



Strategic Management

Master IREN

2023

Camille Toussaint



Last Week News

SocGen shares plummet after new CEO's strategy disappoints

By Mathieu Rosemain

September 18, 2023 12:53 PM GMT+2 · Updated 2 days ago



DÉCRYPTAGE Médicaments : les laboratoires saluent la nouvelle stratégie du gouvernement

Les laboratoires voient d'un bon oeil le plafonnement des prélèvements effectués sur leur secteur. Ils vont cependant devoir encaisser la renégociation à la baisse du prix de certains médicaments.

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<https://www.lesechos.fr/economie-france/social/medicaments-les-laboratoires-saluent-la-nouvelle-strategie-du-gouvernement-1979971>
<https://www.reuters.com/business/finance/socgen-eyes-return-tangible-equity-rote-between-9-10-2026-2023-09-18/>



INSTITUT
POLYTECHNIQUE
DE PARIS

Session 2

Business Models

Learning objectives of the session

After this session, you will be able to:

- Perceive the specific nature of digital goods
- Define a business model and the origins of the concept
- Explain the advantages of the business model approach for strategy
- Handle different business models tools and apply them to digital context

Agenda

1. The nature of digital goods
2. Introduction to Business Models
3. Business models toolbox

Break

Groupwork!

1 The nature of digital goods

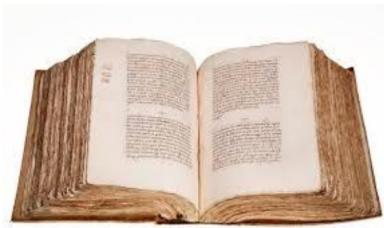
<https://www.youtube.com/watch?v=HmZm8vNHBSU>

YOU WOULDN'T
STEAL A CAR



Digital goods have specific properties

- Digital objects have different economic nature and properties from physical objects
- It leads to an entirely different behaviour from consumers
- It calls for different strategies from firms



≠



What is the nature of
digital goods?

consumption of one individual decreases the potential consumption of others / **it is possible to exclude consumers from the consumption of the good**

A typology of goods



Where would you position digital goods?

What does it lead to?
Free-riding behaviour

Digital goods as specific public goods

- The medium (CD, DVD, etc.) used to store a digital good is **a private good (rival and excludable)**
- But digital goods are replicable: **if a copy is made, the good becomes non- rival and non-excludable.**

What are the other characteristics of digital goods?

Digital goods as durable goods

A durable good is a good *that is neither (completely) destroyed by time or usage*

A good *that is not damaged by time but by consumption* is not considered a durable good

- In most cases, a durable good will progressively wear out because of time or usage
 - => Media (optical disc, hard drive, flash memory) is durable but finitely durable
 - => Vinyl records, tapes, etc. are also finitely durable
- Digital goods are replicable
 - => An exact copy can be made before the media fails
- Digital goods are durable

What ‘anti-durability’ strategies are applicable to digital goods?

Can digital goods be made obsolete?

- Quality or functional upgrades
- Temporal access to the digital good: renting (VOD)

Avoiding copies:

- Legal initiatives
- New substitute products

What strategies trigger piracy?

- High price commitment, limited capacity ...

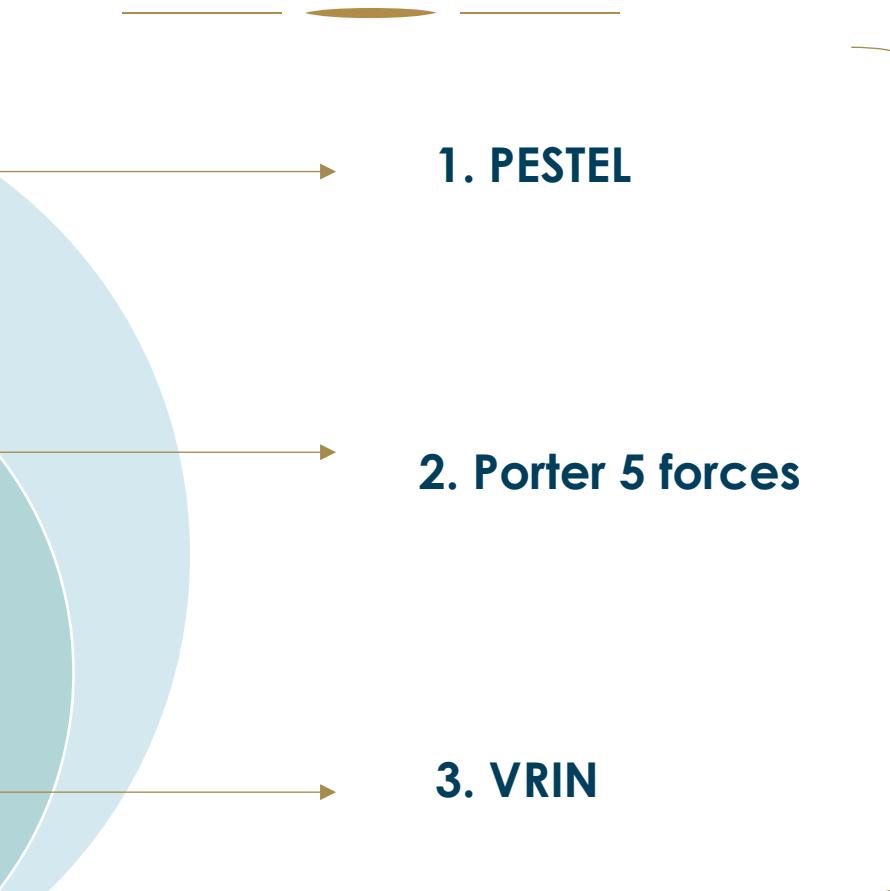
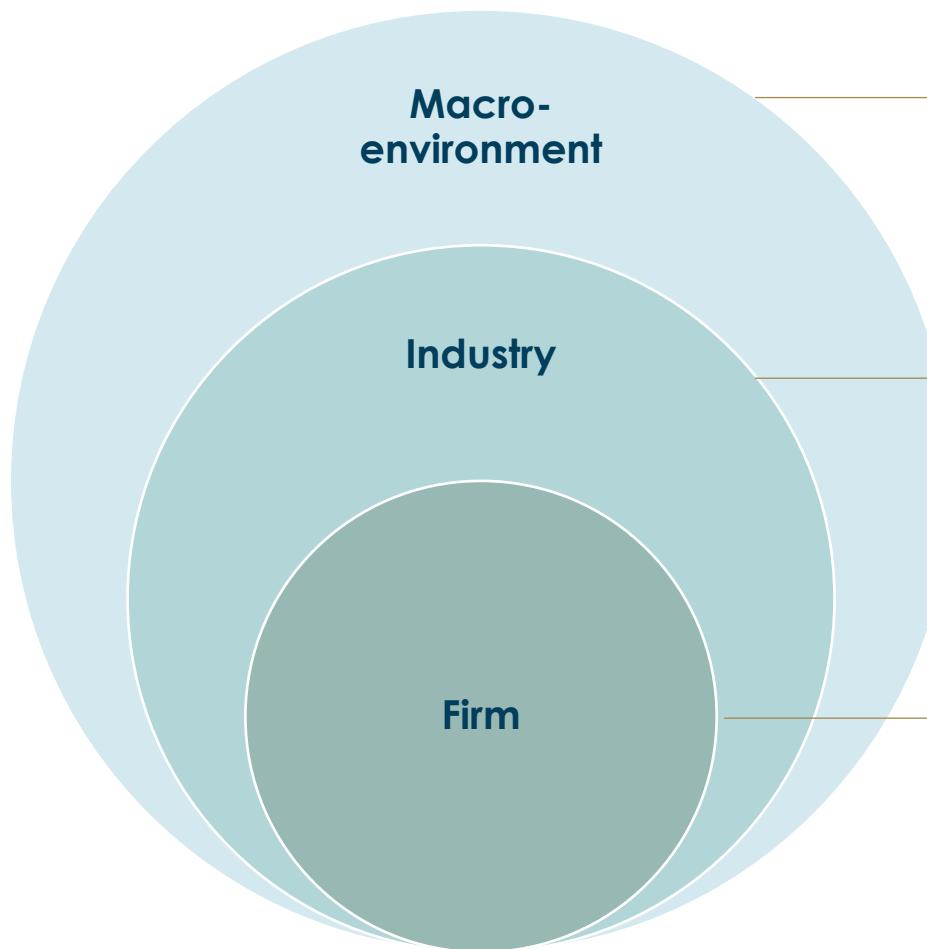


How to create competitive advantage with digital goods?

The nature of digital goods influences the way it can be commercialized:

- How to generate value when there is piracy?
- How to gain a competitive advantage when the goods are durable?
- When consumers and firms have a facilitated access to data?

Can traditionnal strategy tools answer these questions?



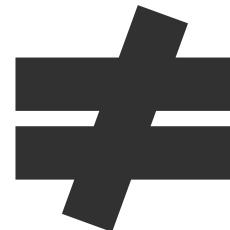
Introduction to Business Models

CAREFUL!



A CONFUSION TO AVOID

**BUSINESS
PLAN**



**BUSINESS
MODEL**

"The main limitation of the business plan is that it is often drawn up by entrepreneurs at the beginning of their exploratory phase, based on unverified assumptions and figures, whereas it should be drafted once the company's business model has been tested, verified and improved. » (Osterwalder)

Main definitions

Definitions	Author
« 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)
« Content, structure and governance of economic transactions, designed to create value by exploiting business opportunities »	Amit and Zott (2001)
« Business model refers to the logic of the firm, how it operates and how it creates value for its stakeholders »	Casadesus-Masanelle and Ricart (2010)
« An answer to the question: how does the company make money? »	Lecocq et al. (2006)

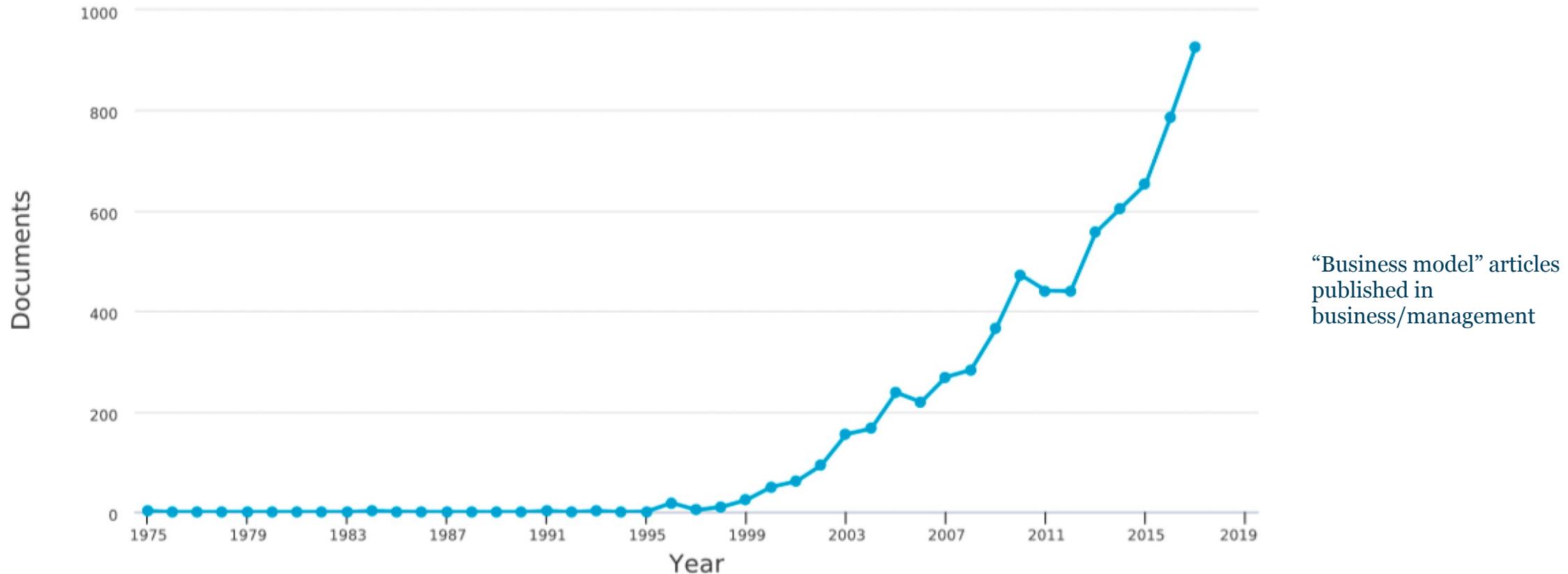


To characterize the causal relations that underpin revenue creation

Emergence of the concept

Documents by year

Scopus



Business models for Firms or Industries?

The Business Model logic is generally applied at the company level

But when technological paradigmatic shifts happen, it can change the business model of companies in an entire industry (e.g. Music Industry)

=> **industry's business model**



But firms in the same industry often have different business models

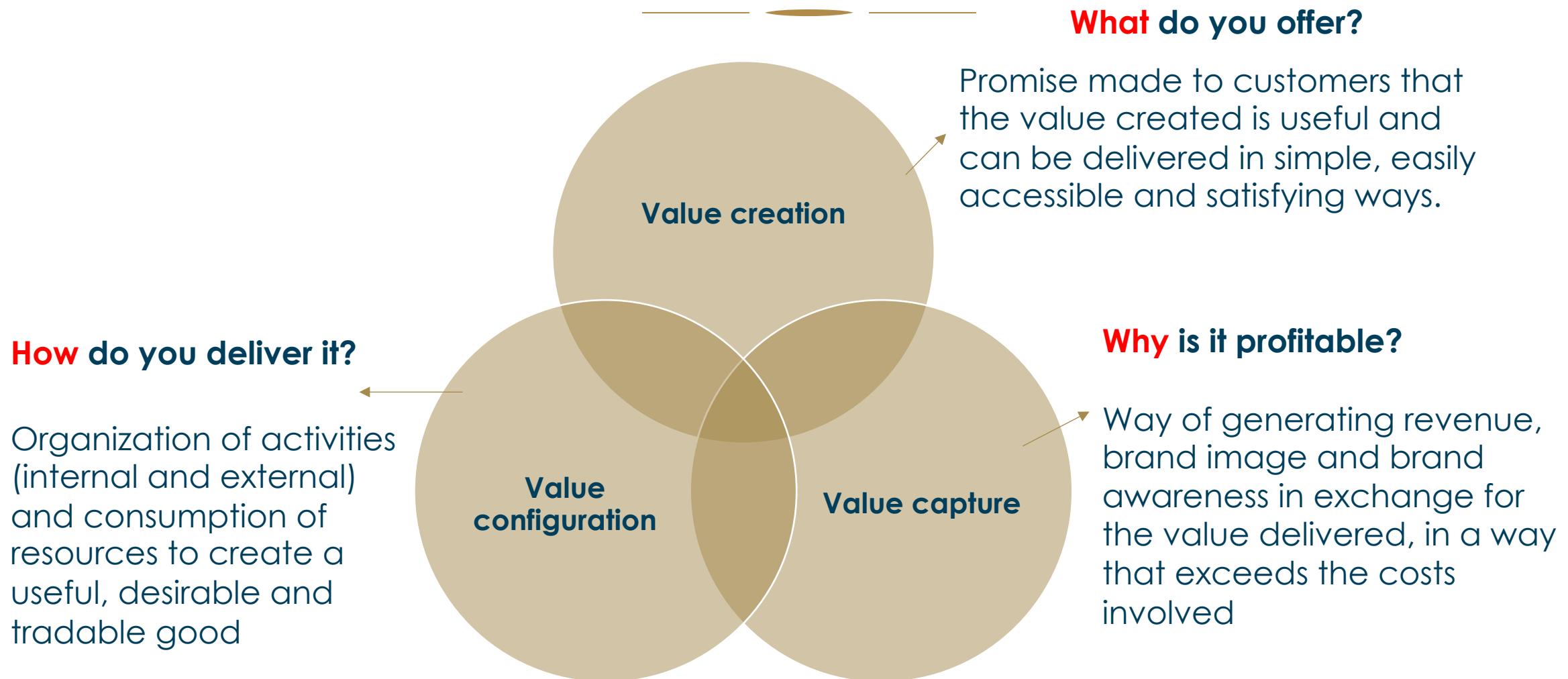
- In the same activity
- In different activities in the value chain

The importance of designing a good business model

«To profit from innovation, business pioneers need to excel not only at product innovation but also at business model design, understanding business design options as well as customer needs and technological trajectories. » (Teece, 2010)



Three components of a business model



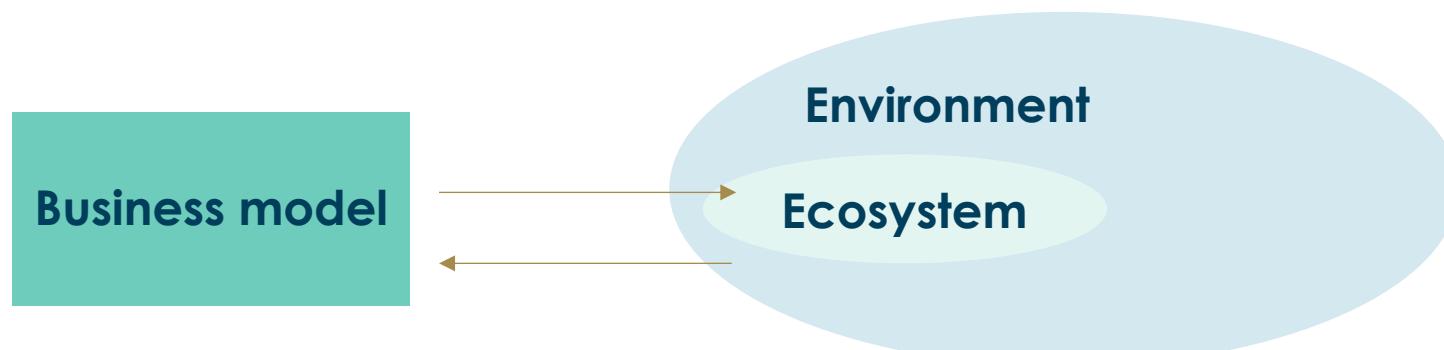
A new approach for strategy?

- BM replaces the notion of competitive advantage: value creation and capture become central objectives for the organisation:
 - performance can now take various forms
 - it opens the strategic tools to new kinds of organisations (NGOs, public sector...)
- Stakeholders play a central role in the value creation and capture
- Products and services become closely linked with the operations
- Managers and entrepreneurs take voluntary decisions

= **The end of the « one best way »**

Rethinking the relationship with the environment

- The end of the quest for "fit" with the environment
- By making certain business model choices, an organization can endogenize elements of the environment in its business model.
- Stakeholders do not depend on the sector, but on the business model implemented, which includes or excludes certain stakeholders and gives them a role in the system.



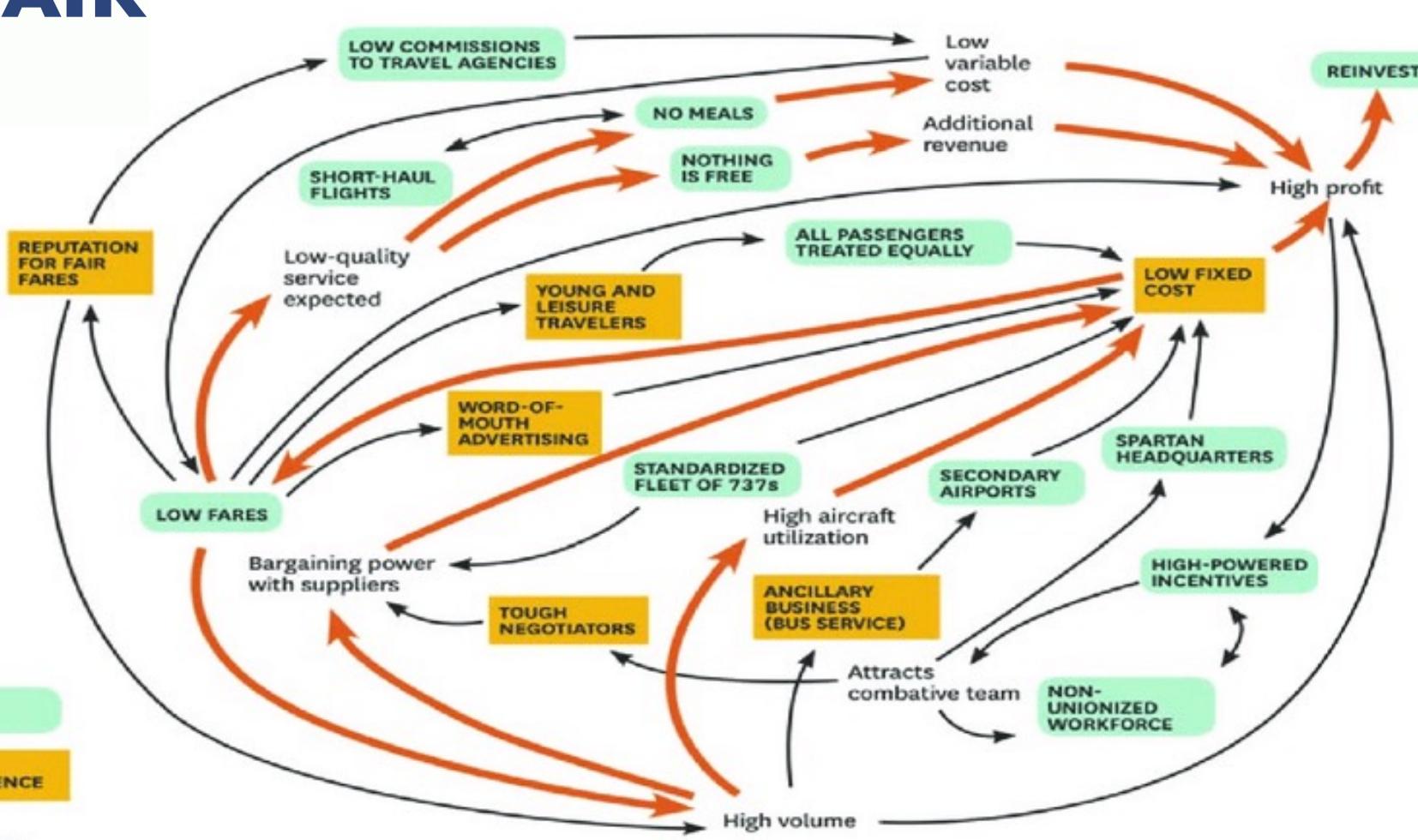
Emphasizing the role of creativity

Business model brings **creativity** to the fore when discussing the creation of new ventures or new activities within existing companies:

- Strategic field traditionally focused on analysis and provides little opportunity for creativity
- Business model perspective is fundamentally a creative one, as it tries to innovate and to find new ways to manage an activity beyond “business as usual”



Highlighting causal relations



Casadesus-Masanell, R; Ricart, JE (2010). « From strategy to business models and onto tactics », *Long Range Planning*, vol.2-3, n°195-215

Typical business model patterns



Gillette



easyJet

Typical business model patterns

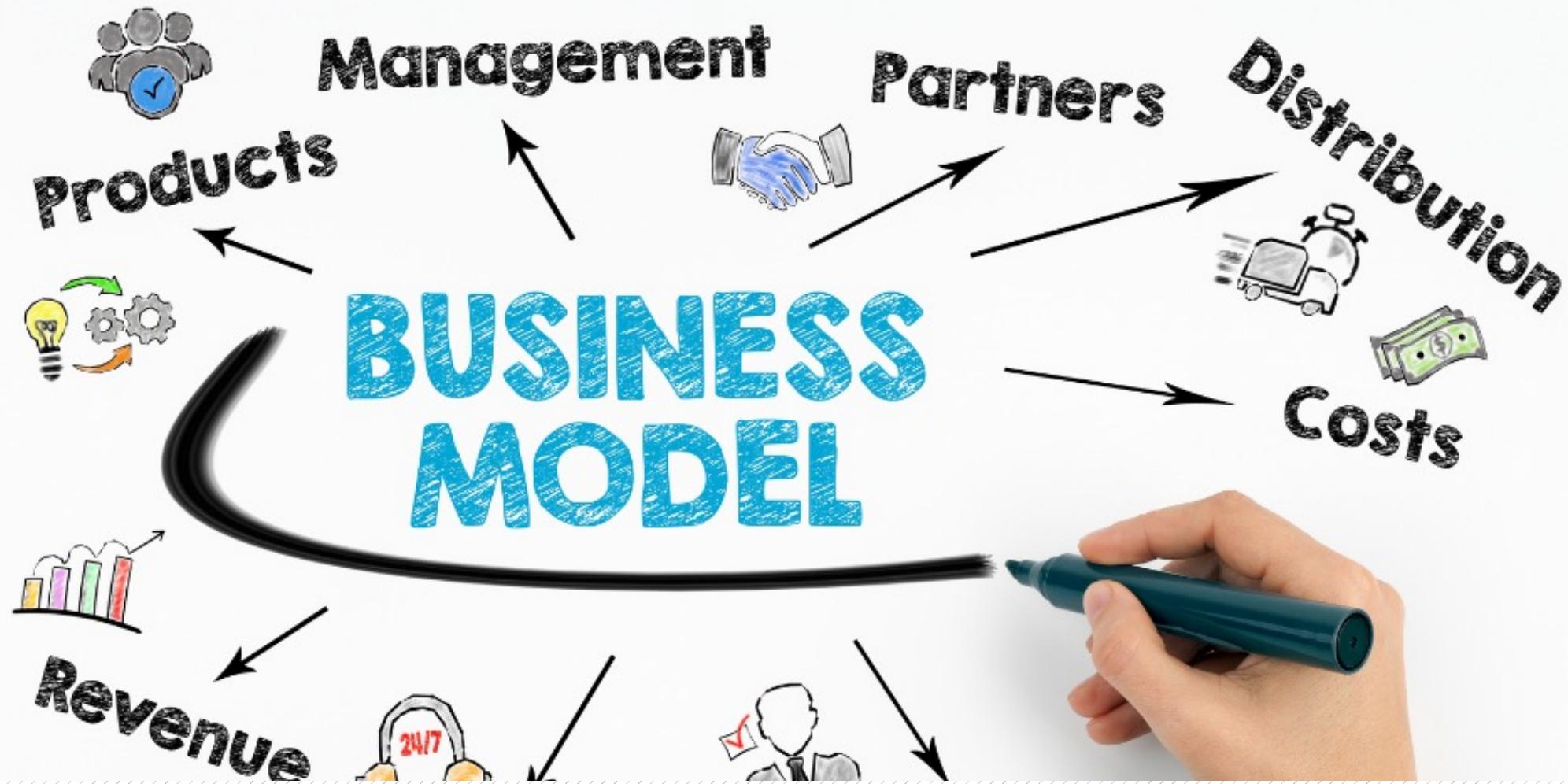


The Gillette brand name in a bold, black, sans-serif font.

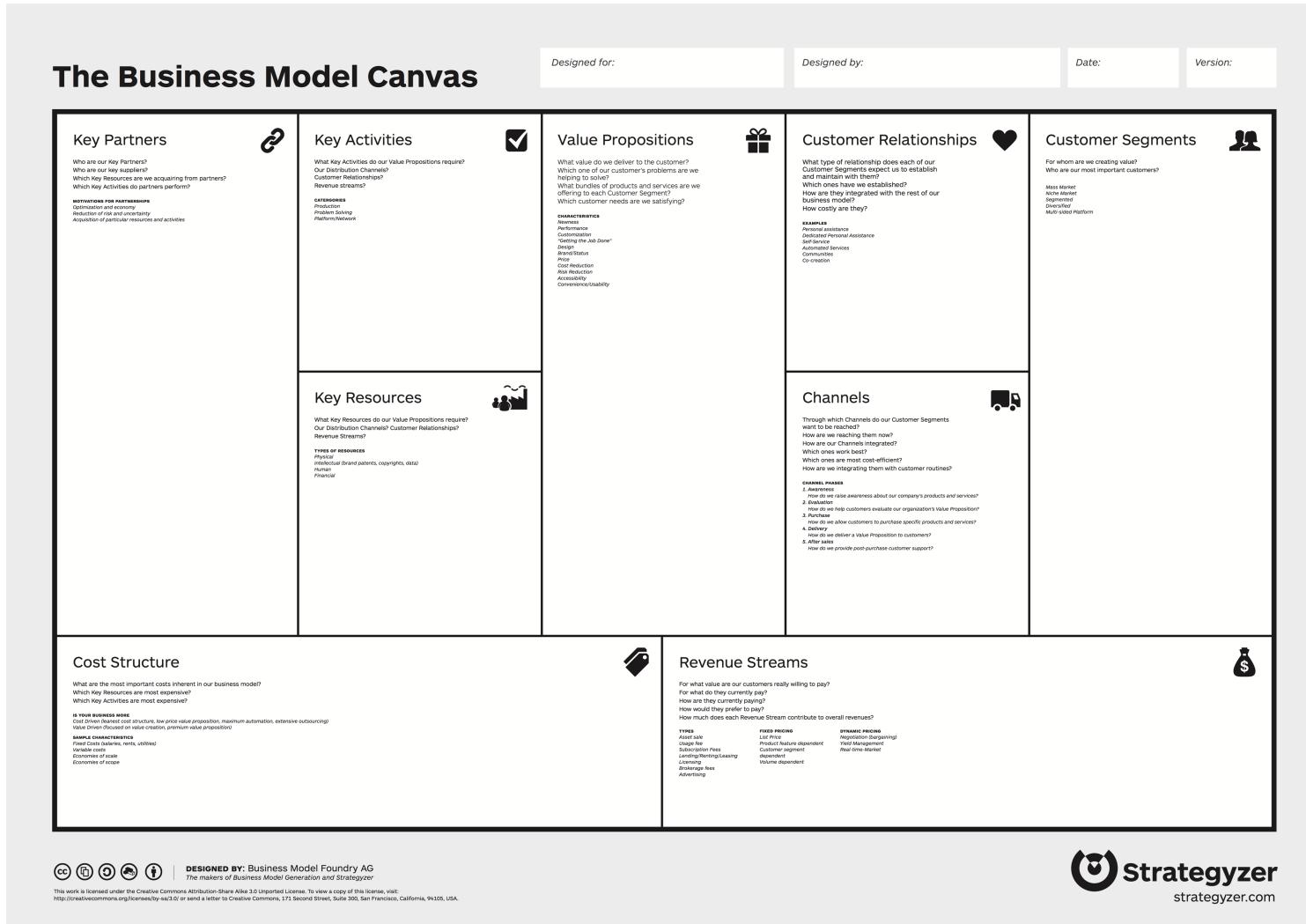


- **Freemium:** offer a basic version of a service or a product for free to attract high volumes of clients and sell a premium version.
- **Razor and blades:** selling two technically interlinked products separately
- **Peer-to-peer:** co-operation among individual through an app or website
- **Sponsorship:** mutual beneficial relationship between two organisations/individuals
- **Low-cost:** reducing the product/service offer to lower prices and attract customers

Business model Toolbox



Tool 1 : Business model Canvas (Osterwalder & Pigneur, 2010)

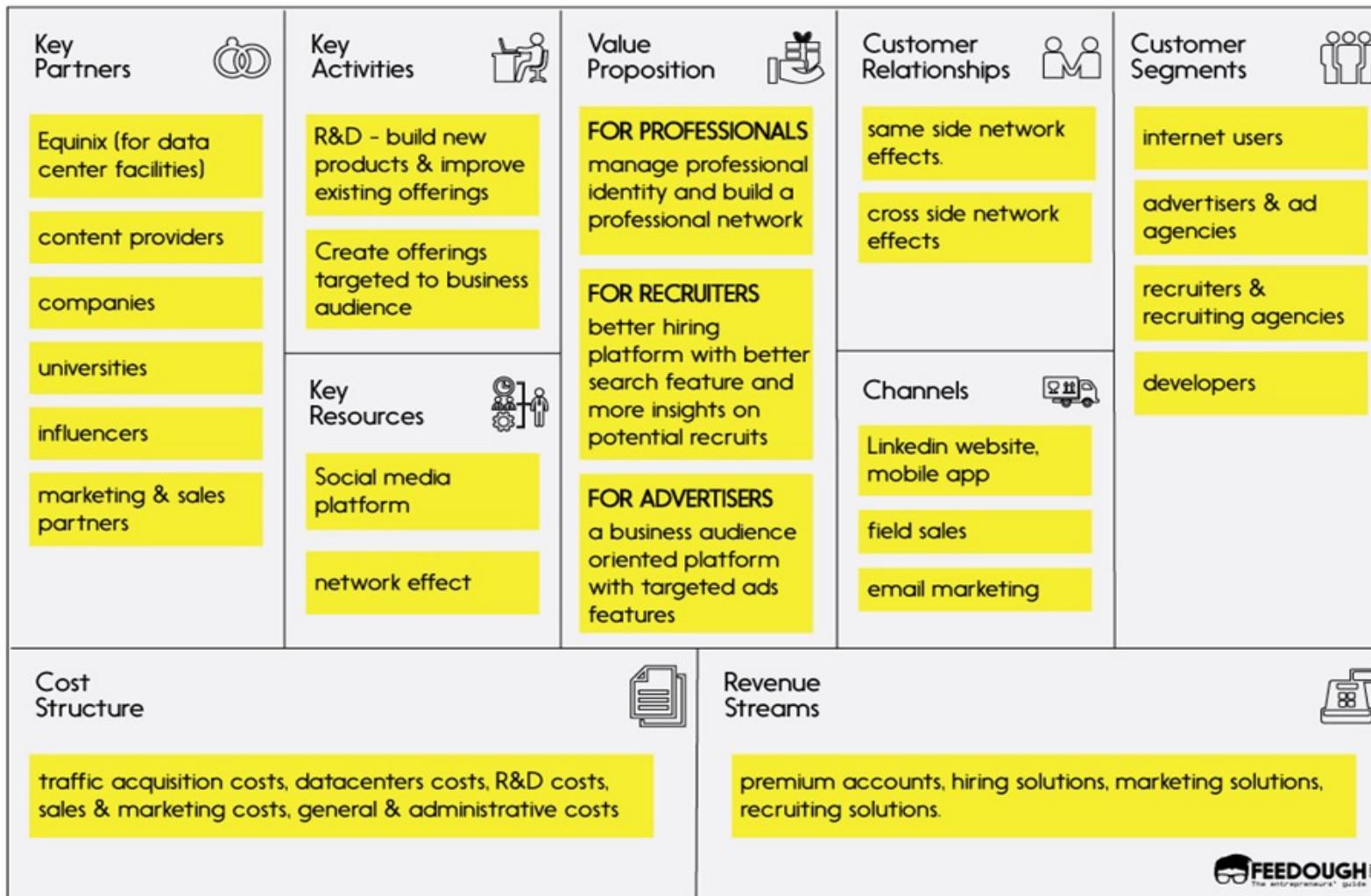


Business Model Canvas



- **Value proposition:** What kind of value do you deliver to your customer (e.g. efficiency, convenience, social status, low prices)? How do you satisfy your customers' needs?
- **Customer segment:** For whom are you creating this value? Can you differentiate between different customer groups?
- **Distribution Channel:** How do you deliver the value to your customer segments? This starts from raising awareness and also applies to purchasing, delivery and aftersales.
- **Customer Relationship:** What is the relationship between you and your customer? E.g. self-service, personal assistance during sales, creating a community where members share knowledge.
- **Revenues:** How do you generate revenue? Whom do you generate revenue from and what form does the revenue have (e.g. subscription fee, renting fee, advertisement, etc.)?
- **Key activities:** How do you generate value (service / product) for your customer?
- **Key resources:** What knowledge, infrastructure and financial resources do you need?
- **Strategic partners:** Who are our partners that help us to create value? Who are our suppliers?
- **Costs:** What costs arise from creating and delivering value to your customer, from your key activities and your key resources?

LINKEDIN BUSINESS MODEL CANVAS





WIKIPÉDIA
L'encyclopédie libre

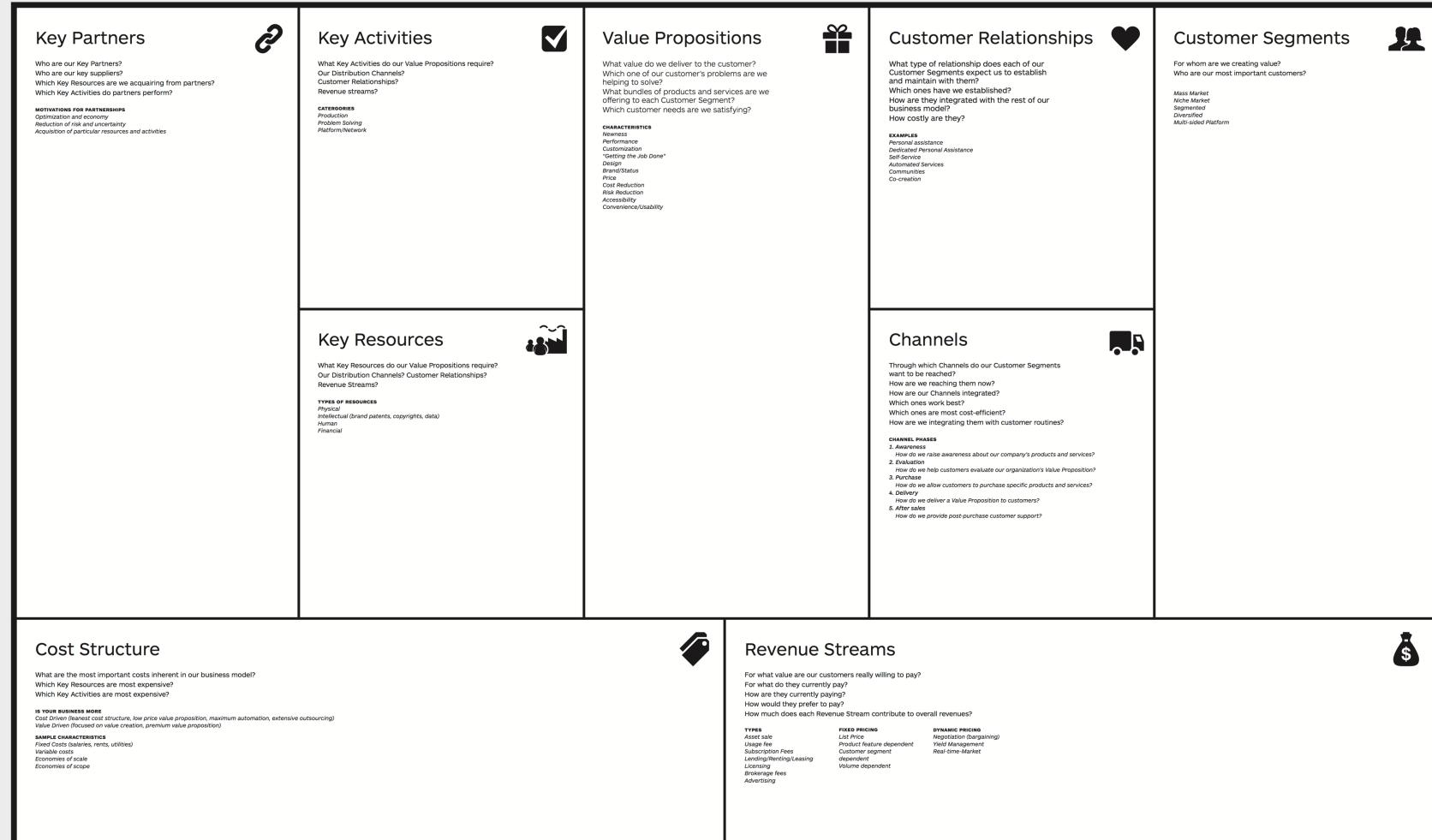
The Business Model Canvas

Designed for:

Designed by:

Date:

Version:



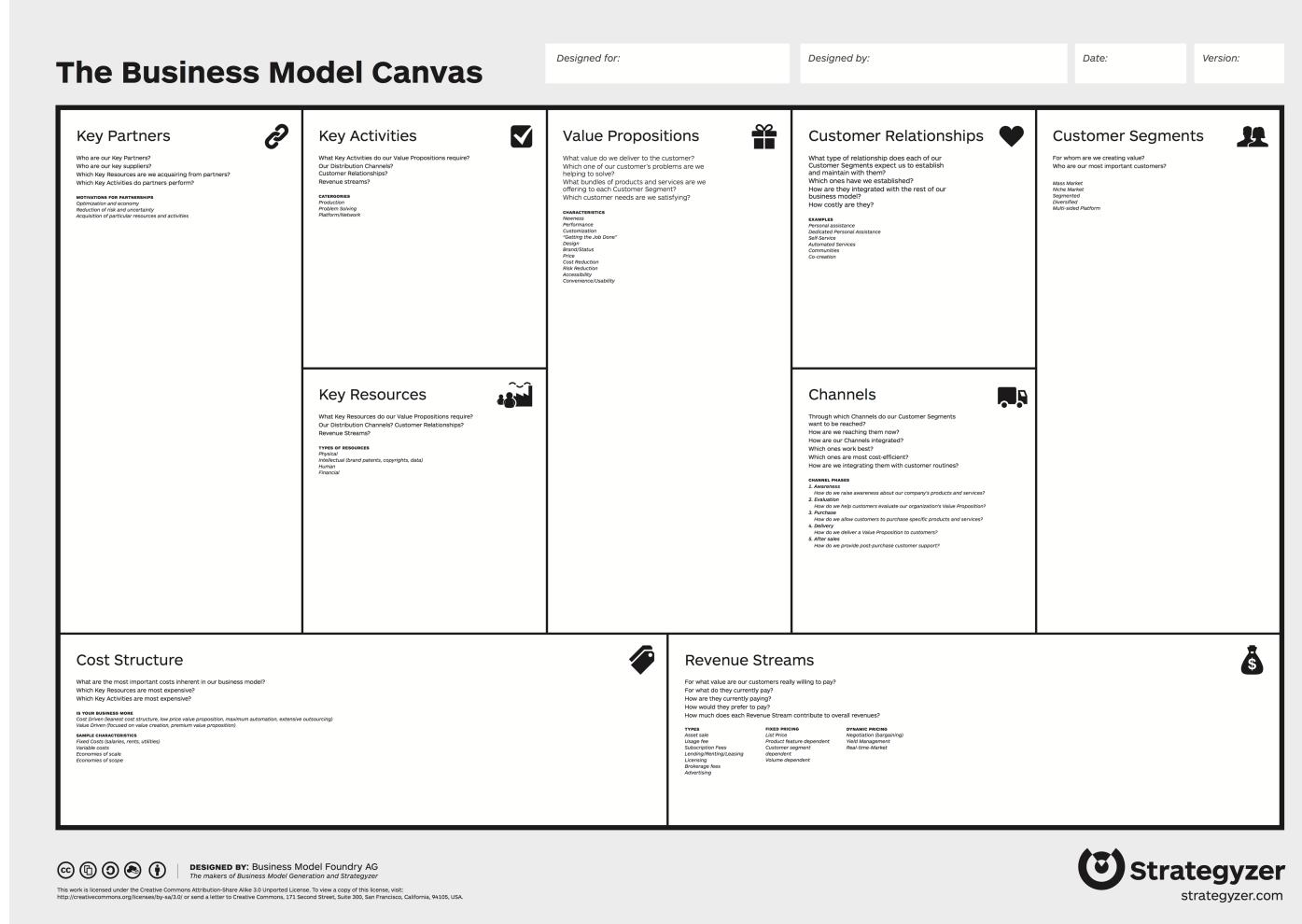
| DESIGNED BY: Business Model Foundry AG

The makers of Business Model Generation and Strategyzer

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Limitations of the Business model Canvas?



- Static and linear process: does not evidence the necessary iterations
- How to prioritize between different elements?
- Misleading order of categories?
- Interconnections? Environment? External Factors?

Business model Innovation



Business models innovation



Why renewing/creating business models?

- New product / service
- New technology
- Pressure from the competitors
- Pressures from the environment (legal, political)
- Maintain competitive advantage over time
- Improving efficiency and interconnections between activities

Renewing/changing BM is often a hazardous process

Kodak

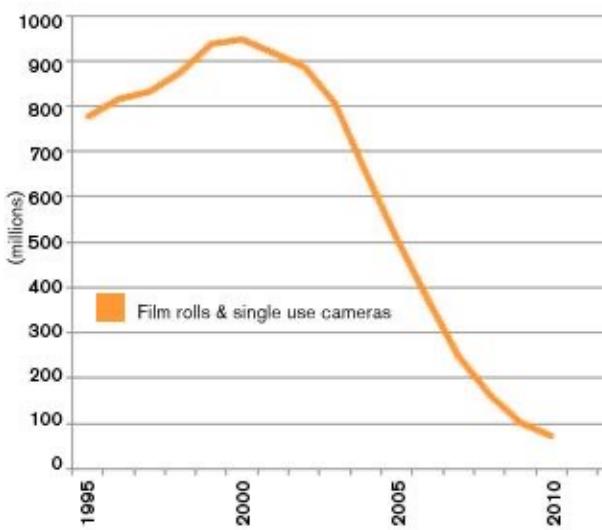
A business model innovation failure



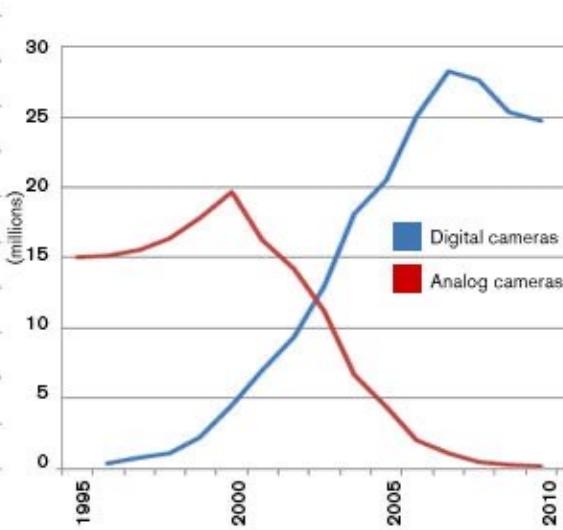
- Kodak files bankruptcy in 2012 due to the disruption of its business model by digital cameras
- Major source of revenue: analog film
- Strong investments in the digital turn – not sufficient
- High hopes on digital prints and emergent markets

Decline of Film

Film rolls sold

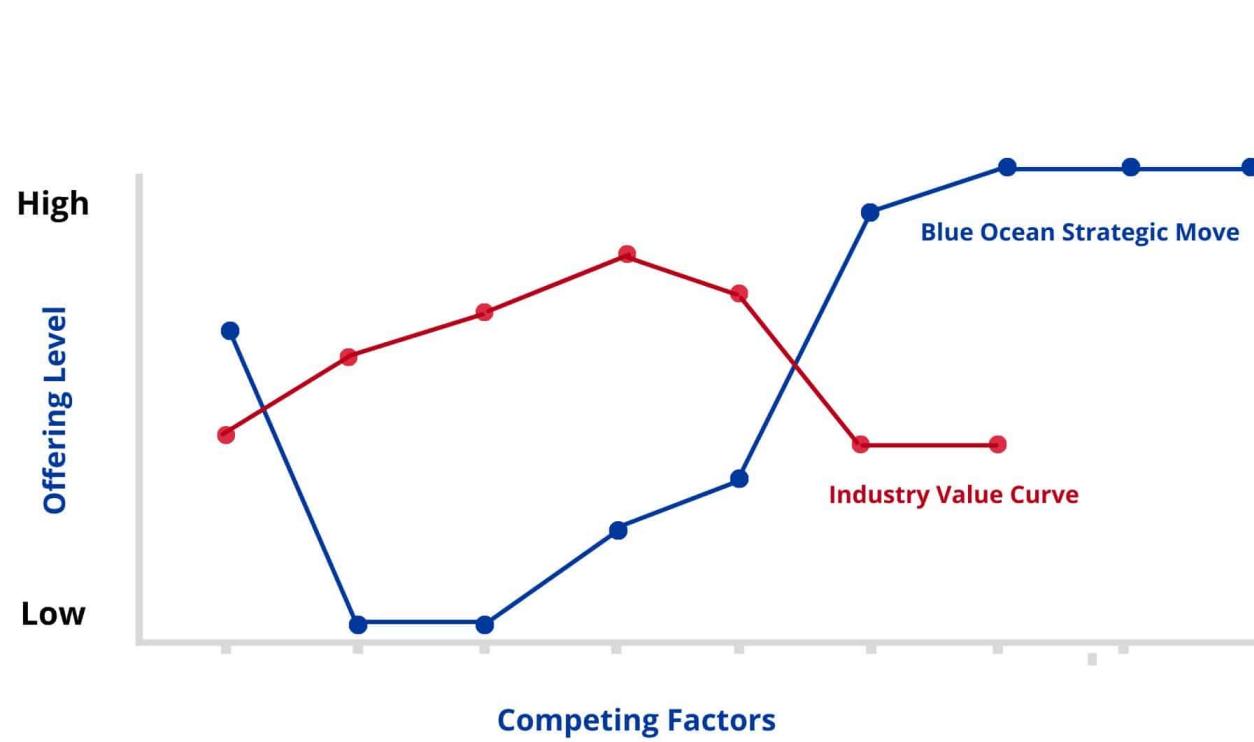


Camera sales



1975, Steven Sasson

Drawing new value curves



Comparison of competitors value curves

Blue Ocean Strategy

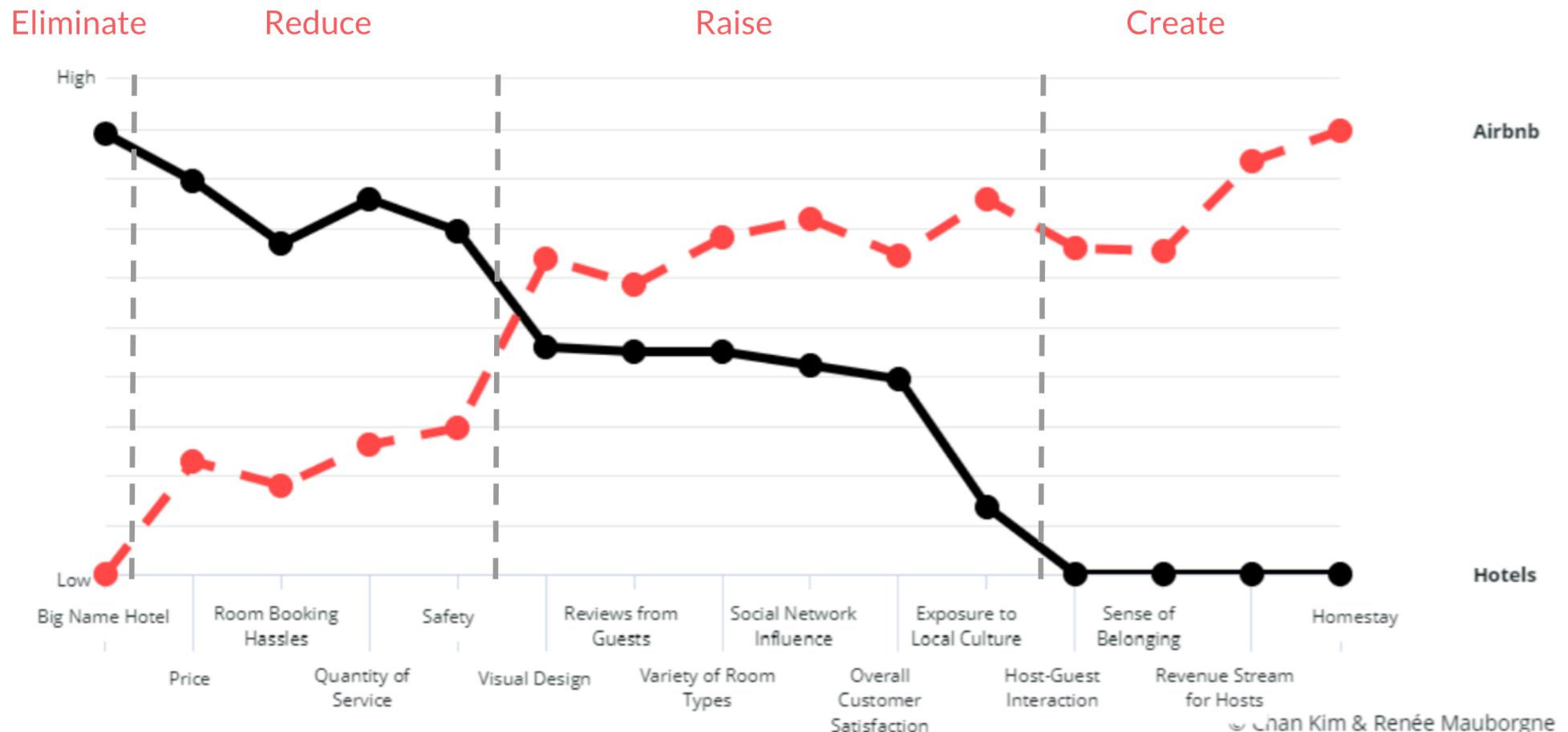
Red Oceans : known market space, defined industry boundaries, known rules of the game. Strong (« bloody ») competition on existing demand

Blue Oceans: Unknowns market space, untainted by competition. Creation of demand (instead on fight for demand). Strong opportunity for fast growth. Rules of the games still to be defined.

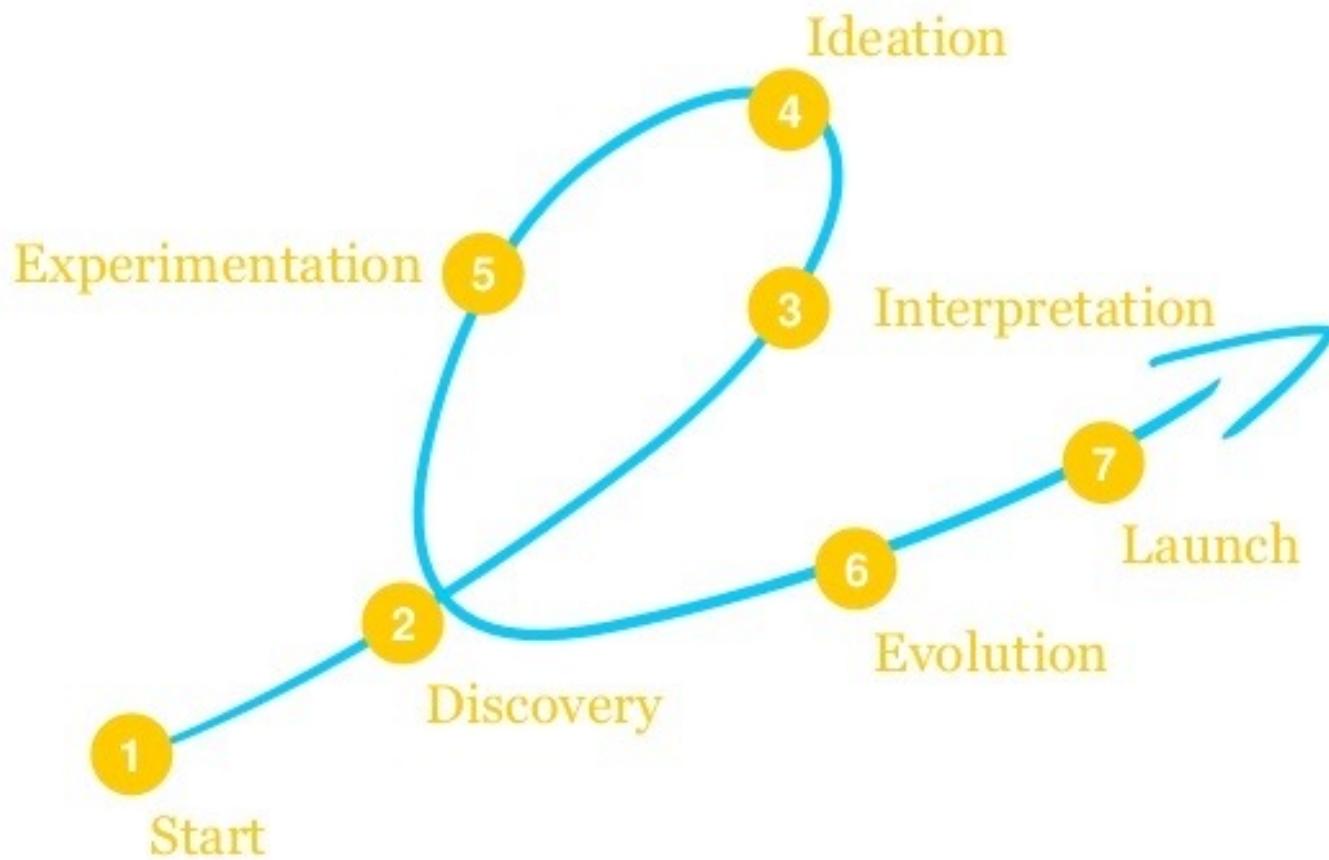
Blue Ocean Strategy: unlocking new demand and making the competition irrelevant.



The example of Airbnb



Business model innovation as an iterative process



Source: Sniukas (2012).

Business model Imitation



Business model imitation

« Once implemented, the gross elements of business models are often quite transparent and (in principal) easy to imitate – indeed, it is usually just a matter of a few years – if not months – before an evidently successful new business model elicits imitative efforts ». (Teece, 2010)

Business model

+

Business Strategy

=

Competitive sustainable business model



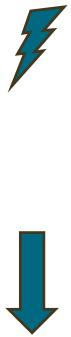
«put good sized stores into little one-horse towns which everybody else was ignoring»
Sam Walton, Walmart Founder



Netflix vs Blockbuster



Learning
and
adjustement



Buy Netlearn / Film Caddy (online rental service)
Blockbuster Online : rent unlimited DVD for a monthly fee
Blockbuster Total Access: return per mail

Brand / Network of physical stores

Imitation



Cannibalization
No access to « ordered list »
with movie preferences
patented by Netflix

Delivery of DVDs by mail using a
subscription system



+ patents
+ pioneering status
= stronger competitive advantage

Adapted from Teece, 2010

Key Take-Aways



Key take aways on business models

- Business models are used to describe the value creation, value configuration and value capture mechanisms
- Business model Canvas is a useful tool to use

«Business model must be something more than just a good logical way of doing business » (Teece, 2010)

- Meet particular consumer needs
- Must be accompanied by a broader strategy
- Be non-imitable
- Go through an iterative process (trial and error, learning, adjustement)

Strong links between BM and digital transformation

- Business models were born from the growth of Internet / change of information industry: how to capture, deliver and create value for the customer?
 - Traditionnal industries had to adapt their business models to changes brought by digitalization (DVD rentals, camera industry...)
 - New comers have disrupted traditionnal industry business models
-
- Technological innovation need Business models thinking to succeed: technology is not sufficient to build competitive advantage!
 - New business models themselves are a type of innovation

Next week

PLATFORMS!



Group work

Group work

Objectives for today:

1. Make a final decision on you technology/innovation
2. Start exploring the strategic tools for internal / external analysis
3. Write a 500/1000 words report on these tools.

Two pieces of advice:

- Go beyond the models application – analyse them
- Be critical! Maybe all the tools are not interesting to use for your case (*try first, still*)