



Book Dinosaur to Dynamo

How 20 Old Economy Companies Are Winning in the New Economy

David Stauffer
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Recommendation

Old-economy companies weren't supposed to survive the dot-com era, but some of the "dinosaurs" adapted and they're doing quite well, thank you. Accomplished business author David Stauffer profiles 20 old-economy companies that excel at e-business. The usual-suspect behemoths, such as Ford and Bertelsmann, are here, but he also profiles a six-man automobile transmission shop in Arizona, seed stock ranchers in Montana and other less-than-obvious candidates. Stauffer says that every company's path toward e-commerce is unique, but that path is nonetheless generally approved and determined by management. Thus, change is hard to manage without CEO support, even if the CEO dates back to dinosaur days. So if you run a traditional company - with actual assets - and you want to make that difficult evolutionary stride toward e-commerce, *BooksInShort* suggests that you might find concise instruction here.

Take-Aways

- Some old-economy firms understand and embrace e-commerce.
- There is no one true path to e-services convergence. Every company's journey is unique.
- A company's e-efforts will probably fail without backing from an old-economy CEO.
- Companies have sustained impressive profit margins and increased customer loyalty through online efforts.
- Even traditionally non-tech companies can embrace online services.
- To be successful, managers have to integrate their online and offline sales efforts.
- You must teach your employees that refusal to change means corporate death.
- Companies should focus on comparative advantage, because technology can be replaced.
- For e-commerce to work, employees must be given real freedom.
- Old-economy companies bring intangibles to the table that most dot-coms can't match.

Summary

Jurassic Inc.

Despite the hype, old-economy businesses are not doomed and can, in fact, adapt to change and sometimes even outperform their dot-com competitors.

While it's too early to judge whether these companies will be long-term winners in the 21st century, a close look at 20 brick-and-mortar businesses that embraced the new economy's wired ways can provide a blueprint for building the modern, connected enterprise.

“The outfits that prospered in the old economy aren't doomed, but neither can they survive in the twenty-first century without changing.”

These 20 companies all rapidly adopted new technology and are thriving, even as their former dot-com counterparts struggle to survive: Merck-Medco, Eaton Aeroquip, Powell's Books, Snap-On Incorporated, N-Bar Land and Cattle Company, Inditex SA, Enron Corporation, Rosenbluth International, iSteelAsia.com Ltd., Dovebid Inc., Cemex SA, Charles Schwab Corporation, Tesco PLC, Office Depot, Quality Transmission Service, Antevia Inc., Bertelsmann AG, Ford Motor Company, Eastman Chemical Company and the General Electric Company.

Find Your Own E-Path

Every company makes its way into the digital reality as an individual entity. Every company's use of emerging technologies will be unlike that of any other company - even those in the same industry or with similar business models.

“If you're a retailer that wants to leave a dot-com in the dust, structure your clicks to support your bricks and vice-versa. When a big customer can check inventory at the local physical outlet from your Web site and in-store kiosks let shoppers access the Web site, you've got a combination the dot-com can't match.”

Yet, aside from uniqueness, these business profiles reveal eight important facets of every old-economy company's move toward digital delivery. These key areas of concern are listed in the sections that follow.

The Essential Ingredient

For a digital initiative to grow and prosper, the chief executive has to support it. Less than unflagging support probably means that the effort will fail. The responsibility of executing the plan can fall to someone else, but without continuing, driving impetus from leadership - and a demonstrated commitment in terms of time and money that's obvious to employees and customers - the effort to digitize won't be as effective.

“To cope with a famously decentralized structure that creates hundreds of independent fiefdoms, CEO Thomas Middelhoff created the Bertelsmann E-Commerce Group and gave it authority to gather net content from company units in all other communications media, from books and magazines to music recording to television and film production.”

For example, the CEO of Bertelsmann, Thomas Middelhoff, created the Bertelsmann E-Commerce Group and allowed it to gather net content from all of the corporation's communications media, including everything from books to music to television production. "In Internet time, three months is a year," says Middelhoff. "Make a bad decision or two and you are in trouble." Other companies where strong support from the top enabled the implementation of major changes include General Electric and Eaton Aeroquip.

Enable Employees to Succeed

Give your employees the tools to make e-efforts work. Companies often talk a good game of employee empowerment but don't really play it. That simply isn't going to work in the Internet age. Hierarchical command structures just take too long to be effective. The usual time-killing bureaucracies entrenched in most organizations will waste the promise of a good idea. Furthermore, creative

knowledge workers will be turned off and probably leave if they find that corporate roadblocks stifle their ideas. Companies like Enron and Schwab, which have really embraced the Internet, are democratic, highly networked, extraordinarily malleable.

Blending Clicks and Bricks

Target marketing and mass customization mean that customers can be segmented profitably in many ways. But abolish online and offline customer categories. For example, the Charles Schwab brokerage firm has embraced the Internet, but not at the exclusion of either face-to-face contact or telephone contact. There is no online customer, no offline customer. There is only the customer. He or she wants to know there's access to all of your services by Internet, phone or in person - without discrimination in content or fees.

Netheads and Neanderthals

Your business can't afford an "us vs. them" attitude when it comes to making e-business work. The netheads and the Neanderthals both have to want, above all else, to deliver more business to each other. Suppliers and customers should also have immediate access to their complete transaction records. For instance, the chairman of Office Depot, Bruce Nelson, believes that you should structure your clicks to support your bricks and vice versa. Web site and kiosk access from your store can give you a combination of services that an average dot-com can't beat, Nelson says.

Marginal Middlemen

Conventional wisdom states that the Internet eliminates the need for the middleman, or intermediary. This includes those people whose positions in the value chain are supposed to have been rendered obsolete by the reality of direct customer links. As a matter of fact, this is happening, but it's not a pervasive change. Actually, the Internet has strengthened some intermediary roles. The key to the middleman's survival is whether he provides an added value to the customer or simply increase your costs.

Forget About Size

The benefits of digital technology have nothing to do with the size of your business. When digital services are deployed wisely, they magnify and confer advantages to businesses of all sizes, whether they are small, medium or large. For example, Quality Transmission is a six-person firm but it gets 15% to 20% of its business from new leads generated from the Internet.

Push to Provide Services

Companies that have extensive physical assets aren't doomed by the increasing value of intellectual or tacit assets, no matter what the generally accepted wisdom states. But old-economy companies can't simply stand still. It's no longer enough to make high quality products, although that is the foundation. Customers not only want products, but solutions. For example, by providing services over the Internet, Ford optimally saves about \$3,600 on an average \$26,000 car.

Be First

Seize the advantage of being first over the advantage of being right. Caution and over analysis can kill a company in the world of Internet time. Prominent new-economy companies, such as America Online, are always failing forward. Speed rules. The chairman of iSteelAsia, Andrew Yao, has already turned his company into a major revenue producer, even though it's only been around since 1999. We have to accept "the realities of the Internet, to change - and change fast - or die," Yao explains.

“Technological breakthroughs of recent years may provide the means to address or avoid problems as seemingly intractable as the weather or congested traffic.”

Such examples provide key leadership lessons. You and your firm's managers can learn from their experiences in several areas, including the pluses and minuses of being an old-economy company and the continuing importance of good decision-making, strong leadership and focused customer service.

Old-Economy Attributes

Companies based in the old economy still have many advantages. A non-tech past should not be considered a barrier to a company's tech future. In many ways it can be a plus, if your managers always insist that your e-initiatives must provide some benefit. For example:

- Snap-On Inc. demonstrates that established companies have a tacit advantage over tech startups in their supply of brands and reputation. The Internet should be used to tell a whole new world of customers about your established strengths.
- Traditional companies that have corporate cultures that already engender risk-taking and rely heavily on individual initiatives are well prepared for the digital challenge.

New Economy Opportunities

The Internet makes it much easier to convey product differentiation. For example:

- N-Bar Land & Cattle discovered that it could win buyers based on the virtue of added value. Your Net presence can also greatly improve your customers' sense of community and your brand identity.
- The management of Quality Transmission believes that the Web shouldn't be used only for selling, but that it can also be employed to establish intangible assets, such as goodwill and credibility.

Making Decisions

Often, confronting change to make the best use of the Internet forces companies to consider issues they needed to think about anyway.

- The owner of Powell's Books believes that while it may be true that your old-economy culture slows things down, that can be an asset if it actually forces your company to think through the consequences of the new technology that you're trying to utilize.
- Companies shouldn't leap into new technologies just because they're new, according to the leaders at Rosenbluth. First, you should decide how this technology fits your company's unique culture and comparative advantages.
- The CEO of Bertelsmann says that while there is always a chance that your Web services may eat into some of your traditional business, it's better for you to do the eating instead of your competitors.

Leading People

You can't just change your technology; you have to teach your employees how beneficial this change is for the firm and for them individually.

- If you're an older manager, seek formal education about new technologies either through workshops or classes. Reverse mentoring might work as well: Consult younger workers who have grown up with this technology all of their lives. Don't be too proud to get e-educated.
- Employees may resist the executive who pushes for change and acts as the agent who prods the organizational behemoth into new realms. To ease resistance to change, employees must understand that methods have to evolve or the company will die.

Serving Customers

Always work to improve service to your customers.

- Cemex defines customer service as flexibility in ordering and tighter delivery guarantees. Your firm will benefit from having greater operational efficiencies and happier customers.
- You should build your site to suit your customer's preferences, not your own, according to the management of Merck-Medco. Make your Web site accessible and useful to all visitors - including those who choose to stick with brick and mortar for their purchases.

About the Author

Business writer **David Stauffer** heads the corporate writing firm Stauffer Bury Inc., in Red Lodge, Montana. He is the author of books on AOL and Cisco, dozens of articles in leading business periodicals and hundreds of annual reports and other corporate communications. He can be reached by e-mail at sbi@wtp.net.
