

**BUILDING COMPETITIVE ADVANTAGE IN THE
NEW ECONOMY
THE CASE OF VIVENDI-UNIVERSAL**

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AGENDA

- **Research objectives and theoretical framework**
- **VIVENDI-UNIVERSAL GROUP: synopsis**
- **Internet as a new opportunity for traditional strategic business units**
- **Internet as a new strategic business unit**
- **Building competitive advantages through E-services ?**

RESEARCH OBJECTIVE

Many industries are experiencing a major restructuring phase. This affects both “brick&mortar” and “new economy” firms. Such a transformation implies a change in the organizational forms and in the strategic behaviour of the firms.

Strategic and organizational capabilities seems to be critical for building and securing competitive advantage.

Managing the organizational and strategic change requires a “refreshment” of the theoretical framework: the notion of “organizational entanglement”

Some organizations seem to show interesting ways to manage this strategic and organizational change i.e. Vivendi Universal.

THEORETICAL FRAMEWORK

Successful companies and in particular those committed in transformation processes (of activities, products and markets) show simultaneously several - and sometimes innovative (Powell, 1990, Baker, 1992; Grabher, 1993) - modes of organization (Daft and Lewin 1993 ; Desreumaux, 1996).

This appears as a paradox within most of the theoretical views of the firms behaviour.

Moreover, the rise of ICT has opened in itself a new theoretical debate on the organizational implications of new technologies (Cohen and Zysman, 1987) which it is far to be settled and which shows controversial evidence.

THEORETICAL FRAMEWORK

Implications of strategic change and technological innovation on coordination forms are limited (what we observe it is more often a “refreshment” of consolidated structures)

VS.

the new organizational patterns (strongly affected by the “externalization” of the value chain) as well as the need to modify traditional forms of coordination are the most innovative features of the so called “new economy”.

THEORETICAL FRAMEWORK

The ineluctable “entanglement” of the firms' organizational forms.

The simultaneous coexistence of several organizational forms within the same firm obliges to reconsider the paradigmatical forms (hierarchy, market, network).

The organizational entanglement stands out in particular where restructuring processes take place and where the innovation based on the ICT is more largely diffused.

THEORETICAL FRAMEWORK

The basic features of this concept have been integrated in the theory by the means of several contributions:

- “interpenetration” (Imai and Itami, 1984),
- “hybridity” (Williamson, 1985 and Thorelli, 1986)
- “modularity” (Brousseau, 1993),

TODAY PRESENTATION OBJECTIVES

The objective of this presentation is twofold:

1. to introduce an in-depth analysis of the restructuring process which has reshaped the actual Vivendi-Universal group by showing how the strategic and organizational change is taking place and
2. to show what are the factors leading to build and sustain a competitive advantage in the “new economy”.

VIVENDI-UNIVERSAL GROUP

Vivendi- Universal

2 companies

Vivendi Environment (n°1 worldwide)
(26 billions € : total sales-2000)

Vivendi Communication(n°2 worldwide)
(25 billions € : total sales-2000)

5 strategic business units

Telecom

Fix and
mobile phone
operator

*Vivendi
telecom
International*

Internet

E-business
Venture-
capital
Portals

*VivendiNet
Vizzavi
Viventures*

Publishing

Software
Magazines
Publishing
companies

*Vivendi
Universal
Publishing*

Music

International
leader in CD
sales

*Universal
Music*

Movie - TV

Studio n°2 in
Hollywood
Private channel n°1
in Europe

*Canal +
Universal Pictures
Universal Studios*

VIVENDI-UNIVERSAL GROUP

Vocation

Vivendi-Universal is a customer-focused global media and communication company.

Strategic vision

« Our vision is to be the world 's preferred creator and provider of entertainment, education and personalized services to consumers anywhere, and across all distribution platforms and devices. »

Source : Vivendi-Universal.com

THE PLAYING ROLE OF INTERNET

IN

THE AUDIOVISUAL BUSINESS POLICY

OF

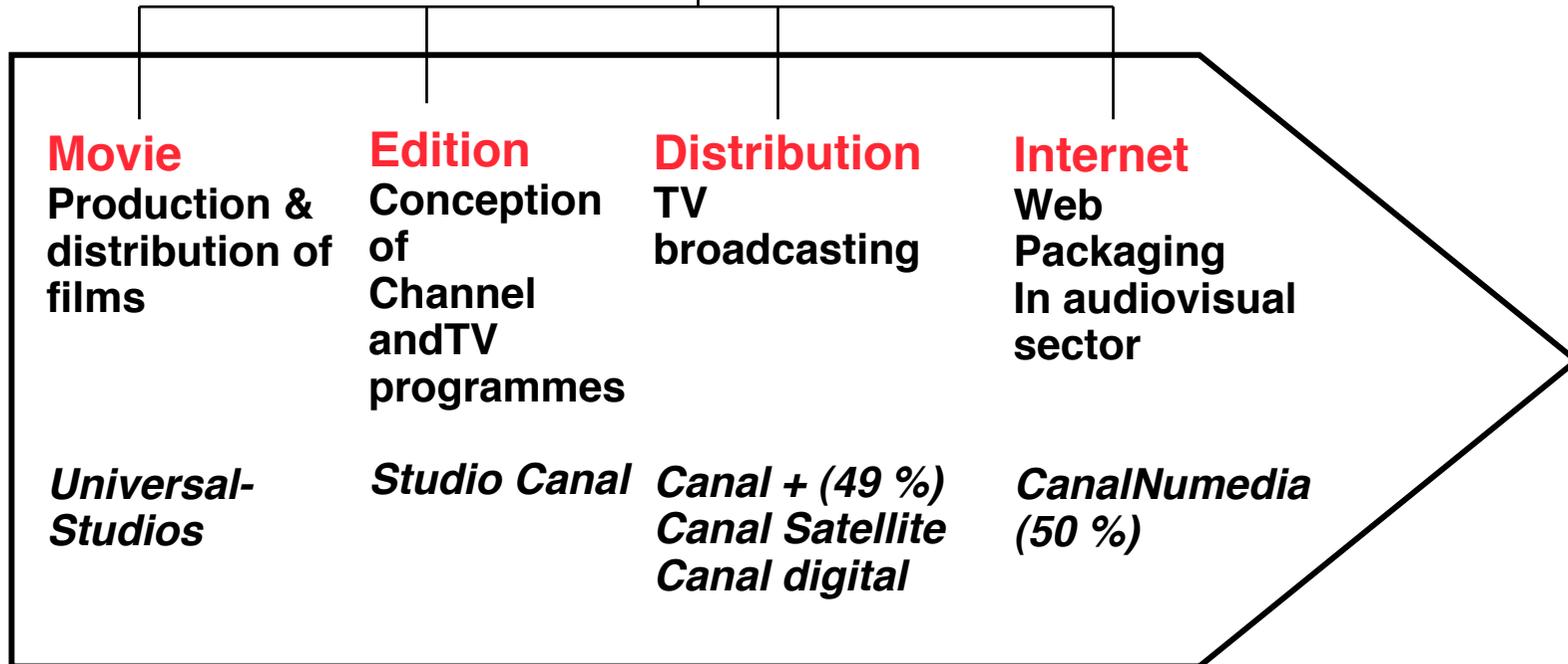
VIVENDI-UNIVERSAL

AUDIOVISUAL DIVISION

Vivendi- Universal

100%

Canal + Group (Income - 2001 : 4 billions €)



AUDIOVISUAL DIVISION
(Internet as a commercial tool to retain and to conquer new customers)

Customer loyalty

Additional services to home subscribers (info- reservation- interactivity - forum) site Canal +.fr

Canal +
Pay TV channel
15 millions of subscribers

Canal Satellite
Pay TV multichannel

Competitive Advantage:
Technological convergence
of Internet
TV and Phone

CanalNumedia
WEB PACKAGING
Edition-Creation-Production of 30 Web sites

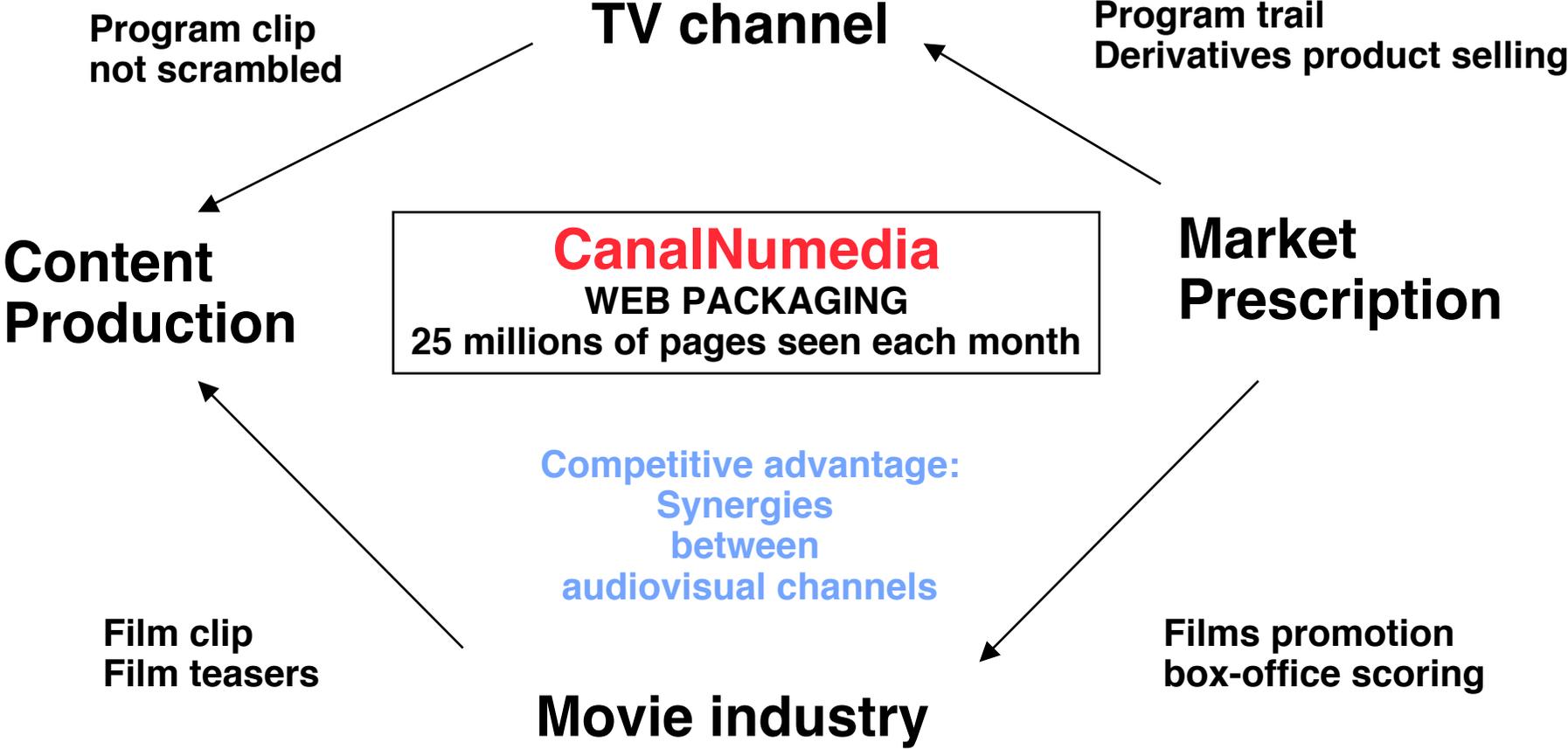
Exploring the market

Gain new customers for Canal + from mobile phone subscribers by diffusing audiovisual E-services

Vodafone - Vivendi
European mobile phone
Operator 40 millions of subscribers

SFR - Vivendi
French mobile phone
operator
12 millions of subscribers

AUDIOVISUAL DIVISION
(Internet as a Marketing support and a complementary channel for audiovisual services)



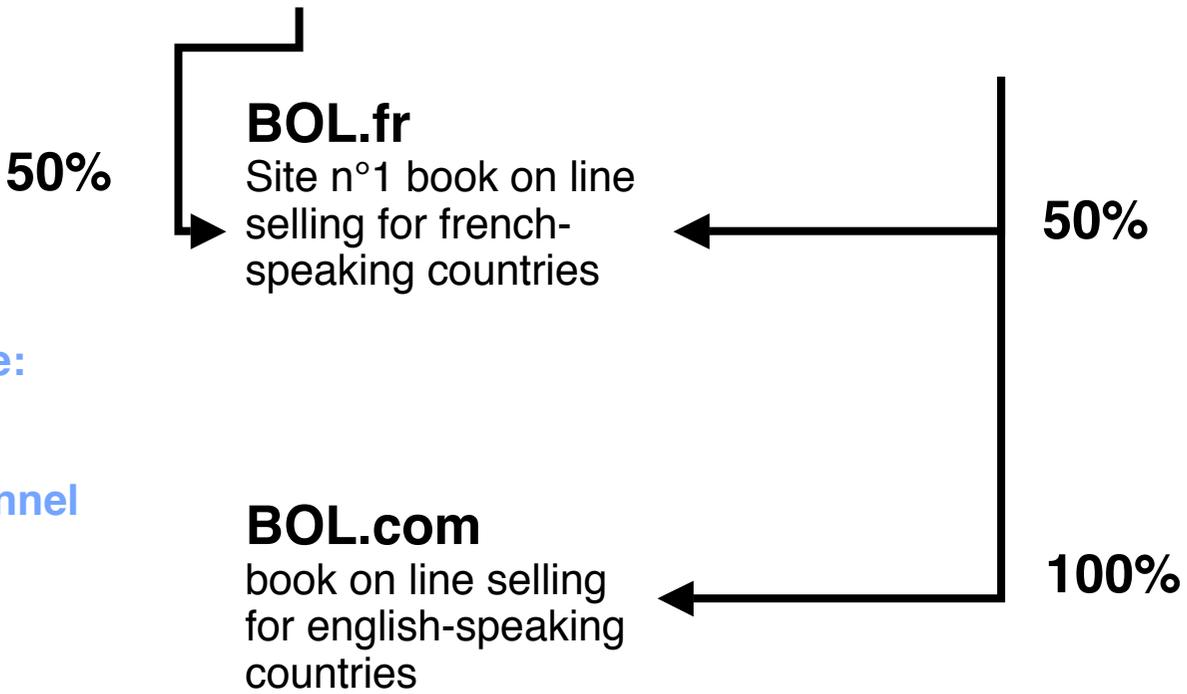
THE PLAYING ROLE OF INTERNET
IN
THE PUBLISHING BUSINESS POLICY
OF
VIVENDI-UNIVERSAL

PUBLISHING DIVISION
(Internet as a tool for E-commerce and direct Marketing)

Alliance



ePocket.fr ← Vivendi-Universal Publishing Bertelsmann
Mobi-pocket.com



Competitive advantage:
Synergies between contents and on line channel

THE PLAYING ROLE OF INTERNET

IN

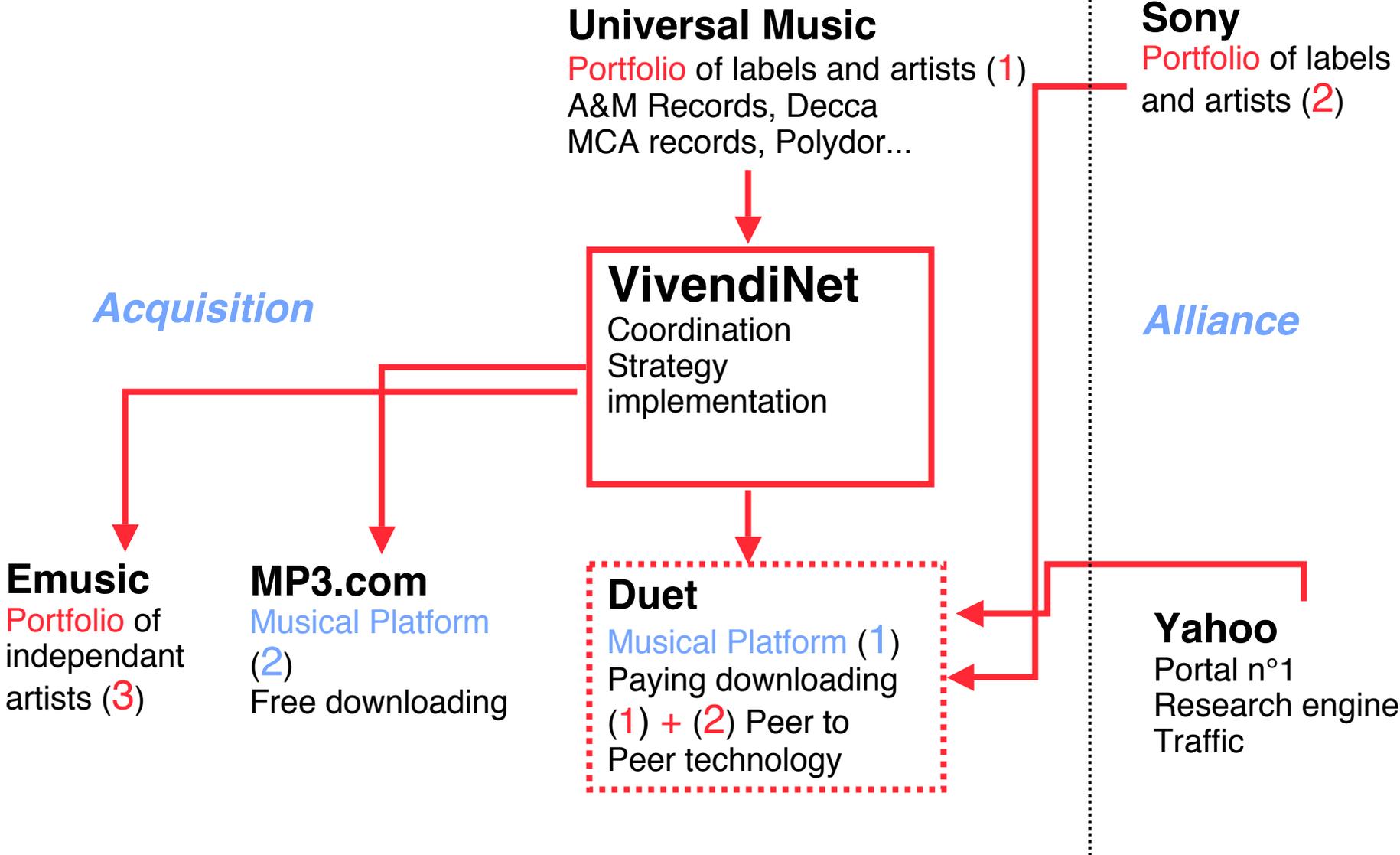
THE MUSIC BUSINESS POLICY

OF

VIVENDI-UNIVERSAL

MUSIC DIVISION

(Synergies on the Internet between contents (1-2-3) and E-channels (1-2))



MUSIC DIVISION

(Synergies between Music and Telecom)

Universal Music

Portfolio of labels and artists
A&M Records, Decca
MCA records, Polydor...

Universal Music Mobile - *new offer*

On line Music by phone
CD Sale
Exclusives services
Target : 15-25 years
Test Market in France

VivendiNet

Coordination
Strategy
implementation

SFR

Mobile phone
operator in France

Competitive Advantage:
Technological convergence
of Internet and Mobile Phone

THE PLAYING ROLE OF INTERNET

IN

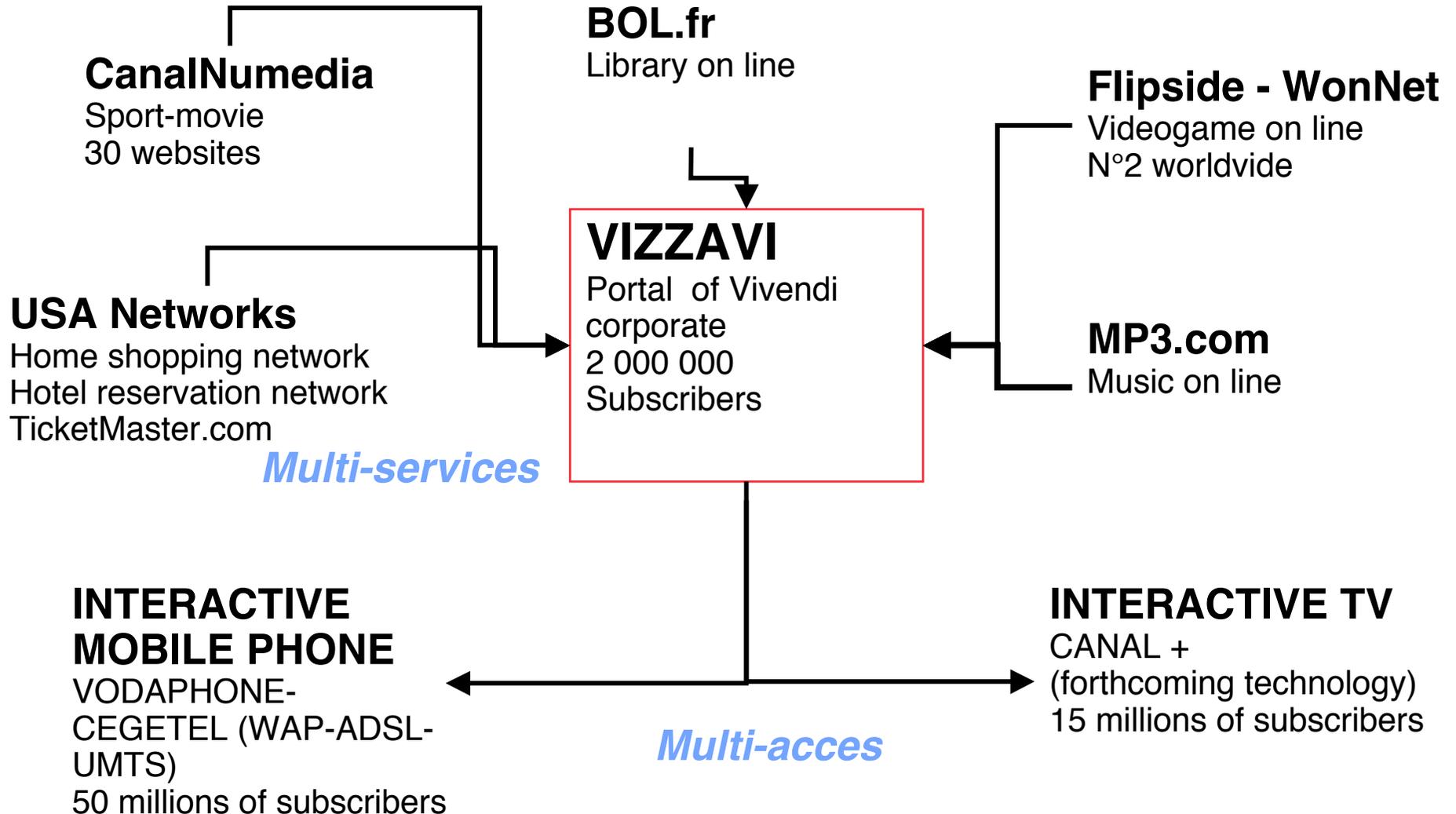
THE BUSINESS POLICY

OF

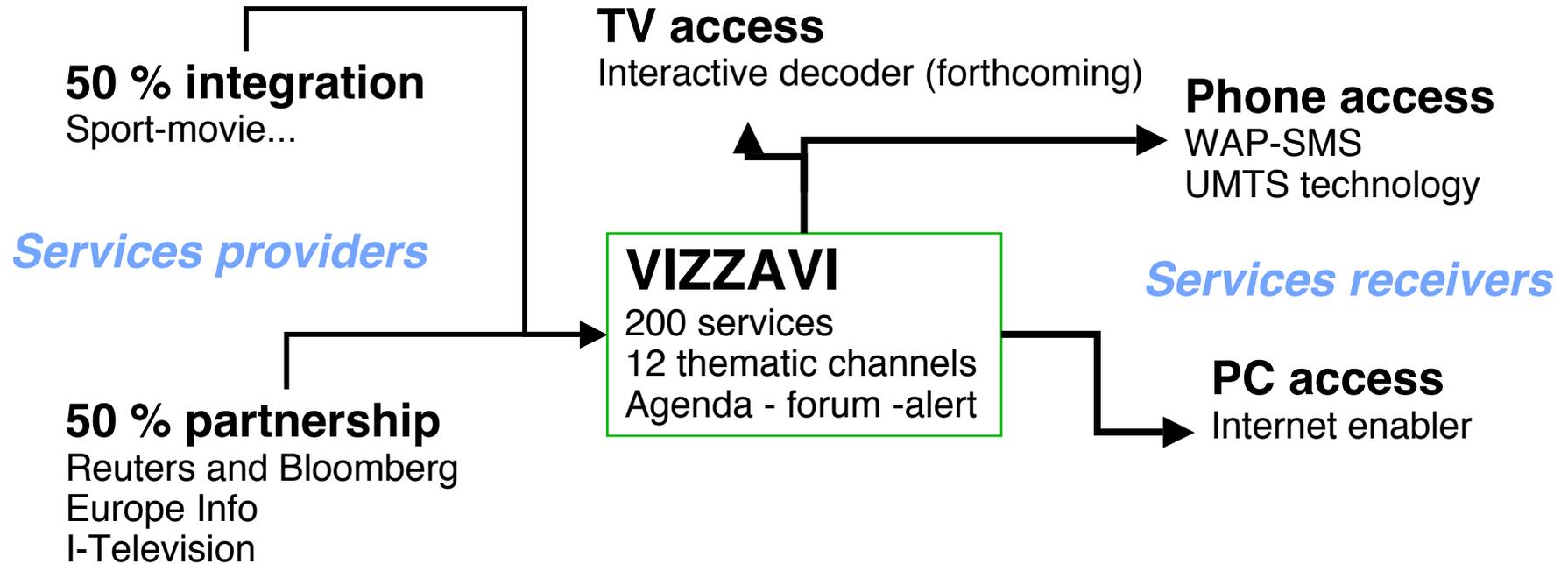
VIVENDI-UNIVERSAL

INTERNET DIVISION

(The Vizzavi 's platform : one unique access for every content and every interactive equipment)



INTERNET DIVISION
 (The Vizzavi 's platform : a link between inside and outside the group)



INTERNET DIVISION

(VivendiNet : organization and coordination of E-business at Vivendi-Universal) : **Upstream Net activities**

eBrand
Internet access
supplier

Enablers

AD2one
Advertising sales agency
on the internet for the
Group

VivendiNet

Staff : 50 people
CEO ' s and
administrators come
from the other
Vivendi ' s divisions

Viventures I- II
Venture Capital fund
incubator
European zone

Venture capital

@Viso
Venture Capital
fund
incubator
USA zone

E-trade

strategy

Venture capital

INTERNET DIVISION

(VivendiNet : organization and coordination of E-business at Vivendi-Universal) : **Downstream Net activities**

CanalNumedia

30 Web sites
Sport-movie

USA-Networks

Universal Websites
USA Market

*Entertainment
Education*

VivendiNet

Creation-acquisition
Synergies developer
Cost reducer (Mk cost
sharing, lodging cost
pooling)
**1,5 billions €
investment**

Generalist Portals

Education.com

Web site (e-learning)

Vizzavi

Web site (e-learning)
B to C - B to B

Flipside

N°2 in the world
PC and Mac
videogames on line

i-France

Network in 6 countries
B to C

Duet -

MP3.com...

Web sites (Music on
line)

Music

Scout

Internet directory
B to B

**Entertainment-education
Music - information**



Generalist portal

HAS VIVENDI-UNIVERSAL
A TANGIBLE
COMPETITIVE ADVANTAGE
IN
THE NEW ECONOMY ?

Building a competitive advantage is on the way

Rising barriers on the E-trade

Exclusive content diffusion (commercial rent)

Locked in Market by subscribing contract (financial rent)

Exclusive contract agreement with sub-contractor or partner (contractual rent)

Integrating costly-to-copy skills

Vertical integration of the links in the E-value chain

(Production and exploitation of content : Audiovisual, Music, Publishing)

Customer-tracking - Market segmentation on the Internet

(Cross marketing between business units and Web sites from Vivendi)

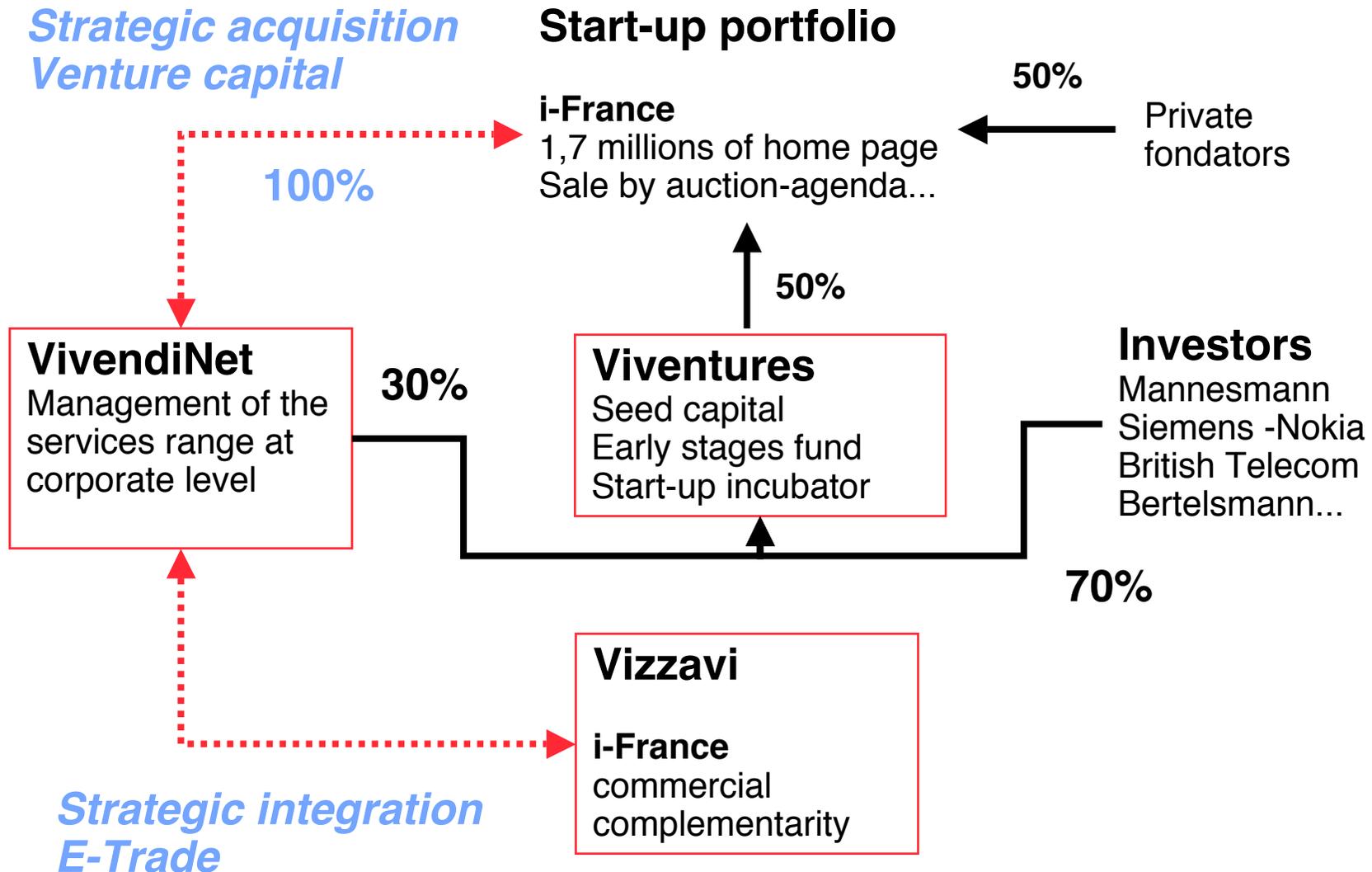
Managing costly-to-copy capabilities

Commercial synergies focused on the client (variety of the offer)

Technological synergies between the channels (TV-Internet-phone)

Business to business synergies (Vivendi as an Internal Market)

Building a competitive advantage : positive example
=> Integrating costly to copy skills



Building a competitive advantage is a myth

Rising barriers on the E-trade

Risked because of the free trade model on the Internet

Financial profitability is weak (lack of fidelity on E-transactions)

Exclusive contracts against fair competition for European trade regulator

Integrating costly-to-copy skills

Dependency from equip-maker (network engineer- enabler- phone operator)

E-marketing concerns only 10% or 20% potential customers on the Market

(Web advertising is not any more a main part of the business model)

Managing costly-to-copy capabilities

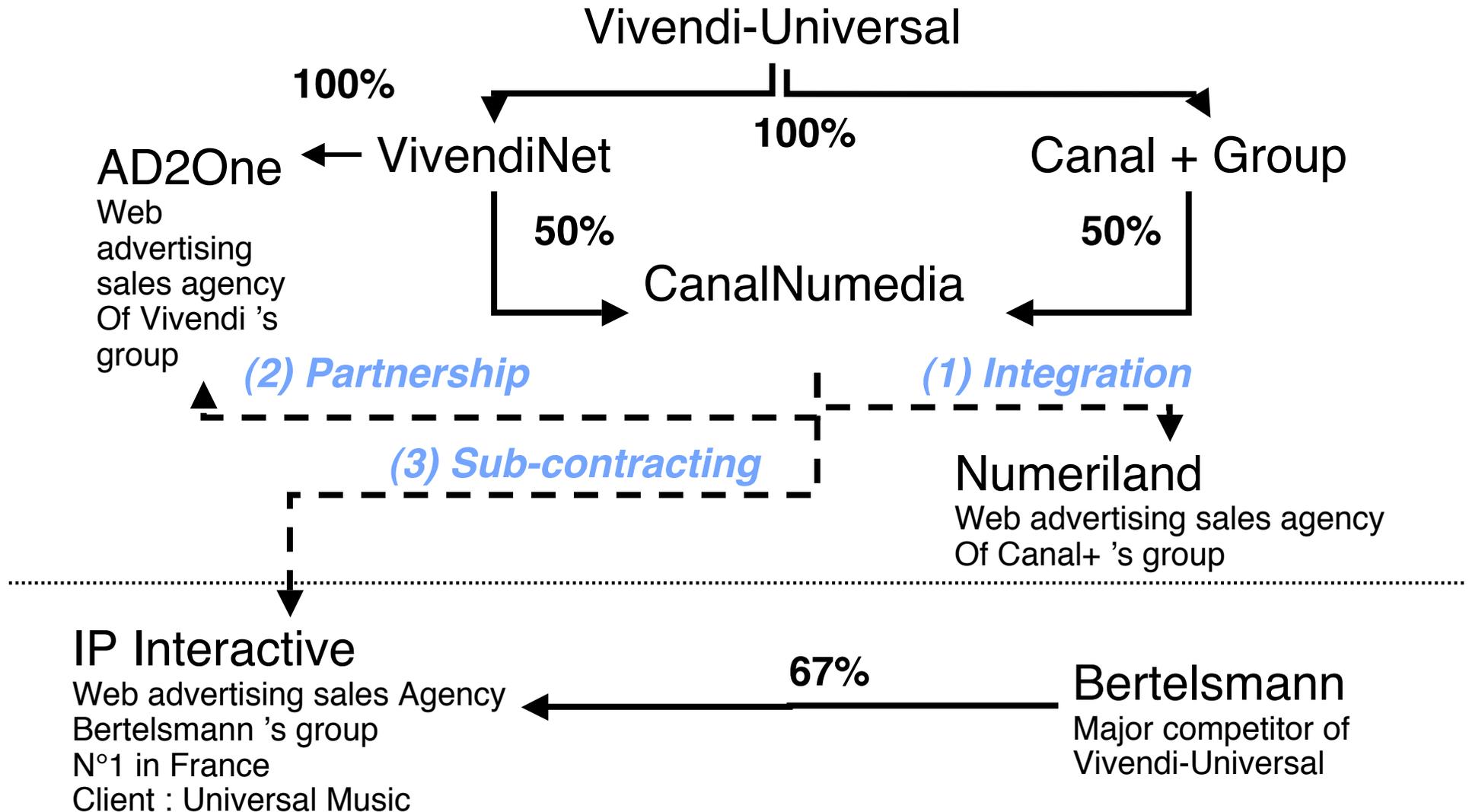
Difficulty to value cross marketing between services and subscribers (lack of visibility for Vizzavi vs. major competitors, e.g. Yahoo)

The technological convergence remains uncertain (failing of WAP, cost of UMTS license, lack of interactive TV decoder)

Difficulty to work together in the same corporation (dvt of alliances and strategic cooperation outside Vivendi)

Building a competitive advantage : negative example

=> **Managing costly to copy capabilities**



CONCLUSIONS

•The technological innovation and the rise of the ICT both in the “old and new economy” increase the trend towards an externalization of the activities. This take place while we observe a reduction of transaction costs which represent an incentive to transform strongly integrated organizations.

Consistent to : Malone, 1987; Malone, Yates e Benjamin, 1987; Brynjolfsson, 1990 e 1994; Mariotti e Sgobbi, 2000.

•As a consequence the organizational entanglement is largely diffused

•The capability to govern the organizational change can be regarded as a critical factor of success in an evolutionary process led by ICT and implying an increased externalization of activities.

Organizational capabilities (Dyer e Singh, 1999),

Thompson (1967) on organizational action and Galbraith (1977) on the capability of firms to “reshape” according to new managerial and organizational modes .