No Second Chances

By Michael Zeisser

On the last day of its 2011 fiscal year, News Corporation announced the sale of MySpace to a small online advertising company called Specific Media for about $30m. News Corp. had acquired MySpace for $580m in July of 2005. At the time, MySpace was the undisputed leader in an emerging market segment, online social media. Today, it is a shadow of the company it used to be, with an uncertain future. As has been well-documented, MySpace lost its leadership position in the social media industry to Facebook. Ironically, MySpace had itself taken leadership away from another pioneering social media company, Friendster, which subsequently became irrelevant.

Like other one-time internet industry leaders such as AOL and CDNow, MySpace and Friendster failed to hold on to their leadership positions, and never recovered from their stumbles. In the physical world, there are many examples of consumer companies losing and regaining their industry leadership, sometimes after wrenching turnaround programs. In the consumer internet industry there is not a single such case. On the internet, there are no second chances.

My point is not to examine why MySpace failed. Each company's circumstances are unique. Was the company complacent? Did it respond inappropriately to Facebook? Perhaps the failure could have been avoided, perhaps not. <u>The lesson to learn from MySpace is that the consequence of failure in the consumer internet industry is a fade away, not a turnaround.</u> This is particularly hard to accept for executives in non-internet companies, because it is different from their experience of what happens in the physical world.

There are no second chances on the internet because the industry does not give companies an opportunity to catch-up after missing a step. Missing a step can occur because of a self-inflicted mistake or because a company fails to keep up with an industry shift. As the exhibit below illustrates, the consumer internet industry has experienced a fundamental shift every

Five Innovation Shifts Already

'90-'95 Online Services	'95-'99 Web Portals	'99-'01 Bubble	'01-'06 Search	'06-'10 User Generated	'10-? Mobile
▪ Cable model - access and content sold together ▪ Oligopoly industry structure	▪ Unbundling of access and content ▪ Emergence of pure-plays in media and commerce	▪ Everyone is a genius ▪ Massive destruction of wealth	▪ New competitors with strong scale advantages ▪ Enabled fragmentation of web	▪ Content as an enabler of social interactions ▪ Becomes must-have feature on most sites	▪ New use occasions ▪ Battle of apps vs. web ▪ "Platform" companies?
AOL CompuServe prodigy	msn LYCOS YAHOO!	webvan boo.com kozmo.com	Baidu 百度 Google	facebook YouTube yelp twitter	(Android) (Apple)

4 or 5 years that has profoundly altered the basis of competition and the structure of the industry. This represents dramatic change in an industry just celebrating its sweet sixteen (using Netscape's 1995 IPO as its birthday). Each of these shifts is like a massive earthquake that reshapes the internet landscape, creating new companies and destroying established ones that fail to keep up.

The first innovation shift occurred when internet businesses evolved from services such as Prodigy and CompuServe that bundled access and content like cable TV to portals like Yahoo; the second shift represented the evolution from finding things through directories to finding them through search algorithms, which saw the rise of new leaders such as Google and Baidu; the third shift was the emergence of user-generated content (the now infamous "web 2.0"), and the fourth shift is the current disruption brought about by smart, mobile devices. Companies that miss a shift simply lose too much momentum to ever fully recover.

Surprisingly, managing these shifts is as hard for internet companies as it is for all companies. Even on the internet, yesterday's attacker can quickly become today's incumbent. It has been common wisdom that traditional companies are struggling to keep up with high levels of change; we are learning that internet companies find it just as hard to manage these transitions. The reasons are well-known. Most companies cannot adapt leadership mindsets, operational activities, and infrastructure technologies to the new reality fast enough.

Exacerbating the impact of industry shifts is the speed of change. As we can see from the unprecedented momentum of companies like Facebook, Zynga or Groupon, successful new entrants gain scale much faster than ever before. Not only do executives need to make judgments much sooner than in other industries about what could represent a competitive threat, they have less time to react to it. Even for the best, it is hard to compete at the speed of the internet.

If you subscribe to the Law of No Second Chances, there are two profound implications:

First, if the consequence of decline is fading away, it is really important to avoid decline. In our experience, the only way to avoid decline is to maintain an obsessive focus on staying relevant to users through constant product development and user experience improvements, even if it comes at the cost of short term profit. This requires a focus on long term value creation that few executives have the courage, the incentives, and the capability to muster.

Second, if there is decline, get out. In hindsight, it is easy to say that the corporate owners of AOL and MySpace may have taken too long to get out, but their examples illustrate how hard it is. It is the nature of all bureaucracies to delay exposing their failures. But the cost of not getting out sooner is so much higher than the visible losses and initial investments, as it includes the numerous but less evident opportunity costs of having clung to a loser for too long.

Time will tell whether No Second Chances remains a permanent law on the internet. Perhaps as the industry matures it will allow for turnarounds in the same way as we see in older, more established industries. But for now, MySpace reminds us that no matter the causes, the consequences of stumbling on the internet are dramatic.

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