Business Strategy for B2B Startups/Spinouts | E-Business Strategy for Global Enterprises

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2001: Summer Wrap-up

As Labor Day closes the summer this year, it bears some reflection as legions of e-business, Internet and strategy people have involuntarily taken the summer off. Some rather uncomfortable unknowns have emerged as the electronic communications revolution has unfolded, and many of the revolution's most active participants are wondering what the fall will hold: a building groundswell, a frustrating lack of change or an even more poignant worsening.

Certainly the change that has happened this year is nothing short of remarkable. It shows that, no matter how much momentum exists, slowing to the point of almost stopping is always a possibility. It invites perspective, and I will share some of mine here.

The fundamental forces and value proposition of e-business, which selectively transforms manual, analog communications into digital communications processes, remain unchanged even as the environment has changed drastically. Digital processes are generally real-time, infinitely scalable and asynchronous, all of which tend to drive communications to lowest cost. Because communications accompanies most business transactions, lowering the cost of communications can alter the economics of business transactions, and it offers a compelling value proposition that will change the face of business and society. This proposition is valid and will prevail, but how and when it will unfold are the questions now.

Now that the hype of first stage of the revolution has ended, we are left with the substance of the changes that everyone was talking about. Seen from the perspective of the general consciousness, there is not much substance that is immediately apparent, which was completely predictable in retrospect. If one removes the "hype" from the business models, strategies and overall excitement of the last three years, the overwhelming reality is that not much remains, not because there was little substance to the ideas but because the hype was so large in comparison.

It is instructive to take a look at how and why the "hype" developed. It is very easy for anyone to write about the transformation of communications processes, but the complexity of implementing it to the point of achieving verifiable economic value was not fully appreciated, and it could not have been due to its complexity. Many of the ideas and strategies were fairly easy to grasp, but getting to the economic value was cloudy and was assumed in many cases. Now add to this the growing participation of the investor pool, many of whom represented fairly unsophisticated investors ("e-traders") who were highly motivated to seek high returns (the "boomer" generation). In another twist, many boomers grew up as self-styled revolutionaries in the 60s and 70s, so the idea of a revolutionary, better way to transact was inherently very attractive. The leaders of the then-unknown public Internet companies were incented to gloss over the complexities of delivering value, the idea of the value proposition was fairly simple, and the media loved it because it sold ad pages, it was interesting, and it was fun. So everyone was off to the races.

In fact, the degree of hype deflected attention from many of the real issues, which are largely unknown to the broad investor pool. The current state of affairs reflects how little the investor pool knows about the e-business transformation and what it will mean. That being the case, finding a way to evaluate the value of companies—Internet or otherwise—remains a problem. The technology itself is a stretch for most investors, but the investment value is determined by the application of the technology to create business value, a much more daunting undertaking. This means that everyone that wants to play in the game, whether as customer, investor, proponent, critic, or consultant, will have to work much harder to understand it better before investing. This stands in sharp contrast to last year's mantra, "Let it ride, it's going up."

One question in my mind that bears research is, "What the tangible impact of "e-traders" on the investment community overall?" The market boom/bust will prove to have brought significantly more e-trader investors into the market permanently, even when discounting for the opportunistic bubble and its concomitant chasing of many—but not all—unsophisticated investors from the market. Assuming that the investor pool has permanently broadened, there will be an interesting dynamic between executives of public high-tech companies and investors because investments in companies whose value propositions are tied to e-business will represent significant risk going forward as the business models and technologies are proven within the context of the ongoing transformation of business and society. If the investor pool is broader, the public company model may well continue to gain prominence.

This situation would beg the question, "How can executives of e-business and technology companies interact with a more diverse investor base in the face of the investment risk?" When investments are made in the context of a major transformation, a strategic outlook is best because it will seek to identify risks and unknowns, and it will specify the intentions to act to minimize the impact of the risks. However, most investors are not sophisticated enough to appreciate the strategic perspective, and they are notorious for their "short-term return mentality." This gap will confront executives with a leadership choice: they will either lead by openly stating unknowns and strategies in an effort to educate investors, or they will follow investors by managing their companies through attainment of short-term "conventional wisdom" objectives and glossing over complexity.

There are some of the dynamics in the market. You will be able to read more in a forthcoming article, The School of Red Herrings, which will be published this month. As you make your own plans for the fall, these observations may be useful:

- In general, focus your thoughts about e-business, the Internet, and web applications on cost containment rather than revenue growth. The most positive economic scenario at this point is slowly rising growth, tempered by conservatism. Glib promises of "new economy" revenue ideas are still fresh in everyone's mind, and they are largely discredited. Transforming inefficient analog processes to digital ones has barely begun.

- "Internet time" has changed in several ways. Yesterday's blanket sense of immediacy to get to market at any cost is largely over. During the last three years, "Internet time" was automatically assumed because it was the key to grabbing "new" market share. However, using digital processes to run a business enables very rapid execution in many cases, and companies' extensive technology investments have increased their capacity to execute rapidly. Try to gauge the timing of how fast things move on a case-by-case basis by answering these questions: 1) what kind of economic goal is connected with the activity/project/job?; 2) how economically verifiable must it be to be seen as a success by key stakeholders?; 3) where are the weakest points in producing, measuring and verifying success; do they lie in the purview of bricks and mortar (BAM)? In general, you will probably have to give more weight to BAM timeframes because producing verifiable economic value will probably take place from a BAM perspective.

- Strategy activity at companies of all sizes has been relatively nonexistent since the spring, which reflects companies' responses to the remarkable change in the climate that we have all experienced this year. This fall should see a significant increase in activity as companies try to figure out what will happen moving forward, what they should do and how they should do it. Especially BAMs stand to gain the most from e-business strategies and applications because they contain the largest number of transactions, and diminishing transaction costs will benefit them the most. Strategy is needed more than ever to identify the correct verifiable economic goals for e-business activity. For example, as companies continue the trend of using alliance models to interact more seamlessly with vendors and customers, they will need to create and maintain a firm grasp of the strategies that govern these relationships due to the risk involved.

Look for ways to integrate early stage technology companies with BAM companies. The "start-up model" contains extraordinary learning within it. Among other things, it represents the activity of taking an idea to market to create economic value from it. Such focus and activity cannot take place within an existing business in its most pure form. The speed, focus and execution were serving the wrong masters (hyped public markets) during the last three years, but the process and execution are replete with valuable learning. BAMs, in a general way, represent the "real" world of "verifiable economic value." They need to increase the value they deliver to shareholders by harnessing new technology and e-business: what better way than to work closely with and invest in early stage technology companies? The trick here is forming a realistic strategy that builds on a common ground to create value for each party who may serve very different shareholders.