How to Succeed in Business by Bundling – and Unbundling

by Justin Fox

15-19 minutes

Much of the business story of the digital age so far has been about taking products and institutions apart — unbundling them. Music CDs were unbundled into MP3s that were sold (and illicitly downloaded) individually. Newspapers have been unbundled by blogs and classified ad sites. Now, digital-education upstarts are trying to unbundle the university.

What's becoming clear as time passes, though, is that this is not a one-way process. Yes, digital technology enables a lot of unbundling. But new bundles keep appearing.

Why is this? Well, maybe because there are "only two ways to make money in business: One is to bundle; the other is unbundle." It's a line that venture capitalist and Internet pioneer Marc Andreessen has trotted out a few times lately, attributing it to his former colleague Jim Barksdale. Along with being funny, this saying seemed like it might express some deep truths about where the business world is headed. So I got Andreessen and Barksdale on the phone to talk about it.

Andreessen and Barksdale started working together almost 20 years ago at Netscape Communications. Andreessen was the co-founder, fresh out of the University of Illinois, where he and some fellow students had built the very first web browser, Mosaic. Barksdale was the veteran of IBM, FedEx and AT&T Wireless (he mostly worked at it when it was called McCaw Cellular) who was brought on a few months after Netscape's founding to provide adult supervision as its CEO. What follows are edited excerpts from our conversation, starting with Barksdale's account of where the bundling aphorism came from:

Barksdale: It actually was a quote at the end of a very long road show when we were taking Netscape public, a trip through Europe that ended in London. It was our last show and we were in a big hurry to get the plane. We were at the Savoy Hotel, and the ballroom was full of all these British investment bankers, and we give our normal pitch. Peter Currie, our CFO, and I were doing it, and I said, "All right, one last question." And this fellow, he says something about, "How do you know that Microsoft isn't just going to bundle a browser into their product?"

I said, really just to end the conversation, "Gentlemen, there's only two ways I know of to make money: bundling and unbundling." And said, "We've got an airplane to catch." And we left, and Peter Currie, walking out the door, said, "Those people are looking at you, Barksdale, like you're crazy. What did you just say?" And I said, "Well, best I can tell, most people spend half their time adding and other people spend half their time subtracting, so that's what works out."

Andreessen: It also demonstrates a huge advantage to having to leave for a plane.

Barksdale: That's right. It had the added advantage of being true, as a friend of mine once said.

I had worked for several businesses during my career by that time that had become conglomerates, some fairly large, and then had divested themselves of various businesses. I'm on the board of Time Warner, we have just parsed off our third major part — our original company, Time Inc., which is the publishing arm of Time Warner. We [already had] divested ourselves of Time Warner Cable as well as AOL. So, it's not uncommon to add a bunch of companies together, much less software products, and then divest yourself of them as the shareholders think they have more value standing alone than standing together. You do it to get your stock price up.

HBR: Bundling and unbundling have been around probably as long as businesses have been around, but especially at the level of how you present a product to the consumer, whether you're getting a whole bunch of things like you do with cable TV, or whether you're buying a song at a time, it just seems like the digital changes we've been going through over the past 20 years have really made this a key strategic decision for a lot of companies, right?

Barksdale: It's easier to do in the digital age. It's easier to bundle and unbundle digital products than it was previously hard products.

Music was one of the things where there was this very clear set of bundles in which the products were sold. It was incredibly profitable for the big music companies and for a lot of the artists. And that got completely pulled apart. But now, we're getting new sorts of bundling in there, right?

Barksdale: Like with Pandora?

HBR: Yeah.

Andreessen: I think a lot of it is based on the underlying technology change. The way I think about it is — at least in the world that I work in, sort of tech and Internet media — bundles emerge as a consequence of the current technology. And so the newspaper bundle, the idea of this slug of news and sports scores and classifieds and stock quotes that arrives once a day was a consequence of the printing plant. Of the metro area printing plant, of the distribution network for newspapers using trucks and newsstands and newspaper vending machines and the famous newspaper delivery boy. That newspaper bundle was based on the distribution technology of a time and place.

When the distribution technology changed with the internet, there was going to be the great unwind, and then the great rebundle, in the form of Google and Facebook and Twitter and all these new bundles. I think music is a great example of that. It made sense in the LP and CD era to put eight or 10 or 12 or 15 songs on a disc and press the disc and ship it out and have it sit in storage until somebody came along and bought it.

But, when you have the ability online to download or stream individual tracks, then all of a sudden that bundle just doesn't make sense. So it collapsed apart into individual MP3s. And I think now it makes sense that it's kind of re-bundling into streaming services like Pandora and Spotify.

HBR: A lot of the early rhetoric around the Internet was all about unbundling. You know, we're going to free all these things from these evil big corporations and the consumers will be completely in control. And I mean, there are elements that are true, but it's clear that people at some level need bundles.

Barksdale: I think we use the term "disintermediate" a lot more than we do "unbundle from these terrible corporations." I don't remember ever giving that speech.

HBR: Bundling is often portrayed as being somehow customer unfriendly. And I think the current bundle that probably gets the most flak is the cable bundle.

Barksdale: Well, being in the cable content business and network business, I would say that it's probably the number one debate these days, not only within the cable companies, but it's also within the FCC and the other people who look at it and customers and consumers. It has more to do with the total price of the bundle versus the value of the bundle.

Bundles of any time start coming together — like Marc says, I think now because it's technologically so much easier to do — until they either tip over from their own weight or the consumer says, "I would rather have piece parts than the bundle."

If you remember the big hue and cry in the '90s was, "I have to buy the whole CD to get one track, that's not fair." And so, once Napster came out with its track-by-track download system, you had this big wave of people that went to it because it seemed so easy and attractive. The fact that it was free and illegal didn't seem to bother them too much.

Andreessen: Well, the irony of that was — I think we can talk about this now because enough time has passed where it won't make people mad — it turns out in retrospect there's a fair amount of evidence that CDs in the '90s had become an oligopoly cartel. There were, I believe, several price-fixing scandals and cases that have come out of that. And so, ironically, the bundlers of that era were operating probably illegally, in the way that they were forcing the bundle and then price-fixing the bundle. So one of the reasons why people didn't have as big a moral issue on the unbundling and the piracy that resulted is I think people felt from a moral standpoint like there was sin on both sides.

Barksdale: I do think music is a great example of what you're trying to discuss today, Justin, and that is, music was a bundled business. Although see, I'm older than Marc, I remember when it was totally unbundled and we'd buy 45s.

We'd buy 45s, they only had one song on the front and one on the back, and the one on the back — the B side — was always a terrible song. But you had to buy both sides. And then, they came out with the

LPs and new stereo systems and they put them back together and bundled them, and that led to CDs being bundled as the offshoot of the LP record.

Andreessen: The other thing I'd say is I think the bundling or unbundling of the product actually directly affects the bundling or unbundling of the business. So one of the other things you see happening in music now is actually the music industry getting reconfigured and being split out. There are now companies that are entirely online record labels that have started from scratch. Or there are companies that are entirely focused on merchandise sales. There are companies entirely focused on touring. And the old record labels that are still bundled businesses corresponding to a bundled product offering are struggling to adapt to this new world with lots of new competitors that are effectively unbundled.

HBR: Right. Or yeah, they're unbundled or they have new sorts of bundles that fit better with the new technology, like the Spotifys and Pandoras and Rhapsodys and all of them.

Barksdale: The same thing's happened to the cable industry with these "over the top" systems. They don't spend a lot of time trying to bundle a lot of things, they just bring a whole single play, like *House of Cards* or *Alpha House* or whatever that was. Those are single-shot, unbundled offerings that seem to do well and compete with the bundled cable companies. So much so that now the cable companies are worried about this over-the-top method that goes directly through the Internet and doesn't have to carry the overhead burden of bundling everything.

Andreessen: From the incumbent standpoint it all looks very unfair. But from the consumer standpoint it looks like new options and new alternatives.

HBR: Clay Christensen has described this progression in technology from the integrated product to the modular. Jim, in your years in the computer industry you lived that transition from selling these big things at IBM to being part of this totally modularized PC industry. I mean, that sounds sort of like unbundling, but we keep getting new bundles nonetheless, right?

Barksdale: Of course, you always are bundling and unbundling. You can't stand still.

Andreessen: One of the patterns I think that you see is that the insurgents often end up reforming themselves into a version of the company they took down. And so, famously, Sun Microsystems took down DEC by unbundling a lot of what it did when it was a huge company. And then Sun sort of reformed itself into what you might call a new DEC — a vertically integrated company which then got taken apart to some extent by Linux and Intel servers.

Oracle is an example. Larry [Ellison] has spoken openly about his attempt to basically recreate IBM by adding applications and services and hardware to what had been an infrastructure software business. And so, ironically, even the people who take down an incumbent through unbundling then come back and try to do the rebundle.

Barksdale: Well, because it's an effective growth strategy. Once you try to grow the business, it's an easier out to stay focused on your core and then add things to it. And you become a big bundle again.

Andreessen: Which then creates a new vulnerability that you didn't have when you were the insurgent.

HBR: Both of you have done a lot of investing over the years. Marc, you're one of the founders of the venture capital firm Andreessen Horowitz, and Jim, you're involved in a lot of philanthropic activities, but you're still doing investing, too, right?

Barksdale: Oh yeah, I've invested a lot and had a venture firm in the early 2000s, so I'm still active. I'm not nearly as active as Marc is though.

HBR: So, in making investment decisions, is this bundling or unbundling theme something that comes up a lot, that you talk with companies about?

Barksdale: Well, most companies when they're building strategies don't ever use the term bundling. They just think of adding strategic advantages to their products. If they can add it to their core, they add it, and try to be as efficient as they can be, because there are efficiencies in bundling.

And there are synergies related to bundling. You don't have to redo a lot of the core services when you put products together. But, I doubt most strategies were ever built using the term, "Let's bundle." Or, "Let's unbundle." That's not a strategic term, really, it's just an observation I made.

Andreessen: I would say we probably think about the unbundling part a lot more often than we think about the bundling part, because we tend to invest in the new companies, right, the startups.

The way we think about it is sort of what I said before about music and newspapers, applied to many other industries. Often, a key characteristic of large incumbents in any industry is, they have a bundle that is accumulated over time, for the reasons that Jim described — reasons that made total sense at the time. And then what we look for is for something to have changed in the underlying technology. The arrival of the Internet was a big one. The arrival of mobile distribution. The arrival of social networks. The arrival of Bitcoin is a current example.

So, we look for something to change in the underlying technology, and then basically say, “Well, you know, gee, if you were to sit down today with a clean sheet of paper, and you knew that the technology was changing, then what would be the proper form of the product, if you were starting from scratch?”

That’s the question that’s always the hardest for an incumbent to ask, because that’s the classic innovators dilemma. And that’s the question that’s the easiest for the startup to ask, because the startup literally is somebody sitting down with a clean sheet of paper. All they have is the ability to think from first principles, think from scratch.

I would say we look actively for the pattern of large incumbent, established industry, bundled product or service offering, coupled with underlying technology change, coupled with idea for unbundled product that the customer might prefer, and then of course coupled with an entrepreneur who can actually build a business around that. I think that’s a fairly common pattern.

You can kind of think about the evolution of the internet industry this way, right? Once upon a time, there was AOL, which bundled everything from dialup to all the information services that you use, all in one thing. And then Yahoo came along and unbundled all the content from the access. And then one of the features of Yahoo was search, Google came along and unbundled search. One of the things you could do on Google was search for people; Facebook gave people a much better way to search for other people.

You can view the technology industry as this sort of family tree of sort of progressive unbundling. A lot of this traces all the way back to IBM. But even the giants of the last 10 or 20 years are in the process of getting unbundled. Microsoft has been significantly unbundled themselves in the last 10 years. Android has unbundled a significant part of what Apple’s done. And so, the process keeps playing out.

Barksdale: Having worked for IBM in the early days, we couldn’t conceive that a customer would want a bunch of different products sitting around on people’s desks. We thought they wanted these humongous things and one central computer room that everybody would just love to share.

Here’s another excerpt from the interview, in which Andreessen and Barksdale discuss Barksdale aphorisms involving snakes, bears, alligators, and dogs.