Week 7:

MIS 3537: Internet and Supply Chains

Mid-Term Test Results
Mid-Term Test Results
Week 7:

MIS 3537: Internet and Supply Chains

METRO Group Case

The Spirit of Commerce
2007: ‘With the comprehensive implementation of the Radio Frequency Identification (RFID) in Germany, METRO GROUP ensures even better supply chain efficiency. Deliveries are automatically registered at 180 locations of METRO Cash & Carry and Real as well as in the central warehouses of MGL METRO GROUP

Subsequent years: corporate focus on ‘customer’ value, portfolio changes, sustainability
Recent Chairman Comments

- “…, the company met its sales and earnings targets for the financial year. … The successes of our transformation have become clearly evident in terms of operations,”
- “Digital solutions will fundamentally change the hospitality industry,” Olaf Koch, Chairman of the Management Board at METRO AG
  Restaurants, hotels and catering companies are a crucially important customer group for METRO Cash & Carry
- “We want to contribute intensively to this upcoming change by identifying the best ideas that create added value for our customers and by helping start-up entrepreneurs on their way to establishing a sustainable business. We envision enormous potential for this industry with the digitalization of the hospitality sector,” Olaf Koch.  [Techstars Accelerator Demos](#)
Week 7: 
Delivery of Information Goods

MIS 3537: Internet and Supply Chains
Learning Objectives

- Information Goods

- The transformation of the video rental business

- How the iPod changed the world

- The transformation of the software industry
Information goods

- A type of commodity whose main market value is derived from the information it contains

- Examples
  - Music CDs
  - DVDs
  - Books

- Not all information goods are digital
  - CDs and DVDs are physical products; the information contained in them is digital
Information goods are different

• Increasing digitization ➔ Physical channels can be bypassed

• How often do you purchase music CD?

• How often do you purchase / download music online?

• Why?
Learning Objectives

- Information Goods
- The transformation of the video rental business
- How the iPod changed the world
- The transformation of the software industry
In 2001:

- 33% market share
- Broad physical footprint
  - Many stores
  - Good collection of movies
- Profitable sales
The format war

- The move towards DVD technology
- Circuit City’s competing technology
- Lack of consensus stalls Blockbuster’s effort to replace its inventory with DVDs
Disruptive innovations

Products & Industries Rocked by Disruptive Technologies

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Disruptive innovations

- New products / technologies that radically change the industry landscape

- Affect
  - Core activities
  - Core assets

- DVDs struck at Blockbuster’s core assets
Blockbuster v/s Netflix

• Netflix obviated the need for physical stores → significant cost savings

• Other advantages
  ◦ Bigger selection (not restricted by what is available in the storefront)
  ◦ Customer reviews
  ◦ Movie recommendations
The Netflix model

- What did Netflix do?
- Competing against Blockbuster, did Netflix...
  - Threaten core assets?
  - Threaten core activities?
- Would Netflix have been able to take on Blockbuster in VHS rentals?
Manufacturing costs

- What are the manufacturing costs for video?

- For a DVD?
Manufacturing Costs

- Movie initial Production can be very expensive ($15,000 – $425,000,000)

- Information goods cost almost nothing to replicate

- A DVD can be copied for less than $1.00 - a car or a bicycle cannot

- How long does it take an artist to cut a disc? How long does it take to copy?
The Movie industry’s value chain

Studios
-> Cinemas
-> Video Rentals
-> Direct sales / sell-through
-> Pay Per View
-> Video on Demand
-> Personal Video Recorders
-> Consumer

Fox School of Business
TEMPLE UNIVERSITY
Learning Objectives

- The transformation of the video rental business
- How the iPod changed the world
- The transformation of the software industry
The iPod
The music business

- Who are the various players in the music business?

- Who controls the music business?

- How does piracy affect the industry?
Enter **iTunes**

- **iTunes store**
  - 99 cents / track
  - Compared to $15.00 for a CD, on which you would listen only to a few tracks

- **iPod** = consumer segment

- **iTunes Store** = distribution channel
The New Music Industry Distribution Model

A & R

Artist Talent recording

Mixing, Compilation

Digital Inventory

Legal Dept

Cyber Inventory

No contract
No Registration
All Credit Cards
All PayPal
Prepaid Cards

Http://DownloadMusicEasily.com

iPhone

$ $ $ $ $ $ $ $ $ $ $ $ $ $ $ $ $ $ $ $
The next phase

- Of the 99 cents per download
  - Apple makes only 3-4 cents
  - Record labels make 65 cents – to split among:
    - Artists
    - Publisher
    - the Label

- Apple is pushing up the value chain, and is trying to compete with record labels
Learning Objectives

• The transformation of the video rental business

• How the iPod changed the world

• The transformation of the software industry
Traditional Software Model

- Clients
- Services
- Application
- Platform
- Storage
- Infrastructure
Software as a Service (SaaS) model

- Clients
- Services
- Application
- Platform
- Storage
- Infrastructure

Google docs
Background

- Enabling factors for SaaS
  - Computing becomes ubiquitous
  - Multiplicity of devices
  - Unlimited bandwidth; inexpensive storage
  - Popularity of the SoA model (XML-based services)
What is Software as a Service?

- SaaS is a software application delivery model
- The vendor develops a web-native software application
- The vendor hosts and operates the application (independently or via third-party)
- Customers use the application(s) via web-browser
- Customers do not pay for owning the software itself but rather for using it
Key characteristics

- Lower capital expenditure
- Location independence
- Device independence
- Sharing of resources and costs
Key characteristics (contd.)

- Central monitoring of performance
- Reliability, through redundancy
- Scalability
- Security, through centralization
- Sustainability
Advantages / Benefits

For software developers / vendors:
- Software can be developed for a single specification – the browser
- Open standards lead to more independent developers providing extensions
- More effective licensing of software
- Ability to deliver updates on a regular basis
Advantages / Benefits

For companies / businesses:
- Better collaboration
- Facilitates ubiquity – employees on the go, telecommuters, dispersed teams
- Effective licensing of software
- Ability to receive regular updates
Advantages

• For small businesses / individuals
  • Enterprise-class software at low prices
    • Salesforce.com, Zoho
  • Almost zero setup costs
    • eg: Amazon SimpleDB
    • (Basically, you don’t need to own the phone company to make a phone call!)

• Collaboration
Questions!