A lot of discussion today, around AI are looking into the technical aspect, but they are missing the wider picture.

Indeed, while the technical aspect of LLMs might play a role in the development of the AI industry, there is a more important aspect to take into account.

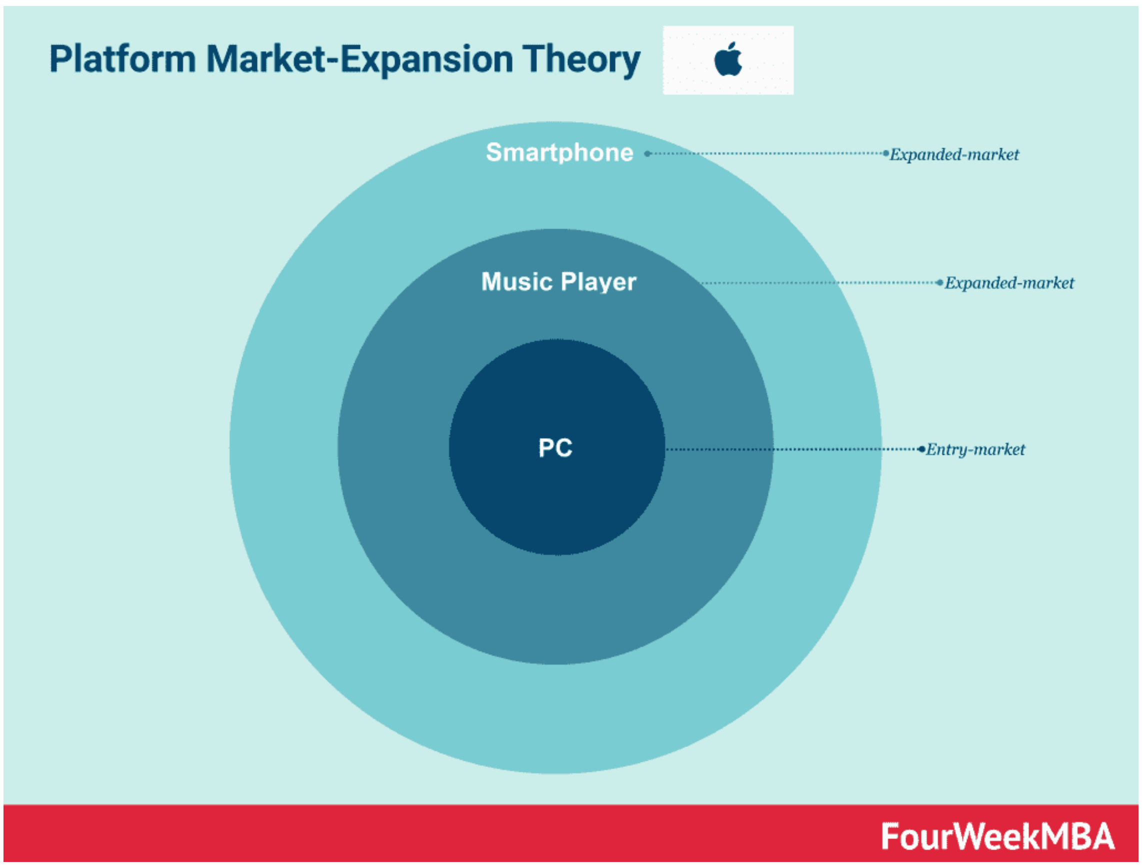
That's the interplay between technology and business, in what we can call *"market expansion theory!"*

One example, that is playing out, as we speak, is the transition from search to Generative AI.

The mother of the modern market expansion

One of the most successful market expansion of modern business history was achieved by Apple.

As the company moved from niche PC maker; it jumped to new markets, until it created a whole new market with its iPhone (what is known as a blue ocean, or at least it used to be so).



As Apple created new products, those new products also comprised new technologies, and they were coupled with a different distribution model.

Platforms dominate distribution

When Apple jumped from computers to the iPod, it started to understand that to create a whole new market, a product alone wasn't enough.

It needed a new way to distribute it and a new platform for enabling a different level of content consumption for consumers.

From there, the iPod, iTunes, and a new distribution model (single songs could be consumed in place of buying entire CDs), a whole new distribution platform was born.

TDM: Technology + Distribution + Monetization

Netflix started as a DVD-rental company. That was the most viable way to start a business that could compete with existing players like Blockbuster. Netflix could have tried to play it bigger.

Netflix had known for years that being a competitive player in the DVD-rental space, was *"just the beginning of something else."*

In a Wired article, entitled "The Netflix Effect" from 2002, Reed Hastings, still current Netflix's CEO, highlighted:

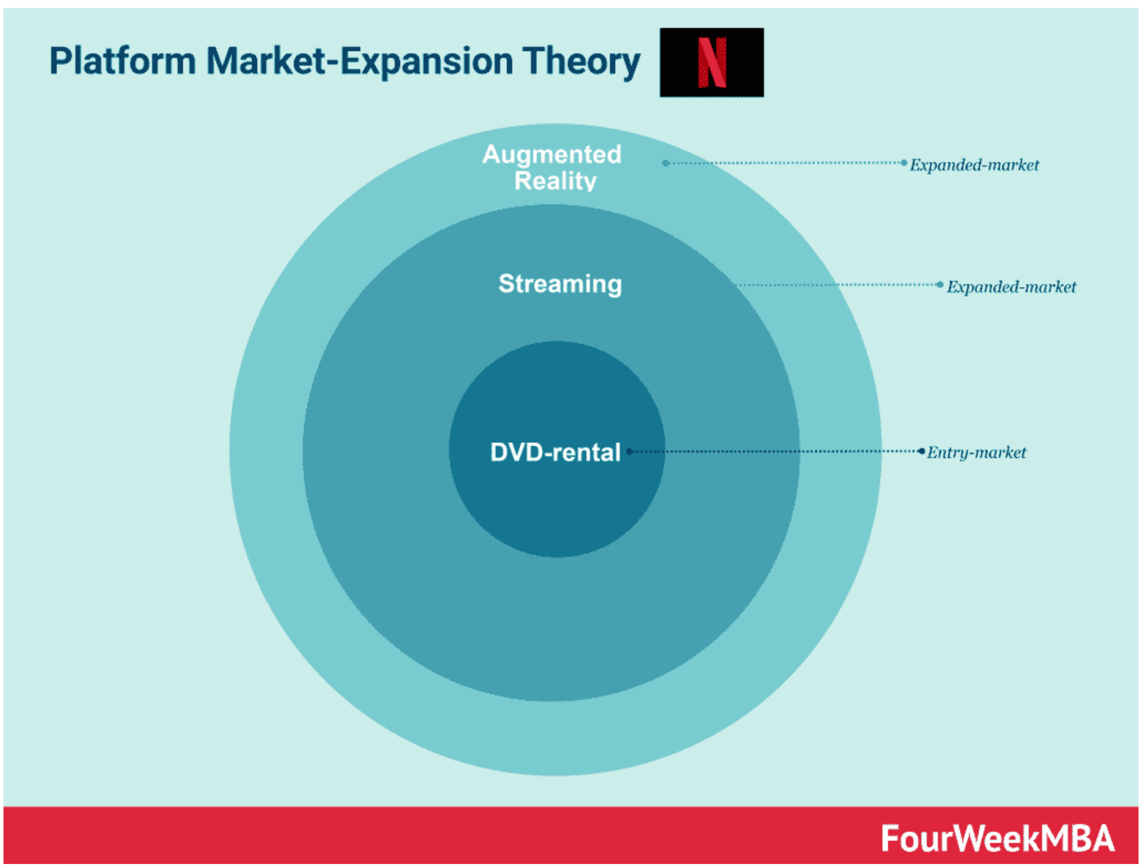
> *The dream 20 years from now, is to have a global entertainment distribution company that provides a unique channel for film producers and studios.*

Thus, Reed Hastings was well aware of the potential of building a platform, yet it knew it took time to achieve the viability of that business model.

Netflix could have burned all its capital to enter that market early on.

Yet the first time "streaming" was announced on a Netflix financial statement was in the 2007 annual report, presented in 2008, and by 2009 annual report streaming would be mentioned 88 times (FourWeekMBA analysis).

That is when things started to pick up!



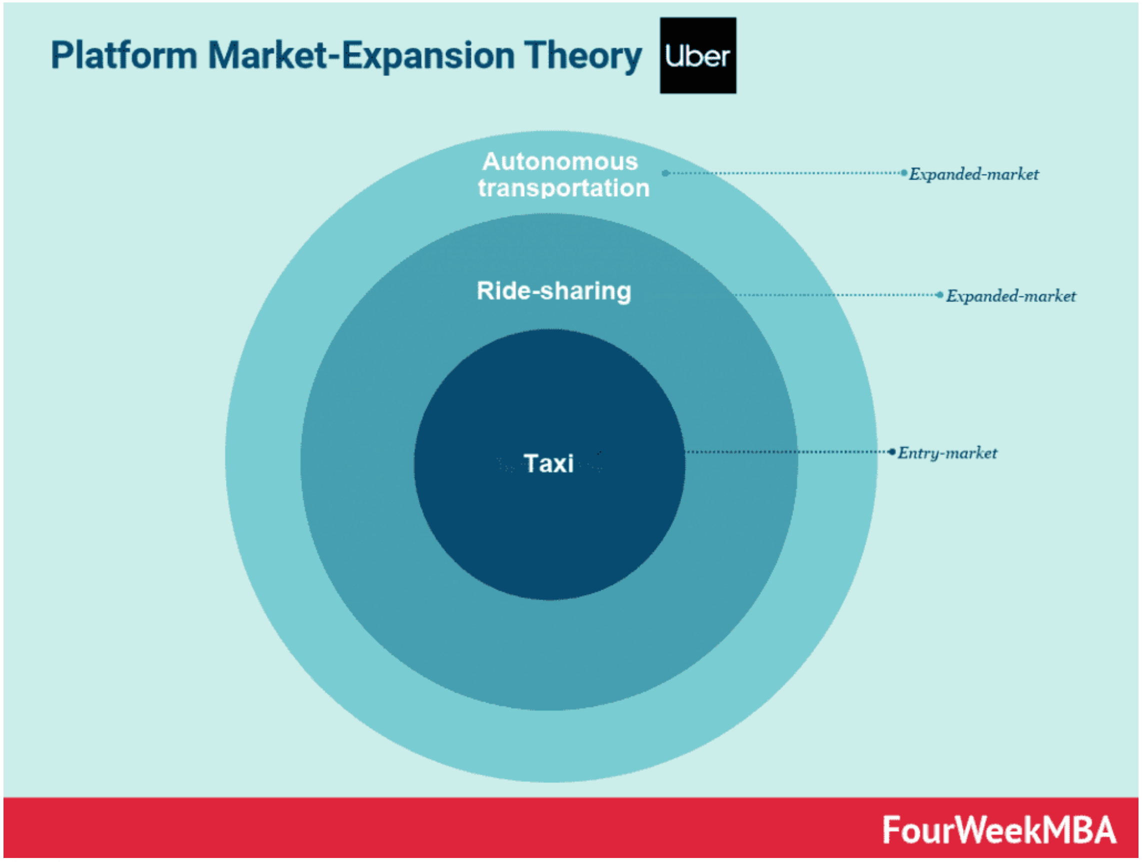
Netflix jumped from a smaller, limited market, to a much larger market, with much less physical constraints.

As Netflix jumped from DVD-rental to streaming, it also slowly abated the fulfillment costs related to the delivery of the DVDs.

As of 2007, when Netflix revenues were still fully coming from DVD-renting those were over 10% of its revenues (FourWeekMBA Analysis).

And suddenly Netflix jumped from a limited market to an unlimited, digital market, without physical constraints, besides servers' costs, of course.

In 2019 server expenses increased by $18 million as more streaming was served on the platform (FourWeekMBA Analysis). And yet, this model was way more scalable.



Other examples that we're looking at currently, are all around us.

Another interesting one is Uber and how - as the company scales - it explores new ways it can achieve its mission, and yet be careful not to take this step too fast, as a false step might certain business death.

Technological platforms mature with the birth of an economic ecosystem around them. Conversely, "business platforms" require technological, distribution, and monetization changes, that combined provide a new way of doing business, and the basis for new business models to emerge.

Logical only in hindsight

While it all makes sense to look at market expansion in this way, it's important to understand that this is logical only in hindsight. In reality, as companies go through those periods of market changes, they need to adjust.

For instance, as Netflix survived two eras of changed content distribution formats, the survival is all but granted.

And in the next era, where augmented reality might become the next available consumer-platform, the whole TDM framework might change again!

Recap: In This Issue!

1. **TDM Framework:** The TDM framework (Technology + Distribution + Monetization) is crucial for building successful platforms. Netflix exemplifies this framework by evolving from a DVD-rental company to a streaming platform, enabling a larger market and reducing fulfillment costs.

2. **Platform Maturity:** Technological platforms mature as an economic ecosystem emerges around them. Business platforms, on the other hand, require changes in technology, distribution, and monetization, enabling new business models to emerge.
3. **Example of Uber:** Uber's exploration of new ways to achieve its mission demonstrates how a company must carefully navigate scaling while considering the potential risks of moving too quickly.
4. **Hindsight Perspective:** The logical framework for market expansion is often understood only in hindsight. Companies must continually adjust and adapt as market changes occur. Survival is not guaranteed, even for successful companies like Netflix, which weathered two eras of content distribution changes.
5. **Future Changes:** The emergence of augmented reality as a consumer platform could potentially lead to further shifts in the TDM framework and business models. One example as of now is the transition to Generative AI.

Ciao!

With ❤️ Gennaro, FourWeekMBA