation scale is shown in Figure 6.23 below.

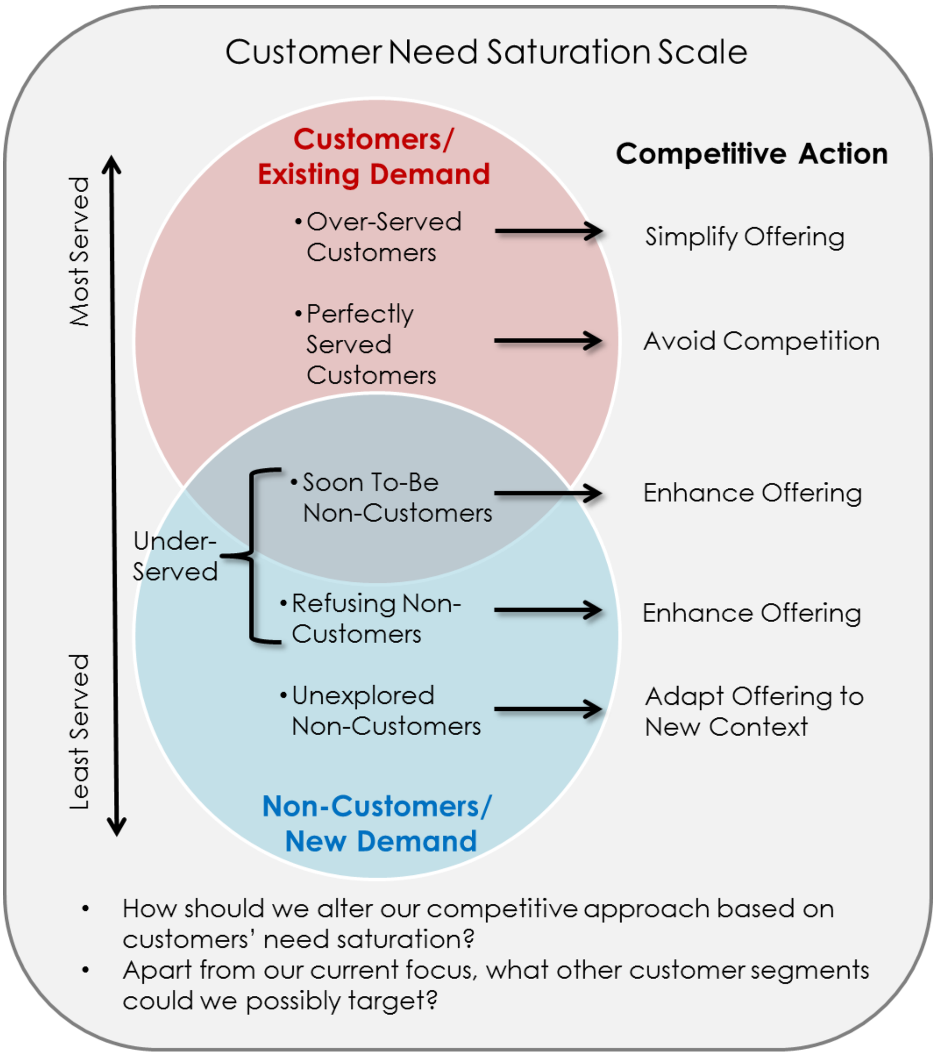


Figure 6.23 – Customer Need Saturation Scale

The model shows that when customer needs are over-served, then they can be targeted by providing a simplified offering. When customer needs are perfectly served, then it would be best to avoid targeting those customers, as other competitors are already catering to that need in the best possible way. No opportunity therefore exists. When customers are under-served, then they can be targeted by enhancing the offering to suit their needs. Lastly, non-customers that are currently not even considered as possible customers can be targeted by adapting the offering to fit the unexplored customers' context, and in this way battle their non-consumption.

The following leading questions were also to the model to clarify its purpose and act as probes:

- How can we alter our competitive approach based on customers' need saturation?
  Purpose: Probes the identification of the competitive approach that would best serve the identified level of customer need saturation.
- Apart from our current focus, what other customer segments could we possibly target?
  Purpose: Probes the identification of possible opportunities through the exploration of customer segments with unmet needs.

6.5.6.3. Strategy Canvas

The last new addition to the framework is the strategy canvas. The strategy canvas is one of the main diagnostic and action tools used for developing a blue ocean strategy. It also one of the framework content requirements. Unlike the previous two models, the strategy canvas fits in the offering sub-element of the competitive strategy framework.

The way that the strategy canvas is used, is that the business lists all the key factors that rivals in its industry compete on horizontally on the canvas. Vertically the relative levels (high, medium, low) that the business and its competitors achieve on these factors are then mapped for each of these key factors. In this way, the business is able to benchmark its value proposition against those of competitors. The goal is to develop a differentiated value curve that is capable of being competitive in the market. The strategy canvas can therefore be used as an evaluation tool for checking whether the developed offering (output from the 18 sources of e-value and 10 techniques for creating new market space) possesses a differentiated value curve. If this is not the case, then the factors on the canvas can be adjusted to produce such a curve. In order to facilitate this process, blue ocean strategy's four actions framework (erase, reduce, raise, create) was added to the original strategy canvas in Figure 6.24 below.

Additionally, the following leading question was added to the model:

- How can we meaningfully diverge from the industry norm?
  Purpose: Clarifies the model's purpose and probes the identification of ways in which the business can meaningfully differentiate themselves from competitors.

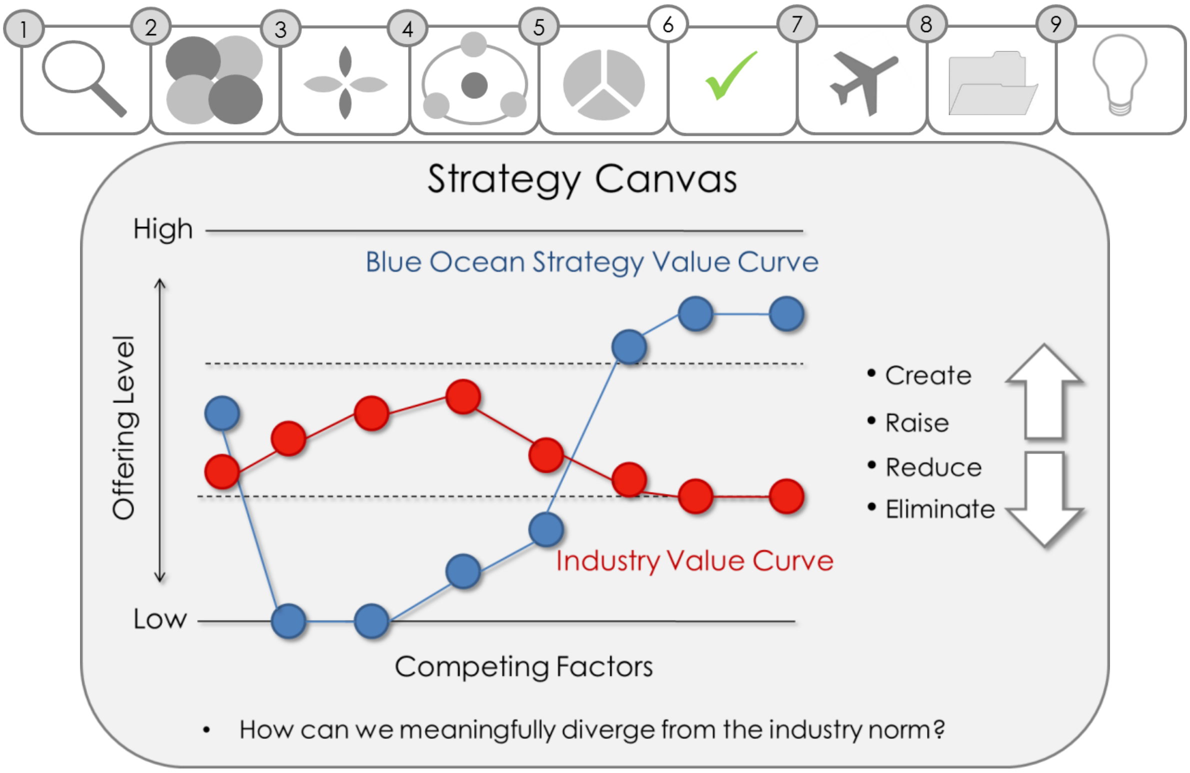


Figure 6.24 – Strategy Canvas Adapted from (Kim & Mauborgne, 2005, p. 26)

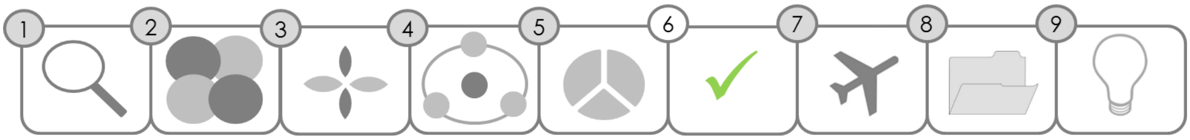
6.6. Proposition Updates

Following the structural element reduction and the other changes that occurred in this chapter, it was necessary to update the propositions of the framework. These are shown below:

Framework Structure

- **Proposition 0.1**: The five core elements of the competitive strategy framework (customer need exploration, value proposition, customer lock-in, strategic assessment, and renewal and growth) are core elements that need to be addressed when formulating the competitive strategy of a firm.
- **Proposition 0.2**: The sub-elements of the competitive strategy framework are suited to the core elements to which they belong. Customer segmentation and need identification and generic strategies can assist the formulation of customer need exploration. Offering, relationships, channels, and revenue and pricing strategies can assist the formulation of the value proposition. Control points, switching costs and e-loyalty antecedents can assist the formulation of customer lock-in.
- **Proposition 0.3**: All the elements of the competitive strategy framework are interrelated and the framework suitably reflects these relationships. More relationships can be depicted, but at the cost of making the framework appear more complex.
- **Proposition 0.4**: A possible sequence in which the competitive strategy framework could be formulated in is to formulate customer need exploration first, followed by the value proposition, customer lock-in, strategic assessment, and renewal and growth.

Customer Need Exploration



- **Proposition 1.1**: The customer segmentation model is a suitable representation of the basic, generic customer segmentation approaches that exist. It can assist e-business start-up customer segmentation.
- **Proposition 1.2**: The customer empathy map is a suitable model for developing customer insights. It can assist e-business start-up need identification and exploration.
- **Proposition 1.3**: The customer need saturation scale is a suitable reflection of different levels of need saturation that exists and the generic competitive approaches required to target these different customers. It can assist e-business start-up need exploration.
- **Proposition 1.4**: The digital-physical orientation model suitably reflects the digital-physical choices available to e-business start-ups and can assist them with selecting their generic strategies.
- **Proposition 1.5**: The generic strategy model suitably reflects Porter's generic strategy choices available to e-business start-ups and can assist them with selecting their generic strategies.

Value Proposition

- **Proposition 2.1**: The 18 sources of e-value is a suitable representation of sources of value in the e-environment. It can assist e-business start-ups with formulating their offering.
- **Proposition 2.2**: The 10 techniques for creating new market space is a suitable representation of ways to reconstruct market boundaries. It can assist e-business start-ups with formulating their offering.
- **Proposition 2.3**: The strategy canvas is a suitable tool for benchmarking the developed strategy against competitors in terms of the key competitive factors in the industry. It can assist e-business start-ups with formulating their offering.
- **Proposition 2.4**: The customer relationship model is a suitable representation of different generic types of customer relationships that exist. It can assist e-business start-ups with selecting their relationship strategies.
- **Proposition 2.5**: The integrated channel phase model is a suitable reflection of different basic, generic channel phases that customers go through when making an online purchase. It can assist e-business start-ups with formulating their channel strategies.
- **Proposition 2.6**: The sequenced 18 sources of e-value is a suitable reflection of important sources of e-value during each of the channel phases. It can assist e-business start-ups with formulating their channel strategies.[20]
- **Proposition 2.7**: The revenue generation strategies model is a suitable reflection of different revenue generation strategies available to e-business start-ups and can assist them with selecting their revenue strategies.
- **Proposition 2.8**: The pricing mechanisms model is a suitable reflection of different pricing strategies available to e-business start-ups and can assist them with selecting their pricing strategies.

[20] This model will be updated in the following chapter and renamed the "e-value map".

- **Proposition 2.9**: The price corridor of the mass model is suitable for determining what price range will unlock the largest mass of current customers.[21]

Customer Lock-In

- **Proposition 3.1**: The integrated control point model is a suitable reflection of types of control points that exist and can assist e-business start-ups with formulating their control point strategy.
- **Proposition 3.2**: The integrated switching cost model is a suitable reflection of types of switching costs that exist and can assist e-business start-ups with formulating their switching cost strategy.
- **Proposition 3.3**: The integrated e-loyalty antecedent model is a suitable reflection of factors that drive e-loyalty and can assist e-business start-ups with formulating their e-loyalty strategy.

Strategic Assessment

- **Proposition 4.1**: The strategic assessment model is suitable for assessing whether a business strategy exhibits characteristics typically portrayed by ideal strategies.

Renewal & Growth

- **Proposition 5.1**: The renewal and growth model reflects core considerations required when renewing and growing a business.

Framework Principles

- **Proposition 6.1**: Four underlying principles of competitive strategy are focus, differentiation, robustness and adaptability.

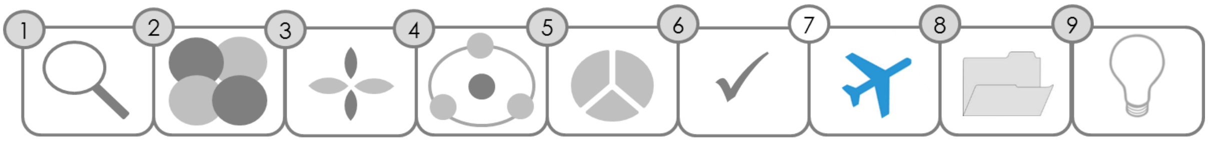
6.7. Conclusion

This chapter has verified that the framework was built according to specification by utilising a cross-verification technique that evaluated whether the framework content requirements were met, the research questions were addressed, and whether the framework adhered to the principles of high quality theoretical models. This chapter also validated, via the evaluations of eight South African academics and industry practitioners, that the framework is fit for its intended purpose. A consensus of 69 percent or more was achieved on each individual validation question, and a consensus of 81 percent on average was achieved. Validator recommendations and improvements in response to these were also discussed.

[21] This model and proposition will be retracted in the following chapter.

7. International Validation

This chapter deals with the second part of a three stage validation process that seeks to internally and externally establish that the framework has achieved the stated goals of this study. This chapter discusses the verification and international validation of the competitive strategy framework for e-business start-ups. The improvements made to the framework based on the feedback obtained from the validation process are also shown.



7.1. Introduction

In addition to the local validation of the previous chapter, international validation was also required in order to establish the framework's quality and integrity in a global context. Two countries were visited for this purpose, namely England and the United States of America. These two countries were selected as (1) both's primary language is English, which ensured that a language barrier did not influence the validation; (2) they are part of two different continents, meaning the eventual framework would be validated by experts from three continents; and (3) both countries are technologically advanced, making them suitable for e-business validation purposes.

7.1. Framework Verification

In the previous chapter, the competitive strategy framework was verified from a content requirements perspective, a research question perspective and a theoretical model building perspective. Following the structural changes, model updates, research question changes and proposition updates that occurred since the first validation phase's interviews, the framework again needed to be verified from a research question perspective. The verifications done regarding the content requirements and theoretical model building requirements remain valid, as these relate to the sub-models of the framework, which were fully preserved.

The research questions of the study reflects the study's over-all purpose and what it intends to achieve. Verification of the research questions therefore serves to confirm that the study researched what it intended to research. The study's research questions and the elements of the level 3 framework (sub-model level) that they relate to are depicted in Figure 7.1 below. The figure additionally show the validation questions (discussed later in this chapter) and propositions (as discussed in Chapter 6.6) that the research questions relate to. Apart from the main research question and the first four sub-research questions that relate to the study and framework as a whole, each sub-research question has a corresponding element in the framework, thereby verifying that the framework addresses these questions.

Research Questions (RQ)	**Related Validation Question (V2Q)**	**Related Proposition (P)**
Main RQ: What conceptualisation can assist e-business start-up competitive strategy formulation?	V2Q7, V2Q8, V2Q9	
RQ 1: What are the core conceptual elements of competitive strategy?	V2Q1	P 0.1
RQ 2: What sub-elements can assist the formulation of these core elements?	V2Q2	P 0.2
RQ 3: What relationships exist between these elements?	V2Q3	P 0.3
RQ 4: What possible sequence could these elements be formulated in?	V2Q4	P 0.4
RQ 5: What existing models, tools and insights (and new integrations of these) can assist the formulation of each of the sub-elements?		
1. Customer Need Exploration		
RQ 5.1: What model(s) can assist e-business start-ups in segmenting customers and identifying/ exploring customer needs?	V2Q5.1, V2Q5.1.2, V2Q51.3	P 1.1, P 1.2, P 1.3
RQ 5.2: What model(s) can assist e-business start-ups in selecting their generic strategies?	V2Q5.2.1, V2Q5.2.2	P 1.4, P 1.5
2. Value Proposition		
RQ 5.3: What model(s) can assist e-business start-ups in formulating their offering?	V2Q5.3.1, V2Q5.3.2, V2Q5.3.3	P 2.1, P 2.2, P 2.3
RQ 5.4: What model(s) can assist e-business start-ups in selecting their customer relationship strategies?	V2Q5.4.1	P 2.4
RQ 5.5: What model(s) can assist e-business start-ups in formulating their channel strategies?	V2Q5.5.1, V2Q5.5.2	P 2.5, P 2.6
RQ 5.6: What model(s) can assist e-business start-ups in selecting their revenue strategy, pricing strategy and price of offerings?	V2Q5.6.1, V2Q5.6.2., V2Q5.6.3	P 2.7, P 2.8, P 2.9
3. Customer Lock-In		
RQ 5.7: What model(s) can assist e-business start-ups in formulating their control point strategy?	V2Q5.7.1	P 3.1
RQ 5.8: What model(s) can assist e-business start-ups in formulating their switching cost strategy?	V2Q5.8.1	P 3.2
RQ 5.9: What model(s) can assist e-business start-ups in formulating their e-loyalty strategy?	V2Q5.9.1	P 3.3
4. Strategic Assessment		
RQ 5.10: What model(s) can assist e-business start-ups in assessing their created strategy?	V2Q5.10.1	P 4.1
5. Renewal & Growth		
RQ 5.11: What model(s) can assist e-business start-ups in renewing their strategy and growing the business?	V2Q5.11.1	P 5.1
RQ 6: What core principles underlie competitive strategy?	V2Q6	P 6.1

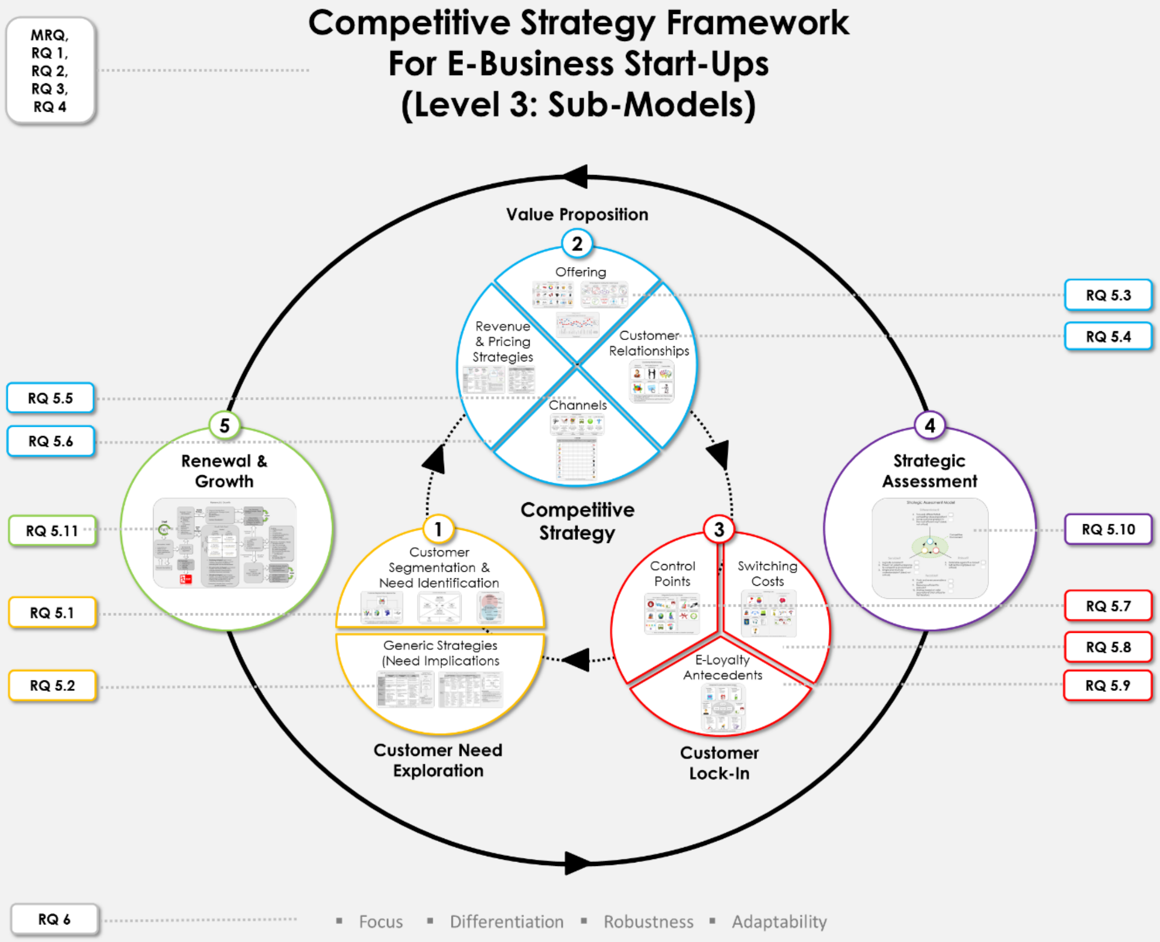


Figure 7.1 – Research Questions Verification

7.2. Framework Validation

Similar to the local (South African) validation design used in Chapter 6, the international validation again made use of one-on-one interviews with academics and industry experts in fields related to the study. This technique was chosen because the competitive strategy framework is complex in its nature and requires a deep understanding of its research domains to sensibly validate it. In this regard, it was again the goal to interview a diverse set of experts that were able to provide both academic and practical perspectives.

A mixture of criterion and convenience based sampling was used to select the validators. The primary, broad criterions were that the validators needed to be (1) founders, CEOs, managers, professors, lecturers or specialists (2) that have a sound history of participating in fields relating to the study, namely e-business, business models, strategy, innovation, technology and entrepreneurship. Although the author attempted to contact the leading digital minds for interviews, these requests were unfortunately declined for various reasons. Unintentional convenience sampling was therefore necessary as the interviewees needed to be willing participants. Regardless, the author still managed to interview very capable validators at top institutions.

The validators' details and the author's reason for including them as validators are shown in Table 7.1 below, listed according to the core contribution of the different validators and the date of each interview. The identities of the validators are kept anonymous for privacy purposes.

Table 7.1 – Validator Description and Reasons for Inclusion

Validator	Experience	Reason for Inclusion as Validator	Core Contribution	Date and Location
Prof. P	Current: Professor of strategy at the **University of Exeter**. Previous: Director at the University of Stellenbosch Business School; Professor of strategy at Cardiff University; Professor of strategy at the University of Southampton; Professor of strategic analysis at the University of Bath.	Prof. P is a strategy, systems engineering and knowledge management expert. He was included due to his extensive strategic knowledge and holistic systems perspective.	Academic [1]: Strategy and systems engineering	28 August, 18h00, Bristol
Dr. C	Current: Senior teaching fellow in innovation and technology management at the **University of Bath**. Previous: Consultant at the Centre for Sustainable Energy; Systems architect at The Coefficient Company (Consulting); Senior Research Scientist in information management at Hewlett Packard Laboratories; Technical manager at Logica.	Dr. C has wide-ranging experience in different roles relating to systems design, software design and web technologies. He was included due to his expertise in technology and innovation management.	Academic [2]: Technology and innovation management	29 August 10h00, Bath
Prof. D	Current: Professor of innovation and entrepreneurship and Associate dean for finance and planning at the **University of Bath**. Previous: Professor of entrepreneurship at Newcastle Univeristy; Assistant professor of management at University of Connecticut.	Prof. D was included due to his specialisation in entrepreneurship, innovation, entrepreneurial finance and financial management.	Academic [3]: Entrepreneurs hip and innovation	24 September 11h00, Bath
Dr. O	Current: Lecturer in entrepreneurship at the **University of Bath**. Previous: Sessional lecturer in strategic management and value based strategy at Aston University; Executive director at ADDRAM (sports directors association); CEO at New Era Sports, Lda.	Dr. O was included due to his specialisation in strategic management practices, the use and adoption of strategy tools, entrepreneurship and the drivers that inspire entrepreneurial action.	Academic [4]: Strategy tools	15 October, 14h30, Bath
Mrs. B	Current: Entrepreneur in residence at the **University of Bath Innovation Centre** – a membership organisation part of the SETsquared incubator that provides business support and mentoring for high-growth businesses and entrepreneurs. Previous: Co-founder of storenextdoor; Founder of ITgirls Collaborative; Associate at Catalyst Venture Partners; Production director at UPC Chello; Senior producer at UPC Broadband; Producer at BBC Worldwide (beeb.com).	Mrs. B was included due to her extensive experience in consumer technology, digital media, creative and strategic business planning, product development, marketing, launching and running technology start-ups.	Industry Expert [1]: Digital entrepreneur	14 October 10h00, Bath
Mr. R	Current: Founder and CEO of **Rocketmakers** – a micro-incubator with expertise in mobile, web and cloud development that assists high growth potential software	Mr. R has extensive experience as CEO and CTO of various e-business start-ups. He was included due	Industry Expert [2]: Digital	21 October, 10h00, Bath

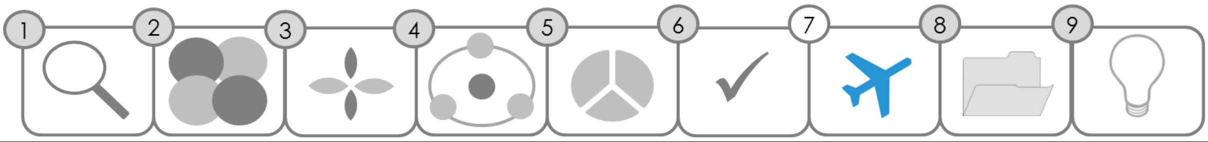
Validator	Experience	Reason for Inclusion as Validator	Core Contribution	Date and Location
	start-ups deliver their first products. Previous: CTO at Cognisess; Co-founder and CTO at Timetag.tv; Founder and CEO of iPrinciples; Founder and CEO of Koodibook limited; CTO at emortal; CTO at CloudFind; CEO at TEKenable Limited (UK); Senior architect at Microsoft; Manager at Deloitte Consulting; Software engineer at Praxis; QA Engineer at Pafec.	to his vast knowledge of e-business, software engineering, and the management of e-business start-ups.	entrepreneur	
Mr. P	Current: Co-founder and CIO at **Rocketmakers.** Previous: Co-founder and CIO at Cognisess; Co-founder and CIO at iPrinciples; Founder and CEO at Timetag.tv; Co-founder and CIO at Koodibook; Director at TEKenable; Architect at Microsoft; Architect at Clerical Medical Investment Group; Developer at Alliance & Leicester.	Mr. P has extensive experience as co-founder and CIO of various e-business start-ups. He was included due to his strategic and technical knowledge relating to launching e-business start-ups.	Industry Expert [3]: Digital entrepreneur	21 October, 10h00, Bath
Mr. K	Current: Senior investment analyst at **Venture lab** (Accion) – an investment initiative that provides seed capital and support to start-ups aimed at financial inclusion. Previous: Associate consultant and senior associate consultant at Bain & Company; Democratization and rural development researcher at Yale University.	Mr. K was included because of his knowledge of business models, strategy and finance, and his experience in screening and analysing prospective investments.	Industry Expert [4]: Venture capital	7 November, 11h00, Washington DC
Mr. X	Current: Lead on Digital finance frontiers at **CGAP** (Consultative Group to Assist the Poor) – a global partnership that seeks to advance financial inclusion by developing innovative solutions that grant the poor increased access to financial services. Previous: Senior technical advisor at CGAP/The World Bank; Director of IT & operations at BANSEFI; Director of strategic planning at BANSEFI; Director of product development at BANSEFI; Engagement manager at McKinsey & Company; Software developer at AMI Automation; Field engineer at Schlumberger.	Mr. X was included due to his technical experience in software development and digital finance.	Industry Expert [5]: Technology & digital finance	12 November, 12h00, Washington DC
Mrs. T	Current: Financial sector specialist at **CGAP.** Previous: Financial sector analyst at CGAP; Associate micro-finance analyst at CGAP; Manager of loans at Janalakshi Financial Services.	Mrs. T was included due to her experience in market research, analytics and customer-centric value proposition design.	Industry Expert [6]: Financial services value proposition design	12 November, 15h00, Washington DC

From Table 7.1 it is clear that a diverse, but balanced set of academics and practitioners were chosen as validators. Some bias may exist between the validators. Firstly, four of the validators (Dr. C, Prof. D, Dr. O, Mrs. B) are associated with the University of Bath. Secondly, two validators (Mr. R, Mr. P) work at Rocketmakers. Thirdly, three of the validators (Mr. K, Mr. X, Mrs. T) work in financial services, with two of these (Mr. X, Mrs. T) working for CGAP. However, as the interviews were conducted individually (except for the interview involving Mr. R and Mr. P), there were no interaction between the participants and can be deemed negligible. As for the interview involving Mr. R and Mr. P, each participant were provided with their own validation sheet to allow each participant to express his own opinion. The ratings of the questions were not shared and the effect of the participants influencing each other minimised.

Following the same process as the previous round of validation, validators were provided a 15 page summary of the study prior to the interview. This hand-out (updated to the most current framework perspective) is provided in Appendix A. On the day of the interview, the author presented his work, covering the research need, research design, the developed framework, sub-models and intended use of the framework. After the presentation, a discussion usually ensued. This was followed by posing several validation questions to the interviewees that they had to rate on a 5 point scale, which ranged from strongly agree to strongly disagree. These research questions are shown in Table 7.2 below. The origin of these questions can be traced back to the research questions as were shown in Figure 7.1

Table 7.2 – Validation Design

Validation Questions (V2Q)	**Validator's Response**				
	Strongly Agree (4)	Agree (3)	Unsure (2)	Disagree (1)	Strongly Disagree (0)
Core Elements					
1. *To what extent do you agree that the five core elements of the framework are core aspects that need to be addressed by a competitive strategy?*					
Sub-Elements					
2. *To what extent do you agree with the sub-elements of the five core elements of the framework?*					
Relationships					
3. *To what extent do you agree with the relationships depicted between the elements of the competitive strategy framework?*					
Sequence					
4. *To what extent do you agree with the strategy formulation sequence proposed?*					
Sub-Models (Models marked * not created by author)					



Validation Questions (V2Q)	Validator's Response				
	Strongly Agree (4)	Agree (3)	Unsure (2)	Disagree (1)	Strongly Disagree (0)
5. *To what extent do you agree with the following models and their ability to assist e-business start-ups in*					
5.1. *segmenting customers and identifying/ exploring customer needs?*					
5.1.1. Customer segmentation approaches model					
*5.1.2. Customer empathy map**					
5.1.3. Customer need saturation scale					
5.2. *selecting their generic strategies?*					
5.2.1. The digital-physical orientation model					
5.2.2. Porter's generic strategies model					
5.3. *formulating their offering?*					
5.3.1. The 18 sources of e-value model					
5.3.2. The 10 techniques for creating new market space model					
*5.3.3. The strategy canvas**					
5.4. *selecting their customer relationship strategies?*					
*5.4.1. Osterwalder's relationship taxonomy**					
5.5. *formulating their channel strategies?*					
5.5.1. The generic channel phase model					
5.5.2. The sequenced 18 sources of e-value					
5.6. *selecting their revenue strategy, pricing strategy and price of offerings?*					
5.6.1. Revenue generation strategies model					
*5.6.2. Pricing mechanisms model**					
*5.6.3. Price corridor of the mass model**					
5.7. *formulating their control point strategy?*					
5.7.1. The control point model					
5.8. *formulating their switching cost strategy?*					
5.8.1. The switching cost model					
5.9. *formulating their e-loyalty strategy?*					
5.9.1. The e-loyalty antecedents model					
5.10. *assessing their created strategy?*					
5.10.1. The strategic assessment model					
5.11. *renewing their strategy and growing the business?*					
5.11.1. The renewal and growth model					

Validation Questions (V2Q)	Validator's Response				
	Strongly Agree (4)	Agree (3)	Unsure (2)	Disagree (1)	Strongly Disagree (0)
Competitive Strategy Principles					
6. *To what extent do you agree that the four core principles underlying competitive strategy are focus, differentiation, robustness and adaptability?*					
Research Goal					
7. *To what extent do you agree that the competitive strategy framework (and its sub-models) can assist e-business start-up competitive strategy formulation?*					
Theoretical Contribution					
8. *To what extent do you agree that the framework makes a contribution to the fields of e-business/ strategy/ business models/ strategic management? What contribution does it make?*					
Implementation Capability					
9. *To what extent do you agree that it is easy to use and derive value from the framework?*					
Other					
10. *Do you think there are any aspects that should be removed or added to the framework?*					

The results obtained from this validation design is shown in Table 7.3 below. An over-all average consensus of 80 percent was achieved for this international validation phase, which is very close to the 81 percent of the previous round. This is an exceptional result, especially considering the broad scope of topics covered in this study. This result therefore serves as a true indication of the consistency in the quality of the work done. Broadly summarising the results, the international validators agreed that the competitive strategy framework succeeds in its purpose and is able to assist e-business start-up strategy formulation. The validators also agreed that the framework makes a contribution to the fields of e-business, strategy, business models and strategic management.

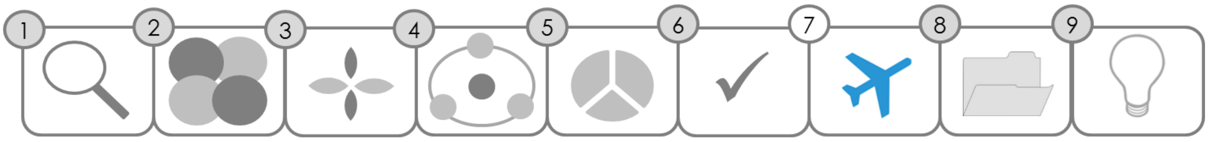


Table 7.3 – Validator Ratings

Validation Question (V2Q)		Prof. P	Dr. C	Prof. D	Dr. O	Mrs. B	Mr. R	Mr. P	Mr. K	Mr. X[22]	Mrs. T	Average (%)	Result
1.	Core elements	4	4	3	4	4	4	4	4	-	3	**94**	**Best**
2.	Sub-elements	3	3	4	4	4	3	4	3	-	3	**86**	
3.	Relationships	3	2	3	4	4	4	3	2	-	3	**78**	
4.	Sequence	1	3	3	3	3	3	3	3	-	4	**72**	
5.1	Customer segmentation	4	3	3	4	4	4	4	3	-	4	**92**	**2nd Best**
5.2	Customer empathy map*	4	3	3	4	4	4	4	3	-	4	**92**	**2nd Best**
5.3	Customer need saturation scale	4	4	3	4	4	3	3	3	-	3	**86**	
5.4	Digital-physical orientations	4	3	3	4	4	2	2	2	-	4	**78**	
5.5	Porter's generic strategies	4	3	2	3	4	4	2	2	-	3	**75**	
5.6	18 Sources of e-value	4	4	4	4	3	4	3	3	-	4	**92**	**2nd Best**
5.7	10 Techniques	4	4	3	4	3	3	3	3	-	2	**81**	
5.8	Strategy canvas*	4	2	3	2	3	2	2	4	-	2	**67**	**2nd Worst**
5.9	Customer relationships*	4	3	3	4	4	3	3	3	-	3	**83**	
5.10	Channel phases	4	3	4	4	4	3	3	3	-	3	**86**	
5.11	Sequenced 18 sources of e-value	4	3.5	3	3	3	3	3	2	-	4	**79**	
5.12	Revenue generation strategies	4	3	3	3	4	4	4	3	-	3	**86**	
5.13	Pricing mechanisms*	4	3	3	4	4	3	3	4	-	3	**86**	
5.14	Price corridor of the mass*	4	2	3	1	3	2	2	2	-	2	**58**	**Worst**
5.15	Control points	4	3.5	3	4	4	4	3	2	-	3	**85**	
5.16	Switching costs	4	1	3	4	4	4	3	3	-	1	**75**	
5.17	E-loyalty antecedents	4	2	3	3	4	3	3	2	-	4	**78**	
5.18	Strategic assessment	4	3.5	3	2	4	2	2	2	-	3	**71**	**3rd Worst**
5.19	Renewal & growth	4	3	3	3	4	3	3	3	-	1	**75**	
6.	Competitive strategy principles	3	3	4	3	4	3	2	3	-	3	**78**	
7.	Research goal: Assist strategy formulation	2	4	3	3	4	4	4	3	-	4	**86**	
8.	Theoretical contribution	1	3	4	3	4	3	3	3	-	4	**78**	
9.	Implementation	3	4	2	4	2	3	1	1	-	4	**67**	**2nd Worst**
Average (%)		**89**	**76**	**78**	**86**	**93**	**81**	**73**	**69**	**-**	**78**	**80**	

7.3. Validation Results Discussion

Drawing on Table 7.3 above, this section discusses the key issues highlighted during the interviews. The questions that were unanimously agreed with (no unsure, disagree, or strongly disagree responses) are discussed first, followed by the questions that were only partially agreed with (contains one or more unsure, disagree, or strongly disagree responses). For unanimous agreement the elements are ranked from

[22] Validator did not deem himself acquainted enough with the specific strategy content to provide numerical feedback

best scoring to worst scoring, and for partial agreement the elements are ranked from the worst scoring to the best scoring. General comments are also provided. Subsequent to this, recommendations made by the validators are highlighted, as well as the improvements made in response to them. Interested readers can find a summary of additional discussions had with the validators in Appendix C, which are followed by the full interview transcripts in Appendix D.

7.3.1. Unanimous Agreement

Core elements (Best result, 94%)

The core elements of the framework (customer need exploration, value proposition, customer lock-in, strategic assessment, renewal and growth) is the highest rated element of the framework, moving up one position from the previous round of validation. This signifies that the competitive strategy framework's elements fit the international validators' mental models about what competitive strategy entails, validating the framework as a competitive strategy framework. Comments included:

- "In terms of selection, I think there is a great deal of support for it. Strongly agree." – Prof. P
- "These are great." – Dr. C
- "Yes, that's good." – Mrs. T
- "No, there are no elements missing. All these things need to be done. They probably happen all the time." – Prof. D
- "For me it seems kind of complete. I think it's pretty good... I'm referring to what I feel, which may not be the exact situation." – Dr. O

Customer segmentation (2nd Best result, 92%)

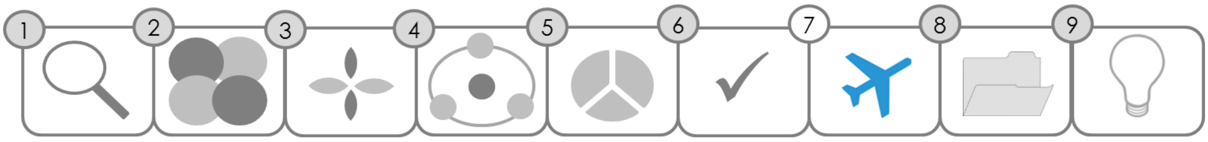
The customer segmentation model performed much better during this round of validation, signifying that the changes made to it during the previous round had a positive effect. Comments included:

- "Perfectly reasonable yes." – Prof. P
- "I liked that one. I think that's very useful." – Dr. C
- "These are all helpful, so I agree with all of those." – Prof. D
- "This one is pretty good." – Dr. O
- "For me they are all fine. They feel very familiar." – Mrs. B

Customer empathy map (2nd Best result, 92%)

The newly added customer empathy map also performed very well. Validators seemed to quickly gain an understanding of its use and were able to see its value as a brainstorming tool. Comments included:

- "I'm fine with this one in the sense that it is a valid lens, yes. I do not have a problem with it." – Prof. P
- "I think this is useful as well." – Dr. C
- "I like that." – Mrs. B



18 Sources of e-value (2nd Best result, 92%)

The 18 sources of e-value performed better than in the previous round, signifying that the changed made to the model in the previous chapter had a positive effect. Comments included:

- "I think that's really nice. I think that's one of the most useful elements." – Dr. C
- "Strongly agree with this." – Prof. D
- "I think this was very good. Very complete. I think this one is very helpful." – Dr. O
- "Yeah, this is very interesting… It is a big topic in and of itself." – Mr. X
- "This is very nice… I think this is one of the best ones you did. I think it's very valuable. The good thing about it is that it is also very intuitive. You test it against all your experience and it still makes sense." – Mrs. T

Sub-elements (86%)

The sub-elements of the framework performed very well, signifying that they fit their respective core elements. Comments included:

- "The sub-elements are absolutely fine, but it might be that there are others… I would say I agree, but I am less confident, as there may be other things that I am not thinking about. It's not bad. I just do not profess to know everything about this." – Mr. C
- "I would strongly agree. Because they are all a part. They all relate to these (core) elements." – Prof. D

Customer need saturation scale (86%)

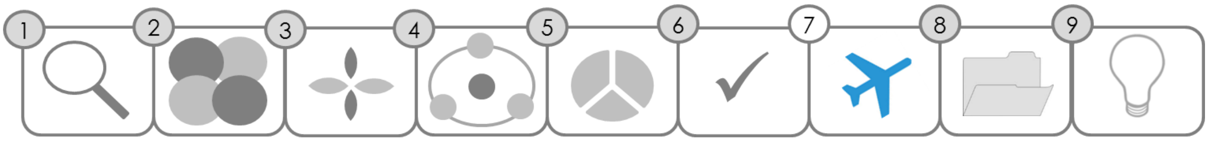
The newly added customer need saturation scale also performed really well. None of the validators had any problems with it, and it therefore appears to be an easily understood and sensible tool. Comments included:

- "It's a valid lens, yes." – Prof. P
- "I actually quite like that." – Dr. C
- "Yeah, I think its fine." – Dr. O

Channel phases (86%)

During the local validation the channel phases and sequenced 18 sources of e-value were validated in combination. During this round the channel phases were validated separately and performed well. Comments included:

- "Yeah, that makes sense. It's useful." – Dr. C
- "Yeah that's straightforward. Strongly agree." – Prof. D
- "Well this is really standard. Which is good." – Mrs. B
- "Cannot disagree with that. It does not tell me a great deal though." – Mr. R



Revenue generation strategies (86%)

The revenue generation strategies were rated significantly better during this round. Previously the model was the second worst model, which means that the model updates yielded a great improvement. Comments included:

- "Yeah, that's useful as well." – Dr. C
- "Yeah, the problem with some of the leading questions are that they are difficult to answer at the beginning. Would customers actually pay for the offering? … But I understand that you are trying to help people to think about their business. The questions are somewhat rhetorical, so I think it is fine." – Dr. O
- "Yeah, I like that one. I think that's one of the most fundamental ones." – Mr. R

Pricing mechanisms (86%)

The pricing mechanisms model was not explicitly validated during the previous round of validation as it was assumed that it would be of good quality as it was taken directly from Osterwalder (2004). From the good rating, it appears as if this assumption was valid. Comments included:

- "Okay, that's fine." – Dr. C
- "This is fairly comprehensive as well. Yes." – Prof. D
- "This is good." – Dr. O
- "Yes, so this model covers the basics. It's not revolutionary, but gives you something to think about." – Mr. R

Osterwalder's customer relationship taxonomy (83%)

Similar to the previous round, the customer relationship taxonomy was rated quite well again. Comments included:

- "Yeah those are fine. That's useful" – Dr. C
- "Yeah, that's fine." – Prof. D
- "I think it is fine." – Dr. O

7.3.2. Partial Agreement

Price corridor of the mass (Worst result, 5 unsures, 1 disagree, 58%)

The price corridor of the mass was not explicitly validated during the previous round of validation as it was assumed that it would be of good quality as it was taken from Kim and Mauborgne (2005) and thereafter somewhat simplified to enhance understanding. The very poor result obtained however, signalled that this was an erroneous assumption and raised a serious red flag. Comments included:

- "I'm not so sure if this is so useful." – Mrs. T
- "Is it the best approach to determine that? I'm not even sure if that's the right question to be asking on this (pricing). Because the greatest mass of buyers does not necessarily mean the best

profitability, or are even the buyers that you want. A fewer number of people at the right level may actually be what you want to do." – Mr. R

- "I think if you want to go just from a legal perspective, I understand it. But there is more to add than just that… So the problem with this model here is that it is a little bit limiting… I just think from an intuitive perspective, price cannot only be based on a legal and resource perspective. There are elements of the value proposition itself that influence it, and there are many other variables to think about. The brand. Are you creating an ecosystem? Are you first to market? Is no one in this space? Are there other competitors? Those things are going to affect your price decision… There are so many things going on. I know it is hard. Every time you want to develop a framework, you always leave things out. But it's about how much you can leave out. The others (models) are pretty comprehensive. This one is a bit too simplistic for being helpful enough." – Dr. O
- "I did not quite understand this one. I think it's very… I think if you've done this (revenue generation) and this (pricing mechanisms) then this is too much. So, over-kill." – Mrs. B

Implementation (2nd Worst result, 2 unsures, 2 disagrees 67%)

Similar to previously, some validators perceived that it would be difficult for start-ups to implement the framework. All the academics of this round thought that it would be easy to implement the framework, whereas the practitioners were more unsure. The utility and implementation capability of the framework will ultimately be determined in the next chapter, when the framework is practically applied in a workshop scenario with real start-ups. Comments included:

- "I think it would be quite easy. But in a sense, the people to ask are the people who would use it." – Dr. C
- "This is where the question of process becomes essential. So, this is more towards the unsure angle. So, in some ways yes, and in some ways no. If you go into the process, the process is not clear. But if you sit down and systematically go through this, it is easy to use, because it has all the content and all the questions." – Prof. D
- "Implementation, yeah I think it is pretty good." – Dr. O
- "I think it has a use, definitely. The ease of use is related to what I put in. It's great, but I'm unsure about what I have to put in, and what I get out. So, I put a lot of stuff in, but how do I interpret it? What do I get out? So, I want some ability to enable the information to be captured, and then actually produce something." – Mr. P
- "There's a little danger in mind though, it's almost like it's in the middle. It's not something that you could give to somebody without some consulting support." – Mr. R

Strategy canvas (2nd Worst result, 4 unsures, 67%)

A new addition that was unexpectedly rated relatively bad was the strategy canvas. The main reason for this poor rating was because of the vagueness of the "competitive factors" that a business competes on.

This weakness will be addressed in the improvements section. Comments included:

- "The strategy canvas is a generic thing that you want to do, and it's all going to be quite subjective… I'm going to downgrade it slightly to there (unsure), the reason being is that it's not immediately clear how you would get started with it. Because which competitive factors am I looking for? How do I measure the industry against it?" – Dr. C
- "So, what do I actually do here?" – Prof. D
- "This one I'm a bit more unsure about. I do not see as much value in it as the other models." – Dr. O
- "What are these blobs? I think that needs some more explaining. It's hard to say this this is going to help me if I do not know exactly what I'm plotting." – Mrs. B
- "What this one is doing for me, it is breaking it down into quite individual characteristics. This is trying to see the gaps." – Mr. R

Strategic assessment (3rd Worst, 4 unsures, 71%)

The strategic assessment was again not rated as well as expected. It might be that some validators have a different assessment criteria in mind, but unfortunately it is one that they struggle to articulate. Another explanation could be that the validators are just unsure about the assessment's utility given that it is an over-all assessment and not a sub-element assessment. This is further discussed in Appendix C. Comments included:

- "If I were an e-business start-up, this would be particularly useful. But what I think I would want, is I would want a link between these questions and the tools that I've been using. But yeah, like I said, I think this is a useful tool. I think this is good." – Dr. C
- "This is useful." – Prof. D
- "When you showed me this I understood the context of what you're doing… Yeah, I like this. It's almost that you need within here (the framework) the same 10 questions. If you were going to apply this, you would need 10 questions for that (need identification and customer segmentation element), 10 questions for that (value proposition) and so forth. So I can go through your methodology, and if I can tick these 10 boxes, then they roll up into the higher level ones. If you could break the strategic assessment down, then it would really be good." – Mrs. B
- "In the perfect world, if you would have all those boxes ticked to a level of risk where you are confident, then this is a pointless exercise. What I'm saying is that you should have validated at the granular level. I'm just wondering how useful this is… I would just say that you have to do these at the individual (element) levels." – Mr. R

Sequence (1 Disagree, 72%)

For the most part, the validators understood the purpose and agreed with the sequence of the framework. It still remained difficult to initially get the message across though. Comments included:

- "Yeah, I think this is absolutely fine. And I'm sure that there could be other sequences, but as you've explained that you can jump in at any stage, it seems like a perfectly sensible thing." – Prof. P
- "Well, I mean that all that you're saying is that you have to start with a need and go from there. And I agree with that." – Prof. D
- "I think its fine. I mean in certain cases… you said it's flexible, so if we're talking from an entrepreneurial perspective, then you just know that this is a fantastic value proposition. You may not know who the consumer is going to be or how you are going to lock-in the consumer. So, this can happen in a different sequence. So, I agree with it. But as long as it is flexible, and you do not need to go in a certain order. Because with these processes, as long as you talk about business and entrepreneurship, sequence is something that does not apply most of the time." – Dr. O

Switching costs (2 Disagrees, 75%)

Following the local validation phase, the switching cost model was categorised to enhance its understanding. The reverse effect was achieved however, resulting in the model being rated much worse during this validation phase. A more sensible categorisation is therefore needed. Comments included:

- "In a sense, any switching cost is negative to the customer. But, I think what you're saying is that these costs arise out of changing from things that are otherwise beneficial to customers. So, you've got all these benefits, and now if you change, you no longer have that benefit, and that's a cost to you… But, all switching costs are in a sense non-beneficial to customers, but they arrive out of different circumstances. So, I'm not sure that this grouping is so useful. The categorisation of beneficial and non-beneficial is confusing." – Dr. C
- "It's just the classification that bothered me a bit. There's just something not intuitive to me about it being a cost and it being beneficial right?" – Mrs. T

Renewal and growth (1 Disagree, 75%)

The renewal and growth model performed a bit worse than previously. The model faced the same criticism as the competitive strategy framework as a whole, in that it may be too comprehensive for some users and incomplete for others. Therefore in a sense the model requires simplification and in another sense some addition. No specifics were proposed however. Comments included:

- "There is absolutely no problem with these, they are well chosen." – Prof. P
- "One thing that you should be mindful of is that your work is a lot about content. This stuff (refers to a book "New Business Road Test") is about process. That's a key distinction. Because, you stay away from the implementation side, you do not engage so much with the process." – Prof. D
- "This is very detailed and it could help a certain group of people. But it has less general appeal… I think it is comprehensive, it can give some help. But if they are real entrepreneurs then they would not care about it. It is too comprehensive, there are too many steps, and things to think about.

They just want to do it. So you need to provide them with things that are more visual and easier to understand… the question is how much the comprehensiveness is going to help or not." – Dr. O

- "I think funding is a massive hole at the moment. Because for us, funding is, and when to go for funding, the most important. Because of your cash flow as a start-up, it's your day-to-day concern. How much money do we have? And resources to me is all of that… But it's all already in there. You just have not mentioned it (explicitly)." – Mrs. B
- "I think this simplifies the world down a little… I mean to actually do a good job on renewal and growth, you need other things than competitive strategy. You need all the pieces. You need some of those execution pieces. So, I think it may be a bit of a stretch to choose a renewal and growth strategy based purely on the competitive analysis that you propose." – Mrs. T

In response to the last comment, the competitive strategy framework has always been intended to be used as a supplement to the over-all start-up and/or business process (refer to limitations in Chapter 1.5).

Porter's generic strategies (3 Unsures, 75%)

Porter's generic strategies performed similar to the local validation round. Previously there were conflicts regarding the viability of certain strategies for start-ups, and this discussion resurfaced. Comments included:

- "Again, I think that's perfectly fine." – Prof. C
- "Relating to the best cost provider strategy and the stuck in the middle stuff, the most sound advice is to stay away from the middle. Because it is a difficult thing to do, so for a start-up, you would not be able to do it, and it would not be appropriate. And very few start-ups would start with a broad target. It's like starting your car in 3rd gear. It does not make sense. For a start-up, you start with first gear. So, most of them would start with a narrow target. Then it's just a question of cost or differentiation." – Prof. D
- "Some people will criticise it and say that this is not very helpful. But, you need to know those things. I think it is fine. But I think there is more that can be done with that." – Dr. O
- "I think this is good as just a generic positioning." – Mrs. B

Theoretical contribution (1 Disagree, 78%)

All of the validators agreed that the framework does make a contribution, however some argued that it is perhaps not a theoretical contribution, but a praxis contribution. Comments included:

- "The theoretical contribution is not what is important. You are probably not changing the way that we think about e-business strategy. You might be, but I do not think so. But that is not why one would be supportive of this framework. You do not have to make a theoretical change for this work to be highly influential in practice… I do not think it's trying to change our theoretical structure… You're not trying to tell us that the way that strategy is thought about is fundamentally wrong. So, this is probably more in the praxis area." – Prof. P

- “Yes, I agree. As a tool, this is absolutely fine.” – Dr. C
- “Go back to your criteria around constructivist stuff, where if something is more comprehensive and it is better, it gives you a contribution. So if I read this question as, have I introduced a more comprehensive and complex model? The answer is a resounding yes. So, the contribution… it gives you a dashboard of all these things and this is very useful. Actually, it reminds me a dashboard of a fancy car. So the question is, that when you start driving, do pay attention to all these things? When I drive, I look at my speed. Though, there are so many other things on the dashboard. But as needed, I would look at some of them. If I were driving for a few hours, I would look at my fuel gage and so forth. So yes, I think the synthesis is great. The purpose and the logic that you had in your mind is great. You’ve done something you can be proud of.” – Prof. D
- “I think there is a contribution for sure. There could be more. But that is always the case. I think it is pretty good.” – Dr. O
- “I think the contribution is everything in one place. I think the other contribution is really… those three: thinking about your customers, thinking about the value proposition, and thinking about loyalty.” – Mrs. T

Digital-physical orientation (3 Unsure, 78%)

Despite the improvements to the model in Chapter 6, the digital-physical orientation model was not rated as well expected. This is partly due to the visuals which are not that engaging, and partly due to the entrepreneurial mind-set where a business’s digital-physical orientation is an implicit choice stemming from its offering and not an explicit design choice. Comments included:

- “I suppose people just do not come to this from an “I need to create a business perspective”. People come to this as in, “I have an idea of a business. I need to find the best strategy to achieve that”. I just think that they’re coming from a completely different perspective to this.” – Mr. R
- “Yes, without delving into it too deeply. It looks good. It feels like a good checklist. But, still to me, doing this is all good, but it feels a bit theoretical.” – Mrs. B
- “I mean of course you could argue about the exact things, but as a framework of thinking about things it is absolutely fine.” – Dr. C
- “Yeah, I think its fine. But the table needs to be worked on to make it more pleasant design wise.” – Dr. O

Relationships (2 Unsures, 78%)

There was not any problem with the relationships depicted between the elements of the framework, but it was argued that there may be many more relationships present, which could be explored. Comments included:

- “When you’re using a particular tool, it might be useful to have some links with other tools that informs it. So, for example, the way that you’ve answered a certain question might affect or constrain the way that you can answer another question… I understand that it could easily become a bird's nest of complexity. So, I think you're probably right to try and keep it simple." – Dr. C

- "Yeah, I agree with that… Because everything is interrelated, and there is some sequence, what does not come through here, is how early choices constrain later choices. " – Prof. D
- "Yeah, I think its fine." – Dr. O

E-loyalty antecedents (2 Unsures, 78%)

The e-loyalty antecedents model fared relatively well. There was not any critical problems with it, nor huge praise. Comments included:

- "That's straightforward. If you're looking for one way to make this more complex, this is how: What is necessary and what is sufficient?" – Prof. D
- "I think it is fine." – Dr. O
- "Yeah, this also looks good." – Mrs. B
- "I think the stuff is really good, it's just the word (antecedents) that does not really work for me. Otherwise it's very good." – Mrs. T

Competitive strategy principles (1 Unsure, 78%)

The competitive strategy principles did not perform particularly well, but they were not rejected as being absurd either. Comments included:

- "I agree with focus and robustness and adaptability. Okay, I see, differentiation could be on price. Yeah, I think that is probably a nice framing." – Dr. C
- "Strongly agree." – Prof. D
- "This is good. Yeah, I think that's fine." – Dr. O
- "I do not think I would have come up with robustness. I think the other three fit well for me. I think I might have called it engagement or something like that." – Mr. R
- "Adaptability I would say is something more like vision. This is where I am today and this is where it is going to go in the future, and when new things were to appear, this is how I would move with it. You actually want to make your strategy future proof." – Mr. P

Sequenced 18 sources of e-value (1 Unsure, 79%)

The sequenced 18 sources of e-value were rated much worse than in the previous round where it was the best rated model. Validators had difficulty understanding its intent and use. They also felt limited by the "arrangement" of sources of value. These issues will be addressed in the improvements section. Comments included:

- "Again as a guide for thinking it is fine. You could argue it different places though." – Dr. C
- "Yeah, it's quite useful. Whether the mapping is done right… that is sort of debatable." – Prof. D

- "Yeah I think it is fine. If we take it at face value, there is that problem that some things are difficult just to classify it in one channel. Some of them you would probably be able to depict in multiple phases." – Dr. O
- "So, as it is now, it seems a bit too segmented. They can be mixed and exist in multiple phases." – Mrs. B
- "If you could use those icons and put them anywhere then I think it's useful." – Mr. R

10 Techniques for creating new market space (1 Unsure, 81%)

The 10 techniques performed relatively well. There were concerns about the comprehensiveness of the model though, and whether the model would actually spur or hamper creative thinking. Comments included:

- "Yeah, I think all of those make sense. I think the 10 techniques are really good." – Dr. C
- "Okay. That's fine." – Prof. D
- "This one is pretty good… I can see some value. But putting entrepreneurs in a box can be a problem." – Dr. O
- "This for me is just pfft… too many diagrams." – Mrs. B

Control points (1 Unsure, 85%)

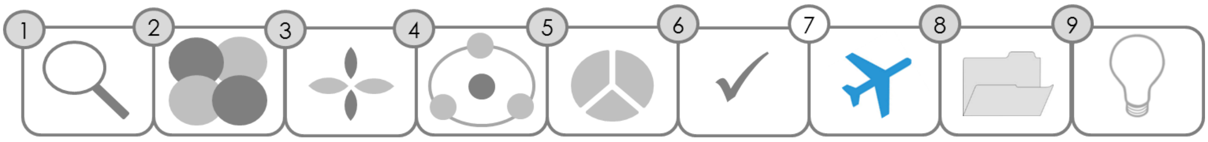
The control point model performed slightly better than in the previous phase, probably due to the categorisation updates that occurred in the previous chapter. Comments included:

- "Yes, I quite like this… I like the categorisation of the beneficial and non-beneficial. Again, you could perhaps argue about some of the categorisations, but that's not so important." – Dr. C
- "Pretty straight forward. It gives you a menu of options." – Prof. D
- "I think this is fine." – Dr. O
- "Yeah, I think they're all good." – Mr. R

Research goal: Assist competitive strategy formulation (1 Unsure, 86%)

The validators agreed that the framework can assist e-business start-up competitive strategy formulation. An issue that was highlighted was that the framework would probably only assist a sub-set businesses. Comments included:

- "Well, absolutely (agree)." – Dr. C
- "It depends on the person running the e-business. Whenever I have students, who are from an engineering background – very systematic background – they struggle, around my stuff about open-endedness and playing it by ear and all these approaches. They struggle. They say no, I need a framework. They will love this (your framework). They will just run wild with it. There are others, who will find this stifling. Okay, so the sense is that you would assist some start-ups. So the answer is yes." – Prof. D



- "Well, I agree it can. It depends on how it is used. The circumstances. I see value in it. But it depends on the execution. But as an over-all framework, yes I see value in it." – Dr. O
- "Yes, but it would have to be simplified and use real life examples." – Mrs. B

7.3.3. General Comments

General comments on the framework included:

- "All of these are lenses, approaches, ways of thinking which are based in literature, and what you're saying at this point in the argument is that these are valid lenses, and these are the people who advocate it. Quite a useful digest I think… I'm very convinced by this. I do not have a problem with this. You've clearly done a fantastic job of seeing the mutuality of the methods. Putting them together in a coherent picture." – Prof. P
- "It's a nice simple, yet sensible thing that someone can step through, and my over-all comment on it is that it is very nice, it's simple and intuitive. It lets you focus on things that you have not focused on, and it gives you some contextual tools. All of that is very good." – Dr. C
- "I mean, it's great. It puts everything together and it's very comprehensive… This does not give you an answer about what you should do. But it says, here are all the things that you should think about… It makes a lot of sense when these things are together." – Dr. D
- "I think you have very good material here. I think the way that you show it, the structure and organisation of things are pretty well done. I think it might be a bit overwhelming for some start-ups, but it depends on the type of start-ups that you are looking at. The other challenge is that some of the models may be too mechanistic for entrepreneurs… It might help them in certain ways, but in other ways it could affect their ability to create and have new ideas. I think… you probably do not need to use the whole framework. You can just use pieces relating to the problems you are having." – Dr. O
- "Yes, I think it's good as a good summary of logical thoughts. I think it does that very well. Again, I just think that it should be simplified." – Mrs. B
- "I think one of the things that I would use this for, is that it helps me structuring the thinking about all the things that I should be thinking about... So, it does not provide solutions. And it does not tell you exactly how to think about things. It is not the detail of showing you how… it is not the ultimate thing that you have to do, it is just this collection of things you should be thinking about, and how these things come together… it's interesting, I've never seen such a comprehensive approach to try and deal with all aspects of strategy at once." – Mr. X
- "I think it does a very good job of navigating the strategic space. I really like it that you have all these tools in one place." – Mrs. T

7.4. Recommendations and Improvements

The recommendations made by the validators, the post-interview reflections of the author, and the resulting model improvements are discussed below.

7.4.1. Structural Framework Improvements

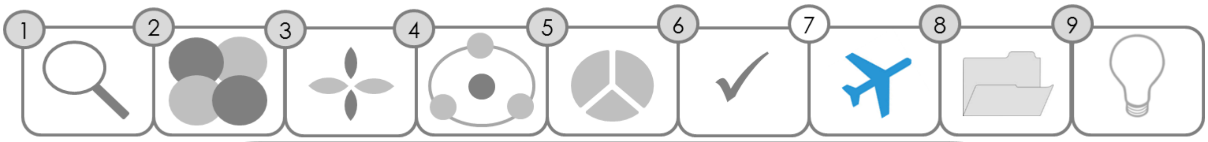
Suggestion 1: Remove the colours of the competitive strategy principles – Prof. P, Mr. R

Suggestion 2: Depict a greater degree of recursion in the model to make it less linear – Prof. P, Mrs. B

Suggestion 3: Discuss more of the interrelationships present in the framework – Prof D., Dr. C

Previously, each of the framework principles were assigned a colour. Focus was yellow, differentiation blue, robustness red and adaptability green. From the discussion with Prof. P and Mr. R it became apparent that the framework principles are not limited to being associated with only one of the core elements with the framework. Indeed, the competitive strategy principles could be exhibited by each one of the elements. It was therefore necessary to disassociate the principles from the core elements. The framework was therefore backward updated to remove this error.

For the second suggestion, extra arrows flowing back into the higher levels of the framework were added to create a greater sense of recursion. This is backward updated and shown in Figure 6.6. Lastly, it was proposed that the relationships present between the models be made more explicit. Though this is a good idea in theory, it is not very practical. Figure 7.2 below depicts additional interrelationships that exist between the models. It becomes as Dr. C described it, “a bird’s nest of complexity”. The true issue is therefore rather the author’s inability to sensibly visualise these interrelationships than it is a case of their non-existence. The approximation of saying that everything is interrelated is therefore more sensible.



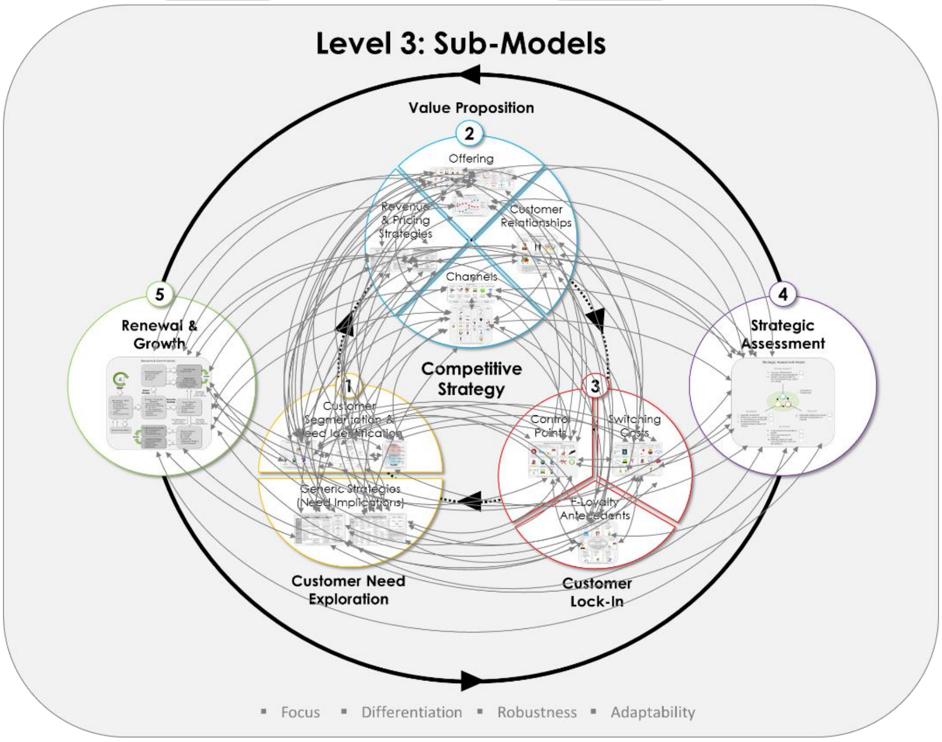


Figure 7.2 – Extended Interrelationships of the Competitive Strategy Framework

7.4.2. Customer Need Exploration Improvements

This section discusses the updates that were made to the value proposition models subsequent to the second round of validation.

7.4.2.1. Customer Segmentation

Suggestion 1: Include more of a market orientation, covering the market size or market opportunity explicitly – Prof. P, Mrs. B, Mr. K, Mrs. T

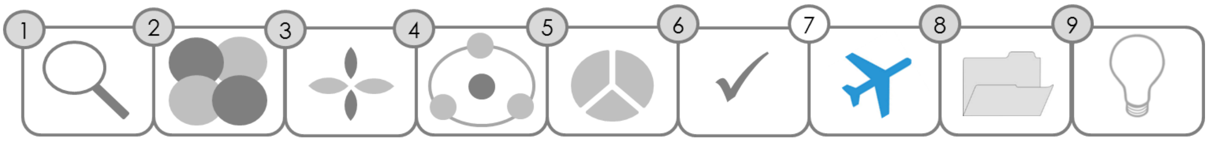
Suggestion 2: Highlight the choice between serving a B2B or B2C or B2B2C market – Mr. R, Mr. P, Mr. K

Regarding the first suggestion, some of the international validators were concerned that the framework may be taking a too granular perspective on customers. They were missing a broader market oriented perspective that questions whether the market opportunity is viable. This issue is addressed by adding the following leading question:

- Is the target market large enough to be economically viable?

  Purpose: Probes users to establish whether the market opportunity is economically viable.

Regarding the second suggestion, a few validators suggested that the author make specific reference to business to business (B2B), business to consumer (B2C) or business to business to consumer (B2B2C) market choices in the study. The most appropriate place to include this was in the customer segmentation model. The author did not previously elaborate on this point, as the process for formulating one's



competitive strategy would stay the same regardless which market a business chooses to serve; the content will differ somewhat. The following leading question was added to the model as can be seen in Figure 7.3 below:

- Is the target market a B2B, a B2C or a B2B2C market?

  Purpose: Probes businesses to identify whether they are serving a business, consumers or a mixed market.

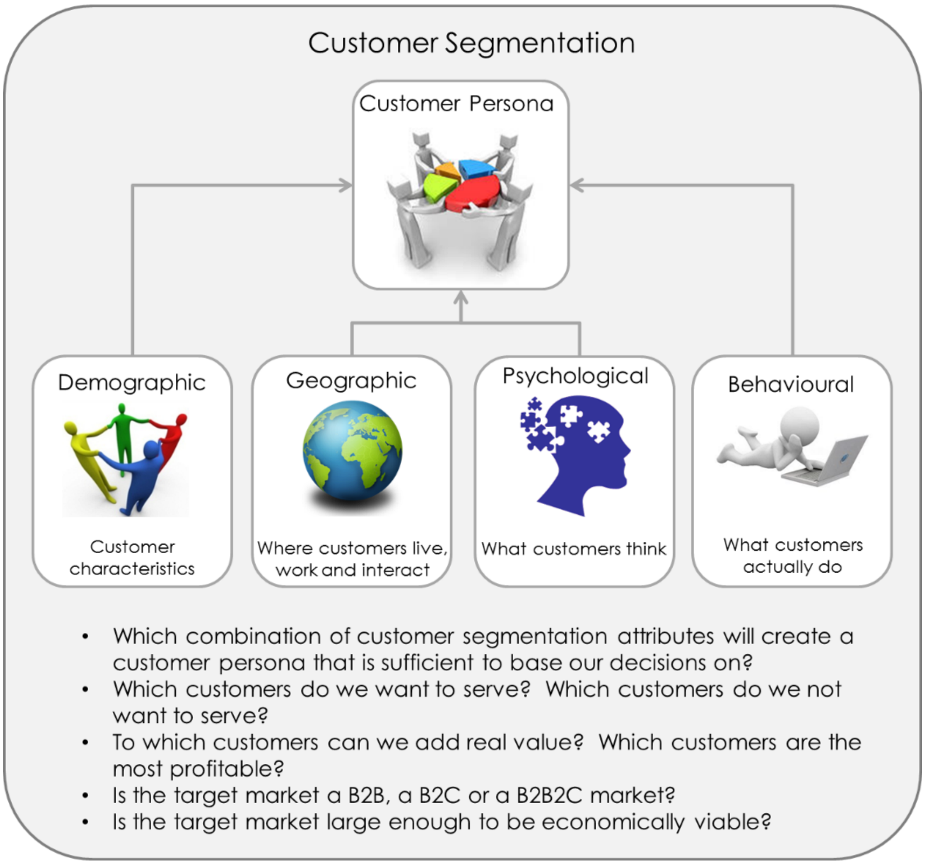


Figure 7.3 – Validation Round 2: Customer Segmentation Update

7.4.3. Value Proposition Improvements

This section discusses the updates that were made to the value proposition models subsequent to the second round of validation.

7.4.3.1. Strategy Canvas

Suggestion: Combine the strategy canvas with the 18 sources of e-value – Author

During the international validation phase it became apparent that many of the validators were confused by the strategy canvas, as they did not know what was meant by the competing factors or how one would use the model. In order to help users to start with their initial benchmarking process, the 18 sources of e-value were added to the strategy canvas to serve as initial competitive factors. Additional, industry specific factors may be added to the model to tailor it for the user's specific instance. Incorporating these changes Figure 7.4 below was constructed.

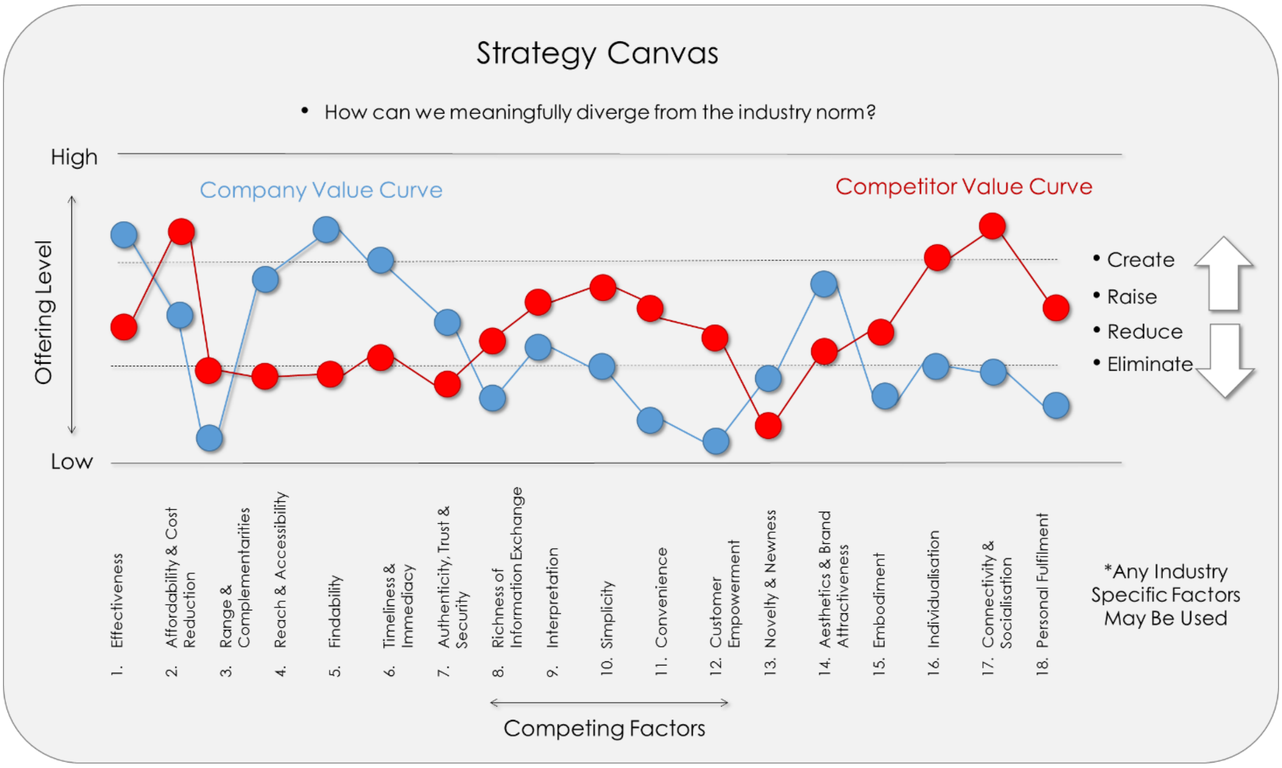


Figure 7.4 – Validation Round 2: Strategy Canvas Model Update

7.4.3.2. Sequenced 18 Sources of E-Value

Suggestion: Reformat the sequenced 18 sources of e-value into a grid format, as its current form is easily misinterpreted as restricting the types of value to the different phases – Author

Immense confusion was caused during the international validation phase regarding the purpose and use of the sequenced 18 sources of e-value. A concern was that the author was advocating that only certain types of value could be created in a channel phase. Another concern was that the author's proposed placements of "very important" sources of value in a channel phase might actually be wrong, as the nature of such a classification is inherently debatable without empirical data to support it. For these reasons it was decided to reformat the sequenced 18 sources of e-value into a grid format and discard the placement of specific sources of value in these phases to eliminate the confusion that it caused. In this way, the model becomes more reflective of its intent. Together with this structural change, the model's name also changes to the "e-value map".

Incorporating these changes, Figure 7.5 below was constructed.

Figure 7.5 – Validation Round 2: E-Value Map Replaces Sequenced 18 Sources of E-Value

7.4.3.3. Price Corridor of the Mass

Suggestion: Remove the model – Author

From the international validation feedback it became apparent that the price corridor of the mass suffers from a few serious weaknesses. Some validators found it confusing, others found it redundant, while others were concerned with its practicality as it requires a lot of accurate market research to implement. Worse yet was that some validators deemed it to be too simplistic to sensibly aid any pricing decision-making, as pricing depends not only on resource and legal protection, nor the biggest mass of buyers that can be targeted. There are many other factors that play a role in how products should be priced, including but not limited to market conditions, the value proposition itself, the lifetime profitability of customers and control points captured by the firm.

These issues in combination signals that the model is incapable of providing any valid guidance to start-ups. The model was therefore removed from the competitive strategy framework. This does not mean that pricing is not an important aspect of competitive strategy, but only that at this point a sophisticated and robust enough pricing model for inclusion in the framework could not be found or developed. The pursuit of such a model can form part of future research. In meanwhile, the revenue generation strategies model and pricing mechanisms model will have to suffice as models relating to this topic.

7.4.4. Customer Lock-In Improvements

This section discusses the updates that were made to the customer lock-in models subsequent to the second round of validation.

7.4.4.1. Switching Costs

Suggestion: Re-categorise the model – Dr. C, Mrs. T

Some validators had a problem with the classification of the switching costs model, as the previous model erroneously stated that some switching costs are beneficial to customers. This is not true. All switching costs are essentially time, effort or financial costs that are non-beneficial to customers. However, some switching costs arise out of the fact that a customer's current provider is providing them with benefits, which they will forgo when they switch to another supplier. Therefore, these switching costs should be labelled more aptly as "loss of benefit costs" and their inverse "non-loss of benefit costs". Within this first categorisation, three additional categories could be identified.

Firstly, some switching costs involve an emotional attachment that is foregone and include relationship costs and psychological costs. Secondly, some switching costs involve functional benefits that are foregone when switching, and include learning costs (the learning that you have currently benefit your work efficiency); network costs (the network currently provides you with some type of benefit); information conversion and database costs (the information that you have stored on one platform currently provides you with the benefit of its use); compatibility costs (the synergies that exist between your current two or more devices or platforms provide you with some functional benefit); integration and customisation costs (the customisation settings you have on the platform currently provides you with convenience); contractual costs (the contract with the supplier currently provides you with the use of the product or service); and superiority costs (the offering you are currently using is superior to the one you will be switching to, therefore switching will sacrifice the enhanced benefits you currently enjoy).

Thirdly, some switching costs involve potential benefits (promise of a benefit) that will be forgone when switching, such as loyalty programme costs. The remainder of the switching costs, including uncertainty costs, search costs, the alternative's shopping costs, account switching costs and switching back costs do not involve a loss of benefit and are therefore categorised together as non-loss of benefit costs.

Incorporating these changes, Figure 7.6 could be constructed.

Figure 7.6 – Validation Round 2: Switching Costs Model Update

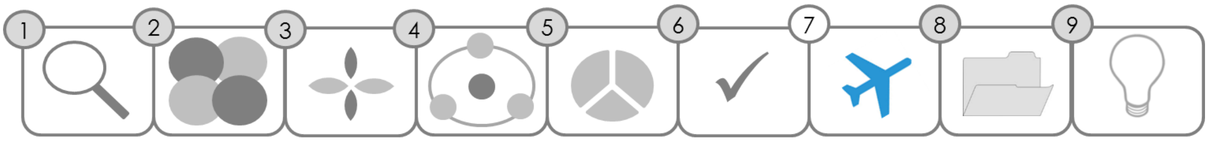
7.4.5. Renewal & Growth Improvements

Suggestion 1: Rethink the renewal and growth model to be more content oriented – Prof. D, Author

Suggestion 2: Change the question about whether the opportunity is insignificant to the core business to whether a fit exists – Mrs. T

Suggestion 3: Highlight funding as a key aspect of growing – Mrs. T

Suggestion 4: Include some aspect of scenario planning in the framework – Prof. P



Several comments were made regarding the renewal and growth model. Some called for simplification, others for expansion. Regarding the first suggestion, Prof. D highlighted that the developed framework is very much a strategy content framework and not so much a strategy process framework. The renewal and growth model therefore needs to provide more growth options and ways to think about growth than the three current options (sustaining, complementary and disruptive growth).

Two avenues for expanding the renewal and growth model was identified. The first was to include the options provided by Ansoff's (1965) product-market matrix, and the second avenue relates to the 15 grand strategies of strategic management. Dr. W already suggested during the local validation round that any of these grand strategies were applicable to the growth model, however at that stage the author did not deem it necessary to include them in the model.

Ansoff's (1965) product-market matrix in Figure 7.7 below provides four growth options. The first is ***market penetration*** where the business seeks to grow its existing offering in the existing market. It therefore involves capturing a greater market share of existing customers through head-to-head competition. The second path is ***market development*** where the business grows the size of the market by extending the use of its existing offerings to new customers. The third path is ***product development*** where new products are developed to serve the existing market, and the last path involves ***diversification*** where a new product is developed to serve a new market segment.

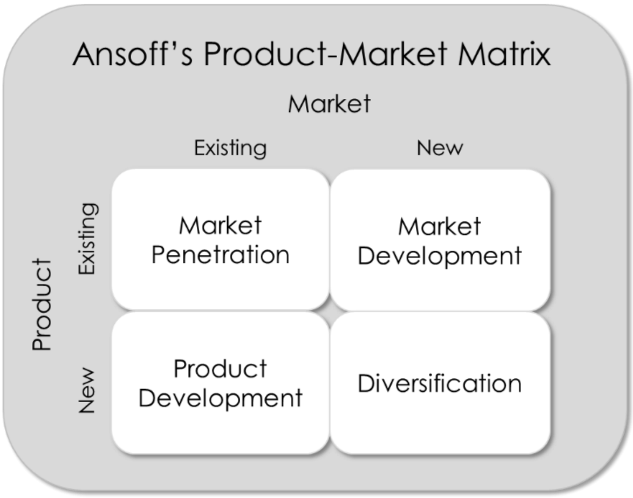


Figure 7.7 – Ansoff's Product-Market Matrix (Ansoff, 1965)

The 15 grand strategies refer to long-term, master strategies that corporations employ to achieve their business objectives (Pearce & Robinson, 2009, p. 211). The 15 grand strategies are (1) concentrated growth, (2) market development, (3) product development, (4) innovation, (5) horizontal integration, (6) vertical integration, (7) concentric diversification, (8) conglomerate diversification, (9) turnaround, (10) joint ventures, (11) strategic alliances, (12) consortia, (13) divestiture, (14) liquidation and (15) bankruptcy.

Similar to Ansoff's (1965) model, ***concentrated growth*** focuses on the growth of a specific product in a given market (market penetration). Companies pursuing this strategy exploit their expertise in a narrowly defined competitive market and achieve superiority over competitors that try to master a greater number of product-market combinations (Pearce & Robinson, 2009, p. 211). ***Market development*** consists of marketing current products to related markets by adding distribution channels, expanding geographically, altering advertising promotions, or making cosmetic modifications to offerings (Pearce & Robinson, 2009, p. 212). ***Product development*** refers to the substantial modification of existing products or development of new products to be provided to current customers. ***Innovation*** on the other hand refers to the creation of a new offering to be provided to new markets. Innovation seeks to create a new product life cycle that make similar existing products obsolete. It is therefore sometimes referred to as disruptive innovation (Christensen & Overdorf, 2000).

Horizontal integration refers to the expansion of the business by acquiring other firms at the same stage of the production-marketing chain. Such acquisitions eliminate rivals while strengthening the firm's resource position (Pearce & Robinson, 2009, pp. 218, 219). ***Vertical integration*** refers to the acquisition of firms either upstream or downstream from the core business. ***Backward integration*** (upstream) is done to increase the dependability or quality of the input supplies. ***Forward integration*** (downstream) is done if it is believed that advantages can be reaped by owning the next stage or stages in the value chain (such as Apple who have their own stores and can provide tailored services in-store).

Concentric diversification refers to the acquisition of businesses that are related to the firm in terms of technology, products or markets. These acquisitions are done because some complementary elements exist. ***Conglomerate diversification*** on the other hand refer to acquiring businesses purely based on the fact that it is a good investment. These acquisitions do not necessarily have a compatibility with the core business. (Pearce & Robinson, 2009, p. 221)

Turnaround refers to restoring a firm that currently finds itself in a position of declining profits to its former glory. ***Joint ventures*** are when two or more companies pool their resources to create and operate a new commercial organisation for the benefit of the co-owners. Joint ventures are often established because the project or function is of such a magnitude that individual companies would be incapable of successfully operating it. ***Strategic alliances*** are similar to joint ventures, except in a strategic alliance the companies involved do not take an equity stake in one another. Often the partnership exists for a defined period or project, where after the partnership is disbanded. ***Consortia*** refer to large interlocking relationships between businesses of an industry. They are designed to use industry coordination to minimize risks of competition, partly through cost sharing and increased economies of scale. (Pearce & Robinson, 2009, pp. 230-235)

As for exit strategies, ***divestiture*** refers to the sale of a firm (when part of a corporation) or a major component(s) of a firm. ***Liquidation*** is the least attractive of all the grand strategies and refers to the sale of the firm as a whole or in part for its tangible asset value. Finally, instead of liquidation, businesses can file for ***reorganisation bankruptcy***. Here the business attempts to convince creditors that instead of an immediate, fractional repayment, the business can be turned-around, resulting in the maximum repayment of financial obligations at some specified future time. (Pearce & Robinson, 2009, pp. 226-228)

Table 7.4 below reconciliates Ansoff's model and the 15 grand strategy with the market growth perspective previously used to present a new renewal and growth perspective.

Table 7.4 – Reconciliating the Growth Paths

No.	Ansoff's Product-Market Matrix (Ansoff, 1965)	15 Grand Strategies (Pearce & Robinson, 2009)	Market Perspective	Renewal & Growth Model
1.	Market penetration	Concentrated growth	Sustaining	1. Concentrated growth
2.	Market development	Market development	Sustaining	2. Market development
3.	Product development (1)	Product development (1)	Sustaining	3. Product Modification
4.	Product development (2)	Product development (2)	Complementary	4. Product development
5.	Diversification (1)	Concentric diversification (1)	Complementary	5. Diversification
6.	Diversification (2)	Innovation	Disruptive	6. Innovation
7.		Conglomerate diversification (1)	Non-complementary	7. Unrelated diversification
8.		Concentric diversification (2)		Resource acquisition strategy
9.		Conglomerate diversification (2)		Resource acquisition strategy
10.		Horizontal integration		Resource acquisition strategy
11.		Vertical integration		Resource acquisition strategy
12.		Joint ventures		Resource acquisition strategy
13.		Strategic alliances		Resource acquisition strategy
14.		Turnaround		Precedes CSFW. Affects initial resource state of start-up
15.		Consortia		Beyond the control of a single entity
16.		Divestiture		Exit strategy
17.		Liquidation		Exit strategy
18.		Bankruptcy		Exit strategy

Seven core growth strategies were identified. Four of these relate directly to Ansoff's model. In addition to this, three other strategies were identified. The first is product modification, which is a sustaining strategy where incremental improvements are made to products to serve the current customer segment. The second is innovation, which is a disruptive strategy where a new product targets a new customer segment, but its steep performance trajectory may cause it to invade traditional segments and make previous product offerings obsolete. The third new strategy is unrelated diversification, where businesses diversify into non-complementary products. Although this last path is an option, it is generally a worse choice than diversifying into businesses that provide complementary benefits e.g. making use of the same technology, sharing the same distribution or sales channels, or mitigating some of the business's risk.

From the above table, six resource acquisition strategies and three exit strategies were also identified. It also needs to be mentioned that turnover as a strategy is not applicable for use in the competitive strategy framework, as a turnover strategy would precede the framework and would simply changes the initial resource state of the start-up. Usually start-ups would enter business with just their personal resources, but with a turnover strategy additional structures, resources, processes and values would be acquired. Finally, the consortia strategy involves participation from all participants in an industry and is not under direct control of a single business unit. For simplification purposes this strategy is therefore ignored.

Regarding the second suggestion, Mrs. T highlighted that most often when opportunities are new, small and "insignificant" relative to the core business, businesses would choose to keep them in-house. Once the opportunity shows prospects of being significant, that is when the business is moved to an outside organisation (refer to Figure 6.21). It is therefore more accurate to question whether a value fit exists between the two businesses, in which case if such a fit does not exist, then it should be moved to an outside organisation.

Regarding the third suggestion, funding was accentuated by providing a non-exhaustive list of different options for obtaining funding, namely via organic growth, loans, crowdfunding, incubators and accelerators, angel investments, venture capital or through offering the public shares in the business (IPO – initial public offering). Finally, scenario planning was also contextualised in the model by adding it as a tool to consider when questioning the strategic course of the business. Updating the model with these changes Figure 7.8 below was constructed.

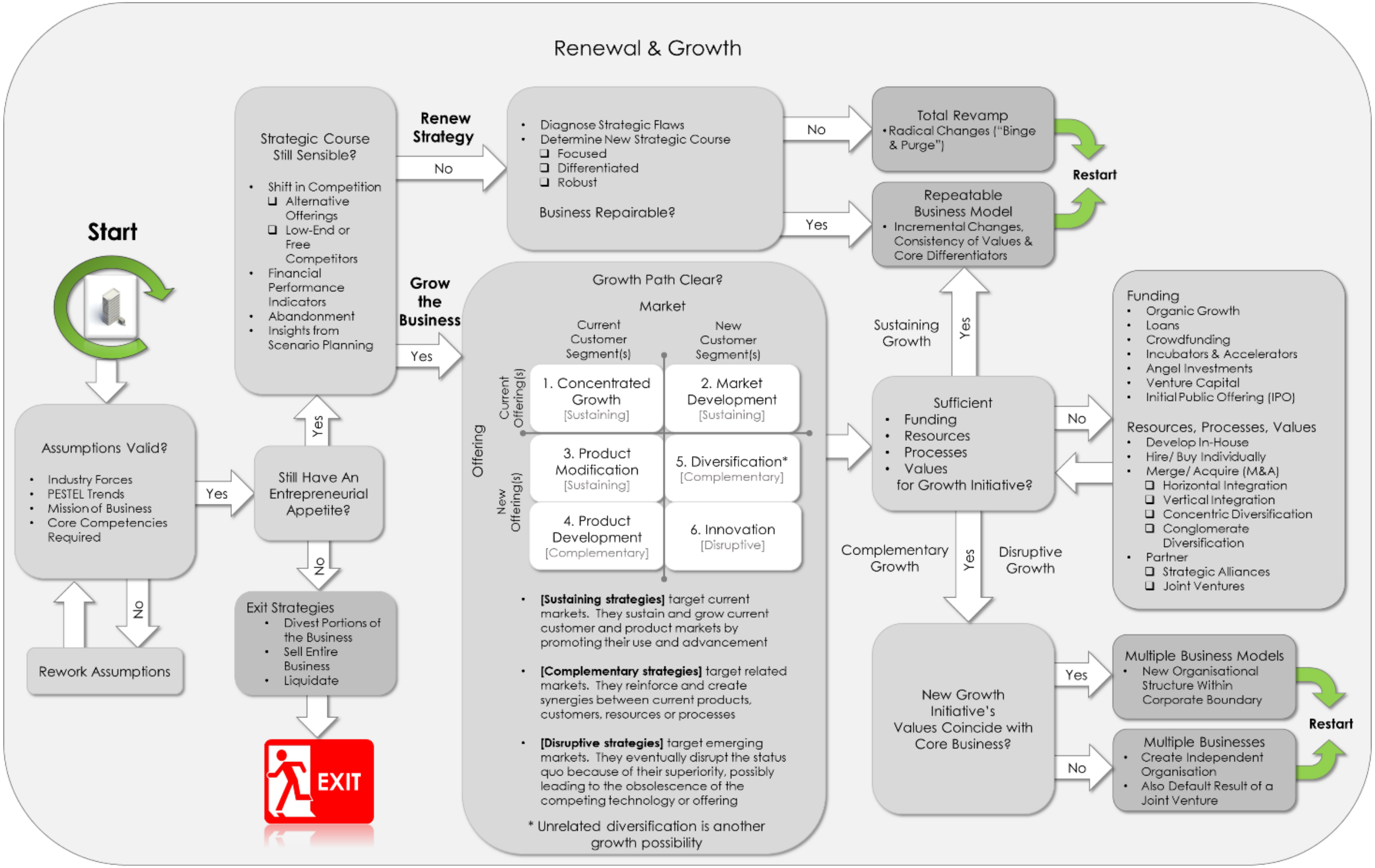


Figure 7.8 – Validation Round 2: Renewal & Growth Improvements

7.5. Proposition Updates

Following the changes that occurred in this chapter, updates to the propositions of the framework are required. Two propositions as shown in Chapter 6.6 are retracted, namely:

- **Proposition 2.6**: The sequenced 18 sources of e-value is a suitable reflection of the most important sources of e-value during each of the channel phases.
- **Proposition 2.9**: The price corridor of the mass model is suitable for determining what price range will unlock the largest mass of current customers.

While the last mentioned proposition is removed completely, the first mentioned is replaced with:

- **Proposition 2.6**: The e-value map is a suitable representation of ways in which e-value can be created across the different generic channel phases. It can assist e-business start-ups with formulating their channel strategies.

The other propositions are not again shown here for conciseness' sake, but they will be reiterated as a collective in Chapter 9.

7.6. Conclusion

This chapter re-verified that the competitive strategy framework addresses the research questions that it intended to answer. This chapter further internationally validated the framework as a theoretically valid perspective by having seven English and three American interviewees evaluate it. The worst performing model, the price corridor of the mass, was rejected as a suitable model for determining the price of offerings. It was therefore removed from the framework. The other elements that were validated performed quite well. A consensus of 67 percent or more was achieved on the individual validation questions, and a consensus of 80 percent was achieved on average. The recommendations and improvements in response to the feedback obtained were also discussed.

8. Workshop Validation

This chapter deals with the third part of a three stage validation process, that seeks to externally establish that the framework has achieved the stated goals of this study. This chapter discusses the practical validation process of the competitive strategy framework for e-business start-ups and reports on the results.

8.1. Introduction

The final part of the three stage validation process is to establish the over-all utility of the developed competitive strategy framework through practical implementation by e-business start-ups in a workshop environment. This chapter discusses the workshop design and the feedback obtained from participants.

8.2. Workshop Design

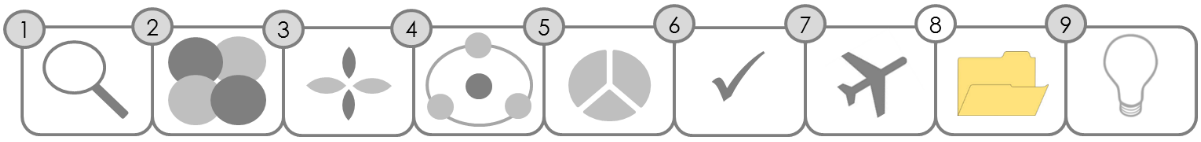
As mentioned in Chapter 6.3, workshop validation was chosen for the practical validation portion of the framework. The alternative of formulating a strategy and taking it to market to prove its efficacy was impractical and infeasible. Furthermore, the success of such an implementation would be dependent on various other factors (variables involved in strategy execution) and would therefore not be a "pure" reflection of the usefulness of the framework. As in quality control theory (Gitlow, Oppenheim, Oppenheim, & Levine, 2005), the framework needed to be tested at the "source", namely during the hypothesis generation phase of the lean start-up process or customer development process (refer to Chapter 4.5).

Broadly speaking, the workshop design involved the use of the competitive strategy framework as facilitation tool to assist entrepreneurs' e-business strategy formulation, and subsequently questioning participants about their experience.

The workshop agenda involved three basic phases: (1) participant preparation, (2) the workshop itself and (3) questionnaire completion. Participant preparation was required as a strategic baseline was needed that could be used as benchmark. Participants were therefore required to sketch out their current competitive strategy in a provided template (for uniformity's sake) prior to the workshop. This template consisted of broadly questioning participants about the 11 sub-elements of the framework. No detailed descriptions were provided at this stage, in order to solicit participants' gut responses. The completed workshop preparation templates therefore became the baselines from which would be proceeded.

On the day of the workshop, the start-ups provided feedback to the workshop facilitator (author) about the workshop preparation. The level of detail of the different aspects of their strategy were used as an indicator of the areas which needed the most or least attention. The facilitator then contextualised the framework, and proceeded to discuss the competitive strategy framework in detail via a presentation in a sequential manner. Participants were probed throughout about each element of the framework, and they were intermittently given time to formulate their strategies and identify which factors were relevant to their businesses. In this way, the start-up generated their second version of their strategy. The e-businesses were also able to ask questions or interject the facilitator at any time.

Upon completing the workshop process, participants were requested to complete a short questionnaire.



Given that it was estimated that the workshops would vary between three to eight hours (depending on the strategic needs and interactivity of participants), a simple, short, structured questionnaire format was chosen to gather data from participants rather than interviewing them. This granted several benefits. Firstly, data could be gathered simultaneously from all participants, which saved time and minimized effort. Secondly, this silent process also minimized cross-pollination and gave participants the opportunity to express how they felt without being influenced by the other participants. Thirdly, simple questionnaires minimize complexity and produce consistent data that are beneficial for data analysis purposes.

Considering the envisioned scale, it was planned to involve roughly 10 participants in a series of workshops. A mixture of convenience and criterion based sampling was used to select the e-businesses. Convenience sampling in the sense that the e-businesses needed to be random, willing participants. The criterion part required that:

1. *The businesses had to be e-businesses.* Brick-and-mortar start-ups were not eligible for the workshops. The business idea needed to have some fundamental reliance on the Internet.
2. *The businesses had to be in the ideation or pre-launch phase and have some strategy formulation need.* Businesses in these phases have the most flexibility about deciding what they are going to do and how they are going to compete. They could either be looking for an idea or have an idea which they want to implement. In the first case, the workshop could possibly help to identify a business opportunity. In the latter case, the workshop could possibly help to refine their competitive strategy. A third possible start-up segment is e-businesses who have already launched, but they have a need for some additional strategy formulation assistance and structure. Such businesses would also not be denied entry.

In order to obtain access to these start-ups, a free, open event was posted on www.siliconcape.com, an online bulletin board for entrepreneurs in the Western Cape area. The event invited interested parties to contact the author directly to establish the times and dates for the individual workshops.

8.3. Questionnaire Design

The questionnaire design involved identifying all the utility oriented aspects of the study that could be tested during the workshops. Several criteria were considered, including the research questions (Chapter 1.3), the theoretical model building quality requirements (Chapter 4.2.1), and the updated propositions of the framework (Chapter 6.6 and 7.5). However, in most cases the factors included in these deal with the theoretical validity of the framework, and were therefore not applicable to inquire the start-ups about. The workshop validation was concerned with testing the practical use of the constructed theoretical framework, not with the theoretical validity itself. This has already been established via the prior two validation rounds.

Relevant research questions were the main research question (What conceptualisation can assist e-business start-up competitive strategy formulation?) and fifth research question (What existing models, tools and insights (and new integrations of these) can assist the formulation of each of the sub-elements?). Relevant theoretical model building quality requirements (Table 4.1) were:

- Relevance;
- Strategic contribution;
- Utility;
- Comprehensiveness;
- Simplicity and understandability;
- Novelty; and
- Aesthetic appeal.

Other applicable characteristics that could be tested included:

- The ease of use and usability of the framework
- The framework's ability as learning tool
- The framework's ability as formulation tool
- The framework's ability as analysis tool
- The framework's ability to enhance cognition
- The framework's ability to facilitate strategic discussions
- The framework's ability to assist the articulation of a business's competitive strategy
- The framework's ability to assist strategic decision-making
- The framework's accessibility
- The framework's contextual value add

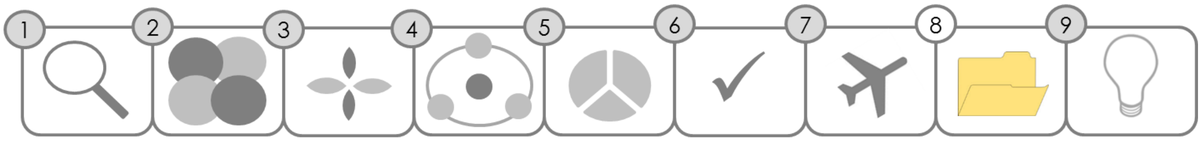
Additionally, candidates could also be questioned regarding their e-business experience and personal preference towards business, as these characteristics could reveal interesting patterns at a later stage. Candidates could also be questioned about which other tools and methodologies they have previously used, and the perceived utility that the competitive strategy framework provides relative to these. Finally, participants could be questioned regarding their net promoter score (Reichheld, 2003).

The net promoter score of a business gives an indication of its customer loyalty. It is a metric that is established by questioning respondents about how likely they are to recommend the business, brand or offering to a friend, colleague or relative, on a scale ranging from 1 to 10, where 1 is very unlikely and 10 is very likely. The business's net promoter score is then calculated by deducting the percent of detractors (those who voted 1 to 6) from the percent promoters (those who voted 9 or 10). Passives (those who voted 7 or 8) do not influence the score. A business's net promoter score can therefore range from negative 100 percent (when all participants are detractors) to positive 100 percent (where all participants are promoters). Generally, a positive net promoter score is considered good, and a net promoter score of higher than 50 is considered excellent. Though the net promoter score is essentially a loyalty metric, it does provide some indication of the perceived quality or value of a business, offering or brand.

From these array of factors, the workshop questionnaire was designed as shown in Table 8.1 below.

Table 8.1 – Competitive Strategy Workshop Questionnaire

Competitive Strategy Workshop Questionnaire
Entrepreneur's Background
1. How many years have you been involved in e-business?
2. How many previous e-business start-ups have you been involved with (prior to this)?
3. Would you classify your approach to business as being more planning oriented and structural, or more execution oriented and emergent? (Select one) ☐ Planning oriented and structural ☐ Execution oriented and emergent ☐ Other (Please specify)
Workshop Feedback
4. Did you learn anything from the competitive strategy framework or any of its tools? Which aspects did you learn something about? (Rate on a scale: blank = learned nothing; 1 – learned a little bit; 2 = learned quite a bit; 3 = learned a lot) ☐ Customer segmentation ☐ Need identification ☐ Need saturation ☐ The digital-physical orientation choices of an e-business ☐ Porter's generic strategies ☐ E-value creation ☐ New market space creation ☐ Strategy benchmarking ☐ Customer relationships ☐ Channel phases ☐ Value creation over channel phases ☐ Revenue strategies ☐ Pricing mechanisms ☐ Control points ☐ Switching costs ☐ E-loyalty antecedents ☐ Strategy evaluation ☐ Renewal and growth ☐ Other (Please specify)



5. Did the competitive strategy framework make you think differently in any way? How did it make you think differently? (Select those that apply)

☐ Assisted me in better understanding competitive strategy
☐ Assisted me in better understanding how the strategic components fit together (Strategy context)
☐ Assisted me in better understanding e-business
☐ Assisted me in better understanding my own competitive choices
☐ Made me aware of alternative strategic choices
☐ Provided me with drivers that allowed me to think creatively about e-business
☐ Other (Please specify)

6. Did the competitive strategy framework or any of its sub-models assist you in formulating or refining your competitive strategy? Which aspects of your competitive strategy were refined? (Rate on a scale: blank = no refinement; 1 = refined a little; 2 = refined quite a bit; 3 = refined a lot)

☐ Customer segmentation and need identification
☐ Generic strategies
☐ Product/service offering
☐ Customer relationships
☐ Channel strategy
☐ Revenue and pricing strategies
☐ Control points
☐ Switching costs
☐ E-loyalty antecedents
☐ Growth strategy
☐ Other (Please specify)

7. Which of the following aspects do you think the competitive strategy framework could be useful for in future? (Select those that apply)

☐ Strategy formulation / ideation
☐ Competitor analysis
☐ Opportunity analysis
☐ Strategic self-appraisal (Strategy evaluation)
☐ Other (Please specify)

8. Do you think that your competitive strategy improved from its initial state to the second version? Elaborate.

☐ Strongly agree
☐ Agree
☐ Unsure/ Neutral
☐ Disagree
☐ Strongly disagree

9. Which of the following are strengths of the competitive strategy framework? (Select those that apply)

- ☐ Its comprehensiveness
- ☐ The accessibility of all the tools in one place (Integration)
- ☐ Its ease of understanding
- ☐ Its ease of use
- ☐ Its ability to assist the articulation of a business's competitive strategy
- ☐ Its ability to evoke discussion
- ☐ Its ability to assist strategic decision-making
- ☐ Its contextual value
- ☐ Its novelty
- ☐ Its visual appeal
- ☐ Other (Please specify)

10. What tools or methodologies did you previously use to formulate your strategy? Elaborate.

11. To what extent do you agree that the competitive strategy framework methodology is a better approach than what you were using? Elaborate.

- ☐ Strongly agree
- ☐ Agree
- ☐ Unsure/ Neutral
- ☐ Disagree
- ☐ Strongly disagree

12. How likely are you to recommend the competitive strategy framework to a friend, colleague or relative? (Rate between 1 and 10, where 1 is very unlikely and 10 is very likely)

13. Any other comments or recommendations?

The questionnaire questions and their relationship to the study is visualised in Figure 8.1 below. The figure shows how each of the questionnaire questions relate to either a research questions, theoretical model building requirement, some other motivation or a combination of the three. The questionnaire questions' relation to the framework itself is also depicted.

Questionnaire Questions (QQ)	Related Research Questions (RQ)	Related Theoretical Model Building Quality Requirements	Other Reason for Inclusion
QQ 1: How many years have you been involved in e-business?		Relevance	Entrepreneur background
QQ 2: How many previous e-business start-ups have you been involved with (prior to this)?		Relevance	Entrepreneur background
QQ 3: Would you classify your approach to business as being more planning oriented and structural, or more execution oriented and emergent?		Relevance	Entrepreneur background
QQ 4: Did you learn anything from the competitive strategy framework or any of its tools? Which aspects did you learn something about? (Listed the theme associated with each sub-model)	MRQ, RQ5	Utility, Strategic contribution	Framework as a learning tool
QQ 5: Did the competitive strategy framework make you think differently in any way? How did it make you think differently? (Select those that apply) **QQ5.1:** Assisted me in better understanding competitive strategy **QQ5.2:** Assisted me in better understanding how the strategic components fit together (Strategy context) **QQ5.3:** Assisted me in better understanding e-business **QQ5.4:** Assisted me in better understanding my own competitive choices **QQ5.5:** Made me aware of alternative strategic choices **QQ5.6:** Provided me with drivers that allowed me to think creatively about e-business	MRQ	Utility, Strategic contribution	Framework ability to enhance cognition; Contextual value
QQ 6: Did the competitive strategy framework or any of its sub-models assist you in formulating or refining your competitive strategy? Which aspects of your competitive strategy were refined? (Listed the sub-elements)	MRQ, RQ5	Utility, Strategic contribution	Framework as formulation tool
QQ 7: Which of the following aspects do you think the competitive strategy framework could be useful for in future? (Select those that apply) **QQ7.1:** Strategy formulation / ideation **QQ7.2:** Competitor analysis **QQ7.3:** Opportunity analysis **QQ7.4:** Strategic self-appraisal (Strategy evaluation)	MRQ	Utility, Strategic contribution	Framework as analysis tool
QQ 8: Do you think that your competitive strategy improved from its initial state to the second version? (Strongly agree to strongly disagree)	MRQ	Utility, Strategic contribution	Framework as formulation tool
QQ 9: Which of the following are strengths of the competitive strategy framework? (Select those that apply) **QQ9.1:** Its comprehensiveness **QQ9.2:** The accessibility of all the tools in one place (Integration) **QQ9.3:** Its ease of understanding **QQ9.4:** Its ease of use **QQ9.5:** Its ability to assist the articulation of a business' competitive strategy **QQ9.6:** Its ability to evoke discussion **QQ9.7:** Its ability to assist strategic decision-making **QQ9.8:** Its contextual value **QQ9.9:** Its novelty **QQ9.10:** Its visual appeal	MRQ	Utility, Strategic contribution, Comprehensiv e-ness, Simplicity & understand-ability, Novelty, Aesthetic appeal	Framework ability to facilitate discussion; Ability to aid articulation; Aid decision-making; Accessibility; Contextual value
QQ 10: What tools or methodologies did you previously use to formulate your strategy?	MRQ, RQ5	Relevance, Strategic contribution	Entrepreneur background
QQ 11: To what extent do you agree that the competitive strategy framework methodology is a better approach than what you were using? (Strongly agree to strongly disagree)	MRQ	Utility, Strategic contribution	Framework as formulation tool
QQ 12: How likely are you to recommend the competitive strategy framework to a friend, colleague or relative? (Rate between 1 and 10)	MRQ	Utility	Net promoter score
QQ 13: Any other comments or recommendations?			Framework improvement

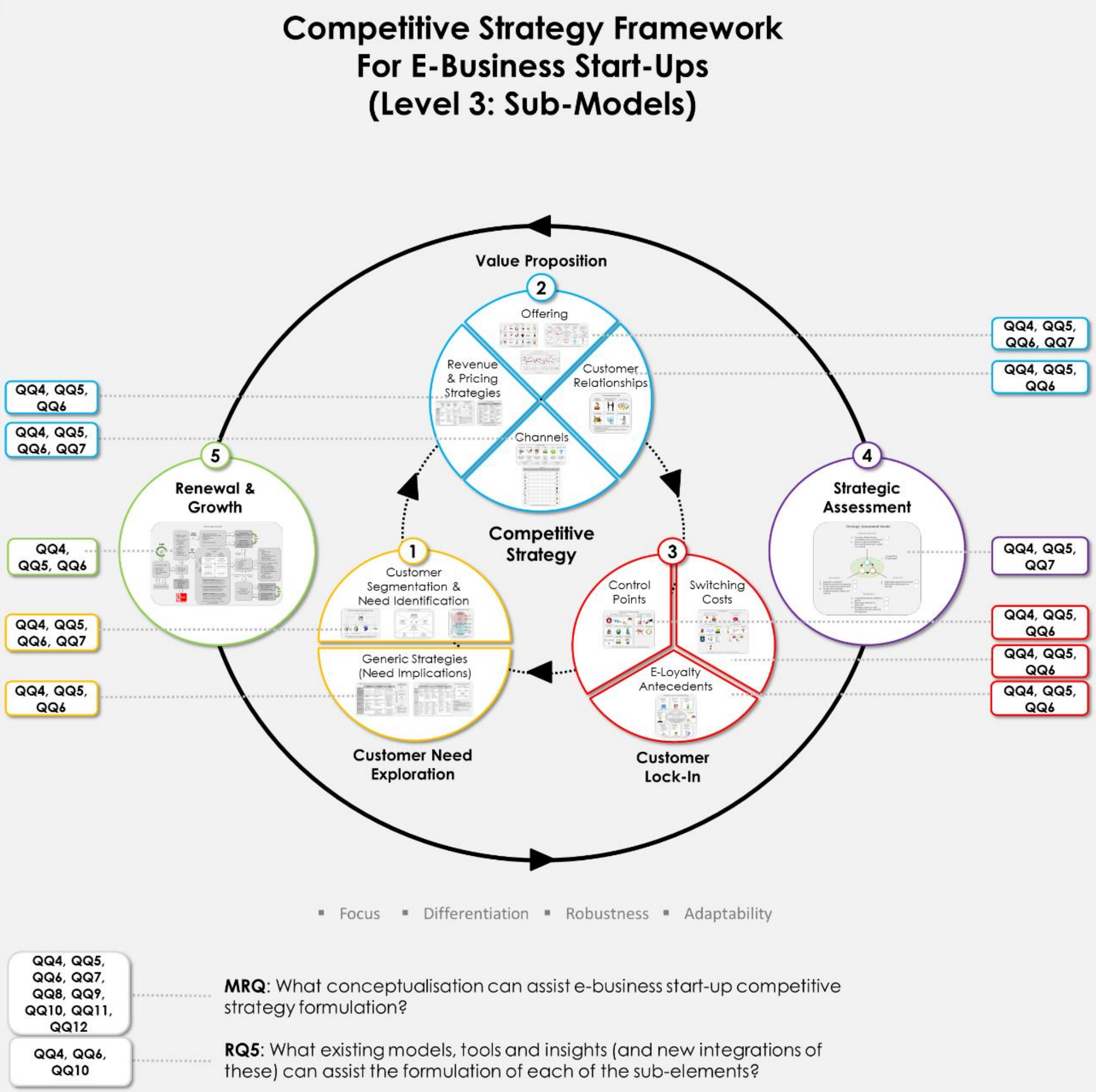
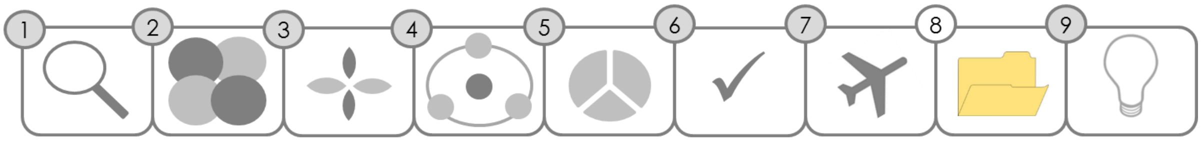


Figure 8.1 – Questionnaire Questions Origin



8.4. Workshop Results and Analysis

In total, four workshops were held and consisted of 50 participants. The number of eventual participants was five times as many as the initial target. From the 50 start-ups that participated in the workshops, 39 responses were obtained of which 37 questionnaires were valid. During the first workshop, two teammates attended yielding two valid questionnaires. During the second workshop, two teammates and 41 other individual participants attended, yielding 30 valid questionnaires. During the third workshop, four teammates attended yielding four valid questionnaires. During the last workshop, one participant attended, yielding one valid questionnaire. These numbers are shown in Table 8.2 below. The identities of individuals are withheld for privacy purposes.

Table 8.2 – Workshop Participant Response Rate

	Workshop 1	Workshop 2 (Microsoft Bizspark Helix Program)	Workshop 3	Workshop 4	Total
Date and Location	**16 March 2015, Stellenbosch, Cape Town**	**24 March 2015, Bedford view, Johannesburg**	**27 March 2015, District Six, Cape Town**	**31 March 2015, Bellville, Cape Town**	
Participants	2	43	4	1	50
# of Start-Ups	1	42	1	1	45
Questionnaires Returned	2	32	4	1	39
Valid Responses	2	30	4	1	37

The workshops functioned exactly as described in the previous section. The second workshop formed part of a larger five day Microsoft Bizspark Helix start-up program, where the author was the guest presenter on one of the days. The benefit that this provided was access to a much larger group of e-business start-ups. On the downside, dealing with such a large group meant less individual attention to each start-up (discussed later). Furthermore, the lower response rate during the second workshop was due to a slight confusion that arose surrounding the agenda, and some participants left the event before completing the questionnaire. From the 32 questionnaires returned from the second workshop, two were invalid. The one questionnaire was only half completed, while the other was completed by a participant who had been absent for most of the workshop, rendering him incapable of sensibly responding.

In contrast to the local and international validation phases, the data gathered during the workshop questionnaire were not answered on a uniform 5 point Likert scale for all the questions. The layout of this chapter therefore diverges from the previous two chapters. Each questionnaire question is discussed in order below.

8.4.1. Entrepreneurial Background

Question 1: How many years have you been involved in e-business?

Question 2: How many previous e-business start-ups have you been involved with (prior to this)?

Question 3: Would you classify your approach to business as being more planning oriented and structural, or more execution oriented and emergent?

The results obtained from these three questions are shown in Figure 8.2 below.

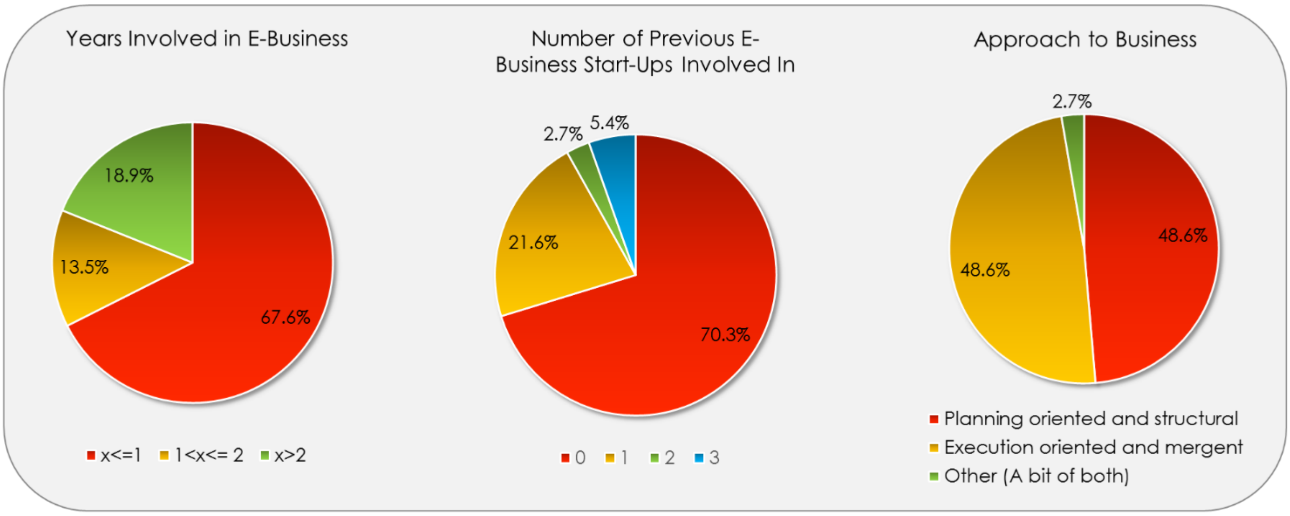
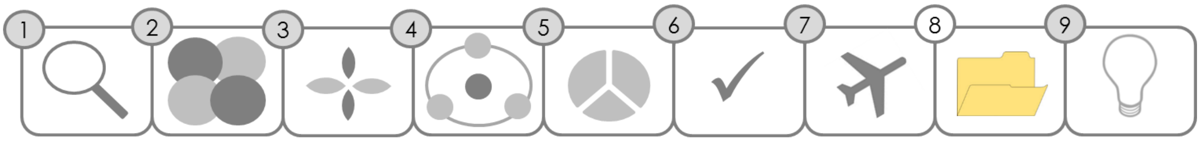


Figure 8.2 – Entrepreneurial Background of Workshop Participants

Figure 8.2 shows that 67.6 percent of participants have less than one year experience in e-business; 13.5 percent of participants have less than two years but more than one year experience in e-business; and 18.9 percent of participants have more than two years' experience in e-business. The average years of experience across all 37 participants was 1.73 years, with the most experienced participant having 15 years' experience in e-business and 14 participants having zero experience.

70.3 percent of participants have not previously been involved in an e-business start-up; 21.6 percent have been involved in a single e-business start-up venture; 2.7 percent have been involved in two e-business start-up ventures; and 5.4 percent have been involved in three e-business start-ups. From these first two pie-charts, it is clear that the majority of the workshop e-businesses were truly novices, which is exactly the audience that needed to be targeted.

Interestingly, the third pie-chart shows that the workshop samples delivered a perfect divide between individuals who classify themselves as being more planning oriented and structural, and those that are more execution oriented and emergent. One individual classified himself as being "a bit of both". The entrepreneurial data presented here will later be used to draw further conclusions about the workshop



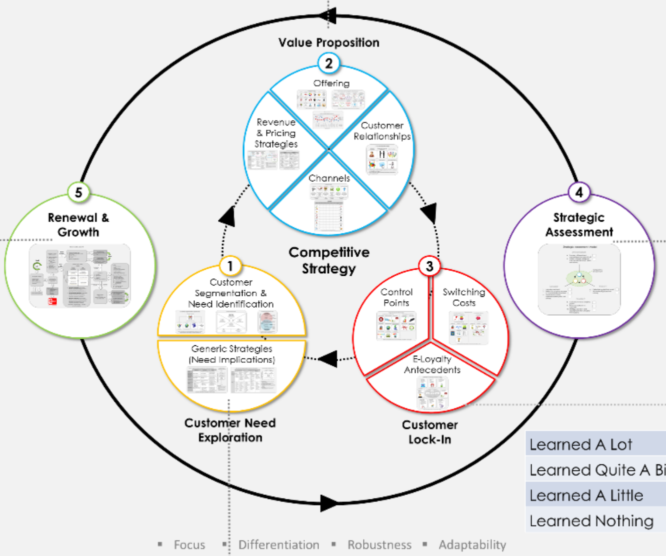
findings.

8.4.2. Workshop Results

Question 4: Did you learn anything from the competitive strategy framework or any of its tools? Which aspects did you learn something about?

Competitive Strategy Formulation Workshop Learning Results

	E-Value Creation	New Market Space Creation	Strategy Benchmarking	Customer Relationships	Channel Phases	Value Creation Over Channels	Revenue Strategies	Pricing Mechanisms
Learned A Lot	56.8%	59.5%	56.8%	56.8%	45.9%	40.5%	45.9%	40.5%
Learned Quite A Bit	32.4%	27.0%	29.7%	24.3%	27.0%	37.8%	43.2%	37.8%
Learned A Little	5.4%	10.8%	5.4%	13.5%	21.6%	10.8%	8.1%	16.2%
Learned Nothing	5.4%	2.7%	8.1%	5.4%	5.4%	10.8%	2.7%	5.4%



	Average Learning
Learned A Lot	50.0%
Learned Quite A Bit	28.8%
Learned A Little	14.6%
Learned Nothing	6.6%

	Renewal & Growth
Learned A Lot	62.2%
Learned Quite A Bit	21.6%
Learned A Little	16.2%
Learned Nothing	0.0%

	Strategy Evaluation
Learned A Lot	59.5%
Learned Quite A Bit	24.3%
Learned A Little	8.1%
Learned Nothing	8.1%

	Control Points	Switching Costs	E-Loyalty Antecedents
Learned A Lot	54.1%	48.6%	40.5%
Learned Quite A Bit	27.0%	21.6%	37.8%
Learned A Little	13.5%	24.3%	10.8%
Learned Nothing	5.4%	5.4%	10.8%

	Customer Segmentation	Need Identification	Customer Need Saturation	Digital-Physical Orientation Choices	Porter's Generic Strategies
Learned A Lot	56.8%	43.2%	40.5%	54.1%	37.8%
Learned Quite A Bit	24.3%	37.8%	27.0%	13.5%	24.3%
Learned A Little	13.5%	13.5%	24.3%	16.2%	29.7%
Learned Nothing	5.4%	5.4%	8.1%	16.2%	8.1%

Figure 8.3 – Competitive Strategy Formulation Workshop Learning Results

Figure 8.3 summarises the workshop participant learnings on a sub-model level. Inspecting only a few elements, the element that participants indicated that they learned a lot from the most was the renewal and growth element at 62.2 percent. Interestingly, it is also the only element that no participant said that they did not learn something about. Other high scoring elements that participants indicated that they learned a lot about included new market space creation (59.5 percent), strategy evaluation (59.5 percent), customer segmentation (56.8 percent), e-value creation (56.8 percent), strategy benchmarking (56.8 percent) and customer relationships (56.8 percent). The lowest scoring element on learning a lot was Porter's generic strategies at 37.8 percent. This "low" score could probably be attributed to Porter's generic strategies being taught ubiquitously in University or MBA curriculums.

On the no learning side, the element that the most participants said that they did not learn anything about, was the digital-physical orientation choices of a business at 16.2 percent. This probably because the digital-physical orientation choices are fundamental to e-business and perhaps more commonly known. Still, 54.1 percent of participants indicated that they learned a lot from this model. Other two models that had high ratings in the no learning zone was the e-value map (10.8 percent) and e-loyalty antecedents (10.8 percent). The low learning on the e-value map is probably due to the fact that it is a composite model of the 18 sources of e-value and the channel phases, and most of the learnings probably took place on those individual models. Similarly, e-loyalty antecedents relate to value creation, control points and switching costs. It could also be that less learning took place at the e-loyalty model due to prior learning.

In total, 50 percent of participants on average learned a lot; 28.8 percent on average learned quite a bit; 14.6 percent on average learned a little bit; and only 8.1 percent on average did not learn anything. Furthermore, from this sample, 100 percent of participants indicated that they learned something from the framework in its entirety. This is a miraculous result. It is the author's hypothesis that these ratings will decrease however, as participant expertise and experience increases. Nevertheless, these high learning statistics showcase the absolute relevance and novelty of the framework.

Question 5: Did the competitive strategy framework make you think differently in any way? How did it make you think differently?

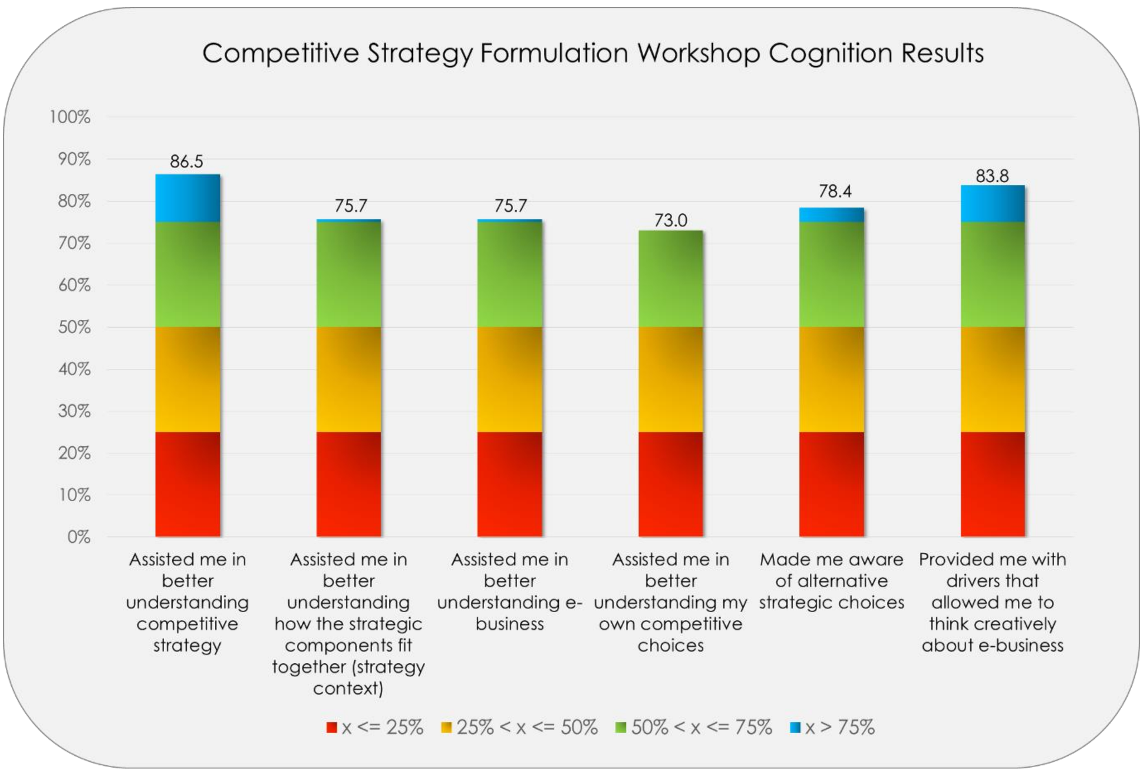


Figure 8.4 – Competitive Strategy Formulation Workshop Cognition Results

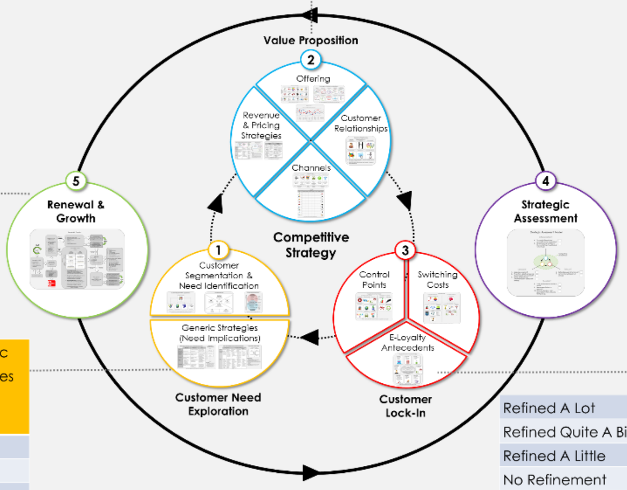
Figure 8.4 showcases the effect of the competitive strategy formulation workshop on participants' cognition. Amazing results were obtained in all categories. 86.5 percent of participants indicated that the framework assisted them in better understanding competitive strategy; 75.7 percent indicated that the framework assisted them in better understanding how the strategic components fit together (strategy context); 75.7 percent indicated that the framework assisted them in better understanding e-business; 73 percent indicated that the framework assisted them in better understanding their own competitive choices; 78.4 percent indicated that the framework made them aware of alternative strategic choices; and 83.8 percent indicated that the framework provided them with drivers that allowed them to think creatively about e-business. Additionally, from this sample, 100 percent of participants indicated that the framework enhanced their cognition in some way.

Question 6: Did the competitive strategy framework or any of its sub-models assist you in formulating or refining your competitive strategy? Which aspects of your competitive strategy were refined?

Competitive Strategy Formulation Workshop Refinement Results

	Offering	Customer Relationships	Channel Strategy	Revenue & Pricing Strategy
Refined A Lot	45.9%	54.1%	48.6%	54.1%
Refined Quite A Bit	29.7%	18.9%	24.3%	21.6%
Refined A Little	10.8%	13.5%	18.9%	13.5%
No Refinement	13.5%	13.5%	8.1%	10.8%

	Growth Strategy
Refined A Lot	43.2%
Refined Quite A Bit	32.4%
Refined A Little	13.5%
No Refinement	10.8%



	Average Refinement
Refined A Lot	47.6%
Refined Quite A Bit	25.1%
Refined A Little	14.6%
No Refinement	12.7%

	Customer Segmentation & Need Identification	Generic Strategies
Refined A Lot	43.2%	43.2%
Refined Quite A Bit	32.4%	32.4%
Refined A Little	10.8%	18.9%
No Refinement	13.5%	5.4%

	Control Points	Switching Costs	E-Loyalty Antecedents
Refined A Lot	54.1%	45.9%	43.2%
Refined Quite A Bit	13.5%	24.3%	21.6%
Refined A Little	21.6%	10.8%	13.5%
No Refinement	10.8%	18.9%	21.6%

▪ Focus ▪ Differentiation ▪ Robustness ▪ Adaptability

Figure 8.5 – Competitive Strategy Formulation Workshop Refinement Results[23]

Figure 8.5 summarises the workshop participant refinements on a sub-element level. The sub-elements that participants indicated that they refined a lot from the most, were their customer relationships (54.1

[23] The strategic assessment was intentionally excluded here, as it cannot exactly be "refined". An improved rating can be obtained though.

percent), revenue and pricing strategies (54.1 percent) and control points (54.1 percent). The sub-elements that were refined a lot the least were customer segmentation and need identification (43.2 percent), generic strategies (43.2 percent), e-loyalty antecedents (43.2 percent) and participant's growth strategy (43.2 percent).

The sub-element that the most participants said they did not refine at all, was their e-loyalty antecedents at 21.6 percent. One possible explanation is that the start-ups were more concerned with their value proposition and getting initial customers than thinking about how they would retain customers in future. This inverse (and less believable explanation) could be that these participants have already considered customer retention in sufficient amounts of detail. Another sub-element that had high ratings in the "no refinement" zone, was switching costs at 18.9 percent. The same possibilities as above apply.

In total, 47.6 percent of participants on average refined their strategy a lot; 25.1 percent on average refined their strategy quite a bit; 14.6 percent on average refined their strategy a little bit; and only 12.7 percent on average did not refine their strategy. Furthermore, from this sample, 100 percent of participants indicated that they refined some aspect of their competitive strategy. This is an amazing result. It is the author's hypothesis that these ratings will decrease however, as the initial quality of participants' strategy increase. Nevertheless, these high refinement statistics unequivocally showcase the framework's ability to assist competitive strategy formulation.

Question 7: Which of the following aspects do you think the competitive strategy framework could be useful for in future?

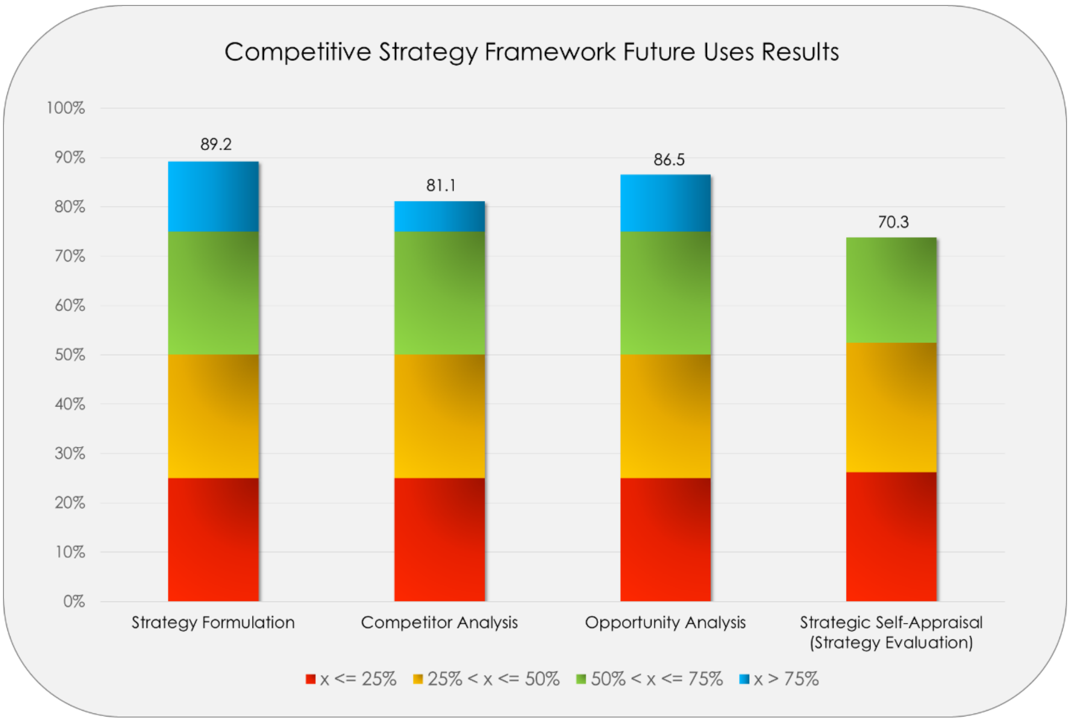


Figure 8.6 – Competitive Strategy Framework Future Uses Results

Given that the time in the workshop itself was limited and not all the models were used as in-depth as is possible (the strategy canvas for instance, could benefit from additional competitor research subsequent to the workshop), this question was included to evaluate the possible future uses of the framework. The results shown in Figure 8.6 are magnificent. 89.2 percent of participants indicated that they would use it for strategy formulation; 81.1 percent indicated that they would use it for competitor analyses; 86.5 percent indicated that they would use it for opportunity analyses; and 70.3 percent indicated that they would use it as a self-appraisal tool to evaluate their formulated strategy. Additionally, from this sample, 100 percent of participants indicated that the framework has some future analysis use.

Additional future uses mentioned by participants included:

- "Product updates"
- "Business improvement"
- "Formulating a pricing and revenue strategy and adapting product features accordingly (and vice versa)."

Question 8: Do you think that your competitive strategy improved from its initial state to the second version?

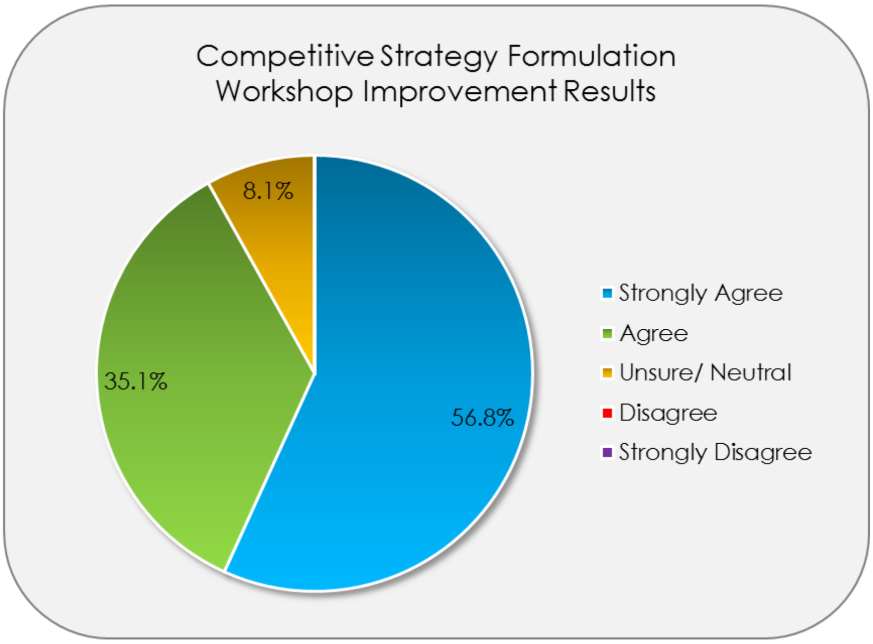


Figure 8.7 – Competitive Strategy Formulation Workshop Improvement Results

Figure 8.7 depicts the percentages of participants who indicated that their competitive strategies improved from the initial version constructed prior to the workshop, to the second version constructed during the workshop. There were no participants who disagreed or strongly disagreed that their competitive strategies improved. 56.8 percent of participants indicated that they strongly agreed that it improved; 35.1

percent of participants indicated that they agreed that their competitive strategy improved; and only 8.1 percent of participants were unsure. Again, this is an amazing result.

Comments included:

- "Research on competitive strategy was already conducted on a very high level. We have taken Eric Ries and Steve Blank's strategies and adapted product and customer development accordingly. However, this strategy (framework) is more applicable to e-business that makes it more relevant. It creates massive awareness that impacts your strategy."
- "It made me see things in a whole new light."
- "Achieved further clarity."
- "Structured approach with a defined toolset to determine and confirm our competitive advantage."
- "I had not considered a number of factors that were addressed. Going through the competitive strategy framework clearly defined areas of focus for our specific product and company."

Question 9: Which of the following are strengths of the competitive strategy framework?

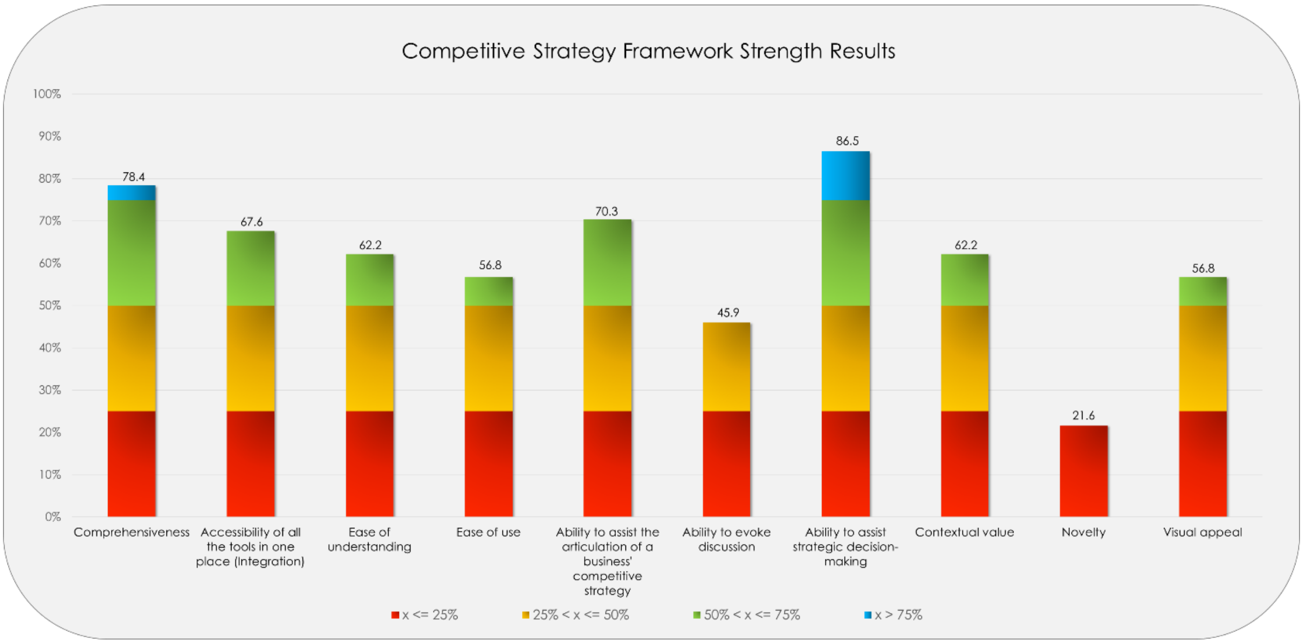


Figure 8.8 – Competitive Strategy Framework Strength Results

Figure 8.8 depicts the results of questioning workshop participants about the strengths of the framework. The highest rated strength is the frameworks ability to assist strategic decision-making at 86.5 percent. This is followed by the framework's comprehensiveness at 78.4 percent. Other strengths include the framework's ability to assist the articulation of a business's competitive strategy (70.3 percent), the accessibility of all the tools in one place (67.6 percent), the framework's ease of understanding (62.2 percent), the framework's contextual value (62.2 percent) and the framework's visual appeal (56.8 percent). Surprisingly, 56.8 percent of participants also indicated that they thought that the framework was easy to use, which the author anticipated to be a factor that would score much lower.

Finally, two elements that did not score that well include the ability of the framework to evoke discussion (45.9 percent) and the novelty of the framework (21.6 percent). The first can be explained in that the second workshop did not have as much participant interaction as the first, third and fourth workshop. The majority of participants (81 percent) therefore did not experience the tool as a tool that evokes discussion. From the sub-set of participants (19 percent) who attended the first, third and fourth workshop, 71.4 percent of them indicated that this was indeed a strength of the framework. Lastly, the novelty of the framework was also judged to be quite low. This can perhaps be attributed to the fact that the participants are novices, and have not seen many frameworks of this type before (refer to question 10 below). They therefore do not have the mental reference to judge whether it really is novel or not. Another possibility is that because the framework consists of an integration of several tools and methodologies, the models themselves are somewhat familiar and do not appear to be that novel.

Comments made regarding the strengths of the framework include:

- "Integrated all aspects into a simplistic user format."
- "Can do analysis on a high level (for initial concepts), but is also very easy to use for comprehensive, detailed strategy formulation."

Question 10: What tools or methodologies did you previously use to formulate your strategy?

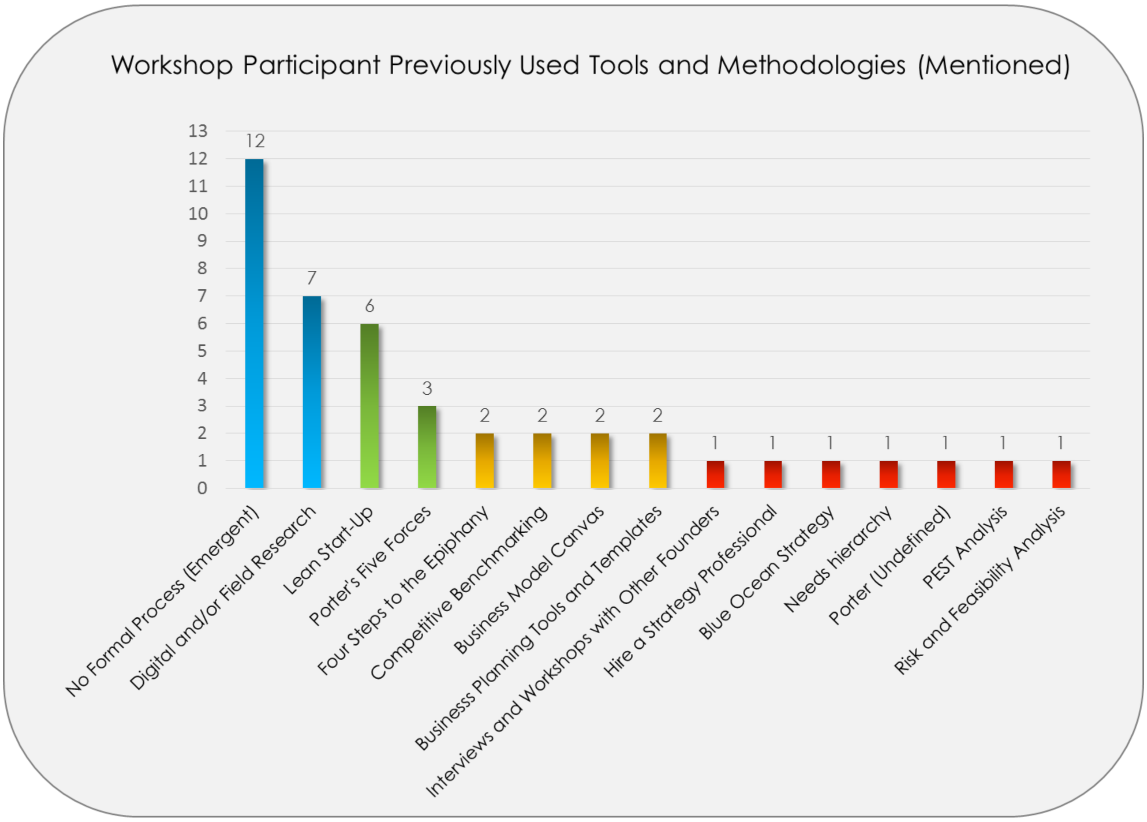


Figure 8.9 – Workshop Participant Previously Used Tools and Methodologies (Mentioned)

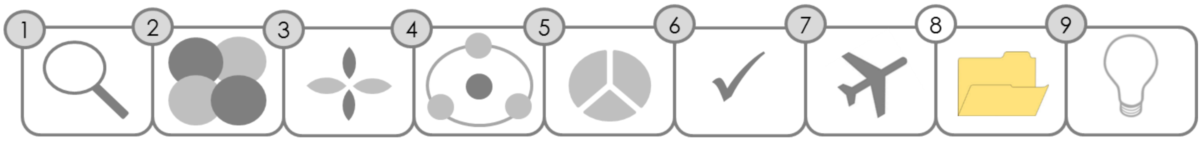


Figure 8.9 depicts the methodologies that the participants mentioned that they used. This question was answered quite poorly over-all. It could be that participants used various different methodologies and models, but struggled to articulate it in the questionnaire, or were simply too lazy to write these down. One participant for instance mentioned that he used some type of strategy formulation involving "too many (models) to name". No real conclusions can be drawn regarding this question. What becomes apparent however, is that (1) a large portion of this sample did not have any formal strategy methodology and (2) many of them used emergent strategy based on either digital or field research.

Question 11: To what extent do you agree that the competitive strategy framework methodology is a better approach than what you were using?

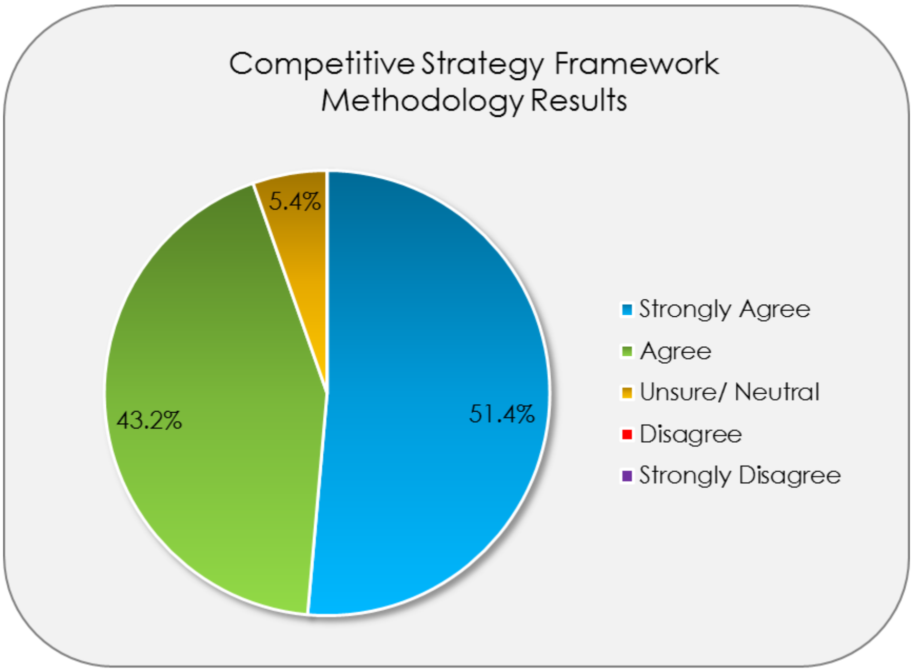
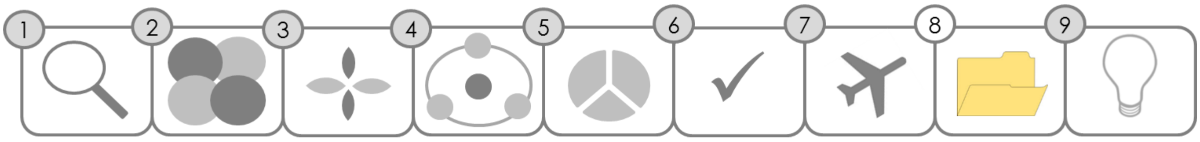


Figure 8.10 – Competitive Strategy Framework Methodology Results

Following on question 10, Figure 8.10 depicts the percentages of participants who indicated that they believe the competitive strategy framework is a better methodology than what they were using. There were no participants who disagreed or strongly disagreed with this. 51.4 percent of participants strongly agreed that the competitive strategy framework is a better methodology; 43.2 percent agreed that the framework is a better methodology; and only 5.4 percent were unsure or neutral regarding the framework.

Given that the workshop sample consisted of a perfect divide between participants who considered themselves as being more planning oriented and structural, and those that are more execution oriented and emergent; this amazing methodology result and all the other excellent results obtained in this chapter proves that (1) the competitive strategy framework is a widely applicable tool (2) that is not limited to a certain orientation. It can be of benefit to any one of these orientations.



Comments included:

- "This framework forces an early emphasis on whether the concept is viable or not and how to create or shift towards a viable concept (All data points that need to be taken into consideration)."
- "More visual. Do not need to read a book to understand the process. It is well integrated. More focused on e-business than other methodologies."
- "It is very detailed and saves time in not having to do extra research."
- "It highlighted aspects I did not look at e.g. pricing."
- "Better overview. More intuitive. One sees how things could work in real life."
- "It supplies a foundation to build on. It clearly points out all the aspects that needs work in a very easy, condensed model."
- "It comprehensively covers all aspects of the business model, ensuring one is aware of strengths and weaknesses, and can highlight strengths in order to make more of a success of the business."
- "A lot more compact."
- "Very comprehensive strategy tool."

Question 12: How likely are you to recommend the competitive strategy framework to a friend, colleague or relative?

Competitive Strategy Framework Net Promoter Score Results

Likelihood to Recommend the Framework		% of Participants	NPS Influence
10	Promoter	56.8%	+56.8%
9	Promoter	5.4%	+5.4%
8	Passive	29.7%	N/A
7	Passive	5.4%	N/A
6	Detractor	2.7%	-2.7%
5	Detractor	0%	-0%
4	Detractor	0%	-0%
3	Detractor	0%	-0%
2	Detractor	0%	-0%
1	Detractor	0%	-0%
Net Promoter Score			**59.5**

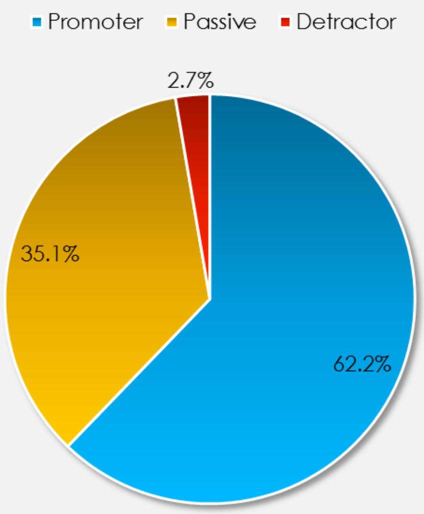


Figure 8.11 – Competitive Strategy Framework Net Promoter Score Results

Figure 8.11 depicts the net promoter score calculation and promoter, passive, detractor demographics of the participants. 62.2 percent of participants indicated a very high likelihood to recommend the framework (scored nine or ten); 35.1 percent of participants indicated a high likelihood to recommend the framework (scored seven or eight); and only 2.7 percent of participants indicated a low likelihood to recommend the framework (scored between one and six). The net promoter score of the framework then equates to 59.5 percent. As previously mentioned, a positive net promoter score is considered good, and a net promoter score of higher than 50 is considered excellent. The framework's net promoter score is therefore remarkable.

Comments include:

- "(Framework workshop is a) Definite must for start-ups, especially online/tech. Established players can benefit from the framework when developing new/differentiating/pivoting products."
- "It evokes your creativity."

Question 13: Any other comments or recommendations?

- "I do not think that many start-ups understand the value and importance of such a framework upfront. This in some way must be made more apparent for them to take advantage of this. A detractor could be the fear of confirming a bad idea. Very interesting, valuable workshop! We will definitely be implementing this framework into our future thinking and strategies."
- "Good presentation with a holistic approach."
- "Try to summarize worth content. It felt like a lecture. My personal preference is to interact more with the audience."
- "This is the most helpful workshop I've been to since I started attending workshops."
- "Be more practical and engaging. Too much information. It can be broken down to practical use."
- "Competitive strategy is of importance in start-ups but need to be presented in phases and not once off, because it has a lot of stuff that can be missed due to its comprehensiveness."
- "The presentation was an eye-opener when it comes to competitive strategy."
- "Would have this as a reference tool and checklist to refer back to on a regular basis."
- "It needs to be easier to understand the concepts. There's a lot of information to take in."
- "It was very useful, and I learned a lot. I learned of aspects that I did not even think about, and also specific aspects on which I can improve."
- "It is very beautiful and comprehensive. It is however very much packed with knowledge that is a great thing, but it is also quite overwhelming and makes it difficult to follow through. One might get lazy to implement it as it is so vast. It is very useful if you are willing to take the time to understand it."
- "It was an eye and mind opener."
- "This has been more informative than 3 years' worth of classes."
- "I really like the presentation. Very engaging. I was able to follow every aspect of the framework."
- "Useful tool, simple, compact and helps one gain a better general understanding and gives one a sense of direction. A lot to take in, however, a path and thought train was created."

- "Provided an integrated platform where different specialists within a company starts understanding the different components within the customers, products and market development."

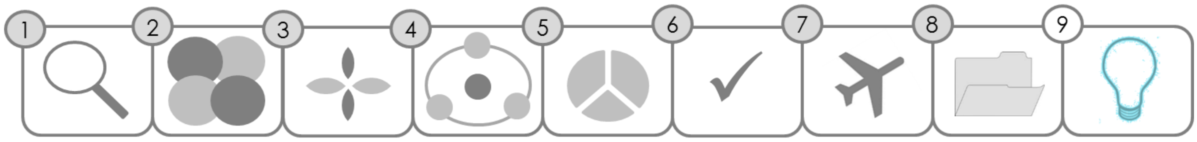
Finally, given the exceptional results across all the questions, it appears as if the data may have been tampered with. For this reason, the author presented the completed questionnaires to his supervisor, who scrutinized the questionnaires and summarized data to confirm its legitimacy. The completed questionnaires are currently being kept at Stellenbosch's Department of Industrial Engineering as physical evidence.

8.5. Conclusion

This chapter discussed the workshop design and the feedback obtained from the responses of 37 workshop participants. The basic findings were discussed, as well as some initial conclusions. Altogether, very positive results were obtained from the workshops. More extensive conclusions regarding the study will be drawn in the following chapter.

9. Conclusions

This chapter concludes the study by giving an overview of the study, drawing conclusions regarding the competitive strategy framework for e-business start-up's contribution and discussing some meta-insights gained. Possibilities for future research are also highlighted.



9.1. Overview

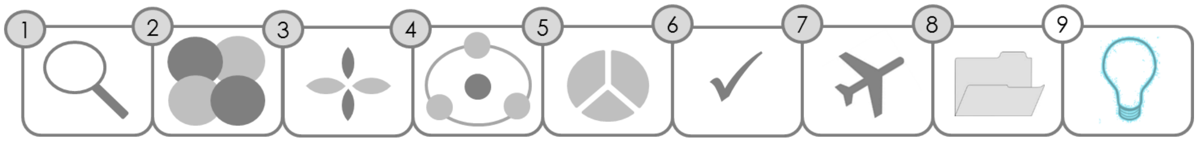
The strategic tools and insights that e-business start-ups require to better formulate their competitive strategies are obscured by the staggering amounts of strategy literature available. Yet at the same time, given the relative recency of the Internet, research in the e-domain is still in its infancy. An opportunity for strategic sense-making and integration was therefore identified to make relevant strategic tools and insights more accessible, while simultaneously deepening the understanding of e-business.

The broad objective of this study was thus to assist e-business start-ups with their strategy formulation. More specifically, this study set about the task to develop a conceptualisation that could assist e-business start-up competitive strategy formulation. Competitive strategy in this context refers to how a business intends to compete in the market and how it intends to defend its chosen competitive position. The best suited conceptualisation type for the envisioned output was a framework, which refers to the essential structure of an object or entity.

In conducting the research, a constructivist philosophical perspective and a practice-oriented approach was embraced, which required the developed framework to present a more informed and sophisticated perspective than previously existed, while also providing practical utility in the real world. For this exploratory theory building study, a basic systems engineering process was followed, which involved creating a set of requirements that needed to be fulfilled by the framework (derived from literature in Chapter 2 and 3); designing the framework (Chapter 4); designing the sub-models (Chapter 5); and verifying and validating that the framework met the requirements (Chapter 6, 7, 8).

The research endeavour investigated four main domains of interest, namely e-business, business models, blue ocean strategy and red ocean strategy. Four sub-domains were also investigated, namely fundamentals of e-business strategy, business model innovation, e-value creation and e-customer retention. Together these domains produced 46 content requirements that needed to be addressed in addition to the 17 research question requirements and 18 theoretical model building requirements (refer to Chapter 4.2 and 6.2).

The output of the study was a competitive strategy framework that exists on three levels of complexity, and consists of five primary elements, nine sub-elements, 18 sub-models, various relationships and a flexible sequence. The broad intent of the framework is to assist e-business start-ups by providing them with strategy content that can be used to formulate and explicitly articulate each aspect of their competitive strategy. The competitive strategy framework for e-business start-ups is shown in Figure 9.1 below.



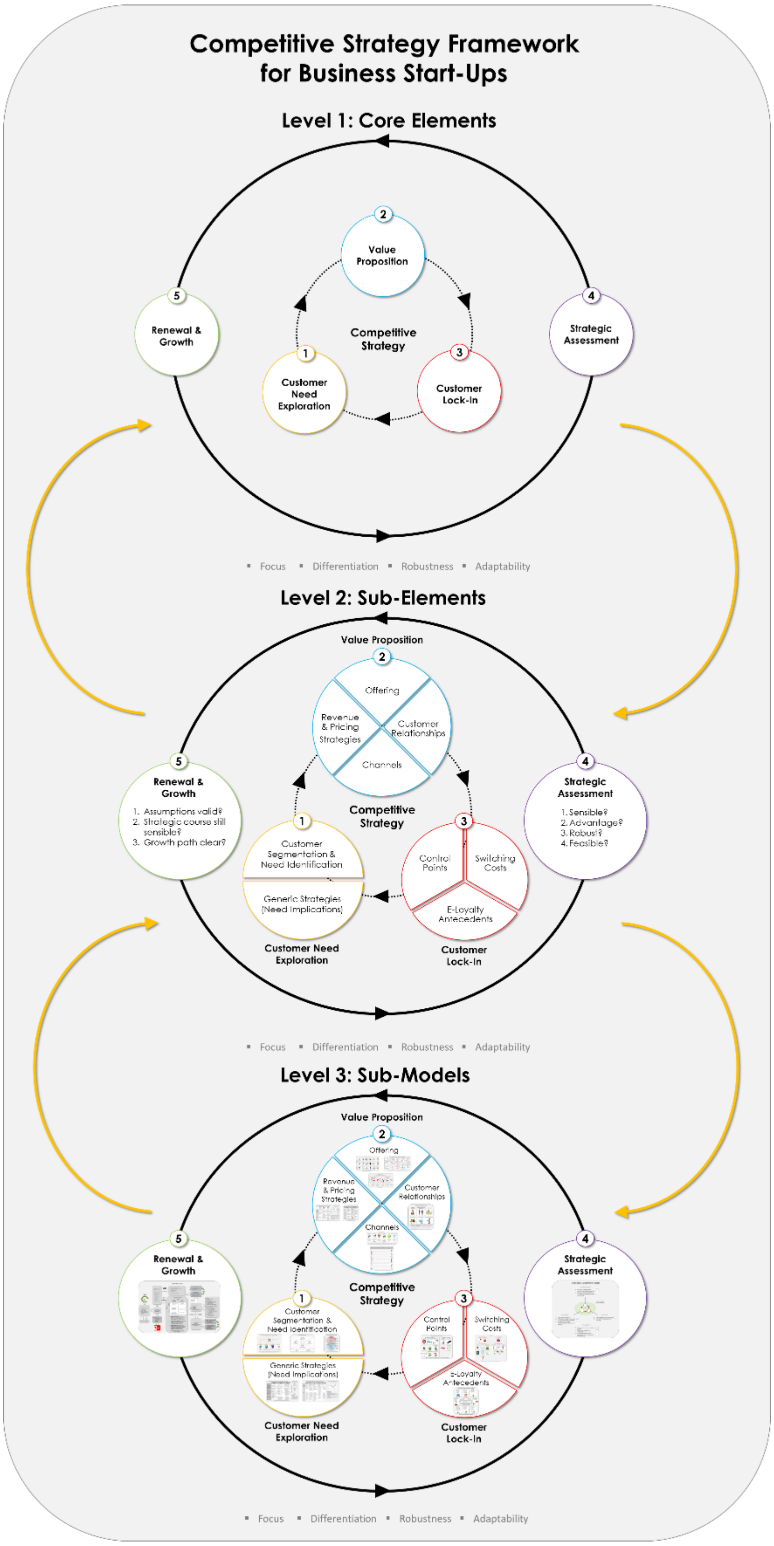


Figure 9.1 – Competitive Strategy Framework for E-Business Start-Ups

During the research process seven core elements of competitive strategy were discovered. These include industry selection, customer segmentation, a value proposition, an activity system, a core competitive advantage choice, strategic control points, and strategy evolution (refer to Figure 2.20). An eighth core element, strategic assessment, emerged as something relevant to strategy formulation in general. For scoping purposes, two of these eight elements (industry selection and activity system) were excluded from the framework (refer to Chapter 2.4.4). By merging and renaming some elements, the resultant framework consisted of five core elements, namely customer need exploration, value proposition, customer lock-in, strategic assessment, and renewal and growth. From the adjacent literature nine sub-elements also emerged. Customer need exploration's formulation could be assisted by customer segmentation and need exploration, and generic strategies elements. The value proposition's formulation could be assisted by an offering, customer relationships, channels, and revenue and pricing strategies elements. Finally, customer lock-in's formulation could be assisted by control points, switching costs and e-loyalty antecedent elements. Subsequent to this, 18 models were designed or borrowed and fitted to the framework. These are discussed in more detail later.

Considering the framework's context, the framework is a methodology that can be used during the first phase of Steve Blank's customer development process (customer discovery) where businesses articulate their initial hypotheses before moving on to validate these in the real world. In Eric Ries's lean start-up process, this correlates with the ideation phase.

The competitive strategy framework is meant to act as a complement to the over-all start-up process. It is not an all-inclusive framework. Other tools and methodologies will still be required during the life of a start-up for various specific purposes. The competitive strategy framework merely provides a good point of departure for thinking about competitive strategy in e-business.

The framework was validated locally, internationally, and by having workshops with actual e-business start-ups. In-between these three phases, improvements were made to the framework and its sub-models based on the feedback obtained. The improved models were then presented during the next phase of validation. In this way, the framework iteratively evolved as new insights were obtained. The framework's use as analysis tool was also showcased via a case study on Dropbox as shown in Appendix B.

An overview of the study is provided in Figure 9.2 below.

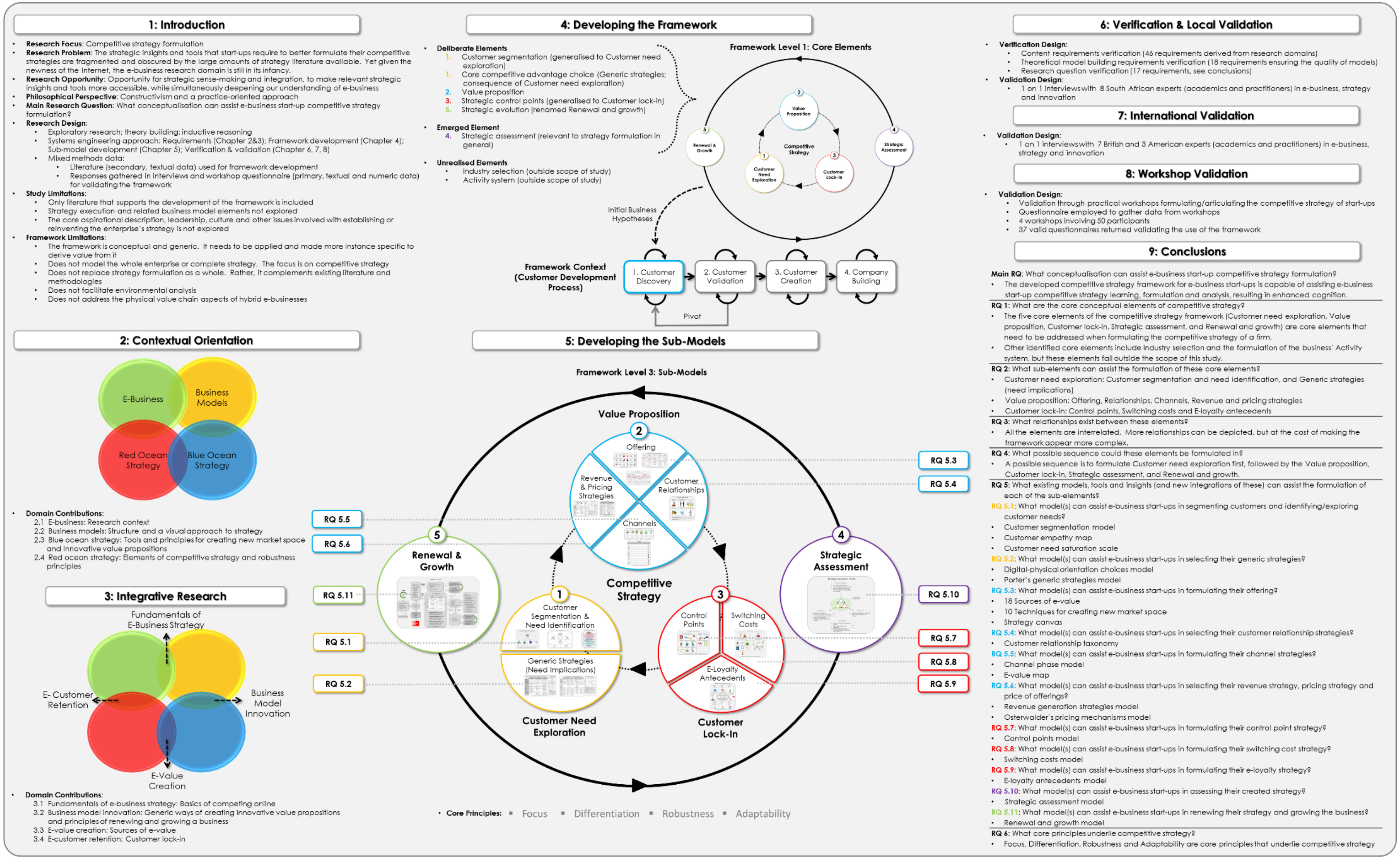


Figure 9.2 – Study Overview

9.2. Results and Contributions

This study sought to develop a conceptualisation that could assist e-business start-up competitive strategy formulation (MRQ). Several sub-research questions were used as mechanisms for achieving this aim. The first of these (RQ 1) was to uncover the core conceptual elements of competitive strategy. In this regard, the study proposed a unique assembly of core elements of competitive strategy. Given that the framework consists of these elements, the developed framework is indeed a competitive strategy framework. The second of these (RQ 2) was to uncover sub-elements that could assist the formulation of these core elements. Again, the study proposed a unique assembly of sub-elements suited to this purpose. The third research question (RQ 3) sought to establish the relationships between the aforementioned elements. In this regard the study proposed a structural embodiment to depict these. In addition to this visualisation showcasing the relationships between elements, it also added contextual value as it connected previously "detached" conceptual elements.

The fourth research question (RQ 4) sought to establish a possible sequence that the elements of the framework could be formulated in. In this regard the study suggested a flexible sequence that could be used. The fifth research question (RQ 5) sought to uncover models, tools and insights (or develop new integrations of these) that could be used to assist the formulation of each of the sub-elements. The study proposed 18 models suited to this purpose, varying in their degree of originality. Interested readers may refer to Table 10.1 in Appendix A for a summary of the models and their uses. Lastly, the sixth research question (RQ 6) sought to uncover core principles that underlie competitive strategy. The study proposed four such principles.

A summary of the results of all three validation phases and the contributions of the study in relation to each of the research questions are provided in Table 9.1 below. The local and international validation phases were used to validate the trustworthiness and integrity of the theoretical model, whereas the workshop validation phase was used to validate the framework's utility. During all three phases, magnificent results were obtained and the table unequivocally showcases that the study achieved its intended aims.

Highlighting the only the main contributions, ***the developed competitive strategy framework for e-business start-ups proved through implementation that it is capable of assisting e-business start-up competitive strategy learning, formulation and analysis, resulting in enhanced cognition***. From the workshop sample, 100 percent of participants indicated that they learned at least something from the framework; that the framework assisted them at least a little in refining their competitive strategy; that the framework has some competitor or opportunity analysis use; and that the framework enhanced their cognition (100 percent in all four categories). Furthermore, ***the competitive strategy framework makes a theoretical and practical contribution to e-business competitive strategy formulation in that it integrates***

18 models relevant to competitive strategy in a way that e-business practitioners felt is better than their previous approaches for formulating competitive strategies (94.6 percent of the sample).

Although it cannot be claimed that the framework will be as useful to all start-ups, it is likely that under similar conditions to the workshop sample, where a competent facilitator is present, the start-ups do not have a formal strategy background or have relative uncertainty about competing in the e-space, that similar utility will be derived (replication).

Table 9.1 – Summary of Results and Contributions

Research Question (RQ)	Proposition (P) / Implicit Proposition (IP)	Local Validation Result	International Validation Result	Workshop Questionnaire Result		Contribution
RQ 1: What are the core conceptual elements of competitive strategy?	**P 0.1**: The five core elements of the competitive strategy framework (Customer need exploration, Value proposition, Customer lock-in, Strategic assessment, and Renewal and growth) are core elements that need to be addressed when formulating the competitive strategy of a firm.	91%	94%	N/A[24]		• Provides an unique assembly of core elements of competitive strategy. Theoretical and practical contribution.
RQ 2: What sub-elements can assist the formulation of these core elements?	**P 0.2**: The sub-elements of the competitive strategy framework are suited to the core elements to which they belong. Customer segmentation and need identification and Generic strategies can assist the formulation of Customer need exploration. Offering, Customer relationships, Channels, and Revenue and pricing strategies can assist the formulation of the Value proposition. Control points, Switching costs and E-loyalty antecedents can assist the formulation of Customer lock-in.	Not validated[25]	86%	N/A		• Provides an unique assembly of sub-elements of competitive strategy. Theoretical and practical contribution.
RQ 3: What relationships exist between these elements?	**P 0.3**: All the elements of the competitive strategy framework are interrelated and the framework suitably reflects these relationships. More relationships can be depicted, but at the cost of making the framework appear more complex.	Not validated	78%	N/A		• Establishes relationships between core elements, sub-elements and sub-models of the framework. This visualisation adds contextual value and improves cognition of how previously detached elements fit together. Theoretical and practical contribution.
RQ 4: What possible sequence could these elements be formulated in?	**P 0.4**: A possible sequence in which the competitive strategy framework could be formulated in is to formulate Customer need exploration first, followed by the Value proposition, Customer lock-in, Strategic assessment, and Renewal and growth.	Not validated	72%	N/A		• Provides a flexible sequence for formulating competitive strategy. Minor theoretical and practical contribution.
RQ 5: What existing models, tools and insights (and new integrations of these) can assist the formulation of each of the sub-elements?				**Assist Learning[26]**	**Assist Formulation**	

[24] It was not the duty of the workshop participants to judge the theoretical soundness of the models, but rather their practical use.
[25] At the time when the local validation phase was conducted, the study had somewhat different research questions. This led to some elements not explicitly being validated.
[26] The figures in this column represent the sum of all workshop participants who indicated they learned something. The same approach was used for the assist formulation column.

Research Question (RQ)	Proposition (P) / Implicit Proposition (IP)	Local Validation Result	International Validation Result	Workshop Questionnaire Result		Contribution
RQ 5.1: What model(s) can assist e-business start-up customer segmentation, need identification and exploration?	**P 1.1**: The Customer segmentation model is a suitable representation of the basic, generic customer segmentation approaches that exist. It can assist e-business start-up customer segmentation.	81%	92%	94.6%	86.5%	• Visualises customer segmentation. Minor practical contribution.
	P 1.2: The Customer empathy map is a suitable model for developing customer insights. It can assist e-business start-up need identification and exploration.	Model added after local validation	92%	94.6%		• No contribution.
	P 1.3: The Customer need saturation scale is a suitable reflection of different levels of need saturation that exists and the different generic competitive approaches required to target these customers. It can assist e-business start-up need exploration.	Model added after local validation	86%	91.9%		• Integrates the three tiers of non-customers and Clayton Christensen's thinking about over-served customers into a single perspective. Minor theoretical and practical contribution.
RQ 5.2: What model(s) can assist e-business start-ups in selecting their generic strategies?	**P 1.4**: The Digital-physical orientation model suitably reflects the digital-physical choices available to e-business start-ups and can assist them with selecting their generic strategies.	84%	78%	83.8%	94.6%	• Visualises the digital-physical orientation choices and characteristics of an e-business. Minor theoretical and practical contribution.
	P 1.5: The Generic strategy model suitably reflects Porter's generic strategy choices available to e-business start-ups and can assist them with selecting their generic strategies.	75%	75%	91.9%		• Translates characteristics of Porter's generic strategy choices to an e-business context. Minor theoretical and practical contribution.
RQ 5.3: What model(s) can assist e-business start-ups in formulating their offering?	**P 2.1**: The 18 Sources of e-value is a suitable representation of sources of value in the e-environment. It can assist e-business start-ups with formulating their offering.	84%	92%	94.6%	86.5%	• Visualises and integrates various value creation models into a single perspective. Theoretical and practical contribution.
	P 2.2: The 10 Techniques for creating new market space is a suitable representation of ways to reconstruct market boundaries. It can assist e-business start-ups with formulating their offering.	78%	81%	97.3%		• Visualises and integrates three market space creation models into a single perspective. Minor theoretical and practical contribution.

Research Question (RQ)	Proposition (P) / Implicit Proposition (IP)	Local Validation Result	International Validation Result	Workshop Questionnaire Result		Contribution
	P 2.3: The Strategy canvas is a suitable tool for benchmarking the developed strategy against competitors in terms of the key competitive factors in the industry. It can assist e-business start-ups with formulating their offering.	Model added after local validation	67%	91.9%		• Integrates the strategy canvas with the four actions framework, and adapts it with an e-value perspective. Minor theoretical and practical contribution.
RQ 5.4: What model(s) can assist e-business start-ups in selecting their customer relationship strategies?	**P 2.4**: The Customer relationship model is a suitable representation of different generic types of customer relationships that exist. It can assist e-business start-ups with selecting their relationship strategies.	81%	83%	94.6%	86.5%	• Visualises Osterwalder's customer relationship taxonomy. Minor practical contribution.
RQ 5.5: What model(s) can assist e-business start-ups in formulating their channel strategies?	**P 2.5**: The Integrated channel phase model is a suitable reflection of different basic, generic channel phases that customers go through when making an online purchase. It can assist e-business start-ups with formulating their channel strategies.	94%	86%	94.6%	91.9%	• Visualises and integrates three channel phase models into a single perspective. Minor practical contribution.
	P 2.6: The E-value map is a suitable representation of ways in which e-value can be created across the different generic channel phases. It can assist e-business start-ups with formulating their channel strategies.		79%	89.2%		• Provides a unique perspective of value creation over channel phases. Theoretical and practical contribution.
RQ 5.6: What model(s) can assist e-business start-ups in selecting their revenue and pricing strategies of offerings?	**P 2.7**: The Revenue generation strategies model is a suitable reflection of different revenue generation strategies available to e-business start-ups and can assist them with selecting their revenue strategies.	72%	86%	97.3%	89.2%	• Visualises revenue strategies and translates their characteristics to an e-business context. Minor theoretical and practical contribution.
	P 2.8: The Pricing mechanisms model is a suitable reflection of different pricing strategies available to e-business start-ups and can assist them with selecting their pricing strategies.	Not validated	86%	94.6%		• Added leading questions. Minor practical contribution.
RQ 5.7: What model(s) can assist e-business start-ups in formulating their control point strategy?	**P 3.1**: The Integrated control point model is a suitable reflection of types of control points that exist and can assist e-business start-ups with formulating their control point strategy.	78%	85%	94.6%	89.2%	• Visualises and integrates various control point models into a single perspective. Theoretical and practical contribution.

Research Question (RQ)	Proposition (P) / Implicit Proposition (IP)	Local Validation Result	International Validation Result	Workshop Questionnaire Result		Contribution
RQ 5.8: What model(s) can assist e-business start-ups in formulating their switching cost strategy?	**P 3.2**: The Integrated switching cost model is a suitable reflection of types of switching costs that exist and can assist e-business start-ups with formulating their switching cost strategy.	88%	75%	94.6%	81.1%	• Visualises and integrates various switching cost models into a single perspective. Theoretical and practical contribution.
RQ 5.9: What model(s) can assist e-business start-ups in formulating their e-loyalty strategy?	**P 3.3**: The Integrated e-loyalty antecedent model is a suitable reflection of factors that drive e-loyalty and can assist e-business start-ups with formulating their e-loyalty strategy.	84%	78%	89.2%	78.4%	• Visualises and integrates various e-loyalty models into a single perspective. Theoretical and practical contribution.
RQ 5.10: What model(s) can assist e-business start-ups in assessing their created strategy?	**P 4.1**: The Strategic assessment model is suitable for assessing whether a business strategy exhibits characteristics typically portrayed by ideal strategies.	75%	71%	91.9%	70.3%[27]	• Visualises and integrates various strategy evaluation models into a single perspective. Minor theoretical and practical contribution.
RQ 5.11: What model(s) can assist e-business start-ups in renewing their strategy and growing the business?	**P 5.1**: The Renewal and growth model reflects core considerations required when renewing and growing a business.	81%	75%	100.0%	89.2%	• Visualises and integrates various growth learnings into a single perspective. Minor theoretical and practical contribution.
RQ 6: What core principles underlie competitive strategy?	**P 6.1**: Four underlying principles of competitive strategy are Focus, Differentiation, Robustness and Adaptability.	RQ added after local validation	78%	N/A		• Proposes four core principles of competitive strategy. Theoretical contribution.
MRQ: What conceptualisation can assist e-business start-up competitive strategy formulation?	**IP 1**: The framework can assist competitive strategy learning.	Emerged strength[28]	Emerged strength	100.0 %		• The developed competitive strategy framework for e-business start-ups is capable of assisting e-business start-up competitive strategy learning, formulation and analysis, resulting in enhanced cognition. • The competitive strategy
	IP 2: The framework can assist competitive strategy formulation.	84%	86%	100.0 %		
	IP 3: The framework can assist competitive strategy analysis.	Emerged strength	Emerged strength	100.0%		
	IP 3.1: The framework can assist competitor analysis.	Emerged strength	Emerged strength	81.1%		
	IP 3.2: The framework can assist opportunity analysis.	Emerged strength	Emerged strength	86.5%		
	IP 4: The framework can enhance its users' cognition.	Emerged strength	Emerged strength	100.0%		

[27] Result obtained from Figure 8.6 – Competitive strategy framework future uses results

[28] It was only during the last validation phase that the possible practical benefits of the framework became clear to the author. These were then validated practically.

Research Question (RQ)	Proposition (P) / Implicit Proposition (IP)	Local Validation Result	International Validation Result	Workshop Questionnaire Result	Contribution
	IP 4.1: It can assist users in better understanding competitive strategy.	Emerged strength	Emerged strength	86.5%	framework provides a more integrated and comprehensive perspective for competing in e-business (evident from the way that it was constructed). It makes existing strategic models, tools and insights (and new integrations of these) for formulating an e-business's competitive strategy more accessible to start-ups. • Additionally, it provides a structure for formalising and explicitly articulating a business's competitive strategy; provides contextual value; evokes discussion; assists strategic decision-making; and allows for a deeper understanding of e-competition. • In conclusion, the competitive strategy framework makes a theoretical and practical contribution in that it integrates 18 models relevant to competitive strategy in a way that e-business practitioners feel is better than their previous approaches for formulating competitive strategies.
	IP 4.2: It can assist users in better understanding how the strategic components fit together (Strategy context).	Emerged strength	Emerged strength	75.7%	
	IP 4.3: It can assist users in better understanding e-business.	Emerged strength	Emerged strength	75.7%	
	IP 4.4: It can assist users in better understanding their own competitive choices.	Emerged strength	Emerged strength	73.0%	
	IP 4.5: It makes users aware of alternative strategic choices.	Emerged strength	Emerged strength	78.4%	
	IP 4.6: It provides users with drivers that allows them to think creatively about e-business.	Emerged strength	Emerged strength	83.8%	
	IP 5: The competitive strategy framework makes a theoretical contribution.	81%	78%	N/A	
	IP 6: The competitive strategy framework is a better methodology than what the start-ups were using.	Emerged strength	Emerged strength	94.6%	
	IP 6.1: The framework is comprehensive.	Emerged strength	Emerged strength	78.4%	
	IP 6.2: The framework is integrated and accessible.	Emerged strength	Emerged strength	67.6%	
	IP 6.3: The framework is easy to understand.	69%[29]	67%	62.2%	
	IP 6.4: The framework is easy to use.			56.8%	
	IP 6.5: The framework can assist the articulation of a business's competitive strategy.	Emerged strength	Emerged strength	70.3%	
	IP 6.6: The framework can evoke discussion.	Emerged strength	Emerged strength	45.9%	
	IP 6.7: The framework can assist strategic decision-making.	Emerged strength	Emerged strength	86.5%	
	IP 6.8: The framework adds contextual value.	Emerged strength	Emerged strength	62.2%	
	IP 6.9: The framework is novel.	Emerged strength	Emerged strength	21.6%	
	IP 6.10: The framework is visually appealing.	Emerged strength	Emerged strength	56.8%	

[29] This result refers to the implementation capability of the framework.

9.2.1. Core Theoretical Contribution

This study explored the relatively under-studied domain of competitive strategy. Since Porter's early foundation writings on competitive strategy in the 1980's, there has been a severe lack of systematic investigation into competitive strategy's definition, meaning and elements. In the meanwhile competitive strategy has been misinterpreted and reduced to referring only to Porter's generic competitive strategies. Several researchers have therefore tested Porter's generic strategies' applicability and use in various different industries and contexts, but the broader meaning of competitive strategy that refers to how a business intends to compete in the market and how the business intends to defend its competitive position has received little attention.

The research identified three major themes associated with competitive strategy, namely (1) environmental analysis, (2) strategic positioning, and (3) the creation of a sustainable competitive advantage. Furthermore, by breaking away from Porter's functionally oriented perspective via Porter's (1980, p. xxv) wheel of competitive strategy, Porter's (1980, pp. 127-129) dimensions of competitive strategy and Porter's (1985) value chain, this study explored the generic, higher level core conceptual elements of competitive strategy. Seven such elements were identified and include (1) industry selection, (2) customer segmentation, (3) a value proposition, (4) an activity system, (5) a core competitive advantage choice (otherwise known as Porter's generic competitive strategies), (6) strategic control points, and (7) strategy evolution or adaption. The study also identified an eighth element that is relevant to strategy formulation in general, namely (8) strategy evaluation.

Although these proposed elements only represent one perspective on the core conceptual elements of competitive strategy, it is sufficiently informed by literature and were not rejected by knowledgeable validators as a useful digest during the theory-testing stages of this study. As people have different mental models, they do not necessarily understand concepts in the same way. The identification of these elements therefore provides a unified perspective for engaging with the higher level choices related to competitive strategy and provides an important stepping stone for future researchers who also intend to contribute to this domain.

The study also further identified four core principles that underlie competitive strategy in general as (1) focus, (2) differentiation, (3) robustness and (4) adaptability. These principles also were not rejected by knowledgeable validators. It is therefore posited that businesses that pursue and achieve excellence in these guiding principles are likely to be very competitive in the market. The contribution that these principles make are that they loosely provide higher level strategic guidance even in the absence of anything else.

As a functional construct that needed to achieve the aim of the study within the limitations of the study, a competitive strategy framework focusing specifically on e-business start-ups was developed. For simplicity and clarity's sake, some of the core conceptual elements of competitive strategy were merged and renamed to develop the resultant competitive strategy framework that consists of five interrelated core elements: (1) customer need exploration, (2) a value proposition, (3) customer lock-in, (4) a strategic assessment, and (5) renewal and growth. For scoping purposes, two of the eight competitive strategy elements (industry selection and activity system) were excluded from the framework (refer to Chapter 2.4.4). Industry selection and a general understanding of the domain one intends to enter are seen as the minimum entry barriers for using the framework, while an activity system underlies all of the elements of the framework and binds them together as a whole on a more operational level.

The study further proposed that relationships exist between these five core elements and other sub-elements. Notably, it was proposed that (1) customer segmentation and need identification, and (2) generic strategies relate to and can assist the formulation of the customer need exploration core element. It was also proposed that (1) control points, (2) switching costs and (3) e-loyalty antecedents relate to and can assist the formulation of the customer lock-in core element. A link between the value proposition core element and the sub-elements of (1) an offering, (2) customer relationships, (3) channels and (4) pricing elements have already previously been proposed by Ungerer, Pretorius and Herholdt (2011).

The study also developed and adopted several sub-models that in combination are able to assist e-business start-up competitive strategy formulation. These sub-models provide a minor theoretical contribution, but a significant practical contribution. In summary, the study provides a more integrated and comprehensive perspective to e-business competitive strategy formulation via a unique assembly of core elements, sub-elements and sub-models.

9.3. Meta-Insights

The following meta-insights emerged from retrospective reflections on the study.

9.3.1. Strengths of the framework

The utility of the framework is derived from its integration and comprehensiveness. Users would be supportive of the framework because of these characteristics, not in spite of it. There has been some demand for a simpler framework (discussed later), but as will be seen below, such a conceptualisation would ultimately destroy much of the value of the framework.

Firstly, as the framework presents a more integrated approach for competing in e-business, it mediates various e-business, strategy and business model perspectives and combines them in a holistic way. The framework therefore serves a strategic sense-making role that simplifies the journey to access the relevant strategic content. The accessibility of the tools has already been proven a strength of the framework through the workshop validation. Secondly, the framework's integrated perspective adds contextual value that enhances the cognition of users. The framework connects familiar strategic concepts in a way that clarifies their interrelationships and the larger strategic context. In this regard, the framework has already proven that it can assist e-business start-ups in better understanding the strategic context, understanding e-business, and understanding the conceptual choices needed when formulating a business's competitive strategy.

Thirdly, as the framework presents a more comprehensive approach for competing in e-business (as a whole, not necessarily on the individual model levels), it allows for a more detailed analysis of the business. In this regard, the framework has already proven that its thorough process can enhance the cognition of users by assisting them in better understanding their current strategic choices, while also making them aware of alternative possibilities. A better understanding of a business's strategic choices aids in its articulation, which can possibly lead to enhanced communication, greater organisational focus, and better day-to-day and long-term decision making. An awareness of alternative possibilities on the other hand can induce creative and innovative thinking about ways in which the business can be improved to ensure its survival. Finally, a more comprehensive framework also reduces the risk of poor decision-making that would have resulted as a direct consequence of having less complete knowledge.

9.3.2. Multiple Paradigms and the Competitive Strategy Framework

Fitting the constructivist philosophical perspective of this study that embraces multiple paradigms, ontological and epistemological relativism, it is only natural that the framework is also perceived, evaluated and interpreted from different validator or user perspectives. From the multiplicity and duality paradigm of this study, efforts were made not to favour certain perspectives, but to embrace these multiple perspectives and cater to them as far as possible.

However, just as there exist more informed perspectives, there also exist less informed perspectives. At the end of the day models are only abstractions of reality. Validators and users should not expect miracles from the framework. Models only need to fulfil the purpose for which they were created. They do not need to fulfil the unfair expectations of users just because certain users have certain needs. Instead, users should attempt to move to a more informed perspective where they try to understand the framework's context, limitations and intended purpose.

Given the philosophical perspective of this study of constructivism together with the practice-oriented approach, the framework needed to achieve two goals. From the constructivist side, the framework needed to present a more informed and more sophisticated perspective on competitive strategy in e-business than previously existed. The validators during the local and international validation phases were used to judge this. During these phases, the framework was scrutinized in detail by an array of different specialists with varying backgrounds. Yet, despite scrutiny from all these varying perspectives, the framework could still not be rejected as a plausible and perhaps even superior perspective on competitive strategy in e-business. The competitive strategy framework fitted their implicit mental models of how competitive strategy formulation works, which from a validation point of view, is as much as can be asked of an exploratory model.

From the practice-oriented side, the framework also needed to possess some practical utility. This was tested during the workshop validation phase of the study. In this regard, the framework proved that it could assist e-business competitive strategy learning, formulation and analysis, resulting in enhanced cognition. 91.1 percent of users said that their competitive strategies improved from the first version to the second version constructed during the workshop; and 94.6 percent said that the competitive strategy framework was a better approach than what they were previously using. The framework therefore proved that it is fit for its intent.

9.3.3. Customer Segments of the Competitive Strategy Framework

A classic strategy saying is that the greatest strength of an enemy is also their greatest weakness. This can be translated directly to model building as well. The framework's greatest strength, its comprehensiveness, is also its greatest weakness. Its comprehensiveness may make it over-complex, overwhelming, difficult to understand, difficult to use, and tedious. The implication of this is that the competitive strategy framework may not necessarily be suited to all e-business start-ups.

Some validators commented that the competitive strategy framework may actually be more applicable to larger organisations than to entrepreneurial start-ups, as many entrepreneurial start-ups use an emergent strategy process that focuses on speed of execution. In this case, a comprehensive competitive strategy framework could actually hamper their progress. Though larger organisations undoubtedly have more resources and skills available to utilise the framework, strategy formulation remains important to entrepreneurial start-ups too. As one of the local validators mentioned, "It would be dangerous to attempt a start-up if some of the aspects of this framework you are not aware of." The goal of this study has been to condense some of the critical competitive strategy aspects into an integrated, coherent whole, therefore making it more accessible. The developed framework may not be as palatable to all start-ups as they would like, however it is a step in the right direction.

Furthermore, users who are not comfortable with a deep level of analysis (level three of the framework) should preferably stick to a higher conceptual tier of the framework (level one or two). In this way, the framework would not hamper their speed of execution, but the utility from this higher level conceptualisation would be limited at the same time. Another option for users who have time-restraints would be to only use sub-models that suit their specific needs. The competitive strategy framework is flexible in this way and it is not necessary to use all the tools and elements, though it is advised.

Non-customers of the framework would be those people who do not think they have a strategy problem or need a competitive strategy framework. Drew Houston (2010), founder of Dropbox, stated that "if you do not think you have a problem, you're not going to be searching for a solution". It is therefore very unlikely that start-ups who are confident in their strategic approach (whether justified or through ignorance) will use the framework.

Possible customers of the framework could possess some of the following characteristics:

- Demographic
  - They are inexperienced in e-business and strategy.
  - They are curious and want to learn about e-business and competitive strategy.
  - They prefer a structural planning approach.
  - They appreciate complexity, detailed design and conceptual thinking.
  - They are intellectually mature and have an appreciation of the context and limitations of models.
  - They are capable of independent thought, problem solving and sense-making.
  - They are not afraid of confirming their strategic flaws.
  - They are diligent, studious and committed.
- Psychological
  - They understand the value of strategy and strategy articulation.
  - They want a structure to formalise their strategy.
  - They want to gain a holistic, over-arching perspective of their business.
  - They are unsure about formulating a competitive strategy and are looking for a process and e-specific tools to guide and assist them with their decision-making.
  - They understand that strategy is a recurrent process.
  - They want to refine their current competitive strategy.
- Behavioural
  - They are in search of a great business idea or already have such an idea.
  - They are looking for a way to analyse their competitors.

9.3.4. Conclusion

This research was spurred by the observation that a large number of e-business start-ups result in failure, some of these possibly due to under-developed competitive strategies. The opportunity was identified to advance research in e-business by making some of the strategic tools and insights that start-ups require to better formulate their competitive strategies more accessible as an integrated, coherent whole and thereby assist e-business competitive strategy formulation.

The competitive strategy framework does not boast that it will solve all the e-business problems that exist to prevent start-up failures. There are too many factors influencing e-business success and failure, such as strategy execution, and the developed framework cannot account for all of it. The only claims that can be made, are that the competitive strategy framework is capable of assisting e-business start-up competitive strategy learning, formulation and analysis, resulting in enhanced cognition. In addition, e-business practitioners also regarded the framework as a better methodology for formulating competitive strategies than their previous approaches. The framework assists start-ups by helping them to build a solid competitive strategy foundation from which to proceed. The logic is that a better strategic foundation is likely to lead to enhanced performance, although this relationship is not direct and definite. In this sense, strategy formulation is more of a risk attenuation process than a success assurance process.

In conclusion, this study scratches at the surface of all the aspects and complexities related to competing in the e-domain. The competitive strategy framework for e-business start-ups, however, is an important stepping stone towards developing a better understanding the e-environment itself, how to formulate business strategies for this environment and how to successfully compete within it.

9.4. Future Research

Many more studies can be conducted in this field of research. Possible future studies include:

- Theory testing studies that seek to further verify and test the propositions and hypotheses generated by this exploratory study (structural equation modelling).
- An array of studies on each of the elements of the framework that builds on and investigates in greater detail additional models or perspectives to be added (adding complexity). Possibilities include:
    - The development of a more sophisticated perspective on generic strategies by extensively investigating different e-specific taxonomies.
    - The development of a model capable of adequately representing the complexities of pricing decisions.
    - An investigation into e-loyalty to determine the necessary and sufficient factors.
    - The development of a more sophisticated view on strategic assessment, with metrics and sub-element indicators.
    - The development of a more sophisticated view on renewal and growth with extended growth models.
- A study that investigates the relative utility or value of each aspect of the competitive strategy framework in order to construct a simpler framework (removing complexity).

- A study that thoroughly investigates the interrelationships between the models and clearly depicts how early strategic choices constrain later choices.
- Studies that investigate the relative importance of the different sources of e-value, control points, switching costs and e-loyalty antecedents for specific industries; and propose more hierarchically structured representations of these.
- Studies that focus on competitive strategy execution. The levels of abstraction could vary from generic to industry specific, with the focus being specifically on the factors relating to the infrastructure components of the business model (key partnerships, key activities, key resources). Possibilities include:
    - A study that investigates e-business strategy execution best practices.
    - A study that investigates e-business strategy execution tools.
    - A study that investigates leadership best practices that enhance e-business start-up's performance.
    - A study that investigates the critical generic resources and activities required to launch an e-business.
    - A study that investigates the competencies (human skills) required to successfully compete online and suggests possible team compositions that satisfy those requirements.
    - A study that investigates which generic partnerships can provide execution assistance during the various lifecycle phases of an e-business start-up.
    - A study that classifies generic combinations of activities, resources and partnerships that lead to enhanced efficiencies and advantageous cost structures.

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10. Appendices

Appendix A: A Competitive Strategy Framework for E-Business Start-Ups Validation Hand-Out

Appendix B: Dropbox Example

Appendix C: Summary of Additional Discussions

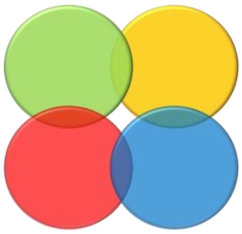
Appendix D: Interview Transcripts

Appendix E: 18 Sources of E-Value Robustness Testing

Appendix F: Derivation of Competitive Strategy Insights

10.1. Appendix A: Competitive Strategy Framework for E-Business Start-Ups Validation Hand-Out

A Competitive Strategy Framework for E-Business Start-Ups



Validation Handout

By

Gerard D. Ungerer

Presented in partial fulfillment of the requirements for the degree of Doctor of Philosophy in Industrial Engineering at the Faculty of Industrial Engineering at the University of Stellenbosch

December 2015

10.1.1. Research Need

The advent of the Internet and the network economy was one of the most profound creations of the previous century. Not only does the Internet serve to enhance and simplify almost every aspect of modern day life, but it also provides an abundance of new opportunities for innovative businesses and wealth creation (Manyika & Roxburg, 2011, p. 1). Resultantly, many new entrants are attracted to the e-environment (Porter, 2001, p. 11).

The large number of e-business failures however, attests to the fact that many entrepreneurs are still not effectively competing in the e-environment. Numerous reasons for these failures may exist, though given the relationship between strategy and business performance (Hussy, 1998, p. 42), some of these failures can undoubtedly be attributed to strategic errors. Broadly speaking, strategy may be divided into two sub-categories, namely strategy formulation and strategy execution. In the more traditional strategy domains, strategy formulation usually precedes strategy execution. Therefore, in an attempt to make a contribution to e-business strategy, a strategy formulation perspective was selected.

An initial literature review revealed that the strategic insights and tools that start-ups require to better formulate their strategies exist, but are fragmented and obscured by the staggering amounts of strategy literature available (Blank, 2013, p. 70). The opportunity to make these insights and tools more accessible as an integrated, coherent whole was therefore identified.

10.1.2. Research Design

Given that many start-ups are not effectively competing in the e-environment, the focus of the study shifted towards the competitive strategy of a business. Competitive strategy deals with how a business intends to compete in the market and defend its chosen market position (Porter, 1980, pp. xxiv, 4).

The main research question of this study is: ***What conceptualisation can assist e-business start-up competitive strategy formulation?***

In order to address the main research question, several sub-research questions needed to be answered:

1. What are the core conceptual elements of competitive strategy?
2. What sub-elements can assist the formulation of these core elements?
3. What relationships exist between these elements?
4. What possible sequence could these elements be formulated in?
5. What existing models, tools and insights (and new integrations of these) can assist the formulation of each of the sub-elements?

In conducting the study, eight research domains were investigated, namely e-business, business models, blue ocean strategy, red ocean strategy, fundamentals of e-business strategy, business model innovation, e-value creation and e-customer retention. These domains can be visualised as shown in Figure 10.1 below.

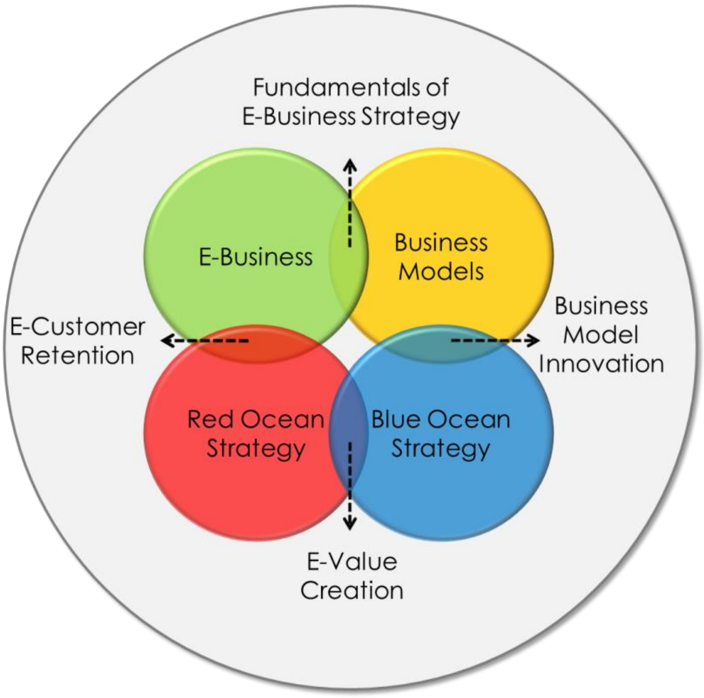


Figure 10.1 – Research Domains

For the research methodology, a basic systems engineering process was used. This involved creating a set of requirements that needed to be fulfilled by the framework (derived from the research domains); developing the framework; developing the sub-models; and verifying and validating the framework and sub-models. This process is depicted in Figure 10.2 below.

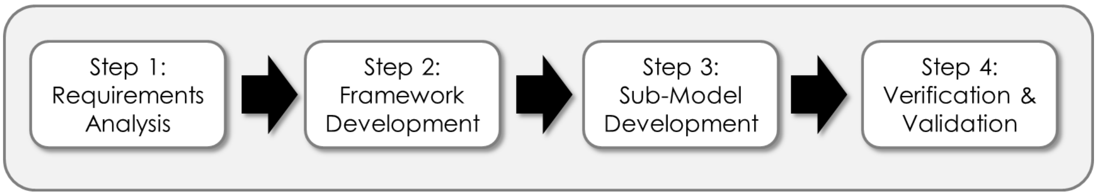


Figure 10.2 – Simplified Systems Engineering Process

10.1.3. The Competitive Strategy Framework for E-Business Start-Ups

The output of the study was a competitive strategy framework that exists on three levels of complexity, and consists of five primary elements (customer need exploration, value proposition, customer lock-in, strategic assessment, renewal and growth), nine sub-elements, 18 sub-models, various relationships and a flexible sequence. As a whole, the competitive strategy framework serves to assist e-business competitive strategy formulation. In achieving this, all the elements of the framework need to be explicitly articulated or "populated" by the user. To aid this formulation process, 18 sub-models were included in the framework. Each of these sub-models cover the most crucial strategy content required to populate the sub-element to which they belong.

The most detailed level of the competitive strategy framework is shown in Figure 10.3 below.

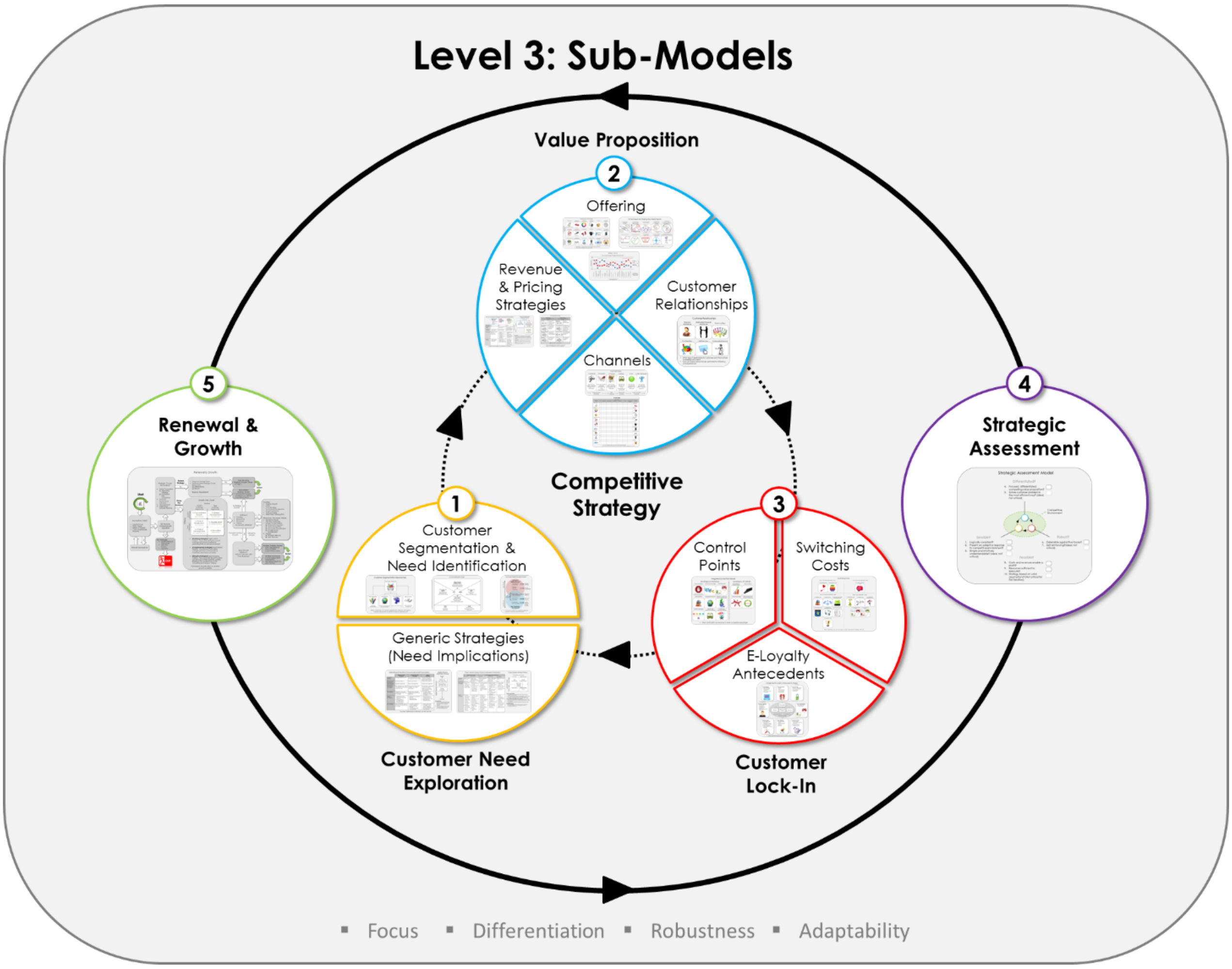


Figure 10.3 – Level 3 of the Competitive Strategy Framework for E-Business Start-Ups

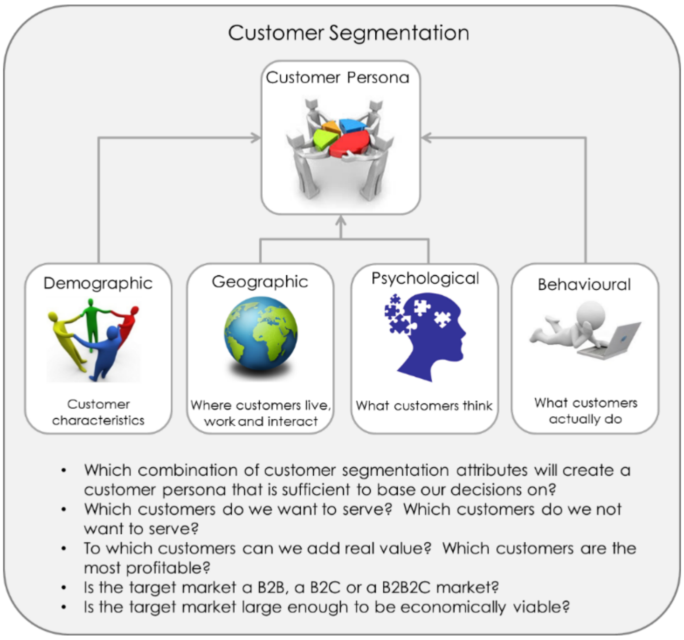
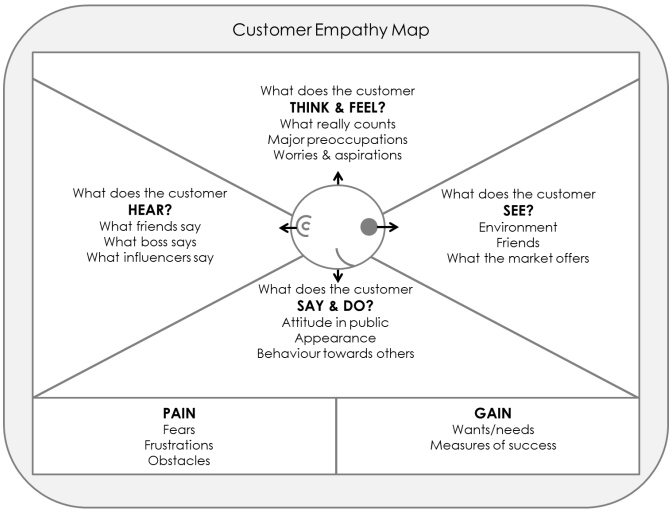
The five core elements of the competitive strategy framework include customer need exploration, a value proposition, customer lock-in, strategic assessment, and renewal and growth. On a more atomic level, the customer need exploration core element's formulation can be assisted by the sub-elements of customer segmentation and need identification, and generic strategies; the value proposition core element's formulation can be assisted by an offering, customer relationships, channels, and revenue strategies and pricing sub-elements; and the customer lock-in core element's formulation can be assisted by control points, switching costs and e-loyalty antecedents sub-elements.

All the elements of the framework are interrelated. Changes in one aspect of the framework could therefore possibly affect any of the other elements. Further, the numbers on the core elements indicate a proposed sequence in which they are to be populated. Strategy formulation can occur in any sequence though, provided that all the elements are addressed and the strategy as a whole is consistent and sensible.

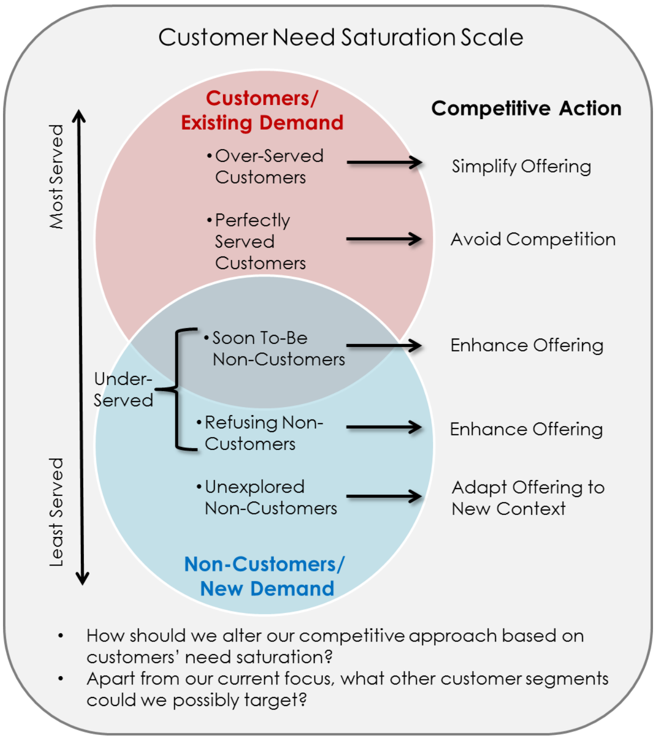
Four core principles underlie the competitive strategy framework and competitive strategy in general namely focus, differentiation, robustness and adaptability. Focus relates to consistency, continuity of direction and alignment that compounds the effort and advantages of the business. It also relates to clarity, fluent communication and the setting and pursuit of achievable goals. Differentiation allows one business to be distinguished from the next and relates to novelty, uniqueness and innovation. Robustness relate to the durability or sustainability of a business. It deals with installing mechanisms and acquiring resources and positions that make the business and its customers defensible against competitor onslaughts. Finally, adaptability relates to the learning, growth, flexibility and resilience of the business, which allows the business to shape itself dynamically to the competitive environment to remain relevant and competitive. It is theorized that businesses who are capable of mastering these fundamental principles will in turn master their competitive domains too.

The 18 sub-models of the framework and their uses are briefly described below.

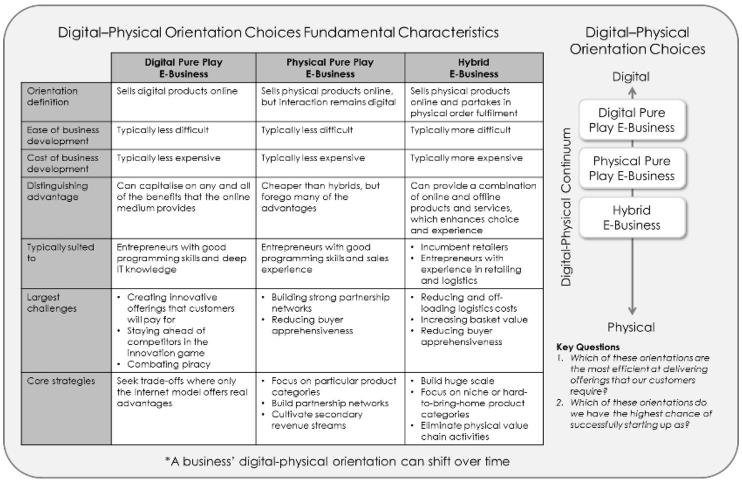
Table 10.1– Competitive Strategy Framework for E-Business Start-Ups Sub-Models and Their Uses

<table>
<tr><th>Model</th><th>Contribution</th><th>Model Purpose/ Use</th></tr>
<tr><td>Customer need exploration</td><td></td><td></td></tr>
<tr><td>1. Customer segmentation

</td><td>Strategy content</td><td>• Highlights the different customer segmentation approaches that can be used to segment customers
• Assists in segmenting customers by aiding the identification of the most relevant customer attributes</td></tr>
<tr><td>2. Customer empathy map

</td><td>Strategy process</td><td>• Assists in identifying customer needs from a user story perspective</td></tr>
</table>

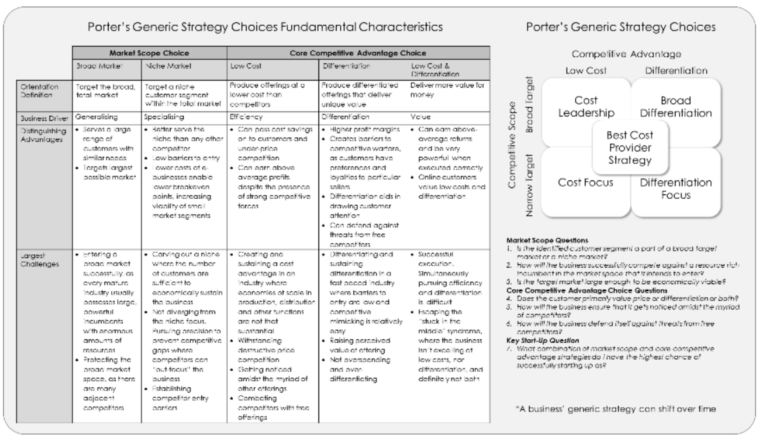
<table>
<tr><th>Model</th><th>Contribution</th><th>Model Purpose/ Use</th></tr>
<tr><td>3. Customer need saturation scale



</td><td>Strategy process</td><td>• Suggests an appropriate strategy for targeting customers at different levels of need fulfilment
• Assists in conceptualising new target markets</td></tr>
<tr><td>4. Digital-physical orientation choices

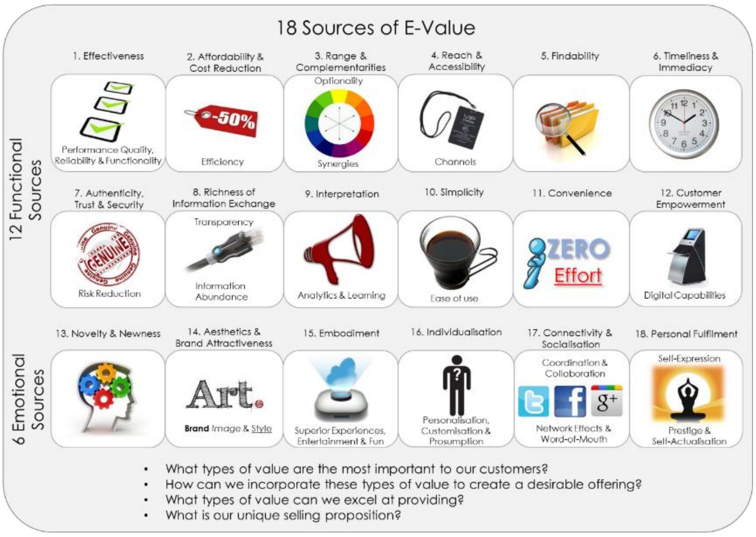


</td><td>Strategy content</td><td>• Highlights the fundamental characteristics of the different digital-physical orientations
• Assists in selecting the business's digital-physical orientation</td></tr>
<tr><td>5. Porter's generic strategies

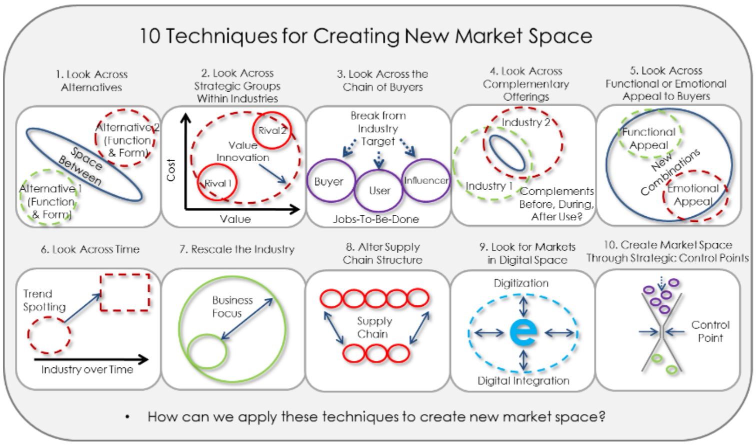


</td><td>Strategy content</td><td>• Highlights the fundamental characteristics of the dimensions of Porter's generic strategies
• Assists in selecting the business's generic strategy</td></tr>
</table>

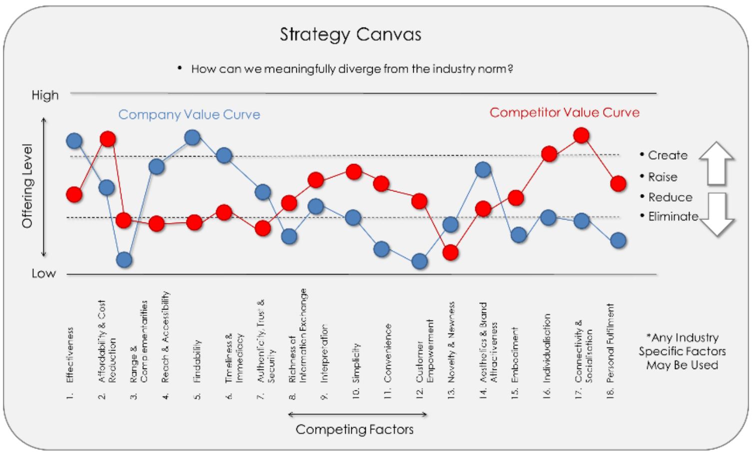
<table>
<tr><th>Model</th><th>Contribution</th><th>Model Purpose/ Use</th></tr>
<tr><td>Value proposition</td><td></td><td></td></tr>
<tr><td>6. 18 sources of e-value



</td><td>Strategy content</td><td>• Highlights various attributes that customers find valuable online
• Assists in formulating valuable e-offerings</td></tr>
<tr><td>7. 10 techniques for creating new market space



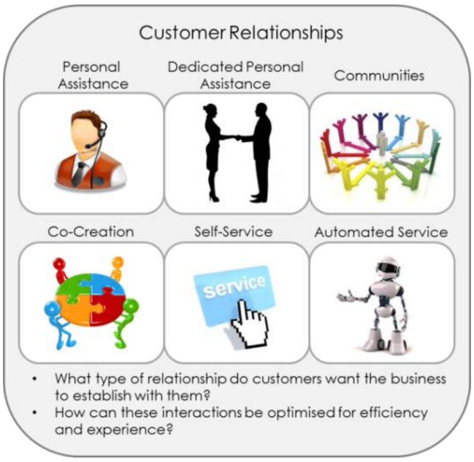
</td><td>Strategy content and process</td><td>• Highlights techniques that can be used to think about opportunity spaces
• Assists in creating new market space</td></tr>
<tr><td>8. Strategy canvas



</td><td>Strategy process</td><td>• Assists in visualising a business's distinctiveness
• Assists in sensibly diverging from competitors</td></tr>
</table>

<table>
<tr><th>Model</th><th>Contribution</th><th>Model Purpose/ Use</th></tr>
<tr><td>

9. Customer relationship taxonomy

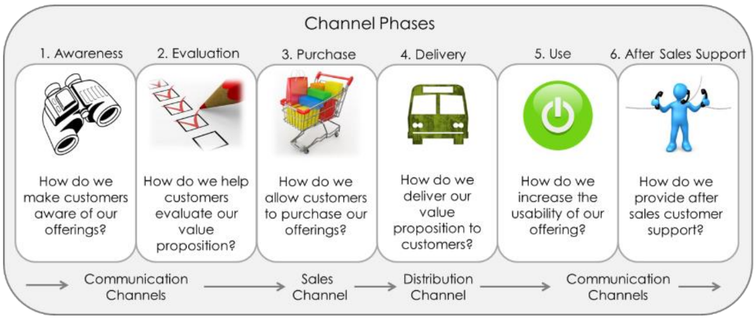


</td><td>Strategy content</td><td>

- Highlights different generic types of customer relationships that can be established
- Assists in selecting and optimising customer relationships

</td></tr>
<tr><td>

10. Generic channel phases



</td><td>Strategy content</td><td>

- Highlights the generic channel phases customers experience in their interactions with a company
- Assists in considering the business from a channel phase perspective

</td></tr>
<tr><td>

11. E-value map

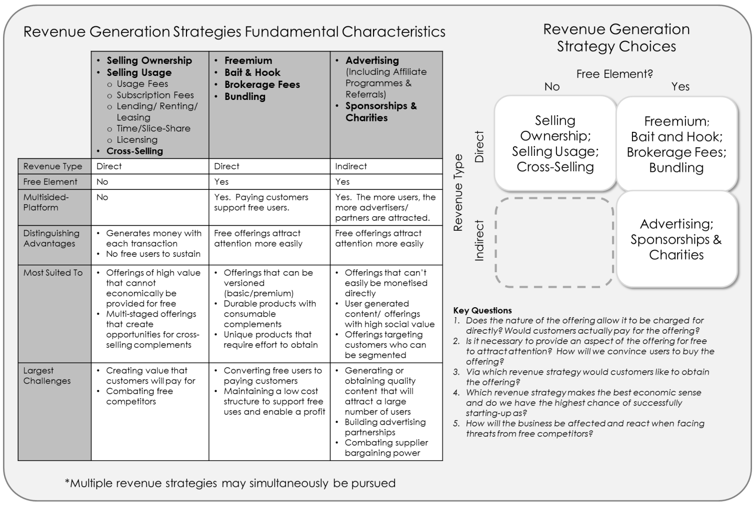
</td><td>Strategy content and process</td><td>

- Assists in formulating how value should be distributed across the various channel phases

</td></tr>
</table>

<table>
<tr><th>Model</th><th>Contribution</th><th>Model Purpose/ Use</th></tr>
<tr><td>

12. Revenue generation strategies

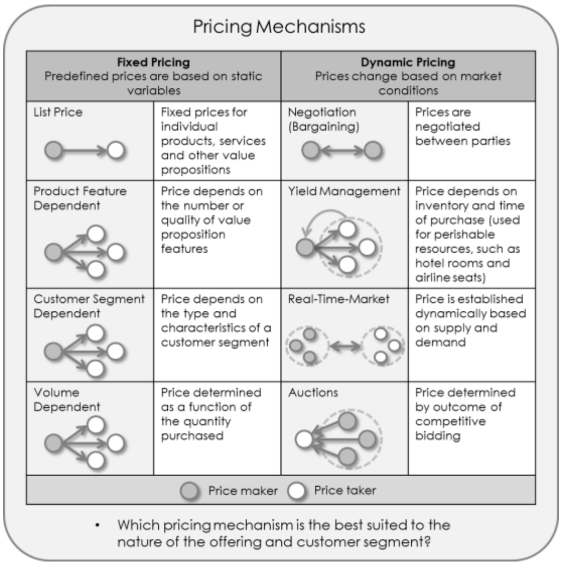


</td><td>Strategy content</td><td>

- Highlights the fundamental characteristics of the different types of revenue strategies
- Assists in selecting a revenue strategy

</td></tr>
<tr><td>

13. Pricing mechanisms

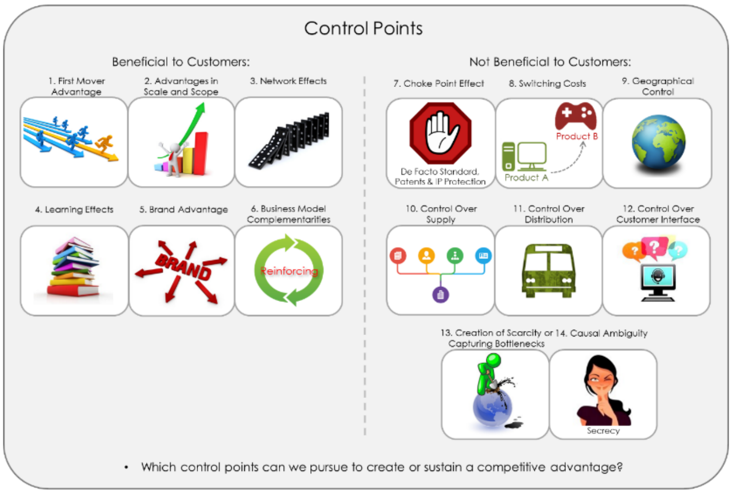


</td><td>Strategy content</td><td>

- Highlights different types of pricing mechanisms that can be used to price offerings
- Assists in selecting an appropriate pricing mechanism

</td></tr>
<tr><td>Customer Lock-In</td><td></td><td></td></tr>
<tr><td>

14. Control points

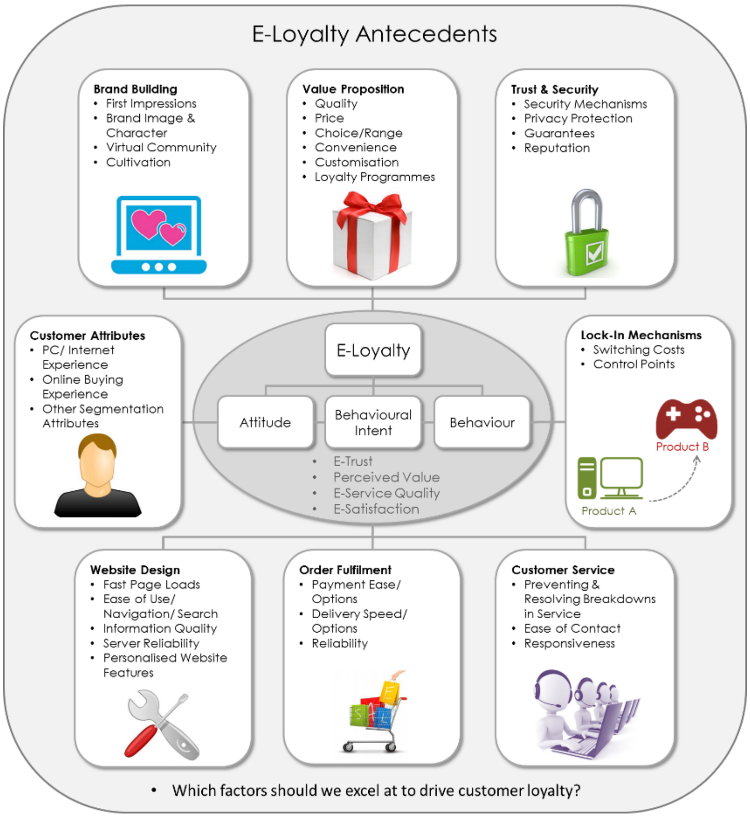


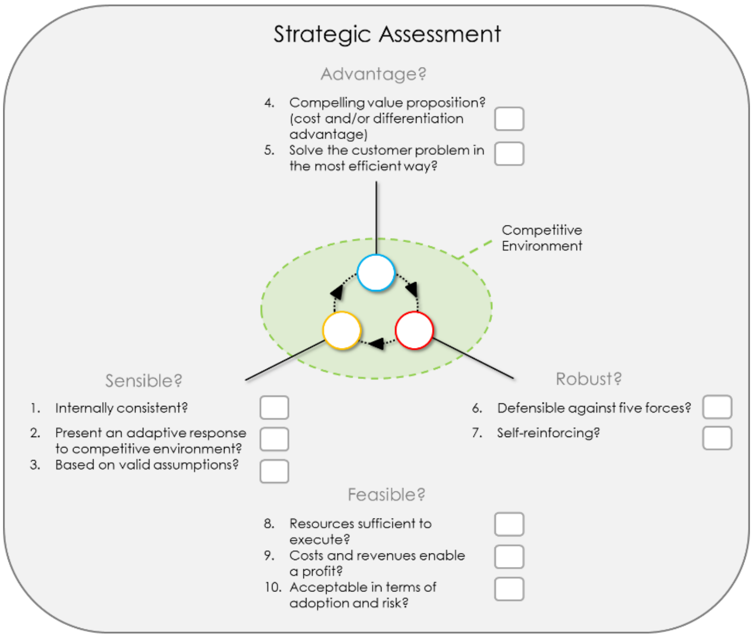
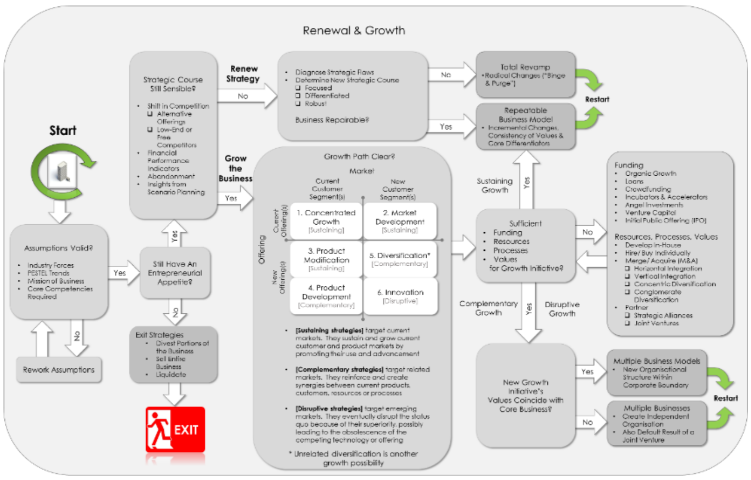
</td><td>Strategy content</td><td>

- Highlights different control points that can be leveraged to lock competitive advantages in for the business
- Assists in selecting which control points to pursue

</td></tr>
</table>

<table>
<tr><th>Model</th><th>Contribution</th><th>Model Purpose/ Use</th></tr>
<tr><td>15. Switching costs

</td><td>Strategy content</td><td>• Highlights different switching costs that can be employed to deter customers from switching to competitors' offerings
• Assists in selecting which switching costs to establish</td></tr>
<tr><td>16. E-loyalty antecedents

</td><td>Strategy content</td><td>• Highlights different factors that contribute to e-loyalty
• Assists in selecting which loyalty drivers to pursue</td></tr>
</table>

<table>
<tr><th>Model</th><th>Contribution</th><th>Model Purpose/ Use</th></tr>
<tr><td>Strategic assessment</td><td></td><td></td></tr>
<tr><td>17. Strategic assessment

</td><td>Strategy content and process</td><td>• Assists in evaluating whether the formulated strategy bears characteristics that are associated with good strategies</td></tr>
<tr><td>Renewal and growth</td><td></td><td></td></tr>
<tr><td>18. Renewal and growth

</td><td>Strategy process</td><td>• Assists in assessing the business's stance relative to its environment and choosing either a renewal path or a growth path</td></tr>
</table>

10.1.4. Validation

The last step in the systems engineering process is to validate the framework. This step is still incomplete, but will involve one-on-one interviews with academics and practitioners in the fields of e-business, strategy, entrepreneurship, innovation and variants in-between. During the interviews, a presentation will be given that discusses the competitive strategy framework. Subsequently, interviewees will be questioned regarding the competitive strategy framework and their responses will be captured on a five point Likert scale. The validation questions are listed in Table 10.2 below.

Table 10.2 – Validation Design

Validation Questions	Validator's Response				
	Strongly Agree (4)	Agree (3)	Unsure (2)	Disagree (1)	Strongly Disagree (0)
Core Elements					
1. *To what extent do you agree that the five core elements of the framework are core aspects that need to be addressed by a competitive strategy?*					
Sub-Elements					
2. *To what extent do you agree with the sub-elements of the five core elements of the framework?*					
Relationships					
3. *To what extent do you agree with the relationships depicted between the elements of the competitive strategy framework?*					
Sequence					
4. *To what extent do you agree with the strategy formulation sequence proposed?*					
Sub-Models (Models marked * not created by author)					
5. *To what extent do you agree with the following models and their ability to assist e-business start-ups in*					
5.1. *segmenting customers and identifying/ exploring customer needs?*					
5.1.1. *Customer segmentation approaches model*					
5.1.2. *Customer empathy map**					
5.1.3. *Customer need saturation scale*					
5.2. *selecting their generic strategies?*					
5.2.1. *The digital-physical orientation model*					
5.2.2. *Porter's generic strategies model*					
5.3. *formulating their offering?*					
5.3.1. *The 18 sources of e-value model*					
5.3.2. *The 10 techniques for creating new market space model*					
5.3.3. *The strategy canvas**					
5.4. *selecting their customer relationship strategies?*					
5.4.1. *Osterwalder's relationship taxonomy**					
5.5. *formulating their channel strategies?*					
5.5.1. *The generic channel phase model*					
5.5.2. *The sequenced 18 sources of e-value*					
5.6. *selecting their revenue strategy, pricing mechanism*					

Validation Questions	Validator's Response				
	Strongly Agree (4)	Agree (3)	Unsure (2)	Disagree (1)	Strongly Disagree (0)
and price of offerings?					
5.6.1. Revenue generation strategies model					
*5.6.2. Pricing mechanism model**					
*5.6.3. Price corridor of the mass model**					
5.7. *formulating their control point strategy?*					
5.7.1. The control point model					
5.8. *formulating their switching cost strategy?*					
5.8.1. The switching cost model					
5.9. *formulating their e-loyalty strategy?*					
5.9.1. The e-loyalty antecedents model					
5.10. *assessing their created strategy?*					
5.10.1. The strategic assessment model					
5.11. *renewing their strategy and growing the business?*					
5.11.1. The renewal and growth model					
Competitive Strategy Principles					
6. *To what extent do you agree that the four core principles underlying competitive strategy are focus, differentiation, robustness and adaptability?*					
Research Goal					
7. *To what extent do you agree that the competitive strategy framework (and its sub-models) can assist e-business start-up competitive strategy formulation?*					
Theoretical Contribution					
8. *To what extent do you agree that the framework makes a contribution to the fields of e-business/ strategy/ business models/ strategic management? What contribution does it make?*					
Implementation Capability					
9. *To what extent do you agree that it is easy to use and derive value from the framework?*					
Other					
10. *Do you think there are any aspects that should be removed or added to the framework?*					

10.2. Appendix B: Dropbox Case Study

This section demonstrates how the competitive strategy framework for e-business start-ups can be used to populate and analyse a business's competitive strategy. The selected business was Dropbox and the analysis date was September 2013.

10.2.1. Introduction

Dropbox is a freemium cloud storage business that was founded in 2007 by Drew Houston and Arash Ferdowsi. The idea for the business originated when Houston grew frustrated about constantly forgetting his flash drive at home or having to email himself when he wanted to work on multiple computers at MIT. Cloud storage was by no means a new idea. However, having tried all of the available platforms at that stage, Houston found them lacking: They did not work well with big files; they did not work well with a big number of files; or there were some other problems. Unsatisfied, Houston started to envision a cloud storage platform that "just worked" – a platform that enables users to easily and conveniently store and access files online. (Houston, 2010) In this way, Dropbox was born.

In order to use Dropbox, users need to download and install the Dropbox application on their various devices. After this, users are able to "drag-and-drop" files into a local destination folder (hence the name Dropbox) that automatically syncs to the online cloud whenever an Internet connection is available. Users are then able to access these online files from any of their devices. Additionally, Dropbox also allows users to share files stored online with other Dropbox contacts. (Houston, 2010)

10.2.2. Customer Need Exploration

The need identified was that a reliable, easy and convenient means to store and access files on multiple devices was needed. Houston and Ferdowsi found it interesting in their early interviews with venture capitalists, that none of the interviewees were currently using any of the existing cloud storage services. By putting an emphasis on the ease of use, Houston and Ferdowsi aimed to break through the barriers that prevented consumption. (Houston, 2010) Dropbox's approach worked and many new users were attracted to the cloud storage industry – the company quickly grew from 100 000 initial users at their launch to many millions of users in the first 18 months (Houston, 2010). In 2013, Dropbox had 175 million users and synched approximately 1 billion files to Dropbox each day (Dropbox Company Info, 2013).

Looking more closely at customer segmentation, the first people who Houston and Ferdowsi wanted to satisfy with their service was themselves. They wanted to design an offering that they themselves would use and enjoy. Their second target group was technology enthusiasts and early adopters (specifically those who frequented the site www.Digg.com) who would use the service purely based on its novelty. (Houston, 2010) This segment was later expanded to broadly include anyone around the globe interested in cloud storage and file sharing, whether it is for personal (B2C) or corporate (B2B) use.

Another customer segment that emerged because of Dropbox's accumulated expertise in cloud storage, was application developers. Dropbox developed application program interfaces (APIs) that developers could use to build applications with that synched the app's data to Dropbox. Benefits that this has for app developers is that they do not have to develop cloud storage and synchronisation protocols themselves, saving time and money. The advantage to Dropbox on the other hand, is a secure source of revenue, as developers essentially become locked-into the Dropbox service.

The generic strategy choices made by Dropbox as a consequence of the customer need identified is also clearly evident: Dropbox is a pure play e-business that follows a broad differentiation strategy. Dropbox breaks away from offline storage mediums (which are often out of reach when needed) and sells digital cloud storage to the total broad market of customers with cloud storage needs. Though this digital shift is not a new innovation, the way that Dropbox seamlessly and effortlessly synchs files from the destination folder to Dropbox online is. At its conception, Dropbox was only able to store and sync files. However, with the introduction of their Datastore API, it is even possible to store and sync structured data to Dropbox. This means that it possible to store and sync app data such as passwords, bookmarks, preferences, contacts, to-do lists, "high scores" and other game history or data on Dropbox, and share it across various platforms. This creates unprecedented convenience, and this convenience and simplicity that lies at the heart of Dropbox's differentiation (see Chapter 5.4.1).

Dropbox's customer need exploration element can be populated as shown in Figure 10.4 below.

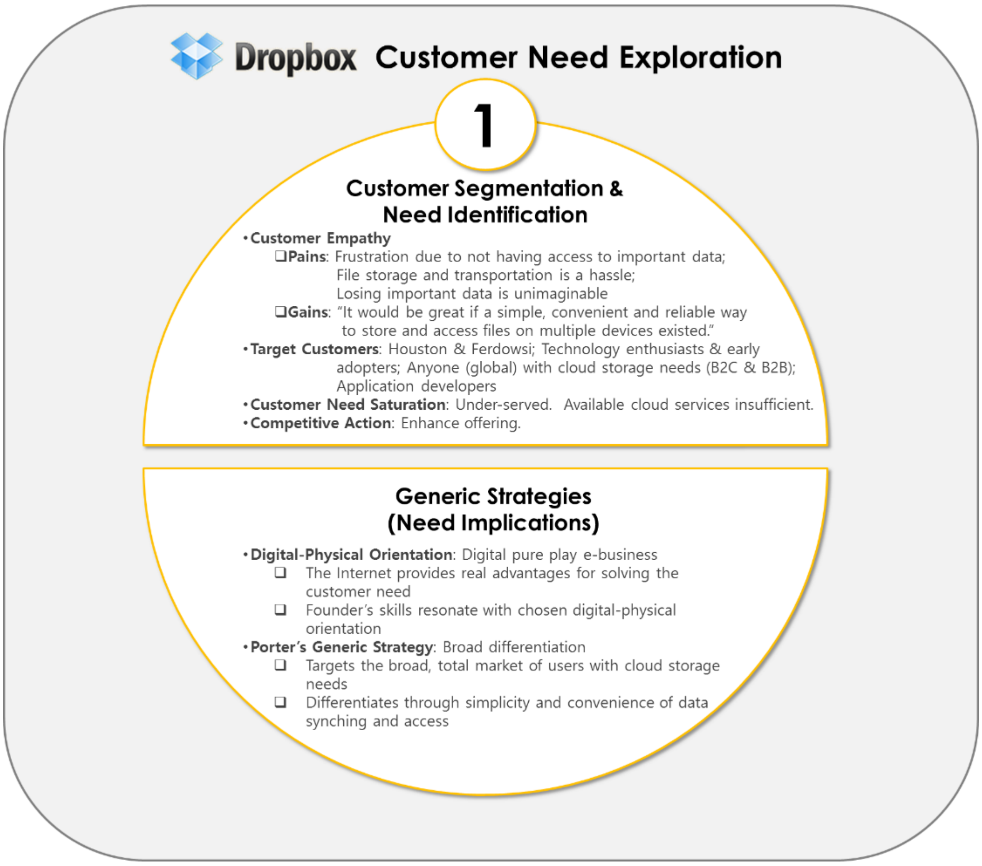


Figure 10.4 – Dropbox's Customer Need Exploration

10.2.3. Value Proposition

As previously mentioned Dropbox offers customers simple, reliable cloud data storage and sharing for private or corporate purposes. Additionally, Dropbox provides convenient, automatic synching of data across multiple platforms and devices. These in combination give customers increased and convenient access to their data. Dropbox also provide developers with APIs that allow them to build applications on top of Dropbox to help them with storing and synching app data. Other features that Dropbox offers is a 1 month deleted data recovery feature, that lets a user restore any data that they have deleted during the past month. This further reduces customer data loss risk. (Dropbox Company Info, 2013)

From a revenue strategy and pricing perspective, Dropbox makes use of a freemium strategy where basic users can use Dropbox free of charge, but are limited to only 2 gigabytes (GB) of storage. However, customers are able to earn more storage space by referring other people to the service. This is a two-way incentive, granting each user an extra 500 megabyte (MB) per referral, up to a maximum of 16 GB of additional space. (Dropbox Company Info, 2013) Characteristic of freemium strategies, basic accounts can be upgraded to a premium accounts which give customers access to additional storage space up to a maximum of 500 GB. The pricing strategy followed is one that is volume dependent and scales at fixed price intervals. Corporate customers are conversely charged based on the amount of users making use of Dropbox, but unlimited storage space and unlimited deleted data recovery history is provided to them. Lastly, payment works on either a monthly or yearly rate. (Dropbox Pricing Plans, 2013)

For customer relationships, Dropbox employ a variety of relationships to conduct their business, but they are primarily self-service oriented. They therefore provide FAQs, Software Development Kits (SDK) and other tutorials and documentation on the website for customers to help themselves with. Dropbox also has a strong community orientation and a Dropbox community forum and a “developer’s blog” exists where community members can provide advice to each other. The community aspect is further extended to include interactions on Facebook and Twitter. Personal assistance for technical support also exists. Additionally, Dropbox appoints account administrators for each corporate customer to ensure that they receive the best possible experience.

Considering Dropbox’s channel phases, apart from Dropbox’s initial launch video, Dropbox decided to rely on customer word-of-mouth to make people aware of the service, instead of making use of regular advertising channels. There are two reasons for this. Firstly, the traditional means to acquire customers online was too expensive: The popular Google AdWords associated with cloud storage were already bought by other cloud storage competitors, and the up-bidding therefore made these Adwords very expensive. Secondly, Dropbox utilises a freemium revenue model, which requires them to service a portion of their customers for free. They therefore decided to use their “marketing spend” to sustain these customers, in the hope that these customers would be satisfied by the service and eventually tell their friends and colleagues about Dropbox. (Houston, 2010) Evaluating Dropbox requires the download and installation of the application. This is the most inconvenient aspect of the service, but is offset by the fact that it is free. Users can then use the free version of Dropbox, with the expected response that "wow, the service actually works well", and thereby convinces users to become paying customers. Customers then pay by credit card or PayPal, which activates the premium user privileges. As previously mentioned, after sales support is available as well.

Dropbox's value proposition element can be populated as shown in Figure 10.5 below.

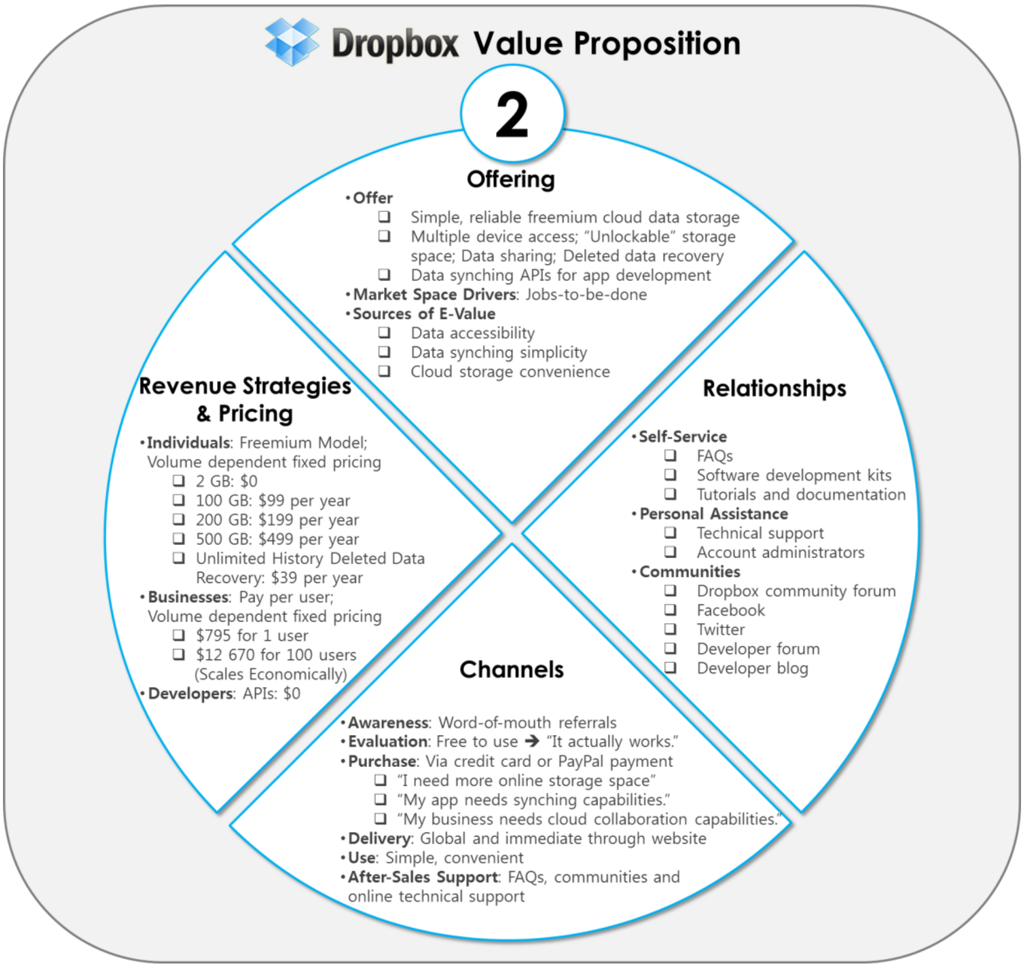


Figure 10.5 – Dropbox's Value Proposition

10.2.4. Customer Lock-In

Dropbox employs a variety of control points to lock customers in. Network effects are created by Dropbox's referral program that incentivises customers to invite friends and colleagues to Dropbox. Then, as friends and colleagues start sharing files with one another online, switching costs that lock customers in are created by this collaborator network. Dropbox also benefits from supply-side economies of scale created when multiple users store the same file online. The way that this works is that Dropbox only stores a unique set of data once. Therefore, if *premium customer A* uploads a file such as a movie, and *premium customer B* uploads the same file, then Dropbox is only storing one copy of that file, but are paid for the storage of both files. Therefore, the more users join and the more files they upload that are the same, the less Dropbox pay for the hosting services, which equals better profitability.

Dropbox also reinforces its business model through continuous product innovations and feature additions that support its core business. Examples include innovations that make it easier to share files on Dropbox from one's desktop (Lintzenberger, 2013); Dropbox in additional languages (Harris, 2013); better admin control for businesses using Dropbox (Vashee, 2013); and lastly, new Dropbox APIs for developers (Houston & Ferdowsi, 2013).

The latter mentioned is a very intelligent strategic move for three reasons. Firstly, the average cloud storage rival tries to outperform competitors by focusing on selling more storage for cheaper. This is a competitive race to the bottom that Dropbox knows it cannot win. It's not part of Dropbox's vision to compete in this way (not their generic strategy), nor should they want to partake in this type of "destructive competition" that leads to an over-all decrease in industry profitability. Dropbox's key advantage and core differentiator remains their ability to provide extremely convenient and simple cloud storage and synching. By choosing not to partake in a price war, they are maintaining their strategic course and reinforcing their strategic position. Secondly, Dropbox's developer APIs are targeting a new and different set of customers than the average competitor is targeting. Competitors are primarily focusing on individuals or businesses interested in basic cloud storage and sharing. Though this will always be a very important customer segment for Dropbox, they are additionally targeting app developers. Thirdly, by enabling developers to create applications on top of Dropbox, very high integration switching costs are created for this customer segment. This makes customer defection improbable, meaning that it is a long-term and hence strategically sound segment to target.

Considering switching costs, regular users interested in cloud storage and sharing primarily face network switching costs and psychological switching costs. Network switching costs are created as users would not want to defect from Dropbox because they would lose the ability to collaborate and share content with contacts also using Dropbox. Furthermore, psychological switching costs are created when users start liking Dropbox and become comfortable with their current behavioural patterns. Other switching costs that customers implicitly face are account switching costs, learning costs, superiority costs, search costs and uncertainty costs. Application developers on the other hand face integration and customisation costs, relationship costs, learning costs, account switching costs, information conversion and database costs, superiority costs, search costs and uncertainty costs.

Lastly, Dropbox builds e-trust by providing reliable cloud storage and utilising military grade encryption methods (Secure Sockets Layer (SSL) and AES-256 bit encryption) to ensure the safety of customers' data(How Secure is Dropbox?, 2013). Furthermore, e-loyalty is encouraged by increasing user's perceived value of Dropbox and delivering e-satisfaction through their product quality, effectiveness, convenience, brand image and character, and virtual communities.

Dropbox's customer lock-in element can be populated as shown in Figure 10.6 below.

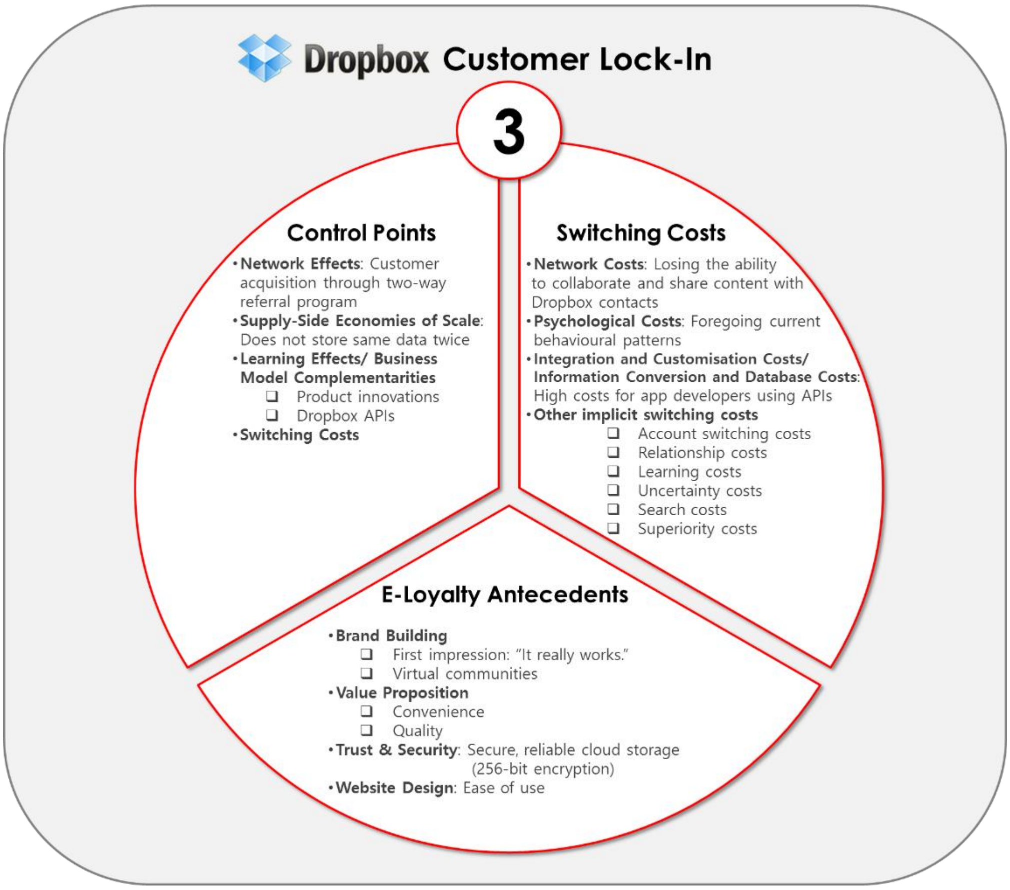


Figure 10.6 – Dropbox's Customer Lock-In Strategy

10.2.5. Strategic Assessment

Dropbox passes most of the strategic tests, however because the business is competing in a red ocean market space, there are question marks surrounding Dropbox's robustness and its ability to defend itself against the five forces of competition. As highlighted in the previous section, Dropbox's strategic moves to continually make product improvements and additionally target app developers sustains its distinctiveness and supports its core business. Dropbox is facing intense price competition from other cloud storage services, but their service is still one of the most convenient and simple. Furthermore, they are making strong inroads in establishing a strong brand advantage, which can possibly further sustain the business in future.

Dropbox's strategy can be assessed as shown in Figure 10.7 below.

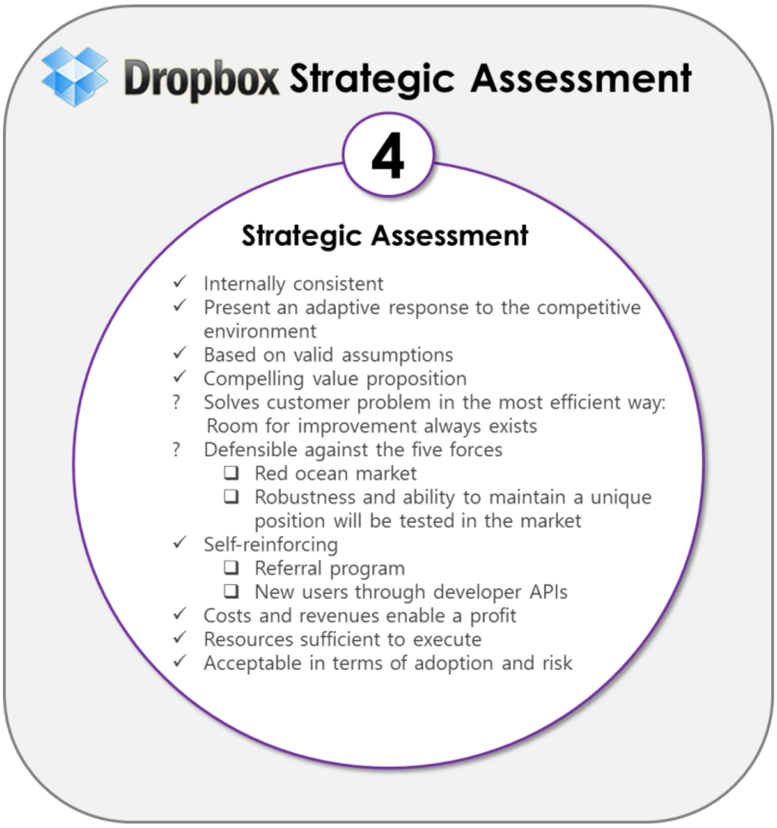


Figure 10.7 – Dropbox's Strategic Assessment

10.2.6. Renewal and Growth

Regarding renewal and growth, Dropbox is growing in both a sustaining and a complementary way. Firstly, for their cloud storage services they are making incremental improvements to their offering to better fulfil the needs of their existing customer base. However, Dropbox is also growing in a complementary way to some extent. The business is targeting related markets that are close to their core business, namely app developers who use Dropbox APIs to store, sync and share data across multiple devices and platforms. According to Houston (2013) their idea is not to charge developers for using the APIs. (Ha, 2013) Houston (2013) stated that "Because we have a strong core business model, I do not think that monetising developers will be an important thing for us for the foreseeable future." Consequently, as the business is not monetising from app developers, it cannot really be said that they are running multiple business models and are rather just sticking to the revenue strategy of profiting from "pro" and "business" subscriptions.

Houston added that it is the simplicity of how Dropbox makes money that is part of its appeal, and that customers should not have to wonder where or how Dropbox is making money. (Ha, 2013) As such, it appears that the strategy behind the API development is to aid the acquisition and retention of customers *through* the newly created third party apps. Customers using the new apps will most probably have to sign up to Dropbox. Additionally, if these app users remain loyal to the apps, then they will by default also remain loyal to Dropbox. This is a very different approach than what rivals take and it may just be the strategic shift required to sustain the business. What the end result will be remains to be seen, but the strategic thinking is sound.

Dropbox's renewal and growth element can be populated as shown in Figure 10.8 below.

Figure 10.8 – Dropbox's Renewal and Growth Strategy

Finally, although the competitive strategy framework is not really intended to be used as a retrospective analysis tool (as its full utility is only realised when proactively working through the sub-models in order to shape the strategy of the business), the figures presented above provide evidence that significant insights can be gained by populating the competitive strategy of a business by using the competitive strategy framework for e-business start-ups.

10.3. Appendix C: Summary of Additional Discussions

This section discusses and resolves additional issues highlighted during the validation interviews.

10.3.1. Validation Round 1: Local Validation

1. **Risk as a part of the framework – Dr. L**

The question was posed where risk is addressed as a part of this framework. Thinking back to the principles of blue ocean strategy, each of their formulation principles serves to attenuate some type of risk. Reconstructing market boundaries attenuates search risk; focusing on the big picture attenuates planning risk; reaching beyond the existing demand attenuates scale risk; and getting the strategic sequence right attenuates business model risk. Therefore, in a similar way, the competitive strategy framework also serves to attenuate various different types of risk.

Firstly, the needs identification and customer segmentation sub-element serves to minimise market or “scale” risk – it urges businesses to identify a need and determine if a viable amount of potential customers actually exist. The generic strategy sub-element serves to minimise internal conflict risk – it aids businesses in better understanding the strategies that they are pursuing and as such are enabled to create a better fit between the different elements of the strategy, providing more continuity of direction. The value proposition on the other hand serves to minimise product risk – this element helps to ensure that the correct type of value is delivered to customers at different channel phases and that a suitable revenue strategy is employed. The customer lock-in element then serves to minimise customer defection risk – the element aids businesses in better understanding the levers that can be pulled to drive customer retention. The strategic assessment element serves to minimise strategy risk – this element provides tests that a well-formulated strategy need to pass. Lastly, the renewal and growth element serves to minimise obsolescence risk – the component urges companies to continually test their assumptions and adapt to the changing business environment.

2. **Porter’s generic strategies’ applicability in e-business – Dr. L, Dr. W**

Two contradictory views emerged from the validators regarding Porter’s generic strategies. Dr. L is of the opinion that Porter’s work is not really applicable to e-business, as the online world is very dynamic. He also believes that Porter is not that valuable in terms of decision making. Dr. W on the other hand stated that he really liked Porter’s positioning aspect of the framework. The fact remains that Porter’s generic strategies are applicable to any and every industry, including the broad spectrum of e-business. Not all positions in Porter’s generic strategies model are equally valuable in e-business (Kim, Nam, & Stimpert, 2004), however it still provides a sound platform from which to analyse positions within industries. Decisions regarding which markets to target and which core competitive advantage to pursue still need to be made. In this regard, Porter’s generic strategies is capable of creating an internal focus and alignment within a firm, which aids long and short-term decision making.

3. Porter's generic strategies and business performance – Mr. V

Regarding Porter's generic strategies, the author made the statement that previous research indicated that best cost providers actually perform the best online (Kim, Nam, & Stimpert, 2004). In response to this, Mr. V queried how this performance was measured and the author disclosed that it was done by analysing financial data. Regarding this, Mr. V said that it's perhaps incorrect to equate financial results to success. If one considers Amazon for instance, then they were not profitable for the first 10 years of operation as they were building the infrastructure of their empire. Consequently, they are currently a really strong, dominant force. Similarly, Facebook has not been very financially successful to date, however since that they have learned how to place advertisements on mobile, there is suddenly a big surge in their revenue. So, an alternative measure of success could be in terms of the growth of a business too.

Though this insight is valuable, it has to be highlighted once again that regardless of business growth, if at some stage the business cannot move into a phase of sound profitability, then the question has to be raised whether the business actually has a "good" strategy from an investor point of view. The value that the company provides to customer cannot be called into question here, so there might be a reason for existence, but if the goal is eventually to reap the rewards for oneself then financial results again become the final arbiter of success.

4. Competencies required to execute the strategy – Dr. E, Mr. N

It was highlighted by two validators that the competencies required to execute the strategy is very important. The competitive strategy framework focuses on strategy formulation, not execution. As such, the left-hand side of the business model canvas, which deals with key resources (competencies), key partnerships and costs are not covered in this study. The author recognises that competencies are critical however given the fact that the study has already covered such a mass of content, it is impossible to cover these here.

5. Multiple control point lock-in – Dr. E

The question was posed what the effects of multiple control point lock-ins are. To the author's knowledge, more control points mean tighter lock-in. Multiple control points could be used for one or several different customer segments. The interdependence of such lock-ins is unclear however, and could form part of future research.

6. Retail as a part of the framework – Mr. N

Mr. N highlighted that e-business is in actual fact nothing other than retail as it has been done for thousands of years. As such, all the principles of retail remain valid online. The only difference is that the actual delivery channel is different. Therefore, people need to approach e-business as basic retail, because if they start off with the assumption that it is something totally different then they may run into severe problems. Mr. N therefore proposed that the retail element should be accentuated. The author on the other hand believes that the retail or e-commerce element has sufficiently been addressed by the channel phase model and the e-value map to fit the level of abstraction of the rest of the framework.

7. Types of value – Dr. W

Dr. W pointed out that from a marketing paradigm there is an understanding of three types of value: functionality; minimising cost of ownership (life-time cost); and user-friendliness. Dr. W commented that he does not clearly enough see evidence of the cost equation, or life-time cost of ownership in the sequenced 18 sources of e-value. Again here, it is necessary to understand that the sequenced 18 sources of e-value depict the where a source of value is particularly important. It is not the only phase where a source of value is important. Therefore, in this model, depicting affordability and cost reduction in the purchase phase does not imply that it is the only phase where the customer incurs a cost. Costs can be incurred throughout the phases as a result of offering the different types of value. It was later realised that this logic would be more pronounced when constructing a table with the channel phases listed horizontally and the 18 sources of e-value vertically, thereby showing that costs can be incurred at each channel phase. It is for this reason that the sequenced 18 sources of e-value was later abandoned in favour of the e-value map.

8. Value system for making trade-offs – Dr. W

The recommendation was made that a value system for making trade-offs in deciding what is good and bad should be included in the framework. Simply put, the framework is not intended to be an all-inclusive framework and does not explicitly cover this. The framework is already too “excessive” for some start-up entrepreneurs who want to quickly launch their e-business venture. Start-ups will intuitively know what is good and bad, and what is viable *for their specific instance*. The truth is that each business strategy is so unique and instance specific that it is improbable that all of these possibilities can adequately be captured and considered beforehand. It therefore remains the user’s responsibility to make those decisions. Still, from all the elements, the strategic assessment is the element that most adequately addresses the issue of “what is good and what is bad”. Passing all of the strategic assessment tests means that there is a good probability that the strategy is well-formulated.

9. Assumptions about failure – Mr. V

Mr. V pointed out that a high failure rate is not necessarily a bad thing. The failure rate of e-businesses may be high because most of these ventures are funded through venture capital. The basic assumption of venture capitalists is that if one funds enough businesses, then eventually a success will be funded. Therefore, the system is built around the fact and expectation that some of these businesses will fail. If there are not a high percentage of failures, it might indicate that a too conservative approach is used to decide which businesses are granted funding. As such, a lot of potentially innovative businesses will fall by the wayside. Therefore, an even wider scope of businesses is funded and some of them eventually fail.

Regardless of whether failure might actually be a part of how the venture capital system works, it would still be better (especially in cases where the business is funded from the entrepreneur’s own pockets) if failure could be avoided altogether. As such, aiding businesses, independent of their means of funding, in creating strategies that are more capable of competing in the online space is still a worthy pursuit.

10. The ability to design innovations – Mr. V

Analogous to creating a successful e-business, Mr. V questioned the ability to create a framework or a process that will create a "hit song" (successes). It is his opinion that innovation or innovative strategies do not happen in such a way. He believes that there is a moment of clarity or a spark of brilliance where the idea (or "hit song") is created and then implementation follows.

The author on holds the opinion that there are definitely processes that can be followed that will allow one to more often create "hit songs". A hit song can be decomposed into critical elements. Some of these may for instance be a compelling chorus, good vocal talent, good band members, and catchy music (that consists of pitch, rhythm, tempo, melody) that fit the other components (harmony). Hard work and creativity are also critical factors. Similarly, the author believes that a process for shaping one's strategy can definitely be created to aid in building better and more robust strategies.

One of the biggest reservations that Mr. V had was this idea that someone goes through a strenuous, sequenced process where they "tick a few boxes" and at the end of the day they end up with a strategy. With this the author agrees. The development of a differentiated, compelling value proposition still requires creativity and innovation from the entrepreneur. The framework is intended to spur this type of thinking, but it does not present these solutions.

Regardless, Mr. V also stated that "It would be dangerous to attempt a start-up if some of the aspects in this framework you are not aware of. Because then you would not have knowledge of the domain in order to deal with it." This statement in itself validates the framework as being absolutely relevant and valuable.

10.3.2. Validation Round 2: International Validation

1. Utility of the framework – Prof. D, Dr. O, Mr. R

It was mentioned that the framework could perhaps have the reverse effect than what it intends to achieve – instead of spurring creative thought, some models may be too mechanistic for entrepreneurs who feel that it is trying to "put them in a box", thereby dampening their creativity. This insight points towards a limitation of the framework in terms of its user segments. It is theorized that impatient, unstructured entrepreneurs who prefer strategy execution and an emergent strategy approach are not the ideal users of the framework. Intellectual maturity and an appreciation of the limitations of the models are required to realise that the framework does not boast to be all inclusive or completely exhaustive – the 10 techniques for creating new market space for instance only provide 10 examples of techniques. When new mutually exclusive techniques are discovered in future, these will be integrated into to the model as dictated by the scientific method.

On the other hand, it was mentioned that the framework might be too complex and overwhelming for many e-business start-ups to use. Dr. O also posed the core question "How much comprehensiveness is going to help or not?" How much comprehensiveness is helpful and what is over-kill? This is a very difficult question to answer. Different people have different needs and find different aspects useful. A great strength of the framework is its comprehensiveness, as it allows for detailed analysis, but there is undoubtedly a point where too much comprehensiveness detracts from the framework. That's why parsimony is also important. The exceptional results of the workshop validation confirms the value of the framework's comprehensiveness, but further research is still required to identify whether there are aspects contained within the framework that may actually be left out.

2. **Competitive strategy as a once-off process, sequence and recursion – Prof. P, Prof. D., Mr. X**

Some of the validators were concerned that the author was advocating the framework as a once-off process where the entrepreneur sketches out his entire strategy in one go. It was agreed that in practice this is probably not how it would work, as there are many unknowns and hypotheses that the entrepreneur would have to test in the market, and based on the feedback obtained, over time make adjustments to his strategy. Recursion and renewal is a core aspect of the framework, and is partly why the framework was embedded in the lean start-up and customer development process.

Another recurrent discussion was about the sequence of the framework. It was again mentioned that the framework does not have to be applied rigorously, sequentially or in totality. Users can start using the framework at any point and use only the tools that fit their needs. The proposed sequence is only a possible sequence provided to users who wish to have such guidance. One valuable realisation however was that users of the framework would probably have to learn the framework first, before they apply it. This sequence creates an awareness of all the models, enabling users to anticipate what is to come, therefore making them more conscious on the interrelatedness between their earlier choices and their later choices. In this way, a more holistic, consistent strategy can be formulated.

3. **Validity of validation process – Dr. C, Dr. O, Mr. X**

Another interesting question is one surrounding the validity of the validation process followed. Quite a few of the international validators admitted that they do not know all that much about competitive strategy. Dr. O for instance stated that "For me it seems kind of complete. I think it's pretty good, but I'm not sure if you are covering everything, because I do not know the literature that well and if there are other areas to be explored. I would need to know more about this to respond in a way that would be more valid. I'm referring to what I feel, which may not be the exact situation." Similarly, Dr. C stated that "I do not profess to know everything about this", and in the most extreme form, Mr. X did not deem himself acquainted enough with the specific strategy content to provide numerical feedback during the interview.

This however, does not mean that the selected group of validators were not knowledgeable validators with good points of view (refer to Table 7.1). It just means that the research spans so many different topics and aspects, that it is difficult to be a specialists in all of them. One thing can be said however: The strategy oriented academics had a much clearer grasp and command of the concepts and topics than the non-strategy validators. Furthermore, it has to be mentioned that attempts were made to come into contact with competitive strategy specialists, however their scarcity and high demand made such meetings impossible. On the positive side, the framework was scrutinized by an array of different specialists with varying backgrounds. Yet, despite scrutiny from all these varying perspectives, the framework still could not be rejected as a viable perspective on competitive strategy. The competitive strategy framework fitted their implicit mental models of how competitive strategy formulation works, which from a validation point of view, is as much as can be asked of a model.

4. Metrics and input/output of the framework – Mrs. B, Mr. R, Mr. P

It was mentioned on several occasions that a set of metrics accompanying the framework would be very useful. The author does not disagree with this and it could form part of future work. At this stage however, the focus was purely on strategy formulation, not on strategy execution and the measurements of performance.

Some validators also had questions regarding what you "get out" of the framework for what you "put in", as if the framework was a type of mathematical equation. This does highlight an interesting notion of constructing a list outlining the required knowledge that should be obtained before using the framework. On the other hand, this would create additional barriers to using the framework, which are to be avoided. Instead, users should gather inputs dependent on the level of abstraction that they want to use the framework, and dependent on what their biggest strategic needs are. As for outputs, the framework should also be taken at face value and users should not expect miracles from it. Several advantages can be reaped from the framework as discussed in Chapter 9 though.

5. Interrelationships and constraints – Prof. D, Dr. C

Topics of interest to the academics in particular were the interrelationships between the models and how early choices constrain later choices. There is definite scope for improvement still in this area. Figure 7.2 tried to depict the interrelationships present in the model, but it is visually too messy to be useful.

6. Perspective of the framework and "strategy is not a problem" – Mr. R, Mr. X

Mr. R stated that "people do not come to this (strategy formulation) from an I-need-to-create-a-business perspective (design a solution perspective). People come to this as in I have an idea of a business; I need to find the best strategy to achieve that. I just think that they're coming from a completely different perspective to this (than what you're presenting)."

Again, the author does not deny or rule out the possibility that a lot of start-ups will already have their business idea in mind before they approach the competitive strategy framework (if they ever do). For these start-ups a lot of the tools will become redundant (10 techniques for example) and perhaps overly theoretical (digital-physical orientation choices) depending on what they've already formulated. The option to further refine the framework in future to better cater to these start-ups is a definite possibility. In the interim, the framework was designed not for the most privileged, but for those less privileged entrepreneurs who have not yet discovered their exceptional business idea. The competitive strategy framework was constructed partly based on the assumption that there had to exist dormant entrepreneurs who would appreciate an e-specific framework that allows for detailed upfront competitive strategy design. Based on the great results obtained during the workshop validation phase, portions of this assumption was confirmed.

Similarly questioning the applicability of the framework, Mr. X noted that "In terms for it to be a powerful framework for a start-up, it needs to solve a problem for them, and strategy is not a problem. Nobody will tell you, I come here because I have a strategy problem." This view bears some truth. People generally do not like to admit their weaknesses. However, it is even less likely that entrepreneurs ignorant in strategy will admit that their strategy is flawed – because they do not know enough to identify the problems. This highlights that eventual users of the framework will probably already be on an advanced level: Either they are curious novices that want to learn about competitive strategy, or they are enlightened enough to know they need some additional help with their strategy. In either case, these would be the types of people that one would like to work with. The framework is not meant to be a mass-market solution to be pushed upon users who do not want it. It's a tool for a specific subset of users. Refer to Chapter 9 for a further elaboration on the topic.

7. Over-reaching utility – Prof. P, Mrs. T.

One warning from Prof. P and Mrs. T was that the author had to be careful not to over-reach what the framework is able to do and what it cannot do. A more common problem was the unjustified expectations that people attribute to the framework based on their current needs, instead of trying to understand the framework's actual intent and limitations.

8. Sense-making and judgement – Prof. DD, Mr. R

The competitive strategy framework is an abstraction of reality that attempts to assist e-business competitive strategy learning, formulation and analysis. The domain that it resides in is complex, ambiguous, uncertain and volatile. The framework needs to be made more instance specific to derive real value from it (refer to the limitations in Chapter 1.5). It is therefore natural that a lot of the sense-making and judgement is left in the hands of the specific user, as the user is assumed to be the "domain" expert of the business which they want to enter. Some of the validators highlighted that it is this sense-making and judgement the people often struggle with. Although the author sympathizes with their needs, the proposed framework is already a better point of departure for decision-making than what they had, and additional research into ways to facilitate sense-making and easing judgement will not be done at this point in time.

9. Competitive or competitor aspect of the competitive strategy framework – Prof. P, Mrs. T

Two validators mentioned that they missed the competitive or competitor aspect of the framework, as the framework is so customer-centric. Competitive aspects have definitely been considered and designed into the framework though. Two tools were provided to assist the analysis and thwarting of competitors, namely the customer need saturation scale (seeks to identify a need's saturation in the market relative to other offerings and competitors in the space) and the strategy canvas (a competitor benchmarking tool that allows the business to compare itself to other offerings in order to spot differences that should be accentuated to compete more effectively).

A constant awareness of competitive threats in the landscape is also a big part of the framework. Each time that users go through the strategic assessment, they need to assess whether they are presenting an adaptive response to the competitive environment, and also if the business is still defensible against the five forces of competition. Finally, in the renewal and growth phase users are also continuously questioned about whether their strategic course is still sensible relative to the shifts that have occurred in the competitive landscape. The framework therefore definitely provides a balanced view.

10. The inclusion of examples in the framework – Dr. O, Mrs. B, Mr. K

It was mentioned on several occasions that many of the models in the competitive strategy framework would benefit from real-life examples to aid in the explanation and understand of the concepts. Although this is undoubtedly true, the aim of this document is to reflect the scientific findings of the research process. The models as contained in this document therefore showcase the competitive strategy content.

11. Strategic assessment improvements – Mrs. B, Mr. R

Some of the validators suggested that the strategic assessment should be broken down into more granular steps in order to validate the framework at each of its sub-element levels. This suggestion was not implemented for simplicity and parsimony's sake. Users who want to assess their strategy at a sub-element level can do so by using the existing strategic assessment. Users who take this approach are cautioned to also assess their strategy as a whole, to ensure that there is a holistic and coherent fit.

Another suggestion was that the strategic assessment should reference back to tools in the framework. Although there are undoubtedly a relation between some aspects of the strategic assessment and the tools, the strategic assessment was developed separate from the tools and reflect characteristics often exhibited by ideal strategies. Therefore, there is not an exact fit between the strategic assessment and the tools. Proposing tools to answer each of the questions would therefore pose two problems. Firstly, some of the tools would not map back directly to the assessment and may appear irrelevant, which is not the case. Secondly, referencing specific tools to answer specific questions could create blind spots as the strategic assessment is essentially a holistic evaluation.

10.4. Appendix D: Interview Transcripts

This section covers the transcripts of the interviews with the respective validators, as conducted by the author, Gerard David Ungerer (GDU).

10.4.1. Interview 1.1: Dr. L

Dr. L

Founding member of Thinkworx Consulting

Interviewed 11h00 at University of Stellenbosch Business School, Bellville

15 July 2013

[Gerard presents findings]

[Regarding the research need]

L: "Question here, if I look at your references – That's in a different paradigm. That reflects e-business 10 years ago. I think e-business today is a bit different. Would not you say?"

GDU: "Still, high failure rate shows that many of them still do not know how to compete. Maybe not in the same muddied paradigm, but there is still ample room for improvement."

[Has a discussion regarding what strategy is]

[Has a discussion regarding the colours for the research domain]

[Regarding e-loyalty]

L: "So how would you relate this to your sources of value?"

GDU: "I agree, they are definitely related."

L: "Because, value and loyalty is back-to-back. So my concern with this is that you have a certain view, a quite powerful view of sources of value, and you have a different model or not an obvious compatible model of loyalty. The challenge now is to reconcile the two, as at the moment it's almost different languages."

[Regarding the strategic assessment]

L: "I'm missing one, a key one. Remember, two words. It's a start-up and its e-business. When you start-up, you need to make a lot of assumptions in developing your strategy. Then test those and if they are not totally true, you need to adapt your strategy. Also talking about e-business, online, change, it's very dynamic, new technologies, new competitors, low boundaries, segment, resegmentation etcetera, so you need to adapt to it. So what are you missing?"

GDU: "Adaption."

L: "Yes."

GDU: "But that's what I refer to in the "adaptive response" element."

L: "Okay, but I'm also talking about adaptive strategy."

GDU: "Well, that's the next model that we'll be looking at."

L: "Okay. Next thing, what about risk somewhere in here?"

GDU: "I would say that has to do with the feasibility test."

L: "Okay. A big part of strategy deals with risk-reward trade-off. Where do you deal with that? Or is that at a different level. It's perhaps at a different level. I suppose it's implicit there. I'm just posing the question. Not entirely sure if it fits in here."

[General discussion before validation questions]

L: "Over-all I think you did great work. I think it's very good. You used Prezi to highlight the models from the bigger canvas, which is good. Your storyline is great. I have a few specific issues. I have a question surrounding Porter and whether he is really applicable to e-business. Porter has existed for years. It's for conventional business. And if you look at Harvard Business Review of a month or two ago, they ask in a very dynamic world such as today, where are the sources of your competitive power? I have a bit of a question around Porter, but it's not a show-stopper."

GDU: "Well, the way that I understand Porter, is that his work is applicable to every and any industry."

L: "I'm not convinced. You can do it in any, but it comes out of a time when competition is much different that it is today. I'm not sure from an academic perspective if there is research that shows that it is applicable to e-business."

GD: "Yes, there's definitely research like that."

L: "Okay, but let's just say I'm not convinced."

GD: "Can I ask you a question? (Regarding Porter's generic strategies) Are you not convinced that low cost strategies perform poorer than differentiation strategies online?"

L: "We are talking about low costs. It's already so relative. You know, the same with narrow versus broad target. I can say I have a narrow target, I'm focusing only on products A, B, C and it's a niche product and I'm focusing only on guys who fish for trout. But at the same time, because there are no boundaries across the Internet, therefore I can do it across the globe. So, is that a narrow target still?"

GD: "Yes, it's still a niche product."

L: "My gut feeling, and I have not read up on it, is that the Internet has changed so many rules of doing business. We have a business called blue02, which is an Internet start-up, and the rules are just totally different. So yes, it informs you (Porter's generic strategies), but if you're really making good decisions? Not convinced."

GDU: "I do not think it's about decision making at this stage, it's about aligning your company internally and focusing yourself."

L: "Okay, but that's my first question. It's around Porter. The second is that we are talking about a start-up, an entrepreneurial venture. Again, I have two start-up businesses and I talk with many other start-ups. None of us used Porter. So, is Porter valid for established businesses or for start-ups as well?"

GDU: "The intent of my framework is just to provide a more informed approach to strategy formulation. It's for that reason that I include these "academic" elements."

L: "Sure, I'm just challenging you to open up your thoughts. So let's go back. This (your framework) is a conventional strategy process. If you said that this is a company such as Kalahari.com that has been operating for quite some time, then I would have given you many more ticks.

If we look at the entrepreneur, very few of them start off with "here is our business strategy". They have a business plan. That business plan deals with an idea that addresses a certain market and the channels are quite important. It then also includes the infrastructure to enable those channels. That's the big thing. I'm busy with a new start-up, cannot really talk too much about it, but if you go and look at the business plan, it's that we have a certain idea, and we're going to make it work. So we are developing a platform that has channels that are flexible. So that emergent strategy aspect is very important online. For me start-ups are about that great idea and the execution of that idea and how you evolve it. So things of your framework that absolutely stood out, that in its own right should give you a pass, is your sources of e-value that are related to the channels. Because that for me is beyond the "oh, I'm making an e-business. I'm developing a platform and now things are going to happen." The key lies in what are my channels and how do I create value over those channels? I think it is an absolute winner. It is very good. And I think that someone who starts an e-business and having this picture, in terms of strategy needs he's already there. I would really try and push this. And maybe just a bit of reframing is required.

When you look at an entrepreneur, he as an emergent strategy, because you want to learn from what you're doing, and what you're doing you want to do well. But you also want to add that unique value. So, when you're talking about emergent strategy it's about learning. Another thing that I gave a big tick for is that model for adapting your strategy. It's also valuable. But emergent means that you need to navigate your competitive landscape. And you navigate through the choices that you make. Strategy at the end of the day revolves around the choices that you make. So if you position this framework almost as a landscape wherein the entrepreneur navigates to strategic choices and decisions, then I think it is a fabulous framework."

GDU: "So you're suggesting that I repackage this?"

L: "No, I would not repackage. I would just change the way that you start. Start-up entrepreneurs do not necessarily do conventional strategy. Their strategy is very emergent. Now to aid these entrepreneurs with their strategy, they require a few frameworks to aid them in the choices that they need to make. It aids them in more easily navigating this space and to show where renewal is necessary. It's actually an ecosystem that you are depicting. You're giving the entrepreneur a framework through which he can navigate through the choices that are necessary for an emergent strategy that's typically applicable.

I would also still do more work on the channel-value thing, because to me that is of the utmost importance. If you look at e-business, because you have to engage with your customer and you have to get your product to them, it's about your channels. And your channels online is fantastic, because you can set up your channels so well to engage. However, I think very few people have that picture (sequenced 18 sources of value). They do not understand this. This stands out to me as absolutely valuable. Where do people go and invest? They invest in different channels. If you think practically, what is my product and what is my market? Now to get to my market, what are my channels? Then again, the 2001 to 2005 a lot of people invested in platforms. But those platforms were so generic that they though that success would happen by itself, instead of asking, "What are my different channels? How are people going to use it?" and then providing value over those channels and monetising that value. Certain things you can try and sell, but how are people going to react?"

GDU: "Yes, that was a big part of my framework. You have to create value that someone will pay for. One of my main ideas was to move away from this sort of indirect monetisation revenue strategies, where you just rely on advertising. Because if everyone does it, then the profits are just going to diminish and then it is not a valuable position anymore."

L: "Correct, I think there is much more value in this (sequenced 18 sources of e-value). If you start talking through this, and you think back to Porter, then this is much more tangible from a strategic point of view than Porter.

The other one is the rework of the strategy (renewal & growth model), I mean if you look at this, then I would not call it renewal and growth, I would call it emergent strategy model. And you start off with this and you run through it a couple of times as you gain insights. So this is also a very powerful part of your model.

If you're telling me that the framework is intended for a more established business, then the framework as you've contextualised it then it is great, it can work. However, from an entrepreneurial aspect I think a bit of reframing is required, to state that the strategy is emergent. What you then have is a number of models that helps him navigate to the choices and decisions to actually have a viable competitive strategy."

GDU: "Yes, it's actually about supporting their strategy formulation."

L: "Strategy is about choices. What this framework gives you throughout is that from all the different things that I have to consider, what are the choices that I have? What works, and what does not? And from those choices, again new choices are required."

[Continues with posing the validation questions. The questions and responses are tabulated below.]

Table 10.3 – Dr. L's Validation Responses

Validation Questions	Validator's Response				
	Strongly Agree (4)	Agree (3)	Unsure (2)	Disagree (1)	Strongly Disagree (0)
1. *To what extent do you agree that the six core components of the framework are core aspects that need to be addressed by a competitive strategy? Why?*	X				
L: "Strongly agree. It makes sense and it is comprehensive"					
2. *To what extent do you agree with*					
2.1. The basic, generic customer segmentation approaches identified?		X			
L: "I would agree with this."					
2.2. The suitability ranking of the digital-physical orientations for e-business start-ups?		X			
L: "Yes, agree."					
2.3. The suitability ranking of Porter's generic strategies for e-business start-ups?		X			
L: "I'll give you the benefit of the doubt and say agree. Again, if it's purely to inform thinking and help to drive choices, then agree."					
2.4. The sources of e-value creation identified?	X				
L: "Yes, strongly agree."					
2.5. The 10 techniques for creating new market space?	X				
L: "Strongly agree."					
2.6. The generic types of relationships identified?		X			
L: "Yes, agree."					
2.7. The generic channel phases identified and the placement of the source of e-value within these?	X				
L: "Strongly agree. This is very valuable."					
2.8. The suitability ranking of revenue strategies for e-business start-ups?		X			
L: "Yes, agree"					
2.9. The types of strategic control points identified?		X			
L: "Yes, agree"					
2.10. The types of switching costs identified?	X				
L: "Yes, strongly agree"					
2.11. The factors that lead to e-loyalty?		X			
GDU: "Here you said I should highlight the link that exists between this and value."					

<table>
<tr><td colspan="6">L: “There is value in it. But it’s almost different languages. Agree in principle. It just is not very compatible with the sources of value. For me there is a strong correlation between value and loyalty. Actually, I do not think loyalty is that important. It’s about the value that you can provide. The other thing is that I want to buy at a company, company X and Y. To which one do I go to? One that is big and well-known. There is a certain credibility. So, if you see loyalty as brand credibility or online credibility, then it’s something different than the value that’s being provided. It’s something that can stand alone. However, if it is loyalty because there is value in the offering, then you need to more closely align the two. Think about how you describe loyalty. Online credibility, which means something else, or loyalty because of value. In the latter case, you need to more clearly depict the relationship. For me loyalty online, is not really loyalty. It’s about credibility of the entity.”
GDU: “Okay, so trust and security and reputation.”
L: “Yes, I do not have a problem with spending a thousand rand or two at Adobe online, because it’s a credible business. But other businesses? I do not know them, I do not know their names? I’m not going to spend two thousand rand at them, because who knows what will happen?”
GDU: “Well, that’s why it’s so important to use third parties for authentication and so forth.”
L: “Yes, you can do it. But those people can vanish.”
GDU: “Okay, but does that mean that you are opposed to or do not trust any small business?”
L: “Not necessarily. It’s just that before they have not proven themselves in the marketplace, then I’m not going to spend big money there.”
[L tells story about shopping experiences]
GDU: “What I’m highlighting here, which we should not get confused about is absolute loyalty. The model here just shows which factors can enhance loyalty. Hence, factors such as e-service quality and so forth.”
L: “Yes, but what I’m trying to highlight is that credibility is a bigger factor in strategy than loyalty per sé. Credibility and reputation. The moment your reputation is hurt, then you have big problems”</td></tr>
<tr><td>2.12. The general strategic tests that help to formulate good strategies?</td><td></td><td>X</td><td></td><td></td><td></td></tr>
<tr><td colspan="6">L: “Yes, after our conversation I agree.”</td></tr>
<tr><td>2.13. The core logic to renewing and growing a business?</td><td>X</td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="6">L: “Strongly agree.”</td></tr>
<tr><td>3. To what extent do you agree that the competitive strategy framework can assist e-business start-ups with designing strategies that are capable of more effectively competing in the e-environment? Why?</td><td></td><td>X</td><td></td><td></td><td></td></tr>
<tr><td colspan="6">L: “I agree, but I would just say that your model may be more applicable to emergent strategy. You have a strategy, but you need to revise it more often, because the environment wherein it is executed changes so fast. And because as a start-up you have to learn about your customer and the product. What works and what does not. What this framework gives you is an environment wherein you can navigate to the choices that you have to make.”</td></tr>
<tr><td>4. To what extent do you agree that the framework makes a contribution to the fields of e-business/ strategy/ business models/ strategic management? What contribution does it make?</td><td></td><td>X</td><td></td><td></td><td></td></tr>
<tr><td colspan="6">L:“I agree, and I think that the channels-value model is a very nice framework that creates a lot of direct value”</td></tr>
<tr><td>5. To what extent do you agree that it is intuitive to derive value from the framework? Why?</td><td></td><td>X</td><td></td><td></td><td></td></tr>
<tr><td colspan="6">L: “I agree, though I think that you would benefit by adding a short process flow to state how you use it. On the other hand, oh, you have the numbers… Just make it explicit that you are navigating according to numbers.”</td></tr>
</table>

[Concluding remarks]

L: “Just go back to the start. See in this cloud. For the real online entrepreneur it is about emergent strategy. The biggest need is to navigate to the right choices in order to decide which strategies to use. So what you framework gives them is a comprehensive environment that they can navigate in. It provides all the factors that they have to consider to arrive at a viable competitive strategy. I would also change here, “Do not know how to compete” to “competing a challenge, because of online dynamics and complexity”. For me that’s a better description, because “Do not know how?", yeah everyone kind of knows how, but it's not effective because the environment is very dynamic, and very complex. I think if you start off with that and at the research need include the emergent word, then suddenly the framework is much better grounded."

GDU: "So would you use this model? Or aspects thereof?"

L: "I would definitely use a few aspects of your work. Definitely that channel phase model."

GDU: "Great well thank you very much."

L: "Pleasure. It was very nice. I like you Prezi approach. I think it's very applicable."

10.4.2. Interview 1.2: Dr. E

Dr. E

Project Manager of Commercial Strategy at Brandhouse

Interviewed 11h00 at Brandhouse Head Office, Observatory

16 July 2013

[Gerard presents findings]

[Regarding the e-business failure rate]

GDU: "Approximately 40 of e-business start-ups in South Africa fail."

E: "Hmmm, I would think it would be higher."

GDU: "Okay, to be completely honest that is a very old statistic. I talked to Arthur Goldstuck at the WorldWideWorx and their business is all about monitoring e-business trends and statistics, and he said that they do not even know. So, the real rate could actually be closer to the average failure rate of SMMEs in the country, which is at 75%."

[Regarding business model canvas focus areas]

E: "One thing about innovation is that key resources, including people, are a fundamental contributor to the value creation. So, innovation stems from people nothing else. Let's go on and see what it translates into."

[Regarding domain principles]

E: "So these domain principles. Where did you get it from? Was it an extensive literature review?"

GDU: "Yes, I did a literature review."

E: "And then, was it a selection process? Based on what criteria?"

GDU: "I cannot really say that there was a significant criteria added to this, but seeing as I'm talking about principles, I included all the paradigms that emerged as significantly important (without being overly excessive) for reflecting the domain. Looking at Blue Ocean strategy for instance, Blue Ocean strategy has its own principles. There are six of these, however, I only used the first four as they deal with strategy formulation and the remaining two deals with strategy execution. I then added two value innovation principles, namely breaking the value-cost trade-off and pursuing differentiation and low costs, as these also really highlight the thinking of this domain. The same with Red Ocean strategy. Porter also provides six different principles for Red Ocean strategy and so forth."

E: "But under Red Ocean strategy, I sort of think of classical strategy. Competing strategy."

GDU: "Yes, it draws from the positioning school, planning school and design school. Those, where the boundaries are fixed. Blue ocean strategy is the reconstructionist view, Red Ocean strategy is the structuralist view."

E: "Is this all a meta-study that has come out after the fact? Subsequent to that, have people developed on those concepts and said there are two schools or?"

GDU: "Not really. They (Kim and Mauborgne) are the main proponents who actually brought the Red Ocean mind-set to life as they are pushing the Blue Ocean view. But, another book of Henry Mintzberg, who defines 10 schools of strategy and the first one's that come from there is the planning school, design, school and positioning schools, which together actually refer to Red Ocean strategy. Now, the main reason why I'm including Red Ocean strategy is because you cannot neglect it. Every Blue Ocean eventually turns into a Red Ocean. So, I wanted to get a clearer view of what's really happening."

[Regarding the primary model]

E: "Your theory of robustness, where does that stem from?"

GDU: "I did not really draw on a source of robustness theory. That's just a categorisation that seemed applicable after the framework creation."

E: "Do not you have an author on which you base the understanding of what a robust system is?"

GDU: "Well, the thinking stems from Van der Heijden, who states that there are two sides of a business, namely building the business and protecting the business. Now, the protecting the business deals with perpetually making investments in competencies to sustain one's competitive advantages and thus the business. That's kind of where it stems from. Then, the customer lock-in element stems from control points (which forms part of the competitive strategy architecture). So the thinking is if you're creating customer lock-in, then you are implicitly creating competitor lock-out. I do not know if that answers your question?"

E: "Yeah, it makes sense. But, I'm asking because I'm not sure if you are familiar with Nassim Nicholas Taleb."

GDU: "That's the guy from Black Swans."

E: "Yes, and anti-fragile. I do not know if it is necessarily necessary, but he has a theory of anti-fragility. What makes a system fragile on the one hand, and anti-fragile on the other end of the spectrum? For a lack of a better word, there is no opposite of the word fragile in the English language. People say well, there is an opposite of fragile. It's resilient or robust. But he says that that lies in the middle. What a fragile system does is that it crumbles under volatility. What a robust system does is it is steadfast under volatility, but an anti-fragile system is one that thrives under volatility. So, what thrives under volatility? Organic systems. For an organic system to thrive under volatility, some sub-systems must be allowed to fail. So, within a team of individuals, or a nation, for the whole system to become stronger, some individuals must be able to die off. It's survival of the fittest. He reckons that businesses at best at the moment achieve a form of robustness – that they can deal with volatility. But, most businesses tend towards fragile businesses. Changing conditions and the rate of change, cause businesses to die off. So, I think that is something interesting to look into, but I do not think it's necessarily vital. So, let's continue."

[Regarding the validation of the framework]

E: "So for the validation, it has not gone to the point now where you've taken, say successful e-businesses and mapped them against your framework?"

GDU: "No, I have not done that yet. I still want to do a case study on Dropbox and populate Dropbox's competitive strategy."

E: "Over time? And how it evolved? Because what I see is a big part of your framework is evolution and evolving business. So, you say to start it is the best to pursue this pricing strategy, this and this. Are you going to do that as well?"

GDU: "No, that's not my intent at this moment."

E: "Well, I suppose it depends on the case study as well. So, has Dropbox's strategy changed?"

GDU: "Well, I think that they evolved from a product innovation strategy to a more infrastructure oriented business." *[This is incorrect. These were the authors' thoughts before the actual case study commenced]*

[Regarding pure play e-businesses versus hybrids]

GDU: "There are definitely advantages to being hybrids. For instance, if you take over the fulfilment activities then you can achieve higher service levels, but it's cheaper to start off as a pure play."

E: "Yes, and less complex."

GDU: "However, in my study I state that you can evolve over time into either orientations depending on your needs."

[General discussion before validation questions commence]

E: "Firstly, I think you have a very comprehensive look here at strategy in general, the link between e-business and strategy and what businesses need to consider in the development of their strategy.

So, I think that's fantastic! It looks very thorough. What would be concerning to me is that we've chatted now for what, 45 minutes and it's hard to fully grasp the model. Maybe that's because it's so thorough, and we had to go through so much so quickly. Also, it's also not really clear to me, the story about how you go about structuring the strategy. Where do you start? The sequence that you've taken me through now, is that how?"

GDU: "Yes well, the numbers indicate the sequence that I propose should be followed."

E: "Okay, start with customer segmentation, generic strategies, business model or your extraction from it, that you've called the value proposition, then control points (customer lock-in). Do you have names for the totals here?"

GDU: "Yes"

E: "Oh, now I see. Customer lock-in. Then you go to strategic assessment and the renewal and growth. Okay, so I'm seeing separate components here. The one is the process of setting up your strategy. Then you've got a strategic assessment, and then you go into a phase of operation, and in this phase of operation, you have constant renewal and growth."

[Discusses renewal and growth model a bit more]

E: "I'll have to spend some time with this. It's such a lot of work. It's going to be difficult. You need to find a way of distinctly getting the message across. Find a way of less is more. I mean, it's fantastic that you've been this thorough. It really is. It's a masters right?"

GDU: "Yes, just a masters."

E: "Well, PhD perhaps afterwards."

GDU: "Well, that's where the case studies would play a huge role. One characteristic of a good model is that it gives you some predictive power. So, what I'm saying is that these factors could possibly lead to success. But, I'm not sure, because I cannot really address what leads to failure. Because execution plays such a huge role in success and failure. So, that's why I'm thinking about looking at successful e-businesses, and if I can identify similarities between their strategies and the things that I have found, then it somewhat serves as validation. An alternative way to do things is to put a few people in a room and then tell them to brainstorm a strategy. One day later, you provide them with my framework and then tell them, okay, try again. If they are then actually able to devise a better or more robust strategy by using the framework, then obviously it has added some value."

E: "Yes, true. Maybe you should actually separate the groups."

GDU: "The difficulty with things such as that is that I'm not rating the quality of the initial strategy or idea that they are putting in. (For this you would need some type of control that equalises the two groups) I'm just providing a process whereby they can mould themselves. "

E: "Yes, allow them to talk about it. Well, validation is always a challenge. One trap that you must not fall into is the trap of causality. This is perhaps getting a bit philosophical. Why is Dropbox successful?"

GDU: "Well, if you look…"

E: "I'm not interested in your answer. What I'm getting at is that to identify the reason for success is much more difficult, or near impossible, compared to finding reasons for failure. Identifying factors for success means you need to be 100 percent, complete in eliminating and identifying, therefore being mutually exclusive. What is the word? Completely exhaustive in the identification of factors. Now, that's impossible. Whereas reasons for failure…there are direct reasons for failures. They manifest themselves and present themselves to you. How you bring that into validation, I do not know. Maybe you should go from the failure route and say that, this is where the businesses failed, and this is where my model could have assisted. It could be an approach. Rather than taking successful ones, and saying that these are all the factors that lead to success and this is how my model corresponds to it. Because I guarantee you, that if you could hit 20 percent, then it would be good. There will be 20 percent that count for 80 percent for the reason for success, but there's still the other 80 percent that makes up the 20 percent of the success (that you do not know about), which without (that 20 percent) the business might not have succeeded. That's where the execution comes in. It's impossible. So, maybe you should look at a couple of big failures. Let's break them up, they would have been documented and quickly you could collect the failures and then you can say, this is how my model would have assisted. One thing that I would say is that simplicity is the ultimate sophistication. So, it takes a lot of work to make something as comprehensive, but simpler to understand and utilise. That was the bulk of my PhD."

GDU: "In that sense, do you see any way that I can simplify it? Because I can keep it as simple as just looking at the main models and highlight just the "most viable" ones, but that then somewhat destroys the value of the model as a whole (to show all the possible options)."

E: "No no no. You're thinking along a classical hierarchical structure, by cutting off a bottom layer. There may be other ways. That's not for me to answer for you. That's for you to answer on your own. Furthermore, I do not know enough yet about your thesis to be able to make those calls. But looking at your primary models, there are a lot of things in here. I see that at the core you have a competitive strategy. Why competitive? Why not robust?"

GDU: "Well, that really stems from the literature and models that I've reviewed. Remember, my framework stems from the competitive strategy architecture."

E: "It's counter intuitive to Blue Ocean strategy. You're not here to compete, you're here to create a new market."

GDU: "It's on a more holistic level than that, than looking at the type of strategy you are employing (red versus blue). Competitive strategy can actually be linked to a business model canvas, through the value proposition. It's about how the business intends to compete in the market space and defend that competitive position. Therefore, every business has a competitive strategy element, regardless whether the means that they use to pursue it stems from new market space creation or head on competition."

E: "Okay, but Blue Ocean strategy is the antithesis of that. The way that I think of it visually is that they take a number of dimensions. Competing is about using the same dimensions that all other businesses are using and creating a mix that you are unique for and differentiates. Blue ocean strategy was about saying, there are a sub-set of customers in there that are dissatisfied, because the number of dimensions that are provided in there are not providing the correct mix. The dimensions are incomplete. Therefore we add dimensions. Therefore we do not compete along the old dimensions, we add a new dimension, because no one else is providing this. Therefore, we are not competing. Maybe we are getting into a semantic argument rather."

GDU: "Well, you are still competing. Competing against non-consumption."

E: "Yes, it's white space. Under-served."

GDU: "I focus on that aspect a bit more on my business model innovation section, where there is a strong focus on customers. That's also why I included a customer segmentation theme through-out. Take a certain customer segment, try and fulfil a specific job for them, and nail that job specifically. Because as soon as you start diverging from the specific job, you create opportunities for competitors to better fulfil that."

E: "Okay, yes, I think we are verging on semantics. What I would recommend though, if this goes onto a PHD, is to read Taleb's anti-fragile. Because, it will bring an element of the dynamics of systems. So, it will bring in how an e-business takes part in a system, that's part of another sub-system and another sub-system and so forth."

GDU: "Okay, will do."

[Dr. E continues talking about anti-fragility]

E: "In summary, it's very thorough. You've definitely added some interesting combinations and views on this thing and created a package here. The proof of a study like this only comes with time. And you will not achieve that in your validation. Maybe, in 10 years or so, if it's been used a couple of times. But you cannot do that in a thesis or dissertation or anything."

GDU: "Yes, well, I only wanted to create a point of departure for someone to use, so that they do not have to go through everything I did, and provide them with kind of a way to go about."

E: "A good analogy for it is an Osterwalder for e-start-ups."

GDU: "Kind of."

E: "It's a framework with sub-framework. These are a bunch of spectra or matrices where you need to position your business and this is how they fit together. That's the kind of thing I'm seeing here. But that just might be because of your graphical representations. Have you read Osterwalder? Do you have the book?"

GDU: "Yes of course!"

E: "Firstly, I thought it was the best piece of work on business models, and it probably is, because everyone references it. Having said that, all models are wrong and some models are useful. So, it's very useful. It never precisely represents something. And this (the competitive strategy framework) also will not precisely represent what an e-strategy must look like, but it is a framework to begin a discussion with. That's very important context that you have to provide the person who's validating, but I presume it's in the dissertation itself."

GDU: "Yes."

E: "People quickly like pointing out "Oooh this is wrong, this is wrong", but that's not the point is it?"

[Last remarks]

E: "Good work. I think you have some significant substance here."

[The validation questions were not answered during the interview as time ran out. Dr. E completed the questions as shown below.]

Table 10.4 – Dr. E's Validation Responses

Validation Questions	Validator's Response				
	Strongly Agree (4)	Agree (3)	Unsure (2)	Disagree (1)	Strongly Disagree (0)
1. *To what extent do you agree that the six core components of the framework are core aspects that need to be addressed by a competitive strategy? Why?*		X			
E: "It appears thorough on the surface. Being fully comprehensive is however less important for me than being integrative in the execution – i.e. considering the complexity of the domain. The framework will assist (but cannot fully ensure) this. It comes down to people, their interpretation and ability to execute."					
2. *To what extent do you agree with*					
2.1. The basic, generic customer segmentation approaches identified?		X			
E: "I think it is tough to perform segmentation generically – it is very business specific. But the structured offered here is a good starting point."					
2.2. The suitability ranking of the digital-physical orientations for e-business start-ups?		X			
2.3. The suitability ranking of Porter's generic strategies for e-business start-ups?		X			
E: "All three offer sound (proven) simplifications of complex "choices". Be aware of trivialising though."					
2.4. The sources of e-value creation identified?	X				
E: "Very interesting. May be some overlapping sources, but a very thorough look at sources of value."					
2.5. The 10 techniques for creating new market space?		X			
E: "I think in general a comprehensive look at the creation of new market space. I have not given a "strongly agree" purely because I think it is impossible to perfectly capture all techniques and impossible to ensure that all techniques deserve individual classification. I would like to query the strategic control points technique by saying that it might be possible to create a new market space by by-passing existing strategic control points to either entirely eliminate them of create new (more desirable) ones. Just a thought. Otherwise, it's very solid work."					
2.6. The generic types of relationships identified?		X			
E: "Sound. Is dedicated personal service an e-service? Maybe it is just the picture that's misleading."					
2.7. The generic channel phases identified and the placement of the source of e-value within these?	X				

E: "Channel phases are as complete as is generically possible. I think one business selecting as many value levers as represented in the diagram may be complex. A simple start-up with one to three clear value levers in which they are brilliant may be more viable."					
2.8. The suitability ranking of revenue strategies for e-business start-ups?		X			
E: "Again, a framework to stimulate discussion – but need to avoid trivialising the complexity."					
2.9. The types of strategic control points identified?			X		
E: "List is one thing. What about the interdependence of a multiple control lock-in?"					
2.10. The types of switching costs identified?		X			
E: "Good"					
2.11. The factors that lead to e-loyalty?		X			
E: "It's a good list. But what are the causal links between control points (lock-in) and customer loyalty? Lock-in could lead to lead to long-term dissatisfaction."					
2.12. The general strategic tests that help to formulate good strategies?			X		
E: "This is core to the framework's utility – I cannot completely understand it based purely on the graphic representation and brief description." *[This comment refers to the hand-out. The author is confident that the thesis content is sufficient for clarity.]*					
2.13. The core logic to renewing and growing a business?			X		
E: "Same comment as above. While this deals with how the model is used and may need clarification (not sure what is in the actual thesis), it may be beyond the scope of an MSc."					
3. *To what extent do you agree that the competitive strategy framework can assist e-business start-ups with designing strategies that are capable of more effectively competing in the e-environment? Why?*		X			
E: "Too thorough. Simplify without sacrificing this and you would get a "strongly agree"."					
4. *To what extent do you agree that the framework makes a contribution to the fields of e-business/ strategy/ business models/ strategic management? What contribution does it make?*		X			
E: "Novelty and integration. Again simplicity would be an added bonus."					
5. *To what extent do you agree that it is intuitive to derive value from the framework? Why?*				X	
E: "As presented in this document, it definitely needs someone to guide one through it. Again, simplicity might rectify this." *[This again refers to the validator hand-out document. It is not intended that the hand-out document will enable someone to independently use the framework.]*					

[General comments made by Dr. E]

E: "This is a very comprehensive piece of work. Further, the assimilation of the concepts across domains to form an integrated whole is clearly evident. It takes significant amounts of work to ensure comprehensiveness. It takes disproportionately more work however (outside of the scope of an MSc) to ensure comprehensiveness and simplicity. If ever there were the opportunity for future work, this study and the resultant framework would serve as a sound basis from which to develop a practical, high-utility framework that could be understood and used by many to formulate a competitive e-business strategy."

10.4.3. Interview 1.3: Mr. N

Mr. N

Founding partner of Africa Internet Accelerator / Ex-CEO of Kalahari.com

Interviewed 9h00 at Technopark

22 July 2013

[Gerard presents findings]

[Concerning digital-physical orientation]

N: "Would not you say that the counter argument to point number one, which is that you need to offset the high logistics costs of physical products, is actually offset by the fact that you do not have big physical infrastructure."

GDU: "Well it depends. I do not know how Kalahari worked, but for me a pure play e-business is one where the interaction of the company remains digital. So you can sell physical products and then you would outsource your physical logistics. A hybrid here is where the business actually takes ownership of products, have warehouses and do the fulfilment themselves. So, how did Kalahari work?"

N: "Well, then you've got three models in terms of the digital versus physical orientation. You have companies that sell physical products, who manage their own infrastructure. So Kalahari is an example. You would own your own warehousing and so forth, but the delivery is outsourced. There are companies that have the same type of model, but they own the same day delivery portion. They own Mr. Delivery. So you can get same day delivery of your products. But if you do next day delivery, it might go to DHL or something. Then you have companies that outsource it completely, where their physical warehousing is outsourced as well. So where would you put in a company for example that are e-businesses, but they only sell digital products."

GDU: "That would be pure play e-businesses."

N: "Where does Kalahari then fit in?"

GDU: "Well, if you're saying they own their own warehouses then it leans more towards the hybrid side."

N: "So you can have different kinds of pure plays and different kinds of hybrids?"

GDU: "Yes."

[Regarding Porter's generic strategies]

N: "I think if you had to look at this in a U.S. or a first world conceptual market, then it makes sense. If you look at it from an emerging market perspective, you need to be very careful, because the market is so small, then if you are a start-up and you want to niche it, then you are making it a very small component of a very small market. So yes, you may look at it and say "In 20 years' time, we will have 20 million people", but the reality is that you've got 4 million people that are active at the moment. So if you're saying that you want to be in the niche of the men's wear market, then you have a target market of like 200 000 people, and you cannot make a living. So you need to be very careful when you set something like this up, that the market where it operates in had different dynamics than a bigger market."

GDU: "I totally agree with that. That slots in perfectly in with the customer segmentation element of it – that you have to do market research and establish that there is a viable proportion of people out there to do what you want to."

N: "It might even stop you from doing what you want to do in the first place."

GDU: "Exactly."

[Regarding the competing against free model]

N: "A lot of this stuff is great in theory. But there have been so many examples of people who try and compete on price. So if you follow them, then you'd both be out of business. So it's sometimes not economically viable to follow them. Another thing that is quite interesting, when you talk about customer retention and customer loyalty, people who leave (defect) based on price often come back based on service. So, it may be bad that you lose 5% of your business due to free competitors, however, if you follow the free trend you're going to be out of business. You should then rather put your money elsewhere and try and compete on other factors, such as increasing your customer service."

[General discussion before validation questions commence]

N: "Okay, let's talk about what e-business is all about, before we get to which framework to use for e-business. One of the easiest mistakes that people can make with starting an e-business, and it comes back to your earlier validations about what e-business is. This is not a complicated way of doing business. This is just retail as it has been done for thousands of years. The only real difference that I've had experience with is that the actual delivery channel is different. Rather than coming into the store, you go on to the website. Again, with that in mind it does not necessarily change the core principles of what happens when you get into the store or when you come onto the website. When people come into the store, what do they do, where do they go and where do they spend time? Which again leads to when you go onto the site, is it easy to search. Are they just looking for search or are they looking for discovery. Is it easy to check out? If you look at how Woolworths checks-out, a lot of added value is all those items they put down the sides, which are massively over-priced items. An example of buying biltong from Woolworths, costs about the same as a kilogram of gold, but you actually do not notice it. Online, that's what's called average order value, or basket size. So you want to say, what can I add to the basket? So, it's all the same principles, going backwards and forwards. If you want to start from the premise as, 'this is something completely different', then you've got a major problem, because ultimately, it does not work. So if think that when you are advising a strategy framework, you need to find a way to incorporate the fact that it is a retail framework, rather than an e-business framework. Otherwise it implies that it is something completely different and people could follow this process and go off on a tangent. You could say it is their fault, because they were stupid to start off with, but I think that you can add value to the process by incorporating a retail element to the framework. Because whatever you want to sell online, it's retail. So that's the first thing.

The second thing is the only real difference of online, and it goes back even before you get to segmentation on the product side, which I think you need to spend a lot of time in the actual product selection, product identification process is "What is the need that we are trying to address?" It could be something completely new, or it might be a cloned strategy. Each is completely fine. It depends on the size of your market on which way you want to go. It's very important in the product development process, which I did not see enough of in your framework. What need are we addressing? Or how are we changing the way that the customer is currently purchasing. Sometimes it is not about selling something new, all you're trying to do is to change behaviour. Is it about price? Are we addressing convenience? Are we addressing range? For example. So what Kalahari tries to do is to address a whole bunch of them. If you're going to go to a big box retailer, then you're not going to find more than a 100 000 SKU's (stock keeping units) in the shop, because the physical location does not allow it. Kalahari has 16 million SKU's on site. So there they say that almost anything that you're trying to find, we can get it for you and we can offer it to you at a discount, because we do not have the physical infrastructure. Now in that product process, I suppose the product flow of what I'm trying to sell here, is "What need am I trying to address?"

The third piece is, again, you touched on the segmentation. Segmentation in South Africa is just critical! The market is so small. So anybody who is going to start niche is really going to struggle to put food on the table. Here we are talking about network effects and things like that. Here we just need sales to go through. In retail, it's very simple. Often we do not add. We do not take the product, change the colour, all I do is I take it and I send it to you. So the part that I need to do really well is the logistics part. Everything else actually only becomes a wrap-up around that. Furthermore, because it is such a small market, and you cannot get that part (logistics) right, then the business is dead. No matter how great the idea is or what you're trying to achieve. So again, people who use this model must understand that they should not be too niche. It's hard to get investment for very niche businesses and it's very hard to build network effects on it. Because you need to follow this whole early adopter thing, and it takes forever. And in the meanwhile, you're starving. A lot of times we recommend to entrepreneurs to try and find something that's addressing the need of the biggest possible market. Some people say, "Oh we are so big", not really. We are like Austria. The other thing I do not see in the model is the skillset of the people who are trying to create the business."

GDU: "Yes, the competencies. The reason for that is because I focus more on the formulation side, so the competencies are included in the key resources of the execution side. So, that does not form part of my scope."

N: "The reason why I think we emphasize that piece is that if you're starting point is there are two people with an idea. You are a technical person and I'm a marketing person. We could potentially start an e-business. So, say we have a new way to sell cell phones. Again, if we do not understand the primary function of our business, is inbound supply chain, warehousing, logistics, delivery, then between the two of us we have no skills. Our entire business model that we are trying to put together is based on the fact that you can build a great website, I can market things and a supplier in China can deliver our products. The fact that 60 percent of our costs are sitting in the supply chain; that all our customer service complaints are sitting in supply chain; it's just completely new to us.

That's why the competencies of the people that want to get into this business, when there are physical products involved, is so much more than just marketing and tech, which is usually the starting place of entrepreneurs. Usually there are very few logistics graduates who decide they want to start their own e-commerce business. So, it should be more the other way around. I think that you need to re-emphasize what the competencies of the team would look like to take this thing forward. Looking at the framework itself, all of the things that I've had experience with, both in corporate, which is very, very slow. Okay, take a step back. If you want to use this framework as a corporate entrepreneur framework, then it is obviously a lot more suited to that mind-set of death by power-points, program managers, timelines and things like that (formalization). If you are four guys in a room that are either trying to formulate a plan, or trying to raise money, then speed of execution is more important."

[Gary explains example of Rocket Internet]

N: "These guys have a cloning business. They take ideas from the U.S. and establish it in other countries. They do not care. They have similar websites even. It's quite embarrassing. So for them it's all about speed of execution. So they do not really hire any tech people, they hire people who have worked at McKinsey for example. People who know how to do things in a particular way, really, really fast. So that's one way to do it. Speed of execution. If speed of execution is your focus, then you're going to struggle with a framework like this. Because you are going to spend weeks on just the framework."

GDU: "I do not agree. I think that this framework helps you with that speed of execution. You are better off having this than not. Because what you're also talking about a lot is emerging strategy and how quickly you can get the strategy to market and adapt adapt adapt. The problem with style is that you can get so caught up with your operational activities, that you never think about your business again in a holistic manner. So having something like this allows you to take a step back and see that "these are all the choices that I have to make", and if are able to make those choices and actually articulate it, if you then go for investment funding and you can articulate your strategy better, your chances for receiving funding is better. "

N: "True, but there is a concept of failing fast. You have an idea, you get it up quickly, you test it, it fails, throw it out, do either an iteration or start-over. In that case, you'll never use a framework like this, because it's takes too long. What I'm saying is, is there an over-lay of this strategy? The concept is right if you have three months for instance. This is how you follow it from step 1 to step 6. However, if you have three weeks, this is how this concept is condensed. So that you're still following the same process, but at a much faster speed. It almost becomes like a tick-box or post-it note strategy. That might help the entrepreneur who is in the mind-set of "I've got this idea, I need to launch in 6 weeks". What are the major tick-boxes that I do not know about that are going to catch me out sometime in future, just because I have not thought about it. I think if you can find a way where this very comprehensive model is just a 1 page tick-box model, that would be good."

GDU: "That's what I tried to do in the primary model. It does not have to be complicated."

N: "I think you need to find a way to simplify it. Again, I understand where you're coming form, but I want to put a type of business layer on it... A start-up person's mind is all over the place. You're going to have to find a simplistic way to do it… So, I'm saying the information is there. For a start-up, you're going to have to find a way of putting it in a simplistic way of doing it. It's going to be an overload for a start-up and they're going to stop somewhere in the process. Because something has gone down on the server or something. Nobody has the time. Maybe the better way to look at it is that nobody ever has the time to do it right, but they always have the time to fix it. Which is a counter-intuitive business problem. You are moving so fast, and a lot of the start-up people with experience intuitively know what must happen. So just make it happen. Do not take me through something very complicated in terms of the framework. That's my only thing. To a big corporate, it would be very simple to sell a framework like this. To three guys in a room, who need this more than a big corporate, there is a wrapper that needs to go on. All the information is underneath, but this is the 10 critical things that you need to figure out before you do it, and this is how to figure it out kind of thing."

GDU: "I do not think it's ready to give to start-ups (commercially), in the form that it is now, as a thesis for my masters. I think there is a lot of work that can be done to simplify it."

N: "I'll give you another example, and you can use what you want to use. Before I joined Naspers, I was with a company. There the business model was, well, nothing like this. It was in the business of SSL security. So, there was an opportunity, because the NSA would not allow businesses to export the cryptography or the other half of the keys outside of the U.S., because they were worried about the Russians and the Chinese. So you had all these businesses starting that could not use SSL encryption. So there the model was, "How do you get your keys into the root store?" At that stage you went to Microsoft and you get them inputted, and then you just phone up all of the other companies around the world and you say, "Hey, have you heard about this security? People can steal your credit card details, you need to have this padlock at the bottom." And they were like, "okay cool, here you go". That's the strategy. You know, there was no deep segmentation of the target market, because everyone who has a website needed it. Price? VeriSign in the U.S. is charging R999, let's like charge R899. You know, people start to complain, "Why is it so expensive?" Then we change it to R799. You know what? We do not mind! There's no like fixed line of this is how you do it. It's more of, here's an opportunity. People need this. Let's go for it. If you sat in the same situation today, because of how connected everyone is, and there is that same gap, if you were sitting with this framework, by the time you completed it and it was perfect, you may have found that someone else has already eaten your lunch."

GDU: "I think it's important to say at this stage that it is intended to be used in part or as a whole. You can adapt it to your own needs. You do not have to take weeks to go through this. Also, because we know about epicentres of business models, if you have an idea somewhere then that idea can spill over and affect the rest of your strategy. So the sequence is not really necessary. The thing I need to ask you is, do you think there is value in a comprehensive strategy formulation process? Articulating what you're strategy is? Is there still value in thinking strategically online?"

N: "Yes, most definitely! However, the speed is different. I think it's more about having certain checkpoints in terms of putting a business together. In terms of putting a strategy together, it's something like this:

1. I see a need. Let me think about this a bit more. Okay, it still makes sense the next morning.
2. I ask a couple of people, "Do you have the same problem as I have?" Yes? Okay cool. I've found a need. I mean, it's dipstick research, I've only asked 5 people. Nobody says no? Well, that's a 100% good research right?
3. Now I think products. Okay, so I go online. Who can supply me? Someone in China? Europe?
4. Price? Get the pricing. I know what the basic financial model looks like. I do not do a 5 year analysis. I need a couple of inputs. How much traffic do I need at this conversion rate, at this order value? Work it down. Okay, now I know what kind of money I can bring in. Pop it into a 1 page input and there, I get my first year projection. Now I know I can make money or I cannot make money.
5. Next, I need a website. That's relatively simple. I can have a website running in 6 to 8 weeks. I have not gone through 95% of what's in your framework.
6. If it fails horribly, then I check which part of this (strategy) I did not understand correctly. Because the need is still there, but I'm not addressing it properly. Maybe there is a trust issue. Maybe it's brand. Maybe my brand's not strong enough. Okay, maybe I cannot compete against a strong brand like Coca-Cola. So, my only choice is to be the anti-brand. I need to find a cool way to do this, and make people want to associate with me, and take a kind of Nando's approach.

There are just some basic logical steps that you need to follow. All those basic logical steps are in your framework, however, to pull that out there is still the need for the strategy document. It just needs to be the simple version of what's in here. If you have more time, people and resources, then it could work."

GDU: "Okay, so it's actually too formalised?"

N: "It depends in which market you are in. If you were Procter and Gamble and you do not know how to take your products online. You do not know should I go primary first person, e.g. we are going to sell as P&G online, or we are going to sell through 3rd party retailers. Or am I going to go hybrid?

If you are in responsible for e-commerce at Procter and Gamble, then this is a great tool if you do not know where to start. Because you have 9 months or a year to do it, because no-one is expecting a 6 week turn-around, then this type of process is perfect, because you will have the skills and money to do it. You'll just bring people in and say, "Go away and research this". You will get pricing analysts who will run numerous models and see what the effects are. Marketing people, what's the effect on the market? You can do all of those things. If you are 5 guys in a room straight out of varsity, or in varsity, and you want to do something, then it's too formalised. You either have to decide, you either have 2 versions of this thing, or this is my corporate entrepreneurial thesis on e-business. I think that's my take on it."

GDU: "Okay, it makes sense. Some other people also gave me the same advice. I still feel that you can make it as formal or lengthy as you want to. You can do a deep analysis, but a lot of things that are in here, you inherently know as a start-up. This is just about making sure that you do take those elements into account."

N: "Like I said. The information is all there. The presentation layer is overly complex for somebody whose primary focus is speed."

[The validation questions were not answered during the interview as time ran out. Mr. N completed the questions as shown below.]

Table 10.5 – Mr. N's Validation Responses

Validation Questions	Validator's Response				
	Strongly Agree (4)	Agree (3)	Unsure (2)	Disagree (1)	Strongly Disagree (0)
1. *To what extent do you agree that the six core components of the framework are core aspects that need to be addressed by a competitive strategy? Why?*		X			
2. *To what extent do you agree with*					
2.1. The basic, generic customer segmentation approaches identified?	X				
2.2. The suitability ranking of the digital-physical orientations for e-business start-ups?				X	
N: "I think it's premature to pick a winner in this scenario. Bricks and mortar companies are going online with some success, online only companies are opening physical stores, companies that with digital only products are selling physical, and vice versa."					
2.3. The suitability ranking of Porter's generic strategies for e-business start-ups?		X			
2.4. The sources of e-value creation identified?		X			
2.5. The 10 techniques for creating new market space?		X			
2.6. The generic types of relationships identified?		X			
2.7. The generic channel phases identified and the placement of the source of e-value within these?		X			
2.8. The suitability ranking of revenue strategies for e-				X	

business start-ups?					
N: "This cannot be looked at isolation to factors like cost of goods sold, labour costs, acquisition and retention costs etc. • Some physical product sold online have great margins and terrible bottom lines (fashion). • Some virtual products have great margins (i.e. SSL certificates) and great bottom lines, while others (i.e. flight bookings) have terrible margins but ok bottom lines. • Product versus services also play a role - and some very successful companies provide ad or impression based revenue models (Google)."					
2.9. The types of strategic control points identified?		X			
2.10. The types of switching costs identified?		X			
2.11. The factors that lead to e-loyalty?		X			
2.12. The general strategic tests that help to formulate good strategies?		X			
2.13. The core logic to renewing and growing a business?		X			
3. *To what extent do you agree that the competitive strategy framework can assist e-business start-ups with designing strategies that are capable of more effectively competing in the e-environment? Why?*		X			
4. *To what extent do you agree that the framework makes a contribution to the fields of e-business/ strategy/ business models/ strategic management? What contribution does it make?*		X			
N: "The framework can assist in the context of a checklist re-validation of an idea or strategy rather than the starting point. Almost the beginners guide to the saying, "you do not know what you do not know".					
5. *To what extent do you agree that it is intuitive to derive value from the framework? Why?*		X			

[General comments made by Mr. N]

N: "The only area that I did not see was around the composition of the (management) team. Ensuring the team from the outset matches the requirements of the business is critical e.g. while a business person may see a huge opportunity for a fashion start-up, without tech, supply chain, logistics, buying, planning and forecasting skills, the company will struggle to build a sustainable business. Furthermore, in a start-up environment, ideas pivot and new ideas often happen on impulse when an opportunity to meet a need is met, and via quick iterations a business is launched. In this type of environment, a competitive strategy framework may not be the ideal option, but rather a scaled down version. However, in corporate environments where time to market is secondary to doing it right, this model could definitely be the framework for delivering an online solution."

10.4.4. Interview 1.4: Dr. W

Dr. W

Chairman of VASTech S.A./ Member of Advisory Board of

University of Stellenbosch Business School

Interviewed 15h00 at VASTech, Technopark

22 July 2013

[Gerard presents findings]

[Discusses competitiveness and the framework aim]

[Regarding customer segmentation]

W: "To what extent do you characterise each of these segments? For instance the geographic or demographic segment. Do you have a definition for each?"

GDU: "Yes, I have definitions for each of those, but I did not go into it in too much depth. This is just pointing towards the approaches, because every company will have ideas of which of these approaches will be more relevant to their customer to arrive at their needs."

W: "But at least, you will be able to discriminate within the model, be able to distinguish between levels of income."

GDU: "Oh, yes of course."

[Regarding the digital physical orientation]

W: "Well, it also eliminates the possibility that you can add value in the cycle of business outside of the e-system, which means that you are comparing a definite reselling business, to a business where you can develop the core business yourself, which means different capabilities and different possibilities for that. On the other hand, it limits you to the business that you can create and basically to the digital side of it. Not that it cannot be a very interesting business. Normally software defined products are very, very profitable."

GDU: "Related to this, in my thesis I actually state that you can have a higher level of customization and service levels if you actually take those fulfilment activities on yourself. Also, it's possible to take on either of these orientations as you grow. I'm just saying that for the pure get off of the ground start-up, this (pure play) orientation is more viable. But at the same time, when I'm rating these viabilities, I'm not saying that it's impossible to start at the other side. All that I am urging people to do is to go through these though processes, and when you make the choice as starting as a hybrid, at least you've made an informed decision then. But for the average competitor, it might be easier to leave those complexities and costs for now."

W: "Agreed."

[Regarding the 18 sources of e-value]

W: "There are a lot of concepts here that will probably relate to specific categories of value add. The one is in terms of functionality. The other one is the complete concept of cost of ownership."

GDU: "But is cost of ownership a value add for a customer? Is not it a burden?"

W: "No, to minimise cost of ownership. It's certainly a big value add. This is a very important point, because cost of acquisition is not the only cost. There are also costs of maintenance, cost of scrapping the product. The third category is user-friendliness, or convenience to the user. To what extent this can be utilised by a fairly untrained person? Or do you need to have a PHD to drive the system and understand what's going on. Is the man on the street generally capable of doing it? Perhaps it could be interesting to categorise your sources of e-value into that, because in marketing there is a broad understanding of these three value lines. Functionality, cost of ownership, user-friendliness."

GDU: "I have another model later on, that expands a bit more on this. I think you'll find it interesting."

[Regarding the sequenced 18 sources of e-value]

W: "I can see the relevance of having the value add over the life cycle in that sense. In the end you come up with functionality and emotionally satisfying experience, which relates to user friendliness.

I still miss the cost equation here."

GDU: "Well the costs I have in the purchasing phase."

W: "Yes, but that's not the only place where costs are created for the customer. Cost comes in the use of the system. There's a cost element in there."

GDU: "Yes, but remember, I said that the depiction only shows the place where the source of value is particularly important, it's not the only place where it is important."

W: "Just to make the point again, if you look at the customer experience, what you are saying is that it is currently a flip-flop switch. Either you buy the product and incur the cost, or you do not. What I'm saying is that you'll run into trouble with this argument if you think about repeat sales to the same customer, if you do not take the whole life cycle cost into account for that specific evaluation. It may not be as crucial in some of the phases of the life of the product, but it could very well be a factor, should your for instance trade-in a product with a certain life expectancy, before it is dated to the extent that you need a new one. And the customer out of necessity has to replace it. Then, your product may fulfil all of the other functionalities and emotionally satisfying tests, but it fails at the costs."

[Regarding customer lock-in]

W: "The important point about lock-in is the subtlety about how you're doing it, because it can scare a customer away immediately, if you do not do it in a subtle way that he enjoys being locked-in."

GDU: "One example of such a lock-in is having a brand advantage."

W: "Crucial, at the heart of e-business is branding. And brand loyalty. Creating an experience after you've made the customer aware, the whole process of developing a love-relationship with that brand, where the customer does not ever even consider leaving the brand, because he has this very strong relationship with it. That is a positive lock-in. That's not an "I caught you now", the hook and bait sort of thing."

GDU: "Network effects are also a positive type of lock-in, because the more people use the app or whatever, the more value they derive from the system. The same with advantages in scale and scope. Scope firstly gives you a wider choice, and scale usually means a lower cost to the customer."

W: "Yes, if you give that through."

GDU: "Well, if you do not give it through, then you cannot constitute it as a control point because then you're actually just on the same level as other competitors."

[General discussion before validation questions commence]

W: "First of all, the model is not about a strategy to use the Internet system to do business or not, it's about when you've decided to use the Internet system, what strategy would you follow within that specific arena to be competitive. That's how I understand it. Which means, within the e-environment, your different possibilities of core strategies, of functional strategies, of generic strategies, remain valid. And you can have a number of core strategies within the e-business system. For instance, your renewal and growth model talks about continuous growth. You have identified market development as an area of possible growth. I have not clearly seen the consideration of other core strategies in your argument, like for instance product development, to enhance the product or reposition the product. Is it in there?"

GDU: "Product development in my opinion would fall under the incremental changes of sustaining growth."

W: "Yes, well, I have not seen it there. The point that I'm trying to make is that if you limit the field of consideration for the basic core strategies, then you reduce the value of the model, because there would be something like 14 different core strategies."

GDU: "Yes, I know about the grand strategies. I looked at it at some stage, but decided not to use it because, they are almost more related to corporate strategy than business strategy. So, the other things that we are talking about which may be relevant now, is for instance product development. So, your main problem is that I only used market development?"

W: "Yes, as the only possibility to sustain and grow."

GDU: "No, I do not agree. I do not want to limit the model in that way."

W: "That's the point. It's just a remark that says that "I considered for instance here the core strategy of market development, and this is how it can be done". But you can put in here, concentric diversification, innovation and even divestment, because e-businesses are the most lucrative businesses to build and sell. That's how people make huge amounts of money very quickly. It's not about driving it till doomsday, it's about getting it up and positioning it in such a way that one of the big corporates finds it interesting to add it on (to their portfolio). In that case it is a very valid strategy. You can include all of those arguments around core strategies, within that model, because that's what you want to do. You want to renew your business and you want to grow. You need not always want to grow the market. You may have a specific product that is so narrowly focused, that expanding the market becomes very expensive. Then you may want to add on a few features to the product to make its application much wider and go for that much bigger market. Just replace existing products with this one.

[Regarding the value system of the framework]

Finally, and that's the only real contribution that I think I can make to the model, is that in making those decisions initially that you have identified there, I need to understand where in the model do you develop the value system against which you are going to make the trade-offs in making those decisions?"

GDU: "The value will be related to the offering itself?"

W: "No, I'm talking about the value system within the framework where you identify the vision, mission. And then somewhere in there you will have a value system that will guide, and that's not necessarily a customer value system, it is a company value system, that clearly identifies what the company will and will not do. What it considers as being high value and what it will consider as being not valuable. Because much of those decisions to add value depend on that value system."

GDU: "Yes, I totally agree. Now, in response to that, obviously my framework cannot be everything (all inclusive). So, I purely focus on the competitive strategy component of strategy. The idea that that sprouted from is that strategic architecture. Within the strategic architecture, what you are referring to now is the core aspirational description, which does not form part of my study. That's also why I call my framework a framework. Architectures by definition refer to whole systems. Now, I'm not creating that whole, I'm only addressing a subset of it. I also state in my thesis that this framework is intended to be used in addition to other models as well. My framework is just intended to clarify thinking and enhance the strategy formulation process, without taking the whole spectra of everything that exists into account."

W: "Yes, but even if you subdivide the whole universe into a specific area that you are concentration on. For that specific area, you must always have that framework to validate your decision-making against, because if you do not have that, what do you rank good and what do you rate bad with regards to the decisions you make. I somewhat missed that in the whole approach."

GDU: "I really feel that prioritization of what is good and what is bad is not up to me. It becomes too instance specific to the firm. However, the strategic assessment is probably the place that most adequately addresses that."

W: "Okay, that's as far as I could see blind spots could be. As far as strongpoints in your thesis, I very much like the way that you have put in Porter's theory of evaluating the industry environment. Because this (the framework) is very much a focus on e-business. So Porter would be a gleaming light in this argument. What I also liked very much about it, is the way in that you came to the conclusion that building the brand and brand loyalty is important and that you actually have to focus on that in what you are doing. That is very strong. The point that throughout to me, a problem, is the cost effect, the cost of ownership, the eventual cost efficiency in comparing on solution to another and comparing the delivery through the e-business system to an end user versus delivering outside of the e-business to the end user, and in that way the short circuiting of the traditional old business structure of wholesalers. One of the major advantages of e-businesses, is short-circuiting the traditional, high-end wholesaler. Making the short-circuit link to the customer from the origin of the product. The whole concept of logistics, and making available to the end-user through no big effort. This massive database that you can work from and that makes available whatever product you offer. Whether you are a reseller, and whether you are in fact a supplier of digital products. Independent of that, the major cost advantage lies in that simplification and reduction of the logistical management supply chain. A few words about that?"

GDU: "Well, that relates to the way that I propose the way of going the pure play route rather than the hybrid route. In my thesis I cover those aspects, and my logical thinking about that."

W: "Well, you see, as a reader, I step back and say okay, this is a trade-off between being a pure play and a hybrid, and the model lends itself to pure play. Which excludes a number of good business opportunities, where you have to use the hybrid."

GDU: "Again, I understand that. But these rating are just for the average start-up. It's still better if someone looks at this and state that they totally disagree. Because at least then they went through the thought processes themselves, and know why they are making those choices. The thing that I want people to move away form is this type of implicit way of going about business, where they are just focusing on operational tasks and doing everything for everyone, and they do not know what their strategy is about. I want them to articulate their particular strategy. So it's not about disregarding any strategy, it's about making more visible what your strategy is and why you are using it."

W: "Again, I said that we agreed that what we are doing here is in fact accepting that online is where we are doing the business. We are looking at strategies online businesses. And when we talk about what suits online business the best, then obviously you have digital products, software products, it goes without saying that that is the optimum. But then you restrict yourself to that part of the business. I would like to see a wider scope of development of e-business possibilities and strategies for that. And just a comment that says, of course you can be a much more effective reseller in e-business than in hardware outside of e-business, because of the channel short-circuit. Stating that this strategy could be a good one, and that strategy could be a good one. I know that the area of strategic management is much too wide to cover every single possibility, but what would enhance this work very much is if you looked at the whole scope. "It stretches the complete scope, but I look at one or two possibilities within this scope." From the extreme complex hardware to the extreme complex digital, this is the competitive advantage. Because the title says you need to look at the competitive advantage. But, it seems to me like a very, very well thought out and thought through thesis that you are working on here, and in fact you are making a contribution to the management science of e-business in doing this work and publishing it. I would be very happy to recommend this as a very solid and a valid basis for an M. To my mind the next step would be a PHD, where one would not only consider and apply specific research topic but to stand back and do a major new technological insight into this."

GDU: "Do you mean expanding my domains?"

W: "Yes, and in terms of basic research make a contribution towards understanding the business process in the e-domain. But, I think you can be quite comfortable to submit this work for a Masters. Very much so."

[Continues with posing the validation questions. The questions and responses are tabulated below.]

Table 10.6 – Dr. W's Validation Responses

<table>
<tr><th rowspan="2">Validation Questions</th><th colspan="5">Validator's Response</th></tr>
<tr><th>Strongly Agree (4)</th><th>Agree (3)</th><th>Unsure (2)</th><th>Disagree (1)</th><th>Strongly Disagree (0)</th></tr>
<tr><td>1. To what extent do you agree that the six core components of the framework are core aspects that need to be addressed by a competitive strategy? Why?</td><td>X</td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="6">W: "I accept it as the best way to do so. I strongly agree."
GDU: "Any reason why?"
W: "It conforms to the latest theory and technology in the area of strategic management. You have not missed a single one of the important points there and you present it in a way that all experienced and informed strategists at this level will accept that it is a very valid model."</td></tr>
<tr><td>2. To what extent do you agree with</td><td colspan="5"></td></tr>
<tr><td>2.1. The basic, generic customer segmentation approaches identified?</td><td></td><td>X</td><td></td><td></td><td></td></tr>
<tr><td colspan="6">W: "I would say that my assessment of customer segmentation here in terms of the typical e-application was well done. I missed, and</td></tr>
</table>

that's the part of value system, I missed the part of that. So, I would agree."					
2.2. The suitability ranking of the digital-physical orientations for e-business start-ups?	X				
W: "This is something that you have done very well. I'll easily agree, but let's give you a strongly agree to give you benefit of my doubt."					
2.3. The suitability ranking of Porter's generic strategies for e-business start-ups?	X				
W: "I strongly agree with that."					
2.4. The sources of e-value creation identified?			X		
W: "In terms of the marketing paradigm we talked about earlier, you have two spot on. I'm seriously missing the cost of ownership one. I am unsure of what comes out eventually. It is not only the cost of procurement, but also the cost of ownership."					
2.5. The 10 techniques for creating new market space?		X			
W: "The framework is comprehensive and well researched.					
2.6. The generic types of relationships identified?		X			
W: "Yes, I agree. That's fine."					
2.7. The generic channel phases identified and the placement of the sources of e-value within these?		X			
W: "I agree. That's fine."					
2.8. The suitability ranking of revenue strategies for e-business start-ups?	X				
W: "It is as good as you can get it. So, I strongly agree."					
2.9. The types of strategic control points identified?		X			
W: "That is where I said that maybe you should bring out the concept of brand development in a positive sense. That would have been better. You have all of it there however. I'm not sure that you have actually done it that way. Maybe you do have it in mind to bring out brand development as the core of that. So, I'm not giving more than agreement there."					
2.10. The types of switching costs identified?	X				
W: "I think that that was very well done, and I strongly agree that you have all of those."					
2.11. The factors that lead to e-loyalty?	X				
W: "It's a very well developed concept. I strongly agree that you have it there."					
2.12. The general strategic tests that help to formulate good strategies?			X		
W: "Here I thought that you should just take one step back to reconsider your complete field of strategic management. And I reiterate the investment level, where you think about generic focus, the profit centre level, where you think about the 14 core or grand strategies, and the functional strategies. I think I am unsure whether you have done that. You zoomed in on your specific segment of business strategy. I think a wider look might add a lot of value. Also, eventually coming from the overall consideration to this, with the motivation for that. " *[It was the intent to focus specifically on e-business. A broader view may form part of future work.]*					
2.13. The core logic to renewing and growing a business?		X			
GDU: "This basically stems from Christensen who states that often businesses do not have a process for renewal and growth. So I tried to give a simplistic one." **W**: "Yes, I have given thoughts on that, so I'm happy to say that you can go ahead with it and I agree."					
3. *To what extent do you agree that the competitive strategy framework can assist e-business start-ups with designing strategies that are capable of more effectively competing in the e-environment? Why?*	X				
W: "I strongly agree with that. I think you have accomplished that. At an M level, I think you have done more than what would normally be required of a researcher and a scientist at that level to achieve that qualification."					
4. *To what extent do you agree that the framework makes a contribution to the fields of e-business/ strategy/ business models/ strategic management? What contribution does it*	X				

make?					
W: "I strongly agree and I think it focuses the mind of the reader and of the manager who possibly wants to enter, on all the important factors to consider, while working through the logic of making a decision."					
5. *To what extent do you agree that it is intuitive to derive value from the framework? Why?*		X			
W: "I think this is more than just intuition. It's more than just an intuitive approach. To some extent, it is an approach that you can quantify. And if you go ahead and add to this process, the scales, now remember of what I said about the value system and the extremities over which you evaluate, if you include those then it is not just an intuitive process. It is not just a gut feel process." **GDU**: "No, I do not mean that the framework itself is intuitive, I mean from a user point of view. If I were now to go through this. Is it easy enough to get some type of value out of it?" **W**: "Yes well, if you are a user of the framework. If you want to sell this framework to users, to possible people who would like to enter e-business then it would convince them that it is a good process to follow. I think that if we look at what is asked. To what extent do you agree that it is intuitive to derive value from the framework? To rephrase this would be easier to answer the question. Because, if someone reads through it, he may get a warm feeling. This guy has identified most of, if not all of the important considerations. That's why, intuitively, I will think that it is a good process or an approach. What I'm saying is that you can quantify his answer by showing that he can make decisions on a quantitative basis from it, and not only an intuitive basis. So, this is something that gives me eight out of ten for all the important things that I have to do and so forth."					

[Concluding remarks]

W: "Over-all, this is very good piece of work and as far as I am concerned, the quality of the presentation and the visual side of it matches the integrity of the theory behind it. So you have a very good piece of work here."

10.4.5. Interview 1.5: Mr. V

Mr. V

CEO of Fundamo

Interviewed 14h30 at Fundamo, Bellville

30 July 2013

[Gerard presents findings]

[Regarding e-business failure rate]

GDU: "Approximately 40% of e-businesses fail, however, there is not really an exact consensus on that."

V: "So, where did you get that from?"

GDU: "Well, it's from past data, but it's actually a very old figure. The actual failure rate may be closer to the average failure rate of SMMEs in the country, which there is a much bigger consensus on, which is at 75%. Obviously, the difficulty comes in between whether the SMMEs are online and offline."

[Regarding Porter's notion that it is not about employing Internet technologies to stay competitive, it's about HOW to deploy Internet technologies]

V: "Except that that statement was not for e-start-ups. That was for businesses in general."

GDU: "It is still relevant."

V: "Let me give you a different perspective of why e-businesses may be failing. The way that e-businesses are funded in most instances, is through venture capital. And the assumption of venture capital is that if you fund enough businesses, then ultimately you will get a success. So, the whole idea is that a number of these businesses will fail. You actually do not expect that all of these businesses will be successful, because then you know that you are not "shooting wide enough". So it's not necessarily a bad thing that a lot of them fail. It's built into the model. It's part of how things work. A big percentage of them should and would fail."

GDU: "Yes, that's when venture capital is involved. However, the entrepreneur still gets hurt in the process, and being able to reduce these failures at all will ultimately still be better."

V: "Yes, absolutely."

GDU: "I mean there are a lot of things that cause these failures and strategy execution is a big part of that. Just from my perspective is that more can be done on the fronts of strategy formulation to help these entrepreneurs."

V: "Yes, that's true. I'm just saying that built into that supporting evidence of yours, the system is designed to lead to failure."

[Regarding the 18 sources of e-value]

V: "Do you feel that this is comprehensive? How did you get to this?"

GDU: "I basically combined six different models. Three of those models dealt with e-specific value creation and other three models dealt with generic sources of value. But, because they are generic sources of value, it means that they will be applicable everywhere."

V: "So are you saying that this is comprehensive. That any e-value can fall into these 18 categories? And to what degree do you feel that there is overlap, you know meaning an e-value that could fit into the one and the other?"

GDU: "I think there is minimum overlap, because that was the goal with the combination – to delete those that are similar. However, there are relationships between some of them. For instance, there is a link between simplicity and convenience."

V: "Explain."

GDU: "Well, things that are simpler will most often also be viewed as more convenient to use."

V: "So you're saying that there's something that can be complex, but can also be convenient?"

GDU: "That is definitely a possibility. It depends on the offering. At this generic level, it's difficult to answer you."

V: "I'm just thinking what's the value of categorising it in such a way?"

GDU: "We will get to something more tangible. Three slides onward I superimpose these sources on channel phases."

[Regarding the 10 techniques for creating new market space]

V: "See, here as well. I think that there could be a lot of overlap here. Look across time and rescale the industry. They are not really exclusive. They are so morphed into each other. It's not like you can say, "Oh, this market space has been created by, for instance, looking across time." It has elements of this and that and so forth. Do not you think? Do you think that a strategy should be just one of these?"

GDU: "No no, these are just techniques that you can use to think about your strategy. However, you can combine numerous amounts of these. It's not a scenario where you choose just one of these. I'm not limiting my users to using only one of these. Use as many of these techniques to brainstorm your strategy as needed."

V:" So what is the relevance of this then for your model?"

GDU: "It's processes for arriving at the 18 sources of e-value."

V: "So, it's not a part of your model, it is a way of deriving an element of the model."

GDU: "Well, I guess you could see it like that."

[Regarding the sequenced 18 sources of e-value]

V: "Why did you feel that you needed to bring in customer experience on the life-cycle of customer usage? At this part of the model?"

GDU: "I'm saying that they are an over-all result from value accrued throughout all of the other stages and sources."

V: "It makes you wonder if they fit into the same structure as these? I'm just asking? It may be an indication that they are not a part of this 18 model."

GDU: "I understand, but…"

V: "I'm trying to be critical about your model. It's important in my view that a model is robust, in the sense that it depicts what you are trying to describe. A model is an abstraction of what it is trying to describe. I'm just questioning whether your sources of value is robust, if you have to deal with those two (convenience and self-actualisation) differently across the phases than the other sources."

GDU: "Up to this stage it has not been an issue for me. I feel quite content by saying that you can either have a functionally satisfying experience or an emotionally satisfying experience as a result of value that you've had through several phases."

[Regarding the strategic assessment]

V: "Okay. It's a mouth full. Because, you will not get yes to all those questions."

GDU: "Not?"

V: "No, most strategies have a flaw somewhere."

GDU: "Interesting… I still believe the value of the strategic assessment is that it helps you to align yourself as closely as possible to the ideals of strategy formulation."

V: "That's a totally different discussion. I'm not so sure to what degree the process is as predictable or measurable as this. But let's carry on. We can talk about it a bit later."

[Before validation questions]

V: "The intention of the framework is to help people start businesses. You've looked at a lot of research material that you've picked and wanted to put into a framework. What do people say when you talk to them about this?"

GDU: "It's very comprehensive and maybe too complex for four guys in a room, who are trying to get their idea off of the ground."

V: "What do you think of that?"

GDU: "I agree, but subsequently I've considered my target market in more detail and I've identified four potential user groups. The first is four guys in a room, for who I created a simplified model for, which is very much watered-down. They are not interested in any models or complexity that I can add. They want to go about their businesses more intuitively. The other group is people who know that they want to create a start-up, but they do not have an idea yet. Therefore, they do not have something to rush towards yet. I think this is very much applicable to them, to give them an overview of what e-business is about and what types of value to strive for and how to build robustness in. The other target market is intrapreneurs, who want to launch business ventures from within an established corporate business structure. The advantage that they then have is that they have the resources, time and skill to go through this rigorous process. The fourth segment then is consultants who can help people to build their business, and they can then also use the process. I believe that this framework gives you a comprehensive view on all the strategic choices that you have to make to ensure that your competitive strategy is sound."

V: "Do you know what elegant is? I do not think it's elegant. I think that most probably it is comprehensive. But I do not know how to test it. I think the most important thing to get out of something, is that elegance. So, I would challenge you to figure out what would make this elegant. More hard work, not necessarily. Comprehensive and elegant is not the same. You can have a very comprehensive tool, but no one knows how to use it. Whereas an elegant tool is very intuitive and you just know how to use it. I think that's what's lacking here. The other thing that I've been thinking about is what makes a hit song? Do you think you can have a framework that people can follow and then create a hit song? Do you think that's possible?"

GDU: "I think it is definitely possible to follow a process that will get you to a "hit song". For instance hard work, creativity, a beautiful voice and a compelling chorus. I think that there are definitely elements that can help you arrive at it."

V: "By definition, if that is possible, by now, because it is such a competitive space, somebody would have actually produced this framework for a hit song. Then there would be many, many more hit songs."

GDU: "Well, that's the idea. It's the same as Blue Ocean strategy or business model innovation or any of those. All of them have their own principles for creating such "hits"."

V: "But what makes a hit song?"

GDU: "Do you want me to say uniqueness?"

V: "I would say innovative design or a new business or whatever. It needs a kind of "ah-ha!" or x-factor. Uniqueness could be part of it, but it needs a type comes from left field that nobody realised. I'm just thinking to what degree can you help somebody to do that? Whether that's possible? Just by definition of being a hit song. In a week there can only be one hit song. In a month, those four hit-songs in those weeks, one will be a bigger hit than the rest. And it is based on consumer preference. And the fact that one is a hit, takes away the possibility of someone with a lot of potential that just was not a hit."

GDU: "Well, it may be a hit on a different platform. That's why you have to be informed enough to know about all the options. If you see that someone is a hit in a certain place, try and find another avenue. So, my goal is to enhance these "hits". Even if the enhancement is only to decrease the time that they have to spend to come to the same realisations as I have, then I have already saved them a lot of time and the framework has already served its purpose."

V: "I think this is not how e-businesses get created. I think however what your model could be interesting for, is to analyse businesses and to say why they were successful, or what they did to be successful. But I think the process that people go through to get to an e-business solution, that is like a hit-song. There are maybe some things that you have to be disciplined about, but it is something that right now, which is unpredictable, unstructured, non-defined, not methodological of doing something."

GDU: "Emergent process."

V: "Maybe there is no process for it. Maybe there are some things that you cannot process engineer. Maybe there are things that you can analyse in the past to understand some of the components, but what I'm saying is that I'm not sure if you can process engineer innovation. That's basically what I'm saying."

GDU: "I'm not that closely aligned with the innovation aspects, I'm more closely aligned with the strategy aspects."

V: "Yes, but the innovation is everything around the strategy. In e-business the innovation is around the strategy. Amazon's success is around the strategy. The innovation is around the strategy. It's about taking products to market in a different way. Facebook's innovation is in its strategy. It's not the technology. The innovation is about how to take things to market. It's about seeing a new need and packaging it. But I'm not sure if that establishment is a process. That's what I'm saying. Because a process implies to some degree sequence and step influencing another step, so that there is some type of flow. And there are many things in which that is important. But I'm not sure whether the creation of an innovative business is the result of a process. As a matter of fact, based on my experience it's not a process. Therefore, your framework would be interesting to evaluate things after the fact. But I think it's going to be very difficult to utilise it as a guide for somebody to create an e-business. I think it's very comprehensive, because there are a lot of things in there that is interesting to think about. But I think the process of creating an e-business is more like creating a hit song. I'm not the academic so I do not know how to fit it in, but I think it's something else."

[Continues with posing the validation questions. The questions and responses are tabulated below.]

Table 10.7 – Mr. V's Validation Responses

Validation Questions	Validator's Response				
	Strongly Agree (4)	Agree (3)	Unsure (2)	Disagree (1)	Strongly Disagree (0)

1. *To what extent do you agree that the six core components of the framework are core aspects that need to be addressed by a competitive strategy? Why?*	X				
V: "I think that's probably not too bad that it reflects the components. I probably agree relatively strongly with that."					
2. *To what extent do you agree with*					
2.1. The basic, generic customer segmentation approaches identified?			X		
V: "I do not know. It looks interesting, but I do not know. So, unsure."					
2.2. The suitability ranking of the digital-physical orientations for e-business start-ups?	X				
V: "It is easier to start a pure-play. So that's strongly agree."					
2.3. The suitability ranking of Porter's generic strategies for e-business start-ups?			X		
V: "So you are saying that the best cost provider strategy in the middle is the most viable?" **GDU**: "Yes, it has also been proven by Kim, Nam and Stimpert." **V**: "How do they monitor it?" **GDU**: "Well, they evaluated the performance of different companies quantitatively." **V**: "Performance? What kind of performance?" **GDU**: "By measuring the financial results." **V**: "Some of the most successful e-businesses have not been that financially successful right? They have more "eye-balls", so the criteria for success..?" **GDU**: "Why do you want a company that's not producing revenue?" **V**: "Well, you dominate a certain area." **GDU**: "And why are you doing that? Just for fun?" **V**: "Well, you remember when Amazon started, they traded at absolutely frightening P/Es. Initially, for the first 10 years, Amazon was not a profitable company at all. But they had the right strategy. Even if you looked at the first 15 years, if you were to judge them on profitability and revenue, then they were not at all successful. But what they are doing at the moment is just sweeping everything in front of them. So, I'm just saying that it is not as simplistic as saying that being successful is only on the basis of revenue. It could be on positioning. I mean, Facebook is not a very successful business on the basis of revenue. Although, now that they've figured out how to place advertisements on mobile, now there is suddenly a big surge in their revenue. It's difficult. There was a time when Yahoo was very, very profitable. Why are not they now? What is it that they've missed? What is it that's made them not successful? **GDU**: *[Guesses]* "Probably Google?" **V**: "No, it's that they did not know how to renew themselves. How to position themselves. Maybe there were elements of how they should focus themselves. You know, "let's look at this". How they differentiated themselves? I do not know. It's just too difficult for me to give you an answer. Perhaps you should have an option here of "I do not know"."					
2.4. The sources of e-value creation identified?		X			
V: "Once again, it's difficult for me. It looks comprehensive. Scanning it, I probably agree with it."					
2.5. The 10 techniques for creating new market space?			X		
[See other comments regarding the 10 techniques]					
2.6. The generic types of relationships identified?		X			
V: "I probably agree with that too."					
2.7. The generic channel phases identified and the placement of the source of e-value within these?	X				
V: "The phases are correct. With that I fully agree."					
2.8. The suitability ranking of revenue strategies for e-business start-ups?			X		
V: "Once again, unsure about this. There are too many factors that affect it, and it's influenced over time by what competitors do. So, unsure."					
2.9. The types of strategic control points identified?		X			

<table>
<tr><td colspan="6">V: “This looks quite comprehensive. I probably would agree with that.”</td></tr>
<tr><td>2.10. The types of switching costs identified?</td><td></td><td>X</td><td></td><td></td><td></td></tr>
<tr><td colspan="6">V: “It also looks good. I agree with that.”</td></tr>
<tr><td>2.11. The factors that lead to e-loyalty?</td><td></td><td>X</td><td></td><td></td><td></td></tr>
<tr><td colspan="6">V: “That also looks comprehensive and I would agree with that.”</td></tr>
<tr><td>2.12. The general strategic tests that help to formulate good strategies?</td><td></td><td>X</td><td></td><td></td><td></td></tr>
<tr><td colspan="6">V: “I mean my comment stays that you would probably not do it like this. The problem with a strategy is that it’s such an integrated ecosystem of things that you would say, “I’m happy for it to be not simple, but then therefore it is very efficient.” So the question is therefore, are these things those that you need to check a strategy against?”
GDU: “Yes”
V: “Okay, let me think about it. Tell me, what would you describe as a good strategy? What are you trying to measure? If you’ve checked all those questions, what does it mean? Is it the strategies that will work? What are we aiming for?”
GDU: “Aiming for creating a strategy that possesses all the characteristics that the “strategy guru’s” state is characteristic of good strategies.”
V: “What does that mean?”
GDU: “It’s a strategy that makes clear trade-offs and creates focus. This gives you continuity of direction, creating robustness and represents an adaptive response to the environment.”
V: “Okay. Well, I would have liked to see something like it is “clear” or easy to communicate.”
GDU: “That’s what’s implied by “simple”.”
V: “Then, I’ll say that I agree with that.”</td></tr>
<tr><td>2.13. The core logic to renewing and growing a business?</td><td></td><td>X</td><td></td><td></td><td></td></tr>
<tr><td colspan="6">V: “Look I mean, you constantly have to go through this (renewal and growth). So the process of questioning whether you are still doing the right thing, I suppose this is the process that you would kind of go through. And it is a way of looking at it, so I would agree.”</td></tr>
<tr><td>3. To what extent do you agree that the competitive strategy framework can assist e-business start-ups with designing strategies that are capable of more effectively competing in the e-environment? Why?</td><td></td><td>X</td><td></td><td></td><td></td></tr>
<tr><td colspan="6">V: “I do not think you can design something like that. Because to make an e-business start-up is not a process.”
GDU: “Okay, take one step back. Do you think there is value that a start-up can derive from this framework that will help them?”
V: “Yes, yes there is. But they will not be able to use this to create a strategy. They may go through it and then it stimulates some thinking, and then they go sit in a dark room or take a walk in the park, and then something will come to them. But a lot of these things are things that they should be aware of anyhow. Let me put this differently. It would be dangerous to attempt a start-up if some of the aspects in this framework you are not aware of. But if you think it’s going to be a “tick-tick-tick” and then you have a start-up, it’s not going to work like that.”
GDU: “I totally agree with what you said just now.”
[Side note: It was never the intent to work like that. Hence the conceptual and generic limitation, that stresses that the entrepreneurs own creativity and insights are required to create their strategy.]</td></tr>
<tr><td>4. To what extent do you agree that the framework makes a contribution to the fields of e-business/ strategy/ business models/ strategic management? What contribution does it make?</td><td></td><td>X</td><td></td><td></td><td></td></tr>
<tr><td colspan="6">V: “I think it does make a contribution, in the sense that it seems to pull together a lot of things that you would want to have a comprehensive repository of information. It looks like you have done a lot of work to pull together a lot of information to make a repository of information. In that sense it does make a contribution.”</td></tr>
<tr><td>5. To what extent do you agree that it is intuitive to derive value from the framework? Why?</td><td></td><td></td><td></td><td>X</td><td></td></tr>
<tr><td colspan="6">V: “I think it’s going to be difficult to implement, because of the complexity. You sort of broke my head my friend.”
GDU: “Hahaha, I’m sorry.”</td></tr>
</table>

V: "I'm just saying it is complex. You sort of have to focus to figure out what you have to do. You have to figure out how you can make this elegant."

GDU: "The problem is that on the one hand, people are telling me to simplify it, whilst on the other hand people want more detail. So what do I do?"

V: "You know what an abstraction is? By simplifying, you need to abstract. So if someone says 'what about this', then you can say "well, it is represented in the details". So you have to look at your model and figure out what abstractions you can do. It may be just two steps. If someone then says that it is not comprehensive enough, then you have to decompose that abstraction. Then I can show you all the detail. That's how your thinking should be. Because I have difficulty to intuitively remember what this is about. And that's a problem. Because then it becomes a very, very difficult thing for people to deal with."

GDU: "So you propose that I move more towards this side (primary model)?"

V: "Yes. There is a good thing to have complexity. But this (primary model) is not elegant. You want to have something that is very intuitively addressable, from the onset. I think you are getting there. This (Focus, Differentiation, Robustness) is maybe the starting point. That level of abstraction is maybe where you should start."

[Concluding remarks]

V: "There's a lot of talent in this place, but not a lot of business talent in the Western Cape. People come up with great ideas, but they frequently mess it up. I mean there's an element of just get the execution right. There are more than enough ideas in Cape Town, but frequently it does not come to fruition and in my view, it's in the execution not so much in the strategy, so you may want to think about that as well."

GDU: "I hear what you are saying, but I do not want to go into execution at this stage, because it just inflates that scope of my study immensely."

V: "No no no, you must finish this study first. There is a big difference between producing a nice research report and what happens in practice. So, finish your thesis first and get it published. You have chosen a very difficult research topic for a masters."

GDU: "Yes, but the thing is that it is what I'm interested in, and through doing this study, I've actually learned everything that no one could tell me beforehand in a nutshell."

V: "I would argue that an element of it (the framework), just the competitiveness for instance. That would have been sufficient for a masters."

10.4.6. Interview 1.6: Mr. G

Mr. G

Head of MIX Digital

Interviewed 16h00 at Mediology, Lonehill

6 August 2013

[Gerard presents findings]

[Regarding the failure rate of e-businesses]

G: "Between 40 and 75% is a good stat. Intuitively it sounds right."

[Regarding Cassadesus-Masanell's quote "Most enterprises have not fully come to grips with how to compete through their business models."]

G: "I guess you could draw a parallel between the dot-com boom where people were writing business plans on a single A4 sheet and getting millions of dollars of seed capital for it, and not applying any form of strict business model. Versus the dot-com crash and what happened after that, where you started seeing a far more level-headed approach. "Hang on a second, we will analyse it deeply. We will analyse the model. Test the competitive environment and then make a decision"."

[Regarding Porter's quote "The question is not whether to employ Internet technologies - companies have no choice if they want to stay competitive – but How to deploy it."]

G: "Was he using a broad stroke approach here? "

GDU: "Yes"

G: "So what he was saying is that if a business is not online, it's going to fail. There might be exceptions to that rule of course. Because the argument is, how many years has the Internet been active in the country? 16 years? And yet there are a lot of businesses that still do not have websites. Or if they do have websites, they're not proper e-businesses, but they still exist and they are successful."

GDU: "That's true. Though, a close correlation has been drawn from other studies, such as the WorldWideWorx one, where they state that businesses who do have websites and who are online are more competitive than those without."

G: "That statistic I can believe. And also it depends on your target audience. If your target audience is LSM 1 to 3 then they are not online. Therefore, what are you selling to them? You are selling them those packets of chips on the side of the road. But then again, you are not really talking about that type of business here."

[Regarding the sequence of the framework]

GDU: "This is the sequence that I propose you formulate your strategy in, however sometimes for instance, you will have an epiphany about your value proposition first before you do customer segmentation."

G: "Yes, and then you will just have to backwards engineer it."

GDU: "Yes, exactly. The most important thing is that you think about everything. The complete strategy."

G: "Yes, tick all the boxes. Listen, are we moving to a point where you are going to ask me questions or do you want me to provide comments as we go on? Because this looks really solid. You do not need me to provide feedback here, you are just taking me to a point where you will ask me questions."

[Regarding customer segmentation]

GDU: "Psychological segmentation is more needs based, or motivation based segmentation."

G: "We tend to call it psychographical segmentation, just so that you know. But it's not a big deal, we are essentially referring to the same thing."

GDU: "Is psychographic psychological mixed with geographic segmentation?"

G: "No, it's a blend of demographic and psychological. It's the drivers, the mental, emotional and logical drivers that people tee into. An example of the questions that we would ask is "Where would you prefer to go for entertainment purposes? See movies *or* eating out, and so forth". These tend to be psychographic drivers instead of demographic drivers."

GDU: "Okay, but that's the same then as what I'm referring to."

[Regarding infrastructure businesses]

G: "Can you give me an example of an infrastructure business that exists online?"

GDU: "I would guess that Amazon is moving in that direction, because of their large S3 servers that they are putting up and selling storage space. It is easy to see that the more effectively they can manage that, the more profitable they will be."

G: "You would not regard like an MTN or a Vodacom as being an element like that? Because they've got huge infrastructure? I'm just wondering. And yet, they can transact heavily online."

GDU: "I did not look at it from that perspective per sé, because when it comes to telecoms, they are actually more in the physical realm as well, with the setting up the networks."

G: "Yeah, very much so. I'm just wondering again about infrastructure. That then really defines technical infrastructure that exists in the Internet space. So it is large servers etcetera."

GDU "So I'm saying that it is a possible future choice, but it may be too expensive for start-ups to do."

G: "Yes, but you may easily migrate that way later. You may start off selling books online and no one else did. Then you plugged in rating mechanisms and then over time, the sheer volume of transactions dictates that you move into the infrastructure direction."

[Regarding digital-physical orientation]

G: "A good example is Yuppiechef. You order online, you pay online, but there is still a fulfilment layer that has to happen physically. Which is your hybrid business. Is it?"

GDU: "I'm not sure. Quickly tell me, does Yuppiechef have their own warehouses and logistics systems and so forth?"

G: "Good question. I think they have their own warehousing. Well, they would obviously outsource fulfilment."

GDU: "Okay, well the thing is the digital-physical orientation is rather more of a continuum than a fixed position."

G: "Yes"

GDU: "The other advantage that I see for pure plays is that you can have instantaneous fulfilment of the digital goods, whereas physical products always have a delivery delay."

G: "Exactly, so your overheads are higher and your profits are lower as a result (for hybrids)."

GDU: "Another interesting advantage of e-business is that you can actually create a trial version of something, then the customer can actually test that beforehand."

G: "Consumerism is the tendency."

GDU: "That's why freemium businesses are so popular, because you can try it out beforehand for free and see if you like it, and then buy it. It becomes dodgy to buy physical things like a car for instance online, when you've never seen the car before."

G: "Yes exactly. Or clothing, can you imagine? Yet, people are doing it."

[Regarding the 18 sources of e-value]

G: "Yes agreed. It's lovely."

[Regarding the channel phases]

GDU: "You also probably do something like this, where you look at the interaction between the customer and the company."

G: "Yes, but not that much, because we tend to focus on awareness and evaluation, with a little bit of the purchase. We are just driving people at the top of the funnel, but where the purchases happen… For e-businesses it happens online, but also many times it's also just about the lead generation."

[Continues on]

G: "The only thing that I would say, but then again, it depends on how you interpret socialisation, but awareness tends to revolve, and I guess it's findability as well, as a result of socialisation. If that's what you're saying. Okay, no that's sweet. I love this cross-map, because this makes a lot of sense. It's fantastic. Because really, it's your business model. If you can tick these points, through each of these steps, at least one…basically."

GDU: "I mean, it's not required that each business differentiates themselves in such a way, but if you know that these are the sources of value, and this is what people want, then having more is better."

G: "Yes, definitely. It's lovely."

GDU: "One interesting point that you have me thinking on, because you highlighted it is that socialisation is the following. *[Shows channel phases again]* What you have here is communication, sales, distribution, and then communication again. It makes a loop. These communications link up again, and in such a way yes, socialisation is connected to findability."

G: "Yes, there's another layer in here which I call evangelization, which is where you are using your customer, because of the positive experience they had, and using them to evangelize the brand, which tends to loop back into a state like this, for new customers. So if you can turn the after-sales support or even the use layer into an evangelization because of an emotionally or functionally satisfying experience, then you can loop it all the way back."

[Regarding revenue strategies]

G: "It's a bit too hectically theoretical for me. I will have to take it down. It's vicious. It's going to take some time to wrap my head around it, but that's cool."

GDU: "Okay, but do you understand my argument that in an ideal world, if everybody is generating revenue from indirect sources, then there's just going to be a mass of over-supply, and you are not really creating any value. So it's unlikely that anyone will be profitable. In effect then, if there are less advertising businesses then they will increase in their profitability, so really you need these businesses who are generating revenue directly to create a platform on which advertising actually makes sense. Direct revenue business generation businesses therefore keep the system in balance."

G: "Okay, yes, makes sense, so that you are not all sitting in one revenue stream."

[Regarding switching costs]

G: "It makes sense. Definitely."

[Regarding the strategic assessment]

G: "So the table that you have on the back-end of this, allows you to run questions against the strategy? In order to test yourself as a business?"

GDU: "Okay no, so these are the headings or categories of the questions. It's a summary. It's not like you go through a list of questions which at the end gives you a result on each of these."

[Continues with posing the validation questions. The questions and responses are tabulated below.]

Table 10.8 – Mr. G's Validation Responses

<table>
<tr><th rowspan="2">Validation Questions</th><th colspan="5">Validator's Response</th></tr>
<tr><th>Strongly Agree (4)</th><th>Agree (3)</th><th>Unsure (2)</th><th>Disagree (1)</th><th>Strongly Disagree (0)</th></tr>
<tr><td>1. To what extent do you agree that the six core components of the framework are core aspects that need to be addressed by a competitive strategy? Why?</td><td>X</td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="6">G: "I strongly agree. Well, in my own experience, not only do I run my own business, and on that level it ticks a lot of boxes, but I also work on other businesses and there are elements in here that I would not normally consider; not that I develop business plans for other companies, but certainly some of them are triggers for me to delve deeper into, because there are levels of modelling that I think is worth exploring and worth questioning, in terms of the marketing strategies that I write for businesses. And part of that is looking at competition and how to position yourself against competition. So there is a lot of strong box ticking going on here in terms of the elements that you've looked at."</td></tr>
<tr><td>2. To what extent do you agree with</td><td colspan="5"></td></tr>
<tr><td>2.1. The basic, generic customer segmentation approaches identified?</td><td>X</td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="6">G: "It's typically age, gender, household income and that's all demographic. Geographic. Absolutely. Psychographic. Yes. Geodemographic, okay, but then you could also get geopsychographic if you wanted to, but, we do not go to that level. Then there's behavioural. Which is a little psychographic to me, but perhaps I do not understand the distinction between the two."
GDU: "Okay, behavioural is what people actually go out and do. Psychological on the other hand is based on what their motivations are.</td></tr>
</table>

Whether there is that behavioural intent. So, behaviour does not always reflect intent and intent does not always reflect behaviour." **G**: "Then I suspect that psychographic is a blend of behavioural and psychological segmentation. I think that's what it is. So yes, you're ticking all the boxes there. Certainly in terms of what we use. There might be a few elements that's missing, but I have no idea. So that's strongly agree."					
2.2. The suitability ranking of the digital-physical orientations for e-business start-ups?	X				
G: "Yes, we spoke about that. Strongly agree."					
2.3. The suitability ranking of Porter's generic strategies for e-business start-ups?		X			
G: "The only reason why I would not strongly agree is because I do not think I understood it as well as I could. So, I do not know if that's an answer. So in terms of how you explained it, yes, it makes logical sense. Yeah, agree to strongly agree."					
2.4. The sources of e-value creation identified?	X				
G: "I loved this. So strongly agree. The fact that you have 18 of them is huge. It's something that I want. I'm kindly going to ask you afterwards to share this, because stuff like this for me as a marketer, allows me to go back to my customers and ask them, "what are you offering that's completely different from your competitors? Because you are a small firm, yet you are competing against these megaliths, and yet you are offering customers exactly the same thing. So what is different and unique? Where is the value? Where is the value add?" And they kind of go, "Uhm right". So when you start taking 18 different elements like this and say come, let's sit with each other and let's talk about where we can actually add value, then you are starting to talk about it. These are marvellous triggers for exactly that. So strongly agree." **GDU**: "What I tried to do here is integrate 6 different models and arrive at a type of mutually exclusive factors. The one problem, that I've kind of solved with the sequenced 18 sources of value, is that there is a bit of overlap here, when you think of simplicity and convenience. In the sequenced 18 sources of value, that's solved by saying that you build up to convenience in the end. So, I think there are small types of overlap here, but that they are unique enough to substantiate their position." **G**: "Definitely. I mean, I guess you could interpret convenience as "Hey you're online!", so I can conduct the transaction and its convenient for me to do this, rather than getting in my car and going to buy some item elsewhere. Versus simplicity that's about presenting a simple business model and enabling me to understand the offering and therefore purchase. Versus the competition, which is like cluttered and confused. So to me, that's two very different things. Yes, maybe potential for some overlap, but beautiful still. Again, a box tick. I go to my customers and say "here are core values, tell me which you feel you can map yourself against. And tell me why." Because those are starting to hint towards the claims of USPs or Unique Selling Propositions. Now a lot of customers may claim, "oh no, that's our USP", then you go and look at the competition and no, sorry, it is not unique. Do not use the word unique if it's not. So you can start tying it back to that as well."					
2.5. The 10 techniques for creating new market space?		X			
G: "Agree."					
2.6. The generic types of relationships identified?	X				
G: "Yes agree strongly. I cannot think of any others. It's quite nice."					
2.7. The generic channel phases identified and the placement of the source of e-value within these?	X				
G: "This I love. This again a beautiful cross-map between the funnel and the relationship and the values. It's beautiful." **GDU**: "The other thing that I started off with before this is that you have your phases and then have your 18 sources on the downward axis. And then you can actually see how each of your 18 sources affects each stage. Though that's not a very elegant way of doing it. This is more powerful (the sequence 18 sources of value) in my opinion." **G**: "What's interesting is that they sit squarely in each phase. I cannot see where one should sit in another one. Not yet. If I try and unpack it. They literally sit squarely in each one of the verticals." **GDU**: "Well, look at it this way. In your delivery phase, you could perhaps also have effectiveness and efficiency. How efficient are your logistics systems? So I think that it's possible to have those values in multiple positions. The only thing I'm trying to depict here though is the places where they are the most important." **G**: "Okay, yes, having the 18 down the side and ticking it makes sense now. But, I like this more. And if you're presenting to business people, then you can say to them, listen this and that can obviously sit here and there as well, like you did with me just now."					
2.8. The suitability ranking of revenue strategies for e-	X				

business start-ups?					
G: "It made sense. So strongly agree. Again, I need to get deeper into it to wrap my head around it, but at the surface, it makes logical sense. I see no reason why not."					
2.9. The types of strategic control points identified?	X				
G: "I quite like this as well. Again, it's an easy way of just identifying where opportunities lie. Where do you sit? Are you in a chokepoint? Are you the chokepoint? And if so, hey, well, you've got no competition. Versus the other elements. So this is a nice simple way of understanding where those elements lie and possibly how you can leverage them. I strongly agree with them."					
2.10. The types of switching costs identified?	X				
G: "Again strongly agree. There are many of them. So some of them I do not understand, but I can infer. Like superiority costs? But I guess you're talking about product superiority. This is a better product. Has more features." **GDU**: "Yes, definitely. You will not switch." **G**: "But I mean, each one of them has a meaning and it made sense. The only reason why I do not want to delve in more, is because I'm interested."					
2.11. The factors that lead to e-loyalty?	X				
G: "Yes again. Strongly agree. It's ticking all the right boxes in terms of e-loyalty, and again, for me, this is a very nice element to look at and map back your own behaviour in a space and/or to drive additional behaviour."					
2.12. The general strategic tests that help to formulate good strategies?	X				
G: "Help to formulate it? Or test it? Or by testing help to formulate it?" **GDU**: "Yes, all of the above." **G**: "So when I look at this, and I'm just looking at the flow of this, you're going 3, 4, 5. I'm more than anything interested in this. Is this a cycle? Does the one flow into the other?" **GDU**: "No. In this case I should probably delete the green arrow. It's not actually intended to be that. The arrow helps you to flow through it, but it has no real meaning." **G**: "Okay, yes they are interlinked. It is a process. You would run it through this sequence. Again, without spending a lot of deep time thinking about it and analysing it, I strongly agree. I'm just thinking again about this. Looking at applicability online. When you driving people into the funnel. Clearly, if people do not react positively you would get high bounce rates off of applicability. In other words, if it's not applicable I will not convert or go into the funnel. Feasibility? Is that for the consumer or target audience right?" **GDU**: "Actually, for the business itself. It tests if the story makes sense. We've previously chatted about this thing about LSM 1 to 3, so for instance, the other thing is that people will not really pay much for things online than they would offline. That's also part of the hybrid and pure play discussion. So, if you cannot offset those fulfilment costs on the customer, then you are going to have horrible gross profit margins. That's why many of the online grocers did so badly, because they spent huge amounts on building magnificent websites, but because their profit margins were so low, they could never recuperate those costs. So in that case it fails the feasibility test." **G**: "Okay, that makes complete sense. Okay, strongly agree. Could not find anything that I would not agree with."					
2.13. The core logic to renewing and growing a business?	X				
G: "Here you blew my socks off. I mean I have no reason not to agree with this. But again, without sitting with it and thinking about it for a while, yes, it seemed to flow logically and made sense. I liked the three types of growth that you would want to seek and then it kicks off a restart, which clearly makes sense. It flows back to the assumptions. And it is renewal and growth as opposed to renewal or growth. Definitely, because why would you renew… yes, okay, good. Agree, strongly."					
3. *To what extent do you agree that the competitive strategy framework can assist e-business start-ups with designing strategies that are capable of more effectively competing in the e-environment? Why?*	X				
G: "Well, in the absence of having seen other strategies, this makes sense because I think you've made something very complex very simple through the diagrams. But it would bear a description. So some sort of background document, because if you were to hand this over to some small business, they would not be able to understand this without explanation. But, I think it is complex but simple and the way that you've cross-mapped a lot of the information, makes it extremely attractive. I mean, I'm looking at some of these elements and as you've heard, I'm going "Wow, I want it." You know, because I can apply it. Not just because I am a small business owner myself. Not that I have a purely digital footprint, but I can see it being applied very well. But it would require guidance. Undoubtedly."					

<table>
<tr><td colspan="6">GDU: “Remember, I have a huge thesis. But that’s not the selling point to the start-up. I’m not going to give that to a start-up.”
G: “Then strongly agree that this would help a lot. Because the risk in the old swot analysis based business model is that it is extremely simplistic, and I do not even think that a lot of business owners know how to set up their own business plans firstly, and secondly, they do not understand the elements that they need to consider. So this does provide some very good guidance around that. And this is only the competitive element, never mind the other aspects that are required too. But if you think about it, competitive structuring is extremely important. Because if you go to market with a product that’s just being replicated and that has no differentiation, then you’re going to suffer. Unless you have some stroke of luck or idiocy along the line. So yes, it makes a lot of sense. Strongly agree.”</td></tr>
<tr><td>4. To what extent do you agree that the framework makes a contribution to the fields of e-business/ strategy/ business models/ strategic management? What contribution does it make?</td><td>X</td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="6">G: “Well I guess the answer would be relatively similar. Firstly, do I agree that it would contribute, yes, strongly. Secondly, I think that in the digital environment, the perception is that it is very easy to start an e-business and that hey if I use an off-of-the-shelf e-commerce tool to build an e-commerce store that it immediately and automatically translates into business success, which is of course a complete misconception. And so a model like this, not only bring the reality of considerations to book, and make it far more real, but it solidifies the business plan extensively and forces you as a business owner to think about things that you would not traditionally have considered. If you pitch it at the small business level, a model like this would undoubtedly contribute, but I guess it might in some cases constitute over-kill. But as you pitch it up into larger small businesses, going up into medium businesses, huge applicability every step of the way. I guess even at a small business level, you should at least consider a lot of the points that sit within this. So yes, high validity irrespective of where you pitch it. I mean thinking of large businesses…”
GDU: “I also thought of consultants, who may use this on other businesses as a process to go through.”
G: “I think it’s a great process. Because even as a consultant I do not think you are considering all of the elements and which consultants have spent two years defining a model and in fact merging multiple models into a unified entity (in the e-business space)? So from that perspective again, I think invaluable in terms of that. ”</td></tr>
<tr><td>5. To what extent do you agree that it is intuitive to derive value from the framework? Why?</td><td>X</td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="6">G: “In other words, I’m just seeing it and obviously there’s value in it?”
GDU: “Actually more in the sense that you can extract value from it?”
G: “Oh yes. My immediate reaction to that is, “does something like this exist?” Maybe, in the (united) states somewhere. But is it as comprehensive and in depth and maybe presented as simply as this? Not what I’ve seen, so intuitively yes. Big box tick, strongly agree. I think what would be interesting for me is having this tested against actual businesses.”
GDU: “That’s sort of what I’ve been busy with lately. Doing a case study on Dropbox and defining their competitive strategy.”
G: “What I meant by testing is to take a small business and apply this to it. Actually do it. I wonder how it would test out.”
GDU: “Do you mean before the start-up stage or?”
G: “Yes, before. When I’m writing my business model. Is this viable for me? Yes or no. There’s a lot in here. If you sat with me and went through all the elements and work-shopped it through with me as a business owner, I would find immense value in it, because it guides and leads me through a process that I do not intuitively know. I would have had to study a MBA or would have to buy fat books to only derive aspects of this.”
GDU: “I still feel that this is also where some of the value is hidden. Even if you say that it might not be that intuitive for small business owners to derive value from the framework, even if you give them one 400 page thesis and they go through it – it might take them two weeks, but that’s a learning curve that’s a lot shorter than the two years I had to spend to learn about this domain. And I feel that if you have that background knowledge, then you can more intelligently go about the space and try and compete and create your strategy within that.”
G: “Undoubtedly. What I’m ticking in the background now is a number of potential businesses that I’m currently thinking about. If only I actually had the time to do it… For me, I would find it very interesting to go through exercises like this and pressure test this model against that. But it would take time of course. And this is very deep and sophisticated… Is there a simpler version of this? And can it be made simpler?
GDU: “Yes, I have a simpler version, because I also received feedback that it is very comprehensive. And there are ways that you can throw out a lot of questions, or summarize it as questions.”</td></tr>
</table>

[Concluding remarks]

G: "This is powerful stuff… The thing with this is that you can actually use it to shape your strategy. When I think about something, I always start off with an idea. And when you were showing this to me, I was thinking the whole time that I have to test my current idea against that (the framework). But not only that. Some of the things you've shown me (like control points for example), if I do not currently have that in my strategy, this is a really good soundboard to make me think about things that I would not normally think about. I would for instance say, "Hey, how can I create that control point for my strategy?" It's really good."

10.4.7. Interview 1.7: Ms. L

Ms. L

Head of Product Strategy at Praekelt Digital

Interviewed 11h30 at Praekelt, Milpark

7 August 2013

[Gerard presents findings]

[Almost no interjections are made, except those requiring the author to clarify concepts]

GDU: "Any questions before we start with the validation questions?"

L: "No, I actually think it is quite clear."

[Continues with posing the validation questions. The questions and responses are tabulated below.]

Table 10.9 – Ms. L's Validation Responses

Validation Questions	**Validator's Response**				
	Strongly Agree (4)	Agree (3)	Unsure (2)	Disagree (1)	Strongly Disagree (0)
1. *To what extent do you agree that the six core components of the framework are core aspects that need to be addressed by a competitive strategy? Why?*		X			
L: "I agree with it quite strongly. While you've been going through this, I have no formal business process background at all, but I can see where the problems that we've discovered as an organisation, because we also started as a start-up, so going through this (the framework) I can see the points at which if we had a more rigorous framework to begin with, we could have prevented those problems."					
2. *To what extent do you agree with*					
2.1. *The basic, generic customer segmentation approaches identified?*	X				
L: "Yeah, these are kind of standard. We do have a little bit of an issue here however. We have customers that are the brands or agencies that we are selling things to, but to some extent the end users are also our customers. So we do have a sort of two level approach. But the way that we would think of them is the same."					
2.2. *The suitability ranking of the digital-physical orientations for e-business start-ups?*	X				
L: "I think everything should be digital! Furthermore, we do not do any hybrid business, so I do not have any experience with that."					
2.3. *The suitability ranking of Porter's generic strategies for e-business start-ups?*		X			
L: "I might say that I would make differentiation focus the number 1 rather than the best cost provider strategy. The other order is right, just because in terms of, that is basically what we did as a start-up, that was our focus. Doing stuff that no one else could do. And then we sort of started building the other ones in." **GDU**: "That's quite interesting. I could actually agree with that. In the sense that if you talk about start-up positioning, to purely go for differentiation focus first. The reason why I put best cost provider in first place is because it has been shown that over time it has the highest performance. But it might be very difficult for you as a start-up to have this dual focus from the start. It might actually be a bit of a pipedream. So, I'll look into it."					

2.4. The sources of e-value creation identified?	X				
L: "I think that's good. Those look cool to me. I do not think there's anything else that I would add. There's nothing else that springs to mind that you have not got. I also think that you've covered that from tangible to non-tangible."					
2.5. The 10 techniques for creating new market space?		X			
L: "I agree with your 10 proposed techniques."					
2.6. The generic types of relationships identified?	X				
L: "Yeah, I think those are perfect. And once again, the way that we relate those to our agencies, brands or end-users we still work in that framework." **GDU**: "The thing I propose with the framework as a whole, is that you formulate it per customer segment. So each customer segment would have its own relationship and you would have multiple competitive strategy frameworks, which together comprises your whole competitive strategy. But of course, the general storyline throughout all of them would correspond in the type of value you are providing or generic strategies you are following."					
2.7. The generic channel phases identified and the placement of the source of e-value within these?		X			
L: "They look good. I think that's pretty much how I would assess something. Good."					
2.8. The suitability ranking of revenue strategies for e-business start-ups?		X			
L: "The logic made sense, but we've never done anything in 2, 3 or 4 (referring to direct-free; indirect non-free, or indirect-free). We've never done third party monetisation of any kind. We've never given away anything for free. So my experience is all on direct monetisation (strategy 1) and so far it has worked for us." **GDU**: "Haha, then clearly you are doing things theoretically right!"					
2.9. The types of strategic control points identified?		X			
L: "Yes, I agree with all those. The creation of scarcity is the thing we struggle with, because everything is super super abundant online. I mean, even kids with a laptop can build someone a website. So yes, those will work for me."					
2.10. The types of switching costs identified?		X			
L: "Yes, I agree with those. And I think the bigger your customer, the more of a barrier lots of those are. That's what we've found. There is a lot of inertia in it."					
2.11. The factors that lead to e-loyalty?		X			
L: "Yeah, this is a bit less applicable to what we do. Like sort of the perceived value all works as a fundamental part of our business, whereas the attitude things are slightly more… I mean, they definitely come into it of course, looking at customer services, but the particular bullet points, I'm not sure if they are exactly what we do. But I mean, looking at attitude, knowledge of the digital space definitely has a pronounced effect on whether people stays with us."					
2.12. The general strategic tests that help to formulate good strategies?		X			
L: "I think that's good. I think self-reinforcing is perhaps a stumbling block for us at the moment. Yeah, I like it."					
2.13. The core logic to renewing and growing a business?		X			
L: "Purely academically, I totally agree with it. I mean this is a very brave thing to do. You know what I mean? In an organisation there is inertia and there is history, so I agree totally. It's just hard." **GDU**: "What I've come across is that often a process for renewal and growth does not exist. So this is just a point of departure for saying that "okay, we need to create our own processes for constantly evaluating whether the assumptions that our business is based on is still valid and making adjustments". It's also about the choices of what are you going to do." **L**: "Yeah, I mean there are so many. Like we are based in South Africa, but we do work for the rest of Africa as well. So in terms of sustaining growth versus disruptive growth, I kind of feel like we've done that not in a complementary fashion. We've kind of have gone in both directions and I can see how that has produced tension. Maybe if we have fed back, that would not have happened."					
3. *To what extent do you agree that the competitive strategy framework can assist e-business start-ups with designing strategies that are capable of more effectively competing in the e-environment? Why?*	X				

L: "Yes, I think it can be useful. Mainly because I can see the growth of our company, and how it has been influenced by those things." **GDU**: "So for start-ups then, if they have no idea and no point of departure, do you think that this can enhance their strategy formulation process?" **L**: "Yes, totally. I think that one of the problems with start-ups is that they generally do not model their strategy to begin with. So, I think having something that is step 1, 2, 3, 4, 5 would be very useful." **GDU**: "Yes. Often also what happens in organisations is that because they do not have clarity about their strategy, they actually make contradicting decisions. Similar to what you've said just now." **L**: "Yes, that's why I think as you are saying, that it needs to be really simple, so that internal people understand (what the strategy is about), that's really important."					
4. *To what extent do you agree that the framework makes a contribution to the fields of e-business/ strategy/ business models/ strategic management? What contribution does it make?*		X			
L: "I'm going to focus on e-business and strategy, because I do not really deal with the others. Yeah, I mean I agree that it makes a contribution to those fields (e-business and strategy). I also think that you've included aspects here from people that you have been referencing, who are from management or process related fields. But, I've never come across those (aspects) specifically and I think that taking the key bits and putting it in a new framework with a nice little icons is something that's very tangible and understandable and "not" academic. So I think that's really good."					
5. *To what extent do you agree that it is intuitive to derive value from the framework? Why?*	X				
L: "I think it is very intuitive. Particularly the way that you've laid it out makes it quite obvious the journey that you need to think about to get to where you want to be."					

[Concluding remarks]

GDU: "Are there any other comments that you would like to make? Input, or help, or critique? Or are there aspects that you think that I've neglected in any way, without now bringing in strategy execution?"

L: "I mean I do not really think so. I can see the main tension points that we've had as a company have been addressed in the model. That's sort of what I'm basing it on. I mean we would just have to adapt it because we have those multiple (customer) layers and then see how that fits together. And I assume that that can be a challenge, once you have multiple layers."

GDU: "That's interesting. So what components do you think it would affect the most? Okay, so you have multiple customer segments. These (generic strategies) will probably remain fixed across all layers."

L: "Yes. The control points and switching costs will be different though. The control points will be mainly for the brands and agencies. The switching costs will apply more then to end users."

GDU: "Yes, you would have different switching costs for both of them. These (e-loyalty antecedents) would also be different. Okay, so let's say now that the customer lock-ins are different, the offerings are different, the relationships are different, channels are different and the revenue strategies are even different. What you are saying now is that the problem is that if you had to integrate these different layers? Does it affect the strategic assessment then? So over-all, given our different customer segments and the different offerings we have?"

L: "Yes, unless you just evaluate them independently. You know, we are evaluating this customer segment now, and then that customer segment. Which I suppose would make the most sense."

GDU: "Yes, I agree. Difficulty can come in with the growth though. Deciding which customer segments and which part of your business you are going to grow."

L: "Yeah, but I mean. Your over-all approach would sort of be the same. It would just be with different groups of people."

10.4.8. Interview 1.8: Mrs. J

Mrs. J

Head of Marketing at OLX (Africa)

Interviewed 12h00 at OLX, Cape Town Central

22 August 2013

[Gerard presents findings]

[Regarding customer segmentation]

J: "If you're speaking to everybody, you're speaking to nobody."

[Regarding hybrid e-businesses]

J: "Hybrids are definitely more expensive, and you can do a web-based business in like 20 minutes. And free perhaps even."

[Regarding Porter's generic strategies]

GDU: "Looking at Porter's generic strategies, one of the things that really bothered me is that there are so many things that are free online. So, if your core competitive advantage basically lies with being a low cost provider, and you are competing against someone who are basically providing the same product for free, then a rational customer will always choose the free product. So in that sense, differentiation strategies are superior to just pure low cost strategies."

J: "Yes, and internally we feel it, because Naspers has got 40 newspaper titles and ever since they started like 99 years ago, classifieds were the bulk of their revenue. Now people are going online and it's free, through Gumtree, through OLX or whoever, and it's hurting the print business, and they have to redevise their entire strategies now. So that's quite interesting. So you come with a pure play now and it's killing an offline, massive business that was dependent on that (classifieds) for so long."

[Regarding customer relationships]

GDU: "I'm not delving too deep into customer relationships at this stage, seeing as the customer segment itself is still so malleable at this stage."

J: "Yes, it makes sense. It differs per business."

[Regarding revenue generation]

GDU: "Usually businesses do not want to give anything away for free, because it costs them money. So in that sense, businesses without free elements would be superior to those without."

J: "Sometimes in e-business we use the free elements to attract the paid ones. So like, creating great content or whatever. It's a different value for your customer, but then you can translate it into payment."

[Regarding customer lock-in]

GDU: "A lot of authors argue that switching costs are much lower online than they are offline."

J: "That's very true. There's very little loyalty online."

GDU: "Yes, but instead of diminishing the importance of switching costs, it actually amplifies the importance, as it is more important than ever to know what types of switching costs exist, in order to be able to try and create it."

[Regarding control points]

J: "A first mover advantage is the most important one. Seriously! If I have to be honest with you on how we compete globally based on classifieds, that's the most important to us. But not just that we are first to market, are we first on TV and so forth."

GDU: "It's interesting that you're saying that because that concurs a 100% with the product innovation businesses that I defined at the beginning, the core business focuses."

J: "Brand advantage is also huge. Great!"

[Continues with posing the validation questions. The questions and responses are tabulated below.]

Table 10.10 – Mrs. J's Validation Responses

<table>
<tr><th rowspan="2">Validation Questions</th><th colspan="5">Validator's Response</th></tr>
<tr><th>Strongly Agree (4)</th><th>Agree (3)</th><th>Unsure (2)</th><th>Disagree (1)</th><th>Strongly Disagree (0)</th></tr>
<tr><td>1. To what extent do you agree that the six core components of the framework are core aspects that need to be addressed by a competitive strategy? Why?</td><td>X</td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="6">J: "I strongly agree. If you leave any of those out then you have a glaring hole."
GDU: "Is there any specific reason why you say so?"
J: "Okay, besides my day-job, I am super interested in Internet start-ups. So I follow a company called Internet Business Mastery (IBM) and every day I listen to a podcast from them, and all that they do is council and coach people who want to do Internet start-ups. They're fabulous. Now, one of the main things that they say is that if you're speaking to everybody, you're speaking to nobody.
So your first two that has to do with focus – that's phenomenal. You've got to have one customer that you are speaking to at least. Differentiation is also good, because there is so much noise out there. Then thirdly, making it sustainable. Perfect. Yes, I do not see any glaring holes."</td></tr>
<tr><td>2. To what extent do you agree with</td><td colspan="5"></td></tr>
</table>

<table>
<tr><td>2.1. The basic, generic customer segmentation approaches identified?</td><td></td><td>X</td><td></td><td></td><td></td></tr>
<tr><td colspan="6">J: “Look, I do this all day every day. That’s my job. I’m in marketing. Now that’s very generic. We kind of go one step further. What we do is we build personas. So for example, I’ll say, I’m speaking to Letitia, she’s a single mom, and we create a whole person around that. So next time that I’m doing a TV ad, how am I going to speak to that person? Or next time that I am sending out a newsletter, how am I going to speak to these different personas?”
GDU: “So that, is it basically psychographics? Where you combine behavioural and psychological segmentation?”
J: “It’s everything. Where does she live? Is she married? Where does she work? You create a complete profile. You cannot have more than five personas otherwise you are diluting your message. So we might say we have a small business owner who wants to advertise on classifieds; we have a single mom who’s looking for second hand baby goods, but she’s a bit nervous, because does she go by herself to check out the pram? How does she contact the seller? So we go into a bit more detail. That’s out approach. Also, is she tech-savvy? When she comes to the site, will she know how to search? Will she know how to look? We also do usability testing, through a research company. And we actually bring in people who match our personas as far as possible. So they will come in and they sit and we test, when they open the site, we will ask them, “what do you think this site is about?” Let’s pretend you are looking for a pram for your baby. What would you do? Then we will see how intuitive the flow of the site is or not. Also, it depends on the type of phone that this person uses. Can they download our app? Or is that too scary? You see what I’m saying? So, the generic segmentation I agree with, but you can really go further. Much further. And then you have such a clear picture in your head of who you are talking to that you do not get side-tracked.”</td></tr>
<tr><td>2.2. The suitability ranking of the digital-physical orientations for e-business start-ups?</td><td>X</td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="6">J: “Okay, this is strongly agree.”</td></tr>
<tr><td>2.3. The suitability ranking of Porter’s generic strategies for e-business start-ups?</td><td></td><td></td><td>X</td><td></td><td></td></tr>
<tr><td colspan="6">J: “Best cost provider strategy you have put as number 1. Depends on the business. For a start-up you cannot always get best cost, because you do not have that economies of scale when you’re buying from the suppliers. So, for this one, for a start-up, I would probably have put number two (differentiation focus) as the first place, because of the fact that there is so much out there, that if you want to catch attention, you have to be different. Yes, so here I would say unsure. But that’s with my business in mind. With some other business, that may be completely different.”</td></tr>
<tr><td>2.4. The sources of e-value creation identified?</td><td>X</td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="6">J: “Okay, it looks like Maslow just made fancy. I agree with this a lot. I do not know if you put them in any particular order here?”
GDU: “No, no, I did not.”
J: “With this I agree. I do not think there is anything that you’ve left out. You’ve got entertainment or something like that?”
GDU: “I’ve got embodiment.”
J: “Ahh, okay, user experience. Okay, no that’s perfect.”
[Gerard explains how the model was constructed]
J: “On second thought, I do not see anything missing in it, so I strongly agree.”</td></tr>
<tr><td>2.5. The 10 techniques for creating new market space?</td><td></td><td>X</td><td></td><td></td><td></td></tr>
<tr><td colspan="6">J: “Agree.”</td></tr>
<tr><td>2.6. The generic types of relationships identified?</td><td></td><td>X</td><td></td><td></td><td></td></tr>
<tr><td colspan="6">J: “When you say communities?”
GDU: “Yes, that refers to virtual communities.”
J: “Okay, so that would be a Facebook integration or something like that. Dedicated personal assistance – vital. Self-service. Automated service. There’s something that’s called gamification and I do not know if you did something like that. But we’ve found that in e-business it is one of the most important ways of keeping that customer relationship. So what gamification does is that it’s got certain attributes. They look at why people become addicted to games. For instance, my son is a Playstation junkie. Why is he stuck on this Playstation? Or why did something like Farmville do so well on Facebook? So, I was chatting to MXIT yesterday, and they’ve got a thing where 40 000 kids have read books on MXIT, ever since they gamified reading. So what they did was, they got the book for say, grade 8, then they’ll offer it to you in little snippets. So you would read it, and they’ll go “Ahh, you’re number one on the leader board”. Next day, your buddy has not read twice as fast as you. So they’re taking these learnings from gamification, such as competing, sharing, rewards and they built it into this learning platform, and it’s just flying.”</td></tr>
</table>

GDU: "I have a question. Is that actually relationship based, or is not that actually value based?"

J: "It could be value based, but it's also relationship."

GDU: "So, it kind of has to do with interaction and socialisation, but gamification for me also has to do with the embodiment of the experience."

J: "Yes, it is the experience and it is the novelty. So, it's kind of across a lot of your value drivers. Okay, yes, you're right. Okay, so for relationships, let's say agree, because I do not see anything missing."

2.7. The generic channel phases identified and the placement of the source of e-value within these?	X				

J: "Awareness and findability is perfect. We always say that if Google cannot find you, no one can. Evaluation, richness of information, range, novelty, design… perfect. Purchase, affordable, authentic. Delivery, reach, timing, yes. Yes, I think it's perfect. Strongly agree."

2.8. The suitability ranking of revenue strategies for e-business start-ups?		X			

J: "Look for a start-up that does not have an idea in their head, they want to start an Internet business, give me the quickest route to market – I agree with this a 100 percent. But if I have to think of my business, then we're different. So I would agree with this model. I'm just thinking…"

GDU: "The other thing with this and all the other generic strategies, I'm not saying that it's the only way to start."

J: "Yes, for sure. You're just advising them."

GDU: "Yes, so even if they do see that their business does not work like this. What makes sense for us is one of the other ones. Then at least they went through the thought processes of making these choices. Because the worst thing that can happen is kind of implicit, going through life without direction we are in."

J: "Yes, precisely. But this is right behind the business model. It drives everything. So I would agree. You've definitely put them in the correct graphics, I just would not have said direct and no free element would be the ultimate way to start off."

GDU: "So what would you say is the best?"

J: "For me, I would say freemium. I have a personal site for Christians. I wrote a Christian book and I do a lot of writing. And I made that free thinking that you only monetise later. You wait until you've built up a certain critical mass and then you monetise. If you monetise too soon from my experience in classifieds and everything else, you lose your audience. The minute you want cash from them, you lose it. Especially when there are ample free resources. So if you listen to these IBM guys, they'll even say that you do not have to create all the content that you share. You just need to…"

GDU: "Aggregate it?"

J: "I would not say aggregate it. It is that, but you almost edit it. You evaluate it and only use what's relevant. Because then you become known as someone who gets stuff from all over… They have such a good term for it… I just cannot think of it now. So for me freemium really, if you're starting off, it's a great way to do it. And bait and hook sounds very negative, especially if people do not understand it, but that's exactly what you're doing. And then if you can advertise. Well, everyone puts Google AdSense on their sites.

[Bronwyn gives example of string instrument blogger]

And that's all free. It starts off as free and then it takes off."

GDU: "The thing that I would also like to highlight here what influenced my thinking. So a large part of my framework deals with customer attention and a large part deals with customer retention. But now with e-business being so abundant, your scarcity online is basically your customer attention."

J: "Absolutely."

GDU: "Because everything else is propagating, but your customer only has a certain amount of attention. Now we can have millions of social sites or freemium businesses, but the scarcity point is still with the customer attention. So, even if you have a user and you have not monetised it then they really are not customers. So they have fake loyalty to the site. Only once they start paying, they become customers. "

J: "Okay, but there is value in eyeballs. There is value in having those people. We (OLX) have the third largest Facebook page in South Africa and it has cost us a fortune marketing this thing, so there might not necessarily have given us a cent, but there is huge value in having this permission based group of people that you can speak to. I can ask them, "What do you think of this ad flow?" or I can ask them, "What do you think of the TV ads?" So it's a very different. It's not necessarily adding to my bottom line as far as financials are concerned, but it is definitely a huge value. And I think that is often overlooked. So they'll say, "Oh! You've got an e-mail list of like 10 million people." That has huge value! Especially in terms of marketing. Furthermore, they've given you permission to speak to them and

they trust you. So, I definitely would not count it only the minute when they become a customer. They are your agents speaking on your behalf out there. We use a thing called net promoter score, I do not know if you've heard of that, but then we focus on people who are your promoters. People who love your brand. Having the eyeballs, having that attention is very brief, and I would say even more important than just the fact that they visit your site is permission in their inbox, that you can email them, or text them or whatever. So this one, I would say agree."					
2.9. The types of strategic control points identified?	X				
J: "Strongly agree. When, you say network effects, how do you define network effects?" *[Gerard explains his understanding of network effects and demand and supply side economies of scale and scope]* **J**: "Okay, so I agree with this completely."					
2.10. The types of switching costs identified?	X				
J: "I agree with this completely. Yes, strongly agree."					
2.11. The factors that lead to e-loyalty?	X				
J: "Okay this is an interesting one. See in my business, there is no cost to switching. I cannot hurt them. They either go to Gumtree or Junkmail. There's no real cost, unless it means that they are going to have less of a response on their ads, or going to get lower deals. So it's quite tricky to think about this. I agree with your higher level ones. Your e-enjoyment, trust, loyalty, quality, satisfaction. So with that I strongly agree. We do brand awareness surveys, and as a part of that we check awareness, usage, and propensity to use. Are you likely to use in future? So that's close to your attitude and behaviour."					
2.12. The general strategic tests that help to formulate good strategies?	X				
J: "This is very generic, but with this I strongly agree."					
2.13. The core logic to renewing and growing a business?	X				
J: "Look, this is great. Again, I do not want to say generic. It's very comprehensive, but strategy is a living document anyway." **GDU**: "The reason why I included this is because a lot of time the problem with small businesses is that they do not have a process for renewal and growth in place. So here, I'm just providing them with a simple one." **J**: "This is perfect. Strongly agree with it."					
3. *To what extent do you agree that the competitive strategy framework can assist e-business start-ups with designing strategies that are capable of more effectively competing in the e-environment? Why?*		X			
J: "So I would say I agree. The only reason why I'm not saying strongly agree is because it will be dependent on the business. But at least it gives very practical steps that they can follow, that they do not normally (have). I love that it starts with where you are right now, and who your customers are. I do not think people do that. A friend of mine started a business selling vinyl prints. Not thinking if there is a market for it. Stupid. Goes and buys a massive expensive printer, and now its sitting and gathering dust. So, it's important that it starts with that. So I agree. If I were starting a small business, this would definitely help me."					
4. *To what extent do you agree that the framework makes a contribution to the fields of e-business/ strategy/ business models/ strategic management? What contribution does it make?*		X			
J: "I would agree it makes a contribution. I think it fills in a lot of gaps that people leave out. Like we were saying, small business. We work with a lot of small businesses, and a lot of them go through the expense of developing a site, when all that they really needed was a Facebook page. Because they did not think it through, they do the wrong things. So therefore I agree."					
5. *To what extent do you agree that it is intuitive to derive value from the framework? Why?*		X			
J: "At least it's asking the right questions. Well, depending on the business. But at least it asks the right questions. I think that's one of the biggest problems that business people have – they do not (ask the right questions). You've got an idea, you are in a hurry to get going. So yes, I would agree."					

[Concluding remarks]

J: "Perfect. Good luck! I think you'll do well."

10.4.9. Interview 2.1: Prof. P

Prof. P

Professor of Strategy at the University of Exeter

Interviewed 18h00, Bristol

28 August 2014

[Gerard presents findings]

[Regarding the failure rate of e-business start-ups]

P: "How does that compare against the non-e-start-ups?"

GDU: "I do not have exact numbers, but it's in the same type of scale. There may be various reasons for these, but because we know that there is a link between performance and strategy, I took a strategic perspective in my investigation."

P: "So the argument is not that e-businesses fail more, it is probably that e-businesses fail a lot. Probably as much as others. But there may be specific reasons for those failures not shared by the others. I think that there's a point where you will have to say why this question is significant. Because the observer is in danger of looking at this and thinking that e-business start-ups are failing more and for different reasons. You do not' have to have that as the basis for your study. The basis of your study could be to say that this is an important sector. It is new. Maybe the reasons are the same, but this is understudied."

GDU: "Yes, exactly."

[Gerard elaborates on the opportunity for strategic sense-making]

P: "Again, just to be forensic about this, the argument is that the strategic tools, frameworks, approaches, it is not that they are not relevant to e-start-ups, it's just that they are not accessible to practitioners."

GDU: "Yes, that's exactly it."

P: "Are they disjointed because they are disjointed, or are they disjointed because of their application to e-start-ups, or are they disjointed because they are just not joined up?"

GDU: "They're disjointed because of the various strategic perspectives that exists. (They originate from different sources) Take for instance Blue Ocean strategy versus Red Ocean strategy. They are definite different strategic schools with their own tools, and if you are not a strategy expert, or do not deal with strategy often, then some of the perspectives may look paradoxical, and you do not know what to do, because you cannot make sense of it. So you may end up not using any of the tools. Or you get accustomed to one perspective and are not aware of the other perspectives. Similar to this example, is the resource based view of strategy versus the market based view of strategy. What else is there?"

P: "Oh sure, all the Lindblom stuff about logical incrementalism and all that stuff. Yeah okay, that's fine."

[Regarding philosophical perspective of constructivism and a practice-oriented approach]

P: "Your ontological position is pluralist is it?"

GDU: "Yes."

P: "There's an interesting piece of theory coming around, it actually finds its voice in the leadership chapter and it talks about the ontological deficit and the epistemological deficit. And what it means is that with regard to an organisation, we do not know what's going to happen. Now you say that to everyone and they say yeah. Well, there's two components to that. Firstly, you do not know what's going to happen, meaning that there's a multiple set of futures out there and we do not at this point of time, it could evolve in different ways. That's the ontological deficit. And as a leader you cannot stand up in front of people and say you know what's going to happen. The epistemological deficit is that we do not know what's going to happen, because something will. Now, that just appeals to me as a practicing manager. When you stand in front of people and you create a strategy, it helps you structure the discourse you have. Sometimes you find yourself saying that look guys, we have to commit to a path here, because one of those futures is going to come about, but unfortunately we do not know which one. On other occasions your strategy is saying that because the future has not yet decided what it's going to be, we must not commit to a path. And I find that really helpful."

[Regarding framework sequence]

P: "Does (research) question 4 assume that there is a preferred, or worse a fixed sequence? Because there is an argument that there is not."

GDU: "Yes, I understand what you mean. In my thesis I argue that I propose a sequence, but I also recognise that an idea for a business can sprout from any of the elements. And this will influence the sequence of your formulation. As all of the elements are interrelated, the sequence does not matter as much, but for start-ups who have no idea where to start, a sequence could be useful."

[Regarding theoretical contribution]

P: "Is the work ending up with a sort of workbook for e-business strategists? I do not think it's trying to change our theoretical structure. Is it trying to change our praxis? So there is practice, praxis and theory. You're not trying to tell us that the way that strategy is thought about is fundamentally wrong. Is it in the practice area or the praxis area?"

GDU: "Quickly enlighten me about the difference between these two please?"

P: "Practice is the specific application. It is the execution. Praxis is the generalisation of practice. In other words, practice is that I have a mobile telephone company that wants to start-up a new value added service, this is what you do. These are the steps you go through. Praxis would be, that when you look at mobile telephone companies as a class this is the general approach that you would need to take when identifying the practices."

GDU: "Yes, it's more in the praxis domain."

[Regarding limitations]

GDU: "Change management and reinvention of the business model is not explored."

P: "Why is that?"

GDU: "Because this is initially aimed at start-ups, so they will have nothing to start-off with in their green fields approach."

P: "It's fine but it depends by what you mean by change management. You can argue that a new entrant creating a new paradigm or need is engaged in a change management process in the market?"

GDU: "No no, that's not what I am referring to. I'm referring to change management internal to the firm."

[Regarding the customer lock-in]

P: "What you could do is to include the customer lock-in aspects in the value proposition and argue that it is a full-life length type of perspective, and instead of the customer lock-in elements put in defence of the competitive position. Therefore instead of the customer focus, replace that with the market focus. I know that customers integrate to create the market, and I'm not saying that's wrong. But as an alternative you could incorporate the retention argument into the value proposition and then take as a kind of industry-market construction. Because my experience of doing this in reality, and I started a language translation company, and my experience there, and we were doing translation for the European space agency mostly, the customer need was expressed by them in the form of a series of calls translating Japanese, Russian, German always into English. The value proposition we were offering them was that we provided translators who were experts in their fields. They were 2nd language Japanese speakers, 1st language English speakers who could have written that paper. So that was the value proposition. The customer lock-in was continuing provision of essentially peer reviewed translation, but the thing that we forgot about was that we had to defend that position at the ESA from predators from the bigger publishing companies."

GDU: "Yes, everything you're saying is exactly correct. I focused on customer lock-in though, because the argument is that it implicitly creates competitor lock-out. The competitors including rivals in the industry, new entrants and substitutes."

P: "Okay, as long as you extrapolate that into a relativity with the competitor and you do not just keep it at the customer level. But yes, I could see that."

[Regarding the composition and visuals of the competitive strategy framework]

GDU: "Each of these elements have a core principle that they resonate with."

P: "Okay, so if we just look at the value proposition. Are you saying that your study shows that there is a dominant mode of strategizing about your value proposition, and that is Blue Ocean strategy?"

GDU: "No."

P: "Good. Because that is quite dangerous. Because you would have to back that up. Tell me again, in words that a chicken could understand why it is blue?"

GDU: "Blue ocean strategy resonates with differentiation and searching for new market space, right?"

P: "Yeah, but be careful. There might be more conventional ones that may work as well. I mean, if I take the example of the translation company, we were not Blue Ocean. We were actually in the end in quite a competitive space, and retrospectively what we did is that we found a dimension of differentiation that some of the other translation companies did not have."

GDU: "Yes, but I'm not saying that you can only create Blue Ocean value propositions. I'm saying that in people's minds, if you talk about Blue Ocean, then it kind of resonates with differentiation and looking for new and novel things."

P: "The devil is in the details here. I mean you're at a conversation level, of course I agree with you, but when you write this up, I think you have to be more specific in your discourse and in a sense more guarded, so you're going to have to be clear with what you mean, when very reasonably you say Blue Ocean resonates with when people look at the value proposition they think Blue Ocean. Be careful though, because I do not think you're going to be proving that. I'm not sure that you will be, I do not think you're saying anything other than the Blue Ocean way of thinking is a very cool way to think about your value proposition."

GDU: "Hahah, yes basically. What I really wanted to do was to bring in colours to make the model more learnable. So, the red would resonate with Red Ocean strategy, which is a cut-throat environment in which you have to defend yourself, and that fits with customer lock-in. There's no meaning to the purple, but the green again resonates with the idea of growth."

P: "Right, I think the colours are not necessary. They make it visually memorable maybe, but I am worried about the accuracy of your discourse here. There's nothing in there that you're saying which is wrong, but it might be misunderstood. It will put you in a position where you will have to advocate something when you do not need to. So, just be careful. That's all I'm saying."

[Regarding strategic assessment]

P: "I get the picture. One thing about that, there's good literature reported by Johnson, Scholes and Whittington, and they got this ubiquitous textbook called Exploring Corporate Strategy, and they talk about the different -ilities. Acceptability, feasibility. It's well worth pivoting that vocabulary (strategic assessment) to that (of Johnson and Scholes). A more serious point is, where does uncertainty fit into this? Is it in this? Like we were talking about the ontological and epistemological deficit."

GDU: "Okay, so uncertainty and risk are related. And I'm not saying that the framework as a whole will fix your strategy, it's just assisting the formulation, so what the framework helps you with is to ensure that you have considered all the elements of competitive strategy, and this reduces the risk of not having though of that element. It is very similar to Kim and Mauborgne who argue that each step in their strategic sequence mitigates a different risk aspect. Similarly, each aspect of the competitive strategy framework mitigates a certain type of risk. So, being thorough in your customer need identification and customer segmentation ensures that you do not solve the wrong problem, and that a market actually exists, and so forth."

P: "Indicate where the thinking takes place which says, okay, we have an idea for our invention. So, we can conceptualise the value proposition, but we're still not sure whether it can be productized. Where is that, where does the calculus of that risk enter this process?"

GDU: "I would say for the first time during the strategic assessment. That's actually when you're saying we've created all the elements (of the framework), let's assess if it would work. And if you remember, this is still all happening in that first phase of customer discovery where you sketch out your business hypotheses. In the next phase after this, you go to the market, test it and pivot."

P: "Okay, yes good."

[As a general side-comment on the sub-models]

P: "All of these are lenses, approaches, ways of thinking which are based in literature, and what you're saying at this point in the argument is that these are valid lenses, and these are the people who advocate it. Quite a useful digest I think."

[Regarding revenue strategies]

P: "The threat from free competitors are not unique to e-business. The other classic example are free newspapers all over Europe that supply local news."

GDU: "Yes, one of the only defences that I've found how to cope with those, is to deliver value that customers are willing to pay for."

P: "Yes, and that's why you still get a Times newspaper, which costs a lot of money each day, but provides value well beyond that."

[Regarding claims of the framework]

P: "I've got a couple of questions. I do not mean for this to be a trick question, but it is, but I cannot avoid it. So, please excuse me. Is this, anything more than stapling together all these people's work?"

GDU: "Yes."

P: "Right, that's the trick. Given that you can identify what it is that you are adding structurally, what are you going to claim in your doctorate? Are you going to claim that your stapling together plus or whatever it is called, is better than the way that things are done at the moment? So the question is, what are you going to claim in your dissertation?"

GDU: "Yes, I think it is better in certain ways."

P: "You're going to have to prove it. You're going to have to prove that it is better, and you're going to be pushed into a comparison. And it is okay."

GDU: "Yes, I think the ultimate thing that I want to claim, which is aligned with my research question, is that this (framework) can assist e-business start-up competitive strategy formulation. It does not mean that it will, but the framework has the ability to do this. Because the creator of the strategy will still be responsible for coming up with the strategy. *Better* is quite strong, but I would say that the framework is more comprehensive, simply because of the fact that it is stapled together. It gives a better contextualisation of the elements, which were previously somewhat separate entities. I think it creates some clarity…"

P: "That's fine. If it gives a cognitive advantage then it would be great. That is the basis on which simple models such as PEST work. They add zero. But they do improve your cognition. Because it's like someone flashing a lighter in a dark room. You turn to it, and suddenly you can see. Ultimately though, you're going to put a document in front of somebody and you're going to claim that this is a more comprehensive approach, if you claim it, and they're going to say okay, I can examine and I can see it is more comprehensive by the simple arithmetical statement that it is the union of all these others. And that's great. So you can prove that. But the duel of my eternal question is that if you're driven to a small claim, then you run up the argument of the utility. Take that out of the theoretical vocabulary, then you can say, I can prove to you examiner that it is a more comprehensive approach. And they go, tick. Then they say, so what? So, I think you're ultimately have to come to a point where you will have to compare other approaches with this approach, otherwise how are you going to justify your claim. I mean you can do it."

GDU: "Is this now to prove the comprehensiveness or the utility claim?"

P: "Well, the two are tied together you see. The comprehensive, ball in the net, straight through the posts. I think you've done an excellent literature review, you've put it all together. But then the examiner is going to say, if you make the strategist take a more comprehensive view, how do you *know* that that is *better*? And what you cannot do is to say, well it's obvious. Because it is not. Because the counter argument is that if you simplify the scene, like film snapshots, then maybe you can improve their cognition in that way. I'm not trying to be difficult. But you're going to come to a point, one way or the other where you are going to end up with a utility proof. And you have to accept that. There's no escape."

GDU: "Yes, what I'm still going to do after these interviews is that I'm going to have workshops with e-business start-ups in the conceptualisation phase, where I ask them to map out their competitive strategy, say up till level two. And then I'm going to take a snapshot of that. And then I'm going to say, okay, let me take you through a few tools, let's work through this, let's brainstorm. And then at the end of the day we will take a snapshot of the new version. And then I'm going to ask them, do you think your strategy has improved or not? Do you think value has been added?"

P: "Right, now you're thinking the right way. Now you've got evidence, and you've got to think through the process, but now you've got evidence that the process has utility in an absolute sense. But the next question that they're going to ask you is okay, if the Gerard method gives this much utility, what other approaches give either this or that amount… I think it's great you're talking to me. My PhD was not in this domain, but it was a method of understanding intercompany conflict and I ran up against exactly the same proof problem. And when I came to my transfer, the fools put me in front of an engineer who said you will never get this doctorate, because you will never be able to replicate the utility. Because the nature of strategic conflict is that you can only study it once, as it's going on. I then had to come back to, the approach that I took was like a multidimensional one, because I could not replicate it. But you're lucky. Because you can get a dozen or so entrepreneurs, and you can even do a cross-comparison. So, I think you're going to have to have a conversation with your supervisor about what exactly it is that you're claiming, and how you're going to look that straight in the eye. I'm very convinced by this. I do not have a problem with this. You've clearly done a fantastic job of seeing the mutuality of the methods. Putting them together in a coherent picture. And that may be enough in the practitioner world. You put this in front of a practitioner and they say ohh, oh thank you, you've given me the roadmap. But that's not the… Discuss it with your supervisor. If you can limit it to 'this is a really cool piece of kit', and maybe you can, then it's going to be quite easy, but if you're walking this path with me, I'm going to say no-no, someone is going to say, but why should I use this? Why do not I just put together a group of methods? What's wrong with Porter's five forces? And you can answer that on a literature basis no problem, but you're going to have to manage it on a utility level too."

GDU: "I'm thinking the same way. The utility is very important. It's not an absolute utility test though."

P: "Yes, it's a relative test."

GDU: "It's on the cognitive level. So, when I do workshops, I will hand out questionnaires and question each participant individually, and ask them what did you think or how did you perceive this. This is sort of a learning kit for saying that you cannot think about things that you've never seen or never thought about. And this is sort of the entry level toolkit that accelerates the learning process and makes that learning more accessible."

P: "You've got it. You're offering a pair of binoculars to sailors who've only used telescopes and the naked eye. It is completely obvious that the benefits of the binoculars… And I choose this for a reason. You are actually integrating different telescopes. A focusing system. So it's not dissimilar. So the sailor will say, give me a go. Right, it gives as a good visual acuity as a telescope, I can hang it around my neck, I do not have to put it under my arm, and it's a great deal better than the naked eye. That's where you have to go. One way or the other."

Table 10.11 – Prof. P's Validation Responses

Validation Questions (V2Q)	Validator's Response				
	Strongly Agree (4)	Agree (3)	Unsure (2)	Disagree (1)	Strongly Disagree (0)
Core Elements					
1. *To what extent do you agree that the five core elements of the framework are core aspects that need to be addressed by a competitive strategy?*	X				
P: "In terms of selection, I think there is a great deal of support for it. That is not where I think the issues lie. Strongly agree with that."					
Sub-Elements					
2. *To what extent do you agree with the sub-elements of the five core elements of the framework?*		X			
Relationships					
3. *To what extent do you agree with the relationships depicted between the elements of the competitive strategy framework?*		X			
Sequence					
4. *To what extent do you agree with the strategy formulation sequence proposed?*				X	
P: "I'm going to disagree with that and I'm going to put a note. It may be that a greater degree of recursion may be exhibited. What I mean by recursion is that you have a sequence here. You're quite right, you have these things going on. Recursion, the generalisation of that. There's a great Dutch writer, Von Nastrond, I think who wrote a fantastic book called Strategic Decision Making in which he contrast what he calls the					

rational model of strategizing versus essentially one that is not just circular but connected."					
GDU: "My renewal and growth model is designed to kick-start a new iteration. So, there is that type of recursion present."					
Sub-Models (Models marked * not created by author)					
5. *To what extent do you agree with the following models and their ability to assist e-business start-ups in*					
5.1. *segmenting customers and identifying/ exploring customer needs?*					
5.1.1. Customer segmentation approaches model	X				
P: "Perfectly reasonable yes."					
*5.1.2. Customer empathy map**	X				
5.1.3. Customer need saturation scale	X				
P: "I'm fine with this and the previous one in the sense that they are valid lenses, yes, I do not have a problem with it."					
5.2. *selecting their generic strategies?*					
5.2.1. The digital-physical orientation model	X				
5.2.2. Porter's generic strategies model	X				
5.3. *formulating their offering?*					
5.3.1. The 18 sources of e-value model	X				
5.3.2. The 10 techniques for creating new market space model	X				
*5.3.3. The strategy canvas**	X				
5.4. *selecting their customer relationship strategies?*					
*5.4.1. Osterwalder's relationship taxonomy**	X				
5.5. *formulating their channel strategies?*					
5.5.1. The generic channel phase model	X				
5.5.2. The sequenced 18 sources of e-value	X				
5.6. *selecting their revenue strategy, pricing strategy and price of offerings?*					
5.6.1. Revenue generation strategies model	X				
*5.6.2. Pricing mechanisms model**	X				
*5.6.3. Price corridor of the mass model**	X				
5.7. *formulating their control point strategy?*					
5.7.1. The control point model	X				
5.8. *formulating their switching cost strategy?*					
5.8.1. The switching cost model	X				
5.9. *formulating their e-loyalty strategy?*					
5.9.1. The e-loyalty antecedents model	X				
5.10. *assessing their created strategy?*					
5.10.1. The strategic assessment model	X				
P: "Yeah, that's fine."					
5.11. *renewing their strategy and growing the business?*					
5.11.1. The renewal and growth model	X				
P: "There is absolutely no problem with these, they are well chosen. So, there's no issue, but there's a note, and I think the note here is: you have					

to argue for the absence of others!" **GDU**: "Yes okay, absence of others. So, what I'm saying is that this is more comprehensive than what's out there, but I'm not saying that it is completely comprehensive." **P**: "Yes that's fine." **GDU**: "So, the models that I've chosen are suited for the specific formulation of those elements that they help to formulate. So, I have a criteria of requirements for the models, and there are various models that did not meet these requirements and fell out." **P**: "It's fine. I think that you need to argue it at two levels. You're going to do that well (level 1), but there's another level of examination that says, I see you've dismissed Smith and Jones' model, how do you know that if it were added it would add nothing? It's a nasty questions, so in other words yes, I understand that you rejected it on a rational basis, but these things are never black and white. So on a utility basis, the efficacy of the framework, how do you know that adding it, although it would cost extra work to the strategist, that it would not add that extra percent of utility? … What you say is, thank you for your question but that is not what I am claiming in my dissertation. I am not claiming that this is the best, I'm claiming that it is better."					
Competitive Strategy Principles					
6. *To what extent do you agree that the four core principles underlying competitive strategy are focus, differentiation, robustness and adaptability?*		X			
Research Goal					
7. *To what extent do you agree that the competitive strategy framework (and its sub-models) can assist e-business start-up competitive strategy formulation?*			X		
P: "I'm not against it. The only reason why I put it there, even if only I think… I do think that it would assist, but in a sense I'm denying the question. If you would ask me as a start-up operator to go through this process, my question would not be will this help me, my question is would I have to do (all) this?" *[Side-note]* **P**: "Care must be taken to frame the utility vis-à-vis other approaches…As always, it's the calculus of "what do I claim vs. what can I actually prove. My best advice is go for the claim "my method integrates 19 frameworks in a way that practitioners feel is better than their present approach." Therefore you need to have comparative, subjective valuation from a group of practitioners. Should not be hard, but needs doing."					
Theoretical Contribution					
8. *To what extent do you agree that the framework makes a contribution to the fields of e-business/ strategy/ business models/ strategic management? What contribution does it make?*				X	
P: "I'm going to disagree with that, but defuse it by putting a note. The theoretical contribution is not what is important. You are probably not changing the way that we think about e-business strategy. You might be, but I do not think so, but that is not why one would be supportive of this framework. Because you do not have to make a theoretical change for this work to be highly influential in practice. You could argue that Michael Porter did not change the theoretical understanding of the microeconomics of competitive strategy, but his great contribution was on the level of praxis and cognition. So, I think that's right. I do not know, it might be when one reads your work. The theoretical contribution is in the fine interplay of the advantages of one perspective against another. But I do not think it really matters. Any sensible examiner will say to you at the beginning, do you see this work as making a theoretical contribution? And you're answer is going to be, if you read section 2 of Chapter 3 professor, you will see that it builds upon a body of existing theory and integrates them together into an improved praxis. And he's going to say, woah, fantastic! Because every other guy wants to claim a theoretical perspective. If you do not have one do not claim it, you do not need to." **GDU**: "The thing that I came the closest to that was my proposal of principles relating to competitive strategy as being focus, differentiation, robustness and adaptability. But still, those are not empirically tested yet. It's just the perceived factors that appear dominant and relevant in the body of knowledge that has to do so much with competitive strategy. So, it was sort of pattern spotting." **P**: "That's a very good phrase, pattern spotting. You could do pattern spotting in theory, but my point is that you do not need to. Because you are improving the pattern spotting of the entrepreneur. My supervisor was a very difficult man. He was not a great mind. But he was a very clear thinker. When I did my doctorate I was quite confident and no fears. And after about three or four months, he told me that there was something worrying him. He asked me, does your dissertation contain a golden apple? And he never asked a lot of questions. So I thought for a long time, and I came back to him, and I said to him, yes, I guess it does. It has to make a significant and original contribution to the work. Yes he said, that's right. But it's not a golden apple. It's a golden poppy seed. I can tell you, the scales fell from my eyes. He went on to say that at all costs, resists claiming things that you do not need." *[Side-note]* **P**: "There may be some benefit in the cross-comparison."					
Implementation Capability					

9. *To what extent do you agree that it is easy to use and derive value from the framework?*		X			
P: "I would agree with that, because it is an integration of existing and well-used approaches. And I think actually that that is a great strength of it. You can say, read a chapter of this book so you can understand it. I'm sorry if you do not believe what I say."					
Other					
Do you think there are any aspects that should be removed or added to the framework?					
P: "I think the only thing that is missing… if you were pitching to me if I were in a consultancy firm, I would say that I think this really plays. I think it's practical, and it would appeal to business people. I would like to see some scenario work or its equivalent, which would force entrepreneurs to confront what they do not know in their situation. The beauty of that is that it could be incorporated in there (strategy assessment) for example. So, add some method of confronting the essential future uncertainties. I'm not saying that it's not in there, I mean from my own personal perspective, I like to see that this is what we do know, this is what we do not know…" **GDU**: "Oh okay, yes yes, that fits in with my renewal and growth element where you question whether your assumptions sill hold. So, after all these hypotheses, you need to gather information to see whether it corresponds with our mental frame. Is that sort of?" **P**: "Yes, I think that's part of it. I think an extension of that is the idea that since we do not know what the exact fashion context will be in which we will finish our new application, we have to do a game theory, minimax assessment, to say well, if it goes against us, how bad will it be? On some occasions it can be very painful as a strategist. You come to the conclusion, that if your best, most optimistic estimate comes true, you become a billionaire, but there is a sufficient amount of risk that if it goes against you, to the worst estimate, that you lose your shirt. And that's the hardest thing, because the big grown up entrepreneur will say, well, we will not be doing that! So, that's the only thing."					

[General comments]

P: "I think you've done a very good job. There's that little thing that you need to add (scenario analysis), but you will have to frame your argument very carefully and cynically. Bear in mind that you only have to satisfy two people. So, it's not about everybody liking it."

GDU: "Yes, the conversations that we're having now is a lot different than the final. Here I'm just trying to get the basics across in a very short time, where there I assume that they've read my thesis."

P: "The point is this is the strategy of the viva. The skill is to think where the ball may come from, and have a prepared strike. It's deeply deeply cynical, but it will get you a doctorate... Furthermore, I do not want you to mistake this as validation for the methodology. Because you will not be able to do it, unless you treat your informants as if they were entrepreneurs. Because my perspective, I do not address this as an entrepreneur, I address this as a piece of argument. So, ultimately you will have to do some type of utility test… But yeah, I think it's quite good. It's surprisingly… The argumentation problem is very close to what I faced. I did not use your technique of sort of conglomeration of techniques, but I still ended up with a problem that I've invented a way of… What it basically is, is that when a group of companies or institutions get into conflict, instead of applying game theory straight on it, you first ask, what states could these conflicts go into? And then you might have like a kiddies game board. And then you ask questions, what does it mean to go through this state and that state? Who has the power to bring that about? Who is interested? Then you can kind of go about it like that. So it was quite good fun, but I had the same type of problem. The examiner would say that it clearly works mathematically. It's clearly better than straight forward game theory, because you have now all these states. It adds more to the understanding of say the prisoner's dilemma of classical game theory, but you're saying that it is a practical and useful method in business, so you have to prove that. And it's very similar to this."

GDU: "It's a lot like conversations I had with the other people. Because this is a practical tool to use, you must prove usability."

P: "Only if you claim it! You do not have to claim it remember, but if you do not claim that, what are you going to claim. But you do have the option. I could have said (for my study), no no, I do not claim practicality of use. I claiming that it provides more insight into the classical game theory problems than classical game theory does."

GDU: "Oh, yeah, okay, I will have a deep think about this."

10.4.10. Interview 2.2: Dr. C

Dr. C

Senior Teaching Fellow in Innovation and Technology Management at the University of Bath

Interviewed 10h00 at University of Bath, Bath

29 August 2014

[Gerard presents findings]

[Regarding the 10 techniques for creating new market space]

C: "Yeah, I think all of those make sense."

[Regarding the relationship taxonomy]

C: "Yeah those are fine."

[Regarding the integrated channel phase model]

C: "Yeah, that makes sense. Presumably, this also maps onto revenue models? So, for example, is the majority of your revenue here, here or here (points at channel phases)."

GDU: "Yes, that's true."

[Regarding the sequenced 18 sources of e-value]

C: "This presumably is also likely to point out to you where consumers are willing to pay."

[Regarding revenue strategies]

C: "So a question here, and this is something that I have detected, is that there may be something of a cultural backlash. Now, it may be not be a very big backlash, but there is a backlash against privacy invasion in general, and advertising specifically. And there are some consumers, looking thinking, actually you know, the price of the internet is free access to everything, but the price is actually lots and lots of advertising. So there are people who are looking to move sensible models like these. How does? Where does that come in sort of the wider trends of society and consumers? Because what worked in 2010, might not work so well in 2014, 2015 and so forth. Do you know what I mean?"

GDU: "Yes I know. I also found similar things. On another note, I've also done a mental experiment where it becomes easy to imagine that not everybody online will be able to be successful online by using adverting models." *[Explains thought experiment]*

C: "Well, I think there are two things. The first one is that success in this realm is dependent on scale. The second thing, is that your assumption is not quite right, in the sense that it is not quite a zero sum game. The advertising budgets will go up, if there are profitable routes. And you see, the thing that governs the advertising budget, is how effective those dollars spent are. And if they are effective in that every dollar spent generates two dollars of revenue, then you would get more advertising. But, it is scale dependent."

[Regarding switching costs]

C: "Yeah, I think there is a bit of a fuzziness. Because in a sense, any switching cost is sort of not beneficial. But these are things that presumably arise out of things that are otherwise beneficial."

GDU: "Yeah exactly. They are currently beneficial to customers, but they are not absolute."

C: "In a sense, any switching cost is negative to the customer. But, I think what you're saying is that these costs arise out of changing from things that are otherwise beneficial to customers. So, you've got all these benefits, and now if you change, you no longer have that benefit, and that's a cost to you. There are other things that is a cost to you that you did not want in the first place, such as the contractual cost. The contract was never providing you any real benefit in the first place. Whereas you could argue that this is providing you a benefit. So, I kind of understand what you're saying but…"

GDU: "Is there any other type of categorisation that you would propose? Or should I just consider it bad advice from another validator to categorise it and just keep it as 15 factors?"

C: "I like the idea of beneficial and non-beneficial, but do these map directly onto those beneficial and non-beneficial control points?"

GDU: "No, they do not."

C: "So, either they map directly to those, in which case you can keep the grouping. Because I do not mind the groupings of the benefits to customers of the previous one (control points). But when you come to switching costs, all switching costs are in a sense non-beneficial to customers, but they arrive out of different circumstances. So, I'm not sure that this grouping is so useful for the switching costs."

[Regarding e-loyalty antecedents]

C: "I think trust is really important… So, these ones are important (relating to security), but there is also trust in the sense of cultural alignment. So, in the sense that, let's take Apple, the classic one. People just love Apple or not. But, those people who love Apple, really love Apple, with a loyalty that verges on fanaticism. Sort of people who say that I have not touched Windows in 12 years, with some sense of pride. But it even works in smaller circumstances, for example there's a photo sharing service called Smug-Mug, and it's got a fantastically loyal, but quite small user base of photographers, because they really share the same values. And it might not even have the same features as some of the bigger ones such as Flickr, but it still has this fantastically loyal group of customers. Similarly, I guess, in the physical domain, there are Innocent drinks. Innocent smoothies or fruit juices that have made a real name for themselves. I mean, it's just fruit juices with no preservatives. They are really expensive, but they are doing really well."

GDU: "Well, the stuff that you've described now, I would not call it trust, but rather brand building."

C: "Yeah, yeah, sure."

[Regarding strategic assessment]

C: "If I were an e-business start-up, this would be particularly useful. But what I think I would want, is I would want a link between these questions and the tools that I've been using. Presumably, these all link back to the tools that you have been using? So for instance, are you differentiated enough? Then you would go back to that graph where you mapped your differentiation (strategy canvas) and see whether you are. So well, am I happy with that? Does it make sense?"

GDU: "I have not explicitly done that yet, but it sounds like a good idea."

C: "Yes, and there may not be a clean mapping, but it would help the user to answer the questions. So, how confident are you in the tool that you used?"

[Regarding framework as a whole]

C: "It's a nice simple, yet sensible thing that someone can step through, and my over-all comment on it is that it is very nice, it's simple and intuitive. It lets you focus on things that you have not focused on, and it gives you some contextual tools. All of that is very good."

[Regarding sequence]

C: "The one comment that I want to say is that it is quite sequential in a sense, and I would imagine that there are quite some relationships between the models, and you have shown some of those relationships. The first question is, does it always make sense to answer these in sequence? Or can you dive into it at any stage. I mean if we're talking about strategic assessment, if you're already running, you might jump in at this point. So, if you're having a particular problem with a certain checkbox, go back to the element that it relates to and use the tools. That's the first thing. The other thing is, when you're using a particular tool, it might be useful to have some links with other tools that informs that. So, for example, the way that you've answered a certain question might affect or constrain the way that you can answer another question."

GDU: "Yes, definitely. So, for instance if you've chosen to be a low cost competitor in your generic strategies and you go to the 18 sources of e-value, you would expect that affordability and cost reduction would be a major driver. And it makes sense, but it becomes so complex to actually do that and present all these links. I think there is more of an inability for me to sensibly depict that, than there is a non-existence of those relationships."

C: "Yeah, I know what you mean."

GDU: "To come back with the sequence thing, because I am supposedly giving this to people who do not know a lot, this is a typical sequence that someone would use that has no idea where to start. I also state in my thesis that you can start at any point and use as many tools or not. But again, that will be dependent on the user's own needs and experience. So, a lot of things are obvious, and you could probably skip them."

C: "Okay, that makes sense."

Table 10.12 – Dr. C's Validation Responses

Validation Questions (V2Q)	**Validator's Response** Strongly Agree (4)	Agree (3)	Unsure (2)	Disagree (1)	Strongly Disagree (0)
Core Elements					
1. *To what extent do you agree that the five core elements of the framework are core aspects that need to be addressed by a competitive strategy?*	X				
C: "These are great. I think they've been covered."					
Sub-Elements					
2. *To what extent do you agree with the sub-elements of the five core elements of the framework?*		X			
C: "The sub-elements are absolutely fine, but it might be that there are others… I would say I agree, but I am less confident, as there may be other things that I am not thinking about. It's not bad. I just do not profess to know everything about this."					
Relationships					
3. *To what extent do you agree with the relationships depicted between the elements of the competitive strategy framework?*			X		
C: "Okay, this relates to what I said about the relationships, and I understand that it could easily become a bird's nest of complexity. So, I think you're probably right to try and keep it simple."					
Sequence					
4. *To what extent do you agree with the strategy formulation sequence proposed?*		X			
C: "Yeah, I think this is absolutely fine. And I'm sure that there could be other sequences, but as you've explained that you can jump in at any stage, it seems like a perfectly sensible thing."					
Sub-Models (Models marked * not created by author)					
5. *To what extent do you agree with the following models and their ability to assist e-business start-ups in*					
5.1. *segmenting customers and identifying/ exploring customer needs?*					
5.1.1. *Customer segmentation approaches model*		X			
C: "I liked that one. I think that's very useful."					

GDU: "I mean, it is super basic."					
*5.1.2. Customer empathy map**		X			
C: "I think this is useful as well."					
5.1.3. Customer need saturation scale	X				
C: "I actually quite like that."					
5.2. *selecting their generic strategies?*					
5.2.1. The digital-physical orientation model		X			
C: "I mean of course you could argue about the exact things, but as a framework of thinking about things it is absolutely fine."					
5.2.2. Porter's generic strategies model		X			
C: "Again, I think that's perfectly fine."					
5.3. *formulating their offering?*					
5.3.1. The 18 sources of e-value model	X				
C: "I think that's really nice. I think that's one of the most useful elements."					
5.3.2. The 10 techniques for creating new market space model	X				
C: "Again, I think the 10 techniques are really good as well."					
*5.3.3. The strategy canvas**			X		
C: "Strategy canvas is a generic thing that you want to do, and it's all going to be quite subjective. I mean, how do you judge against all of that, but without doing something like that you will not be able to … I'm going to downgrade it slightly to there, the reason being is that it's not immediately clear how you would get started with it. Because which competitive factors am I looking for? How do I measure the industry against it? And so forth. Whereas the other ones I can use by just thinking about them." **GDU**: "Yes, the strategy canvas definitely requires some market research." **C**: "Yes, and maybe some additional tools in order to actually plot it."					
5.4. *selecting their customer relationship strategies?*					
*5.4.1. Osterwalder's relationship taxonomy**		X			
C: "Yeah, I think that's useful."					
5.5. *formulating their channel strategies?*					
5.5.1. The generic channel phase model		X			
C: "It's useful."					
5.5.2. The sequenced 18 sources of e-value	3.5				
C: "Again as a guide for thinking it is fine. You could argue it different places. So, I'm going to put it halfway."					
5.6. *selecting their revenue strategy, pricing strategy and price of offerings?*					
5.6.1. Revenue generation strategies model		X			
C: "Yeah, that's useful as well."					
*5.6.2. Pricing mechanisms model**		X			
C: "Okay, that's fine."					
*5.6.3. Price corridor of the mass model**			X		
C: "I'm going to put it as unsure for the same reason I did before, in that it requires more input to use."					
5.7. *formulating their control point strategy?*					
5.7.1. The control point model	3.5				
C: "Yes, I quite like this. I'm going to put it half-way. I like the categorisation of the beneficial and non-beneficial. Again, you could perhaps argue about some of the categorisations, but that's not so important."					
5.8. *formulating their switching cost strategy?*					
5.8.1. The switching cost model				X	
C: "This one, I'm putting unsure, because of the thing we we're talking about, which is I think … In fact I am going to put disagree. Not because it is not useful, but because the categorisation of beneficial and non-beneficial is confusing. If these map directly on the control points, that is fine. If they do not then that's not so useful. However, once you've re-categorised them, I am saying that this is a useful tool, so do keep it."					
5.9. *formulating their e-loyalty strategy?*					
5.9.1. The e-loyalty antecedents model			X		
C: "Okay, I'm going to say something specific about it. This may be something that is out of scope, but as you are moving into market it is particularly important to think about how you are going to attract people to your brand, how you are going to start building your brand, how you					

are going to stem your personality on the world." **GDU**: "Yes, that relates a lot to the channel phases: the awareness phase. How do you actually tell people about your product and lure them in?" **C**: "Very quickly people will get a sense of what you're about."					
5.10. *assessing their created strategy?*					
5.10.1. The strategic assessment model	3.5				
C: "Yeah, like I said, I think this is a useful tool. I think this is good."					
5.11. *renewing their strategy and growing the business?*					
5.11.1. The renewal and growth model		X			
C: "Good."					
Competitive Strategy Principles					
6. *To what extent do you agree that the four core principles underlying competitive strategy are focus, differentiation, robustness and adaptability?*		X			
C: "I agree with focus and robustness and adaptability. Okay, I see, differentiation could be on price. Yeah, I think that's probably a nice framing."					
Research Goal					
7. *To what extent do you agree that the competitive strategy framework (and its sub-models) can assist e-business start-up competitive strategy formulation?*	X				
C: "Well, absolutely."					
Theoretical Contribution					
8. *To what extent do you agree that the framework makes a contribution to the fields of e-business/ strategy/ business models/ strategic management? What contribution does it make?*		X			
C: "Yes, I agree. In terms of paper writing. As a tool, this is absolutely fine. As far as paper writing and theoretical writing goes, because a lot of it is derived from secondary sources and you put them together in a clever way, I probably think more needs to be made of the relationships between them. I understand that as a tool, it's a tool that you can pick up and use. You probably do not want to create this sort of bird's nest of complexity, but when you're writing something academic a demonstration of the interrelationships and synthesis of these factors need to be shown." **GDU**: "Yes, that's largely what I tried to do by providing the construction tables. It shows the relationships between what the literature had and what it eventually turned into. I also get the point of what you're saying that you need to look at the relationships between the newly developed elements." **C**: "Yeah, and you've done a bit of it. Like here, with the 18 sources where you test them. And this is very useful, because this has not been published before, and it is an example where you've taken two different sources and synthesized them, and show how they interrelate. It's that kind of thinking that needs to go in."					
Implementation Capability					
9. *To what extent do you agree that it is easy to use and derive value from the framework?*	X				
C: "I think it would be quite easy. But in a sense, the people to ask are the people who would use it."					
Other					
Do you think there are any aspects that should be removed or added to the framework?					

C: "I'm going to mention brand. Now, I suspect that at this stage, because this is such a big thing at the moment, I mean, there are professors of brand, so I suspect that it might be too a big thing to add explicitly, but it is worth considering."
GDU: "But, is not the brand an implicit part of the offering that you're providing?"
C: "Well, the offering you provide. I mean think of Dropbox. It's a way to store files. Initially, that's how it started. But its brand, was very much around the fact that it is, it did not discriminate against anyone. I mean, I was and still am a Windows, Android, Mac, Linux user and I loved the fact that I could get into it from anywhere. Now, it is a functionality type of thing, but there was a brand thing behind it which was that we are not favouring any type of system. Whereas, there are some types of software that can be used on Windows and Mac, but it is quite clear that it was developed on a Mac. And even though the Windows functionality may be the same as the Mac functionality, its brand screams out a slightly different thing. So, I think that what you're providing and the brand is something different. Think about Google. Do no evil. Even if you do not believe them, there's that part of what you're trying to do, what's your mission etc."
GDU: "Interesting, but okay. Remember, that when I started I said that my framework does not cover everything about strategy? Well, what you're describing relates more to the core aspirational description of a strategy, which is excluded in my framework, and covers the mission, vision, values of a business, corporate culture and the brand things. And I'm quite comfortable with saying that I'm not going to go into those in much detail."
C: "That's fine. So it is something that is explicitly excluded, but will serve as input to your strategy, and in a sense constrains your strategy from that point of view or at least guide it."

[Concluding remarks]
GDU: "Did you learn anything from the framework?"
C: "Yes, definitely. I think the 18 sources of e-value that you have is quite interesting."

10.4.11. Interview 2.3: Prof. D

Prof. D

Professor of Innovation and Entrepreneurship and Associate dean of
Finance and Planning at the University of Bath
Interviewed 11h00 at University of Bath, Bath
24 September 2014

[Gerard presents findings]
[Regarding control points]
D: "Pretty straight forward."
[Post framework explanations]
GDU: "Do you have any comments at this stage?"
D: "I have a few. The one thing that strikes me is that you said the question is whether this framework will prevent start-ups from failing. My initial reaction is that this framework would prevent start-ups from starting. I mean, it's great. It puts everything together. It's like effectively, a compression of an MBA. And it's very comprehensive. But you know, that in engineering and other places, there's a sense that, simple models are better. You made the assumption that a more comprehensive model is better. So, as a guiding tool, is it better to have a simpler framework or a more complicated one? If the answer is simpler, the question is, which one of these are the key ones? There's so much stuff in here… If I were an entrepreneur, feeling confident, and I think I know what I want to do, this makes me question whether I know what I want to do, to the point where it confuses me. There are so many unknowns, especially at the start. And if the message is that you have to turn all the unknowns into knowns, then you will get stuck ploughing in the analysis. Which means that you will never get to start. I come from a background of entrepreneurship, and I actually have a very sceptical view of business models. I personally find, that it is a good learning tool, but too much planning. Because what it does is that it prevents action. And the only way to get the needed information, is through action. Which goes back to Steve Blank, and you need to have action. In here, it seems to be more about thinking before acting."
GDU: "Yes, it's all related. I see my framework as sitting at the front of the customer discovery phase. So, thinking about different tools and things the value proposition. After that, executing it and going through all the other customer creation phases. But I also get what you're saying, that too much planning can be detrimental. The only models you need to do a lot of data gathering with, are the benchmarking ones, namely the strategy canvas and the price corridor of the mass. Still, from my perspective, it is better to know about these things than to be ignorant about it. And I mean, you can opt out at any time. It's not like I'm forcing anyone to do all of this. I just think that there are a lot of drivers in it that can be useful. At the same time, because you're from a different background, you have a different opinion. So, from that it needs to be stated that this is definitely not a framework for everybody. There are a lot of entrepreneurs out there who say, I have a game-plan, let's go do it. But there are also

people like me, and that's why I created it, who say, okay, before I start, I really want to consider this thoroughly."

D: "I just find it interesting that if you talk to an entrepreneur, there are so many unknowns. An entrepreneur wants to know, what should I do? This does not give you an answer about what you should do. But it says, here are all the things that you should think about. And in a way, it makes the choice about what to do more complicated. Because you have to weigh everything. Right now (without the framework) I only have to think about three things, and with this (the framework) I think about 33 things. How do you weigh those? There are going to be pros and cons. How are you going to balance this? And at the end of it all, there are still going to be unknowns. This does not provide the answers. But here is what you should think about. How do you put this together, and how do you actually inform my choice? So at one level it is great. It puts together everything that there is to know about strategy and strategy context, and formulating strategy. In another way, and this goes back to your (limitations)…you leave implementation out. If you leave it out and you tell people to use it, then they come back and say, how do I implement it?"

GDU: "Well, by implementation I mean the activity system things. Key partnerships, the key activities in running the business, and the resources required. The reason for that is that the implementation takes a different type of expertise than what I have. If I had 20 years of experience maybe, but implementation is not something that you can derive from literature. I'm just too young for it. But I know that it plays a huge part, and I'm interested in finding out about the key aspects of it."

D: "I mean the general comment here is just that you have to strike the line between simplicity and complexity."

GDU: "Well, that's always the balance. With a more comprehensive, complex model you get more potency. Whereas with simpler models you get clarity. But you cannot go into it in as much details."

D: "It's true, but they say that in modelling, simpler models are better. But it's interesting your philosophical position. Its constructivist and pragmatist. In constructivism you want a more comprehensive model."

GDU: "It's not necessarily more comprehensive, it's just more sophisticated."

D: "But that goes against the grain of the pragmatist perspective."

GDU: "Yes, this whole time there is this trade-off. And that's also what I've found in my interviews. I get people from systems engineering backgrounds, who ask me the whole time whether I have considered this and that, and how I can make it more comprehensive and complex. On the other hand, I get people from an entrepreneurial side who says that they would prefer something simpler. So, I am largely just trying to balance all the feedback, paradigms and paradoxes."

D: "Have you talked to entrepreneurs? What is their stance?"

GDU: "Exactly the same as yours."

D: "So, who is this for ultimately?"

GDU: "I would think that people who graduate from university who know that they want to start an e-business, but they do not have any formal strategy training or knowledge, and they just want one all of the needed knowledge in one place. I mean, my thesis at the moment is 400 pages, which is massive. But, it is quicker to read that in a week than to read 30 other books. Because even if you read the 30 books, if you are not a strategy expert then it becomes difficult to make sense of, because in strategy there are a lot of contradictory paradigms."

[Regarding thesis]

D: "So two things. What works as a thesis, you have put this together in a fantastic way. There is value in this. It's extremely appealing. It makes a lot of sense. I have learned a lot personally. I know that a lot of those things, I probably do not think a lot about. This is very detailed. So you can see that there is value in it. The other thing is the practical value. You are designing something for people who will be doing their own start-up. The ultimate question is whether they would have been off better without this or not?"

GDU: "The thing is, you do not know what you do not know. It's very difficult to answer that."

D: "The interesting thing about entrepreneurship, and one of the enablers of entrepreneurship is ignorance. Because sometimes it is much better not to know the things you do not know. Because sometimes if you knew things, you would not go forward. So the comments go perhaps beyond what you're trying to do. Does this make sense (the framework)? Yes, I see a lot of value in it. It captures… And this is where terminology gets tricky. There's a lot of stuff around business models in here, whether you call it strategy or something else… Somebody else would call it something else. So, we are very sloppy with terminology and concepts. Sometimes we can stake out our own intellectual territory by just putting different names to things, when substantiatively, we are just talking about the same things. Finding out who your customer is, figuring out what to do, that's about it. I can see, you at a conference filled with a lot of academics, and I can see you making a presentation about this, and you can see an entrepreneur get up and say, you know what to do. It's very simple. Just give the customer what the customer wants. It's very simple. It always distils down to this. But what do you get out? What is the validation?"

Table 10.13 – Prof. D's Validation Responses

Validation Questions (V2Q)	Validator's Response				
	Strongly Agree (4)	Agree (3)	Unsure (2)	Disagree (1)	Strongly Disagree (0)
Core Elements					

1. *To what extent do you agree that the five core elements of the framework are core aspects that need to be addressed by a competitive strategy?*		X			
D: "I would say agree." **GDU**: "Is there anything missing or repackage them somehow?" **D**: "No, there are no elements missing. It's interesting because this question itself is very ambiguous. Do they have to be addressed? Yes. Do they all have to be addressed at the same time? Are they addressed sequentially? But I say agree, yes, all these things need to be done. They probably happen all the time. To the question, to what extent do these things need to be done together, simultaneously, before you do anything? So, my answer would be agree."					
Sub-Elements					
2. *To what extent do you agree with the sub-elements of the five core elements of the framework?*	X				
D: "I would strongly agree. Because they are all a part. They all relate to these (core) elements."					
Relationships					
3. *To what extent do you agree with the relationships depicted between the elements of the competitive strategy framework?*		X			
D: "Yeah, I agree with that."					
Sequence					
4. *To what extent do you agree with the strategy formulation sequence proposed?*		X			
D: "Well, I mean that all that you're saying is that you have to start with a need and go from there. And I agree with that."					
Sub-Models (Models marked * not created by author)					
5. *To what extent do you agree with the following models and their ability to assist e-business start-ups in*					
5.1. *segmenting customers and identifying/ exploring customer needs?*					
5.1.1. *Customer segmentation approaches model*		X			
D: "These are all helpful, so I agree with all of those. What's not clear to me is how you use these. So, someone just sit down and think about their customers. Or do they go out there?" **GDU**: "It would probably start-off as just a thinking process. Because a lot of the time what would happen is that you would get into a mind-set of, I am currently segmenting according to their demographics. And you would be forgetting about the psychological aspects and so forth. So you would start off with just thinking, because you are sketching out the hypotheses at the forefront of the customer creation process. And like I said, this framework does not address everything, but after this phase, you would go out and test it in the market. So, that's always when the question recurs: are your assumptions valid?" **D**: "Personally, I would go the other way around. To engage with people first. To define their needs based on what they tell you. Based on what the problem is that you need to solve. To discover the pain, as opposed to a top-down. Because ultimately it is the same thing. The insights comes from the ground up. As opposed to the top down."					
5.1.2. *Customer empathy map**		X			
5.1.3. *Customer need saturation scale*		X			
D: "On the third one. How do you operationalise and think about non-customers? The things that you know, are your existing customers. How do you get to the non-customer part?" **GDU**: "It's any customer who are not currently using your offerings. Soon-to-be non-customers are currently using the company's products, but they do not actually like it. So if they were to be offered a better solution, they would jump ship and start using the new company's offering. So, they are mentally non-customers. Refusing non-customers on the other hand, are not making use of offerings, because it's not providing them with the utility needed. Unexplored non-customers are customers who have never even been considered as a viable target market." **D**: "What strikes me is that you do not have the classic customer adoption curve segmentation. It comes from Moore, crossing the chasm. The early majority, the late majority." **GDU**: "It's basically the life cycle of the product." **D**: "Because I mean, that's also useful. Because where you are, if you are dealing with innovators and early adopters and you want to move to the early majority and late majority, what's interesting there is that all these groups, all these segmented groups, they are segmented based on their					

attitude towards the new product. They have many different needs and many different questions. So, an innovator, is someone who is very interested in trying new things. For the early majority, the thing must make business sense and solve a particular problem. The late majority they are looking for metrics, and actually a total solution. I think it is useful. I do not know if this (your framework) actually contains this?"

GDU: "No, I did not. I wanted to include a lot of models that are novel and new, and the life cycle things… It did not really make sense because the perspective that I assume is a green fields approach. So, everyone would deal with the early adopters first etc., and only later be exposed to the late majority and so forth. Also, I'm not claiming that I have all the tools you will eventually need in your entrepreneurial journey, but this is a starting point."

D: "But it is actually crucial, because this is where most of the start-ups fail. The reason they fail is that they ride the curve of the early adopters, and they think they're doing great. And they extrapolate this and they think their growth is going to continue, but it actually starts slowing down. Because they fall into the chasm of the early adopters and the early majority. Because what the early adopters are looking for, has little to do what the early majority is looking for. Because they are looking for solutions and references. And they fall through… Even in the need identification, is there any network aspect? You know. I do not think I need a watch, but if all the people around me are wearing watches, then I think I need one as well. Think about start-ups. What they are aiming for is exactly this network effect."

GDU: "Yes, that's a part of what customers observe in their environment (customer empathy map) and what drives their buying. Network effects is again repeated in these control points. But it's kind of different than the type of network effects that you're talking about."

D: "Well, your network effects is that the more users there are, the more beneficial it is. And yes, it is kind of different. I'm talking about the network effects related to the buying decision. So the classic example going back to the 40's has to do with hybrid corn. So sales people go to farmers to sell hybrid corn in the US. And everybody found out about hybrid corn from the sales people. They did not buy it from the sales person. They bought it only when sufficient numbers of farmers around them were already using hybrid corn. So, you have this catch-22 type of situation that I will only buy if you buy, and you will only buy if I buy. See, this is a big challenge. This is where most of the start-ups fall through the cracks. Because most people look at what people in their network are doing before they make decisions. And this has implications for how they create this type of network avalanche. If you want modern tools, it goes to very modern network theory that is about percolation in the network – how do things carry through in the network. You know, you start a rumour in the one end and it starts spreading, but then it stops. Very often they stop because you get to a cleek, where your next point of contact is a person who has a very dense community of people around them and you never to get those people to the early majority of your product, which would make the next people adopters as well. So cleeks become, tight networks become, stoppage points to the spread of products. And sometimes this is as much about the need as it is about the adoption behaviour. Hence, this classic… You know adoption and early and late majority it goes back to the 60's the diffusion and adoption of innovations. Some basic insights there that may be interesting."

GDU: "Yes, my perspective was more surrounding customer attention. What attributes and things will make the early adopters and people notice your product. And then they can affect their neighbours and so forth and so forth."

D: "That's the difference between knowing about the product and adopting the product. A lot of the attention is about communicating about the product, so that people know about the product. I know a lot of products, but I do not buy most of them. There's a difference between knowing about a product and adopting it."

GDU: "This links to the 10th test of my strategic assessment. Is it acceptable in terms of risk and adoption (for all the stakeholders)?"

5.2. *selecting their generic strategies?*					
5.2.1. The digital-physical orientation model		X			

D: "I agree."

5.2.2. Porter's generic strategies model			X		

D: "This is bread and butter stuff. But relating to the best cost provider strategy and the stuck in the middle stuff, the most sound advice is to stay away from the middle. Because it is a difficult thing to do, so for a start-up, you would not be able to do it, and it would not be appropriate. And very few start-ups given the iterative nature of the start-up process, very few would start with a broad target. So, most of them would start with a narrow target. Then it's just a question of cost or differentiation."

GDU: "Well, that's not always true. I mean, for instance Dropbox. They started with a broad target. Because the data that you can store on Dropbox, you can store any file type. There's no limitation on that. If they said you can only store mp3's (iTunes) or some other type of data, then it would be more niche. So, it is actually possible to target the broad market from the start."

D: "But Dropbox is 15 years old?"

GDU: "No, it's not that long. They launched in 2007. I did a case study on them."

D: "But really, the question is that it is not about the files, it is about the users. Did they start-off targeting everybody or did they go for one segment? These could have been students."

GDU: "They started by initially targeting people on, do you know the website Digg? They did a native ad on Digg, and from there just gained a huge followership through network effects."

D: "This is interesting, because this is very static (the framework), but with this example it is very dynamic. They start narrow, and these things gain momentum, the kind that I mentioned. You get to a broader place. What does it mean for a start-up to choose a broad strategy? It's like starting your car in 3rd gear. It does not make sense. For a start-up, you start with first gear. Do not even try to go for second. And if things are going well, then you can try for second."

GDU: "Okay, so basically what you're saying is that similar to what I had here with the digital-physical orientation model that can shift over time, I should include something here with Porter's generic strategies that it can shift over time?"

D: "Yes, it can shift over time. But in a way, not all starting points are the same, or viable. In a sense, the question is really whether this is a choice that a start-up should make?"

GDU: "Okay, but what the generic strategies actually does is that it focuses your thinking about whether you are pursuing low costs or differentiation. And we can also link this back to the customer need."

D: "I agree with low cost and differentiation, that is a choice you can make, as long as you understand that your constraint is that you are down in this half (narrow target). In fact, you could make the argument that thinking about the top half (broad market) is where a lot of them get into trouble. They develop a prototype or they think about too many users simultaneously, and try to build too many features, and go for a too large a segment, and as a result, they fall short."

GDU: "Yes, and their initial assumption is that "everybody would want this", and everybody makes that assumption, so it's just not feasible. So, in conclusion?"

D: "In conclusion, I would say unsure about Porter's generic strategies, because of the qualification that it is a bit restricted. It's not really a full choice that they have. It's more restricted to the bottom half (narrow focus)."

5.3. *formulating their offering?*					
5.3.1. The 18 sources of e-value model	X				

D: "Strongly agree with this."

5.3.2. The 10 techniques for creating new market space model		X			

D: "Are you sure this is all?"

GDU: "No, no, no, no. That's not what I am claiming. I'm just saying that these *are* techniques."

D: "Okay. That's fine."

*5.3.3. The strategy canvas**		X			

D: "So, what do I actually do here?"

GDU: "This is from Blue Ocean Strategy. So, in a specific industry you would list the competing factors on the vertical and then plot where your business is based on that factor. So high or low. And you would do similar graphs for your competitors, with the goal of meaningfully diverging from the industry norm."

D: "So that's intertwined with the customer?"

GDU: "Everything is intertwined."

D: "Okay, yeah. I personally do not use the Blue Ocean stuff. It's intuitive on some level, and on another level it's one of these things that it leaves you high up and dry. It excites you. It's very exciting. Now what do I do with it? And you actually do not know how to take it forward. Because in some way it says that there are many unexplored things out there; there's big opportunities that you're not even aware of. And I'm like great. I want to find out what these are. And this actually does not help me."

GDU: "Yes, it's kind of a romantic type of strategy. It's very beautiful. But, I like it because even retrospectively it becomes a very good analytical tool to think about how to think about things. Because my framework is very much aligned with that type of mind-set…"

D: "What I find challenging with this framework (Blue Ocean), and I do find it romantic, but you use the word retrospective. It is a good framework for explaining with happened. The problem with explaining with what happened, is that you obviously have survivor bias. The problem with this whole space is that one in a million start-ups make it, and it is only that one that gets to tell the story. The point is that this one start-up is not really different from the other million. So what you learn from a start-up retrospectively is tricky, because of that survivor bias. It has been written a long time ago. Only the survivors get to write books. So if you're in a ship traveling in the ocean an there's a huge storm. Now there are many other ships too. So you tie yourself to the mast and start praying. And you survive and the other ships sunk. And afterwards you start telling the story of your superstition. What we do not know is what the other ships were doing and who they were praying to."

GDU: "Yes, there are also other studies that show that you cannot disregard luck as a key factor driving success. But also the problem with looking at success and high performance is that it's always intertwined between strategy formulation and execution. Those two are married. So it's difficult to distinguish what the problem was."

D: "I'm going to recommend a book to you, but promise me that you will only read that book after you've finished your study. Everything is Obvious, by Danton Watts."

GDU: "Yes, I have also read another book, strategy without design."

D: "Oh yes, Robert Holt. It is also a good one. But everything is obvious makes the case for emergent strategy, which goes against the grain of what you're doing here. It's more lightweight. So, after you finish your thesis, then only look at it."

GDU: "Yes, but do not get me wrong. I accept those paradigms as well. I like the lean context, and I'm saying that it does happen like that

(emergent), it's just not happening now (in my framework, all at once)."					
5.4. *selecting their customer relationship strategies?*					
*5.4.1. Osterwalder's relationship taxonomy**		X			
D: "Yeah, that's fine."					
5.5. *formulating their channel strategies?*					
5.5.1. The generic channel phase model	X				
D: "Yeah that's straightforward. Strongly agree."					
5.5.2. The sequenced 18 sources of e-value		X			
D: "Yeah, it's quite useful. Yeah. Whether the mapping is done right… that is sort of debatable."					
5.6. *selecting their revenue strategy, pricing strategy and price of offerings?*					
5.6.1. Revenue generation strategies model		X			
D: "Yeah, this is straightforward yeah."					
*5.6.2. Pricing mechanisms model**		X			
D: "This is fairly comprehensive as well. Yes."					
*5.6.3. Price corridor of the mass model**		X			
D: "It looks great. And you can go out of this session and feel very excited about this. But the challenge is when you actually do it. Because you get down to the difficulty of judgement and decisions. Which is what people struggles with. This tries to facilitate, but it still leaves the judgement with them. But it is useful, yes."					
5.7. *formulating their control point strategy?*					
5.7.1. The control point model		X			
D: "Yeah, it gives you a menu of options. Can I just make a side-comment. Because everything is interrelated, and there is some sequence here, what does not come through here, is how early choices constrain later choices. So by the time you come to the control points, given some of the choices you've made around segmentation, value and even more generic strategies, that by the time you get to control points, that only a few are viable." **GDU**: "Yes, yeah, I understand. That's why I also included the circles, to indicate that everything is interrelated. So that when you do make choices that influences other aspects of the strategy, you need to go and fix it."					
5.8. *formulating their switching cost strategy?*					
5.8.1. The switching cost model		X			
D: "It's fine, it's good."					
5.9. *formulating their e-loyalty strategy?*					
5.9.1. The e-loyalty antecedents model		X			
D: "That's straightforward." **GDU**: "Another thing is that these antecedents are sort of like hygienes. They will not assure that your customers are loyal, but it sort of acts as the minimum entry barriers for loyalty." **D**: "That raises an interesting questions about hygienes. I mean this is all based on research, where you look at antecedents of loyalty. And you can distinguish antecedents as necessary and sufficient. So, something is necessary and it's not there, then it means that there is not loyalty. So to have loyalty you need the necessary factors. But you still do not get to loyalty unless you have the sufficient factors. So, if you're looking for one way to make this more complex, this is how. What is necessary, and what is sufficient?"					
5.10. *assessing their created strategy?*					
5.10.1. The strategic assessment model		X			
D: "How do I know if it is internally consistent?" **GDU**: "Well, you have to self-appraise and ask, whether this actually makes sense. Are the choices we've made about the strategy internally consistent?" **D**: "Ahh okay, so as questions, yes. This is useful."					
5.11. *renewing their strategy and growing the business?*					
5.11.1. The renewal and growth model		X			
D: "It is clear that this is obviously a later point in the process. This is where the, in the book by Mullins and Komisar, Getting to Plan B... Okay, so Mullins has a similar thing to you, in his first book, the new business road test, and one of the advantages of this book is that it is a simple book. He calls it the seven domains. And in each of these domains, the questions you ask. So, very very similar. A bit simpler, but it still similar tones. It's more about the process than about the framework, but if you're ever short on books… One thing that you should be mindful of, is that your work is a lot about content. This stuff (refers to book) is about process. That's a key distinction. Because, you stay away from the implementation					

side. You do not engage so much with the process. And in process, sequence is very important.”					
Competitive Strategy Principles					
6. *To what extent do you agree that the four core principles underlying competitive strategy are focus, differentiation, robustness and adaptability?*	X				
D: “Strongly agree.”					
Research Goal					
7. *To what extent do you agree that the competitive strategy framework (and its sub-models) can assist e-business start-up competitive strategy formulation?*		X			
D: “It depends on the person running the e-business. Whenever I have students, who are from an engineering background – very systematic background – they struggle, around my stuff about open-endedness and playing it by ear, and all these approaches. They struggle. They say no, they need to know. I need a framework. They will love this (your framework). They will just run wild with it. There are others, who will find this stifling. Okay, so the sense is that you would assist some start-ups. So the answer is yes.” **GDU**: “Yes, this would also be very stifling for people who already who already knows about all this. So this is like an education tool for those people who do not know. But then it could also be kind of very complex. But it at least summarises all the necessary content. The great start-ups did not have this, but they are so superior that they (intuitively) considered all of these things.” **D**: “They did not have this, but that’s the thing about the great start-ups, they got to these things as needed. And they had contacts along the way, to sort of guide them through that. So, it was more in a just in time delivery way as opposed to anything else. And a lot of the great start-ups, they were started, because they made some early decisions here (value proposition) that were very intuitive and they made sense. Without necessarily thinking through the whole network. But those early choices then later constrained and defined later choices. So, things were kind of naturally unfolding. So, you would see rarely that a start-up starts with a blank slate completely. You would have to think about what was the impetus for the start-up to start? Things around value, need and so forth. Again, it’s a process question not a content question.”					
Theoretical Contribution					
8. *To what extent do you agree that the framework makes a contribution to the fields of e-business/ strategy/ business models/ strategic management? What contribution does it make?*	X				
D: “That does make, it synthesises, it puts things together into a, to go back to your criteria around constructivist stuff, where if something is more comprehensive and it is better, it gives you a contribution. So if I read this question as, have I introduced a more comprehensive and complex model? The answer is a resounding yes. So, the contribution is yes, it gives you a dashboard of all these things and this is very useful. This is very useful, and actually reminds me a dashboard of a fancy car. So the question is, that when you start driving, do pay attention to all these things? When I drive, I look at my speed. Though, there are so many other things on the dashboard. But as needed, I would look at some of them. If I were driving for a few hours, I would look at my fuel gage. And so forth. So yes, I think the synthesis is great. The purpose and the logic that you had in your mind is great. I think you’ve done something you can be proud of. ”					
Implementation Capability					
9. *To what extent do you agree that it is easy to use and derive value from the framework?*			X		
D: “This is where the question of process becomes essential. So, this is more towards the unsure angle. So, in some ways yes, and in some ways no. If you go into the process, the process is not clear. But if you sit down and systematically go through this, it is easy to use, because it has all the content and all the questions. So in that sense it’s easy to use. To derive value. That is more difficult. Because ultimately, it’s supposed to make my choice easier (assumed requirement of the framework by validator). And I do not know if it does that. I go in there and I am confronted by these 16 things and I want to choose this, without realising what’s coming next. So, this is where the interrelatedness comes in.” **GDU**: “Oh, so you would actually have to learn the framework before applying the framework. It would be better? Yeah, because when I’m teaching this to new people, they do not know what to expect next. So, they cannot think about the interrelatedness. That’s a good comment.” **D**: “The other thing about it is that if you have learned the framework, you have conceptualised everything so much because the framework is in your head, you never see the world for what it is.” **GDU**: “The one problem that I’ve always had with similar things, is that you get provided something, but you ask yourself, okay but what else? How is this constructed? Where did it come from? And I tried to make that transparent in my thesis, to show people how I constructed it, so that they can be confident that these things did not appear from thin air, and also give them references to fall back on.” **D**: “But it comes back to this notion of the cycle of assimilation and accommodation. There are basic ways in which we engage with the world. You see it for what it is. So you accommodate yourself to it. Or you assimilate, you have an idea of what the world is and you assimilate everything through concepts that you have in your mind. So this is very much an assimilatory framework. So the danger is, how do you adapt the					

framework itself for situations? What degree of flexibility is there in it? When you learn it, you have to sift everything through it. Sometimes, it is tricky. To keep it a flexible tool, as opposed to… but that's again a question of process. There's an expression that says, that a pile of stones seizes to be such, when a man contemplates a vivid images of a cathedral. You see a pile of stones, and at the end of the day, it is a pile of stones, but you can appreciate its potential. The mind is quite powerful… It's a great evolutionary mechanism. But it has its blind spots."	
Other	
10. *Do you think there are any aspects that should be removed or added to the framework?*	**D**: "This is internally consistent, so the answer would be no. No removing. It makes a lot of sense when these things are together. You've left implementation out, but very smart choice."

10.4.12. Interview 2.4: Dr. O

Dr. O

Lecturer in Entrepreneurship at the University of Bath

Interviewed 14h30, University of Bath, Bath

15 Oct 2014

[Gerard presents findings]

[Regarding Porter's generic strategies]

O: "So, what is the freemium model, how would you allocate it?"

GDU: "This is not really what this model is about. But any free strategy basically needs to have a low cost structure, because you do not want to give away things that are insanely expensive. Then the type of competitive advantage that you will pursue depends on your competitors and on what customers value. If there are low cost competitors in the space, then you would probably try to go for differentiation, unless you think that you can provide offerings at an even lower cost."

O: "Okay, but why do you need to have these generic strategies?"

GDU: "Well, these two models (digital-physical orientation model and Porter's generic strategies) represent the higher level conceptual choices that any e-business needs to make. And they largely impact the other choices you need to make. I included them, because they provide focus. If you do not know whether your focus is on cost or on differentiation, then you have no guiding principle guiding your actions and you may end up making a lot of contradictory choices."

O: "Okay, some people will say we know that. But some people will also criticise it and say that this is not very helpful. You need to know those things."

[Regarding generic strategies in general]

O: "This one specifically I do not like as much because there is too much text. But the academics may like this one. I think the way that you show it (the framework as a whole). The structure and organisation of things are pretty well done. You have really good material here."

[After framework was discussed]

O: "I think it's pretty good overall. I think it might be a bit overwhelming for some start-ups, but it depends on the type of start-ups that you are looking at. Those that you call high-growth start-ups might be very interested in this kind of thing, however for others it might be too overwhelming. The other challenge is that some of the models may be too mechanistic and entrepreneurs do not want to feel like you put them in a box. It might help them in certain ways, but in other ways it could affect their ability to create and have new ideas. It's kind of… the way you handle these things are going to be critical. I think this will be the main points. I think this is a whole lot of work up to this point, I mean to have so many models. And at this point you probably do not need to use the framework the whole time. You can just use pieces relating to the problems you are having."

GDU: "Another thing is that I added a sequence to this. But it is not a rigid sequence. You can start at any place and navigate your way through the whole framework."

O: "I think it is good to have the over-all picture. Otherwise people might get lost. And still if you do not go into details into all the models, it's still good to have the value proposition, the customer needs, customer lock-in and so forth. You might want to go into more details or not, but the concepts are still good. For me the most helpful model, for me, I think it will vary from person to person, are these ones that are more graphical, with pictures. The other ones, which have more text, typical academics might like. But from a business perspective, people may be taken aback.
So, for your PhD those are probably fine. But if you want to go further, you would probably have to reformulate those models more in the direction of these ones (the graphical ones). These ones are really good (all the graphical ones), and having them in front of me would really help me. Thinking about them, or if I were to be teaching about them. I think they are pretty well done. If you have the references and structure for you to support this in your PhD, obviously that's good. Of course there will always be issues regarding whether you agree with the framework or not agree with the framework, but that happens with everything. That's pretty much my main comments."

[Regarding visuals of the framework]

O: "Yeah, I think the visual are pretty good. The fact that you can zoom in and zoom out, that's good. I think it helps a lot. It provides more context and is more exciting than the typical power point stuff that gets pretty boring. I really like teaching, so I can see myself use this. I've also seen other Prezi presentations, but this is probably the best one I've seen, so congratulations on that."

Table 10.14 – Dr. O's Validation Responses

Validation Questions (V2Q)	Validator's Response				
	Strongly Agree (4)	Agree (3)	Unsure (2)	Disagree (1)	Strongly Disagree (0)
Core Elements					
1. *To what extent do you agree that the five core elements of the framework are core aspects that need to be addressed by a competitive strategy?*	X				
O: "For me it seems kind of complete. But to give a real answer I would need to know the literature, which I do not. I know bits of it. But you cover a lot of stuff. So, it's probably one of the limitations that you will have to acknowledge. I do not know how your previous interviews went, because the level of knowledge of the different people will vary. Some people will be more confident with everything, other people might know a lot about some areas. So, I think it's pretty good, but I'm not sure if you are covering everything, because I do not know the literature that well and if there are areas to be explored, I would need to know more about this to respond in a way that would be more, kind of valid. I'm referring to what I feel, which may not be the exact situation." **GDU**: "Yes, exactly. And at the same time it is unfair of me in a way to ask you these questions, because this type of framework has not existed before. You will not really find these exact things in literature. And because I'm working within the constructivist paradigm, I'm proposing this framework. But if it does fit everyone's current mental models, then of course it has some grounding."					
Sub-Elements					
2. *To what extent do you agree with the sub-elements of the five core elements of the framework?*	X				
Relationships					
3. *To what extent do you agree with the relationships depicted between the elements of the competitive strategy framework?*	X				
O: "Yeah, I think its fine."					
Sequence					
4. *To what extent do you agree with the strategy formulation sequence proposed?*		X			
O: "I think its fine. I mean in certain cases… you said it's flexible, so if we're talking from an entrepreneurial perspective, then you just know that this is a fantastic value proposition. You may not know who the consumer is going to be or how you are going to lock-in the consumer. So, this can happen in a different sequence. So, I agree with it. But as long as it is flexible, and you do not need to go in a certain order. Because with these processes, as long as you talk about business and entrepreneurship, sequence is something that does not apply most of the time."					
Sub-Models (Models marked * not created by author)					
5. *To what extent do you agree with the following models and their ability to assist e-business start-ups in*					
5.1. *segmenting customers and identifying/ exploring customer needs?*					
5.1.1. *Customer segmentation approaches model*	X				
O: "This one is pretty good."					
5.1.2. *Customer empathy map**	X				
5.1.3. *Customer need saturation scale*	X				
O: "Yeah, I think its fine."					
5.2. *selecting their generic strategies?*					
5.2.1. *The digital-physical orientation model*	X				
O: "Yeah, I think its fine. But the table needs to be worked on to make it more pleasant design wise."					

GDU: "Yeah." **O**: "I do understand that they provide nice information. But perhaps as a support document rather than a model? For businesses, you would want something more appealing to show off, and then if you go deeper, get to where you show the information."					
5.2.2. Porter's generic strategies model		X			
O: "This is the one in which we already had some discussion. I think it is fine. But I think there is more that can be done with that. I'm not going to put unsure. U did not invent it. It's not wrong. There's just more that can be done with it. But I mean. You've already done so much work…" **GDU**: "But like, what would be the new kind of thinking? Because as far as I know, there has not evolved a new paradigm to overthrow the thinking that competitive advantage consists either out of a low cost or a differentiation choice." **O**: "Yeah, but there has already been a lot of criticism as well. Like here, they say that you cannot be cost and differentiation at the same time. It's becoming harder and harder to take that argument these days. Because Apple is a differentiator, but they have cost leadership too. They might be on par with Samsung on that. They just decided that they do not want to sell their product at a lower price. They want to maximize profit. They could sell it at a lower price if they wanted. It's not like they do not have cost leadership. So, I think this framework has issues that is not your fault. So if people think that they're going for cost or they're going for differentiation. Then they think they can go for both. And they end up going for nothing. It's a very tricky model… It helps in some way, definitely, but for e-businesses in particular there might be better models. I do not know. If I knew the answer, I would be famous. There is the potential for something more. I agree with it. I just think there is room for more." **GDU**: "Yeah, more e-specific generic strategies. I will put that into future work."					
5.3. *formulating their offering?*					
5.3.1. The 18 sources of e-value model	X				
O: "I think this was very good. Very complete. This is pretty good. I think this one is very helpful."					
5.3.2. The 10 techniques for creating new market space model	X				
O: "This one is pretty good… I can see some value. But putting entrepreneurs in a box can be a problem."					
*5.3.3. The strategy canvas**			X		
O: "This one I'm a bit more unsure about. I do not see as much value in it as the other models."					
5.4. *selecting their customer relationship strategies?*					
*5.4.1. Osterwalder's relationship taxonomy**	X				
O: "I think it is fine."					
5.5. *formulating their channel strategies?*					
5.5.1. The generic channel phase model	X				
O: "It's fine."					
5.5.2. The sequenced 18 sources of e-value		X			
O: "Yeah I think it is fine. If we take it at face value, there is that problem that some things are difficult just to classify it in one channel. Some of them you would probably be able to depict in multiple phases, such as connectivity and socialisation. In one sense, it is fine. But on the other it is not, because then there are blurred boundaries between the concepts. But yeah, I think we're fine with this one."					
5.6. *selecting their revenue strategy, pricing strategy and price of offerings?*					
5.6.1. Revenue generation strategies model		X			
O: "Yeah, the problem with some of the leading questions are that they are difficult to answer at the beginning. Would customers actually pay for the offering? It's very hard. What it can do is that it can compel the entrepreneur to think that he does not know the answer, so what he's going to do is produce 500 units and see if they sell, and some people do that. They go onto Kickstarter and sell units before it even exists. And if that happens it's great. So yeah, I think it is fine. But there's probably some less value than in the others because the answers are difficult to get. But I understand the framework that you are trying to help people to think about their business. So the questions are somewhat rhetoric, and making them think can I answer these or not, so I think it is fine."					
*5.6.2. Pricing mechanisms model**	X				
O: "This is good."					
*5.6.3. Price corridor of the mass model**				X	
O: "What do you understand as resource protection?" **GDU**: "Well, that's like the type of copyright and IP protection, or trade-agreements of getting certain types of resources above other people. But it relates to the control points." **O**: "Okay, but you are only looking at it from a copyright, legal perspective?" **GDU**: "Well, I simplified it to that. The original price corridor of the mass was more complex, and actually a bit overkill."					

O: "Yeah, I think if you want to go just from a legal perspective, I understand it. But there is more to add than just that. There are other business models where people just copy things, get sued, but they still keep the advantage. So, in the case of Apple they have a lot of copyright stuff. But they copy many of the designs, and the other way around, but they can still keep the premium pricing. And they have other features there – they have the brand, they have lock-in, and that allows them to charge more. You know the fact that the ecosystem works so well and people are not willing to change. I really wanted a larger screen two years ago, but I did not go to Samsung, because I did not like their design. I did not like the feeling of the thing. I did not want to be on the Android platform. Although I was annoyed with Apple, I still stayed. It was not enough for me to jump ship. Some people did do that. And this is perhaps not a copyright thing, but an ecosystem thing. So the problem with this model here is that it is a little bit limiting. This one, you probably have to rethink it a little bit. If you contextualised it for copyrighting innovations… Yeah, I do not know." **GDU**: "Yeah, but that's not actually the goal of the model. The goal of the model is to help people to fix their price. Try and identify a band within which their price point would be accessible to the largest amount of buyers. Do you think there are other models that serve that goal better than this?" **O**: "Well, no. I just think from an intuitive perspective, price cannot only be based on a legal and resource perspective. There are elements of the value proposition itself that influence it, and there are many other variables to think about. The brand. Are you creating an ecosystem? Are you first to market on something? Is no one in this space? Are there other competitors? Those things are going to affect your price decision. If you are first to market, okay, maybe you have more knee room. One interesting example to study how they did it and how they are going to do it would be Pebble watch. They were probably first to market. How did they do that? How did they decide on price? Legal protection? What are they going to do now? They have Samsung already for a year. Apple is going to try that market. Do they have any chance of surviving? They just launched their products a couple of months ago. It's still pretty boring. It's still black and white. But some people bought it. I think that this is a bit too simplex of a model. Pricing is more complex. You would need another type of model. This is very specific to specific type of companies who can really copyright and you have something specific that can be copyrighted or not. Pricing, there is so many things going on, that one of your other models you could probably have, and then categories to consider, and how these would affect price or something. Maybe that would work. I do not know. I know it is hard. It's definitely hard to do that. Every time you want to develop a framework, you always leave things out. But it's about how much you can leave it out. The others are pretty comprehensive. Most of them. This one is a bit too simplistic for being helpful enough."					
5.7. *formulating their control point strategy?*					
5.7.1. *The control point model*	X				
O: "I think this is fine."					
5.8. *formulating their switching cost strategy?*					
5.8.1. *The switching cost model*	X				
O: "Yup."					
5.9. *formulating their e-loyalty strategy?*					
5.9.1. *The e-loyalty antecedents model*		X			
O: "I think it is fine."					
5.10. *assessing their created strategy?*					
5.10.1. *The strategic assessment model*			X		
O: "Okay."					
5.11. *renewing their strategy and growing the business?*					
5.11.1. *The renewal and growth model*		X			
O: "This is very detailed and it could help a certain group of people. But it has less general appeal. You can repackage it for different purposes. I think it is comprehensive, it can give some help. But if they are real entrepreneurs then they would not care about it. It is too comprehensive, there are too many steps, and things to think about. They just want to do it. So you need to get easy on them with things that are more visual and easier to understand… the question is how much the comprehensiveness is going to help or not."					
Competitive Strategy Principles					
6. *To what extent do you agree that the four core principles underlying competitive strategy are focus, differentiation, robustness and adaptability?*		X			
O: "Yeah, I think that's fine."					
Research Goal					
7. *To what extent do you agree that the competitive strategy framework (and its sub-models) can assist e-business start-up competitive strategy formulation?*		X			

O: "Well, I agree it can. It depends on how it is used. The circumstances. I see value in it. But it depends on the execution. But as an over-all framework, yes I see value in it."					
Theoretical Contribution					
8. *To what extent do you agree that the framework makes a contribution to the fields of e-business/ strategy/ business models/ strategic management? What contribution does it make?*		X			
O: "I think there is a contribution for sure. There could be more. But that is always the case. And I know that you've done a lot of work in developing all these frameworks, so I think it is pretty good."					
Implementation Capability					
9. *To what extent do you agree that it is easy to use and derive value from the framework?*	X				
O: "Implementation, yeah I think it is pretty good."					
Other					
10. *Do you think there are any aspects that should be removed or added to the framework?*	**O**: "I think we've already talked about those things. The generic strategy thing (Porter and freemium); something else could be the pricing; this one I find it helpful, but I find it quite complex (renewal & growth), but it can have its use in certain circumstances."				

10.4.13. Interview 2.5: Mrs. B

Mrs. B

Entrepreneur in residence at the University of Bath Innovation Centre

Interviewed 10h00 at University of Bath Innovation Centre, Bath

14 October 2014

[Gerard presents findings]

[Regarding 18 sources of e-value]

B: "With this, is there kind of an ideal number a start-up should pursue? Or a good mix?"

GDU: "No, that is too difficult and too early to say at this stage."

B: "Okay, but this is when you're pivoting or when you're testing your value proposition you would test them against these and say, okay, we do not have any of this in our proposition, we should try some of this and so forth?"

GDU: "Yes. Or what some of the other validators have proposed is that as a business you would say, okay, these two sources, this is what we are going to excel at. But at the same time, you would also have traces of various of these in your strategy, but it's not necessarily going to be that prominent."

[Regarding renewal and growth]

B: "Surely you are missing funding. Because is not that a part of doing this (referring to growth questions)?"

GDU: "Well, that's part of the resources that you have to evaluate."

B: "Funding is really important. You have to figure out how to obtain an investment."

[Gerard finishes explaining the models]

B: "It's interesting. When you show me these (strategic assessment) I understand the context of what you're doing. So, it all gets tied up when you showed me this. This to me (referring to the framework as a whole) is slightly over-complicated, because you are trying to put in everybody's theories."

GDU: "Yes, it's very comprehensive."

B: "But I can understand that (strategic assessment), because this is where you're trying to get to. Your justifying it via this (the framework), so I get it. But yes, (the strategic assessment) definitely contextualised it."

[Regarding renewal and growth again]

B: "I think going back to the funding, it's a massive hole at the moment. Because for us, funding is, and when to go for funding, the most important. Because of your cash flow as a start-up, it's your day-to-day concern. How much money we have. So this (renewal and growth) that question would come up at a weekly basis. And resources to me is all of that. And given that it takes six months to get funding… (you have to start thinking about it early). But it's all already in there. You just have not mentioned it."

GDU: "Yes, I will definitely highlight it further."

[Gerard starts asking the validation questions]

B: "What is interesting for me about the two check boxes, is that in a way what is missing for me from the check boxes is that it relates to the last time you did it (the complete framework). So, if you come to here… It seems like you keep repeating it? Is it sort of possible to show that you are making progress? That you are mapping last month's assessment over this one? A sort of continuation?"

GDU: "Yes, I do not think you would do it monthly…"

B: "You know Eric Ries… I think he calls it something like segment testing. So, over time they do various iterations. So for me what's missing is… Where are the metrics? KPIs? How do you keep track?"

GDU: "Oh, okay, yes. Yes, I do not have any of those. And that's because the framework is at a bit higher level than that."

B: "I really like the structure, but thinking about real life. You want some type of tracking, you want some kind of you know, you do not want to go back to square one every time you do this."

GDU: "Yes, but remember. The framework would all remain static unless changed. So at any given point, the framework reflects your most up to date strategy. If you want to keep track of how your strategy has changed, just refer to a previous framework snapshot. So, if you were to bring out a new product, then you would use some of the tools again, but you would largely keep what you already have to expand on it."

B: "Yeah, it's kind of out of scope is not it? You are assuming you are tracking your metrics."

GDU: "Yes, this is a formulation framework. A lot of the performance metrics is…"

B: "That's part of execution…"

[Regarding need identification and customer segmentation]

B: "For me they are all fine. They feel very familiar. To me you are looking at the customer, you're not looking at the market. So you're not looking at the market opportunity, you are looking at the customer."

GDU: "Yeah… But it is sort of implicit. The customer within the market? And that's also what's happening here, at the need saturation scale. You are considering the need within the market."

B: "I suppose, but you are not addressing the market size or the market opportunity. You are addressing the customer within the market. So you are focusing very much down to the actual customer. Is that assuming that you have a market opportunity? What about your addressable market? Where does that come in? For instance, I think that there are many people who are colour blind. And I can make a product for them to see colour or whatever, but are there enough of them to economically serve?"

GDU: "So, what you're saying is that instead of having just customer segmentation and need identification…"

B: "I think that is valid, but where's the wider picture?"

GDU: "Because, I do not address it here. But when we go to the generic strategies, you will remember that the target market, there I say that your target market should be large enough. So, it ties in here a bit more than at the need identification stage."

[Regarding digital-physical orientation]

B: "Yes, without delving into it too deeply. It looks good. It feels like a good checklist. But, still to me, because I'm a marketer, that's where I come from. Doing this is all good, but it feels a bit theoretical. And on paper you could have the perfect business. You could have the best marketing strategy, but without knowing the context of the market, it is very difficult."

GDU: "Okay, but do you know of any models that could articulate that investigation better?"

B: "Uhm, well I think market… there's lots of books on identifying the market. It has to do with the stats, and market research and so forth… So it's outside of the scope."

GDU: "Yes, it is out of the scope. Market analysis happens before you start using the framework."

B: "Yes, it is, but it is also very much a part of it… I think you have to reference your market research as a part of your needs analysis. In isolation, it just becomes another model."

GDU: "Yes, I think we are talking around the same lines. I assume that you have that data ready when you start using the framework, and thus not really covered in here."

B: "I think you need to bring it out a little bit… That your assumption is…"

GDU: "Yes, okay."

[Regarding whole framework]

B: "Yes, I think it's good as a good summary of logical thoughts. Which is good. I think it does that very well. Again, I just think that it should be simplified."

Table 10.15 – Mrs. B's Vadation Responses

Validation Questions (V2Q)	Validator's Response				
	Strongly Agree (4)	Agree (3)	Unsure (2)	Disagree (1)	Strongly Disagree (0)
Core Elements					

1. *To what extent do you agree that the five core elements of the framework are core aspects that need to be addressed by a competitive strategy?*	X				
B: "I would certainly agree with that."					
Sub-Elements					
2. *To what extent do you agree with the sub-elements of the five core elements of the framework?*	X				
Relationships					
3. *To what extent do you agree with the relationships depicted between the elements of the competitive strategy framework?*	X				
Sequence					
4. *To what extent do you agree with the strategy formulation sequence proposed?*		X			
B: "Yes, for innovation within bigger businesses. Yes, absolutely. But, I'm still only going to put agree though, because I still think that there must be some kind of metric or something that means that it is not linear. Because even though you indicate that it is not linear, it feels linear, because there is a start and a finish."					
Sub-Models (Models marked * not created by author)					
5. *To what extent do you agree with the following models and their ability to assist e-business start-ups in*					
5.1. *segmenting customers and identifying/ exploring customer needs?*					
5.1.1. Customer segmentation approaches model	X				
B: "For me they are all fine. They feel very familiar. To me you are looking at the customer, you're not looking at the market. So you're not looking at the market opportunity, you are looking at the customer. In your questions here you do not mention the market… I think these are good for the customer so I will agree with them."					
*5.1.2. Customer empathy map**	X				
B: "I like that."					
5.1.3. Customer need saturation scale	X				
5.2. *selecting their generic strategies?*					
5.2.1. The digital-physical orientation model	X				
5.2.2. Porter's generic strategies model	X				
B: "Yes, this is all good for saying that this type of customer is in this type of market. But what it does not tell me is if I have access to that market. But what it is doing is it's tying it up." **GDU**: "This tries to align internal processes. Sometimes there is a disconnect happening because businesses are saying that they are doing one strategy, and on the other hand their customers may require something else. So this tries to align the two" **B**: "I think this is good as just a generic positioning."					
5.3. *formulating their offering?*					
5.3.1. The 18 sources of e-value model		X			
B: "Yes, I think the problem was that I was thinking too literal about these. I missed them as a concept of value." **GDU**: "Yes, this framework, with its lot of stuff, it takes a while to sink in." **B**: "I do not know how helpful that is though, in terms of the wider picture. So, in terms of my strategy, am I trying to find out which of these I'm failing at and which of these I'm trying to get better at? Is that part of the iteration?" **GDU**: "You're trying to actually see what your unique selling proposition is. Which of these sources are you targeting? So, I know you are an entrepreneur and you've done a few e-businesses. But for people who do not know the space, it can be valuable triggers to think along, to think about what they can do in the e-domain. What should we be thinking about? It's very cognitive." **B**: "Okay, I think you should put USP in here. People understand USP. And this is what it's about. It's about fine-tuning these. I do not think that's coming across so well for me."					
5.3.2. The 10 techniques for creating new market space model		X			
[Regarding 10 techniques] **B**: "This for me is just pfft… too many diagrams in this." **GDU**: "Yes, this takes some time to go through and get used to. And then use to brainstorm. But in a group scenario, this can break some mental					

paradigms." **B**: "I think this is a very dense slide. I think it could be simplified could not it? I understand it. So, are these all relating to digital?" **GDU**: "No, these are at a very generic level." **B**: "So I'm wondering if there's some that have a bit more to do with manufacturing, or others with the service industry, and so forth. It think it would help to have real life examples, to better conceptualise it. No, I'm sure it's very comprehensive. But for me it may be too comprehensive. It would be interesting to see, once you do productize this, it would be interesting to say let's take 50 e-businesses and then say, which are the most common forms and then you can say, these are not very much used, these are worth considering…" *[True, although we are not trying to develop common businesses. When considering the 10 techniques, it is about creating new market space, thus uncommon businesses.]* **B**: "Because from reading this like the lean start-up, it's all everyone ever talks about. The examples that make you go oh yeah…." **GDU**: "So when I present this, would you propose that I provide an example for each one of these?" **B**: "Yes, I mean, it would be good to do some type of research. To say for the brands that have identified their markets, this is what they have done. Okay, so I will put, needs examples and hierarchy."					
*5.3.3. The strategy canvas**		X			
B: "The question I had here, was, what are these blobs?" **GDU**: "Those are the competitive factors that your industry competes on." **B**: "Okay, but it's not clear from this what those indicate. It's also hard to say this this is going to help me if I do not know exactly what I'm plotting." **GDU**: "Yes, but what you could do as a start, is to use the 18 sources of e-value to list how your industry competes, and if there are some other industry specific elements or KPIs often used, then you can use those." **B**: "I think that needs some more explaining. But it's good, I understand it. Needs explaining what the blobs are."					
5.4. *selecting their customer relationship strategies?*					
*5.4.1. Osterwalder's relationship taxonomy**	X				
B: "Yeah, it seems quite okay."					
5.5. *formulating their channel strategies?*					
5.5.1. The generic channel phase model	X				
B: "Well this is really standard. Which is good." **GDU**: "Yes, it helps when it fits established mental models."					
5.5.2. The sequenced 18 sources of e-value		X			
B: "So, as it is now, it seems a bit too segmented. And they can be mixed and exist in multiple phases."					
5.6. *selecting their revenue strategy, pricing strategy and price of offerings?*					
5.6.1. Revenue generation strategies model	X				
B: "Yes, this is good and all fine." **GDU**: "Okay, so you're happy with revenue strategies?" **B**: "Yes, these all feel very familiar."					
*5.6.2. Pricing mechanisms model**	X				
*5.6.3. Price corridor of the mass model**		X			
B: "I did not quite understand this one." **GDU**: "You sort of benchmark against your competitors, but you can also benchmark against substitutes. So for instance, to keep you warm, you could either buy a heater or buy clothes. They fulfil the same function, but it's completely different industries." **B**: "I understand it. I think it's very… I think if you've done this (revenue generation) and this (pricing mechanisms) then this is too much. So, I'm going to write over-kill."					
5.7. *formulating their control point strategy?*					
5.7.1. The control point model	X				
B: "Again, I think it would benefit from examples. This one (scarcity/secrecy) is very interesting. There's a new Facebook coming out. It's very secretive, it's invite only. I just think it's quite interesting."					
5.8. *formulating their switching cost strategy?*					
5.8.1. The switching cost model	X				
B: "Yeah, this is good."					
5.9. *formulating their e-loyalty strategy?*					
5.9.1. The e-loyalty antecedents model	X				

B: "Yeah, this also looks good."					
5.10. *assessing their created strategy?*					
5.10.1. The strategic assessment model	X				
B: "Yeah, I like this. It's almost that you need within here (the framework) the same 10 questions. If you were going to apply this, you would need like 10 questions for that (need identification and customer segmentation element), 10 questions for that (value proposition) and so forth. So I can go through your methodology, and only if I can tick these 10 boxes, then they roll up into the higher level ones. Because in a way, this is really good as a summary (the strategic assessment), but you are taking it out of context. So, there are a lot of questions behind that question. If you could break that down into five other check boxes, then it would really be good."					
5.11. *renewing their strategy and growing the business?*					
5.11.1. The renewal and growth model	X				
B: "This is good as well. But surely you need funding."					
Competitive Strategy Principles					
6. *To what extent do you agree that the four core principles underlying competitive strategy are focus, differentiation, robustness and adaptability?*	X				
Research Goal					
7. *To what extent do you agree that the competitive strategy framework (and its sub-models) can assist e-business start-up competitive strategy formulation?*	X				
B: "Yes, but it would have to be simplified and use real life examples. The problem is, if a start-up's got a session, you've done all the research. What you need to offer this is a lot more choices. Rather than show them… It's like a mini-MBA is not it? If you're actually going to do it, you're going to have to break it down and make it a lot simpler, I think. But it has to do with your questions, that are really good (strategic assessment). You're summing it up. So rather than having them have to go through all of this, it's rather coming up with a simple questionnaire that covers all these things. It's a bit like psychometric testing. Because at the moment you are doing everything single type of start-up in every single segment. Whereas if you start to narrow it down, it provides the individual company with less choices as they go on, that would be great." **GDU**: "Yeah, it's just, when you are presenting this at this generic level, you have to present all the choices." **B**: "Yes, I'm just saying. And also, relating to your question. I think it's a good model, it's just not productized." **GDU**: "Yes, exactly. This is just a thesis. I totally agree with you." **B**: "What you're doing at the moment is providing every single option, which is too much." **GDU**: "And because everything is interrelated, it becomes tricky. That's why iterations are necessary." **B**: "Also, when you iterate, you need to focus on what you're failing at."					
Theoretical Contribution					
8. *To what extent do you agree that the framework makes a contribution to the fields of e-business/ strategy/ business models/ strategic management? What contribution does it make?*	X				
Implementation Capability					
9. *To what extent do you agree that it is easy to use and derive value from the framework?*			X		
B: "I think as it is… unsure. But, once you've productized it, very good. It's really interesting."					
Other					
10. *Do you think there are any aspects that should be removed or added to the framework?*	**B**: "More mention of USP and more contextualisation in the market."				

10.4.14. Interview 2.6: Mr. R and Mr. P

Mr. R

Founder and CEO of Rocketmakers

Mr. P

Co-founder and CIO at Rocketmakers

Interviewed 10h00, Bath Central

24 September 2014

[Gerard presents findings]

GDU: "What types of methodologies do you use to help your start-ups?"

R: "So business model canvas we use quite a lot. Lean start-up conceptually. But the vast majority of our work is on execution. So, we use scrum as a methodology for implementations. So, we move quite fast, and actually quite sparse in terms of strategy. To be honest with you, that was one of the major reasons why I wanted to meet with you. I actually think we do justice to the strategic side of things. I mean a lot of what we do with start-ups here is usually based on experience. So, existing markets and existing relationships. But whether it's business to business or consumer, it is usually intuition and business experience, rather than taking a structured model. But having some more structure around that would be very helpful."

[Regarding digital-physical orientation]

R: "I got a bit lost in what this bit is trying to achieve. What you're trying to do is to put me in a bucket with this, whereas all the other bits so far has been trying to enable my business to understand how it fits into something else… I suppose people do not just come to his from an 'I need to create a business perspective'. People come to this as in, I have an idea of a business. I need to find the best strategy to achieve that. I just think that they're coming from a completely different perspective to this."

P: "The ideal for me would be Microsoft. They are a software business. They went into hardware occasionally, keyboards and mice and so forth. Apple on the other hand is a hardware play, and that's what they were known for. The software was kind of an add-on to it. You could argue that it was pretty bad in comparison to other offerings in the market, it's just the fact that the hardware sells it. I could see it from that perspective. So, you might start with a digital play, but you have a little hardware offering on the side of it."

[Regarding revenue generation strategies]

P: "Start-ups are being created which appears not to have any viable business model at all, but somebody else thinks there is. Say, where there's been an acquisition where there (the start-up) has not generated any revenue. They just have users. There has been numerous occasions where there does not appear to be any business model."

GDU: "That is not considered as good strategy (not having a business model)."

R: "Twitter, Facebook, all sit in the category."

GDU: "Well, they did monetise…"

R: "Well, there was no clear monetisation strategy early on with Twitter. Subsequently it comes in, but only after there is sufficient volume."

GDU: "As a normal start-up, you cannot go into the market thinking that you will have 20 million users. It's just unviable."

P: "But that's what people do."

GDU: "Well, they should be provided with better advice."

R: "I suppose yes and no. It's a very European approach. I suppose the West coast approach would be the opposite. Taking an advertising approach. But then you would need a couple hundred thousand users. Which is a completely pointless approach."

GDU: "That's exactly the thing."

R: "Therefore, most businesses do not have users, so they cannot drive advertising. They do not have a reputation, therefore they do not have the trust, and they cannot go for a strategy of fast growth revenue, something subscription based or whatever. So, when you're in Europe you need to drive revenue, but you cannot drive it quickly, because you use an organic growth model, which is just a slow approach. On the US side, you want to go for growth quickly, but you cannot do that while driving your revenue strategy. So, I get where you're coming from, but the reality is, you either fit into one of those two approaches."

[Regarding price corridor of the mass]

R: "I'm a bit lost on this picture."

[Regarding strategy assessment]

R: "So, I suppose in the flow, if you've been all the previous stuff, let's say the perfect world, you would have all those boxes ticked to a level of risk where you confident, then this is a pointless exercise."

GDU: "Yes, I suppose that's true."

P: "What he (Gerard) is saying is that this is a validation step."

R: "What I'm saying is that you should have validated at the granular level. I'm just wondering how useful this is."

GDU: "The thing is, because everything is interrelated, you may make adjustments to the strategy as you go on, and not keep mental track of it. So, this is for when all is said and done, to evaluate everything together. But I do see your point of actually having validation checks at a lower level."

R: "Yes, that's what I'm suggesting. You have the same validation process, but you do it at the red, yellow, blue level."

GDU: "Okay, but look at this for instance. At this part here, that questions whether the strategy is based on valid assumptions, this does not only relate to the customer need identification and segmentation element of the framework. It also relates to the value proposition and so forth."

R: "Sure. But I think it is a redundant question. Because, internally consistent I kind of get. Based on valid assumptions? I guess it's a whole tower of cards. If anything was not based on valid assumptions, then back to start."

GDU: "Yes, exactly. This framework sits on the first phase of the customer discovery process, so it is unlikely that you will be able to tick that box on the first iteration. You will go test your hypotheses in the market, find out if your assumptions were valid, and if not, rework your strategy."

R: "Okay. So if this is post execution… then I get it, but it if is pre-execution it does not seem to make sense."

[Regarding renewal and growth]

P: "I'm struggling to come up with the first product not the second one!"

[Pre-validation questions]

P: "I can kind of feel the need for it (the framework), in terms of helping people."

R: "For me this is the most reflective of the architectural framework stuff… enterprise architecture. It feels like you are trying to put some tools in different sections, and they are all linked together as a whole, and that makes sense."

P: "The other interesting thing for me, is that you said you wanted to go into management consulting. Now, if you take that perspective, most start-ups would run a mile from you. They would be quite aggressively anti-you. But, you would absolutely be able to use it. There's a massive anti-management consulting culture among start-ups though."

R: "The interesting thing is that from my experience at Deloitte, I've taken not dissimilar things and used those in the context… I mean the biggest one I did, the company we did a job for spend a 100 million dollars on a project, and we used a framework that is not dissimilar over a three week period. So we sat with management, and tried to answer whether this was ever going to succeed strategically."

GDU: "I think in terms of money and value, the most applicable place for this framework would definitely be intrapreneurship instead of entrepreneurship. Because they are larger organisations with more resources, and can spend some time and money to actually do a lot of work and get the answers to the questions that I'm actually posing in here. Whereas entrepreneurs, all the money that they have, they want to dedicate to actually getting off of the ground. So, from a market opportunity perspective…"

P: "But equally, entrepreneurs do not necessarily go through those steps and miss something that was blindingly obvious, but was never ever considered."

R: "What's really interesting is that the market that will take it is not the market that needs it. An entrepreneur will not look in the amount of depth into those things. Now there's an argument that there's too much depth for some of these things."

P: "But you could hide that away, and if they want to go lower. So, I think it has a use, definitely."

R: "I agree. There's a little danger in mind though, it's almost like it's in the middle. It's not something that you could give to somebody without some consulting support. And you would not find a management consultant with that breadth of cross-industry knowledge, cross channel-engagement knowledge. Because it's an integrated, all-encompassing tool, in order to do that all in detail, you would require 10 management consultants that have 10 years of experience in supply chains, or vertical industries or whatever to answer the questions realistically. So, it is… It is a framework so you can use the bits and pieces you need. But who? Let me turn this all around. Who is the target market? Customer need exploration. Point number one on your framework."

GDU: "People who have the same need as when I started this study. People who want to know about e-business, and who want a summary of the strategic elements relating to e-business."

R: "Do you have any experience in e-business?"

GDU: "No."

R: "So, somebody who has no experience."

GDU: "Yes, perhaps. But are interested in learning about it and knowing that they want to go into it."

R: "Then how would they answer most of those questions."

GDU: "Well, these questions help you to think about your business or prospective business."

R: "Yes, but you still need to apply your experience. I think the value of this is to be able to answer the questions, not being posed the questions. So, if you're the target audience, and I had created it and I came up to you and said there you go, have this."

GDU: "I would have loved it."

P: "Would you have loved it? Only now because you've done it."

GDU: "No, I would have loved it because it would have save me three years of my life figuring this out for myself. I probably would not have done my masters, but instead spent the time brainstorming about a business to create."

R: "Would you have been able to answer the questions that this is asking, in the context of the business?"

GDU: "Yeah, probably. It's not easy, and it's a lot of work, and for everything you will not have the answer straight away. But it's exactly that trigger that makes you go out and find the answer. Now you at least know what to look for."

R: "I think it would lead you through a process of thinking about it. I guess the question relates to these you have here (strategic assessment), is it internally consistent? Is it based on valid assumptions? Well actually, you do not have any experience of doing it, so you could not answer those questions unless you've done it. And I know that's kind of where people are, as I've talked about earlier. It feels like… If I came to you with this, I give it to you and say, you think about these questions for a bit and then come back to me with your answers, and then I will talk to Mr. P, who has worked in that industry and give you some feedback. And I will work on the supply chain side for this. Almost like experience validation."

GDU: "Yes, I get completely what you're saying. And that's one of the assumptions I make with the framework, is that when you start using the framework, I'm assuming you know what industry you want to enter and you have sufficient knowledge to base your decisions on. In real life, it may not work like that and you may have to consult external experts on facets of this, but it does not change the framework."

R: "So, that's why I asked you who the target audience was, and you said you, but you do not have that experience. But okay, that's just what I wanted to get at."

Table 10.16 – Mr. R's Validation Responses

Validation Questions (V2Q)	Validator's Response				
	Strongly Agree (4)	Agree (3)	Unsure (2)	Disagree (1)	Strongly Disagree (0)
Core Elements					
1. *To what extent do you agree that the five core elements of the framework are core aspects that need to be addressed by a competitive strategy?*	X				
Sub-Elements					
2. *To what extent do you agree with the sub-elements of the five core elements of the framework?*		X			
Relationships					
3. *To what extent do you agree with the relationships depicted between the elements of the competitive strategy framework?*	X				
Sequence					
4. *To what extent do you agree with the strategy formulation sequence proposed?*		X			
Sub-Models (Models marked * not created by author)					
5. *To what extent do you agree with the following models and their ability to assist e-business start-ups in*					
5.1. *segmenting customers and identifying/ exploring customer needs?*					
5.1.1. *Customer segmentation approaches model*	X				
5.1.2. *Customer empathy map**	X				
5.1.3. *Customer need saturation scale*		X			
5.2. *selecting their generic strategies?*					
5.2.1. *The digital-physical orientation model*			X		
5.2.2. *Porter's generic strategies model*	X				
5.3. *formulating their offering?*					
5.3.1. *The 18 sources of e-value model*	X				
P: "Yeah, that's fine."					
5.3.2. *The 10 techniques for creating new market space model*		X			
5.3.3. *The strategy canvas**			X		
P: "How does that play with something like the Gartner magic quadrant? It's where Gartner reviews a particular business and looks at the various competitors on that industry, and rates them based on visionary, ability to execute etc. It kind of feels similar to that. In some respects, it's asking similar questions. But actually, the magic quadrant one gives you more of an indication of whether a business is more likely to succeed or not." **R**: "What this one is doing for me, it is breaking it down into quite individual characteristics. This is trying to see the gaps… I think this difficulty with this is how you visualise and correlate the factors against each other. It does not feel like a great model for doing that." **GDU**: "It sounds like the Garner one is even more generic, whereas this one is supposed to be more specific. The competing factors should relate to factors in your specific industry. So, it's actually about how you can raise and create or lower or eliminate some of these factors to create a					

diverging industry curve."					
5.4. *selecting their customer relationship strategies?*					
*5.4.1. Osterwalder's relationship taxonomy**		X			
5.5. *formulating their channel strategies?*					
5.5.1. The generic channel phase model		X			
R: "Cannot disagree with that. It does not tell me a great deal though." **P**: "It's not unsure it's ambivalent."					
5.5.2. The sequenced 18 sources of e-value		X			
R: "That's my difficulty. If you could use those icons and put them anywhere then I think it's useful."					
5.6. *selecting their revenue strategy, pricing strategy and price of offerings?*					
5.6.1. Revenue generation strategies model	X				
R: "Yeah, I like that one. I think that's one of the most fundamental ones." **GDU**: "Are there other revenue strategies that you've come across that I have not included in here? Because I've tried to be as comprehensive as possible." **R**: "Yes there are, but I do not think adding more adds value. There's the type of gamification, add credits and that sort of stuff drives people to…" **P**: "Yeah, but that's bait and hook. There are different interpretations of each one of those." **R**: "I would not expand on them any more." **P**: "It gets quite noisy."					
*5.6.2. Pricing mechanisms model**		X			
R: "Yes, so this model covers the basics. It's not revolutionary, but gives you something to think about."					
*5.6.3. Price corridor of the mass model**			X		
P: "I come back to the Apple model here. Like the Apple 5C. Where does that sit? It's got a plastic case. They did it because it was going to get more people to buy it, but the cost differential (between it and the next best model) does not actually warrant you buying the thing. You're better off buying the one above it. So, it's quite interesting from that perspective." **R**: "It does not grab me I'm afraid this one. I think the question it's raising is useful. But is it the best approach to determine that? I'm not even sure if that's the right question to be asking on this. Because the greatest mass of buyers does not necessarily mean the best profitability, or are even the buyers that you want. A fewer number of people at the right level may actually be what you want to do." **P**: "Your support costs comes down… It does not take a lot of other things into account as well. It may be that you're selling loads and loads of these things, but the support costs have gone through the roof. I do not really want to sell it, because it has become a real pain to maintain." **R**: "The real thing with this is, and we have not really talked about this at all actually, is the B2C vs B2B segmentation. And how you see that differently." **GDU**: "Yeah, I did not really take that into consideration, because a business is still a customer to a company." **R**: "They have different channels." **GDU**: "Yes, the channels will be different, but at this strategic level, it does not really affect it." **R**: "You see, I would say that that is probably one of the most strategic questions for a business. Do you want to take this directly to consumers, or do you want to take this to other people who have consumers? And you kind of do have that in elements of this, but I would say that is one of the fundamental questions." **P**: "For e-businesses, it is huge." **R**: "Do you want to spend time and effort in originating an audience, or do you want to buy that audience through channel mechanisms?"					
5.7. *formulating their control point strategy?*					
5.7.1. The control point model	X				
R: "Yeah, I think they're all good."					
5.8. *formulating their switching cost strategy?*					
5.8.1. The switching cost model	X				
5.9. *formulating their e-loyalty strategy?*					
5.9.1. The e-loyalty antecedents model		X			
5.10. *assessing their created strategy?*					
5.10.1. The strategic assessment model			X		
R: "I would just say that you have to do these at the individual levels. Yeah, for me this is a checklist post-execution and to ensure that the sub-					

level assessments have been done in full."					
5.11. *renewing their strategy and growing the business?*					
5.11.1. The renewal and growth model		X			
Competitive Strategy Principles					
6. *To what extent do you agree that the four core principles underlying competitive strategy are focus, differentiation, robustness and adaptability?*		X			
R: "I do not think I would have come up with robustness. I think the other three fit well for me. I think I might have called it engagement or something like that…I struggle a bit with what you're trying to do with these. Because there is an argument for me that focus, that all three of these (core elements) are focus. You have to focus in on what you're key channels to market are going to, what the inhibitors to switching is, so you can say that all three of these relate to that." **GDU**: "Yeah, I get that exactly. All the principles relate to all the elements on some level. For me, focus just resonates the most with defining your customer segments and choosing your generic strategies to guide you. The same with differentiation. You could differentiate in the types of lock-ins that you want to create, but the value proposition is the main element where you can really create differentiation." **R**: "Okay, well if that's the purpose of that, I will not disagree with it."					
Research Goal					
7. *To what extent do you agree that the competitive strategy framework (and its sub-models) can assist e-business start-up competitive strategy formulation?*	X				
Theoretical Contribution					
8. *To what extent do you agree that the framework makes a contribution to the fields of e-business/ strategy/ business models/ strategic management? What contribution does it make?*		X			
Implementation Capability					
9. *To what extent do you agree that it is easy to use and derive value from the framework?*		X			
R: "Needs additional support: Management consultants, tooling support, experience to apply to my specific situation."					
Other					
10. *Do you think there are any aspects that should be removed or added to the framework?*	**R**: "B2B vs B2C vs B2B2C"				

[Concluding remarks]

P: "It was good!"

Table 10.17 – Mr. P's Validation Responses

Validation Questions (V2Q)	Validator's Response				
	Strongly Agree (4)	Agree (3)	Unsure (2)	Disagree (1)	Strongly Disagree (0)
Core Elements					
1. *To what extent do you agree that the five core elements of the framework are core aspects that need to be addressed by a competitive strategy?*	X				
Sub-Elements					
2. *To what extent do you agree with the sub-elements of the five core elements of the framework?*	X				
Relationships					
3. *To what extent do you agree with the relationships depicted between the elements of the competitive strategy framework?*		X			

Sequence					
4. *To what extent do you agree with the strategy formulation sequence proposed?*		X			
Sub-Models (Models marked * not created by author)					
5. *To what extent do you agree with the following models and their ability to assist e-business start-ups in*					
5.1. *segmenting customers and identifying/ exploring customer needs?*					
5.1.1. *Customer segmentation approaches model*	X				
5.1.2. *Customer empathy map**	X				
5.1.3. *Customer need saturation scale*		X			
5.2. *selecting their generic strategies?*					
5.2.1. *The digital-physical orientation model*			X		
5.2.2. *Porter's generic strategies model*			X		
5.3. *formulating their offering?*					
5.3.1. *The 18 sources of e-value model*		X			
5.3.2. *The 10 techniques for creating new market space model*		X			
5.3.3. *The strategy canvas**			X		
5.4. *selecting their customer relationship strategies?*					
5.4.1. *Osterwalder's relationship taxonomy**		X			
5.5. *formulating their channel strategies?*					
5.5.1. *The generic channel phase model*		X			
5.5.2. *The sequenced 18 sources of e-value*		X			
5.6. *selecting their revenue strategy, pricing strategy and price of offerings?*					
5.6.1. *Revenue generation strategies model*	X				
5.6.2. *Pricing mechanisms model**		X			
P: "It's interesting. We're doing some things about pricing at the moments with some friends of ours. And there are some major decisions that they have to base their price on, on bandwidth consumption, storage consumption and so forth. But really, for the end consumer, they do not care. There's a real sort of conflict going on there. Customer wants to buy features, actually does not care about how these things come together. There's also former colleagues of ours who's wants to start a business, and they have a great idea. But when you look at it, pricing model, you think pffttt toss it, it's completely wrong. So, they've made decisions about something that they are concerned about and not their customers."					
5.6.3. *Price corridor of the mass model**			X		
5.7. *formulating their control point strategy?*					
5.7.1. *The control point model*		X			
5.8. *formulating their switching cost strategy?*					
5.8.1. *The switching cost model*		X			
P: "The thing that makes Apple so sticky for me, is the investments in the actual apps that you've made. The sunk costs. Not the actual hardware, but my software things. The apps you've bought on iTunes or whatever. You cannot move it. Cannot take it anywhere else. You've got a sunk investment in it. Whereas hardware kind of ages, and you make peace with it. There's a thing in this space, if it's hard to move your data, you will					

not move it. Or if there is a chance that you will lose some of it when you move it, you will not move it.” **GDU**: “Same with games. I’ve invested in digital content in games, and even though new games come out, I still play the old ones that I have invested in.”					
5.9. *formulating their e-loyalty strategy?*					
5.9.1. *The e-loyalty antecedents model*		X			
5.10. *assessing their created strategy?*					
5.10.1. *The strategic assessment model*			X		
R: “I suggest strategic assessment of each sub-element level and to show on it post-execution phase to determine the level of strategic success/failure. (Where we were and where we are now)”					
5.11. *renewing their strategy and growing the business?*					
5.11.1. *The renewal and growth model*		X			
Competitive Strategy Principles					
6. *To what extent do you agree that the four core principles underlying competitive strategy are focus, differentiation, robustness and adaptability?*			X		
P: “Adaptability I would say is something more like vision. This is where I am today and this is where it is going to go in the future, and when new things were to appear, this is how I would move with it. You actually want to make your strategy future proof. So, if I make this buying decision now, is it going to hurt me six months down the line?”					
Research Goal					
7. *To what extent do you agree that the competitive strategy framework (and its sub-models) can assist e-business start-up competitive strategy formulation?*	X				
Theoretical Contribution					
8. *To what extent do you agree that the framework makes a contribution to the fields of e-business/ strategy/ business models/ strategic management? What contribution does it make?*		X			
Implementation Capability					
9. *To what extent do you agree that it is easy to use and derive value from the framework?*				X	
P: “The ease of use is related to what I put in. It’s great, but I’m unsure about what I have to put in, and what I get out. So, I put a lot of stuff in, but how do I interpret it? What do I get out? So, I want some ability to enable the information to be captured, and then actually produce something. Like we would for instance go straight into execution.”					
Other					
10. *Do you think there are any aspects that should be removed or added to the framework?*	**P**: “Tooling”				

10.4.15. Interview 2.7: Mr. K

Mr. K

Senior investment analyst at Venture Lab (Accion)

Interviewed 11h00 at Accion, Washington DC

7 November 2014

[Gerard presents findings]

K: “How are you defining e-business?”

GDU: “E-business is a business that has a fundamental reliance on the Internet. It’s not like an offline retailer that just uses the Internet as another sales channel. E-businesses are even broader than e-commerce, which is what people usually think about because you do payments through those. E-businesses could deliver services online, but receive payments offline, and they would still be an e-business.”

K: “No specific differentiation between B2B? B2C? Any of those?”

GDU: “No, not in this framework.”

[Gerard continues on]

K: "Control points are very intimately connected with switching costs and e-loyalty. I just want to know how they differ."

GDU: "Switching costs are a very specific type of control point. The way that I think about it is that control points broadly deal with mechanisms that you can leverage to lock competitive advantages in for yourself. It sort of has more of a competitor focus. Switching costs on the other hand has a customer focus, and is about locking customers in, which implicitly locks out competitors. But switching costs can be seen as a negative type of lock-in, so on the positive side, you have e-loyalty antecedents."

[Regarding channel phases]

K: "Maybe this comes in the renewal and growth still, but a big part of these businesses are sort of deepening the relationship… cross-selling, upselling. Maybe it's a circle."

GDU: "Yes, you're right. This cycle repeats the whole time."

K: "Another thing. Especially in the e-world, a big part of what, we often invite people in as co-creators. Even before they make a purchase. So maybe somewhere here there is a type of engagement that takes place before a purchase. Maybe before they buy something, they first like our Facebook page, read something, leave a comment. Maybe its evaluation, but its more than that. You're almost tricking them to become your customer before they make the purchase. So, it's something in there and I think a lot of e-businesses take that approach."

GDU: "Okay, so an engagement step?"

K: "Yes, it might not always be relevant. But sometimes it is core. And it's around communication and marketing I think. It's a different kind of marketing though."

[Regarding sequenced 18 sources of e-value]

K: "I think that's exactly right. I think any element of e can apply in any channel. What about an example of a business that is all about viral growth and word-of-mouth? I think that's one of the exciting things about online is. Findability sort of implies Google search, find the ad, click on it, right?"

GDU: "Findability and this connectivity and socialisation. This is where the network effects stuff come out."

K: "Right, and this can be part of the evaluation phase."

GDU: "Yes, and then the other sources of e-value that they trigger depend on the type of product or service that they sell."

[Post explanation]

K: "Wow, that's pretty awesome. Very cool. Very comprehensive. I just had a few thoughts as we were sort of going through it. I think this is very interesting. The one immediate thought I had was 'what will this be used for and who is our audience?', because if we would want to assist small businesses, this might even be too overwhelming. We had this expression 'boil the ocean', sometimes you do not need to think through every single element. What a start-up will need is more like, you know, three slides ago you had this strategic assessment. So it's almost like making it more accessible, depending on who the audience is. I do not know who the audience is for this."

GDU: "The answer to that is that I'm catering to a mixed audience. Because firstly I need to cater to the academics, who are telling me the whole time to make it more comprehensive. On the other hand I have business people, who also said that you need to make it simple and accessible. So, I'm trying to balance both of those."

K: "Yeah, I understand. And I think you started to do it here where you talk about the elements on a higher level. When people are interested in certain elements they can dig down deeper. So, that's the way to do it. I think the other way is to bring each of these things to life with examples. Somewhere in here we were talking about all the interesting channel things, but who's done it? And what's happening to them now? So, what was a company that used collaboration and coordination very well? Who's done this?"

GDU: "Well, it's sort of a big characteristic of being online… Dropbox for example allows you to work on files together online and automatically syncs it."

K: "Yes, exactly. So, that's an example that could bring it to life. Mini cases is what I'm thinking."

GDU: "Yes, you are totally correct. Here I'm just giving the strategy content and not really giving examples."

K: "The other thing I was thinking, is that you talk about renewal and growth, but the way start-ups are built today is, and you would recognise this I'm sure, no one is going to sit and go through this entire and fill out the entire booklet of strategy. What they're going to do is to say that here is a problem that I see in the world. Here are a couple of things that I think I can do differently. Let me look at the competition. But really what you start doing is you start building. You've heard of the lean start-up right?"

GDU: "Yes, of course, it's in here."

K: "I'm just thinking that the whole approach here recognises that and is conscious of that throughout."

GDU: "What I'm trying to do with this, is that at the start of the lean start-up process you sketch out your business model hypotheses and then you go test it in the market. Now my argument is that by being more informed at the beginning, you can actually develop better hypotheses and therefore reduce the amount of pivots required eventually."

K: "Yeah, I think that's right. You may not know what the next hypotheses may be the next level down, but you write down the hypotheses what you do know and also be very clear about what you do not know. I also think that you should bring to life that this is very iterative. Some of the questions you will be able to answers, others you will not and you have to then go validate those as part of your testing phase."

GDU: "Yes, that's what I tried to show in this figure with the relationships. It's a continuous cycle and everything is related. So, putting a stake in the ground and making a choice in one aspect will affect the other elements."

K: "I think the market side is very important. Maybe it's because I think of this slightly differently. I think of it in terms of customer needs. How many customers have this need? Therefore what is the market size? So this is customer need/market side. To me that is value proposition. Then there is these three, which are actually the product. Obviously we are talking about one business here. So, maybe it's only a wording thing, but when I think value proposition I think customer need."

GDU: "Well, that's exactly what the sub-element there is. Because the value proposition extends across the channel and customer relationships as well."

K: "Yes, okay. I think in my mind I do not often think about channels as driving value, but I think of channels of how you deliver your product. But maybe this is a more robust way to think about this and I can learn something from this too. So, the other thing that I thought of, and this is starting to lead to cost, which is one of the things we said is explicitly out of scope, but you cannot design a strategy in a vacuum. And I know this is not what we're talking about, but who are the entrepreneurs? What do they know what to do? What are their experiences? And that in many ways will determine what they are able to do. So, it has to do with costs and capabilities, and again, related to that, I do not know if this comes here or is out of scope, but it's a question about insourcing versus outsourcing. How much of this are you going to build, how much of this are you going to buy, and how much are you going to partner? Maybe it's out of scope but it was something that popped up for me."

GDU: "I sort of started touching on the type of skills required in my digital-physical orientation, and many of the questions that I have here as leading questions revolve around what we as a company are able to sensibly go for. The skills required, the resources and so forth, they are very prominent questions and it is definitely a future scope extension, together with the partnerships and so forth."

K: "I think my point is that you are always limited by the resources and the conditions of the market or whatever, and those limitations may help you to arrive at your framework quicker. More efficiently. Okay, but I know it's out of scope. But cool, this is very interesting."

GDU: "On the elements of competitive strategy, is there anything that you would add or remove? Is there anything missing? Just looking at all the elements?"

K: "I would say maybe a little more explicitly, the market. Is this a big or a small market? When we do a sort of competitive or market analysis, the one thing we think of is market size, and the other is what are customers doing today? Right, what are the alternatives or substitutes? Are you pioneering an entirely new model, and is that consistent with current customer behaviours? Is this going to be a too radical of a change for them? If you're just coming up with being a kind of close competitor, with only a few things differentiated then that might be simple, but if you really are kind of thinning outside of the box, which are sort of what a lot of e-businesses are doing, what are the customer behaviours and what nudges will be required to actually get them to start using our completely different product."

GDU: "Yes, that is very difficult. There's also that saying that customers do not want to change their behaviour, they just want better results."

K: "And I think it's sort of identifying needs and defining your offering."

GDU: "Yes, 100%."

K: "And you've had some things about customer psychology in there, maybe just highlight it a bit."

GDU: "Are there other frameworks or tools that you typically use to evaluate a company with to say that you would invest in them or?"

K: "Frankly, a lot of it comes down, to… when you talk about a start-up, this is all great, but especially at our stage, if you have the best strategy in the world but you do not have the team it actually does not matter. Often times we do not spend as much time on this, because they will have to change their direction five times at least. So, we just actually have to make a bet on whether the team is capable on that. So, we have a different focus."

GDU: "The composition of the team that you are looking at, can you give me some insights as to those?"

K: "It depends right. So, we invested in a market place lender, who gives loans to small and medium businesses through an online crowdfunding platform. What we needed there is someone who knows the laws. Because it is very complicated and evolving. And what we needed there was someone who can assess credit really well. So, the CEO was a former securities lawyer who knows this space really well, and the COO ran Capital One credit, which is small business credit cards. So, that's the exact type of people we would take a bet on. It's that type of stuff that matters to me. And they had a less impressive PowerPoint than you have, and we still gave them 400 000 dollars. So, what it's like, when you have a smart team you are willing to accept less of the way that you are thinking, because more than anything, if someone showed me a PowerPoint like this, it's about checking whether this is real and how they went to argue about it. Again it's all about checking how smart we think they are. So, the real world of investment is a lot different. But yeah, I see the tension. You want to have the full portfolio of tools and frameworks. I guess from a, and I guess this is the point right, strategic assessment is constant."

GDU: "Yes, so after formulation you check it. Then when you renew or growth, you see if something has changed and whether it still makes sense. And so forth."

K: "I mean the other thing, I think I saw somewhere, is the data you use to formulate your conclusions of your hypotheses. Mixed methods and data."

GDU: "Yes, that's actually my chapter layout and that relates to my study."

K: "Okay, well that's interesting too, because those are the mixed forms of data that the company itself is using as data. For market definition you will use some secondary reports. For defining your offering, you might use something more based on testing and learn approach. Getting primary data and then analysing it. It might be customer interviews or it might be observed customer behaviour. So, maybe a bit of that somewhere. And maybe that comes later. Sort of giving people a sense that you can validate this model using various different data sources."

[Mr. K's time expired and he sent the following responses per e-mail after the interview]

Table 10.18 – Mr. K's Validation Responses

Validation Questions (V2Q)	Validator's Response				
	Strongly Agree (4)	Agree (3)	Unsure (2)	Disagree (1)	Strongly Disagree (0)
Core Elements					
11. *To what extent do you agree that the five core elements of the framework are core aspects that need to be addressed by a competitive strategy?*	X				
Sub-Elements					
12. *To what extent do you agree with the sub-elements of the five core elements of the framework?*		X			
Relationships					
13. *To what extent do you agree with the relationships depicted between the elements of the competitive strategy framework?*			X		
Sequence					
14. *To what extent do you agree with the strategy formulation sequence proposed?*		X			
Sub-Models (Models marked * not created by author)					
15. *To what extent do you agree with the following models and their ability to assist e-business start-ups in*					
15.1. *segmenting customers and identifying/ exploring customer needs?*					
15.1.1. *Customer segmentation approaches model*		X			
15.1.2. *Customer empathy map**		X			
15.1.3. *Customer need saturation scale*		X			
15.2. *selecting their generic strategies?*					
15.2.1. *The digital-physical orientation model*			X		
15.2.2. *Porter's generic strategies model*			X		
15.3. *formulating their offering?*					
15.3.1. *The 18 sources of e-value model*		X			
15.3.2. *The 10 techniques for creating new market space model*		X			
15.3.3. *The strategy canvas**	X				
15.4. *selecting their customer relationship strategies?*					
15.4.1. *Osterwalder's relationship taxonomy**		X			
15.5. *formulating their channel strategies?*					
15.5.1. *The generic channel phase model*		X			
15.5.2. *The sequenced 18 sources of e-value*			X		

15.6. *selecting their revenue strategy, pricing strategy and price of offerings?*					
15.6.1. Revenue generation strategies model		X			
*15.6.2. Pricing mechanisms model**	X				
*15.6.3. Price corridor of the mass model**			X		
15.7. *formulating their control point strategy?*					
15.7.1. The control point model			X		
15.8. *formulating their switching cost strategy?*					
15.8.1. The switching cost model		X			
15.9. *formulating their e-loyalty strategy?*					
15.9.1. The e-loyalty antecedents model			X		
15.10. *assessing their created strategy?*					
15.10.1. The strategic assessment model			X		
15.11. *renewing their strategy and growing the business?*					
15.11.1. The renewal and growth model		X			
Competitive Strategy Principles					
16. *To what extent do you agree that the four core principles underlying competitive strategy are focus, differentiation, robustness and adaptability?*		X			
Research Goal					
17. *To what extent do you agree that the competitive strategy framework (and its sub-models) can assist e-business start-up competitive strategy formulation?*		X			
Theoretical Contribution					
18. *To what extent do you agree that the framework makes a contribution to the fields of e-business/ strategy/ business models/ strategic management? What contribution does it make?*		X			
Implementation Capability					
19. *To what extent do you agree that it is easy to use and derive value from the framework?*				X	
K: "The rating is from the perspective of a start-up or someone looking to frame a strategy. In this case, it will be most helpful to add some concrete examples/vignettes/case studies of companies that have used these different strategic elements to their advantage."					
Other					
20. *Do you think there are any aspects that should be removed or added to the framework?*					

10.4.16. Interview 2.8: Mr. X

Mr. X

Lead on Digital finance frontiers at CGAP

Interviewed 12h00 at CGAP, Washington DC

12 November 2014

[Gerard presents findings]

X: "You're building a competitive strategy framework for those types of businesses. Why competitive strategy? Why is it a problem, why is it interesting?"

GDU: "Competitive strategy is broadly defined as how a business competes in the market space and how they will defend their competitive position. It's important because if we consider competitors, and you're not doing something different or unique and you do not create a competitive advantage, then you cannot reasonably imagine that you would succeed against competitors who have such advantages."

X: "So generally it is relevant for those kinds of businesses. But my question is more, why is the problem relevant. For instance, would you say that a big percentage of e-business players come alive and die, because they lacked a strategy?"

GDU "Basically. There are no stats that support the argument or precisely says which percentage of start-ups fail because of strategic reasons, partly because the reasons for failure are somewhat obscured. However, because of the known link between strategy and performance, it is likely that many of the failures are due to strategic reasons. There really is a need for development in this domain. The field has not developed much since Porter's days, and I'm saying that the elements that define what competitive strategy is, has not concretely been defined before."

X: "Well, Porter has written a lot about strategy. And the kinds of things that come out of that are really broadly applicable. If I understand right, are you saying that these kinds of businesses need something else, in addition to? While these broad concepts may apply, something more is needed on a specific level?"

GDU: "Yes, there is a need for a lot of development in the e-domain. A lot more has been done for businesses in the brick-and-mortar domain, simply because those types have been around for longer. Porter for instance developed a wheel of competitive strategy that specifies elements of competitive strategy, but in a more functional and industrial environment. What I'm doing is taking a step up, to the conceptual domain and within that try to make it more e-specific."

[Continues on]

X: "I'm familiar with a lot of these concepts. But there's a lot that is packed in what you're saying. So, at the level in how you describe it makes sense, but all these things require a lot more to bring it together into something that makes sense."

[After discussing level 2 of the framework]

X: "Many of these concepts are not new. The concepts themselves. Now, how they come together and the tools, for example when you say that this model helps with X, and you put together these concepts, I assume that this is the contribution that you are trying to make. Building frameworks where you put some of these concepts together, and the organisation who uses these can therefore come to a point where they develop a value proposition and a competitive strategy, or some aspect of their strategy. Am I understanding this right? So, your contribution is building smaller, more granular and more detailed frameworks that help businesses answer smaller questions, that when they come together, that becomes their strategy."

GDU: "I guess you could describe it like that."

X: "I'm not an expert in strategy. What that means is that I do not do this for a living, and I do not deal with these things. The kind of feedback I can give you is not about how this, or whether this is right or wrong, whether they will add value to a business or not. I suppose that all of that is true. I do not know if this is correct or incorrect either, because I do not study these things. But I can give you a bit of feedback having been in businesses, formulating strategy, having been part of a management team that look at some of these things. So, from my perspective one of the things that happen is when you put a lot of effort in solving the conceptual relating to strategy, you miss the dynamics that often are not coded in conceptual frameworks. So, in business and in the interactions in businesses, and competition, there are a lot of dynamics that happen that are not codified in these frameworks. So, you run the risk of overly analysing the problems and getting to complex solutions. So, at the highest level, the power lies in simple framework that deal with core problems. So, I do not know if that tells you anything?"

GDU: "It does. Similar to what a lot of people have told me is that the ideal would be to arrive at a simple framework, but the value for me is in actually… you know these things will not give you success or make you successful on its own, but I believe they are important elements to at least to be aware of. And people who has never seen this, cannot be aware of them, think about them or plan around them. The contribution that it makes for the lower level start-ups is awareness on a cognitive level. It does not mean that out of the strategy session it will necessarily create a better strategy, but there are factors and things in here that will implicitly make you think. And if this gets you to think, then I'm happy."

X: "Okay, so you have a huge framework. And I say huge, because it covers multiple levels and has a lot of breadth and depth. So, assuming all of this is correct, which I cannot validate. You can validate it by taking three or four cases and apply it in real world instances. So you can do that to demonstrate to anybody who reads this that it is correct, valid and useful. Now, in terms for it to be a powerful framework for a start-up, it needs to solve a problem for them. And strategy is not a problem. Nobody will tell you, I come here because I have a strategy problem. So my stance is that there is a general development track that a business follows. So you can say there is this initial stage where an e-business is coming into life, you can call it something else, but it is coming to life. So it's a concept, its starting, it's a start-up phase, and here the main strategic problem is demonstrating that it is a business. Something around that. Raising some money. Getting people to believe. Then there's a stage where it is about building up the business. Creating it, and this is sort of a pilot, this is in production, then there's scaling up. And the strategic priorities change. When you're scaling you want to lock-in customers, you want to make sure that whatever you're investing is going to be valuable over 30 years. So, when you're building a business you also building barriers for other competitors, putting a focus on your unique strategic advantage and all these things. So you can formulate a path, which is basically the lifecycle. So you have a huge framework, a huge solution, so what you might want to do is to highlight the two or three issues that people really need to get right along this life cycle. This is the three boxes that you should fill. So, you turn the framework into a solution, so you make it accessible, and it's no longer a conceptual conundrum. So, if I'm a start-up and I have five dollars, I'm not going to pay one of those dollars to five people to sit down and sort out all those slides. Because I'm the CEO and those slides, if a guy fills those up, they are not a solution for me. They are a solution for me when they answer these three questions. So what I'm trying to say is, if you could think about the strategic priorities along the life cycle of the firm. And if I'm a firm and I start reading this, then I can relate to this. Maybe it adds a layer of complexity. Maybe you do not want to go there. This is just what I'm thinking about how you can turn the conceptual framework into a solution that is accessible."

[Regarding the 18 sources of e-value]

X: "Yeah, this is very interesting… It is a big topic in and of itself."

[Regarding 10 techniques for creating new market space, control points, switching costs, e-loyalty antecedents, strategic assessment, renewal and growth]

X: "All of this, the three or four frameworks you went through, they all make sense. They all make sense to me. They seem sensible, they make you think about the issues in a structured way. So, intuitively I would agree that they make sense."

[Regarding renewal and growth]

X: "I think this is a valuable proposition. The way to structure the problems, the way to address them, and you bring together thinking from different areas and authors and different lines of thinking into something that can be usable. So, I think all these makes sense. I think I may be too pragmatic and this makes me think is that usually when you start out and think about your business, you do not start-off thinking about your strategy in one shot. So even if you put this out as a recipe, and say listen, you're starting, you need to develop your strategy, so here's a framework for it all, it's hard to think that everyone will go through it all, because businesses when you start-up it's a new thing, so you do not know many things. There are many assumptions that you can make."

GDU: "Well, that's exactly. If we look at these relationships, it's a spiral. They're interconnected. So, if you start off with you strategy and you only develop a few elements today, that's fine. Put the framework on the shelf. Let it rest for a bit. Then when you're ready and when you know more, you take it off and develop, adapt based on the changes that have occurred. So, that dynamic aspect is really a key part of the framework. The recursion thing you have with renewal and growth. The whole time you are checking your assumptions, and these relate to the whole framework. So, then when you change things, you can do the strategic assessment again to see if it is still aligned. But, I get what you're saying. People do not realise or admit that they have a strategy problem. And strategy formulation is not a once off either. This whole framework is a learning tool. It does not mean that it needs to be applied rigorously, sequentially or in totality."

X: "This is something for me that would have been valuable if you spelled it out up front. That strategy is not an engineering process. And that if you fill this grid at all levels, and all scope, that you would have a strategy. No, in fact it is not relevant for you to do that. Some aspects will be relevant at certain stages. And really, it's okay to have uncertainty here. But not here maybe, depending on where you are. So, provided that it's like you build this monstrous robot that all the articulations are fixed, so it cannot move. Everything is so wired, that the value of this is understanding the wiring, but that the articulation should be flexible. Coming back to the strategy question, I think strategy is hard to deal with at the middle level. Either you want strategy want strategy at a very high level where you say I had this business because this is how I create value and nobody has done it, and with a few statements you get it right. But it is a very high level. Or at a very granular level, you say these are my cost structure advantages that cannot be replicated by other industry actors because of the synergies with other businesses, and you illustrate that with numbers. So it's either at this or that level where strategy makes sense. At the middle level, where you answer the questions to all of these, so I have the right product, solving the right problem, and everything is validated conceptually, the danger there is that it relies too much on a concept. Because my assessment to do I have the right products? Yes. Does it compete strongly to solve a problem? Yes. So, it's not at the level of the numbers right, so it's not at the higher level. But it gives you the sense that because you've checked all the boxes, you got it right. But maybe all of that is a perception. This is just a reaction. It does not maybe give you the feedback that you're looking for."

GDU: "It's totally fine. I like it that you describe it in the way you did. Because, in order to really derive value from the framework, you need to make it more instance specific. So, that means taking it down to the detail level where you apply it to your specific case. Getting the numbers if you will, and then going up and answering the questions. As far as it goes for getting it right, I do not think that there will ever be a framework that is able to predict whether something will work or not. But, conceptually validating your idea before going to market, I see value in having better initial hypotheses and ideas about your businesses before going to market. Having better hypotheses will mean that you will have less pivots to eventually arrive at a good strategy. So, that's what I'm trying to do. If you spend some more effort in the coming to life stage, you will have less pivots and it could actually speed up the entire process."

X: "I get that and I see value in that. I think one of the things that I would use this for, is that it helps me structuring the thinking about all the things that I should be thinking about. I mean if I'm starting a business or if I'm one of those players, where is the guidance? There is no guidance to see if I'm looking at all the things that I should be. So this is a structured approach to think about the business and making sure that you think about all the things that you should think about. So, it does not provide solutions. And it does not tell you exactly how to think about things. It is not the detail of showing you how… it is not the ultimate thing that you have to do, it is just this collection of things you should be thinking about, and how these things come together."

GDU: "I could not have said it better."

X: "Again, and underlying this. I might have some business perspective, and that's how it makes sense to me, but because I'm not in the business of advising others, I have not sat down and looked at the detail. So, you might be missing things here, but I will not be able to tell you. So, my suggestion is that you're process of validation is great that you're talking to a lot of people, but I would suggest that you talk to people who do this for a living. I would suggest talking to somebody who works in strategy practice…"

[Trying to fill out the validation questions]

X: "The only problem I see with these are that it is too detailed… maybe the most valuable thing that I can contribute is the discussion we've just had. But it's interesting, I've never seen such a comprehensive approach to try and deal with all aspects of strategy at once."

GDU: "Yes, I've also not seen someone try to address all of these at once. The most recent one, that is quite popular, is the business model canvas. Things that it lacks for instance, are the questions surrounding competitors, customer lock-in and that real competitive advantage aspect. The problem with this is that you can create a business model, but it does not mean that is viable or…"

X: "Yes, or sustainable. Maybe it is a good value proposition, but many others can do it."

GDU: "Obviously, when you use nice sober thinking, you can erase those problems in the business model canvas. But in my framework, I make it more explicit, and show the iterative cycles that you go through in developing your strategy. And giving tools for the details."

X: "The way that you have it structured here, visually, it's hierarchical. Its higher level ideas, that you decompose, top down. That is very useful."

[Mr. X did not deem himself an adequate enough strategy expert to give numerical feedback on the models, therefore it was the end of the interview]

10.4.17. Interview 2.9: Mrs. T

Mrs. T

Financial Sector Specialist at CGAP

Interviewed 15h00 at CGAP, Washington DC

12 November 2014

[Gerard presents findings]

[Regarding customer need exploration]

T: "You have your generic and your customer things right? Should not there also be a competitor landscape analysis there? And if you put those two together, you can look decide on your generic strategy?"

GDU: "Well, that's what I said at the start – that I assume that you have a good idea about what your competitive environment looks like, and you have adequate knowledge to base your decisions on. I do address the competitive aspects in the strategy assessment again. However, my framework is a very customer oriented framework. So the argument is that if you can give customers something that they really want, and you can lock them in, then they will not defect to competitors, or defect to new entrants or other substitutes. So, if you can get the customer side right, then all the other things will fall into place."

[Regarding switching costs]

T: "Why did you pull out switching costs separately?"

GDU: "Just because it is such a prominent issue, feature or perspective on customer lock-in."

T: "Why are some of these beneficial to customers, like integration and customisation costs?"

GDU: "Okay, so currently you are receiving some benefit from these sources: the integration and customisation. Only when you switch a supplier, you lose those benefits and have to incur the costs again to achieve that type of integration and customisation."

T: "There's just something not intuitive to me about it being a cost and it not being beneficial right?"

GDU: "Yes, I agree. One of my other validators said the same. I'm looking for other categorisations that could work better."

T: "Because if you go one back, then switching costs are categorised as not beneficial, and when we look at switching costs, then all of the sudden you say that some switching costs are beneficial?"

GDU: "Hahah, well spotted. Yes, I will definitely change that. Do you have any suggestion for categories that could maybe work better?"

T: "I wonder if there is a way to do this in sort of levels. So, the barriers to a cost is not very high and customers will easily switch, whereas others will prevent customer from switching most of the time. A type of hierarchy. Then I also wonder if there is not a way that you can bring some of these together that there are not so many categories. So, have maybe three or four categories and within them have three or four again. That may be one way to do it."

GDU: "Yes, that's the one line of argumentation. Saying that you should lump things together. The other line of argumentation is to say that you should keep things granular, so that when you go through this you can go much deeper."

[Regarding strategic assessment]

T: "There are you saying that you are solving the problem in the most efficient way for the customer or for you?"

GDU: "It is a combination of both, but mostly from the customer perspective. Customers do not care how the business does it, they just want a solution that works the best for them. So, if you can do that and they are willing to pay for it, then they win and you win because you get loyal customers."

[Regarding the risk aspect of the strategic assessment]

T: "And would you rate all of these kind of equivalent? Because as you said for number five, you may not be solving the customer problem in the most efficient way, but does that really translate into a higher risk?"

GDU: "Yes, some are more critical than others and I at some stage tried to rate which one of these are more critical than others, but I took it away because of the complexity that it adds and the other thing, this is a comparison against the theoretical ideal anyway, so all of them are the ideal in any case."

T: "Yes, so it's more of a type of checklist. Things for you to think about. I mean you are basically checking whether your strategy is strong or not. And the feasible is the closest you come to execution."

[Regarding renewal and growth]

T: "On your sustaining growth, would you count cross-selling there?"

GDU: "Cross-selling is more of a complementary growth I think."

T: "But the way you talked about complementary growth is to think about a new segment right? But financial services are very relevant, because we think about one segment, and banks are by nature multi-product businesses right? That would translate to an e-business environment pretty well I would think, because you are saying that you've locked-in a certain segment and you just want to sell them more stuff. So I want to do what I do well and I want to continue selling them more and more right?"

GDU: "Oh, is that what you mean by cross-selling? Ahh, I interpreted cross-selling as when you are selling other businesses' offerings."

T: "No, it could be your offerings, but other products that they've not used before."

GDU: "Oh okay, well, then it would be sustaining growth. Leveraging new products to the same customers would just be an additional type of revenue stream."

T: "Exactly. Because I mean that's where your loyalty and retention becomes extremely important. I mean they like your product, and now you can give them like ten other services or whatever."

GDU: "Okay and the last point here is that you have to question for the other two (disruptive and complementary growth) whether the new business is insignificant relative to the core business. Because if it is insignificant, then you may want to create an outside organisation, otherwise it will not receive the attention that it requires to flourish."

T: "That's an interesting perspective. Because I would have thought, I mean what you see most institutions do is that when it's pretty small then I keep it inside. But when I move it outside of the organisation is when I think it can be significant. That's when I move it out, right?"

GDU: "The problem is that… let's say there's a big business whose focus is low costs. Then there's this spinoff company that they kind of keep in house. But the spinoff company about value creation. So you can see the inconsistency between these two. And this is where it becomes kind of difficult to manage with two mind-sets."

T: "I fundamentally agree with that point, but when you say insignificant I think the image in my head is value, so if it's small or large or how much revenue it's generating. But I think more what you mean is whether the fit exists."

GDU: "Yes, and you would also create an outside organisation when the new organisation has to endure profit margins lower than the core business. Because in that sense it really becomes 'insignificant'. Because why would you spend your attention there if you could get more outputs from your inputs in the core business."

T: "Yes, exactly."

Table 10.19 – Mrs. T's Validation Responses

Validation Questions (V2Q)	Validator's Response				
	Strongly Agree (4)	Agree (3)	Unsure (2)	Disagree (1)	Strongly Disagree (0)
Core Elements					
1. *To what extent do you agree that the five core elements of the framework are core aspects that need to be addressed by a competitive strategy?*		X			
T: "Yes, that's good."					
Sub-Elements					
2. *To what extent do you agree with the sub-elements of the five core*		X			

elements of the framework?					
T: "Agree."					
Relationships					
3. *To what extent do you agree with the relationships depicted between the elements of the competitive strategy framework?*		X			
Sequence					
4. *To what extent do you agree with the strategy formulation sequence proposed?*	X				
T: "Yes, that's good."					
Sub-Models (Models marked * not created by author)					
5. *To what extent do you agree with the following models and their ability to assist e-business start-ups in*					
5.1. *segmenting customers and identifying/ exploring customer needs?*					
5.1.1. Customer segmentation approaches model	X				
*5.1.2. Customer empathy map**	X				
5.1.3. Customer need saturation scale		X			
5.2. *selecting their generic strategies?*					
5.2.1. The digital-physical orientation model	X				
5.2.2. Porter's generic strategies model		X			
5.3. *formulating their offering?*					
5.3.1. The 18 sources of e-value model	X				
5.3.2. The 10 techniques for creating new market space model			X		
*5.3.3. The strategy canvas**			X		
5.4. *selecting their customer relationship strategies?*					
*5.4.1. Osterwalder's relationship taxonomy**		X			
GDU: "Did it make sense when I said that these relationships have to do with customers and not partners? Partners are sort of the mechanisms that could be used to for instance deliver the offering or establish these relationships. The relationships with partners would be somewhat different." **T**: "I only struggle a little bit, because in some of these businesses the lines are so fluid. I mean, if you think about an Amazon, and its distributor partnerships, those are really quite critical to the ultimate service it delivers. And when you think about Amazon's strategic choices, the choices they are making about their relationships with those distributors, they are different than the choices they are making for the customer. For the customer they say the customer is always right and I will give them what I need. And for the distributors they are squeezing the hell out of them, making every dollar count. And those are two different choices and it has a huge impact on your business case, your model, the kind of way you compete." **GDU**: "But it kind of trickles back that if you say you fix your front end and you want to deliver low prices, you sort of have to squeeze the backend to make that happen." **T**: "No but, I mean their only value proposition is not low cost. A lot of it is customer service. Personalisation. All of that stuff. And you would think that if you had those in your strategy, you would want your relationships to be pretty good. And basically they're making a big bet on making the largest cat in town. So, they get to do a lot of stuff that, if you think from a logical point of view, that should not have been the choice they make. But because of scale, they get to make those choices."					
5.5. *formulating their channel strategies?*					
5.5.1. The generic channel phase model		X			
5.5.2. The sequenced 18 sources of e-value	X				
T: "This is very nice."					

5.6. *selecting their revenue strategy, pricing strategy and price of offerings?*					
5.6.1. *Revenue generation strategies model*		X			
5.6.2. *Pricing mechanisms model**		X			
5.6.3. *Price corridor of the mass model**			X		
T: "I'm not so sure if this is so useful."					
5.7. *formulating their control point strategy?*					
5.7.1. *The control point model*		X			
5.8. *formulating their switching cost strategy?*					
5.8.1. *The switching cost model*				X	
T: "It's just the classification that bothered me a bit."					
5.9. *formulating their e-loyalty strategy?*					
5.9.1. *The e-loyalty antecedents model*	X				
T: "Just the framing of antecedents is a bit confusing. I mean I look at this and I do not intuitively understand what this exactly does." **GDU**: "Well, its factors that drive loyalty." **T**: "I think the stuff is really good, it's just the word that does not really work for me. Otherwise it's very good."					
5.10. *assessing their created strategy?*					
5.10.1. *The strategic assessment model*		X			
5.11. *renewing their strategy and growing the business?*					
5.11.1. *The renewal and growth model*				X	
T: "I think this simplifies the world down a little, because there are pieces of strategy, I mean to actually do a good job on renewal and growth, you need other things other than competitive strategy. You need all the pieces. You need some of those execution pieces. I mean my people just cannot deliver the service, whatever that may be right. So, I think it may be a bit of a stretch to propose a renewal and growth strategy based purely on the competitive analysis that you propose." **GDU**: "Yes, it's good feedback, but I also feel comfortable with it because, as I stated at the start, this framework does not cover the total strategy of a firm." **T**: "Correct, and I think it's fine. But then, I think you have to be careful not to over-reach what you're framework is able to do. Because it's not covering all of that, there's stuff that you can do and stuff that you cannot. And renewal and growth is hard to do when you're leaving out pieces in the framework. So, in summary I would say that this is maybe too simplistic and I think you need elements outside the model. I like what you have for renewal and growth, it's good stuff, but it's not covering everything. Perhaps there is a way that you can reframe it together with the strategic assessment to be more of a checklist? So go back and test what a good job you've done with your strategic assessment, and over time test it using the renewal and growth model. So you have a static and a dynamic assessment of your model." **GDU**: "Okay, so what type of models would you like to see inside the renewal and growth component? Life cycle models? Because as is, it's just sort of depicting the process of renewal and growth. Simplifying the way to think about concurrently staying on top of things. And it's about three things. Valid assumptions. A strategic course that you continuously check. And knowing how you want to grow. And also providing some indication of what things you would additionally have to consider." **T**: "I think you would run into trouble in this model in this part of it (growth). You're running that line where you are so close to execution, but you're not going far enough. All over here you are fine. Is it repairable? What do you do? All of that is fine. When you're saying growth, I think it's very hard to say which type of growth you are best positioned for without…" **GDU**: "Okay, I'm not saying that one, two, three, these are the positions. They're just the number of choices." **T**: "Yes, I get that. But are you better positioned for complementary growth, sustaining growth… Those questions are really hard questions. And very much based on what your internal assets are. It could be that I'm actually best positioned to serve my same segment, but I have a huge problem with my vendors or something like that, and therefore I'm going to pursue disruptive growth. However, it's not because of my pure strategy reasons in any way." **GDU**: "Okay, yeah that's interesting." **T**: "I do not have a clean solution for you." **GDU**: "It is tricky yes."					
Competitive Strategy Principles					
6. *To what extent do you agree that the four core principles underlying*		X			

competitive strategy are focus, differentiation, robustness and adaptability?					
T: "They sound okay."					
Research Goal					
7. *To what extent do you agree that the competitive strategy framework (and its sub-models) can assist e-business start-up competitive strategy formulation?*	X				
Theoretical Contribution					
8. *To what extent do you agree that the framework makes a contribution to the fields of e-business/ strategy/ business models/ strategic management? What contribution does it make?*	X				
T: "I think the contribution is everything in one place. I think the other contribution is really these pieces. Right for me, this is the view I really like. Those three, thinking about your customers, thinking about the value proposition, and thinking about loyalty. It's kind of the now piece of it, and this is the future (strategy assessment and renewal and growth). So, I like those three pieces coming together."					
Implementation Capability					
9. *To what extent do you agree that it is easy to use and derive value from the framework?*	X				
Other					
Do you think there are any aspects that should be removed or added to the framework?					
T: "The only thing I would have like to see here, and I understand why it's not in, is a set of tools for analysing my competition. How do I, you know, if I'm in a market today and I've spoken to customers and I see a space and I see a need, how do I systematically go about saying these are my competition. How do I place them on those curves that you had. How do I think about my competitive landscape? I think that would have been a nice piece to see with this. But I think this does a nice job that says there's a world out there and you know it, and how are you going to position yourself in that world." **GDU**: "So is that more about the questions that you need to ask? Like, what do I need to know about competitors to make my choices?" **T**: "Yes, exactly." **GDU**: "But all the questions you want to answer about the competitor, is not that just finding out what their competitive strategy is all about? Who they are. What their customer segments are. What generic strategies they are following. What their value proposition entails. What relationships they establish. The channels they use. Their revenue and pricing strategy. What their lock-in strategy is, and how they intend to grow?" **T**: "Perhaps, but in most spaces you will not have one competitor. You would have six competitors. So, I could go through that process for all six of them, and this guy plays here and that guy plays there. But how do I make sense of it?" **GDU**: "That's sort of why I included this (the strategy canvas). The competing factors here are industry relevant factors. But what you could also do is to take the 18 sources of e-value and use them as a starting point for analysing your competitors, and then you will get a good idea what type of value your competitors are striving for and how you're differentiating from them." **T**: "Yes, I understand. I do not know this literature well enough. But I feel like there must be a systematic set of tools hopefully on that end as well right? Really the market analysis end of things."					

[Concluding remarks]

T: "I think it does a very good job of navigating the strategic space. I really like it that you have all these tools in one place. I think it's really difficult for people to say which tool do I use? When? How? What's a better tool to you, and which do not I use? I think you've done a nice job to say that if you want to do things, this is what you do. I think one of the best ones you did was your sources of e-value. Then doing them by the stages. That was really strong. I think it's very valuable. The good thing about it is that it is also very intuitive. You test it against all your experience and it still makes sense so it's good. "

10.5. Appendix E: 18 Sources of E-Value Robustness Testing

The 18 sources of e-value is one of the most important aspects of the competitive strategy framework for e-business start-ups and one of the most significant contributions of this study. It was therefore important to ensure the robustness, credibility and confidence in these 18 sources. In this section the author stress tested these 18 sources from different perspectives to showcase the relevance, relationships and coverage of this model to adjacent research domains or perspectives.

The perspectives utilised included an e-customer demand perspective, antecedents of e-loyalty perspective, e-quality and e-service quality perspective, and a generic customer value perspective. The basic approach was to firstly create an integrated view on each of these topics (if not previously created), where after the coverage of these models versus the 18 sources of e-value were visually mapped. This was done by listing the 18 sources of e-value on the x-axis and the perspective under investigation on the y-axis. Relationships were then assigned between the different elements of the two axes. Ticks indicate a positive relationship and question marks indicate a possible relationship. A small amount of ticks or question marks per row were desirable, as it indicated good relational precision between the two models. An abundance of ticks per row indicated lower relational precision (ambiguity), whereas the absence of a tick indicated that the 18 sources of e-value does not address the specific element. Conclusions on each of these constructed tables were then drawn.

10.5.1. E-Customer Demands Versus the 18 Sources of E-Value

In Chapter 3.4.2.3, Figure 3.13 was constructed from the writings of Seybold (2001), Gummerus (2011, p. 37, 47) and Koiso-Kanttila (2005, pp. 65-67) and depicts the different basic demands that e-customers have. The constructed e-customer demands model is by no means all-inclusive in terms of the demands that e-customers have, as literature relating to e-loyalty (Chapter 3.4.3) was intentionally avoided during its construction. It does however, provide a point of departure for evaluating the 18 sources of e-value with, as a good model of the sources of e-value would relate to many of the basic e-customer demands.

Listing the 18 sources of e-value on the x-axis and the e-customer demands on the y-axis, Table 10.20 below was constructed. Horizontally analysing this table, service quality is a very ambiguous term and relate to most of the 18 sources of e-value. Considering the remaining e-customer demand elements, all of them relate to a source or sources of e-value. The 18 sources of e-value thus “covers” the e-customer demand model. Vertically analysing this table, three sources of value cannot readily be identified in the e-customer demands model, namely novelty and newness, aesthetics and brand attractiveness, and personal fulfilment. On the one hand this gives an indication of aspects that the e-customer demand model is lacking. On the other hand, this could indicate a redundancy of elements in the sources of e-value model. This is not the case however, as these three factors are identifiable in some of the other models subsequently analysed.

Table 10.20 – E-Customer Demands versus the 18 Sources of E-Value

18 Sources of E-Value Equivalent	Effectiveness	Affordability & cost reduction	Range & complementarities	Reach & accessibility	Findability	Timeliness & immediacy	Authenticity, trust & security	Richness of information exchange	Interpretation	Simplicity	Convenience	Customer empowerment	Novelty & newness	Aesthetics & brand attractiveness	Embodiment	Individualisation	Connectivity & socialisation	Personal Fulfilment
Economic Demands																		
Pricing transparency								✓										
Fair, global pricing		✓																
Distribution Channels																		
Choice in distribution channels				✓								✓						
Logistics transparency								✓										
Temporal Characteristics																		
Time scarcity & instant gratification						✓												
Limited attention spans					✓	✓				✓	✓							
Customer Experience Demands																		
Accessibility				✓														
Convenience											✓							
Process transparency								✓										
Seamless online experience	✓														✓			
Service quality	✓			?	?	✓		?	✓	?	✓	?			?	?		
Innovative products												✓			✓			
Customised offerings																✓		
Business integrity, authenticity and security							✓											
Choice			✓									✓						
Information Demands																		
Control over personal information							✓	✓				✓						
Information portability								✓				✓						
Real-time information						✓		✓										
Specialist information								✓										
Socialisation Needs																		
Increased need to interact																	✓	?
Vocal about experiences																	✓	?

10.5.2. Integrated E-Loyalty Antecedents versus the 18 Sources of E-Value

In Chapter 5.5.3, an e-loyalty antecedents model (Figure 5.19) was created, which was updated in Chapter 6.5.4 (Figure 6.20). This latter model's elements can be used to evaluate the 18 sources of e-value with, as a good model of the sources of e-value would relate to many of the e-loyalty antecedents elements. Listing the 18 sources of e-value on the x-axis and the elements of the integrated e-loyalty antecedents model on the y-axis, Table 10.21 below was constructed.

Table 10.21 – Integrated E-Loyalty Antecedents versus the 18 Sources of E-Value

18 Sources of E-Value Equivalent	Effectiveness	Affordability & cost reduction	Range & complementarities	Reach & accessibility	Findability	Timeliness & immediacy	Authenticity, trust & security	Richness of information exchange	Interpretation	Simplicity	Convenience	Customer empowerment	Novelty & newness	Aesthetics & brand attractiveness	Embodiment	Individualisation	Connectivity & socialisation	Personal Fulfilment
Brand Building																		
First impressions													✓	✓				
Brand image & character														✓				?
Virtual community building								✓									✓	?
Cultivation			✓					✓										
Value Proposition																		
Quality	✓		?	?	?	?	?	?	?	?	?	?	?	?	✓	?	?	?
Pricing		✓																
Convenience											✓							
Choice/ range			✓									✓						
Customisation																✓		?
Trust & Security																		
E-trust							✓											
Security Mechanisms	✓						✓											
Privacy protection	✓						✓											
Reputation							✓							✓				
Website Design																		
Fast page loads	✓					✓												
Ease of use/ navigation/ search	✓				✓			?	?	✓	✓				?			
Information Quality								✓	?									
Server reliability	✓																	
Personalised website features																✓		
Order Fulfilment																		
Payment ease/ options	✓		✓						?	✓	✓	✓						
Delivery speed/ options	✓		✓	✓		✓						✓						
Reliability	✓						✓											
Customer Service																		
Preventing & resolving breakdowns in service	✓								?									
Ease of contact				✓							✓							
Responsiveness						✓												
Customer Attributes																		
PC/ Internet experience							✓	✓	✓									?
Online buying experience							✓	✓	✓									
Other segmentation attributes	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?
E-enjoyment	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?
Lock-In Mechanisms																		
Switching costs	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?
Control points	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?

18 Sources of E-Value Equivalent	Effectiveness	Affordability & cost reduction	Range & complementarities	Reach & accessibility	Findability	Timeliness & immediacy	Authenticity, trust & security	Richness of information exchange	Interpretation	Simplicity	Convenience	Customer empowerment	Novelty & newness	Aesthetics & brand attractiveness	Embodiment	Individualisation	Connectivity & socialisation	Personal Fulfilment
Common E-Loyalty Drivers																		
Perceived value	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
E- satisfaction	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
E-service quality	✓			?	?	✓		?	✓	?	✓	?			?	?		

Horizontally analysing this table, eight e-loyalty antecedent elements are very ambiguous and vague and can relate to almost any of the 18 sources of e-value. These include all four commonly cited antecedents of e-loyalty (e-enjoyment, perceived value, e-satisfaction, and e-service quality); the higher level lock-in mechanisms (switching costs and control points) which are difficult to relate to a specific source of value at this level of abstraction; other customer segmentation attributes, which can affect how a customer experiences any source of value; and quality, which is a subjective measurement as well. The fact that these elements cannot be assigned to a single source of value does not make them bad loyalty elements, they are just highly generic.

Considering the remaining e-loyalty elements, each of them relates to a source or sources of e-value. The 18 sources of e-value thus "covers" the e-loyalty antecedents model. Vertically analysing this table, the only source of value that cannot specifically be identified in the e-loyalty antecedents model is that of personal fulfilment. A couple of e-loyalty antecedents possibly relate to it, but not precisely. This indicates that personal fulfilment is a multi-dimensional value that relate to various loyalty elements, including but not limited to customer attributes, the specific value proposition and the brand.

10.5.3. Integrated Dimensions of E-Quality Versus the 18 Sources of E-Value

The 18 sources of e-value describe factors that customers find valuable online. This description is very similar to that of e-quality, that defines what factors e-customers associate with high quality, and thus value. A good model of the sources of e-value would thus relate to many of the elements of an integrated e-quality perspective. Such an integrated e-quality perspective is constructed in Table 10.22 below, by combining the elements of ten models relating to the dimensions of e-quality and three models relating to generic dimensions of quality.

Table 10.22 – Construction of the Integrated Dimensions of E-Quality Perspective

E-Quality Elements														
	Dimensions of E-Quality										Generic Dimensions of Quality			
No.	**WebQual** (Barnes & Vidgen, 2002, p. 122)	**SiteQual** (Yoo & Donthu, 2001)	**eTailQ** (Wolfinbarger & Gilly, 2003, pp. 188, 189)	**Factors Associated With Website Success** (Liu & Arnett, 2000, pp. 24, 25)	**Metrics for Architectural Quality of Internet Businesses** (Kim, Lee, Han, & Lee, 2002, p. 243)	**Dimensions of E-Quality** (Madu & Madu, 2002, pp. 250-253)	**WebQual** (Lociacono, Watson, & Goodhue, 2002, pp. 36, 64, 65)	**e-SERVQUAL** (Zeithaml, Parasuraman, & Malhotra, 2002, p. 362)	**E-Consumer Perceptions of Service Quality** (Yang, Peterson, & Huang, 2000, p. 9)	**Dimensions of E-Commerce Service Quality** (Swaid & Wigand, 2007, pp. 5, 6)	**Dimensions of Quality** (Garvin, 1987, pp. 104-107)	**Dimensions of Quality** (Volberda, Morgan, Reinmoeller, Hitt, Ireland, & Hoskisson, 2011, p. 218)	**Dimensions of Service Quality** (Berry & Parasuraman, 1991)	**Integrated Dimensions of E-Quality Perspective**
1.	Usability	Ease of use			System interface	Structure	Ease of understanding/ Intuitive operations		Ease of use/ navigation	Website usability				1. Ease of use & navigation
2.	Design		Website design	Website design	Internal stability	Performance	Relative advantage (of using web)	Efficiency			Performance	Performance		2. Website design & performance
3.	Information			Quality of information	Information gathering	Storage capability	Informational fit-to-task		Content and information/ accuracy of content	Information quality		Accuracy		3. Quality of information
4.	Trust	Security	Privacy/ security	System use	External security	Trust/ Security and system integrity/ Assurance/ Reputation	Trust	Privacy	Privacy	Assurance			Assurance	4. Trust, privacy, security and reputation
5.	Empathy					Empathy							Empathy	5. Empathy
6.		Aesthetic design				Aesthetics	Visual appeal/ Consistent image		Aesthetics		Aesthetics	Aesthetics		6. Aesthetic design
7.		Processing speed				Responsiveness	Response time	Responsiveness	Timeliness of response	Responsiveness		Timeliness	Responsiveness	7. Responsiveness
8.			Customer service	Service		Customer oriented web store policies/ Serviceability		Compensation			Serviceability	Serviceability		8. Service quality
9.			Reliability			Reliability		Reliability		Reliability	Reliability	Consistency	Reliability	9. Reliability
10.				Playfulness			Innovativeness							10. Innovativeness & playfulness
11.					Communication interface		Tailored communications	Contact						11. Tailored communications
12.					Order processing			Fulfilment						12. Fulfilment
13.						Features					Features	Features		13. Features
14.						Product/ service differentiation and customisation				Personalisation				14. Personalisation & customisation
15.							Emotional appeal							15. Emotional appeal
16.							Online completeness					Completeness		16. Completeness (range)
17.											Durability			17. Durability
18.											Conformance	Conformance		18. Conformance
19.											Perceived quality	Perceived quality	Tangibles	19. Perceived quality
20.												Flexibility		20. Flexibility
21.												Convenience		21. Convenience
22.												Courtesy		22. Courtesy

Altogether, 22 integrated e-quality factors were identified. Listing the 18 sources of e-value on the x-axis and the e-quality factors on the y-axis, Table 10.23 below can be constructed.

Table 10.23 – Integrated Dimensions of E-Quality versus the 18 Sources of E-Value

18 Sources of E-Value Equivalent	Effectiveness	Affordability & cost reduction	Range & complementarities	Reach & accessibility	Findability	Timeliness & immediacy	Authenticity, trust & security	Richness of information exchange	Interpretation	Simplicity	Convenience	Customer empowerment	Novelty & newness	Aesthetics & brand attractiveness	Embodiment	Individualisation	Connectivity & socialisation	Personal Fulfilment
1. Ease of use & navigation					✓			?		✓	✓				?			
2. Website design & performance	✓				?	✓		✓						✓	?			
3. Quality of information								✓										
4. Trust, privacy, security and reputation							✓											
5. Empathy																		?
6. Aesthetic design														✓				
7. Responsiveness						✓												
8. Customer service	✓			?	?	✓		?	✓	?	✓				?	?		
9. Reliability	✓						✓											
10. Innovativeness & playfulness													✓		✓			
11. Tailored communications								✓				?				✓	✓	
12. Fulfilment	✓			✓														
13. Features			✓									✓			✓			
14. Personalisation & customisation																✓		
15. Emotional appeal																		✓
16. Completeness (range)			✓															
17. Durability	?														?			
18. Conformance	?																	
19. Perceived quality	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?
20. Flexibility	?		?	?							?	?				?		
21. Convenience											✓							
22. Courtesy																		?

Horizontally analysing this table, two e-quality elements are very ambiguous and vague and can relate to many of the 18 sources of e-value, namely customer service and perceived quality. Further, five e-quality elements do not readily relate to the 18 sources of e-value, namely empathy, courtesy, durability, conformance and flexibility. This shows that the 18 sources of e-value does not resonate deeply with specific emotional sources of value that are difficult to embody in a value proposition; that courtesy is assumed as a given for conducting civilised business; and that the 18 sources of e-value does not resonate deeply with performance metrics more suited to the industrial economy.

Vertically analysing this table, a source of value that cannot specifically be identified in the integrated e-quality perspective is affordability and cost reduction. This is expected though, as e-quality relates more to features of an offering than to its price.

10.5.4. Integrated Dimensions of Customer Value Versus the 18 Sources of E-Value

The last point of view from which the 18 sources of e-value are analysed is from a generic customer value perspective. Customer value research is concerned with classifying the sources of value from a customer perspective; determining what customers value; determining how these factors will change in future; determining which of these factors to focus on to create a competitive advantage; and determining how well customers perceive the business as delivering this value (Woodruff, 1997, p. 140). A good model of the sources of e-value should thus relate to many of the elements of integrated customer value perspective. Some discrepancies are expected though. Such an integrated customer value perspective is constructed in Table 10.24 below, by combining the elements of eight models of customer value.

Table 10.24 – Construction of the Integrated Dimensions of Customer Value Perspective

Customer Value Models									
No.	**Dimensions of Differentiation** (Hough, Thompson JR, Strickland III, & Gamble, 2011, pp. 159, 160)	**Differentiation Approaches** (Porter, 1980, p. 37)	**Benefit Attributes Adapted from** (Woodall, 2003, p. 12)	**The Six Buyer Benefits** (Palmroth, 1991)	**Value Drivers** (Lapierre, 2000, p. 125)	**User Value Adapted from** (Boztepe, 2007, p. 59)	**Benefit Outcomes** (Woodall, 2003, p. 12)	**Dimensions of Value Adapted from** (Smith & Colgate, 2007, pp. 11-14)	**Integrated Dimensions of User Value Perspective**
1.	Unique taste/ Prestige & distinctiveness								1. Unique taste & distinctiveness
2.	Wide selection & one stop shopping/ A full range of services/ A complete line of products				Alternative solutions	Compatibility			2. Wide selection
3.	Superior courier service	Dealer network					Logistical benefits	Delivery	3. Logistical benefits & delivery
4.	Multiple features	Features	Features				Product benefits	Product characteristics	4. Multiple features
5.	Top-of-the line image & reputation	Design or brand image		Appearance	Supplier's image		Aesthetic function	Image/ brand name/ Aesthetics	5. Image, aesthetics & reputation
6.	Engineering design & performance		Performance quality/ Core solution	Performance		Performance & efficiency	Use function/ Operational benefits/ functional benefits/ utility/ strategic benefits/ results	Performance quality/ Effectiveness/ operational benefits/ excellence	6. Performance & utility
7.	Quality manufacturing/ Technological leadership	Technology	Product quality/ Perceived quality		Product quality/ technical competence			Product quality	7. Product quality
8.	Product reliability		Reliability	Durability	Reliability	Durability & reliability		Reliability	8. Reliability & durability
9.	Spare part capability								*Removed – Not applicable in e-business*
10.		Customer service	Service quality		Supplier solidarity with customers/ minimising conflict			Service quality/ Solidarity/ Supplier know-how	9. Service quality
11.			Customisation		Product customisation			Customisation	10. Customisation
12.				Comfort	Minimising time/effort/energy	Convenience/ Avoidance of sensory unpleasantness	Convenience		11. Convenience
13.				Economy	Minimising price	Use economy/ Purchase economy	Economy/ financial benefits	Cost reduction/ financial benefits	12. Economy & cost reduction
14.				Safety	Trust	Safety	Security	Trust/ Safeguards/ Security	13. Trust, safety & security
15.					Responsiveness	Time management		Time to market	14. Responsiveness
16.					Flexibility			Flexibility	15. Flexibility
17.						Social prestige	Social benefits	Network benefits	16. Network benefits & social prestige
18.						Identity	Self-expression/ personal benefits	Personal benefits/ Esteem/ status	17. Identity, self-expression & esteem
19.						Group belongingness	Association with social groups	Association	18. Group belongingness
20.						Pleasure/ Fun	Enjoyment/ Humour	Humour	19. Fun & enjoyment
21.						Affection	Affective arousal	Affective arousal	20. Affection
22.						Sentimentality			21. Sentimentality
23.						Memorability			22. Memorability
24.							Knowledge	Knowledge	23. Knowledge
25.								Personal interactions	24. Personal interactions
26.								Relational benefits	25. Relational benefits
27.								Ethics	26. Ethics
28.								Fantasy	27. Fantasy
29.								Spirituality	28. Spirituality
30.								Curiosity	29. Curiosity

Altogether, 29 dimensions of customer value were identified and by listing these on the on the y-axis and the 18 sources of e-value on the x-axis, Table 10.25 below can be constructed.

Table 10.25 – Integrated Dimensions of User Value versus the 18 Sources of E-Value

18 Sources of E-Value Equivalent	Effectiveness	Affordability & cost reduction	Range & complementarities	Reach & accessibility	Findability	Timeliness & immediacy	Authenticity, trust & security	Richness of information exchange	Interpretation	Simplicity	Convenience	Customer empowerment	Novelty & newness	Aesthetics & brand attractiveness	Embodiment	Individualisation	Connectivity & socialisation	Personal Fulfilment
1. Unique taste & distinctiveness													✓					
2. Wide selection			✓		?													
3. Logistical benefits & delivery	✓			✓								✓						
4. Multiple features	?		✓									✓						
5. Image, aesthetics & reputation							?							✓				
6. Performance & utility	✓																	
7. Product quality	✓		?	?	?	?	?	?	?	?	?	?	?	?	?	?	?	?
8. Reliability & durability	✓						✓											
9. Service quality	✓			?	?	✓		?	✓	?	✓				?	?		
10. Customisation																✓		
11. Convenience											✓							
12. Economy & cost reduction		✓																
13. Trust, safety & security							✓											
14. Responsiveness						✓												
15. Flexibility	?		?	?							?	?				?		
16. Network benefits & social prestige																	✓	✓
17. Identity, self-expression & esteem																		✓
18. Group belongingness																	✓	
19. Fun & enjoyment													✓		✓			
20. Affection																		?
21. Sentimentality																		?
22. Memorability					?													?
23. Knowledge								✓										?
24. Personal interactions																	✓	
25. Relational benefits																	✓	
26. Ethics							✓											?
27. Fantasy																		?
28. Spirituality																		?
29. Curiosity													✓					?

Horizontally analysing this table, two customer value elements are very ambiguous and vague and can relate to many of the 18 sources of e-value, namely product quality and service quality. Further, six customer value elements do not readily relate to the 18 sources of e-value, namely flexibility, affection, sentimentality, memorability, fantasy and spirituality. Again, this hints that 18 sources of e-value does not resonate deeply with specific emotional sources of value that are difficult to purposefully embody in a value proposition; and does not resonate deeply with industrial economy performance metrics.

Vertically analysing this table, two sources of e-value cannot specifically be identified in the integrated customer value perspective, namely findability and simplicity. Simplicity relates to convenience and if a more lenient relational assessment is done, a tick could probably be earned in that row. The author is loath to do this though, as convenience in the customer value perspective matches perfectly with convenience in the 18 sources of e-value. It is interesting to note this small gap in the user value perspective though. The absence of a relation to findability is less surprising. Findability is an odd type of value and is generally assumed as a given. Its absence could point toward findability not historically being of a major concern in customer value literature and that it only now, with the burgeoning digital data overload, becoming more important as a source of value.

10.5.5. Conclusion

As shown in the above analyses, the 18 sources of e-value has a very high coverage and correlation with the reviewed dimensions of e-customer demands, antecedents of e-loyalty, e-quality and customer value. It cannot be claimed that the 18 sources of e-value are the absolute ultimate dimensions that are valuable online, but their pervasiveness and ubiquity showcased via triangulation suggests that these 18 sources are an adequate reflection of the sources of value in e-business, or at the very least a good point of departure for thinking about value creation in e-business.

Other findings that this analyses brought to light was that the 18 source of e-value does not emphasize aspects relating to operational features, technical quality or performance metrics (such as durability, flexibility and conformance), which are more prevalent and relevant in industrial contexts than in e-business. The model deals with these aspects by lumping them under the “effectiveness” source of value. The 18 sources of e-value also does not span or address the complete spectrum of emotional, social, conditional and spiritual types of value (Gummerus, 2011, p. 29; Smith & Colgate, 2007, pp. 10-14; Boztepe, 2007, p. 59; Holbrook, 2005, p. 47; Woodall, 2003, p. 9; Lai, 1995, p. 382; Seth, Newman, & Gross, 1991). The problems with these types of value are that they are often too tacit, ambiguous, and instance or individually specific to sensibly strive towards. Attributes such as sentimentality and memorability for instance are difficult to purposefully design into a value proposition. These types of value can be the implicit result of some other factors, but are difficult to individually and explicitly create. Consequently, the model lumps many of these softer dimensions under the “personal fulfilment” and “embodiment” sources of value, as they are the most closely aligned with these types of elements.

A last critique regarding the 18 sources of e-value is that some overlap may exist between the different sources. The author attempted to arrive at mutually exclusive sources as far as possible, however the meaning and interpretations embedded in language makes it very difficult to arrive at such a compilation. The best chance that any researcher would have to create at a mutually exclusive compilation is to break the constructs down into atomic parts. The result however, would be an assembly consisting of too many factors to be practical. As this study aims at providing models that are practical and useful, the author was content with the current assembly of sources of value that exist at an almost thematic level.

10.6. Appendix F: Derivation of Competitive Strategy Insights

In this section the origin of the competitive strategy insights that were presented in Chapter 2.4.5 are shown in Table 10.26 below. Interested readers should refer back to Chapter 2.4.5 for a further meta-analysis that derives the elements of a competitive strategy.

Table 10.26 – Competitive Strategy Insights Derived from Literature Descriptions

Competitive Strategy Insight	Competitive Strategy Definitions and Descriptions
1. Competitive strategy involves the **selection** of the most **attractive industry** in which to compete based on a **structural analysis** of the industry and its competitors (**5 forces analysis**). This **environmental analysis** clarifies the context in which the competitive strategy is to be executed; identifies the key competitive factors in the industry; and informs the subsequent competitive decisions.	• "The essence of formulating a competitive strategy is relating a company to its environment… The key aspect of the firm's environment is the industry or industries in which it competes." (Porter, 1980, p. 3) • "Structural analysis is the fundamental underpinning for formulating competitive strategy." (Porter, 1980, p. 4) • "The first fundamental determinant of a firm's profitability is industry attractiveness. Competitive strategy must grow out of a sophisticated understanding of the rules of competition that determine an industry's attractiveness. The ultimate aim of competitive strategy is to cope with and, ideally, to change those rules in the firm's favour." (Porter, 1985, p. 4)
2. Competitive strategy involves the creation of a **unique and valuable position within the chosen industry** (**strategy positioning**).	• "The second central question in competitive strategy is a firm's relative position within its industry." (Porter, 1985, p. 11) • "In any industry, the rules of competition are embodied in five competitive forces: the entry of new competitors, the threat of substitutes, the bargaining power of buyers, the bargaining power of suppliers, and the rivalry among the existing competitors." (Porter, 1985, p. 4) • "The goal of competitive strategy for a business unit in an industry is to find a position in the industry where the company can best defend itself against these competitive forces or can influence them in its favour." (Porter, 1980, p. 4) • "Competitive strategy examines the way in which a firm can compete more effectively to strengthen its market position." (Porter, 1980, p. xviii) • "In fact, this process of asking questions, generating alternatives, and making choices that may prove to be the wrong ones is what strategy is all about. This is because, in every industry, there are several viable positions that companies can occupy. Therefore, the essence of strategy is selecting *one* position that a company can claim as its own." (Markides, 1999, p. 56)
3. Carving out this position can involve a plethora of **offensive and defensive moves** to thwart competitors, gain an upper-hand over the five forces of competition, and strengthen one's competitive position. Typical approaches involve targeting the position where the competitive forces are the weakest; influencing the competitive forces in the company's favour; or anticipating trends affecting the key competitive factors in the industry and positioning the company to capitalise on these.	• "An effective competitive strategy takes offensive or defensive action in order to create a defendable position against the five competitive forces. Broadly this involves a number possible approaches: Position the firm so that its capabilities provide the best defence against the existing array of competitive forces; influencing the balance of forces through strategic moves, thereby improving the firm's relative position; or anticipating shifts in the factors underlying the forces and responding to them, thereby exploiting the change by choosing a strategy appropriate to the new competitive balance before rivals recognize it." (Porter, 1980, p. 29) • "Essentially, developing a competitive strategy is developing a board formula for how a business is going to compete, what its goals should be, and what policies will be needed to carry those goals." (Porter, 1980, p. xxiv) • "Competitive strategy is a combination of ends (goals) for which the firm is striving and the means (policies) by which it is seeking to get there." (Porter, 1980, p. xxiv) • "Increased attention to formal strategic planning has highlighted questions that have long been of concern to managers: "What is driving competition in my industry or in industries I am thinking of

Competitive Strategy Insight	Competitive Strategy Definitions and Descriptions
	entering? What actions are competitors likely to take, and what is the best way to respond? How will my industry evolve? How can the firm be best positioned to compete in the long run?" (Porter, 1980, p. xxi)
4. Competitive strategy is management's **plan** for creating a **sustainable competitive advantage**, with the aim of reaping **above average returns** relative to the other competitors in the industry.	• "Positioning determines whether a firm's profitability is above or below the industry average. A firm that can position itself well may earn high rates of return even though industry structure is unfavourable and the average profitability of the industry is therefore modest. The fundamental basis of above-average performance in the long run is sustainable competitive advantage." (Porter, 1985, p. 11) • "Both resource-based theory and theories of competitive strategy deriving from industrial organization (OI) economics (Porter 1980, 1985) are concerned to explain the nature and source of super-normal profits." (Bowman & Ambrosini, 2000, p. 5) • "A competitive strategy concerns the specifics of management's game plan for competing successfully and securing a competitive advantage over rivals… its specific efforts to please customers, its offensive and defensive moves to counter the manoeuvres of rivals, its responses to whatever market conditions prevail at the moment, its initiatives to strengthen its market position, and its approach to securing a competitive advantage vis-à-vis rivals… The objective of competitive strategy is to knock the socks off rivals companies by doing a better job of satisfying buyer needs and preferences." (Hough, Thompson JR, Strickland III, & Gamble, 2011, p. 148) • Competitive strategy is "strategy by which the innovating firm will gain and hold advantage over rivals." (Chesbrough, 2010, p. 355)
5. In the simplest form, two **core competitive advantage choices** exist, namely striving for low costs or striving for differentiation (**generic strategies**).	• "Though a firm can have a myriad of strengths and weaknesses vis-à-vis its competitors, there are two basic types of competitive advantage a firm can possess: low cost or differentiation." (Porter, 1985, p. 11)
6. **Every company has a competitive strategy** whether implicit or explicit. The creation of a competitive advantage is the ideal, but not necessarily the outcome. Competitive strategy therefore is not equal to competitiveness in the market. Rather, competitive strategy describes the **approach of how a business "goes to market"**. Therefore, even "Blue Ocean" businesses possess a competitive strategy and it is not a term solely related to "Red Ocean" markets.	• "Every firm competing in an industry has a competitive strategy, whether explicit or implicit. The strategy may have been developed explicitly through a planning process or it may have evolved implicitly through the activities of various functional departments of the firm…The emphasis being placed on strategic planning today in firms in the United States and abroad reflects the proposition that there are significant benefits to be gained through an explicit process of formulating strategy, to insure that at least the policies (if not the actions) of functional departments are coordinated and directed at some common set of goals." (Porter, 1980, p. xxi)
7. A **competitive advantage is sustainable** when customers have a **preference** for the company's **value proposition** rather than competitors' and when the basis for that preference is durable. Competitive strategy is therefore closely aligned with the **creation of value** to meet specific **customer segment needs,** the **capturing of value**, and **defence of the chosen strategic position**. The latter is done by employing **strategic control points** (isolating mechanisms), which act to lock	• "Competitive strategy is the key factor underlying an enterprise's ability to entrench core competitive benefits on a sustainable basis." (Ungerer, Pretorius, & Herholdt, 2011, p. 182) • "A company achieves a sustainable competitive advantage when an attractive number of buyers prefer its products or services over the offerings of competitors and when the basis for this preference is durable." (Hough, Thompson JR, Strickland III, & Gamble, 2011, p. 7) • "Generic strategy deals with the creation of social value – with the question of whether the products and services being created are worth more than their cost. Competitive strategy, by contrast, deals with the firm's need to capture some of the social value as profit." (Rumelt, 1998, p. 3) • "It is no exaggeration to say that competitive strategy is the art of creating or exploiting those advantages that are most telling, enduring, and most difficult to duplicate." (Rumelt, 1998, p. 4)

Competitive Strategy Insight	Competitive Strategy Definitions and Descriptions
competitive advantages in for the company.	• "Competitive strategy is all about building advantage by protecting a unique position and exploiting a distinctive set of resources and capabilities." (Casadesus-Masanell & Tariján, 2012, p. 6) • "Organisations can design competitive marketing strategies based on meaningful and desirable combinations of product benefits for their customers. How to select a competitive strategy and the desirable benefits of the product will largely depend on the company's knowledge about the customers' consumption behaviour. In addition, the relative defensibility of the strategy in the market is another problem in selecting a competitive strategy." (Lai, 1995, pp. 386, 387)
8. **Competitiveness** is essentially about being **different** than competitors. Differentiation is achieved by performing different activities or performing activities differently than competitors. The notion of a highly integrated **activity system** is thus important in competitive strategy, as it also provides barriers to imitation.	• "Competitive strategy is about being different. It means deliberately choosing a different set of activities to deliver a unique mix of value… But the essence of strategy is in the activities – choosing to perform activities differently or to perform different activities than rivals." (Porter, 1996, pp. 6, 7) • "The essence of strategic positioning is to choose activities that are different from rivals'." (Porter, 1996, p. 10) • "Competitive strategy, in contrast with generic strategy, focuses on the differences among firms rather than their common missions. The problem it addresses is not so much 'how can this function be performed', but 'how can we perform it either better than, or at least instead of, our rivals?' " (Rumelt, 1998, p. 4) • "Competitive strategy is about being different, and the business model in this respect is the vehicle for operationalizing such differences." (Nielsen & Bukh, 2012, p. 43) • "A competitive strategy explains how you will do better than your rivals. And doing better, by definition, means being different. Organizations achieve superior performance when they are unique, when they do something no other business does in ways that no other business can duplicate… That's what strategy is all about – how you are going to do better by being different. The logic is straightforward: When all companies offer the same products and services to the same customer by performing the same kinds of activities, no company will prosper." (Magretta, 2002, p. 91) • "Strategy entails *choosing*, and a company will be successful if it chooses a *distinctive* strategic position that differs from those of its competitors." (Markides, 1999, p. 56)