

# Study unit 9

## Value chain and e-business

### 9.1 BACKGROUND

You, as an MNG2602 student, are my customer, or rather Unisa's customer, and I hope that you feel that you are getting value for your money from this course. Value is a perception, which is created in the mind of the customer, where the customer believes that he or she has received a fair return or equivalent in goods, services, or money for something exchanged. In the case of MNG2602, I would have created value if you believe that the amount of work covered and the support received from me is equivalent to or greater than the amount you paid for this course. Organisations must create value, in the minds of their customers, if they want to make a profit or even sell a product or a service. This is mainly because if customers do not value your product or service, they will not buy it. In this study unit, you will learn how organisations create value for their customers.



### 9.2 STUDY UNIT CHALLENGES

We are challenging you to:

- define the internal value chain of an organisation
- explain the value system
- explain how various e-business models can add value to an organisation

**Work through Chapter 16 in the prescribed book.**

### 9.3 KEY CONCEPTS

- The **business model** spells out how a company plans to make money and how it is competitively positioned in an industry.

- **Competitive advantage** can be defined as the ability of an organisation to provide greater value to customers than its competitors can.
- **E-business** is not just about e-commerce transactions; it's about redefining old business models, with the aid of technology, to maximise customer value.
- An **e-business model** is an approach to conducting electronic business through which a company can sustain itself and generate profitable revenue growth.
- **E-commerce** covers outward-facing processes that touch customers, suppliers and external partners (e-commerce is buying and selling using an electronic medium).
- **Inbound logistics** is the movement of materials from suppliers and vendors into production processes or storage facilities.
- The **value chain** is the interlinked value-adding activities that convert inputs into outputs which, in turn, add to the bottom line and help create competitive advantage.
- **Outbound logistics** is the process related to the movement and storage of products from the end of the production line to the end-user.
- The **supply chain** is the total flow of materials, information and cash, from the supplier's suppliers, right through an enterprise to the customer's customers.

## 9.4 INTRODUCTION

The goal of any organisation is to create more value in the minds of its customers than its competitors (create a competitive advantage). To stay competitive and survive, organisations have to create value in the minds of their customers that their competitors cannot easily imitate (sustainable competitive advantage). We already know that customers measure value as the fairness of exchange, but how do organisations create this value and how do they do it better than their competitors do?

Value is created by organisations either when they are able to produce a product or service:

- at a **lower cost** than their competitors; or
- in a unique way, so that customers are willing to pay a **premium price** for it.

The key factor of value creation is that it is **produced**. Organisations produce value for customers (externally) by configuring their internal value chain.

## 9.5 INTERNAL VALUE CHAIN

Michael Porter in his book, "Competitive advantage: creating and sustaining superior performance" (1985), describes the value chain as the activities the organisation performs and the various links between these activities. The ability of an organisation to perform particular activities and to manage the linkages between these activities is a source of competitive advantage.

Porter distinguishes between primary activities and support activities. Primary activities are directly concerned with the creation or delivery of a product or service. They can be grouped into five main areas: inbound logistics, operations, outbound logistics, marketing and sales, and service. Each of these primary activities is linked to support activities, which help to improve their effectiveness or efficiency. There are four main areas of support activities: procurement, technology development (including R&D),

human resource management, and infrastructure (systems for planning, finance, quality, information management, etc.). The organisation creates value for its buyers through performing these activities. The ultimate value that an organisation creates is measured by the amount that buyers are willing to pay for its products or services. An organisation is profitable if this value exceeds the collective cost of performing all the required activities.

## 9.6 VALUE CHAIN ENGINEERING

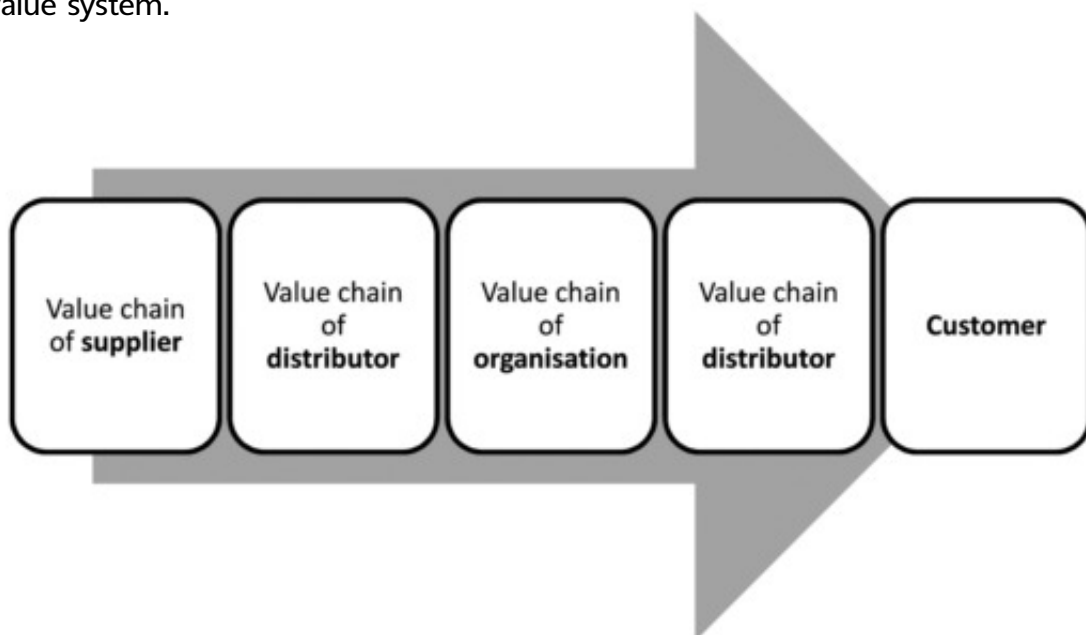
Organisations can manipulate their value chain to strengthen their competitive position in the market. They can do this by being either:

- internally focused: striving to minimise the cost of operational inputs while optimising their operational outputs; such an organisation generally pushes relatively cheap products onto the market and creates value by reducing costs
- externally focused: being driven by customer's wants, the organisation adapts its value chain to create a quality product required by the customer

Value engineering is looking at the activities the organisation performs and its linkages and adapting these activities and links to best create value for customers.

## 9.7 VALUE SYSTEM ENGINEERING

The organisation and its internal value chain are embedded into a wider stream of activities, the organisational supply chain. The supply chain consists of all the external parties and links between them, involved with a product or service from point of origin (raw material) to point of consumption (the customer). Each of these supply chain parties has their own internal value chain and the combination of the supply chain's value chains is called a value system. Today, organisations largely compete in the market on the strength of their value systems. Figure 9.1 graphically depicts an organisation's value system.



**Figure 9.1: Value system**

## 9.8 E-BUSINESS

In Study Unit 1, we considered the information technology revolution as one of the forces of change that affects the way organisations do business. The internet is a major contributor to the recent change in the way organisations create value, with organisations that are increasingly starting to conduct commerce over the internet. Electronic commerce or “e-commerce” covers the range of on-line business activities for products and services, both business-to-business and business-to-consumer. E-commerce is divided into two components:

- Online shopping: the scope of information and activities that provides the customer with the information they need to conduct business with you and to make an informed buying decision.
- Online purchasing: the technological infrastructure for the exchange of data and the purchase of a product over the internet. Online purchasing is a platform used in business-to-business e-commerce for providing customers with an online method of placing an order, submitting a purchase order, or requesting a quote.

Many companies have an e-commerce site, but are not yet an e-business. E-commerce is the online selling component of a website. E-business is the integration of a company’s activities, including products, procedures, and services, with the internet. You turn your company from a business into an e-business when you integrate your sales, marketing, accounting, manufacturing, and operations with your website activities. An e-business uses the internet as a fully integrated channel for all business activities.

## 9.9 E-BUSINESS TRADING MODELS

E-business trading models refer to **whom** the organisation does business with. The three models relevant to this study unit are:

- business-to-consumer e-commerce (B2C)
- business-to-business e-commerce (B2B)
- consumer-to-consumer e-commerce (C2C)

## 9.10 E-BUSINESS REVENUE-GENERATING MODELS

E-business revenue-generating models refer to **how** the organisation **makes its money**. The various revenue-generating models are summarised in Figure 9.2.

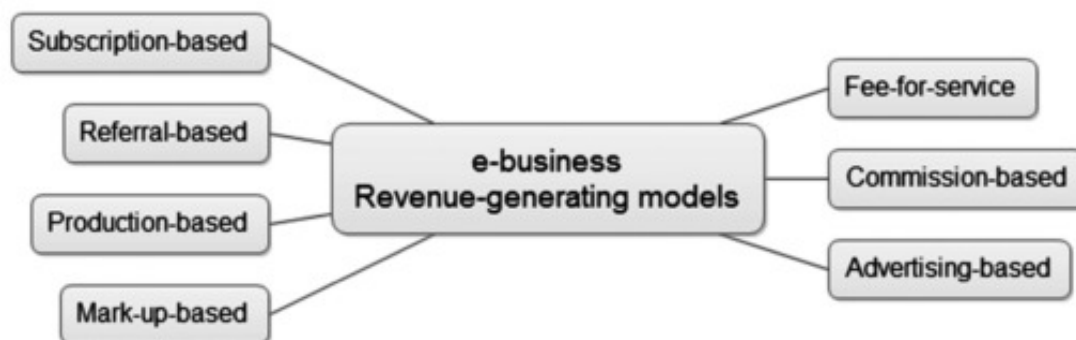


Figure 9.2: E-business revenue-generating models

## 9.11 E-BUSINESS SHOPPING MODELS

E-business shopping models refer to **what** the online website offers the organisation's customers. The various shopping models are summarised in Figure 9.3.



**Figure 9.3: E-business shopping models**

## 9.12 E-BUSINESS ADVANCED TECHNOLOGIES

All three the models discussed above focus on the e-commerce part of an e-business. However, to become an e-business rather than a business with an online presence, the organisation must perform its value-adding activities over the internet as well. To do this, it relies heavily on various information processing systems. The six systems relevant to this study unit are summarised in Figure 9.4.

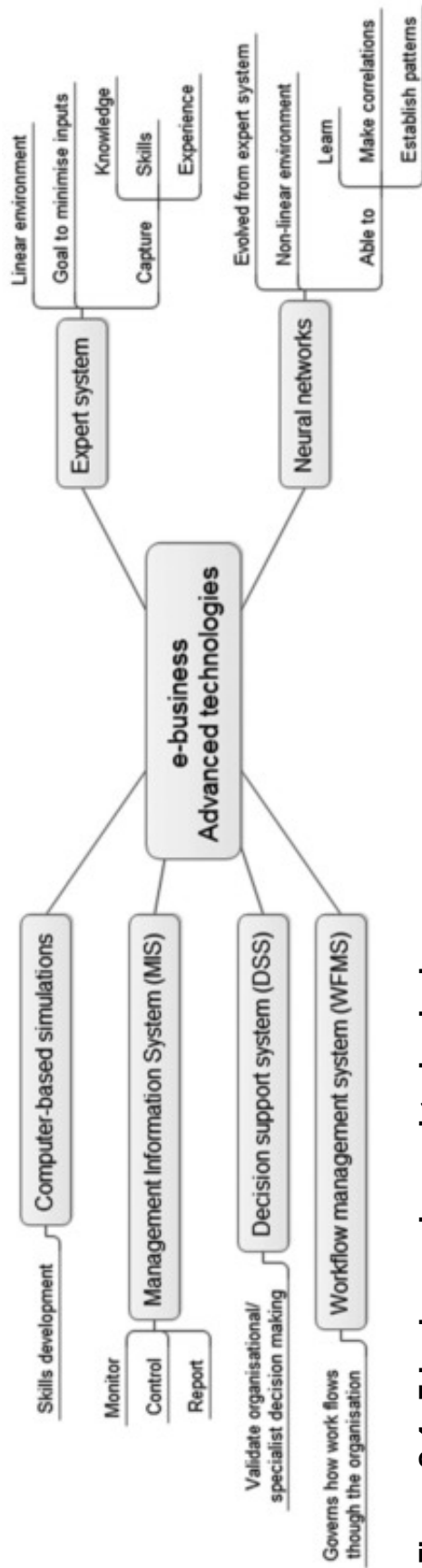


Figure 9.4: E-business advanced technologies

## 9.13 E-BUSINESS AND VALUE CREATION

Structure follows strategy. Once an organisation decides to create a web presence, be it through e-commerce or e-business, it must constantly manage its website, as consumers of today generally first consult the web before making purchasing decisions. To stay competitive, organisations must therefore:

- create value using the internet
- use search engine optimisation
- make use of e-marketing platforms such as Google's Pay-per-click, Facebook and Twitter

## 9.14 CONCLUSION

This study unit showed you how organisations must create value to stay competitive and indicated that organisations can use the internet to create value. In the ever-changing environment organisations find themselves in today, they must be flexible enough to adapt their value chains and value systems and make use of e-business and e-commerce initiatives to create a sustainable competitive advantage.

## 9.15 ADDITIONAL LEARNING EXPERIENCES

If you have access to the internet, you should consider visiting the following websites. This is NOT COMPULSORY, but these websites all contain interesting information and examples about the content in this study unit.

- Value chain
  - [http://www.youtube.com/watch?v=n6FIX\\_sz-t0](http://www.youtube.com/watch?v=n6FIX_sz-t0)
  - [http://www.youtube.com/watch?v=n6FIX\\_sz-t0](http://www.youtube.com/watch?v=n6FIX_sz-t0)
  - [http://www.youtube.com/watch?v=uhS\\_Ujjj8Jk](http://www.youtube.com/watch?v=uhS_Ujjj8Jk)
  - <http://www.youtube.com/watch?v=s7i4FrkUK4g>
  - <http://www.youtube.com/watch?v=0WKmJfvPYSU>
- E-business
  - <http://www.youtube.com/watch?v=wLodQ67LwiE>
  - <http://www.youtube.com/watch?v=xKJjyn8DaAw>
  - <http://www.youtube.com/watch?v=hIPPsndudy8>

Interesting **tweeple** that you could follow on Twitter:

@scdigest

@businessinsider

## 9.16 ASSESSMENT

### SECTION A: MULTIPLE-CHOICE QUESTIONS

- 9.1 \_\_\_\_\_ can be defined as the ability of an organisation to provide greater value to customers than its competitors can.
- 1 The value chain
  - 2 Inbound logistics
  - 3 Supply management
  - 4 Competitive advantage
- 9.2 Which **one** of the following is **not** a way for organisations to gain a competitive advantage?
- 1 perform activities in a unique way that creates greater buyer value
  - 2 place greater importance on promotions and marketing of their product
  - 3 use new technologies
  - 4 perform activities at a lower cost than its competitors
- 9.3 An organisation's \_\_\_\_\_ is an interdependent system or network of activities, connected by various linkages.
- 1 value chain
  - 2 competitive advantage
  - 3 value system
  - 4 sustainable advantage
- 9.4 Who is responsible for the development of the value system?
- 1 Charles Darwin
  - 2 W Edwards Deming
  - 3 Michael Porter
  - 4 Adam Smith
- 9.5 Which statement is incorrect?
- 1 Electronic business can be defined as a business using the internet for greater efficiency in every aspect of its operations.
  - 2 B2B e-commerce stands for 'business-to-buyer' e-commerce.
  - 3 Consumer-to-consumer e-commerce is made possible when an internet-based business acts as an intermediary between and among consumers.
  - 4 E-business contributes to a greater competitive advantage for the organisation.



- 9.6 A(n) \_\_\_\_\_ based business model often uses entertainment to enhance sales.
- 1 advertising
  - 2 referral
  - 3 production
  - 4 make-up
- 9.7 A(n) \_\_\_\_\_ based business model adds value to the organisation by leveraging a strong brand name and providing high-quality information to specialised markets.
- 1 commission
  - 2 subscription
  - 3 fee-for-service
  - 4 advertising
- 9.8 Bid or Buy is an example of \_\_\_\_\_ e-commerce.
- 1 C2C
  - 2 B2B
  - 3 B2C
  - 4 C2B

## SECTION B: PRESCRIBED TEXTBOOK

Try to answer the review questions in the prescribed textbook.

## SECTION C: TUTORIAL LETTER 101

Complete the questions that relate to this study unit from the assignment in Tutorial Letter 101.

## 9.17 END OF STUDY UNIT CASE STUDY

### Nestlé

Nestlé is the world's leading nutrition, health and wellness company. It employs around 330 000 people and has 461 factories in 83 countries around the world; almost half of these are in developing countries.

In the UK, Nestlé employs more than 7 000 people across 19 sites. The company is one of the major exporters in the UK and Ireland exporting over £300 million's worth of products every year to over 50 countries around the world.

Nestlé is a household name within the UK, producing some of Britain's most popular brands such as KIT KAT, NESCAFE, SMARTIES, GO CAT and SHREDDIES. Over one billion KIT KATs are produced in the UK every year.

Nestlé has a series of corporate business principles designed to guide the way in which the organisation and its employees operate. These principles are at the basis of Nestlé's culture and aim to protect the trust of its consumers and other stakeholders. The principles and their associated policies are concerned with activities related to:

- consumers
- human rights and labour practices
- employees
- suppliers and customers
- the environment

Nestlé works within the secondary sector of industry, creating and supplying products to customers. It converts raw materials into finished goods for consumers to enjoy. Raw materials used in many of Nestlé's products are sourced from the primary sector. For example, Nestlé brands such as KIT KAT, AERO and SMARTIES contain cocoa sourced from cocoa farmers around the world.

Nestlé works with cocoa farmers in order to help them run profitable farms and eliminate child labour, whilst developing a sustainable supply of cocoa for Nestlé products. Creating shared value has become an integral part of the way in which Nestlé does business. It is based on compliance with international laws and

codes of conduct as well as the company's business principles, while maintaining a focus on environmental sustainability. However, creating shared value goes beyond compliance and sustainability. It aims to create new and greater value for society and shareholders in the areas where the company can have the biggest impact nutrition, water and rural development. These are core to its business activities and vital for its value chain:

- **Water:** because the on-going quality and availability of water is critical to life, to the production of food and to Nestlé's operations.
- **Rural development:** because the overall wellbeing of farmers, rural communities, workers and small businesses and suppliers is intrinsic to the long-term success of Nestlé's business.
- **Nutrition:** because food and nutrition are the basis of health and of Nestlé's business as the leading nutrition, health and wellness company.

Nestlé actively seeks engagement and partnerships with external stakeholders to optimise its positive impact. It aims to use the power of its core activities and partnerships for the joint benefit of the people in the countries where it operates and for its shareholders.

Global principles and goals set by organisations such as the United Nations also help to shape a company's approach to corporate social responsibility. For example, Nestlé's corporate business principles incorporate the 10 United Nations Global Compact Principles on Human Rights, Labour, the Environment and Corruption. Nestlé is an active member of several of the Compact's working groups and initiatives.

Around two-thirds of Nestlé's worldwide expenditure is on raw materials. Nearly 40% of this is spent on three main ingredients: milk, coffee and cocoa. Cocoa is the main ingredient in chocolate and as such is vital to Nestlé. It comes from cocoa beans that grow in a pod on a cocoa tree.

*Nestlé operates within complex supply chains. Its cocoa supply chain goes from cocoa bean to chocolate bar. This path starts with cocoa from farmers, who grow the crops; to cooperatives, which manage the sale of the crops; to pro-*

*cessors and manufacturers, such as Nestlé, which create chocolate products; to retailers, such as supermarkets, and finally to consumers who purchase the products.*

**Adapted from:** *Times 100. (2013g)*

*Copyright Business Case Studies LLP. Reproduced by permission of the publisher.*

[www.businesscasestudies.co.uk](http://www.businesscasestudies.co.uk)

## 9.18 STUDY UNIT REVIEW QUESTIONS

Google Nestlé and read the case study to answer the following questions:

- 9.1 Graphically depict Nestlé's value system for creating Kit Kats.
- 9.2 How does Nestlé create value?
- 9.3 Graphically depict the generic value chain for an organisation in Nestlé's industry.
- 9.4 What type of e-business trading model is Nestlé using?
- 9.5 What type of e-business revenue-generating model is Nestlé using?
- 9.6 What type of e-business shopping model is Nestlé using?