

## Shaping Strategies

### FAQs

**What is a Shaping Strategy?** In the broadest sense, a Shaping Strategy uses positive incentives to mobilize very large numbers of participants to help change the prevailing structure of a market or industry to the advantage of the shaping company. It harnesses distributed innovation among the participants and network effects to amplify the efforts of each participant. It is a powerful way to leverage the resources of the shaping company and accelerate learning to enhance impact.

**What are the components of a Shaping Strategy?**

There are three key components to successfully pursue a Shaping strategy: the Shaping view, Shaping platform and assets and activities.

- The shaping view communicates a compelling view of the future structure of a market or industry and the clear upside for participants in achieving this new structure
- The shaping platform provides standards and protocols that significantly reduce the near-term costs of participation by third parties and accelerates and amplifies the rewards that they can generate from their initiatives.
- The acts and assets of a shaper help to overcome the natural skepticism that potential participants might have in times of high uncertainty by demonstrating the commitment and capability of the shaper.

**Who can benefit from a Shaping Strategy?**

A Shaping Strategy is designed for an organization looking to create long-term structural advantage in its market or industry while at the same time achieving significant leverage by mobilizing others. From startups to Fortune 500 companies, any company that possesses the necessary characteristics of a shaper has the potential to execute a successful Shaping Strategy. Those who don't have these attributes can still benefit from being a participant in the shaping strategy of another company. Increasingly, the choice in many industries is to shape or be shaped.

**So what are the characteristics necessary for a shaper?** A shaper is the key orchestrator of the shaping strategy. The shaper must mobilize large numbers of participants in order to achieve critical mass and unleash increasing returns. The potential for shaping usually starts with a tenacious and articulate senior executive (ideally the chairman and/or CEO) with a radically different view for how the industry might evolve.

To mobilize others, an individual must possess the following traits:

- A clear view of how and why market or industry structure will fundamentally change in next five to ten years
- Strong communication and persuasion skills
- Deep understanding of what motivates potential participants in a shaping ecosystem and the ability to communicate a compelling view of the rewards available to all participants
- The ability to align the entire executive team of the shaping company with this view
- Commitment to drive long term, market-wide change

On a higher level, the shaper may be an entire company. To mobilize others, a company must possess the following to be a shaper:

- A strong leader who possesses the personal attributes defined above
- Skill in mobilizing a very large number of independent participants
- High tolerance for risk
- Long-term time horizon

### **When is the climate right to implement a Shaping Strategy?**

Shaping strategies succeed when there is an impending significant disruption in the market, often generated by new technology or a major shift in the regulatory environment. Since these strategies depend on the ability to mobilize a large number of participants, they work best when there is already a high degree of fragmentation in key parts of the market or industry or where the barriers to entry are very low so that a large number of new participants can emerge quickly. While there are many historical examples of Shaping Strategies they have become more feasible in recent decades given the advent of new generations of technology make it much easier to connect with and mobilize participants than ever before. Further, the potential rewards are also greater in today's environment, where there is an increasing gap between the exponential improvement of digital technology infrastructure and the much slower advances in business productivity. This gap creates a growing potential for significant economic rewards that can be generated by efforts to close this gap. These potential rewards can help to motivate large numbers of participants. More opportunity, more rewards and more capabilities create compelling incentives for executives to adopt Shaping Strategies today.

### **What industries are best for a Shaping Strategy?**

Recent examples of Shaping Strategies are most prominent in the tech industry. However, the applicability stretches far beyond tech. Shaping Strategies have significant potential in such diverse industries as healthcare, financial services, media and retail.

### **What distinguishes a Shaping Strategy from other successful strategies?**

Shaping Strategies focus on the use of positive incentives. By aligning the interests of a broad network of participants and fostering distributed innovation, the shaper creates the potential for a rapidly growing economic pie. Many of the more traditional approaches to disruptive innovation tend to rely on negative incentives to drive industry change – if incumbents don't adopt the disruptive innovation they will suffer severe penalties, ultimately resulting in death to the laggards. The positive incentives used in Shaping Strategies can be particularly powerful when they unleash increasing returns.

Shaping Strategies also differ from broader platform-based strategies because they focus on creating platforms where large numbers of participants are motivated to innovate and experiment in parallel, rather than simply aggregating existing resources. In particular, Shaping Strategies also address the key obstacle to more generic platform strategies – how to rapidly generate the critical mass of participants that sets into motion the increasing returns. This is where most platform-based strategies fail. By focusing on a compelling shaping view, a shaping platform that materially alters the economics of early participation and shaping acts and assets that can overcome the natural skepticism of participants, Shaping Strategies help to generate the critical mass required for the success of the platform.

### **What are some examples of a Shaping Strategy?**

Shaping industries and markets through positive incentives has both historic and current precedence. Early examples of successful shapers using positive incentives include Malcolm McLean's efforts to evangelize containerized shipping in the 1950s and 1960s, Visa in the financial services arena in the 1970s and Li & Fung in the apparel industry in the 1980s and 1990s. More recently, we have seen successful shaping strategies emerge in online advertising, online social networks, enterprise software and mobile telecommunications. In recent years, Facebook, Spotify and Google's AdSense and Android initiatives are just a few examples of Shaping Strategies in diverse arenas.

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