

# Digital Business

## Topic 2: What is a Digital Business?

# Learning Objectives

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- ▶ Define what is a digital business.
- ▶ Describe the characteristics of a digital business.
- ▶ Distinguish the difference between digital business and e-business.
- ▶ Describe the different types of *digital* business models
- ▶ Identify examples of digital businesses and their business models.

# What is **Digital** in Digital Business?

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**"Digital"** refers to the **use of technologies** to improve organizational processes, to improve interactions between people, organizations and things, or to make new business models possible.

- Gartner

# Examples of Digital

## Non-Digital

Physical Mail



Physical Parking Coupon



Traditional marketing channels, e.g. Radio, TV, Newspapers, etc.



Traditional retail, e.g. Shopping at physical shops

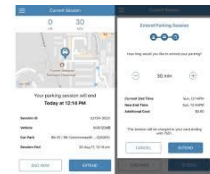


## Digital

Email



Parking mobile application



Digital marketing channels, e.g. web, mobile/ social media applications, digital signage and kiosks



E-commerce, e.g. Amazon, Tmall, etc.



# What is a **Digital** Business?

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An organization — or a unit inside an organization — whose **product set and business model are only made possible by the use of information and digital technology.**

- Gartner

Source: <https://www.youtube.com/watch?v=bIkGBPYSvnE&t=14s>

# What is a **Digital** Business?

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A digital business is an organization that **incorporates digital technology** to create revenue and results via **innovative strategies, products, processes and experiences**. They use digital resources to create **new customer value**, revenue and business results.

- Accenture

Source: <https://www.accenture.com/us-en/blogs/blogs-defining-digital-technologys-tower-babel>

# What is a **Digital** Business?

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Digital businesses **use technology** to **create new value** in business models, **customer experiences** and the **internal capabilities** that support its core operations.

- LifeRay

Source: <https://www.liferay.com/resources//digital-business>

# Characteristics of a **Digital** Business

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Uses **Digital Technologies** to:

## 1. **Build Internal Capabilities**

- ▶ Uses technology gain efficiency, e.g. to gather/ analyse data for better decision making, improve internal processes/products, & eliminate redundancies/ cut costs, etc.

## 2. **Improve/ New Customer Experiences**

- ▶ Uses technology to improve how customers are served
- ▶ Focuses on Digital Customer Experience

## 3. **Create New Customer Value Proposition/ Business Model**

- ▶ Explore new ways of creating & delivering value for customers (i.e. new business model)

Source:

- 1) <https://www.liferay.com/resources//digital-business>
- 2) <https://www.mckinsey.com/industries/high-tech/our-insights/what-digital-really-means>



# Digital Business vs E-Business

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- ▶ **E-business** typically **leaves existing business models intact**, merely using technology to gain efficiency or eliminate redundancies (i.e. digital optimisation)
  - ▶ E.g. Having customers fill out a credit card application form online reduces the inefficiencies of a paper application process, but it doesn't provide an experience that is new or different
- ▶ **Digital business** focuses more on how technology allows companies to **create new value and experiences** that differentiate companies and give them a competitive edge over their peers.

# Recap: What is a Business Model?

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- ▶ In short, it explains,
  1. How the business creates & delivers value to the customer (i.e. What's the **Customer Value Proposition**)?
  2. How the business makes money?
  
- ▶ E.g. In the **transportation** business, value is **created** by moving people/ goods from one place to another and **delivered** through a bus/taxi/ship/airplane/etc., and **captured** by the fees paid for the transportation service.
  
- ▶ E.g. In the traditional **mobile phone manufacturing** business, value is **created** by manufacturing the phone (which allows users to make calls & send text messages), and **delivered** through the phone itself, and **captured** through the sale (\$) of the phone.

# Example of *Digital* Business Models

Type of Model	Description	Examples
<b>Bricks-and-clicks</b>	Extension of in-store shopping to include online ordering with in-store pickup or items found exclusively online	NTUC Fairprice Online, H&M, Uniqlo
<b>Advertising</b> (most common)	Extension of traditional advertising model. Website provides content mixed with advertising messages either in the form of banner ads or blog posts.	Online blogs, Google, Yahoo, etc...
<b>Crowdsourcing + Advertising</b>	Content is created by users who, in turn, get access to content created by other people.	Facebook, YouTube
<b>Affiliate</b> (one form of advertising)	Resell items from other merchants on website. Paid for driving new customers to the merchant who is selling the item.	Trivago (Hotels), Skyscanner (Air tickets), Amazon

# Example of *Digital* Business Models

Type of Model	Description	Examples
<b>Brokerage</b>	Brings together buyers and sellers to make some transactions and charging a specific fee for doing it.	Uber, Airbnb
<b>Freemium</b>	Offers basic services to the customers for free while charging a certain premiums for extra add-ons	Dropbox
<b>Subscription</b>	Customers pay monthly subscription fee to access/stream the content e.g. videos or music	Netflix, Spotify
<b>Reverse Razor-razorblade</b>	In contrast to Razor-Razorblade business model, the main products is sold for a high price while the companion products is sold relatively much cheaply	Apple iPod/iPhone, Amazon Kindle

# Example of Digital Business: **Uber**

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- ▶ A traditional taxi company must own and maintain vehicles, as well as recruit and manage drivers
- ▶ An e-business version would allow customers to schedule a taxi online and perhaps view past trips, but the essential experience would remain the same
- ▶ **Uber** doesn't own any vehicles nor employ any full-time drivers, but provides a platform/ smartphone app that matches customers to the nearest private-hire drivers

# Example of Digital Business: **Uber**

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## ► How Uber Works?

1. Customer uses the smartphone app to request a vehicle instantly or schedule it for some time later.
2. A notification is sent to the nearest driver. Driver has the option to accept or reject the ride. In case he rejects, notification is sent to another driver in that area.
3. Customer can track the vehicle and know when it is arriving/ ETA. The meter starts as soon as the customer sits in the vehicle which can be tracked through the customer side app as well.
4. Once the ride is over, customer makes payment through the smartphone app.
5. Customer gets an option to rate the driver. Rating system is an important part of the business model as it lets a customer know about the trustworthiness/ reliability/ service of the driver before booking a ride.

# Example of Digital Business: **Uber**

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## ▶ How Uber Works?

1. Different types of vehicles to cater to different customers,
  - ▶ e.g. Uber X, Uber Black, Uber SUV, Uber Rideshare, etc.
2. Surge Pricing Technology
  - ▶ During times of increased demand, such as holidays or severe weather, Uber institutes surge price fares that attract drivers and increase the company's overall revenue, servicing clients who are in need of transportation that is otherwise unavailable.
3. Other Uber Rides
  - ▶ E.g. extending the services to include motorcycles, boats, helicopters, etc.

# Example of Digital Business: **Uber**

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## ▶ How Uber Makes Money?

- ▶ Fares are charged to customers based on mileage and time
- ▶ When passenger demand is high, Uber adds Surge Pricing to the fare by multiplying the fare by the surge rate, anywhere from 0.5x and up.
- ▶ Uber takes a 25% cut from each fare

Source:

- 1) <https://jungleworks.com/uber-business-model-revenue-insights/>
- 2) <https://www.investopedia.com/ask/answers/013015/how-do-ridesharing-companies-uber-make-money.asp>



# Example of Digital Business: **Airbnb**

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- ▶ A traditional hotel/ holiday accommodation provider must own and maintain a property, as well as recruit and manage employees (e.g. receptionists, cleaners, etc.)
- ▶ An e-business version would allow customers to book a room online and perhaps view past bookings, but the essential experience would remain the same
- ▶ **Airbnb** doesn't own any property/ real estate nor employ any full-time employees (e.g. receptionists, cleaners, etc.), but provides a platform that connects travellers to property owners/ local hosts.

# Example of Digital Business: **Airbnb**

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## ▶ How Airbnb Works?

1. Hosts list out their property details on Airbnb along with other factors like pricing, amenities provided etc.
2. Airbnb sends a professional photographer (if available) to the property location to take high quality photographs.
3. Travellers search for a property in the city where they wish to stay and browse available options according to price, amenities etc.
4. Booking is made through Airbnb where traveller pays the amount mentioned by host and some additional money as transaction charges.
5. Host approves the booking. Traveller stays there and finally Airbnb pays the amount to the host after deducting their commission.
6. The host and the traveller can rate each other and can write reviews based on the experience.

# Example of Digital Business: **Airbnb**

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## ▶ How Airbnb Makes Money?

### 1. Commission from Property Owners (Hosts)

- ▶ Airbnb charges flat 10% commission from hosts upon every booking done through the platform.

### 2. Transaction fee from Travellers

- ▶ Airbnb charges 3% of the booking amount as transaction charges from travellers upon every confirmed booking.

Source:

- 1) <https://jungleworks.com/airbnb-business-model-revenue-insights/>

# Example of Digital Business: **Alibaba**

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- ▶ A traditional retailer must own inventory and operate a brick-and-mortar shopfront
- ▶ An e-business/ e-commerce version would allow customers to view/ buy a product online, but the essential experience would remain the same, i.e. the business will still have to carry inventory and probably operate a brick-and-mortar shopfront.
- ▶ **Alibaba Group** is the largest (online) retail company in the world. Alibaba has no inventory & no shopfront. Alibaba's main focus is to connect buyers (from around the world) with (Chinese) sellers.

# Example of Digital Business: **Alibaba**

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## ▶ How Alibaba Works?

1. **Taobao.com** – **C2C** marketplace (like eBay or Qoo10)
2. **Tmall.com** – **B2C** marketplace
3. **AliExpress** – **C2C/B2C** marketplace for **international** buyers
4. **Alibaba.com/ 1688.com** – **B2B** marketplace

# Example of Digital Business: **Alibaba**

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## ▶ How Alibaba Works?

1. Customer uses Taobao.com/ Tmall.com/ AliExpress to order an item from a Seller (C2C/ B2C)
2. Seller uses Tmall.com/ Alibaba.com to order the item from a Distributor / Manufacturer (B2C/ B2B)

# Example of Digital Business: **Alibaba**

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## ▶ How Alibaba Makes Money?

### 1. Transaction Fee

- ▶ Alibaba.com (B2B) makes money by receiving a commission on each transaction.

### 2. Subscription Fee

- ▶ Alibaba.com (B2B) charges subscription fees to sellers who maintain storefronts in the marketplace.
- ▶ Tmall.com (B2C) charges its merchants yearly fees.

### 3. Advertising Fee

- ▶ Taobao (C2C) does not charge a commission on transactions. Rather, it makes money by selling ads (similar to Google). Sellers can pay to place their products higher in priority, to gain visibility for their products, or to reach more customers through search ads.

Source:

- 1) <https://www.investopedia.com/articles/investing/121714/how-does-alibaba-make-money-simple-guide.asp>

# Summary

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- ▶ Digital Businesses uses Digital Technologies to:
  1. Build Internal Capabilities
  2. Improve Customer Experiences
  3. Create **New** Customer Value Proposition/ Business Model
  
- ▶ Examples of Digital Businesses:
  1. Uber
  2. Airbnb
  3. Alibaba