

eStrategy Pure and Simple

Chapter Two

The e-nigma: Page One



The day that amazon.com went on-line, Barnes & Nobles' and Borders' business models were put into jeopardy. The day that e-Trade went on-line, Merrill Lynch's business model of selling stocks through thousands of highly commissioned salespeople was put into jeopardy. The day that autobytel.com went on-line, Wayne Huizenga's Automation business model of selling cars by offering thousands of models displayed on massive lots was put in jeopardy. The day that Jay Walker went on-line with Priceline.com, the entire airline industry's business model was put in jeopardy.

Why is this happening to highly seasoned and extremely successful business executives such as the CEOs of the companies mentioned above? The answer is very simple: to most CEOs and management executives, the Internet and its electronically wired world is a *king-size enigma*! They simply don't understand it.

The Ultimate Enigma

No change represents as large a challenge to every CEO now, and for years to come, as the Internet. Because of the intangibility of the Internet, it is difficult for most executives to "get their arms around it". They can't see it; they can't touch it and they have no experience with it or anything like it. As a result, most executives have great difficulty adroitly assessing the impact the Internet will have on their business. It's an unknown and the "unknowns" can be very unsettling. And there are very good reasons for this malaise.

Back To The Future

Let's go back in time to 1885/86 when the world was introduced to the first automobile. Who, then, could have foreseen the advent of such concepts as car insurance, autobahns, parking lots, drive-in restaurants, banks and theaters and laser-read toll systems? The answer is simple: probably no one! The reason? The concept was so foreign to most people's "modus operandi" that they had great difficulty adapting their thinking to accommodate this revolutionary concept. In fact, they could hardly bring themselves to give it a name. At first they called it a "horse-less carriage" because it was the first carriage that did not need to be pulled by animals or humans. The best they could do was rename it an "automobile" which literally means "self-moving", not a terribly mesmerizing description.

Now back to 2000 and the Internet, a concept as "alien" to today's executive as the horse-less carriage was to the owner of the local buggy whip factory. And, just as the automobile paralyzed the buggy whip factory owner, preventing him from doing anything about the automobile because of its "alienness", the Internet is having the same effect on today's CEO. And there are good reasons for this as well.

Landscape Versus Seascape

Let's draw some mental pictures. Imagine a landscape with its profile of mountains, valleys, lakes, canyons and volcanoes, all of which have been shaped by nature's forces-- wind, rain, gases, etc-- found in that environment. Now imagine a modern city sprouting on this landscape with a host of small, medium and large buildings all interconnected by a road and rail system.

A business operates in a similar manner. It also has a "profile" consisting of products, customers and markets which have been shaped by market forces - competition, economic, political, technological - all at work in this business arena or environment. Similar to a city sprouting from a landscape, what emerges from a "business arena" is a *business model* which is put into place to deploy the business strategy of the enterprise.

Furthermore, as the natural terrain surrounding a city puts physical constraints on that city's activities, so does the business "terrain" that a company finds itself within will impose constraints on that company. These will obviously vary from one geographic area to another.

The Traditional Business Model Under Siege

Let's draw another picture. Imagine now that the sea level rose by fifty feet around the globe. Most cities on this planet would be flooded to one degree or another and the landscape would now become a seascape.

The tallest buildings would no longer be connected by *intricate* and *restrictive* road and rail systems, but could now be served by an *uncluttered* and *unrestricted* flat, open surface water system. Each building can now be reached from any other building at any time of the day, over water.

A Dramatic Change In The Rules Of Play

In this new environment, the landscape "business practices" are now irrelevant and need to change drastically to accommodate the new seascape environment.

- Speed boats can replace slow moving trucks and trains
- Toll booths are useless on water
- Competitors who could only challenge you over land can now do so in a different manner, or you could be attacked by new, unpredictable pirate ships

Among the rules that the Internet and e-Commerce have changed are:

- The traditional value chain has been disrupted
- Assets may now be liabilities
- Brand loyalty is no longer an advantage
- Service may no longer be a differentiator
- A captive market has been unshackled and given numerous options
- A customer's switching costs have been reduced significantly
- Information is virtually "free" thus spreading like a virus and making customers much more knowledgeable
- Pricing matches minute-to-minute market conditions
- On line demand drives production

And there are many more. The message is that each rule change contributes to making the Internet an e-nigma. This new e-Strategy business model is "conceptually alien" to the executives of a business rooted in the traditional business model of bricks and mortar. The Internet unshackles new competitors

from the constraints of the traditional business model and introduces business practices that are also "alien" to these executives.

Traditional relationships between suppliers, producers, distributors and customers are turned upside down and inside out and the new relationships are difficult to comprehend. In other words, the sandbox is getting more and more enigmatic.

Denial or Paranoia

The human being's reactive instinct to something that is unfamiliar or unknown demonstrates itself in one of two modes: denial or paranoia.

In our view, the CEO population is currently split 50/50.

Denial: this is also called the "ostrich" reaction. Put your head in the sand and hope the event passes by. Many CEOs are doing just that. They are avoiding the Internet, hoping that it will be another fad that will pass, just like the many other management fads they have seen come and go.

Paranoia: this is the person that sees ghosts all over the place. Therefore, let's do everything and anything we can think of.

The Internet Migration Is Inescapable

The "flood" that is today putting in jeopardy the traditional business mode actually started thirty years ago with the computerization of the back office which then migrated to the front office and now into over one billion homes in the next few years. It has been well documented that a new technology becomes "institutionalized" when it reaches a critical mass of thirty million consumers. One billion users is way past the critical mass required as well as well beyond the inflection point where a new technology starts to accelerate its impact on society. And nothing will stop this migration, which means that "denial" will not solve the e-nigma.

Paranoia is not the solution either. The reason is simple. The Internet *will not* intrude on every part of your current business model. But it will infringe in many nooks and crannies of that model. In order to anticipate where those "points of impact" will be, one needs to understand the *capabilities* that the Internet brings and how these will be used by your competitors as well as how these could be used by your company. Let's us, then, de-mystify the e-nigma.