

Business Spectator

INTERVIEW

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New digital order

Deloitte Digital CEO Peter Williams, who is speaking at the Future Summit 2009 in Melbourne, tells Business Spectator's Tony Boyd:

- *Companies must look at their business model and consider turning it upside down to see what new opportunities they can find*
- *IT development and products could be available for free, if they let go of the idea that they have to control every part of their business*
- *Australia's fibre-to-the-home broadband will 'change the game'*

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Tony Boyd: Peter you're going to be at the Future Summit in Melbourne. You're going to be talking about innovative business models. What does that mean to you?

Peter Williams: Yes, when you look at innovation, we see generally two basic areas. The first is things like process or technology innovation that allows you to get business improvement, but doesn't necessarily change the rules of the game. But business model innovation is where you actually look at how you would go about doing business or how has business been traditionally done in this sector, and effectively flipping it on its head.

If you look at the Deloitte Digital business, it's a business that is all about taking what used to be done face-to-face in professional services and seeing how we can effectively put it into components and deliver parts of it online, without needing to have people involved at all times. The basic premise that we started with was in professional services we make money while we work. How can we make money while we sleep? That's part of business model innovation. It's saying, 'well what is my current business model? How can I flip it on its head and what opportunities does that present?'

What I'm going to be talking about is the business model that I'm seeing emerge just across so many sectors, where it's based upon the fact that within any individual organization you're going to have a limit of resources. The chances are that some of the best ideas and the smarter people are going to be outside your organization. So if you look at a business model such as Apple with their iPhone, so they've created a technology platform which is a game changer in itself, because of the way that you can more easily access information from the web etc.

But the part that's really interesting is the way that they've designed it so they've made a software development kit available for software developers who can go and

design those Apps that you often see on TV. The ones about finding a restaurant or using a spirit level or just a multitude of different applications that are enabled by the Apple iPhone platform. The first thing is you've got to look at your product more as a platform. The other thing is that you've got to say 'I need to make this platform a little bit more porous. I don't want to be able to control every innovation that comes out of it. If I open it up and say software developers, if you want to develop an iPhone application, knock yourself out. Here's how you do it.' Here's how you put it up on line and we'll have an App-Store that you can either give your application away for free or you can charge for it so they've attracted people from across all parts of the sector, including organizations like Segar who's biggest ever selling game in terms of units sold is an iPhone game as well as people at home who develop.

I know a young guy in Queensland who develops currency conversion applications for the iPhone. You can put them up for free, as I say, or you can say, 'Well I'll sell it for \$2, and Apple will do a revenue share'. And when you look at it, what they've actually done is said 'we're not going to have every idea for the iPhone'. If it was in an normal organization where you would say 'oh I'll have a product development team and we'll choose what we will do'. They've got limited resources, so we can only launch so many. When you open it up to the rest of the world it sort of works a little bit like the concept of the open source software movement where thousands and thousands of software developers would give their time up for free to build products like Linux so applying that in a business context we see thousands and thousands of iPhone applications being develop that cost Apple no money but create revenue opportunities for them and for the people who develop them.

TB: I think they've forced Research in Motion which owns the Blackberry to do the same thing haven't they?

PW: Yeah, well absolutely, and Google are doing the same thing with their android platform, because the reality is that any individual organization trying to get out 50,000 innovations in a year that all work is impossible. But the other thing that you'll often hear people say, with some scepticism about these business models, is that of those 50,000, only 2,000 really did any good.

But from our innovation sense, if you can get 50,000 innovations of which 2,000 are absolutely fantastic and you can make heaps of money for them and you don't pay for any of them, that's fantastic. It's a bit more like biology where you have thousands upon thousands of adaptations and the fittest survive so this is a way of opening up your product and letting people do all the product development for you and taking it into directions that you would never have thought. It's a business model for which Amazon were one of the pioneers. In fact most of the web titans like the Amazons, the eBays and the Googles have made their products or made available their data so other people can create affiliate programmes or other programs that leveraged their data which will bring the consumer or the customer back to the Google, the EBay, the Amazon.

We're seeing this happen more. For example, Facebook with their applications. They had, I think, 30,000 applications built in the first year of which they would have maybe built a dozen but the community built the rest for them and the ones that worked were fantastic and really drove the adoption of the platform. The other thing is that when you've got other people doing the development work for you they also become positive distribution nodes.

We see it in the R&D sector. There is a company called Innocentives, innocentive.com, where organizations, particularly in the pharmaceutical industry post research challenges that they haven't been able to solve and they put a bounty on it so I don't know, there might be some disease or some protein or something that they're trying to work out, they haven't been able to do it on their own R&D team. They post it up on Innocentives, attach a bounty to it and the thing is that if you look at who gets the bounties, people coming out of India, Russia, Romania, China.

TB: So really there's an opportunity for all types of businesses I suppose, both big and small to basically get technology for free.

PW: Yeah, or even, there's a company in the US called Threadless which is a t-shirt company and what they do, is they say you can submit a t-shirt design and on the other side they say to people to come to the website, vote on the designs. Now if you hit a certain threshold of votes, they'll pay the designer \$12,500 and put the t-shirt into production.

So if you abstract back from that, it's almost like we get all our design for free and those designs are immediately made available for market research and we only produce the stuff that we know the market wants. And if you put a design that works you're given an incentive, because you get paid \$12,500. So instead of typical models where we had all the product designers inside and we all sort of said well we think this product will work and the chances are it might not, you're getting all that sort of product development, market research done for free, and you only produce the stuff you know will sell and you reward those people who put in the best designs.

So this sort of notion of your product being a platform and opening it up, and letting go of control of certain aspects of it to engage a big community and let them to do the development work for you, whether it be design or software or software applications, is a model that not many Australian businesses have really taken on. So within that context, what I'll be advocating at the Future Summit is for organizations to start to think a bit more about when they're looking at how they design their products and services or how they're going to market.

If you wanted to look at an Australian business that had that model in place, there's a company called Atlassian who makes software called JIRA, which is a software development testing tool, as well as a tool called Confluence which is like a sort of Web 2.0 Wiki and a blog software and they make it so if you work with those guys you can actually develop little bits of application software and add it into their product mix and again, what happens is that your product development and innovation is driven by the people who use it, as well as your product development costs go right down.

If things fail, you fail for free and we think it's a model that we've been watching with interest for a number of years but we're just not seeing it really happen that much in Australia because I think a lot of Australian businesses still work on the basis of 'we must control'. We must control the brand. We must control the product. We must control the design. We must control the go-to-market.

TB: What do you think will be the impact for Australia of the \$43 billion fibre to the home broadband network?

PW: I've been agitating for many years for the government to step in and actually do what happened in Korea, South Korea, in 1995. And it was a similar situation when in South Korea they needed to get a new network up but they had competing interest in the telco sector not really willing to do it so the government jumped in, built the network and said to the main telecom players there that they could all share the network, but to go and innovate and do the retail side of it and the development side of it using the network as a platform.

Korea is and has been for many years now the number one broadband country in the world. It has spawned a whole range of new businesses and way of doing business so my own sense is that under the current model you sort of had regulators saying 'we want telcos to invest', but we'll then tell you how you can go to market and my sense was if you want to have a regulated market, as a government, well you've going to pay for it, so I'm a big believer in it.

When you provide something like a national broadband network with fibre-to-the-home, it's going to change the game. It's going to mean that some of the things that have been difficult to do like as a web development guy for many years we have been hampered by our ability to provide our rich online services because the network just wouldn't carry it. So suddenly the capacity for us to have huge speeds across the country and connect much better with the world so in areas like creative industries particularly in the film production, film editing, all that sort of stuff, the cost of it will go way down.

The whole ease of doing business online, the rules of those games will be changed as well. Hopefully it will take away the bandwidth caps that sort of prevail in Australia but very few other countries in the world where people are capped out after 20 gigabytes or 10 gigabytes or whatever and they get horrendous charges after that. I really believe that it's something that will put Australia at the forefront of not only being able to use online services but also to develop new ones to take to the rest of the world so for me, and I'm probably biased because I've been working on the web since 1993 but I can tell you for those 16 years it has been a real pain that some of the stuff that we could have done we haven't been able to do.

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