

# [Uleashing the killer app book essay](https://assignbuster.com/uleashing-the-killer-app-book-essay/)

ULEASHING THE KILLER APP: BOOK REPORT

Digital Strategies for Market Dominance

Killer apps, goods or services that establish quickly and dominate the market, are displacing traditional planning and strategy in business. These revolutionary realities such as email, the first word-processing program, and e-commerce are sudden and dramatic changes that have recently found success in changing the face of business. Companies that use existing technologies are finding possible killer apps as a way to gain advantage over competitors and serve their customers in a more efficient manner. Companies that choose to use existing, traditional ideals of strategy and planning are being passed over as the power of emerging digital solutions attracts their customers.

Companies must now adopt a digital strategy to help produce their own killer apps to survive in their marketplace. This digital strategy encourages full staff involvement in the development of possible improvements in processes, rather than having a group of people who spend years developing strategies. This full staff involvement brings together the ideas of workers on the front lines of production who have real world answers on how to make their work faster and eliminate non-essential processes.

Once developed, killer apps take their market by storm. For example, electronic mail has established itself as the way of communicating notes and short correspondence over the traditional ways of writing letters. The US Postal Service has experienced extreme loses in revenue due to the hands of email. Killer apps will dominate a market quickly as customers find its advantages over traditional services and products.

THE LAWS THAT LEAD TO SUCCESSFUL KILLER APPS

Moore’s Law

Moore’s Law, Metcalfe’s Law, and the economic theories of Ronald Coase help support the rise and domination of killer apps. Moore’s law focuses on the constant growth in computing power. The law states that for every 18 months, processing power doubles while cost holds constant. Killer apps are now able to constantly evolve faster, smaller, and more efficient while keeping costs somewhat constant. In 1980, a gigabyte of storage cost several hundred thousand dollars and took large storage space. Moore’s law has made it possible to shrink cost to $200 and drastically reducing storage space to the size of a credit card. This ever-improving processing power will serve as the backbone to the future of killer apps. Companies that choose not to invest in these technological answers to problematic issues will soon find themselves at the bottom of the market. This leads us to Metcalfe’s law.

Metcalfe’s Law

Metcalfe’s law explains why technology spreads so rapidly, and how quickly people so readily accept it. R. Metcalfe is the founder of 3Com. His law states that new technologies are valuable only if people use them. His concept is easy to understand. If only two people have email accessibility, email would not be very important. Only those two people could communicate with each other using electronic mail technology. If the entire office were given the same email accessibility, email would become much more important. The more people use something, the more valuable it becomes, which will attract more people to use it. A prime example of the validity of Metcalfe’s law is the Internet. As more people use it, it will become much more attractive to others.

Economic Theories of Ronald Coase

The economic theories of Ronald Coase have produced many opportunities for smaller companies to compete easier with larger, more established firms. Coase believed that firms are set up to minimize transactional costs. A larger firm can produce products like steel at lower economies of scale and more efficiently than an individual. Existing corporations are now competing against the economies of cyberspace. The economies of cyberspace significantly lower transactional costs more than traditional firms do because of the greatly reduced costs of land, labor, and capital. An online bank can offer as many advantages that traditional banks currently offer. This is because the transactional costs of an online bank are much lower. Their website serves as their “ land” and their employees mostly work part-time. Clearly, Moore’s Law, Metcalfe’s Law, and the economic theories of Ronald Coase have provided a prosperous environment for killer apps to flourish in today’s society. Killer apps will provide opportunities for many firms to find a new niche or service using digital technology that can help them revolutionize their markets.

DIGITAL STRATEGY

What is Digital Strategy?

Traditional strategic planning techniques such as those published in 1980 in Michael Porter’s Competitive Advantage are very unsuitable for survival in cyberspace. In order to survive in today’s digital world, companies need to adopt what Downes and Mui call digital strategy. Digital Strategy is a new approach to strategic planning. It consists of twelve design principles that guide the process for finding and developing killer apps, and techniques that organizations of any size and in any industry can use to achieve market dominance. It can be done by all companies, not just companies whose actual goods and services are already digital.

Strategic Planning versus Digital Strategy

In traditional strategy, the plan produced is mostly static. A team goes off for a period, performs its analysis, and returns with a document, which remains the plan until the next planning cycle. This team is usually made up of only senior executives or the staff of a specialized department. Digital Strategy is much different. A digital strategy is a dynamic plan that requires constant rethinking. It is developed by everyone. Although, usually by line managers in large organizations or functional heads in smaller ones.

The period for traditional strategy is between three to five years. As a direct result of Moore’s Law and Metcalfe’s Law, killer apps are entering the market quickly and reaching critical mass, the knee of Metcalfe’s curve, in less than two years. For example, electronic commerce was not a part of any company’s strategic plan, not even Microsoft’s, two years ago, but now it is very popular in every industry. As of today, digital strategy takes close to twelve to eighteen months to implement, but that period is getting shorter as time goes by.

Michael Porter wrote in his book Competitive Advantage that a company must gain advantage over at least one of the “ Five Forces.” The “ Five Forces” he spoke of are customers, suppliers, competitors, new entrants, and substitutes. Today, we have to deal with three new forces: digitization, globalization, and deregulation. These “ New Forces” supersede the old forces as the focus of planning.

Traditional strategy is implemented through value chains. According, to Michael Porter, the value chain is the set of activities an organization performs to create and distribute its good and services. Each of these activities adds some value to the product, a value that Porter refers to as “ margin.” The presence of the new forces is forcing companies to no longer be concerned with today’s value chain. Instead, they must consider destroying it altogether, rather than trying to improve it.

THE TWELVE PRINCIPLES

Reshaping the Landscape

The first four principles of killer app design refer to how a company can reshape the environment in which it competes. These four principles are outsource to the customer, cannibalize you markets, treat each customer as a market segment of one, and create communities of value.

Outsource to the Customer

A company can outsource to its customer by allowing them to access the company’s information sources and customize them. The Web is the perfect tool to use to implement this. The customer can connect to a company’s systems using his or her own equipment, phone lines, office space, and electricity, which can dramatically cut cost for the company. The customer can perform many of the tasks that used to be performed by the company itself such as customer service and order entry and tracking. For example, Holiday Inn’s Web site allows users to locate a hotel nearest their destination, check availability, take of tour of the hotel, and complete their reservation.

Cannibalize Your Markets

Many companies today are implementing hybrid strategies because they are afraid of immediately shifting to a new way of doing things. For example, GM is having success with its Saturn division, except it has stolen customers from its other GM units. Hybrid strategies only make sense when they are designed for the sake of the customer. The best thing for a company to do is to completely get rid of its current, old market and try its hand in a new one. According to the book, cannibalizing your markets recognizes that the old channels will mature or disappear on their own soon enough, but by taking steps that may hasten that end you can get into the new channel early.

Treat Each Customer as a Market Segment of One

This principle refers to the term “ mass customization” which means offering a customer a unique product or service not just one time, but every time. For example, Pointcast has turned a simple screen saver into a killer app by delivering content the user wants. Users can view their stock reports and other details of interest whenever the computer is not being used. Even the public utilities industry is getting on the bandwagon. The gateway proposition is a mass-customization strategy that will allow utility customers to monitor and measure power usage and performance and adjust devices and rate options to optimize their use.

Create Communities of Value

Companies can create communities of value by valuing community. People like to interact with and be entertained by each other. Companies like America Online have recognized this and built technologies by which customers can communicate with each other. AOL has a “ People Connection” service where members create their own rooms based on personal interest. This system has “ Buddy Lists” that tell members when their friends sign on and off.

Building New Connections

The building new connections section is based on design principles 5, 6, 7 and 8. They deal with the construction of interfaces between you and your business partners, including customers supplies, and even competitors.

Replace Rude Interfaces with Learning Interfaces.

Customer service is not the same as it used to be. There has been a decline in customer service, according to the New York Times, but now that we have digital technology, organizations are ready for what Michael Treacy and Fred Wiersema call, “ customer intimacy.” The only way to achieve this goal is through superior customer service. Organizations can’t provide good customer service if they have no way of collecting feedback. Organizations must give you the opportunity to give information about your service and be willing to use the information to make changes. Digital interfaces are making things better for industries that currently have poor customer service. They provide lower cost and high quality.

Digital technology eliminates rude customer service. It can build superior customer interfaces that mediate human interaction, giving fast and efficient automated service that is set by the customer. These systems adapt to the user’s level of skill and know when to call for human help. These systems are called, “ learning interfaces.”

Customer sacrifice is the most valuable feature of the learning interface. Customer sacrifice is the difference between what a customer settled for and what the customer would have wanted in the best of all possible worlds. The company Pepod is a perfect example of how to gain from customer sacrifice. Pepod is web-based service that offers a high-quality selection and ordering function. They deliver groceries to your home. Peapod’s business was doing great at the beginning. There customer satisfaction rating was 96 percent. Peapod’s record analysis proved to be different. The reality was that Pepod shoppers got what they wanted 70 percent of the time. This information shocked everyone, but provided the data needed to fix the problem.

Ensure Continuity for the Customer, Not Yourself.

Managing continuity for customers and other business partners means doing what you can to protect them. Many people are afraid of electronic interfaces, but what they do not know is they use them everyday. The telephone, the television, ATMs, and grocery scanners are just a few of the many interfaces you use. These types of interfaces are designed to look like the old technology. Electronic commerce is the wave of the future, and many are still scared because E-commerce cannot be designed to look like anything old. This table from the book compares the different perceptions of electronic commerce held by customers and merchants.

Table 1.

Electronic Commerce- Continuous Consumers and Disruptive

ConsumerMerchant

LocationThe best of catalog and TVElectronic access beats placement;

Shoppingstores become showrooms and warehouses

MarketplaceAn expanded horizonThe market is the world

IntelligenceThe store now knows consumerThe consumer is the database

PurchasersJunk mail gets smartAgents do the buying

Brand, Shopping is a social experienceWord of mouth grows in importance

Branding

GoodsOne size fits consumerSmart goods are arriving; trucks

Become manufactures

PaymentValue becomes evidentMicropayments creates microtranactions.

Designing products and services that get rid of customer burden and solve problems can achieve continuity for customers. An E-cash user in the book said that, “ Convenience is addictive.”

Give Away as Much Information as You Can

“ In designing killer apps, the rule for the interface is always to make it as open as possible and to give away information rather than hoard it.” The primary forces behind this transformation are again Moore’s Law and Metcalfe’s Law. Moore’s Law makes it possible to spread new applications across global computing networks cheaply and efficiently, dramatically lowering switching costs. Metcalf’s Law, meanwhile, extends the number of people who can innovate with the system and consequently who can increase its value.”

Structure every transaction as a joint venture.

When new killer apps appear corporations and organizations must shift their activities accordingly. Many of the businesses today are getting smaller. The restructuring of the business world is an immediate response to the new forces and the Law of Diminishing Firms. Firms get smaller when size is not necessary or competitive. Firms today have now offices, fixed employees, and no physical existence. These firms are using the Internet and related technologies to compete with traditional firms.

Large organizations as well as small ones are increasing their portfolio of relationships. To design any killer app, you must direct your ability to identify potential partners fast, determine the appropriate level of intimacy, and secure the corresponding level of commitment with as little hassle as possible. An example of a corporation that uses this skill is Microsoft. Bill Gates has built relationship with many partners to acquire technologies, which has made him the richest man in the world. Microsoft knows that your overall portfolio is what counts.

Redefining the Interior

The last four principles of designing killer apps focus on the creation of a new internal corporate self, one that is flexible enough to squeeze through the barrier between physical space and cyberspace.

Treat you assets as liabilities

The true value of an organization is its information not its equipment and other physical assets. Companies should shift to a digital existence that requires fewer physical assets.

Destroy Your Value Chain

Companies must recognize that change is coming that will obsolete their infrastructure, force them into a commodity role, or remove them from the process altogether. Therefore, many companies are choosing to put an end to their old model.

Manage Innovation as a Portfolio of Options

Companies should not manage innovation as a series of discrete projects, but, rather, as a portfolio. Senior executives must now be involved in technology investment decisions. They must take ownership of the portfolio and manage it.

Hire the Children

Young people understand digital technology much better then older individuals. Organizations need not wait for tomorrow’s managers to grow up before they can begin to learn from them. Therefore, a company needs to hire younger individuals.

UNLEASHING THE KILLER APP

Organizations must be willing to learn, to try new ideas, and to change. They must be more focused on ideas and experiments than detailed plans and forecasts. Organizations must know how to envision the future and prepare for what may come. Examples of organizations that have done this include McDonald’s and VEBA AG, a German conglomerate. McDonald’s goal is to keep expanding while focusing on three strategies: providing the customer with improved value, improving the information flow within the company, and finding ways of operating the stores at the lowest cost while providing the highest possible quality. McDonald has thought future operations could provide more services for customers. At a workshop Several ideas were suggested to improve McDonalds’s: replacing human order takers with learning interfaces or automating food production so store personnel could interact with customers are both ways that could improve the value of eating at McDonald’s.

VEBA is preparing for new competition by investing heavily in telecommunications, to transform from industrial companies to an information-age enterprise. At first, the executives of VEBA claimed they were not worried about the future. After demonstrations of e-commerce and virtual reality products designed to eliminate the intermediary, they decided to create a digital readiness group, whose chief would report directly to the CEO. All lines of business within VEGA realized the future was an essential threat, but also an opportunity, for which they must prepare.

Both of these companies learned the effects the future could have on them. VEBA realized it was important to keep up with emerging technologies; consequently, a corporate intranet was planned to communicate between the companies. McDonald’s saw the future as providing more opportunities to operate with more efficiency and provide the customer with more value.

The New Operating Model

The authors are frequently asked by clients how they can make money on the web. The people who make money on the web are simply conducting business, either to cut costs or to reach a broader range of people. A good idea is to first develop a prototype. The main advantage to prototyping is that you can test and refine the product. When McDonald’s teamed with AOL to create a pilot web site, they first concentrated on adults, receiving a limited response. Six months later, they developed their corporate web site. Learning from the pilot that they needed to include more activities for children, they included games and a coloring book.

To succeed in unleashing killer apps, you must simply continue the process. Make the prototypes continually more focused and more sophisticated. For example, if you have launched a web page, visit it often to make sure all the links are working and to add new features and update it as needed to maintain customer interest.

It is not necessary to be a high tech company in California to take advantage of the internet, intranets, and other high tech media. BP saw a presentation from HP on standardizing desktops around a common operating environment (COE), which are unified systems that provide increased speed and reliability. They were impressed and knew they had to restructure their organization with compatible and robust hardware and software so they could take advantage of this opportunity. They formed a small development team and changed over one of BP’s three divisions in about a year. Users are amazed at the speed and reliability of the new system. Because of the willingness of upper management to change, BP now has a killer app in COE.

Lightning Out for the Territories

The new digital technologies created within the past few years have been very beneficial not only to business, but to social and political applications as well. Cyberspace can be compared to the exploration of the New World hundreds of years ago; it is the new frontier, fueled by computing power and bandwidth. Even if you are not ready to move to cyberspace and start doing business there, it is an opportunity that everyone must at least consider.