

Innovation/Web 2.0

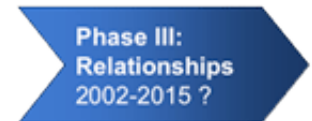
The Global Human Capital Journal

Web 2.0 and Social Networks—The Transformation of Relationships

By Christopher S. Rollyson —Friday, 25 May 2007

The Internet, E-Business and Web 2.0 in Context

Web 2.0 and social networks readily appear as hype, but I will argue that they are actors in a much larger drama, the emergence of the Knowledge Economy, which is currently in its third phase, Web 2.0 and social networks. By understanding the transformation of relationships among your customers and between your customers and your company, you will be in a much better position to guide your company through this area of tremendous change.



The Ascendance of the Knowledge Economy

The Knowledge Economy is a [post-industrial economy](#) in which value is primarily created through information, and differentiation is achieved by explicitly focusing on customer experience itself rather than on products or services. The life cycles of products and services will increasingly shorten. Leaders of companies with products and services who do not understand this face rampant commoditization from which there is no escape except through unprecedented innovation. We are in the third phase of the growth of the Knowledge Economy in which it is transforming relationships. Each phase is ongoing, but the emphasis shifts over time.

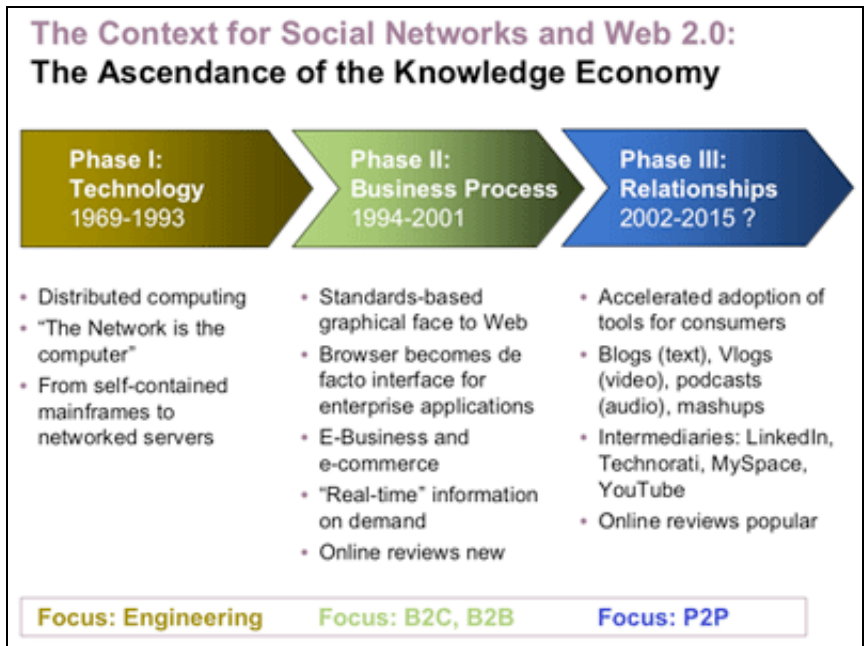
Phase I: Technology, 1969-1993*

Pervasive networks of computers are the infrastructure of the Knowledge Economy, and its Technology Phase was largely invisible to business, government and society. Computers used to be designed and run as self-contained systems that were not connected to other computers. Software ran on dedicated machines. However, distributed computing is a different approach that emphasizes networks and "distribution" of software and hardware. The Internet itself is an excellent example of distributed computing. Engineering was the focus of this phase.

Phase II: Business Process, 1994-2001

The Internet and Java burst into the public consciousness in 1994 with the release of Mosaic, the first popular graphical browser that became Netscape. It was free and enabled anyone to view text and graphics. It led to the World Wide Web, a vast collection of html documents. During Phase II, the browser also became the de facto interface for enterprise systems. Before this, customers had to have custom software to have any access to computerized information.

In Phase II, companies were focused on using this new communication medium to change their business processes. E-Commerce enabled many companies to "go direct" to external customers, and "e-business" was its B2B and internal cousin. Online product reviews were a novelty, and the concept became entrenched in many cultures. However, the communication largely went from



company to customer. Very few customers exchanged information with each other.

Phase III: Relationships, 2002-2015?

The focus of Phase III is peer-to-peer (P2P) communication. According to [Sam Palmisano, the CEO of IBM](#), one billion people access the Internet today, but this will double by 2011. The Internet is increasingly inculcated into cultures around the world. A generation of people does not know life without it. The Web interface is increasingly easy to use, and broadband adoption is accelerating.

The scene is set for the transformation of relationships. What do friendship and connection mean? People now have "friends" and acquaintances around the world based on highly specific interests. They create digital text, audio, graphical and video knowledge, while intermediaries like LinkedIn, MySpace, YouTube and Technorati help people to find content and people with the same interests. They connect, communicate and act collectively very quickly and easily.

Your customers increasingly have access to customer-created content, and, even more disconcerting, they often believe other customers' opinions rather than your employees' or "experts." New sites review professional services as well as products: doctors, high school teachers, lawyers and hospitals are rated 1 to 5, anonymously or not. Increasingly, anyone can find and connect with anyone else irrespective of distance, culture or age: the currency is common interest and willingness to collaborate.

The rise of the customer voice will dramatically change companies' relationships with their customers because P2P communication can rapidly change customer expectations. Customers' perceptions of value morph faster than ever before—and it will surprise many companies. This new market volatility is an opportunity for the companies that are plugged into their customers' experiences.

Your Customers Are Increasingly Your Message

Not so long ago, customers were fairly isolated from each other. In the B2B arena, they interacted at trade shows and professional associations, once or twice a year. They viewed your ads, read your thought leadership in journals and had lunch with your salespeople. Your marketers strongly influenced the information customers used to make purchasing decisions. The B2B world is very specific: a supply chain analyst for newsprint had a very limited ability to get geeky with her peers. Today, however, newsprint geeks have blogs where they interact with each other constantly and share ideas about any aspect of the market, which can serve to destroy margins.

The B2C story is the same: customers blog and video your product doing things you would never believe, and they share their frustrations with its shortcomings as well as its glories. They discover, share and expose the intricacies of its differentiation. This information is available to your competitors as well. This increased knowledge exchange is shortening product and service life cycles. Customer communication about companies' products is increasingly affecting purchasing decisions.

Reinventing Customer Relationships

- As I wrote in "[Web 2.0 Means Marketing 2.0](#)," astute leaders will get in front of these trends. The Knowledge Economy will reward those who evolve their attitudes and communications with customers:
- Customer-generated content can be a tremendous asset, but your marketers and their proxies must get comfortable with losing control. This is not trivial.
- Increasingly, your influence over your message will depend on your ability to be honest with customers and consider their needs before the needs of the organization (also see [The Transformation Imperative](#)). Customers will reward companies that do this.
- The Knowledge Economy is defined by collaboration—voluntary sharing and cooperation among people. Pyramids and top-down power relationships will endure in some cases, but collaboration will increasingly be the rule. It demands companies to encourage fairness, respect and curiosity above all else.
- Companies that collaborate with their customers will outperform competitors that do not.
- By respecting and being curious about customers' points of view, you can engage them on a different level. When your company responds to customers without excuses, customers often become delighted, and they can become your advocates. They will go out of their way to promote your company to their friends and total strangers via their blogs.
- By helping customers to discuss your company and offerings without trying to control the communication, you will increase your credibility and magnify the impact of your offerings. To arrive at this point, you must acknowledge customers' influence.
- Everyone fears unhappy customers and public criticism. However, in most cases, it is a golden opportunity. Andy Sernovitz, the founder of the Word of Mouth Marketing Association, cites these results: on average, for every **one person** whom a happy customer talks to, an unhappy customer talks to **five people** and a formerly unhappy customer who is subsequently made happy

talks to **ten people** (for more, see [WOM Marketing review](#)). The economics are magnified greatly online, where problems *and resolutions to problems* are visible by millions.

- This transition must be approached with care, but it offers companies a rare opportunity to significantly improve their market position. For more on the transition, see "[Consumer Empowerment—A Rare Innovation Opportunity](#)."

Acknowledgements

*Several months ago, I was having a conversation with [Dave Smith](#) at the [Illinois IT Association](#), and Dave outlined these three phases so eloquently that it really clicked with the Knowledge Economy direction I was doing. Thanks, Dave!

About the Author

Christopher S. Rollyson launched *The Global Human Capital Journal* in 2005 to address the most poignant issues of day for chief executives, namely global transformation, the reinvention of the enterprise, technology and culture. Mr. Rollyson has been a technology and marketing visionary and pioneer for over fifteen years, with distinction in corporate strategy and innovation. As a consultant and marketing executive, he has had a leading role in launching such game-changing offerings as: Java with Sun, e-business strategy with PwC Consulting, and SOA, Web services and architecture solutions with IBM and nVISIA. In 2006, he launched The Consumer Empowerment Adoption Curve™ and Transourcing™, a new approach to innovation that leverages high performance collaborative partner networks. He currently advises global enterprises on collaborating with Web 2.0-enabled customers—to drive innovation and to engage emerging markets.

Recently the Vice President of Marketing at nVISIA, he developed executive marketing programs and service offerings to drive the value of software transformation through service-oriented architecture and Web services, working with IBM, Rational and Grand Central. Previously a subject matter expert for e-business and knowledge strategy in PricewaterhouseCoopers' Strategic Change practice, Mr. Rollyson developed original models and services frameworks for e-business strategy consulting. He consulted to clients in automotive, software, telecoms, consumer electronics, chemicals and petroleum industries, advising global enterprises in e-business strategy and technology start-ups on innovation and business strategy. Prior to PwC, he led marketing for KPMG's Midwest High Technology practice, where he built one of the firm's first intranets to transform the marketing organization to a real-time team. Before that the head of marketing at a leading edge Java consultancy, he played a key role in co-launching Java via marketing alliances with Sun and Netscape. Mr. Rollyson has done graduate work in corporate strategy and economics at the University of Chicago, with additional studies at Die Freie Universität Berlin, L'Université de Clermont-Ferrand in France and il Liceo Americano d'Aviano in Italy. He earned his undergraduate degree from Kalamazoo College. <http://rollyson.net>

About the Global Human Capital Journal

The Global Human Capital Journal addresses the global shift from the Industrial Economy to the Knowledge Economy, which is changing how human beings work and deliver value. In the Industrial Economy, products encapsulated the value of human work; in the Knowledge Economy, information produces the lion's share of value, and customer experience itself is the focus of commerce and government. A greater degree of collaboration among people of the world is possible than ever before, and increased interaction will bring unprecedented surprise and opportunity, especially because the potential is great to "level the playing field" among people of the world. Obviously, these developments hold significant ramifications for business and organizational strategy.

Global Human Capital covers two prongs of economic transformation: 1) strategically, how organizations can rejuvenate their relationships with customers and constituents by collaborating with them to drive innovation and 2) operationally, how organizations can build strong collaborative cultures and skills to engage the world's emergent network of expertise, both within and without their walls. We analyze how global sourcing and collaboration are transforming enterprise and government organizations, as they transition from relatively self-contained, closed entities to more networked, open organizations.

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