

BLOWN TO BITS

How The New Economics of Information Transforms Strategy

PHILIP EVANS and THOMAS WURSTER

PHILIP EVANS is a Senior Vice President of the Boston Consulting Group and co-leader of the firm's Media and Convergence Practice Group. He has co-authored three articles published in the Harvard Business Review and is a frequent speaker on the subject of the new economics of information.

THOMAS WURSTER is a Vice President of the Boston Consulting Group who leads the firm's Los Angeles office. He is also co-leader of the Media and Convergence Practice Group, and works with leading media, consumer product and e-commerce companies.

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MAIN IDEA

Embedded implicitly within most traditional business models is a trade-off between richness and reach -- A business could either serve a small niche market providing a highly personalized product at a premium price (richness) or it could take a commodity style approach by attempting to deliver a value package to the broadest possible market at the lowest sustainable price (reach).

The connectivity and standards of the Internet, however, removes that trade-off by making it feasible to deliver a "rich" product to the greater "reach" of the broader general market. As a result, the flow of information is altered within the marketplace. As that information flow varies, traditional business-to-business relationships, value chains, supply chains and other business elements are deconstructed and reconfigured in new and different ways.

Importantly, however, the reconfigured business elements will each still respond to the same strategic principles they have always worked with. What will be required, however, will be a rebalancing of strategy to take into account that the objects those business elements are going to be working with will be different once the deconstruction process has occurred.

Therefore, in the Internet era, what's required is not so much a new set of strategic principles as a realignment of the existing principles.

Section 1 -- Information, Richness and Reach Page 2

Every business uses the access to information as the structural "glue" which holds value chains, supply chains and organizations together. The Internet is melting that glue and forcing radical changes to take place. In particular, the historical trade-off between richness and reach is being restructured as that glue melts.

Section 2 -- Deconstruction and Disintermediation Page 3

Deconstruction and disintermediation are the two processes by which the added value created by the unbundling of products and information will be taken from incumbents and delivered to consumers.

A business really has only two choices:

1. Take the initiative and deconstruct customer relationships.
2. Stand back and let someone else benefit by doing it.

Section 3 -- Emerging Competitive Strategies Page 4

The deconstruction of the supply chain linking consumers, retailers and suppliers provides an opportunity for a new entity to emerge -- the navigator. These are new generation intermediaries that provide one key benefit -- shortcuts through a vast sea of options to the best choice.

Navigators compete in three dimensions:

1. On reach
2. On affiliations
3. On richness

In most industries, navigators will ultimately end up securing the majority of the new added value created unless the incumbents can add richness at a faster rate than the navigators are..

Section 4 -- The Deconstruction of Industrial Supply Chains and Organizations Page 6

The same principles which apply to the reshaping of the consumer supply chain apply with equal validity to industrial supply chains and business organizations. As the trade-off between richness and reach blows up, new organizational structures and new supply chains based around different standards will emerge.

Section 5 -- 12 Guiding Principles Page 8

12 principles which assist the process of rethinking strategy in an era of deconstruction and change:

1. Never assume current definitions will be valid in the future.
2. Deconstruction occurs where incumbents have most to lose.
3. There is always a significant first-mover advantage.
4. Deconstruction may be a hybrid mix of four approaches.
5. Business strategy will shape the outcome.
6. The value of applying the right strategy will increase.
7. Restructured business definitions will rarely align with the old.
8. Incumbents will find acting on new strategies difficult.
9. Existing structures automatically protect the status quo.
10. There must be a willingness to learn from mistakes.
11. New business processes will be required.
12. Incumbents are in the best position to become insurgents.

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