

Making the Move From Bricks to Clicks

By Michael J. McDermott

Leading your company into e-commerce means thinking totally differently about how you do business.

The world economy is undergoing a fundamental transformation at the start of the 21st century, one that raises both challenges and opportunities for companies and their CEOs. According to the Progressive Policy Institute's (PPI) Technology, Innovation and

New Economy Project, some of the most obvious outward signs of change are, in fact, among the root causes of it: revolutionary technological advances, including powerful personal computers, high-speed telecommunications and the Internet.

Hence some of its nicknames: "Digital Economy," "Knowledge Economy," "Weightless Economy." This New Economy, however, is about more than high technology and the frenetic action at the cutting edge, says Robert D. Atkinson, director of the PPI project. "Most firms, not just the ones actually producing technology, are organizing work around it. It is also as much about new organizational models as it is about new technologies."

Embracing technology and capitalizing on the benefits it has to offer are challenges and opportunities that virtually all CEOs are facing. The analogy of "bricks to clicks"

has frequently been used to describe this transition. But "bricks and clicks" probably is more to the point, because New Economy technology is going to enhance, not supplant, Old Economy values.

As CEOs manage the transition to the New Economy in their own companies, they can expect to face challenges in several areas. One of the most important is providing the vision their companies need to succeed in a world now doing business on Internet time.

CEOS LEAD THE CHARGE

Corporate culture is still a top-down-driven phenomenon at most companies. In making the transition to the New Economy, managers and employees are going to look to the chief executive. In fact, a new study by Mercer Management Consulting concludes that overhauling a company's culture is the

No. 1 requirement for implementing a successful Internet strategy, and it's a charge that must be led by the CEO.

David S. Pottruck, co-CEO of Charles Schwab, has a strong grasp of that concept. Schwab has been an acknowledged leader in the bricks-to-clicks transition in the financial services industry. Over the past four years it has transformed itself into an Internet company—it manages more than 40% of total online assets, more than double that of its closest rival—with a bricks-and-mortar base of more than 350 branches. Yet, even in that environment, there has been resistance to change within the company.

Pottruck chose a dramatic gesture to overcome that resistance. Gathering almost 100 of Schwab's senior managers at San Francisco's Golden Gate Bridge,

Deloitte Touche Tohmatsu, notes that success in e-business requires a genuine commitment from the top. At such companies, he says, "management thinks strategically, creatively and 'outside the box' about the opportunities and challenges of e-business." That means being "prepared to reengineer processes dramatically, not just incrementally," and having "a realistic view of the significant effort and funding that e-business requires."

Despite some early predictions (and boasts) that pure-play Internet companies would sweep aside their Old Economy counterparts, the recent fall of so many dot-coms demonstrates that conventional measures of a company's strength still matter. Having a strong brand identity, solid management and

are. No matter whose estimates you use, however, the value of business-to-consumer e-commerce—which has gotten most of the public attention thus far—will be hundreds of billions of dollars within the next three or four years. The real prize, though, is business-to-business e-commerce, which is projected to become a multitrillion-dollar sector within the same time frame.

BETTING ON TECHNOLOGY

Much of that value will come from savings due to process improvements, such as streamlining supply chain management. Goldman Sachs projections show companies reducing operating costs by as much as 40%, depending on the industry. Such possibilities should turn the most change-resistant CEO into an ardent e-commerce advocate.

These financial windfalls won't just happen, though. One of the most important issues facing CEOs as they position their companies for the New Economy is betting on the right technology. "The road to success is littered with the carcasses of companies that made bad technology decisions," says Thomas H. Sinton, founder, president and CEO of ProBusiness Services, which provides

outsourced payroll and human resources services for about 1.2 million employees.

In some cases, the right technology choice is not to invest in a specific technology at all, Sinton argues. "The cost of implementing all the technology required to become efficient at certain processes is astronomical," he says. In those cases, it makes more sense to leverage an outsider's investment in technology, although Sinton adds that that approach should never be taken for processes that are a company's strategic driver or core competency.

Success in e-business requires a true commitment from the CEO.

he gave them all jackets embroidered with "Crossing the Chasm" and led them on a march to the other side. He refers to the symbolic event as "the beginning of the reinvention of our company."

CHANGE CARRIES RISKS

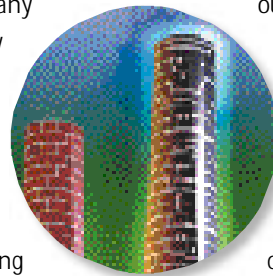
Julie Wainwright, CEO of Pets.com, has also led a bricks-and-mortar company. She points out that taking such a company to the Web is "a gutsy move" because CEOs must not only adapt to a new culture, but they also risk competing with stores and distributors and antagonizing analysts. Yet, she notes, good CEOs realize they will always look worse before they look better whenever there is a major shift in their business.

Being an inspirational and gutsy leader is only part of the job, though. Trevor R. Stewart, a partner with

positive cash flow mean a lot if your company is to be the market leader.

That said, a strong company with a committed CEO still faces challenges, many of which involve setting the course that the company will follow. Technology and e-commerce hold out a wide variety of opportunities, from providing new channels for the distribution of goods and services, to improving communication internally and externally, to removing inefficiencies from transaction processes. Making the call on which opportunities to pursue falls to the CEO.

The stakes are enormous, although change is occurring so quickly that it's difficult to know what the numbers really



In the area of human resources, for example, research suggests that a very large, efficient company spends about \$1,500 per employee per year. "About half of that is strategic spending in areas

Focus only on what you do best

such as issue resolution and employee development and training," Sinton says, with the other half spent on routine transaction processes. He estimates that the Internet ultimately can reduce employee-related administrative costs by another 20% to 30%.

Sinton's example points to the fact that companies operating at Internet speed can't try to do it all; doing so will slow them down and render them uncompetitive. Instead, they need to focus on what

they do best and accomplish the rest through partnerships and outsourcing.

This requires a different type of relationship-building than in the past. William Nussey, CEO of iXL, an Atlanta-based strategic Internet services firm that advises companies making the transition to e-commerce, says that in the New Economy the distribution of power and control is no longer clear. As a result, a CEO's ability to build trust and relationships is a distinguishing competitive advantage.

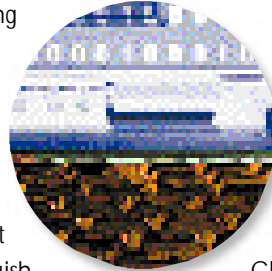
SHIFTS IN POWER

To succeed, CEOs also must acknowledge the power shifts taking place both inside and outside their companies. "Real-time management will mean transforming relationships inside companies," says Regis McKenna, chairman of The

McKenna Group, which specializes in the development and application of information and telecommunications technologies. "It calls for the intimate and immediate interconnection of marketing, product development, engineering and manufacturing—in fact, of every sphere of an organization's activity."

Tom Murphy, author of *Web Rules: How the Internet Is Changing the Way Consumers Make Choices*, describes the change as "the greatest transition of power in history, one that will take power away from the mightiest corporations and social institutions and give it to...consumers."

The flip side is that companies that do recognize and respond to that power shift can turn it in their favor. As consumers increasingly use the Internet to gather data—and therefore empower them-



Keys to the Old and New Economies

Issue	Old Economy	New Economy
ECONOMY-WIDE CHARACTERISTICS		
Markets	Stable	Dynamic
Scope of competition	National	Global
Organizational form	Hierarchical, bureaucratic	Networked
INDUSTRY		
Organization of production	Mass production	Flexible production
Key drivers of growth	Capital/labor	Innovation/knowledge
Key technology driver	Mechanization	Digitization
Source of competitive advantage	Lowering cost through economies of scale	Innovation, quality, time-to-market, cost
Importance of research/innovation	Low-moderate	High
Relations with other firms	Go it alone	Alliances/collaboration
WORKFORCE		
Policy goal	Full employment	Higher real wages, incomes
Skills	Job-specific skills	Broad skills, cross-training
Requisite education	Skill or degree	Lifelong learning
Labor-management relations	Adversarial	Collaborative
Nature of employment	Stable	Marked by risk, opportunity

SOURCE: PROGRESSIVE POLICY INSTITUTE'S TECHNOLOGY, INNOVATION AND NEW ECONOMY PROJECT

selves—technology gives companies the opportunity to gather data about what matters most to their customers. By recognizing and rewarding repeat customers and providing better service, companies will be able to support higher prices for Web-based transactions.

It's a different matter in B2B situations, where all parties are working toward mutual advantage, with the goal being lower, not higher, prices. What Old Economy CEOs are finding most jar-

Weaving a Web Without Wires

The data have spoken: the wireless Web is where it's at—or at least where it's going to be.

International Data Corporation projects that more than 61 million Americans will be accessing the Internet using wireless devices such as cell phones and PDAs (personal digital assistants, la Palm Pilots) by 2003. More than 7 million already do,

Led by Chairman and CEO Venkatesh Shukla, Everypath counts some high-tech high-fliers among its clients—names such as E*Trade and ZDNet. More surprising, perhaps, are the bricks-and-mortar brand names that pop up on the list, such as consumer electronics and appliance retailer Best Buy and tool dealer Coastal Tool & Supply.

Santa Clara, Calif.-based Everypath enables Best Buy customers to purchase CDs and DVD movies using wireless PDAs and smart phones. It provides Coastal Tool customers with the ability to purchase hand and power tools over the wireless Web.

"These services represent the kind of convenience and accessibility that Old Economy companies are going to have to offer their customers if they want to succeed in the New Economy, and we expect to see a lot more of them doing that in the future," says Marcia Kadanoff, Everypath's chief marketing officer, who spends a lot of time thinking about the future. "We're committed to the notion that content and applications should be able to 'morph' to fit all different types of devices.

"There really isn't one Web, there are many," she explains. "There is the desktop Web, the wireless Web, voice, multimedia. All of them will become video-enabled, and we are right in the middle of that transition. Faster networks and devices that are cheaper and easier to use are needed to complete the transition, and we know they are coming."

The first tentative forays into wireless Web e-commerce by Old Economy companies such as Best Buy offer just a tiny glimpse of what is to come, Kadanoff believes. "Wireless is going to enable the bricks-and-mortar side of the business in ways that we are only beginning to imagine." — M.J.McD.

Venkatesh Shukla • Chief Executive Officer • Everypath, Inc.



Marcia Kadanoff • Chief Marketing Officer • Everypath, Inc.

ring, though, is how much they have to reveal to their partners, customers, employees and suppliers that used to be confidential information.

"You need to rely on outside partners and inside line management to a degree that you have never had to before," says Nussey. Nonetheless, that loss of frontline control may actually be a blessing, he adds, because it frees the CEO to focus on long-term issues. E-commerce, after all, is a building block to be leveraged against the future. →

but those numbers work out to an incredible 730% growth rate between now and then. IDC expects half of all Web access to be wireless three years from now.

Those numbers are not lost on Everypath, Inc.; indeed, they are the company's *raison d'être*. Launched just two years ago, Everypath is an application service provider that makes the content on its clients' Web sites accessible through all types of wireless devices, no matter what technology standards they use.