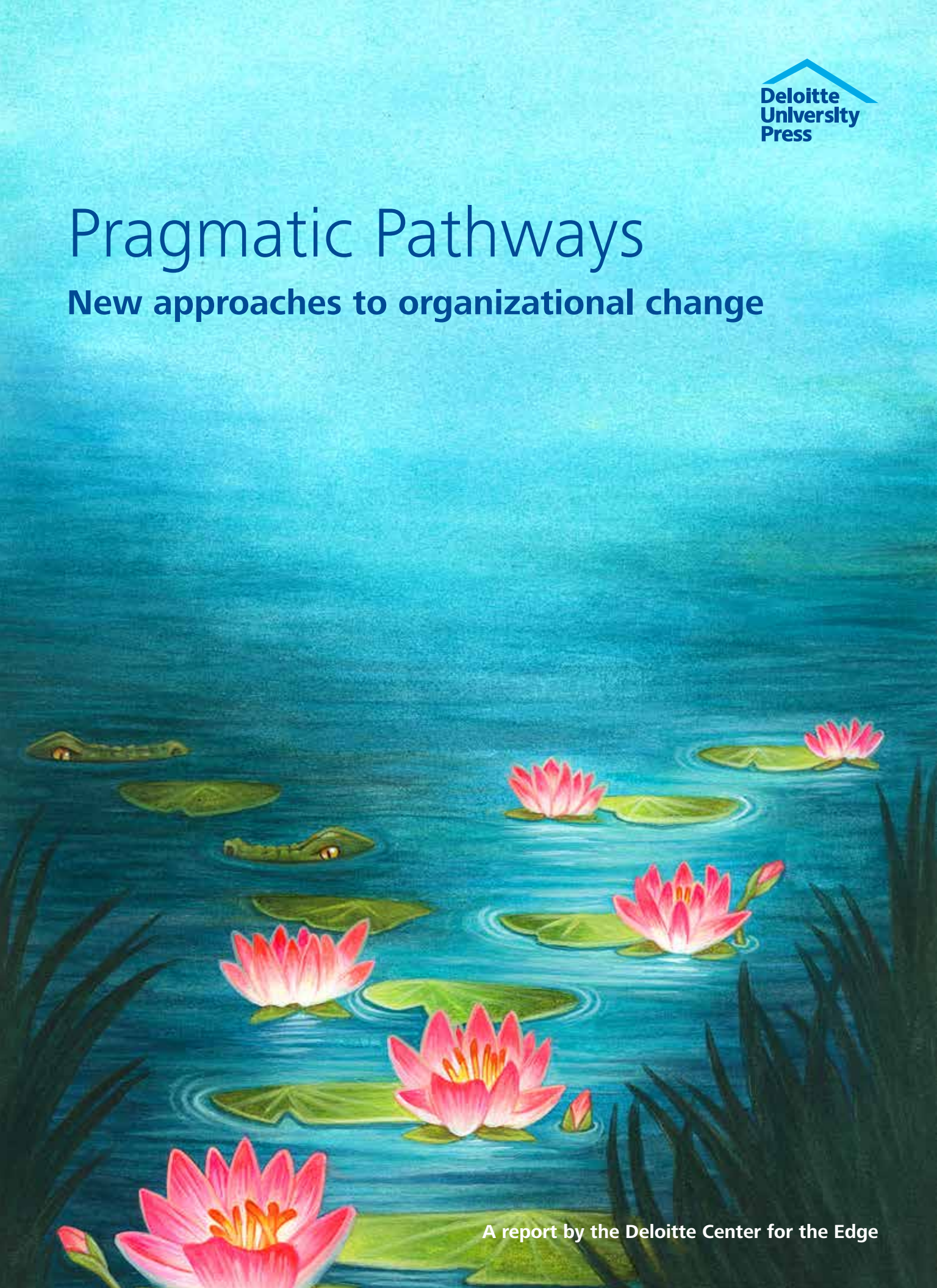# Pragmatic Pathways

New approaches to organizational change

About the Deloitte Center for the Edge

The Center focuses on the boundary, or edge, of the global business environment where strategic opportunity is the highest.

The Deloitte Center for the Edge conducts original research and develops substantive points of view for new corporate growth. The Silicon Valley-based Center helps senior executives make sense of and profit from emerging opportunities on the edge of business and technology. Center leaders believe that what is created on the edge of the competitive landscape—in terms of technology, geography, demographics, markets—inevitably strikes at the very heart of a business. The Center's mission is to identify and explore emerging opportunities related to big shifts that aren't yet on the senior management agenda, but ought to be. While Center leaders are focused on long-term trends and opportunities, they are equally focused on implications for near-term action, the day-to-day environment of executives.

Below the surface of current events, buried amid the latest headlines and competitive moves, executives are beginning to see the outlines of a new business landscape. Performance pressures are mounting. The old ways of doing things are generating diminishing returns. Companies are having a harder time making money—and increasingly, their very survival is challenged. Executives must learn ways not only to do their jobs differently, but also to do them better. This, in part, requires understanding the broader changes to the operating environment:

• What's really driving intensifying competitive pressures?

• What long-term opportunities are available?

• What needs to be done today to change course?

Decoding the deep structure of this economic shift will allow executives to thrive in the face of intensifying competition and growing economic pressure. The good news is that the actions needed to address near-term economic conditions are also the best long-term measures to take advantage of the opportunities these challenges create. For more information about the Center's unique perspective on these challenges, visit **www.deloitte.com/centerforedge**.

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Executive summary

FOR executives, it is the best of times and it is the worst of times. In the past few decades, we have seen an unparalleled and exponential rate of technological progress that has created opportunities to run businesses better, faster, and more cost effectively. However, the increasing pace of progress has also led to unprecedented levels of disruption and uncertainty. Squeezed between increasingly powerful consumers and employees, companies face all-time high levels of competitive pressure. In the Deloitte Center for the Edge's annual *Shift Index* report, we show that since 1965, return on assets across all publicly held US companies has declined by 75 percent, indicating these pressures are not part of a short-term recession, but are permanent fixtures in the business landscape.

Faced with these pressures, investors, stakeholders, and executives all agree that something needs to be done. However, from our experience, there is rarely alignment on *what* to do or *how* to do it. When confronted with the imperative for change in times of uncertainty, many companies fall victim to either the paralysis of short-term, incremental improvements or the hubris of risky, bet-the-farm strategies that have no guarantees of success. To make matters worse, companies struggling most face what we call the Change Paradox: The companies in most dire circumstances often have the fewest resources to make requisite changes.

This paper seeks to show how organizations can achieve large-scale transformations in a series of smaller, pragmatic steps. Through new technologies, practices, and other parties in their business ecosystem, organizations can make success more likely by decreasing initial investments and increasing their initiatives' velocity. We propose that through small moves smartly made, organizations can address their short-term tactical needs as well as create the fundamental, long-term changes needed to survive in a world of constant disruption. We call this new change methodology "Pragmatic Pathways," and have defined three separate approaches that can be deployed depending on circumstances and organizational cultures:

- **Metrics that matter** is a pathway to focus deployment of a disruptive tool or practice in order to trigger cascades of adoption and rapid performance improvement.

- **Scaling edges** is a pathway to transform the core of the business by focusing on low-investment, high-growth-potential opportunities—"edges"—with fundamentally different business practices.

- **Shaping strategies** is a pathway to restructure markets and industries using platforms to bring people together and mobilize large ecosystems with positive incentives by creating a compelling view of the future.

Traditional change approaches

BEFORE discussing Pragmatic Pathways in greater detail, it may be helpful to reflect on the two common change paradigms we touched upon before. The first is the pursuit of incremental change, often consisting of either cost-cutting initiatives or marginal product improvement. This mentality is common in organizations without a clear vision or alignment on how to "steer the ship." While incremental improvements are absolutely critical to maintaining and improving a healthy business, they are incapable of protecting organizations from disruption. In fact, in the long run, focusing only on efficiency and incremental growth is the most tried-and-true path to irrelevancy.

The second common change paradigm is what we call the "big bang" change approach. These approaches are typified by high-profile projects with multimillion-dollar budgets, large implementation teams, and complex multiyear implementation plans. They include large-scale M&A deals, technology deployments, and business strategy overhauls. But despite the resources and attention devoted to these "big bang" approaches, somewhere between two-thirds to three-quarters of such efforts fail.[1]

Although the reasons for these failures are complex and unique to each effort, at their simplest level, they all share three factors: 1)

large financial outlays, 2) lengthy lead times, and 3) the uncertainty of success. The combination of these factors invariably arouses financial and political resistance from the organization's core. This resistance can manifest in a multitude of ways: from direct resistance, such as pulling budget, to more subtle or passive forms of resistance, such as the refusal of employees and managers to adopt new practices. This resistance to change can be observed anecdotally. Reflect on large-scale change initiatives attempted by organizations in your own industry, or perhaps even by your own company, and consider the various sources of resistance that were encountered.

Inevitably, as more and more organizations face the imperative for transformational change, they have started to look for alternatives to the incremental and "big bang" change approaches we have described. Fortunately, the disruptions that necessitate change (such as new digital infrastructures, technologies, and communication patterns) also provide the building blocks for better ways of transforming an organization. The companies that deploy these new change approaches before their competitors will be able to create and hold a significant advantage in their industries.

Pragmatic Pathways:
A new approach

EVEN under the best circumstances, organizational transformation is difficult. The Pragmatic Pathways methodology is designed to help maximize a change initiative's chance of success by increasing the velocity of the initiative, decreasing the initial investment, and minimizing uncertainty wherever possible. By doing so, the change agents leading the initiative decrease the ability of detractors to mount resistance against it. Although the three approaches we outline are different, they all employ the following principles to increase the likelihood of success:

Circumvent internal resistance: Often, the most significant obstacles for change occur internally, either in the form of the slow pace of approvals and adoption or outright refusal to change. First, seek alignment where possible. However, when alignment is not feasible, the Pragmatic Pathways philosophy is to circumvent conflict rather than face it head-on. Battling detractors is risky; should you lose, it could mean the end of your initiative, and even if you win, it wastes your time and energy. Instead, change leaders need to seek ways around detractors and lengthy approval processes by minimizing initial investments wherever possible, shortening timelines to gain traction quickly, and seeking out those in the organization most willing to embrace the change, both at the executive and tactical level.

Leverage your ecosystem: Another important component of the Pragmatic Pathways approach is to help your organization establish its place in its broader ecosystem (your ecosystem consists not only of your suppliers and

customers, but also your consumers' influencers as well as groups in adjacent businesses). Members of your ecosystem have deep insights about your industry and consumers, and they can be powerful allies and partners, providing insights and ideas. By partnering with companies with complementary skill sets and expertise, you will be able to offer better solutions faster and with less initial investment than you could on your own.

Employ disruptive tools: All three approaches prescribe the use of new tools to help in the change process. The purpose is to increase the speed of information flow and transparency, which leads to better decision making. In addition to these benefits, these tools help flatten organizational hierarchies and circumvent bottlenecks that block initiatives.

Aim for immediate impact: Each pathway is designed to help organizations realize the benefits of their change efforts as soon as possible. This fast-to-market mentality not only lets organizations realize their short-term goals, but also tests the feasibility of their initiative as soon as possible. Through the natural process of trial and error that comes from quickly developing and testing ideas, change agents can simultaneously gain traction by showing the benefits of their initiative while also adjusting and correcting areas of failure.

Achieve long-term transformation: While these approaches are designed for short-term impact, they will also help create and reinforce the collaborative behaviors and transparent organizational cultures that make future

change initiatives easier. The changes outlined in Pragmatic Pathways will not only help move organizations from one stable state to another, but will also help them create more flexible and fluid organizations that will be able to respond to future disruptions. By positioning themselves to work with growing networks internally and externally, companies access flows of knowledge and capital and enable scalable learning, allowing them not only to respond to change but also to preempt it. Organizations that adopt one or more of the Pragmatic Pathways will:

1. Understand the financial and operational metrics that matter most and figure out how to connect these levers to the deployment of new tools or practices in order to stay abreast of technological and organizational developments that can improve internal efficiency.

2. Continually test and refine new edges outside the core of the organization, using its business ecosystem to help hone fundamentally different skills, practices, and business models while connecting and mobilizing third-party resources to minimize the cost of scaling these edges.

3. With the right alignment and vision at the executive level, companies could shape entire markets or industries through orchestrating these broader ecosystems with a shaping strategy.

Pragmatic Pathways to change

THE Pragmatic Pathways framework (see figure 1) can be interpreted as a spiraling maturity model of sorts, with the starting point at metrics that matter and moving clockwise to scaling edges and then shaping strategies.

Companies at the beginning of the maturity curve, which have not adopted the behaviors and practices to take advantage of the new digital infrastructures, will probably benefit most from a targeted, narrow implementation of a new tool or practice (e.g., social software, cloud) to improve business operations. This can be achieved through the metrics that matter pathway. Companies that have identified the fundamental shifts in their markets and

have a vision of how they can capitalize on these, but lack the broad executive support or wherewithal to pursue large-scale organizational change, can consider scaling edges. This approach allows the company to begin transforming on the periphery, rather than the core, of its business and eventually scale the new idea to become the new core. Finally, companies that have complete alignment on their vision—from the CEO to line employees—and the conviction to see this vision through can influence the entire face of their industry by orchestrating an ecosystem of active participants through a shaping strategy.

Figure 1. Pragmatic Pathways framework
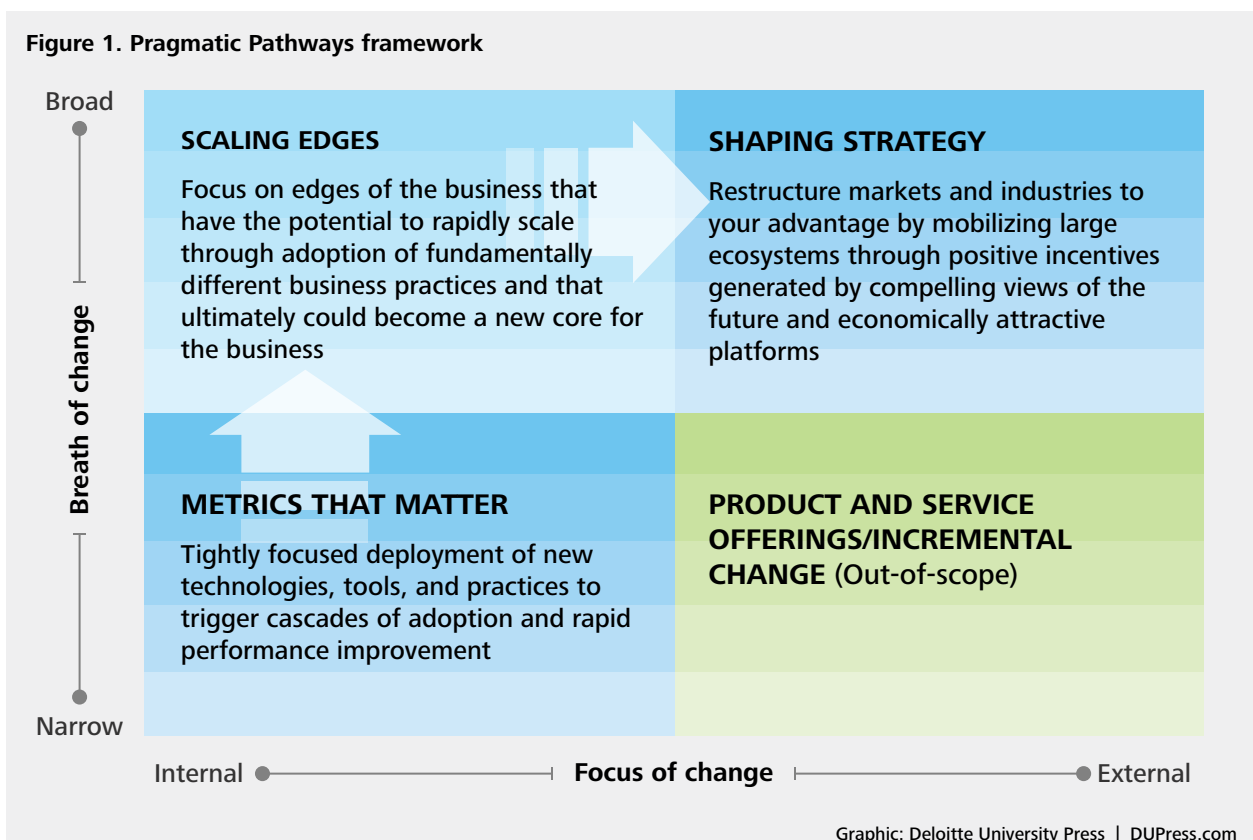
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Metrics that matter case study: Pfizer

MANY companies will deploy a new tool or practice with a hammer; that is to say, they roll it out and hammer it in with no strategic plan. But when people are told to adopt something and they have no incentive to do so, the outcome is typically a lack of adoption. Imagine if the same company first understood why people needed the tool, and then deployed it systematically to the people who would eagerly adopt it.

When Pfizer was considering increasing the usage of cloud technologies in its organization, the natural place to deploy it was in R&D, the core engine that drives success for pharmaceutical companies. Pfizer R&D needed to quickly analyze, organize, and compute large amounts of very complex data and provide results back to scientists so they could make actionable decisions about a drug. But Pfizer lacked the enormous amount of computing power required to process the information quickly and affordably—two key metrics that determined the company's profitability and success. To solve this problem, Pfizer partnered with Amazon Web Services (AWS) to design a tailored solution—specifically, a private cloud solution, so that Pfizer could offload mundane tasks and free up its internal high-performance computing (HPC) platform to process critical, yet sporadic projects.

By using thousands of off-site servers rather than relying solely on internal ones, Pfizer compressed compute time from weeks to hours, enabling it to make quicker financial and strategic decisions, and resulting in gains of millions of dollars.[2] This tailored solution also freed scientists to focus on problems and solutions without worrying about technology limitations, decreasing Pfizer's R&D costs by 7 percent, or $600 million, since implementing

cloud in 2010.[3] As Michael Miller, senior director of HPC for Pfizer R&D, observes:

Speed can literally change the way you think about a scientific problem.[4]

Pfizer's use of AWS is an example of how organizations can effectively launch a new tool or practice by aligning it with business metrics that matter to employees. By focusing on improving operational needs rather than on adoption, Pfizer created incentives for employees, particularly those with the strongest need for it, to adopt the tool. As employees adapted to and created new behaviors, they saw improvements in their own performance, which drove further adoption in vertical and horizontal cascades. This method allowed Pfizer to catalyze new practices and the use of the tool much more successfully than if leaders had pushed for adoption directly.[5]

This metrics that matter approach is very different from a traditional firm-wide IT implementation; it is a targeted insertion of a new tool or practice to drive business performance. If you look at social software specifically, two-thirds of companies are interested in social platforms and approach them by deploying them agnostically across the enterprise; this, more often than not, fails to drive adoption and usage. As these companies have learned, adoption cannot be the primary aim of deploying a new tool or technology. Instead, adoption should occur naturally as employees willingly use the new tool or practice for their own personal benefit (and the benefit of the company).

There are three types of metrics to consider when launching a tool, each important to a different group within the firm:

- **Exception metrics:** For line employees, it is critical that they improve productivity and performance, whether through improving collaboration and communication or making exceptions to daily processes easier to handle.

- **Operating metrics:** Managers aim to drive improvements on operating metrics—near-term indicators of an organization's performance and success.

- **Financial metrics:** Finally, executives are focused on improving financial metrics to please shareholders, often in lockstep with quarterly reports.

In an industry characterized by "eureka" moments, Pfizer's choice to use cloud has afforded the company greater flexibility and capability to scale its operations as needed for critical research. Accessing offsite servers for the necessary computing not only decreases computing time, but also reinforces informal collaboration, accelerates time to decisions, and lowers the costs of new investments. The company benefits handsomely from this, but this benefit is actually driven by individuals finding value in the new tool. For example, the R&D HPC team is now able to expose resource costs very transparently back to the researchers in real time so users can make intelligent decisions on costs versus priorities. Miller claims:

It's a game-changing approach to making better decisions within Pfizer.[6]

Not only has the targeted deployment of cloud led to adoption and behavioral changes across the R&D group, but it has also changed Pfizer's competitive advantage. In 2010, Pfizer spent seven months working with a cloud services provider to design a secure system that fulfilled its compliance and security needs.[7] Looking forward, Pfizer could also consider how cloud is deployed across the rest of the organization to enable rapid prototyping, much the same way R&D is able to use cloud now to rapidly undergo new research. A scaling edges strategy could allow Pfizer to adapt to the rapidly shifting health care markets by finding the right "edge" opportunity. Pfizer could even think about how it could shape the way the entire industry pursues R&D and consider how collaboration could potentially occur beyond

its own organization and extend to the entire pharmaceutical ecosystem. Cloud could also enable Pfizer to create a flexible platform upon which scientists, quality controllers, customers, regulators, and others in pharma connect and collaborate to quickly design, test, and bring new drugs to market.

This pragmatic approach may start with an executive spotting a strategic challenge that impedes an important financial metric. Or perhaps a business unit manager finds a key exception that needs to be addressed in order to improve operating performance. Skepticism from employees, who are used to and comfortable with the status quo, is understandable, but positioning a new tool or practice as a means to affect key performance metrics can overcome skepticism and align the entire organization to adopt something new to drive change.

Scaling edges case study: AWS

WHEN AWS was launched in 2002, many thought it was simply a way for Amazon to sell off excess storage and computing capacity. However, within two months of its inception, Amazon had burned through all of its extra capacity. In fact, by 2007, AWS had grown to offer nine different services. Today, that number has grown to 82, and the number of objects stored in Amazon's cloud continues to grow exponentially. Morgan Stanley analysts estimated revenues for 2011 to be $1.2 billion, and projections are that the business could grow to $2 billion by the end of 2012.[8] Although AWS still only constitutes a small percentage of Amazon's $48 billion business, Amazon's leadership sees it as having lots of room to grow. To truly be an edge, an opportunity has to have the potential to scale and transform the core business; earlier this year, Jeff Bezos, CEO of Amazon, said:

> *[AWS] has the potential to be as big as our retail business. It's a very large area and right now, [cloud computing services are] done in our opinion in a very inefficient way.*[9]

One of the most interesting aspects of AWS is that while cloud services seem fundamentally different from the online marketplace that Amazon is known for, cloud services are actually part of the same broad vision. AWS serves as a nonobvious adjacency that has allowed Amazon to leverage many of its existing capabilities from its retail arm. Amazon had developed expertise in distributed computing within the company, which has lent itself to providing AWS as a service. This expertise

has led Amazon to transform the adjacency into an industry-leading business. From the beginning, Amazon realized the opportunities for this service. As Werner Vogels, the chief technology officer of Amazon, observed:

> *The excess capacity story is a myth. It was never a matter of selling excess capacity … Amazon Web Services was always considered a business by itself.*[10]

The move into cloud computing may be pivotal for Amazon, not only because it gives the company access to new markets, but because the market can also potentially bear higher margins for services than commoditized retail products.

Amazon's AWS is an example of what we call scaling edges, which is a framework and a set of design principles focused on large-scale institutional transformation. It requires focusing on promising high-growth areas, or edges, that have the potential to change the core of the business in the long run. To ensure the best chance at this, the edge must avoid direct conflict with the core of the business by playing in a different space in the short run. This will allow the edge to grow and become an established, proven, and viable model before encountering the full range of financial and political obstacles that come from directly challenging to change the core business. In the case of the AWS edge, the cloud services space is adjacent to rather than in direct conflict with Amazon's core online retail business.

Often, the organizations that need change the most are those that are the most resistant to it. The scaling edges framework helps to circumvent the political and financial resistance that usually arises with any change effort. While this resistance may not have surfaced within Amazon, as AWS was driven by the founder, it is a common problem in many firms that are less open to change.

There are several principles any organization can adopt to scale an edge:

Focus—Firms should identify and focus on "edge" initiatives that follow four principles. An edge should:

1. **Align with fundamental market forces and the long-term vision of the business and market:** For Amazon, this came with understanding the strong growth potential and high margins of cloud-based services.

2. **Require minimal investment to initiate:** In addition to its excess capacity, Amazon had already developed many key technologies and internal capabilities (particularly around distributed computing) that could be leveraged for AWS. This allowed Amazon to test its ability to host cloud services with little investment.

3. **Have the ability to "grow the pie," or create revenue in the short term, which does not conflict with the core of your business:** The revenue streams from AWS were almost immediate and did not cannibalize any of Amazon's core business on its online marketplace.

4. **Have the potential to transform the core in the long term:** While it is too early to say definitively how much AWS will grow, both Bezos and Vogels have suggested that it will become as large as the core of the business.[11] And while it plays in a different space than Amazon's core business, given the potential for significantly higher margins, AWS has the potential to replace the core online retail business as the primary profit generator for the company. In addition to growing revenue, the move to services also represents a new approach for

the company and a fundamental transformation of the company's focus.

Leverage—Edge initiatives should leverage low-cost, disruptive technology, and external resources to overcome obstacles to scaling: Many of AWS's services are designed to easily integrate with and build on other software and web services. AWS's fastest growing service, DynamoDB (a fast and scalable database service), was designed to seamlessly integrate with Elastic MapReduce (EMR), another web service. EMR allows customers to analyze large quantities of data quickly and cost effectively. The two services in tandem are quite powerful. On his weblog, Vogels described the interaction:

> *By taking advantage of DynamoDB's seamless integration with EMR, many of our publishing customers are able to easily analyze various trends in real time, such as content popularity.*[12]

As a result of the integrated design, a wide range of customers have quickly adopted the product because it meshes with tools they already use. This ease of adoption has driven rapid growth for DynamoDB. As Vogels describes:

> *After only two months, customers had already provisioned enough capacity to perform hundreds of billions of requests per day.*[13]

One of the powerful elements of leverage is that AWS overcomes a zero-sum business mind-set. By creating products that interact with the existing ecosystem of online solutions, AWS is able to leverage the capabilities and products that have been established in the market. Additionally, Amazon fosters and creates online forums for new users who are just learning to use AWS tools. The result is that both products add value to each other and create a symbiotic relationship where companies and users both benefit.

Accelerate—The third key component to the framework is the speed at which one can take a new product to market. Compressing lead times and driving revenue quickly will allow the edge to overcome the financial and political obstacles that are the downfall of most strategic and change initiatives. Examples of these obstacles range from the explicit, such as choosing not to allocate budget to an initiative, to the passive, such as agreeing to an action item and then not following through. Edge initiatives should accelerate the pace of innovation to compress the time between investment and return wherever possible. Part of this process is to design for scalability and rapid testing and release. AWS itself was built to be quickly scalable with a portfolio of integrated products that were released as they were completed; this approach allowed Amazon to quickly test both the concept of moving into services as well as each individual application concurrently, and to make adjustments in real time to meet market demands.

Scaling edges in the context of the Big Shift

In order for the edge vision to have the most impact, it has to be in line with fundamental shifts in the broader marketplace. We have seen rapid gains in technological performance, digital infrastructure penetration, and global liberalization of economic policy, and all of these macro shifts are fundamentally changing the way consumers interact with organizations. Any change initiatives that do not take these trends into consideration will have a reduced chance of long-term success.

These concepts are built for change agents to help others in their companies develop the courage and conviction required to start the change process. Often, companies will have a vision for where their company and industry need to head (conviction), but lack the courage to act on that vision. At the same time, much of the financial and political resistance

to change comes from the core of the business. This is to be expected; core processes are designed for the status quo. Deploying an edge model requires some change agents to detach from promising core activities to build on the periphery where there is less resistance, particularly in the initial phases when momentum is still building. Operating on the periphery is particularly important, as efforts that challenge the core directly tend to mobilize institutional "antibodies" that cause these efforts to fail.

As Amazon continues to scale the edge of AWS, it has the potential to not only transform the core of its own business, but to also fundamentally change its market and ecosystem. When companies, particularly those that are growing, begin to adopt cloud-based services,

there will be a profound impact on how business is conducted. By providing cheap, scalable services, products like AWS enable companies to focus on core competencies, new or existing. Also, as data storage and processing needs become variable rather than fixed costs with cloud, companies will be able to more efficiently provide current product and service offerings with less risk and a litany of new services will follow suit. Amazon will have the opportunity to create new uniform standards and protocols for interactions across a series of products that have the opportunity to become new industry-wide standards. Amazon, as a result, will then have the chance to rally its ecosystem around its vision for the future of the technology industry.

Shaping strategies case study: Spotify

NAPSTER broke the music industry by removing content from its traditional wrapper, the album, and the industry has not been the same since. International revenues for the music industry peaked in 1999 at $56.7 billion and have declined to an estimated $28.7 billion in 2012. After Napster was litigated out of the picture, Apple's iTunes legally continued the digital trend of separating the single from the CD. Although the revolutionary distribution method appealed to consumers, it undeniably eroded profit margins for music labels, artists, and other participants in the industry. It affected regional music industries around the world, which have likewise been in steady decline since the peak in 1999.

Enter Spotify in 2008, a new player in the fray. Swedish company Spotify has single-handedly reversed this trend in its home country, and its digital streaming and social sharing platform may just be able to save the international market.

Before the 2012 Grammys, Spotify co-founder and CEO Daniel Ek spoke before a gathering of industry executives and spent most of the night describing his vision to them:

> *The value of music is not $15 billion [2011 international digital music sales]; it's worth much, much more than that.*[14]

After Spotify's launch, Sweden's music industry experienced growth for the first time in 2011, with Spotify accounting for approximately half of the music revenue. To the Spotify team, they are not just a streaming service or an application to access your playlists; from the founder on down, the company views itself as the "operating system (OS) of music." The executive team is aligned on its central vision to deliver music to people wherever,

and whenever, they want to consume it. More importantly, Spotify is pursuing a shaping strategy, mobilizing and orchestrating global ecosystems around its vision to transform the music industry.

Shaping strategies are an effort to transform an industry or market by creating incentives for external participants, demonstrating that all participants can benefit from this new vision, and providing a platform for these participants to interact on. The goal is to redefine the nature of competition for the market sector. There are three specific components of a successful shaping strategy:

1. **Shaping view:** First, the orchestrator must articulate a shaping view, a long-term vision of where the market is heading, which identifies where the opportunities and economic incentives lie for participants, yet is big-picture enough to leave considerable room for refinement. The orchestrator needs to be a compelling evangelist, able to clearly articulate the vision of the direction of the new market and the value creation opportunities for all participants in the industry.

2. **Shaping platform:** Second, the orchestrator must provide a shaping platform, or a set of clearly defined standards and practices, that organize the activities of the participants and also provide them with leverage by reducing initial investment and lowering the cost of interactions between participants.

3. **Acts and assets:** Third, the orchestrator needs to demonstrate its capability and commitment to realizing its vision through a mixture of "acts" and "assets." Acts are necessary to define the shaper's intentions, demonstrating the shaping company's assets can be a significant factor in persuading potential participants to invest in the shaper's view.

Shaping view: Spotify's actions to date demonstrate a very specific vision of where the music industry will evolve—to an industry that is thriving on, rather than suffering from, the new digital platforms. Spotify sees itself as the key platform in this new era; as Sten Garmark, director of Spotify, describes it:

We have to turn ourselves into the OS of Music.[15]

As this "operating system," or music platform, Spotify intends to deliver music and interactive experiences through third-party applications to its consumers. By broadcasting this vision and directly engaging and orchestrating key ecosystem participants, such as major music labels, artists, music industry media, third-party developers, and consumers, Spotify has multiplied the depth and complexity of the listening experience on its platform.

Spotify differs from Apple, Pandora, and other prominent digital music aggregators through the integration of social graphs into the music listening experience. Spotify's launch in the United States reflected this strategy, as the service was deeply integrated with Facebook Connect from the start. Users' playlists are highlighted to their Facebook friends in real time, and users are able to "send" tracks to each other in order to recommend a new artist. Social recommendations are a crucial factor in increasing engagement with new and established artists alike. As Ek observed in an interview at the Grammy Awards:

The sales cycle of [a] record is anywhere from four to twelve weeks in most typical cases. With Spotify, we keep seeing the effect [extend] up to twenty-five, thirty-five [weeks], or even a year.[16]

This is a crucial differentiator that enables Spotify to deliver music anywhere, anytime, while still fostering a healthy ecosystem and growing the music industry. Spotify is also aggressively targeting partnerships with new media channels to increase its user base—for example, it recently signed a distribution deal

with Yahoo that will highlight the music service as the preferred service for all of Yahoo's 700 million unique monthly visitors. Such distribution partnerships are crucial to Spotify's long-term success in realizing its vision, as the addition of each new user increases the value for other participants in the music ecosystem.

Shaping platform: Spotify has created a platform and a set of clearly defined standards and practices that organize and support the activities of its many participants. Since launching as a platform in December 2011, Spotify has actively engaged the ecosystem of third-party developers by providing best practices and coaching to ensure all applications hosted on Spotify meet a minimum quality standard before going live on the platform. By having an open-admit policy for third-party developers and providing them with the tools and training to deliver quality applications, Spotify is fostering specialization on its platform and increasing the odds consumers will be able to find the specific features they want to engage with. Targeted applications increase engagement for customer niches that might not be reached otherwise; as a result, consumers are willing to spend more time and money on the music industry (e.g., on the platform, at live events). This, in turn, increases the value for application developers, musicians, and labels as a whole.

This strategy is working—Spotify's paid membership in the United States increased by 1 million in the past year, and since the platform launch, US consumers have spent more than 23.7 million hours on Spotify applications, listening to music and engaging with the content creators in new and unique ways.[17,18] The platform not only makes Spotify's shaping vision possible; it is also an integral piece of the vision. The ability to stream music anywhere requires a sophisticated infrastructure and would not have been possible even five years ago. When envisioning the company, Ek presupposed the existence of this architecture and was one of the early music streaming services to capitalize on its existence. He had a

bold vision for Spotify and moved on it before people realized it was even possible.

Acts and assets: To date, Spotify has demonstrated that it has both the conviction and the assets to help realize this vision. By opening up an application program interface to its catalog of more than 15 million songs to any third-party developer for free, it has committed to creating a much richer, deeper music ecosystem than what currently exists. By demonstrating it is willing to invest a significant amount of money on its platform and making these assets available for free, it is creating powerful incentives for third-party developers to adopt its platform. Spotify has also signaled a long-term commitment to improving the music industry by actively engaging the four major music labels (each of whom is a minority shareholder in Spotify) throughout the evolution of its platform. It has identified opportunities for creating value in many distinct niches for the labels, artists, publications, live promoters, third-party developers, and any number of other participants within the music industry. For example, Ken Parks, Spotify's chief content officer, has worked with music labels and other parties to develop new metrics to measure customer engagement with artists and applications on the Spotify platform. By nature of their diversity and specialization, the applications created by third-party developers help expose niche artists who might not otherwise have a platform for their music. These types of actions demonstrate that the shaper is committed to creating value for the entire ecosystem, rather than exploiting the other participants for its own gain.

Spotify has demonstrated the potential to shape the music industry by describing a compelling vision of the future of music, introducing a platform to help realize this, and signaling its commitment to developing this vision in tandem with its broader ecosystem. As it continues to grow as a company, Spotify might find it useful to adopt a metrics that matter strategy in order to drive adoption of technologies or practices necessary to transition into a publicly traded company.

Pragmatic Pathway approaches build on each other

ALTHOUGH we have suggested a maturity model-type approach to identify where to start with Pragmatic Pathways, this is only a loose guide to how they can be deployed. Firms may begin in different places in the cycle, and there is no strict order in which Pragmatic Pathways should be undertaken—in fact, they are mutually reinforcing.

Let us take a hypothetical example to demonstrate how the Pragmatic Pathways approaches can build upon each other. Imagine if a cable provider were looking to update its traditional delivery methods to be more aligned with the Big Shift. Rather than seeking a "big bang" change approach, such as a large-scale acquisition, the firm could test its ability to leverage its massive cable networks to deliver broadband Internet independently or through partnerships with several smaller companies. The company could rapidly prototype and test the viability of this edge with its employees and customers in a manner that limits up-front financial outlay while still maintaining large potential benefits.

At the same time, the team in question might identify a new technology or practice to increase the efficiency of operations for the identified edge of these media companies. For example, the cable provider could adopt a rapid development approach, such as the Agile methodology, to develop and test new capabilities. It could then pursue a metrics that matter approach to strategically reinforce the adoption of that methodology and catalyze cascading adoption across the company. By doing so, it would not only improve the efficiency of the organization, but also refine usage of the technology or practice through a deeper understanding of incentives for adoption. Additionally, the benefits that are activated on the edge would pull individuals and functions in the core out to the edge when the company recognizes the benefits from this new practice. In effect, this method of diffusion can be used to transform the core from the outside in.

After scaling its edge vision and pulling the core out to meet that edge, the cable company could realize it has the potential to disrupt and shape its entire industry. At this stage, if the change agents have gained sufficient influence to align the entire organization, the company could begin pursuing a shaping strategy to orchestrate the wider ecosystem of participants to shape the evolution of that specific industry. One potential shaping view could be to create audience-focused media channels, informed by a deep understanding of its customer segments. In this scenario, the firm could potentially orchestrate a broad range of third-party participants to provide its consumers with access to content from a wide range of sources beyond the firm's traditional brands and partnerships.

Throughout this example, you can see how the Pragmatic Pathways frameworks are complementary and self-reinforcing; moreover, they are an iterative cycle in which the principles of each approach can be repeatedly applied to empower companies to evolve and match the rate of change of our world.

Your starting point

As a change agent reading this article, you are no doubt wondering which of these change approaches is most suitable for your specific company and situation. The right approach depends on what type of change your company is aiming to achieve—whether it be broad versus narrow change or internal versus external change.

Figure 2. Pragmatic Pathways decision tree
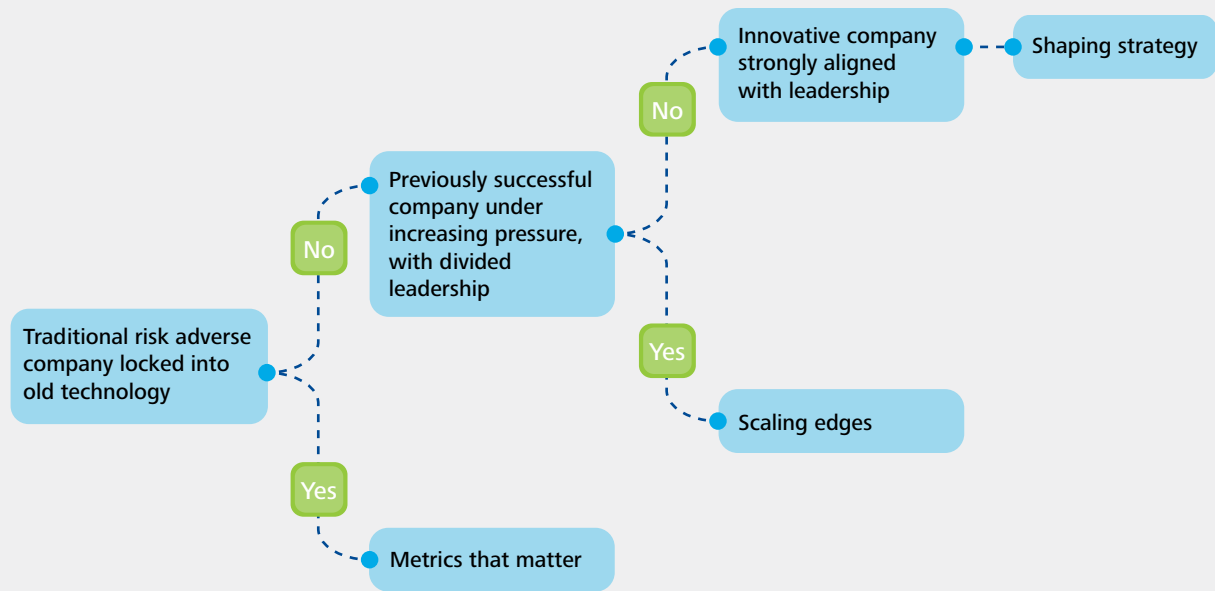
Graphic: Deloitte University Press | DUPress.com

The following questions will help you assess which approach will be most helpful for you:

You may want to consider a metrics that matter strategy if you answer yes to the majority of the following questions:

Leadership	Is your company considering the deployment of a new, disruptive technology or practice, but unsure how to best drive adoption?	Yes/No
	Does your company have a metric-driven culture with clear key operating and financial metrics?	Yes/No
Risk appetite	Is your company's culture resistant to change?	Yes/No
Performance priority	Are there specific pain points (e.g., exceptions to daily processes, bureaucracies restricting external collaboration) in day-to-day operations that can be improved by adopting new technologies or deploying new practices?	Yes/No
	Is your company locked into relatively old technologies (e.g., traditional ERP systems) and eager to deploy new technologies to improve operational and/or financial performance?	Yes/No

You might want to consider a scaling edges approach if you answer yes to a majority of the following questions:

Leadership	Are you a change agent who is willing to test boundaries and work outside of the core organization?	Yes/No
	Do you have a long-term vision of how fundamental shifts are affecting your industry or market?	Yes/No
Risk appetite	Do you see an opportunity in leveraging a broader ecosystem within your industry or market to accelerate internal initiatives?	Yes/No
Performance priority	Are the core operations of your organization surviving but not thriving in a competitive industry?	Yes/No
	Can you identify a high-growth potential "edge" for your company, which is aligned with changes in your business's landscape and has the potential to eventually transform your entire organization?	Yes/No

You might want to consider a shaping strategy if you answer yes to a majority of the following questions:

Leadership	Do you have alignment around your organization's strategy from the CEO through the entire executive team on a vision that could change your industry?	Yes/No
	Can you clearly identify and articulate attractive opportunities for a wide range of participants in your vision for your industry?	Yes/No
Risk appetite	Are you an industry leader or disruptor with the conviction and capability to influence the direction of the industry?	Yes/No
Performance priority	Does your view of the industry express a perspective on its long-term direction and highlight how it could change?	Yes/No
	Can you create or provide a platform that can support a diverse set of participants and offer opportunities to create value in many distinct niches?	Yes/No

The path forward

LARGE-SCALE transformation is not an easy process for an organization, but it is becoming increasingly necessary if companies are to escape today's mounting pressures. The Pragmatic Pathways framework provides companies with new approaches to change that and take advantage of the fundamental shifts occurring across markets and industries. Instead of implementing transformation efforts toward reaching a new state of being, firms must worry about reaching a state of *always becoming*, where they are able to meet new challenges with conviction and courage rather than fear, and continuously evolve to overcome these challenges. In that pursuit, the reinforcing nature of Pragmatic Pathways will help firms develop the capabilities and practices to succeed on their path to change.

For more information on Pragmatic Pathways, please visit our website at: www.deloitte.com/centerforedge

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