Session 7: Standard Wars Android Wrap Up

Competitive Strategy

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Source of Network Externality?

- In the old handset market, no network effects. Each carrier, each handset can develop incompatible systems
- In smartphones, the network effect is a consequence of the App (complements)
  - Installed based of users increases developers incentive to work on apps…
  - …increasing number of apps increases value to users
- But how large can this be? Don't we all install the same apps?
  - It is impossible to know which apps will be popular in advance (who is next angry birds?)
  - Need confidence that whatever app is wanted will be in platform

STANDARDS WAR: STRATEGIES

- Textbook strategies for both players
- Apple: Power play, a discontinuous, proprietary technology
  - Works only if “insanely great” and opposition fragmented, which was exactly the state of the game when Apple phone launched on 2007
  - This strategy is highly risky, bets on value capture
    - If it works, it works big! (market cap of Apple reached $700bn in 2015)
- Android: as second mover goes with open standards
  - Assamble coalition, get allies, manage expectations

Incentives of Other players to join Android

- Carriers: like huge growth in value creation (growth in data use and mobile use) but scared of threat to value capture, “dumb pipes” (e.g. text!). But given oligopolistic industry structure, clear winners
- App developers: incur large fixed costs of developing new apps may deter them, but like competition to Apple and open source
- Handsetmakers/Nokia: big makers, BB, Nokia, scared of losing differentiation (intel inside), face tradeoff value capture value creation in advance of launch

Google strategy/Capture

- Google benefits most from market expansion through data and search
- Defend search from possible Apple
- Attack MSFT
- Monetise through search
  - Maps, location enabled search is a large potential source of value