BOOK
The Network Imperative: How to Survive and Grow in the Age of Digital Business Models

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SYNOPSIS [From the publisher]
"*The Network Imperative* is a call to action for managers and executives to embrace network-based business models. The benefits are indisputable: companies that leverage digital platforms to co-create and share value with networks of employees, customers, and suppliers are fast outpacing the market. These companies, or *network orchestrators*, grow faster, scale with lower marginal cost, and generate the highest revenue multipliers."

The primary law of networks is that value expands exponentially with the number of connections within the network.

Established non-digital, non-network business models make up more than 98 percent of the market and have a lot of work to do.

You may feel that network disruption is a distant concern for your business or irrelevant for your industry, and that you have more-pressing concerns, but be aware: investor capital, customer revenue and affinity, top talent, and market buzz are shifting away from established firms toward network organizations.

Network leaders think differently about value and value creation. In fact, their thinking is the opposite of many traditional business beliefs.

Traditional leaders ask what value their firm can provide. Network leaders ask what value their customers and other networks have to offer. Traditional leaders think the goal is to sell more products to customers. Network leaders see the value in customer co-creation, advocacy, and sharing. Traditional leaders think they're operating at full capacity. Network leaders see the world differently and full of additional potential.

Most business leaders believe that the only way to generate more value is to make, market, and sell more of what they have or do. But that old thinking limits their profitability and growth. Many of our most admired companies won't stand a chance when the most valuable digital networks take on their markets.

People, on the other hand, have a lot of potential. Whether employees, customers, or partners, people can generate new ideas, solve problems on their own, promote and share brands, and serve various other functions. With proper training or cultivation, people appreciate, rather than depreciate, in value to your organization.

Sometimes leaders make a mistake by thinking they've captured the value of people by hiring them as employees or gaining them as customers. This view is simply too narrow.

The internet spelled the demise of closed-source business models based on physical assets. For example, Wikipedia and its network of unpaid contributors disrupted a 250-year-old company called Encyclopedia Britannica.

Firm-centric organizations that use their own resources to create and keep all the value for themselves are slowly being replaced by those that share value creation with networks of individuals connected by digital technologies.

CONNECTING THINGS CREATES GREAT POWER. A link, a channel, a highway—all act as permanent conduits over which many things can flow. Networks, pathways between many nodes, have always been important to the economy.

Networks are subject to the law of increasing returns. The value in networks is found in the connectivity between nodes, and every additional node increases the value of the network exponentially.

As we looked into the operations of various firms, we found that nearly all organizations can be classified into one of four business models. This term can have many meanings, but here we use it to mean the way that an organization creates value. The four business models that we delineated are as follows.

Asset builders deliver value through the use of physical goods. These companies make, market, distribute, sell, and lease physical things.

Service providers deliver value through skilled people. These companies hire and develop workers who provide services to customers for which they charge.

Technology creators deliver value through ideas. These companies develop and sell intellectual property, such as software, analytics, pharmaceuticals, and biotechnology.

Network orchestrators deliver value through connectivity. These companies create a platform that participants use to interact or transact with the many other members of the network. They may sell products, build relationships, share advice, give reviews, collaborate, and more.

Each business model is based on one of four asset types. Asset builders focus on physical capital (things); service providers invest in human capital (people); technology creators develop intellectual capital (ideas); and network orchestrators develop network capital (relationships).

To scale up a network orchestrator is often free; your company need not provide all the value, because the network itself contributes products and content. In fact, network orchestrators rely on their networks to contribute goods, services, information, or relationships to the platform, something that also reduces the burden on the company.

Human beings have many wants and needs—from the essentials, like food, shelter, and safety, to the emotional, like esteem and self-expression. Physical networks—highways, aqueducts, electrical grids—are wonderful, but they help us only with our physical needs. As networks have become intangible, or digital, they have gained the ability to serve our deeper needs. Belonging, self-esteem, and self-actualization are intangible needs that can be met consistently only through intangible means.

it represents a great market opportunity for legacy firms that are interested in extending their legacies into the future, particularly since business models are industry agnostic and actually span traditional industry verticals. No matter your industry, all business models are available to you. This means that our business model classification doesn't replace, but rather complements, existing industry classifications for understanding a firm's positioning and potential.

They don't know about or understand network orchestration. They don't believe that the advantages of network orchestration are real or lasting. They don't know how to create network orchestration in their existing business.

The ten principles are:
Create digital capabilities
Invest in intangible assets
Actively allocate your capital
Lead through co-creation Invite your customers to co-create
Focus on subscriptions, not transactions
Embrace the freelance movement Integrate big data
Choose leaders who represent your customers
Open your mind to new possibilities

PEOPLE OFTEN HAVE TROUBLE IDENTIFYING WHAT THEY REALLY VALUE, but priorities emerge during times of crisis.

Now we socialize, decorate our homes, get educated, create art, order dinner, date, adjust the thermostat, exercise, navigate, give to charity, shop, and shop some more, using digital technology—online and, increasingly often, through apps on our personal devices.

Few are creating business models that take advantage of digital technology such as social, mobile, cloud, big data analytics, and the internet of things.

Convenience. When customers are served through digital means, such as online or through an app, they can interact with the organization on their own terms and at their own convenience.

Access. Digital products and services scale exponentially and globally quite easily.

Integration. When interaction takes place digitally, it is much easier for the organization to keep records and share information between parties.

Scalability. A digital platform scales easily to encompass new needs, new providers, and new customers.

Analytics. When customer data, transaction data, and more are stored online, they can more easily be searched, indexed, mined, and analyzed to gain new insights.

In this book, we usually refer to five key technologies that have had a big impact on customers and organizations:
Mobile technology.
Social media.
Cloud technology.
Big data analytics.
The internet of things.

Digital platforms are the foundation of the network orchestrator business model. The platform is what enables rapid growth and inexpensive scaling by allowing external parties (the network) to interact with and contribute to the product offering. Platforms often sit on top of, make use of, or are delivered via the technologies just discussed, but what platforms add, in a word, is openness.

A product is useless without a platform, or more precisely and accurately, a platform-less product will always be replaced by an equivalent platform-ized product.

Principle 1, Technology: From Physical to Digital

You won't get very far without being digital, but most firms, particularly the biggest ones, are starting with a long legacy of physical assets and thousands of processes, teams, and strategies carefully tuned to the management of those physical assets.

First, you may need to change the way you, and other leaders in your organization, think about technology. Expunge any sentiment that digital doesn't apply to your organization. It does, inside and out. Second, you need to hire new talent who specialize in digital technologies. This isn't a field where you can train up your existing employees, with old mindsets, in a few months or even years. You need not only new skills but also new ideas.

The least of things with a meaning is worth more in life than the greatest of things without it. —Carl Jung, psychiatrist

When it comes to the company balance sheet, however, you are an expense, and your chair is an asset.

If you took this question to the stock market, however, you would get a different insight. On average, manufacturing companies, such as the one that made your computer, trade at valuations 2× revenues, whereas companies that generate new intellectual capital such as software trade at valuations 5× revenues. Thus, the market values tangible assets and intangible assets differently than corporations and accountants do.

Intangible assets are grounded in people. Things such as our ideas, our relationships, our advocacy, and our experiences are of great value to other people and organizations, and these assets do not diminish with use. More often, they appreciate with use. The more time you spend interacting on a social network, the more your influence grows. The more you create and share intellectual capital, the more it improves and the more your credibility grows.

Let's look at three broad categories you should be aware of when thinking about intangible assets.

IDEAS AND INFORMATION. Here we refer to the intellectual capital created by people.

RELATIONSHIPS AND ACCESS. Human beings are naturally social creatures, and all of us are tied in myriad ways to our familial, social, and professional networks.

CUSTOMERS WIELD GREATER POWER THAN EVER. Properly leveraged, customers can be important assets, touting your brand on Facebook, Instagram, and Twitter, providing valuable product feedback, or even helping you create advertising. On the other hand, ignored, frustrated, or disappointed customers can create a public relations nightmare by sharing video or simply recounting a bad experience on social media.

EMPLOYEES WANT TO CONTRIBUTE DIFFERENTLY. People are becoming more aware of the intangible assets they have to contribute, as well as the value of those assets. This is true in all spheres of life, particularly employment. People want to do far more than execute instructions like classic factory workers. They want to be inspired by a vision and bring their own ideas and talents into play.

PHYSICAL ASSETS ARE BECOMING FINANCIAL LIABILITIES. With the increased prominence of intangible assets, tangible assets are declining proportionally. Those assets sitting on a balance sheet seem costly to maintain compared with intangibles.

Principle 2, Assets: From Tangible to Intangible

At one time the Forbes 400 wealthiest individuals were primarily railroad barons, but now, half the wealthiest people are technologists. There has been a nearly complete reallocation of value and capital in the market, reflecting a new focus on digital, intangible assets. It is time to take a good look at your asset portfolio and start moving the needle to the right.

Institutional memory, historical bias, politics, laziness, and even nostalgia stand in the way of companies that want, or need, to pivot their business models away from less-valuable assets.

Principle 3, Strategy: From Operator to Allocator

Note that companies still need good operators to run a business well. But those operators need to be focused on the right business model, and that's why capital allocation is essential.

Maintaining an investment or allocation mindset will help you stay current, no matter where technology or business models go in the future.

MAKE PRUNING A PART OF YOUR PROCESS. The hard part isn't saying yes; it's saying no.

It's easy and understandable to use last year's budget as a starting point, but doing so anchors your teams to these numbers and makes active reallocation much more difficult. Courageous zero-based budgeting helps, but you can also use another approach to help shake up perspectives. For example, you could review what the budget would be if it were allocated based on percentage of revenue generated. Or on last year's growth. Or on expected growth. Or on customer satisfaction.

A leader's job is not to do the work for others, it's to help others figure out how to do it themselves, to get things done, and to succeed beyond what they thought possible. —Simon Sinek, author, Start with Why

People are relating to the world differently from the way they used to, and that means leaders must relate to their worlds differently. Historically, for the most part, our relationships used to be based on family and proximity. We communicated in person or through the written word, and our sphere of influence was limited. We were similarly limited in our work and our contribution. We shared the products of our hands or minds with those we could physically reach.

Now we can form relationships with anyone in the world. We communicate through pictures, videos, links, likes, and shares as much as actual conversation. And each of us has a sphere of influence that is limitless, provided we can pay enough money or say something interesting enough.

When you partner with others, whether they're employees, customers, suppliers, or investors, they will likely bring something unexpected to the table, and it will probably cause you to adjust your grand vision. If you're in commander mode, that will look and feel threatening.

Principle 4, Leadership: From Commander to Co-creator

THEY CREATE SHARED VISION AND VALUE. Co-creators co-design, truly believe in, and facilitate a vision for their organization that everyone buys in to and everyone profits from. The keyword is everyone; this means no exceptions. Every single person who touches and is touched by a co-creatively led organization is connected to its explicitly stated purpose.

Network orchestration taps in to the assets, skills, insights, and relationships of groups external to your firm. The external network enables low or near-zero marginal cost of scaling as well as rapid growth, higher profit margins, and, ultimately, greater investor returns. But to get there requires many leaders to take on a new set of skills.

The most valuable customers are the ones who provide companies not only their money, not only their voices and promotion to others, but also their ideas, insights, services, assets, and relationships. These are the customers that we call contributors. Customer contributors act as an extension of the organization itself and may take on any role, including designers, producers, content creators, salespeople, and price setters. In exchange for value they receive, they contribute real value to the operations of the firm.

Since then, we've actively encouraged our fans to interact with us and suggest product ideas. An amazing number of grown-ups like to play with Legos. While we have 120 staff designers, we potentially have probably 120,000 volunteer designers we can access outside the company to help us invent.

Principle 5, Customers: From Customers to Contributors

Engage your superusers. Every organization has a group of customers who know the products better than the sales team or love them better than the designers. This group will be the most eager to contribute to the firm and also is likely to have insight into where its contributions can bring the most value.

Turn your gaze outward, and leverage your most essential network: your customers.

In a transactional business, the person really is probably only going to come around once or maybe twice if you have a really high repeat order rate. But in a subscription business, you're going to see them by definition, over and over and over and over again. And you're going to have an opportunity to impress them every single time. You're in a relationship. —John Warrillow, author, The Automatic Customer