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"An astute observer can note the faint signals of the coming future, extrapolate from them, and begin to divine the business implications."

Tim O'Reilly, *From 1.0 to 2.0*, page 1

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**This newsletter covers the world
of information technology and
the Internet—and the business
and societal issues they raise.**

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Contents

- 01:** From 1.0 to 2.0
Keep an eye on the radar. The future is already here, if you look in the right places.
Also: How the Cycles Repeat
By Tim O'Reilly
- 04:** Under new management
Your editor discusses what's changed, what hasn't, and how the title for the new
newsletter may seem trendy but it goes back all the way to 1993.
By Jimmy Guterman
- 06:** Web 2.0...
It's the meme of the moment. It's the subject of everything from excitement to
parody. In this issue, we take some aspects of the business revolution and look at
them from some unusual angles.
- 07:** A Simple Story
What if Web 2.0 stopped being a buzzterm and started making sense?
What if we started considering Web 2.0 as something perfectly normal
and reasonable?
By Nathan Torkington
- 08:** People or Computers?
There's more than one way to do things. And Web 2.0 provides a
fascinating framework for comparing machine-generated data with what
humans can generate—sometimes without meaning to.
By Brady Forrest
- 12:** More. Better. NOW!
Continuous iterative development isn't just for technologists. It's for
businesses, too.
By Jimmy Guterman
- 16:** The Number: One Person Per Blog
- 18:** The Canon: *Designing Interactions*
- 19:** Coming soon
- 20:** Calendar

From 1.0 to 2.0



Tim O'Reilly is the founder and CEO of O'Reilly Media, Inc., and an activist for open standards. Tim's blog, at <http://radar.oreilly.com>, "watches the alpha geeks" to determine emerging technology trends, and serves as a platform for advocacy about issues of importance to the technical community.

We're pleased and humbled to take the torch from Esther Dyson on one of the computer industry's lasting institutions, the *Release 1.0* newsletter. Because we want to mark the fact that there is a new team at the helm, as well as our belief that the center of gravity in the industry has moved from the personal computer to the internet platform that has come to be known, for better or worse, as Web 2.0, we've decided to increment the title, and call this next stage in the life of the newsletter *Release 2.0*. O'Reilly originated the term Web 2.0, but this doesn't mean that we're going to focus only on the business implications of Web 2.0 and related technologies. Far from it.

The core of our business at O'Reilly is the notion that world-changing technologies often start not with entrepreneurs but with enthusiasts. Whether it's the first Apple I prototype, crafted in a woodshop by Steve Wozniak; the first skateboards, built by wanna-be surfers for riding the cement waves of unfinished swimming pools in Southern California; or the first websites, built to share scientific and cultural documents, new industries are often launched inadvertently by people who try new things because they love them, not because they think they are going to get rich.

This is the "alpha" stage of the industry. Here we fondly refer to these enthusiasts building prototypes of the future as "alpha geeks," not only because of the early stage nature of what they do but also because, like the alpha male in a wolf pack, they are often the strongest. The alpha geeks stand out in any gathering of technologists as those who are the masters of what they do, able to bend technology to their will and vision, rather than accepting it ready made.

Watching these alpha geeks is the core of what, on our blog (<http://radar.oreilly.com>), we call the "O'Reilly Radar." The alpha geeks demonstrate, again and again, the truth of William Gibson's dictum that "The future is here. It just isn't evenly distributed yet." When Tim Berners-Lee wrote the first web browser and web server, he had no idea of what he was setting in motion. →



“We hope to give you insight into this entire cycle: What are the alpha geeks doing today that will be crucial to your business two years from now?”

-> He just wanted to help the physicists at CERN share their work. When Linus Torvalds decided to write a new operating system kernel “just for fun,” he had no idea how Linux would shake up the power structures of the entire computing world. When Shawn Fanning wrote a program to help his friends share their music, he had no idea how the P2P revolution he ignited with Napster would transform not just music, but also television and publishing.

But an astute observer could note the faint signals of the coming future, extrapolate from them, and begin to divine the business implications of what would one day be a new world accessible to all.

Alpha geeks enter beta...and beyond

And so, the beta phase begins. Alpha geeks become entrepreneurs. The venture capitalists arrive. No one knows yet what will work, but the scent of opportunity is powerful.

After a few years, the rules of business are clear. Early entrepreneurs play leapfrog, innovators hit on winning formulas, and gradually, a new industry emerges. You might call this the “1.0” phase.

But all is not well. If a technology is truly transformative, it attracts too much capital, too many me-too entrepreneurs, and the result is inevitable: bubble, followed by crash. Argentinean economist Carlota Perez, now at Cambridge University, has traced this pattern through history, and has seen it repeated again and again: with canals, railroads, steel, cars, and computers. She has found that the bubble is an essential stage in the formation of a new industry, and is typically followed by a “long boom” in which the new infrastructure built during the bubble is put to real use by a next generation of entrepreneurs. This is the era, broader than Web 2.0 but including it, that we’ll chronicle in *Release 2.0*.

In this newsletter, we hope to give you insight into this entire cycle: What are the alpha geeks doing today that will be crucial to your business two or more years from now? Who has begun to understand the new rules of business, the unexpected transformations of leverage that will create new winners and losers? What are those rules? And whether you’re an entrepreneur, an investor, or a corporate technology strategist, how can you apply them to create value for your business?

If we do our job, you’ll be surprised, you’ll be inspired, you’ll be prepared for the future that is already here, if you look in the right places. ■■

How the Cycles Repeat

With the dot-com bust so recent, it's easy to forget that the PC business had its bubble and its shakeout, and its roster of high-flying companies now long forgotten. But it's also easy to see how, over a period of two decades, the PC moved from enthusiast's toy to the center of the computer industry. Looking back at the history of the PC, you can discern a similar trend to what's happening now in the internet industry.

A new stage in an industry is characterized not just by new technologies and new companies, but also by new levers of competitive advantage. Steeped in a history in which value was rooted in computer hardware, IBM and its peers had no insight into how PCs built from standard off-the-shelf parts would lead to the commoditization of hardware, and (via what Clayton Christensen calls "the Law of Conservation of Attractive Profits") to a massive shift in business leverage from hardware to software. And so it signed away its future to a small company called Microsoft. Fifteen years later, history repeated itself. Convinced of the value of proprietary software, Microsoft had little insight into the ways open source software and standardized internet protocols would lead to the commoditization of software and the transfer of power in the computer industry to new information businesses harnessing advertising-based business models. Now, like IBM in the late 1980s, Microsoft is rushing to catch up.

At the mid-point in an industry, when competition appears to be fiercest, the company that best understands the new rules of business may have already passed a point at which its eventual ascendance is virtually guaranteed. Old-timers might remember that it was also the late 1980s when Microsoft and IBM (which was in catch-up mode with OS/2) appeared to be locked in a struggle for dominance, but the battle was over. Microsoft had offered application developers an attractive, if Faustian, bargain: forget about writing all your own drivers, just use our APIs. With that move, Redmond's platform dominance was assured, and over time, it was able to use that platform to drive out competitors and raise the barriers to market entry. Entrepreneurs had to go elsewhere or build a business plan with "acquisition by Microsoft" as the sole exit plan—just as countless startups today dream of being bought out by Yahoo! or Google.

So the story begins again, with alpha geeks who build for love, not money. While investors and existing players were focused on the PC application and platform wars, the next generation of disruptive technology was being built in a lab in Switzerland and in a dorm room in Helsinki. Just when it looked like it was game over, with a dominant monopoly sucking all the opportunity out of the ecosystem, a next generation of entrepreneurs was readying the new business models that would reset the game. —T.O.



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