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Truths and consequences

Four drivers of change that threaten business as usual

There are four new "truths" of the marketplace that are shaping the future of business. Visible all around us yet rarely considered as a group, they are powering waves of innovation coursing through every sector.

As their impacts spread, they are lowering barriers to entry, unlocking opportunities, and increasing the likelihood of new competition—and business model disruption—for incumbent firms. Could yours be next?

You know the world is changing—globalization, shifting regulatory requirements, and the emergence of cryptocurrencies are just a few of the developments and trends that the financial services industry has seen. Certainly, there is no lack of information on trends that are shaping the marketplace.

But what if you could see some of the longer term patterns behind the day-to-day events that are covered in the business press—the *how* and the *why* behind these trends and developments?

Then you would have a leg up on the key leadership challenge memorably stated by the German philosopher Arthur Schopenhauer: *"The task is not so much to see what no one yet has seen, but to think what nobody yet has thought about that which everybody sees."*

Even better, it could help you respond more effectively to an ever-changing world. Viewing these trends and strategic risks through a different lens can help you draw more powerful and useful conclusions and—it is hoped—help you manage threats not just to day-to-day operations, but the even more dangerous threats that can potentially disrupt your organization's business model.

TRUTH #1:
Coordination has never been easier

Getting more than just a few people to coordinate their actions used to be hard. Huge amounts of human energy and inventiveness went into figuring out how to coordinate groups. But now there are hundreds of applications that put people in touch with one another. Social media outlets have already infiltrated our daily lives, but there is another wave of game-changing platforms like Whatsapp, Viber, Dropbox and Reddit that is improving communication and coordination globally.

When coordination gets easier, people can better share and develop products, services, research, ideas, and opinions. As a result, organizations can form without traditional obstacles, creating new business models in the process. Teams can be built around a shared purpose, drawing the right talent from a global pool rather than settling on talent that is locally available. Small groups and individuals can achieve coordinated outcomes that used to be possible only for large organizations.

Four truths in a changing world

In the work we have done with clients across a range of industries, including financial services, we have seen four new features of the world that are game changers for business and innovation. These four truths are making what was once difficult, expensive or complex now easy, cheap, and simple.

TRUTH #2:
Money has never been easier

Making money is still difficult. But the world's money supply, estimated to be approximately US$60 trillion, is almost all natively digital,[1] which means that aggregating, organizing, moving, and exchanging money has all gotten much easier. The result is tremendous power and freedom for handling money without dependence on traditional institutions.

Thanks to organizations like Kickstarter, inventors can present new ideas and raise start-up capital to launch new ventures without relying on traditional investors and lending institutions. We are now even seeing crowdfunding models for real-estate investing, scientific research and angel investing.[2]

A testament to the transformative power that both coordination and money sharing has had can be found in Lending Club, an online peer-to-peer lending platform that facilitates loans by connecting borrowers and lenders. Lending Club is able to offer borrowers lower rates on loans and investors higher return rates by bypassing the established banking system.[3] In the eight years since its inception, Lending Club has facilitated over US$7 billion in loans and has plans to continue expanding across the credit industry.[4,5]

With mobile phones, widespread cellular data and internet access, sending money is also easier. Applications such as Venmo, PayPal, CoinFling and Square give small businesses and individuals the ability to collect multiple forms of payment and send money across great distances, at a fraction of the cost and inconvenience of similar transactions 10 years ago.

Funding ecosystems are also now more diversified and increasingly flexible. As Gideon Lewis-Kraus observed in a *Wired* magazine story about Silicon Valley start-ups, *"it has never been easier to raise a small amount of money. And it has never been easier to build a company—especially a web or mobile product—from that small amount of money"*[6] (which we will turn to next).

TRUTH #3:
Making has never been easier

Making things—from small batch prototypes to mass production of complex objects—has already gone through a step change in ease and sophistication. And access to increasingly sophisticated machinery is seemingly everywhere. TechShop, as one example, is bringing such technologies as 3D printers, CAD/CAM software, and laser cutters to designers and inventors all over the United States (and soon in Europe as well).[7]

Going beyond physical products and services, software and networks help entrepreneurs create new financial products and services that not long ago would have been impractical or even impossible to create in-house. As David Goldman of Revolution Ventures told *The New York Times* earlier this year, *"We estimated that it costs 10 percent what it cost even 10 years ago to start a software company."*[8] One result is the emergence of technology-enabled financial start-ups, or "fintechs." In 2014 alone, investment in fintech start-ups reached US$6.8 billion.[9]

One such fintech is MetroMile. Using widely available Global Positioning System (GPS) technology, MetroMile created pay-per-mile insurance coverage for low-mileage drivers who often overpay for insurance and for subsidized high-mileage drivers who tend to have more claims. MetroMile has also begun offering insurance for car services, such as Uber.[10] Driver mileage is measured through a GPS-enabled device that plugs into the car's diagnostic port and transmits data via cellular data networks in real time.[11] The creation of this new business actually took just a handful of people: *The New York Times* reported that MetroMile launched and went to market with only 15 employees.[12]

TRUTH #4:
Learning has never been easier

Finally, the ability for anyone to learn has been transformed. The capacity to access and discover information from peers, standing bodies of knowledge, and observations of what is happening as it happens is fundamentally new, especially at the scale we see it now. Furthermore, the access to learning is largely free.

Want to learn a new skill? Organizations from Khan Academy to EdX to thousands of videos on YouTube help people learn new things. Want to supplement your education with advanced lessons from some of the world's most prestigious universities? Many are putting free courses online. Access to experts is available quickly, easily and affordably on Quora and Ask.com, to name but two.

Specific to financial services, traders can access freely available recommendations via such sharing platforms as Nvest, an early stage crowdsourced stock recommendation platform. Anyone can submit stock recommendations, which are then compiled by Nvest. Contributors' performance histories are also tracked to assign credibility scores to those recommendations.[13] In addition, analytical processing and modeling capabilities, which were once available to only the largest companies, can now be accessed through cloud platforms.

We are already seeing that the number of start-ups around the world is growing, and the rate at which new entrants are coming to market is increasing

From the four truths to the three V's

These four truths are already here, and nothing seems likely to slow their growth or reach, much less reverse them. The consequences could play out for a generation or more.

We are already seeing that the number of start-ups around the world is growing, and the rate at which new entrants are coming to market is increasing. Again, the impact of the four truths is that fundamental tasks for organizations that used to be hard are being made easier. So finding the right talent and collaborating over long distances has been simplified. Complex products can be created through collaboration with subject matter experts. And digitized information is ubiquitous and available literally at your fingertips. All of this is compounded by the relative ease with which we can move and manage money.

As a result, the three V's—volume, variety and velocity—of new business formation are growing, and we expect they will grow more. The traditional business models that were defined by limitations in coordination and access to technology, knowledge and capital are no longer the only viable options. New technology-enabled businesses are free to experiment with structures that are smaller, nimbler, and cheaper to operate.

New types of organizations are emerging

It is no surprise, then, that new types of organizations are emerging—organizations that are established not over multiple generations, but that can emerge and grow to dominance within a decade. As we witness new companies developing at exponential rates, we are also seeing the accelerated pace at which long-established organizations stumble when faced with disruption: top automakers go bankrupt; leading retailers collapse; and the most prestigious names in news struggle against the relentless erosion of their businesses, to take just three recent examples.

In short, a new generation of businesses is forming around these trends. In the book, *Exponential Organizations*, authors Salim Ismail, Michael S. Malone, and Yuri van Geest introduce the concept of an "exponential organization," or ExO, and define it as an organization "… *whose impact is disproportionally large—at least 10x larger, compared to its peers because of the use of new organizational techniques that leverage accelerating technologies."*[14]

We often think of companies that experience explosive growth in the context of start-ups. But existing companies can also take advantage of these truths to enhance internal operations. *Exponential Organizations* highlights the example of ING Direct Canada and its transformation into an ExO. Established in 1997, ING Direct Canada was an experiment in branchless banking for its parent, ING Group.[15] ING Direct's business model depended on customer satisfaction and the development of coordination technologies: phone, internet, and now mobile applications. It also eliminated the costs associated with running brick-and-mortar branches and diverted resources to creating services tailored to the consumer.

Without the branch network, ING Direct Canada, which was renamed Tangerine in 2013,[16] took advantage of all four truths (easier coordination, money, making, and learning) to engage with customers in different ways and focus on creating award-winning products.[17] Tangerine now enjoys a customer-to-employee ratio that is seven times higher than the average Canadian bank (1,800 customers per employee) and total deposits per employee that are four times higher than average (US$40,000 per employee).[18]

Or consider the New York Stock Exchange (NYSE), which in 2011 launched its NYSE Technologies' Cloud Platform, which offers a range of on-demand, cloud-based services—including Infrastructure as a Service (IaaS), Software as a

Service (SaaS), and Platform-as-a-Service (PaaS). The NYSE community uses this platform to purchase the computing power needed for operations and to refocus resources to core business strategies.[19] This product helped NYSE Technologies, which was acquired by Intercontinental Exchange in 2012, to capitalize on the growing trend of automated trades and the value of server colocation. It also created a way for NYSE to broaden its brand as a "human run operation" and to be considered a "technology-enabled institution."

With technology-enabled organizations entering the marketplace with unprecedented velocity, variety, and volume, the traditional notion of ally and competitor is being brought into question. Competing institutions often have similar needs in terms of talent, capital, and IT infrastructure. Also, if the recent cyber-attacks on international financial institutions have taught us anything, it is that many financial services institutions have similar vulnerabilities in cybersecurity and can benefit from collaboration over common strategic risks.

Responding to this new reality

As you consider the four truths, the changes already seen in business and society, and the changes that are yet to come, you may be asking: What now? Or, more specifically, how can you respond to changes and events that are uncertain, have no historical precedent, and leave an organization vulnerable to strategic risks that threaten to disrupt the assumptions at the very core of its business model?

It is impossible to know the future. But we do know that past decision-making practices cannot simply be retrofitted to a new set of problems. From a risk-management standpoint, strategic risks pose challenges because of their complexities and potentially high stakes. Therefore, new approaches to manage those strategic risks are needed.

Fortunately, the tools to help companies survive in a changing world do exist. Smart organizations will develop a system to deal with unexpected change that threatens their business models.

This system should include people, processes and capabilities to:

1 Accelerate discovery

The option to remain on autopilot after deciding on a strategy is no longer sustainable. Instead, today's organizations must institute mechanisms that accelerate discovery at a pace that can keep track of surprises and revisit strategies if they are no longer valid.

2 Scan ruthlessly

Identifying sources of risks is the first step to preventing surprises. The next step is to continuously track those risks as they develop. Leveraging expert partners for trend analysis and future scanning can surface subtle indicators of change that could add up over time to produce a tipping point.

3 Confront biases

What you have experienced in the past will not likely repeat itself. We have to challenge our understanding of our operating environment in order to embrace necessary change that can initially be disorienting and uncomfortable.

4 Prepare for surprise

After understanding your potential risks, it is important to rehearse readiness. Decisive action in the face of ambiguity is one of the greatest challenges of leadership. Establishing thresholds and courses of action in various futures can help to prepare for an uncertain one.

Strategic risks can destroy huge amounts of value very quickly, and they can threaten the existence of the institution or entire lines of business. Identifying these potential risks early can only be to an organization's advantage. As Pierre Curie said, "fortune favors the well prepared mind." Fortune should also favor those organizations that consider the changes now and explore, systematically and as ruthlessly as possible, not only the business model risks they pose, but also the opportunities they present.

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