Talk to the management at leading technology firms in the same market, and the similarities in opinions are striking. Most hold roughly the same set of opinions, beliefs, and ideas about how specific actions lead to successful business outcomes. For lack of a better phrase, I call this the “prevailing view.”

The prevailing view is an important aspect of every market. It can persist for a long time, and it can change, sometimes slowly and other times quickly. In common speech, momentous changes define the divide between one era and the next.

Where does the prevailing view come from, and how does it shape economic outcomes? That is this column’s topic.

Definitions

The prevailing view is not a scientific hypothesis or a deep theory linking premises to conclusions. It is a social construct. The prevailing view starts as a byproduct of the planning process at a firm. All technology firms rely on forecasts, regardless of whether the planning process occurs weekly, monthly, or yearly; it involves heavy input from marketing or engineering; or gets settled in a committee or by the fiat of a dictatorial CEO.

The prevailing view starts as a byproduct of the planning process at a firm. All technology firms rely on forecasts, regardless of whether the planning process occurs weekly, monthly, or yearly; it involves heavy input from marketing or engineering; or gets settled in a committee or by the fiat of a dictatorial CEO.

Statistical facts can inform planning discussions, as can deep competitive analysis and well-designed surveys about consumer behavior. But those are never enough. A prevailing view fills in the gaps with assumptions and educated guesses.

That is why social consensus plays a role. Leading firms compare themselves to each other, ask consultants for advice, and pay attention to the scrutiny of financial analysts. Those discussions can be critical and intense, and they tend to refine the details of ideas, and, inexorably, make the guesses at different firms closer to one another. Over time, a prevailing view will emerge from myriad adjustments at many firms.

A simple example can illustrate how a prevailing view works. In the early 1990s, the prevailing view inside every leading telephone company placed low importance on the Internet, presuming it had low potential for growth. That consensus emerged over years, as executives from all those firms would meet at conferences, talk to analysts, and take notes during all those conversations. After many years, their forecasts essentially agreed with one another.

Symptoms of that view showed up everywhere, in the forecasts for the average length of phone calls (such as three minutes without dial-up ISPs), and in the investment plans for expensive switches to support calls. It also showed up in regulatory hearings, where regulators were lobbied to make these telephone executives’ prevailing view a self-fulfilling prophecy.

That example is good for illustrating how the prevailing view emerges from a vast conversation among many industry participants. The prevailing view can get reinforced, and sustained, even in the face of dramatic and imminent changes (such as the Internet).

Remaining hidden

That last example is misleading in one respect. It gives a false impression about conflicts between views. In that example, one side lost out once Darwinian competition exposed its flaws, but it isn’t always that way. Often, flaws in existing views take time to emerge. In addition, new prevailing views might need time to grow, and evolve, and can remain stealth for some time.

How can that happen? For one, there could be several candidates for a new prevailing view, especially in open markets with unrestricted entry, where many firms use distinct approaches to take advantage of a (perceived) new economic opportunity. I was reminded of this recently when examining the smart phone app market, where multiple prevailing views predict distinct ways to make money—using elements of “freemium” (free and premium), subscriptions, advertising, and so on. Each view has its argument, but no prevailing view has yet emerged.

New prevailing views often emerge from entrepreneurs, and that’s another reason they take time to emerge. Entrepreneurs tend to attach themselves to movements. Among the many reasons for such attachment, many entrepreneurs...
continued from p. 80

hope to quickly communicate their message or gain legitimacy with funders, customers, and business partners.

Consider Web 2.0 businesses as an example. Analysts distinguish between those sites employing crowdsourcing, sites using wikis, sites using other forms of social networking, and so on. Every entrepreneurial firm must take a position in these schemas, whether it wants to or not. The industry punditry forces it on them.

That makes the labeling process sound rational, but it need not be. It might make many readers cringe, but the dot-com era provides a useful illustration of ungrounded labels.

As illustration, recall the system for making a pitch during that era. Every business plan was going to deploy “viral marketing” in the pursuit of “disruptive technology” and as part of a “pure play” in the evolution of “disintermediation.”

The prevailing view at the time said these phrases were part of a successful recipe for a start-up. Many business plans included them, almost as a checklist.

Go read some of these today if you can find an archive. While there were sensible ways to use these terms, with hindsight many of these proposals seem superficial at best, and almost resemble blathering nonsense at worse. The labeling process was out of control.

That begs the question: Can an entrepreneur not have a prevailing view? I think so. Entrepreneurs can be truly iconoclastic—namely, they think about opportunities with a business plan that uniquely remixes a combination of elements, yielding a product or firm with unprecedented operations and branding.

Good luck trying to spot the iconoclast, however, which hints at another reason why it can be so difficult to recognize a new prevailing view. Many start-ups espouse a prevailing view merely because they perceive that they must do so, and that is so even of the iconoclasts. The lingua franca of a prevailing view is a language entrepreneurs learn for pragmatic survival. Those start-ups will hide their real views until they have a steady financial position, which then provides the security to show their true colors.

Confrontations

There’s considerable money to be made from successfully anticipating the replacement of an old prevailing view with a new one. After all, the fortunes of particular firms rise and fall with such replacements. Despite the incentives, however, managers face tremendous challenges in getting this right.

Part of the problem, as noted, is the hidden views of entrepreneurs. Many an entrepreneur is taught today to treat “stealthiness” as a positive attribute, and so many established firms simply do not perceive the entrepreneur as a messenger.

In 2006, for example, there were few who thought a Harvard sophomore could generate a better social networking site than Myspace. Yet, Mark Zuckerberg had a plan. His plans were not the prevailing view at all, and many scoffed at them, so he held his tongue. Today his approach seems like common sense.

The shortage of messengers for a new prevailing view arises from other sources. Looking back on it, for example, why did anyone think the merger of AOL and Time Warner was a good idea? In brief, AOL merged with Time-Warner under the prevailing view that it could generate synergies for its revenue and advertising businesses, feeding content to its large user base, and feeding users to its large base of advertisers.

As it would turn out, AOL and Time Warner lacked organizational coherence. Moreover, many of AOL’s chat rooms and communication services could be imitated—and were—so users left the organization as it lost its vision. It seems like an obvious mistake now. I can’t explain why the challenges weren’t anticipated other than the merger appeared to be consistent with the prevailing view at just the right/wrong moment, and the small set of decision makers never got the message from any skeptic.

Another interesting scenario: a messenger emerges slowly. Consider Yahoo’s travails. Yahoo grew for quite some time under the prevailing view that banner advertising could reach its highest value in a large firm with a wide variety of content, generating the best possible targeting.

By 2003, however, Google had most of the elements of an alternative, using a combination of a search engine and a quality-weighted second-price auction for keyword positions. Still, the messenger didn’t really deliver the message for a few more years, until Google grew to extraordinary revenue levels, convincing even the skeptics and those who held to the old prevailing view.

More to the point, there wasn’t a conflict at first. Yahoo was still profitable in 2003 and for several years beyond (and still is). Rather, the prevailing view about Yahoo’s future prospects began to decline as analysts realized that advertisers would prefer Google’s model. It took several more years to catch up with Yahoo’s actual profits.

In light of the stakes, it’s no surprise that Wall Street and venture capitalists make it their business to study prevailing views. Also interesting are firms such as IBM or Accenture, who study the prevailing views of virtually every possible future at every possible client.