Innovation in Business Design: Creating Value in the Economic Ecosystem

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Tsunami Change in Business Models & the Role of Capital
The Value Chain

- **Infrastructure**: Finance, administration, shareholder relations...
- **Human Resources**: Hiring, training, compensation...
- **Research & Development**: Technology, processes...
- **Purchasing**: Raw material, Media...
- **Logistics In**: supplier interface, inventory...
- **Production Operations**:...
- **Logistics Out**: order management, distribution, ...
- **Marketing**: Sales, marketing, publicity, shows...
- **Service**: after sales, waranties...

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A Chain of Value Chains

SUPPLIER  MANUFACTURER  DISTRIBUTOR  CLIENT
New Business Models

The Economic Eco-System

COMMUNICATION

NEXUS

COMPANY

DISTRIBUTION

CLIENTS

SUPPLIERS

ENABLERS

PAYMENT

TRANSPORT

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New Business Models

From Value Chain To Value Constellation

COMMUNICATION

CLIENTS

SUPPLIERS

DISTRIBUTION

ENABLERS

PAYMENT TRANSPORT

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New Business Models

Reaching your Market, Risk & Value

50 « Enemies »

Already w/Customer

Strongly motivated to fight back

More Risk for Customer!

Unique, New, but Risky Product

x 1

x 50

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New Business Models

Reaching your Market, Risk & Value

Create VALUE:
OTA update, interactive, etc

Make 50 « friends »

Reduce Customer Risk

Unique, New, but Risky Product

x 1

x 50

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Site Traffic and Value

Number of daily visitors per million Internet users+

Market Capitalization*

$206 B
Google

$18 B
Yahoo

New Business Models

The User and Network Value

Yahoo chooses information for you, at great expense...

Google does nothing... or lets you be the editor
Google: The Audience Ranks Relevance

PageRank is Google’s link analysis algorithm that measures the probability that a page will be relevant to user’s query:

Based on the correlation between the amount of links towards a page and their relevance.
It accounts for the notoriety of the sites that link to the page in question.

PageRank’s simplified formula is: \( PR(u) = \sum_{v \in \text{H}_u} \frac{PR(v)}{L(v)} \).

(A page’s (u) PR is the sum of all PRs of pages linking to u (v), divided by the respective number of outbound links contained in pages v).

Google\(^1\) claims that PageRank is one of its search engine’s main competitive advantage:

- A « champion of democracy »
- The search engine’s « cornerstone »
- A tool unlikely to be tampered with

Source: FaberNovel Ideas with Legs « All you wanted to know about Google » Dec 2008
Google: Monetizing the Network

Automated Auctions

Like the Stock Market:
Auctions give prices that dynamically reflect market conditions

Pay AFTER Success:
Bid price per click, with maximum budget

Process Entirely Automated:
Supply & Demand matched by automatic bidding system

The Value is Clear
New Business Models

New Economics: « Matching » Not Investing

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Source: FaberNovel Ideas with Legs « Google Key Success Factors » Nov 2008
Doing Less Creates More Value?

Google versus Yahoo 2011 Results

Google

Assets 72,574
Cash 44,626
CurAsset 8,132
Fixed 10,892
Intang 8,924
Equity 58,145
CurLiabs 8,913
LT Liabs 5,516
Revenue 37,905
Cost 13,188
R&D 5,162
SGA 7,813
Oper Income 11,742

Yahoo!

Assets 14,783
Cash 20,560
CurAsset 1,397
Fixed 7,174
Intang 4,156
Equity 12,581
CurLiabs 12,075
LT Liabs 995
Revenue 4,984
Cost 1,005
R&D 1,672
SGA 1,672
Oper Income 808

Sources: Companies 2011 Annual Reports

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New Business Models

Apple’s Business Model

DEVICES

iOS

OS

Android

APPs

NUMBER OF DEVICES ON THE MARKET THAT RUN APPLE’S IOS:

5*

NUMBER OF DEVICES ON THE MARKET THAT RUN ON ANDROID OS:

170

* Phone 3GS, iPhone 4, Pad, Pad 2, iPod touch.

Source: Gorse Analysts and http://www.wired.com/magazine/2011/04/mf_android/all/1

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Apple’s Business Model

Manufacturer operating system share-smartphones

Q2 '11; postpaid mobile subscribers, n=20,202


Data refers to USA end 2nd quarter 2011
New Business Models

Apple’s Business Model

In 2010, Android’s share of smartphone sales exceeded Apple’s for the first time.

CUMULATIVE APP DOWNLOADS

In its deal with Verizon, Android agreed to give the carrier 30 percent of app sales (minus credit card processing fees). Apple keeps that cut for itself.

Source:
http://www.wired.com/magazine/2011/04/mf_android/all/1

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### The Profit Equation at Hypo Telecom

<table>
<thead>
<tr>
<th>Category</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interconx</td>
<td>15</td>
</tr>
<tr>
<td>Tech Opex</td>
<td>8</td>
</tr>
<tr>
<td>Other Direct</td>
<td>6</td>
</tr>
<tr>
<td>A &amp; R gross</td>
<td>17</td>
</tr>
<tr>
<td>Commissions</td>
<td>3</td>
</tr>
<tr>
<td>Opex Mktg</td>
<td>9</td>
</tr>
<tr>
<td>G&amp;A</td>
<td>4</td>
</tr>
<tr>
<td><strong>Revenue</strong></td>
<td>100</td>
</tr>
<tr>
<td><strong>Cost of Delivering the Service</strong></td>
<td></td>
</tr>
<tr>
<td>Network Operations</td>
<td></td>
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<tr>
<td><strong>EBITDA</strong></td>
<td>38</td>
</tr>
</tbody>
</table>

**Sources:** + Alexa.com 12 fév 2006 *Yahoo Finance 13 fév 2006
The Customer in our Value Chain

Simply powerful

Any Skype user in the World (Free)

Any Regular Telephone in the World (Low cost)
Ecosystem Value: Viral Marketing

Viral Marketing:
Create a Network by
Exploiting the networks of your clients

Use Skype!
Skype Viral Marketing

Historic success

Adding 150K registered users / day

Number of Users (MM)

1  3  5  7  9  11  13  15  17  19  21  23  25

0  10  20  30  40  50  60

(1) eBay starts Q2 98, PayPal starts Q1 00, Yahoo! starts Q1 95, AOL since Q1 92. (IPO) from company data and Merrill Lynch estimates, Skype since launch in 2003

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# Designing Low OPEX, No Capex

## New Business Models

<table>
<thead>
<tr>
<th>POTS</th>
<th>100</th>
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<tbody>
<tr>
<td>Interconx</td>
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<tr>
<td>Tech Opex</td>
<td>8</td>
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<tr>
<td>Other Direct</td>
<td>6</td>
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<tr>
<td>G&amp;A</td>
<td>4</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Skype2Skype</th>
</tr>
</thead>
<tbody>
<tr>
<td>R&amp;D</td>
</tr>
<tr>
<td>G&amp;A</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Skype2POTS</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Interconx</td>
<td></td>
</tr>
<tr>
<td>Free – VOIP</td>
<td></td>
</tr>
<tr>
<td>R&amp;D</td>
<td></td>
</tr>
<tr>
<td>Free – Customer Financed</td>
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<tr>
<td>G&amp;A</td>
<td></td>
</tr>
<tr>
<td>EBIT</td>
<td></td>
</tr>
</tbody>
</table>

Skype Income Statements are hypothetical

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## Market Value 2012…
from Capital to Eco-System

### “New Economy” Companies vs. “Old Economy” Companies

**Market Capitalisation April 2012**

<table>
<thead>
<tr>
<th></th>
<th>Revenue</th>
<th>Net Income</th>
<th>Market Cap*</th>
<th>Total Assets</th>
<th>Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Old Economy</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ford</td>
<td>136 264</td>
<td>20 213</td>
<td>45 300</td>
<td>178 348</td>
<td>164</td>
</tr>
<tr>
<td>McDonald's</td>
<td>27 006</td>
<td>5 503</td>
<td>99 670</td>
<td>32 990</td>
<td>1 500</td>
</tr>
<tr>
<td>IBM</td>
<td>106 916</td>
<td>15 855</td>
<td>235 630</td>
<td>116 433</td>
<td>433</td>
</tr>
<tr>
<td>General Electric</td>
<td>150 211</td>
<td>11 644</td>
<td>202 410</td>
<td>717 242</td>
<td>301</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>420 397</td>
<td>53 215</td>
<td>583 010</td>
<td>1 045 013</td>
<td>2 398</td>
</tr>
<tr>
<td><strong>New Economy</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yahoo</td>
<td>4 984</td>
<td>1 063</td>
<td>18 350</td>
<td>14 783</td>
<td>14</td>
</tr>
<tr>
<td>eBay</td>
<td>11 651</td>
<td>3 229</td>
<td>45 780</td>
<td>27 320</td>
<td>28</td>
</tr>
<tr>
<td>Google</td>
<td>37 905</td>
<td>9 737</td>
<td>205 840</td>
<td>72 574</td>
<td>32</td>
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<tr>
<td>Microsoft</td>
<td>69 943</td>
<td>23 150</td>
<td>262 630</td>
<td>108 704</td>
<td>90</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>124 483</td>
<td>37 179</td>
<td>532 600</td>
<td>223 381</td>
<td>164</td>
</tr>
</tbody>
</table>

Sources: Financials from companies' 2011 annual reports & 10K; market cap from finance.yahoo.com 5/04/12; Employees figures from pr, wolfram alpha & annual reports
« Scalability » Economics: Capital does not Pay

Old: Capital Takes the Risk

New: Spend what you’ve earned

Disruption is an Opportunity Cost, not Value Destruction
New Business Models

From Value Chain To Value Constellation

COMMUNICATION

CLIENTS

DISTRIBUTION

SUPPLIERS

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Where’s the Value?