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UNIVERSITY OF NOTTINGHAM BUSINESS SCHOOL

Sustainability of Boots.com's growth Strategy as an application service provider (ASP) from services perspective for better engagement of customers, suppliers and partners

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MBA

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Abstract

As per the MBA project curriculum, our team of three [3] members were assigned a consulting group project by Boots.com. Also we were assigned to write an individual report critically reviewing the key aspects of the group project. As assigned in the group project we investigated the growth strategies for Boots.com in the online market by employing the product line expansion strategy.

Boots.com is an specialist online retailer in Health and Beauty(H&B) market, under the current market dynamics Bots.com is facing tough competition in the online business. For the same Boots.com current focus is expanding the online product line for sustaining growth. However, I choose to consider the services perspective of Boots.com since it was not the key area of focus at the moment. And the challenge of sustaining growth could be considered not only from product line expansion but also from online services perspective. So that Boots.com can be a specialist Application Service Provider (ASP) in H&B online market.

This report comprises of six [6] chapters. The introduction chapter is followed by, literature review discussing the theoretical aspects of strategy, services marketing and technology. Further followed by the research methodology by focus on the customer activity cycle and results and findings derived from the research methodology conducted. Then, we analyse Boots.com internally and externally from strategic perspectives which is followed by proposed business model for Boots.com for creating new markets through services approach. Finally, the report showcases the conclusions and recommendations for Boots.com's proposed business model.

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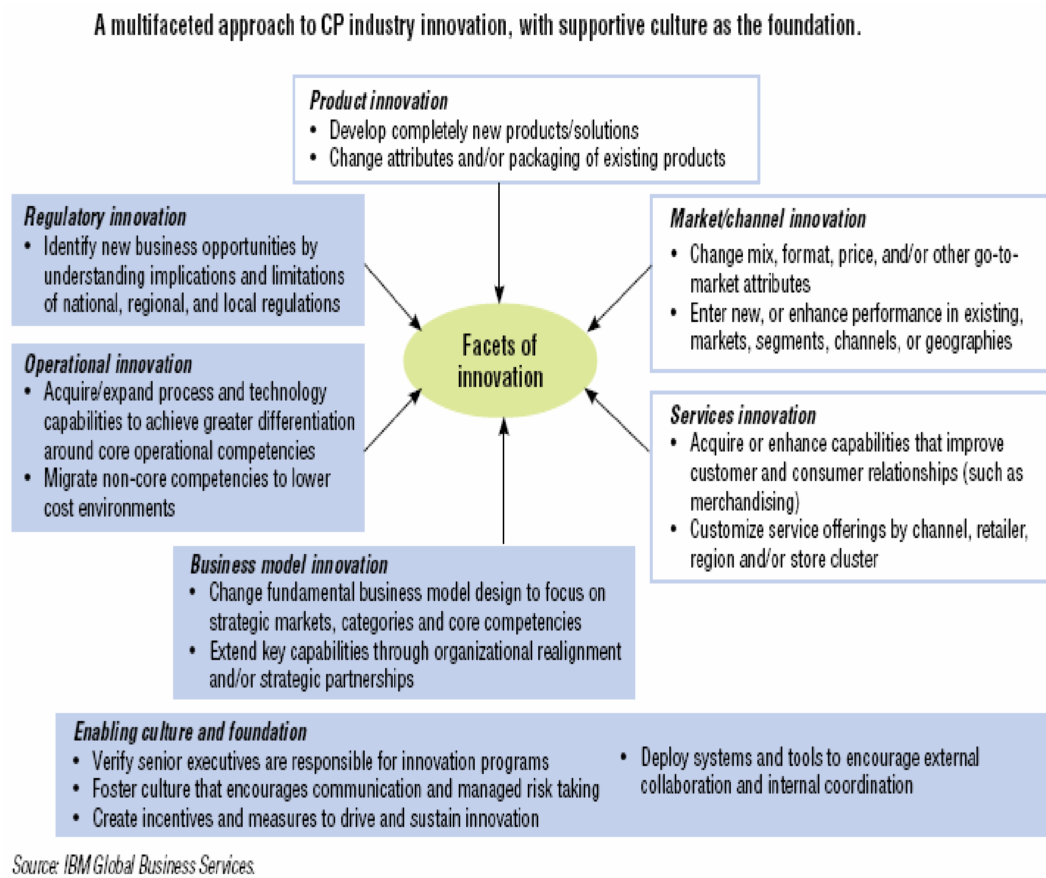
1.0 Introduction:

According to Gagnon & Julian (2005) IBM Business Consulting Services suggest that the market forces has changed the dynamics of the retail market and retailers need to change their current strategies in order to sustain growth since the market is heading towards "world of extremes"(2005, p.13). According to research carried out by IBM suggest that the retail market would have two extreme players one the "huge mega-retail format" and on the other end would be "focused specialists" by 2010. The key strategy for growth employed by firms is, by focusing on their target customers so that they could provide more value to their customers. Today customers have the capability to access information any time anywhere through the internet channel. The key challenge developed for retailers are engaging their customer through internet effectively and efficiently. Another challenge for retailers are building capabilities which are not their core competence for the same they are reconsidering their current business models and considering networking with firms that create value networks for building such capabilities. There networking of firms through partnerships and strategic alliance would increase the "value proposition" for the customers. E.g. Amazon and Facebook partnership, where Amazon could create unique value proposition for its customers by linking the Facebook "wishlist" application with Amazon wherein the customers could gift books through this application (Chewontech, 2008). According to Greg Buzek, President, IHL Consulting, "POS" was the revenue generator in the 1970's but the market would move towards the ASP(Application Service Provider) model due to the customers access to the broadband and online channel becoming attractive for retailers. Also according to Jeff Roster, research VP, Global, Industries, Retail, Gartner argues that retailers like Best Buy are working on personalized marketing by building relationships through personalized interaction (Millstein, 2007). According to the recent study conducted by IBM Global CEO 2006 underpins that innovation is one of key success factors for growth. As per the key consumer product executive the key aspects of innovation consumer product industry and mentioned in the diagram 1 below. (Campbell et al ,2006)

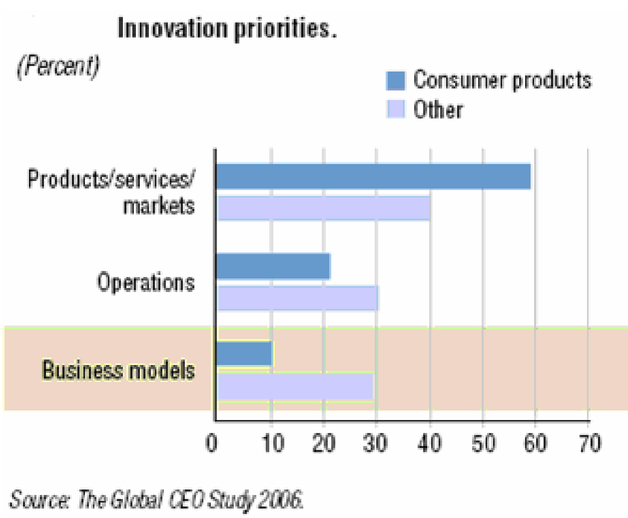
Diagram 1 – Innovation Aspects



Source: (Campbell et al ,2006)

The survey conducted by the Global CEO 2006 suggests the new prospects could be developed through innovative business models and service innovation. The survey underpins the key preference of focus i.e. through new business models as shown in figure 1 below. (Campbell et al ,2006)

Figure 1 – Innovation Priorities



Source: (Campbell et al ,2006)

Boots.com current growth strategy is through extending the online product range. For the same we had discussed in our MBA group report. However considering the current market dynamics, this report critically reviews the group report and would be looking into sustainability of Boots.com's growth strategy as an Application Service Provider (ASP) from services perspective for better engagement of customers' suppliers and partners.

This report is would be focused on developing new business model through services innovation for Boots.com by networking with partners. The aim of this report is to develop scalable business model for building new services for Boots.com as an ASP in the UK Health and Beauty market.

This report comprises of six chapters. The introduction chapter is followed by, literature review discussing the theoretical aspects of strategy, services marketing and technology. Further followed by the research methodology by focus on the customer activity cycle and results and findings derived from the research methodology conducted. Then, we analyse Boots.com internally and externally from strategic perspectives which is followed by proposed business model for Boots.com for creating new markets through services approach. Finally, the report showcases the conclusions and recommendations for Boots.com's proposed business model.

1.1 Research Objective

Sustainability of Boots.com's growth Strategy as an application service provider (ASP) from services perspective for better engagement of customers, suppliers and partners .

2.0 Literature Review

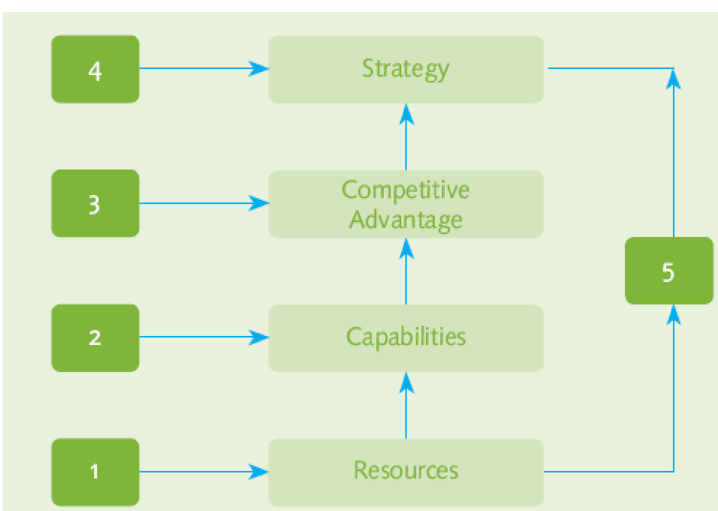
2.1 Strategic Perspective

In this section we will discuss considering the internal and external perspectives of the firm. For the same we have considered the resource-based view of the firm to analyse internally and network perspective of the firm for analysing externally. Now by considering both the perspectives we could identify the gaps of the firm in the growth strategy and fill in these gaps in order to sustain the growth of the firm.

2.1.1 Resource-Based View (RBV) of the Firm

The resource-based view of strategy underpins the internal characteristics (strengths & weakness) and firms performance (Barney, 1991). This view focuses on resources of the organization which acts as a source for competitive advantage. The diagram 2 below explains how this perspective is used in creating a strategy in developing in a sustainable competitive advantage in the marketplace using the internal capabilities of an organization. For e.g. the unique capabilities in engineering enabled BMW to sell their high quality cars at a premium price.

Diagram 2- A Resource-Based View of Strategy



Source: Oxford University Press

According to Barney (2007), VRIO framework is an appropriate tool for understanding the return of potential of firm's resources. The return of potential is exploiting the firm's resources and capabilities in terms of Value, Rarity, and Imitability and at Organization level. The diagram 3 below explains how these factors enable in understanding the firms competitive implication and economic implication.

Diagram 3 – VRIO Framework

Resource Based View

The VRIO Framework

Valuable?	Rare?	Costly to Imitate?	Exploited by Organization?	Competitive Implications	Economic Implications
No			No	Disadvantage	Below Normal
Yes	No			Parity	Normal
Yes	Yes	No		Temporary Advantage	Above Normal
Yes	Yes	Yes	Yes	Sustained Advantage	Above Normal

Barney 2007

Source : (Barney , 2007)

Value

The value aspect is analyzed by considering how the resources and capabilities could reduce the overall cost of the firm or to what extent a firm's customers could stretch themselves for paying the firm's products.

Rarity

The common resources of a firm could enable firms to achieve competitive advantage; however these resources could be valuable and rare and be a competitive advantage for short, medium or long term.

Imitability

In this scenario the focus would be how the competitors face challenges in imitating the firm's resources and capabilities in a short, medium or long term. Thus enables the firms to consider whether the competitive advantage developed is sustainable or not?

Organization

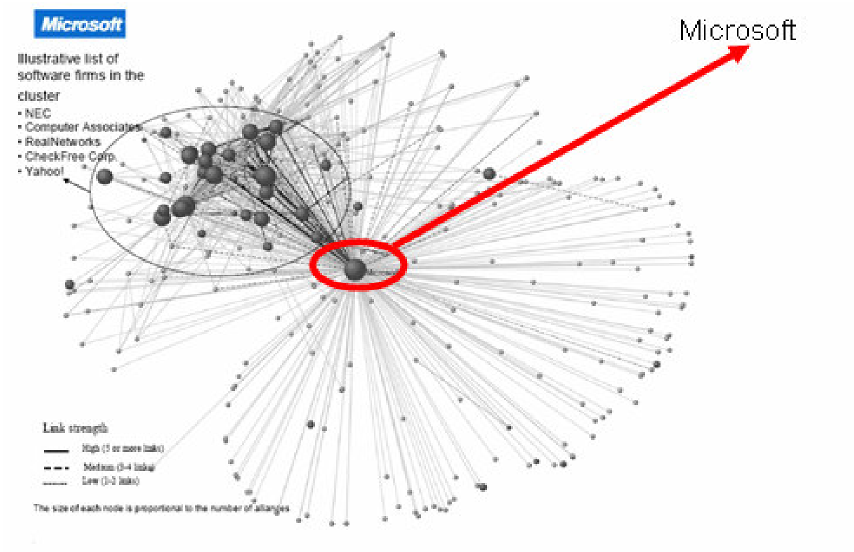
At organizational level firms need to consider how they would achieve a competitive advantage by collaborating Value, Rarity, Imitability from resource and capability perspective.

2.1.2 Network Perspective

According to Mark Jenkins et al (2007) "A network view on strategy conceives of the firm as an interdependent, rather than an autonomous, entity. It argues that a firm's economic activities are enabled and constrained by its relationships. From such a view point the boundaries between the 'inside' and the 'outside' of the company become less relevant, both analytically and practically" (2007, p. 185). According to the author for a firm to develop a sustainable competitive advantage it is critical for a firm how it develops and maintains its relationship in order to achieve the competitive advantage. The factors which would enable a firm to develop value could be through its 'position in the inter-firm network, the partner's resources and reputation, firm's experience in partnering, and its ability to integrate and exploit the resources of its partners'(Jenkins et al, 2007, p. 185). Brokerage and closures are the two approaches for developing the competitive advantages in a network business ecosystem. Brokerage is about bridging the disconnected networks and creating value by identifying prospects in the network else would have been disconnected. The result developed by information sharing within the intense network is called closure. Firms also need to manage a portfolio of partnership in order to achieve competitive advantage. Partnerships can be horizontal when a firm collaborate with competitors for accessing the similar technologies and innovative capabilities. Partnerships at a vertical level enable the companies for forward (new markets) or backward integration (R&D).

From network perspective the strategic objectives of a firm could be achieved in by "accessing to information, resources, markets, and technologies; with advantages from learning, scale, and scope economies; and allow firms to achieve strategic objectives, such as sharing risks and outsourcing value-chain stages and organizational functions" (Gulati et al ,2000, p. 203). In a network relationship and location of a firm is the most distinctive strategic asset which is difficult to imitate. Thus integration of firm's partner's resources and capabilities are the key strategic assets for creating a joint value in the partnership. It is challenging for competitors to imitate these strategic resources (network creation) in a short and medium term scenario. For e.g. In the firms in the software industry network with competitors in accessing similar software applications. These partnerships enable firms to share information regarding the products, its features and also manage the product releases which enable firms in reacting to technological changes since high-tech industries are fast paced. The diagram 4 below explains how Microsoft has built a sustainable advantage partnering with companies in the software industry network.

Diagram 4 – Microsoft's Network Approach



Source : (Bala et al ,2006)

According to Saxenian (1990) continual inter-organizational exchanges enables to form a stable network in the software industry. According to Gomes-Casseres, Benjamin (1994) 'effective groups are worth more than the sum of alliances within them' (1994. p.72).

In software ecosystem there are five indices for evaluating the network as mentioned below:

Degree of Links

The number of links that a firm is connected at any given time is called the degree of links. As the size of the firm increases their portfolios of products also increases, in order to support their product portfolios larger firms have to manage larger networks. The diagram 5 below showcase the top five firms in the software industry with highest degree of links from 1990-2001.

Diagram 5 – Degree of Links in Software Firms

1990	1995	2001
Apple Computer, Inc.	Apple Computer, Inc.	AOL
Oracle Corporation	Sun Microsystems, Inc.	Sun Microsystems, Inc.
Sun Microsystems, Inc.	Oracle Corporation	Oracle Corporation
IBM	IBM	Microsoft Corporation
Microsoft Corporation	Microsoft Corporation	IBM

Source : (Bala et al ,2006)

Average Degree of Partners

The number of links that a firm's partner is connected at any given time is called Average Degree of Partners. Opting for appropriate set of partners are critical since these partners not only enable to enhance the internal resources but also their experience and knowledge in the network interaction would add value for the firms. The diagram 6 below showcases the firms with highest average degree of partners from 1990-2001.

Diagram 6 – Average Degree of Partners in Software Firms

1990	1995	2001
Sun Microsystems, Inc	Apple Computer, Inc.	Hitachi Limited
Microsoft Corporation	Symantec Corp.	SAP AG
IBM	IBM	Vignette
Apple Computer, Inc.	Microsoft Corporation	IBM
Novell, Inc.	Sun Microsystems, Inc.	Microsoft Corporation

Source : (Bala et al ,2006)

Path Length

In a network, number of steps required to reach a specific firm is called the Path Length. In this scenario the path length can be calculated by counting the number of steps for one firm to reach another. Shorter the path length faster is the communication, i.e. firms have fewer intermediaries. The diagram 7 below showcase firms with smallest average path length.

Diagram 7 – Path Length in Software Firms

1990	1995	2001
Apple Computer, Inc.	Apple Computer, Inc.	AOL
Oracle Corporation	Siemens AG	Microsoft Corporation
Sun Microsystems, Inc.	Sun Microsystems, Inc.	Fujitsu Limited
Microsoft Corporation	IBM	Sun Microsystems, Inc.
IBM	Microsoft Corporation	IBM

Source : (Bala et al ,2006)

Clustering Coefficient

The measure with which a firm's partners are partnered with each other in a network is called a clustering coefficient. Thus clustering coefficient enables firms to map their relationships in a given network and their strategic intent of alliance and relationships. In dense networks large player are tightly coupled like Microsoft and IBM alliance with SAP whereas their legions are loosely coupled. These partnerships enable firms to create demand and awareness about their technology and products. The diagram 8 below showcases the firms with highest levels of clustering coefficient.

Diagram 8 – Clustering Coefficient in Software Firms

1990	1995	2001
Software AG	SAP AG	Siebel Systems, Inc.
Novell, Inc.	Sun Microsystems, Inc.	Hitachi Limited
SAP AG	Apple Computer, Inc.	NEC Corporation
Apple Computer, Inc.	Microsoft Corporation	Fujitsu Limited
Sun Microsystems, Inc.	Novell, Inc.	Vignette

Source : (Bala et al ,2006)

Network Density

“Network density describes the ratio of links that exist in the network to the number of potential links that could be if all possible pairs of nodes were directly connected”. (Bala et al ,2006, p. 40)

Network density can be calculated by total number of nodes connected in a network to the total number of unique links the firms can establish in a network. To measure the cohesion in a network i.e the degree of interconnection the network density is considered. In order to compare and contrast the network topologies the network densities can be considered across various sectors. Since the high-tech industry is a specialized industry, generally the network densities condenses as most of the firms focuses on their partnership level i.e. specific to their product or technology.

2.1.3 Comparing and Contrasting RBV and Network Perspective

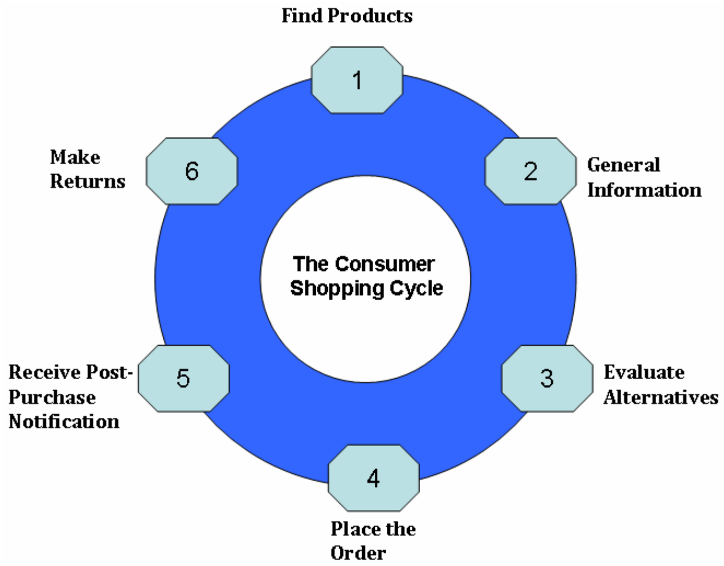
According to the RBV perspective it limits its boundaries to firm level. However the network perspective suggests that it is critical for firms to extend its resource and capabilities to the industry level by collaborating and associating with firms in the industry. By considering such approach firm has developed its resources beyond the boundaries of a firm. This would enable firms to adapt themselves to technological changes, innovation and convergence. Since the intensity of information exchanges are increasing in the industry, firms are facing the challenge in single headedly accessing and managing the process of product development and services. For the same the firms need to categorise and prioritize its resources and capabilities to enhance them to build a sustainable competitive advantage. Considering the RBV at inter firm level core resources are leveraged for gaining the competitive advantage and collaborative resources are engaged to achieve economies of scale since network partners share the risk of higher investments. The dimensions of RBV from network perspective in terms of lead time are that partnerships or alliances enable technological resources to rapidly develop the knowledge by collaboration and sharing the implementation experience. But the challenges are if there are conflicts in the partnerships then the whole process of enhancing the resources would be delayed.

At the firm level partnerships enable to build up the resource pool which would be beneficial for partners and the firm. However in some instances the one of the partners harvest the profits which could be a risk associated to partnerships. The resource interdependency enables firms and diverse partners to collaborate a complimentary resource pool which helps them to achieve unique value proportion that reduces the risk of imitation by its competitors. But on the other hand higher interdependence between firms and its partners on resources is risk since if the partnership fails then the critical resources would be at stake (Klein & Kronen, 2006). Considering a strategic view on the networks from RBV perspective, in some instances a firm's partner could be a competitor and in the resource collaboration process, there is risk of loosing firm's critical resources to its partner who may be its competitor (Hamel et al,1989).

2.2 Services Marketing

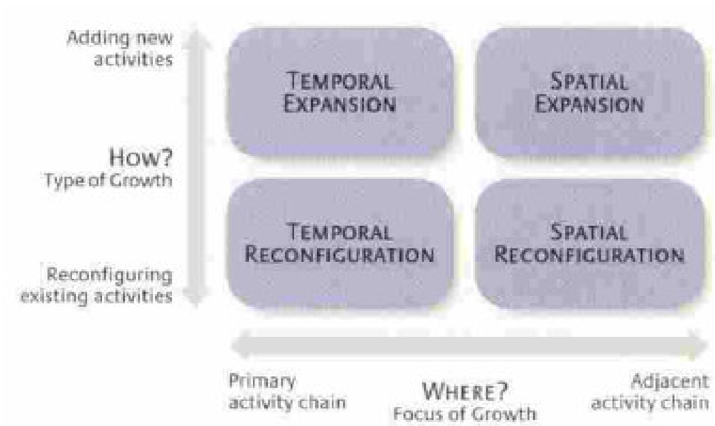
According to Sawhney et al (2004) product led firms could develop their growth strategy, also by focusing on a services led approach. Drucker (2008) argues that "What the customer buys and considers value is never a product. It is always utility – that is, what a product does for him". In order to discover 'services- led growth' prospects it is imperative to understand the 'customer-activity chain' as mentioned in the diagram 9. The 'customer-activity chain' can be identified at the customer segment level and customer engagement at the product-market boundaries in order to 'extend, fill, expend and reconfigure with new services'. For the same service-opportunity matrix structure enables to explore opportunities across the 'customer-activity chain' as shown is Diagram 10 below.

Diagram 9 – Online Consumer Activity Chain



Source: Hanson & Kalyanam (2007)

Diagram 10 – The Service Opportunity Matrix

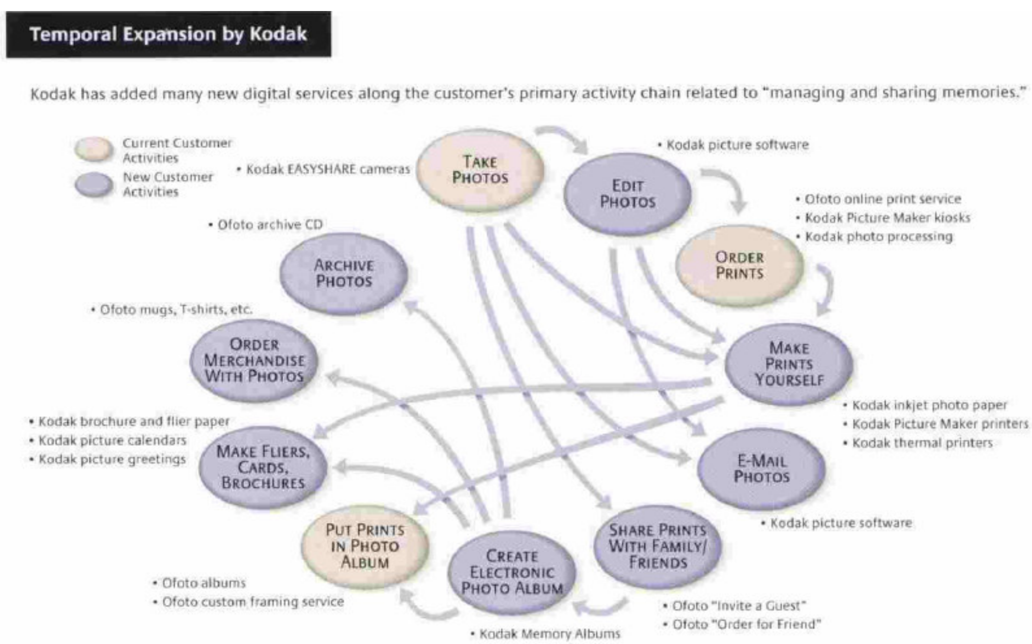


Source: Sawhney et al (2004)

Temporal Expansion:

The temporal expansion strategy enable firms to fill in the gaps inside the customer activity chain by adding new services which would enhance the customer's performance at each stage. E.g. Kodak – wherein new services were shaped for customers in order to 'manage and share memories' using the digital technology. The online printing service enabled customers 'create albums, order greetings cards, archive photos on CD' etc. Kodak also installed Kiosks in retail locations for by taping this Web Service for enabling customers to order prints as shown in diagram 11 below. (Sawhney et al, 2004)

Diagram 11 – Temporal expansion by Kodak

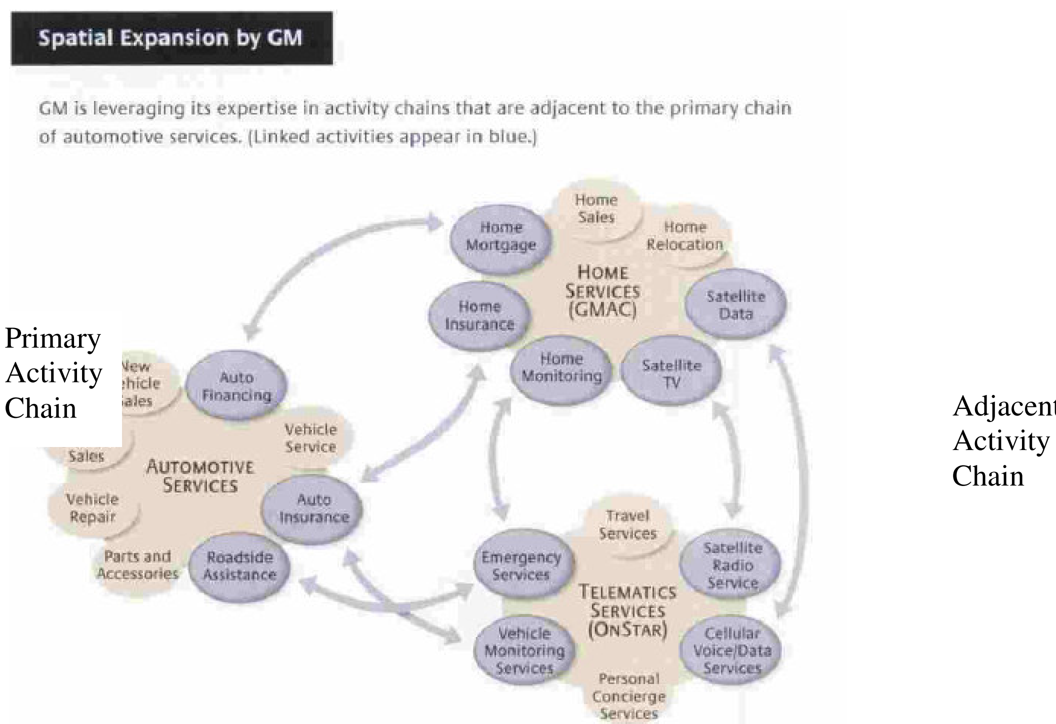


Source: Sawhney et al (2004)

Spatial Expansion:

Spatial expansion creates new services prospects in the adjacent activity chain which extends their services created by the temporal expansion strategy. On the other end services associated with temporal expansion reinforces the relationship with the customer engagement. E.g. General motors leveraged their core competence in the automobile industry by creating new services which associated with the primary activity chain i.e. OnStar platform which associated with roadside assistance and auto insurance in the primary activity chain. GMAC Mortgage Corp was another extension strategy by GM which linked with the Auto financing and Auto insurance in the primary chain activity as shown in diagram 12 below.

Diagram 12 – Spatial Expansion by GM



Source: Sawhney et al (2004)

Temporal Reconfiguration:

In the temporal reconfiguration firms 'do not add new services in this part of the matrix' rather shift their focus to the boundaries involving their core competence of their business and their customer's key functions of business matching with their core competence. E.g. United Parcel Service (UPS) Logistics Group developed logistics networks which enabled Ford Motor Co in cutting down the distribution time for delivering vehicles to dealers by 40%. (Sawhney et al, 2004)

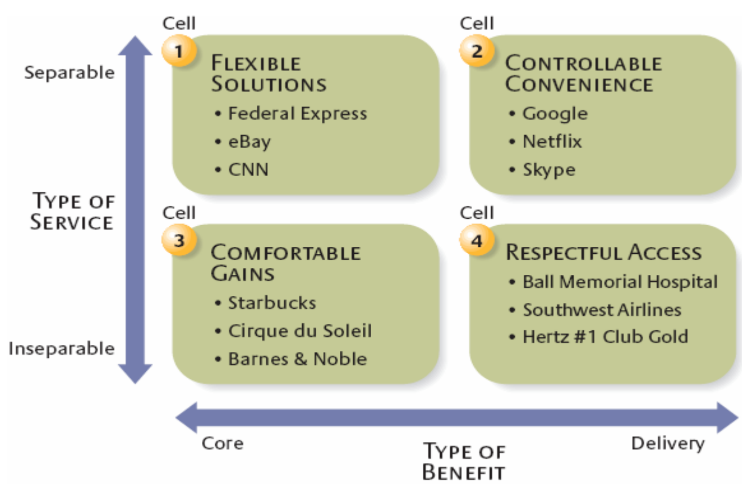
Spatial Reconfiguration:

The spatial reconfiguration is an approach where the firms focus on the adjacent chain activities of the customer after creating its presence in the primary activity of their customer. E.g. Nike's customers develop their game by participating in the camps or by employing instructors. Nike acknowledged this as a prospect for engaging in the customer's adjacent chain activity. Nike underpinned the brand and loyalty of Nike products by branding these camps which enabled the positioning and sales of camps. Sawhney et al (2004)

2.2.1 Classification of Services Innovation

Berry et al (2006) argues that new markets which are untapped could be created by developing innovative services by considering two key parameters such as type of benefits offered and degree of service 'separability'.

Diagram 13 – Market-Creating Service Innovation



Source: Berry et al (2006)

These parameters have been classified into four key cells as per their characteristics such as Flexible solutions, Controllable Convenience, Comfortable Gains and Respectful Access which is mentioned below:

Flexible Solutions

The key characteristic of flexible solution is to enable customers "to break free of the constraints of time and place" (Berry et al, 2006). This service adds in to the core benefits of the customers and separates it from time and place. E.g. eBay creates an online transaction platform for buyers and sellers for trading without being restricted to time and place. (Berry et al, 2006)

Controllable Convenience

The controllable convenience services focus on creating innovative markets by providing benefits in terms of delivery. Also these kinds of services like flexible solutions breaks free from time and place. E.g. Google created an innovative service market by enabling customers to search information irrespective of time and place. Thus makes Google an information hub for its customers and the revenue is generated by the advertisements. (Berry et al, 2006)

Comfortable Gains

The comfortable gains services add in to the core benefits of the customers coupled with time and place. Thus enable in creating new experiences at emotional or physical levels. E.g. Starbucks focuses on the quality of drinks, ambiance created for relaxing etc. Cirque du Soleil mixing the circus and dance as an entertainment show enabled the company to create new markets by creating new experience for customers. (Berry et al, 2006)

Respectful Access

In this scenario firms create new services which provides delivery benefits wherein "production and consumption of the service are inseparable" (Berry et al, 2006) . E.g. Hertz provides their repeat customer rapid access to the core services by providing short-term renting of cars. (Berry et al, 2006)

2.2.2 Application Service Provider

Donahue (1999) suggests that Application Service Provider (ASP) provides software application as a service i.e. software as a service (SaaS) model to end user on a revenue model basis. ASP solutions are targeted to the SME's (small and medium enterprises) since these solutions are cost effective for the SME's. ASP's can be classified as per their features as mentioned below: (Seltsikas & Currie, 2002)

Diagram 14- Types of ASP

No.	Name (Type)	Main Features
~~1.~~	Pure Play	This type of ASP licenses software from a variety of vendors
2.	ASP enablers	Use the best-of-breed service providers
3.	Partnerships	Access a large community of prospective clients that share the same interest.
4.	Enterprise	They target medium sized companies either through their own channels or through another ASP
5.	Horizontal	These type of ASPs are aimed at all markets and offer collaboration tools like groupware

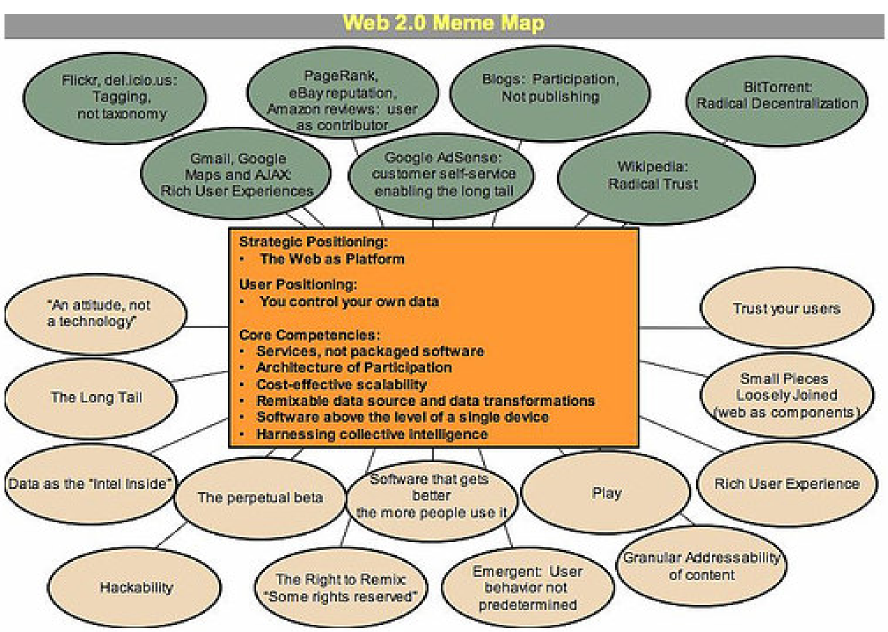
The key business models in the ASP industry are horizontal and vertical. Vertical ASP's focus on single industry whereas horizontal ASP's provide solutions for to a broader industry (Heart & Pliskin, 2006) ; Donahue (1999). Vertical ASP's perform far better than the horizontal since they are specialist and more focused than the horizontal ASP business model (Desai & Currie, 2003). Falkowski (2002) suggests that the 2nd generation ASP' focus in specialist areas and applications are web based systems enabling the customers to use anytime and anywhere. As shown in diagram 14 below showcases that key distinction between the application management and infrastructure management. Thus building strategic partnership could be the key for creating the agile and scalable ASP solutions by the combination of their core competence (Sovie & Hanson, 2006).

2.2.3 Web 2.0

Carr (2007) suggests that Web2.0 focus on connecting many to many than one to many conventional internet applications. Earlier the World Wide Web (www) focused on one to many communications, however today the internet platforms focus on many to many. E.g. Myspace and Facebook.

The core competences of the Web2.0 Company are "Services, not packaged software, with cost-effective scalability; Control over unique, hard-to-recreate data sources that get richer as more people use them; trusting users as co-developers; Harnessing collective intelligence; Leveraging the long tail through customer self-service ; Software above the level of a single device; Lightweight user interfaces, development models, AND business models". (O'Reilly, 2005, http://www.oreillynet.com)

Diagram 15- Web 2.0 Map



Source : O'Reilly, 2005, http://www.oreillynet.com

3.0 Methodology

This chapter focuses on the methods employed for the collecting data or information. Further the chapter discusses how this data is evaluated for identifying the gaps in the current customer activity chain of Boots.com. The collaboration of data, theory and benchmarking case study resources reinforced the investigation. Lastly, the chapter also focuses on the limitations on the methods employed in this research process.

3.1 Research Methods

The key research method employed for the investigation was through qualitative approach. According to Maanen qualitative methods comprises of "array of interpretive techniques which seek to describe, decode, translate, and otherwise come to terms with the meaning, not the frequency, of certain more or less naturally occurring phenomena in the social world"(1979, p.520).This approach enable to address the specific issues from the organizational perspective, thus the blend of methods applied though this framework provides a broader perspective regarding the investigation conducted by the associate (Gilmore & Carson, 1996). Terplan (1995) argues that benchmarking is key dimension for analysing the best practices of organizations from industries i.e. their core practices or process or strategies which adds value to the organization.

At Boots.com, this approach initially begun with initial investigation stage wherein information is collected through a cycle of semi-structured interviews and group interviews with the key stakeholders (Project Manager, Business Development Manager) of Boots.com business unit along side with the MBA group project. Also individual depth interviews were conducted specifically for this research perspective as well with other department heads who are currently involved in strategizing pharmacy services for Boots.com. For the same the key personals were selected All the interviews were based on strategy, services marketing and e-commerce business model which was interweaved for understanding the current system from services perspectives and the gaps present in the online customer activity cycle. The time length for each interview was approximately about forty five minutes. For developing new markets though innovative service approach the benchmarking case study was based on Manchester United Football Club which had provided different perspectives for semi-structured interviews.

Quantitative research method was not considered as the individual project's scope. Since from services perspective "tangible and intangible" aspects need to considered and these aspects didn't have any defined periphery. The key advantage of qualitative method over the quantitative method from the services context is that qualitative method enables in understanding the connections between the "systems and subsystems in the organization" (Gilmore&Carson, 1996, p.23).

3.2 Data Collection and Analysis

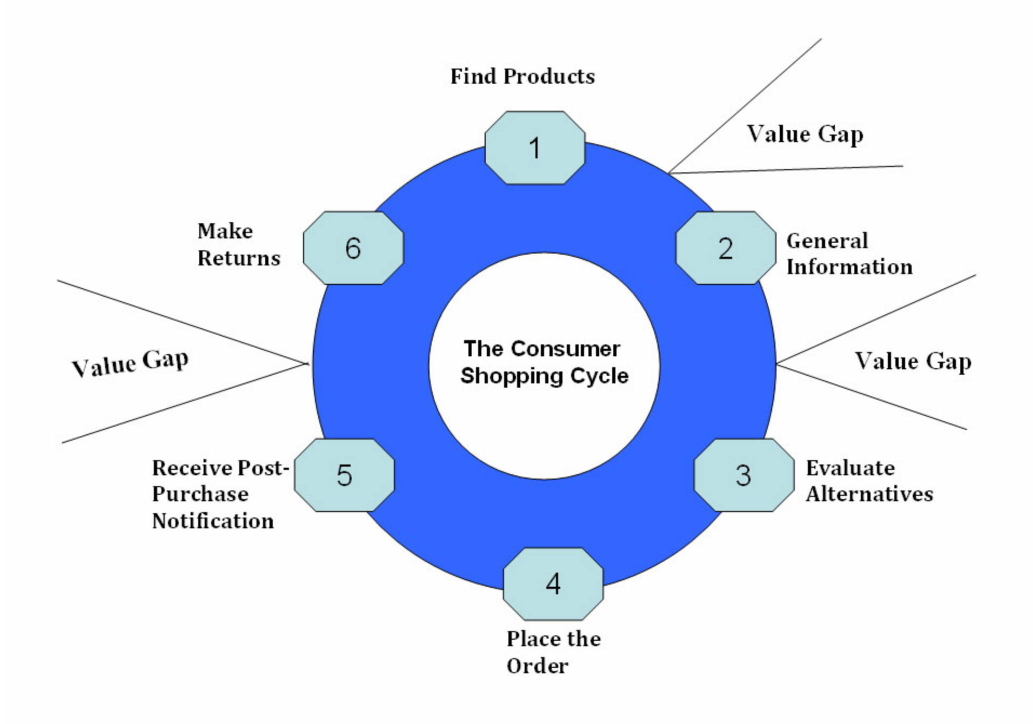
The data was collected through the internal share drive of Boots.com which contained the internal company data. The confidentiality of data received and the interviews was maintained by signing the non-disclosure agreement (NDA) between the company and Nottingham University Business School. Information was interpreted from the semi-structured interviews conducted during the investigation process. The benchmarking case study also provided different perspectives which reinforced the interviews and enabled in covering all the areas which were coherent with the research objective and probe in to boundaries of the research. All the interviews were recorded on notes so that all the interviews can be interweaved for better interpretation of information collected during the semi-structured interviews. The research was new innovative model for the company which has not been practiced before in the online channel. This was the key challenge since implications of research has not been tested practically in the company specifically.

3.3 Results and Findings

This section discusses on the qualitative methods used for conducting the analysis. Also the results and finding for the qualitative methods have been analysed in this section.

Considering the qualitative research in terms of personal interviews conducted with the key personals of Boots.com, benchmarking with key industry players and analysing the industry reports, gaps could be identified at the services level. Alliance Boots is a specialist retailer in Health and Beauty (H&B) market which is a volume driven company being product focused. However the services aspect is not the key focus area as compared to new product introduction and product delivery. Since the product sales are the key driving factors for revenue generation rather than services.Boots.com key areas of focus in terms of services is on Pharmacy and Insurance. Also the existing services provided in the website of Boots.com are not streamlined and are not integrated. E.g. Boots.com provides online photo processing services by partnering with Photobox which enables customers to collaborate, share and get the print of photos online as a value added service (http://www.bootsphoto.com/). However this service is not integrated with other beauty services and more over customers are diverted to separate website (http://www.bootsphoto.com/) for utilizing these photo services. In order to focus the growth strategy Boots.com needs to consider the product aspect and services aspect simultaneously rather focusing in isolation. Boots.com generates only 1% of the total revenue of Alliance Boots where as the Boots store (the offline channel) has around 30% of the market share (Boots.com, Internal data). Also prior to the Phoenix Project i.e. the revamping the existing website, the awareness is quite low. Currently Boots.com is not mining the online customer visiting the website for developing new products and services rather using data of the Boots advantage card which is used in the physical stores. These data are not specifically generated from the online business. Thus Alliance Boots is not leveraging the data mining capabilities i.e. user generated data from the online channel to the fullest. The internal data of Boots.com confirms that Boots.com is customer led focusing on the key customer segments (Betty, Tina , Charlotte, Bob and Teens) and increasing the conversation rate through product line extension. At the moment Boots.com are does not have any structured engagement strategies for customers and suppliers from a services perspective. The diagram 16 below showcase the value gaps identified in the customer activity cycle for Boots.com’s customer.

Diagram 16 - Customer Activity Cycle for Boots.com's customer.



Source : (Vandermerwe ,1993)

Further in chapter 5 analysis of Boots.com would be considered internally and externally for analysing these value gaps at the services level.

4.0 Analysis

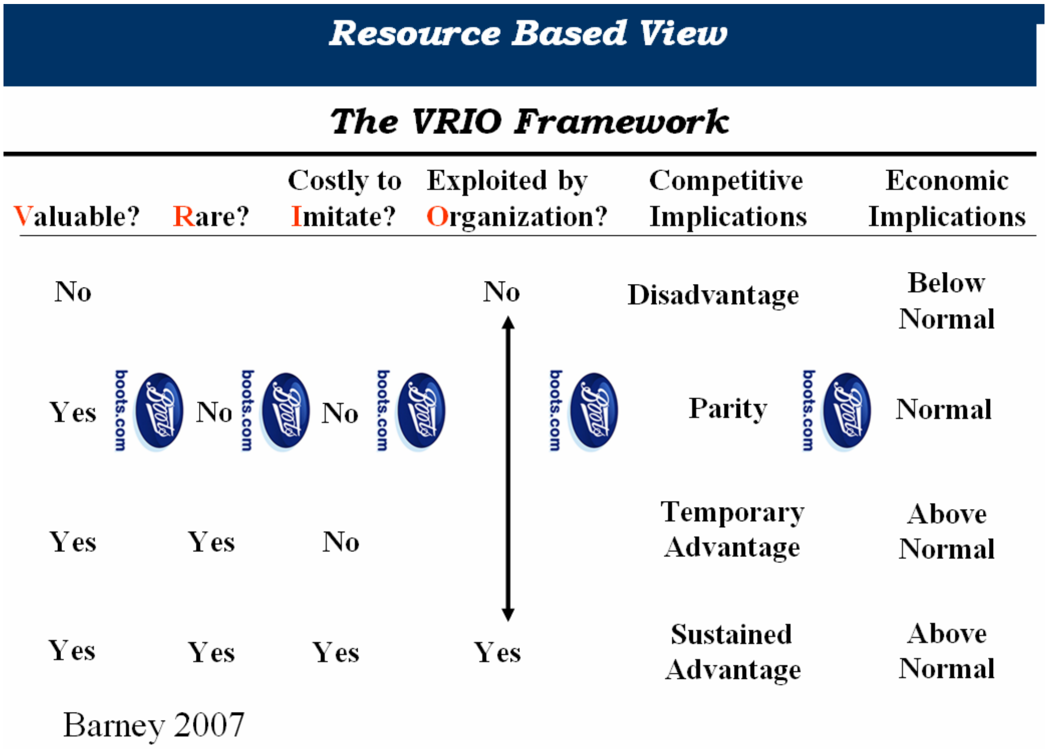
4.1 Analysing Boots.com from Resource Based View Perspective

Hulland et al (2005) suggests the key factors for the performance of the online channel from resource based perspective are “market sensing, brand management and customer service”.

Alliance Boots is high street retailer in Health and Beauty with a multi-channel approach wherein Boots.com is the online channel. Boots.com initially launched into to the market with the brand Wellbeing.com in 2001 and later in 2002 was branded as Boots.com. Boots.com considered as a separate business unit with a dedicated team for the developing and maintaining the online business. The online channel sales includes all the health and beauty products like healthcare, skincare etc through its website (www.boots.com). It includes category killers like toys & electricals and also features like ‘ask the pharmacist’ for the all the health related queries. Boots.com has delivery services like ‘order and collect’ where in the customer could order online and collect directly from store where in it utilizes the physical stores. Alliance Boots the part company has approximately about 3,100 retail outlets, of which 2,800 are pharmacies. Thus with the depth and reach in the offline market, the online channel can integrate with the physical store enabling Alliance Boots to become a true multi-channel retailer.

Boots.com with the SAP system and IBM e-commerce platform manage their information resources at the backend . But the Boots.com website lacks in distinction when compared to its competitors like Tesco, Superdrug etc in terms of value added services for customer engagement which restricts it from accomplishing the competitive advantage through its IT resources. It also lacks in innovation in terms of services and functionality in engaging the customer such creating virtual communities etc in the current website. The drop-ship model the future model for the product delivery compliments the existing resources but the risk associated here would be depending on the third party resources and capabilities as well. However this service is not a differentiated to the competitors and can be imitated by the followers. The brand image of Alliance Boots is complimentary for the online channel which acts as a traffic puller.

Diagram 17 – Boots.com Resource Based View (VRIO Framework)



Source : Barney 2007

By considering the VRIO framework as mentioned in Diagram 17 below, Boots.com's competitive strategy could be analysed from RBV perspective. Alliance Boots the parent company's brand value is valuable since it's a specialist retailer in the Health and Beauty market and has been leveraged by Boots.com. It focuses on the differentiation strategy than the cost advantage by providing high quality products which adds value to the customer. The multi-channel specialist approach is not rare however the with around 3,100 retail outlets, showcases its strength in the offline market with around 30% market share which generates a competitive parity. In the Health and Beauty online market Boots.com has second largest market share after eBay. Considering the multi-channel approach, Boots.com's resources can be considered as its strengths since they are valuable but not rare. Boots.com currently exploiting its offline resources to the fullest to gain the competitive advantage.

However, the current challenge of Boots.com is effectively integrating its offline and online channels. Currently from online channel perspective specifically Boots.com focuses on the product delivery services to home and physical store.

Alliance Boots leadership has been established in the UK market as a Health and Beauty specialist retailer; however it could be sustainable only for short term. Since the pure players like eBay, Amazon; grocers like Tesco and H&B specialist like Body shop has increased the competition in the online channel. According to Verdict (2008) the online channel year-on-year growth has reached to 35% in 2007 from 18.3% in 2002. Thus the online channel has become an attractive channel for retailers which would increase the market concentration. For considering the long term economic gains if the VRIN criteria are considered (as mentioned in diagram 18 below) then the Non-substitutable aspect would be nil since the online channel is become attractive for retailers to enter. The challenge for Boots.com is utilizing its resources and capabilities for long term and adapting to a highly competitive future market for building a sustainable advantage through by creating new innovative services. It imperative for boots.com to create innovative services for enhance the customer experience for sustaining the competitive advantage else it would be leading Boots.com for lower returns in the long term basis.

Diagram 18: VRIN Framework

Resource Based View

The VRIN Framework

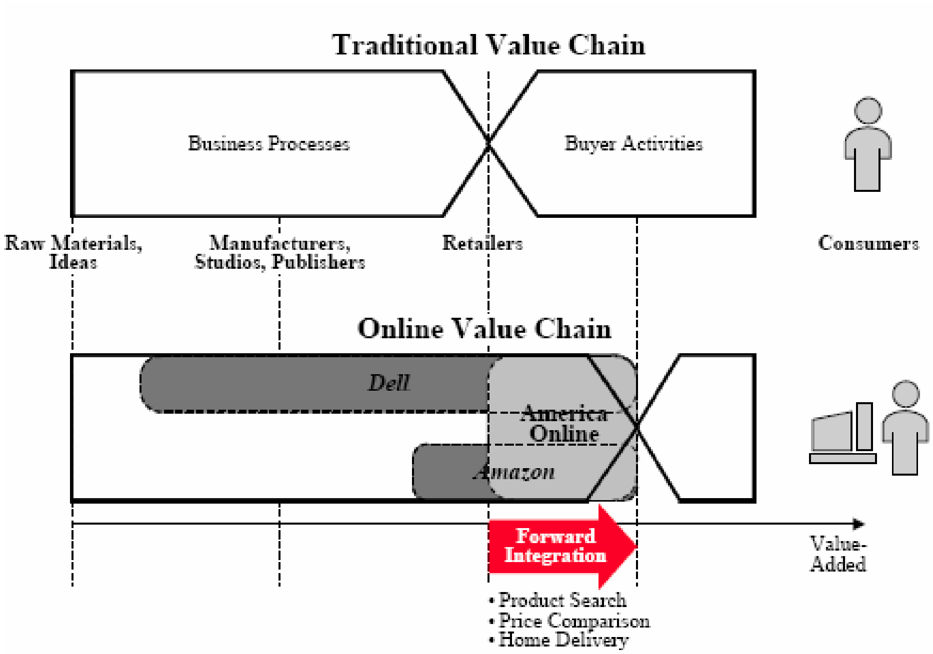
Valuable?	Rare?	Costly to Imitate?	Non-Substitutable	Outcome
No	No	No	No	•Low Return •No Advantage
Yes	No	No	No/Yes	•Competitive parity •Average return
Yes	Yes	No	No/Yes	• Temporary Advantage • Superior return
Yes	Yes	Yes	Yes	• Sustained Advantage • Superior return

Hitt et al. 2005

4.2 Analysing Boots.com from Network Perspective

In the e-retail business ecosystem it is critical for companies to build sustainable advantage utilizing their value network or strategic alliances. Boots.com is a specialist in the H&B market and it has leveraged its supplier networks from the offline channel to the online channel. Boots.com separately manages its central warehouse through a third party automated warehouse system – iforce which is located in Birmingham. Alliance Boots with an experience of 150 years has developed a strong network of suppliers and stores which enable the company to capture 30% market share in the Health and Beauty market and create a strong brand. Alliance Boots being a multi-channel retailer, Boots.com(the online channel) has the leverage of intertwining the network resources of the offline channel through its physical stores which around 3100 retail outlets and approximately 1500 suppliers. At the moment Boots.com's key focus area on extending the product lines and efficient product delivery services. But from a network perspective it has lacked in creating the value added services for its customers. Considering the same from online perspective Boots.com is limited to few partners which could create more value added services for the customers. Boots.com hasn't reached its maturity stage and this is learning curve for the company to establish its presence in the online market; however its functional knowledge and network in the H&B market in the offline business can effectively utilized. Boots.com has also networked at a horizontal level with companies like Photobox for its online photo business which creates value added service for customers to utilize the photo services online. Also it has also partnered with Pruhealth for providing health insurance for its customers which acts as a value added service. However, Boots.com lacks in forward integration for creating value added services for customer engagement. E.g. Pure players like Amazon's forward integration enable online customers by providing the "product and price search capability", product recommendations capabilities etc also grocers like Tesco also incorporated similar value added services for customer engagement. (as mention in diagram 19 below)

Diagram 19 – Online forward integration in Consumer Electronic Commerce.



Source : Langdon & Shaw(2000)

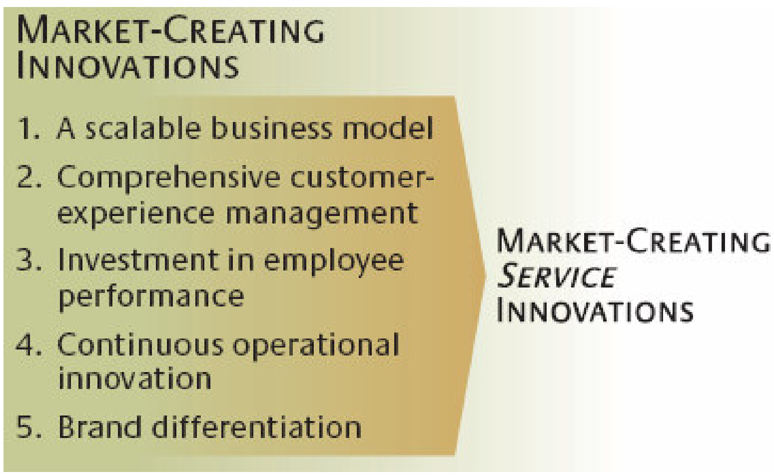
In the H&B retail ecosystem as Alliance Boots is large size firm and Boots.com as its online arm with a large portfolio of products has the capability for managing large networks. However Boots.com hasn't reached its maturity hence its degree of links is medium to high. In terms of average degree of partners Boots.com would be medium to high since it is utilizing the supplier networks of the offline channel i.e. Boots stores. Boots.com needs to maximize the online capabilities of adding more products and value added services as the in the internet channel has the abundance of space unlike the stores which has the scarcity of shelves space. The focus for Boots.com is still in the conventional retail approach of building the supplier network which is critical, however building partners at the web level is also critical for the Boots.com's online business which would enable boots.com to create value added services for its customer engagement. The clustering coefficient for Boots.com is from low to medium only from product line extension and product delivery services perspective but lacks in creating value added services for customer engagement. Similarly the ratio of links for Boots.com is restricted to product line extension and product delivery services in the existing network which is low to medium since Boots is a specialist in the health and beauty market when compared to the other domains in the retail industry. At the moment Boots.com focus on the online business compliments the Alliance Boots's offline resources and capabilities to build a competitive advantage however lacks in creating value added services for customer engagement in the online business ecosystem.

5.0 Discussion

As per the analysis in Chapter 5 from RBV and Network perspective, considering Boots.com we can understand that Boots.com needs to focus on creating new value added services in order to sustain growth in the online industry through better customer engagement.

Berry et al (2006) suggests key factors for creating markets through service innovation as mentioned diagram 20 below:

Diagram 20 - Factors for creating markets through service innovation



Source: Berry et al (2006)

Considering Boots.com from the above parameter, Boots in the H&B market has created a differentiated brand by being a specialist in H&B retail. It has also focused on operational innovation through the multi-channel approach and developing future product delivery methods through drop shipping. Boots is investing in performance of employees by conducting various employee engagement programs. From customer experience management point of view there are three parameters associated; they are "functional clues" i.e. the functions in the website for enriching the navigation experience which has been improved after the Phoenix project; "mechanical clues" i.e. the design of the website which attracts the customers; "human clues" i.e. that is customer interaction with employees of Boots at the store level which using the 'order and collect' program for product delivery services. All these parameters congregate the "total customer experience" considering the customer activity cycle. (Berry et al, 2006)

As discussed in chapter 4 (Result & Finding), we identified the value gaps in the customer activity cycle of Boots.com and further we analysed these gaps in chapter 5 considering the internal and external perspectives. For the same we can understand for Boots.com needs to have a scalable business model for creating and delivering new services for sustaining customer experience. Also this business model could enhance the engagement of customers, suppliers and partners.

For the same we have benchmarked Manchester United Football Club (MUFC), from the football industry. In 1991 MUFC was listed in London Stock exchange and later privately owned by Malcolm Glazer in 2005. According to Reuters 2008, MUFC is the second richest football club in the world. Until 1990's MUFC generated most of the revenue through ticket sales, catering and merchandising. Later through the increase in the popularity of the sport new markets where found for revenue generation like sponsorships, television rights, media royalties etc. Due to the tremendous increase in the salary of players , club had to create new markets for revenue generation.

For the same MUFC strategy was to leverage the brand equity which could be targeted to MUFC fans which are located across the world. Considering the total fanbase (current and potential customers) which is geographically dispersed in various locations across the world and supplying to products and services to these customers was complex. However MUFC had the information regarding their fans in terms of their buying behaviour and contact details. To address this challenge United's identified the firms who had the capacity to supply services which are not their core competence. To enable this MUFC networked with firms who were "the very best operators in each field" for creating new market through service innovation. The approach initially initiated by Identifying the target customer and further Understanding the target customer requirements. In the next level customer Engagement is carried through the right channel for better customer Interaction. Lastly transaction is conducted through the service provided. This repeated sequential approach is termed as "Accelerator Principle" by MUFC. By applying such tactics and scalable business model, today MUFC is the second richest football club in the world. The diagram 21 below showcases MUFC's partners networked and created new services through their "Accelerator Principle". (Shaw,2007)

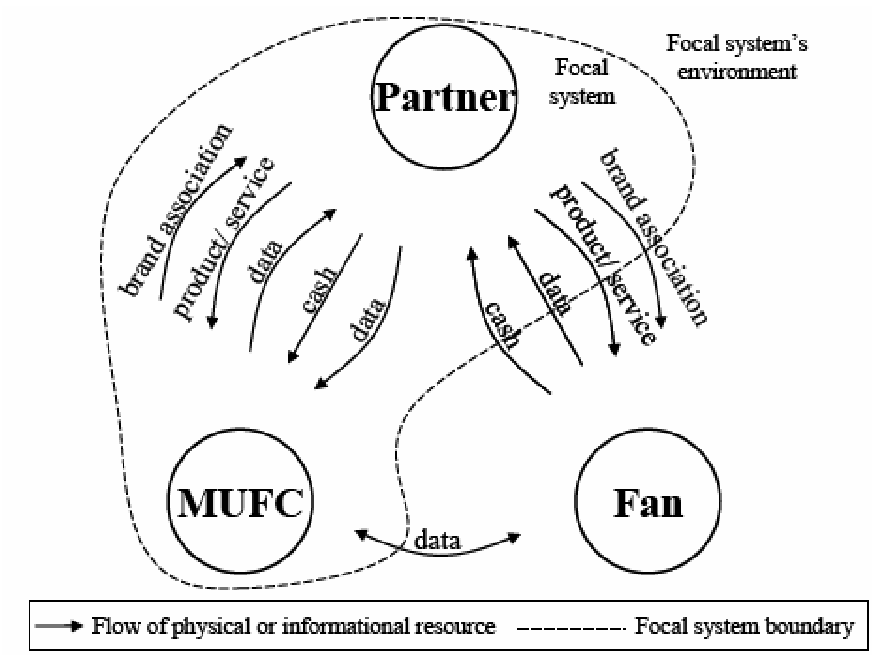
Diagram 21 -- MUFC's partners networked and created new services markets

Partner	Accelerant services	Description
Vodafone	T, E, I	Developer of mobile services such as live match and news alerts; and affinity mobile games, images, and screen savers in a £36m deal over 4 years (Keynote, 2005)
Nike	T, E, I	Produces United replica kits, training wear and all other United merchandise operations. Manages the stadium's 'Mega Store' at the Old Trafford football ground in a £303m deal over 13 years
Terra Lycos	ID, U, E, I	Website partner provision and development services (1.2m unique website users per month as of late 2004)
Ladbrokes	T, I	Stadium and online betting services
Dimension Data	ID, U	ICT systems such as the fan relational database
Fujifilm	T, I	Global media rights manager and developer of branded imaging products
BSkyB	ID	Satellite and terrestrial television broadcasters supporting MUTV
Granada	ID	Terrestrial television broadcasters supporting MUTV
MBNA, Barclaycard, Endsleigh, The Britannia Building Society, Halifax Bank of Scotland	T	Credit card services, insurance services, personal financial services
Audi UK	E, I, T	Official car supplier, e.g. personal transport for senior team executives and high profile players
Pepsi	ID, U	Global brand, e.g. a ring pull competition generates customer data and engagement
Budweiser	ID, U, E, I	Association with Budweiser's supply chain in China gave visibility and fan data
Wilkinson Sword	ID, I, T	Created a licensed male grooming range that gave United visibility in China, a royalty from each sale and fan data
Century FM	E	Regional UK Radio station that attracted fans to interact with United
Key: ID = identify U = understand E = engage I = interact T = transact		

Source : Shaw,2007

Form the above diagram 21 we can understand United's key approach through 'Accelerator Principle' allows to create new services for their customers. E.g. Vodafone's services through their mobile services enabled United's customers to better engagement and interaction through their brand association. It is win-win situation for United and Vodafone since United could create new value added services which are not their core competence and on the other end in association with United, Vodafone could increase the customer base. In both the scenarios both firms could create new sources of revenue generation through networking. And through this networking new information resources are built which adds value for both the firms as mentioned in Diagram 22 below. (Shaw,2007)

Diagram 22 – Value flow system of MUFC's network

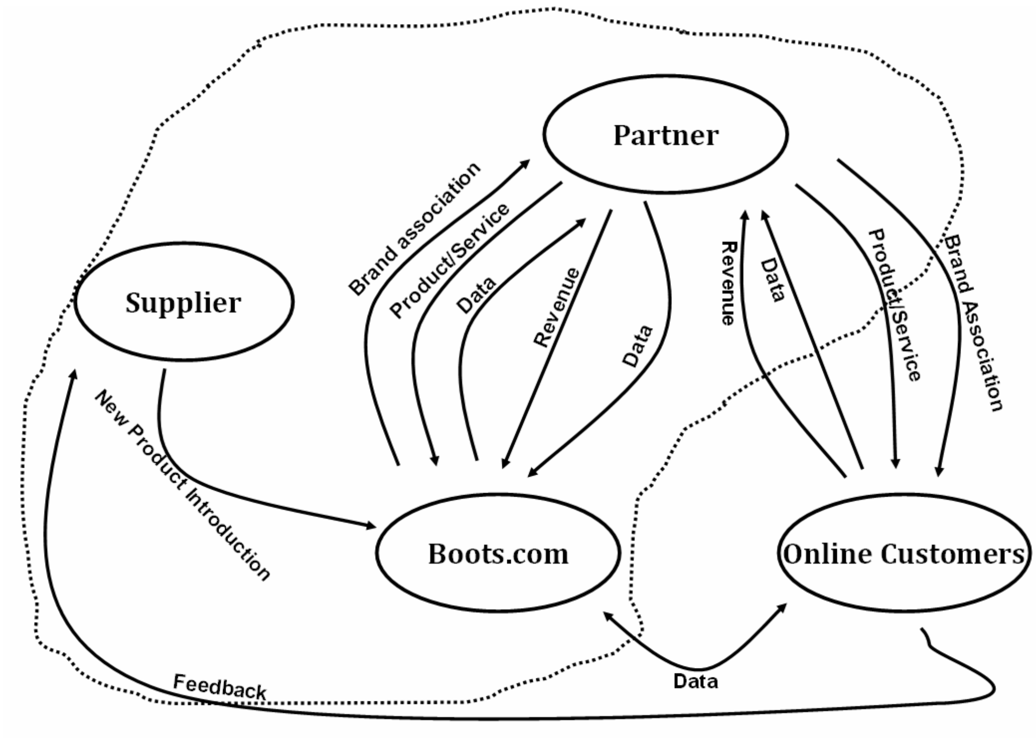


Source : (Shaw,2007)

The diagram 22 showcases that database is mined and revenue is generated by mining the data generated from fans and partners, wherein the data is initially generated from the existing fanbase. United generates revenue from partners by filtering the data generated from fans and partners. Partners respond to this data by creating new services for MUFC fanbase. In exchange of association with MUFC brand through partners the fanbase endow with "marketing data" to MUFC and its partners. Google Inc also works in similar models by providing information services to its customers through the internet. "For sustainability each service-need is operationally generated by each consumer firm in the network and operationally fulfilled by each serve producer". (Shaw,2007)

By benchmarking innovative services model through Network Orchestration Model of MUFC, Boots.com also could create such unique business model in the online H&B market. The diagram 23 below illustrates Boots.com services model through alliances and partnerships.

Diagram 23 - Boots.com services model



In this business model we would focus on the Health clubs and & Leisure centres for creating new services market for Boots.com. The focus in this report would be specifically on the male customer segment ageing 50s and 60s. However this model can be integrated with for other customer segments of Boots.com as well for creating new services market. Boots has a strong brand presence in the H&B market and this brand equity could be leveraged by creating new services from its potential customer base. Health services is not the core competence of Boots and is outside the boundaries of personal care products, however this could be supplied by networking or partnering with firms which have the core competence and strong brand presence.

According to Keynote (2008) industry reports (diagram 24) the consumer expenditure on fitness is currently in the growth stage and would reach saturation by 2011. The target customers for such services would be the male customer segments aging from 50s to 60s. Since they focusing on retaining their exiting "healthy and active lifestyle". At the same time this customer segment is touching the "retirement or semi-retirement" as result they have the capacity in terms of money and willingness to be associated with such services. E.g. Virgin Active created a new brand "Heaven-V" with specialist therapists.

Diagram 24 – Consumer Expenditure on Fitness Participation

Forecast UK Household Expenditure on Sports and Fitness Participation at Current Prices (£m), 2007-2011

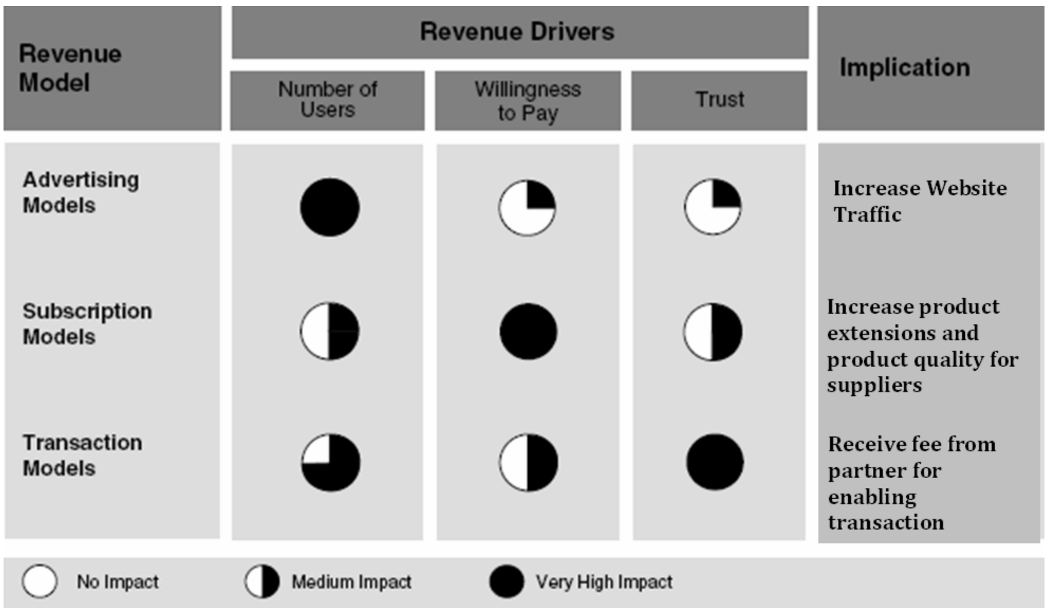
	2007	2008	2009	2010	2011	% Change 2007-2011
Subscriptions to sports clubs†	1,900	2,000	2,100	2,200	2,200	15.8

Source : (Keynote,2008)

By analysing Boots.com's internal data showcases that the male customer segment termed as Bob purchase high value products which provide higher margins. Quality of the brand and continence are the key factors which influence this customer segments. They approximately constitute 8% to 10% of Boots.com current customer segment.

Considering the above factors it would be profitable for Boots.com to by identifying partners in terms H&B service providers like spa, fitness clubs, saloons (health clubs and leisure clubs). These partners need have strong brand presence for supplying quality services else it could dilute Boots brand value. In this scenario from e-commerce perspective Boots.com could act as n Application Service Provider where in Boots.com could act as platform for creating a market place for sellers under the Boots brand umbrella (e.g. Boots.com and Photobox partnership for online photo services) and buyers i.e. the boots.com customers. For the same Boots.com can generate revenue from partners by filtering the data generated from customers and partners as mentioned in Diagram 23 . And partners in exchange to this data could create new services which could be sold through the Web Front End (Boots.com website). Also partners can promote Boots products with their service offerings. In this exchange process customer's associate with Boots brand through partners and the customers would provide the "marketing data" to Boots.com and its partners. This approach would provide Boots.com a combination of Google and eBay effect (i.e. Boots filters information for its customers and partners like Google; create a market place for buyers and sellers like eBay).

Diagram 25 – Revenue Drivers for Boots.com services model

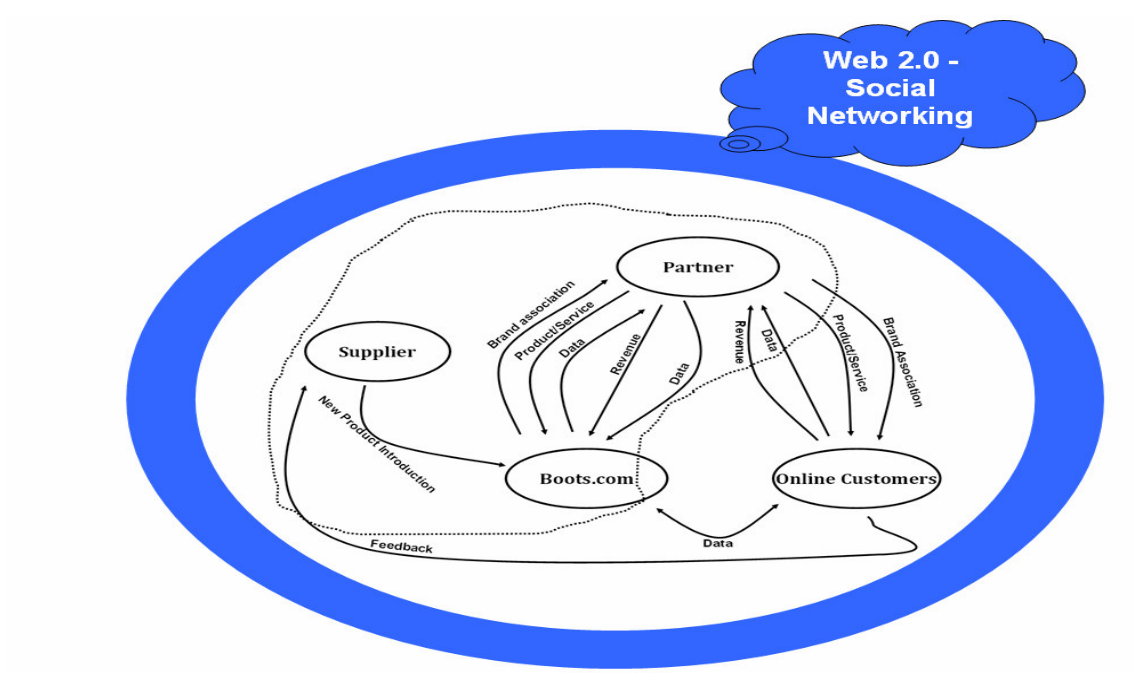


Source : (Enders et al ,2008)

The diagram 25 illustrated the key revenue drivers for Boots.com services model. The advertising new services in Boots.com would increase the dependence of existing customers and act as a traffic puller for the potential customers (Enders et al, 2008). The suppliers of Boots.com could utilize the Boots.com as platform for receiving the appropriate feedbacks of future products which would sold through Boots. By employing such interactive strategy suppliers or manufacturers can enhance their products features and quality by taking customer feedback. This would be win-win situation for Boots.com and the suppliers since this feedback could be specific to H&B market and Boots.com has differentiated as is a specialist in the H&B market. Also in this process Boots.com would be partially employing their existing customer base for interactive feedback (Keh & Teo, 2001). For the same suppliers could use this service through a subscription model, this will also reinforce the Boots.com and supplier relationship through this engagement process. As an application service provider the partners providing the health service could utilise the boots.com platform for executing their transaction an pay the transaction fee for Boots.com.

The entire service business model can be enriched with social networking for creating virtual networks by applying Web 2.0 technology. This would enable for sharing and collaborating contents between all the stakeholders (Customers, Boots.com, partners and suppliers) in the business model and create new prospects for the entire network through the data generated by the users. From the long tail perspective this would make the tail, longer and flatter for services. This can be linked to social networking sites like Facebook and Myspace. E.g. Amazon created value added service for its customers to gift books though Facebook's 'Wishlist' program. This approach through the Web 2.0 technology would enable all the stakeholders to engage in a efficiently and effectively in the e-commerce business ecosystem as mentioned in diagram 26 below. (Enders et al ,2008)

Diagram 26– Enriching the service model through Web 2.0

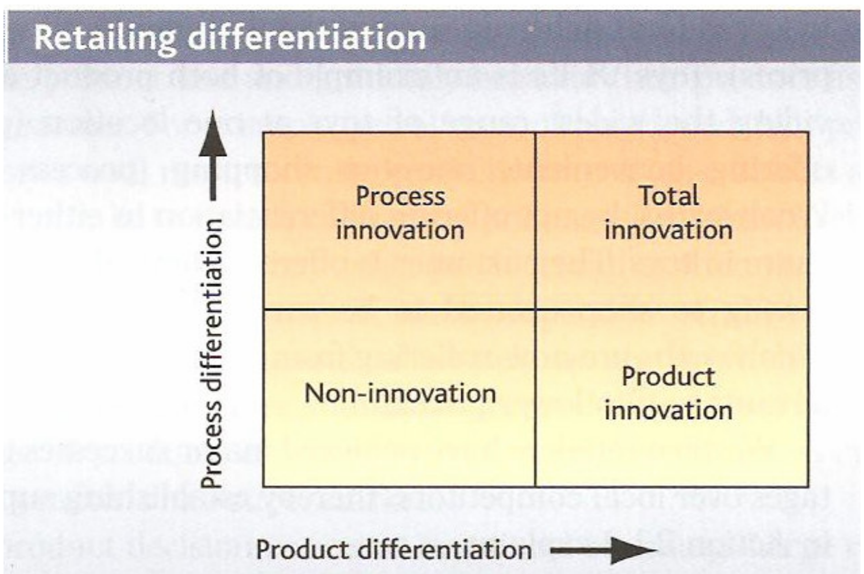


6.0 Conclusion and Recommendations

As discussed in chapter 6 regarding the Boots.com's approach of growth strategy from services perspective we analysed Boots.com needs to consider a scaleable business model considering customers, partners and suppliers.

Boots.com scalable service business model as an Application Service Provider (ASP) incorporating customer, partners and suppliers, Boots.com could take e-Retailing to whole new level through new process innovation and product innovation i.e. creating new web based services as an ASP. Thus from e-commerce perspective, the new ASP solution would act as vehicle for total innovation for Boots.com and reinforce their market position through the differentiation as H&B specialist not only products but also in terms of services as showcased in diagram 27 below.

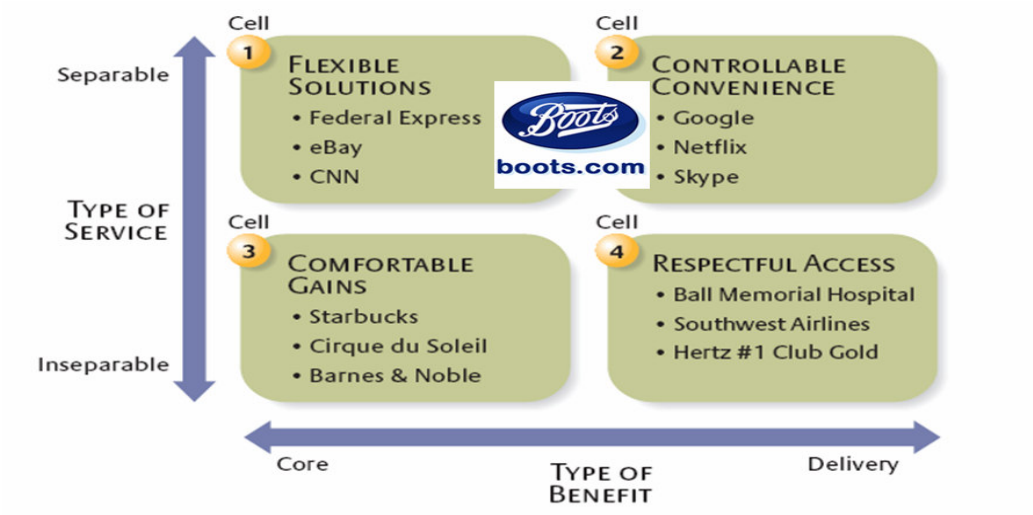
Diagram 27 – Retailing Differentiation



Source: Jobber(2007)

As discussed above by approaching such service models, Boots.com would create markets through service innovation by focusing on two key areas i.e. Flexible Solution and Controllable gains Boots.com could create separable type of services as mentioned in diagram 28 below.

Diagram 28 - Boots.com Market-Creating through service innovation



Source : Berry et al (2006)

"Retailers need to understand how information collection and data mining process can be used to effectively create value-added services" (Wang et al, 2000, p.384). The suggested scalable service business model would enable Boots.com and partners to effectively utilize customer generated data for the delivering web based value added services through web analytics. Boots.com as a Vertical ASP in H&B would be a facilitator for developing long term relationships between all the stakeholders in the business model through "database, interaction and network" in H&B market. This would create equilibrium push-pull marketing between marketers and consumers in the current market dynamics of e-commerce. This business model will be filling the value gaps in the customer activity cycle at all levels by creating new markets through value added services approach. This would also add value to the competitive advantage of Boots.com in the H&B market. These value added service would create revenue streams for Boots.com, increase the traffic for the Web Front End (Boots.com website) and enable in retaining the existing customers.

We have analysed that Boots.com could sustain growth by creating new services market by being an ASP. However our analysis have been limited only the male customer segment focusing on the health and fitness services but this scalable business model could be extended to other customer segments of Boots.com for creating new value added services. In the current business model all the services are focused at the primary customer activity chain, at later stages at maturity level Boots.com could consider creating services at adjacent activity chain. This integrated relationship approach in the internet market would add value to the information flow between all the stakeholders of the business model.

Recommendation

The proposed business model would enable Boots.com to sustain the growth through services approach. The key challenge for sustaining such business model is the strategic service fit between Boots.com as an ASP (facilitating the platform) and other stake holders in the proposed business model and also in terms of brand fit. Since these services would be part of the brand extension. For the same Boots.com needs to develop strategies for the risk associated with the services created through Boots.com partners. These can be considered at three levels, they are mentioned below:

Capability Risk:

Boots.com needs to consider the risk associated with the partner's service delivery capacity. E.g. Amazon and Toys'r'Us spin off etc.

Market Risk:

Boots.com needs to evaluate partners brand for filling the value gaps in the customer activity chain in terms of service offerings. Since there are risk associated with brand dilution.

Financial Risk:

Boots.com need to consider the return on investment on building such scaleable service business model. Also Boots.com should consider financial tools like NPV, IRR for evaluating the proposal.

Interlinking Products and services:

Boots.com need to integrate the services with the products offered.

Boots.com currently focuses on product line extension as their key growth strategies; however the proposed business model would provide Boots.com the flexibility in extending its growth strategies through services which would not only add new revenue streams but also better engage customers, partners and suppliers. As a long term strategy this proposed business model would enable Boots.com to be a specialist not only in H&B products but also H&B services.

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