

Competing in a Shifting Landscape

Michael G. Jacobides

Sir Donald Gordon Chair of Entrepreneurship & Innovation
London Business School



Distinguished Public Lecture, AUEB, February 13, 2012

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 - Which leads us to our question: Are our strategy tools outdated?



© Michael G. Jacobides

A sector blowing up: Consider how Computing started...

Equipment, Material	Teradyne, Millpore, AM,...
Components	Mosanto, Shipley,...
Product Design	I B M C o n t r o i D a t a P r o d u c t i o n s A p p e t i o n s
Assembly	
Operating System	
Applications Software	
Sales & Distribution	
Field Service	



Source: Adapted from Andy Grove, 1994
 © Prof. Michael G. Jacobides

...and how the sector changed through dis-integration

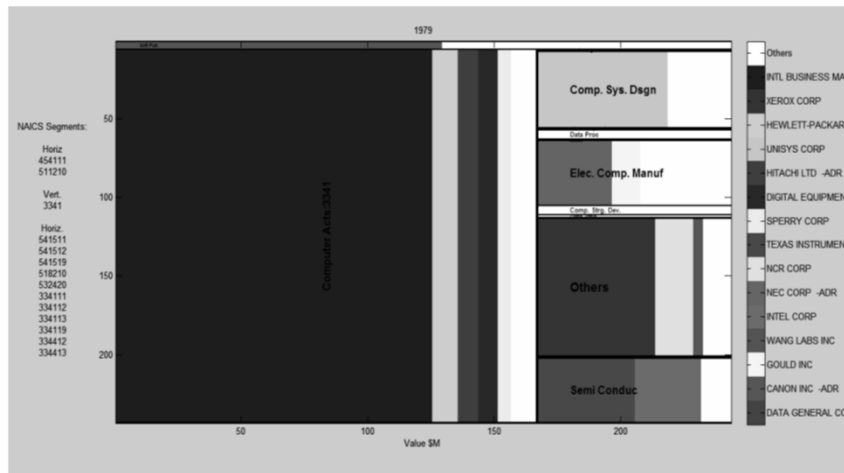
Equipment, Material	Teradyne, Millpore, AM,...
Components	Intel, AMD, Quantum
Product Design	IBM, Compaq, Dell
Assembly	Solectron, Celestica
Operating System	Microsoft
Applications Software	Microsoft, Lotus, Borland
Sales & Distribution	CompUSA, Dell,...
Field Service	Independent Contractors



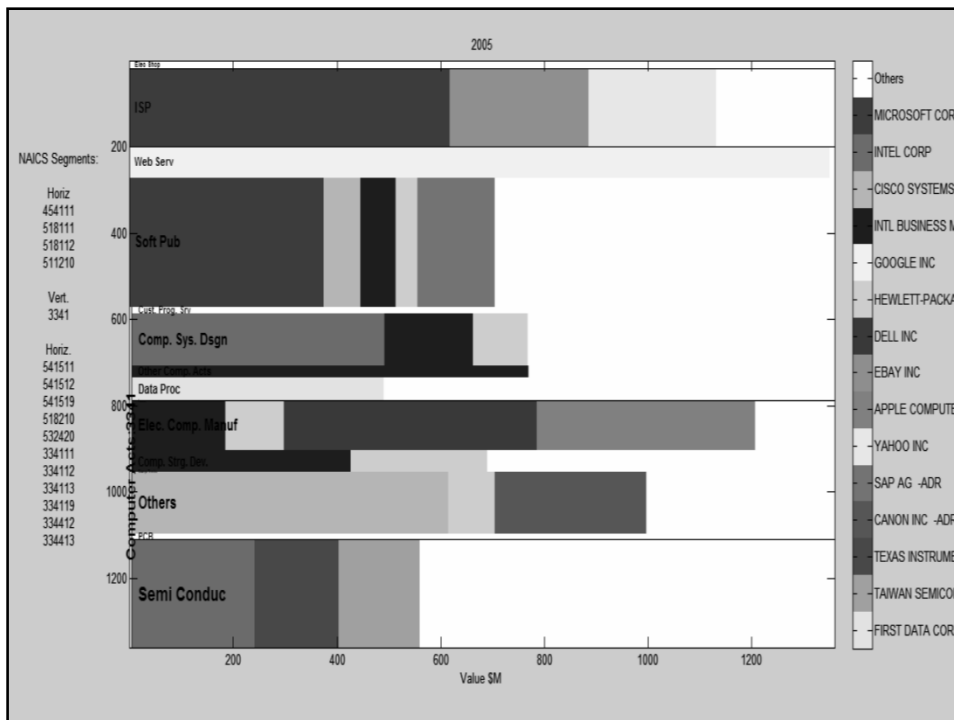
Source: Adapted from Andy Grove, 1994
 © Prof. Michael G. Jacobides

What architectural innovation does: Value Migration

(research with Carliss Baldwin & Reza Dizajji, HBS)



© Prof. Michael G. Jacobides



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 didnt 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

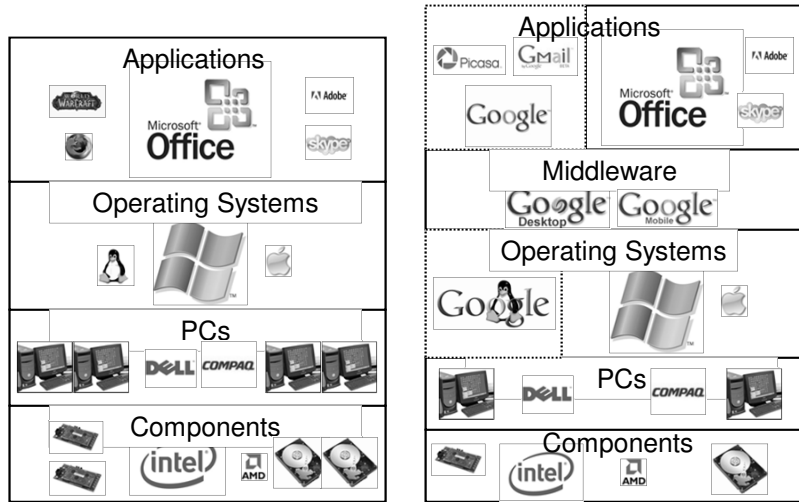
- New dramatis personae: From major corporates to individuals
 - “Owning” and scaring the customer no longer enough
 - New ultimate customers, new attributes that matter to them, too!
- Rules in the sector were changing over time
 - Standards, quality assurance, interoperability changed dynamics
 - Changing 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?

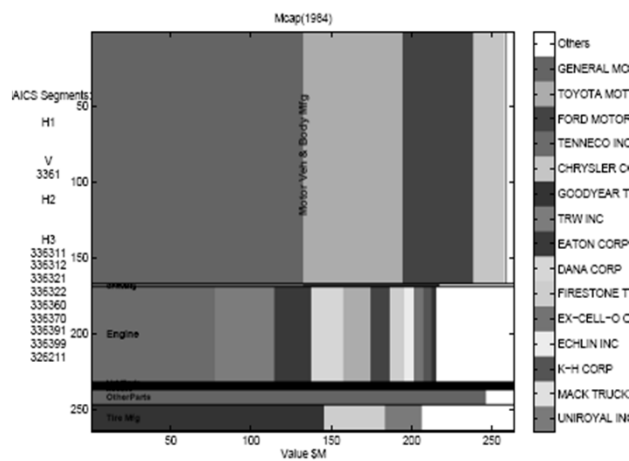
- Endogenous forces shape the division of labour
 - Capabilities and Transaction Costs co-evolve and shape sectors
 - Firms try to change sectors (and boundaries) to their advantage
 - J 2005 *AMJ*, J&W 2005 *SMJ*, J&H 2005 *SMJ*, JK&A 2006 *ResPol*, J 2006 *ICC*, J&B 2006 *OrgSci*, J 2008 *OrgSci*, etc
- “Who does what” shapes “who takes what”
 - Models of how this happens exist and more are on their way
 - JK&A 2006, BJP 2009 *EMR*, TJ 2011 WP, JW&V 2012 WP
- Industry architectures shape the evolution of sectors
 - J&W 2012 *OrgSci*, JW&K 2012 *SMJ*, JM&T 2012 WP

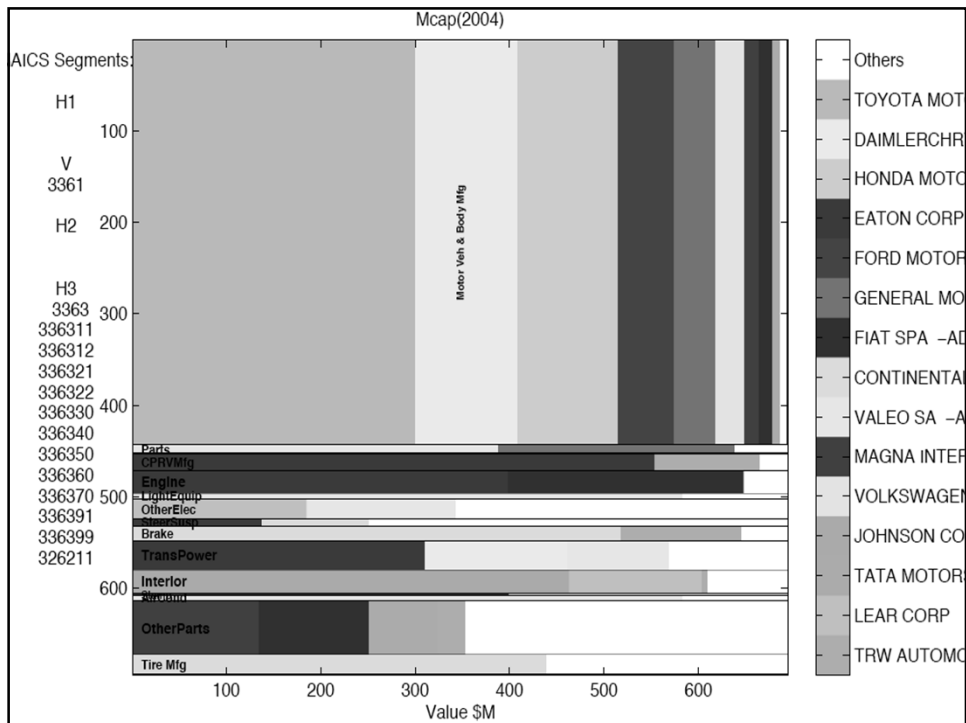
Back to Practice

How Google is now trying to change the Computer Sector



And a different story in the automobile sector:





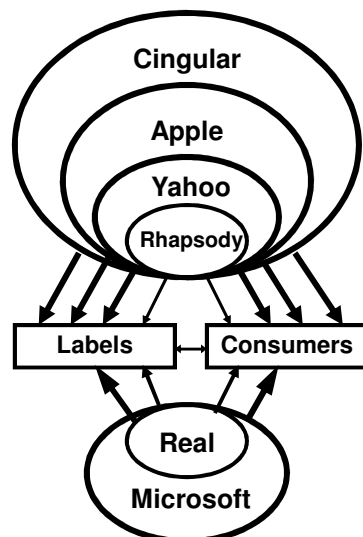
Why Car manufacturers suffered less than Computer makers

- 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

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

Look at the hot companies of today...

Google™

facebook

...and the reactions of concerned incumbents...

Microsoft®

&

skype

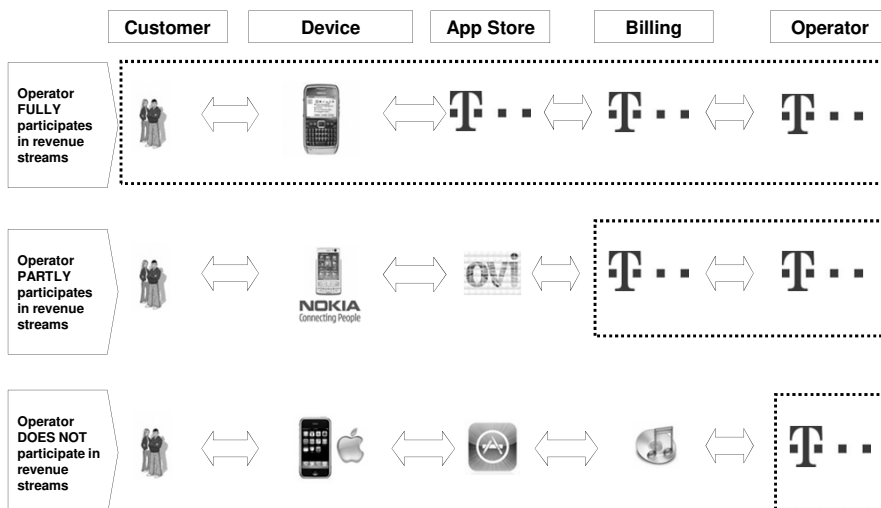
&

NOKIA
Connecting People

London
Business
School

© Prof. Michael G. Jacobides

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



London
Business
School

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...

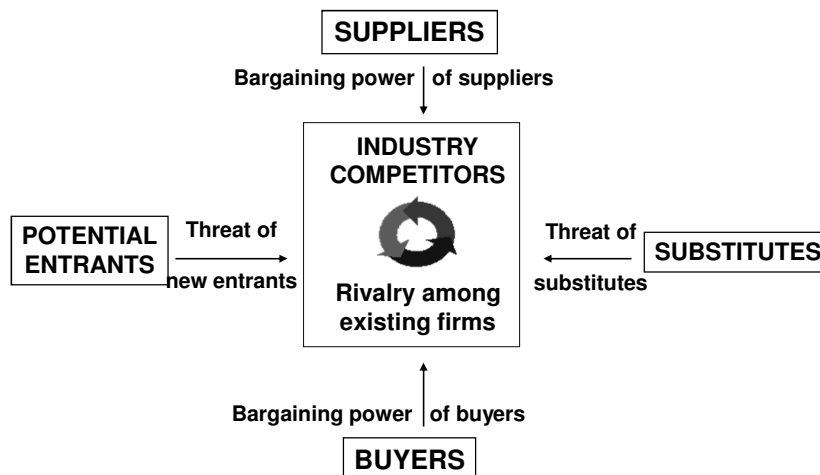
(Academic hat back on, w SGW): Survival of the Reckless:
How the Mortgage Industry Evolved towards disaster

- 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

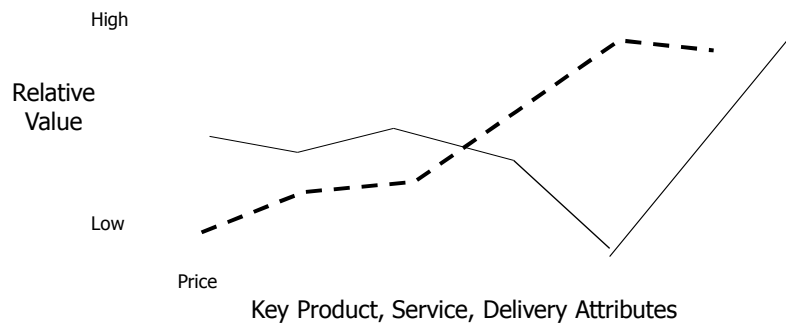
Back on piste. Hang in there...
What does all this show us? (in practice)

- 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



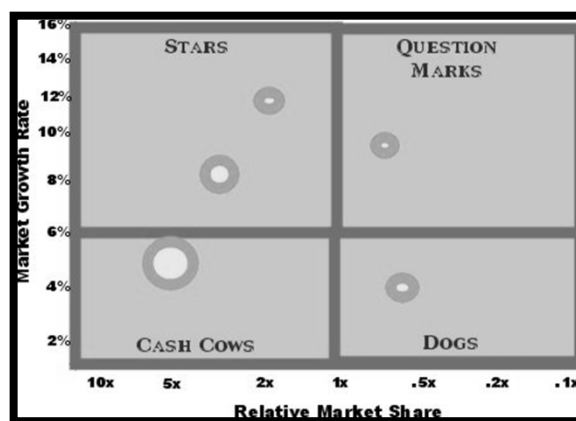
Yet another map: Value Curves and Blue Oceans



London
Business
School

Adapted from: Kim & Mauborgne, 1997, 2009
© Prof. Michael G. Jacobides

And a corporate map: BCG matrix in 2½ dimensions



London
Business
School

© Prof. Michael G. Jacobides

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 controlled
- 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 rethink 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