

Book Report

Unleashing the Killer App Digital strategies for market dominance

Soesanto Widya - 2668C

Washington International University

Bibliographic Entry

Author:	Larry Downes and Chunka Mui
Title:	Unleashing the killer app : Digital Strategies for Market Dominance
Place of Publication:	Boston, Massachusetts
Publisher:	Harvard Business Scholl Press
Date of Publication:	1998

Statement

Three to five sentences, written in present tense, focused directly on what is the central idea of the book.

Killer App is a new good or service that establishes an entirely new category and, by being first, dominates it, returning several hundred percent of initial investment.

Organization must review their business operation model, reconstruction of interface for better relationship with customer, supplier, and business partner, and create value generating product to unleash their killer apps before their competitor or new player unleash the killer app.

Law of Diminishing Firms forces organizations into more decentralized entities, which create businesses in modular to adapt to new demands and new opportunities. Organizations can succeed with digital strategy by visit the future, live in the future, and designing the operation model in the future.

Body

What in this book is relevant to my degree program?

This book unleashes the design methodology to develop Killer App in the digital world with wide coverage for future utilization and market. Killer App's book reinvents strategy for the deep understanding of the age of Internet to succeed in the interactive future. This book discovers digital market definition, learning interface design for customer convenience, and the interior strength of an organization in the age of Internet.

What are the author's main points?

The authors' present three main theories as follow:

Moore's Law definition: Every eighteen months, processing power doubles while cost holds constant.

Metcalf's Law definition: The usefulness or utility of a network equals the square of the number of users.

Coase's theory on six basic types of transaction cost (i.e. Search Costs, Information Costs, Bargaining Costs, Decision Costs, Policing Costs, and Enforcement Costs)

Moore's Law and Metcalfe's Law form Law of Disruption, and Law of Disruption associated with Coase's theory form Law of Diminishing Firms.

Law of Disruption definition: Social, political, and economic systems change incrementally, but technology changes exponentially

Law of Diminishing Firms definition: As transaction costs in the open market approach zero, so does the size of the firm, which shrinking marketplace.

Law of Diminishing Firm reduces search costs, information costs, bargaining costs, decision costs, policing costs, and enforcement costs, for nearly all goods and services range from marketing, recruiting, training, inventory, manufacturing and distribution.

Killer apps are the collisions between exponential technology adoption and systems that prefer to change in even incremental measures, much as earthquakes and volcanoes are the manifestations of complex interactions between geological forces beneath the surface of the earth.

Sharing Information as public goods, which is part of a special class of commodities, with as many people as possible will spreads and increases their value with the constant cost. The information as a public good, which launch a massive of information to cyberspace, will empower exhaustibility and ability to increase in value through their usage.

Digital Strategy is a core dynamic plan which constantly rethinking to accelerate the change of business environment to grow exponentially in line with new forces through digitization, globalization, and deregulation in the market.

Digitization brings down transaction costs, and moves information activities to public networks through computer systems, and multiplies their value. Globalization turns many local businesses to global status borderless. Deregulation redefine products and services price which spur additional competition, and new entrants.

Digital Strategy deployment will create a panic wave in the industry to speed up digitization, globalization and deregulation. As example, when Banking industry has successfully deploy internet banking, expand the services to non banking industry enable the bank to dominate digital market, which will create extreme pressure to other industries, such as retail industry, distribution industry, etc.

Retail industry also has potential to expand the business to provide banking services, and even manufacturing industry.

The 12 principles to unleash the Killer App.

There are three major tasks to design killer apps in an organization as follow:

A. Reshaping the landscape.

The new economics of cyberspace has call business players to re-define their market definitions.

There are four principles in **Reshaping the Landscape**:

1. Outsource to the customer.
2. Cannibalize your markets.
3. Treat each customer as a market segment of one.
4. Create Communities of value.

Customer may add their value by doing customer services, data entry, tracking, purchase order management, and product configuration themselves, even with their own equipment through the cyberspace. The power for customer to interact with others will band together, and express collective will on products which really meet their requirements which is possible and inexpensive through digital world. In other words, customer has design the products.

Market might be grow or cannibalized by your competitors, which provide cheaper and better products.

In order to kept market growth and existing market, organization must think and act to cannibalize own market, otherwise someone else will.

Segmentation in the market will disappear, as product will appear personal. Products, which developed with new tools, will enable each customer to customize to meet their needs. Therefore, your product must meet personal requirement.

Communities of value will replace brand, which recommend and grow their own brand for specific product.

A. Building New Connection.

The new relationships require new, dramatically different connections that will bind you to business partners in ways that are as rich as the physical ties that hold your organization together today. The difference is that tomorrow's interfaces will be virtual, adherents rather than victims of the Law of Disruption.

There are four principles in **Building New Connection:**

1. Replace rude interfaces with learning interfaces.
2. Ensure continuity for the customer, not yourself.
3. Give away as much information as you can.
4. Structure every transaction as a joint venture.

Every direct contact with the customer is an opportunity to improve the relationship and to learn more about the customer's needs. Digital technology can do better than offering service that is merely not impolite. Build superior customer interfaces that mediate human interaction, providing quick and efficient automated service at a level defined by the customer.

Replacing human contacts with digital interfaces not only lowers transaction costs but accelerates the process of capturing new information in bits, allowing you to multiply its value.

Customer contact personnel freed from mechanical interactions can focus instead on meaningful customer exchanges, including new customer development and working with existing customers to identify additional services the company could provide. More importantly, learning interfaces transform the customer interaction into two-way conversations.

In designing learning interface, start with the customer's viewpoint as only part of the solution. The interface must provide customer with the most comfortable operating procedure from the old world to the new. The secret was developing the interface for the customer, not the company.

The interface is the tool to ensure continuity for customer. This is the strategy being followed by the best of the banking and retail sites on the Web today.

Some organizations remain committed to closed interactions with customers and appear ready to go down fighting rather than make the painful but potentially liberating switch to growing global networks and standards. Sometimes even organizations that make their living on open systems struggle with their counterintuitive behavior.

The new forces, led by the digitization of information, make it both possible and necessary to operate in smaller, more focused and more flexible units. Entrepreneurs, start-ups, and the self-employed, who don't have infrastructures to dismantle, are taking advantage of inexpensive new technologies for collaboration as quickly as they are developed. Firms with no offices, no fixed employee bases, and no physical presence to speak of, are already making effective use of the Internet and related technologies to compete head-on with traditional firms. They give away as much information as they have which show their advantage of being digital. Meanwhile, customers give back more than what they take away.

The new forces will soon give rise to short-lived joint ventures that exist solely to complete one transaction, effectively replacing permanent organizations, long-term contracts, and strategic alliances.

Competing against such firms isn't impossible, but it is certainly different.

On the side of the traditional organization are powerful information assets like brand, relationships, and expertise, which, if properly digitized and optimally distributed, can form the basis of new competitive advantage.

To design any killer app, you must hone your ability to identify potential partners quickly, determine the appropriate level of intimacy for the relationship, and secure the corresponding level of commitment with as little fuss as possible.

A. Refining the interior.

Lower transaction costs and low-cost technology help virtual competitors enter your markets with low start-up costs. As commerce sheds its physical form, the need for the marketplace diminishes. This is not an evolutionary change, but a revolutionary change. The Law of Disruption is eliminating the need for any physical marketplace.

There are four principles in **Refining the Interior**:

1. Treat your assets as liabilities.
2. Destroy your value chain.
3. Manage innovation as a portfolio of options.
4. Hire the children.

It's important to shift your investment to bits, because those new competitors that have *none* of your fixed assets—no real estate, no manufacturing equipment, no distribution network—will suddenly look competitive in the new business environment. Your assets become liabilities.

Using digital technology to reduce inventory and duplicative handling (another transaction cost) has been the theme of cost savings in other industries, particularly retail sales. The information pipeline will enable the company to offer customers a virtual inventory of finished products, thereby reducing its own inventories for generic and specialized products without adding any risk of insufficient supply.

When company outsources order processing to the customer. The supply and distribution network will be virtual. And the company can use its new information channel with the customer to form alliances on matters of mutual interest, such as environmental and regulatory issues. This transaction will skip your current value chain.

More often, it is a startup or an organization from an entirely different industry that will destroy your value chain. These new entrants have even less of a vested interest in the old model and often can do much more damage much more quickly. Companies focused on competing in the current market often overlook these new players, dismissing them and the technology they employ as insignificant until it's too late to respond strategically. As an example, Amazon.com, the web-based virtual bookstore.

Organizations unleash killer apps when they combine ideas, digital technology, and the will to change.

However, to cover the risk of loss of killer apps innovation, use options rather than ownership, and spreading risk over a number of promising technologies. Options serve to decrease uncertainty about the value of the underlying transaction, a powerful tool given the uncertainty-generating potential of the Law of Disruption.

The exit strategy forces corporate leadership to revisit regularly the decision to let the option lapse, or to exercise, turning the experiment into a full-scale product development.

Young people, especially children, implicitly understand digital technology in a way that the rest of us can only watch and admire. Tomorrow's customers, competitors, and business partners, born and raised on digital technology in their homes, schools, and toys, will not only expect but also demand commercial relationships that are technology enabled. The good news, however, is that today's children will be the product designers, customer service providers, and business managers of tomorrow. One way to understand the needs of the next generation is by talking to them and creating an environment where they can build the structures that will take today's organization forward.

Are the author's main points valid or invalid? Why?

Most of the points presented are valid and impressive, however I disagree with the following four principles:

- a. Cannibalize your market.
- b. Give away as much information as you can.
- c. Destroy your value chain.
- d. Hire the children.

Presenting the above principles will give a shock to Top Managements (CIO, CEO or Chairman) of an organization. Manager who's proposing the above ideas will risk their positions and jobs. Stronger evidence must be presented in order to propose strategy with the above principles. Amazon.com case is applicable to books product, however peapod.com do not achieve that far. As HP give away their information on their new product development plan; cause HP to loose their market share to CANON on printer product.

Value chain should be kept, while building and moving another value chain in Internet channel. The principle to hire the children is in the connection with building the connection interface, while other aspects of business still require expert, which is mature with the organization activities.

Critical Issues: Two or more statements about topics and positions taken on topics. With each of the issues you uncover, indicate briefly the author's stand on the issue and what the author is trying to say about the issue.

Law of Diminishing Firms challenge every organization to evaluate their Operating Model dynamically. Killer App forces the changes of current comfortable behaviors and practices, otherwise economic consequences will destroy their business. These principles of internet age strategy will boost business in the cyberspace which is borderless, and charge lowest transaction cost. Digitization is unavoidable. Digitization will enable your business to grow to global market.

Presentation: discuss the author's use of language, clarity, and readability.

Mr. Downes and Mr. Mui present "Unleashing The Killer App" in a very clear language with structural format, which express the ideas and messages very clear. The contents list, logical structure, and chapter order together with the impressive examples make the book to be an attractive reading. The authors present the book, from strategy, design, and deployment of the killer app.

Use of evidence: what type of evidence does the author use? Primary? Secondary? Comment on the nature of the evidence.

Mr. Downes and Mr. Mui present solid evidence to backup every principles seperately, however the evidence as the result of the implementation of the twelve principles are weak, especially Mc Donald cases. Most of the evidences are presented, to conclude the principles. At the other aspects, authors do not present any evidence of applied the principles.

What have I learned from this book?

Unleashing the killer app has taught a good experience and knowledge of internet development, which is in practise by well-respected Consulting Firm. A good lesson in laying strategies for business in internet, open my horizon to the latest development and trend of global business waiting in the cyberspace market. A lot of examples and website quoted in this book present the wide variety of connection build to interconnect organization with their customers and partners.

What common issues are there with the other two books?

Unleashing the Killer App, Customers.com, and When computer exist Human Intelligence present the same common issues as follows:

- Strategies in application development in the Intenet Age
- Dynamic evolution of cyberspace market and the impact to customer.
- The Future of Cyberspace in the Digital World.

New ideas presented

This book presented new ideas as follows:

- Twelve fundamental design principles for building killer apps.
- Economic Consequences of the Law of Diminishing in the cyberspace
- New Market, Customer Relationship, and Product Development.
- Turning Law of Dimishing Firm's threat into competitive advantage.
- Building product from bits instead of atoms, and the advantages of bits' products.

What would another person like to know about the book?

How to gain from the Mr. Downes and Mr. Mui's thinking strategies?

Unleashing the Killer App: Digital Strategies for Market Dominance. Harvard Business School Press Boston, MA, USA ©2000
ISBN:1578512611. 2000 Book. With Unleashing the Killer App, Downes and Mui offer a progressive guide to transforming your company into a place where killer apps are born. Drawing from their experience and research with leading global businesses, the authors identify the 12 fundamental design principles for building killer apps; illustrate these principles with classic stories from history and examples from a wide range of industries that have successfully developed killer apps; examine the economic consequences of the diminishing transaction costs in cyberspace; and describe how to integrate digital strategy into.