Leveraged Assets - Why Own When You Can SCALE?

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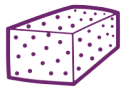
Leveraged Assets are assets you *don't own* and don't appear on your balance sheet. Instead, you *rent*, *lease*, *license* or *borrow* the asset. Sounds simple - we've been sharing stuff since *forever*!

But over the past four decades, the *way* we leverage assets has been repeatedly transformed by *digitizing*, *information-enabling* and *connecting* assets, adding value potential with each transformation.

We now take for granted ***personal computing***, ***software distribution*** and ***email*** (1980s), the ***Internet*** and ***digital media*** (1990s), ***consumer GPS***, ***sensors***, the ***Internet of Things*** (IoT) (2000s), ***cloud computing*** (2006), ***touchscreen smartphones***, (2007), ***apps***, ***blockchain*** (2008) and now **VR/AR**. Yet with *every one* of these digital innovations, we improved how we leveraged (*or replaced*) our physical assets.

Physical vs. Digital Assets



- ***Physical Assets*** - material property (also *Real Assets*).

- ***Digital Assets*** - intellectual property (IP) in digital form.

Different Business Models

Google

facebook

UBER

airbnb

Digital Assets power exponential growth at cloud-based internet companies like **Google** and **Facebook**. *Digital Assets* are fast, easy and cheap to scale, almost free to distribute, and searchable - ideal building blocks.

But how do ***Physical Assets*** play into the success of **Uber** (est. 2009) and **Airbnb** (est. 2008)? *Physical Assets* are nowhere near as fast, cheap or easy to scale (if at all). They are labor-intensive to search and find, and distribution is costly. So how *did* Uber and Airbnb leverage physical cars and rooms?

Airbnb owns no hotel rooms, yet in 2018 had four million listings worldwide - more than the top five hotel brands combined.

Unlocking the Potential of Physical Assets

- **Hidden Surplus** - The **consumer economy** is generating an *abundance* of owned, underutilized assets, and **urbanization** is bringing together people and surplus assets as never before. But unless a consumer can *find* and *access* the asset they need, when they need it, *no value can be created.*
- **Make the Physical Searchable** - With ubiquitous Internet access, sensors and GPS-enabled mobile devices, it is now possible to ***information-enable physical assets***, then efficiently search, communicate and transact at-scale - **the Internet-of-Things** (IoT)
- **Rise of the Platform Business Model** - **Digital Platforms**, such as Amazon Marketplace, automate the process of matching consumers to producers with surplus assets, allowing businesses (and Amazon) to *capture value* from each transactions.

Uber Leverages Physical Assets for Exponential Growth

- **Hidden Surplus** - Nothing says **'Consumer Economy'** like 910 light vehicles per 1,000 people (US) sitting idle 95% of the time. Uber's business model counts on this **surplus of underutilized vehicles,** accessed by drivers seeking extra income. Also, the model only works if passengers and assets are within ***minutes*** of each other when hailed, so a good thing 86% of US residents are urban dwellers.

- **Make the Physical Searchable** - Uber's business model fails unless *every* driver and passenger has a **GPS-enabled smartphone**, ***'information-enabling'*** *both* the vehicle *and* the passenger! *(Note that Uber was founded 2 years after the release of the iPhone...)*

- **Rise of the Platform Business Model** - Even though Uber *relies* on a surplus of physical assets (vehicles and smartphones), they couldn't *own* every asset and still scale. Uber can *only* grow exponentially because they have created an efficient, scalable, multi-sided self-serve marketplace where both the marginal cost of customer acquisition and the marginal cost of delivery approach zero.

Leveraged Assets - Implementing Leveraged Assets

Implementing Leveraged Assets

ExO for Existing Organizations

- What assets could you shift from your books that would make a difference to your fixed and variable costs, valuation or tax structure?
- Optimize who owns what in your value stream, and who finances it. Do you have assets customers could leverage, or vice versa?
- Where could your physical assets be information-enabled? E.g Smart warehousing on-demand that tracks *your* inventory via IoT in a shared warehouse space.
- What assets (know-how, information or physical stuff) belonging to others, could you tap into? e.g. Smart Cities programs leverage data from traffic infrastructure and other Open Gov sources to improve access and mobility in their region.

ExO for Startups

- Think through your MTP and your business model, consider what assets are in surplus, recently information-enabled, or both. Probe for Airbnb-like opportunities to create a platform or ecosystem.
- From the start, operate as lean as possible. Leverage everywhere you can. e.g. Amazon Web Services; outsourced accounting and finance. If your team isn't co-located, work from home and use Social Technologies. Take f2f meetings at WeWork, or even Starbucks.

Tips and Considerations

- See Staff-on-Demand, Community and Crowd and Engagement for tips on leveraging people resources.
- When leveraging other people's assets, measure and monitor the producers / owners and assets for early warning of issues and to ensure service levels.
- Choose wisely what you do and don't leverage. Apple can leverage its core process of manufacturing because it manages the outsourced process to achieve desired product quality. It can then focus on innovation, design, engineering and the overall user experience.

Take Responsibility for Negative Externalities

- Both **Staff-on-Demand** and **Leveraged Assets** can cause *negative externalities* - consequences of your business activities that affect others (including society) who didn't choose to participate, *but they, not you, are paying the price.*
- e.g.: In many cities, Uber's success leads to a dramatic increase in traffic congestion. Their Staff-on-Demand strategy shifts healthcare costs to its drivers. These negative externalities prompted London, UK to temporarily revoke Uber's license!

Growing exponentially at the cost of others and society is not sustainable, nor is it in alignment with most peoples' MTP and values! Ensure your business model scales even with full costs accounted for. (Externalities hold NEW business opportunities, too!)

Checklist for Success - Information-Enabled Physical Assets

- ❑ **Sufficient Surplus of Physical Assets** - Is the surplus sufficient to launch and sustain exponential growth? Is more being created? Do the trends indicate supply growing, maintaining or declining?
- ❑ **Sufficient Consumers to go ExO** - Is there a sufficient market (TAM/SAM) of consumers wanting access to sustain exponential growth? Have you VALIDATED the problem and solution with them?
- ❑ **Sufficient Motivated Producers** - Is the asset owner motivated enough to monetize the surplus?
- ❑ **Proximity of Stuff and User** - Is stuff distributed where and when consumers will access it? Can it be redistributed profitably?
- ❑ **Physical Assets Information-Enabled** - Is the asset information-enabled? e.g. Uber Vehicle Profile + Smartphone info-enables a car.
- ❑ **Multi-side Platform** - Is there a tested value proposition for all participants? Have you developed your 'Get-Keep-Grow' strategy?

*See **Chapter 3 - The Exponential Organization** in ***Exponential Organizations*** by Salim Ismail, Michael S. Malone & Yuri van Geest. The Exponential Organizations Master Business Course is a part of the Growth Institute MBD Program.
To learn more, visit www.growthinstitute.com/exo
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Leveraged Assets - Generate Leverage Options

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Company Name:_____ **Your MTP:** _____

For each type of leverage, answer the questions in the left hand column. Create experiments to validate assumptions.

Desired Growth Impact	Physical Asset Leverage (Incremental Improvement)	Digital Asset Leverage (ExO Improvement)	Info-Enabled Physical Asset Leverage (ExO Improvement)
Goals	Improve financial health and valuation; optimize taxes; increase elasticity • reduce assets on books • reduce fixed costs • reduce the need to manage asset	Reduce startup costs; increase scalability and elasticity • eliminate assets • reduce fixed *and* variable costs • generate revenues	Business model: • leverage information-enabled assets through a multi-sided platform • drive marginal cost of customer acquisition & fulfillment virtually to zero
Examples	• lease vehicle fleet, equipment, etc. • rent office space or use co-working spaces • outsource finance and accounting function • License IP for industrial process • Rent access to your own underutilized resources. E.g. hospital renting access to its MRI machine	• run venture on Amazon scalable servers • combine partners' datasets into higher value offering through rented or open source AI and machine learning capabilities. • operate company entirely in VR • create and run purely digital platform businesses	• Uber - connect passengers with mobile phones to drivers with **cars and mobile phones** • Airbnb - connect guests with mobile phones to hosts with **spare beds and computers** • Amazon - connect customers and developers to **physical server infrastructure**
What assets can you leverage?			
Value Propositions - how will you improve your value propositions by leveraging assets?			
Metrics - How will you know your leveraged assets strategy is successful *and achieving healthy, sustainable growth*?			
Why does this help you scale exponentially to achieve your MTP?			