

## VIRTUAL MONOPOLY

### Afterword

When I started writing this book in Summer 2000 it was clear that intellectual property was becoming a hot topic. The press swarmed with stories of napsterization of the digital environment, patent land grab strategies, brand warfare, cybersquatting and much more besides. I felt however that in focusing on the sexy, controversial stuff the press headlines were missing the bigger, more fundamental shifts. By now, you will have absorbed my view of the big picture, one shaped by virtual monopoly islands of exclusivity based on powerful, differentiated creative advantage and sealed in by intellectual property. You will also have appreciated that those islands need not be isolated, static entities. The use of intellectual property in dynamic fashion as the enabler of business models and company structures is all part of the radical shift brought about by virtual monopoly.

Throughout the last year, I have watched as the corporate landscape has been reshaped by the power of virtual monopoly. Witness for example, those mergers and acquisitions breaking out all over the world of pharmaceuticals and the life sciences. The giants are not just teaming up to save costs and additional bulk will certainly not make them any more nimble or flexible. No, these mergers are driven by a desire to bring together desirable virtual monopoly spaces in the form of patented drug pipelines, gene databases and blockbuster brands. Just this week, Merck announced a \$620 million deal to acquire Rosetta Inpharmatics<sup>1</sup>, a genomics company with

riches almost entirely in the form of intellectual property. The fundamentals of virtual monopoly, rather than atoms of controversy, are also starting to define the media headlines.

Headline number one: 'Will the real monopolist please stand up?' This question heads up a recent lead article in Red Herring<sup>2</sup> which predicts the forthcoming 'duel' over 'control of the Internet consumer'. The key protagonists are Microsoft whose Hailstorm web services package is designed to build on their current dominance of the PC environment and AOL Time Warner, the newly merged king of content. The battle will have many components. Virtual monopoly will certainly be one of them: View this as a battle between Microsoft's virtual monopoly in technology (and brand) and AOL Time Warner's virtual monopoly in content (and brand). The market will decide on the final outcome, but the strength and character of their respective islands of exclusivity will inevitably shape the battle tactics.

Headline number two: Xerox announces their long awaited fight-back strategy to a packed meeting at J P Morgan in New York<sup>3</sup>. Two key components are reassertion of the Xerox brand and a new emphasis on exploiting Xerox' exclusive technology space around high speed, digital color copiers<sup>4</sup>. Such copiers will be the engines for the 'print on demand' revolution and Xerox claim to have 400 patents pending on the technology drivers. Xerox will also seek to develop new solutions and document services businesses. The new Xerox will embrace an open, knowledge-sharing culture at a grass roots level which encourages sharing of learnings, customer feedback and best practice<sup>5</sup>.

The Xerox example highlights a new paradox. Companies are embracing both virtual monopoly with its emphasis on exclusivity and intellectual property and the knowledge economy with its emphasis on knowledge sharing. As noted in the main work, the interface isn't always an easy one because the property 'fix' culture of virtual monopoly is almost the opposite of the knowledge 'flow' culture of the knowledge economy. Balancing the competing demands of 'fix-flow' is in my view going to be a major challenge for the larger creative companies in the future. Trade offs are inevitable, and will be sometimes painful. So should you 'flow' it or 'fix' it? I believe that many companies will embrace the paradox and do both, but that the smarter ones will apply careful strategic controls. If you 'fix' too firmly then you will miss out on the undoubted benefits of knowledge sharing within the company, with alliance partners and with customers. But if you just let it all 'flow' too freely you run the risk of seeing your most valuable knowledge assets flow out the door.

Here's my vision: The creative company of the future will combine a strong, defensible intellectual property centre with fluffy, relationship-building knowledge edges. Think of islands of profitable exclusivity with great knowledge surf beaches! This probably describes the new Xerox with its tight control of the brand and 400 patents on high end color copier technology but emphasis on practical knowledge sharing at a grass roots level<sup>5</sup>. It also describes how Microsoft developed Windows 2000 through their so-called 'embrace and extend' approach<sup>6</sup>. Selected major partners were granted access to the source code ('the knowledge part') of beta-test versions to try

out and play with on condition that they did not modify the program or reuse the code ('the proprietary part'). The partners gained some of the benefits of an open source approach and presumably a better final product. Microsoft acquired much valuable feedback and free checking for bugs. In my view, Microsoft got the better deal, but if it was your company wouldn't you also wish to get the better deal!

Virtual monopoly island, knowledge beach is the new paradigm. Build property and surf freely! Mix and match the hybrid to fit your company style and ambitions, whilst accepting that there will be trade offs. Strategically, I'd advise to build a strong, powerful virtual monopoly first and then to surf around for those further knowledge gains. Oh and then start building your next even more desirable virtual monopoly island ...!

## **Preface – NOTES**

1. Merck & Co. to pay \$620m for genomics company, Financial Times at Ft.com, May 11 2001.
2. Will the real monopolist please stand up?, Anthony B. Perkins, article in red Herring, May 1 and 15 2001.
3. Xerox outlines new printing system, CBS.MarketWatch.com, May 3 2001.
4. Xerox Focuses on Solutions and Services to Drive New Sources of Revenue, Press Release on xerox.com, May 1 2001.
- 5.??title??. Thomas A. Stewart, Nicholas Brealey Publishing, 2001.
6. What is behind Microsoft's attack on open-source software?, The Economist, May 10 2001.