

INFORMATION RULES

A Strategic Guide to the Network Economy

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MAIN IDEA

The same durable economic laws that apply in every other market apply just as validly in the information economy. Most people are aware that information goods -- including movies, software, news and music -- are the key drivers of economic growth in the modern economy. Therefore, the assumption is frequently made that traditional laws of economics no longer apply, and a new set of principles will be required to guide business decisions.

In actuality, while the technology differs, the economic laws and principles do not. Even popular technology topics like positive feedback cycles and the strategic implications of lock-in and switching costs have historical precedents in other markets and other times. Consequently, the strategies that were successful in previous settings -- using different products instead of information -- provide guidelines for how to make strategic decisions in the modern economy.

A new set of economic principles for the information economy isn't required. What's really needed is the insight to apply lessons from the past in new circumstances. The fundamental forces are still the same. The economic laws have not changed -- just the hype is new.

1. The Information Economy Page 2

The same durable economic principles that have underpinned sound business management decisions in the past will still apply in the network economy of the future. The technology may be different, but the underlying economic laws -- which ultimately determine success or failure -- remain unchanged.

2. Pricing Information Page 3

For information goods, value-based pricing is essential to maximizing returns.

In its purest form, value-based pricing requires:

1. Accurately determining the price consumers are willing to pay.
2. Developing delivery mechanisms meeting those price points.

3. The Management of Information Rights Page 4

The object of managing information rights is not to maximize protection just for the sake of it. The real goal is to pick the terms and conditions that will maximize the value of your intellectual property.

4. Recognizing and Managing Lock-In Page 5

Lock-in occurs whenever the costs of switching from one brand of technology to another become substantial. In essence, lock-in means future choices are strongly influenced or even completely determined by decisions made in the past. Users of information technology are particularly susceptible to lock-in.

5. The Feedback Effect of Networks Page 6

The industrial economy was driven by economies of scale. By contrast, the information economy is driven by the economics of networks, particularly positive feedback -- which means the more people that are using any specific technology, the more value there will be for others to use that same technology as well.

6. Compatibility Issues -- and Competitive Cooperation Page 7

For companies that are attempting to start or strengthen a positive feedback cycle based on the Open Migration, or Discontinuity strategies, success depends on:

1. Developing product standards.
2. Forming strategic alliances.

Failing that, a truce should be considered very carefully.

7. Standards Wars and the Role of Government Policy Page 8

Companies attempting to start a positive feed back cycle using a Controlled Migration or Performance Play strategy engage in a standards war -- where incompatible technologies attempt to become the defacto standard. The two basic tactics for winning a standards war are:

1. Preemption -- achieving critical mass on your own.
2. Managing consumer expectations in your favor.

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