

What will the future hold for multi-channel services and business models?

Markku Tinnilä

Helsinki School of Economics

Lecture Outline

- Business models
- e-Business – a playground for business models?
- Business models in e-business
 - Cases: Wikipedia and Skype
- Multiple channels and ubiquitous world



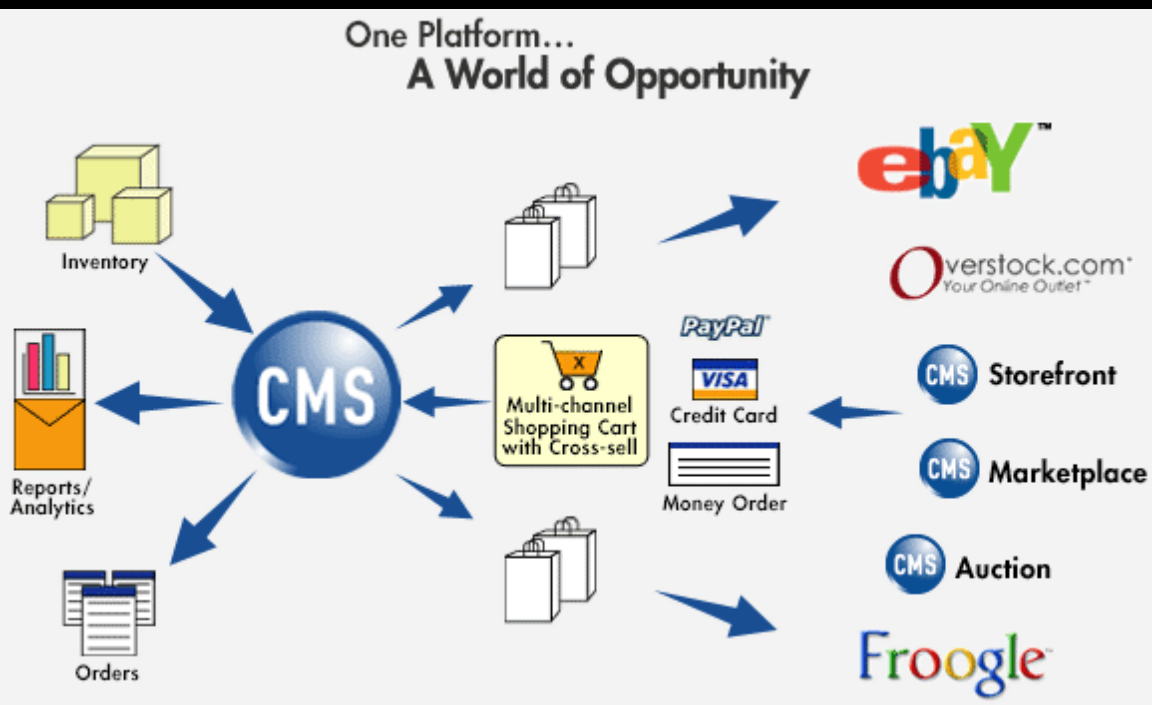
Why all this hassle about new business models?

Business has been around quite a long time



New technology requires new attitudes to developing business

Open networks and internet have changed everything



Honestly.....
have they?

Why business models?



Dumb Business Models and Dumb Businesses Get Eaten



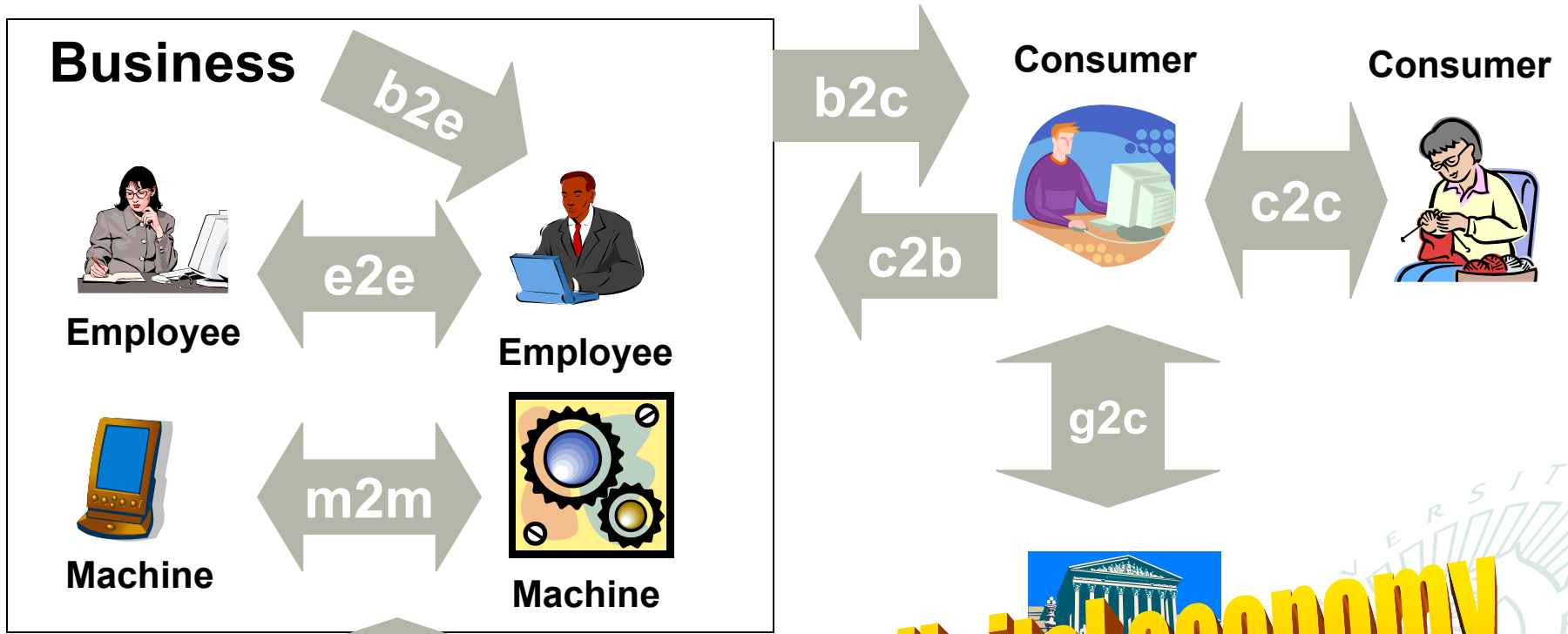
e-Business – a playground for business models and new services ?

- It all started with new business ideas in the Internet
- New playground for fresh ideas
- No pre-determined ways to do it, i.e.
- Lot of opportunities for creating new business models

- Portals, web sites, infomediaries, communities, search and comparison services, photo sharing and storage sites, book stores, under water basket weaving hobby sites, you name it....

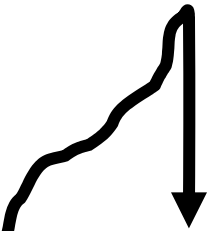


eBusiness (or E-business) – Enablers of new business



**All this is digital economy
and has a business model**

eBusiness ?

- 
- One of the greatest contributions of the dot com bust was the reduction of the letter “e” to its place as just the 5th letter of the alphabet!
 - Anonymous, Silicon Valley

 - Technology doesn't usually save companies time or money but in a competitive world, it often keeps them in business.
 - Anonymous



Digital infrastructure in Finland- where are all the new business models?

Fixed telephone connections	2 million Going down!
Mobile telephone connections	5.3 mill- peaked
Broadband subscriptions	1,2 mill- growing
Fixed telephone connections	407 /1 000 persons
Mobile telephone connections	1025/1 000 persons
Internet connections	477/1 000 persons

Mobile penetration >90%
Multimedia phones App. 30%
Digital television >80%
In 2009 100%
>70% of adults active internet users
Growth also in elderly people

The next step – mobile television



Why don't we have lot of new business models?

E-commerce in Europe

Country	E-commerce as % of total retail sales
Sweden	0.68
UK	0.37
Netherlands	0.34
Germany	0.30
Belgium	0.16
Finland	0.14
Italy	0.09
Spain	0.06
Portugal	0.06

Country	% of Internet users buying online
Sweden	27
Norway	26
UK	22
Germany	21
Netherlands	18
Finland	16
France	8
Spain	8
Italy	7

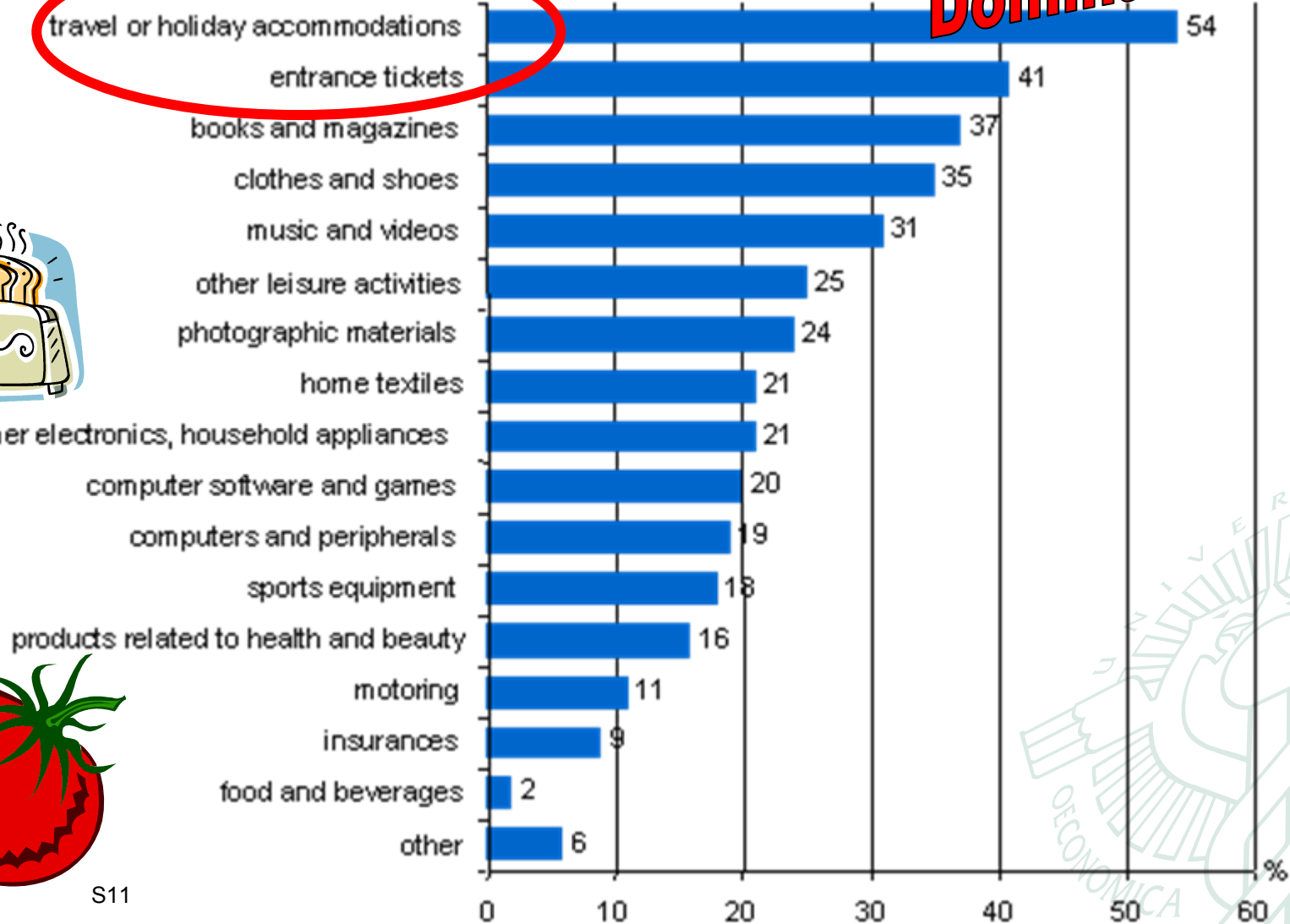
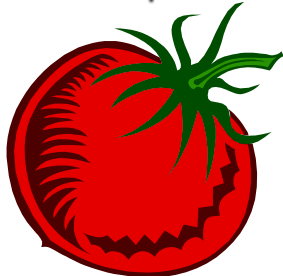


E-commerce in Finland- online-shopping categories in spring 2007 (per cent of all buyers)

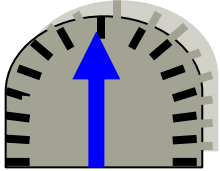
Dominant design



consumer electronics, household appliances



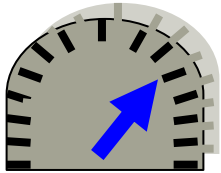
Room for new business and services – where?



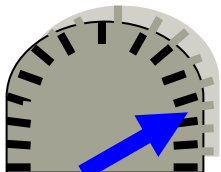
- Travelling
 - closing down office networks
 - Price comparison
 - Rise of budget airlines, how about low cost rail travel?
 - Business models enabled by automatisisation and self-services



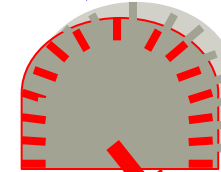
- Reservations
 - Lot of application areas, from medical services to barbers
 - Self-service based, opportunities for operations mgmt, peak hours



- Books and magazines
 - Amazon ok, but what about others?
 - Change in media behaviour, under 30 read less magazines



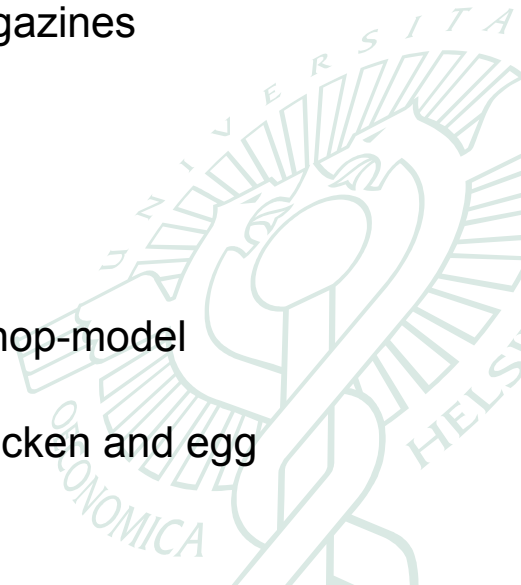
- Music & films
 - Why produce content on plastic?
 - Cutting the whole delivery chain, no logistics!



- Insurances
 - Why not, if banks are already there?
 - How suitable for self services? – remember value shop-model

- Food
 - Streamlining the logistics, requires delivery infra, chicken and egg problem

s12 – Specialisation? – gluten-free, vegetarian,



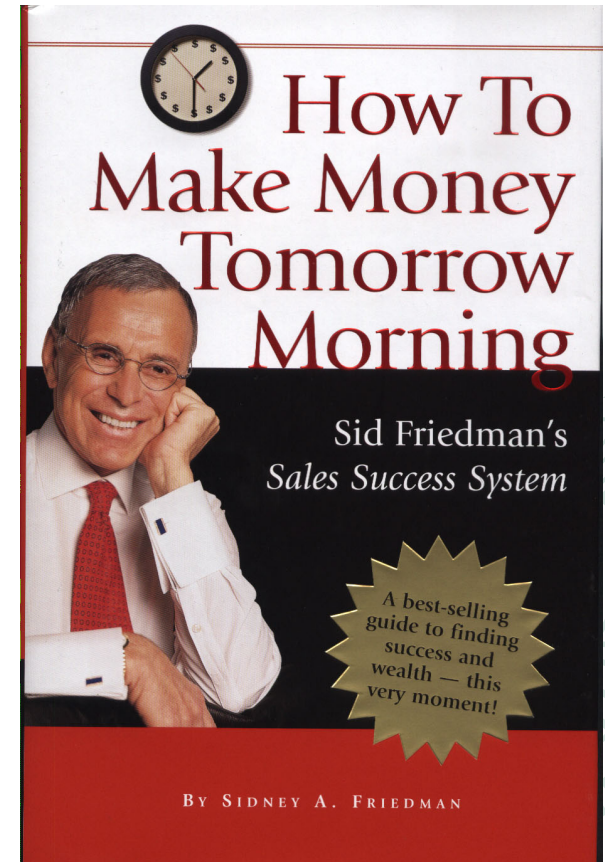
Difference of product and business development

- Tucker – brilliant car, but.....

Technology



Business models



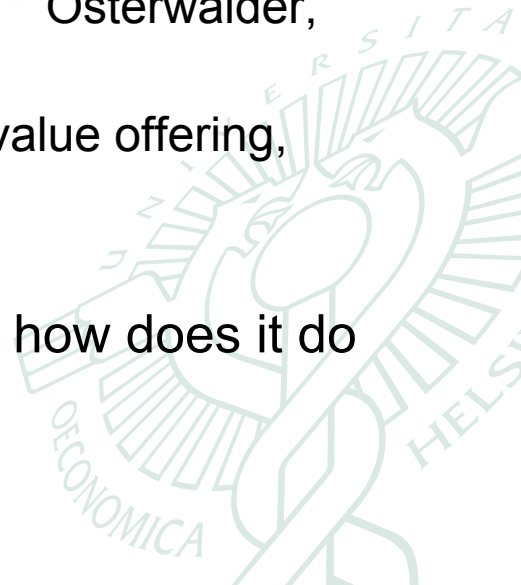
The iPod "pennies per song" business model – with a new earning model

New tech **New source of revenue**



Definition by Osterwalder et al.

- “A business model is a conceptual tool that contains a big set of elements and their relationships and allows expressing the **business logic** of a specific firm. It is a **description of the value** a company offers to one or several **segments of customers** and of the **architecture** of the firm and its network of partners for creating, marketing, and delivering this value and relationship capital, to generate profitable and sustainable **revenue streams**.” Osterwalder, Pigneur and Tucci (2005)
- Main elements: conceptual tool, business logic, value offering, revenue
- Sounds like business?
- What problem does this business solve and how does it do so profitably?



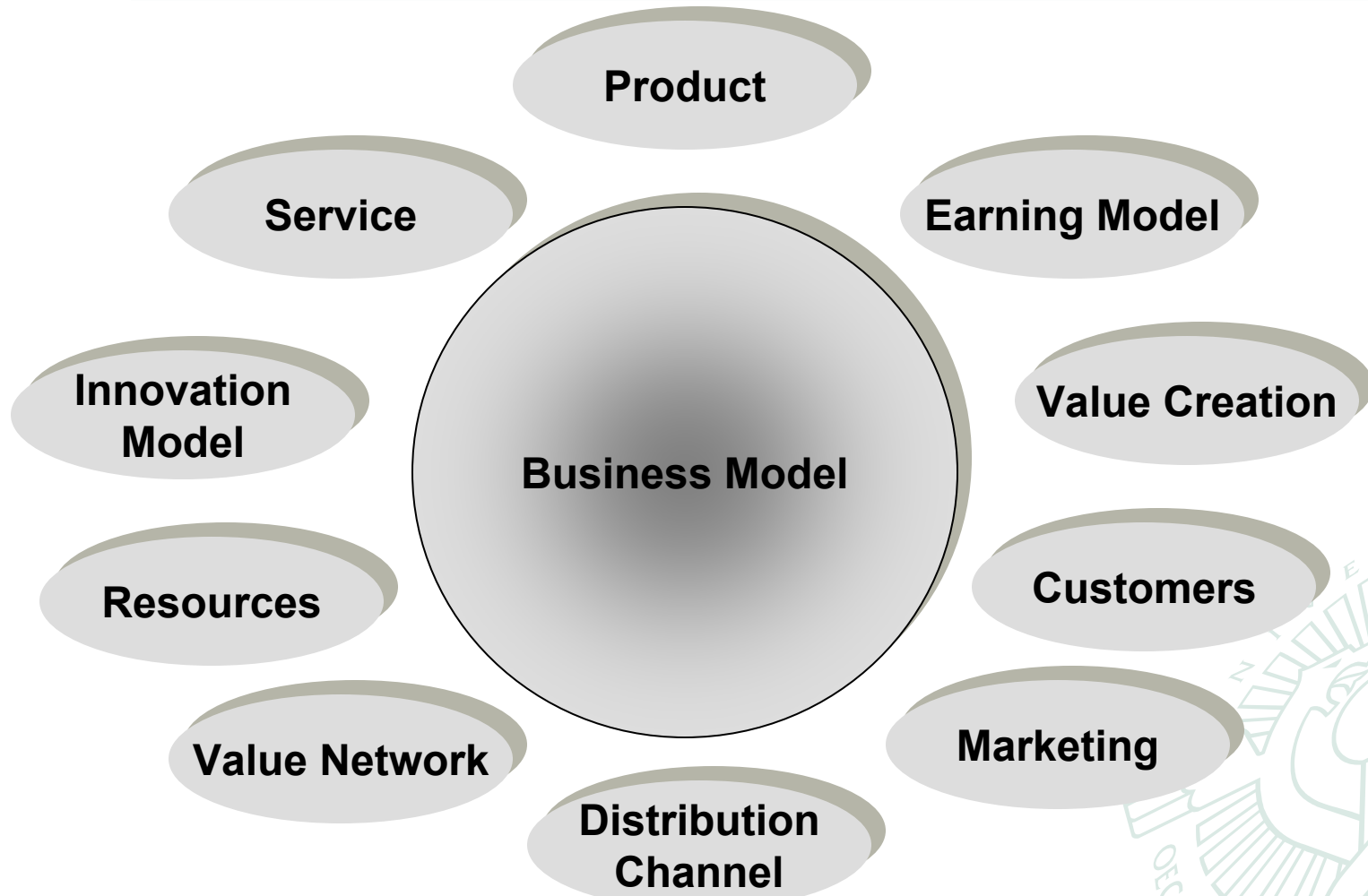
Definition of business model

- Thousands of different opinions on what a business model is—
millions of hits in Google
- A business model is a simplified description of how a company earns from a defined business:
 - What is the offering, who are the customers, how delivered, where

New Business models are created by new combinations of

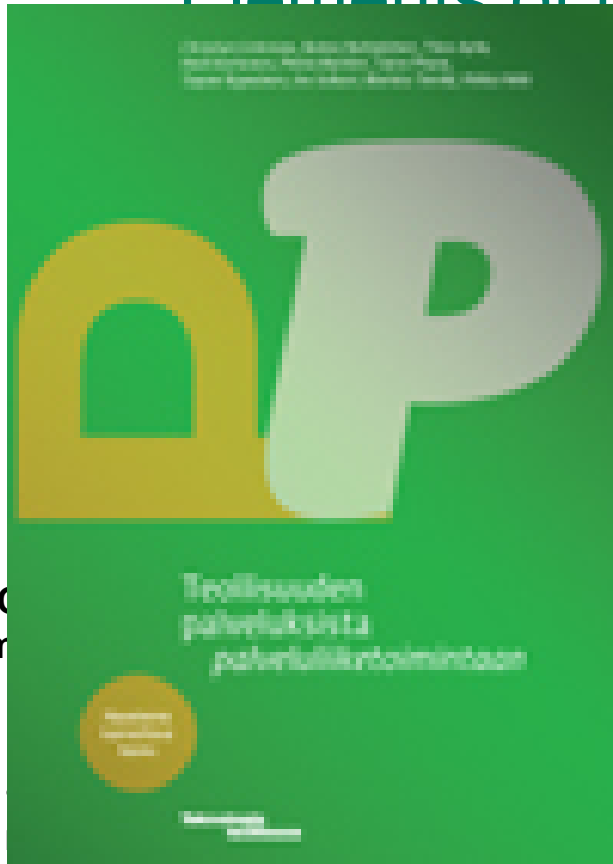
- new services
- new technology
- new product
- new partners
- new customers
- new earning or pricing model
- combination of these

Elements of the Business Model



A Business Model is a Simplified Description of How a Company Achieve Benefits in a specific Business

Elements of the Business Model- details



MATTI PULKKINEN – MERVİ RAJAHONKA – RIIKKA SIURUAINEN – MARKKU TINNİLÄ – ROBERT WENDELIN



Value Network

- Place in the value network
- Partnership model
- Partners

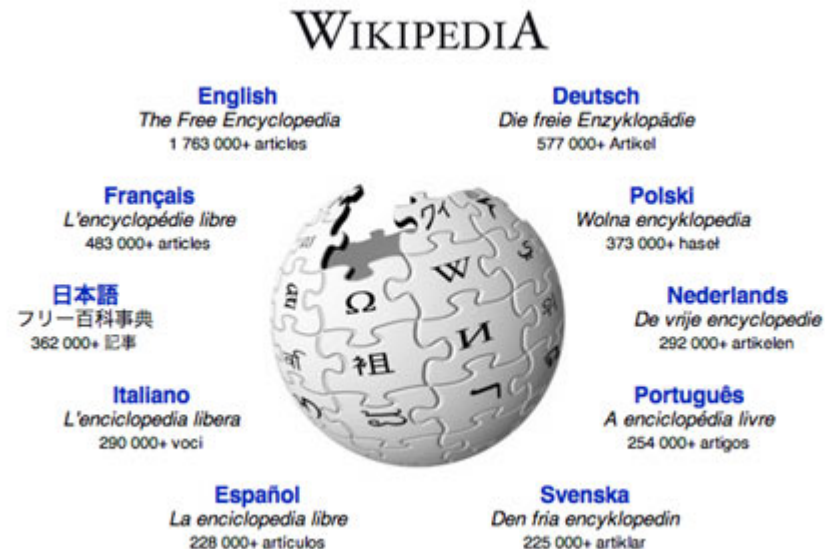
Distribution Channel

- Logistics

Liiketoimintamallit arvonnäkökulmasta
– ketjut, pajat ja verkot

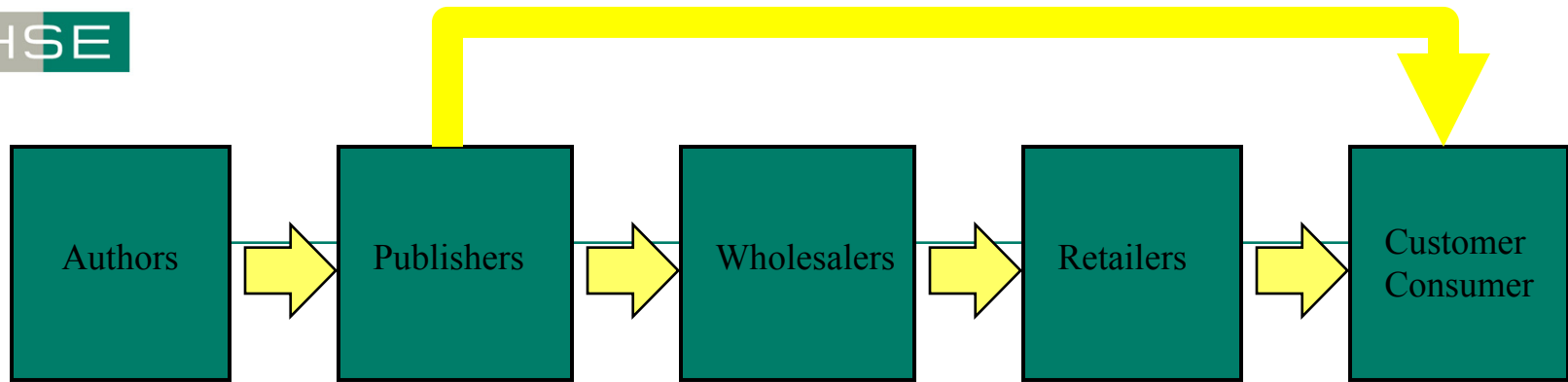
Comparison of business models – information search and delivery

- The contenders:



- >200 years of tradition- since 1768
- Reliable, written by experts
- multiple books, bulky
- Will outmode
- Expensive

- New
- Reliable? , written by amateurs
- always available on-line
- Constantly modernised
- Free



Wikipedia



- Multimedia capabilities
- Searching ability
- Links to the rest of the world
- Limitless capacity
- Frequent and instantaneously available updates
- Saves space and weight
- No door-to-door salespeople
- More fun for kids
- Available to anyone anywhere anytime
- Customers can form communities



Wikipedia as a business model

And the winner was?

- **The Mission:** Imagine a world in which every human being can freely share in the sum of all knowledge. That's our commitment.
- **Business model:** And we need your help. Please support the Wikimedia Foundation by donating today.
- The Wikimedia Foundation, Inc. is a nonprofit charitable organization dedicated to encouraging the growth, development and distribution of free, multilingual content, and to providing the full content of these wiki-based projects to the public free of charge.
- Critical views:
 - Content created by copying from books written by experts
 - Reliability? – peer community check, no references
 - Ok for general knowledge, but what about more specific topics? ...the sum of all knowledge...
 - The future of community-based content creation?

And the source was:





Competence-Destroying Innovation for paper books?

- **Kindle: Amazon's New Wireless Reading Device**
- Revolutionary *electronic-paper* display provides a sharp, high-resolution screen that looks and reads like real paper.
- Simple to use: no computer, no cables, no syncing.
- Wireless connectivity enables you to shop the Kindle Store directly from your Kindle—whether you're in the back of a taxi, at the airport, or in bed.
- Buy a book and it is auto-delivered wirelessly in less than one minute.

The business model- selling devices + selling content & brokerage

Tied to one wireless operator, basically open platform, but charge for
s22 changing your own content

The background for Skype

- Another “free” service – does it have a business model?
- Everyone has broadband- capacity available
- IT connections charged with flat rate- no extra costs
- High costs of mobile connections charged per second
- **Skype vision**

“As broadband becomes ubiquitous, most voice communications will migrate to the Internet enabled by software on the edges of the network, which removes barriers to natural forms of communication”.

Set out to become world’s largest communications company

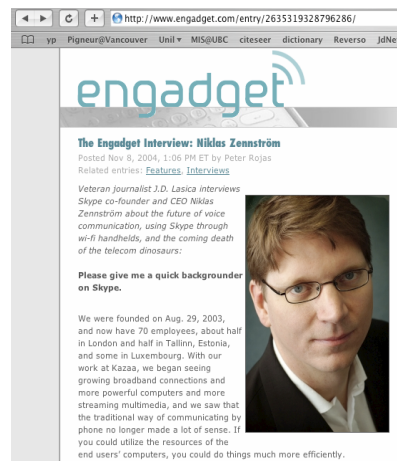


Skype

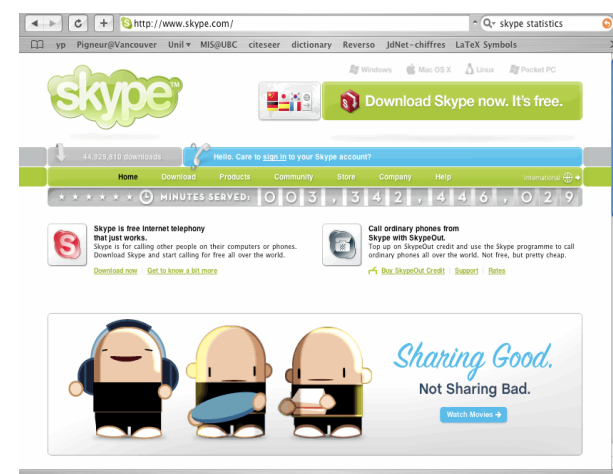
- Niklas Zennstrom, founder of *Skype* VOIP application, quotes some Skype statistics.
 - The application currently has over 30 million users worldwide in more than 200 countries.
 - Far over 100'000 new users are signing up for *Skype* daily.
 - Recently *Skype* surpassed 3 million users being online simultaneously.
 - Average VOIP call lasts about 6 minutes.
 - The early adopters were 18-38 years old males.

VOIP statistics

\$60 mln will be spent on hosted VOIP in 2004
 1 mln US VOIP subscribers by year-end 2004
 11.5 mln will get their telephone via cable Internet in 2010
 12% of US businesses use VOIP
 12.1 mln American homes to have VOIP by 2009
 130K VOIP subscribers in 2003, 17.5 mln by 2008
 19% of US Internet users consider switching to VoIP
 20 mln Americans to VoIP over cable Internet by 2008
 26% of Global 2000 companies already deployed VOIP
 400 VOIP service providers in North America
 43% of companies to use VOIP within the next two years
 52% of those who have VoIP use it as a primary line
 AT&T CEO doesn't see the money in VOIP
 By 2007 more than half of Australian businesses will be using VOIP
 By 2008 44% of corporate phone lines will be VOIP
 By 2008 VOIP applications will bring 6.4 bin euros in Western Europe
 Cable telephony grows 338% YTY in Q3 2004
 Cisco leads Australian VOIP market with 47% market share
 European hosted VOIP market generated 45.8 mln euros in 2003
 Feds could save \$4.5 bin a year by switching to VOIP
 Half of businesses using VOIP by 2006
 In 2008 VOIP market will generate \$7 bin
 International VOIP traffic grew 23% in 2003, 40% in 2004
 IP telephone prices decline 7%
 Less than 1 mln US VOIP subscribers today, Vonage has 200K customers
 Semiconductors for VOIP equipment to earn 1.3 bin euros in 2008
 Videoconferencing is the top reason for corporate VOIP deployments
 VOIP equipment sales grew 3% in Q2 2004
 VOIP penetration among US businesses to reach 20% by year-end 2004
 VOIP phone shipments up 43% in 2004
 VOIP ports to grow at 15% CAGR
 VoIP sales up 31% in Q4 2003
 VOIP won't outnumber PBX until 2009
 Why are customers switching to VOIP?



Posted Nov 9, 2004, 1:08 PM ET by Peter Rojas
 Related entries: [Features](#) [Interviews](#)
 Veteran Journalist J.D. Lasica interviews Skype co-founder and CEO Niklas Zennstrom about the future of voice communication, using Skype through wi-fi handhelds, and the coming death of the telecom dinosaurs.
Please give me a quick background on Skype.
 We were founded on Aug. 29, 2003, and now have 70 employees, about half in London and half in Tallinn, Estonia, and some in Luxembourg. With our work at Kazaa, we began seeing growing broadband connections and more powerful computers and more streaming multimedia, and we saw that the traditional way of communicating by phone no longer made a lot of sense. If you could utilize the resources of the end users' computers, you could do things much more efficiently.



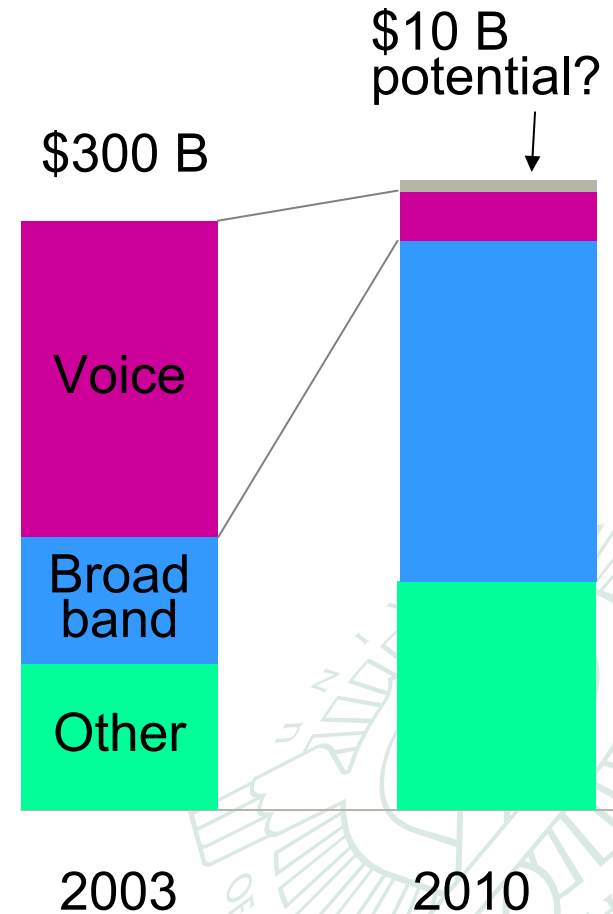
44,993,810 Downloads
 Hello. Care to [sign up](#) to your Skype account?
 Home Download Products Community Store Company Help International
 0 MINUTES SERVED: 0 0 3 3 4 2 4 4 6 0 2 9
Skype is free Internet telephony that just works.
 Skype is for calling other people on their computers or phones. Download Skype and start calling for free all over the world.
[Download now](#) [Get to know a bit more](#)
Call ordinary phones from Skype with SkypeOut.
 Top up on SkypeOut credit and use the Skype programme to call ordinary phones all over the world. Not free, but pretty cheap.
[Buy SkypeOut Credit](#) [Support](#) [Billing](#)
Sharing Good. Not Sharing Bad.
[Watch Movies](#)

Business Model

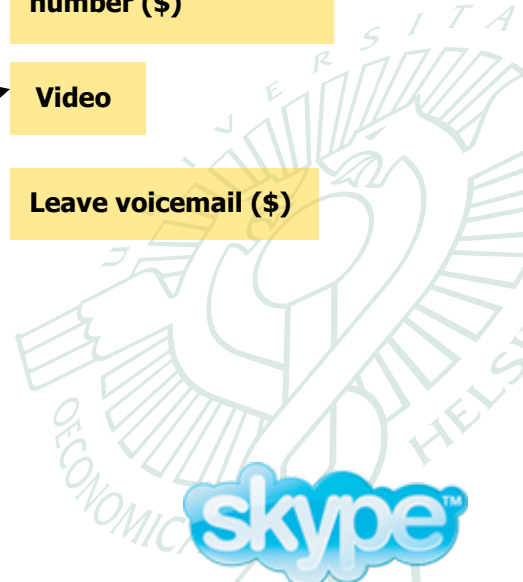
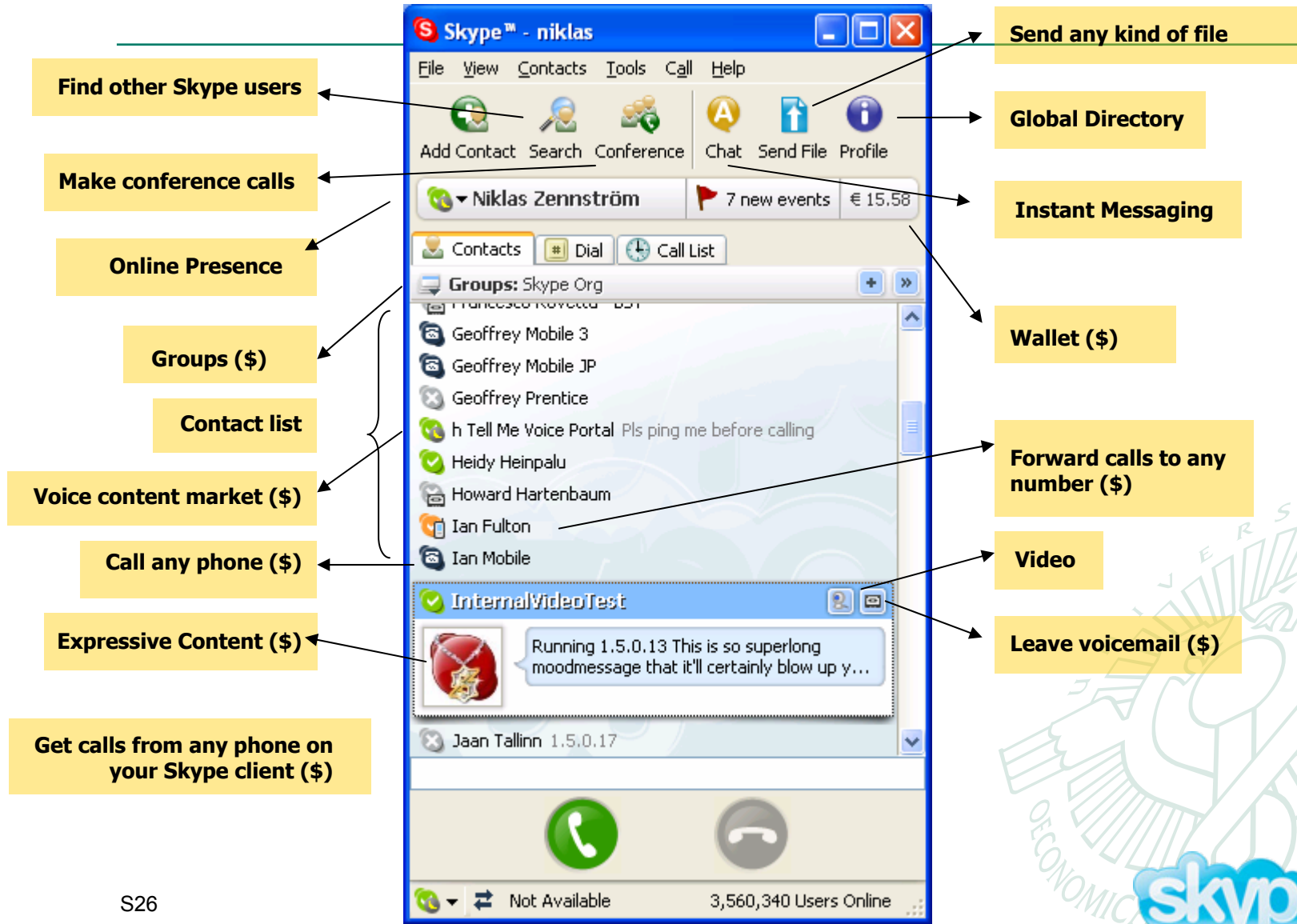
- It's not about replacing the fixed line, it's a superior product!

- Low overhead
- Global market
- Free distribution
- Zero marginal cost

- Benchmarking with Yahoo! and Google
- Industry transition been around for 10 years - Lost revenues in voice due to fixed to mobile replacement



Value proposition



Comparing Revenue Streams

Value Proposition

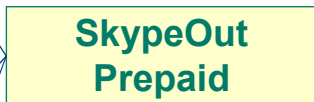
Telco



Value Proposition



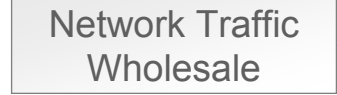
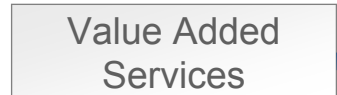
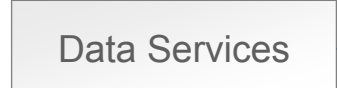
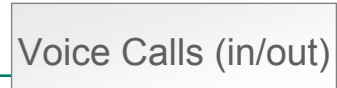
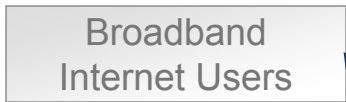
Revenue Stream



Distribution Channel



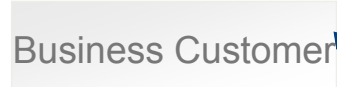
Customer Group



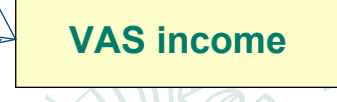
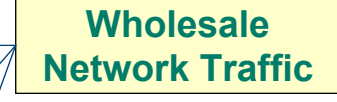
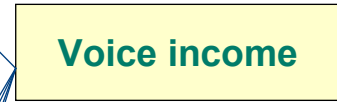
Distribution Channel



Customer Group



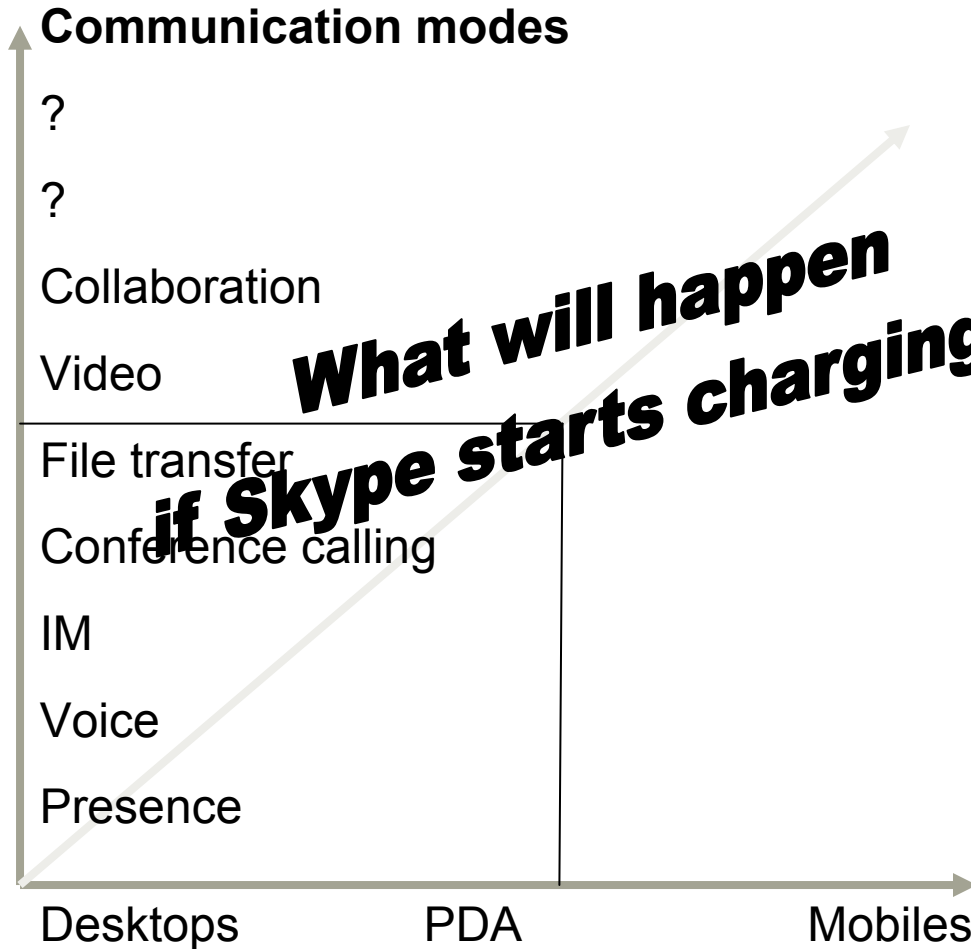
Revenue Stream



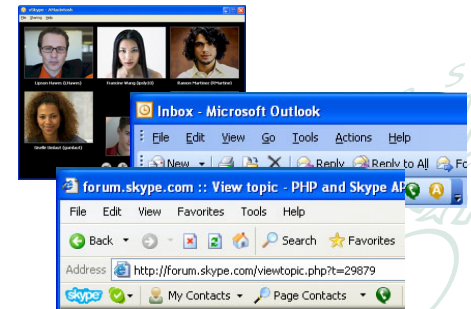
Summary of Skype's Disruptive Business Model Elements

Business Model Element	Telco	Free calls
Value Proposition	Complex charging	Free VoIP
Customer Segments	Limited reach	Global reach
Distribution & Communication Channels	Mainly physical	Virtual (internet)
	Traditional marketing	Viral marketing (lifestyle)
Customer relationship	x	Community (listening)
Value configuration	Network management (high marginal costs/user)	Software/version management (low marginal cost/user)
Revenue streams	High average revenue per user (ARPU) necessary	Low average revenue per user (ARPU) sufficient
Cost structure	Network maintenance	Software development

What's Next?

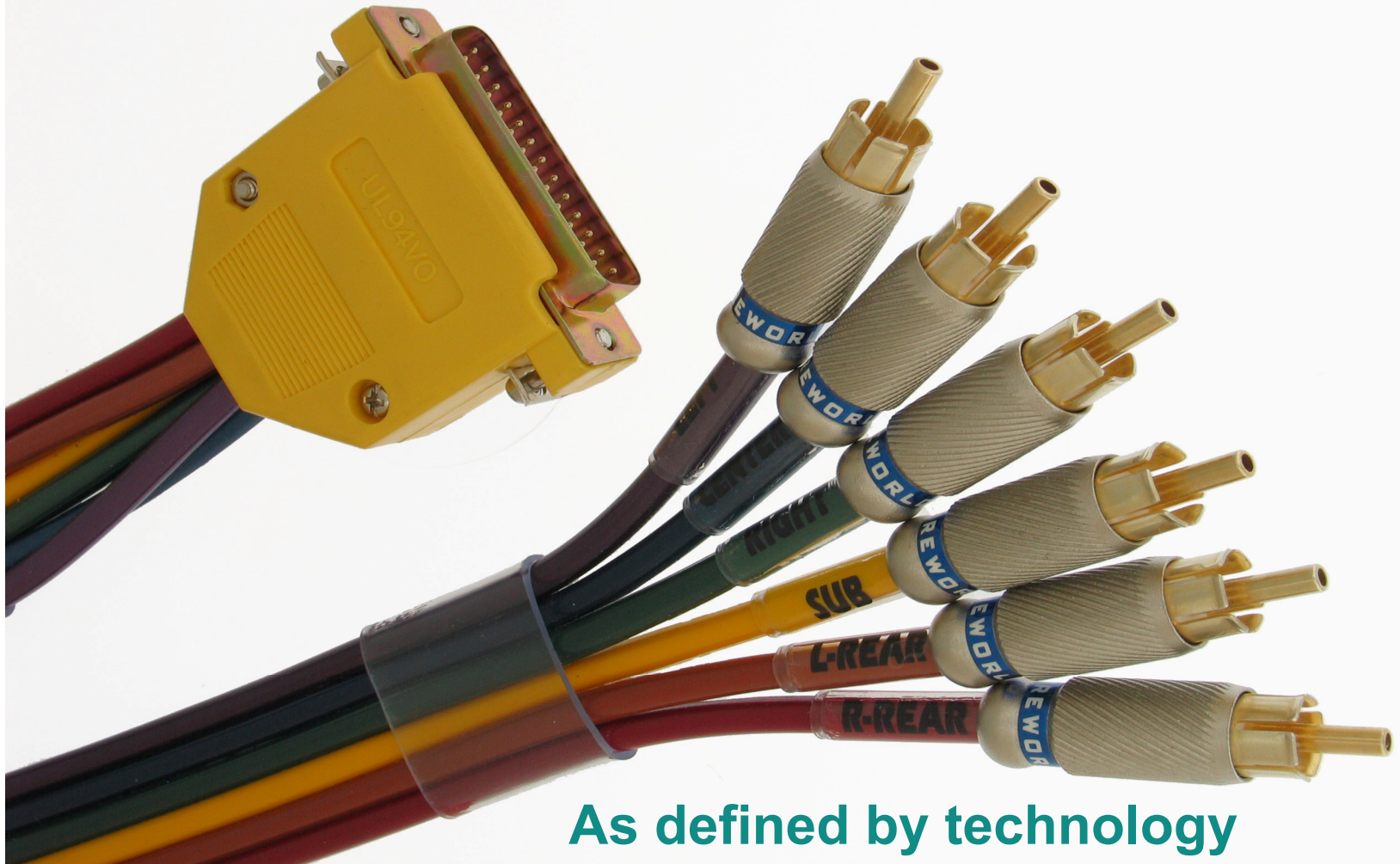


200+ Hardware devices labeled as Skype-compatible



150+ Skype-enabled Applications

What's next? Multiple channels or ubiquitous world



As defined by technology



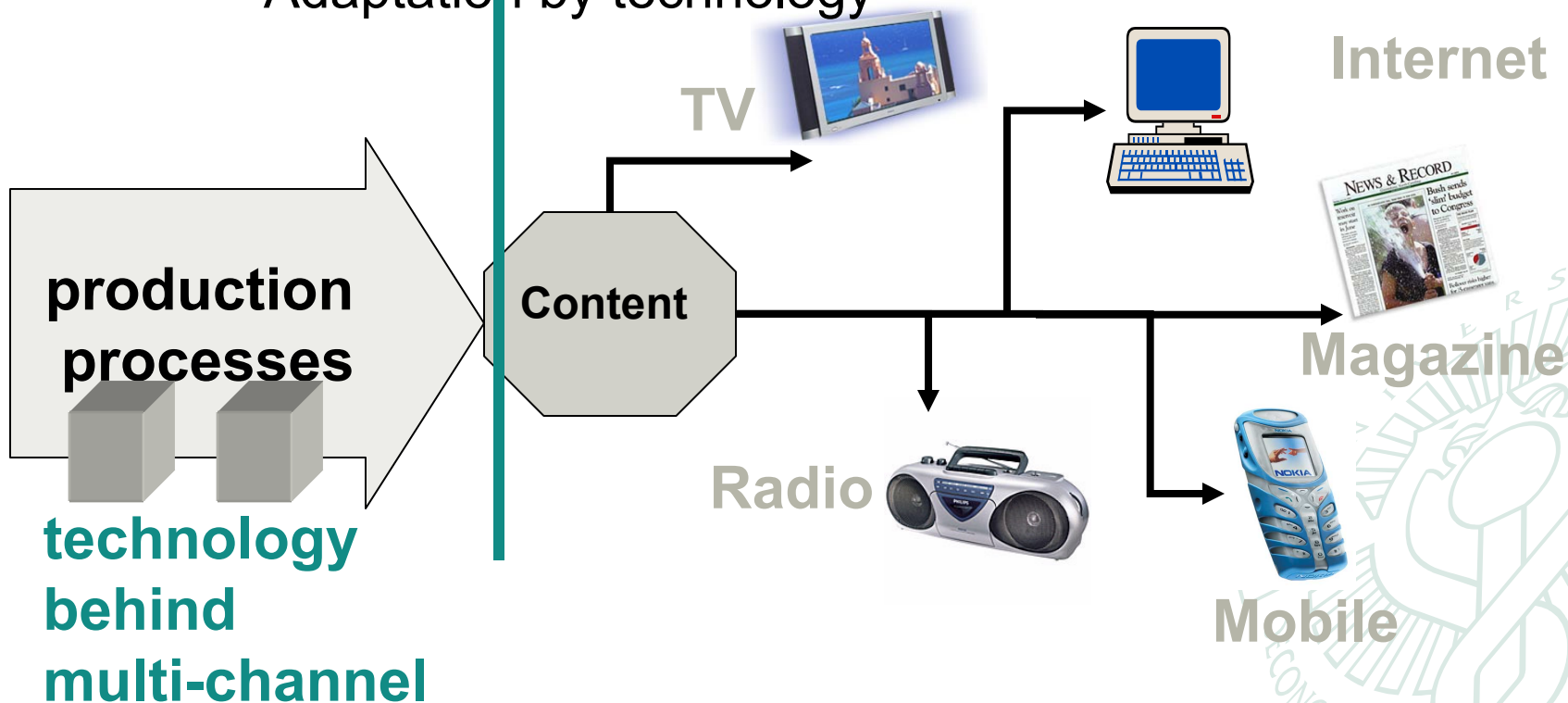
What do we mean by multi-channel?

- Multi-channel and multi-channel services mean any device or means by which companies or consumers use the Internet either to provide or access services that have traditionally been conducted manually using non-Internet equipment in person or at a shop
 - mobile
 - wireless data transfer technologies, such as SMS
 - mobile Internet
 - digital or cable television
 - PC Internet
 - machine-to-machine transmissions
 - "traditional" i.e. shops, offices etc
- Ubiquitous – Ubi
 - Ubique- everywhere present



Example: Delivering content in multi-channel

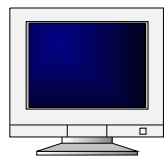
- Production as unified process – improved efficiency
- Delivery through several channels
- Adaptation by technology



Case: multiple channels in a conference service

Before event

- Location and travel information
- Price and reservation info
- Reservations, orders and payment
- Attached events

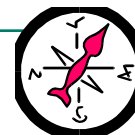


DigiTV

Brochures

Virtual presence

Location based services
 Event information and programs
 Digital communities
 Conference on Internet
 Conference on mobile



During event



Conference

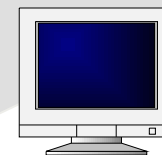
TIMELINE



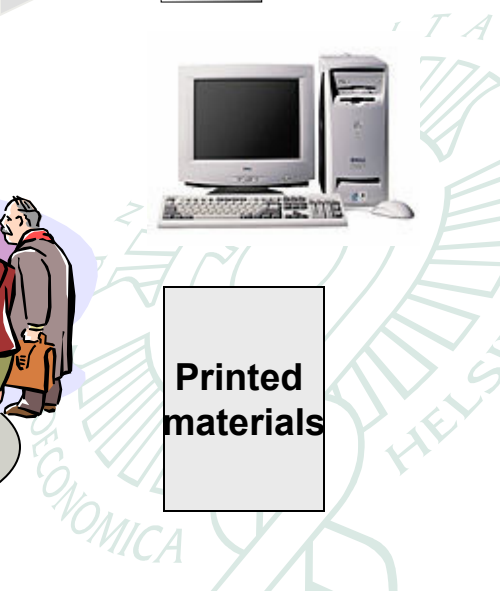
Communities

After event

Mechandise
 Informational
 Databanks



Printed materials



Routing and navigation services

Most of them at internet, but mobile is coming

Show on the map areas services

gasoline stations

restaurants

ATM*s

Kiosks

food stores

Business models?

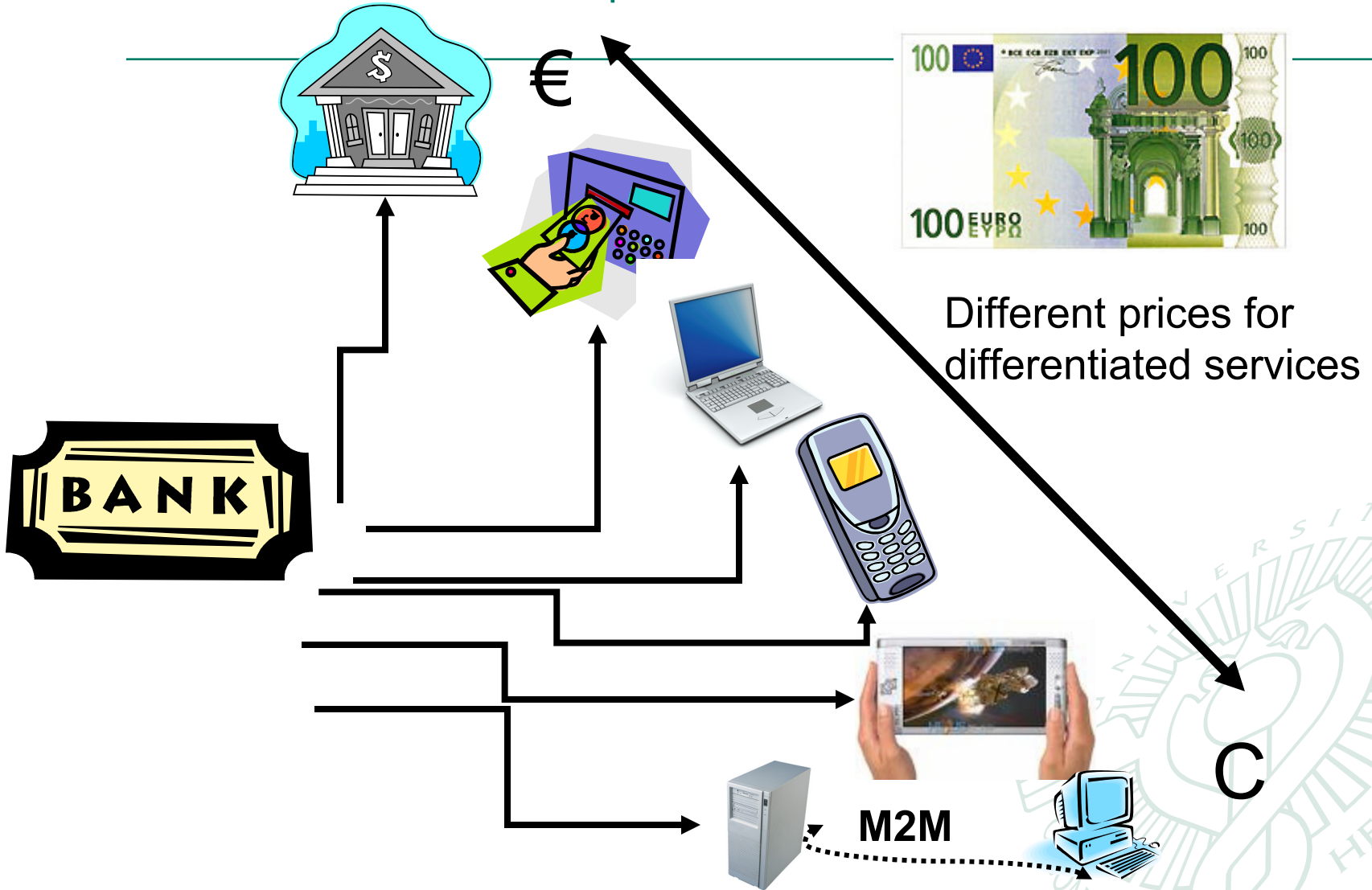
- Advertisement, monthly fee?

- Service bundling



Banking services in multi-channel

the most advanced example



Consumer services in multiple channels

Many of them targeted to younger generation

But the Pihtiputaa Grand Ma has got a mobile and internet



Pihtiputaan Mummo

Communities

<http://www.pihtipudas.fi/mummo/>



Ubiquitous society – services available everywhere

- Mobilephone and e-mail revolution in communication
- Ubi services will be change information search
- All information available always- Wikipedia-style
- Navigation
 - will change travelling
 - Where is the nearest bus stop, fastest way to go ...
etc
- Revenue models inadequate
-
- Plenty of new business models



Lessons learned from e-business models

- Playground for new business models
- Everything is free! – how to make profit?
- New entrants may change the whole business
 - Skype, Wikipedia, Amazon,
- Multiple channels and ubi society
 - Internet in your pocket
 - All information available
- Still looking for sources of revenue



Litterature

