

# Axiom 7

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### **Axiom 7 - Positive Feedback Loops**

*Virtual communities create increasing rates of return (or positive feedback loops) in three ways:*

*1) when a business incurs large up-front expenditures to develop a new product or service and the incremental cost of producing each incremental unit of the product or service is minimal;2) as businesses move up the learning curve, or experience curve...businesses typically achieve a certain percentage reduction in the cost of making and delivering that product or service to the customer;3) the last kind of increasing returns leverages network effects: the more units of product or service that are deployed, the more valuable each unit becomes. (Hagel and Armstrong, 44)*

*Positive feedback makes the strong get stronger and the weak get weaker, leading to extreme outcomes. (Shapiro and Varian, 175)*

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*In the industrial economy success was self-limiting; it obeyed the law of decreasing returns. In the network economy, success is self-reinforcing; it obeys the law of increasing returns (Kelly, 25).*

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