Business Network Transformation

The Next Big Challenge for IT

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An Era in IT is Coming to a Close

• Building the great systems of record
  • Financials and HR
  • Order Processing
  • Manufacturing, Inventory, and Logistics
  • Customer Relationship Management
  • Supply Chain Management

• We’re more or less done—What’s next?
Two Roads Diverge

Road #1
Nothing is next
Get over it

- IT doesn’t matter
- Maybe in the future, but not now
- Consolidate, virtualize, cost-reduce

Road #2
Global markets change everything

- IT had better matter
- We need the help right now
- Open the system, engage, invest

I am in the second camp—Let me explain why
Why Global Markets Change Everything

• **Market advantage has shifted**
  • From developed economies to developing economies

• **Size advantage has shifted**
  • From large enterprises to small & medium businesses

• **Winning strategy has shifted**
  • From stand-alone competitors to ecosystems of collaborators

• **We are all “dealing with Darwin”**
  • We all have to rethink our strategies in light of this
What Darwin Demands
Innovate to Achieve **Competitive Separation**

Amplify a specific vector of innovation

Gain bargaining power by getting separation from your competitive set

Failure to separate means low to no returns on innovation
Focusing on Core

• **Core:**
  - Processes that create unique competitive differentiation
  - Source of growth in revenues and profits

• **Context:**
  - All other processes
  - No prize for doing these well
  - But there are penalties for doing them poorly

This is not the same as your core competence

This is not the same as your core business
Darwin’s Dirty Trick
All Core Becomes Context Over Time

Digital media
Mobile computing
Internet-enabled transactions
Visualization and simulation
Personal computing
Reporting and analytics
On-line transaction processing

Resources get trapped in context
The Cycle of Innovation

Extract Resources from Context to Fund Core

1. Invent
   - Invent Differentiated Offering
   - Mission Critical
   - Non-Mission-Critical

2. Deploy
   - Deploy Differentiation At Scale

3. Manage
   - Manage Mission-critical Processes At Scale

4. Offload
   - Extract Resources To Repurpose For Core

Fund next innovation
Trapped by Mission-Critical Obligations
What Happens When We Cling to Context

Mission Critical

Non-Mission-Critical

But lack of resources here results in failure to deploy!

2. Deploy

Core

Context

Mission-critical risk

1. Invent

4. Offload

Resources get stuck here

Resources are added here for support

Resources still get invested here
### Offloading Mission-Critical Processes

#### The Six Levers Model

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1. **Centralize.** Bring operations under a single authority to reduce overhead costs and create a single decision-making authority to manage risk.

2. **Standardize.** Reduce the variety and variability of processes delivering similar outputs to further reduce costs and minimize risks.

3. **Modularize.** Deconstruct the system into its component subsystems and standardize interfaces for future cost reductions.

4. **Optimize.** Eliminate redundant steps, automate standard sequences, streamline remaining operations, substitute lower-cost components, or otherwise cost- and resource-reduce.

5. **Instrument.** Characterize the remaining processes in terms of the variability of key parameters and develop monitor-and-control systems to manage their performance.

6. **Outsource.** Drive processes out of the enterprise entirely to further reduce overhead, variabilize costs, and minimize future investment. Incorporate vendor use of monitor-and-control systems into Service Level Agreement.
The Emergence of Business Networks
When Your Context is Someone Else’s Core

• Business networks are core/context ecosystems
  • Each member contributes a unique core—their “claim to fame”
  • Every other member supplies the context to support that core
  • Producers, directors, actors, designers, cinematographers

• Business network create higher returns
  • Differentiating spend is greater, duplicated spend is less
  • Higher differentiation creates higher returns on capital for all

• Business networks are competitive weapons
  • Silicon Valley, New York, Milan, Bangalore, Shanghai
  • The Internet has made this a “virtual” phenomenon
For Example

- Computer Industry
- Semiconductor Industry
- Online Auctions
- Consumer Packaged Goods
- Financial Services
- Business Services
- Software
- Outourced R&D
- Risk management
- Virtual asset teams

- Pharmaceuticals
  - Drug discovery
- Entertainment
  - Multi-media franchises
- Oil & Gas Exploration
  - Exploration
- Marketing & Advertising
  - Media on the Web
- Transportation
  - Third-party logistics
- Online ecosystem
- Open Source
- Outsourcing

Business Network Transformation
The Key is to Leverage the Network to . . .

• . . . Innovate your business model
  • Offload lower value non-core work to other members
  • Migrate your role in the network to higher value core work

• . . . Grow your market
  • Specialize in work that other members want to offload
  • Innovate in your core to create advantage for the network

• . . . Compete more powerfully
  • Co-market with the other members for greater differentiation
  • Invest in communications to enable effective collaboration
# Business Network Transformation

## What Companies Must Do

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<td>Immediate Customer</td>
<td>Focus on the end customer as the ultimate source of all funding</td>
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<td>Solution Component</td>
<td>Commit to fulfill the end customer’s value proposition (with partner help)</td>
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<td>Cost Focus</td>
<td>Position your offer relative to this ultimate value proposition</td>
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<td>Revenue</td>
<td>Focus on differentiating core work and offload the rest to partners</td>
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**From Passive Participation**
- Active Leadership

**To**
- Model the entire network to understand and influence its direction

- Focus on the end customer as the ultimate source of all funding

- Commit to fulfill the end customer’s value proposition (with partner help)

- Position your offer relative to this ultimate value proposition

- Focus on differentiating core work and offload the rest to partners
Implications for IT Investment
Communicate, Communicate, Communicate

• No longer about Systems of Record
  • Context, not core: Everyone has to have one to play
  • Competitive advantage must come from somewhere else

• Communications is the new priority
  • Invest in IT to enable *closed-loop outcomes in real time*
  • Systems of Record feed and inform communications

• Rethink IT systems from the edge in
  • Where the business network interactions are happening
  • Real-time “decision consoles” for every function
Technology Required

• Everything-Over-IP
  • Data, Voice, Video, Mobile, Data Center, Edge
  • R&D collaboration, consumer up-selling, supply chain planning

• Services-Oriented Architecture
  • In this model, everything becomes a service with an SLA
  • Cannot do this with client-server systems
  • But Don’t rip and replace!

• Composite Applications
  • Leverage the client-server Systems of Record (context)
  • Overlay next-generation services and SLAs (core)
In the Footsteps of the Prior Era

1990s
- Business Process Reengineering
- Operational Productivity
- Client-Server Architecture

Intra-enterprise

Today
- Business Network Transformation
- Competitive Separation
- Services-Oriented Architecture

Inter-enterprise
Final Thoughts
Why IT Really Does Matter

• IT is one of the few “home field” advantages left
  • Large enterprises in developed economies have the systems
  • SMB and developing economies must play catch-up

• But our current IT systems under-communicate
  • Creates reluctance to outsource, offshore, or partner
  • Undermines using business networks as competitive weapons

• Time to invest in IT is now
  • Client-server is binding us to obsolete business models
  • Optimizing IT spend results in sub-optimizing the enterprise
Thank You

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