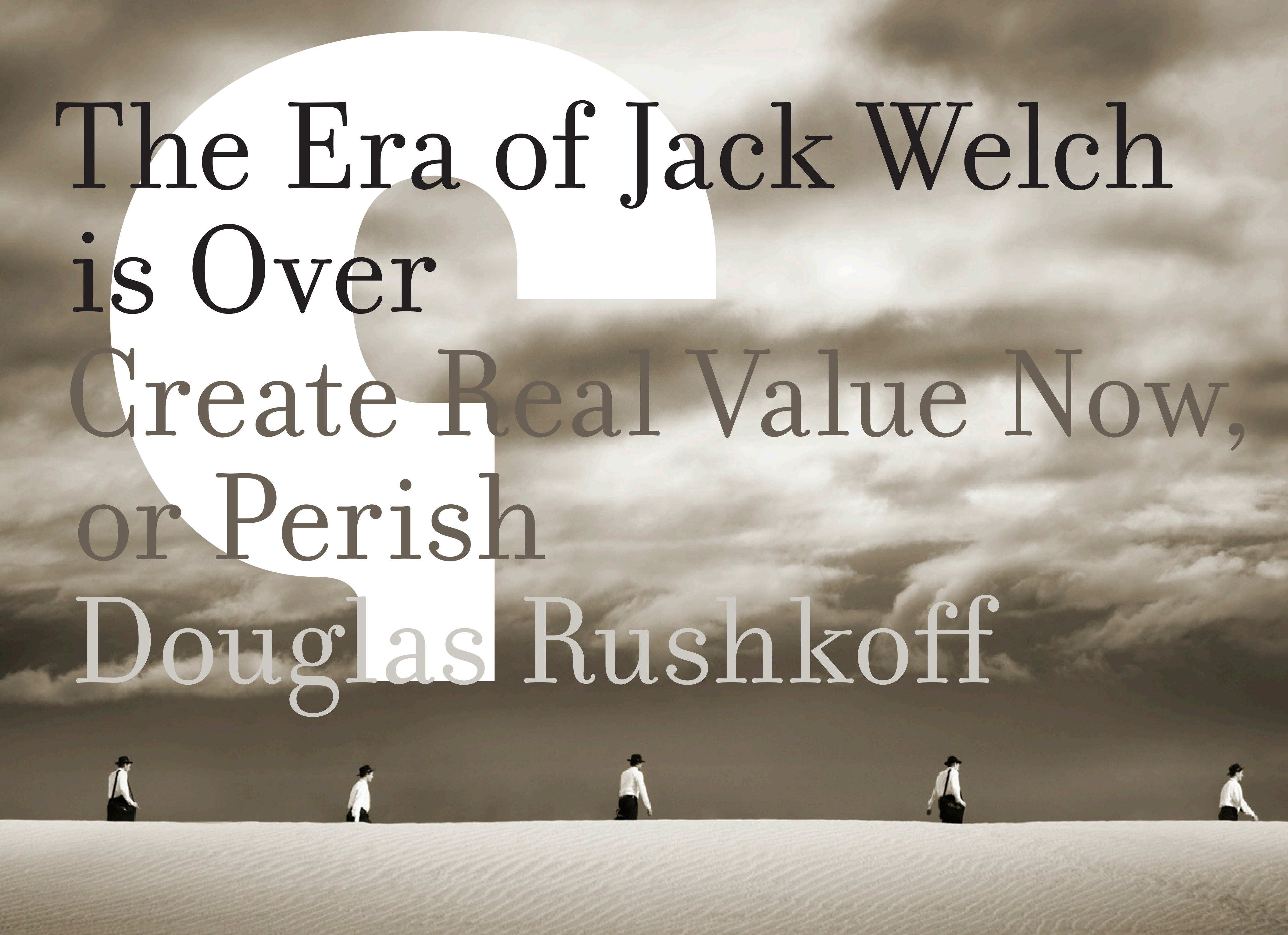
The Era of Jack Welch is Over

Create Real Value Now, or Perish

Douglas Rushkoff



Yes, the net has changed business as profoundly as anything since central banking. But instead of seizing the opportunity, most businesses are still so addicted to the old way of doing things that they do the very opposite: they use the net to entrench themselves even further into the Industrial Age landscape that is fast disappearing.

There is a single insight here—an immediately actionable strategy that can change your relationship to the new economic forces at play for the better. I'll explain it here, but if you need proof or context I suggest you pick up my mercifully short 140-age book on this same subject. This is not rocket science—it is business 101. Or at least Business 101 before the net came and made everyone think like investment bankers instead of business people.

On the net, everything is occurring on the same abstracted and universal level. Survival in a purely digital realm—particularly in business—means being able to scale, and winning means being able to move up one level of abstraction beyond everyone else. Retailers that could scale effectively survived the net; the companies that went up a level and aggregated those music retailers triumphed.

The net has turned scalability from a business option into what appears to be a business requirement. Real world companies have always generally had the choice of whether they want to remain at the "mom and pop" level, or to become a chain or franchise—essentially going into the business of business. Beginning in the 1970's, shopping malls and big box stores changed the retail landscape, putting the pressure of internationally scaled competition onto local businesses. By the 1990's, migrating to the net seemed to many like a way to fight back: no web site seemed to be intrinsically advantaged over another. Now the smallest players could have the same reach as the big boys.

But as many small business owners soon learned, going online often cost them their last real competitive advantage against conglomerates: the human relationships and local connections they enjoyed in the real world. Going online forced them into the electronic mall itself—a place where they were no longer capable of competing on any level. Even a store's blog or recommendations are consumed as if they're completely disconnected from their own stock and cash register. And the fact that such insights can be searched and retrieved by content aggregators doesn't help keep their expertise associated with their own merchandise.

Because the net is occurring on a single, oversimplified and generic level, success has less to do with finding a niche than establishing a "vertical" or a "horizontal." Going vertical means establishing oneself as the place to do everything in a particular industry: the one-stop place for hardware, or cycling needs, or home electronics. Going horizontal means to offer a service that applies to every category's transactions, like making the credit card transaction software for everyone else's websites. In either case, "scaling up" means cutting through the entire cloud in one direction or another—becoming all things to some people, or some things to all people.

The craftiest online businesspeople have come to realize that neither of those strategies is perfect. Both vertical and horizontal businesses face competition from their peers in an increasingly commodified landscape. It's almost impossible to establish a foothold that can't get undercut by a tiny shift in the price of one component. So instead of going into business, these players become search engines, portals, or aggregators, rising one level above all those competing businesses and skimming profit off the top. In an abstracted universe where everything is floating up in the same cloud, it is the indexer who provides context and direction.

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Of course, this logic dovetails perfectly with a financial industry in which derivatives on transactions matter more than the transactions themselves. It's as if the transparency of the net helped the financial world come to understand that its own medium—central currency—was biased in the interests of the lender and not the producer. In fact, it's what centralized currency was invented for back in the late Middle Ages.

That's when feudal lords had begun to lose their power over all the vassals and peasants working for them. For the thousand years up until then, everyone just worked the land owned by the lords. But with the advent of shipping, travel, and a few mechanical innovations, people had started to go into business for themselves. Merchants were traveling around the world more freely, and a peer-to-peer economic system developed. Regular people—formerly peasants—began to get wealthy. They formed a new, rising middle class that the aristocracy derided as the "bourgeoisie."

The royals hired finance experts from Florence and the Middle East to help them repress the rising tide and protect what was left of their dwindling wealth. Their big innovation was to outlaw all forms of local currency, and force everyone to use "coin of the realm" issued from the central treasury, at interest. All transactions and investments would require borrowing from a bank. Wars were fought, blood was spilled, but eventually this became the accepted way of doing business—so much so that most of us don't even know other ways exist. Meanwhile, they also invented the chartered monopoly, through which they could appoint single businesses to run entire industries, thus outlawing smaller businesses from competing.

Most Industrial Age innovations were built around helping companies extract wealth rather than innovate themselves. Advances in factory technology didn't make production more efficient; they just lowered the required skill level for factory workers, making them less expensive and more replaceable. It's how we eventually got to outsourcing in the modern global economy.

At first, by making global transactions and communication even easier, the net magnified this historical trend. One by one, businesses began outsourcing their core competencies to China or elsewhere. Then, they started to wonder why they should be involved in the actual value creation at all. Why make stuff? We're in a digital economy now! Why not become an aggregator on the next level up?

Thus, great industrial companies like General Electric under Jack Welch shed their factories and got involved in capital leasing, banking, and commercial credit. Meanwhile, those who were already in banking and credit moved up one level of abstraction as well, opening hedge funds and creating derivatives instruments that won or lost money based on the movements of economic activity occurring one level below. Even craftier speculators began writing derivatives of derivatives, and so on, and so on.

The existing bias of business toward abstraction combined with the net's new emphasis on success through scale yielded a digital economy with almost no basis in actual commerce, the laws of supply and demand, or the creation of value. It's not capitalism in the traditional sense, but an abstracted hyper-capitalism utterly divorced from getting anything done. In fact, the closer to the creation of value you get under this scheme, the further you are from the money.

In the face of this obviously temporary and doomed economic scheme, new theories of net economics abound, each one depending on another misapplied principle from chaos math, systems theory, or even biology. The emergent behavior of slime mould becomes the justification for the consciousness of the market and fractal geometry is to prove that the economic behavior occurring on one level of society is mirrored on all the others. All of these new perspectives rely on the very same digitally determined axiom that everything can and should be abstracted from everything else.

What all this abstraction does accomplish here on earth, at least in the short term, is make everyone and everything more dependent on highly centralized standards. Instead of granting power to small businesses on the periphery, the net ends up granting even more authority to the central authorities, indexers, aggregators, and currencies through which all activity must pass. Without the search engine, we are lost. With centrally directed domain name servers, the search engines are lost. Further, since digital content itself needs to be coded and decoded, it requires tremendous standardization from the outset. Far from liberating entrepreneurs and their ideas from hierarchies, the digital realm enforces central control on an entirely new level.

But this aspect of the net revolution is temporary or, more to the point, self-limiting. Take Amazon. Perhaps the leading net brand, Amazon makes its money by aggregating the offerings of many wholesalers. For the privilege of being found via an Amazon search box, publishers share with Amazon 55% of their retail price. Amazon is proof that aggregating the value created by others works better than creating value oneself. But what about when someone aggregates Amazon?

Transparency is no longer something a company chooses; it is a state of being.

That growing possibility is why the continuing alienation of business from value creation has reached its endpoint. That's what our economic instability and the collapse of banking is telling us. At some point, a business really does need to create value. This means making something, providing a service, or even entertaining people. By avoiding value creation, business does avoid all the messy things that go along with it: finding resources, paying labor, finding customers, and so on. These are very difficult skills for any business to attempt to acquire. Making products in a technological age means finding qualified people, some of them actually educated or experienced in the industry.

The more experience they require, the less able companies will be to do their hires from the men standing around in the Home Depot parking lot. But qualified, experienced employees will come up with ideas. They will form a core group of people with actual knowledge of the products or industry in which the company is purportedly a member. And that's why people will want to work for you, buy from you, and invest in you.

In an era of social networking, demonstrable expertise will prove crucial. Transparency is no longer something a company chooses; it is a state of being. As many businesses are learning, social media has come to matter as much or more than paid advertising. People really can see inside your company, through the online activities of its employees, suppliers, and consumers. It behooves companies to maintain even just a few employees with a skill level or relationship to the task at hand. This means that a cookie company should have a couple of bakers on its staff, and a television manufacturer should have a few people who understand how televisions are made. If not, people will simply find out who really makes the televisions under your brand name and go buy from there.

While in the short term the net may have increased the existing relationship of capital markets to value creators, in the long term that whole premise has been undermined. P2P transactions, direct sales, and effortless free aggregation by companies like Google will turn the value equation on its head. The centralized currency gambit—inspired in part by inventions like the printing press—worked for 600 or so years, but it's finally been broken by a new medium, the net. The bias of business has shifted from top-down control to bottom-up value creation. The challenges shift from extraction and aggregation to creation and connection.

In short, if you want to do well in the emerging digital economy, create some actual value and then transact as directly and honestly with your customer as possible. **It's that easy, but that hard.**

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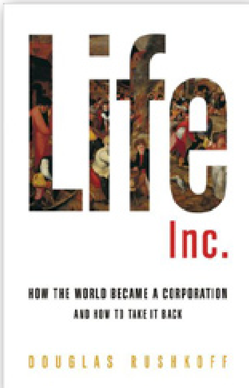

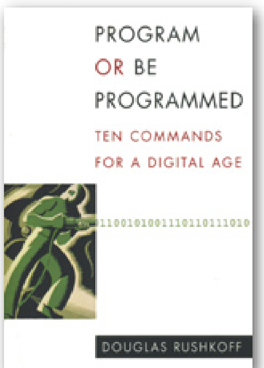

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Winner of the first Neil Postman award for Career Achievement in Public Intellectual Activity, Douglas Rushkoff has written a dozen best-selling books on media and society, including *Cyberia*, *Media Virus*, *Coercion* (winner of the Marshall McLuhan Award), *Get Back in the Box*, and *Life Inc*. He made the PBS "Frontline" documentaries *Digital Nation*, *The Persuaders*, and *Merchants of Cool*. A columnist for The Daily Beast, his articles appear regularly in *The New York Times* and *Discover*, among many other publications. His radio commentaries air on NPR and WFMU, and he is a familiar face on television from *ABC News* to *The Colbert Report*. Rushkoff has taught at New York University and the New School, played keyboards for the industrial band PsychicTV, directed for theater and film, and worked as a stage fight choreographer.

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