The Next IT:

Innovation Transformation & The Technologies of ‘Virtuous Cycles’
The Content of the Audience
is more important than
The Content of the Talk
I explore...

‘Behavioral Economics’ of Enterprise Experimentation, Innovation & Network Effects

Via their Models, Prototypes & Simulations
My ‘Big Flip’

From

‘How Can People Create More Valuable Innovation’?

To

‘How Can Innovation Create More Valuable People’?
‘Digital Transformation’
'Digital Transformation' is....

Less About 'Delivering Better IT Services Better'

Than 'Co-Creating New Business Capabilities'
What Is This Brief Talk ‘About’?

- Embracing/Enabling Data-Driven ‘Virtuous Cycles’
- Innovation as a ‘Human Capital’ Investment
- Collaboratively Aligning ‘APIs’ with ‘KPIs’
[What] Digital Architectures Must Enable

Network Effects

Interoperability

Data-Empowered Innovation
Make Your Customers/Clients/Users More Valuable
Key Insight....?

Innovation as ‘Human Capital’ Investment
Key Challenge....?

[How To] Successfully Invest in the ‘Human Capital’ of Your Customers & Clients

[& Partners]
The Most Important Product of the Mines...

---Frederick Le Play
(1806 - 1882)
...is *the Miner*.

---Frederick Le Play
(1806 – 1882)
My 21st Century Update & Upgrade of LePlay

The Most Important Product of the Network is the **Networker**.

---Michael Schrage
"We Shape Our Dwellings And Afterwards Our Dwellings Shape Us"
We Shape Our Innovations And Afterwards Our Innovations Shape Us
Paradigmatic ‘Virtuous Cycle’

1. Real identity, social graph, and information sharing
2. Strong user engagement and expanding user base
3. Advertisers deliver ads with increased accuracy
4. Relevant ads heightens user engagement, which...
5. Attracts ad revenue and allows Facebook to enhance the

Source: Jiang Zhang
Amazonian/Bezosian ‘VCy’ [2001]

Our Virtuous Cycle of Value, Selection & Convenience

SELLERS -> GROWTH -> CUSTOMER EXPERIENCE

LOWER COST STRUCTURE -> LOWER PRICES

TRAFFIC

Selection

Amazon Confidential

sfiia mds 2018
Think ‘Cycle Vertueux’

Uber's virtuous cycle. Geographic density is the new network effect.

David Sacks
@DavidSacks
Even in bed....
Informatization Transformation

The Virtuous Cycle of Data Network Effects

Users contribute more data, product gets smarter, and more people use the service.
Please Go Beyond ‘Process’....

Agile

‘Virtuous Cycles’
The Purpose of Platforms: Enable ‘Virtuous Cycles’ aka ‘Network Effects’
‘Network Effects’ mean....

‘Users Creating Value For Other Users’

mds mit ilp (c) 2018
The ‘Schrage NFX/Human Capital Extension’....

‘Users Creating More Valuable Users For Other Users’
Six years ago we told the staff in a meeting that we were not a GMV company but a data company.

People have been asking me how I make money with data. Even today we still don’t know the answer. However, we know people can’t live without data in the near future. Walmart amasses data from its sales, and we do e-commerce and logistics for data.

People keep asking me about GMV. But I am telling you now GMV is not our goal. We sell stuff to collect data, which is different from Walmart....
Data As An ‘Asset’
Lesson Learned

who do you want your customers to become?
A Genuine Classic: The Most Popular HBR Reprint EVER!
Levitt’s Essential Marketing/Strategic Question

“What Business Are We In?”
What Business are ‘Buggywhip Manufacturers’ In?
How Can [Digital] Innovation Help Us Better Define and Support ‘The Business We’re In’?
What was Henry Ford’s ‘Real’ Innovation?
The Driver
Google Created ‘Page-Ranked’ Searchers
What Does Disney Ask Its ‘Customers’ to Become?
What Are Your Answers?

Who do you want your customers to become?
What Business Are They In?
Who Did They Want Their Customers to Become?
WBAWI?/WDYWYCTB?: Aligning The Answers
Enabling ‘Alignment’
Not Just ‘Faster, Better, Cheaper’ Products & Services:
They’re How We Align...

‘Innovations’ are Investments in the Human Capital, Capabilities, Creativity and Competences of Customers and Clients
YOUR DOMINANT ‘HUMAN CAPITAL’ Challenge:

How Does/Should Our ‘Innovation’ Support/Shape Who We Want Our Customers/Users to Become?
The Greatest Innovation Frustrations Now Are Organizational & Cultural NOT Technical or Financial
So What Do We Do? ...and how do we do it?
• Segmentation
• Social-ization
• Skill-ification
Segmentation
‘What’s in Your Garage?’
‘Cheap Discriminants’
Mass Produced ‘CDs’
Socialization
“When we create content for our site or emails, we think of additional ways that we can help the story along on Pinterest. We use web analytics to look at top pins, test quote layouts from brand founders, and try different product shots—we spend time learning about what works and experiment often to get it right.”

Pinterest users spend 15 times more on Sephora products than Facebook followers
B2B [Microsoft/$7.5 billion]
Social Media Platforms Are ‘Bait’ For Network Effects
“Google gets smarter every time someone makes a link on the web. Google gets smarter every time someone makes a search. It gets smarter every time someone clicks on an ad. And it immediately acts on that information to improve the experience for everyone else. It’s for this reason I argue that the real heart of Web 2.0 is harnessing collective intelligence.”
Core Web 2.0 Design Principle

The service ‘automatically’ gets better the more people use it
Recommendation Engines: Where Are Yours?
- How do we make it easier for our customers/partners to participate & create ‘connections’ they see as valuable?

- How do we make it easier for ourselves to identify value from customer participation, contributions and links?

- How do we (re)organize ourselves to best harvest the value of this ‘collective intelligence’ to boost our brands, profits and market share?
Skillification
Tele-Acoustic Diagnostics
[How] Might You Create/Cultivate Bespoke ‘Khan Academies’ for Clients, Customers, Consumer & Partners?
Virtuous S-cycle: *How Could/Should This Frame VC Innovation?*

- **Segmentation**
- **Skill-ification**
- **Social-ization**
Not Just ‘Faster, Better, Cheaper’ Products & Services

‘Triple-S Innovation’ as Investment in the Human Capital, Capabilities and Competences of Customers and Clients
Creating ‘Network Effects’ To Enable “Network Effects”
Interoperability
“APIs for Glass”
Aligning API with KPIs
Explicitly Align APIs with KPIs ...own the dashboard!
Next Steps

Innovation Introspection
What is Your ‘Customer/Client Transformation Roadmap’?
People don’t buy products; they buy better versions of themselves.
My Thanks....

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