

# LIVING NETWORKS

ANNIVERSARY EDITION



LEADING YOUR  
COMPANY, CUSTOMERS,  
AND PARTNERS IN THE  
HYPERCONNECTED ECONOMY

**ROSS DAWSON**

# LIVING NETWORKS

Leading Your Company, Customers, and Partners  
in the Hyper-Connected Economy

## Table of Contents

### Part 1: Evolving Networks

Chapter 1 - The Networks Come Alive: What the Changing  
Flow of Information and Ideas Means For Business 3

Chapter 2 - Emerging Technologies: How Standards and  
Integration Are Driving Business Strategy 19

### Part 2: Evolving Organizations

Chapter 3 - The New Organization:  
Leadership Across Blurring Boundaries 39

Chapter 4 - Relationship Rules: Building Trust and  
Attention in the Tangled Web 59

Chapter 5 - Distributed Innovation: Intellectual Property in a  
Collaborative World 79

Chapter 6 - Network Presence: Harnessing the Flow of Marketing,  
Customer Feedback, and Knowledge 101

### Part 3: Evolving Strategy

Chapter 7 - The Flow Economy:  
Opportunities and Risks in the New Convergence 123

Chapter 8 - Next Generation Content Distribution:  
Creating Value When Digital Products Flow Freely 149

Chapter 9 - The Flow of Services: Reframing Digital  
and Professional Services 167

Chapter 10 - Liberating Individuals: Network Strategy for Free Agents 191

### Part 4: Future Networks

Chapter 11 - Future Networks: The Evolution of Business 207

## What Business Leaders Say About *Living Networks*

"I'm not sure that even Ross Dawson realizes how radical—and how likely—his vision of the future is. Ideas that spread win, and organizations that spawn them will be in charge."

- **Seth Godin**, author, *Unleashing the Ideavirus*, the #1 selling e-book in history

"Dawson is exactly right—pervasive networking profoundly changes the business models and strategies required for success. *Living Networks* provides invaluable insights for decision makers wanting to prosper in an increasingly complex and demanding business environment."

- **Don Tapscott**, author, *Wikinomics*

"Ross Dawson argues persuasively that leading economies are driven by the flow of information and ideas. The ideas in his own book can position any individual or company at the center of that flow. It's a fast read, fun and full of examples."

- **Thomas H. Davenport**, Professor and Director of Research, Babson College, and author, *Competing on Analytics*

"*Living Networks* is a fast-paced tour of today's business frontier. Rich with examples drawn from a myriad of settings, every page forces the reader to ask "How can I use that?" Beware! This book will make you think!"

- **David Maister**, author, *Managing the Professional Service Firm*

"This is the most accessible introduction to the role of networks and networking I have yet seen. Ross Dawson speaks from his own experience in a language which will make it clear to managers what steps to take next. Networking with own staff, customers and professional peers is here to stay."

- **Napier Collyns**, co-founder, Global Business Network

"This is one of the most exciting books I've read in several years. Ross Dawson deftly examines the evolution of networks, organizations and strategy. He has more than succeeded in his intent, which is to produce a practical business book that shows business people how to leverage networks."

- **Melissie Rumizen**, author, *The Complete Idiot's Guide to Knowledge Management*

"The author has demonstrated that the success of his first book was no mere flash in the pan. His book is the one I would choose as a guide to understanding and action for the practical business person."

- **Bill Godfrey**, Editor, Change Management Monitor

## **About *Living Networks*: Anniversary Edition**

*Living Networks* is being relaunched in its Anniversary Edition five years after its original publication by Financial Times/ Prentice Hall in November 2002, to revisit the foundations of our networked age.

**Free chapter downloads of *Living Networks*:**

[www.livingnetworksbook.com](http://www.livingnetworksbook.com)

**Ross Dawson's *Trends in the Living Networks* blog:**

[www.rossdawsonblog.com](http://www.rossdawsonblog.com)

## **About Ross Dawson**

Ross Dawson is globally recognized as a leading authority on business strategy. He is CEO of international consulting firm Advanced Human Technologies, and Chairman of Future Exploration Network, a global strategy and events company. Ross is author of the Amazon.com bestseller *Developing Knowledge-Based Client Relationships*, and over 100 articles and white papers. Strong demand for Ross's expertise has seen him deliver keynote speeches on six continents and consult to leading organizations worldwide such as Ernst & Young, Microsoft, Macquarie Bank, Morgan Stanley, News Corporation, and Procter & Gamble. Ross's frequent media appearances include CNN, Bloomberg TV, SkyNews, ABC TV, Washington Post and many others.

## **Services to leverage the Living Networks**

### **Keynote speaking and executive workshops**

Ross Dawson speaks at conferences and corporate meetings worldwide and works with senior executives as a strategy leader and facilitator.

[www.rossdawson.com](http://www.rossdawson.com)

### **Advanced Human Technologies**

[www.ahtgroup.com](http://www.ahtgroup.com)

### **Organizational network analysis**

Use of sophisticated network approaches to enhance performance within organizations and in key business relationships.

### **Relationship leadership**

Support in building high-value client, supplier, and partner relationships, including implementing key relationship management structures.

### **Future Exploration Network**

[www.futureexploration.net](http://www.futureexploration.net)

### **Strategy consulting and scenario planning**

Helping clients to develop clear, actionable strategies in highly uncertain environments, using a variety of future and strategy techniques.

### **Research**

Deep research into technological, social, and business trends to support clients' strategic thinking and decisions.



# CHAPTER 4

## Relationship Rules

### Building Trust and Attention in the Tangled Web

Connectivity allows companies to integrate their systems more deeply and form many more business ties, but these opportunities are often neglected. In an increasingly transparent world, trust is becoming more rather than less important, and organizations must take steps to develop trusting relationships with their partners. The one scarce resource today is attention, so you must earn it from your clients and partners in order to create and maintain profitable relationships.

The bitterly cold winds coming off Lake Erie can make winter in Cleveland, Ohio an ordeal. Besides the more prosaic problems of living in a frigid climate, sports fields can become almost unusable due to grass dying and the ground freezing, creating slippery, dangerous playing conditions. So the Cleveland Browns professional football team, for their new stadium completed in 1999, incorporated an underground heating system. Ten inches below the ground, nearly 40 miles of tubing carries 7,000 gallons of a heat transfer fluid created by Dow Chemical. Dow's products touch the lives of almost everyone, but are largely invisible to consumers, as they are mainly used in our infrastructure and to manufacture goods with which we are more familiar.

Dow Chemical has been regarded as an e-business leader in its industry since it established one of the first commercial websites in 1994. It has placed a high priority on enhancing relationships with its clients and suppliers. MyAccount@Dow is an online service provided for Dow clients, that includes order entry and payment, full account information, and detailed product information. In addition, it allows collaboration with Dow staff, with the ability not only to exchange documents in a common workspace, but also to share PC desktops, including simultaneous viewing of applications and Internet browsers. With its larger clients, Dow seeks to link its information systems even more closely, providing direct links and integration. For example, since 1993 it has applied telemetry—making measures at a distance—to gauge how much of its products remain in clients' tanks, and automatically reorder when they need replenishment.

At the same time as Dow has enabled deep information links with its clients, it has also been very active in establishing and joining online exchanges. Just two of these are Omnexus and Elemica, covering the plastics and chemicals industries respectively. Both bring together the major suppliers in its industry, provide a neutral marketplace for buyers to compare offerings, and unlike many other online exchanges, are geared to long-term contracts rather than one-off transactions.. Omnexus—whose other founders include BASF, Bayer, and DuPont—has created common specifications for products, making it easy for clients to find and select alternative suppliers, and provides full order tracking through to payment. Elemica enables multiple suppliers to integrate their enterprise information systems with those of their clients, using a single XML-based interface. For clients, this means they only need to enable information sharing with one external partner—the exchange—rather than implementing it separately with each of their suppliers.

The global networks are in essence an ever-expanding set of relationships. Relationships between people; relationships between companies; relationships between individuals, companies, and governments. Dow's initiatives illustrate two of the most powerful shifts in business relationships

that go with the awakening of the network economy. The first is that there is the potential for far *deeper* relationships. As you saw in Chapter 3, companies are now routinely integrating and sharing their processes with other companies, rather than simply buying or selling goods and services. Relationships are most valuable when they deeply enmesh firms together rather than when they are limited to flows of goods and money. The second key shift is that technology now readily enables a *broader* set of relationships, encompassing ties with a greater number and diversity of partners. Companies can easily deal with many more clients or suppliers without stretching their resources.<sup>1</sup>

**More than ever, true relationships are not founded simply on digital connectivity, but on two very human drivers. These are *trust* and *attention*.**

The hyper-connected economy is emerging precisely from this powerful shift to both deeper and broader relationships. At the same time, the standards that underlie the networks mean that it is increasingly easy for individuals and companies to switch their allegiances. Connectivity certainly enables deeper and broader relationships, but it also can make them briefer and more tenuous. More than ever, true relationships are not founded simply on digital connectivity, but on two very human drivers. These are *trust* and *attention*. In this chapter we will examine their important role, and how to develop them in a networked world.

Unlike information and digital connectivity, trust and attention are scarce resources. The time and effort required to develop a high degree of mutual trust, together with the reality of the bounds of human attention, result in limitations to companies' and people's ability to form ever-deeper and broader relationships. In fact, the value of closer relationships increases all the time. Every company has a relatively small group of customers and critical suppliers that contribute the most to its profitability. These are the ones with which they must develop a high degree of mutual trust, and earn a substantial proportion of their limited attention. The lion's share of the rewards will go to the companies that can achieve this, regardless of how well their competitors can provide technology-based tools and integration.

Companies like Pfizer, MCI, and KLM Royal Dutch Airlines have realized that relationships rule inside as well as outside organizations. It is now standard practice to run internal service functions exactly the same as if their clients were outside the organization. Information technology, human resources, strategic planning, and many other corporate functions now have to sell their services internally, manage the relationships, and charge market rates for their offerings. Increasingly, their clients—other divisions or departments within the same company—are being given the choice as to whether they buy internally or find better alternatives outside the firm.

Easy integration and lower transaction costs make this perfectly feasible. Clearly internal service departments have an immense head start in building trust and understanding their internal clients well enough to capture their attention, but they must approach relationship development in just the same way as their external competitors.

## **Developing trust in the living networks**

Paper has far from disappeared in the digital age. Every day over 800,000 tons of paper is made around the world, with every man, woman, and child in the USA accounting for 320 kilograms of paper production each year. The machines that produce all the paper our economy consumes—newsprint, fine paper, paperboard, and more—are extremely complex. There is no such thing as a standard paper machine—every single one of these massive installations is different, with its own parameters and peculiarities. Running the machines requires highly specialized engineers that understand the complex interplay of machinery, wood pulp, and chemicals that together yield quality paper.

Specialty chemicals firm Buckman Laboratories is headquartered in Memphis, Tennessee, yet two-thirds of its 1,300 employees work outside the corporate headquarters, servicing the paper, leather, utilities, and chemical processing industries around the world. While it is a chemicals manufacturer, the provision of products is a relatively small part of the value it offers. For its paper and pulp clients, its process treatment programs assist with paper pitch control, deinking, drainage, and a host of other issues faced by papermakers. Rather than simply selling the necessary chemicals to its clients, its sales engineers seek to make Buckman part of their operations. Buckman's job becomes one of understanding the system and production requirements, selecting the chemicals and amounts needed, and advising on their use within the production process.

Tumut, a picturesque town set in the foothills of Australia's Snowy Mountains, was the site chosen by paper manufacturer Visy Industries for a new paper mill constructed in 2001. The mill was designed to rely only on sustainable inputs, and is claimed to use the least amount of water per tonne of pulp produced of any facility worldwide. Buckman was selected to deliver "Total Chemical Management" to the plant, providing the chemicals, managing and optimizing processes, and performing quality control. Its role covered what would normally require dozens of suppliers, and substantial in-house resources from Visy to select chemicals and manage sophisticated processes. Visy is paying Buckman on the basis of selected key performance indicators such as production levels and quality measures, with potential penalties as well as rewards depending on mill performance.

The kinds of relationships that Buckman has with its clients clearly require a high degree of mutual trust. Any trust-based relationship is built on the basis of reputation and consistent experience. Buckman has also recognized the importance of deliberately aligning its clients' processes and ways of working with its own, and when it wins a new client, it runs a clearly defined one-week process it calls a "transition workshop," to streamline the shift from the existing suppliers to Buckman. An initial 45-minute workshop for all key personnel at the client facilities goes through the week's agenda and raises initial concerns. The Buckman team then conducts personal interviews with every participant, identifying specific projects, requirements, measurements, and concerns. These are compiled into an implementation plan, jointly owned by Buckman and the client, that identifies tasks and responsibilities across the two companies, using the terminology of plant staff. Through the week, Buckman staff work in the evenings to develop the implementation plan, and there are always cold drinks and snacks available for any plant staff who wish to observe or participate. Personal relationships are built with all key staff during the exercise, and all issues and concerns are brought out and addressed.

Buckman works by integrating its processes deeply with those of its client, however it understands that this is largely an issue of people forming relationships with other people. It has developed the technologies that enable it to bring its global resources to bear on its clients' issues, and used them to earn their attention. All of this requires trust, and Buckman is effective at developing and maintaining trust with its clients through applying clear processes, as well as having a culture that encourages its clients' faith. In Chapter 6 we will look in more detail at how Buckman has developed its knowledge-sharing culture.

Trust is a business perennial—from the days when chickens were traded for cowrie shells until we start trading with extraterrestrial races, trust has been and always will be the central factor in business relationships. However in the networked world there are three vital shifts in the nature and role of trust.

- **Trustworthiness is swiftly becoming more transparent.** We are now all naked—there is no hiding in the network economy. Your reputation will increasingly precede you as the flow of information through the networks rapidly increases. In the old days someone might have made a few phone calls to try to sound out others' experience with a potential supplier or partner. Now consumers and businesspeople can quickly and easily gather a broad spectrum of experiences and impressions about almost any company in the world.

- **The pace of trust development is being outstripped by technology.** We are entering a “plug-and-play” world, in which businesses can readily integrate their information, processes, and systems. In the past, the pace of developing trust between organizations was accompanied by the practical issues of bringing the firms' operations together. The development of trust often happened as a natural side-effect of working together closely on these kinds of issues. Now companies can integrate their systems and share information far more easily, but that is useless unless solid mutual trust is in place.
- **It has become a key competitive factor to be fast and effective at developing trust with partners.** As the technology landscape becomes more of a level playing field, trust becomes the key differentiating factor. Your products and services can be outstanding, and your processes for sharing information with partners excellent, but unless you can command a high level of trust, you are unlikely to be successful. In the network economy relationships are formed ever-faster, and unless you can build a high level of trust quickly, you will never be considered a top-tier supplier or partner.

### **Trust in a transparent world**

eBay one of those rarities: a highly profitable pure ebusiness. At the heart of its success are its feedback ratings, that compile ratings and comments from all auction participants on the people they have dealt with. The simple principle of eBay is a global marketplace that can link anyone, anywhere. That's enormously valuable, but the problem is you know nothing about the people you're dealing with. Who's to say they won't deliver faulty goods or try to defraud you? eBay's feedback ratings allow you to benefit from the accumulated experience of others.

Collaborative rating systems are being applied to every kind of product and service. Customer ratings were pioneered by Amazon.com and others, and are now standard on e-commerce sites. Zagat has provided restaurant guides based on the feedback of customers instead of professional reviewers since 1979. Now that they have released Internet and Palm Pilot versions of the service, the usability and ease of contributing reviews brings in more comments, makes the feedback cycle far faster, and improves the overall quality of the reviews.

Clearly there are potential problems with simple ratings systems, which can easily be abused by enlisting friends, or by people who hold a grudge. Increasingly sophisticated systems are being evolved that provide more balanced feedback, for example by rating the quality of the raters themselves. Now these types of systems are being applied in the corporate world.

MIT professor Pattie Maes is famous both for developing the first generation of collaborative rating systems, initially focused on music opinions, and for being nominated as one of the world's 50 most beautiful people by People magazine. Maes and her colleagues recognized that bringing together many companies' experience of their suppliers would be a valuable resource for other firms trying to select trustworthy partners. Thus was born Open Ratings. The company offers "predictive supplier performance" systems, working in conjunction with Dun & Bradstreet to provide reports on prospective suppliers. Key concerns, such as suppliers' delivery timeliness, customer support, and responsiveness, are rated by recent customers, covering all the issues that contribute to the total cost of purchase. Highly evolved systems provide a balanced view of this feedback, and how to apply it in purchasing decisions.

**The genie is out of the bottle. Your strategies for building trust in your customers and partners must be based on the reality of working in a transparent world.**

It's increasingly difficult to hide problems and issues from your customers. Some companies choose to provide discussion forums about their products and services on their own websites. For those that don't—and even many that do—independent discussion sites spring up. Many potential customers routinely look for comments from their peers about products and services they are considering purchasing, or even post specific questions to get feedback from people they would never have met otherwise.

The genie is out of the bottle. Your strategies for building trust in your customers and partners must be based on the reality of working in a transparent world. You can try to control the messages people receive about your company, but if you do you will fail. You can no longer hide. More than ever, honesty is the best policy. At the same time, you can easily research potential suppliers or partners before you start to deal with them. You can expect firms to be more trustworthy, simply because they will find it very hard to survive if they aren't. Those that have bad experiences can easily let other potential customers know. In Chapter 6 you will learn how to approach marketing and branding when information flows freely in the networks.

### **Accelerating trust development**

Participating in the network economy requires very actively developing new and existing relationships with customers, suppliers, and partners. As you saw earlier in this chapter, companies' external relationships are becoming both deeper and broader. Some firms do whatever seems right each time they take on a new customer, supplier, or alliance partner. Others have careful and detailed processes for building closer relationships that benefit

both parties. IBM spends almost \$1 billion on its alliance program for software developers, getting its return through the generation of over \$4 billion in additional sales. It has a formal 40-step process that executives must go through with potential partners before signing an alliance agreement, including examining the fit with IBM, and getting a senior IBM executive to agree to act as an internal sponsor for the alliance.<sup>2</sup>

On the other hand, in high-value professional services such as accounting or investment banking, many firms celebrate winning an account or major client transaction with a boozy dinner, but have no clear processes for actively developing trust and deepening relationships with these accounts. Each industry and situation will call for a different approach to trust development. However since the ability to develop trust faster and deeper with new clients and partners is becoming a key competitive differentiator, it is not something that can be left to chance. There are four key steps in accelerating the development of deep trust in relationships, as shown in Table 4-1.

### **ACCELERATING TRUST DEVELOPMENT**

1. Establish an overt trust development program
2. Create transparency
3. Treat security as a business enabler
4. Streamline legal issues
5. Work to align objectives, culture, and technology

**Table 4-1: Action steps to accelerating trust development**

#### **1. Establish an overt trust development program**

One of the most powerful actions to develop strong trust quickly with partners is simply to openly discuss the issue. Frank conversations can vastly accelerate the process. The first step is to raise trust as a key issue, and together talk about the potential benefits of developing strong mutual trust. You and your clients, suppliers, and partners can together certainly gain far greater value from higher levels of trust, but you need to define the specific activities and ventures that will be made possible by this. Once you start to identify clear opportunities that will depend on mutual trust, this creates a stronger drive towards accelerating trust development, and helps to clearly establish the risks and concerns that prevent these happening immediately. Once you and your partner understand where you want to go with your relationship, and the perceived risks in doing so, you can agree on a staged program for both parties to gain the necessary confidence to build a truly collaborative relationship. This kind of process is very useful across every kind of high-value relationship, however it should be approached slightly differently depending on the situation. For suppliers seeking to develop a

relationship with a powerful client, the initial emphasis may be a more one-sided effort to demonstrate the potential value of higher trust levels, and getting clients to precisely articulate their concerns so these can be addressed.

Ultimately, deep trust comes from the repeated experience of positive expectations being met. As such, a trust development program must set a sequence of expectations for both sides. An initial workshop will not only establish where the program is going, but also a series of highly specific commitments from each side. Fulfilling these—or sometimes even the frank communication of reasons why they weren't met—will deepen trust that future commitments will also be met. Trust is all about taking risks. In building trust you need to take a series of steps that each stretch the willingness of your partner to take a risk with you. Every time a risk is taken and trust is shown to be merited, it allows you to move a step further. Expecting too much trust initially can break the relationship—the process must be staged. Depending on the nature of the relationship, regular workshops can be run to review whether the commitments have been achieved, make adjustments to the program, and recognize the activities have been enabled by higher trust levels. Often discussion of the trust development program will be incorporated into the agenda of other regular meetings.

In one case, the European operations of a multinational chemical company worked through a series of workshops with its major client, helping to bring out unspoken concerns, and eventually establish an information sharing initiative with strong mutual benefits. One of the issues that became clear to the chemical firm through the process was the importance of addressing the internal politics of its client.<sup>3</sup> The involvement and interaction of key stakeholders in your partner organizations can enable or derail the trust development process.

## **2. Create transparency**

In today's economy, trust increasingly depends on transparency. Clients or partners may choose not to become closely familiar with every aspect of their external relationships, but the knowledge that they can access and become involved in details provides a solid foundation for trust. This is not just about information systems, but the ability to walk into partner firms, see what is being done, and have frank discussions.

Call center operator Convergys expects executives from its clients to drop in at any time to observe its day-to-day workings and gather information and insights on its work for them. As described in Chapter 9, contract electronics manufacturer Flextronics provides complete transparency on every aspect of its operations to its clients. They have access to the same information systems as Flextronics, and can become involved to any level of detail that they choose in the outsourced operations.

### 3. Treat security as a business enabler

Systems security should be treated as a business enabler, not as a problem. Security is an absolutely vital issue in a connected world, because so much can go wrong. As companies become increasingly dependent on their information system, and confidentiality and privacy become their legal responsibilities, they will tend to avoid unknown risks. Potential customers or partners will only be prepared to deal with you if they trust that your systems are secure, and that their information and computers are not exposed in any way as a result of doing business with you. Similarly, you won't choose to establish deep relationships involving systems integration or confidential information flows unless you are fully confident in your partners' security. Security issues must be dealt with as a starting point to all trusting, collaborative relationships. However if security is demonstrably sound, it allows a higher level of trust with partners, deeper integration of systems, and in turn real competitive advantage.

Whenever companies exchange information directly, other than through e-mail or website access, they need to engage in a frank discussion about security issues. This is essentially a form of "due diligence," which may include exchanging written security policies, and identifying precisely what technology and policies are in place to safeguard information and systems. Firewalls should be designed to let through only specific traffic, and monitor even trusted clients' communication, in case their systems have been successfully breached by a hacker. Encryption of sensitive information should be standard practice.

Virtual Private Networks (VPNs) are specifically designed to provide privileged access to trusted third parties, making the public Internet safe by creating an encrypted "tunnel" for information flow. These types of systems should be actively implemented for all significant relationships, as they make information flow both easier and more secure, enhancing the ability to create value together, and creating an advantage over competitors. Physical tokens, such as smart cards, can be used along with passwords to make both you and your customers more confident in information security.

### 4. Streamline legal issues

Trust always trumps legal agreements. You can try to pin down details in long contracts, but without trust there are major limitations to how much mutual value you can create in relationships. However in most cases legal contracts provide a useful foundation to build strong, trusting relationships, especially in the early stages. Perkin-Elmer and MDS Sciex, in establishing their alliance entity Perkin-Elmer Sciex in 1986, set up a basic legal agreement at the outset, but the two firms have never drawn on the documents in resolving issues along the way.<sup>4</sup> Baird Textile learned the value of legal contracts when British retailer Marks & Spencer, which accounted for 30-40% of its sales, suddenly terminated its relationship after

30 years without a legal agreement, despite the retailer openly describing the relationship as a partnership. Baird took Marks & Spencer to court, but lost.<sup>5</sup>

Another approach that can sometimes have value in the early stages of a relationship is bonding, in which one or more parties deposits a bond with a trustee. If any of a specified list of conditions is breached, the bond is forfeited. The problems are in designing an effective bonding contract, and being able to prove that it has been broken. Clearly bonding does not build trust in itself, but it can help to create the conditions for faster initial trust development.

### **5. Work to align objectives, culture, and technology**

Companies need to ensure that they are working in the same direction and communicating effectively. It is very hard to engage deeply unless each party clearly understands the other's objectives from the relationship. Aligning objectives requires designing a partnership so that the same activities contribute to each participant's desired outcomes. Procter & Gamble, when it sets up collaborative supply chain initiatives with retailers Wal-mart, Tesco, and others, begins by establishing and documenting high-level agreements on each party's objectives for the projects.

Often different cultures and ways of communicating can result in unnecessary misunderstandings. Interactive media firm Giant Step hires staff from its major clients' industries, and publishes a glossary of terms for its staff and clients to use. It gives this to its clients, and encourages them as well as its relationship managers to keep it on hand during conversations. Since the Internet world generates an immense amount of jargon, with often different meanings ascribed to the same words, this helps ensure that confusion is minimized. In the following section we will look in more detail at the issue of aligning technology with your clients and partners.

### **The power of aligning technology**

FMC Corporation is a diversified manufacturer of chemicals and machinery that employs over 15,000 people. It operates 90 manufacturing plants and mines in 25 countries; its 10 business units deal with an immense array of customers, suppliers, and partners. According to chief information officer Ed Flynn, FMC is finding that its proactive approach to integrating its information systems with those of its clients is helping them view FMC as a partner rather than a supplier of commodity products.

In one early initiative, FMC has fully integrated its enterprise resource planning systems with a key client, PQ Corporation, that purchases soda ash from FMC. Both firms use SAP software, which assisted in linking the functionality of the two companies' systems over the Internet, partly

through the software's ability to convert documents into an XML format. Once the secure flow of information over the Internet between the systems was in place, they were able to directly link PQ's purchase order module with FMC's order process. When PQ's manufacturing system generates a purchase order for soda ash or other products, it links to FMC's system to check that inventory is available, and automatically initiates shipping. Once the goods are received payment is made by automatic funds transfer. The integration of the firms' systems makes it easier, faster, and less costly to do business for both parties.<sup>6</sup> This pilot program was then duplicated across other FMC clients.

FMC is leveraging its leadership in information systems and providing external links to gain new clients and generate more business. Many of its clients in the food and pharmaceutical industries are studying ways of applying information technologies to increase efficiency. On numerous occasions FMC's chief information officer or members of his technology team have accompanied FMC salespeople to discuss with potential clients not only the benefits of integrating their information systems into those of FMC, but also broader strategic technology issues. This creates value for clients, and clearly establishes FMC's intent of being a true partner rather than simply a supplier of chemicals.

Relationships today largely consist of information flows. This means that aligning technology with customers, suppliers, and partners is vitally important. For the relatively simple requirements of consumer markets, the Internet provides a standard platform that makes technology integration usually fairly straightforward. However the diversity of hardware and software used in the market can still result in challenges. Banks that require their customers to load software on their computer to access online banking have to decide whether to provide a version for Apple computers. California's Wells Fargo has chosen to do so, but BankDirect.com has decided not to offer connectivity to Quicken financial software for Apple Macintosh.

In almost all corporate relationships, technology alignment now plays a central role in business development and relationship management. The issue is ensuring that information can readily flow between different firms' systems, and processes can be integrated. The trading arm of investment bank Credit Suisse First Boston (CSFB) buys and sells securities on behalf of its institutional and corporate clients. Its PrimeTrade trading platform was the first Internet-based system to allow clients to trade US Treasury bonds; it now provides access to a range of financial instruments, including foreign exchange and derivatives. It's easy for a CSFB salesperson to set up a client to use PrimeTrade, simply by putting the appropriate agreements in place and providing a password for access. What is harder is to get information about transactions to flow automatically into the client's

systems. Straight Through Processing (STP) describes financial market transactions and the related payments being executed and processed without human intervention. Even in the information age, this is the exception rather than the norm, because it still usually requires a one-off effort to integrate two or more firms' information systems. CSFB's technical staff work closely with the firm's clients to establish straight-through processing between the companies' systems, making it more attractive to use PrimeTrade to trade securities than other alternatives. The core of the work performed is a technical integration project. However part of the exercise is discussing technology strategies with the client, and ensuring that as both companies continue to implement new systems, they will be aligned rather than incompatible.

**For better or for worse, the whole world is becoming like Las Vegas. The one scarce resource in the economy today is attention.**

It used to be possible to lock clients in with proprietary technology. Once they had bought your systems, they had to either continue the relationship, or throw everything out and start again from scratch. As standards increasingly dominate the technology landscape, very few clients are prepared to accept proprietary solutions. In theory this means that clients can readily switch providers, but there are still usually real costs in moving. The firms that have helped them to establish effective systems integration have a real advantage. More important is the ongoing discussion of technology strategy. Once you get involved in your clients' technology directions, you can ensure that your systems—and your relationship—are effectively aligned.

### **Sticky relationships in the attention economy**

Viva Las Vegas! In this happy town, you can be fabulously entertained without a dollar in your pocket. In the space of a short stroll down the famed Strip, you can see the statue at Caesar's Palace come to life, a live re-enactment of a pirate attack on a ship outside Treasure Island, a volcano exploding in front of Mirage, live circus acts all around at Circus Circus, while the highest rollercoaster in the world, over 100 stories above the ground, screams by on the top of the Stratosphere tower. The casinos offer free food and drinks, with sometimes free entertainment thrown in. While the patrons at Excalibur dig into their dinners, sparks fly from the live jousting on stage. At every turn there is something bigger and brighter and more dazzling than the last thing you saw.

What's going on here? The casinos know that if you walk into their premises with money in your wallet, there's a good chance you'll leave some of it—maybe even all of it!—in their welcoming coffers. So they will

do anything to attract your attention, get you to visit, have you linger briefly, and then maybe you will wander over and sit down for a moment at the gaming tables. Every casino's games are the same. The field of play in Las Vegas is creating something more spectacular than everything else, in order to grab people's attention, and in the process, the contents of their wallets.

For better or for worse, the whole world is becoming like Las Vegas. The one scarce resource in the economy today is attention. Adults can pay attention to only one thing at a time, and even today's multi-tasking kids have their limits. There is immensely greater demand for people's attention than there is time in the day. As a result, an inalienable part of life in contemporary society is choosing what to pay attention to from a relentless barrage of information and impressions.

A business cannot sell anything until it has first gained a potential customer's attention. Today just to get that it must pull out all stops. And more often than not, after it has won a sale, it's back to scratch in trying to attract the customer's attention again. Past the battle for attention is the battle for relationships. You may be able to attract someone's attention through the maelstrom, yet can you keep it? To do this, you must be part of the solution rather than part of the problem. Everyone is drowning in the flood of information overload, and those that can throw a useful lifeline will find ample takers.

We all demonstrate consistent patterns of behavior in the way we access and use information. And, in fact, all relationships can be thought of as simply a set of patterns or habits. When you repeatedly buy from a particular shop—be it online or one in which you can accidentally knock fragile things off the shelf—this is a pattern called a relationship. Now that information flow is at the heart of our world, our daily behaviors are increasingly centered on finding and using information. The patterns in how we access and use information form a central role in almost all business relationships. In many industries, the field of play has become the ability to form information relationships with customers, to be a regular and trusted source of information for them. This is now virtually the only way to maintain people's attention. You need both to continually improve at servicing your customers with high-value information, and to do it in ways that competitors will find difficult to replicate.

Personalization is the driver. If you can provide information that is more useful and relevant to an individual than he or she can find elsewhere, you will command his or her attention. There are powerful feedback loops at work here, as illustrated in Figure 4-1. Once you gain customer knowledge and the ability to personalize information effectively, you can capture more of their attention and interaction. This in turn—if you have effective systems—allows you to learn more about your customers and enhance your personalization. Since there are always greater demands on people's

attention, you must continually build deeper information relationships in this way, otherwise you risk losing their attention completely. However if you are effective at this cycle, you can effectively lock your customers into your information relationship, as they will lose the invaluable personalized information you provide if they switch to a competitor. In Chapter 6 we will look in more detail at customer feedback loops, of which this is one example

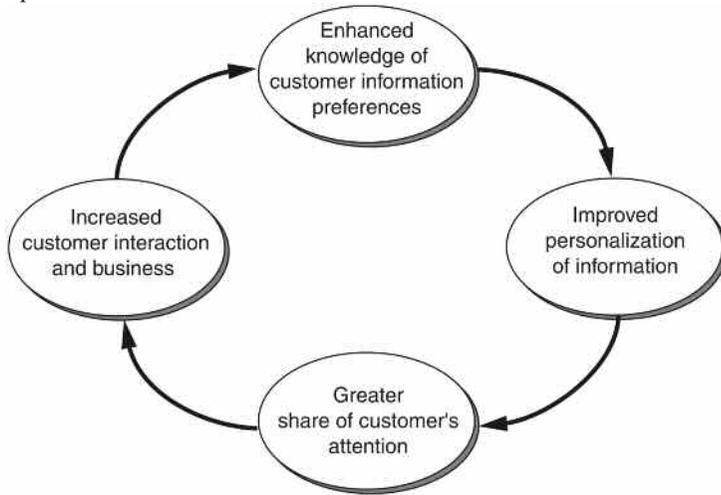


Figure 4-1: The feedback loop of customer attention and personalization.

### Precision personalization

Step into the four-floor Levi's superstore in San Francisco, and among the many delights you will find some old personalization technologies. Customers can put on their new jeans, then sit in a tub heated to 100 °F, thoughtfully provided with rubber duckies to play with as they wait. When the jeans have shrunk to fit them perfectly, they take them off and stick them into a nearby clothes dryer, and can stroll off home with jeans contoured to their body alone. Levi's and other clothes manufacturers are now investigating laser scanning booths, that will scan your body and produce specifications for custom-made clothes. These systems may produce better results than the old approaches, but they probably won't be as fun.

Personalizing information can be a little trickier. People often don't know what they're interested in until they see it. At the same time, while computers are marvellous at manipulating information in every way possible, they are far from being able to understand the content of documents. However the technology to personalize information is continually improving, and in any case the current state-of-art is greatly underexploited. There are three levels to technology-based personalization: profiling, inference, and agents.

- **Profiling.** My Yahoo! allows you to build a news page containing just the news sources and categories that interest you. Each of the categories has a little box next to it, and if you check the box by clicking on it, you will see all corresponding updates when you access the service. You can also receive e-mail updates of the news categories you select, as well as stories that match your selected keywords. In these cases, the personalized information sent to you is based on a profile you have defined. This simple approach to personalization can be very useful, however it is limited in that it can't suggest things you don't know about, and it doesn't have the ability to learn. Much of what many companies proudly call personalization consists of basic profiling.

- **Inference.** The reason many people choose to browse—and often buy—on Amazon.com is its book recommendation feature, which makes suggestions for books that may interest you, based on the books that you look at or buy. Inference systems observe your online behaviors and infer what else might interest you. This is usually done by comparing your behavior patterns with those of others. If many people that buy Stephen King books also buy Dean Koontz books, then if you buy a Stephen King book you may be sucker for a special offer on the latest Dean Koontz thriller. This is in fact a type of collaborative filtering—we are benefiting from the research and interests of people we have never met. Text categorization and search software Autonomy uses sophisticated algorithms to compare the word patterns in documents, so it can use what you read to infer other documents that may interest you, based on their content.

- **Agents.** Isn't it nice to have somebody—or something—to go and do work for you? Agents are software that act on behalf of a person by performing a specified task. A simple version can be asked to search online bookstores for a certain book, and tell you where you can buy it at the lowest price. More sophisticated agents can learn your preferences and over time improve at their tasks. However in order to learn your agent needs feedback. This can be *explicit*, in which you input information like "on a scale of one to five, the usefulness of this information is a four." Or it can be *implicit*, in which the software records data such as which files you open, how long you spend reading them, and what you do with them afterwards, without requiring any specific instructions from you.

Each of these three types of technology-based personalization has an important role to play in information relationships. However profiling is static, and can very easily be duplicated by going to another provider and creating the same profile. By now profiling is what it takes to be in the game, rather than providing any competitive differentiation. Inference

engines can create substantial value, both by how they are implemented, and by combining the preferences of a particular group of well-informed people. Agents in particular have the potential to lock-in customers to your service. If a customer has spent time training an agent to deliver more useful information, sometimes simply by using it repeatedly, it can become hard to go without. You cannot recreate the ability of agents to personalize in the same way that you can through profiling. As such, agents can be a powerful relationship tool.

### **Integrating human and digital relationships**

Geneva is evidently a place of tradition. The distinguished buildings along the lakefront are all five floors high, presenting a neat and tidy face to the tourists, diplomats, and mega-wealthy that frequent the town. Statues in the cobble-stoned “old town” commemorate how Calvin and other reformers came to the independent city-state to escape persecution. As you wander the streets, an occasional discreet doorway marks the private banks that have played such an important role in Geneva’s history. Behind these doors, in this town of less than half a million inhabitants, 14% of the world’s transnational wealth is managed.

Private banking offers a prime example of the meeting of tradition and the digital. Private banking relationships are clearly largely about close personal attention, yet at the same time money is information, and in many situations online services and reporting are far more useful than more traditional approaches to banking service. The key issues in this industry—and in many others—are defining the boundaries between digital relationships and full service, and effectively integrating digital and human relationships. Many online services for wealthy individuals have sprung up. JP Morgan provides a comprehensive suite of online reporting and portfolio analysis tools for its private banking clients. HSBC runs a service providing Internet-based financial services to affluent international investors. MyCFO competes with old and venerable institutions by offering a suite of largely digital services for the very wealthy.

The headlong rush over the turn of the century to establish Internet-based services has resulted in many companies having completely different strategies for their existing operations and their new online services. Online relationships and more traditional high-value relationships based on personal interaction are still often considered separately. For those firms that service high-value clients with dedicated relationship managers, the issue has become how to integrate human and digital relationships. It is essential to provide an extremely high level of personalization of service and information delivery to high-value customers. Successfully engaging in the positive feedback loop of gaining attention and improving personalization requires combining the capabilities of technology and professionals.

		Delivery of personalized services ↑	
		Technology	People
Information gathering →	Technology	Technology-based personalization	Online usage reporting
	People	Highly refined segmentation	Client call reporting

**Table 4-1: Personalization by integrating digital and human relationships**

In order to personalize information flow and services for your clients you must continually gather and apply detailed information on their behaviors and preferences. As shown in Table 4-1, you can gather information in two ways: through technology such as websites or other interactive media, or salespeople's contacts with clients. This information can in turn be applied to the delivery of highly personalized services through both technology, and personal interaction.

There is nothing new about salespeople recording their client interaction and applying the insights to better service. Whether the information gathered is noted on 5" by 3" cards, or stored in a sophisticated customer relationship management (CRM) system, the principle is the same. You saw in the previous section of this chapter how technology-based personalization can be applied. These are both well-established fields of endeavor. What is still largely underaddressed by most companies is fusing people and technology to provide an extraordinary level of personalization to high-value clients.

One approach is to provide salespeople with detailed reports on how their clients are interacting digitally with the firm. For example, if a private banker sees that her client is reading research on a particular investment strategy, a swift phone call to discuss this could result in an order. However clients are increasingly sensitive to feeling watched as they browse on their suppliers' websites. Big Brother looms large for many. As a result, several large banks have told their large institutional and individual clients that they do not provide information on their online behaviors to their salespeople. Every company must establish clear policies for how it will or won't use reporting of its clients' use of its websites, and be prepared to communicate these clearly.

The most important emerging domain in high-value relationships is applying salespeople's deep understanding of their clients to providing highly personalized technology-based services. Good relationship managers will know not just the concerns and issues their clients are facing, but how they are thinking about them, and what sort of approaches to presenting information will influence them. This must be applied to providing immensely customized service and information delivery.

Every firm providing high-value services must focus on integrating digital and human interaction to implement far higher levels of personalization. This is at the heart of their future competitiveness. XML is an immensely powerful tool to achieve this, because it can be used to break documents into their components, and then reconstruct them in whatever way is most relevant and useful to a particular client. Most firms try to implement CRM as a reporting tool. If it can be integrated with content management systems to provide high-level personalization, then it becomes possible for every client to receive a different document, designed to be directly relevant to his or her issues and thinking styles. To achieve this, not only new processes, but also new skills are required, and front-line professionals will need to shift how they work in this new environment.

WorldStreet Corporation is helping large financial institutions to implement these approaches, by providing peer-to-peer information exchange services for the industry. Companies such as Credit Suisse First Boston and WR Hambrecht use its systems to deliver customized packages of investment research to their major clients. WorldStreet's systems make it easy for salespeople to tailor the format and style of their reports to the client's portfolios and decision-making styles, and deliver them through whatever communication channel is most convenient at the time.

### **Vital Connections: Chapter 4**

In this chapter you have seen how connectivity and integration are making trust and attention increasingly central to business relationships. Companies must focus on developing trust, and apply personalization to earn the attention of their clients and partners.

You have seen in Chapters 3 and 4 how information and ideas are flowing freely, and firms are collaborating ever-more closely. In Chapter 5 you will discover that innovation too must happen across organizational boundaries, and how the role of intellectual property in business is changing. New thinking and business models are required, so be an innovator! We all need it.