

Systems Competition and the Antitrust Challenge



AAI Invitational Symposium: Systems
Competition

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AAI Symposia: Background



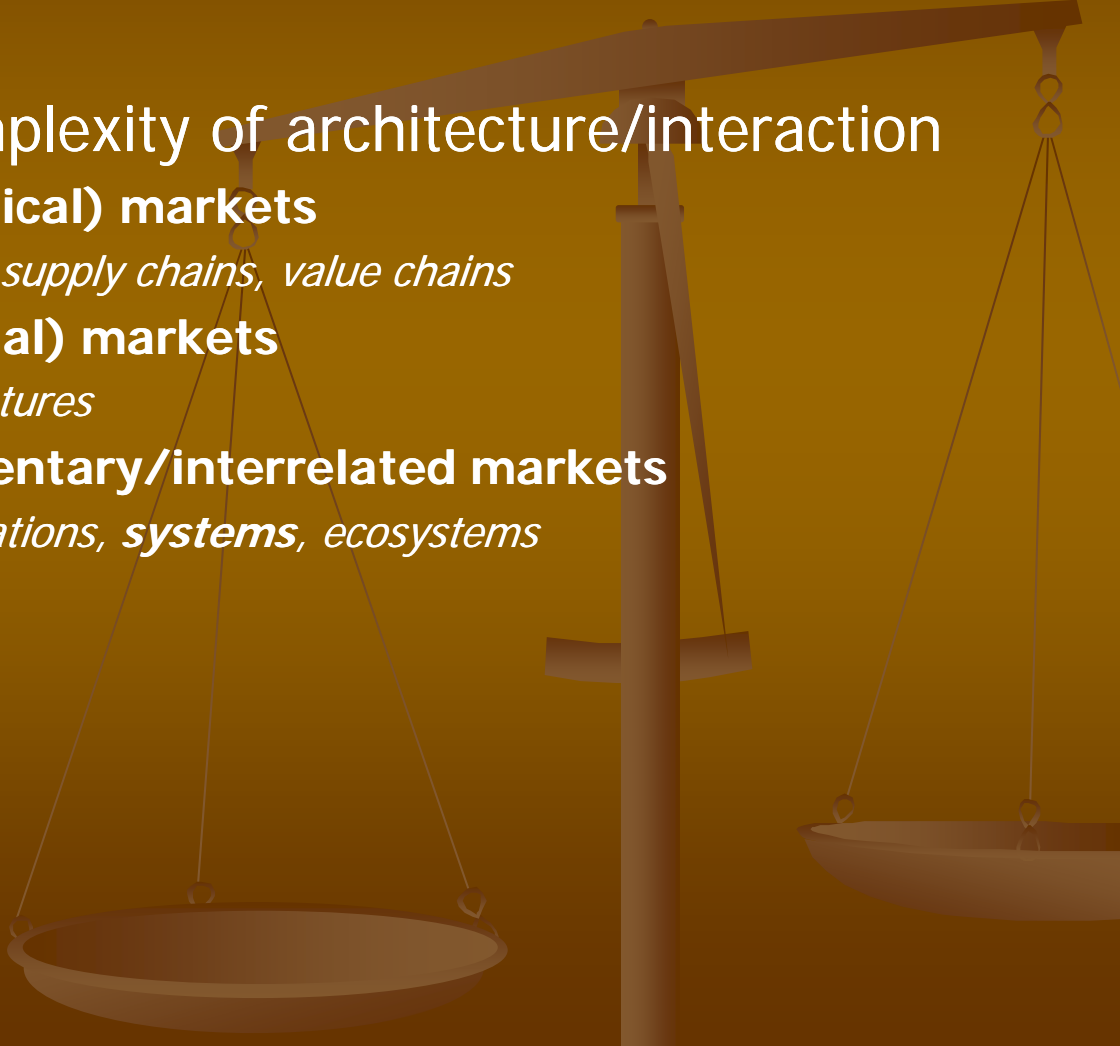
■ Nature

- **Description.** Identify and describe emergent competition related phenomenon
- **Existing insights.** Examine and assess extant understanding in antitrust
- **New insights.** Examine new insights for added understanding
- **Implications.** Explore implications of combined insights for antitrust

■ Past

- **Recurrent symposia theme.** Complexity of marketplace
 - Systems and systems competition
- **Other AAI contributions.** Projects, cases, workshops and conferences

Systems

- **Definition.** Systems comprise combinations of complementary market relationships and/or sets of interrelated markets linked by interfaces.
 - **Rubric/structure.** Complexity of architecture/interaction
 - **Complementary (i.e., vertical) markets**
 - *Vertical marketing systems, supply chains, value chains*
 - **Interrelated (i.e. horizontal) markets**
 - *Strategic alliances, joint ventures*
 - **Combinations: Complementary/interrelated markets**
 - *Networks, clusters, constellations, **systems**, ecosystems*
 - **Examples**
 - Agriculture
 - Transportation
 - High technology
 - Telecommunications
 - Media
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Systems Competition



- **Structural aspects**

- Intra-system competition (i.e., within system)
- Inter-system competition (i.e., between systems)
- Tradeoffs (i.e., intra v. inter systems)

- **Dynamic aspects**

- Spatial configuration (i.e., system components)
- Temporal progression (i.e., system evolution)


- **Other aspects**

Antitrust Challenge

- **Growing ubiquity of systems**
 - Challenges for achieving rivalry and benefits of competition
- **Complexity of systems and systems competition**
 - Challenges for analyzing systems competition issues applying conventional understanding in antitrust

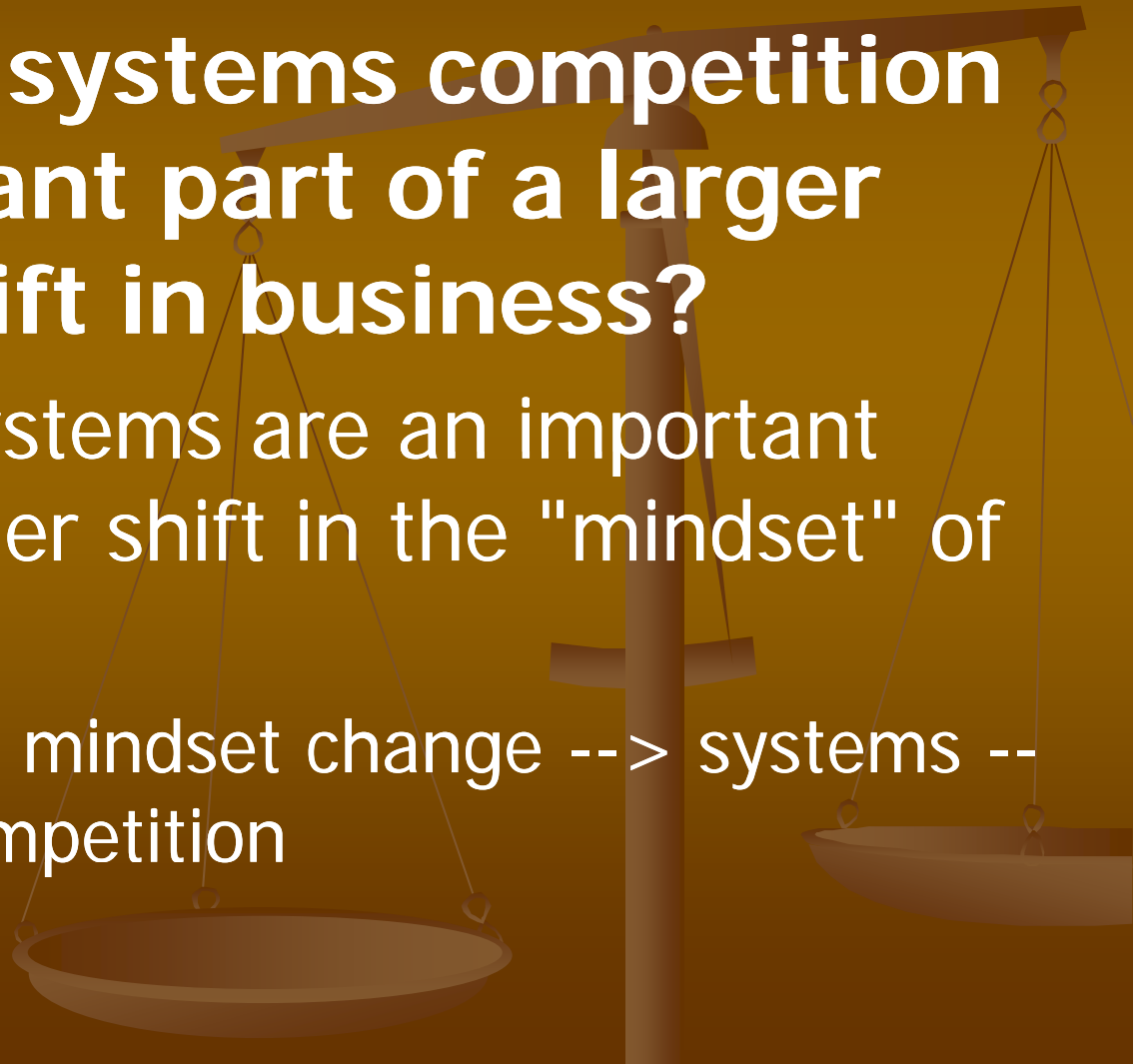


AAI Invitational Symposium: Systems Competition

- **Goal.** Build on existing economic and legal analysis of systems together with other disciplinary perspectives
 - Offer insight into how antitrust enforcement can address the competitive questions and issues that relate to systems competition
 - **Format.** Overview
 - **Description.** Case illustrations of systems issues
 - **Existing insights.** Analyzing the competitive implications of open and closed systems
 - **New Insights.** More than law and economics? Integrating other academic disciplines on systems competition
 - **Implications.** Roundtable discussion
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Larger Context of Systems and Systems Competition

- **Systems and systems competition as an important part of a larger change or shift in business?**
 - **Intuition.** Systems are an important result of a larger shift in the "mindset" of business
 - **H1:** Business mindset change --> systems --> systems competition



Shifting "Mindset" of Business

Lusch, Vargo and Tanniru (2009)

- **"Both supply chain management (SCM) and marketing in general have been moving from models and purposes narrowly focused on goods to more general models and purposes associated with partnerships, value networks, service provision and value creation"**
 - **Prior**
 - "Yesterday's logic, which continues to linger, focused on separating the producer from the consumer. This was done for maximum production control, efficiency and profit maximization and usually accomplished by standardizing the product and producing it away from the market"
 - **Emergent**
 - "In contrast, the emerging logic is focused on the interaction of the producer and the consumer and other supply and value network partners as they co-create value through collaborative processes"

Prior v. Emerging Mindset

-Foundations-

Prior

- **Theory**
 - Neoclassical economics
- **Orientation**
 - Production and distribution of goods to consumers at a point in time
- **Value**
 - Value in exchange
- **Price**
 - Value at time of transaction
- **Consumer**
 - Exogenous



Prior v. Emerging Mindset

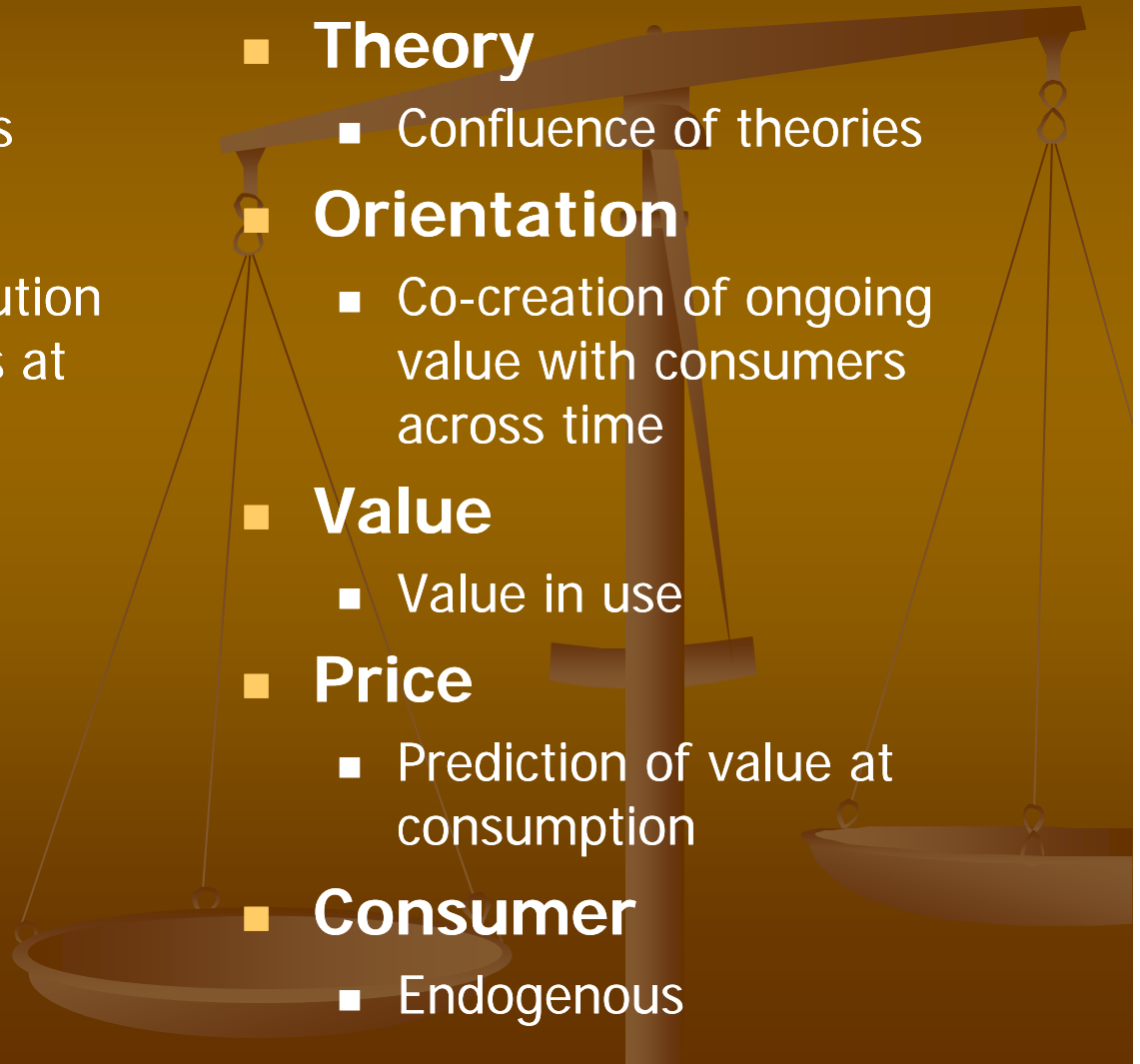
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Emergent

- **Theory**
 - Confluence of theories
- **Orientation**
 - Co-creation of ongoing value with consumers across time
- **Value**
 - Value in use
- **Price**
 - Prediction of value at consumption
- **Consumer**
 - Endogenous



Prior v. Emerging Mindset

-Role of Firm-

Prior

- **Management focus**
 - Production/distribution of "ready-made" value at a point in time
- **Marketing**
 - Marketing *to* consumers
- **Products**
 - Production "outputs"
- **Competitive advantage**
 - Valued differences in goods
- **Performance**
 - Financial success as goal and measure



Prior v. Emerging Mindset

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Emergent

- **Management focus**
 - Facilitation/support of processes for co-creating ongoing value
- **Marketing**
 - Marketing *with* consumers
- **Products**
 - Value "appliances"
- **Competitive advantage**
 - Valued differences in processes
- **Performance**
 - Financial success as feedback and signal

Prior v. Emerging Mindset

-Interfirm Infrastructure/market architecture-

- "... a shift from a central focus on supply and the movement of tangible materials for manufacturing to a broader focus on partnerships, relationships, networks, value creation, and value constellations is evident"
 - Emergent concept. "A *value network* is a spontaneously sensing and responding spatial and temporal structure of largely loosely coupled value proposing social and economic actors interacting through institutions and technology, to: (1) co-produce, (2) exchange and (3) co-create value."

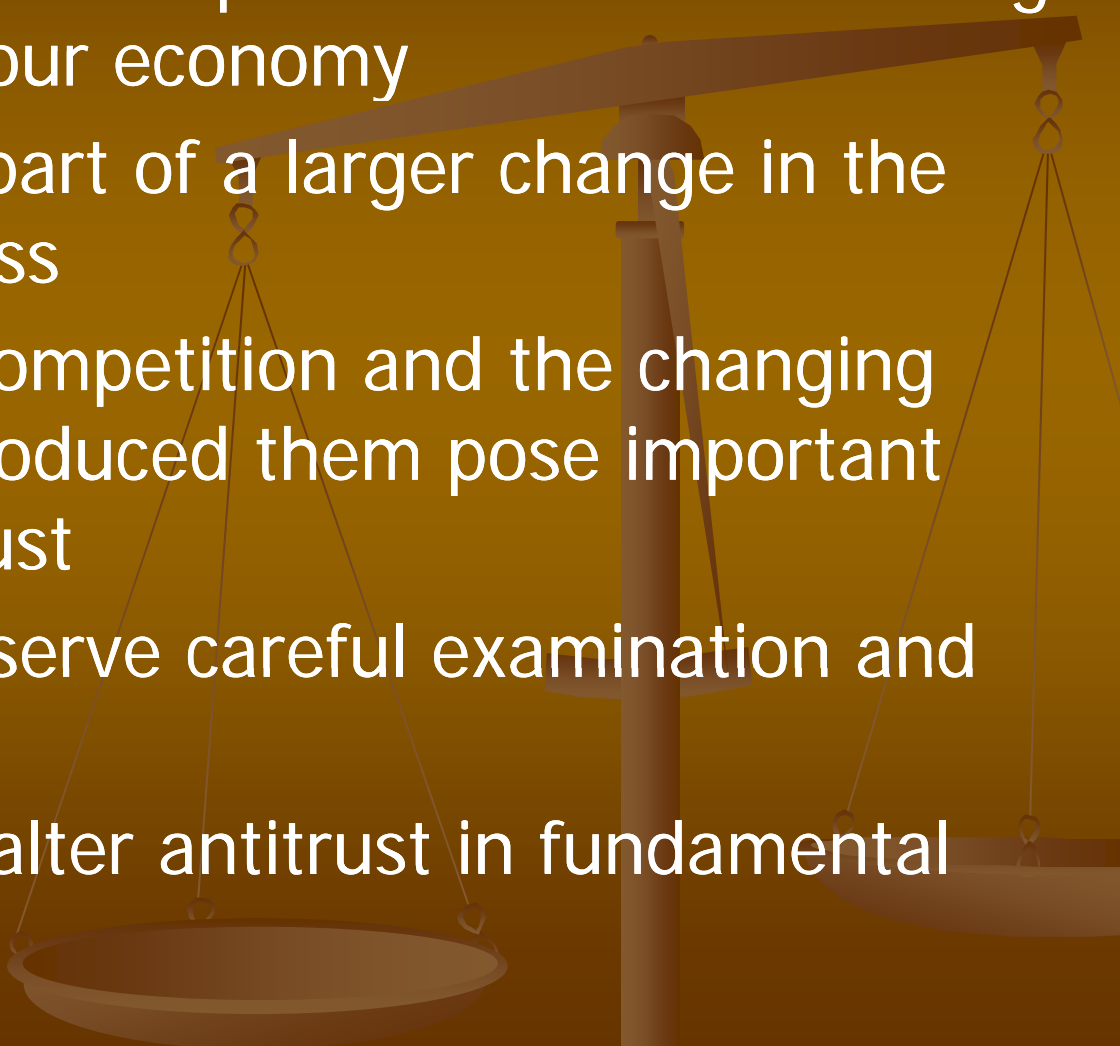
Implications for Antitrust

- "Mindset" and Systems -

- **"Market" definition**
 - Scope of competition?
 - Identification of competitors?
- **"Market" power**
 - Sources?
 - Locus?
 - Assessment?
- **Competitive conduct**
 - Nature?
 - Strategies/abuses?
- **Remedies**
 - Structure?
 - Implementation?



Tentative Conclusions

- Systems and systems competition are an increasing phenomena within our economy
 - They appear to be part of a larger change in the "mindset" of business
 - Systems, systems competition and the changing mindset that has produced them pose important questions for antitrust
 - These questions deserve careful examination and inquiry
 - The answers could alter antitrust in fundamental ways
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More Than Law and Economics?

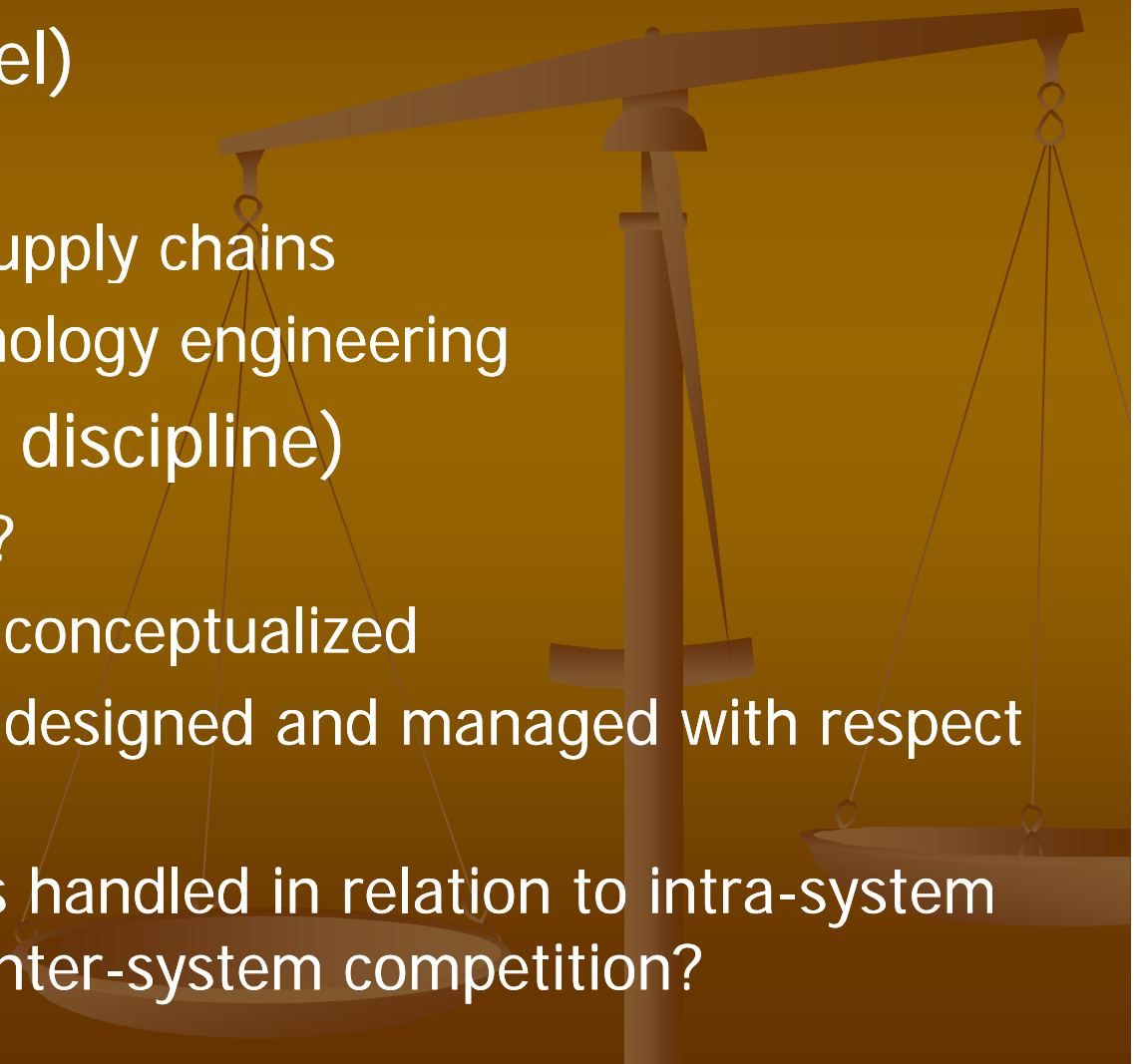
Integrating Other Academic Disciplines on Systems Competition

- **Disciplines (panel)**

- Sociology
- Global business supply chains
- Information technology engineering

- **Questions (each discipline)**

- What is a system?
- How are systems conceptualized
- How are systems designed and managed with respect to competition?
- How are tradeoffs handled in relation to intra-system competition and inter-system competition?



More Than Law and Economics?

Integrating Other Academic Disciplines on Systems Competition

- **Gary Gereffi**, Professor, Department of Sociology and Markets & Management Studies Program, Duke University
 - **Barry C. Lynn**, Senior Fellow, New America Foundation
 - **Brian Fitzpatrick**, Engineering Manager, Google
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