

# Business Strategy

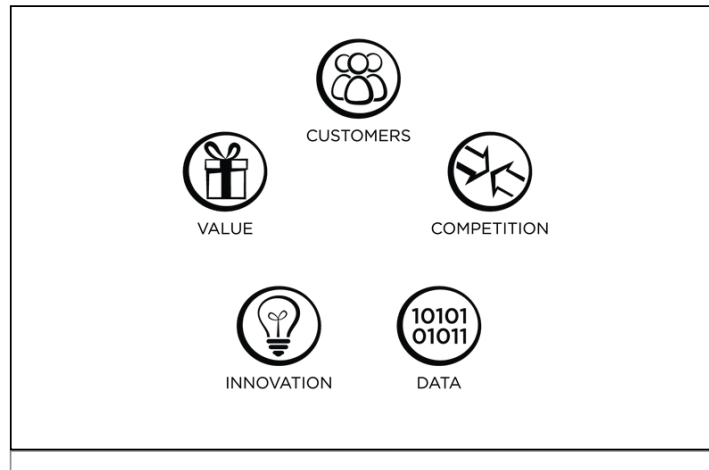
## Digital transformation and its impact on strategy

### Summary

- Digital Transformation
- Dimensions of digital transformation
- Five Domains of Strategy that Digital is Changing
  1. Customers
  2. Competition
  3. Data
  4. Innovation
  5. Value

# Five Domains of Strategy that Digital is Changing

Across these five domains, digital technologies are redefining many of the underlying principles of strategy and changing the rules by which companies must operate in order to succeed.



	From	To
<b>Customers</b> (chapter 2)	<ul style="list-style-type: none"> <li>Customers as mass market</li> <li>Communications are broadcast to customers</li> <li>Firm is the key influencer</li> <li>Marketing to persuade purchase</li> <li>One-way value flows</li> <li>Economies of (firm) scale</li> </ul>	<ul style="list-style-type: none"> <li>Customers as dynamic network</li> <li>Communications are two-way</li> <li>Customers are the key influencer</li> <li>Marketing to inspire purchase, loyalty, advocacy</li> <li>Reciprocal value flows</li> <li>Economies of (customer) value</li> </ul>
<b>Competition</b> (chapter 3)	<ul style="list-style-type: none"> <li>Competition within defined industries</li> <li>Clear distinctions between partners and rivals</li> <li>Competition is a zero-sum game</li> <li>Key assets are held inside the firm</li> <li>Build product with unique features and benefits</li> <li>A few dominant competitors per category</li> </ul>	<ul style="list-style-type: none"> <li>Competition across fluid industries</li> <li>Blurred distinctions between partners and rivals</li> <li>Competitors cooperate in key areas</li> <li>Key assets reside in outside networks</li> <li>Build platforms with partners who exchange value</li> <li>Winner-takes-all due to network effects</li> </ul>
<b>Data</b> (chapter 4)	<ul style="list-style-type: none"> <li>Data is expensive to generate in firm</li> <li>Challenge of data is storing and managing it</li> <li>Firms only make use of structured data</li> <li>Data is managed in operational silos</li> <li>Data is a tool for optimizing processes</li> </ul>	<ul style="list-style-type: none"> <li>Data is continuously generated everywhere</li> <li>Challenge is turning data into valuable information</li> <li>Unstructured data is increasingly usable and valuable</li> <li>Value of data is in connecting it across silos</li> <li>Data is a key intangible asset for value creation</li> </ul>
<b>Innovation</b> (chapter 5)	<ul style="list-style-type: none"> <li>Decisions made based on intuition and seniority</li> <li>Testing ideas is expensive, slow, and difficult</li> <li>Experiments conducted infrequently, by experts</li> <li>Challenge of innovation is to find the right solution</li> <li>Failure is avoided at all cost</li> <li>Focus is on the "finished" product</li> </ul>	<ul style="list-style-type: none"> <li>Decisions made by testing and validating</li> <li>Testing ideas is cheap, fast, and easy</li> <li>Experiments conducted constantly, by everyone</li> <li>Challenge of innovation is to solve the right problem</li> <li>Failures are learned from, early and cheaply</li> <li>Focus is on minimum viable products and iterating after launch</li> </ul>
<b>Value</b> (chapter 6)	<ul style="list-style-type: none"> <li>Value proposition defined by industry</li> <li>Execute your current value proposition</li> <li>Optimize your business model as long as possible</li> <li>Judge change by how it impacts your current business</li> <li>Market success allows for complacency</li> </ul>	<ul style="list-style-type: none"> <li>Value proposition defined by changing customer needs</li> <li>Uncover the next opportunity for customer value</li> <li>Evolve before you must, to stay ahead of the curve</li> <li>Judge change by how it could create your next business</li> <li>"Only the paranoid survive"</li> </ul>

# Customer



CUSTOMERS

- In the digital age, we are moving to a world best described not by mass markets but by customer network.
- Customer are dynamically connected and interacting in ways that are changing their relationships to business and to each other and shaping business reputations and brands.
- Customer use digital tools to discover, evaluate, purchase and use products and how they share, interact and stay connected with brands.
- Therefore, businesses should rethink of their traditional marketing funnel and reexamine their customers' path to purchase.

# Competition



COMPETITION

- How businesses compete and cooperate with other firms.
- Industry boundaries are blurring.
- A major shift in the locus of competitors.

# Data



DATA

- How business produce, manage, and utilize information.
- Data generates from every conversation, interaction, or process inside or outside business (think about social media, mobile services, sensors,...)
- The “big data” tools allow firms to make new kinds of predictions, uncover unexpected patterns in business activity and unlock new sources of value.
- Data is a vital part of how every business operates, differentiates itself in the market, and generates new value.

# Innovation



INNOVATION






- The process by which new ideas are developed, tested, and brought to the market by businesses.
- Traditionally, innovation mainly focuses on finished products, where market testing was difficult and costly, and the cost of failure was high.
- Digital technologies enable a very different approach to innovation based on rapid experimentation.
- Digital technologies makes it easier and faster to test ideas, having market feedback. Assumptions are repeatedly tested based on validation by real customers.
- The focus is on minimum viable prototypes that maximize learning while minimizing cost.

# Value



- Traditionally, a firm's value proposition was seen as fairly constant. A successful business was one that found a clear value proposition, found a point of market differentiation, and focus on executing and delivering the best version of the same value proposition to its customers.
- In the digital age, we can observe changing value propositions and disruption by new competitors.
- Any new technology may be a way to extend and improve the value proportions.
- Businesses need to seize emerging opportunities!

## THE DIGITAL TRANSFORMATION PLAYBOOK

DOMAINS	STRATEGIC THEMES	KEY CONCEPTS
 CUSTOMERS	<i>Harness customer networks</i>	<ul style="list-style-type: none"> <li>• reinvented marketing funnel</li> <li>• path to purchase</li> <li>• core behaviors of customer networks</li> </ul>
 COMPETITION	<i>Build platforms, not just products</i>	<ul style="list-style-type: none"> <li>• platform business models</li> <li>• (in)direct network effects</li> <li>• (dis)intermediation</li> <li>• competitive value trains</li> </ul>
 DATA	<i>Turn data into assets</i>	<ul style="list-style-type: none"> <li>• templates of data value</li> <li>• drivers of big data</li> <li>• data-driven decision making</li> </ul>
 INNOVATION	<i>Innovate by rapid experimentation</i>	<ul style="list-style-type: none"> <li>• divergent experimentation</li> <li>• convergent experimentation</li> <li>• minimum viable prototype</li> <li>• paths to scaling up</li> </ul>
 VALUE	<i>Adapt your value proposition</i>	<ul style="list-style-type: none"> <li>• concepts of market value</li> <li>• paths out of a declining market</li> <li>• steps to value prop evolution</li> </ul>

# Harness Customer Networks



CUSTOMERS

- Customers behave moralize tightly connected networks, therefore, businesses must learn to harness the power and potential of customers network.
- It means engage,empower and co-create with customers. Creating effective customer strategy requires to understand such key concepts as customers and strategic assets, the reinvented marketing funnels, the digital path to purchase, and the five core behaviors of customer networks :
  - Access /Engage/ Customize/ Connect/ and Collaborate

# Build platforms, not just products



COMPETITION

- Building effective platform business models may involve becoming a trusted intermediary who brings together competing businesses.
- To develop a digital-age competitive strategy, we need to understand platform business models, direct and indirect network effects, co-opetition between firms, dynamics of intermediation and disintermediations, and competitive value trains.

# Turn data into assets



- To turn data into a truly strategic assets:
  1. assembling the right data
  2. applying it effectively to generate long term business value.
- Four templates of data value creation: the new sources and analytical capabilities of big data, the role of causality in data-driven decision making, the risks around data security and privacy.

# Innovate by rapid experimentation



- Digital technologies make it so fast, easy, inexpensive to test ideas.
- Innovation in the digital age requires that you have a firm understanding both convergent experiments (with valid samples, test groups and controls), and divergent experiments (designed for open ended inquiry).
- To bring the results to market, minimum viable prototypes and products and mastering the four paths to scaling up an innovation are needed.

# Adapt your value proposition



- Businesses must learn how to continuously adapt their value proposition.
- Businesses need to focus beyond their current business model and less in on how they can best deliver value to their customers as new technologies reshaped opportunities and needs.
- To proactively adapt value proposition: the different concepts of value propositions, the three possible paths out of a declining market position, analyzing the existing value proposition, identifying emerging opportunities and threats, synthesize an effective next step in evolution.

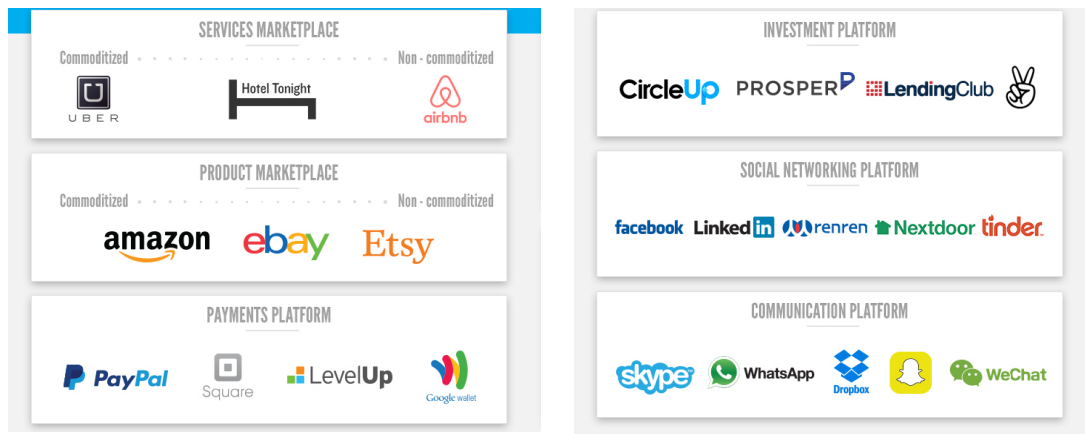
## Tools for Digital Transformation

- Customer Network Strategy
- Platform Business Model Map
- Competitive Value train
- Data Value Generator
- Convergent Experimental Method
- Divergent Experimental Method
- Value proposition Roadmap



# Rise of the platform

- Platforms businesses to shift from linear to more networked business models.



## What is Platform Business Model?

- in general "something on which you can build".
- in tech circles may be any underlying software on which additional programs are built.
- in media industries may be a distribution channel.
- in marketing may refer to any brand or product line that could be used to launch additional products.
- In this chapter: a kind of Business Model.

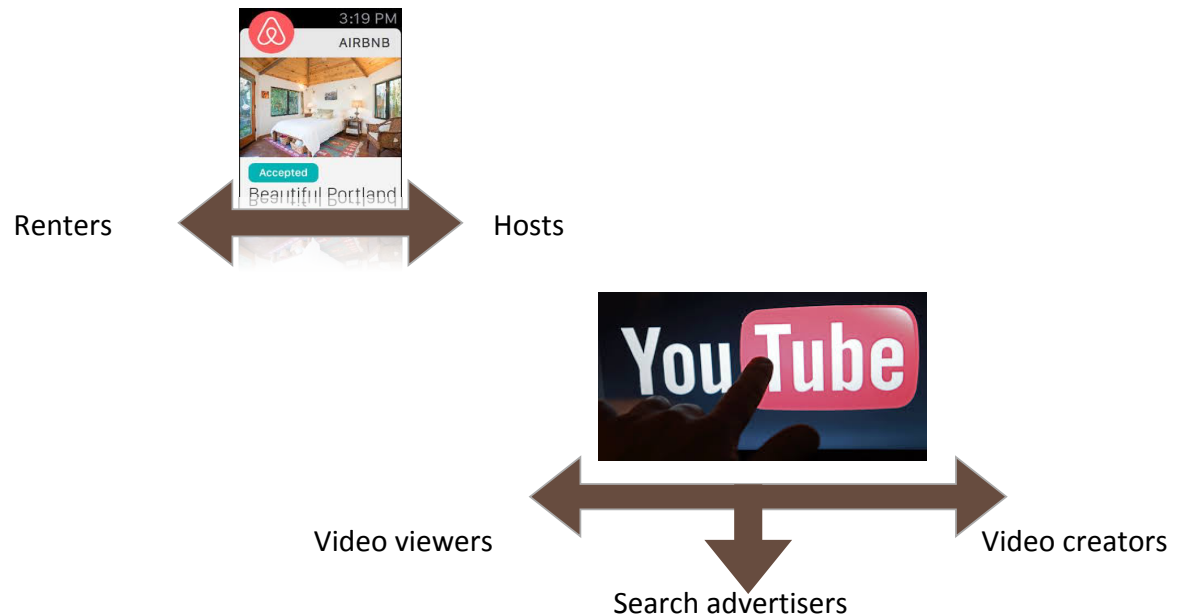
# Origins of Platform Theory

- The idea of platforms as business model has its origins in the economic theories of two-sided markets.
- The theory began to shift from looking at the market dynamics (i.e. who will pay what price in equilibrium with others) to looking at the kind of businesses that make them possible (i.e. what distinguishes the business model of a Visa or MasterCard).

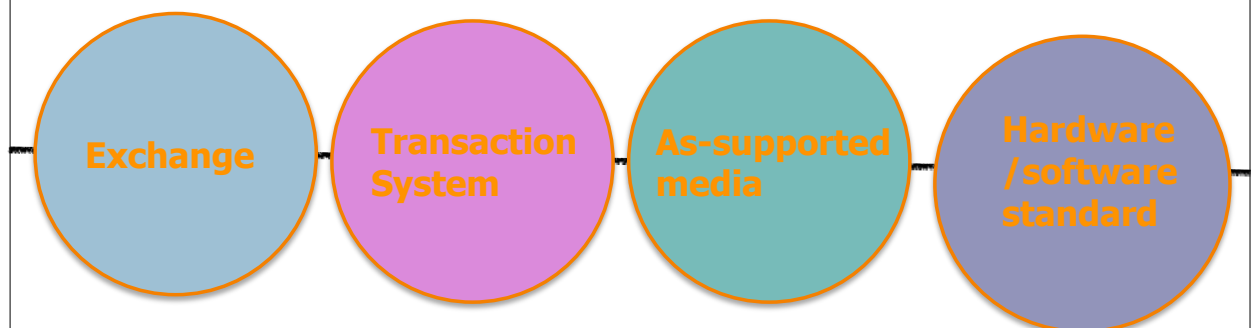
# A definition of Platforms

- "A platform is a business that creates value by facilitating direct interactions between two or more distinct types of customers."
- Three key points:
  1. Distinct types of customers: two or more distinct sides (buyer and seller, software developers and consumers, ...)
  2. Direct interaction: direct interactions of two or more distinct sides
  3. Facilitating

## Some examples of Platforms



## Four types of Platforms



## Four types of Platforms



### Exchange

Bring together two distinct groups of customers for a direct value exchange.  
example: real estate brokers, eBay, Airbnb

## Four types of Platforms



### Transaction System

Act as an intermediary between different parties to facilitate payments and financial transactions.  
Example: PayPal & Apple Pay

## Four types of Platforms

### As-supported media

Play an additional role for creating (or sourcing) media content that is attractive to customers  
As platform attract more people, its value to advertisers increases.

## Four types of Platforms

### Hardware /software standard

Provide a uniform standard for the design of subsequent products to enable their interoperability and the benefit the ultimate consumer.  
Apple's iOS and Google's Android

# Direct and Indirect Network Effects

- *Network Effect*: the value of platforms increases as more customers use them.
  - *Direct Network Effect*: the increasing number of customers or users of a product drives an increase in value or utility for the same type of user (Facebook)
  - *Indirect Network Effect*: increase in the number and quality of customers on one side of the platform drives increasing value for customers on the other side of the platform (Airbnb and Paypal).

# How digital impact Platforms?

- Digital technologies are supercharging the growth and power of multisided platforms: web, on-demand cloud computing, application program interfaces (APIs), social media, mobile computing devices,...
- Digital technologies are driving four key elements of platforms:
  1. Frictionless acquisition
  2. Scalable growth
  3. On-demand access and speed
  4. Trust

# How digital impact Platforms?

- Frictionless acquisition: Thanks to the Web, APIs, and software development kits, the process of acquiring new customers for a platform is increasingly frictionless.
- Scalable growth: Cloud computing allows any size of business to rapidly scale the size of its platform as fast as it can acquire new customers.
- On-demand access and speed : By mobile computing, any platform can be accessible to all of its customers anywhere at any time.
- Trust:ability to authenticate customers through their Facebook, Google, Twitter and ... identities make it much easier for businesses to use a verification system for new customers on its platform.

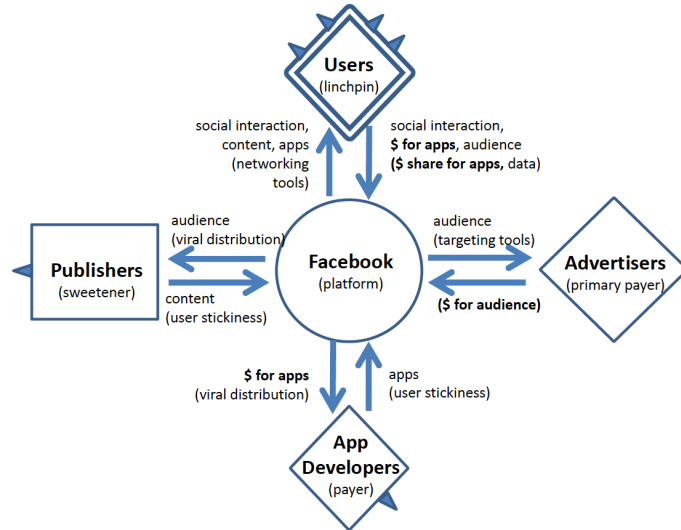
The biggest impact of digital technology on platforms may be in the size of the businesses involved (from large enterprises to start-ups)

# Competitive Benefits of Platforms

- Light in Assets :tend to having few employees for the revenue since customers do much of the work tat employees would do in a vertically integrated business. Thus, platform businesses can achieve extremely high operating margins on a percentage basis.
- Scaling fast: cloud computing architecture enable fast grow.
- Winner takes all:it is hard to be a direct competitor to catch up with Google. The real threat too Google is Siri, Amazon's product search, ... .
- Economic Efficiency:Platform business models enable the efficient usage of distributed pockets of economic value (labor, assets, skills)- "Sharing Economy".

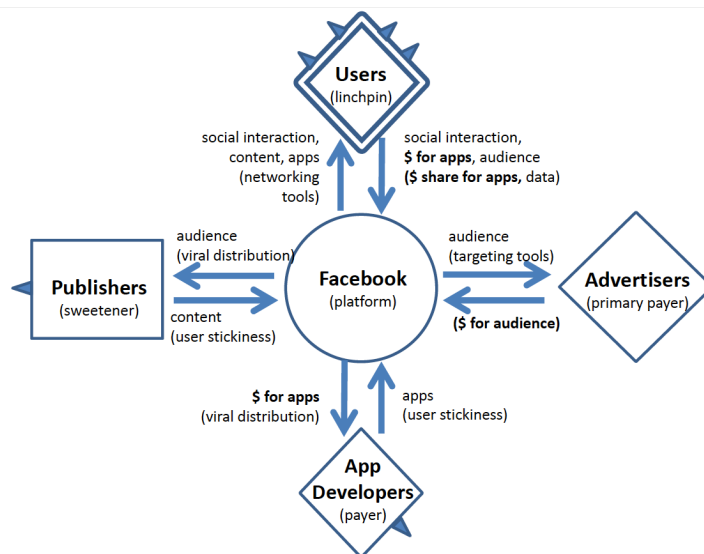
# Platform Business Model Map

The Platform Business Model Map is an analytic and visualization tool designed to identify all the critical parties in a platform and analyze where value creation and exchange take place among the different customers and with the platform business itself.



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## Example : Facebook



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# What we can learn from Facebook's business model



- Facebook brings together 4 types of customers: social network users, advertisers, app developers, news and content publishers.
- Facebook's business model is mix of ad-supported media and software standard
- The platform is fueled by cross-side network effects (different types of customers are attracted to each other) and same-side network effects (users are attracted by more of their own kind).
- Users are the linchpin that attract everyone else to the platform.
- Advertisers are the primary revenue source.
- news publisher provide NO revenue, but they add value for the linchpin customers.

## The shifting landscape of competition

- In the digital era, any relationship between two businesses is a shifting mix of competition and cooperation.
- Competition with rival is changing, becoming less of a direct contest.
- Industries definitions and boundaries are becoming more fluid (shift from symmetric to asymmetric competitors).
- More relationships between businesses and their supply chain partners

# Co-opetition

- = a mix of competition and cooperation
- Digital platforms are a factor in driving cooperation among business rivals ( e.g. Google search engine in Apples' devices)
- Disruptive threats from new technologies are driving rival businesses to team together and cooperate.

# Organizational Challenges of Competition

- As businesses adopt to the growing importance of platforms and the shifting landscape of competition and cooperation, there are some challenges:
- Reshaping the roles and relationships specially for those with long-standing business model
- Coopetition: when to fight when to make peace?
- A platform business model is letting go of some of the value creation process (e.g. Apple: shifting course and provide tools for outside developers to program directly for the iPhone.)