Eddie Jou, Competitive Strategy Case Write-Up

Required—Primer on network effects

1.) Extremely valuable. 2.) Not valuable at all. 3a.) No. 3b.) No.
3c.) The more users, the cheaper they can sell me goods and the more variety of goods I can buy (because vendors want to sell on Amazon). I can also use reviews of other users to pick the best items.
4.) Facebook, Google, Amazon, Microsoft, Apple

Required case: LinkedIn Corporation, 2012

1. Hoffman is talking about two interrelated issues: the ability to control what people see about you when you are searched on the web, and the ability to separate professional from personal web presence. If a person's LinkedIn profile appears first in a Google search, it allows someone to present a better, more professional version of themselves to the online market. Network effects for this are strong given that Google has a strong search presence. If a lot of people use Google and see that others have a LinkedIn profile as the first thing that shows up, then they too want to have the same thing – a separate professional and personal online persona.
2. The other benefits to LinkedIn are that one can find jobs through LinkedIn connections, learn about open positions at companies through connections, and learn about companies through the site. Network effects are very important for these aspects. First, for finding jobs through other connections, the more connections one has, the more jobs and better search one can have. In order to gain connections, then your friends, their friends, and as many people as possible need to be on the site. For learning about other jobs, it is very important to have many jobs to learn about – once again a function of the number of people on the site. Lastly, learning about companies is aided by the network effect in multiple ways. First, companies would only take the time and effort to have their own profile page if there are many people using LinkedIn. Second, companies want a large pool of applicants to draw from (for both passive and active job searchers). Finally, the more employees a company has on LinkedIn promoting itself, the better the company looks.
3. 50% of LinkedIn's revenue comes from the sale of LinkedIn's Hiring Solutions and Jobs products. These services allow recruiters and hiring managers to identify both active and passive candidates for positions. 30% of the revenues come from LinkedIn's Marketing Solutions which are marketing and advertising from text and display ads on the LinkedIn website. The last 20% of revenue comes from premium subscriptions which users opt into in order to receive added features such as extra search and communication abilities on LinkedIn.
4. I would definitely not charge for membership to LinkedIn. I think LinkedIn has the right idea, as do Twitter and Facebook. Since LinkedIn offers almost no value to its users if there were few people using its platform, it is important for LinkedIn to draw as many people to the site as possible, particularly in its early stages. Charging for additional features allows LinkedIn to segment its market and make money, but having the basic user experience be free is important to bring in more users.
5. To charge for membership in the future, I would need three things to be true. LinkedIn would need to be the undisputed method through which people find information about companies and jobs. With this market power, then people would not be able to leave LinkedIn, and I could guarantee having a large network. I would also need for there to be a reason why people would want to check LinkedIn when they are not actively looking for a job. Otherwise, there is no value proposition to paying for LinkedIn except when looking for a job. Finally, I would need to be able to somehow discriminate between lower and higher wage positions so that I could change prices based on what people can afford. With a single price, it may not be beneficial for lower wage workers to join.
6. The dilemma is that LinkedIn has data which other companies would like to use. However, it is hard for LinkedIn to decide to sell this data to companies. The reasons why this scenario might differ from

Facebook is because Facebook is not a professional site. People seem more willing to give up data about their personal lives than they are about their professional. Additionally, if professional information were given, then the aura that LinkedIn has been trying to keep of a professional website might be destroyed as non-professional advertisements creep up on the site or non-professional people and companies use the data for their own means.

<u>Required case: Power Play (A)</u>

2. The more people that buy and play a specific console, the more that video game makers want to make games for that specific console. This becomes a self-perpetuating cycle because the number of people that want to buy the console further increases because it has more games.

3a.) When Nintendo first launched, Nintendo priced its console well below its competitors. The case mentions that they priced the console at or below marginal cost. They likely took this strategy because they wanted to get as many people to use their system as possible. We aren't told what other console created games retailed at, but do know that Nintendo cartridges retailed for around $40 a piece, which is 40% the cost of the console itself. This is a clever razer blade model where Nintendo is charging less for the system itself, knowing that once people are using the system, they are stuck paying more for the games.

b. Nintendo took a hard strategy toward developers where the developers had to place manufacturing orders with Nintendo itself with minimum order numbers, were charged 20% royalty and had to absorb Nintendo's manufacturing costs. NOA had the same policy with American game manufacturers with the addition of exclusivity contracts. Nintendo likely took this strategy because they had strong market power. In Japan, they owned 95% of the home video game system market and over 90% in the US. The game manufacturers had little choice but to go through Nintendo because almost everyone was playing on a Nintendo system.

c.) Similar to game developers, Nintendo was able to get excellent contracts from chip suppliers. They "extracted a rock-bottom price" for the chips. Nintendo needed to do this to keep the cost of their console low. They were also able to find an electronics giant with spare capacity when Nintendo was just starting. Eventually, when Nintendo had a larger market share, they were likely able to renew their contract due to their power and size.

d.) Nintendo was much more lenient with retailers. For instance, when Nintendo was first trying to get into the US market, they offered to stock stores for free and allowed retailers to pay only what they managed to sell after 90 days. This was a clever move by Nintendo as they were entering a new market and wanted to make their product as available as possible to the larger population. Since retailers were the way to get their goods into the hands of the people, Nintendo had to play nice. Nintendo was also untested and new at the time, so had much less power over retailers.

3. They should introduce a system immediately. Since network effects are very important, the company that is out first will likely sell more to begin with and therefore have contracts with game companies to develop games. If this happens, then Nintendo will lag behind the competition not only because it is late to introduce a console, but also because game makers will either not want or not be able to create hit games for Nintendo because fewer people have the Nintendo system and because they are already in contracts with other console companies.