BUSINESS MODELS IN TRADITIONAL VERSUS PURE DIGITAL INDUSTRIES

Marie Hélène 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)

---

<table>
<thead>
<tr>
<th>Value Proposition &amp; Price</th>
<th>Differentiation: Product + value added services &amp; solutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>high</td>
<td>Differentiated Product</td>
</tr>
<tr>
<td></td>
<td>Augmented Product</td>
</tr>
<tr>
<td>low</td>
<td>Basic Product</td>
</tr>
<tr>
<td></td>
<td>Accessory</td>
</tr>
</tbody>
</table>

Commoditization

Accessory

Role of services

Central

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)

Hamel (2000)
Evolution of Business Models: Value co-creation

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

- Open innovation (Chesbrough & Appleyard, 2007)

**Partners**
(Suppliers, competitors, outsiders)

- Develop relationships
- ✓ Provide key resources
- ✓ Products & services co-creation
- ✓ Network effects
- ✓ Access to customer

**Customers**

- Develop relationships
- ✓ Customer Knowledge
- ✓ Customization
- ✓ Products & services co-creation
- ✓ Network effects

**Value Co-creation**

Company
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

<table>
<thead>
<tr>
<th>Procurement Logistics</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pick &amp; pack</td>
<td>Information on new products</td>
</tr>
<tr>
<td>Inventory management</td>
<td>Training,</td>
</tr>
<tr>
<td>Delivery options</td>
<td>Sales training</td>
</tr>
<tr>
<td>Web site: orders fulfillment &amp; tracking, customized product catalog and pricing</td>
<td>Inextel TV – trends, market opportunities, partnership with Rexel</td>
</tr>
<tr>
<td></td>
<td>New services to be added</td>
</tr>
</tbody>
</table>
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.

- "Sellers" - ISVs
  - Build Commercial Apps
  - Add-Ons
  - OEM Force.com
  - ~800 ISVs

- "Influencers"
  - Consulting Partners
    - "Cloud Strategy"
  - Deliver Professional Services
    - Implementation & Integration
    - Custom App. Development
    - Resell Force.com Licenses
  - ~2,000 Consulting Partners

- Customers
  - Big Companies
  - New functionalities
    - Custom devt (CISCO)
    - Idea Exchange
    - AMD, Nokia, Cisco...
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-nnexion between applications
  - Co-llaboration: 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

![Average Monthly revenue per subscription](chart)

- 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.