

## Real-Time Strategy Is It the Beginning, Or Is It the End?

The e-economy is dead!  
--Various Media Reports

The news of my death has been greatly exaggerated.

--Postcard from e-Economy Headquarters

Now this is not the end. It is not even the beginning of the end. But it is, perhaps, the end of the beginning.

-- Winston Churchill, November 10, 1942

Determining whether the so-called e-economy is dead, in purgatory, or merely at the end of the beginning, is today's BSQ (big strategic question). "Invest or ignore" in the e-economy is the biggest bet most companies are making right now, and the implications of the answer will last a decade.

It's getting hard to read a newspaper, magazine, or Wall Street analyst report without learning about another dot-com calamity. Usually the author of this news, who was left out of the boom, is all too happy to see newly minted millionaires fall from grace and high-profile companies with no profits crash as quickly as they began.

These reporters, stock analysts, and mutual fund directors are often the same ones who previously strongly touted the high-flyers' stock prices. Now they smugly note that "it obviously couldn't last."

It is true that a large number of the "darlings" of the Internet have gone under (Pets.com, Boo.com, Furniture.com), and more than a few survivors have seen their stock price plummet more than 90% (eToys, Priceline, Beyond.com). Even the so-called "blue chips" of e-commerce (Amazon, Yahoo, E\*Trade) are hovering around their 52-week lows.

Some of this "new found" negativism is, of course, right on target. The initial euphoric claims for the e-economy couldn't be sustained. The "irrational exuberance" that Alan

Greenspan spoke of several years ago took over the stock market, and, as a result, anything to with the Internet couldn't be wrong. Companies earning next to nothing suddenly had market caps in the billions, and retailers with no hope of profits were valued at levels much higher than their most successful real-world counterparts.

## Parsing Through the Hype: Focus on Value

Amidst the current doom and gloom, I offer the same advice I proffered during the early period of "irrational exuberance." Look past the rhetoric and focus on the e-economy's underlying value proposition for customers: "Do customers perceive value when buying books on line?" "Do customers get superior value from stock trading on line?" "Do customers find broader and less expensive travel options on line?"

For a huge number of customers, the answer is an unequivocal, "Yes!" Where there is real value, there is long-term customer commitment, and, hence, that's where the real economy resides, "e" or no "e."

The key for strategists struggling with Internet investment decisions is to focus on real value propositions, not stock market hype. The market is most often right, but it can also be terribly wrong. Strategists need to distinguish between the actions of short-term market lemmings and long-term value creators.

## Does the Internet Change Everything?

The irrational rise in stock prices, and their inevitable collapse, does not mean the underlying economics were without merit. The Internet does change everything (except the need for business basics: revenues and earnings) and its power to create upheaval will only grow in the coming years. Let's look at four key indicators:

**e-Infrastructure.** Internet infrastructure is widely deployed in the U.S. Some 50% of Americans are already on line (the fastest technology adoption cycle in history), and we're one of the most-wired countries in the world. While about 3 million people in the U.S. have

broadband connections at home, thousands more are being added daily. Commercial deployment of broadband is proceeding even more rapidly. Many international markets, though behind the U.S., are growing even more rapidly.

Business 2.com recently reported that every U.S. city over 1 million in population now has high-speed DSL (digital subscriber loop) service. It also reported that the use of cable modems is growing 35% annually, and nearly 17 million subscribers will have high-speed, two-way broadband satellite service by 2003. And, apparently, people are using the service: Nielsen reports that the average U.S. Internet user spends more than three hours a week on the Net in six different sessions.

**Employment.** A recently released University of Texas study demonstrated that the e-economy already supported 2.5 million jobs last year, an increase of over 650,00 from 1998. The report also noted that revenue increases per employee grow nearly 40% in some sectors, and that total revenues for the e-economy topped \$171 billion in 1999, up 72% from the year before.

**B2C.** Retail sales (B2C) on the Internet started all the hype. The euphoria lasted for about two years, and now many seem to be writing it off, just when consumers are beginning to embrace it, albeit with a sharper eye on real issues like service and delivery.

Clearly, some former high flyers are struggling. Internet research firm Media Matrix recently noted that five of the top 10 U.S. sites are not gaining many new visitors or are losing existing customers (Yahoo, Lycos, Go network, NBC Interactive, Excite@home) and three others showed only moderate visitor growth (Microsoft, AOL, and Amazon) in the second quarter of 2000.

But look at the trends: On-line shopping is doubling each holiday season. Already, nearly 50% of Americans with Internet access shop on line, according to Scarborough Research. And the demographics of on-line shoppers make retailers drool: The majority of the on-line shoppers were male (56%); nearly three-quarters (73%) had some college education; 58% were married, and two-thirds owned their own homes (NUA Internet Surveys, Dec. 2000).

Clearly much of the turmoil in electronic retail markets is related to intense competition and the normal "sorting out" of market winners and losers. Retail markets periodically go through such machinations, with new retailers destroying old, new ideas catching fire with consumers, overbuilding, consolidations, and much general angst among investors. The Internet is what economic historians and business analysts call the "wheel of retailing," referring to the constant innovation and change in these markets.

**B2B.** The business-to-business (B2B) media hype came and went in less than a year, yet most experts estimate that less than 5% of today's B2B transactions take place on line. According to Internet researchers Gomez.com, however, B2B auction transactions will hit \$4.6 billion in 2000. In two years, that figure should double.

Another strong indicator that B2B on the Internet is here to stay is that the "big guys," such as GM, GE, IBM, Owens Corning, Eastman Chemical, Du Pont, United Technologies, and even Uncle Sam, are moving dramatically to a B2B model for their purchases. Increasingly, these dominant firms won't do business with a supplier unless it's over the Net. Perhaps that's one of the reasons Jupiter Communications predicts that 42% of all B2B trade will be on line by 2003!

Whether it's B2B or B2C, or even B2G (government), business has only scratched the surface of the e-economy. It's only going to get more important.

## Every Business Is an e-Business

Eventually both the hype and the horror stories will fade into history, and the "e" for electronics will become so ingrained into the economy that it will be just like that earlier "e"--electricity--which revolutionized commerce at the beginning of the last century. And, like electricity, electronics will be critical to the smooth functioning of the economy, but it will be little discussed unless there is a power failure.

Strategists need to work from the premise that today, every business is an information business (i.e., they use and rely heavily on

information for understanding customer needs, creating products and services, establishing efficient logistics with suppliers and customers, communicating with a host of stakeholders, etc). And, as an "information" business, no company can afford not to be an e-business.

The companies that have put the Internet at the center of what they do have saved billions in costs and rapidly increased their profit margins and speed to market. It's no accident that Dell, Oracle, and Cisco are some of today's most admired companies: Their productivity is at record levels, and they have shaved billions off their expenses. Consumer companies such as Staples and Sharper Image have added millions to their bottom line by opening their store on the Web. B2B marketplaces are creating efficiencies that were unheard of a few years ago.

No manager or business owner should look at today's dot-com turmoil and see it as an excuse to delay e-business transformation. Even though the Internet has not yet reached its full potential, those who don't make it an integral part of their strategic plans will be left behind.

Although the hype and outrageous predictions have eased up, the following areas are experiencing e-business change on a massive scale.

#### **Internal Communications and Operations.**

In today's wired companies, intranets throb with life as integral parts of research and development programs, marketing information sources, HR databases, knowledge management repositories, and places for internal transactions of all kinds. In the HR area, for example, intranets are reducing informational phone calls by 80-90%.

**Supply Chains and Inventory Management.** Companies embracing the power of B2B get results that are nothing short of astounding. Oracle cut \$1 billion of expenses (from \$7 billion) in less than a year, solely through Internet-related productivity advances, and plans to cut another billion by October of 2001. GE plans to cut 15% from its expense base of \$100 billion over the next two years.

**B2B Exchanges and Auctions.** Business exchanges and auctions work best for commodities and easily specified products, and

while those areas are transforming the global trading landscape, service and more complex sales are not far behind. Everything from industrial gases to public relations projects are up for bid daily, leveling the playing field across the world. Perishable inventory, advertising space, unfilled hotel rooms, and even "seats" in executive education classes are now auctioned at the last minute.

Some companies, such as Cisco, send bid requests to a small group of "certified" companies, who respond with a price, delivery time, and record of reliability. According to Glen Meakem, one of the founders of FreeMarkets, most buyers end up saving 15-16% compared to the price they paid pre-auction.

The Internet has also enabled the return of an old concept: barter. Through BarterTrust or Bigvine, companies can trade excess goods or services for something they really need, without any money changing hands.

**New Marketplaces.** One of the most fundamental opportunities that the World Wide Web has created is that of new market spaces, such as Autoweb and Autobytel for buying cars, Priceline for airline tickets and hotels, Kozmo.com and Webvan for quick deliveries of merchandise, The Knot and WeddingChannel.com for multi-retailer wedding registries.

The Internet has even boosted the business of some formerly localized mom-and-pop retailers. Independent booksellers who specialize in out-of-print books are doing a booming business through an out-of-print portal. Stores selling used CDs are reaping windfall revenues via eBay and Half.com. Local grocery stores have joined the home-delivery market by teaming up with MyWebGrocer.com.

**Savvier Customers.** The Internet has changed a lot of business fundamentals, but more than anything else, it's changed attitudes--especially those of the customer. Customers have grown savvier, more price-conscious, and less patient. They want what they want, the way they want it, when they want it. When they're elated or disappointed, they can instantly tell the world, via community sites such as deja.com and epinions.com. (Even if you're not on the Web, your customers are probably talking about you there, right now.)

**Customer Relationship Management.** A recent Forrester Research survey reported that only 37% of business units surveyed knew if they shared a customer with another division in their company, and 43% admitted they were unable to offer better service to their most profitable customers. Technology is changing all that. With Web site technology and the appropriate software, companies can reward their loyal customers, market their products to a targeted audience, and put their big spenders at the top of the telephone queue each time the person calls. They can also post FAQs on line, so the most common questions can be handled without a phone call. Web sites are personalized for each visitor so the user can control the experience. "Targeted advertising" is narrowed to individual preferences, rather than the shotgun approach of going after large, diffuse groups.

**Job Postings.** Many firms post job openings on intranets and Internet job sites, reaching potential employees internally and externally around the globe. Posting jobs on company intranets worldwide reduces turnover and training and orientation costs and improves morale and loyalty.

### **Make the "e" Commitment Now!**

After years of asking if the Internet was for real, then watching the hype get way ahead of the reality, it's understandable if some strategists are left wondering what to do. And the evidence suggests that many are still undecided: Reports indicate that 40% of small businesses are not yet connected to the Internet, and, among those that are, only 34% have "active, purposeful Web sites" (eMarketer, 2000).

But make no mistake. The "e-economy" is real, it is here to stay, and the reports of its untimely demise are greatly exaggerated. As Churchill might say, "we're simply at the end of the beginning."

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