

TECHONOMY

TECHONOMY 2012 • NOVEMBER 11 – 13 • TUCSON, AZ

Companies Confront the Madness of Crowds

Speakers:

Alex Ljung, SoundCloud
Rob Tarkoff, Lithium Technologies
Padmasree Warrior, Cisco

Moderator:

Hugo Sarrazin, McKinsey & Company

Video:

<http://techonomy.com/2012/11/companies-confront-the-madness-of-crowds>

Sarrazin: Welcome. We're going to get started. This is going to be a conversation around the Madness of Crowd. And we have a fantastic panel. I'm going to try to facilitate us for a while, but please, please, please stop, grab a mic, ask us some fun questions, create some tension, some debate. I think this group of folks is excited to do so. I'm going to start it off by asking you to quickly introduce yourself. I'll start with you, Alex.

Ljung: My name is it a Alex. I'm the founder and CEO of a company called SoundCloud. SoundCloud is the world's leading online audio platform. It's a large social platform for people to be able to create around sounds all over the world. Some people think of it as what YouTube is for all video content, but for all different kind of sound content in the world. And that can mean anything from Bruce Springsteen, 50 Cent, Rihanna, to Mayor Bloomberg or the previous president of France, CNN, Harvard, and my cousin recording his kids.

So it's really anything and everything about people connecting with each other, as we have gotten used to on the Web, in fantastic new social ways, but all through sound; this fundamental human part. And we kind of feel like that the Web has been and is amazing, but it's strange that our off-line lives are so full of sound and audio. And as soon as we go online, it goes completely quiet. That's what we're trying to change.

Sarrazin: Great. Rob, you want to start us off with a video. Or do you want to video after?

Tarkoff: I'll do whatever you want. You're the moderator.

Sarrazin: I'm the moderator. Let's go for the video. Apparently, this is gonna get things started.

Tarkoff: Do you want me to introduce?

Sarrazin: We'll go back after you. Let's do the video right now.

Tarkoff: We'll do the video.

>> What is social media, anyway?

>> It's an easy way to communicate.

>> I don't know what time, but social media is communication.

>> For big kids and grownups, you can talk by Skype, on the Internet or Facebook.

>> Twitter.

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>> People show what they like and about trips and stuff like that.

>> If they have a pet, you can see their pet.

>> It doesn't cost any money at all.

>> Usually post pictures and stuff.

>> Could talk about things on there that you want to talk about.

>> And see what other people are doing.

>> Be social, without being social.

>> That's kind of the way now for people to know what's going on.

>> They can just go on Facebook or go on Twitter and say buh, buh, buh, buh.

>> Facebook.

[LAUGHTER]

>> It's kind of a Web site where people go and chat with their friends.

>> Teenagers—I think email is too slow for them.

>> At that point of your life, you have the most friends and you know the most people. And you just want to get it out to the world.

>> When I get older, I want to be friends with everyone on Facebook.

>> I want to be friends with everyone.

Tarkoff: Great. A little levity late in the afternoon. Rob Tarkoff, I run Lithium Technologies. We're a community platform for powering both support and marketing communities across the Web. A lot of times when I play this video, it reminds people that although this seems all very new to us, it's very native to all of these kids growing up, peer-to-peer sharing, crowd sourcing, it's all part of the way they are living. I have been their CEO for a year. Prior to that, I ran the digital enterprise business for Adobe, as Adobe made its foray into digital marketing. So glad to be here.

Sarrazin: Very good. Thank you. And Padma.

Warrior: I am Padmasree Warrior. I'm the Chief Technology and Strategy Officer for Cisco. Most of you have probably have heard of Cisco. We make all of the networking. If you are using any kind of device at all to do anything, it's probably going through a Cisco router or a switch somewhere, as well as providing mobility gateways to carriers. We also do a lot of video communication, technology and social technologies now.

And we really believe the enterprise is changing. And it's changing mostly driven by the consumerization of IT, where people are bringing different kinds devices into the enterprise and the impact of social, how people actually use social technologies within the enterprise in a productive way.

My job at Cisco is to set our strategy for the company, as well as do M&A. Cisco is a very acquisitive company. We are a company made up of about 169 acquisitions we have made over the last 26 years or so. So we are always looking for

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innovation, both inside the company and outside the company. And we believe social is actually going to be a big factor in changing how innovation occurs in the future.

Sarrazin: Great. So let's get started. Rob, a question just to set the stage: This is the Madness of Crowd, crowdsourcing, the tension between well-organized processes that companies fine-tune, and then complete chaos that we open up inside and outside the company. How do you see this play out inside the company today?

Tarkoff: It was interesting. It was about a year ago, the end of 2011, there was a great piece written by Deloitte about the productivity of knowledge workers and how do we really get at the most efficiency of our knowledge workers. And Deloitte actually found that by a factor of two to one, your most passionate knowledge workers existed outside your organization. They were not identified through the traditional means of hiring and bringing employees on. They were out there in your peer base and your customer base.

And if you combine that with the fact that the trust factor has changed on the social Web—you can hear it with the kids talking about sharing and all the ways in which they want to be friends with everybody and share their knowledge—Nielsen came out with a recent stat that 90 percent of people trusted their peers and less than 15 percent trust what companies say. If you take the fact that all your passionate knowledge workers by a productivity factor by two to one exist outside your company, and the trust is higher, then you add that to the third factor, which is on the social Web there is entirely new classes of problems that are being invented that only customers can solve. They are at the intersection between different products. They are about different platforms and technologies that are used. So those three factors to me is really what's driving companies into crowdsourcing. And for a long time, you used to hear about, oh, crowdsourcing. That's McDonald's 40-year campaign building the Pretzelator burger, whatever. That was the big burger in Germany they had. They got 330,000 fans, but did they really sell any more burgers? That was the real question.

At Lithium, we look a lot at the crowdsourcing and the peer-to-peer community as a real driver to business, not as a fad; but if people trust what their peers say more, and that's where your most passionate advocates exist out of your customer base, how do you turn that to real economic value? H.P. is one of our big customers, drives 40 percent of all their customer support through their online communities, through peer-to-peer advocates, who for the sheer fact of wanting to be recognized, have rank, have reputation, have status. And because they genuinely want to help other people, they are brought in and engaged on the H.P. platform to be able to help drive cost savings, which in H.P.'s life span right now is a very important initiative.

So for me, I think the world has really kind of converged on this perfect place for crowdsourcing to be not just an engine, but *the* engine of innovation, of support, of care, of all the ways in which your customers can help.

Sarrazin: Good, good. And Padma, you are enabling a lot of this through a lot of wonderful technology and you are also using it inside. Why don't you tell us a bit about how Cisco is using this technology?

Warrior: I think maybe just to be contrary in a bit here --

Sarrazin: Good.

Warrior: -- I don't think the issue is so much sourcing. I think crowdsourcing and getting ideas, I would argue, is relatively easy. And we do that. We use different platforms at Cisco. We have something called I-Prize. We post a problem globally. We have done it across 156 countries, for something that we feel needs to be solved. And no strings attached; we pick the best idea and give the person or people with that idea \$250,000 to go commercialize that technology.

And we have seen a lot of business benefit back to the company by doing that; but I think in that process, the harder thing is actually selecting which is the good idea, right. I think when you source things from crowds, you get lots of ideas. And how do you screen? How do you select? How do you pick the most relevant answer to the problem at hand I think is where business judgment comes in.

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And so I call it structure meets chaos. That requires some kind of a structure. And you still go back to today. And I think that would be an interesting problem for all the thinkers in this room and beyond to be working on: What are the right mechanisms to screen these ideas? They are all great ideas, and sometimes people build on other people's ideas. And when we select them, we go back to conventional methods. The way we do it at Cisco is we have a panel of VCs, Cisco technologists, and business people who sift through these things and pick which ones are the right ones, which ones are we going to fund or give I-Prize to? We give a prize to the winners. And I would argue it's the back end of the process that's harder than the sourcing of the processes.

But having said that, I think the fundamental model for innovation is changing. And I kind of like to think of it as it's becoming much more of a collaborative model. And I think we started off the conference with a discussion around innovation. I think it was on the opening day about innovation becoming much more global. That I truly believe.

And I think the expectations of people coming into companies and innovating is also changing. We recently did a survey via Cisco, and we surveyed about 2,500 people around the world between the ages of 18 and 29.

It's actually mind-boggling. One-third of them said they would accept a lower-paying job rather than work for a company that doesn't allow them to access some kind of a social app. And 70 percent of them admit to violating some kind of an IT policy, right. So it begs the question, why do we have policies, then? Perhaps we should look at policies in a different way.

And 30 percent of them don't think it's their job to protect their company's intellectual properties. So I think the boundaries we have set as what is intellectual property, what gets created, where it gets created, that is all changing in the future. I think it's really going to be interesting and challenging to live in that model in the future.

Sarrazin: It will be. Alex, you're unleashing a lot of innovation in sound and music.

Ljung: Yeah.

Sarrazin: You are dealing with crowd sourcing externally, a community that exists out there. How is that working? How are you getting people to come together? What are the incentives? How do you select what is good, what is bad, the noise from the bad?

Ljung: I think there's kind of two specific angles that are really relevant for us. And the first one is really just around we're not an existing company that adds crowdsourcing as a strategy for a specific problem that we have. Crowdsourcing, just thinking about large amounts of crowds and how people do things together, is at the core of what we do. Like, we don't create a product, sell that to somebody, and then the experience they have is based on just that product that we made.

Part of, like, our proposition to everybody who comes to SoundCloud is the community and the whole crowd that is actually there. So in a sense, you know, we are kind of like—what we deliver to people is somehow proxied by these enormous crowds because it's a social application.

And so I think it's interesting; we can apply that scale and that crowd to specific problems that we have as well, but what's more important for me and fundamentally in what we do is just that the crowd is, like, they are not just our customers and users. They are actually part of our product as well.

You have to—when you're scaling a social application, you have to think about that a little bit, because obviously you don't have the community there in the beginning. We had a very specific approach of saying “this is something that needs to be valuable with one single user.” And it was in the beginning, helping people to share a piece of sound with somebody else. And the key feature of the app was that verb, “sharing.”

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So that helped building up the entire crowd around it. Then we see ourselves as sitting somewhere in the background, definitely not in control of what people do, but trying to sort of like, you know, influence it a little bit here, a little bit there, to kind of elicit behaviors that we think are going to work.

Sarrazin: How are you influencing that? What's the degree of --

Ljung: Well, a specific thing will be to change a product feature. Like there's this very interesting—me and my cofounder wrote a book about it before, but there's this very interesting relationship between, as we kind of see it, like the architect of a space and the people who actually sort of inhabit it and make it into what it is.

And there's no one side that controls that experience. There is this sort of ongoing discussion going back and forth of, you know—as much as we want to, we can launch a feature and say this is how people are going to use this and what they are going to do with it. If they decide to do otherwise, then they decide to do otherwise.

But at the same time, of course, like, we're setting—as architects, creating a room, creating a space. We're basically suggesting certain kind of behaviors that work well.

So as an example, we don't have a rating system, a numerical rating system of any of the content on SoundCloud. We do have ways of being able to like it and showcase it to other people. We don't have numerical rating systems.

One of the reasons for that goes back to looking at the sociology behind groups in smaller and large scale. And what you kind of do, when you hint to people in terms of behavior, if you put a rating mechanism there, is that it's a competitive environment. Somebody rates something. The other person, they have like an initial reaction to want to create something better than that.

And that can be great, sort of, in maybe say an eBay scenario or something like that; but we were quite influenced by Flickr early on. And they don't have any of these things. Then if you don't have the numerical ratings there, people tend to judge each other and build trust around other softer mechanisms, which tends to build more engagement. It's a little bit slower, but it builds a tighter community.

So that's sort of like one example of how we try to think about the things that we build and how they are actually going to impact people's behaviors as well; but I think the other thing that's been really interesting for us is really in the sort of broader conversation about innovation, and especially now these days about sort of how to organize companies to be able to create a lot of innovation.

And it's been really interesting for us going from, you know, being like two geeks in an attic somewhere up to a company of—we're like 160 people or something, which is quite an interesting ride when you do it in a short period of time.

And I have found that one of the most powerful things with having large amounts of crowds is not that people come up with the solution for things, but that they spark this chaos and this ongoing conversation, which over time leads you to a better solution.

I think that, you know, we have a tendency when we look back at history, to say some genius came up with this idea at this moment. And there's a great book—I don't remember the name of it. I don't remember the name of the author --

[LAUGHTER]

Sarrazin: That's good.

Warrior: That's great.

Tarkoff: Validated by a lot of people in the community.

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Ljung: Yeah. He was basically saying we think Darwin came up with the Theory of Evolution sitting on his boat and just like tada, but he had notes proving it like three, four years beforehand. It takes a lot of time.

And that's something that we have seen in the community that's influenced what we build, but that's also a model that we have tried to create within our own company as well. So I think very much in the same way about how we build not in a directive way to the community of saying do this, do that, do this, but create an environment where people can truly be, like, autonomous and create their own thing around it.

And we try to have that same approach inside of the company as well. So huge amounts of autonomy, and the whole idea of that is that it will get messy, but it's a fantastic way of being able to make sure that you keep innovation and that you keep those ideas going, until the point where they are actually --

Sarrazin: Rob, you want to --

Tarkoff: See, I think that's the interesting dichotomy between—sorry to make you guys dichotomists here—between the two views on crowdsourcing. There are companies, that at their foundation, have this idea of the community is at the core. And their number one objective is how do I keep that community on a sustained engagement model? How do I keep them continuing to contribute, to wanting to be a part of that; versus how do I think of crowdsourcing as discreet activities; sourcing, responding, right. Where I, as a company, put myself in a different position then.

It's an interesting contrast I see sometimes. We see a lot of companies that go across the spectrum. Anybody here ever heard of GiffGaff? The company GiffGaff? It's the fastest growing MV&O in the U.K. mobile virtual network operators--2.5 million subscribers, growing 25,000 a month. 75 percent of all their subscriptions are through word of mouth. All of their solutions are built by the community. They serve 2.5 million people, growing at 25,000 a month. 14 total employees in the company.

This is, again, like SoundCloud and other companies, a spin-off of O2 Telefonica. It's built entirely on this peer-to-peer exchange model. The challenge is not for new companies that I see, because that's, as the video showed, sort of a known way of interacting. The challenge is—and I think you have this in the description of this panel—how do you take that innovation model, which is about sustained engagement, about people establishing influence in peer channels, where they are the product of what they write, not any kind of hierarchy and an employee base; and how do you combine that with the traditional ways that we have sourced innovation, which is get ideas and then have the people who really have the knowledge arbitrate, as opposed to having the community arbitrate.

And that's what I found really interesting. The known benefits to, you know, reduced costs with less people—and we're actually doing a study on this right now. We think because your customers and your advocates are more passionate about your products, your outcomes are better. The ideas are better; they get to market faster. They are more validated.

Sarrazin: There's a value exchange.

Tarkoff: There's a value exchange, but very few companies have accepted that as a known principle in how they run their company as real economics. They say, well, that's just, you know, kind of let's run the campaign and get the ideas. And so that's a little bit of the contrast that I see.

Warrior: I would argue that's not --

Tarkoff: I'm arguing with Padma Warrior, which is never a good idea.

Warrior: I think community has always existed. As human beings, we are always prone to building communities, right from the beginning of existence. Your Darwin example is a good one.

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We tend to identify the innovation with an individual or set of individuals, but there's a lot of groups that contribute to that. And in companies, there are communities. Cisco has training 6,000 engineers, and you can argue that's a community that creates—the point I was trying to make is it's not whether the community sustains the contribution to innovation or not. I think the definition of community has changed now, and that's because of technology. It's breaking up the boundaries that exist between functions in a company and between partners and customers and the vendors, between the users, in your case. And that's become very global.

The issue, though, is regardless of how you define the community, whether it's within the walls of an enterprise or extending from the walls of the enterprise, how do you harness the power of that community to being something meaningful versus something that's just creating a lot of—how do you identify the signal from the noise?

And I think at the root of that is a fundamental scientific problem that needs to be solved. And it's a cross between a behavioral issue. It's a data mining issue. All the conversations we have been having about—there's lots and lots of data that people contribute, but how do we separate that context in the data?

I think that has not yet been solved. We're just beginning to say, okay, there's crowdsourcing, there's social platforms, all of that. And Cisco uses Lithium, by the way; and we use a lot of our—the products that we deploy --

Tarkoff: We do agree on something.

Warrior: Yeah, but I would argue the problem is bigger, and I would want us to talk about the bigger problem of as the definition of community itself is changing, where it isn't a physical community any more, it can be a virtual community of people all around the world contributing to ideas and contributing to this creation process, how do we harness that energy in a meaningful manner?

And I think that requires data science. It requires some hybrid between virtual and physical worlds. It requires bringing together some kind of a screening mechanism that's even different than traditionally what had been used. I think those things we are just beginning to tackle as an industry.

Ljung: I think a big thing to add to that, at least when I talked to even companies our size, but larger ones as well, a fundamental shift that I think needs to happen is basically a shift in mindset from leadership in a lot of these companies, because it's still quite often seen as this thing as the company is what it is. The community inside and outside is an additional piece, where we can sometimes source things and then we have to decide what to do with it.

And I think one of the things that I learned at least from just, you know, growing our company and turning and growing our community was that, as a leader, you tend to take a lot of responsibility and feel like it is all this chaos, like I need to help sort this thing out. And I need to help plan the best thing and stuff like that.

And you are actually, by doing that, in many ways, you're doing a disservice to the community, because what you're going for in a deeper level is to really try and build something that's way more autonomous and not so reliant on, in an org structure, someone senior coming in and helping it out.

And it does sound kind of like, you know, a little bit naive in a way, but I really like—I really think about this idea of like a traditional organization really being as a typical pyramid with directions coming from the top and then being executed on, which can be very efficient and very simple and, you know, to the point; whereas a friend of mine always talks about the modern company being exactly the opposite of flipped upside down, where, you know, in my role as the CEO, I'm the ultimate assistant for everybody else in the company basically.

My whole job is just to enable people and to help people along the way, not so much in trying to sort things out. And I think that's a hard --

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Warrior: How do you help people without sorting things out in that model?

Ljung: You think twice about every interaction that you do. And every time where you think you could be providing a clear answer, you think about what the benefit is of helping out in that specific situation, versus what you're kind of setting as a future expectation in that case.

So like basically, you know, thinking twice about that and maybe not resolving a situation right away; actually letting some of the chaos --

Warrior: But there's some arbitrage. That's my point. I think there's always arbitrage.

Ljung: There will be, but I do think there's a difference in mindset, at least there has been for me; and really continuously taking more and more of a step back and really trying to --

Warrior: Yeah, I think that's a good point. I think the arbitrage models will change in leadership, because knowledge is now distributed and everyone has different pieces of information. You gather lots of ideas. And how you formulate—I mean, as human beings, we always have logic and decision-making. Our brains work that way.

And I think we always go through and look at the information and make certain kinds of judgments and decisions. In some cases, we are paid to do that. We are paid to make those kinds of judgments, and the more probability that your judgment is correct, you are rewarded for that.

That model works today. I think what has happened with the social and the community is that database that you have access to is broad, and you actually sometimes don't know where the data is.

And I use Twitter a lot. I have 1.4 million followers on Twitter. People always ask me, "Why are you on Twitter?"

And I put personal things on it, and I put Cisco information on it. I think of it as my digital water cooler. I listen to conversations that I don't normally have an opportunity to listen to. That's of value to me.

Is all of that valuable? Probably not, you know, but there is some value to me. And because the investment of time is fairly minimal to extract that value, I'm willing to do that.

I think that model of arbitrage is changing because of crowdsourcing or social or collaboration or whatever we call it. And I think that is going to be an important lesson in leadership as we go forward.

Tarkoff: I think one of the things this debate points out is there are ways in which you want to tap into that customer base that gets them the most engaged in helping you solve your problems. And one way not to do that is to quickly answer every question that is asked, without giving your advocates out in the community an opportunity to express their influence.

Yes, you absolutely have to do a lot of arbitrage. Yes, I agree. Management is about taking complexity and trying to really set goals, set guidance, you know, solve those problems; but I think too quickly, a lot of times managers are trained today to say, "Well, if a customer asks a question, I've got to answer right away."

One of the things we try to tell our customers is, you know, as long as you describe what your service level is with your customer, it's okay to wait. Wait and let the advocates in your customer base express themselves. Why will they do it? Because people want to have the opportunity to achieve rank, to achieve reputation, to show their status, to participate.

People in the Cisco tech zone community, the engineers love really hard questions that are thrown at them. And many of these engineers are in the broader network. Now, at a certain point, Padma is absolutely right; you've got to arbitrate it. There's one

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person that actually builds and delivers the product, but there's a long way between answering that question right away and, you know, fostering the debate and the participation so that you can tap into that knowledge base as a corporate asset.

And that's, I think, the point. Today, because social is so prominent, 1.4 million Twitter followers who are listening to everything Padma has to say about Cisco, about her life, they all have comments on that. If she can listen to that and use that as a corporate asset in helping her make decisions, she's that much more empowered.

And very few companies really do that. They run experiments or campaigns. They put up a microsite and get the Pretzelator to make recommendations, but they don't think about this as an ongoing management tool. And that's, I guess, the point that I'm making. It has to evolve much more quickly, because the people in your company are not always the most valuable people to be solving the problems.

Sarrazin: You make that arbitrage. These communities are networks. And there's a body of knowledge around how networks self-regulate and whether they can arbitrage themselves and come to an outcome that is in the greater good.

Is there some darker side, where the crowds can actually be wrong? And how do we guard against that?

Ljung: I'll start in, who's working on spam protection and --

[LAUGHTER]

-- I mean, for sure, for sure there is. And you definitely—coming from the perspective of a social platform, everybody has gone through the increasing complexity and challenge that occurs. And basically, fundamentally keeping the large part of your community safe; because they need a safe environment to be able to build trust with each other and build something great.

And then being able to keep people who are trying to abuse that either off the system or limit the way that they interact with the system. And it's usually a fairly simple mechanism, at least, that they do it. If you look at Twitter or something, it's quite easy to figure out how people would want to get in the system, how they want to abuse it.

It turns out to be quite challenging, like scientifically and engineering-wise to figure that out automatically and not make many mistakes with it.

Sarrazin: If you took a customer service example, where you're asking your engaged community to help you solve problems that come in, it is possible that for a while, the community will go the wrong way and will be recommending a whole series of upgrades and patches and what have you. And the product experience will get degraded. What's the right way to --

Ljung: I think that's a great thing, though. If people start going the wrong direction—and that's what they are really focused on—if you know that, okay, this is not what we're going to do, you have just gotten this super-clear signal that you are not thinking in the same way as your users are thinking, and you have a shot to explain to them of why, you know, that may not be the right direction.

They might fire back. Maybe you're wrong. Maybe they are right, but that's just—it's a fantastic signal, because you have a limited amount of time and bandwidth that you can communicate with your users, with your team members, with the world, whatever it is. And any kind of guidance to, you know, what's really relevant for people is just a fantastic opportunity to be able to go in and say in that case, actually, that's an interesting idea. This is how we're thinking about it. This is what we think that we're going to do. So I think those are just really good things that helps you focus on that ongoing conversation with users.

Tarkoff: I mean, the genie can't get back in the bottle on social media, and people saying bad things about your brand or good things about your brand, I think the danger is that a lot of companies or agencies are not going to have a way to host that conversation. They are actually going to be completely excluded from it.

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Many companies that we talk to, they say, yes, we have a crowdsourcing strategy, we have a social strategy, we have listening tools. When people tweet, we respond. That's not a social strategy. That's a one-to-one communication. We're using Twitter as a replacement for an IBR or a phone tree.

And if you look at most companies, they have community as one tab and then they have ask a question of an agent on another tab. So, of course, they drive you to the highest cost channel, where given the tenure of the average support rep, you're not necessarily more likely to get the right answer.

So yes, there's moderation and yes, there's a responsibility you have as a brand. But I think there's more potential danger or risk in not grabbing on to view hosting a peer-to-peer conversation as part of the responsibility of a company. It's not any longer about focus groups or, you know, panel discussions. It's about having that ongoing pulse and all the data that comes with it about what's happening.

Now, I think Padma is exactly right. We're at the very beginning stages of how you give a presentation to a multi-national CEO to say, oh, that's your next major source of innovation. I mean, it's not there yet. There are, you know, companies that are experimenting with it.

But I think in the next one to three years it's got to become much more prominent than it is today.

Sarrazin: Good.

Warrior: So I think it's already here. I don't think anyone would argue crowdsourcing, social, collaborative innovation are not happening. They are happening and they are happening at massive scale. They are happening in big companies. They are happening in small companies, right.

There is, though—I think we haven't quite figured out how to do peer reviews. There's a fundamental scientific methodology called peer review. If I propose the research and so somebody else debates that, that's how scientists have discovered things for many, many years.

We haven't quite figured out how to facilitate that. It kind of happens ad hoc today, right. There's fact checking, there's verification. There's reputation. When you say it's you, is that really you? When I claim on Twitter I'm the CTO of Cisco, how do people know I'm really CTO of Cisco? Twitter now has a verification process.

So these things are just evolving. And I think they are important to have in place. I think without that we will have complete chaos, right. And that's why there's digital bullying and all that that happens, all the dark side of the social aspects. And we all know of all those cases, which are pretty horrific, actually, to think about that.

Just those kids, we saw the bright side of it, there's a dark side of that. And we don't want to expose --

Tarkoff: I didn't show that video.

Warrior: We don't want to expose our children to that. And I think we, as creators of this technology, I feel have the responsibility to acknowledge that and put those checks in place; where, you know, as somebody said, technology doesn't have a mind. I think it was David Sze that said that, right. You figure you have to figure out how to scale it, I think he said. I think that's exactly what needs to happen. We need to now figure out how to scale this in a way that's going to be productive.

There's always going to be some off-lyer dark side to it. So if your question is, "is there a dark side to it?" Absolutely there is. But we have to acknowledge that and not fight it so much. But recognize it's there and put things in place so that we do protect people's reputation.

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And if somebody quotes you and puts your face on their Twitter account and that's not you, that needs to be called out and needs to be stopped. And I think those kind of things companies are now beginning to look at.

Sarrazin: So let's say you're sitting down for coffee with a CEO and he or she wants to know, I want to use this crowd sourcing thing. Where should I start? What's the right place to start? Is it going to be around creating new ideas and creating new communities? Outsourcing a portion of your R&D or your customer care? What's the right way to think about the right starting point for a company that's not doing crowdsourcing?

Tarkoff: I mean, it's evolved quite a bit. There are very specific use cases now that map to idea generation or co-innovation. I mean Lego, one of our customers, is famous for really taking co-creation and co-innovation very early on and building that into its culture, right.

There's lots and lots of examples. Success Factors is one of our customers, uses community and peer-to-peer in the goals module so that if you're an HR professional, you can actually correspond with other like-minded HR professionals of similarly sized companies around the world as you tackle problems of setting goals or compensation or any of that.

So there's multiple examples. We are at—I think Padma is right. This is not sort of brand-new technology. We are at the level of sophistication. It is just today it is still for the most part a marginal experiment for companies as compared with all the other investments they are making.

And in addition to the technology companies having a responsibility, we had all those Sloan and MIT, Harvard Business School professors up here. None of them talked about course curriculum for MBA students on how to facilitate your customer ecosystem, how to facilitate your peer-to-peer community as a key management tool that you need to have. We don't teach that.

So you get the new MBAs that come in and they are familiar with the social technologies, but they have been taught older disciplines in terms of, you know, how to run their companies. Maybe that's incumbent upon McKinsey to start something like that.

But all of the infrastructure that you'd expect to be behind this is relatively new. So, I mean, I think there's very specific examples of what you can do, but the training and the awareness and the organizational readiness is not there. And that needs to happen.

Ljung: I would basically ask three questions to figure out what the company was interested in. And one, the main one, would be—or the first one would be if they are interested in it from the perspective of creating more innovation in their company, of taking a company that maybe feels like it's slowed down, like there's not that much iterative stuff happening, then I would talk about their work structure and how the company is run and see if it actually works in the same way that massive crowds on the Web works.

The second question would be if it's not about that, is it more about brand? As we all know, like in a world where, you know, things are just becoming—everything around us is becoming more and more commoditized and what people want is more of an emotional connection to things, more of things that have a story, things that they can be engaged in, then that's a separate part, right. You can use the crowd to create that story around your brand. It's very hard to do that these days without having a lot of people be involved.

And if it's neither of those, I would assume that they are more interested in just experimenting to figure out what to do. And then it's probably best to do a specific isolated campaign, have people contribute ideas to something.

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We see it a lot with, like, big artists, for instance, like launching part of a song that's not finished yet and then having people participate, create their own versions of it. Like Snoop Dogg and 50 Cent and a bunch of those and get thousands of people collaborating and making their own versions and then he'll release some of those and stuff like that.

So you can do really fun things at a smaller scale as well just to kind of get a feel for it. But I think those were—I try and figure out what their objective would be like on those three levels.

Sarrazin: So we talked a bit about value exchange and making sure that this community and the participant have a way to feel that they are rewarded, they are recognized, they get some value. I think in your case it's relatively clear because that's the purpose of that community.

But in other environment, particularly—and maybe in yours, too, as you participate and you contribute something it becomes part of the collective, and there's—without getting into a very complicated legal debate, there's something around how do you create a value exchange that seems fair with all the participants in this community and in getting the right ideas?

Ljung: It's hard.

Sarrazin: It is hard.

Ljung: It's super hard. I mean, just maybe quickly, you know, we have a lot of situations, like you say, where it's not an issue, like, you know, 50 Cent puts up something. I made a version of it and sent it back to him. Like, that's my value. I produced a song with 50 Cent, I'm good. That was fantastic.

But then obviously, like when looking at co-creation at large scale and especially around the intellectual property challenges around that, we are honestly at a place where we don't have a legal system anywhere in the world that can cope with that.

And I know that some approaches are that, well, we could have, like, thousands of people collaborating and then we can have a very smart accounting system in the back end that just sorts out everything. Make micro percentage here as the scientist. That's not going to work. It's too expensive in terms of a system for something like that.

So, I mean, we saw a few years ago the Creative Commons being introduced as one way of trying to make it—create a better framework for making those kind of things possible. That's still fairly complex and not really mainstream out there. It's still by default complex copyright rules.

So I honestly don't know within the framework that we have today, like in the different countries, how you can create those kind of collaborations with just the very small costs for administrating the complexity around it. And it's something we all need to figure out if we don't want to pay the price of a lot of creativity not happening at this amazing scale that it could, which is totally new. It is even possible to do that.

Like that's not going to flourish fully until we do our homework and actually figure out some better legal frameworks works for it.

Sarrazin: Rob, Padma, any other comments?

Warrior: Yeah, I think that's a good point. I mean, the common denominator is you reward everyone, right, and you say, okay, it's for the collective good and everybody feels good about it. But in reality, that's not how it works. I think people usually go back and say, “I was the one that actually first suggested this.” And because it's all traceable, they will do that. And I think you constantly have this dilemma of do you set that expectation up-front. That if you are participating in this, and if the idea works, then everyone gets a smaller share, versus if you worked on it on your own and may have taken you longer, but the reward would be all yours. But perhaps it would have taken you two years or three years to come up with that.

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I think those are the trade-offs. What I find from my experience in doing this many times, within Cisco and across with partners and actually even with iZone, I describe where we propose a problem and people participate in that. So I think that expectation up-front clarifies a lot of things for people.

I think you have to be really clear. This is something we're going to do on a collaborative platform. If the idea works, then everyone gets a pizza as a reward. If you want to participate in this, we're not going to go back and spend the energy to figure out which individual contributed to what.

And as opposed to if you worked on it and you get a patent that's in your name, that's different, right. So both models exist today and both are important. But I think you have to be clear with people which model they are being part of.

Tarkoff: Yeah, I would agree. And I think the other thing that we underestimate a lot is that people who are participants in these social communities know their role and know the value that they get from being a part of it.

I mean, you see personas emerge. People who are creators of content, people who are curators of content, people who tag and organize content. And they get value out of playing that role and being recognized by the community for playing that role.

And I think that you're right that our legal structure or, you know, kind of regulatory structures, we look at that and we say, okay, should there be certain IP rights that flow to you as the creator. And for the most part, people on these communities don't really care. They are not—I mean, yes, you get the cases of somebody saying that was my idea and you sourced it. But for the most part, people say, hey, this is the way it works here.

I mean, we have a lot of customers that ask us—there's a guy who goes under the avatar KachiWachi. Okay. And KachiWachi spends a million minutes a year online, has 45,000 posts at Logitech and is the self-described expert on the Webcam. Okay. He's done more to help Logitech innovate around Webcams than any single employee.

When asked if he wants any kind of compensation or—you know, that quickly destroys the relationship. That's not why he's doing it. And there are people that, you know—Wikipedia is obviously the best example of that. People tag and organize, not because they are expecting monetary reward, but because that's a way to establish meaning and status and a place in the virtual, you know, crowdsourced community of things.

And so I think recognizing that really pushes on this point that we don't have a legal or regulatory structure that knows how to deal with that. How do I assign, how do I even deal with somebody who curates and tags all my content that exists out there? What role do I play? What are the bounds? Do I pay them? Do I not? How do I think of them?

And I think what's interesting is now companies are saying, “wow, that's an asset, so I've got to compete for the attention of KachiWachi over this other company that he also likes their products and would spend a million minutes online working on those products. And he's not the only one. There are these other people in that value chain that I have to deal with.”

And I think this is going to be become what the really important part of crowdsourced value creation is, is understanding the role and the place that each of these participants play and how to use that to your advantage and then we've got to build some sort of a regulatory and legal structure around that.

Sarrazin: Good. I'd like to open it up to the crowd.

[LAUGHTER]

See if anybody has some questions for our panelists.

Ljung: It's late. Everyone wants a cocktail.

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Sarrazin: There's one.

Yoder: I am Alex Yoder. I am the CEO of Webtrends. And one thing I was kind of curious about your thoughts on is I heard kind of a common theme when you're talking about Corporate America and the use of these solutions as platforms as fundamentally driving, you know, the business process change.

And as we all know, human beings by their nature, and especially when you're publicly traded and have the scrutiny of millions on you, motivates different behavior.

But ultimately, what do you see as being kind of the catalyst or some of the primary elemental drivers to a broader, I guess, kind of embracing of this change?

Because, I mean, I agree with you. Many of the things you said. I argue the same. But I think, you know, the jury is still out on business actually being able to incorporate that effectively.

Warrior: So to me, I think it's speed and agility, from my experience, right. Where we use it very, very—in a very concrete way, you know, without all the idealism, in a very pragmatic way, is something we call "social miner." So lots of people use Cisco Networking. We have something called technical support that supports and troubleshoots our equipment. And we have now started using a social platform to do this where people actually help each other if there's an issue.

So we have been able to enhance the support we deliver much faster. And we said while there's huge amount of benefit to it, instead of Cisco answering all the questions, people using Cisco's equipment can actually solve each others' problems in a much faster way than we can get to it.

So I think it is sort of if you can do something faster in a company, I think that'll get attention. And it allows us to be much more agile.

In the product development area, we use it where we have engineers that are distributed all over the world and we created a social platform where they can collaborate. And it's still within the constraints of the firewall, within the enterprise. And because we're such a large enterprise, like I was saying 20,000 engineers is a lot of engineers, they still can collaborate. And now we're thinking of opening that up externally.

So I think you have to—I think your point about you have to find the right business problem to solve as a motivation, as a change agent in the company. I think otherwise it's just a nice to do.

Ljung: I would guess that that's going to be the way that it works for most companies, seeing others having a clear example of how this actually affects us and then embracing that as well.

I think one other thing that may happen on top of that is that for—which is something fantastic, is that the people that you want to employ are getting pickier and pickier with where they want to work. And like, I mean, you see it a lot in the startup world. People are trying to hire as fast as possible. And it's complete mayhem.

So you really as a company and employer need to think about what are you offering a potential employee. And I think having a different kind of company structure and company culture that really brings out innovation that comes out of chaos, and talking about the crowd within the company now, it seems to be something that resonates with a lot of these people who are very smart and looking for a job where they are empowered; where they can do things themselves; where, you know, they are expected to break things and fail and then innovate on something.

So there may be a trend of just, you know, a lot of people needing to recruit and not being able to do that unless they have the right environment in the company.

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Tarkoff: Yeah, I would agree. I think it is a combination of global competition is getting more fierce. Robots are taking over a lot of our jobs.

[LAUGHTER]

And the war for talent. The small pool of talent is getting more difficult. And people are able to work at companies across GEOS from anywhere.

So the idea that you can innovate and lead without activating your customer base to be an asset for you is, you know—is going to go away. Every CEO is going to look at the passionate folks out there that can drive innovation, change, influence, service, support, care. And they are going to say: That's something I have to tap into. The faster I do that, the more my pace of innovation increases. And if I don't do it, I'm going to be behind.

And the brand that can do that will pull—I mean, great example, you know, the Hertz/Enterprise experience. Enterprise Rent-A-Car is one of the best listening companies out there. When you have a problem with Hertz and you tweet that you have a problem with Hertz, Enterprise responds, not Hertz. I don't know if people know that. And Enterprise says: I'm really sorry that you had a problem with Hertz, where can we send the car, right.

And so that's kind of an early example, right. Companies are listening and responding over Twitter and Facebook and Google+. But take that to its next logical extreme. You know this obviously at Webtrends. But that's the battle or the boundary where this battle is going to be fought, is who at the margin is going to really be able to innovate around these kind of problems and activate. Because once I have that experience with Enterprise, where they show up with my car—I don't have a million four. I have about 1700.

[LAUGHTER]

But my 1700 Twitter followers are going to know about it. And maybe she'll retweet me. And then, you know, quite a bit more will know.

Sarrazin: Let's get another question.

Ellison: Hi, Alec Ellison with Jefferies. I don't think you addressed this. I came in 15 minutes late, so if you did, forgive me. But one of the most impactful elements of crowd sourcing is going to come into play next year, which is the Jobs Act that's going to allow all these sites to allow small companies not to confront the madness of crowds, but get money out of the madness of crowds.

And I wondered if any of you have given thought to the likely implications for companies when they start sourcing their capital from this environment.

Warrior: I haven't, but that's an interesting idea.

Tarkoff: Aren't you the vice chairman of Jefferies? You're supposed to tell—I think it's great. I mean, I think that, again, when we go back to this whole idea that is the regulatory legal environment catching up, I mean, the presumption is that people are not sophisticated enough to understand the risk of what they are doing. I think that's in today's digital age, where we say that all of NASA's information is in my smartphone, people have access to a lot of information.

Now, there has to be some level of, you know, the widow-orphan sort of protection rule. But beyond that, the idea that you have to be a qualified institutional buyer or whatever those things are called so that you can invest in that, if you are a sophisticated knowledge worker, to me, that doesn't seem to make sense.

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At one time where information couldn't get disseminated quickly so you were at an information disadvantage, that made sense. But you're not now. You can get access to anything. I can go visit a customer and research the SEC filings and know more about that company going in to meet the CEO than most of his or her direct reports do because I just took the time to research it, right.

So the idea that companies shouldn't be able to just, you know, raise money from more of the crowds seems to me to not make much sense anymore. But again, I'm not a banker.

Ljung: It feels like the—losing the potential that that could bring of really changing the system, like that's way more—way more dangerous than the potential damage of it being in place. So, you know, as we're in an age of, you know, trying things out with a lot of people at once and then course correcting and iterating, I'd much rather try it out, see where the problems arise and then try to fix those specific things than, you know, not making it possible at all.

Sarrazin: Another question.

Little: Hi. Steve Little. I'm the VP of technology for Infinity Interactive. We're a small company. We're about 26 people. And we have been completely virtual for about seven, eight years now. And we contribute a lot to open source software. And we actually use open source software as kind of a way to recruit people. So I was interested --

Ljung: Same here.

Little:—in your opinions on that. And just a lot of what you are talking about, it's meritocracy and emulation open source. So because obviously I know you for sure use a lot of open source software.

Ljung: Well, we do. And we make a lot of it as well and contribute a lot back as well. And basically, like it's—you know, as with most things at SoundCloud, it's not a rule, but it's encouraged that people spend time on that and that they do give back.

We do have—you know, it's not really tracked, but like, similar thing to Google, people have 20 percent time to do whatever they want. But people work on open source stuff outside of that as well. We try—we've gotten better at spending the time to take some of the things we have built and actually, like, publish them, really like document and being much better about what went into it.

And part of it is just that we're making—we're standing on the shoulders of giants with a lot of other great stuff and we want to contribute back. Part of it is obviously, also, to get more attention in the right community and really try and find the rest and the best people to hire. But, yeah, we're 100% for it.

Tarkoff: It's a huge attraction to engineers for our company. We're entirely built on an open-source stack. In fact, our UI layer which allows all our customers to customize their own communities is part of a pretty active open-source project. That is a lot of engineers ask about that as the first question. Is it open source and how modern a framework is it so that I know I know something about it and can build on it.

I think even our customers, when they're looking at that, they are technical folks. And I think the open-source community, they know. And if you have adopted that, there's some presumption that you understand crowdsource innovation, they understand you contribute and you take and you—there is sort of a bilateral relationship and that's pretty important to the folks we talk to.

Warrior: Yeah, and we use it quite extensively also in our software development model. In the hardware world there are standards that you contribute back to and we participate in that, too.

I think standardization is another way of actually creating a crowd model for what you have invented, right. You put it back into a standard, make it standard so everybody can benefit from it. So we use both. And I think both are extremely important. And I think going forward, probably will be more important.

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Sarrazin: Good.

>> I'll ask a question, if you all don't mind. I'm actually in the first year of my MBA program right now. And I think it's interesting you mentioned there being a course kind of on this crowd management in the MBA programs.

We had about a 15-minute discussion the other day on whether Facebook's users are a resource or not. This is a corporate strategy class. And there are clearly defined resources. And what we decided on is that a user is not a resource, but its users are a resource, that you kind of have to differentiate with the "S" there a little bit.

My question for you is, what would a couple of those takeaways be as far as managing a community like that? Because you're right, those courses aren't offered. But I think it's incredibly important that we kind of learn that. And that's a missing gap. So what would you, if you had to list a couple of things?

Tarkoff: An example is if you take a course or set of courses on, you know, customer service or customer service-related things, there's a set of principles that goes into how you manage an effective customer service operation. You learn all about response and SLAs and arbitrage. Labor, arbitrage, all the things that people are doing. There's all sorts of cases on that, but there's nothing on how do you facilitate a peer-to-peer ecosystem. How do you go find the influencers? How do you measure influence?

You know, we think of influence on the Web as the Google page rank algorithm, right. That's sort of what I call each Web page's reputation, right. But a different kind of model exists on the social Web because influence can be gamed. I mean, I can go to cloud. I can tweet like crazy for three weeks and my cloud score goes through the roof, but that's not a real measure of my influence.

So studying ways in which you really are influential as a member of an online community, I mean, that's a hotly debated topic. And we talked a lot at this conference on there's so much big data out there, but visualizing that in an active way that I can actually say you're influential when I run a campaign for Dial soap, I ought to make sure you are commenting on that because kind of here's how I map out your influence on others.

I mean, just looking at cases where companies have tried to do that and developing a set of principles or a thesis around how you can do that and how you can instill that as a management discipline, I mean, nobody is doing that.

And I have talked to a number of schools about it. They are trying to figure out, you know, what is the value of a social graph and so people look at that. But not these are the three most important things in running an effective peer-to-peer community.

And so we obviously have a bunch of ideas at Lithium because we're in the business. But whether they are our ideas or somebody else, I don't really care. It's just making that as a discipline, I haven't seen it.

So, you know, I'd love to see more of that.

Warrior: I think in addition to influence, transparency and privacy are hotly debated, right. And I think these things have to be managed. And there's no clear-cut difference. You have to be—I mean, by definition, the Web enables transparency. And if you are not, you come across as very—it's a very negative repercussion. Yet at the same time if you are too transparent, that's also not good. And so how do you balance that? And how do you—how do you do even teach that? And how do you teach that? I think these are interesting topics.

And privacy, obviously, there's huge amounts of debate. Do you opt in? If you opt in to disclose something, is that still a violation of your privacy or not, right. I think there's lots of things, lots of disciplines that can be developed in the academy to address these things that will become very real for us.

Sarrazin: Good. I think we're at the end of the hour. Thank you. Thank you very much.

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