Agenda: Porter and the case

- Main message
- Five forces (can be very wrong)
- The new economy hype
- Distances and transformation
- New industries
- First mover, outsourcing and switching costs
- Benefits and problems
- The Internet and Competitive Advantage
- Preparations for examination
### Perspectives of Internet-impact on internationalization of the firm

#### Driving forces

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<th>Internal</th>
<th>External</th>
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#### Decision making

- Planned

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### The message: My theories still work!

"…while a new means of conducting business has become available, the fundamentals of competition remain unchanged"
More power to the consumers is bad
(+ means opportunities and – means threats for the possible profit-level)

Rivalry among existing competitors?

- Reduces the differences among competitors as offerings are difficult to keep proprietary
- Migrates competition to price
- Widens geographic market, increasing the number of competitors
- Lowers variable cost relative to fixed cost, increasing pressure for price discounting
Barriers and threats?

- Barriers to entry
  - Reduces barriers to entry such as the need for sales force, access to channels and physical assets – anything that Internet technology eliminates or makes easier to reduce barriers to entry
  - Internet applications are difficult to keep proprietary
  - A flood of new entrants has come into many industries

- Threats of substitute products or services
  - By making the overall industry more efficient, the Internet can expand the size of the market
  - The proliferation of Internet approaches creates new substitution threats

Bargaining power?

- Suppliers
  - Procurement using the Internet tends to raise bargaining power over suppliers, though it can also give suppliers access to more customers
  - The Internet provides a channel for suppliers to reach end users, reducing the leverage of intervening companies
  - Internet procurement and digital markets tend to give all companies equal access to suppliers, and gravitate procurement to standardized product that reduce differentiation
  - Reduce barriers to entry and proliferation of competitors downstream shifts power to suppliers

- Buyers
  - Channels
    - Eliminates powerful channels or improves bargaining power of over traditional channels
  - End users
    - Shifts bargaining power to end users
    - Reduces switching costs
The End of the New Economy

- Companies will **not be able to survive without basic Internet applications**, but they will not gain any advantage from them.
  - **Traditional strengths** such as unique products, proprietary content, distinctive physical activities, superior product knowledge, and strong personal service and relationships will be the **most important**
- The "new economy" appears less like a new economy than like an **old economy that has access to a new technology**
- We have failed to see how the **Internet is the same**
  - A needed shift in thinking
    - from e-business to business, from e-strategy to strategy

The context and the goal of the paper
Distances and digitalization

- Virtual activities do not eliminate the need for physical activities, but often amplify their importance.
  - Introducing Internet applications in one activity often places greater demands on physical activities elsewhere in the value chain.
  - Using the Internet requiring new or enhanced physical activities that are often unanticipated.
- A similar dynamic often plays out in digital marketplaces.
  - Suppliers are able to reduce the transactional cost of taking orders when they move on-line, but they often have to respond to many additional requests for information and quotes, which, again, places new strains on traditional activities.

Transformation

- The key question is not whether to deploy Internet technology - companies have no choice if they want to stay competitive - but how to deploy it.
- Many of the companies that succeed will be ones that use the Internet as a complement to traditional ways of competing, not those that set their Internet initiatives apart from their established operations.
  - Internet business looks much the same as traditional business
  - Good news for established companies, which are often in the best position to meld Internet and traditional approaches.
  - But dot-coms can also be winners -- if they understand the trade-offs between Internet and traditional approaches and can fashion truly distinctive strategies.
Transformation processes in the case?

- **Buyers**
  - From a single (trial) to integrated activity?
  - Supplement to OR elimination of current procurement activities?

- **Sellers**
  - What should they do in order to meld Internet and traditional sales-approaches?

- **Scanmarket**
  - Open to closed e-marketplace
  - Interface and F2F

Industry transformation in a distance perspective

- The Internet only changes the **front end** of the process
- Some new industries, such as **on-line auctions and digital marketplaces**.
- Greatest impact has been to enable the **reconfiguration of existing industries** that had been **constrained by high costs** for communicating, gathering information, or accomplishing transactions
- The use of the Internet also tends to **expand the geographic market**, bringing many more companies into competition with one another
- Because the Internet **reduces the importance of location**, at least for the initial sale, it widens the geographic market from local to regional or national
  - Even in a virtual world, **location still matters** (Dunning & Wymbs, 2001)
  - Web ordering increases the value of its physical locations
New industries (Internet auctions)

- **Customers and suppliers** are fragmented and thus have **little power**.
  - Substitutes, such as classified ads and flea markets, have less reach and are less convenient to use.
- An important lesson:
  - **Industry structure is not fixed** but rather is shaped to a considerable degree by the choices made by competitors.

The case describes a new industry

- Scanmarket (online reverse auction e-marketplace)
  - Do **not focus on a fixed industry structure** (all types of products can be traded)
  - Enables the **reconfiguration** of existing industries:
    - Buyers
      - From **low to high** bargaining power
      - **Global procurement** is easier and have relatively lower costs
    - Sellers
      - From **high to low** bargaining power
      - **Expands the geographic market** (from a cost and reach perspective) because it **reduces the importance of location**
        - More sellers can be in competition with one another **(in the same virtual room)**
The Myth of the First Mover

- Remember (Forsgren & Hagström, 2001)?
  - If, the firm finds the risk associated with not investing abroad even greater, then the ignorant firm will invest. The cost of not investing would then be forgone first-mover advantages.
- The general assumption that the deployment of the Internet would increase switching costs, which would provide first movers with competitive advantages.
  - Switching costs encompass all the costs incurred by a customer in changing to a new supplier.
- In reality, though, switching costs are likely to be lower, not higher, on the Internet than they are for traditional ways of doing business.
  - Internet technologies have made it easier for companies to coordinate with their suppliers.
  - While extensive outsourcing can reduce near-term costs and improve flexibility, it has a dark side when it comes to industry structure.

The dark side of outsourcing

- As competitors turn to the same vendors, purchased inputs become more homogeneous.
  - Eroding company distinctiveness.
  - Increasing price competition.
- Outsourcing also usually lowers barriers to entry because a new entrant need only assemble purchased inputs rather than build its own capabilities.
- In addition:
  - Companies lose control over important elements of their business.
  - Crucial experience in components, assembly, or services shifts to suppliers, enhancing their power in the long run.
The switching cost issue in the case

- **Sellers**
  - Eroding company distinctiveness
  - Increasing price competition

- **Buyers**
  - Increasing price competition
  - Companies only lose control over important elements of their business if they ever had the control!
  - Experience in negotiating the price shifts to Scanmaket, enhancing their power and increasing the cost of swtiching to another e-marketplace

- **Scanmarket**
  - Have one simple and very focused product that it is easy to in-source, copy or change supplier for the customer

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E-marketplace benefits

- E-marketplaces **automate corporate procurement** by linking many buyers and suppliers electronically
  - The benefits to **buyers** include **low transaction costs**, easier access to price and product information, convenient purchase of associated services, and, sometimes, the ability to pool volume.
  - The benefits to **suppliers** include **lower selling costs**, **lower transaction costs**, **access to wider markets**, and the avoidance of powerful channels
Scanmarket may have problems

- If it is relatively easy for buyers and sellers to transact business directly?
- Anything buyers or suppliers provide to a marketplace, can be readily provided on their own proprietary sites?
- Suppliers and customers can begin to deal directly online without the need for an intermediary?
- Many buyers back away from open marketplaces:
  - They may once again focus on building close, proprietary relationships with fewer suppliers, using Internet technologies to gain efficiency improvements in various aspects of those relationships?

Economic value

- The gap between price and cost
- It is useful to draw a distinction between
  - The uses of the Internet (such as operating digital marketplaces, selling toys, or trading securities)
  - Internet technologies (such as site-customization tools or real-time communications services), which can be deployed across many uses.
- It is the uses of the Internet that ultimately create economic value.
  - The uses generate sustainable revenues or savings in excess of their cost of deployment
Economic value in the case?

- Buyers
  - Do they generate sustainable savings?
- Sellers
  - Do they generate sustainable revenues?
- Scanmarket
  - The gap between price and cost is positive
  - Do they create economic value for buyers and sellers?

The Internet and Competitive Advantage

- It is all about old fashioned business ability
- Achieving a sustainable competitive advantage
  - By operating at a lower cost, by commanding a premium price, or by doing both
- Doing the same things your competitors do but doing them better (operational effectiveness)
  - Internet makes less investment than was required to capitalize on past generations of information technology
  - Everybody do it so no sustainable competitive advantage – price focus only
- Doing things differently from competitors, in a way that delivers a unique type of value to customers
  - There is a need for making sure that company’s activities fit together as a self-reinforcing system
Nothing stays the same
Not everything is changed

The Four Lane Road
(Edward Hopper)

Preparations for examination:
What are the main messages and perspectives of Internet-impact on internationalization of the firm?

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<td>Session 2 (and the rest)</td>
<td>Session 1 (maybe)</td>
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