

Relevance of Five Forces model, Value Chain and Generic Competitive strategies for E-commerce firms

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Abstract

In spite of sustained and rapid development of the e-commerce industry, most of the firms engaged in this sector are still in the phase of brand-building and investment and yet have to show profit. The e-commerce firms shift their focus from developing the customer base to that of improving their revenues to gain competitive advantages and sustainability. Hence, it is recommended to re-evaluate their present business strategies and apply certain competitive strategies to develop a clear path to sustainability and profitability. In this context, the researcher here has analysed the relevance of Porter's Five Competitive Forces, Value Chain Analysis and Generic Competitive Strategies framework for the e-commerce firms. The study has gained an insight into the effectiveness of these competitive strategies being developed by the e-commerce firms to gain competitive advantages and sustainability in the market. Various secondary resources like journals, articles, and books that are relevant to the study have been used to complete the study.

Keywords: E-commerce, competitive strategies, competitive advantages, sustainability

1. Introduction

The *E-commerce* industry has made a huge shift in the economy and the way in which a business is conducted. It forces the firms to pursuit for new ways to augment the market in which the firms compete to attract and also retain the consumers by modifying the products or services as per their needs (Shin, 2001). It also helps to restructure the business process of those firms to deliver the products or services effectively and efficiently. But, in spite of the sustained and rapid development of the e-commerce business, many firms who are in the domain of e-commerce are still in the brand-building and investment phase and are yet to gain profits or competitive advantages. Most of the e-commerce businesses have emphasised on the ease-of-use and visual attractiveness of their websites while considering it as the primary mode of enhancing the customer base (Kulatunga, 2008). But, the e-commerce business methods shifted its attention from developing customer base to the increase of

profitability and competitive advantages in the e-commerce industry. The e-commerce industry has applied strategy frameworks and certain competitive business strategies to provide a clear path to competitive advantages and profit.

Besides discussing the e-commerce business strategies, it is important to know that e-business has gained attention from the investors, industry observers, executives and entrepreneurs. With the advent of information technology, new ways of processing business designs have been developed in the market while creating mayhem in the industry (Augusto, Lima, Torres, Oliveira, Oliverira, 2012). The small and medium scale industries along with the large firms are frequently integrating internet technology so that the business processes can be redesigned to strengthen the competitive advantages. Due to the rapid extension of the e-commerce values in previous years, people are convinced with the fact that an innovative economy has started. The entrepreneurs and other businesses have engaged in the expansion process of the business through internet or e-commerce way (Phan, 2003). E-commerce can be further divided into- B2B (business to business), B2C (business to consumer), C2B (consumer to business), and C2C (consumer to consumer). Other than face to face interactions, all the e-commerce businesses are done electronically through the internet. Henceforth, to gain competitive advantages in the e-commerce business world, there is a need of developing effective strategies as discussed in this research work (Wang, 2014). In this research work, the researcher has explained three strategy frameworks that are used by the e-commerce industry to gain some competitive advantages in the market. These are- *Porter's Five Forces Model of competitive intensity*, *Value Chain analysis* and *Generic Competitive Strategy framework*. These are applied by the firms in e-commerce industry to provide important insights into the development of business while contributing to increasing the profit as well. A detailed discussion has been done on the same in the subsequent section of the study.

2. Research aim and objectives

This study aims to identify the relevance of strategy frameworks used to formulate competitive strategies and used by the e-commerce industry to gain sustainable competitive advantages in the market.

The objectives of the research are as follows-

- a. To identify the relevance of competitive strategy frameworks for the firms in e-commerce industry to gain sustainable competitive advantages in the market
- a. To understand the impact of these frameworks on the development of business efficiently in e-commerce domain and gain profit.

3. Literature review

Electronic commerce or e-commerce has revolutionised the processes in which a business is done. Tanwar (2013) stated that the changes could be seen in many terms like shaping the competitive advantages, strengthening the customer base, or increasing the level of profit among the firms. In one hand, e-commerce provides the chance of open communication where every type of communication can be done effectively and efficiently, while, on the other hand, it also benefits the exchange of evidence or products easily and faster. Further, Zott, Amit, & Massa (2011) noted that e-commerce has made the firms more flexible and responsive to the needs of customers and markets. However, with the increase of competition, the quest of using e-commerce techniques has increased among the companies. E-commerce affects the performance of the firm positively. At the same time, the e-commerce strategies have increased the sales of the firms while creating a sustainable competitive advantage for them as well. Pilinkiene, Kurschus, & Auskalnyte (2013) added that it increased the productivity and reduced the production costs. This resulted in market augmentation. Hence, it is apparent that the competitive strategies used in e-commerce resulted in the enhancement of firm's performance and its competitive advantages. Thus, to compete effectively, it is important for the e-commerce firms to apply the competitive strategies and gain success (Tallud, 2014). Considering this, the researcher here has analysed the three main competitive strategy frameworks which are used by the e-commerce industry to gain sustainability. These are-

a. Porter's five forces model of competitive intensity:

As per West, Ford, & Ibrahim (2015), an organisation develops the business strategies to obtain the competitive advantage that is increasing the level of profit over the competitors. This is done by responding to the five industry forces- a) threat of new entrants, b) rivalry among the firms in the industry, c) threats of substitute services or products, d) bargaining power of the suppliers and e) bargaining power of the buyers.

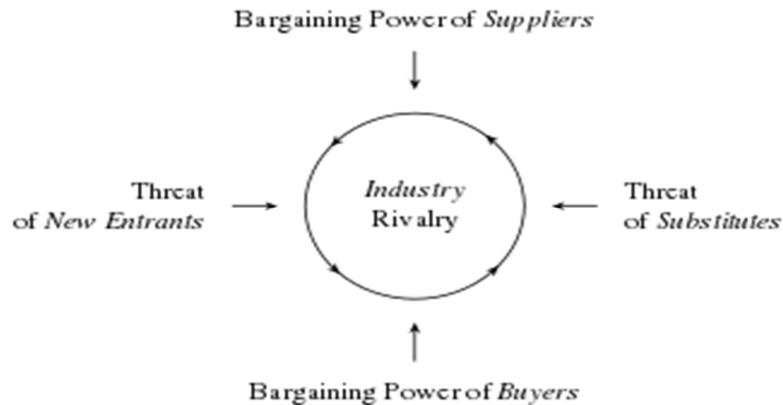


Figure 1: Porter's Five Competitive Forces Model

Source: Al-Debei, & Avison

(2010)

Sharma, Iyer, Mehrotra, & Krishnan (2010) have proposed that a firm at first assesses the five competitive forces following this model and then tries to form a market on the basis of those points where all the forces are weak. Barnes, & Hunt (2013) mentioned that the firm could achieve the competitive advantages by modifying these competitive forces. For instance, the e-commerce firms develop barriers to daunt the new entrants from entering the industry while cultivating capital-intensive or unique resources which cannot be copied by the new firms. These companies also reduce the bargaining power of the suppliers and customers by increasing the switching costs of the customers and reducing own costs for substituting the suppliers. McGrath (2013) stated that the five competitive forces of this model provide a solid base for the firms to develop their business strategies which generate the strategic opportunities. Since the internet makes an impact on these forces; the e-commerce companies consider these forces while forming the strategies. Further, the five force model also determines the competitive environment of the company while affecting the profitability. On the other hand, the bargaining power of the buyers and the suppliers affect the ability of the company to enhance the price and manage the costs. Industry rivalry is also higher when the different companies vie for the customers and as a result, intense rivalry leads to the lower profits and prices (Al-Debei, & Avison, 2010).

b. Value chain analysis

The concept of value chain was introduced by Michael Porter. The value chain of the e-commerce firm consists of the nine aspects that are linked to each other. Kulatunga (2008) noted that these are further divided into two categories - support and primary. The primary activities create and distribute the products and provide after sales service, like marketing and sales, inbound logistics, outbound logistics, operations and after sales service. Augusto, Lima, Torres, Oliveira, & Oliverira (2012) added that the support activities which support the primary activities are firm infrastructure, procurement, technology

and human resource management.

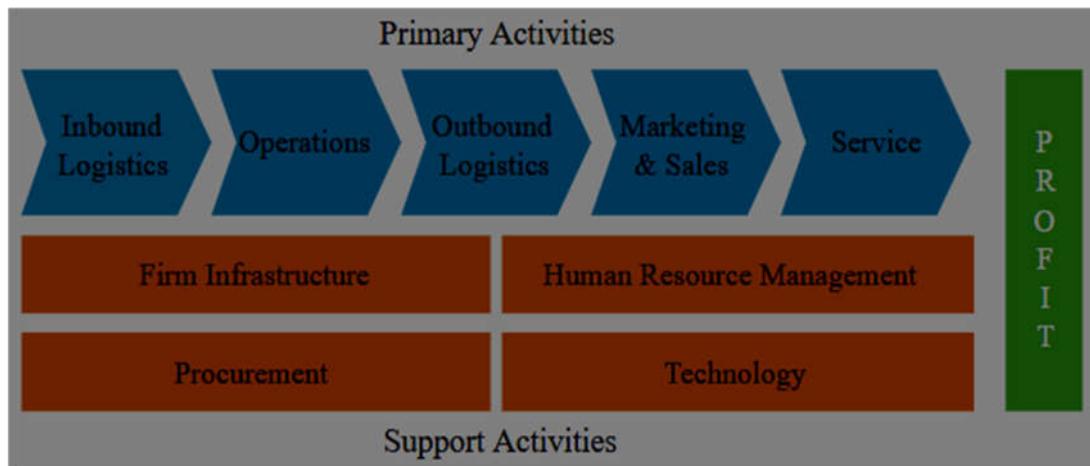


Figure 2: Value chain model

Source: Phan

(2003)

The value chains vary from one firm to another in this industry. The differences in between the competitors are the primary sources of the competitive advantages. As per Wang (2014), the firms need to give attention to the interactions in between the virtual and traditional value chains in order to create the competitive advantages. The internet makes an impact on the quality and costs of the activities present in a value chain while optimizing its workings in the real time. At the same time, the value chain analysis of a product is said to be the chain of actions which are performed by the e-commerce companies to add values in terms of creating and delivering products (Wang, 2014).

c. Generic Competitive Strategies

Other than all these above-mentioned frameworks, Tanwar (2013) claimed that a company needs to apply the generic strategies to efficiently compete in the e-commerce market. As per the generic strategies of Porter, the e-commerce firms need to choose narrow or broad segments to become successful and gain competitive advantages. The firms need to realise whether they have to differentiate their products or services from other competitors in the market or whether they should reduce their costs to achieve profits. Zott, Amit & Massa (2011) added that the firms need to follow one or more generic strategies like cost leadership, market focus or differentiation to meet success.

		COMPETITIVE ADVANTAGE	
		Lower Cost	Differentiation
COMPETITIVE SCOPE	Broad Target	1. Cost Leadership	2. Differentiation
	Narrow Target	3A. Cost Focus	3B. Differentiation Focus

Figure 3. Porter's Generic Strategies

Source: Pilinkiene, Kurschus, & Auskalnyte (2013)

The firms need to follow a cost leadership strategy if it wants to develop as the lowest producer in the e-commerce market while offering similar products at the lowest cost in the standard market price. On the other hand, Tallud (2014) noted that firms could apply differentiation strategy to differentiate the products and services from others while providing better service quality to the customers and at a premium price. The firms can also compete using the market focus strategy while concentrating the efforts on the specific niche in the industry and by offering the specialised products. Today, the companies are using internet or e-commerce techniques to create differentiation for their products and services from the competitors (Laudon, & Traver, 2013). They also focus on the specific potential customers rather than competing through cost and price.

Thus, the theoretical lenses of this study are the three different competitive strategic frameworks that can be applied to an e-commerce business and the competitive advantages can be earned by the firms to maintain sustainability. By applying these, an e-commerce firm can improve its customer service, expand its customer base, enhance operational efficiency and also gain competitive advantage along with sustainability. In order to win in the present e-commerce business environment, it is important for the e-commerce companies to choose appropriate generic strategy while using the best technology and acquire proper innovations to meet the business goals and sustain competitive advantages. Hence, IT can be applied to gain the competitive advantages since it helps the firms to outperform the competitors. For instance, the TPS (total production system) developed by Toyota uses such a strategy to cut the costs, but keeps the same price in the cars that they sell.

Apart from all the generic strategies, Hughes (2011) suggested that value-based pricing is the best cost provider strategy which can be applied in an e-commerce industry since it entails pricing a service or a product to appeal to the consumers over the competing prices and alternative products. This also understands the customer values. The prices for the services or products are based on the perceived values (Barnes, & Hunt, 2013).

4. Findings

It is difficult to value the e-commerce firms since they have few assets and gain little profits. The e-commerce firms remained unsuccessful in making profits due to heavy spending on the marketing techniques, intense competition based on price, switching costs, low customer base and low entry barriers. The main reason behind this failure is that the e-commerce firms do not apply the appropriate business strategies which provide the clear path to enhance profit (David, 2011). Thus, in this study, the researcher has studied the different competitive strategies and strategy frameworks that are applied by the e-commerce firms to gain competitive advantages and sustainability in the market as well. Besides this, the researcher has attempted to study the effectiveness of *Porter's five force model* in e-commerce and has analysed that it helps in developing the market on the basis of those forces (West, Ford, & Ibrahim, 2015). This increases their level of competitive advantages while improving their sustainability as well. Accordingly, the firms can make modifications to gain competitiveness in the market.

Every e-commerce firm makes strategic decisions depending on their needs and goals of the organization. The decisions are taken to configure the *Value chain*. Value chain analysis helps to formulate the competitive strategies and understands the main sources of the competitive advantages (Sharma, Iyer, Mehrotra, & Krishnan, 2010). It also helps in identifying the links and the interrelationships in between those activities which create values in an e-commerce business. As a result, the competitive position of a firm is shaped, and its position in the competitive market is also improved through the choice of strategy. In this context, as per the literature review, generic strategies of Porter are also crucial for an e-commerce business to develop successfully. Generic strategies help the firms to cope with the five competitive forces of Porter in this industry and gain profits. The e-commerce firms try to apply the three main generic strategies as discussed earlier since they are sustainable in long-term and are beneficial for the firms as well to gain profitability in the market (Barnes, & Hunt, 2013). If the firms maintain a cost leadership strategy along with differentiation, then, they fail to meet either of them. Combination of market segmentation strategy with the product differentiation strategy can be considered as the effective process to match the product strategy of the firms. But, the combination of product differentiation with cost leadership is impossible since there is a chance of conflict in between the cost minimization and additional costs of the value-added differentiation.

The e-commerce firms search for the competitive advantages through the application of competitive strategies as discussed in the literature review section of the paper. However, it is important for the firms to understand how the competitive strategies can be translated into the competitive advantages and sustainability. The firms need to determine the process of implementation of these competitive strategies to achieve profitability and sustainability (McGrath, 2013). Competitive advantages further improve the performance of the firms. Thus, the above discussed three competitive strategy frameworks can be

chosen as effective ways through which the e-commerce firms can gain competitive advantages.

5. Conclusion and recommendations

With the rapid advancement in the technology, the novel ways of conducting business have been redesigned, and it includes the notion of e-commerce in the present day. The firms try to redesign its processes in such ways which provide competitive advantages (Bharadwaj, El Sawy, Pavlou, & Venkatraman, 2013). However, to gain competitive advantage or sustainability, there is a need of applying competitive strategies as explained in this paper. Henceforth, in this context, it has been seen that the researcher has focused on *Porter's five competitive forces, value chain analysis and generic strategies* that are applied by the e-commerce to gain competitive advantages and sustainability. Each of the strategies provides various benefits to the e-commerce business. The integration of these competitive frameworks improves the activities of e-commerce firms while making an impact on financial performance of the business and improving the rate of profitability (Keller, Parameswaran, & Jacob, 2011). Henceforth, it can be inferred that e-commerce has changed the ways in which a firm conducts business. Changes are observed in the shape of competitions, customer relationships, nature of leadership and rate of profitability. E-commerce affects the performance of the firms while helping them to gain some knowledge and develop new products based on the market demands. The selected e-commerce strategies as specified here, enhance the sales of the firms while increasing the productivity and reducing the costs (Wang, 2014). Henceforth, it can be concluded that the e-commerce firms need to apply the mentioned strategy frameworks to achieve the competitive advantages and gain sustainability.

Based on the above discussions, it can be further recommended as followings-

- a. The e-commerce firms should also focus on a customer-centered business model besides these competitive strategies, to improve customer service as well (Tanwar, 2013).
- a. The e-commerce firms need to develop effective strategies to maintain strategic positioning and maintain support from the top management.
- b. The companies also need to focus on customer personalization and buying behaviour to gain competitive advantages (Pilinkiene, Kurschus, & Auskalnyte, 2013).
- c. The e-commerce firms need to cover the supply chain management as well.

Thus, the e-commerce firms can implement certain specified recommended steps to improve their business and maintain its competitive advantages in the market.

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