Chapter IV

Competitive Dynamics of General Portals

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Abstract

The arrival of the Internet offers both opportunities for incremental efficiency gains and complete industry redefinition, presenting new value propositions and hence leading to the emergence of new businesses and industries. One particular case is that of the general portal industry, consistently the most visited sites on the Web. Nevertheless, and despite the ongoing concentration of the market, overall profitability remains low. In this chapter we argue that, although the industry has great potential for value creation, value appropriation in information-based businesses remains problematic. Still, interest in this industry is huge, which is understandable if one analyzes the industry within its online value network. As we show, the horizontal portal constitutes a critical link in this network as it provides a way of organizing content, which seems to be the king of the future, and can capture and canalize the incoming traffic of the Internet service providers. Still, they face a number of hurdles to capture the value they generate and become profitable.
Introduction

New technologies, and the arrival of the Internet in particular, have had a profound impact on today’s businesses. As with almost all technological change, the early and most obvious changes are of incremental nature, resulting in cost savings as it gets cheaper to do things that we are already doing. Nevertheless, a second more profound effect may be observed over time as we discover that we can do completely new things with that technology or that the technological change transforms the nature of the businesses, hence opening new value proposition opportunities (Christensen, 2000). The Internet is such an enabling technology (Porter, 2001) that it has allowed companies to affect both their demand and costs at the same time, creating what Kim and Mauborgne (1997) call “value innovations.” These changes are hard to forecast and to analyze as industries become reshaped, and markets therefore shift toward a new equilibrium. One of these markets is the general portal market.

In addition, to forecast whether a business model is viable one has to differentiate between value creation and value appropriation. Three years ago it was believed that the disruptive nature of Internet technology changed the fundamentals of business. A new era of competition in which none of the old paradigms were valid was heralded. However, the collapse of the technology market and the high-profile failures of many of the upstarting dot-coms have shown us that the old business rules still apply. The new e-businesses had shown great value propositions on the value creation side, be it either through the reduction of transaction costs, search costs or enhanced customization opportunities (Cassiman & Sieber, 2002). Still, value appropriation appeared to be very problematic. Although new products and pricing mechanisms may help companies in appropriating the created value, recent reality has shown us that both increased rivalry and constant entrance of new competitors, as well as increased market transparency, pose significant challenges to value appropriation by firms.

In this chapter we focus on a particular business activity that the Internet has allowed to emerge: general portals. Up to this moment the industry is still reconfiguring, and the main players have adopted differing approaches in their competitive positioning. We will analyze their strategies introducing the online value chain (Valor & Hess, 2002), dividing the overall value systems into different steps that represent more or less profitable value propositions. We will show how value creation and value appropriation occur on each of the steps.
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