The Network Imperative
A Playbook for Creating Unprecedented Value in the Digital Age

by

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Part 1: Digital networks and platforms are eating the world

Part II: 10 Rules for Network and Platform Success

Part III: PIVOTING your business from vertical to horizontal

Part IV: Change your mind to change your business model

Part V: Welcome to the World of Networks and Platforms
Part I: Digital Networks and Platforms Are Eating the World

Let’s start with the answer. Digital Networks are changing all the rules of business, including the sources of value, the ways that organizations deliver it, and the mental models or beliefs that guide organizations and their leaders.

This transformation is creating problems for existing firms with established, non-digital, non-network business models—which make up more than 98% of the market. Most of these companies are racing to update their strategy, leadership, technology and organizational design, but the performance gap is widening and many will not make it. Our goal is to help those firms that are not digital startups, billion-dollar unicorns, or technology superstars to bridge the gap and create unprecedented growth and value in the age of hyper scale digital networks.

You may feel like network disruption is a distant concern for your business or irrelevant for your industry, but our research indicates that digital networks are entering almost every industry, even some of the most mundane. Consider a few striking examples of industries already turned upside-down by digital networks—where young upstarts, many of which are still private, are rapidly outperforming established firms.
Network Brands vs. Traditional Brands

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<tr>
<th>Network Brand</th>
<th>Market Value</th>
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<tbody>
<tr>
<td>Uber</td>
<td>$60-70B valuation</td>
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<tr>
<td></td>
<td>No cars, approximately 150K driver-partners</td>
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<tr>
<td>Airbnb</td>
<td>$24B valuation</td>
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<tr>
<td></td>
<td>1.5M+ homes for rent, none owned</td>
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<tr>
<td>WeChat</td>
<td>$84B estimated value</td>
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<tr>
<td></td>
<td>650M users</td>
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<td></td>
<td>0 miles network fiber</td>
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<tr>
<td>Alibaba</td>
<td>$200B market cap</td>
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<td></td>
<td>0 retail locations</td>
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<table>
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<tr>
<th>Traditional Brand</th>
<th>Market Value</th>
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<tbody>
<tr>
<td>Hertz</td>
<td>$7B market cap</td>
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<td></td>
<td>Estimated 350K cars</td>
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<tr>
<td>Starwood</td>
<td>$12.2B value (purchase price in Nov. 2015)</td>
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<tr>
<td></td>
<td>1,270+ hotel properties</td>
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<tr>
<td>ATT</td>
<td>$207B market cap</td>
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<tr>
<td></td>
<td>$122M phone subscribers</td>
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<td></td>
<td>1M miles of network fiber</td>
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<tr>
<td>Walmart</td>
<td>$196B market cap</td>
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<td></td>
<td>11,000 retail locations</td>
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These companies have sent shockwaves through their respective industries, and remarkably they did it without the traditional assets that were considered requirements for success. Our work with boards and leaders as well as our angel investing in start-ups, has shown us that the difference is in the thinking. Network leaders think differently about value and organizational design. In fact, their thinking is opposite to traditional business beliefs.

Adapting one’s thinking is difficult for anyone, but it is critical for success today. What does the opposite thinking of these network leaders look like? Here are a few examples:

- 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 that they are operating at full capacity. Network leaders see the world differently as full of additional potential.

This different, and opposite, thinking helps digital network leaders see a world of abundance, where there are excess assets everywhere, both tangible and intangible. Whether these assets are houses, cars, photos, knowledge, skills or networks, there are people in the world willing to share them in order to earn an extra dollar, garner recognition for their expertise, or just connect their story and experiences to the world around them.
We want to help you and your organization experience this abundance too. Therefore, we have written this book practically to help you along the way. This book is divided into three parts: The Research, the Ten Principles for Network Orchestration, and the five-step PIVOT process for creating change in your organization.

The numbers tell the story

The advantages of digital network business models were clear from our observations working with clients and investing in startups, but we knew that we needed proof beyond empirical evidence to bring these ideas to the market. For that reason, we began our multi-year, in-depth study into business models.

We undertook a wide range of qualitative and quantitative analyses, beginning with traditional metrics, including sales, research and development, return on assets and invested capital, gross margin and profits. When useful, we read analyst reports about each company and examined the words of all the leaders in their quarterly and annual reports. Finally, we examined and digested thousands of articles and research by other organizations. The results of our efforts follow.

1. There are four business models

As we looked into the operations of different firms, we found that nearly all organizations could be classified into one of four different business models. This term can have many different meanings, but here we use it to mean the way that an organization creates value. The four business models that we developed 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.
2. **Business models are based on capital allocation**

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 create intellectual capital (ideas); and Network Orchestrators develop network capital (relationships). The relationships, or connections, created by a Network Orchestrator may actually provide access to any of the other asset types. For example:

- eBay and Etsy are Network Orchestrators that provide access to physical capital (i.e. “stuff you can buy”).

- TaskRabbit and Upwork are Network Orchestrators that provide access to human capital (services) in the form of errand-runners and freelancers.

- Innocentive and Yelp are Network Orchestrators that provide access to intellectual capital, such as innovative ideas or restaurant reviews.

- Facebook, LinkedIn, and Match.com are Network Orchestrators that provide access to network capital, specifically social and professional relationships.

3. **Digital networks have many economic advantages**

When we applied this business model framework to the S&P 1500 (a combination of the S&P large, mid, and small cap indices), it revealed clear and dramatic performance differentials among the four business models. Network Orchestrators on average, grew revenues faster, generated higher profit margins, and used assets more efficiently than companies utilizing the other three business models. These advantages resulted in remarkably higher enterprise values, when compared to revenue (see research appendix).
We attribute some of these economic advantages to the ability of digital networks to scale at near-zero cost. Digital platforms scale upwards very inexpensively compared to other assets.

**Business Models Scale Differently**

On top of their scaling advantages, Network Orchestrators benefit from the network’s incentive to grow itself. In a network structure (the classic example is a telephone network) the value scales with each additional participant; thus the network itself motivates its own growth.

4. **Network Orchestrators and platforms create more value**

As mentioned above, these growth, profit, and scaling advantages result in some unprecedented market valuations. When we examined market value in terms of Price to Revenue Ratio, which we refer to as a company’s *multiplier*, we found that the average Network Orchestrator has a multiplier of 8x, compared to 5x, 3x, and 2x for Technology Creators, Service Providers, and Asset Builders, respectively.

A great market valuation is a useful thing. It increases access to capital, and rewards shareholders. Let’s not forget, however, what it signifies. Network Orchestrators have higher multipliers because the business model is efficient to operate and appealing to the market for its high growth and profit potential.
5. **Network Orchestrators and platforms do things differently**

Business model, of course, has implications that go far beyond the organizational product line. A company’s business model has implications for all parts of the business, from the assets it invests in, to the way it interacts with customers, to the key performance indicators it tracks. In many regards, Network Orchestrators operate in ways that run counter to what we’re used to thinking of as the best practices of other business models.
If you want to change your business model, or augment your organization with highly valuable networks, you will need to keep in mind the many different dimensions that business model affects. Based on our observations of Network Orchestrators, we have identified ten principles that describe the ways that these companies are differentiated from their peers with other business models.

Each principle has an important lesson to teach, but it is up to you to apply them judiciously. The right answer for every firm is not simply to flip wholesale from one extreme to the other, but to look at what the network orchestration options could offer you, particularly in a network-oriented business, and what makes the most sense given the larger context of your business and your goals.

6. **Networks and platforms aren’t just good for business, they are good for people**

Human beings have many wants and needs—from the essential, like food, shelter, and safety, to the emotional, like esteem and self-expression. Physical networks—highways, aqueducts, electrical grids—are wonderful, but they only help us 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 only be met consistently through *intangible means*.

Today, Facebook enables us to access and enjoy our friends and family no matter the physical distances, not to mention time zone differences that separate us. Match.com connects us with romantic partners. LinkedIn broadcasts our professional achievements
worldwide. Instagram shares our artistic photography with our friends. Although these connections were possible twenty years ago, for example, via airplanes, matchmakers, headhunters, and art galleries, they were much less accessible, much more expensive, and much, much, more time-consuming.

Even more important, digital networks are inherently co-creative and user-led. We can’t all help build the highways, but we can definitely all post pictures of our kids and pets to Facebook. The participants on a network platform contribute the value themselves, whether it is content, art, information, or products. Not only does contributing lead to a sense of ownership and increased affinity, but it also gives the participants outlets to express their desires, mastery, and talents.

7. Network Orchestrators and platforms are the minority

Latent networks exist in and around every organization. However, despite the rapid advancement of digital technology and the remarkable advantages of network business models, very few companies operate as Network Orchestrators. Our research and analysis of the S&P 1500 found that, in 2014, less than 2% of the companies used Network Orchestration as their primary business model. The vast majority still operate as Asset Builders—making, moving, and selling physical things.

If you are in the majority, this book can help. Start with the ten principles and reflect on where your company currently sits. Then use our five-step PIVOT process to begin your organization’s journey.

Making Networks and Platforms Work

How does digital network reinvention of the company actually work? What do digital network organizations look like and how does an organization get there?

We have identified ten principles for network business models, each requiring a shift away from traditional business practices to network thinking. We have also defined a five-step process, called PIVOT, which provides a path for established companies to create the seeds of a network business within their existing organizations.

Inspiring and guiding the project, of course, is the responsibility of the CEO (supported by the board), who will need to embrace new mental models, and new capital allocation, in order to nurture the network initiative. But responsibility for making new decisions and building connections with the network will need to be spread throughout the entire organization. Thus, for each of the ten principles, there are applications throughout the organization, from executives to individual contributors.
Part II: 10 Rules for Network and Platform Success

There are ten rules for building and creating valuable digital platforms and virtual network based business models. To understand each of the ten principles, we have created a simple tool to help you along the way. We will cover each of the ten principles in the following pages to help you see where your organization is on each dimension.
Technology: From Physical to Digital. Our first principle for becoming a network organization is that you need to move from physical to digital. Digital comes first because it is the prime mover—the factor that initiated all of these changes in business model, culture, and life as we know it. You won’t get very far without being digital, but most firms, particularly the biggest, 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.

The technologies we are primarily referring to are Mobile, Social, Cloud, Big Data Analytics, and the Internet of Things, each of which can play a role in a network business model. Technology is what enables network businesses to scale rapidly, access their customers anywhere, integrate rapidly with other systems, and gather and analyze great quantities of data.

In order to operate a network business, an organization must create a digital platform. 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 other technologies, but what the platform adds, in a word, is openness. Platforms give the network a place in which to create and share value.

Key questions: Assess where your organization is on the spectrum from Physical to Digital.

1. Are our core products physical or digital?
2. Are we innovators, average users, or laggards in terms of mobile, social, cloud, big data analytics, and the Internet of Things?

3. Do we have the right capabilities (technology, vision, talent, etc.) in-house to develop or improve our digital presence?

4. Are we shifting capital allocation to increase our digital capabilities and presence?

**Assets: From Tangible to Intangible.** The second principle is to move from Tangible to Intangible in the realm of Assets. On the one side of the spectrum are companies with physical products, very little intellectual capital, and low use of human capital, either internally or through external networks. On the other side of the spectrum are companies based entirely on intangible assets such as intellectual property or relationships. These companies usually rely on digital technology to support the scaling of their intangible assets.

Intangible assets are grounded in people. The three broad categories of intangible assets are people services, ideas/information, and relationships/access. Unlike physical assets, intangible 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 better it becomes and your credibility grows.

As recently as 1975, 83% of the market value of the S&P 500 companies was made up of tangible assets, according to Ocean Tomo. In those days, leaders had to focus on plants, inventory, and production. By 2015, however, the proportions completely reversed. In 2015, they found that 84% of the market value was now comprised of intangible assets.

The growth of intangible assets has changed the world of organizational management. Employees and customers now have new expectations of the organizations they interact with, and entirely new capital allocation strategies are necessary.

Key questions: Assess where your organization is on the spectrum from Tangible to Intangible.

1. What are the most important assets for your company? What percentage are tangible? Intangible?

2. How much capital and time by percentages does your firm allocate to the management of intangible assets?
3. How much capital and time by percentages does your firm allocate to managing assets that exist outside of the firm, such as network assets?

4. Is there agreement among the leadership team on which assets are the most valuable?

**Strategy: From Operator to Allocator.** The third principle is to move from Operator to Allocator. Operators focus on operating the business effectively, but don’t actively use the lever of reallocation to shift time, talent, or capital to adapt strategy and business model in real-time. These companies usually keep doing what they have been doing, with the goal of improving gradually over time. For example, a car company whose leaders are operators will build better and better cars. A car company whose leaders are allocators, or another word might be investors, might shift its business model from car-builder to transportation-facilitator over some years through strategic reallocation.

Acting like an allocator doesn’t necessarily mean that you will automatically have a network business, but you certainly won’t be able to shift your asset allocation, and therefore your business model, without taking on an investor mentality. You might be surprised to learn that companies with multiple businesses allocate about $640 billion annually, even more than capital markets allocate.

And what do corporations do with that $640 billion? Probably the same thing that they did last year. Research from McKinsey found that the average correlation between one year’s allocation and the previous year’s was .92 (a correlation of 1 is a perfect match). For a full third of companies, the capital allocation was almost exactly the same as the previous year—a .99 correlation. This is a real problem when the world is changing as quickly as ours is. The McKinsey study found that the most active reallocators, regardless of sector, delivered returns to shareholders 30% higher than the least active reallocators.

Key questions: Assess where your organization is on the spectrum from Operator to Allocator.

1. Does your organization react to annual budgeting as a chore to be completed, or as an opportunity to create a brilliant future?

2. Do you begin the budgeting process with a draft of last year’s budget? How far do you move from it? Or do you use a zero-based budgeting process?


4. Does your team have the capability, skills, and insights needed to keep up with market shifts and potential alternate investments?
Leadership: From Commander to Co-Creator. The fourth principle is to move from Commander to Co-Creator. Commanders are leaders who prefer a structured, hierarchical, top-down organization, and rely on themselves to create and communicate the strategy. Co-Creators are leaders who seek insight outside of themselves, and know how to motivate and inspire those around them to collaborate in building something together.

Co-creation is an essential tool today because of cultural shifts that have changed the way people build relationships with companies, particularly customers and employees. Today’s workforce and market have access to more options and more information than ever before, and they expect to be able to participate and have their voices heard.

It is impossible to lead a company with a network business model if you are acting like a Commander all the time. Network business models require the active, eager, and engaged participation of “assets” that are outside the firm and that don’t report to you. In order to lead in these situations, co-creative leaders need to use different tactics. First, they make themselves accessible to both internal and external networks, in order to learn and share ideas. Second, they push decisions downward. Enabling appropriate decision-making at all levels throughout the organization, and external to it, also shows respect for the network and encourages both their self-determination and their abilities to self-serve. Finally, they create a vision and value that can be shared between the organization and the network.

Key questions: Assess whether you are a Commander or a Co-Creator

1. Do your employees and customers have clear channels for communicating with the executive leadership team?

2. How often does your firm act on new ideas that come from lower in the organization, or outside of the organization?

3. Does your organization have a culture of empowered decision-making, even at the lowest levels?

4. Do the leadership team, the employees, and the customers share an inspiring vision?

Customers: From Customer to Contributor. The fifth principle is to move from Customer to Contributor. On the Customer end of the spectrum lie companies who value their customers primarily for the dollars in their wallets. Transactions and loyalty, leading to future transactions, are goals of these firms. As you move toward the Contributor side of the spectrum, the customer value-add becomes broader, first incorporating their voices as promoters, and finally including their tangible and intangible assets as well.
The firms that best utilize Contributors interact with their customers as complete human beings, understanding not just what they want, but also what they want to contribute—whether it’s ideas, reactions, services, products, assets, or their personal networks.

Please notice that this principle pairs nicely with the one in the previous chapter: Commander to Co-Creator. As leaders become Co-Creators, they have to partner with other people who want to contribute their ideas and skills. You can’t co-create by yourself, after all. And customers have a lot to contribute to the equation. Leveraging the talents of customers can give an organization access to a broader array of capabilities and insight than they have in-house. Customer networks are also highly scalable and adaptable, responding to need independently. For example, consider the network of hosts that partner with Airbnb. When the need for rentals in an area increases, the host network will automatically flex to serve these new needs, without any effort from Airbnb.

Not every company will go to a business model that is 100% dependent upon customer contribution, but there are significant gains to be made by even small steps. We recommend that companies maintain close relationships with their most enthusiastic, or “super” users and that they give customers flexible options for their depth and channel of interaction with the firm (such as discussion forums, Twitter, Facebook, etc.). It is also important to remember that this must be a mutually beneficial relationship where the customer also receives value out of their participation.

Key questions: Determine if your firm has Customers or Contributors

1. How often does your organization get feedback directly from customers and what channels do you use?
2. Does customer feedback get reviewed by decision makers who can act on it?
3. Do you know who your most important and most engaged customers are? How frequently do you interact with them?

**Revenues: From Transaction to Subscription.** The sixth principle is to change your customers’ relationship with your organization from transaction to subscription. On the Transaction side of the spectrum are companies that interact with their customers at the point-of-sale, and pretty much don’t hear from them again until the customer returns on their own to make another purchase. These firms certainly may advertise and attempt to draw their customers in for repeat sales, but they do not have standard, ongoing two-way dialogue.
On the Subscription side of the spectrum are the companies whose business models rely on ongoing, revenue-generating, but also insight- and affinity-generating interactions with their customers.

Remember, the subscription model is about much more than requiring customers to pay you regularly. Most people don’t love paying bills and locking people into a contract where they have no choice but to subscribe will not increase affinity. But getting your customers to subscribe in order for you to form and develop a positive, two-way relationship provides many advantages on top of more revenue. Customer Contributors (Principle 5) and the subscription business model are complementary ways of inviting your customers into a mutually beneficial and long-term relationship with your organization.

Key questions: Do your customers Transact or Subscribe?

1. How frequently does the average customer transact (spend money) with your organization?

2. In between transactions, how often do customers interact with your company?

3. Are all of these transactions and interactions creating value for your customers and increasing affinity? You may have to ask your customers to find out.

Employees: From Employee to Partner. The seventh principle is to shift at least a portion of your workforce from employees to partners. On the left side of the scale are traditional organizations that rely primarily on long-term, full-time employees who are managed in the customary way, with relatively little autonomy. On the right side of the spectrum are companies who rely heavily on partnering with an independent workforce, or who create a culture of empowered autonomy within a traditional workforce.

Today’s Millennials entering the workforce, and many of us a bit older, have become accustomed to autonomy, choice, and influence. The same networks that reduce friction for recruiting companies also reduce friction for workers looking for their next great role. The individuals making up today’s workforce can interact with and influence their favorite brands through Facebook and Twitter, so why wouldn’t they expect to be influencers at work as well? They do—but only a few enlightened employers are providing what employees need to feel empowered, developed, and influential in their jobs—in short, partners.

In addition to helping keep workers happy, the contractor or partner arrangement benefits the organization. Workers who are thinking for themselves as partners, rather than simply doing what they are told as employees, bring more focus and innovation to their work. They are better able to solve problems independently and focus on their own areas of expertise.
Key questions: Does your organization have Employees or Partners?

1. How much worker development do you offer (training, tuition reimbursement, etc.) and how much control does the worker have over what training he/she receives?

2. If a worker had a great idea for the firm, even in an area where they didn’t work, how much support would they be given? How likely is it that the idea would reach the attention of upper management?

3. Do your workers have a mission that they can find meaning in? (Not every company can feed the world’s children, but every company can create a mission that people can understand, relate to, invest in, and espouse.)

Measurement: From Accounting to Big Data. The eighth principle is to shift from basic accounting data, focused on the physical and with significant time delays, to big data analytics—including intangible, external assets and real-time analysis. Organizations focused on accounting data usually count up their property, plant, and equipment, tally them in spreadsheets, email them to finance, and get a report out once a month. On the other hand, big data organizations still measure all the physical stuff, although usually in close to real-time, but also track their external, intangible assets and use this data to improve the speed and quality of decision-making.

It is key for organizations to move beyond traditional forms of measurement, which have not kept up with the technologies and priorities of the market. With the rise of new assets (digital, intangible assets) new measurement is needed. Traditional systems focus almost entirely on the physical, they are internally focused (in a world where many of the most important assets sit outside of the firm), and they arrive on the leadership’s desks months after the fact. And it’s not just minimizing downside, but also maximizing upside. Companies with nearly-real-time data, and particularly with external data, will notice opportunities that others will miss.

Admittedly, making good use of big data isn’t child’s play. Companies that want to gather and use big data need to do several things right. First, they have to develop a clear plan for what information they will use and how. It does no good to sit on reams of purposeless data. Second, they need to find the right talent to gather and use the data—it’s usually not the same people who are already working in IT. Finally, they need to empower action on this data at all levels of the company.

Key questions: Does your organization use Accounting or Big Data?
1. How much data does your firm gather on intangible assets and assets external to the firm?

2. How much time does it take for data gathered to arrive on the desk of someone who can act on it?

3. How often does your firm use the data it gathers on intangible assets lead to concrete strategic changes?

**Boards: From Governance to Representation.** The ninth principle is to move your firm’s leadership team from governance to representation. Another way to look at it might be from oligarchy to democracy. Traditional governance usually leaves organizations with executives, boards of directors, and other advisors that are relatively homogenous. They usually have thirty plus years of work experience focused on the operations that happen within a company, but little experience reaching outward. None of them are digital or technology specialists, and in fact most do not even use Facebook, LinkedIn, or Twitter [http://competia.com/when-social-media-matters-a-guide-to-the-board-of-directors-for-better-governance/]. These types of advisors are governors—they create strategy and policy from the top down, relying on their own experience.

Representation is different—executives, boards, and other advisors bring a great diversity of perspective, and actually represent the networks in and around the organization. This kind of team probably includes women, minorities, and foreign nationals. It will certainly include digital experts, ready to help design and support new digital strategies, and the makeup of the board may change more rapidly than others, with new directors being appointed closer to the rate of market change.

Representation is particularly important because of the dramatic changing occurring in the market. On every statistic, boards are not representative of the key stakeholder groups of the companies they advise. In terms of skill-sets, few boards have the digital technology savvy to support a technology transformation in their business. Boards cannot hope to make informed decisions when their members are so far from the demographics they serve, and equally far from the technology needed to reach these demographics—particularly if they aren’t able to adapt their own mental models.

Key questions: Does your organization have Governance or Representation?

1. How similar are the demographics of your executive leadership team and board to your key stakeholder groups—current customers, future customers, and even employees?
2. Does your leadership team have the digital knowledge and experience needed to transform into a 21st century organization? Do you have a digital Board member?

3. Does your firm have an organization-wide plan to get the right talent?

**Mindset:** From Closed to Open. The tenth principle is to move your organization, and the leadership team’s mental models, from Closed to Open. Closed organizations define themselves rigidly and have a preference for sticking to their knitting. These types of companies see their customers as product consumers, and miss the potential for co-creation. Internally, they keep teams siloed and they see their employees as worker bees, failing to leverage the innovative capability of their workforce. Leaders of closed organizations don’t see why digital technology is important when their core business is real estate, or boxes, or mortgages, or soda, and therefore they rarely break out of traditional industry boundaries.

Open organizations think about roles, processes, products, and industries less rigidly. Openness brings a mental model and a culture of openness and inclusiveness. This perspective provides a lot of flexibility for the organization to adapt to individual needs and broad market changes. Customers who want to create long-term, co-creative relationships have the option to do so. Leaders may sometimes command, but also have the capability and the desire to co-create, and to help their workforce interact and innovate. Accounting data and big data analytics are used together to drive insight and decision-making. Open organizations may not create network capability in every dimension discussed in this book, but they select what is most meaningful within their organizations and with their networks, and start there.

Being an open organization has become more and more important as the pace of change has increased. Open organizations have a broader innovation pipeline, because they source ideas for many different places; they benefit from a portfolio approach which makes them nimble when one market is disrupted; their talent pool is balanced with many different skill sets that allow them to break away from historical patterns; and they generally have a culture which supports change.

Key questions: Is your organization Closed or Open?

- Is our mission statement narrow and focused on a specific industry or product? Or is it broad, and focused on serving a large need?

- What percentage of our businesses comes from our “core,” and how narrowly is that defined?

- Is our leadership team excited by and receptive new ideas? Even those outside their areas of expertise?
Part III: PIVOTING your business from vertical to horizontal

Learning is always a worthy endeavor, but it does no good unless you can figure out how to implement and make useful what you have learned. To this end, we will show you a practical process to implement Network Orchestration in your own organization.

Does that sound too ambitious? Well, you’re right. You are not going to transform your organization’s business model totally this month, or even this year. Instead, what we will do is help you create a seed—to select a network and create a platform where the network can both contribute and receive value, as can your organization. You will begin with a small network investment in a single portion of your business, but one that has the potential to grow into a new core business. As you nurture, adapt, and grow this seed along the way, you will practice the asset allocation, business model, mental model, and leadership principles that differentiate Network Orchestrators from the pack, leading to happier customer, employees, and investors.
We have shared with you the ten great shifts that set Network Orchestrators apart and lead to their success. The great shifts, however, are very macro, and macro is not easy to implement. For that reason, we have also designed five detailed steps to guide you through incremental changes and investments to set the stage for network growth. For each phase we will give straightforward guidance broken down into actionable and achievable recommendations.

The five steps of PIVOT are:

1. Pinpoint your current state honestly
2. Identify what you have and what you need
3. Visualize your future business model
4. Operate your new initiative
5. Track your progress and adapt

To obtain real value from a new business model, however, a company must rewire how it thinks about and creates value including how it allocates time, capital, and talent, and how it measures its results. If you are able to open your leadership model, then you can reorganize your thinking and actions to create a new horizontal and platform based business model. You will be able to apply the network effect to your organization’s current growth, profit, and scaling costs.

PINPOINT: Honestly identify your current business and mental models

The goal of PINPOINT is to identify your current business model as well as your current mental model; the preferences, biases, and decisions that got you where you are and keep you there. You must fully accept and appreciate your starting place, in order to make a decision about how you will join today’s digitally networked world and how you can get there. Once you understand your current state, and your business model, you will be able to create a new, more valuable network vision for your future.

During PINPOINT, you will examine your allocation of time, talent, and capital, the characteristics of your organization, and your economic performance in order to determine which of the four business models is your firm’s primary business model:

- **Asset Builders** deliver value through physical goods. These companies make, market, distribute, sell, and lease things. Examples include Ford, Wal-Mart, and American Airlines.

- **Service Providers** deliver value through people. These companies hire skilled workers who provide services to customers for which they charge. Examples include United Healthcare, Accenture, and JPMorgan Chase.
• **Technology Creators** deliver value through ideas. These companies develop and sell intellectual property such as software, analytics, pharmaceuticals, and biotechnology. Examples include Microsoft, Oracle, and Amgen.

• **Network Orchestrators** deliver value through connectivity. These companies create a platform through which participants interact or transact with the many other members of the network. They may sell products, build relationships, share advice, give reviews, collaborate, and more. Examples include eBay, Red Hat, and Visa.

Note: You will also investigate your mental model, and how it reinforces your business model. Your core beliefs about what creates value in business and in the world influences how you allocate funds, what risks you manage carefully, and what, and how, you measure. You can begin these assessments using the tools at OpenMatters.com/training

Perhaps it sounds simple, but our experience is that most business leaders are not able to be honest with themselves about either business or mental model. Investing the time to do this step right is essential to make forward progress. PINPOINT gives you your starting point, and let’s consider it a launching pad. As we keep going with PIVOT, we will get more and more practical about what you are launching towards, and how you are going to get there

**INVENTORY** - The goal of INVENTORY is to create a complete inventory of the assets within your business, considering each of the four asset types—physical capital, human capital, intellectual capital, and network capital. We will focus particularly on those intangible assets that have not historically been carefully assessed or managed. Since today’s highly scalable network business models usually utilize today’s digital technologies, you will also assess your firm’s capability with digital technology.

A complete inventory is usually a month-long endeavor where a task force, trained on the four business models and asset types, visits each part of your organization to catalog assets with thorough descriptions and, when possible, estimated values. The most important assets to catalog properly are networks.

Most organizations have never specifically investigated their networks. There will be some that you manage quite closely, and some that you barely interact with at all. Consider the following categories, but note that there may be multiple, unique networks within each category.

• Customers
• Prospects
• Employees
• Alumni
• Suppliers
• Distributors
• Integrators
• Investors
• Communities
• Peers
• Competitors

For each network, you will note the network’s affinity with the organization, and what value each party (the company and the network) receives out of their relationship. Going one step further, you will also think about the potential value for each party that could be achieved with the relationship.

Developing and expanding network capital is the foundation of Network Orchestration. Most network assets go woefully under-recognized and under-utilized. Networks store a vast array of talents, skills, and assets, but are rarely activated to share value with companies. By cataloging the networks that already exist in and around your firm, you are preparing for the next step: creating a new network-centered business model.

**VISUALIZE:** The goal of VISUALIZE is to design a valuable platform-based business model that will begin to help your company PIVOT from a traditional vertical orientation to a horizontal one and in so doing generate the increased value that these new business models have to offer. Although we recommend starting small, aim to find something that could, one day, grow into a significant portion of your business.

In this step, you will actually design a new digital platform using the Network Orchestration business model. In order to do so, you will identify one network to activate, determine what value the network, and your organization, will give and receive, and decide what platform and technology are necessary to make it happen. Further, we will help you think about how to create a pan business, pan industry and pan function approach that will help you capture the value of all the assets (including intangible assets) that currently exist in your organization.

In short, this is like visualizing a new investment portfolio where you are looking across your entire portfolio to see where the real opportunities exist that are pan investments and pan portfolios to understand the meta level opportunities.
The Network Orchestrator and Platform Business Model

When designing a network business, there are two parties to think about. In Network Orchestration there is a value cycle for the company, and a value cycle for the network, which intersect using a digital platform. The network, the company, and the platform are the key components that we will focus on in VISUALIZE.

Filling in these blanks is an iterative process; so don’t expect to get it right the first time. Begin by thinking about the networks. What you are looking for are occasions where the network could actually serve its own needs and wants, if properly enabled. As a business model, Network Orchestration is so highly differentiated because it is the only model in which the company enables and allows the network to serve itself (participants serving other participants), instead of the company trying to serve all of the network’s needs on its own.

Select a few of the most promising networks and then consider the complementary piece: the value that your firm can return to the network. Ask yourself what the network needs in order to serve itself, and how you can provide value in that situation. Technology will always be a supporting component, but it shouldn’t be your differentiator (unless technology is one of your organization’s core capabilities). Instead, think of the things your company does well and figure out how they can contribute to the process.

Once you have an idea, start filling in the gaps, starting with the digital platform that will support it all.
**OPERATE:** The goal of OPERATE is to get your new network business up and running with the components and processes that will help your company, and the network, achieve success. During this step, you will address the funding, talent, and technology needs of your new network business, and you will create strategies for successfully managing the business within your broader organization and for managing the external network.

One of the most important steps in OPERATE is selecting the person who will lead your new network endeavor. A successful Network Leader will be someone that the leadership team trusts, because they will need the freedom to make decisions independently, and rapidly. The Network Leader also needs to be excited by the opportunity to cultivate a network business, and should already know the target network intimately.

Once the Network Leader is chosen and starts designing an operating plan, your organization can start to fill in the rest. You will begin by creating the platform. Depending on the vision that you created in VISUALIZE, this can look many different ways. However, we have found that simple, sometimes even off-the-shelf, solutions will work for most organizations at startup. As you learn more, you can always build out a more robust and customized solution.

You will also have to carefully set up the team working on this new initiative for success. Innovation within a large firm is extremely difficult because of corporate politics, competition for resources, and organizational inertia, just to name a few. The leadership team must carefully insulate/incubate the initiative, and set the time up for success with a supportive reporting structure and an appropriate timeline and performance targets.

Finally, the organization needs to think about how it will measure, grow, and care for its network. Most successful Network Orchestrators reward their network for participation, incentivize growth and referrals, reinforce loyalty, and carefully share the rewards.

If you care for your network, it will care for you, too. And, as we have seen, the reverse is also true.

**TRACK:** The goal of TRACK is to determine what metrics and what frequency of reporting are needed to best support the development of your new network business. You will create metrics to track the health of the three key components of your network business: the network, the platform, and the internal team. Additionally, you will determine the cadence and timeliness required for this data. Finally, you will begin to think about the experimentation process.

The key elements of Network Orchestration are the network, the company, and the platform through which they interact. Each of these components should be carefully measured and tracked by your company. This information is essential for you to judge...
the health and progress of your endeavor, and also to design experiments that will help you adapt and grow.

Begin again by focusing on the external network. There are many, many items that can be measured to assess network, but here are a few themes that are mandatory, such as size, growth, activity, and sentiment. How exactly you measure each of these dimensions will depend on the specifics of your network business. You will also need to keep a close eye on your platform since it is the hub for network activity. Keep an eye on uptime, interactions, total users, and even ease-of-use. Finally, manage your internal team by tracking on-time and on-budget projects and also by their interactions and intimacy with the network.

Once you are able to measure and track the status of your network, platform, and internal team, you can also take specific steps to try and improve those key measures. After all, the whole purpose of measurement isn’t just knowing, but also creating strategic action based on that knowledge.
Part IV: Change your mind to change your business model

In 2014, the Wall Street Journal began tracking *The Billion Dollar Startup Club*, private companies valued at $1B or more, also called *unicorns* because the $1B startup was once so rare as to be almost mythological. But it’s not any longer. In January 2014, the list was 45 companies. One year later, it had nearly doubled to 83 companies. By January 2016, the list had grown to 147 companies. If this seventy-five plus growth rate continues we are going to find ourselves awash in unicorns, with pointy horns sticking us in the ribs.
The proliferation and growth of unicorns is a real problem for established firms, because the truth is that most of these billion-dollar startups are not off exploring blue ocean. They are not addressing previously unmet needs. Instead, they’re bringing an entirely new, more profitable, more scalable, business model to existing industries.

Uber, Lyft, and Didi Kuaidi (in China) are growing, and gobbling share of, the transportation market. Airbnb is funneling away customers from traditional hoteliers; Big data and analytics firms like Mu Sigma and Palantir are advising firms in roles that used to be filled by consultants and marketers; Stripe’s payment service competes with both credit cards and younger competitors like Apple Pay and PayPal. Prosper Marketplace and Funding Circle provide loan options that cut out banks.

Although they are disrupting entirely different industries, the methods of these unicorns are quite similar. They integrate digital technology and make use of networks in ways that legacy players have failed to do. Many of these unicorns use network orchestration. Because network orchestrators scale more rapidly, and at a lower cost than firms with other business models, they create greater profit margins and enterprise values.

No matter what your industry, the network orchestration business model can be used to serve customers. Although we have seen a boom of network orchestrator startups in certain industries, such as transportation, analytics, payment, and lending, you can be sure that yours is not immune to network disruption.

The digital revolution created enormous opportunity to serve customers, and co-create with them in new and more effective ways, but established firms are having difficulty shifting their organizations to do so—even when leadership knows that they should.

Despite a great deal of lip service to digital transformation, the effect of all these great words is this: not much. Digital transformation halts, or fails, for many reasons—but most often it’s because minor changes at the surface level do nothing to affect the fundamental operations of a company. Appointing a Chief Digital Officer, with no budget and no clear mandate, is not digital transformation. Increasing the social media marketing budget is not digital transformation. Even building an app is not digital transformation. Many established organizations hope that they can stay competitive making only minor tweaks—when these new disruptors have a different approach to everything.

Real digital transformation requires transformation at a deeper level—transformation of the leadership team’s core beliefs. Changes at the surface create small, local differences. Changes of belief percolate throughout an organization. This is why most digital transformations are a lot of talk, a little action, and very little real effect.

Every industry is built around some tradition assumptions, behaviors and beliefs about
how to create value (be it revenues, profits or investor returns). In manufacturing, leaders invest in plant, property and equipment and carefully manage utilization rates. In real estate, they focus on location, location, location and financial leverage. In consulting, leaders invest in hiring and training people and driving billable hours. In retailing, leaders worry about customer retention and dollar per square foot. And for the leaders of digital networks, like Visa, the NYSE and Facebook, the focus is on the number of members to the network and their interactions.

These beliefs drive the strategies that leaders deploy, the people they hire (and their competencies) and most importantly, the measurement systems that they use to gauge performance and guide decision-making. In most industries, the core beliefs are unassailable cannon—until the day that a venture-backed startup comes along to upend them. Today, the list of new entrants is expanding and the differentiator is clear—they bring new mental models to existing industries and create new business models that customers and investors love.

The time for talk is over

Jeffrey Immelt, CEO of GE, started off 2016 by saying: “We can’t be an industrial company anymore. We need to be more like Oracle. We need to be more like Microsoft.” In order to get there, he says: “We want to treat analytics like it’s as core to [GE] over the next 20 years as material science has been over the past 50 years. We can hire the talent. We can evolve our business model accordingly. We need to treat our service agreements to share outcomes with our customers…. So, in order to do that, we have to add technology, we have to add people, we have to change our business models. We have to be willing to do all those things.”

Immelt is talking about deep, fundamental changes, not superficial adjustments. GE, like the majority of other organizations in the market, has a strong and lengthy history focused on making, distributing and selling things—from jet or railroad engines, to kitchen appliances, and even wind turbines. But in a world that is transitioning from the physical to the digital, from the material to the conceptual, and from economies of scale to network economics maintaining this traditional focus is a sure-fire strategy for failure. The ability to adapt is more important today than it ever has been.

So how do you evolve your business model to a better performing, lower cost and more profitable and business model? Start with yourself. Changing your mental model is a prerequisite for changing your business model. To summarize Gandhi, your beliefs become your actions, and your actions become your ultimate destiny.

Going Digital requires you to Upend your Core Beliefs

Can incumbents play catch up in the digital age? We believe so, and we are seeing organizations with great legacies begin the process. But doing so requires leaders and
organizations to upend their core beliefs. The process usually looks something like this:

1. **Identify** how your core beliefs manifest themselves in your business. Consider your guiding principles, time and capital allocation patterns, and the key metrics and outcomes that you track. For the leader of an asset building company, most of these dimensions would revolve around the efficient production and management of physical goods.

2. **Uncover** the core beliefs that motivate these behaviors. This step usually takes some ongoing reflection, and industry best practices likely influence your thinking. Focus on your beliefs about assets, value creation, and business model. For example, a core belief could be, “Physical assets are durable and reliable; people are volatile and risky.”

3. **Invert** your core beliefs and consider the implications. For example, in response to the belief about physical assets above, one could think, “Physical assets are actually riskier than other assets.” Find an inversion that resonates with you—one that you think might actually be true—and consider how this new belief would change your behavior.

4. **Extrapolate** what implications these new core beliefs would have on strategy, capital allocation and key metrics. Reflect on whether others in your industry are operating under these different core beliefs, and how they might lead to disruption. Consider the implications these beliefs would have for your customers, employees, suppliers, and investors.

5. **Act** on your new beliefs and share them with your peers. Consciously change your actions until new habits form—particularly with capital allocation, but also more broadly with items like hiring, training, and KPIs.

The key step is *inversion*—taking on new thoughts and beliefs that will likely conflict with those traditional in your industry and business. This is essentially how Netflix got started. From the outside, Reed Hastings, Netflix’s CEO, observed the movie industry’s standard core beliefs and supporting systems—physical stores and movie theatres with transactional business models. He questioned each and every one of them and inverted them to create a subscription-based business with movies on-demand, delivered to homes. This new perspective on movie consumption brought an entirely new business model to the industry.

**What’s a leader to do?**

Changing mental model is the important first step. The next is to actually allocate capital differently. Under Immelt, GE decide to [make rather than buy](#), but for many
organizations, an acquisition or partnership can help turn new beliefs into reality.

General Motor’s leaders decided at the beginning of 2016 that they want to be part of the changing business model landscape in transportation—and industry with a great, growing unicorn population. Mr. Ammann, its president said, “We think there’s going to be more change in the world of mobility in the next five years than there has been in the last 50” and they have decided to be part of it. GM announced in early 2016 that it was going to invest $500 million in Lyft, a riding sharing, digital network of riders and drivers, as part of Lyft’s latest $1 billion venture financing round. As part of GM’s investment, Mr. Amman will join the board of Lyft.

Lyft represent an entirely new business model for car usage. As Lyft’s president said, “We strongly believe that autonomous vehicle go-to-market strategy is through a network, not through individual car ownership.” GM is taking on its assumptions about the car industry and betting some of its capital on a new future.

It’s clear that both GE and GM are committing to a new future, and one that will require new business models. The real question is, are you? Are you willing to examine your underlying attitudes, behaviors, and beliefs in order to change what you do so you can change how you allocate your time and capital? Are you willing to understand and invest in today’s technology that supports new and more scalable platform (horizontal) business models? And, are you willing to collaborate with the virtual networks that are creating so much value in those business models? If not, take the time to review our research and ask yourself, can I afford not to? We think your answer will be self-evident. It’s time to stop talking and start doing.
Part V: Welcome to the World of Networks and Platforms

To repeat our refrain, it’s all about value. The world has changed and the sources and distribution of value are not the same as they were twenty years ago. These changes have unlocked the potential for enormous economic value, but, in order to get there, our organizations need to change.

We arrived at this spot because we started, many years ago, in a world without digital technology, without the Internet, and without smart phones. During that time, we developed a whole lot of structure, operating procedures, and ideas about how businesses and organizations worked. Basically, we did the best we could with what we had. Now, with a lot more, we can do a better job creating and capturing what is really, enduringly valuable, be it things, labor, intellect or relationships. We just need to adopt new, network based, mental and business models.
To get from here to there, all of us must accept that the way businesses have always been organized, led, and governed is not the only way. It’s just the way it’s ‘always been done.’ Now remarkable digital advances and new network-based business models allow us to access the excess capacities and intangible assets that belong to each and every one of us. Those organizations that create and orchestrate networks are benefiting from this core understanding today, and will be well into tomorrow. And for good reason: the rewards are great.

Network Orchestrators grow faster, create greater profits, scale at near-zero cost, and earn the best multipliers from investors. On top of that, the leaders, partners, and customers of Network Orchestrators benefit from fulfilling, mutually-rewarding, and self-organizing relationships. In order to be a network business, there is a lot of work to be done. To achieve network value, leaders must PIVOT their organization’s people, processes, pricing, products and entire mental models into the network realm. When organizations spend less time making, selling, and owning, and spend more time inviting, accessing, and sharing, the outcome is different for everyone.

We wish you unprecedented success in this new world order we’re co-creating and accessing. We have all the assets we need. We just need to access them.

May the power of the network be with us all. An abundant future awaits each and every one of us. It is our hope that this book will accelerate that reality.

To learn more about creating unprecedented value through network orchestration, read about it here or in our latest book, The Network Imperative.

For more information about how you can play a role in this future, join us at www.openmatters.com where you will learn about how you can create more growth for yourself and your organization to prosper and reach unprecedented levels of success.