IS THERE ANYTHING NEW IN THE "NEW ECONOMY"

Dr. Josep Valor,
Professor of Information Systems,
IESE Business School

Let me start by considering the implications for today's management of the recent technological changes that have brought about the new economy. One thing is clear; managing in the new economy is a lot more demanding than it ever was in the past.

Maybe a simple analogy might help to emphasize this. If managing in the old economy was like piloting an ocean liner at sea, managing in the new economy must surely be like negotiating the white water rapids of a narrow river in an inflatable raft. Technology is driving the new economy at an enormous rate of knots and producing subsequent turmoil in the business world. Management has never been easy but we can safely say that it has never been more difficult than it is today. In the 'piloting an ocean liner' analogy of the past, a steady course was set and adjusted according to circumstances. Those 'steady strategies' employed in managing can no longer be applied in today's fast changing business environment. The market is far more unpredictable and rapid reactions are required. This calls for constant re-evaluation and adaptability - just like guiding that raft through the rocks and other hazards of a white water run. So managers coming along today be warned; you need to be well prepared for this ever increasing unpredictability and constant turmoil, making it extremely difficult to plan ahead and requiring ever quicker responses.

A brief look at the recent history of dotcom companies from pre-Jan '97 to date leads me to pose the question; Is there really anything left to talk about? With companies like Amazon and Yahoo firstly soaring in terms of capitalization, then hitting a peak in early 2000 only to plummet dramatically and almost drop back down to Jan '98 levels, the ironic answer to the question "What's new in the new economy?" could be said to be: nothing at all -- it has almost completely vanished! Did it come bursting through the door only to rush out four years later? Has the bubble really burst? Well, there have been casualties and indeed fatalities such as e-toys losing out to Toys'r'us. However, even though Amazon and Yahoo have lost about 2/3 of their peak value, they are still more valuable than when they started up. So depending on exactly when investors bought, there were winners as well as losers.

Having asked the question as to whether there is in fact anything left, I'd like to show that the new economy is indeed very much alive and kicking. A case in point is the enormous response provoked by Napster and how it took the entire American judicial system to stop it. This just goes to show how much of a real threat music download companies such as Napster and Gnutella are to the record industry. Dotcoms are still very much making their presence felt and getting some people really worried. The "legal" free MP3 site, MP3.com, hosts more than 8.000 musical artists and receives half
a million visitors a day. Another clear example given is the women's lingerie and swimwear site, Victoria's Secret. Whether it was just to see the skimply clad curvy models or not, there is no getting away from the huge response this site enjoyed following its add at the Super Bowl - one million hits in the following hour! This clearly establishes the link between the "on-line" and "real" worlds. Having asked the question as to whether there is in fact anything left, I'd like to show that the new economy is indeed very much alive and kicking. A case in point is the enormous response provoked by Napster and how it took the entire American judicial system to stop it. This just goes to show how much of a real threat music download companies such as Napster and Gnutella are to the record industry. Dotcoms are still very much making their presence felt and getting some people really worried. The "legal" free MP3 site, MP3.com, hosts more than 8,000 musical artists and receives half a million visitors a day. Another clear example given is the women's lingerie and swimwear site, Victoria's Secret. Whether it was just to see the skimply clad curvy models or not, there is no getting away from the huge response this site enjoyed following its add at the Super Bowl - one million hits in the following hour! This clearly establishes the link between the "on-line" and "real" worlds.

Just the figures alone would appear to speak for themselves. The number of worldwide Internet users has hit nearly 350 million and is predicted to go on rising reaching almost 800 million by 2005. Though the US obviously is way out front in terms of on-line PC users, Europe is catching up, especially in the northern countries. In Denmark, Sweden and Holland over 50% of households already have Internet access! When you add to this the implications for the Internet of the third generation of mobile telephones about to come in, the possibilities for the Internet are boundless. The effects of wireless Internet connections, including car radio, will be enormous. The number of Internet users from mobile devices is predicted to overtake Internet users from fixed access within the next few years. How will businesses operate in this turmoil of change? I suppose we're back to my earlier white-water rafting analogy again.

Let's analyse a new-economy industry in which there are both winners and losers making and losing lots of money. Why not take a look at the world of Internet Access Providers (IAPs) and Portals? It's an industry with concepts that seem so simple at first glance but just by scratching beneath the surface it can be seen that opposing business strategies already exist.

Let's just have a look at the differing strategies of the two biggest portals, Yahoo and American on Line (AOL). Yahoo is a portal which aims to be the one place in the world where anyone can go to find anything, locate anybody or buy anything on the net. They hope that by trying to be the best portal on the net, they can pull in enough 'surfing traffic' and generate revenue. IAP strategies are transparently clear just by looking at their home pages. In the case of Yahoo, it's fast to download, simple, with a clear contents list to get the surfer 'in the door' and on to wherever it is he wants to get to quickly. But is this 'best product' approach alone enough to ensure that they survive and prosper? It puts them under enormous constant pressure to always be the best and at the same time they take the risk that their surfers can still just go somewhere else.

AOL on the other hand is using an opposing strategy. AOL consider that the use of only a 'best product' strategy, as employed by Yahoo, will mean running a greater risk that people can always simply just go elsewhere. This is especially true of the Internet where
comparisons can be so easily and quickly made. AOL's merger with Time Warner is an attempt to give them a best product position in terms of content. Having got this base covered they still perceive the need to spread their risk. This goes back to the question of how sustainable a best product alone approach is and has lead AOL to diversify. Their strategy is to avoid putting all their eggs in one basket with just a best product approach and spread their risk along the Internet information value chain. Just by looking at AOL's home page it becomes apparent that they want to convince the surfer to connect and pay for a better service. The tendency in Europe and Latin America is to give the service away for free but if people are willing to pay for a better service the source of revenue becomes diversified through the charging of connect fees. The financial markets would appear to favour the diverging strategy of AOL but of course stock market results are not necessarily the best indication of whether it will work or not.

New technology and a new economy mean new terminology which can often be confusing and difficult to keep pace with. In the case of portals they can be divided up into two groups, horizontal, providing general access and vertical providing more specific information such as findmedical.com, which is basically a catalogue of medical suppliers. It's often not easy to know whether sites are merely portals or provide content as well. CNN would fall into this category, both a portal and content provider. So labels themselves are already struggling to keep pace with change.

I think one thing we can safely say is that IAPs are the natural way for most users to access the Internet. They provide faster response times to content residing in their own sites which begs the following question: If an Internet access provider had 90% of what you wanted, would you bother to go anywhere else? This 'steering' of consumers towards their own sites is an attempt to offer 'one stop shopping'. This could be shopping for products and services promoted by the IAP, news services, which IAPs are increasingly starting to dominate or financial information. Banks and other traditional financial institutions beware, AOL and Yahoo are currently the largest providers of financial information on the Net. By providing a broad enough service they can "capture" surfers and provide valuable information to advertisers on what their users do. As knowledge is power, this makes them extremely powerful organizations indeed.

I'd like to consider the market positioning of Portals and IAPs and in so doing return to the fact that many companies try to be the provider of a best product. This only tells the competition what to do in order to be better and tells the customer what to choose based on price. However, some IAPs are competing on more than just best product and price alone. By 'locking' clients in to your service they hopefully won't go elsewhere. Take the AOL Instant Messenger Service for example. If all your friends have instant messaging with AOL, the likelihood is that you are going to use AOL as well, as it is closed to other messaging services. This means that particularly younger people, who are the biggest users of instant messaging and chats, will tend to gravitate towards the messenger service with the most members where their friends are more likely to be. It is like going to the most popular club in town, except this club never gets too packed! This battle of network externality is being fought out now and the AOL instant messenger service seems to be winning out over its main competitor, the MSN Messenger Service. By not just playing the best portal strategy, but playing both strategies, best content coming from the Time/Warner merger and messenger services both pulling in and locking in new users, can AOL win this battle? Another valuable point here is that
through these messenger services and chat clubs, such as Yahoo's finance clubs and MSN's hotmail clubs, the users themselves provide the content thereby reducing the IAP's costs and making this content highly personal.

So how should you manage in all this turmoil with the prediction of the impact of new technologies so difficult to make? Let's just cast our minds back to earlier technological revolutions such as the telephone and the motorcar. Alexander Graham Bell had no idea of the extent to which his invention would be used or that it would lead to the opening up of telephone companies. Henry Ford couldn't have imagined as he sat upon his first automobile that it would lead to production lines of mass produced cars. Both these inventions had a tremendous impact on business and the way we live our lives. They both required the complete redefinition of business models as indeed will the Internet as well. The fact is that we don't know what these business models will be yet.

The above two examples only go to show that things are often not what they appear to be at first sight. Is it therefore possible to establish whether there really is something new in the New Economy and if there is, whether we can use an understanding of it to make better business decisions? Some basic economic principles have certainly changed. The ever decreasing cost of technology for one thing, especially in computing and communications, has changed the reach/richness trade-off. Amazon is a prime example of this, managing to reach more people with a richer content through the personalisation of that content. The lowering costs of search, coordination and supervision have all lead to lower transaction costs. The presence of network externalities, defined as the utility a user gets from an asset increasing simply by more users owning the same or a compatible asset. Previously exemplified with the instant messenger services, a further example of these network externalities is provided by way of the e-bay on line shopping club which is steadily growing even though it charges for its services. Amazon, on the other hand, is free to use but is not growing at all.

So what conclusions can be drawn from all this turmoil? Well, for one thing Internet is here to stay like it or not, and though it is not clear what business models will survive, you can be sure that they will be different from the current ones. Business models have a tendency to converge with both pure "e" players and the traditional businesses moving towards one another and meeting somewhere in the middle. This is exemplified with the high service/high cost top established players such as Merrill Lynch realising the need to restructure on cost and move towards a more economic service, and the new low cost pure "e" players adding costs and moving towards a higher level of service. This middle ground will be occupied by future "e" business players such as Schwab.

Pure dotcom models, other than businesses with a very high information content, are hard to sustain. There are advantages there to be had for existing companies that learn to adapt and build Internet into their core business activities. I'd like to round up by concluding that "e-players" will need to lower their costs and face lowering margins because of the ease with which comparisons can be made on the Net. Cost differentials will become increasingly important in a world of zero search costs. Finally, large organizational transformations will be necessary and this implies changing people and developing new capabilities. There's certainly a rough ride ahead for the new-economy generation of managers!

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