

# **The Economics of E-commerce and Technology**

Case Studies

# Case Study Method

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- ▶ Management is a skill rather than a set of techniques
  - ▶ Requires practice on real problems
  - ▶ Problem sets not enough
  
- ▶ A case has two aims.
  1. Metaphor for a particular set of problems.
    - ▶ Together, metaphors provide net for problems you will face.
  
  2. Simulation process.
    - ▶ How do ask right questions?
    - ▶ Processes of analysis, choice and persuasion.

# Principles for the Student

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## 1. Preparation.

- ▶ Read and analyze the case and formulate an action plan.

## 2. Promptness.

- ▶ Late entry disrupts the classroom and makes it harder to follow and participate in the discussion.

## 3. Participation.

- ▶ A case study is lead by the students; each student has the responsibility to share their judgment with the class.
- ▶ You will get the most of the class by immersing yourself in the case and playing the role of the protagonist.

# Case Analysis: 4 Steps

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- ▶ **The aim of the case**
  - ▶ Analyze a management situation,
  - ▶ Develop a plan of action and
  - ▶ Express the position articulately.
- ▶ **Step I: Individual analysis and preparation.**
  - ▶ Skim the case. What is it about? What information I am given?
  - ▶ Read carefully, making notes.
  - ▶ Identify problem areas and relevant issues for each area.
  - ▶ Do appropriate qualitative and quantitative analysis.
  - ▶ Develop a set of recommendations supported analysis.

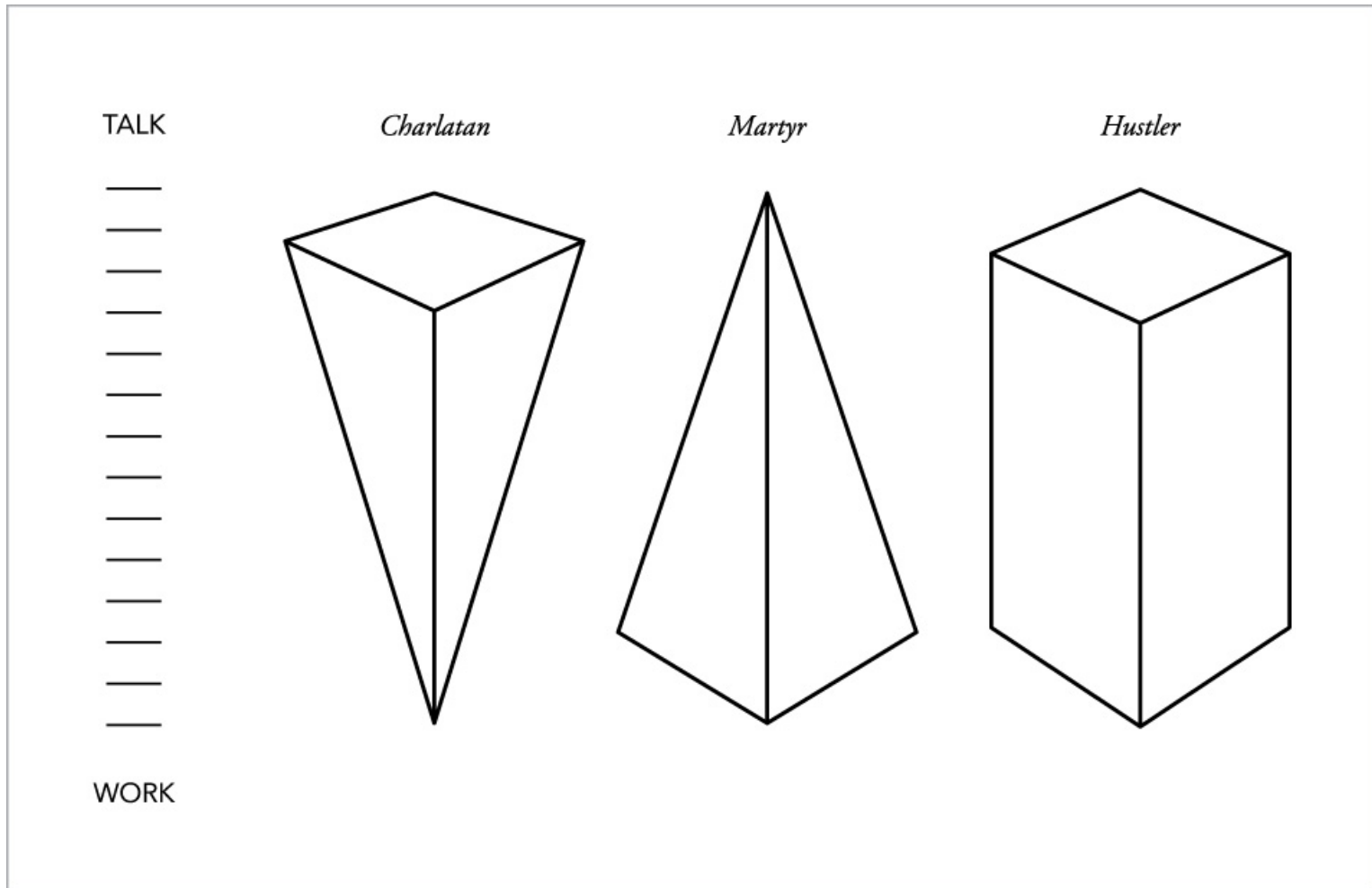
# Case Analysis: 4 Steps

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- ▶ **Step 2: Informal small group discussion.**
  - ▶ Aim: Refine, adjust and amplify thinking.
  - ▶ Do not develop a consensus of a “group” position.
- ▶ **Step 3: Classroom discussion.**
  - ▶ Students bring experience, observations, and analyses.
  - ▶ You will propose solutions and defend them with analysis.
  - ▶ Ultimately, the answer is less important than the process.
  - ▶ There is no correct answer
  - ▶ You will primarily learn from your classmates
- ▶ **Step 4: End of class generalization.**
  - ▶ What general lessons were learnt?
  - ▶ How does it relate lectures and other cases?

# Be a hustler...

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# Case Openings

# Opening a Case

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- ▶ **Key elements:**

- ▶ Structured analysis of the current problem,
- ▶ Strategic options
- ▶ Clear recommendations with factual support.

- ▶ **Part I: Clear assessment of the key problem**

- ▶ Competitive positioning of current business (revenues, profitability, market share and key trends).
- ▶ Threats to the current state. Micro (competitors, new entrants, changes in costs), and macro (recession, public policy)
- ▶ Understanding of the existing and desired customers.



# Opening a Case

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- ▶ **Part 2: 2-3 strategic options with recommendation**
  - ▶ What the business should do (new product launch, withdraw from the market, new pricing scheme)
  - ▶ A rationale (firm's competitive advantage, attractiveness of market, impact on existing customers, opportunity cost of strategy)
  - ▶ Analysis should draw upon data in case (financial statements, market growth data). If market is new then use benchmarks from existing markets.
  - ▶ A valuation of strategy (future revenues, profitability, margins, capital required).
  - ▶ Key sensitivities (e.g. pricing) that drive the recommendation.

# Opening a Case

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- ▶ **Part 3: Implementation and risk mitigation plan**
  - ▶ Resources to execute on the plan? (e.g. financial, human)
  - ▶ How reallocate resources from existing projects?
  - ▶ Time frame and breadth of implementation (pilot launch, full launch).
  - ▶ What could go wrong and how would you mitigate them?
- ▶ **Timing: 10 minutes.**
  - ▶ Split around 40% on analysis, 40% on recommendation and 20% on implementation and risk mitigation.

# Example: Dropbox

HBS 9-811-065

# Overview

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- ▶ **Origins**
  - ▶ Launched in Sep 2008
  - ▶ Late mover into backup and synching industry
- ▶ **Dropbox's competitive advantage**
  - ▶ Product does synching and backup
  - ▶ Product robust – firewalls, flakey internet, local storage.
  - ▶ Network effects – people share folders
- ▶ **Target market**
  - ▶ Customers, rather than businesses.

# State of the Firm

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## ▶ Industry

- ▶ \$720m in 2009, rising to \$2.5b in 2014
- ▶ Lots of small competitors, e.g. Carbonite, Mozy
- ▶ Threat of entry from big players: Apple, MS, Amazon, Google

## ▶ Business model

- ▶ Premium: 2GB for free; 50GB for \$120/yr; 250MB for referral
- ▶ 2-3% of customers buy premium
- ▶ Lose \$1.30/yr for free customer; gain \$82/yr on paying customer
- ▶ Revenue and costs both around \$15m

## ▶ Dropbox rapid sales growth

- ▶ 200k in Sep 2008, 1m in June 2009, 4m in April 2010.
- ▶ 35% referrals, 20% shared folders, rest word of mouth and PR

# Strategic Issues

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- ▶ **How to get businesses to sign up**
  - ▶ Higher demands – support, external backup, fee structure
  - ▶ Bureaucracy – firms risk averse and need reliability
- ▶ **How to grow customer base**
  - ▶ Revenue is 1% of total market
  - ▶ Weak outside US
  - ▶ Cross Moore's Chasm
- ▶ **How to fend off competition**
  - ▶ Apple/Google/Amazon could steamroller over Dropbox
  - ▶ Could bundle drive with other products (e.g. Amazon prime)

# Strategic Options for Growth

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- ▶ **Option 1: Differentiate product by offering features?**
  - ▶ Give customers flexibility
  - ▶ Make version for businesses
  - ▶ Risk simplicity, “It just works”
- ▶ **Option 2: Embrace third party software**
  - ▶ Meeting and collaboration apps can use dropbox as base
  - ▶ How big is market?
  - ▶ Risk reputation if problem with programs
- ▶ **Option 3: Find distribution partner**
  - ▶ Bundle with antivirus, or pre-install
  - ▶ Distributors want control (use their brand name)

# My view: Make version for business

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## ▶ Reason

- ▶ Have small percentage of current market
- ▶ Businesses have high willingness to pay (price discriminate)
- ▶ Google/Apple/Amazon have advantage in home market
- ▶ Having second version won't cause confusion

## ▶ Implementation

- ▶ Find out what businesses need
- ▶ Develop support services
- ▶ Market to business

## ▶ Risk mitigation

- ▶ High up front cost to develop new product and staff
- ▶ Could purchase backup company that already has foothold