



Workshop on innovative business models in the digital economy: Chinese and European Ways

Introduction

Laurent Gille
Télécom ParisTech - SES

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Welcome



From business plan to business model

- **Business plans** are the actual expression of the economy of an activity
 - Flows of revenues
 - Flows of costs, investments
 - Resulting in the loss and profit of the activity
- **Business models** are the structural form of the business plans:
 - Drivers of revenues, pricing strategy, source of demand
 - Drivers of costs and investments
 - Mechanisms by which the activity should become profitable
- **Some definitions:**
 - "Conceptual tool that contains a set of elements and their relationships and allow to express the **business logic** of a specific firm" (Osterwalder & Pigneur, 2002)
 - "the totality of how a company selects its customers, defines and differentiates its offerings, defines the tasks it will perform and those it will outsource, configures its resources, goes to market, creates utility for consumers, and captures profit. It is the **entire system for delivering utility** to consumers, and captures profit from that activity" (Slywotsky, 1995)



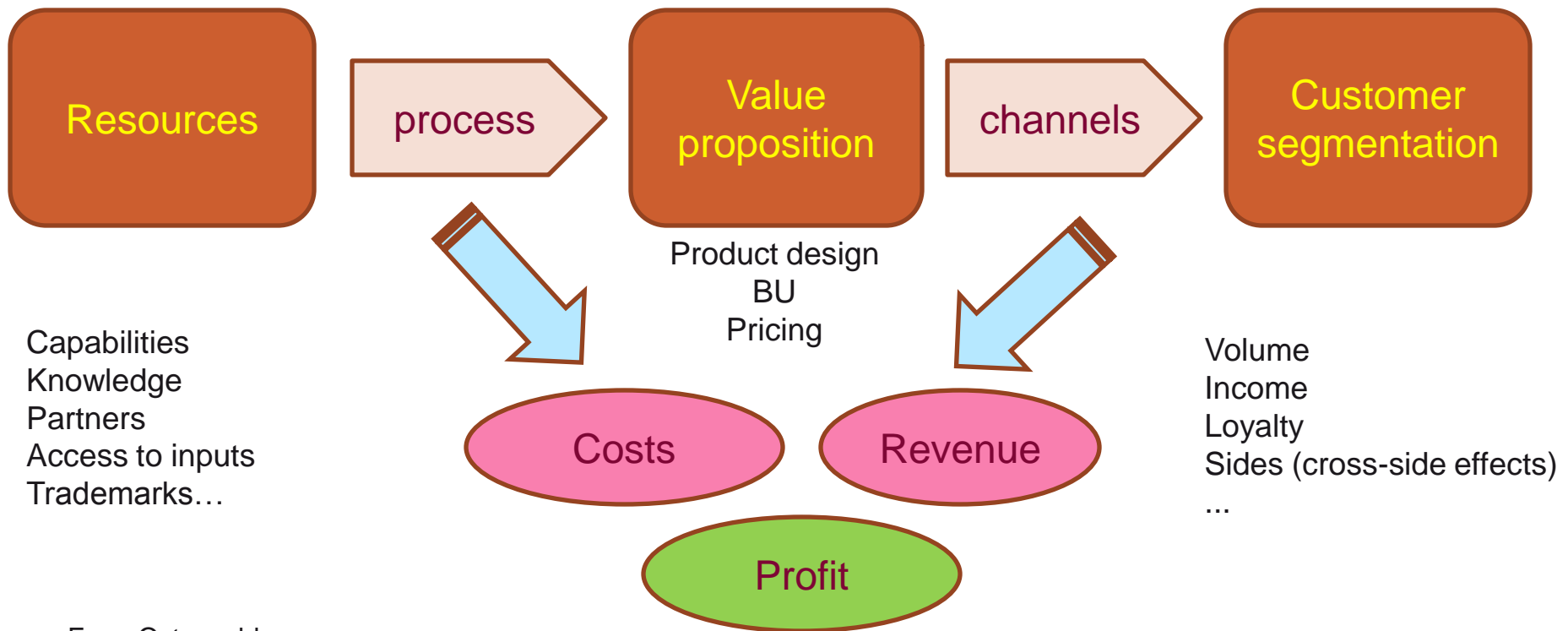
What is a business model ?

- **BM were revitalized by the internet “new” economy buzz (1998-2002)**
BM are linked to the profound changes of value chains, resulting from the digitalization of processes and products
- **BM = the design of the business**
- **Pillars of a BM:**
 - **What** a company offers Value proposition
 - **Who** it targets and how it reaches them Market segmentation and channels
 - **How** this can be realised Resources and process
 - **How much** can be earn BM engine
- **The difficulty is to embrace all the components of the BM so to stress the logic or the engine of the BM in a competitive world**
- **Some facts questioning BM:**
 - Integration and disintegration of a value chain
 - Bundling and unbundling of offerings (especially goods and services)
 - Constellation of strategic partnerships
 - Outbreak of free offerings
 - Slicing of the markets in “sides” ...



A BM ontology ?

an **ontology** is a formal representation of a set of concepts within a domain and the relationships between those concepts. It is used to reason about the properties of that domain, and may be used to define the domain (Wikipedia)



From Osterwalder



The customer value proposition

- **What is called a customer value proposition ?**
 - the **unique value** a business offers to its customers
 - the sum total of **benefits** which a vendor promises that a customer will receive in return for the customer's associated payment
 - what the customer **gets** for what s/he **pays**
 - an offering's **performance** and **price promise** to potential buyers
 - a **clear statement** of the tangible results a customer gets
 - a marketing tool
 - ...
- **Value = benefits – costs (for the customer!) = willingness to pay = utility**
- **The proposition should be better than competitor's one:**
 - Should be different
 - Should be cheaper
 - Should be more useful...
- **The value proposition captures the competition exogenous factor**



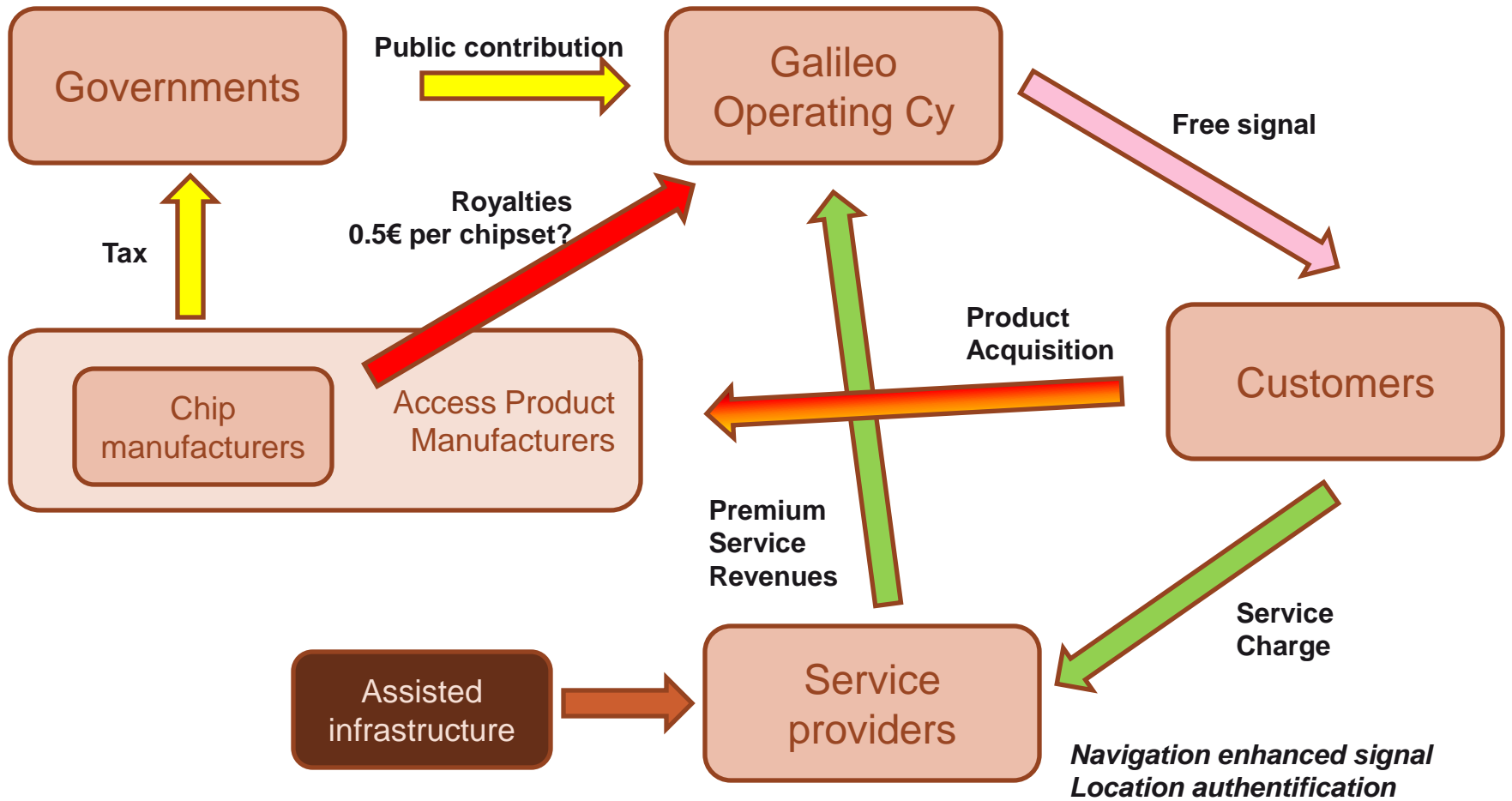
Introductory comments

- **Lessons learned from some examples**
 - Galileo
 - Press
 - On line contents
- **Questions**

- **A system of 30 satellites for a total investment cost of 3.4-5 bn €**
- **Galileo will offer a portfolio of five services:**
 - An open, free, basic service, mainly involving applications for the general public and services of general interest. This service is comparable to that provided by civil GPS, but with improved quality and reliability.
 - A commercial service facilitating the development of professional applications and offering enhanced performance compared with the basic service, particularly in terms of service guarantee.
 - • A "vital" service (Safety of Life Service - SoL) of a very high quality and integrity for safety-critical applications, such as aviation and shipping.
 - A search and rescue service (SaR) that will greatly improve existing relief and rescue services.
 - A public regulated service (PRS), encrypted and resistant to jamming and interference, reserved principally for the public authorities responsible for civil protection, national security and law enforcement which demand a high level of continuity.
- **Expected revenue: 9 bn € per year ?**



Galileo business model





Galileo first lessons

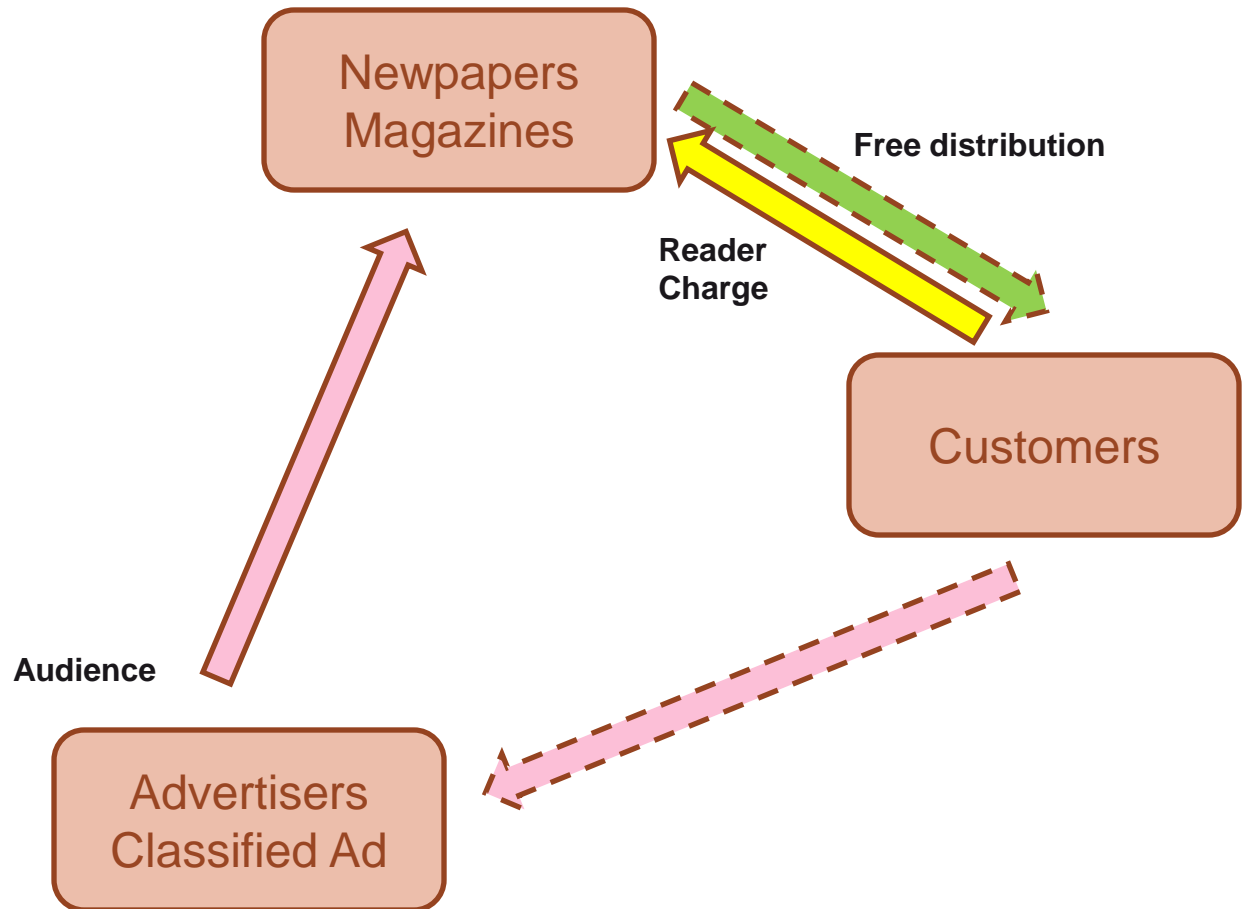
■ **Uncertainties about:**

- The design and the pricing of services: what is the value proposition
- The level of demand
- The breakdown of quantities and revenue between:
 - The free delivery of the signal
 - The service provision
 - The access product contribution (royalties and taxation)

■ **Consequence: the financing of the essential facility (the constellation of satellites) may be provided by public funds to initiate the system**

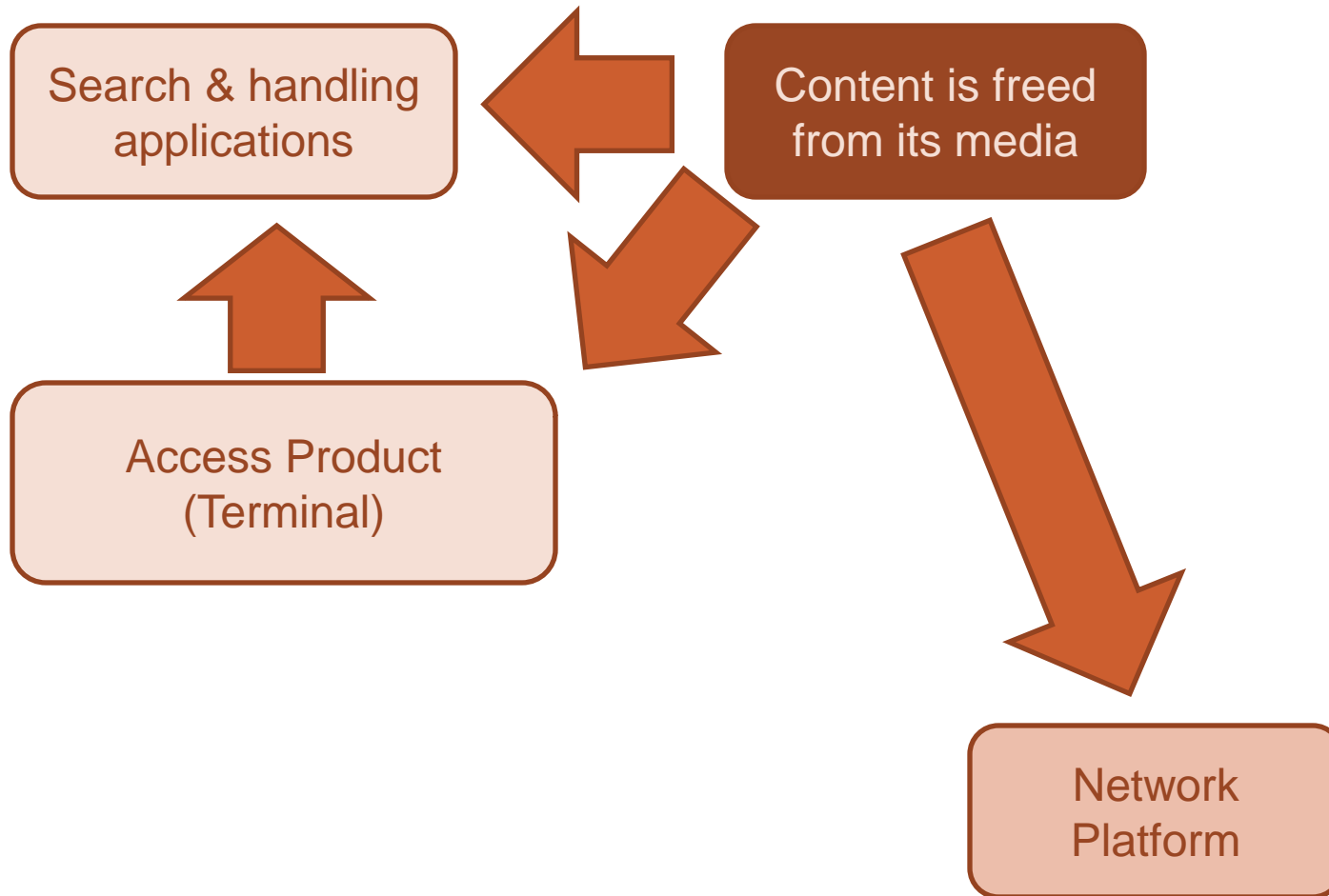


The press business model



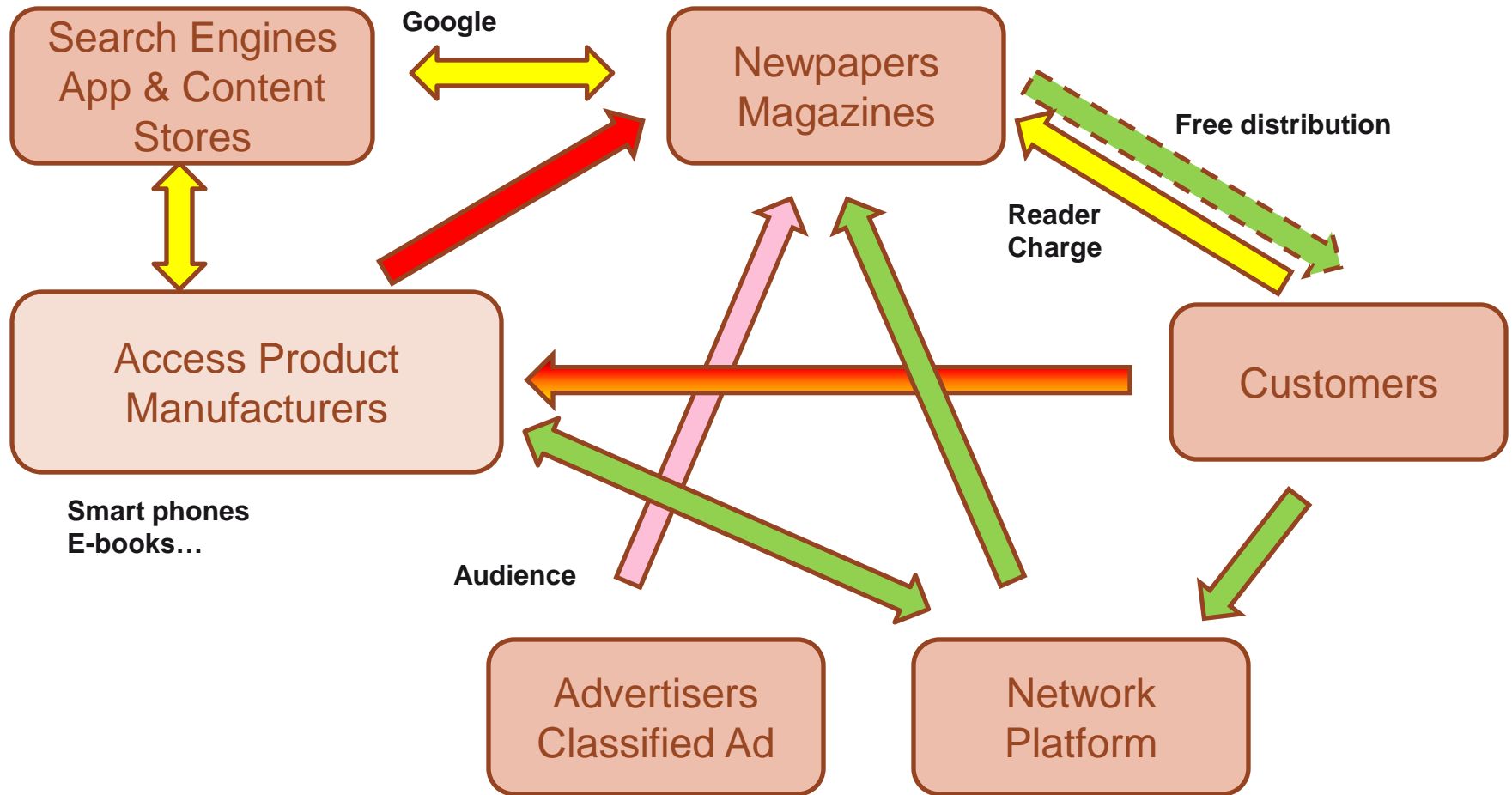


What happens to contents in the digital age?



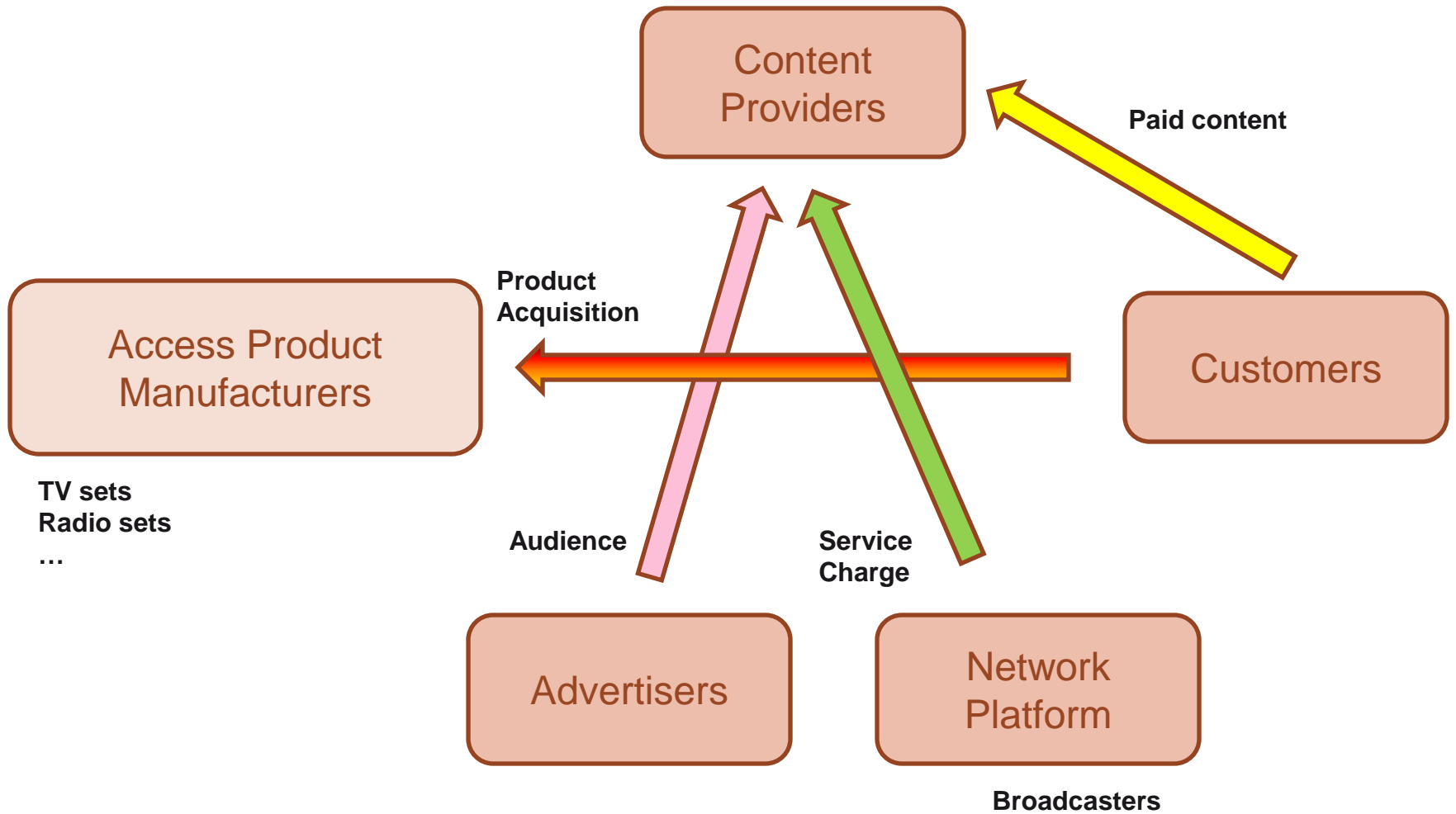


The changing press business model



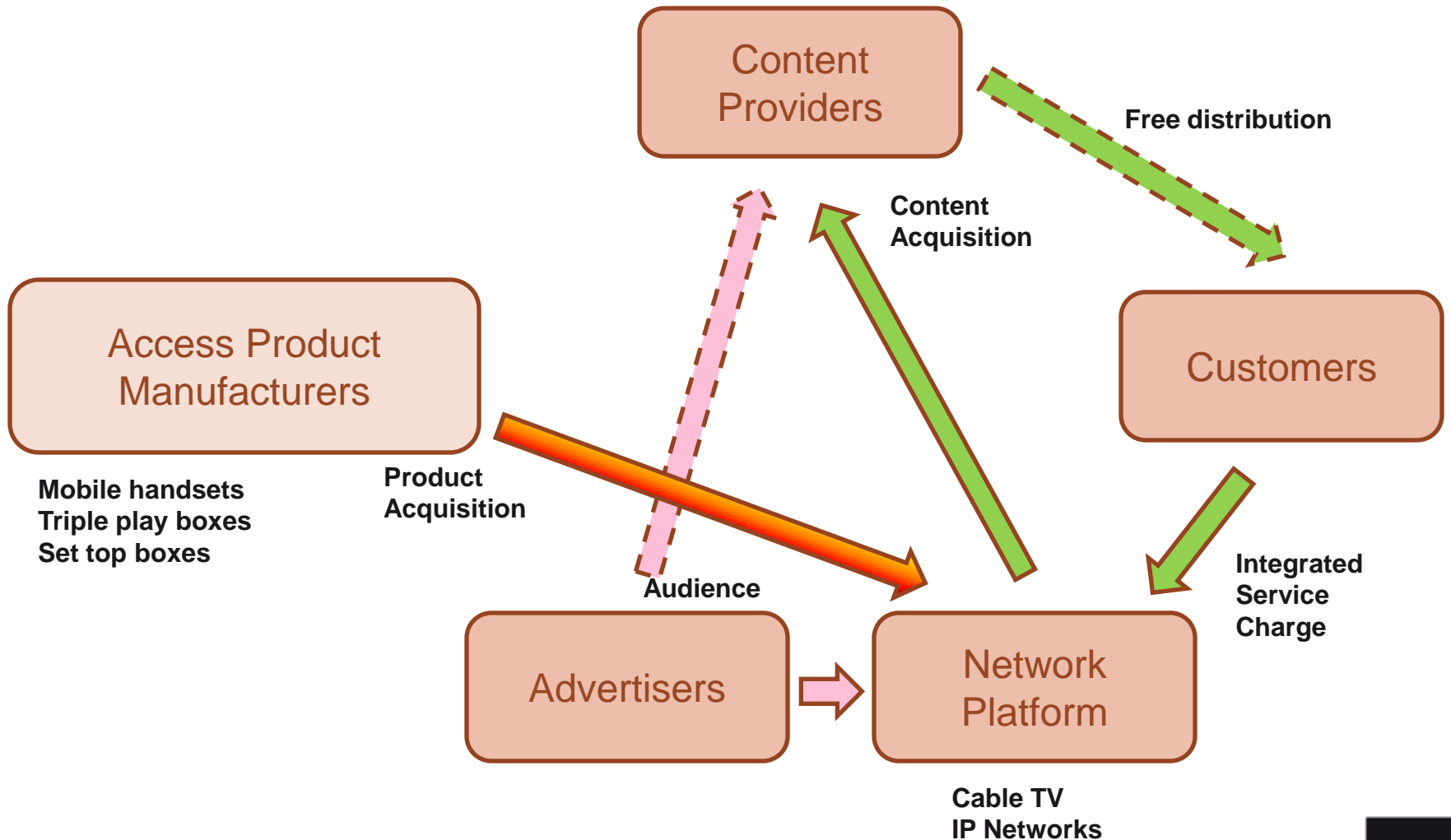


On line contents: old BM



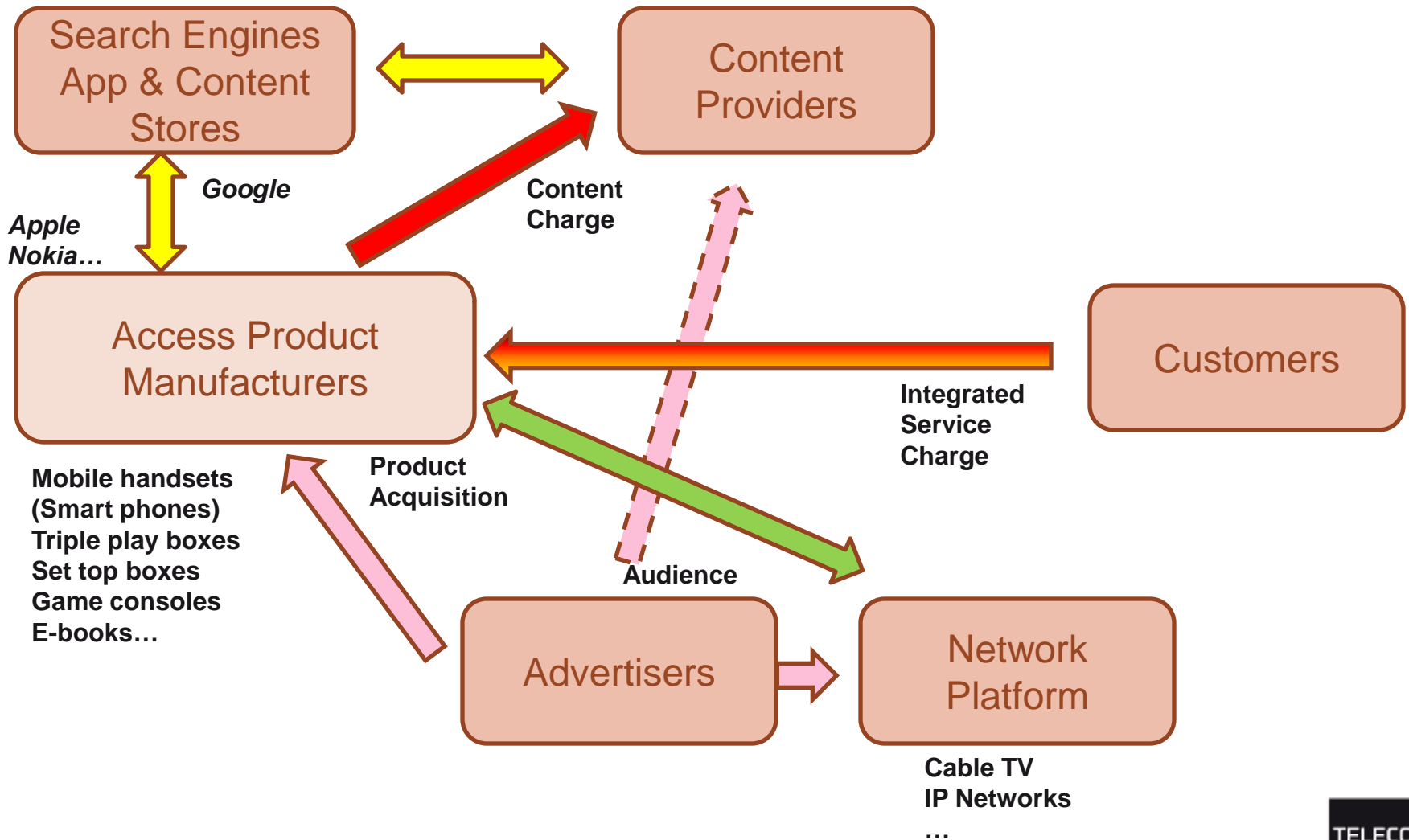


On line contents: temporary new BM



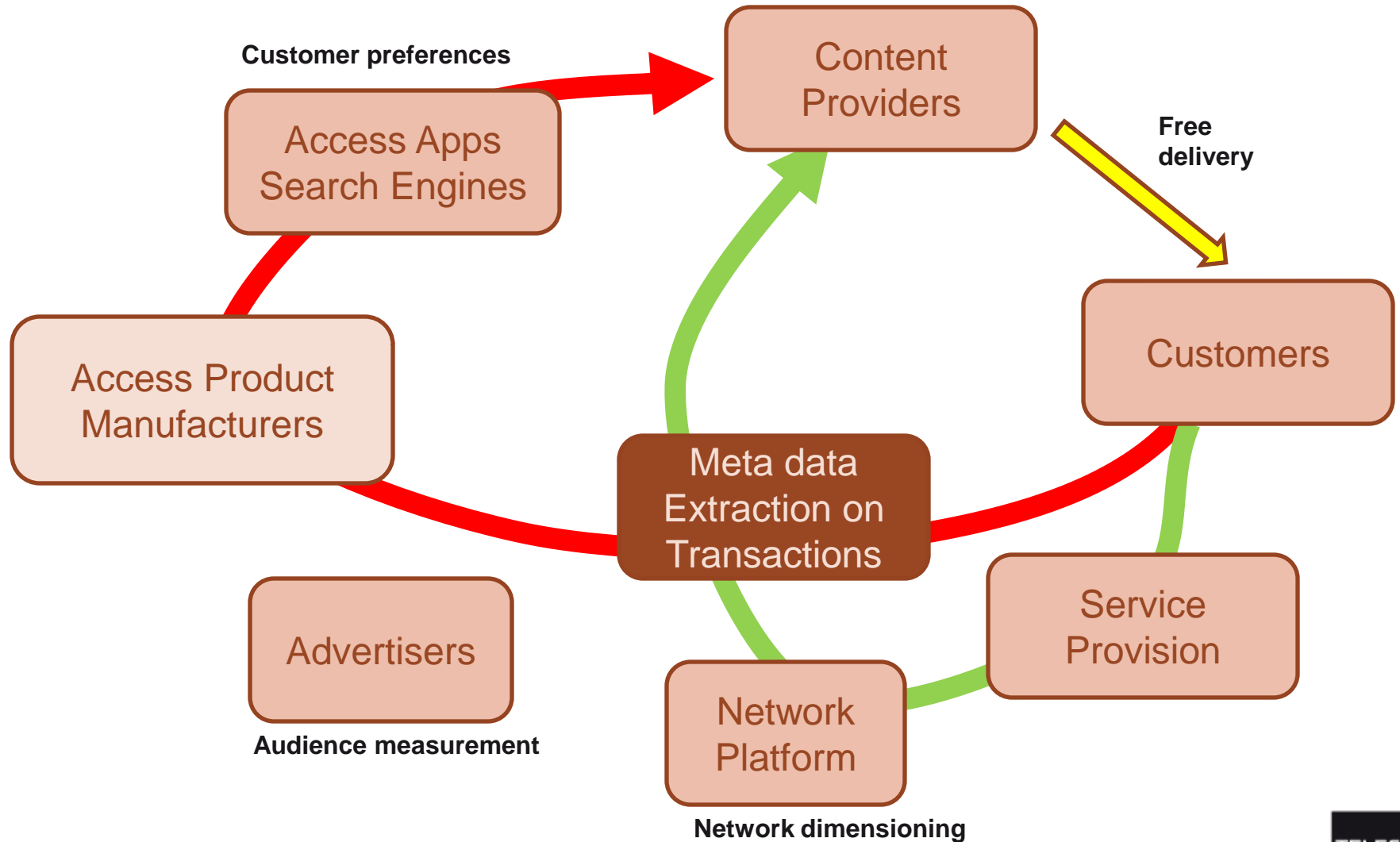


On line contents: new potential BM





The new landscape of digital BM





Preliminary lessons and questions 1

- **Digitalization de facto creates platforms and is often “siding” the market**
- **Value propositions show tradeoffs between offerings:**
 - In prices (free strategy and low cost vs full service)
 - In quality (best effort vs premium)
 - In privacy (meta data extraction)
 - In accessibility
 - In bundling/integrating or unbundling/disintegrating
 - ...
- **Due to difficulties in reaching sustainable BM, public financing may be required to develop contents as new essential facilities:**
 - Signals and data captured AWAT
 - Information hold by public or private entities
 - Contents (e.g. digitalization of public libraries)



Preliminary lessons and questions 2

- **The digital environment generates competing distribution channels :**
 - Who will control the channelization processes ? Is there place for competing channels ?
 - How important and disturbing will be the free delivery of contents ?
 - What sources of metadata could be valued ?
- **What will be the engines driving the forces on this new battlefield ?**
 - Networks externalities
 - Increasing returns (size of the market)
 - Entry barriers management (customers lock-in, control of resources, etc.)
 - Two-sided markets pricing and dynamics: external effects linked to the differentiation of the sides of the market [Rochet-Tirole]
 - Double helix effects: integration and disintegration of the value chain linked to the interoperability issue [Fine]
- **Strategic issues regarding BM:**
 - Is the BM now part of the product design ? Is the BM a product ?
 - Is there competing BMs ?
 - Should BMs be protected ?



The workshop

First session: Chair Pierre-Jean Benghozi, Ecole Polytechnique

Tingjie Lu,
BUPT, China

Internet of things and application
of NFC in China

Konstantinos Liakeas
University of the Aegean, Greece

Online business models in the
banking industry

Vincent Grivet
TDF

Business models of the mobile TV

Chen Jinquiao
Ministry of industry and IT, PRC

Development trend of digital city
in China



The workshop

Second session: Chair Alain Vallée, Télécom ParisTech

Stephane France
Orange

Business models of IPTV

Li Qi
Xian Jiatong University, China

The innovative mode of employment
of the Chinese university students

Jean-Michel Huet,
BearingPoint

Business models of social networks



The workshop

Third session: Chair Bernard Guillou, Mediawise

Rémi Douine
The metrics factory

The emergence of content
distribution innovative business
models : the case of online artists

Wang Shengzhi
BUPT, China

ICT industry and e-commerce in
China

Xiaodong HAI
Télécom ParisTech

The QQ business model