

Chapter 70

Digital Convergence and Horizontal Integration Strategies

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ABSTRACT

Digital technology is unique in that it enables convergence of access devices and content as well as convergence of industry participant operations and strategy. This digital convergence creates opportunities, and threats, for developing new business models and unique growth strategies for digital product companies. The purpose of this chapter is to discuss examples where digital product companies have taken advantage of digital convergence through horizontal integration strategies that enable them to create unique mixes of products/services and reach larger markets. Actual horizontal integration strategy examples are discussed for several industries where products are in a digital form. In addition, potential cross-industry integration strategies and online intermediary (cybermediary) strategies are identified along with tactical level strategies for mass customization and use of interactivity tools and social networking. Strategic alternatives for introduction, growth, and maturity lifecycle stages are also discussed. The rationale for these strategies and implications for managers of digital product companies are discussed along with directions for future research.

INTRODUCTION

Digital technology has been around since the invention of the electronic digital computer about seventy years ago. Over time the capabilities of digital technology have continually improved, but there has been an acceleration of activity associ-

ated with the commercialization of the Internet and the development of new methods for development and delivery of digital multimedia content. Examples of digital content and product industries include newspapers, magazines, electronic books (e-books), music, movies, games, and software. Digital technology and the Internet have enabled companies in each of these industries to independently transform their traditional product into a

DOI: 10.4018/978-1-4666-2919-6.ch070

digital format. This led to some cost savings and access to larger markets, but the most successful companies have often taken this a step further to pursue strategies that take advantage of the opportunities created by digital technology, content, and industry convergence through integration strategies within and across industry boundaries. Operationally, the world of electronic business and electronic commerce has enabled the entire digital product order fulfillment process—information search, order placement, payment, product delivery, and associated customer service—to be converged which has created opportunities for cost reduction and creation of entirely new products and services. Strategically it has also created opportunities for focus on core competencies, access to larger markets, and creation of entirely new products and services.

The primary purpose for this chapter is to analyze one aspect of this overall phenomenon, the opportunity created by digital convergence and why this has led many digital product companies to choose a horizontal integration strategy as their path toward achieving competitive advantage. The focus is on digital product companies and not digital services. Digital products are informational, multimedia, and software products that are in a digital form and possession of the content/product is transferred to the consumer for either a period of time or forever. Examples of digital services that are outside the scope of this chapter would include online financial services, career services, travel services, auctions, and virtual communities.

This chapter is organized as follows. First, the concept of digital convergence is discussed along with an explanation of the goal and process used in strategic management as well as the range of alternative strategies available to companies. The main section then combines these issues to illustrate some of the types of horizontal integration strategies currently utilized by real-world companies to take advantage of the opportunities presented by digital convergence. The rationales for digital product managers choosing these strategies are discussed. Next, other potential cross-

industry partnerships, intermediary strategies, mass customization strategies, interactivity and social networking strategies, and life cycle stage strategies are identified to illustrate the range of possible growth strategies that could be utilized in the future. The chapter concludes with a discussion of implications for digital product managers and directions for future research associated with future digital product strategy issues.

BACKGROUND

Two issues are presented in this section to provide the background for understanding the rationale behind the strategies described in the next sections. These two issues include three dimensions of digital convergence (technological, content, and industry) and a description of the goal for strategic management, process used for strategic analysis, how technology changes are incorporated into this analysis, and the range of strategic alternatives available to companies that wish to pursue the opportunities presented by digital convergence.

Digital Convergence

Technological convergence is the result of combining two or more media platforms into a single hybrid device (Laudon & Traver, 2010). Numerous examples illustrate the concept of technological convergence. Many of today's cell phones can be used as a phone and also can be used to access Web content and send e-mail messages or text messages. The device with the widest range of capabilities is probably the personal computer. Today's PCs enable users to access the Web, send e-mail, run software programs, listen to music, play games, make payments, and the list continues to grow. Essentially there is no limit to the capabilities of hybrid devices as long as the product/service can be digitized. The benefit to the user is a reduction in the number of devices dedicated to only one or a small number of tasks.

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