



How the Knowledge Economy Will Transform Markets and the Producer/Consumer Relationship

The Knowledge Economy

- Continued advances in information technology have created the infrastructure for a post-industrial economy, the knowledge economy. Modern software and networking enables producers and consumers unprecedented ease in creating and sharing digitized knowledge.
- The knowledge economy will abstract away from products and services and focus on consumer experience itself, using products/services as props.
- Increased information exchange will accelerate shortening product/service life cycles and the trend toward commoditization.
- The efficiency-focused competencies of the industrial economy enterprise will remain important, but efficiency will increasingly be the price of admission. Differentiation will be won through customer experience.
- Marketing will rise in importance in the knowledge economy because it is closest to the study of customer experience. However, the "efficiency" competencies function as key inputs into customer experience.
- Many emerging markets will skip the industrial economy entirely and will pass directly to the knowledge economy from the agrarian economy. This will produce surprises and nullify many industrial economy assumptions.

Customer Experience and Intimacy

- In the product-focused industrial economy, producers maintained margins through creating "new" products with new feature combinations. This product-focused strategy is untenable in the knowledge economy because increased information sharing among consumers enables collective consumption of everything, which dispels the mystery of novelty. Secondly, information transparency among competitors makes it exceedingly difficult to maintain uniqueness.
- CRM and BI investments, combined with advanced architectures (SOA) and standardized messaging interfaces (Web services), will enable the 360° view of the customer within 3-5 years.
- However, companies will struggle with acting on the information because their processes and structures require transformation. Companies need to empower employees with customer information and decision making authority, so employees can enable differentiating customer experiences.
- Scale and efficiency generally defined success in the industrial economy, and this success is imprinted on companies. This imprint will be a significant barrier to enterprises' adaptation to the knowledge economy because success in the latter will be driven by innovation. Innovation has intrinsic conflicts with efficiency because the former often means discontinuous change.

The Transformation of the Producer-Consumer Relationship

- The knowledge economy will transform roles between all parties in the economy. It will see extensive collaboration in which buyers will tap into sellers' resources to participate in the design and delivery of products and services. Likewise, sellers will access buyers' knowledge about experiences and emerging desires. This will benefit buyers and sellers immensely and bring significant wealth.
- The industrial economy brought unprecedented efficiency over the agrarian economy due to pervasive mechanization. The knowledge economy will bring a quantum leap in productivity over the industrial economy as all players gain competence in creating, managing and sharing digitized knowledge.

Working Paper Executive Summary

The shift from the industrial economy to the knowledge economy will change how people think and what value they assign to all parts of their lives. It will transform the businesses that survive and create many new ones.



- Today, producers in almost every category strive to find new markets because they face chronic overcapacity and brutal commoditization. This indicates the waning of the industrial economy.
- The industrial economy has a "produce then sell" rhythm in which consumers and producers are largely isolated from each other. Limited interaction takes place via focus groups, analysis of buying patterns and advertisements. There are many intermediaries between the producer and the consumer. There has been no scalable means for consumers to connect with each other or with producers.
- To deliver efficiency and economies of scale, enterprises have become large, complex and inflexible. Their structures are only viable when large volumes are maintained; this is their Achilles heel in the knowledge economy, where consumer tastes change rapidly and consumers want individual treatment.
- Consumers are becoming increasingly sophisticated at managing information and creating and sharing digitized knowledge. They are developing the skills to interact with producers as equal partners.
- Consumers have traded intimacy for lower prices. Today's malls and chain stores provide better products at lower costs, but little intimacy. Consumers are increasingly bored and respond to intimacy.
- E-Commerce innovations such as customer reviews are giving consumers a powerful voice. Peer-to-peer, product-specific communication is also a gold mine for producers in terms of learning what consumers like and why. This is an early example of consumer and producer collaboration.
- Secondary markets like eBay will continue to grow, and they will transform the economics and characteristics of products. Consumers will create more unique products because they will be able to command a higher resale value through increasingly efficient secondary markets.
- Producers in high-cost rich countries will be forced to differentiate through experience to compete. Each culture has an advantage in creating experiences for the home culture due to cultural insights. This same principle will make it more difficult for western enterprises to succeed in emerging markets.

The Innovation Engine

- If innovation is defined as risk-taking and new thinking for business advantage, we can see that it will be a cornerstone of competitiveness in the knowledge economy.
- In the industrial economy, human work was encapsulated in products and productized services, which included insight into consumers' lives. In the knowledge economy, digitized knowledge will add to producers' insights into consumers' lives; hence the ability to focus on experience, which is iterative.
- Producers will have to innovate to create new processes that offer unprecedented agility and speed of response. New offerings will combine insights into consumers' lives as well as producers' capabilities to alter terms of the delivery of products/services to offer superior experience.
- Innovation is a weak spot for most industrial economy companies, which is not surprising considering the industrial economy's long product life cycles. Currently 96% of corporate innovation initiatives fail. Companies must rethink their approaches from the ground up.
- Producers must disintermediate levels of management and improve transparency between themselves and consumers. This will be a key means for producers to create agility.
- A key challenge will be that marketers and agencies will say that they are already engaged with all the segments that matter and that they market products within the context of customer experience. To win over the marketing organization, it will be crucial to introduce to them examples of the new paradigm. Hearing directly from consumers outside normal planned activities should be eye opening.

Transourcing

- Transourcing is a new approach to innovation that enhances enterprise flexibility by executing processes over quickly configurable partner networks. It emphasizes cross-boundary collaboration and fast-cycle innovation to address the needs of volatile, splintering, newly empowered customer groups.
- Transourcing engages emerging markets, which will increasingly drive growth in the consumption of the world's products and services: in 2006, the size of China's luxury market is already greater than Germany's, even though it represents a miniscule fraction of China's current population.