

Impact of ebusiness on an organisation



**ASSIGN
BUSTER**

1. 1 Introduction:

The purpose of this project is to provide research findings of the impact of e-business on a particular organisation. The research carried out in this project was based on the performance of Ocado an online grocery company and being online business how this company differentiate itself from other companies in the same industry and get advantages of e-business in this modern era of technology.

1. 2 Why e-business:

Businesses that are run on the internet or uses information and communication technology to improve efficiency and profitability are known as e-businesses. “ The impact of e-business on an organisation” is seems to me different and logical topic. It is different because it changes the living styles of people and effects the social lives of people. Going through research on this topic I can learn a lot of new things on the infrastructure of e-business and way of doing e-business. Due to technological boom e-business is the future of businesses. It would let me figure out the competitive advantage of e-business on traditional one and potential of change in social behaviour of people. The choice of this topic helps me to apply my academic knowledge and improve my communication and analytical skills and helps me to improve professional career. This topic not only provide me impact on one organisation but will also tell me how global businesses change due to technological revolutions.

1. 3 Company Profile:

Ocado is a British online retailer specialising groceries. Ocado is partly owned by John Lewis partnership pension fund. Ocado is a limited company was founded in 2002 by Jonathan Faiman, Jason Gissing and Tim Steiner, former Goldman Sachs merchant bankers. Ocado has a number of own brand products from Waitrose supermarket chain and also name brand groceries and items like toys, flowers and magazines. Since 2002 Ocado has been making losses even though it has won customer service awards in the UK. Ocado was listed on London Stock Exchange on July 2010 and is member of FTSE 250 Index. The company is operating on a warehouse model deprived of physical stores and operating as an online business. Ocado operates in England's South East, South Coast, Midlands, North West and most of the Yorkshire. (<http://www.ocadogroup.com/about-us/history.aspx>)

To revolutionise the way people shop forever, by giving them a uniquely innovative and greener alternative to traditional grocery shopping.

(<http://www.ocadogroup.com/en/about-us/mission-statement.aspx>)

Ocado is an online business; it has also launched iPhone, iPod touch, iPad and Android device applications which are most convenient way to shop for groceries. People do not require desktop PCs or laptops to shop online; they can use their phones to shop for groceries. Ocado allows its customers to price match with other main grocery stores in the UK. Ocado has launched online price match with its competitor store Tesco. Ocado is one of the rapidly growing online businesses in the UK with delivery area expanded to cover over 10m households.

1. 4 Industry Profile:

Online grocery retailing remains in its infancy with both demand and the proposition often limited in many countries. In the UK, online represents just 2. 6% of the total UK grocery market. Nevertheless, with increasing broadband penetration and shopper lifestyles continuing to change, the internet looks set to become more important as a grocery retail channel in 2010. (<http://www.igd.com/index.asp?id=1&fid=1&sid=8&tid=30&cid=1499>)

The value of the UK online grocery market to have grown by 85% from £2bn in 2006 to £3. 7bn in 2009. Online is set to play a greater role in future grocery shopping patterns. We predict that the value of the online grocery market will nearly double in size to £7. 2bn by 2014, with a forecast annual growth rate more than three times faster than that of the wider grocery sector.

Many online shoppers pick from a shortlist of favourites although more than nine in ten can be swayed to try something new. More than six in ten (62%) online shoppers mentioned that they would try something new if they could select a free sample. Other preferred tactics include better or more offers listed at the top of the page, offers on linked products and more prominent displays and descriptions of new products.

However, although shopping online for groceries has become increasingly popular over the last few years, this section of shoppers represents less than one in four of those who buy goods and services online. This means there is a significant opportunity for grocery retailers to expand their online sales.

(<http://www.igd.com/index.asp?id=1&fid=6&sid=25&tid=90&cid=1409>)

1.5 Aims and Objectives of the Report:

To analyse the impact of e-business on Ocado and how the online business approach change the behaviour and motivation of people. One of the main aims of this report is to evaluate and compare the growth and financial performance of Ocado with other traditional grocery shopping organisations.

Following are objectives of this report:

To understand how Ocado's online business approach progresses in order to achieve the revenue and market share.

To analyse the financial performance of the Ocado and compare it with other supermarket retail industry.

What are the potentials and limitations to the future growth of the online shopping businesses?

Part 2: Information gathering and accounting/business techniques

Sources Used:

Primary data “ is original data that has been collected by a researcher by whatever means appropriate in the answer of a specific research question. i. e. it has been collected specifically for the Research Report. Examples of primary data include questionnaires, interviews, e-mail contacts and surveys”. ([http://www. accaglobal. com/students/bsc/rap/gathering](http://www.accaglobal.com/students/bsc/rap/gathering))

Due to immediate surge in information technology industry, there is sufficient amount of secondary data available which has been used in this report. This data suffices all aspects of this report. Therefore most of my research is based on secondary data.

Secondary data is data which has been collected by other people or organisations for their own purposes and researcher has used this data for different purposes.

My secondary data consists of two main sources of collection:

Library research: I went to local and college library and searched for several types of books and extract my project related material and used it in my report. BPP's 'Success in your research and analysis project' provided the platform to sketch out broad counters of this research. The study text materials of ACCA (published by both BPP and Kaplan) has helped me to apply analytical techniques and also taught me how to evaluate my research findings. I also used articles published in ACCA "student accountant" relating my project which also helped me in meeting the goals of the project.

Online research: Major parts of my research are based on material available online. This also shows impact of online on our research and daily use of communication. I find it quite credible to find online research material for a web based company. Following are the websites and search engines used to collect the information;

Ocado limited website; this site provide the useful and more reliable information necessary for my project. This site provide me the audited

annual reports of the company, company profile, history, investor information and other important information required.

Competitors websites used for same purposes as mentioned above.

ACCA website provide the help to find out the relative articles which I used to analyse the information.

The food and grocery experts ' igd. com' provides the statistical data about industry, surveys about trends in industry and its future.

London Stock Exchange and NASDAQ websites provide the news about the industry, historic share performance competitors and surveys.

Google, Yahoo and Bing are search engines used to find information about Ocado, retail industry and e-business techniques.

Other websites used to find the news about Ocado , online grocery businesses, surveys and competitors are:

Financial Times

The Guardian

BBC news

2. 2 Methods of Analysis:

To emphasize the impact of e-business on Ocado and to make comparison of its results in all business and financial aspects, results of Waitrose plc will be used.

The objectives of the project are based on Ocado's business approach and what make in it differentiate from other businesses, thus the report is based on the following aspects:

Porter's Generic Strategies. Consisting of three types of strategies to maintained and achieved competitive advantage by the businesses. Two strategies lie in the strategic strength, is a supply side dimension and focus on product differentiation and product cost. Third strategy lies in the strategic scope in the demand side dimension – concentrate on the particular size and composition of the market.

SWOT Analysis. It is strategic planning method used to evaluate the Strengths, Weaknesses, Opportunities and Threats involved in an organisation. It analyse the external and internal factors of the organization that are favourable or unfavourable to achieve that organizations objectives.

PEST Analysis. It is tool of environmental analysis, especially concentrates on macro environment which includes Political, Economic, Social culture and Technological factors.

Trend Analysis. Using the past data to predict the future outcomes in the industry.

B2C and B2B. Business 2 Customer includes customer service and interface design while Business 2 Business includes channel partner and system integration.

Sales Growth. This will analysis the trend of sale over the past years and comparison with competitors.

Profitability. The comparison of the profitability to past years and competitors and ability to generate profits.

ROCE (Return on Capital Employed). Use to analysis the organization return on long term investment.

Gross/Net Profit Margin. These ratios analyse the organization's operational efficiency, it's costing policy and ability to control cost.

Capital Gearing Ratios. Analyse the capital structure of the organization and reveal how much an organization relies on debt financing.

Investor outlook. The return to shareholders compare with other organizations.

Earnings per Share. This ratio shows the profit attributable to each individual share.

2. 3 Limitations of Analysis:

In order to analyse impact of e-business on an organisation, it is critical to make sure the sustainability of information technology remains constant in the industry. In today's environment as every organisation and governments are dependent on information technology, it is inevitable to some human error.

From internet perspective selling online is quite new business as it only has 2. 6% share in the whole retail industry. This information could change as new competitors introduce new business techniques which could impact this particular organisation.

Some of the information taken from surveys has limitations as “ buying online grocery” is quite newly introduced phenomena for British people and the information is not quite mature.

Financial information use in this analysis has inherent limitations which include estimates and figures that are highly influenced by personal decisions. Financial statements are prejudiced by the choice of accounting policy e. g. a company seeking to improve its ROCE may choose not to revalue its assets. Financial statements have past data; it is not feasible to predict future on the basis of this data.

In SWOT analysis there is problem for companies to identify the elements of their own organization e. g. strengths appears to one person can have different meaning for other.

Ratios we used in our analysis also have inherent limitations. Firstly ratios are derived from financial statements that also have several limitations. Ratios are only useful when compared with the past results of the business and judge the performance of the business but the future forecast may not correct because several other factors also involved like market condition, etc. also the ratios have to be interpreted and different people may interpret differently.

2. 4 Methodology used:

Data collection is an important part of the project that should be planned and carried out and is completed in a well way for consideration. We have access to a lot of reliable and relevant information both online with easy access to

internet and offline. Planning is completed and appropriate extraction of data provides help to develop good content of the reports.

The method of search used is the “ Google” search engine. By writing some key words in the search bar and clicking the enter it provides me the so many links of the websites that match with the key words. Most of the links are relevant to my search and contains a lot of information but some links are irrelevant to my research. However I am able to extract the relevant information suitable in the preparation of my project.

Offline search include reading the books and journals and see if some information suitable for my report, make a note of it and use it later in my report. I done research thoroughly in advanced and bookmarks the relevant articles and websites using the web browsers because it could be needed to me for the citation of information ‘ if chosen’ to be quoted in my report.

Using the study text materials (both Kaplan and BPP) to calculate the financial ratios and in their interpretation. Financial Statements of Ocado and Waitrose are downloaded from their respective websites. MS Excel was used for the graphical explanation of the ratio and trend analysis.

Part 3: Analysis and Presentation

3. 1 SWOT Analysis:

Strengths:

Broad range of products

Contract with Waitrose

Customer proposition

Weaknesses:

Dependence on UK market

Loss making

Opportunities:

UK online retail industry

Non food

Threats:

Future acquisitions

Competitors

Fraud

STRENGTHS

Broad range of products:

In addition to its current area of strategic focus, the company intends to investigate growth opportunities by improving the customer offering continually through maintaining and improving the customer experience; increasing its core product range; and continuing to offer value to customers (Annual Report 2009, Ocado limited).

Ocado sells more than 20, 000 different products, the vast majority of which are sourced through Waitrose, a leading high quality UK supermarket.

Approximately 4, 300 of the products sold by Ocado are Waitrose-branded

products. Ocado's product range includes a small but expanding range of Ocado branded products (Ocadogroup. com, Strategic Overview).

Choices of the different range of products enable the customers to buy the products that match their lifestyles and are within their budget. Also the availability of every type of product on one channel increases the chances of sale because customer did not want to go elsewhere if he find everything on one place. It helped consumers to spend less without compromising on choice or quality.

Contract with Waitrose:

The Company's reputation is based at least in part on its relationship with Waitrose and its ability to supply Waitrose branded products. If Waitrose ceased to supply the Company with products or if Waitrose were to suffer reputational damage which impacted on the Waitrose brand there could be an adverse effect on the Company's financial position and future prospects. The Company has a successful symbiotic relationship evolved over 10 years and has recently agreed a new branding and sourcing agreement until 2020. The Company is not dependant on the Waitrose supply chain as 85% of items sold are now sourced directly from suppliers.

In May 2010, a new 10 years deal was signed with Waitrose (Annual Report 2009, Ocado Ltd).

There were some rumours about Ocado and its 10 years contract with Waitrose. Previous contract signed for 10 years were with Waitrose was about to end and if this contract will not renewed it can cause big problems for Ocado because in 2010 Ocado is going to listed on London Stock

Exchange. But in May 2010 deal with Waitrose was signed for 10 years in which there is a non-competition agreement with Waitrose and with Waitrose likely to extend its delivery services to highly lucrative M25 region.

Customer proposition:

Ocado offers delivery of grocery products to customers centrally picked from a single, state-of-the-art, highly automated warehouse (the customer fulfilment centre or "CFC") (Ocadogroup. com, Strategic Overview).

Customer satisfaction is part of every business, Ocado uses its unique strategy "the customer fulfilment centre (CFC)" in which Ocado make sure the availability of products, freshness of products and wide range of products.

Sanford C. Bernstein Strategic Decisions Conference Europe 2010
Presentation, Ocado Ltd, shows;

99. 4% fulfilment accuracy and product availability given structural advantages.

97. 6% of orders delivered on time or early.

Structural advantages allow Ocado to guarantee freshness and use-by dates.

WEAKNESSES

Dependence on UK market:

Although Ocado is still expanding its business to the other parts of the country and it is probable that Ocado will make profit in near future. But the company is fully reliant on the UK retail industry, any changes in the UK

retail industry or changes in UK economic conditions like recessions can affect the Ocado's growth. Increased competition also affects the sale growth of the company.

Loss making:

Ocado is making losses since it was corporate. However, the last three year results shows that it is improving towards profits like in 2007 Ocado incurred the loss of £40m, in 2008 £33m and in 2009 Ocado incurred the loss of £23m, the reason for this losses is the expansion of Ocado's operations around the UK. Due to large investment in expansion of operations, Ocado loses the confidence of investors and its share price decreases dramatically.

The company and its advisers have been promoting the impression that the company will be valued at around £1 billion after raising some £200 million in the planned float, but many analysts, of course not those closely involved with the offer, are highly critical of this valuation (<http://www.moneyobserver.com/news/10-07-01/ocado-and-fairfield-energy-ipos-under-spotlight>).

OPPORTUNITIES

UK Online retail industry:

UK grocery retail industry is largest industry with the sales revenue of £146bn, while the online grocery business has only 2% of the total sales revenue.

UK Online grocery sales (2007-14), £bn

(Sanford C. Bernstein Strategic Decisions Conference Europe 2010 Presentation, Ocado Ltd)

<https://assignbuster.com/impact-of-ebusiness-on-an-organisation/>

These figures show the opportunities for Ocado in online retail industry to grab the sales because online retail industry looks highly opportunistic.

Non-food:

Extended the business in non-grocery products are part of the Ocado's future developments. The potential of growth in non-grocery products is much more than grocery items, so there is an opportunity for Ocado to increase its sales revenue by extending the business in non-grocery items. As Ocado is online grocery business, only 2% of total retail shopping comprises of grocery, while 98% consist of other non-grocery items.

THREATS

Future acquisition:

Ocado plans to expand its business all over the UK. It has many opportunities for the business but along this it also has the threats to business. Ocado is making losses since it is incorporate this is because of its acquisition strategy but if it still applied same strategy, Ocado will be in great trouble. It loses investors' confidence due to high level of borrowings. If Ocado uses same strategy, it will be run out of cash for their operations.

Competitors:

The retail grocery industry is highly competitive and the online market place is no different. Ocado has an established business model and superior customer proposition. The proprietary IP and experience gives Ocado a competitive advantage. A clear strategy is in place to widen the customer base by improving online experience, customer service, product range and

pricing, and reducing environmental impact (Annual Report 2009, Ocado Ltd).

Ocado operates in a highly competitive retail market. With other supermarkets struggling for position in the UK retail market, Ocado invested in price cuts and discount promotions in order to stay competitive. This will affect the Ocado's sales revenue and profits. Especially in recession, when customers are looking for low price products, price cuts could result in the decline of industry profitability. Price cuts also have an adverse effect on the perception of customers for the quality of products; this can damage the brand image of Ocado.

Fraud:

The risk of fraud from staff is less due to the nature of the business; IT procedures are in place to reduce this risk to further. Whatever the precautions are put in place to avoid the fraud but the we cannot reduce it to zero. There are potential threats of security breakdowns on their websites for online businesses. For Ocado major threat is the loss of sales due to credit card frauds.

3. 2 PEST Analysis:

Political:

Ocado operate in United Kingdom, it provide it the stable political environment. Ocado can make long term decisions and this also guarantees Ocado a large range of economic actions. Political stability and strong economy provides the Ocado to get customer confidence and improve its operations.

Economic:

Economy plays a vital part in the operations of the Ocado. Economic conditions of the country influence the supply, demand, costs, prices and profits of the company. Due to recession in the world, UK along with other countries face the unemployment, this affects the demand and profit levels of the company. Sales growth decreases due to global recession, especially the sales of non food items are highly affected by this recession as people avoid the purchase of non essential items.

Social:

The social influence on the business of Ocado has been more important over the past few years. This is because the behaviour of people is changing towards grocery shopping. Due to lack of time and busy life, customers prefer to purchases in bulks and on one shop. Trend of online shopping has also been increased and this is beneficial for the Ocado. Ocado has different timing slots for deliveries suitable for customers according to their routine.

Technological:

Due to the nature of the business, technological factors have significantly influenced the Ocado. Recent technological advancements has revolutionised the organisations and changes the way of doing businesses. Online shopping saves the time of the busy people. Through introduction of technology it eliminates the need for paperwork and reduces the cost of administration work.

3. 3 Porter's Generic Strategies:

Ocado aims to have a market leading customer proposition. Ocado introduced branded product to lower the prices of own label products sold (customer proposition, Ocado Ltd).

Porter identified three generic strategies to take the advantage of competitive forces like cost leadership, differentiation and focus strategies. According to porter's generic strategies Ocado comes under the cost leadership, where it is trying to compete with the market by lowering the cost. It launches Tesco price match for customers to compare prices with Tesco before purchase.

However Ocado is not wholly dependent on one strategy because customer often seeks more than price satisfaction. They look for product quality, style and timely deliveries. Ocado competed his competitors by providing the customers high quality of products, availability of products and delivering the products to customers on time.

We use smart thinking and cutting-edge technology to keep honing our uniquely efficient delivery model. This helps us to drive down prices and guarantee exceptional value for money. We have a passion for delivering quality groceries in perfect condition and on time, while treating our customers with care and honesty. This helps us to share our vision of a different way of shopping: a better, greener and more convenient one (Mission Statement, Ocado Ltd).

‘ PIMS (Profit impact of marketing strategy) data and other surveys show, that the intermediary positions are indeed profitable and therefore successfully exploited by many firms.’ (Michael Cronshaw, Evan Davis and John Kay (1994), pp. 19-33)

3. 4 B2B and B2C:

Both terms are used with reference to the internet technology and commonly applied in e-businesses.

Business 2 Business largely concern itself with supply chain management and allows the business to directly contact with the suppliers and distributors.

While business 2 consumer concern the relationship between the customer and the supplier. It primarily concern to sell goods to end consumers. All such businesses are online businesses and Ocado is the best example for such type of relationships.

In business 2 business Ocado use the internet for searching products catalogues, ordering from suppliers, making invoices and making online payments.

In business 2 consumer Ocado uses its website to offer customers a wide range of products, providing information about prices of the products, delivery timing and everything they want to know about the products, offers and Ocado.

3. 5 Trend Analysis:

[The entire figures used below are taken from the annual reports of Ocado Ltd, Tesco and Waitrose (johnlewis partnership) 2007-2009 unless otherwise stated.]

Purchase frequency:

The online market is dominated by those buying on a relatively infrequent basis.

On average online grocery shoppers use the channel twice per month

Three in ten (30%) only shopped online on a very occasional basis e. g. in an emergency or for special occasions such as Christmas

Only one in six (15%) online grocery shoppers had a heavy reliance on online and shopped once a week or more frequently

Most online shoppers fall into the “ regular/top-up” group

A third (34%) buy food and groceries online every 3-4 weeks

One in five (21%) purchased slightly more frequently, once every 1-2 weeks

(Online grocery shopping, igd. com)

Key Financial Performance Indicators:

Average order size (£):

The average size of the order was increased in 2008 from £112. 17 to £116.

3 which indicated the attraction of consumers toward the online shopping. In

2009 the average order size is slightly low than the previous years but this

did not mean the reduction of people trends towards online shopping because if order size decreases in this year on one hand on the other side the sales growth increases by 25% in this year.

Average number of orders/week:

The increase in number of orders in 2008 is 12% higher than the previous one while in 2009 the increase is 25% per week. This shows the sales of the Ocado increases and Ocado has the potential to expand his business in the growing market of online shopping business.

Average % product wastage:

The average percentage of product wastage of Ocado decreases continuously from 2007 to 2009. This is because of the increased efficiency of the operations of the Ocado and handling its products more effectively. Another reason for low wastage is the usage of the new technologies and less involvement of manual handlings.

CO2 Emission:

Ocado has taken actions to lower its carbon footprint and reduce its environmental impact include:

closed-loop grocery bag recycling, whereby when making a delivery, drivers offer to collect used bags from customers which are recycled within the UK to make new Ocado grocery bags;

wasting significantly less food as a percentage of gross sales than any of its competitors; and

signing up to the Climate Change Agreement (with the Carbon Trust), which places certain obligations on management to monitor and lower carbon usage.

Ocado has co-developed two prototype electric powered vans, which are currently completing testing before being introduced into Ocado's delivery fleet.

(Environmental awareness, Ocado Ltd)

CFC Efficiency:

The customers fulfilment centre (CFC) efficiency increases over the period of time. This efficiency has been achieved by the introduction of highly automated warehouses and less involvement of manual work. The company is willing to expand the CFC capacity by building the second CFC and the spoke network in the near future.

Green business:

Being green is part of Ocado's business model. This has been recognised in various awards. Ocado was voted Green Retailer of the Year 2009 in The Grocer Gold Awards, Large Retailer of the Year 2008 in the Online Green Awards and won Ethical/Green Practice 2009 at the IMRG E-Commerce Awards for Excellence.

A traditional supermarket requires deliveries first to be made to a regional distribution centre and then to the supermarket itself. Customers then often drive to the supermarket in order to shop, and the supermarkets themselves require energy to be lit and heated and tend to have open fridges and

freezers in an otherwise ambient environment. Ocado delivers straight from the CFC to a customer's kitchen, which eliminates much of the carbon emissions generated by traditional supermarkets and their stores, and also reduces the number of cars on the road. Each Ocado delivery van replaces a significant number of car journeys every day. (Environmental awareness, Ocado Ltd)

3. 6 Ratio Analysis:

Sales Growth:

The sales revenue of the Ocado has been increasing since 2007. The sales revenue in 2007 was £273m while in 2008 it was £321m an increase of 15% was being recorded. Not only this also in 2009 the sales revenue of Ocado was £402m with an increase of 25% than the previous one. When we compare the sales growth of Ocado with its competitor Waitrose, the sales growth is 7% and 5% in 2008 and 2009 respectively. Waitrose sales growth percentage is not even half of the Ocado's percentage and we can analyse that people purchase the same products online rather than going to stores for it. The increase in the sales revenue of Ocado has been seen since it was incorporate this is because the behaviour of people towards the online shopping is being changed with the passage of time and as the grocery industry hides in itself a lot of potential to make profit. Ocado achieved this by using its long term strategies and by introducing customer fulfilment centre in which Ocado emphasises on the needs of the customers. (Annual reports 2007-2009, Ocado Ltd)

Gross profit margin:

The gross profits of Ocado seem to be remaining same over the past few years although the sales revenue of the company increases over the period. This is because the company keep its prices same to keep its customers to pay less in the period of recession. In 2009 the gross profit margin of the Ocado decreases from 32% to the 30. 6%, the reason for this is further decrease in the selling price without any decrease in costs of the products. It happened because Ocado launches its price match campaign with Tesco and Sainsbury. It is also due to the reason