WHITEPAPER

The Marine Industry
Proprietary “Lock In” behaviour

Its benefits and disadvantages

CONTENTS

INTRODUCTION

Proprietary (a special characteristic: PECULIARITY) Business Behaviour (PBB) is defined as creating a market of products that are dependent on one another and thus lock a client into a single provider, allowing larger margins to be generated and the relationship with the customer to be protected from competitors.

An example of this is creating products that use special connectors or protocols that only the same company's products can integrate with, thus ensuring further products, even simple connection cables, are purchased from that singular company, increasing profits, and further deepening a customer's reliance on that singular company.

Proprietary business behaviour maybe anti-competitive behaviour and illegal in some jurisdictions, however it is NOT always anti-competitive and at times can be quite the opposite.

We often see proprietary behaviour as market manipulation and, from a consumer's point of view, even financial rape, but there are two sides to proprietary behaviour and timing depends on whether it's an advantage or disadvantage to a consumer base.

This white paper attempts to put into clear focus the benefits and disadvantages of proprietary behaviour and the underlying reasons for its existence. An understanding of this will empower a consumer base to understand when it should be embraced and when it should be avoided.

PROPRIETARY BEHAVIOUR AND ITS BENEFITS

When a feature or product is new to market it is often proprietary by default. There are no competitors delivering the same product or service.

The creator of this new service or technology gets to define how it functions, integrates, and is packaged and sold.

The price will usually be higher because of the development cost recovery and exclusivity in the market. If you want this feature, pay for it, as we are the only players selling it. It will also have higher support costs for the company and usually a higher failure, warranty rate as the company “learns and evolves” the product for durability.

This might seem unfair, but it is completely fair. The company is reaping the benefits of taking a chance in the market with a new device or service and have put great financial risk into that product development to deliver a beneficial value proposition to you. One that only they can deliver.

Later in the market life a company will spend large amounts of money to improve, add features and extend this product and often remain quite proprietary in the way that it will integrate so that they might continue to be able to cost recover.

You, as a consumer, will pay the additional cost and put up with the proprietary lock in that comes with it, if the VALUE PROPOSITION to you is high enough.

In this way, proprietary behaviour, early on in a products life, is evolutionary and often not even a conscious business decision. Protocols change because they add features, connectors are improved in some real manner that makes them not compatible with the previous generation etc.

This type of proprietary behaviour supports product development and is the opposite of anti-competitive behaviour in the marketplace. It is effectively defining a company’s Unique Selling Proposition (USP).

The measure, consciously or not, on the part of the consumer is whether the value added by the divergence from any "standard" provides enough benefit. i.e., the value proposition of the change is worth the one supplier and higher cost model.

MIDLIFE CRISIS WITH PROPRIETARY BUSINESS BEHAVIOUR

Eventually a product type settles down. Competitors enter the market and interoperability becomes a catch phrase as consumers want their products to be able to mix and match.

Effectively the consumer is starting to demand that they can "shop" for the best value proposition for their components. Standards and those companies that adopt them start to be rewarded for opening the market to this sort of interoperability.

As always, it's the market being driven by the Value Proposition and USP. So long as these are satisfied the consumer will be happy. The demand for interoperability comes when price point becomes more important or other companies (than the one the consumer is locked into) start to offer higher development of features and better USP.

This is the dangerous time for Companies and is the grey area of proprietary behaviour.

It is often at this point that companies start to consciously focus on the fiscal benefits of proprietary lock in.

Raising the bar to diversity and making it to too costly to move to another companies' products is one of these practices. i.e., I would love XYZ features that company Y provides but to change I would have to change my whole MFD etc. and the cost is too high.

These practices start to become anti-competitive at this time and are artificially providing barriers for competition.

In the Marine environment, examples of this are proprietary connectors on NMEA2000/0183 cables that mean a competitor's equipment is hard to fit and not at all supported under warranty etc.

We are now NOT competing on best-in-class products, but cost of change barriers.

One step further down the proprietary exploitation route

Even further down this rabbit hole is when these practices are extended to inappropriate upsell. This is effectively using a proprietary lock in situation to maximise profits by putting higher costs in front of a customer that are unavoidable without breaching warranty or having advanced knowledge of the underlying technologies.

Example of this are not licensing cables long enough to travel from say a mast to a helm in one length, then not licensing anything other than male connectors on official cables so that to run a cable length from say a mast to a helm will involve two cables and a joiner box, proprietary joiner box, which increase cost and complexity for the purposes of profit alone, the only benefit being to the company from upsell.

These practices are Anti-Competitive as well as bordering on exploitative.

The analogy would be sell them candy and then once they are hooked on candy, raise the price of the candy and only sell them in bag lots.

NOT ALWAYS INTENTIONAL EXPLOITATION

Development of new products is a good thing. Proprietary business practices during the development of new products and technologies are mostly unavoidable and in some regard's desirable for forward movement of a new concept.

The costs involved in developing and supporting new products are high and to ensure we have development and evolution in our marketplaces we need to allow some protected commercial areas for financial reward of companies that are prepared to take R&D risks on new products for our environment.

This is correct and should be protected. But it also raises an issue, where forethought is NOT part of the transitionary business plan, and no allowance has been considered for transitioning to a competitive environment.

The integrity trap

Successful companies innovate, as such they enter a period of protected and usually fairly exclusive ownership where proprietary is the order of business and profits are higher. The reward for risk taking that moved our product forward.

High profits and a highly unique selling proposition (USP) usually result in high cost business models and high cost distribution pipelines and support. The end result is a business core structure that is not entirely setup for competition within the market.

Suddenly losing the exclusivity and profitability is a major issue for such businesses. Re-engineering to a lower cost base is a very hard thing to accomplish in a tight timeframe. Everything from partner contract conditions to employee salaries need to be renegotiated and trended down.

Particularly in a modern world this is very hard to do. I personally worked through the change in one of the world's biggest IT technology providers as they woke up and understood that they couldn't continue to operate with proprietary lock in practices, or they would alienate their customer base and eventually be abandoned as a purchasing option.

It was painful. Employees who we're hired based on their brilliance, personally empowered and paid accordingly were asked to take pay cuts and had to fit into a low cost cookie cutter model to reduce costs. The brilliance was almost leached from the company as a result.

You can understand, in this type of environment why a company might try to hold onto its proprietary lock -in for longer than it should. It might be a case of survival, at least in the short term.

Obviously, long term they need to remodel and become a competitive entity again.

Proprietary lock in is not always an intentional business practice as much as the only option to stay alive for now; a reflection of poor transitionary business planning.

KILL TRUST, KILL THE BUSINESS

Proprietary business models are only ever successful in a period of evolution for a company. This period maybe short or long but it will never be forever.

Businesses survive, ultimately on VALUE PROPOSITION their UNIQUE SELLING PROPOSITION (USP) and on TRUST.

Lecturing on the three pillars of business, (Financial model, Value Proposition and Corporate Moral Set (CMS)*), it is always the Corporate Moral Set that an audience doesn't understand. In a nutshell it effectively equals trust.

The three pillars of business are like a three-legged stool, if one leg fails the stool falls over. In this case if you erode the trust of your customer base, your business will struggle to sell product.

Continued use of proprietary business models erode both the USP (Value proposition) of a business and its consumer TRUST (CMS) so effectively knocking out two legs of your stool.

KEY FINDINGS

- Proprietary business models are essential to support R&D and advance technology in a business arena.

- Extended allowance for proprietary business practices should be understood and allowed for so that companies may profit from their risk investment in technological development.

- Use of Proprietary business practices beyond appropriate investment recovery will ultimately erode customer trust and collapse a company.

- Consciously or unconsciously the Consumer base will determine the length of tolerance for Proprietary practices.

CONCLUSION

Proprietary business practices are NOT all evil and to be avoided.

It can be easy to understand why a business might leverage Proprietary business practices to maximise profit, but these are always at the cost of an erosion of their customer base.

Ultimately as consumers we need to reward companies who invest in R&D and part of this is proprietary behaviour, but we also need to reward companies who invest in their Value Proposition and USP for the consumer which extended Propriety business practices are the opposite of.

Key Takeaways

- Proprietary Business behaviour is a necessity for R&D product development
- It encourages competition and new feature, product development
- Costs to the consumer will be higher for this period, appropriately
- Proprietary Business behaviour beyond exclusivity period is the opposite of a strong value proposition for a consumer
- Companies should be rewarded for strong Value Propositions toward their customer base.