FOUNDATION OF DIGITAL BUSINESS

Surojit Mookherjee

Vinod Gupta School of Management

Indian Institute of Technology Kharagpur

Week 03

Lecture12

Lecture 12: Disruptive Business Models

Good morning and welcome back. We continue on to module 4, which was building a digital mastery and transformation roadmap. And today this session will be on disruptive business model, so I will take you through some of the new destructive model and the theories of it and how they are being used by various startups and new organizations and which can then give you ideas to how to strategize the whole thing. You can get some ideas as to what can be a very disruptive business idea with which the help of which you can take on some existing players.

The whole idea of some of these disruptions is basically to create disturbance within the existing system assuming that it is very stable, things are going all right very smooth, but now you want to create a ripple disturbance. So, you like it is like throwing a stone in a pond water where you see those ripples happening. So, that is where you can win your battle for example. So, you want to succeed. So, how you can take on the big giants and like the David versus Goliath story and you can then with limited tools you can succeed.

And what I will tell you is the whole advantage of all this digital business that we are talking about this foundation of digital business is that this has now given you tools and assets with which you can do it in a very start with a very small way just 2 or 3 people you can start a disruptive business. So, you know all these stories all these are very successful now. So, all of us we know about it and in my course I mean often being referring to them these case studies. So, you are quite familiar.

So, with the help of this we will continue our discussion further on say the theory of disruption. So, it happens when what disruption happens when an existing industry faces a challenger that offers far greater value to the customer in a way. that existing firms cannot compete with that directly. So, you have an established business and there comes a new Kirin Tao new challenger who comes up with some ideas which people like and which you cannot provide. So, that is when the disruption happens or starts.

So, the theory one states is many of today's biggest disruptors are not introducing a new fundamental technology to the market that is a new product. Say example was iPhone for example, it was a new product altogether in the established mobile phone market which was led by Nokia were by far the number one manufacturers those days late 90s and early 20s. Instead they are applying established technology to the design of a new business model. Amazon, Ubed, Swiggy, Zomato etcetera business disruption is at its core. the result of the clash of asymmetric business models.

So, they are not coming up with something fundamentally new. Let us take Blinkit for example, what it is doing? It is delivering groceries and other things to your home. So, you do not have to go out. Now what is the uniqueness of their business model is that home delivery had started in a big way post COVID or during COVID, because there was no other option that people the shops are very closed, monitored, open for limited times and people were discouraged from stepping outside their home.

So, home delivery was literally the only option available. So, it started booming. But what Blinkit did, what Zepto is doing, what BigBasket is also doing, they are telling you that they will deliver in 10 minutes. When you have started cooking and suddenly realize that you are out of haldi or some other spice, you order it right there. It takes about half a minute to order it from Blinkit, and within 10 minutes, your item is delivered at home.

So, you do not have to go out. It comes in the fastest possible time—10 minutes is nothing during a cooking process—and you get what you want, so your cooking continues. It may have some other disadvantages, which we will not discuss here, but with this model, they are quite successful in the sense that they are spreading They are becoming very popular. They are already very popular in metro cities, and now they are coming to tier 2 cities. For example, in Kharagpur, Blinkit arrived probably about 6 months ago, and you know all the students, the hostels—everybody is using Blinkit, ordering food and whatnot, from toothpaste to shaving cream to whatever you need. I mean, small things you order come in 10 minutes. You do not have to go out somewhere, etc. As a result, the local shopkeepers are suffering, but that is again a different story.

So, that is the disruption they are bringing to the established marketplace that we had here or that we have in any other place. The pop-and-mom stores, the corner grocery stores—

they are the ones suffering because of two models: one is e-commerce, and the other is this quick economy. Blinkit is part of the quick economy. It is not just e-commerce, but it is the quick economy—it delivers in a very short time. That is the USP, and that is what people are buying. The two differences in business model disruptions are value proposition and value network. A difference in value proposition that dramatically displaces the value provided by the incumbent.

So, they are dramatically bringing in some new value and a difference in the value network, which creates a barrier to imitation by the incumbent. In a sense, Blinkit says, 'Let us continue with Blinkit.' Their value proposition is quick delivery, and they are using the bikes of their employees or agents—whosoever they bring—their own bikes, pick up the items, and deliver them. Now, that becomes a value network for them in the sense that it is a barrier to imitation by the local shopkeepers because it is not easy to build a team of buying agents who can deliver from your shop.

Otherwise, they can also become Blinkit. Each of the shops can become a kind of small mini Blinkit; they employ 3, 4, 5—whatever is required—young people with bikes, and they keep delivering. But since they are not, then they have to use the app, they have to use the platform, and then all the technology starts coming in. Otherwise, every time somebody has to call on the phone—'Can you send me?'—then make a list of these over the phone, then somebody has to note it down, so that will not work. So, when you are based on an app, then you can put in your quantity, item, quantity, item, quantity—it comes in the app—and then link it to the shopkeeper. Or to whosoever is supplying, the grocery store gets a list from their app, their phone, or their computer, and then accordingly picks up the things, packs them, and sends them.

So, that becomes the barrier to imitation by their competitors—in the sense, other shopkeepers, the standard market shops, etcetera, etcetera—who are doing business in the grocery. Now, what are the value proposition differential items or activities? One is price, then the freemium offer. Access the content or services remotely. So, you are given content or service remotely. Price, of course, they give you discounts—like Airbnb, they give you discounts. It is cheaper than a normal hotel. Free—many times they give you free offers, discounts, and other things, etcetera—which attract people.

Access simplicity is removing friction from the sales process, making decision, purchase, and payment simpler. So, you just do it on your app. Submit, pay by using PhonePe, Google Pay, whatever your payment method is, the material comes. So, everything works very smoothly, very fast, and seamlessly. So, you have to have a minimum order. Something fine, your children—even young children—fine, give me, I will order.

They will open the phone app, and it's done. In two minutes, it is ordered. So, the parents also do not have to do it; now the children are doing it. The point is the simplicity of use—that is what simplicity is all about. And that is where they are scoring. Personalization: customers prefer a choice of products that fit their needs.

So, you can get many items which are not available, for example, in the local markets. We go to Amazon for that, or other places like Blinkit also. Things are not available in the local market because they cannot keep stock of many things for various reasons—for sure, the space. They do not have space; they do not have funds. And they do not see potential business. But these people can do it; they can sell you almost anything you want, and you get it on Amazon or Blinkit, etcetera. Aggregation is about aggregating many sellers on a platform.

So, that is e-commerce primarily—unbundling, letting customers buy the part required. So, if you want a particular component, not the whole thing, that feature is also provided, and bundling the other one is also provided. So, if you want to buy this plus some other things they will bundle it for you and give it to you at a discount. Integration generate new customer value by bundling products and services and the social feature is ability to share the experience of a product or service with others. So, you can give feedbacks.

And if you read the feedbacks you know what is the impact with others. So, you get the once you read the feedback before you decide to buy you can go through the feedbacks and then take a make a decision. The value network differential, this is the barriers. The customers challenger targets different customer segments than the incumbent. The customer segments you can differentiate.

Partners for sales, marketing, products, etcetera can be key to the challenger's offer. So, one of the partners for say Blinky or the e-commerce is this buying bond that is a partner which is enabling them to deliver that thing fast, but that cannot be taken up by the income. Networks applicable for platform business model including network of consumers, advertisers, app developers and sellers. So, they become integrators the whole network acts like an integrating with the help of the platform you become integrators between various stakeholders. Complementary products or services like for example, Apple iTunes music service with iPhone that is one thing which was a game changer.

So, iPhone when it came it added their iPod to that, so that the whole iTunes music was available on iPhone. So, you do not have to now buy a separate iPod for you know which is the product was there earlier for music. Revenue model, pricing and payment model: pay-per-use, monthly subscription, etcetera. Cost structure incurred by the challenger in order to provide its offer. So, they can give you a lower cost, discounts, etcetera, which is difficult to match by the existing players, the big players, the skills and processes.

Challenger may have unique organizational skills or differentiated processes. For example, if you compare Apple and Nokia, Apple had—well, they scored over in the design capability. Apple products are famous for their design features, which others could not match, including Microsoft. Then, Amazon's customer service—their return policy, for example—had given very good scoring points for Amazon. Or their response to your complaints over the phone—they call back, etc. And immediately, you get the service you want—if you want to return a product, etc.

It can be done very easily and smoothly. Physical assets or the lack of it. So, one is a platform—Amazon having a platform and no assets, like Airbnb and Uber. Big advantage for the challenger. So, either having a platform or no assets—you do not have any taxis; Uber does not have any taxis, or Airbnb does not have any physical hotels or whatever.

IP assets: patents, rights, licenses, and unique technologies of the challenger. So, you start—you want to start a new company with a new patent; you have an idea, your patent for it. So, that is your strength. And if you are the company that is challenging the big players and they do not have the patent, they will not be able to do that or get into that business. And data assets—Amazon’s and Google’s use of customer data to deliver personalized offerings. So, companies like Amazon and Google, who have disrupted

the whole thing, they use their customer data because they have a huge database they have created over years with so many volumes of transactions, with a very large volume of transactions. The volume of data also keeps growing exponentially. So, you can utilize that data to your advantage for doing analytics, getting insights, starting new ideas, etcetera. So, if you just see how iPhone versus Nokia, it is not valid anymore because Nokia is not there; they do not make any phones. I mean, they do it—it is a different company. The original Nokia no longer makes any phones; they have sold their IP.

But it is good to know how the whole thing happened. The history part of it is the value proposition differential if you go by these two. For iPhone, the physical design, simplicity of use, integration—phone, music, personal digital assistant (PDA). Those days, people used to use it for making notes, etcetera, on your phone. Browser—you can browse the net, email, send mails, read maps. So, all of these got integrated into one single device, which Nokia did not have, and the various apps.

So, that is how Apple effectively knocked out Nokia. It was the design capability of Apple. They had a huge design team because they also used to make desktops and laptops, PCs in short and they were competing with directly with Microsoft. In US they were I mean they were much very big competitor to Microsoft that compared to other countries, but however in US Apple desktops and laptops are still very popular. So, that design capability they used for making the phone as well.

because they had the design strength. Retailer subsidy, unlimited data, so these are all the strengths of Apple over compared to Nokia. OS design experience, from the desktop experience operating system. iOS proved to be much better than whatever Nokia had those days, there is something called Symbiome, they tried Symbiome. But later on Google came up with Android and then Android was accepted in over all other non-Apple phones, but Nokia by the time went out of business.

iTunes integration. So, this music store integration that was a barrier for Nokia because they did not have anything like that and the app developers. Same was true for the app developers because their platform their OS whatever Symbian was not good enough to compete with Apple's iOS. So, apart from many disadvantages. Apple's value network allowed it to create, deliver and monetize the iPhone.

What it did? It partnered with AT&T, the phone was expensive when it was launched it was very expensive. So, what they did was they tied up with their telecom service provider for data services AT&T and said that if you book AT&T's the scheme for data and call for a year you get the phone free. So, this was a very that freemium economy they played that game. So, you get you know book ATM have a contract with ATM for data and phone services for one year and I give you the phone free handset free and the handset was very expensive those days it is still expensive, but those days when it was launched it was quite expensive.

So, this was the thing which helped create the disruption. Because people any case you need a service data service and call service. So, take AT&T and get a phone free and that too a phone like iPhone which was become the craze of those days. The other story I want to tell you about is Netflix, not the current Netflix which is streaming video, the way it started with sending DVDs. What we had that time earlier was Blockbuster, company called Blockbuster US, who were the market leaders in DVD rental movies. So, you go to a Blockbuster store, you take a DVD on rent, see the

movie, return it etcetera, which we have also done here, maybe 50-20 years back movies on DVDs, but we do not do that anymore because that model is no longer valid. So, what Netflix did when it launched also with DVDs, they first said there is no late fees, if you return it later no problem, I mean few days or whatever easy access. The product DVDs was sent to you by mail. So, you do not have to come to a store to collect the DVD. A wider choice from a central warehouse they had a much wider choice and they had a personalized recommendations.

So, they were recommending suggesting to you what movies to watch. The differential they created subscribing pricing model and e-commerce website. So, all those were not with blockbuster and it was difficult for blockbuster to start implementing this e-commerce website pricing model of course, they could have done pricing model you can always do, but that is what their revenue model was different and Netflix said you know we will do a subscription based pricing model that you pay a monthly subscription and you get whatever unlimited number of DVDs and things like that. Data assets and recommendation engine.

So, once you have an e-commerce site you keep get your data on site and then once you have data then you do your analysis and then you can find out which customer prefers what kind of movies. So, now you can then recommend to that particular customer push recommendation that this is being recommended for you. So, that is one service which they had because of the platform e-commerce and data analytics which Blockbuster did not have. Warehouse and mail distribution system that done lot of automation in the warehouse where the DVDs are picked up and dispatched mostly it was a very automated operation not too much of manual intervention. So, they could do it much faster.

So, people once they order they get the DVD much faster and there was no retail costs because they never did not have any physical store. Like blockbuster had 9000 retail stores in various cities, but Netflix did not have any store they just had some few warehouses that is all. So, minimum assets. So, Netflix original DVD services defeated the leading retail chain for movie rentals of DVDs namely blockbuster using this proposition value proposition and the creating the differential which blockbuster could not replicate. Judo strategy is again something very similar to the blue ocean, but it is basically the David and Goliath.

It is typically used by small companies which value skill over strength. It is based on three elements rapid movement, flexibility and leverage, each of which translates into a competitive principle. So, you can really understand see rapid movements, I can deliver things faster, I can do things faster for you. So, that itself gives a very strong USP for any business and that you do not sometimes like to go to big companies how they are very bureaucratic they like long time to decide something or react or act very difficult to move them or whatever get in touch with them get their response for example. So, all those things get removed when you are working or interacting with a smaller company smaller leaner business lean business.

And then flexibility also comes with that if you are a small company lean company you can be flexible and the big large companies are more rigid the opposite of flexible and they leverage their lot of these benefits they can leverage it very easily. So, the first principle requires judo players to move rapidly to new markets and uncontested ground thus avoiding head on head to head combat. Suppose there is an established business running wherever big cities centered around metros and big cities and you want to start. So, thing is that you should move to new markets maybe smaller town cities where their presence is minimal so that you do not have direct competition.

So, you will not be noticed so that you can start your business and grow your business going unnoticed mostly, because you are not getting into the domain of the big players leagues, because they are more comfortable working in big cities, metros etcetera. The second principle is not getting into wars of attrition. Attrition is basically you do not want to hire people from your competitors. or the team the company whom you are challenging ideally speaking what many people do from a business perspective that you hire recruit somebody people from that company giving higher salaries and attractive salaries.

So, that you come to know about their business secrets. business model, the product, anything behind that service etcetera. So, that creates a problem in the sense then it alerts the company that my persons are leaving and going and joining some other a company x small unknown company. So, this must be you know doing something similar to what we do and is become going to become a competitor very soon. So, they will take some retrospective action to prevent this.

So, do not get into this. Do not get into a war of attrition because then you are sending direct signal to that your company the bigger company competitor that we are coming in coming to going to attack. Third principle is to leverage the competitors assets into liabilities you can take advantage of. Now, this is again very interesting should known that competitors assets how to make that as a liability like the previous example of blockbuster where I was talking about. They are an asset of 9000 retail store, but when Netflix came with no retail store only warehouses with centralized distribution system through mail, this 9000 retail store became a liability.

Because now you are comparing Blockbuster and Netflix what I have and what Netflix does not have. So, this physical store business became a liability for many such business operators. When people started working with platform online with few central warehouses etcetera. Same true for Airbnb or Uber, they do not have any physical asset, no hotel, no taxi. Another example here is 1930 is very old example again Pepsi created 12 pounds plastic bottles at 5 cents, 12 pounds is American we are weighing.

Plastic bottles at 5 cents to compete with coke those they had a 6 ounce glass bottle but sold at 5 cents. So, price is same, but Pepsi gave double the quantity 12 pounds in plastic bottles. Coke is giving because you want to you know people like drinking from glass bottle gives you feel good factor, but then this quantity made the difference at the same price you are getting double. So, Pepsi started scoring, but Coke had to make enormous effort to retool their factories to plastic bottles.

Now, coke had to then said to compete with Pepsi we have to now change over we cannot give any more in glass bottle because it was so expensive. So, I have to change over to the cheaper version plastic. So, they had to completely change their line retooling the assembly line because handling glass bottles and handling plastic bottles by they are all very automated machine. So, difficult. So, that investment had to be done.

So, then their existing asset becomes a liability. Airbnb the real estate properties of existing hotels can sometimes become liabilities for the hotels, because if the business is not good then the whole asset thing becomes your liability, because you have taken probably your rent or whatever. Now, about movement it throws your competitors off balance and utilize the initial advantage, this buys you time to strengthen your position, so you want to come in as a surprise And by the time people your competitor understand your game, your impact etcetera, etcetera probably it will take some time 6 months or 1 year and by that time you have established yourself, you have become popular. So, do not invite attack.

So, initially lie low with your marketing strategies such that it does not attract attention, this I have already discussed. Define the competitive space. So, your space you restrict so that you do not you know step into the foot of the others. So, like example here Intuit entered the personal finance software market with easy to use features for commonly used operations, but large banks large banks Goldman Sachs they lost unit because they could not offer such things. Follow through fast.

Ariba, Salesforce.com, these are all net based, cloud based enterprise softwares that used to speed to win the markets control by say large companies like SAP or Oracle. So, they are very commonly large companies, but again they have large inertia. So, you take that advantage of that so that you can do business with your customers much fast because customers like speed and they want to order something and get something as soon as possible. Now, going back on this blue ocean strategy. To improve the quality we need to study what we did that made a positive difference. The blue ocean strategy challenges companies to break out of the red ocean which is

of existing business, the strategy they have they are fighting each other that is known as red ocean because there is a lot of probably blood etcetera which is just a metaphor by creating uncontested. So, here we are talking about uncontested market space that makes the competition irrelevant. So, blue ocean strategy is about growing demand. and breaking away from the competition and opening up new markets which was not there not existing. So, if you take red oceans, blue oceans, we know all red oceans that is are existing most of the companies are red oceans, I will just quickly go through the blue oceans.

defined by untapped market space with room for very profitable growth. Most are created within the red oceans and then expanding boundaries and competition is irrelevant because rules are waiting to be set. So, when these new companies come in, a new set of rules gets created. They do not follow the existing rules. So, the rising imperative of creating blue oceans is accelerated by technological advances, globalization, and brands becoming increasingly similar. So, the two major players here are the accelerated technological advances—all these digital technologies helping us to create blue ocean strategies—and globalization because the

whole world is at your hand now, literally. With your cloud and internet, you can reach out to any place anytime, and that is how you can start your business here, but you can go global at the shortest possible notice. So, the scaling-up process is obviously much easier and faster. The cornerstone of blue ocean strategy is that it creates value for the buyers in a manner that is innovative. Both qualities must be present. For the value innovation to occur.

So, one is the value, and the other is the innovation. So, value means it meets some previously unmet need for the consumers, and innovation creates utility or secures a strong price position. So, let us take Airbnb again—back to that. Airbnb's value proposition is getting houses cheaper, much more easily, in various small towns or places wherever you have planned to visit where hotels may not be there. So, it opens up those markets basically for tourism. And innovation is creating certain services, like I can get a taxi on demand sitting in my room. I book a taxi, the taxi comes to the front of my room, I just walk out, get into the taxi, and go.

Otherwise, previously, I used to go out on the road and look for a taxi—hey, look, there is some flying taxi moving—shout, run, etcetera, etcetera. So, all those days are gone. So, the value proposition they brought, the innovation was that you can book a taxi sitting in your drawing room, and the taxi comes just near to your house. You step out, and you can also know when it is reaching because online, on the screen, you can see that is the movement to the car which house is coming. So, it is approaching nearing. So, you can get ready if see it is one minute away get ready and then leave your house and there the taxi is there.

It clashes with the traditional thinking that a business strategy must be a choice between and low cost value innovation will provide you both. So, it is just not low cost because the traditionally we think something is low cost means has got a lower value. We said it is a cheap product like we used to say Chinese products are cheap. So, they will not last long durability, reliability all those things are questionable.

But here in a blue ocean strategy they give you provide they providing you value and a lower cost. So, you cannot say that Airbnb is not giving you good value or Uber is not giving you good value you cannot say that. They are giving you value and prices are sometimes lower. ERRC finding the blue ocean, so you eliminate certain factors which are there and you raise certain factors which are not there. And also similarly you reduce some factors below the industry standard and you create certain new value that is not there where the industry had to offer.

They did not offer any case, so you are creating new value, you are eliminating some things which are not required and you are either raising or reducing something which is required or something is not required. So, combination of these four ERRC whatever grid is making this blue ocean strategy such an important strategy in today's world with the help of technology. So, fundamentally it is technology. Lastly, there is a chart and 3 slides you can read later.

So, it is to assess whether the organization is ready for digital transformation. It is a self assessment tool. If you just read through and score between this and this it ranges from 1 is this side, 7 is the other extreme and you go score yourself rate yourself this will completely self assessment and you can find out whether your organization is how far it is ready for digital transformation. You can take this as an exercise and do it for your organization if you are working somewhere if you are not working of course, you can it is not relevant for people are working in organization you can do it for organization or you can ask many of your colleagues to do it and then you can come to a some

kind of decision as to your the degree of the level of readiness the organization is for digital transformation. With that with I end this session. Thank you very much.