EC Strategy Implementation

Coping with Transformation

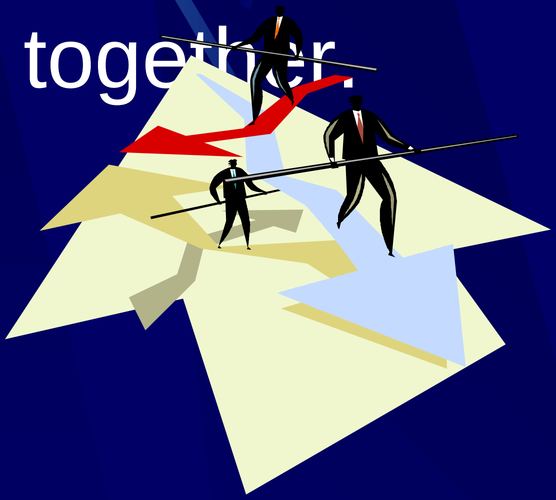
Dick Scudder

Shifting Economics

- Value of products and the value of information breaking apart
- Grocery retailing – product value low, selection information value low
- Book selling – product value high, selection information high
- Allows for electronic search as a tool to be more valuable to book business than the grocery business

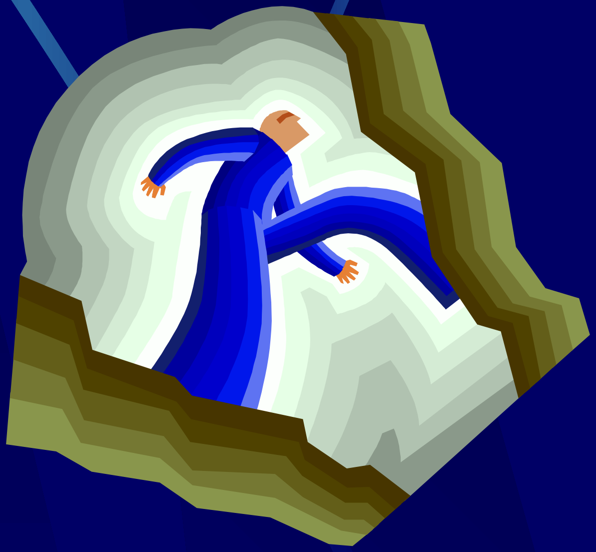
Implications

- Every business is an information business.
- Information is the glue that holds value chains and organizations together.
- The glue is melting.



Imbedded Information

- With most businesses and products there is a trade-off between richness and reach.
- Disconnect the information from the product and you find opportunities



Richness vs Reach

- Richness:
  - Quality of information
  - Amount of information
  - Accuracy, bandwidth, interactivity, security
- Reach
  - How many people can share the information

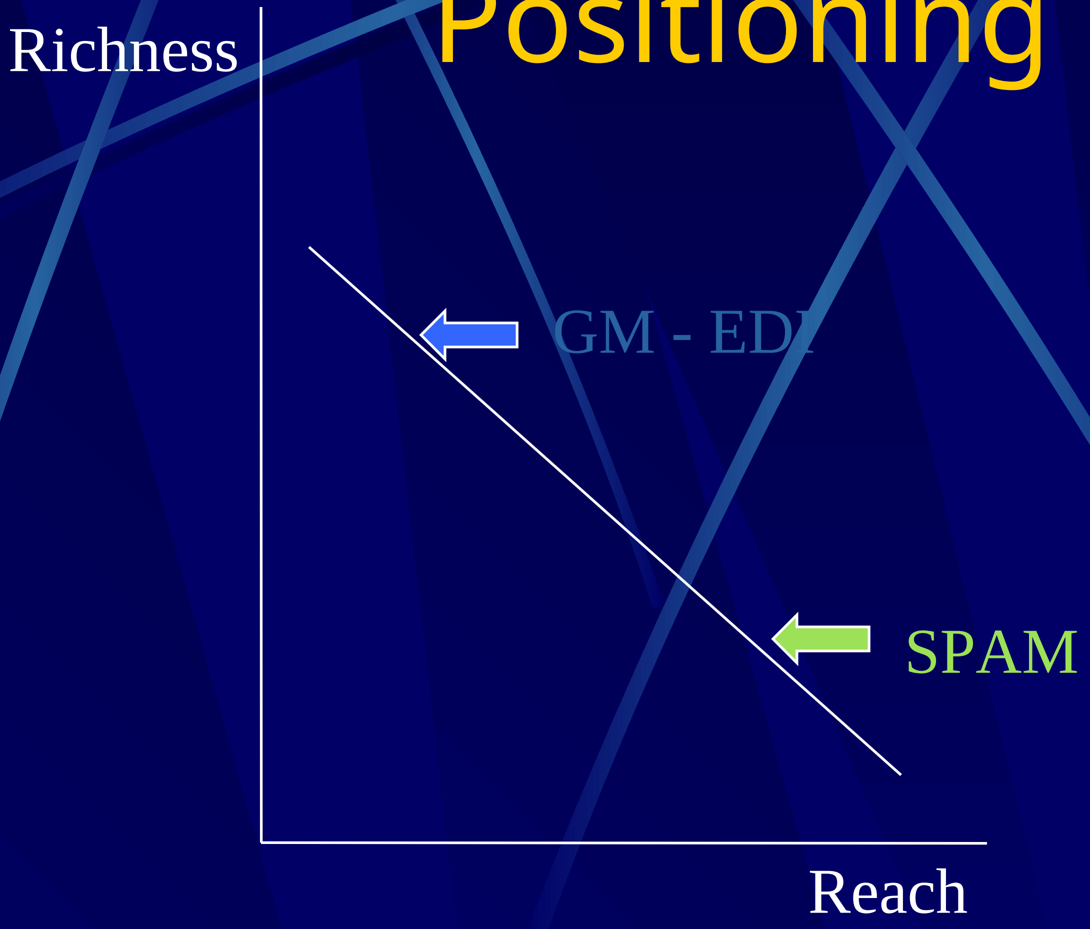
Evans and Worster. 2000

Sharing Information

- Rich information tends to be shared with a small number of people
- Information reach tends to dilute the richness of the information

Evans and Wurster, HBR, 1997.

Positioning



Future Mix

Enablers:

- Explosion of Connectivity
- Universal Standards

Standards

- Many lower level, technical standards already in place
  - IP, HTML, XML
- Higher level standards will continue to be built on lower standards
- EDI, MRO, and other standards add richness to reach

Standards

- The richness of the use the standards will continue to increase. Reach is constrained only by the number of people using the standards.
- Watch for opportunities:
  - OFX (Microsoft, Intuit) financial standard for personal finance
  - ?

Moore's Law Revisited

Centralized	→	Decentralized Data
Simple	→	Complex Networks
Accounting	→	Internet

Next:

Richness or Reach → BOTH

Deconstruction

BASED ON:

- Separation of the economics of information
- Blow-up of the trade-off between richness and reach

The Newspaper Business

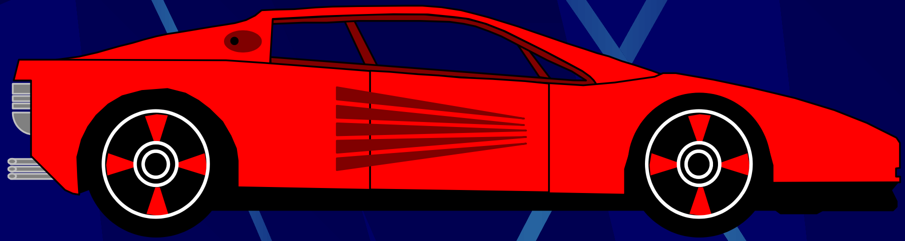
- Bundle of Services
  - Writing
  - Economies of Scale for printing
  - News
  - Advertising
  - Vertical and horizontal value chains

UNIVERSITY OF DENVER DANIELS COLLEGE OF BUSINESS

The Newspaper Business

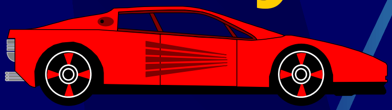
- Not just replacement by screens, but
- Deconstruction of the business - -
  - Content no longer bound by printing press
  - On-line journalism
  - Tailored news systems
  - On-line advertising – classifieds are 40% of profit

Automotive Industry



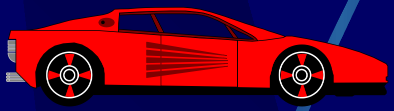
- Another bundle of services:
  - Information on models and options
  - Test drives
  - Finance brokering
  - Maintenance
  - Used car market

Automotive Industry



- Based on the logic of one-stop shopping
  - Fewer problems getting rid of an old car
  - Lack of information
  - Manufacturer warranty
  - Immediate delivery
  - Profit is not in cars but in other products and services

Opportunities

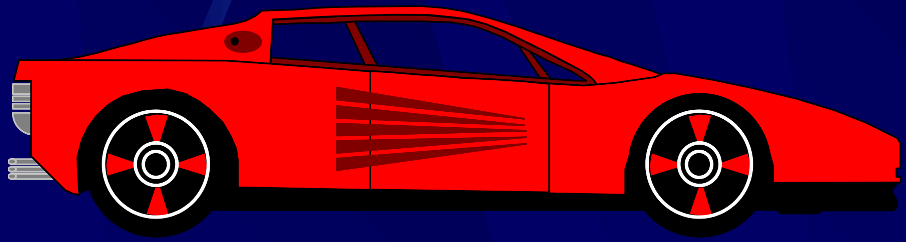


- Less efficient distribution mechanism than centralized auto plazas
- Product information value is negative
- Exploits fear and ignorance

What happens when we take away the informational glue?

Opportunities

- Websites from manufacturers, consumer reports
- Financing via Quicken, other web sites
- Independent maintenance facilities
- Test drives by Hertz



Implications

- Competition is “unbundled.”
- Competition escalates
- Different opportunities for the physical value chain
- Many wholesalers, retailers and distributors are being disintermediated
- Navigators emerge

Implications

- Information businesses increase in value
- Information businesses follow different rules:
  - Standards control
  - Preemptive critical mass
  - Alliances
  - Adapting to order of magnitude shifts in technology
  - Shifting business boundaries

Assessing Risk

- How do information economics shape your organization?
- How can new technologies shift existing structures?
- How will new economic forces rebalance? Are there physical pieces as well as information pieces?
- Where is the value? Is there a place for critical mass?

Jettison the past, lead the transistion

Thinking it Through

How do we do business with our customers?	How do our vendors do business with us?
How do we market to our customers?	How do our suppliers market to us?
How do we sell to our customers – catalogs, toll-free, on-line?	How do our suppliers sell to us?
What services do we offer our customers?	What services do our vendors offer?

Thinking it Through

How should we do business with our customers?	How should our vendors do business with us?
How should we market to our customers?	How should our suppliers market to us?
How should we sell to our customers – catalogs, toll-free, on-line?	How should our suppliers sell to us?
What services should we offer our customers?	What services should our vendors offer?