Announcements

- Assignment 4 due 11/8
- Business Paper Draft Due 11/10
- Database Assignment 2 due 11/22
Midterm

Average 78
Stovepipe vs. Integrated Infrastructure

**stovepipe architecture**
---or---

**Turnkey Solution**

- Single supplier provides all encompassing solution
- (complete with infrastructure)

**Integrated Infrastructure**

- Separate infrastructure that can support many applications

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From stovepipe to layering

Data  Voice  Video

Application-dependent infrastructure

Many applications

Integrated Infrastructure (Maybe broken into Additional layers.)

Application-independent
Stovepipe vs. Integrated Infrastructure

- What are some examples of each?

- What are the advantages of each approach?
Vertical Integration vs. Diversification

- A company is \textit{vertically integrated} when it makes rather than buys the subsystems in its products.

- A \textit{diversified} company produces products across different industry segments.

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Vertical Integration vs. Diversification

Why do customers favor less vertical integration?
- Prefer competition amongst component suppliers
- Mix and match components
- Reduced lock in

Disadvantages??
- Customer needs to integrate components from different suppliers.

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Vertical Integration vs. Diversification

Why do customers favor diversification?
- Reduce coordination costs by having to deal with fewer suppliers.
General Trend

- Less Vertical Integration

- More Diversification

- Of course there are exceptions...
Today’s supplier structure

- Applications
- Frameworks and components
- Middleware
- Infrastructure (network, OS) software
- Equipment (network, computers)
- Semiconductors, components

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Standardization
Purpose of a standard?

- Allow products or services from different suppliers or providers to be interoperable
Scope of a standard

Included:
- interfaces (physical, electrical, information)
- architecture (reference model)
- formats and protocols (FAP)
- compliance tests (or process)

Excluded:
- implementation
- (possibly) extensions
Reference model

Decide decomposition of system
- where interfaces fall

Defines the boundaries of competition and ultimately industrial organization
- competition on the same side of an interface
- complementary suppliers on different sides
- hierarchical decomposition at the option of suppliers
- (possibly) optional extensions at option of suppliers

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Some issues

Once a standard is set

- becomes possible source of industry lock-in; overcoming that standard requires a major (~10x?) advance
- may lock out some innovation

In recognition, some standards evolve

- IETF, MPEG
- backward compatibility

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Types of standards

*de jure*
- Sanctioned and actively promoted by some organization with jurisdiction, or by government

*de facto*
- Dominant solution arising out of the market
- Voluntary industry standards body

Industry consortium

Common or best practice

Examples?
Examples

*de jure*
- GSM,

*de facto*
- Microsoft Windows API (Application Programming Interface)
- Intel instruction set,

Voluntary industry standards body
- IEEE (Institute of Electrical and Electronic Engineers)
- IETF (Internet Engineering Task Force)

Industry consortium
- bluray

Best practice
- Windowed GUI

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The changing process

- As technology and industry move more quickly, the global consensus standards activity has proven too unwieldy
  - e.g. ISO
- “New age” standards activities are more informal, less consensus driven, a little less political, more strategic, smaller groups
  - e.g. IETF
- Programmable/extensible approaches for flexibility
  - e.g. XML, Java
Reasons for change

- From government sanction/ownership to market forces
  - Increasing fragmentation
  - Importance of time to market

Greater complexity

- Less physical/performance constraint for either hardware or software

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Lock-in

(Particularly open) standards reduce consumer lock-in

- Consumers can mix and match complementary products

Increase supplier lock-in

- Innovation limited by backward compatibility
- e.g. IPv4/TCP,

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Aside: Network Effects

- The value of owning some products goes up if lots of other people have it too.
  - Examples?

- This phenomenon is called “network effects”

- How do standards influence network effects?
Network effects

Standards can harness network effects to the industry advantage

- Revenue = (market size) x (market share)

Increases value to customer

Increases competition

- Only within confines of the standard
- But forces customer integration or services of a system integrator

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Why standards?

*de jure* are customer driven to reduce confusion and cost

*de facto* standards are sometimes the result of positive feedback in network effects

Customers and suppliers like them because they
- increase value
- reduce lockin

Governments like them because they
- promote competition in some circumstances
- May believe they can be used to national advantage