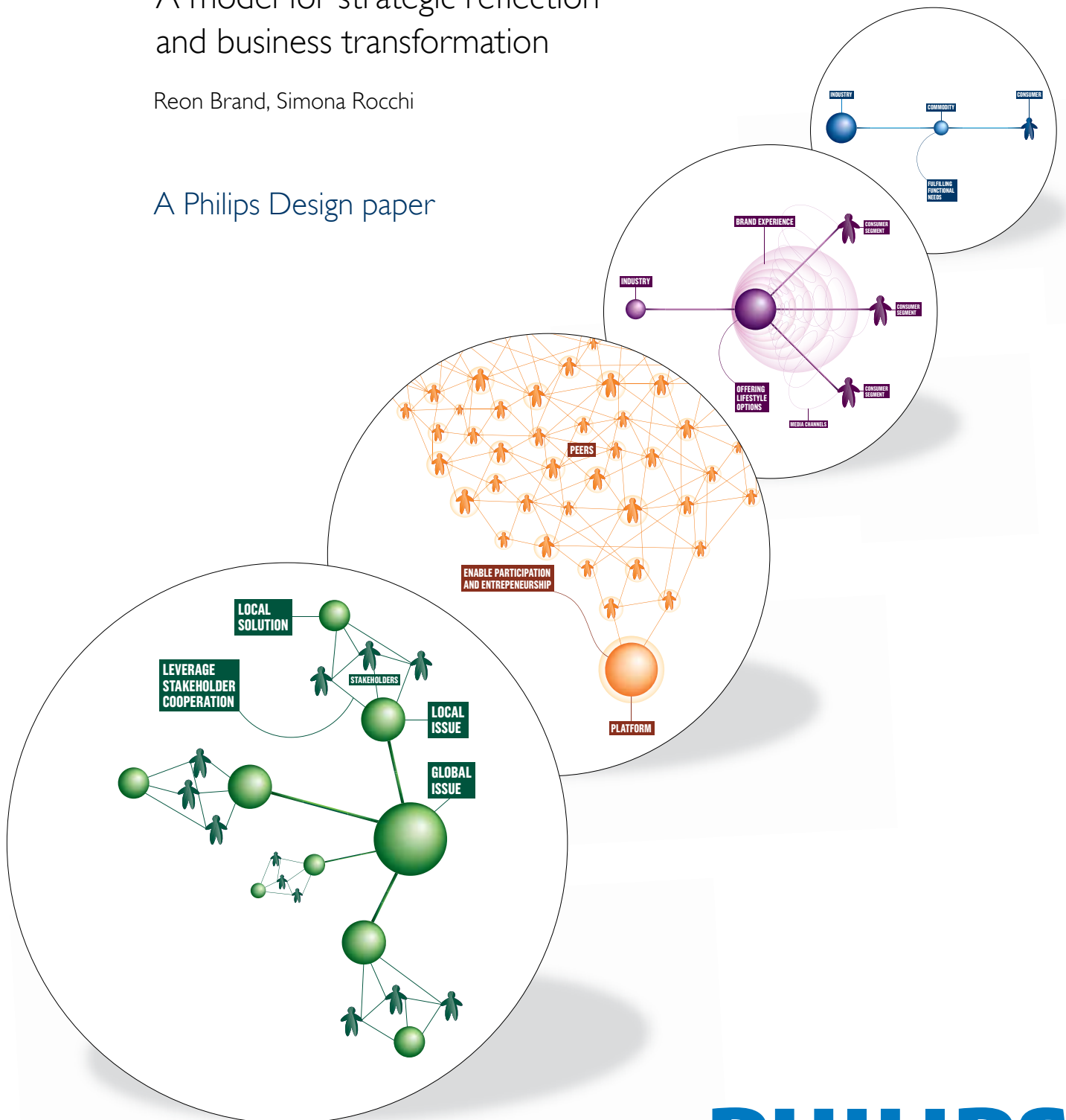


Rethinking value in a changing landscape

A model for strategic reflection
and business transformation

Reon Brand, Simona Rocchi

A Philips Design paper



PHILIPS

Synopsis

How can businesses remain successful when most of the current assumptions about value creation are becoming increasingly questionable and less capable of delivering continuous profitable growth?

This paper makes sense of changing economic paradigms and explores how changing world views will fundamentally transform the development and delivery of sustainable value.

It proceeds to discuss business implications and challenges that organizations need to address to ensure future long-lasting competitiveness.

A Philips Design paper - 2011

“True innovation has to be recognized by people as such. It should advance the interests of the company while contributing to quality of life by giving people something appropriate to their specific needs. By understanding the transformations in the models of society, industry and economy, and understanding the implications for people and our business, we can better identify new opportunities and create innovative solutions for sustainable growth and business leadership while addressing social and environmental issues – bringing true value to people.”

Stefano Marzano
Chief Design Officer at Philips

“Successful, timely innovation is the lifeblood that ensures sustainable development and future profitable growth for Philips. This document provides strategic perspectives and new ways of thinking to stimulate discussion on how our approach to value creation and innovation can be reconsidered to effectively respond to a rapidly changing world.”

Gottfried Dutiné
Executive Vice-President Royal Philips Electronics and Global Head of Markets & Innovation

“Brand and Rocchi make clear that the future of business “ain’t what it used to be.” The 21st century corporation will solve social and environmental problems, empower communities and networks, and experiment with radical new business models. “Rethinking Value in a Changing Landscape” provides an important roadmap for navigating this new terrain.”

Stuart L. Hart
S. C. Johnson Chair in Sustainable Global Enterprise, Cornell University, Author of “Capitalism at the Crossroads”

Contents

Introduction	5
The evolution of value	7
<i>Historical legacy of value creation</i>	7
The industrial economy	7
The experience economy	9
<i>Emerging Value Paradigms</i>	11
The knowledge economy	11
The transformation economy	13
<i>Paradigms – a model for strategic reflection</i>	15
Industrial paradigm - business implications	18
Experience paradigm - business and brand implications	20
Knowledge paradigm - business and brand implications	22
Transformation paradigm - business and brand implications	24
Conclusions	26
<i>Future growth through the knowledge and transformation paradigms</i>	26
Shared principles:	26
Differentiating traits:	26
Key success factors	26
Closing note	27
Recommended reading	29
Authors	30
Acknowledgements	30

Introduction

This document presents a framework for strategic reflection and planning which can support business stakeholders in creating real and sustainable value by providing a deeper understanding of the emerging market context.

It is not the intention of this document to try and predict the future, but rather to illuminate and give meaning to the systemic patterns of change that are unfolding - deep systemic shifts which are caused by the combined effect of changing socio-cultural, business, environmental and technological realities. These insights can help guide the transformation of business thinking, practices and organizational culture required to sustain future competitiveness.

The implications of the findings in this document have far-reaching consequences for organizations, and acting upon them will require substantial leadership, courage and vision to bring about the necessary changes. As a result, organizations will have to re-examine the basic assumptions and core practices of their current business paradigm.

In addition, embracing the emerging economic value creation paradigms will mean businesses have to reconsider the meaning of some of the most basic concepts of our business vocabulary, such as ‘consumer demand’, ‘branding’, ‘marketing’, ‘innovation’ ‘value chains’ and ‘value propositions’.

It may also prompt many organizations to reflect on - their business mission, competences, organizational culture, processes, and their role in value creation and delivery.

Before we reflect on the ongoing systemic changes that necessitate new business paradigms, we will first briefly review the legacy and development of the prevailing mindset. Better understanding the past may make it easier to grasp the changes that will drive the future.

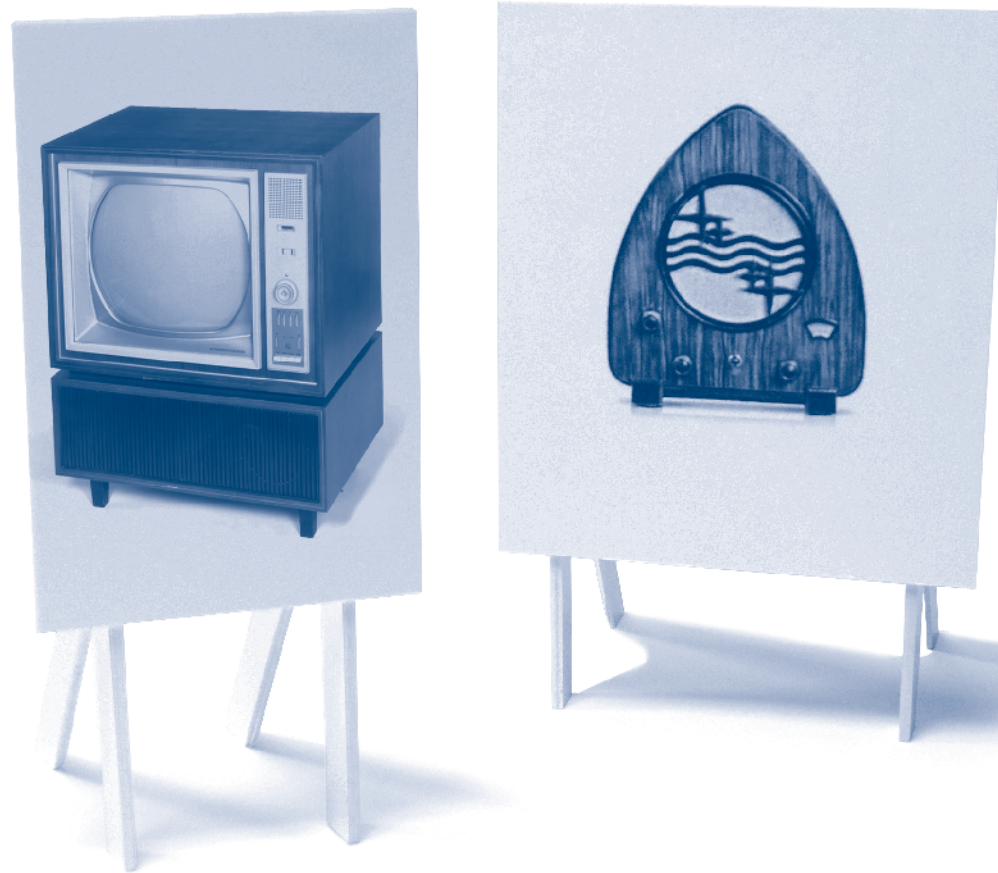
INTRODUCTION

Each new “Paradigm in Economic Value Creation” has fundamental differences with respect to:

- the underlying assumption of *what* constitutes value
- *who* needs to participate in the process of value creation
- *how* economic value is distributed and communicated

These paradigms will be explained in greater detail later in the document.

The evolution of value



Historical legacy of value creation

For two million years, humankind evolved and shared the fruits of ingenuity and innovation in small communities. This led to a gradual advancement of humankind as a hunter-gatherer species, and ensured its ability to survive and adapt. Value creation and sharing was not monetized, but was a social contribution for the benefit of all members of a tribe. Humans progressed in small hunter-gatherer tribes through mutual collaboration. The only division of labor was between men (hunters) and women (carers).

The Neolithic Agricultural Revolution started around 10,000 years ago and led to settlement, which completely transformed every aspect of human existence. It brought institutions of governance where kings, religion and landlords ruled, and peasants lived a cyclical existence from generation to generation. The value produced was for the benefit of communities, but also contributed to ensure the growing wealth and power of rulers and empires. Human settlement also brought specialization, where members of a village developed specific skills that were commonly passed down along filial lines. It meant that every member of an agricultural village had a clear status, role and way of contributing value in the community; this combination also defined their identities. Most people were thus born into the role and identity that they would fulfill in the community.

The French Revolution in 1789 and the ensuing 'Age of Reason' or Enlightenment paved the way for another wave of transformation of human civilization: 'the Age of Modernity'. For the first time in human history, social thought included the concept of social progress and liberalization of humankind from feudal and religious rule.

Much of the current paradigm of business wisdom and value delivery - industrialization, division of labor and mass production - has its roots in the Age of Modernity. For the first time, people were not working to fulfill their destiny in their communities, but to earn monetary compensation for their labor that could be exchanged for consuming the output of industrial production in order to modernize their lives. Societies in advanced industrial economies developed a shared aspiration to modernize their lives through the acquisition of products that fulfilled functional needs, automated many aspects of people's lives and provided pride of ownership, giving rise to the Industrial Economy.

The industrial economy

This industrialization of societies also fuelled the process of urbanization, where people abandoned their pre-destined roles in agricultural communities to relocate to cities where they typically worked in factories or service industries. Many cities became smokestacks of mass production and organized labor. The late nineteenth century focused on the development of industrial infrastructure such as railways that transformed the modern world.

The consumer economy started in the 1920s, but came to a halt during the Great Depression of the 1930's. It rapidly accelerated during the post-Second World War period from 1950 until around 1980. This period witnessed the emergence of large companies that capitalized on their capability and capacity to organize labor, develop and leverage mass-production technology, and organize the supply chain to meet the demand of a growing wave of consumers who were earning far higher

INDUSTRIAL ECONOMY

The industrial economy played a primary role in modernizing societies and advancing standards of living of many, but increasingly has to cope with difficulties of maintaining adequate profit margins in many sectors due to relentless competition, changing labour conditions and increasing cost due to environmental regulation.

salaries than their rural counterparts. The mindset of modernity was different from any previous cultural mindset, as it was driven by a belief in institutions and technology and was more focused on the future than the past. This was an age of grand visions, ideology and optimistic outlook. During this period, most of the economic value was delivered through a cycle of industrial production and mass product consumption.

Although the urbanization and industrialization of society brought great progress in the advancement of science, technology and living standards of many, it brought society to an increasing realization that there is a downside to progress, as evidenced by many of the environmental, social and economic dilemmas that beset the world of today. Much of the environmental decline, loss of biodiversity and even climate change can be attributed to the last two hundred years of industrialization, urbanization and consumerism. From a societal perspective,

the industrial age also widened the gaps of wealth distribution. Today, 2% of the richest people own 50% of the world's assets, while the bottom 50% of the world population own less than 1%.

Strong industrial competition led to an ongoing commoditization affecting most industries. It has pushed many businesses operating in the industrial paradigm into on-going cycles of cost-cutting, optimization, quality improvement and constant process re-engineering in order to survive. It also meant that many companies felt compelled to shift production to cheaper labor in developing countries - leading to regional job losses and globalization - because the limited profitability margins required large markets to ensure sufficient shareholder profits. Today, the industrial economy, which delivered the peak of its economic value contribution between 1950 and 1980, is still very large. Yet it is becoming very difficult for many companies still using this operating model to sustain growth in increasingly saturated markets.

Although the Industrial paradigm brought progress to many, the accompanying process of urbanization changed people's social context and created new needs that could not be fulfilled by functional product propositions. When people relocated from the agricultural village context (where social status, roles and identity were clear) to urban environments for better job opportunities provided by the industrial economy, they benefited from higher incomes and access to products, but the progress came at a social price. Typically, urban lifestyle was accompanied with a loss of certainty, a loss of religion, a loss of cultural status and a loss of identity.

The experience economy

The experience economy emerged in the early 1980s to fill the void resulting from the loss of identity, belief systems and cultural references that many people experienced. This economy was dominated by the rise of lifestyle brands. Through the experience economy, companies that built successful lifestyle brands could charge a premium for their products and services, and could thereby escape the commoditization and pressure on profit margins characteristic of the industrial economic paradigm. By refining their brand image and propositions to target specific market segments with shared lifestyle aspirations and mindsets, lifestyle brands became cultural signifiers that claimed to represent and embody people's aspirations.

In a sense, one can argue that people outsourced the management of their identities to trusted brands of choice. By buying into the lifestyle represented by a brand of choice, society discovered a way to regain a sense of identity. The modernist mindset of urban society - constantly looking toward future development and progress - became a huge opportunity for brands to repeatedly renew the styling of their propositions to fuel consumption. There was therefore a shift from delivering durable propositions (as in the industrial age) towards a disposable society that became addicted to constant renewal.

The experience economy, fuelled by lifestyle brands, relied on media and brand management as a core competence. This meant effective management of key communication channels favored by your target audience; TV, lifestyle magazines, radio, newspapers, and billboards. When the exponential growth of the Internet started in the early-mid 1990s, it was merely seen as another electronic billboard on which brands could display their message. The Web 1.0 version of the Internet was the basis of the 'Information Age' when it became easy for companies to share messages and information.

But, at more companies started to leverage the power and benefits of establishing a lifestyle brand, a level of ad-fatigue started to emerge. People became increasingly cynical and skeptical of brand messages and brands in general. Today, the average person living in developed economies is subjected to more than 3000 promotional messages per day, leading to a complete cognitive overload. The scarcest commodity of the experience economy became people's attention. Brands

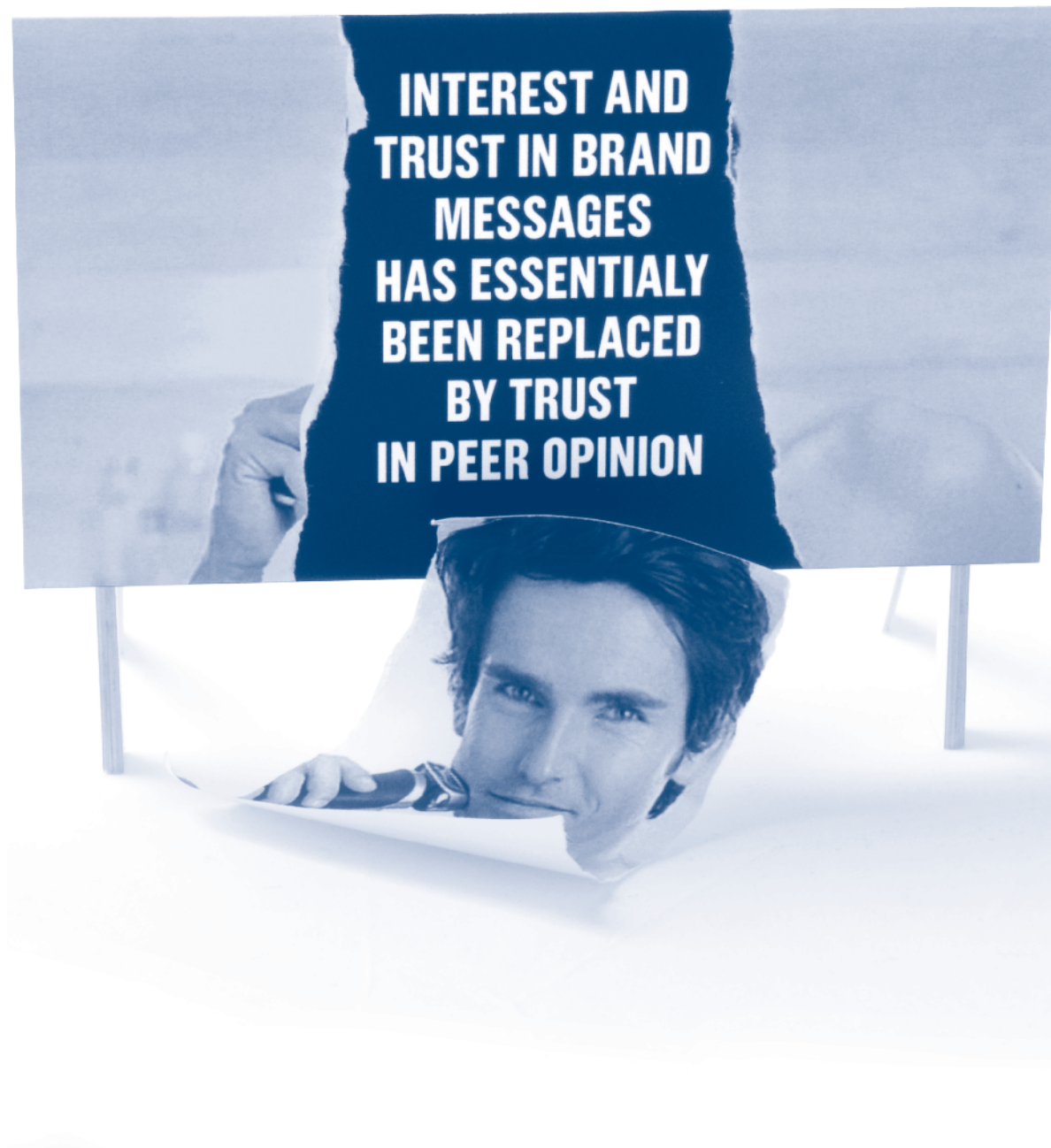
EXPERIENCE ECONOMY

The experience economy introduced lifestyle brands as a business response to the loss of identity and cultural references that many people experienced when moving from rural communities to urban environments

responded by 'shouting' increasingly louder and advertising budgets spiraled upwards.

In January 2000, Naomi Klein published her influential book "No Logo". It is a strong anti-brand manifesto that echoed the growing sentiments of a growing body of people who proclaimed that brands are increasingly invading public space, diminishing culture and fair choice, and less than ethical in the way they manage jobs and share value and profits. By the time the term 'Web 2.0' was coined in 1999 by Darcy DiNucci, a consultant on electronic information design, the experience economy has reached its peak in economic value creation. Pine and Gilmore's The Experience Economy was published in the same year, yet developments in the ensuing years would rapidly lead to the creation of a completely different paradigm from the 'staged brand experience' described in the book. The emergence of the interactive Web brought a level of end-user empowerment never experienced before by business, and completely transformed the nature of value creation.

Emerging value paradigms



The knowledge economy

At the turn of the millennium, the Internet evolved into Web 2.0 and global access to the internet ramped up exponentially from around 250 million users in 1999 to 1.8 billion users today. Web 2.0 transformed the Internet from a giant billboard of information to an interactive knowledge network and a globally-connected social engagement space. In the knowledge economy, knowledge is not just based on lists of information, but is socially constructed, discussed and shared. For the first time since the start of the industrial economy, the tools of value production were not owned by companies and factory owners, but were easily accessible for ordinary people.

In the industrial and experience economies, value was created by companies who had the power to invent, mass produce and deliver. The knowledge economy changed these rules and transformed the principle of the value chain into value networks. Suddenly, ordinary people could create content in the form of blogs, photos and video, and create value that could compete with traditional business, newspapers and magazines. People could set up their own shops and trade peer-to-peer. They suddenly had access to platforms where mass exchange of opinion and social dialogue across geographical boundaries could take place in real-time. This level of empowerment unleashed a new set of aspirations and possibilities in societies, while at the same time presenting huge challenges to conventional brand management practices and business models.

The control that business exercised over communication and media channels effectively evaporated. Today there are multitudes of peer-to-peer and group discussions about brands, products, services and solutions over which brands have no control. The younger generation Y (born between 1982 and 2002) are far more tech-savvy than previous generations. Interest and trust in brand messages has essentially been replaced by trust in peer opinion.

The era of using brand slogans to claim and promote a particular positioning is coming to an end. In the knowledge

economies, there is an unprecedented level of transparency and critique. Instead of talking, businesses are being forced to start listening. Finding ways of participating in on-line dialogue requires very different tools, talent and thinking than in traditional top-down brand management practices. It actually requires a different company culture to thrive in the knowledge economy.

One of the most profound social shifts of the knowledge economy is that people no longer need brands to signify their identity, social status or lifestyle. People are able to create authentic representations (or even play with multiple identities) of themselves on their own blogs, web pages or social media platforms such as Facebook or Twitter. Essentially, increasing numbers of people are now less interested in brands, brand experiences or products, but more interested in building their own personal brands on social media platforms, or sharing, developing and selling their own value to peer communities. Many efforts by traditional businesses to build on-line platforms fail because they are locked into the experience economy mindset. They are therefore unable to grasp the implications of the shift from top-down control to peer-to-peer and personal empowerment that is taking place. Businesses such as Google, Facebook and others understand that the value lie not so much in business-to-consumer branding, but in building scaling platforms that would inspire and motivate people to invite their peers to join and participate. People do not go to Facebook to read about Facebook, but to see and interact with other people and to build their own profiles. The knowledge age shifted value away from staged brand experiences to empowering people to fulfill their own ambitions, develop and showcase their skills and, in many cases, unleash their entrepreneurial talent for their own benefit.

eBay, the on-line auction platform, created 'eBay university', which hosts training sessions all over the globe to teach people how to set up shops on eBay, how to source goods, how to manage their inventories, and how to become successful entrepreneurs. In the process, it created a powerful value network of hundreds of thousands of shops where it profits from each

KNOWLEDGE ECONOMY

In the knowledge economy people no longer need brands to signify their identity, social status or lifestyle. People are able to create authentic representations of themselves on social media platforms and they can create and share their own value.

peer-to-peer transaction, yet at the same time empowers entrepreneurs to create their own profitable business. The most successful knowledge economy businesses are the ones which were able to provide platforms that motivated mass participation, sparked continuous activity and interest, and offered accessible possibilities for individual empowerment on a social, intellectual, talent development or entrepreneurial level.

The knowledge economy has irrevocably blurred the boundaries of concepts of 'business-to-business' or business-to-customer', key ingredients of the traditional 'value chain' introduced by the industrial paradigm. People trading on eBay, for example, can create, buy and sell goods. Value can flow in multiple directions. The knowledge age has introduced new

business models where value platform stakeholders can play multiple roles and create as well as consume value.

The empowerment of end-users to create and share their own value is not limited to digital or non-material media. Lego created 'Lego Factory', a platform where end-users can design their own Lego components using simplified on-line CAD tools, for personal use or for selling to the Lego community on a profit-sharing basis. It has implemented new technology that enabled it to produce, package and distribute one-off designs in an affordable yet profitable way. The Lego approach has added a new innovation paradigm, a new revenue model, and new enabling technologies into its business model.

It is also increasingly re-defining the way in which companies innovate and the way stakeholders in a value platform collaborate and share knowledge. Innocentive, is an open innovation platform that connects organizations on institutions with complex or difficult-to-solve research and development issues to a world-wide multi-disciplinary network of 'problem solvers'. Many large scale companies have testified of the success and cost saving of 'outsourcing' difficult innovation problems to this growing platform.

While the knowledge economy will continue to grow and deliver economic, and stakeholder value in years to come, there are already signs of consolidation around a number of platforms that form very strong centers of gravity on the Internet and which will capture most of the on-line activity. Nikesh Arora, Google's President of Global Sales Operations and Business Development, foresee a future in which there are 15 to 20 players that provide the most popular online services.

This is food for thought for any business contemplating the development of a mass on-line proposition as part of its innovation and growth strategy. What is the role of business in the socio-cultural context of the future, where end-users and other value platform participants are increasingly empowered to create and share their own value and where a number of large players will be positioned to take the lion's share of hosting the enabling platforms?

The knowledge paradigm brought benefits related to personal empowerment to multitudes of people who have access to the Internet. The knowledge paradigm has been instrumental in raising awareness and enabling discussion across the world of issues which affect quality of life and sustainable development on both a global and local scale.

The transformation economy

In recent years there have been a series of local and global incidents (e.g. food scares, public revolts, pollution scandals, financial crises and climate change) that highlighted mounting social, environmental and economic problems facing the world. The transparency brought by on-line debate has raised public awareness and is transforming the mindsets of people to demand a higher level of stakeholder accountability, participation and consultation in socio-economic development. Scientific evidence and escalating public debate is leading people to question the way in which we produce and consume and how we distribute wealth.

Many issues on a social and environmental level are growing in magnitude, affecting people in both advanced and less advanced economies.

These include issues such as malnutrition, education, obesity, aging society, climate change, loss of biodiversity, resource depletion, energy consumption, waste, water scarcity, air pollution and rising food prices. Many of them are too complex for any single stakeholder to resolve. They require a systemic approach and coordinated actions in the local contexts of intervention through multi-stakeholder collaboration.

There is also increasing evidence that a substantial proportion of Generation Y who are now becoming economically active and independent are more interested in meaningful work than in the pursuit of wealth or material status. Especially in advanced economies, the concept of quality of life is increasingly related to better living conditions, work-life balance, and personal fulfillment.

The size and the urgency of social and environmental issues, the advancement of clean technologies and the global spread of knowledge from simultaneous top-down and bottom-up societal actions are converging to create the beginnings of a new economic value creation paradigm. Many entrepreneurs and corporations are starting to explore value creation and new business models that go beyond fulfilling personal consumer needs and desires.

Social innovation and social ventures have moved beyond philanthropy, turning social and environmental challenges into market opportunities. They are driving the next wave of economic value creation that will transform the way we do business by focusing financial and creative resources on creating better social living conditions and improving the (immediate) environment.

The imperative of the emerging transformation economy will therefore be to provide meaningful context-specific propositions built around long-lasting, profitable, ethical, and fair business practices, and based on multiple stakeholder collaboration and value sharing.

As in the early phase of the knowledge economy, the business models necessary to achieve these ambitions are not mature; they are only just emerging. They will be developed

TRANSFORMATION ECONOMY

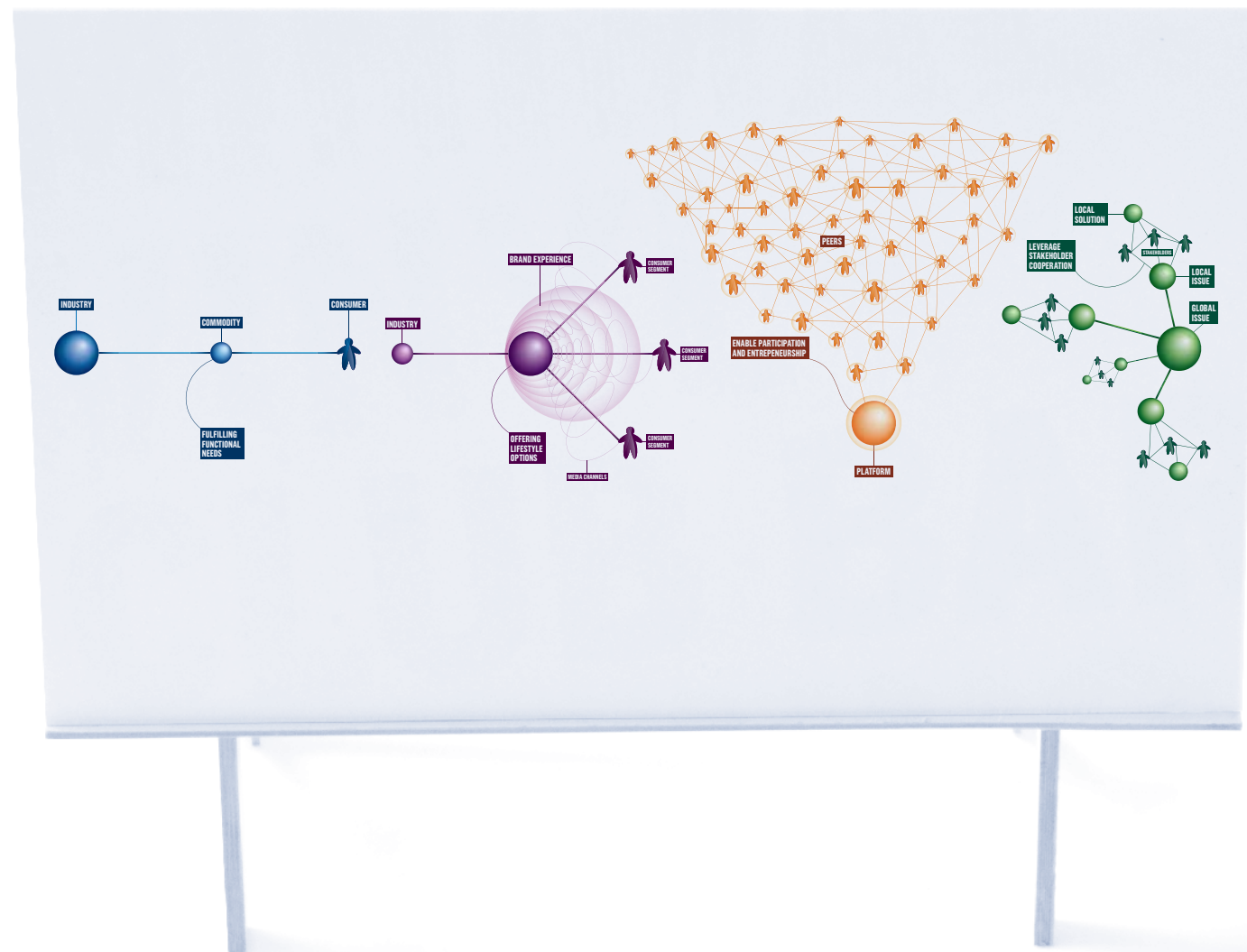
The imperative of the transformation economy will be to provide meaningful context-specific propositions built with long-lasting profitable, ethical, and fair business based on multiple stakeholder collaboration and value sharing.

and refined through experimentation and through piloting collaborative ventures in various geographical and social-cultural contexts.

Several companies are already piloting such ventures, and some have already achieved positive and encouraging progress in discovering models of value creation in monetary and non-monetary terms. An exemplary case is the initiative by the Danone Group, which set up a joint venture in 2006 with the Grameen Group (which includes Grameen Bank, the famous pioneers of micro-credit) and global and local stakeholders. The intention was to address the high levels of malnutrition in Bangladesh while creating profit as well as brand and socio-economic value for everyone involved.

'Danone Grameen Food' established a network of stakeholders with complementary expertise to introduce a low-cost yogurt fortified with micro-nutrients in a specific area of Bangladesh. Economic affordability for low-income communities was achieved through an inclusive business model which professionalized the supply chain of milk, sugar, and date molasses from local micro-farms; created the smallest Danone plant anywhere in the world (promoting the use of labor while reducing necessary investment levels); and allowed local woman to profit from distributing the yogurt by charging a commission. The initiative has created more than 1,600 jobs within a 30km radius around the plant. The 'reasonable' profit that Danone generates is reinvested, for the time being, in similar experimentations in other regions.

Paradigms — a model for strategic reflection



'Paradigms in Value Creation' presents a model for understanding the drivers of future value. It also shows what is required to leverage the changing societal contexts and deliver appropriate value in each of the periods covered.

The emerging paradigms in value creation have far-reaching consequences for the future vitality and competitiveness of organizations.

Many companies naturally tend to create future strategies and innovation roadmaps based only on their existing paradigm, which often does not exploit the full potential available. Even supposed sources of innovation such as incubators are often trapped in the same paradigm as the parent organization. Companies which can transform their business models, processes, talent base, capabilities and organizational culture to leverage emerging paradigms will create new landscapes for future growth and profitability (even in their existing industry), whereas companies 'trapped' in a declining paradigm are likely to face increasing pressure on profitability and opportunities for organic growth.

The model shown in Figure 1 does not imply that paradigms which peaked in the past in terms of economic value creation growth will cease to exist. It does, however, challenge companies to pursue strategic conversations and actions that will allow them to transform through leveraging the changing socio-economic landscape.

This is by no means a small challenge. Each paradigm requires a unique skill set, mode of thinking, enabling processes and - most importantly - business models and performance measurements. This generally brings a new level of complexity. In order to cope, companies often need to set up parallel organizational platforms with distinct processes, ways of working, funding and performance measurements so that initiatives are not stopped prematurely and don't fail due to a lack of organizational support.

Companies do not necessarily have to follow the linear progression of these paradigms, but may be able to 'leap-frog'. It often takes the same amount of effort for organizations to move from one paradigm to the next as it does to leapfrog to a non-adjacent paradigm.

The next sections will explore elements and building blocks of importance to consider for maximizing opportunities for each paradigm. In general, paradigms to the right of the diagram in Figure 1 have greater future growth opportunities, but come with challenges including a lack of proven business models, and innovation process requirements that are not conducive to business cultures and processes often found in paradigms to the left of the diagram.

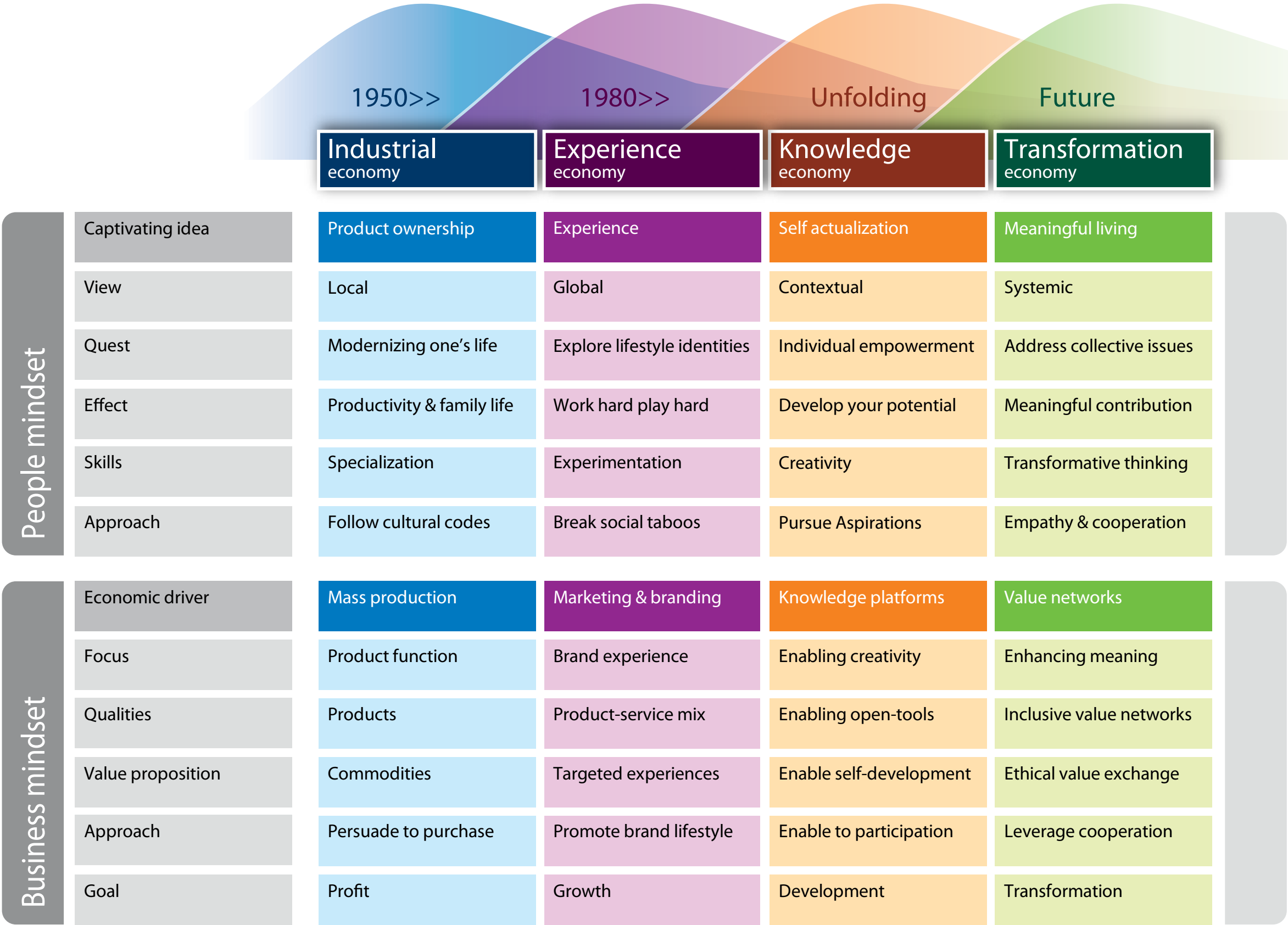
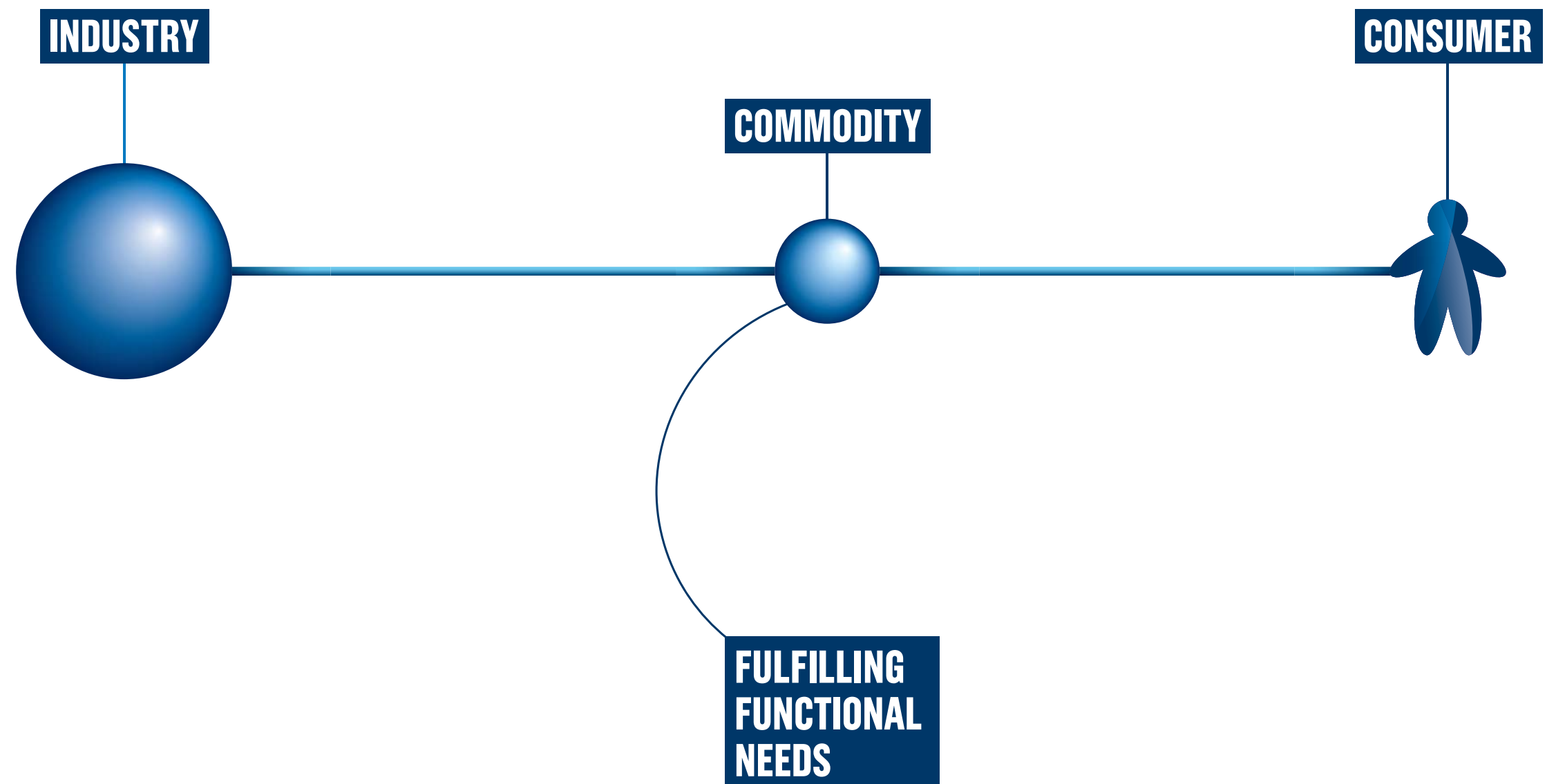


Figure 1.
Paradigms in Value Creation.
This diagram provides a high-level overview of value creation from a people- as well as a business perspective. Note: these paradigms are relevant for all markets; even though the timeline shown on the top is only applicable for developed Western markets.

Industrial paradigm — business implications



As mentioned before, many businesses operating in the industrial paradigm face ever-increasing pressure on margins due to commoditization, and often have limited prospects for sustained top-line growth.

Leadership focus: According to Michael Treacy and Fred Wiersema (1995) industrial economy companies need to achieve competitive excellence in at least one business dimension in order to stay competitive. Usually companies can only lead in one dimension:

Operational excellence.

It means efficiently, consistently and cost effectively providing a limited range of standard or routine services

Customer intimacy.

It means developing and maintaining intimate relationships with selected groups of current or new customers

Product leadership.

It means continuously developing and launching new programs and services not readily available elsewhere

Experience paradigm — business and brand implications

In this paradigm, building and managing brand equity will still be very important, but as mentioned already, building top-down managed brands is becoming increasingly costly and ineffective. There are simply too many brands trying to capture customer attention and 'selling' their brand experience in a world dominated by peer-to-peer trust and recommendations.

In the experience paradigm, building power brands required a very different business mindset and skill-set than in the industrial paradigm. Whereas the latter was focused on maintaining technological superiority, optimizing quality management, efficiency of execution and productivity management, many of these competences could be outsourced in the experience economy.

There are a number of key enablers required to perform in the experience economy:

Focus on marketing excellence.

In the experience economy, many companies typically adopted an 'asset light' strategy. They outsourced manufacturing and technology development, and instead focused on managing brand narratives, building media strategies, orchestrating brand experiences and building brand loyalty. This often meant a shift in emphasis towards marketing excellence, consumer understanding, and aligning the value proposition portfolio and communication to build the brand image and fulfill consumer needs and aspirations. A clear understanding of key market segments and their behavior, needs and aspirations was crucial.

Develop end-user empathy.

An important attribute of leading lifestyle brands which offer the 'preferred brand experience' is brand leadership. Brands need to be highly in tune with their customers and end-users in order to build relationships. Many companies think that responding to every consumer/customer need and desire ('customer is king') is the way to build a respected brand.

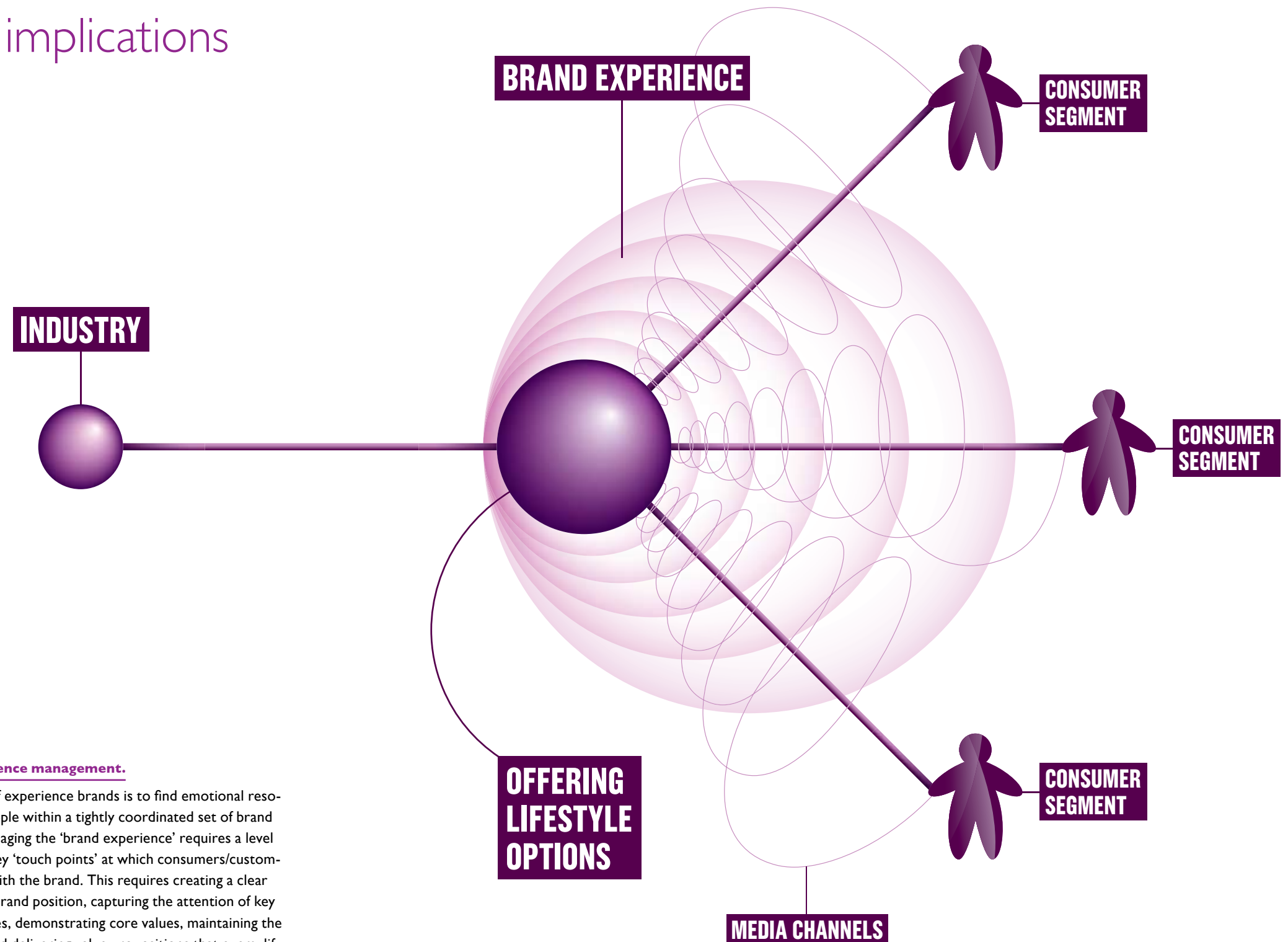
Beyond needs to inspiration.

The experience economy fulfilled the need of people to discover and re-establish their identity in the urban context. Leading brands do not merely aim to fulfill the expressed needs of people, but deliver propositions that guide and inspire them to expand their horizons.

Brand experience management.

The strategy of experience brands is to find emotional resonance with people within a tightly coordinated set of brand attributes. Managing the 'brand experience' requires a level of control of key 'touch points' at which consumers/customers interface with the brand. This requires creating a clear and appealing brand position, capturing the attention of key target audiences, demonstrating core values, maintaining the brand image and delivering value propositions that exemplify the brand lifestyle.

Today, this quest has become much more challenging. There are a multitude of lifestyle reference points provided by brands, popular cultural icons and peer self-expression in social media. People are empowered by an increasing confidence and ability to shape and express their own unique identity and lifestyle vision.



Knowledge paradigm — business and brand implications

The level of end-user empowerment which surfaced during the knowledge economy is prompting many businesses to re-assess their strategies with regard to value creation, their competence portfolio and brand communication. Web 2.0 has not only provided people with the possibility of peer-to-peer collaboration and value exchange, but it has transformed their aspirations in the process.

The quest for lifestyle guidance and identity has made way for the ambition of people to collaborate, develop their talent and fulfill their potential. People are increasingly using social media and on-line business platforms to brand themselves to their peers and the world at large, and to create and exchange their own value in the networks they choose to participate in.

Businesses in the knowledge paradigm have to shift the focus of their value contribution from selling products and brand experience propositions to creating enabling platforms that fulfill and support these changing socio-cultural ambitions.

This presents challenges on many levels:

Branding.

Companies have to think differently about their brands and branding. Instead of 'shouting' they have to start 'listening'. Companies must remain true to their core brand values, but also need to understand that platforms are focused on the people who use them, not on the enabling brands, because essentially people are using these platforms to establish their own personal brands. Once they have achieved this and established a social network, they are more committed to the platform.

Segmentation (or not?).

Companies need to reflect carefully on their traditional approach to segmentation. In the knowledge economy, it is near impossible to create lifestyle segmentations, as people do not pursue traditional lifestyle directions anymore. Most of the successful on-line platforms (Facebook, Blogger, Twitter, eBay, Amazon) offer platforms with very broad appeal around core social aspects, and allow the platforms to develop their own social groupings, structures and interest groups.

Innovation and new value creation.

In the knowledge economy, starting a new venture with a traditional business plan and 5-year revenue/profit

projections is often not a good idea. New platforms need a completely different set of measurements than in earlier economic paradigms. It is advisable to think in milestones rather than revenue projections. Scale is the first objective of a new knowledge economy platform. If the platform does not fulfill its 'scaling' objectives (i.e. exponential scaling through peer-to-peer recommendations), then it will not survive long enough to warrant a business model. If a platform rapidly grows, then the business can start to experiment with revenue models. It is often not possible to predict which platform propositions will scale, and therefore it is important to seed many experiments in order to discover which opportunities warrant further development.

Engagement.

The biggest challenge for businesses is learning to understand the social principles that may lead to scaling platforms. There should be a compelling motivation for people to use the platform and create content in the first place. There needs to be a social trigger that encourages them to invite their peers. There should be sufficient value and variation to keep them active and engaged on the platform (stickiness); the longer people are prepared to spend on a platform, the better its chances for growth. An important principle of Web 2.0 is that communities that choose a particular platform feel a strong sense of co-ownership. In the most successful platforms, most of the content and richness is provided by peers themselves, and not by the company that provides the platform. Many platforms engage users in the continuous development and evolution of the platform. Therefore, no platform is launched as a 'complete' solution, but instead remains in a dynamic Beta state of continuous development.

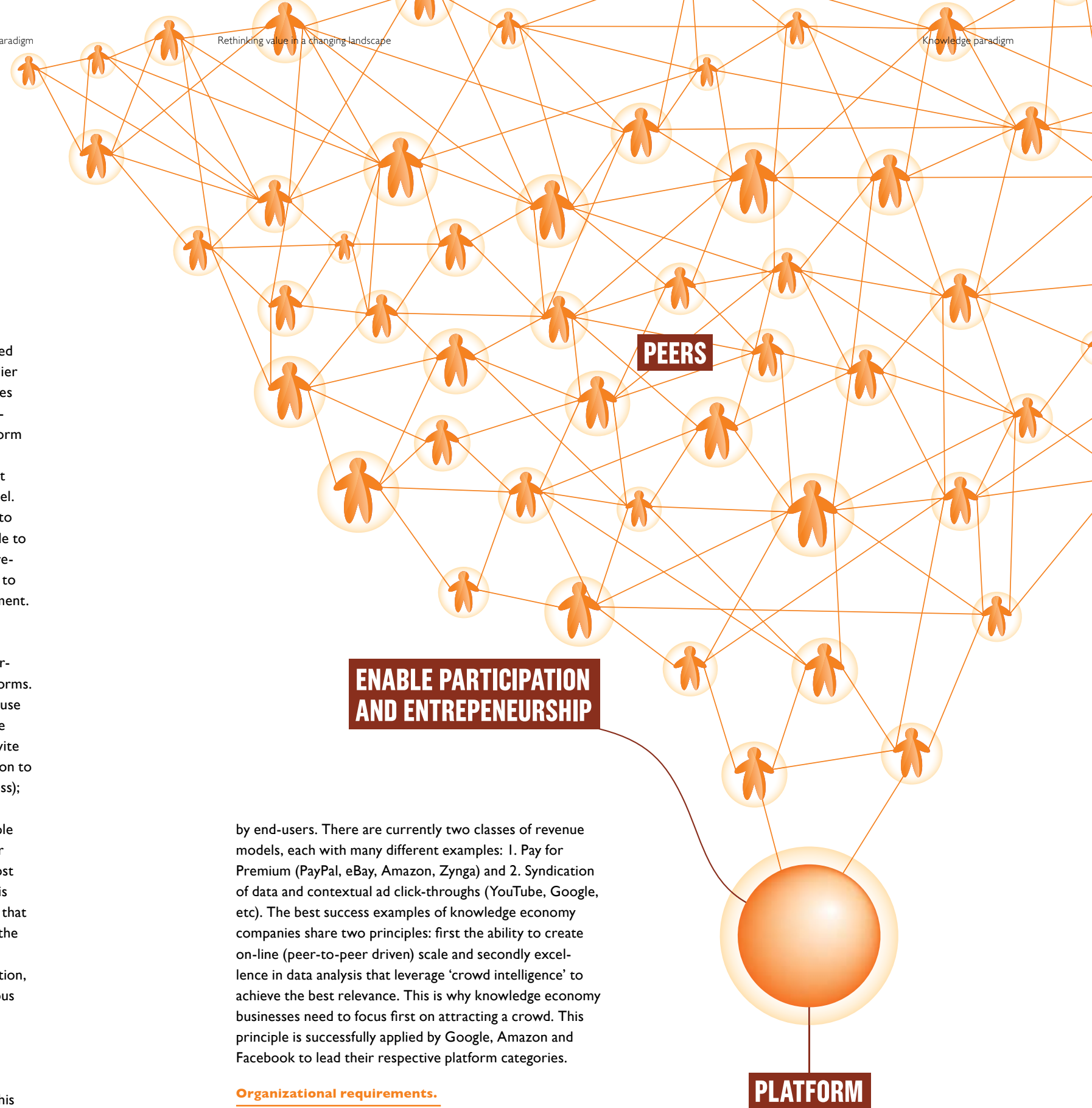
Business models.

A key principle shared by many of the most successful platforms today is that they become meta-platforms. This means they offer a multitude of opportunities for other businesses and users to develop value-sharing propositions that will expand the platform. This is a shared feature of platforms like Blogger, Wordpress, YouTube, Twitter, Facebook, eBay, Amazon and many others. One major challenge is the perception that everything on the Internet is free. This makes it necessary to create large-scale communities where indeed most of the value is accessible for nothing

by end-users. There are currently two classes of revenue models, each with many different examples: 1. Pay for Premium (PayPal, eBay, Amazon, Zynga) and 2. Syndication of data and contextual ad click-throughs (YouTube, Google, etc). The best success examples of knowledge economy companies share two principles: first the ability to create on-line (peer-to-peer driven) scale and secondly excellence in data analysis that leverage 'crowd intelligence' to achieve the best relevance. This is why knowledge economy businesses need to focus first on attracting a crowd. This principle is successfully applied by Google, Amazon and Facebook to lead their respective platform categories.

Organizational requirements.

The knowledge paradigm is difficult to combine with past paradigms, as organizations need to create enabling conditions to deal with starting initiatives without clear traditional business plans. They also have to create conditions which allow a higher degree of transparency and engagement with stakeholders. And they should develop a co-creative innovation culture that shares development, innovation and revenue with other stakeholders.



Transformation paradigm — business and brand implications

Leading companies always responded to the 'Zeitgeist' of the time. At the height of the industrial economy, people were inspired to modernize their lives through access and ownership of technology applications and products. In the experience economy, the leading brands fulfilled the need for lifestyle guidance and the void of lost identity caused by urbanization. In the knowledge economy, leading businesses provide platforms that empower people to create and share ideas, communicate with their peers and produce their own value.

As emerging economies expand and progress, many socio-environmental issues are increasingly receiving attention on social network platforms. There is an increasing awareness and interest amongst business, entrepreneurs and ordinary people to act on shared global issues such as pollution, malnutrition, environmental decline, climate change and aging society.

It is becoming increasingly apparent to many visionaries that companies can flourish by 'doing good'. The transformation economy will be driven primarily by a systemic shift in the global socio-economic mindset. That means mobilizing business talent, competences and resources to address these issues, not through philanthropy (because it is not scalable), but through new ways of doing business and engaging stakeholders.

A number of companies (e.g. Danone) have started to experiment with new sustainable business models to effectively address specific socio-economic or socio-environmental issues. Although new learnings and business models in this paradigm are only starting to emerge, there are already a number of clear principles that can guide companies who wish to explore future growth opportunities in the transformation paradigm.

Systems thinking – think global and act local.

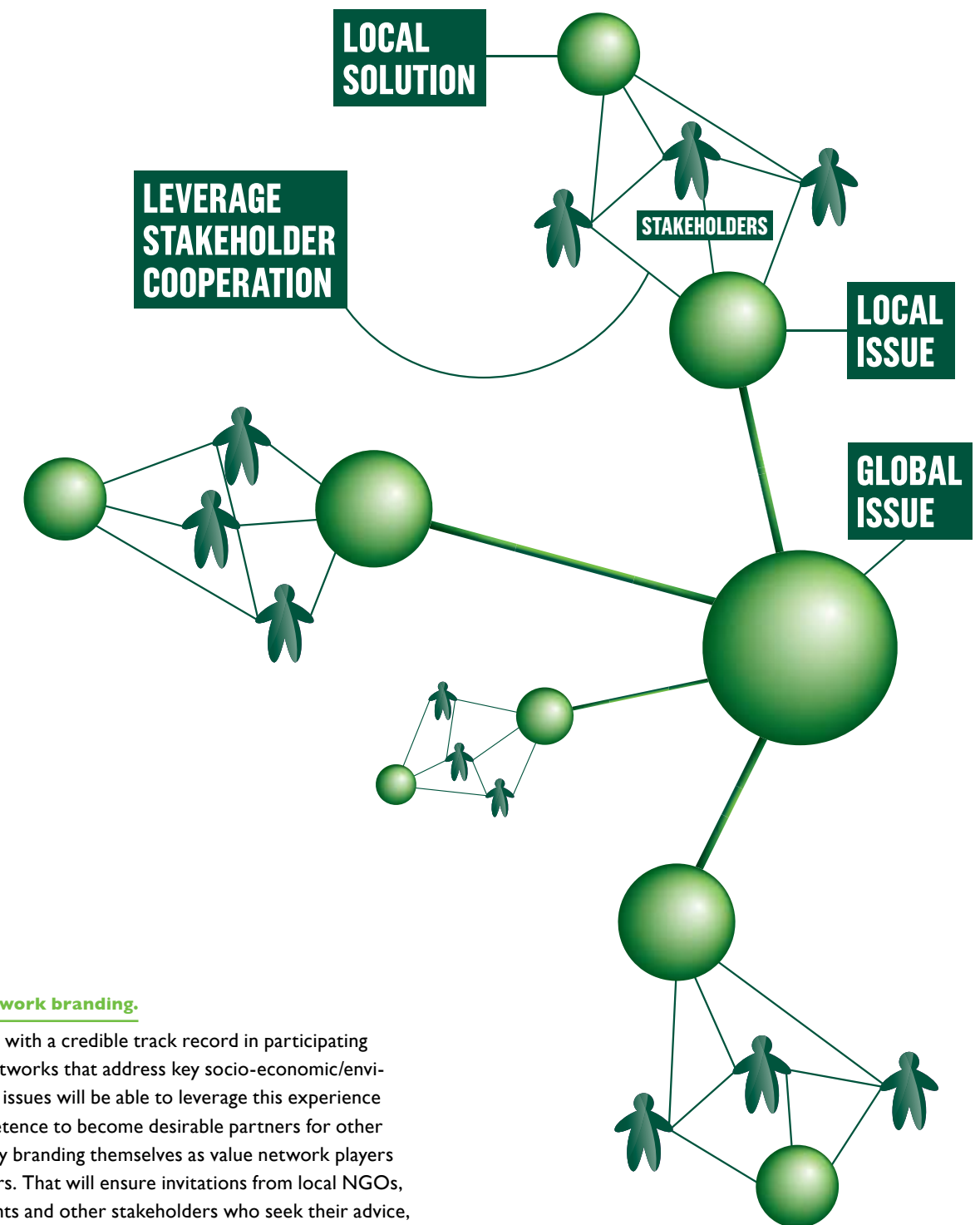
Many of the issues around which transformation paradigm initiatives will be dealt need to be addressed on a systems level. This is because issues are often interconnected and also need to take into account local cultural traditions, thinking and nuances. It is therefore essential that initiatives adopt global ambitions while driving results on a local level to ensure practical results. Discovery and practical learning can only be realized through practical pilot initiatives.

Building trust, partnerships and value sharing networks.

A key principle of success in the transformation economy is that 'how' and 'with who' become equally as important as 'what'. In order to create competitive answers around complex issues, companies need to rely on complementary expertise, global know-how and local contextual insights, which require experimentation via new venturing and cooperative approaches with conventional and non-conventional stakeholders. It becomes essential to engage credible knowledge experts, to tap into the knowledge of multiple for-profit and non-profit stakeholders with deep local contextual insights, and to leverage existent social networks which are already trusted by the potential target audience. This also necessitates different business models where value creation and profit is transparently shared and fairly distributed across the value network.

Organizational enablers.

In the new process of value creation, companies are experimenting with innovative management practices. These range from the invention of unconventional business models - by leveraging new marketing, distribution and brand strategies - to the definition of new evaluation matrixes for judging success and measuring performance in economic, social and environmental terms. On this complex learning path, the aim is not to immediately maximize profit and short-term financial return on investments. Rather, it is to understand 'what' to propose in a potential value network relating to a specific issue (product? enabling technology? service contribution?); determining 'how' to establish a solid base for maximizing value creation in terms of profitability and necessary competencies for current and future growth; and working out 'who' to partner in exchanging knowledge, expertise and sharing the outcomes of the value network.



Value network branding.

Businesses with a credible track record in participating in value networks that address key socio-economic/environmental issues will be able to leverage this experience and competence to become desirable partners for other ventures by branding themselves as value network players and builders. That will ensure invitations from local NGOs, governments and other stakeholders who seek their advice, competence and skills.

The systems approach, which leverages value network cooperation emerging from the business initiatives and experiments of creating new business models in the transformation paradigm, will fundamentally change the institutional role of business in society. Balancing shareholder profits with shared value creation will not only generate profitable growth opportunities for business, but will also support local skill and entrepreneurship development, which will lead to more inclusive and socially-sustainable business.

Conclusions

Companies that are able to master and leverage new paradigms of economic value creation have more options to sustain future growth and profitability. Companies who are unable to make these transitions will face increasing pressure of commoditization and cut-throat competition.

Preparing an organization to operate and derive value from a new paradigm is no trivial task and requires vision, leadership and above enabling conditions for learning and experimenting. The leadership of such organizations needs to be fully aware of the challenges, and must also be dedicated to creating such enabling conditions.

Each economic paradigm require a completely new mindset, a re-definition of value, a new approach to value creation and dissemination, and a new (parallel) set of performance measurements to prevent new initiatives from being axed based on the wrong assumptions.

Future growth through the knowledge and transformation paradigms

Two key economic paradigms for future growth are the knowledge paradigm and the transformation paradigm. Both have distinct challenges, but they also share some common principles which differentiate them from earlier paradigms.

Shared principles:

- The knowledge and transformation paradigms assume a level of democratization of technology and value creation.
- Both leverage a high level of stakeholder participation.
- Both require a re-think of business models to transform value dissemination from a chain to a network in which value can flow in multiple directions.
- Both favor continuous experimentation rather than top-down visions and planning.

Differentiating traits:

- The knowledge economy is about building platforms that achieve scale through stimulating peer-to-peer collaboration and enable people to develop their potential, fulfill their aspirations and become their own authentic brands.
- The transformation economy will be built on systemic initiatives to derive business opportunities from addressing local/global socio-economic and socio-environmental issues. The approach (how) and the engagement (who) will be an important principle. Successful initiatives need to build trusted local value networks that add value by solving issues and empower local stakeholders and entrepreneurs to share in the economic value.

Key success factors

In the knowledge economy, the choice of leveraging existing meta-platforms or building a dedicated platform is a major consideration, yet understanding and discovering the social mechanisms that causes peer-driven platform scaling is the key success factor.

In the transformation economy, the establishment of best global and local networks of competencies and expertise around a particular issue becomes a key competitive business asset.

Closing note

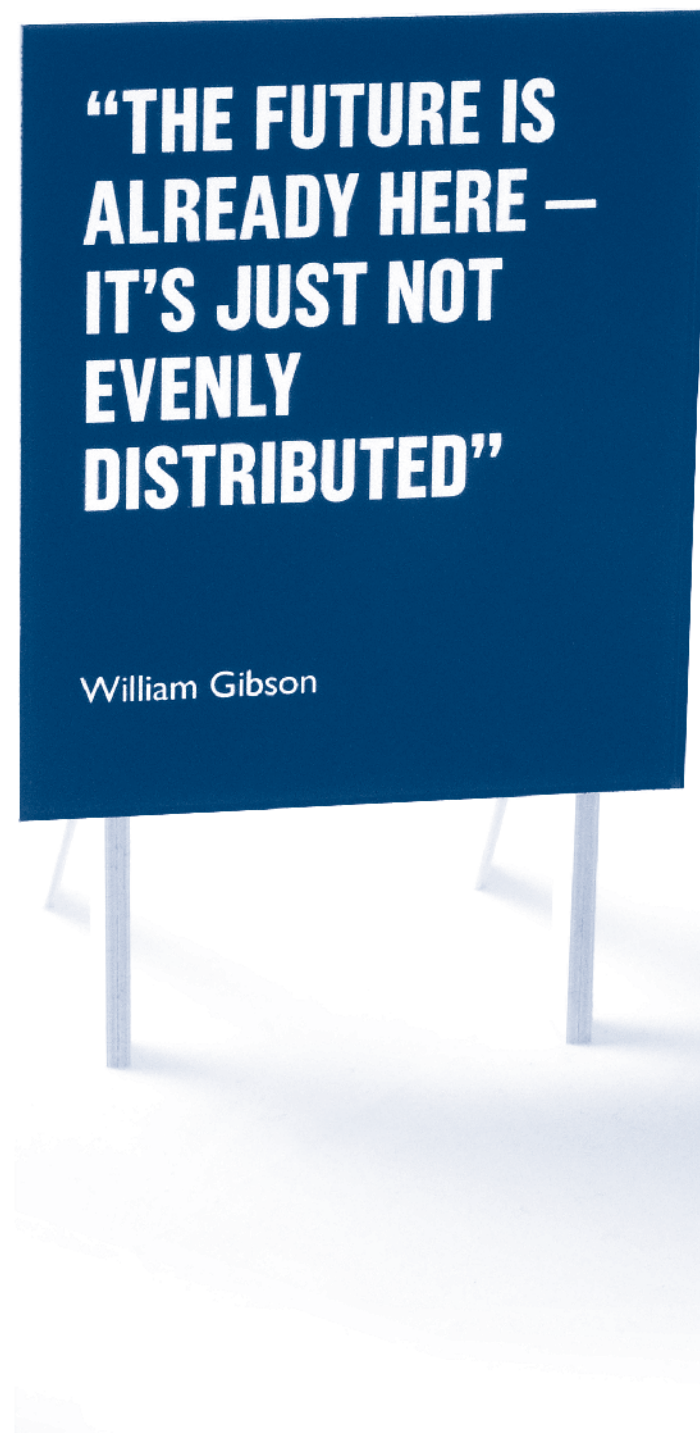
Next to roadmap innovation, radical or break-away innovation is fundamental for business growth. Break-away innovation has been driven to a large extend by advances in performance and technology. But in the recent years it has become increasingly clear, from examples like the Nintendo Wii and the Apple Ipad, that innovations also need to be in sync with developments in what people value and aspire to achieve breakthrough growth.

Innovating how products and services help people to achieve their future goals and aspirations, in other words innovating meaning, is based on a deep understanding how value is changing for people and on how socio cultural paradigms are developing. Recent books, e.g. Douglas. Holt's: How Brands Become Icons, and Roberto Veganti's: Design Driven Innovation – Changing the Rules of Competition by Radically Innovating what Things Mean- illustrate this clearly.

In Philips Design we track how value is changing by identifying so-called weak signs. Or as William Gibson puts it: “The future is already here – it’s just not evenly distributed.” In order to assess the importance of these weak signs we position them in the historical context (as presented in this paper on changing paradigms) and develop design visions (Design Probes) to provoke debate in order to generate (high level) insights. To understand which weak signs resonate with a larger audience, as starting point for developing growth propositions together with the innovation partners – technology, strategy, marketing - in Philips.

Paul Gardien
Head of Design Strategy & Design Innovation, Philips Design

Recommended reading



Drayton, B and Budinich, V. (2010) *A New Alliance for Global Change*. Harvard Business Review, September Issue.

Habiby, A.S. and Coyle, D.M. Jr. (2010) *The High Intensity Entrepreneur*. Harvard Business Review, September Issue.

Hart, S. (2005) *Capitalism at the Crossroads. The Unlimited Business Opportunities in Solving the World's Most Difficult Problems*. New Jersey: Wharton School Publishing.

Klein, Naomi. (2000) *No Logo*. Knopf Publishers.

Kumar, R. (2010) "Social enterprise: It takes a network", *What Matters*. McKensey, 22 April, online article: http://whatmatters.mckinseydigital.com/social_entrepreneurs

Normann, R., Ramirez, R. (1995) *Designing Interactive Strategy. From Value Chain to Value Constellation*. Chichester: John Wiley & Sons Ltd.

Normann, R., Wikstrom, S. (1994) *Knowledge & Value*. London: Routledge.

Pine, B.J., Gilmore, J.H. (1999) *The Experience Economy: Work Is Theater & Every Business a Stage*. Harvard Business Press.

Thompson, J.D. and MacMillan, I.C. (2010) *Making Social Ventures Work*. Harvard Business Review, September Issue.

Treacy, Michael and, Wiersema Fred (1995) *The Discipline of Market Leaders*. Boston, MA: Addison Wesley

Yunus, M. (2010) *Building Social Business: The New Kind of Capitalism That Serves Humanity's Most Pressing Needs*. New York: PublicAffairs.

Authors



Reon Brand
Sr. Director Foresight and Socio-cultural studies:
Company Design Research, Philips Design.



Simona Rocchi
Sr. Director Design for Sustainability studies in advanced and emerging markets: Company Design Research, Philips Design.

Acknowledgements

We would like to thank Paul Gardien for invaluable input, support and content review, Eric de Haas for the graphic design.

About Philips Design

Philips Design is one of the longest-established design organizations of its kind in the world. Its creative force of some 400 professionals, representing more than 35 different nationalities, embraces disciplines as diverse as psychology, cultural sociology, anthropology and trend research in addition to the more ‘conventional’ design-related skills. The mission of these professionals is to create solutions that satisfy people’s needs, empower them and make them happier, all of this without destroying the world in which we live.

