

**The Case for Adaptiveness in e-Business:
Innovation Adoption, Economic Scope, and Value Capture
through the Strategy of Sense-and-Respond**

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Agenda

1. Major challenges for e-business

- Innovation Adoption, Economic Scope and Value Capture

2. Network e-economics and strategic management

- Strategy, structure, governance

3. Adaptive e-business operating in unpredictability

- Adapting to customers one-to-one
- Adapting capabilities to respond to wide range of customer values
- Coherent purpose and consistent behavior in adaptation
- Adapting rapidly at large scale over broad scope

4. e-business → change strategic management framework

- Mental models: e-business as open, adaptive, purposeful social system
- Failure modes

e-business is about changes in business models

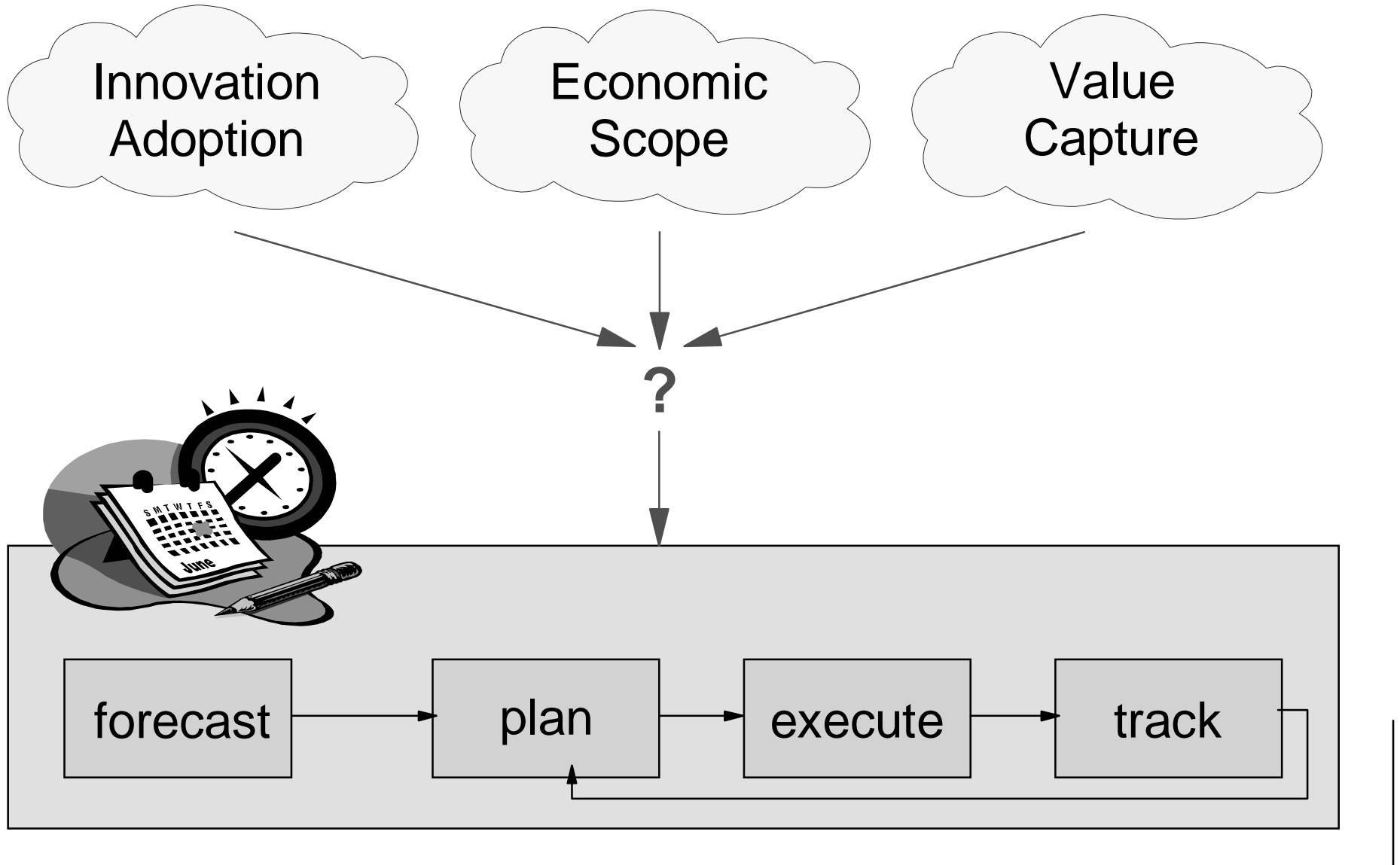
IBM coined the term "e-business" to talk about a broader, more powerful set of changes.

About a new mandate: The requirement to explore -- in every institution in the world -- new models, and either validate them, or discard them.

All kinds of models: business and financial models, new models for the way ideas move across an enterprise, for marketing and distribution, for the way governments deliver services, schools teach and doctors heal

1. Major uncertainties for e-business ... (page 1 of 5)

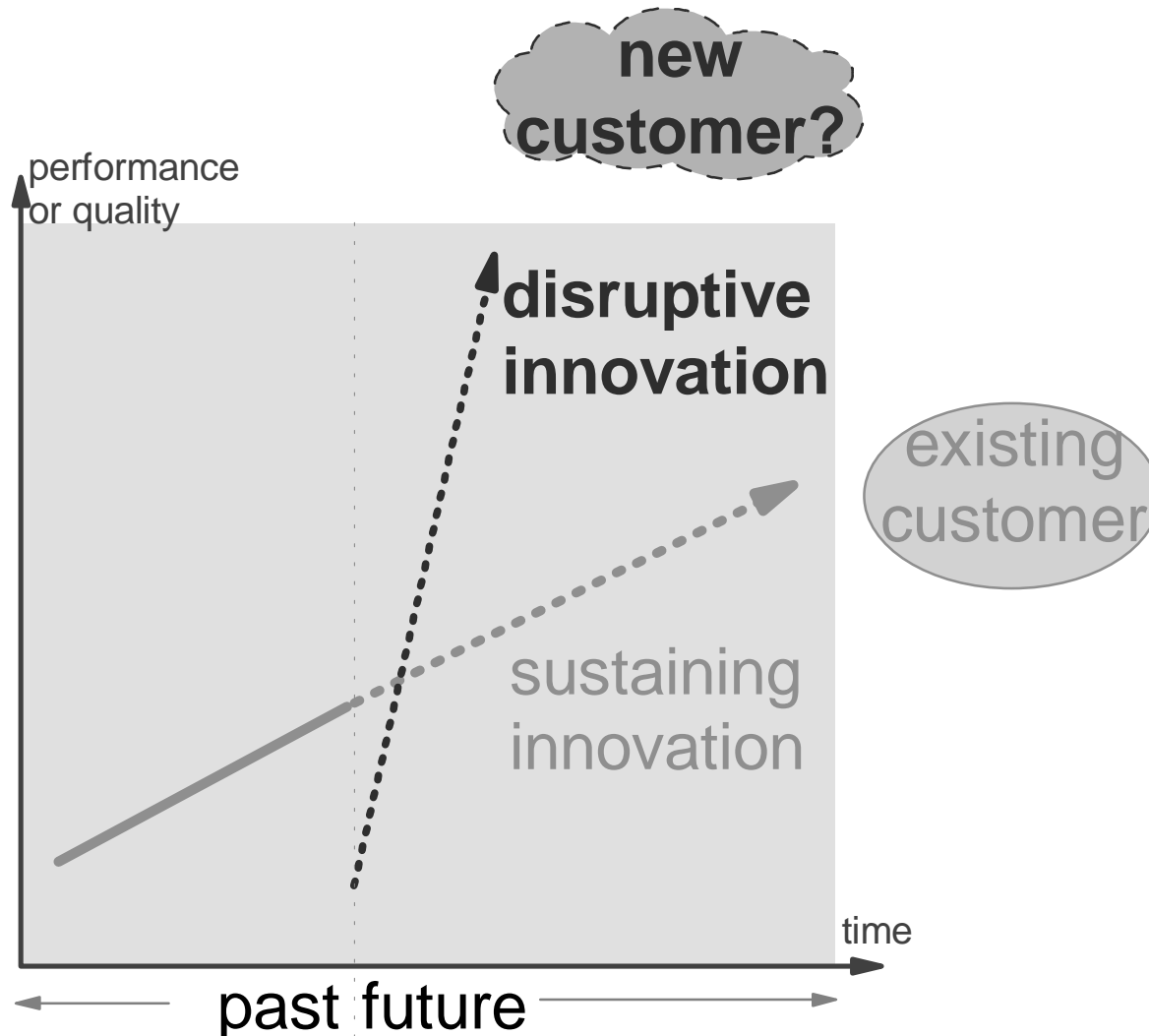
Do uncertainties in business \Rightarrow a different approach to strategy is needed?



1. Major uncertainties for e-business ... (page 2 of 5)

The adoption of disruptive innovation by customers is uncertain

Innovation Adoption



Disruptive innovations

- ▶ Simpler and cheaper \Rightarrow lower margins
- ▶ Interest first in emerging / insignificant markets
- ▶ Can't be used or not valued by current (profitable) customers

Source: Clayton Christensen, *The Innovator's Dilemma*

Innovation ...

- ▶ not just in technology, but in business designs

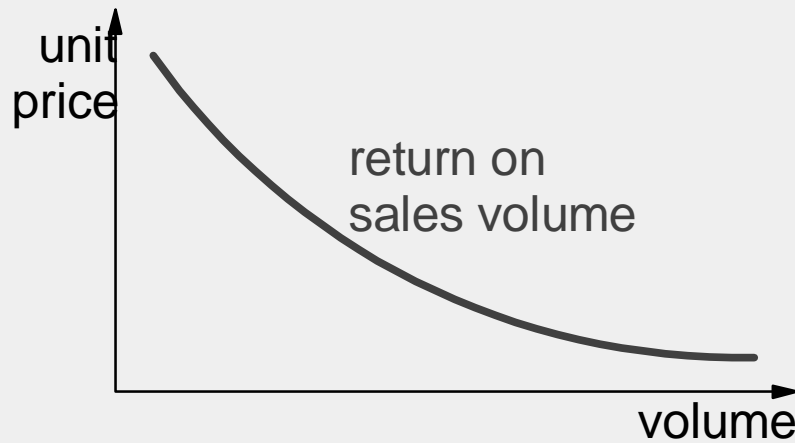
Source: Adrian Slywotsky, *Value Migration*

1. Major uncertainties for e-business ... (page 3 of 5)

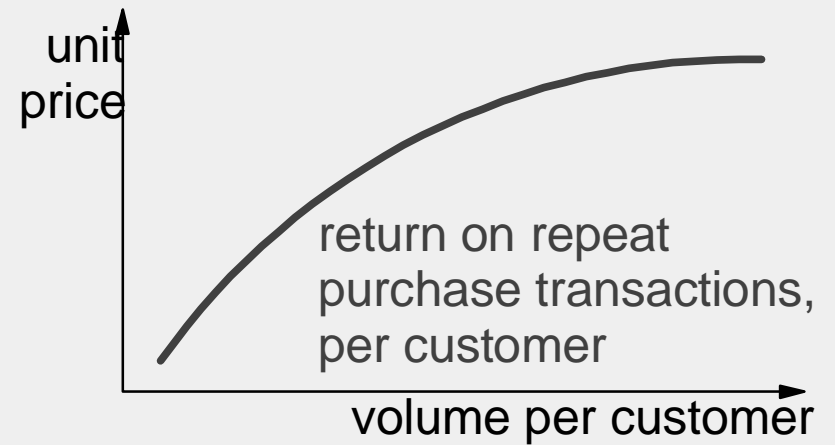
**Economic scope seeks products for customers;
economic scale seeks customers for products**



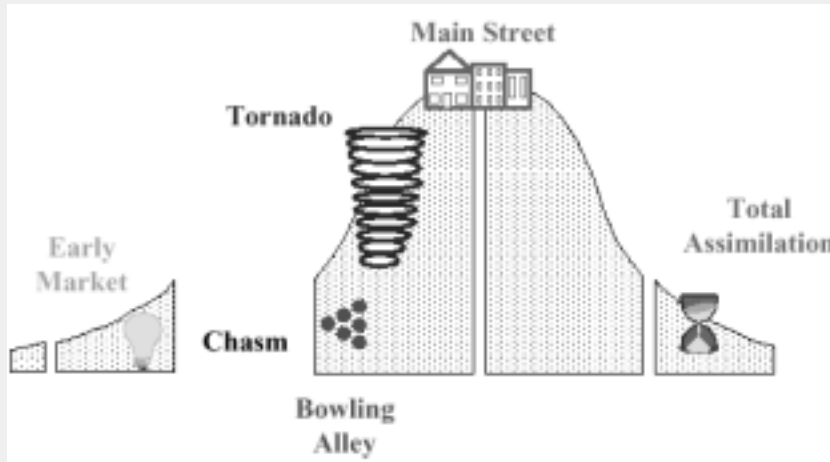
Economies of scale ⇒
games against competitors



Economies of scope ⇒
games with customers



Source: www.chasmgroup.com

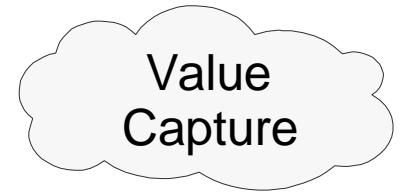


dynamic	MC 4	I 1
product	2	3
static	MP	CI
	static	dynamic
	process	

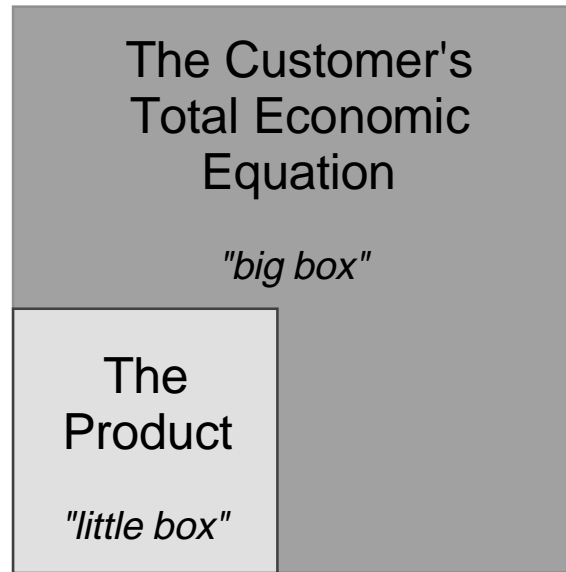
Source: Peppers & Roger (1993)
Source: Shank, Pine, Victor, Boynton

1. Major uncertainties for e-business ... (page 4 of 5)

Value capture seeks profit from customer's system economics, before production cost



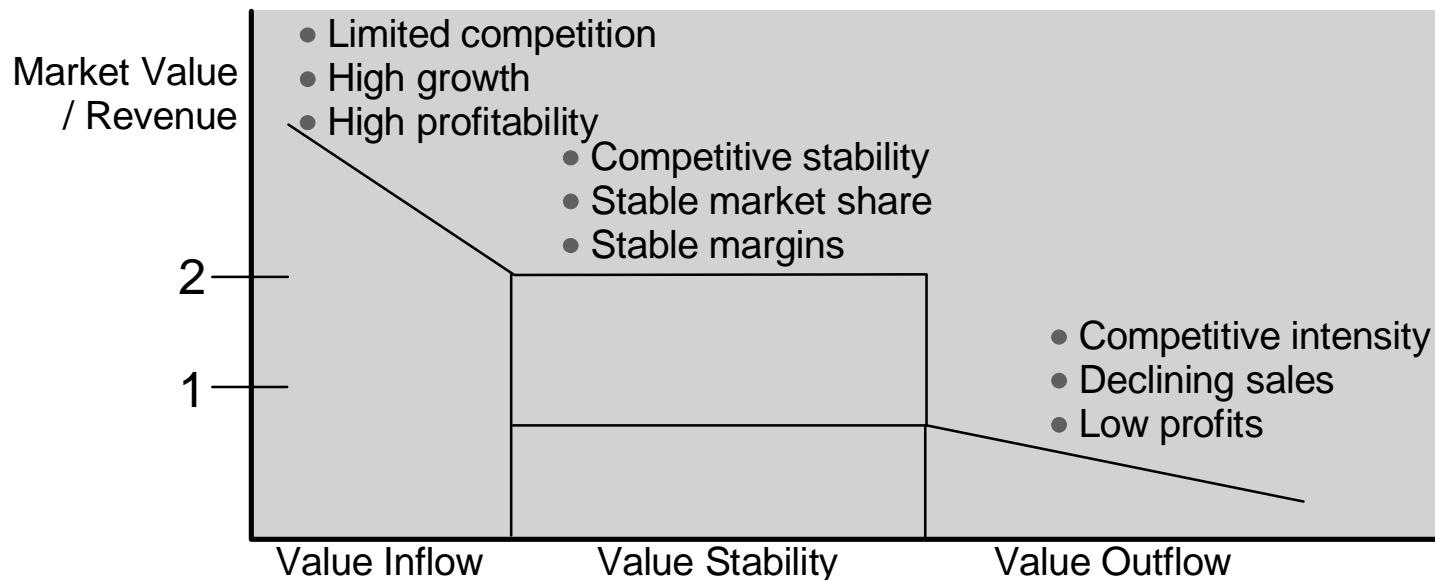
Value capture:
How do I capture, as profit, a portion of the value I created for customers?



Customer needs ... some remain silent, poorly defined, or poorly articulated

A customer's system economics includes:

- amount paid;
- costs to use, store and dispose;
- hassle

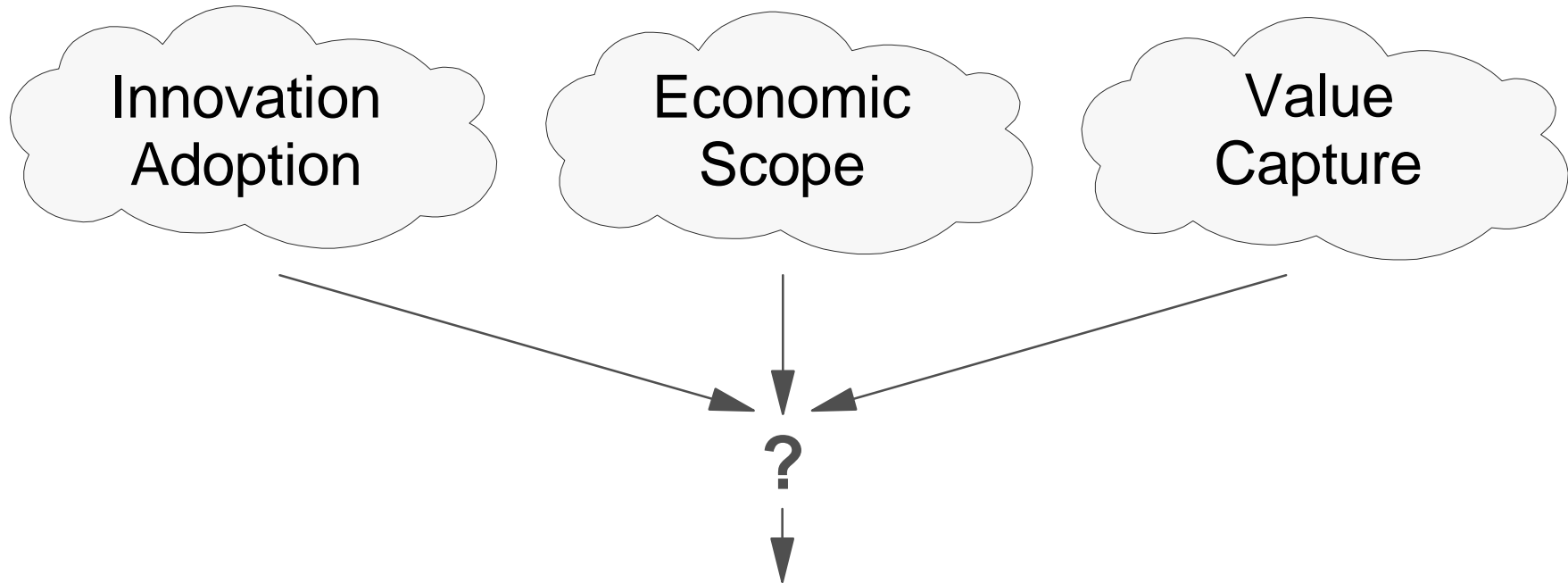


Value migrates from outmoded business designs to new ones that are better able to satisfy customers' most important priorities.

Sources:
Slywotsky, *Value Migration*;
Slywotsky & Morrison, *The Profit Zone*

1. Major uncertainties for e-business ... (page 5 of 5)

**The combination of three major uncertainties →
a challenge to traditional strategy management**

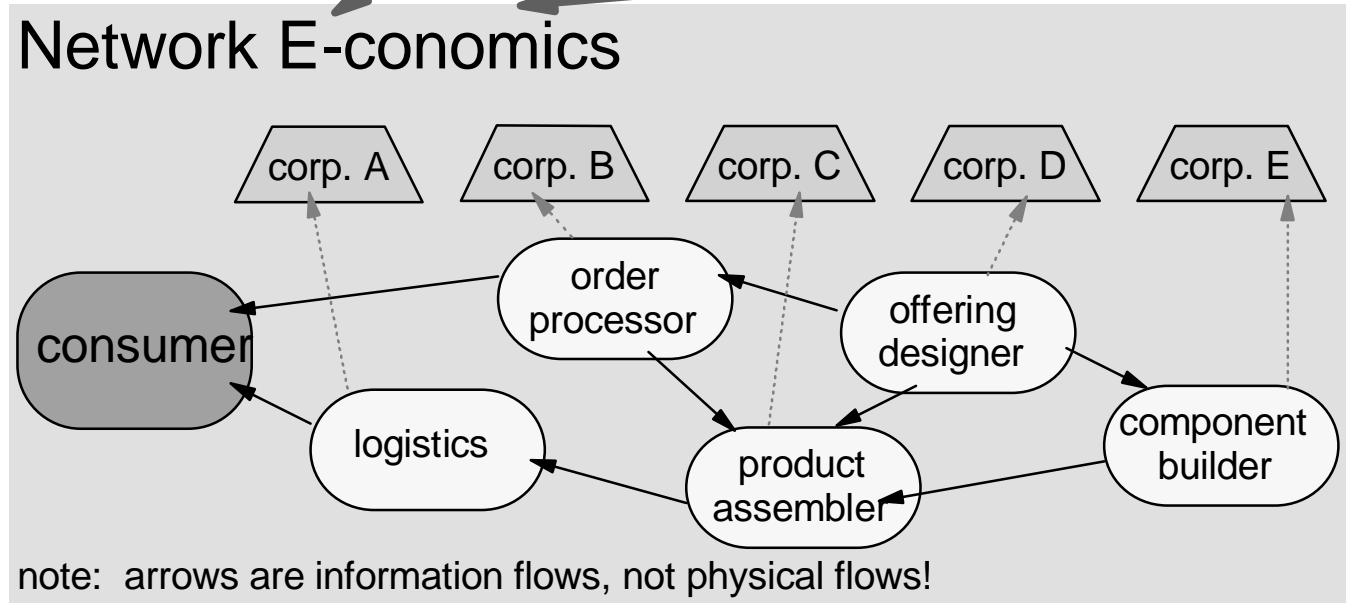
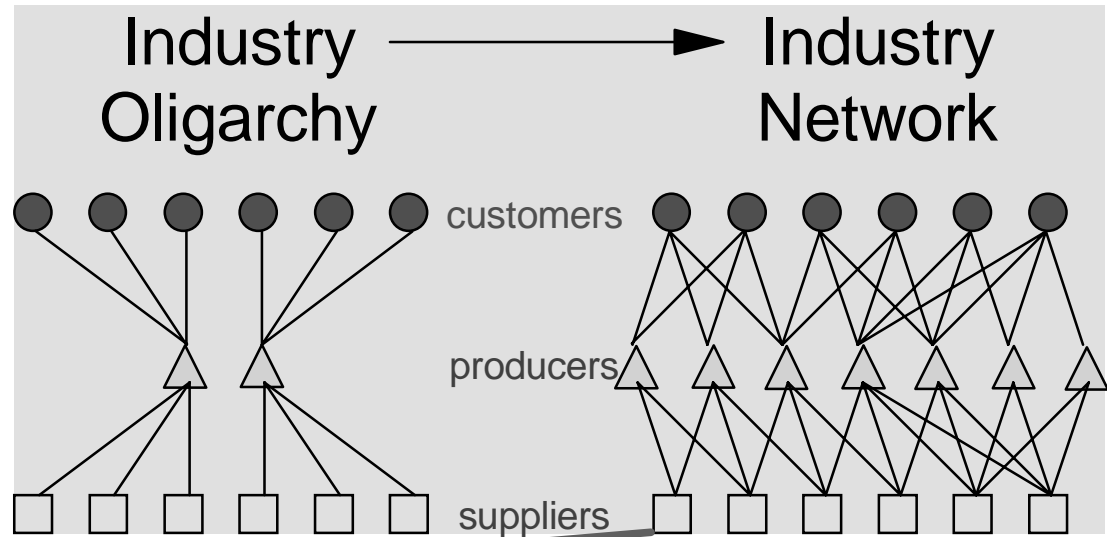
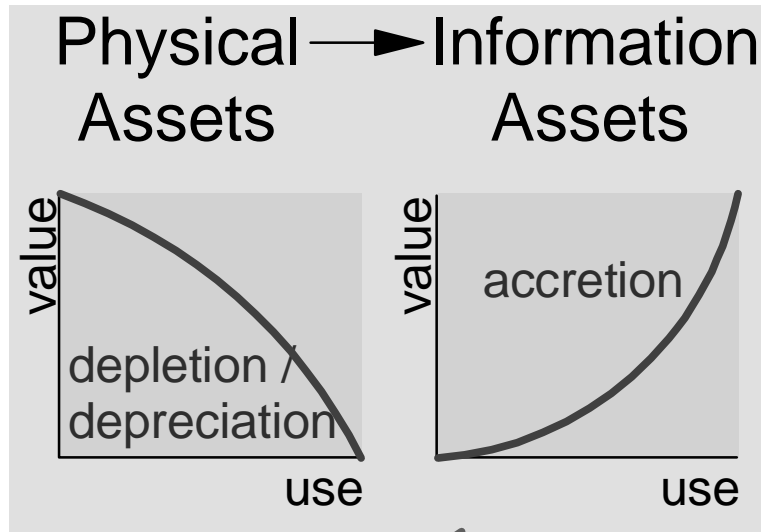


“No new theories on which a big business can be built have emerged ... but the old ones are no longer dependable.”

Source: Peter Drucker, Wall Street Journal, February 7, 1991

2. Network e-economics and strategy formation ... (page 1 of 3)

Network e-economics = information * networks



Adapted from: Perrow, in Nohria & Eccles (1992)

Source: Arthur (1996)

2. Network e-economics and strategy formation ... (page 2 of 3)

Unpredictability \Rightarrow industrial age management fails

	<i>Industrial age strategic management framework</i>	<i>Failure due to unpredictability from network e-economics</i>
<i>Strategy</i>	Efficiency <ul style="list-style-type: none">● Predict & Plan● Forecast, schedule, build, deliver offers	<ul style="list-style-type: none">● Demand / acceptance by customers uncertain● React time < market time
<i>Structure</i>	Linear Chain of Functional Specialties <ul style="list-style-type: none">● Standard processes● Make & Sell	<ul style="list-style-type: none">● Outsourcing / alliances / networks vs. integration● Customer one-to-one expectation
<i>Governance</i>	Command and Control <ul style="list-style-type: none">● Supervisor and worker● Specified "best way", execution, inspection	<ul style="list-style-type: none">● Knowledge work● Leaders not omniscient● Communicate & Hope

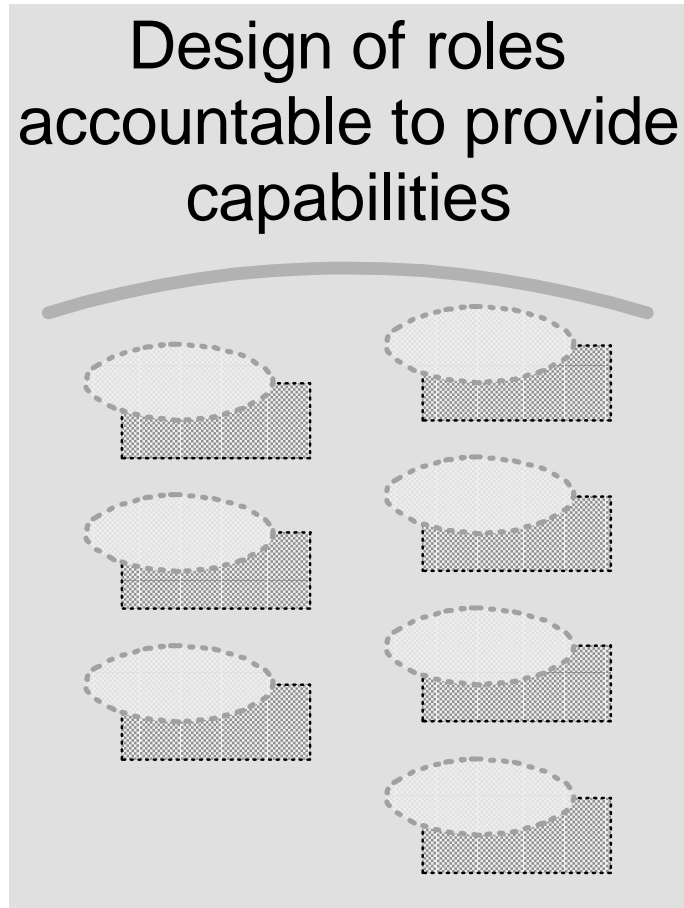
2. Network e-economics and strategy formation ... (page 3 of 3)

Sense-and-respond is an alternative approach to strategy, structure and governance

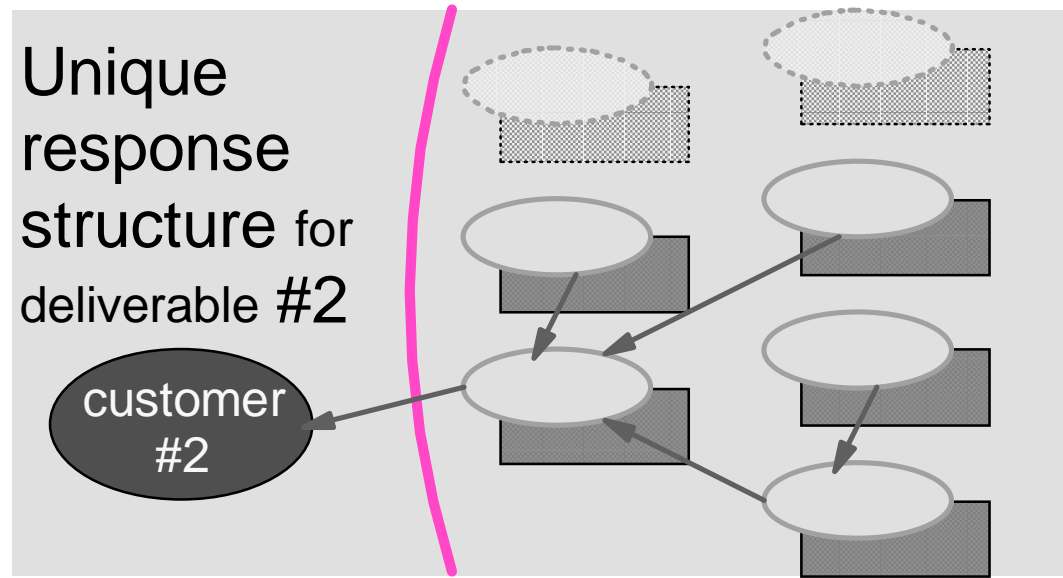
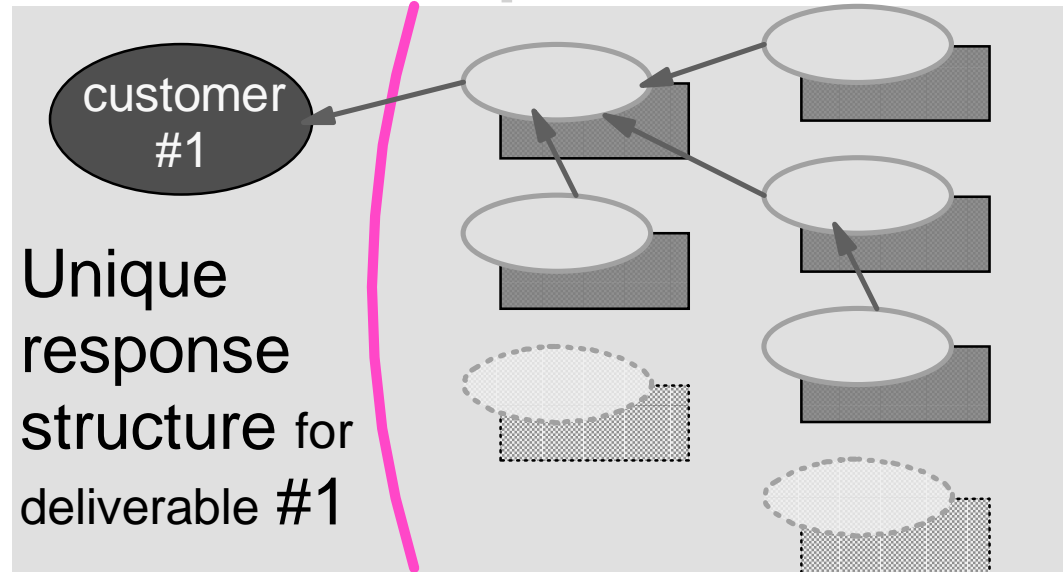
	<i>Industrial age strategic management framework</i>	<i>Network e-economics strategic management framework</i>
Strategy	Efficiency <ul style="list-style-type: none"> • Predict & Plan • Forecast, schedule, build, deliver offers 	Adaptiveness <ul style="list-style-type: none"> • Sense & Respond • Know customer value sooner, establish capabilities
Structure	Linear Chain of Functional Specialties <ul style="list-style-type: none"> • Standard processes • Make & Sell 	Modular Capabilities, Deployed Uniquely for Each Customer Request <ul style="list-style-type: none"> • Anticipate scope of responses • Form determined customer-back
Governance	Command and Control <ul style="list-style-type: none"> • Supervisor and worker • Specified "best way", execution, inspection 	Organizational Context and Empowered Coordination <ul style="list-style-type: none"> • Unambiguous purpose and bounds • Negotiated outcomes, in customer - supplier cascades

3. Adaptive e-business -- customer one-to-one ... (page 1 of 4)

The S&R organization reconfigures customer-back with a unique structure for each response

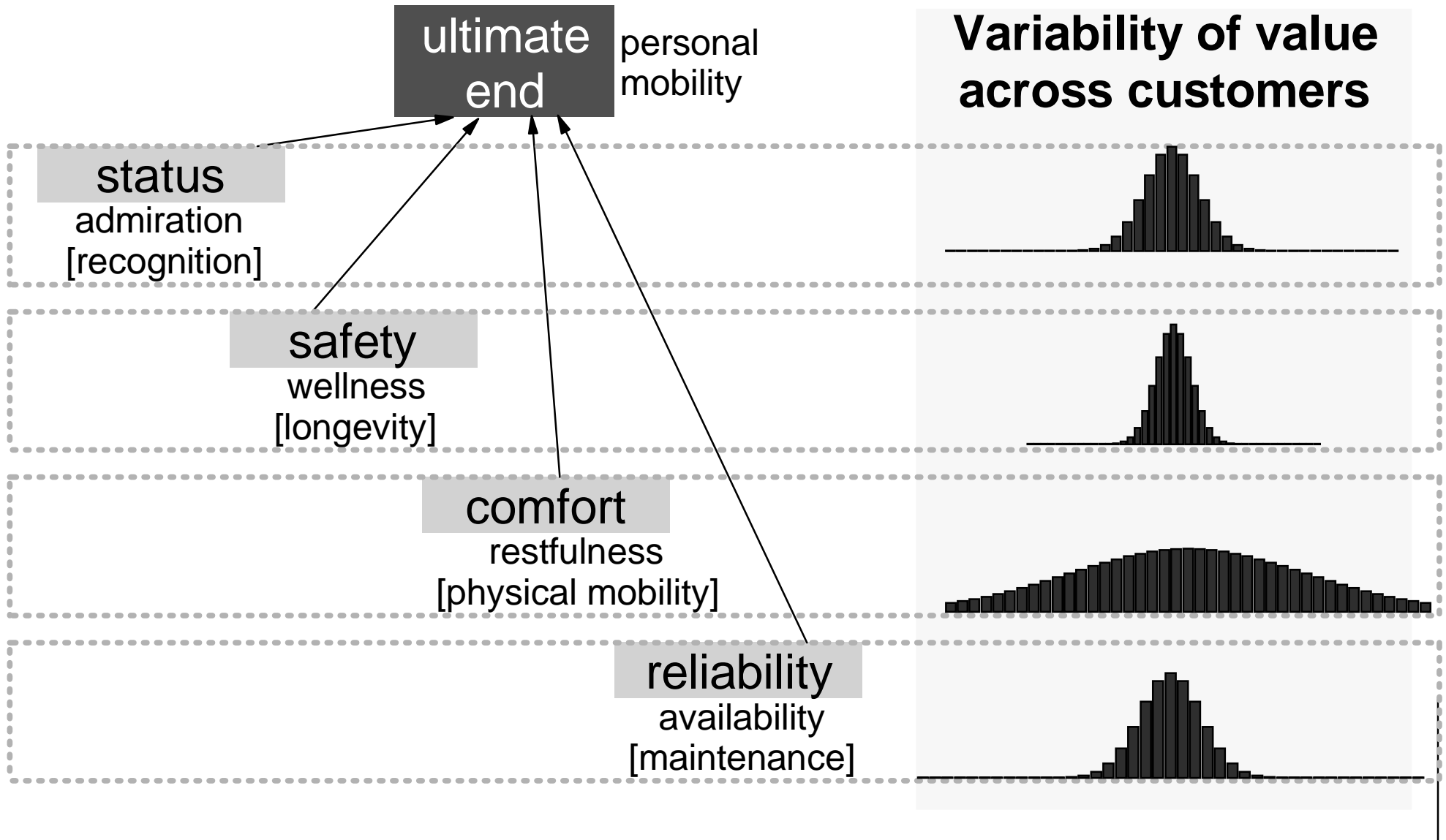


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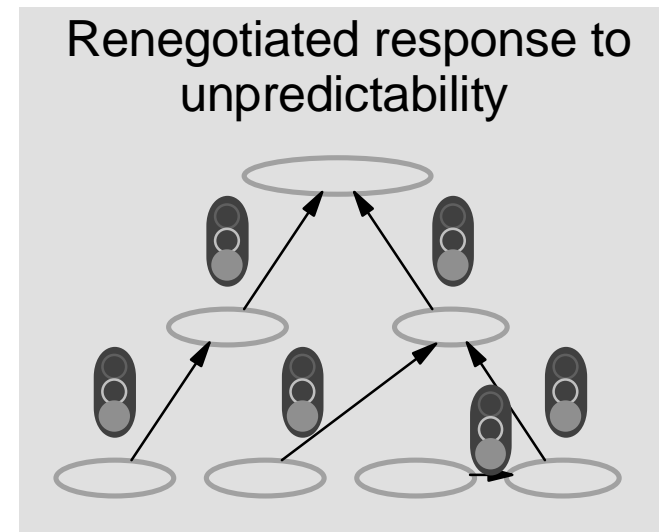
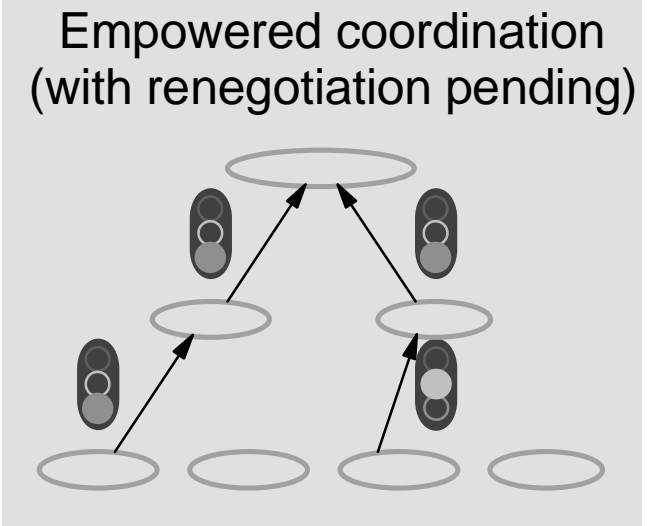
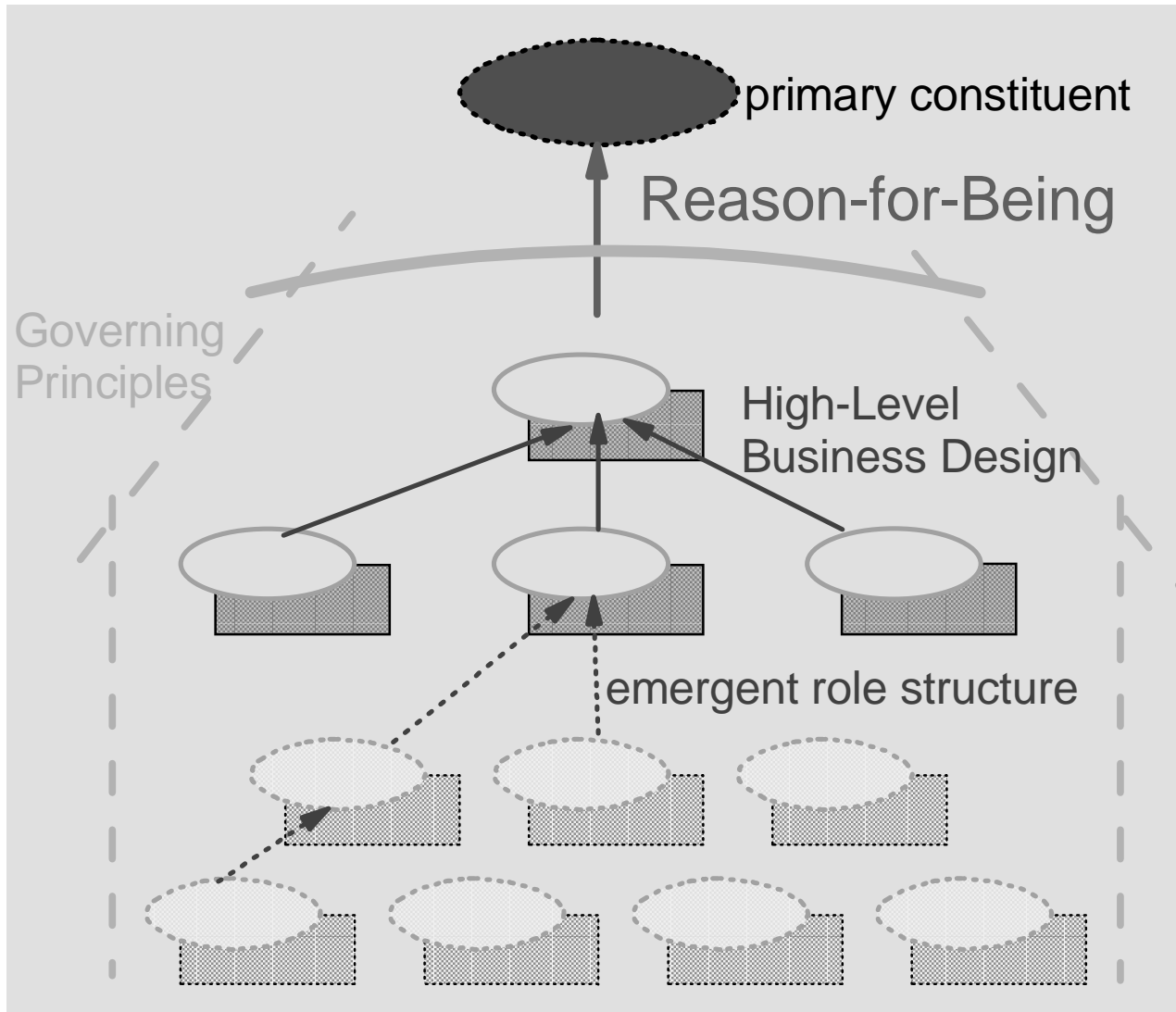
3. Adaptive e-business -- breadth of capabilities ... (page 2 of 4)

The S&R organization designs the breadth of modular capabilities from the range of customer value



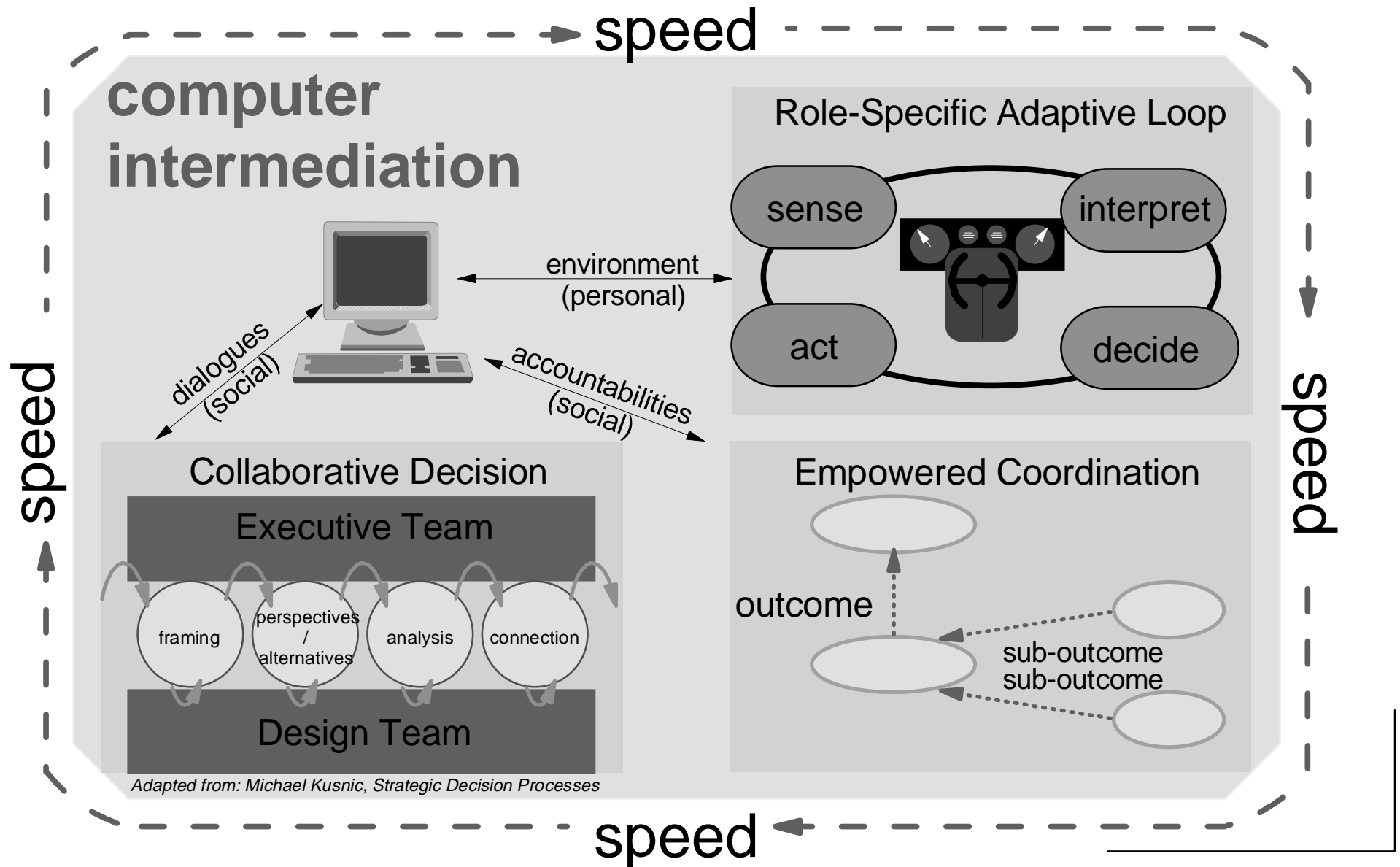
3. Adaptive e-business -- coherency and consistency ... (page 3 of 4)

The S&R enterprise leadership sets organizational context; empowered individuals in roles coordinate



3. Adaptive e-business -- speed, scale, scope ... (page 4 of 4)

The S&R organization achieves speed in scale and scope through three social-technological learning subsystems

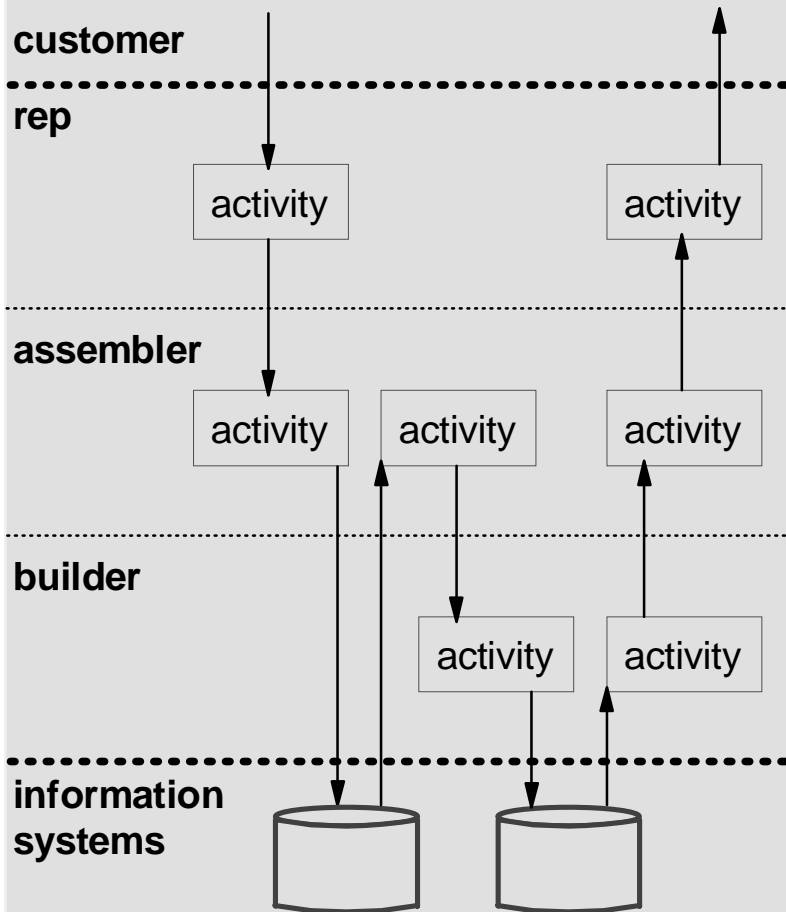


4. e-business → change strategic management framework ... (page 1 of 2)

A value-producing e-business adapts as an open, extended enterprise system of multiple organizations

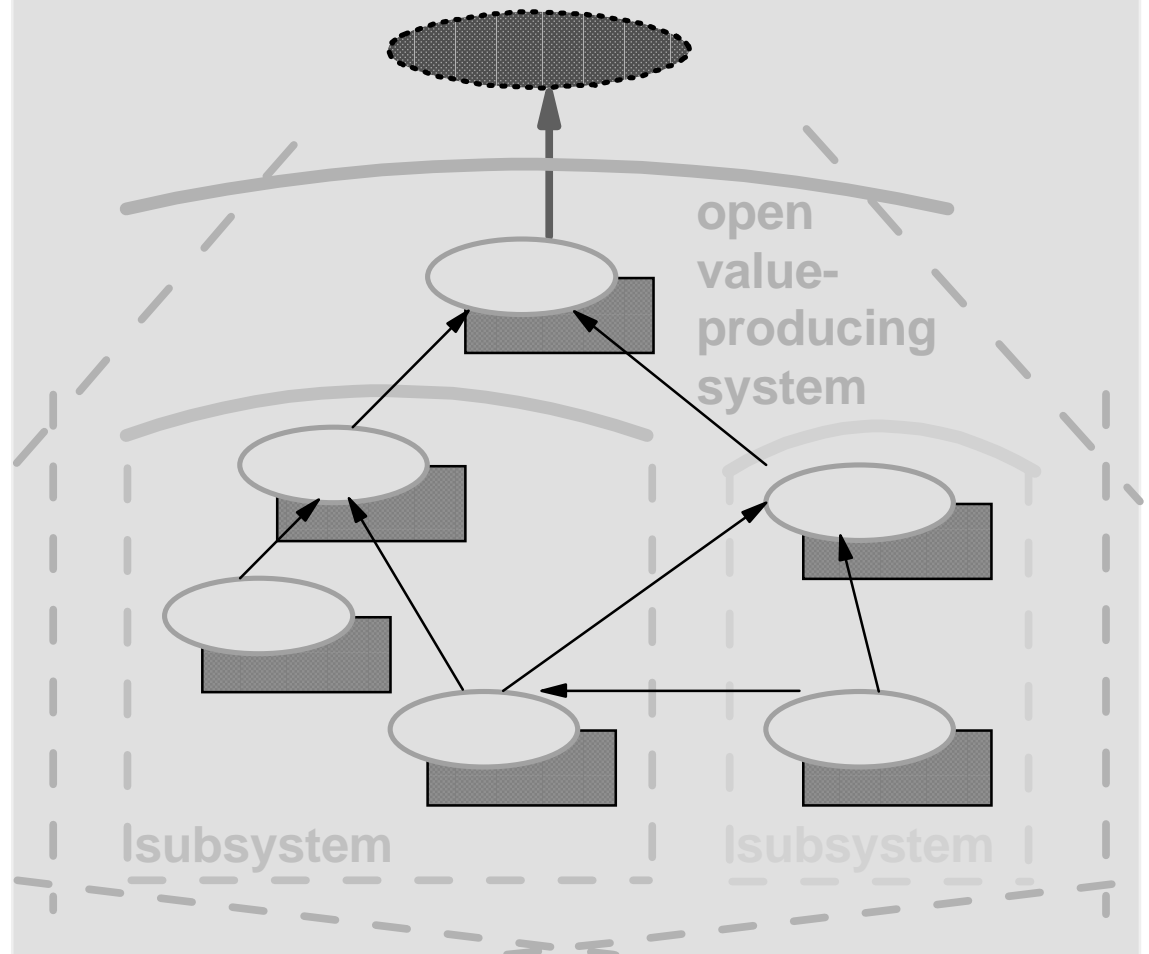
Process design:

emphasis on process (know-how)



System design:

function (know why), structure (know what)



4. e-business → change strategic management framework ... (page 2 of 2)

Can an e-business systematically adapt without a change in the strategic management framework?

