



The Network Economy

New Rules of the Game

CHAPTER 4

Introduction

- ▶ The economy has been transformed from an industrial to an **information economy**, and Information has become the most strategic resource to success the organizations operations process.
- ▶ Therefore, **information economy** represent the most pillar to developing the infrastructure of organizations and companies.
- ▶ The combination of these two forces (**economy & information technology**) has redefined many basic rules of the economy. So there are, several assumptions that would success new revelotion.

Introduction

- ▶ Have any basic rules changed in the business environment?
- ▶ many of old fundamental rules of the economy are changed and some traditional rules were ignored,
- ▶ However, the investors understood that the profit in e-commerce remains one of the main rule **(Why)**.
- ▶ Many of good business practices such as brand building and keeping good customers that let them achieve realistic business objectives that are more important than before.
- ▶ This chapter explore these changes and point out on their implications for E-business strategies.

Kevin Kelly: 12 New Rules for the Network Economy

- ▶ The network economy has reflective implications, which Made many traditional rules that let people think to set of new rules.
- ▶ Kelly argued that the new rules leading the current global restructuring around four aspects:
 1. Wealth in new culture follows directly from innovation (making best).
 2. The perfect environment for starting something new is encouraging the society and give them chance to able and think to understand

Kevin Kelly: 12 New Rules for the Network Economy

3. The training to know the unknown basic aspects which means supporting the highly successful of known get something new.
4. In the network economy, the cycle of find, develop, and destroy will happen faster than ever before.

In this case, Kelly discussed 12 new rules would takes an action of new economy

1. The law of connection: embrace dump power

- ▶ The **BASIC RULE** is that the whole is more than the sum of the parts
- ▶ Network economy is not just computers that are connected together via the internet, we are also connecting chips embedded in everything **AND** when dump components are connected together properly they can yield smart results.
- ▶ **Connect Everything To Everything Else**, enabling the dump power of join and integration at the same time, i.g. computing and connections to produce enormous intelligence things that is unable to obtain previously.

2. The Law of Plenitude: more gives more

- ▶ The value of the network will increase when the number of nodes increasing arithmetically.
- ▶ This is very different from a fundamental business in the industrial economy which is more **plentiful** become the cheaper and less valuable.
- ▶ In the industrial economy, value came from shortage such as **diamonds and gold**. When things were made plentiful, they became devalued. But in the network economy, the rule has been turned upside down which is the plenitude.
- ▶ This principle explains why universal standards are so valuable to control most of e-business strategies.

3. The Law of Exponential Value: success is nonlinear

- ▶ the technological innovations growth in many network economy companies followed the exponential growth systems. The value explodes exponentially with Membership.
- ▶ Kelly noted readers that the same power that feed and increase on network presences is the same power to unravel (undo) in short time.
- ▶ Some new business strategies today have been developed to exploit this rule (It will be discussed latter).

4. The Law of Tipping Points: significance precedes momentum

- ▶ when studying the companies growth and the innovation of new technologies, it is feeling the success became a huge event, and the success became global diffusing and became difficult for uninfected to avoid it.
- ▶ The transformation point in the disease is the point that infect enough hosts and then infection moves from local illness to raging epidemic.

4. The Law of Tipping Points: significance precedes momentum

- ▶ There has always been a transformation point in any success business, and then the success feeds upon itself.
- ▶ however, in the network economy has *insignificant fixed costs such as* the cost of making copy, and *distribution cost* are below the levels of industrial economy.
- ▶ That means it should use these significant aspect for moving into the success, growth, and innovation which defiantly lower than it was during the industrial economy aspect.
- ▶ The time become significant and too late for any effective actions, a very important point that all decision makers should remember it.

5. The Law of Increasing Return: make virtuous circle

- ▶ Increasing return is simply the improvements that have been made to property will increase the value of the property by more than main cost.
 - ▶ So, **additional expenditures** will not produce an increase in value in comparison with the cost.
 - ▶ When additional expenditures do not increase value and the amount of property cost, this point is **called stopping decreasing returns** has been reached
- ▶ In the network economy is **opposite** which is point of increasing returns, this point is the value appear with increase the number of membership, and the value will attract in more members in the future.

5. The Law of Increasing Return: make virtuous circle

- ▶ The scale of increasing dramatically in network economy value.
- ▶ So, it is important and critical aspect of the network development is a common standard. Once a common standard is formed, the members of the network can operate within the safety net provided by the network to develop innovations and open the gate to the power of increasing returns.

6. The Law of Inverse Pricing: anticipate the cheap

- ▶ Throughout history people accept to get what they pay for. So the money has become exchange and valuable thing in the private sector and public services.
- ▶ In the industrial economy, the consumers get slight improvements which lead to increases the price slightly.
- ▶ However, in Network economy the consumer expect more quality for less money over time - and very desired to get more cheap each every time.

6. The Law of Inverse Pricing: anticipate the cheap

- ▶ All items that can be copied, both tangible and intangible become cheaper as they improve.
- ▶ This is great news for consumers but bad news for profit of companies: prices will continue to awards free but they improving quality at least to keep the loyalty with consumers.

7. The Law of Generosity: follow the free

- ▶ From Rule 2 & 6:
 - ▶ Rule 2: that a service or product becomes more valuable when more people use it. and
 - ▶ Rule 6: that over time better products and services will cost less,
- ▶ To extend previous two rule leads to Rule 7:
The most valuable things of all should be those that are given away'.

7. The Law of Generosity: follow the free

- ▶ This rule explains why many companies are put free products that cost them millions to develop such as Internet Explorer by Microsoft,
- ▶ This is not limited to the software industry,
 - ▶ Other examples include free newspapers and magazines, free mobile phones, free satellite receivers,
 - ▶ Any object with which the advantages of being plugged in exceed the diminishing cost of replicating the object.
- ▶ The logic behind this rule is that the actual cost of an additional copy (intangible or tangible) is near to zero but value is evaluate with diffuse the product globally.

7. The Law of Generosity: follow the free

- ▶ Therefore, from the flood of copies, the first product's worth high value for the company, then they can selling multiple services or upgrades to generate profits.
- ▶ To survive in current business environment, the companies need to make significant changes in their mentality and in their strategies and business models.
- ▶ One of optimal business solution's model is using free products and services to catch customers, and then attract the customers and sell them new more related products and services to let the main product working appropriately.

8. The Law of Allegiance (loyalty, commitment): feed the web first

- ▶ One of the best practice that the organizations have to make in the network economy is having a large slice of (market), or a small slice of a large pie. the big winners are the latter.
- ▶ To succeed in the network economy, many companies **need to shift their focus from maximizing the firm's value to maximizing the value of the whole network (How)?.**
- ▶ The companies' game is have to use energy to promoting the web users, developers, and so on as they do to their product.

8. The Law of Allegiance (loyalty, commitment): feed the web first

- ▶ Their success depends critically on how successful the whole platform is such as Sony PlayStation, and Nintendo not just on how innovative or efficient each individual company is they are using the internet features to increase their Productivity.
- ▶ In order to successful, feed the web first to establish and grow the market.

9. The Law of Devolution (delegation, decentralization): let go at the top

- ▶ **The network economy behaves ecologically**; the destiny of individual organizations is not dependent entirely on their own recourses, but also on the destiny of their neighbors, competitors, and on the immediate environment.
- ▶ The research straggle to find out the optimal fit alignment between organization and its environment.
- ▶ The reality is sooner or later the product will move away from their own company that create it in first time. Because the cycle of product is nurture, the movement happens faster than ever before.

9. The Law of Devolution (delegation, decentralization): let go at the top

- ▶ All organizations must systematically phase out still successful business activities, a products and technologies before they start to decline, making way for the next innovation.
- ▶ This is more easily said than done, but some companies seem to have mastered this such as Intel, windows software.
- ▶ In the network economy, the ability to leave a product, occupation, or industry at its peak will be priceless.

10. The Law of Displacement: the net wins

- ▶ New rules of the network economy are not only in the software and computer industries. They also witnessed the gradual movement **to transformation by information.**
- ▶ This trend has been observed in many sectors of economy such as oil, manufacturing and farming.
- ▶ Also, using new materials and other innovations can significantly reduce the weight and improve the safety of cars, thereby reducing its energy consumption.

10. The Law of Displacement: the net wins

- ▶ Yes the car that mass will be subjugated by the overwhelming amount of knowledge and information following through it.
- ▶ Today, a car has to use transforming information and make the car more appropriate and more entertain the passengers through facilitating the technology in the car.
- ▶ That mean the cars migrate to the Network Economy.
- ▶ New and logic business will certainly open up numerous new opportunities and challenges for organizations and individuals.

11. The Law of Churn (mix): seek sustainable disequilibrium (instability)

- ▶ Changing is not the right word to describe this - instead it will be used the word (churn) which means 'a creative force of destruction and geneses (origin).
- ▶ The active growth of a complex network requires:
 - ▶ The system not working with competitors will be out of balance.
 - ▶ If the system does not fight other competitor will die.
- ▶ The innovation is a disruption, so the innovation is continuous disruption, and the goal of a well-made network is to keep the continues imbalance.

12. The Law of Inefficiencies: don't solve problems

- ▶ Productivity is can't to be measure. Hollywood company that produces longer movies per dollar is not more productive than one that produces shorter movies.
- ▶ In the industrial age. the task for each worker was to discover how to do the job better, but in the network economy the question is “**what is the right job to do.**”
- ▶ **Today, doing the right thing is more important than doing the same thing better,**

12. The Law of Inefficiencies: don't solve problems

- ▶ So, exploring is difficult to measure and is not reflected in productivity statistics.
- ▶ when we are solving problems, we are investing in our weaknesses but when we are seeking opportunities, we are increase the knowledge to find out a good chance on the network economy.

Future Scenarios of the Network Economy

- ▶ The analyses have indicated that something unexceptional is happening in the business environment, but the evidence on the nature of transformation remains unclear:
 - ▶ Is this an evolutionary or revolutionary transformation?
 - ▶ To what extent has the economy maintained continuities from the past and where have discontinuous, step changes taken place?
 - ▶ Has the transformation been completed or is it still ongoing?
 - ▶ What are the implications of transformation for organizations and individuals around the world?
 - ▶ How do we make consistent decisions when so many uncertainties are surrounding us?

Future Scenarios of the Network Economy

- ▶ Because of Network Economy is new we are unable to be sure of its destiny
- ▶ Schwartz, co-founder of think-tank Global Business Network, he outlined four possible for future scenarios based on different theories and the fundamental of our theory to change:

Future Scenarios of the Network Economy

- ▶ **Scenario one:** is the new economy scenario, that we are indeed entering a brand new economy.
- ▶ Reorganizing the economy into new ways of working and living, with enormous future potential
- ▶ It is driven by new knowledge and the future is much richer.
- ▶ Many important companies may not survive this transformation but may be many new types of player in the international economy.
- ▶ Companies that exploit the unique characteristics of the Internet will do especially well.

Future Scenarios of the Network Economy

- ▶ **Scenario two:** is the incremental scenario, which means something new is happening but it is much more light transformation and take long time to establish.
- ▶ Many of the old employees have old ways to do things with slow transformation down considerably.
- ▶ During the transition most companies are likely to make the transition successfully into the new economy
- ▶ Perhaps, most of the companies like this scenario because establishing with a physical presence and a strong brand can make the transition cheaper, better, and faster than the ones starting from zero level, but some new start-up companies will grow rapidly.

Future Scenarios of the Network Economy

- ▶ **Scenario three:** regards the new economy as mostly an illusion (miss perception).
- ▶ By getting ICTs to knowledge workers, we are working longer and harder, not more productivity.
- ▶ Under this scenario, tomorrow resembles today in most important respects, and the key players will be some of the old companies and a few new ones.

Future Scenarios of the Network Economy

- ▶ **Scenario four:** crash and burn, is where the new economy is just like bubble similar to many of the new technologies.
- ▶ There is no real gain in productivity and a stock market crash inevitable.
- ▶ Bringing down the world economy and the average consumer income with it.

Conclusion

- ▶ These new rules by Kelly have profound implications for organizations and individuals in the network economy.
- ▶ Although some of them we may not even agree with Kevin Kelly on some or all of these new rules, his work has shed considerable light, on the profound transformation that is taking place in our economy and society.
- ▶ In fact, these new rules are clearly reflected in some emerging strategies, business models and organizational designs.
- ▶ A main conclusion that can be derived: business environment is undergoing such profound changes, organizations and individuals living in this environment need to adapt and change, or we may face extinction.

Conclusion

- ▶ These scenarios are very useful for us when making decisions - about our organizations, our individual choices and our investment strategies.
- ▶ The important thing is to make an educated judgment about the likelihood of each scenario and make our decisions in the context of such judgment.
- ▶ It may not guarantee best decisions, but at least it will ensure consistent and coherent decisions in a period of enormous
- ▶ uncertainty.