

THE BIG PICTURE

THE 2.0 ADVANTAGE



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The upgrade of the Internet challenges companies in the way they are doing business. But they can use Web 2.0 to be the leader in their industry.

By Rhea Wessel

Time Magazine's most recent Person of the Year is not a CEO, a peace advocate or a scientist. The magazine made a revolutionary choice: It picked "You."

Online collaboration and communities are giving rise to the individual, and the individual – the consumer – is finally claiming what is due.

Time said, "It's about the many wresting power from the few and helping one another for nothing and how that

will not only change the world, but also change the way the world changes."

Some businesses have already recognized the trend, often called Web 2.0 (as if it were an upgrade of the Internet). These companies took their cues from the way the Web is used privately with tools such as wikis, blogs, videocasts and those found on social-networking sites. Companies have ushered in such technology to gain a competitive



Left: GM's Bob Lutz has his eye on the future and he is excited about new diesel-driven hybrids. **Above:** Lutz is being driven by customers, who, like the one above, make themselves heard in GM's online forums.

voice and presence. Some are sharp-witted activists while others act like pubescent teens or drunken sailors, intent on disrupting and redefining the current social and corporate order. Anyone who fails to recognize this power shift away from the establishment may learn the lesson the hard way. Already, 85 percent of C-suite executives see the sharing and collaboration aspects of Web 2.0 as an opportunity to increase revenue and/or margins, and 35 percent say it will transform all parts of their businesses, according to the Economist Intelligence Unit.

Other studies show, however, that **→senior managers fail to invest in Web 2.0** because they don't see business benefits. Perhaps they are afraid of the cultural change that inevitably comes with Web 2.0? A reader of O'Reilly Radar, an arm of the media company run by tech guru Tim O'Reilly, commented on implementing Web 2.0: "Every leader and manager can have his vision, but only ones with strong execution win at last." O'Reilly often receives credit for coining the term Web 2.0, and his company hosts a yearly summit on the subject. Companies employ Web 2.0 tools in a myriad of ways, but their goals seem to be the same: They aim for a competitive advantage.

advantage by helping employees collaborate internally, engaging their customers, increasing their pools of resources, cutting R&D costs and communicating with staff.

Web 2.0 generally refers to tools and sites that enable user-generated content and feedback while focusing on collaboration and sharing information. These tools blur the lines between the consumer of information and the producer of information, and they alter the rules for corporate communication – both internally and externally.

Communication is no longer a one-way street; engagement and interaction are the new key words. The main users of collaborative tools clearly enjoy their new-found

The collaboration revolution has just begun. Even as we speak about Web 2.0, the next revolution is underway. It's been dubbed—surprise—Web 3.0 and is about how computers, not humans, interact. Is this all good? Largely, but companies also have to reckon with the fact that the collaborative Web gives consumers new power, a fact that companies like HSBC and AT&T have learned the hard way. In this issue, C Magazine examines how this explosion in collaboration is changing the way some firms do business.

PIONEERS LEARN VALUABLE LESSONS

GM was an early adopter of Web 2.0, starting in 2005. In late August this year, the European arm of the company en-

abled its online newsroom for social media. It wanted to "create a dialogue with the consumer" and provide news "in a form that makes it easy to republish, comment on and pass along." GM's so-called "blogger-in-chief," Bob Lutz, talks and listens to customers via his FastLane blog. The vice chairman says: "No better opportunity exists to engage in an open dialogue and exchange of ideas with customers and potential customers." GM uses the tool to conduct informal, grassroots market research, and it does not delete negative comments, complaints, or even hate mail. It only edits for offensive language. "If you filter the negatives out, you don't have a true dialogue, so how can you hope to change anybody's mind about your products



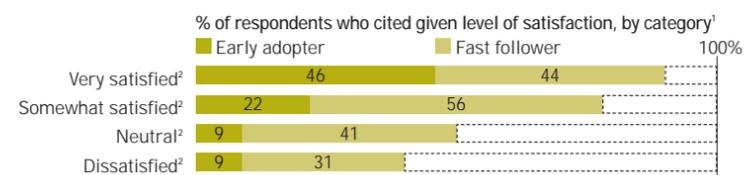
The Flextrex—GM's concept car weds diesel and electric technology to create a vehicle that the company says will emit just 40 grams of CO₂ per kilometer, well below EU targets.

70%

OF MANAGERS SURVEYED USE WEB 2.0 TO ENGAGE CUSTOMERS AND 75% PLAN TO MAINTAIN OR INCREASE WEB 2.0 INVESTMENT

Source: McKinsey & Company

HOW SATISFIED ARE YOU WITH YOUR COMPANY'S FINANCIAL RETURN ON INVESTMENT IN WEB 2.0 TECHNOLOGIES OVER THE PAST 5 YEARS?



¹ Respondents whose companies were late followers or did not invest are not shown.
² Very satisfied = paid off faster or beyond expectations; somewhat satisfied = paid off as expected; neutral paid off as expected but took longer than hoped; dissatisfied = didn't pay off as expected or took too long.
Source: 2007 McKinsey survey on Internet technologies

→senior managers fail to invest

Some 85% of C-suite executives see that Web 2.0's ability to share information with staff, customers and suppliers and enhance collaboration as a unique business opportunity. But many senior managers fail to invest in Web 2.0 because they still do not see the business benefits. It is therefore important that top management is tough on execution and makes the Web 2.0 business pitch clear to management.

WEB 2.0 TOOL:

Blogs (short for Web logs): online journals often distributed to other sites or readers using the publishing tool **RSS** (really simple syndication). RSS allows people to subscribe to online distribution of news, blogs, or **Podcasts**, which are audio and video recordings distributed by an aggregator such as iTunes.

or your business?" Lutz says. As part of the Web 2.0 vision, many technophiles expect companies to open up certain processes, including the design process, for collaboration with their customers.

So far, GM has not crossed that bridge, even as a forerunner in the collaborative media space. Yes, customers can "build" their own cars online by assembling standard features, but it will be many years – if ever – before sophisticated design software is offered to the consumer as a high-tech toy for building the dream car. "It's something we might look at," a GM spokeswoman said. For now, Web users will have to be content to do this on collaborative design sites like Second Life. Companies here again discovered for themselves a popular site for individuals. They are positioning their brands on the medium by designing their own futuristic worlds. GM's Pontiac brand has a presence in Second Life called Motorati Island. There it features the Solstice GXP as it drives through a sleek and futuristic city. The company also uses the space to interact with customers by hosting online events.

CUSTOMERS DESIGN THE PRODUCTS

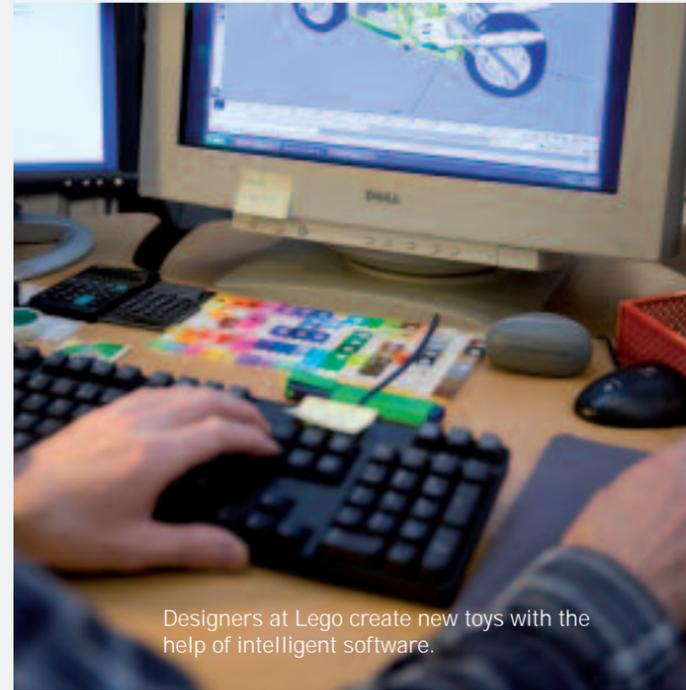
In smaller and simpler ways, other companies already allow collaborative online design. The BBC, for instance, tested a "Creative License" project in which it opened up parts of its content database to private video and audio editors. Individuals were free to manipulate the content as they please as long as it is for non-commercial purposes. The LEGO Group has found a way to do something similar and make money with it. As a producer of building

blocks, it was only natural for The LEGO Group to allow fans to build The LEGO Group creations on its Website. Once a person has used the downloadable design software to construct a model at the The LEGO Group Factory site, a few clicks more allow him to purchase blocks to build the model at home. In 2006, as part of restructuring, The LEGO Group formed the Community, Education and Direct Division, one of The LEGO Group's four primary units. The main goal of the division is to create new business by working directly with consumers. The LEGO Group Factory and other tools that allow direct interaction with customers are part of this division.

Lisbeth Valther Pallesen, the executive vice president of the division, said The LEGO Group started interacting directly with consumers on a gradual basis. In 2004, the company launched "galleries" on its Web site. Users can comment on the work in galleries on various regulated message boards. That led to the next step: games. "You could see from the interaction that children were looking to play games. We started to develop games that allow a deeper experience with the company," said Pallesen. Games are scored and points become "currency" that can be spent to buy animated figures elsewhere on the site. "The more customers are involved – the higher the direct interaction – the more they purchase. They buy an average of three to four times as much as other customers," said Pallesen. She warned, however: "Once you enter the realm of community interaction, you have to do it with your heart and soul." People need to gain recognition for their contributions and feel the company is really listening.

"Enter the realm of community interaction, but you have to do it with heart and soul."

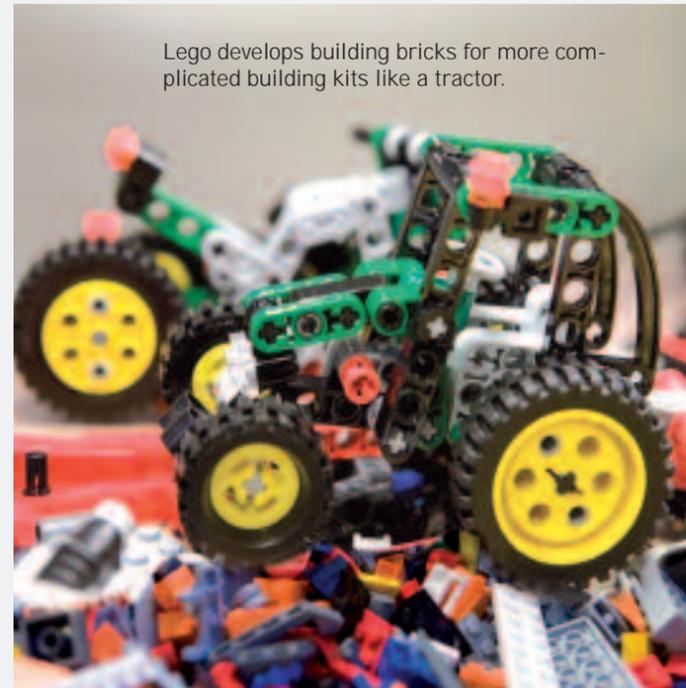
Lisbeth Valther Pallesen, Lego



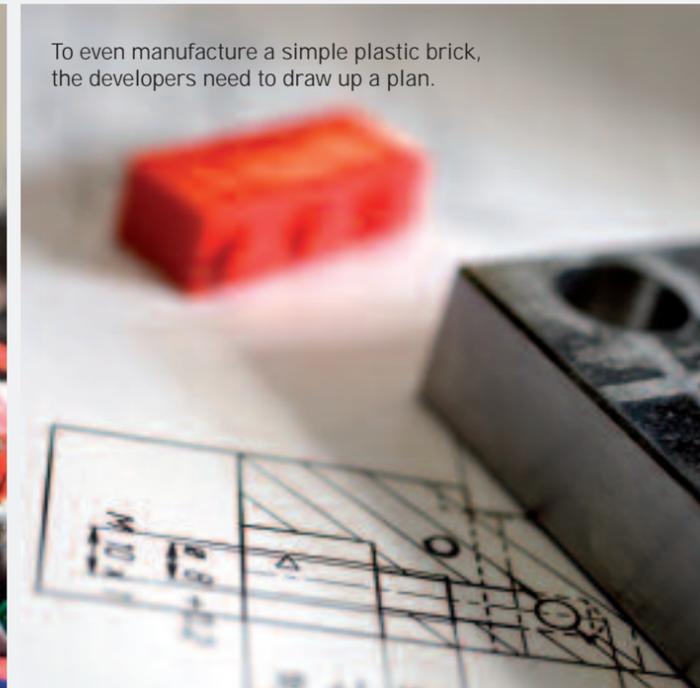
Designers at Lego create new toys with the help of intelligent software.



Lisbeth Valther Pallesen believes in direct interaction with consumers.



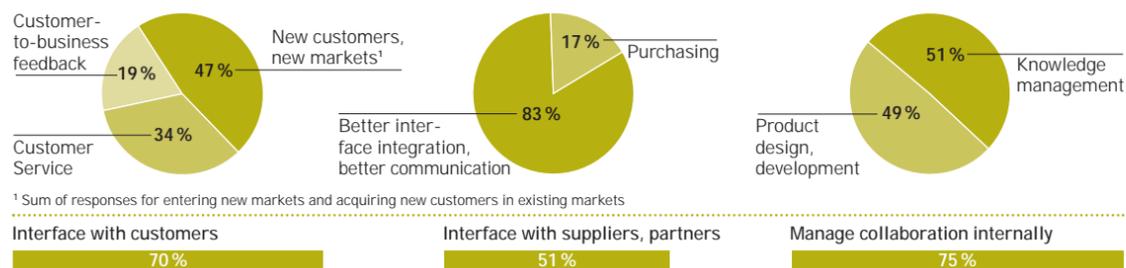
Lego develops building bricks for more complicated building kits like a tractor.



To even manufacture a simple plastic brick, the developers need to draw up a plan.

EXECUTIVES SAY THEY USE SOME COMBINATION OF WEB 2.0 TECHNOLOGIES TO ...

Source: 2007 McKinsey survey on Internet technologies



50%

OF WEB USERS GO TO SOCIAL MEDIA SITES. MORE THAN HALF OF THE VISITORS TO MySpace ARE OLDER THAN 25. WHEN LOOKING FOR FINANCIAL PRODUCTS, PEOPLE TRUST BLOGS MORE THAN ADVERTISING.

Source: Booz Allen Hamilton, Deutsche Bank Research

WEB 2.0 TOOL:

Collective Intelligence refers to any system that taps the expertise of a group rather than an individual to make decisions. Technologies that contribute to collective intelligence include collaborative publishing, such as Wikis, and common databases for sharing knowledge.

“Orchestras tend to be pretty poor when there is just one guy trying to play all the instruments.”

AI-Noor Ramji, CIO, BT Group

It also means not shying away from difficult conversations and topics. The LEGO Group learned this quickly when customers protested after the company took some colors out of the assortment. “We got a huge reaction from our fans – a lot of push back. We learned that we definitely had to take them in and involve them even in product development decisions.” Pallesen and The LEGO Group are helping define a new trend in marketing: a move away from interruption and toward engagement. “Imposing a brand image onto consumers will not work much longer. The brand must allow consumers to fill it with life as it fits them,” she said.

INTERNAL COLLABORATION AND BUILDING

Other companies focus their Web 2.0 efforts on improving internal collaboration and building communities. British Telecom has implemented wikis and blogs internally to improve collaboration among employees. The CEO holds a weekly interactive blog session, and BT Group’s CIO, AI-Noor Ramji, has championed Web 2.0 technology inside and outside the enterprise.

The company uses wiki technology (which allows people to edit documents online) to create virtual project spaces where employees can offer their skills and knowledge. It is also a place to recruit help if employees are struggling with a problem.

Ramji says companies often reject social software because they consider it a waste of time or full of “rubbish.” He counters: “Crap is created. It is rarely, if ever, co-created. Or even endorsed.”

Ramji is convinced that the technology is an excellent way to bring out the collective intelligence and knowledge of an enterprise. “Orchestras tend to be pretty poor when there’s just one guy trying to play all the instruments simultaneously. When I compare wiki usage to that of written manuals and policy documents, or to that of the traditional intranet, it isn’t even worth trying to make a case. Game over,” he said. Motorola has also embraced Web 2.0 tools internally to improve collaboration. Its intranet features more than 5,000 blogs and any employee can build a simple site using a wiki tool. The company wants to build on this base and begin cultivating communities. A community is a group of people who communicate over a site but need more than just a discussion forum. Mary Owens, Director of Intranet Strategy at Motorola: “It’s a space to pull together a bunch of tools a group might need like a calendar function and blogs. Right now we’re looking at how to promote the use of communities. We need to identify knowledge areas where we need communities and start them up.”

Padmasree Warrior, Motorola’s CTO, blogs on the Motorola Web site to share her thoughts about the industry with the company’s 66,000 employees and other interested parties. Her staff moderates for spam and other inappropriate content. She wrote: “The future is about open communities, sharing and collaboration... I don’t think this facet of the user experience is going away – ever. People want to share with like-minded people.”

This clearly happens inside Motorola on the company’s 20,000-plus discussion forums. Online discussion



AI-Noor Ramji, CIO, BT Group

WHAT ARE YOUR COMPANY’S PLANS FOR INVESTING IN WEB 2.0 TECHNOLOGIES OVER THE NEXT 3 YEARS?

% of respondents by region who plan to increase investment



Source: 2007 McKinsey survey on Internet technologies

WEB 2.0 TOOL:

Web Services: software systems that enable different systems to communicate with one another automatically in order to pass information or conduct transactions. A retailer and supplier might use Web services to communicate over the Internet and automatically update each other’s inventory systems, for example.



Robert Zoellick became World Bank chief after his predecessor was forced out.

World Bank staff used an internal online forum to rant about the former bank president's alleged favoritism towards a girlfriend.

groups give developers and other employees the chance to broadcast their questions to a large group, seeking answers and solutions to their problems while sharing ideas. This strategy of casting a wide net in the search for solutions forms another basic tenet of the collaborative ideology of Web 2.0. Procter & Gamble, and other companies such as Boeing and Eli Lilly, strongly embrace co-operative problem solving by tapping wider resource pools than their own in-house R&D teams. The first to do it, however, may have been the CEO of what was then the Canadian Goldmine Goldcorp. In 2000, he published geological data on

the Internet and offered money to those who identified the best places to find gold by analyzing the data and publishing their findings on its site. At 80 percent of the sites reported, the company struck gold.

When →Procter & Gamble wanted to collaborate more widely starting in 2003, P&G encouraged the founders of YourEncore to start a company that would build a network of highly qualified scientists and researchers who wanted to continue working after retirement. YourEncore built the network and connected a Boeing scientist with P&G in one of its first projects. The

“The question is how to gain the power of the group and balance control with teamwork.”

John Chambers, Cisco, CEO



The Canadian mining company Goldcorp tapped the power of the Web to find new minerals.

scientists worked together to use virtual modeling concepts for diaper design. “It shortened the product development cycle,” said Brad Lawson, YourEncore’s CEO. Just as collaborative tools can improve personal and company productivity, they can also be used to challenge the established order. The World Bank’s former president Paul Wolfowitz learned this the hard way. In February, the bank began allowing comments on its online internal newsletter as a way to liven up communications.

BUILD IT AND THEY WILL COME

The bank saw that employees were already participating in external blogs, and it wanted to give staff a forum to voice their opinions. When the service started, the bank received about five to six comments per article per day. Then Wolfowitz was accused of arranging special treatment for his girlfriend. When the management published an internal news article on April 10, staff posted 571 comments out of



Motorola's CTO Padmasree Warrior shares her views with the company's employees in her blog.

14,000 unique visitors. “Essentially, the forum wouldn’t let the topic die,” said internal communications officer Michele Egan. “The online forums forced the management and executive board to take note and push the boundaries of transparency in resolving the issue.” Now everyone at the bank takes the forums seriously and the bank is developing a set of social media guidelines.

NOT TECHNOLOGY, BUT A NEW PARADIGM

Jacques Bughin, a Brussels-based McKinsey & Co. partner, says Web 2.0 won’t work equally for all companies but it is likely to help businesses which have a lot of R&D and marketing costs or uncertain demand for their products and services. Bughin adds: “The competitive advantage will not come from technology, it will come through execution of a new paradigm.” Cisco CEO John Chambers says it’s about “how to gain the power of the group and balance command and control with collaboration and teamwork.” ■

→Procter & Gamble

P&G shortened the product development cycle by encouraging YourEncore to build a network of skilled scientists and researchers who wanted to continue working after retirement.

A CHOICE OF TECHNOLOGIES. % OF RESPONDENTS USING OR PLANNING TO USE WEB 2.0 TECHNOLOGIES

Source: 2007 McKinsey survey on Internet technologies

	Blogs	Collective Intelligence	Mash-ups	Pee-to-peer networks	Rss ¹	Social networks	Wikis
China	20	37	6	50	20	36	10
Europe	26	35	8	38	20	30	23
India	29	33	10	39	18	29	26
North America	32	30	8	37	25	27	20
Latin America	23	31	5	43	17	26	17
Asia-Pacific	25	32	7	43	19	22	19

¹ Really Simple Syndication

80%

OF CORPORATIONS BELIEVE WEB 2.0 HAS THE POTENTIAL TO INCREASE REVENUES. THE C-SUITE IS MORE ENTHUSIASTIC THAN LOWER-LEVEL EXECUTIVES WITH THE EXCEPTION OF THE FINANCE CHIEF. CFOs ARE LESS LIKELY TO SEE WEB 2.0 AS TRANSFORMATIVE.

WEB 2.0 TOOL:

Peer-to-Peer Networks are used to efficiently share files (music, video or text) over the Internet or within a closed set of users. P2P distributes files across many machines in a network, averting traditional bottlenecks. Some systems retrieve files by gathering and assembling pieces of them from many machines.