NOTES AND SUGGESTIONS ON SELF-STUDY QUESTIONS

Chapter 10. Industry Evolution and Strategic Change

1. Consider the changes that have occurred in a comparatively new industry (e.g. wireless communications, video game consoles, medical diagnostic imaging, PDAs, online auctions, bottled water, courier delivery services). To what extent has the evolution of the industry followed the pattern predicted by the industry life cycle model? At what stage of development is the industry today? How is the industry likely to evolve in the future?

Wireless communication

In the US and UK, wireless telephony was introduced by small startup companies. The US leader was McCaw Cellular; the UK leader was Vodafone. The introductory phase featured vertically integrated provision, incompatible technologies, high prices and low-quality service.

In the UK, regulation by the European Commission resulted in convergence to a single technical standard (GSM). In the US, compatibility between different technologies was achieved, but the market system failed to establish a single technical standard (TDMA, CDMA, and GSM coexisted).

Both in the US and the UK the market went through a growth phase as market penetration increased, followed by slower growth once saturation was reached. Maturity involved increased price competition, consolidation among leading players (together with entry by several “virtual operators”), and commoditization of basic voice and text services.

These changes correspond fairly closely to the life cycle model. The main difference is that the industry is subject to periodic bouts of technological change and new product introductions associated with new generations of technology (e.g. 3G).

Looking to the future, maturation and commoditization of basic voice services seems likely to continue. However, market growth and opportunities for renewal and innovation are likely to result from new technology. Key areas of growth will be mobile computing and mobile internet use. This will cause the industry’s boundaries to be redefined and may well create opportunities for new entrants.

2. Select a product that has become a dominant design for its industry (e.g. the IBM PC in personal computers, the Boeing 707 in passenger jets, McDonald’s in fast food, Harvard in MBA education, Southwest in budget airlines). What forces caused one firm’s product architecture to become dominant? Why did other firms imitate this dominant design? To what extent has the dominant design evolved or been displaced?
In all of these examples, the establishment by the companies concerned of a dominant design can be attributed to the following factors:

- **Early-mover advantage**: In all the examples, the companies involved were not necessarily first movers, but all entered the industry during the introductory phase before consensus about design and technology had emerged.

- **Resource strength**: All the organizations possessed strengths in finance, technology, reputation, and entrepreneurial leadership.

- **Robust design**: In all cases, the product or business model did not necessarily offer optimal performance, but it did deliver acceptable performance across several key performance variables. The IBM PC through its modular, open architecture design offered not just a high level of basic functionality, but also the flexibility to adapt and improve. The McDonald’s system that involved franchising, a limited and standardized menu, and meticulously defined processes supported an easily replicated system that offered a combination of reliability, low cost, and acceptable quality.

The designs pioneered by these companies became imitated partly because of their inherent efficacy, but also because of the external economies from convergence around a common platform – in particular, the acceleration of decentralized innovation and cost reduction resulting from the emergence of specialized suppliers of components and support services.

In all cases the dominant design has evolved; in none has it been displaced. In fast food, the McDonald’s system has been adapted through cook to order rather than cook to stock, by expanded menu items, and greater adaptability to local conditions. In MBA education, the Harvard model has adapted through the influence of alternative methodologies for learning: simulation, distance learning, and action learning, and through changing ideas about curriculum content. Of the different models, probably the Southwest low-cost-carrier model has adapted the least.

3. The “resource partitioning” model argues that as industries become dominated by a few major companies whose strategies and products converge, so opportunities open for new entrants to build specialist niches. Identify an opportunity for establishing a specialist new business in an industry dominated by mass market giants.

The discussion of “Organizational Demographics and Industry Structure” (pp. 272–3) refers to “resource partitioning” in the brewing industry: as the industry became increasingly dominated by mass brewers with international, highly advertised brands, so specialist producers – microbreweries and brew pubs – emerged.

Similar phenomena are occurring in:

- **Airlines**: As “legacy” airlines and budget airlines increasingly move towards a low-cost model, so specialist business-only airlines have emerged. In 2006, two startup airlines, Eos and Maxjet, began business class-only flights between London and New York, while Eurofly began flights between Milan and New York.

• **Hamburger restaurants**: The ubiquity of McDonald’s and Burger King has provided opportunities for specialist, gourmet burger restaurants.

4. Consider an industry facing fundamental technology change (e.g. fixed-point telecommunications and internet protocols, the recorded music industry and digitalization, computer software and open-source, newspapers and the internet, automobiles and alternative fuels). Develop two alternative scenarios for the future evolution of your chosen industry. In relation to one leading player in the industry identify the problems posed by the new technology and develop a strategy for how the company might adapt to and exploit the changes you envisage.

Scenario analysis is discussed on pp. 281–2. The key elements are, first, to identify the key forces causing change in the industry; second, to select an appropriate time frame for the analysis; and, third, to identify discrete configurations of outcomes (i.e. specific scenarios in which the different forces converge to a consistent and feasible future situation for the industry).

**Newspapers and the internet**

The challenge for newspapers is that the web offers a cheaper and easier-to-access medium for consuming both information and advertising. However, newspapers have responded by creating their own websites and offering online editions of their papers.

Scenario A is a pessimistic scenario, where competition from online information sources decimates newspaper sales and advertising revenues. Already the impact of the internet is apparent on classified advertising revenues – for most local newspapers classified advertising has declined sharply in response to eBay and websites for real estate and home rentals. At the same time, newspapers are unable to recoup their lost revenues through their own websites. Only a few newspapers have been successful in selling content, and even with free content the newspapers must compete with the websites of TV news channels, independent online publishers (The Slate), and specialist online information sources for financial news (Motley Fool), sport (Yahoo sports), and weather (www.weather.com).

Scenario B is an optimistic scenario. Despite competition from online information sources and cannibalization for the newspapers’ own online editions, print sales hold up well as result of their portability and many readers’ preferences for browsing the columns of a printed newspaper. At the same time, online, the newspapers are able to establish successful websites that extend readership to a new audience. In meeting competition with other sources of online information, newspapers are able to establish key advantages: reporting coverage, reporting credibility, and quality of analysis and commentary on current events. As a result, newspapers’ online readership remains high and proves attractive to advertisers.
Scenario A offers little opportunity for newspapers – the only viable strategy is to cut costs and manage for decline, hoping to maximize the period of survival and also to generate positive cash flows. Given the glamor of newspaper ownership to some rich individuals hoping to exert popular and political influence, a viable exit strategy may be to sell out to such a buyer.

Scenario B points to a possibly rosy future for the newspapers. The potential for scenario B should lead to a strategy designed to maximize the returns from such a scenario; it might also attempt to put in place the conditions that might encourage the emergence of such an outcome. A critical element of scenario B is that newspapers’ most important resources in an online world are their traditional reporting, analytical, and editorial capabilities. Given the multiplicity of information sources, it may be that capabilities of analysis and assessment become even more important. For newspapers with a strong national and international reputation – Financial Times, New York Times, Wall Street Journal, Times of London – the opportunity is to expand the overseas readership through the internet.

For local newspapers, the critical competitive advantage will be their intimate knowledge of local communities and local events. The critical issue will be to offer this specialized knowledge to a geographically wider audience.

More complex strategic issues exist for tabloid newspapers. Lacking strengths in international newsgathering and news analysis, how will they position themselves given the massive availability of showbiz gossip and sports news on the web?