The competitive landscape is changing: Innovation is re-shaping the industry architecture

- Sectors dis-integrate, split off, re-integrate, split off again
  - From Financial Services to Cars to Pharma to Computers
- New players invade from different sectors or countries
  - With new ways of making money, changing the landscape
- Rules of the game change, leading to massive value migration
  - Which leads us to our question: Are our strategy tools outdated?
A sector blowing up: Consider how Computing started...

<table>
<thead>
<tr>
<th>Equipment, Material</th>
<th>Teradyne, Millpore, AM,…</th>
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<tr>
<td>Components</td>
<td>Mosanto, Shipley,…</td>
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<td>Product Design</td>
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...and how the sector changed through dis-integration

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<td>Intel, AMD, Quantum</td>
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<td>Microsoft</td>
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<td>Applications Software</td>
<td>Microsoft, Lotus, Borland</td>
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<td>Sales &amp; Distribution</td>
<td>CompUSA, Dell,…</td>
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<td>Field Service</td>
<td>Independent Contractors</td>
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Source: Adapted from Andy Grove, 1994
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What architectural innovation does: Value Migration
(research with Carliss Baldwin & Reza Dizaji, HBS)
What happened here?

- Winners were not the best firms in each segment
  - Rather, those who manipulated the rest of the architecture
  - Focus on competitors wrong. Ecosystem / architecture is the focus!

- When we think about what changed, consider...
  - Segments that won and became bottlenecks
  - Firms that succeeded even in “bad” segments

- I’ll tell you it’s about roles; rules; links....
  - And the way to add and capture value
  - Which is the way to think about the competitive dynamics. So:

Why did some playscripts fail in the computer sector?
Excessive focus on “individual” value proposition

- IBM lost the plot because it didn’t see what was changing
  - Not following changing roles and new dramatis personae

- Apple re-wrote the playscript, finding a great storyline...
  - …but didn’t want to consider its prospects in context

- Plans were not future-proofed, and took the sector for granted
  - IBM didn’t see how the value add would change
  - Apple didn’t see how a coalition would unseat its own playscript
  - Dell was playing a script which didn’t make sense anymore
Figuring out who captures value and where value migrates: Revisit the playscript

- New dramatis personae: From major corporates to individuals
  - “Owning” and scaring the customer no longer enough
  - New ultimate customers, new attributes that matter to them, too!

- Rules in the sector were changing over time
  - Standards, quality assurance, interoperability changed dynamics
  - Changing rules were creating new “bottlenecks”, crafted by Wintel

- Storyline for many of the participants changed as well
  - Adding value shifted from brand & service to GUI & software
  - Capturing value dynamics changed by competition along the chain

Putting on my academic hat: What’s new here?

- Endogenous forces shape the division of labour
  - Capabilities and Transaction Costs co-evolve and shape sectors
  - Firms try to change sectors (and boundaries) to their advantage

- “Who does what” shapes “who takes what”
  - Models of how this happens exist and more are on their way

- Industry architectures shape the evolution of sectors
Back to Practice
How Google is now trying to change the Computer Sector

And a different story in the automobile sector:
Why Car manufacturers suffered less than Computer makers

- Some new roles / dramatis personae did emerge
  - But supported the current playscript. Customer role didn’t change!

- The rules were managed to the advantage of the OEM
  - No bypassing OEM who assure quality; suppliers manage in tiers

- Storyline for adding and capturing value changed slowly
  - Most of the value migrating within the sector, to ancillary services
...and what could change that looking into the future

- What if the roles (or dramatis personae) do change?
  - Buying of cars by municipalities or companies? Different priorities?

- The rules might change, focusing on specs
  - So OEM ability to certify or keeping the bottleneck under pressure
  - Composites replace steel; batteries replace engine as key parts

- Suggesting things can only deteriorate for the storyline
  - Though new players in transportation or component might emerge
  - So that car companies want to shape a world where storyline holds

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Digital Music: From unbundling to repackaging – and redefining

- Prior to 1999, RealPlayer dominates streaming media
- Microsoft’s WMP envelops RealPlayer, bundling streaming server into NT at no extra cost
- Real launches subscription music service Rhapsody
- Yahoo discounts subscription music, cross-selling via portal
- Apple could bundle subscription service into iTunes, leveraging iPod
- Cingular bundles Yahoo subscription music with cell phone service

Source: Adapted from Eisenmann, Van Alstyne & Parker
Look at the hot companies of today…

Google™

…and the reactions of concerned incumbents….

Microsoft®

&

Nokia®

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Linkages between the OS and app store mean operators could progressively lose control of content and services

<p>| Operator FULLY participates in revenue streams |</p>
<table>
<thead>
<tr>
<th>Customer</th>
<th>Device</th>
<th>App Store</th>
<th>Billing</th>
<th>Operator</th>
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<td>Operator PARTLY participates in revenue streams</td>
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<td>Operator DOES NOT participate in revenue streams</td>
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And this is not just a technology story:
Think about how these structures (architectures) changed in FS

- The FS crisis went unnoticed *precisely* because no-one looked at IA
  - New way to organize, through securitization, new players, CDO’s...

- Regulators didn’t even get the changes in the system
  - Changing rules, changing agency attitudes, changing compensation...

- Creating (the impression of) wealth for a while, and now rubble
  - Important questions on how changes will affect policy – and profits

- Similar changes afoot in healthcare, pharma, education...

(Academic hat back on, w SGW): Survival of the Reckless:
How the Mortgage Industry Evolved towards disaster

- Industry architecture one of the least studied contributing factors
  - *Not* just “group psychology” and “bubble” but rather structures

- Feedback, not foresight, drives economic behaviour
  - Within a sector, agents respond to incentives given. Not evil. Just “smart”

- Industry architecture shapes feedback and drives behaviours
  - So that if we let it go loose we can get the mess we did in FS

- Innovations that sever reward and observation of action destabilizing
Back on piste. Hang in there...
What does all this show us? (in practice)

- The structure of the sector changed- or *was changed*...
  - And along with changes in “who does what” we changed profits
- Profits migrated from one part of the value chain to the next
  - The parts that used to be profitable were blown up, others emerged
- New rules of the game changed the landscape
  - So that “sensible strategies within my segment” didn’t make any sense
- Which brings us to the problems with *existing* tools of strategy

One familiar map: Your industry and its forces

Adapted from: Porter, 1980, 2005
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Yet another map: Value Curves and Blue Oceans

Key Product, Service, Delivery Attributes

Adapted from: Kim & Mauborgne, 1997, 2009
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And a corporate map: BCG matrix in 2½ dimensions

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And what’s wrong with maps & visuals?

- Maps need to have their coordinates fixed
  - E.g., the boundaries of a sector are given

- Maps (and visuals in general) cope with 2 or 2½ dimensions
  - Useful simplification, but does it capture all we need?

- Maps & visuals are pretty lousy in showing motion
  - We want to understand where things will head to. Which is hard

Start from a Marvel Comics’ change in business-level playscript:
From bankruptcy to $4bn in a decade
Change your playscript by rethinking roles, rules, storyline

What is one of the fastest growing franchises of Vodka?

(check out www.seriously.com !)

What is the most profitable furniture shop?

Reinvention in a forming sector: Apple’s re-generation through the iPod

• Dramatis Personae- and their roles: Apple changes them
  – Focusing on the bleeding of the content providers and revisit the role
  – Rethink what makes customers stick to digital music

• Rules & links re-thought
  – Production outsourced, itunes revamped, stickiness crucial
  – Suppliers managed in tiers; complementors hooked / indirectly controled

• Adding and capturing value rethought
  – Not only in terms of the product or service itself...
  – ...also wrt what you do and thence how you keep high share of value
Three steps to reinvent your Strategy

- **Step 1**: Map the business playscript — and your sector’s
  - Dramatis personae and their roles; links and rules; storyline for adding and capturing value (some industries all are similar, most are not!)

- **Step 2**: Get the logic, and reinvent your playscript
  - Leverage the potential from current (or future!) dramatis personae; leverage (or enhance) their constraints; change their role; change your link to them; rethink your logic for adding and capturing value

- **Step 3**: Future-proof your playscript
  - Critically rethink your playscript. Is it plausible? Are you up to the task? What might be the spanner in the works? How can you prepare for that? What other options and challenges exist for the character?

Playscript as a way to engage the entire organization: Act as an actor; be critical as a playwright

- Ensure all *act out* the playscript, even if they have reservations
  - Direction shaped by the current playscript — clear to all

- Act as an actor, think as a playwright
  - playscripts as a means to overcome the "acceptance / rigidity" conundrum
  - People can accept to play the playscript, and also critically revisit it

- Build a set of metrics to track success *within and of* the playscript
  - Bring strategic conversations back to the centre stage, but not confusion!
How a corporate should consider turbulence:
Big changes happen in downturns

- Everyone is scared, and concerned. But some act.
  - Consider what’s changing structurally and have the courage to adapt
  - How should your playscript change in this quickly shifting landscape?

- Don’t stay still. Re-think opportunities and action space
  - The worse time to be introvert is now. Get out of the foetus syndrome
  - Ask yourselves how you’re best positioned

- Use fear and concern as a motivator to change the world around you
  - The platform is burning. Take ownership, and involve others
  - Get out of your paternalistic management style. Become a true leader.

And what about our country, teetering on bankruptcy?

- Greece, of all places, is facing massive disruption
  - The entire model is crumbling- hopefully to be replaced
  - Planning horizons need to be brief and planning adaptive

- Rules, roles and relationships are being seriously redefined
  - The institutional structures, traditional links and operations are over
  - Change is discontinuous, and we’re in the process of redefining ourselves

- Whatever happens, this will be a period when models are rebuilt
  - We need to rethinks who does what – and how
  - Private and public alike are in a redefinition process
How we can react in this massive turbulence:
A new playscript for a civic society

- Help build a better playscript for all involved
  - Question how we’re putting things together – publically
  - The rules and roles parties and the gov’t played are done. So?

- Articulate new ways to organize society, and link private & public
  - Need to get on our feet and build, one set of rules & roles at a time
  - We need to redefine, collectively, how we collaborate

- Like sectors whose playscript is changing, the entire country will
  - Articulate and engage (and come to www.redesigngree.org in a week)
  - Partake in a constructive way of building our future together, boldly

What an Australian Jewel Beetle can teach us

Julodimorpha bakewelli