THE FALLACY OF INDUSTRY BOUNDARIES

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Industry boundaries are gradually blurring as different industries converge, and this profound shift calls into question the very validity of traditional industry analysis. Consider the telecommunications industry, which has now enveloped both the cable and Internet sectors. In a similar vein, the computer industry is becoming ever more closely tied to the entertainment industry, as PCs have turned into a popular platform for watching t.v. and playing games.

The presumption that there are distinct, immutable industries within which players scramble for supremacy is a tired idea whose time is past. The current trend points to the end of industry as a useful concept in contemplating business

Much has changed since the 1980s, when strategy theorist Michael Porter sought to help companies answer the question, "What business should we be in?" with his two seminal books, *Competitive Strategy: Techniques for Analyzing Industries and Competitors* and *Competitive Advantage: Creating and Sustaining Superior Performance*. Porter's model, which influenced a generation of business leaders and management consultants, required entrepreneurs to first clearly and unequivocally identify industry boundaries. After that, they could proceed to identify five forces within the industry that served to determine its structure and profitability (Porter's "five-force model").

The value of Porter's theories notwithstanding, the changing competitive landscape in various industries has eroded the very premise of industry analysis. Companies no longer respect traditional industry paradigms and partitions. What counts now are not industry boundaries, but business ecosystems.

The Changing Buyer-Supplier Relationship

This shift carries important implications for the way industry incumbents deal with suppliers. Instead of trying to squeeze suppliers on price based on bargaining power, incumbents should explore opportunities to create an industry structure more favorable to both sides, one that yields better products and services as well as more competitive prices for end customers.

Opportunities are arising across industry boundaries rather than within them.

For example, Wal-Mart's network of local community stores and regional distribution centers created the foundation for a broader, richer business ecosystem. Part of the genius of Wal-Mart's ecosystem lies in its unprecedented involvement and entanglement in the affairs of its suppliers. It has compelled suppliers such as P&G to set up cross-company information systems to attain maximum manufacturing and distribution efficiency. The operation and processes between Wal-Mart and its suppliers have become closely intertwined and interdependent. As a result, Wal-Mart tends to place very large orders and give better payment terms to its suppliers than the rest of the retailing industry.

With the market placing a growing premium on speed and low prices, we have seen similar types of mutual cooperation evolve between industry incumbents and their suppliers in industries such as fashion (Zara) and autos (Toyota), among others.

The Value of Strategic Cooperation

As industry boundaries crumble, companies must also transform the way they think about competition. Traditionally, companies have viewed competition as a zero-sum game -- our product or service versus that of our competitor – from which there can emerge only one winner. While that approach is still important, it ignores the broader context in which business takes place. Companies should adopt a more holistic view and think about how they might benefit from strategic forms of cooperation with their traditional rivals. In this model, competitive advantage stems from cooperative, co-evolving relationships with a network of other contributors to the overall economic scene. The basic idea is simple: Understand the economic systems evolving around you and find ways to contribute. Start with an understanding of the big picture rather than of products and services.

From a corporate standpoint, this means developing shared visions, forming alliances, negotiating deals, and managing complex relationships upon which a better industry structure can be developed. For example, in the early stages of the browser war between Internet Explorer and Netscape, both companies came to the realization that they had to work to together on a common encryption platform to promote the growth of the overall e-commerce industry.

Competition, Redefined

As traditional industry boundaries erode, companies are unexpectedly finding themselves in fierce competition with unlikely rivals. Opportunities are arising across industry boundaries rather than within them. The most creative and aggressive companies are exploiting these potential markets, transforming the landscape by creating new ecosystems. The dominant ecosystems of the future will likely consist of networks of organizations stretching across several different industries, and they will compete with similar networks spread across still other industries.

Conventionally, we have defined industry boundaries simply through the products and services they offer: For example, the airline industry provides air transportation from one place to another, and movie theaters show films. Within that framework, companies that offer the same form of product or service qualify as competitors.

A Broader Potential Market

However, rather than ask "Who are our customers?" a more profound question to ask would be, "Who aren't our customers?" Instead of identifying competitors in the traditional way, we should ask what products or services provide the same functions but in different forms – in other words, act as substitutes. In the case of the airline industry, it is the railway service which transports passengers from point A to point B, just in a different form. In the film industry, DVDs and home theater systems serve as a substitute for conventional movie theaters.

If we take our analysis a step further and ask which products or services fill the same purpose (in different forms), we will find even more alternatives. Revisiting one of our previous examples, assume airline customers are traveling in order to attend a meeting. In that case, a company that provides an online meetings service (i.e., WebEx) might persuade them instead to use web-based technology for a virtual meeting.

In a similar vein, if movie patrons are merely looking for a leisurely way to kill a couple of hours, they could perhaps just as easily be convinced to get a relaxing foot massage.

Rather than ask: "Who are our customers?", ask: "Who aren't our customers?"

In conclusion, strategic innovators are able to view the trend towards blurring industry boundaries as a chance to exploit new opportunities. They seek to adjust to the changing business ecosystem alongside, and sometimes in cooperation with, their suppliers and customers, and even with their traditional competitors. Furthermore, they look for ways to redraw industry boundaries by converting non-customers – people who use different or substitute products – into new customers of their own goods and services.

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