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# **Business Network Transformation**

## **What Digital is Doing to Marketing, Media, and Advertising**

**IAB**

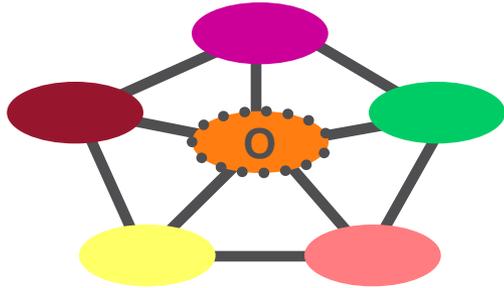
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# Business Network Transformation

## Defining Our Terms

- **Business Network**
  - An ecosystem of companies that, working together, serve a given set of needs
- **Transformation**
  - A disruption in the current ecosystem leading to reengineering of processes and a redistribution of power

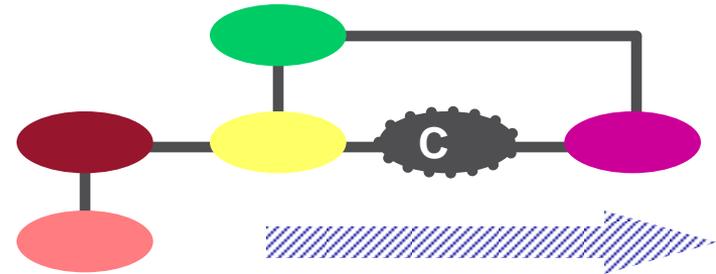
# Two Types of Business Network



## Collaborative Networks

- High complexity
- Relationship oriented
- Outgrowth of *project teams*
- Organize around an *orchestrator*
- Focus: expertise, innovation, and market development

**Goldman, IBM,  
DreamWorks, Lockheed**



## Coordinated Networks

- High volume
- Transaction oriented
- Outgrowth of *value chains*
- Organize around a *concentrator*
- Focus: efficiency, speed, and adaptability

**Google, Facebook,  
Amazon, Apple**

# Business Networks in Their Sweet Spots

## What We Learned from 40+ Interviews

### Collaborative Networks

- **Target next-generation green-field market opportunities to:**
  - Develop new markets
  - Exploit high value umbrellas
- **Drive standards and interfaces to:**
  - Enable modular development in parallel with downstream systems integration
  - Increase reuse for productivity
- **Pursue market-specific solutions to:**
  - Increase customer value, reduce market risk
  - Decrease complexity, reduce integration risk
- **Struggle to:**
  - Accept commoditization and move on
  - Entrust to partners non-core processes that are mission-critical

### Coordinated Networks

- **Target low end of mature complex systems markets to:**
  - Enter new markets
  - Exploit high price umbrellas
- **Drive commoditization to:**
  - Lower base prices to drive down overall cost of offer
  - Grow volume operations to scale
- **Pursue mass customization to:**
  - Recapture margin
  - Retain low-cost efficiencies
- **Struggle to:**
  - Collaborate to enter new markets
  - Get downstream visibility in existing networks

# What Will Not Change?

## Seven Things That Digital Will Not Affect

1. Human need for symbols from which to construct identity
2. Media and branded CPG as major sources of these symbols
3. Brands' need to capture attention in make their impression
4. Media's ability to capture that attention
5. Advertising's ability to convert attention into brand engagement and/or sales transactions
6. Brands' willingness to pay for media and advertising services
7. Consumers' willingness to pay a premium for brand promises they desire or admire

**So we have a real and persistent consumer economy**

# What Is Changing Then?

## Six Disruptions We Are All Experiencing

1. **Media is disaggregating, even as it is expanding its reach**
2. **Delivery is disaggregating, especially at the end points**
3. **Content is hyper-inflating, crowding and clouding everything**
4. **Social is re-aggregating on-line, with new rules of engagement**
5. **Prior anchors of execution—time & space—are dissolving**
6. **New anchors of execution—presence & profile—are emerging**

**This is causing everyone to press the reset button**

# Is Transformation Putting Your Firm at Risk?

## Seven Early Warning Signs

- 1. Someone's eating our lunch, but we're not sure who**
  - Revenue growth is slowing and margins are getting pinched
- 2. New players are entering our space and capturing business with *our* customers**
  - Their business models are giving them an advantage we cannot match
- 3. Even our established trading partners are becoming our competitors**
  - Retailers with their own branded product lines, manufacturers bypassing retailers
- 4. We aren't seeing what's happening in our supply chain until too late**
  - SLAs are not providing the visibility they need to - causing slippage with orders
- 5. We can't see what's happening downstream in our demand chain**
  - Channel partners closer to end-customers are withholding sell-through data
- 6. Business model innovation is becoming a major threat**
  - We are dependent on legacy business models for the bulk of our revenue
- 7. Power is migrating to new roles in the business network**
  - Our power is still significant, but the trend is not our friend

# Mapping Networks in Transformation

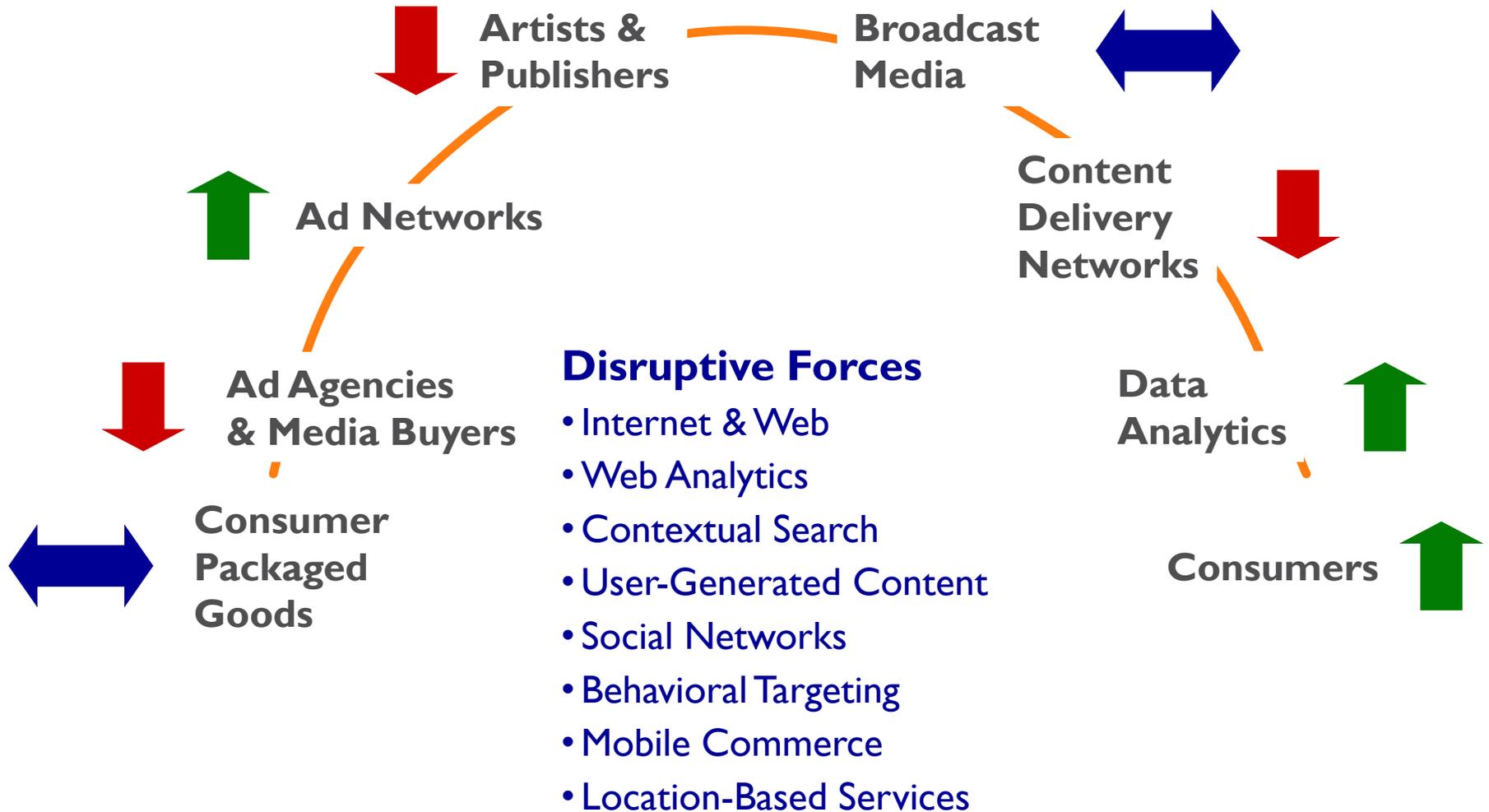
## Understanding Threats and Opportunities

- Who** Map the network and the major players in it
- What** Identify material changes and their impact on negotiations
- Where** Locate the epicenter of the transformation
- When** Gauge progress by new business process adoption
- Why** Deconstruct the new economics in comparison to yours
- How** Analyze the new processes and assess your capabilities

**Use these inputs to drive an executive-level strategy discussion**

# Mapping the Network: A Head Start

## Who is Involved and What is their Status?



# Mapping the Network: A Head Start

## Where is the Epicenter and When Will It Hit in Full?

- **At the Heart of the Change**
  - Digital content distribution
  - Digital ad networks
- **Tipping Point Status**
  - Content has already tipped
  - Advertising has not yet tipped

# Mapping the Network: A Head Start

## Why Are Things So Different Now?

+ = Virality  
o = Retention  
- = Churn



# Mapping the Network: A Head Start

## How Do We Use Analytics to Get in Control?

### Metrics That Matter

- **Grow Acquisition**
  - Rate of gaining new users (velocity & acceleration)
- **Grow Engagement**
  - Average length, depth, and frequency of user engagement
- **Grow Monetization**
  - Percentage & amount of participation, plus rate of change
- **Grow Enlistment**
  - # of new customers coming from existing customers over time
- **Increase Promotional Productivity**
  - Yield on acquisition, engagement, enlistment, monetization
- **Reduce Churn**
  - Rate of losing existing users (velocity & acceleration)
- **Increase Lifetime Customer Value**
  - $\Delta$  (ARPU) X (Average Retention Period) / Time

# Final Thoughts

## The Future of Digital Marketing

- The problem is on the complex systems side, not the volume operations side
- The old complex systems will die clinging to a set of withering entitlements
- The new complex systems will emerge around the scarce IP in content, creative, and analytics
- Your job is to get your firm in position before it is too late.

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