



## Episode 3: Deciphering shaping strategies for IoT companies

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**Heidi:** How does a new technology become mainstream? Companies like Visa, Microsoft, Intel and Salesforce have learned to shape their markets--creating new value for themselves by taking risks and creating incentives--it's an important question for any new technology but especially for the Internet of Things.

**John:** If I am a car, the key is to get you where you need to go quickly, comfortably and safely. Now that was a lot easier when you were doing the driving but as I take over the driving function I need to have real-time visibility into everything that's going on around me. This is going to require me to easily access real-time data from a growing array of sources; something that's not easily done today in a world of technology silos.

**Heidi:** Welcome to Deloitte's User Friendly, where we help your business navigate emerging tech, media and telecom trends - Hi , I'm Heidi Rataj and we're here today to discuss a shaping strategy for new technology--especially the Internet of Things ...joining me today are the co-chairs of Deloitte's CENTER FOR THE EDGE - John Hagel and John Seely Brown. Welcome.

**JSB:** Greetings. **John:** Thank you

**Heidi:** So just to get started for our audience listening in, John Hagel, if it's okay we want to reference you, sir, as John.

**John:** Okay.

**Heidi:** And for John Seely Brown we're going to reference you for our audience so that they can follow along, as JSB.

**JSB:** Fantastic.

**Heidi:** John, what is the focus on Internet of Things from the work that you gentleman do at the Center for the Edge?

**John:** Well, the focus for the Center of the Edge is to identify emerging business opportunities that should be on the CEO's agenda but are not and to do the research required to persuade them to put it onto the agenda.

**Heidi:** So, JSB what is it about the edge?

**JSB:** The edge is where, surprisingly, almost all innovation now happens and you can actually play on that edge in ways that are quite different than were possible in the past. What I think we're really talking about here are shaping strategies--ways to more systematically think about how you might "punch above your weight" by playing on the edge--and learning how to engage in a large shaping strategy framework.

**Heidi:** So John, can you explain for our listeners what a shaping strategy is?

**John:** We view a shaping strategy as a strategy that is focused on restructuring an entire market or industry. That occurs by mobilizing a large number of third parties to invest aggressively to support that new structure; it's not just pursued by one company, although typically there is a *shaper* that is driving this. The key to success is figuring out how to mobilize a lot of third parties to support the strategy.

**Heidi:** How can shaping strategies appeal to third party participants at the same time?

**John:** If you're mobilizing a very large number of third parties to invest, to pursue a particular view of how the future could unfold, you're going to have much more rapid learning among all those participants. They are all going to be trying different approaches and you can watch and see which approaches are having the greatest impact and double down on those. So, there's a very significant acceleration of learning as well as leverage that can come from these shaping strategies.

**JSB:** How you achieve leveraged, scalable learning in a world of constant change and increasing uncertainty becomes increasingly important. It is a mechanism for distributing risk and accelerating learning. It is using collective assets in an interesting new way, and it can be a game changer.

**Heidi:** In our introduction, we're referencing companies like SeaLand, Visa, Intel, and Salesforce. Give me an example that reveals the shaping strategy and how then the IoT is a good candidate for a shaping strategy.

**JSB:** Let me actually discuss Salesforce dot com. CEO Marc Benioff almost never talked about Salesforce--the products and services--but rather the fundamental new notion of software as a service (SaaS). Almost all of his talk was focused on trying to create a new point of view regarding where the collective markets were moving and how it was possible to leverage SaaS, a form of cloud computing, to be able to operate as a set of services. That shift, which he helped initiate, became the beginnings of a huge movement today that transformed the product industry into a service industry.

**Heidi:** Do we have, are we looking for the shaper in the corporation?

**John:** I think at the end of the day, at least in the examples that we've seen so far for successful shaping strategies, it's been one company that really emerges as the shaper, the catalyst if you will, for mobilizing a very large number of other companies. In part it's because you really have to have a lot of consistency and conviction around the shaping approach and it's hard to do if you get four or five companies together.

**Heidi:** We're talking with industry leaders John Hagel and John Seely Brown about shaping strategies; how they are driving businesses forward and why the Internet of Things can benefit from these practices. John what do you think are key factors to determine a successful shaping strategy for those listening today?

**John:** We see three components that have to come together to make a successful shaping strategy. The first component is a compelling long-term view of what the new industry structure could look like and being able to articulate why it's so attractive to many participants, not just to the shaper. The second element is a platform that can help alter the economics of participation.

Typically shaping platforms reduce the amount of investment required by all these third parties to participate but at the same accelerate the revenue and profit they can generate from their investment. Then, the third component of a successful shaping strategy is a set of actions that shapers can take to demonstrate commitment to that shaping view and shaping platform so that it overcomes the skepticism that many third parties would have had as to whether in fact you're as a shaper. You must be able to show you're really committed to staying the course when the going gets difficult.

**Heidi:** JSB, it seems like the shaping strategy flips the perception of risk and reward and we probably see these larger corporations that would rather be the fast follower. If that's the case, then what are the kinds of questions companies need to consider?

**JSB:** How does a platform provide a point of collaboration? Can you show how through working with the platform, that participants can leverage each other's assets and each other's capabilities. They also will want assurance that one can actually trust that platform and that it will remain open and not necessarily just privilege the party that created the platform.

**John:** You mentioned earlier the question of risk. One of the prevalent mindsets regarding risk is that you need to control everything to reduce risk. The shaping view is different; it suggests that trying to control everything is actually itself the biggest risk. Shaping the environment rather than trying to control it is the answer to risk in this view.07:39 - 08:10 **Heidi:** John, what are things that companies need to consider and to plan to get to a shaping strategy.

**John:** The success of a shaping strategy requires a deep understanding of what would motivate others, a lot of others, to participate. If you don't understand the economics, the aspirations, and the mindset of these other third parties you're trying to attract--and if you don't create the right incentives to motivate them to not only participate but invest aggressively--you're not going to be successful. It's a balancing act. As a shaper you want to be careful to identify the key influence points in this new industry structure that would give you a sustainable advantage so that you can continue to play in this environment.09:00 - 09:24 **JSB:** The right kind of balance is critical here, because if your capabilities give you too much leverage relative to other potential players then why should they trust you? Especially in the IoT world, you'd like to have some stability on, for example, the key underlying protocols. If you can get agreement on those protocols and how they're going to be maintained and that's a major step that everybody can win from.

**Heidi:** Do you think that there's a unique skill set?

**JSB:** I think the ability to listen deeply to others I mean the whole catch is how to bring a substantial number of parties together. But trust is key this is a game in which great ideas, great vision, and great execution matter but I would say a spirit of collaboration that we can all profit from is equally critical.

**John:** Just to add to that a bit I do think that this requires challenging some of the basic behaviors or assumptions of many traditional companies. We believe they operate on a model of what we would call scalable efficiency. Many companies and leaders of many companies still operate in a win-lose kind of mindset: if you win I lose and vice versa. That needs to change to focus on how to create environments where both parties can win and profit from the opportunity.

**Heidi:** So what actions can the shaper take to help alleviate those kinds of concerns?

**John:** It does require a mindset shift and it's a challenging one. In a larger sense, it is about risk. Most discussions about risk focus on the risk of taking an action: If you take a particular action, what are the risks if it fails? What is rarely addressed is the risk involved in not acting. In a world that's changing rapidly, where the markets are evolving rapidly, the choice is ultimately whether to shape those markets or be shaped. Somebody is going to emerge as the shaper in all of these markets and if you don't step up to the challenge and act with a sense of urgency about it, the risk is that you're going to be shaped by somebody else.

**Heidi:** I love the opportunity that could be created out of any new ecosystem where third parties can and do participate and anybody can benefit. We're coming to the close of this show, how do we help the listener move this concept and idea into actual decision making?



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**John:** Start in a focused area where you can get to critical mass quickly and demonstrate impact and that will give you more openness and willingness from others as you expand your horizons into other markets. The core reason we see such an opportunity here is the way technology has evolved. So far it has evolved in very distinct technology silos where devices generate data that's captured within the silo and its analyzed within the silo. But a lot of the potential value of that data comes from how you could connect that data and create broader aggregations of data, through a platform where you could apply analytic tools to get even more insight from the data.

**Heidi:** JSB final thoughts on that for those listening in and why IoT is such an interesting opportunity for shaping strategy.

**JSB:** If we can find ways to interrogate the contexts in which something is happening and better understand that context, then we can devise a better response.

**Heidi:** What we found out today is with a rapidly shifting corporate environment companies that are implementing shaping strategies are benefiting and bringing more value to their businesses. Now those who don't jump in risk becoming part of the status quo - shape or be shaped. I want to thank John Hagel and John Seely Brown for joining me today. I'm Heidi Rataj and from all of us at UserFriendly, thank you.

**John & JSB:** Thank you. Thank you, take care

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