**Topic 2.  Digital business model**

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| Before the advent of the Internet, any business developed mainly "on the ground" in the material world: it was the physical world, which was based on various goods, a world focused on real interaction with customers. Today, many industries are moving at different rates into the digital space - intangible, service-based and focused on creating a consumer experience. |
| **Importance of an effective digital business.**  The importance of an effective digital business model has increased significantly after three trends converged at one point. The first trend is to digitize more and more business aspects: customer service, implementation of business processes, work with partners along the value chain.  The second trend is the growing number of "aboriginal electronic technologies", that is, young customers and employees of companies (current and future, in using electronic facility you are more advanced than my generation) who need an excellent electronic interface to contact the company.  The third trend is the beginning of the "era of the buyer", when consumers influence companies much more seriously, making various ratings (ranking by the number of stars on Amazon, 2 Gis (what examples can you give), etc.) and leaving their comments about products and services on the Internet, Twitter and social networks. |
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| **Three Pillars of a** digital business model  The digital business model has three components: content, customer experience, and platform .  Let's take a look at Amazon 's digital retail business model .  Content offered by Amazon includes digital products (films, software, etc.) as well as information about physical products that Amazon itself or resellers sell . However, many digital products threaten the status quo of Amazon itself and other companies. For example, in May 2011, e-book sales on Amazon surpassed regular book sales for the first time. |
| By customer experience, we mean the experience people have when they shop online for company's products or services, whether digital or physical. The Amazon consumers experience is shaped by the site and digital business processes that affect the customer (shopping cart, payment methods, delivery messages for a purchased item, or email confirmation of payment). This experience also depends on the customer- generated piece of Amazon content (ratings, product reviews, and sophisticated tools such as site searches, purchase history, and special recommendations). |
| The platform is a coherent system of digitized business processes, information data and infrastructure.  The platform has internal and external components, and it must ensure the delivery of not only digital content to buyers , but also physical products. Amazon 's internal platforms include customer data as well as all business processes that do not involve customers - customer data analytics, human resources, finance, and merchandising .  External platforms include phones, tablets, or computers that customers use to research and purchase products, and Amazon's telecommunications network and partnerships with postal and courier services (such as UPS) that deliver physical products and send delivery text messages to customers. All of these external platforms are clearly integrated with Amazon's internal platform . |
| Digital business models have 4 characteristics  Confusion often arises between digital offerings and digital business models . In general, the digital offering is just an addition to existing services or products, such as an app for product, a chatbot for contacting support, or an interface for managing a product. Digital business models , on the other hand, have certain characteristics that help differentiate them from digital offerings: |
| 1. Value is created through digital technology When the value proposition of the service offered is (exclusively) digital-based, then we have one big metric for the digital business model. Amazon, Alibaba , Facebook , Google , etc. would not have been possible without the use of the Internet. 2. Digital business models are new to the market One of the best examples is the difference between digital offerings and digital business models . When you read energy consumption data through the app, it is your electricity supplier's digital offering. When you order transport through an app that matches your driver request, then it is a digital business model. |
| 3. Digital purchases and distributions of customers To become a client and use the service, you need to use digital channels. Digital business models are sometimes based solely on digital channels. This is especially important for business models that rely on early adoption ( freemium ) or marketplaces (for example, Amazon advertises when searching the Internet). 4. USP (unique selling point) is created digitally When a customer is willing to pay for your services and offerings that are created on the Internet, then this is a strong indicator of a digital business model , as customer value can be digitally created as well as monetized . A unique selling point can be thought of as "what you have that competitors don't." |
| Different types of digital business models1. Free model (Special model) Everyone knows the "free" business model, as it is used by two of the most famous companies in the world. Google , like Facebook , are good examples of how to use an ad- supported and “free” business model. The idea behind this business model is to offer the service for free and the user becomes the product that is sold. In the case of Google and Facebook , each user who uses the services provides valuable information about themselves. With this data, you can easily display ads that businesses can buy and target specific users. |
| 2. Freemium model Especially in the software world, this is one of the most common digital business models. Users get free access to the basic version ( Free ) of the product, which is mostly limited in some respects. If the user wants to use more features or resources, he has the option to upgrade to the paid version ( Premium ).  Spotify is a great example . Everyone can use the service for free (and receive advertising), but if you want more features and higher quality, then you need to pay a monthly subscription. It is also a great example of how different business models can be mixed. |
| 3. Model on request Similar to the Access-Over-Ownership model, there is also an on-demand business model. In this case, it is not a physical product that you own, but a virtual product or service.  On-Demand works, for example, through online video stores where you get the right to consume video for a specified period of time ( Amazon Video , Apple TV +, etc.). |
| 4. The e-commerce model  One of the earliest and by far the most successful companies to sell physical goods through an online store and e-commerce was Amazon. It is also the most famous business model on the web today, and you can buy almost anything online.  Unlike the market model, which is also Amazon today , pure e-commerce models are based on a one-way sales approach. The company sells its own shares to buyers. |
| 5. Marketplace model (Peer-to-peer, two-way marketplace)  A two-sided market is something we see quite often on the internet. Sellers and buyers use a third party platform to trade their goods and services. This marketplace can include services ( Uber , Upwork , etc.) or also products ( eBay , Etsy , Amazon, Wildberries ).  The biggest problem with this business model is its complexity and dynamics. If you don't have sellers, you will never attract buyers, if buyers don't find sellers, you will lose them. Thus, a two-sided platform must carefully scale supply and demand at the same time in order to maintain attractiveness to both sides. |
| 6. Ecosystem model  Digital ecosystems are one of the most complex, yet most powerful digital business models to date. Ecosystem orchestras such as Amazon, Alibaba , Google , Apple , Tesla and many others use clients with different services on different platforms. With knowledge and data, they can attract new customers thanks to the “ salesperson isolation ” effect that their ecosystem creates.  Just think about what services you use at Google , Apple , Amazon , Alibaba , etc., and how difficult it will be to leave their digital ecosystem. The peg effect is also an important factor for future earnings. But you don't have to be an ecosystem orchestra, maybe you are a user of ecosystems or supply modules to the ecosystem. A good example of a modular provider is PayPal , which provides seamless payment for many different digital business models and ecosystems.  Further information: What is a digital ecosystem? - Understanding the most profitable business model |
| 7. Ownership Access Model / Sharing Model  It's all about sharing, but in a business sense. This system allows you to pay for a product, service or offer for a certain amount of time without having real ownership rights. This could be a car rental (such as Zipcar, Bla Bla Car), an apartment rental (such as Airbnb ), or even industrial equipment.  It has been one of the most disruptive business models in terms of its impact on ownership and the resulting income. The car could suddenly become a source of income instead of just generating expenses. |
| 8. Model of experience  Adding experience to products that would not have been possible without digital technology. One example is Tesla , which has brought a whole new digital experience to the automotive industry by adding digital services and even a digital ecosystem to its cars, which is currently the main engine for their business model.  Another example of an experience model is also combining different experiences together and creating a new customer-centric ecosystem. |
| 9. Subscription model  We all know Netflix. These products are good examples of the classic subscription model. There the user gets access, updates, services, etc. on a monthly / yearly basis. The subscription model is especially used for content, software, and membership. |
| 10. Open source model  Firefox is one of the most successful open source examples. The software is free to download, free to use, and open to the worldwide community to contribute. Because it is free and many people contribute, it spreads quickly and usually also gets a lot of (free) resources to improve the software. Business model lies at the heart of Firefox, generates fees and partnerships with search engines.  Open source itself is not necessarily a business model, as you may not be able to use software for a sustainable business model. Red Hat distributes Linux-Distribution for free and then makes money from training, services and software hosting. |
| 11. The hidden model of income generation Sometimes income is not always visible to customers at first glance. Other value streams are possible through the collection and analysis of data. As we saw with Mozilla , where the open source browser generates royalty revenue, including various search engines, we know that there can be hidden business models behind platforms and digital services .  It is very important for companies to realize what their potentials are and whether there are further opportunities to use the existing business model with another to generate additional income. But hidden revenue generation can also backfire, especially when dealing with data and with ignorant customers. Cambridge Analytics was an excellent example of such a pullback that had serious consequences for both companies. |
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## Choosing the Right Digital Business Model

It's always an answer where you don't have a direct answer. So what is the best / right / most profitable / most successful business model? - Well ... **IT DEPENDS**

Each company must see what offers it wants to have and where it wants to optimize them. Two-sided markets are extremely complex and take longer to grow, Freemium is widely adaptable and can be combined with ad-hoc business models as we've seen with Spotify , and digital ecosystems can be the most complex and risky business models as they involve massive investments. large user base; and orchestration of many partners and threads.

When thinking about new business models, it's always good to think about the customer and the unique value proposition you want to have. Be careful not to overdo it and better keep it clean and light, rather than involving too many business models at the same time.

Especially for platforms, markets and digital ecosystems, it is important to note that immediate monetization can hinder growth and lead to a gap between supply and demand. Sometimes digital business models need a critical mass and a critical base to use the monetization model, and therefore require a lot of time and investment before they can start generating revenue. This is why there are two different strategies:

Therefore, **for earlier / faster monetization,**it is better to consider Freemium , E- Commerce or subscription models . They are simpler as the supply side is already fixed / can be better controlled, you can generate direct revenues and can only focus on generating the demand side.

Business models that **are more long-term and focused on network effects**are usually two-way platforms, valiant marketplaces, and especially digital ecosystems. They must grow for a long time before monetization makes sense, and therefore have a long-term funding gap that needs to be overcome. But in the long run, they can financially outperform other businesses as they exploit the network effect, call it the “ **winner take all**” effect , to dominate the market due to size and reduce the entry of new competitors as they first need to catch up. (Example, Facebook and Google + - Facebook already took over the market and Google had no chance with their social media platform due to the network effect).

# Differences in Traditional Business and Digital Business

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| There are some of the prominent differences between traditional and digital business. These differences surely do not uplift any of the two but it clearly tells the nature of both kinds of businesses. |
| Traditional business has a physical presence and it serves people locally providing services or products. People themselves visit locating the stores. Talking about e-commerce business, people sitting in any corner of the world can scroll through the web and find the store. They can shop at any time of the hour and receive the products and services easily. Various companies providing [**digital marketing services**](https://technians.com/digital-marketing-services/) are making the best use of this new business trend. |
| 1. OVERHEAD COSTS2. CONVENIENCE TO THE CUSTOMERS3. MARKETING PROGRAMS4. REPUTATION IN FRONT OF THE CUSTOMERS5. TIME AND RELIABILITY |
| 1. OVERHEAD COSTS E business generally has less or no overhead costs because they do not need to have a physical site to sell their product and services. They have a web presence and so people can reach them through internet. People involved in traditional business have to select a prime location, find a place and then rent it. For traditional businessmen, the costs do not end up till renting the business. They also need online presence and that cost cannot be eliminated. They have to seek help from digital world like SEO services or paid services to attract the target customers. |
| 2. CONVENIENCE TO THE CUSTOMERS The competition is undoubtedly in the favour of e commerce shopping because of customer’s reliability. Shopping sites such as – Amazon, Flipkart and Myntra have replaced the thoughts of people getting out of their houses in search of quality products. But there are a bunch of people who prefer live shopping to physically examine the product before purchasing. |
| 3. MARKETING PROGRAMS There is no matter of doubt in the fact that digital businesses need to have more budget to spend in their marketing programs where in traditional business do have limited budget and limited options. Marketing programs in digital world include blogs, attention to [social media](https://dmguru.in/important-guidelines-social-media-strategy.html), content ads etc. Traditional marketers very often take help of this business transformation. They also have to take care of the other modes of marketing such as newspaper ads and pamphlets. |
| 4. REPUTATION IN FRONT OF THE CUSTOMERS No matter how hard e commerce business is working to shine bright, but in terms of reputation, traditional marketers are ahead till date. It seems to be more reliable to the people in terms of the product quality. Traditional marketing exists for more than a century now so people still trust traditional marketing most of the times. Reputation would build up with time and consistency of the brand in case of both digital as well as traditional business set ups. |
| 5. TIME AND RELIABILITY When it comes to save time and money in this fast life, e commerce businesses are all time favorites of the people. People can shop in their workplaces by just going through it and make easy transactions. Be it debit, credit, net banking or cash on delivery option. The services are available 24\* 7 and so you can shop your favourite items even in the odd hours. There are easy returns and exchanges without any questioning. With this much of reliability, people are loving e-commerce and other web services. |
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| Q and A |

Что такое цифровая экономика? Как цифровые технологии меняют экономику и жизнь человека? Каковы тенденции развития рынка труда и спроса на компетенции кадров? Как государство может поддерживать становление цифровой экономики? Как измерять процессы развития цифровой экономики?

If someone had told me at the beginning of 2020 that, soon, we would all be advised to wear masks to go to the grocery store, to pick up dinner, even to do business at the bank, I wouldn’t have believed it. Before, wearing a mask to a bank would have been highly discouraged, of course, because masks, throughout banking history, have been associated with robberies. Now, we encourage people to wear them in, to stay safe during the pandemic. It’s a very strange change for those who work in the bank.

Change can be hard, but it most often comes about because of necessity, and it usually results in an improvement. Take it from me – I’ve been in banking for over 30 years! I started at a small Utah bank that was later purchased by a larger regional bank that later merged two more times with even larger national banks. Then, 15 years ago, I came to Bank of Utah, which, I am happy to say, turned out to be a great change for me. I am also happy to say that the changes I’ve seen in the banking industry over the years have been great for everyone.

Let’s do a little comparison … then versus now.

## Getting Paid

**Then:** Remember when you got your paycheck on a Friday afternoon, and you had to rush to the bank to cash or deposit it, only to wait in a crazy long line? It seemed like every company paid every employee at the same time, and that everyone banked at the same location!

**Now:** Direct deposit has saved us, and our employers, so much time. It has saved our sanity, as well – no more long lines, and your money is available immediately.

## Managing Accounts

**Then:** Remember when you had to wait, wait, wait for your monthly account statements? Thirty days is a long time, and then you had to worry about your statement getting lost in the mail. And remember how you’d get a different statement for each account you had? So when they did all arrive in the mail, you had to dedicate a good chunk of time to go through them all individually.

**Now:** With online banking, you can see what’s going on in your account anytime, anywhere, even from your phone with the mobile banking app. But that’s not all! (I know, I know. I sound like a game show announcer, but you really are getting a prize with all the services available online!) Through My Money Hub, for example, you can get a snapshot of all your accounts, including those from other financial institutions, and then use that information to better manage your finances.

## Paying Bills

**Then:** Remember how time consuming it was to pay bills? I mean, bills – we all have ’em, we all gotta pay ’em, right? So you got your checkbook, wrote out the checks and put them in the mail. Then the worry began. Did you put the right check in with the right bill stub? Did the check get lost in the mail or get stolen? You had to wait for your account statement to find out. If the check cleared, great! If it didn’t – oh no! By the time everything was straightened out and reconciled, you had to start the process all over again for the next month’s bills.

**Now:** Another benefit of online banking is Bill Pay, which allows you to pay your bills electronically. You can add payees and vendors, request e-bills and set up recurring payments, so you never miss one. Bill Pay is more secure, too. When you write a check, which includes your routing and account numbers, it passes through many hands on its way from your mailbox to the company you’re paying. Bill Pay cuts out the middlemen and the risk!

## Carrying Cash

**Then:** Remember when you had to carry cash or a checkbook to pay for everything? If you lost your cash, it was often just gone, never to be found again. If your checkbook was stolen, you had to open an entirely new account, for your financial safety.

**Now:** We have debit cards. Not only are they more convenient than cash and checks, they’re also safer. If you lose your debit card, or it gets stolen, you can immediately lock, unlock and control it with your phone, through our CardValet monitoring and alert service. Our customer service representatives can quickly help you, too, of course. And another debit card bonus: You can customize your card with a favorite picture of your family, your pet or vacation spot!

## Shopping and Subscribing

**Then:** Buying items online and getting subscriptions to things like digital movies and TV shows was, well, unheard of 30 years ago!

**Now:** We regularly make purchases online from retailers across the U.S. and the world. And just think about all the digital subscriptions we have to manage, services like Netflix and Amazon. This is where you debit card comes in handy yet again, allowing you to make purchases safely and securely. And, as a Bank of Utah customer, you get the advantage of having CardSwap, which lets you update your debit card information and manage your favorite digital services all at once and all in one place!

## Taking Out Loans

**Then:** Remember when you needed to take out a mortgage loan, and you had to come into a branch, fill out the application, bring all your income information, and then wait for a decision? It could take six to eight weeks, sometimes longer!

**Now:** Today, even though we are required to review more information than we previously had to, we can still close most mortgage loans in as little as three weeks, thanks to improvements in technology. You can complete applications online, and send and receive information electronically. The great part is, our loan officers are still always there to help you when you need it.

Many other changes have taken place, of course, but these are a few that I’ve been very excited to witness.

One other thing that makes me proud is how Bank of Utah has changed with the times without changing who we are: a community bank that puts customers first. Our dedication to relationship building, combined with our desire to bring you the best and most secure technology, has allowed us to connect with people even more and to make sure your experience here is second to none.

And while we’re in the spirit of remembering, remember: We have always been here for you and always will be.