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Creative Destruction

Unrelenting technological advances dominate our world; the constant innovations that occur throughout generations are causes of much joyous success and achievement, yet they are also forcing the decline of many previously well-established organizations. "Creative destruction" is a process by which great technological advances and an increase in "global competition" bring about enormous and significant change for an industry.[1] Because of these modifications and revolutions, new companies that have mastered proper efficiency for the times quickly surpass older ones that have not immediately adapted. All areas of business, from product to service, experience rivalry against other organizations, and companies must invest in new technologies and ideas that could help maintain their competitive advantages into the future. As Gareth R. Jones describes in *Organizational Theory, Design, and Change*, "the information technology age represents the latest wave of major technological change that has forced most kinds of businesses to invest in IT to avoid being left behind by those entrepreneurial companies that do make such investments and then forge ahead." In order to stay competitive and remain leaders in their individual fields, Sony and Blockbuster are two very different organizations with one similar objective: create or improve their products or services to sustain competitive advantage.

An example of an industry that is constantly forced to adapt to technological advances is the music industry. Throughout the past decades, it has dealt with transformations and transitions from records to cassette tapes to compact discs (CDs) and to, most recently, mp3s. As digital technology continued to become more accepted and popular, product businesses such as computer and music player manufacturers were bound to face creative destruction if they were unable to ingeniously "use new global and technological opportunities to make better products."[2] The Japanese electronic powerhouse, Sony, became the leader of "the portable music market" in 1979, when it introduced the first popular personal

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[1] Jones, pg. 373
[2] IBID

cassette player.[3] An immediate international success, the Walkman "eventually sold hundreds of millions of units."[4] This first-mover advantage that Sony grabbed when it mainstreamed the Walkman made them the leader in the market. Sony continued to release successful products as the music industry transformed; for example, in 1982, Sony, in partnership with Philips Electronics, released the first CD player to great market success.

The technological accomplishments and innovative, efficient leadership that Sony demonstrated on these products led many to believe that Sony would continue to reign supreme in the realm of the portable music market. However, in 2001, Apple released its first-generation iPod, a digital music player, followed in 2003 by a computer program called iTunes that allowed the user to download songs and albums at a reasonable price.[5] Apple, and its Chief Executive Officer Steven Jobs, had recognized a potential niche in the portable music market that could grant them success over the leaders, Sony. Due to its easy-to-use, simple, and affordable design, the iPod was almost immediately the leading digital music product. By 2006, Apple and the iPod dominated the digital music market by a 70 percent share, putting them "in control of the market."[6]

After seeing Apple's great success, other electronic companies, including Sony, scrambled to make not only a comparable product, but also a more popular one. Sony updated the Walkman to an mp3 player, but with its bulky design and lower gigabyte storage space it continues to lag far behind the iPod's success.[7] Sony had fallen victim to "creative destruction"; it had become inefficient in updating its signature product and a new company was able to swoop in and take command of the changing market. While Sony is still a major electronics powerhouse and was not forced out of business by this "destruction," it has lost its edge in a significant market. One possible cause of its failure to see this change in the market is that its founders retired in the early 1990s, leading to a new and different

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[3] Hall
[4] "Sony Corporation"
[5] "iPod"
[6] IBID
[7] Hall

leadership.[8] This internal modification could have been the priority of the company, blinding them from significant outside changes. Another possible explanation is that Sony could have been comfortable with their success and unable to see any market need or coming modification that would compromise their status as the leader. While “creative destruction” did not run Sony out of business, it caused it to lose a significant portion of its previous near-monopoly in portable music.

Similar technological advances have also plagued service companies, such as Blockbuster. A movie rental service, Blockbuster had stayed up-to-date with certain technological changes, such as the transition from VHS to DVDs, making sure that it maintained its position. In the early 2000s, Blockbuster was the number one DVD rental source and had held that spot for many years throughout the changes in movie-viewing technology.[9] However, when the internet and online shopping began to grow, Blockbuster was not the first to take advantage of the changing market. Netflix, an online movie provider that delivered by mail, was introduced in 1998 and offered its customers “quick turnaround and no late fees,” which greatly differed from Blockbuster’s practice of generating profits by charging for movies that were not returned on a timely basis.[10] With internet use in full swing, Netflix quickly generated its first billion dollars by providing such a user-friendly service. Why drive to a store to rent a video that must almost immediately be returned when one can be delivered to your front door to be kept as long as you desired?

While Blockbuster was not forced out of business, the competition that Netflix provided was a serious threat. It faced the risk of “creative destruction” as a new and more efficient company capitalized on new technologies. One cause of its slow adaption to the online venue is that the company felt its “video store niche” and vast customer base would carry it into the upcoming years successfully. Fortunately, Blockbuster fought against its potential “destruction” by cutting its prices and providing a cheaper online rental service than Netflix.[11] With its already established name and vast customer base,

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[8] “Sony Corporation”
[9] Degross
[10] Gunderson
[11] Koenig

Blockbuster was able to counter Netflix's attempt to become a leading provider of movie rentals, a difficult task given Netflix's first-mover advantage of online distribution..

Despite successfully preventing organizational destruction, Blockbuster still faces much competition that could ultimately cause it to be destroyed by others' creativity. While Blockbuster as an organization could remain successful and powerful for years to come, will it be at the cost of changing the service it provides? As online rentals become more convenient and popular for subscribers, will the physical video stores that Blockbuster is known for become obsolete? Another concern is the popularity of iTunes; Apple is now providing movie rentals and purchases at a reasonable price to download on the computer. With correlating technology such as Apple TV, which allows such downloads to be played on a television screen, will the DVD rentals become a foreign concept to emerging generations?

As consumers' wants and desires change, technology alters to reflect them. In order to stay competitive, companies such as Sony and Blockbuster have changed their products or their avenues of service, respectively. Sony was forced to retire the Walkman versions that made the organization an international success because cassette tapes and compact discs were no longer prominent forms of music distribution. Blockbuster is in the midst of offering alternatives to its typical "go to the video store" rental system. While neither of these companies has disappeared due to creative destruction, the dominance they previously enjoyed has significantly deteriorated. In order to prevent future destruction, both organizations must invest to continuously provide the superior products or services to competitors that could put them back at the top of the leader's board.

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