**Digital Investing**

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Fall 2018

B8429

Tuesdays 5:45 pm – 9:00 pm

WJW 208

Professor Jonathan Knee Professor Jeremy Philips

Hours: 3-4pm on Tues General Partner, Spark Capital Growth

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The course is designed to introduce business students to the application of value investing concepts and disciplines to digital businesses. We will cover a wide range of digital business models in companies at a variety of stages of development.

The course is organized around major digital business models and industry verticals. After the introductory sessions, each week will closely examine a leading digital company (or companies) within the model/vertical at issue, as well as an alternative established or emerging digital competitor. The analytical framework will be reflected in an Investment Committee Memorandum template that will serve as a basis for class discussion. The template incorporates the key decision-making variables relevant to a value investing approach.

The first half of each class will focus on the overall sector identified and leading company example. Discussion during this portion will revolve around a business school case and focus on a list of identified “key questions”. The second half will include Investment Committee Memo presentations by two student groups on the alternative digital business examined. Some sessions will include participation of relevant leading digital investors or executives who will provide perspective and feedback on student presentations.

In addition to weekly readings, the two textbooks for the class are: Value Investing: From Graham to Buffett and Beyond (VI) by Bruce Greenwald et al. and The Curse of the Mogul: What’s Wrong with the World’s Leading Media Companies (COM) by Jonathan Knee et al. In addition to the cases, the reading assignments for class combine chapters of the book with relevant background materials on the general sector and specific companies studied. Grading is based on

- Final examination (65%)

- Group presentations (25%)

- Class participation (10%)

**Group Presentations and Class Participation.** The class will be divided into 16 (sixteen) groups. The groups’ composition will be confirmed by the TA on the day following the second class (February 2nd). Students may establish their own groups subject to size limitations. Any group not pre-arranged will be randomly assigned.

During the course of the semester each group will make one twenty minute Investment Committee Memo presentation in which they defend their investment thesis (through a seven slide PowerPoint presentation) to the class. All group members will receive the same grade. The substance and delivery of the presentation together will represent the presentation portion of the overall class grade. Students not presenting are expected to participate in questioning and be subject to random questioning on any of the companies covered. Their questions and responses will be the basis of the class participation component of the grade.

**Final Exam.** The purpose of the final exam is to test your ability to apply the concepts taught in the class to a real investment. The exam will ask students to complete an Investment Committee Presentation on a specific investment proposal based on an information pack provided. The exam will be a one week take home distributed following the final class session. Exam may make use of any outside materials, but must be based on individual work.

**Syllabus**

*Note: Speakers are to be confirmed and there will typically be one per class. One insurgent will be examined per class.*

**September 4, 2018 Introduction to Strategy and Industry Structure**

**Topics:**

* + - 1. What the course is about and how it works
      2. Competitive Advantage
      3. Basic Structures of Media Industries
      4. Strategy and Industry Structure
      5. Impact of Digital on Industry Structure and Competitive Advantage

**Reading:**

* COM: Introduction, Chapters 2-4
* Jonathan A. Knee, “All Platforms Are Not Equal,” MIT Sloan Management Review, Sept. 15, 2017.

**September 11, 2018 Introduction to Investing**

**Topics:**

* + - 1. Intro to Types of Investing

- Stage

- Style

* + - 1. Investment Committee Presentation Template
      2. Intro to Valuation and cash flow
      3. Intro to TAM
      4. Intro to company comparability

**Reading:**

* VI: Chapter 1-5, 7
* Michael Mauboussin and Dan Callahan, “Total Addressable Market,” Credit Suisse, Sept. 1, 2015

**Speaker:**

* Michael Mauboussin, Director of Research, BlueMountain Capital Management (Confirmed)

**September 18, 2018 Digital Investing in Practice**

**Topics:**

* + - 1. Investment Committee Presentation template revisited
      2. Early Stage Valuation
      3. Later Stage Valuation
      4. Digital Metrics and Methodologies
      5. Sources of Digital Success and Failure

**Reading:**

* COM: Chapter 5
* Michael Porter, Strategy and the Internet, Harvard Business Review, March 2001
* Investment Committee Memorandum Template
* W. Bryan Arthur, Increasing Returns and the New World of Business, Harvard Business Review, July 1996

**Speakers:**

* Eric Hippeau, Managing Director, Lerer Hippeau Ventures (Tentative)
* Richard Sarnoff, Chairman of Media, Entertainment and Education, KKR Private Equity (Tentative)
* Eric J. Lee, General Partner, Welsh, Carson, Anderson & Stowe (Tentative)

**September 25, 2018 Travel (Professor Philips)**

**Incumbent:**

* Trip Advisor

**Insurgent:**

* Sojern

**Key Questions:**

1. What’s appealing about TripAdvisor for consumers and hotel owners? How does the company balance competing interest?
2. What’s TripAdvisor’s business model? How does its monetization model compare to other sites with user generate content, such as Yelp?
3. Why is TripAdvisor so much better known for its hotel reviews than its restaurant reviews? Does the restaurant category represent a big opportunity for the company?
4. Can TripAdvisor replicate its success in its core business in other categories—such as China, vacation rentals, and in flights? What does the competitive landscape look like in these areas?
5. How should the CEO prioritize the company’s growth options?

**Reading:**

* Sunil Gupta et al., “Trip Advisor”, Harvard Business School Case, June 2012

**Speaker:**

* Mark Rabe, CEO, Sojern (Confirmed)

**October 2, 2018 P2P Finance (Professor Knee)**

**Incumbent:**

* Lending Club

**Insurgent:**

* Prosper

**Key Questions:**

1. What are the key dimensions of competition in p2p lending? How are these reflected in the differences in approach taken by Lending Club and Prosper?
2. Does this lend themselves competitive advantages at scale and, if so, what would those advantages be?
3. What is the most critical link in the industry value chain and who has or can get leverage over this economic pressure point?
4. Does Prosper have a first mover advantage? If so, how can it best press that advantage and what if anything can Lending Club do to overcome its apparent disadvantage?
5. What do your thoughts on industry structure suggest about long run profitability of the sector? What comparable might you look to for a view of steady state margin?

**Reading:**

* Peter Tufano et al., “Lending Club”, Harvard Business School Case, December 2010
* William D. Cohan, “Bypassing the Banker”, The Atlantic, August 13, 2014

**Speaker:**

* Eric Schwartz, Prosper Investor and Former Board Member (Confirmed)
* Tom Glocer, Managing Partner, Angelic Ventures LP (Confirmed)

**October 9, 2018 Social Networking (Professor Philips)**

**Incumbent:**

* LinkedIn

**Insurgent:**

* Handshake

**Key Questions:**

**Reading:**

* David Yoffie, “LinkedIn Corporation”, Harvard Business Case, 2012
* LinkedIn Pitch to Greylock

**Speaker:**

* Garrett Lord, CEO, Handshake (Confirmed)

**October 30, 2018 Marketplace Exchange / Businesses (Professor Philips)**

**Incumbent:**

* eBay
* Amazon.com

**Insurgent:**

* 1stdibs

**Key Questions:**

1. What are the key drivers of profitability in eBay’s business model?

2. What are the key drivers of profitability in Amazon’s retail business model? How does its

retail business model interact with that of eBay?

3. In shifting to a retail and platform business model, how successful was Amazon in

overcoming barriers to entry in the third-party seller market? What business choices

were critical in altering the competitive dynamic?

4. What would you recommend to eBay going forward, and why?

**Reading:**

* Ramon Casadesus-Masanell, “eBay, Inc. and Amazon.com (A)(B)”, Harvard Business School Case, April 2012
* Hanna Halaburda and Felix Oberholzer-Gee, “The Limits of Scale”, Harvard Business Review, April 2014
* Benedict Evans, “Why Amazon Has No Profits (And Why it Works)”, ben-evans.com, September 5, 2014

**Speaker:**

* David Rosenblatt, CEO, 1stdibs (Confirmed)

**November 13, 2018 Video (Professor Knee)**

**Incumbent:**

* NetFlix

**Insurgent:**

* DEFY Media

**Key Questions:**

1. What are the competitive advantages of the DVD and streaming businesses respectively?
2. Who are the key competitors‎ in the DVD and streaming businesses respectively?
3. How has the shift from a DVD to streaming‎ business changed Netflix relationship with key players in the overall entertainment ecosystem? Do these changes impact the risks to Netflix business model?
4. Do you think that Netflix accounting for streaming content acquisition accurately reflects the underlying economics of the business? Do you think the difference in how DVD content‎ had been accounted for is justified?

**Reading:**

* Francois Brochet et al, Netflix: Valuing a New Business Model, Harvard Business School case, August 2012
* Sequoia YouTube Investment Memo
* Jonathan Knee, Why Content Isn’t King, The Atlantic, June 2011

**Speaker:**

* Strauss Zelnick, CEO, Zelnick Media Capital (Tentative)

**November 20, 2018 On-Demand Economy (Professor Philips)**

**Incumbent:**

* Uber

**Insurgent:**

* Lyft

**Key Questions:**

1. What benefits to consumers did Uber originally offer versus taxis and limousine services?
2. What forms of competitive advantage does Uber have? How strong are they? Are they local, national, or global?
3. Is regulation a competitive advantage in the taxi / ride-sharing business? Who does it help?
4. How big is Uber’s addressable market? Can they continue to expand into new businesses? What advantages do they bring in delivering meals, etc?

**Reading:**

* Steven Callender et al., “Uber: 21st Century Technology Confronts 20th Century Regulation”, Stanford Business School Case, September 2012
* Bill Gurley, “How to Miss by a Mile: An Alternative Look at Uber’s Potential Market Size”, Above the Crowd, July 2014
* Aswath Damodaran, “Uber Isn’t Worth $17 Billion”, FiveThirtyEightEconomics, June 18, 2014
* Clayton Christensen et al., What is Disruptive Innovation? Harvard Business Review, December 2015

**Speaker:**

* Brian Roberts, CFO, Lyft (Tentative)

**November 27, 2018 Content Companies (Professor Knee)**

**Incumbent:**

* New York Times

**Insurgent:**

* Mic.com

**Key Questions:**

1. What are the sources of competitive advantage for the online NYT product and are these different from the histor‎ic print product?
2. At the time of the case, the New York Times had just sold is local "regional media group" but still owned The Boston Globe. What do you think were the competitive advantages of these properties relative to the core NYT product and their respective online potential?
3. ‎How big do you think the NYTimes digital business can be and what do you think it's profit margin will be at scale?
4. What does this mean for how big and profitable the Huffington Post and Business Insider can be?
5. Are there other companies about which financial information is available that you would use as benchmarks to help answer questions 3 and 4?

**Reading:**

* Vineet Kumar et al., “The New York Times Paywall”, Harvard Business School Case, February 2012
* Justin Fox, “A New Golden Age of Media”, Justin Fox, April 16, 2014

**Speaker:**

* Chris Altchek, CEO, Mic.com (Confirmed)
* William Bardeen, Senior Vice President, New York Times (Confirmed)

**December 4, 2018 B2B/Saas (Professor Knee)**

**Incumbent:**

* Salesforce.com

**Insurgent:**

* Blackline

**Key Questions:**

1. What is the right way to think of the relative cost to an smb customer of a SaaS and an enterprise solution? On a per user basis, what is the difference between the cost of an SMB SaaS customer and a large enterprise customer?
2. What are the respective sources of competitive advantage‎ for SaaS and enterprise software businesses?
3. What are the respective margins for SaaS and enterprise software businesses? ‎Which do you think is a better business?
4. Which do you think is more likely -- that Salesforce.com successfully moves into larger enterprises or that Oracle successfully moves into the SMB market?
5. What is the right product and sales strategy for Oracle in the SMB market?

**Reading:**

* David Yoffie et al., “Oracle vs. Saleforce.com”, Harvard Business School Case, June 2005
* Blackline Management Presentation

**Speaker:**

* Therese Tucker, CEO, Blackline (Confirmed)

**December 11, 2018 Wrap-up and Conclusions**