INNOVATING CUSTOMER VALUE

-a study in creating uncontested market space

Supervisor
Staffan Gullander

Authors
Petter Made
Per Mosseby
SUMMARY

A number of new companies are rapidly becoming successful in established markets, or are creating new markets for themselves where there is little or no competition. Their services and products seem to knockout their competition by offering significantly higher value compared to older products.

The main purpose of this thesis is to choose a few fast-growing consumer focused companies, and study their business models’ comparative customer value, value creation and viral marketing components in relation to existing theory in the field. The thesis is a qualitative investigation, based on case studies, using an abductive approach.

Important theories include Richard Normann’s *ecogenesis*, *prime movers*, and the concept of *bundling/rebundling*; W Chan Kim & R Mauborgne’s “Blue Ocean Strategy”; J. P Womack & Jones D. T's “Lean Consumption”, and Malcolm Gladwell’s “Tipping point”.

The four case studies are based on eBay, Google, Ryanair and Skype, all sharing similarities in terms of market-creation (or being a prime mover in an existing market), extraordinary success and market penetration.

The most important conclusion is that all four companies have created their own markets, an *ecogenesis*, instead of fighting head-on with competitors. Furthermore, they all bear resemblance with the emerging theories of “Lean Consumption”, giving the customer what they want, where they want it and when they want it.

In order to exploit new opportunities, one must find a business model that creates maximum “*customer value*” at an attractive price level (“*value innovation*”). The strength of the customer value in the service or product offering will decide whether a “*tipping point*” is reached and thereby how fast the marketing message spreads and to how many. The companies that continually think “outside the box” will be the winners in the race to attract customers and find or create new market space.
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1 INTRODUCTION

1.1 Background
The Internet age has accelerated the speed of change within practically all areas of business activity. We are seeing new companies overtake established competitors in older markets but also creating completely new markets through new business models and combinations of resources, people and time. What is making this new breed of companies so successful?

Companies have several major challenges to face in reaching their target audience with products and services. This is true regardless of being a tiny incubator company with small resources or a major player entering a new market. The Internet with its seemingly endless possibilities of communication and interaction between people is enabling information to spread faster than ever before. This means that there are very cost efficient alternatives to traditional marketing channels that enable small startups to quickly become global and compete with larger established corporations. However, this in itself is not what has made a number of innovative companies extremely successful and profitable in record time. It would seem that there are other forces and conditions at work together with the obvious power of the Internet that are creating new world brands in five to ten years time.

1.2 Problem Discussion
A number of new companies are rapidly becoming successful in established markets, or are creating new markets for themselves where there is little or no competition. We would like to describe the forces and conditions behind the success of these companies and through this explain how a company of today can utilize the power of innovation to its advantage.

A new breed of companies are creating these new markets or taking over established markets through innovation and the communicative power of the Internet. Their services and products seem to knockout their competition by offering significantly higher value compared to older products. We would like to describe the forces and conditions behind the success of these companies and through this explain how a company of today can utilize the power of innovation to its advantage.

1.3 Purpose
The main purpose of this thesis is to choose a few fast-growing consumer focused companies, and study their business models’ comparative customer value, value creation and viral marketing components in relation to existing theory in the field.

1.4 Delimitations
As this is a potentially broad subject we must chose to delimit ourselves to a number of companies that are especially relevant to fulfilling the purpose of the thesis. We have looked at and selected a number of unique companies who share a great measure of success by leveraging the Internet as a part of their business model and customer
acquisition channel. We have chosen to limit ourselves to consumer companies that have a direct relationship with the consumer.

1.5 Concepts

**Customer value**: a measurement of how the customer perceives the intrinsic value of a product or service.

**Ecogenesis**: the creation of a new economic ecology or marketplace where previously underutilized resources and actors create new value through a new configuration (Normann, 2001).

**Reconfiguration**: the reorganising of business components such as information, assets, customers, competitors and time into new value creating combinations.

**Value innovation**: the region where the company’s actions favourably affect both the cost structure and its value proposition to buyers.

1.6 Disposition

The thesis will include a discussion on methodology, which provides a backdrop for the theoretical treatment of our chosen problem statement and purpose. We will then build our own theoretical model based on a diverse selection of theoretical work relating to innovation, value creation, competitive strategy and customer acquisition. An empirical section with descriptions of the companies we will study follows and provides us with relevant business cases to analyze. The theoretical model will be applied to our chosen business cases and interpreted in the analysis section of the thesis. The sum of our discoveries and analysis is tied together with our thoughts in the conclusions section.
2 RESEARCH METHOD

2.1 Scientific discussion

We will in this section take a stand for hermeneutics. In order to get a deep insight into different relations and complex situations we need to explore, interpret and understand different factors that influence the different companies we are examining. We have to do this to reach our purpose, which also motivates this sections presence. Understanding and interpretation are central in theory building according to hermeneutics, and meaningful phenomena are only understandable in its connection or context (Gilje & Grimen, 1992, p. 188).

Within hermeneutics every individual understands her situation and herself in a special way, seen from her own preferences. To get knowledge about this world one has to interpret peoples’ behavior, both verbally and by trying to “live” and understand a person’s way of imagining the world. The interesting part is how the world is understood and how it is interpreted and not how it really is (Hartman, 1998, p. 95). Hermeneutics sees the reality as a social construction, where interaction between people is in focus and where the language has a central role. Interpretation leads to understanding which leads to knowledge and the abstraction of knowledge, “science”. The fact that this thesis is written in English has a hermeneutical meaning since the translation process includes interpretation. We have to consider what we find necessary to translate and how we do it in order to interpret the language correctly. In hermeneutical research the main ambition is not necessarily to reach a precise match between empirical reality and the research result. This is neither possible nor desirable. If the interpretation is completely true or not is not relevant as long as the interpretation gives a new aspect of the studied phenomena (Asplund, 1993, p. 11).

The purpose with this study is not to generate general knowledge about customer value, but to get a deeper understanding. Patel & Davidson (1994, p. 26) describes how the hermeneutical researcher is getting nearer the research object in a subjective way from its own pre-understanding. One way of describing the interpretation process is done with the hermeneutical circle. This model is showing that the researcher has to understand the different parts in order to be able to get the complete picture and that the complete picture must be understood in order to understand the different parts.

![Figure 2.2. The hermeneutical circle, Alvesson and Sköldberg, 1994, p. 116](image-url)
2.2 Pre-understanding

Our hermeneutical perspective makes a discussion of pre-understanding relevant. According to Patel & Davidson (1994, p. 26) the pre-understanding, thoughts, impressions, feelings and knowledge the researcher has, should be seen as an asset and not as an obstacle when interpreting and understanding the research object. When doing our research the pre-understanding is something that we bring with us. The pre-understanding is the knowledge the researcher has when confronting the problem and it is something that affects the interpretation (Gilje & Grimen 1992, p. 183).

The pre-understanding will determine our choice of theories, how we interpret the result, our empirical study and how we explain certain things in the thesis. We believe that it is important for the reader to be aware of some of the factors that have influence on our pre-understanding. Both authors have a history as Internet entrepreneurs, and have worked in this field of business since 1995. This does, of course, influence the thesis.

Furthermore our pre-understanding is grounded on the literature we have found and used in our study, something that has affected our way of looking at the problem and by that affecting our interpretation of the information. The pre-study has a central role in our pre-understanding which motivates a description of the way we have gained understanding. When we started our pre-study we found it fundamental to learn more about customer value in general. A pre-study’s main purpose is to generate information of the situation and the problem and by that answer if the research question is valid or not (Lundahl & Skärvad 1992, p. 30).

In order to achieve a good platform to start our work from we have concentrated both on a practical and theoretical pre-study. The theoretical part has been focused on literature and articles written by consultants, scientific articles and common marketing literature. Our ambition with the pre-study has also been to discuss our theoretical framework with people that have good knowledge about the subject, something that has been valuable for our understanding of the problem.

Here is a summary of what our pre-study generated:

- Increased knowledge about customer value
- A good picture of relevant theories and literature concerning customer value
- A confirmation that eBay, Google, Ryanair and Skype are appropriate companies to use in our study.

2.3 Induction, Deduction and Abduction

There are two alternative ways in which the theory building can be made, the inductive and deductive approach. The deductive approach means that the researcher follows the way of the proof. The researcher uses existing theories or models from which a conclusion of a specific phenomenon is drawn. Hypothesis are created from the existing theories and then tested in the actual case. The inductive approach means that the researcher follows the way of discovery. The researcher doesn’t build the study on earlier theories; instead theories will be built from the collected information
or the empirical part of the study. The observations that are made are not connected to earlier theories and they are free from preconceived meanings. (Patel & Davidson 1994, p. 21).

In our study we will follow both the deductive and inductive approach. We have used a combination of the two approaches during our work with this thesis. Different theories have been used and tested and we have also made observations during our interviews without taking the existing theories into account. Alvesson & Sköldberg (1994, p.42) refers to this approach as abduction, a combination between deduction and induction. The authors says that abduction starts with empirical findings but that theoretical conceptions are legitimate and that the approach is closer connected to deduction than to induction, something we believe corresponds with our study.

The purpose with this study was decided on influences from literature concerning customer value and earlier experiences. The literature and theories we have used in our study have been tested during the empirical part but we have also been open to new discoveries. Our main ambition has not been to either prove earlier theories or find new discoveries but to understand customer value in the context of the selected companies. The fact that we will make conclusions from our empirical results also gives support to the study’s inductive character.

2.4 Investigation approach
Holme and Solvang (1991, p. 12) define “method” as a tool that is being used to solve problems and to generate new knowledge. The authors suggest two different methodological approaches that are based on the type of information that is wanted – the quantitative versus the qualitative method. In a qualitative investigation one is collecting information in order to gain a deeper knowledge about a complex subject, show values and attitudes et cetera. Merriam (1994, p. 30) says that the qualitative research aims to understand how all parts interact in order to create a comprehensive picture.

The method is built on analysis, understanding and interpretation of the collected data (Lekvall & Wahlbin, 1993, p. 141) and the research is usually done in the investigated objects natural environment. Unlike the quantitative method the researcher has a more active role when it comes to a qualitative approach. Holme and Solvang (1991, p. 181) describe the differences between the two methods and mean that the quantitative approach is less structured and that it is possible to use statistic techniques when dealing with quantitative data, which makes general conclusions possible. The authors also say that it is legitimate to change details in a qualitative method during the actual research process.

In order to reach our purpose and to enhance the research validity we have chosen to use the qualitative method. Our choice is motivated by the fact that we will describe, interpret and explore different factors that influence our selected companies. It is important to get a comprehensive picture of the respective organizations, and to understand subjective opinions, values and experiences.
Sekran (1992, p. 95) describes the explorative approach as an appropriate approach when there is a lack of knowledge in the research area and when the research purpose is to increase the knowledge about the area. In our thesis we want to find advantages and implementation examples of customer value, which also implies that the approach will be descriptive to some extent. The descriptive approach is most useful when the intention with the research is to describe a certain phenomena or situation.

2.5 Case studies

We have decided to analyze a few cases more deeply – case studies. In general, case studies are suitable when the investigator seeks answers to questions like “how?” and “why?” (Yin, 1994, p. 1).

According to Lundahl & Skärvad (1992, p. 151) the case study is distinguished as an investigation that only comprises one or a few cases that are studied into detail and in several dimensions. According to the authors the choice whether to choose between one or a few cases to study, is a matter of balancing breadth and depth in the study. In our study we have chosen to study only a few cases in order to generate information from different sources in the companies, which we think will help us to understand advantages and ways to implement customer value.

The case study fits our investigation since implementing customer value within and organization requires knowledge about what values, motives and contexts leads to different types of decisions (Lundahl & Skärvad, p. 150). Lekvall & Wahlbin (1999, p. 151) also think that the case study is proper both for explorative and descriptive studies depending on the purpose, which even more supports our choice of method for this investigation.

2.6 Data Collection

2.6.1 Choosing companies to study
We have chosen the following companies to study based on their success with creating customer value:
eBay – Online auctions
Google – Internet search engine
RyanAir – Budget airline
Skype – IP telephony

2.6.2 Primary data
Primary data sources will include literature, annual reports, magazine articles and web based content.
2.7 Method criticism
We have chosen to study several well-known and very successful companies. The information about these companies is all gathered from secondary sources. This can be considered a weakness if the quality of these sources are not verifiable with the companies themselves. However, care has been taken to select reference material from reputable sources.
3 Theoretical Background

3.1 The Concept of Customer Value

3.1.1 The Meaning of Customer Value
The McGraw-Hill online glossary of key terms defines “customer value” as “the perceived benefits minus the perceived cost or sacrifice”. Hence customer value is calculated by the customer consciously or subconsciously in order to evaluate the value of a customer offering. The customer is performing a cost-benefit analysis when approaching a transaction. The goal of the consumer is to maximise the positive result of the cost-benefit calculation.

3.1.2 Understanding the Customer
When a Prime Mover discovers a new business opportunity or imbalance, that company will move into that space with a new offering that creates value for not only the customer but also for all other participants in that entire market. The ability to recognize the patterns of such an imbalance requires the ability to see the whole picture and not focus on the internal enterprise and creation of value but rather on the creation of value for the whole market. The key lies in understanding the customer and their value creation process, and defining the company framework and offering as a part of those customer’s enterprises (Normann 2001, pg.92). The customer’s value creation process is not a value chain as is often described in traditional economics. The customer receives input and additions to his value creation from various sources in the surrounding environment. This is what Normann (2001, pg.93) describes as the “value star” (Fig 3.5).

Fig 3.5 The value creation star

3.1.3 The Principles of Lean Consumption
“Lean consumption” is basically common sense applied in practice and would be sensible in any era. However, there are several converging trends that are now making these ideas a competitive necessity. Consumers are bombarded with choices to make
as markets diverge and become more individually customizable. In this demanding environment information technology is steadily blurring the distinction between consumption and production as will be explained in 3.4.1. Consumers are being increasingly pressured as they are forced to make more and more choices in their daily lives with decreasing time and energy at their disposal. (Womack et al, 2005)

The ideas of Lean Consumption can be summarised in six principles:

- Solve the customer’s problem completely by insuring that all the goods and services work, and work together.
- Don’t waste the customer’s time.
- Provide exactly what the customer wants.
- Provide what’s wanted exactly where it’s wanted.
- Provide what’s wanted where it’s wanted exactly when it’s wanted.
- Continually aggregate solutions to reduce the customer’s time and hassle.

By following these principles producers can enhance the consumers experience and reduce wasted time and energy. This will enable companies to build loyalty through offering superior customer value to customers by giving them what they want, where they want it and when they want it.

3.2 Creating New Markets through Innovation

Normann (2001, p. 39) describes the emergence of a new paradigm whereby companies try to maximise the value creation for their customers where the customers themselves are “co-producers” of the service or value created. The interaction between companies, competitors and customers create a “network of value creation”. Normann refers to this as the process of “reconfiguration” of systems where the company acts as the organiser of the network. Companies that create value beyond their own boundaries are the creators of the rules for other actors in the same market. This whole phenomenon is what Normann calls “ecogenesis” or the creation of a whole new business environment.

Normann (2001, p. 41) introduces the term “density” which is defined as the degree to which the best resources are mobilised in a given situation without regard for place, time or space to produce an optimal level of value or result. The factors that affect density are primarily technology driven but also include thought patterns and creativity in order to reconfigure markets and businesses in previously unthought-of ways.

The most important driving force in the technological revolution of today is the ability to separate the informational content from the physical world. A digital infrastructure is being created that enables information to be spread instantaneously. The result of this is that assets become “dematerialised”. Normann argues that technical development is driving companies’ product offerings to become more individually customised as business processes and information are being broken up into smaller components. When businesses are broken into smaller components they become more flexible and movable. This is what Normann calls “unbundling” which means that material assets can be used and combined more efficiently.
When the information is separated from the underlying assets due to dematerialisation, then the information is “liquified” in that it is supremely movable or “agile”. The increased agility of the information and assets that have been dematerialised enable new combinations of assets, which Normann calls “rebundling”. The result of this is an increase in the “density” of global markets.

![Diagram of Dematerialisation, Liquification, Unbundling, Rebundling, and Density]

Figure 3.1 Forces driving density

This chain of cause and effect that is described by dematerialisation – unbundling – agile assets – rebundling – density means that new combinations of information and resources can be delivered to new places, at new points in time at new prices (see figure 3.1).

Through the described increase in density of global markets there will be increasingly more business opportunities and these will be filled according to Normann (2001, p. 68) through the “vacuum principle”. This principle states that nature will fill all vacuums that emerge. This means in practical terms that any business opportunity will be taken advantage of by someone and thereby lead to a reorganisation of value creation in that subsequent market. This is achieved by different enterprises moving between physical locations, points in time and new actors in that market. Companies that continually identify and exploit these emerging business opportunities are what Normann (2001, p. 68) refers to as “Prime Movers”. These companies understand that in order to hold the pole position in the new virtual economy they must be able to handle dematerialised resource flows in new and creative ways. They must “reconfigure or become reconfigured”. (Normann 2001, p. 68).
Prime Movers are further defined by Normann (2001, p. 81) as companies that perform reconfiguration by following a vision of value creating systems. It is not enough to make a technological breakthrough or to take advantage of one business opportunity. Prime Movers see themselves as the creators of substantial value creating systems or “ecogenesis”. This not only affects the company itself but also causes far-reaching consequences for other incumbents by creating the rule set in that market.

For a company that has created “ecogenesis” there are a number of strategies that identify their behaviour:

- “Ecogenesis” is typically created through the collaboration of hard technology or infrastructure and “softer” concepts. One can create or trigger the other in a repeating spiral if the collaboration creates physical manifestations or behaviour.
- Prime Movers do not attain their position acting in an arrogant manner unless a monopoly is inherent. In order for a company to create “ecogenesis”, power is required. However, successful Prime Movers see this power more as the “power to” and the “power for” rather than the “power over”. The goal is to create a positive sum “win-win” situation where all or enough incumbents win in order to create value.
- The responsibility carried by a Prime Mover is heavy in presiding over a “world” that encompasses a social reality. It is the responsibility of the Prime Mover to manage this enormous responsibility in such a way as to let the incumbents and customers prosper and together create value in the system if it is to have longevity.

In this context the advantages are obvious when all incumbents in the system co-produce and coexist within the “ecogenesis” (Normann 2001, p. 113) even among competitors as everyone is creating value together. The responsibility of the Prime Mover can then be said to shift more towards institutional ownership of the system in the long term.

Normann (2001, p. 132) describes "innovation" as what happens when a Prime Mover organises a market for dormant or underutilised resources to create something
entirely new. The innovator creates a whole new market and finds new customers for that market. It is not just a question of a Prime Mover helping consumers find already existing products at a lower price. The innovation lies in connecting disparate and underutilised resources in the light of an innovative vision. Resources and assets are not complementary per se but become so as a result of the innovative idea.

Fig 3.3 How to recognise a Prime Mover

The creation of the new market for the underutilised resources benefits all participants in the market literally by utilising each other as resources. The organiser of this new market is entitled to compensation as the “market creator” and a risk premium as an entrepreneur. The size of this premium is determined by how much the participants are willing to pay for access to the market.

The theory presented by Markides C & Geroski P (2005) stands in stark contrast to what Normann (2001) is saying in that they question the strategic value of being the radical innovator or Prime Mover in Normann’s terminology. Markides C & Geroski P (2005) claim that it seldom is the radical innovator that reaps the large profits from the market created by an innovation. To back them up they take Microsoft as an example where one has successfully dominated a number of markets through financial strength and being able to evaluate where the Web browser market was going before making a move. There are plenty of examples of this phenomenon, which proves the validity of the theory.

Another interesting theory on creating new markets is presented by W Chan Kim & R Mauborgne (2005, p. 12-13) in their “Blue Ocean Strategy”. The fundamental concept in their theory is what is defined as “value innovation”. This means that instead of focusing on beating the competition in an established market you make the competition irrelevant by making a leap in value for the customers and the company, thereby opening up a new and uncontested market space or “Blue Ocean”. Value without innovation tends to focus on value creation on an incremental scale which improves value but not on a scale to make you stand out in the marketplace. It is not
hard technology that drives success in the marketplace or even timing. Value innovation occurs only when companies align innovation with utility, price and cost positions. If a company fails to anchor innovation with value then it is most likely that technology innovators and market pioneers lay the eggs that other companies hatch as claimed by Markides C & Geroski P (2005).

“Blue Ocean Strategy” is a new way of thinking about and executing strategy that result in a “Blue Ocean” and a break from the competition. Importantly, “Blue Ocean Strategy” challenges one of the most commonly accepted dogmas of competition based strategy: that of the value-cost trade-off. It is conventionally believed that a company can either create greater value to customers at a higher cost or reasonable value at a lower cost. Here strategy is seen as making a differentiation between value and cost. In contrast, companies seeking blue oceans pursue differentiation and cost simultaneously (Fig 3.4). Ryanair is a brilliant example of this theory in practice.

![Fig 3.4 The simultaneous pursuit of differentiation and low cost](image)

We can summarize “Blue Ocean Strategy” by stating that “value innovation” is created in the area where a company’s actions favourably affect both its cost structure and it value offering to buyers. Cost savings are made by eliminating and reducing the factors an industry competes on. Buyer value is lifted by raising and creating elements the industry has never offered. Over time, costs are reduced further as economies of scale kick in due to the high sales volumes that superior customer value generates. (W Chan Kim & R Mauborgne 2005, p. 16)

### 3.3 Business Models for Value Creation

#### 3.3.1 The Co-Production Model

Traditional economic theory describes an economy as a collection of incumbents that exchange products and services according to the laws of supply and demand and comparative advantage. A different view on the subject is presented by Rachline (1992) who describes an economy as a collection of flows that get their energy from different forms of imbalance. This view is especially relevant when studying the new virtual economy where the largest share of transactions is the exchange of information or services.
According to Normann (2001, p. 117) the driving forces of the new economy are creating opportunities for value creation though "co-production". When assets and information are dematerialised they can be combined in new ways. In certain sectors there is a development towards an increased level of self-service whereby the customer contributes to the services they consume. The customers are not only customers but are motivated to contribute with resources such as knowledge and time to act as co-producers to themselves. In this business climate the boundary between producer and consumer becomes much harder to distinguish. This growing phenomenon is what Normann (2001, p. 139) describes as the “service economy” or “knowledge economy”. These forces are reallocating the roles between producers and consumers and thus leading to a break-up of the traditional sequential value chain. The customers can discover that they can cooperate with each other thereby forming a new constellation which Normann (2001, p. 128) refers to as “customer co-operation”. When the customers are cooperating with the producers Normann describes this interaction in terms of “value constellations”. A good example of this is IKEA, where the company saves money together with the customers who pick up the packages in the warehouse themselves and assemble the furniture at home. The exchange between consumers themselves and with producers goes further than just the swapping of capital and resources. What is created is a barter economy of sorts where consumers exchange time, knowledge, experience and connections. The Internet contributes to this by enabling the exchange of all these things across great distances and local borders.

Normann (2001, p. 139) states that "co-production" as it takes form in organised value creating systems is the mechanism that achieves greater density through reconfiguration of participants, assets and enterprises. In order for an increase in value to be created a high degree of interaction is needed. The consumer does not always know what they want until they interact with a producer and through feedback they learn together what is the most valuable product or service offering.

![Four combinations of consumer and producer knowledge](image)

Fig 3.6 Four combinations of consumer and producer knowledge
The area of knowledge that is of most interest to “Prime Movers” who are looking to “reconfigure” markets is in the upper right in figure 3.6. This unknown area is what holds the untapped business opportunities that only the customers and producers can discover together through interaction. The product or service offering is defined as artefacts for the purpose of organising and enabling a more efficient co-production of value. Innovative product or service offerings can reconfigure patterns of co-production that give a higher creation of value.

3.3.2 The Bundling Model

The term “bundling” has been defined earlier and is relevant when examining the customer offering of a company. The chosen price model of a customer offering can be formulated to present the consumer with a bundle of services where only one or certain functionality comes at a price. This “price bearing” part of the offer is the part the customer perceives as what is being paid for. Therefore an offering and the price bearer are not the same thing. The rest of the offer is seen by the customer as being “free” components that together with the part that costs money creates a higher value than is being paid for in the eyes of the buyer. It is important to not confuse the buyer as to the value of what is being offered and what is being paid for when presenting a bundled offer.

3.4 Viral Marketing as a Strategy

Viral marketing is a rather new discipline, and there are few articles and books written on the subject around the motivations and behaviours that drive the viral mechanism. Some researchers argue that viral marketing is nothing but an Internet based word-of-mouth marketing, but others claim that viral marketing also can be a built-in mechanism. Many seem to agree that turning customers into a marketing force is crucial for viral marketing. (Phelps et al, 2004, p. 333).

Researchers also tend to agree that the most important foundation to how viral marketing of a product or a service become successful, is that the product or service delivers on its promise (Pastore, 2000; Phelps et al 2004).

Commercial research points out that delivering on a value proposition, or the viral marketing component in itself, does not alone decide how efficient a viral marketing component can be. A key factor that is described is the emergence of “e-influentials” or how certain persons are more likely to spread a message and influence others to make a purchase decision (and become viral marketers themselves). (Burston-Marsteller, 2001)

In his book “The Tipping Point: How Little Things Can Make a Big Difference”, Malcolm Gladwell (2002) has labelled one of the most crucial mechanisms in viral marketing: the “tipping point”. The “tipping point” occurs when a social phenomenon reaches three things: exceptional influencers, stickiness factor and environmental circumstances. Exceptional influencers is analog with the e-influentials mentioned above, stickiness factor means the sum of different ways that make a message memorable and environmental circumstances are the different secondary factors that makes the viral component itself possible and relevant. (Gladwell, 2002).
A basic model for typical e-mail pass-along has been developed by Phelps et al (2004). The model (Figure 3.7) shows the mechanisms involved in the process from receiving an e-mail, all the way to actually sending it off to someone else. The model contains four stages: (1) the receipt of a pass-along email message; (2) the decision to open or delete the message; (3) if opened, the reading/decoding of the message; and (4) deciding whether to forward the message on to others. The same type of model could also be used for typical word-of-mouth viral marketing effects.

Figure 3.7 E-mail decision processes

Word-of-mouth marketing is a field of research that focuses on the possibility to get/distribute knowledge and experience of a product or service, without actually using it. If and when a consumer comes in position to make a purchase decision, that consumer ideally needs experience in order to feel convinced about that decision. The consumer can then get “indirect experience” from listening and learning from the experience that other people (that they trust) have had. (Silverman, 2001, pp. 27)
4 Empirical Data

4.1 Case Study: eBay

4.1.1 Background

eBay pioneered person-to-person trading of a wide range of goods over the Internet using an efficient and entertaining auction format and has since grown to become the world's largest and most popular person-to-person trading community on the Internet. The company was started in 1995 and begun as a grass roots online trading community. eBay primarily attracted buyers and sellers through word-of-mouth and by providing buyers and sellers with a place to socialize, discuss common topics and ultimately trade goods with one another. The core eBay service permits sellers to list items for sale, buyers to bid for and purchase items of interest and all eBay users to browse through listed items from any place in the world at any time.

In order to make the trading environment more secure, and for buyers and sellers to be able to trust each other, eBay has developed a feedback system where buyers and sellers at the end of an auction give each other feedback. This builds up a reputation over time, which ameliorates any worries trading partners may have over the completion of the transaction at the end of an auction. This works very well and is complemented by the ability to communicate via a web based email interface whereby everyone on eBay has his or her own mail inbox where all communication on eBay is stored. eBay also provides resources for resolving disputes and also has an anti-fraud team that collaborates with law enforcement agencies to combat fraudulent activity on the trading platform.

4.1.2 Business Model

eBay allows its buyers and sellers to bypass traditionally expensive, regionally fragmented intermediaries and transact business 24 hours a day, seven days a week. eBay carries no inventory and sellers therefore bypass costly traditional intermediaries. This allows lower selling costs and increases the seller’s likelihood of finding buyers willing to pay his or her target price. Listing an item on eBay a seller pays a listing fee ranging from 0.25USD to 2.00USD and then pays an additional success fee that steps down from 5% to 1.25% of the transaction value only if an auction ends with a successful bid. As a result, sellers can list and sell relatively inexpensive items without incurring the prohibitively high expense of listing an item through traditional trading forums. By providing sellers with a marketplace with a large volume of potential buyers eBay facilitates the otherwise time consuming and inconvenient process of individual selling. Buyers in turn have access to a large number of items without having to incur the traditional mark-ups and commission costs inherent in dealing with intermediaries. Buyers are not charged for trading on eBay. The critical mass of items listed on eBay provides a mutual benefit for buyers and sellers to more effectively determine an appropriate price for an item.

eBay also generates income through a network of advertisers who through banners and short text advertising can show item category or context sensitive advertisements to users of eBay. This is a complementary revenue stream that adds to the core revenues generated by the person-to-person trading on the eBay platform.
eBay believes that fostering direct interaction between buyers and sellers with similar interests creates a loyal and active community of users which is effectively eBay’s primary asset. There are a variety of features that strengthen this sense of community on eBay including chat rooms, bulletin boards and customer support from eBay personnel that increase interaction and encourage customer loyalty and repeat usage.

4.2 Case Study: Google

4.2.1 Background
The market for search on the Internet has literally exploded as the Internet itself continues to grow at an exponential rate. The challenge is organizing the information so that it is universally accessible and useful. The dominating search engines in 1998 like Alta Vista, Yahoo and Excite were increasingly becoming less relevant since fewer users found what they were searching for. This was the result of their search algorithms being based on the indexing of keywords. The more instances of these keywords on a page the higher the page ranked on a search. Many less than honest site administrators figured this out and abused this by including as many search keywords as they wanted on their site often hidden by using the same color text as the background of the site. The result was that for a number of popular search terms the top ten results were often porn sites as these were guilty of the most key word abuse. The need was fast arising for a search engine that gave relevant and useful results.

Google started as an academic project in 1996 as the PhD thesis of Larry Page and Sergey Brin at Stanford. They shared a common interest in the searching and indexing of large quantities of data. Together they developed an algorithm with the notion of mapping the entire Internet and making it searchable. This was a project the scale of which no one had attempted before since already existing search engines at the time relied on spidering and indexing web pages by key words. The result was a spider program of their own which tracked links and logged pages as associated to each other going through all the nodes of the Internet cataloging and indexing as it went along. Doing this took some time as there were circa 100 million documents at this time and growing by 2000% per annum. Page and Brin realized that the search results would be much more useful if they were ranked according to a measure of internal relevance. The meaning of relevance was defined as the number of other pages linking to a specific page. This came from the academic world where the number of references to an academic paper in other academic papers was of a measure of the importance of the first paper. This system of ranking was named “PageRank” and turned out to be a very powerful determinant in producing relevant search results. This became more evident as the search engine produced better quality and more relevant results than any other search engine at the time.

The project grew and it meant that Page and Brin needed more capital in order to expand the hardware platform of clustered computers that was running the search engine. A business angel from Silicone Valley was the first to contribute with starting capital and Google was formally incorporated on the 7th of September 1998. The company grew at an incredible rate as the interest in the Google search engine increased. Google began hiring developers who could work on constantly improving the search engine and expanding the technical platform that was needed to store all the web pages the spider program was finding.
A major challenge was how Google was going to make money on its search engine. The earliest business model that was being discussed centered around advertising on the search engine results page. The large volume of searches that were being performed on the site was enough to support a traditional banner advertising play. The first paying customer however was Netscape who showed interest in buying Google’s search engine functionality for their web browser. The market for web site advertising had long been dominated by “banners”, with gaudy colors and motion to attract Internet user’s attention. The problem with these was that banners were generally seen at intrusive and distracting to the user experience. The result was that banners did not result in a particularly high “click-through” rate where the user would click on the link and actually end up buying what was offered on the other side. Sergey Brin noted this problem and had the opinion that anything that detracted from the Google user experience was irritating and not useful.

A plausible business model was needed as the initial seed capital was quickly being depleted. It was time to seek capital from the professional Venture capital companies. This was done in a typically unconventional way which helped cement Google’s reputation as a “different” company. Two of the biggest Venture Capital firms were chosen; Sequoia Capital and Kleiner Perkins Caulfield & Byers who together led a financing round of 25 million dollars at a company valuation of 100 million dollars.

4.2.2 The Profitable Business Model

Sergey Brin’s distaste for banner advertising and his puritan vision of the search experience meant that the original business model did not hold its weight as Google’s burn rate was only increasing. Google did not find its working business model until early 2001 which was largely thanks to a competitor then known as GoTo.com.

That company has devised a business model, which enabled advertisers to pay for how high their pages, ranked for chosen key words. This was a model that proved to be very lucrative for GoTo.com and Page and Brin duly noted this. Their adaptation of this model however, was modified to reflect the Google sense of integrity and impartiality with regard to the relevance and usefulness of the search results. Page and Brin came up with the idea of placing a few simple words to the side of the search results on Google.com. This advertising model was named “AdWords” and was composed of words that linked to the advertisers homepage based on context in the search entered into the search engine.

The logic behind this was that the advertiser was able to show his link to someone already interested in the subject or area where the advertiser was selling products and hence had intent to buy. This proved to be correct as AdWords generated a higher “click-through” rate than any other online advertising service and became a very interesting alternative for the advertiser. The service was expanded to include a registration page where the advertiser could order which search terms they wanted to be associated with for their pages. This enabled Google to acquire new customers without even having to interact with them or “sell” in the traditional manner while the sales efforts could be concentrated on the really big potential clients. In the meantime the customer base continued to increase as customers came by themselves.
This was a turning point for Google (2001) and the revenues started to flow into the company. There was one caveat and it had to do with the pricing model that was based on cost per month (CPM). This placed a limitation on the way the revenues were developing. As before GoTo.com (which was now bought and renamed Overture) was showing the way by employing a combination of auction and pay-per-click pricing. This meant that the advertiser who paid the most per click would end up the highest on the search results for a given search term. Again Brin chose to take the best of the pricing model and apply his own principles to it. The advertiser who paid the most per click for a given search term would place his AdWord the highest in the list initially.

However as time went and people clicked on the AdWord links next to the search results the PageRank algorithm attached more importance to the AdWord links that were clicked on the most. This meant that it was the users of the search engine that decided which advertisers were the most relevant and who ranked the highest. This appealed to Brin as it was then the market forces, which steered who would rank the highest and not the biggest spender who was willing to pay their way to the top of the AdWord list. This model was also easy to sell to the advertisers as they only paid per click-through to their site. All Internet advertising has this model today.

The AdWords advertising model was developed further into an advertising product called AdSense (2003). This was a product that offered website administrators the possibility of offering contextualized advertising from Google’s growing network of advertisers. The profits of the click-through were split between the website owner and Google. Advertisers could choose to be a part of the AdSense program or not as some unscrupulous sites started to abuse the AdSense profit sharing scheme by generating bad click-through traffic. The AdSense product was the first that was not directly related to search and it too became a success. At this time Google was dominating the search market with a market share of 51 percent.

4.3 Case Study: Ryanair

4.3.1 Background
Ryanair, Europe’s largest low fares airline, has been characterized by a rapid and continuing expansion. Ryanair was founded in 1985 by a former Aer Lingus ground-handling agent, Christy Ryan. The initial idea was to compete with British Airways and Aer Lingus on the Dublin-London route, which is the 2nd busiest route in world (second only to Hong Kong-Taipei). The European air industry deregulation in 1987 made it possible to expand quickly all over Europe, and Ryanair today operates 270 routes in 21 countries. (Creaton, 2005, pp. 34)

4.3.2 Business model
Ryanair has been the world’s most profitable airline since 2003, and except for Q2 2003, the company has been profitable since 1993. This financial performance is unique when comparing to other airlines. Ryanair are giving a substantial part of their tickets to their customers for free (except for taxes); 25 percent of all tickets in 2004, and 35 percent of all tickets during 2005. The goal is to give away 45 percent of all
tickets during 2006.

So, how come Ryanair is the most profitable airline, even though they are charging their customers no more than an average of €40 per ticket? There are four major reasons that all contribute a great deal to that bottom line. They are: 1) minimization of flight costs, 2) minimization of airport fees (or even get paid) by travelling to certain non-busy airports, 3) minimization of service provisioning costs, and 4) maximization of revenues from in-flight service and product sales.

The result is an airline where there are only one kind of airplane, no crew sleepovers, a minimum number of plane staff who also helps with gate handling, routes to Luton and Skavsta rather than Heathrow and Arlanda, extra costs if tickets are booked in other ways than the Internet, and a number of lotteries, products and menus that are aggressively sold onboard the aircrafts.

4.4 Case Study: Skype

4.4.1 Background
Shortly after instant messaging applications such as ICQ, MSN Messenger, AIM and Yahoo Messenger started to become popular, a few companies started development of PC-based VOIP (voice over IP – telephony applications using the Internet). Poor customer experience due to network capacity and low penetration lead to that PC-based VOIP was something only very early adopters were using well into 2004.

In 2002, Skype was founded by the Swedish entrepreneur Niklas Zennström and Janus Friis from Denmark. Skype managed to create an application that worked significantly better than the competition at the time. Niklas, who also was the founder of the world famous peer-to-peer network application KaZaA, used his peer-to-peer knowledge in the creation of Skype. Voice calls in Skype are often routed through other users’ applications, with these applications serving as “bridges” between different networks.

The result was an application that worked in basically any network setup, behind NATs and firewalls. The lessons learned from KaZaA’s complex environment on how all users could connect to each other and trade files were now used to create high-quality voice connections. The result was an application that worked in more network environments, with less time delay, and with significantly higher sound quality than in a regular phone call.

In September 2005, eBay acquired Skype for a staggering sum of 2.6 billion US dollars, plus a sum of up to another 1.5 billion US dollars depending on Skype’s future performance. From the time of Skype’s launch in August 2003, until the time of acquisition, the number of registered Skype users went from 0 to 54 million.

4.4.2 Business model
Skype’s original pitch to their end-users has always been simple and straightforward: “With Skype, you can talk to anyone, anywhere, for free. Forever”. If both users are using Skype clients, that is.
In early 2004, Skype launched SkypeOut, which is a service that allows users to call out from their PC to numbers on the PSTN (Public Switched Telephone Network – the “regular” network for fixed and mobile phones). SkypeOut is available for a minute fee that is comparable to competitive fixed line-operators.

In March 2005, Skype launched SkypeIn. SkypeIn basically a PSTN number connected to a Skype user, meaning that any “regular” phone user in the world can call a Skype user, to a PC. SkypeIn is offered as a flat-rate service, and with PSTN numbers in a number of countries such as the US, Sweden, UK, France, Denmark, Finland and Hong Kong. The service costs €30 per year, which is significantly lower than a regular fixed-line subscription.

Skype also earns money from selling tangible and virtual accessories on their web page: Skype phones, ring tones, headsets and other Skype-related material.
5 Analysis

5.1 Customer Value and Business Models

5.1.1 eBay

The customer value in using eBay’s site is generated on several levels as the marketplace in itself is a place where customers can buy a wide selection of goods at low prices. The user experience in using an auction model is very entertaining and addictive. Add to this a community aspect and the relationships customers build with the selling merchants on the site in areas of common interest means that eBay has truly created a positive customer value offering.

The customers and merchants are both very much “co-producers” in delivering the value to both parties in eBay’s service offering. Customers search and show intent in participating in the auctions and through their participation help establish the market prices for the goods on auction provided that enough customers participate in a given auction. The merchants have a place to sell odd or overstocked items to a global group of buyers greatly enhancing their chances of selling the item. The selling prices indicate to the merchants what goods are desirable and also enable the merchants to get the maximum revenue for a particular good at a particular point in time.

The bundle that eBay offers its customers is interesting in that only the sellers pay fees to eBay and the buyers are attracted to the “free services” of finding and buying the goods of their choice and being entertained by the user experience at the same time. This attracts buyers and help build market critical mass for a greater range of products so that the price is reflective of the goods “true” value in the eyes of the customer’s “cost-benefit calculation”.

eBay is a very good example of “Lean Consumption” theory put into practice as both the consumer and merchant can maximise their own customer value through the choices they make while participating in auctions. The buyer indicated the maximum price that they are willing to pay for a good and then follow the auction by receiving mail when they have been outbid or are successful in winning the auction. It is up the buyer how much time to spend on the site in order to satisfy their buying demands. The sellers consequently have an online store and set up their auctions which are then managed eBay’s auction software to ensure that the highest bidder wins and can be contacted for payment options. The whole marketplace as such is optimised in terms of delivering customer experience and efficient operation for all market participants.

5.1.2 Google

Google has an interesting business model that has propelled the company to great levels of success. There are elements of “co-production” in that the customers provide the traffic and buying intent that the advertisers are looking for. Google charges only for the “click-through” a “searcher” makes and is providing value for the advertiser. The advertiser is adding value to the equation in that they are showing themselves to customers or readers of websites in relevant situations when the commercial aspect of what the customer is looking for is relevant. An interesting point to note here is that customer value is central to Google in that they strive to
make the core service they are offering as “useful” as possible to the customer. This includes the showing of advertiser links in a very unobtrusive way, which in no way detracts from the customer user experience (customer value).

This is in line with the “Lean Consumption” theories where the “searcher” or customer is actually getting exactly what they are looking for in one place and choose whether they want to go to an advertisers site if they are inclined to shop for an item related to their search. Choice and intent are two important concepts in making a case for Google providing customer value according to Lean practices. The customer chooses to be active in generating the value for themselves by using the superior Google search engine and other free services.

Google is very active in testing out new functionality and services on their customers. This is done through Google labs, which are the testing ground for new ideas spawned inside Google by employees using 20% of their time for their own projects. This is a prime example of “co-operation” in using customers for what can best be described as open research and development in limited “beta” tests of the new software or services. Google is exploring their own and the customer’s knowledge in order to find the business opportunities in the “unknown” areas of the knowledge matrix described in figure 3.6. This is another typical characteristic identifying Google as a true “Prime Mover”. Google is constantly striving towards opening up new uncontested market space through reconfiguration and re-imagining of asset constellations.

5.1.3 Ryanair

One case, where the effect of the Internet component perhaps is not as pronounced, is in the case of Ryanair. There the Internet is more in line with the company’s hunt for minimised costs as a distribution channel for the flight tickets. Selling exclusively through the Internet site Ryanair can keep booking costs to a minimum while the customers do the work themselves.

This is truly a case of customer “co-producing” with Ryanair to provide the service offering. This takes place on several levels. Firstly the customer books the flight themselves including searching for information regarding destinations and transfer options and fees. Secondly the customer fully understands the level of service or rather lack thereof on the flight. The service provided encompasses the actual flight in the ticket price for the flight ticket. As a part of being able to offer flight seats at rock bottom prices or in many cases “giving away” the flight seat, the customer pays for all extras during the flight including entertainment. This is also a prime example of “unbundling” the service offering typically available in the airline industry and only providing the bare essentials and offering the customer a very competitive price. The customer pays for the airport taxes which are a major cost for Ryanair in their business model. The customer perceives this as a price that has to be paid anyway and is not associated with Ryanair as such. This is why Ryanair can offer flights seats “for free” since they are distributing the variable costs of the flight on the total number of flight seats on the flight.

The bottom line is that a full plane with no empty seats is better than a half empty flight especially since Ryanair is receiving local zoning subsidies for using the destination airports. This means that the more passengers that Ryanair moves the greater the amount of airport tax is paid to the local operating airport. This symbiotic
relationship with local airports is a pillar of Ryanair’s business model and a good example of “co-producing” as described in the theory by Normann not only with the customers but also with local airports as actors in the “value creating network” that Ryanair has created.

5.1.4 Skype

The business model that Skype has created builds upon both “co-operation” and “co-production” in that the Skype client is actually facilitating the connectivity between clients. The more people who are online with Skype at the same time the better the response time through the Internet connection is. By using the client the user is improving the user experience for all other Skype users at the same time as facilitating free VOIP calls. The cost-benefit calculation for the customer is hard to beat with this model. In offering local rates for international calls through the Internet via VOIP Skype has built a literal “value creating network” that spans the globe twenty four hours a day, seven days a week.

In addition to the Skype client there are several peripheral devices for sale such as PSTN phones with Internet connectivity bridging the gap between PSTN networks and VOIP in one device. This is a great way to “bundle” a product and service offering together in that the most valuable (to the consumer) service is free and the cost of the PSTN phone does not seem very much in light of that.

Skype have clearly listened to what consumers want or have just figured out what it takes to create a VOIP client that even your mother can use without help. The result is plain to see, Skype have explored and identified a new business opportunity in the “unknown” region of the knowledge matrix in figure 3.6. It will be interesting to see how Skype will continue to innovate under the ownership of eBay.

5.2 Creating New Markets through Innovation

Looking at the case studies from the viewpoint of R Normann’s theories on “ecogenesis” and value creation it is readily apparent that the companies studied have indeed created their own markets. Though different in many respects a pattern can be seen in the case studies and what they have in common. All the companies have innovated and created new offerings based on a combination of asset components that no one before them has utilised in the same way. It is most impressive to see the massive effect that the right combination of asset components and the communicative power of the Internet can have together in creating a successful business enterprise.

5.2.1 eBay

eBay have succeeded in leveraging the power of the Internet and created a whole new online community and marketplace where customers can socialise and buy goods from each other. eBay has brought together both private consumers and small online merchants in a “network of value creation” that was inconceivable before these asset components were brought together. In this respect one can see the creation of “ecogenesis” where the sum of all participant contributions adds up to new customer value.
eBay are very “innovative” in their approach to solving the dilemma of the buyer finding a wide range of goods at the lowest price they are willing to pay. At the same time they solve the dilemma of the small online merchant who has odd items or perhaps overstock that is difficult to sell through normal retail channels. The auction model is ideal in solving these dilemmas to the satisfaction of all participants at a price point (for sellers) that is very reasonable (“value innovation”). eBay also enables Google-like context based advertising on its site to enable merchants who are not showing up in buyers individual searches to get exposure for their online stores on eBay. eBay has been the catalyster for a number of people starting small online businesses buying and selling goods and making money on arbitrage in addition to entrepreneurs who buy excess outlet stock and sell it to other parts of the world. The reconfiguration of the second hand goods, outlet goods and small online merchant market that eBay has achieved is establishing them as a global “Prime Mover” of online auctions.

5.2.2 Google
Looking at Google it is striking the way they have built up a deep knowledge and core competence focusing at first exclusively on pure “search” and then leveraging this to create uncontested market space (“Blue Ocean”). When Yahoo and Excite were focusing on building portals around their search engines Google instead used their computer science expertise to create a pure and at first narrow service that through total superiority in function and customer value came to “innovate” and dominate the market for Internet search. The “ecogenesis” that Google has created encompasses the customers, the advertisers and the content providers. Google has changed the way that the Internet advertising industry works through its innovative business model. Referring back to “Blue Ocean Strategy” Google can be seen as creating “value innovation” by differentiating themselves through superiority in search functionality while offering the service for free (low cost) to customers who by using the service create the “Blue Ocean” of Google’s advertising network. The value created for the customers using the site to find useful information is substantial. In addition, the customers find companies who are advertising products and services related to the customer’s area of interest. This is exactly what “Lean consumption” theory is describing when talking about the three W:s (what, where, when). The advertisers in turn get internet traffic through to their sites, which is extremely valuable in that customers who click through to the advertisers site have “intent” which in turn has a vast effect on the number of transactions generated by the traffic compared to regular banner advertising “click-through”.

Both these market actors, consumers and advertisers, are creating and receiving value through their participation in the market that Google has created. Site content providers are provided a way of monetising their sites through AdSense and this in turn gives the advertisers an additional channel for high quality Internet traffic. The constellation of customers, advertisers and website owners is clearly a “value creating network” that is creating value above and beyond what was previously possible. Competition is fierce however so do not expect Google to be alone for long in this previously uncontested market space; Yahoo, Microsoft and others are joining the fray with similar functionality and models albeit with different nuance variations.
5.2.3 Ryanair

Looking at the success that Ryanair has achieved in light of the airline industry being an established business sector is astounding. It is very much due to the “reconfiguration” that Ryanair has managed through “unbundling” the central components of airline travel and “rebundling” an offer stripped of all extras and only providing what the customer values at a new unique price point that is uncontested in the budget airline industry (“value innovation”). A “value constellation” has been created with the customers, Ryanair and local airports that is mutually beneficial for all participants in the market.

The local airports subsidise Ryanair for bringing traffic to their airport enabling Ryanair to lower their bottom line costs and to have low flight seat prices in their customer offering. Thereby, the airports increase their importance as a flight destination attracting business and peripheral income from customers going through their area. Customers can travel at unprecedented price points and know what to expect in terms of service level. The constant drive and vision of keeping a minimalist approach to everything the company does has enabled the creation of a whole new price point and customer offering compared to the rest of the airline industry. The growth of Ryanair has catapulted them to being larger than established airlines such as British Airways and Air France and proves that they have created a unique market where they are setting the rules and are becoming a “Prime Mover”.

5.2.4 Skype

Skype is probably the most outrageous success story of modern time in that it has been built in two and a half years and created 2.6 Billion dollars of company value by acquiring a customer base of 54 million people. Skype has managed to “unbundle” the components of previous VOIP applications and “rebundle” them with disruptive peer to peer technology and superior voice quality licensed from a specialist company to create a customer offering at an unbeatable price, its free (for users speaking to each other via computers)! This is “value innovation” at its finest.

What Skype is charging customers for is if they want to be able to call into or out from the Internet to regular telephones. This “bundle” of services is interesting in that you can use one part of the “bundle” without having to pay for the “price bearing” part of the offering. Skype is convinced that the client is so good and offers such supreme utility for the customer that they will start using the Skype-out and Skype-in services to call locally and internationally to fixed PSTN networks. The business model is evolving as they develop as a company. They are in the position Google were before they decided upon their innovative business model. They have 54 million customers that they have to figure out how to make more money from.

These elements of “ecogenesis” are only beginning to realise their full potential. The PSTN fixed line operators are involved in partnership with Skype in order to bridge the gap from VOIP to fixed network PSTN. This is creating superior value for customers, as they are able to make international calls in and out of PSTN fixed networks via the Internet and only pay local fixed network rates. The rules for both fixed network PSTN and VOIP are being set by Skype as they are the first company to create a VOIP client that has reached a critical mass and actually works very well. Skype is exhibiting typical “Prime Mover” characteristics in that they are evolving and utilising current technology in new and innovative ways through
“reconfiguration” of asset components in order to create new customer value. Given that KaZaA was the previous project for the Skype founders it shows that they have the ability to see new opportunities with the peer to peer technology.

5.3 Viral Marketing as a Strategy

5.3.1 eBay

Compared to the other cases in this paper, eBay is a typical “the-more-the-merrier”-type of company. That is, for standard advertising, it is desirable to advertise in a place where the advertisement can reach as many potential buyers as possible. And, the potential buyers want to look where they can find as may potential sellers as possible. Together, this means that the auction marketplace industry is one where a first-mover advantage is considerable.

In this context, it is worth pointing out that eBay was founded 1995, and was one of the first online companies. Arguably, the competition and viral marketing process was therefore initially something that should be compared between eBay and other, offline marketplace alternatives. Apart from the obvious fact that eBay was globally available from day one, rather than the local paper-based offline competitors, it also offered innovative functionality like the possibility to build a long term trust-relationship by allowing buyers and sellers to give public feedback about each other.

eBay, early on being the largest online trading community, was therefore filled with “e-fluentials”. eBay as a service is also one very likely to be passed as a Trojan; the influencer might want to communicate a funny or relevant item that is for sale, and the recipient might continue to use eBay even though he or she is not interested of the communicated item per se.

So, in a “tipping point” perspective, eBay was very much helped buy their exceptional influencers. These saw the obvious advantages compared to the offline alternatives, and helped to communicate the eBay service. Compared to the offline alternatives, the environmental change (that is, Internet) was the invention that both enabled eBay as an invention, as well as its viral marketing.

The stickiness factor is hard to find, but the eBay case still shows us that these “the-more-the-merrier”-types of companies in an “environmental circumstance” (that is, disruptive technology shift) is strongly dependent upon first-mover advantage, and that viral marketing can be used as the main marketing mechanism when the product advantages are significant.

5.3.2 Google

Google seems to be a prime example of how customers have become aware of and started using a service by viral marketing alone; Google has never spent money marketing their products. But this seems to be true about most of their competition too (except perhaps that the competition market themselves in different media). So in which aspects are Google using viral marketing components in a better way?

Looking at the delivered product, Google has since long been delivering the best product. Most “e-fluentials” got a wow-experience when they tried Google for the
first time, immediately discovering that Google was better than the competition. The customer experience was better both in terms of more, and more relevant, search results. Also, the user did not have to be exposed to banner advertising. When advertising was added later on, it was made in a text-only version that wanted to be non-intrusive, and that was actually helping the searching customer, adding value.

So, looking at tipping point factors, there is no doubt that the exceptional influencers has been in place for Google. The stickiness factor has been very strong, in the end creating a verb: “to google” (instead of “to search”). When in place, the influencers have delivered Google in the form of a Trojan: “Search for x on Google, and you will find…”

5.3.3 Ryanair
One of Ryanair’s best-know traits, is that they have a very small marketing budget. Their advertisements and web pages are designed and made in-house, rather than by a professional advertising agency. Still, they have been able to become Europe’s largest airline, both in revenues and profit. How is that possible?

Considering their viral marketing components, Ryanair seems to be very good at delivering on their promise. For years, they have been the most successful airline when it comes to punctuality and a low frequency of customers losing their luggage.

Looking at the “tipping point factors”, Ryanair seem to fulfil these compared to their competition: The exceptional influencers, one could argue, are always in place when it comes to delivering “same for less”. People, who buy comparable products or services at a significantly lower price than the alternatives, feel smart about themselves and are willing to communicate this. Furthermore, Ryanair was one of the first airlines to start selling their tickets on the Internet, and therefore attracting Internet-experienced users. And Internet-experienced users have e-mail and other digital tools that increase the viral effect.

The stickiness factor is also significantly much better compared to their competition: Ryanair are giving tickets away “for free”. Obviously, this message is easier to remember, and more interesting to forward, than the typical marketing messages sent to consumers from regular airlines.

When it comes to the environmental factors, we can see that the Internet arguably has had a significant impact in how Ryanair has been able to reach so many new customers, in such a short period of time. There has been no need to build local sales organizations, enabling “entrance” into new countries with very small investments. This would have been impossible a few years earlier. On the other hand, the whole airline industry went into a very tough state of competition due to 9/11, and prices dropped all over the line. The result has been that basically the whole industry has been bleeding, while Ryanair has prospered. Perhaps the price differentiation would have been even larger in a case where 9/11 did not happen.

5.3.4 Skype
Skype has grown from zero to 54 million registered users in two years, without spending any money whatsoever on marketing. Sure, there is a the-more-the-merrier
effect in Skype, since one could only call between to Skype clients in the beginning. Nevertheless, Skype was the first PC-based voice application that really took off.

So, how come Skype took off, while loads of competitors that had been around since the late 90’s didn’t? Let’s look upon it from a viral marketing perspective. Surely Skype must have been planted amongst e-fluentials, but that could not be the whole truth. A lot of their competition probably found their way to e-fluentials as well.

Skype themselves are always pointing out two reasons as to why they succeeded where others failed. First of all, they had superior voice quality. Secondly, they used peer-to-peer technology that made it possible for most people to use Skype (their competitors had problems with firewalls and other network problems that stopped a lot of their subscribers from communicating).

Looking at that environmental-specific fact, it seems clear that Skype’s simplicity and superior technology in combination, was what made them reach the tipping point. The exceptional influencers were there, but that was not unique. The base in Skype’s stickiness is of course the fact that it typically is recommended by someone else: “Why don’t you go ahead and download Skype, and we’ll be able to speak over the Internet for free!” This is one of the parts where Skype outperformed their competition; if competing application only worked for 66% of all new users, which is a significant drawback to the viral effect.

And of course we have the environmental factors, where a large enough user rate obviously had access to a PC with microphone, speakers and broadband connection.

Finally, one should also point out that Skype’s type of application always has had good support from current users giving indirect experience to new ones. Compared to the other companies in this thesis, this is unique to Skype in the extreme sense in which this is true to all communications standards (fax, e-mail, ICQ et cetera). Very few adopt these standards without knowing a person that they can communicate with using that new standard.
6 Conclusions

6.1 What Have We Learned?

In studying these successful companies coming from different industries there are many elements that appear similar. Every single one has through “unbundling” of assets from either established or new markets been able to create a new customer offering through “rebundling” of assets. The new customer value created through “reconfiguration” or organising companies, people and information into a new constellation has resulted in phenomenal expansion and for all but Skype (the youngest company), exceptional profit margins and growth rates in both gross and net revenues. The most striking thing these companies have in common is that they have created their own market space (“ecogenesis”) by innovating instead of fighting the competition in established market space (eBay, Google, Ryanair, Skype). The creation of value in these new markets is derived from the network of actors in the market who benefit mutually from the new constellation of assets and actors. These “networks of value creation” are indicative of a new way of looking at competition and value creation. The traditional “value chain” is not applicable to what is happening and is being replaced by a “value star” where assets and actors converge on a single customer space where value is created. This leap in customer value has differentiated the companies and created a new uncontested “Blue Ocean” thus leaving their competitors behind.

User experience is important in delivering value since it is an intricate part of the “cost-benefit” calculation a customer makes. The companies we studied have either maximised value through user experience at little to no cost (Google, eBay, Skype) or created realistic expectations in relation to the cost of the service (Ryanair).

Online businesses are using the concept of customer “co-operation” where value is created amongst the customers (eBay) and creating new offerings by leveraging customer participation (Google, Skype). The customers are also used in research and development to evaluate the reaction to new services added to a company’s offering (Google). This “co-production”, which was pioneered by companies such as IKEA, between the “Prime Mover” and the customer are taking value creation to new heights and speed up the process of “reconfiguration”.

The business models of the companies in the case studies bear resemblance to the emerging theories of “Lean consumption” since they boil down to making maximal use of the customer’s time and energy. Giving the customer exactly what they want where they want it and when they want it will create loyalty and satisfaction with customers.

If this effect is powerful enough in that the customer value is great enough, this loyalty and satisfaction will be spread by certain customers acting as “e-fluentials” to others that due to “stickiness” of the message/content and context or environmental circumstances create a “tipping point”; whereby the information about a product or service becomes “viral” and spreads of its own accord. This effect has been especially prevalent in Skype with 150,000 new downloads every day but also Google, eBay and to a certain degree also Ryanair. The “viral” marketing effect is
just now being understood in terms of the speed of adoption of information and thus enabling companies to reach millions of customers with next to zero marketing costs. In this increasingly competitive economy where information is disseminating faster as the Internet continues to grow and reaches more people it is the “Prime Movers” who can “innovate” that will set the rules other companies have to live by.

6.2 Recipe for Success
So how would we describe the way to attain universal success for a company based on what we have learned from the case studies and theoretical treatment? Clearly the preconditions for being able to “reconfigure” markets by combining resources in new and “innovative” ways have to be present. The process of “dematerialisation” of assets and information, spawn new business opportunities for companies that can realize the potential faster than anyone else. In order to exploit new opportunities, one must find a business model that creates maximum “customer value” at an attractive price level (“value innovation”). An example of this would be the introduction of the Model T by the Ford Motor Company in 1908, a car affordable by a wide market at a time when cars were rare and prohibitively expensive. The strength of the customer value in the service or product offering will decide whether a “tipping point” is reached and thereby how fast the marketing message spreads and to how many. The companies that continually think “outside the box” will be the winners in the race to attract customers and find or create new market space.

6.3 General Applicability
General applicability of the conclusions and patterns we have found in our studies is quite possible for all companies. (This is supported by the findings of W Chan Kim & R Mauborgne 2005, pg.12 in their “Blue Ocean Strategy” who studied companies as far back as early 1900’s). What this means is that there are no specific industries or types of business where the theories we have used to analyse our chosen case studies cannot be applied. Having said this it is not possible to say “how” to “reconfigure” or “innovate” in any particular industry. The business model will also be specific to the particular market that is being addressed. We have merely described the tools and processes that can realize untapped potential in a company with available assets to create a new market. The conditions making this possible are in place in the world around us and it is up to entrepreneurs and companies to step up to the challenge and realise this potential by creating uncontested market space and new value networks.

6.4 The Future
Our opinion of the companies we have studied is that they have come so far and yet there is still so much to achieve. eBay has to keep expanding successfully outside of its home markets in order to continue growing as local online auction sites pose threats on individual markets. The name of the game is liquidity, which often comes from first mover advantages. Will eBay be able to add to its global marketplace liquidity by conquering more territories with strong local competition? EU import duties and the cost of global courier services will play a deciding factor in how eBay develops outside of North America.
Google is adding to its portfolio of products through Google labs and thus increasing the value of the company's offering. As the customer value created by Google continues to grow so does the network of advertisers using AdWords and AdSense. The next battle arena in the ad-wars will be over customers sitting in front of their flat screens when the Internet, television and interactive media converge. Yahoo, eBay, Microsoft, Amazon and Google will be fighting over who gets to serve up contextualised advertising to viewers watching television, reading the news or perhaps shopping during a pause in programming. Google has thrown down the gauntlet to the competition and is looking strong.

Ryanair is steadily increasing its number of flight routes and expanding the number of destinations. Having grown larger that many of the European national airlines, such as British Airways and Air France, the future is looking bright. The unique business model is working so well that Ryanair has promised to give away 45 percent of the flight seat tickets during 2006 up from 35 percent in 2005. At the same time in-flight shopping is increasing and interactive gaming is being added to the portfolio of services offered driving up the margins while customers pay for what they want and leave the rest. The value delivered at the low price point remains attractive to budget air travel customers.

Skype still has to become profitable to justify the enormous price eBay paid to acquire it while staying ahead of the competition. The aim of Skype is to keep adding functionality and expand the reach of the client software offering. The next big step is to breach the mobile phone market with Skype technology. Meanwhile Google has just launched the beta version of Google Talk which is a very similar application and Microsoft's messenger 7.5 has both video and voice communication.

All of the companies studied have shown their ability to “reconfigure”, “innovate” which are characteristics of the ultimate market creating company defined as the “Prime Mover”. However the definition of this term states that the ability to “reconfigure” and create “ecogenesis” will be continuous for the company to be deemed a “Prime Mover”. Since the companies range from relatively young (Ryanair) to brand new (Skype) it is too early to tell whether the behaviour they exhibit can be repeated indefinitely. However, the founders of Skype have shown this ability in that they went from creating KaZaA to founding Skype. Google is showing strong signs of being able to leverage their business model and key assets to breach new territory and broaden their markets.

The market is constantly changing and the competition is not slow to adopt new business models, but by continuing to innovate and evolving their customer offerings the studied companies can stay ahead in the game.
7 References

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