



BOOK SUMMARY

UNLEASHING THE KILLER APP – DIGITAL STRATEGIES FOR MARKET DOMINANCE

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There are few books that I recommend reading from cover to cover. This is one such book. I will share the insights that I have gained from reading this book in the hopes that they will also benefit your business.

INTRODUCTION – pg. 4

“A killer app is a new good or service that establishes an entirely new category and, by being first dominates it, returning several hundred percent on the initial investment. The personal computer, electronic funds transfer, and the first word processing program are all examples of killer apps.”

Much of the book is premised on “Moore’s Law” and “Metcalf’s Law”. Moore’s Law, is a prediction by Intel founder Gordon Moore that every 18 months, computing power would double while cost remained constant. The result is that computing devices are getting faster, cheaper, smaller and better. Metcalfe’s Law is an observation made by Robert Metcalfe, founder of 3COM Corporation, that networks dramatically increase in value with each additional node or user. The book goes on to describe how the interaction of these two “Laws” is creating fundamental changes in the way in which we do business. One such affect is what the authors call the “Law of Diminishing Firms” in which they indicate that in today’s digital economy size is uneconomic. While firms will not disappear, they will become smaller and comprised of complicated webs of well managed relationships.

The authors then discuss the “second-order effects” that unintentionally challenge the basis of business systems in general and give by way of example how the steam engine opened the American West. They claim that the web is tearing apart the financial services and telecommunications industries and inspiring changes as much as the steam engine did many years ago. [R. Buckminster Fuller in the Critical Path spent a great deal of time discussing the precessional affects of conduct. While we might be focusing on the 180° outcome, the greater changes are general generated by the 90° or processional affects.

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DIGITAL STRATEGY

Business people today are feeling “dazed”. [That’s as good of term as I can think of.]

What will be the potential impact on your business of Internet ready television, cars and other appliances, low-cost digital cameras, desktop publishing software and personal laser printers, intelligence software agents and telephone services on the Internet? [An interesting exercise is to go through Daniel Burrus’ material on techno trends and ask these same questions. It looks like I will have to update my communications checklist to reflect these new avenues of communication.]

One of the most interesting things discussed in this book is the “giving away of the killer app”. The classic example is that of Netscape which exploded to a market valuation of more than \$3-billion days after it’s stock debut in 1995.

Nicholas Negroponte wrote in 1995 in his book Being Digital that “Computing is not about computers anymore. It is about living.”

In today’s digital economy a company that is one Internet year old acts like one that has been around for seven years.

The law of digital disruption forces us to continually ask, “What is the transaction cost of various activity and what are their benefits? How can these activities be displaced digitally?” We break these transaction costs down into six separate areas: search cost, information costs, bargaining costs, decision costs, policing costs, and enforcement costs. In a classic example that I have dealt with first hand, some times the size of a firm actually generates a transaction cost which is greater than that of the open market. A classic example is where employees use their own travel agents rather than hassling with corporate travel departments.

A number of companies are being generated to focus on reducing transaction costs in both the business to consumer and business to business setting. [Bruno Bassi’s computer economics is one such example.] Whether we are dealing with the sale of an insurance product, automobile, airline ticket, hotel room or any other commodity you can think of, we are getting very close to real time market costs. [A recent Business Week cover questioned whether we are meeting the death of the salesman.]

One effect of this digital revolution is the US Department of Labor predicts that by the year 2005 the largest employer in the country will be “self”. [My prediction is that the EEOC and other agencies are going to have a very difficult time dealing with this phenomenon. What happens when one independent agent refuses to work with another independent agent because of their race, color or skin? I guess the other question is since the Internet is essentially “color blind” this phenomenon may in fact reduce the incidents of discriminatory type conduct.]

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Digital revolution will continue the trend of outsourcing and downsizing. [Today's digital revolution is creating what I call the "death of control". The fact is in today's economy the less you control the more you can do. As Dr. Deming said there are three things that a company does: those that add value, those that are administrative and those that generate waste. The first should be focused on and the second should be outsourced and third should be eliminated.

John Perry Barlow of the Electronic Frontier Foundation said, "Information *wants* to be free". [For my purposes this may result in my giving away my books and a great deal of my other materials. The challenge for a consultant like myself is to determine what is the backend for giving away your best. If it is more speaking or consulting opportunities the concern that I have is that there is very little leverage in that. Information can be leverage, my time can't be. So, do I giveaway my best information and attempt to sell what's left? Do I give away half of my best? These are challenges that me and many others will be facing over the coming months and years.]

The authors indicate that their clients frequently challenge them to find information assets hiding in their organization. They claim to do so never takes long. Distributors have logistics, manufactures have engineering, retailers have customers, etc. [This goes back to my point that we should never assume where knowledge lies in our organizations nor what form it takes. That's one reason why surveying an employee with powerful questions can lead to significant breakthroughs.]

"We believe that in the new economy many traditional functions merge into one overall activity. For the moment, lets call that one activity what it is today: brand management."

"The best way to predict the future is to invent it." Alan Kay

The authors make the point that traditional planning simply doesn't work in times of great change. The authors claim that business change now originates with digital technology and that it will remain the essential disrupter of current operating models and their underlining assumptions. According to the authors "technology isn't the solution, it's the problem". Today's planning cycle is between 12 and 18 months, not 5 years. [Quite frankly, today's business that can not go from concept to launch within a year is in serious trouble. I try to emphasize this fact in trying to start the American Academy of Employment Law Attorneys, but it fell on deaf ears. The failure to generate the necessary financing to support such a time frame lead to its eventual demise. There is a lesson here – next time I work with a start up company, I will make sure that the financing is in place to make the company go as fast as it possibly can.]

Today's new business environment has to be treated as an evolving community, increasing bound together by cheap digital technology, rather than as a discrete and largely static set of individual actors.

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The authors 12 step program for designing the killer application is as follows.

1. Outsource to the customer.
2. Cannibalize your markets.
3. Treat each customer as a market segment of one.
4. Create communities of value.
5. Replace rude interfaces with learning interfaces.
6. Insure continuity for the customer, not yourself.
7. Give away as much information as you can.
8. Structure every transaction as a joint venture.
9. Treat you assets as liabilities.
10. Destroy your value chain.
11. Manage innovation as a portfolio of options.
12. Hire the children.

DESIGNING THE KILLER APP

Think of and measure your daily operations as a series of unique transactions rather than broad categories like products and customer segments. Focus on how these transaction costs can approach zero.

Data collection and customer service functions should be outsourced directly to the customer. Amazon.com is a classic example. [Focus on one-time entry of information in purchase orders. Also find a way to manage refunds online.]

While customer profiling and target profiling are not new the ability of unfunded companies to collect high-quality data on a global scale at almost no cost and generate incredible value. [See www.firefly.com]

One of the biggest traps currently facing companies is their effort to develop “highbred” strategies which mix and match traditional structures with digitally based ones. The authors believe that this approach actually hampered development and caused diminishing returns.

How can you cannibalize either your own business or someone else’s? One example given is how the Wall Street Journal with its online edition has in part cannibalized it’s publishing arm, but at the effect of creating an even larger online audience. [For my purposes I will be able to cannibalize many suppliers of human resource products such as employee forms, software and employee handbook software should I choose to give that away. How will they be able to compete with that? If I do in fact take that approach how will I benefit from it? Perhaps only by keeping the faith and waiting until I find out the answer.]

The advent of “push technology” while not reaching it’s heralded status is in fact having a significant impact on making digital strategies appear personal. [I intend to use this technology to generate “screen savers” for the sharing of corporate values, strategies, and other information

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essential for long-term growth.] The authors make the point that push technology can not only respond to what it is that you think you like, but also provide you with information what you're "going to like".

Technology is allowing greater interactivity. Technology can design everything from your retirement plan to your vacation online. [How do you turn that into an enjoyable activity? One you would want to do over and over again. Generate excitement and you will generate loyalty.]

One of the greatest advantages of the Internet is its ability to generate online communities. Now people with like interests can share in ways never imagined.

Build some kind of online community on your web site. Give them something to talk about the way ESPN Sports Zone gives them fantasy sport leagues.

I will be generating an online forum for human resource executives. Will call it the Chief Relationship Officer Forum. This forum can act as a "Board of Directors" or "Mastermind Group" for its participants. Every direct contact with the customer is an opportunity to improve the relationship and to learn more about the customer's needs. [The same can be said for dealing with your employees, vendors, and other partners.]

Companies that will be making it in the business to business online environment will do so by destroying additional pricing structures. Whether the medium is E-Bay or Jango, a personal shopping agent for a wide variety of products sold in Cyber Space, procure additional means of pricing and not be able to with stand the attack. Commodities can be just as easily purchased on the Internet, through an enjoyable experience, than what is going to happen to your business?

The age of closed systems is over. Everything now is open architecture and open systems. Open, Open, Open. If you have information give it away and you will be blessed. [I am considering giving away my forms and employee handbook to those willing to add their two cents worth. That will make a good product even better. What are you going to do if you sell employee handbook software for \$100 and I am giving away a better version for free? The question for me is what could be the processional effect of giving it away? The point is, you may never know until you do it. Remember, planning out or strategizing outcomes can be futile exercises.]

The destruction of captive markets signals the decline of switching costs for customers. As they do throughout the book the authors point to numerous industries that seem to be ignoring the Internets reality. Traditional information providers, retailers, real estate agents, etc. were highlighted. It actually becomes hard to think of a company that could not be affected by this revolution. [I can't name one – can you? I've often kidded with friends and challenged them to tell me some line of business that people can't make money in. The fact is, you can make money doing anything – if you are good at it. Perhaps the same could be said for use of today's new technologies.]

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Today's Internet users give back more information than they take away. "Treat your assets as liabilities." Whether it's a printing machine, manufacturing plant, retail outlet or even personnel, companies must look around them and ask how can I replace this with bits?

Break up your value chain or someone else will. Because Dell has no resellers, it can afford to deal directly with the customer. As a result it now sells more computers than Compaq. What will be the value of resellers if they are not necessary to the selling process? What if their expertise can be replaced by an online consultant? What if "intelligent agents" allow the customer to go through a friendly interface being prompted with a series of yes, no, checkmark, fill in the blank questions which allow the company to generate a mild design exactly for the customer's specific needs? What if you design that once and it works a million times? Where is the value in the value chain?

Give people who use your products the ability to comment on those products and services. [I will provide on my web site a place for managers, human resource professionals, and trainers, to post reviews of existing CD-ROM, video and online products and services. By creating a "safe place for dialogue" I could even sell the products identified much as Amazon.com does. You can allow for open comment on a wide range of products and services and still get an override for being the source point. [Travel agent, post office, music retailers, etc.]

Don't get in the way of your own people creating the "killer app". If you don't allow your people to step out beyond your strategic planning you will end up behind the times. Don't let it bother you if you don't understand. I just say to myself "I won't be able to understand the whole game anytime soon, so I just play." A thirteen year old child having SIMLIFE, a computer game that simulates the life of an Eco system.

Today's executives would be well served to understand that the real technology revolution will be lead by those just entering the workforce. Ask almost any parent and they will tell you that their children can run circles around them when it comes to using technology. That's why the authors suggest hiring children or at least including them in the process of product development, strategy formation and workplace design. It is suggested that you go even beyond that and try to "live in their world".

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"You do not need to understand electricity to use it." Julia Cameron [This is one of my favorite quotes. The revolution will be complete when technology becomes invisible.]

"To succeed at digital strategy, your organization must be a learning organization, more focused and ideas and experiments than detailed plans and forecasts. [I couldn't agree more. That's one reason I encourage companies to use the employee knowledge survey.]

The authors encourage you to consider about the tools on the horizon including geographical information systems (GIS), Global Positioning Satellites (GPS), video and teleconferencing, etc.

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The authors ask how would your “goals change in a world where each transaction including purchasing, pricing, menus and site development could be customized in real time?” The point they are making is that in the future the customer will be dictating the price – not you. [My only criticism of the book is the tendency by the authors to ignore what John Nascitt coined the “high touch” aspects of high tech. The fact is people like to go out shopping. You can’t replace a handshake hug or kiss. You can’t test drive a car on the Internet. Any substitute for high touch will be building of online relationships. As I state in my seminars, building powerful relationships of any kind require that the parties have trust in each other, share a sense of common direction, communicate through the use of dialogue, and are focused on their commitments.]

The authors also ignore the reality that socioeconomic groups react to digital strategies differently. Men use the Internet differently than women do. Comfortable interface may not be one for a teenager and so on. When I do my workshops I always attempt to ask “enrolling” questions. I then acknowledge the response whatever it may be. The fact is you have to earn the right to be a trusted digital partner.

“Finding information is too easy.” Finding useful information, on the other hand, is what separates success from failure.” [Somebody has to sort through all the information and there are plenty of people willing to pay for someone other than them to do. Is it your highest and best use to sort through this information or should that be outsourced? And if it is outsourced, how can the information be enhanced? How can you access it on a just in time basis? How can you get the information how you want it, when you want it, and with support through the process?]

One of the most interesting insights they had that asking how you can make money with new technologies is like asking how you can use a printing press to make money. The point they make is that it takes the same thing to be successful online merchant as it does with any other kind of merchant.

How can you get the most leverage from your intellectual property? [For me it may be simply by giving it away or giving “turnkey licenses” to other attorneys and consultants for their eventual distribution.]

Use new events, contests, customer feedback, chat rooms, etc. “The Internet is where you make money. Intranets are where you save money.” Son Microsystems.

Try this interesting exercise suggested by the authors. Send an e-mail message to your entire company with an attachment. Find out how many of your managers and employees actually end up receiving the e-mail with the attachment in tact. If the answer is 100% than you’re in pretty good shape.

Look into the Cyber Space Law Institute and the Electronic Frontier Foundation.

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MY CONCLUDING THOUGHTS

The value of this book is not only in its examples, but also the questions it asks you to consider. As you can see from my comments, by asking myself those questions I gained added insight into my business opportunities.