

Welcome to
Session # 6
Week 3/1/04

Professor C. S. Langdon
Marshall School of Business, University of Southern California, Los Angeles

MINDSPRING



Video

Interview w. Earthlink's Sky Dayton



Classroom Case C_D1, Mindspring: Case Questions and Grading Scheme [15 P]

Please make sure that all names of the group members have been added to the first page.

Please observe the page limit of 2 pages.

- (1) Please describe the business of Mindspring systematically (-> using the concepts that have been discussed in class, such as U.S. Census Bureau's 3E, etc.)? [4]
- (2) Explain how the Mindspring business opportunity relates to the development of the e-Economy as a whole? What are the major challenges presented to Mindspring (-> using concepts that have been introduced in class, such as 4 Environments, etc.)? [4]
- (3) Based on your answers to questions 1 and 2 what are the implications for the future development of Mindspring? [2/each, 4 max]

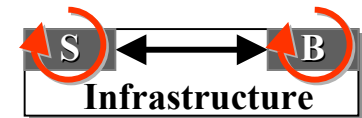
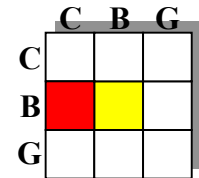
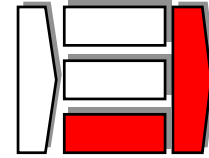
Use of the course literature (binder without Porter, 3E): [1/each, 3 max].

Good luck,
CSL

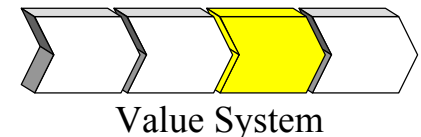
Classroom Case C_D1, Mindspring : Remarks (Q1)

Q1: Business description

- Strategic roles: Mindspring = service provider, not a vendor
- M-segments/sources of revenue: B2C, B2B, not a wholesaler
- 3E: Supporting infrastructure (p. 492, 493)
- Value system: Retailer + significant service operations
 - “77% of subs were calling into company-owned POPs” (p. 495 and p. 492-- steps 1-5 of building and owning POPs),
 - “Mindspring kept its support and [customer] service operations in-house” (p. 492).
- Overview:
 - \$100m + company, barely profitable (p. 499)
⇒ SME (No. 1000 on Fortune list at \$1.2bn)
 - Compound annual subscriber growth of approx. 200% for the four year period from 1995-99 (p. 489) versus CAGR of Internet hosts of 65% for the four year period 1994-98 (see lecture notes, session # 4)
⇒ probably above industry average growth
 - 2nd largest ISP in the U.S., 25% larger than the No. 3 by customer base but dwarfed by industry leader AOL (p. 505)
⇒ little relative scale advantages



E-Economy Elements

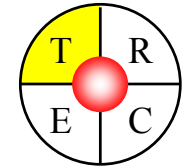
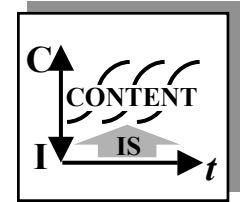


Classroom Case C_D1, Mindspring : Remarks (Q2)

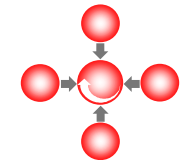
CASE

A2: Opportunities/challenges assessment

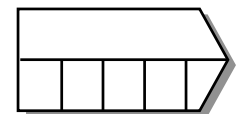
- First and foremost, the ISP model is not possible without the Internet -> Internet development critical to Mindspring's future
⇒ events in communications and computing are important
- Mindspring evolved with one of the first waves of digital interactive communication services
⇒ how to respond to the emergence of information and transaction services -> to stop or continue to evolve?
- 4E:
 - (T) Off-the-shelf CRM apps. may erode service diff. advantage based on proprietary DB tracking system (p. 497),
 - (R) difficulties with access to Internet cable lines as CATV MSOs ≠ common carriers (p. 493),
 - (E) telecoms may lack funding to deploy DSL services, therefore inhibiting broadband growth (p. 493),
 - (C) product attributes miss approx. 50% of the market, “target market is predominantly male” (p. 494).
- Porter's 5F:
 - (R) Vertically integrated competitors: AOL=ISP+content, MSN=ISP+computing, RBOCs=ISP+telecom (p. 493-494), free ISPs
⇒ differentiation disadvantage, cost pressure
 - (S) Access to DSL, Internet cable lines
⇒ higher cost of inputs, limited broadband capabilities
 - (B) Free ISPs reduce willingness-to-pay ⇒ lack of revenue
 - (Entrants) ISP as a component of a bundle, e.g., Dell, banks
⇒ market foreclosure
 - (Sub) Wireless, e.g., DoCoMo's i-mode service, WAP ⇒ obsolescence?



4 Environments



Porter's 5 Forces



Value Chain

Classroom Case C_D1, Mindspring : Remarks (Q3)

A3: Business outlook

- Potential erosion of customer service differentiation advantage: availability of standard software may allow the competition to catch up and free ISPs may make extensive customer service unaffordable altogether -> Switch from differentiation strategy that may lead to market share erosion and a niche position to cost leadership strategy
⇒ M&A to benefit from economies of scale in the areas of data and call center operations, bandwidth, etc.)
- Free ISPs and bundling of other goods with Internet access service may eliminate B2C ISP revenues entirely, e.g., online banking, news services
⇒ development of new revenue sources in B2C market through premium packages, development of B2B products such as corporate email/Portal operations
- Content integration may turn the ISP business into a mere feature (see AOL's breadth and depth of service offering)
⇒ seek alliances and partnerships with conventional content creators and distributors
- ...

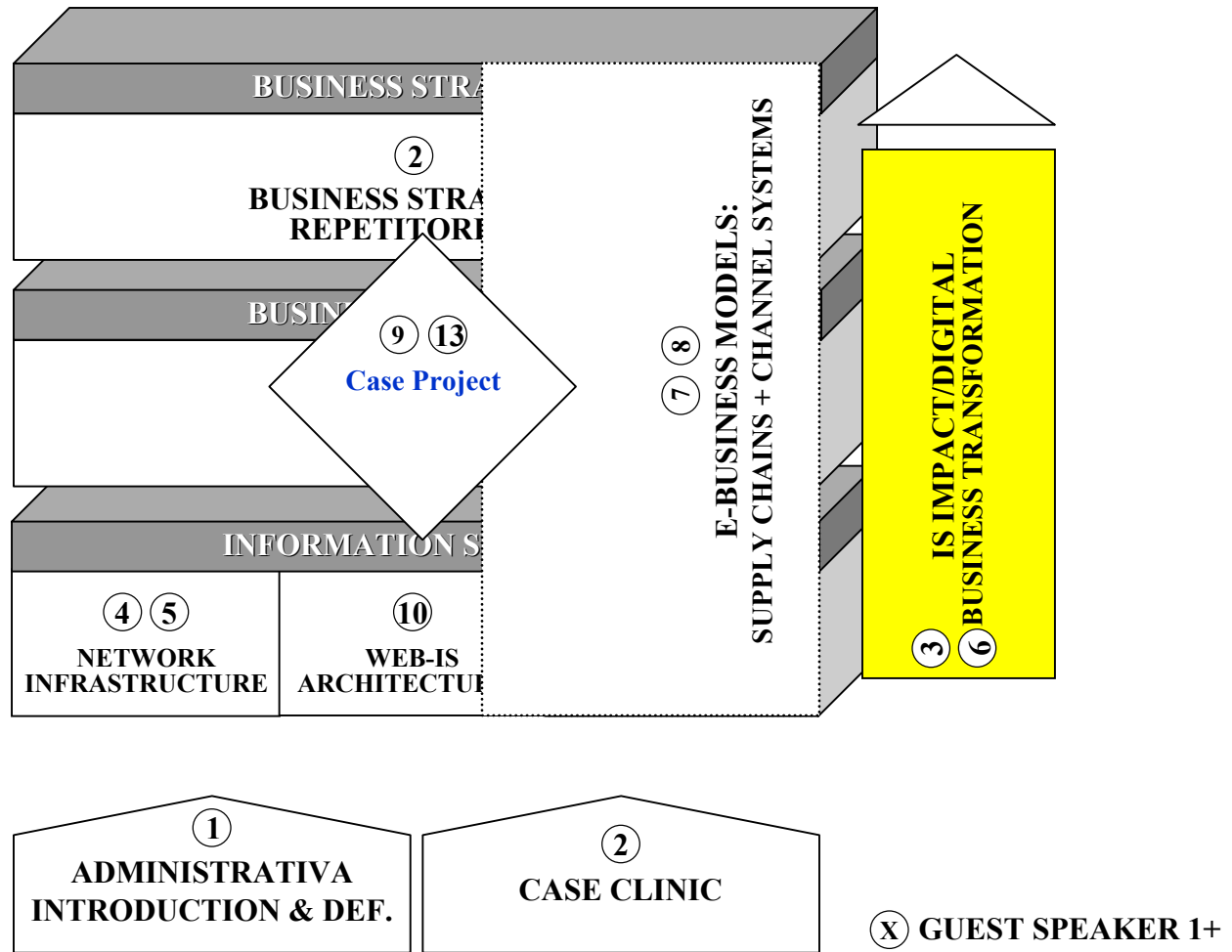
Classroom Case C_D1, Mindspring : IS Strategy

CASE

How does a so called “free” ISP such as Netzero work?

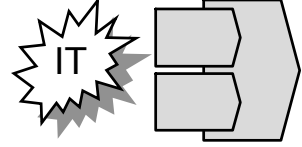


Course Structure & Sessions



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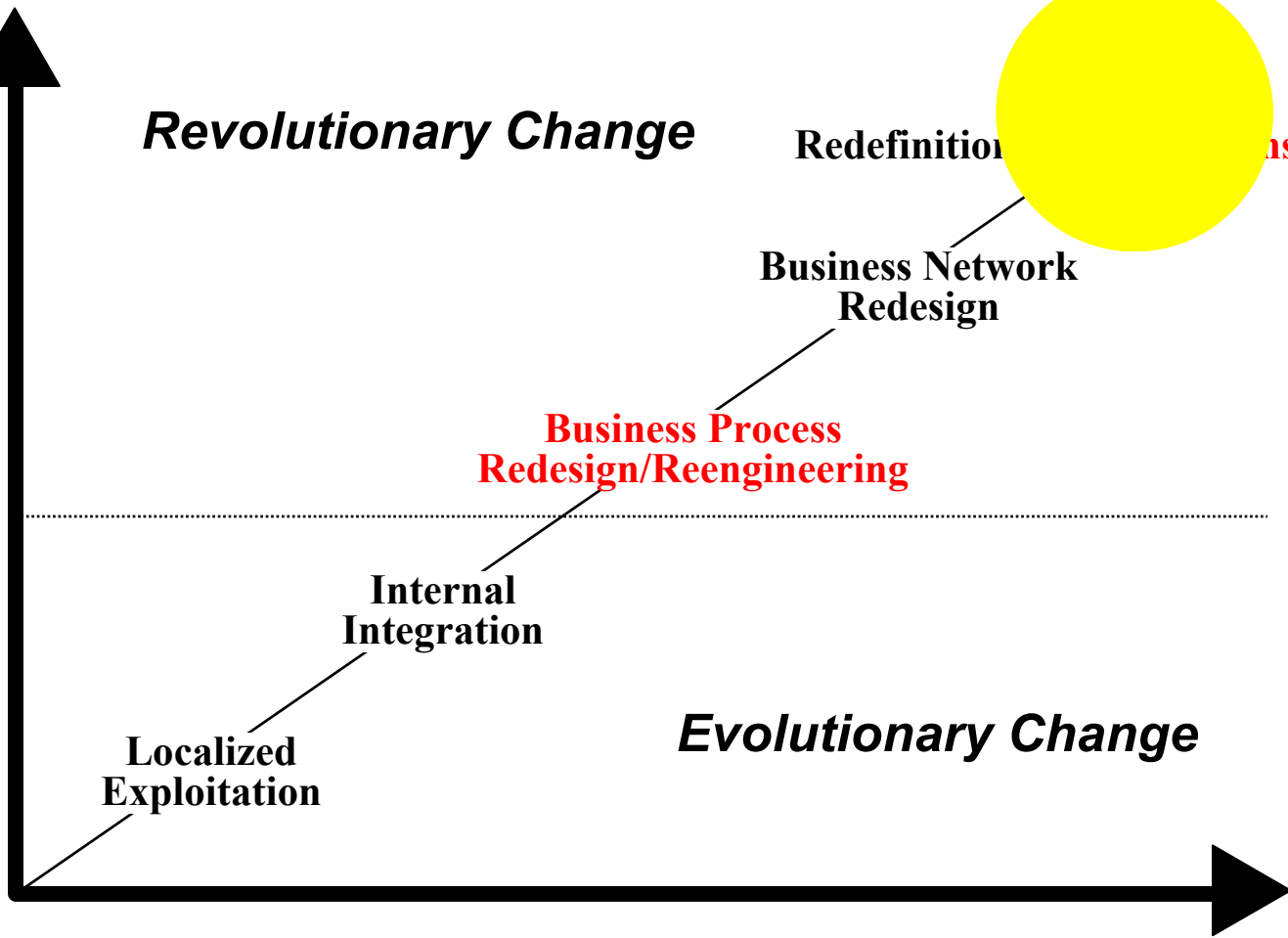
IS IMPACT (2): DIGITAL BUSINESS TRANSFORMATION

- Overview
- Channel Systems
- Supply Chains



Venkatraman Model (1994)

Level of Change



Revolutionary Change

Redefinition **Transformation**

Business Network Redesign

Business Process Redesign/Reengineering

Internal Integration

Localized Exploitation

Evolutionary Change

Potential Benefits

Source: Venkatraman, N. 1994. IT-Enabled Business Transformation. Sloan Management Review (Winter): 73-87, 74.



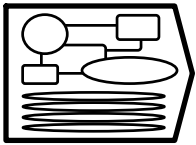
Generic IT Business Impact and Benefits

In general, information and communication technology creates an opportunity to increase or secure sales and cut cost in three different ways:



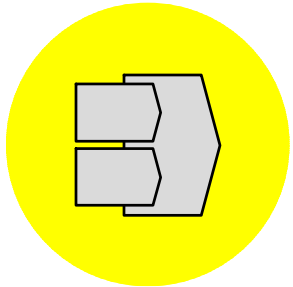
Product Improvement

- Improve a product to increase product/brand differentiation to increase sales
- Example: Car navigation and remote maintenance systems in Automotive



Process “Virtualization” (overcoming barriers of form, time and space)

- “Virtualize” a process to cut cost, time-to-market and throughput time, and increase quality
- Example: Online software distribution and customer support

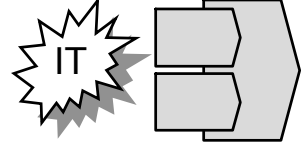


Business Transformation

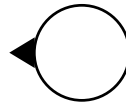
- Transform a business to change or anticipate the changing of an industry’s value chain/system and business model
- Example: Amazon, EBay, and Yahoo!

Source: Andersen Consulting 1994.

Digital B-Transformation Triggers: Three “Switches”

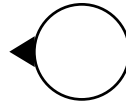


Analog



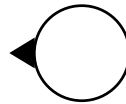
Digital

Narrowband



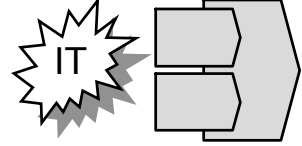
Broadband

Wire line



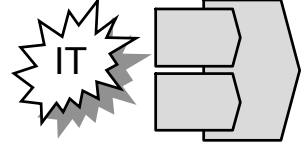
Wireless

The “New Digital Economy”



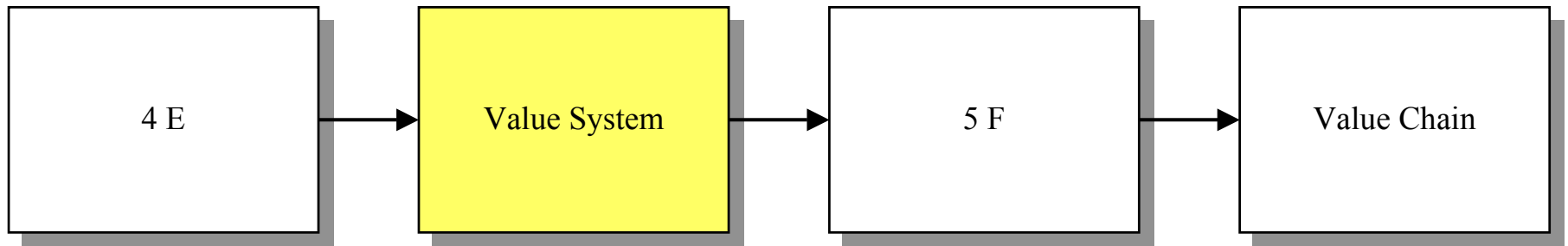
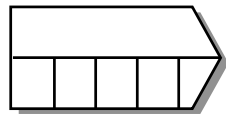
"The New Economy is real, even if its significance has been exaggerated. New technology has engendered increase in productivity that will continue to make an enormous difference in our living standards“

(Joseph Stiglitz--a former chief economist of the World Bank, a former chairman of the Council of Economic Advisers. 2002. The Roaring Nineties. *The Atlantic Monthly* (October): 75-89, 88).

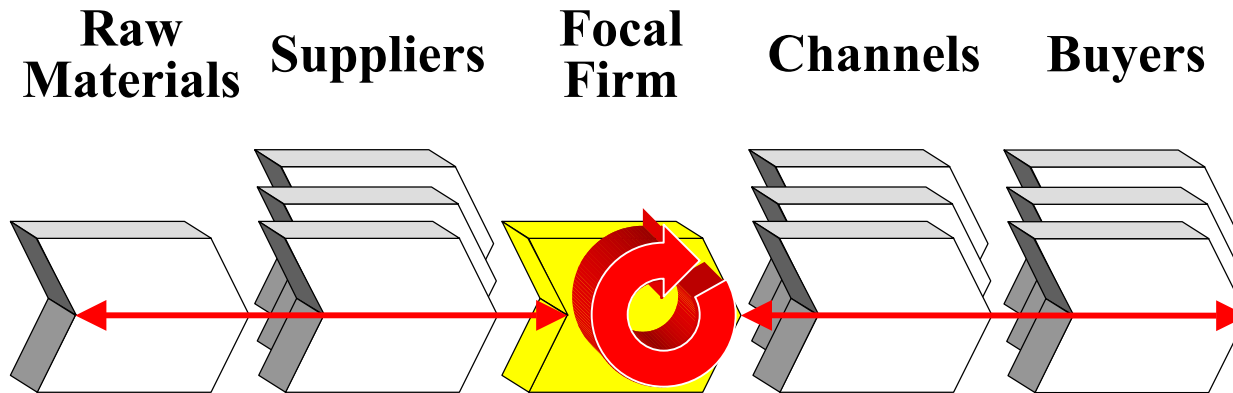
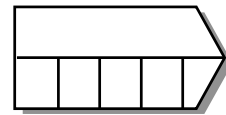


METCALFE on DBT

Strategic Industry Analysis



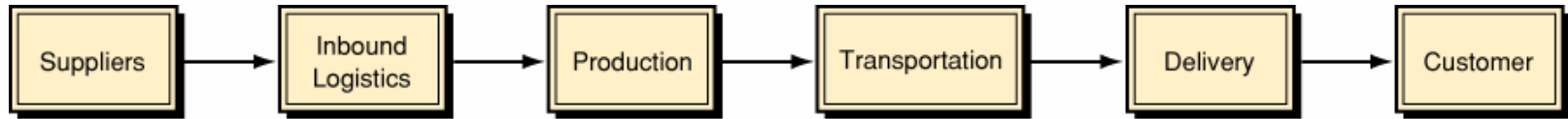
Value System--The Industry



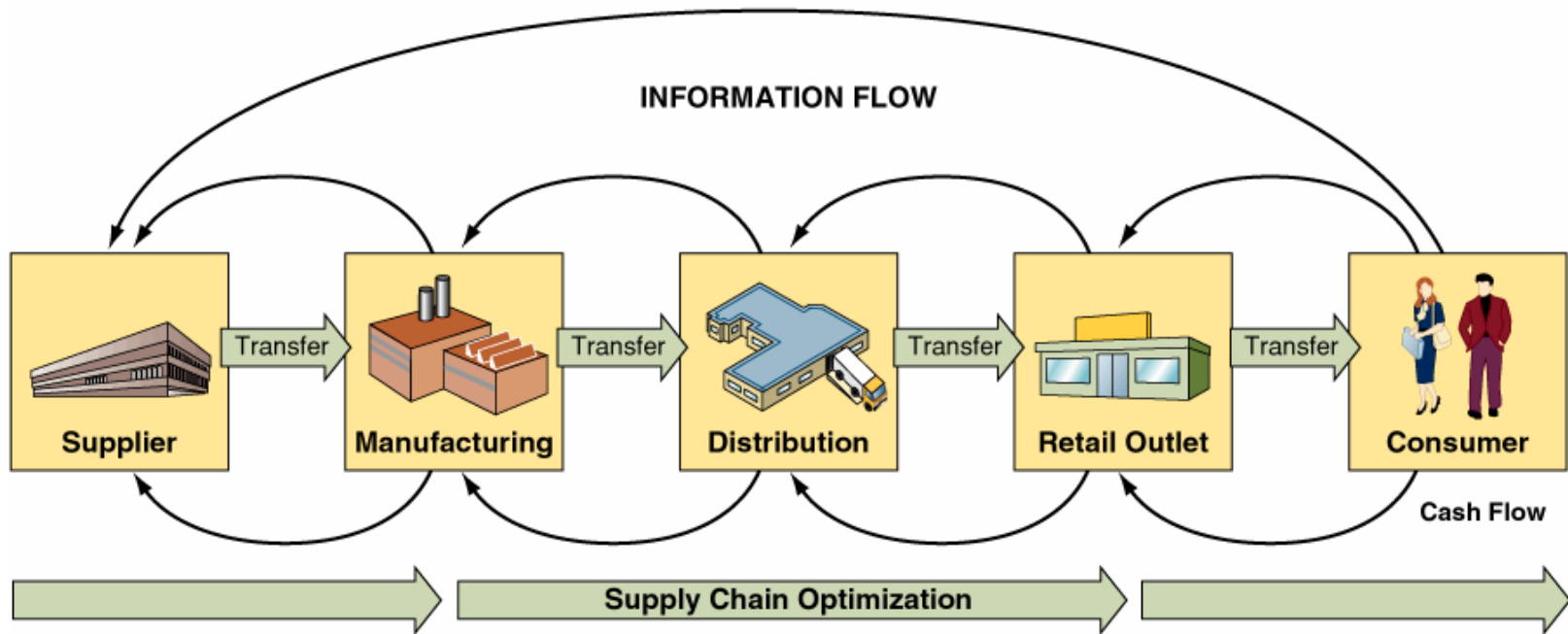
Source: Porter, M. E. 1985. *Competitive Advantage: Creating and Sustaining Superior Performance*. The Free Press: New York, NY (35).



Figure 08.07



(a) Supply chain direct to customer

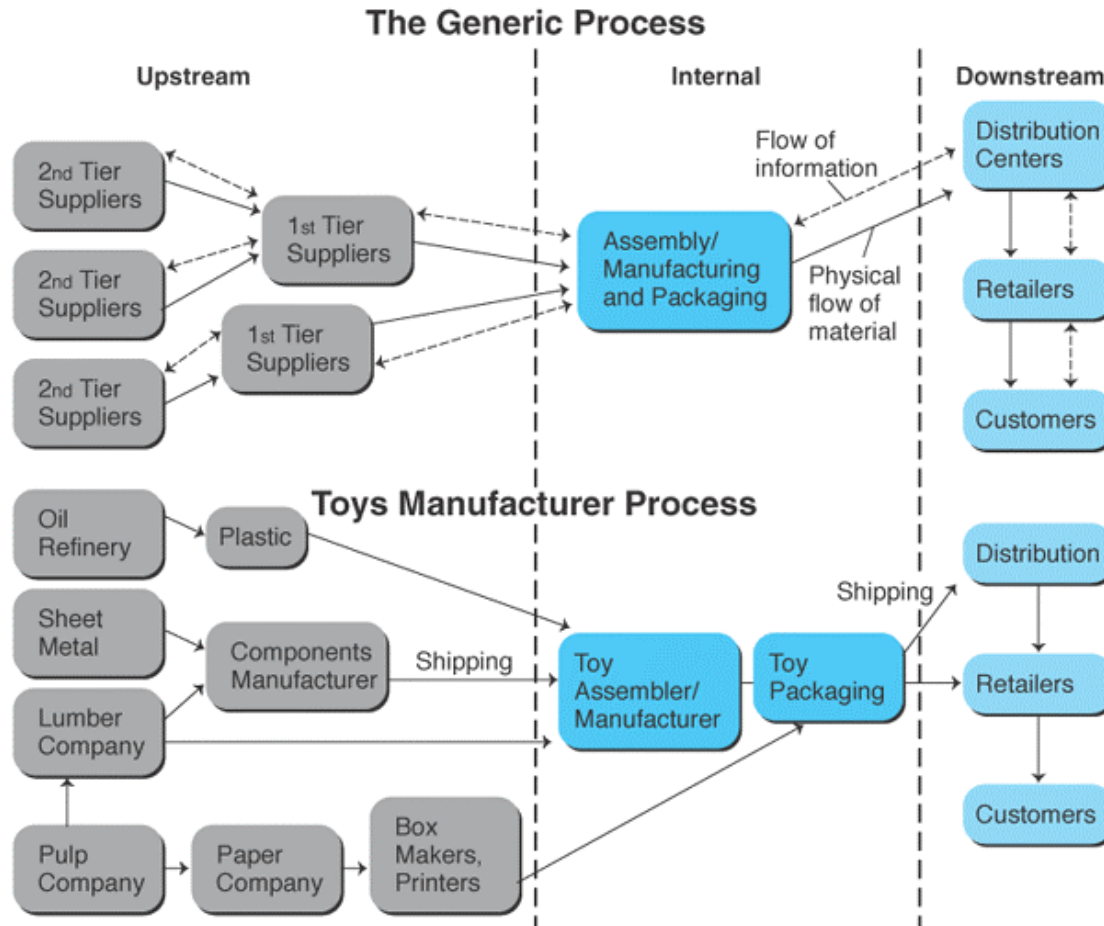


(b) Supply chain including wholesalers (distribution) and retailers

Source: Turban, E., E. McLean, and J. Wetherbe. 2001. *Information Technology for Management—Making Connections for Strategic Advantage*. 4th ed. John Wiley & Sons, Inc.: New York, NY.

Supply Chains

Exhibit 8.1 A Simple Supply Chain



Source: Turban E., King, D. Lee, J., and D. Viehland. 2004. *Electronic Commerce: A Managerial Perspective*. 3rd ed. Pearson/Prentice Hall: Upper Saddle River, NJ: Chapter 8.

Essentials of the Supply Chains

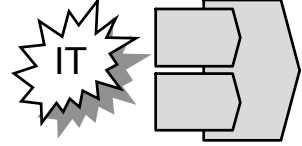
The Components of Supply Chain

- Upstream supply chain
 - includes the organization's first-tier suppliers and their suppliers
- Internal supply chain
 - includes all the processes used by an organization in transforming the inputs of the suppliers to outputs
- Downstream supply chain
 - includes all the processes involved in delivering the products to final customers

Source: Turban, E., E. McLean, and J. Wetherbe. 2001. Information Technology for Management—Making Connections for Strategic Advantage. 4th ed. John Wiley & Sons, Inc.: New York, NY, page 83.



DBT



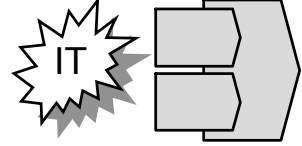
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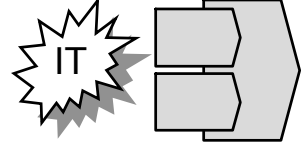
5. Business Scope Redefinition

- Theme:** Knowledge-based networks
Full, systemic change and transformation
- Scope:** Use IT to reconfigure the enterprise
Import “best-in-class” ideas and methods
Eliminate non-value added
Identify new forms of business
- Bit Learning:** IT can facilitate new business forms and extended enterprises
which are themselves, new business forms
- Linkages:** Federal Express

Source: Venkatraman, N. 1994. *IT-Enabled Business Transformation*. *Sloan Management Review* (Winter): 73-87.

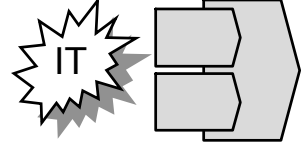


UNDERSTANDING DBT



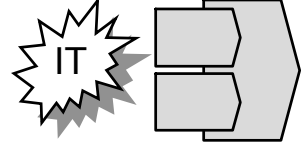
NEWS PUBLISHING

(T_Excise)



NEW ENTRANTS/ INDUSTRY CONVERGENCE - OBSERVATIONS -

Industry Convergence, 2003

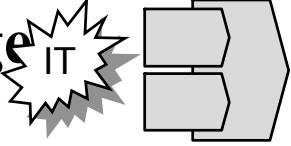


"Sir Howard [Stringer, chairman and chief executive of Sony's U.S. operations] said Apple's approach had demonstrated the value of using **music** downloads to drive the sale of **devices**, which are much more profitable. [...]

Sony is also preparing to launch a portable version of its PlayStation **games console**, which will allow users to play **games**, watch **movies** and listen to **music**."

(Thal Larsen, P. 2003. Sony rules out selling music business.
FINANCIAL TIMES (Nov. 5) [electronic document])

Supporting Slide 10-I: List of Recent Mega-Merges (US, 1995-2000)



1995	Disney and Capital Cities/ABC
1995	Time-Warner and Turner Broadcasting
1995	Westinghouse and CBS Inc.
1996	SBC and Pacific Telesis
1996	NYNEX and Bell Atlantic
1996	US West and Continental Cable
1996	Thomson and West Publishing
1998	America Online and Netscape
1999	AT&T and Comcast
1999	Viacom and CBS Inc.
2000	America Online and Time-Warner
2000	Tribune Company and Times Mirror Company



The New York Times on the Web - Microsoft Internet Explorer

The New York Times February 11, 2004

The Making of Giants

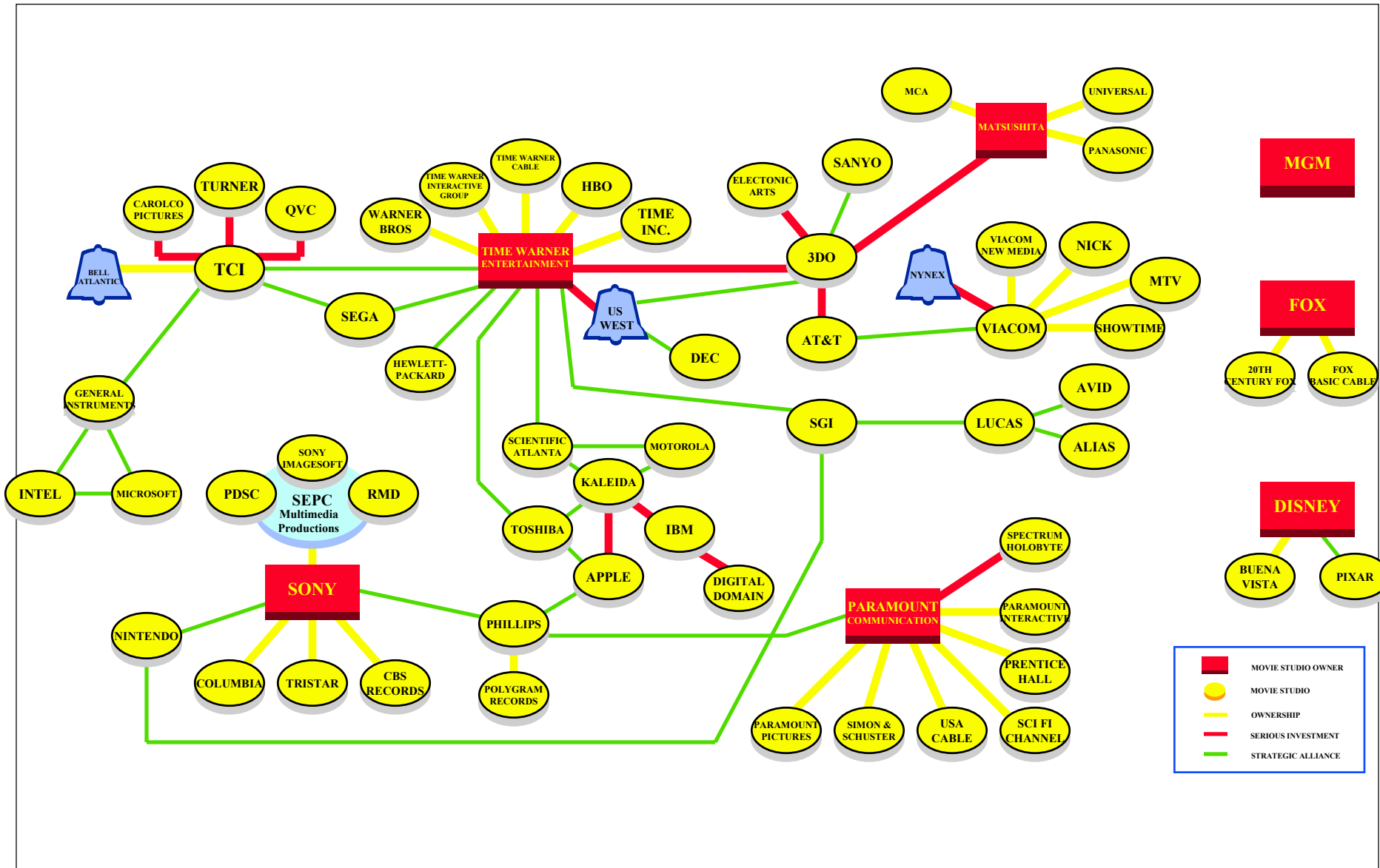
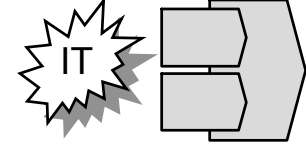
Comcast's bid to buy Walt Disney is the third-largest offer ever for a communications merger. Dollar figures below are the value of the takeover offer at the time the deal was announced.

ANNOUNCED	TARGET	BIDDER	VALUE, IN BILLIONS
Jan. 10, 2000	Time Warner	America Online	\$165.0
April 22, 1999	MediaOne Group	AT&T Corp.	58.0
Feb. 11, 2004	Walt Disney Co.	Comcast Corp.	54.0
July 8, 2001	AT&T Broadband	Comcast Corp.	44.5
Sept. 1, 1999	CBS	Viacom	37.7
June 20, 2000	Seagram Co.	Vivendi	34.0
June 24, 1998	TCI	AT&T Corp.	31.8
July 31, 1995	Capital Cities/ABC	Walt Disney Co.	19.0
March 4, 1989	Warner Communications	Time Inc.	18.0
Oct. 4, 1999	AMFM Inc.	Clear Channel Communications	17.0

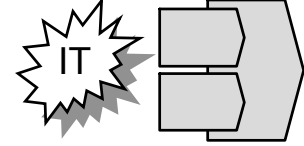
Sources: Published reports; Thomson Financial

Close Window Copyright 2004 The New York Times Company

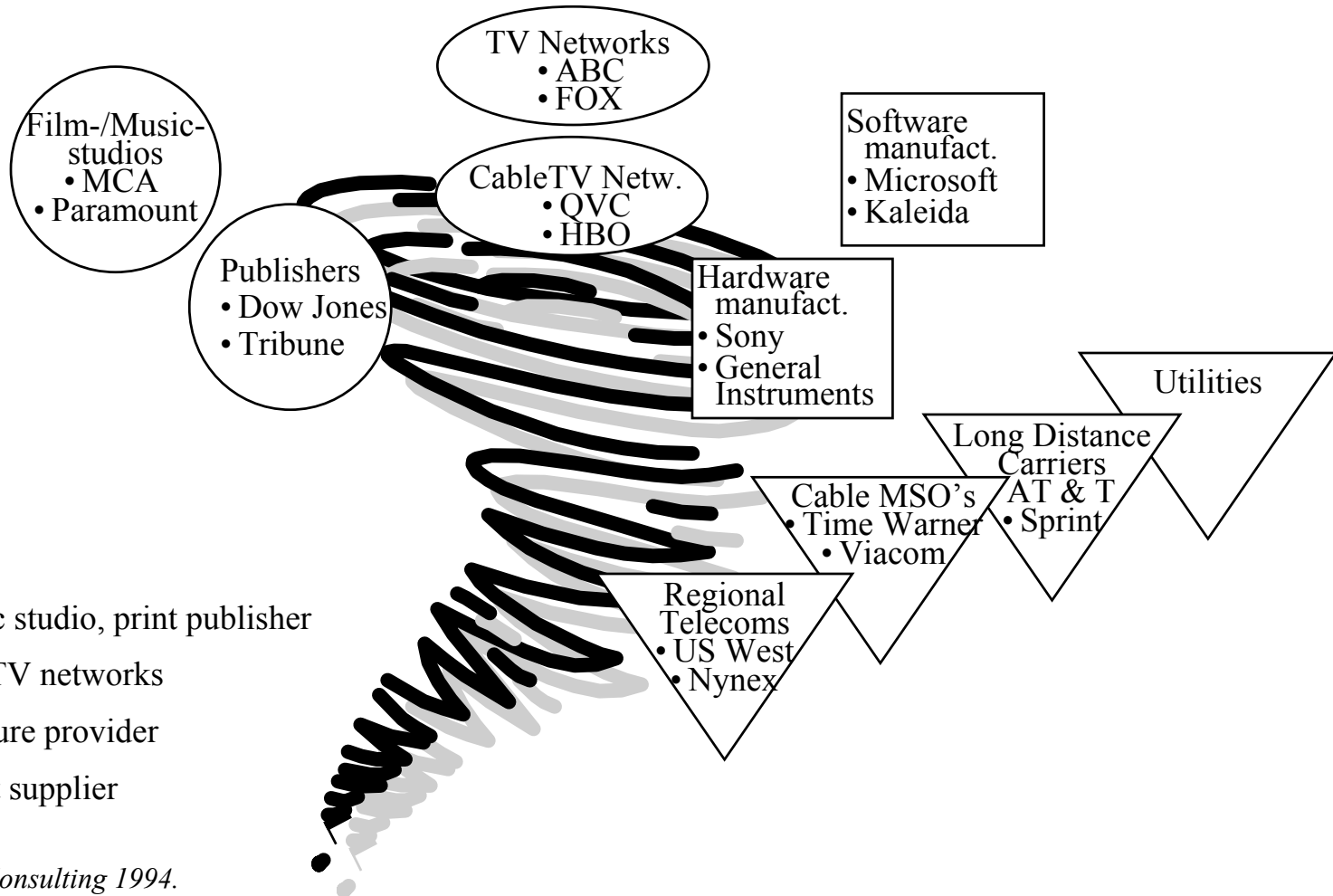
Observation: Telecom – Hollywood Relationships, US, '94



Important Groups of Information Highway Players



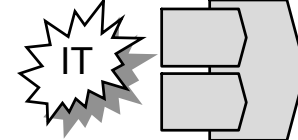
Merger Mania: U.S. companies are trying to build or buy Information Highway-competencies through mergers, alliances and partnerships (e.g. Time Warner-US West, Nynex-Dow Jones, Viacom-Paramount, General Instruments-Microsoft, Sony-MCA).



Legend

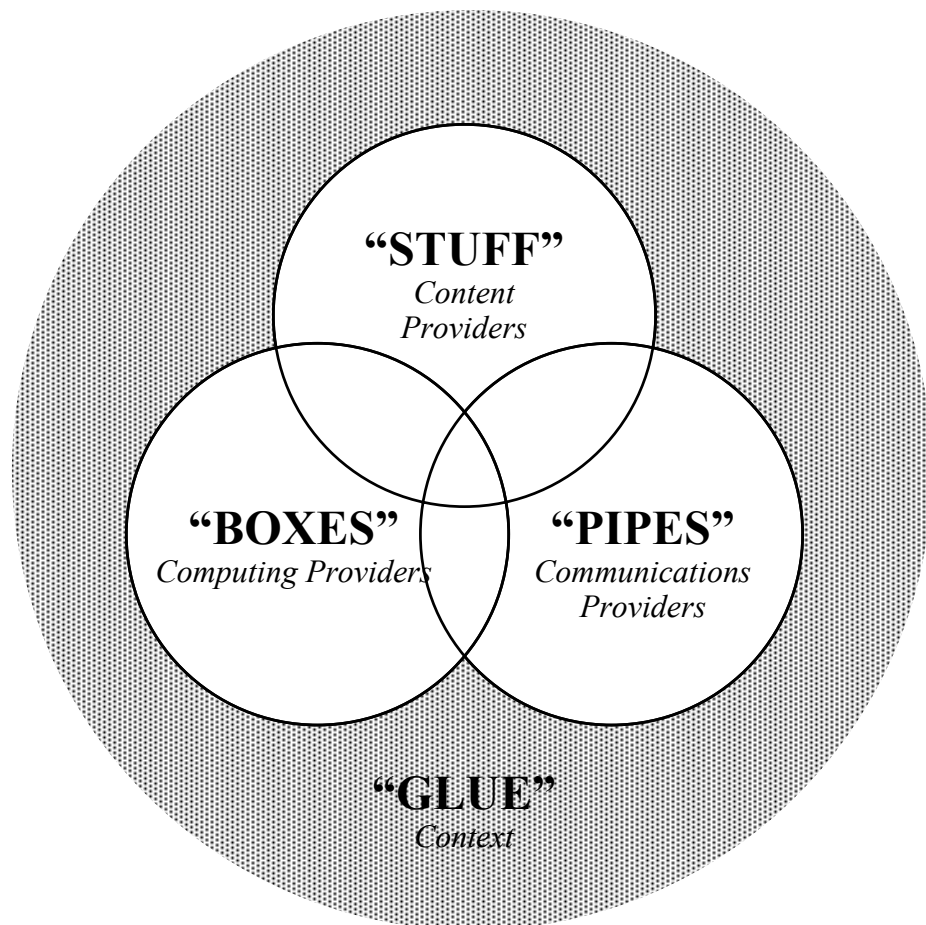
- Film/music studio, print publisher
- ◌ TV/cable TV networks
- ▽ Infrastructure provider
- Equipment supplier

Source: Andersen Consulting 1994.



Infocosm Framework

We are at the beginning of a technology-enabled, permanent convergence of several large and previously disparate industries



- **Content** (Stuff) - The digitally stored things, that customers want. Conversations, Movies, Publications, Video games, Television, Education...
- **Communications** (Pipes) - The electronic channel that will carry the content. Fiber, Coax, Twisted Pair, Digital Satellite, Digital Cellular, PCS, Radio...
- **Computing** (Boxes) - The intelligent devices which will allow us to access and consume the content. Computer, Set-top Box, Telephone, CD-ROM, Television, Nintendo, Scanner...
- **Context** (Glue) - The software and intermediary technologies required to hold it all together. Digital Libraries, Gateway Providers, Operating Systems...

Source: Andersen Consulting 1994.