



IMPLICATIONS OF DIGITAL TRANSFORMATION ON THE ECONOMICS & BUSINESS LANDSCAPE

A Rule of Thumb Pricing

☞ Lerner Index of Monopoly Power

*a monopolist price exceeds MC,
but by an amount that depends inversely on the P_{eD}*

☞ $L = (P - MC)/P = -1/P_{eD}$

☞ L takes a value between 0 to 1

☞ Rearranging

☞ $P = MC/(1 + 1/P_{eD})$

☞ $(1 + 1/P_{eD})$ is the mark up over MC

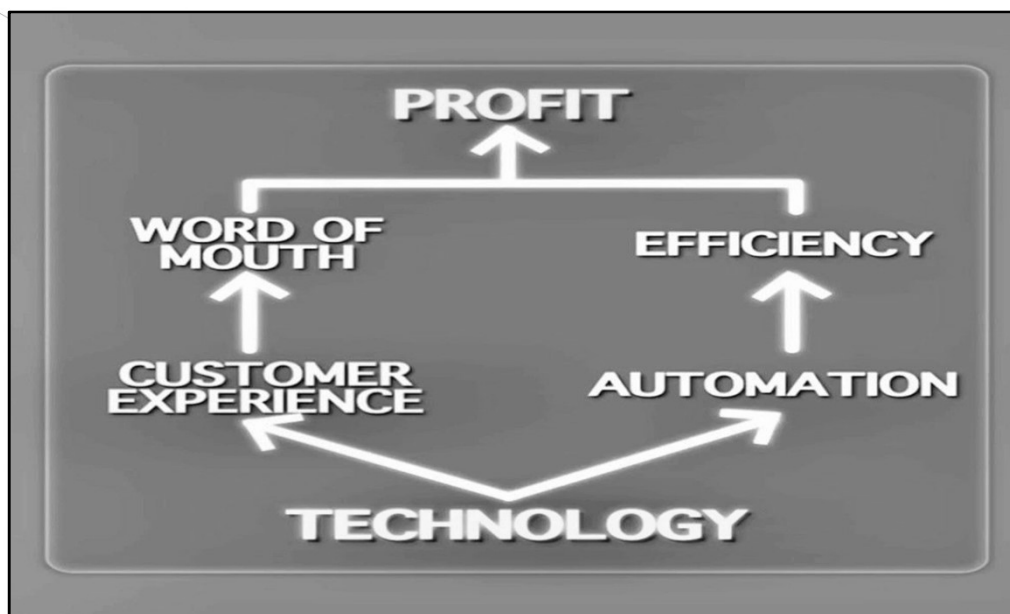
☞ P_{eD} is firm's price elasticity of demand

☞ Note: Monopoly power not necessarily imply higher profits. Profit depends on AC relative to Price.

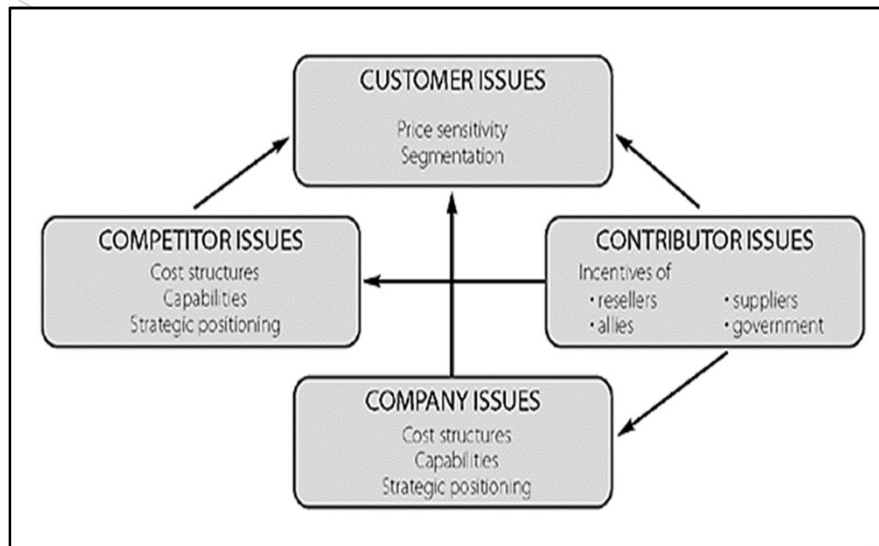
Case Discussion: Synopsis



- *Does Apple have monopoly pricing power?*
- *What should be Apple's pricing strategy?*
- *How Apple can grow its revenues & profits?*



Preparing for a Price War!



Case Discussion



For You:

Q.8. What aspects of the case discussion is relevant for sustainable profits in future?

Q.9. What strategic decisions should take for staying ahead in the market?

MANAGERIAL ECONOMICS

"When a management with a reputation of business tackles a business with a reputation of bad economics, it is the reputation of the business that stays intact" ~Warren Buffet

Key business decisions

How can we organise & invest in our resources - land, labour, capital or managerial skills (organisation), to maintain competitive advantage over other firms in the market?

- Cost leadership vs. differentiation
- Niche market focus vs. diversification
- M&A, Alliances, Outsourcing for expansion
- Cross-geographic expansion
- **PESTEL Analysis**
- **Porter's 5 Forces**
- **Stages of Change Management**
- **Cost Curves of the firm**

KEY FACTORS DETERMINING BUSINESS TRANSFORMATION IN THE LONG RUN

TECHNOLOGY

The indispensable factor of production whose prominence will only magnify in the disruptive innovation era. RPA, AI, AR, VR, are only a few of such assets.

COMPETITION

In order to gain a competitive edge, a company often must undergo a digital transformation.

CONSUMERS

Customers are at the core of disruptive business transformations and in the digital context, even more so. Customer centricity will be a key innovation driver.

ENVIRONMENT

Sustainability concerns are increasingly becoming key decision drivers. Green concepts are penetrating even into the tech industry with energy efficiency slated to be at the core.

4 STAGES OF BUSINESS LIFE CYCLE

$$\pi = TR - TC$$

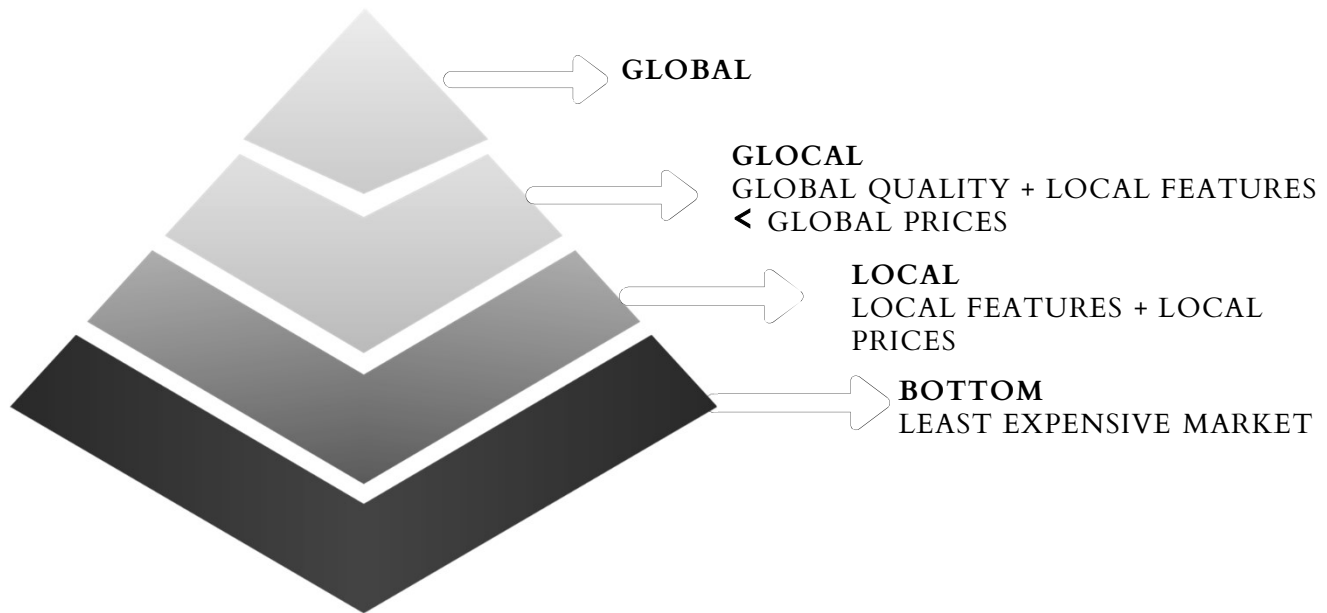
$$TR = P * Q - (TFC + TVC) = Q (AFC + AVC)$$

STAGE 1: COST PLUS	STAGE 2: COST MANAGEMENT	STAGE 3: REVENUE MANAGEMENT	STAGE 4: REVENUE PLUS
First Movers/ Early Entrants Monopoly Profits	Cost Cutting Downsizing Restructuring Reengineering TVC/Labour	Economics of Scale Focus on Top-Line Growth Gross Sales or Revenue	Economics of Scope Full recovery

ANSOFF MATRIX:

	EXISTING MARKET	NEW MARKET	
EXISTING PRODUCT	Market Penetration <ul style="list-style-type: none"> • expanding: existing market/ existing products • good strategy: growth/market structure • market share & least risk strategy • risk: saturation/stagnation 	Market Development <ul style="list-style-type: none"> • growth: existing products/new markets • new market segment/region • good strategy: core competency • expansion: new segment • more risk 	<div style="writing-mode: vertical-rl; transform: rotate(180deg);">Increasing Risk</div>
NEW PRODUCT	Product Development <ul style="list-style-type: none"> • new product/existing market • good strategy: core competency – specific market segment – market know-how 	Diversification <ul style="list-style-type: none"> • new product/new market • higher risk/higher growth • expansion: <ul style="list-style-type: none"> – attractive market segments • lessen over-dependence of one market 	
	<div style="writing-mode: horizontal-rl; transform: rotate(180deg);">Increasing Risk</div>		

4-TIER STRUCTURE OF PRODUCT & INPUT MARKETS



WHAT IS DISRUPTIVE INNOVATION?

Disruptive innovation describes a process by which a product or service powered by a technology enabler initially takes root in simple applications at the low end of a market — typically by being less expensive and more accessible — and then relentlessly moves upmarket, eventually displacing established competitors.

Disruption does not mean “breakthrough” or “new and shiny,” far too many people assume that disruption is an event. Rather, *disruption is a process*. It’s intertwined with the resource allocation process in the firm, in the changing needs of customers and potential customers, and in the constant evolution of technology.

CLAYTON CHRISTENSEN ON DISRUPTIVE INNOVATION & THE INNOVATOR'S DILEMMA

<https://www.youtube.com/watch?v=qDrMAzCHFUU>

<https://sloanreview.mit.edu/article/an-interview-with-clayton-m-christensen/>

BUSINESS MODEL & TECHNOLOGICAL INNOVATION

Business Model	<i>New</i>	Dollar Shave Club Uber ING Direct	Nespresso Electric vehicle 3G mobile telephony
	<i>Unchanged</i>		Hybrid vehicle 4G mobile telephony
		<i>Unchanged</i>	<i>New</i>
		Technology	

A DISCUSSION ON A FEW DISRUPTIVE BUSINESS MODELS

DISRUPT or GET DISRUPTED



PLATFORM MODEL

ECOSYSTEM-BASED SERVICE DELIVERY

WHAT?

It is any type of digital business model that uses the internet to connect dispersed networks of individuals to facilitate digital interactions between people.

Within the platform economy there is a **triangular relationship** between three parties (1) the platform (2) the service provider and (3) the end customer.

To the platform, however, both the service provider and the end consumers are customers.

It is the job of the platform to connect people with demand (the customer) to people that provide supply (the worker).

KEY CHARACTERISTICS OF PLATFORMS

DETERMINING THE COMPETITIVE ADVANTAGE

NETWORK EFFECTS

As more users engage with the platform, the platform becomes more attractive to potential new users.

Direct network effects- more users beget more users. Ex: more Facebook users will beget more Facebook users. **Indirect network effects** where more users of one side of the platform (for example, video game users) attracts more users on the other side of the platform (video game developers). With **indirect network effects, the value of the service increases for one user group when a new user of a different user group joins the network.** You must have two or more user groups to achieve indirect network effects.

Information Asymmetry & Matchmakers

While there is always friction associated with transactions between buyers and sellers, by building new software and harnessing the speed and scale of the Internet, platforms help reduce that friction.

MULTI-SIDED PLATFORM-BASED BUSINESS MODELS

TRANSACTION

A technology, product or service that acts as a conduit facilitating exchange or transactions between different users, buyers, or suppliers.

Ex: UPI, Tencent, Baidu

INNOVATION

A technology, product or service that serves as a foundation on top of which other firms develop complementary technologies, products or services.

Ex: AWS, Microsoft, Oracle

INTEGRATION

A technology, product or service that is both a transaction platform and an innovation platform with *vertical integration*.

Ex: Google, Apple

INVESTMENT

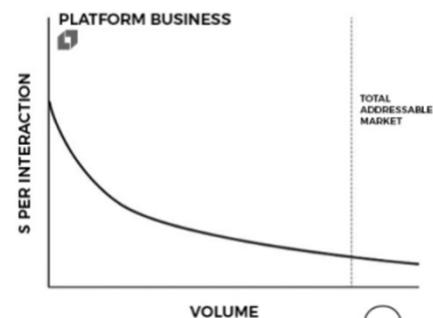
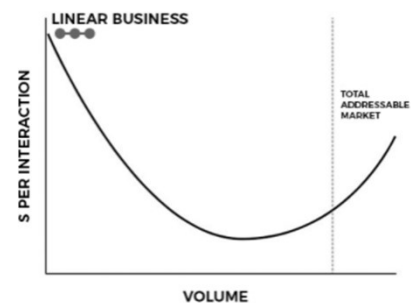
Consist of companies that have developed a platform portfolio strategy and act as a holding company, active platform investor or both.

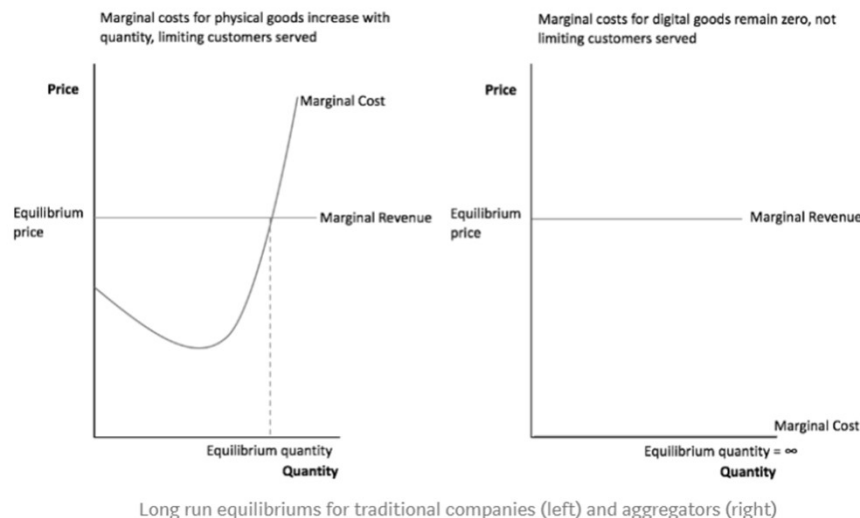
Ex: Peer-to-Peer lending: Monexo

THE ECONOMIC IMPLICATIONS

WHAT CHANGES?

- DEFIANCE OF MICROECONOMIC THEORY
- ZERO MARGINAL COSTS
- BEHAVIOURAL ECONOMICS





ZERO MARGINAL COSTS

Costs as the goods “sold” by an aggregator are digital and thus have zero marginal costs. They may have significant fixed costs, but in the long run, all fixed costs are marginal costs. Given the large consumer base of aggregators fixed costs per consumer are immeasurably small.

Distribution costs are zero as these digital goods are delivered via the Internet.

Transaction costs are close to zero as transactions are handled automatically through automatic account management, credit cards payments, etc.

How To Harness the Power Of Network Effects

By Building Product Differentiation & Offering Unique Value Proposition
 Beating Competition
 (users find difficult to move away)

Partnering with Industry
 Partner with industries that build complementary products

Build an effective tailor-made and scalable business model

Develop a go-to-market strategy
 - Market segmentation and product-market fit

Increase the economies of scale on both the supply & demand side- innovative products to consumers & cutting-edge technology to suppliers

Retain customers
 Lower your costs to maintain volume
 Compromise short-term profits for long-term sustainability

Strive for operational excellence
 Customers experience is their Delight