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 1: 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 leant?
  - 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 1: 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.