Digital business models

Lecture 2. How new digital companies use digital business models

Content

- **What is the digital business?**
- **The Main Concepts of Digital Business**
- **Development of digital business model**
- **Tools to build the digital business**
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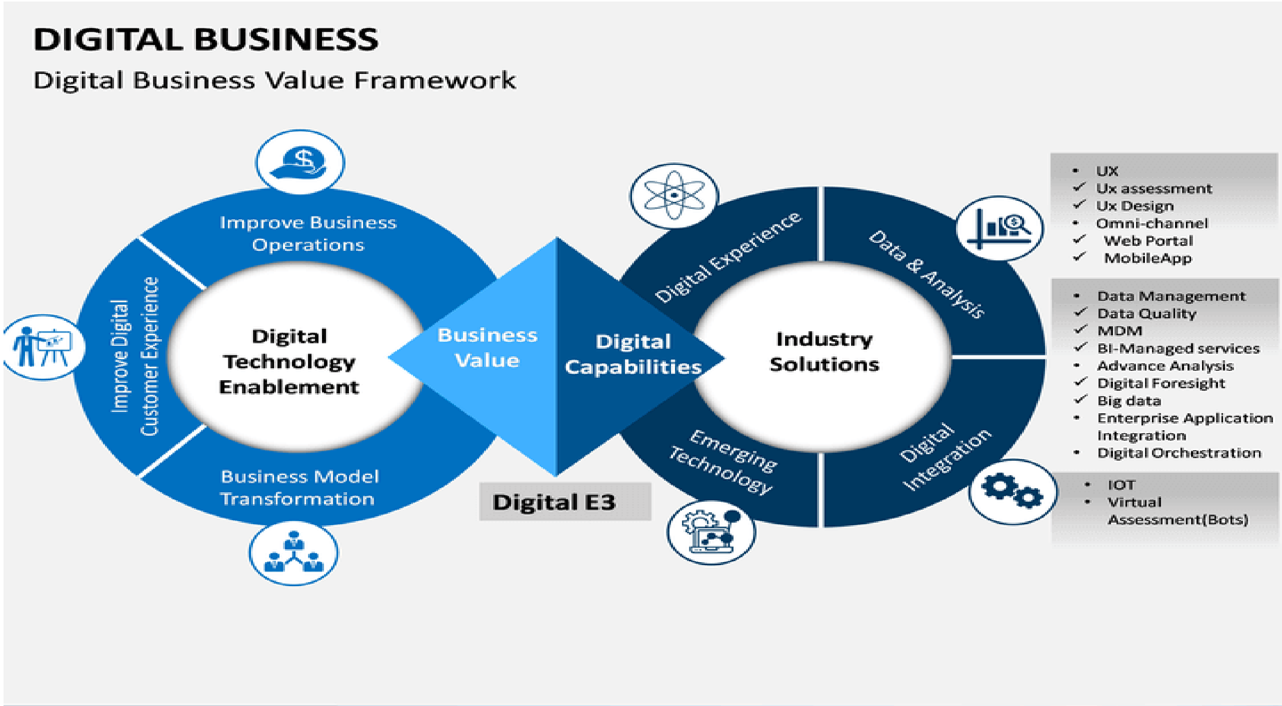
What is the digital business model ?

What is Digital Business Model

1.A business model that leverages the opportunities of digital technologies. Existing companies can digitally transform their business in order to operate also on a digital business model. New companies (digitally born) can arise that are operating entirely on the digital business model.
2.Use digitalization to create or develop new business models. L
3.Is a business model that use digital tools and/or digital technologies to capture or creature value.
4.The development of business based on the six dimensions of the business model framework: value proposition, target market, value chain, revenue mechanism, value network, and competitive strategy, which involves the digital embeddedness within an enterprise and the involvement of the external digital network.

What is the digital business?

Digital businesses **use technology to create new value in business models, customer experiences and the internal capabilities that support its core operations**. The term includes both digital-only brands and traditional players that are transforming their businesses with digital technologies.



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What is the digital business models ?

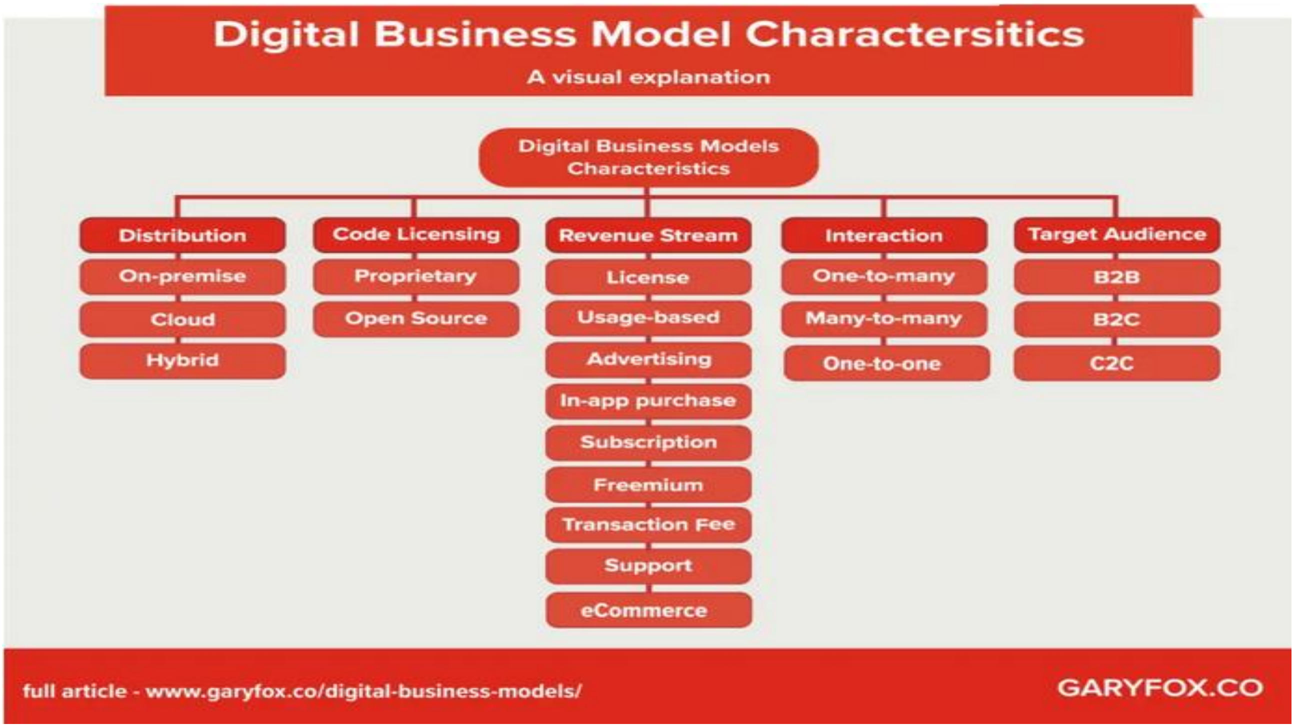
A digital business model is **a form of creating value based on the development of customer benefits using digital technologies**. The aim of the digital solution is to generate a significant advantage for which customers are willing to pay.

Characteristics of digital business models

- Digital business models have different characteristics, several of which usually apply simultaneously.
- The added value generated would not be possible without the use of digital technologies. Amazon, Uber and Airbnb are companies that would have no business without the technologies of the Internet. Amazon might be a local marketplace today, Airbnb a room agency in several cities and Uber a taxi center or a carpool agency.
- The business model is characterized by digital business innovation. Digital business models are based on services that are new to the market.
- Customer acquisition and distribution are based on digital channels. Companies that develop and drive digital business models mostly use digital technologies to reach potential audiences. Sales are characterized by trends such as sales

automation and early onboarding. (see Freemium Model)

- Customers are willing to pay for the digital service or the service. Digital business models thus create a unique customer value that can be monetized.
- The willingness of customers to pay and thus the independent creation of value is a striking feature of a digital business model. Purely digital services, e.g. the possibility of monitoring energy consumption via an app, are digital offers, but not digital business models.



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What is the digital business ?

The digital business model is not just a consequence of the digitalization of business processes. This is when, with the help of technology, a product or service for a client is radically changed. When scaling goes not through hiring staff and opening new points, but through promotion channels and marketing. When with the help of the sharing economy it is possible to reduce the price by 3-4 times. When, thanks to this, the number of people who can use the service grows 10 times.

What is digital business?

- Digital business is the process of applying digital technology to reinvent business models and transform a company’s products and customer experiences-innovating products that create new value and connecting people with things, insights and experiences.
- In today’s work-from-home world, it feels like everyone is running a digital business. But the reality is that top business leaders have different definitions of what it means to go digital. As a result, priorities vary when it comes to technology adoption and transformation.
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What is the digital business ?

- Companies that refused to embrace the advancement of digital technology began their own demise. Simply because some people could not explain why an online service or product suddenly became cheaper or even free.
- Digital business models offer some added value to one or more customers through the use of digital technologies. The goal is to bring customer benefit to a level that consumers are willing to pay for.
- This is the difference between digital business models and the traditional business model in that it uses digital technologies. That is why they are so successful at the moment. Therefore, to understand this essence, it is necessary to deeply study the concept of digital business models.

Why is the digital business model important ?

Most executives now have a basic understanding of technologies like Artificial Intelligence, Machine Learning, Big Data, IoT, and Digitalization/Digital Transformation, there is still sometimes confusion about how digital business models work. These new ways of doing business are amongst one of the most disruptive business models of our age, driven by digital technology and the power of networks.

Why is the digital business model important?

The use of digital technologies and digital business models allows companies to reduce costs, collect data and improve the quality of customer service. Digital businesses are focusing on the competitive advantage that digital technology gives them, whether it be reducing overhead costs or delivering new value to customers.

Main characteristics of Digital business models

1. The value is created using digital technologies
When the value proposition of the offered service is (solely) based on digital technologies, then we have one big indicator for a digital business model. Amazon, Alibaba, Facebook, Google, etc. wouldn't be possible without the use of the Internet.
2. Digital business models are new to the market
One of the best examples is the difference between digital offerings and digital business models. When you are reading your energy consumption via an app, then it is a digital offering of your electricity provider. When you order transportation via an app that matches your request with a driver, then this is a digital business model.
3. Digital customer acquisition and distribution
To become a customer and to use a service you need to use digital channels. Digital business models are sometimes solely based on digital channels. This is especially important for business models that rely on early onboarding (Freemium Model) or on marketplaces (e.g. Amazon puts advertisements when you search online).
4. USP is created digitally
When the customer is willing to pay for your services and offerings which are created online, then there is a strong indicator of a digital business model as the customer value can be created digitally and also monetized.

Why create a digital business?

- Creating a digital business is really beneficial to the entrepreneur who wants to get started. Generally, these benefits are based on two essential factors:
- **Simplicity:** This is the main advantage of an online business. Indeed, the entrepreneur who operates on the internet can simply work from home. They don't have to establish an office and buy office furniture. In addition, numerous online business creation tools lower the costs of getting started.
- **The possibility of having more customers:** Almost everyone is on the

internet and it is open to the general public as long as they have good internet which makes it easy for online businesses to attract prospects and thrive.

- Thus, the creation of a digital business is not only made for startups. Some already have a "physical" store but they go online to expand their business. This strategy is called: cross-channel.

How to create a digital business?

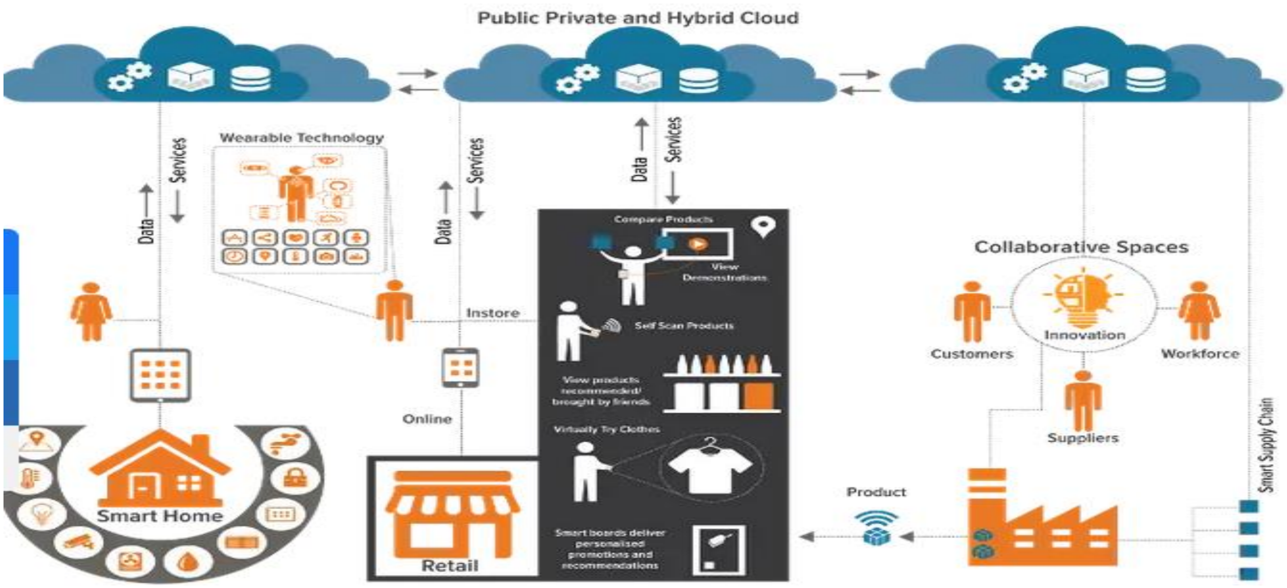
- Starting an online business doesn't have a lot of requirements. However, you have to choose its legal status. Once the status is chosen, just follow the following steps:
- **Develop the project:** Choose a profitable idea. To do this, you have to develop a comprehensive business plan which contains a well-defined project, a market study and a marketing strategy.
- **Test the concept:** Research on the internet about what is perfectly working and what needs to be improved. You can do a survey.
- **Create the website**: It's advisable to choose a site name related to the activity. In addition, you have to buy a domain name and define the appropriate parameters. Besides, you have to go for an attractive design. To succeed in this step, it is recommended to hire a web development professional, such as web developers and content writers.

https://www.getapp.com/resources/how-to-build-a-digital-business

What types of data can create value?

Social data e.g. Tweets, posts on Facebook can be tracked to understand brand sentiment – negative or positive.
Customer data can be used to understand shopping behaviours and characteristics that then enable improved targetting and better conversion rates thus lowering cost of acquisition.
Sensor data – can help improve logistics, enable better management of infrastructures, help design smarter cities and model new ways of working.
Transaction data: this is data as a result of a transaction e.g. you buy a bitcoin, sell a bitcoin or buy something from an eCommerce store like Amazon.
Interactive Data: If you think of smart cities then you will interact with lots of different spaces, environments and systems. Understanding where people go, how they move through a city can help optimize the layout and design.

How digital business models change work, home and consumer behaviour



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The Main Concepts of Digital Business

Concepts of Digital Business

- How to Build a Successful Digital Business
- With so many benefits to starting a digital business, you might be wondering: how do I get started?
- Whether you’re taking your traditional business into the digital world or

starting a company from scratch, here are five tips to help you build a successful digital business.

1. Automate

Digital businesses have one thing in common: they automate everything. Why waste time doing mundane tasks that AI can do for you when you could be spending that time growing your business? Examine your processes and start automating wherever possible.

4 Concepts of Digital Business

Becoming a digital business is a foundational shift, so it's important to consider the key concepts guiding your transformation.

What are businesses looking to achieve by going digital? Most organizations cite the following four concepts:

1. Flexibility

Our world is constantly changing, and companies are looking for a business model that allows them to be more flexible. During the COVID-19 pandemic, for instance, businesses realized that technology could help them pivot from on-site to work-from-home and back again without creating a logistical nightmare. Going digital allows you to adapt to change quickly without the dead weight of time-consuming manual processes.

Concepts of Digital Business

2. Scalability

With scalability, processes match fluctuations in your workload. Digital businesses can quickly scale up or down to meet the needs of the organization. As an example, a scalable business can efficiently onboard new employees during periods of growth or expand their data storage when taking on a large client.

3. Culture

Digital business requires changing how you operate, and this starts with changing how you think. To truly become a digital business, you need your staff to be on board. Though tech leaders in your organization may be at the forefront of this work, building a philosophy of productivity, efficiency, and automation into every department's mission is vital to success.

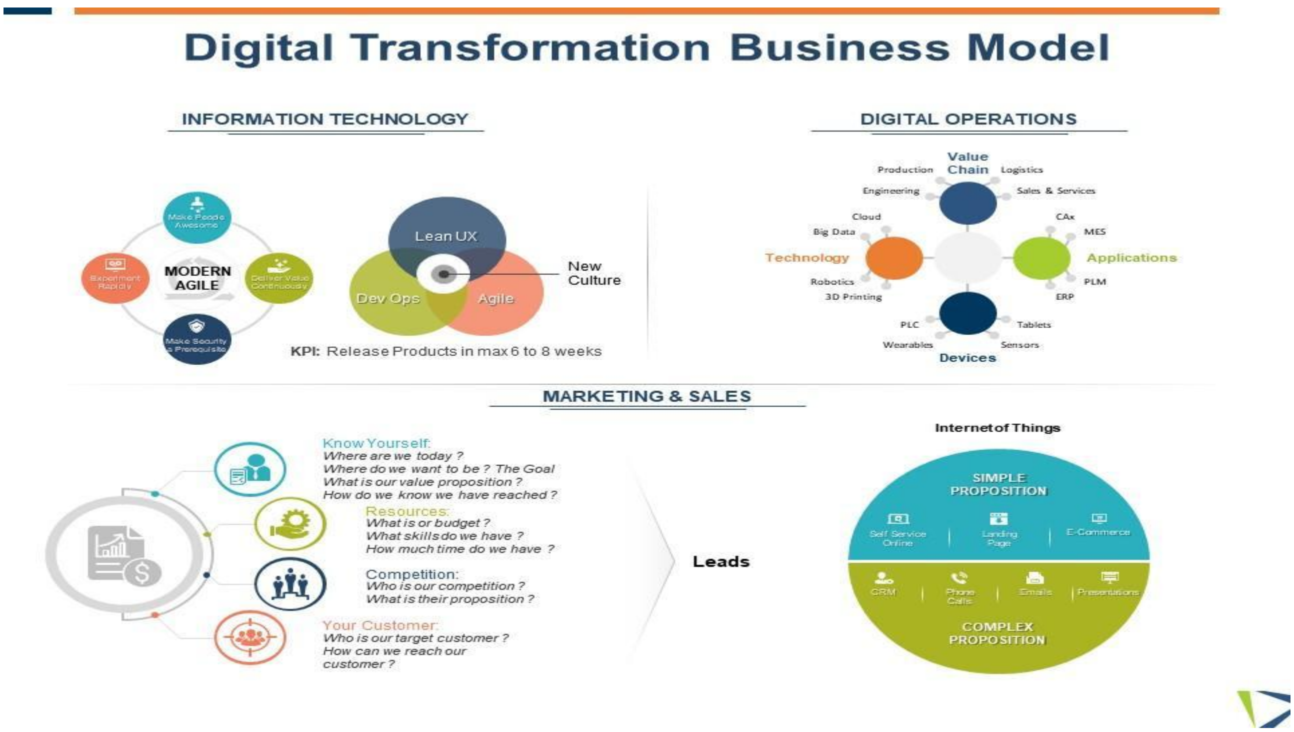
4. Quality

Our final digital business concept seems straightforward, but it's important to keep in mind that quality is key as you make big changes. Often, we become swept up in innovation for innovation's sake. But this won't add value to your business. If your new processes aren't enhancing quality, you need to rethink your strategy.

Development of digital business model

Business model advantages

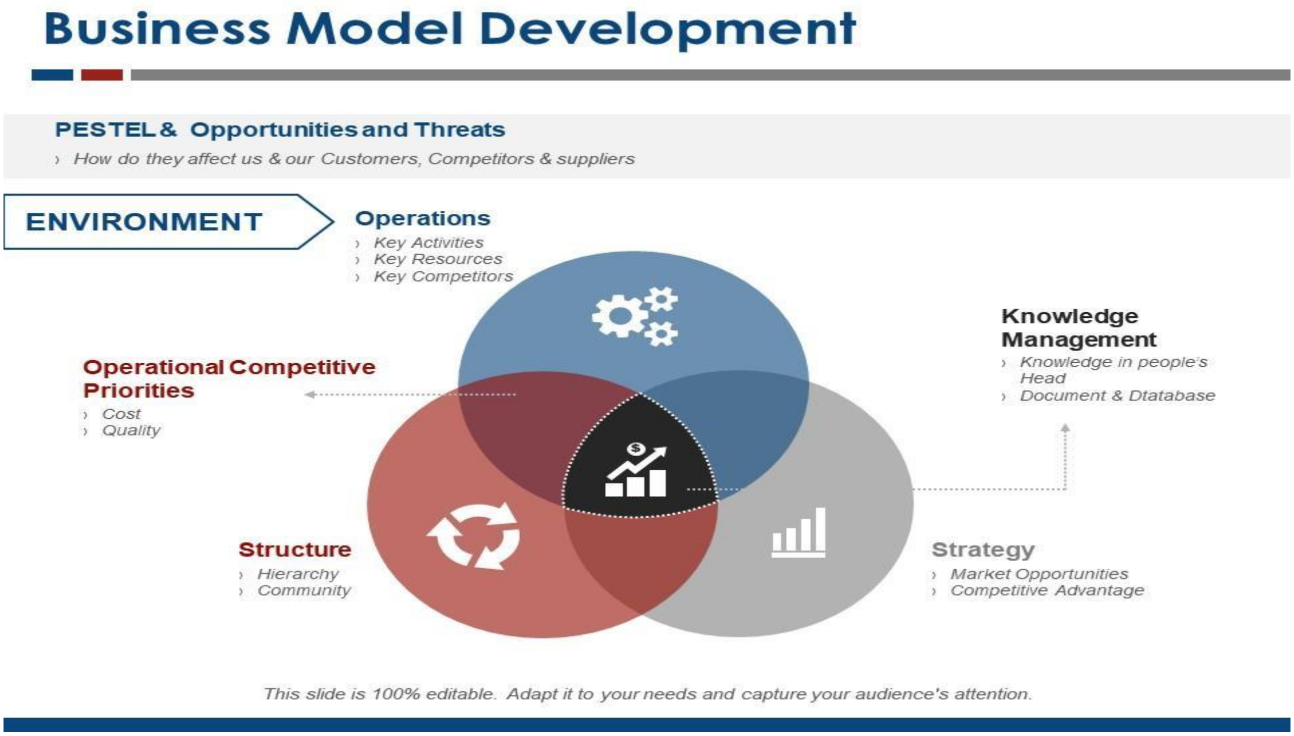
- As a general rule, business models often include everything related to the creation, production, and sale of the product or service, information about the target audience and distribution of the product, as well as what the company's revenue source will be, that is, how the consumer will pay for that good.
- It is, after all, a "recipe" to be followed by the project team. This recipe usually starts with the value proposition – a description of the products and/or services that will be offered, by demonstrating what differentiates them from other competitors in the market.
- Besides, it contains the costs involved, sources of financing, a definition of the target audience and the marketing strategy to reach it, projections of revenues and expenses, an analysis, even if brief, of the competitors, and a description of possible partnership opportunities.
- The main purpose of a business model, therefore, is to allow the company to deliver value to the customer at a sustainable cost. As the business model is able to analyze all the details of the enterprise even before it is put into practice, the chance that this objective doesn't get reached is very remote.



https://www.slideteam.net/digital-transformation-business-model-applications-ppt-powerpoint-slides-maker.html

The development of digital business models

The development of digital business models is an important task for companies being confronted with digitalization and digital disruption. The mere extension of an existing analogue business model by a digital component (e.g. online ordering of goods from a stationary retailer) is a preliminary stage, but not an independent digital business model.



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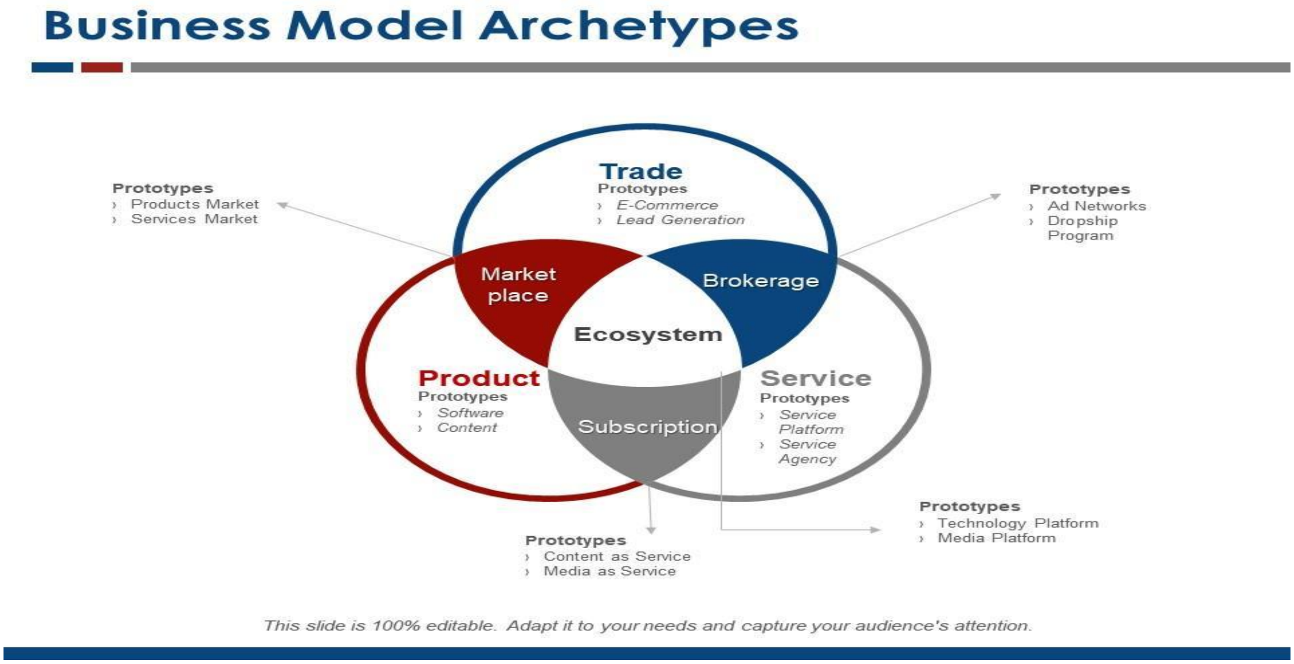
Development of a digital business model

- There are a number of questions to answer when developing a digital business model. These questions are discussed as part of an innovation process in innovation management, often using methods such as Open Innovation. The focus is on future customer benefits.
- This will be explained using the example of a toothbrush and a drilling machine. The customer's benefit is not the possession of the toothbrush, but clean and healthy teeth. Also, owning a drilling machine is not the customer benefit, it is the hole. If it would be possible to sell holes in the wall digitally, this digital business model would certainly be a strong competitor for drill manufacturers.



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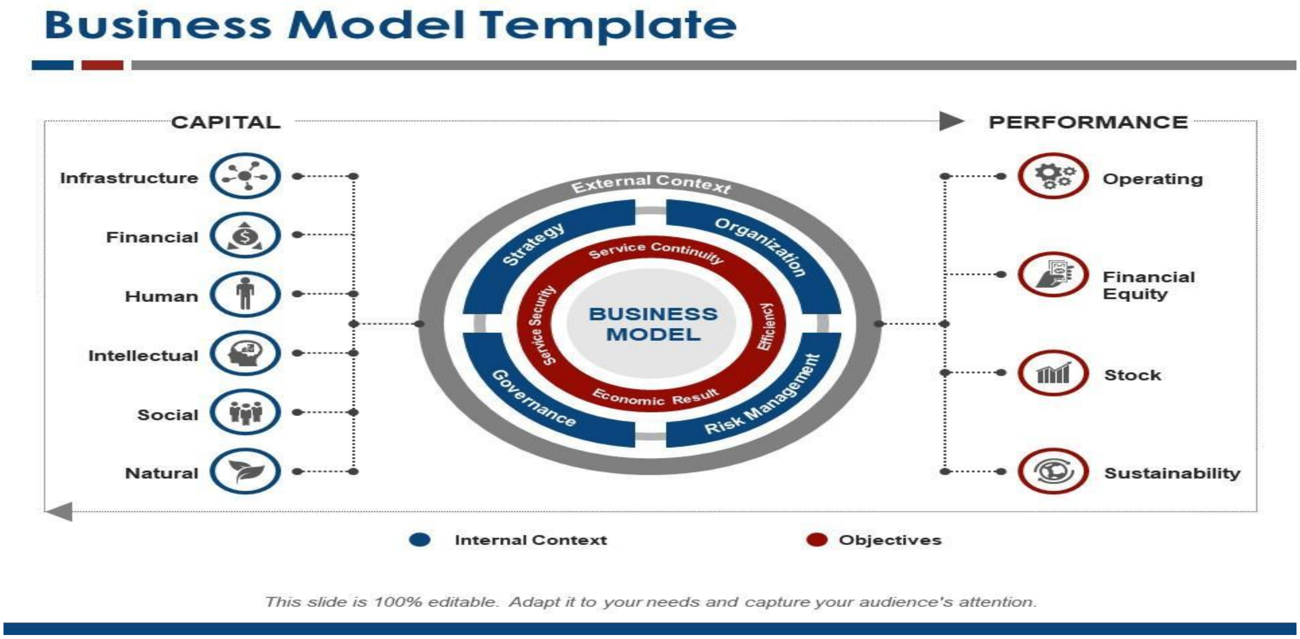

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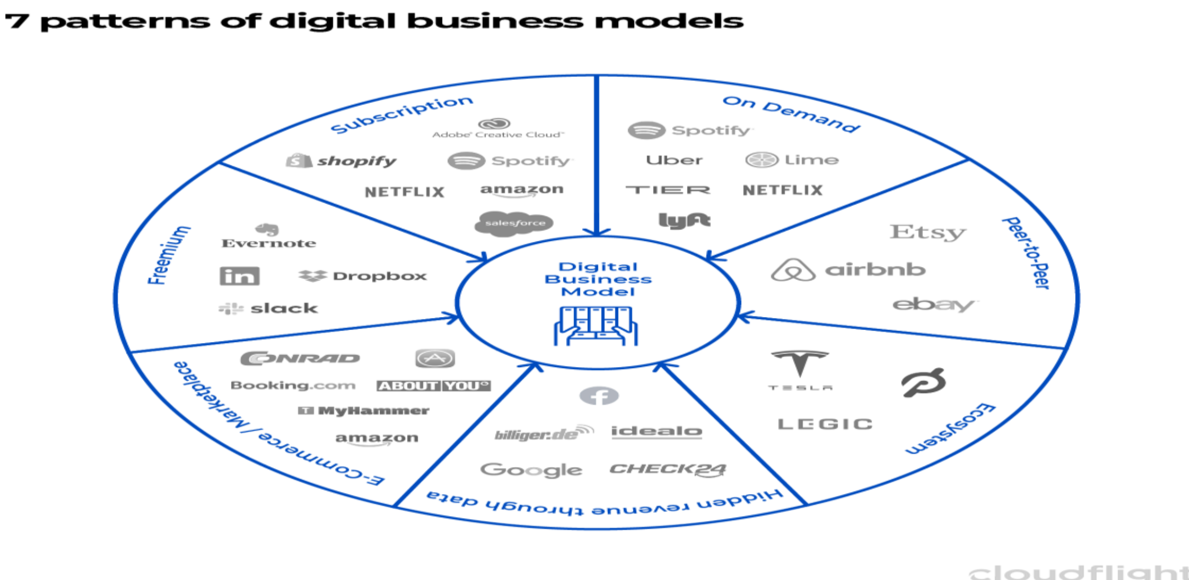

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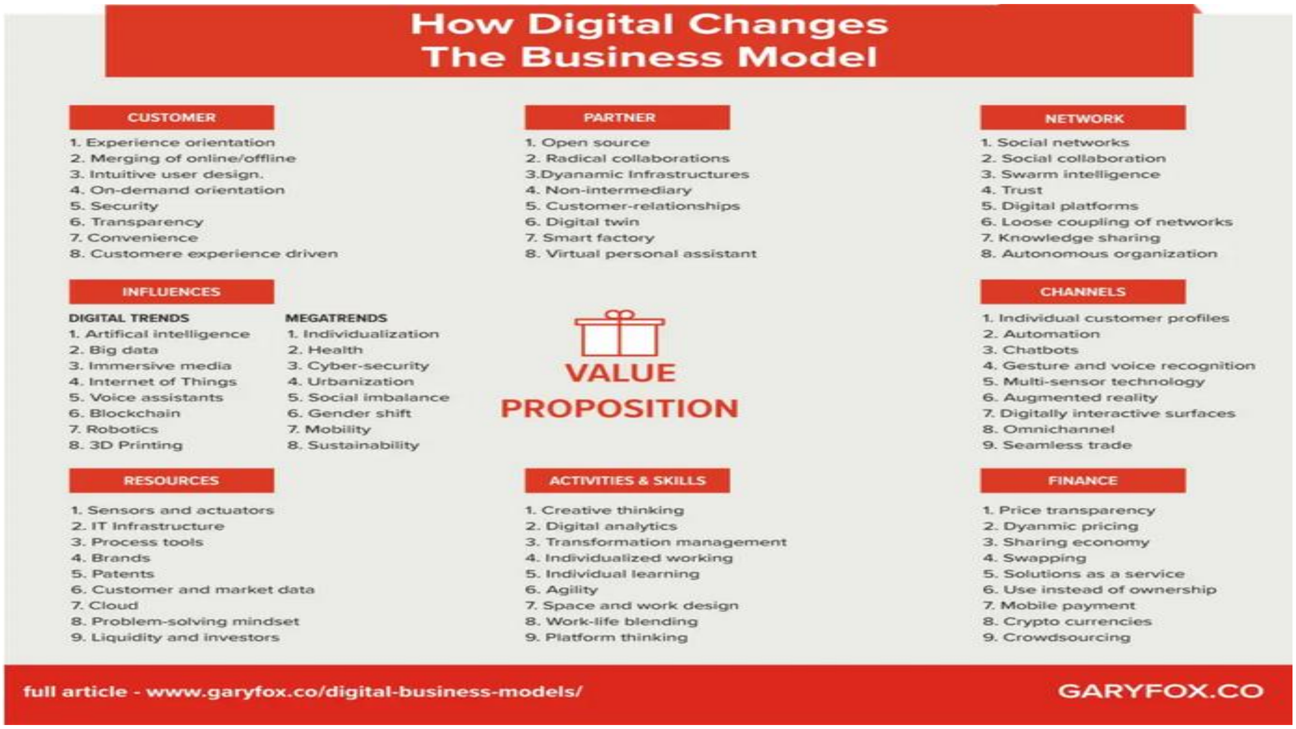

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Digitally enabled value propositions

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Analysis of the state of the company in the market before developing a digital business model

- What is the real problem behind buying existing products?
- Where do your existing products and services solve these problems well?
- Where do problems exist that have not yet been solved?
- In which areas does a product possibly create new problems that have not yet been solved?
- What problems and challenges do customers face in developing their own digital business models?
- What problems and challenges will customers face in the future?

Tools to build the digital business

Tools for developing digital business models

A digital business model is the result of the interaction between customer needs and possible available technologies. Companies that develop digital business models often use innovation management methodologies here. Prototypes are developed, which are tested and verified in the market. When developing a digital business model, it is not crucial to develop the "perfect" digital business model from the very first second. The innovation process is iterative and characterized by many loops. The Innolytics Innovation Software supports idea generation and the development of a Digital Roadmap for digital business models.

Main tools to build the digital business:

- **Business website:** Your website is most likely the first place customers will check when searching for more info about your business.
- **Social media:** You can't do without social media presence today. Your customers and prospects will use social media platforms such as Facebook and Instagram to share their experiences with your brand and to connect with you for complaints, suggestions, and other needs.
- **eCommerce website:** If you're into selling products, having an eCommerce website is necessary. Ensure your eCommerce website supports a variety of e-payment methods.
- **Mobile capabilities:** Having a mobile-optimized website or a mobile app will make it easier for customers to reach out to you.
- **Digital tools for internal use:** You'll need various software tools, including CRM, sales enablement, messaging, and marketing automation platforms, to

automate your business workflows and communicate internally as well as with clients.

- **Emerging technologies:** Embracing technologies such as IoT, artificial intelligence, blockchain, and augmented or virtual reality will help your digital business stand out from others and be better prepared to meet future customer demands and market trends.

Hire, train, and retain digital talent

It’s not easy to hire talent with core digital skills such as cloud computing, machine learning, analytics, and automation. According to a report, there’s stiff competition among employers to hire employees with skills in DevOps, cloud, automation, data management, cybersecurity, and customer experience. Hiring employees with the digital skills you need to build and run your business must, therefore, be one of your top priorities.

Main steps to build a successful digital business

Main steps to build a successful digital business

- Create the right mindset. ...
- Put the right leaders in the right place. ...
- Launch digital business centers of excellence. ...
- Formulate a digital strategy to respond to opportunities and threats. ...
- Find and define digital business roles. ...
- Create new digital business channels.

https://www.gartner.com/en/newsroom/press-releases/2014-05-21-gartner-identifies-six-key-steps-to-build-a-successful-digital-business

1. Create the right mindset

- Setting up a digital business is not just about expanding the use of technology in a company. **Digital business leaders must think of technology in a radically different way** than in the past: it is no longer a “enabler” to be applied to what the business wants to do but a source of innovation and opportunities for what the business could do. This more proactive model focuses on creative disruption and new business models to gain competitive advantage.
- Gartner uses the expression **“business moment”** to describe the dynamic

exploitation of these opportunities, which acts as a catalyst that sets in motion events involving a network of people, companies, industries and ecosystems, allowing them to work together to carry out projects which would not have been possible a few years ago. The hallmark of a **digital business will be the ability to spot the fleeting opportunities that are now a feature of our fast-moving world.**

2. Put the right leaders in the right place

- Communication, marketing and advertisingng
- Here s how insurtech is changing the insurance business
- Shared economy, wearables, autonomous cars, big data… with the help of startups, the insurance business has begun to adapt its business model to a new society. The investments in insurtech already exceed $1.7 billion annually.
- It is precisely **the speed of these changes that is exposing the gaps** in the current models of digital leadership, particularly with regard to tasks related to customer experience and enterprise strategy. Three types of digital business leader have emerged to fill these leadership gaps**:** - The digital strategist - The digital marketing leader - The digital business unit leader "These are roles, not necessarily titles", explains **Lee Weldon, research director at Gartner**. "The title chief digital officer (CDO) is being used for each of these roles -to date, most often for the digital marketing leader-. Some CIOs play the digital strategist role already". As long as these three roles are covered, one person could play multiple roles, and could even take on other responsibilities.

3. Launch digital business centers of excellence

Centers of excellence (COE) are a source of input, advice and opportunities for the collaborative formation of a digital strategy and the capabilities needed for execution. According to **Ken McGee, vicepresident of Gartner**, the idea is to “start by accessing digital opportunities; examine your strengths, weaknesses and potential opportunities and identify new technologies and how they might pose a potential threat. Finally, we should engage people from throughout the enterprise and from outside (and even from outside the industry, such as current and potential users, intellectuals, etc.). We need to ask new questions and find new ways of answering them".

4. Formulate a digital strategy to respond to opportunities and threats

- Once the necessity of a digital strategy has been established, the **following** five elements **must be addressed:**
- Development of new digitally enabled business models.
- A product and services portfolio that does not necessarily require a physical presence (commitment to virtual communication).
- Information as an asset (always considering legal requirements and the ethical concerns of the customers).
- An effective technology strategy (to take account of the new role played by mobile devices, cloud computing and BYOD).
- Content, media and channels (using segmentation to gain a better understanding of the customers' preferences).

5. Find and define digital business roles

Digital business does not involve only implementing technology, but above all **acquiring a specific enterprise mindset.** In the words of **Diane Morello, managing vice president at Gartner,** “According to the ‘CIO Agenda 2014’ survey, 42% of the 2,339 CIO from 77 countries surveyed said that their organization did not have the right roles to meet upcoming digital business challenges. HR policies must be reimagined, emphasizing new approaches that widen access to talented people while minimizing the bottlenecks of traditional serial processes”.

6. Create new digital business channels

Traditional recruitment practices will not suffice. Instead, **companies should launch innovative learning programs**, use the new technologies in order to distribute the work more effectively and develop new channels for finding, building and acquiring digital business capabilities.

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