

# Session 10:

## Playing with MSPs

June 26<sup>th</sup> 2009

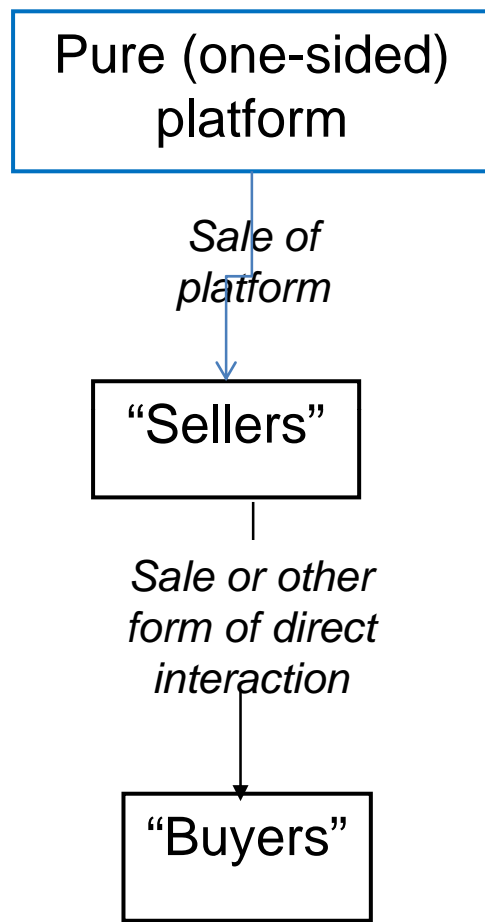
# Agenda

- Very promising project proposals
  - Format: 5-10 pages (+ max. 5 pages of appendices/tables); Times New Roman 12pt; 1.5 line spacing; normal margins
  - Strictly enforced!
  - Criteria (see session 6 slides)
- Today:
  - Playing with MSPs/intermediaries (need more finance examples)
  - HTC

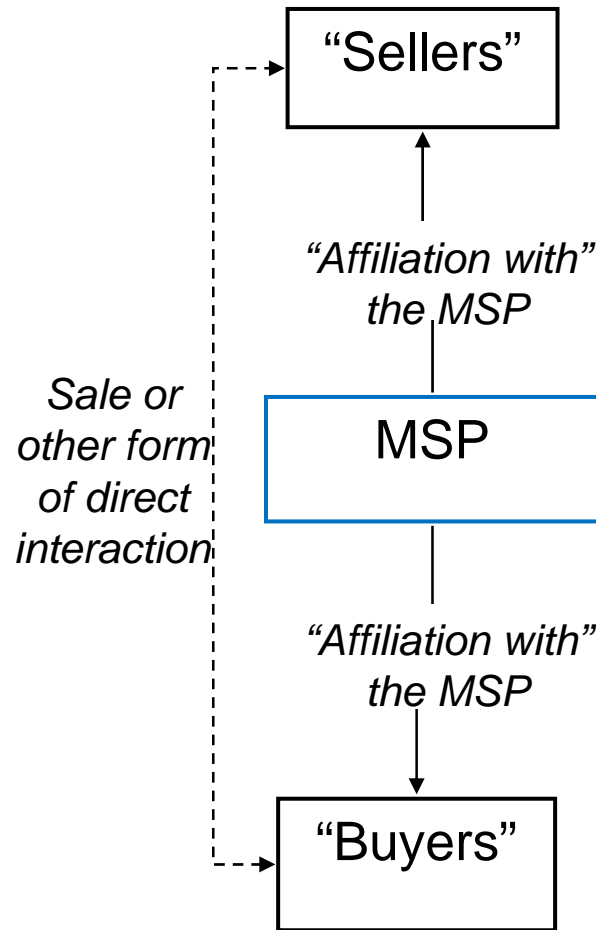
# (Multi-Sided) Platforms & Market Intermediaries

- Value of MSPs and intermediaries?
  - Reduce search and transaction costs
- They have existed for centuries (e.g. village matchmaker; traders)... but IT&C technologies have made them far broader in scope, more valuable - and more powerful:
  - E.g. Google, Amazon (from e-commerce to e-payments to cloud computing)

# (Multi-sided) platforms and intermediaries

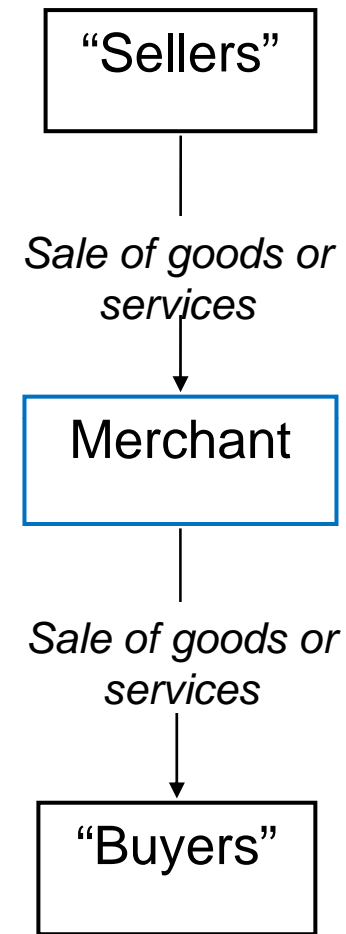


E.g.: E-Ink; SAP ERP



E.g.: Windows; Match.com;  
Amazon; eBay; Nintendo  
Wii; VISA; Octopus

Slides restricted to HKU ECON6002  
students 2009



E.g.: Wal-Mart; 7-Eleven;  
Li & Fung

# Players on MSPs

- Fundamental tradeoff:
  - They can make you more efficient (reduce costs) and increase your customer reach (e.g. Amazon, Google)
  - ...BUT there is a Dark Side: over-dependence; commoditization -> *hold-up risk*
- 3 decisions:
  - Should you play on MSPs?
  - If you play, which MSPs to play on?
  - How to play?
- Reverse order...

# 1. Should you play or not?

- Why *not* play? Hold-up risks.
- What are the main ways in which “players” can be held up by MSPs? Examples?
  1. Price increases (e.g. Microsoft with Windows)
  2. Vertical integration in your business (e.g. Microsoft, Google, Facebook, SAP)
  3. Commoditization: intensifying competition with your rivals; weakening relationship with your customers (e.g. Amazon, Apple with iTunes)
- How can players avoid hold-up at the hands of MSPs?

# 1. Should you play or not?

- What are the alternatives?
- DIY platform:
  1. Proprietary MSP in order to extract value (e.g. Nokia with Symbian; movie studios with Hulu)
  2. Open MSP in order to prevent any MSP from extracting value (e.g. Google's Android, OpenSocial)

# 1. Should you play?

- Major risks:
  1. Misunderstanding the true objectives of the MSP and how they will evolve over time (e.g. Toys 'R Us with Amazon; Mikimoto with Roppongi Hills)
  2. Overestimating your DIY ability: will other players (your rivals) join? (e.g. Nokia with Symbian)

## 2. Which MSPs to play with?

- Short-run:
  - Exclusivity: extract higher payments if you create differentiation for MSPs
  - Multi-homing: larger market reach
  - E.g. bidding wars for exclusive content (satellite radio, professional sports broadcasting)
- Long-run (if you are a strategic player): *can you and do you want to make the market tip to one MSP?*
  - E.g. Time Warner in Blu-Ray vs. HD-DVD

## 3. How to play?

- Your priorities:
  1. How to differentiate from my competitors on the same MSP?
  2. How to avoid hold-up by the MSP?
- Example 1: LinkedIn on OpenSocial
- Example 2: Electronic Arts on Xbox Live
- Example 3: music studios on iTunes (how *not* to play)

### 3. How to play?

- *From a player's perspective*, what are the key economic differences between dealing with an MSP vs. dealing with a merchant-type of intermediary? Under what conditions should players prefer one vs. the other?

# HTC

1. What are the various MSPs in the mobile phone industry?
2. What are the most important tradeoffs involved in going from ODM to branded manufacturer? Did HTC make the right bet to move from an ODM to a branded products company?
3. Was HTC's bet on Windows Mobile and Google Android a good idea? Should HTC also consider developing its own OS, similar to Palm, Apple, RIM, and Nokia?
4. Palm, Apple, RIM, Nokia, and even Samsung have launched app stores. How should HTC play in this arena?
5. What additional strategic moves should HTC make to become one of the top 2 or 3 global players in smartphones?

Thank you for your attention.