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The Jig Is Up . . . So What's Next?

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Microsoft is signaling an abrupt change in its core business model, Google stock hovers around \$400, and Silicon Valley VCs are tripping over themselves to invest in the next new thing -- the so-called Web 2.0. There's obviously something up in IT, at least from the point of view of industry insiders. But others aren't so sure. Those who heaved a sigh of relief when the dot-coms crashed, thinking that the threat from the Internet had evaporated, are now treating the latest buzz as mere hype.

They're making a profound mistake. The dot-com boom was predicated on a nascent technology that had, in 1995, relatively limited economic reach. And as with all big innovations throughout history, we saw a speculative bubble and subsequent crash. But the next stage -- the one we're entering now -- is when the technology comes of age and new business models come to fruition.

What's driving the change? Collaboration. Increasingly, computers and people can cooperate and intersect in richer ways across the Internet. And it has little to do with email. We've seen the advent of Internet-connected mobile devices, the proliferation of broadband connections, the rise of collaborative software, and the increasing penetration of Internet-connected computer power into everyday objects, from cars to light switches. These waves of innovation are beginning to shape a second-generation Web.

It is changing from a network of sites that enable firms to present information to a computing platform in its own right. Elements of a computer and elements of a computer program can be spread out across the Internet and seamlessly combined as necessary. It's a qualitative change that means you and I are no longer manacled to our PCs. The jig is up, you might say, for the PC as a platform.

This is bad news for companies like Microsoft, whose revenue base posits the PC as a discrete object running complete software programs or suites. And when it gets easy to bolt pieces of software together, the cost of entry to the software business goes down, and the speed with which new combinations of existing elements can be created goes up. If your legacy code (e.g., Microsoft Office) is impossibly complex, you aren't nimble enough to compete.

Bill Gates has basically bowed to the inevitable and embraced the notion of software as a service. The startling confidential memos from Mr. Gates and Ray Ozzie show that Microsoft understands the problem and is taking dramatic measures to change its DNA -- shifting to services, opening up its software so customers can change it, investigating advertising revenue models for software services and embracing the collaborative Web. Says Mr. Ozzie, "It's clear that if we fail to do so, our business as we know it is at risk." But it's not just computers that find it easier to collaborate. From multi-user games, blogs and photo-sharing sites to new designs for innovating and manufacturing, people and firms are using the emerging capabilities of the Web to collaborate in new ways, and new businesses are springing up to help them.

Flickr is a good example -- within 18 months of its creation, this photo sharing site had a million users. Social networking is exploding. Some 28 million people, most of them under 30, hang out online at MySpace, which has seen 400% growth in 2005 alone. Join 19 million registrants at Friendster. Most college students have signed up at thefacebook.com. Technorati tracks 21 million individual blogs.

Traditional firms are also transforming themselves around collaborative business designs. P&G has an army of 7,400 researchers in 21 research centers spread across nine countries, but the company is now attempting to generate 50% of its new product innovations from Web sources outside the company. One of these sources is Innocentive, a global talent pool of over 80,000 scientists and technologists who can be tapped in an instant on the Web.

If thousands of programmers who have never met can collaborate to build an operating system -- Linux -- what's next? How about an encyclopedia seven times bigger than Britannica, available in 92 languages, and written by readers? Check out Wikipedia. Or even physical products developed not by a company but by self-organizing alliances? The Chinese motorcycle industry is doing it.

Others, besides Microsoft, are paying attention too. Wal-Mart worries because Google might direct shoppers to competitors with better deals. Telcoms worry about Google's plans to provide wireless VOIP. Banks wonder what payment system Google will provide with its shopping capability -- and what if Google becomes a financial services company? Even eBay is worried that Google might create G-buy.

Déjà vu from the dot-com period? I don't think so. Evidence is mounting that this time the threat and opportunity for every business is real.

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