



## Elevate your business with the connections of a networked economy

### Trends, innovations, and risks of the extended enterprise

As businesses become more complicated, they're developing their own networked economies that can be leveraged into serious profits. How can those connections also benefit the extended enterprise?

Worldwide, changes in consumer preferences, technology, and the competitive environment are posing risks and creating opportunities with existing business and operational models. As more of these opportunities emerge, facets of each business become connected in often unprecedented ways. Like the threads of a rope, this networked economy can strengthen a business and tie into the supply chain. These unexpected synergies also work to create a complex and intricate extended enterprise where risk—when addressed as a value driver—can elevate your business.

#### What's a networked economy?

Many experts—including subject matter analysts at Deloitte—see the networked economy as the natural outcome of what happens when all the actors inside a business ecosystem are interconnected. Through technology, these interconnections enable customers to drive choices, select preferences, and make their predispositions known. This interconnectedness fundamentally flips the script. It takes some of the power away from producers of goods and services to drive value and puts it in the hands of consumers in the extended enterprise.

According to Brent Nickerson, a Deloitte Risk and Financial Advisory partner at Deloitte & Touche LLP, the networked economy also transforms the “enterprise” as industries have defined it for years. Historically, this term encompassed the people, processes, technology, and systems within a company. But as Nickerson describes it, a networked economy broadens the scope of everything, necessitating a new way of thinking.

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Advisory partner, Deloitte & Touche LLP**

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### Networked economy trends to follow

These enterprises—and a networked economy itself, for that matter—don’t happen in a vacuum. They need to capitalize on a number of trends to work. So what can you do?

**1. Collaborate on business models.** One of the biggest trends to drive the networked economy is collaborative business models, or models that enable different types of businesses to work together to drive sales. The Internet of Things (IoT), the ultimate extended enterprise, is a good enabler of this type of collaboration. If, for instance, a consumer has a smart washing machine, the customer can instruct it to order more detergent pods online whenever the supply runs low. In this case, collaboration breeds convenience, which typically leads to happy customers.

**2. Be radically transparent.** Another important trend driving the networked economy: the widespread movement to radical transparency. Kevin Lane, a Deloitte Risk and Financial Advisory principal at Deloitte & Touche LLP, says that when companies begin to interlink networks, it’s important that all parties be transparent about how they do business throughout their own respective extranets, so as not to alienate any potential customers. He adds that companies must ask themselves what kinds of networks they want to associate with and what sorts of belief systems they’re willing to tolerate from partners they collaborate with.

“Everything out there can be seen, and the consumer sees it all and makes his or her own judgments,” says Lane, who also serves as the retail industry leader for Deloitte’s Enterprise Compliance Services practice. “No one ever fully gets his or her way, but the idea is that the networks, somewhat organically through the interconnection, develop their own consensus point and middle-ground answer.”

**3. Get a handle on your risks.** Companies that wish to create enterprises must also have a handle on their risks. And they must perform regular risk assessments to quantify how vulnerable their networked economy is to threats.

On the most basic level, risk assessment is about physical security—locking down facilities so that only authorized employees come and go. But the broader day-to-day realities of risk assessment go hand in hand with a push for more transparency: As companies learn more about the other companies in their enterprise, previously undisclosed risks emerge, creating an opportunity for remediation—or at least a backup plan. In evaluating this risk, companies must think not only of themselves but also their customers. Something could be both legal and ethical, but it may still not align to the preferences of the consumers involved.

### Leveraging connections for the networked economy approach

As the first wave of companies begins to embrace the networked economy approach, opportunities abound to leverage the ensuing connections into smart business decisions for the extended enterprise. To create value, organizations can:

**1. Extend and amplify connections.** For starters, companies must extend and amplify connections through consortia and other industry groups. Some of these groups are more marketing-oriented in nature and enable participants to network with each other and share leading practices. Others are functional—participants meet to collaborate on devising standards, rules, and other forms of self-regulation.

**2. Innovate to capture new revenue streams.** Looking forward, companies must also figure out how to capture new revenue streams. Subject matter experts say this likely will be driven almost entirely by the networked economy and the enterprise—by third parties that

spark new products, new development, and innovation. A number of contract manufacturers around the world have already set up product innovation centers where they offer design, engineering, prototyping, and manufacturing necessary to build out new products.

In addition to changing the product catalog, these centers have sparked a sea change in strategy. Now more than ever, innovation is coming from the edges of a corporate network and working its way in. The enterprise has also indirectly expanded distribution channels, since companies are now connected to so many other companies.

Ultimately, the one-two punch of more innovation and more places to sell new products enables companies to penetrate deeper into their existing consumer bases and, at the same time, acquire new consumers.

In the context of a networked economy, both scenarios can lead to additional revenue—yet another way risk, when managed well, can create value in the business world of today.

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## Networked economy in action: IoT

Interconnectivity is a key concept of the networked economy—the notion of one cloud encompassing many other, smaller clouds. Subject matter experts say there’s no better manifestation of this than modern-day applications of the IoT phenomenon.

For the uninitiated, IoT revolves around increased machine-to-machine communication and is built on cloud computing and networks of data-gathering sensors. When expanded, a flourishing IoT network can incorporate multiple computers, dozens of devices, and still offer complimentary Wi-Fi. And according to Kevin Lane, a Deloitte Risk and Financial Advisory principal with Deloitte & Touche LLP, the strategy enables companies and customers alike to benefit from all players in a networked economy.

“I think IoT is a method of enabling more value for the consumer, more convenience, and more personalized customization around how a consumer interacts with other businesses as a customer of the goods and services,” Lane says. “It’s hyper-convenient. And that’s what people want.”

An enterprise in the networked economy has multiple points of connection and overlap. Lane cites a smart refrigerator as a good example of how IoT can leverage connectivity to maximize convenience. As many IoT zealots have promised, someday these refrigerators will have preset configurations that apply to each customer’s individual preferences, as well as some sort of artificial intelligence technology that understands what items are in your fridge and figures out how you can use those items to cook a meal. He adds that truly networked IoT will also have the ability to restock your shelves independently, with purchases directly patched to online retail sites or your favorite grocery store, and then automatically interface with the networked economy to handle logistics and delivery.

As Lane sees it, this technology provides a win for all parties involved:

- Customers win because they have value added to their everyday products and they’re happy.
- Manufacturers win because customers are happy—not only with functionality but also with the “it” factor.
- The goods or services providers win because they’re taking care of their customers and can use the experience to hone their solutions.

Of course, the potential problem with IoT remains: security. One flaw begets other flaws, as the world witnessed during a particularly brutal DDOS attack in early November 2016. This is where risk assessment comes in: Companies must take a look at their risk portfolios and assess each situation accordingly as threats arise. Ultimately, if everyone continues to play by the rules, the benefits of connectivity will outweigh the potential pitfalls.

### The networked economy and risk

In the networked economy, where everything in a business ecosystem is interconnected, supply chain disruption can wreak havoc on the bottom line. Here are some statistics about disruption and its potential cost:

#### Top 3 causes of disruption



#### Top 2 consequences of disruption



#### Economic toll of disruption

**34%** report cumulative losses of at least \$1 million

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