The Accounting Podcast Series

S05E01: Stu Black & Alon Ellis

Transcript

The Impact of AI and Cloud Computing on Business Models

AB: Albie Brooks
S: Stu Black
AE: Alon Ellis

Albie: Welcome to TAPS, the Accounting Podcast Series. I'm Albie Brooks, and working with me is Abbey Treloar. Today we are fortunate to have a small guest panel comprising Stu Black and Alon Ellis. Briefly, following a distinguished career in professional services, Stu is currently a Melbourne Enterprise Fellow here in the Department of Accounting. Alon has developed a reputation in the areas of strategy, innovation and transformation and is currently a senior partner with Deloitte's strategy consulting business, focusing on enterprise strategy design. It's great to have them as part of our first TAPS episode for 2023. Our two guests and a third co-author, Professor Danny Sampson from here at Melbourne, have been busy, having recently published their co-authored book titled Business Model Transformation: the AI and Cloud Technology Revolution. This is the focus of our discussion today.

The book? Right on the money in terms of what we are experiencing in industry, our personal lives and enterprise operations as we speak. So let's find out more. Welcome to TAPS, Stu and Alon.

Stu: Good to be here.

Alon: Thank you.

AB: So let's start at the start. How did the book come about? Where did the ideas emerge? Perhaps, Stu, we'll start with you first.

S: Sure. Alon and I have known each other for a very long time. Shortly after I retired from the firm, Alon invited me up for a cup of coffee. And as these things do, through that cup of coffee, there was a suggestion we really should write a book. And Alon really knew my feelings about the challenges that Australian organizations have and moving away from thinking about piloting and trialling and experimenting and kind of setting up little innovation hubs, but not actually changing. As soon as we spoke about this, and we got our little piece of napkin – I think Alon actually has the napkin – I agreed on the spot. And then of course we went hunting for a third author, because we thought to ourselves, who's going to take the two of us seriously, as far as writing a book? And so we got Danny involved, because he's written many books, and he really was wonderful at helping two novices kind of navigate the whole "we want to write a book" journey.

AB: Excellent. Alon, what would you add to that?

AE: Yeah, look, I think it's been a really interesting journey. So I think one of the problems that we were looking to address originally was there's a whole lot of buzzwords, there's a whole lot of interest in AI. And I think Stu and I, having worked together for a number of years in professional services, were getting quite

frustrated with the buzzword, but the lack of kind of practical focus, particularly on the business side. What am I actually trying to do? In particular, everyone gets excited about use cases. “Can you tell me what's your use case library? Can we just get a thousand of them,” which has never been a particularly good idea, because by the time you're copying use cases off of public information, you're already very undifferentiated and late to the game. And part of the question around collaborating with Melbourne University was about how do we think through this rigorously? How do we not produce a couple of glossy brochures that have interesting but not particularly well-tested ideas? And so that's where the idea of working together with Stu and Danny came together and really helped add a lot more robustness to it all.

AB: Excellent. Yeah, it's always interesting how these things sort of start off in the first instance, and then what they might grow to. So as you mentioned, we might start with thinking this is going to be an extended fancy brochure and becomes in the end a really well put together, incisive, and informing book. And I think also – which you don't realise at the start, but when it's completed, there's a great sense of satisfaction associated with that as well. So the book explores new technology. AI and cloud technology is very current, probably even more current than when you started writing the book, and their impact on organisational business models and performance. I've got a couple of questions here, and we can treat them in any order. But tell us a little bit more about AI and cloud technologies in terms of transforming businesses. And then you've got some examples of the impact of these on organisational business models. Perhaps, Alon, we'll start with you and then move to Stu.

AE: Yeah, sure. Just to kind of draw the distinction between use cases and really transforming, the idea that we're trying to drive towards is if you are going to reconstruct your business in an age where these capabilities exist, one, what do these capabilities really mean? And two, how different would it look from your current business model? And what we found with the use case thing was people get so excited about buying a piece of tech and then plonking it into the existing business, and they don't really ever get (a) the kind of benefit that they're looking for, but (b) they're still fundamentally operating as they were before. And so part of the book – we developed the framework and it was tested through a more kind of academic process, but we also have to speak with organisations that have successfully worked it through. I’ll leave Stu to maybe pick his favourite example or two of how that transition worked. But it gave us an opportunity to do the from and to. We used to create value in this particular way, and then the technology –not the platforms and the vendors, but the underlying capability that we now put in – allows us to create value in a very different way that's a lot more useful for our customers or the public if it was a public sector organisation.

AB: So in some ways it's that sort of disruptive element that you're really looking for. I notice in the book that word “disruption” comes up a lot.

AE: Yeah, I mean, we're in an age now where about 5-10 years ago, the cost of making really accurate predictions using sophisticated machine learning models just has come to near zero. The thing you couldn't have done before, the cost of putting structure around unstructured data, using all sorts of deep learning techniques, video, image data, et cetera, that's basically gone to zero. And now over the last few months, the cost of creating content and using generative AI has, again, almost come to zero. It's a very different world. And this is where the disruption is not incremental. It's not just a couple of per cent here or there. It's actually trying to reconfigure your business model in this very different world, which is not the world where your organisation was built.

AB: Yeah. Stu?

S: Sure. You asked about the technologies for a second and we went down this path really to kind of avoid the “isn't this technology kind of cool?” because we saw when that happened is somebody might put it out there and put it in production and it worked like a charm, but really not a lot has changed to the business model itself. And there are a lot of those use case type of materials out there from the vendors and dare I say consulting firms that kind of talk about that. We really wanted to provoke Australian organisations to think about how they might do this and do it to prepare their business for the future. Just for fun, go through and do a search of the Australian financial review and talk about disruption through technology and find how

many Australian firms are actually listed. There aren't that many. And so that's really where we kind of got into this concept of saying, let's not talk about how international company X, Y, and Z that is irrelevant to Australia has innovated because a lot of the Australians are like, “Well, that's all nice. They got scale.” Let's go find some organisations that kind of look like us, respond like us and understand what they did to actually make this transition. Now, it's not to say international comparisons are bad. We've got at least three of them in the book. But what we were really kind of focused on was really allowing those 13 organisations to tell their story. It's not us being smart as much as just us asking the right people and have that particular story.

I’ll give you a couple of examples that are near and dear to me just to illustrate this. On the artificial intelligence side, artificial intelligence is a really broad range of capabilities. Everything from, on the low end, robotic process automation through to all sorts of different types of predictive models, et cetera. There's a case that's near and dear to me, which is the self-managed superannuation fund business within Deloitte, something we can talk about because we're both Deloitte. And if we think about that particular business model, there's a huge number of self-managed funds that are out there in this country. 600,000 firms, something like that. But the price point for Deloitte to be able to deliver that, Deloitte just couldn't enter that market. But if you actually used a bunch of different types of technologies, you could actually deliver an audit of a self-managed super fund for a market competitive price. So all of a sudden you now have a large Big Four firm that's using these types of technologies to be able to do something they couldn't do before in the old model. Is that wholesale business model transformation? Not really, but it is an example of people saying I can now go into that market in a way that I couldn't before.

AB: Excellent. This is, of course, it does segue, it's one of the great things about the book, I think, is that there are a number of – significant space of the book is dedicated to these actual organisational examples, and you've just provided one of those, Stu, of how these new technologies are impacting their specific business model. Alon, have you got one that you'd like to share with us along the same lines of those examples that are in the book?

AE: Yeah, sure. It's hard to pick your favourite. It feels like your favourite child, which I would never do. But IAG is a really interesting one. So if you've ever had to go through the process of putting in a claim, let alone a claim for your car that's being written off, it's a terrible experience, right? No one wants it. Obviously, you want to get it resolved as quickly as possible. And obviously, the insurer has a fiduciary duty to investigate and work through the process robustly as well. And before they were using AI for this you're talking about a two-week process, which they were able to dramatically speed up through a few different techniques that basically did a fast-track assessment. They kept a human in the loop. I'll come back into that in a moment. But they basically take the information, provide a best estimate that says this is most likely going to be fast-tracked. And then they used a more human-centred design approach to also communicate with the customer at the same time so that they're aware of what's going on. They're getting it resolved really quickly. The insurer is happier, the customer is happier, and it's a really good outcome. And I think that's a nice example of using technology.

But what I like about it a bit more is the way that the organisation faced into the risk, because one of the understandably important risks that you have to manage with AI is that in some cases, depending on the models, it can be a black box. And rather than shy away from that, IAG actually confronted it head on. And they actually ended up publishing a set of standards and principles for how to ensure fairness and robustness of their AI models. And they kind of open sourced that to the broader Australian business community, which I think is a fantastic way of addressing risk. We're going to live in this AI world whether we want to or not, but as an organisational attitude to kind of confront that head on and then, (a) come up with a better customer outcome, but also for the business community to have a more thoughtful way of working through this that minimises risks of bias and discrimination. I thought it was just a really great exemplar of leadership.

AB: Yeah, okay. Two excellent examples. One from each of you, which is great. And anyone looking at acquiring the book, there are a bunch of other specific examples of what different organisations and how they've tried to use the AI and cloud technologies to transform their business. But the last chapter of the book is labelled, “So what should I do now?” So what's the advice? And even given the dramatic, I think, familiarity with AI

amongst a broader section of the population around AI in the last even six months. So what's the advice here then for organisations that is highlighted in that last chapter? I'm happy for either of you to take the question.

AE: Yeah, happy to jump in. Stu, feel free to if I've missed anything. I think from my point of view, the first step is just the recognition of we are in a different world and there are very different capabilities that we can take advantage of in order to either provide a service, whether it's in the public sector or create products in the private sector. That discomfort with the status quo way of creating value and really thoughtfully revisiting it in light of these different technologies is number one, two and three. At the end of the day, understanding the world that we're in and what is likely to be disrupted and getting down to that in a thoughtful way and then working out your response is really the critical ask. I think we overestimate the amount of change that's going to happen in the next year or two, but then we dramatically underestimate it with the next 10 years. And it's very hard to assume if you're an executive in any Australian organisation that within, let's call it five years, this is not going to be massively disruptive. And so the question is how do you thoughtfully think through the disruption to your organisation and do that in a structured way rather than buzzwords and hyperbole and futurisms that kind of pull you away from the practical thinking around business.

AB: Yep, excellent. Stu?

S: And one of our co-authors, our only co-author, Danny, he does have this wonderful phrase called “tech washing”. And it's a derivative of this kind of idea that typically a technology vendor or perhaps somebody within the CIO suite say, “I got this thing, it's the magic bullet, it solves all problems.” And I think this is a danger, right? Because people can talk about how this has its massive impact. Somebody trials it, well, that wasn't that much. And then of course, you are the frog that is slowly being boiled. Similar to Alon, but perhaps with an ever so slight tweak, what I would be asking the question is for our organisation, what are we trying to do? What are our basis of advantage? How will that change knowing these technologies are coming through, competitors with these technologies are coming through? What do we need to do to be successful in the three, five, 10 years out type of timeframe? And that's when all of a sudden people say, “Actually, yeah, this is what we need to do to our business model.”

And then the question is, “And how do our technologies help us with that?” So it's very rarely a situation of it's going to be the magic bullet technology. It's going to be a much more case of we need to, we need to get much closer to our customer. And so therefore, how do we do that? The technology will enable us. And one of our case studies, Caesarstone, is a really good example of that type of thinking where they said, “We are getting disintermediated, we need to change these types of things, our value proposition is no longer holding up. Oh, and the technologies will help us get there.”

AB: Excellent. Because one of the challenges, of course, for all types of organisations is that we're continuing to do our day-to-day activity, whatever that might be, then allocating the resources and time for this sort of transformation that we might need to think about and the disruption becomes – which is why sometimes the result is piecemeal and incremental rather than anything too dramatic, because of some of those limitations that exist. I'm just changing tack for a moment. What did you learn from either and/or the process of writing the book and around the topic that you're exploring? So did something emerge you didn't expect topic-wise, and just the process of writing the book?

S: I might go back to something you just had said just a second ago, before I go into that.

AB: Sure.

S: You're right, there's a real interesting challenge of how do you get enough attention, how do you get enough traction, et cetera? As part of the academic rigour underneath the book, we kind of went through where we try to identify a set of factors that are related to organisations successfully get at them. And many of them are kind of common sense. But what we found really, really interesting is that in every single case, proactive leadership was a necessary precondition for success. It is this kind of at the board level, at the senior executive level, somebody actually sitting there saying, I wonder what's going to happen? And what do I need to do to get our organisation in place for that? And so I think there is that kind of danger of if you’re

just kind of dealing with the day to day and not thinking upon and where are we going? We can fall into that area. Just a reflection on your – it's almost like you're a straight man, giving me a lead.

AB: That's my role.

S: As far as the book process itself, oddly enough, there's a similarity with something we talked about in "and now what next?". It's "just start". Sometimes it's as simple as "just start". We also benefited a lot from having an author group that really valued the contributions of the other. And one of the funniest things was when we were talking about what should be the author order. We all kind of thought the other person should be the first author. So it kind of had a really nice feel on how do we all piece together and how do we contribute to the collective.

AB: I'm guessing there would probably be more books around if some authors could have solved that problem of whose name should go first, don't you think? Or second or third?

S: Yep.

AB: Alon, for you, what about the learning process?

AE: For me, it did feel like getting schooled again. So Stu's gone back into academia a couple of years ago. I feel like it was a distant memory. I'm also, by the way, a terrible writer who avoided English lit and all that kind of stuff through school. So just the entire process was a bit foreign. And I had to kind of work through that, particularly around the way that we had to set up the research framework and then get the cases and then synthesize them into a narrative that kind of fitted that format. I think in terms of the topic area itself, I came into it with a deep background in AI. And so for me, part of it felt a little bit like writing a little manifesto of how do you think through this in a relevant way and trying to abstract all the technical jargon that's not necessary.

What I came away from it from a learning perspective, though, is the cloud component is way more interesting – even though it's not particularly sexy, it is way more impactful and interesting than I had first thought. And I came in a little bit frustrated. You know, you kept on hearing these phrases, "There is no cloud, you're just renting someone else's data centre." And yeah, that's true if you're doing it badly, just moving boxes and you're putting it onto someone else's infrastructure. But all of the really interesting things that you do, whether it's with AI or just use of cloud platforms, it happens when you're leveraging the massive investment that the big three hyperscalers have put in to their platforms. And so it's not about their boxes, it's about all the prebuilt models and foundational models which are now becoming very popular with generative AI. It's all the different capabilities you can access for a way lower cost of innovation. That's the interesting bit. And I was genuinely not expecting that before the process.

AB: Yeah. So look, given all of this, the book, the things we've learned in the process of doing that the case studies, and the developments even recently in AI and cloud technologies, what advice do you have for those currently undertaking commerce and business degrees, both in terms of their studies and then looking forward to employment opportunities for them? So acting in your advisory capacity, what do you have for current students or about-to-be graduates?

S: Yeah, I might start on that one. Yeah. It's also kind of funny that Alon, Danny, and I actually are all engineers by background. Two of us are in the management faculty, so it's kind of funny. And go ahead and ask Alon about his Internet of Things home watering system. We just can't help ourselves; we love the technology. But for me, the key for commerce and business students is not about mastering the specifics of the technology. It's actually thinking much more of the business context, the horizons of where the organisation is going, understanding ability to navigate opportunities and threats, and thinking through how emerging technologies open up opportunities to perhaps change your competitive positioning. You know, really kind of getting that sense of I need to know enough to understand what they do, not necessarily to do it, but to understand what the capabilities are so I can then use that as an ingredient in how I cook up the business model. That's my particular spin. Alon?

AE: Yeah, look, it's a really hard question to answer because I think people going into the workforce now are going into a far more uncertain and complicated environment than when I left university. I think you'd need to dual track a little bit. So there is a degree of technical rigour that you need to understand because otherwise it's just theory and it doesn't really have any practical meaning. The good thing about that is the ability to learn technical skills online is phenomenal these days. So that's kind of track one, to develop some pragmatic technical skills, but then to also make certain that in parallel, you're understanding what it is you're trying to solve, how that fits in terms of either a business outcome or capability or a logic piece that you're testing. There's too many models and too little focus on what is this actually trying to solve for? What am I really understanding from this, whether it's the data output or the model output? And so having a foot in both camps in terms of both the technical and the business outcome I think is really important, if only because the future is very uncertain and so you need to kind of hedge your bets a little bit as the market evolves and employees start to create new types of roles that didn't exist before.

AB: Excellent. Well, we're just about out of time. We really do appreciate your giving us time here at TAPS. So thanks for joining us here at TAPS, both Stu and Alon. It's been a lot of fun. And we wish the two of you well in your future, your current and future endeavours. And we look forward, perhaps, to more of your writings in book form in coming years as the world continues to evolve and the things available to us evolve and organisations adapt. But thanks so much for joining us here at TAPS.

S: Thank you. Thank you.

AE: Thank you.