Ecosystem Economics TM is the New Industrial Model

By Julie Meyer

Great News for the CEO of large companies! There are entrepreneurs out there working on solving the problems that you face running your FTSE 100 business, or your medium-sized enterprise of 1000 employees, or your multinational. You have scale, distribution, reach, audience, established brand and reputation: you are a highway. But the entrepreneur, the digital industrialist, is the car that will drive you into the high-growth, digital economy. The cars need a highway for high-growth, and you can put in a toll booth to exact your fee for the assets you're 'sharing'.

If you are running a large corporation and looking for high-growth, you can count on the entrepreneur as your problem solver. But you have a bigger problem if you don't have a reliable means for engaging with him or her.

Technology is no longer an industry, but a layer. You can't be a high-growth firm unless you leverage technology, but this is not an article about disruptive technology. That time is past. Technology is an enabler, and what's disruptive are the economics.

Carlotta Perez, a Venezuelan economist, in her book, The Theory of Disruptive Technology and Adoption, very helpfully has reviewed the last 300 years and found that there have been 5 sixty or seventy year periods which stem from a big bang of disruptive technology, and then settle into society over the next period. We are – according to her – going into the second half of a very long first phase, stemming from microprocessor which burst into the world in 1971.

What this means is that it's less about the installation of new derivative technologies from that microprocessor today, and more about how the existing industries deploy them. Overall, we are working towards a 'new common sense' of how the world will work by the end of the cycle. Large corporates will migrate to dominate positions, or fade into insignificance over the next 20 years, based on how they adopt those new technologies, or not.

Economic forces are in the ascendancy, and the network-orientation at the core of everything is guiding those economic forces in the development of that new common sense. Examples include:

- More than 1 billion people are connected in networks through Facebook.
- Linked In has revolutionised the recruitment industry.
- Monitise, the London-based mobile banking firm, services 1,000 financial institutions, having created a business model which incentivises all parties in the 'mobile money' transaction to use the service.
- Apple saw the 'music transaction' as one of multiple stake-holders: Apple, of course, the listener, the artist, the mobile carrier, and took the lead on developing the economics for that ecosystem.
- Google changed advertising by organising the business model around advertisers, consumers, and us, or rather our data.

The winners are those companies who will use digital business models to create what I believe is the new industrial model, 'Ecosystem Economics' TM.

This structural change, which comes along every sixty to seventy years due to technology, touches more than just business and the individual, however. It forces government and the bodies which regulate money supply to rethink their assumptions. Monetary policy without the context of where we are in the Perez technology cycle is akin to diagnosing the patient without taking the temperature, or a blood test. You simply don't have all the data to understand what comes next.

We have a two-sided debate today about how to create a high-growth economy. Some say demand is created when the economy grows, and they recommend low tax, cutting government spending, and resizing government to get the economy growing. Others claim that government stimulus must drive demand, and then the economy will spring back.

The latter, Keynesians, say that while a family can gets its finances back on track by spending less than it earns, it's impossible for everyone to do that at the same time. When the baker skips a haircut, the barber can't afford to buy his bread.

What everyone needs to include in their hypotheses, however, is how technology creates prosperity. It lifts. Technology, as we enter the second half of the Perez cycle, creates a new common sense, which expands the pie – meaning it drives growth in the economy, if, and it's a big if, it is embraced.

The pure online economy is a fraction of the total economy. Like an iceberg, online is the 1/9th of the real ice mass which is above the water, and the rest of the existing, traditional, offline industries are 8/9th which are submerged for the moment. Traditional businesses in non-sexy industries like transportation, chemicals, oil and gas, construction, and pharma are being remade by leveraging software, adopting cloud technology, and engaging with the digital start-ups, or cars, who need their highway, bringing new network-based business models to their industry. David with his slingshot in 2013 doesn't assassinate Goliath; they must dance.

Corporates who believe they can choose the moment at which they engage with 'digital' will have a rude awakening. If 'digital' is a 2014 issue for you, you will find that David has more power in this asymmetrical game of warfare than you give him credit for. As a venture capitalist, there seems to be an unspoken rule: invest and sell to US tech firms. If European and UK corporates don't engage with digital, the future is clear. [Mostly] US tech firms will continue to steamroll through other industries, as they have with books (Amazon), music (Apple), advertising (Google), etc.

Today, money is not with governments, and not generally with banks who are pre-occupied sorting out historical messes. It is with corporates on balance sheets, and should be used to get the company safely to a leadership position in the new world where this new common sense is apparent to 100% of society, not just the early adopters, or even the digital industrialists.

In this context, it is crazy to argue with companies whether based in the US or the UK about how much tax they bring to the UK treasury. Yes, we should be asking for an appropriate contribution to the nation, but the contribution should be using their cash to partner, invest or buy digital start-ups built by the local entrepreneurs, or back new fund managers, not sending it to the government's treasury.

Alfred Pigou, author of The Welfare of Economics, argues that the individual is the best judge of his/her welfare. I would simply add to that bluntly that others don't spend your money the way you would. I look – frequently in vain – for evidence that government spends our tax money wisely – the way that we would in the same thrifty, focused, careful manner that we would manage our own household ore personal finances. Furthermore, we live in a numbers-free zone in the public sector as there are no management accounts to interrogate the performance.

The world no longer operates in the collective exchange mode that was set up after the second World War, and which government largely still operates in. Digital technologies and the network-orientation enable peer to peer activity. Digital enablers abound; corporate management teams just need to get out of their corner offices to meet them. David and Goliath can figure out the deal that they need to do which brings huge prosperity to society without paying tolls to the government. Government increasingly is an out of date intermediary, losing its legitimacy fast.

Today, economics trumps politics. The goal is to create high-growth businesses with network effects throughout society. These will not leave people behind, but create new roles, new services, and a new common sense.

I met with the CEO of a £200 million market cap company here in London recently who showed me the technology platform which enables them to broadcast locally and nationally at the same time. It has become a powerful tool in the transformation of this business since he took over, and created a dominant position for this firm. I asked them where they got the technology. The CEO smiled and said, 'we had a 22 year guy from Leeds hanging out in the operations team who kept banging on about this, so we said, go build it'. The future is around the corner, and not where you may think it is. Your key to the digital future may be Digital David outside your firm, or that 22 year old down the hall. What is clear is that society is changing, and the winners are those who lean forward and embrace the change.

Julie Meyer is the CEO of Ariadne Capital, Managing Partner of the ACE Fund, Founder of Entrepreneur Country.

Find article at
https://knowledge.insead.edu/entrepreneurship/ecosystem-economics-tm-new-

About the author(s)

Julie Meyer Founder and CEO of Ariadne Capital, Founder - Entrepreneur Country, Managing Partner - Ariadne Capital Entrepreneurs Fund [ACE]