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Leveraging blockchain technology for growth

Finding the right growth business-case for blockchain technology

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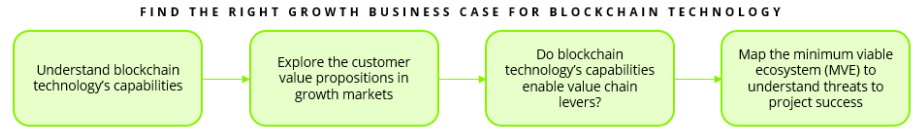
Executive Summary

As with many nascent technologies, the applicability of blockchain technology has come under increased scrutiny after early hype, driven by inflated expectations of the technology's readiness for adoption. Over the past several years, enterprise adoption has been rising rapidly behind the scenes and, more recently, we have started to see the move from experiments to real-world solutions in traceability, identity management and finance among others; 54 per cent of respondents to Deloitte's 2020 Global Blockchain Survey are currently developing blockchain solutions. Despite this, only 44 per cent of organisations' executive teams "strongly agreed" that there was a compelling business case for blockchain technology.

Many of the most tangible blockchain business cases so far have been within efficiency gains and cost cutting – a natural fit for a technology that focuses on transparency and auditability on transaction level. However, there is also huge potential for the technology to go beyond these use cases and assist in driving organisations' growth strategies. This whitepaper provides a framework with a holistic view of how and where to use blockchain technology for growth and what to consider when building a growth-based business case for your organisation:



The framework begins with understanding the technology's core traits, before developing a deep understanding of your market and customer value proposition, ensuring that any technology investment is completely in line with your growth strategy. From there, we discuss using blockchain to enable or create new value chain levers to deliver a customer value proposition, as well as understanding your dependency on other actors for commercial success within your ecosystem.

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Start by grasping blockchain technology's core capabilities

To find the right application for blockchain technology, or any technology in fact, it is important to grasp the core capabilities of the technology.

Spending time on this at a senior level before committing to a project reduces the risk of initiating a project in the wrong direction, builds executive sponsorship and improves the chance of finding the right use cases.

To build this understanding, technology inspiration workshops can be held to explain the core elements. These are often best paired with use case ideation sessions so that senior leaders can start to see first-hand the applicability of the technology within the organisation. Rather than spending too much time understanding the inner workings of the technology, it is practical to discover what capabilities the technology can provide to an organisation and how it could be used tomorrow.

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Blockchain technology's core capabilities

disclaimer While we refer to blockchain technology in this paper, it is just one type of distributed ledger technology (DLT). Much of what is discussed can be applied to other DLTs, therefore any business decision should include selecting the right DLT platform for your problem.

Below introduces the core capabilities that blockchain technology enables:

Immutability to build trust

Immutability means that the records we put on blockchain are irreversible. It is only possible to append to the blockchain and not alter the historic transactions.[1]

Distributed transaction verification

The ability to verify transaction data on the ledger without a centralised middleman.

Auditability

The immutability feature ensures that data have not been tampered with, enabling a quick audit. This also provides evidence of which party has signed each transaction.

Automation

Now that we trust the transaction, this paves the way for automation happening outside of the blockchain. This can also occur on the blockchain through smart contracts. A smart contract is a set of promises, specified in digital form, including protocols within which the parties perform on these promises.[2]

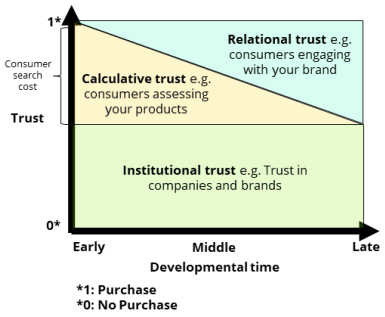
[1] Depends on consensus mechanism and the finality feature of the given blockchain.
[2] Szabo (1996) -- Smart Contracts: Building Blocks for Digital Markets.

If you want to read more about blockchain technology, please refer to Deloitte's "Blockchain: A technical primer".

Blockchain's unique impact on trust

Many of the capabilities above are linked to building trust – a trait which is at the core of what the technology can enable. It has the potential to deliver transparency, auditability and a single version of the truth among parties, which can have huge benefits for building trust across multiple industries and ecosystems.

To make this more tangible, Deloitte utilises a model based on theoretical frameworks[3] and our previous fieldwork on client engagements. Think of trust to be a transaction between two parties, for example one party, a consumer, purchasing another party's goods. Within it there are three elements: institutional trust, calculative trust and relational trust.

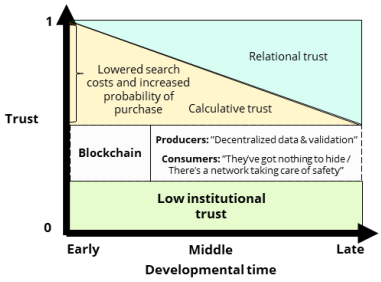


Institutional trust: the underlying trust in systems and institutions that the other party will comply with certain standards.

Calculative trust: the remaining trust you need to build to complete the transaction, otherwise known as the search cost[4].

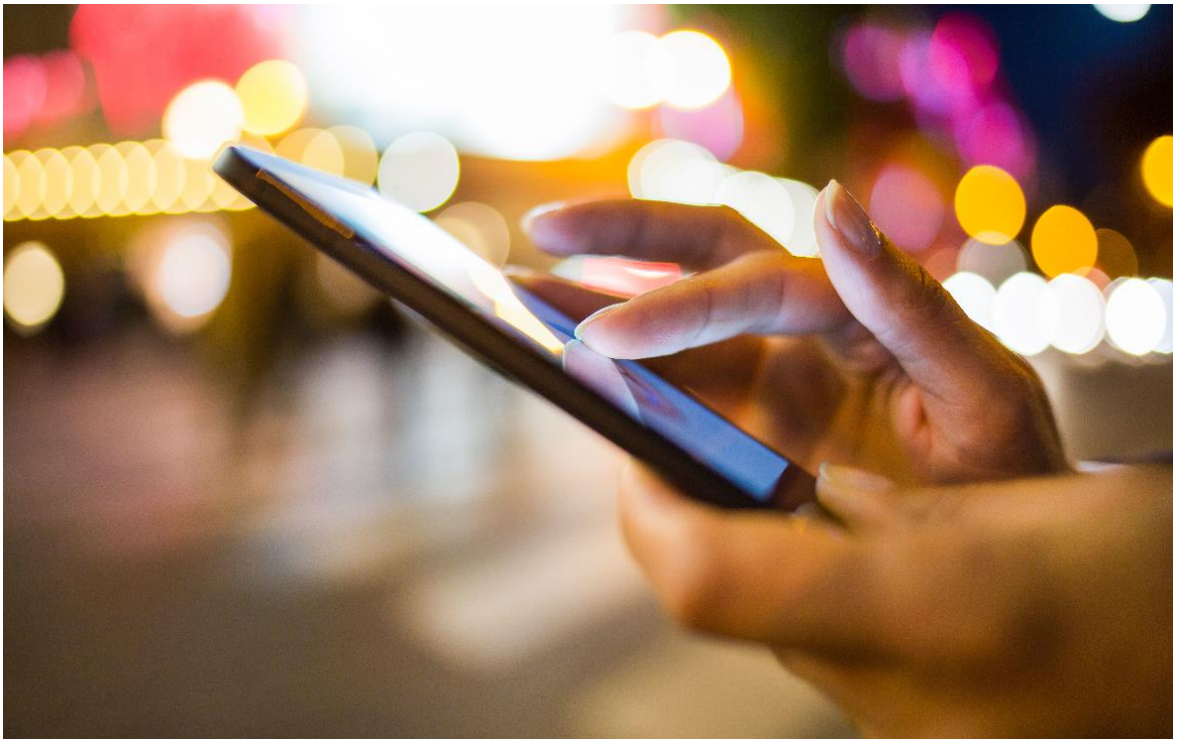
Relational trust: the trust built over time through repeated interactions between two parties, replacing the need for calculative trust.

Through providing third-party verified information, blockchain technology lowers – or even removes – the search costs for consumers, reducing friction between parties and decreasing inefficiencies in the market. This is an important idea to keep in mind when deciding how the technology can be utilised for growth.



"Think of trust to be a transaction between two parties""

[3] Rousseau, Denise & Sitkin, Sim & Burt, Ronald & Camerer, Colin. (1998). Not So Different After All: A Cross-discipline View of Trust. Academy of Management Review. 23. 10.5465/AMR.1998.926617.
[4] Davidson, Sinclair & Novak, Mikayla & Potts, Jason. (2018). The Cost of Trust: A Pilot Study. The Journal of the British Blockchain Association. 1. 1-7. 10.31585/jbba-1-2-(5)2018.



Blockchain technology has the potential to build trust with end-consumers

Explore how blockchain's capabilities can assist your growth strategy

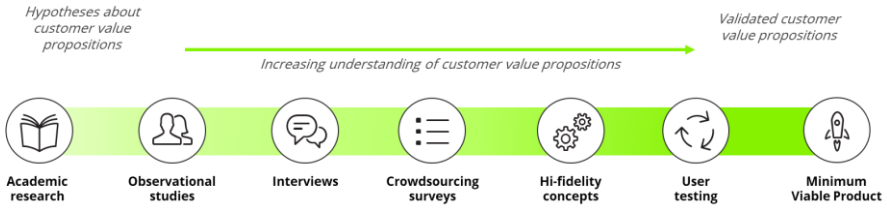
Operating under the assumption that your organisation's growth strategy has already been defined, blockchain technology's capabilities can then be used to help expand into new markets or products, or increase penetration in current products and markets.

Rather than attempting to apply the technology's capabilities in every growth area, it is beneficial to focus on a customer-first lens within your growth markets by starting to identify the customers in these markets and their value propositions that you can deliver on. This investigation allows you to then analyse your company's value chain and understand how blockchain technology can enable or create new levers to deliver customer value, simultaneously tying any project to your organisational

growth ambitions. This results in project sponsorship from executives, which is of vital importance when you, most likely, encounter difficulties along the way.

Understand the right value proposition for customers in these markets

An overall approach to understanding the customers and their value propositions is to initiate an in-depth investigation into what they expect and desire in these markets. This can be done by combining a multitude of research methods as seen below.



Starting with a wide lens, build hypotheses about who your customers are, what problems they face, and what value proposition is right for them. Utilise several methods available to you, such as academic research, observational fieldwork studies, customer interviews and surveys. Using an iterative approach and by incorporating feedback throughout, these hypotheses can be narrowed down by triangulating information to identify more tangible value propositions, which can then potentially be built into proof of concepts (PoCs) for testing and eventually creating a minimum viable product (MVP).

Is trust a factor in your customer value proposition?

During this research process, it will become increasingly clear whether the customer value proposition involves the need for building trust between parties, for example low trust between your organisation and your customers. If that is the case, this is generally a solid indicator as to whether blockchain could be a good solution. Blockchain technology has the capability to build trust by removing the need for third-party verification and having immutable, auditable transactions. This lowers the cost of trust, resulting in value capture for your organisation.

Can blockchain create or enable a lever to deliver this value proposition?

Knowing what the customer wants is one thing; another thing is to understand whether you can deliver it as a company – is this feasible for your business? The

"Blockchain can help rebuild disrupted networks by providing trading partners and consumers with transparent, trusted and secured data on goods and transactions"

Rasmus Winther Mølbjerg
Deloitte

answer to this can be found by looking across your value chain levers to understand what is required to deliver this customer value proposition. When doing so, blockchain technology's core capabilities should be considered – whether they can enable current levers or help create new ones that can enable you to deliver customer value. Capabilities such as immutability and auditability give one trusted single version of the truth among parties and can unlock black boxes within your value chain and deliver information that can enable customer value propositions. Linking the technology's capabilities to actual customer value makes the business case more tangible and is tied to your growth strategy. This limits the possibility of siloed projects and diverging interests inside the organisation that can lead to failed initiatives.

Evaluate your dependency on other entities for commercial success

"To identify the MVE, it is key to map the ecosystem of actors as well as their current roles and power relationships"

To understand potential project challenges in delivering on the customer value proposition, your dependency on certain actors to achieve commercial success in these markets should be carefully considered.

Investigating this ensures that you are fully aware of the landscape you are operating in, or going to operate in, and the opportunities and risks within that could affect your business case decision.

Understand the minimum viable ecosystem

Deloitte's approach for understanding external dependencies involves the MVE. The MVE is the minimum number of actors within the ecosystem that are needed to realise the value from your MVP. For example, delivering key supply chain information to end consumers requires collaboration among a certain number of actors within the ecosystem; these actors should be included in your MVE. Garnering an understanding of the minimum number of actors needed to achieve your value proposition gives your organisation an overview of any project risks that may come from powerful external actors.

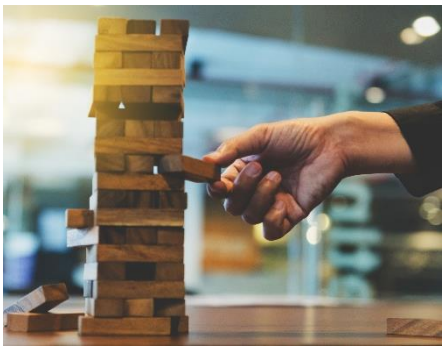
To identify the MVE, it is key to map the ecosystem of actors as well as their current

roles and power relationships. These insights can be gained through traditional methods such as fieldwork, interviews with industry experts and surveys across your value chain. Completing this exercise before investing too much time and resources in a project can hedge the risk of a failed project if ecosystem actors refuse to collaborate.

How much of a risk do these actors pose to you delivering your value proposition?

When mapping the MVE, you may realise that some stakeholders, on which your commercial success is more dependent, pose a greater risk than others. This risk could come in the form of actors with high negotiating power who hold the keys to your organisation's success in a new market. It could also be that actors have partnerships with competitors who have opposing interests in what you are trying to achieve.

It is beneficial to identify these risks early on and manage them as soon as possible. This can be done by involving risky actors early on before starting any project and by talking to them about your ambitions and the role they can play in helping you achieve your goals. By doing so early in the process, you increase your organisation's chance of winning their buy-in and achieving project success. If you choose to go ahead with any blockchain project, you should engage with these risky actors regularly to ensure they continue to comply with your ambitions; this applies to all the risky actors that you have identified within the MVE and to those who appear further down the line.



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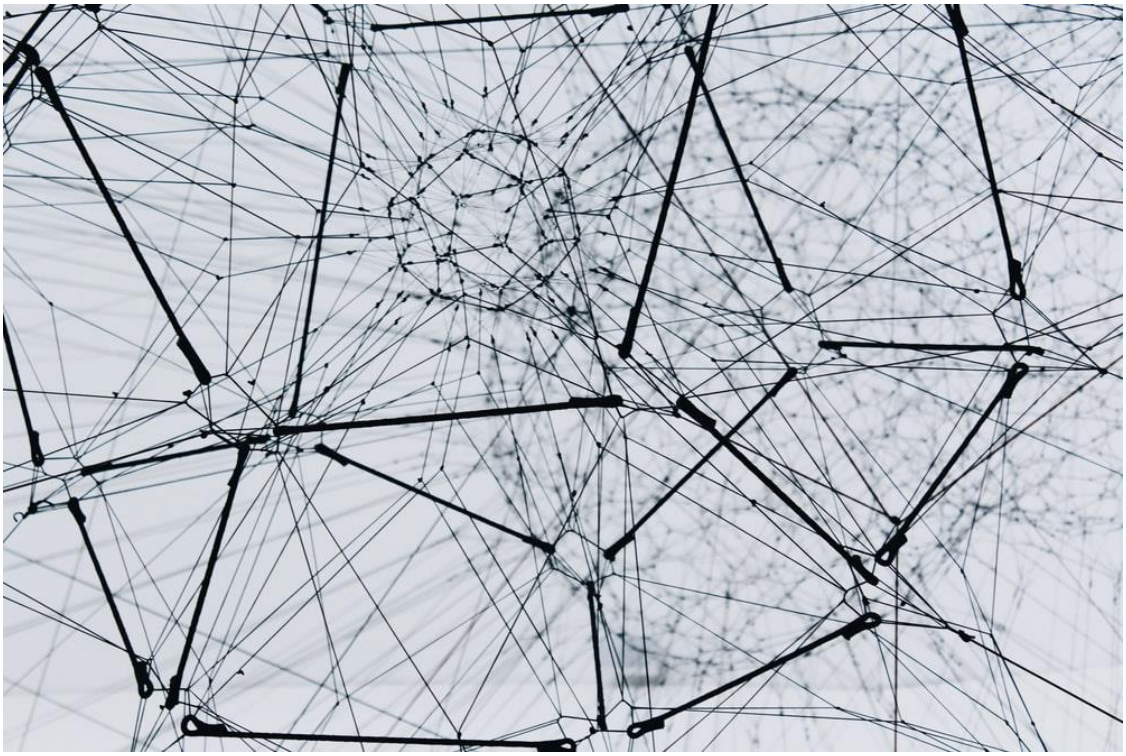

An early understanding of the MVE can reduce long-term risks to blockchain technology projects

Conclusion

The approach discussed in this white paper has shown how to extract value from blockchain projects besides cost-cutting and optimisation – delivering real value to your customers in growth markets. We have discussed the importance of understanding the technology's capabilities before investigating your customers and the key value propositions to pursue. This builds a foundation to then leverage the technology's capabilities in order to enable or create value chain levers to deliver on the customer value propositions that are aligned with your strategic goals.

Following this, we emphasised the importance of understanding who the key ecosystem players are in helping you deliver your customer value propositions, before then managing them early on to mitigate the risks that actors pose to your potential project. This entire approach leaves you with a holistic view of how to use blockchain technology for growth and what to consider when building a growth-based business case. It is an effective method to not only avoid spending resources on the wrong application of the technology, but also ensures the correct project selection supported by long-term executive sponsorship – vital for any project success.

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