



Yale SCHOOL OF MANAGEMENT

Digital Strategy MGT 857 Fall 2022

Session 1 (Introduction)

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Course Staff

Instructor

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Office Hours (Zoom):
Tuesdays (6 pm – 7 pm)
see canvas for link
E-mail me to schedule a one-on-one zoom session.

Course Support

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*For time-sensitive matters, please loop
Ian and me in by e-mail (e.g. Canvas
access, missing reading)*



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Agenda for Today's Session

- Course Logistics
- What is Strategy? (Strategy versus Tactics)
 - Is there a clear boundary or is this a gray zone?
- How has Digital has changed the nature of strategy?
- Characterizing and Evaluating Business Models
- Connection between business model elements
 - Where you do begin?



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Course Sections

- If you need to attend another section, please e-mail the TAs (for both sections) and copy me.
- For assignments and projects, you need to form a group within your officially registered section.



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COURSE LOGISTICS

or “Things you can (mostly) find in the Course Syllabus”



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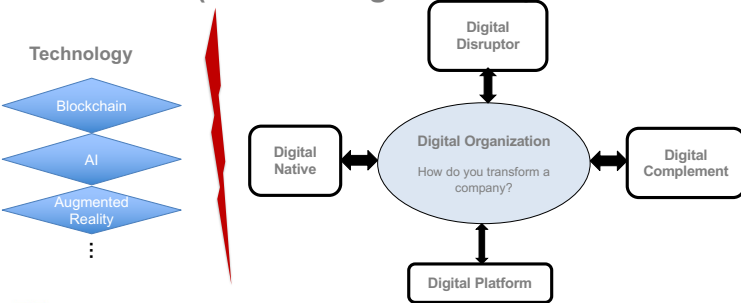
Course Structure

- Course has 4 modules
- Format: Lecture + Case Studies
 - 1 Lecture on principles of each module
 - 2-3 Case Studies to study ideas in depth
- Lectures provide **conceptual foundation**
- Case Studies show the complexity of how these **ideas work in practice**



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Digital Strategy Framework (Paths to Digital Value)



Outline of Course Content

Module 1

- Introduction to Strategy + Business Models
- Entry in or “*Digital Native*” Markets
 - Markets that did not exist in pre-digital world

Cases:

- Dropbox



Outline of Course Content

Module 2

- Entry in “Established” Markets
- **Disruptor** Strategy
 - What is a disruptor? Should you be a disruptor?
 - What is a “disruptive” technology?
- **Complementor** Strategy
 - What is a complementor? Why be a complementor?
 - Are there technologies that are better for complementing?

Cases:

- Apple Pay
- Zillow + Redfin (In-class Case Presentation)



Outline of Course Content

Module 3

- Platform Strategy
 - What is a platform? What are the business models that platforms use?
 - How do platforms create value? How should value be captured?
 - What unique challenges do platforms face? How do I solve the “chicken or egg” problem?
 - Should I create a platform?
 - Platform Disintermediation

Cases:

- American Well
- Lexoo / TBD



Outline of Course Content

Module 4

- Digital Transformation of Firms and Industries
- Study of important general purpose emerging technologies
 - Blockchain

Cases:

- The New York Times Paywall



What this course is NOT about

- **Digital Marketing**
 - *Customer Journey*
 - *Social Media Marketing*
 - *Digital Advertising*
 - *Search Engine Optimization*
 - *Google / Facebook Analytics*
 - *Attribution Problem*
 - *Inbound Marketing*

Grading

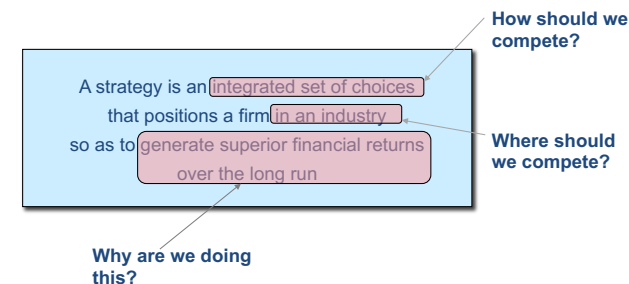
(see due dates in syllabus)

Component	Details	Points
Assignments <i>Canvas Submission</i>	1 Group (Zillow + Redfin) 4 individual	50
Project <i>Canvas Submission</i>	Group	25
Attendance and Participation	Every class	25

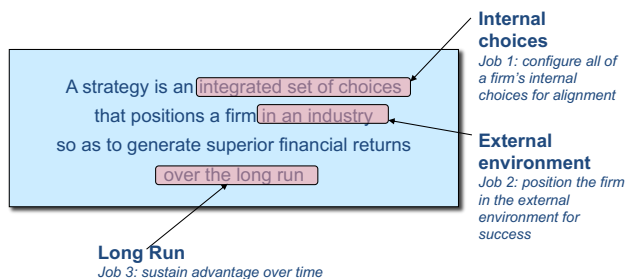
About Me

- Very broadly interested in the intersection of Tech + Business / Society
- Research on Digital Strategy, including Freemium, Network Effects and Subscription Business Models
- Worked with Dropbox, GE, American Express, HP, IBM on research
- Advising startups and established organizations in digital space
- If you're working on your own business idea, happy to talk.

What is Strategy?



What is Strategy?



STRATEGY VERSUS TACTICS?

Strategy + Tactics

Strategy

- Typically long-term
- Involves relationships / contractual partnerships outside the firm
- Involves understanding competitive landscape
- Communicated to key stakeholders within and outside firm
- Strategic Choices are very interconnected.
 - Difficult to change just one element without changing others

Tactics

- Typically short-term
 - Can experiment (test and learn)
- Involves transactions outside firm
- Often does not consider competition
- Typically not communicated outside firm
- Tactical Choices are often fairly independent
 - Easier to change just one element
- Many possible tactical choices to implement chosen strategy

Which one is more important? **Both!**

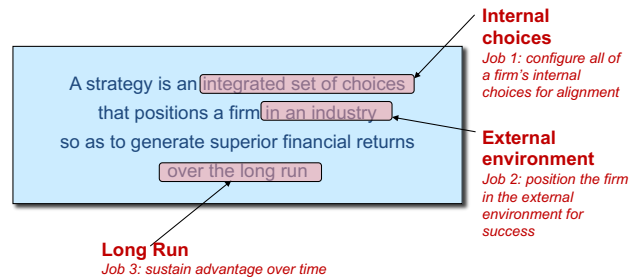
HOW HAS DIGITAL CHANGED STRATEGY?

How Digital Changes Strategy Transforms the definition of Industry

- **Industry**
 - What industry is American Airlines in?
 - What industry was Amazon in?
 - **Why?**
- In 2009, New York City Taxi Industry had no connection with Chicago or London Taxi industry
 - In 2022?

1994
2004
2006
2014
2020
2025

Strategy How does business model fit in?



How Digital Changes Strategy What does Long Run mean?

- **Long Run**
 - Take the Ridesharing / Taxi industry
 - For 100+ years, was pretty much the same
 - Huge transformation in 2010-2020
 - So, have we reached a new long run equilibrium?
 - will it be the same from now to 2100?

How Digital Changes Strategy Expands the number of choices available

• Business Model Choices

- Freemium or Free + Premium (e.g. Dropbox)
- Ad-supported models (e.g. Google Search)
- Razor-blade (e.g. Adobe Reader / Acrobat)
- Usage-based (e.g. car or health insurance)
- Subscription Models

What is a Business Model?

"Business models are..."

- "at heart, **stories** — stories that explain how enterprises work. A good business model answers Peter Drucker's age-old questions, 'Who is the customer? And what does the customer value?' It also answers the fundamental questions every manager must ask: How do we make money in this business? What is the underlying economic logic that explains how we can deliver value to customers at an appropriate cost?" (Magretta)

Source <https://hbr.org/2015/01/what-is-a-business-model>

ELEMENTS OF BUSINESS MODELS

Defining Elements of Business Models

- **Value Capture**
 - How do customers create value for the firm? Revenue is the part of the value a firm captures from customers.
 - In multi-sided platforms (MSPs), this becomes more complex because *value can be captured without a direct, immediate revenue impact*.
- **Go to Market**
 - How will your offering be taken to the end-customers? Do you expect to reach them directly (DTC)? How? Through an intermediary like a retailer? Sales force? Other channel?

Elements of Business Model



Defining Elements of Business Models

- **Technology**
 - What is the *unique* technology your firm has?
 - Most firms use e-mail, which is a technology, but no one mentions it since it is broadly available and not differential.
- **Resources**
 - What other resources does your firm have? Which are currently unique? Which are expected to be unique (or differentiated) over the long-term? Which of them are appropriable?

Defining Elements of Business Models

- **Value Proposition**
 - What is the source of value that you're creating? This might be multi-dimensional. What is the current reference option? How does customer value your offering relative to the reference option?
 - What is the **core** value? What are the sources of **augmented** value?
- **Target Segment**
 - Who is the target segment for your product? Who will be the initial adopters or purchasers for your offering? Who obtains the most value from your offering?

Defining Elements of Business Models

- **Cost Structure**
 - What are your fixed and variable costs? Are new developments expected to change cost structure?
- **Entry Barriers**
 - What prevents someone from replicating your business model and becoming a competitor?
 - Note: This is broader than the question of whether someone can replicate your "product." For example, copying Facebook's product might be quite feasible for many players, but achieving the same market outcome now is much more challenging

Elements of Business Model

If you're a new venture, where do you begin?



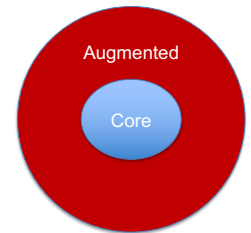
Elements of Business Model

If you're a new venture, where do you begin?



Creating New Business Models with Core + Augmented Value Proposition

- Augmenting the value proposition allows:
 - Differentiation
 - Choice of Business Models



Why do we care which Business Model?

Business Model

Consequences: Requirements and Outcomes

What are the **consequences** of business model choices?

- Monetization (Revenue) and Profit
- Resources required: People, Capital, IP, Other Assets
- Scaling and Growth
 - How fast can you grow?
- Innovation
 - What value innovations (augmented) will be most helpful?
- Control & Risk: Product, Experience, Brand, Price
 - What uncertainties are you most vulnerable to?



Compare Business Models (In class)

(A): user to user car rental versus (B) Flexible firm car rental



What is the core value proposition common to both?

Business Model Comparison

Characteristic		
Resources (Firms Assets: Technology, Capital, PARC etc.) What minimum firm resources (Digital + Physical) are required to take this business model to market? <i>Do any resources have negative impact on business model?</i>		
Value Creation What dimensions of value are created (core + augmented)? Which of these are differentiated relative to competition in a meaningful dimension?		
Scaling and Growth How fast can you scale the model to different market segments with current resources?		
Innovation What future value innovations will be most helpful to the firm?		
Control & Risk Profile How does uncertainty impact performance? (e.g. Demand, Supply, Technology) What aspects are under control of the company?		

Compare Business Models
(Try this example outside class)
(A: coffee shop) versus (B: WeWork)



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Summary

- Strategy involves “integrated set of choices” ⇒ Business Model (BM)
- BM consists of internal and external elements detailed in the slides
- Choice of Business Model has many distinct consequences beyond revenue impact
- Possible for multiple business models to be successful in the same market
- Lots of ways they can go wrong (next class)



Next Class

- Case: “Dropbox”
- Assignment 1 will be based on Dropbox
- Synergy between elements of business model (+, - or 0)
- How real firms view these tradeoffs

