SM 21-22 - Course Presentation - Sept. 14th 2021

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SM 21-22 - Course Pr...

Strategy & Marketing [GI-MO] A.Y. 2021-2022

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S&M – Faculty and Assistants

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S&M – Course objectives (1/2)

The "Strategy & Marketing" course is made of three major interplaying pillars:

1. **Strategy**
2. **Marketing**
3. **Entrepreneurial Strategy & Startups**

S&M – Course objectives (2/2)

1. to present the major concepts, theories, methodologies and tools to support the strategic decision making process
2. to present the major concepts, theories, methodologies and tools to support the marketing decision making process
3. to introduce the enabling strategic methodologies and tools to launch a new business, either within an existing company or through a start-up company
4. to encourage students to discuss and get familiar with the abovementioned theories and models, through the discussion of business cases

S&M – Course content: four parts

1. **Strategy & Marketing analysis (SWOT)**
2. **Strategy "Advanced"**
3. **Marketing "Advanced"**
4. **Entrepreneurial Strategy & Startups**

The lectures will be supplemented by the active class discussion of cases (to be read before class) and real world examples from *Guest Speakers*

S&M – Course Syllabus and instructions

All information and instructions related to this course are contained in the following documents published in the Polimi course page and WeBeep ("Course assessment and Instructions" folder):

- ***Course Syllabus ("manifesto")***
- ***Course Assessment instructions***
- ***Course prerequisites***

All students are required to read such instructions carefully, as they constitute the formal rules for this course

S&M – Course assessment

The course final evaluation is made up of three mandatory components:

1. written exam (30%)
2. group project (20%)
3. oral exam (50%)

The total final grade will result from the weighted average of the Written Exam grade (30%), Group Project grade (20%) and Oral Exam grade (50%)

S&M – Exam calls

This course is organized in 5 exam calls:

- **2 calls in January-February session**
- **2 calls in July session**
- **1 call in September session**

There is no limit to the number of calls you can take in one year (within the 5 official calls).

Oral exam calls will be organized within a few days from each written exam

S&M – Written exam structure

- ✓The written exam will consist of open-ended questions covering all concepts of the course content.
- ✓Written exam grades account for 30% of the total final grade.

S&M – Written exam assessment

- ✓Grades range from <u>0 to 30 points</u>
- ✓<u>18</u> is considered as the <u>minimum threshold</u> to pass the written exam. Students with a grade lower than 18 shall retake the written exam in any future call, and are not allowed to take the oral exam

S&M – Group project

- ✓ Students in groups of up to 3 people (strictly belonging to the same course section) will perform a project work requiring an original and real-world implementation of Strategy & Marketing tools and concepts.
- ✓ The project work will be submitted to the instructor at the end of the course. Project work grades range from 0 to 30 and account for 20% of total grade.

S&M – Group project

Students have the chance to choose between three alternative projects (only one project should be developed by each student):

1. **L'Oréal Brandstorm (TBD): project work based on an international competition launched by L'Oréal. The project requires teams of 3 students.**
2. **Chateau D'Ax (TBC): project work based on a brief proposed by Chateau D'Ax's management team.**
3. **"Desk project": the project is based on a to-be-defined case assigned by the Professors. The project needs to be developed in teams of up to 3 students (forming a group of 3 students is strongly recommended)**

S&M – Desk Project

New Space Economy Startups – Industry & Business Model Analysis

- Students will engage in the analysis of one of the most innovative and disruptive competitive arenas: Space.
- Each group will be assigned with a New Space Economy trend (i.e., Space Tourism, Space Mining, Satellite Internet) with the related startups.

Assignment:

- Pick one of the startups assigned and perform the external and the internal analysis, leveraging the tools presented in class.
- Reflect on the potential impact on other industries through the use of the models presented in class (i.e., BOS, BBD).
- Fill the business model's template (Canvas + the one provided by professors) of the startups assigned and critically discuss commonalities and differences among them.

S&M – Group project

- ✓ <u>The project is mandatory</u>. If a student does not participate in the team project or does not submit the project output by the deadline, he/she will not be allowed to participate to the exam calls during the whole Academic Year.

- ✓ Submission deadline (for L'Oréal and Desk projects, Chateau d'Ax TBC): January 9th 2022 (TBC)

- ✓ Deliverable (for both projects): a 15-slide presentation in Powerpoint format. Projects output should be uploaded to the dedicated folder available on the WeBeep platform of the course, named with the format *Team ID_Project* (es. *Team 4_Space*).

- ✓ Further details on the content of deliverables for both projects will be provided during the course.

S&M – Group project

- ✓ **Contacts of reference for the three Group Projects are:**
  - ✓ **Silvia Sanasi– Projects and Course Assistance** silvia.sanasi@polimi.it
  - ✓ **Stefano D'Angelo - Projects and Course Assistance** Stefano.Dangelo@polimi.it

Desk Project:

- ✓ **Jacopo Manotti - Projects and Course Assistance** Jacopo@manotti@polimi.it

S&M – Oral exam structure

- ✓In order to be admitted to the oral exam, the written exam grade should be at least equal to 18.
- ✓The oral exam will cover all course content and will explore the ability of students to apply Strategy & Marketing concepts in different case-based contexts.
- ✓Oral exam grades account for 50% of total final grade.

S&M – Oral exam assessment

- ✓Grades range from <u>0 to 30 points</u>
- ✓The oral exam is passed with a grade of 18 or higher.
- ✓The grade "30 cum laude" can be assigned to outstanding overall performance at the oral exams.

S&M – Course textbooks on basic concepts & prerequisites

STRATEGY:

- ✓ **Robert M. Grant. "Contemporary Strategy Analysis". John Wiley & Sons Inc; 2nd edition.**

MARKETING:

- ✓ **Kotler P. & Keller K., (2011). Marketing Management, 14/E, Prentice Hall**

This course has prerequisites: background knowledge students shall possess before the course begins

S&M – Course website

https://webeep.polimi.it ->
Strategy & Marketing [Antonio Ghezzi]

- All course contents (slides from lectures, cases, announcements, exam calls schedules and grades) can be downloaded from the website.
- Please check out the website frequently and before each lecture, as some content (e.g. cases for discussion) shall be read before class to facilitate discussion.
  - Tip: enable "notifications" and email redirection to your personal email address
- For any question or problem regarding website access, please write only to WeBeep Help Desk.

S&M – Strategy MOOC on POK (1/2)

This year our Course will include the MOOC (Massive Online Open Course) "Strategy", that introduces the key theories, concepts, models and approaches related to Strategy at a Corporate, Business and Functional/Operational level.

The MOOC covers all Strategy & Marketing course's prerequisites on Strategy and it will be available on Polimi Open Knowledge Portal www.pok.polimi.it

S&M – Strategy MOOC on POK (2/2)

MOOC attendance and certified completion is strongly recommended for Students coming from International Universities as well as Students who obtained a Bachelor Degree in Italian Universities others than Politecnico di Milano.

Students who obtained a Bachelor Degree from Politecnico di Milano can still benefit from attending the MOOC to refresh their knowledge and understanding of Strategy-related basic topics (which will be covered in the written and oral exams)

S&M – Flipped classes

The MOOC "Strategy" will also be leveraged to introduce and experiment on the "flipped classes" methodology within Strategy & Marketing course concerning selected topics.

In flipped classes, class attendance is replace with the need to watch and study from videos.

Selected flipped lecture is the following:

- The environment (Part 1-2)– external and internal strategy analysis + Corporate Strategy (Part 1) – Sept. 16th and 22nd (4 hours)

Please check the "Strategy MOOC links for flipped classes" folder in WEBEEP

Contacts

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AG SWOT Analysis_The Environment_Part 1

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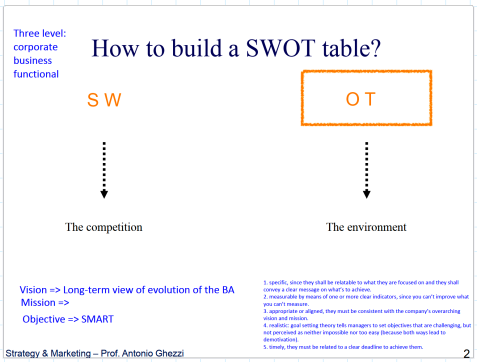
SM 21-22 AG SWOT...

Every time we perform an external analysis we have to remember that is not referred to the single firm, but to the overall competitive environment so we have to take the perspective of the generic market player



difference between Ex & In => perspective
Ex : Average Player in the market
In: One Firm compared to competitor

Porter's five competitive forces: investigate the **micro factors** that influence the attractiveness of the business area

PEST model: analyze the **macro factors** and the **macro trends** of the business area

How to build a SWOT table?

S W — The competition

O T — The environment

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Business strategy

EXTERNAL ANALYSIS

OBJECTIVES
Evaluation of the attractiveness of a business area and identification of the main threats and opportunities

METHODOLOGY
Porter's Five Competitive Forces model
PEST model

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Valid for all the player of the market
For all the competitor

the attractiveness is based on the industry,not too much on the firms competing in it/now with the buble of internet in 2000,companies are different and also important

Attractiveness of the Business area

Attractiveness of the Business Area

⇩

Average profitability and growth of the companies operating in the BA

(both present and future)

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The difficult part is to understand what is the company's business area, but once its perimeter is defined (competitors, substitutes are known). The attractiveness of the business area depends on how profitable is the business area. Since profit is revenues - costs, the attractiveness is based on the extra value, extra margin companies are able to capture in that business area

in a company like booking,we have 2 value propositions:1-B to C 2-B to B

Porter's 5 Competitive Forces Model

It is referred to a specific Business Area

Basic assumptions:

1) **Competition is driven by industry structure**

2) **Business Area's attractiveness is inversely proportional to the level of competition of the competitive environment**

3) **Competition in an industry goes well beyond established players: ⇒ concept of *extended rivalry***

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When talking about porter's 5 competitive forces we have to keep in mind the 3 assumptions (very important, also asked at the exam)

1. Means that the number of players within the industry determine how much competition there is. A monopolio differs from a competitive perspective from an oligopoly or perfect competition where there are several players within the industry
2. Attractiveness (=profit), the more competitive is the environment is the less attractive the business area is because there is less extra profit to capture
3. Competition doesn't depend only on the players that are competing within a given business area

Porter's 5 Competitive Forces

Bargaining power of suppliers

2 Threat of substitutes ⇔ Intensity of rivalry ⇔ 1 Threat of new entrants

Bargaining power of buyers

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1. Threat that new companies will enter the business area
2. Threat that other products, that are not similar to the ones that are being produced inside the business area, can satisfy the same needs and thus bring some new competition. E.g smartphones and smart watch can be substitutes because if the need is to know how time is it, there's no need to buy a smartwatch if you have a smartphone

the perspective of the external analysis=the average generic player in the market/

Intensity of internal rivalry

all the players
Similar to you

Direct competition

Structural determinants:

Bargaining power of suppliers
Threat of substitutes ⟷ Intensity of rivalry ⟷ Threat of new entrants
Bargaining power of buyers

- Concentration and balance
  number of competitor
- Diversity of competitors
  products are different
- Industry growth
  CAGR, Overall value, revenue
- Product differentiations
  like diversity
- Switching costs
  Customer has to pay in general to change the product not money, Efforts!! (ecosystem & Comparability)
- Fixed costs impact
  cost of machines, storage, manufacturing
- Storage costs
  food and supermarkets
- Exit barriers
  exiting is easy or no?

Specialized assets
Fixed costs of exit
Strategic interrelationships
Emotional barriers
Government and social restrictions

depreciate of assets

contracts

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Structural determinant is a determinant that determines the level of the force. **High concentration means that the power is in the hands of few players**

The determinants have a cause and effect relationship between the determinants , the force and the market attractiveness of the business area

Threat of new entrants

Potential competition

Structural determinants:

Bargaining power of suppliers
Threat of substitutes ⟷ Intensity of rivalry ⟷ Threat of new entrants
Bargaining power of buyers

Entry barriers

- **Economies of scale** decrease of unitary cost if we increase the production
- **Capital requirements**
- **Brand identity** strong brand and potential brand leverage
- **Switching costs** entrant persp. / switch to new entrant
- **Access to distribution channel**
- **Cost advantages independent of size**
- **Legislation or government actions**

Incumbent's expected reactions (retaliation)

Proprietary product technology
Favourable access to raw materials
Favourable location
Learning curve
Government subsidies

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Threat of substitutes

Indirect competition

Bargaining power of suppliers
Threat of substitutes ⟷ Intensity of rivalry ⟷ Threat of new entrants
Bargaining power of buyers

Substitutes = Products able to satisfy the same needs
product technically different

The existence of substitutes sets some constraints to the behaviour of firms belonging to a specific Business Area

In particular, such constraints are referred to price definition: substitutes limit the potential returns of a BA by placing a ceiling on the prices internal firms in the BA can set

The more attractive the price/performance ratio of substitutes, the higher the risk to lose customers to the advantage of substitutes

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Bargaining power of buyers

Downstream competition

It can derive from:

Bargaining power of suppliers
Threat of substitutes ⟷ Intensity of rivalry ⟷ Threat of new entrants
Bargaining power of buyers

- Relative concentration
  low number of customers
  - The bargaining power of buyers is higher if their business area is more concentrated than that of suppliers
- Product's features
  - The bargaining power of buyers increases if:
    - product differences are low product similar to each other
    - switching costs are low easy to change?
    - product's impact on the final performance is weak (only for intermediate products) plastic

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Bargaining power of buyers - continue

- Buyer's characteristics
  - The bargaining power of buyers increases if:
    - they are not very profitable will be price sensitive
    - they are able to integrate themselves backward
    - they have clear information about the product
    - the component or material cost is a high percentage of the total cost most of the budget

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integrate:تطابق دادن

B to B perspective

Bargaining power of suppliers

Upstream competition

The structural determinants of bargaining power of suppliers are dual to those influencing the bargaining power of buyers

double

A sixth force: complementors

digital world

product that are complementary to the product analyzing.
bundle, platform offer

- While substitutes have a negative impact on value, complements have a positive impact.
- Unlike the other five forces, complementors are not a competitive force
- Complements are always important in affecting the overall demand for an industry's product
- Example: in the video game industry the producers of software (games) are complementors to the producers of hardware (consoles)

It's not really a competitive force because **doesn't affect the attractiveness of the business area**

lecture of business models 1

The five forces model plus "complementors"

Understanding industry structure

- "Understanding the forces that shape competition in an industry is the starting point for developing strategy.
- …Most importantly, an understanding of industry structure guides managers towards possibilities for strategic action, including (1) positioning the company vis-à-vis the current competitive forces; (2) anticipating shifts in the forces and exploiting them: (3) shaping the balance of forces to create new more favourable structure or one that favours the company."

M. Porter, HBS, 2006

Five forces analysis: key questions and implications

- What are **boundaries of the business area** to which the model is applied? poor infromative
- What are the **key forces** at work in the competitive environment?
- Are there **underlying forces** driving competitive forces?
- Will **competitive forces** change?
- How **attractive** is this industry?
- Can **competitive strategy** implemented by players influence competitive forces (e.g. by building barriers to entry or reducing competitive rivalry)?

5 forces and value chain are part of what is called the positioning school of strategy which means that they consider the firm immersed in the environment that it operates. And they are also called the continuity school of strategy because they consider the firm to be a continuous of the market

complementary to 5 competitive forces

5 forces is more related to competition

PEST Analysis

The results coming from the 5 Competitive Forces analysis can be integrated by studying which **macro-environmental factors** can have a significant influence on the Business Area under scrutiny, so to identify a more comprehensive set of external opportunities and threats.

In particular, **Political, Economic, Social** and **Technological** influences can be very important

Hence, the **PEST analysis** aims at analysing environmental influences' trends

PEST Analysis

opportunity depending on your company

EU with gasoline engine is banned

Political/legal
- Monopolies legislation
- Environmental protection laws
- Taxation policy
- Foreign trade regulations
- Employment law
- Government stability

Economic
- Business cycles
- GNP trends
- Interest rates
- Money supply and Inflation
- Unemployment & av. income
- Energy availability and cost

Socio-cultural
- Population demographics
- Income distribution
- Social mobility
- Lifestyle changes
- Attitude to work and leisure
- Levels of education

Technological
- Govn. spending on research
- Govn./industry focus on technological effort
- New findings/developments
- Speed of technology transfer
- Rates of obsolescence

PEST Analysis

Keep in mind that not all the factors have the same impact
We can try to prioritize some of the factors

PESTE model/analysis/framework for an educated approach to cover important environmental factors

A practical way of carrying out this analysis is to:

- Identify each possible factor
- Give each factor a probability of occurrence in % and a rating for their impact in the coming 3-5 years where:
  - -5= extremely negative impact
  - +5= extremely positive impact
- Map the factor as an opportunity/threat to include in the OT portion of the SWOT analysis

PEST Analysis – example of representation

ENVIRONMENTAL ANALYSIS

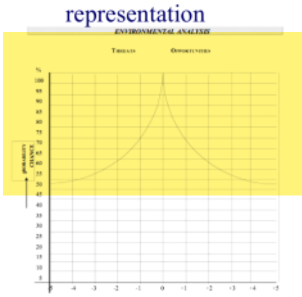
FACTOR	IMPACT	RESPONSE	Prob.%	Imp. (-5 to +5)
1. *SOCIAL:*				
2. *TECHNOLOGICAL:*				
3. *ECOLOGICAL:*				

PEST Analysis – example of representation

ENVIRONMENTAL ANALYSIS

FACTOR	IMPACT	RESPONSE	Prob.%	Imp. (-5 to +5)
4. *ECONOMIC:*				
5. *POLITICAL:*				

PEST Analysis – example of representation



Business Strategy level:

Internal Strategy Analysis

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How to build a SWOT table?

S W

O T

The competition

The environment

Business strategy

Logic pattern of the strategic decision making process at SBU level

Mission/objectives
Economic value creation

EXTERNAL ANALYSIS

OBJECTIVES
Evaluation of the business area's attractiveness and individuation of the main threats and opportunities

METHODOLOGY
Porter's Five Competitive Forces model
PEST model

INTERNAL ANALYSIS

OBJECTIVES Assessment of the SBU competitive advantage both concerning cost and value (strengths and weaknesses)

METHODOLOGY
Porter's Value Chain Model

Strategic alternatives generation

We are looking at how our firm produces and sustain competitive advantage through advantages of costo or value compared to other comapanies in the market or in absolute terms, so as if it was the only firm existing in the word

Business strategy

INTERNAL ANALYSIS

OBJECTIVES
Assessment of the SBU competitive advantage both concerning cost and value (strengths and weaknesses)

METHODOLOGY
Porter's Value Chain model less suitable for service company
Core Resources and Competencies approach

Competitive advantage at SBU level

It is not possible to analyse the SBU's competitive advantage considering the SBU as a "black box" transforming inputs in outputs and separated from customers and suppliers

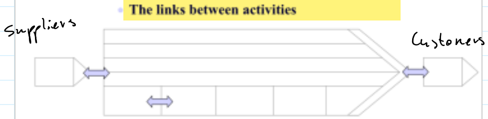
The Value Chain model can be used to analyse the SBU's competitive advantage

we should outperform competitors,

outperforming doesn't mean the highest price and the best products,it means just defeat your competitor!

Porter's Value Chain

A company's sources of cost/value competitive advantages depend on:
- **The overall system of activities (boundary)**
- **The single significant activities**
- **The links between activities**



- **The Value Chain is referred to a specific SBU**

The company is just a part of the value chain
There's the supplier who has its own value chain and so the customer

The firm transforms inputs into outputs through a series of activities. As the inputs go through the company they undergo over a series of transformations. The more the company works on the product the higher the cost, but the company should also increase the value of the product. What's in between cost and value is the margin for the company

Transformational activities from the input into output are called primary activities

Support activities are activities that support the business but do not intervene in the transformation

Porter's Value Chain: an example of a manufacturing company

Primary activities

They are directly responsible for value creation through the Value Chain

- *Inbound logistics*: activities related to the receipt, storage, transport and distribution of the inputs
- *Operations*: activities related to the conversion of inputs into outputs
- *Outbound logistics*: activities related to the storage of the finished products and to their distribution
- *Marketing and sales*: activities aimed at promoting and selling the products (advertising, promotion, managing of the distribution and sales channels, …)
- *Service*: for instance set up, technical assistance, maintenance, …

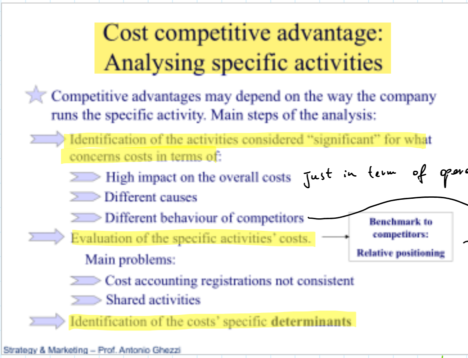
Support activities

They allow the continuative execution of primary activities

- *Procurement*: activities related to the acquisition of all the input (raw materials, components, equipment, technologies, services, …) needed by the firm (for instance: suppliers selection, negotiation, qualification, …)
- *Human resource management*: activities related to the recruitment, training, incentive and evaluation of employees
- *Technology development*: R&D, engineering, …
- *Firm infrastructure*: administration, finance, planning, quality control, …

The value chain takes into account 3 different perspectives:

1. Perspective of single activities: we can look at how much cost the single activity
2. Links between activities: for example inventories costs are cost that link different activities
3. Overall system of activities: vertical integration, make or buy

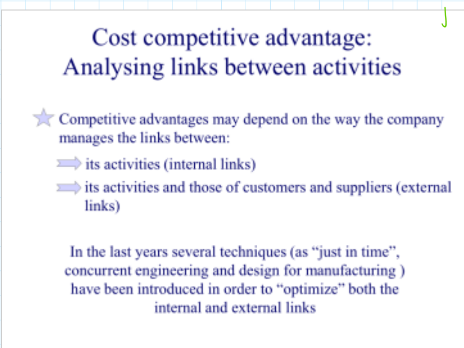


is it fix cost or variable

Just in term of operating or for different causes like regulations

Porter says to look at the competitors and see how much they are insisting on the costs. If all of the competitors are carrying out an activity in the same way than that's is the best practice (in reality not necessarily true) so your company should do that activity like that. This way there's no innovation, but it's a possibility

related to logistics



Like inventory costs

3rd point of view

companies are unable to handle it and pay to consultancy companies

Cost competitive advantage and economic value

Decisional levers

↓

Cost competitive advantage

↓

Economic value creation

Costs decrease, but the price remains unchanged =>

- **Contribution margin increases (Δm)**
- **Sales level does not change (Q)**
- **ΔNCF = Δm * Q**

Costs decrease and price decreases accordingly =>

- **Contribution margin does not change (m)**
- **Sales level increases (ΔQ)** market share
- **ΔNCF = m * ΔQ**

Focus: **Value** competitive advantage

It aims at making the product/service "unique" for the customer
Example of value competitive advantages are:

- **Quality**: product's nominal performances, but also effective performances
- **Time**: both for what concerns delivery time and time to market
- **Service**: both incorporated with the product or complementary
- **Variety/customisation**: fullness of the array of products and level of personalisation
- **Reputation**: both of the firm and of the brand

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Focus: **Value** competitive advantage

The sources of value competitive advantages depend on:

- Single activities
- Links between activities
- Overall system of activities

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Value competitive advantage and economic value

Decisional levers

↓

Attractiveness competitive advantage

↓

Economic value creation

Price increases =>

- **Contribution margin increases (Δm)**
- **Sales level does not change (Q)**
- **ΔNCF = Δm * Q**

Price does not change =>

- **Contribution margin does not change (m)**
- **Sales level increases (ΔQ)**
- **ΔNCF = m * ΔQ**

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Examples of value chain's application

- **Xerox**, by developing the value chain analysis, has discovered that its service competitive disadvantages were linked to the high complexity of its copy machines' design that made difficult the ex-post individuation of problems
- **Caterpillar**, comparing its value chain with that of competitors has individuated a cost competitive disadvantage. In order to reduce costs it has decided on the one hand to increase its array of products and on the other hand to sell its diesel engines to competitors aiming at better exploiting economies of scale (in production, but also in marketing, sales and service).
- **Volkswagen**, analysing the value chain of its Brazilian plant has verified how some activities could not be managed effectively in-house. Hence it has involved more deeply its suppliers that now are responsible of all logistics activities to the very installation of components on the assembly line.
- **Compaq** has utilised the value chain analysis in order to understand why it was unable to provide the desired value to customers. The results of the analysis have pushed Compaq towards the development of different links with its customers.

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academic tool is this one,rest are practical

Business Strategy level:

Resource and competence-based View

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Other approach to perform internal analysis

A critique of the Positioning School

→ Porter's perspective on strategy

- The «Positioning School» focuses on:
  - spotting the most attractive business area (external analysis) and
  - Shaping the right competitive positioning in such business area (internal analysis)
- However:
  - Competitive advantage does not come from competitive positioning alone
  - The focus of strategy cannot be largely placed outside of the company's boundaries («outside-in» approach)
  - The Positioning School leads to a distorted vision of the company's organizazional structure, where SBUs are separated and fully devoted to cover the business areas where the company chooses to locate the products and services it offers in its portfolio: this results in a static and disjointed view of the company, identified as the «tyranny or the SBUs» (Hamel, Prahalad, 1990)

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Competitive advantage doesn't necessarily come from the way the company compare itself to the competitors and to the overall environment that it competes in, competitive advantage can come from inside the company as well

The positioning school takes an outside in approach : takes things from the environment for granted and the company has to find the advantages according to the rest of environment

This create something that is called "tyranny of the SBUs" . Each SBU within the firm performs as if they were a single company : they have their own budget, system of activities… and that creates a jealousy between SBUs and they don't want to share with the others what's their own formula of competitive advantage

An alternative theory for internal analysis: the Resource & Competence-based View (1/2)

- According to the RCBV, companies are a unique collection of tangible and intangile resources and competencies (Barney, 1991; Collis, Montgomery, 1995)
- Those resources and competencies that influence the achievement of competitive advantage are labelled as «core»
- A core resource or competence is **an area of specialized expertise within the company, resulting from specific the harmonization of complex technology streams and working activities, and which:**
  - **offers benefits to the customer**
  - **is hardly imitable by competitors, and**
  - **you can leverage in a multitude of products and/or markets** (Hamel, Prahalad, 1990)
- Two companies cannot be totally alike, as each and every company possesses its own and unique asset of experiences, its own acquired resources and competencies, its own organizational culture.
- Such core resources and competencies determine how efficiently and effectively a company carries out its functional activities, and ultimately influence its ability to achieve and sustain competitive advantage.

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The assumption is that companies that have different resources will provide some kind of differential in terms of core resources and competencies

An alternative theory for internal analysis: the Resource & Competence-based View (2/2)

- Valuable resources can take different forms:
  - Tangible, physical assets;
  - Intangible asset – e.g. brand, know-how;
  - derive from an organizational skill resident in the firm's routines, processes or culture.
- Notwithstanding the nature of these resources and competencies, the RCBV holds that the very possession of such distinctive assets constitutes the basis of a company's competitive advantage.
- Instead of a portfolio of products, a company should be seen as a portfolio of competencies.

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The available resources and competencies

Tangible assets		Intangible assets		
Physical	Financial	Human	Technological	Reputation
• characteristics production facilities • location • production flexibility • capacity surpluses • property and equipment	• receivables from clients • cash and cash equivalents • liabilities • equity	• knowlegde and expertise • adaptability • loyalty • availability • performance	• patents, copyright, company secrets • R&D facilities • qualifications of employees	• brands • corporate image • corporate identity • relationship with suppliers • customer satisfaction

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The RCBV approach (1/2)

√

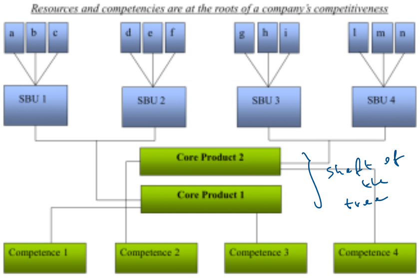
Hamel & Prahalad (1990)

"The diversified corporation is like a big tree. The trunk and the main branches represent the ***core products****, the smallest branches are the* ***business units****, while the leaves, flowers and fruits are the* ***end products****.*
The system of roots providing nourishment and stability are the ***core competencies****."*

- It is essential that the management focuses its attention on developing internal competencies and resources to leverage in order to create the end products, rather than on assessing the final markets' attractiveness.
- The link between core competencies and end products is defined core product, that is, the physical concretization of one or more core competencies
- These core products are the components or modules determining the value of the end products springing from them (e.g. engines for Honda, semiconductors for Nec, compressors for Matsushita, data drives & lasers for Sony and Philips)

The RCBV approach (2/2)

√



leafs

shaft of the tree

roots

Essence of the firm

competences and resources can lead to have product and services

Not all assets are core

غير قابل تقليد

you should be able as a firm to take advantage of the resource

frequent at the exam

How to identify the company's core resources and competencies

Five «Core Test» (Collis, Montgomery, 1995):

1. Inimitability – hard to copy, thanks to physical uniqueness, path dependency, causal ambiguity and economic deterrence
2. Durability – slowly depreciating ->How long does the core competence last
3. Appropriability – creating value that is easily captured by the firm
4. Non-substitution – not replaceable by alternative resources satisfying the same need
5. Competitive superiority – performing better than competitors' resources

Resources and competencies should pass each of the five test

if you work with competencies and resources that do not pass the test means that soon you will be out of the market because the competitive advantage is not sustainable

if you work with non core resources and competencies you should do exploitation - work with them as much as you can - and exploration -

with core resources - leverage the resources to find out new businesses and new products and to continue the business

Core resources and competencies: the Disney case (1/3)

- When in 1984 Micheal Eisner became Walt Disney's chairman, the company was facing its fourth consecutive year of decline, enough to attract speculators on the stock market
- A boost in the turnover was registered between 1984 and 1988: net profits went from 98 million to 570 million dollars and the value of the company on the stock market went from 1.8 to US $ 10.3 billion
- Nevertheless, noticeable changes in strategy didn't occur in Eisner's first three years as chairman

they started streamin,(Diseny plus)

- The key success factor was due to the mobilization of the company's huge resource base

They leverage on their characters in order to increase their competitive advantage

Core resources and competencies: the Disney case (2/3)

- Asset profitability improvement:
  - hotels, residential and resort construction
  - increased number of attractions @ Epocot Center;
  - new theme park construction (Disney-MGM studios),
  - Euro Disneyland construction
- Better exploitation of the huge owned film library:
  - new release of the classic movies;
  - sales of licenses for movies to television networks
  - VCR's sales

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Core resources and competencies: the Disney case (3/3)

- Disney studios' rebirth:
  - booming of the Touchstone label
  - doubling of the number of films produced
  - Aggressive recruitment of producers, directors, actors and writers
- The management was able to exploit the most powerful available resource: the loyalty of millions of people from different countries and age, linked to the name and characters created by Disney

Basically Disney managed to realize what its main competencies and resources were and leveraged on them in order to extend their offer

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(positioning school) - company is made of SBU

Strategic Business Unit vs. core resource & competence

it's a discontinuous view because sees the firm as an entity standing by itself

	SBU	Core Competence
Basis for competition	Competition among existing products	Competizione among companies to build competencies
Corporate Structure	Portfolio of businesses related in terms of products and/or markets	Portfolio of competencies, core products and businesses
SBU Status	Significant autonomy. SBUs own all of their resources excluding cash	SBUs are potentials pools of core competencies
Resource allocation	Single businesses are the unit of analysis and capitol is allotted to each business	Businesses and competencies are the unit of analysis. Top Management allots both capital and competencies
Value added by the Top Management	Optimize corporate profits by properly managing the trade-offs and synergies among SBUs	Define the strategic architecture and build/share the competencies to support the company's future

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The Positioning School and the RCBV: a mediation

- The Positioning School relates competitive advantage to the right strategic positioning of the company and on the chain of activities it performs, thus adopting a perspective that privileges external analysis
- The Resource & Competence Based View sees competitive advantage as stemming from the pool of distinctive core resources and competencies that the company developed, thus focusing on internal analysis
- However, should we decompose these two theories in their key assumptions, what we find is that:
  - When the Positioning School looks within a company's boundary to identify strengths and weaknesses in the value chain (e.g. physical assets, know how, brand image, sound organizational processes, service level and customer relationship), it is actually looking for core resources and competencies
  - The RCBV proposes an approach that has little significance if deprived of a link with the external environment. Resources and competencies cannot be assessed as if they were isolated, since their value is determined by the interaction with the competitive forces: a resource is valuable in a given business area and in a given timeframe

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The positioning school and the resource & competence based view take 2 completely different perspectives on the competitive advantage of the firm, so the way the firm can build and sustain competitive advantage. By adopting 2 different perspectives they help us understand different strengths and weaknesses of the firm so both should be considered.

When we try to analyze the competitive advantage of our firm is we should first of all look at the positioning in the market, then study how the resources and competencies can actually determine the competitive advantage also by looking at the value chain

the problem of attribution of cost leadership is the price wars
-in a market that is cost sensitive,is a problem to adopt a cost leadership,cause the decision of the customer is based on the price not on the characteristics of products

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The competitive advantage

Silvia Sanasi

Politecnico di Milano

Department of Management, Economics and Industrial Engineering

Agenda

- The traditional approach: Porter's generic strategies
- The new strategic question
- From upstream competitive advantage to downstream
- The new mantra
- The big picture approach

The traditional approach: Porter's generic strategies

Porter's generic strategies

- **Cost Leadership:** low cost position achieved through aggressive cost [...]uction and high market share (e.g. Ryanair)
- **Differentiation:** differentiate the product or service in order to be perceived as unique (e.g. Mercedes)
- **Focus:** concentrate on a particular customer group, segment of product line or geographical market (e.g. Gore-Tex)

he belives competitive advantage drives from industry structure and characteristics

in the project,have critical thinking,when and how to adopt the models

dont stuck in the middle means do not pursue both strategy at the same time

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This is porter's view, but it's not the only way to produce an output from the swot analysis

As a result of internal and external analysis of the firm and of the business area, first should introduce a series of strategical alternatives. According to porter this consists in 2 generic strategies that are either deciding to be a cost leader (investing everything to reduce the costs, doesn't mean necessarily to reduce the price) or use a strategy of differentiation that means to decide to produce something that is unique, that is different from the competitors and thus invest everything on the extra value that the firm is producing

niche markets (بازارهای هدف بکر و دست نخورده)

The third generic strategy is "focus" that means to choose a niche of the market and produce that is something dedicated to that niche. In reality what the company is doing is still deciding if it want to be a cost leader or invest in differentiation. So the third one is not really a main generic strategy

Cost Leadership: sources of cost advantage

firm perspective

- Economies of Scale
- Economies of Learning possibility to be more efficient
- Process Technology and Process Design optimizing the process
- Product Design
- Input Cost if im taking the economy of scale,I am going to need more input and by bargaining power Im going to reduce the costs
- Capacity Utilization
- Managerial Organisational Efficiency

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Cost Leadership strategies and the five forces (1/3)

1. **Threat of New Entrants**
   Can frighten off new entrants due to their need to enter on a large scale in order to be cost competitive. they are going to need huge investment and capital
2. **Bargaining Power of Buyers**
   Can mitigate buyers' power by driving prices far below competitors, causing them to exit and shifting power with buyers back to the company.

کم کردن

we have price wars in the cost leadership concentrated BAs
in these markets there are no differentiation and the customer buys based on price

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Cost Leadership strategies and the five forces (2/3)

3. Bargaining Power of Suppliers

Can mitigate suppliers' power by:

- being able to absorb cost increases due to low cost position
- being able to make very large purchases, reducing chance of supplier using power

4. Substitutes

Cost leader is well positioned to:

- make investments to be first to create substitutes
- buy patents developed by potential substitutes
- lower prices in order to maintain value position

value/cost tradeoff for the substitutes is higher than for the existing products in the market

for a substitute that usually do not leverage the cost leadership, is difficult to substitute the product in the market, cause the cost leaders by decreasing the cost are somehow increasing the value of their product

Cost Leadership strategies and the five forces (3/3)

5. Existing Competitors

Can use cost leadership strategy to advantage since competitors avoid price wars with cost leaders, creating higher profits for the entire industry

Risks of cost leadership

- Technological change that nullifies past investments or learning. بی ارزش کردن، ملغی کردن
- Low-cost learning by new players (or followers) through imitation.
- Inability to see required products or marketing change because of attention placed on cost.
- Inflation in cost that narrows the price differential.

تورم price of energy nowadays

Differentiation strategy

- Value provided by **unique features and value characteristics**
- Command premium price
- High customer service
- Superior quality
- Prestige or exclusivity
- Rapid innovation

Tangible vs. intangible differentiation

- **Tangible differentiation** is concerned with the observable characteristics of a product or service that are relevant to the customers (i.e. size, shape, color, weight, design, material, technology, reliability, consistency, taste, speed, durability, safety…)
- Where a product or service is meeting complex customer needs (e.g. cosmetics, medical services and education) differentiation choices involve the overall image of the company's offering. **Intangible differentiation** concerns the social, emotional, psychological considerations that affect customers' choices (i.e. status, exclusivity, individuality, security…)

Factors that drive differentiation

- Unique product features
- Unique product performance
- Exceptional services
- New technologies
- Quality of inputs
- Exceptional skill or experience
- Detailed information
- Extensive personal relationships with buyers and suppliers

Differentiation strategy and the five forces (1/3)

1. **Threat of New Entrants**
   Can defend against new entrants because:
   - new products must surpass proven products **or**,
   - new products must be at least equal to performance of proven products, but offered at lower prices.
2. **Bargaining Power of Buyers**
   Can mitigate buyer power because well differentiated products reduce customer sensitivity to price increases.

Differentiation strategy and the five forces (2/3)

3. **Bargaining Power of Suppliers**
   Can mitigate suppliers' power by:
   - absorbing price increases due to higher margins
4. **Substitutes**
   cause locking affect
   Well positioned relative to substitutes because brand loyalty to a differentiated product tends to reduce customers' testing of new products or switching brands and technologies.

Differentiation strategy and the five forces (3/3)

5. **Existing Competitors**
   Can defend against competition because brand loyalty to differentiated product offsets price competition.
   خنثی کردن

Risk of differentiation

- Cost differential with low-cost competitors becomes too great undermining brand loyalty.
- Customers become more sophisticated and their need for the differentiating factor falls.

خبره و کارآزموده

- Imitation narrows perceived differentiation.
- Makers of counterfeit goods may attempt to replicate differentiated features of the company's products.

جعلی

Focus strategy

فرضیه

- The focus strategy rests on the premise that the company is able to serve its narrow strategic target (customer segment, geographic market, "niche"), more effectively or efficiently than its competitors.
- The company achieves either **differentiation** from better meeting the needs of the particular target or **lower cost** in serving the target, or **both**.
- The focus strategy always involves a **trade-off** between profitability and sales volume.

its difficult for a comapany to adopt focus strategy

Risks of focus

- The cost differential with broad-range competitors widens and…
  - … it eliminates the cost advantage of serving a narrow target; **or**
  - … it offsets the differentiation achieved by focus.
- The differences in desired products (or services) between the strategic target and the market as a whole narrows.
- Competitors find submarkets **within** the strategic target and outfocus the focuser.

todays,shops should implement focus strategy cause they have limited and specific products for a limited segment

Business strategy: Porter

Three key principles:

1. Strategy is the creation of a **unique and valuable position**, involving a different set of activities.

2. Strategy requires you to make **trade-offs** in competing - to choose what not to do.

3. Strategy involves creating **fit** among a company's activities.
(Michael Porter, **HBR**, 2000)

From porter's view is Important to remember that you either decide to be a cost leader or to differentiate, it's not possible to do both. In reality this is not true because value can also be produced by the interaction of the consumer, there isn't one way to produce value

The new strategic question

The new strategic question

- For too long the business world has been obsessed with the notion of building a sustainable competitive advantage.
- The dominant idea in the field of strategy has been always to establish a unique competitive position, sustained for long periods of time
- The most common strategies coming from a product, or production facilities-centric approach
- Firms continue to spend inordinate amounts of time, effort and resources on their products
- **but is this center of gravity still sustainable?**

now we are living in the digital age and the quantity of information has increased the part of the industry building and designing the product,while downstream is selling the product

From upstream competitive advantage to downstream's

Upstream value: a successful strategy in the past

- **Businesses have traditionally sought competitive advantage in the upstream**- the value creation activities related to production and products
- The upstream has been **historically very profitable**:
  - **Ford** built such a huge and streamlined (بهینه) factory that it drove per-unit cost of production for the Ford Model T far below that of competitor's cars
  - **Walmart** built an unbeatable network for moving inventory between its global supply chain and its stores, allowing the company to underprice competitors due to efficiency savings
  - **De Beers** pulverized its competitors as regard diamond market by gaining control of much of the world's supply of diamonds….
  - …

Value shifts downstream

- But **now the business world is suffering from the erosion of upstream competitive advantage**
- Why?
  - Rapid **commoditization** of products and production

    به عنوان فرایندی تعریف می شود که کالاهائی که دارای ارزش اقتصادی هستند و از لحاظ ویژگی ها (منحصر به فرد یا نام تجاری) قابل تشخیص هستند، در نهایت تبدیل به کالاهای ساده در درون بازار یا مصرف کنندگان می شوند.
  - **Outsourcing** of the upstream activities
  - **Short product life-cycle**
  - …
- In this **new scenario, value is created in the interactions with customers**, competitive advantage is built and sustained in the marketplace, and the primary costs reside in acquiring, satisfying and retaining customers

نهفته بودن

Value shifts downstream: an example

Many ways of buying a can of Coca-Cola

1)A consumer goes to a supermarket and buys a twenty-four-pack of Coca-Cola. The pack might be priced at $5.99 (0.25$ per can)

2)The same customer, the next day, finds herself in a park on a blazingly hot summer day and pays $2 for a chilled single-serve can of Coke sold at the point of thirst through a vending machine

The premium price is due to a perceived added value in the eyes of the consumer. The product (What) is the same, but the purchase and consumption is different (how)

VALUE = WHAT + HOW

so

VALUE shifts from Product to Experience

Neglecting the change: the case of the music industry

- **The music business has always been "ok"** label = casa discografica
  - Each of the major record labels had a **unique stable of artists who gave the label its cachet** = prestazione nel mondo dello spettacolo
  - **The** label were not in direct competition with each other: they appealed to different segments of the market with different musical tastes
  - Upstream assets: a **lock on the supply of the music and no direct competitors**

they had focus strategy

↳ Customers listened to what the industry wanted

in order to listen to a specific song customers had to buy an album with other songs that maybe they didn't want to listen

- Nevertheless the music industry was unprepared for what happened when the digital and the Internet revolutions hit

Neglecting the change: the case of the music industry

- Suddenly music could be downloaded easily (Napster), shared as easily as sending an e-mail and potentially be shared by millions of people
- The music industry panicked
- Record labels sued to reclaim copyright in a world of global file-sharing: they sued the keepers of music download websites, Internet service providers whose customers shared music online, the developers of file-sharing software, and the freeloading downloaders
- **Between 2003 and 2007, the Recording Industry Association of America launched twenty thousand lawsuits. During the same period, the number of people sharing files online tripled**

Now every customer can listen to whatever song they like without restrictions so people learned different means of consumption, they've learned that they could listen to music without having to pay for the whole album

Neglecting the change: the case of the music industry

- Before the industry burst, Steve Jobs stepped in; even he came from outside the music sector
- Apple was not علاقه مند wedded to the **upstream assets** the music industry had accumulated (the recording contracts with artists, the decades of music libraries), but Jobs understood that the music industry had lost control over the mode of music distribution and consumption, its downstream activities
- Apple set out to build an organized marketplace that would create downstream value for customer of music and give producers the incentive to continue to produce:
  - value for consumers through searchability, recommendations, playlists, customization, ease of use, ease of storage, legacy, “my music everywhere”…
  - value for the offer side, $ 0.99 for each song
- **The brilliance of this approach was the recognition that the value consumers would pay for was no longer in the what, but in the how!**

Music production didn't change, what changed was how people listened to music

The new mantra

Competitive advantage

Competitive advantage is created by **uncovering the <u>costs and risks</u>** the customer incurs in the buying process and finding ways to eliminate or reduce them before competitors!

Customer's costs and risks

- Customer's costs and risks can be explicit, or hidden:
- EXPLICIT
  - Monetary costs and monetary risks
- HIDDEN
  - COSTS: defined in terms of "effort"
    - time spent to buy the product
    - difficulty in processing the product characteristics
    - difficulty in understanding what are the most relevant information in the buying process
    - …
  - RISKS: defined in terms of "poor choice"
    - what if my girlfriend doesn't like my gift
    - what if this product is not the best solution for me
    - what if next year I won't use this product anymore
    - …

Customer's costs and risks

EXPLICIT COSTS AND RISKS → EACH COMPETITOR SEE THEM!

↓

PRICE WAR

↓

CONTRIBUTION MARGIN CONTRACTION

reducing the margin

Customer's costs and risks

HIDDEN COSTS AND RISKS → NO ONE SEE THEM!

COSTS AND RISKS FIRMS IMPOSE ON CUSTOMERS ARE INDUSTRY WIDE PRACTICES, AND BECAUSE EVERYONE IMPOSES THEM, THEY ARE WIDELY ACCEPTED AND INVISIBLE

↓

EVEN IF THEY ARE INVISIBLE, THEY'RE STILL A PAIN FOR CUSTOMERS

↓

REDUCING THEM I CAN CREATE VALUE FOR THE CUSTOMERS WHERE NO ONE MORE CREATES VALUE → COMPETITIVE ADVANTAGE

The big picture approach

Seeing customers' hidden costs and risks

Firms have access to the **big picture** and can see different things in the marketplace than what customers can. Firms can see problems that are likely to arise, because the have arisen elsewhere, or they can see solutions to problems that plague a particular customer or subgroup of customers, because they have seen solution successfully implemented elsewhere

به ستوه آوردن

How companies can find hidden costs and risks ?

Every customer has a piece of the puzzle that creates the big picture. In order to see the big picture companies have to get each piece from every customer, every stakeholder that intervene in the exchange

How to see customers' hidden costs and risks

- Each customer holds a piece of hundreds-piece jigsaw puzzle
- While each piece is unique, when assembled the pieces reveal a larger meaning
- In most instances, that piece of the puzzle remains forgotten in a drawer, in a database, untouched, and unused because customers fail to realize its possible role in the larger context
- Being able to bring together all the pieces of information that lie dispersed with customers, firms can see patterns they've never seen before

پراکنده و آشفته

- These patterns can help the customers make different and better choices that add valued to themselves and to the company

The big picture as Business Model

- In twenty-first century information businesses, the "big picture" (the puzzle assembled) is rapidly becoming an indispensable tool
واجب
- **Some businesses go farther: the big picture is their business**
- **Bluefin Labs**, for example, is a recent Cambridge Massachussets start-up launched by an MIT professor. The company aims to **understand how the "Twitter-sphere" responds to television programming advertising.** By analyzing patterns in the tweets that appear in reaction to TV commercials, Bluefin is able to tell advertisers which if their ads had the greatest **social media impact and whether that impact was positive or negative**
- Bluefin Labs' social media analysis and technology was deemed so valuable that the company was acquired by Twitter in February 2013 and Twitter declared Bluefin's products would not be sold to any new clients

Extracting value from the Big Picture

- There are three main ways in which marketplace information can create value for your customer:
انتقال دادن
  - relaying and connecting
  - benchmarking and mirroring
  - predicting

These strategies come from marketing. The role of marketing is to support strategy in having a dialog with customer. In general terms marketing helps strategy in dicovering the data and what it means for the customer to experience a different service or use a given product

Relaying and connecting

- The main idea is to take information from one location and apply it in another, to **learn from one customer and use the learning to help another**
- The company therefore sees ideas and solutions that have been implemented or tried, and knows those that worked and those that did not
- The **Amazon**'s huge success is due to this value proposition: not only does Amazon allow the customer to shop online at any time he or she chooses, in any time zone, but **the customers also gets extensive information and advice unavailable in a traditional store**, for instance browsing through what other readers think of the book

Benchmarking and mirroring

- Benchmarking provides customers with the all-important "you are here" location on dimensions that are relevant to them. This **information allows them to pinpoint their own position relative to the peers on crucial metrics**
- Benchmarking is a special case of a more general use of the big picture: **mirroring** (to aggregate and feed back to individuals information about groups of customers)
- The value and availability of benchmarking data has increased with the growth of the third-party benchmarking industry, as well as in social comparisons on social networking sites such as Facebook and Linkedin
- **Nike +**, for instance, allows runners to measure running performance and upload their running data to Facebook. **Benchmarking against other runners and their own past performances motivates Nike's customers to maintain a training regimen**

Benchmarking and mirroring

√

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Predicting

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- **The most sophisticated use of marketplace data lies in discerning patterns that can help predict future trends** آگاهانه/فهیم
- In this perspective, **Google Flu Trends** is a relevant business case
- A rapidly spreading worldwide flu-like epidemic is considered one of the greatest dangers facing humanity. It's not surprising that doctors and researchers know a lot about influenza viruses and health authorities devote considerable effort tracking and preventing outbreakes
- They know when influenza will strike, what strain of influenza will strike in a given year, how the disease progresses and who will likely develop complications, however, they do not know where flu outbreaks will occur
- This is where Google Flu Trends comes in: Google reasoned that when people feel ill, they tend to turn to the Internet for information before heading to the doctor. Thus Google extracts the value by aggregating the searches and plotting the data over geographical locations

you want to go to a restaurant and you can see how crowded it is

Samsung case - External-internal Analysis

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SMARTPHONE INDUSTRY IN 2013: SAMSUNG'S DILEMMA[1]

Mehdi Hossein-Nejad wrote this case under the supervision of Professor W. Glenn Rowe solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

In April 2014, Samsung released its new high-tech flagship phone, the Galaxy S5. The new Android phone came after another successful year for the company. After becoming the leading global mobile phone manufacturer in 2012,[2] Samsung had maintained that lead in 2013 and sold more phones than rivals such as Nokia and Apple. Samsung was also a major player in the increasingly popular tablet computer market. The success of the Galaxy S3 and S4 had created a lot of expectations for the S5 device, but both Samsung and industry analysts were predicting that the new phone would help the company boost sales even further.

This success and the ever-changing landscape of the mobile computing and telecommunication industries had put Samsung in an interesting competitive position. Many industry watchers had labeled mobile telecommunications as one of the most competitive industries in recent years. In only five to six years, the industry had witnessed many shifts in market share and significant improvements in technology and product features. Given this volatility and the dynamic relationships between suppliers, manufacturers, technology providers, application (app) developers and operating systems, Samsung needed to think carefully about its next competitive steps. Specifically, it needed to think about one very important issue: Should it continue to work with Google's Android operating system (OS), or should it seriously consider an in-house software ecosystem?

THE SMARTPHONE INDUSTRY

While there was no "official" definition for what constituted a smartphone, it was safe to assume that any device with a phone and additional computing capabilities such as web browsing, email, basic word processing and the like could be placed in this category. The attention to smartphones stemmed from interest in personal data assistants (PDAs), which were very compact computers that allowed the user to carry around a computing device for basic functions. These devices did not include a phone, but in the mid to late 1990s, companies such as Nokia, IBM and HP experimented with putting the two functions together in one device.

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[1] This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those of Samsung or any of its employees.
[2] Juliette Garside, "Samsung Shows the Confidence of the World's Leading Phone Maker," The Guardian, April 29, 2012, www.theguardian.com/technology/2012/apr/29/samsung-confidence-leading-phone-maker, accessed June 15, 2014.

This new concept did not get a lot of attention until the mid 2000s with the emergence of a few strong players. Microsoft offered its Windows Mobile platform with a number of its hardware partners and gained considerable market share. Nokia's new devices on its Symbian OS also became very popular, especially outside of the North American market. The major difference between the two platforms was that Nokia controlled both its OS and handsets while, in the other camp, Microsoft was a software company offering its Windows Mobile OS to a number of handset manufacturers.

Another player that emerged as a major force in the mid to late 2000s was Research in Motion (RIM, now Blackberry). Based in Canada, RIM manufactured a line of Blackberry handsets with its own Blackberry OS, which at the time was mostly targeted towards the business consumer. It gained enormous popularity with a variety of connectivity features that allowed users to check email and organize activities on the move. Blackberry rapidly increased its market share in North America and, subsequently, worldwide. Soon, the value of this technology was recognized by other industry players, and companies such as Apple, Samsung and LG started to introduce their own modern smartphones. These smartphones were fitted with more and more features and later became the top selling phones in North America and other parts of the world.

In 2007 and 2008, the industry experienced two events that changed the competitive landscape significantly and initiated a shift in the balance of power. The first was the introduction of the iPhone by Apple. Apple was known for its successful line of Macintosh computers and the iPod music device. Apple's iPhone quickly gained popularity with its trendy design, touchscreen display and easy to use operating system, the iOS. Apple sold 1.12 million iPhones in the first quarter of availability in the United States, while the total number of smartphones before Apple's entry into the space stood at only 715,000 in the country.[3]

The second major development was the introduction of the first phone based on an open source OS named Android. This OS was backed by the tech giant Google, which was looking to obtain a firm foothold in the increasingly important mobile sector. HTC Dream (known as the T-Mobile G1 in the United States) was the first phone to use this operating system.[4] Soon after, many other handset manufacturers such as Samsung, LG, Motorola and Huawei also adopted Android for their devices.

After the introduction of the iPhone and Android devices, the smartphone industry experienced an explosive growth that some industry observers called one of the fasted technology adoption rates (if not the fastest) in history.[5] At the end of 2013, just under one-third of mobile users in the world owned a smartphone, with the number being above 50 per cent for some of the developed economies including the United States and Canada.[6] The trend was expected to continue with emerging economies also experiencing rapid growth, which in 2013 led to sales of smartphones surpassing normal phones for the first time.[7] Data by Strategy Analytics indicated that in 2012, there were one billion smartphone users in the world, but it was expected that this number would reach two billion in 2015.[8] Many believed that the

[3] *Michael DeGusta, "Are Smart Phones Spreading Faster Than Any Technology in Human History?," MIT Technology Review, May 9, 2012, www.technologyreview.com/news/427787/are-smart-phones-spreading-faster-than-any-technology-in-human-history/, accessed June 15, 2014.*
[4] *Kent German, "A Brief History of Android Phones," CNET.com, August 2, 2011, www.cnet.com/news/a-brief-history-of-android-phones/, accessed June 15, 2014.*
[5] *Stephanie Mlot, "Smartphone Adoption Rate Fastest in Tech History," Pcmag.com, August 27, 2012, www.pcmag.com/article2/0,2817,2408960,00.asp, accessed June 15, 2014.*
[6] *"Smartphone Adoption Tips Past 50% in Major Markets Worldwide," eMarketer, May 29, 2013, www.emarketer.com/Article/Smartphone-Adoption-Tips-Past-50-Major-Markets-Worldwide/1009923, accessed June 15, 2014.*
[7] *Brian X. Chen, "Apple Is Set to Announce Two New iPhones," The New York Times, September 9, 2013.*
[8] *Kevin J. O'Brien, "Nokia's Low-priced Phone Targets Emerging Markets," International Herald Tribune, October 24, 2012.*

surge of smartphones and tablet computers had been at the expense of personal computers (PCs), which had reached saturation point. In 2007, almost 95 per cent of all devices connected to the Internet were PCs operating on Microsoft's OS. This number dropped to 80 per cent in 2012, and analysts believed it would continue to drop rapidly.[9]

ECOSYSTEMS

The smartphone industry was often divided into categories based on the OS. In 2013, the main segments were devices working with Google's Android OS, Apple products with iOS, Blackberry with Blackberry OS (or Blackberry 10 for newer devices) and mobile devices operating on Microsoft Windows. Devices outside these ecosystems held a very small market share. The main handset manufacturers in the Android camp were Samsung, HTC, LG, Sony, Motorola (later acquired by Google), Huawei, Lenovo, ZTE and a number of other Chinese and international brands. Nokia was the major manufacturer of phones with Windows (Microsoft later acquired Nokia), but other manufacturers such as HTC and Samsung had produced phones for this OS as well.

More and more, these were viewed as ecosystems that included the hardware and OS and the increasingly important apps and services that interacted with them to offer a unique experience to the user. The consumer usually made a purchase decision based on the phone's features (technology), OS functions and the availability of apps and services for the particular ecosystem. In each of these aspects, industry rivals competed fiercely for dominance, and some unique competitive dynamics had emerged. The battle seemed to be in two parallel worlds. One was in the ecosystems that formed around each OS, and the second was the technology of the hardware.

Phone hardware was an important element in the competitive arena. The processing power, mobile data network generation and speed, memory, and battery life were important specifications. In addition to these, customers also looked for screen size and resolution, keypad (or lack of), camera picture and video quality, global positioning system (GPS), various sensors (e.g., movement, heart rate), connectivity to other devices and speaker quality. Design and build quality were also important aspects of product development. Smartphone manufacturers constantly worked to get their hands on the latest technology for their flagship phones so that they could differentiate themselves from competitors. This was particularly important for manufacturers that used the same OS as technology became the only differentiating aspect.

The smartphone manufacturers also competed on what they offered in their ecosystems. Each OS had a unique look, user interface, structure, embedded apps and security features (vital for business and enterprise customers). An extremely important feature was the app collection available for each OS. These apps essentially determined what users could do with their phones. Recent research suggested that smartphone users spent up to 80 per cent of the time on their devices using apps.[10] The endless list included games, readers, learning material, fitness tools, banking, news, media and shopping. Because of the importance of apps in the mobile ecosystem, OS developers encouraged app creators to offer products for their online stores. They may have offered incentives, but the biggest incentive was the size of the user base. The more users an ecosystem had, the more attractive it became for app developers.

[9] *Matt Rosoff, "This is The Year Microsoft Fights Back," Cnn.com, January 19, 2012, http://edition.cnn.com/2012/01/19/tech/innovation/microsoft-business-insider/index.html, accessed June 15, 2014.*
[10] *Simon Khalaf, "Furry Five-year Report: It's an App World. The Web Just Lives In It," Flurry Analytics, April 3, 2013, www.flurry.com/bid/95723/Flurry-Five-Year-Report-It-s-an-App-World-The-Web-Just-Lives-in-It, accessed June 15, 2014.*

Apple developed and owned its own OS that included an online App Store with a very large content collection. In addition, it had iTunes for access to music and movies that worked perfectly with its OS (the iOS). With one Apple account, users had access to their collection of content on multiple Apple devices. Apple had an enormous collection of apps in its store, but so did its arch rival Android. In terms of revenues generated from apps, Apple still held a sizable (although shrinking) lead in 2013, according to a report by Distimo.[11] It was also attractive to app developers because it was more profitable and more importantly less fragmented since most Apple users updated to the latest version of the iOS while this percentage was much lower for Android users.[12]

Apple products were known for their design, quality and technology, and consumers were willing to pay a premium for them. Apple product launches usually received a lot of media hype, and buyers lined up for hours to get their hands on the latest products as soon as possible. For the past few years, Apple had released a new phone every year, except in 2013 when it released two new iPhones for the first time. The iPhone 5s was its new flagship phone, and a lower priced version called the 5c was also introduced. The 5c was approximately $100 cheaper and had specifications similar to the older iPhone 5. Although some financial and technology analysts were hoping for a lower priced phone by Apple to compete with a lower priced segment of Android phones, its CEO reaffirmed that Apple was not in the business of producing cheap products.[13]

Phone manufacturers such as Samsung, Sony, LG, HTC and Huawei used Google's Android OS, which offered access to apps through the Play Store. Google had an open source approach, which meant the manufacturers used the OS for free. They could and did make minor modifications and offered some services or features that were unique to each. For example, Sony had added its well-known Walkman media player to its Android phones. But unlike Apple, these handset manufacturers relied on Google for OS updates and some other services. Google, on the other hand, relied on traffic through its embedded services with the OS to generate advertising revenue. The OS had also given Google a very strong foothold in the rapidly growing mobile computing industry, something that rivals such as Microsoft were struggling to do.

Google's Android was the most widely used OS in 2013 with almost four out of every five smartphones in the world operating on its ecosystem (up from 69 per cent in 2012) with Apple's iOS second with a 15 per cent share of the market.[14] This was incredible growth given that it was only in 2011 that Android replaced Apple's iOS as the dominant OS in smartphones and portable devices such as tablet computers. But this massive market share was distributed among all the manufacturers that used Android. Each company had managed to capture some of this share, although in recent years Samsung had emerged as the clear frontrunner.

One other major difference between the Android camp and Apple was their collection of products. While Apple had insisted on only one or two phones each year that were in the higher end of the price scale, most Android phone makers usually offered multiple phones with different specifications, screen size, features

[11] *Jim Edwards, "The Unthinkable is Happening: Apple's Dominance in Apps is Slipping Away to Android,"* Business Insider, *December 18, 2013, www.businessinsider.com/apple-android-market-share-asia-2013-12, accessed June 15, 2014.*
[12] *Dave Smith, "Apple's App Store Breaks Record, But Google Play Is Catching Up," Readwrite.com, January 8, 2014, http://readwrite.com/2014/01/08/app-store-sales-google-play-android, accessed June 15, 2014.*
[13] *Connie Guglielmo, "Tim Cook Says Apple Isn't Interested In 'Junk Part of Low-end Smartphone Market.'" Forbes.com, September 19, 2013, www.forbes.com/sites/connieguglielmo/2013/09/19/tim-cook-says-apple-isnt-interested-in-junk-part-of-low-end-smartphone-market/, accessed June 15, 2014.*
[14] *"Android and iOS Continue to Dominate the Worldwide Smartphone Market with Android Shipments Just Shy of 800 Million in 2013, According to IDC," IDC Press Release, February 12, 2014, www.idc.com/getdoc.jsp?containerId=prUS24676414, accessed June 15, 2014.*

and, more importantly, price levels. This allowed them to capture a wider segment of the population with cheaper phones for emerging markets and those consumers who were price sensitive, mid-range phones with acceptable features and relatively low prices and the flagship high-end phones with the latest features and technologies for tech-savvy and more affluent market segments. The phones usually differed in the processor generation and speed, memory level, screen size and resolution, build quality and battery life.

Google had also extended the applications for its Android system by offering a home entertainment device (Chromecast) for TVs that allowed them to access applications such as YouTube and Netflix through the use of an existing wi-fi network. The device basically allowed users to control content on their TVs with their smartphone, tablet or laptop.[15] The Android system, because of its open source nature, had the potential to be applied as a control mechanism for a variety of devices, from TVs to thermostats and other home appliances.

Blackberry (formerly known as RIM) was another important player in the smartphone industry. Like Apple, Blackberry had developed its own OS, which allowed it to offer a tailored product for business customers. It also operated its own app store titled Blackberry App World. The company, based in Waterloo, Ontario, Canada, became extremely popular in the late 2000s, and users were so addicted to the device and its functions that the term Crackberry was used to describe it. At the height of its popularity, Blackberry had approximately 42 per cent of the market share in the United States.[16] The same success was repeated in Canada, the United Kingdom, Australia and Western Europe, but Blackberries were also extremely popular in a number of emerging economies in Asia and Latin America. Users loved the phone's features (including the iconic keypad) and services such as BBM messaging, but businesses particularly turned to Blackberry for its enterprise services and the data security it offered.

Blackberry's market position in North America and in most other global markets changed dramatically after its peak in 2010. Due to growing competition and the emergence of other powerful rivals (Android in particular), Blackberry's market share suffered dramatically as it slipped to third place after iPhone and Android. Its global market share fell to 4.5 per cent in 2012 and further down to 2 per cent in 2013. It also started losing market share in some emerging markets where it had been doing extremely well only a few years ago. For example, its share of the Indonesian market fell from 43 per cent in 2011 to only 14 per cent in 2013.[17] The number of apps offered on Blackberry App World was significantly lower than both iOS and Android, and as apps became increasingly important for general users, more and more users migrated to rivals.

Faced with growing competition and investor pressure, Blackberry introduced a new operating system called BB10 (Blackberry 10) and a new set of phones including the flagship Z10 and Q10 in 2013. The company also tried to encourage app developers to release versions for its App World. On the hardware front, it released the lower priced Q5 for emerging markets. But even though the new OS and phones received overall good reviews, the company failed to attract customers, and its market share slipped to fourth place at the end of 2013 after Android, iOS and Windows Phone.

The fourth and final major ecosystem in the smartphone industry worked on a modified Microsoft Windows platform called Windows Phone. Microsoft launched the first version (Windows Phone 7) in late 2010 to replace its old Windows Mobile OS. Analysts believed that Microsoft was slower than most rivals

[15] *According to Google website play.google.com/store/devices/details?id=chromecast, accessed June 15, 2014.*
[16] *Jeff Clabaugh, "Blackberry U.S. Market Share Falls to 5.4%, Google's Android remains on Top,"* Washington Business Journal, *April 4, 2013, www.bizjournals.com/washington/news/2013/04/04/blackberry-us-market-share-falls-to.html, accessed June 15, 2014.*
[17] *Will Connors, "Blackberry Losing Traction in Developing Markets,"* The Wall Street Journal, *February 21, 2014.*

in responding to the smartphone growth explosion[18]. Although it did hold considerable market share at one point, that share diminished rapidly with the introduction of rival ecosystems in the late 2000s. Microsoft had lost valuable time as rivals were scrambling to gain market share in this highly dynamic industry.

In response to this new competitive landscape and the indisputable importance of the smartphone industry, Microsoft introduced a revamped OS (Windows 8) with compatible versions for PCs, tablets and smartphones. It also entered a close relationship with Nokia to introduce a new generation of Windows phones, a relationship that later led to the acquisition of Nokia by Microsoft in 2013. The move was also seen as a fresh start for Nokia, which was once the largest handset producer in the world but had lost ground to competitors. In 2012, the Finnish company attempted a re-energized entry into North America with its CEO at the time, Stephen Elop, promising to engage in fierce battle to re-enter the United States market starting with the introduction of the flagship Lumia 900 phone running on Windows.[19] While Nokia phones had received largely positive reviews,[20] Microsoft and Nokia held only around 3 per cent of the smartphone market share in the fourth quarter of 2013.[21] The shift to Microsoft's OS also meant that Nokia phased out phones running on its in-house Symbian OS.[22]

The Microsoft Windows platform also included an online app store, and while the number of apps grew, it was still far behind that of iOS and Android. The Windows Phone OS was available on Nokia phones and a limited number of phones from manufacturers such as Samsung and HTC.

Suppliers

Smartphones were made up of countless technological components that ranged from memory chips and processors to the screen and casing of the phone. Some of these components were widely available, especially when they became older technologies with low-tech components. Others, such as the microprocessor and display panel, were more high-tech and were available through only a limited number of suppliers. The majority of processors used in smartphones were based on the ARM architecture, which was known for its speed and, more importantly, power efficiency. In 2013, close to 90 per cent of smartphones and 30 per cent of mobile computing devices used ARM processors.[23] Qualcomm was by far the largest chip maker for this sector with 50 per cent market share in app processors and 86 per cent market share in LTE cell phone modems in 2013.[24] Other chip makers for the mobile sector included NVidia, Broadcom, Texas Instruments, MediaTek, STMicroelectronics, Samsung, Apple and Intel (different architecture).

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[18] *Andrew Cave, "Former Microsoft CEO Steve Ballmer's Biggest Regret," Forbes.com, March 4, 2014, www.forbes.com/sites/andrewcave/2014/03/04/former-microsoft-ceo-steve-ballmer-my-biggest-regret/, accessed June 15, 2014.*
[19] *Mark Millian, "Windows Phone Backers Declare Mobile War," Cnn.com, January 10, 2012, http://edition.cnn.com/2012/01/10/tech/mobile/nokia-windows-phone/, accessed June 15, 2014.*
[20] *Rosoff, op.cit.*
[21] *"Android and iOS Continue to Dominate the Worldwide Smartphone Market with Android Shipments Just Shy of 800 Million in 2013, According to IDC," IDC Press Release, February 12, 2014, www.idc.com/getdoc.jsp?containerId=prUS24676414, accessed June 15, 2014.*
[22] *O'Brien, op.cit.*
[23] *Darcy Travlos, "ARM Holdings and Qualcomm: The Winners in Mobile," Fobes.com, February 28, 2013, www.forbes.com/sites/darcytravlos/2013/02/28/arm-holdings-and-qualcomm-the-winners-in-mobile/, accessed June 15, 2014.*
[24] *Ibid*

Buyers

The need to communicate and stay connected was something that almost every single human being desired. This explained the explosive increase in the number of mobile and smartphone users around the world. Although demand was strong worldwide, the purchase mechanisms in each market were unique and relied on the social and economic environment of each country. In North America and parts of Europe, most consumers received their phones from their carriers (or their authorized dealers) when they signed up for a term wireless plan. Often, the price of the phone was incorporated in the monthly payments to the carriers for wireless services and was paid off by the end of their one-, two- or three-year contract. This subsidized approach was popular in these markets since it enabled consumers to buy more expensive phones with lower upfront costs since the price was incorporated into monthly payments. In some markets, the phones bought this way were usually locked to the respective carrier and would only work on that network unless unlocked at the end of the contract.

In the subsidized approach, wireless carriers usually bought the phones from the manufacturers in large quantities and sold them to customers in a handset and service bundle. Since there were a limited number of wireless carriers in each market, handset manufacturers often worked hard to get their phones available on networks. Each deal was unique, and companies usually negotiated on terms such as co-marketing, services and features available on the phone.[25] The story was different for more popular phones as the carriers wanted to include them in their portfolio to attract customers. Analysts believed that it was Apple that initiated the shift of power to handset makers by dictating the price and phone features to carriers.[26] While wireless carriers still carried exclusive phones, the more popular handsets were increasingly available on more than one (sometimes all) carriers. In these markets, some handset manufacturers also offered their phones at full price directly to consumers without a wireless plan, so they could use the phone on any network and with any plan. In addition to carriers and direct sales, companies also sold directly to corporate and government customers since they usually required large numbers of devices and even tailored services.

The story was different in other parts of the world including the very important emerging economies. Smartphone sales were growing rapidly in these markets including China and India. In fact, China surpassed the United States in 2012 to become the largest smartphone market.[27] But in most of these countries, the consumer had to pay full price for the phone since carrier-subsidized price schemes were not available. This, coupled with the general lower purchasing power in most of these markets, put pressure on handset manufacturers to lower prices. Depending on the country and the manufacturer, phones were sold through direct sales channels, authorized dealers or other distributors and retailers. This full-price model had created a unique dynamic in the industry, and most manufacturers responded with lower priced phones to capture market share. Some other manufacturers such as Huawei and ZTE that produced lower priced phones were doing great in markets such as China.[28] With the growth in emerging economies, the market for lower priced phones was expected to become more attractive and consequently more competitive.

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[25] *Jessica E. Vascellaro "Air War: A Fight Over What You Can Do On a Cell Phone; Handset Makers Push Free Features for Which Carriers Want to Charge," Wall Street Journal, June 14, 2007.*
[26] *Kevin Allison, Andrew Parker and Paul Taylor, "Winners and Losers as Apple Calls Shots on the iPhone," Financial Times, July 6, 2007.*
[27] *Eric Pfanner, "China Taps a Growing Phone Market," The New York Times, July 6, 2013.*
[28] *Chen, "Apple Is Set to Announce Two New iPhones," op.cit.*

Mergers and acquisitions

The mobile telecommunication industry had witnessed countless mergers and acquisitions in recent years. In this industry, technology and patents were extremely important, and access to cutting-edge technology was achieved quickly through the acquisition of another company or working closely with one. For example, Sony Corporation and Ericsson of Sweden had a joint venture from 2001 to 2012 that led to the introduction of many new phones under the Sony Ericsson brand with features and technologies from both companies (e.g., Walkman branded handsets and Cybershot camera phones).[29] Acquisitions happened on a regular basis, and technology giants such as Nokia, Apple and Samsung acquired smaller companies that had patents, products or technologies that fit in their arsenal. Patents were also extremely useful in the legal battles that became very common in this industry.

A number of high-profile acquisitions changed the competitive landscape of the smartphone industry. In 2011, Google officially announced that it had acquired Motorola Mobility Holdings, Inc. (Motorola) to mark its entrance into the handset manufacturing sector. The two companies hoped that the deal would help them innovate and offer better products to the consumer, but more importantly, it was an attempt to protect the Android OS in legal battles using Motorola's patent portfolio.[30] But in 2014, Google announced that it had sold the Motorola Mobility smartphone business to Chinese PC maker Lenovo. Motorola handsets failed to gain traction in the market, and the unit became a potential source of tension between Google and other Android device makers.[31] In a blog post, the co-founder and CEO of Google, Larry Page, pointed to the super competitive nature of the smartphone industry and indicated that Google wanted to focus all energy on the Android ecosystem.[32] Google also indicated that it was holding on to a large number of patents it had acquired from Motorola.[33]

A second high-profile event in the industry was the acquisition of Nokia's Device and Services business by software giant Microsoft. The move came after the two companies initially announced in 2011 that they would work together to introduce new phones based on Microsoft's new Windows OS.[34] But in 2013, Microsoft announced that it would substantially purchase Nokia's Device and Services division and license its patents for 5.44 billion Euros cash.[35] The move, which was labelled as Microsoft's last shot at a mobile future by some analysts,[36] was to bring expertise and technology from two companies together in order to increase Microsoft's market share in ecosystem battles.

Legal battles

The industry witnessed a large number of legal battles over technology, product features and design and licensing agreements. Almost every single major player in the industry was involved to some extent in

[29] *Sven Grundberg, "Sony Buys Ericsson Stake in Handset Joint Venture," The Wall Street Journal, October 28, 2011.*
[30] *"Facts About Google's Acquisition of Motorola," Google.com, www.google.com/press/motorola/, accessed June 15, 2014.*
[31] *Roger Cheng, "Google Sells Motorola Unit to Lenovo for $2.9B," Cnet.com, January 29, 2014, www.cnet.com/news/google-sells-motorola-unit-to-lenovo-for-2-9b/, accessed June 15, 2014.*
[32] *Larry Page, "Lenovo to Acquire Motorola Mobility," http://googleblog.blogspot.ca/2014/01/lenovo-to-acquire-motorola-mobility.html, accessed June 15, 2014.*
[33] *"Lenovo to Acquire Motorola Mobility from Google," company press release, January 20, 2014, https://investor.google.com/releases/2014/0129.html, accessed June 15, 2014.*
[34] *Rosoff, op.cit.*
[35] *"Microsoft to Acquire Nokia's Devices and Services Business, License Nokia's Patents and Mapping Services," company news release, September 3, 2013, www.microsoft.com/en-us/news/press/2013/sep13/09-02announcementpr.aspx, accessed June 15, 2014.*
[36] *Eric Reguly, "The Nokia Deal: Microsoft's Last Shot at a Mobile Future," The Globe and Mail, September 2, 2013, www.theglobeandmail.com/report-on-business/international-business/us-business/microsoft-buying-nokias-devices-and-services-business-in-72-billion-deal/article14078586/, accessed June 15, 2014.*

these patent wars. In one of the most significant rulings, a jury ruled against Samsung and awarded Apple $1 billion for patent violations. The amount was later reduced to around $600 million, and the case was still going through appeals process in May 2014.[37] In fact, Apple and Samsung were involved in patent wars in numerous countries around the world with each scoring victories depending on the country and case.

In another famous case, Apple and HTC ended years of legal battle by agreeing to enter licensing agreements to gain rights to some of each other's patents.[38] Because of these patent wars and the potential losses that came from rulings in the form of fines or injunctions, companies looked to gather a large patent repertoire. Acquisitions of other companies that possessed technology or licensing agreements were two avenues towards this goal.

TABLET COMPUTERS

Although the idea of tablet computing with the ability to interact with an LCD screen went back many years, Apple revived the concept with the introduction of its iPad product in 2010. This newer and more compact concept of tablet computing allowed users to have access to most of their daily computing needs in addition to online connectivity through wi-fi and mobile networks. Consumers had shown great interest in the concept, and the growth was phenomenal. IDC had forecasted that tablet shipments in 2013 would be 58 per cent higher than the year before, and for the first time, shipments would surpass those of traditional portable PCs.[39] It was estimated that the iPad alone took approximately 10 per cent of market share away from PCs in only the first two years of its release.[40] This significant shift in consumer preference fuelled the development of tablets by other competitors.

The tablet computer industry was closely tied to smartphones, and most of the major players were competing in both industries. All the software ecosystems were present with Apple's iOS, Blackberry OS, Microsoft Windows and Google Android fighting fiercely for market share. Another similarity between the two industries was the different approaches companies had towards software and hardware development with Apple and Blackberry offering their OS exclusively on their own devices while Windows and Android were available on devices from various manufacturers.

Apple's line of iPad products was extremely popular, and according to research by Gartner, it sold more than 70 million units worldwide in 2013. This compared to approximately 61 million a year before. But its main rival Android increased sales from 53 million to a staggering 121 million in 2013 to overtake iOS for the first time.[41] In the Android group, data from IDC confirmed Samsung as the most successful with close to 20 per cent of global tablet market share in the fourth quarter of 2013 behind Apple's approximately 34 per cent.[42] In addition to some of its Android competitors in the smartphone segment, Samsung also competed with traditional PC makers such as Asus, Acer, Lenovo and Dell who also produced tablets that ran on Android. There were numerous smaller tablet manufacturers who produced tablets on the Android ecosystem.

[37] *Nick Wingfield and Brian X. Chen, "Patent Case Has Potential to Give Apple Upper Hand," The New York Times, August 9, 2013.*
[38] *Ian Sherr, "Apple, HTC Settle Patent Dispute, Sign Licensing Pact," The Wall Street Journal, November 11, 2012.*
[39] *"IDC Forecasts Worldwide Tablet Shipments to Surpass Portable PC Shipments in 2013, Total PC Shipments in 2015," IDC press release, May 28, 2013, www.idc.com/getdoc.jsp?containerId=prUS24129713, accessed June 15, 2014.*
[40] *Rosoff, op.cit.*
[41] *"Gartner Says Worldwide Tablet Sales Grew 68 Percent in 2013, With Android Capturing 62 Percent of the Market," Gartner press release, March 3, 2014, www.gartner.com/newsroom/id/2674215, accessed June 15, 2014.*
[42] *"A Strong Holiday Quarter for the Worldwide Tablet Market, But Signs of Slower Growth Are Clear, According to IDC," IDC press release, January 29, 2014, www.idc.com/getdoc.jsp?containerId=prUS24650614, accessed June 15, 2014.*

Just like the smartphone revolution, Microsoft was very late entering the game[43] but had since introduced its own line of Surface tablets operating on Windows 8. Other manufacturers such as Dell also offered tablets that run on Microsoft Window's platform. According to IDC, Windows was forecasted to hold around 3.4 per cent of market share in 2013.[44] Blackberry also attempted an entry into the tablet space with its Playbook in 2011. However, the device could not compete with rivals, and the company did not keep up with the pace of the industry and did not develop new products. At one point, it took an almost half billion dollar loss due to unsold Playbooks.[45] In 2013, Blackberry's CEO at the time was quoted as saying that tablets were not a good business model and would be dead in five years.[46] Blackberry had not released a tablet on its new BB10 operating system.

Finally, Amazon had also entered this space with its line of Kindle Fire tablets. This was a leap from its original Kindle, which was marketed as an e-reader for books. The Kindle Fire had a full colour display and ran on a special version of Android, which was modified to include Amazon-specific features and services. One feature was Amazon's own app store instead of Google Play. Amazon had released a number of versions with high definition (HD) display and upgraded hardware. Its market share climbed above 7 per cent for the fourth quarter of 2013, according to data from IDC's worldwide tablet tracker.[47]

SAMSUNG

Samsung Electronics was part of the large South Korean Samsung Group of companies, which operated in heavy industries, chemicals, financial services and other sectors.[48] Samsung (meaning Three Stars in Korean) was founded in 1938 in Daegu, Korea as a trading company that sold Korean fish, vegetables and fruit to other parts of Asia.[49] It quickly expanded its scope to manufacturing, machinery and sales operations. In the next few decades, the company embarked on a massive diversified growth path to become an international conglomerate with many listed and unlisted subsidiaries and affiliate companies. In 2012, Samsung Group's total revenues were reported to be ₩302 trillion (approximately US$255 billion).[50]

Samsung's electronics business (Samsung Electronics, hereafter referred to as Samsung) was its publicly traded and highly diversified subsidiary, which operated in areas such as visual displays (including TVs), appliances, health and medical, mobile communications, LED, memory, etc. A full list of businesses is presented in Exhibit 1. Traded on the Seoul Stock Exchange, Samsung Electronics generated revenue close to US$180 billion in 2012, making it the world's largest technology company based on revenue.[51] From that amount, approximately US$100 billion was generated from its information technology (IT) and

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[43] *Jay Greene, "Late Windows 8 Tablets Botch Consumer Opportunity," Cnet.com, November 29, 2011, www.cnet.com/news/late-windows-8-tablets-botch-consumer-opportunity/, accessed June 15, 2014.*
[44] *"Worldwide Tablet Shipments Forecast to Slow to Single-Digit Growth Rates by 2017, According to IDC," IDC press release, December 3, 2013, www.idc.com/getdoc.jsp?containerId=prUS24461613, accessed June 15, 2014.*
[45] *Will Connors, "RIM Unveils New Playbook Software, Ramps Up Marketing," The Wall Street Journal Online, February 22, 2012, online.wsj.com/news/articles/SB10001424052970204909104577236852381216194, accessed June 15, 2014.*
[46] *Jay Yarow, "Blackberry CEO: Tablets Won't Be Around in Five Years," Business Insider, April 30, 2013, www.businessinsider.com/blackberry-ceo-tablets-wont-be-around-in-five-years-2013-4, accessed June 15, 2014.*
[47] *"A Strong Holiday Quarter for the Worldwide Tablet Market," op.cit.*
[48] *Company website, www.samsung.com/ca/aboutsamsung/samsung/affiliatedcompanies.html, accessed June 15, 2014.*
[49] *Company website, www.samsung.com/ca/aboutsamsung/samsung/history.html, accessed June 15, 2014.*
[50] *"Marking 300 Trillion Won in Revenue, 500 Trillion in Total Assets," Business Korea, September 23, 2013, www.businesskorea.co.kr/article/1505/samsung-group-marking-300-trillion-won-revenue-500-trillion-total-assets, accessed June 15, 2014.*
[51] *James Vincent, "Samsung Ranked as World's Largest Tech Company — Even Bigger than Apple," The Independent, July 9, 2013, www.independent.co.uk/life-style/gadgets-and-tech/samsung-ranked-as-worlds-largest-tech-company--even-bigger-than-apple-8697842.html, accessed June 15, 2014.*

Mobile Communications division, which included its mobile phone business.[52] Because of its massive revenues, the company had access to a lot of capital; as a result, large amounts of funds were directed toward research and development (R&D) and advertising. In 2012, it spent approximately 5.7 per cent of revenues, or $10.5 billion dollars, on R&D, which was a considerable amount by any standard in this industry.[53] Samsung had around 60,000 employees working in research centres in countries such as Russia, India, the United Kingdom, China and the United States (Silicon Valley).[54] It also had a marketing budget of $11.4 billion, which included advertisements, sales promotions and public relations.[55]

Compared to some of its rivals in the smartphone industry, Samsung was in a unique position. Due to its diversified nature, it produced many of the components needed for its smartphones and benefitted from related technologies in its multiple lines of business. In fact, Samsung supplied some of these components to rivals such as Apple. In microchips, it had moved beyond memory chips to the more complex processors and logic chips and also owned the foundries that produced them.[56] Samsung also manufactured high-tech display panels used in various electronic products including smartphones. Most other competitors usually relied on suppliers and manufacturers located mostly in Asia to supply a component or offer manufacturing capability to produce a component. Samsung did most of these in-house and was a rival to these manufacturers and suppliers.[57] In fact, the company had to spend a lot of money on advertising to shed the image that it was simply a manufacturer (approximately $3 billion in 2011).[58]

Samsung had a long history of producing mobile phones and had come a long way to become the world's leading mobile phone manufacturer. In 1999, Samsung mainly focused on the CDMA standard popular in the United States and Asia; with only 6.2 per cent of market share, it was in fourth place after Nokia, Motorola and Ericsson.[59] By the mid 2000s, Samsung was sitting comfortably in third place after Nokia and Motorola with its collection of phones at various price points. In 2007, Samsung finally overtook Motorola to claim the second spot after Nokia in mobile market share.[60] This was also the year Apple introduced its much anticipated iPhone and Blackberry was experiencing great growth and popularity worldwide. The shift towards smartphones and the emergence of new players marked a major shift in the competitive landscape of the industry. Samsung finally became the top mobile phone maker (including both smartphones and traditional handsets) in the first quarter of 2012 when it shipped more phones than its main rival, Nokia. This also meant an end to Nokia's 14-year reign as the world's biggest cell phone maker in terms of shipments.[61] The growing popularity of Android was an important factor in Samsung's rise to first place. According to data from Gartner, Samsung sold close to one-quarter (24.6 per cent) of all mobile phones worldwide in 2013. This was almost double the number sold by second place Nokia.[62]

In the smartphone segment (which outsold traditional phones for the first time in 2013), Samsung's main rival was Apple, and the fierce competition between them had manifested itself both in the actual devices

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[52] *Company Annual Report, 2012.*
[53] *Brian X. Chen, "Samsung vs. Apple: The Capital Spending Battlefield," The New York Times Blogs, February 11, 2013, http://bits.blogs.nytimes.com/2013/02/11/samsung-capex-advertising/, accessed June 15, 2014.*
[54] *Ibid.*
[55] *Ibid.*
[56] *Annie Huang, "Taiwan Tries to Shore Up Its Defenses Against Samsung," The International Herald Tribune, April 22, 2013.*
[57] *Ibid.*
[58] *"Samsung vs. Apple: The Capital Spending Battlefield," op.cit.*
[59] *Alan Cane, "Nokia Maintains Lead in Mobile Phone Market," The Financial Times, February 8, 2000.*
[60] *Paul Taylor, "Gloom over Motorola's Results," The Financial Times, July 19, 2007.*
[61] *Jun Yang and Mark Lee, "Samsung Ends Nokia's 14-year Run as Biggest Handset Maker," Bloomberg.com, April 27, 2012, www.bloomberg.com/news/2012-04-27/samsung-overtakes-nokia-as-world-s-biggest-phone-vendor.html, accessed June 15, 2014.*
[62] *"Gartner Says Annual Smartphone Sales Surpassed Sales of Feature Phones for the First Time in 2013," Gartner press release, February 13, 2014, www.gartner.com/newsroom/id/2665715, accessed June 15, 2014.*

and the court battles over patents. In 2013, Samsung sold the most smartphones with just over 31 per cent market share according to data from IDC. Apple was second with just over 15 per cent; Huawei, LG and Lenovo came next, but all had less than 5 per cent market share.[63] Samsung's product strategy was in contrast to its closest rival, Apple. Until 2013, each year Apple only released one new iPhone, which usually came with a new iOS introduced in the same year. In 2013, it broke tradition and released two new phones, the iPhone 5s and 5c. Although the 5c was a lower priced choice, it was still close to $600 without a carrier contract and fell in the high-end premium category.

Samsung and many other Android phone makers employed a different approach by releasing many phones at different price points. Samsung had the Galaxy S line and the Galaxy Note in the high-end premium segment. It usually introduced the Galaxy S phones in the first or second quarters of the year, well before Apple came out with its new phone. Its Galaxy Note phones, which had a significantly larger screen size of more than 5 inches (e.g., 5.7 inches for the Note 3), were usually released around the same time as the iPhone. The Galaxy Note 3 was released in September 2013 with the Galaxy S5 release date scheduled for April 2014. Samsung was known for adding the latest technology in its flagship phones with the S5 set to include features such as a 16 mega-pixel (mp) camera, water resistance, enhanced battery life, heart rate monitor, finger scanner, full HD display and more.[64] Samsung smartphones also worked with its newly released Galaxy Gear smartwatch that offered many of the functions of a smartphone on a device that resembled a wristwatch.

In addition to flagship phones, Samsung also offered smartphones in the low and mid-range price points for emerging markets or consumers who did not want all the features of a flagship phone. Devices such as Galaxy Gio, Galaxy Q, Galaxy Discover and Galaxy Ace fell in the low price range while smartphones such as the Galaxy S4 mini fell somewhere between the two price points. Samsung also had a large collection of tablet computers with screen sizes ranging from 7.0 inches to 10.1 inches in its Galaxy Tab series and even bigger on its Galaxy Pro tablets. The wide range of products at different price points allowed Samsung to capture market share worldwide with a phone for every budget.

Samsung and its main rival Apple also differed in their approach to manufacturing. While Apple had outsourced most of its manufacturing operations to vendors in Asia and other parts of the world, Samsung had remained a manufacturer. Because it had offered components and services to other technology giants including Apple, Samsung had gained a good understanding of the key success factors in the industry and what it took to design and manufacture a good product.[65] This knowledge and insight had been put to use in the development and marketing of new products.

RELATIONSHIP WITH GOOGLE

Samsung's relationship with Google was an interesting one. Many observers in the industry had been keeping an eye on the dynamics of this relationship, and while some had praised it as an example for complementary products adding value to each other, others had pointed to potential problems.[66] Smartphones produced by handset manufacturers like Samsung that use Google's Android OS are a revenue tool for Google. These phones had many of Google's services such as search, Gmail and YouTube pre-installed on them. The Android environment was designed in a way that the consumer was encouraged

[63] *"Worldwide Smartphone Shipments Top One Billion Units for the First Time, According to IDC," IDC press release, January 27, 2014, www.idc.com/getdoc.jsp?containerId=prUS24645514, accessed June 15, 2014.*
[64] *Company website, www.samsung.com/global/microsite/galaxys5/features.html, accessed June 15, 2014.*
[65] *Chen, "Samsung vs. Apple," op.cit.*
[66] *Amir Efrati, "Samsung Sparks Anxiety at Google," The Wall Street Journal Online, February 25, 2013, http://online.wsj.com/news/articles/SB10001424127887323699704578324220017879796, accessed June 15, 2014.*

to use more and more of Google's services such as email, cloud storage and maps. These all created traffic, which translated to potential revenue for Google through ad placement. So, in a sense, Samsung's success in the smartphone industry over non-Android rivals such as Apple and Blackberry was good news for Google too.

By 2013 Samsung was selling approximately 40 per cent of all smartphones and more than 25 per cent of the tablets that used the Android OS. Samsung's rise to become the major hardware manufacturer for this ecosystem created an interesting dynamic in the relationship between the two companies. Alongside the apparent benefits of this market share increase, there were reports of worry. In one instance, media sources quoted Google employees saying that the rise of Samsung's market share above the current levels could become a threat,[67] although most other comments had mentioned the excellent working relationship between the two companies.

Samsung also relied on Google to develop a new version of the OS to take advantage of its cutting-edge hardware. In the past, Samsung had been left to wait for a new OS even though it had released a newer version of its phone. This led to a rare statement by an Apple executive pointing to the fact that the Galaxy S4 had to work with an older OS, which many industry observers viewed as a weakness.[68] Apple on the other hand did not have this problem since it developed both the hardware and software for its phones. Google's acquisition of Motorola also highlighted threats posed by potential shifting of priorities. Despite reassurances from Google executives, the move could have potentially put Google in direct competition with all current handset manufacturers using the Android ecosystem. If Google decided to give preferential treatment to Motorola or another handset that it chose, it could potentially hurt all other rivals. But in 2014, all that ended when Google decided to sell Motorola to Chinese-owned Lenovo and shift focus back to Android. Although the problem had gone away for now, the whole episode illustrated the delicate balance of power between handset manufacturers and Google.

In theory, Samsung could have demanded a bigger share of the revenues generated form advertising through its devices. It did have a few tools in its arsenal to force Google to comply. First and most extreme would be to drop Android as its operating system and invest a considerable amount of capital to develop its own operating system. This would allow it to become more like Apple and control both the hardware and OS aspects of its products. It would no longer rely on another company for part of the package.

Given Samsung's market share and its growing fan base, this was a possibility. Its close association with the open source Tizen operating system had also fuelled rumours that it was seriously contemplating this option, although managers had emphasized the company's focus on Android and signaled that the two systems would coexist.[69] The major negative would be the financial cost and limits on managerial/technical time, attention and capability. Samsung had focused most of its attention on developing the most advanced technology for its phones and outperforming rivals. The added time and attention needed to develop an OS would no doubt put a strain on its capital and cognitive resources. Android's widespread popularity was also an important factor against such a move.

The second option was to follow Amazon's footsteps when it came out with its Kindle Fire tablet. The Kindle Fire tablet was an Android based device, but Amazon had decided to disable the Play Store feature so users did not have access to Google's app store. To replace it, Amazon decided to open its own store

[67] *Ibid.*
[68] *Connie Guglielmo, "Apple Marketing Chief Slams Android, Samsung's New Galaxy Smartphone," Forbes.com, March 13, 2013, www.forbes.com/sites/connieguglielmo/2013/03/13/apple-marketing-chief-slams-android-samsungs-new-galaxy-smartphone/, accessed June 15, 2014.*
[69] *Andrew Hoyle, "Android and Tizen Will Coexist, Samsung Insists," Cnet.com, November 18, 2013, www.cnet.com/news/android-and-tizen-will-coexist-samsung-insists/, accessed June 15, 2014.*

with a sizable collection of apps. Samsung might also see this as a viable model and through it control the features/services that will be available to its users. Although Samsung had a limited app store, it could decide to develop it more comprehensively and offer services that replaced Google's that were bundled with Android.

The third and final option was to change its operating system and adopt Microsoft or Blackberry OS as an alternative. Samsung already had one product with Microsoft Windows 8.1, and other handset manufacturers also had a very limited number of products on this ecosystem. But if Samsung was to shift its flagship devices from Android to Microsoft or Blackberry OS, it would cause a major shake-up in the industry. If this happened and others followed, Google would be losing a major revenue stream to a major rival (i.e., Microsoft), which could potentially eat into Google's share in the Internet search market. But this would not be an easy endeavour for Samsung. Android had gained a loyal fan base, and it would be naïve to think that these consumers would make the shift to another OS if Samsung decided to do so. Google had services such as maps and YouTube that were very popular and might not be available on other platforms. This would be another switching cost for consumers. Samsung was also getting Android for free — it might not get the same deal from other OS developers.

It seemed that success for Samsung had also revealed new challenges. It was now a major player in the global smartphone and tablet industry, and both rivals and collaborators were closely following its every move. Many were interested to see what the company would do next as it navigated through this extremely competitive landscape.

EXHIBIT 1: OVERVIEW OF SAMSUNG BUSINESSES

Consumer Electronics	IT and Mobile Communication	Device Solutions	Other Businesses
Visual Display Business	Mobile Communications Business	Memory Business	Energy Storage Systems
Digital Appliances Business	Network Business	System LSI Business	Li-ion Batteries
Printing Solutions Business	Digital Imaging Business	LED Business	Key Electronics Components
Health and Medical Equipment Business			Display (LCD, OLED)
			Electronic Materials
			Information and Communication Technologies Services

Source: Company Annual Report 2012 and company website, www.samsung.com/ca/aboutsamsung/samsung/affiliatedcompanies.html.

1. **What are the main opportunities and strengths in the smartphone industry in 2013 ?**

P: legal battles over patents; US vs China trade problems
E: increased investments; low end vs high end market
S: Increased use of smartphones
T: short product life cycle, variety of components

- **Bargaining power of suppliers**: **operating system** *(strong bargaining power, the relative concentration of the business area (3 players) of suppliers is determinant to the bargaining power because it's related to switching costs, to how high is to enter in the business area of the suppliers)*, **memory chips***(low bargaining power because are components that are easy to find, there are several producers)*, **microprocessors**, **screens** and **displays** *(strong bargaining power in the high end market and also because they are key to differentiation)*

- **Bargaining power of buyers: low** because you always have to remember the structural components: relative market concentration. There are potentially infinite buyers and the relative market concentration is still low both for the low end and the high end. The power of the buyers is higher if we refer to the B2B market because there are few buyers like the telecommunication providers

- **Threat of new entrance**: is **low** because of the **entry barriers**: great investments, established players in the market; **the switching costs** for consumers not for changing the phone itself, but for the operating system and its ecosystem

- **Threat of substitutes:** tablets, mobile pc which is low because the didn't gain much market share

- **Complementors:** is not really a competitive force, so it doesn't really drive the attractiveness of the business area, but it has to be taken into account when analyzing the industry structure. Some complementors are: **apps, extra devices (Apple TV, chromecasts etc)**

- **Industry rivalry:** very high, the players in the market have a relative high share, and it's probably higher in the low end, meanwhile average in the high end

2. **What are Samsung's strengths and weaknesses?**

It can be used the resource-based view or the porter value chain

We will use the first one which looks at the single company all by itself

We will divide Samsung's competencies and resources in tangible and intangible.

INTANGIBLE

- Brand
- Reputation
- Know - how
- Synergies (because Samsung started by selling fish, so it became bigger by exploiting the synergies between know how and tangible resources)
- Patents

STRENGHTS

TANGIBLE

TANGIBLE

- Production infrastructure
- Component quality
- Financial resources
- R&D

WEAKNESSES

- No competencies on software development
- No competencies in UX Design
- No signature product (because sells many products)
- No competencies on the distribution network
- Localization

3. **Formulate strategic alternatives for Samsung**

- Samsung could develope its own operating system
- Develop new product
- Develop own property services
- Develop own distribution network
- Continue business as currently

SM 21-22 AG Corporate Strategy

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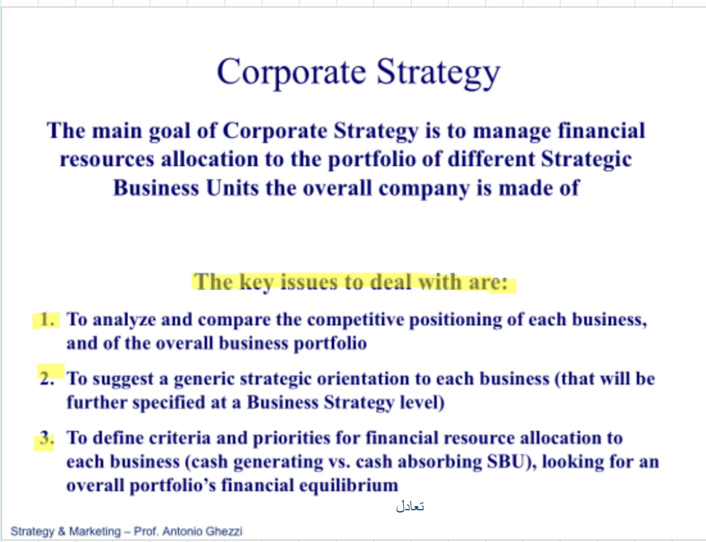
SM 21-22 AG Corpo...

not all the companies are corporate,for being a corporate you should have different BUs



A company can be made of different SBUs that operate in different markets. Corporate strategy aims at understanding how these SBUs may work together from a financial point of view, but mostly from an operational and a strategic point of view

Corporate Strategy deals with Diversification strategy, so basically with the scope of the company.

The scope of the company can be related to the product, so we have "**product scope**" (products and services that the company is dealing with) or "**geographical scope**" in which corporate strategy deals with strategic decisions related to the location of the different strategic business units; and finally there could be also some "**related scope**" which is similar to product scope, but also deals with vertical integration

When we talk about diversification strategy we are talking about the way the company is approaching the market that it operates in and therefore the way that it diversifies it with the different SBUs that it possess

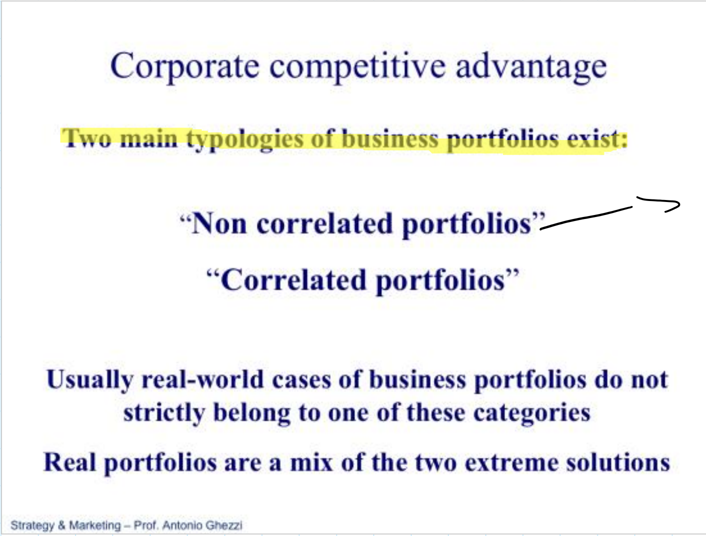
Diversification is opposite to licencing a brand, that means that the company owns the different SBUs that operate in the different markets

This is why it's a **choice of hierarchy** because the SBUs are integrated within the company's boundaries and therefore they are part of the hierarchy of the company, because they're not external

We're talking about diversification strategy when 2 conditions are present:

1. **Scope economies:** having more products, even if they are different, provides cost benefits to the company, so it lowers the unit cost

2. **Transaction costs**: whenever the company has an interaction with the market there is a cost involved. For example the cost that the company has to bear to make an agreement with the market like supply agreement or purchasing a given product from the market. If the transaction costs are high, the company should pursue a diversification strategy



Businesses within the portfolio are not related to one another
Instead a correlated portfolio includes products that are similar to one another

ADVANTAGES:

- **Risk diversification**: The biggest advantag because if the company has a correlated portfolio means that the SBUs are more or less operating in the same market so the trends that are related to that market will affect all the SBUs. For example the tourism market has been affected by COVID, so all the companies operating in that market have been affected by it. Having a non correlated porfolio helps to lower the risk that would occur by operating in just one industry

- **Bank effect:** When a SBU is particularly profitable then it can supply the financial resources for the other strategic business units that need support

- **Better use of top human resources**: When the company hires skilled people, the company has the possibility to move that resources across different countries, markets, products, organizational functions and to place them where and when they are most needed

- **Sharing of infrastructural activities:** human resources, services and so on can be shared across different business units

DISADVANTAGES:

- **Very complex organization**

- **Cultural heterogeneity**

- **Few synergies** between different SBUs that can be exploited

Corporate competitive advantage - continue

Correlated portfolios

ADVANTAGES

- **Sharing of resources (economies of scale, of scope, critical mass, …)**
- **Sharing of competences**
- **Similar markets**

DISADVANTAGES

- **High risk**
- **High managerial complexity**

the managers of a specific business unit can just see the very close area

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ADVANTAGES:

Producing very similar products and services, probably the company has activities that can be shared by all SBUs and at the same time the people that are working within each SBU have the same competencies or are very close so they can be moved from one SBU to another one so the company has very strong synergies that can be exploited

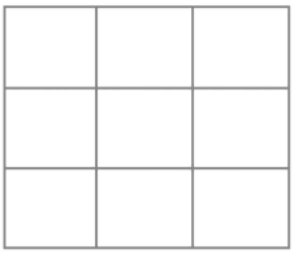
DISADVANTAGES:

- **High risk** because every SBU is related to the trends of the same market within they operate
- **High managerial complexity** because the SBUs may be positioned at different steps of the value chain so the company still works in different domains and they have to deal with different raw materials, distribution of products and so on

Matrixes for portfolio analysis

BUSINESS AREA ATTRACTIVENESS

annual growth of the industry



COMPETITIVE POSITIONING OF THE SBU

the proxy here is the market share → sometimes its like:your market share/market leaders share

Basic idea: to represent a diversified company's BA in a simple graphical model to support Corporate Strategy definition

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The portfolio analysis is used to understand if the company's portfolio is properly balanced so basically we represent within the matrix all of the businesses of the company to see how they are related to one another and wether if the can support one another

Matrixes for portfolio analysis

Key assumption

Long-term profitability of a SBU depends on:

1. **Business Area attractiveness**
2. **SBU competitive positioning in the Business Area**

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Matrixes for portfolio analysis

Main objectives

- **To analyse the competitive advantage coming from the managing of a SBU's portfolio**
- **To support the choice of a business portfolio (Corporate Strategy definition)**
- **To provide some guidelines to SBUs for the definition of their own strategy**
- **To analyse the strategies of competitors**

Boston Consulting Group (BCG) Matrix

- **The growth-share matrix - developed by The Boston Consulting Group in 1968 - describes products in terms of just two factors: market growth rate and relative market share.**
- **Positions in the product portfolio chart typically correspond to a business's cash flow characteristics. Generally, participation in a high-growth market requires cash, and high relative market share generates cash.**

Boston Consulting Group (BCG) Matrix

Main objectives

- **To verify the "bank effect"**
- **To shape a business portfolio that is well balanced from a financial point of view**
- **To define a "virtuous circle" strategy**
- **To analyse the strategies of competitors**

- **Bank effect:** When a SBU that is particularly profitable can provide financial resources for another SBU that need to be financed maybe because it's a new one or it has a high potential and so on

- **Virtuous circle:** if the company understands its portfolio, it can have a better idea of wether the SBUs work well together or maby there is somthing that is better to divest from

Boston Consulting Group (BCG) Matrix

It's requested at the exam

Basic assumption

1. **Business Area attractiveness can be measured through "Market growth rate":**
   - **Price wars are less likely**
   - **Customer base expands, and offer can catch up with demand**
2. **SBU competitive positioning can be measured through "Relative market share":**
   - **SBU can benefit from cost advantages depending on size (for instance, economies of scale and experience, production capacity saturation, etc.)**

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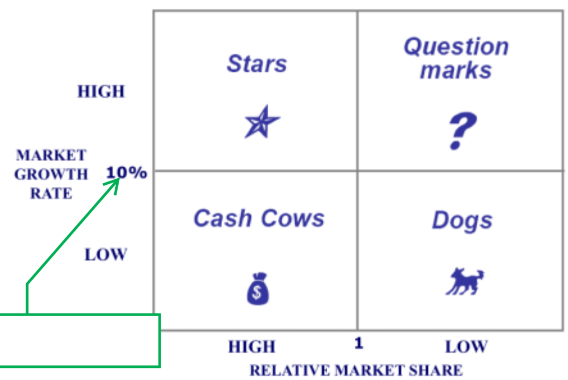
Relative market share: market share of the given SBU compared to the biggest competitor that the given SBU has. If the SBU is the market leader than the relative market share > 1. If it's < 1 **the SBU is follower in the market**

The BCG matrix also helps to understand the competitors positioning

Boston Consulting Group (BCG) Matrix



now its less

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The threshold on the x axis is 1 so if the SBU is a leader or follower.

The relative market share should be calculated differntly according to the market that the SBU is operating in. If the market is very concentrated, so there is a leader that is easily identifiable, we should compare the SBU to the leader, otherwise if the market is not concentrated so there are many competitors with similar market share, then the SBU market share should be compared to the sum of the competitors market share

he threshold on the y axis is 10 but it is a choice made in the 60s, today the threshold could change but it's difficult to compute

Boston Consulting Group (BCG) Matrix

- Stars are high-growth, high-share products which may or may not be self-sufficient in cash flow.
- Cash Cows are products with high market share and slow growth, which characteristically generate large amounts of cash.
- Question Marks are products with high growth but low share. They require large amounts of cash to mantain market share, and still larger amounts to gain share.
- Dogs are product with low market share and slow growth, which neither generate nor require significant amounts of cash. Mantaining share usually requires the reinvestment of any profits as well as additional capital. These products are often called «cash traps».

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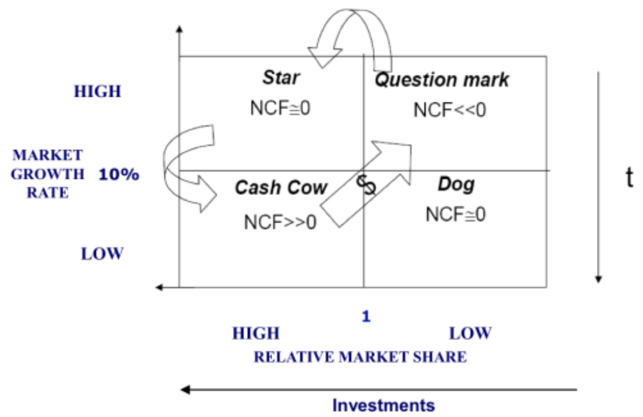
- **Cash cows:** are stable and mature and eventually that market will close
  its something that is still important for the customers,but its not innovative anymore
- **Stars:** SBU leader in a high-growth market so it provides high revenues but also need high investments to keep up with the growth of the market. Stars are not permanent because the will eventually become cash cows
  at the beginning phase
- **Question Marks:** Maybe it's an SBU that just have entered in the market (like start ups) because it's positioned in a high-growth market but has a relatively low market share. Question marks are **cash absorbing** so they require high investments, but they do not provide any revenues to the company. But if they will assume a relevant market share, than they can become stars and eventually cash cows, but they could also not gain any leadership position in the market they will eventually become dogs
- **Dogs** are SBUs that the company needs to divest from, but maybe the dog SBU provides very strong operational synergies, strong competencies, relevant resources. In this case maybe the company shouldn't divest. Cash cows eventually may become dogs because the sbu is not a leader in the market anymore

sbu is not a leader in the market anymore

Boston Consulting Group (BCG) Matrix



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How to see if the portfolio is balanced from a cash flow perspective

- **Cash cows:** are the only SBUs with a positive cash flow because they provide high revenues to the company, but since the industry is not growing anymore, they do not need any further investments, so the positie cash flow can be used to invest in question marks because they are very cash consuming that operates in high growth markets and the objective is to make them a star.

- **Stars:** is good to not have to many stars in the portfolio because their NCF is equal to 0

BCG Matrix: recommended strategies

- **Stars:** Hold or Build Share ?
- **Cash Cows:** «Milk» for cash
- **Question Marks:** Build Share or Divest
- **Dogs:** Harvest or Divest

simetimes its for the necessity of the geographical presense,
brand shops in the center of milan

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BCG Matrix: the balanced portfolio

All products eventually become either cash-cows or dogs. The value of a product is completely dependent upon obtaining a leading share of its market before the growth slows.

The balanced portfolio has:

-**stars** whose high shares and high growth assure the future;

-**cash-cows** that supply funds for that future growth;

-**question marks** to be converted into stars.

Dogs need dedicated strategies.

Bruce Henderson, BCG Founder, 1970

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Here is the strategic analysis of Google products: 👇

- *Stars – YouTube* : YouTube is also a flagship product. Did you know that over 500 hours of content is uploaded to YouTube every minute? Growth and expansion is touching the sky for this one.
- *Cash cows – "Google searh & Ads "* : And as far as the Google search engine is concerned, about 70% of the world's population uses it. Thus, making it dominant in the relative market share. Available on both desktop computers and mobile devices, it is the browser of choice for many people: on all platforms.
- *Question marks* – "Drive & Docs" : Google Drive and Docs are one example. The demand for data storage and protection has increased the market for cloud storage. Google Drive and Docs have potential and high market growth, but face less money back due to high market share of their **competitor**.
- *Dogs* – "Google Play" : This product was not a total failure, in terms of ideas. Google Video was launched in late January 2005 and 22 months later Google bought YouTube for $1.65 billion. And now you find all the videos on YouTube, hence the failure of Google Play video player to generate revenue.

GE-McKinsey Matrix

- The GE/McKinsey matrix was developed in 1971 by McKinsey at the request of GE. It uses two dimensions - **market segment attractiveness and business strength** - each of which is built up from a large number of variables.
- Systematically weighting those variables, each business (or product) is classified into one of nine cells in a 3 x 3 matrix.
- Like the BCG matrix, this approach aims to compare investment opportunities. The difference is that multiple measures are used to assess market attractiveness and competitive position.

The assumption is that the BCG matrix is too simplistic, so the2 components that enable the analysis of the portfolio of the company are more complex than they seem and therefore they should be evaluated through a combination of different factors

GE-McKinsey Matrix

Main objectives

- **To allocate resources correctly**
- **To choose the businesses to invest in, to maintain and to divest**
- **To analyse the strategies of competitors**

GE-McKinsey Matrix - continue

BUSINESS AREA ATTRACTIVENESS			
	I	I	C
	I	C	D
	C	D	D
	COMPETITIVE POSITION		

Multi attribute methods

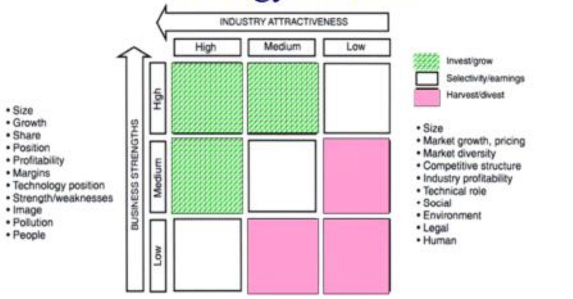
LEGEND

I = TO INVEST IN ORDER TO INCREASE THE MARKET SHARE

C = TO CONSERVE, BALANCING FINANCIAL SOURCES AND INVESTMENTS

D = TO DISINVEST IN ORDER TO ACHIVE CASH

GE-McKinsey Matrix: the nine-cells strategy scheme



Source: McKinsey & Co.

you should do all the internal and external and then fill this matrix

Industry attractiveness

	Weighting factor	Rating (1-10)	Score
• Market size	% x	=	
• Growth rate	% x	=	
• Profit margin potentials	% x	=	
• Competitive intensity	% x	=	
• Cyclical or seasonal sales	% x	=	
• Position on learning curve	% x	=	
			100%

How the axis are computed

The analyst who perform the analysis has to give a weight to each factor in order to understand how heavy they can influence the industry attractiveness

This analysis is subjective

Business Strenghts

	Weighting factor	Rating (1-10)	Score
• Relative market share	% x	=	
• Price competitiveness	% x	=	
• Product or service quality perception	% x	=	
• Marketer's knowledge of customers and the market	% x	=	
• Sales effectiveness	% x	=	
• Geography coverage	% x	=	
	100%		

For the business Strenght it's the same, so the analyst should understand the weight of each factor and then rating it

The previous computations end up in a 3x3 matrix that has 9 categories that represent in which SBU the company should invest

GE-McKinsey Matrix: recommended strategies

Market segment attractiveness

Business strengths	High	Medium	Low
High	1 Premium invest/ Grow	2 Selective invest/ Grow	4 Protective selectivity/ Earnings
Medium	3 Challenge invest/ Grow	5 Prime selectivity/ Earnings	7 Restructure harvest/ Divest
Low	6 Opportunistic selectivity/ Earnings	8 Opportunistic harvest/ Divest	9 Harvest/ Divest

Source: D. W. Craven, Strategic Marketing, 1991

Desirable: Invest/Grow strategy
In between: Selective strategy
Undesirable: Harvest/Divest strategy

GE-McKinsey Matrix: recommended strategies

1. **Premium Invest / Grow**. These businesses are a target for investment, they have strong business strengths, are in attractive markets and they should therefore have high returns on investment and competitive advantage. They should receive financial and managerial support to maintain their strong position and to continue contributing to long-term profitability. stars
2. **Selective Invest / Grow**. Businesses in this box have good business strength in an industry that is losing its attractiveness. They should be supported if necessary but they may be self-supporting in cash flow terms. question marks that become stars
3. **Challenge Invest / Grow**. Businesses here are in very attractive industries but have average business strength. They should be invested in to improve their long-term competitive position.

GE-McKinsey Matrix: recommended strategies

4. **Protective Selectivity / Earnings**. Strong businesses in unattractive markets should be net cash generators and could provide funds for use throughout the rest of the portfolio. Investment should be aimed at keeping these businesses in a dominant position of strength but over-investment can be disastrous especially in a mature market.
5. **Prime Selectivity / Earnings**. Businesses with average business strengths and in average industries can improve their positions by creative segmentation to create profitable segments and by selective investment to support the segmentation strategy. The business needs to create superior returns by concentrating on building segment to differentiate themselves.
6. **Opportunistic Selectivity / Earnings**. These businesses are in very attractive markets but their business strength is weak. Investment must be aimed at improving the business strengths. These businesses will probably have to be funded by other businesses in the group as they are not self-funding. Only businesses that can improve their strengths should be retained if not they should be divested.

GE-McKinsey Matrix: recommended strategies

7. **Restructured Harvest / Divest**. They have average business strengths in an unattractive market and the strategy should be to harvest the business in a controlled way to prevent a defeat or the business could be used to upset a competitor.
8. **Opportunistic Harvest / Divest**. Businesses with weak business strengths in moderately attractive industries are candidates for a controlled exit or divestment. Attempts to gain market share by increasing business strengths could prove to be very expensive and must be done with caution
9. **Harvest / Divest**. These businesses have neither strengths nor an attractive industry and should be exited. Investments made should only be done to fund the exit.

SM 21-22 SS Mergers Acquisitions

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SM 21-22 SS Merge...

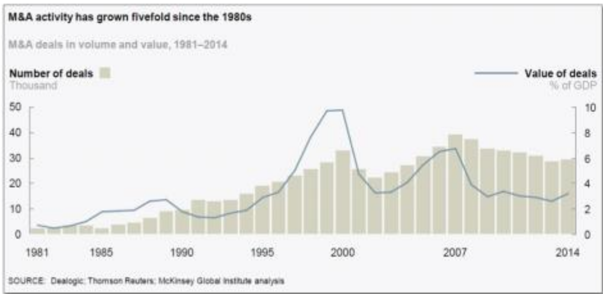
What can established companies do to prevent changes in needs or to develop their own question marks ?

They have 2 options:

1. **Grow organically**: leverage the resources and competencies that they have already (resources and competencies based view) in order to launch new products or enter in a new geographical market

2. **External growth** which is easier, faster and not as risky as developing internally. It's performed by acquiring an outside company (totally or partially) in order to attack a specific business area with a new SBU

M&A: examples

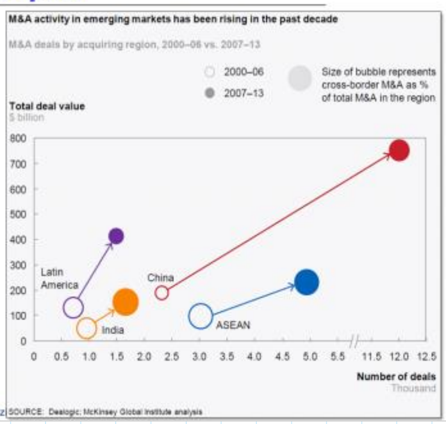


Merger is 2 companies with more or less the same size that **join forces together**, meanwhile acquisition is the acquisition of a given amount of shares of a target company

Through the years M&A has grown because it's easier than developing internally

M&A: examples

- Emerging-market companies have been significant players in this trend:



There also emerging economies like china that started to grow not only organically, but also by acquiring externally different companies like start-ups or even established corporations that can enrich their portfolio businesses for diversification purposes

M&A: examples

Having grown to significant size at home, Chinese, Indian, and other emerging-market companies are now using M&A strategies to expand their global presence. India's Sun Pharmaceutical, for example, has made a stream of acquisitions since the 1990s to become one of the world's largest generic drug companies. The Tata Group, based in Mumbai, encompasses 19 companies with more than 50,000 workers in the United Kingdom alone, making it one of the country's largest private-sector employers. Brazil's JBS has become the world's biggest meat producer through a series of acquisitions, including the purchase of US-based Swift & Company and Pilgrim's Pride. Chinese firms, in particular, have embarked on a wave of global acquisitions. In 2013, Chinese firms completed 198 overseas deals worth $59 billion, accounting for one-third of their total acquisitions that year. Over the past four years, Chinese firms' share of global deal value has exceeded their share of global revenue by almost 30 percent, an indicator of their aggressive expansion. Consider just a few of the headline deals in recent years: Zhejiang Geely Holding Group Co. acquired Swedish automaker Volvo; Shuanghui International now owns US-based Smithfield Foods, the world's largest pork producer and processor; China National Offshore Oil Corporation bought Canadian oil and gas producer Nexen; and Lenovo recently bought Motorola Mobility.

Source: MGI Global Competition, Full Report, 2015

Types of M&A Transactions

STRATEGY	*ACTION*	*CONSIDER PURSUING IF*
ACQUISITION	ACQUIRE A CONTROLLING STAKE IN A COMPANY (TARGET)	* THE OPPORTUNITY IS NOT GOING TO LAST * THE TARGET IS UNDERVALUED * IT WILL EASE ENTRY TO A NEW MARKET * SKILLS AND COMPETENCIES ARE COMPLEMENTARY * THE TARGET FITS AND ENHANCES THE COMPANY'S PORTFOLIO
JOINT VENTURE	JOIN FORCES WITH ANOTHER COMPANY	* IT WILL EASE ENTRY TO A NEW MARKET * SKILLS AND COMPETENCIES ARE COMPLEMENTARY * YOU ARE NOT READY TO COMMIT TO A FULL BLOWN ACQUISITION * ADDITIONAL RESOURCES ARE NEEDED FOR A

ACQUISITION

Given an acquiring company and a target company, the acquiring company acquires the target company if it acquires at least 51% of its shares. In this way the acquiring company has governance rights on the target company

Why a company should acquire another one ?

JOINT VENTURE	JOIN FORCES WITH ANOTHER COMPANY	* IT WILL EASE ENTRY TO A NEW MARKET * SKILLS AND COMPETENCIES ARE COMPLEMENTARY * YOU ARE NOT READY TO COMMIT TO A FULL BLOWN ACQUISITION * ADDITIONAL RESOURCES ARE NEEDED FOR A COMPELLING PROJECT
DIVESTITURE	SELL A WHOLE BUSINESS UNIT	* THE UNIT NEEDS MORE RESOURCES OR CAPITAL THAN YOU CAN PROVIDE

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- **The opportunity is not going to last very long:** Maybe there are several competitors within the same business area that are interested in the given company and the company can miss the time window in which is possible to carry out the acquisition

- **The target is undervalued:** if the company understands very quickly that there is a promising player in the market, their current value is lower than their future value, so it's fundamental to invest as soon as possible

- **It will ease the entry in a new market:** this is the **biggest** reason why companies perform acquisitions. For example Campari acquired Tanico, en e-commerce that sells wine, to develop an e-commerce and distribution network by using Tanico's competencies which are very hard for campari to develop

- **Skills and competencies are complementary**: Even if companies are in the same market, maybe the target company has competencies and resources that the acquiring company hasn't

- **The target fits and enhance the company's portfolio** that can be evaluated by using the BCG matrix

JOINT VENTURE

Companies with more or less the same size join forces together. The **strategic objective** of the joint venture is the same as the acquisition one.

Why should 2 companies, maybe that are competitors in the same market join forces together ?

- **It's easy to enter in a new market** by leading to an increase of the company market share and be stronger against competitors or to attack a new geographical market or product market

- **Skills and competencies are complementary** so the joint venture can be done when a company needs the skills of another company

- **The single company is not ready for a full acquisition** because of financial resources or because of some problems of the acquisition like integrating cultures of different companies, so a joint venture can help in this case so the single company can try and experiment collaboration

- **Additional resources are needed for a compelling project** maybe the company wants to pursue a new project that is temporary and so the acquisition is too big of a deal

DIVESTITURE

Companies can also sell their strategic business unit. If a company has a SBU that is a dog and it has not any operational syniergies with the other SBUs, then maybe the company is interested in divesting from it, so selling it. It's not necessary a negative event because maybe the company can sell the SBU for a good price

Advantages of Acquisitions

Once a company has decided to change corporate scope, acquisitions have at least three advantages compared with internal development:

1. They are faster to accomplish than internal development, because the company acquired is typically "up and running".
2. Compared with internal development, more information is available to the prospective acquirer to evaluate the move.
3. A certain percentage of internally developed new businesses fail. By acquiring a going concern, the acquirer does not need to pay for any of the failures along the way.

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It's not only faster, but even less riskier, while developing internally, the company has to invest a lot of resources and the company eventually doesn't even know if the market in which they will operate or the technology that they will develop will be successful because they do not have any information. The company would work in an uncertain environment so by acquiring a new company it can use the available information of the acquired company

Acquiring a company it's a Plug and play solution, so the acquiring company doesn't have to pay for failures when developing a new product or new projects because the acquired company has already validated the product/service so if there is the interest in paying for, lack of information and so on

Approaching the Deal

Corporate managers can approach acquisition transactions either as buyers or sellers, and in each case they face a number of alternative choices:

If they are on the **buying side**: they can go for a friendly or for a hostile deal: they can offer to pay the consideration in cash, or in shares (or a combination of the two); they can seek total ownership (100% of the shares) or simple majority.

If they are on the **sale side**: they can run an auction or pursue a specific buyer; they can sell all the shares or remain as minority shareholders; they can sell to the SBU's management, usually backed up by a financial investor; they can distribute the shares in the SBU to the shareholders ("spin off")

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Friendly take-over is to make a deal with the management of the target company so to make an agreement on how much to pay and then acquire the shares with a normal transaction.

Hostile take-over: usually acquisitions are made when there is an agreement between companies. **When there isn't an agreement the acquisition can be made by acquiring the shares of the company available on the market that are not owned by the target company, so the acquisition is made by acquiring progressively shares of the current company until the acquiring company owns the majority of the target company's shares.** This kind of acquisition is made when a company wants to acquire a competitor

From the **sale side**, the shares of the company can be sold by performing an auction in order to sell them to the highest-biding of the market. **Being on the sale side is also a strategic decision because, by being bought by other players, the company can get access to resources and competencies that can be interesting for it.** So the company sell itself for synergies or conveniences

Four Critical Decisions

There are four critical decisions that make or break a deal:

1. How should you pick your targets?
2. Which deals should you close?
3. Where do you really need to integrate?
4. What should you do when the deal goes off track?

D. Harding & S. Rovit, **Mastering the Merger**, Harvard Business School Press, September 2004

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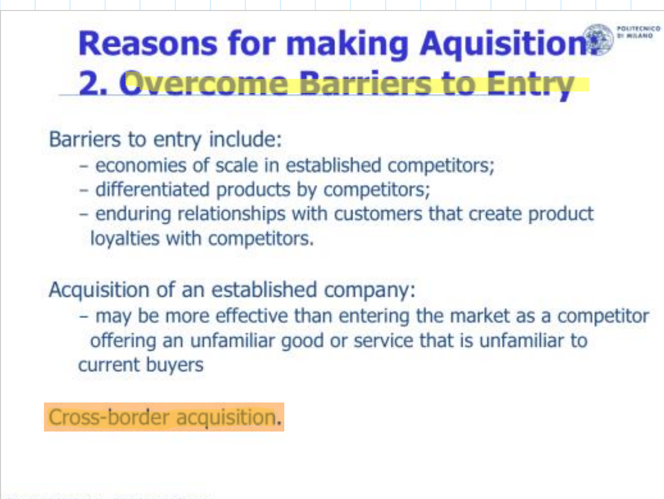
1. Most critical decision because of the decisions on correlated or non-correlated portfolios or the decisions about vertical or horizontal integration
2. The company maybe at the beginning starts with several deals because each deal has its financial and strategic pros and cons but in the end the acquiring company has to decide probably just for one deal
3. Decisions about in which point of the value chain the company should integrate
4. It's something that the company has to think in advance in order to prevent the possible problems that could arise

Requested at the exam

Factors increasing market power:

When a company performs an acquisition in order to sell products or services to a wider amount of market, to increase its competitiveness within the firm, to include some activities that it didn't include before and so it increase its resources and capabilities to compete

- **Horizontal acquisition**: acquisition of a target company that produces other products than the acquiring company.
- **Vertical acquisition:** the target company is related to the acquiring company operation system, like a supplier
- **Related acquisitions:** acquisitions that are strictly related to the business. For example if the acquiring company wants to include a direct competitor within its boundaries



By acquiring a company it could be easier to overcome the entry barriers in a given market

Acquisition can be made to:

- Achieve economies of scale in a given industry
- Differentiate products
- Acquiring an external company could lead to access to relationships that couldn't be possible to build for the company alone

These barriers are easy to overcome if the **company acquires a company that has already been operating for some time**. Start ups hardly have economies of scale and established links with customers in the market so they are not a good investment for overcoming the entry barriers, unless the **entry barriers are related to knowledge**

Cross-border acquisition in order to penetrate in a different geographical area

Reasons for making Aquisition:
3. Cost of New Product Development

Significant investments of a firm's resources are required to:
- develop new products internally;
- introduce new products into the marketplace.

Acquisition of a competitor may result in:
- lower risk compared to developing new products
- increased diversification;
- reshaping the firm's competitive scope;
- learning and developing new capabilities;
- faster market entry;
- rapid access to new capabilities.

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Reasons for making Aquisition:
4. Lower Risk Compared to Developing New Products

An acquisition's outcomes can be estimated more easily and accurately compared to the outcomes of an internal product development process.
Therefore managers may view acquisitions as lowering risk.

So it's not only about the risk but also about the monetary cost: the cost of acquiring a company is known, while the cost of developing internally a new product is not actually possible to estimate before going through the development process

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Reasons for making Aquisition:
5. Increased Diversification

It may be easier to develop and introduce new products in markets currently served by the firm.
It may be difficult to develop new products for markets in which a firm lacks experience:

- It is uncommon for a firm to develop new products internally to diversify its product lines;
- Acquisitions are the quickest and easiest way to diversify a firm and change its portfolio of businesses.

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Reasons for Making Acquisitions:
6. Reshaping the Firms' Competitive Scope

Firms may use acquisitions to reduce their dependence on one or more products or markets.
Reducing a company's dependence on specific markets alters the firm's competitive scope.
Once a company has decided to change corporate scope, acquisitions have at least two advantages compared with internal development:

1. They are faster to accomplish than internal development, because the company acquired is typically "up and running".
2. Compared with internal development, more information is available to the prospective Acquirer to evaluate the move.

Reasons for Making Acquisitions:
7. Learning and Developing New Capabilities

Acquisitions may gain capabilities that the firm does not possess.
Acquisitions may be used to:

- Acquire a special technological capability;
- Broaden a firm's knowledge base;
- Reduce inertia.

Important for start ups and venture capital markets

Also called **acqui-hiring** because the main reason why companies acquire other companies is to get their people that can be more dynamic, they know better the market in which they operate and so on

Reduce inertia because maybe the people that work in the acquired company, which is maybe a start up, are more inclined to innovation, work with new technologies and therefore can increase the acquiring company the potentially innovativeness of the company

Value Creation in Aquisition

Companies engage in M&A activity with the objective of creating value for their shareholders.

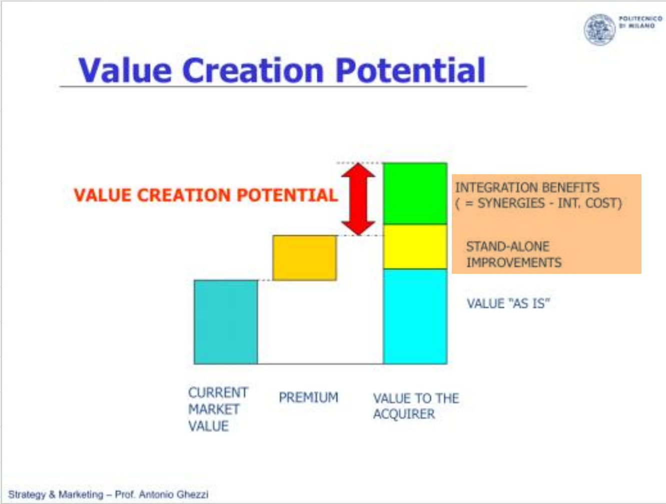
خوداتکا

The value can be generated through **stand-alone improvements** and **synergies**.

However the majority of acquisitions fail to create value, and many of them destroy shareholder value.

The main reason why firms perform acquisitions is to create more value for their shareholders **so create an extra profit from the cost of the acquisition and the potential revenue generated from the acquisition**

In order to do so the company has to evaluate what is the value created by the acquisition



How do you assess the value created by an acquisition ?

The **current market value** is the value of the target company within the market. Eventually there will be a **premium**, that is, what the target company is asking as a selling price, which is a little bit more than the current market value. Market value + premium is the amount of value that the acquiring company has to employ for the acquisition of the target company.

The acquired firm to the acquire has a little bit more value as it is than its value on the market.

Stand alone improvements are improvements given by just adding the acquired company to the portfolio. Then if the company is **integrated** it can increase the value by exploiting synergies

Value creation potential is done more or less by playing with the integration benefits wich can also be negative.

The company has to identify and exploit the synergies

Main Types of Synergies (1/2)

Cost Saving: this is the most common type of synergy and the easiest to estimate, and they are also labelled as ***"hard synergies"***. They often come from eliminating jobs, facilities, and related expenses that are no longer needed when functions are consolidated, or they come from economies of scale in purchasing.
Revenue Enhancements: it is sometimes possible for an Acquirer and its Target to achieve a higher level of sales growth together than either company could do on its own. In fact, sometimes the Target brings a superior or complementary product to the more extensive distribution channel of the Acquirer. In other instances, a Target's distribution channel can be used to escalate the sales of the Acquirer's product. Revenue enhancements are notoriously hard to estimate and they are often described as ***"soft synergies"***.

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Hard synergies are synergies that are related to costs and can be estimated easily

Main Types of Synergies (2/2)

Process Improvements: they occur when managers transfer best practices and core competencies from one company to the other. That results in both cost savings and revenue enhancements. The transfer of best practices can flow in either direction.

Financial Engineering: an example is when a transaction allows the Acquirer to refinance the Target's debt at the Acquirer's more favourable borrowing rate, without negatively affecting the Acquirer's credit rating.

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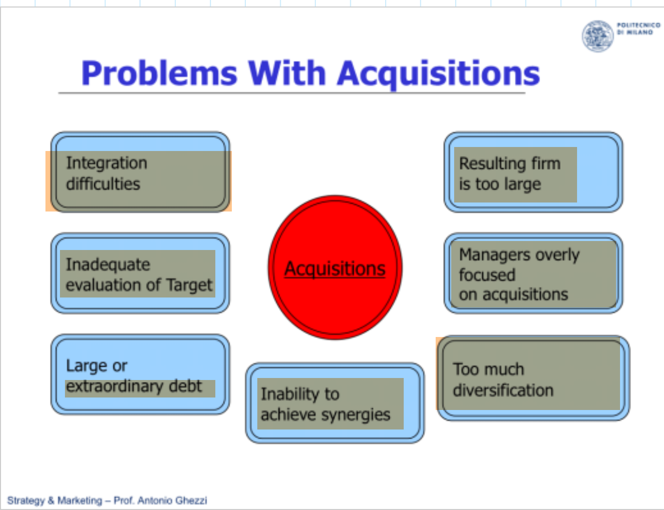
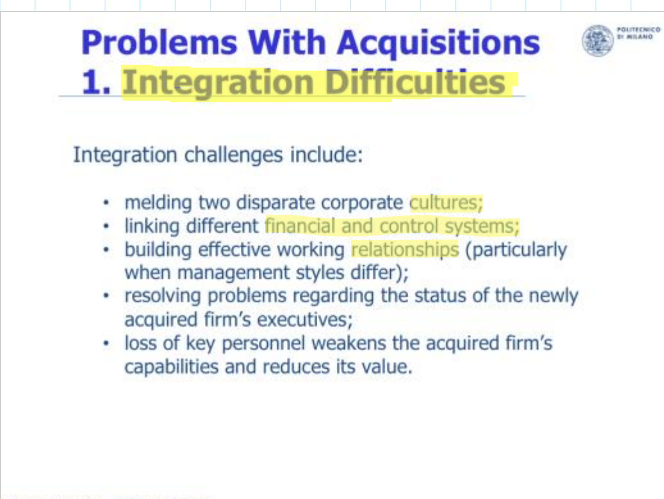
The synergies are important throughout the overall acquisition deal. There are 3 steps during the acquisition process:

1. **Negotiation:** The acquiring company has to understand what kind of synergies can create with the target because that's how they will create the extra value for the shareholders and also the target evaluate the value that they can bring to the shareholders therefore the synergies are part of the negotiation

2. **Valuation:** once the acquiring and target company understand what are the synergies there is an evaluation of the market value of the target company. Quantifying the synergies enables the acquiring and target company to give an evaluation of the target company which is what going to drive the price of the acquisition

3. **Integration**: once the purchase is done, the target company has to be integrated into the acquiring company which is the most problematic step





Not only operational obstacles, but also issues related to the culture

Problems With Acquisitions
2. Inadequate Evaluation of Target

Evaluation requires that hundreds of issues be closely examined, including:

- financing for the intended transaction;
- differences in cultures between the acquiring and target firm;
- tax consequences of the transaction;
- actions that would be necessary to successfully melt the two workforces.

Ineffective due-diligence process may result in paying excessive premium for the target company.

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There can be some informational asymmetries when evaluating a target and those can play negatively after the acquisition and therefore provide problems with the acquisition.

Normally, when performing an acquisition, acquiring company perform a **due diligence process** which means checking all the facts on the target company. The due diligence process could be the reason of inadequately evaluation of the target when performed before the acquisition and therefore when performed after the acquisition it could lead to discover that the acquiring company **paid a premium that is too high** compared to the value that can be created

Problems With Acquisitions
3. Large or Extraordinary Debt

Firm may take on significant debt to acquire a company. High debt can:

- increase the likelihood of bankruptcy;
- lead to a downgrade in the firm's credit rating;
- مانع شدن، مسدود کردن preclude needed investment in activities that contribute to the firm's long-term success.

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This is risky because if the **value creation potential** of the target doesn't match or doesn't cover the debt that the company is incurred in , then future issues with credits problems or even bankruptcy may arise

Problems With Acquisitions
4. Inability to Achieve Synergies

Synergies exist when assets are worth more when used in conjunction with each other than when they are used separately.

Firms experience transaction costs (e.g., legal fees) when they use acquisition strategies to create synergies. Firms tend to underestimate indirect costs of integration when evaluating a potential acquisition.

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Synergies are intangibles and difficult to quantify so performing an acquisition creates integration difficulties and therefore this difficulties can have a cost because from transaction cost economics it's known that whenever there is an interaction with the market there is a cost, which may not be necessarily related to the purchase of a given product but also with integration

Problems With Acquisitions
5. Too Much Diversification

Diversified firms must process more information of greater diversity.

Scope created by diversification may cause managers to rely too much on financial rather than strategic controls to evaluate business units' performances.

Acquisitions may become substitutes for innovation.

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Too much diversification is an issue of objectives so the overall corporate strategy approach taken by looking at bank effects between SBUs takes a financial perspectives because look at SBUs as cash cows that need to be milked in order to provide cash flows for another business unit

The problem of looking at SBUs from a pure financial prospective can provide issues with defining managerial objectives because the managers will be focused on the **financial aspect of the business and therefore may lose focus on the way they operate and lose performances**

Acquisitions may become substitutes for innovation because acquisitions are made in order for the acquiring company to not go through **the product development** which has many pros because it reduces uncertainty and its quantifiable, but not innovating can be problematic for managerial incentives within the established business units

Problems With Acquisitions
6. Mangers Overly Focused on Acquisition

Managers in Target firms may operate in a state of virtual suspended animation during an acquisition. Executives may become hesitant to make decisions with long-term consequences until negotiations have been completed.

Acquisition process can create a short-term perspective and a greater aversion to risk among top-level executives in a Target firm.

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The acquisition has a transition period that can also be long and this period may force managers to think about short term objectives and forget the long term ones by facing operational issues related to the integration rather than employing the time thinking about sustainable **competitive advantage in the long term**

Problems With Acquisitions
7. Too Large

Additional costs may exceed the benefits of the economies of scale and additional market power. Larger size may lead to more bureaucratic controls.

Formalized controls often lead to relatively rigid and standardized managerial behavior. Firm may produce less innovation.

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If the acquiring company keeps acquiring other companies, then it may become too large and that is **difficult to manage, overcoming the benefits that come from the increasing of the size, market share, power and so on. So in this case a company can split or divest** some SBUs

Virgin case instructions

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SM 21-22 Virgin cas...

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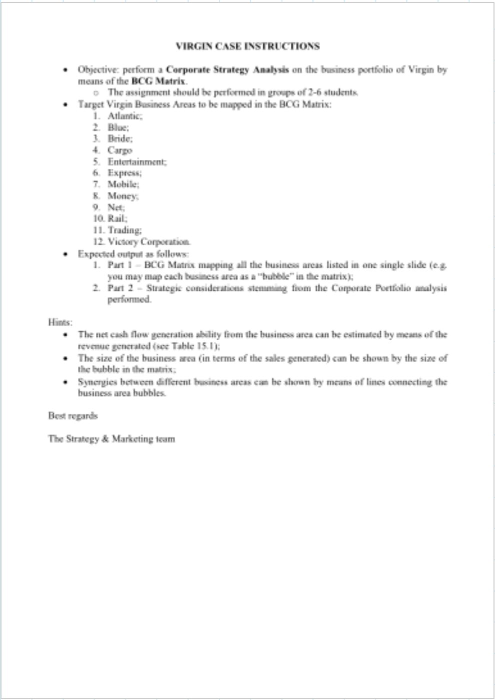

VIRGIN CASE INSTRUCTIONS

- Objective: perform a **Corporate Strategy Analysis** on the business portfolio of Virgin by means of the **BCG Matrix**.
  - The assignment should be performed in groups of 2-6 students.
- Target Virgin Business Areas to be mapped in the BCG Matrix:
  1. Atlantic;
  2. Blue;
  3. Bride;
  4. Cargo
  5. Entertainment;
  6. Express;
  7. Mobile;
  8. Money;
  9. Net;
  10. Rail;
  11. Trading;
  12. Victory Corporation.
- Expected output as follows:
  1. Part 1 – BCG Matrix mapping all the business areas listed in one single slide (e.g. you may map each business area as a "bubble" in the matrix);
  2. Part 2 – Strategic considerations stemming from the Corporate Portfolio analysis performed.

Hints:

- The net cash flow generation ability from the business area can be estimated by means of the revenue generated (see Table 15.1);
- The size of the business area (in terms of the sales generated) can be shown by the size of the bubble in the matrix;
- Synergies between different business areas can be shown by means of lines connecting the business area bubbles.

Best regards

The Strategy & Marketing team

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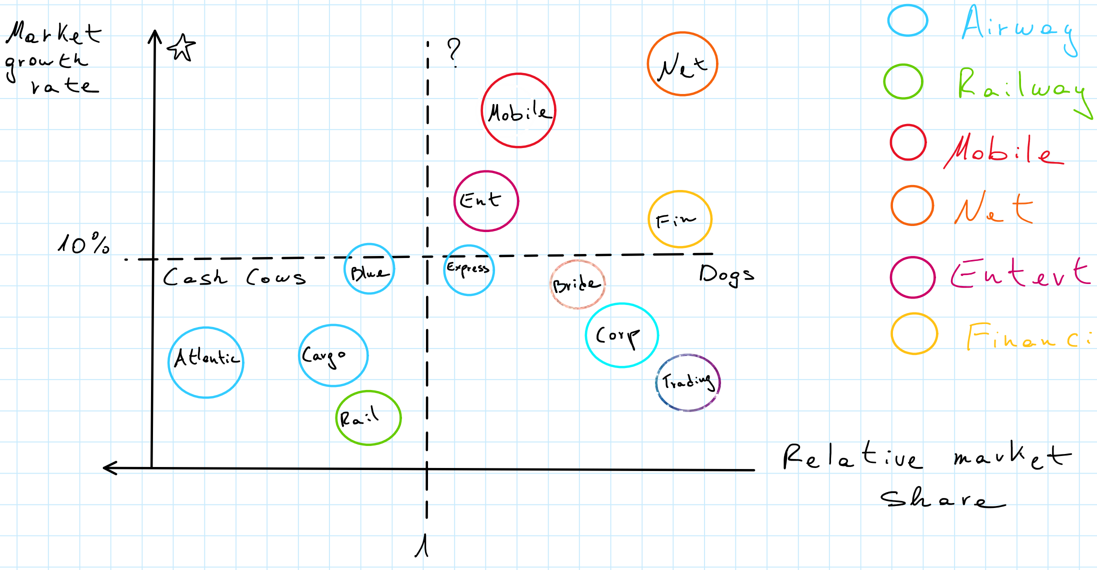
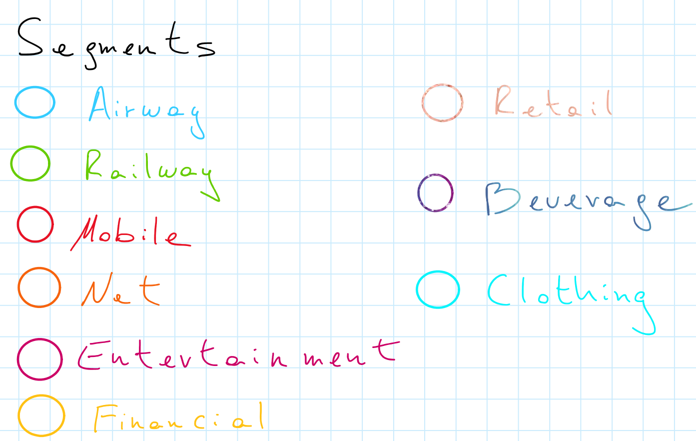
SM 21-22 Virgin cas...

We should classify all the SBUs of Virgin group on 2 axis:





As the market growth rate % we can use the CAGR, otherwise we will use the classical 10%

Cash cows:

- **Virgin Atlantic:** it has a relative market share that is around 3 and it's the leader. Moreover the aviation industry in long flights it's not growing particularly fast, especially in 2004

- **Virgin Cargo:** has a relative market share bigger than 1, but it's not growing in general. It's not bigger than Atlantic, but bigger than its competitors

- **Virgin Rail**: it's a leader, but has a relative market share close to 1 and the market growth is very low

NCF > 0

The Virgin group has many cash cows (if we count even Virgin blue) because the industry in which those segments operate are **established** and they do not require lots of investment to grow, but at the same time Virgin managed to gain a market leader position or close to it and so those SBUs work as cash cows.

Stars:

There are no stars in the portfolio

Question marks:

- **Virgin mobile:** positioned in a high market growth segment, but has a relative market share lower than 1

NCF > 0

- **Virgin net:** in 2004 internet services were growing even more than the mobile one, but the relative market share was lower than Virgin mobile, therefore is positioned in the top right quadrant

- **Virgin Entertainment:** in 2004 the entertainment market was growing, so the area of this segment is the top one, but virgin had a slightly below 1 relative market share

- **Virgin Money:** very low relative market share

NCF < 0

Dogs:

- **Virgin bride:** low industry growth and virgin didn't manage to get a high market share

- **Virgin Corporation**

- **Virgin trading**

NCF < 0

In between stars and cash cows:

- **Virgin blue (Australian low cost airline)**: in 2004 this segment wasn't easy to forecast, but virgin blue managed to get a positive market share compared to competitors and required a lot of investments

NCF > 0

In between question marks and dogs:

- **Virgin express (Belgian low cost airline):** had a strong competition from Ryanair, easy jet and other European low cost airlines, but it's near the high growth market

NCF < 0

Virgin express and blue have more or less the same in the same level of growth, but the difference is that Virgin Express' biggest competitor has a market share of 25%, therefore Virgin is not the market leader.

- All of the cash cows will eventually become dogs
- The mobile segment has a positive NCF, so it's possible to assume that it will eventually become a star
- The other SBUs in the question mark quadrant could either become stars or dogs because they have a negative NCF. For example, Virgin Entertainment market lowered so that SBU became eventually a dog, while for the other 2 industries the market kept growing, meanwhile Virgin

managed to just slightly increase the market share, so the 2 SBUs just shifted to the left in the same quadrant

- The dogs that are near the question mark may eventual become question marks, otherwise the startegy is to divest

SM 21-22 SS Disruptive Innovation and Big-Bang Disruption

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SM 21-22 SS Disrupt...

we talk about features of technology adopted by this newcomers

The newcomer, probably starting from a market niche, progressively takes over all the market share

What happens is that the current **industry gets completely disrupted and becomes a completely new industry that works with a different competition rules**

The theory comes from an old book by Clayton Christensen called "innovators dilemma"

Frogs fable

If you put a frog into hot water, it will rapidly jump out, but if you put the frog in warm water and you start boiling it slowly the frog will not realize that it's being boiled and eventually it will die

Let's start with some case histories

Case histories

hearing devices

S.S.I.H.
(Société Suisse puor l'Industrie Horologé - SA)

oticon
PEOPLE FIRST

Rca: leader in production of radios, tvs that used to produce with vacuum tubes (tubo catodico) then got disrupted by the change to transistors

Oticon is a hearing aid company, it was the incombant in this particular device in 50-60s

Industry of swiss watches that was complitley wiped away by the quartz mechanism

Case history: the hearing aid industry

oticon
PEOPLE FIRST

The early successes of Oticon

From 1958 to 1985 Oticon, a Danish hearing-aid company, **dominated its market** in the USA and Europe

The firm had a tradition of great technical and manufacturing excellence. Its **behind-the-ear (BTE) hearing aid** was both technologically sophisticated and reasonably priced

Over time, Oticon had acquired specific characteristics:
- Emphasis on New Product Development (NPD) focused on technical superiority (under the belief that a technically superior product would sell itself)
- Technologists spent more time talking with each other than interacting with their diverse and increasingly global customers
- Managers were good at improving their products incrementally, but their cultural arrogance and insularity blinded them to radical technologies

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when a company has the market positioning they will develop product with increment innovation

NIH(not invented here) bias means we are the only one who can make the best product

The focus was only on technology improvement

they didn't collect data about the changing trend in the market, the internal organization was resistant to change

Case history: the hearing aid industry

Starkey Hearing Alliance

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A radical innovation by Starkey

In 1985 Starkey, a small US-based player, reconfigured BTE components to produce an **in-the-ear (ITE) hearing aid**.

This new product sacrificed sound quality a bit, but it was **smaller and less intrusive**.

The market for the ITE aid was **fashion-oriented**, rather than hospital- or physician-oriented. in 80s it was fashion boom

Oticon reacted defensively and actively **resisted ITE products**. They felt that the new products were technically inferior and could not be mass produced.

The established processes, structures and culture prevented Oticon from taking seriously an innovation that **violated their assumptions about the hearing-aid market**.

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change in the external land scape,what about the costumer profile changes

Basically oticon ignored the new products because they thought that they were inferior

Starkey thought about a different need that customers wanted: the need to not show the others that they had a hearing problem

they targeted not just older people that were the target customer of Otican, but they started from middle-aged people

change in customer profile is very important to take into consideretaion

The outcome of Oticon's decision

The market for ITE hearing aids boomed. By 1986, 80% of the American market shifted to ITE products.

Oticon historical prosperity evaporated. In the face of dramatic loss in market share (from 15 % to 9 % between 1985 and 1986) and profits, a new management team was brought in.

This team initiated a revolutionary change in the structure and culture of the company, that brought fruit:

By 1995, Oticon's profits were up to 10 times from their 1990 level
The firm had developed a breakthrough product (digital hearing aids), that would become over the years a dominant solution in the market

Case history: what happened to Oticon?

Very often companies are focused on winning the war, improving what they have at that specific time that they ignore whatever new solution is given by anybody else

Case history:
RCA and the vacuum tube technology

RCA

The transistor business in RCA

The transistors were invented at Bell Labs (AT&T) in 1947.

The first transistors had not enough power to be used in radios, TVs, telecommunication equipment, etc.

RCA got the license to use transistors and started to invest heavily to empower them and made them usable for its own products.

Sony commercialised the first transistor-based pocket radios in 1955. Their sound quality was much lower than common radios. Customers were teenagers.

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RCA tried to improve the performance but didn't manage to end up anywhere and so they kept producing products with the vacuum tube

Sony developed a product with less sound quality, but which solved a different problem: portability

Case history: Sony and the transistor technology

SONY

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Disputes about the transistor business in RCA

Within RCA, there were disputes about **whether the company should enter the transistor business** and cannibalize their profitable tube business ...

The transistor business was new and the **profits uncertain**... but it was too risky not to pursue the new technology

How to organise the transistor business within the company? Should the solid state division report to the head of the electronics group, a person stepped in vacuum tube expertise?

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So they've adopted transistors but they didn't manage to exploit them in a proper way.

In this case the problem **was the organizational culture that could not support the integration of the disruptive technology**

development of a new innovation in terms of organisational structure behind the current line of business is not a good choice...

The transistor business in RCA

Afterwards, Sony started to commercialise black-and-white portable TVs, sold to people who do not have room available for floor-standing TVs (product segment where RCA was largely the dominant company)

Sony was not seen as a threat

When transistor achieved power enough to be used in higher quality appliances...

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The ultimate decision of RCA

With its great wealth of marketing, financial, and technological resources, **RCA decided to enter the business** ...

RCA management recognized the **problems of trying to play two different technological games**, but was unable to solve them.

Without a clear strategy and the cultural differences required to compete in both markets, **RCA failed**.

sony overcame the position of market leader and now it is one of the incubates

Sony wasn't perceived as a threat because started from a nieche dedicated to young people that didn't want to spend a lot of money

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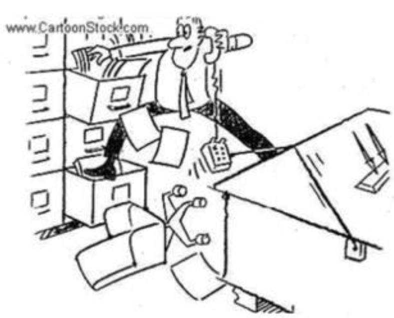
Case history: what happened to RCA?



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Seiko enters the quartz watch business

Hattori-Seiko was the dominant Japanese watch producer in the 1960s, although a small player in global markets, dominated by Swiss firms (e.g., S.S.H.I. and Ausag)

Driven by the aspiration of becoming a global leader in the watch business, Seiko transformed itself from being merely a mechanical watch firm into **both a quartz and a mechanical watch company**

This move into low-cost, high-quality watches required a **deep and well-managed wholesale change within Seiko**

Seiko changed its internal organization

The failure of Swiss watch firms

At the beginning of the 1970s, quartz movement watches replaced mechanical watches

Even though Swiss firms had invented both the quartz and tuning fork movements, at that point in time they moved to reinvest in mechanical watches

As Seiko and other Japanese firms prospered, **the Swiss watch industry drastically suffered**

- By 1980, SSIH, the largest Swiss watch firm, was **less than half the size of Seiko**
- Eventually, **SSIH and Ausag**, the two largest Swiss firms, **went bankrupt**

The Swiss watch industry

Year	No. Of Firms	No. Of Employees
1955	2,300	70,000
1965	1,900	84,000
1970	1,600	89,000
1975	1,200	63,000
1980	900	47,000
1985	600	32,000

The swiss industry got wiped out

Lessons learnt

- Technology matters ...
- **It is not just "innovation"** (incumbent firms are innovative as well) **... it is an innovation that disrupts mainstream technologies**
- **Disruptive technologies are hard to intercept as they appear as significantly weaker than the established one at the very beginning (they usually start "cheap and simple")**

Technology is important because it can completely change the competitive landscape of a business area

It's not just "innovation" refers to innovation in a process, customer experience or other innovation not related to technologies; meanwhile disruption innovation is related to technologies

They usually start from a small nieche/lower end of the market and then eventually take over all the market

in the first case,the fashion-oriented was important and in the second case the portability

Amirh_Jandaghian nt

- Technology matters ...
- **It is not just "innovation"** (incumbent firms are innovative as well) **... it is an innovation that disrupts mainstream technologies**

core business is beated.

- **Disruptive technologies are hard to intercept as they appear as significantly weaker than the established one at the very beginning (they usually start "cheap and simple")**

start in niche market with weaker product !!! (lower performance)
so new product seems unattractive to stablished company ... so they don't see it as a threat.
and new product become improved as users give feedbacks

Understanding disruption coming from technological discontinuities

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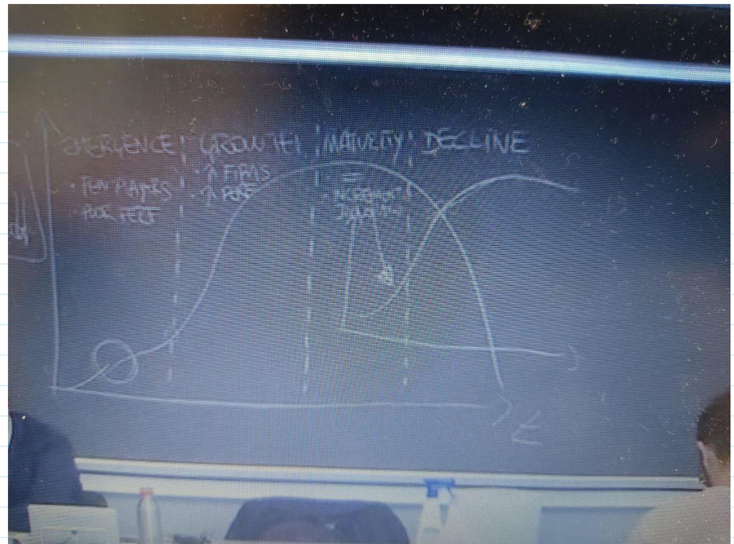


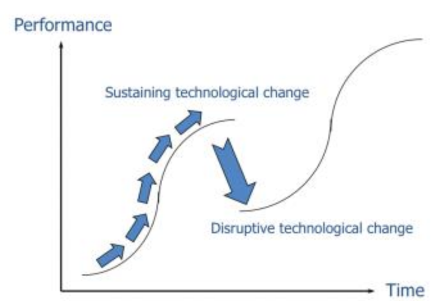
Markets experience technological discontinuity:

Technology experience a slowly development over time with low performance, but then, at a certain point, it gains momentum and starts developing exponentially in a very short time: once the technology becomes standard, companies start investing heavily in the technology to make it better and so the performance increase significantly. This last phase is called **sustaining technological change**, after which the technology starts experiencing a period of stall, where further investments don't improve the performance much.

At a certain point, a new technology enters in the scenario and a new s-shaped curve, like the previous one, starts. The new technology starts with a performance lower than the previous one, but with time it manages to surpass it

In reality the second curve is hard to foreseen because it's difficult to understand the time and so the point at which the current technology development has arrived

Sustaining vs. disruptive technological change



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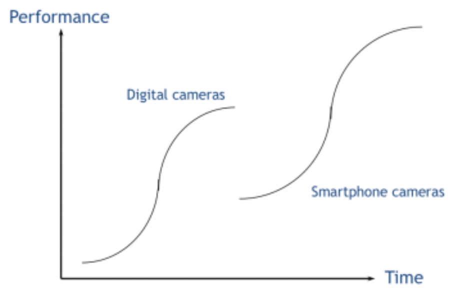
The s-curve is made of: introduction, growth and maturity, **there is no decline in technology like for products.** The delta between 2 S-curves is the disruption, meaning that there is no continuing function. **Disruption means discontinuity**

Case history: the photovoltaic industry



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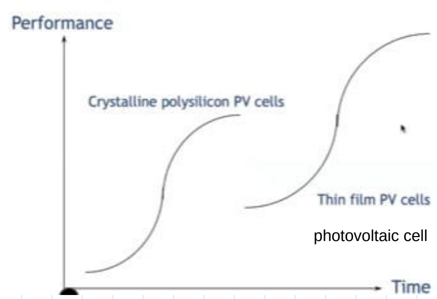
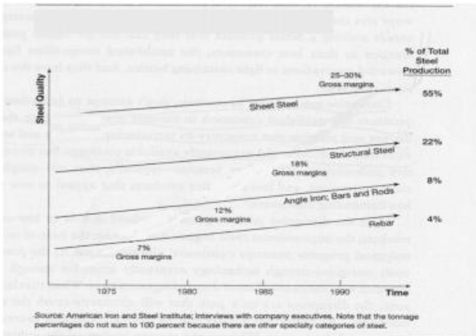
Case history: the photovoltaic industry

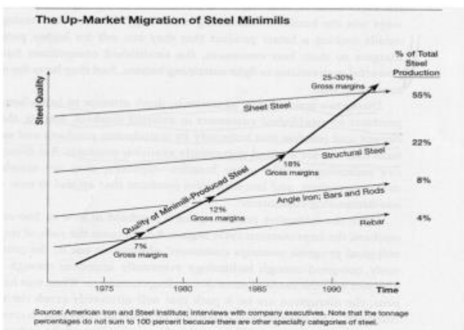


photovoltaic cell

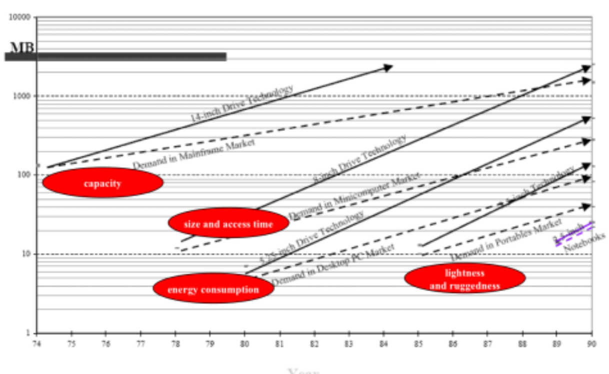
Case history: disruptive technologies in the US steel industry



Case history: disruptive technologies in the US steel industry



Case history: disruptive technologies in the disk drive industry



Performance can be also related to aesthetics and not only to technical performance

The disk drive industry

Product Generation:	Leading Firm:
14-inch (1973)	Control Data
8-inch (1978)	Priam, Shugart
5.25-inch (1981)	Seagate, Miniscribe
3.5-inch (1986)	Conner, Quantum
2.5-inch (1990)	Conner, Quantum
1.8-inch (1994)	Integral

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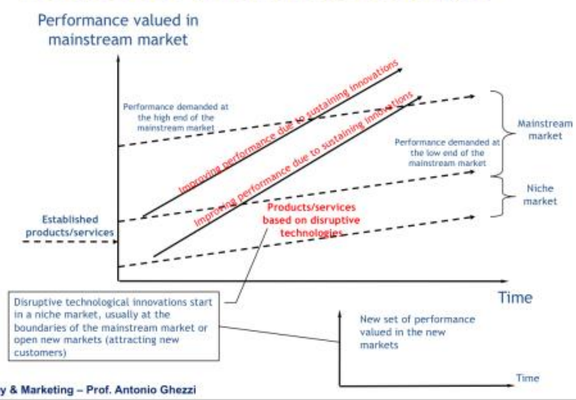
The threat of disruptive technologies



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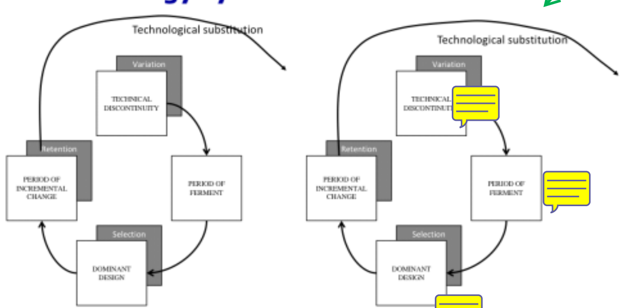
Disruptive technologies normally start at the beginning of the time span from a very low end of the market and eventually take over the niche market first, then the mainstream market. As technologies take over the market, they improve the performance

here we are saying how the s shape took place

Technology cycles



As a result, technological change in a product class is characterised by **long periods of incremental change punctuated by discontinuities** (radical innovations)

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Whenever there is a technological discontinuity, the new radical technological advancement is followed by **the era of ferment.**

In this era a lot of companies start to work on the new technology in order to set **the new market standard**. But what happens is that the market automatically selects the technology that will become the standard so we experience a **winner takes all market** where the design of that company becomes the most dominant design, and eventually who holds the dominant design will become the market leader. For example, if every computer adopts a disk drive for CD- ROMs, whoever wants to produce content has to adapt to that technology.

This is what happens at the beginning of the S-curve: the ferment era last until the standard is set, and once set, the technology starts to grow exponentially because everyone has to conform and invest to that technology. So this is the point when **sustaining technological change** phase starts, in which companies exploit the technology as much as they can until it reach the performance peak

A recent example are the electrical cars

Lessons learnt from the cases: strategic warnings

Why aren't companies always interested in investing in disruptive technologies ?

Established companies believe that **investing aggressively in disruptive technologies is not a rational financial decision**:

1. Disruptive products are often simpler and cheaper, they generally promise lower margins, not greater profits
2. Disruptive products are first commercialized in emerging and insignificant markets niche market, its small enough that doesn't justify the effort of the incombant to enter the market
3. Established firms' most profitable customers generally don't want products based on disruptive technologies Because they care about the performance. That's why the disruptive technology starts from the niche
4. The start-ups or new-comers that aggressively promote disruptive products do not appear as a real challenge to their market position

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Is it possible to "manage" disruptions?

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Ingredients for success

1. **Spot** (identify) the disruptive technology
   1-Build networking and scouting capabilities
   2-Develop an appropriate culture in your organization
2. **Develop your market insight and conduct directed research**
3. **Adapt** your organization and business model to the disruptive technology
4. **Invest** in disruptive technologies

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Spot the disruptive technology

- Build **networking** and **scouting** capabilities
- Develop an appropriate **culture** in your organization

traditional innovation:there were R&D departments inside a company and the innovation was generated.

but the thing is there is no stability in the industry and the external environment has started to change very fast
on the other hand , open innovation says that the R&D department cant be isolated from the rest of the company, just pushing and developing the new technnology,innovation, because after 5 years (lenght of strategy) the market would be different from the one they started from and they should open the boundries and take ideas from the external environment

Loral brand storm is an open innovation,collecting ideas from others/partnerships with others,startups

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The first action to spot the disruptive technology is related to the external orientation of the company. Therefore the company needs to develop what is called "**scouting capability**", which means to have capillary presence within the technology market that allows to become a detector of disruptive technology. For this reason, the marketing department is very important because it knows what the customers want, think and so on, therefore companies need to invest in this capability to detect needs and emerging trends from the outside

Build networking and scouting capabilities

"For each of the 7,500 P&G's researchers, there are elsewhere in the world about 200 scientists or technicians equally talented" (A.G. Lafley)

"99.999996% of world population live outside DSM! Networks needed!" (R. Kirschbaum)

"Ninety-nine percent of everything exciting that happens will happen outside your own research labs" (T. McKillop)

"Not all the smart people work for you!" (H. Chesbrough)

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Case history: Procter & Gamble

From Harvard Business Review (2006):

*Much of the operation and momentum of connect and develop depends on our network of **70 technology entrepreneurs based around the world**. These senior P&G people lead the development of our needs lists, create adjacency maps and technology game boards, and write the technology briefs that define the problems we are trying to solve. **They create external connections** by, for example, meeting with university and industry researchers and forming supplier networks, and they actively promote these connections to decision makers in P&G's business units.*

P&G developed a network of people in order to try to build a portfolio of disruptive technologies

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Case history: Google

From FT (29 September 2010):

The internet leaders clearly see the risk and are working frantically not to miss a trick. ***Google has taken to hoovering up small internet start-ups in its search for talent and fresh ideas, pulling off 23 deals already this year compared with only six in 2009.*** *Apple bought a streaming music company, although it has yet to launch a service. There's no guarantee, though, that they can identify all the challenges.*

Google

Another case study on how to improve the capability to detect disruptive technology is to tackle into the company's internal competencies and resources.

Google tries give time to their employees to work on new potential ideas that they could develop and has incubation programs on these ideas

In fact Alphabet invested and invest in different start ups in order to be more capillary in different markets

Case history: Intel

- Intel started an **independent business unit** named **Intel Capital**, acting as a **venture capital company** with more than 100 **investment professionals** around the world
- Up to now, over **$ 10 billion** have been invested into more than 1000 companies
- Intel Capital provide venture funds to **three types of investments**:
  - **Ecosystem development investment** (about 60% of the total invested), companies building technologies related with core products of Intel
  - **Gap-filling investments** (about 30% of the total invested), focused on technologies complementary to those of Intel and not sold directly
  - **'Eyes and ears' investments** (about 10% of the total invested), centered on monitoring opportunities looking extremely useful, promising and profitable but also very challenging and risky

Venture capital because doesn't earn any profit from selling goods/services but earns by participations into the shares of other companies

Investment in disruptive technology is risky so Intel set up this risk management program that tries to reduce the risk

Develop an appropriate culture in your organization

- Create an **organisational context** in which **individual employees** are encouraged to think and speak **out-of-the-box**
- This requires acting on **the human side of the organisation**
- The context should stimulate these types of **behaviour in individuals**:
  - Initiative
  - Risk-taking
  - Entrepreneurship
  - Brokering
  - Multitasking

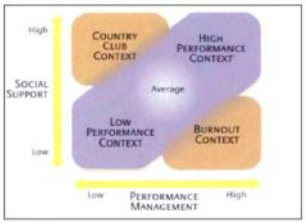
To spot the disruptive technologies the companies needs also to be structured in a way that allows the inglobation of the new technology

There is a concept called **absorptive capacity** which says that in order to develop an absorbing capacity, so the capability to assimilate technologies from outside, a company doesn't only need to be able to detect the technologies, but it also has to be able to capitalize on the knowledge capital that the company has in order to make the best out of the technology. For example RCA acquired the license for the transistors, but they were not able to integrate them into their products.

Companies need to create an accommodating context. And in order to do so, companies need to work on their human capital and to provide them the tools to express themselves, for example by putting in place programs that promote entrepreneurship that promote entrepreneurship

Develop an appropriate culture in your organization

- A firm should encourage these behaviours through acting on two levers:
  - **Social support**, which is concerned with providing people with the security and latitude they need to perform
  - **Performance management**, which is concerned with stimulating people to deliver high-quality results and making them accountable for their actions



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The second point is also managing the performance of the employees: if they are always evaluated by how much margin they can get from a certain product, they will always work towards the mainstream market, they will not have any incentive to develop new skills or find disruptive technologies

Employees should also be evaluated on their capability to assimilate new technologies and developing the innovation within themselves

Ingredients for success

1. **Spot** the disruptive technology
2. **Develop your market insight and conduct directed research**
3. **Adapt** your organization and business model to the disruptive technology
4. **Investing** in disruptive technologies

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Means to be able to understand not just which technology is the right one to pursue, but understand how needs of customers are changing and therefore understand which is the new need in the target market

in the blue ocean you can do it

What is a market insight

- The key aim of market insight research is **to discover a fact about that market that has not previously been made use of, but when leveraged will generate increased profits.**
- Alternatively, market insight can be defined as **the attempt to discover a penetrating truth about consumers, their aspirations and motivations which can in turn be used to generate growth.**
- Develop the «customer insight» means to identify the latent needs of the customers and discover new unexplored market segments
- Adopting the customer perspective is a guiding principle for the entire business model design process. Successful innovation requires a deep understanding of customers, including their environment, their daily routine, their concerns and their aspirations.

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The orientation today is towards customers , so customer created value is very important: companies are not free to do whatever they want, but they need to operate in markets that are completely ruled by customers' needs, and so, companies need to understand shifts in companies needs that maybe can be satisfied by new technologies that maybe have a lower performance, but can fully satisfy the new need

Case histories

- GE and diagnostic devices for emerging countries
- Toyota Prius
- P&G and the disposable diapers
- Samsung and the LCD technology for flat panel TVs

Case history: the Toyota Prius

- In mid-1990s, the company launched a project called G21 (Global 21° Century) with the goal of building a car with a **fuel efficiency** of 47.5 miles per gallon, 50% more than that of a basic Corolla
- The first approach was improving transmission and engine of existing cars. Engineers felt that they could potentially improve fuel efficiency of as much as 50%
- So they decided to reject conventional technologies and began looking at **hybrid technology**. The problem was that this model could deliver dramatic fuel cost savings but was prohibitively expensive.

Case history: the Toyota Prius

- Engineers were ordered to create a concept hybrid car that would boost fuel efficiency by at least 100% and cost effective, by one year time (in time for Tokyo Motor Show)
- A thousand engineers were assigned to work on the initiative and investigated 80 alternative power trains then shortlisted to 4
- The battery was a major problem to solve: the technology was very sensitive to temperature

Case history: the Toyota Prius

- The president asked for full production in twenty four months (two thirds the usual time)
- In December 1997 the car was on the market, perfectly on time and was a great success from the beginning, appealing to the growing number of consumers environmentally conscious
- The development cost was more than 1b$, at that time Toyota had half the annual sales of GM

do the research but the top management should motivate the developers

Case history: P&G and the disposable diapers

- When P&G introduced the product it had already been on the market for decades
- But P&G saw two major trends: the desire for consumers for greater convenience and the increasing presence of women in the workforce
- To tap into the mass market it had to dramatically lower costs and after five years of research the price went down to 10 cents per diaper
- It was not enough because diaper services were at about 3.5 cents per diaper and home washing was about 1.5 cents

Case history: P&G and the disposable diapers

- The breakthrough came when P&G developed a machine able to mass-produce diapers at 5.5 c$ a piece.
- It was more expensive than diaper service but affordable to increasingly affluent consumers
- The market grew from $10 million to 370 in seven years
- Today it is a 10 billion industry, rapidly increasing thanks to emerging market consumers

The concept of directed research

- Once a market insight is identified, the problem is how to best serve that market
- Technology is seen as a means to do this, therefore companies are flexible about the technology to use
- Companies usually explore different alternatives
- They combine internal development with technology acquisition from outside

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What is difficult to understand is not only the need that the customer has, but also how to solve it. The company needs to find a match between the technology and the need.

The technology is just a solution. Who drives the demand and who drives the product is the customer

Another way to find emerging trends is to perform a PESTEL analysis and look at the social factors and trends

So companies have to invest in research and development to find out which is the right technology to solve the right need.

Companies explore different alternatives in parallel through internal development or acquire technology from outside (like intel)

Ingredients for success

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Case study: Polaroid and the digital photography

Apparently, Polaroid was **well positioned to succeed in the digital photography business**:
- It was leader in instant photography for decades
- It had a great brand, brilliant engineers and scientists and a large global marketing and distribution network

Polaroid identified digital imaging as a potential threat to its market position: it was **one of the first companies** to start investing **in digital photography**, in the 1980s

This research has led to **several major technological breakthroughs**, but few of the products that resulted from this effort had been successful

At the end, it was beaten by old, well established firms like Kodak and Sony...

Why?

Polaroid

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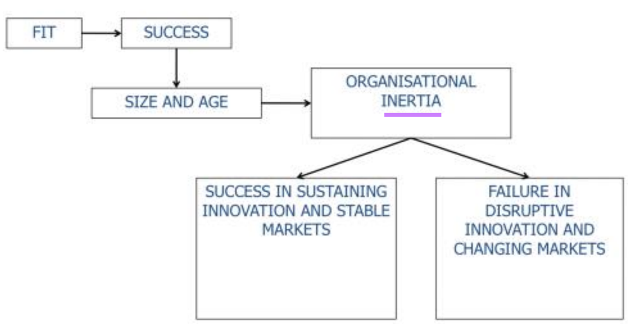
Organisational inertia theory



Organizational inertia tells us:

First of all a company tries to achieve the so called **FIT**: the company serves the right market with the right product.

Once the fit is reached, the company becomes successful, so they start increasing the user base, investing in production facilities and so on, and, in the end, it becomes to big to manage and old, thus encountering **organizational inertia,** which is a spot from which is difficult to move. the structures of the company are not responsive to the changing external environment

Organizational inertia has 2 consequences:

1. The company becomes really really good in performing successful innovation. Typically they work in stable markets and they are in a cash cow situation. The company keeps investing in improving the performance of the same technology and eventually becomes the leader of the market and so on

2. Failure in disruptive innovation because the company is old and it doesn't have the tools to understand the new technology and so on

How to prevent organizational inertia

There are a couple of actions that can be taken that are both centered on the concept of organizational ambidexterity

Build an ambidextrous organisation

Ambidexterity has two ingredients:

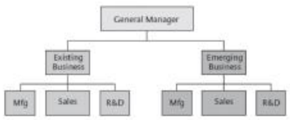
1. **Structural separation** between organisational units devoted to:

   Exploitation of current technologies and businesses
   Exploration of new, disruptive technological trajectories and businesses

   each having its own processes, structures and cultures

2. **Tight integration** between the exploitation and exploration units at the senior executive level

see the businesses at the same time /cause the mission and vision of the company should be aligned for both cases



2. Companies create different units, because companies need to have people that focus either on exploitation or exploration, but at the same time they have a head of the unit that respond to the general manager. The general manager has an overview of the efforts to explore and the efforts to exploit, balance them and integrate them

Case history: USA Today

- **Founded in 1982**, USA Today lost more than half a billion dollars during its first decade
- **It turned to profit in 1992**, and continued to expand rapidly, becoming the most widely read daily newspaper in the USA
- But, in the second half of the 1990s, **clouds appeared on the horizon**: readership was falling steadily, competition was heating up, newsprint costs were raising
- Tom Curley (president and publisher) recognised the firm would have to **expand beyond its boundaries** to maintain steady growth and profits
- The company would need **dramatic innovation** to find new ways to apply its capabilities to **new media**

Case history: USA Today

In this case the choice was structural separation and it was devoted to the exploration

Curley choose Lorraine Cichowski (USA Today's general manager of media projects) to **launch an online news service** called USAToday.com

Once they've tried to integrate the results from this separate venture, the results didn't work because the new unit worked as a separeted company

He gave her free rein to operate independently from the print business. She built **a fundamentally different kind of organisation**, with roles and incentives suited to the instantaneous delivery of new content and to an entrepreneurial and highly collaborative culture

But results were disappointing … its growth was sluggish and had little impact on the broader business's results

The problem, Curley saw, was that **the new unit was so isolated** from the print operation that it was failing to capitalise on the newspaper's vast resources

Case history: USA Today

- In 1999, Curley launched a "**network strategy**", according to which the company would share news content across three platforms: the newspaper, USAToday.com and USAToday Direct (TV operation)
- In 2000 he replaced Cichowski with an internal executive who **was a supporter of the "network strategy" vision**
- Both the online and the television operations remained separate from the newspaper, with their distinct processes, structures, cultures, but Curley required that **senior leadership of the three business was tightly integrated:**
  - He introduced daily editorial meetings between the heads of the three units
  - He let go off a number of senior executive who did not share his commitment to the network strategy
  - He changed incentives programs for executives, replacing unit-specific goals with a bonus program tied to growth target across all areas
  - A "Friends of the Network" recognition program was established to explicitly reward cross-units accomplishments

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otherwise you lose the benefit of diversifying/if there are no integration

Curley performed an organizational change to make sure that the culture was consistent and to make sure that everybody that worked within the company for exploration and exploitation purposes would be completely aligned so that the transfer of knowledge wouldn't be problematic

Ciba Vision

Ciba Vision, created in the early 1980s as a business unit of Ciba-Geigy (now Novartis), develops and sells contact lenses and eye-care products to optometrists.

CIBA VISION
Shared Passion for Healthy Vision and Better Life

In the second half of the 1980s it was dramatically suffering from the competition of Johnson & Johnson. Ciba Vision's president, Glenn Bradley, understood that, without **radically innovative products**, his company risked a steady decline and failure.

In 1991, Bradley launched **6 innovation projects**, each focusing on a radical innovation (e.g. daily disposable and extended-wear lenses).

Bradley faced the problem to decide **how to manage and organise these new projects**; he decided not to integrate them within the company's traditional organisation, fearing that **conflicts in resource allocation** and **conventional procedures** and **conservative cultural principles** could have hampered the creativeness and the focus each project needed to succeed.

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Building ambidexterity into Ciba Vision's organisation

- Bradley created an **independent unit for each project**, with its own R&D, finance and marketing functions, and located it in **dedicated facilities**
- Each unit hired its staff, established its **own rewarding systems**, designed its **business processes** and, ultimately, came out with unique **organisational structure** and climate
- Bradley faced the problem of **integrating** the independent units with the traditional businesses:
  - the leaders of the breakthrough projects should report to a single senior executive, i.e. Adrian Hunter, vice president for R&D
  - Ciba Vision's incentive system was enhanced so that managers were rewarded on the basis of the overall company performance, rather than their own business unit's
  - a new vision statement for the whole company was elaborated ("Healthy Eyes for Life"), that served the purpose of enlightening the relationships and complementarities between new and traditional business units

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What is really important to achieve when trying ambidexterity is to have people following the same vision and have people with different competencies in order to ensure the balance between exploration and exploitation, and at the same time introducing some formal processes that can facilitate the channeling of the information within the organization

The role of the senior executive team

- Senior executives have the key role of **ensuring integration in structurally ambidextrous organisations**
- This can be achieved through:
  - Articulating a clear, emotionally engaging and consistent **vision**
  - Building a senior team with **diverse and heterogeneous competencies**
  - Introducing specific **processes and integration mechanisms**
- **Ciba Vision** provides insightful examples of how to build a structural ambidextrous organisation

Ingredients for success

1. **Spot** the disruptive technology
2. **Develop your market insight and conduct directed research**
3. **Adapt** your business model to the disruptive technology
4. **Invest** in disruptive technologies

Justify investments in the disruptive technology

- Good managers are driven to **keep their organizations growing**
- Unfortunately, companies that become large and successful find that **maintaining growth becomes progressively more difficult**
- Disruptive technologies are **initially sold in small, emerging markets**
- This is why **it is difficult to justify investments in their development**

Not always companies are willing to invest in disruptive technologies, and when they do it, it doesn't mean that they'll invest in the right one

On the one hand is difficult to persuade executives that the opportunity is worth pursuing because these technologies are developing in emergin markets, they do not have any margins and they don't promise any profits

social capital,reputation of a manager, normally wont let them to be risk averse

Justify investments in the disruptive technology

- Company's freedom of action **is limited to satisfying the needs of those entities outside the firm** (customers) that give it the resources it needs to survive
- **It is customers**, rather than the managers, **who really determine what a firm will do**
- Good resource allocation processes are designed to **weed out innovation proposals that customers don't want**
  نابود کردن
- Resource allocation depends not only on executives' decisions, but also on non-executive participants, whose **career trajectories can soar when they sponsor highly profitable innovation programs**

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Also companies have to respond to the needs of the shareholders and they have to prevent that the title on the stock market drops dramatically

there is a rule that says you can invest a little bit on technologies in the ea,early stage,see how they work, and then increase your commitment along the way
increase your commitment when the uncertainty decreased.

How to overcome these barriers?

- One approach is to embed the project into **an organization that is small enough** to be motivated by the opportunity offered by a disruptive technology in its early years

A spinout is a type of corporate realignment involving the separation of a division to form a new independent corporation.

- This can be done by:
  - **Spinning out (or spinning off)** an independent organization
  - **Acquiring** an appropriately small company

A venture company that works on its own, and it would eventually be incorporated in the firm

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Case history: Cisco Systems

When the firm identifies a technological opportunity which is promising but with a potential disruptive impact, it **encourages some valuable researchers to leave the company** through a spin-out process and finances the research activities of the newly founded firm.

Besides, it maintains the possibility to **acquire the spin-out back** in case it produces relevant research results.

This strategy was adopted in 1999 with **Andiamo**, a spin-out firm operating in the field of big disk hardware and software for web server applications, that was re-incorporated in 2003

CISCO SYSTEMS

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why companies are not able to spot the disruptive technologies?
1-they are 2-overfocused on their existing market,that is more profitable
2- its technologically weak and is in a nice market

... but some times disruptions are "big bang"

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what are in common between the blue ocean strategy and the big bang disruption ?
break the value-cost trade off

Big bang disruptions destroy the current value of the market, instead of creating value for the companies and for the market.

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One big bang disruptive technology is the smartphone

smartphones disrupted the watches industry because people use the smartphone to see the time

Smartphones scrap portable navigation devices

smartphones disrupted the navigation industry because they provide navigation for free

We buy fewer compact digital cameras

smartphones disrupted the digital cameras industry

in the external analysis,define the market boundries!!

THE WALL STREET JOURNAL.

NOV. 10, 2013

Cameras Succumb to Smartphone Juggernaut

There was a time when it would have been crazy to suggest that a phone camera would ever approach the speed and quality of a stand-alone camera. Now, that day is over.

Sales of point-and-shoot cameras have been declining for years .. Taking a picture with a phone simply isn't a subpar experience. For most people, most of the time, a phone is all you need.

What the phone did to the camera isn't an isolated incident. The story behind the death of the stand-alone camera is a history of the future of almost everything.

ft.com/frontpage Europe All times are London time
FINANCIAL TIMES
SEP. 29, 2014

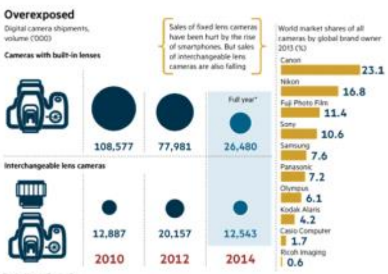
Cameras: out of focus

The popularity of smartphones has allowed to displace one consumer product, the digital camera, especially low cost fixed lens cameras. Unit sales of digital cameras, by makers such as Nikon and Canon, have fallen 60 per cent in the past two years.

Digital camera makers have not reacted well to the onslaught from smartphones. They have already lost the casual snapper. As phones start to incorporate higher quality lenses, they risk losing the camera enthusiasts too.

ft.com/frontpage Europe All times are London time
FINANCIAL TIMES
SEPT. 29th, 2014

Cameras: out of focus



The lack of innovation in digital cameras has meant that consumers are happy with their current cameras and less motivated to buy newer models

Smartphone and tablets steal room for gaming consoles

ft.com/frontpage Europe All times are London time

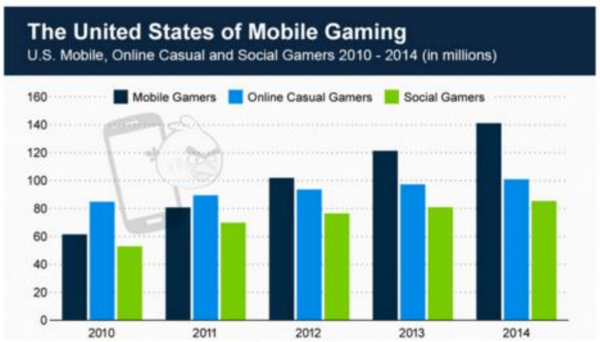
FINANCIAL TIMES

JAN 20, 2014

Nintendo's declining sales put change of game plan on cards

Nintendo announced that it had cut its net profit forecast of Y55bn ($527m) in the year to March to a net loss of Y25bn, as sales of its Wii U games console and 3DS handheld unit fell well short of global targets ..

The core problem is that the world's largest games machine maker has been ***hurt by the big shift to mobile devices.*** *Casual gamers are abandoning specialised hardware in favour of playing on phones and tablet computers, on which titles can be downloaded at a fraction of the cost ..*



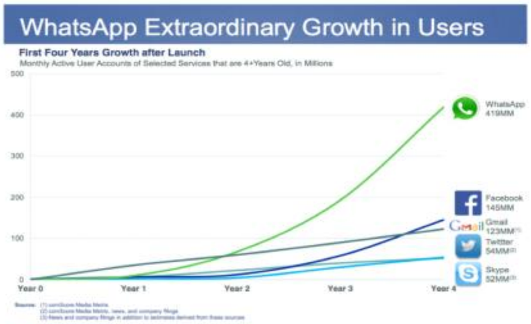
Source: Statista

Only businesses «disrupted» by other businesses ... without «real» gains for the destroyers?

Of course not!

Companies which pursue big bang disruption have big gains

Creating value by disrupting established industries: the case of WhatsApp



Whatsapp wiped away the sms service because people didn't want to pay for each message to communicate

The case of WhatsApp (1/4)

«WhatsApp has succeeded to destroy the market of SMS in only four years: an operation that would required in other times between 20 and 30 years»,
it claimed one of the world's leading operators of venture capital, at the recent acquisition of WhatsApp by Facebook for **$ 19 billion**.

Nineteen billion for a startup founded in 2009, which succeeded in 4 years – investing few money **($ 60 million**), and with very few people (**55 in all**), but giving up almost entirely (given its business model) to revenues – to overcome the threshold of **450 million users** and **50 billion of messages** processed per day: the highest rate of growth in the history of the world economy.

The case of WhatsApp (2/4)

Apart from the entity of the amount paid, it is the speed rate at which WhatsApp and other startups are disrupting a market as rich as that of SMS, with heavy damage to the telecom operators who controlled it, that deserves a reflection.

Short Message Service is a market of relatively recent birth, developed (until the advent of smartphones) with the spread of phones, and also because their customers are mainly large enterprises.
An equally worthy reflection is addressed to the fact that new entrants – WhatsApp and other startups – increasingly steal market shares from the incumbent firms (Mobile Network Operators), but do not take over them (if not in small part) in revenues and profits, because they offer alternative services (almost) for free.

The case of WhatsApp (3/4)

What were the main features of the WhatsApp phenomenon? reason of their success

introduction of imoji:
real,closer interpretation of messages

1. the possibility born with smartphones of a mobile access to the Internet and therefore an alternative media for the messages; دور زدن
2. the possibility of passing through the Internet to circumvent the policy of price discrimination, on the basis of uses, applied by telecom operators: such as the inclusion of photos in the messages themselves;
3. the growing availability of broadband, for its impacts on the quality of services moved through the Internet;
4. the availability of an infrastructure even more consistent of cloud computing;
5. the very low cost for the creation and dissemination of an app.

these were available in the market,combined in a new way

the difference bet big bang disruption and blue ocean is that big bang leverages disruptive technologies but for blue ocean its not always the case

The case of WhatsApp (4/4)

The growth of WhatsApp through the disruption of an industry segment as rich as that of SMS is a case of big-bang disruption!

But is the growth of WhatsApp sustainable?

They used to make people pay to use the application on an yearly subscription, but eventually become free after the acquisition by Facebook and they've become an advertisement company, rather than a messaging one, by gathering users data and so on

disruptive big bangs sustainability can be argued because they usually capture immediately a huge share of the market and then, at some point, they need to understand how to become a real sustainable company

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FINANCIAL TIMES

NOV. 12, 2013

Airbnb is another example of big bang disruption

Airbnb rallies users amid regulation threat

...Brian Chesky, Airbnb's co-founder and chief executive, showed off a redesigned mobile app and networking site for hosts - for **Apple**'s iPhone and **Google**'s Android - to make it easier for them to rent out their spare rooms and get support from other users of the service.

The need was to lower accommodations' expenses

The company, **a "sharing economy" pioneer**, which launched in 2008 and now operates in **34,000 cities**, is also overhauling its reviews systems to provide more detailed ratings, such as cleanliness, accuracy, availability and a host's "commitment".

"We are confident that in the future the majority of guests staying with you will be booking their trips on a phone" ...

THE WALL STREET JOURNAL.

March 20, 2014

Airbnb Is in Advanced Talks to Raise Funds at a $10 Billion Valuation

The rich price tag reflects Airbnb's potential to ***disrupt*** *the hotel industry. In six years, the company has become a required destination for millions of tourists looking for cheap rooms, while giving homeowners a new source of income.*

The company could be worth ***more than*** *Wyndham Worldwide, which manages 7,500 hotels under the Wyndham,* ***Ramada*** *and other brands, and is valued at $9.3 billion.* ***Hyatt*** *Hotels has a market value of $8.4 billion.*

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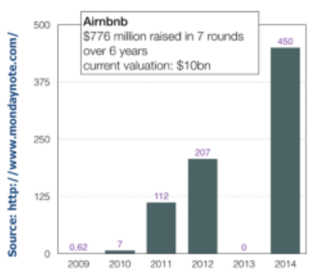
The effects of disruptive models



In 2015, Airbnb Inc. is raising money from investors in a financing round that would value the room-sharing service at $20 billion or more (Source: http://www.bloomberg.com/).

Finance loves «dirupters»: Alibaba collected from the stock market the highest amount in the history of listings

The Chinese Alibaba, a leader company in China in the e-commerce field and also operating in the finance sector, was listed on the NYSE in September 2014 by collecting the highest amount in the history of quotations – **$ 25 billion** – with a market capitalization over $ 200 billion.

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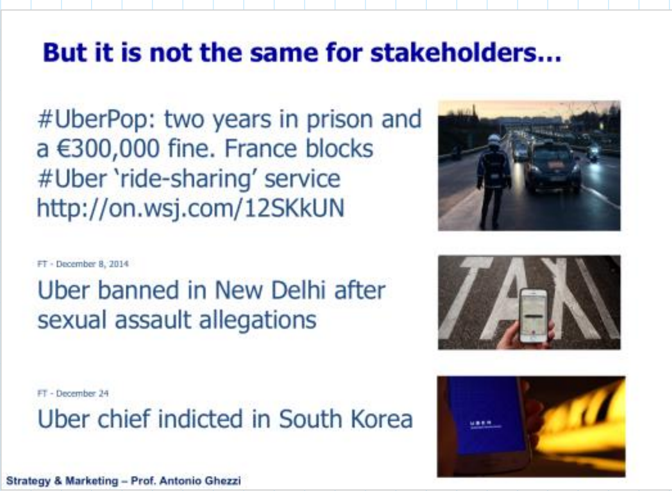
Big bang disruptions are not appreciated only by customers, but even by financial markets

taking a position on a stock,beting on the increase of the stock and then sell the stuck to higher margin

big bang disruption:regulatry gaps that with a new invention you can exploit it



Uber can be considered a bing bang disruptor, but the system for booking taxis created some problems for its stakeholders, because passing from one day to another to a completely different paradigm can create huge problems that couldn't be forseen.

Once the popularity of these solutions gets out of hand, it also becomes difficult for the companies to manage potential problems and prevent them

the speed and dramatic impact of the big bang disruption are the result of disruptive technology that continue to enter the market better and cheaper

better and cheap is the difference between blue ocean and big bang

disruptive technologies and innovation are lower in terms of performance, but big bang are better and cheaper at the same time.

But it is not the same for stakeholders…

WSJ March 15, 2015

Uber, Lyft Cases Focus on Drivers' Legal Status

Ride-sharing firms' business models could be affected by verdicts

*Two San Francisco judges separately ruled last week that suits filed by **drivers of the ride-sharing services Lyft and Uber** should go before juries.*

At issue in both cases is ***whether drivers, who are employed as independent contractors, should be considered employees*** of those firms, and thus entitled to the protections afforded most full-time workers.

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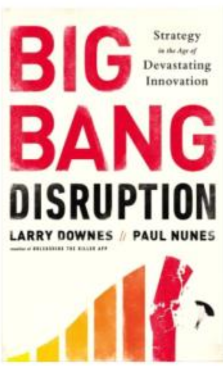
Uber had to become an established player in the market facing existing regulations

Three questions on Big-Bang Disruption



1. Is it «really» a phenomenon so qualitatively different to the entry of new business models in the last 30-40 years, up to assume it is a new paradigm?
2. Is it likely to continue, and if so is it likely to amplify or shrink gradually?
3. Is it so spread even in cases where there is no «big bang»?

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1. Are these big bang disruption sustainable ? The fact that they are so quick. Does it really change something in the competitive role that the companies play or does that make more difficult for them to transition into actual companies
2. If the phenomenon is likely to continue (taking over markets in an unforseeable way). Wil it become a standard (how innovation emerge)? Or is it going to shrink ?
3. Is it possible that somebody takes over a market leveraging an existing technology, but without destroying value for everybody around ?

THE BIG IDEA

Big-Bang Disruption

A new kind of innovator can wipe out incumbents in a flash. *by Larry Downes and Paul F. Nunes*

(1/2)

*The speed and the dramatic impact of Big Bang Disruption are the result of **disruptive technologies** that continue to enter the market **better and cheaper** than their predecessors.*
*In this brave new world, **new products and services start out life competing simultaneously on price, performance, and customization**.*

The disruptors have already redefined the rules of engagement in highly competitive, technology intensive industries, including consumer electronics, computing, and communications.
*But as the computing revolution continues to insinuate itself into every corner of our lives, **Big Bang Disruptors are starting to appear in every industry**.*

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There are 3 concept related to big bang disruptions:

1. Big bang disruptions are the result of disruptive technologies, but they are not the disruptive technology itself, they leverage the disrupting techonology that came out in the market to offer a new solution that is both better and cheaper. Meanwhile, disruptive technology where cheaper, but not better in terms of performance.

For example, the navigation case

THE BIG IDEA

Big-Bang Disruption

A new kind of innovator can wipe out incumbents in a flash. *by Larry Downes and Paul F. Nunes*

(2/2)

*For each of the items listed above **the source of disruption is the same** - the **programmable smart phone**, a hybrid computing and communications device with an endless number of small software apps. **Apps** can be small because most of their data processing takes place elsewhere, in what is known as **cloud** computing.*

This combination of hardware, software, and distributed computing have quickly replaced a wide range of devices, products, and services; some very old and others relatively recent innovations themselves.

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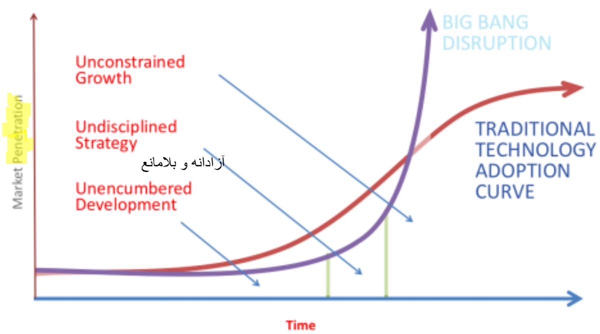
2. Big bang disruptions **will continue to appear because of the availability of technology**

Three key characteristics («devastating features») of Big-Bang Disruption



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3. Big bang disruptions often come **into combinations of technologies**, For example, Airbnb didn't have to improve any technological device or aspect , but they've just designed the website and value proposition

Big bang disruptions don't have an s-curve and they do not follow the traditional technology adoption curve, but they are taller (gain huge market penetration) and norrower (gain huge market penetration very quickly)

Three key characteristics («devastating features») of Big-Bang Disruption

1. **Unencumbered development**

- Big-bang innovations are often born of rapid-fire, low-cost experiments on fast-maturing, ubiquitous technology platforms
حاضر، همه جا حاضر
- They don't need budget approval and aren't vetted before development begins
- These innovations are often built out of readily available components that cost little or are free
- Innovators and entrepreneurs can experiment with new applications at little risk to investors, abandoning prototypes that do not quickly prove popular

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Unencumber: senza ostacoli

1. Development is not constrained by budget issues

they leverage sth that is already existing(lowcost and source of cost leadership) to create new value
the business model is software innovation compared to product innovation

Three key characteristics («devastating features») of Big-Bang Disruption

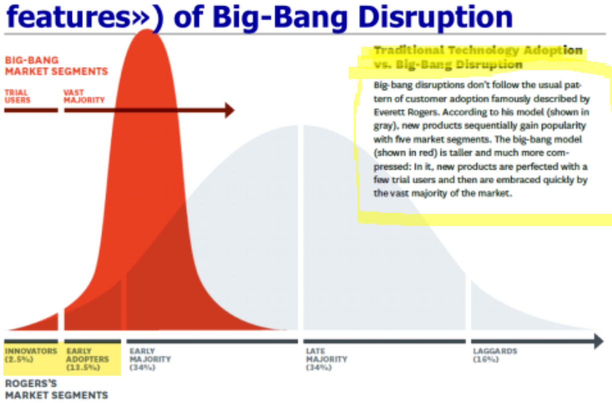
2. Unconstrained growth

- Big-bang disruptions collapse the product life cycle
- Now there are only two segments: **trial users**, who often participate in product development, and **everyone else**
- The new product cycle can be simplified into three basic stages:
  1. development
  2. deployment
  3. replacement
- The innovators collectively get it wrong, wrong, wrong—and then unbelievably right.
- In today's hyperinformed world, each epic failure feeds consumer expectations for the potential of something dramatically better

2. Big bang disruptors do not have to worry about the length of time that it takes for customer to adopt the new solution because there are only 2 segments: trial users and everyone else (entire market), so if it works, it just exponentially works, otherwise just repeat again

Companies can easily know if the big bang disruptive idea works because information is easier to collect nowdays through digital technologies

Three key characteristics («devastating features») of Big-Bang Disruption



The problem is what happens when everybody has the technology and they have to become a real company

The curves are also called **adoption curves**

Three key characteristics («devastating features») of Big-Bang Disruption

3. Undisciplined strategy

- Big-bang disrupters contradict much that you know about competitive strategy
- Big-bang disrupters are thoroughly undisciplined:
  - They start life with better performance at a lower price and greater customization. They compete with mainstream products on all three value disciplines (low cost; constant innovation; product customization) right from the start.
- How can better also be less costly?
  - The faster, cheaper, and smaller computing power (Moore's law) is now deployable on a global scale and delivered through the cloud to inexpensive mobile devices
  - **Today's technology continually and dramatically reduces costs** (parts and manufacturing, embedded technologies and intellectual property, and development costs), thus making it possible to sell new products and services more cheaply than the inferior alternatives they displace

3. Undisciplined strategy means that big bang disruptions brake the trade off between costs and performance that traditional technology has: Big bang disruptions are cheap but also highly performant

Three questions on Big-Bang Disruption

It is not «a phenomenon», but the result of some **MEGATRENDS**:

- Growth of the **«sharing economy»** model
- Growth of the **«product servitization»** model (use vs. ownership)

And...

- The **momentum growth of the «entrepreneurial» dynamic**

And...

- The **reduction** of creation cost
- The **reduction** of marketing cost
- The **reduction** of experimentation cost

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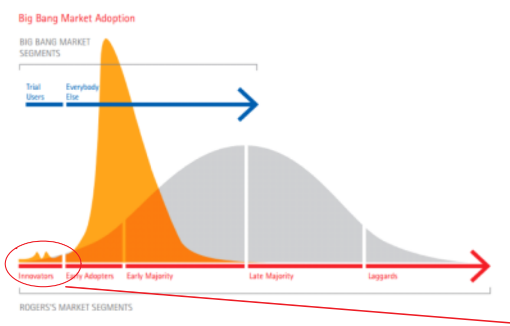
Big bang disruptions leverage some megatrends that are both social and technological, like the sharing economy or product servitization model, which is similar to the sharing economy, but taps into the interaction between the customer and the company during the experience of the product, for example the service that the company provides to the customer, and so the customer perceive also the value from this interaction

Venture capital markets are incredibly big, and there are firms dedicated 100% to investing into innovative start ups, and this allows new start ups to flourish and develop

For instance, paying for advertisement on facebook is cheaper than on the TV

Being able to fail in a much cheaper way

... not without risks



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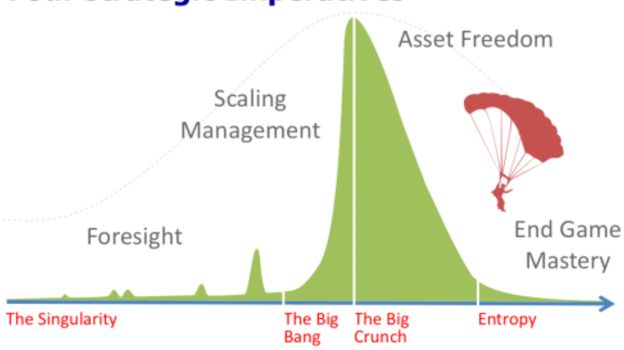
Risks are always present

For example, companies find themselves to deal with a huge amount of customers from one day to another. Of course, the time and dimension depends on technology and industry

Different trials and they are called singularities. They allow to understand that something is moving inside the market

Four stages of Big-Bang Disruption: Four strategic Imperatives



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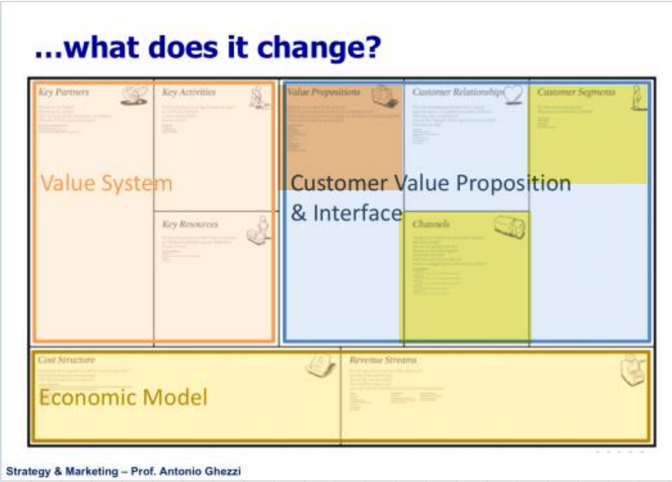
Singularity: the real important capability is to be able to foresight, to have a vision about what will be the future trends in terms of both customers' needs and which technology will be comoditize

Big bang: after few trial users, there is a big bang, so the adoption curve is completely thrown towards the totality of the market

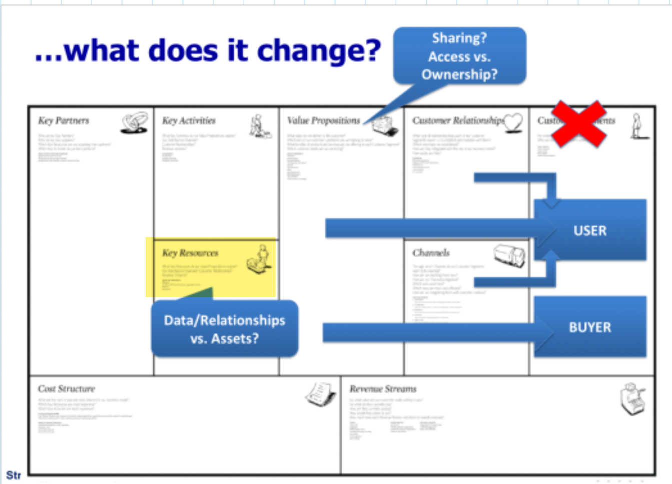
Big Crunch: Big contraction of the market penetration

Entropy: after the big crunch, the company has to find the parachute to not crash by falling down of the steep hill by finding a way to master the closing of the game. For example, Airbnb started with the travel industry, after a while they weren't so convinient anymore due to taxations and regulations, and so they've evolved and increase they're value proposition, that is, not travelling cheap anymore, but travel at a local and so on. In the end, Airbnb managed to achieve the "end game mastery"



What changes from a business model prospective when you encounter a disruption (very requested at the oral exam) ? What are the the elements of the business model that are affected by disruption ?

- Channels through which the companies offers value
- Customer segments



- Sometimes it affects the value creation. For example, the navigation system changed from an industry where the value was created through updating maps, being precise and producing smaller devices to data with google maps

- Value proposition. For example Whatsapp not only has a value proposition for the users (instant messaging app), but also for the buyers, which buy the data

Remember that **disruptive innovation** is cheap and simple. The performance measure is really important when talking about **disruptive innovation,** because they start from a nieche market that has low requirements; meawhile with **big bang disruptions** there is no nieche to target because the majority of the market immediatly adopts the new solution, so the technology performs good enough or even better than the existing competitor

Market attractiveness:average margin is higher than the average margin of the economy
market positoning, the proxy is relative market share(your share devided by the biggest competitors market share)

purpose:the reason why you exist
not jusst you make money,but also have an impact on the market,
objectives should be measurable and quantifiable

value chain that is made of our primary and support actvities,is a source of deltas,differentials in costs and values.
the resource bassed is a criticisms to the value chain.
what value chain is propoing to do is to enter the company and understand if you have resources and competencies,
and the question you should ask is that resource core?can be the foundation of a competitive advantage?
to assess we use 5 core tests or VRIO frame work.
if it wasnt core,it will be asource of temporary competitive advantage.
bt if you have a core,you can leverage this to enter another Market and would be a pattern to diversification and it connects 2 levels of strategy ,corporate and business ,
what is differentiation? is a business level strategy aiming at making your product be perceived as different and unique.

SM 21-22 AG Business Model Design and Innovation

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connecting modern and traditional strategy approches/is the companies' or start ups' value architecture(the business model is made of mechanisms and components that should harmonically stand together in a way you keep the company running and create value for customer

strategy execution

Brief recap on what we have done in strategy

How to use both BCG and McKinsey matrixes ?

The Mckinsey matrix is used when you don't know where to position an SBU in the BCG matrix

The analysis by means of the SWOT leads to the generation of strategic alternatives, which have to be assessed. After the assessment the next step is the **execution**. The business model **is a tool that helps explaining how a business strategy will be executed. Innovation will reflect upon changes in the design of the business model.**

The business model is not identifiable with single definition, in fact it has many. But in the last years, it seems to be a convergence towards a single definition

The Business Model "dilemma"

- The business model concept is perceived as more and more essential by both managers and academics
- However, it is often used as a **buzzword** meaning everything and nothing about the "new economy"
- The authors dealing with the topic have tried to describe the concept in terms of its **components** or **building elements** but the resulting parameters seem to be strongly dependent on the author's field of work.
- Even though the term **Value** is recurrent in business model design theory, within the practitioners community the business model issue is often wrongly associated to a **mere revenue model problem**, reflecting the widespread focus on the quantifiable concept of cost and revenue rather than value.

What is a Business Model?

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The problem with the business model is that, in the last years, it became a buzzword (everybody uses the term with a different meaning). The business model is not just how the company makes money, but it encompasses more components.

What a business model is – a collection of literature definitions

"A business model is an ***architecture*** for the **product, service and information flows**, including a description of the various **business actors** and their **roles**, a description of the potential **benefits** for the various business actors, and a description of the **sources of revenues**"

(*Timmers, 1998*)

"A business model is the ***method of doing business*** by which a company sustains itself, that is, **generate revenue**"

(*Rappa, 2000*)

"The essence of a business model is in defining the manner by which the enterprise **delivers value to customers**, entices customers to **pay for value**, and **converts those payments to profit**"

(*Teece, 2010*)

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In the slide there are the most common definitions. **In the exam we will have to know the last one.**

Based on this definition, we can say that **the business model is the value architecture, because it's a structure made of a number of components which harmonically has to build the structure together and keep it up.** If one of the components is removed, the whole structure will not stand up anymore. Why value ? Because the whole architecture will revolve around the notion of value.

What is value ?

Basic economics claims that value creation means wealth creation (create capital). In management, creating a value, means creating a benefit for the customer.

What are the main components of the value architecture ?

First of all, we have **value creation**: the company needs to explain how it creates value for the customers by means of products and services. **This is a pillar of the business model.**

The other main pillar, is **value delivery**: the company needs to explain how it delivers value to the customers (what are the channels used, the customer relationship, and so on)

Last is **value captured**. By means of value captured, the company is accountable of reaping a share of the value created for customers and transform it into profit. So the company capture part of the benefit generated for their customers, and transform into profit o cashflow for the company **so that the company is economically and financially sustainable**

if you are a startup,which of the 3 elements you are stronger at?creation

What a business model is – a literature overview (1/2)

- As a literature stream, business model design has evolved from a **piecemeal approach** (Tapascott et al., 2000; Amit and Zott, 2001; Rappa 2001; Weil and Vitale, 2001), to one searching for a **clear and unambiguous ontology** – that is, the definition of the basic concepts of a theory – (Osterwalder, 2004), to employ as a generalized tool for **supporting strategy analysis of firms**.
- Business model has become an **extensive and dynamic concept**: its focus has shifted from the single firm to the **network of firms**, and from the sole firm's positioning within the network to its **entire interrelations and hierarchies** (Ballon, 2007; Ghezzi, 2013).

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What a business model is – a literature overview (2/2)

- What is widely accepted by literature is that a business model shall be analyzed through a **multi-category approach**, as a **combination of multiple design dimension, elements or building blocks**, not simply restrained to revenue and cost models (Yu, 2001; Hedman and Calling, 2003; Osterwalder, 2004; Morris et al., 2005; Ballon, 2007; Johnson et al., 2008; Amit and Zott, 2009)
- However, the existing body of knowledge concerning Business Model Design shows a **lack of homogeneity** (e.g. Johnson et al., 2008; Ghezzi et al., 2010; Zott, Amit and Massa, 2011), and the issue deserves further academic investigation
- The **relationship between the business model and Strategy** is also debated (e.g. Casadesus-Masanell and Ricart, 2010).

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Business Model Design:

An overview of the main elements, models and frameworks

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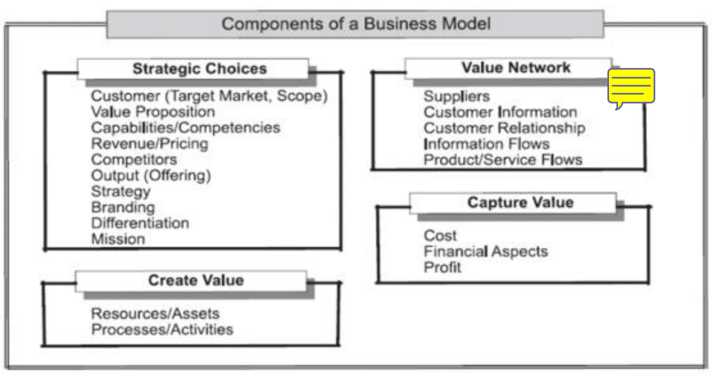
In order to let emerge these concepts, a number of models were introduced

Now we will undergo some history of business model constructs until the latest widespread version.

Business model affinity diagram (Shafer et al., 2005)



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The first example was published in 2005.

The components of the business model were grouped into a number of strategic choices: if you want to explain your value architecture, you find the choices you make at different levels in terms of customers, value proposition, the capabilities and competencies, revenue, pricing, competitors and so on. It's an all-embracing model with a lot of parameters which rose the question if the business model is the same as strategy. The answer is of course not, since strategy is something broader, but this is a first attempt

Beyond strategic choices, there was a lot revolving about value: value creation, value network, so links between the company and the other players, and eventually, value capture

Entrepreneur's Business Model (Morris et al., 2005)

Six questions that underlie a business model

Component 1 (factors related to the offering): How do we create value? (select from each set)
- offering: primarily products/primarily services/heavy mix
- offering: standardized/some customization/high customization
- offering: broad line/medium breadth/narrow line
- offering: deep lines/medium depth/shallow lines
- offering: access to product/ product itself/ product bundled with other firm's product
- offering: internal manufacturing or service delivery/ outsourcing/ licensing/ reselling/ value added reselling
- offering: direct distribution/indirect distribution (if indirect: single or multichannel)

Component 2 (market factors): Who do we create value for? (select from each set)
- type of organization: b-to-b/b-to-c/ both
- local/regional/national/international
- where customer is in value chain: upstream supplier/ downstream supplier/ government/ institutional/ wholesaler/ retailer/ service provider/ final consumer
- broad or general market/multiple segment/niche market
- transactional/relational

Component 3 (internal capability factors): What is our source of competence? (select one or more)
- production/operating systems
- selling/marketing
- information management/mining/packaging
- technology/R&D/creative or innovative capability/intellectual
- financial transactions/arbitrage
- supply chain management
- networking/resource leveraging

Component 4 (competitive strategy factors): How do we competitively position ourselves? (select one or more)
- image of operational excellence/consistency/dependability/speed
- product or service quality/selection/features/availability
- innovation leadership
- low cost/efficiency
- intimate customer relationship/experience

Component 5 (economic factors): How we make money? (select from each set)
- pricing and revenue sources: fixed/mixed/flexible
- operating leverage: high/medium/low
- volumes: high/medium/low
- margins: high/medium/low

Component 6 (personal/investor factors): What are our time, scope, and size ambitions? (select one)
- subsistence model
- income model
- growth model
- speculative model

business model is not a replacement for strategy, its a part of it

The previous model was followed by this one, in which there are questions an entrepreneur should ask himself when designing a business model. This is an entrepreneur business model because it provides them a checklist in order to clarify their idea

So, if you want to launch a start up, what are the things that you have to consider.

First question is: How do we create value ? (what are product, services and so on)

Third question is: What are the source of competencies? (resources and competencies that we ground our strategic position on)

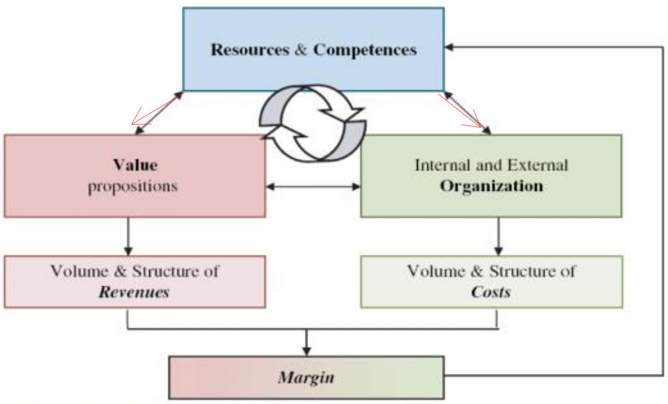
Forfth question is: How do we position ourselves ? (what are the criteria that we select in order to be better than others. Is it about cost efficiency ? Is it about effectiveness and differentiation ?

Fifth question is: How do we make money ?

Sixth question is about the dinamic perspective to add, so time scope and ambitions.

It is very difficult that the professor will ask questions about the parameters of these early business models. It is more likely to have questions on the last one that refers to the business model canvas and value proposition canvas

RCOV Framework (Lecocq et al., 2006)



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RCOV framework starts from the recognition that basically your ability to create value, and to have revenues that eventually margins revolves around the ability to create a bundle of resources and competencies, and to properly organize them. In fact RCOV = resources, competencies, organization and value

Business model for ICT services (Ballon, 2007) (1/2)

Control parameters	
A. Value network parameters	*B. Functional architecture parameters*
A1. Combination of assets	B1. Modularity
A2. Vertical integration	B2. Distribution of intelligence
A3. Customer ownership	B3. Interoperability
Value parameters	
C. Financial model parameters	*D. Value proposition parameters*
C1. Cost (sharing) model	D1. Positioning
C2. Revenue model	D2. User involvement
C3. Revenue sharing model	D3. Intended value

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This model was specifically developed for ICT services and it shows how sometimes business models and related archetypes were created to generate taxonomies and classifications in specific markets.

This one had to allow to map a specific category of players, and its defined in terms of control parameters because are internal parameters that you design, and value parameters, that refer to the interaction between the company and other players, and of course the customer

Business model for ICT services (Ballon, 2007) (2/2)

Control parameters				*Value parameters*			
Value network parameters		*Functional architecture parameters*				*Value proposition parameters*	
Combination of assets		Modularity		Cost (sharing) model		Positioning	
Concentrated	Distributed	Modular	Integrated	Concentrated	Distributed	Complement	Substitute
Vertical integration		Distribution of intelligence		Revenue model		User involvement	
Integrated	Disintegrated	Centralised	Distributed	Direct	Indirect	High	Low
Customer ownership		Interoperability		Revenue sharing model		Intended value	
Direct	Intermediated	Yes	No	Yes	No	Price/quality	Lock-in

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Business Model Framework (Richardson, 2008)

The Business Model Framework

The value proposition—what the firm will deliver to its customers, why they will be willing to pay for it, and the firm's basic approach to competitive advantage.

- The offering
- The target customer
- The basic strategy to win customers and gain competitive advantage (generic strategy and building blocks of competitive advantage)

The value creation and delivery system—how the firm will create and deliver that value to its customers and the source of its competitive advantage

- Resources and capabilities (VRIO)
- Organization: the value chain, activity system, and business processes
- Position in the value network: links to suppliers, partners, and customers

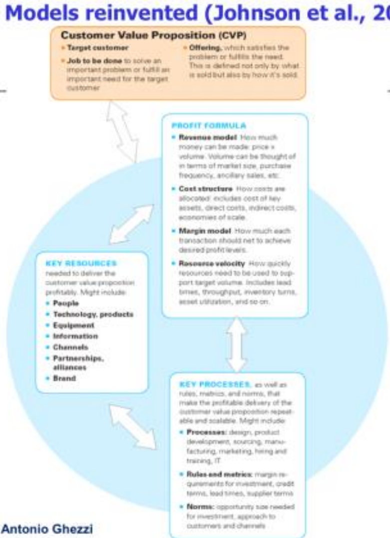
Value capture—how the firm generates revenue and profit

- Revenue sources
- The economics of the business

Strategy & Marketing – Pr

Richardson said that the business model is made of a value proposition, intended as a bundle of products and services, then value creation and value delivery system, and eventually market capture

The Business Models reinvented (Johnson et al., 2010)



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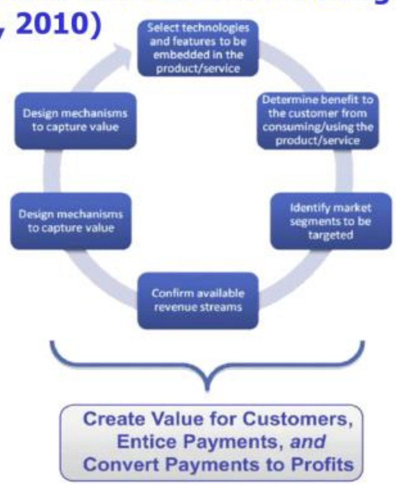
Here, again the approach is based on the link between value proposition and key resources and competencies

Elements of business model design (Teece, 2010)



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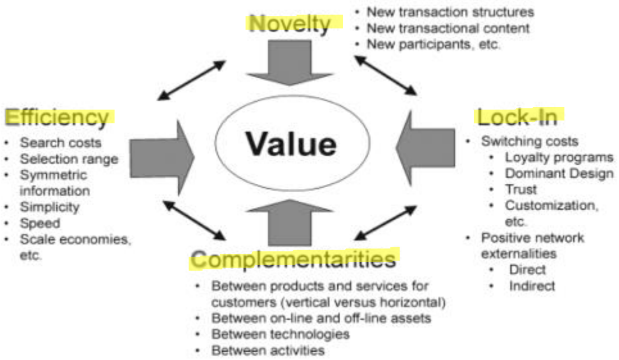
This one still reflects its definition on value creation, delivery and capture

Surces of value creation in e-business (Amit & Zott, 2001)



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This is interesting as a representation of how value is created. This model says that you can create value by means of 4 parameters

- **Novelty:** new things
- **Efficiency:** based on ebay's model. So how the internet can influence a company's ability to create value, so there are a number of efficiencies that you may generate thanks to internet
- **Complementaries:** refers to the ability of making things together in order to create and exploit synergies
- **Lock-in**: you create lock-in by making sure that your customers keep buying from you, so relates to the relationship. For example, apple's ecosystem makes difficult for customers to leave it, because they will lose that in switching to another company or a rewarding system.

Business model design: an activity system perspective (Amit & Zott, 2010)

- A firm's business model is conceptualized as a system of interdependent activities that transcends the focal firm and spans its boundaries.
- The **activity system** enables the firm, in concert with its partners, to create value and also to appropriate a share of that value.
- Activity system's set of parameters
  1. **Design Elements** – ***which describe the activity system's architecture*** when there are several sbus
     a. Content
     b. Structure
     c. Governance
  2. **Design Themes** – ***which describe the source of value creation*** when there is one SBU
     a. Novelty
     b. Lock-in
     c. Complementarities
     d. Efficiency

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Taken the previous model, the authors added some components. The Business model is made of a system of relations and activities between the company and other external parties, so there are some design themes which are how you create value, linked to the previous model, but also design elements that describe the activity system architecture: you have to define what are the relationships and links with the other players in terms of content structure and governance

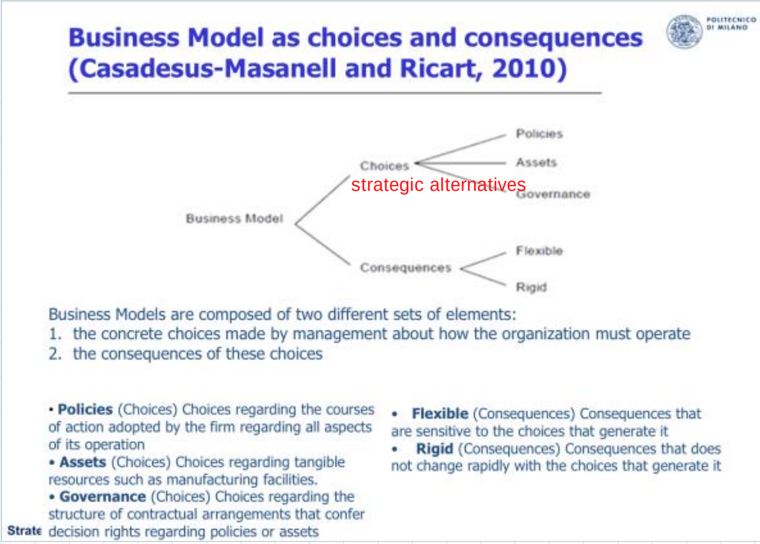
Business model design: an activity system perspective (Amit & Zott, 2010)

Design Elements	
Content	*What* activities should be performed? to get design themes
Structure	*How* should they be linked and sequenced?
Governance	*Who* should perform them, and *Where*?
Design Themes	
Novelty	Adopt *innovative* content, structure or governance
Lock-In	Build in elements to *retain business model stakeholders, e.g., customers*
Complementarities	*Bundle activities* to generate more value
Efficiency	Reorganise activities *to reduce transaction costs*

Here they define what content structure and governance mean. For instance, what activities should be perfomed, how they should be linked and sequenced, and so on

many say this is revamping of the value chain,its not 100 true,the value chain is simmerized in the BM but for different purposes.

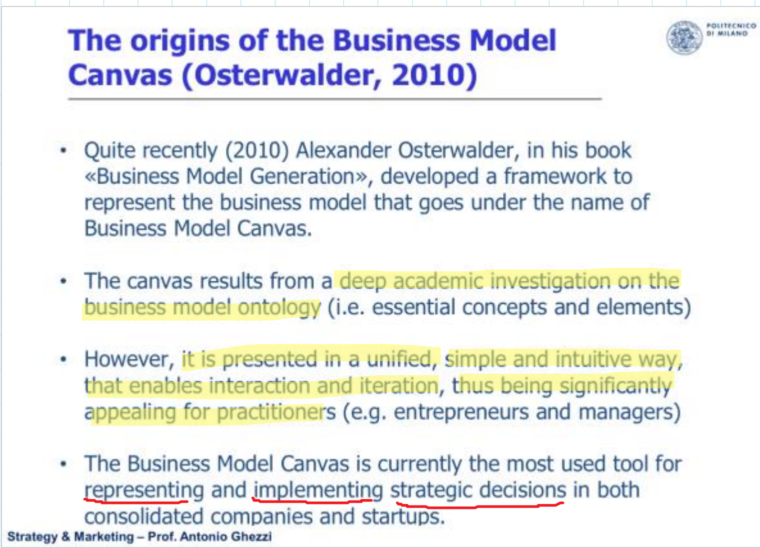
the business model is to show how you execute an implemented strategy, so ot incorporates some elements of value chain but its not the same thing



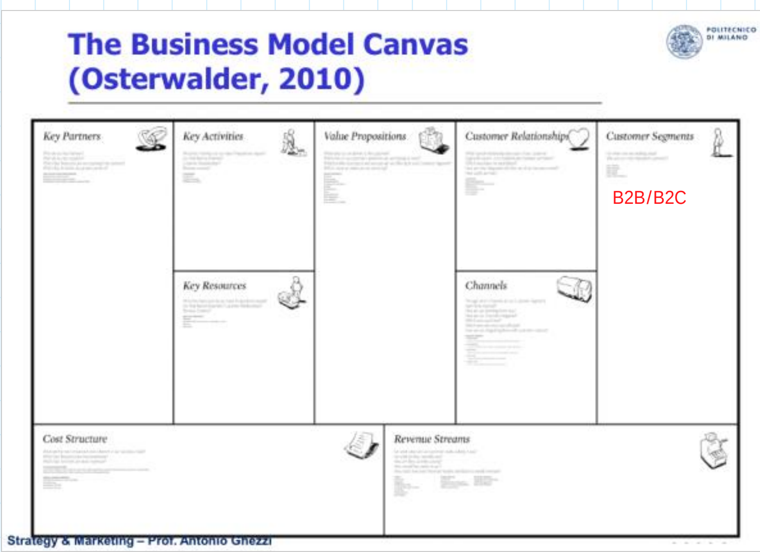
Last model before the business model canvas. They say that the business model is made of choices and consequences. Choices refer to some decisions of policies, assets and governance, while consequences have to be either flexible(you may change the consequences by changing the choice) or rigid (once you make a choice it's very hard to come back)

This representation of the business model as choices and consequences is extremely helpful to connect the notion of business model to that of strategy and tactics

There are decisions at strategic level and at tactic level. This business model helps to connect them



Osterwalder came up with a representation of the business model that takes many elements from the previous ones, and it's really appreciated because it's unified, compact and quite easy to explain.



The business model canvas explains that the value architecture of a company should be portrayed by needs of 9 elements.

The first one **customer segments**: representation of the identification of those customers you need to create value for, and if you have more than 1 customer segment, you may also split the box. Then when you describe the value proposition, which is a bundle of products and services that you offer your customer segments in order to create value for them, you can use different colors, maybe the same for the B2C customers, which is different from the color used for the B2B ones.

Why didn't we start with defining the value proposition first ? Because the value proposition should come after or in parallel with customer definition, otherwise we are adopting a technology driven approach, which first defines the value proposition, and then the customer segments

In between value proposition and customer segments, we have channels and customer relationship. This is the value delivery part.

In **channels** you need to define how you take your value from your company to your market, either in a **tangible way** (office, store, supermarket, etc) or in an **intagible way** (e-store, social

Information channel:you exchange valuable information with th customers

media, application). In the channel you find the **pipeline: how you take the value from your company and you move it towards your target customer.**

In **customer relationship** you define how you manage the channel. Is everybody getting the same thing in a standardized way ? Or maybe you have one to one marketing where everybody is treated differently ?

outbound marketing:you are tossing things to susomers hoping one will get them
inbound marketing:I create a valuable content thats valuable in itself and it will attract customer
we give them information like statistics about volcano disaster and then we say as an insurance company what are our services
(you engage customers) and then you try to lock in(subscription,integration of devices(everything is easy as long as I stay in apple),rewards.)

The customer relationship build block is, today, among the most **important sources of competitive advantage** for companies, because by means of customer relationship you can achieve, first of all, **engagements**. In customer relationship you should explain how you engage your customers, how do you take them into the conversation (email, calls or content creation). Here we are talking about customer **marketing pull** (creating a content and pulling the customer to me) vs customer **marketing push** (communication and promotion towards the target customers, hoping they'll be interested in the value proposition).

customer lifetime value(CLV) is bigger than CAC(customer aquisition cost)

you should make sure that the customers will buy again and the CAC is low

we live in an experience economy that what you buy is less important than the experience you build around the offer

The first one is more complicated because it requires creativity, but at the same time is the one that interest the most. For example, Milanese imbruttito or The Jackals

value will be determined by "what" you sell,but in adition to customers,competitors will also see this product and service
so we will have "how",not only I sell you sth ,I find a smart way of doing that.
the third level is "why"
by finding a way to make customers fall in love with me,not just the product, with me as a company.
if you find this purpose you will lock them in forever

https://raddinteractive.com/the-difference-between-push-and-pull-marketing-strategies/

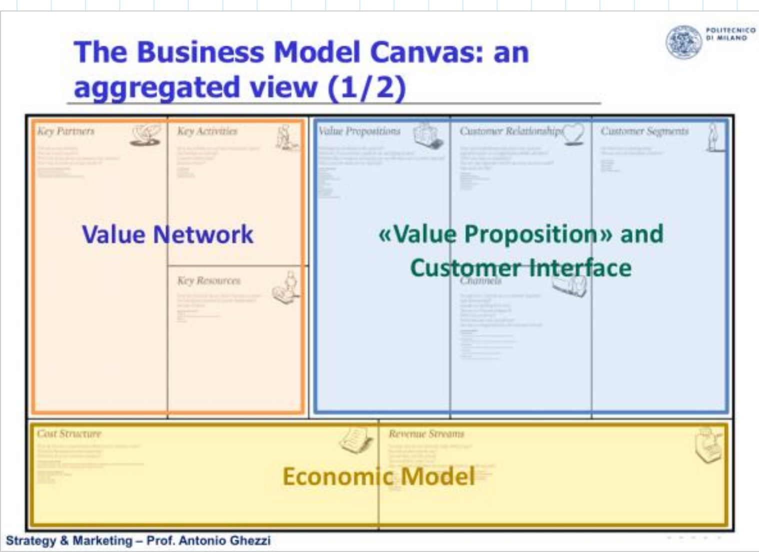
So, first you have to explain how you start the conversation, and then how you lock customers in.

Remember that **acquiring new customers is always more expensive than keeping the ones that we already have**

After acquiring customers you can go with **cross or up selling**,

Up selling is the practice of encouraging customers to buy a product that has a higher value than what the customer is about to buy

Cross selling invites the customer to purchase related or complementary products or services

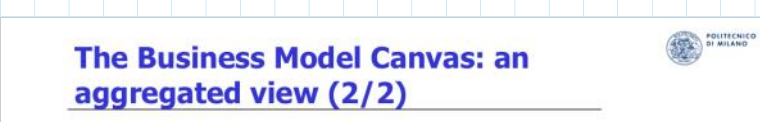


Value can be considered as a measure of performance (through financial, economic or holistic terms). Value that comes from a product or performance is subjected to competition, because every competitor can see what you are doing, but at the same time, value can be also about the how. What are the channels ? What's the customer relationship? You can create much more value if you focus on the how. It's creating a valuable experience. Then you can also create an emotional attachment between the company and the customers

Moving to the left of the business model canvas, we have **Key activities**, so activities that you have to design and run in **order to create and deliver value** (not that different from the definition of the value chain)

Key resources are resources and competencies that you need to own or know in order to create and deliver value. It's a little bit different than the core resources and competencies approach, because **key resources** are

you can list key resources and then highlight core ones



The Business Model Canvas: an aggregated view (2/2)

- **Value Proposition**: a selected bundle of products and/or services targeting a group of customers and satisfying well-defined needs
- **Customer Interface**: the channels through which we offer our value propositions to our customers and the types of relationships we entertain with our customers
- **Value Infrastructure**: the key activities, resources and suppliers/partners on which the value proposition is built
- **Value Monetization**: the revenue streams through which the company earns from its customers and the corresponding cost structure

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they are outside of the company and you need to refer to and relate with

always split between capital expenditures and operational expenditures

resources that **you need in order to stay in the market**. Instead, **core resources** are a subset of the key resources which can **ground your competitive advantage**. They are not many, maybe just one or two.

In **Key partners** you discuss who are the key partners you need to discuss with in order to **create** and **deliver value**. This is helpful, because if you compare key activities and key partners, you have a clear indication of the level of the vertical integration of the company. For example, if you have a lot of key activities, and zero key partners you have a high vertical integration. An increase in the key partners,are an increase in the activities that have to be outsourced.

The bottom of the model is related to **value capture**

Cost structure is on the left because your activities, resources and partners determine your costs.

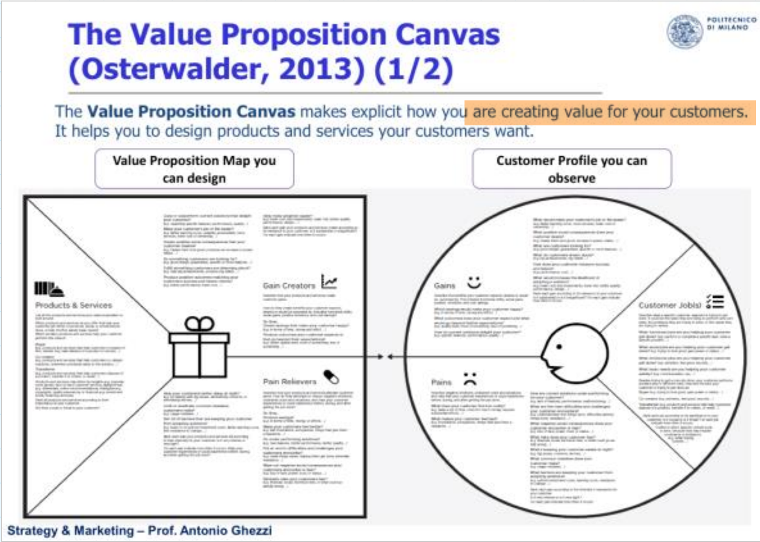
This section can be split up into **capital expenditures** (investments in long term assets that go in the asset part of the balance sheet which are subject to D&A), and **operational expenditures** (bottom part of the income statement). By separating costs you gain a glance at the **capital intesity** of the company, the more capex the more capital intensity grows.

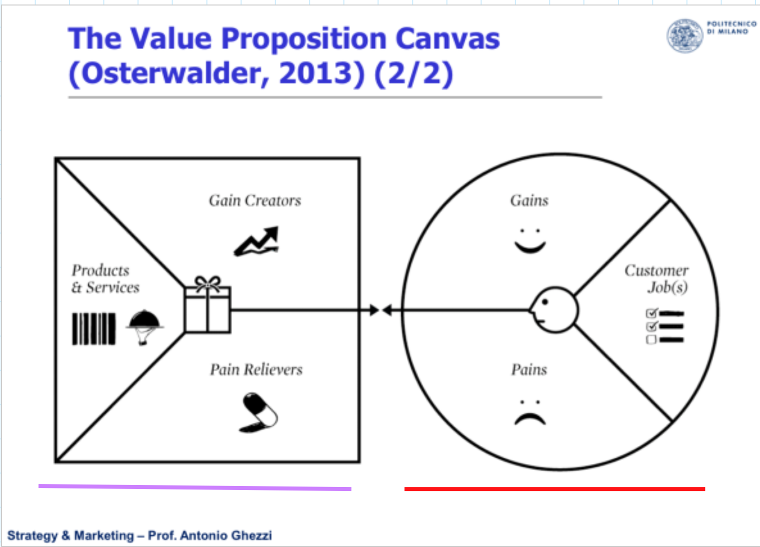
In the end, **Revenues,** so how the company makes money. Is the company selling in one shot or by subscription ? Why are the subscription going strong ?

For example, **recurring revenues is a way to maintain people locked-in, by guaranteeing that customers continue to pay overtime**.

Previous model is for profit companies. Non-profit companies have to use **mission-model canvas ,** which states that, instead of customers, you have **beneficiaries**, someone benefitting from your value proposition. Instead of value proposition, that is more for product and services, there is the **mission,** and instead of revenues, there is the **impact** voice, because the non-profit company tries to make an impact, rather than taking money.

If profit companies have an empty box in the bottom-right part, they have a huge problem because they will not be able to capture any value





A few years later, to better identify customer profiles and segments, and design the value proposition, the **value proposition canvas** has born

The **value proposition canvas** helps profiling customers which we observe in the market.

In the picture the value proposition and the customer profile meet each other because is important for the value proposition to be consisten to what observed in the market. Otherwise you look at the market and design something just because you like it, not because customers ask for it.

The convergence between **value proposition** and **customers segments it is important.**

To better profile your customers you need to identify 3 features for each:

- **Customer jobs**
- **Customer pains**
- **Customer gains**

For example
Let's assume that we want to launch an application that can help us finding free parking space.

The **customer job** is the activity that the customer has to perform which we want to help in her performing. In this case the customer job is parking, and we want to help her in doing it

Customer pains are all of the problems associated with the job that represent a pain for the customer

Customer gains are all the sources of satisfaction and possibly happiness that can be associated with the customer job. In this case find easily a parking space and also not waste time in doing it

In the left part we have products and services, so we need to explain what your products/services' solutions are.

Pain reliever is a specific functionality of the product/service that will help relieving or eliminating the pain

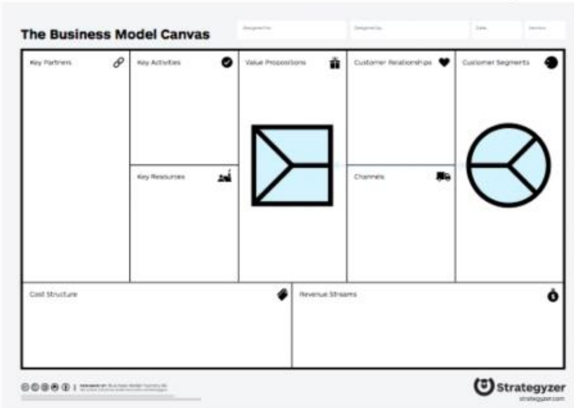
Gain creators are those functionalities of the product/service that generate the gain. Maybe we could create a rewarding system everytime someone signals a free spot, and after some segnalations you get a price or something like that

The most important thing is that you need to make sure that what we deliver in terms of product/services and pain relievers and gain creators are matching what we observed in the market.

We are not obliged to offer a functionality for all pains and all gains. Just make sure that they cover at least 1 pain and 1 gain

How to use business model canvas and value proposition canvas ?

Feeding the BM Canvas with the VP Canvas



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The Business Model Canvas
The Building Blocks of a Business Model

A business model can be described by looking at a set of nine building blocks. To get a good picture of our business model we should describe our:

1. **Customer segments**: Our groups of customers with distinct characteristics.
2. **Value proposition**: The bundles of products and services that satisfy our *customer segments*' needs
3. **Distribution channels**: The channels through which we communicate with our customers and through which we offer our value propositions.
4. **Customer relationships**: The types of relationships we entertain with each *customer segment.*
5. **Revenue streams**: The streams through which we earn our revenues from our customers for value creating and customer facing activities.
6. **Key resources**: The key resources on which our business model is built.
7. **Key activities**: The most important activities performed to implement our business model.
8. **Partner network**: The partners and suppliers we work with.
9. **Cost structure**: The costs we incur to run our business model.

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1. Customer Segments

- Customers are the heart of any business model. Successful companies know how to turn satisfied customers into revenue streams.
- A clear description and understanding of a company's customers is an integral part of every business model.
- **Key Questions:**
  - Who do we create value for?
  - Do any of these customers merit to be grouped into a distinct category, because…
    - … we propose them a distinct offer?
    - … we reach them through different communication and distribution channels?
    - … we entertain different relationships with them (e.g. more personal)?
    - … they have a substantially different profitability?

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pain and 1 gain

How to use business model canvas and value proposition canvas ?

Value proposition canvas should be used first, and then you integrate the results in the business model canvas. After that, you build the other parameters around them

and this way you explain how a company strategy will be executed

2. Value Proposition

- The value proposition is the reason why customers turn to one company over another. It solves a customer problem or satisfies a customer need. Each value proposition consists of a selected bundle of products and/or services.
- Some value propositions may be innovative and represent a new or disruptive offer. Others may be similar to existing market offers, but with added features and attributes.
- **Key Questions:**
  1. What do we offer the market?
  2. What is the specific bundle of products and services you offer each of our customer segments?
  3. Which customer needs does each value proposition cover?
  4. Do we offer different service levels to different customer segments?

Factors enabling value creation

- Originality
- Performance
- Customization
- «Getting the job done»
- Design
- Brand/Status
- Price
- Cost reduction for the customer
- Risk reduction for the customer
- Accessibility
- Handiness

3. Channels

- A company reaches its customers through various communication and distribution channels. They represent the interface between a company, its value propositions and its customers.
- Communication and distribution channels have become increasingly important in business model design. For example, cost intensive channels should be used for very profitable clients, while unprofitable clients should be served through cost efficient channels.
- **Key Questions:**
  1. Through which communication and distribution channels do we reach our markets?
  2. How well does each channel work?
  3. How expensive or cost efficient is each of our channels?
  4. Through which communication and distribution channels do we promote and deliver each value proposition?
  5. Through which channels do we reach each customer segment?

Channels

- The direct (sales force, web) or indirect channels (owned dealers, dealer of partner, wholesalers) have different functions:
  - Create awareness of the proposal
  - Support the customer in the evaluation of the proposal
  - Allow the purchase of specific products/services
  - Get the value proposition to the customer
  - Support the customer in the post-sale phase

4. Customer Relationships

- Getting relationship management right in our business model is crucial today to satisfy customer's expectations. For instance, customers paying a high price for a product or service will expect a high touch relationship, while customers paying a cheap price do not expect more than automated, yet customized relationships.
- A sound business model has a clear strategy for customer relationship management for each customer segment.
- Key Questions:
  - Do we develop and maintain different types of client relationships in our business model (e.g. more or less intense, more or less personal)?
  - How resource intensive is each of these client relationship types in terms of time consumption and other costs?
  - For each client segment, which client relationship types and mechanisms do we develop and maintain?

Customer Relationship management

- Personal assistance
- Dedicated personal assistance
- Self-service
- Automated services
- Online community
- Co-creation

5. Revenue Streams

- If customers comprise the heart of a business model, revenue streams are its arteries.
- Revenue streams come from one or several segments of clients who are willing to pay for the value they get from our offer.
- These revenue streams come in the form of selling, lending, licensing, commissions, transaction fees or advertising fees.
- Key Questions:
  - What are our revenue streams?
  - What are the revenue streams from each customer segment and value proposition?
  - How much is each revenue stream's contribution to overall revenues in terms of percentages?

Examples of revenue streams

- Sell of products/services
- Usage fees
- Subscription fees
- Exclusive right of use for a limited time (renting)
- Licence
- Brokerage fees
- Advertising fees

6. Key Resources

- At the basis of every business model there is a set of key resources a company must dispose of to make its business model work.
- These key resources include classical ones such as human resources and tangible assets. Increasingly, business models are also built on intangible assets that are difficult to quantify, such as brand equity and expertise of a specific domain.
- Key Questions:
  - What are the key resources we rely on to run our business model?
  - How does each of these resources relate to our value propositions and their corresponding customer segments, channels and relationships?

7. Key Activities

- To implement a business model a company needs to perform a number of key activities. It may perform these activities itself or get them done through a network of partners.
- Key Questions:
  - What are the main activities we operate to run our business model?
  - On which key resources do they rely?
  - To which value propositions, channels or relationships do they contribute?

8. Partner Network

- Today's Business Models are more and more the result of a network of partnerships, joint ventures, cooperation and alliances between different companies.
- Every company must ask itself if and how it can leverage its own business model by partnering with other companies. This includes the question of what a company wants to do by itself and what it wants to do with partners. It also includes the question of levering one's own value proposition by combining it with the value proposition of strategic partners.
- Key Questions:
  - Which partners and suppliers do we work with?
  - Which key resources do they relate to?
  - To which value propositions, channels or relationships do they contribute?

9. Cost Structure

- The cost structure is a direct result of all the other building blocks of the business model. Ideally costs should be traceable back to each business model block.
- Key Questions:
  - What are the most important cost positions in our business model?
  - Can the cost positions be easily connected to a business model building block?
  - Can costs be calculated for each customer segment?

Task:

Design a Business Model Canvas for Whatsapp

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If you're not paying for it, you are the product

In this case there is one user group, which is everybody who owns a smarphone, and then there is one customer group that is made of advertisers with 2 different value propositions.

The value proposition for the users is free messaging, free calls, free file sharing

The value proposition for the advertisers is data

The users are not a key partner, otherwise they should get paid for the information that they provide

Business Model, Strategy & Tactics relationship

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Generic two-stage competitive process framework (Casadesus-Masanell and Ricart, 2010)

Strategy stage

Stage 1

Firm chooses the *Business Model* through which it intends to compete.

Tactics stage

Stage 2

Tactical Choices made from amongst those available, depending on business model choice at first stage.

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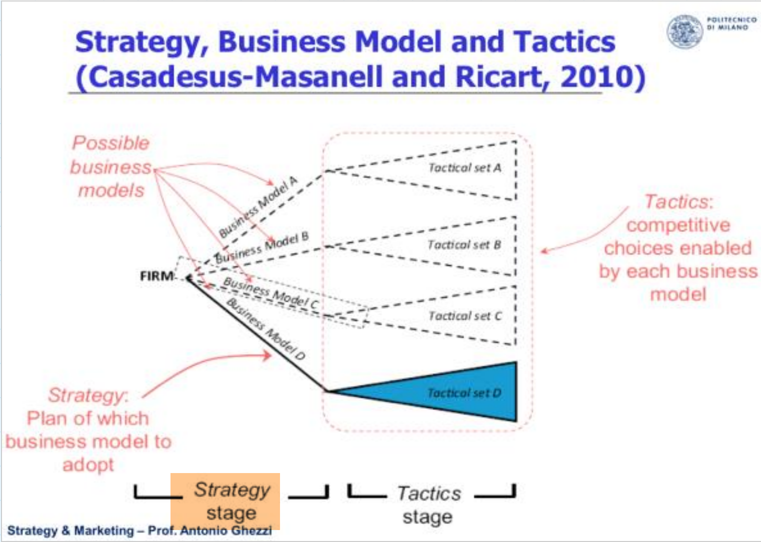
In the business model is possible to read some strategic phenomena that go way beyond the single firms sometimes. **It is possible to see major trends**

What's the relationship between business model, strategy and tactics ?

When we make decisions about the right business model to implement, that is a strategic decision. Then, once you select a certain business model, you need to make other decisions that are operational and tactical.

For example, choosing e-commerce as a channel it's a strategic decision.

Once you have the e-commerce channel, if you are going to apply some discounts, that's a tactical decision.



The business model is the link between strategy and tactics.

Here there are several business models. The decision to which to adopt is strategic. Then, once you select a given business model you enter the tactical domain

Business Model vs. Strategy
What a business model is and is not (Ghezzi, 2014)

Table I What a business model is and is not

What a business model is
Instrument to concretize a business idea, getting it down to earth, thus constraining entrepreneurial creativity in a usable model
Checklist to address the "what did I forget about" and "what's next" in early entrepreneurial agendas
Organized construct revolving around the concept of value proposition, to imprint the notion of value creation and value capture in a company's overall business strategy
Model to support the execution and implementation of the business strategy
Model to enable strategic innovation–either incremental or radical–through Business Model Innovation, i.e. applying changes to the business model's building blocks of value proposition, value infrastructure and value formula (revenue streams and cost structure)

What a business model is not
Instrument for business planning
Instrument for external market attractiveness analysis
Instrument for in-depth internal core resources, competencies and dynamic capabilities assessment
Instrument for comprehensive and holistic strategy formulation
Instrument for strategy monitoring and performance measurement
Substitute for strategy

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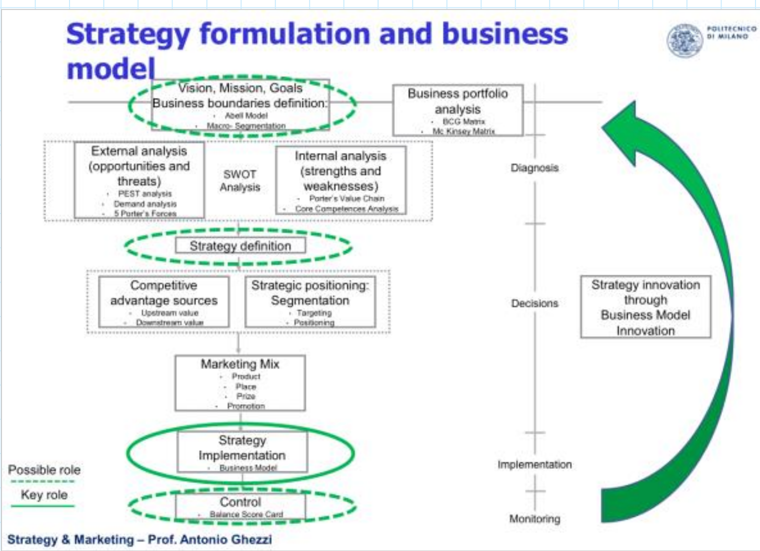
There are some issues in understanding what a business model is and is not.

Basically, the business model should be seen as an instrument to explain your business idea.

We can also use the business model to execute our strategy

We can use the business model to trigger innovation: your strategy today is reflected by the business model adopted, and if you want to innovate your strategy, innovation will reflect on changes in your business model parameters



The business model plays a major role in strategy implementation: it shows how your strategy is implemented and executed today, but at the same time if you have an idea, you use the business model to clarify the idea, and then around the idea you build the vision, mission and goals

Strategy definition: each strategic alternative coming from the swot, could be well represented by a given business model. For example, if we have 4 different strategic alternatives, we could have 4 different business models. Then you decide which one to implement.

The green arrow shows that if you innovate your strategy, the innovation will reflect on the business model

Strategy formulation and business model

- Steps of a strategy formulation process that integrates the business model (Ghezzi, 2014):
  1. sharpen your generic business idea through a **preliminary business model**;
  2. define your business' industry foresight, strategic intent and goals;
  3. perform a SWOT strategy analysis;
  4. assess alternative strategic decisions that lead to many **possible business models**
  5. formulate your strategy (differentiation/cost leadership/hybrid) through a set of consistent strategic decisions **embodied in a business model**;
  6. Execute and implement your strategy through a **detailed business model**;
  7. control your strategy by controlling and monitoring **business model performance**;
  8. innovate and experiment on your strategy through **business model innovation**.

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Business Model Innovation

- Business models are enablers to achieve successful innovations, and hence business models themselves became **subject to innovation**.
- Companies started to realize that in response to **changes** in their environment, even a successful business model is never a permanent given (Chesbrough, 2007; Lindgardt et al., 2009). Rather, firms are required to **reconsider their established models** (Chesbrough, 2010) – either in response or pro-active anticipation of changes in their environment.
- **Business model innovation** thereby goes far beyond **isolated product, service or technology innovation** (Lindgardt et al., 2009). It captures the innovation of at least one of its constituting elements including its value proposition, its value infrastructure, or revenue model and thereby provides a firm with potentials like the activation of overlooked value sources within the company or the creation of novel systems that are difficult to imitate (Amit, Zott, 2010).
- **Business Models hence represent the new focus of strategic innovation**

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Product innovation comes before process innovation

Business innovation is something broader, because you not simply innovate product or process, but it comprehends the business model's parameters

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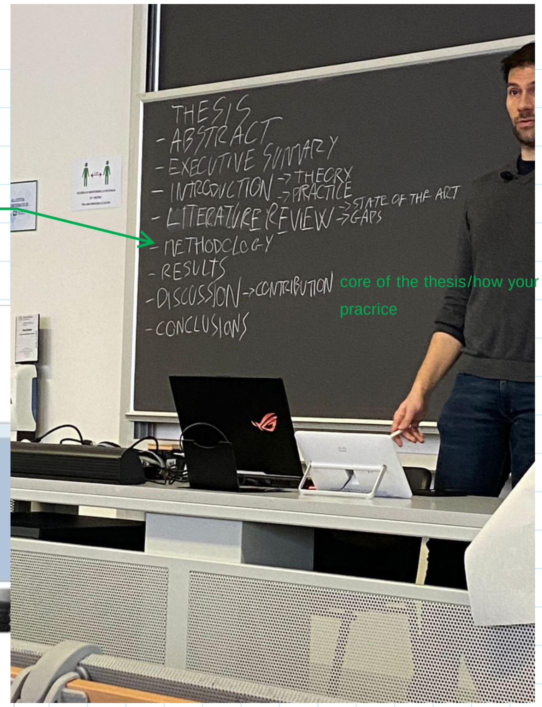
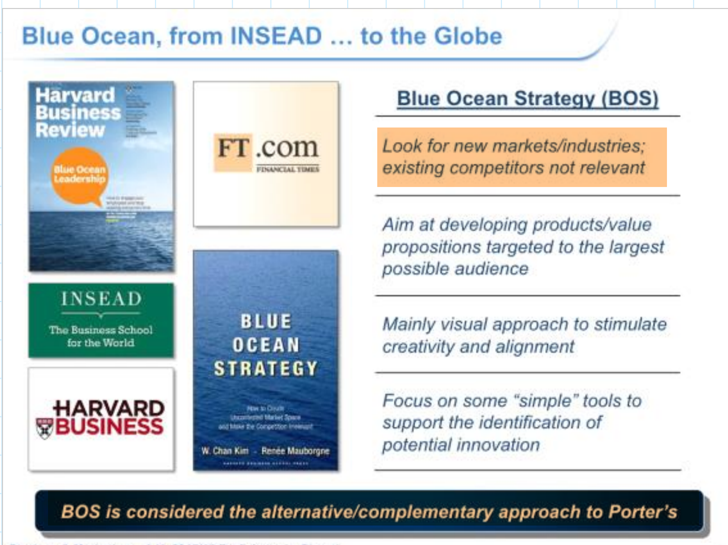
qualitative or quantitative,...



core of the thesis/how your results fit or do not fit into theory or pracrice

Now, the focus is on how to innovate the strategy that you already have or to enter a market with a radically different value proposition. The last one takes the name of blue ocean strategy



Blue ocean strategy was a proposed few years ago as an answer to traditional approaches in strategy.

and focus which ultimately goes to the way to decide we are cost leader or defferentiator

Michael Porter idea for generic strategy is that a company can either go for cost leadership or ~~cost~~ differenciation. Efficiency vs Effectiveness. For Porter, it was not possible to pursue both of them.

The authors of the blue ocean strategy, started publishing some articles on challenging the traditional Porter's view in the yearly 2000, by trying to break the cost-value trade off. The early publications did not get recognition except from Academia. Then, they proceed to publish the articles on Harvard Business Review, in order to reach a wider audience of managers and entrepreneurs. HBR like the idea, but the original title (critique of Michael Porter's traditional idea or something like that) wasn't appealing, so they changed it in "Blue Ocean Strategy".

Strategic innovation:how companies can find new sources of competitive advantage

If you operate in a **traditional market**, we can consider that market as an ocean where the big fish eats the smaller one, and fights part with the fish of the same size. All of that eating and fighting creates very harsh competition, turning the water red. So, traditional markets are **Red oceans**, they are characterized by **huge levels of competition**, which often turns to price wars (worse thing it could happen because affects the attractiveness of the market by turning margins down).

in the red ocean you have boundries of the market that are set and defined,all of the players in the market comply to the same rules and all of them cover the same demand

the customers do not compare you with any competitor/the boundries are not set and its your job to define boundries

The smart fish has to swim away and find a blue ocean, which is un uncontested space. A place, where, **at least for a while,** you are the only one player. By doing so the company **makes competition irrelevant**, in order to create the blue ocean, **the company needs to**

a key difference:you do not fight over an old existing deman,you create a new demand

break the cost-value trade-off.

The idea that by performing a radical innovation gets your company to a market free of competitors, in which the company can have a monopolistic behaviour is not new, everybody knows that. The value added here, is that the blue ocean strategy **actually gives a methodology** to reach the so called blue ocean, and if not, reach a "blue pond" where the company can enjoy better performance

Red Oceans and Blue Oceans

- Red oceans represent all the industries in existence today - the known market space. In red ocean industry boundaries are defined and accepted, and the competitive rules of the game are well understood. Here, companies try to outperform their rivals in order to grab a greater share of existing demand
- Blue oceans denote all the industries not in existence today - the unknown market space, untainted by competition. In blue oceans, demand is created rather than fought over. There is ample opportunity for growth that is both profitable and rapid

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Read oceans have a number of characteristics. For instance, industry boundaries are set, you know who the competitors are, you know the rules of the game, because there are rules accepted by all players, which act upon those rules. At the same time, **the company's demand is fixed**: you know how many customers there are in the market, and you know how much demand you can capture. In these conditions, everybody competes in a red ocean

In **Blue oceans** you move away from boundaries, so you are the one that defines the boundaries of the industry. There's no specific rule of the game, and **most important,** instead of focusing on capturing the existing demand, tries to create new demand.

The origins of a blue ocean

- In a few cases, companies can give rise to completely new industries (as eBay did with the online auction industry)
- But in most cases, a blue ocean is created from within a red ocean when a company alters the boundaries of an existing industry (as Cirque du Soleil did with the circus industry)
- It is not about technology innovation. Blue oceans seldom result from technological innovation. Often, the underlying technology already exists - and blue ocean creators link it to what buyers value

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How do blue oceans emerge ?

Sometimes they emerge as a completely new industry. For example, before Ebay, the online auction system didn't exist, they entered the market and created the industry.

In the majority of the cases, you don't start from the scratch, you innovate an existing industry: you start from the red ocean, you make some smart original moves that break the cost-value trade-off, and eventually create a blue ocean.

Disruptive Innovation and Big bang disruptions are all about technology **(Question that can be asked at the exam)**

With no technology there is no Disruptive Innovation and Big bang disruptions, while there might be a Blue ocean strategy.

the blue ocean strategy is not about segmenting the red ocean and finding yourself a profitable market nish,because this is still the old demand

~~Big~~ ocean strategy it's called **value innovation,** because you change the ways you create value in industry, regardless of the technology. Technology might be a factor, but also cannot.

A new way to make competition irrelevant

Blue Ocean Strategy, a fancy "concept" ...
...not easily put into practice!

RED OCEAN STRATEGY (Competitive Strategy)	BLUE OCEAN STRATEGY
Compete in existing market space	Create an uncontested new market space
Beat the competition	Make the competition irrelevant
Exploit existing demand	Create and capture new demand (hidden or even not existing)
Make the value/cost trade-off	Break the value-cost trade-off (seek greater value to clients and lower cost simultaneously)
Align the whole system of company's activities with its strategic choice of differentiation ***or*** low cost	Align the whole system of company's activities in pursuit of differentiation ***and*** low cost

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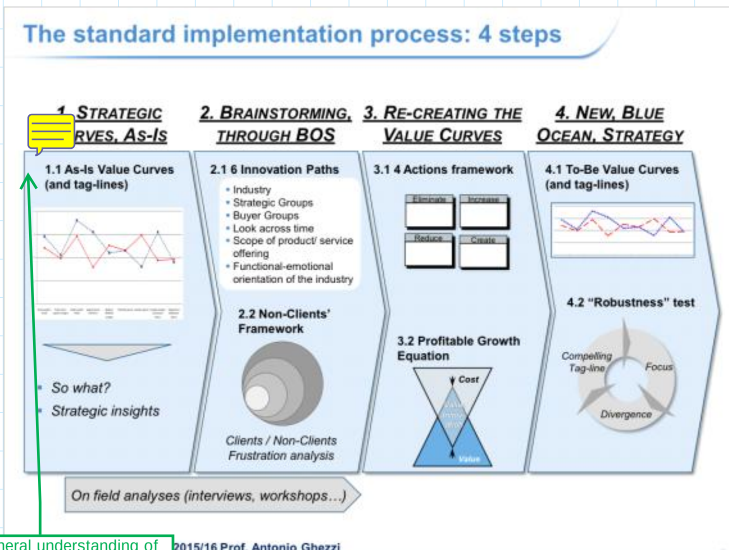
Differences between red and blue oceans

Example of blue ocean creation: Ryanair created the low-cost airline industry in Europe.

Brake of the cost-value trade off: Ryanair claims that 99% of their flights take off and land on time. This is both a value and cost differential. **Value** because consumers can plan their schedule knowing that they'll arrive on time in the desired place. Cost. because, thanks to the fact that they can guarantee a certain schedule, they make sure to better saturate their flights, their planes and cut airport fees.

parking

blue ocean is all about understanding how you can break the cost-value trade off



it gives a general understanding of how the company is currently positioned/its time consuming and not a core step

how they are positioned based on these value attributes

The first step is called **strategic curves, As-Is**

What are those ? Let's make an example

Let's focus on the car industry. The first thing you have to do is: you need to identify the **industry's value attributes or drivers** (they are the same thing). Value attributes are attributes that us, as customers, look at when buying a product or service.

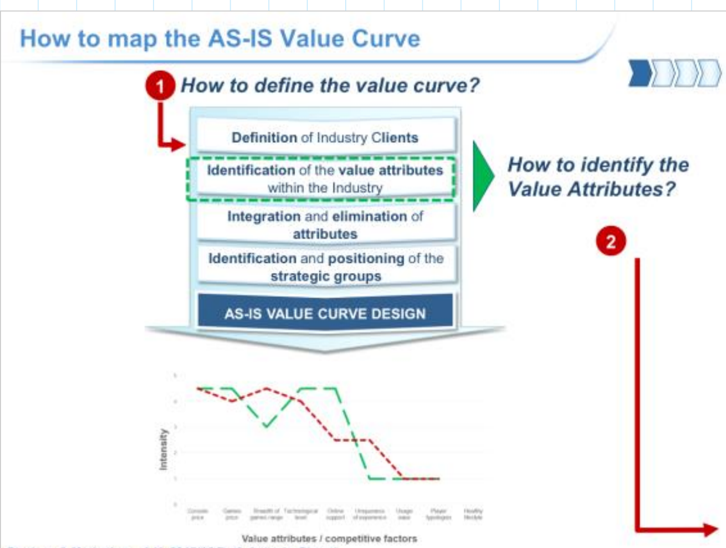
If you want to buy a car, as a customer, you look at price, comfort, safety, fuel consumption, speed and so on, as value attributes. efficiency

Value drivers create value for the customers

In the same step you also need to **assign an intensity level to each value driver** (typically from 0 to 5). The assignment is made by looking **at specifics companies and brands**.

The assigment is made on a 2-axis diagram, with the value drivers on the x-axis, and the intesity level on the y-axis.

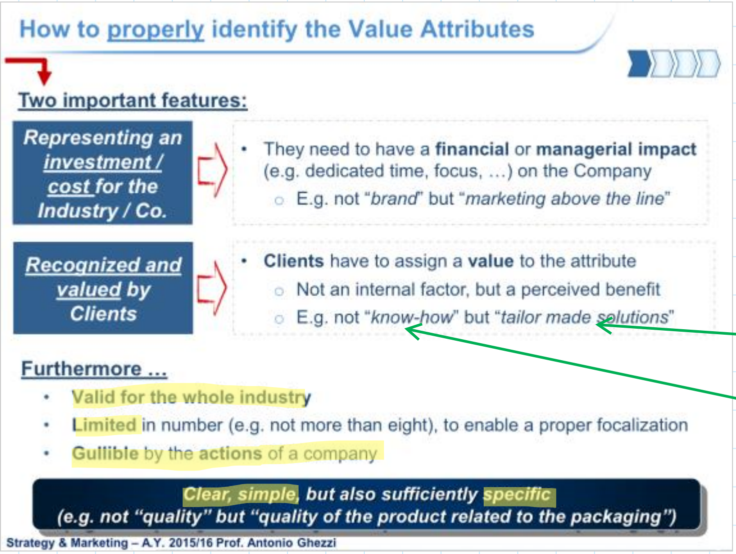
So at the very beginning of blue ocean, you have to understand what are the value drivers in the red ocean you want to innovate



The As-Is value curves map the **as-is positioning of competitors in the market today, based on the current value drivers.**

Some value drivers are easily quantifiable. For instance, for price, safety and fuel consumption there are specific measures. But for others, like comfort, brand image and so on you need to run some focus groups with managers, customers or industry experts in order to come up with a grading. This last step it's very time consuming.

It's very important to reflect on the value attributes, more than assigning a rating



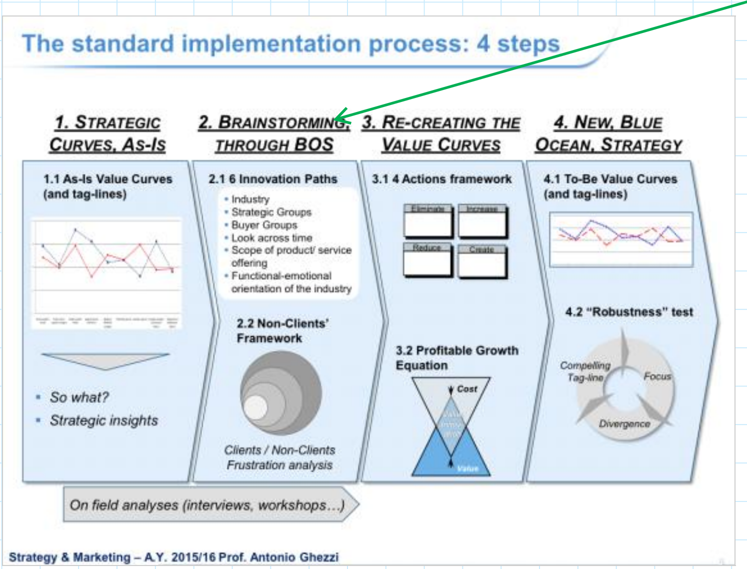
Value attributes should represent a cost or investment for companies, and at the same time **they should have a direct impact on the value that is created for the customers**, so they should be recognized as value by the customers.

It's also important to not have too many value drivers. It's better to aggregate them. On average, up to 10 value drivers is good, otherwise there is too much fragmentation.

they appreciate the output which is the solution itself

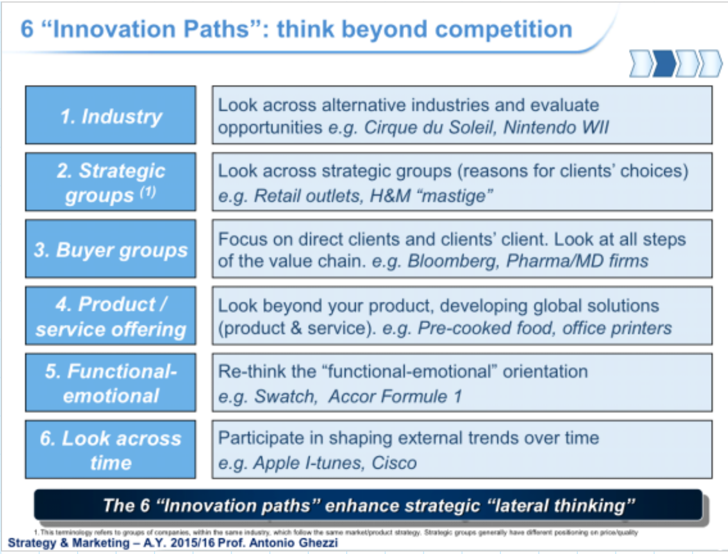
its internal and customers do not know about it

identifying new things to add to your strategy in order to be innovative



In the second step creativity comes in, and you need to **brainstorm through blue ocean strategy,** and this will stimulate strategic **creativity and lateral thinking.**

There are 2 framework that should stimulate your lateral thinking: **6 Innovation paths** and **non-clients' framework.**



there is different between alternative and substitude industries,the substitude industry satisfy very same specific needs,with a differnet technology, broad-casting TV versus online streaming
an alternative industry satisfy a generic and broader need like entertainment

you have traditional variables and now you know segmentation can be much more sophisticated,if you stop segmenting the market with traditional variables and start with new ones,maybe you can find some creative approches

First of all, if you want to stimulate lateral thinking, you should apply the **6 paths framework**, which are 6 directions where to look, when you're looking at the environment that surrounds you in order to grasp **information that can be recombined in order to generate something new in your market.**

Innovation paths to look for:

- **Alternative industries**: are industries that are satisfying broad needs, that, in some extents, can broadly be linked with the ones that we are satisfying in our market. For example, the alternative for watching netflix is playing a videogame or reading a book or going to the theatre or playing soccer, because the underlying need is entertainment. For ryanair, the alternative industry is the car industry, because the broader need is to move from one point to another.
- **Strategic groups:** a strategic group is a cluster of competitors characterized by homogeneous or similar characteristics. For example, high-end, mid-range and low-end competitors. You want to look at these strategic groups because you would need to identify the characteristics of each cluster and ask "why don't I take one characteristic from the high-end, one from the low-end, and combine them together to create a different cluster?
- The same goes for **buyer groups:** "Can I redefine the customers segments ?"
- **Product/service offering:** "Is there any complementary product or service that I may attach to my offering ? "We should look for complementary products/services to implement in the value proposition.
- **Functional-emotional**: Re-think the **functional-emotional appeal to buyers**. In general, we buy something because we need it or we like it. For example, the watch industry got disrupted by the smartphone industry, but watches today are being bought for fashion, because we like them. Before smartphones we need them. That's a functional-emotional change. Before customers bought for functional appeal, now for an emotional one.
- **Look across time:** basically to see the trends. Apply a PESTEL analysis, identify the trends, find the most promising ones and try to jump on board.

By means of the 6-paths framework you got indications from the outside industry concering the things that you may attach to your value proposition. So the things you can learn from in order to come up with something new.

The 6-paths framework

Innovation paths (1/2)		
Industry	• Which are the industries that satisfy the same needs? Or complementary needs? • On which features does the company need to focus, in order to get closer to these other sectors?	
Strategic groups	• Which are the drivers that bring the clients to the decision of buying our products / services or to "differently" satisfy the same need?	
Buyer groups	• On which buyer groups does the current market focus? Direct clients or clients' client? • Which type of values can be created, by a shift of the purchase decision?	

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Questions to go through the 6-paths framework.

The 6-paths framework

Innovation paths (2/2)		
Scope of product / service offering	• How does the product / service fit in the adoption experience of the customer? What happens before and after the usage? • Is it possible to add complementary products / services? • Is it possible to shift the focus towards the service or towards the product?	
Functional / emotional orientation	• If the competition is concentrated on the functional (emotional) appeal, which emotional (functional) elements could be integrated?	
Look across time	• Which trend will most probably hit the sector? • What does the endless extrapolation of this trend imply? • How is it possible to exploit this trend?	

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Leverage on non-clients' latent demand

"Soon-to-be" non-clients
(unsatisfied, occasional or unfaithful)

"Hindered" non-clients
(potential clients who don't buy for different reasons)

"Unexplored" non-clients
(other markets)

- Investigate **key clients' frustrations**
- Spend **a day in the life** of the **clients** to "understand"
- Find key **commonalities** across **current market** and **first tier** and build on insights

- Identify and **eliminate adoption barriers**:
  - Financial (e.g. spending, credit, etc.)
  - Functional (e.g. user-friendliness)
  - Educational (e.g. lack of training)
  - Perception / knowledge (e.g. clients don't know the existence)
  - Geographical (e.g. distribution)

- **Remove long-held assumptions** on Clients behavior and on the fact that some markets only belong to certain specific industries

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Blue ocean is **not market re-segmentation** or **finding a very profitable market niche**, rather moving away from that market and, sometimes, forgetting the old demand.

If you want to capture a new demand, it means that the new demand will be the current markets non- demand. So you need to focus on the current market non- demand.

There are 3 levels of non-demand

1. **"Soon-to-be non-clients"** which is pretty close to the current market. Those are customers that are buying a product today, but are either frustrated, non-loyal and so on. If we can identify their frustrations, we can solve their pains better than how the current market is doing, so we can capture this new demand of soon-to-be non-clients. Pay attention that solving customer frustrations is also the current market job, the first tier should be more orange than blue, so there should be some competition, the water becomes more blue as we move away from the current market.

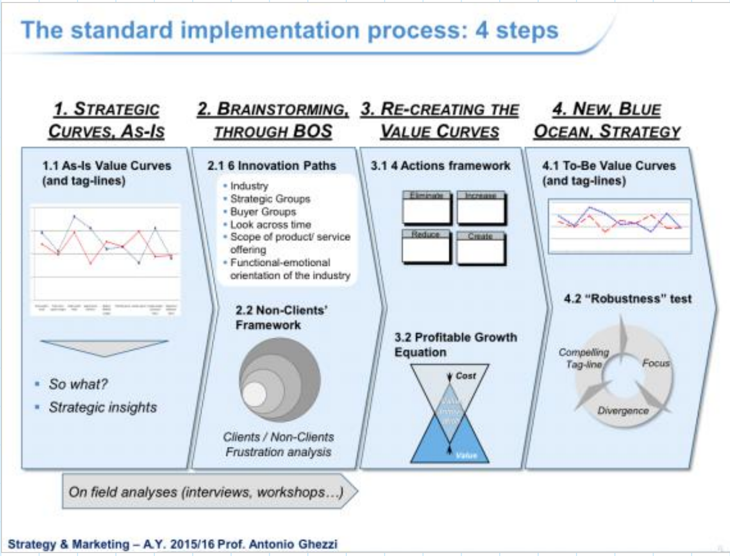
2. **"Hindered" non-clients** are clients that would by a product, but is currently blocked because of adoption barriers. Maybe the broader service is too expensive (financial barrier) or maybe

we make the blue ocean and it makes the current market uncomfortable,so we piss off the current demand

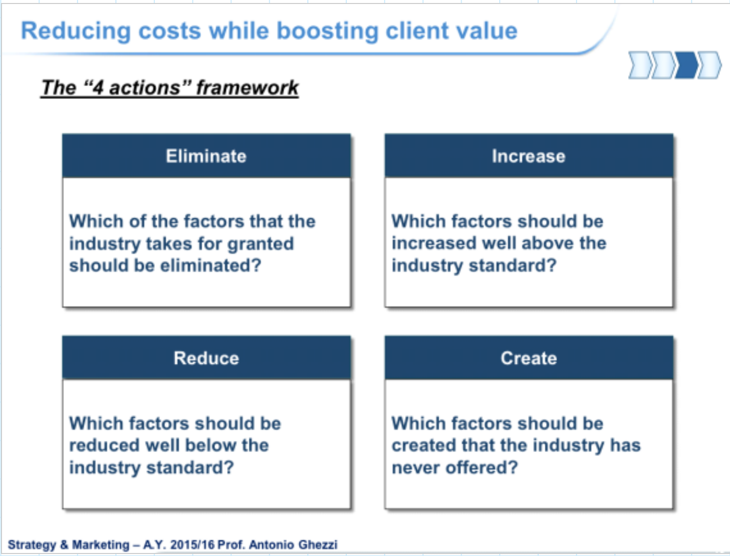
the product is non user friendly (functional barrier)

3. **"Unexplored" non-clients** : clients that never even thought about buying a product for some specific assumption. For instance, a costumer wouldn't buy a car because it pollutes. Then a possible solution is car - sharing, because the same car is shared and pollutes less.

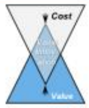
Notice that the area covered by the 3 different tiers is higher than the one covered by the current market.



Step 3: recreate the value curves
Step 4: you come up with the blue ocean strategy



Value innovation: the cornerstone of BOS



- **Value Innovation** is created in the region where a company's actions favorably affect both its **cost structure** and its **value proposition to buyers**
- Cost savings are made by **eliminating** and **reducing** the factors an industry competes on.
- Buyer value is lifted by **raising** and **creating** elements the industry has never offered.
- Over time, costs are reduced further as scale economies kick in due to the high sales volumes that superior value generates.

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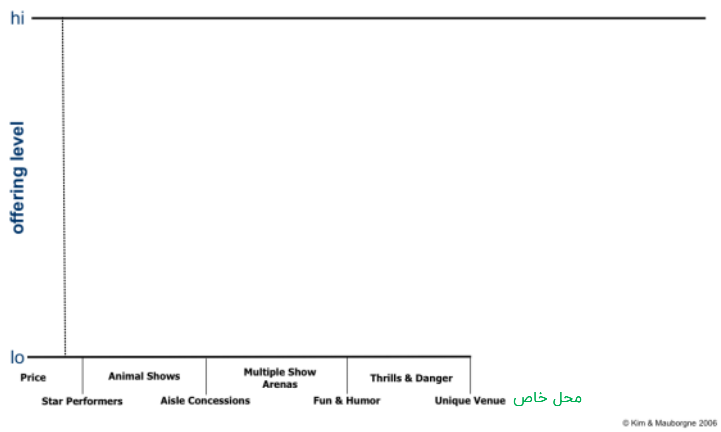
For steps 3 and 4 we will use "Cirque du soleil case"

Drawing a to-be value curve with the Blue Ocean Strategy canvas

Cirque du Soleil is considered a blue ocean strategy because they have revolutionized the industry.

On the x-axis is possible to observe tha value drivers. Price is always first



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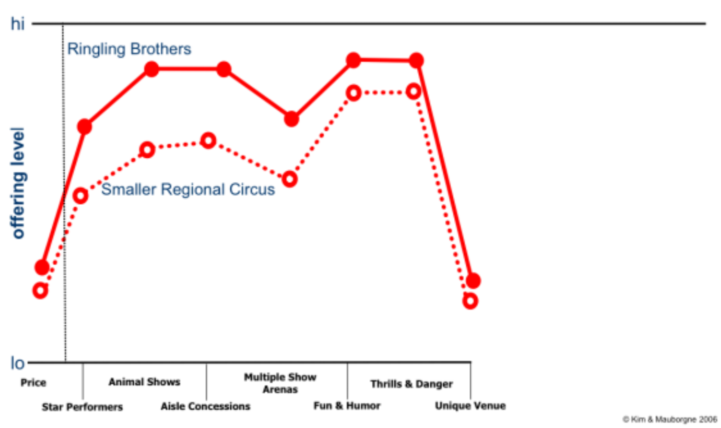
They mapped the existing competitors and they find that there are 2 clusters of competitors: Ringling brothers, who were the market leader, and all the other smaller reggional circus.

Drawing a to-be value curve with the Blue Ocean Strategy canvas



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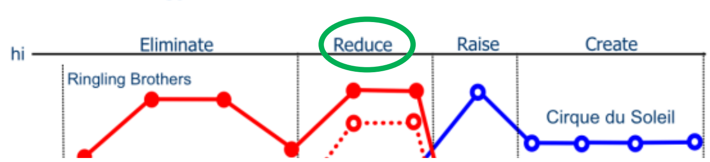
It's interesting to notice that shape and trends are the same. This is a **typical situation** in red oceans because everybody competes on the same value drivers

Then Cirque du soleil applied the 6-path framework, the non clients framework, they found indications on what to change, and eventually they've started questioning the value drivers.

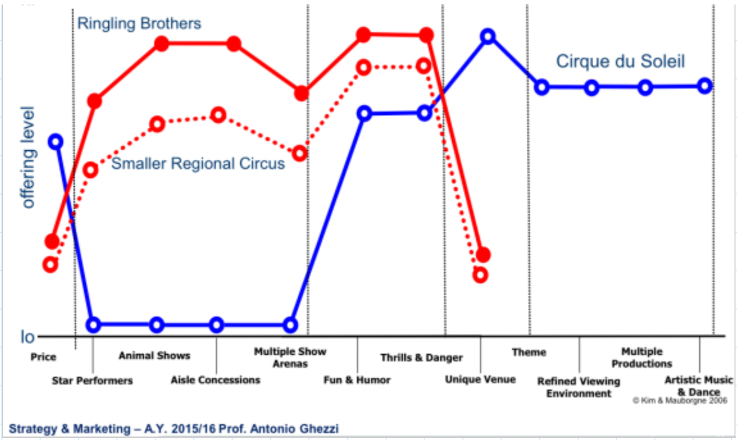
For example, Star performance: "Can you name a famous clown ?" it doesn't make sense to pay a lot of money for famous star performers, if afterwards nobody remembers them. Animal shows, instead, make people think about the exploitation of animals.

Drawing a to-be value curve with the Blue Ocean Strategy canvas

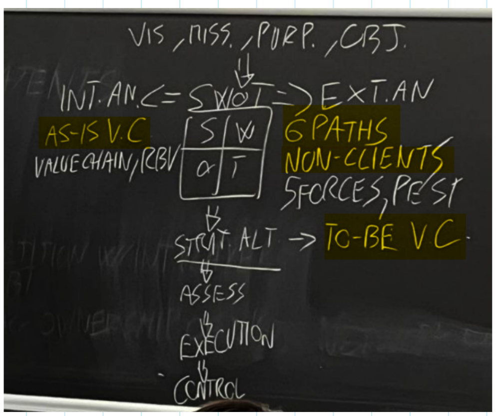


In the end, Cirque du Soleil came with the blue value curve.

They have applied the **4 actions framework**, which states that you should start with the As-is value curves, and then you should



lets go back to strategy formulation at business level:
can we fit blue ocean strategy in that process?
the as is curving is internal analysis,
the brain storming provide you with original ways to perform external analysis
so step 1 and 2 is nothing but a glorified SWOT
and the to be curve is actually the strategic alternatives in an original fashion
whatever you right as value attributes will evantually find its way in the companies business model to explain ow your strategy gets executed



In the end, Cirque du Soleil came with the blue value curve.

They have applied the **4 actions framework**, which states that you should start with the As-is value curves, and then you should eliminate the value drivers that you deem irrilevant in your new positioning. So they've eliminated star performance, animal shows and so on.

There are some value drivers that should remain in the new industry, but can be reduced; others instead can be raised; others can be created by taking them from other markets (application of 6-path framework).

They are not re-inventing the weel, but they are re-combining elements from different places in order to come up with the blue curve, which is a **to be value curve.**

So the blue ocean strategy will be represented by the to be value curve, which results from the application of the 4 actions framework.

In big established companies, elimination is the most difficult thing, because they do not want to desplease their customers, then, everytime you eliminate something, you eliminate jobs and management roles.

Another scenario is that the company will try to reach the top at all the drivers both old and new, which is not blue ocean strategy, because it's simple differentiation: you invest a lot in order to provide a lot and make your customers pay a lot. Disruptive innovation also happens because incumbents keep investing in making the tecnology better and better, by adding functionalities, but when they offer to much customers are overwhelmed by too much complexety, and will start looking for something simpler. This is called **Incubents overshooting.** So, if a company wants to maximes the value drivers, they will overshoot.

You breake the cost-value trade-off because in order **to create** something, **you need and must eliminate** some other things. Blue ocean strategy and the value innovation are all related to eliminating or reducing something to save resources that can be reused to raise and create something else.

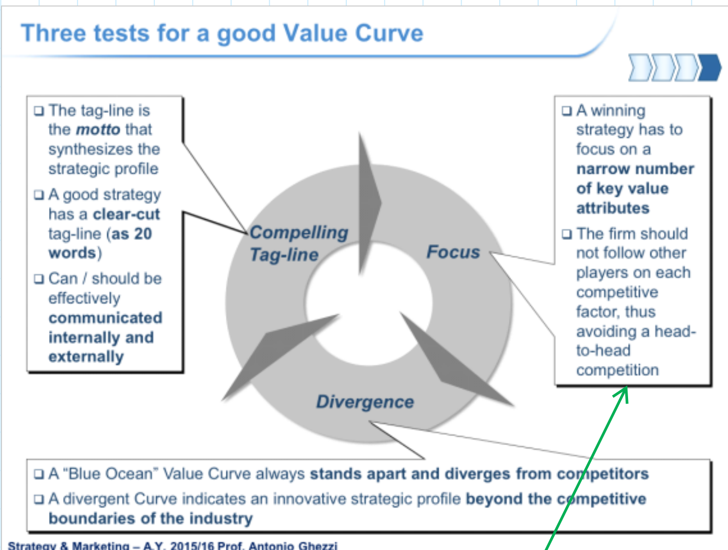
As a consequence, current customers will not be happy about the decision to eliminate something, but that's why blue ocean strategy tells that you don't have to focus on the existing demand, but rather to create a new one. Existing customers are already please, by the red ocean market. This is very difficult to grasp for incumbent.

This is why, in order to properly leverage blue ocean strategy, sometime you need to resort to ambidexterity. An ambidextrous company would be capable to stay in the same red ocean, but at the same time to launch a to be business model that might be a blue ocean. Blue ocean strategy **doesn't force companies to**

abbandon the status quo, and jump into something different. The company can decide that the status quo is still relevant, but can also be open in exploration, so it has to make them co-exist. If the conflict between the 2 is to harsh, the company should go for structural ambidexterity, so to separate in 2 different business units. Otherwise, the conflicts will collide and the as-is will win over the to be because it's stronger, it has the resources. It's what happened to Nokia which placed the smartphone division below the traditional phones ones. Since the traditional division started to be cannibalized by the smartphones' one, Nokia closed the smarphone division and that's how it died.

So one way is to structural ambidexterity, another is to keep the as-is and to be. Why? For porfolio balance purposes.

For example, the as-is could be a cash cow, while the to be could be a star or a question mark.



The last step of the blue ocean strategy is to check the outcome.

You need to look at the to be value curve that you have, and ask yourself: "Is there a **compelling tag-line** that I can associate to the to be value curve ", which is a slogan with which you can summarize your idea that can be communicated. in the marketing they say pay-off

The other 2 criteria are Focus and Divergence.

- **Divergence**: the blue curve should diverge from the red ones, because if there is too much convergence, that's a red ocean. If you don't diverge, you can't create a blue ocean.
- **Focus:** you don't want to be all over the place (1000 value drivers), you want to focus on the value drivers that really matter.

If your blue curve passes this test, then it's a solid and sound blue ocean strategy.

if you are not reducing and eliminating,thats not blue ocean

over shooting:giving customers too much/i do cause i can but if the offer is too complicated,your customers will turn to other alternatives(simple and cheap)

you dont have to over expand yourself over too many value attributes.you have to shift your attributes

One question that can be addressed at the oral exam is: **What's the difference between a Big Bang Disruption and a Blue Ocean strategy?**

They both try to break the cost-value trade-off.

Blue ocean strategy does that by eliminating and adding other value drivers.

blue ocean mission is to be efficient and effective
to break the cost value trade off you should eliminate and reduce sth in order to create resources that you will redeploy in order to raise and create other things

Big Bang Disruptions does that by leveraging low cost ubiquitous technology, and recombining them to come up with an original proposition.

The difference is that Big Bang disruption is all about technological innovation. Blue ocean strategy is all about value and innovation.

Can we have innovation that is both Big Bang and blue ocean ? Yes, you might have a technological innovation that allows to increase the value, and breake the trade-off.

The Marvel Way - please read before Nov. 18th 2021 lecture (1)

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The Marvel Way:

Restoring a Blue Ocean

08/2016-6205

This case was written by Michael Olenick, Institute Executive Fellow at the INSEAD Blue Ocean Strategy Institute, under the supervision of W. Chan Kim and Renée Mauborgne, Professors at INSEAD. It is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

Additional material about INSEAD case studies (e.g., videos, spreadsheets, links) can be accessed at cases.insead.edu.

After *Iron Man* smashes his way to victory the credits roll. For those who linger the movie unexpectedly starts again and Tony Stark arrives home to find a stranger wearing a leather jacket and an eye patch in his living room.

"You think you're the only superhero in the world?" asks the man. "Mr. Stark, you've become part of a bigger universe. You just don't know it yet."

"Who the hell are you?" asks Iron Man Stark.

"Nick Fury," answers the man. "Director of S.H.I.E.L.D."

"Huh?" shrugs Stark.

"I'm here to talk to you about the Avenger initiative."

This roundabout announcement – that Marvel intended to recreate their epic *Avengers* storyline in a future series of Marvel-produced movies – was arguably more exciting to Marvel fans and investors than the blockbuster movie itself. "Seeing Sam Jackson with the eye patch telling [Iron Man actor Robert Downey Jr.] about the Avengers initiative made the hairs on my arms rise," wrote a Marvel fan on Reddit. Marvel investors should have been equally intrigued by the roundabout announcement of a major strategic pivot.

Marvel, which struggled to make payroll just a decade earlier, went on to unlock a blue ocean of moviemaking that has yielded more revenue and profit than any film franchise in history.

Marvel's Early Years

Founded in 1939 by Martin Goodman, Marvel[1] has seen a cast of heroes, villains, and events that rival anything found in their comic books. Goodman produced pulp fiction, magazines, and comic books and his strategy was straightforward: create many titles then, "If you get a title that catches on … add a few more; you're in for a nice profit."[2] Goodman's motive was purely financial, but over the next few decades, his company would go on to create over 8,000 characters in what became arguably an American version of Homer's *The Odyssey* and *The Iliad*.

During the 1940s, the comic book industry thrived, filling the entertainment space now saturated by children's television programming, games, websites, smartphones, and all other manner of media. Besides the iconic *Captain America* – created for WWII – most Marvel titles of this era were thin knockoffs of the more popular DC Comics, home to *Superman*, *Batman*, and *Wonder Woman*.

Except for a short time after the war,[3] business boomed until, in 1954, squirrel-faced psychiatrist Dr Frederic Wertham testified to the Senate Subcommittee on Juvenile

1 In the early years the business that would come to be named Marvel had many names and corporate shells. For clarity we refer to these collectively as Marvel.

2 Howe, Sean (2013-10-01). *Marvel Comics: The Untold Story* (p. 10). HarperCollins. Kindle Edition.

3 In 1949, during the post-WWII recession, economics forced Marvel editor Stan Lee to layoff virtually the entire comic book staff. Many were rehired when the business rebounded.

Delinquency that comic books were linked to teenage pregnancy and homosexuality. "I think Hitler was a beginner compared to the comic-book industry!" testified Wertham to the US Senate during a two-day hearing.[4] Comic book sales plummeted[5] and the industry created a self-censorship organization, the *Comics Code Authority*.

Marvel's First Blue Ocean

Before Wertham there were five major comic book publishers. By the time comic book hysteria subsided only two were left, Marvel and DC Comics.[6] Vying to compete by controlling retail shelf space, DC purchased Marvel's distribution arm and limited the number of books that Marvel could distribute each month. Marketing low-cost me-too knockoffs targeted towards children would not sustain the business in this environment: Marvel needed to attract *noncustomers*.

Marvel's as-is strategy – delivering little original work and me-too knockoffs – no longer worked. Faced with red ocean competition that threatened to shutter the comic book division Marvel adopted a new strategy: original content aimed at an older demographic, college students. From 1961 to 1965 Marvel Editor-in-Chief Stan Lee, along with comic book legends Jack Kirby, and Steve Ditko, delivered a multi-year burst of creativity creating a new blue ocean.[7] Rather than copying DC's traditional macho crime fighters many Marvel characters start as ordinary people and are transformed, oftentimes by accident, into reluctant superheroes.

In 1961 Marvel introduced four ordinary people mutated by cosmic rays into superheroes, the *Fantastic Four*. After the *Fantastic Four* came *The Incredible Hulk*, a quiet scientist who morphs into a ferocious green monster when angered. *Thor*, a God who visits earth as a superhero, was introduced soon after. *Ant-Man*, the reformed thief who changes size, came next. In June 1962, Steve Ditko introduced the world to a teenager, bitten by an irradiated spider, who develops spider-like abilities, *Spider Man*. Next came an alcoholic womanizing military contractor with a bad heart who builds a high-tech metal suit to fight bad guys, *Iron Man*.

Not long after this burst of creative output Lee and his team decided to bundle their superheroes into a group called *The Avengers*. At the same time they created another group of entirely different characters, ordinary people endowed with extraordinary powers and distrusted by the unenhanced they lived amongst, *The X-Men*.[8]

4 Wertham released his book, *Seduction of the Innocent* – which argued comic books were tied to juvenile delinquency – days before the Senate hearing.
5 In 1956 Lee again had to fire his entire staff.
6 EC Comics produced, depending upon one's vantage point, either the edgiest or most inappropriate comics and refused to submit their work to the censor. EC closed as a comic book publisher but went on to reinvent the business, publishing *Mad Magazine*, since magazines were not subject to censorship.
7 Lee served as editor-in-chief and lead storywriter.
8 Countless other characters would be introduced during this period, including *The Human Torch*, *Dr Strange*, *Thor* enemy/brother *Loki*. Lee's prolific team created literally thousands of different personalities. Eventually they would re-introduce the only 1930s Marvel superhero into the modern fold, *Captain*

"We were trying to reach a slightly older, more sophisticated group," Lee wrote.[9] Stan Lee also created a new writing method, *The Marvel Method*, where he outlined stories, sent them for drawing, then filled in the story bubbles later.

Lee's focus on noncustomer college students opened a blue ocean where Marvel thrived. "Marvel Comics are the first comic books in history in which a post-adolescent escapist can get involved, for Marvel Comics are the first comic books to evoke, even metaphorically, the Real World," wrote the *Village Voice* in April, 1965.[10]

By the end of 1965 Marvel circulated 35 million comic books per year and inspired 500 fan letters per day.[11] By 1967 Marvel sold six million comic books per month, just behind DC's seven million despite that Marvel's distribution channel, which was owned by DC, restricted the number of issues they could offer.

Into the Red

In a typical comic book plot all goes well until it doesn't, then mayhem erupts.

In June 1968, Goodman sold Marvel to conglomerate Cadence Industries[12] for $15 million ($102.1 million, inflation adjusted to 2015). Cadence owned a print distribution arm but knew nothing about publishing.[13] Not long after the acquisition, Cadence hired Sheldon Feinberg, the former CFO of Revlon, as CEO, the first of many awful managers. "Pit your executives against each other, make them fight each other, and then, somehow they should do better. And try to humiliate your subordinates," is how a Feinberg associate described his management style.[14] Legendary cartoonist Jack Kirby soon quit, signing a three-year contract with DC Comics. The *X-Men* and *Silver Surfer* series were cancelled.[15]

Blue Ocean Strategy requires the alignment of value, profit, and people. Marvel's comic books from this era were generally considered high quality but, internally, the lack of *fair process* damaged and demotivated the people, which led to potential profits being left unrealized. Untapped profits and poor management are like blood in the water, attracting sharks, and Marvel was soon swimming face to face with some of the bloodiest predators in the business world.

In November 1986, Cadence sold Marvel to New World Entertainment, an entertainment conglomerate whose executives did not know the difference between *Superman*, owned by DC Comics, and Marvel's *Spider-Man*. New World's fortunes quickly foundered – Marvel

America, and also recreate *Daredevil*, the blind lawyer whose heightened other senses give him superpower-like abilities.
9 Howe, Sean (2013-10-01). *Marvel Comics: The Untold Story* (p. 38). HarperCollins. Kindle Edition.
10 Kempton, Sally. "Marvel Comics Are the First." *Village Voice* 1 Apr. 1965.
11 Howe, Sean (2013-10-01). *Marvel Comics: The Untold Story* (p. 63). HarperCollins. Kindle Edition.
12 Cadence was then called Perfect Film & Chemical Corporation but changed the name later. For clarity we use the name Cadence throughout.
13 Cadence also owned a vitamin division, which is where Spider-Man vitamins were developed, an early crossover product.
14 Howe, Sean (2013-10-01). *Marvel Comics: The Untold Story* (p. 104). HarperCollins. Kindle Edition.
15 Both were later revived and went on to perform well.

was their only profitable business – and they turned to Wall Street for help. Their investment bankers decided to sell Marvel.

"Trouble with the comic business," said then Marvel Editor-in-Chief Jim Shooter, "is that it seems that every time things look like they're going to look good, then the owners of the company end up selling it. And it falls into the hands of the philistines and you've got to start all over again."[16]

In November, 1988[17] investment bank Drexel Burnham Lambert auctioned Marvel to corporate raider, and long-time Drexel client, Ronald O. Perelman for $82.5 million ($165.3 million adjusted for inflation to 2015).[18] Perelman, a multi-billionaire, used $10 million of his own money to finance the acquisition and borrowed the rest.[19] Like most Drexel-connected raiders Perelman believed strongly in value extraction rather than value innovation. Raiders typically purchase companies using high-priced "junk" debt, build the businesses through high-yield[20] debt-fueled acquisitions, and finally flip the business, oftentimes carved up into pieces.

Perelman immediately and repeatedly raised comic book prices. During this time collectors were bidding the price of sports trading cards into a frothy bubble, where single sports cards could sell for hundreds of thousands of dollars. These collectors also fueled sales of new trading cards, as they sought to purchase the cards when released, betting they would increase in value over time. Perelman decided to copy the trading card strategy and build his own bubble in comic books. To fuel speculation Marvel introduced many versions of every comic book – each with a different cover – encouraging collectors to purchase more volumes.

Perelman's bubble strategy initially worked to raise revenues, and he sold 40 percent of Marvel to the public in July 1991, raising $70 million. Buoyed by strong sales – value extraction managers oftentimes produce short-term returns at long-term expense – the stock soared. Perelman used $30 million from the IPO to buy down a portion of the debt he used to acquire the business and paid another $40 million to himself as a "special dividend." Perelman then borrowed approximately $600 million to spend on acquisitions and sold another $700 million in junk bonds, eventually pocketing a total of about $300 million from the bond sales personally.[21]

Besides raising prices and encouraging speculators, Perelman also consolidated all distribution from twelve distributors to one, Hero's World Distribution, which Marvel owned. Perelman's goal was to effectively sell comic books directly to retailers, capturing revenue paid to distributors. This single-source distribution system wreaked havoc on comic bookstores, their primary retailer, and the number of comic bookstores quickly fell from 9,400

16 Thomas, Michael. "Jim Shooter Interview: Part I." *Comic Book Resources*. CBR News, Oct. 6, 2000.
17 The sale closed January, 1989.
18 Perelman had a byzantine array of holding companies the most well-known being MacAndrews & Forbes. For clarity these businesses are collectively referred to as Perelman himself.
19 Inflation adjusted to 2015 Marvel was sold for $165.3 million with Perelman's investment amount to $20 million.
20 High-yield low-rated or unrated corporate debt is informally referred to as "junk bonds."
21 Perelman retained the proceeds from the bond sales. Judge Roderick McKelvie, presiding judge in Marvel's bankruptcy case, would eventually rule this was legal because it was disclosed.

to 4,500.[22] Perelman's Marvel also decided to branch into trading cards and purchased three companies, sports card makers Fleer and SkyBox, as well as Italian sticker company Panini.[23] Finally, Marvel acquired 46 percent of toymaker Toy Biz in exchange for an exclusive royalty-free license to produce and sell Marvel characters.

High prices, fewer distributors, lower quality, underperforming acquisitions, and a predictable burst in the comic book collecting bubble destroyed sales. In January, 1996, Marvel fired 275 people then followed-up in November by firing another 115, one third of its workforce. On December 27, 1996 Marvel filed for bankruptcy: Marvel's red ocean strategy had run its course.

For nineteen months, various groups fought for the business. Perelman, legendary corporate raider Carl Icahn[24], Marvel's banks, Marvel bondholders[25], Marvel subsidiary Toy Biz, and a few other parties wanted Marvel. Perelman offered creditors $365 million, leaving Perelman owning about 80 percent of Marvel, with the public, bondholders, and bankers owning the other 20 percent.[26] Icahn, who briefly took control of the business[27], offered creditors similar terms with a different management team. Toy Biz majority owners Isaac Perlmutter and Avi Arad offered $231.8 million cash, 40 percent of restructured Marvel, the Italian sticker company, and a strategy to return the company to profitability. Creditors voted to accept the Toy Biz offer even though the cash was $100 million less, due to Perlmutter and Arad's strategy and vision.[28] Even when battling billionaires a solid strategic vision can prevail over cash.[29]

Perlmutter and Arad – low on cash but high on chutzpah with their strategic vision – prevailed over the battling billionaires. Perelman told the *New York Times* if he had to rank his

22 Comic book stores receive discounts from distributors based on the total number of books they order from any publisher. Forcing comic book stores to split their orders between Hero's World and their regular distributors, lowered their volume, subsequently lowering their discount and their already slim profits.
23 Perelman's Marvel acquired trading card maker Fleer for $286 million in July 1992, Hero's World Distribution for $7 million in 1994, trading card maker SkyBox International for $150 million in March 1995 and later, also in 1995, Italian sticker company Panini for $158 million.
24 Icahn and Perelman are arguably the two most well-known corporate raiders of their time. They were both prominent attendees at Drexel's *Predators Ball*, an annual conference of junk bond luminaries.
25 Icahn purchased distressed Marvel bonds so fought for control both on his own and as the lead bondholder.
26 All parties also offered creditors the Italian stocker company Panini, which was performing reasonably well internationally.
27 Perelman pledged Marvel's stock as collateral for the bonds and, once he defaulted on bond payments, bondholders successfully acquired the stock and control of Marvel. However, in December, 1997 – one year into bankruptcy – the bankruptcy court ousted Icahn in favor of a court-appointed receiver.
28 Creditors were owed about $700 million. They were paid $230 million in cash, given the sticker company which sold for another $120 million, and received 40 percent of the new Marvel.
29 Perlmutter and Arad's vision was reinforced by a well-timed stroke of luck. On July 2, 1997, in the midst of the bankruptcy battle, Sony released *The Men in Black*, a movie based on a Marvel comic book that had been in production for years. Two prior Marvel character movies, *Howard the Duck* and *The Punisher*, both bombed. *The Men in Black* earned $589.4 million ($869.6 million adjusting for inflation to 2015), the second highest grossing film in 1997, suggesting the economic viability of movies based on Marvel's characters.

successes Marvel would not be included. Icahn said "I have framed articles of every deal I've ever done. In all honesty, this is one frame I'm considering taking down."[30]

On October 1, 1998, with approval of the court and creditors, Toy Biz, Inc. used $250 million in high-yield debt (junk bonds) to acquire the assets of the former Marvel and renamed itself Marvel Enterprises.[31] Perlmutter's Marvel now faced the daunting task of resuscitating the struggling business and executing their strategy.

Evaluating Post-Bankruptcy Marvel

After bankruptcy, in late 1998, Marvel had five high-level businesses:

1. Comic books. Marvel's flagship comic book business produced direct revenue and vast intangible assets: intellectual property, decades of characters, storylines, brand, customer goodwill, and an institutional knowledge about how to weave their IP into great stories. Marvel estimated the intangibles of their comic book business to be worth $127.7 million.
2. Trading Cards. Marvel had two trading card companies, SkyBox and Fleer, which had been combined under Perelman. A third business, Panini – an Italian company that made trading-card like stickers – was ceded to Marvel's bankers to end the bankruptcy. Trading cards required guaranteed steep royalties to sports leagues, lacked company-owned intellectual property, and sales were driven by collectors who tended to buy based more on speculation than any real interest in the cards. Marvel did not break out revenue or profitability for the trading card business separately from the toy business in 1998.
3. Toys. Toys were a low-margin business but Marvel did well; most 1990s-era Marvel revenue came from the toy group. Movies based on Marvel characters brought incremental toy revenue that was expected to increase as Marvel inked more movie deals. Marvel leveraged their unique character's intellectual property to build high quality toys.
4. Character Licensing. Marvel always licensed characters. Licensing deals were optimal: with an investment of little more than drafting a contract Marvel need do nothing but open envelopes and cash checks for high margin revenue. In 1998 Marvel received $4.9 million in licensing fees for $4.5 million in gross profit but estimated the licensing business to be worth $401.1 million.
5. Marvel Studios. Marvel had a handful of people in Hollywood licensing Marvel characters to motion picture studios for films. This team, referred to as Marvel Studios, was not a real movie studio: they did not independently make movies and had no intention of doing so. Their goal was to drive sales of licensed goods by increasing demand for Marvel characters through films.

30 Bryant, Adam. "Pow! The Punches That Left Marvel Reeling." *The New York Times* 24 May 1998.
31 The bonds carried interest of 12 percent and required monthly payments so the capital costs Marvel $30 million annually in interest alone.

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Management Stabilizes the Business

The post-bankruptcy late 1990s was a dire time for Marvel. Comic book sales were slipping 20 percent year-over-year and licensing deals dried up because licensees were concerned about long-term contracts with a company that might cease to exist. Cash became so tight that Marvel almost failed to make payroll. One *Spider-Man* comic from this era describes a "criminal businessman" who advises the publisher of *Spider-Man's* employer, The Bugle newspaper, to take the paper public. "I'd never take the Bugle public ... because I know that its long-term integrity would suffer under corporate connivers like you, who dream up ridiculous little schemes which only produce short-term goals!" *Spider-Man's* alter ego, Peter Parker, along with 100 other comic book characters, are then laid off.[32]

Marvel was starved for cash and saddled with $30 million in annual junk-bond interest payments. In this context Perlmutter and his board of directors hired turnaround specialist Peter Cuneo, who had worked with Perlmutter turning around Remington, as CEO. Cuneo focused on Marvel's core businesses, selling comic books and toys, and licensed the exclusive movie rights to several of Marvel's most popular characters.[33] Cuneo and the board reasoned that successful movies would spur sales of licensed goods, driving toy revenue. Additionally, the early movie deals provided much-needed capital and helped prove the economic viability of Marvel-based comic book movies. Sony purchased the rights to *Spider-Man* for $10 million plus 5 percent first-dollar royalties.[34] Twentieth Century Fox acquired the rights to *X-Men*, the *Fantastic Four*, and several lesser-known characters on less expensive terms. Universal purchased the rights to make standalone *Hulk* movies. Marvel does not release actual figures but industry analysts estimate Sony paid Marvel no more than $62 million in royalties for *Spider-Man*, *Spider-Man 2*, and *Spider-Man 3*, which collectively grossed about $2.5 billion. Fox is estimated to have paid Marvel $26 million total for *X-Man* royalties; the films have collectively grossed approximately $2.3 billion. *Blade*, a deal struck during the Perelman years, grossed $131 million: Marvel was paid $25,000.

Although the deals may not appear favorable in hindsight they served a strategic and tactical purpose. Tactically they brought much-needed capital to Marvel in the form of up-front payments and increased licensing royalties giving the company a breathing space to eventually move in a more strategic direction. "The big kicker for us was the licensing around the movies. That was more important to us than the actual amount of money we got from the films. When we started Marvel Studios, with our own financing, we were then able to capture all the profits that came from the movies ourselves and that was a gigantic change," Cuneo said. Strategically the deals proved the popularity of Marvel characters at the box office and taught Marvel how to make movies so that, someday, Marvel could produce their own films. "Sony did a great job on *Spider-Man* and Fox with the *X-Men* did a great job," said Cuneo. "Those are big and they make a lot of money from those franchises."

32 Howe, Sean (2013-10-01). *Marvel Comics: The Untold Story* (p. 382). HarperCollins. Kindle Edition.
33 Some of these licenses have since reverted back to Marvel and some others, notably *The Incredible Hulk*, are licensed back in exchange for film distribution rights.
34 Under a system informally called "Hollywood Accounting" movies never earn a profit so the provision for royalties based on gross revenue to the studio is a victory.

In February, 1999, Marvel divested trading card businesses Skybox and Fleer for a combined total of $26 million, a $410 million (94 percent) loss that would offset future earnings from taxation.

The toy business accounted for the bulk of Marvel's revenues but these were relatively low-margin high risk revenues. In March 1999, Marvel exited the toy production and sales business, selling exclusive rights to market Marvel characters, for five years, to their toy manufacturer for a $5 million per year fee[35], a 15 percent royalty, plus an additional 24.5 percent fee for Marvel to continue designing the toys.[36] "When I came to the company we had a full toy business doing everything: designing toys, finding a manufacturer, taking working capital risk, selling to mass retailers, and so on," said Cuneo. "That's what I inherited. After two years I felt we shouldn't be in any business where we were taking capital risks: we had a lot of cash flow problems. The industry in 2001 had a terrible year because Hasbro oversold Star Wars toys into mass retailers around the world. Marvel lost $30 million that year on the toy business and we couldn't afford to lose anything. So the board agreed to license out the business to one of our primary vendors. We transferred the risk of working capital to this guy and we were just responsible for the selling. We were also able to sell off about $25 million in inventory so we got an influx of cash from that."

Besides stabilizing the business financially Cuneo moved to quickly heal the corporate culture, building an environment where creativity could thrive. "If you as an organization can't handle a culture which rewards people with crazy ideas, of people who are difficult to deal with, then you're not going to be successful in a creative business," said Cuneo. "You want to create an atmosphere where those people feel good about where they're at, and prosper, and you're able to cope with some of the idiosyncrasies that they might exhibit. But, in the end, that's where all the revenue growth is coming from. In a character-based business you can't discount the value of having great creative people work with you on a positive basis. Instill the proper atmosphere, the proper rewards system, let them know that you appreciate what they do."

Marvel Steers Towards a Blue Ocean

Once management stabilized the business there was a sense that a major strategic initiative was needed to boost the company beyond stability, towards a blue ocean. In 2004, Hollywood veteran David Maisel, who had worked at the highly influential talent firms Endeavour and Creative Artists Agency (CAA), approached Ike Perlmutter with a radical new strategy. Over lunch the relatively young Maisel – who had also worked with senior executives at Disney but had never made a movie himself – proposed a new strategy: create a real movie studio to fund and produce Marvel movies. Maisel, a lifelong comic book fan, reasoned that by licensing characters Marvel was unnecessarily forgoing large profits, needlessly ceding creative and scheduling control, and making it more difficult to bring characters together in one large

35 Four years of fees, $20 million, was paid in advance. The buyer had been purchasing Marvel debt at a discount and passed that discount on to Marvel so that they were able to cancel $39 million in high-interest debt. This relieved the business of $4.7 million in annual interest payments plus the principal.

36 In 2006, Hasbro would take over the sales and distribution of Marvel toys, which were still designed by Marvel.

Marvel character universe[37]. The current licensing strategy was literally ripping apart *The Avengers*.

Besides better upside, Maisel reasoned, downside risk could be mitigated with the right type of financing. By using Marvel characters as collateral[38] to secure funding for movies, bankers could never again threaten the core business that Perlmutter and Cuneo had restored. Additionally, even if a movie flopped and the banks took the characters the eventual moviemaker would still have to pay similar terms as if Marvel licensed the characters on their own.

Perlmutter agreed and hired Maisel as COO of Marvel Studios with the intention of sustainably extracting more long-term value from the business. With the decision to build a real movie studio, in 2006, Maisel was promoted to Chairman of Marvel Studios. The transformation was not without controversy because independent studios rarely made large-budget films. Some key Marvel executives, including Perlmutter's former partner Avi Arad, moved on. Additionally, even once green lighted, the studio they planned would be very different: being run the Marvel Way, with a culture of cost consciousness carried over from Toy Biz which was anathema to Hollywood.

Maisel convinced the Board of Directors to allow him to proceed and worked 18 months to eventually close the deal exactly as he described: $525 million in low-interest debt, secured against Marvel characters, with no financial risk to the business, to produce Marvel films. The former management consultant and talent agent then went on to build a real movie studio, Marvel Studios. Marvel premiered their first movie, *Iron Man*, in May 2008. The movie was a blockbuster, grossing $585 million worldwide.

"It is extremely rare for a company to find a new strategy that could add multiples to the valuation of the business. That was the fortunate situation where we found ourselves in 2004. After five years of hard work and careful execution it was extremely gratifying to see the success of the strategy with the well-received launch of Iron Man in 2008," said Maisel.

Movie studios spend lavishly to foster a glamorous image but Marvel decided this expensive tradition added cost without commensurate buyer value. Marvel located their California movie studio above a car dealership. Their office furniture was old and threadbare. There were no free lunches or even free coffee.[39] Marvel managers, steeped in the Toy Biz culture wary of wasteful spending, would even slash office supply orders. Marvel *eliminated* the Hollywood tradition of spending on glamour that was not helpful for moviemaking. "…with our own studio, we didn't have any studio overhead," said Cuneo. "The studios would charge us 30 percent indirect overhead for a film. If they were making a film for $100 million we knew right away, because we had no overhead, that we could make it for $70 million. Same talent, same quality film. But we weren't being dragged down by these latent, unproductive

37 Each character was licensed individually, usually to different studios, so bringing them together as *The Avengers* would be impossible. This is the same reason that *X-Men*, which are licensed to Fox, do not appear in Marvel movies.

38 The agreement initially used ten characters for collateral: *Ant-Man*, *Black Panther*, *Captain America*, *Cloak & Dagger*, *Doctor Strange*, *Hawkeye*, *Nick Fury*, *Power Pack*, *Shang-Chi*, and *The Avengers*. After rights were reacquired *Iron Man* and *The Incredible Hulk* were added to the agreement.

39 Marvel employees would sometimes walk downstairs to the car dealership for coffee where, ever anxious for the chance to sell cars, they were welcome.

assets that the studio system has. These can be empty sound stages, it can be backlots that are never used, it can be empty offices, and some studio executives driving around in Lamborghinis paid for by the company. We didn't have any of that. So right away we had a 30 percent cost advantage. So we were able to make the films for less with the same talent and that's one reason we made $200 million on Iron Man 1."

Blockbusters normally require movie stars but Marvel reasoned their own characters were the stars and they need talented, if lesser known, actors, directors, and screenwriters to bring their characters to life. Widely known actors were sometimes cast in small supporting roles, where they charged less, but Marvel relied primarily on lesser known actors. "Marvel distinguished themselves by going after good actors, writers, and directors who were unexpected choices," said Josh Whedon, director of *The Avengers*.[40] "One side to that is they don't have to pay them as much."[41] To lock in the savings actors were signed to long-term contracts, with many obligated to appear in six or even nine films at rates negotiated while the actors were still lesser known. Even after these lock-ups expire, Marvel is known to replace actors, in the same role but different movies, rather than offer significant raises. Marvel *reduced* the use of known talent, especially movie stars, and their high cost.

"We were not enveloped by the Hollywood way of doing things," Cuneo said. "Our strategy from the beginning was that our characters were the heroes of the films and we did not want to hire any highly paid actors or actresses .. We thought the heroes, the stars, were the characters and there were many fine actors who could play these roles and we did not need expensive talent. Obviously we hired talented people. We had very talented directors and producers, which are very important. If you were a highly paid actor and wanted to be in our films then you had to take less than normal compensation."

Besides using lesser known actors Marvel also edited films to reduce shots that added cost without commensurate buyer value. Rather than a series of elaborate and expensive scenes to tell a backstory two men sat discussing it in a cave, which cost far less to produce and added a level of intimacy with the characters. Chase scenes that initially called for ten trucks were reduced to two, creating a less expensive and more realistic storyline.

Marvel also *reduced* middle management by failing to hire back the layers of managers lost during the lean years. "[T]he low headcount has meant minimal layers of management and bureaucracy, so that each individual had the power to focus on solving his or her problems and could have a visible hand in building the business," said Cuneo. "This atmosphere has attracted self-starters and creative thinkers all of whom have contributed greatly to Marvel's decade of growth and success."[42] Additionally, the leaner organization was able to move faster and assume more risk. For example, Robert Downey Jr. was an Academy Award winning actor suffering from drug addiction: he had been in and out of rehabilitation and jail. Marvel was able to hire him whereas traditional studios had more layers of executives able to exercise a veto. Gwyneth Paltrow was an Academy Award winning actress who had taken time off to raise her children. After several actresses turned down the lead female role for *Iron*

40 *The Avengers* was the third highest grossing movie of all time when released, with $1.5 billion in worldwide revenue.

41 Finke, Nikki. "Avengers' Cast and Stingy Marvel Ready to Rumble Over Sequel Cash & Strong-Arming." *Deadline Presents* 7 May 2013.

42 Reiss, Robert. "How Marvel Became A Business Superhero." *Forbes* 1 Feb. 2010.

Man, due to compensation issues, she agreed to take the role as part of a comeback. She expressed interest one Wednesday and was hired the next Monday; Marvel was able to move quickly due to the lack of bureaucracy.

While Marvel may be cheap with capital, they are rich with narrative and storytelling. Leveraging decades of intricate comic book storylines, and a deep commitment to the integrity of that narrative, Marvel builds characters that are people first and superheroes second. *Superman* and *Batman*, owned by DC Comics, may get beat up physically or emotionally but Marvel characters show angst even absent the bad guys. Marvel arguably doesn't make superhero movies: they craft high-quality dramas that contain superheroes. These character-first storylines also appeal to *noncustomers*. "Marvel was one of the deciding factors in how nerd culture began to spill over and eclipse pop culture," said comedian Chris Hardwick. Marvel *raised* storytelling.

Said Cuneo: "Marvel's great claim to fame, and the great leap that was made by Stan Lee and his co-creators, such as Jack Kirby, Steve Ditko and other talented artists, was from 1961 to 1965 they created the best known Marvel characters. The big leap was that they spawned characters that readers could identify with and therefore be emotionally connected to. The *X-Men* are mutants and, as mutants, they have special abilities but they're also alienated. At some time in life we all think we are mutants. For example, every kid in high school, unless you're incredibly confident for that age group, thinks they're a mutant. Marvel's success is because people who read the comics or see the movies get so connected to these characters.

"Think about *The Hulk*. We all get mad sometimes; we all blow our top. Hopefully not too often, but this is the emotional connection of *The Hulk*.

"*Spider-Man*, a young guy, a nerd, Peter Parker, has great powers and cannot handle them. His uncle is killed because he becomes arrogant about his strengths. With great power comes great responsibility; that's really a great phrase if you think about it. It's very simple but it's very true. A lot of people in their lives are trying to handle a new job, a new power ... whatever it is, but they're asking 'How do I handle responsibility?' He had all this wonderful ability but he couldn't get a date with the girl he liked.

"*Iron Man* has a life threatening heart condition. He also has a huge ego and develops a drinking problem. People just relate to this. Suddenly you had believable characters that people can really get excited about. That was the great leap that Marvel made and that was the leap that we wanted to make in film."

Besides the characters themselves, the storylines appealed to *noncustomers*. *Iron Man 1* is more love story than superhero movie. Love stories between a middle-aged arms dealer who flies around in a metal suit and a 30-something woman are not standard Hollywood fare. Yet, with its appeal to *noncustomers*, the movie went on to gross $585 million in box office receipts worldwide.

In Stan Lee's original *Marvel Universe* characters are interwoven between stories, allowing old characters to introduce and support newer characters. Marvel initially diversified revenue by "layering" characters upon one another, building the success of each new character with the success of preceding characters to ensure they were not too dependent on any single character. With the creation of the movie studio this evolved into a new creation, the *Marvel*

Cinematic Universe, where characters support one another until they become strong enough for their own movie line, and also appear together in movies.

Finally, Marvel *created* a Creative Committee to craft the films consisting of lead comic book editors and company executives to ensure the integrity of their characters and storylines. Rather than grant a *carte blanche* creative license for directors to bring comic books to life, Marvel executives retained this role for themselves, going so far as to replace traditional storyboards with cut-up comic books. Marvel is vested in the well-being of their characters, almost as a parent is to a child. In line with the husbandry of their characters Marvel producers are substantially more involved in the movie-making process, actively managing actors and directors to bring the Marvel vision to life, rather than relying upon the vision of an individual actor or director.[43] Via the Creative Committee Marvel *created* a cohesive storyline not dependent on any single actor or director.

As discussed above, a vital key factor of competition was Marvel's decision to control their own destiny in the movie business. That decision, and the mechanism to do that – the $525 million non-recourse credit line[44] – enabled Marvel to unlock many other key factors and sail to their new blue ocean.

Marvel Morphs into a Blue Ocean ... Again

When Marvel character Bruce Banner becomes angry he transforms into *The Hulk*, a giant green monster that smashes anything in his way. Similarly, Marvel's misfortunes inspired a strategic pivot that quickly opened a blue ocean.

One hundred and twenty-nine live-action feature-length movies, based on comic books, have been released in theaters since the first modern comic-book movie, *Superman*, in 1978.[45] These films grossed $38.6 billion[46] total; $23 billion (59 percent) from movies based on Marvel characters, $8.8 billion (23 percent) from DC characters[47], and the remainder from other comic book characters. The median comic book movie earned $176.2 million worldwide revenue. Movies based on Marvel characters, but not produced by Marvel, earn a median $373.6 million. The median for Marvel-produced movies is $660.2 million.[48] One Marvel-produced movie, *The Avengers*, grossed over $1.5 billion, the then third highest

43 This tradition dates back to Marvel's early years where even their most famous and talented cartoonists were treated more like typical employees than stars.

44 Marvel created two tranches of debt. Mezzanine debt, of $60 million, carried interest at LIBOR plus 7.0% while senior debt carried interest of LIBOR plus 1.635 percent (rising to 2.935 percent after the financial crisis eroded the guarantor's credit slightly). After the success of *Iron Man*, Marvel used the profits to repay the $60 million of higher-interest mezzanine debt.

45 Through October, 2015, many more movies were released directly to video or turned into television films but, for analysis, these are not considered. Additionally, there were 14 live-action comic book movies and serials before *Superman*, most released in the 1940's.

46 All figures are adjusted for inflation from their release date to October, 2015.

47 Notable DC characters include *Superman*, *Batman*, and *Wonder Women*.

48 The average comic book movie produces $299.5 million worldwide revenue. Movies based on Marvel characters, but not produced by Marvel, averaged $417.6 million. Marvel produced movies average $713.2 million.

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earning movie of all time. Marvel's characters clearly thrive best in Marvel's blue ocean of moviemaking.

Besides the movies, Marvel's other businesses prospered as the films gained popularity. "Even people in senior positions in entertainment did not understand what we call The Wagon Wheel," said Cuneo. "The hub of the wheel is your intellectual property: your characters, your brands. The spokes on the wheel are how you monetize the IP and the spokes can be media forms or consumer product categories. The rim of the wheel is the synergy between all of those spokes. When we started at Marvel we really only had two spokes. We had the comic book business, called print media, and we had the toy business. That's a very wobbly wheel; two spokes don't support a wheel very well and that reflects the bankruptcy that Marvel had gone through. When we did *X-Men 1*, that added a third spoke on the wheel, motion pictures. And of course motion pictures then led directly to licensing and then you added videogames, which is a very big category. When the motion picture came out we went from two spokes to probably ten spokes and that's the essence of what happened. Then we could move into television. We firmly believed that if people saw our films they would buy our toys for their kids, they would play our videogames, they would go to the amusement parks where our characters were, and all these experiences played into other experiences. The holy grail of entertainment is owning and controlling your own IP to maximize spokes on the wheel."

Hollywood could not help but notice the creative and financial success of Marvel's new strategy, especially the movie studio. Sensing that Marvel's shareholder value as an independent studio might be more limited than what could be achieved with the right larger studio, Maisel approached his former boss, Disney CEO Bob Iger, about an acquisition. Besides the financial strength, Disney is arguably the world's best company at protecting and building fictional brands and characters. Marvel investors and employees would do well under Disney: *The Avengers* would be expertly cared for indefinitely. In addition, Marvel shareholders obtained a substantial amount of Disney stock that went on to appreciate significantly.[49] Iger expressed interest and Maisel arranged a meeting with Perlmutter. After some due diligence on working conditions, negotiations on price, and a phone call from Steve Jobs to Perlmutter (Jobs had recently sold his movie studio, Pixar, to Disney) they reached an agreement.

On December 31, 2009, Disney acquired Marvel for $4.2 billion[50], barely a year after the release of the first *Iron Man* movie and a decade after the company almost folded.[51] "It's

49 Maisel realized that the financial crisis, which had just stabilized at the time of the acquisition, devalued Disney stock well below where a more stable economic environment would suggest and negotiated 40 percent of the purchase price in stock. Between August, 2009 and October, 2015, Disney stock increased by 453 percent. Taking this into account the adjusted purchase price, as of October, 2015, would be $10.1 billion, $2.5 billion in cash and $7.6 billion in stock.

50 The acquisition was announced in August, 2009 at which point the mix of Disney stock valued at $4.2 billion. By the time the acquisition was complete, on December 31, Disney stock increased leading to a total valuation of $4.5 at closure.

51 Marvel's stock price at the beginning of 2001 was $1.43. The final split-adjusted price of the stock in 2009, when the acquisition closed, was $54.03.

almost like they have a built-in GPS system for the storytelling," said Bob Iger about Marvel.[52]

Further reinforcing the notion that Marvel is the best at creating movies based on Marvel characters, Marvel and Sony came to a unique agreement in 2015 to cross-license *Spider-Man*. Sony will license the *Spider-Man* character back to Marvel for use in Marvel-produced films with other superheroes. In exchange, Marvel will produce future stand-alone *Spider-Man* movies, hiring the director, reviewing the script, and shooting them the Marvel Way. There is no money involved: Sony would not pay royalties on their use of *Spider-Man* from the stand-alone movies and Marvel would not pay royalties on future films that include *Spider-Man*. Since royalties for even the most successful *Spider-Man* movies were marginal compared to overall movie revenue, this deal represents an acknowledgment that Marvel characters are best managed by Marvel.

Conversely, Marvel made clear their displeasure about the ongoing use of the popular Marvel characters *X-Men* and the *Fantastic Four* by 20th Century Fox. While there is nothing Marvel could do legally they protested by suspending production of new comic books featuring the characters and went so far as to digitally remove the characters from some old comics. Even though they still profit from licensing royalties, which increase with the release of a feature film, Marvel strongly prefers that Marvel characters are produced by Marvel Studios. "Once you license something to a studio, you have to watch them like a hawk," Perlmutter's former partner Avi Arad told the *Hollywood Reporter* in 2006. "These are our children, not theirs."

As with other blue ocean offerings, Marvel effectively has no competition. "*Iron Man* was the number one movie of 2008 until *The Dark Knight* came along, and I loved it, frankly," said current Marvel studio head Kevin Feige. "I love that the number one and the number two movies of that year – and it has happened a number of times since then – [were] comic-book movies, even if it wasn't one we made… Here we are now, 14 years since the first Marvel movie I worked on. At that point it had been eight years and for those eight years people had been asking 'How much longer [is enthusiasm for comic book movies] gonna last?' 'When are people gonna get tired of these movies? And my answer always was 'People only get tired if a whole slew of terrible ones come out'. And it's our job to make sure that doesn't happen. If there are other people out there interested in that not happening as well, I'm all for it!"[53]

Marvel, DC and other comic book businesses were unusually close to one another. Before moving offices Marvel and DC were nearby and would routinely share lunches, company picnics, and employees would switch back and forth between the businesses. Smaller comic book companies were oftentimes started by former employees of Marvel or DC so the businesses have a tradition of being unusually close. Given the limited number of high quality comic book characters, Marvel's primary competitor is bad comic book movies, not other movie studios. That is, if audiences watch a bad comic-book movie – or if too many are released – audiences might sour on the whole genre. Conversely, if they watch an entertaining comic book movie they are likely to want to see another, no matter which studio produces the film.

52 Leonard, David. "The Pow! Bang! Bam! Plan to Save Marvel, Starring B-List Heroes." Bloomberg Business 3 Apr. 2014.

53 Jagernauth, Kevin. "Kevin Feige Talks DC Films." The Playlist 18 July 2014.

"If, at the end of the year, ten comic book movies come out, and they're all bad then attendance will be bad," said Cuneo. "If they're all great then attendance will be great. I don't think that people sit around saying 'I'm only going to see two comic book movies this year.' That isn't how it works. It's not a zero-sum game. If the creative is great on a lot of movies the box office will expand right along with that. Whether it's Marvel or Time-Warner or anyone dealing with fantasy films they're really competing with themselves meaning they've got to make a good film. If they make a good film they'll be successful."

Would-be competitors agree competition is irrelevant. "We're all in this big business together, and we hope people are interested in the adventures that we put up on screen," said Zach Snyder, director of the upcoming DC film *Batman Vs. Superman*. "And I do believe it's infectious, and the next weekend you're like, 'You know what? Let's go do that again, that was awesome. We saw a cool movie, maybe we'll get another cool movie.'"[54]

Just as Marvel layered characters upon one another to rebuild the company, they are now layering different types of media, expanding aggressively into television. In June 2010, Marvel announced an initiative to produce their own television programs and, in 2013, launched the critically acclaimed *Agents of S.H.I.E.L.D.* Marvel/Disney sees their shows as strategically important – bringing Marvel characters from the big to the small screen – and has committed to spending $200 million to produce entirely new shows. Other Marvel television shows include *Agent Carter*, *Powers*, *Daredevil*, *Jessica Jones*, and *Luke Cage*.

Marvel at Present

On July 14, 2015, Marvel sent actor Michael Douglas and thief-turned-superhero *Ant-Man* to ring the closing bell of the New York Stock Exchange and celebrate the movie's premier. *Ant-Man* is the last of the second stage of the *Marvel Cinematic Universe* movies: each phase lasting six movies like each comic book story lasts six books. But there was a double-entendre: Douglas also portrayed Gordon "Greed Is Good" Gekko in the movie *Wall Street*, a character widely believed to be based on a composite, based in part on some of the corporate raiders Marvel once struggled under. So Gekko works for Marvel now (in a supporting role of course: Douglas is already a movie star who would be too expensive as a lead). It's not hard to imagine that Marvel was implicitly sending Wall Street a message about their final thoughts on value extracting raiders.

Marvel is doing well. Maisel and Cuneo, who had resigned as CEO after the business stabilized but remained on the board of directors, left after the Disney acquisition in 2009. Perlmutter remains as CEO of the Marvel division.

However, in Marvel's Universe – both in the comic books and also the business – calm always foreshadows a fight. Currently, Marvel is filming *Captain America: Civil War*. As work progressed, studio head Feige became frustrated by Perlmutter's frugal ways; Feige reportedly wanted more budget and Perlmutter more cuts. Finally, Feige waged his own civil war and successfully lobbied that the movie studio be reassigned from Perlmutter to Disney studio head Alan Horn. Additionally, Feige all but dissolved the Creative Committee, the

54 Hughes, Mark. "Exclusive Interview with Zack Snyder, Director Of 'Batman Vs. Superman'" Forbes 17 April 2014.

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Marvel group that carefully managed continuity and adherence to the comic books. Not long before that, Marvel Studios moved from the car dealership to the Disney Studio's lot where they surely noticed the nicer furniture and free lunches at *Pixar* and *Lucasfilm*, two other studios Disney acquired.

There is no question that Marvel's current as-is blue ocean strategy is a resounding success. From 1999 (after the bankruptcy) until October 2015 there have been 93 live action movies released in theatres based on comic books; 41 are based on Marvel characters, 16 are based on DC characters, and the rest are based on comic books from various smaller companies. Movies based on Marvel's characters grossed $21.7 billion, whereas DC-based movies earned $5 billion over the same time period. Marvel produced movies earned $9.3 billion[55], an average of $713.2 million, well above the non-Marvel average of $338.7 million. In contrast, the six Star Wars films grossed $4.8 billion and the eight Harry Potter films grossed $2.95 billion.[56] With 8,000 characters, Marvel is just getting started: the Marvel Cinematic Universe has plans for movies stretching far into the future.

By using value innovation – eliminating and reducing factors of competition and raising and creating other factors – Marvel unleashed a blue ocean in moviemaking larger than anything the world has ever seen.

"There was a long-term focus (on the part of the board of directors, including Perlmutter)," said Cuneo. "I think some people mistook some of the drivers to be short-term. We were willing to be patient and nurture the business. I don't ever remember having a discussion that was short-term in nature at the expense of the long term."

Marvel's current blue ocean is about ten years old, and continues to endure, but eventually all blue oceans turn red if companies either start to compromise the strategy to their success or when competitors aggressively imitate and companies fail to value innovate again. Marvel knows the history of their characters and of their company: this is a business that does not forget. Marvel swam in an early blue ocean, was almost destroyed in a subsequent red ocean pivot, and was revived – almost like a superhero from their books – in a subsequent blue ocean strategic move. Only time will tell if these recent changes signal the unravelling of Marvel's blue ocean or represent small changes to refine and update the strategy as the business blossoms. Quoting Stan Lee, at the close of every Marvel comic book, "Excelsior!"

55 All figures in this case are inflation adjusted to 2015.
56 Since then Disney released *Star Wars: The Force Awakens* that looks likely to earn over $2 billion in worldwide box office.

Questions

1. There have been several attempts to explain Marvel's success via competitive strategy but they fall flat: competitive strategy, with this specific case, neither predicts nor explains the outcome. Why? why is it hard to explain marvel strategy rebirth through traditional models?whats in their SWOT, what are the strength
2. If Marvel had spent more to hire top-tier movie stars, well-known directors, and moved forward the Hollywood Way, would the movies have performed better?
3. Why do or don't you think Marvel broke the value/cost trade-off?
4. Explain the difference between value extraction and value innovation as well as the long-term financial impact of each.
5. Who were the noncustomers Marvel targeted?

The red ocean they've found themselves to be was the movies industry in the blue strategy you have to define the industry of reference

Main value drivers of the traditional movie industry:

- Price -> They've cut Management (is a cost, not a value driver)
- Movie stars -> They've cut studio's overhead (is a cost, not a value driver)
- Plot
- Emotions

As-is value drivers

- Movie stars -> They've cut studio's overhead (is a cost, not a value driver)
- Plot
- Emotions
- Movie Technology (2D, 3D, CGI)
- Directors
- Studio's (Brand)
- Locations
- Soundtrack

As-is value drivers

storyline/originality/connection between characters/emotional attachments

Brainstorming phase

6 Paths:

- Toys
- Videogames
- Comics
- Cards

other industries

Non clients:

- Students youngsters
- Adults passionate about comics

thanks to non-client framework they realized youngsters will grow soon or late so now people watching marvel movies are in their 30s or 40s and they have high spending ability,taste for sth different that is not childish

then they go for to-be value curve where they question all the as-is value curves and potentially propose new ones

What Marvel have done in terms of elimination (E), reduction (R), increasing (I) or creatinga (C)?

- Price -> They've cut Management (is a cost, not a value driver) **(E)**
- Movie stars **(E/R - used not so famous stars or ex-stars)** -> They've cut studio's overhead (is a cost, not a value driver) **(E)**
- Plot
- Emotions **(I)** Emotional attachment
- Movie Technology (2D, 3D, CGI) **(I)**
- Directors **(R - Gave opportunities to new young directors)**
- Studio's (Brand) **(I)**
- Locations **(R)**
- Soundtrack **(I)**
- MCU **(C)** marvel cinematic universe all movies are somehow connected in an ecosystem and they make as many connections as they can(connect one movie to the next one)
- Creative commitee **(C)**

connection of characters also was an (I)

no big cars/fancy office and promotion/

famous actors and directors:R----(creative and not so expensive)

they cut the investments on fancy locations,cause they rely on CGI(computer graphic images) R----Cut the relative investment

soundtrack(not by Hans Zimmer)R

Creative story line I

Question:what is happening now? avengers end game was the end of phase 3

the blue ocean will become red again soon or late, based on the competition and also for the fact that what you created 20 years ago and was original, its not original to customers anymore

the way they tried to revamp this and move towards another blue ocean is by partly replicating what they did in the past, there are many universes with many different story lines with same character in different realities

the interesting point is they are trying to renew the ocean by following the same path it followed before/the only thing they have changed from the path is not only they have movies they also have series

we should consider that the ecosystem they are making that has lock in effect,has also saturation (you need to watch 50 movies in oder to catch-up)

they cant also eliminate the previous characters and go for new ones because its their legacy

SM 21-22 SS Strategic role of IT and Digital Strategy

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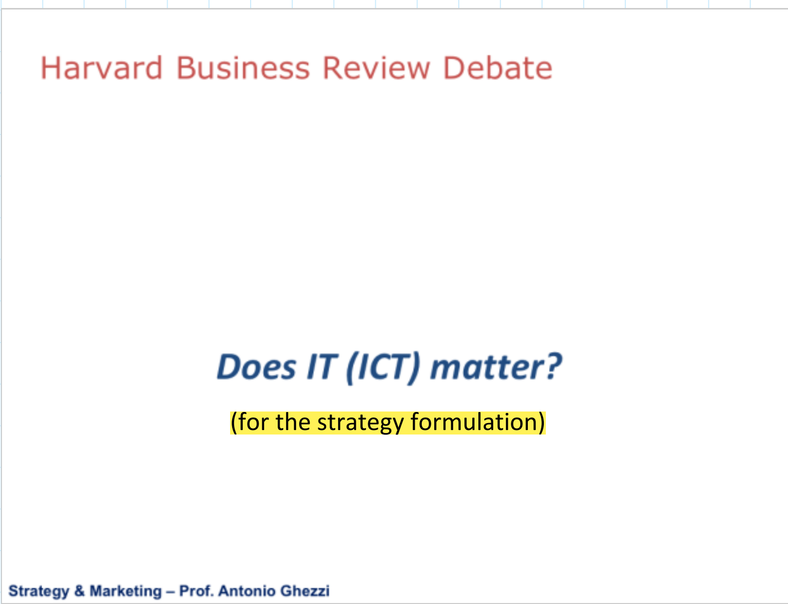
SM 21-22
SS Strateg...

23.11.2021



Carr's article: IT doesn't matter
Harvard Business Review (May 2003)

- **IT (ICT) cannot be a source of sustainable, long term, competitive advantage, since it is becoming more and more**
  - standard
  - cheap
  - available to all
  - outsourceable its possible to deliver and ask external partners to manage the IT

it's not a core resource and competitive advantage

…in one word a commodity

- **IT (ICT) is more and more essential to operations but it is insignificant to strategy**

"What makes a resource truly strategic is not ubiquity but scarcity." (Carr, 2003)

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A commodity is a good that is interchangeable without any particular difference in quality or function

According to Carr, If IT is considered a commodity, it cannot be a source of sustainable long - term competitive advantage, so no strategic relevance for the company

IT has a higher impact on an operational level, so it's essential in order to improve efficiency, but it's not essential at a strategic level

Reply from other HBR authors

In the left column we have the opponents to the idea

left right is correct perspectives

It's about how the company use it

- **Technological perspective**
  IT Competence is seen as a bundle of software & hardware assets and technical skills that are fully available on the market
  IT as a commodity
- **Organizational & Business Perspective**
  ICT Competence is the ability of a company to exploit/leverage ICT to pursue business innovations, to change business practices, to improve business performance …. this is in short supply!
  Not easy to find
- **Infrastructural perspective**
  The focus is mainly on Infrastructure (hardware and network) that is becoming more and more a commodity

VS

- **Application perspective**
  Business Applications are extremely customized … built on the specific business logic of the company … embedded in the organizational routine of the company. They can create strategic differentiation

→ IT can be used in different ways

- **Single ICT Project perspective**
  The focus is on the single ICT Project, that may or may not be the driver of competitive advantage
- **Learning Process perspective**
  This capability is the result of a complex and long cumulative (path dependent) and collective (organizational) learning process. This can lead to durable and defendable competitive advantage
  we keep updating new value according different perspectives

its not about start and end of a project.

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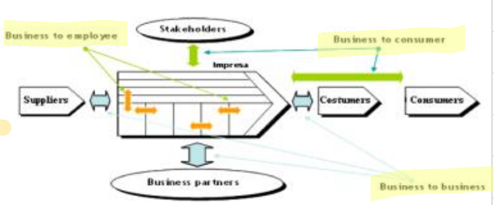
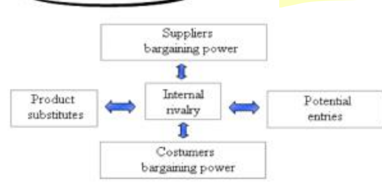
In response, there were different perspectives on the matter

The "strategic" role of ICT according to the "strategic" models

- **Internal Perspective**
  ICT can create new sources of competitive advantage both in terms of cost and differentiation by impacting on the company's Value Chain



- **External Perspective**
  ICT can drive transformations in the competitive landscape, changing the role and the intensity of each competitive force (internal rivalry, potential entries, substitute products, suppliers' and customers' bargaining power)



… but the real business role of ICT depends on the specific business context …

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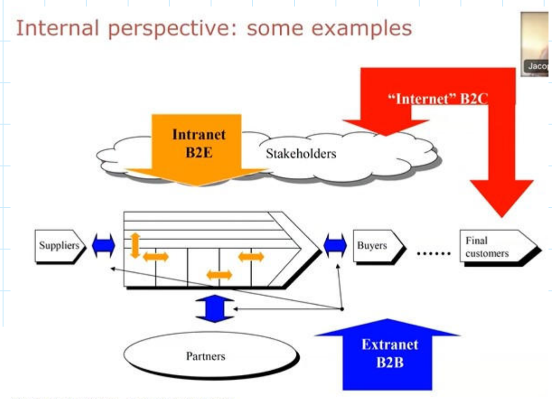
Internal perspective: ict can have a strategic role from an internal perspective, because it can, for example, intervene in the way the business interacts with its employees or between the company and its suppliers, like e-procurement, supply chains or between companies and consumers

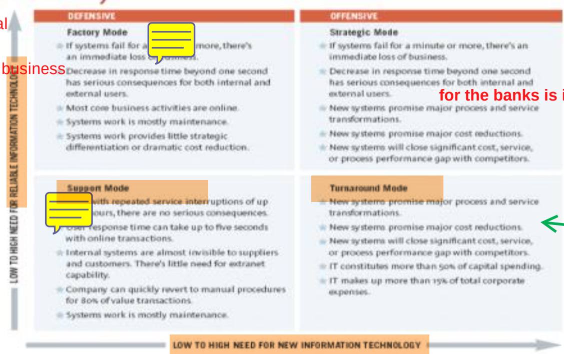


The business role of ICT: depending on the specific business context (Nolan & McFarlan's Approach)

This model classify the role of the ICT within a company according to 2 main variables: reliable information (y-axis) and need to have new information technology

internal

sth that is specific to your business



for the banks is in this quadrant,they need most reliable technology and also fast updates

i change my it system cause i want to be preceived as most innovative and if the it is not really important for my activity, they do it normally for marketing

external,how much is necessary to keep the informatin system updated/sth that is important in comparison with the competitors

The position of a company on this grid depends on both exogenous (industry characteristics) and endogenous (company characteristics) variables

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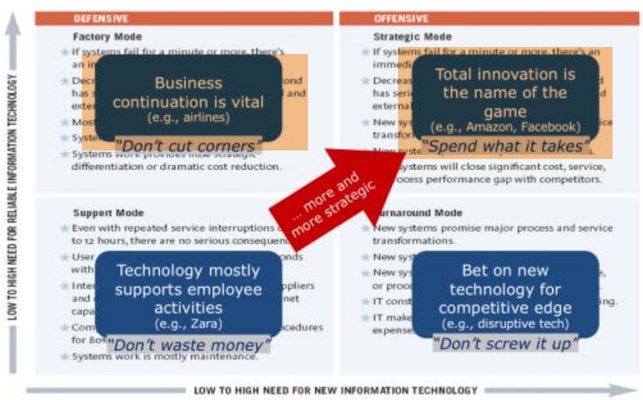
The business role of ICT is becoming…

Based on the 2 variables, 4 quadrants arise



Don't cut corners means to not think about reducing investments in the information relatability because it is vital for the company

In this case there's a competitive advantage just because companies bet on the new technology compared the current one on the market. Competitive advantage just because is something new, never introduced before

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The cultural barriers

many companies actually are worried to implement many changes

1. Top Management's real commitment and sensitivity to ICT - the CEO above all

they say we have always done in this way,why changes?and sometimes its too late cause others have replaced your competitive position

Chief information officer

2. The characteristics of the CIO and his/her key people (in terms of leadership, business acumen, organizational competence, communicational skills, etc.) تیز هوشی، تیز فهمی

3. Business Managers' open-mindedness and sensitivity to ICT

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The cultural barriers

- Top Management's real commitment and sensitivity to ICT - the CEO above all

> - *"Top management's ability to really worry about ICT? It is a cultural problem. ICT is like mathematics : either someone was able to teach it well, help you to understand and appreciate, or you are put off for life" (Massimo Capuano, CEO, Milan Stock Exchange)*
> - *"You can learn finance and marketing, but not technology. ICT is not sexy enough for a top manager to take the time to understand and learn" (Luca Majocchi, CEO, Seat Pagine Gialle)*

- Business Managers' open-mindedness and sensitivity to ICT

The cultural barriers

- Top Management's real commitment and sensitivity to ICT - the CEO above all
- The characteristics of the CIO and his/her key people (in terms of leadership, business acumen, organizational

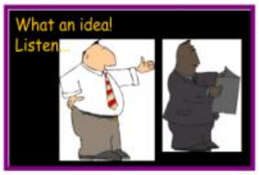
> - *"... ICT people must be able to play their game: to speak the language of business, to demonstrate concrete results, earning credibility... "*
> - *"ICT people speak a language different from ours: I don't want technical terms or acronyms, I want logical reasoning!"*
> - *"The CIO must have a good mix of technical, organizational, communication and relationship skills"*
> - *"Too often CIOs focus only on their projects, paying no attention to their actual impact on the business"*
> - *"... It would be useful for the key people in the IT Department to have an MBA ..."*

The cultural barriers

- Top Management's real commitment and sensitivity to ICT - the CEO above all
- The characteristics of the CIO and his/her key people (in terms of leadership, business acumen, organizational competence, communicational skills, etc.)
- Business Managers' open-mindedness and sensitivity to ICT

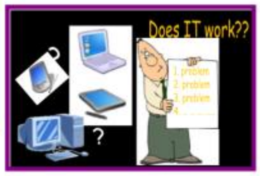
Business Managers: the different approaches to ICT

- ✔ **Pro-active**



- ✔ **Re-active**

- ✔ **Eternal skeptic** just see the negative side



- ✔ **Procrastinator**

- ✔ **Unwitting**

Business Strategy, IT Strategy and Digital Strategy

Business Strategy vs. IT Strategy vs. Digital Strategy

- **Business Strategy**, **IT Strategy** and **Digital Strategy**
  - shall be related and aim at common goals (i.e., higher performance in terms of value creation and value capture)
  - have different meanings.

- A **Business Strategy** is an integrated, comprehensive and long-term plan that includes a consistent set of strategic decisions and is aimed at creating and sustaining competitive advantage in a business area, compared to competitors

Business Strategy vs. IT Strategy vs. Digital Strategy

- Concerning **IT Strategy** and **Digital Strategy**, boundaries become fuzzy and blurred.
- Although often used as synonyms and overlapping terms, IT Strategy and Digital Strategy are growingly **diverging** in the **meaning** associated to them and the **approach** they evoke and advocate for.
- "Everyone thinks they have a digital strategy these days. But while your company may have a business or IT strategy that incorporates digital technology, an IT strategy does not equal a digital strategy." (McDonald, 2012)

IT s>> to some extent is the exercise and the implementation of business strategy,to perform mre efficiently the business strategy

DS >> is a new kind of strategy

Business Strategy vs. IT Strategy vs. Digital Strategy

IT Strategy:

- Functional-level strategy aiming at The use of information technologies adopted by organizations as tools to **boost productivity** or **lower operational costs**.
- The broad strategic view was that **IT strategy had to be aligned with the firm's business strategy** (Henderson and Venkatraman, 1993).
- "IT Strategy is a **technical answer to a business question**: "How will IT help the business win?". It assumes the business strategy is set, then considers how to use IT to make that strategy successful. IT Strategy is **usually conducted downstream of/ after business strategy**" (Aron, 2013)
- "Most IT strategies treat technology in isolation. Your company may be working on a cloud strategy, social strategy, or mobile strategy." (McDonald, 2012)

Makes the processes more efficient

it is actually the implementation of the strategy

they are all functional level and not business level

Business Strategy vs. IT Strategy vs. Digital Strategy

its mostly software and application part of the technology while it is for the hardware

From IT to "Digital Technology": a pragmatic definition

- Digital technologies can be viewed as the combination of:
  - Information
  - Computing (Hardware and Software)
  - Communication
  - Connectivity (protocols such as Internet and Mobile web)

  technologies which are fundamentally reshaping traditional business strategy as modular, distributed, cross functional, and global business processes that enable work to be carried out across boundaries of time, distance, and function (Bharadwaj et al., 2013)

Business Strategy vs. IT Strategy vs. Digital Strategy

From IT to "Digital Technology": what's new about digital?

فراگیر و نافذ

- **Pervasive.** Digital technologies are so pervasive that they create a different everyday experience
- **Multi-purpose.** Digital technologies can be employed in a plethora of alternative environments with a vast range of applications

same technology has diiferent applications in disserent domain:social media apps that can be used for marketing,information...

- **Customer-centric.** Digital technologies affect customers' touchpoints and journey to such an extent that they enable and call for a true customer centricity in a company's strategy

if you enter the website of a company from different locations,the content may differ

- **Value-relevant and transformational.** Digital technologies, if properly leveraged, can have a transformational and innovative impact on value propositions

there are some value propositians that are inhanced by digital and there are other kind of the value propositions that are mainly digital
ex. loxatica with collaboration with facebook having producing rayban stories(glasses with cameras that are connected to your smartphone and you can publish stories in the social media exactly by your vision through the glasses)

Business Strategy vs. IT Strategy vs. Digital Strategy

- Due to Digital's characteristics, today it is easier for managers and strategists to grasp and be aware of the **strategic implications of such technologies at all level**.
- Digital Strategy cannot be confined to the IT Function anymore (as it happened to IT Strategy), but shall be **formulated alongside Business Strategy, as it impacts all of its key steps.**

so not just implementation,but actually all the steps before

in the external analysis how much you have put elements that are related in digital or also in the internal part...

- As a result, rather than calling it Digital Strategy, we should refer to it as "**Digital Business Strategy**" (i.e. **a Business Strategy which is inherently Digital in nature, aim and scope**)

examplw

Business Strategy vs. IT Strategy vs. Digital Strategy

Digital Business Strategy:

- "Digital Business Strategy is a business answer to a digital question: "**How should our business evolve to survive and thrive in an increasingly digital world**?" It is not a separate strategy, but instead **a lens on business strategy**. All aspects of the business strategy should be **informed by digital considerations**." (Aron, 2013)
- "Digital Business Strategy is **more than IT strategy** since it is the extent to which a firm engages in **any category of IT activity to create value**." (Mithas et al., 2013)

Business Strategy vs. IT Strategy vs. Digital Strategy

example

- "Digital Business Strategy is a **pattern of deliberate competitive actions** undertaken by a firm as it **competes by offering digitally enabled products or services**." (Woodard et al., 2013)

- "Digital Business Strategy is an organizational **strategy formulated and executed by leveraging digital resources to create differential value**." (Bharadwaj et al., 2013)

- "Digital is the application of information and technology to **raise human performance**. Human performance is the **essence of digital transformation**. Human performance **creates the type of value that leads to revenue**. Alternative goals for digital create efficiencies that largely drive down the cost of creating short-term benefits but drain the economy and growth." (McDonlad, 2015)

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Business Strategy vs. IT Strategy vs. Digital Strategy
The essence of a Digital Strategy

example

- "Today's hottest customer-facing solutions rely on pervasive digital connections in which the individual technologies (cloud, near field communications, mobile, big data, etc.) **merge to deliver an experience that looks and feels an awful lot like our natural behavior**.
- In other words, the more connections between people, places, information, and things (aka **digital density**), the more **customers can interact with companies** and each other in a **seamless** and satisfying way.
- Digital strategies are not only about **digital substitution** (i.e. automating and substituting physical resources with digital transactions, thus only creating virtual copies of the real world which are commoditized and duplicable), but call for creating a **digital edge**, where digital information and physical resources combine in new ways to create value and revenue" (McDonald, 2012)

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Business Strategy vs. IT Strategy vs. Digital Strategy
The essence of a Digital Strategy

example

- Enterprises seeking a digital edge **transform** processes, business models, and the customer experience by exploiting the pervasive digital connections between systems, people, places, and things.

- **A digital edge is a performance edge**, as it exploits a Digital Strategy merged with a Business Strategy **to create competitive advantage** (**Digital Business Strategy**).

- The **essence of digital strategy** is to **deliver more because leaders think broadly about how digital technology creates value and revenue;** and to think about **how digital will combine to create new capability rather than replace old operations.**

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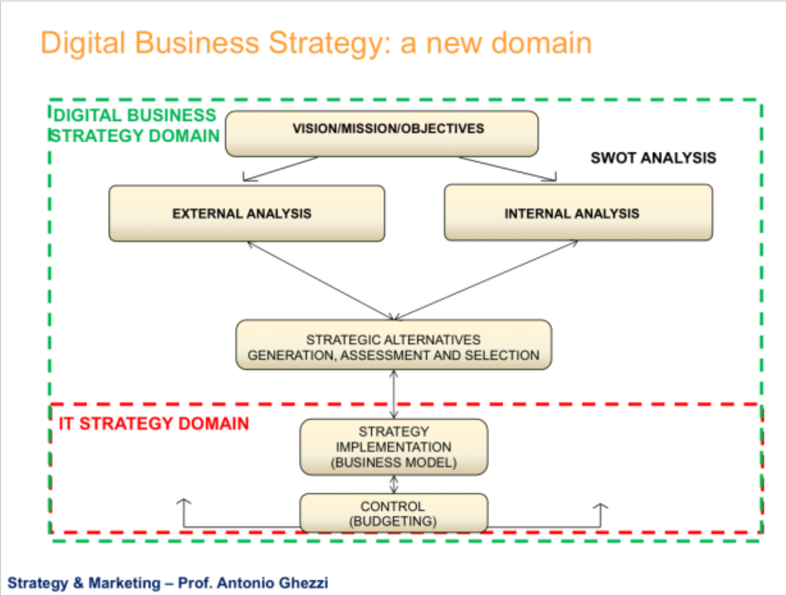

Digital strategy comprehends all the domain of the business strategy formulation, meanwhile the IT strategy is limited to the strategy implementation part

Business Strategy vs. IT Strategy vs. Digital Strategy Conclusions

- To wrap it all up (with my take on the recent debate, keeping in mind the older "quarrel" about the strategic role of IT):
  - A Digital Strategy is a **revamping** (بازسازی) of the IT Strategy in a world with **a new context, new tools, new management and consumer awareness and a greater digital density.**
  - Digital Business Strategy is what IT Strategy should have been if virtuously applied, but what it seldom delivered.
  - **Alignment** is not enough: Business Strategy and Digital Strategy **co-creation** and **co-formulation** and **digital strategic renewal** around the idea of the **original combination of digital assets and capabilities as the new sources of competitive advantage** are and will be key for companies' innovation and transformation (Ghezzi, 2016)

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Digital strategy leverages digital technologies, which are the recombination of a series of information technologies,to adapt the business strategy to the new context where digital technologies are pervasive and where companies need to compete taking for granted that it are inavery interaction with the consumer.

Business strategy and digital strategy are not 2 different things, but are basically the same thing so they have to be designed together

SM - La Presse Ca...

INTERNATIONAL JOURNAL OF CASE STUDIES IN MANAGEMENT

Volume 16
Issue 1
March 2018

Digital Transformation at *La Presse*: A – Crafting a New Digital Strategy

Case[1] prepared by **Camille GRANGE**,[2] **Sandrine PROM TEP**,[3] and **Sylvain SÉNÉCAL**[4]

> At this moment, the rate of technological change is the slowest you will ever experience for the rest of your life.
>
> – Shelly Palmer[5]

As Guy Crevier, president and publisher of *La Presse*, prepared to chair the company's final board meeting of 2015, he assessed the progress made since the 2008 financial crisis that had accelerated the digital transformation of his newspaper. In a few days, *La Presse* would reach a major milestone in its 131-year history. On January 1, 2016, the flagship tablet app *La Presse+*, launched in April 2013, would fully replace the weekday print edition of the newspaper. This would make *La Presse* the world's first daily newspaper to become 100% digital on weekdays (while maintaining a Saturday print edition), and thus the digital leader of Quebec's news and media industry. Crevier was optimistic that *La Presse* had built a sufficiently strong and flexible business model to differentiate and survive in a severely disrupted industry.

1. *La Presse*

1.1. Background and market position

La Presse is a French-language daily founded in Montreal in 1884 by journalist William-Edmond Blumhart. Under the leadership of the Berthiaume-Du Tremblay family until 1967, and of the Gesca group (a subsidiary of the Power Corporation conglomerate) thereafter, *La Presse* became one of Canada's top-selling newspapers. In 1908, it became the first Canadian newspaper to cross the circulation threshold of 100,000, and, in 1915, it became the largest French-language daily in America, with a weekly circulation of 120,000. While *La Presse* competes with several other newspapers in Quebec (12 paid and 2 free), its most direct competitors are *Le Journal de Montréal*, which targets a more populist readership, and *Le Devoir*, the only independent large-circulation newspaper in Quebec (Exhibit 1).

[1] Winner of the 2018 Best Case Award of the *International Journal of Case Studies in Management*.

[2] Camille Grange is an assistant professor in HEC Montréal's Department of Information Technologies.

[3] Sandrine Prom Tep is a professor in ESG – UQAM's Department of Marketing.

[4] Sylvain Sénécal is a professor in HEC Montréal's Department of Marketing.

[5] https://www.shellypalmer.com/2015/08/what-will-you-do-after-white-collar-work/

The International Journal of Case Studies in Management *is published on-line* (http://www.hec.ca/en/case_centre/ijcsm/)*, ISSN 1911-2599.*
This case is intended to be used as the framework for an educational discussion and does not imply any judgement on the administrative situation presented. Deposited under number 9 40 2018 002A with the HEC Montréal Case Centre, 3000, chemin de la Côte-Sainte-Catherine, Montréal (Québec) H3T 2A7 Canada.

Since its founding in the late nineteenth century, *La Presse* has delivered a wide range of local and international news to its French-speaking audience, earning numerous awards for the quality of both its content and its presentation. Over the years, the newspaper has built a solid reputation and a strong brand, becoming known for its wide and diversified coverage of current events, background articles, and debate coverage.

Until 2013, *La Presse* relied on two major income sources. About 25% of its revenue came from the sale of weekday and Saturday print editions. Regular readers paid monthly subscription fees to have the paper delivered to their home every day, while non-subscribers could buy the paper at newsstands or other points of sale. About 65% of the paper's income came from companies purchasing advertising space. The final 10% came from short, generally text-based classified ads placed by individuals (e.g., selling personal goods) or small local businesses (e.g., help wanted ads). To create content, *La Presse* relied on a team of skilled journalists covering a variety of subjects, including local and foreign affairs, business news, politics, sports, and culture. In this century-old business model, operating expenses were divided between news production, including journalist salaries (about 50%), printing costs (about 15%), and newspaper delivery (about 35%).

1.2 Earlier waves of digital transformation at *La Presse*

The first wave of digital transformation was triggered by the emergence of desktop publishing software in the late 1980s. The production of print newspapers was traditionally a time-consuming affair requiring large teams of typographers to carry out an array of composition, arrangement, and printing processes using lead-based movable type. Desktop publishing revolutionized newspaper production by digitizing much of the process. Complex page layouts including high-quality text, images, and graphics could now be created much more quickly and easily.

The second wave came in the 2000s. Taking advantage of new opportunities afforded by the Internet, *La Presse* began to develop its digital ecosystem by launching a website in 2000 (cyberpresse.ca, renamed lapresse.ca in 2011). In 2001, while developing its digital operations, *La Presse* simultaneously initiated a radical upgrade of its presentation and editorial content. The paper's look was modernized, new sections were introduced, and international coverage was greatly expanded. All these changes significantly increased the newspaper's quality and circulation. *Cyberpresse Mobile*, a first mobile app, was launched in 2008. *La Presse Mobile*, an upgraded version of the original app, was launched in 2011 for both iPhone and Android. Other mobile applications (*La Presse Mots* and *La Presse Hockey*) were later integrated into *La Presse Mobile*.

2. The changing landscape of newspaper publishing

2.1. New media consumption habits and competition

Publishers face increasingly stiff competition: newspaper readership has fallen in the past fifty years (Figure 1), while, in the past decade, more and more people have begun seeking content online. This is especially true of younger people such as millennials (born in the 1980s and '90s), who rely heavily on mobile phones to get free access to both hard and soft news, or "infotainment."[1]

[1] http://www.huffingtonpost.ca/olivia-lovenmark/millennials-and-the-news_b_11981366.html

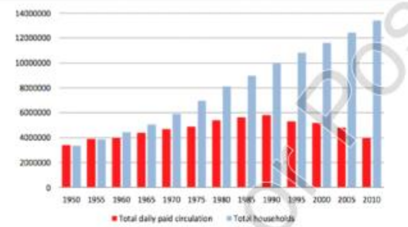


Figure 1: Total daily newspaper paid circulation and total households, Canada 1950–2010
Source: Kenneth J. Goldstein, *Canadian Daily Newspaper Trends, and Three Issues That Will Shape the Future of Newspaper "Brand"*, 2014, p. 5

Moreover, "pure players," companies that operate exclusively online, are increasingly popular with younger people. These companies have adopted different business models, with some creating original content while others aggregate content from other news outlets (Table 1). Another characteristic of today's news audiences is that they engage in cross-border news consumption to feed a growing appetite for a diversity of news sources.[1]

Table 1. Examples of pure player news organizations*

Pure player	Description
Buzzfeed	A social news and entertainment company that has built a large audience by exploiting social media's viral potential. It is known for experimenting with story formats, but is moving into more traditional news coverage.
The Huffington Post (*HuffPost* as of April 2017)	In addition to original reporting, it publishes content from outside contributors (e.g., politicians, celebrities, and policy experts) and aggregates content from other sources including *The New York Times*. Its platform is open to readers (more than a million comments are made each month).[2]
Flipboard	A highly visual news aggregator that allows users to follow themed publications presenting content from a variety of publishers.
Medium	An open publishing platform that allows anyone to write and distribute content. Posts range from scrutiny of world affairs to deeply personal essays. Medium's editorial team seeks the best content to curate "collections," and readers can follow collections and individual writers.

* Note: these examples are for illustrative purposes only; *HuffPost* is the only direct competitor of *La Presse* in the Quebec market.

[1] http://www.pwc.com/gx/en/entertainment-media/publications/assets/cross-border-news.pdf
[2] https://en.wikipedia.org/wiki/HuffPost

Social media plays an increasingly important role in the diffusion of news. Facebook has become the indisputable media industry leader as both referral source and competitor. Google and Facebook account for almost 80% of all external referral traffic to news sites, and Facebook surpassed Google in this area in 2015.[1] In February 2014, Facebook launched Paper, a newsreading app that explored new immersive design elements for reading and interacting with online content. Although the app was shut down in July 2016, as it had failed to attract a large audience,[2] Facebook's ambitions as a news distributor continued to grow. Nearly one third of Americans regularly get their news from Facebook,[3] and key ideas from Paper made their way into other Facebook products such as Instant Articles. Released in May 2015, Instant Articles is a fast-loading story format that enables publishers to load articles on Facebook's mobile app ten times faster than before.[4] Hosted on Facebook's servers, the articles create a better experience than the typical 8-second wait for articles to load on the mobile web.[5] With this new format, Facebook aims to strengthen its dominance in distributing news online, making publishers even more dependent on a platform they cannot control.

2.2. Impact on the top and bottom lines of news publishers

Some experts believe that the profound changes in the news publishing industry over the past decade could lead to the disappearance of most print newspapers by 2025.[6] Although most major publishers have developed online offerings, new revenue streams from digital channels have not compensated for losses resulting from declining print circulation. In fact, between 2011 and 2016, Canadian industry revenues from circulation, classifieds, and advertising decreased at an annualized rate of 8.4%.[7]

According to the Canadian Newspaper Association, the average weekly circulation of daily newspapers declined at an annualized rate of 3.8% between 2011 and 2015, from 35.6 million to 30.4 million. These figures include several popular free publications whose circulation did not decline significantly, suggesting that paid daily newspapers were hit much harder than indicated. In fact, the circulation and associated revenues of paid newspapers decreased by 12% between 2009 and 2015. In Quebec, it dropped by about 10% during the same period.[8]

Advertising has historically been the industry's main revenue and profit driver, with circulation revenue serving mainly to defray the costs of creating and distributing the physical product. In fact, publishers have often priced issues at a loss to maintain a large print audience and continue to attract advertisers. For this reason, the steep decline in print advertising has strongly impacted newspaper profits. The 2008 financial crisis hit the industry hard, significantly reducing ad revenue. In Canada, total advertising expenditures were relatively flat over the post-crisis years, increasing

[1] http://fortune.com/2015/08/18/facebook-google/
[2] http://www.theverge.com/2016/6/30/12062124/facebook-paper-shutdown
[3] http://www.journalism.org/2014/03/26/8-key-takeaways-about-social-media-and-news/
[4] https://instantarticles.fb.com/
[5] http://www.theverge.com/2015/5/13/8595263/facebooks-instant-articles-arrive-to-speed-up-the-news-feed
[6] K.J. Goldstein, *Canadian daily newspaper trends and three issues that will shape the future of newspaper "brands"*, conference at HEC Montréal, Canada, 2014.
[7] D. McGinley, *Newspaper publishing in Canada*, IBISWorld Industry Report, 2016.
[8] Ibid

at an annual rate of just 0.2% from 2011 to 2016.[1] In addition, with more consumers accessing content online, advertisers with limited budgets slashed their spending on print advertising. Toronto-based Postmedia Network is Canada's largest publisher, with 160 brands across several print, online, and mobile platforms. In 2016 alone, it reported a 15.3% decline in print advertising revenue.

At the same time, Internet advertising has continued to expand. In 2017, it overtook U.S. broadcast TV advertising for the first time, and by 2020, nearly half of Internet advertising revenues are expected to be generated by mobile apps.[2] The advantages of digital over print advertising are staggering. These include the ability to target a specific audience at a specific time and place based on granular data, real performance-based pricing through pay-per-click, budget flexibility (from a few dollars to several thousand daily), and the ability to track campaign performance and retarget audiences as needed.

A second revenue source for daily newspapers has also dried up: classified ads for car sales, jobs, and apartment rentals, for example, have largely migrated to digital platforms such as Craigslist, Kijiji, eBay, and other websites with specific clienteles such as accommodation or job seekers. In 2015, classified ads in Canadian daily newspapers brought in C$119 million compared to C$875 million in 2005.

2.3 Responses from news publishers

Faced with both falling circulation numbers and declining ad revenues, the industry has restructured in an effort to cut costs and maintain profits. To centralize administrative and editorial functions, acquisitions have become commonplace (for example, in 2015, Postmedia Network acquired all of Quebecor's English-language newspapers). In addition, some daily newspapers began to publish weekly, others slashed their price, and still others began to distribute their product free of charge. Some publishers were forced to close up shop. As a result, employment in the Canadian newspaper industry fell at an annualized rate of 9.7% between 2012 and 2016[3] (Figure 2). Some cuts were brutal. For example, Postmedia Network laid off more than 3,000 employees during this period.[4]

[1] Ibid
[2] PricewaterhouseCoopers' Global Entertainment & Media Outlook 2016–2020
[3] *Newspaper publishing in Canada*, IBISWorld Industry Report 51111CA.
[4] http://business.financialpost.com/news/postmedia-issues-layoff-notices-at-the-montreal-gazette-ottawa-citizen

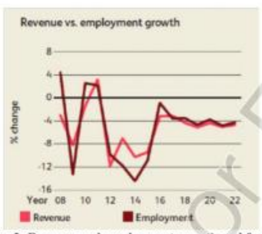


Figure 2: Revenue and employment growth and forecast
Source: IBISWorld, Canada

Most newspapers, including *La Presse*, have responded by expanding their digital operation and adopting various monetizing strategies. Some have implemented hard paywalls, where access to content requires readers to purchase a subscription, or leaky paywalls, which give readers access to a limited number of free articles before they must pay.[1] Some have focused on growing their digital audience by offering unlimited free access to content in an effort to boost readership and advertising revenues. Online audiences are much more transient than print subscribers, however. With the cost of digital advertising much lower than that for print advertising, digital readers are not nearly as lucrative as print readers, and increased traffic has done little to slow the industry's decline. In addition, with about half of marketers' digital advertising budgets earmarked for search engine advertising (e.g., Google), a significant chunk of the digital advertising pie remains inaccessible to digital newspapers.[2]

3. *La Presse*'s new digital strategy

3.1 Background

In the 2000s, several indicators suggested that *La Presse* had been relatively successful at maintaining a strong hold on Quebec's daily newspaper market. Its website was popular, reaching an audience of nearly 2.6 million unique visitors monthly in 2009. And while readership of the print edition was gradually declining, *La Presse* still ranked second in Quebec (Exhibit 1) and fourth in Canada by circulation that year.[3] In 2003, the paper had been forced to make a decision: its forty-year-old letterpress equipment would have to be replaced if it was to continue meeting reader expectations. So instead of investing heavily in an outdated technology, it decided to both increase the quality of its newspaper and improve operational efficiency while focusing on its core

[1] https://www.digitaltrends.com/mobile/new-york-times-goes-free-with-redesigned-ios-app/
[2] https://www.emarketer.com/Article/US-Digital-Ad-Spending-Surpass-TV-this-Year/1014469
[3] https://en.wikipedia.org/wiki/List_of_newspapers_in_Canada_by_circulation

activities (producing editorial content and selling advertising space) by outsourcing printing to Transcontinental.

La Presse still faced three major challenges: operational costs remained high; it needed to attract younger readers, who preferred getting their news from free online sources; and online readers were not as lucrative as traditional print readers. In fact, online media reached audiences that were ten to a hundred times larger than did print media while bringing in ten to a hundred times less revenue.

Crevier was thus convinced that the century-old business model of *La Presse* (and of many other newspaper publishers) was no longer sustainable. He realized that if *La Presse* could not reinvent itself to compete with online media, the quality of its content would suffer. This would lead to a vicious circle of declining readership and falling revenues that, in the long run, would sound the paper's death knell.

3.2. The emergence of the new digital strategy

The foundational idea behind *La Presse*'s new digital strategy surfaced in a meeting between Guy Crevier and Jean-Marc De Jonghe in late 2009. As the company's senior director of operations, De Jonghe had been responsible for all operations, quality control, advertising production, and colour management for the *La Presse* news and information ecosystem for the last seven years – including the outsourcing of *La Presse*'s printing operations to Transcontinental. With an engineering background and a decade's experience developing and managing newspaper operations, De Jonghe had a deep understanding of the business and the changing role of information technology (i.e., in digitizing not only media production tools and processes but also customer experience platforms). As technology industry experts were discussing the highly anticipated introduction of Apple's latest product, De Jonghe wondered if this new device would be at the core of *La Presse*'s transformation. Yet, as he likes to remind people, "nobody knew at that time what this new tool would look like or how it would work." So the form and function of the cardboard prototype he created in December 2009 for his discussion with Crevier was still a highly speculative version of what this new medium would look like.

In January 2010, the same month Steve Jobs introduced the first iPad to the world, Crevier announced to his team that the company would have to create a new medium that would retain the DNA of *La Presse* while leveraging the full potential of the iPad. Crevier envisaged much more than just an app. He wanted to seize this opportunity to revolutionize *La Presse* by bringing the print business model to the tablet. The *La Presse+* tablet app would become the vehicle for this new digital strategy.

3.3 *La Presse+*: the flagship of *La Presse*'s digital strategy

La Presse+ is a tablet app that delivers a complete edition by 5:30 a.m. every morning, seven days a week. It offers a wide variety of exclusive content from many new columnists, complemented by a sophisticated visual presentation incorporating text, interactive images, videos, photo galleries, tabbed folders, and scrolling screens that enhance the reading experience. In addition to its daily edition, *La Presse+* integrates a live news feature to keep readers updated on breaking news.

Digital Transformation at La Presse*: A – Crafting a New Digital Strategy*

La Presse+ was designed to revolutionize news consumption. Most newspapers had developed an online presence by digitizing their content without giving much thought to the user experience. In contrast, *La Presse+* fully exploited the affordances of the iPad to facilitate an engaging information-consumption experience in a user-friendly, interactive environment, bringing together the best of video (e.g., rich media, engagement), the Web (e.g., interactivity and calls-to-action), and magazines (high-quality reproduction). While the app aimed to become a mass medium, it was expected to be especially appealing to adults aged 25 to 49.

La Presse+ aimed to complement other communication channels (mobile, web, paper). With a complete ecosystem, *La Presse* hoped to provide customers with the best option for every moment of their day and to meet different needs at different times. *La Presse Mobile* was useful for when readers wanted to catch up quickly on the latest news; *La Presse+* was meant to provide a "lean-back experience" for captive audiences, offering both rich media content and entertainment; and the paper's print edition was still a key part of its readers' weekend ritual.

The decision to use the iPad as the supporting device for *La Presse+* was also driven by the tablet's potential as an advertising vehicle. As Crevier explains, the goal was to "transform the relationship with advertising through maximum touchscreen interaction."[1] By offering a daily edition in a magazine-type format, *La Presse+* could offer a much more engaging experience than could other media. The design challenge was to integrate advertising and editorial content as part of the reading experience. Rich media ads with unique formats (e.g., full screen or half screen) were created specifically for *La Presse+*. A leading paint brand would let readers experiment with their favourite colours to virtually repaint a kitchen, or a visually appealing audiovisual clip of Adele singing during her 2013 tour would be posted in the Arts section with a link to buy tickets or her latest CD directly from the app. In these ways, a tablet app with tactile interaction could give readers multi-sensory experiences in a highly focused context. Compared to other digital channels, this unique *La Presse+* experience could help meet a wider range of advertising needs, from increased brand awareness (as traditionally achieved with ads displayed on Web or mobile apps) to conversion (something at which Web and mobile apps were less effective) and to do so more effectively than other online media. Ad variety, guaranteed visibility, and proof of performance were essential in justifying the price premium associated with advertising on *La Presse+* as well as the extra cost incurred by advertisers to design ads specifically for *La Presse+*. (The ad formats displayed on *La Presse+* could not easily be reused on other online media, including *La Presse*'s web or mobile channels.)

Just seven months prior to the launch of *La Presse+*, the company decided to offer its iPad edition free of charge, relying exclusively on advertising revenues. In contrast, most newspaper publishers use paywalls, but there hasn't been strong evidence of their success – especially for mass market publications such as *La Presse*. In 2011, News Corporation, a New York-based multinational mass media corporation, launched a paid tablet-only publication named *The Daily*, but the app failed to attract a significant audience and was shut down after two years. "I don't believe in paywalls," Crevier said. "I think *The New York Times* will succeed. I think The *Financial Times* will succeed. I think probably one or two large European papers will succeed. Why? Because they have content

[1] http://www.lemonde.fr/actualite-medias/article/2013/04/18/au-quebec-la-presse-fait-le-pari-de-l-ipad-et-de-la-gratuite_3162051_3236.html

that is really, really unique […] and that is so specialized and so business-oriented."[1] Aside from paywalls, there were other ways to monetize content such as subscriptions, freemium, micro-transactions, and marketplaces. *La Presse* executives had endless discussions about their monetization strategy, but ended up rallying behind Crevier's argument that removing barriers to readership and audience growth was most critical to ensuring the survival of the *La Presse+* model and strategy in the Quebec market. A key challenge was to attract young adults between 25 and 35 years old and "young people thirst for free information, an irreversible phenomenon," according to Crevier.[2] It was thus decided to offer a free edition to meet the goal of quickly expanding their audience and advertising revenues.

In April 2013, after three years of research and development and a C$40 million investment, *La Presse+* was officially released. At a time when no newspaper had ever created a viable digital business model, *La Presse* became the first daily newspaper to develop its own tablet-based digital platform. To create this platform, an entirely new team composed primarily of programmers, system architects, developers, and graphic designers had been assembled. *La Presse* had also expanded its newsroom staff by hiring more journalists, photographers, videographers, and page designers. In addition, all other operational and support functions, including sales, marketing, and archiving, had also been revamped. The editorial process had been particularly affected by the transformation. Journalists now had to write shorter texts and collaborate with photographers, videographers, and designers to enhance their stories using videos, photos, graphics, and animation. To get buy-in from the newsroom, a "contamination process" had been implemented whereby small teams of enthusiastic volunteers worked on pilots, honed their skills, and served as ambassadors for this new form of content creation for the new medium.

The development of *La Presse+* also led to the launch of a subsidiary company (Nuglif.com), whose mandate was to market the shell platform and its tools (planning, creating, editing, and publishing digital multimedia publications on both iPads and Android tablets) as white label products for other media companies.

Exhibit 2 presents a timeline of major events and technology-driven transformations at *La Presse*.

3.4. The market response to *La Presse+*

The tablet app was quickly adopted, with many print readers switching to the new format. Thirteen months after its launch, *La Presse+* was already reaching more readers than the print edition of *La Presse* after 131 years of existence (see Figure 3). Between 2013 and 2015, *La Presse* was the only Canadian daily boasting a 35% increase in circulation for print and digital combined.[3] In 2016, the app was opened by an average of more than 260,000 unique tablets every week day.[4] In comparison, the daily circulation of *La Presse*'s print edition had reached its peak in 1971 with 221,250 copies. In addition, by 2016, the number of letters submitted to the Debates section had more than quadrupled to 73,000.

[1] http://blog.fagstein.com/2013/10/22/la-presse-plus-analysis/
[2] http://www.lemonde.fr/actualite-medias/article/2013/04/18/au-quebec-la-presse-fait-le-pari-de-l-ipad-et-de-la-gratuite_3162051_3236.html
[3] https://en.wikipedia.org/wiki/List_of_newspapers_in_Canada_by_circulation
[4] https://plus.lapresse.ca/cdn/pdf/Communique15avril2016_en.pdf

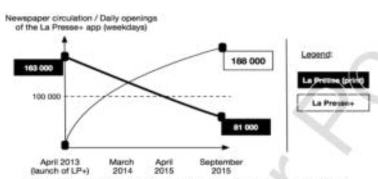
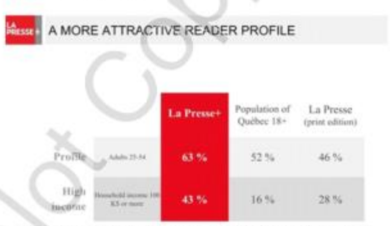


Figure 3: *La Presse* (print) versus *La Presse+* (2013–2015)
Source: *La Presse*

Readers also began spending more time with *La Presse+*. On average, they spend forty minutes daily browsing their weekday edition and more than fifty minutes daily on the weekend.[1] This level of engagement is unique in the digital news media world. Moreover, *La Presse+* was able to meet the challenge of renewing and rejuvenating its readership while increasing the average household income of its readers. In 2015, 63% of *LP+* readers were aged 25 to 54, and 43% had a household income above $100,000 (see Figure 4).



		La Presse+	Population of Québec 18+	La Presse (print edition)
Profile	Adults 25-54	63 %	52 %	46 %
High income	Household income 100 K$ or more	43 %	16 %	28 %

Figure 4: *La Presse* and *La Presse+* readership profile in 2015
Source: *La Presse*, based on data from January 2015 CROP survey:
https://www.globaleditorsnetwork.org/press-room/news/2016/02/la-presses-successful-shift-away-from-print/

In April 2014, *La Presse+* was made available on Android platforms, and later that year, it became the first-ever tablet media company in Canada with advertising impressions certified by the Alliance for Audited Media (AAM). This recognition is critical since AAM produces comparative advertising performance indices, providing key third-party validation for advertisers.

[1] http://plus.lapresse.ca/advertisers.html

As of early 2017, more than 40,000 ads had been distributed via *La Presse+* and, according to Crevier, "Ad revenues from digital platforms already account for more than 88% of *La Presse*'s total advertising revenues. *La Presse+* alone generates more than 75% of *La Presse*'s total advertising revenues."[1]

3.5 Looking ahead

Although competitors and pundits around the world had been impressed by *La Presse*'s digital transformation, Crevier knew this was only a first step and that the company still faced major challenges that would require continued innovation. Due in part to improvements in screen size and quality, tablets had been overtaken by smartphones in their ability to reach online audiences. Readership growth for *La Presse+* had been fuelled by the high penetration rate of tablets, which were adopted by more than 50% of North American Internet users in less than a decade, a speed never before seen in the history of digital technology. But, by 2014, the growth of tablet sales had slowed to just 4.4 percent.[2] Phablets (phones with a screen size of more than 5 inches) are now leading growth in mobile device adoption (Figure 5). The question of whether and how to transfer or adapt *La Presse+*'s experience to such devices without compromising the tablet app's growth and revenues would thus soon have to be answered. In short, Crevier knew that what *La Presse* had achieved with *La Presse+* was only a first step. Like other industry experts, he knew only too well that "the innovations and disruptions of the past ten years have been nothing short of astonishing, but they're just the warm-up acts for what's to come."[3]

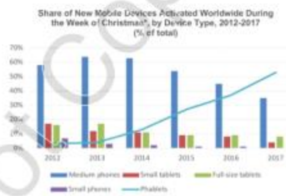


Figure 5: Distribution of new mobile devices by form factor
Source: Flurry Analytics, as cited in company blog (http://flurrymobile.tumblr.com/). The data represents activity on Flurry platform (Dec. 19–25 of each year); broader industry metrics may vary.

2020-05-01

[1] https://www.globaleditorsnetwork.org/press-room/news/2016/02/la-presses-successful-shift-away-from-print/

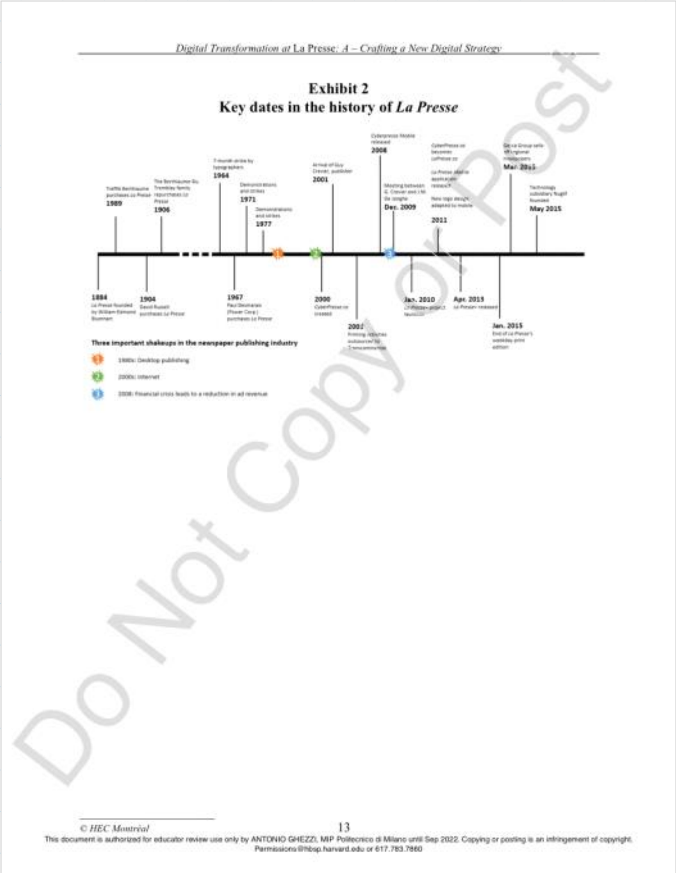
[2] IDC Worldwide Quarterly Tablet Tracker

[3] G. Westerman, D. Bonnet, and A. McAfee. *Leading Digital: Turning Technology into Business Transformation*. Harvard Business Publishing, 2014.

Exhibit 1
Dailies Circulation in Quebec from 2008–2015

	2008	2009	2010	2011	2012	2013	2014		2015	
							Print+dig	Print	Print+dig	Print
Montreal Gazette	1 057 294	1 144 584	1 094 653	806 122	683 327	624 887	547 445	390 477	[illegible]	336 043
% of total circulation	13,3%	13,4%	13,1%	9,9%	8,0%	7,3%	6,6%	6,2%	5,9%	5,7%
Yearly growth		8,25%	-4,38%	-26,36%	-15,23%	-8,56%	-12,38%	[illegible]	-11,34%	-13,94%
The Record	22 865	22 018	20 615	21 538	21 355	21 565	21 715	20 418	21 715	20 410
% of total circulation	0,3%	0,3%	0,2%	0,3%	0,2%	0,3%	0,3%	0,3%	0,3%	0,3%
Yearly growth		-3,70%	-6,37%	4,48%	-0,85%	0,98%	0,70%	-5,36%	0,00%	0,00%
Le Devoir	175 308	178 363	189 517	200 926	208 183	211 252	214 263	159 126	260 147	145 677
% of total circulation	2,2%	2,1%	2,3%	2,5%	2,4%	2,5%	2,6%	2,5%	3,2%	2,5%
Yearly growth		1,74%	6,25%	6,02%	3,61%	1,47%	1,43%	-24,67%	21,41%	-8,45%
La Tribune	199 680	197 278	198 071	195 459	189 326	187 983	181 785	170 185	166 139	152 343
Le Quotidien	203 317	201 060	198 656	199 078	195 577	193 962	186 827	161 940	182 021	152 697
Le Nouvelliste	257 234	258 682	265 239	267 256	267 082	259 635	256 565	215 418	248 254	210 458
La Voix de l'Est	90 359	92 844	90 591	90 724	90 320	96 424	94 705	86 907	91 579	80 756
Le Soleil	610 173	593 404	565 039	572 187	563 036	556 624	553 309	469 033	549 188	442 312
Le Droit	215 579	217 258	221 912	215 554	213 212	210 641	205 136	177 386	204 947	161 976
Total Capital Medias	1 582 342	1 558 526	1 539 508	1 540 178	1 518 543	1 505 337	1 481 087	1 300 888	1 442 128	1 200 542
% of total circulation	19,9%	18,3%	18,5%	18,9%	17,8%	17,7%	17,8%	20,6%	17,5%	20,4%
Yearly growth		-1,51%	-1,22%	0,04%	-1,40%	-0,87%	-1,61%	-13,58%	-2,63%	-7,71%
La Presse - Gesca	1 504 674	1 505 992	1 276 623	1 309 543	1 363 237	1 503 269	1 734 445	864 516	1 739 598	621 901
% of total circulation	18,9%	17,7%	15,3%	16,1%	16,0%	17,6%	20,9%	13,7%	21,1%	10,6%
Yearly growth		0,09%	-15,23%	2,58%	4,10%	10,05%	15,61%	-42,38%	0,30%	-28,06%
Le Journal de Montréal	1 577 987	1 885 737	1 927 598	[illegible]	2 014 592	1 953 681	1 633 726	1 354 939	1 626 327	1 308 466
Le Journal de Québec	617 781	803 828	867 244	890 906	1 015 825	1 108 394	1 055 490	624 375	1 063 611	634 018
24 Heures	740 000	715 040	715 040	728 415	894 569	728 415	751 193	751 193	751 193	751 193
Total Quebecor	2 935 768	3 404 605	3 509 873	3 521 327	3 924 786	3 790 490	3 440 409	2 730 507	3 441 131	2 693 677
% of total circulation	36,9%	39,9%	42,1%	43,3%	45,9%	44,5%	41,5%	43,2%	41,7%	45,8%
Yearly growth		15,97%	3,09%	0,33%	11,46%	-3,42%	-9,24%	-27,98%	0,02%	-1,35%
Métro	680 000	710 770	710 770	759 437	824 604	860 010	860 010	860 010	860 010	860 010
% of total circulation	8,5%	8,3%	8,5%	9,3%	9,7%	10,1%	10,4%	13,6%	10,4%	14,6%
Yearly growth		4,53%	0,00%	6,85%	8,58%	4,29%	0,00%	0,00%	0,00%	0,00%
Total circul. QC dailies	[illegible]	8 524 778	8 341 559	8 159 071	8 544 036	8 513 730	8 299 374	6 325 915	8 250 098	5 878 260
Yearly growth		7,12%	-2,15%	-2,19%	4,72%	-0,35%	-2,52%	-25,70%	-0,59%	-7,08%

Source: Data compiled annually by Newspapers Canada using circulation data certified by the Audit Bureau of Circulations (ABC), the Canadian Circulation Audits Board (CCAB), the Canadian Media Circulation Audit (CMCA), and publisher claims. Available at: https://nmc-mic.ca/about-newspapers/circulation/daily-newspapers/



Digital Transformation at La Presse*: A – Crafting a New Digital Strategy*

Exhibit 2
Key dates in the history of *La Presse*

SM - La Presse Ca...

La Presse Case - driving questions

1. How would you describe the changes going on in the publishing market and in printed press, with specific reference to newspapers?
   - Which are the main changes on the "demand" side?
   - Which ones on the "supply" side?
2. How did La Presse modify its strategy and business model to respond to such changes?
3. How would you represent La Presse's business model after the launch of LaPresse+?
4. Which considerations could you make relatively to the sustainability of this strategy and business model?

1. We just wanto to read news online for free
   Shift from physical to online
   Age is increasing for paper readers
   Advertisers
   Less interest in…
   Increasing competition from different platforms (Google, Facebook)
   Several platforms are acquired by the same group

2. Before the launch of Lapresse+ they decided not to invest in printing technology anymore, but to **outsource** it

   Opening the website

   Launching the mobile app

Business model before the launch of Lapresse+

Customer segments: senior readers, advertisers
Value proposition: high quality news (readers), provide visibilty to a high income public (advertisers)
Channels: printed newspaper, website and mobile app
Customers relationship: direct relationship
Key activities: finding news, stories, printing the newspaper
(advertising it's not an activity because it is not performed by the company, but by the advertisers. The company just put the adivertisers in contact with the people)

Key resources: journalists
Key partners: outsourcing 3rd-parties, transport and delivery

Business model after the launch of Lapresse+

Cost of distribution and printing activities dropped
Add younger readers
Changed advertisers because they had more precise information about the readers
Immersive stories

The revenue model changed

SM 21-22 AG Digital Multisided platforms Business Models

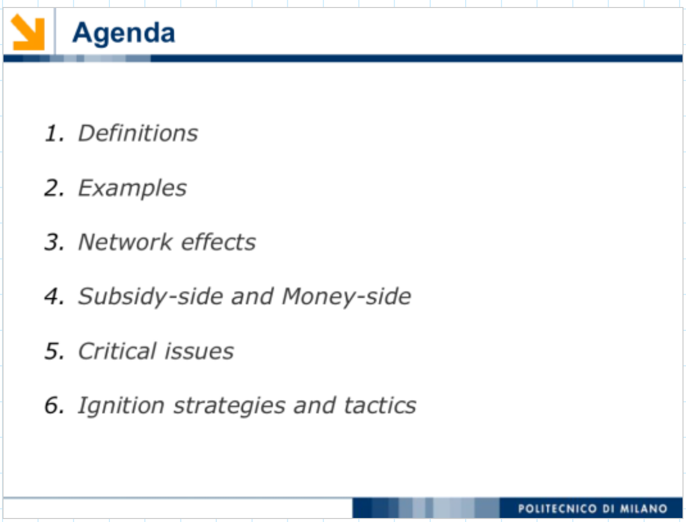
lunedì 29 novembre 2021 09:44

SM 21-22 AG Digital...

25.11.2021

we use business model in order to see how we can implement the strategy.
nowadays it is a strategic priority for companies to innovate their business models,to find new means to achieve and sustain the competitive advantage
companies can use different approaches that help them in achieving such new sources of Ca,like blue ocean,disruptive innovation...

the need to come up with new competitive advantage sources as well as trends related to technology and value and meaning gave birth to a major trend in todays market that refers exactly to the notion of digital multisided platforms.



Example of multi-sided platforms are: Amazon, google, Airbnb, Alibaba, wish

Market friction: is a problem that occurs any time a demand in a given market or a given segment tries to reach the offer, and vice versa. It's a difficulty when demand and offer try to relate and perform a transaction.

If there's a friction there might be the need of a platform, an intermidiary between the demand and the offer smoother connection between 2 user groups that we call sides

By doing so, the platforms challenge the incumbents, and may configure themselves as disruptors

For example, in 2007 there were many players dominating the industry, now many of them don't exist anymore. From 2007 to 2015 there has been a radical shift, where apple dominates the market, and then there's everybody else. 2007 because was the year when the first iPhone got launched. Apple dominates the market, not because of the iPhone itself, but because apple is a platform and the iPhone works as a device that showcase the platform (AppStore). The AppStore is a platform that connects the developers with the users. Before the AppStore, mobile network operators (Vodafone, Tim, Verizon and so on) were controlling the offer for ringtones, wallpapers, mobile games and so on, and they were posting the offer by means of mobile portals that were controlled by mobile operators. Users of a specific mobile operator could access only to that specific operator online platform. The content on the portal was developed by mobile content service providers, which also had to market the content developed. Instead, the mobile operator, who controlled the portal, had a 70% 30% agreement with the content service providers, basically the majority of the revenues were theirs.

Apple shook the status quo. First there was no necessity to be a company in order to develop content on the platform, everybody could do that if they passed apple's quality control. By doing so the market was opened, then they also reversed the revenues' share agreement (30% apple and 70% developers). This was the major shift, the fact that by getting an iPhone you could get access to possibly unlimited content.

For example, even a shopping center is a platform (a physical one) because connects the retail stores with the consumers

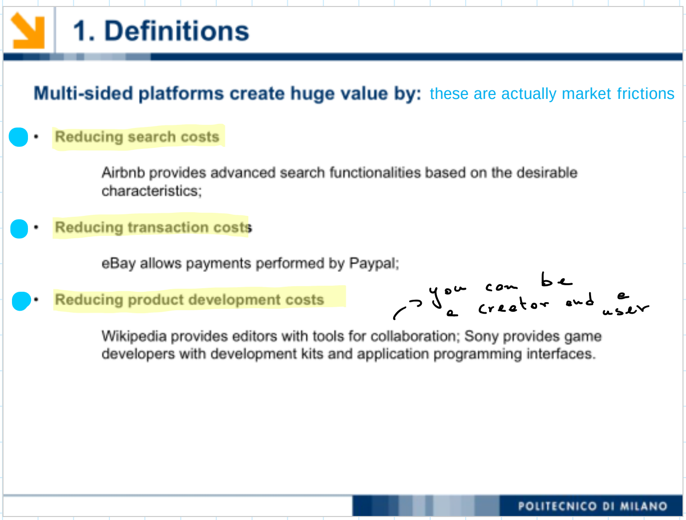
A multisided platform means that the platform connects more than 2 kinds of users

we have 2-sided platform(there are just 2 sides)if it is more than 2, it would be multisided platform

Matchmakers because they make a match between users from different size between demand and offer

a shop or mall is actually a physical platform but there is a limit to the size of this shopping center,there is a saturation limit,but amazon doesn't have such problem

now, multisided platforms are going so strong cause they are leveraging digital technology in order to grwo and scale very rapidly



the friction is the pain that the platform is trying to solve

digital multisided platform design parameters:(it will help either analyzing a platform business model or possibly designing one):

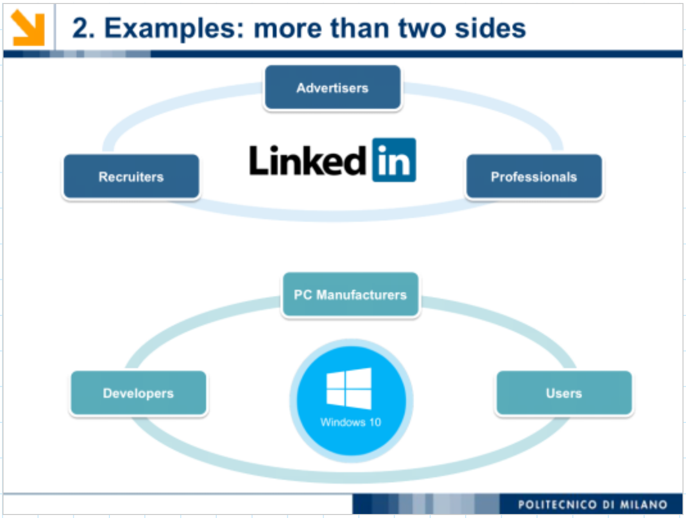
1-sides:customer segment, yhe difference is in business model you can have just 1 customer segment but platforms exist only if there is at least 2 sides, this means you are gonna have at least 2 value propositions, you have to be attractive for both sides in order to exist

2-market friction:refers to the notion of pain(we reported in value proposition canvas)

again the difference is the pain in value proposition canvas is related to a customer job, in multisided platform is the attept of connecting between 2 sides,is the problem for both of them

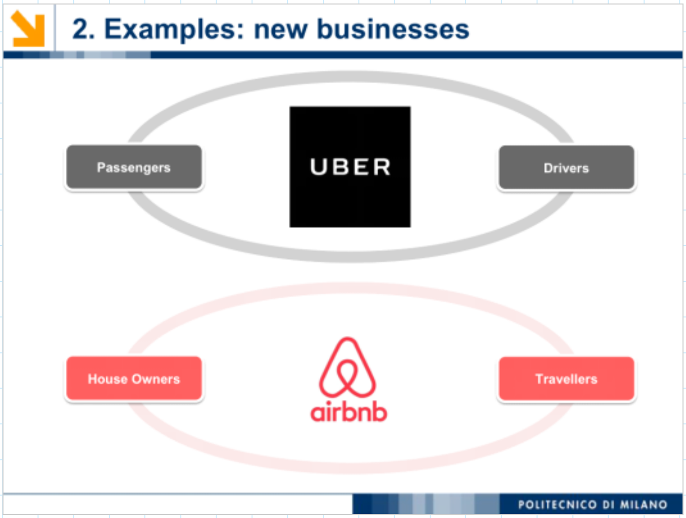
3-network affects:

Examples of businesses that work as a platform



New businesses may add more sides to the platform.

For example, LinkedIn connects recruiters, with professionals and advertisers



Businesses may also disrupt industries by entering the market with a new different value proposition. In this case, based on sharing.

Uber disrupted the industry by not owning a single car, but by connecting drivers with passengers.

In a similar way, even Airbnb did the same thing

MULTISIDED PLATFORM BUSINESS MODEL DESIGN PARAMETERS

Let's highlight the design parameters that should be taken in consideration to analyze a platform business' or design one from an entrepreneurial perspective.

In a multisided platform there **should be, at least, 2 customer segments and, at least 2 value propositions** in the business model canvas

A part from the business model canvas, there are several other parameters:

1. **Market frictions** (which can also be called **pain**) that 2 or more groups experience. This is the first thing to take into consideration because you want to find a solution for an existing problem in the market

2. **Sides:** after identifying the pains, you should explain the sides that you'd like to connect (at least 2)

3. **Network effects:** which is coupled with the definition of network economies, and it refers to **the value of being part of a network,** which **may increase or decrease as the number of the participants increases or decreases**. For example, if there's only one person that owns a smartphone, there's no use for it. But, if more billions of people own one, there's value in being part of that network. The same thing applies to platforms. In platforms there's for sure **the same-side network effect**, which means that: in a single user group, as the number of participants rises, the value of being part of that either rises or decreases. But, since connecting 2 or more customer segments, there is also **cross-side network effects** that could be either positive or negative as the number of users in one user group increases, the value of being part of the other user group might either increase or decrease.

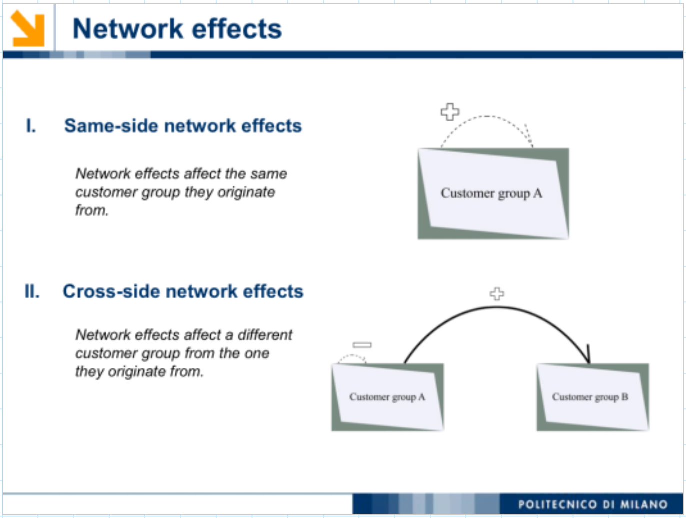
   In multi-sided platforms you should design and govern networks effects, by enhancing positives ones, which will create **bandwagon effect** (the platform will be populated faster), and control negatives ones. For instance, ebay

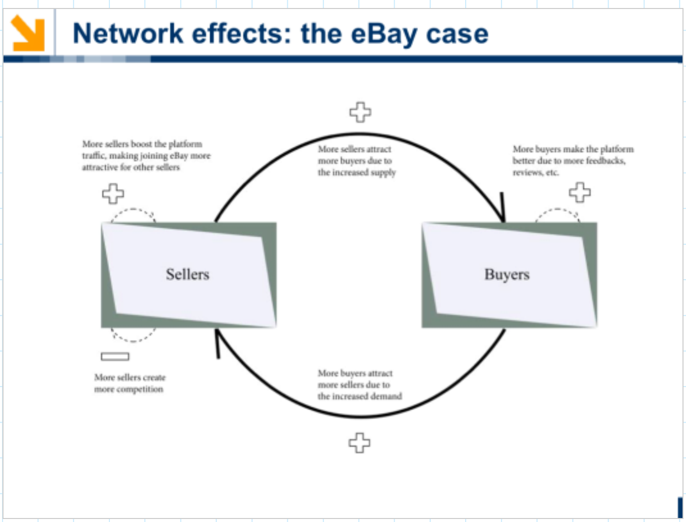
4. **Identify the pricing structure**

platforms are peculiar when compared to traditional, linear business,cause in second one you have one market and you have to make sure the revenues are higher than the cost and keep the business up and running.

5. **Design the governance:** level of quality you want to guarantee

6. **Ignition strategy**





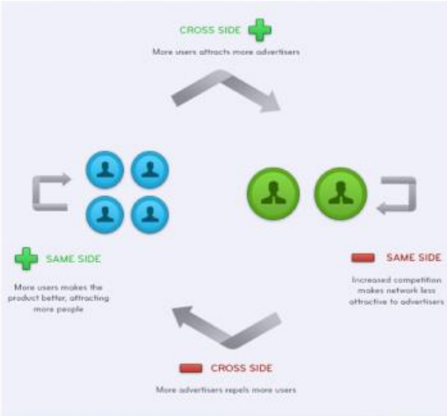
Ebay is connecting sellers and buyers.

If we consider the sellers on the left, there is a same-side network effect, which is a positive one, since more sellers will boost the platform traffic, and it will make ebay more attractive for other sellers to join. At the same time, there's a negative same-side network effect: more sellers create more competition over a given product category.

From the buyers perspective there's a positive same-side network effect, since more buyers will provide more accurate feedback , so it will be more beneficial if more buyers will join the platform.

There are also cross-sides network effects: if there are more sellers, buyers will find more appealing to be part of the platform and the other way around.

Network effects: social networks connecting users with advertisers



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Sometimes cross-side network effects might be negative.

For example, Whatsapp has users on one hand, and advertisers on the other one.

The more the users the better for the other users, on the other hand, the more advertisers, the more competition among them. and actually users have a lot of spam on their social network and is not pleasing fro them

In terms of cross-side network effect, the more users the more appealing for advertisers, but, at the same time, the more the advertisers the less appealing it is for the users to be part of the platform.

3. Network effects: possible causes 1/2

Cause	Description	Example	Nature
Information provision	Each user or customer can provide information that could be useful for other users or customers.	Reviews on TripAdvisor or Amazon, which are provided by users and buyers, drive the future choices of other users and buyers.	The network effects so generated may be either positive or negative, due to the quality of the information provided. When it is truthful, the network effects created are positive; when it is misleading, negative effects originate.
Competition	When transactions are performed between two customer groups, each additional customer in one group represents an additional competitor for customers of that group.	More sellers on eBay mean more competition on that side.	Negative for the customer group that exhibits the effect, while it may be positive for the customer group which perform the transactions with that group and that can benefit from price battles and so on.
Volume/traffic	In some cases, the traffic and volumes generated by more customers can affect the company's offering in ways that do not involve higher probabilities of matching and so on. Instead, fashion and trends of the moment can be the reasons.	Social networks are good examples: when snapchat faced its disruptive growth in terms of user, it became the trend of the moment. Each new user enforced this attractive power related to the trend.	As trends and fashions, this kind of network effects are positive when the trend of the moment is favorable, negative when it changes.
Higher probability of finding a counterpart for a transaction	When customer groups perform transactions between them, the wider the other customer base is, the higher the probability of finding a counterpart to perform the transaction with. It can be exhibited also inside the same customer group in case transactions are performed within it.	More Amazon buyers mean more demand to satisfy for independent sellers that use the Amazon marketplace to sell their products.	Network effects are positive, but they usually come along with network effects related to good behavior, misbehavior and content quality, due to the "social" component of dealing with another customer.

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I don't think these 2 slides will be requested, the prof just said that there are possible causes to analize and that's it

3. Network effects: possible causes 2/2

Cause	Description	Example	Nature
Higher probability of finding a counterpart for enjoying the company's offering	When the company's offering has to, or it may, be experienced and enjoyed with other customers, an increased customer base enhances the probability of matching.	More online FIFA players mean a higher probability of finding another player online to play with.	Network effects so generated are usually positive, but they come along with network effects related to good behavior and misbehavior of customers, due to the social experience.
Good behavior and misbehavior	When transactions and interactions exist between customers, positive behaviors and misbehaviors can improve or undermine the company's offering.	In case of frequent misbehaviors by Uber drivers, potential passengers are likely to prefer a taxi rather than Uber.	Positive in case of good behaviors, negative in case of misbehaviors.
Content provision	When transactions exist between customers or in case each user or customer can provide content that could be useful for other users or customers, the company's offering can be affected by this content.	The apps available on the App Store are an example of content provided by a customer group (developers, who are a customer group of Apple).	The network effects so generated may be either positive or negative, due to the quality of the content provided. High quality implies positive effects, while poor quality implies negative ones. The precision of firm controls on the content added by third parties is determinant.
Passion/sense of community	Each customer hopes for the diffusion of it, trying to convince other people to become customers or to join the platform. It is a typical effect when the company's offering concerns an hobby.	Close-knit Xbox players try to persuade other people to buy the console produced by Microsoft, instead of Playstation, for example. Each acquired player is an additional source of customer attraction due to her/his tries of conviction.	It usually generates positive network effects. However, in case the customers feel betrayed by the firm as concerns their passion, the consequent negative network effects would be strong.

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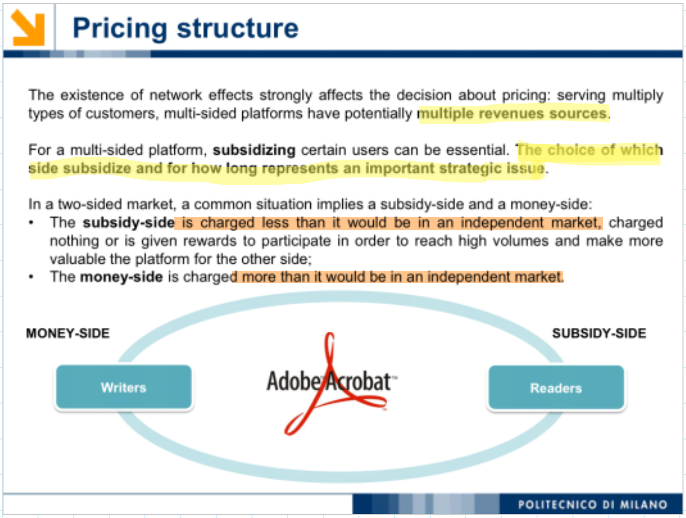


Another thing to consider is the pricing structure.

If you are a platform, you need to consider that you can set prices in a peculiar way. at least one side should pay you

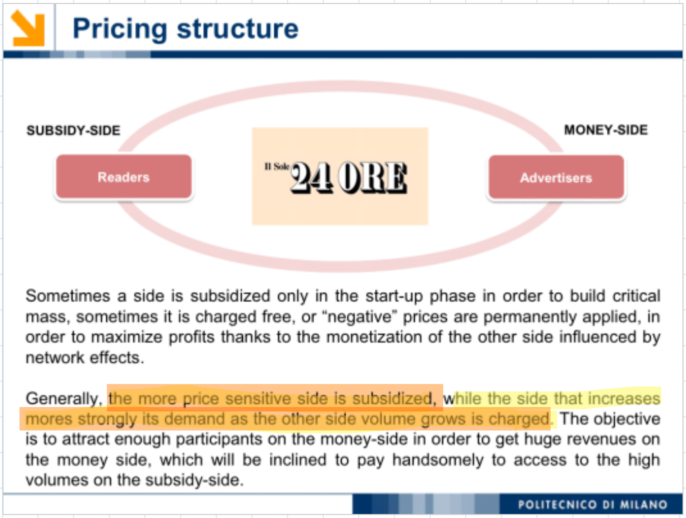
For example, **The fork**, which is an application that allows customers to book restaurants. This application helps restaurants because in this way, they have access to an application that does the booking for them, meanwhile the platform incentivize the customers to use it, by offering discounts. Counterintuitively, the restaurants have to pay for the service, and not the customers.

When it comes to pricing structure you have 2 options:

- You need to identify your **money side**, where you're getting money from
- Who is your **subsidy side** you are incentivizing to be part of the platform.

You are not forced to have a subsidy side, but you need at least the money side, otherwise you'll not be able to capture any value.

For instance, **Airbnb has guests and hosts, and is making both paying. So there are 2 money sides**



Another point, that is not written in the slides, that should be addressed is **Governance.** in order to incentivies good behaviours and mitigate bad behaviours

When you want to launch a platform, one thing you make decisions about is how you want to govern the relationships and the ineractions within the platform, and also outside of the platform, which boils down in a trade-off between **quality** and **openness**.

If you want to keep your platform extremely open, it means that you are accepting everyone, and you also allow f**or every interaction in the platform, there are no strict regulations. This is the facebook case.**

On the other hand, if you keep the platform more closed, the subscribers need to comply with strict regulations, you will have less partecipants, but better quality. For instace, the appstore against the play store

in business to consumer platform maybe you can go from higher openness and average quality but if you move to business to business,that connects professionals,you have to set the bar high in terms of quality and control

Last point is about **ignition strategies and tactics**

You don't have only to create the platform, but you also want to scale it, make it grow fast.

When you design a platform in the first place, you have to face a chicken and egg problem. Who comes first ?

So, from which side should we start to populate the platform?

Companies came up with a number of different ignition strategies to ignite the so called **onboarding**, which is, the phenomenon of getting customers and users on board of a platform.

The first one is the **Marquee cusotmers tactic**

Ignition strategies and tactics

Marquee customers

Customer relationships should not focus only the most profitable customers or most important ones, but a particular attention should be paid to the ones who enable the strongest cross-side positive network effects, too.
To do so, it is essential to understand who these customers are and if some **marquee customers** exist and who they are.

An example is provided by shopping malls, which sign up the stores that are likely to attract lots of people early on. Doing so, smaller retailers are persuaded to rent space at the mall, knowing that they will be able to exploit the traffic generated by the marquee shops.

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The first thing you have to do is to sign a contract with a famous brand, because that brand will help you engage all the other competing brands, and at the same time will help you triggering the onboarding of customers.

For example, Mcdonalds in shopping centers.

Ignition strategies and tactics

Ecosystem seeding facebook

its easy to know what kind of value proposition to design and offer

Due to the chicken and egg dilemma, it might be convenient for a platform to start from a **market niche**. It allows to concentrate on defined customers, with delimited requests and needs.
How narrow should the niche be? The more the platform decides to keep it narrow, the smaller its market becomes. However, there are some advantages coming from a narrower target: the platform has the capability to address better and more specifically the customer preferences, and a smaller market niche makes easier the achievement of a critical mass.
Consequently, the platform may decide to enlarge the target, enabled also by the strength of the user volumes already attached to the platform. The approach is called "**ecosystem seeding**": starting with a subset of the target customers sufficient to get the platform going. That subset is called "seed", and it is chosen wisely, with the objective of making revenues soon, limiting the risk for investors. Clearly, **the choice of the seed is crucial**; nevertheless, the final aim is the growth of the platform's value, in terms of customers and functions or applications.

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Ecosystem seeding

You start from a very small market nieche, you plant a seed, you water it and you hope it will grow and expand.

Ignition strategies and tactics

Zig-zag strategy YouTube

you end up following when you dont know where to start from

In case of positive cross-side network effects, a "**zig-zag strategy**" could be a good option for the platform. It continuously shifts its focus from one side to the other, trying to attract critical mass in all of them.

An example of "zig-zag strategy" is provided by YouTube. The American video-sharing website pushed participation on both sides, fostering with several strategies views and videos upload in an alternating way. When sides provide themselves a content that enriched the platform's offering, or they perform interactions and/or transactions, it may be fundamental to build critical mass in more than one of them simultaneously. YouTube needed to get on board viewers and video content providers at the same time, as both groups need each other to enjoy the company's offering.

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Zig-zag strategy

For some time they've incentivized the uploading, then they passed to incentivizing watching videos. They basically tride to build both size in parallel

You typically have to do so when there is no clear distinction between users who may belong to both sides

Ignition strategies and tactics

Two-step strategy

When the platform concentrates its efforts on attracting customers on one side, generating the positive cross-side network effects and, then, the efforts are focused on the side supported by those network effects, a so called "**two-step strategy**" is carried out.

An example is represented by social networks. The first step is a total focus on user attraction and registrations; consequently, advertising space is sold high prices in case a large user base is reached.

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In this one you have to create a critical mass on one end, and then move to the other part.

For example, with the restaurant booking application, first you need to create a great restaurant base, otherwise the customers will not use the application if there are few restaurants to book.

how can i be attractive for the restaurants if there is no customer?

you incentives them by a easy software for booking the tables for example

Ignition strategies and tactics

Commitment strategy

SONY

Sometimes customers of one firm's business model have to make a significant investment to receive the company's offering and to take advantage of positive cross-side network effects. In these cases, the firm should prove to these customers that there will be a large customer base on the business model from which the network effects originate. This **commitment strategy** is totally based on the capability of the firm to assure that promised customer base, for instance by specific partnerships or a favorable pricing structure in that business model.

An example is provided by Sony Computer Entertainment: it designed PlayStation 4 few years ago. When the console was launched, the firm persuade customers to invest several hundreds of dollars buying the PlayStation 4 thanks to a strong marketing campaign about future videogames, that Sony would directly developed, and an exclusive partnership with Spotify.

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This is not good for a start-up, because it needs resources and money

In this strategy you trigger onboarding by showing your commitment, that means. You show commitment by investing a lot of resources in something because you really believe it.

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SM 21-22 AG Entrepreneurial Strategy Startups

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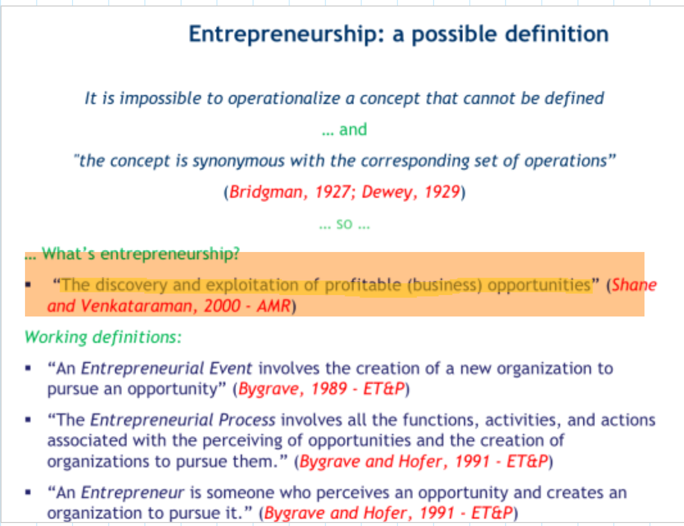


In the first part of the course, we have taken the perspective of an incumbent player, now we are changing perspective

how to navigate the entrepreneurial environment by trying to be basically creative and pursue competitive advantage.

they care about their product and idea but when it comes to strategy,they are sceptical

Entrepreneurship can be defined as the **constant search for profitable business opportunities** (oppurtinity here is the key word in entrepreneurship compared to strategy's key word **perfomance**)

As an entrepreneur you **look around your environment and you look for new opportunities**. Once you see the opportunity, you can use it to **build something from scratch** or to **change the perspective** about something that has been around for a while.

An **opportunity** doesn't have to be a **radical disruptive innovation**, but it could also be an **incremental innovation**

Once you see the opportunity you need to move towards the opportunity and **create an organization around the opportunity**. Once you do so you're trying to **capture the opportunity.**

Types of organizations that can be built around the opportunity are:

- **New Venture**
- **Start-up**

A new venture is a **new business opened** in an existing market, so you know how to **compete** and how to **scale** (**grow**) in that market. like opening a restaurantr.you knoe how to compete

Start ups, instead, when they are born they enter new markets, they try to create new markets. They're fairly innovative. That means that they do not know how to compete and scale.

New ventures and Startups

What's a (new) venture?

- a commercial undertaking characterized by risk of loss as well as opportunity for profit; and the merchandise, money, or other property placed at risk in such an undertaking (*Collins English Dictionary*)
- a new activity, usually in business, that involves risk or uncertainty (*British Dictionary*)

What's a Startup?

- A business or undertaking that has recently begun operation (*American Heritage Dictionary*)
- "A startup is a company working to solve a problem where the solution is not obvious and success is not guaranteed" (*Neil Blumenthal, cofounder and co-CEO - Warby Parker*).

... but also

- "Startup is a state of mind. It's when people join your company and are still making the explicit decision to forgo stability in exchange for the promise of tremendous growth and the excitement of making immediate impact" (*Adora Cheung, cofounder and CEO - Homejoy*)

A nice definition of start-up comes from Stev Blank (businessman, founder of the lean approach): **Start-ups are temporary organizations in search for a scalable and replicable business model.**

incombants are rigid

adoptive

Start-ups are **temporary** because must be **flexible** and **agile** at the very early stages of their development.

startups dont know if their idea will create and capture value so they defined in the market some evidance and proof that the bisiness model will work and eventually the business moel will scale, it will grow in a given market and will be repicated i another market

Start-ups are **in search** of a business model. When Airbnb born, it didn't know whether its value architecture could actually create, deliver and capture value. They had to search for a business model that could create, deliver and capture value, which eventually could be replicable and scalable. Replicable means, that it works everywhere.

New ventures and Startups

A possible list of common traits for a startup (*Forbes, 2014*) :

- up to 3-5 years old – doesn't make sense its true that they are young but is hard to set a threshold
- no acquisition by a larger company yet its called trade sale
- far from IPO (Initial Public Offering)
- a single office
- revenues lower than 20 mln. $
- less than 80 employees and less than 5 people in the Board
- founders who haven't personally sold shares yet
- high ability to achieve unconstrained grow try to scale exponentially

you go through many validations that you cant afford to be temporary

... still, there are no hard and fast rules on defining a startup since revenues, profits, and employment numbers shift drastically between companies and Industries

A naive definition by forbes

This will force the company to structure itself

Both the above point refer to the notion of **EXIT**: when a start-up leaves the start-up condition and become something else, either a branch of a bigger company or a listed company. Start ups are not start ups anymore with **IPO, trade sales and when it can't innovate anymore and becomes a small and medium enterprise**

Founders are still steering the wheel and want to achieve unconstrained growth

if somebody bought you and the stock market believed in you, you found already a business model that you are searching for

Strategic Entrepreneurship: actions and opportunities

Strategic actions

- **Those actions through which companies develop and exploit current competitive advantages while supporting entrepreneurial actions that discover and exploit opportunities that will help create competitive advantages for the firm in the future (*Porter, 2001; Kuratko et al., 2001*)**

Entrepreneurial actions

- **Actions through which companies identify and then seek to exploit entrepreneurial opportunities rivals have not noticed or fully exploited (*Ireland et al., 2001*)**

Entrepreneurial opportunities

- **External environment conditions suggesting the viability of introducing and selling new value propositions (products, services, raw materials and organizing methods) at prices exceeding their production costs (*Shane and Venkataraman, 2000*)**
- **They surface when actors have insights about the value of resources or a combination of resources that are unknown to others (*Alvarez and Barney, 2001*)**

Now we are going to link strategy with entrepreneurship through an approach called **Strategic Entrepreneurship**, which tries to get the best out of both worlds.

It starts with the assumption that **strategy revolves around the notion of performance and strategic actions are advantage seeking actions.** When you act strategically you are seeking for a competitive advantage. Instead, entrepreneurship is all about opportunities, and we may say **entrepreneural actions are opportunity seeking actions**.

Strategy and entrepreneurship are not the same thing, even though they are connected, because **when you look for opportunities, sooner or later, you will have to look also for competitive advantage.**

trys to connect strategic actions and behaviours which is an advantage seeking with entrepreneurial behaviour which is opportunity seeking

Strategic Entrepreneurship is the integration of entrepreneurial and strategic perspectives **to design and implement some strategies that can create wealth**.

Strategic Entrepreneurship: integrating Entrepreneurial and Strategic perspectives

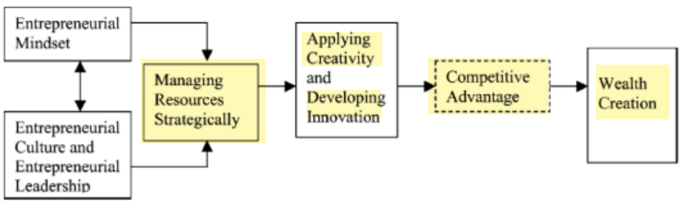
Strategic Entrepreneurhsip

- The integration of entrepreneurial (i.e. opportunity seeking actions) and strategic (i.e. advantage-seeking actions) perspectives to design and implement entrepreneurial strategies that create wealth (*Hitt et al., 2001*)
- Strategic Entrepreneurship is entrepreneurial action that is taken with a strategic perspective. "Romeo (entrepreneur) on the balcony (strategy)" (*Venkataraman and Sarasvathy, 2001*)
- Integrating entrepreneurial and strategic actions is necessary for firm to create maximum wealth
- Entrepreneurial and strategic actions are complementary, not interchangeable
- Entrepreneurial action is designed to identify and pursue entrepreneurial opportunities which arise from dynamic and uncertain environments
- Entrepreneurial action using a strategic perspective is useful to identify the most appropriate opportunities to exploit and then facilitate the exploitation to establish (hopefully sustainable) competitive advantages

A model that comes in aid is the ireland one below

Strategy - Entrepreneurship: a model (Ireland et al., 2003)

tries to help both incumbents and startups in merging their behaviour twoards a unified goal



This model identifies a number of elements, which, if properly treated, should help managers embarking in strategic entrepreneurship endeavor (sforzo, tentativo)

اقدام کار

Innovation is invention commercialized. An invention is not innovative if you can't find users for it

Strategic Entrepreneurship links strategic actions (advantage seeking actions) with opportunity seeking actions in order to create and sustain competitive advantage overtime since the advantage is grounded on a portfolio of resources that are managed throughout the company life cycle

Strategy - Entrepreneurship: a model (Ireland et al., 2003)

- Small, entrepreneurial ventures are effective in identifying opportunities but are less successful in developing competitive advantages needed to appropriate value from those opportunities.
- In contrast, large, established firms often are relatively more effective in establishing competitive advantages but are less able to identify new opportunities.
- SE is a unique, distinctive construct through which firms are able to create wealth, and is made of the following dimensions:
  1. Entrepreneurial mindset
  2. Entrepreneurial culture and entrepreneurial leadership
  3. the strategic management of resources key point
  4. applying creativity to develop innovations

First of all you need an entrepreneurial mindset, culture and leadership. You'll need to strategically manage your resources and apply creativity to develop innovations.

first we will try to understand and leverage complementarities between large stablished firms and startups and is for sure positive for both incumbents and startups themselves

so by means of strategic- entrepreneurdhip constract we try to merge these two(strategic and entrepreneural behaviour)

Strategy - Entrepreneurship: a model (Ireland et al., 2003)

Entrepreneurial mindset

- An entrepreneurial mindset is a way of thinking about business that focuses on and captures the benefits of uncertainty.
- The entrepreneurial mindset can be defined as a growth-oriented perspective through which individuals promote flexibility, creativity, continuous innovation, and renewal. Even under the cloak of uncertainty, the entrepreneurially minded can identify and exploit new opportunities because they have cognitive abilities that allow them to impart meaning to ambiguous and fragmented situations
- Components of entrepreneurial mindset:
  1. *Recognizing entrepreneurial opportunities*
  2. *Entrepreneurial alertness* ("flashes of superior insight"), ability to identify when new goods or services become feasible or when existing goods or services become unexpectedly valuable to consumers
  3. *Real options logic* — its more pragmatic
  4. *Entrepreneurial framework*, which includes actions such as setting goals, establishing an *opportunity register* (i.e. where firms record entrepreneurial opportunities), and determining the *timing* associated with launching the strategy required to exploit an entrepreneurial opportunity

Strategy & Marketing – Prof. Antonio Ghezzi

Concerning the entrepreneurial mindset, it means that managers should stop thinking only to maximize profit and standardize processes, and try to be more flexible, creative and innovative approach.

Component of entrepreneurial mindset:

1. They should constantly look for new things in the market
2. Sudden revelation in something that makes you see things from a different perspective
3. Strategic options refer to the fact that i'm making a small investment now in order to postpone a decision that i'll make in the future. Since you've made the small investment now, you can see and gather more information before making the decision. So basically are experiments to gather more information
4. the prof read the slide youhave to be systematic and well structured/write down your opportunities you see

Strategy - Entrepreneurship: a model (Ireland et al., 2003)

Entrepreneurial culture and entrepreneurial leadership

- Organizational culture is a system of shared values (i.e., what is important) and beliefs (i.e., how things work) that shape the firm's structural arrangements and its members' actions to produce behavioral norms (i.e., the way work is completed in the organization).
- An effective entrepreneurial culture is characterized by multiple expectations and facilitates firms' efforts to manage resources strategically. Committed to the simultaneous importance of opportunity-seeking and advantage-seeking behaviors, an effective entrepreneurial culture is one in which new ideas and creativity are expected, risk taking is encouraged, failure is tolerated, learning is promoted, product, process and administrative innovations are championed, and continuous change is viewed as a conveyor of opportunities.
- Thus, an entrepreneurial culture fosters and supports the continuous search for entrepreneurial opportunities that can be exploited with sustainable competitive advantages
- An entrepreneurial culture develops in an organization where the leaders employ an entrepreneurial mindset. Leaders are responsible for developing and nurturing an entrepreneurial culture.

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What about the leadership ?

the culture is set of values that allow us to frame in reality and interpret it

Strategy - Entrepreneurship: a model (Ireland et al., 2003)

Entrepreneurial culture and entrepreneurial leadership

- Entrepreneurial leadership is the ability to influence others to manage resources strategically in order to emphasize both opportunity-seeking and advantage-seeking behaviors
- Imperatives of entrepreneurial leadership:
  1. *Nourish an entrepreneurial capability.* Human capital is the source of SE behaviors. A vision emphasizing the importance of SE as well as a commitment to develop human capital facilitates individuals' efforts to develop entrepreneurial capabilities such as agility, creativity, and skills to manage resources strategically
  2. *Protect innovations threatening the current business model.* Individuals sometimes see disruptive innovation as threatening—to them personally as well as to their organizations. Effective entrepreneurial leaders openly share information with organizational members to describe disruptive innovations' potential benefits (e.g., stimulating development of new competitive advantages).
  3. *Make sense of opportunities.* The probability that individuals will accept the need to pursue entrepreneurial opportunities and to develop unique competitive advantages needed to exploit them increases when those opportunities are a part of the firm's opportunity register. Entrepreneurial leaders are able to communicate the value of opportunities and how exploiting them contributes to the firm's overall goals as well as to individuals' goals.

Strategy & Marketing – Prof. Antonio Ghezzi

1-train people in all levels of organization to spot opportunities as they see them and interpret those opportunities

As-is is stronger than the to be, so if you let them operate indipendently the as-is will cannibalize the to be

you need to set regulations to protect business models as they emerge and protect them from the old ones

understand resources required to exploit them and accept the risk of failur

Strategy - Entrepreneurship: a model (Ireland et al., 2003)

Entrepreneurial culture and entrepreneurial leadership

- Imperatives of entrepreneurial leadership:
  4. *Question the dominant logic*. Dominant logic describes how leaders conceptualize their business and evaluate resource allocation decisions. Key assumptions about industries and markets that influence the firm's opportunity- and advantage seeking behaviors should be periodically questioned to ascertain their validity (i.e., challenging the dominant logic). Entrepreneurial leaders evaluate the assumptions underlying the dominant logic to make certain that the firm is successfully positioned to identify value-creating entrepreneurial opportunities.
  5. *Revisit the "deceptively simple questions"*. Entrepreneurial leaders examine questions about the viability of the markets in which the firm competes, the company's purpose, how success is defined and the firm's relationships with different stakeholders. Revisiting these questions over time is vital in that the answers influence what the firm identifies as opportunities and how it manages its resources to exploit those opportunities.
  6. *Link entrepreneurship and strategic management*. Effective entrepreneurial leaders believe that to create the most value, firms must be "strategically entrepreneurial". This desired end state is achieved when leaders' entrepreneurial mindsets help them develop a culture in which resources are managed strategically (i.e., advantage-seeking behavior), yet entrepreneurially (i.e., opportunity-seeking behavior).

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Question the as-is, the status quo

question how things are done in order too get a positive change

The simple question is "what business are you in ?" or "what are you doing as a company?" . It's similar to point 4

there are similarities with the resourse based view of the firm

but maybe tomorrow you find an opportunity to diversify it in a corporate level,

Strategy - Entrepreneurship: a model (Ireland et al., 2003)

Managing resources strategically

- The firm's idiosyncratic resources are likely to produce sustainable competitive advantages only when they are managed strategically.
- Resources are managed strategically when their deployment facilitates the simultaneous and integrated use of opportunity- and advantage-seeking behaviors.
- When firms structure a resource portfolio, bundle resources to form capabilities and leverage those capabilities flowing from their financial, human and social capital (resources) to simultaneously enact opportunity- and advantage-seeking behaviors and create wealth, they are managing their resources strategically
- Managing resources strategically affects the value to be derived from the intangible and tangible assets that organizations use to develop and implement their strategies, suggesting that, "the creation, maintenance, and sustainability of techniques for accumulating and deploying resources may become a focal point of research"

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if you want to be good at as-is exploitation and to-be exploration,you have to start from resources

Strategy - Entrepreneurship: a model (Ireland et al., 2003)

Managing resources strategically

- Resources to be managed strategically are:
  1. Financial Capital (tangible)
  2. Human Capital (intangible)
  3. Social Capital (intangible).
     - Set of relationships between individuals - internal social capital - and between individuals and organizations - external social capital - that facilitate actions.
     - Collectively, social capital is the total set of value-creating resources that accrues to the firm because of its durable network of intra- and inter-firm relationships.
     - Resulting from relationships inside the firm and with external entities, social capital helps the firm to gain access to and control of resources and to absorb knowledge

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Strategy - Entrepreneurship: a model (Ireland et al., 2003)

Managing resources strategically

- Three stages to manage resources strategically:
  1. Structuring the resource portfolio
     - Acquiring, accumulating and divesting resources
  2. Bundling resources
     - Bundling tangible and intangible resources to organize them in an original way that contributes to recognizing and exploiting entrepreneurial opportunities, to create competitive advantage.
     - Bundled resources give rise to capabilities
     - Usually these capabilities are needed to select and implement the firm's strategies. The unique capabilities created help companies differentiate themselves from competitors.
  3. Leveraging capabilities
     - Choosing how the capabilities will be leveraged within and across SBUs and organizational functions

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In order to be entrepreneurial and not simply strategic you have to focus on resources, resources life and cycle, and when you identify an opportuinity, you have to ask yourself what are the resources that you need to acquire to combine in order to capture that opportunity. Once you identify the resources and you bundle them, you can try to exploit the related capability in multiple markets

Strategy - Entrepreneurship: a model (Ireland et al., 2003)

Applying Creativity and Developing Innovation

- Creativity and innovation result when resources are managed strategically
- Innovation is a force of "creative destruction" (Schumpeter)
- New combinations of production factors are the essence of innovation.
- Firms must be creative to develop innovation.
- Creativity stems from "bisociation"
  - Bisociation occurs when a person combines two or more previously unrelated matrices of skills or information
  - Bisociation takes place when individuals combine information to identify an opportunity or to help shape competitive advantages.
  - Commonly a function of entrepreneurial alertness, bisociation leads to the recognition of entrepreneurial opportunities often after periods of mental incubation.
- Innovation (both disruptive and sustaining) is used to exploit entrepreneurial opportunities; thus, it is highly important to SE.

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The startups' quest

What's a startup #1 priority (and concern)

?

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Start-ups operate under scarce resources, so the first concern is about money.

The question is between debt and equity.

With debt you don't have investors, but just someone that lends you money and want them back + interest. If you can't repay your debt, you'll be forced to close the activity.

Equity investors, instead, will accept the risk of not having the money back.

Startups and financing

What's a Business Angel?

- Business angels are individual investors, usually with business experience, who provide capital for start-up firms. They are an important source of equity for small firms with growth potential in their early stages of development, long before they become attractive for venture capital funds (*European Union*).

...and what's FFF?

- Family, Friends, Fools (love money vs. smart money) (*Business Angels Institute*)

Equity can be raised by interacting with 3 investor categories:

- **FFF** or Category 0 (because it is what you start with): they have no business experience, but they will give money to you because they love you
- **Informal investors:** are professional investors, they know what are they doing, but they are called informal because they don't run a formal due diligence, which is an investigation about the company, previous debt, collaterals and so on. Their evaluation is based on 3T:

What's Venture Capital (VC)?

- a subset of private equity, it refers to equity investments made to support the pre-launch, launch and early stage development phases of a business (*European Venture Capital Association - EVCA*).
- a segment of the private equity industry which focuses on investing in new companies with high growth potential and accompanying high risk (*National Venture Capital Association - NVCA*)

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Team: it's hard to run a start-up by yourself, but you need diverse resources and competencies because start-up need to be self-sufficient for a while. You can't have a team made of people with the same skills.

Technology: because by means of technology you can scale quickly. This doesn't mean that there are no investors willing to invest in a non-technological start-up, but you need to search for the specific investor that is willing to do so

Traction: ability of a start-up to grow at a given rate in a given amount of time, even with small numbers. Of course if the company doesn't exist you can't show traction to the investor, but with the lean start-up approach you can validate your business model and show traction.

Informal investors might be Business angels, high wealth single individuals, **crowd-funding platforms**

Startups and financing

Financing rounds stages (*EVCA*)

1. **Seed**: Financing provided to research, assess and develop an initial concept before a business has reached the start-up phase.
2. **Start-up or early-stage venture**: Financing for product development and initial marketing. Companies have not sold their product commercially and are in the process of being set up.
3. **Later-stage venture**: Financing for the expansion of an operating company. Later-stage venture tends to finance companies already backed by venture capital firms.

Unencumbered

4. **Growth**: A type of private equity investment - most often a minority investment - in relatively mature companies that are looking for capital to expand into new markets or restructure operations.
5. **Buyout**: Financing to acquire a company. It may use a significant amount of borrowed money to meet the cost of acquisition.
6. **Rescue/Turnaround**: Financing made available to an existing business in difficulty, with a view to re-establishing prosperity.
7. **Replacement capital**: The purchase of a minority stake of existing shares in a company from another private equity firm or from another shareholder or shareholders.

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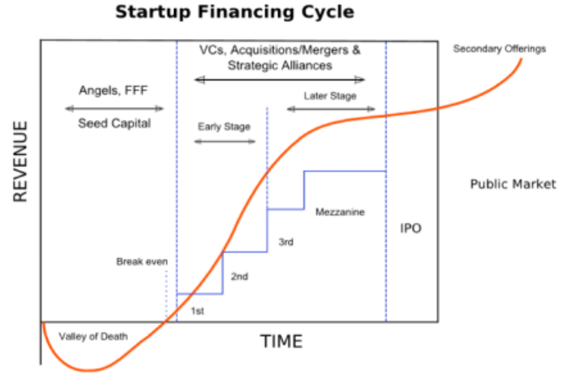
- **Formal investors:** are **venture capital funds**, a branch of private equity funds (operates by buying well-established companies, which experience bad performance, turning them around trying to sell them at a higher price). VC **operates in a high risk area by investing in equity in start-ups.** VC then can be split in IVC, which stands for **Independent venture capital**. It's a fund who's main goal is to have a financial return when investing in a company. CVC (**corporate venture capital**) has a mother company, unlike IVC, and they invest in start-ups not only for the financial return, but also for **strategic synergies**. They invest in a start-up that can expand the portfolio or enter in a new market. GVC is governmental venture capital.

Startups and financing

Startup Financing Cycle



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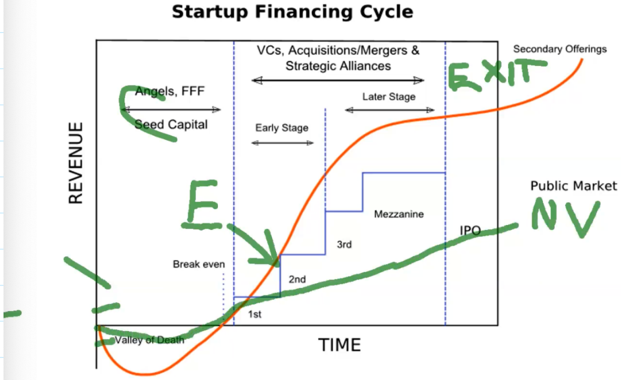
This is what happens to start-ups. On the y-axis there can also be cash-flow

At the very beginning, start-ups rise a seed capital from angels, FFF and informal investors (small amount of money) and they burn a lot of money. A key metric here is a **cash-burn rate**: how much money start-ups burn **every month** (not a year because the start-up could die within a year). Another key metric is **run-away:** how many months the star-up has in terms of cash. For example: a start-up has 1 million dollars in the bank account and a cash-burn rate of $100.000 per month, the start-up will have a 10 month run-away. So the company can survive 10 months, after 10 months either you cut costs (difficult) or start making revenues or raise more money, otherwise you're dead. That's why there is the **Valley of Death**

If everything goes right, the company will reach the **break even point**, then early stage where the company starts talking with VC and starts growing exponentially and, sooner or later, it will make an exit either going by IPO or trade sell.

Startups and financing

Startup Financing Cycle



New Ventures will have a smoother growth, by burning less money at the beginning, reach brake-even faster and then they'll grow linearly and slowly compared to a start-up. They will not necessary need equity, but can use **debt**, which doesn't require the company to make an exit, and also helps to grow steadily and slowly.

The story is that New Ventures can grow linearly and slowly for decades and might become huge companies, so they are not less interesting than a start-up, which has usually a life cycle of 5-10 years.

POLITECNICO DI MILANO

Italian hi-tech startups ecosystem

(see the related presentation)

no

Startups and their surrounding ecosystem

What's the ecosystem of players a startup arises and operates in

?

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no

Startups and their surrounding ecosystem

The players	2013	2014
"Innovative Startups"	1227	2716
Funded Startups	113	197
"Institutional" investors	32	36
Incubators & Accelerators	97	100
Science & Technology parks	40	38
Coworking spaces	65	62
Startup Competitions	33	52
Associations, Online resources & communities	20	27
Hackathons	-	21
Empowerment programs	-	38
Call for tenders	-	46
Crowdfunding platforms	-	48
Fablabs	-	46

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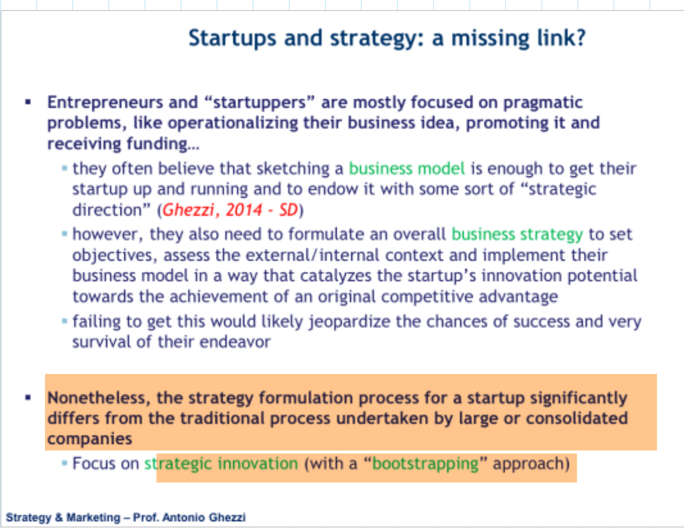
no

No

Before we were talking about a well-established company that tries to be entrepreneurial

For start-ups is not easy to be strategic. 92% of start-ups fail within the first year because they lack of strategy



Startups and strategy: a missing link?

- **Entrepreneurs and "startuppers" are mostly focused on pragmatic problems, like operationalizing their business idea, promoting it and receiving funding…**
  - they often believe that sketching a business model is enough to get their startup up and running and to endow it with some sort of "strategic direction" (*Ghezzi, 2014 - SD*)
  - however, they also need to formulate an overall business strategy to set objectives, assess the external/internal context and implement their business model in a way that catalyzes the startup's innovation potential towards the achievement of an original competitive advantage
  - failing to get this would likely jeopardize the chances of success and very survival of their endeavor
- **Nonetheless, the strategy formulation process for a startup significantly differs from the traditional process undertaken by large or consolidated companies**
  - Focus on strategic innovation (with a "bootstrapping" approach)

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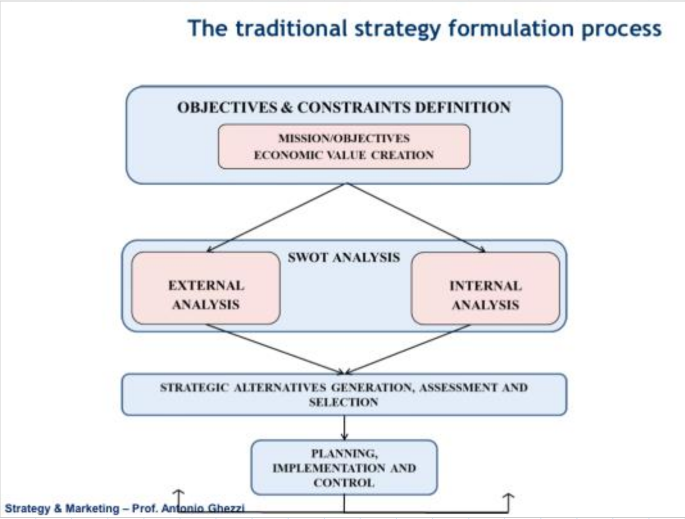
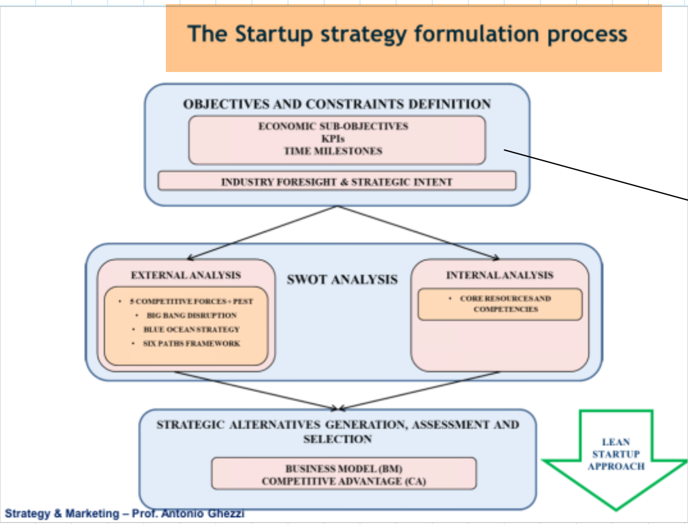
Start-up strategy has to be an entrepreneurial strategy



This is the traditional strategy formulation process



For the start-ups is basically the same, but it will need to be fed by different models and concepts.

So they need to go through the same building blocks, but they'll need to use different models that are more creative, and are more innovative

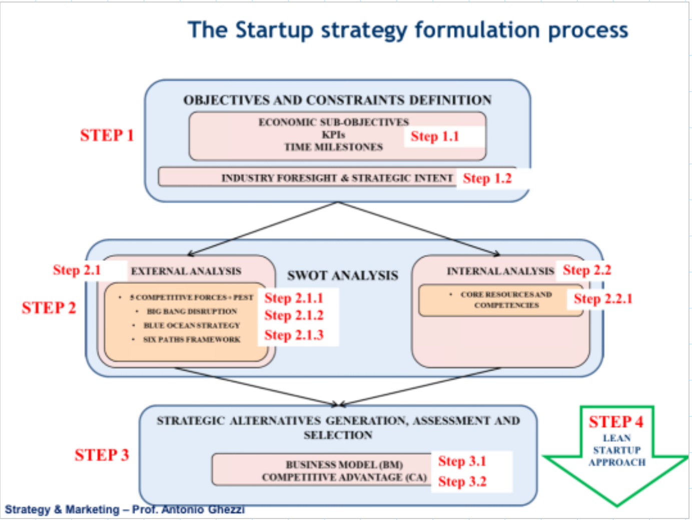
They can't seat yearly objectives, but subobjectives, because they could be dead in a year. They need to have shorter objectives and use different metrics like the ones mentioned before

Industry foresight and strategic intent are vision and mission

When it comes to SWOT, for sure you can still use traditional models like 5 forces, PEST, but at the same time it is possible to use other approaches. For example big bang disruption can help identifieing some technological trends that will enable the rise of disruption or maybe even big bang disruption. Blue ocean strategy can also be leveraged. 6 paths and non-client framework support external analysis.

For the internal analysis there is the core resources and competencies because we can't use the value chain model as a start-up because start-ups are temporary organizations so they have no value chain at the very beggining.

The as-is value curves can help the internal analysis because it benchmarks specific companies based on value drivers. When it comes to the analysis of aggregate competitors, that's an external analysis, but when the analysis is made on specific competitors that is internal analysis, beacuse you identify specific strenghts and weaknesses.



When it comes to generating specific strategic alternatives, they can be represented in the business model or in a blue strategy way as the to be value curves

Blue ocean strategy is not an alternative way of doing strategy, but it can be integrated in the traditional strategy formulation process: as-is curves (internal anlysis), 6 paths and non-clients (external anlaysis). Basically a swot performed in an original way.

When you get to strategy assessment you might assess the strategy through traditional economic and financial metrics, but since you are a start up the outcome could be shaky **because of no information**. You need to make the assement in an experimental way. Experimentation can be supported by lean start up approaches

SM 21-22 AG Lean Startup Approaches and Entrepreneurial Experimentation

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SM 21-22 AG Lean S...

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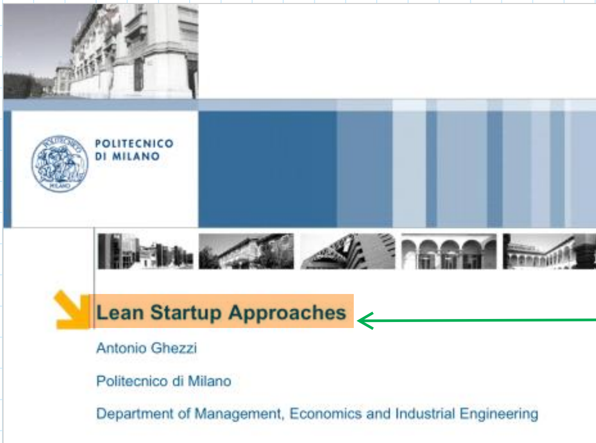
traditional strategy formulation and strategic innovation are not really a dichotomy



this was born assort of a criticism that a lot of entrepreneurs follow when assessing their ideas and when coming up with business plan(a document that says why your idea is great and why everybody,internally and externally should invest in your idea)

so you write down a business plan if you are a startup,to find investors,but also if you are a well stablished company,launching a new project.

it was born in entreprennural domain but is also largely adopted by well-stablished companies as well

an entreprenuar with an idea will search about information needed(desk researc),do the survey, and also economic evaluation:

NPV>0= INVEST

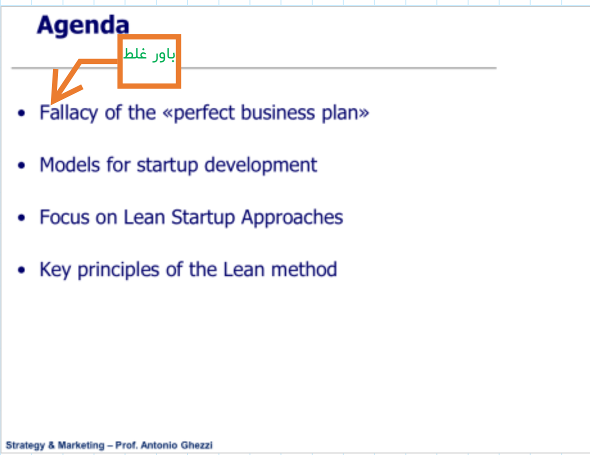
NPV<0=Im destroying value!

if you see you are in the second situation what do you do?

you think you will penetrate 50% of the market and amke people pay higher.

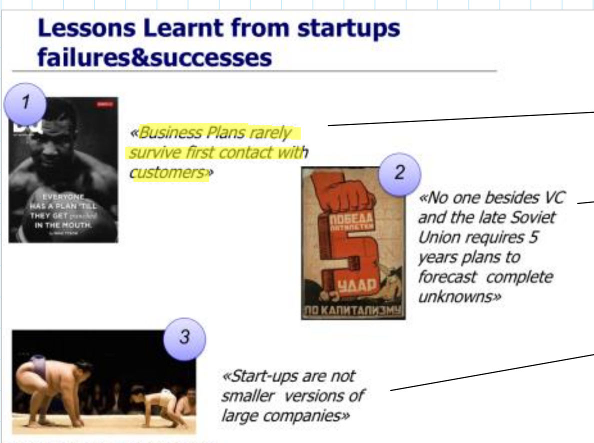
this wa y you are lying to yourself,and getting the data in a way that supports what you already have in mind.

in desk research you are googling things,trusting secondary resources. and building a plan on weak foundations. so thats why Steve Blanks started questioning the business plan and talked about the falasy of the perfect business plan



Fallacy of the perfect business plan is related to:

- Errors made in the research
- Bias in data gathering
- Estimations are made on weak data



Fallacies of the perfect business plan

The plan will not survive if based on weak foundations based on desk research

There's no point in forecasting 5 years if there's a high probability of failing in the first one

specially if you are using this kind of wraped up data to do the estimations

Large companies are made to execute a business model they know

Start-ups are in search for a business model startup is actually a temporary organization,flexible,you can not all the models we know for corporations to startups.fpr instance if you are a startup and you want to formulate a Entrepreneurial strategy,there is no point in using the value chain.

why?because you have non!

your value chain changes once a weak,your activities and processes change so fast

we are basically changing the ways startups should analyse their environment and understand if they business model will work.

Models for Start ups development

- Product development

"Too many startups begin with an idea for a product that they think people want. They then spend months, sometimes years, perfecting that product without ever showing the product, even in a very rudimentary form, to the prospective customer. When they fail to reach broad uptake from customers, it is often because they never spoke to prospective customers and determined whether or not the product was interesting" (Ries, 2012).

- Waterfall development
- Agile Development
- Customer development
- Lean Startup

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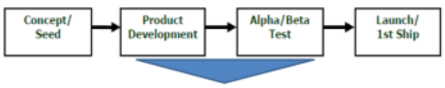
If we consider that start-up development is after all product development and we take a look at the development and evolution of product development approaches, we will understand better what lean start-up is all about

Product Development ('50)

- Methodology for new products development, focused on the product itself, divided in 4 phases:



PROS	CONS
Effective & efficient in KNOWN markets	1. Customers are NOT considered 2. Focus on the go to market DATE 3. Emphasis on EXECUTION, not on learning and discovering processes 4. Lack in significance of the milestones 5. Ramping up too rapidly

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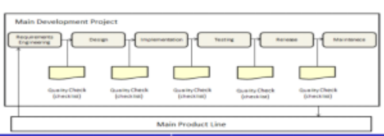
Product development in the 50s was made of only 4 phases because at the time the market was growing so fast, that the demand was greater than the offer so companies needed to **launch as fast as possible** we had the economic boom

rather than on testing

Waterfall Development ('70)
(Stage-Gate Model)

- In a waterfall model, each phase must be completed fully before the next phase can begin.
- At the end of each phase, a review takes place to determine if the project is on the right path and whether or not to continue or discard the project.
- In waterfall model, phases do not overlap



PROS	CONS
1. Simple and easy to understand and use 2. Easy to manage due to the rigidity of the model – each phase has specific deliverables and a review process 3. Phases are processed and completed one at a time. 4. Works well for smaller projects where requirements are very well understood	1. Once an application is in the test stage, it is very difficult to go back and change something that was not well-thought out in the concept stage 2. No working software is produced until late during the life cycle 3. High amounts of risk and uncertainty 4. Not a good model for complex and object-oriented projects 5. Poor model for long and ongoing projects 6. Not suitable for the projects where requirements are at a moderate to high risk of changing

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In the 70's the demand and offer was more in equilibrium, the process was not all about launch, but also about testing so the Stage-gate Model was introduced.

This model i**s all about having a stage of development followed by a quality check**

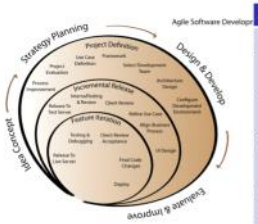
Pros: **It's a really structured approach, you can easily check, assign responsabilities** and so on

Cons: **extremely rigid**. For example you arrive at the 3rd stage, you realize that there is a problem in quality check and the problem is reffered to one of those initial stages. The model says that you can't go back, because it would mean to question the previous 2 quality checks. Also **customers and users are involved to late in the process**.

It's still used today in many companies

Agile Development ('90)

- Agile software development is a group of software development methods based on iterative and incremental development.
- It promotes adaptive planning, evolutionary development and delivery, a time-boxed iterative approach, and encourages rapid and flexible response to change.



PROS	CONS
1. Customer satisfaction 2. Early feedbacks/integrated tests 3. Interaction, collaboration face to face communication 4. Flexibility 5. Working before knowing all the requirements 6. Saving Money and time 7. Improvement in productivity	1. Customer engagement 2. Lack in documents 3. Impossibility to plan resources/budget needed 4. Difficulty in evaluating each developer 5. Highly skilled members required

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because you need team with varied skills, you should involve users early which is not so easy and is really difficult in terms of reporting.ypu dont jnow how much it is gonna cost you and what is the budget,time you need...

Very flexible, but also very messy at the same time

Compared to traditional project management approaches like Waterfall, Agile prioritizes speed, flexibility, cross-team collaboration, and frequent feedback.

In Agile product development, teams build products using short iterations that enable continuous feedback and rapid improvement.

the product development process is divided into sprints or iterations—short and periodic time frames that usually last from one to four weeks. Each sprint starts with a planning meeting where **cross-functional teams** come together to discuss and prioritize the work that needs to be done. **Every iteration is like a small project that includes all the stages of the product development process**, from product discovery to release. Once the sprint ends, the product team presents a working product, or **Minimum Viable Produc**t (MVP), to customers and stakeholders. The goal is to create something simple that they can iterate on based on users' feedback. It might take multiple iterations before launching the final feature or product to market.

today Agile is different from this,Agile from a product development process became a project management approach. is used in managing complex projects.

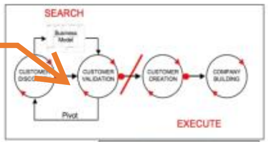
it was revolutionary, even the title itself

it means if in the process of achieving validation from the customer,you need to change the product,you should do that cause you care about the product rather than the customer

Customer Development

- Customer Development focuses on customers and it is divided in 4 phases
- The first product is not designed to satisfy a mainstream customer but it's tested on a very small group of early and «visionary» customers (evangelists)

this is product market fit



EVANGELIST

PROS	CONS
1. Iterative	1. Specific on business areas
2. Efficient & Effective	2. Eary evangelist are difficult to be found
3. Improved learning	3. Evangelist are easily influenced by others or by the company's view
4. Time saving	4. Vicious circle («bugs» detection never ends)
5. Avoiding early scaling	

Strategy & Marketing – Pr

Introduced in the late 90s

4 phases and 2 parts: **Search** and **Execute** which resembles the fact the start-ups at the very beginning are in search for a **scalabl**e and **replicable business model**.

So the company has to discover who the customers might be and it needs to involve them early. then you go to execution,you turn your startup into a well functioning corporation.

Customer development involves evangelists, who are **customers who have a problem, they are aware that they have a problem**, they should be looking for a **solution to the problem**, they should have also put up a **solution by themselves, so that they can give you a feedback for the company's solution**, and they also **need to have the budget to acquire the solution**

The experiments made on the evangelists should help the start-up to validate its business model and target customers, and if needed the evangelists could give a feedback to the start-up in order to make a change to the business model and the target customers (make a pivot). The idea remains the same, but the company makes changes based on the feedback.

After business model and customers validation, the company enters the "execute" phase where the company is not a start-up anymore, but a well established company, which invests in marketing customer creation

It's not a famous approach because too complicated in its early version

Lean Startup Definition

Lean Startup (2008) is an approach for launching businesses and products, that relies on **validated learning, scientific experimentation, and iterative product releases** to *shorten* product development cycles, *measure* progress, and *gain* valuable customer feedback. In this way, companies, especially startups, can design their products or services to *meet the demands of their customer* base without requiring large amounts of initial funding or expensive product launches

THE LEAN STARTUP
ERIC RIES

*"Lean Startup isn't about being cheap [but is about] being **less wasteful** and still doing things that are big."*

*"Startup success can be **engineered** by following the process, which means it can be **learned**, which means it can be **taught**. The Lean Startup method teaches you how to drive a startup-how **to steer**, when **to turn**, and when to **persevere-and grow** a business with maximum acceleration."*

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waste is doing sth that is not creating value for the customers

The lean startup approach **comes from the lean manufacturing**, which aims at eliminating all the waste possible, **in order to concentrate on the activities that create value for the customers**. Every time you are not doing something that creates value for the customers it's a waste of resources

the whole idea is:it would be great if we could leverage lean manufacturing when developing a startup so the startup becomes lean itself.

it is a revolution cause it takes customer perspective inside of the operations manufacturing, before that quality was sth related compliant to the design of the product.(in house quality)
lean manufacturing introduced infield quality,quality should also be measured how customers interact with what you do

Start-ups waste anytime they do something that customers didn't ask for

To avoid wasting you have to create a feedback loop with your customers. This is how you reduce uncertainty

At the very beggining, for an entrepreneur that has a great idea, the biggest enemy is the customer, because the entrepreneur can have the greatest idea of the world, but if there are no customers for that idea, he will be crushed and all the resources that he has spent, will eventually get wasted. **So in order to not waste resources, the entrepreneur has to create the feedback loop with the customers.**

startup is wasting anytime a customer did not ask for

you should not expect customers come up with the idea,thats your job,then younshould understand if that idea is as smart for the customers
how?i go and ask,go out of the building and interact

Entrepreneurs are afraid of confronting with the customers and they think we invest on it until we make it perfect!!lean startup tells you stop that bullshit!

Who is «an entrerpreneur»?

*There are three starting points for entrepreneurship: **a technology, idea, or passion**. If you have a passion but no specific idea or technology, do some introspection to figure out the best use of your knowledge, skills, connections, financial assets, and work experience.*

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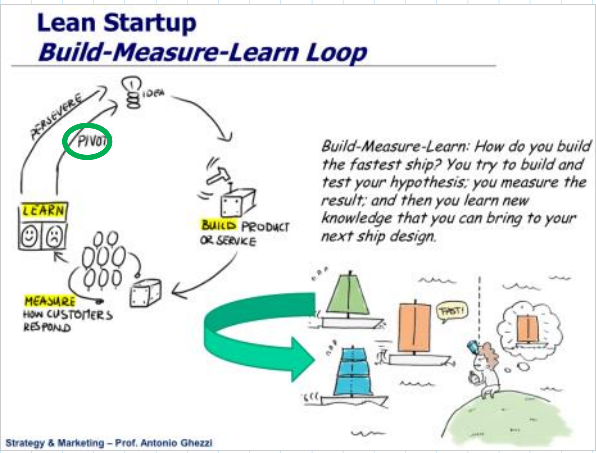
One of the biggest uncertainty is for the product to not be liked by the customers. how do you eliminate it??go and ask!

Work on the things the customers want, and not the things that you think should be done

An MVP (**minimum viable product**) is something that resembles your business idea, it gives the customers an idea of what the product will be, so they can interact with it and give a feedback. The mvp is not even a prototype, the prototype is too developed, to expensiv. It's called minimum because it requires the minimum investment and viable because the customer should interact with it .

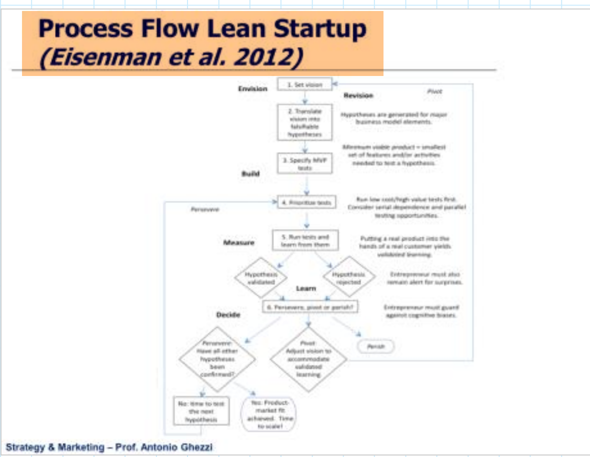
The **feedback triggers the validated learning loop**



The **validated learning loop**, which is called Build-measure-learn loop , you start from an idea, you build the mvp, you measure the results and you learn if the idea is liked or not. If the market doesn't like the idea you can pivot and modify the idea thanks to the feedback.

There's also a third outcome, which is the saddest one, if the market doesn't like the idea at all, then it should perish. That's why the customers are the biggest enemy

The lean approach tells that if you have to fail, then fail fast, rather than keep investing in something that no one wants

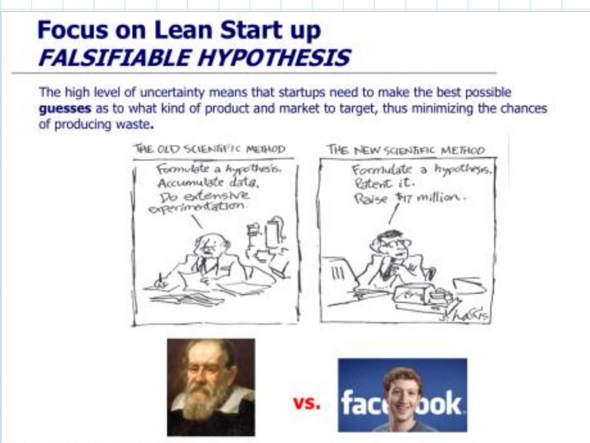


This is the structured version.

The **envision** in this case is the idea, then the idea has to be translated in the **falsifiable hypothesis**.

the falsifiable hypothesis is an assumption about the world and the idea, which, if proven right, will make you go further with the idea, otherwise, if falsified, you'll need to discard the idea.at least in that market

For example, with the parking application, the assumption is that the world will pay for the app because parking is difficult in crowded cities but it should be validated



The best source of falsifiable hypothesis is the business model canvas, because you assume that you are going to serve a certain customer segment, with a given value proposition, with a given channel and so on. So you have to take the BMC, **identify and select the falsifiable hypothesis**, then you **associate an MVP for each hypothesis, and then you prioritize the experiments by selecting first the ones that require less resources**. In this way, it's possible to test very quickly the idea and have a feedback, and if you fail, you fail fast. If the idea it's partially rejected, you can pivot.

If every hypothesis is validated you persevere until you reach the **product market fit.**

lean startup starts with an idea and ends with product market fit:this is the search phase of the customer development

The product market fit is the final outcome of lean startup, where the product is exactly what your market wants.

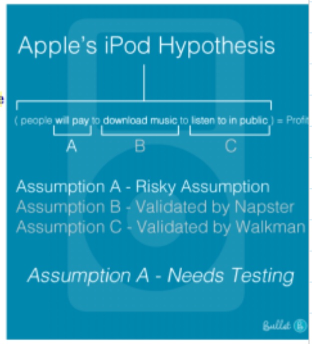
If **product market fit** it's reached, you've found the business model that you were looking for.

Lean startup overlaps with the search phase of the customer development. The red bar in the customer development slide is the market fit

but the customer development adds execution,what happens after product market fit

Example
FALSIFIABLE HYPOTHESIS

A lean startup will approach these assumptions with two things in mind:
1. Make these **assumptions testable and tangible**, not abstract.
2. Know which of your assumptions are the **most uncertain, and** test these risky assumptions first



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Here part of the hypothesis was already been tested, so you don't have to test again

If all the hypothesis were already been validated, then you are not introducing nothing new. We're talking about a venture capital. At least one hypothesis needs to be tested.

Focus on Lean Start up
MVP

- **MVP**: Contrary to traditional product development, which usually involves a long, thoughtful incubation period and strives for product perfection, the goal of the MVP is to begin the process of learning, not end it. Unlike a prototype or concept test, an MVP is designed not just to answer product design or technical questions. Its goal is to test fundamental business hypotheses.

MVP: You want to build a huge ship, but instead of building the ship right from the beginning, you start by testing your idea with minimal design to see if it floats.

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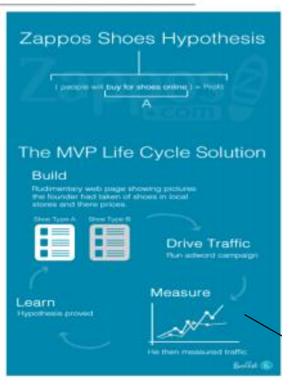
Example
MVP

"There's a huge difference between what people say and what they do" (Dan Ariely, 2008).



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for experiment he walked around and took picture of shoe models by the windows,then in awebsite he uploaded the picture of the shoe model and discriotion of it and then a shopping card,
he started to see how many people landed on the page and how many clicked on it to buy.
it was just 5%!
this number is sth you can go to a business angel with and ask for money.

then he did another experiment and actually accepted orders and shipped it to customers

these kind of experiments might not be legal but is sth that many startups did,they started illegally

you dont do the experiment with the real name of the brand!

Dropbox MVP

I LIKE HOW WE'VE HAD THE INTERNET FOR DECADES, YET "SENDING FILES" IS SOMETHING EARLY ADOPTERS ARE STILL FIGURING OUT HOW TO DO.

- The founding team was made up of engineers, as the product demanded significant technical expertise to build
- Investors would explain that this "market space" was crowded with existing products, none of them had made very much money, and the problem wasn't a very important one. Drew would ask: "Have you personally tried those other products?" When they would say yes, he'd ask: "Did they work seamlessly for you?" The answer was almost always no.
- *The challenge was that it was impossible to demonstrate the working software in a prototype form.*
- In parallel with their product development efforts, the founders wanted **feedback from customers** about what really mattered to them. In particular, Dropbox needed **to test its leap- of- faith question: if we can provide a superior customer experience, will people give our product a try?**
- They **uploaded a demonstration video** on Hacker news on April 2007
- The **video drove hundreds of thousands of people to the website. The beta waiting list went from 5,000 people to 75,000 people literally overnight**.
- Using Lean Startup principles, in just 15 months, Dropbox went form 100,000 registered users to over 4,000,000

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This is traction, that can be used to attract investors 75000 and 5%

They posted a video about their idea. Is there any risk that the idea will be copied ? Yes, but what is the alternative ? The alternative is to keep investing in that idea without knowing if it will be liked by the customers. The key here is to be fast and ypu have to be already there:team of developer,business angel to give money
you will be the first mover and the first learner advantage

speed is more valuable than protection

Dropbox
Lessons learnt

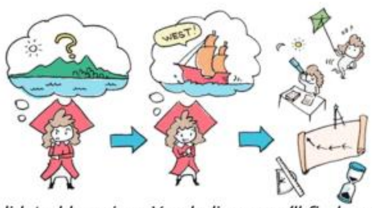
کشنده

What we learned

- Biggest risk: making something no one wants
- Not launching → painful, but not learning → fatal
- Put something in users hands (doesn't have to be code) and get real feedback ASAP
- Know where your target audience hangs out & speak to them in an authentic way

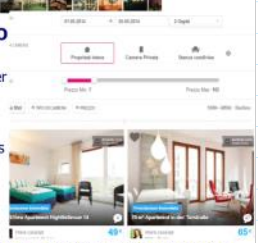
معتبر و قابل اعتماد

Focus on Lean Start up
VALIDATED LEARNING



Validated learning: You believe you'll find a new continent if you keep sailing west. So, you test your idea and verify the route using scientific methods and measurements.

Lean Analytics
Airbnb case



STEP 1: FIGURE OUT WHAT METRIC TO IMPROVE

The metric they wanted to improve was the number of nights that a property was rented. Notice that this is more central to their business than simply measuring revenue: Airbnb does well if its homeowners do well, and for it to succeed, it needs listed properties to be rented often so the homeowners will stick around.

The company knew that to succeed, they needed a significant improvement in rental rates per property.

- One Metric That Matters: "Number of nights rented."
- KPI: Property bookings
- Target: (not publicly known)
- Current level: (not publicly known)

Lean Analytics
Airbnb case

STEP 2: FORM A HYPOTHESIS

Properties with better pictures rent more often.

- Perhaps they had noticed that the pictures of those properties looked, to them, more professional.
- Maybe they realized that one common complaint from renters was that the property didn't actually look like the pictures on the site.
- Maybe they found that people would most often abandon a listing right after seeing photographs.
- Maybe they analyzed the metadata from pictures and found that there was a strong correlation between properties that rented often and expensive camera models.

Lean Analytics
Airbnb case

STEP 3: CREATE THE EXPERIMENT

- *Who is the campaign for?* Travelers looking at listings on Airbnb.
- *What do you want them to do?* Decide to rent a property more frequently.
- *Why do they do it?* Because the photographs look professional and make the property look beautiful

Find out if travelers will book more properties because of professionally photographed listings enough to improve the property bookings by X%.

Airbnb's experiment consisted of something that looked like a real feature, but under the covers was really just humans and contracted photographers. During the experiment they took pictures of properties, and then measured the KPI, comparing properties that had been photographed to those that hadn't.

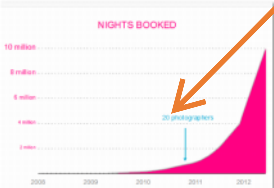
Lean Analytics
Airbnb case

STEP 4: MEASURE PERFORMANCE

Airbnb measured the bookings from the few properties that had professional photos and compared the rate of bookings with properties that only had photos taken by property owners

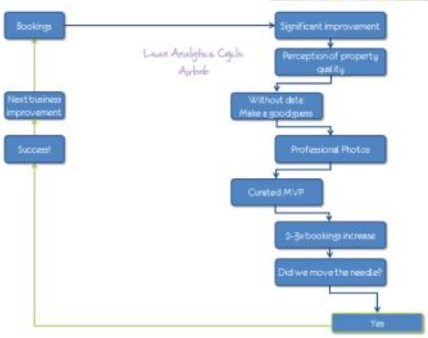
The properties with professional photography had 2-3 times the number of bookings!

By 2011, the company had 20 full-time photographers on staff



a minor change in your business model, based on a extremely low cost experiment had a dramatic impact on your key performance

Lean Analytics
Airbnb case



Focus on Lean Start up
PIVOT

an application of lean start approaches

Pivot (Basketball):
to keep one foot in place while holding the ball and moving the other foot one step in any direction.

Famous Pivot
Youtube: YouTube began life as a video dating site
***Instagram*:** it was a location based social network
***Groupon*:** formerly, "The Point", site for online collective action and fundraising of collective actions (social media platform designed to get groups of people together to solve problems)

PIVOTING
Flickr

From a "massively multiplayer online role playing game" called Game Neverending....

... to the larger potential of simplifying photo sharing on the web

Key principles of lean method
(*Steve Blank, 2013 – HBR*)

پیچیده و بغرنج

1. Instead of writing an intricate business plan, summarize their hypotheses in a framework called Business Model Canvas
2. Use a «get out of the building» approach called Customer Development
3. Practice Agile Development

this aproaches immerged as an alternative to business planning (desk reaserch and very big plan on a weak foundation)
lean startup tells you that you should start small , with local and low-cost experiment,learn fast from the market and then based on that learning decide what to do

Business Model Canvas

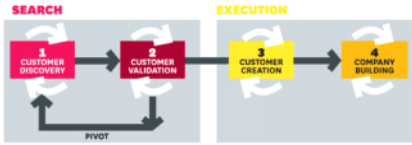
Key principles of the lean method

1. Instead of writing an intricate business plan, summarize their hypotheses in a framework called Business Model Canvas
2. Use a «get out of the building» approach called Customer Development
3. Practice Agile Development

Listen to customers (1/3)

find where your evangelists are hiding and make a experiment

- SEARCH: Looking for a business model that works
  - If customer feedbacks are negative = wrong hyotheses PIVOTING
  - If customer feedbacks are positive = proven model
- EXECUTION: Building a formal organization



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Listen to customers (2/3): *SEARCH*

1. CUSTOMER DISCOVERY –
   Company ideas are translated into:
   a. *BM Hypothesis*
   b. *Test assumptions on customer needs*
   c. *Creation of a MVP*
2. CUSTOMER VALIDATION –
   Iterative process:
   a. *Test all hypotheses*
   b. *Validate customers' interest through early usage/orders*
   c. *Pivot (change in hypotheses)*

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Listen to customers (3/3): *SEARCH*

3. CUSTOMER CREATION –
   The product is refined:
   a. *Demand building*
   b. *Marketing & sales spending*
   c. *Scaling up the business*
4. COMPANY BUILDING –
   Business transition from startup mode:
   a. *Customer development team*
   b. *Functional department*

1-start investing in marketing to create a demand
so if you are a startup,it makes no sense to invest in marketing!cause your brand and product may change.
at the beginning you may save all the resources to test,you pay for marketing when its part of a testing,
only after you validate the business model,invest in marketing.
so now you can stop being a flexible and temporary organization and start building your value chain

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Key principles of lean method

1. Instead of writing an intricate business plan, summarize their hypotheses in a framework called Business Model Canvas
2. Use a «get out of the building» approach called Customer Development
3. Practice Agile Development

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Quick responsive development

*«In contrast to traditional product development in which each stage occurs in linear order and lasts for months, agile development builds product in short, repeated cycles. A start-up produces a **Minimum Viable Product (MVP)** – containing only critical features – gathers feedback on it from customers, and then starts over with a revised MVP»*

Strate

POLITECNICO DI MILANO

Lean Startup Approaches: theoretical roots and empirical findings

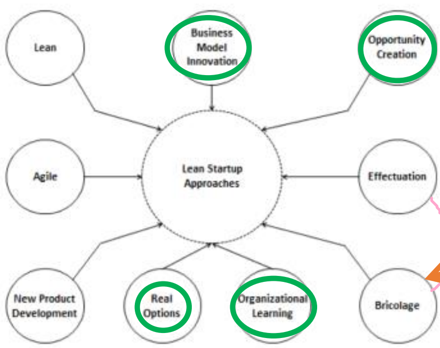
تجربی، مبنی بر تجربه

Antonio Ghezzi

Politecnico di Milano

Department of Management, Economics and Industrial Engineering

Lean Startup Approaches: theoretical roots (Ghezzi, 2018)



lean startup has 3 main fields as its roots:

1-innovation management(left)

2- strategy(in the middle)

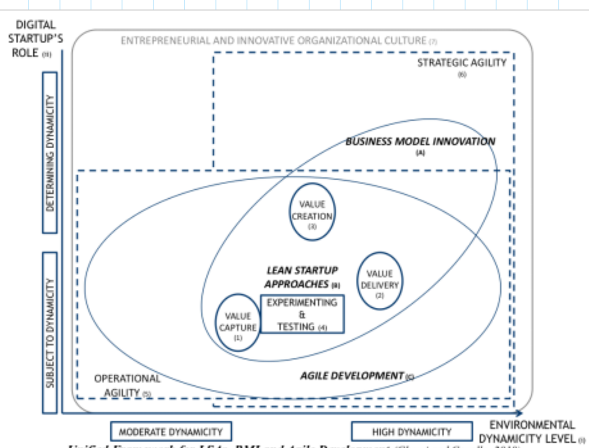
3-entrepreneurship(right)

ساختن چیزی از مواد گوناگون در دسترس

entrepreneurs make do,

they do the best they can,with what they have,they operate with limited resources by bricolaging with them and eventually making sth happen(affectuating sth)

lean startup is an implementation of bricoolage and effectuation



Unified Framework for LSAs, BMI and Agile Development (Ghezzi and Cavallo, 2018)

leanstartup approaches not only help you to validate the value proposition,

there is a bias in the entrepreneurs that belive you can do the experiment on the product,service,solution(value proposition)

but its not true or the best thing you can do with a startup.

lean startup approach help you validate the whole business model.you can do the experiment on the value proposition,on the customer,on the channels...

so validate all the assumptions not just value proposition

Empirical findings: practical guidelines for LSAs adoption (Ghezzi, 2018)

Issue	Practical Guidelines
Type of digital startup	• All startups, including those that are CVC-backed, benefit from adopting and implementing LSAs.
Stage of startup development	• Startups are to adopt LSAs in their early stages of development, while continuously implementing them following Agile principles whenever the context turns out to be uncertain.
Bad choices concerning the provision of LSA-related knowledge	• Startups are to carefully assess and select suppliers for LSAs courses and training sessions. • Startups are to rely on certified and experienced actors – e.g. universities, colleges and research institutions, top-ranked incubators and accelerators.

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Empirical findings: practical guidelines for LSAs adoption (Ghezzi, 2018)

Issue	Practical Guidelines
Formulation of falsifiable hypotheses	• Entrepreneurs must think carefully on how they can accurately formulate falsifiable hypotheses about their startup's business model (a step they often neglect). • Falsifiable hypotheses constitute the operational trigger for the scientific methods embedded in LSAs.
Identification of earlyvangelists	• Entrepreneurs are to properly evaluate who their earlyvangelists and trial users are and where they "hang out", in order to target the right prospects and receive informed feedback. • In B2B settings, evangelists are found among existing business customers by carefully assessing the customers' purchasing processes and identifying the key decision-makers.

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Empirical findings: practical guidelines for LSAs adoption (Ghezzi, 2018)

Issue	Practical Guidelines
MVP design	• MVPs are artefacts with these key characteristics: they (i) resemble and embody the business idea; (ii) are actionable; (iii) are measurable through the MVP testing outcomes; and (iv) are less wasteful than prototypes. • MVPs as paid-for products increase the amount of information they carry when tested upon. • MVP design can leverage Feature Development Design (FDD) to provide guidelines on how to identify and design minimum features and run iterations. • In B2B settings, an MVP cannot be too "minimum", as it should incorporate a sufficient number of features at a satisfactory level to compete with existing offers.

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Empirical findings: practical guidelines for LSAs adoption (Ghezzi, 2018)

Issue	Practical Guidelines
Experimenting and testing	• Experiments are to be MVP-based, which in turn means they are BM-based. • Digital products and services can be run through Scrum sprint cycles, to control for time and budget. • Entrepreneurs are to radically rethink their views on IP protection, embracing openness and collaboration through fast experimenting and learning.
Business Model validation and pivoting	• Startups are to experiment and test on all elements of their business models, not just their value proposition (product, service, solution, bundle). • Executing a go-to-market strategy often requires more testing than the value proposition itself.

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Empirical findings: practical guidelines for LSAs adoption (Ghezzi, 2018)

Issue	Practical Guidelines
LSA broad adoption and implementation process	• Entrepreneurs are to adopt LSAs comprehensively, rather than cherry-picking the steps and elements they perceive as most useful. • Entrepreneurs are to go beyond heuristics and apply a scientific method by means of the LSAs. • **Entrepreneurs are to integrate LSAs with business planning, thus altering Blank's motto to: "*before* writing a business plan, design a business model and apply LSAs".** • Entrepreneurs are not to overlook the process of strategy formulation and strategy analysis which can inform the formulation of falsifiable hypotheses and design of a preliminary business model.

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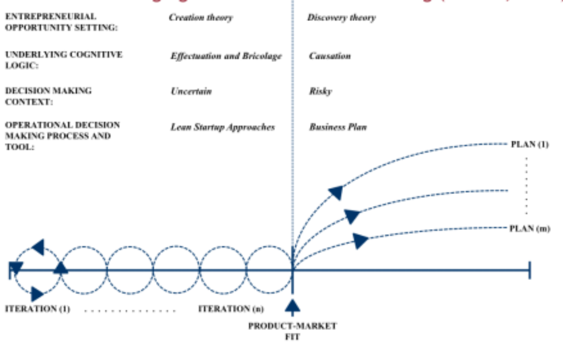
remember this for the exam

question.
Blank said no business plan and go for lean approach but entrepreneurs will need the business plan,
so how they can deal with this dichotomy?
in the assessment part of the entrepreneurial strategy,instead of business plan use the LSA(leans startup approaches)
they iterate on BM1,they make test so that they achieve business model validation.
eventually the business model they will execute wpuld be a BM2
BM1:outcome of analysis
BM2:outcome of assessment(this one has been validated,all the pivots you had to make)
some entrepreneurs want to jump from 0 to 2 and what happens is:
you fail to reduce the amount of options(sth you do in the analysis) and you run the risk of dieing while testing,aiterating

at the end of the process what entrepreneurs pragmatically do is to take the output from lean startup and consider that an input for the bisiness plan that is based on experimental data and not desk research anymore
this is Ghezzi's suggestion

Bridging LSAs and Business Planning (Ghezzi, 2018)



The entrepreneurial opportunity space

(Ghezzi, 2018. Digital startups and the adoption and implementation of Lean Startup Approaches: Effectuation, Bricolage and Opportunity Creation in practice. Technological Forecasting and Social Change. https://doi.org/10.1016/j.techfore.2018.09.017)

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in the left:you are operating in an uncertain environment,you dont know whats gonna happen,you iterate and apply lean startup,but if you are lucku enough to reach the product market fit,after that you can make a business plan
so SLA was born as a critic to business planning but it can serve as its best input

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digital idea is an idea based on technologies that are there,code with python,design the app...there is no risk of technical feasibility,
cause it has been already tested,but you shoud check market feasibility.
so in those cases you can start from the entreprenurial strategy formulation
in deeptech and the problem is technical feasability.so the formulation is not helpfl and you should first do engineering experiments

technology,digital technology somehow creates new opportunities.
technology gives you the opportunity to differentiate your offer in internal rivalry but it can also be a threat since it lowers the entry barriers in the market.
so technology is strategic cause it changes the content of the SWOT
Digital business formulation:
when a company performs strategy formulation,it involves the top management,ceo,consultant
when you conduct all steps you may call IT guyes and ask them for technology to attach to it and be more efficient .this is IT strategy,its a support and emergancy.
in digital business you formulate the strategy considering the world is digital, so is a strategy that thinks of a digital world.

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make better in what you have and know the problems:vauechain(exploit)
explore new things:RCBV(exploreqaw)

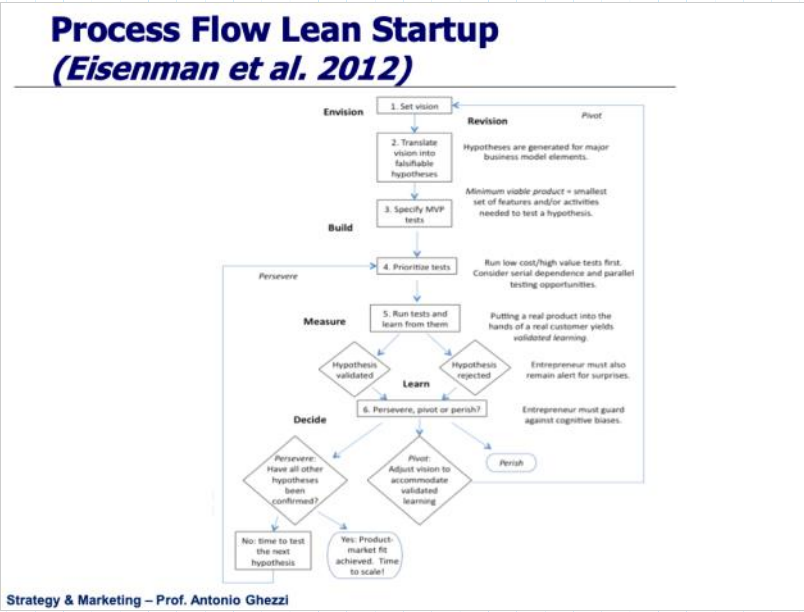
lean startup is good in validating the businessmodel,but is it also validating its sustainability?
it depends on the assumptions behind the business model.if you use business model canvas,you are validating if yu make money out of that.value=economic and financial perspective.
but if you use mission model canvas:construct hleping to depict non for profit businesses, you make assumptions on your impact for example on environment

Lean Startup part 2

sabato 18 dicembre 2021 12:40

SM 21-22 AG Lean S...

14/12/21



The process flow is similar to the strategy formulation process

1. **Set vision:** we are not talking about the vision of the strategy formulation process, but here it means to have a brilliant idea

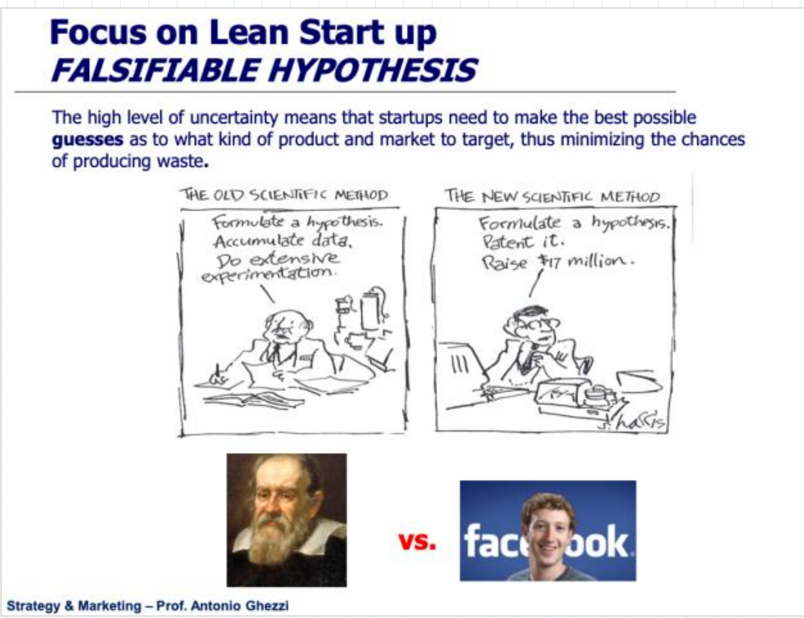
2. **Translate the vision into a falsifiable hypothesis**: a statement about the idea that must be changed or denied with the interface with the market

3. **MVP**: is something that embeds the main assumption

4. **Testing**: you don't only test the value proposition, but also the channels can be tested. There are some priorities in defining the which test should be perfomered before. The priority is to start from the low cost/high value

5. **Learning**: use the feedbacks collected from the tests will lead to an hypothesis validation or rejection.

6. **Decide how to procede (persevere, pivot or perish)**: if all the main hypothesis are validated, then it's possible to go on: we have found the product market fit. With negative feedbacks, you need to revise the idea and go through all the steps again, so you need to **pivot** or it's also possible to perish the idea if there is no matching with the willingness of the market.



What is the difference between this new scientific method and the old one ?

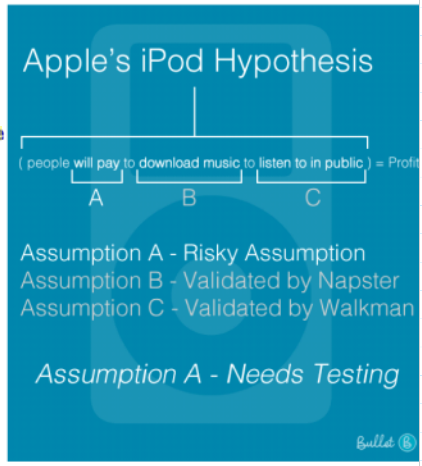
The traditional scientific method was to formulate an hypothesis, accumulate data and to extensive experimentation. While the new scientific method is more related with the interaction of the external environment.

If until the last century, the idea was to develop something until the point you are pretty sure that it would be well welcomed by the market, the new method cuts the internal development and face the potential customer as soon as possible. This is mainly due to the digital transformation that we are going through

The old method was good in a stable environment like the one without internet, meanwhile the new one is more related to the fact of dealing with a more turbulent and changing environment that a new start up must face

Example
FALSIFIABLE HYPOTHESIS

A lean startup will approach these assumptions with two things in mind:
1. Make these **assumptions testable and tangible**, not abstract.
2. Know **which of your assumptions are the most uncertain**, **and test these risky assumptions first**



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An hypothesis can be divided in **sub-hypothesis**.

In this case the hypothesis is "people will pay to download music to listen to in public", which has been splitted in 3 sub-hypothesis.

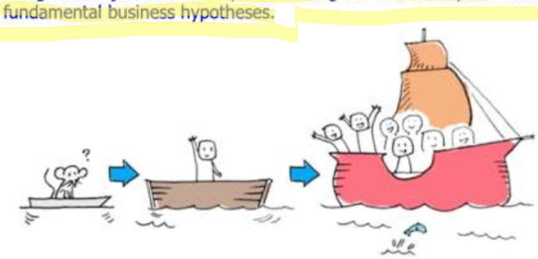
Here some sub-hypothesis have already been tested, so there's no need to test again, because the method is supposed to work with limited resources, thus allowing to reduce tests' cost

To validate A they've implemented the structure of Itunes, which is a store where is possible to buy songs individually

By having some already tested sub-hypothesis it gives us the possibility to reduce the uncertainty related to that part of the main assumption

Focus on Lean Start up
MVP

- **MVP**: Contrary to traditional product development, which usually involves a long, thoughtful incubation period and strives for product perfection, the goal of the MVP is to begin the process of learning, not end it. Unlike a prototype or concept test, an MVP is designed not just to answer product design or technical questions. Its goal is to test fundamental business hypotheses.



MVP: You want to build a huge ship, but instead of building the ship right from the beginning, you start by testing your idea with minimal design to see if it floats.

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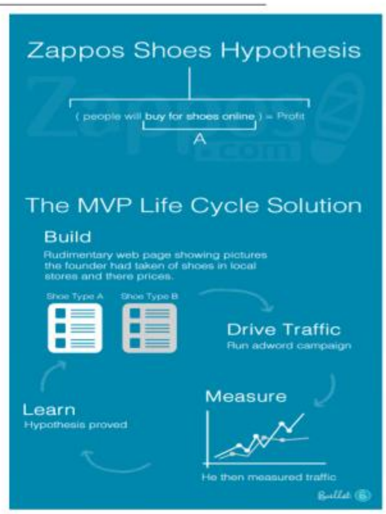
The traditional product development can't work anymore because of the turbolent and fast changing environment. Is not possible anymore to allocate a certain budget to develop a product over a long period of time (for example 5 years), because the environment changes very fast and, once the product will be finished, it will not be adequate anymore.

The new way consists in building the product by steps, with a constant interaction with the market

Example
MVP

"There's a huge difference between what people say and what they do" (Dan Ariely,2008).



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Zappos is like zalando

The MVP is something concrete that to get information about the actions of the customer, rather than the words of the customer, because there's a huge difference, there could be biases. For example, people answer that they do recycle even if they are not, because they are afraid of the society's judgement.

Dropbox MVP

- The founding team was made up of engineers, as the product demanded significant technical expertise to build
- Investors would explain that this "market space" was crowded with existing products, none of them had made very much money, and the problem wasn't a very important one. Drew would ask: "Have you personally tried those other products?" When they would say yes, he'd ask: "Did they work seamlessly for you?" The answer was almost always no.
- *The challenge was that it was impossible to demonstrate the working software in a prototype form.*
- In parallel with their product development efforts, the founders wanted **feedback from customers** about what really mattered to them. In particular, Dropbox needed **to test its leap- of- faith question: if we can provide a superior customer experience, will people give our product a try?**
- They **uploaded a demonstration video** on Hacker news on April 2007
- The **video drove hundreds of thousands of people to the website**. **The beta waiting list went from 5,000 people to 75,000 people literally overnight**.
- Using Lean Startup principles, in just 15 months, Dropbox went form 100,000 registered users to over 4,000,000

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The software behind dropbox is very complex.
How to realize an MVP ?

They posted a video about their idea on a platform where they're potential customers could see it. This is very important because **the feedback should arrive from the potential customer**, and not from a general customer.

Dropbox Lessons learnt

What we learned

- Biggest risk: making something no one wants
- Not launching → painful, but not learning → fatal
- Put something in users hands (doesn't have to be code) and get real feedback ASAP
- Know where your target audience hangs out & speak to them in an authentic way

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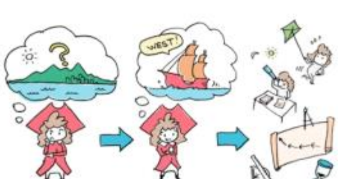
It's really important to offer something that has a demand, by testing the market as soon as possible in order to not dedicate to many resourses into a product that nobody will buy.

Not launching is painful because you don't learn from the external environment

Focus on Lean Start up VALIDATED LEARNING



Validated learning: You believe you'll find a new continent if you keep sailing west. So, you test your idea and verify the route using scientific methods and measurements.

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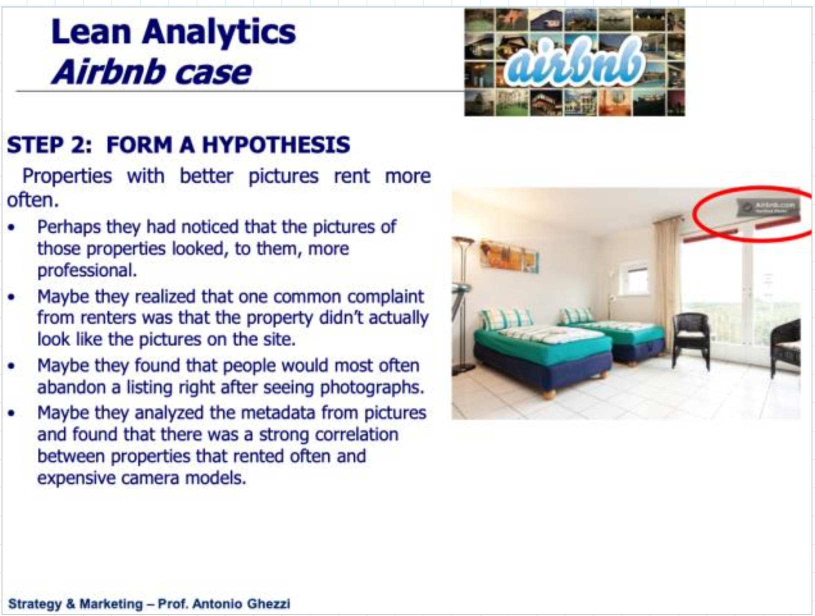
Airbnb is not a start up anymore, because it is a successful listed company. It's a mult-sided platform because it has 2 customers: hosts and guests.

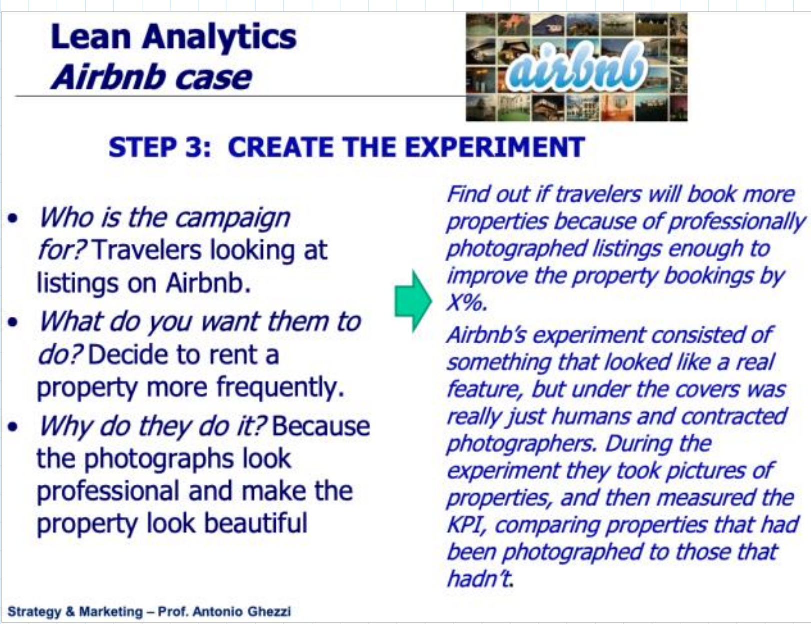


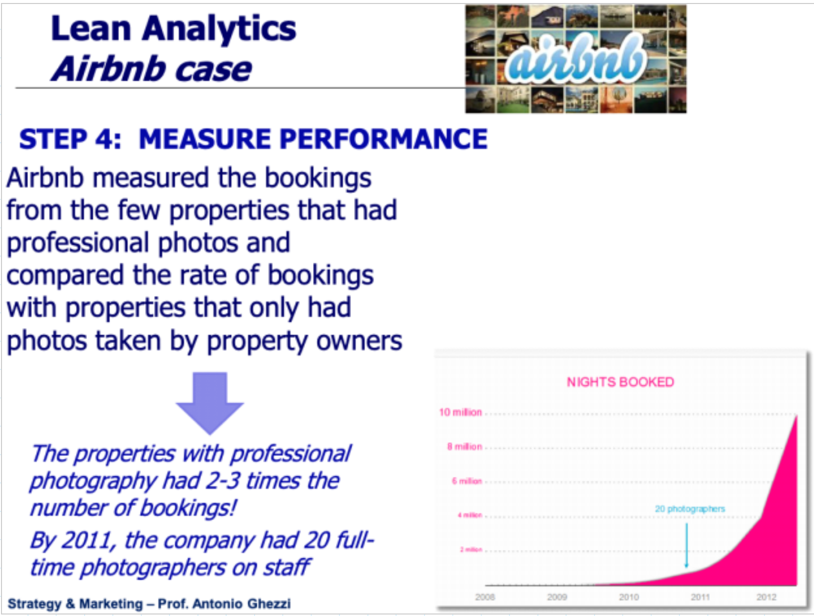
Main assumption: rooms with nice photos will be rented more than the ones without this photo quality

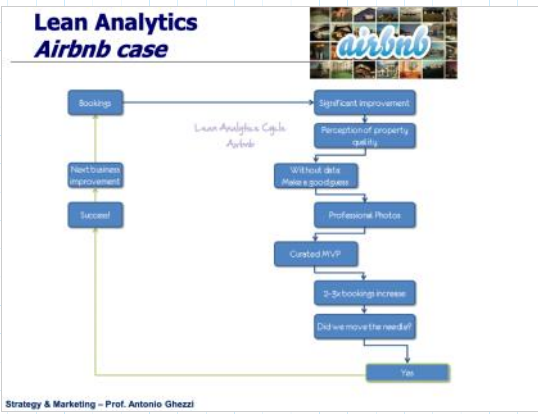
They run an AB test, which consists in giving to the audience 2 different products and see which one performs better.

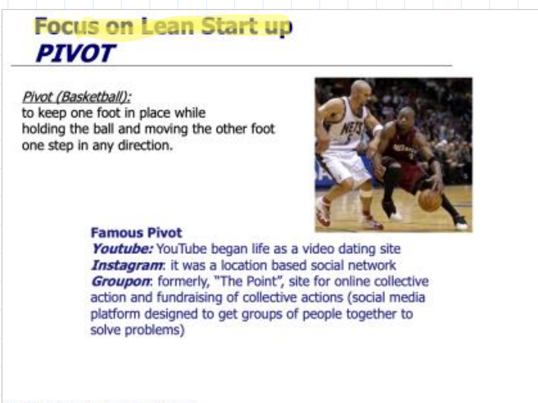
Airbnb gave customers room's photos with 2 different quality, and tried to see which room performed better in terms of booking.

The result was that rooms with high quality photos were booked more than the ones with lower quality



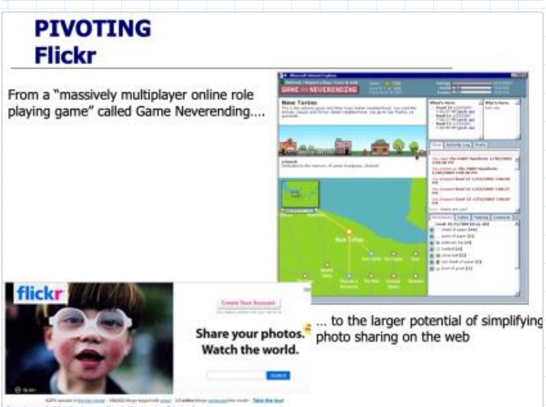






From the Interaction with the market, the company discovers that its idea is not really working as the company first imagined.

For example, youtube, at the beginning, was a video dating site (something similar to tinder). From the fist beta version of youtube, the company discovered that the part of sharing the videos were very welcomed, , while the video dating site not so much. This is the reason behind the youtube that we experience nowdays



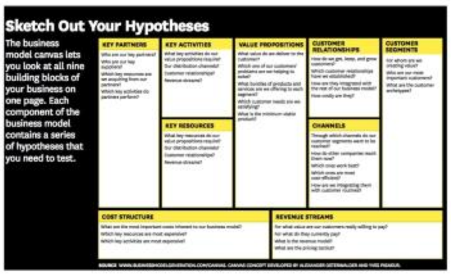
Key principles of lean method (*Steve Blank, 2013 – HBR*)

1. Instead of writing an intricate business plan, summarize their hypotheses in a framework called Business Model Canvas
2. Use a «get out of the building» approach called Customer Development
3. Practice Agile Development

There are 3 key principles of the lean method

1. Once setted the vision, set-up the business model canvas related to the idea. The hypothesis shouldn't be based only on the value propoisition, but is necessary to have also hypothesis related to other parts of the business model canvas

Business Model Canvas



Key principles of the lean method

1. Instead of writing an intricate business plan, summarize their hypotheses in a framework called Business Model Canvas
2. Use a «get out of the building» approach called Customer Development
3. Practice Agile Development

2. Get out of the building is what differs the old scientific method from the new one, which is interacting with the potential customers and learning from them

Listen to customers (1/3)

- SEARCH: Looking for a business model that works
  - If customer feedbacks are negative = wrong hyotheses PIVOTING
  - If customer feedbacks are positive = proven model
- EXECUTION: Building a formal organization

The search part is the one where you need to identify your potential customer, and through an experiment you need to validate this customer. Is the customer willing to pay for our solution ? If yes, go further, otherwise pivot

The execution refers to the scaling of the company: once the customers are defined, it is possible to create the customer base, so scaling the number of customers by means of marketing efforts, then there is the building of the start-up itself.

Listen to customers (2/3): *SEARCH*

1. CUSTOMER DISCOVERY –
   Company ideas are translated into:
   a. *BM Hypothesis*
   b. *Test assumptions on customer needs*
   c. *Creation of a MVP*
2. CUSTOMER VALIDATION –
   Iterative process:
   a. *Test all hypotheses*
   b. *Validate customers' interest through early usage/orders*
   c. *Pivot (change in hypotheses)*

Listen to customers (3/3): *SEARCH*

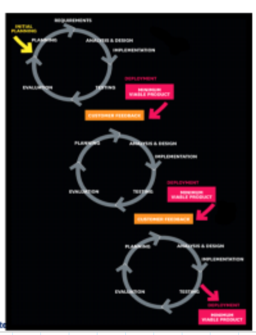
3. CUSTOMER CREATION –
   The product is refined:
   a. *Demand building*
   b. *Marketing & sales spending*
   c. *Scaling up the business*
4. COMPANY BUILDING –
   Business transition from startup mode:
   a. *Customer development team*
   b. *Functional department*

Key principles of lean method

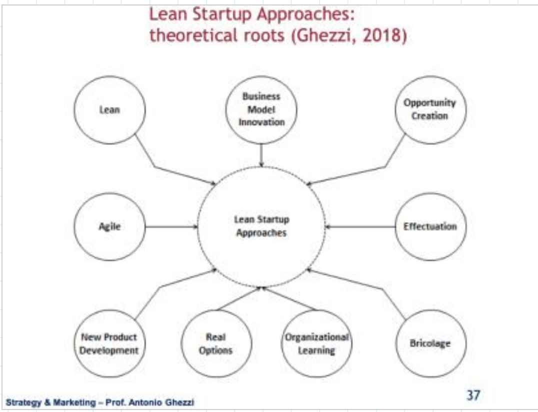
1. Instead of writing an intricate business plan, summarize their hypotheses in a framework called Business Model Canvas
2. Use a «get out of the building» approach called Customer Development
3. Practice Agile Development

3. Continue to test and get the feedback of the market on the company's activities in order to be flexible and make adjustment to the fast changing environment

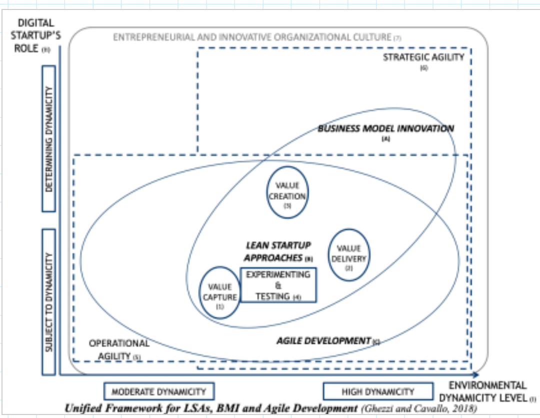
Quick responsive development



*«In contrast to traditional product development in which each stage occurs in linear order and lasts for months, agile development builds product in short, repeated cycles. A start-up produces a **Minimum Viable Product (MVP)** – containing only critical features – gathers feedback on it from customers, and then starts over with a revised MVP»*



- On the left is possible to see the innovation management part
- The central part relates to strategic management and strategic innovation: **business model innovation**, which refers to changing one or more blocks or the way each block interacts with each other respect to the prior BM, **real options** means to invest today in order to reserve the option to have a right to buy the asset previously reserved, **organizational learning** is a stream of research that is divided in 2 main concepts: exploration and exploitation. The first one means to keep looking after solutions from the external environment to learn something, meanwhile exploitation means to stop searching and make use of the learning captured with the firs phase.
- The right part refers to entrepreneurship**: opportunity creation** supports the idea that market opportunities are created by entrepreneurs (there is another school of thought: **opportunity discovery** which supports the idea that opportunities exist by nature, like natural resources and are waiting there to be adressed)**, effectuation** and **bricolage,** which is relateed to the capabilty of the entrepreneurs to combine the resources in different ways to generate additional value



The main message is that experimentation is not only applied to the value proposition (vale creation), but also to the value capture and delivery

Empirical findings: practical guidelines for LSAs adoption (Ghezzi, 2018)

Issue	Practical Guidelines
Type of digital startup	• All startups, including those that are CVC-backed, benefit from adopting and implementing LSAs.
Stage of startup development	• Startups are to adopt LSAs in their early stages of development, while continuously implementing them following Agile principles whenever the context turns out to be uncertain.
Bad choices concerning the provision of LSA-related knowledge	• Startups are to carefully assess and select suppliers for LSAs courses and training sessions. • Startups are to rely on certified and experienced actors – e.g. universities, colleges and research institutions, top-ranked incubators and accelerators.

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Empirical findings: practical guidelines for LSAs adoption (Ghezzi, 2018)

Issue	Practical Guidelines
Formulation of falsifiable hypotheses	• Entrepreneurs must think carefully on how they can accurately formulate falsifiable hypotheses about their startup's business model (a step they often neglect). • Falsifiable hypotheses constitute the operational trigger for the scientific methods embedded in LSAs.
Identification of earlyvangelists	• Entrepreneurs are to properly evaluate who their earlyvangelists and trial users are and where they "hang out", in order to target the right prospects and receive informed feedback. • In B2B settings, evangelists are found among existing business customers by carefully assessing the customers' purchasing processes and identifying the key decision-makers.

Empirical findings: practical guidelines for LSAs adoption (Ghezzi, 2018)

Issue	Practical Guidelines
MVP design	• MVPs are artefacts with these key characteristics: they (i) resemble and embody the business idea; (ii) are actionable; (iii) are measurable through the MVP testing outcomes; and (iv) are less wasteful than prototypes. • MVPs as paid-for products increase the amount of information they carry when tested upon. • MVP design can leverage Feature Development Design (FDD) to provide guidelines on how to identify and design minimum features and run iterations. • In B2B settings, an MVP cannot be too "minimum", as it should incorporate a sufficient number of features at a satisfactory level to compete with existing offers.

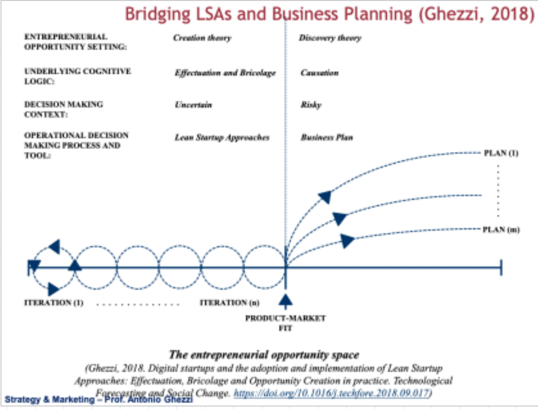
Empirical findings: practical guidelines for LSAs adoption (Ghezzi, 2018)

Issue	Practical Guidelines
Experimenting and testing	• Experiments are to be MVP-based, which in turn means they are BM-based. • Digital products and services can be run through Scrum sprint cycles, to control for time and budget. • Entrepreneurs are to radically rethink their views on IP protection, embracing openness and collaboration through fast experimenting and learning.
Business Model validation and pivoting	• Startups are to experiment and test on all elements of their business models, not just their value proposition (product, service, solution, bundle). • Executing a go-to-market strategy often requires more testing than the value proposition itself.

Empirical findings: practical guidelines for LSAs adoption (Ghezzi, 2018)

Issue	Practical Guidelines
LSA broad adoption and implementation process	• Entrepreneurs are to adopt LSAs comprehensively, rather than cherry-picking the steps and elements they perceive as most useful. • Entrepreneurs are to go beyond heuristics and apply a scientific method by means of the LSAs. • **Entrepreneurs are to integrate LSAs with business planning, thus altering Blank's motto to: "*before* writing a business plan, design a business model and apply LSAs".** • Entrepreneurs are not to overlook the process of strategy formulation and strategy analysis which can inform the formulation of falsifiable hypotheses and design of a preliminary business model.

2 different activities in series and not alternatives



The LSA is iterative: at the beginning there are multiple cycles through which there is the interaction with the customers, get the feedback, and learn until the product market fit is reached. Once the fit is reache, the company has to go through the business plan

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SM-Lecture 23-Busine...

16/12/21

The focus will be on the first 20 slides

POLITECNICO DI MILANO

Business Plan

is sth that venture capital evaluates

Politecnico di Milano

The business plan needs to be done after the lean start up approach

Business Plan - Index

POLITECNICO DI MILANO

Index

1. Introduction: objectives, tools, targets
2. Sections
3. Case Studies

2

Business Plan - Introduction

POLITECNICO DI MILANO

is equal to strategic plan of a established company

Business Plan: what

A written document that describes in detail how a new business is going to achieve its goals.

A business plan will lay out a written plan from a marketing, financial and operational viewpoint.

The business plan is a document in which it's represented the **entrepreneurial idea, which starts from the problem to solve or to mitigate**

Marketing doesn't create the need, just discovers it

The **ability of the entrepreneur is also to spot the need and to build a company around it.**

In the business plan is important to write down the **addressed need, and its relevance it's very important because it helps in being financed by the investors**.

marketing, financial and operational viewpoint.

The business plan is a tool to understand the present, make hypothesis about the future, plan the activities, coordinate people, and control costs and cash flows.

3

financed by the investors.

The next thing is to write how to address the need by means of the **product or service**. **Technical characteristics** also need to be included.

Then you also need to specify **the strategic and marketing plan**.

Remember that **the business plan takes the perspective of the entrepreneur that wants to convince someone to invest in its idea. So vision, mission and objectives must be present**

Other information to provide is related to the organization of the start up, so operations and hierarchical structure, finance and cash flow

Business Plan - Introduction

POLITECNICO DI MILANO

Business Plan: when

Established Company	Startup
Launching a new project, new product, opening a new market, a new branch	At launch
Re-Think	Think

Business plan is not just to plan new activities, but to control the ongoing business.

It is not done once for all, but must be kept updated, to verify how things have gone, and how far from forecast.

It is a difficult exercise, because it is both a program of future activities, and a forecast of the future itself, about variables that no one can control (the market, the customer' preferences, future technology developments, etc.)

4

The business plan is not only for start ups. In an established company the business plan has another name, usually called the industrial plan for the following years.

In the last case the company **doesn't need to convince investors, but to communicate to the stakeholders**. It has a **different target than the start up one**

Business Plan - Introduction

POLITECNICO DI MILANO

Business Plan: how

stablished companies can highly rely on market research to draft the strategic plan,because market research is forcasting based on historical data.

but this is less suitable for startups and you should actually do experiment,doing some interaction with customers to unveil their attention.

in startup we are addressing a hidden need and so you cant use marketing reserch for projection of market size

There are more established tools to guide the activities of a company, and the business plan it this type of tools. the risk of prediction is lower,more organized and more simple,cause they have reference point but is not the case for startup

These are surely the best in very stable environments, with consolidated business, and stable conditions, with known clients, products, and processes.

For startups, new tools have been developed, which consider the startup as a temporary organization still in search of a viable and stable business model, and that don't have a clear idea of what are the products, the clients, and the processes for the future.

For them, Steven Blank and Eric Ries have conceived a method, known as Lean Startup or Lean LaunchPad, that has the mission to guide the decisions, the approach, and the activities of a startup during this first phase.

It is questionable, whether even established companies for new projects in unstable markets could gain an advantage in adopting LLP methodology.

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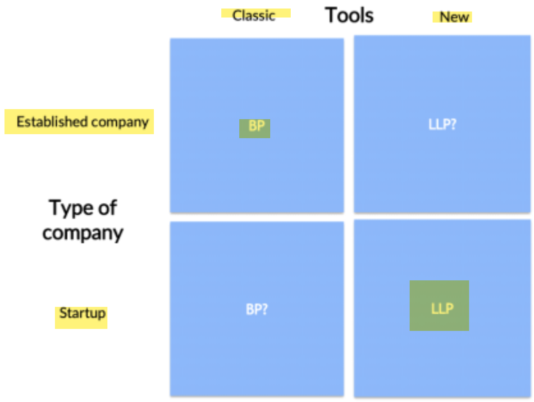
Business Plan - Introduction

Business Plan: tools to plan activities



6

For an established company the classic tool to realize the business model is the traditional business plan, because usually it has historical data to leverage, which doesn't coincide with market data, but sales and allocation of the workers on different projects

Start ups instead use the lean start up approach because they do not have historical data

Business Plan - Introduction

businessplan is the first touch point with the investor

Business Plan: Who (targets)

Everyone who is responsible of an organization should know the structure, the function and how to create/evaluate a business plan.

Specifically:

- (most of) The Stakeholders of a new or established company:
  - •Shareholders (Investors, Founder)
  - •Executive Board
  - •Management team
  - •Workers?

•And .... yourself

7

The target of the business plan is widespread, multiple issues can be addressed and reach, through these sections, different targets.

The document it's divided into a strategic level and operational level. The first one addresses the shareholders and the executive board. The second one interests the workers and the management team and is related to how things will be done

The business plan **is also addressed to the customers so they can acknowledge how things are done and when the product/service will be available in the future**.

Business Plan - Introduction

for startups the time horizon of a business plan is shorter

Business Plan: why (objectives)

Planning

- Evaluate an investment opportunity
- Evaluate feasibility / profitability
- Find resources and funds
- Assess Risks and Opportunities
- Control

Communication

- Internal: executives, management team, workforce.
- External: shareholders and other stakeholders (e.g. government, institutions) etc.

8

Business Plan - Introduction

12 Steps for a Successful Business Plan

1. Define your value proposition and the core business activity
2. Define the current status of the business
3. Identify your competitors, and define your market positioning
4. Define your objectives for the period of the plan
5. Develop a strategy to achieve the objectives
6. Identify risks and opportunities
7. Develop a strategy to reduce risks and exploit opportunities
8. Refine the strategies into working plans
9. Project costs and revenues and develop a financial plan
10. Document it concisely
11. Get it approved
12. Use it

9

These are guidelines, not scientific knowledge

Business Plan - Introduction

Practical Tips

1. Tell a story! start from the need of the market and specify how you are going to address this market need
2. Be concise (no more than 20-40 pages)
3. Document and support with references your affirmation
4. People (team) is as important as numbers!
5. Use a nice and ordered layout (nr. of pages, formatting, etc.)
6. Use a solid structure, e.g.: premises, body, conclusion
7. ...add your own! personal touch

10

Business Plan - Data

Types and Sources of Data

Very important

When you add data, be sure to indicate what is the source of information. Basically, you have three types of data:

1. Your historical data → if you have historical data, that's the best!
2. Market data → cite the source
3. Your assumptions → if you don't have data, make and motivate your assumptions (don't be shy, it is reasonable)
4. Results of Lean Startup test (validated learning) → the business plan follows and leverages the lean startup approaches

If you are not sure, use journalistic ways of saying, like: "Commentators say that, ..." ; "Industry sources indicates ...", etc.

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Business Plan - Sections

2. Business Plan Sections

Business Plan – Main Sections

Main sections of a business plan

1. Executive Summary
2. Product / Service
3. Strategic Plan
4. Marketing Plan
5. Operating Plan
6. Economic and Financial Plan
7. Risk Analysis

the summary is not the introduction, but a summary of all the work

Business Plan - Sections

All the sections are connected!

All the sections are linked together and the choices done in one have consequences in the others.

Every section has an impact on other sections. A choice in strategy impact production, organization, etc.

E.g.: if you establish that your strategy to enter a new market is to offer a niche product, this choice impacts production, positioning, communication, distribution, pricing, etc.

Business Plan - Sections

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Business objectives and local goals

The business objectives are introduced and explained in the strategy section (i.e. Strategic Plan). They form the red line keeping together the whole plan.

more functional goals

On the other hand, every section has a local objective/goals, consistent with the overall ones, while answering to specific questions or choices, regarding, for examples decisions about manufacturing, organization, communication, funding, etc.

15

Very similar to the difference between startegy and tactic. The first one is more of a general objective, while the tactic referes to the concrete actions to do in the short term

Business Plan - Sections

POLITECNICO DI MILANO

The process is not linear: iteration!

Business Planning is an iterative process rather than linear: every section can impact the following ones and the previous ones.

E.g.: while building the financial plan, you realize that your business can't be sustainable. Thus, you might have to reconsider the product itself, the strategic plan, or marketing plan, manufacturing and operational plan, etc.

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Business Plan - Sections

POLITECNICO DI MILANO

A comprehensive vision

Creating a business plan is complex activity, as it has the objective to offer a comprehensive vision of an entire business, project, or even an entire company.

The business planner has understand peculiarities and problems at different levels of a business: from strategy to operation, from marketing to organization, from financial projections to risk analysis.

Business planner should be also able to engage/attract the audience.

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to estimate:

Sales, Operating Costs, Investments

Business Plan - Sections

in marketing you use marketing tools,in the strategy you use strategic tools

A wide set of managerial tools

Every section has its own characteristics and also a set of managerial tools that may support the business planner.

These tools are basically frameworks to organize data and information and to clarify - first to our self then for the reader - the plan in each section.

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Business Plan - Sections

The relations among sections

1. Executive Summary: Synopsis of the whole plan;
2. Products & Services (Value Proposition): presentation of main features and characteristics;
3. Strategic Plan: set strategic objectives; design of the competitive environment;
4. Marketing Plan: translate strategic Objectives into Marketing Objectives and Plan;
5. Operating Plan: translate strategic objectives into a series of actions and activities;
6. Financial Plan: measure sales, costs, cash flow related with the activities performed;
7. Risk Analysis: assess the risk of the venture.

exam till here

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Business Plan - Sections

Iterative Process!

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Business Plan - Sections

Cover

Before analyzing the sections, consider to add some basic information on the cover, to add reference and to keep track of your copies. Here below an example.

Name of the company →	**Wardroba Srl**
Website (if relevant) →	http://wardroba.com
Title: business plan →	**Business Plan**
Date & Place →	Milano, March 2015
Confidential →	01 Personal and Confidential
Nr. version & nr. of copy →	Version nr. EN-01

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Business Plan - Sections

2. Business Plan Sections

Chapter 1: Executive Summary

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Business Plan – Executive Summary

Executive Summary

The Executive Summary is a synopsis of the whole business plan: it contains fundamental information discussed deeper in each section.
It's a way to give in few pages (2-3 maximum) an overview of the venture. Interested readers will go deeper reading following sections.

Main topics are:

- **Company Introduction**: present the company, date of foundation, state of art, stage in the history of the company, seats, plants, type of ownership, governance, etc.
- **Business idea**: shortly, describe the value proposition, how you intend to deliver this value, why and to whom.
- **Market Opportunity**: describe what are the opportunities and the characteristics of the market in term of attractiveness

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Business Plan - Executive Summary

Executive Summary

• **Expected Results**: describe what are the main objectives / results and relative timing.

• **Resources, competences**: describe main resources, competences, skills the company can rely on.

• **Main activities**: describe the core activities to reach the objectives.

• **Economics**: introduce main economic and financial data

• **Objective of the business plan**: introduce the following sections of the business plan, clarifying what is the objective of the whole document

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Business Plan - Executive Summary

Executive Summary

• **Goals**
Introducing the reader to the business, offering first elements to assess whether the venture is interesting or not.

• **Premises**
All the other sections of the business plan. This is the last section developed (but the first read by the target)

• **Following**
None (it is the opening section in the business plan)

• **Tools**
None (it is just a synopsis of all the other sections)

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Business Plan – Executive Summary

Executive Summary

The Executive Summary is a plan in miniature, it is not an introduction. It should capture in no more than one or two pages most important points of the whole plan. You have to encourage your audience to go ahead and read the whole document. At the same time, it has to present honestly the business.

Information to include

- Start with the objective
- Management Team (key people to make the business to succeed)
- Products or services (why are they special?)
- Market (what's your niche? What are your unique factors?)
- Assets, strengths, advantages, and competences
- Strategy to succeed
- Key Financial Data
- Funding required and its use

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Business Plan – Executive Summary

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Executive Summary: some tips

State clearly and concisely (pieces of a business model)

- Your Value Proposition
- What's the Business Opportunity and the KSF of the Market
- What's your solution and why it's different from others
- What's your target and your positioning
- What's your price
- What are your revenue streams
- Key Activities
- Key Partners
- Channels
- Customer Relationships
- Structure of costs

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Business Plan – Executive Summary

POLITECNICO DI MILANO

Topics to Include

- Company stage of life, past results, and perspectives
- Value Proposition
- Customer Problem
- The solution
- Business Model
- Target Market
- Competition and competitive advantage
- Strategy
- Marketing activities
- Management Team and Organization
- Economics

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Business Plan – Executive Summary

POLITECNICO DI MILANO

Business Model Canvas

Very relevant if your business model is not immediate.

What's a business model?

"A business model describes the rationale of how an organization creates, delivers, and captures value"

Alex Osterwalder, Yves Pigneur "Business Model Generation"

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Business Plan – Products and Services

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2. Business Plan Sections

Chapter 2: Products & Services

Business Plan – Products & Services

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Products & Services: description

In this section, the reader is introduced to the products and/or services offered by the company. The description not only from a physical or technical point of view, but in term of the value for the client.

- Physical / Technical Description (Features, Values for clients)
- Types of usage
- Product Positioning Map
  - Cost
  - Quality
  - Features
  - Values
  - Service
  - Image
- Product lifecycle stage

Business Plan – Products & Services

POLITECNICO DI MILANO

Products & Services

- **Goals**

Presenting products/services main features, characteristics, physical and technical description, advantages for users, plus, etc.

- **Premises**

Market & Product Fit; market opportunity, business opportunity, disruptive technology, untapped need, etc.

- **Following**

Go-to-market strategy; operating marketing; operation (production, localization, channels, delivery, etc.)

- **Tools**

Photos, drawings, models, technical description, product lifecycle and product positioning maps, etc.

Business Plan – Products & Services

Products & Services: practical tips

- Be very detailed if you are a startup or if your product is totally new, or it is a complex portfolio of products
- Start with one-paragraph summary, then repeat in more detail
- List all your products and services
- Highlight the importance of each of them
- Add pictures, sketches, diagrams, and any type of documents that can substitute the physical contact
- If it is something that people must use, describe how does it work (without getting too technical)

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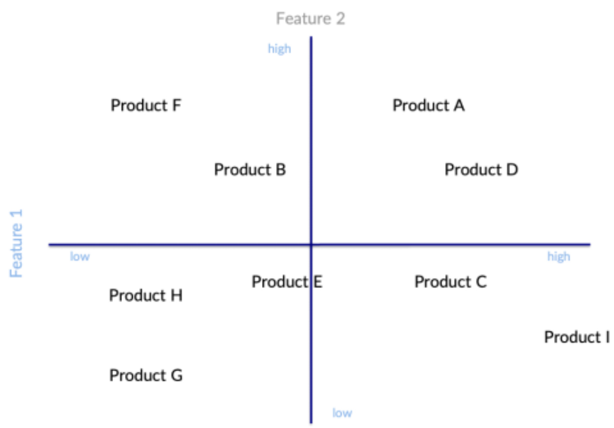
Business Plan – Products & Services

Product Positioning Map



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Business Plan - Products & Services

Example: digital platform

- Describe the platform: its purpose and its main functionalities
- Describe the technological infrastructure (database, systems in use, style of the implementation, etc.)
- Define main components
- State clearly what you have already implemented and is online, what is going to be published, what you are developing, and what are future functionalities and improvements
- Include screenshot, sketches, etc.

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2. Business Plan Sections

Chapter 3: Strategic Plan

Strategic Plan – the core of the plan

The strategic plan is the core of the whole business plan. It is the starting point to assess the competitive environment and to weight opportunities and risk. Through this analysis, a company define the value proposition and the unique positioning, with the objective to set a competitive advantage. In order to reach this competitive advantage, a strategy is defined, or the unique interconnection of choices and activities (what to do and what not to do) that make a company different from the other.
The strategy has a direct consequences on the activities and organization, and thus on the operating plan, and on the financial plan.

The strategy is not defined once for all. It is common that something in the operating or financial plans is considered as not feasible, and thus there is the need to refine and update the strategy, then operations, etc.

Strategic Plan – main sections

The strategic plan is divided into 3 main sections

- Values, Vision, Mission, Objectives
- Strategic Analysis (Internal vs External)
- Strategy

Business Plan – Strategic Plan

Values, Vision, Mission, Objectives

Values: in what you believe
Vision: where your target market or industry will evolve long term
Mission: how to reach the ideal stated in the vision
Objectives: results aligned with Values-Vision-Mission; S.M.A.R.T. objectives: Specific – Measurable – Attainable – Realistic – Time-related

This part of the business plan represent the culture and the belief of the company, where it sees itself in the future and how to arrive there; in order to measure progress, it defines corporate objectives.

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Business Plan – Strategic Plan

Values, Vision, Mission, Objectives

• Goals
Presenting the culture and the long term goals of the company

• Premises
None

• Following
Strategy, Organization, Role of innovation & R&D, HRM, Recruiting Style, Markets, Products, etc.

• Tools
Corporate culture

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Business Plan – Strategic Plan

10 Common Central Objectives

The business objectives are different for every company and they reflect the culture and the history of the founders, and the people working there.
Here below, a list of the most common categories of central objectives:

1. Maximizing shareholders value
2. Maximizing profitability
3. Maximizing dividends pay-out
4. Maximizing market share
5. Maximizing total assets
6. Minimizing risks
7. Positioning the company as a takeover target
8. Building an empire (nr. of employees, seats, markets, etc.)
9. Stability and growth
10. Maximizing some altruistic vision (CSR)

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Business Plan – Strategic Plan

The objective of Strategic Analysis

As stated earlier, the strategy is the core of the whole plan, and the role in the business plan is to keep together all the pieces. Every activity should be a consequence of the strategy chosen, and the objectives set.

The following list contains a series of questions the strategic analysis should answer.

- Identify opportunities in the market and in the society
- Identify threats in the market and in the society
- Identify the type of competition in the industry
- Assess company's competences, skills, resources
- Assess Key Success Factor (KSF) in the market
- Verify whether KSF matches company's competences, skills, resources
- Identify the possible sources of competitive advantage

Business Plan - Strategic Plan

Strategic Analysis

External Analysis	Internal Analysis
The Social and Economic Context	Values, Vision, Mission
The Industry	Competences and Resources
The Competition	Competitive Advantage

S.W.O.T. Analysis

The strategic analysis describes the environment and the characteristics of the company that can influence the establishment of a long lasting competitive advantages

Business Plan - Strategic Plan

Sources of competitive advantage

The strategic analysis must identify the sources of possible competitive advantages in the scope market, like (for a cost-based advantage):

- Economies of Scale → reduce average cost introducing a new unit of output
- Economies of Scope → reduce average cost introducing a new product
- Economies of Learning → becoming a true specialist
- Production Capacity Saturation
- Localization
- Distribution Channel Access
- Other Factors (regulations: depressed area incentives, etc.

12 Sources of Competitive Advantage

In your plan, it is fundamental to identify the real source of lasting and defendable competitive advantage, like the following 12:

1. Strong research and development capabilities
2. Access to intellectual property – trade names, trade secrets, patents,
3. Exclusive re-selling or distribution rights
4. Ownership of capital equipment
5. Superior product and or customer support
6. Low –cost production
7. Other economies of scale
8. Marketing skills related to specific customer types, market segments, channels, etc.
9. Access to working capital
10. Other excellence in management
11. Barriers to entry

Strategic Plan: Strategic Analysis

• Goals
Identify threats and opportunities in the market; identify Strengths and Weaknesses; define the structure of the industry and market in terms of intensity of rivalry and presence of extra profits; the type of competition; the Key Success Factor in the market; the core competences of the company; the sources of competitive advantage;

• Premises
Corporate Culture, Vision, Mission, etc.

• Following
Strategy

• Tools
P.E.S.T. Analysis; Porter 5 Forces; KSF; Porter's Value Chain, Competitive Analysis Maps, SWOT Analysis

Strategic Analysis: examples of insights

Through strategic analysis you should be able to identify the main reasons why some industries show average ROE than others

Industry	ROE (average)	Main competitors
Pharma	21%	Pfizer, J&J, Merck
Oil&Gas	20%	ExxonMobil, Chevron,ConocoPhillips
Software	14%	Microsoft, Oracle
Entertainment	2,7%	Time Warner, Walt Disney, News Corps

Business Plan - Strategic Plan

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Strategic Analysis: examples of insights

Through strategic analysis you should be able to understand why some industries tend to be monopolies while some others tend to have perfect competition.

	Perfect Competition	Oligopoly	Duopoly	Monopoly
Concentration	Low	High - Very High		Extreme
Barriers	No barriers	Medium-High Barriers		Very high Barriers
Product Differentiation	Commodity	Products differentiation (option)		
Information Flow	No obstacle to information flow	Not perfect information flow		

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Business Plan – Strategic Plan

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Strategic Plan: Strategy

1. Strategy is the creation of a unique and valuable position, involving a different set of activities. Basically, it can derive from three sources:

   - serving few needs of many customers
   - serving broad needs of few customers
   - serving broad needs of many customers in a narrow market
   - creating new needs ?

2. Strategy requires you to make trade-offs in competing: to choose what not to do

3. Strategy involves creating fit among company's activities (the ways in which the activities interact)

(What is Strategy - Michael Porter, HBR 2000)

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Business Plan – Strategic Plan

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Strategic Plan: Strategy

- Goals

Identify the positioning and the unique succession and combination of activities to reach a sustainable and long-lasting competitive advantage

- Premises

Strategic Analysis

- Following

Operations

- Tools

Function by function strategy

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Business Plan – Strategic Plan

Strategic Plan: Strategy

The strategy impacts every function and activity, so you must have strategic recommendations in every business unit or function (operational or functional level of strategy):

- Competitive Strategy
- Organization Strategy
- Production Strategy
- Financial and Economic Strategy
- Communication Strategy

As stated earlier, the strategy is the unique set of activities, and the unique ways in which they are related that make every company different from the other.
The goal of the strategy is to reach the strategic objectives and to guide the definition of the products/services' features, marketing positioning and activities, and finally activities in each function or business unit.

The strategy is reflected in the way companies source, produce, organize people, go to market, communicate, define prices, manage financial sources, and invest.

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Business Plan – Strategic Plan

7 Criteria to Evaluate a Strategy

1. ROI – Return on investment
2. Risk of loosing the investment
3. Ownership and control
4. Potential for growth
5. Stability of employment and earnings
6. Prestige
7. Social Responsibility

The strategy can be valued from different points of view that depend on the business objectives and the market conditions.

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Business Plan – Strategic Plan

Strategic Plan

- **Goals**

Identify positioning and sources of competitive advantage in the business environment; identify the strategy and the strategic objectives to guide marketing and operations

- **Premises**

Business Opportunity, Market Need, Innovation, Technology

- **Following**

Marketing Plan, Operating Plan

- **Tools**

P.E.S.T. Analysis; Porter 5 Forces; KSF; Porter's Value Chain, Competitive Analysis Maps, SWOT Analysis

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Business Plan – Marketing Plan

2. Business Plan Sections

Chapter 4: Marketing Plan

Business Plan – Marketing Plan

Marketing Plan

The marketing plan has the objective to analyze in detail the market and the competition, and to define a unique positioning of the company or its products in each of targeted segments.

Once defined Positioning and Targets, the marketing plan has the role to enact this program and to define the tangible elements (products, price, channels, points of sale, people, communication, and all the other aspects related with the go to market and the relationship with clients, partners, and competitors).

Business Plan – Marketing Plan

Marketing Plan: 3 Steps

Business Plan – Marketing Plan

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1. Product

- Physical / Technical Description (Features, Values for clients)
- Types of usage
- Product Positioning Map
  - Cost
  - Quality
  - Features
  - Values
  - Service
  - Image
- Product lifecycle stage

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Business Plan – Marketing Plan

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2. Price

How to determine your product's price

Definition of price (in a wider sense: not only monetary cost)

$$p = \frac{TotalCostforClient}{Benefits}$$

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Business Plan – Marketing Plan

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3. Place/Channels / Points of Sale

- Sales channels
- Distribution channels
- Commercial effort

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Business Plan – Marketing Plan

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4. Promotion

- Discounts, Sales, Special Offers
- Merchandising
- Events, …

In this part of the plan, there is the description of the choices and the activities to promote the products.

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Business Plan – Marketing Plan

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5. Communication

- Outbound Marketing (Adv, Press Campaigns)
- Inbound Marketing (Social Media, Newsletters, Website, SEO, SEM, …)

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Business Plan – Operating Plan

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2. Business Plan Sections

Chapter 5: Operating Plan

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Business Plan – Operating Plan

Operating Plan: where we come from

The operating plan introduces the second part of the document. Let's remind what we have done so far.

- Product
- Strategy
- Marketing

Business Plan – Operating Plan

Operating Plan: what we do now

The operating plan introduces the second part of the document.

Having a clear idea on what are:

- the main characteristics of the market
- the strategic objectives to create a competitive advantage
- the target
- the features of the products/services that create a value for the target
- the tangible elements of the offer (price, product, ...) to generate value for final users and clients

Now, we have to organize things. We have to define the plan of the activities, in order to reach the strategic objectives set earlier.

The **operating plan** is the translation of the strategic plan into a set of activities.

Our operating plan has to consider the various elements of the organization.

Business Plan – Operating Plan

Operating Plan

9 steps to create a winning operating plan

1. Break the project into the smallest possible components and activities
2. Identify linkages and critical paths (critical path is the longest path)
3. Order the activities with the critical and higher risk and schedule them as early as possible
4. Set measurable targets for each activity
5. Assign responsibilities
6. Set up a mechanism for tracking the reporting on each target
7. Establish a culture that encourages problem reporting
8. Execute the plan
9. Act immediately if a target is missed or a problem report is generated

Business Plan – Operating Plan

Operating Plan: example

Supporting Activities: ICT, Legal, Fiscal, HRM

- Determine how and who will perform all the supporting activities
- Consider activities divided into main functions
- Define list of activities in each function
- Establish an owner of the function
- Divide and coordinate
- Establish procedures

Business Plan – Financial Statements

2. Business Plan Sections

Chapter 6: Financial Statements

Business Plan – Financial Statements

This is the quantitative section of the business plan.
It's the section in which figures are put on paper and you can discover whether the strategy is executable, and if the activities are correctly organized.

The fundamental goals of the financial statement sections are:

- forecast sales
- forecast and control costs
- forecast cash flows
- valuate the return of the investment

- Through sales and costs, you can tell whether the business is profitable
- Through cash flows you manage the cash generated or burnt during the activities. This is fundamental to assess the financial needs and to control that the business has cash to operate throughout the activities
- Through the valuation of the return of the investment, you can assess whether the investments make sense or not

This section is fundamental for a potential investor and for the chief of the venture.
Here you can discover that the plans defined earlier are not sustainable from an economic or financial point of view. You could also discover that the return of the investment is not enough to justify the effort.

Business Plan – Financial Statements

About

We can divide the type of information we deal with in this sections into 3 groups. Each group has 3 subspecies of information.

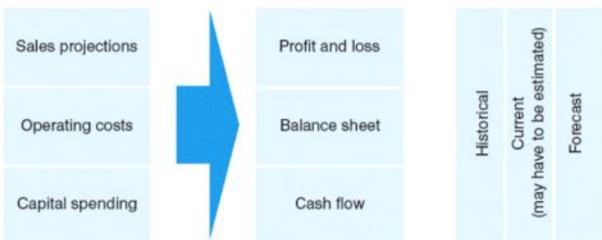
3 Types of Voices
Sales forecast
Operational Costs = costs to be sustained to perform activities
Capital Spending or the investment to set up the activities

3 Financial Statements
Profit and Loss – economic perspective → is your business profitable?
Balance Sheet – asset perspective → to whom do you own money?
Cash Flow – financial perspective → is the business financially sustainable?

3 Time Periods
Historical: what's done in the past; previous years performances
Current: what is the current state of the business (now and next few months)
Forecast the future: what we expect from the future

Business Plan – Financial Statements

Financial Plan



Business Plan – Financial Statements

Step 1: Sales Forecast

1. Describe the logic underlying the forecast
2. Show historical proofs of your method
3. Introduce the assumptions made
4. Develop your forecast
5. Explain how you changed it taking into account trends
6. Show sales forecast
7. Show costs forecast and thus the gross profit
8. Include a summary
9. Explain the key risks and possible alternative scenarios
10. Keep it simple

Step 2: Costs and Investments

1. Define your **capital investment** (spending on assets with a life of more than 1 year)
2. Define **current consumption** (current spending divided into functional areas, like R&D, marketing, sales, etc.).
3. Put everything in the **Profit & Loss** Account

Step 2: Costs

Cost classification

1. Variable vs. Fixed Costs
2. Committed Costs (fixed) vs. Discretionary Costs (fixed)
3. Semi-variable Costs
4. Mixed Costs

Step 2: Cost of Goods Sold

Once found sales, it's time to measure the cost of goods sold.

- The first cost to measure is the Cost of Goods Sold
- Subtracting COGS from Sales, you obtain Gross Profit
- Gross Profit measure how efficient the production is

Sales – COGS = Gross Profit

Step 2: Different Types of Cost of Sales

The direct cost of what you sell in an accounting period

1. For a *re-seller*: the price paid to acquire the goods to be re-sold

1. For a *manufacturer*: the cost of raw materials and other supplies to produce the goods, plus wages of workers directly employed in building up the product, and the factory overheads, such as factory light and energy, etc.

1. For a *software company*: one-hundredth of the original R&D cost for each unit sold

Step 2: Operating Costs and Depreciation

1. Draw up a list of capital spending
2. Determine the period and the method of depreciation
3. Draw up a depreciation method
4. Develop a detailed capital spending forecast
5. Divide current spending into functional areas
6. Divide functional areas into employees and other costs
7. Divide employees and other costs into expenditure headings
8. Work through expenditure headings forecasting
9. Bring depreciation into appropriate expenditure headings
10. Combine figures to arrive to net profit

Step 2: Depreciation, Amortization, Depletion

- Depreciation: physical assets
- Amortization: intangible assets
- Depletion: natural resources

Example

Machinery	→ acquisition cost € 100,000
Useful life	→ 10 years
Yearly depreciation cost	→ € 10,000

Business Plan - Financial Statements

Step 3: Profit and Loss

1. Put revenues, costs, and investments in the **Profit & Loss** Account
2. Do it and compare past, current, and future P&L
3. Check whether the business is profitable

In particular, ask yourself whether you make profit and are good in:

- Producing the output through Gross Margin
- Managing current activities through EBITDA
- Exploiting investment in fixed assets through EBIT
- Financing the venture through EBT
- Manage taxation through Net Profit

Every business has specific characteristics. To compare performances in different industries, the most widely used indicator is EBITDA, which is not affected by decision regarding investments and fixed assets, funding and tax decisions.

Business Plan - Financial Statements

Profit & Loss Statement

Revenues
- Cost of Goods Sold (direct labor and raw material)
= Gross Margin

- Operative Costs
  - Marketing costs
  - Sales
  - Administration / Legal / etc
- Cost of indirect labor
= EBITDA
- Yearly depreciation
= EBIT

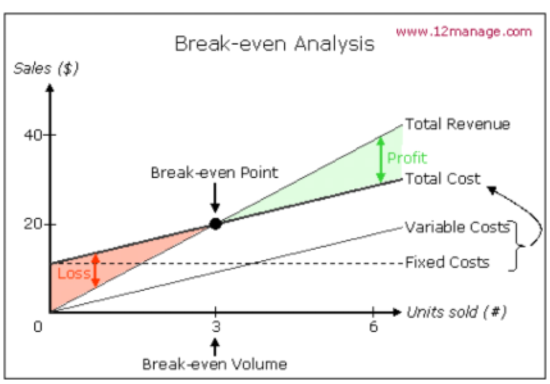
- Interests

- Taxes

= Net Profit

Business Plan - Financial Statements

Break-even Analysis



Business Plan - Index

Balance Sheet

The balance sheet can tell an analyst a lot of things regarding the company. It is especially important to assess what are the assets owned by the company and to whom the company owes money.
Through a series of indexes, you can answer many other questions, including the risk, the type of capital structure, the exploitation of the assets, etc.

Current assets Cash Inventory/stock Accounts receivable Other (prepaid expenses, deposits paid ...)	**Current liabilities** Short-term loans Maturing long-term loans Accounts payable Other (accrued expenses, taxes due ...) **Non-current liabilities** Long-term loans and other borrowing Pension fund
Non-current assets Investments Fixed assets (plant, machinery ...) Natural resources Intangible assets (patents, goodwill ...)	**Owners' equity** Paid-in share capital Retained earnings

Business Plan – Financial Statements

Cash Flow Statement

Cash Flow is fundamental, as it shows the flows (in and out) of cash

A company goes to bankruptcy when finishes its cash, not when the profit is negative

You can create your cash flow statement from EBIT

EBIT
- CAPEX (Capital Investments)
- Taxes
- Investment Outlays
+ Depreciation/Amortization costs
- Δ Working Capital*
= FCFF (Free Cash Flow to Firm)

* Working Capital = Accounts Receivable + Inventory – Accounts Payable

Business Plan – Financial Statements

Cash Flow Statement

Cash flow, first six months
Dollars

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
Net profit	-42 217	-60 627	-57 622	-37 430	-49 518	-36 768
Adjustments for changes in:						
Cash at bank	-1 000	0	0	0	0	0
Accounts receivable	0	-20 000	20 000	-40 000	40 000	-50 000
Deposits paid	-2 000	0	0	0	0	0
Prepayments (rents)	-11 000	1 000	1 000	1 000	1 000	1 000
Inventory	0	-15 000	-25 000	22 500	-25 000	30 000
Fixed assets	-36 500	-1 500	-750	-1 000	0	0
Depreciation	0	1 389	1 431	1 443	1 471	1 471
Accounts payable - hardware	0	10 000	-10 000	22 500	-22 500	30 000
Accounts payable - software	0	3 591	0	4 683	0	3 979
Accrued pensions	417	417	417	417	417	417
Equity	1 000	0	0	0	0	0
Cash flow	**-91 300**	**-80 731**	**-70 525**	**-25 887**	**-54 130**	**-19 902**
Cumulative cash flow	-91 300	-172 031	-242 556	-268 443	-322 573	-342 475

Business Plan – Financial Statements

POLITECNICO DI MILANO

Cash Flow Statement

Cash flow, first six months
Dollars

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
Net profit	–42 217	–60 627	–57 622	–37 430	–49 518	–36 768
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Deposits paid	–2 000	0	0	0	0	0
Prepayments (rents)	–11 000	1 000	1 000	1 000	1 000	1 000
Inventory	0	–15 000	–25 000	22 500	–25 000	30 000
Fixed assets	–36 500	–1 500	–750	–1 000	0	0
Depreciation	0	1 389	1 431	1 443	1 471	1 471
Accounts payable - hardware	0	10 000	–10 000	22 500	–22 500	30 000
Accounts payable - software	0	3 591	0	4 683	0	3 979
Accrued pensions	417	417	417	417	417	417
Equity	1 000	0	0	0	0	0
Cash flow	**–91 300**	**–80 731**	**–70 525**	**–25 887**	**–54 130**	**–19 902**
Cumulative cash flow	–91 300	–172 031	–242 556	–268 443	–322 573	–342 475

Business Plan – Risk Analysis

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2. Business Plan Sections

Chapter 7: Risk Analysis

Business Plan - Risk Analysis

POLITECNICO DI MILANO

Methodologies

- Financial Ratios (Liquidity, Debt Burden, etc.)
- Break-even analysis
- What-if analysis
- Worst-case analysis
- NPV
- Distribution of observations (mean, standard deviation, skewness)

Financial Statement Analysis: Financial Ratios

Different types of ratios, offering different perspectives and interpretations of financial statements.

1. Liquidity Measurements Ratios
2. Profitability Indicator Ratios
3. Debt Ratios
4. Operating Performances Ratios
5. Cash Flow Indicator Ratios
6. Investment Valuation Ratios

SM-Lecture24-Startup funding

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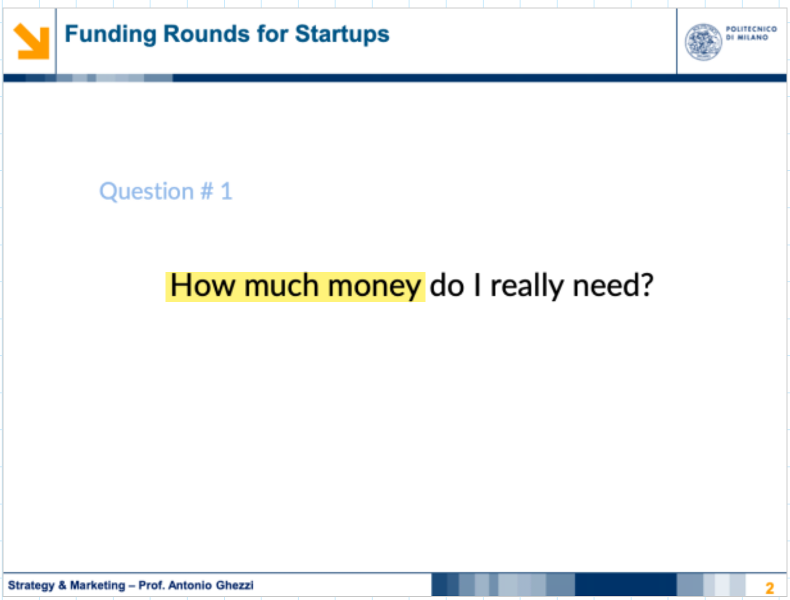
SM-Lecture 24-Startu...



startup is a temporary organization,looking for a validated and scaleable business model(to see if the innovation you have fits in the market),when it reaches the maturity phase it will be an established company

Question # 2

When collecting funds?

Funding Rounds for Startups

Question # 3

Who are the investors?

Funding Rounds for Startups

Question # 4

What's the value of my company?

Funding Rounds for Startups

Question # 5

How to present a business to potential investors?

Funding Rounds for Startups

1. How much money do I really need?

Funding Rounds for Startups

Question # 1 How much money do I really need?

- You have to determine the "right" size of the investment
- Right means that you have enough money to sustain the activities before financial break-even, but not too much too early
- The most widely used indexes to calculate financial needs are Cash Burn Rate and Runaway
- Cash Burn Rate is the average monthly cash flows (if negative): it indicates what is your monthly financial need
- To calculate the Cash Burn Rate you have to determine the monthly cash flow statement
- Runaway is the correspondent number of months covered by your existing funds with the current cash burn rate
- Runway is calculated dividing the funds by the Cash Burn Rate

startup and new venture are the same,the difference is in execution and ability to create product that fits the market

you need to prove sth validated add the beginning to start abd convince the others to believe in you

startups at the beginning normally dont have any revenue,they just have some funds,collected from prior resources and you need to prove the way you use this funds to develop the business

Didn't add anything else

Funding Rounds for Startups

POLITECNICO DI MILANO

2. When collecting funds?

it works like the stock market somehow,
an investor will buy share of your startup in a certain fee with the hope that in the future this value will be higher.

Funding Rounds for Startups

POLITECNICO DI MILANO

Question # 2 When collecting funds?

- In general, the later the better, when the value of your company has grown and the risk is lower
- The type and size of funds and the sources changes along the startup lifecycle
- Investors always try to delay their entrance its less risky
- At each stage the goal of fund raising (and the startup itself) is different
- At each stage, the size and the types of investors are different

The later the better because when you collect funds, you are giving out the control of the company, because investors ask for shares of the company and they might be their business to invest and sell at a certain time so there will be no incentive for growth

why would they want to invest in startups and not in stock?
-higher return(for venture capital they usually have 27% of the invests

Funding Rounds for Startups

POLITECNICO DI MILANO

Startup Lifecycle & Funding – How the organization changes

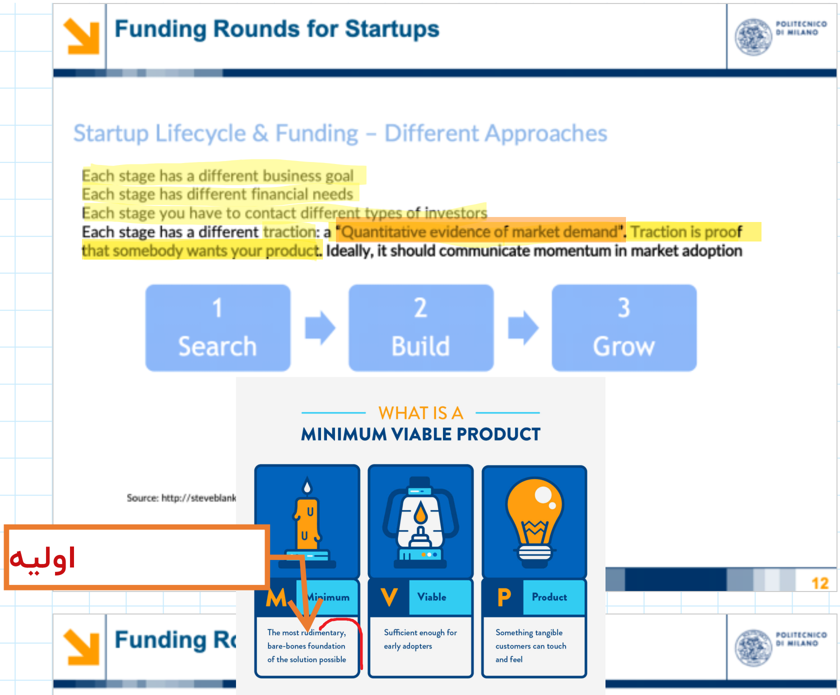
The search of a business model | The execution of a business model

Scalable Startup → Transition → Company

the trade off is attracting a lot of investment,giving out a small percentage of your company

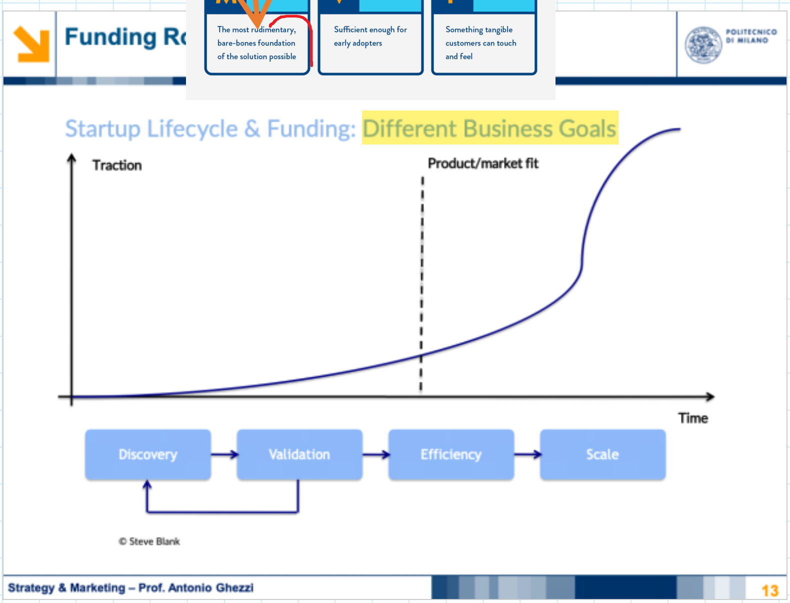
Source
http://steveblank.com/2010/01/25/whats-a-startup-first-principles/

At the beginning we are in search for a business model and then, when we have proved the BM, we try to create the start up

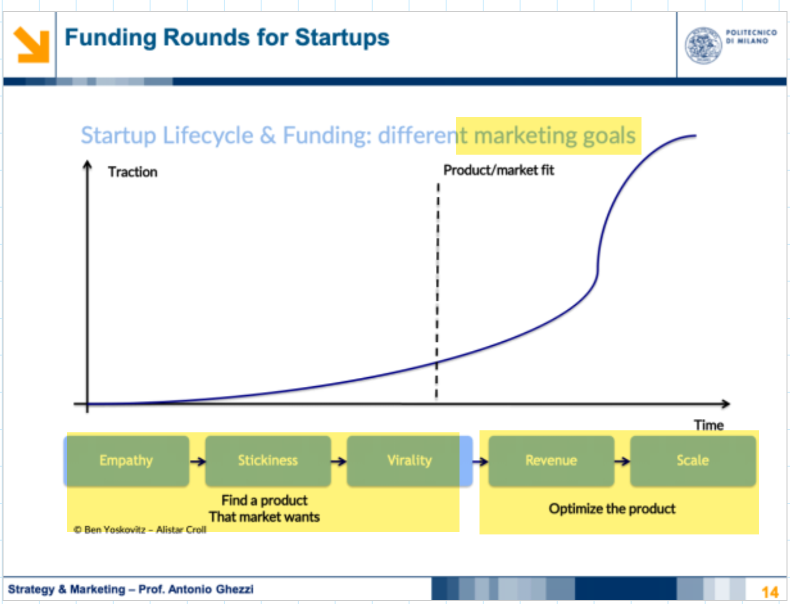


To pass from one state to the other you have to prove something, otherwise how can an investor assess that you are ready to approach the next step.

Usually the investor ask for a measure of traction, so a quantitative evidence of market demand. So you've build your MVP and tested on the early evangelist, but then the product/service needs to be scaled and can be of interest for the majority of the market, because the investors want to see that you can achieve a critical mass in sales



Similar to customer development, so discovery and validation with the possibility to pivot in the first phase where you are looking for the traction from the market, then, once achieved the so called product market fit, you can start to improve the efficiency, by reducing the cost of product development, and then to scale.



Same phases, but from the marketing perspective:

- **Empathy**: creating an intimate relationship with the early evangelists to create something that they really need, which relieves their pain
- **Stickiness:** find a product that the whole market wants, then try to become **viral**
- **Revenue**: with virality we obtain revenues. This doesn't mean that they also have profit, because the costs could be higher than the revenues

in the equity crowd funding you just put your idea and try to attract investment and it can also be linkedd to the first phase (concept and product)and if you dont have FFF, they can be a substitute

is it eventually in the first phase or second?

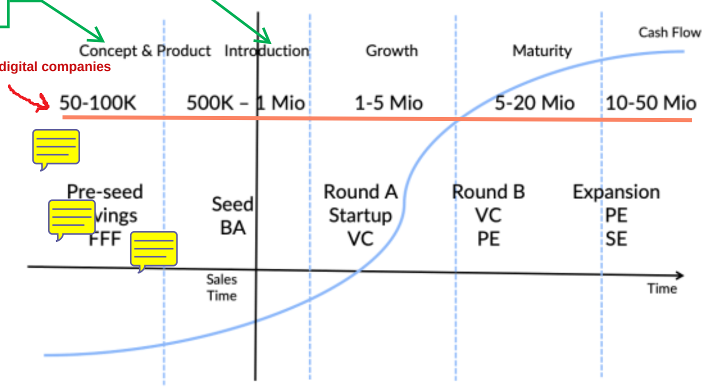
Funding Rounds for Startups

Startup Lifecycle & Funding

this is the time that sales in the market starts

in this phase you have MVP

investment for digital companies



Source: AIFI
http://www.netval.it/static/media/uploads/files/13_27032015_Alessandra_Bechi_Winter_School.pdf

BA are business angels, a person that looks for investing possibilities but it's not its professional work private investors but can be also organisations.also equity crowdfunding campaign is in this phase

they have monetary objectives

BA are not just single entities, but can be also family officies or club deals, which are groups of business angels or agencies that collect funds from people that are not professional investors but are willing to seek for investment opportunities

In the growth stage there is the so called round A in which the actors involved are the venture capitalists, that are professional investors, with the goal to look for opportunities in start ups

Round B,C,D, etc just to highlight that is not the first one and we are in the maturity phase

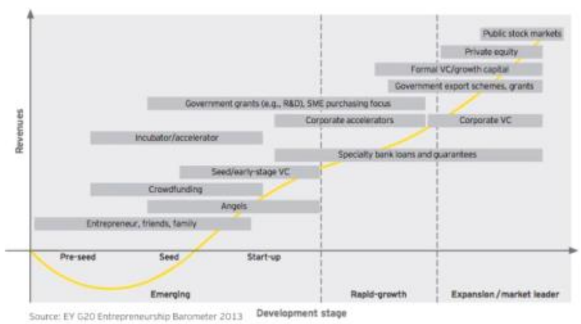
In the maturity phase there are VC and **Private Equity** funds, which is similar to VC, because VC are a branch of PE, but the difference is that VC are focused on investments in start ups, meanwhile PE also invest in established companies with the aim to buy them, restrcuture them and sell them at a higher price

The expansion is equal to the previous one

Funding Rounds for Startups

Startup Lifecycle & Funding – Different Approaches

The EY guide to funding entrepreneurial businesses



Source: EY G20 Entrepreneurship Barometer 2013 Development stage

Source: EY – VC Report
http://www.ey.com/Publication/vwLUAssets/Global_venture_capital_insights_and_trends_2014/$FILE/EY_Global_VC_insights_and_trends_report_2014.pdf

Same as the previous slide but with more investment opportunities

what determins the end of an startup?

1-i get to the point that professional stock exchange want to invest in me and I decide to go for IPO

2-trade sale:you are aquired by a stablished company

3- i become a small or medium enterprise(family firms)

Funding Rounds for Startups

Startup Investment Phases

Funding Rounds

1. Pre-seed
2. Seed
3. Round A
4. Round B
5. Later Stages

During these first stages, the founders don't sell their shares, they are locked in and must work in developing products and market

Exit

1. Trade Sale
2. Buyout
3. IPO

During these 3 stages, founders and first investors sell their shares. Founders usually are locked in for a while and can't create a competitive business for a period.

Source: AIFI
http://www.netval.it/static/media/uploads/files/13_27032015_Alessandra_Bechi_Winter_School.pdf

Buyout is the founders buy back their own shares and is done usually when you are on stock exchange

Funding Rounds for Startups

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Pre-seed

- Funding: from savings, FF, crowdfunding, grants
- Size: € 10K – € 100K
- Business Plan, Prototype
- No revenues (or very small)
- Teams formed by founders who develop the product
- Financial objective: Cash Burn Rate (as low as possible)
- Corporate objective: conceive and develop the product; test and understand the market پروزاندن

Source: AIFI
http://www.netval.it/static/media/uploads/files/13_27032015_Alessandra_Bechi_Winter_School.pdf

Funding Rounds for Startups

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Seed (early-stage)

- Funding: from savings, FF, crowdfunding, Business Angels
- Size: € 500K – € 1 Mio
- Very small revenues
- Prototype, product
- Teams formed by founders who develop the product
- Financial objective: Cash Burn Rate (as low as possible)
- Corporate objective: develop the product and match the market

Source: AIFI
http://www.netval.it/static/media/uploads/files/13_27032015_Alessandra_Bechi_Winter_School.pdf

Funding Rounds for Startups

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Startup (early stage and Round A)

- Funding: Business Angels, Venture Capitalist Funds
- Size: € 1-5 Mio
- First revenues, toward breakeven
- Teams formed by founders and first contributors
- Financial objective: Prove the revenue model works
- Corporate objective: find the product-market fit, search of customers, business model test

Source: AIFI
http://www.netval.it/static/media/uploads/files/13_27032015_Alessandra_Bechi_Winter_School.pdf

Funding Rounds for Startups

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Round B

- Funding: Operating Profit and/or Venture Capital Funds, Private Equity
- Size: € 5-20 Mio
- Operating Profit
- Boards with founders, VC, other experienced C-Levels
- Teams formed by engineers and business developers
- Objective: Break-even, operating profit, scale-up

Source: AIFI
http://www.netval.it/static/media/uploads/files/13_27032015_Alessandra_Bechi_Winter_School.pdf

Funding Rounds for Startups

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Later Stages: Expansion

- Funding: Private Equity, Stock Exchange
- Size: € 10-50 Mio
- Stabilization of cash flows
- Boards with founders, VC, other experienced C-Levels
- Structured team
- Corporate organization
- Founders can have a minority stake
- Objective: Cash Flows, stabilization, exit (for early stage investors, ventures and founders)

Source: AIFI
http://www.netval.it/static/media/uploads/files/13_27032015_Alessandra_Bechi_Winter_School.pdf

Funding Rounds for Startups

Italian Market – pending issues

Pre-seed	Early Stage	Round B/Expansion
Seed investments are (as average) too small	Few VC's active in the startup phase (they manage capitals too small). Gap filled with seed investments	Too few exits. There is the need to involve big Italian and international firms to increase exit opportunities for ventures

recently they have improved the situation now they have 15 VC

Source: AIFI
http://www.netval.it/static/media/uploads/files/13_27032015_Alessandra_Bechi_Winter_School.pdf

Can also be a country and cultural problem that is hostile to risk

With few exits, a start up becomes a SME thus lowering the growth potential and lowering the investors attraction, ebcause the investor get the money with the IPO or trade sale

so for the investors is important to have exits

Funding Rounds for Startups

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Investment Readiness Level

The upper you are on the scale the more you should be in the stage of collecting funds

for a non capital intensive company, stage 4 can be the start

for high capital intensive companies you need investment even for the first phases

Is your startup ready for investment?
Steven Blank invented this tool to measure whether your startup is ready to get funds.
The steps are the phases defined for the Customer Development Model.
Check where you are, and consider that the size and the type of funds should be aligned with the phase in the life of the startup.

9. Validate Metrics That Matter
8. Validate Left Side of Canvas
7. Prototype High Fidelity MVP
6. Validate Right Side of Canvas
5. Validate Product/Market Fit
4. Prototype Low Fidelity MVP
3. Problem/Solution Validation
2. Mkt Size/Competitive Analysis value creation
1. Complete First-Pass Canvas

بازده-کارایی

Source:http://steveblank.com/2014/02/25/is-this-startup-ready-for-investment/

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Funding Rounds for Startups

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How to get funds

no

- Raise money only if necessary in the right moment (startups don't raise money! Startups grow fast)
- Stay focused on fund raising when you are raising funds (and vice versa: don't get distracted by fund raising if the goals are some others)
- Get introduction to investors
- Talk to investors in parallel (non serially)
- Judge yourself (where are you now?)
- Get first commitment
- Have multiple plans
- Underestimate what you want
- Be profitable
- Understand how to evaluate the company
- Don't sell more than 25% in phase 2
- Stop fundraising if it's not working
- ...

Source: http://paulgraham.com/fr.html

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Funding Rounds for Startups

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3. Sources of Funds & Investors

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Funding Rounds for Startups

Question # 3: Which types of Funds & Investors exist?

- There are different sources of funds that a startup can rely on
- Different types of investors invest at different stages of startup lifecycle
- Each investor has a different impact on the life of the startup
- External investors get "shares" of your company
- You need a valuation of your company to decide the share of ownership sold
- Ideally, the startup should receive the minimum amount of money to enforce plan activity till next round or break-even

because it would be hard to return with revenues and if later you want another investment,the investors look at the record and see based on that fund you haven't improved very well

- There are many overfunded and underfunded startups

Funding Rounds for Startups

Sources of funds

The source of funding can have a different impact on your financial structure, composition of the ownership, level of risk, etc.

Equity is risk capital: if the start up fails you are the last to recover the money or even lose all the investment

Financial resources are in the right part of the balance sheet and are part of 2 main families:

- Equity
- Debt

doesn't take shares,but in the moment the firm fails,they have the right to receive the funds

convertible debts:
debts that turn to equity(share)if the company reaches some TPI s,the advantages are less than direct equity investors

Debt can be financial (loans, short term debts) or commercial (accounts payable)

Funding Rounds for Startups

Sources of funds

Ultimately, a company can fund itself via:

- Commercial debt
- Financial debt
- Operating activities
- Grants
- Equity

Each of them has a different impact on the structure of the company, the balance sheet, the ownership, the level of risk and the cost.

It's possible to add grants, prizes, and forms of incentives. These usually don't have an impact on the ownership and have no monetary costs if you don't have to pay interests on them

Funding Rounds for Startups

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Equity

The majority of the funds collected by startups have an impact on the ownership, as they are equity. This means that, if these are external people or entities, the company is giving away part of the ownerships. The founders loose part of the control. It is pretty delicate, because the size and the type of resources and funders can have a strong impact in following funding rounds.

At the beginning, the best is to rely on personal savings and resources, then the startup can involve external people, like FF, BA, etc.

During first rounds (seed, early stage, round A&B) with VC's and BA's, the founders are locked in: they cannot sell their shares and monetize the investment, but they get diluted, giving away part of the ownership and control during the increase of capital.

- Founders' savings → seed
- Family & Friends → seed
- A Job (Consulting) → seed
- Business Angels → Early Stage / Round A
- Seed Funding Firms (incubators or others) → Early Stage / Round A
- Venture Capital Funds → Round A / B
- Private Equity → Later Rounds and Exit
- Trade Sale → Exit
- Stock Market → Exit

Funding Rounds for Startups

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Savings → seed

- Founders keep complete ownership
- First phases (idea generation, first prototypes, sometimes first product)
- The risk is high
- The fund raising would be meaningless
- Don't waste time in fund raising when you don't have the product yet
- Typical size: € 10/20 K

As a general rule, it is better to postpone the entrance of external investors, when the value of startup is a bit higher. The value of an idea is Zero

Funding Rounds for Startups

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Family and Friends → seed

- First phases (concept, business plan, prototype, or MVP, Test A/B, etc.)
- They know you
- They usually don't ask too much for their money
- You don't have to provide metrics, business plans, results
- They could be a problem in later rounds as they are not professional investors
- They don't offer any additional support
- Typical size of investment (in total): € 20-50 K

Funding Rounds for Startups

Angel Investors → early stage & round A

- Seed stage (product ready, market entry, first metrics)
- They are private, like former managers or entrepreneurs, with a large savings that want to invest (in part) in startup
- They can offer managerial or entrepreneurial support
- They have networks
- They are much tougher than FF and you need an Exit Strategy
- They want to see some data but most of all "fall in love" with founders and eventually their product

Funding Rounds for Startups

Angel Investors → early stage & round A

- They invest in the team (even more than in the product)
- You have to negotiate their participation: size and share of the ownership
- Sometimes they keep a strategic role and you can be tight
- Giving them more than 20% in this stage can block future capital increases
- Often they invest in group (IAG for example)
- Often fixed criteria in early stage (if they are in group)
- Their interest is to delay the entrance (the later they enter the lower the risk)
- In Italy, they invest between € 50K to € 1M

Funding Rounds for Startups

Seed Funding Firms → seed & early stage

- Seed stage (product ready, market entry, first metrics)
- They are similar to Business Angels but are companies
- They offer you services and consulting
- Part of their investment can be in services like the office, the internet connection, mentorship, etc.
- Difficult to assess the value of non monetary services

Seed Funding Firms → seed & early stage

- Usually they have similar behaviors as business angels
- But they are company and can be more strict on some terms
- The deal is the result of a bargain, there are no fixed rules
- Although, in seed investment, seed funding firms (and business angels) often have fixed policies like the size of the investment and the valuation of the startups, and thus the share of the ownership
- This is because giving a value to a early stage startup is like guessing, and it makes no sense to waste time in negotiation
- Most famous one are rigorous, second tiers can be more aggressive

Funding Rounds for Startups

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Venture Capital Funds→ round A/B

- Round A / B
- They are companies and have fixed rules to select investments
- They manage portfolios of their clients and follow guidelines
- You must have a competitive exit strategy
- They are valued by their success stories
- Most of the startups fail, but few outperform and repay all the other investments

Funding Rounds for Startups

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Venture Capital Funds → round A/B

- They become parts of the board, and sometimes they assign the CEO role to an experienced manager and not to a founder, especially if she/he has a technical background
- You must create a relationship with them
- If you speak with a junior, she/he can have genuine enthusiasm (they want to discover the next Uber)
- Senior fund managers are more objective
- They invest some millions
- Founders are usually not allowed to sell their shares till final exit

Funding Rounds for Startups

Private Equity, Stock Exchange, Private Sales → Exit

- This is the phase of exit
- Usually founders can sell part of their shares and monetize
- At the same time, they are locked into the company for a few years
- In this case the company is no more a startup, and thus ready for PE funds and even the stock exchange
- Competitors, incumbents, bigger entrants can buy the company through a private deal to acquire products, markets, technologies

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Funding Rounds for Startups

Until VC there is no structured process to invest in the start up

From now there is a formal process in the evaluation of the investment

Venture Capital Process

Let's have a look at the process of proposing a VC the investment in our startup. Remember that this is a deal. They must see the opportunity to multiply in few years the value of their investment.

1. Business Plan Submission: entrepreneurs get in touch with investors and present their business plans, or metrics, or MVP and tests, etc.
2. Due Diligence: analysis if company's management team, market, products and services, operating history, corporate governance documents, and financial statements. This step can include developing a term sheet describing the terms and conditions under which the fund would make an investment.
3. Deal - Valuation and Negotiation: there is a pre-money valuation to assess what's the share of the new investors; the valuation can be as analytical as possible, but the price is the result of a negotiation.
4. Investment: VC enter the company and board, founders sign term sheets
5. Execution with VC control: usually investment is released in batches if targets are reached
6. Exit: VC's final objective is to exit within a few years through mergers, acquisitions, and IPOs (Initial Public Offerings)

2-looking inside the target company to decide what is the value of that company and is enabling activity to reach step 3-deal

most important one, VC helps and supports startups to grow

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Funding Rounds for Startups

5. What's the value of my startup and how can I assess it?

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The Value of Ideas

Funding Rounds for Startups

we need to know how much money we need,
how we can survive and then grow

Why assessing value

Once defined the financial need, and matched the need with the stage in the startup lifecycle, founders must find the right counterpart.

To do this we need to answer to 4 questions

If you finance the company with your savings, operating activities, debt, grants, you don't have to share the ownership of the company with anyone else: founders remain the only owners of the whole company.

Instead, if you have to open your equity to external investors, you have to define what is the share of ownership given away for the money (or services collected).

How does this process happen? How to make this price? How to assess the value? Is it the same with FF, Business Angels, and Venture Capitalists?

Funding Rounds for Startups

Valuation, Price and Deal

its all about negotiation

Basically, the process is simple:

1. What is the pre-money value of the company?
2. How much do external investors put into the company?
3. What is the post-money value of the company?
4. How to define the price and share of ownership?

Consider that this is a deal: you have to start from a value, but at the end the final price is the result of many other factors, including the bargaining power (and interest) of the parties.

Main actors that can be involved into first stages of investment (FF, BA, VC) have different objectives, cultures, politics.

Funding Rounds for Startups

Pre-money and post-money valuation

$$\text{post-money valuation} = \text{new investment} \cdot \frac{\text{total post investment shares outstanding}}{\text{shares issued for new investment}}$$

$$\text{pre-money valuation} = \text{post-money valuation} - \text{new investment}$$

Funding Rounds for Startups

Pre-money and post-money valuation

Shareholders of Startup, Inc. own 100 shares, which is 100% of equity. If an investor makes a $10 million investment (Round A) into Startup, Inc. in return for 20 newly issued shares, the implied post-money valuation is:

$10 million * (120 / 20) = $60 million

This implies a pre-money valuation equal to the post-money valuation minus the amount of the investment. In this case, it is:

$60 million – $10 million = $50 million

The initial shareholders dilute their ownership to 100/120 = 83.33%.

Source: Wikipedia

Funding Rounds for Startups

General Advices

- Share the ownership with non-founders the later the better (when your company's value is bigger)
- Don't give away too much too early: the risk is to make the following rounds impossible
- Don't undervalue or overvalue your startup: in the former case, you give away too much, in the latter, you could devalue the startup in future rounds. This is odd and usually a bad message for investors
- Have a long term plan: you probably need future rounds
- Select the investors not just for the money: firstly, because you will have to deal with them, second, because they can offer other assets, like networks, expertise, …

Try to give up the control of your company (who invests is gaining control over the company) to people that can help to make it grow

Funding Rounds for Startups

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A Deal with FF

- Family and Friends are not professional investors.
- If they invest in your startup is because they believe in you and your team.
- They usually don't have an idea on how to evaluate a startup.
- They usually have doubts about your valuation and tend to pay attention to the percentage of ownership they gain with their money.
- They invest few money in very early stages, when you usually have just the idea, the business plan and eventually a prototype.
- Be careful not to give them too much for too few, even if it's early, if you block large percentage of ownership with these types of investors, you could have problems in future rounds.
- If you are an Italian "Startup Innovativa", you cannot pay dividends for the 4 years in which you are a startup innovativa.
- But, if you are a startup innovativa, investors have fiscal benefits (discount of 20% of the capital invested from taxes)

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Seen earlier

Funding Rounds for Startups

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A Deal with a BA

- Business Angels are affluent private people
- Usually, they are former managers or entrepreneurs
- Often, they want to do something exciting, making some money, and with a "social role", to stimulate economy
- They often act in teams
- They value your company in different ways
- Their goal is the final exit
- They try to enter later, when the risk is lower
- They invest in seed and early stages
- Startup should have at least a product ready for the market
- Often, they need to be sure that the business model is validated
- Considering the difficulties in assessing a value of something so early, they usually have general politics; e.g.: they invest € 50K for 10% of startups in seed stages (thus, the startup's value is € 500K
- They perform light due diligence, but they judge above all the team

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Seen earlier

Funding Rounds for Startups

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A Deal with a VC Fund

- They are professional investors
- They invest money of other people
- They have politics on how to manage risk
- They have strict due diligence recommendations
- They want to see your deck (elevator pitch)
- If interested, they want to read the business plan as well
- They start from the valuation, but then it is a matter of negotiation (it is a deal at the end)
- They judge the team, but want to see metrics

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Seen earlier

Funding Rounds for Startups

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When startups have to value the company

1. Fund raising: evaluate the share of ownership to sell during a round
2. Work for Equity and other 3rd parties participations; in order to match the value of labor and the value of ownership
3. Exit: evaluation of the price to sell parts of the company

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Seen earlier

Funding Rounds for Startups

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6. How to present your business to investors?
Elevator Pitch vs. Business Plan

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The idea of the elevator relates to a very short period of time in which you convince a VC to invest in you start up

It comes from the silicon valley, because in the past VC made decision if invest in a company or not based on the conversation with the entrepreneur while using the elevator to reach the office

Pitch in an informal meaning means parlantina del venditore, sales speech

Funding Rounds for Startups

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he skipped this part

Question # 6 – How to present a business?
Elevator PITCH vs. Business Plan

- The Elevator Pitch is brief presentation to introduce your business idea, your product, your service, to summarize who you are, what you do and why an investor should invest in your venture
- Its name reflects the fact that you can deliver its content in the time span of an elevator ride
- Elevator Pitch is a short graphic and catchy presentation of the business; it is more emotional than rational, and its goal is to attract interest
- Business Plan is an analytical document, with analysis, plans, premises, and consequences, and all the details

Strategy & Marketing – Prof. Antonio Ghezzi 53

The elevator pitch is a light version of the business plan

Elevator PITCH

• The main goal of an elevator pitch is to persuade an investor to put some money in the venture and become owner of a part of the company

• You have to show her / him that your business is profitable, you have the skills to manage a company, you know the market, you will have positive cash flow after a while, you can control your costs, your business is scalable, you can create and sustain competitive advantages, the market is growing, you have a long-term strategy, etc.

• Your Deck gives the potential investors the first impression of you and your company

Elevator Pitch Deck – The sections - SLIDE 1

Introduce yourself!

- Name of the startup and slogan
- Brief history (founded on …, in…, by name of founders)
- A brief statement to introduce the activity:
  Example:
  Buy from emerging designers
  Create your digital wardrobe
  Share your style with friends
- Contact

Just an example

Elevator Pitch Deck – The sections – SLIDE 2

Introduce the problem, client's pain, need / opportunity

- Describe the market need
- Describe the clients pain
- Explain why current solutions don't work or are fully satisfactory

Just an example

Elevator Pitch Deck – The sections – SLIDE 3

Your Solution: your product

- What do we offer?
- Benefits of the product / services
- How do we relieve the customers' pain?
- What's the source of our competitive advantage? (types: market, technology, relationships, …)
- Describe the product (and show in picture, if you can)

Funding Rounds for Startups

Elevator Pitch Deck – The sections – SLIDE 4

Your Team

- For each member: name, role, experiences
- Organizational chart of the company
- Capitalization table (major shareholders %)

Funding Rounds for Startups

Elevator Pitch Deck – The sections – SLIDE 5

What's done so far?

- Phase of the product /service development
- Date of foundation
- Capital invested
- Employees
- Revenues
- Gross Margin, Operating Profit, Net Profit
- Cash Burn Rate
- Metrics
- Clients
- Partnerships
- Patents, trademarks, licenses

POLITECNICO DI MILANO

Elevator Pitch Deck – The sections – SLIDE 6

Market (TAM) & Competitors

- TAM (Total addressable market)
- Size of the market
- Trends
- Main characteristics
- Potential Market – Available Market – Target Market
- Key Success Factors
- Description of main direct* and indirect* competitors
- Competitive Advantages
- Benchmark

POLITECNICO DI MILANO

Elevator Pitch Deck – The sections – SLIDE 7

Users / Sales / Cost Forecast

- Clients Forecast
- Sales Forecast
- Costs
- Metrics
- Targets (milestones)

If you have historical data is (relatively) easy, otherwise, you have to do assumptions and create your own plan

POLITECNICO DI MILANO

Elevator Pitch Deck – The sections – SLIDE 8

Cash Burn Rate / Runaway / Use of proceeds

- Monthly, yearly Cash Burn Rate
- Financial Need
- Use of proceeds (activity, objectives, milestones, ...)

Elevator Pitch Deck – The sections – SLIDE 9

Valuation and Exit

- Valuation Method
- Comparables
- Analytical Method
- Exit Strategy

Elevator Pitch Deck – The sections – SLIDE 10

Call to action

- Who you are
- Where you want to go
- What you need
- Add your contact details
- Add your logo, payoff, name of the company