Research Brief

Seven Principles for Fast-changing Industries: Lessons from the CIME sectors

Gregory Gimpel
Postdoctoral Associate, MIT Center for Digital Business

George Westerman
Research Scientist, MIT Center for Digital Business

April 2013

Special thanks to Cognizant for sponsoring this research project

---

This research brief is adapted from the monograph “Shaping the Future: Seven Enduring Principles for Fast-changing Industries” by the same authors, published February 29 2012.
For more information, please visit our website, or contact us directly by email or phone:

digital.mit.edu
digital@mit.edu
(617) 253-7054
The dizzying pace of innovation – from well-funded firms as well as dorm rooms and garages – continues to reshape industry after industry. Emergent players rise to prominence while long-established firms face seemingly insurmountable challenges to their business models. How can executives in fast-changing industries make sense of the complexity?

The communications, information, media, and entertainment (CIME) industries provide useful insights for digital strategy in many industries. CIME are among the most dynamic sectors today. Cheap digital technologies and new internet-enabled efficiencies challenge the roles many incumbent firms play in the value chain. Studios, publishers, broadcasters and other CIME firms face difficult choices in the face of industry change and fast-moving startups.

Our study of challenges facing CIME executives identified seven principles to help them make sense of the dizzying array of options they face. These principles apply not only in CIME but also in many other industries facing digital challenges.

**Fight fire with fire**

Trying to regulate away technological change rarely works. In the CIME sector, it didn’t stop the radio or VCR, and it isn’t working now as anti-piracy initiatives like SOPA and PIPA fail in Congress. What has worked many times in the past, however counterintuitive as it may be, is creating new opportunities by embracing the threat. For example, radio, which provided free music, became a marketing platform for companies selling records. Home video, a piracy-prone technology, became the profit center of movie studios. Today, ad executives are finding that people remember advertisements better when given the option to skip them after a few seconds. Major news outlets such as The Washington Times and NPR are incorporating citizen journalism as a way to lower costs and cover events that would otherwise go unreported.

We live in a digital world powered by the internet, where incumbents have as many opportunities as startups to redefine the competitive landscape. It is time to devise a strategy that embraces the forces of change and leverages them in your favor, or risk ceding leadership to someone else.

**Disrupt yourself**

Seek innovative ways to increase the value you provide to existing and emerging customers, even at the expense of current revenue streams. For example, Magnolia Pictures began offering its films via pay-per-view prior to their theatrical release. This strategy violates the traditional release windows for theatrical movies, but has become a thriving business model for Magnolia. A willingness to engage in creative destruction of the current business model helps prevent others from sneaking up and disrupting your business. Experiments can remain small to avoid cannibalizing key revenue sources. Having new capabilities in place will allow for quick scale-up when needed. If you’re not already engaging in self-destructive experiments, you should begin the moment you detect a potential threat.

**Leverage the right assets**

Successful firms are built upon a set of strategic resources which are VRIN: Valuable, Rare, Inimitable, and Non-Substitutable. However, as a market changes, what is VRIN will often change. Resources that provided a strong competitive advantage in the past may provide little strategic value in the future. Worse still, formerly valuable resources may become liabilities that drag an industry leader down.

For example, when Netflix shook up the home video market, Blockbuster combined in-store rentals with a DVD-by-mail service. The brick-and-mortar locations differentiated Blockbuster,
but video-by-mail customers had little interest in driving to a video store. Therefore, the stores that defined the VHS era no longer offered meaningful value to a large segment of the market. What at first glance seemed like a competitive advantage really was a liability.

In the face of radical change, incumbents prosper only if they can identify and build upon strategic resources that will remain valuable after the market changes. Firms that base their future plans around sunk costs and outdated resources will find themselves in great peril.

You can succeed by recognizing a shift in strategic resources. For instance, as consumers shifted from Yellow Pages books to online searches, France’s Pages Jaunes Groupe began to see its revenue drop 10% per year. Rather than double down on print directories, the firm’s leaders went digital. They leveraged the firm’s greatest competitive resource – its close relationships with local small businesses – to launch mobile and online services that couldn’t be matched by the global search engines like Google. The company has leveraged these relationships to stabilize its shrinking revenues and become the third largest internet destination in France.4 5

Focus on value, not structure

Traditionally, companies have been defined by their place within the value chain or the type of product or service they provide. Over time, businesses and industries structure themselves around their processes. These structures often become rigid, causing firms to define themselves by what they do, not how they add value. This creates opportunities for you – or your competitors – to break from tradition and offer a better value proposition to the end consumer.

For example, telcos spent billions building wireless networks expecting to charge high fees for premium services. But other companies provided internet-based apps and services over-the-top (OTT) of the telcos’ networks. These OTT offerings resonated with consumers, creating profits for developers while commoditizing the telcos’ infrastructure.

Verizon and AT&T learned this lesson. They are now offering services that are independent of their infrastructure. Verizon teamed with Redbox to launch a subscription video service and AT&T streams free content through www.verse.com. Both deliver video over the internet to viewers regardless whose telecommunications network they use.

Rethink your core business

Focusing on value can mean redefining who you are. Value chains evolve as they adjust to add efficiency and manage transaction costs. As such, industry structures built to manage yesterday’s transactions may no longer be effective when faced with new ways to produce goods and services or coordinate work. For example, Wikipedia introduced an effective and inexpensive model for producing and editing reference literature.

During times of significant change, think beyond firm-specific roles and take a larger look at how sources of value are changing. The best way to accomplish this is through a simplified view of the industry.

We have identified three key roles that provide value in the value chain.

- **Production** is creating content or manufacturing the media that holds the content (book, DVD, etc.).
- **Search** is matching different parties together so they can trade. It can be matching consumers and content or bringing together the factors of production.
- **Delivery** is getting information goods from one point to another.

New technologies fundamentally change the production, search, and delivery roles. Video can
be shot with a cell phone. Anyone can bypass traditional gatekeepers and deliver copies of their video via YouTube or sell their self-published books through Amazon.

By thinking in terms of how you fundamentally add value, you can better understand how industry changes will affect you. New problems need a new way of visualizing them. A key-role value chain analysis can help you see both the big picture as well as the transactional changes in your industry.

**Don’t stare in the mirror**

Look beyond your place in the value chain. Radical industry change can originate inside or outside traditional industry boundaries. For example, the website Craigslist stole the classified business from newspapers. Apple became a major movie distributor. A small group of Skype programmers reshaped telecommunications.

Scan your entire industry, not just a specific sector. Pay attention to how the value chain is changing. What is happening upstream and downstream, and how does it affect the supply of your inputs or demand for your outputs? Then look to other industries. Are they managing products or services that are similar to yours?

Identify potential systemic changes in supply and demand. Consumer tastes may have changed or competitors may be offering very different value propositions.

Some firms are looking well beyond their traditional businesses. For example, leading educational publishers such as Wiley and Pearson are adapting to the changing demands of customers, who want results rather than tools. They are shifting from a focus on selling books to delivering outcomes. They are introducing systems that measure the performance of each student and custom-deliver the specific content needed to master the subject.

**Focus on platform engagement**

Changes in technology dramatically alter the way that different parts of the value chain engage each other. Increasingly, digital platforms serve as intermediaries through which business is conducted. A platform is a foundational technology or service that is used beyond a single firm and is subject to network effects, which means that its value is based on the number of users. Platforms provide connectivity, expand variety, match different users with each other (i.e., suppliers and consumers), and set prices within the market. The platform determines the rules that mediate the transactions among users.

Platforms are the gateways through which CIME firms will engage with their customers to transact business. This trend has already begun, and it will continue in the future. YouTube matches advertisers with viewers. Hulu brings content from many producers together with advertisers and viewers. Amazon eliminates the traditional gatekeepers to publishing and retail. Netflix provides an additional release window for studios, and another platform that viewers can use to find their favorite content.

Key to a successful strategy will be your production, search, and delivery functions within the platform-mediated market. Subject to network effects, size is important, but competitive advantage will still be determined by strategic resources. To succeed, you do not have to own or control the platform. You must, however, make a VRIN contribution to the ecosystem. And the platform ecosystem as a whole must offer a unique value proposition or another platform will dominate.

**Conclusion**

The dizzying pace of technological change can overwhelm even the best executives. Leaders need new tools to navigate the increasingly dynamic marketplace – to make sense of the complexity. These principles will help you to evaluate your competitive position, assess your
rivals, and successfully plot your strategic direction.

Notes