SESSION 2 – DIGITAL BUSINESS

2020-2021

In this file, you will find the 1) **an exercise**, 2) some news articles to analyze.

1. EXERCISE

Please answer the following questions to sketch the business model of the following companies: Disney +, Netflix, Deliveroo, Asos, Amazon Partners

- What is the product or service that is proposed?
- To whom is it targeted?
- Who are the stakeholders to produce and commercialize the product/service?
- How does the company make money?
- What is the revenue model?

2. CORPUS ANALYSIS - CHANGES IN BUSINESS MODELS DUE TO TECHNOLOGICAL INNOVATION

As soon as new technology is introduced to the market, ways of doing business evolve. You will see in Text 1 that the Internet led to disintermediation in some areas, while it led to some reintermediation for others as shown in the second document. In text 3, you will sit down with McKinsey and Adobe's chief financial officer and vice president of business operations and strategy to learn how Adobe got its new digital based model off the ground. In text 4, you will get the latest insights of Gartner on the topic and discover about "rematerialization". Finally, text 5 will introduce you to the "long tail strategy", which you will also find described in the book chapter and Powerpoint.

As you read, synthesize your thoughts about all the different aspects of a company their business model that are bound to evolve with the introduction of new technology. What seems most interesting to you? Most surprising? What did you learn?

TEXT 1- THE AUTOMOTIVE INDUSTRY AND THE TREND TOWARDS DISINTERMEDIATION

Dans, E. (2013, October 11). The automotive industry and the trend towards disintermediation. *Medium*

The US motor industry has been given a shakeup by the appearance of Tesla Motors, a company that certainly likes to do things differently.

The company founded by Elon Musk that builds luxury electric cars that are better equipped and outperform most conventional vehicles is no upstart. It has been around for a decade, and present on the stock markets since July 2010; the first quarter of this year produced its first profits. Its Model S has been judged the safest in the history of motoring (it even broke the crash test equipment), is the 2013 Car of the Year, and the biggest selling vehicle in Norway, ahead of the Volkswagen Golf.

A recent accident during which one of its cars caught fire after a collision initially sent Tesla shares plummeting by 12%, but confidence in its vehicles has soared after it was learned that the incident would have been much more serious in a conventional automobile. Aside from its financial results, with are no doubt interesting and thought-provoking, Tesla's policy of selling without dealers is the real issue here, and is causing problems in many markets: its policy of online selling backed by its own outlets has been denounced in some US states for infringing laws that oblige carmakers to sell through dealers. The more

than 18,000 new car dealerships in the United States earn their commission from each and every one of the almost 13 million vehicles sold annually there, supported by a powerful lobby able to reach US legislators.

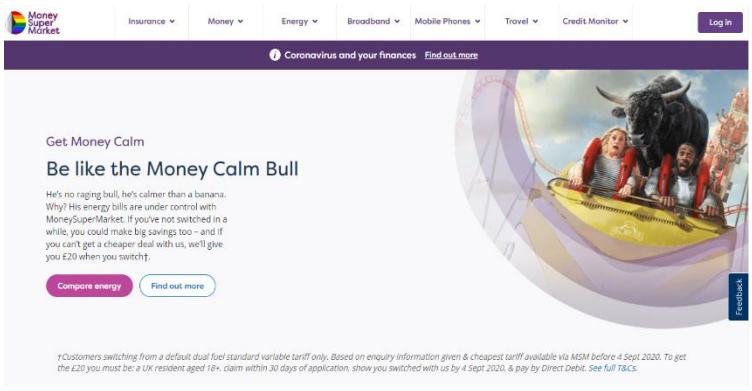
Buying from a dealer is for many people a necessary evil. Most of us these days prefer to do our pre-purchase research online or by reading specialist publications, and only really visit the showroom to sit in the vehicle and negotiate its price. Cars are considered the epitome of the so-called ROPO market: Research Online, Purchase Offline, despite which carmakers continue to advertise heavily online. The car sales profession has for decades been among the least trustworthy in most countries, and carmakers have little say in how buyers make their decisions.

Tesla says that the success of the brand depends on it having total control over the client's experience. Tesla showrooms offer a very different experience to anybody who has ever bought a car from a dealer. There is no negotiating the price, and the majority of outlets are in shopping centers with just a few vehicles on display or for test driving. All service work is carried out by garages owned by the company. For the moment, Tesla seems to be winning the battle: in states such as North Carolina and New Hampshire the company's outlets can now carry out every aspect of sale, while the fight continues in others such as Texas; it has been accused of pricing trickery in California.

Tesla's sales strategy has even prompted a supportive petition to the White House; while at the same time has recently been given a boost by some of its competitors. Two brands, General Motors and Audi, based on Tesla's success, have decided to start trials to sell directly online, or through their own outlets. General Motors' Shop-Click-Drive allows the customer to choose a car and set the price online, but still have to deal with a dealer, although not necessarily in person. Audi's approach has been to announce the opening of some 20 showrooms around the world backed by huge online resources aimed at creating a client experience and to establish a relationship with its network of dealers, where the final part of the purchase process will still take place.

So, we have a scenario where the sales intermediary has been partially removed versus Tesla's radical approach of no intermediary: the freedom of a relatively new brand versus other brands that for years have depended on powerful dealerships. The question is: will the older carmakers choose growth strategies that were laid out decades ago, or might they opt for direct sales models, *á la* Tesla, but which mean slower growth based entirely on their own resources? Is the independent dealership facing extinction, meaning a shift in the coming years toward total control of the client experience through the web, along with makers' own network of retail outlets?

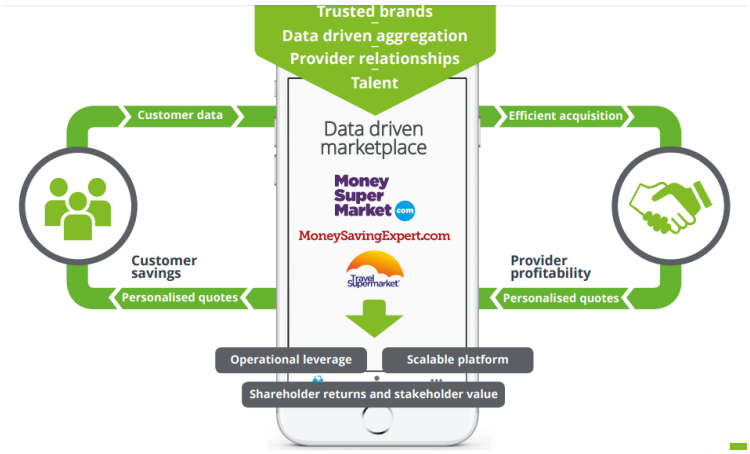
TEXT 2- COMPARETHEMARKET.COM



How does MoneySuperMarket work?

We work with our home, money and insurance partners to find you deals that you can compare on: insurance, money, energy, broadband, mobile phones.

We try to make it as quick and easy as possible for you to save money on your household bills and get the right deal for you.



Here are some of the ways we do this:

- We've built quote comparison tools for a lot of our products so you can compare personalised quotes and find a great deal that suits you

- You can filter and sort your quote results by price, features, provider and likelihood of approval – where this applies – on most of our channels to make comparing easier

- Our Eligibility Checker tool shows you credit cards and loans you're most likely to be accepted for, so you can avoid applying for those that might reject you and leave a mark on your credit report

- We give you the information you need to help you choose the right product for you, and we have tips and more information to help you compare the quotes and providers you see in the listings

How does MoneySuperMarket make money?

MoneySuperMarket's comparison services are free for you to use and the payment we get from our partners will never change the amount you pay for your home, money or insurance product.

We get paid by the partners we work with when we help our customers find new deals on their household bills. The way we get paid by our partners differs depending on the type of product – some of the ways we're paid include:

- A flat-fee payment:
  For example, we get paid a flat fee for each car or home insurance policy you purchase, each energy switch you complete and each successful credit card application you make.
- A commission fee:
  With commission products we get paid a commission fee which may be a percentage of:
  - The total cost of the policy you purchase - for example travel or breakdown insurance
  - The length of the policy you purchase - for example life insurance
  - The amount of loan you take out
- A click through fee:
  For example, we get paid a fee when you click through to get a quote with our landlord insurance provider.

Any commercial agreement we have in place with a provider won't affect how we compare or rank your quotes. We will always try to display them in a way that helps you get the best deal. This is why we've built filters and sorting functions into quote results listings where we can.

TEXT 3- REBORN IN THE CLOUD

Sprague, K.. (2015, July) Reborn in the cloud, *McKinsey Our Insights*

Over the past five years, Adobe Systems has remade itself as a cloud company. It no longer offers its publishing and design tools in the form of physical, shrink-wrapped products to be deployed at customers' sites under a perpetual license—where customers pay once and can use the software indefinitely. Rather, customers subscribe to Creative Cloud, the company's online suite of publishing and design tools, and receive frequent software upgrades as well as a range of new online-only and mobile services.

In large part because of Adobe's transition to the cloud, the company has seen its fortunes turn. Its stock price has more than tripled, overall revenue growth has climbed from the single digits five years ago to the double digits today, and recurring revenue has climbed from 19 percent in 2011 to 70 percent of total revenue today. The number of subscribing customers is more than four million and rising.

But making this wholesale shift hasn't been easy for a software company born and bred in the desktop-application era. In an interview with McKinsey's Kara Sprague, the company's chief financial officer, Mark Garrett, and its vice president of business operations and strategy, Dan Cohen, describe how the leadership team got this new digital business model off the ground and the lessons they've learned along the way.

McKinsey: What precipitated Adobe's move to the cloud?

Mark Garrett: There were a number of reasons, both financial and strategic. For one, even though customers had higher creative demands, our creative business wasn't really growing. The number of units we shipped under the old perpetual-licensing model was about three million units a year, and it remained flat for a long time. We were driving revenue growth by raising our average selling price—either through straight price increases or through moving people up the product ladder. That wasn't a sustainable approach.

The perpetual-licensing model was also limiting us from delivering new innovations and capabilities to our customers. Historically, we had delivered product updates only every 18 or 24 months, but our customers' content-creation requirements were changing much faster than that, with advances in devices, browsers, mobile apps, and screen sizes.

Inside the company, we had this fundamental belief that there were broader market opportunities for us. Where content was being created and managed, when it was being consumed, and where it was going to be monetized—all of that was changing. We also believed that data were going to become more important. We already had a strong presence in content creation, and we saw an opportunity to broaden our presence in these areas.

(…)

McKinsey: What was the first step toward moving to the cloud?

Mark Garrett: There were a lot of discussions among Adobe's management, finance, and strategy teams and among business-unit leaders. We spent many hours talking about risk. A lot of people didn't buy into the idea at the beginning. We knew that our revenues, earnings, and stock price were almost certain to drop during the transition. And we knew it was going to be a long, hard road. It really takes guts to make this sort of change—and that was what we had to come to terms with. Just how risky is it? Can we really pull it off? What happens if the stock goes down? What will customers, employees, investors, and board members think? We spent hours knee-deep in Excel spreadsheets modeling this out. We literally covered the boardroom

with pricing and unit models, predictions for how quickly perpetual licenses would fall off, and how quickly online subscriptions would ramp up. This helped us get more comfortable with the idea of making the change—here's how much time it will take, here's what it will look like at the end. Through this discussion, which took about a year, we saw that we could manage through it, and that we, our customers, and our shareholders would come out on the other side much better off.

Dan Cohen: At the time of these discussions, we were experimenting with subscription models overseas and in the United States. We offered, side by side, similar products under both a subscription model and our traditional perpetual-licensing model, and we observed what the uptake was. Our research showed that we were bringing in a lot of new users under the subscription model, which addressed one of the problems we had been facing—growing the base. Meanwhile, many existing users told us they would not have upgraded without the subscription offering. Our own data, along with the market trends that we saw toward recurring-revenue models and cloud computing, made us confident that this move would modernize our business and set us up for a new phase of growth.

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McKinsey: What changes were involved in your product-development and engineering functions?

Dan Cohen: In every part of the business, we had to dig in and ask, "How do we need to do this differently?" Moving to the cloud affected how we engineered the products, our operations, and our go-to-market and business models. From an engineering standpoint, for instance, in the past, we would think about adding new features to the next version of a product, and we would take 18 to 24 months between major launches of new products. Nowadays, two years is an eternity. We're in an agile development model, where a scrum team delivers service updates that are revised, tested, and released. We created mobile apps that could access libraries of Creative Cloud content developed with our desktop apps, and we built a development framework so that Creative Cloud members could harness the work of third-party mobile-app developers. We also acquired Behance, a social network for creative professionals where members can share their work and get feedback on it, and we established online talent and content marketplaces. We wanted to extend our existing products in new ways, which meant we needed to hire people with different skills and extend the skill set in our teams.

Mark Garrett: We needed to invest in cloud-based technology components that would allow users to download our products in a seamless way, because customers still need to run a lot of the Creative Cloud applications on their desktops. We also needed to develop protocols by which users could download and administer the apps and understand what updates they had coming to them, how to authenticate content, and what they had rights to. We built most of these capabilities in-house, and we acquired some mobile technologies. We use our own servers, co-located data centers and servers, and we work with platform-as-a-service providers.

Dan Cohen: Under the cloud model, the value proposition is about delivering high-quality service, not just new features, so uptime, availability, disaster recovery, and security have become critical. Now we have a modular service-oriented architecture to incorporate new billing and e-commerce capabilities. Our cloud infrastructure has been stress tested, and we've built in disaster recovery and redundancy to ensure service uptime as we scale to millions of users. Our website is no longer just the place where you get product and company information. It is the product. It is the start of a dynamic customer experience. As a result, there are now

closer interactions among the functional groups that contribute to that experience, groups that used to be separate—product management, engineering, marketing, and IT.

McKinsey: How did the shift to the cloud affect your go-to-market function?

Dan Cohen: Under the subscription model, people are essentially deciding every month whether to renew or to move on; it's not the old world, where we could sell something and reach out again in two years' time with the next version of the product.

Mark Garrett: I think this was one of the most challenging aspects of the cloud transition, changing how we brought products to market. We had to bring people out of their comfort zones with regard to selling subscription-based Creative Cloud. We had to educate and compensate the channel and our sales force differently; the latter required different timing for revenue recognition. Additionally, our accounting organization had to change. The team has moved from managing up-front revenue recognition and a few large contracts to billing more than four million individuals every single month in addition to enterprise customers. Previously we shipped three million units a year. It's a hugely different process, requiring many more new metrics.

McKinsey: What sort of cultural issues did you encounter as you were making these functional changes?

Mark Garrett: At first, the reaction from some people in, say, IT or in the back office was that we were crazy. We had to contend with some of that cultural antibody—especially given that we were a company that had been doing things the same way for almost three decades. We instituted open dialogue with employees—here's what we're going through, here's what it might look like—and we encouraged debate. Not everyone stayed, but those who did were committed to the cloud model.

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McKinsey: What has the impact of the change been so far?

Mark Garrett: We think the customer is getting a better experience. Because we are operating in the cloud, we have a better read on their needs—we know who signed up for Creative Cloud, which apps they have downloaded, and which features they are using. We are using predictive analytics and our own marketing tools to listen to our customers and strengthen our relationships with them.

Dan Cohen: We are offering a broader and better value proposition to our customers. We're adding new features and services on multiple devices and making frequent updates to our creative products, which help customers better address today's content-creation challenges. We're attracting new customers for our mobile products and building up our marketplace for content. Additionally, our entry-level price point is attracting customers we were not engaging with in the past. None of this would have been possible under the old model. Our brand value has gone up, and our ability to attract top talent has grown along with it.

Mark Garrett: The company has a more predictable revenue stream. We have a bigger business that can address a larger market opportunity, because we can bring tens of millions of users to this platform and develop additional services for them over time. The stock price and recurring revenue have surged over the past five years, and there is still a lot of upside left. And from a cultural standpoint, we have incorporated more internal reviews to gauge how satisfied

employees are, and more performance and business metrics to determine how well we're executing in the cloud model.

McKinsey: Now that you are on the back end of the transformation, what advice would you give to others contemplating a similar move?

Dan Cohen: For any company moving to a subscription model, you need to deliver ongoing value to the customer and also create new sources of value that didn't exist with the old model. You can't just sell the same offering in a different way. Companies that simply stick to what has made them successful in the past leave themselves open to disruption. You have to take a fresh look at your products—and be willing to "burn the boats," so to speak. Imagine that you have a clean slate, and you are launching the company fresh today. What would the offering be? What do you need to do to get there? (…)

TEXT 4- "RE-MATERIALIZATION" IS WHAT DIGITAL BUSINESS MIGHT DO TO YOUR PRODUCT.

Raskino, M. (2015, January 30), "Re-materialization" is what digital business might do to your product. Gartner blog.

People as old as me can remember when the internet arrived and when companies created their first websites. Very quickly, it became obvious that some big companies could sell their stuff directly to end customers by electronic commerce, because websites could be developed to become online self-service machines. Orders could be taken, products could be configured and in some cases even parts of the delivery could be completed over the internet. It was true for airline tickets, hotel rooms, car insurance and a raft of other things. This process of applying this new ability to sell directly and cut out the middleman was called ***disintermediation*** by the management thinkers of those early e-business days. Traditional travel agents and insurance brokers lost out, sometimes badly. However, in many industries what quickly happened is that price comparison websites grew up to compare and contrast all of those producers who wanted to go direct to the end customer. New online intermediaries such as Orbitz,com and Moneysupermarket.com inserted themselves between the customer and the provider's website – a process that was dubbed ***reintermediation.***

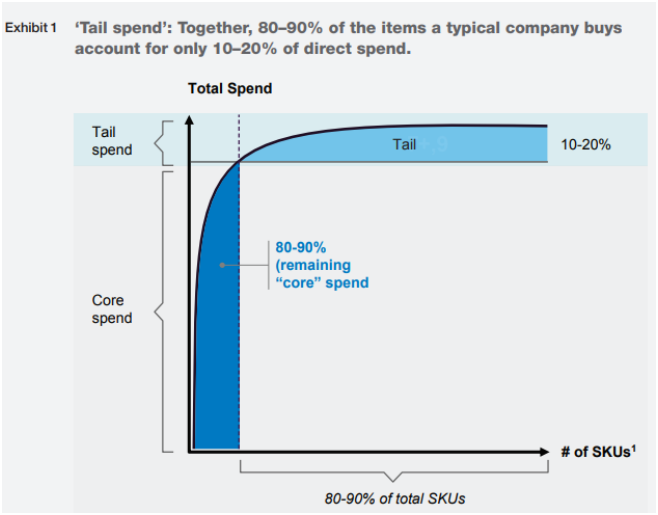
The contrast between those two terms got me thinking recently, about another set of changes has been happening as a result of digital progress. Some products have been ***dematerialised*** by being remade entirely of bits and conveyed over the internet from the producer to the consumer. This has happened to newspapers, books and music CDs – with paper and plastic material being removed from the product. Now I think we are beginning to see a new trend I call ***rematerialisation.*** This is where a product is re-rendered in a different way, in a different form, using different materials, as a result of digital changes – but it remains a physical product. Examples of this are to be found in 3D printed jewelry, electronic cigarettes, Google's rendition of the car, or the camera drone as a replacement for a helicopter plus video cameraman. In each case there is still a thing you can touch or hold, it is made of atoms and it serves a similar purpose – but it is utterly different and radically superior in some way because of digital technology.

So if your product or service today, exists in the physical world and its food or transport or something that cannot be fully dematerialized into bits – then you have a new strategy question to ask yourself. How could our product or service be *rematerialized* for the digital age?

TEXT 5- LONG TAIL, BIG SAVINGS: DIGITAL UNLOCKS HIDDEN VALUE IN PROCUREMENT (EXCERPT)

Drentin, R., Erriquez, M., Nee, C., & Ziegler, M. (2018). Long tail, big savings: Digital unlocks hidden value in procurement. McKinsey, Our insight

Until recently, many companies thought it was futile to try to extract savings from the low-volume purchases in "tail spend." New technologies are changing the equation.



Probably every procurement professional has been asked at least once: how can we more effectively deal with our tail spend? Also called C-material spend, tail spend comprises 80-90% of all purchased items—primarily low-volume and often one-off or infrequent orders that go out to a wide array of suppliers. Despite the vast number of items included in tail spend, it accounts for just the bottom 10-20% of a company's total spend (Exhibit 1).

Tail spend's defining characteristics make it intrinsically more complex to handle than traditional categories. Many procurement professionals therefore conclude that trying to optimize this spend isn't worth the effort. But that can be an unwise conclusion. Especially in companies that haven't handled tail spend effectively in the past, managers have an opportunity to achieve 5-15% savings in this spend category. And the harsh fact is that many companies don't manage tail spend with the same rigor they use for their core spend—such as closely watching sourcing market trends and regularly renegotiating with suppliers for more favorable pricing. Consequently, they're leaving money on the table.

Take a company that has a total direct spend of $3 billion—$400 million of which is tail spend with a 5-15% savings potential. By not managing its tail spend to capture those savings, the company misses out on $40 million.

Wanted: A better way

With the advent of new digital tools and the increasing capabilities of distributors, companies can now manage their tail spend with the same rigor they apply to core spend—though in a decidedly different way. Consider digital tools. Newer web-based platforms that can easily be adapted to companies' individual needs show particular promise. Such platforms support large-scale, electronic requests for information (RFIs) and quotations (RFQs), as well as electronic document management, in ways that weren't previously possible.

These electronic sourcing, or e-sourcing, tools have matured quickly. They now offer a simple user experience that supports faster and broader implementation of sourcing events, such as a fully functional, large-scale tender that can be conducted in only two months. Indeed, one company recently reached about 300 potential suppliers in a single RFQ covering some 3,000 line items, and was able to track incoming bids and resulting savings with just a mouse-click.

Consolidating purchases with a distributor can deliver additional benefits. For a vendor, ensuring availability of a few tail-spend items might not be a priority, leaving the purchaser with few (if any) supply options. Engaging a distributor that can stock hundreds of tail-spend items increases the distributor's share of the vendor's business, creating economies of scale and incentives to find more supply-chain and manufacturing efficiencies. Seeing the opportunity, more distributors have recently begun offering supply of tail-spend items as part of their service strategy.

Accordingly, companies that use digital tools and craft smart distributor strategies not only save money and time on procurement, they also simplify their operations by reducing the number of suppliers they use. The long-term advantages are even greater as they gain valuable insights into their sourcing markets, and strengthen supplier relationships by becoming better partners that are easier to work with.

Digitized tail spend in action

Though the notion of managing tail spend more effectively isn't new in procurement, the means required to do so haven't been available—until now. To see how digital can help companies capture untapped value in their tail spend, we examine important steps in the tail-spend process below.

Preparing product data

Before a company can start the RFQ process, it must be able to tell suppliers and distributors what, precisely, it wants to buy. But because most companies don't manage tail spend closely, little effort has gone into maintaining comprehensive master data on products (with details such as manufacturing and packaging) in centralized enterprise-resource-planning (ERP) systems. In our work across a range of sectors, we found that on average only 20-40% of the data needed to tender is centrally stored and readily available. Instead, such data is scattered throughout the organization, often in non-standardized formats, across business units, manufacturing facilities, or local purchasing departments.

To overcome these limitations and make the rest of the tail-spend process more efficient and effective, companies can use text-mining tools and parsing algorithms that extract product data from all available sources, including local databases, ERP systems, and stored purchase orders and related documents. Use of heuristic rules (such as automatically converting liters into kilograms or pounds, or translating packaging terms into UN packaging codes) can partly automate the data-check process, and boost data quality by as much as 20-50%. Moreover, by augmenting their human expertise with analytical models, data scientists can fill gaps in the data-check process that digital techniques can't catch, improving data quality by a further 10-30%. Local procurement teams can then draw on their industry and market expertise to provide a final quality check on the data.

Crafting a distributor/supplier strategy

To optimize tail spend, companies must define a sourcing-channel strategy. While many products or services may be sourced through distributors, others may require direct sourcing from the original manufacturer, perhaps because of strict specifications or lack of availability through distributors.

The first step in developing a sourcing-channel strategy is therefore to devise a product-segmentation scheme. In chemicals, for example, differentiating specialty chemicals from traded commodities provides the top-level segmentation. But the details of the segmentation matter, including factors such as distributors' availability, the buyer organization's position in the market, and size and fragmentation of spend. That means gathering a lot more information, some of which will come from the RFI and RFQ processes.

(…)

Managing qualification requirements

Some industries, such as pharmaceuticals and aerospace, are characterized by strict supplier-qualification requirements in order to meet safety and other regulatory standards. Satisfying these requirements takes considerable time and involves complex document gathering, reviews, and hand-offs. The same online tendering platforms that companies can use for eRFIs and eRFQs can sometimes also be used to simplify and fast-track the qualification process.

Features such as document exchange can automatically notify winning bidders to upload the necessary qualification documentation. For vendors that aren't yet qualified, companies can combine automated and manual processes to complete qualification for a number of products at once.

Putting it all together

As the company mentioned earlier discovered, the combination of these changes can have a dramatic impact. With the new tools and capabilities delivered across the company's entire network worldwide,

procurement teams logged total tail-spend savings of between 5 and 10 percent. Complexity for both the buyers and the supplier base decreased markedly. Meanwhile, data quality improved noticeably, measured by the number of products with insufficient available specification data for tendering purposes.

These achievements laid the groundwork for more automated processing of data collection and tendering in the future. Ultimately, the company digitized its entire sourcing process and achieved unprecedented speed in completing the qualification process.

Tail spend isn’t going away. But thanks to advances in digital technologies, companies can now proactively manage the complexities and costs inherent in this spend category. Procurement teams that take advantage of these technologies now will transform what used to be a costly but unavoidable problem into a source of new value for their company.