

Chapter 8

Hybrid Digital Business Models



After having introduced, the different B2C business model approaches of the 4C-Net Business Model in Chaps. 4–7, this chapter presents the strategic approach of expanding these unifunctional business model approaches to an approach that uses aspects of these different models of. Section 8.1 deals with the development of hybrid digital business models and Sect. 8.2 describes the hybridization of the Google business model.¹

8.1 Development of Hybrid Digital Business Models

In the initial phase of digital business development, Internet companies pursued business models in their pure form, as shown in the 4C-Net Business Model. In the further development of the Internet, however, these pure unifunctional business models have turned out to be too focused. For this reason, aspects of other business model variants have successively complemented them. Thus, the business models become increasingly hybrid and multifunctional. An Internet platform that solely offers information as part of its business model refers to a pure play business model. When deploying two business models, one can speak of a hybrid business model, or in this particular case, a dual play business model. A triple play or quadruple play business model applies three or four different business models. Figure 8.1 outlines the path of development from a pure play business model to hybrid business models.

¹See also for the following chapter Wirtz (2018b).

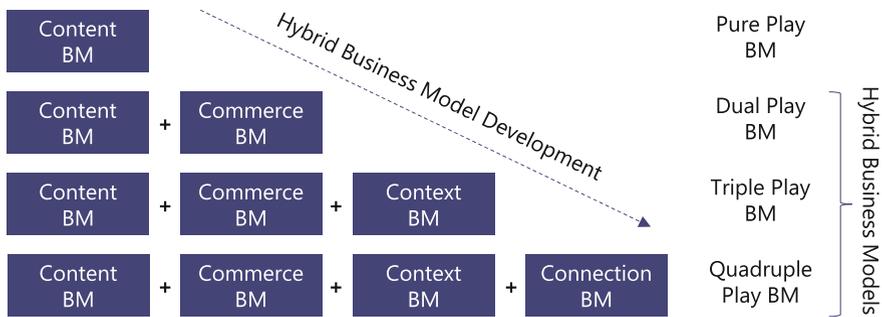


Fig. 8.1 Hybrid business model development. *Source* Wirtz and Daiser (2015), Wirtz (2018b)

From a customer perspective, having a single point of access to various information and service offerings is convenient and reduces the user's search effort. From a company perspective, a hybrid strategy also offers major benefits: The cost structure of digitalized services is characterized by high fix costs and low variable costs. This setting carries a vital advantage because the higher the proportion of the fixed costs, the higher the benefits from economies of scale.

Economies of scale denominate the cost advantages that a company obtains with increasing output. The underlying principle is that the cost per output unit decreases incrementally as the fixed costs are distributed over more output units. This means that the service unit costs decrease with increasing scale if the number of provided service units increases. As the major part of the fix costs arises from the initial installing of the basic e-business structure, each additional service implementation is generally less expensive. Thus, the larger the e-service range offered and the more service units are provided, the higher the potential cost benefit.

Multiple customer retention is a further aspect of hybrid e-business models. The concept refers to customer retention on several business model levels (Wirtz 2001b; Wirtz and Lihotzky 2003). Thus, acquiring and retaining customers takes place based on more than one business model offer, increasing the number of relations to the customers. The resulting multiple customer retention on different levels fosters customer loyalty.

Creating intertwined customer connections by conveniently providing multiple e-business model services through a one-stop interface generates lock-in effects through high system change costs. This means that the exit barriers for the customer are higher in the case of multiple customer relationships than for a singular customer relationship. Thus, multiple customer retention increases switching costs for the customer to change to an alternative system, a good example is the apple ecosystem (Wirtz 2001b). At the same time, a larger network finally leads to more information through an increased customer base and better e-business service provision through economies of scales, which demand efficient automated service provision.

Hybridization of business models also allows to set a bundle price for a bundle of services, which in turn leads to new profit opportunities. Similarly, process automation leads to a shift from offline to online costs. The cost structure of digital services is usually characterized by high fix costs and low variable costs.

The fourth reason for expanding into different or new business areas refers to diversification and exploitation of new revenue streams. Diversification reduces the overall risk of a revenue stream, given that the different revenue streams do not correlate completely. The necessity of diversification becomes particularly apparent against the backdrop of the high complexity and dynamic within the Internet economy. Figure 8.2 illustrates four drivers of the development of a hybrid business model.

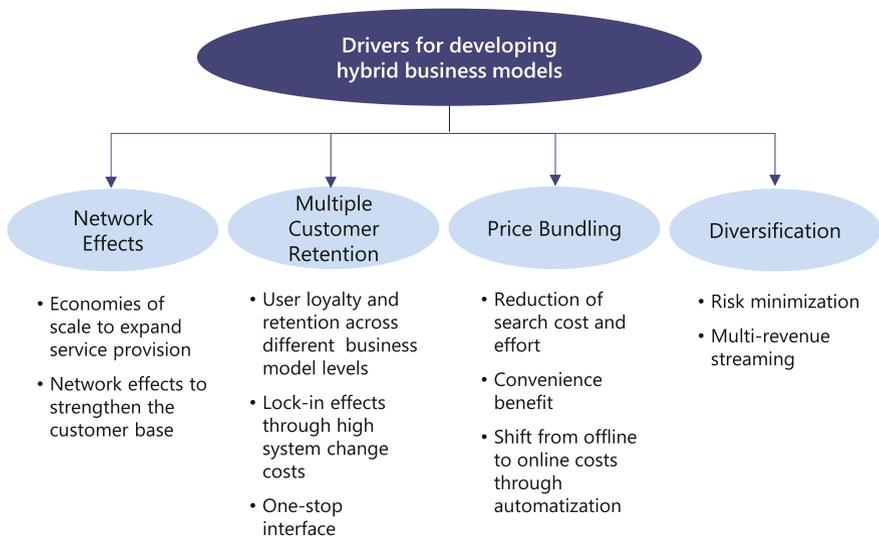


Fig. 8.2 Reasons for the development of hybrid business models. Source Wirtz (2001a, 2018b)

8.2 Hybridization of Business Models: Google

Google is a global Internet service provider and market leader in the areas of online search and text-based online advertising. Google, headquartered in the U.S., in Mountain View, California, became famous through its search engine. The search engine is now available in 173 languages and over 180 different domains (Wikipedia 2017b). In June 2001, three years after the foundation of the company, more than one billion pages were stored in the Google index, making the search engine the market leader (see for the following Google 2017).

Already in December 2001, Google had more than three billion document accesses. After the official completion of the Google search engine phase at the end

of 1999, the company concentrated on expanding its range of services from 2000 to 2004. In this context, the free email service Gmail, available since 2004 is particularly important.

In addition, Google expanded its service portfolio and activity spectrum through various acquisitions. In this context, the acquisitions of the blog site Blogger.com in early February 2003 and the acquisition of the world's largest Internet video site YouTube for 1.8 billion USD at the end of 2006 are worth mentioning. Google also acquired DoubleClick for 3.1 billion USD in 2007, which used graphical advertisements on websites and had very good relationships with financially strong advertisers.

With its stock market launch in August 2004, Google continued its unprecedented advancement. Within a few years, the company developed from a simple start-up to the world's largest Internet service provider. Today, Google or the newly founded holding company Alphabet employs around 70,000 people and is the clear market leader in online search and text-based advertising (Alphabet Inc. 2017a). The company is one of the world's best known brands, mainly due to its search engine Google.

In the case of Google, one can speak of a hybrid business model because it includes all four business model types through numerous services. According to their own statements, Google's overall strategic goal is to organize and systematize the world wide information on the Internet and to make it available to all Internet users (Alphabet Inc. 2017a). In this way, the company formulates a clear business mission, which is an important component of its strategy model.

In the course of time, Google has developed into an integrative Internet player and thus also one of the most important gatekeepers of information on the Internet. In this context, the term "gatekeeper" describes the possibility of a search engine provider to exercise control over the information that can be found and retrieved. Due to the vast amount of information and user behavior on the Internet, most providers of content are dependent on search engines in order to be found. Google is by far the largest search engine provider and has gained center stage in this context. Many critics and competitors perceive Google as too powerful.

Within the framework of the 4C-Net Business Model typology, the context business model with the search engine as a core service thus forms the basis of the integrated business model (Wirtz 2000b). Through the constant revisions and extensions through specialized search services for images, news and geographic information, Google today has the world's most-used search engine, which is continually being expanded by innovative services and functions. Other context services are, for instance, Google Catalogs, Google Images, Google Toolbar, Google Book Search, Google Scholar, Google Reader, Google Blog Search and most recent Google Assistant.

A further focus of Google's market offering is the content area, which is characterized by the provision, preparation or aggregation of multimedia content. This includes Google Groups, Google News, Google Maps, Google Earth, Google Sketch Up, Google Text and Tables, iGoogle, Google Merchant Center and YouTube. Many previous services have also been expanded or various services

have been consolidated to provide users with an even broader range of services. For example, the Google Local service was integrated into Google Earth and Google Maps.

Offers that are assigned to the business model type of connection are characterized by the provision of network-based information exchange. In this segment, Google offers the services of Blogger, Google Groups, Gmail, Orkut, Google Talk, Google Voice, Google Latitude, Google+, Google Drive, Google Hangouts and most recently the instant messenger Google Allo and the video chat app Google Duo. Google+, for instance, is considered to be the consistent attempt by Google to extend the business model to the connection segment.

Initiation, negotiation and settlement of business transactions are the components of the business model type commerce. The most important services in this area are the advertising offers Google AdWords and Google AdSense. In addition, Google has only a relatively small range of services in the area of commerce. In this context, the payment service Google Checkout is particularly used to pay for fee-based applications in the Android Market.

With Google Wallet, Google also has a service that allows payment by mobile phone using near field communication (NFC). In addition, Google is constantly expanding its commerce offers in the area of product search engines, product presentation and price comparisons. In this context, Google Product Search and Google Shopping are particularly important. Even though these offers originate in the context area, they increasingly focus on the initiation and negotiation of business transactions and can therefore belong to the area of commerce.

Some Google services can also be assigned to different business model types. This can be illustrated by the photo community Picasa. On the one hand, Picasa connects different users to exchange pictures and can therefore be assigned to the connection type. On the other hand, content is made available worldwide, so that Picasa can also be assigned to the content type.

Since the year 2008, Google is also active in business areas outside of the 4C-Net areas (content, commerce, context and connection). In this context, Google has developed information technologies, such as the mobile operating system Android, as well as own consumer-oriented mobile devices, like the Google Nexus series or its next generation Google Pixel.

In addition, Google has recently introduced Google Glass, a pair of augmented reality glasses, and Google Cardboard, a virtual reality device. Furthermore, Google acquired the home automation company Nest Labs, which meanwhile collaborates with Google Home. Figure 8.3 shows Google's chronological development paths to a hybrid provider.

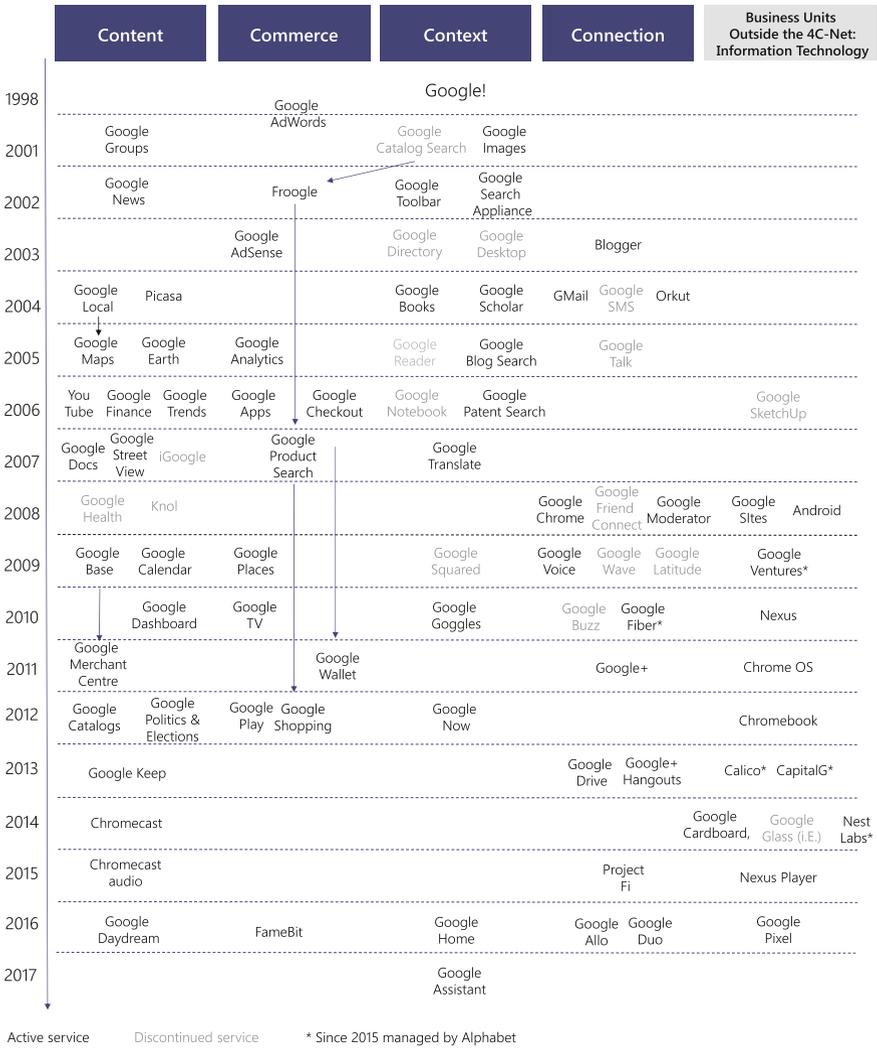


Fig. 8.3 Development of Google’s hybrid business model. *Source* Based on Wirtz (2010b, 2018b), including updates

In summary, it can be stated that Google is pursuing an increasingly hybrid business model to satisfy its users, but also the providers and in this connection especially the advertising companies. In this regard, Google plays the role of a gatekeeper.

The search queries of the users and the data accumulated in the various communication and content offers are systematically processed and stored by Google. Data Mining enables Google to create specific user behavior and user search profiles. These do not necessarily have to be personal, but can be combined into general types of use.

On the one hand, these user typologies are used as the basis for the AdWords offer to help companies understand the search terms and search behavior of users with regard to specific search queries. On the other hand, the user typologies are matched with further increasingly provider-oriented data streams and condensed into a comprehensive information stock.

This high level of information enables Google to manage the customer interface particularly efficiently in both directions (users and providers) and to create a high customer loyalty. Figure 8.4 shows the described relationships, using the examples of some Google services.

In addition, the monetization of traffic data and flows is an important aspect for Google. Currently, the monetization is increasingly and very successfully driven by AdWords and thus the pay-per-click revenue model done. Currently, the company is facing the charge of favoring its own services in the display of search results and thus to disadvantage competing services. The European Commission has examined the case and Google seems to make concessions.

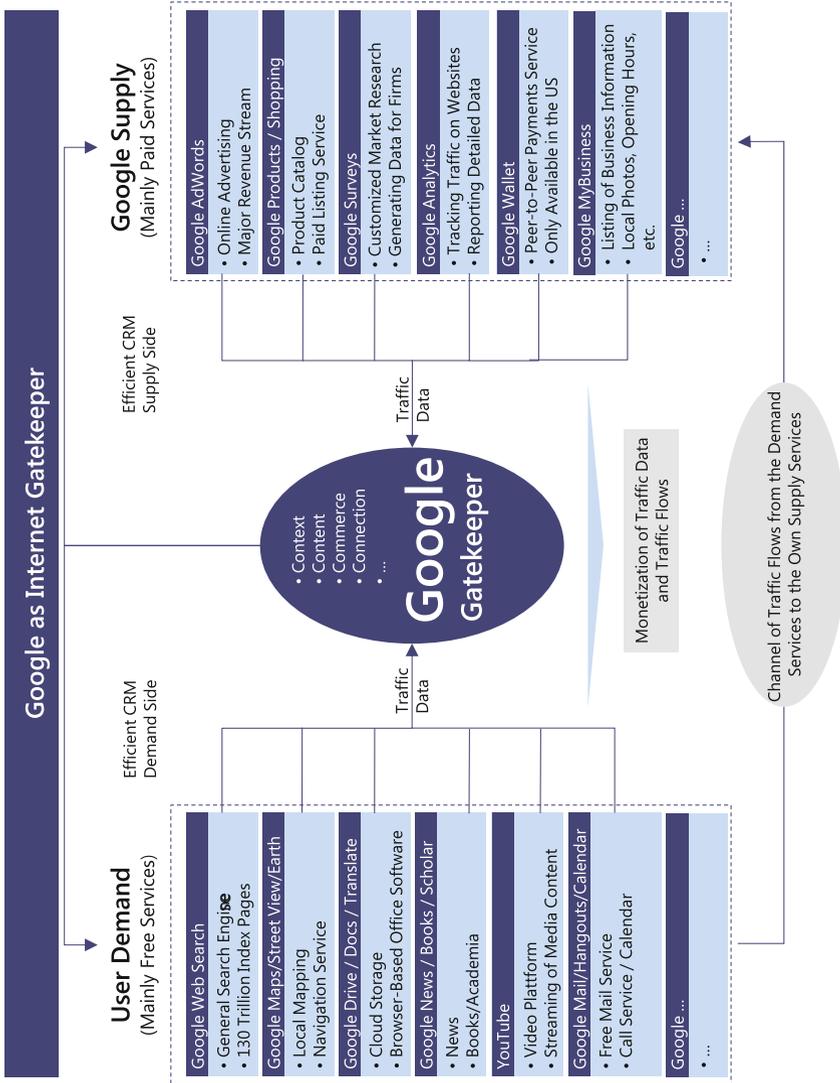


Fig. 8.4 Google as Internet gatekeeper. *Source* Based on Wirtz (2010b, 2018b) and own analyses and estimations