The new thinking – how will it impact your business?

Darwin was right. He said that whenever a new world is entered, the winners are the ones who adapt. What is important, though, is what he didn't say. He didn't say the winners were going to be the moist intelligent. He said the winners would be the ones who adapted to the new environment. That's a different ball game and is precisely the challenge with which we are confronted today.

In the year 2000 we had a great party but, like every great party, the next day brings a hangover. We now have a fabulous hangover – but at least it is not terminal!

Why such a great party? Most people will say that 2000 was a success because there was a technological revolution. Not so. The real secret is that there was an unprecedented amount of cheap capital available. According to The International Institute for Management Development, the first half of Y2K saw stock markets around the world values at $30,000 billion – equal to the total world GDP. We had never seen that before.

During the first months of that year $28 billion of equity value were being created every day. Of course, during the following six months we destroyed $28 billion of equity value every day.

We were in a world of dotcom and dotgone.

Within one year we were able to destroy $4,500 billion in value – and that obviously impacted the economy. It has slowed it down.

Online meets Offline

So what about eBusiness? Last year it was forecast that by 2003, 10% of the American GDP and 6% of Europe's would be made online. In, 2001 the US figure is only 2.1% and in the rest of Europe 0.7% in Sweden and 0.2% in Spain. We have a long, long way to go.

85% of this is B2B. The business to consumer is failing. The future has arrived but it hasn't been widely distributed yet.

So the accepted wisdom is that what we are seeing in 2001is the online world meeting the offline world. The new business model in the year 2001 is not about one eating the other, but rather the two merging - and the speed at which they merge will define the winners and the losers.

What are these two worlds good at?

The world of traditional offline business is very good at value chain management (witness Wal-Mart who are squeezing every cent of costs out of the value chain). On the other hand, the new online economy is very good at *customer intimacy.* Amazon.com, for example, know exactly what their customers' needs, interests and buying patterns are and can therefore act not only as a retailer but also as a kind of *adviser.*

Cashflow Generation: Full Circle into the Future
So what will the name of the game be from now on? What will be the business model that will drive us out of recession? It is "*cashflow generation*", according to Professor Stéphane Garelli of the International Institute of Management Development. Value chain efficiency will be essential. If you make a 5% saving in purchasing costs it has the same impact on results as a 30% increase in sales.

An essential here is increasing speed by using technology. Take Dell, for example. The time between the moment you place your customised order and the moment your PC is ready to go is 15 hours. That kind of efficiency means that you do not have any inventories until you start to assemble and therefore you reduce the risk of recession.

(In the B2B space, n a t i o n's client Ariba specialises in eProcurement applications for enterprises worldwide and has demonstrable proof of how it can directly impact the cost line and therefore profit within six months of implementation: *www.ariba.com*.)

Another important aspect of the value chain is the ownership of physical assets – what should be owned in order to be successful? This raises the issue of outsourcing. The revolution is that in the past companies had to own every single asset, whereas today more and more people believe that it is more intelligent to have access to assets but not necessarily to own them. (Another n a t i o n client Compaq, is rapidly introducing new initiatives to enterprises such as "Computing on Demand" where solutions are provided on a fee basis at point of demand. Companies are not saddled thereby with increasingly expensive legacy systems. *www.compaq.com*.)

The magic formula therefore is going to be to outsource the work, but make sure the knowledge is retained.

The True Value of a Business
There are three ways that this can be done. The first is to look at the value of the physical assets, the god old way of doing it. The second is to look at the value of the intellectual assets. For example, if one was to buy Microsoft without the software engineers it's worth nothing.

But the third way that is being discovered is to look at the marketing assets. The value of a company is the brand equity on one side and customer equity on the other. What then is the value of Amazon.com? It's very simple. It is a brand which is known all over the world so the value of Amazon.com is 80 million people using Amazon every month and loyal to the company.

Brand and customer equity are firmly believed the tools that will be used to value companies in the future.

Brand Value: How To Differentiate?
In an open and global world, everybody copies everybody. If a company stands still its products become commodities faster than ever, which means margins are destroyed. Is there an escape route?

There are two answers to this question. The first one is to innovate. A company can differentiate with innovation but that may only last a few years and only a few will do it. The second way to differentiate is through customer intimacy. This kind of differentiation is available to everyone and that is why it is so important.

Customer intimacy means first fact-finding – finding more and more information about people. Second it means defining the buying patterns that lead to one-to-one marketing. This concept has been around for many years but now there is the technology to implement it.

Technology: the Need to Adapt
Companies need to adapt to a world of parallel models. For instance, we are gong to see a lot of cutting of out the middleman. – "disinter-mediation". But then we will also see the opposite. For example: people, in order to buy an insurance policy, will not go to a conventional broker – or even, direct to the insurance company. They will go to a neutral portal. They will tell the portal what they want and tell it to find the five best companies in the world. A fee might be paid for this service, as most do not have the time to surf the net.

Then there is auctioning online. E-Bay does it for personal items but it will also happen in B2B. For instance, one might say "I want to go to Paris next week for £100. Who has a ticket for me?" There is aways somebody in the market who will sell a ticket for £100.

Finally, the customer is king because he or she will define the business model. This bad news actually because a company can never make money when the customer is king. The customer is fundamentally a pain in the neck because he/she compares prices and wants discounts. *Unless you lock your customer in a special relationship based on your knowledge of their needs, they are not going to be loyal because nobody makes money in an open and global world where the customer has access to all available information.*

What does it Take to Win?
Winning companies have a lot of energy. They always try new things. Of course, sometimes they make mistakes. Research has shown that winning companies actually made more mistakes, along the way, than losing companies.

The losers never make mistakes because they don't try anything but when winning companies correct mistakes, they learn. There is a famous story about a chairman of IBM. One of his senior execs came in with his resignation. He said "Mr Chairman, I blew it, I lost $4million and here is my letter of resignation". The Chairman took the letter, looked at it and refused to accept it. Surprised, the guy asked "You know I made a big mistake", to which the Chairman replied "I have just invested $4million in your education – and you now want to leave us?"

Winners reinvent themselves all the time, which is probably the most difficult thing in modern management. How do you reinvent yourself when you are successful? Today we have too many people who have only known the good times, so the global downturn will be the acid test. In this situation, take time out to consider who you would like to partner you most. n a t i o n 's founders (see People) are all experienced practitioners and have provided effective solutions to clients in good times and bad. Right across the board.

We conclude with a quote from John Maynard Keynes. He said "The real difficulties in life do not lie in developing new ideas, the real difficulty lies in escaping from the old ones". To escape the old ideas is the biggest and most complicated challenge we have in this new competitive environment. Contact us if you would like to talk things over.