Reading for Session 3

A summary of some articles related to session 3 of the MIS and Strategy course for the World Med MBA

The Four Articles

- They are all:
  - From Harvard Business Review
  - Relate to key concepts in business models
  - Available on-line
  - Relevant, practical and easy to read

The Four Articles

Customer value

- Johnson, M. W., Christensen, C. M., & Kagermann, H. (2008). Reinventing Your Business Model. *Harvard Business Review, 86*(12), 50 - 59.
- Anderson, J. C., Narus, J. A., & van Rossum, W. (2006). Customer Value Propositions in Business Markets. *Harvard Business Review, 84*(3), 90 - 99.

Revenue generation

- Stewart, T. A., & O'Brien, L. (2005). Execution Without Excuses. *Harvard Business Review, 83*(3), 102 - 111.
- Iyer, B., & Davenport, T. H. (2008). Reverse Engineering Google's Innovation Machine. *Harvard Business Review, 86*(4), 58 - 68.

The Format

Customer value

- Summary of the articles
- compare and contrast the two articles.

Revenue generation

- Summary of the articles
- compare and contrast the two articles.

Reinventing Your Business Model

Johnson, Christensen & Kagermann (2008)

- Why do some ideas work and others fail?
  - e.g. Apple iPod vs Rio or Cabo
- Answer = Innovative and groundbreaking business model
  - Apple made downloading content cheap and easy but tied it to high value hardware

Reinventing Your Business Model

Johnson, Christensen & Kagermann (2008)

Recipe for success?

1. Think about satisfying the needs of a real customer who needs a job doing
2. Construct a blueprint for how to do it – at a profit
3. Compare it to what you do now and see what you would need to change

Reinventing Your Business Model

Johnson, Christensen & Kagermann (2008)

The 4 elements of a business model:

1. Customer value proposition
   - Represents ‘value’ for a customer
2. Profit formula
   - How the company creates value for itself
3. Key resources
   - What is needed to deliver proposition
4. Key processes
   - How to do it sucessfully

Reinventing Your Business Model

Johnson, Christensen & Kagermann (2008)

- Two case studies:
  - TATA Motors = car manufacturer
    - see http://www.tata.com/ for details of the whole group of companies
  - Hilti = power tools for the professional user
    - see http://www.hilti.fr/ for further details

Reinventing Your Business Model

Johnson, Christensen & Kagermann (2008)

TATA

- Value proposition = a car for 100, 000 rupees (1 lakh) to replace the motor bike
- Profit formula = low margin / high volume
- Key resources = components (reduced in number and largely outsourced)
- Key processes = manufacturing (modular components shipped to independent plants for assembly)

Reinventing Your Business Model

Johnson, Christensen & Kagermann (2008)

Hilti

- Value proposition = helping the users of Hilti tools to be efficient
- Profit formula = leasing / subscription model
- Key resources = new sales methods and new IT to support business
- Key processes = inventory and account management, customer management

Reinventing Your Business Model

Johnson, Christensen & Kagermann (2008)

Will the recipe always work?

- Most radical innovations come from new companies – stories like the iPod are rare
- Established companies are conservative and do not ‘break the rules’
- Example = Dow Corning and Xiameter

Customer Value Propositions

Anderson, Narus & van Rossum (2006)

- What makes a good Customer Value Propositions (CVP)?
- Too often CVPs are seen as ‘spin’ or promotional ‘copy’
- Good CVPs lead to superior business performance

Customer Value Propositions

Anderson, Narus & van Rossum (2006)

Three kinds of proposition:

- All benefits
  - lists everything
- Points of Difference
  - targets advantages over alternatives
- Resonating focus
  - ‘Crafted’ to target what really matters to the customer

Customer Value Propositions

Anderson, Narus & van Rossum (2006)

All benefits

- Lists what managers believe might be of value to their customers
- Aimed at answering the question “why should you buy our product”
- Based on knowledge of own product
- ‘Benefits’ many be illusory

Customer Value Propositions

Anderson, Narus & van Rossum (2006)

Points of Difference

- Favourable points of difference in relation to alternatives
- Aimed at answering “why you should buy our product instead of an alternative”
- Based on knowledge of own product and alternatives in the market
- ‘Benefits’ many not be of value to the customer

Customer Value Propositions

Anderson, Narus & van Rossum (2006)

Resonating Focus

- Key points of difference in relation to customers business
- Aimed at answering “why our product will make a real and unique difference to you”
- Based on knowledge of own product and what the customer really values
- Requires a lot of research and crafting

Customer Value Propositions

Anderson, Narus & van Rossum (2006)

Example Sonoco (Packaging)

- Sonoco identified 6 favourable points of difference but focused on one point of parity (price) and two points of difference

1. will allow changes in production which will improve efficiency and cut costs
2. new look will appeal to customers and deliver growth

Customer Value Propositions

Anderson, Narus & van Rossum (2006)

Example Intergraph (Pipework)

1. As fast as alternatives (parity)
2. Checks for interdependencies and avoids design changes (difference)
3. Integrated, so no data re-entry problems (difference)
4. Links remote sites to single database (difference)

Customer Value Propositions

Anderson, Narus & van Rossum (2006)

- CVP can be (should be) changed as part of the process of ‘crafting’
- Example (Architectural Coatings)
  - First CVP = meets stricter environmental standards
  - revised CVP = quicker drying time allow two coats in one shift

Customer Value Propositions

Anderson, Narus & van Rossum (2006)

- Substantiating CVPs
- Case histories
  - Nijdra Groep
- Value Calculators
  - Akzo Nobel
- Word equations
  - Rockwell

Customer Value Propositions

Anderson, Narus & van Rossum (2006)

- Customer Value Propositions
  - Need to be crafted and targeted
  - Take time and research to prepare
  - Can lead to breakthroughs in a businesses performance

Compare and contrast

- *Both of the previous examples had similar view of what value for the customer was and the role it played in the performance of a business*
- *The next two examples look at the idea of how this value can be turned in to profit.*
- *We look at two successful companies, Dell and Google, and find some very different approaches and some striking similarities.*

Execution Without Excuses

Stewart & O'Brien (2005)

- An interview with Michael Dell and Kevin Rollins (Chairman and CEO of Dell Computers)

- Is it only Dell's famous 'business model' that underpins its success?

Execution Without Excuses

Stewart & O'Brien (2005)

- The ‘Dell model’ exploited (created) the shift from proprietary to standardised products in the computer industry
  - Lowest cost producer of a standard technology
  - Constant focus on core attributes: efficiency in the supply chain, reduction in inventory and the bottom line of profit and loss

Execution Without Excuses

Stewart & O'Brien (2005)

- Research and development is ‘shareholder focused’
  - impossible to predict the future in this industry
  - the future is today and tonight
  - shareholders don’t pay us to sit around a loose money

Execution Without Excuses

Stewart & O'Brien (2005)

- Relationships with suppliers is open and ‘market based’
  - inventory is a rapidly depreciating asset (like fish or vegetables)
  - if suppliers are successful unit costs are reduced
  - give suppliers the information and let them come up with the solution

Execution Without Excuses

Stewart & O'Brien (2005)

- Attitudes to losing money
  - a ‘no excuses’ culture
  - applying the wrong model or he’s the wrong manager
  - we’re pretty hard on people who miss
- Openness
  - fear of bad news is less than fear of telling

Execution Without Excuses

Stewart & O'Brien (2005)

- A data driven company
  - same metrics throughout the world
  - financial data available in real time

- but
  - strong bias towards action
  - incomplete data is bad but delay can be worse

Execution Without Excuses

Stewart & O'Brien (2005)

- Change over time
  - Dell is a result of consistent execution of the dell business strategy but also of ‘Darwinian Evolution’
  - over reliance on stock price in 2000 lead to changes in HRM policies
  - now more internal promotions and ‘professional development’

Execution Without Excuses

Stewart & O'Brien (2005)

- Dell has developed a clear business model based on a concept of offering a standardised product at the lowest cost
- However, the details of how the model is implemented have changed and evolved and are now being applied to a new industry (printers)

Reverse Engineering Google

Iyer & Davenport (2008)

- What is the secret of Google's success and can it be applied elsewhere?
- Google's Mission statement
  - "to organise the worlds information and make it universally accessible and useful"
- Google's Business model?
  - "Ubiquity first, revenues later ... if you can build a sustainable eyeball business, you can always find clever ways to monetize them"

Reverse Engineering Google

Iyer & Davenport (2008)

- Technology and strategy are inseparable and permeable
- Three key innovations provide the motor for all of the activities:
  - Scalable IT architecture = plug and play on a massive scale
  - Page Rank algorithm ‘information shall be organised by analysing users intentions’
  - Search based advertising which relies on data from Google's IT architecture

Reverse Engineering Google

Iyer & Davenport (2008)

- Google as the keystone - the component that holds everything else in place
  - media companies create ‘content’, stimulate interest and pay for advertising
  - the public search for information and reveal interests which provides the data for advertisers
  - the Google ‘platform’ provides the place for all of this to happen

Reverse Engineering Google

Iyer & Davenport (2008)

- Google as the keystone - the component that holds everything else in place
  - individuals and companies actively provide content tailored to Google searches
  - the public search for information and reveal interests which provides the data for advertisers
  - the Google ‘platform’ provides the place for all of this to happen

Reverse Engineering Google

Iyer & Davenport (2008)

- Google as the keystone - the component that holds everything else in place
  - the Google ‘platform’ is open to third party vendors and independent developers create new products
  - new products keep users engaged and makes Google ‘sticky’
  - new products open new revenue streams for Google and developers

Reverse Engineering Google

Iyer & Davenport (2008)

- Keystone advantages
  - no need for market research as everything happens through Google itself
  - as a hub Google can skim off other revenue streams
  - as owner and operator Google can exercise a big influence over its own environment

Reverse Engineering Google

Iyer & Davenport (2008)

- Google's cultural paradox
  - innovative
  - chaotic
  - tolerant of failure
- but also
  - analytical and data driven

Reverse Engineering Google

Iyer & Davenport (2008)

- Google's culture, open architecture and accelerated product development cycle means that there are a lot of new things happening at once – inevitably many will fail
- Data from platform analysed to provide evidence for success of new ideas (e.g. through random trials)

Reverse Engineering Google

Iyer & Davenport (2008)

- Reverse Engineering – can these ideas be applied elsewhere?
  - The paper makes several suggestions but obvious analogies are
    - Amazon (provides a platform for others)
    - Open source projects (values creativity, tolerant of chaos and failure)

Compare and contrast

Dell

- *Profit driven and intolerant of failure*
- *Strives for standardisation*
- *Decisions are 'data driven'*
- *IT and strategy are closely interlinked*

Google

- *Long term view and tolerant of failure*
- *Strives for diversity and creativity*
- *Decisions are 'data driven'*
- *IT and strategy are closely interlinked*