

## Surviving in a connected world

“Digital architect” describes the 3 key skills and the 5 foundational concepts that must be understood for banks succeed in the digital world

By Bill Streeter, editor and publisher

Scott Klososky

Scott Klososky has a pretty good gig. A self-described “digital architect,” he gets to hit the speaker circuit, scare the bejeezus out of people, and get paid for it. That’s pretty much what he did at ABA’s National Conference for Community Bankers in February. His keynote address was titled, harmlessly enough, “Trends, technology, and Taking the Lead.” It might better have been called, “Are you the next Blockbuster?” referring to the defunct video rental giant.

Klososky is a consultant, entrepreneur (three successful startups), author of three recent books including *The Velocity Manifesto: Harnessing Technology, Vision and Culture to future proof your organization*, and, as noted, a professional speaker. Of interest is that his most recent startup is Alkami Technology, which has developed “a second generation online banking platform,” as quoted from Klososky’s bio.

Technology is a great leveler, he noted at the beginning of his ABA presentation. It is also very disruptive.

As a leveler, he pointed out that web 2.0 technology has greatly amplified companies’ influence over their customers. Never before could one person or one bank connect with two billion other people—and without anyone in the middle—simply with the click of a button. “But,” said Klososky, “you’ve got to be willing to reach into that toolbox. You can’t say, ‘It’s the young people.’ It is, but it’s also older people.

“What people are addicted to is the connection. We’ve never seen this level of frictionless connection.”

Klososky cited a January 2012 article in *Fast Company* magazine, titled, “Generation Flux.” It addresses

the unprecedented change— even chaos—in the economy.

### Three skills to master

Technology changes create winners and losers, said Klososky, and is very disruptive. “It affects almost everything— how we learn, how we publish. If you don’t understand it, it can be fatal.”

He cited three new skills required to survive in this disruptive environment:

1. The ability to make good technology decisions. Technology is an X factor today— you can’t just outsource tech decisions.

2. Get much better at predicting future trends. You don’t need vision— you need an accurate view of the future, so you can take steps, and make investments, to plan for it. Too many banks, he said, just focus on execution.

3. Understand cultural changes and move quickly to meet them. Take online banking and billpay, he said. Banks could have seen that everybody was going to offer it. “If you move too slowly you’ll lose market share,” said Klososky. “If you see these things happening, why don’t you move?”

Following up on this point, Klososky cited three examples of companies that didn’t move. Kodak, he said, developed patents for digital photography many years ago. Yet they didn’t see that digital technology was going to wipe out the film business. Blockbuster dominated the video rental business. Why didn’t it acquire Netflix? And Sony, which once owned the personal music business with its Walkman, lost that business to a computer company— Apple and its iPod.

### Five concepts to deal with ambiguity

Klososky pointed out the difference between uncertainty and ambiguity. “The future used to be uncertain,” he said. Now it’s ambiguous. He used dice as an analogy. It’s uncertain what number will turn up when dice are cast. Now, however, there are no dice at all. That’s ambiguity— i.e. we have no idea where competition might come from. The internet has created a great deal of ambiguity.

In Web 1.0, said Klososky, businesses connected with customers.

In Web 2.0, people now connect with businesses and each other.

Web 3.0 will see every device connecting—cars, homes, networks, sprinkler systems, etc.

Web 4.0 will bring connected intelligences. He described mobile devices as “outboard brains.” They store memory, help solve problems, and access huge volumes of knowledge.

Klososky described five foundational concepts to better react to current and ongoing changes:

One is “Frictionless Communication.” This provides companies with an organizational voice at no cost. “With the democratization of communications, people share information with their friends. So if a bank provides information that is useful,” said Klososky, “people will pass it around and earn you the right to offer an occasional product message.”

Another foundational concept is “User-Generated Content.” Klososky told the bankers they should already have content on four channels: YouTube, Flickr, Scribd, and Slideshare. “You create digital assets [in these spaces] and people can’t help but come across them.”

A third concept is “The Recommendation Economy.” Everyone today has to worry about their online profile or recommendation—their “net promoter score” to use one description of this development. That is, “would you recommend this bank to a friend?” On a scale of 1 to 10 in a recommendation ranking, only 9 or 10 are good, said Klososky.

And in regard to personal reputation online, there is good, bad, and invisible. “Two out of three are bad,” he said.

He described a website called [Honestly.com](http://Honestly.com), in which employees, customers, or anyone can rate you. Banks should go to sites like [Honestly.com](http://Honestly.com) to see what other people say about the company. (There are 22 others like it, Klososky noted.)

All this has led to the creation of new fields—reputation remediation and reputation inoculation. “Your reputation can get smashed in hours,” said Klososky. “People will take time to talk about you. You need a formal reputation management system in place.” Two systems he mentioned were Sysomos and Radian6.

Another foundational concept to understand is “Crowd Dynamics.” Subsets of this include “crowdsourcing,” the “wisdom of crowds,” “crowd funding,” and “crowdvertising.”

As example of crowdsourcing, Klososky mentioned [logotournament.com](http://logotournament.com), which allows anyone needing a new logo design to tap talent all over the world, resulting in maybe 300 designs to choose from for \$275, versus paying a design firm \$5,000 dollars resulting in three choices in a month. The military, he added, now uses crowdsourcing to harness online gamers’ brains to develop battle plans. “There are 150 crowdsourcing sites,” said Klososky, “you’ve got to learn how to use them.”

“Rivers of Information” is another concept Klososky described. Calling the online world a “learning ecosystem,” he said that in a knowledge economy, companies need smart employees to win. Bankers can use online monitoring tools such as Netvibes and Flipboard to help them find and monitor sources of information on the web that you need to follow. These tools are free. You build this ongoing learning into a culture of learning, said Klososky, and reinforce it by making it part of your employee reviews.

This led to a discussion of “visualization and predictive analysis” versus the more typical “forensic analysis.” The latter is analyzing historical trends, or looking backwards. Klososky dubbed this, “bayoneting the wounded.”

There are many online business intelligence tools available at low cost that can assist banks to enhance customer intelligence.

“The bank with the most and best customer data will win,” Klososky stated. He said it is now possible to harvest information from social sites and add that to a bank’s own files, i.e., monitor customer conversations—looking for key words.

“That may seem creepy,” said Klososky, “but it is what marketing will become.” And customers, he added, are more willing to allow this. “The customer profile is changing,” he said. He calls this “social CRM.”

Perhaps sensing a bit of recoil from the picture he had just painted, Klososky ended his remarks saying, “Technology is not the answer to everything. You still have to be able to connect hand-to-hand as a human.”

That’s reassuring, to be sure, but conference vice-chairman, Ken Burgess, Jr., president and CEO of FirstCapital Bank of Texas, Midland, after thanking Klososky for his comments, made this observation:

“Is the Dodd-Frank Act our biggest challenge? A lot of bankers think so, but knowing where our customers are at and how to reach them may be the biggest challenge.”

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