

Strategic Implications of A Social Standard for Business

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Introduction: Social Business is an Industry Disruptor

Relationships and the methods we communicate are the core fabric of business ecosystems. A social business standard changes both, creating very strong threats and opportunities. Ultimately, leading a Social Business standard is a cultural issue, not a technical issue.

It is likely to be a very long process in some industries that appear to want to gain profits from purposely inefficient processes such as real estate's MLS system, and state controlled alcohol and automobile distribution. However, there are other industries where standards that enable new efficiencies may thrive, such as staffing, job advertising and rating systems like for books or restaurants.

Existing social processes that have developed without standards, and thereby in silos of activity, include Wikipedia, support questions like Stackoverflow, rating systems that Amazon, Yelp and eBay have and even search engine performance through click stream analysis.

What seems to be a near term potential is the mapping of simple functionality from the social networking world of sharing of relationships and communication permissions. The more impactful potential is continuing from there to include open collaboration.

Ultimately "Social Business Standards" would be synonymous with an open, standard ecosystem for producing and consuming. What that means practically however, is that we've always been in an 'open ecosystem for producing and consuming' but a social business standard leverages the ability to leverage the work that we do, and serve buyer's needs more precisely by creating a standard for processes that are currently done as one-off actions. We still have a web of connections and activity, as we do today, but in a way that the web is visible, actionable and a new platform for business activities.

A standard for social business practices will need to include the concepts of:

1. Type of Relationships
2. Feedback loops
3. Persistent structured profiles
4. Work Flow
5. Data standardization

A successful Social Business standard would create an environment where activities scale because they are in an innately many-to-many design. An example could be a standard that allowed reviews of books and restaurants to be grouped independent of where they were sourced. What requirements would entice participation by review sites? What requirements would create a better review process than what exists?

This paper focuses on the potential to extend processes and standards for social business between different types of participants in a shared standard that may cross multiple industry ecosystems.

The paper takes a long view on how industries have risen and fallen from before the internet, and because of it, as a way of looking at the potential benefits social business standards can offer a way of proactively navigating industry evolutions.

Summary Conclusion

Social Business standards will disrupt some industries significantly pushing existing value to consumers and businesses with strong competitive advantage. The impact of how business ecosystems work together will be a force to change the structure, size and purpose of individual businesses, and because of that will be resisted and 'forked' to protect existing positions. Social business will work in existing company silos and to the extent that standards are between silos it is inevitable that whole industry ecosystems will probably change.

Use Cases are likely to under represent buyers because they may be written by incumbents with an assumption of industry structures being stable. A core issue is that Social Business Standards would affect existing businesses as an enabler of new processes, as opposed to a new stand alone technology like an http standard. Social Business standards are a significant inflection point unlike other standards where core processes within a business can be re-wired for a new environment.

“Social Business” for silo'd internal business processes

Social Business has generally been about businesses attaining new levels of coordination within a business. For example in the MIT Sloan Management Review / Deloitte paper “Social Business: What Are Companies Really Doing?” published May 30, 2012, SuperValue grocery stores used Yammer to enable their 4,300 stores to more easily show pictures of how to merchandise displays and how promotions were performing. In another highlighted example Pepco Holdings, a utility holding company in the mid-Atlantic states, used social business processes to create a game for customers where they earned points to encourage decreased electricity consumption. Both of these programs yielded positive results and could be considered Use Cases for Social Business.

The issue is why would standards be needed for SuperValue to share how to improve their

metrics with non-Super Value competitors? In this light, the platform that Yammer provided decreased the difficulty and expense, or friction, to enable managers of their individual stores to share information. Prior to Yammer, the managers interacted yearly at a company conference and did not have the infrastructure to interact regularly in real time.

What Social Business Is Not

Social Business is not a standard that will replace social networks. Social networks reinforce offline personal relationships between family, friends and business associates. The reasons these relationships are elevated to a friendship is innately different than a platform that would introduce you to a new entity for a purpose. What is relevant in social networks would most often not be relevant in a Social Business network.

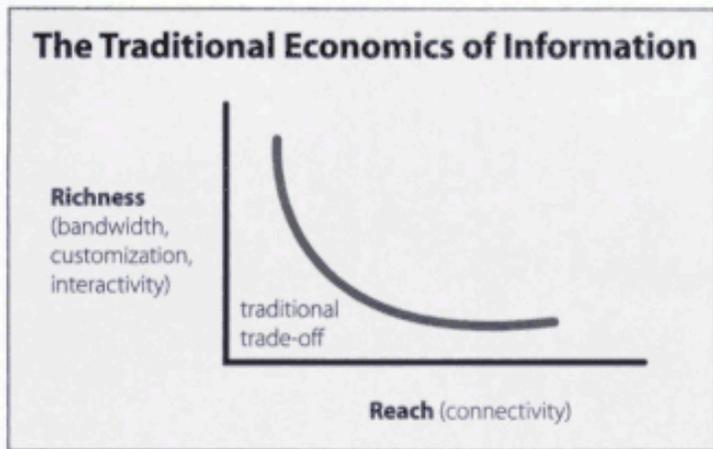
What Is Social Business?

Social Business is a new type of graph. Social business is a standards approach to business relationships, which include the reason for the relationship to become established and persist. In this way 'Social Business' is more about mapping long existing business processes to an internet environment.

Social Business is about industries finding new efficiencies through the ability to find and collaborate with new entities in a process that performs better than existing processes. At its heart, the impact is felt at both an industry level on behalf of finding improved or wholly new value for consumers. If a standard is successful a Social Business Graph will look intrinsically different than a social graph because in a Social Business Graph the nodes could be ranked and replaced. In Social Graphs, each node is unique and not replaceable.

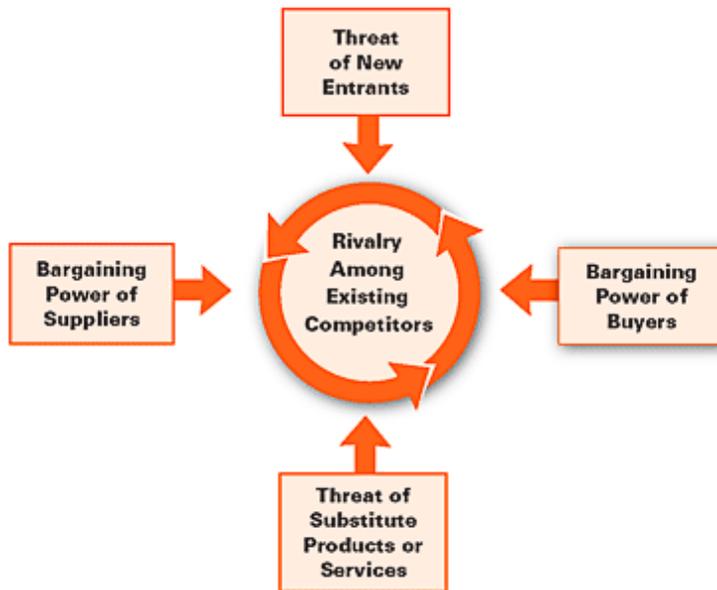
Business Heritage & Social Business Standards Adoption

A significant issue of standards adoption for relationships and communication is that individual businesses and their industries have been organized around limits of existing technologies for communication and relationships. Reducing friction in establishing relationships, and increasing the ease, purpose and types of communication will enable industries to evolve rapidly in ways that are hard to predict. In short, many industries have been run by extracting profit from controlling the flow of information and a Social Business Standard would threaten that.



¹ This chart is taken from a 1997 Harvard Business Review article by Evans and Wurster titled "The New Economics of Information". A Social Business standard is an enabler of further change to the 'economics of information' by including relationships, reputation and work flow.

The Five Forces That Shape Industry Competition



Consider Porter's Forces, published by Michael Porter in 1979². The chart is a simplified view of how a business obtains raw 'materials', applies a process to add value, and sells the improved items to customers. The foundation layer under this whole chart however is the cost of finding and operating these relationships. It's that foundation that Social Business effects and will affect the size, process and purpose of the entities. The cost of collaboration between the ecosystem participants lead to the rise of corporate hierarchy and increased economic power of large

corporations since the dawn of steam driven railroads³.

¹ Phillip B. Evans and Thomas S. Wurster, 'Strategy and the new economics of information', Harvard Business Review, 75(5) September–October, 1997

² Porter, M.E. (1979) *How Competitive Forces Shape Strategy*, Harvard Business Review, March/April 1979.

³ Coase, Ronald (1937). "The Nature of the Firm". *Economica* (Blackwell Publishing)

As the the suppliers and buyers can directly collaborate with less friction, the processes that added value to the existing business in the center will be done elsewhere. Social Business standards are different in than what has come before because it has the potential to change the cost of coordinating and producing goods outside of a businesses control.

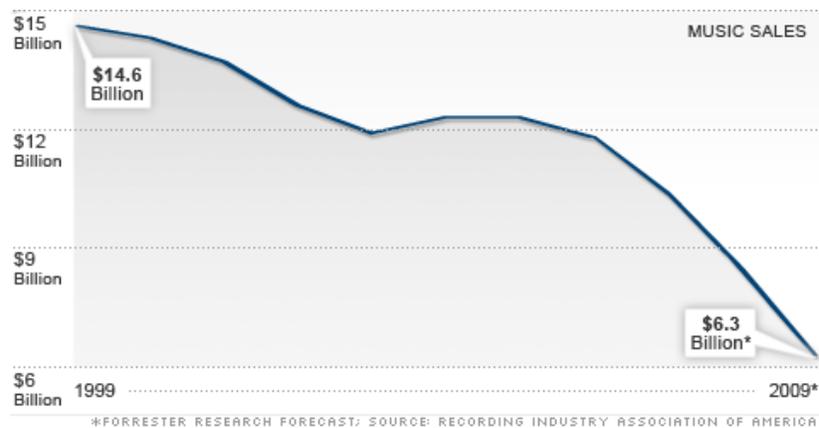
Businesses Are Lagging Behind Consumer Adoption

By starting a discussion to standardize open Social Businesses processes at this point, the business community is reacting to the rise of social networking, the established ubiquitous interactive relationships enabled by the internet and the rapid structural change of industries like newspapers, telecommunication and digital media.

While every industry is unique, consider the reactionary role the music and newspaper industries had in their reinvention while revenues dropped, but were not replaced.

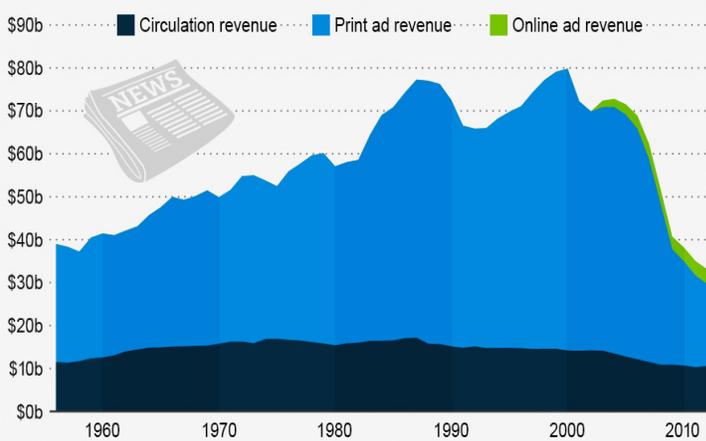
I do not believe there was a problem with the product of these industries. It's that the environment changed around them as has been happening in other industries.

A social business standard may be a new way to let businesses work together to recreate / change / improve the value they create and sell to replace revenues that are moving elsewhere.



U.S. Newspaper Revenues Hit 50-Year Low in 2012

U.S. newspaper revenues from 1956 to 2012 (in 2013 U.S. dollars)



Looking for use cases to lead the process is problematic because newspapers would not conceive of Craig's List because it did not fit their existing hierarchy of their business. Encyclopedias, produced since the first century AD, had not seen a process that could enable scale collaboration as the internet can.

The core problem of looking for businesses to create compelling use cases in some cases is that some businesses do not want to

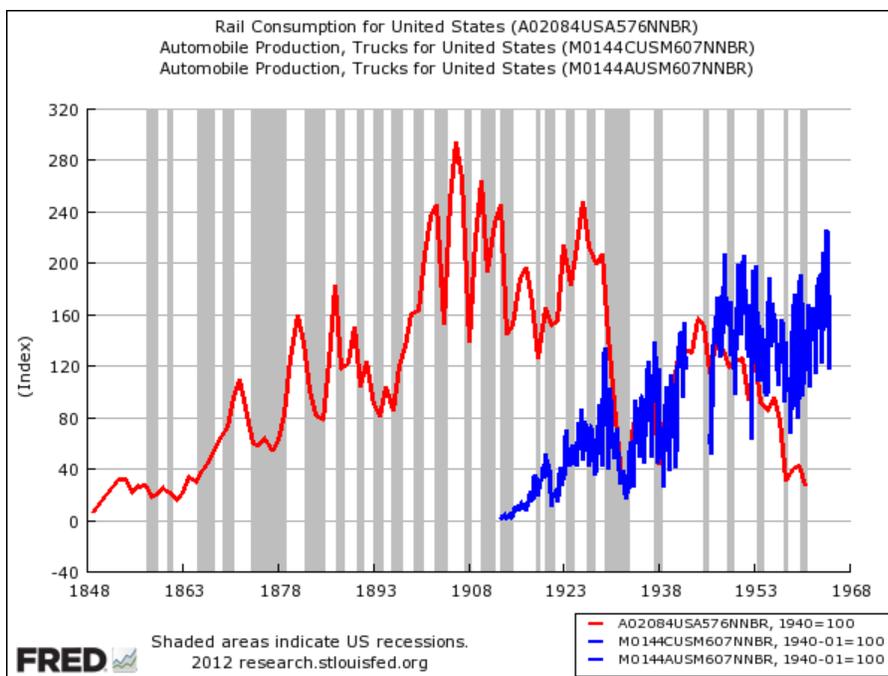
collaborate to serve customer needs better, if that means a smaller, less profitable business. The 'social business' revolution could potentially be led by the people not here to create the use cases we're not hearing because it's not their job to understand a new process that 'value' is created.

Fred Wilson: Open Minded

The one recent exception to the rule is that the venture capitalist Fred Wilson has said that the venture capital industry will not exist in 25 years⁴. In his opinion, market clearing mechanisms like Angel List will outperform the current model. As a 'Use Case' this would be one business person who is proactively looking to design and understand a new market. Is he the exception across all industries?

Can We Proactively Change Business Processes?

Previously, individual companies and sometimes industries have rarely made a transition to new environments, as famously written about in Marketing Myopia by Theodore Levitt⁵:



“The view that an industry is a customer-satisfying process, not a goods-producing process, is vital for all business people to understand.”

- Theodore Levitt

His thesis was that railroads as an industry did not correctly position themselves as a transportation company and their market migrated away. They did not feel the rise of the Eisenhower backed Federal Highway Act of 1956 was a 'new standard' for satisfying some freight customer's needs. Business traveler's needs were served by the then new jet airplanes.

⁴ <http://pandodaily.com/2013/06/17/fred-wilson-venture-capital-as-we-know-it-will-cease-to-exist/>

⁵ Levitt, T. (1960). "Marketing Myopia". Harvard Business Review.

A 'social business standard' will be like the then new highway system was, and canals of 1830's before, in decreasing the systemic costs of satisfying consumer needs. Those challenges had a more significant physical element. Our challenges are different as, unlike physical items, information can be replicated at zero cost. We are just starting to understand how this needs to unfold in a social business standard to enable data to move as smoothly and easily as a truck moving down a highway.

Levitt goes on to point out in hindsight how Railroads, Dry Cleaners and Grocery Stores did not navigate new environments, and then to incorrectly predict the downfall of Petroleum. Industries before music have had sudden transformations of the environments beyond their control. I would point out however, that looking for Use Cases in 1999 for music, or post WWII for railroads, or ? for 2013, would likely not be sufficiently customer needs focused because it's not their job to tell us how to satisfy their need.

Conclusion

Digital processes are innately different than analogue ones because information can be replicated at no cost. It is an entirely new proposition that concepts like relationships or consuming and producing activities could be replicated and shared in a scalable way. The right kind of controls probably need to be created so when producing or consuming businesses in particular can control what happens through their firewall.

To be able to gain acceptance of a standard for business relationships, businesses will both need to be shown that if they contribute X information to a network, that they receive 10X information back. They also need to be free to convert that 'information' to 'value' as the very structure of the hierarchical organization will be challenged to create that in a world where the input of information / work can come from entirely new sources.

What a standard includes, and the adoption it can achieve, becomes mostly a cultural issue for businesses. The means of production are significantly different in some cases and some will want to lever into the new processes, where others will want to block them.