ONE
E-business – the strategic dimension

In periods of transition such as the one we have been going through, it often appears as if there are new rules of competition. But as market forces play out, as they are now, the old rules regain their currency. The creation of true economic value once again becomes the final arbiter of business success.

MICHAEL PORTER, WRITING IN *HARVARD BUSINESS REVIEW*, MARCH 2001

Many have argued that the introduction of the internet into business practices renders the old rules of strategy and competitive advantage obsolete. According to Harvard Business School professor Michael Porter, the opposite is true: 'The only way [for companies to be more profitable than the average performer] is by achieving a sustainable competitive edge – by operating at a lower cost, by commanding a premium price, or by doing both.'

The internet tends to weaken industry profitability without providing proprietary operational advantages, it is therefore more important than ever for companies to distinguish themselves through strategy. The winners will be those that view the internet as a complement to, not a cannibal of, traditional ways of competing.

Many of the early internet pioneers, both the newly minted dot.coms and those well-established companies seeking an online presence, have competed in ways that violate nearly every principle in the strategy rule-book. As Porter puts it: 'Rather than focus on profits, they have chased customers indiscriminately through discounting, channel incentives, and advertising. Rather than concentrate on delivering value that earns an attractive price from customers, they have pursued indirect revenues such as advertising and click-through fees. Rather than make trade-offs they have rushed to offer every conceivable product or service'.

The good news is that it did not have to be this way – these were bad strategic choices but they were not the only options available. And these choices had little to do with the inherent business potential of the internet.

In fact, when it comes to reinforcing a distinctive strategy, Porter maintains that the internet provides a better technological platform than any previous generation of IT.

For most existing industries and established companies, the internet rarely cancels out important sources of competitive advantage; if anything, it is more likely to increase the value of those sources. But over time, says Porter, the internet itself will be neutralized as a source of advantage as all companies embrace its technology.

At which point, we may well see a return to the good old days when competitive advantages will once again explicitly derive from traditional strengths such as unique products, proprietary content and distinctive physical activities. Internet technology may be able to fortify those advantages, but it is unlikely to supplant them.

The message, then, is clear. Gaining competitive advantage in the post-internet business world does not require a radically new approach to business; and it certainly does not require the abandonment of classic economic principles that can still offer strategic value in a market place that depends on cutting-edge information technology

No, gaining competitive advantage in the early years of the 21st century is still reliant on applying proven principles of effective strategy.

Sources of strategic advantage rest where they always have – in cost competitiveness, product differentiation, ease of entering and exiting markets, and so on. The significance of the internet is in how it can impact on these traditional battlegrounds. Here are some examples:

The internet offers huge scope for cost-cutting

General Electric now does more business on its own private online market place than all the public B2B exchanges put together. Siemens hopes to cut its annual costs in the medium term by 3-5%. And there is room for more. One estimate quoted recently in *The Economist* puts the cost of e-procurement per order placed for routine office purchases at only 10% of physical procurement costs. Low-cost airlines like Ryanair have slashed their costs by using the internet to dispense with the need for tickets and to cut out travel agents. To date, only a minority of companies have got to grips with the cost-saving potential of the net. A 2001 survey by the National Association of Manufacturers found that only around 30% of American manufacturers were using the internet to sell or procure products or services.

The hare, the tortoise and the internet

Another myth, disputed by Michael Porter et al., is that the internet offers huge 'first-mover' advantages. However, companies that took to the internet relatively late and with some caution don't necessarily seem to have suffered: if anything, they seem to have gained from being able to avoid the mistakes and the huge spending of the pioneers. The fate of many internet retailers has shown that established companies can catch up relatively easily. The contrast between Britain's biggest supermarket chain, Tesco, selling its e-buying system to America's Safeway and the collapse of Webvan, the most ambitious and best-capitalized online grocery chain, is instructive. There is also a strong suggestion that the internet could well be lowering, not raising barriers to entry.

Internet only companies carry less organizational baggage

The big boys aren't having it all their own way. The arrival of new, internet-based firms that are more agile and innovative than the giants is shaking up whole industries and business sectors. Without question, the internet is helping to put some small agile newcomers on a par with large corporations and letting them compete head on with them for new business. Just as Microsoft came from virtually nowhere to usurp the market of mighty IBM, so a few years later Netscape appeared overnight and threatened to undermine the market (and the size) of Microsoft. Who will be next? And where will they come from?

He who pays the piper…

Another consequence of the growth of the internet as a business medium, says Robert Baldock in his book *The Last Days of the Giants*?, has been a shift in power from the seller to the buyer. According to Baldock, 'the convergence of computing, communications and content in the shape of personal computers (PCs) hooked up over a network to the internet has triggered a revolution in the way business is conducted. Users of these technologies have 24 hour access to almost everything, everywhere'.

The rise and fall of the middleman

Part of the paradox of the internet is that intermediaries are blessed under one business model and cursed under another.

On the positive side, internet-based search agents make it possible for these users to track down the cheapest products in seconds, and new internet-based intermediaries (the so-called 'Infomediaries') have created a new form of commerce whereby the buyer sets the price, not the seller.

On the other hand, according to the 'cursed' theory, information technology puts producers directly in contact with their customers, collapsing the distribution chain, wiping out all those who have made their living by taking orders or breaking big lots into smaller lots. A spooky technical term has been coined for this process: disintermediation. 'Middleman functions between consumers and producers are being eliminated,' the futurist Don Tapscott wrote in the influential best-seller *The Digital Economy*. Patrick McGovern, chairman of International Data Group, the world's largest high tech publisher, is even more dour. 'The intermediary is doomed,' he wrote in *Forbes ASAP*. 'Technology strips him of effectiveness.'

Internet-based alliances

The internet and digital media open up new ways to create wealth. Companies like Schwab, eBay, Cisco, MP3 and Linux have transformed the rules of competition in their industries by making revolutionary offerings to their customers. They did not achieve this alone: combining with like-minded partners with complementary skills was the key. In their book Digital Capital, Tapscott, Ticcoll and Lowy call these internet-based partnerships or alliances 'business webs', or 'b-webs' for short. A b-web, according to the authors, is 'a distinct system of suppliers, distributors, commerce services providers, infrastructure providers and customers that use the internet for their primary business communications and transactions.' Although alliance-based, a b-web typically has an identifiable lead partner which formally orchestrates their strategies and processes.

The rise of the internet, the ever increasing speed of change and the complicated networks within which organizations now conduct business have exposed the limitations of strategic models based on the single business unit using linear and static assumptions. As a result, the unit of strategic analysis has moved from the single company or business unit to the 'extended enterprise', the network of suppliers, customers and alliances, which together define an organization's ability to create core competencies and strategic advantage. Competence is now seen most often as a function of the collective knowledge available to the whole system – the enhanced network of suppliers, manufacturers, partners, investors and customers.

One thing is clear. The impact of information technology on the world as we know it has already been significant and can only increase over the coming years.

But let's keep things in perspective – the e-business supplements the traditional economy; it does not supplant it. As Kevin Kelly, one time editor of the highly influential *Wired* magazine, has put it, 'the old economies will continue to operate profitably within the deep cortex of the e-business'.

The fact is that around the world there are just as many cars and ships being constructed as ever, just as many roads being built, just as much coal being produced, as much steel being made.

It is a mistake to talk of a post-industrial era, because in reality those goods and services that were produced in the industrial era are still being produced today. The difference is where they are now being produced. Although in the UK Indian restaurants may employ more people than the steel, coal mining and ship building industries combined, 'traditional' industries are all thriving elsewhere in the world.

The simple conclusion – strategy has an e-dimension

One thing seems certain: the reach of the internet is bringing more intensified competition just about everywhere. Companies like Valeo and Cemex illustrate well the effect of being able to extend a company's competitive reach globally thanks to the internet, spreading their costs over a widening market. Does all this mean that business will, after all, be the main beneficiary of both the internet and new technology more broadly? Maybe not. For although there seems to be plenty of scope for cost-cutting and even for productivity improvements, neither may end up feeding through into greater profits. Rather, greater competition, more transparency and lower barriers to entry suggest that the biggest beneficiaries may ultimately be consumers.

Technological doors have opened wide to a new global, electronic economy. But e-business is not built simply on fast distribution of information. There is also a central premise of continuous change which by its nature requires constant improvement and innovation, and these are derived from the minds and imaginations of people. To compete, we have to innovate faster than the next person – who is trying to do the same thing. And of course, the next person could be anywhere, in just about any country in the world.