

# Chapter 3

## A CEO's Worst Nightmare: killer.com

A few years ago, the CEOs of the two dominant book retailers in the U.S., Barnes & Noble and Borders, were sitting in their respective offices, listening to the business news on CNN's Moneyline, contemplating ways and means of taking away some of each other's business.

During the newscast, there is a short interview with a gentleman named Jeff Bezos, who declares that he has formed a company named *amazon.com*, *which*, effective immediately, will start selling books on-line through the Internet. Furthermore, he states that amazon.com will carry over 1,000,000 titles, a hundred times the average bookstore, that the price will be 30-50% less than in a bookstore and that a purchase can be made in a couple of minutes from the comfort of your home by simply using your PC.

A few weeks later, while the CEO of Merrill Lynch is thinking about ways and means to compete with Smith Barney while watching the same TV program, another young entrepreneur announces the launch of an on-line broker company called e-trade.com which will allow individuals to trade stocks from their home PCs at a fraction of the cost of going through a broker.

Only days later, another Internet entrepreneur announces the start of a company called priceline.com which will allow an individual to purchase airline tickets on-line at a price that individual wants to pay and not at the exorbitant price that the airlines want that individual to pay.

Ama...who? E...who? Price...who? Doing...what? must have been the reaction of these CEOs on the day of these announcements. All were caught completely off-guard by this announcement and since then, each of these new Internet companies has become their biggest nightmare.

The day that amazon.com went on-line, Barnes & Nobles' and Borders' business models were put into jeopardy. The day that e-trade.com 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 Autonation business model of selling cars by

offering thousands of models displayed on massive car lots was put into jeopardy. The day that Jay Walker went on-line with priceline.com, the entire airline industry's business model was put into jeopardy.

## **Intriguing Phenomenon**

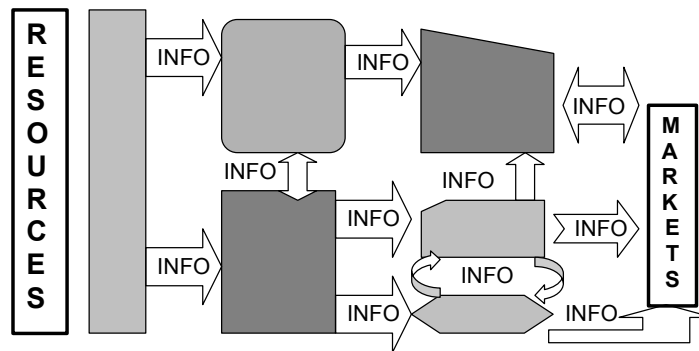
The situations described above, as well as many others which have since occurred, bring two intriguing questions:

- Why is it that the business models of dominant enterprises, led by astute CEOs, can be put into jeopardy overnight?
- What can be done to mitigate, or even reverse, the impact?

Well established, dominant enterprises, or even an entire industry, can be ‘killed’ or seriously injured by a so-called “killer.com” newcomer because the new economy is conducive to such a phenomenon. As the new economy becomes more and more dependent on *information*, this shift lends itself perfectly to the Internet.

Since the Internet is primarily a *transporter of information*, the more the economy becomes dependent on information, the more disruptive the Internet will be on that business. This is why the companies most threatened by the

Internet today are those whose product or service is mostly based on information. These include companies such as those in the banking industry, the insurance industry, the retailing industry and the stock brokerage industry.



## Traditional Value Added

Historically, companies in the intangible service industries have added value through a person. Banks help you borrow by consulting a bank manager who gives verbal advice. Insurance companies have used brokers to give advice to their customers and add value. Stockbrokers have done the same through an army of salespeople. In other words, the added value is almost totally dependent on the quality of advice transmitted through a person.

The manufacturers of “hard” goods, on the other hand, have attempted to add value in the product itself by adding more and more physical features. Most of the added value, therefore, resides in the product itself and only a small part is based on complementary information.

The new economy is characterized by a value chain that can be fully integrated into the Internet and its supporting cast of technologies such as servers, routers, mobile computing, wireless communication, ever increasing bandwidth, data mining software and so forth. Thus, the reason why “intangible” service companies will suffer the greatest impact from the Internet. Their entire process of adding value is being threatened.

Companies making “tangible” products have a better chance of minimizing the impact of the Internet on their businesses since the mostly likely areas to be attacked by a killer.com will be the sales & marketing parts of their business model. These two areas are the most vulnerable to the Internet because they have the most dependency on information-laden processes.

Barnes & Noble’s traditional business model, created to deploy its strategy, was based on a network of very large stores – so-called “bricks and mortar”. In this model, information regarding a customer’s profile and reading habits is not collected and therefore cannot be recycled to create other services that add value to these customers in other ways that eventually ends in that customer buying more books.

When a person walks into one of their stores, that person's reading preferences are unknown to Barnes & Noble. At amazon.com, on the other hand, that information plus ample more, is well known to that company and held in databases for future use. To date, amazon.com has such information on 17 million of its customers. These databases allow amazon.com to know exactly the current interests of their customers but also, their future interests.

Simply having each customer's e-mail address allows amazon.com to do 1:1 selling of new book releases that contain subject matter that they know is of interest to each specific customer. This allows amazon.com to notify each customer when a new book on that topic will be available and asks him or her if they are interested. In this manner, they add value to their customers by supplying them *information* that Barnes & Noble cannot provide. This capability gives amazon.com a tremendous advantage.

## **The Concept Of Added Value<sup>2</sup>**

Many executives we work with complain that, because of the Internet, every product has become a commodity and that every transaction is based on price. Our contention, however, would be that if every transaction comes down to the lowest price, it is due to two factors:

- \* the customer does not see value, or
- \* the customer does not understand the added value

There basically are two means at your disposal to add value to a product or a service. The first is to build features into the product that distinguishes it from your competitors' products. The second is to make available to your customer information that enhances his/her ability to make better decisions while conducting business. Thus, the equation:

$$\textit{Added value}^2 = \textit{added product features} + \textit{information enrichment}$$

Most executives are quite knowledgeable as to how their manufacturing process adds value to their product, but few of them know how *information* can add value to their customers. They understand that the whole organization depends on information but they don't understand the *flow* of information through the organization and how that information could be made available to customers in ways that would add value and enhance customer relationships. In order to overcome this difficulty, one must understand the *flow patterns* which route information through the business model together with the interconnectivity of these patterns. One can then use the Internet's capabilities to generate a significant number of Internet applications to provide additional value to customer. These capabilities will be identified in a later chapter .

Added Value → physical activities/features  
Added Value → new information  
Added Value<sup>2</sup> → physical + enrichment = premium  
attributes information prices

As Business Week recently observed in an article about the future impact of the Internet:

“The Internet has the potential to revolutionize the way information and value flow through a business. The biggest profits will go to those that manage Information, not physical assets.”

## **How To Avoid The killer.com Disruption**

This is a key concern which is gaining in importance with more and more CEOs as they see an ever increasing number of dot.coms starting up, each targeting a different company or industry. Will I be next? And what can I do about it? There are three options available:

1. Either I do nothing and wait until someone from Silicon Valley or Seattle creates the killer.com model and I react to it *after* it enters my sandbox
2. I call in one of the preeminent consulting firms and pay a fortune for a generic solution that will, at best, be a “me-too”

3. Use my own people to develop our own proprietary killer.com model before anyone else does.

Our view is that the third option is the best. However, it requires two elements:

- An understanding of the Internet
- A structured process that works.

Any strategy, as stated earlier, must be oriented towards the *future*. Thus, the first phase of formulating a clear business strategy is to determine what the future environment will look like a few years down the road. Let's discuss now the elements that make up the future environment of any business.

**The next chapter, "Back To The Future", will explain why it is crucial to develop a realistic view of your potential future business arena and how you can go about doing it.**