

XaaS Files Ep.9.mp3

Introduction [00:00:00] Welcome to Accenture's X-as-a-service files the podcast for business leaders helping their companies transform using innovative digital business models. Here, you'll learn from some of the industry's leading movers and shakers, senior executives from companies around the globe who are changing the way the world works and plays by delivering all types of compelling subscription services. Join your host Kevin Dobbs Accenture as XaaS service managing director who brings 20 plus years of experience as an entrepreneur, CEO and senior executive to the table. Kevin has led dozens of as a service business transformation for some of the largest technology and industrial companies globally. Now let's get to today's episode.

Kevin [00:01:03] Thanks for tuning into the X-as-a-Service Files podcast. My name is Kevin Dobbs and I run our as a service practice here at Accenture. And today we're talking to Steve Strongin about kind of how Wall Street is looking at digital transformation. So, Steve, welcome.

Steve [00:01:20] Thank you. It's been a pleasure having these conversations.

Kevin [00:01:25] So in this this segment, you know, one of the areas that we spend a lot of time and I spend a lot of time in this and we laugh a lot about everything as a service. And in our world, it's usually all different types of subscription business models, whether it's SaaS or device as a service or IoT. We've talked a lot about media. It could be a lot of different things. But one of the things that we're seeing is companies starting to embrace more of these models is they've got, you know, the business we built over the last 30, 40 years, we've been really successful. But over time, the market has kind of moved in a different direction. The buyers, the customers expect different things. And it's this idea of, you know, we need to disrupt our model.

Kevin [00:02:16] And, again, I think that a lot of companies at this point, maybe because of Covid, are going to have to really think about maybe ways of reinventing themselves going forward or as you call it, retooling. It'd be interesting to understand. How do you think kind of disruption creates value in the market? I know you wrote the 'Everything as a Service Economy' report. That was fascinating, but great for you to share kind of your thoughts around that.

Steve [00:02:46] Sure. I'm going to hit it more from 'Survivor's Guide', which I think is a little more Covid focused. Terminologies are slightly different. The you know, I think the original question that fascinated me. Was. What is the difference between learning and disruption?

Steve [00:03:08] You know, you know, sometimes customer tastes change, right? You know, there's a commercial I remember saying about how, you know, there's a food company and they realized they needed to have sauces that were more ethnic and spicier. OK. That's not disruption. It could cause your business to fail if you refuse to evolve. OK. But it hasn't really changed the nature of the business. Then we see businesses where we see things that are just nothing like what we saw before. What's the difference between those two things? What generates it? And the core of that, you know, is what caused you to reengineer the company in the end, this business structure versus just have a new product. At the heart of that is the way in which standardization works and what represents common experience. And it goes to the heart of competitive advantage if everyone knows how to do it. It's not a source of competitive advantage. You want to standardize it and run

it to scale. If you're the only person who knows how to do it, then it's a source of competitive advantage and you want to focus your energy and your intellectual product on that thing, you know how to do better.

Kevin [00:04:19] Right. Create a moat around your business.

Steve [00:04:22] That's right. And those are often very different directions. Right. Because the smaller one of those is typically that I know more about this than everyone else. That everyone that does this is the scale business. And if you try to run both of those directions at once, it's like a you know, it's like a bad version of one of those old silent movies, right. Where you end up running two directions at once and never getting anywhere. Right. Right. So, if you look at most scale, businesses are by highly standardized processes done for a lot of people where the competitive advantage is about scale. And then if you look at the successful, what I call boutique businesses, they typically are about expertise that is affiliated to a particular audience and a particular need where you can get a lot of margin, and what you're really trying to do is get to a capital light, cut costs like business where you get to fully exploit that knowledge you possess against the best customer base and the broadest reach. And those are very different business models. They're sometimes encased in a single company, but they require very different strategies. Netflix fits very comfortably on Amazon's cloud platform. It isn't worried at all about Amazon Prime. Those are very different things. Amazon, right, and the modern generation of platforms that Apple's App Store. You know, we can go through many examples. I've learned to play nice with the people who sit in their platforms.

Kevin [00:06:22] Otherwise, it's hard to scale.

Steve [00:06:24] That's right. Because they want to scale more than they want that little extra bit of business. So, they may be in a business because it if it completes their product suite. But if somebody comes in with a better one, they're going to let them in as opposed to force them out. That's the good platform player.

Kevin [00:06:43] So what is so kind of from your perspective? So, let's say I'm a traditional business and I want to create a platform. Is a smart way to do it, to try and change my whole business? Or is it maybe what I should do is set a different course. As you said, having kind of different objectives in the same structure can be, like you said, running in two different directions and not going anywhere. Is your thought maybe it makes sense to create more separation between the two and they still work together, but they're kind of operating separately?

Steve [00:07:17] So I think the first step in that, you know, this is gonna sound like I'm peddling 1950s business school stuff.

Kevin [00:07:26] What's old is new again.

Steve [00:07:28] That's right. Is to understand your competitive advantage, right? Why is it people want to do business with you rather than somebody else? What do you know more about? You know, I was sitting through a car demo with a head of engineering on autonomous driving. And, you know, if this sounds a little vague, it's because, you know, I don't, you know, it's I don't want to make it clear who the vendor was and, right, and one of the things they were talking about was their knowledge of cars driving the software, rather the software driving the car. And one of the examples they used is what do you do when you begin to wander out of the lane? And they said, well, the software engineer steers

back in. But that's something that driver's going to fight because the wheel moves one way they're going to push back the other. What did the car company do? They cause braking in the opposite with the opposite wheels, which caused the car to slow and veer back in the right direction. And caused the driver to like to look up and look at the car. Right. So, they had based their focus on the car, not on the software. That was a vehicle analysis. That was not a software analysis. Is that the easiest way to write the software? God, no, right? But it is the right way to drive a car. Yes. Right. And so that, what do what do we know how to do? Let's utilize that. Right. You know, should they be developed an app to make it easier to listen to music in their cars? No, there is no way you're ever going to be better at music in cars, right, than a music company.

Kevin [00:09:15] They should partner for that.

Steve [00:09:16] That's right. Right. And so, it is going to understand that. And so, you know, certainly in the analysis of the business models, knowing whether you've built a platform or a boutique, whether you're a specialty company or a platform, is critical to driving your business. Right. But you shouldn't wake up one day and go I'm tired of being a boutique. I want to be a platform. Right. That's not a successful way of approaching business. You have to start with what am I good?

Kevin [00:09:43] And you can't do both.

Steve [00:09:45] Most of the time, you can't do both. With a big company you may have businesses that are one or the other and you're going to own and have to drive both. You know, so, for instance, you know, since we started off talking about car companies, that if you've got a division that makes taxis and trucks and you're thinking about taking an autonomous platform freight division, this is a lot of generics. That makes sense. Do you want a platform sports car division? No. Right. Those are inherently contradictory notions. Now it's possible. Five years, 10 years down the road. That means those should be separate companies. Maybe not. Right. I can give you examples of both of those answers through time. OK. But you still have to deal with both of those businesses and their own world and their own structure and your own advantage within that business, you know? And that can change. You know, one of the things that's going to happen in autos, and this is my last autos comment that I don't think is fully understood is electrical parts are more standardized and more generic than motor trades. And so consequently, over the next 10 years, if cars go electrical, you're going to see them divertically integrate because it's virtually impossible to have a competitive advantage in designing an electric motor. Right. That's about software design of motor curves and structure. It's not about the engine itself or engines was something you did R&D dollars in. All right. So that fundamentally changes where the dividing lines are in that business model. Software has been doing this so regularly for the last 50 years. We forget. Right. You know, firmware made software and hardware itself. The single biggest human innovation of my lifetime was Apple's human interface standards, why? Basically, it eliminated training. Mm hmm. Right. You know, it would, you know, when I started. Right. Every software project that I did at the beginning of my career had a major segment of its budget was in training. Right. One of one of the first I did in the new generation, we delivered an app. Somebody said, well, what are we going to do for training? I said, if we need to answer that question, we have failed. Right. Right. And so, we now expect to know how the machine operate. It permeates all of software. Right. Right. You know, and that's it. That that change the way one thinks about that. It means nobody designs those anymore. Right. They simply utilize what's already there.

Steve [00:12:22] That's the reason that, you know, I'm old enough to remember walking up to an airline counter when the major ticket software of the time was a custom seven bit operating system because they wanted to save the other bit of memory. And the ticket clerks. Right. Used that to type on these custom designed machines for what seemed like hours before they would give you a ticket.

Kevin [00:12:50] A physical ticket.

Steve [00:12:52] A physical ticket, right? now. Right. Yeah. So, they were integrated right. From the operating system through the training of that operator was all custom. There is no part of that system today that is still custom, including the fact that you can walk in with your phone and never actually touch their software at all.

Kevin [00:13:17] Right. And this is this is a big part of all of these new business models is the idea that they're easy, you know, the customer comes first. One of the things, Steve, that we see a lot is kind of outside in versus inside out thinking, meaning, you know, how is the buyer going to be using this? How are they going to get value out of us? That also seems to be almost a component also of how companies are valued as well. Because you mentioned earlier you talked about the adoption curve. Right. So, if you spend a lot of R&D dollars on home, you know who's going to use it and how are they going to use it? But I think that that's almost like table stakes today. It's like you've got to make things easy. And as we talked about in the last couple episodes with Covid, we're forcing people into much more digital platforms, much more digital experiences probably than they ever wanted to. But I think what it's doing also it will put more pressure on businesses to create a more easy to use, less training, intensive type experience.

Steve [00:14:24] I think that's actually right. I do want to worry a little bit about the word create in that sense.

Kevin [00:14:30] OK.

Steve [00:14:31] Right. And the reason I want to worry about the word create is I just want to think about that. Right. So, when that airline owned the operating system to the operator. They could innovate anything. When you're going to when it's going to be the cell phone brings up the ticket and you put it in front of a scanner. You don't actually control virtually any part of that entire chain. So, at some level, you're almost accepting ease of use as opposed to creating it, because the way you made it easy to use is used everyone else's answers. If you actually innovated in any deep way, it would've been more work for everyone.

Kevin [00:15:10] Right. I think where the innovation is like pulling the pieces together and making sure that they work seamlessly because you could walk up to the counter with the phone and swipe it. And it didn't work.

Steve [00:15:24] Exactly right. Right. But what you're demonstrating there from a business standpoint is mastery of the standardized stack. Understanding what's costumed to your business and owning as thin a layer in that stack, as you can possibly imagine. Right. It's like, know the you know, over the course of my career, sort of, you know, and, you know, like swallows coming back to Capistrano every decade or so, I end up designing a computer system. And the last one was for distributing research.

Steve [00:16:00] And the thing about that system was, right. We own none of we found one little layer of database stack we wanted to own. That allowed us to control everything else. Was somebody else's software to do what people expect? Right. All we wanted to own was the prioritization of display. Everything else we wanted to be standard. Right. And so, we spent all of this time basically doing two things. What's the part of the stack we need to control? What do we want to do there? How do we use the rest of the stack so that we don't have to put money, time or effort or confuse our clients with what we did?

Kevin [00:16:41] Those are all good lessons for our listeners who are thinking about building their businesses going forward. But so, Steve, this has been fantastic. I've learned a lot in the last few episodes. I know. I think it's been helpful to understand kind of from a Wall Street perspective what you're looking at when you're looking at companies, what makes successful companies and you know, what's happening in the market today and how they're being disruptive. So, I really appreciate your time.

Steve [00:17:12] It's been a pleasure. Hopefully it's useful and I'm sure we'll talk again.

Kevin [00:17:16] OK. Thank you.

Closure [00:17:21] Thank you for listening to Accenture X-as-a-Service files. Please be sure to visit our podcast Web site at Accenture.com slash X-as-a-Service files that's Accenture dot com slash x a a s dash f i l e s. Where you can listen to more conversations with other industry leaders about their vision and perspectives on innovative digital business models. You'll also find more great insights from these leaders on our blogs that accompany each episode. And of course, we always appreciate it when you rate and review the show. Be well and we'll catch you again on the next episode of the XaaS files where we'll learn about the next venture in the digital transformation business journey.

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