Prologue: The landscape is shifting

On January 9, 2007 the world woke up to the now memorable headline: 'Apple Reinvents the Phone with iPhone'[1]. In a battery of announcements – one of which was the change of Apple's corporate name from Apple Computer Corporation to Apple Corporation – Steve Jobs introduced a new device, combining three products—a mobile phone, a widescreen iPod with touch controls, and a breakthrough Internet communications device with desktop-class email, web browsing, searching and maps —into one small and lightweight handheld device. The product pioneered a new user interface that took advantage of the large screen of the device, accessible by multi-touch, giving users the ability to control actions by dragging their fingers along the screen surface. This was both a software and a hardware feat, and announced a new era in the interaction between user and display based devices. *'iPhone is a revolutionary and magical product that is literally five years ahead of any other mobile phone,'* said Jobs. '*We are all born with the ultimate pointing device—our fingers—and iPhone uses them to create the most revolutionary user interface since the mouse.'* The company's press release[2] of January 9, 2007 was as excited as his speech:

> '*iPhone includes an SMS application with a full QWERTY soft keyboard to easily send and receive SMS messages in multiple sessions. When users need to type, iPhone presents them with an elegant touch keyboard which is **predictive** to prevent and correct mistakes, making it much easier and more efficient to use than the small plastic keyboards on many smartphones. iPhone also includes a calendar application that allows calendars to be **automatically synced** with your PC or Mac.*
>
> *iPhone features a 2 megapixel camera and a **photo management application** that is far beyond anything on a phone today. Users can browse their photo library, which can be easily synced from their PC or Mac, with just a flick of a finger and easily choose a photo for their wallpaper or to include in an email.*
>
> *iPhone is a widescreen iPod with touch controls that lets music lovers 'touch' their music by easily scrolling through entire lists of songs, artists, albums and playlists with just a flick of a finger. Album artwork is stunningly presented on iPhone's large and vibrant display.*
>
> *iPhone lets users enjoy all their iPod content, including music, audiobooks, audio podcasts, video podcasts, music videos, television shows and movies. iPhone syncs content from a user's iTunes library on their PC or Mac, and can play any music or video content they have purchased from the online iTunes store.*

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[1] Available at : http://www.apple.com/pr/library/2007/01/09Apple-Reinvents-the-Phone-with-iPhone.html [accessed September 2, 2011]

[2] Available at : http://www.apple.com/pr/library/2007/01/09Apple-Reinvents-the-Phone-with-iPhone.html [accessed September 2, 2011]

> *iPhone's Advanced Sensors iPhone employs advanced built-in sensors—an accelerometer, a proximity sensor and an **ambient light sensor**— that automatically **enhance the user experience** and extend battery life. iPhone's built-in accelerometer **detects when the user has rotated the device** from portrait to landscape, then **automatically changes the contents** of the display accordingly, with users immediately seeing the entire width of a web page, or a photo in its proper landscape aspect ratio.*
>
> *iPhone's built-in proximity sensor **detects when you lift iPhone to your ear** and immediately **turns off the display to save power** and prevent inadvertent touches until iPhone is moved away. iPhone's built-in ambient light sensor automatically adjusts the display's brightness to the appropriate level for the current ambient light, thereby enhancing the user experience and saving power at the same time.'*

Wow!

A full disclosure document, outlining for every competitor where the bar was now set, in the space of mobile communication devices. Multi-touch displays, sensors throughout the unit – capable of sensing the relative position of the device to the horizontal, thus ideal for use as a hand held gaming device – email, address books and all you can expect in multimedia. True to its track record of not disappointing users, Apple launched the iPhone right on schedule, on June 29, 2007. The rest just followed. [3]

On the date of the announcement in January 2007, Nokia was the market leader[4] in the smartphone space, holding 53% market share, with RIM (Research in Motion) in second place, around 40% in the United States. Apple Corporation held 0% of the market. By the fourth quarter of 2007, Nokia had 52.9%, RIM 11.4% and Apple 6.5%. By September 2011 [1], the market share picture was almost reversed: RIM 11.7% (10.6 million units sold) Apple 18.2% (20 million units sold).

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[3] In June 2007, Apple announced that the iPhone would support third-party "web applications" that share the look and feel of the iPhone interface. On October 17, 2007, Steve Jobs announced that a software development kit (SDK) would be made available to third-party developers in February 2008. The iPhone SDK was officially announced and released on March 6, 2008. The App Store was launched with the release of iOS 2.0, on July 11, 2008 As of June 6, 2011, there are at least 425,000 third-party apps officially available on the App Store. By early July 2011, 200 million users have downloaded over 15 billion apps from the App Store.

[4] http://www.canalys.com/newsroom/smart-mobile-device-shipments-hit-118-million-2007-53-2006

Meanwhile in Waterloo, Canada…

Jim Balsillie, the co-CEO of Research In Motion Ltd., makers of the BlackBerry email device, said in an interview[5] that he was not losing any sleep over Apple's efforts to disrupt the wireless market, and he could not confirm whether anyone at RIM had managed to get their hands on an iPhone. 'I haven't seen one'.[6]

A number of technology experts writing in the media warned RIM that Apple's assault into the wireless market is more than just the arrival of another trendy and well designed device. It was apparent to everyone – but not to the executive suite at RIM - that the functionality of the iPhone set the bar significantly higher in terms of user experience, and the look and feel of mobile wireless devices. [7] But one had to try out the unit in order to understand how the iPhone *felt*, and how it was different than anything existing in the marketplace in that moment. Balsillie declared that he is '*doubtful the device will have much of an impact on RIM's overall sales. For one thing, the iPhone will hold little appeal for RIM's core business market and its need for secure information technology systems, which RIM has been providing for years with its corporate BlackBerry email servers.*'

Is it remarkable that the co-CEO of a publicly traded corporation can read so little risk in the launch of a competitor's product? Or is it more remarkable that the analyst community did not ask any questions about the iPhone of RIM's leadership in the earnings call of April 2007, the first such occasion after the announcement of the iPhone was made? There are many remarkable misses in this story, and they are not relegated to RIM alone. Nokia, the market leader at the time and presumably the company with most to lose, also did not see the threat the iPhone represented. To be clear, I am not picking on one company to make a point; I am using the incumbents in the market at the time of the launch of the iPhone, as a case study in missed opportunity. Both RIM and Nokia are public companies and as such, their mistakes have affected thousands of shareholders. And so the story goes, by November 16, 2011, according to iPass, Apple was leading BlackBerry in business phones in the U.S. market[8]. The circle was now complete.

'*Apple has ousted Research in Motion's BlackBerry as the top smartphone for mobile workers, according to the latest research from wireless specialist iPass. The company's survey of more than 2,300 employees at 1,100 businesses reveals that more than 45% of mobile workers now use iPhones, up from 31% last year. BlackBerry users, however, slipped to 32%, down from 35% in 2010. Apple's iPhone is the top smartphone for mobile employees. Apple sold 17.1 million iPhones during its recent fiscal fourth-quarter results, a 21% hike on the same period last year.*'

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[5] http://www.thestar.com/Business/article/233390 article by Chris Sorensen for The Toronto Star, July 7, 2007

[6] http://www.thestar.com/Business/article/233390 article by Chris Sorensen for The Toronto Star, July 7, 2007

[7] http://www.thestar.com/Business/article/233390 article by Chris Sorensen for The Toronto Star, July 7, 2007

[8] -James Rogers, The Street, November 16, 2011. Accessed at http://www.businessinsider.com/most-innovative-gadgets-2011-11?op=1 on November 17, 2011.

01.
THE BUSINESS OF BEHAVIOUR SPACE

Introduction

So what went wrong here?

What can we learn from this? And how is it applicable to your business? This was not a mere product launch on January 9, 2007. It was the launch of a *new behavior space.* The launch of a new ecosystem in the mobile device category, an ecosystem inclusive of new behaviours, new places to play in, and new devices to play on. The San Francisco event was the launch of a new corporate strategy. It was the explicit declaration of a strategic ambition, the ambition of creating and dominating an emerging new space.

The list of what went wrong might include hubris, arrogance, ignorance – the lack of methods and practice in seeing and understanding the behavioural disruption the iPhone represented. Success builds arrogance, and hubris, but it should never build ignorance of the shifting landscape; rather it should build expertise in the analysis, understanding and riding of the shift in one's own market space. It is common for companies to miss shifts in their business landscape: Microsoft did it with the advent of the Internet, and famously IBM, after the introduction of the PC. Sam Palmisano, former COO and CEO of IBM declared candidly: '*We invented the PC but viewed it incorrectly. We saw it as a gadget, a personal productivity tool. Unlike Intel and Microsoft, we didn't see it as a platform. We missed the shift. So the lesson to me is you cannot miss the shifts. You have to move to the future.*'[9]

Indeed, one has to move to the future, fast and furious. But how? And along what coordinates? This book proposes a number of them. And it all starts with understanding the nature of the shift not in product development terms, but in strategic terms. From understanding to action, the path for the incumbents might have looked like this:

- Understanding the Business of Behaviour Space
- Understanding the Behaviour Context
- The Design Dimensions and the Compelling Experience Imperative
- Capitalizing on the Need for Play
- Relearning Work, Pleasure and Motivation
- Make Foresight a Core Capability and Transformation a daily passion
- Make Unlearning a Core Competence
- Re-Designing the Work Experience and Designing from the Inside Out
- Re-Designing The Business Model

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[9] Available at: http://www.forbes.com/forbes/2011/0627/focus-sam-palmisano-watson-christensen-ibm-at-100_2.html [accessed January 2, 2012]

1. Understanding the Business of Behaviour Space

The first lesson is that market leaders can not afford miss the shift in the behaviour context, shift that occurs every time a *new behaviour space* is introduced.

Apple's press release was the precise outline of a new behavior space – a space made possible by the device itself, as well as by the ecosystem that includes the App Store, the SDK (Software Developer Kit), the third party applications, and a large developer community. Apple defined the blue print for a space in which devices and their users can now behave in a new way. For any competitor the challenge was not that of competing with a device, but that of competing with a *behaviour space strategy.*

In strategic terms, the introduction of the iPhone was a disruption of an existing behavior space – mobile phone calls, push/pull email messages, web browsing, music and other media on a hand held device. Each of the announced features of the iPhone were expanding the footprint of the mobile phone behavior space, thus creating a new behavior space.

Apple introduced an operating system built specifically for the mobile experience, and as soon as the device became popular, they revealed the next level of the strategy: the App Store. The device was now a mobile computing platform, capable of being customized with any number of free or affordable applications. Each of these applications *represents a different behavior*: the touch screen invites *interaction,* the music store invites c*ontemplation*, the email messenger invites *communication*, the Huffington Post invites *up-to-date news commentary*, and so on. The platform that allows all of these behaviours to take place is the iPhone device, which can not be seen simply as just a 'product', but it has to be understood as a platform for behavior: *a behavior space.*

Was the competition up for this challenge? The answer is no. While the iPhone behaviour space strategy was transparent from the beginning, the competition failed to understand its characteristics as any different than what they were competing with already. They looked at the iPhone as being *just another device.*

Most disturbing for a public company, was the complacency of the market incumbents – Nokia and RIM – after the introduction of the iPhone in June of 2007. The incumbents focused wrongly on the volume of sets sold, and on the number of subscriptions signed each month, as measures of success in a market that by now was valuing different metrics: product desirability, ease of use, fun, and pleasure while in use. In other words, the *depth of engagement* with the behaviour space, represented by the device, the applications store, and the applications themselves.

Nokia and RIM simply did not 'get' the iPhone, and had a sense of exemption from competing with it. The iPhone was below them, a singular product from a new entrant in the market, and one that had no previous experience in the telecommunications industry. How can you feel threaten by this little toy? Yes, it looks clean and well designed, but it does not look like a 'business device'. So, for the first two years of the iPhone, 2007-2009, both companies forgot about it. When visiting one of the incumbents in September 2009, I was stunned to realize that none of my interlocutors – developers, product managers, UI specialists, strategists – had ever used either the iPhone or the iTouch. These products – a worldwide phenomenon by the time of my visit - were no more than a theory to them.

2. Understanding and responding to the Emerging Behaviour Context.

The dynamics of behaviour form a system in permanent change and adaptation. A new behavior space changes the dynamic, due to both the evolving nature of the people using it, and also with the evolving nature of the device itself. The user and the device are involved in a behavior cycle; the cycle once completed by the satisfaction of a user's goals, the user is now looking for more goals to be satisfied by the device – or the technology. It is in this 'looking for more' goals to satisfy that the economic impact of a behavior space is felt.

The smartphone market shifted again as soon as the Apple introduced the App Store, a move that allowed users to interact with the company in new ways, and for new reasons. The app phenomenon introduced the iPhone as a platform for behaviour. More behaviour possible through applications, more satisfaction gained by users, and more monetization potential for Apple and third party application developers. And all of this was not possible yet on the Blackberry[10].

RIM responded with BlackBerry devices that felt like overcooked vegetable dishes, with too many ingredients that don't work together. To the original secure email device, RIM added lots of new media applications the operating platform was not designed for. It is as if someone at RIM took a look at the iPhone and said 'we can do that! We can add applications on our products just like you have'. Problem is that the applications of the iPhone were designed from the *inside out,* while the BlackBerry developers added them from the *outside in.* Designing from the inside would have been RIM's measure of agility, which is an organization's ability in four domains:

1. The ability to act on intelligence received from the field (from the periphery of the business, from media reports, from unfolding signal maps, from consultants, etc).

2. The ability to unlearn legacy processes.

3. The ability to reshape legacy supply chains.

4. The ability to reframe and rethink tools and metrics.

When behavior spaces shift, it is critical that competitors shift with them. Kodak invented digital cameras, but tried to defend the film business and lost the new market to Japanese competitors. When the executive suite tries to defend and extend the old success formula after a market shifts, only bad things happen. When new products are designed with the intention of defending and extending old products, new sales do not emerge'.[11] Competitors introducing changes in the behaviour context kill the pioneer, and a new demographic emerges, which holds new sources of value as prerequisites for a product's viability. The demographic that embraced mobile computing and communications is the demographic of the Millennial. No longer satisfied with products that just work, the millennial is looking for products that allow for self expression, for participation in their own community of interest, and for new and multiple layers of engagement. What the millennial is

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[10] Comparing app availability, iPhone users can do some 450,000 things that Blackberry users cannot – as of July 2011, three years after the release of the App Store

[11] Hartung, Adam. 2011. Available at
http://www.thephoenixprinciple.com/blog/lockin/page/2/

looking for is a *compelling experience* in the products and services they purchase and use.

3. The Design Dimension and the Compelling Experience Imperative

The iPhone was a shift in what users find of value in a mobile device, and introduced *new sources of value* at the level of user experience. The incumbent's first task in connection to this would have been to map and catalogue the elements of the compelling experience offered by the iPhone, and then design equally or more compelling experiences on their own platforms. Equally compelling would have been a minimum – the ideal is to strive beyond competition. But for that, one needs to understand the shift of value from security as a feature, to *fun, pleasure and discovery as an attitude*. No one buys an iPhone for making phone calls or sending secure transmissions to their friends. Fun, pleasure and discovery are characteristics of the new behaviour space the iPhone introduced and brilliantly expanded on. There is a long list of companies in the technology space that have often confused 'features' with 'value'. The value is the *user experience* – the *what* – and not the how it gets to be there. The iPhone introduced a value metric in which hardware, beauty, functionality, usability and application customization all play equally relevant parts, in creating an experience that has but one headline: Pleasure. *The iPhone is pleasure objectified.*

4. Capitalizing on the Need for Play

During the Q&A session of the July 2011 RIM Shareholders Meeting[12], one investor took center stage by giving a heartfelt speech which ended with the following declaration: *'You're letting Apple and Android eat your lunch, and those are not business devices, those are kids' games*.' To this, the audience applauded wildly.

Unwittingly, this investor hit the nail on the head: Apple and Android *are kids games, they are invitations to behaviour,* and this is *precisely* why they were so immediately successful. Apple and Android devices are fun to interact with, they are pleasurable and playful. *Apple and Android products are play behaviour spaces.* The iPhone pioneered the transformation of a piece of technology into a behavioural object, something that invites playful use, directs the user and responds – providing feedback – to his or hers actions. In the iPhone, play builds a bridge between pleasure and purpose. Achieving purpose with pleasure is the real value of *Play Value*, described later in this book. Play Value means empowered participation and engagement; empowerment comes in the form of the device, which allows for customization and multiple layers of use through applications. The iPhone is not a tool, and it is not a toy. It is a device for, exploration, surprise and delight. Play for purpose. The recognition that there are times in which we need to take everything less seriously, allow ourselves to possibility, and to enjoy the journey. The rewards will come, but none more satisfying than our return to the children we always wanted to be. This is a product about *the journey.* And this is why it is so hard to compete with.

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[12] Available at: http://memeburn.com/2011/07/rim-shareholder-android-and-apple-are-kids-games/ [accessed August 2, 2011]

5. Relearning Work, Pleasure and Motivation

The iPhone announced that we are entering an era of play and imagination. The status quo will not be enough anymore. To compete and occupy a place in the new behaviour space of mobile computing, your organization needs to imagine and innovate *possibility*. And this does not come from work, but it comes from play. Playing with ideas, playing with possibility.

The emergence of disruptive behaviors has exposed in many organizations the widening gap between current capability and current possibility. We know what we can do, we understand what we are capable of, and we perform flawlessly within that climate. Yet rarely do we know what is possible. We rarely know how to see what is possible, and act upon what we see. Simply put, people and organizations become limited by what they look at, rather than what they see. The first iPhone released in July 2007, had 11 application icons on the home screen, and four icons on the menu bar in the lower side of the screen. A total of 15 applications. This is what was visible to the eye.

But how much was visible to the imagination? Was possibility resident in the 15 applications you can see, or in the blank display space where nothing resided? While I realize that this is by now a rhetorical question, you get the point: to compete, one needs to see beyond the visible, you need to imagine what would be there in the very near future, and to imagine, you have to suspend reality for a while, and allow yourself to enter the world of play, imagination and magic.

Is your company culturally equipped to do this? To allow your millennial work force to be themselves, to excel at their passions and produce outcomes that they are in love with? Likely not. More likely, your workforce is told to follow pre-established routines, processes created long before they got there. Millennials [13] face disappointment when they reach the organization: raised to believe that everything is possible and the sky is the limit, these are people of ambition, purpose and experimentation. They have grown up in an environment in which technology allowed them early participation in the culture, as well as hands on experience in the creation of a new networked society in which they feel they are in control. At least, this is what they believe. They were promised all the freedom of thought and action worthy of their aspiration, just to discover once they join the organization, that the old structures of the workplace are not as permeable to change as they claim to be. Once in the workplace, they are now part of a system that does not necessarily recognize merit, imagination, play and the cultural and economic participation that characterized the Millennial's behaviour up to joining the workforce. The old structure of the organization does not see empowerment and participation as necessary attributes for the prosperity of the corporation. In such an environment, Millennials become disillusioned in their work, disempowered and retreat in passionless non-performance.

This book proposes a new model for employee retention and job satisfaction, a model in which Millennials are recognized as purpose driven individuals, and they are given roles where motivation comes from autonomy, mastery, and purpose.

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[13] Manu.A. Distruptive Business. 2010. Gower Publishing. P.106

One of these factors, purpose, cannot be given to employees, but instead must be instilled in them through their experiences with the organization. As my collaborator Terence Smith observes, '*a purpose-driven organization is born when employees feel an urge to be a part of the organization because they desire the pure pleasure of it.*'

This pleasure comes from an emotional alignment with the vision of the organization, its higher purpose. The vision must identify a conflict to be resolved, and paint a picture of a better future. For the Millennial, the vision must engage a large enough audience from which to draw energy for motivation.

Imagine that RIM and Nokia would have immediately understood that the iPhone represented a grand conflict they needed to resolve. Grand conflicts force us to imagine their resolution, and that is an image of possibility J.F.Kennedy's '*Putting a man on the moon*' was both a grand conflict to be resolved, and an image of possibility. Terence Smith talks about images of possibility in Chapter 7, 'The Organizational Dimension' of this book, where he develops the FEED-R3 model of organizational design. He proposes an organization designed around a high purpose and a high caliber conflict to be resolved. The tougher the resolution of the conflict, the more purposeful the pursuit for the organization.

A company that fails to paint a picture of a better world that can be created, will fail to tap into the source of energy that humans have to resolve conflict in their lives. Without a desire for a change our present condition, we have no desire to act. Because desire for change prompts action, a purpose-driven organization benefits from designing a vision that helps people see the change they can create in the world, by contrasting the current inadequate status quo with the superior, desirable future state. When done well, the framing of this conflict can spark an emotional response from employees, and make them feel an urge to contribute to the larger effort to resolve this conflict.

6. Make Foresight a Core Capability and Transformation a daily passion

A few pages ago I asked '*But how much was visible to the imagination? Was possibility resident in the 15 applications you can see, or in the blank display space where nothing resided?*' This question can not be answered by the scientific method; we are not dealing here with things which impart physical forces on other things, which can in turn be calculated and a prognostication be made. This is not about predicting the future, but about foresight. Not about natural science but about human science: the choices individuals make have much more weight on the shape of the future than any technology will by itself. So the question could have been answered by constructing foresight scenarios, stories in which the engagement between people and technology could have been imaginatively explored. Scenarios can push the limits of what is possible, can reveal limitations, and allow for value judgments that inform a foresight strategy.

Foresight seeks to discover the signals that create the patterns of emergence. Emergent behaviour patterns – the seeds announcing the presence of a new behaviour space – start with very simple acts that get multiplied on a collective scale. The capability to map a signal in its earliest stages, accelerates our understanding of the possibilities resident in it, and allows for the appropriate course of action to be chosen. An appropriate course of action will maximize the opportunity – or minimize

the threat –f or both the individual and the organization. To maximize the resident opportunity, we must first recognize the *different nature* of a new variable.

What is *different* between this cell phone and my old device? Not in the device itself, *but in my attitude, goals and expectations from it? What is different in me, and how will THIS change MY nature?*

At the strategic foresight level the incumbents did not understand what needed to be redefined, enhanced and expanded in their own business models, once the iPhone and iPad became part of the mobile behavior space. They did not see the iPhone as the change agent of the business context. This is a *failure of transformation* through imagination. The iPhone spelled a transformational moment; foresight and imagination would have spelled *where* to innovate and *what.* It is insufficient for management to focus on defending past business; they must champion and support the creation of new behaviour spaces. For that to take place, management has to be of the times, and of the culture in which it operates; management needs to be the primary user base for all the devices in the space. They need to 'get it' in terms of the culture in which their products play a substantial role.

The author Arthur C. Clarke suggested that the full possibilities of any technology are often missed by the very people who invented them. Clarke calls it a 'Failure of Nerve'-even when given all the relevant facts, one cannot see that 'they point to an inescapable conclusion'.[14] The failure to understand the meaning and implications of new behaviour spaces is not solely intellectual, but also requires courage, sensitivity and imagination as preconditions for those who want to explore the necessary strategic transformation. Robert Burgelman and Andrew Growe[15] have called this understanding '*strategic recognition*': identifying the importance of emerging practices and approaches after they arise, but before unequivocal environmental feedback is available to make their significance obvious. '*Companies tend to develop strategies which lead them to rely on certain kinds of competencies and to engage in certain kinds of product-market areas,*' says Burgelman. *'They learn what they can do well and find it difficult to deal with new possibilities that come along unplanned.'*

The new possibilities are the result of an emerging context, the development of which is not necessarily of our choosing, but rather a convergence of multiple agents, sometimes unrelated, working toward the same goals, and in the same technology spaces. Once the context has changed – no matter how imperceptible at first – an organization's strategic intent needs to change as well. When strategic intent – *where are we going and why* – is at odds with strategic action – *what are we doing and how* – the organization is in a state of strategic dissonance. [16] The premise of strategic dissonance is that in dynamic industries the alignment between strategic intent and strategic action is not likely to last, due to the speed at which change occurs. Inevitably, strategic actions tend to lead strategic intent. This divergence between intent and action creates '*strategic dissonance*'. Once this state is reached and recognized, new strategic intent is needed to get out of this condition. Burgelman and Growe proposed four strategic questions that frame the challenges and

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[14] Clarke. C. Arthur. 1961. Profiles of the Future. Orion Books Ltd. London. p9.
[15] Strategic Dissonance, California Management Review, Winter 1996
[16] Burgelman.R., Growe. A. 1996. Strategic Dissonance, California Management Review, Winter 1996

opportunities faced by an organization in this dynamic. The questions are formulated around the tension between two opposing sets of data: The New Context VS The Organization's Distinctive Capabilities, and New Sources of Value VS Business Models.

- To understand the **New Context** one needs to ask: *How is the Landscape Changing*
- To understand the **New Sources of Value** one musk as: *What needs can be met, problems solved or desires fulfilled?*
- To understand the **New Distinctive Competencies** ask: *What new capabilities are needed to succeed?*
- To understand the **New Business Models** ask: *How are we presently structured to capture value?*

The answers to these questions reveal the taxonomy and the ontology of the emerging context; they will reveal what has emerged in the visible world, and what is the meaning of it all, the intelligible aspects of change. Asking these questions in early 2007 would have allowed the incumbents to fully understand the new landscape, have the right ambition for their possibility, and build a competent strategy toward transformation. Chapter 6 'The Strategic Dimension' presents a few practical approaches toward transformation and the creation of business models where the new meets the old, the digital meets the physical.

7. Make Unlearning a Core Competence

Transformation requires recognition, imagination, courage and unlearning. Change begins with unlearning, with addressing the environment of your business as though through the eyes of someone seeing for the first time. It allows for the discovery and framing of powerful questions, exploring our imagination without expectation or inhibition. Powerful questions are at the core of the creation of new standards of living. Powerful questions frame desires, and desires frame actions that we never thought possible (putting a man on the Moon?). An imaginative and powerful question is very much like play; in it time and space are suspended, technology can do anything, and our goals are as free and as surprising as our imagination allows. Which is precisely why this is so hard; it exposes the truly imaginative mind from the creative imitator.

It takes time and courage to unlearn things, as we have so many things to unlearn. We needed to unlearn that we don't need to develop pictures anymore, or even carry a photographic camera. We needed to unlearn that we don't have to buy maps anymore, or carry a calculator, or listen to the radio for the weather forecast. We needed to unlearn that messages from friends can come to us at any time, in our pocket, and we don't have to rely on the postal office.

The hard part is unlearning what one's core capability used to be, and embracing a new path. For a while, most CEO's try stalling. They pretend that if they improve the processes, they will maintain revenue. Six Sigma and all that. Reducing the 'productivity gap'. Investing in technology. Streamlining operations. Efficiency. The trouble is that efficiency has nothing to do with flavour, taste, smell, feelings, memories, and all the transformative experiences people are looking for in their lives. People themselves – and their families for that matter – are not about efficiency. They

are about life, the rollercoaster of experiences that a day represents, and the emotions that result from it. We, the people that buy stuff, want that stuff to mean something, not just to 'do something'. This is why we seek pleasure in our encounters with objects, spaces, foods, images, sounds and other human beings. It takes a whole lot of unlearning for an organization to be able to respond to what people really want.

8. Re-Designing the Work Experience: Designing from the Inside Out

*Culture eats strategy for breakfast…*Much wisdom is to be found in this quote attributed to Peter Drucker. It is the culture of the organization that nurtures its people, their passions and aspirations and their capacity for transformation. Without this capacity, transformation is a chore rather than a calling. Which is precisely why the incumbents had – and still have – a hard time competing with Apple. In the moment of disruption – the introduction of the iPhone as a new and disruptive behaviour space - what needed to be overhauled was not a product line, but the corporate culture of the organization, and the very models that made the business successful. Once remodeled, the company could have produced hits as a *result of being,* and not as a mater of competing. But this transformation is a hard task, as it requires designing a corporation from the inside out, from the passions and expertise of the individuals to the outcomes these individuals produce.

The need for an inside out redesign is not about a company's ability to create and innovate, but about much more: *it is about passion of the enterprise.* It is this passion that rekindles the creative fire of each individual, giving them the energy for change.

It is hard to fix problems that you are not ready to recognize exist, and this is precisely where RIM found itself in the summer of 2011 when a number of letters written by employees of the company surfaced in the media. One employee writes[17]:

> *'Most of the design decisions at RIM are made by 50 something engineers, otherwise highly accomplished and credible in the field of engineering…and don't have any real background or even social sensibility for culture, design and such issues, they're woefully unqualified for the task of aesthetic judgment. The problem is not so much that they can't create a user experience with 'sex appeal' - because they could hire the right people and improve, again, it's that they don't recognize their own weaknesses in the area. They don't speak the language of 'the creative process' and would probably laugh at anyone who did. Perhaps I can provide you with an anecdote; there is a folk-tale at RIM that the software engineers once brought in a foosball table - probably the most standard form of distraction and a minor symbol of authentic expression of what really is a heavy, intellectually creative process in need of … you know 'breaks' and 'fun' … One of the Co-CEO's summarily dismissed the idea: 'not in my company'. There is no room in his notion of what it means to be 'professional' for t-shirts, lounging, and hip-hop.'*

What RIM needed with urgency was leadership capable of:

- Cultivating and stimulating the imagination of others, individually or in groups, and translating it in user value, fitting within the culture of the times;

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[17] Accessed June 17, 2011 at http://www.businessinsider.com/ex-rim-employee-2011-6

- Guiding, managing and inspiring others on the path of discovery and learning;

- Nurturing ideas, identifying their value and transforming them into opportunities for growth.

Now add to this mix an empowered generation – a generation that is no longer satisfied to work for pay, *but wants to work for pleasure.* A generation that is more accustomed to asking 'why am I doing this?', seeking reason for every action that they are asked to be engaged in. In Chapter 7, Sergey Kovalyukh, Terence Smith, Caitlin Storey and Ivan Yuen call this group Generation WHY, a generation no longer satisfied with asking what should they do, but focused on the reason for doing. Generation Why will demand a redesign of the organization from the inside out; from the passions of the individuals to the output of the organization. Every output will be a manifestation of passion and purpose, in an organization that will perpetually supersede their previous achievement. You cannot manage Generation Why; instead you have to lead them in following their passions, mastering their knowledge and their strengths. A corporation working from the passion of its employees has at least a better chance to keep pace with the emerging context.

9. Re-Designing The Business Model

When was the last time you redesigned your business model? How frequently do you do so? Should business models be redesigned every time we encounter a change in the context of business? The answer is again provided by Apple Corporation, an organization that functions understanding that the emerging context and its emerging behaviours are the constant, while their business is the variable.

> *'You've got to start with the customer experience and work backwards to the technology. You can't start with the technology and try to figure out where you're going to try and sell it...we have tried to come up with a strategy and a vision for Apple, it started with 'What incredible benefits can we give to the customer? Where can we take the customer?' Not starting with 'Let's sit down with the engineers and figure out what awesome technology we have and then how are we going to market that?' And I think that's the right path to take.'* [18]

In a post-industrial, globally competitive economy, innovation is no longer about *serving the market*, but about making – or transforming – markets. It is no longer about adding value, but about creating value. Innovation as strategy is not about what people *are doing now,* but about *what people are about to do.* Understanding that business is in the same dynamic as the changes in behavior, requires agility and flexibility in the redesign of the business model. Compare Apple's business model in the year 2000, with the one in 2010. Each product and service introduced by Apple in this 10-year span was a redesign of their business model, a restatement of the value proposition, an expansion of the customer segment as well as a diversification of their value creating activities and key resources. With the advent of the App Store, third party application developers became a key resource. The expansion of the company into retail, gave them a new distribution point not existent in the year 2000. And with iTunes, their key partnerships now include content creators for music, film and literature. Naturally, all of these changes reflect themselves in the sources of revenue.

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[18] Steve Jobs in a video presentation. Available at http://www.presentationzen.com/presentationzen/2011/10/steve-jobs-simplicity-the-art-of-focus.html

Who would have guessed ten years ago by looking at their existing business model, that by 2008, only five years after the introduction of iTunes, Apple will become the largest retailer of music in the US? [19] The iPhone and its associated behaviours, are a perfect fit within the company's new business model. Can the same be said about Research in Motion?

The business model that made RIM successful in the mid 2000's is also responsible for its downturn. The B2B model (inclusive of enterprise, the carriers and the income generated by secure email services) is responsible for the company's passivity with regards to marketing, and also for their attitude towards marketing as a corporate and brand function. It is apparent that at RIM, the marketing function was an afterthought. This is typical of most B2B organizations, where sales take place at a purchasing manager's level, for large volumes, and for secured periods of time. In such relationships, the drive to innovate is seen as a risk. No one wants to throw away what works so well in the present. Why change? The essence of RIM's business model has remained the same since the company turned profitable in 2005. The value proposition is still Secure E-Mail Transactions through the BB Enterprise Server. Their customer segment is Small-Medium Size Businesses, Enterprises, Government, and the public at large – a development that took place mostly as a result of the iPhone and Android competition, reluctantly, as it was outside the company's comfort zone. The distribution is still through Mobile Operators and Carriers, and revenue is mainly from devices, subscriptions, software and services, as it was in 2005. While some of RIM's key activities had to change to accommodate the BlackBerry App World and third party applications developers, this is not a re-designed business model, but a tweaking of the old model.

When not redesigning the business model as a result of changes in the context, the only option is maintaining revenue, and the organization and its employees become obsessed by numbers, focusing on the quarter-by-quarter results and not on the big picture. So you become a 'technology efficiency' company and not a technology company; what this means is that you are much more concerned with time lines, reducing costs in the procurement of the smallest piece of technology, at the expense of ease of use, user friendliness and industrial design. At the expense of the experience of using the product and service you are providing. You start believing that *efficiency spells strategy*, and start planning strategy around the wrong objectives: manufacturing devices, large volume orders and sell through. These are all means, not ends. The end is a satisfied user, and that can happen only if one sees business as generated and driven by marketing. Marketing in this context does not mean 'sales'. Marketing means *the creation and delivery of a standard of living.*[20]

This is what the iPhone represented upon its release on July 2007: *a new standard of living. A new behavior space.* The action called upon the incumbents was to define their own behavior space strategy, formulated around the characteristics of behavior space.

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[19] http://www.apple.com/pr/library/2008/04/03iTunes-Store-Top-Music-Retailer-in-the-US.html

[20] Malcolm, P. McNair. 1968. Marketing and the social challenge of our times. In Keith Cox and Ben M. Enis, eds., A New Measure of Responsibility for Marketing. Chicago. American Marketing Association.

Characteristics of Behaviour Space

A behavior space is a platform for manifest behaviour around specific goals and motivators for action, and it is composed of *value spaces.* A value space is any object or action present in a behaviour space that holds *a different value proposition for the user.*

Figure 1 The iPhone Behaviour Space

The value spaces on the iPhone are the applications present on it. The individual experience of users, transforms a value space into an *Individual Value Place.* The transformation of 'space' into 'place' is the critical dimension necessary for a long-term relationship with a product or service. 'Places' are distinctively ours, and they are unlike any other places. My 'Contacts' application on the iPhone is different than your 'Contacts' application on the same device. It is distinctively my own, containing *my friends* and *their contact information*. The same can be said about the iTunes application; it is distinctively mine, it is a place for the music I value. It is my musical repository value place.

The value of a behavior space for any user is proportional with the number of value spaces present within that space. E-mail is a value space, iTunes is another value space. They are different in value, as they are manifestations of a different *value proposition.* With the introduction of the AppStore in July of 2008, the number of value spaces possible on the iPhone platform, became proportional with the number of third party applications available on the App Store. To this writing, over 600,000 applications.

Each one of these applications is a window to another potential behaviour space. What you will observe in studying Figure 1 is the nature of the engagement with the iPhone behaviour space: it is fun, it is rewarding and it is engaging. Very much like play. It is also not a task, but rather an activity undertaken with pleasure. It affects the users intellectual and emotional state; we are transformed while in this behaviour space and as a result of each value space it holds.

Value Space analysis reveals the monetization dimension of a behavior space. How many spaces are available for the manifestation of behavior? **Value Place analysis** reveals the personal dimension allowable in a value space; the intensity of the personal experience, the emotional and intellectual engagement which transforms a 'space' into a 'place'.

Figure 2 *The Facebook Behaviour Space*

Take a look at Facebook: each of your friends is a Value Space, while each interaction with that friend is an individual value place. On YouTube, each video is a potential value place – in as far as it creates a compelling interaction with the viewer, and a value space in as far as the relationship potential with a large group of viewers, as in the case of viral videos.

Starbucks is a behaviour space – the brand itself, the store layout, the combination of flavours, the products sold on premises – with each of the flavours being value spaces, having the potential to transform a user's experience in a very personal way, thus becoming Individual Value Places for each user.

The Space to Place transformation is critical in achieving a satisfactory relationship with a product or service.   In the context of behavior space, 'Space' defines the dimensional realm in which material objects and events occur, objects and events directly connected to the performance of a specific goal. In the same context 'place' is a particular portion of space; it is set apart from space by the specific activity that is accomplished between its boundaries. Searching for videos on YouTube is different than listening to music on iTunes.

Any place is a space, but not any space is a place. The transformation of space into place occurs when the user is *transformed by the action and interaction* with the objects present in the space. In a relationship that achieves satisfaction, the user's emotional and intellectual state are transformed in multiple dimensions. As John Sutherland observes in the Afterword to this book, we experience a transformation of our relationship with the *people* around us, with the *self*, with *ideas, objects,* with *time* and with *space.*

Defining Behaviour Space

Any set of behavioral characteristics and their required media – products, systems, substances, energy – which form part of a set of actions directed toward a similar goal. Behavior space is a multidimensional construct that includes time, rhythm, motion, attention, retention, a variety of stimuli and a variety of responses. Behavior Space is the ecosystem of dependencies that insure the performance of a human activity.

 What I am proposing in this book is that corporations do not design products or services anymore: *they design behaviour spaces.* Facebook (Figure 2) is not a product, not a technology, but a behaviour space. I am a strong advocate of the idea that innovation is the creation of a new behaviour[21]; *Innovation is the moment in which behaviour, as outcome, is being changed by invention.* Innovation is then a human activity, which resides in our motivations, and manifests itself as behaviour, once we have defined that something new is the *right media for this manifestation.*

My collaborator John Sutherland insightfully observed that the product or service is simply the disruptor that enables a new behaviour space to emerge. '*The size of the behaviour space footprint, represents the potential value a product or service offers; the greater the value potential, the greater the monetization potential.'*

How do we maximize user engagement in the behaviour space and thus expand the value potential? By creating value spaces, spaces which hold a value proposition for the user. The characteristics that compel user engagement with a value space time and time again, are characteristics we find in play behaviour. Fun, curiosity, discovery, challenges and rewards. It is my view that products and services that are economically sustainable, profitable, desired, and create vast economic benefits, are rooted in play behaviour, and specifically in the concept of Play Value. It is play value that gives a value space individual value for the user.

This book advances the idea that play value is essential in achieving satisfaction in the engagement between users and products or services, and in this process transforming the user through new layers of pleasurable and productive engagement. By intentionally incorporating play value in products and services, the

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[21] Manu. A. 2010. Disruptive Business. Gower Publishing.

user engagement becomes a 'compelling experience' while at the same time, the process for developing such outcomes is no longer the traditional design and development process, but the more complex process of experience design. Experience design is any outcome providing the stimuli eliciting responses from users, over the course of time, stimuli that transform a user motivation into behavior, the actions we engage in, or, in a much simpler language, *the pleasure of using the iPhone.* This is what both RIM and Nokia failed to understand: the behavioural dimension of the new device introduced by Apple in January 2007.

Defining Play Value

Play value is the relationship between physical and mental features – stimuli – of a product or system, elements that achieve a relationship with the user, a relationship described as fun, challenging, non frustrating, absorbing and rewarding. The compelling mix of these elements prompts *repeat play value*, which is the desired value of the product or service for its users. Repeat play value is the reason we keep engaging with YouTube, Facebook, Google, Twitter, iPhones and iPads and more. These compelling products and services are all *behaviour space, s* providing experiences that are fun, challenging, rewarding, absorbing and non-frustrating. They succeed precisely because they never hide this fact. The hypothesis advanced here is *that the value of an object or service as a behaviour space for its users, is synonymous with Play Value.*

In the chapters that follow, I will discuss what gives products and services value for their intended user groups, and how this value can be created, sustained and monetized by organizations.