The challenges of remixing assets in a network-enabled economy

Review of Remix Strategy: The Three Laws of Business Combinations,

Benjamin Gomes-Casseres (Harvard Business Press 2015)
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In hindsight, you could see it coming from centuries away. Ever since Adam Smith argued for the division of labor among pin makers, the industrial revolution has rewarded entrepreneurs who separated the capabilities required to support an offering, improved on them, and then recombined them in new ways to drive yet more innovations.

This process accelerated again in the 1970s when U.S. corporations began outsourcing core functions that were once considered their competitive advantages. Forty years later, we're surrounded by the dense, global networks that were the result–the iPhone and Android smartphone ecosystems, the Facebook and Google media platforms, the WinTel and Apple PC platforms. And companies like Uber and AirBnB are building yet more networks from the ruins of the older industries they are tearing apart.

In *Remix Strategy: The Three Laws of Business Combinations*, Benjamin Gomes-Casseres offers a way to construct new networks that, in the spirit of creating and adapting songs by remixing samples from other songs, generates new offerings by remixing the assets and capabilities of other firms.

In today's business environment, these networks–and networks of networks– have become not just commonplace but critical sources of competitive advantage. Indeed, the battle for industry dominance is now largely fought between competing networks rather than individual firms.

So for today's leaders, the challenge is not whether to engage with these emerging networks but how to do so strategically and effectively. The key questions are not whether such combinations are necessary but rather where will they create value, and how are you going to capture it?

Remix Strategy provides managers with the guiding principles and tools for recognizing the potential value of remixing core capabilities of firms and networks, for determining how to best realize that value, and for sharing that value–initially and as the remix evolves over time. Gomes-Casseres offers three laws of business combinations:

1. The value created by the combination should exceed the total value that would be generated by the players acting alone.

2. The combination must be designed and managed to realize this joint value.

3. Each participant must earn a return sufficient to justify the investment.

Like the value of such networks, the three laws that govern successful remixes appear obvious. But think of them more like rules in chess: a minute to learn and a lifetime to master. In practice, recognizing and pursuing opportunities for business remixes faces a set of challenges and raises a host of questions.

First the challenges

Managers like the control of formal authority and prefer strategies that rely on resources they can own or in other ways directly manage. Moreover, recognizing and pursuing business remix strategies requires uncommon collaborations across functional silos–corporate strategy, business units, M&A groups, legal, supply chain management, new product development, finance–that bring their own internal conflicts to the process. Finally, when it comes to innovation and organic growth, both capital markets and internal labor markets tend to favor the pursuit of internal initiatives over external combinations. These challenges get in between the simple idea of pursuing a business remix strategy and the reality of making it work.

At the same time, more questions emerge: What kind of combination do we need–a merger, joint venture, consortium, partnership, acquisition? How do we manage these relationships over time? Who should we choose? How will we measure success (and across what time frame)? What profits will we earn? Will they justify our investment? How would we structure the terms? How would we exit? How does this align with our firm strategy? Who internally needs to be involved in the decision process? Who internally will run it?

The real value of *Remix Strategy* lies in the tools that support a structured approach to overcoming these challenges and answering these questions: from clarifying the potential value of a particular remix strategy, to considering the different options for realizing that value, to evaluating the different governance choices. These tools are described in details in Chapters 3, 4 and 5.

The value stack exercise

Rather than cover all three, let's look more closely at the first and possibly most important challenge: recognizing the value of a potential business remix. For starters, Gomes-Casseres provides a value stack exercise for developing insight into what your company can do and, particularly, what it can do better than anyone else. All business are made up bundles of complementary resources–capabilities and assets–that support the activities and outputs of the firm and ultimately determine its competitive advantage. Understanding and inventorying those activities becomes a useful exercise in understanding what the firm can and should do itself and what it should look to acquire, contract for, or find in a partner.

But where that value lies depends on where your firm fits in the larger market. All business are also part of larger systems and relate to each other in different ways: by selling to the same customers as competing or complementary products, by selling to and buying from other business across a supply chain, or by providing integrated solutions to the same customers. These three different models suggest where to search for value by combining the assets and capabilities of yours and other firms.

For example, Proctor & Gamble's acquisition of Gillette, another firm selling to the same customers, combined related beauty care products, strengthened its global presence, and increased its bargaining power relative to retailers like Walmart. Google's Android strategy "remixed" assets and capabilities including handset design and manufacturing–by both acquiring Motorola mobile devices business and creating coordinated partnerships with handset makers like Samsung, LG, and others– as well as providing a platform and favorable terms for developers to create applications for the Android. Their choice enabled Android to outgrow Apple and capture roughly 80 percent of the smartphone OS market.

There is no simple formula to determine which remix strategy is right for you. Instead, these tools enable critical conversations by providing a common language and structured process. *Remix Strategy* offers similar tools for crafting the right approaches to governing any resulting collaborations and also for sharing the value created.

Two advisories for practitioners

There remain several important caveats to consider whenever the topic of business ecosystems, platform innovations, and other new forms of collaboration–or old forms with new names–comes up.

First, the critical elements of new networks are no longer just firms. New technologies, new infrastructure, and new policies replace capabilities that once resided in companies: the Internet, cellular data networks, and smartphones, for instance, have created an infrastructure in which entire marketing and distribution channels (and the companies that dominated them) are no longer necessary. Anyone looking to pursue a remix strategy must also consider when to turn to emerging technologies, infrastructures, or policies–not just other firms–for complementary assets and capabilities.

Second, the challenges inherent in building new remixes grow exponentially with the number of firms involved. Build that new network around a novel technology platform, and the speed at which the new network evolves also grows exponentially. In other words, repurposing a time-honored insight from General Dwight Eisenhower, making long-term plans around new networks and emerging technologies is worthless, but the planning is everything.

These caveats aside, *Remix Strategy* provides an important set of tools for firms looking to build and manage new combinations of capabilities through new partnerships. Draw a line from the last 40 years through to the next and this may become the most important capability of all.