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thinks about technology policy

April's Dollars & Deals: The Broadband Value Circle

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In April, Apple announced that it had sold every iPad2 it could make in the first quarter, and almost ten million more iPhones than it had sold the previous year. AT&T and Verizon's earnings reports reflected the benefit each garnered from partnering with Apple, and Nokia's emphasized its new partnership with Microsoft. Google said that mobile search was creating "brand new monetization opportunities," aided by the success of its Android mobile operating system.

Meanwhile, the Los Angeles Times reported that "[r]etail giants such as Wal-Mart Stores Inc., Amazon.com Inc., and Best Buy Co., Internet television provider Hulu, and satellite broadcaster Dish Network Corp. are weighing plans to launch online subscription video services or expand nascent ones to take on Netflix," the streaming video entertainment company that has caused, "more than its share of headaches in Hollywood."

What's going on? We're used to analyzing dynamic markets by looking at market caps, iconic products, visionary leadership and traditional forms of industrial organization, like the value chain that, link-by-link, traverses a path from consumer to retailer to multiple, and increasingly distant, levels of wholesalers and suppliers.

Recently, the University of Southern California Annenberg Innovation Lab published, "The Creation of Value: The Broadband Value Circle and Evolving Market Structures," where I offer my views on the creation of value and competition.

The traditional value chain is a hierarchical ordering of inputs that results in the ability of one firm--a manufacturer of automobiles, for example--to offer a finished product directly to consumers.

Today's broadband marketplace is witnessing the rise of an alternative structure--the "value circle." Here multiple companies, not necessarily in the same product markets, are able to offer competing packages of value to consumers.

Thus, in the wireless broadband market, firms that manufacture devices, supply connectivity, engage in e-commerce, create software, or provide search are all creating new economic surplus in the marketplace for broadband wireless services.

Think the introduction of the iPhone in 2007, the seismic shift in which a device manufacturer created a direct, and very successful, relationship with consumers. Or Google's Android operating system and Google-branded devices. Or Amazon's Kindle, which includes 3G wireless connectivity. And, of course, AT&T and Verizon, each simultaneously partnering and competing against Apple (through the introduction of competitive devices).

This is a new form of economic organization that permits multiple firms, once walled off from one another in distinct product-market categories, to compete, cooperate, buy, and supply products and services from one another in order to satisfy customers that are able to buy from any one of them.

Signs of the same dynamic are appearing in the marketplace for video entertainment programming.

The distribution of television shows used to be straightforward. Studios produced programs, distributed them to broadcast networks (sometimes these were vertically integrated) then sent them along to local television stations, which then broadcast locally into simple devices (televisions) that were located in people's homes.

This was the world of "I Love Lucy" and The Beatles' inaugural performance on The Ed Sullivan Show.

Not any more. Consider "A Very Glee Christmas," which premiered on the Fox network December 7, 2010. As Fortune magazine recently noted, the episode was also available for viewing, in different time windows with different fee arrangements, over Fox.com, Hulu, Comcast's Xfinity, Amazon.com, iTunes, and Netflix.

At the same time, content providers are experimenting with new channels of distribution of their own, including dedicated apps (like ABC's), joint ownership of distribution outlets (like Hulu), and direct provision of content through social networking sites (like Warner Bros.' recent rental of "The Dark Knight" through Facebook).

Is this a new contest between content and distribution? Do content providers need to self-distribute, the way device manufacturers like Apple and Google created direct consumer relationships? Can proliferating forms of distribution avoid commoditization?

We don't know. And that's because the world of emerging value circles is dynamic and swift, with competing combinations of value changing in rapid succession.

So swift, for example, that the Flip camcorder went from instant success to obsolescence in.....less than four years. Causing one commentator to remark, "Even by the standards of today's fast-paced technological change, the life story of the Flip camcorder happened at breakneck speed."

In other words, in markets with value-circle characteristics:

1. many companies, traditionally associated with different product markets, can nonetheless offer competing combinations of value directly to the same audience of users;

2. the market is dynamic and swift, with competing combinations of value changing in rapid succession; and

3. consumers, because they place value on the new value propositions, benefit directly from new forms of value, embodied in additional choices in the marketplace.

There's a lot to watch. For more, see www.broadbandvaluecircle.com.

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