






THURSDAY 19.04.07

REPORT ON BUSINESS

				
S&P/TSX 11,826.44 -39.32 Energy stocks lead first decline in four sessions	DJ Ind. 11,069.06 -46.26 Interest rate worries undermine blue chips	Nasdaq 2,262.96 -19.40 Chip stocks drop as Citigroup cuts recommendation	Dollar 87.18c (U.S.) Unchanged Rate concerns in U.S. and Canada squeeze loonie	Gold \$556.60 (U.S.) +2.00 Renewed inflation concern underpins bullion gain

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Enterprise 2.0: The Future of Big Business



SEAN WISE WISE WORDS

What's the future of big business? Better yet, what is a column dedicated to venture capital and entrepreneurship doing writing about big business? Well:

- More than 90% of positive exits in Canada (an "exit" is VC speak for selling off an investor's position in a company or exiting the investment) come an M&A with a large corporation. This trend has been globalized as of late, as the likes of Microsoft, Google, Amazon, ebay and Yahoo vie to facilitate their own growth through acquisition of interesting ventures, products, and services (e.g. YouTube, MySpace, Flickr, WebEX).

- Venture Capital in Canada has, for the most part, been focused on investing in B2B companies (i.e. business to business revenue models, a/k/a those companies that sell the majority of their products primarily to big businesses).

So it seems to me, that if one is either a founder or a funder looking to back founders, one should ask not where the enterprise is today, but where it will be tomorrow. The Great One, Wayne Gretzky, said it best. When asked his secret for hockey success, he often replies: "I skate to where the puck is going to be, not where it has been."

In order to determine where the puck is going in the hockey game of big business, I turned to a man who has been writing about the future of business for over 30 years, Mr. Don Tapscott. Tapscott, who has penned 11 books to date, currently resides on both the Globe and Mail Business Week and New York Times' Bestseller's lists with his current tome, **Wikinomics: How Mass Collaboration Changes Everything**. Wikinomics, in turn, was inspired by \$9 million of research into how the new web changes business models, competitiveness and the strategy of enterprises. I spoke with Don from his cottage on the Lake of Bays, near Dorset Ontario, to get his views on the future of the Enterprise.

SW: Before we get started Don, let's set the tone. What we are discussing today, the future of big business, isn't just based on your own views -- it is the result of statistical and observational data you've recently gathered.

DT: Correct, I've been studying IT and business since I worked at Bell Northern Research in the 1970s. Over the last 5 years my team at New Paradigm completed several large research projects funded by major corporations. One looked at web 2.0, another was on the topic of transparency as a new force in

the economy. We even did one on the role of the new web in competitive advantage. Our work continues and we're also doing a large program about the Net Generation -- young people aged 13-29 who are growing up digital. We studied several hundred companies, published over 70 reports, and are currently interviewing about 9,000 people in countries throughout the world.

SW: So, now that the initial research is in the bag, what were your findings?

DT: We concluded simply that the corporation is going through the biggest change in many decades -- maybe the biggest change ever.

SW: But change is the only constant, so what makes this a revolution and not just evolution? Why will Enterprise 2.0 be so different?

DT: This is an unusual time in business history when four new developments are combining to create a perfect storm for change: - web 2.0; - the rise of the net generation; - a social revolution; and finally the big one; - an economic revolution where the ways that firms orchestrate capability is changing.

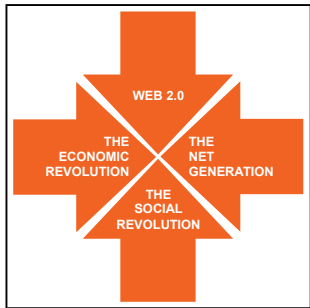


Figure 1: Tapscott's Four Factors driving Enterprise 2.0

SW: Let's take these one at a time, starting with web 2.0. The term "web 2.0" was coined by Tim O'Reilly to represent the second wave of internet companies, services and technologies created after the dot.com bust in 2000. You've stated publicly that, "this ain't your daddy's internet," but what's so special about the tech today?

DT: The old web was: low speed, accessible through a PC only, text and graphics-oriented, and based on HTML -- a standard for the presentation of information. The new web is: broadband, accessible through billions of objects in the world from Blackberries and Treos to Refrigerators, embraces true multi-media and is geospatial -- meaning that you can browse the physical world -- for example, using Gypsy Tour -- a product that tells you what's happening near you -- wherever you are. Most importantly the new web is based on XML which is a standard, not for presentation but for computation. That means the web is becoming a giant global computer that everyone programs. So, each time you put a photo onto Flickr, enter something in a blog or create or do something on [the virtual world] Second Life, you are, in a sense, programming a global computer.

You know, it is funny - Thomas Watson, the founder of IBM, famously said years ago that that world would need only 4 computers. For the last 20 years everyone laughed at that statement. But considering that the internet is becoming one big computational network, he may have been only off by 3.

SW: Okay, but its not just the tech that's changed, you discuss in your lectures "The Rise of Net Generation", how the demographic born

after 1980 and raised in a world of instant messaging, MTV, and tummy surfing has also changed. This is a group so large and different, that its impact could overshadow current demographic trends, much like the Baby Boomers did.

DT: It's true -- a new generation of youngsters has grown up collaborating and they are bringing a new ethic of openness, participation and interactivity to workplaces, communities, and markets. They represent the new breed of workers, learners, consumers, and citizens. I started studying these kids as a generation when I noticed how my own children were effortlessly able to use all this sophisticated technology. And at first I thought, my children were prodigies. But then I noticed that all their friends were like them, and the theory that all their friends were prodigies was, you know, a bit of a stretch.

Demographers call them the "Baby-boom echo" or "the Millennials" or "Generation Y", but I prefer "the Net-Generation", as I dubbed them in my 1987 book *Growing Up Digital*. We're talking about those people born between 1977 and 1996 inclusive. This generation is bigger than the baby boom itself, and through sheer demographic muscle they will dominate the 21st century.

SW: So what's so special about your "Net Generation"?

DT: This is the first generation to grow up in the digital age and that makes them a force for change. They are growing up bathed in bits. Unlike their parents, who watched 24 hours of television per week, these youngsters are growing up interacting. N-Geners watch less TV and spend more time online which gives them an outlook on life that is radically different from that of their parents. Our research suggests that they process information differently than their boomer parents -- their brains are wired differently. Further, this is the first time in human history when children are the authorities on something really important.

All this is changing many things as they enter the workforce and marketplace. They want choice, freedom, personalization, speed, [and] innovation. They also have strong values and are a generation of scrutinizers. Not everything I've predicted has turned out to be valid -- but this is one. The main tenets of *Growing Up Digital* have borne out and this is an unprecedented force for change.

SW: Okay, so we've got new technology and a new type of user. What about the social revolution you mention?

DT: I could show you 30 charts that all pretty much look the same -- showing internet traffic for various properties. In each case, an old HTML web site gets eclipsed by a new XMP based community that harnesses the power of self-organization.

The immutable, standalone Web site is dead. In fact, I've banned the word "web site" from my company. Today, people are engineering software, databases, and Web sites so that they not only meet private objectives, but they can be used in ways the originators did not know nor intend. It's now getting easy to build new Web services out of these existing components by mashing them together in fresh combinations.

The result is that today's most exciting and successful Web companies and communities are stitching together their own services from shared databanks and Lego-style pieces of Web software. Rather than define the user experience and publish information for people to observe, they use Web

services to create platforms for people to self organize and co-create with their peers. And it's pretty much true that when they built it, people came--usually by the tens of millions. In fact, 2006 was the year when the programable Web eclipsed the static Web every time. Flickr beat WebShots; Wikipedia beat Encyclopedia Britannica; citizen journalist bloggers beat CNN.com; epinions beat consumer reports; upcoming.org beat evite; Google maps beat mapquest; Myspace beat Friendster; and Craigslist beat Monster.

Dot.com	Web 2.0
Webshots	Flickr
Britannica	Wikipedia
CNN	NowPublic
Consumer Reports	epinions
evite	Upcoming.org
Mapquest	Google Maps
Monster	Craig's List
Friendster	MySpace

Figure 2: Don Tapscott 2.0 Evolution of the Web

SW: Hold on, what was the underlying or linking difference between the Web 2.0 version and the older Dot.com version?

DT: Well, the losers launched Web sites. The winners enabled vibrant communities. The losers built walled gardens. The winners built public squares. The losers innovated internally. The winners innovated with their users. The losers jealously guarded their data and software interfaces. The winners shared them with everyone.

SW: So, social networking is exploding. Where is this going?

DT: MySpace is growing at 375,000 new registrants per day and is on track to a billion members. This month, Wikipedia will become 12 times larger than Britannica, but with the same quality. On February 4, TV viewers of this year's Superbowl watched a Frito Lay advertisement that was created and chosen by its customers on the Internet. And Time Magazine chose YOU -- the online collaborator as The Person of the Year.

But to me that was so 2006. All this sets the stage for the really big one in 2007 -- an economic revolution.

SW: How so?

DT: Get ready for the Enterprise 2.0. The smartest managers already know that so-called "user generated media" and "social networking" are really just the tip of an iceberg. Rather, nothing less than a new mode of production is in the making.

Thanks to the internet and a new generation of users, companies are beginning to conceive, design, develop, and distribute products and services in profoundly new ways. The old notion that you have to attract, develop, and retain the best and brightest inside your corporate boundaries is now mistaken. With costs of collaboration falling precipitously, companies can increasingly source ideas, innovations, and uniquely qualified minds from a vast global pool of talent.

I don't want to be hyperbolic here but it's hard to not sound so. We're convinced that the corporation may be going through the biggest change in its short history -- call it "The Enterprise 2.0". After all, if you can make an encyclopedia through mass collaboration, consider what else. How about an operating system (Linux) or applications software (Sugar CRM is one of 125,000 open source applications projects underway)? How about a mutual fund (www.marketocracy.com), a peer-to-peer lending system (www.zopa.com), designer t-shirts (www.threadless.com) or other physical goods (www.cambrianhouse.com)?

It turns out that you can even

create a complex physical good like a motorcycle. The Chinese motorcycle industry -- now the largest in the world -- is a sprawling network of parts makers with no single company like Harley Davidson pulling the strings. Or take the most complicated product you can think of -- a new generation jumbo jet. Rather than creating a specification for its supply chain, Boeing co-innovated the 787 Dreamliner with thousands of partners around the world in a mind-boggling peer-oriented ecosystem.

These are examples of what we call mass collaboration -- where peers come together to create value -- often outside the walls of traditional companies.

SW: Isn't this bad for business? If you place something in the "commons" like say an operating system or encyclopedia doesn't that take away from the legitimate right of companies to make a profit?

DT: You might understandably think so. But smart firms are proving otherwise. Networked models of innovation and value creation are unlocking innovative potential in a wide range of resources that thrive both inside and outside the firm.

SW: An example?

DT: Consumer goods giant Procter & Gamble is a good one. Until recently, P&G was notoriously secretive, and about as closed as a company can get. It didn't look outside its walls for anything and it was failing, punctuated by a stock collapse in 2000. New CEO A. G. Lafley led the company on an ambitious campaign to restore P&G's greatness by sourcing 50% of its new innovations from outside the company. Today P&G searches for innovations in Web-enabled marketplaces such as Innocentive, NineSigma, and yet2.com. These e-Bays for Innovation produced hundreds of new products on the market, some of which turned out to be hits. In the process Lafley and his managers transformed a lumbering consumer products company into a limber innovation machine. Five years after the stock implosion, P&G has doubled its share price and now boasts a portfolio of 22 one-billion-dollar brands.

SW: So, this is not just about people doing things for free.

DT: Definitely not. There are dozens of new business models emerging, and each of them has some kind of motivation and reward structure. The chemists in Innocentive get paid if they come up with the goods. Cambrian House pays royalties to those that participate. Programmers in Linux are typically paid by their company to participate in the Linux community.

SW: But in some cases participants are volunteers. How does Enterprise 2.0 leverage these communities?

DT: By being smart. Every company needs a portfolio of Intellectual Property -- some of which it owns and some of which it shares with its community. IBM supports Linux and gives away software to the community. In doing so, IBM saves a billion dollars a year and creates a platform for a multi-billion dollar business. The bio-tech and Pharma companies cooperated to place the human genome in the commons. This was good for everyone just as a rising tide lifts all boats. The smartest companies see a phenomenon like Linux and they embrace it, as IBM has done. They discover Second Life and jump in like Wells Fargo did. They discover tools like wikis, that enable their own staff to work across organizational silos and, like Best Buy, they

transform the way they collaborate. Like Sun Microsystems, they discover a new technology like weblogs and permit any employee to be a blogger.

SW: Aren't there dangers in this new world of open IP and non-hierarchical non-centralized communities?

DT: Of course. There can be all kinds of unintended consequences of adopting the wikinomics principles (peering, opening up, sharing IP, and acting global -- not just local). Goldcorp shared its geological data. If their property had no gold then this would have become clear to the world and they would have been toast. But the biggest dangers we've seen are the companies that resist these new models. Evidence suggests they are already falling behind. Just compare Boeing, who adopted wikinomics principles to make its 787 dreamliner versus Airbus that didn't. It may be that you can no longer design and create a new jumbo aircraft the old way.

SW: What does all this mean to entrepreneurs and to those investors who fund entrepreneurs alike?

DT: Well, for those funders and founders that focus on selling to or being bought by large enterprises you need to better understand where they are going, so you can ensure you are in their path and along for the ride. If the enterprise is changing fundamentally, entrepreneurs that can help with that change or contribute to the new model have the upper hand. Similarly, investors who understand these new principles of competitiveness can pick winners -- be they startups or mature companies.

SW: So skate not to where the puck has been, but where it is going?

DT: I suppose so. The puck in big business is going to be Enterprise 2.0.

SW: Well, who am I to argue with you and Wayne Gretzky?

The Bottom Line

The Great One suggests his accomplishments were bound up in his ability to skate to where the puck was going. Don Tapscott has proven time and time again, that when it comes to big business and IT, he knows where the puck is going. Right now, it looks like that puck is heading towards a world of social networks, collaborative platforms and net-geners -- the world of Enterprise 2.0.

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His monthly column on www.theglobeandmail.com/smallbusiness covers a wide range of topics on entrepreneurship and venture capital and has been recently collected in a hardcover book available May 1st, 2007 at www.Amazon.com