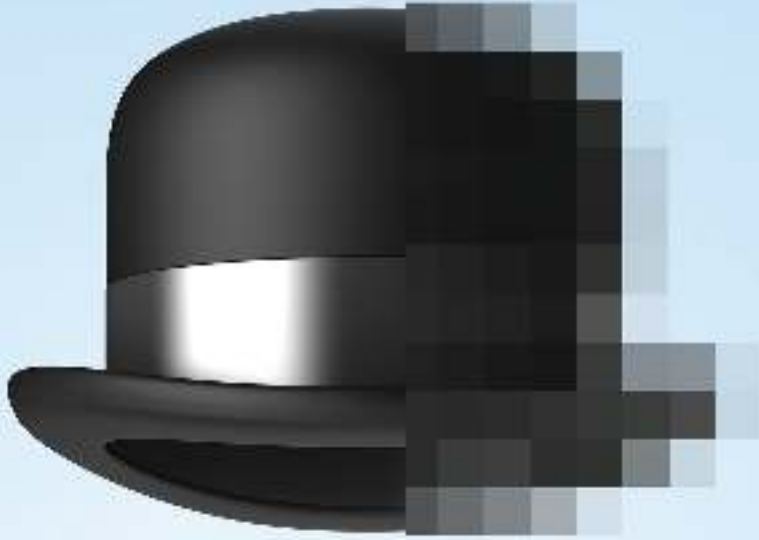


STEVE SAMMARTINO



**THE GREAT
FRAGMENTATION**

and why the future of business is small



WILEY

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PREFACE

Over the past 10 years I've been a keen observer of the business landscape. I had an inkling something was going on when I left corporate life for the first time in 2005. It was a time when the web 2.0 era was gathering a head of steam. A real sense of empowerment was sweeping the entrepreneurial community. Many of the tools of business were all of a sudden becoming accessible and easier to use. You didn't need anyone's help to find out how to do something because information was entering the 'on-demand' realm. While most of us still had VCRs in our houses with the time blinking on 12 am, some savvy tech geeks decided to refocus their efforts externally. They decided to not just build something for themselves, but to build something for all of us — something end users could play with, improve upon and even use to build something else. The insight of creating for further creation and humanising and socialising business was inspired.

This was a bit unexpected because after the dotcom crash a lot of us (me included) had doubts about the technology utopia the internet promised to provide. But, while it was delayed, it has arrived. What's arrived has turned out to be far more widespread and structural than most people predicted. It turns out that information that's freed up and accessible by all has an equal and opposite impact on the physical world. Information becomes objects. Information changes the shape of the physical world. Information changes the social and physical world and inevitably the economic structure.

In many ways, it's the opposite of what business had been about up until this point. Business was a zero sum game of producers and consumers: an 'us' and 'them'; a server-and-receiver structure. But most of all, it was a definitive power structure where the people who already had wealth and access had

much of the economic power. And I know what you're about to say: 'But what about the 1 per cent, the ever-increasing wealth of the wealthiest few?' The truth is that we're just at the start of a bigger revolution where everything important in life and business is becoming cheaper and more available to everyone. It's a time when our standards of living will increase exponentially via the dissemination of powerful technology; a time when the power flips back to the populous as tools of all sorts are democratised. It will be an entire revision of the factors of production, the way business is done and the power structures around our economy.

As this book is written at the intersection of technology and business, there will be concepts that may not be from the business world you live in. The good news is that the definition of much of the new terminology is provided in the book and the rest is a mere web search away from a quick definition. Let your curiosity take you away from the book and on a non-linear journey—something that matches life. It's also worth remembering that what matters is not so much how any of this technology works, but how it reconfigures commerce. It's the patterns that matter. As business people, we only need to concern ourselves with what technology can do, not how it does it.

The main economic pattern is the increasing fragmentation of industries. Everything in business is breaking down into much smaller pieces. More access is resulting in more players and in more options being available for everything we do and make; in other words, a more decentralised economy. The delineation between makers and buyers is evaporating. We're moving into a phase of highly distributed crowd-powered business systems. The parts that make up our economy are shifting and while the final structure is not knowable, the trajectory is. We're entering a phase in business where things are moving so quickly that we need to avoid the pretence of claiming to know the outcome. Instead, what's needed is an open-source strategy that matches the technology and the newly empowered populous: a world where there are very few trade secrets.

Business is facing its own climate change, but it seems to me that much of the thought and analysis to this point has been about keeping the water out of the front door, or building a better boat to keep a business afloat. As business leaders and entrepreneurs we have to go wider. In times of significant change, what's really needed is a thorough analysis of the landscape and a topographical assessment of the new world. Even the big players—the new 'big'—became big by creating highly distributed networks of small pieces that are more loosely tied together with many

more fragmented products and services. The new digital dominators all live deep inside the long tail.

* * *

There's no shortage of books available with tactical tips on how to use the latest tech tool. If that's what you're looking for, this isn't the book for you. If you're lucky enough to be reading this preface in a bookstore prior to purchasing the book and you want a tactical 'how-to' summary, please buy another book. This one will only disappoint you. What you can find in this book is deep understanding of the technological landscape that's about to infiltrate our world, both from a business and social perspective. Let's be honest: the two can't be separated anyway. And why should they be? All business books that are strategic in nature have to cover the breadth of life. They have to cover anthropology, technology, commerce and culture.

By the time you've finished reading this book, you'll have a philosophical base about the direction in which the world is moving. This will serve you more than a bunch of disposable digital tactics would, especially given the pace of change. The disrupters are already being disrupted by the next-generation startups. Tactics are short term. Philosophy is enduring. I hope you'll develop your own philosophy on the future as we examine the marketing mix and how it's shifting and fragmenting around us.

Steve Sammartino



ABOUT THE AUTHOR

Steve Sammartino had his first startup before the age of 10, running an organic egg farm in the early 1980's before the words *organic* or *startup* had been invented. The first phase of his 'adult' career was in marketing, working his way into senior executive roles in global consumer goods companies and advertising agencies. He escaped his cubicle for the first time in 2005 and went on to found [rentoid.com](#) — a peer-to-peer renting portal that became a leader in the collaborative consumption movement. After a successful exit he embarked on a number of crazy side projects including putting a Lego space shuttle into actual orbit, building a jet-powered bicycle, and crowdfunding the build of a full-size Lego car that runs on air and uses an engine made of Lego — all to prove what's possible in a connected world with low cost technology.

He does some serious stuff too.

Steve also travels the world helping companies transition from industrial-era thinking into the digital age, writes on business and technology issues and blogs to over 30 000 readers a month.

His latest startup project is Tomcar Australia — a seven-person car company which makes and sells all-terrain vehicles. It is Australia's first car startup in over 30 years and a company that practises what Steve preaches.

Connect with Steve, check out his latest projects or read his blog via www.stevesammartino.com.

Or maybe just say hi to @sammartino on Twitter.

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CHAPTER 1

The industrial deal: the shift from industry to technology

The industrial revolution was a pretty good deal. Here's what we got: stable jobs with better pay, paid annual leave and union-improved working conditions; improved housing with automated heating and cooling; homes filled with labour-saving devices and disposable widgets; free entertainment projected directly into our living rooms; personal motorised transportation and a national transport infrastructure; a garage filled with toys; air-conditioned supermarkets selling packaged goods with long shelf lives; big box retailing; government sponsored education, medical innovation and public hospitals; jet aircraft that could fly us through the clouds; and a life expectancy beyond the age of 35.

It's no surprise that people living in industrialising countries clamoured to gain the benefits of a longer and wealthier life. The only rational choice was to sign up for it. The benefit of an improved life expectancy on its own was quite compelling. But when we added the layers of conspicuous consumption and free entertainment on tap it was a real human high ground.

So we handed in our craftsman and artisanal skills to help build the one-size-fits-all economy and the consumables that fill it up. It was the only way all of us would be able to own everything. It meant we had to trade in the very personal touch of a craftsman and become part of the machine itself. By becoming part of the machine we were able to have more. We were handed everything earlier generations could only dream about, a standard of living beyond that of gentries and kings when we take into account the upgraded living standards we all acquired. But there was a price to pay: we had a job to do. Our job was to help churn out the items that built the industrial world and to buy the items we churned out. We had to become consumers.

Terms and conditions

The industrial revolution didn't come with a set of terms and conditions; however, there were some unspoken rules that weren't covered in the text book. The textbook was so focused on how to make widgets and money, it forgot about why any of that mattered.

We abided by these terms for the best part of 200 years. The two most important terms were:

We'll enable a more materialistic lifestyle

but

You'll need to follow the rules set by the owners of the capital.

This was a simple way of saying that our individual creativity can't compete with the industrialists' aggregated efficiency. It's something that goes against the basic human spirit — our need for collaboration, creativity and nuance, which is imbedded deeply into our past and, thankfully, our future.

Consumers and creators were two different classes in the industrial world. The industrialists owned the factors of production. The ability to create independently was taken away from workers and re-engineered so it belonged only to the capital class. Without saying it, the deal was: 'You let us design, make, distribute and advertise and in exchange we'll give you a higher standard of living.' They left out the bit about keeping all the profits for themselves.

This economic model worked well until we reached the point where we owned everything we needed. But now the deal has entered its final phases and the gig is up. The industrial revolution is putting itself out of business. I wonder if they had a planned-obsolescence in mind.

Unlearning

The methods used by corporations became so effective at generating more for less that they're making their own era an obsolete business method. Companies that want to thrive during the technology era need to seriously revise their economic playbook. The efficiencies these corporations generated have made high-end technology disposable, or at the very least, low cost. It's



This means that in the new economy we're all required to do some unlearning to stay profitable and relevant.

difficult to make a profit when products have to improve each year *and* cost less than they did last year.



It means the only way of achieving revenue upside is to sell more units,

but there are only so many mobile phones and televisions a person can own. This means that in the new economy we're all required to do some unlearning to stay profitable and relevant.

A new business infrastructure

The entire economic, political and social infrastructure is going through a 200-year shift from the industrial era to the technology era. All of the elements that make up our economic infrastructure are experiencing a technological disruption. These changes are not the comfortable, incremental ones we're accustomed to, but step changes that — for the unprepared — hurt careers

and kill businesses. Products and services, distribution systems, pricing methods, advertising and promotion are all following a transition away from clustering and aggregated power structures. They're moving from a one-size-fits-all model to small, distributed, specific, customised platforms that deliver to a one-size-fits-one model. Previously stable economic systems are now fragmenting rapidly.

The 4Ps

In order to understand the changes in our economic system, we need to investigate the changes in parts. The simplest way is by looking at the parts that make up what's known as the 'marketing mix'. This is called 'the 4Ps': Product, Price, Place and Promotion. While modern marketing mavericks will try to displace these simplest of production-related business factors, there's nothing in business that can exist outside of these four parameters. We're limited to using the 4Ps when it comes to configuring what we hope to sell. User experience, community, interface, responsiveness — take your pick — they all sit inside and are part of the marketing mix and they go back to the foundation of economics, the Ws: What, Where, Who, How much and for Whom. The 4Ps are the only levers we can use for building anything in business for a profit: they're the factors of production in their simplest form. All four parts are changing rapidly and forever. A simple explanation of each of the 4Ps will help create a context for the journey in this book.

- *Product*. This is what we sell, whether it's a widget, a service, an event or an idea. It's what we use to generate revenue from.
- *Price*. This is the price we sell a product for, even if that price is attention or privacy. Price also includes the impact of demand and supply, finance, currency considerations and payment systems — anything that must be considered when money changes hands or there's a transaction.
- *Place*. This tells us where we can get the product and how it's delivered to us, both physically and virtually. It includes all considerations for distribution systems in exchanging goods and services between people and organisations.
- *Promotion*. This is anything to do with communication about what's available and why people may want it; for example, the tools of information exchange and media among people, brands, organisations and governments.

The 4Ps form the interdependent system, or 'mix', from which we do business. In fact, it's the same marketing mix that people employ when they earn their living, but most people don't have the presence of mind to see it in such simple terms. While certain brands and companies often focus heavily on a particular part of the mix to create a point of difference, it's getting them to work in concert that leads to a profit advantage. And when all of them are changing rapidly we need to pay attention and reset our mode of operation. What it comes down to today is that a business is either disrupting these factors of production or it's being disrupted by a new competitor trying to put the incumbent out of business. When the factors of production change, the world we live in changes too. Where we work changes, so where we live also changes. It impacts the support systems around the economy as well: the financial system, the education system and even government policy.

The greatest innovation we've seen since the commercial internet was born in the early 1990s has been the rebuilding of infrastructure. That's why everything is up for grabs. Until now, many industrial legacy organisations have remained unaffected by the change. It was a temporary situation for them. But all of the 4Ps are — and will continue to be — disrupted.

The first example of disruption affected the fourth P, promotion. This was to be expected, given the world wide web (the web) is all about interacting in a new way; it's a form of media in itself. It was the easiest of the 4Ps to disrupt, thanks to our new internet technology.

legacy media: the traditional media outlets that were common before the internet, including television, radio, newspapers and magazines

The biggest and first P to be hit hard by the technology revolution was legacy media. But open communication does more than just disrupt the media: it's the bellwether for rapid innovation. Knowledge exchange affects everything and redesigns the systems and infrastructure around

Probably for the first time since the commencement of the industrial revolution ... it's better to be small than big in business.

us. The corporate infrastructure that used to provide a layer of protection now forms a legacy of financial burden in the form of assets that can rapidly become redundant and costly to carry. Probably for the first time since the commencement of the

industrial revolution in the late 1700s, it's better to be small than big in business. So the question any company should be asking is:

Would I build this same infrastructure today given the choice of a clean slate?

The simple reality of the technology revolution that we're living through is that it requires 'clean-slate' business strategies. Piecemeal legacy adaptation is the fast track to irrelevance and financial disaster.

Clean-slate business strategies are not only needed because everything around us is changing. They're needed because, unlike other revolutions, this one will be a global revolution. The change is so rapid and global this time that developing nations will skip right past their industrial era and straight into technology-driven economies.

What is fragmenting

The power base of industrial companies is breaking up. It's flipping from the 'few' to the 'many'.

What it means for business

The industrial business playbook is being rewritten. Industrial legacy infrastructure is no longer a business advantage.

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CHAPTER 2

A global revolution: industrial leapfrog

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