

The Economics of E-commerce and Technology

Case Studies

Case Study Method

- ▶ Management is a skill rather than a set of techniques
 - ▶ Requires practice on real problems
 - ▶ Problem sets not enough

- ▶ A case has two aims.
 1. Metaphor for a particular set of problems.
 - ▶ Together, metaphors provide net for problems you will face.

 2. Simulation process.
 - ▶ How do ask right questions?
 - ▶ Processes of analysis, choice and persuasion.

Principles for the Student

1. Preparation.

- ▶ Read and analyze the case and formulate an action plan.

2. Promptness.

- ▶ Late entry disrupts the classroom and makes it harder to follow and participate in the discussion.

3. Participation.

- ▶ A case study is lead by the students; each student has the responsibility to share their judgement with the class.
- ▶ You will get the most of the class by immersing yourself in the case and playing the role of the protagonist.

Case Analysis: 4 Steps

- ▶ **The aim of the case**
 - ▶ Analyze a management situation,
 - ▶ Develop a plan of action and
 - ▶ Express the position articulately.
- ▶ **Step I: Individual analysis and preparation.**
 - ▶ Skim the case. What is it about? What information I am given?
 - ▶ Read carefully, making notes.
 - ▶ Identify problem areas and relevant issues for each area.
 - ▶ Do appropriate qualitative and quantitative analysis.
 - ▶ Develop a set of recommendations supported analysis.

Case Analysis: 4 Steps

- ▶ **Step 2: Informal small group discussion.**
 - ▶ Aim: Refine, adjust and amplify thinking.
 - ▶ Do not develop a consensus of a “group” position.
- ▶ **Step 3: Classroom discussion.**
 - ▶ Students bring experience, observations, and analyses.
 - ▶ You will propose solutions and defend them with analysis.
 - ▶ Ultimately, the answer is less important than the process.
 - ▶ There is no correct answer
 - ▶ You will primarily learn from your classmates
- ▶ **Step 4: End of class generalization.**
 - ▶ What general lessons were learnt?
 - ▶ How does it relate lectures and other cases?

Opening a Case

- ▶ **Key elements:**
 - ▶ Structured analysis of the current problem,
 - ▶ Strategic options
 - ▶ Clear recommendations with factual support.
- ▶ **Part I: Clear assessment of the key problem**
 - ▶ Competitive positioning of current business (revenues, profitability, market share and key trends).
 - ▶ Threats to the current state. Micro (competitors, new entrants, changes in costs), and macro (recession, public policy)
 - ▶ Understanding of the existing and desired customers.

Opening a Case

- ▶ **Part 2: 2-3 strategic options with recommendation**
 - ▶ What the business should do (new product launch, withdraw from the market, new pricing scheme)
 - ▶ A rationale (firm's competitive advantage, attractiveness of market, impact on existing customers, opportunity cost of strategy)
 - ▶ Analysis should draw upon data in case (financial statements, market growth data). If market is new then use benchmarks from existing markets.
 - ▶ A valuation of strategy (future revenues, profitability, margins, capital required).
 - ▶ Key sensitivities (e.g. pricing) that drive the recommendation.

Opening a Case

- ▶ **Part 3: Implementation and risk mitigation plan**
 - ▶ Resources to execute on the plan? (e.g. financial, human)
 - ▶ How reallocate resources from existing projects?
 - ▶ Time frame and breadth of implementation (pilot launch, full launch).
 - ▶ What could go wrong and how would you mitigate them?
- ▶ **Timing: 10 minutes.**
 - ▶ Split around 40% on analysis, 40% on recommendation and 20% on implementation and risk mitigation.

Example: Zappos

Overview

▶ Origins

- ▶ Formed in 1999
- ▶ One of first online shoe stores
- ▶ Major challenge: competing with physical stores

▶ Zappos' competitive advantage

- ▶ Huge range of shoes
- ▶ Exceptional customer service (delivery, returns, call center)
- ▶ Logistics (accuracy, speed)
- ▶ Culture (service quality, low turnover)
- ▶ Brand (top of mind, reputation for exceptional service)

▶ Target market

- ▶ Upper middle income, time constrained, like variety.

State of the Firm

- ▶ **US footwear industry**
 - ▶ \$ 37b in 2000
- ▶ **Online footwear growing 20% per year:**
 - ▶ \$1b in 2002, \$2.9b in 2006, \$5.3b in 2010.
- ▶ **Zappos sales growing 40% per year:**
 - ▶ \$32m in 2002; \$184m in 2004; \$597m in 2006, \$1b in 2008
- ▶ **Zappos financial: 2008**
 - ▶ Net revenue \$635m; gross profit \$223m (gross margin 35%)
 - ▶ Cost of call center? Cost of warehouse?
 - ▶ Profit \$10m, growing from \$1m in 2007.

Strategic Issues

- ▶ **How to take advantage of growing market?**
 - ▶ Business model developed to fight physical stores
 - ▶ Now has to compete online (piperlime, endless, amazon)
- ▶ **Recession**
 - ▶ Save on shipping costs (17%) and employment
 - ▶ How maintain the company culture and brand?
- ▶ **Growth**
 - ▶ Should company grow beyond the US shoe market?
- ▶ **Amazon Offer**
 - ▶ Should they accept Amazon's current offer of \$807m?
 - ▶ If accept, how should they proceed?

Strategic Options for Growth

- ▶ **Option 1: Grow clothing business**
 - ▶ Consistent with current business model
 - ▶ Large potential growth area
 - ▶ Lack of variety in clothing could undermine brand
- ▶ **Option 2: Grow own brand products**
 - ▶ High margins on own brand
 - ▶ Control supply chain
 - ▶ Competitive advantage of firm in design?
- ▶ **Option 3: Grow Powered platform business**
 - ▶ Capitalize on logistical strength
 - ▶ Further increase variety and website size
 - ▶ How maintain customer service? How compete with Amazon?

My suggestion: Grow clothing business

▶ Reason

- ▶ Clothing business large: 4 times size of shoes
- ▶ Fits with companies core competency
- ▶ Low risk; high potential gains.

▶ Implementation

- ▶ Experiment with different types of clothing
- ▶ Develop specialty in niches (e.g. particular designers, underwear)
- ▶ Need to alter warehouse to accommodate clothing

▶ Risk mitigation

- ▶ May provoke competitive response
- ▶ Affect company culture
- ▶ Solution: stay focused, and dominate area as it dominates shoes.