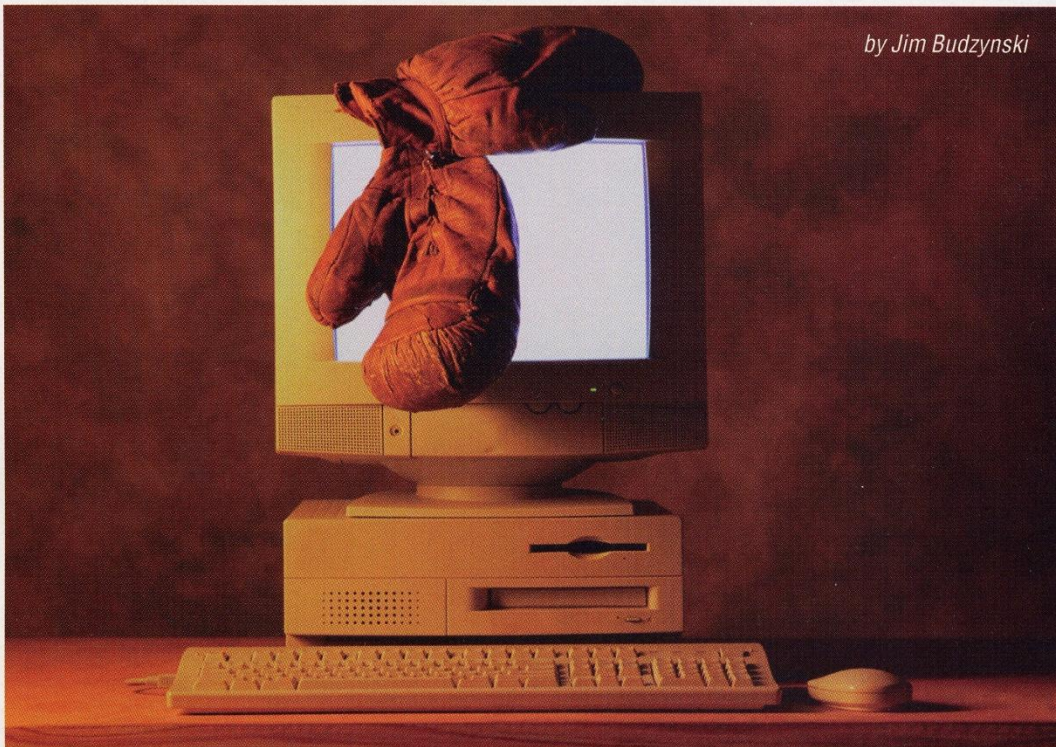


# E-BUSINESS:

## MODEL FOR SUCCESS OR FAILURE?

by Jim Budzynski



Like many of you, I spent some time over the recent holidays in an annual evaluation of my investments. Also like many of you, it was not an altogether pleasant experience this time around. The reason, of course, was the technology stock collapse, which started with Internet stocks and spread to all technology stocks — many of which had risen dramatically during the past few years.

Many of these stocks will recover over the coming months (or years). But many will go away forever. The Pets.com sock puppet already is dead. About 150 dot-com companies have failed in the past year, and dot-coms have eliminated nearly 42,000 jobs during that period. Indications are that an additional 200 to 300 companies will disappear before it is over.

So that “dot-com thing” is just a passing fad, huh? Think again. In addition to the collapse of the dot-coms, many established companies also have struggled in the past year — companies such as Xerox and AT&T. These old, established companies have seen a significant portion of the business value built over decades evaporate in a matter of months.

### BUSINESS MODEL MELTDOWN

Do these events share any common threads? The answer is a resounding “yes.” All these companies are victims of “business model meltdown.” Business model meltdown can be the result of a new business venture not founded on firm strategic footing in the first place. Or it can be an established business that fails to comprehend that the business model upon which it had depended for years (if not decades) is quickly approaching obsolescence as adoption of e-business explodes.

It is amazing how many dot-coms were started during the past few years with no apparent objective beyond “having an IPO and cashing out.” When asked what it is they intend to do for customers that they cannot do elsewhere, they frequently struggle to come up with an answer. Many simply have never thought deeply about how their technology will benefit customers. It should be abundantly clear to us all now that without a *raison d’etre* (reason for being), no company can last for long.

What about those established companies that are struggling? These companies have the same basic problem, but it came about differently. In their case they had a viable business model but it became irrelevant as technology advanced. Xerox CEO Paul Allaire recently was quoted as saying the company has “an unsustainable business model.” Michael Armstrong of AT&T said, “... voice long distance is not a business ... it is neither durable nor sustainable.” American Greetings lost 42 percent of its market value in a single day. It seems the reality that online greeting cards were affecting their business prospects began to occur to investors.

### E-BUSINESS IS HERE TO STAY

Many managers observing the collapse of dot-coms have chosen to believe that e-business is a passing fad and that they need not get involved. The reality is that at best it buys them a little time to get their strategy hammered out.

Despite the retrenching, e-business is here to stay. Five years ago America Online basically was the only significant dot-com with a market value of \$1 billion. Even after the market collapse of 2000, today there are about 350 Internet

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companies collectively worth more than \$500 billion. There are solid e-business companies in every industry, including agriculture, which have figured out how to add value for the customer and will be around for many years to come.

### IMPACT ON RETAILERS

Many in the industry frequently ask what effect e-business will have on the retail crop chemical and fertilizer input business. What is clear thus far is that e-business in most industries is being effectively used as a price discovery tool. A recent study of the insurance industry showed term insurance rates dropped 3 percent to 5 percent for every 10 percent of a target customer group that had Web access. (For example, if 30 percent of a particular target customer group had online access, retail prices dropped on average 9 percent to 15 percent.)

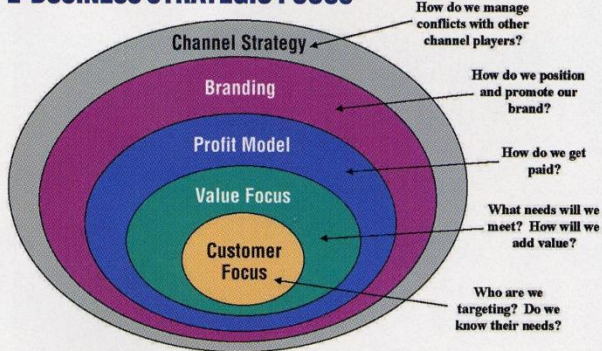
Whether these trends will bear out for crop production inputs remains to be seen, but what is clear is that just because growers aren't buying online in droves does not mean retailers will not feel the presence of e-business. For long-term survival, all retailers must have an e-business strategy.

In many cases the price erosion coming from online sales is caused by an unbundling of products from services. Because many retailers have never bothered to charge for their services, but instead captured payment for services in product margins, they have a significant (perhaps fatal) profit downside if they do not learn to charge for their services or stop providing "free" service when the customer is not paying for it.

### DESIGNING SOLID STRATEGIES

The first step in moving forward in e-business is recognizing what components are needed for an effective strategy (see figure). There are five key elements of effective e-business strategy:

#### E-BUSINESS STRATEGIC FOCUS



1. **Customer Focus:** Companies must define exactly who they are targeting and identify their needs. Even more so than regular businesses, one size definitely does not fit all.

2. **Value Focus:** Once the target customer's needs are known, a company must take a hard look at whether they are well-positioned to deliver on those needs. If you cannot identify how you will add value to a customer's business, you will eventually go away.

3. **Profit Model:** Companies must determine exactly how they will get paid for the value they add. If advertising is their core revenue stream, they must know *who* will advertise and *why* they will place their limited ad dollars with your company.

4. **Branding:** Brand positioning is critical to e-business success. In the coming shakeout the survivors will disproportionately be companies that customers know and trust. Putting your dot-com effort at arm's length to avoid a downside to your business if it fails may just end up being the *reason* it fails.

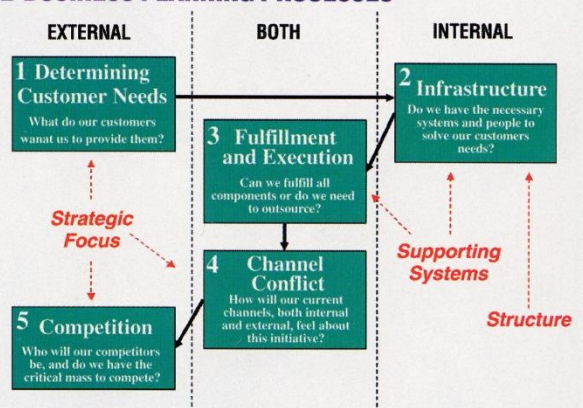
5. **Channel Conflict Management:** If you are a manufacturer, you must determine how your e-business strategy will affect your relationships with your channel partners. If you are a channel player, you must determine how to have your online business peacefully and seamlessly coexist with your bricks-and-mortar locations.

### PLANNING FOR E-BUSINESS

The planning process for e-business is relative simple and involves both an internal and an external assessment to deliver three core items:

1. **Strategy:** As mentioned above, the customer and other external views must be core to your strategic positioning. You should understand not only the customer's needs, but also who is likely to compete with you and how the channel will respond to your presence.

### E-BUSINESS PLANNING PROCESSES



2. **Structure:** Probably no facet of e-business is as frequently overlooked as infrastructure. Without a solid internal infrastructure to build upon as you move forward with e-business, you risk alienating long-term customers. This includes not only computer hardware and software, but also the technical skills needed by your people in order to effectively conduct e-business.

3. **Supporting Systems:** The one thing that is surely worse than having no e-business strategy at all is taking orders or conducting e-business online and then failing to deliver for your customers. You must have either solid internal capabilities or an outsourced arrangement with an experienced, reliable player.

If you take the time to think carefully about what you want to accomplish and how you can help your customers, e-business can be an excellent tool to support the growth and success of your business. **AM**

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