

VALUE CHAIN CASE STUDY

(Based upon Porter's model)

April 2001
Word count: 2,369 – 11 pages

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I have used Porter's model of the **generic value chain**¹ to identify a broad analysis of the value chain with the focus of the Internet Banking Industry and identifying where information and communication technologies can add value to the chain.

This is based upon the referenced readings and my own experience, both academically and within the IT Industry, as such banks do not publish this information, it is not as readily available as a differing industry that requires less anonymity.

Porter's model consists of five primary activities and four support activities², which relate to the working infrastructure of a company towards an outcome of a healthier profit margin.

Of the five primary activities, **inbound logistics** relate to the handling of goods that are bought into the company, storing and making available to operations as required, in this case it is other people's money from a variety of sources (trading partners). This end of the model requires Electronic Data Interface (EDI), as this is the end that 'talks' to other banking systems. There has to be a standard and structured data format to be adhered to, to allow for the flow of (electronic) data from one organisation to another, as well as internally. Logically there are standard EDI languages³ worldwide for differing

¹ HUNGER, J. David and WHEELAN, Thomas. L. Strategic Management: Scanning Functional Activities and Resources. 6th ed. Massachusetts, Addison-Wesley Longman Inc, 1998. pp87.

² WHITELEY, David. e-Commerce: Strategy, Technologies and Applications. 1st ed. Berkshire, England, McGraw-Hill International (UK) Limited, 2000. pp18-19.

³ ANSI standard. A document published by ANSI that has been approved through the consensus process of public announcement and review is known as an ANSI standard. The committee must review each such standard within five years. The accredited Standards Committee, X12 (SC X12) comprise government and industry members, which create electronic data interchange (EDI) standards for submission to ANSI for approval and distribution. (ADAMS, Greg. TUANZ Special Report: Business-to-Business eBusiness - a New Zealand Status Report. Nov 97, pp14).

industries, thereby allowing facilitating of trade between partners that subscribe, thereby creating Value Added Data Systems (VADS). This in turn (EDI) is then used for inter-organisation transactions.

Operations relate to the product processes and series of activities that can be represented on a detailed value chain analysis, such as the monetary transactions, receipting and so on. As with inbound logistics, EDI adds value in that it is just in time (data travel's through/stored within a network, therefore with data interchange or availability the delivery is sped up into milliseconds). Costs are reduced (paper, postage, manual processing, less capital tied up in stocks); improved cash flow; security and error reduction; acknowledged receipt⁴, thereby allowing for quicker processing.

Physical constraints are lessened in that geographical remoteness for customers' decreases, as international borders are removed.

Outbound logistics are the taking of products of the company, sorting them and distributing to the customer in a timely manner. This would relate to customers Internet banking, in that transactions from inbound logistics would be available on their screen (web based system).

Marketing and sales is meeting the requirements of potential customers and advising of products and services that can be offered. This is in the guise of lending and investments. This can be available through EDI in one of two ways; either through EDI (email) up to date data/information can be made available to all physical branches through a few clicks; or the information can be uploaded for potential and/or customers online (bank's web site).

Product offerings can also be pro-active in that this information is emailed to customers through email addresses contained within the database or tailor made for market segments, so that when a customer of this segment log's in,

⁴ ADAMS, Greg. TUANZ Special Report: Business-to-Business eBusiness - a New Zealand Status Report. Nov 97, pp4-7.

either banners can appear for products that would be suitable to them or a separate browser window open to show actual products (refer to technology development).

Service relates to any requirement for advice before delivery and after-sales service once the transaction is completed. This relates to customer service desks, loan and lending and reporting (statements) to the customer. It may also include the ability for customer to make web based enquiries e.g., email. Internet banking is available 24 hours a day, 7 days a week, therefore the sale is always available. And as the majority of functions are automated, this results in reduced costs.

Firm infrastructure is one of the four support activities. This includes general management, accounting, finance and strategic management levels. For each of these levels, the collection of data through the primary activity channels provides the ability for Management Information Systems (MIS) to be in place, allowing for data from several parts of the company to assist in decision-making processes. In short provide managers with information used to provide feedback to various business operations allowing for greater control and efficiency, and in doing so MIS supports the value-added processes.

An example would be to assess in strategic planning where to apply concentration in niche areas, from data relating to customers' income, geographic location and other details with the purpose of a bank diversifying into offering insurance as a product.

Another support activity is **human resource management** for the recruitment, training and personnel management of the people who work for the company. Within this function EDI can be used to ascertain where training is required or the defined parameters (technological experience) required for existing staff and potential job applicants. As well as measuring the output from individual personnel by the inflow of data or electronic requests (e.g., e-mail) and the outflow each generates.

Technology development is listed under support activities. Due to the information systems in place with the data collected and stored, this is a starting point for research and development, whether it is a platform for new products or systems or to revisit old one's, this will allow for the restructure or process improvement of data and functionality of systems, be it for internal or external users. Adaptive web information systems include the technology that allows for explicit user feedback, which includes all information consciously provided by the customer. Examples for implicit user feedback are server log file analysis, click stream analysis and user profiling. Which is then utilised by other activities within an organisations value chain⁵, an important factor for ensuring competitiveness.

Procurement is another support activity; its function is for responsibility of negotiating quality supplies at an acceptable price and with reliable delivery. This will be tied into the stock/inventory levels of an organisation; this can be related to stationery and consumables. With EDI these systems can be locked into suppliers, the purpose may be to ensure sustainable on premises levels, or for speedy delivery. This can also be tied to the accounting system for both the bank and the supplier. It would a bleak and unproductive day in the office if coffee ran out!

The benefit of EDI from an information and communication technological aspect is it adds value to the banking industry. By doing so, it provides universal access to information around the clock. It can empower customers, trading partners and employees in a new, self-service environment, while reducing the cost of business operations and IT infrastructure support. Also providing the uniformity of information. It can be used to improve all aspects of trading, from information/data exchange and product pricing, billing and accounting, inventory management, online ordering, supply chain management, shipping and logistics management, claims and returns management, customer management, direct marketing.

⁵ BAUER, Christian. Financial Institutions and the Internet: Issues and Trends. Chapter 6. (Refer to bibliography)

The convergence of online services and other value-adding computer networks into a global medium, the Internet, enables integrated communication between consumers and financial institutions.⁶

The following is based upon Porter's model of the **five forces of Competitive Advantage**⁷ I have considered all five forces separately, analysing and commenting on each, as well as demonstrating where WestpacTrust⁸(WPT), (Westpac Banking Corporation) competitive position in each case lies from a just looking perspective.

WPT use a web based banking system (Internet banking), whereby their clients can perform most of their banking functions electronically.

Competition between existing players. Given that competition is won on the basis of the generic competitive advantage of price, differentiation or focus. The competitive position of each organisation is determined; in part at least, by the deal it is able to make with its suppliers⁹.

The use of EDI allows for cost leadership. An increased efficiency in the supply chain, due to reduced stock holdings and greater reliability of supply. Meeting electronic trade requirements, cutting out intermediaries, thereby opening new servicing channels and reduced administrative costs. The

⁶ BAUER, Christian. Financial Institutions and the Internet: Issues and Trends. Chapter 6. (Refer to bibliography)

⁷ WHITELEY, David. e-Commerce: Strategy, Technologies and Applications. 1st ed. Berkshire, England, McGraw-Hill International (UK) Limited, 2000. pp26-32.

⁸ WestpacTrust
<http://www.westpactrust.co.nz> (10 April 2001)

⁹ WHITELEY, David. e-Commerce: Strategy, Technologies and Applications. 1st ed. Berkshire, England, McGraw-Hill International (UK) Limited, 2000. pp29.

supplier is able to differentiate on price as costs are reduced, these can then be passed on to the customer and/or allow for more profit, whilst giving a bank an enhanced image and improved trading relationships.

As at 10 April 2001 WPT is offering competitive interest rates and a competitive product referred to as Redpac, this is a bundled package for home loan's, which includes home and content, car, life and disability insurance; savings on phone banking, credit card and bank charges and savings on retirement plans. This is a value added product and shows that they are competing amongst existing players, complimenting existing product, whilst differentiating (at the same time) on their core business.

Threat of new entrants to the sector. The barriers to new entrants is that all the major banks¹⁰ offer web based banking, as well as having market share both physically and virtually. They have the resources to invest in this area. However, as proven with Banking Direct you can be successful just being an 'on-line' bank. Although it is worth mentioning that they were a first mover and it is common knowledge that they are a subsidiary of a major bank.

Currently within the media there is talk of a new entrant to the Internet banking sector from NZ Post, called MyBank¹¹. The advantage is their entry costs would be somewhat reduced against another new entrant, in that they already have nationwide physical facilities in place (Post shops) and they are an established name within New Zealand. This is diversifying from their current core business, but at the same time it compliments it. Through existing channels they can gain new sales and service opportunities and take advantage of the adverse publicity that other banks have received due to the cutting back of physical branches. However MyBank will be wanting to move away from physical branches, as the cost of transactions going through this (paper) trail are more expensive (for the bank) than the electronic variety.

¹⁰ within New Zealand

¹¹ NetGuideWeb: NZ Net News

http://www.netguide.co.nz/news/get_news_results.php3?id=8975&keywords=internet%20banking&offset=0 (10 April 2001).

Given that the threat of a new entrant is in place, WPT are counter-acting by being the first to offer other products (diversifying) such as the paying of tax online to the Inland Revenue Department and the Redpac product.

This follows into the **threat of substitution** of a product or service to the banking industry. WPT is taking advantage of substituting a competitor's product by taking advantage of reduced entry costs and new sales channels, by offering the service of paying taxes online and the Redpac (Insurance) product.

The bargaining power of the buyers/consumer the Internet as a whole really impacts in this area. Due to the removal of geographical barriers, the lack of taxing regimes in place, and more significantly the lack of any governing infrastructure to police the differing countries taxes!

An example of how the Internet impacts this area is: If I were to 'surf' around for a loan of \$500,000.00 and I find that I meet the criteria to secure this loan at a cost of 5% interest in New Zealand dollars from Indonesia, whereby if I were to secure this loan through a New Zealand bank at 15% interest. I most certainly would take the option of paying lesser interest. Again this opens up new sales channels, it fully enforces dis-intermediarisation. The fact that I can find this information and apply online meets the customer information criteria for the bargaining power of the buyer.

Currently the bargaining power that WPT have is their physical branch network. Also by offering the Redpac product they are using the competitive advantage of direct sales.

The bargaining powers of the suppliers are the strategies of price advantage and differentiation for a stronger competitive position. Through being able to lock in customers by trading electronically, allowing for quicker responses, as well as cost reductions provides a quality of service giving a stronger competitive position.

By offering the competitive Redpac package they have price advantage and differentiation.

It is worthwhile noting Internet usage and Internet banking trends to date. Given that it is a growth industry with statistics reporting 55% of New Zealanders who will have banked online by 2002¹² and 65% of New Zealanders who will access the Internet in 2001¹³. As well as an AC Nielsen's survey showing the number of businesses with Internet access at 69% this year¹⁴. Not to mention that it is not unusual for forecast statistic's relating to Information and Communication Technologies to fall short of actual figures!

As we are at the forefront of online banking, whilst software, speed and users will continue to evolve and grow, in particular user awareness to the realisation and acceptance of no geographical barriers, it is imperative that the banking industry as a whole continue to adhere to Porter's five forces of competitive advantage to ensure survival.

¹² The Telecommunications Users Association of New Zealand: Industry Statistics and Information
<http://www.tuanz.org.nz/web/index.cfm?id=202> (06 April 2001).

¹³ The Telecommunications Users Association of New Zealand: Industry Statistics and Information
<http://www.tuanz.org.nz/web/index.cfm?id=202> (06 April 2001).

¹⁴ NetGuideWeb: NZ Net News
http://www.netguide.co.nz/news/get_news_results.php3?id=518&keywords=internet%20banking&offset=0 (06 April 2001).

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