# The Interaction Field

## The Revolutionary New Way to Create Shared Value for Businesses, Customers, and Society

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# Introduction

For most of my career, which spans four decades, the conventional wisdom about a company's ability to create value was that it comes in the form of competitive advantage, differentiation, and growth, usually evaluated in terms of tangible assets, revenue, and profit.

In today's digital age—characterized not only by networks but by data-driven technologies, including artificial intelligence (AI), machine learning, and, soon, quantum computing—we have to think differently about how businesses create value.

The "interaction field" describes a new phenomenon that is just emerging and can be glimpsed in a handful of wildly successful companies such as Alibaba, Apple, Netflix, Google, and Amazon. It can also be found in some traditional businesses, from farming to fashion.

Interaction field companies thrive on the participation in value creation by many different groups: the company itself, its customers, suppliers, partners, and other stakeholders—as well as other entities you might not expect to see in the mix, such as competitors, observers, independent researchers, and government agencies.

By participating in these interconnected groups, interaction field companies can achieve a kind of unstoppable momentum and wild expansion that I call "velocity." It is a new form of multidimensional, constantly accelerating, explosive and smart growth that goes far beyond the traditional measures of sales increase, profit, or market capitalization.

Velocity sounds complicated, perhaps, but nothing's uncomplicated in this era of disruption, so let me simplify it with a metaphor. If you live in

New York City, as I do, you quickly learn about the power of velocity just from trying to get around town. If you step out of a taxi on the wrong side of the car at the wrong moment, for example, you may step into the path of an oncoming bus and be killed instantly. Get out the other side, and you risk an early demise from a bicyclist bombing toward you at top speed.

Now, that seems counterintuitive. A bike and a rider can be just as deadly as a loaded bus that weighs ten tons or more? For sure. The bus gets you with mass. The bike gets you with velocity. Most traditional companies are like a fully loaded bus. They thrive by creating enormous scale and assets, huge distribution networks, technology infrastructure, and big brands and reputations.

But then along comes a bike-like rival that has very little mass, doesn't care much about conventional practices in the business, and has a much smaller center but enormous velocity—it either rushes past its competitors or mows them down.

The traditional company is like BASF, Deutsche Bank, Siemens, or Volkswagen in Germany; or GE, General Motors, or Procter & Gamble in the United States; or Santander, Iberdrola, or Telefónica in Spain. These companies are the incumbent leaders in their industries. They run well-oiled, well-optimized value chains or pipeline businesses.

Consider a simple comparison between a traditional restaurant (the bus) and a food delivery business (the bike). In New York, a fine-dining restaurant is a combination factory, retail shop, and service provider. It costs about $300,000 to open a relatively small café or fast-casual restaurant in New York, and up to $10 million to set up a four-star establishment. Whatever form it takes, the restaurant will be dealing with fixed costs, professional fees for interior design and identity materials, a long-term lease or mortgage, depreciating assets such as ovens and food-processing equipment, and, of course, administrative staff, kitchen employees, and waitstaff.

Contrast the restaurant business with a food delivery service such as Seamless, Postmates, Uber Eats, or the UK-based Deliveroo. They are solving essentially the same customer problem that the fixed-cost restaurant is: What am I going to eat and when? But these delivery services present a very different solution. They feature a number of food and meal providers on their app and take what is essentially a royalty on every order they deliver, typically in the range of 20 to 30 percent of the order value. For the most part, they don't actually prepare the meals, so their costs are much lower than what's required to open and run a restaurant. The operators do not have to purchase perishable foodstuffs. They don't sweat out the long grueling hours. They don't even have to hire or manage kitchen staff or servers. For delivery, they rely on a small army of cyclists, but don't pay them a salary or benefits. Like Uber drivers, the bikers are freelancers who get paid a commission for every order delivered.

Delivery companies can grow exponentially, from nothing to hundreds of thousands of daily users in a short period of time. Deliveroo, in fact, is the fastest-growing technology company in the United Kingdom. Just six years after founding, the company brings in over $600 million in annual revenue. And, of course, it is considered a unicorn start-up, with a market valuation of more than $2 billion. Deliveroo has rushed past some of the hottest restaurant chains, such as Shake Shack, and brings in twice the revenue.

Velocity—multidimensional, constantly accelerating, explosive and smart growth—is what all companies must strive for today, no matter their size or how long they've been in business. It doesn't matter whether the company is a start-up or an incumbent, a leading firm in an existing industry or part of a new and emerging category. So many of the business areas where traditional companies operate are being disrupted, disaggregated, and demolished by changing consumer habits, escalating customer expectations, and the effects of technology. The old business models cannot withstand or survive the torsion of these forces, but the new interaction field companies feed on them.

This kind of velocity is fueled by interactions. The more interactions a company can create among its participants, and the higher the quality or value of those interactions, the greater the velocity. As velocity increases, three things happen.

First, network effects kick in, which means that the product or service on offer becomes more valuable as more people contribute to it. Think

Airbnb. The more Londoners offer their spare rooms or stately homes or canal barges to travelers through Airbnb, the more valuable the service becomes—greater selection, increased availability, more variety and choices.

Second is virality. As people find value in a business offering, they voluntarily become advocates for it and encourage others to join. When Joshua and John Hanlon were fifteen and seventeen years old, they started a LEGO YouTube channel, *Beyond the Brick*, featuring builders from around the world and their amazing LEGO creations. Today, the channel has over 530,000 subscribers and over 200 million views. *Beyond the Brick* has gone viral to the benefit of both LEGO and the channel's users. It's informative, exciting, attractive, compelling—LEGO people want to join up, contribute, share videos, and talk about what they've experienced.

Third, as the company applies human knowledge and artificial intelligence to the large amounts of data being collected in the interactions, a learning effect emerges. That is, the more information the product gathers and synthesizes, the more valuable it becomes. Tesla collects more data through sensors and cameras than other manufacturers, which enables machine learning in its autopilot software, which increases driver safety. Teslas get smarter as you drive them, and the more Tesla drivers there are, the smarter the cars become.

After researching these companies and several hundred more, I've concluded that none has fully captured the opportunities of an interaction field company. Airbnb has a long way to go in terms of creating learning effects, for example. LEGO and Tesla are just at the beginning of leveraging the all-important network effect.

When a company takes advantage of these three effects, velocity intensifies, the effects build on each other and reinforce one another, and a virtuous cycle is created, which further fuels growth and ensures sustainability. As the cycle grows stronger and stronger, the value created can explode. So much so that the company is able to create shared value for everyone in the interaction field, well above and beyond the benefits it brings to its direct users.

I'm here to tell you why the velocity created by interaction field companies is the most important business model to emerge. It is absolutely essential that traditional firms, incumbents, and start-ups build their competitive advantage on this model. There is not another one that can address today's massive and widespread shifts in consumer habits and rise in customer expectations.

It does not matter whether you are selling retail, wholesale, or online from the basement of your home. It makes no difference if you sell forklifts, elevator systems, or megatons of soybeans to China. You may provide dental services in your neighborhood or accounting services to small businesses in your city. The shifts in consumer habits have impacted every industry and category.

One dominant change is sometimes referred to as the *Amazon Effect*. It originated with Amazon's offer, some fifteen years ago, of free shipping on orders of $25 or more. That evolved into Amazon Prime, the subscription service that features free shipping (included in the fee) and two-day delivery. Same-day shipping followed, which turned into free delivery within a two-hour window, and then one-hour same-day shipping with a single click. Not only did Amazon Prime attract millions more customers, it encouraged customers to purchase many more items than they previously had. Amazon Prime has elevated expectations about customer service, such that a merely good experience can easily get you two stars and a bunch of online complaints.

No matter what customers buy today, they want everything at the speed of Amazon, with the accuracy of a Google search result, the ease and zero-click convenience of a Domino's pizza order, the everyday low prices of Walmart, the personalization of Netflix, the charm of Singapore Airlines, and the availability and selection of Alibaba—whether they are purchasing a complex piece of medical equipment of a pair of sneakers.

Customers want companies to be responsive and human, socially responsible and environmentally aware. They want innovation and delight delivered to a world-class standard. They want security and privacy, as well as openness and transparency. They want the feel of a small local business with the capabilities of a global giant. A good share price would be nice, too, not to mention leaders that don't get thrown in jail or jettisoned for fraud or bad behavior.

Quite a challenge! It may sound ambitious, and it is. But I'm convinced it is the best, indeed the only, way forward for businesses today.

Living in New York, I have learned that one can get glimpses of the future before it arrives. I have seen the buses and I've experienced the bikes, and I know that velocity is what success will look like.