The Interaction Field

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

Erich Joachimsthaler

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PublicAffairs

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chapter one

The Interaction Field Model

How to Create Unstoppable Velocity

Before we explore the velocity phenomenon—what it is and how an enterprise, whether an incumbent or a start-up, can create, build, nurture, and maintain an interaction field that generates velocity—I need to briefly sketch out the two other standard approaches to value creation in business: the value chain and the platform.

The value-chain company is the classic, asset-heavy organization. It is structured as a hierarchy and has organized its key activities along the value chain from sourcing to design, manufacturing, marketing, and sales. Value is created through these activities and flows from the producer or company to the consumer. It has been the business model of the twentieth century and is like the fully loaded bus in New York traffic. In this kind of company, management wants to beat the competition and dominate an industry. They compete by accumulating and building assets and controlling them. They manage and optimize the pipeline—or a linear set of activities along the value chain—to target customers within well-defined industry or category boundaries, sell more to them, and maximize the experience curve, which means lower unit costs as production volume goes up. The value-chain company is a win-lose,

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zero-sum-mind-set operation. Success is measured in terms of brand equity, market share, cost reduction, profit per customer, return on equity, process speed, and a thousand other quantitative measures you'll find at the back of the annual report. A value-chain company holds itself accountable primarily to its shareholders and investors.

While the value-chain model has many advantages (control and stability chief among them) there are also many drawbacks. It is a model that only scales linearly, leaves companies slow to innovate, requires assets and investments to grow, and uses resources—some of which are scarce, like water or certain minerals. Over the years, the value-chain model has been optimized, digitized, and globalized, which has also slowed these companies' ability to adapt to changing customer behaviors or competitive challenges. (GE is today's classic example and cautionary tale.) Extracting more value than competitors is as hard as pressing water out of stone. As a result, most companies that sought to create competitive advantage through the value-chain model have seen their rate of growth slow, their ability to compete become handcuffed, and their share price languish.

In the last couple of decades, we have seen the growth and now dominance of companies that take the second approach, the platform model.[1] Most prominent of these is the FANGA group: Facebook, Amazon, Netflix, Google, Apple. Like the bike that is bombing down the green-colored lane between the sidewalk and the street, these companies are, above all, digitally driven, asset light, and quick to grow. With the exception of Apple, they began online and thrive there. They don't want to accumulate assets if they don't need to. They don't want to own the pipeline or value chain. They freely and gleefully cross boundaries between industries and categories. They focus on the technologies and processes that enable online exchanges among interdependent groups of stakeholders. They feed on the data they collect from their customers and use it to grow larger still by selling more to more.

Success for the platform company is measured in many ways: Clicks and eyeballs. Average number of users per day or usage per user per day. Membership utilization rate, match rate, share of organic new users to

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paid new users, or customer adoption rate. Sales and royalties. Profitability per customer, capital hoards, share price.[2]

In one way, the value-chain company and the platform company are alike: They are both highly transactional. They are focused on a specific exchange, which is typically the provision of a product for money. The transactions are intended to deliver a direct benefit for the company and are largely structured and managed by the company. Apple's platform is the App Store. It has over twenty million registered developers who write apps for the five hundred million visitors to its store each week. The store generates over $100 billion in revenue for Apple and makes the Apple iPhone as useful to users as a Swiss Army knife. In one common form, platform companies orchestrate and facilitate an exchange. They match riders with drivers, buyers with sellers, travelers with hosts who have an available room. Of course, great platforms do more than just matching—they develop experiences, provide ancillary and related services, and more.

Still, both kinds of companies, value chain and platforms, seek to maximize their own value. Creating value for a customer is really just a way to make money for themselves.

This is true not only in monster platform companies like Amazon, but also in hot start-up platforms, including overnight success stories such as Bird, the dockless-scooter-sharing company. Bird began in Santa Monica in 2017 and took off spectacularly. Within eighteen months, you could use your Bird app to pick up a battery-powered scooter in over a hundred cities nationwide and around the world, from Cincinnati to Tel Aviv. Revenues exploded so fast that Mark Suster, a venture capitalist at Upfront Ventures, declared that he had "never seen revenue growth this fast, ever." By the middle of 2019, Bird was valued at $2.5 billion.[3] As cool as it may be, Bird is just another example of a platform company—susceptible to displacement by look-alike start-up competitors or being crushed by a behemoth—because it has not created a multilayered participant field. It solves only one need: how to make short trips faster.

The primary advantage of the platform is that it scales more quickly than value-chain companies and at lower costs. If Marriott wants to

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expand, for example, it needs to build a new hotel or add a wing to an existing hotel. If Airbnb wants to expand, it merely needs to get more listings, which cost almost nothing. And as it adds more listings, Airbnb gets the network effects. That is, the service becomes more valuable to travelers as selection expands.

Not all platform businesses, however, can generate or benefit from network effects. Platforms like Uber, for example, do not get the velocity boost from network effects that Airbnb does.[4] That's because its demand is local and additional riders don't add value for other riders. Sometimes it's the case because platforms are easy to copy. Casper is a relatively young, billion-dollar online mattress company. Competitors proliferated, such that there are now 175 mattress companies, offering virtually the same service as Casper, and consumers can scarcely tell them apart.[5] What customer is going to go viral with hot news about yet another online mattress company? To fend off competition, these platform companies try to scale fast, which can require massive investment—for example, Uber building its own fleet of vehicles—and lead to big losses. Some such companies seek to raise capital by going public, but investors aren't fooled. Blue Apron, the meal kit company, went public in 2017 at a $10 price and with great expectations. Its share price promptly dropped to under $1. There are now over 150 meal kit companies in the United States.

Another way a platform company can stay ahead of the competition is to build an ecosystem that solves a broader set of customer needs than, say, transportation. An ecosystem is a way of providing adjacent products or services by collaborating with other companies or business units and sharing data generated on the platform. Uber entered food delivery with Uber Eats, and then built out the ecosystem to include Uber Health, Uber Freight, and Jump bike and scooter sharing. Warby Parker originated as a direct-to-consumer business for the sale of stylish eyeglasses at reasonable prices, then sought to evolve toward a platform and digital ecosystem as the go-to brand for eye health, with the provision of eye exams in its stores or online.

This evolution makes good business sense. For some platform companies, it will create value. Uber benefits from Uber Eats in a number of

ways. It attracts more drivers to the Uber platform, because they can make money from Uber Eats when they can't find a regular fare. It adds revenues that grow faster than the core on-demand transportation business. There are benefits for consumers too. It is much easier and more convenient to order services on a single platform than having to switch across many different ones. The risk is that there is a limit to how many platforms or digital ecosystems a consumer wants to interact with to access a particular service, such as food delivery. The answer is probably just one. This is what Barry Schwartz has taught us about the "paradox of choice."[6] Up to a certain point—which is different in different situations—choice is appealing, but beyond that point it becomes bewildering and anxiety producing.

As an advisor to companies of many descriptions, I see how the platform model has addled the brains of value-chain company management. The traditional companies have watched as Amazon climbed the Fortune 500 listing and as little nothings like Bird go crazy, and they have gotten very nervous, understandably so. Just compare the traditional retailer Target with Amazon. In 2001, Target had a market capitalization of $31 billion; Amazon stood at $4 billion. Five years later, Target was about $40 billion, while Amazon was at $15 billion. Another five years later, Target was at $33 billion, while Amazon was at $85 billion. Today, Target is at $56 billion and Amazon is at about $907 billion.[7] The scary part is that Amazon does not seem to be the exception. Apple has left Nokia and BlackBerry in the dust. Uber has become a $50 billion company, while the price for a New York City taxi medallion has plunged by more than 80 percent since Uber came on the scene. These platform companies and digital ecosystems are chewing up markets and disrupting categories that have been in place for decades.

A number of big value-chain companies—General Motors and Walmart, to give two examples—have tried to adapt. They usually make some kind of effort to go online, to achieve a "digital transformation" or build "user communities." General Motors started Maven, a car-sharing

service, in 2016 but had scaled back the effort significantly by the middle of 2019. It started Book by Cadillac—a car-swap subscription service where you could get a Cadillac for a fixed fee of $1,800 a month—but closed it soon after. Walmart bought Jet.com at $3.3 billion and then folded it into its e-commerce business after it got relatively little traction. It's hard, if not impossible, for the big bus to become a bike or scooter. These companies have big investments in physical assets, such as stores and warehouses and facilities. They have long-standing, fixed relationships with suppliers, dealers, and business partners and are part of existing networks for infrastructure, logistics, technology, and payment. They have relationships with governments or other public institutions that are difficult to change or break. They have brand equity decades in the making, reputations to protect, and expectations to be filled. And they have organizational structures that are very good at protecting, defending, and perpetuating themselves.

What if there was a model that would do more than benefit only the platform owners, digital ecosystem orchestrators, or investors? What if that model didn't recklessly mow down traditional companies and everything else in its way? What if it didn't thrive on the old notions of competition and disruption, but instead benefited, indeed fostered, collaboration, engagement, and cooperation with everyone—traditional firms and startups, incumbents and challengers? What if the model sought to make everyone a participant, and everyone a beneficiary, whether they were a platform participant, an ecosystem participant, or merely part of society at large?

The interaction field model does all of the above.

As in the platform model, the interaction field company builds on a digital platform, but there is a big difference. The interaction field company is intentionally organized to generate, facilitate, and benefit from interactions rather than transactions. It is designed to facilitate communication, engagement, and information exchange among multiple people and groups—from partners, suppliers, developers, and analysts, to

regulators, researchers, and even competitors—not just the company and its customers. Unlike interactions that, say, match a buyer to a seller or offer a product in exchange for money, these interactions don't always focus on just one outcome.

The individuals and groups in the interaction field are called participants because they do just that: they engage, share, contribute, comment, benefit, learn. They are not targets or partners for maximizing profits; instead, they actively contribute to value creation and can interact with each other through the interaction field.

As the number of interactions in the field grows—and the quality of the interactions is also important, as we'll see—the velocity generated produces the three effects I mentioned earlier: network effect, virality, and learning.

A key distinction of an interaction field company, in comparison to both value-chain and platform companies, is that it builds velocity to improve an entire industry or solve a larger social problem. A ride-sharing company that moves into the autonomous driving space could build velocity in an interaction field that allows it to dramatically reduce vehicle-involved injuries and fatalities. Or a health-care provider can engage its interaction field to eradicate a specific disease or condition, which it cannot do alone. In contrast, value-chain and platform companies often "give back" by donating a small portion of their profits to philanthropic organizations or social initiatives, rather than by aligning their efforts toward eliminating specific social problems.

What is particularly powerful about an interaction field company is that it can create a self-perpetuating virtuous cycle. Unlike a value-chain company that is vulnerable to market conditions and competitors' actions, an interaction field company is self-sustaining and gains velocity as its participants contribute to, improve upon, and expand its offerings and as the company attracts new participants to the field. This also means it can often avoid the kind of up-and-down cycle characteristic of value-chain companies.

The value-chain company must constantly engage in push-and-pull activities: push out their message and pull in partners and customers by

signing up new members or subscribers. They pump investment into retaining current customers and attracting new ones as market conditions shift and customer behaviors change. In an interaction field, the company does not have to target customers and attempt to lure them in. Participants join voluntarily because they see the value for themselves and understand that the value creation strengthens as more participants come into the field. Velocity creates a gravitational pull.

Interaction field companies are now operating, or are developing, in all kinds of businesses and industries. Not only are start-up companies adopting the approach, but traditional value-chain companies and platform companies have been able to successfully move toward the model—although not through the kind of half-hearted "digital transformations" or cynical "user communities" I mentioned earlier.

Rather than trying to get rid of the pipeline or making ineffective attempts at digital transformation, these old-line companies are leveraging their assets (rather than dumping them) to build interaction fields around them. We see it happening in heavy industries like agricultural equipment (John Deere) and industrial metals (Klöckner & Co.), and in consumer businesses such as automobiles (Tesla, Waymo), health insurance (Discovery Health), cancer treatment (Roche's Flatiron Health), action cameras (GoPro), appliances (Haier), pet food (Mars Petcare), and fashion (Burberry, Gucci).

Maybe you're thinking that the interaction field model is just an extension of social media and online e-commerce, amped up with artificial intelligence, robotics, machine learning, and some other technologies. Maybe you are thinking it is an extension of the platform model that was adopted by Uber when it started in 2009 and was then picked up by hundreds of other Uber-type companies—Wag and Rover.com for walking dogs, Sit or Squat and Flush for finding clean toilets, DoorDash, Grubhub, Instacart, and Postmates for delivering food—but it is much more than that.[8] Interactions are the source of value creation for platforms and digital ecosystems.[9] But when a traditional value-chain company seeks

value from interactions, it's a different and more complex story. The reason is because, when it works well, the power of mass (the assets of the traditional company, physical or intangible) can lead to extraordinary value creation when combined with the high velocity of interactions.

If you wish to create an interaction field company, you need to design and build the three elements that constitute an interaction field: a nucleus of participants, an ecosystem of partners and contributors, and a group of market makers that exert influence on the field, all of them linked through data.

The nucleus of participants is typically the company, like John Deere or GoPro, and the customers—anyone who contributes to the core interactions on a regular basis.[10] The traditional company has already established a business relationship with the participants in the nucleus, which is the foundation of the interactions.

The ecosystem of contributors is composed of partners in the company's business activity. But as part of the interaction field, data is shared between the nucleus participants and the ecosystem participants. Ecosystems in the interaction field are built on relationships that have been established over years. An example is the supplier relationship between Bosch, the automotive electronics company, and Daimler, the car manufacturer. They have a well-established supplier-buyer relationship based on the development, manufacture, and sale of electronic components for Mercedes-Benz vehicles.

The third group of participants is the market makers. These are entities that exert influence and enable the velocity in the interaction field. There are many types of entities that can be market makers, and the types differ from one interaction field to another. The US Department of Transportation, for example, regulates the automotive industry and hence is one type of market maker in an automaker's interaction field. Consumers who could potentially be attracted to the field because they want to solve their transportation needs, but have not yet purchased vehicles, are another type of market maker in an automotive interaction field. Daimler has merged the Car2Go car-sharing interaction field with that of BMW's DriveNow. Potential drivers who don't currently use the

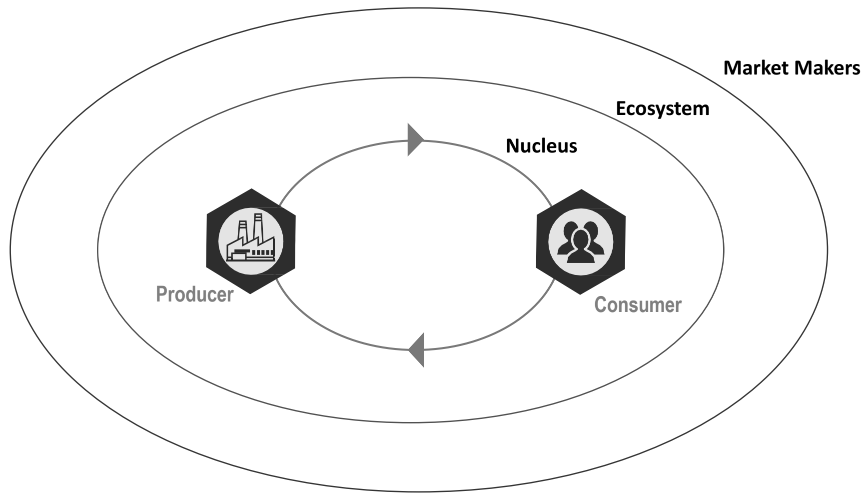

Figure 1. Three elements of the interaction field

offerings of these two companies are important market makers. The better the merged service is positioned to pull new drivers toward it, the more velocity the field gains. Market makers can also be entities such as research institutes, like the Fraunhofer Institute, or university researchers that develop automotive technology.

Velocity depends greatly on the market makers. Whether they are new consumers attracted to the field, competitors, government agencies or regulators, or participants in other platforms, market makers can significantly determine the success or failure of the company in creating value.

High interaction velocity is achieved when the three elements of the field work together to create network effects, learning effects, and virality. This leads to new shared and potentially enormous value for the participants in the field, the entire industry or category, and society as a whole. What interaction field companies can do that value-chain companies, platforms, and digital ecosystems can't is solve a much more complex and diverse set of needs for consumers, while also addressing the intractable challenges of industries and categories as well as contributing to progress on major societal issues and concerns.

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The interaction field model is the business model for today and for the future. This is because we are in the midst of massive global change, disruption, volatility, and uncertainty. We are seeing that industry after industry, as traditionally defined—from steel to automotive to health care—has proved to be unsustainable when configured in the conventional models. Many companies are not built for the way people think and behave, or live and work, today. They cannot take advantage of the convergence and maturing of many available technologies that enable global connectivity. They don't know how to bring disparate groups together to share and create value. They are relics of the past.

The interaction field company is the future. As you read, you'll learn about some companies that come very close to being interaction field companies, and others that have started the journey, creating interaction fields and achieving velocity. We need to stop obsessing about the platform models and quit trying to replicate the Amazon approach. Platform companies came into being in the first big technology era, the web. Kevin Kelly, founder of *Wired*, describes the past two eras and the era we are just entering now:

> The first big technology [era] was the web, which digitized information, subjecting knowledge to the power of algorithms; it came to be dominated by Google. The second great [era] was social media, running primarily on mobile phones. It digitized people and subjected human behavior and relationships to the power of the algorithm, and it is ruled by Facebook and WeChat. We are now at the dawn of the third [era], which digitizes the rest of the world. During this era, all things and places will be machine-readable, subject to the power of algorithms.[11]

The future is one of untold and unimaginable value creation and prosperity. But it is value and wealth creation with a huge difference from what we know today. It is not just about making companies more profitable or making the mega-rich into the super-mega-rich. Nor is it about reconfiguring an industry or category so it can continue to grow as before.

The future is going to be about creating value for everyone. It's about an interaction field that transcends traditional industries and boundaries, a new type of company, and a new form of governance. It's about entities that can solve the immediate challenges of people today and also the major social and economic challenges of the future.

To take advantage of this enormous and thrilling opportunity, we all have to make some shifts in our thinking and behavior.

Mind-Set. Forget the old win-lose, zero-sum, beat-the-competition point of view. Forget about disruption. The new mind-set is broader, more inclusive, more focused on problem-solving, value creation, shared wealth, and social benefit. Forget about the old ways, where companies built up assets, brought them all under one roof, leveraged them for domination, and focused on controlling and optimizing them. In the interaction field era, companies avoid owning and amassing tangible assets and instead seek to create interactions with ecosystem participants and market makers. They gather data, information, knowledge, practices, and processes, develop expertise, and cultivate values. They create products and services by accelerating interaction velocity across the field. Companies know they cannot control these interactions, nor do they want to. What they do want is to facilitate and enable them, and apply them in distinctive ways.

Operating Model. The "how" of the interaction field is neither aggressive nor defensive. It is not about attacking competitors, defending assets, preserving brands, setting up barriers to entry, or seeking protection for practices and markets. It runs on collaboration and collective engagement. Winning comes from sharing. Rather than pushing products and images out from the company onto the market, the company seeks to attract people and partners into its field through gravitational pull. Higher interaction velocity pulls in customers, competitors willing to collaborate, consumers to share data, and new participants to create shared value for everyone in the interaction field.

Company Structure. This is how the organization of the interaction field company is built. The goal is to build networks that bring in participants from well beyond the company's traditional organizational

boundaries and to enable and orchestrate interactions among participants. The structure is flexible, so that it can accommodate new participants of different types with different needs. The hierarchical structure—with layers of management, units and subunits, linear career paths, and management by decision trees—will disappear. This used to be an efficient way to manage a company's resources and assets and to realize supply-side economies of scale. But, in the future, companies will organize themselves with external partners as a network—interconnected and constantly reconfiguring. In this system, the concept of agility takes on new meaning. While it typically refers to a set of practices employed to speed up organizations, in the context of interaction fields, agility becomes about creating an ever changing system of interactions among participants, adapting to changing needs, wants, and expectations.[12]

Goals. The fourth shift is in what we measure and what we strive for—how a company, industry, or society assesses value and value creation. Evaluation of an interaction field company has quantitative aspects, such as the number or frequency of participants. But the quality of the interactions and level of engagement are equally, if not more, important.

In the end, however, what matters most is how and to what extent the interaction field company improves the quality of life for its participants and society as a whole. What new and shared value is created that will make the future better?

So, as we evaluate the performance of a company that is trying to embrace the interaction field model, we should ask two fundamental questions: Does the company create value primarily for itself, or does it create shared value, prosperity, and wealth for other participants? And does it change how well companies, industries, and even countries solve the most difficult and intractable challenges of our society today and in the future?

Once you've been able to make these shifts, you'll see that what they all have in common is that they change the way you look at the concept of value.

In the value-chain model, the primary goal has long been boiled down to maximizing value for the shareholder. But shareholders in public companies do not generate knowledge or create value. Their participation is fundamentally transactional: purchasing or selling stock. They don't have a particular interest in expanding the interaction field or building velocity. In the interaction field company, shareholders and investors matter, and everyone shares in the responsibility of creating value.

Finally, the new model is holistic. At the level of a country or society, it does not merely seek to generate "economic growth"—which has traditionally been measured by gross domestic product (GDP)—but also to contribute to economic development and solve human problems at the individual or global level.

Now, let's see how the model can be deployed in a major, established industry: agriculture.

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