

Housekeeping

Lecture 3
GSL Peru 2014

Housekeeping

- Homework due Monday at beginning of class
 - Please submit printed copy
 - Individual work
- No more Coursesites
- GSL website - <http://gsl.mit.edu/program/peru-summer-2014>
- No video recording
- Name Tag/Badges

Question from Class

How do you find that uncontested market space?

“Blue Ocean Strategy” - W. Chan Kim and Renée Mauborgne

Blue Ocean denotes all industry not in existence today

Competitive Strategies

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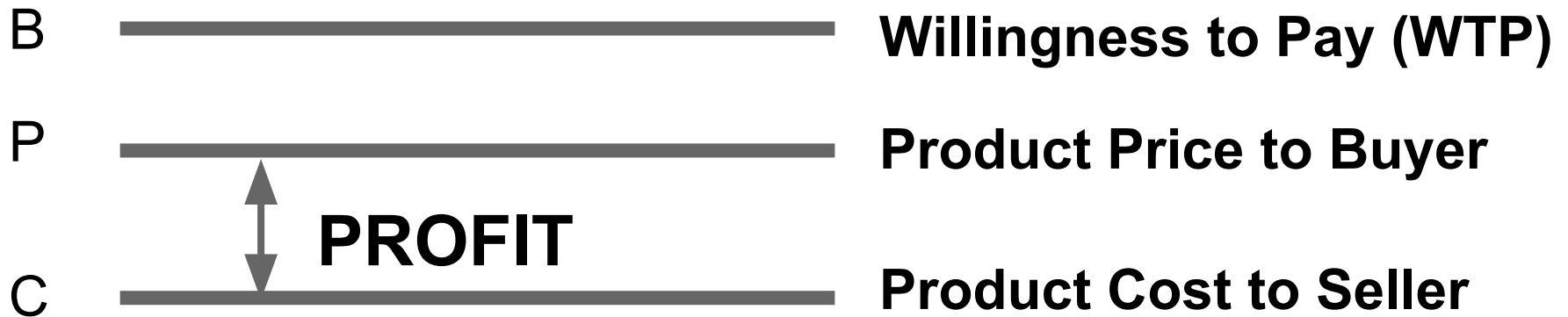
Porter's Competitive Advantage

- Lower Cost
- Differentiated (Innovation)
- Focus

Cost Leadership Strategy

- Focus on cost-conscious or price-sensitive customers
- Need to have lowest price or price to value ratio
- Must operate at lower cost than others
- Beware of competitive response and price war
- Product may become commoditized - hard to make profit

Cost Leadership Strategy



**Increase P or
Decrease C**

Cost Leadership Strategy

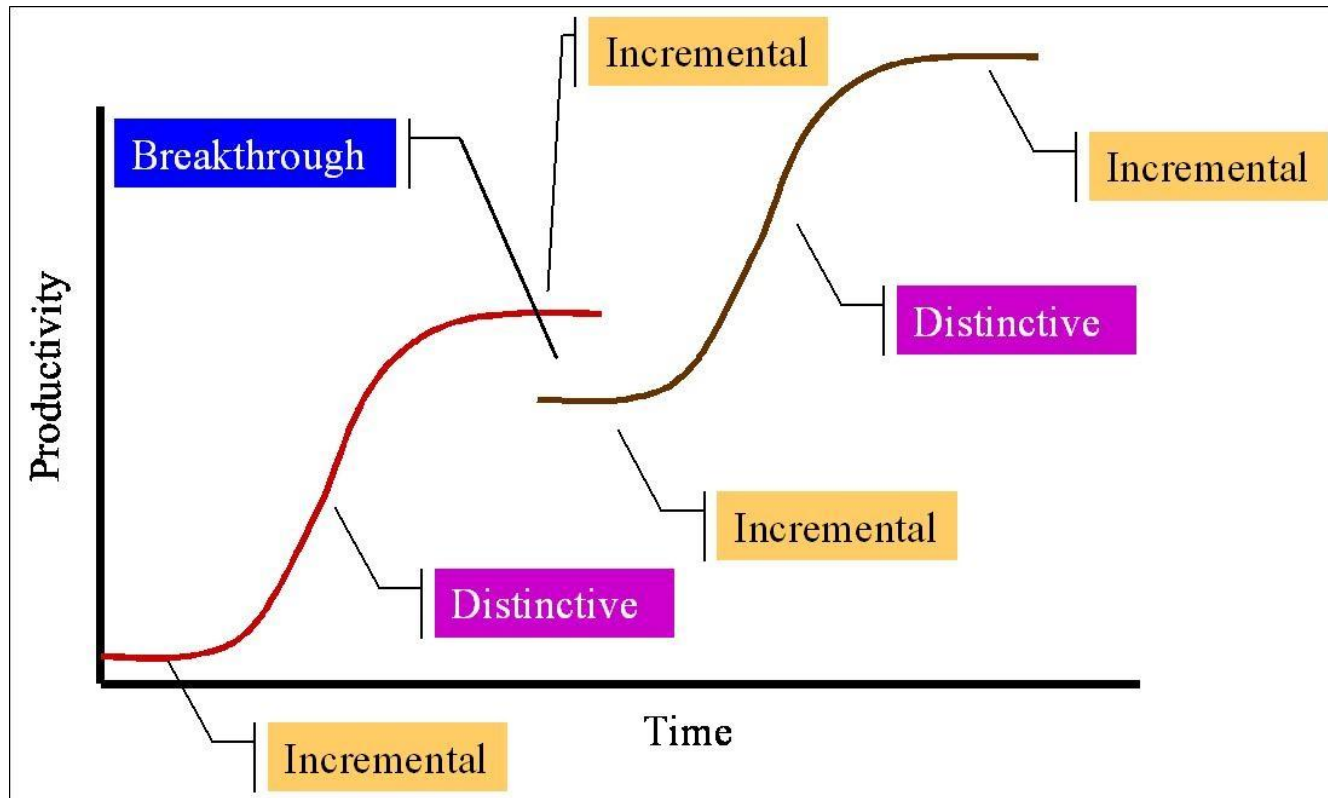
In order to succeed:

- High asset turnover - need large volume
 - economies of scale
 - learning curve advantage
- Lower operating costs
 - product standardization - no customization
 - fewer components
- Strict control over value chain
 - financing
 - suppliers

Differentiation Strategy

- Product differentiation from competitors - unique resources or capabilities
- Pick market segments who are not price sensitive in markets that are highly competitive or large number of players
- Can command premium

Innovation S-curve

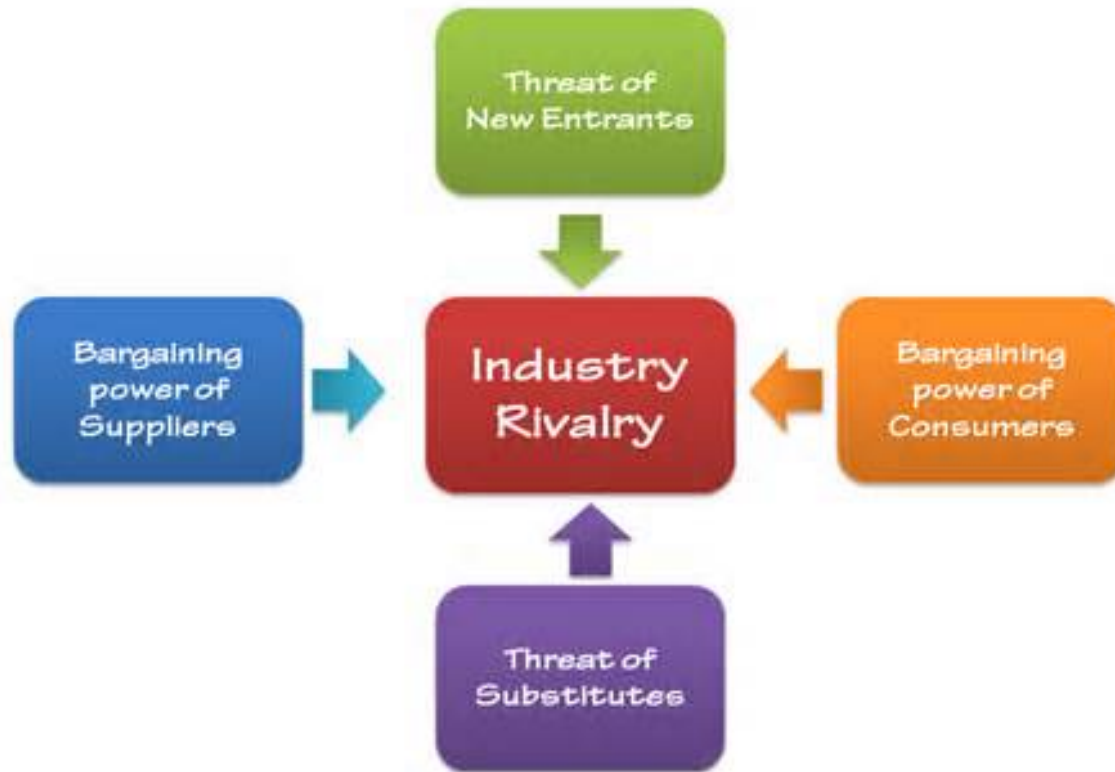


Focus Strategy (Niche)

- “Focus” on narrow market segment with specialized needs
- Maybe combined with
 - cost leadership
 - Southwest Airlines
 - Family Dollar
 - or differentiation
 - Apple Macintosh

Analyzing Competition

Porter's Five Forces



Supplier Power - High

- Fewer supplier than buyers
- Buyer switching cost high
- Buyer not price sensitive
- Supplier can forward integrate
- Supplier owns customer

Buyer Power - High

- Fewer buyers than suppliers
- Supplier switching cost high
- Customer price sensitive
- Buyer can backwards integrate
- Buyer owns customer

Threat of New Entrants - High

- Low *entry barrier*
- Profitability does not require economies of scale
- Products are undifferentiated
- Brand names are not well-known
- Initial capital investment is low
- Consumer switching costs are low
- Accessing distribution channels is easy

Threat of New Entrants - High

- Location is not an issue
- Proprietary technology is not an issue
- Proprietary materials is not an issue
- Government policy is not an issue
- Expected retaliation of existing firms is not an issue

Threat of Substitutes - High

- Consumer switching costs are low
- Substitute product is cheaper than industry product
- Substitute product quality is equal or superior to industry product quality
- Substitute performance is equal or superior to industry product performance

Threat of Rivalry - High

- Competitors are numerous
- Competitors have equal size
- Competitors have equal market share
- Industry growth is slow
- Fixed costs are high
- Products are undifferentiated

Threat of Rivalry - High

- Brand loyalty is insignificant
- Consumer switching costs are low
- Competitors are strategically diverse
- There is excess production capacity
- Exit barriers are high

Example: Amazon - Supplier Power

- Supplier power is low
- Amazon pays suppliers NET35 after item is purchased
- Suppliers want to be on Amazon
- Suppliers are fragmented
- Amazon owns customer

Example: Amazon - Buyer Power

- Buyer power is low
- Customer are sticky
 - ease of use - 1 click
 - convenience
 - switching cost

Example: Amazon - New Entrants

- A threat of new entrants is medium.
- While e-commerce sites can be easily setup, logistic and supply chain is not.

Example: Amazon - Substitutes

- A threat of substitutes is medium
- Brick & Mortar stores (Target, Walmart)
 - sell at higher price
 - less convenient - have to go to store
- Online retailers (Target, Walmart)
 - Switching Cost

Example: Amazon - Rivalry

- Many Brick & Mortors have online presence
- Sizes are comparable
- Amazon has differentiated product - books, Kindle
- Brand loyalty

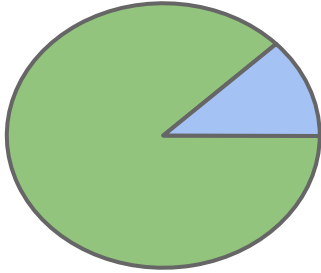
Competition - Key Factors

- Ownership and control of strategic resource
 - Cost Advantage
 - Relationship
 - Human capital
 - Proprietary Technology
 - Switching cost
- Differentiation
- Sustainability
- Satisfy customers

Market Strategies



Market Strategies



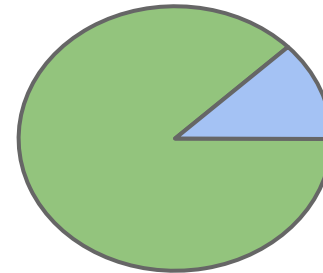
Compete FOR the Market
(You set the price)



Compete IN the Market
(Market sets the price)



Enter EXISTING Market
(Market sets the price)



Enter/Create NEW Market
(You set the price)

Compete IN the Market

- Change nature of competition
- Bargaining and contracting
- Expansion via franchise
- Product variety (Attribute Space)
- Game Theory: Pricing, entry, reputation, information, ...

Compete FOR the Market

- Utilize network externalities
- Limit compatibility or connectivity
- Create/expand dominant network
- Licensing to become the standard
- Licesing to prevent entry

Enter EXISTING Market

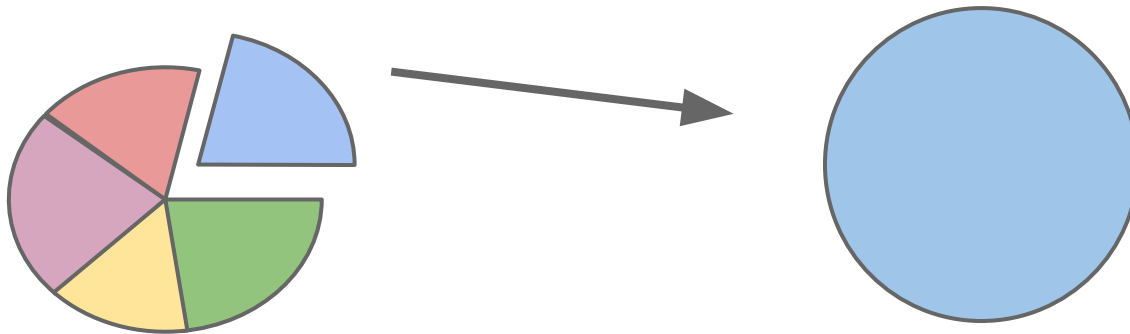
- Learn from experience of others
- Become a licensee (avoid innovation)
- Anticipate incumbent response
- Use alternative model of distribution
- Enter “empty” area of attribute space

Enter/Create NEW Market

- Invent a new product/market
- Asses risk of failure
- Create market via licensing, joint venture
- Role of information and IT

Total Addressable Market (TAM)

Amount of annual revenue that the business would earn if you had 100% market share.



Total Addressible Market (TAM)

TAM \approx # of end user * \$ revenue/end user/year

For US based business, \$20M-\$100M is good target.

Other strategies

- Multi-sided platforms/Network Externalities
- Big Data
- The Long Tail
- SaaS - Software as a Service - “Cloud”
- Gamification

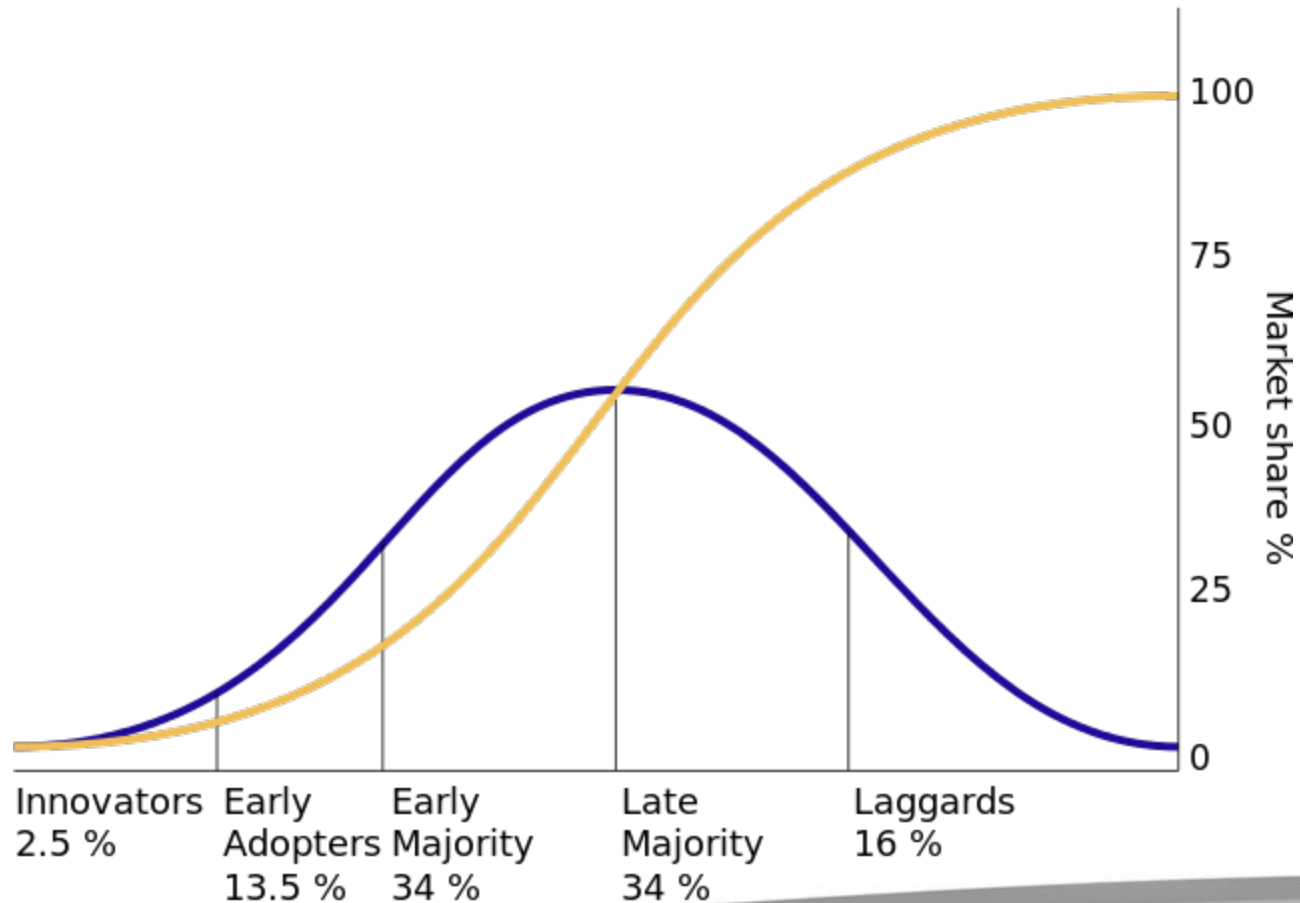
Network Externalities/Effects

- Good or service become more/less valuable when more people use it.

Examples

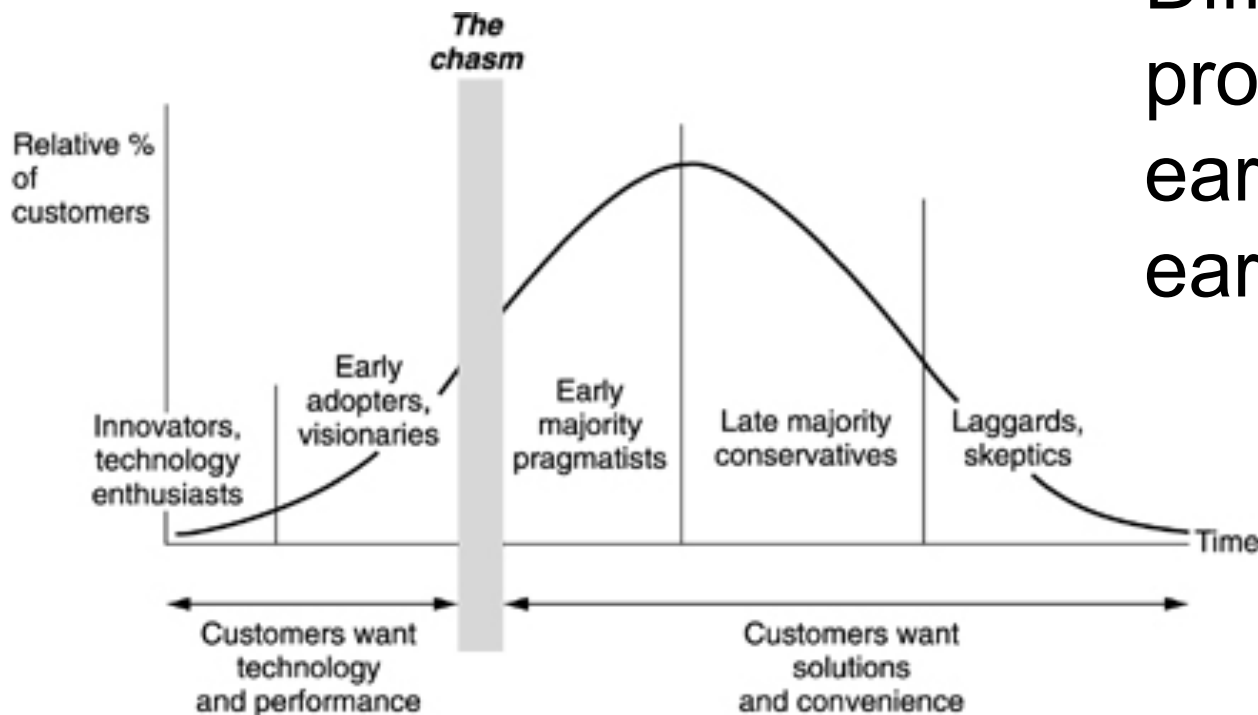
- Telephones, Fax machine
- Twitter, Facebook
- Traffic

Adopter Diffusion Model



Moore's Crossing the Chasm

Different customer profile between early adopters and early majority.



Multi-sided Platforms/Markets

- Market that connects disparate groups.
- Network Externalities - The value to each side grows as the size of the other group grows.
- The side that provides the value subsidizes the other.
- Sometimes both sides pays.

iTunes Store

- Music Buyers + Music Publishers
- App Buyers + App Developers

LinkedIn

- Professionals - manage identity, build professional network, search for job (free/paid)
- Recruiters - provide hiring solutions (paid)
- Content Providers - publish content and reach targeted audience (paid)
- Advertisers/Marketers - reach targeted audience (paid)
- Developers - integrate LinkedIn features (free)

Taplister

- App that will help users find craft beers on tap by location.
- It also help bars and restaurant owners promote their beer selection nationwide in the U.S.
- Free for consumers, \$99+ for businesses.

Taplister

The screenshot shows the Taplister website with a dark background. At the top left is the Taplister logo, a yellow key icon inside a circle with the word 'TAPLISTER' below it. To the right of the logo, the text reads '9600 BEERS ON TAP' and 'Discover Craft Beer™'. Further right is a 'Sign In' link and a yellow button that says 'BAR OWNER? CLICK HERE'. Below the navigation are three buttons: 'FIND BARS', 'LIST A BEER', and 'FIND BEER'. The 'FIND BEER' button is highlighted. Below these is a search box titled 'FIND A BEER' with a text input field containing 'New', a dropdown menu set to 'IN', and a placeholder 'ZIP code or city, state'. A yellow 'FIND IT' button is to the right of the search box. Below the search box are three content blocks. The first is titled 'FROM THE TAPLISTER BLOG' and features a 'GREAT AMERICAN BEER' graphic with a 'BLOG' tag and a link '9,000 BEERS AND COUNTING READ MORE >'. The second is a 'BETA' version of the Taplister logo with a 'BLOG' tag and a link 'THE ALL-NEW TAPLISTER IS HERE! READ MORE >'. The third is an 'ADVERTISEMENT' for the Taplister app, showing an iPhone with the app interface and a yellow 'DOWNLOAD NOW' button.

Big Data

- A generic term for any big collection of data which cannot be processed in a traditional way. i.e. database queries, SAS prior to Big Data
- Also commonly associated with analytics or collecting, organizing/processing, and analyzing data.

Big Data

- Companies collect huge amount of data regarding end users
- Google processes about 20 Petabytes/day (20,000 Terabytes/day) - 2008
- The processing uses about \$1M just in server hardware

Big Data - Facebook

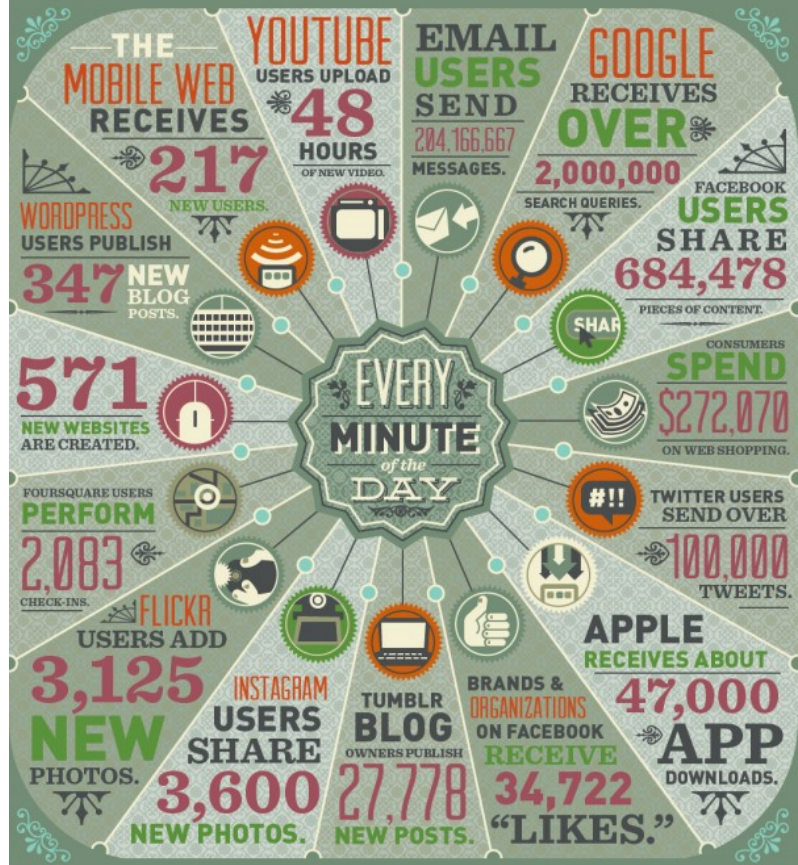
- Facebook collects 500 Terabytes./day (2012)
- 2.5 billion content items shared per day (status updates + wall posts + photos + videos + comments)
- 2.7 billion Likes per day
- 300 million photos uploaded per day
- 100+ petabytes of disk space in one of FB's largest Hadoop (HDFS) clusters
- 105 terabytes of data scanned via Hive, Facebook's Hadoop query language, every 30 minutes
- 70,000 queries executed on these databases per day



DATA NEVER SLEEPS

How Much Data is Generated Every Minute?

Big data is not just some abstract concept used to inspire and mystify the IT crowd. It is the result of an avalanche of digital activity pulsating through cables and airwaves across the world. This data is being created every minute of the day through the most innocuous of online activity that many of us barely even notice. But with every website browsed, status shared, or photo uploaded, we leave digital trails that continually grow the hoisting mass of big data. Below, we explore how much data is generated in one minute on the Internet.



WITH NO SIGNS OF SLOWING, THE DATA KEEPS GROWING

These are just some of the more common ways that Internet users add to the big data pool. In truth, depending on the niche of business you're in, there are virtually countless other sources of relevant data to pay attention to. Consider the following:

The global Internet population grew 6.59 percent from 2010 to 2011 and now represents **2.1 BILLION PEOPLE.**

These users are real, and they are out there leaving data trails everywhere they go. The team at Domo can help you make sense of this seemingly insurmountable heap of data, with solutions that help executives and managers bring all of their critical information together in one intuitive interface, and then use that insight to transform the way they run their business. To learn more, visit www.domo.com.



SOURCES: [HTTP://NEWS.INVESTORS.COM/](http://news.investors.com/), [ROYAL.PINGDOM.COM](http://royal.pingdom.com/), [BLOG.GROVO.COM](http://blog.grovo.com/), [BLOG.HUBSPOT.COM](http://blog.hubspot.com/), [SIMPLIZESTV.COM](http://simplizestv.com/), [PCWORLD.COM](http://pcworld.com/), [BIOTECHMAGAZINE.COM](http://biotechmagazine.com/), [DIGBY.COM](http://digby.com/)

<http://www.visualnews.com/2012/06/19/how-much-data-created-every-minute/>



Data Analytics

- Finding meaningful information is large amount of unstructured data.
- Often used to describe/visualize, predict and improve business performance.
 - Marketing Optimization
 - Portfolio Optimization
 - Risk Analysis
 - Behavioral Analysis

German Football Association to leverage Big Data insights to improve player performance at the FIFA World Cup 2014

InformationWeek, June 16, 2014

It will use SAP Match Insights solution to process vast amounts of data to find and assess key situations in each match to improve player and team performance



To take football to the next level and improve player performance and team management, SAP and the German Football Association (DFB) have come together to showcase the SAP Match Insights solution. This solution running on the SAP HANA platform is intended to facilitate the analysis of training, preparation and tournaments. It also intends to enable coaches and scouts to process vast amounts of data to find and assess key situations in each match to improve player and team performance.

More Insights

Webcasts

Business Models in the Black Market

More >>

Downloads

Data Analytics - Nest Labs



- Home automation company with digital thermostats and smoke detectors
- Learning thermostat optimizes temperature based on heating and cooling habits of the people in the house

Nest Labs

Business Plan:

- Conserve and track consumer energy demands
- Energy companies are over capacity and do not have demand data are willing to pay for data.
- Nest provides a more accurate way to gather data around the usage patterns of their customer.

The Long Tail

- 80/20 rule - 80% of the occurrence happens in the first 20% of the item distribution
- Amazon, Ebay, iTunes, Netflix



Amazon

- Brick & Mortar stores have cost of storage and distribution. They only sell the popular items (1st 20%).
- With lower inventory and distribution costs, Amazon can sell obscure items in the tail (36.7% of sales) - Supply Side
- Recommendation Engine can push sales into the tail - Demand Side

SaaS - Software as a Service

Software license and delivery model where license is a subscription and access is centrally located.

Also known as “on-demand software”, “cloud”

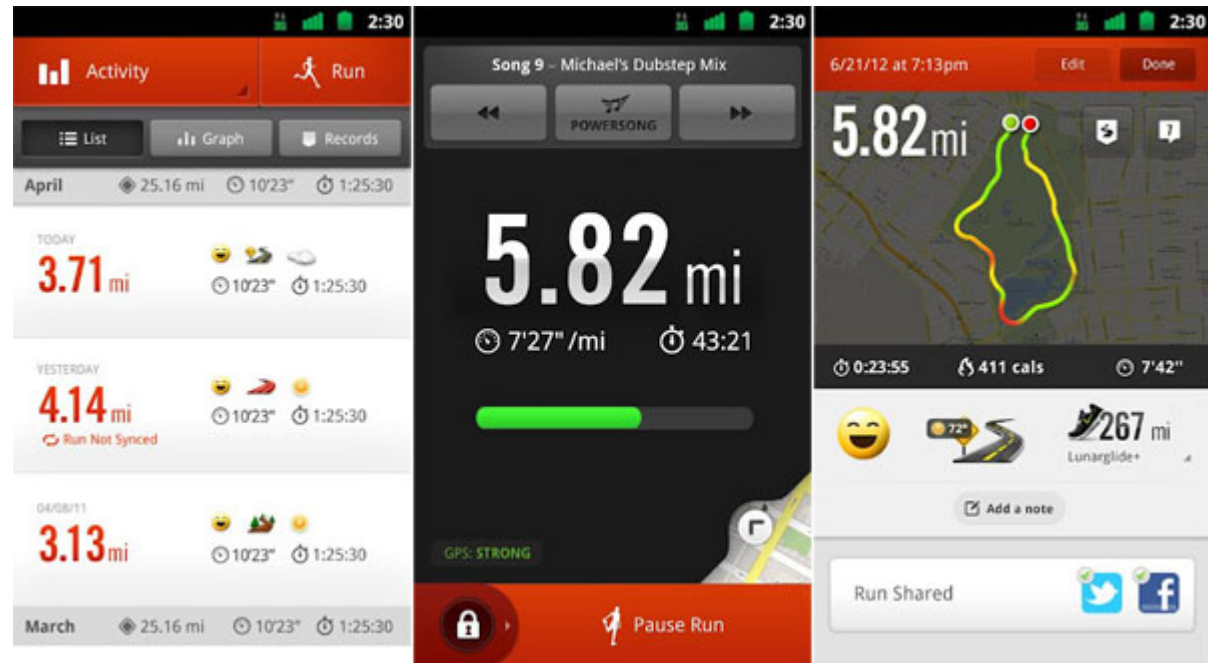
Examples - Salesforce, LinkedIn, Dropbox

Gamification

- Use of game thinking and mechanics in non-game context to engage users in problem solving.
- Leverages natural desire for competition, achieving goals, status, etc.
- Uses reward systems such as points, levels, virtual currency, etc.

Gamification Examples

Nike+



Loyalty Programs

Key take aways

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- Differentiated (Innovation)
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Key take aways

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- Sustainability
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References

- Michael Porter
- 15.013 Industrial Economics - Robert Pyndick
- Disciplined Entrepreneurship - Bill Aulet