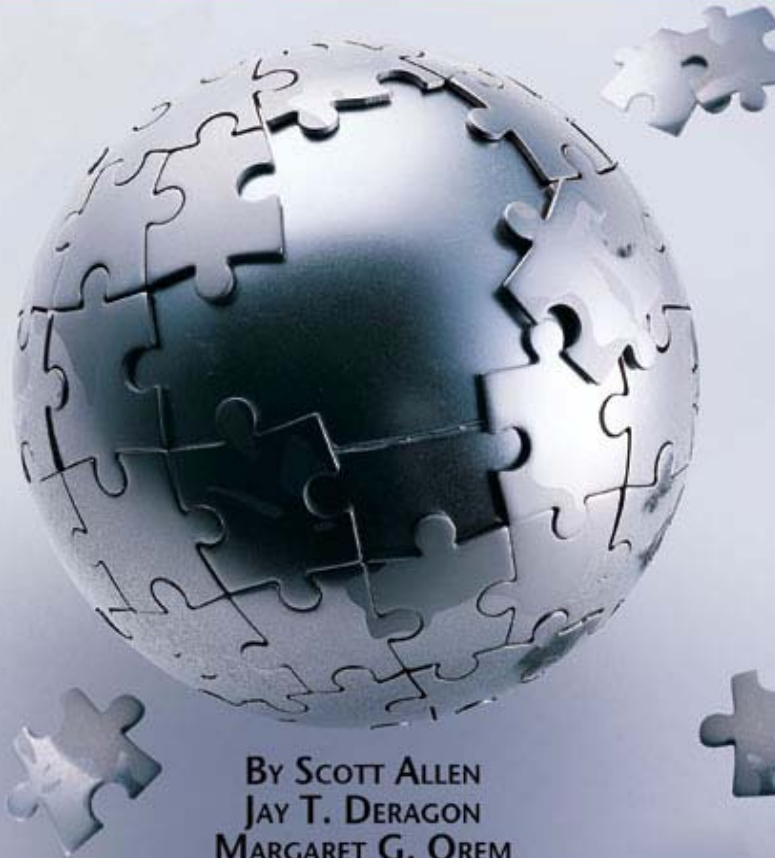


THE EMERGENCE OF THE RELATIONSHIP ECONOMY

THE NEW ORDER OF THINGS TO COME

FOREWORD BY DOC SEARLS, CO-AUTHOR OF
'THE CLUETRAIN MANIFESTO'



**By SCOTT ALLEN
JAY T. DERAGON
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CARTER F. SMITH**



“The Emergence of The Relationship Economy” Book Excerpt

The New Order of Things to Come

**By Scott Allen,
Jay T. Deragon,
Margaret G. Orem
and Carter F. Smith**

foreword by Doc Searls,
Co-Author of *The Cluetrain Manifesto*

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Foreword by Doc Searls

Back in the year 2000, I found myself sitting in a plane next to a Nigerian pastor named Sayo. We were both on book junkets. I was a co-author of *The Cluetrain Manifesto*, which was on its way to becoming a business bestseller. Sayo had just translated *The Bible* to his native language of Yoruba, and sure to become an important work in his culture as well. We talked about many things, including the original meaning of markets, which had been a central topic in *Cluetrain*, that was becoming well-known for its first thesis: “Markets are conversations.” Sayo said that was an important insight, but that it didn’t go far enough.

To demonstrate, he asked me to imagine being a visitor to a public market in a less “developed” country such as his own. He picked up one of those blue airline pillows and led me on a Socratic journey. As best I can remember, our dialog went like this...

“Let’s imagine this is a coat, and that you’re interested in buying it. What’s the first thing you say to the seller?”

“What does it cost?”

“Yes, you would say that, because where you come from, it’s natural to see everything in a market moving toward a transaction. Now let’s say the vendor tells you the price is fifty dollars. What happens next?”

“We bargain until we arrive at a price between what he asks and what I’m willing to pay.”

“Yes. Again, that’s typical of what somebody from your culture would say. But today you’re also saying ‘Markets are conversations.’ So let’s say you get into a conversation with the seller that’s not about the price. Let’s say you know a lot about textiles, about manufacturing and distribution, about dyes and fashion. And let’s say the vendor tells you about the craftsman who made the garment, the material used, the origins of that material, the culture expressed in the design and the weave, the means by which the garment arrived at the market. And let’s say you both gain a lot from each other’s knowledge in the course of the conversation.”

“Okay.”

“What happens to the price?”

“I may end up wanting to pay more while he wants to charge less.”

“Yes. And why is that?”

“I’m not sure.”

“It’s because you now have a *relationship*. When you look at a public market in my culture from the perspective of yours, you tend to see it through the prism of transaction, surrounded by the noise of conversation, within which the only talk that matters is negotiation toward a final price. But if all you see and hear is bargaining, you miss most of what’s really going on.”

He went on to explain that three things happen in all “natural” markets: transaction, conversation and relationship. In our “developed” culture, we understand transaction almost to an excessive degree, because to us, as we so often say, “It all comes down to the bottom line.” But, Sayo added, our understanding of markets is inadequate around conversation and utterly impoverished around relationship.

He said he was sure we actually do have, and value, relationships; but because we understand and value them so little we'd tend to abandon relationships when times get tough, and to rationalize our decisions in terms of transactional value alone.

That's why the next frontier for "developed" economies, he said, was relationship. We need to explore and unpack that topic, or we'll stay stuck in an inadequate understanding of what markets really are—and how much they embody life in all is true richness and variety.

At the end of our conversation, he gave me an assignment. He told me that the next book I write should be about how "Markets are relationships" at least as much as they are conversations and transactions.

I never got around to writing that book, although I've focused intensively on market relationships ever since meeting Sayo. That focus is what led me to meeting and getting to know Scott Allen, Jay Deragon and Carter Smith. And now it pleases me to say that these three men together with Margaret Orem have written the book Sayo assigned me to write. They have explored and unpacked what's most important and least understood about markets, and have outlined in fine detail the economy that will grow out of relationships in what Cluetrain called the "networked" marketplace.

Like the markets Sayo calls "natural," the networked marketplace turns out to be a profoundly social one that can only be enlarged and improved by relationships. The Web, it turns out, is what the authors call The Human Network.

We're all in it. And not just for ourselves. That's what makes it so valuable.

Doc Searls

Berkman Fellow and co-author of the business best-seller 'The Cluetrain Manifesto: The End of Business as Usual'

1

A Revolution has Begun

Jay T. Deragon

Social computing and the medium of social networks are creating a revolution that is similar to the industrial revolution of the 19th century in its impact on commerce, but on a global scope. This communication revolution includes the development of advanced communications tools and proxies, such as Skype.

Today politics, products, and services are virtually consumer/user-led developments. Google is a major example of a user-generated brand where the users have suggested and embraced enhancements. Current technology is so pervasive that it has become quite significant in the political realm. With cutting-edge communication systems, national political groups and institutions in the United States of America are lobbying with influential bloggers to inform and educate the voter, as well as impact public opinion.

There is an opportunity for the global community of users, consumers, citizens, consumer brands, corporations, non-governmental organizations, and governments to play a critical role in forging this new carbon-neutral economy, The Relationship Economy (Searls, 2007).



To begin to comprehend what the new economy will look like, watch the young people in your organization—particularly the ones who are fresh out of college. They have lived their entire lives in the digital age, communicating in real-time via text messaging and instant messages. For some of them, even email lacks the immediate gratification they expect when they want to communicate with someone. To this generation, the desktop phone has about as much relevance as an electric typewriter does for those of us a generation or two older.

Using cutting-edge communications technologies, this younger generation has created online communities based on shared interests. They keep in constant contact with the people they care about, no matter where they are located. They create, collect, and share digital content and information—music, pictures, news, video. It is all a testament to the power and immediacy of today's digital technology.

It is also a perfect breeding ground for continued development of The Relationship Economy (Searls, 2007). Instead of online communities based on shared interests, when these digital-age individuals join your company, they will build virtual work teams that span the globe. The list of important people they keep in touch with will expand to include your

customers. In addition to music and pictures, they will share reports and presentations created in collaboration with colleagues and business partners.

As this generation moves into the workforce, they expect to continue using the devices they have grown up with and depended upon for communication and production. Organizations that cannot meet this expectation will be at a sharp disadvantage as talented young people choose to work for companies that recognize the value of a new generation of communications innovations.

Companies that do embrace the new economy framework will see incredible benefits. Recruiting young talent will be easier, of course. However, the gains will be much broader. Advanced social computing technology will help companies raise productivity and respond more rapidly to changing business conditions. These technologies will also enable organizations to create closer ties to customers, develop innovative products more quickly, and reduce costs.

Ultimately, The Relationship Economy is a new business model that recognizes that people—not processes—are the most significant component. Moreover, it is about allowing technology to unleash the passion and potential that each one of us brings with us every day when we go to work.

To understand the concept of The Relationship Economy, it is important to start with a basic understanding of the terminology. The word “relationship” is defined as a connection or an association; the condition of being related. The word “economy” is defined as the study of resource allocation, distribution, and consumption; of capital and investment; and of management of the factors of individual production. For purposes of discussion in this book, we will define the term “capital” as that which we give or take that creates numerous forms of value.

Therefore, we define The Relationship Economy as:

The people and things we are connected with in our personal networks, who or that distribute or consume our capital, which in turn influences our individual production outputs.

The Relationship Economy will transform existing business models. Corporations will experience a major change to a virtual workforce, and the emergence of new leaders will come from smaller firms. In this forthcoming era, the big will become small and the small will become big. New rules for The Relationship Economy will create significant global shifts in economics, governments, and institutions—in effect, creating a society with no borders and no boundaries (Kelly, 1998).

Peter F. Drucker, author of over 35 books, Presidential Medal of Freedom winner, and a leading voice in the business world, sums up the drastic changes on the horizon in the business world:

“The corporation as we know it, which is now 120 years old, is unlikely to survive the next 25 years. Legally and financially yes, but not structurally and economically.” Peter Drucker, quoted in Business 2.0, August 22, 2000 (The Rhythm of Business, 2006).

Evidence abounds that Professor Drucker’s prediction is a reality; the world of business is changing fundamentally. What is next? The rise of The Relationship Economy fueled by advanced social computing technologies.

Emerging Shifts in Focus

Business-Centric Companies	Relationship-Focused Economy
Product-centric	Relationship-centric
Win-lose	Win-win
Control	Transparency
Periodic	Real time
Brand	Reputation
Excessive-promise	Trust
Mass communications	Conversations
Pyramid/silo	Network of relationships
Transactions	Relationships
Only money matters	All sources of value count

Jay Deragon : www.linktoyourworld.com

This new economy is part of a relationship-centric matrix that draws on the very foundations of human behavior and American psychologist Abraham Maslow’s Hierarchy of Needs (Sørensen, 2006). The growth of adult adoption of social computing technologies creates a new

dynamic unlike that of MySpace. These new networks address specific elements of adult relationships and concentrate primarily on business needs, wherein sites such as MySpace have focused on the social networking needs of young adults.

What Motivates Adult Participation in On-line Social Networks?

When we look at the psychology of human behavior, we can begin to understand certain baseline motivations that draw adults to online social networks. Abraham Maslow published his theory of human motivation in 1943. Its popularity continues unabated. Like his colleague Carl Rogers, Maslow, who also wrote the 1954 book *Motivation and Personality*, believed that actualization was the driving force of human personality. Maslow's great insight was to place actualization into a hierarchy of motivation.

Self-actualization, as he called it, is the highest drive, but before a person can turn to it, he or she must satisfy other, lower motivations such as hunger, safety, and belonging. The hierarchy has five levels.

- 1. Physiological:** hunger, thirst, shelter, sex, etc.
- 2. Safety:** security, protection from physical and emotional harm
- 3. Social:** affection, belonging, acceptance, friendship
- 4. Esteem (also called ego):** self respect, autonomy, achievement (internal); and status, recognition, and attention (external)
- 5. Self-actualization:** doing things

Maslow points out that the hierarchy is dynamic; the dominant need is always shifting. The hierarchy does not exist by itself, but it is affected by the situation and the general culture. Satisfaction is relative. Douglas McGregor (1960) makes the hierarchy the building block for his Theory X and Theory Y. Mihalyi Csikszentmihalyi (1993) also uses the hierarchy in his concept of "flow." A 1990s example of self-actualization may be surfing the Internet.

Empirical research has confirmed the first three levels, but has not done so for the fourth and fifth levels of esteem and self-actualization. Some have noted that Maslow's hierarchy follows the life cycle. A newborn baby's needs are largely physiological. As the baby grows, it needs safety, then love. Toddlers are eager for social interaction. Teenagers are anxious about social needs; young adults are concerned with esteem, and only more mature people transcend the first four levels to spend much time self-actualizing.

Based on the observations across numerous networking platforms and reflection on the past definitions of human motivation, it is clear that online social networks provide a primary motivation for adults in the category of self-actualization, or *doing things*. Maslow defines self-actualization as growth-motivated rather than deficiency-motivated (Sørensen, 2006).

What Things Are Adults Doing Within Social Networks That Enhance Individual Growth?

Based on observations and interviews, we will provide a general categorization of the factors that enhance individual growth for adults participating in online social networks. These factors will be defined in greater detail in future articles.

The Learning Factors: With all the hype, craze, and media coverage of social networking platforms such as Facebook and LinkedIn, many adults are drawn to the medium to learn what is causing the hype.

The Connection Factors: Once adults enter networks and learn the "tools of the trade," many are amazed to find the presence of other adults they know and the volume of people that they do not know who already engage with social media or the enabling mediums.

The Affinity Factors: Adults begin to find association with groups, causes, forums, media, and other affinities that relate to their interests, both personally and professionally.

The Business Factors: One of the predominant business segments using social networks today is employment recruiters. As the medium and the adult participation in social media increase, business opportunities grow exponentially. Adults are rapidly learning to use social networks as their medium.

The Creative Factors: Adults, and their businesses, are applying creative ways to use the technology behind social computing to extend its value to both personal and professional needs.

The Expectation Factors: When you consider the creative possibilities of social networks, adults expect some economic and social value to be derived from their participation, whether currently or in the future.

The expectation of individual growth and satisfaction is high. These factors, combined with the media hype over social networking, are the motivating issues that are driving millions of adults to the medium at annual growth rates of 70% and more. The opportunity to capitalize economically is emerging quickly. Word of mouth will fuel growth rates faster than any other technological medium in our past. The growth and related factors will usher in The Relationship Economy.

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