

# E-businesses aspect

[Business](#), [E-Commerce](#)



E-businesses may not be able to create value alone as the delivery aspect of the value chain is very weak for Online-merchant firms such as Skype as compared to "brick and mortar" companies. So they must engage in alliances or mergers and acquisitions. This is true of the Skype story. A key part to Skype's strategy is to leverage the advantages gained by having several partnerships in several key areas of their value chain such as retail, hardware, software and mobile. This strategy also enables Skype to spread the risk not only for themselves in terms of financial costs but also for their customers.

A key part of the value creation model is Porter's low cost or differentiation theory; which stated that any firm has two choices in the market in terms of their strategy. They could aim to be 'differentiators' or 'cost leaders'.

Anything in the middle leads to inefficient business practices. Skype's strategy can be classified broadly as a differentiation strategy. Skype differentiates in the market by offering their customers low prices, good quality products, clever marketing and being an ad-free firm. Another key part of the value creation model is the "value cluster" theory. A value cluster is comprised of three various factors.

The first part is that the firm should target customer segments. Secondly, the firm should decide on a particular focal combination of customer driven benefits that are offered. Thirdly, the rationale of why this firm and its partners can deliver value to their customers better than their rivals in the market. Up until this point it has been established that Skype have implemented some highly successful strategies and thus have risen to the top of the VoIP industry. However, as was stated in the opening paragraph;

getting to the top can be hard yet maintaining that number 1 position can be even harder.

Therefore, to conclude the essay it is essential to answer whether Skype can retain their position for the foreseeable future. On October 14, 2005, eBay acquired the company for  $\$1.9$  billion in cash and stock, plus an additional  $\$1.5$  billion in rewards if goals are met by 2008. This is a significant landmark in Skype's short yet successful history. This acquisition signifies more than just a large financial investment. It symbolizes Skype's enormous potential with regard to the future. The world's premier auction site, eBay, clearly saw enough potential in Skype in the long run to spend such a significant amount in acquiring it.

This can be shown a technology trajectories graph. The red dot symbolizes Skype's current performance. In a relative short space of time they have achieved a commendable level. Moreover, when looking at their technological trajectory signified by the red dotted arrow, their growth rate is expected to continue at a very fast rate. Therefore it can be argued that eBay made a concerted effort to acquire them not only to improve themselves as enterprise but also to jump in before one of their rivals acquired Skype.

If anything, this move by eBay is one of the biggest compliments someone could pay to Skype and their expected future success (Maylor, H. , 2005). On behalf of us a group however, we believe there is one critical objective that Skype must achieve if they wish to remain at the top of the industry. This is to set the dominant industry standard. One good example of a standard is

the electric plug socket. There is not much point in possessing an AC power supply if the rest of country works with a DC power supply.

Should Skype enable themselves to become THE dominant standard in the VoIP industry than they will have a level of competitive advantage that will not deteriorate for the foreseeable future. Initially there is always great competition by companies to formulate the dominant standard, and Skype is clearly winning this battle in the VoIP industry. Since under-populated standards are not worth joining, most if not all future VoIP users will gravitate towards using Skype. Once this happens, competition switches from rivalry over standards to rivalry within standards. More often than not this results in one dominant firm (i. e. Skype).

Through this dominance Skype will be able to achieve cost advantages over its rivals, and in turn a greater level of profit. PLEASE NOTE: Word count does not include headers, diagrams, tables, graphs, appendix or bibliography. The main threat consists of VoIP services are provided by Google (GoogleTalk), Yahoo! (Yahoo! Voice), Microsoft (MSN Messenger). Other key players in the market that specialize in VoIP are Vonage (known as The Broadband Company), which offers VoIP via an own branded VoIP router that connects to the main broadband router or modem.

This is fundamentally different from VoIP via personal computer's which is the most common way of using Skype. However Skype now also offer its VoIP services via WiFi and 3G networks enabling Skype calls to be made from mobile devices. Skype calls can also be made with the aid of IP telephones. Traditional landline telecommunications companies have identified the

threat of VoIP to their businesses and have consequently launched VoIP services themselves. Amongst other such companies are notably BT (BT Communicator) and Tiscali (Tiscali Netphone). 2. The bargaining power of customers

As mentioned there are many companies that offer VoIP calling. As many of Skype's services are entirely free, yet of good quality, customers would seem to have little bargaining power. Customers do however have the choice of numerous VoIP providers and should rivals decide to undercut Skype on its Skype-out prices this could impose further price competition. If rivals as Google catch up with Skype in terms of quality, and as they will undoubtedly be able to offer a larger portfolio of services as a "package" this could impose a threat to Skype if it fails to diversify.

It could however be argued that a loss of focus on its core product - VoIP, could have a negative effect. 3. The bargaining power of suppliers Since the product is VoIP and nothing goes directly into the product, supplies consist of indirect materials such as computers, office materials etc. Computers are becoming increasingly cheap and of better quality in a market characterized by high competition and therefore the threat of supplier power can be neglected. 4. The threat of new entrants

There are few barriers to enter the market except for technology and expertise. It is however hard to overcome the obstacle provided by already established incumbents with a large customer networks. The development of technology is also very expensive and it is difficult to imitate advances made by rival firms for this reason. 5. The threat of substitute products VoIP

telecommunication is becoming increasingly popular and may well revolutionize the telecommunications industry entirely.

The cost efficiency of VoIP and further advances in technology leading to better quality of communication are likely to result in an exponential growth of VoIP communication, as more and more customers discover the benefits of free or low cost communication. Currently regular traditional landline and mobile telecommunication are still more common than VoIP and thus form a source of competition. In the future new technologies may emerge that out compete VoIP. In such a scenario and in today's rapidly evolving business world, innovation is imperative.