Existential battle to become master of the metaverse

All of the tech giants are searching for the next big thing. **Howard Yu** sifts the evidence to find the likely winners and losers in the fight for future dominance.

Big companies generally don’t lead, they follow. They rarely make the first move. But you know something is inevitable when they finally jump. So it is with the metaverse, or virtual reality, or augmented reality—whatever you’d like to call it. Except not everyone in Silicon Valley is convinced. Elon Musk of Tesla, for one, thinks of it as "more marketing than reality." He contends that the consumer experience remains flaky. You can certainly put a TV on your nose, Musk said in an interview. He just wasn’t sure that would qualify anything as part of the metaverse.

That skepticism hasn’t stopped tech giants from betting big. At IMD, we’ve been tracking future readiness among companies. And in the technology
sector, practically all the top players have either directly been working on or indirectly involved in projects related to the metaverse. Google, Microsoft, Apple, Nvidia, AMD, Amazon, and Alibaba are all in it. Chief among them, of course, is Meta, which has been rebranded from Facebook.

The push is hardly coincidental. It turns out it’s harder than most people think for a tech giant to disrupt the traditional industries. The promise that Silicon Valley would quickly master autonomous driving, telemedicine, financial advisory, and legal services hardly panned out. So tech companies are still searching for new growth. And the euphoric rise of their share prices during the pandemic is ending. Revenues are now slowing. The Nasdaq has been on a plunge. It’s in this context that the battle for the metaverse is playing out. Companies are colliding on the same course.

**WHO HAS THE RIGHT COMPETENCE TO SCALE?**
You may like to ask, who is great at product innovation? Graph 1 displays the relative position among the tech giants. We’ve created graphs like this by running large-scale text analyses at IMD’s Center for Future Readiness. We’ve downloaded more than 10 years of records from more than 60 news sources. We’ve written an algorithm to unpack companies’ behaviors. We’ve fed it the text data and asked the computer to score companies along various constructs. Is the company focusing on near-term opportunities or long-term prospects? Is the management team risk-adverse or risk-seeking? In the graph, we aim to know which company focuses the most on new product innovation; that when compared to its peers, it focuses on pioneering the development of novel products and services. And this reflects on the vertical axis. On the horizontal axis, we ask, which company focuses the most on new market entry in terms of geographic territories with new distribution channels. Of course, no research method is perfect. Even an annual survey can be biased. But we think leveraging the large-scale reports across a decade will provide us a realistic measure of how things evolve.

The result shouldn’t be surprising. Microsoft is a poster child for corporate reinvention. When Satya Nadella became the CEO of Microsoft, the company was almost in a free fall. Product flops were common — Zune, Vista, Kin, and Bing. The software giant took a $900 million write-down on unsold Surface tablet inventory. It was losing out to Amazon, Apple, and Google in music players, e-readers, and smartphones. And the PC market was in decline. Today, Microsoft has made the transition to a subscription for Office 365. It’s broken into cloud computing with Azure. It’s strengthened its leading position in the gaming sector via Xbox. In November 2021, the company was valued at all-time high. Then you have Apple succeeding in new market entries because of its commercial discipline. Tim Cook is the true master of scaling up excellence. And Apple is a scaling machine that has brought the iPhone not only to the US and Europe, but to China as well. Not just in good times, but also during the depth of the pandemic, when there has been a shortage of chipsets.

What this shows is that you can’t run experiments forever. At some stage, success requires commercial discipline and a strong execution plan to realize meaningful results. When it comes to hardware and software integration, no tech giant has so far been as successful as Apple in capturing the upswing opportunities at a global scale. »
How the metaverse strategy diverges based on core capabilities

Tech giants have no time to spare. They don’t predict the future; they make it. Facebook’s Oculus says you’ll get to the metaverse through Quest. Microsoft says you should wear a HoloLens. Google these days focuses on image recognition for augmented reality. There’s hardly any agreement. In fact, it’s a fight for a dominant standard.

They approach the opportunity differently because they are limited by who they are, or what they are good at. Some companies are better at forming strategic alliances and undertaking joint ventures than others. In Graph 2 we look at the propensity of companies forging relations with other organizations.

It explains why Microsoft’s HoloLens is now veering towards industrial application. Each industry has its distinct flavor. The use-case scenario of a mining operation implementing augmented reality will be infinitely different than that of a warehouse operator. The remote assistance provided to workers retooling production equipment has little resemblance to that required for a healthcare worker. Compared to gaming, for instance, the use-case scenario for industrial application of the metaverse is vastly varied.

The implication here is when the usage requirement becomes exceedingly complicated, a company needs to partner with many others to deliver useful solutions. To do so, it needs to behave like a trusted partner or at least a benign giant. Apple’s notoriously closed approach could mean that it might miss out on a broad-based adoption in the enterprise sector. But this way of working can also be a strength, especially when the product remains novel and user experience remains unstable.

Remember that when Google Glass was released in 2013, Google touted the benefits of augmented reality to the masses. Priced at a premium of $1,500, the product was pitted against other top-end smartphones. Consumers naturally thought they would see information of all kinds with their gaze fixed upon anything and be able to pull that information from sources like Twitter, Facebook, and Wikipedia. When futurist Robert Scoble brought home the prized item, he asked eagerly: “Can I look at someone and see something about them?” Predictably, Google Glass fell short of all expectations. The technology wasn’t ready yet, nor even for Google. What this early example illustrates is for a new technology to take off, market demand...
is driven by its relative performance in relation to existing alternatives. Unless the immersive experience delivered by a headset becomes compelling enough, the metaverse has no use case. This doesn’t mean the next version of the internet is not arriving. It doesn’t mean tomorrow’s cyberspace can’t be immersive, 3D, and all folded together. It doesn’t mean that disparate websites and online services and NFTs and cryptos can’t come under one roof. It just means that won’t come in the current form of a headset that straps around your skull.

‘You can’t run experiments forever. At some stage, success requires commercial discipline and a strong execution plan to realize meaningful results’

The late Harvard Business School professor Clayton Christensen, who coined the term “disruptive innovation,” once explained the imperative of such vertical integration. When the product was still “not good enough”, which is the current state of metaverse, performance is driven by integrated architecture. Like that of Tesla, which also packs batteries, writes firmware, and builds charging stations, in addition to developing its own electric vehicle. Like that of the smartphone in its nascent stage some 15 years ago, when it was pioneered by Apple. Only when a product becomes “good enough” does modular architecture become more effective. This is when companies can specialize in a smaller scope of activities: Some make software, some make hardware, and still others make third-party applications. This parallel effort delivers greater speed of innovation with lower cost. But it requires a standard that’s already proven to work. So if you want to predict the winner, you can bet on the one that integrates firm activities to solve difficult problems. For a product that is novel and new, problem solving cannot be outsourced yet. It requires the leaders and employees of an organization to wrap their heads around all the nuances. To do it right, they need to do it themselves.

**NOW WHAT ABOUT FACEBOOK?**

All these things do not bode well for Mark Zuckerberg. He is best known for his relentless pursuit of near-term opportunities. He set up a growth team and drove them to come up with every feature possible to attract new users. That’s how Facebook’s Newsfeed was invented. That’s how Instagram and WhatsApp were acquired. Still, Facebook has strangely remained in its original form as a social media app, despite its size, by mostly exploiting what it’s good at.

That growth has had enormous costs. Chief among them has been the plunge in Facebook’s likeability. Executives became used to acquiring new users indiscriminately. They ignored public outcry over data scandals. They lost their focus on the younger generation. They failed to develop a deeper relationship with their users. Meanwhile, Amazon has branched out to AWS and Prime membership. Google has evolved far beyond a search engine. Microsoft has turned software into subscription services, going into cloud technology and games. So today, even when Facebook wants to move fast, it really can’t (see Graph 3). It’s ability to innovate is hampered by its lack of likeability among the public. Everywhere it turns, regulators are saying no. That’s how Facebook’s early crypto initiative got derailed by central banks – not because of its lack of technical competence, but because of its lack of reputation. Facebook can no longer move fast when compared to its peers. All the regulatory oversight, public hearings, and media scrutiny are adding weight. The company is carrying tons of feathers.

But Zuckerberg is a wild card. More than anyone else, he is standing on a burning platform. At the last company earnings announcement, Meta’s CFO foreshadowed a loss of $10 billion in revenue in 2022 due to Apple’s privacy change in iOS. Its share price promptly dropped by more than 20% and has yet to recover. Other tech giants may see the metaverse as a new opportunity for incremental revenue. But for Zuckerberg, it is an existential crisis. Here is a CEO who has the absolute control over Meta and can single-handedly channel corporate resources to where they’re needed, with no board members or investors who can veto his directives or get him fired. And he has chosen the metaverse as the solution to restore the future prospects of the company. He has even renamed the company for that. He has burned all bridges without looking back. Regardless of the outcome, Meta will forever be an iconic case study in the corporate annals.

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