



**COHERENT
PARTNERS**

THE OLD ECONOMY VS. THE NEW ECONOMY

ISN'T THAT MONSTER DEAD YET?

Introduction

According to the hyperboleers, there is a B-movie style, winner-take-all, battle of the monsters going on between the New Economy and the Old Economy. In round one, the New Economy stomped around the New York Stock Exchange, thumping its chest and proclaiming the death of the Old Economy. In round two, the Old Economy rose up and threw the New Economy out of the ring, crushing many innocent and not-so-innocent bystanders in its fall. Of course, anyone who watches B-movies knows that no monster is ever really dead. Even now, the New Economy is stirring, and it will be back in the next reel.

This B-movie approach may add drama to stock tip newsletters, but we need a better guide to conducting business in the presence of these rival monsters, because neither one is going to die anytime soon. In practice, there are many economic models, each with its own insights and perspectives. To thrive, we need to understand when to apply Old Economy pragmatism and when to experiment with New Economy panache.

From Old to New

The Old Economy, rooted in the Industrial Revolution, is very good at the mass production and consumption of physical objects. Value is located in the physical attributes of the object. The value and most of the cost of a sledgehammer are linked to the iron head and the wood handle. The non-physical costs, like labor and design, are minimal. As the Old Economy evolved, society began developing the skills and perspectives that are the foundations for the new economy. As consumers we began to understand and value intangible aspects of our products. The prestige of the Cadillac brand was becoming as important as the quality of Cadillac coachwork.

The Old Economy creates value in a product through a simple formula. The object's value is the sum of its obvious parts. The New Economy produces additional value by a complex interaction of the obvious parts with intangibles like design, engineering, brand, and cachet. Creating this value is a little like chemistry and a little like magic. It is more than the sum of the parts.

This distinction between object and knowledge value becomes clearer when we include intangible emotional experience. For example, the real driver of wealth with Britney Spears is our reaction to her and her music, not the manufacture and distribution of the little glittery plastic discs used to capture that music. In fact, a recent Forrester study suggests those who download music are more likely to buy discs than those who don't. Apparently, free exposure to the Britney Spears experience actually increases the value of the physical objects we use to capture her music.

Leadership in a Blended (or should that be blender) Economy

The balance of object, experience and knowledge is unique for every business and every industry. Being aware of what drives value in a particular decision helps focus on the most appropriate economic perspectives. Does your customer value engineering cachet, or sensible economics; obvious expertise or simple access? The choice depends entirely on the customer and on the business you want to pursue.

Most decisions are driven by data from the Old Economy. This works best for organizations whose value is embedded in physical objects. That same data is necessary but not sufficient for New Economy decisions. Applied in isolation, the result is usually a Frankenstein's Monster of stitched together business processes and best practices. As value becomes more dependent on unique knowledge and experience, objective data sources must be supplemented with more subjective perspectives from communities of interest, organizational cultures, and other relationships.

Some of the value indicators by economy are:

Old Economy

- Scarcity drives value
- Requires control
- Proximity is important
- Value is measurable
- Assembly line focused
- The masses
- Predictive
- Statistics
- Clear boundaries and definitions

New Economy

- Wide use drives value
- Requires collaboration
- Location less significant
- Value is emergent
- Community focused
- The personal
- Experimental
- Memory and pattern recognition
- Shifting borders and consensus meaning

Information Technology in a Blended Economy

It should come as no surprise that information technology has been shoehorned into an old economy model. A portion of the system creation process really can be like assembly line work. Unfortunately, most organizations start from that easy-to-manage core and apply the assembly line methodology to the entire experience of defining needs, identifying a solution, building that solution, and rolling it out into operations. Engineers are good at assembly lines. They may be less skilled at experiences.

To apply blended economy perspectives to IT, organizations must expect more of their IT departments and also expect more of those who rely on the IT departments. To realize the assembly line benefits in building IT solutions, organizations will need knowledge and experience economy approaches for needs definition and solution identification, as well as operational rollout. Traditional IT processes will have to be supplemented with attention to the interactions of technology with communities of interest, organizational cultures and other ways we connect and work together.