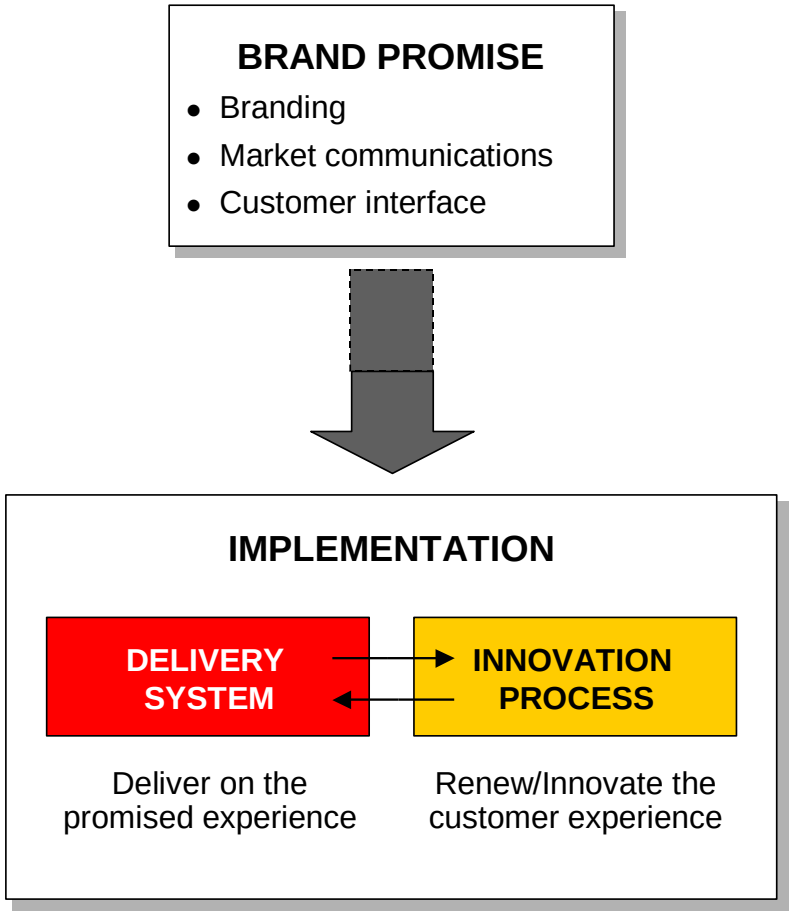
Chapter 7: Strategy Implementation

- Key questions answered in this chapter:
- What is the online implementation?
- Why does implementation matter?
- What is the delivery system?
- What are the categories of offline innovation?
- What is the offline innovation process?
- What is the new logic behind online innovation?
- What are the online innovation frameworks?
- What are the online innovation processes?

Online Implementation

- The two phases of the online implementation process:
  1. The delivery of the offering
  2. How the offering and the infrastructure are modified to adjust to the evolution of the market
- The firm must design an infrastructure to deliver on the website's brand promise, which can be divided into two broad categories:
  1. The configuration of the structure, systems, and processes, and
  2. The supply chain

Exhibit 8–1: Marketspace Evolution and Need for Continuous Innovation



Objectives

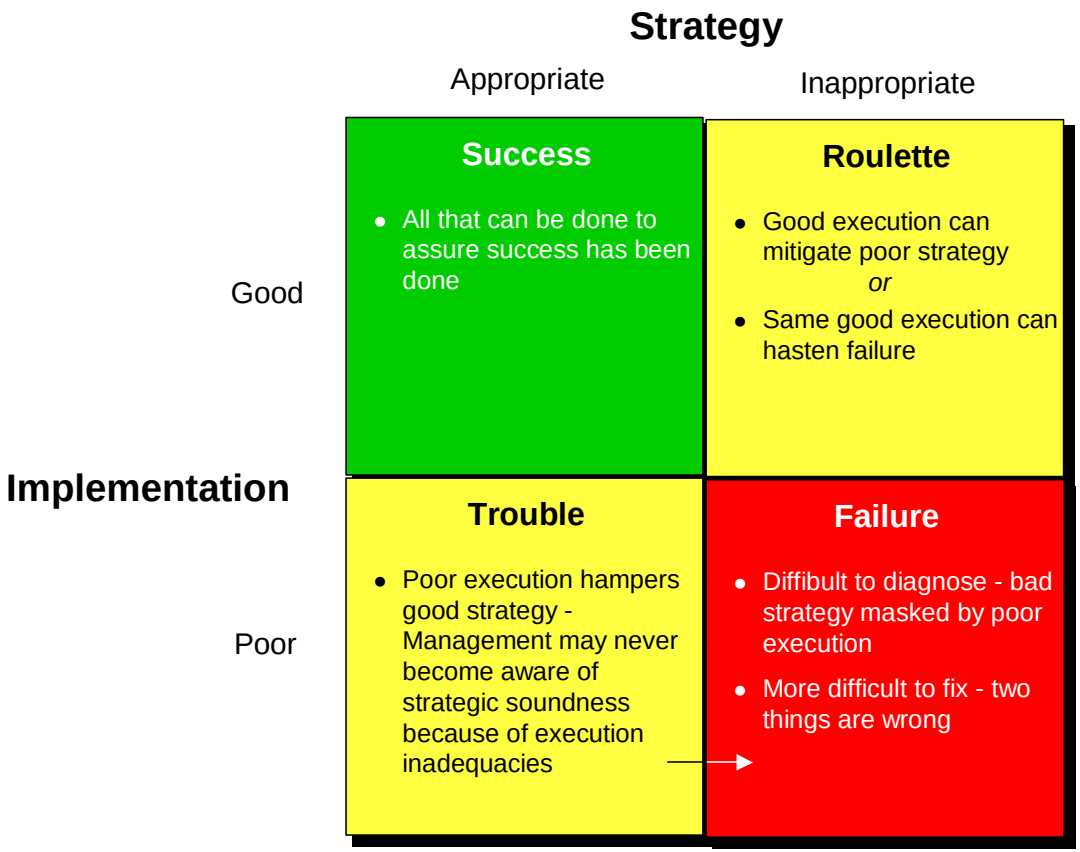
- Achieve strategic goals
- Adjust product offering and delivery system to rapidly changing Marketspace environment

Source: Monitor Analysis

Why does implementation matter?

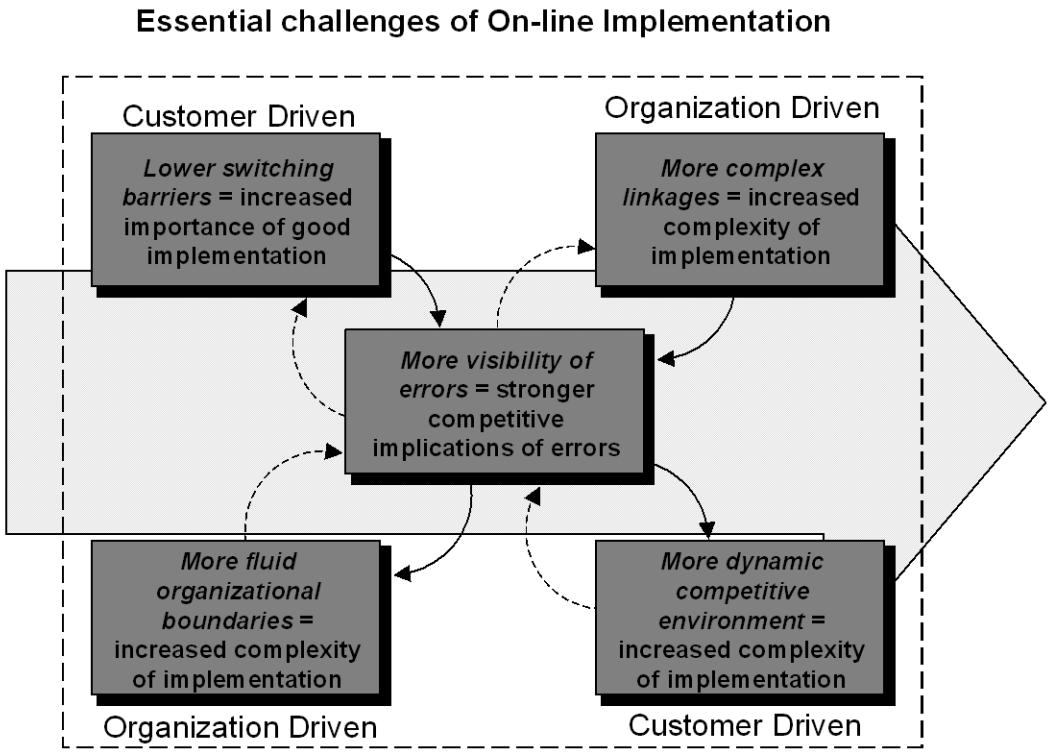
- Inappropriate strategy can be partially offset by proper implementation, but poor implementation will usually result in a company performing poorly in the marketplace

Exhibit 8–2: Why Does Implementation Matter?



Source: Modified version of materials in *The Marketing Edge* by Thomas V. Bonoma. 1985. New York: The Free Press.

Exhibit 8-3: Challenges of Online Implementation



Implementation Challenges for Online Firms

Six implementation challenges of online firms:

1. Higher visibility to errors
   - Internet firms are closely monitored by the media, thus mistakes become magnified
2. Lower switching costs
   - It costs a consumer very little to switch from one site to another (click of the mouse)
3. More dynamic competitive environment
   - Low barriers to entry result in opportunities for competitors and new entrants, when implementation is poorly executed

Implementation Challenges for Online Firms (cont'd)

4. More fluid organizational boundaries
   - Increases contact between partnering organizations, but elevates the complexity of the interactions
5. More dynamic market environment
   - Companies must implement quickly in order to adjust to the changing marketplace
6. More complex linkages
   - Increased linkages result in a more bureaucratic process, thus slowing the decision process

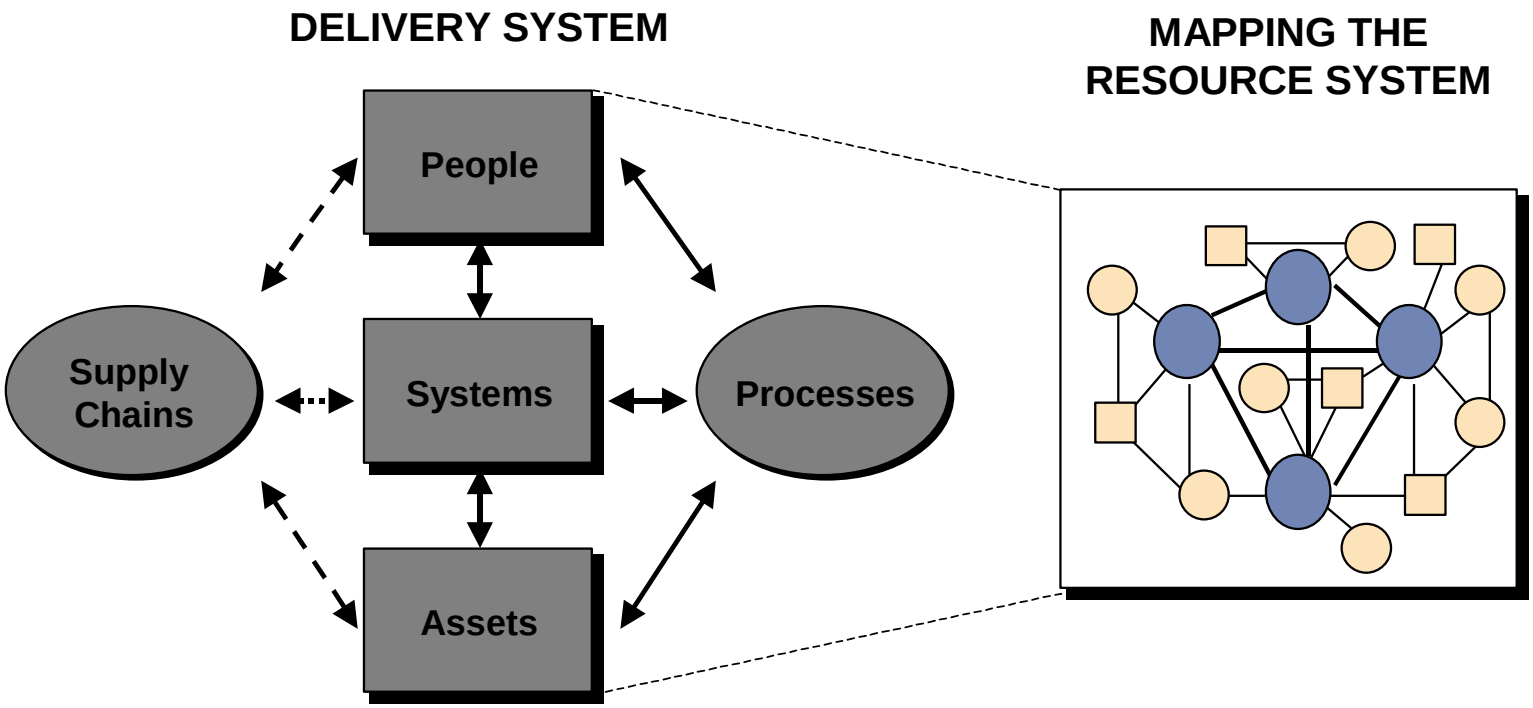
What is the Delivery System?

- The delivery system translates the resource system from a conceptual structure into a concrete configuration of resources, processes, and supply chains
- The delivery system has a major impact on the customer retention and on the customer's views of the brand/product

Five Components of the Delivery System

1. People
2. Systems
3. Assets: physical and information-based
4. Processes: patterns of interaction, coordination, communication, and decision-making that employees use to transform resources into customer value
5. Supply chains

Exhibit 8-4: The Delivery System Needs to Support and Reinforce the Resource System



Four Types of Online Supply Chains

1.Business-to-Consumer(B2C)

- E-tailer has significant flexibility in its supply chains

- One advantage is online retailers do not have to have the physical product in stock
  - Four types of B2C supply-chain models:
  - A. Stock-it-yourself
  - B. Outsource warehousing
  - C. Drop shipping
  - D. Fulfillment intermediaries

Online Supply Chains (cont'd)

2. Business-to-Business(B2B)
   - Estimated to be 3 to 10 times larger than the B2C market
   - Advantages include: lower input prices, reduced inventory, reduced transaction costs, faster delivery, and better customer service
3. Consumer-to-Business(C2B)
   - Organize consumers together to create group-buying power in order to reduce costs
4. Consumer-to-Consumer (C2C)
   - Firm facilitates person-to-person interaction, e.g., Ebay

Exhibit 8-5: Four Types of Supply Chains Found Online

B2C - Business to Consumer

- **Stock it yourself.**
- **Outsource warehousing**
- **Drop ship**
- **Fulfillment intermediaries**

B2B - Business to Business

- **Customer centric**
- **Vertical hubs**

C2C - Consumer to Consumer

- Much like a vertical hub, many sites (e.g., eBay) have created a customer-to-customer sales
- Provides a forum for buyers and sellers to meet
- Buyers and sellers trade directly (eliminating an intermediary)
- A global marketplace with a large and interested trading company

C2B - Consumer to Business

- Individual consumers place bids with businesses (e.g., Priceline) and businesses decide whether to sell
- C2B chains also include consumers group-buying, as in Mercata.com

Online and Offline Integration

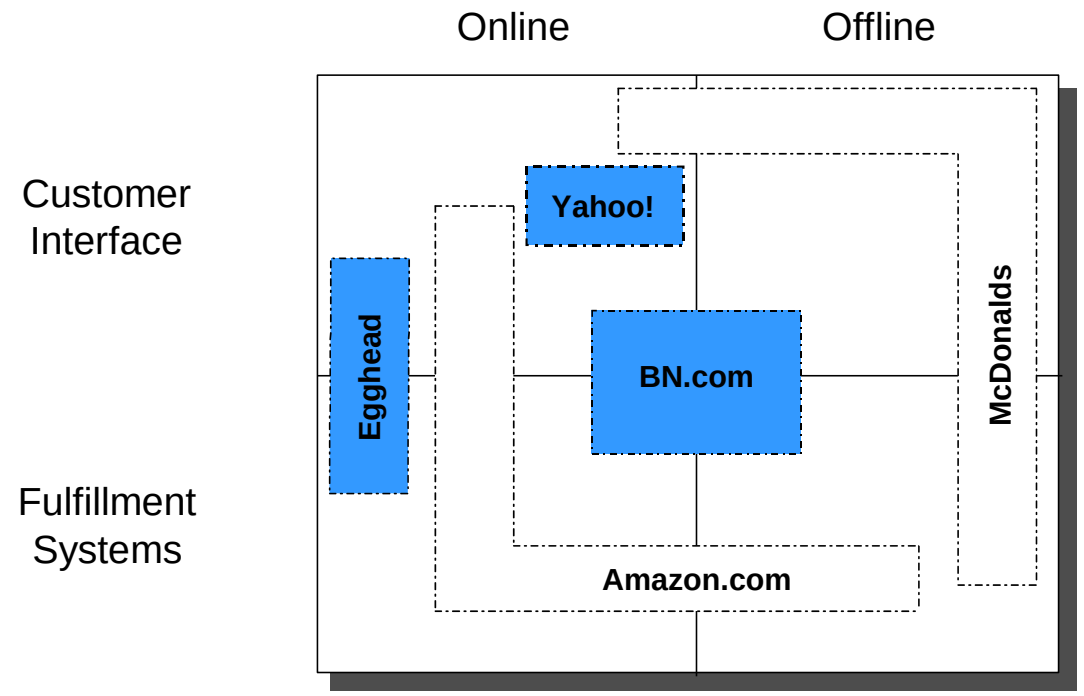
- Types of companies:
  - Pure online company
  - Pure offline company
  - Hybrid- combines both online and offline
- Types of Hybrid organizations:

1. Single-Organization
   - Easy for the customer to interact with the company on and offline
   - Can consolidate systems
   - But, online and offline components may have to compete for critical resources

Online and Offline Integration (cont'd)

2. Dual-organization
   - Able to isolate each component (online and offline) to maximize its potential valuation and cost savings
   - May not be able to manage a consistent brand image

Exhibit 8-6: Where to Play On-Line and Off-Line



Categories of Offline Innovation

1. Line Extensions
   - Incremental advances, i.e., new and improved versions of existing products
   - Project timeframe of less than three years
2. Changing the Basis of Competition
   - Creating a new competitive position or niche
   - Project timeframe of three to ten years
3. New Industries
   - Innovations that lead to the creation of an entirely new industry (e.g., Rogaine)
   - Project timeframe of greater than ten years

Table 8–1: Innovation Used to Be Slow and Gradual in the Off-Line World

3M's Research Paradigm

Laboratories	Primary Activities	Time Frame	Innovation Type
Division Laboratories	• Product development • Product control • Technical service	• Today's business 0–3 Years	• Line extension
Sector Laboratories	• Sector technology development	• 3–10 Years	• Changing the basis of competition
Central Research	• New technology development	• 10+ Years	• New industries

Key Takeaways

- Traditional off-line innovation took years and emphasized sustainable / gradual innovation
- Marketspace still offers room for incremental innovation, but emphasis shifts to more drastic innovations
- High information content of innovation objects increases speed of innovation: from years to months or even shorter
- Short history of Marketspace means new collaborators / complementors become available frequently

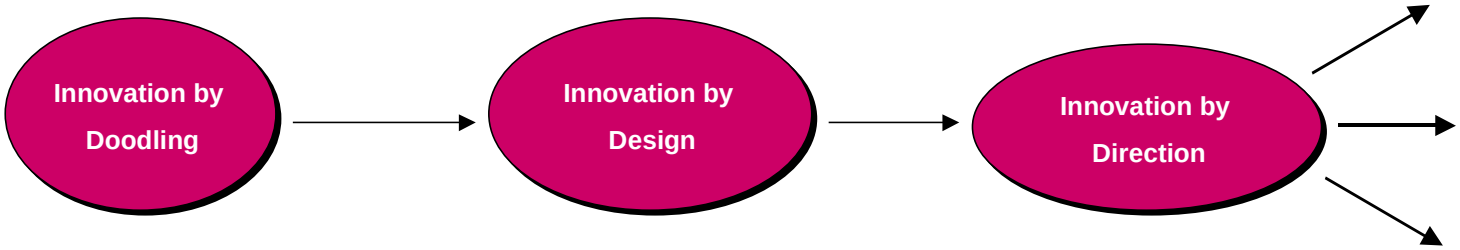
Source: Gundling, Ernest. 2000. *The 3M Way to Innovation.* Tokyo: Kodansha Int. Ltd. And New York, New York: Kodansha America, Inc.

The Offline Innovation Process

- The innovation funnel process:

1. Innovation by doodling
   - A brain-storming session used to illicit new ideas
2. Innovation by design
   - A reduction in the number of ideas to a commercially viable group
3. Innovation by direction
   - Staff undertakes market research and implementation tests to narrow the field of concepts

Exhibit 8-7: The Offline Innovation Process



Adapted from 3M's Innovation Funnel, in Ernest Gunding's *The 3M Way to Innovation*. (Bankyo-ku, Tokyo: Kodansha America, 2000)

The New Logic Behind Online Innovation

- The offline innovation process is significantly altered by the dynamic environment of the online business
- Several factors differ between online and offline innovation:
  - The investment required to launch a new product or service is significantly higher in the offline arena than in the online arena.
  - Limited resources force offline firms to make choices about which innovations to pursue, whereas online firms allow the market to make the choices

The New Logic Behind Online Innovation (cont'd)

- With online companies the focus of innovation decision-making moves outside the organization and into the market, direct feedback is gathered from the customer
- Offline companies must weigh the need to move to market quickly with the high costs of failure, while the online companies can move to market quickly and allow for revisions/customizations to occur later

Table 8-2: Off-Line Innovation Process vs. On-Line Innovation Process

Off-Line Trade-Offs/Principles Supporting Funnel Approach:	On-Line Principles
• **Investments** required to launch new innovation very high • **Limited** resources force tradeoffs / choices which innovations to pursue or not • Trade-offs / choices are made **inside the organization** before product hits the market • Time-to-market / first-mover imperative needs to be **traded off** with extensive time required to gather customer input • Launching early increases **risk** of flops and flops need to be avoided at all times: – Costs of flow very high – Significant damage to brand-equity	• Investments required to launch new products and services very moderate • Choices about future of new innovations can easily be made by markets; no need to make these choices internally • First-mover imperative can be aligned with gathering (more) customer input • Launching beta-versions allows for revisioning / customization, actually benefiting innovator • Keys drivers determining success of innovation / implementation are: – Customer base – Customer data analysis – Knowledge management

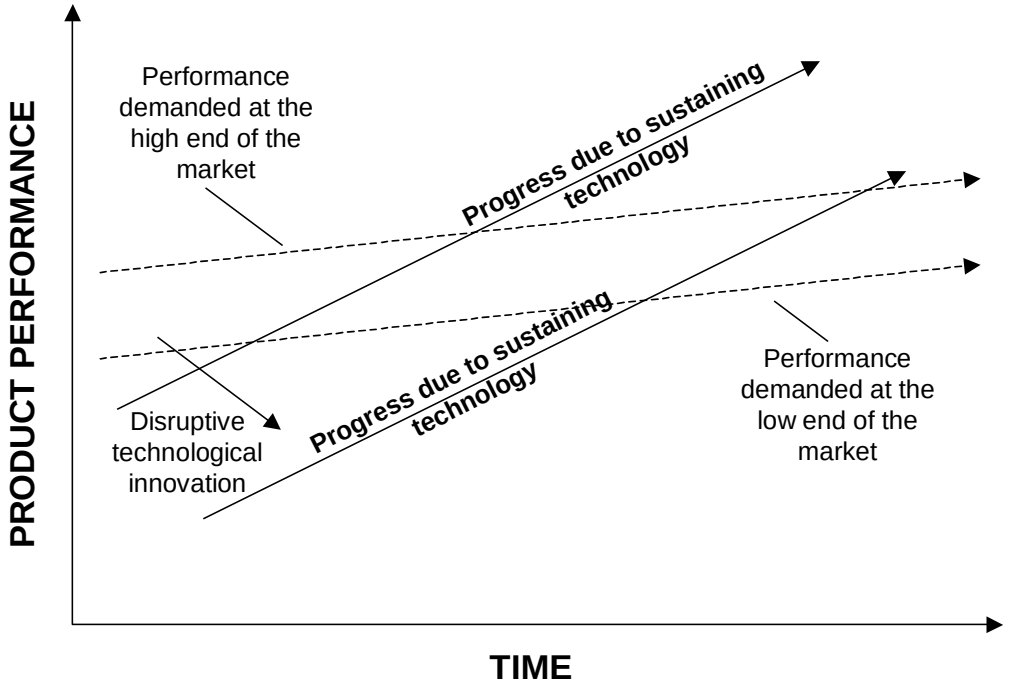
The Online Innovation Frameworks

- Online innovation is easier and cheaper to implement
- The market is actively seeking innovation
- Customers are willing to tolerate glitches and provide beneficial feedback
- The online environment allows for rapid innovation

Disruptive Technologies

- Clayton Christensen defines it as “innovations that create an entirely new market through the introduction of a new kind of service or product”; the technology may initially be inferior to established technology, but the development cycle is short and their performance meets consumer expectations later on in the product cycle
- The Internet is an example of a disruptive innovation

Exhibit 8-8: Christensen Innovation Framework



Source: Christensen, Clayton M. 1997. *The Innovator's Dilemma*. Boston, MA: Harvard Business School Press.

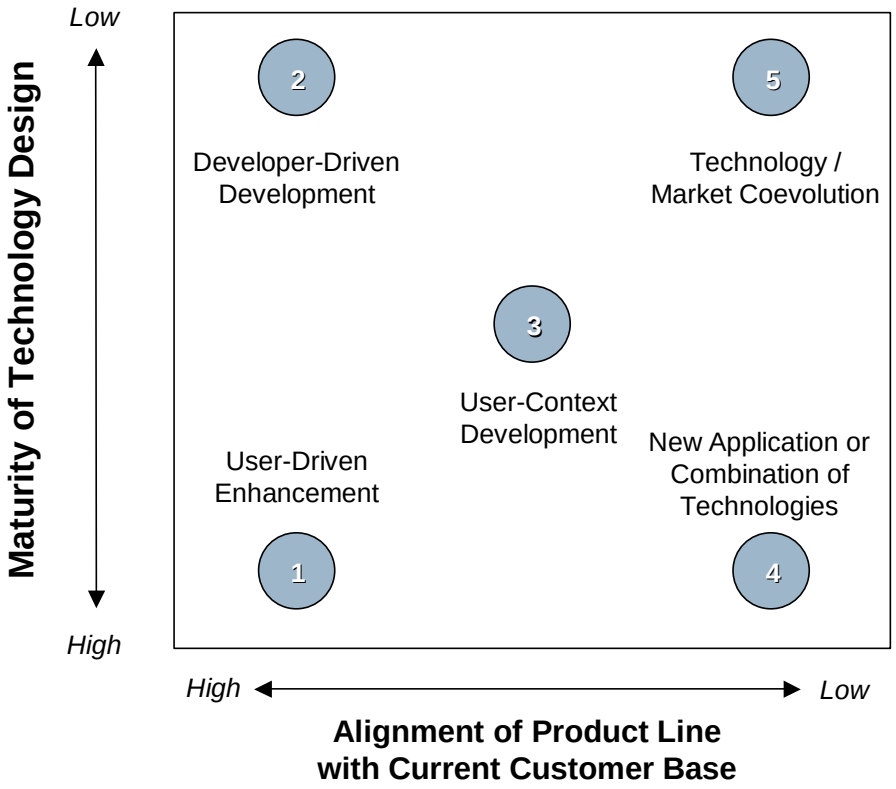
Dorothy Leonard Innovation Framework

- Leonard's five categories of innovation:
  1. User-driven enhancement- Very little risk, examples include: improvements to a current product, lowering product price, or feature enhancements
  2. Developer-driven development- Innovation that creates a new way to meet an already existing consumer need
  3. User-context development- Innovation that is developed to meet a previously unexpressed need

Dorothy Leonard Innovation Framework (cont'd)

4. New application or combination of technology- an established technology applied to a new industry/area
5. Technology/market co-evolution- new developments that sometimes occur as a result of accident, but usually come about where the customer base is not known and the technology in that area is not well-established

Exhibit 8-9: Leonard Innovation Framework

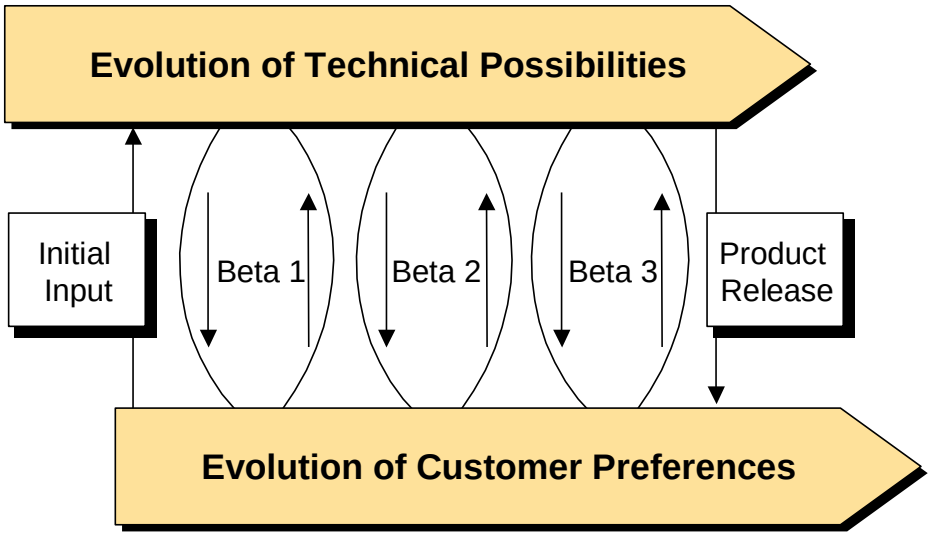


Source: Leonard-Barton, Dorothy. 1996. *Wellsprings of Knowledge,* Boston, MA: Harvard Business School Press.

The Online Innovation Processes

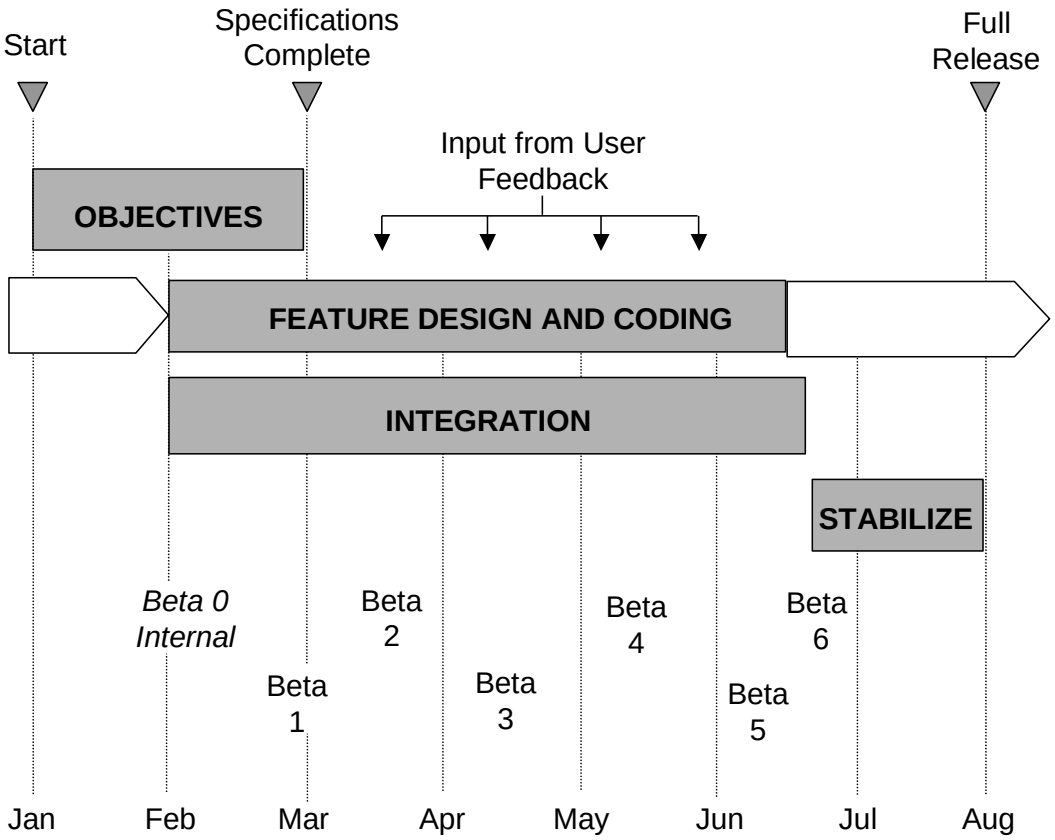
- Within the online innovation process the concept development and implementation of ideas need to overlap and be tightly integrated
- Flexible Development Process results in:
  - Reduced time-to-market of innovations, multiple versions of an innovation can be launched without major risk or additional cost, and increased flexibility to adjust to the direction of innovation

Exhibit 8-10: Integrating New Technology with Customer Preferences



Source: Iansiti, Marco and Alan McCormack. 1998. New product development on the Internet. In *Sense & Respond.* Boston: Harvard Business School Press.

Exhibit 8-11: The Development of Netscape 3.0



Source: Iansiti, Marco and Alan McCormack. 1998. New product development.

Distributed Innovation Model

- The organization is at the center of the innovation process and the sources of online evolution branch out from the center
- The innovation process is fluid with a constant flow between the organization and the marketplace
- Maximizes the use of internal and external assets, but this fluidity can be hard to manage and control
- Minimizes the chances of the organization overlooking external changes
- More flexible process, reduced time-to-market

Exhibit 8-12: Distributed Innovation

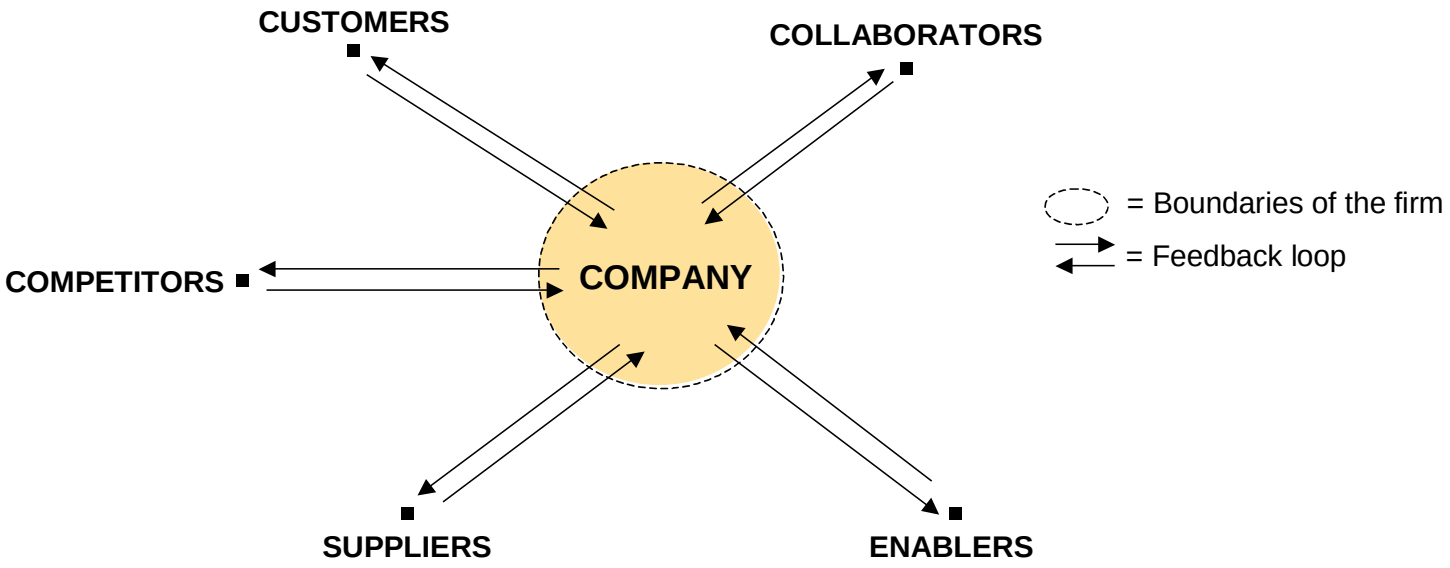


Exhibit 8-13: Timeline for MarketWatch.com Innovation