

Alustatalouden faktat ja myytit -podcast

Jakso 32: Turn fear into energy – how to win with platform strategy

Platform strategies combined with the forces of data and AI, will create a competitive advantage for companies regardless of industry. What steps does a traditional company need to take to become a platform? And how to recognize the fear of change in your people and utilize that energy to drive progress? You can read more about these themes in Timo Vuori's and Tero Ojanperä's book Platform Strategy.

Speakers: Timo Vuori and Tero Ojanperä

Female voice: Aalto yliopiston podcast.

Tero: The downside is that lot of coders will lose their jobs because they just disappear. They are automated by the AI, but on the other hand, I'm actually quite convinced that this will create a lot of new work because there are so many innovations around the world that couldn't afford earlier to be coded.

[music]

Timo: Welcome to Aalto University podcast. I'm professor Timo Vuori.

Tero: And I am professor of practise Tera Ojanperä and also co-founder of Silo AI, a private AI lab.

Timo: We have been doing a podcast series in Finnish about platform ecosystems and artificial intelligence, and today we give you the coolest highlights in English.

Tero: Yes. And we talk about how to scale your platform, how to focus your action to build momentum and many other things. And of course we are also discussing how ChatGPT or Open AI is building a platform.

[music]

Timo: Why are platforms, artificial intelligence and ChatGPT so important today?

Tero: The point is there really that we are seeing a tremendous momentum around AI at the moment, and of course that links to the platforms because platforms are created around network effects.

Timo: And network effects they mean something like you have a telephone, you need a second telephone for the network to work, but how does it go?

Tero: Yeah, exactly. Every user in a platform increases the value for other users. So two telephone users is better than one, three is even better, et cetera. But you also have network effects in other ways. For example, if I'm typing in a question in the ChatGPT and it answers it, and I rate that how good the question is, it will learn from that. So my actions are adding value to the other users through these learning mechanisms.

Timo: And I guess that's one of the reasons why companies that are able to create successful platforms become so capable. They are able to provide so good services because their capability does not come from inside the organisation but from the whole network of users that each contribute to both the capability of the organisation and I guess also the innovations and services that the company can provide.

Tero: Exactly. And in that respect, actually, we come to the AI, machine learning, artificial intelligence, which is amplifying this network effect because it creates the learning loop which enables you to learn faster from data and the and the users of your platform. So we are seeing the network effect being amplified by the learning loop powered by AI and that creates the secret sauce behind these successful companies, whether we are talking about Tesla, Open AI and ChatGPT, John Deere or digital services like Facebook and Google.

Timo: OK. So in Facebook it's relatively easy, so I get more value from Facebook if my friends are there and Facebook algorithms learn from my reactions which kind of content I like and therefore, they can display me the most engaging content for me. Then when we go to John Deere, there you have the tractor and the ecosystem around the tractor and the farm. So other companies can provide additional services to the same platform, and these services themselves provide value for the tractor user and then you say that also AI adds value to that. And I guess these are really cool examples, but the big point is how someone who doesn't own a platform yet or doesn't already employ AI in the best possible way, how can they get started?

Tero: Exactly. And there we come to the first point that we are going to discuss today, that is turn your fear into energy.

Timo: I remember the day I first tried ChatGPT, and it wrote better text than I do. It wrote it faster. It made no grammatical errors in English, and it kind of threatened my job as an author. And well, I felt fear, new technology is a

fear. I guess in many companies there are dozens and dozens of people and services that are currently done manually, and one big fear might be that AI is gonna do those things better and steal their business. We could see, at least from the outside, it looked like a panic when ChatGPT became successful or popular. Google announced that they are also accelerating their own development, and there were news articles about how Google leadership is pushing Google engineers to include Google's chat AI into every possible service. I can understand that it's a huge threat for companies and if they fall behind, so they must react. And in Google's case, the fear was probably useful, and that it turned into energy. They started doing things.

Tero: Yeah, they did start doing things and they called everybody into, all hands on deck, so to speak, and actually let even to the organisational change where the Deep Mind that has been kind of Google's AI research was merged with the Google's internal AI organisations to create their more powerful unit to address this challenge that ChatGPT and Open AI has presented to the market. Google needs to respond, and of course also, the threat is coming from Microsoft, their arch rival that has been very fast to adapt Open AI's technology into their products. Just today actually I noticed that they have launched this co-pilot where the Windows operating system is getting all of these cool tools which you can use to summarise things, search for information, ask questions from the operating system directly. So it's interesting how fast this is progressing.

Timo: Indeed. And it's understandable that these major changes generate major reactions, and there might be this fear, and it can lead to optimal reactions. It can lead to overreactions in the sense of panic that you do too much, or you start doing more acquisitions or drop everything and change everything and then fail. But I think we also see some people reacting in a more defensive way that rather than going into the unfamiliar territory and leveraging the tools or more broadly speaking, leveraging the platform opportunities and seeing new ways of doing the old business, instead of doing that, they kind of hold on the old way of doing things and reject all the innovations.

Tero: Indeed. So we are seeing today, whether you are talking about industrial companies like John Deere, Kone Corporation, Tesla, et cetera that are manufacturing equipment that is becoming more and more intelligent. They are impressing those who are best in breed. They are impressing this change and incorporating the platform thinking and the AI into their systems, and also of course in the digital world where we, one could say that the AI is getting democratised. You have better and faster access to AI capabilities than ever. So starting a company is simpler, scaling is simpler, but of course one should remember that there are certain rules that are valid despite of this huge change.

Timo: What do you mean?

Tero: I mean that for example, removing friction. That when you are building a new service which you target to be the winner in the market, you should always start from the customer problem. How does it benefit? What friction are you removing that was there earlier? It could be like that there is a fragmented demand and supply, so it's hard to access certain things. If we think about the removing frictions, I think the first friction you usually have is that how much effort do I need to spend to get what I actually want, and by consolidating demand and supply you can remove this effort cost from the equation, but...

Timo: Yeah, and I guess in this marketplace structure it's simply that you aggregate the demand and supply, you put all the entities in the same place and then a human can easily find them there. But now I guess AI is making it even more effective, or creating even more effective solutions for consolidating supply and demand.

Tero: Yeah, I think this matchmaking is really the key there that how do you actually connect the dots between the who is needing the service and who is supplying it. But there is also other way to use AI. For example, in Uber Eats or in Wolt food delivery service, you are using AI to predict the estimated time of arrival or when the food is ready, first when it needs to be picked up by the courier and what is then the estimated time of delivery to the end customer.

Timo: So then the friction in that case would be my uncertainty how I'm waiting. So I make the order and then I don't know if I can use the restroom or not because the food might be coming. But now when I see it from my app, I don't have that uncertainty anymore. So I know when it comes when it comes, so it makes my life easier.

Tero: Exactly. And there the point is that you have the worry, the anxiety that takes a toll of you, but now that is removed by visualising, in this case first of all, estimating this time of arrival of the food, which is then visualised in the app in a nice way. So you can just glance that where it is. You can focus on to entertain your guests, and in this way be in a much more calm mood.

Timo: Yeah, and third way I guess is this whether they will cheat me or not. So I provide my credit card information and hope that the food comes but with rating systems, so I give stars to the application and to the courier so I can see that actually they deliver what they promised so I can trust. And I can see other's reviews so I can trust that this person is trustworthy or this service is trustworthy. So not only I have to worry about the timing, but I also don't have to worry about whether they will do what they say. And I think this is cool because there is really concrete things in the transaction cost or friction in the sense what happens and then also the more psychological side. But all of these frictions are not what you as a business developer, might first focus on, because you would focus on the quality of the service or the quality of the product, but the more abstract type of effort needed for getting the product or the service is easily ignored. But a lot of these digital companies, platform companies have removed the effort, so you get the same product, but in an easier way, and that's what creates the success.

Tero: Yeah, that's the point. It wasn't that difficult to hail a taxi in a street corner earlier, but apps like Uber make it really easy. And the point is that these are not the privilege of tech giants. These are techniques that any company can apply. For example, this how to remove effort cost in getting something. For example, we discussed with the Finnish company called Gubbe which is match-making friends for old persons because very often those who are living in their

home, they might be suffering of loneliness, might need also somebody to visit them to do maybe some exercise, et cetera. So Gubbe created this platform where there are the older persons. There are those who would be happy to actually visit the person once a week or even more often, and then there are relatives that are very often living in a different town or city. For example, my mom. We are using Gubbe. My mom lives quite far from us, and I just then contacted Gubbe. They find a match, and they did the background check, so they removed all the concerns that I had about this. And every week, when this person is visiting my mom, I get the report that what did they do. A photo and a report what they have done, what they discussed, and that sort of also creates comfort for me that there is somebody to visit and then when I go myself to visit, I can discuss that how has it gone with this person, et cetera. But it seems to be going really well.

Timo: Gubbe continues as a good example, also in terms of focus because when they are focusing on this one service, they get enough repetition or enough number of transactions so they can learn what works, what doesn't work and which kind of processes are optimal, and that enables digitising, automating it later on but also provides some legitimacy in the eyes of the user. So if you are focused on being the best in one select service, people start knowing you from that.

Tero: But we have also talked about with some other companies that have started in a very focused way that might not be so well known, but are on their way. For example ICEYE is a satellite or space company that has launched satellites into the sky that are monitoring or collecting data with the special cameras and then delivering that data into those who might use it. And in that process where ICEYE started was that their journey has been quite interesting because the first problem they solved was that how can you actually take video feed from the earth through cloud, through rain in the dark. You cannot do it with the traditional camera, so they focused on building a camera that does it regardless of the weather conditions.

Timo: Yeah. So they developed this radar technology and then once they have the technology good enough, they develop the satellite around it, so that they can put the radar on the sky. And only after several years when they were able to do all this, they launched the satellites and expanded the fleet. But now they are in the position that they have, I think, 25 satellites in the sky and they provide best map of the Earth or mapping of the Earth and items on Earth that you can see also in the dark.

Tero: Originally ICEYE started also very focused. They selected very carefully that who would benefit of this information, the new information they are collecting and they concluded that in the north, ships that are moving around in those passages that have very sort of to severe icing conditions, ice conditions, getting information about the ice and how it is moving is critical and that's where they got started. But now they have expanded to other fields, for example providing data about forest fires, how forests are being cut illegally, for example, and in this way being beneficial for the society at large.

Timo: But this was enabled by focus, so when they created the technology for tracking the icebergs and their movement, they ended up building a capability that is now applicable to what is it, illegal cutting of trees or forests or measuring the flooding levels after a disaster and selling the data to insurance, but it really is about being very focused for a very long time, and then once you have created strong capability, strong reputation, strong legitimacy, you can leverage that capability and associated data in multiple different areas.

Tero: Right. And the temptation very often is that once you get something working, you think that I have such a great technology that I can apply it into the many other areas and you start to sort of do too many things too early without waiting that you get a scale in one focused area first and once you have gotten that, then you can move the new areas.

Timo: And I guess a lot of this moving happens, it can be business model innovations, but API's, application programming interfaces are one of the central ways for digital companies or companies with digital data to connect with other companies and expand into new areas.

Tero: Yeah, that's right. I think rather than shaking hands in the room with the real people, you shake hands electronically, that is that you connect through APIs. For example, Kone Corporation is a global manufacturer of the elevators and escalators and also some other equipment. They created APIs, for example, for the purpose of robots that are moving in high rise buildings that they could automatically navigate and call these escalators and elevators automatically through an API. It's a great example how rather than building these additional services by themselves, Kone is leveraging partners through these APIs.

Timo: Yeah. And actually I tried the ChatGPT API. So in qualitative research, you need to do a lot of interviews. Then the interviews are transcribed, and then you'll find select teams from the interviews. With ChatGPT I was able to connect to the API via Excel, so in Excel I put my interview data there and then created another cell that would contain what I'm looking for and then the API connected me to ChatGPT and gave the coding of the interview data in that way. So in a sense, I'm making a mini-service on top of ChatGPT, and actually I learned this from Henri Schildt who is a professor and friend of mine who is very active in this area. Maybe one more example about the APIs is we spoke a lot with Vaisala, which is a company producing weather data, so I guess one of the largest in that. They have also an API that enables third parties to use the weather data. So if you want to design your logistics in a way that takes into account the weather so you can optimise the routes or timing of your deliveries, you can integrate your software to their data through the API and in this way innovate on top of the data. And I wanted to highlight this example because it's in so many domains. It's elevators. It's the digital services. It's weather data. It's logistics. So it really provides a way of multiplying the impact of the strong core that you have.

Tero: Vaisala has been very active in the weather domain. They have, I don't know, they are like a 80-year-old, almost 100-years-old company. They're a very old company anyway, and it's great to see how companies like that that started as a hardware company has added lot of intelligence on top of the hardware is now leveraging AI and also APIs to expand their business and creating new use cases around the core technology that is sensing the weather or other environmental information.

[music]

Timo: There are so many opportunities with APIs, AI platforms. How do you think Tero, the world will change?

Tero: First change that we have seen now is the way how we interact with computers. Actually, how do we interact with AI is that it's conversational UI, the conversational user interface that I can just ask a question, outline a command and things will start to happen, whether that is outlining a text, creating a poem or whether it is creating a picture for my next blog, I can just give it that OK, I would like to have a picture that is Timo in a robot format in pixel art, and suddenly it pops up Timo's photo modified in an interesting way. So it's so exciting how the creativity can flourish in this environment.

Timo: In a sense, is it so that in the past, if you wanted to interact with the computer, you had to learn to speak in the language of the computer, but now with AI, the computer has actually learned to understand human language and that's what the natural UI means.

Tero: Yes. And there the today's computers, I need to have the mouse. I need to kind of click on the things. I need to remember the path where it was. I didn't need to look to search, but I can now just ask about the information and it brings it forward to me. So it's so much more fluent and we are just getting started with this one. We have not seen anything yet, one could say. But coming back to the example I mentioned earlier, the Windows, it just got the conversational capabilities. Grammarly, as an example, the Duolingo, if you want to learn new languages now, you can role play with it, which is powered by these new generative AI capabilities. It's a conversational UI. I don't need any more to go to the teacher because the teacher is there in my application.

Timo: So there is huge in learning, so everyone gets a private teacher and private assistant in a sense and I guess a private lawyer. Yeah. I can see that there is so much more resources available for people now.

Tero: For example, in legal arena, we have seen that there is, even PwC announced that they are going to have an AI-powered lawyer, robot lawyer to assist the 4,000 people there. So they are saying that the robot lawyer will be checking documents, creating documents. Human will still check them, but there is also service in the US called Do not pay which if you get the parking ticket, you can challenge that by clicking and filing a motion automatically and this Do not pay robot lawyer will do it on your behalf. So it is automating complaints. Is it a good thing, a bad thing, that's a separate discussion, but what we are seeing is that it becomes so much easier to create these services. So and on the other hand, if we talk about impact to the people's work, we are seeing a lot of tasks that will disappear. But on the other hand, let's take an example of coding. There is a service called Copilot that will automate or have the AI to do the coding on behalf of the software developer, a human. It can first assist, but some of the tasks it will start to do automatically. So one could argue that the downside is that lots of coders will lose their jobs because they just disappear. They are automated by the AI. But on the other hand, I'm actually quite convinced that this will create a lot of new work because there are so many innovations around the world that couldn't afford earlier to be coded and now they can basically say that, OK AI, I would like to have this great new service, UI looks like this and the user should be able to do this and pops out an app. OK, I'm a little bit exaggerating. It won't happen overnight, but that's where we are going. You can describe the tasks in a plain English or Finnish and things will start to happen.

Timo: Yeah. There is this old metaphor for the second industrial revolution or the end industrial revolution, but I guess that is what is happening here in that it's not only that individual jobs will change a bit, but whole organisations will change and the structure of the economy will probably change if that's true that it becomes easier to start your own company and one individual can suddenly have the resources or capabilities of a hundred individuals with AI. And I suppose those who are fastest or best able to develop this new kind of organisational form that leverages the technologies to their maximum potential will be able to provide huge amounts of value.

Tero: Individuals can be instructed by AI, like what we're already seeing today, how Amazon is being sort of the managing their workforce is through AI, also their supplier base, two million or something like that suppliers. It's only possible to control and manage that kind of masses through AI. But in some ways the point is that earlier we thought about that this is just for the sort of the more...

Timo: Manual labour.

Tero: Manual labour. Exactly. But now we are seeing that this same thing is coming to creative labour. That you can start to give instruction. If you're, for example, a designer, the AI can support you. It can guide you. On the other hand, it can also monitor your work and this way it doesn't matter where you are, whether you're part of this organisation or not, you get the support, but you also can be monitored through this work and in this way new kind of organisational structures can be created.

Timo: Yeah. I see that the status of tasks and efforts of people can be tracked and controlled in a positive sense more and coordinated. Maybe that's the right word, coordinated rather than controlled. So you don't need the stable organisational hierarchy or supervisory structures that much when, with digital connections, you can create optimal teams or optimal outcomes, teams with people and technology to provide timely services.

Tero: On the other hand, I think that we're talking about that this is going to happen like a snap of the fingers. That OK, AI just takes over. But I think we are very early stages. This change will require that companies and organisation adapt their way of working. You just cannot take these new tools and plug them into the old structure. You need to also change sort of the way of working, and that's the challenge here. The winners will be those who embrace this early start to change but don't rush it in a way that you foolishly believe that the AI will do now everything for you. I think the point is that the AI is not as smart as we think, even though it's much smarter than we think in some matters, but it's much dumber than we think in some others, and you need to understand these differences.

Timo: So as a CEO, you should not fire everyone tomorrow and replace them with AI, but you should do more than just tell your people that now everyone start applying AI in your own job. The optimum somewhere in between. You need to change ways of working. You need to change processes. You need to change structures. We don't know exactly how yet, but we know that the old structure and old processes are not going to be optimal.

Tero: Right. I've been thinking about this in a way that there are, it's hard to visualise in a podcast, but let's try to do [laughing]. It if you have your X axis that says that should you be building in the other end custom AI that you invest yourself and you build custom AI, in the other hand, you have off the shelf tools, Grammarly, whatever, Google, Microsoft that you can basically go and start applying, and then in the Y axis in the bottom you have that you are talking about support processes like HR, legal. Some of that are needed to manage company. Then in the top you have the hey, these are our core offering, our products and services that we're building. So if you are in the upper right-hand corner, you are building a custom AI to make your products and services more intelligent. You could be Tesla. You could be a vehicle manufacturer that makes your car to become more intelligent, whatever that might be. But it's the core offering. There you should think about how much should I invest and am I going fast enough. On the other hand, if you are in the left bottom corner...

Timo: The support.

Tero: Then you have a support function, maybe your marketing department, and you have these new tools that can automate everything. For example, there is a Jasper AI that will create the copyright on behalf of you once you give it a few hints that what should it do. It will build a website automatically for you if you have a want to launch your landing page. So these are tools that you can apply today but will require changes to way of working. So you need to you figure out where you are in this matrix and then find the best way of sort of the should I invest myself into AI development or should I leverage the ready-made tools.

Timo: Yeah, I see. That's a really great framework. And then I would add a third dimension, which is this how big a change you make to the work processes. So in one extreme is that you kind of maintain the current people and teams and structure, and the other extreme is that you change everything. And I guess it's like you said that you kind of look what the tool is capable of doing, you adjust the processes to some extent to that, but on the other hand, in some areas you might want to develop the tool so that it works with the current set of people in a better way. But it's really complicated equation.

Tero: Right. So now we already have three dimensions in this matrix. So if we add the fourth one that would be a time, so how would the world look like in 20 years from now if we think about the change. I think the productivity gain, I've used this word that the productivity is internet to power two or three. That the internet gave us the huge productivity boost, we are going to see a huge boost from AI and platforms in the next 10-20 years. Huge changes in how we should educate our people to this new world, so something to think about us as teachers. So it's so exciting, but unfortunately, we cannot really visualise exactly how this fourth dimension looks, and it's getting so messy that we can just sort of think about some creative thoughts where we are going and then start to do something today to succeed in this new world.

Timo: Let's hope that our podcast today and our whole series inspires people to be open-minded, experiment and create ways that increase productivity, well-being and sustainability.

Tero: Let's hope and let's try to make sure of that when we are meeting people in the real world outside of this podcast. Thanks for listening.

Timo: Thank you, all.

[music]