**The Internet’s Offspring: The Connection Economy**

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**INTRODUCTION**

Not since the 19th Century when the steam engine ushered in the Industrial Economy has there been an economic shift of such profound proportions. Now, the ubiquity of the internet is ushering in a new economy; let’s call it the Connection Economy since making connections, not goods, is its essence. This new economy is governed by radically, yes radically, different rules. For starters, in the Connection Economy: control, mass, sales, response, demand, consumption, ownership, and risk/reward are all starkly different.

Control, in this new economy, is truly with the people, both personally AND through their governments, local and national. This Connection Economy is substantially massless. Sales come and go from one supplier to another, all in a fleeting moment which translates into demand and consumption being ephemeral. Ownership by consumers is non-existent and rental, if any, is only for the moments actively in use. Lastly, financing this economy is high risk, mostly no returns, but when returns happen, they’re huge.

Uber’s ride hailing venture vividly exemplifies the Connection Economy. Take note, by 2015, at the tender age of 6, Uber was financially valued more than Ford or GM. Other examples of the Connection Economy are: Google, FaceBook, LinkedIn, Airbnb, Amazon, eBay, SnapChat … who are connecting people with information, friends, colleagues, lodgings, goods, and, in Uber’s case, connecting people with rides. Sales are initiated, consummated, and satisfied in seconds, by and between anyone (primarily by cellphone), anywhere on the planet.

In the Connection Economy, sales’ growths are different, they begin virally and then grow exponentially. In the Industrial Economy, sales start slowly, build up gradually, and then fall off. Connection Economy sales’ milestones are never satisfied: a) acceptance, b) critical mass, c) network effects, and d) sustained dominance by expansion or cannibalism or death. Google and Yahoo make a good comparison; Yahoo got up to dominance then lost it to Google and so experienced death, except for its Alibaba holdings.

Connection Economy’s sales are largely through mobile APPs. The owner of the APP can usually dictate the entire value chain’s economics constrained only by performing satisfactorily for their users. However, a neat, popular APP is not enough, the first hurdle is critical mass. Meaning, the APP must have sufficient uses and “likes” that users actively recommend others use it. Still, that’s not enough, that critical mass must not only trigger network effects, but they need to grow and grow aggressively!

These network effects are the magic of this economy. The users are basically doing the advertising and enhancing the value of the APP. The value to the individual is the density of other users of that APP; users beget users, and more users beget more value to ALL users! That’s why so much usage and value is given away free in the Connection Economy, yet its leaders are worth (meaning, have market capitalizations in the) hundreds of billions of dollars.

**SCOPE, SCALE, and STRUCTURE**

**Scope**

Imagine an hourglass with metallic grains (representing products) where the grains fall onto spaces, but only onto those spaces that request specific grains (these spaces represent consumers). Next, imagine that at the nexus, a magically informed magnet directs the grains onto the requesting spaces. Now you have a metaphor for the Connection Economy. Notice that it is the nexus that directs the flow of goods (and services) directly to individual consumers. That nexus often takes the form of an APP.

In the real world of many suppliers in need of connection to many consumers, such a magically informed connector is a marketing lifeline for Industrial Economy suppliers. The Connection Economy’s sales are the source of income for the APP owners; that income is analogous to a commission on sales or a distributor’s markup in that it is a fee for facilitating the sale of Industrial Economy’s goods. It is these Connection Economy sales, and only these, that undergo network effects.

This Connection Economy helps the core of the Industrial Economy’s big businesses, but in the process, commoditizes them and slims them down by the elimination of most of their non-production activities. The independent organizations that previously did inventorying, promotion, support, and service will be eliminated. We’ve already seen this in the travel booking industry; travel agents are a business of the past. Going forward, dealers, distributors, agencies will be marginalized to the point of repairs and showcasing high ticket items.

**Scale**

This Connection Economy will affect us directly on an even broader scale than commerce alone. In the impending “Internet of Things” all our home appliances become manageable from the internet. That is going to create an explosion of Connection Economy opportunities, for good and for bad. The future Connection Economy will be connecting Things to Things, for example; cars to cars, cars to roads, our heating and cooling devices to the weather, … with and without our knowledge and/or consent.

The global smart phone users constitute today’s Connection Market size and that comes, in 2017, to about two and a half billion users. American users have their cellphones with them 90% of the time, check them 150 times a day, spend an average of 3 hours a day on them, and 82% use them as shopping consultants. Mobile commerce is projected to grow over 40% annually going forward. If representative globally, that comes to 137 trillion cellphone checks per year!

**Structure**

The Connection Economy is additive to, not a substitution for, the Industrial Economy. In fact, these economies are usually symbiotic. In practice, it can often be quite detrimental to manufacturers (or distributors or dealers) to ignore or try to compete with APPs. It can be beneficial for manufacturers to create APPs, but unless they’re dominant (like Walmart), they’re unlikely to reach critical mass and therefore won’t get the cost benefits that network effects have on marketing, consequently becoming price uncompetitive.

APPs eliminate intermediaries. Network effects create near monopolies. These, enable very high contribution margins for APPs (when not counting flow throughs like drivers’ and suppliers’ payments and credit card fees). However, many successful APP owners are incurring large losses because they’re essentially buying APP usage. This buying of APP users is counted as a cost, but really is an investment in reaching network nirvana: sustained growth generated by users. When that kicks in, investors and entrepreneurs will be handsomely rewarded.

**ECONOMIC ECOSYSTEM IMPACTS**

**The Industrial Economy**

The Industrial Economy will take on many facets of the Agriculture Economy in that it will be enormously productive, involve fewer and fewer laborers, become incredibly distributed and commoditized, and remain critically essential to the functioning of the Connection Economy. There will also be a boutique world supplied by craftsmen and short production runs and buoyed by endorsements and fads. This boutique world is price inelastic and exists by being associated with upscale contexts such as resorts, movements, and artists.

**Financial Markets**

Financial Markets will bifurcate into: Connection Economy securities and Industrial Economy securities. Connection Economy securities will fluctuate wildly upward, but, if they fall it will be hard and final. Connection Economy securities will behave more like today’s options than stocks. Meanwhile, Industrial Economy securities will be secure, but will grow mainly by taking over where other Industrial Economy competitors are failing. The financial theories tied to random walks will work well in managing meagre returns in Industrial Economy financial markets.

**Value Creation**

The Connection Economy value creation will come from brilliant business models (reflect on LinkedIn) and APPs that serve unmet needs or improve upon existing APPs with competitive ease and alacrity. Unpredictable, creative talent’s APPs will be the source of growth which most rapidly scale by viral promotion and sustain by reliable internet server systems. Connection Economy corporations will need to be open to engaging, financing, and deferring creative judgement to these “irregulars.” Venture capitalists, angels, and deal makers become critical.

**Government**

Over the span of the Industrial Economy’s reign, market leaders supported laws that are now barriers to Connection Economy entrants, for example, the prohibition of finders’ commissions by amateurs or licensing requirements of all sorts from taxis to giving advice reserved for professionals. Accommodation of the Connecting Economy’s business models is a prerequisite to significant wealth creation. Even more dramatic are the infrastructure enhancements, most evident for the emerging trillion dollar mobility market requiring legislative will, as well as financing.

**Education**

The Connecting Economy needs humanities and arts, as much as technology. The call for professionals (physicians, lawyers, accountants) will be diminished by connecting people, often for free, to knowledge robots (like IBM’s Watson and Google’s Deep Mind). Extraordinary talents will create unbelievable wealth! Those growing up in this economy will need training in the ways of the arts, that is, holistic, not reductionist, to become generalists, not specialists. Lifetime learning will be necessary for personal fulfillment and adapting to changes.

**CORPORATE IMPACTS**

**Governance (Board Level)**

The Connection Economy presents a communications challenge, even after the Board “gets it.” Shareholders must be led to support the Board in encouraging the necessary shift, particularly regarding investment risks and returns. Investments will be need to be quicker, often strategic, and more intuitive, resulting in higher risk. The returns expected will need to value future growth as highly as present earnings. The Board must let executives proposing risky investments know that they will be given multiple chances of failure.

**Organization**

As the Connection Economy takes hold, today’s rigidly disciplined, closed, centralized, functionally chartered organizations will be replaced by flexible, open, decentralized, project chartered ones. Their project management will often extend into production and scaling phases. The parent company will provide resources, but not necessarily brand. Work will be increasingly entrepreneurial, even in large organizations. When the exponential growth stabilizes, then the project will often segue into a standalone company. Collaboration with boutique organizations and talented individuals will also become widespread.

**Finance**

“Manage to market capitalization, not earnings!” This mantra creates a lot of value AND the ability to make strategic acquisitions with stock (it’s akin to having a strong currency) instead of cash. Note: Today, price to earnings ratios of Connection Economy companies are generally three times those of Industrial Economy’s stalwarts. The Connection Economy, being chaotic and unpredictable, may need cash without notice, so dividends are actually risky. Lastly, aggressive risk should can be mitigated by partners, options, and alacrity.

**Marketing**

Goodbye push, hello pull! Customers get connected to suppliers because some APP knows the prospect’s context and profile and presents an enticing and easy way to satisfy the prospect, then and there! However, APP marketing still has a daunting challenge: achieve critical mass to trigger network effects and sustain the delivery of value in order to be “then and there,” when wanted. That takes an especially creative viral launch or “buzz blitz” with the full engagement of the technology developers.

**Technology**

Key to the Connection Economy is the APPs that “smartly” connect users and suppliers by “interpreting” individual user’s real-time context and profile (which is extracted from “big data,” social sites, pictures, and past visits, queries, and purchases, …) using the this era’s most important software technology, Artificial Intelligence (including machine learning). Smart and/or communicating sensors will play a huge role, especially with Internet of Things. Sensors’ prices may be highly price elastic if their performance is regulated, except regards security.

**PERSONAL IMPACTS**

**Wealth Distribution**

Wealth distribution is the most daunting political and social challenge of this century! As the shift from human work (including intellectual) to automated work (with 24/7 potential) occurs there is a corresponding income shift from labor to capital or, more tangibly, from personal income to rental income. Insidiously, rental income provides capital for even more rental income; over time rental income grows exponentially. Contrast that with personal income which rises for half a career, then levels off, and then ceases.

**Demographics**

Cities will grow and self-organize into villages of competency (academics, finance, entrepreneurship, arts, culinary, sports …) and villages of ethnicity (not just “China Town”), since these are rewarding reasons for “in person” connections. As families become smaller, suburbs will hallow out and cities will become more attractive and inexpensive. Urban communities will grow vegetables and swap/barter goods and clothing. Commuting will become sporadic and often entail air flight. Parks and sporting fields/courts will abound and ubiquitous surveillance will suppress crime.

**Employment**

Robots are displacing assemblers, drivers, and, even some diagnoses are better than specialists. Jobs requiring “touch,” for example: home repair, aged care, maintenance, and arts (from performing to crafts) will be done as gigs, stints, contract, and intermittently. Today, 2% of those employed are farmers; whereas, before the Industrial Economy mechanized farming, 90% were. Entrepreneurship will flourish fulfilling wants of so many with much time on their hands. Crucial to everyone’s success is a basic living income for all adults.

**Quality of Life**

Paradoxically, the global Connection Economy will increase our involvement in our local community. With significant gaps in work, there is more time (and less money) shared by enough people to create local leisure activity, from socializing to recycling to urban farming to trading everything from goods to clothes to services. Common areas and local committees will enable a sharing culture. Lifetime learning and the pursuit of dreams will now be widespread. Say, “good-bye” to the fear and anxiety of unemployment.

**Progress**

The Connection Economy entails an epochal transformation from the Industrial Economy. The Industrial Economy’s money, power, and influence will resist necessary changes in personal income (basic income entitlement) and education. It is possible, the inevitability of a new local order will not be gracefully embraced and political and, even, military conflict may erupt. Let’s hope the promise of longer life, managed reproduction, healthy environment, and freedom from tyranny will prevail. If sanity prevails, we will witness the greatest science advances!

**EPILOGUE**

For those feeling guilt because this seems "philosophical" and therefore impractical, reflect on the wisdom of John Maynard Keynes’ conclusion in *The* *General Theory of Employment, Interest and Money* where he proclaims: it’s philosophers that influence the world, not practical men. For balance, take into account Niccolò Machiavelli’s counsel in *The Prince* where he warns that introducing any new order will incur the wrath of the establishment. Here’s their profundities as 80-word excerpts (identical in length to every paragraph herein):

*Philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed, the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct philosopher. I am sure that the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas ... it is ideas, not vested interests, which are dangerous for good or evil.*

*There is nothing more difficult to take in hand, more perilous to conduct, or more uncertain to succeed, than to lead the introduction of a new order of things. Because the innovator has for enemies all those who have done well under the old conditions, and lukewarm defenders in those who may do well under the new. This coolness arises partly from fear of the opponents, who have the laws on their side, and partly from the incredulity of men...*

**Warning to leaders of the establishment:**[**dismissing ideas of progress**](https://www.youtube.com/watch?v=T0Z73Zbtlyg)**can have dire consequences.**