Introduction

- Richness versus Reach Tradeoff
  Importance to the customer
- Deconstruction adaptability
  Changing with the needs of the customer
- Adapting to Change
  Find new competitive advantage

A Cautionary Tale

Encyclopedia Britannica

Start by analyzing their
Target Market
Then look at the
Marketing Mix

Britannica’s Marketing Mix (Circa 1990)

- Target Market:
- Benefit Sought:
- Product offer:
- Promotion and Placement:
- Price: $1500-$2200
  - Marginal costs: $250 production
  - $500-600 commissions
- Overall Assessment: good profit margins and dominant market share: steady sales growth

Where did the Threat come from?

- Use Porter’s Five Forces Model
- Rivalry among established firms?
- Bargaining power of Suppliers?
- Bargaining power of Buyers?
- Risk of entry by Potential Competitors?
- Threat of Substitute Products?

CD ROM Encyclopedias

- Significantly eroded Britannica’s competitive advantage:
- Product: virtual textbook
- Promotion, Place, and Price: free bundle with new CD-ROM players(MC=$1.50)
- Competitive Advantage: altered the industry by reinventing the product. The market didn’t change but the nature of the competition did.
- Britannica vs. the PC not the CD-Rom.
Lessons
- Marketing Research Errors: failed to assess target market’s value perceptions of PC and encyclopedias.
- Trade off: Price and Convenience vs. Quality
- Marketing Mix Errors: Even after identifying the threat stumbled in developing a new competitive product;
- Result: precipitous loss of market share and sales;
- profitability evaporated

Broader Lesson: “The New Economics of Information”
- Established companies need to constantly focus on how new (IT) technologies affect their markets and competitive advantage.
- Fatal error: failing to understand and anticipate the potential impact substitutes to their competitive advantage within their market segment

Richness and Reach
- In the recent past…
- Basic law governing information: “... the universal trade-off between richness and reach.”
- Richness – quality of information as defined by the user
- Reach – the number of people who participate in the sharing of that information

The Traditional Trade-off

Old Economics of Information
- Rich information was delivered by physical closeness or channels such as retail stores, sales forces, or proprietary computer networks;
- The high costs and/or physical limitations of the channel hinder the extent of reach from being high with rich content.

Practical examples...
Where are these on the continuum?
Phonebook – Salesman –
In Corporate supply chains: the number of businesses a company deals with is proportional to the richness of information that is necessary/possible to be traded.
Asymmetries of Information

- “differences in knowledge among people or companies affect their bargaining power.”
- These asymmetries result in higher costs to the disadvantaged party
- Intermediary control of rich information results from privileged access to channels.
- Examples?

New Economics of Information

- Digital networks allowing large numbers of people to share rich information.
- The ideal of high reach / high richness is becoming a reality.
- Two forces driving the blowup:
  - explosion of connectivity
  - adoption of common information standards
- Examples?

The Traditional Trade-off

### Richness vs. Reach

- New higher levels of richness / reach

The Traditional Trade-off

**Richness**

**Reach**

New Economics of Information

- “Standards in Information Technology are characterized by a snowball effect: the greater the number of people using them, the more valuable they become, and therefore the greater the number of people motivated to use them.”
- Competitive advantage increases as the popularity of the standard increases.
- Examples?

Lessons

- **Changes** in the richness / reach trade-off will “blow up” economic relationships.
- **Old economy assets** will become expensive liabilities in the new economy.
- Inexpensive, open extranets will allow many companies to bid supply contracts.
- **Hierarchical corporate structures will dissolve**
  - This process of change is known as...

Deconstruction

- “Dismantling and reformation of traditional business structures”
Newspaper Industry

- Traditionally newspapers bundle information in order to serve a wide range of customer needs.
- Classifieds in print offer high profit margins
- Papers must find a way to maintain competitive advantage

Retail Banking

- Traditionally the retail banking industry has thrived on maintaining customer relationships.
- These relationships opened the door for banks to offer their customers a wide variety of financial services.
- Smart banks will be product specialists or navigators.
- Financial software makes customers less dependent.

Automobile Industry

- Competitors are changing
  - Old vs. new channels
- Advantages of each
- Manufactures considering going into direct market
- New car markets/used car markets
- Sources of resistance to change

Lessons of Deconstruction

- Knowing which parts the business are vulnerable
- Businesses can not stop deconstruction, but must learn best way to adapt.
- After adaptation firms must find new competitive advantage

The generic value chain

- Primary activities
- Support activities
- Firm infrastructure
- Human resource management
- Technology development
- Procurement
- Inbound logistics
- Operations
- Outbound logistics
- Marketing and sales
- Service

What we Learned

- Firms must understand how important service is to their customers
- Adaptation is a major Key Success Factor (KSF) for businesses that are vulnerable to deconstruction
- Channels of business are subject to change
Old Economics of Information

- "The communications mix is thus the apportionment of information resources across a trade-off between richness and reach."