

Prof. Schumpeter Comes to Hollywood

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A life and death competition hovers over the upcoming Academy Awards, and we're not talking about the one between the nominees.

While inside the auditorium the show may appear different, the fact is that this event has been following the same script since it was first televised in 1953. A similar claim can be made for the companies and business models that supply the content for this celebration.

After being insiders during the decades-long growth period of some of the world's largest media businesses, we'll be watching this year's Awards from the outside with a new vantage point that reveals the critical dilemma the entertainment industry finds itself facing.

Dr. Joseph Schumpeter, the insightful mid 20th Century Harvard Economics and Political Science Professor, will never be the subject of a bio-pic. But his ideas on innovation and the rise and fall of industries form the basis for the script the media business finds itself following today.

Put plainly, Schumpeter's imperative is: the new strikes at the heart of the old. And this is exactly what is happening to our industry as we write.

We all know that entrepreneurs build, develop and grow industries with new inventions and innovations. These create new products, new means of production, and new business structures. But there is, according to Schumpeter, a critical twist to the process: at some point this innovation leads to "creative destruction." The original companies, products and innovations deteriorate and new ones are created once again. Schumpeter declared this cycle not only inevitable, but necessary for the healthy growth and regeneration of economies.

Watching the Awards, we are witnessing a celebration of an industry created by moving pictures and broadcasting, innovations that are each more than 100 years old. Since then, numerous advances like Television, Cable, Satellite, VCRs, and DVDs, among others have capitalized on and, in some cases, extended the dominance of businesses built on those two original pillars.

The historically high cost of creating content and building distribution systems erected solid barriers to competition. These barriers gave entertainment companies the luxury of control over the supply of valuable goods and products to consumers, and over the availability of advertising inventory for companies wishing to promote their products.

The game changing 'outsider' who comes to town is a tried-and-true Hollywood story device. Similarly, inventions and innovations like microprocessors, mass storage, networking, and media software catapulting into our world have put today's modern entertainment companies dead in the sights of Schumpeter's "creative destruction." The entertainment industry is easy prey to new and disruptive technologies and ideas, making these times both daunting and exciting.

New innovations have led to an environment where virtually anyone is capable of creating, producing, or distributing entertainment content. The old mechanisms of control are fast becoming obsolete. And while traditional media companies are forced into scrambling to adapt, newer competitors like Google, Apple, and Amazon are built on agile platforms capable of profiting from the speed of change these innovations are fueling.

Schumpeter's dictum challenges all of us in the entertainment business to define a future which is as innovative as the past, especially when new companies and industries are writing our script. As we have already seen from the new power players arraying against the traditional incumbents, companies that are more focused, better able to differentiate, and willing and able to partner are the ones most capable of delivering sought after new products, services, and business models. "The viewer" has morphed into "the user," and companies need to recognize and utilize this transformation.

There is more than enough evidence that many of the models that have sustained the business for decades are on the verge of collapsing: declining DVD revenues; the scarcity of pay-television dollars; a proliferation of ad-skipping DVRs combined with an over abundance of TV and Web advertising inventory supply; the collapse of local TV station economics; and, 14 billion streams of Internet video during the month of December in the US alone.

While streaming TV shows on the likes of Hulu and YouTube and allowing electronic downloads of theatrical films appear to be reasonable responses to the challenges the media giants are facing, they are simply not radical enough to spark the regeneration that ultimately is necessary to create a highly successful business in this fast-moving media environment.

Soon it will not be enough to create content that can merely be viewed on multiple platforms and devices. Additionally, new forms of content need to be created which behave more like

“open-source” software, which is not only used, but can be improved upon by its interaction with consumers and innovators, who may be one in the same. A different kind of creative product must be designed that has a DNA which favors mutation in the face of innovation.

By radically reconceptualizing the form and function of creative products beyond the historical anchors of moving pictures and television, unique new partnerships between content creators and entrepreneurs can be unleashed. Throwing off the shackles of the old and relying on the transformative power of creativity, these partnerships will bring new kinds of entertainment, new content-based services, and, most importantly, new business models to our industry.

To most people sitting inside the Academy Awards auditorium, this might sound like a horror movie. However, recognizing and hastening Schumpeter’s “reality show” would likely provide a happy ending, and give our industry a real cause for celebration.

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