

BUSINESS MODELS IN TRADITIONAL VERSUS PURE DIGITAL INDUSTRIES

Marie H el ene DELMOND, HEC
Fabien COELHO, MINES ParisTech

Research Objectives

- ❑ **Analyze the evolution of business models in digital economy**
- ❑ **See if those changes also apply to traditional industries**
- ❑ **Understand IT drivers**

- ❑ **Exploratory case-based research**

- ❑ **Cigref / ISD Research programme**

Research design

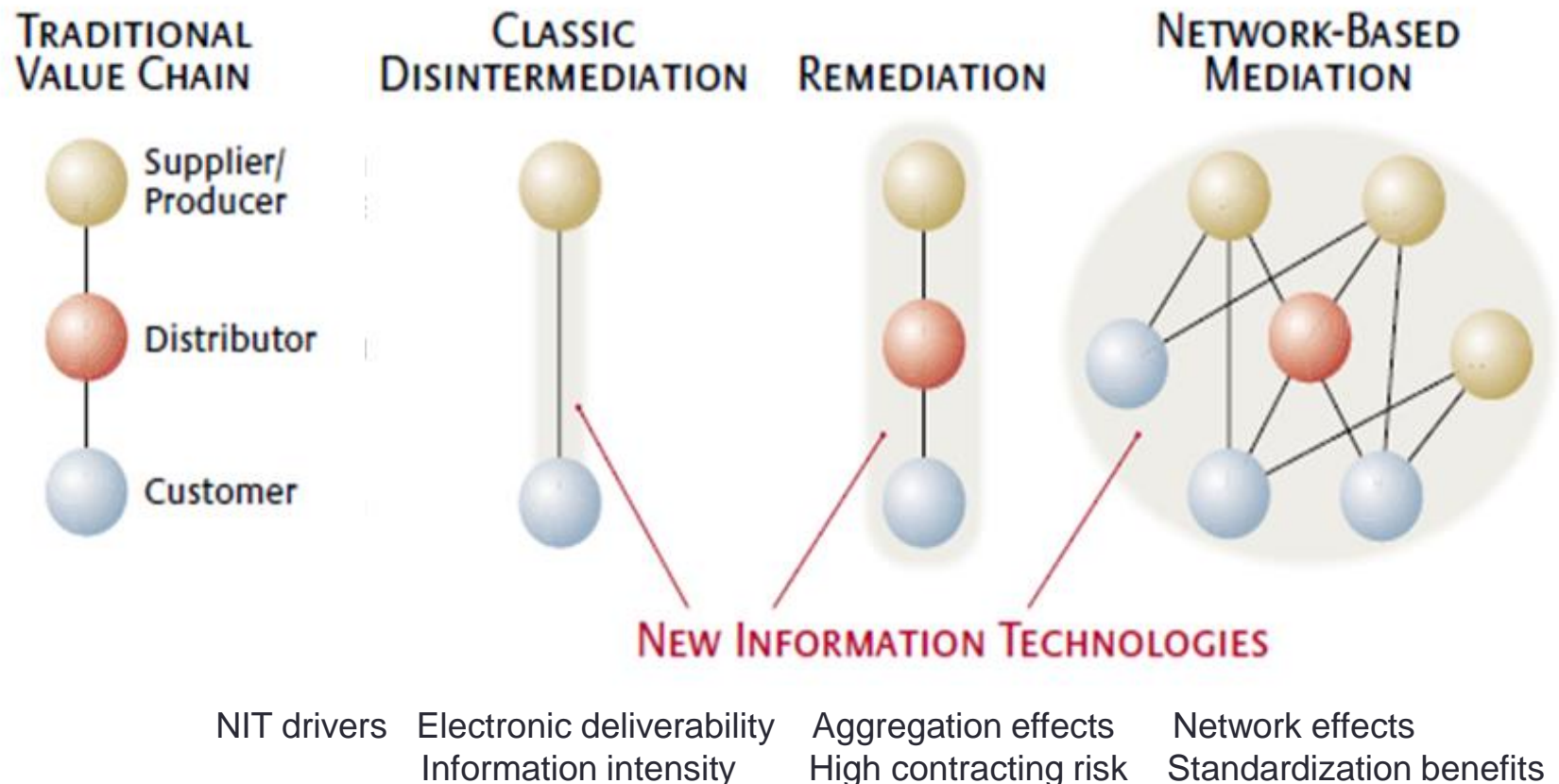
- ❑ Literature Review (Strategy, Service, Marketing, IS/IT)
 - ❑ Industry value chain and mediation strategies
 - ❑ Value proposition: products & services
 - ❑ Business Models: importance of partnerships, value co-creation

- ❑ 2 case studies in Digital / Traditional business environment

- ❑ Rexel Case Study:
 - ❑ Interviews (CIO, Marketing/Customer Relationship, Supply Chain, Strategic Planning)
 - ❑ Review of publications

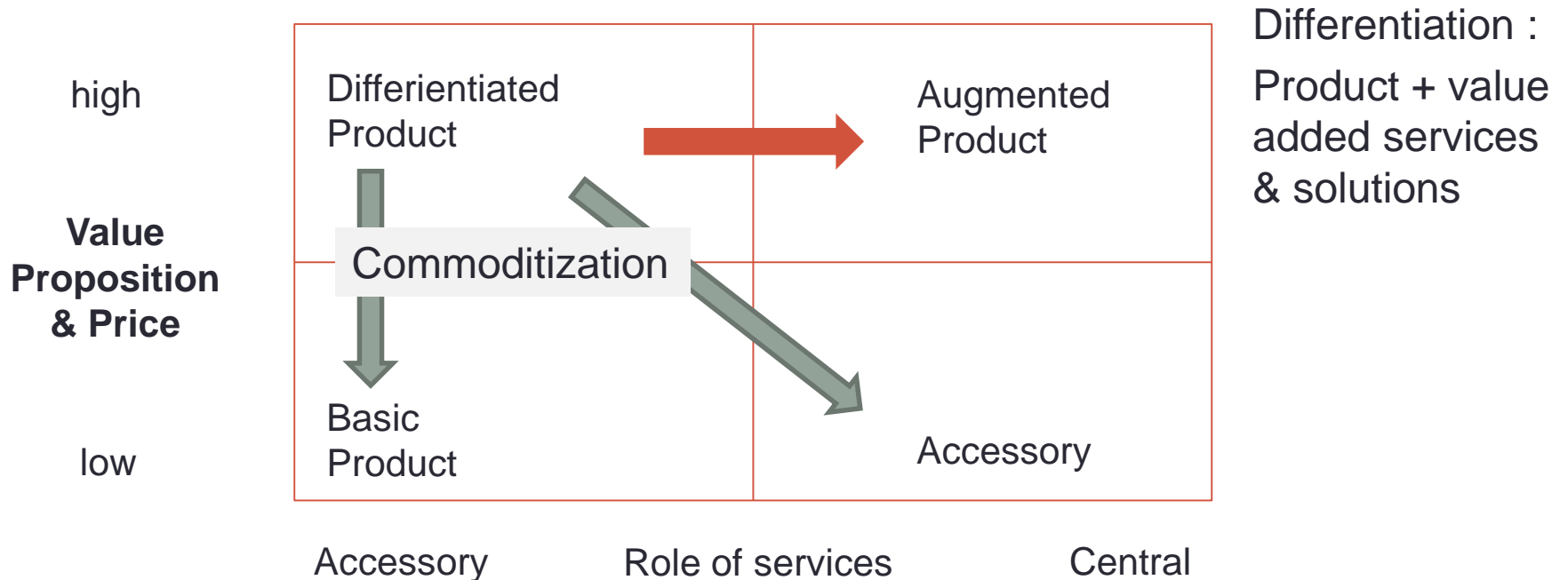
- ❑ Salesforce.com Case Study
 - ❑ Interviews (Marketing Director France and several Network Partners)
 - ❑ Review of publications

Evolution of Industries Value Chain & Mediation Strategies in Digital Economy



Value Proposition: Products, Services & Solutions

- Shift from a product-based toward a service-based economy (Vandermerwe & Rada, 1988)

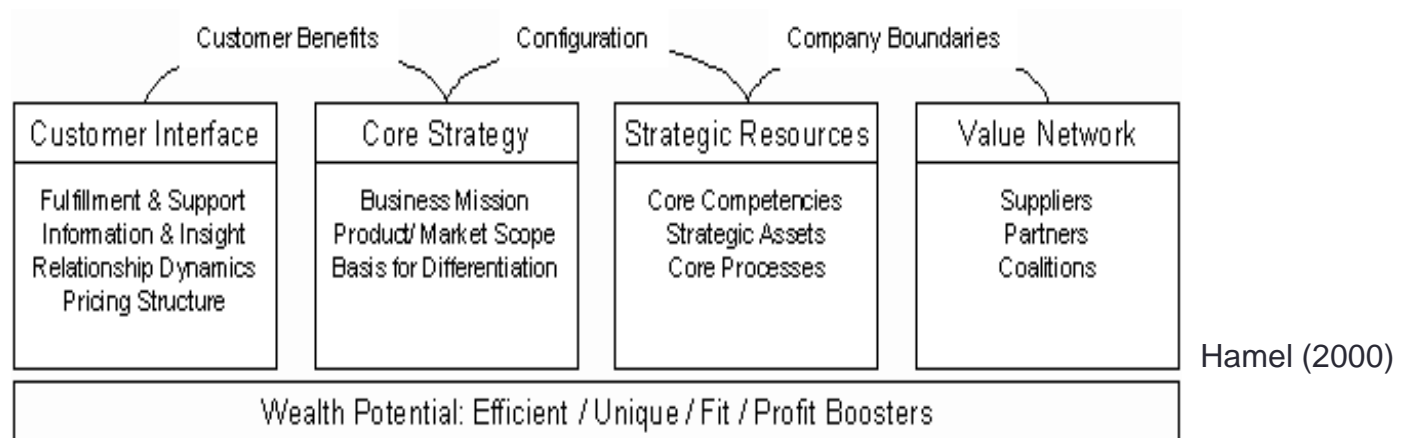


Source: adapted from Karsenti & Ulaga (2010)

Continuous product and service innovation protects from commoditization and keeps value proposition high

Evolution of Business Models

- ❑ Emergence of the concept of Business Model in the 90s (Internet startups development)

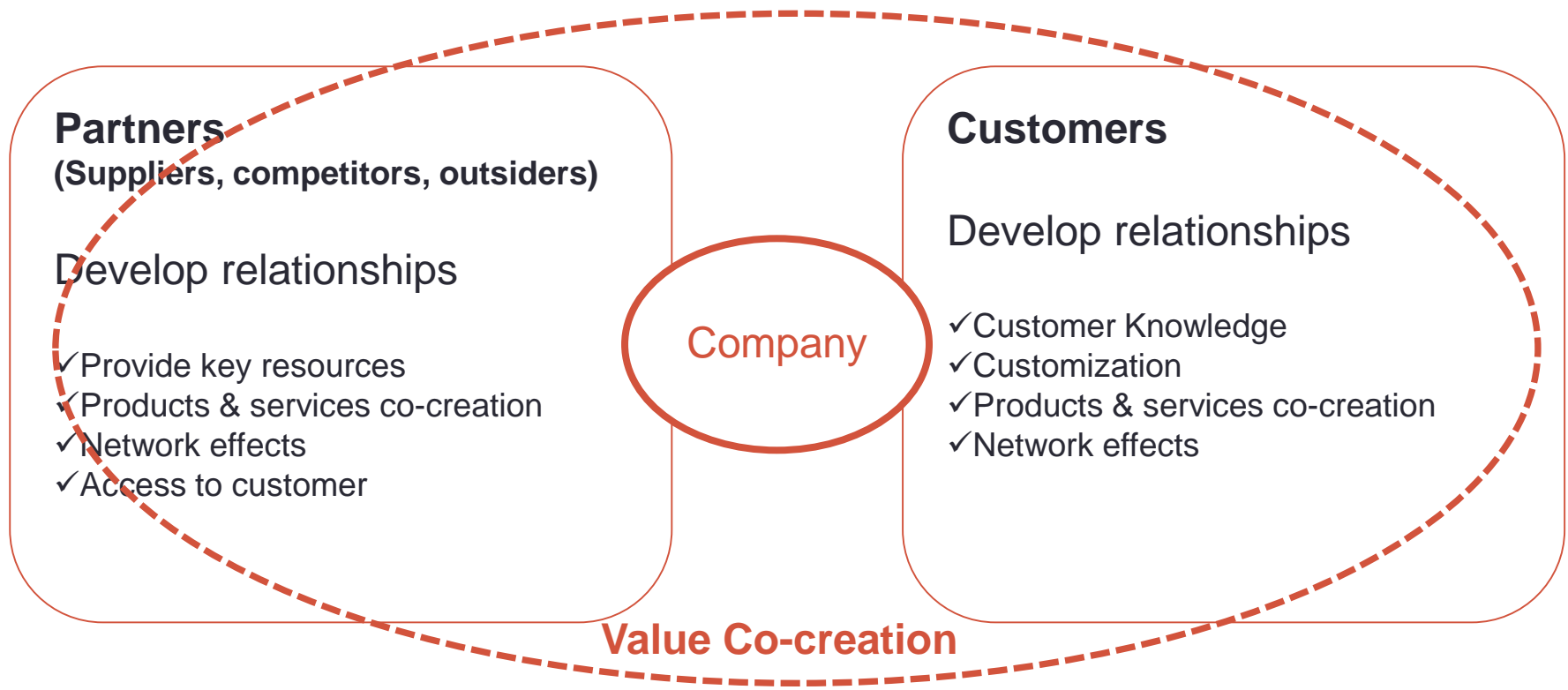


❑ Building blocks

- Core Strategy (mission, products & services, competitive advantage)
- Strategic Resources (assets, core processes & competencies)
- Customer Interface (Fulfillment, Information, Relationship, Pricing)
- Value Network (Relationship with key partners)

Evolution of Business Models: Value co-creation

- All stakeholders co-produce value (Normann & Ramirez, 1993)



- Open innovation (Chesbrough & Appleyard, 2007)

Rexel

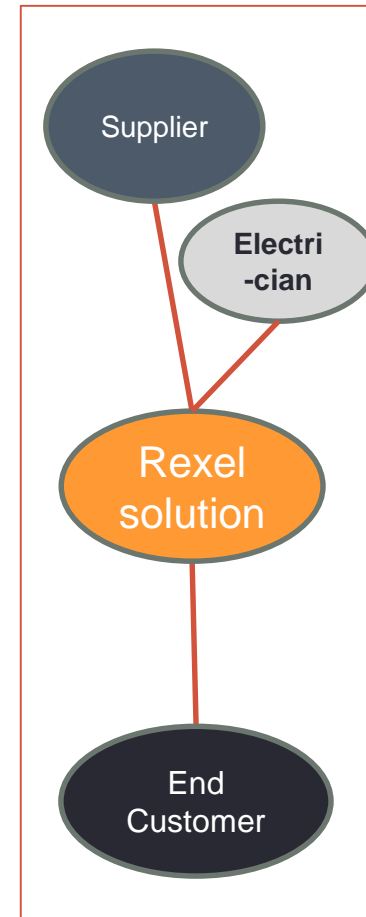
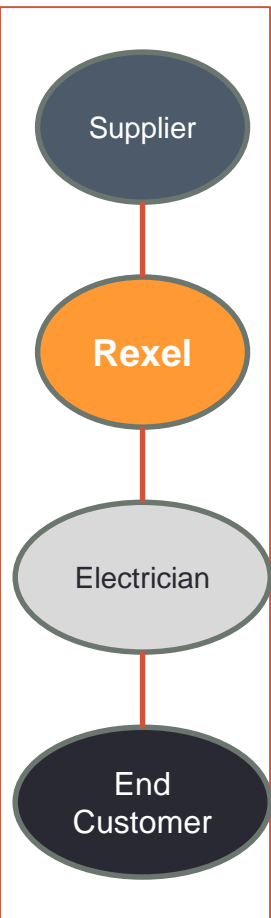
- ❑ Rexel: one of the largest distributors of electrical parts and supplies in the world
 - 28 000 people, Revenue €12 Mds 2010 (19% France)
 - 36 countries, 2200 branches, 40+ banners, 98 logistic platforms
 - N°1 North America & Asia-Pacific, n°2 Europe
- ❑ 3 end-markets
 - Industrial 32%, Residential 25%, Commercial 43%
- ❑ Highly varied customer segments
 - Electricians & SME
 - Key accounts (industrial, commercial, service)
 - Large projects, EPCs
 - ...
- ❑ New stakes
 - Services & value-added solutions, energy efficiency, renewable energies, movements in the industry value chain

- ❑ Also: strongly local (culture, organization, history...)
- ❑ 80% to 90% of revenue from products sale

Rexel - Focus on Customer Segment 1: Independent Electricians & SMEs

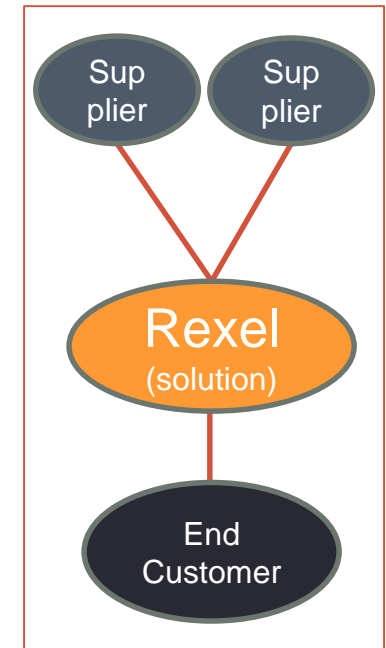
- ❑ High % of Revenue – traditional activity
 - Core business, average order €100
- ❑ Development of value-added services

Procurement Logistics	Others
Pick & pack	Information on new products
Inventory management	Training,
Delivery options	Sales training
Web site : orders fulfillment & tracking, customized product catalog and pricing	Innextel TV – trends, market opportunities, partnership with Rexel
	New services to be added



Rexel - Focus on Customer Segment 2 - key accounts & large projects

- ❑ Objective: become a multi-services key partner
- ❑ Mines project in Latin America
 - First phase: plant deployment
 - Coordination with EPC
 - Logistics services beyond electrical scope
 - Second phase : exploitation
 - Multiservices solution
- ❑ Strong competition
 - Ex Schneider Electric (Bechtel – gas liquefaction plant in Australia)



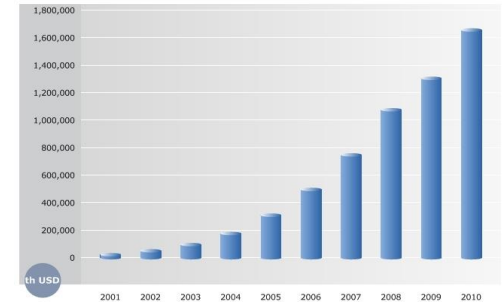
Rexel – remaining questions

- ❑ Global / local Balance
- ❑ Services monetization
- ❑ New value added services for electricians
- ❑ Energy efficiency
 - Attracts new entrants
 - Ability to provide full solution?
 - Ability to establish partnerships?

Salesforce.com (SF)



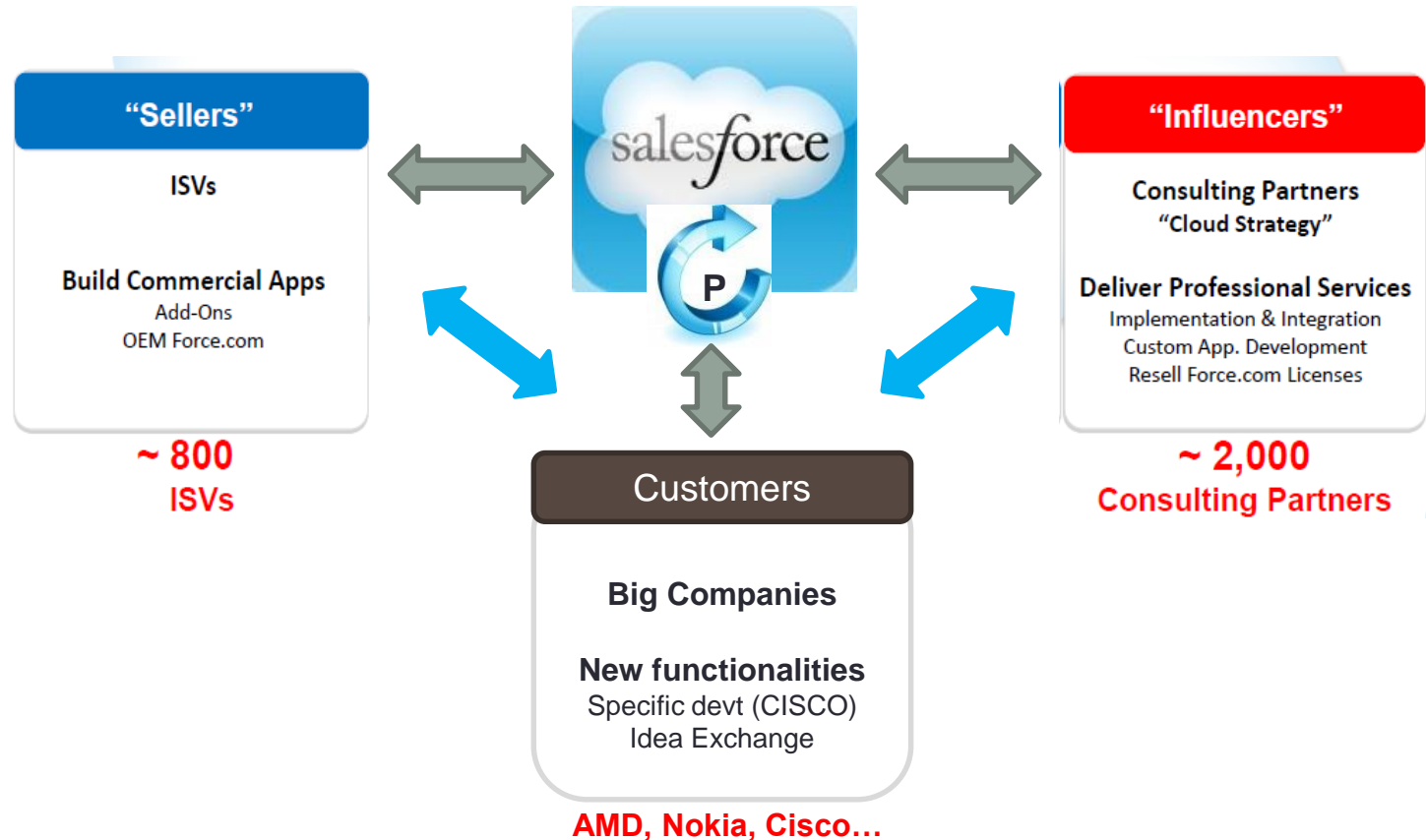
- ❑ Emblematic player in cloud computing business
- ❑ More than 3M users worldwide
 - 71% America, 18% Europe, 11% Asia Pacific



- ❑ Abundant offer, relying on multiple partnerships
- ❑ Software as a Service (SaaS) offer: subscription/user/month
 - Sales Cloud (for sales agents)
 - Service Cloud (for marketing & support functions)
 - AppExchange
- ❑ Platform as a Service (Paas) offer
 - Force.com
 - AppExchange

Salesforce.com Ecosystem & value co-creation

- Salesforce.com co-produces value with its various partners :
 - Customers,
 - Consulting partners integrating SF applications in their missions,
 - and Sellers/ISV partners providing solutions using AppExchange.



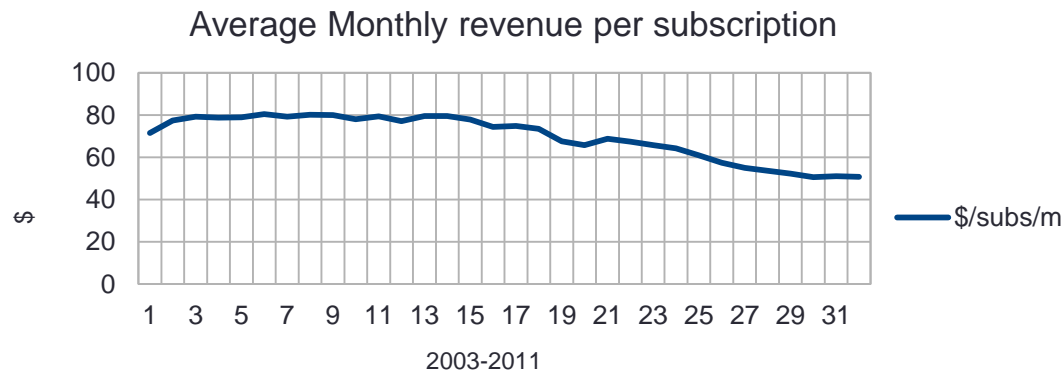
Salesforce.com Ecosystem

□ Numerous and various Business Models on AppExchange and also different levels of cooperation

- Co-investment: financial contribution by SF
- Co-development: shared development teams
- Co-commercialization: product sold both by SF and its partners
- Co-sales: joint bid proposal
- Co-plement: new value added functionalities to SF offer
- Co-connection between applications
- Co-laboration: working together, e.g. with integrator
- Co-opetition: added functionality competing with SF product
- Co-integration: upward compatibility with SF new releases (3 / year)

Salesforce.com Strategy

- ❑ SaaS Business Model: *'risk-free offer for the customer, which can be easily augmented according to its needs'*
 - ❑ Pay as you go - volatile Business Model, you have to keep on developing new services to achieve stickiness



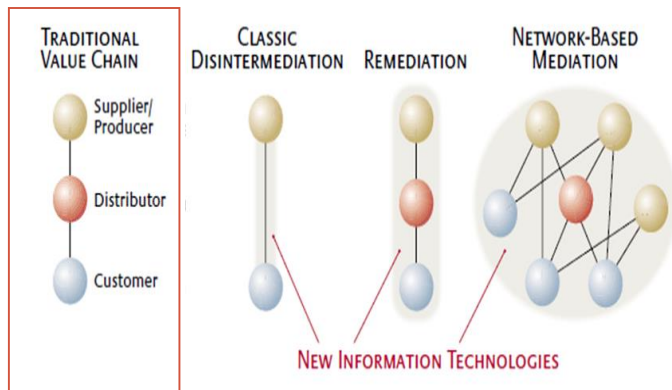
- ❑ PaaS offer Force.com and cooperation through AppExchange aim at developing new services and sustain SaaS offer
 - ❑ PaaS results on its own still difficult to assess

Salesforce.com – key elements

- ❑ 2 complementary Business Models,
Software as a Service & Platform as a Service
 - ❑ SaaS basic offer: low cost (risk = turn commoditized)
 - ❑ PaaS / AppsExchange: customization & value added services

- ❑ Reinforce SF.com offer through Value Net with partners
 - ❑ Share tools
 - ❑ Share customer knowledge
 - ❑ Flexibility & diversity of relationships
 - ❑ Open innovation

Digital vs Traditional



- ❑ Industry value chains evolve in both contexts
- ❑ Positions adopt various ad-hoc configurations
- ❑ Companies struggle to have direct access to customers
- ❑ Salesforce's platform enables the company to keep the leading role in its ecosystem

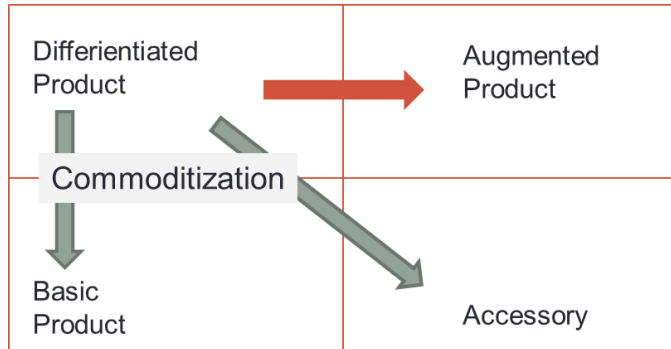
❑ Rexel

- From a traditional wholesaler pattern, Rexel tries to assess its intermediation role in the value chain. E.g. support the electrician in order to provide global solution to its customer; and compete as a complete provider in case of big market.

❑ Salesforce.com

- Salesforce is well known as a SaaS Pioneer. Nowadays SF is able to build a customized service within a specific context, integrating various applications by using its PaaS offer

Digital vs Traditional



- ❑ Both companies offer embedded customized solutions and improve their technical core offer with high value services.
- ❑ Salesforce relies on its ecosystem to create new products and services
- ❑ Rexel relies mostly on itself to create new products and services

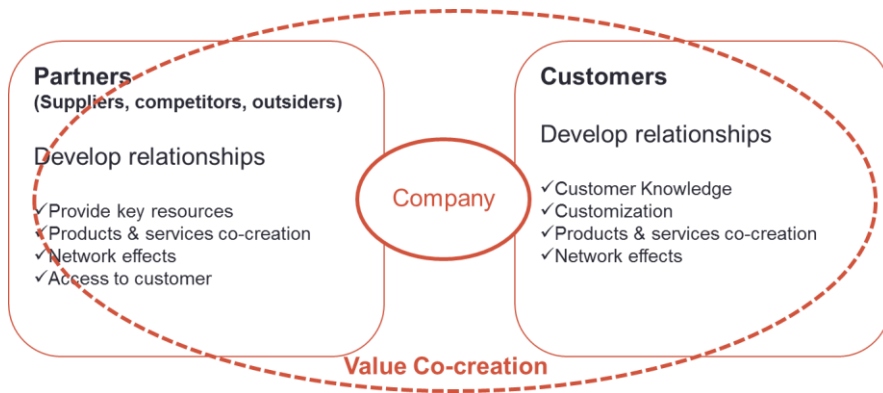
❑ Rexel

- Core competency: supply chain
- Customization: application customized for each electrician, multi-service provider for large accounts

❑ Salesforce.com

- Core competency: CRM as a Service
- Customization: AppExchange, PaaS

Digital vs Traditional



- ❑ Both companies objective is to build a global solution around its core competency
- ❑ SF successfully organized its ecosystem around its platform
- ❑ Rexel has huge difficulties building an ecosystem

❑ Rexel

- Core Competency: supply chain
- Global solution (mines) or specialized solution (smart grid, energy savings) but real difficulties to establish partnerships

❑ Salesforce.com

- Core Competency : Software as a Service, Platform as a Service
- Contributions of various partners following various business models enrich Salesforce SaaS or PaaS core systems.