Managing Disruption - The Rise of EnterTech

As a company living in either the Technology or Entertainment space, the last twenty years have been very interesting, and challenging, times.

Hewlett-Packard has had to find double digit cost saving annually in its printer business just to remain completive with new entrants and imports. *IBM* has had to deal with the ending dominance of its famous mainframe business line and the emergence of first the PC and now cheap one CPU blade servers as the computers of choice by most companies. Large application software companies like *Microsoft* and *Oracle* have seen their propriety business models be effectively challenged by Open Source and Freeware. The drive for new markets and uses for their products have become the mantra for technology companies. The key demographic has shifted from White Collar Workers to the GenX and GenText age groups.

For Entertainment / Content companies, the last twenty years have been about retaining audiences in light of the numerous competing sources of entertainment. There is also the aging and jading of the global population. For movie studios like *Fox Studios* and *Sony Pictures*, the emergence of Direct-to-Video and soaring costs of film production have squeezed profitability and hastened the drive to replace sets, location shoots and even actors with *Computer Generated Images* (CGI). Cable networks and PayPerView programming on the Internet have threatened the reach, impact, and advertising revenues of the Big 4 mainstream Television Networks. New distribution channels like the iPod have altered the fabric and raison d'etre of *Capitol Records*, while *MySpace*, to the dismay of film and music festivals everywhere, has become the primary distribution channel for unsigned bands and fledging movie producers / directors. To lure audience, entertainment companies now need to put on the screen bigger, better, flashier and awe-inspiring productions, which translates into the embrace, development and application of technology tools and techniques. This has triggered the emergence of entertainment tools companies (and corporate subsidiaries) like *Lucas Arts®* and *Industrial Light and Magic®*.

We are only now beginning to see the darkening outlines of the long predicted convergence of Technology with the Entertainment world. Various publications and universities have started to term this new industry where it is hard to distinguish between the entertainment portion and the technology portion (think of what the viewing experience of seeing *The Lord of the Rings* or *Harry Potter* would be like without CGI and Blue Screens), as ***EnterTech***.

For those companies (and consumers) fortunate or unfortunate enough to live in and care about this space, there are a number of key strategic questions which must be addressed:

- How do companies utilize these new disruptive technologies to gain Competitive Advantage? Or to increase profitability? Or even to just simply survive?

- How do companies identify consumer entertainment trends / wants and either develop new products to exploit these trends or determine when / where / how to adopt these technologies?
- Companies must ask them themselves, are we a Technology Tools Company? Or an Entertainment Company? Or a User Experience Company?
- How do investors or consumers identify which companies will be the winners in this race for the dominance of the entertainment dollar (e.g., the Betamax vs. VCR choice)?

The first of these questions is the most interesting. As technology companies try to move into entertainment (e.g., *Apple*) and entertainment companies become more technical (e.g., *Fox Sports*, *MSNBC* & *NBCi*), one must ask who is making the best transition? And can we identify those common traits and behaviors which will identify the winners in this race to control the consumer entertainment experience?

So far, the record of entertainment companies moving into technology is not promising. *Sony*, the well-regarded leader in consumer electronics and entertainment, has faltered badly when it has come to merging technology and entertainment. The company which invented the Walkman®, failed to see that the iPod® is simply a Walkman® with a hard drive. It has also failed to outpace *Microsoft* in the video game platform space. While *Microsoft* has leapt ahead by building superior graphics, web browsing capabilities, online gaming capabilities, up to 4 multiplayer controls and a version of *Windows XP Lite* into the *Xbox360*®, Sony is over eighteen months behind schedule in rolling out its Playstation 3®.

Record companies led by *BMG* successfully sought legal restraints against *Napster* only to now be faced with the daunting future of all music being legally (and for profit) delivered via iTunes® downloads to iPods® and other user viewing / listening devices rather than purchased through music and record stores.

Traditional board game companies like *Parker Brothers*® are left in the dust as Worlds of Warcraft® and EverQuest® have blossomed into full-blown, feature- and user-rich, on-line gaming obsessions. Video game tie-ins with action movies and TV shows also directly target the wallets of free spending GenX and GenText.

NBC, attempting to ride the first wave of Media Convergence, envisioned a world where the living room TV screen would display both traditional TV images and a Picture-in-Picture Internet browser. *NBC* invested millions of dollars in creating a series of *NBCi* properties (e.g., *Quokka Sports*, a provider of real time golf, sailing and other sporting events statistics) which were to combine with TV images to provide a unique and compelling user experience not available on other broadcast or cable TV programming.

Initial results seem to suggest that the Technology companies are winning this battle for mind-share and wallet-share. *Apple* has clearly exhibited nimbleness and a deft marketing touch as it has quickly emerged as <u>the</u> provider in the on-demand video and audio space. *MySpace* and

YouTube (while still nascent companies) show promise of displacing traditional ways of thinking about media product communication and selling. *Hewlett-Packard* has entered the plasma TV Screen fray with a very price competitive, high quality product. Lastly, despite its reputation for being a slow follower in product development and rollout, *Microsoft* has staked its claim to the on-line and home gaming space.

Research is still limited and developing, but the anecdotal information and company performance to date seems to indicate that technology companies succeed better in their morphing because from their inception, the technology companies need to grow and compete in a 'Native Environment' where cost control, continual innovation, easy and frequent entry of new competitors and successful partnering to quickly bring products and services to market are day-to-day events.

So if you are a traditional broadcaster, movie studio or record company, how do you first:

- Identify whether you can survive in this *Brave New World*?
- Identify whether you can go it alone or do you need to seek out a partner(s)?
- Convince your customers that you are the emerging standard?

The answers are universal to all industries facing disruption in the way products are developed, marketed, sold and serviced. What we can gleam from those technology industry companies (and others) who have thrived and succeeded in the entertainment space, is that they all share some unique characteristics. They exhibit:

- A lack of complacency;
- A sense of urgency to deploy product quickly to market combined with a willingness to take risks and acceptance of some failures; and
- The ability to craft Win-Win partnerships.

Lack of complacency can manifest itself in a variety of ways, the most creative being a willingness to cannibalize one's existing product set to quickly establish the Next Big Thing. *Kodak* effectively killed its department / drug store business of collecting film negatives and turning them into prints. Instead, they have moved to embrace the Internet as the means by which photos can be digitalized, printed, uploaded and emailed or shared with others.

Companies in the Technology space must also demonstrate a sense of urgency, or they run the risk of becoming irrelevant players in their niche. Perhaps no company more than *Intel* reflects this paranoia fear of a new smarter, faster new competitor emerging possibly everyday. When your company demonstrates a healthy amount of paranoia, you begin to continually re-examining your cost structure, your product offerings, your pricing and all the other elements of your product set. On a negative note, this sense of urgency sometimes results in rushing product to market before it is fully tested and ready (think Windows XP or any number of software releases from *Oracle*). However, as the technology space has shown, First-In usually wins and the technology consumer appears willing to accept some warts in exchange for getting their hands on the first new anything. This may be due to that fact that technology is usually purchased / adopted to solve a particular problem, while entertainment is more thought of as a luxury purchase. However, as entertainment consumers become more technology-literate, technology-invested and technology-craving (as a result of their drive to have the newest, best user experience available), their tolerance for a 'good efforts failure' can be reasonably expected to increase.

The history of the true great consumer successes in technology is based upon the maxim (with apologies to the movie *Field of Dreams*) "Build it and they will buy it". Market research was not done by *Apple* before they launched the first Mac PC. *Napster* did not survey thousands of music lovers before they launched their music sharing service. Technology companies seem to be born with a risk-taking gene in their DNA. Such an approach, while occasionally risking the survival of the company, does serve technology companies well as they enter into the entertainment space. Why not shoot a movie with only actors and blue screen, and then use CGI to fill in the sets, details and background (*Sky Captain and the World of Tomorrow*)? Why not create an entirely CGI movie, with an attempt to create realistic looking human actors rather than animated abstractions (*Final Fantasy*)? These movies are examples of creations by entertainment industry outsiders.

Too often entertainment companies display a Follow the Herd mentality. Consider the sameness of TV shows on the major networks in any given season. Or the re-casting of the same actors or re-telling of the same basic story over and over again. Or the rush to produce "Faith Themed" movies in the wake of the box office receipts of *The Passion of the Christ*. In the EnterTech space, boldness in the use of new images, special effects and risk-taking in story and plot line seems to fit better with the approach technology companies take in their normal business day.

The ability to execute partnerships swiftly and structure them as Win-Win is another trait which technology companies display. *Apple* quickly put together its deal with many record labels and artists to offer their songs via iTunes®. There was nothing stopping *BMG* or *Sony Records* or *Capital Records* from creating a similar ASP-like music distribution model. In fact, the existing record companies had distinct advantages over *Apple*. They had the resources, had the direct relationships with the artists and believed they 'understood' the music business. *Apple* also stole another march on possible entertainment company competitors when Steve Jobs recently announced a deal to make video downloads available from a number of major TV shows on the iPod®. Nothing stopped a *NBC* or a *Comcast* from developing this concept and then executing it. In fact, the media distribution companies had already seen what *Apple* had done to the music business and must have realized that they were the next to be dis-intermediated. One wonders if any of the media companies, even if they had grasped the significance of the *MySpace* phenomenon, would have had the nimbleness or the risk tolerance to bring something similar to market.

In summary, the separate worlds of entertainment and technology are blurring. This trend has been viable for many years now, but recently with the explosion in computing power and the improved ease of use in computer-based tools, has accelerated to light speed. This new industry is termed by many to be EnterTech. As entertainment companies attempt to become more techno-literate and technology companies try to understand story telling and user satisfaction, some definitive factors for success can be identified. Companies who offer the best chance to success need to have in their DNA:

- A sense of urgency
- A willingness to take risks and fail; and
- The ability to partner.

Based upon where we stand today in this convergence, it appears that technology companies are better prepared to emerge as the victors in the EnterTech space more so than entertainment companies. However, both types of companies need to perform a rigorous self-assessment and determine where they stand in relation to these proposed EnterTech Critical Success Factors and then must either adapt and / or partner. Or they can leave the space in pursuit of less competitive and more stable industries and products.