‘DISRUPTIVE INNOVATION IS RUNNING RAMPANT’

Music and entertainment entrepreneur Simon Preswell (former Ticketmaster MD) outlines how companies in the music industry can discover competitive advantages to ensure they continue to evolve and thrive in the digital age. Preswell will be speaking at Henley Business School’s Managing For Disruptive Innovation event on February 24, 2015.

EDUCATION

Disruptive innovation is in essence a form of Darwinism – the process of evolution whereby the fittest survive and those who fail to be agile enough to evolve eventually become extinct. Nowhere is this better evidenced than in the music business.

Disruptive innovation is running rampant. Virtually every industry has felt its effect. The music and creative industries, in particular, have experienced the ‘perfect storm’ of disruptive forces, including digital technology and generational changes in consumption. It has been open season for market entrants – legal or illegal. But, disruption is transforming the entire creative industries sector, from TV, media, publishing and music to the arts. This is happening on a global scale – new platforms, business models and access to data bring constant change.

As the media and moving picture sector of the entertainment industry embraced the digital revolution in the mid ’90s, eyes turned to the music sector as the canary in the coalmine. Ten years later the painful, and some might argue reluctant, transition to digital music has failed to return the industry to the heady days of a $14.5bn market for recorded sales in 1999. Now digital comprises more than half of consumer sales but the whole market was only worth $5.9bn in 2010, less than half of the 1999 peak (GigaOM Pro, November 2011).

The meteoric explosion of Smartphones has unlocked a previous and fundamental impediment to disruptive innovation – one of an economy of access. Digital luddites have for years tightly controlled the eco-system from origination through to distribution and marketing, but now technology has disrupted that. Technology has removed that barrier and has enabled boundary-less, cost effective access to consumers at any time, any place.

The very thing that was the coveted preserve of the dominant species that could afford to defend and grow their position has now been levelled by the consumerisation of technology. Digital natives powered the first generation of disruption that saw iTunes, Spotify, Netflix and SoundCloud burst into life materially changing the way the established entertainment industries engaged with the millennial generation.

This new paradigm of designing emotionally intelligent products that engage consumer behaviours has allowed for the liberalisation of content and introduction of choice.

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SIMON PRESSWELL

This choice has refined over where consumers are more informed and more empowered and discerning as is evidenced with the decline in album sales on iTune and the increase of single downloads.

One such digital native who continues to innovate is Reed Hastings, CEO and founder of Netflix. Seeing the opportunity to disrupt the US studios that were slow to react to the influence of the digital generation, Hastings created Netflix. Ten years on and the ambition for innovation continues to evolve with a recent entry into content production to reduce the company’s dependency on the increasingly expensive studio produced content. In doing so, Netflix cast Kevin Spacey as the lead in House Of Cards and released all 13 episodes to the public simultaneously – this single act of innovation completely disrupted the way in which consumers think about and now ultimately consume TV.

The domain of innovation and disruption in the digital generation is not, however, confined to the 20-something Silicon Valley start-ups funded by deep-pocketed private equity firms. The size of the prize to be first, to be successful at disruption in established industries is so large that corporations have at long last woken up to the fact that they need to embrace this opportunity to change and innovate rather than resist.

However there is a problem; corporations...
are slow, complex, political beasts, whilst startups are single-minded, determined and agile. Historically corporations would have brought in and attempted control that knowledge through the creation of chief digital officers, non-executive directors and advisors. BSkyB is a prime example of how innovation and disruption can exist within a corporate environment.

Sky brought innovation to streaming with NOW TV. By understanding the consumer, the environment and their points of competition advantage, Sky was able to uniquely differentiate the NOW TV offering through disruption. They managed to disrupt the existing timeline by which movies would normally be allowed to air on digital properties – this timeline is called a ‘windowing strategy’. To explain: when a studio makes a movie, its first release window is at the cinema, before moving to the second window of DVD, third of pay-per-view, and forth streaming. Through its buying and disruptive power, NOW TV convinced the studios to allow it to uniquely create a new release window between cinema and DVD – window 1.1. This means that NOW TV can claim to allow its consumers to watch all of the Hollywood blockbusters before anyone else.

The position that NOW TV occupies offers a brand new, unique and difficult-to-replicate competitive advantage that has allowed it not only to define its existing subscription business but to continue to grow market share from Netflix in the UK market.

These iterations in innovation continue to refine through the progressive evolution of business models. The same can be seen in music with Spotify among the first disruptors of recorded music. Now this first generation of disruptors is being challenged by newer iterations of the model such as TuneIn and SoundCloud who are seek to attack from a different angle to the dominant position occupied by Spotify.

Whilst the challenges look familiar, the recipe is broadly the same – as Darwin would have doubtless said, “Evolve or become extinct”. The key takeaways from disruptive innovation are:

1. Find a market that has been dominated for a while by a small number of corporations. Explore the value chain and study each link in it to determine what is of Value, Rariness Imperfect limitability and has Substitutability - from that you can ascertain how to sustain, competitive advantage (VRIN framework, Barney 1991).

2. Once you have this VRIN knowledge, look at how you can compete with an incumbent you wish to disrupt or a weakness of your own business you might want to think about defending.

3. Continually ask, “Can I do what I do better, cheaper and faster?” Moreover, “Can I find and sustain a competitive advantage to allow me to continue to evolve?”

This framework has been explored through the work that Henley Business School has been doing on the MBA for the Music And Creative Industries. Professor George Tovstiga’s work focuses on the strategic management capabilities needed in managing for disruption. Henley Business School, in partnership with the music and creative industries has gathered a wealth of academic and practical experience that has allowed the most innovative and agile of companies to remain at the leading edge of disruption and innovation in our industry.

Henley Business School’s Managing For Disruptive Innovation event will take place on February 24. Speakers include senior vice president at marketing consultancy KAE, Keith Jopling; Professor George Tovstiga; chief economist at Spotify, Will Page; 7Digital chief strategy officer, Ben Drury; and programme director Helen Gammons.

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