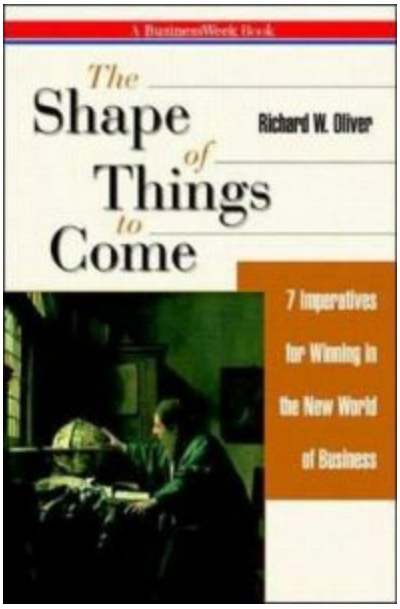

Book The Shape of Things to Come

Seven Imperatives for Winning in the New World of Business

Richard W. Oliver
McGraw-Hill, 1999

Recommendation

Author Richard W. Oliver argues that speed and customer responsiveness are keys to the new world of business. To stay alive, companies must flatten their corporate structures, do away with old roles, and embrace the technology that allows data mining and Internet-based purchasing. The author predicts that in the new century companies will sell directly to consumers, job descriptions will become more fluid, and smart cards and knowbots will become ubiquitous devices. This compelling, thoughtful book examines the trends shaping the global economy. While the book isn't always organized clearly, it illustrates its points through examples of real companies which have changed their practices. *BooksInShort.com* recommends this book to any owners, executives, and managers who are involved in planning long-term strategies.

Take-Aways

- The information age peaked with the development of the Internet.
- The global economy has entered the post-information age.
- Consumers in the new economy are knowledgeable and demanding. They require speed, quality, service, and price.
- Multinational companies must build global brand names that attach a desirable lifestyle to a product.
- Logistics, or the process of moving products, is key in the twenty-first century.
- Successful companies will personalize products and services, and will reach their customers through tightly-focused narrowcasting.
- In the new world of business, employees will adopt more flexible job descriptions that are based on customer needs rather than on corporate hierarchies.
- Customers have become a firm's most important marketers. They define the products they want.
- Smart cards, sensors, smart materials, and knowbots are among the technologies that will redefine business.
- Selling directly to consumers, without middlemen, helps companies keep in touch with market demands.

Summary

The Maturing Information Age

The information age began in 1947 with the development of the transistor. That innovation led to the computer chip. The information age peaked in the late 1980s and ended in 1993, with Marc Andreessen's development of Mosaic, the easy-to-use browser that democratized the World Wide Web. The maturity of the information age is evident in the market penetration of computers with modems and Internet connectivity, and in the falling prices of microchips, wireless phones, and powerful computers. Information age companies, such as computer manufacturers, began to suffer the same problems faced by industrial age firms: frenzied competitive environments, high cost structures, and too many employees.

> "The key to future success means much more than simply listening to customers; it means giving them the power to set corporate goals and design strategy."

The three major economic eras - the agrarian age, the industrial age and the information age - have followed S-curve life cycles. The cycle's four phases are inception, growth, maturity, and decline. These major economic eras are getting shorter. The agrarian age spanned several centuries, the industrial age lasted two centuries, and the information age covered only fifty years.

> "In their search for value, consumers today show a greater propensity to switch products, stores, or service distribution networks to get what they want."

The technological advances of each new era revolutionize the economics of the previous cycle. The industrial age's innovations transformed agriculture. Later information age developments, such as robotics and computer-assisted design, changed manufacturing. An economic life cycle creates conventional wisdom that doesn't apply to the era that succeeds it. The industrial age's rise of mass production placed the emphasis on economies of scale, while the information age's focus on mass customization made economies of scope the top priority. Economies of scope allow companies to customize products to meet the needs of unique customers.

The New Business Model

The global village has taken hold. Governments' inability to control or regulate new information technologies led to a wave of worldwide deregulation. This governmental decentralization, which was encouraged by information technologies, filtered to the private sector as well. Corporate hierarchies flattened, giving more power to customers, suppliers, investors, and employees. Former giants slid as times have changed. GM, the second-largest company in the world in 1972, by stock market valuation, had fallen to fortieth by 1997. Sears was sixth-largest in 1972, but ranked 174th in 1997.

> "Business must understand the value demands of today's informationally empowered and engaged customer."

Keeping such old-line companies on top requires melding the giants into a combination of big and small companies. They need the financial wherewithal and distribution networks of big companies, but the responsiveness and flexibility of a small entrepreneurial concern. The corporation of the future needs three traits: decentralized management and a small headquarters staff; little vertical integration; and an emphasis on its primary products and customers. Example: Southwest Airlines follows a cost-efficient strategy of short routes, using only one type of plane and not serving meals. This allows it to hire fewer people and to pass the savings on to customers.

> "Our entry into the Age of Bio-Materials - biotechnology and the exciting new world of new materials - holds the promise of gaining control over matter."

Globalization and technology aren't intrinsically good or bad trends. However, they have major ramifications. The globalization that resulted from the information age means that a political event - such as the election of Nelson Mandela - is nearly as important in the U.S. as in South Africa. It means that a medical event, such as the outbreak of AIDS, threatens everyone on the planet. It means educational standards are international, not national. Globalization has led to transnational marketing, production, research and development, and investment.

> "In the conversion to an information economy, the dislocation for workers was more acute, because the major change

was from physical to mental work. Those without an education suffered most."

Seven Rules for Business

1. Reinvent yourself constantly: Daily innovations are required to keep pace with global competitors. Losing touch with customers can prove deadly. Firms such as BellSouth and Coca-Cola have created positions for chief learning officers or chief knowledge officers who report directly to the CEO. A successful company updates its product line constantly. A hot-selling product creates a spate of similar competing products, so innovation is not a one-time process but a continuous one. Example: In the mid-1980s, the Danish hearing aid company, Oticon, missed consumers' shift to smaller hearing aids. As a result, it teetered on the brink of insolvency. The CEO responded by creating teams who followed new products from development through sales. He banished separate offices, filing cabinets and bookcases, in order to reverse a lack of communication and to get rid of suffocating piles of paperwork. The result is a more successful company, based on knowledge, not skills or rules.
2. Turn customers into marketers: Formal marketing departments are often a waste of time, as shown by the failure of three-quarters of new products introduced into the marketplace. The new model for marketing requires that customers become part of every step in product development. The customer shapes the definition of the product, price, quality, and distribution. Under this strategy, the customer morphs from the mere audience who buys a product into an actor who shapes the product. Companies also should focus on keeping existing customers, rather than recruiting new customers or wooing dissatisfied ones. Examples: The Grateful Dead successfully used the strategy of customer intimacy. The rock band allows fans to tape concerts, something most acts forbid. It built a database of fans' names and addresses, and sold tickets through phone hotlines. The opposite of customer intimacy shows up slow-responding auto manufacturers. Honda was late in reacting to customer demand for minivans and sport utility vehicles. The Big Three U.S. automakers were slow to respond to the success of European luxury cars. In the area of keeping existing customers, the Embassy Suites hotel chain de-emphasizes mass advertising in favor of programs that track and reward customers' loyalty.
3. Build an electronic "keiretsu:" Keiretsu is the Japanese term for a family-based group of companies which provide mutual support. The new model of keiretsu, enabled by the Internet, is linked electronically. These electronic linkages help bolster a firm's logistics, which has become a key to competitive advantage. Top companies will be those that are quickest to learn what customers want and then to provide for those desires. Examples: Proctor & Gambel now can manage its own products on Wal-Mart's shelves. General Electric does most of its purchasing through the Internet. Coca-Cola and McDonald's have formed informal, keiretsu-like partnerships, while Amazon.com and CD Now have formed an electronic keiretsu.
4. Customize everything: Improved technology lets retailers track consumers' brand loyalty and buying history through data warehouses. This permits personalized marketing. While some critics say such electronic monitoring reminds them of George Orwell's novel 1984, others say it's similar to the days when a shopkeeper knew his customers intimately. Companies that personalize offerings wrestle with the growing diversity in the U.S. Personalization has led to narrowcasting, or customizing products and services to targeted groups. Ultimately narrowcasting could lead to Internet or TV ads written with only one person in mind. New products also will be adaptive. Examples: Blockbuster is testing systems that recommend movies to regular customers by analyzing their tastes. Harrah's, the casino firm, tracks its customers through a database and uses the information to create personalized relationships. Mitsubishi Motors plans to customize seats, transmissions, braking systems, and traction controls to each driver's size and driving style.
5. Think globally, act globally: In a world where everything from production to markets to products are global, firms must realize that every customer and employee is subject to global forces. Therefore, brands also must be internationally known. Examples: European retailers, such as Carrefour of France, are aggressively moving into China. Brand names such as Coke, Nike, and McDonald's enjoy global popularity because of their lifestyle connotations. U.S. icons generate international sales. Kellogg's, for instance, airs nearly-identical ads in 22 nations.
6. Eliminate the middle man: Any company that sits between a consumer and a producer and doesn't add value to the product ultimately will be pushed out of business. Example: Dell Computer, for instance, successfully has ignored traditional stores - the middle man - in favor of sales of customized units via phone, catalog, and the Internet.
7. Make job descriptions flexible: Traditional job titles will be replaced by more flexible positions. Example: The California ad firm Chiat/Day dropped traditional job titles and offices. Employees, who spend most of their time in the field, share work stations when in the office.

"While products will always have to be 'localized' in minor ways to take into account local conditions and regulations, brands must be global."

Seven 21st Century Firms to Watch

- W.L. Gore & Associates: The maker of Gore-Tex has 5,000 employees but only two official titles: president and secretary-treasurer. The remaining employees define their own roles.
- Chaparral Steel: The steel maker has no divisional boundaries. Production employees interact with customers. Only two levels separate the CEO and production employees.
- Granite Rock: This construction materials seller lets customers define its market through such tactics as annual customer report cards. Truckers order by computer, check in with magnetic cards, and load their trucks from overhead bins. This innovation saves ten to thirty minutes of trucker-loading time.
- Mbanx: This Internet banking company uses data mining to customize services to individual customers, including electronic loan applications.
- The United States military: This huge bureaucracy has become lean through electronic keiretsu tactics that let it share information among separate departments. The organization's superior logistics were shown in rapid Gulf War troop deployment.
- Rhone-Poulenc: This French chemical company has decentralized, creating five worldwide divisions with strategic decision-making power.
- BMW: The German car maker cut U.S. production costs by building only custom cars, thus cutting inventory costs.

"The twenty-first century customer wants just five things: speed, quality, variety, service, and price."

Seven 21st Century Products to Track

- Smart Cards: One day, these cards will store the holder's health information and Social Security records. The card might be replaced by a chip that could be placed in your body.
- Sensors: These devices let courier boxes protect their contents by adapting to changing shipping conditions.
- Knowbots: This term, a combination of " knowledge" and " robot," describes palmtop computers and TVs that automatically turn to a certain channel at a certain time. Computer intelligence devices could also scan newspapers and save articles of interest to the owner.
- Neural Nets/Fuzzy Logic: This concept lets computers move beyond simple yes-no logic, as illustrated by a computer's defeat of a chess champion in 1997.
- Smart Materials: These substances can adapt for maximum usefulness. Examples include fabrics that return to a programmed state after wearing, and medical devices that change shape after being inserted in a patient.
- Biotechnology: The advances in DNA technology in this field could lead to cures for diseases. Motorola is among the companies hoping to apply gene splicing to computers.
- Nano and Pico Machines: These tiny devices, now under development, will lead to small powerful gadgets such as a button-sized pico-turbine generating ten times the power of a chemical battery.

About the Author

Richard W. Oliver is a professor of management at the Owen Graduate School of Management at Vanderbilt University in Tennessee. He has written widely on business strategy, new business and global marketing. His books include *The Coming Biotech Age: The Business of Bio-Materials*.