

Contents

<i>Acknowledgements</i>	vii
<i>Preface to 'e-shock: the new rules'</i>	ix
<i>Preface to 'e-shock'</i>	xi
<i>Introduction</i>	1
1 The new rules of the game	7
2 Overview: the key conclusions	37
3 Definitions and consumer trends	55
4 Learning from the pioneers in electronic selling	61
5 Future growth of electronic shopping: look out for 2005!	77
6 The ES test: how to tell how much your business is going to be affected	101
7 How can retailers respond?	119
8 Ten strategic options for retailers	133
9 The store of the future	151
10 Rapidly improving technology meets growing consumer demand	161
11 The world is changing: assets to knowledge	183
12 Structural difficulties with the internet will be overcome	191
13 How can manufacturers respond?	203
14 Ten strategic options for manufacturers	215
15 The new marketing imperatives: marketing in the electronic age	235
16 Setting the strategy and mobilising the organisation	257
17 The next wave in electronic shopping	275
<i>The battle for the digital consumer – a case study</i>	291
<i>Appendix 1: The retailer dilemma – can shops still be profitable?</i>	303
<i>Appendix 2: Retail banking case study</i>	312
<i>List of figures, tables and plates</i>	319
<i>Index</i>	322

1 The New Rules of the Game

Introduction

The internet revolution continues at a pace. Many companies are now scrambling to catch up, working out how best to embrace the new internet and wireless technologies, looking to adapt to the different opportunities for communication and interaction, adjusting to the new ways of doing business.

But it is not proving easy to master the new environment. Competition is moving fast, alliances are being formed, joint ventures negotiated and new market forces are being unleashed faster than was ever thought possible. It is proving such a demanding and even frenetic situation that old ways of doing business are having to be thrown out of the door.

There is a fundamental shift taking place and there's no going back. Fifty years of teaching at Harvard Business School are being turned on their head as companies wake up to the new disciplines. There is a new game in town and it is now about learning and embracing the new factors for success.

Not quite the law of the jungle, but certainly survival of the fittest! The changes are coming from all sides. The impact is wide ranging. What is needed for sure is a checklist, a consolidated list of what are the key things to think about, explore and react to. We need to be utterly clear about what the new rules of the game are.

In this chapter we set out ten new rules to live – or die – by. If you like, the Ten Commandments. There's ten new rules that affect every company and organisation. There's ten specifically designed for (r)etailers and then ten for manufacturers and suppliers. Working to each new rule will help set the agenda and framework for change: a survival guide for the new generation of wannabe business successes!

Before examining each of the rules in detail let's just consider their broad impact and application. The fundamental shift that is taking place in the way businesses need to operate just cannot be ignored. Symptomatic of the new rules is the growing dominance of e-commerce companies in the league table of top firms. In the UK FTSE 100, for

example, new entrants include leading technology players as well as established companies, like Cable & Wireless (ranked 18), which are being proactive in the e-commerce telecommunications environment. But there are also new entrants such as Dixons' Freeserve. These aggressive e-commerce chart-toppers are pushing out the old-guard firms such as Associated British Foods (104), Allied Domecq (105) and Hanson (108). This shake-up in the old order is also illustrated by looking at 'upstarts' like leading e-tailer Amazon.com. In 1999 Amazon, which had only been in existence for five years, took a stake in Sotheby's, which had been around for 200 years. But there was a vast discrepancy in each company's market value. Amazon was valued then at around \$20 billion. Sotheby's, on the other hand, had a just £200 million valuation. The new guard replacing the old!

The new rules of the game also mean there has to be a different approach to the way businesses are valued in the market place. A new set of metrics has entered the picture. Instead of focusing on price-earnings (PE) ratios, it is important to think about revenue multiples as well as the number of customers the New Economy companies are able to attract and the loyalty they can generate from those customers. The new focus is on 'lifetime value'. Essentially, this is the number of customers multiplied by the expected spend of those customers on an annualised basis. Profits are no longer the overriding measure. Investors have had to find new ways to appreciate the long term potential of a company and to evaluate growth and profits in the future, rather than market share and profits today.

Such reappraisal is enormously healthy. For many years companies were often unable to invest for the long term because they were saddled with short-term attitudes, earnings-per-share (EPS) dilution models and intransigent investment banking attitudes. Now the e-commerce revolution has breathed new life into companies' growth ambitions and it is enabling the more forward-thinking to relaunch and re-invigorate their long term investment intentions. In that way, companies that want to can start moving, instead of stagnating.

The changing rules of the game are also forcing the business world to move increasingly to electronic-only communication. General Electric (GE) was one of the pioneers of this trend when several years ago it informed its suppliers that it would in future only deal with them via the internet, dispensing with paper documents, reducing the cost of transactions and achieving greater efficiency all round. GE's radical move generated considerable interest in business-to-business (B2B) trading. Many other companies are looking to follow GE's example.

Anything that lowers costs, speeds up transactions and generally increases efficiency has to be taken very seriously.

What's more, under these new rules of the game, employees are expecting to be rewarded differently. They want a share in the benefits that are being generated by the e-commerce market and its rapidly escalating values. Their demands tend to be translated into substantial bonuses or stock options. They believe – and why not? – that they are entitled to a share of the cake. If they are creating substantial amounts of shareholder value, of course they should be rewarded. Established companies of the old economy are now struggling to find the right financial formulae to keep happy these often young and dynamic employees involved in the e-commerce side of the business.

Many 'old guard' companies are not taking the e-commerce onslaught lying down. Far from it. Some of them are fighting back with a vengeance. In many cases, industry leaders are forming consortia to attack new upstarts on a united front. *The Sunday Times* reported (summer 2000) in an article menacingly entitled *The Empire Strikes Back* that airlines, hotels and other old economy businesses were moving on line in a huge counter-attack against 'New Economy' companies. Garth Alexander, the article's author, suggested that hundreds of on-line travel agents 'could be forced out of business by two new master sites being set up by the airlines. Some 27 airlines, including American, Continental, Delta, Northwest and United, have joined forces to form a \$100 million site, codenamed T2. Several carriers, led by Continental, are planning another site that will offer deeply discounted fares and challenge businesses such as Priceline.com and Lastminute.com.'

The Sunday Times article goes on to mention that on-line estate agents are coming under attack from a consortium of America's top home builders, which are banding together to create a centralised on-line listing and sales site. Adds Alexander: 'An even bigger crisis faces on-line wholesalers and B2B sites. In the last month old economy companies have announced half a dozen new private on-line exchanges. Each threatens the existence of dozens of internet fledglings.'

In addition, points out Alexander, General Motors, Ford and DaimlerChrysler are setting up a huge on-line bazaar, tapping into a \$240 billion a year market. A consortium of 14 energy and petrochemical companies, including BP Amoco and Royal Dutch/Shell, is targeting the flourishing business of on-line energy exchanges and setting up its own global procurement exchange. It expects to handle \$100 billion of goods in its first year. Another on-line exchange has been set up for metal trading. America's three leading aerospace manufacturers are also clubbing

together with Britain's BAe Systems. Five of the largest American meat and poultry producers have joined Farmland Industries, a big farmer co-operative, to create an on-line wholesale marketplace. And 50 of the world's largest consumer products groups, including Procter & Gamble, Nestlé and Unilever, are forming their private B2B exchange.

Some well-established companies, such as Tesco, with its world-leading electronic shopping business, and Prudential with its Egg on-line financial services operation, are also in the forefront of e-commerce. Research studies leave Morgan Stanley Dean Witter in no doubt that the 'balance of power lies with the traditional strong retail brands' in terms of success on the internet. 'After all, their purchasing power, experience, brand reputation and infrastructure are not easily emulated. While many commentators may feel their historical base could easily be rivalled by the dotcoms, we think there is no substitute for experience and brand strength, which few e-tailers have at present.'

Both the New Economy dotcoms and the established bricks-and-mortar companies face a challenge that will test their resolve and ingenuity. So what precisely are the new rules of the game that they will have to tackle to be successful? Let's consider the detail.

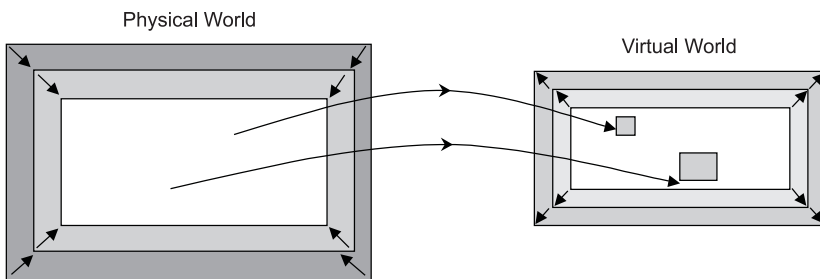
The Ten Basic Rules

- 1 E-commerce investments *can* be earnings diluting
- 2 Forget PE ratios when evaluating an e-business
- 3 Consider internet flotations as part of the formula for delivering shareholder value
- 4 Alliances are key
- 5 Networking is key
- 6 Customer knowledge really is power now
- 7 Data must move real-time
- 8 Implementation must be in weeks, not years
- 9 Take a portfolio approach to risk
- 10 Share the rewards with employees

*Rule 1 – E-commerce investments **can** be earnings diluting.* In the world of e-commerce, throw away all those earnings per share dilution models! The old corporate finance models no longer need apply. E-commerce activities are predicted to grow so fast that investors want to encourage companies to invest now to build up the foundations. For the right e-commerce propositions the City not only accepts dilution, it positively encourages it. There is a growing acceptance that rewards can come later – and maybe not for five or even ten years. To illustrate the point, Prudential and Reed Elsevier both made investments in their internet businesses of around £200 million at the turn of the century. These investments were earnings diluting but the stock market rewarded their enterprise and ambition. The share price rose significantly. And these two companies are not just a couple of rare exceptions to prove the rule. Others in both the US and Europe have experienced the same encouragement to go for the long term opportunity and invest now in building their e-commerce capability.

It is a bit like staking out the ground for the future and the market recognises that to survive companies need to do that and to do it now. Like the gold rush, there is only going to be so much territory, so companies need to stake out their share. Some of that will be proactive and aggressive stake-building. Some of it will be more defensive and based around: ‘If we don’t do it, others will’. But it’s an essential part of transitioning to, and exploiting, the new economic order.

Figure 1.1 Putting Stakes in the Ground for the Future



Rule 2 – Forget PE ratios when valuing an e-business. Market investors then are prepared to take a long-term view when backing e-investments. They are in the market for growth. Their immediate measure is revenues, not profits. As a result, all the major New Economy stocks are being valued on revenue multiples. And these multiples can be significant. Even

after the hype of early 2000 when valuations began to settle down, the average multiple according to a *Business Week* analysis of Nasdaq stocks had halved but was still at c. 40×. Even if it halves again, that still offers an extraordinary shareholder value opportunity which just cannot be ignored.

Look again at companies like Amazon and the other emerging major e-commerce companies. Amazon, of course, is taking its time to start delivering profits because of its urgent and demanding investment goals. But even if it didn't make profits for another five years, valuation models built by the likes of Wasserstein Perella and Morgan Stanley still demonstrate the company can have a substantial value and certainly reach the c. \$10 billion valuation mark that the company has had. It's all down to the assumptions that get made on growth, in terms of numbers of customers it can attract and make stay loyal and how much those customers can be expected to spend with the company. Believe in the assumptions in the model and you'd back the company. But after all, you don't have to invest!

Rule 3 – Consider internet flotations as part of the formula for delivering shareholder value. The stock market may be speculative, with fortunes won and lost, but it is an opportunity not to be ignored. If it is possible to convert investments or part of them or other business initiatives into sizeable gains for shareholders, why not take advantage of that? It is not a traditional economic value added (EVA) measure of shareholder value, but it certainly plays to the market value added (MVA) view of the world. Obviously, the timing has to be right, the business must be developing, and the proposition must be clear.

The opportunity here is basically to separate out new e-commerce initiatives, put them on a stand-alone basis, unleash the entrepreneurial energies and let the business team establish independent recognition for what it is doing, untrammelled and unchained from any old, established, traditional corporate cultures.

A number of companies, like Wal-Mart, Tesco and Prudential, have seized this way of organising their businesses and are looking to capture this shareholder value gain. In particular, they are following their instincts on how best to organise for success. But there is also compelling research to support this approach in Clayton M. Christensen's book, *The Innovator's Dilemma*.

In that research Christensen examines how winning companies in the past have responded best to 'technology discontinuities'. His conclusion is stark. The only way is to establish a separate business unit to enable it

to think afresh about the new market challenges. He cites IBM's now legendary failure to adapt its mainframe computer business to the new fast-growing PC sector. Cut the new team loose or watch it be constantly hampered by entrenched attitudes.

Rule 4 – Alliances are key. It could be argued that they always are, but in internet space they are a *sine qua non* – there's no success without them. The pace is so rapid it is impossible to try to build everything organically. Internet space is so vast that companies need partners to help navigate the way through. That also means sharing risks. Take the example of companies like Microsoft. They have invested heavily in building a web of alliances. Microsoft has numerous and complementary investment partners in cable (NTL, Telewest, AT&T, Comast), wireless technology (Ericsson, Nextel and BT) and internet software (Hotmail, Vermeer, Link Exchange).

Rule 5 – Networking is key. In the same vein, a company must be networked. On the net itself the yardstick is again Amazon.com with its now c. 300,000 affiliates. These are simple contractual arrangements which are all about customer acquisition and driving customers to each other's sites. In doing so, Amazon and others broaden their whole product/service proposition to their customers. They become quasi-portals, because they are centres of related product knowledge, access, information and purchasing.

Rule 6 – Customer knowledge really is power now. Over the past 20 years especially, companies have talked about 'the customer is king', 'customer service is important', 'we understand our customers'. But most have paid lip-service to those mantras and not actually embraced them rigorously throughout their organisations. Now, internet technologies have provided a catalyst. They enable companies more easily to capture data on who's buying, what they're buying and so make it possible to start delivering one-to-one, personalised and interactive communications between company and customer. Companies like Experian, the business information services group, therefore, are extraordinarily well placed in this arena, because over years they have collected this market information and can help other companies build it and exploit it.

Rule 7 – Data must move real-time. The new technologies make it easy to move large amounts of data in seconds. Netcard shot to prominence in the US with its 35-second credit card approval process on the net. Other

companies like e-Loan are moving to quick approval processes that instantly check an applicant's credit worthiness. Onvia.com, based in Seattle in the US, is another company that is using rapid response technologies to create a fast-growing business. It operates an on-line marketplace with more than 31,500 registered sellers. Small businesses can purchase everything from computers and furniture to debt collection and web page design. Put in a 'request for quote' on say, a \$2 million property insurance policy, fill in some details about what's to be insured, specify whether you want 10 or 15 bids, and click 'submit'. Odds are you'll have your quotes within the hour; for a web page design, you'll have quotes in just 20 minutes. Onvia.com's founder and president, Glenn Bellman, contributing to an issue of *Fortune*: 'The marketplace of the future will be like this – minute-to-minute, second-to-second transactions.'

Companies are building competitive advantage through this rapid integration and transmission of information. Today such enabling systems are more easily achievable. But they do require substantial commitment and investment to see them through and achieve the pay-back.

Rule 8 – Implementation must be in weeks, not years. The days are gone when a major SAP implementation exercise would often take two years and an army of people and consultants to complete. Internet technologies now enable things to happen more quickly, more cheaply and with less resource. Another example from Experian illustrates this graphically. When Morgan Stanley Dean Witter decided to launch their credit card in the UK they wanted to do it quickly and provide real time data processing and credit checks. All they wanted to bring to the party was their marketing and funding. They sought out a partner who could provide everything else and build their entire back office infrastructure and processing systems. Experian managed to complete the entire project in 87 days.

Rule 9 – Take a portfolio approach to risk. GE (General Electric) took a little while to get going in e-commerce. But when it did, it moved with a vengeance. As it mobilised resources it also set up an e-investments team. Its job was to investigate other companies that could help build up GE's e-commerce know-how, access new technologies, link into complementary products, provide additional value-added services and exploit the internet. But rather than evaluate each investment opportunity as an individual project, GE set up an e-investment fund to take a portfolio

approach. GE recognises that internet space is unpredictable. By definition it is more speculative. GE appreciates that some investments will win and some will fail. So success can be measured not by the fortunes of each initiative, but by the return of the whole portfolio spread. In the first nine months of establishing the e-investment team, GE made 50 investments and contrived to build quickly and aggressively on the same basis.

Rule 10 – Share the rewards with employees. The upsides are potentially so substantial for companies that do get it right in this area that employee expectations are changing. Once again, organisations have spent years paying lip-service to employee share ownership and have often come up with schemes which are so bureaucratic and burdensome that employees feel little incentive. But many surveys indicate that sharing the benefits can be highly motivating and drive employees to go that extra mile. So today to get the best people, stakes in the future or heavily geared bonuses that share the success are becoming a pre-requisite. Not surprising then, top US performers like GE, but also the likes of Cisco and Microsoft, consistently appear high in the Employee Ownership List – the list of companies where more than 4% of the stock is owned by the workforce. And there’s no doubt that creating millionaires can have a powerful and motivating effect!

The Ten Rules for Retailers

- 1 Be ready to cannibalise
- 2 Be prepared to become a multi-channel operator
- 3 Reappraise the property portfolio
- 4 Get on interactive TV
- 5 Think in terms of convenience, convenience, convenience
- 6 Content is key
- 7 Create a sense of community service
- 8 Measure the metrics
- 9 Invest 10% of your capital expenditure now in e-commerce
- 10 Test, trial and learn

Rule 1 – Be ready to cannibalise. The natural reaction of a retailer, who already has a substantial chain of stores, is to resist going onto the internet. The retailer may well consider that embracing the internet and encouraging customers to switch their buying habits by going on line might be undermining the traditional bricks and mortar business. Store staff may well feel they could be doing themselves out of job in the long run. Therefore, there needs to be a change of mindset within the company – an attitudinal acceptance internally that it is perfectly all right to cannibalise. The new mindset, to be effective, should pervade the whole organisation. It should involve the senior directors down to the most junior staff, although the tone is obviously set by top management. The reason Tesco, for example, has gained such a leading position in the forefront of electronic shopping is that it has told its staff that it does not matter if it ends up shifting some of its volume sales from its stores to the net. At the end of the day, if the company does it right, $1 + 1$ will equal 3 and everyone will be better off, the company will be stronger and in fact jobs **more** secure. The bottom line for the leading stores group is that it has to take advantage of the new medium, that the net is going to develop and it is better that it should make its move early rather than late so that it can learn the lessons in good time.

Being ready to cannibalise means being prepared to allow sales to switch from one channel to another – from the bricks and mortar stores to the internet. In actual fact, the retailer can probably be fairly cavalier about it in the current situation in which electronic shopping only relates to around 1% of retail sales. But now is the time to recognise that it will only need a 10–15% shift in the number of customers switching to the net for stores to become unprofitable. It may not be an immediate threat today because nobody is going to notice a 1% shift. But when it starts creeping up to 5%, 7%, 10%, it could suddenly have a major impact.

Management needs to ask itself at what point it should take the switch seriously. At what point will it decide to make changes in the organisation to cope with the escalating drift to the internet? Several of the major retailers interviewed for this book believed it would take no more than a 10% shift in retail sales from bricks and mortar to the net for their traditional stores to become unprofitable.

The trend to internet shopping will probably happen more rapidly than most retailers realise and the ones that are slow to take account of its repercussions are going to be caught out. There are already examples of where this is happening. Barnes and Noble, the leading book retailer, has been overtaken by Amazon.com largely because it has been relatively

slow to grasp the internet opportunity. Amazon, the relative newcomer, has exploited the internet to the full and reaped the rewards. Similarly, Compaq, the computer manufacturer and distributor, has been overtaken by other players because it was quite slow to recognise the benefits of the internet. Compaq held back because it was unhappy about the idea of unsettling its established distribution arrangements.

Another example is Merrill Lynch, the stockbrokers, which has seen other companies like Charles Schwab move into the market and capture quite a lot of its business. Schwab grasped the nettle and was prepared to move its bricks and mortar operation straight on to the internet, whereas Merrill Lynch was far more cautious and insisted on sticking to its traditional way of doing business for some time. Because it wasn't prepared to accept cannibalisation as a *de facto* part of the environment, it has seen some of its business eroded by more enterprising competitors in its market place.

Rule 2 – Be prepared to become a multi-channel operator. This follows on from Rule 1. Once an organisation has accepted the need to cannibalise, it should be prepared to see itself not just as a bricks and mortar company but as a company that is going to operate across a number of channels. In addition to traditional store trade, it must also operate on the net. It may also decide to operate through interactive TV home shopping channels. It could at the same time find itself having to operate through the mobile phone. It may also communicate with some customers simply by mail or fax. Companies have to think about becoming a multi-channel capable player. One way of thinking about it is summed up by the phrase: *clicks 'n' mortar*.

Probably the supreme example of a multi-channel operator is Coca-Cola, which adopted the principle long before the internet became a commercial reality. If you think about it, Coke sells the same products in different packaging forms, at different prices, in different channels and nobody complains. It sells through pubs, clubs, restaurants, supermarkets and vending machines. It sells the same quantity of Coke at different prices and in different shaped bottles and cans from a variety of outlets and everybody is happy. The consumer continues to purchase it readily, the retailer or distributor at the point of sale continues to stock it. All accept the different value propositions that Coke has developed. That is a model multi-channel operation and it doesn't happen overnight. It has taken Coca-Cola some time and a lot of effort to reach that stage in its marketing strategy. It has effectively segmented its channels of distribution and developed separate channel propositions for different consumers.

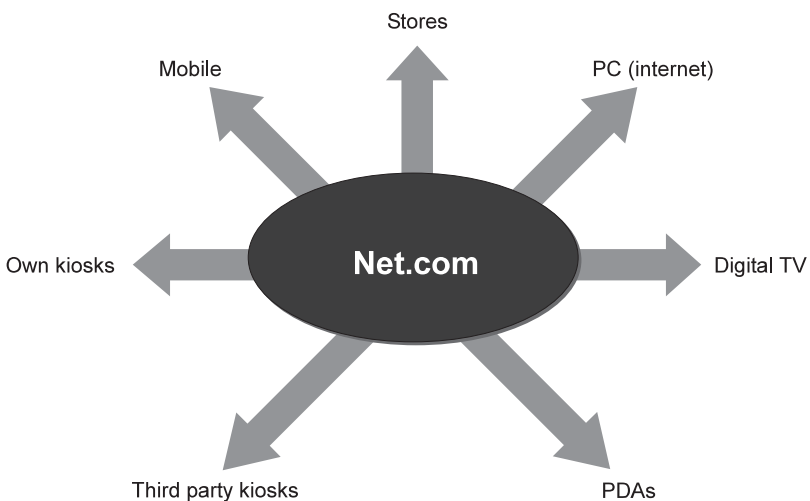
Another approach is to think of it in territory terms. Companies like Nationwide Insurance in the US evaluated its marketing strategy and concluded that in some states it had well established channels of distribution through agents, but in other states it hardly had any business at all. Where it was physically thin on the ground it was unlikely to be challenging any *status quo*. In those areas, it reasoned, it made sense to go straight onto the net.

Similarly, Asda in the UK recognised that it had a low penetration of supermarkets in the south east of England. It made sense to focus on that as a pioneering experiment for electronic shopping rather than immediately impact on areas where it had a high density of well-established bricks 'n' mortar supermarkets.

This whole approach can be summarised by the concept of *ubiquity*. Companies need to be wherever customers want them to be – and that might be in all these different channels. It's just not possible to be precious about it and not be there because it might cannibalise traditional sales or because the necessary internet skills haven't yet been acquired. A company must develop the ability, otherwise it's going to be left behind and will lose business.

Research by McKinsey shows that those retailers who effectively combine bricks and mortar with the internet actually find that on average they are doing more business with their customers than before. The research revealed that the retailers who took this double-pronged

Figure 1.2 Multichannel Vision



approach were 10% better off with individual customers. That was because individual customers were making some purchases through the traditional bricks and mortar stores and some through the internet. The customer was spending on average 10% more with that company. This goes to illustrate that by positively combining the two channels, retailers can very productively persuade their customers to spend more money with them. Another recent example is Wehkamp, the Dutch catalogue company. In its first two years of internet activity it found that 18% of its customers were new and generating significant incremental business.

Rule 3 – Reappraise the property portfolio. Once the idea of cannibalisation has been accepted and the need to become an effective multi-channel operator internalised, then retailers should start evaluating whether they have the appropriate property portfolio to meet future needs. They need to ask whether it is necessary to hold on to all the shops currently owned. Maybe the New Economy won't require the same number of physical outlets in the future. Maybe they don't need to be the same size or should be in a different configuration. Perhaps they need to be presented differently or in different locations. What property portfolio will be needed in ten years time? What steps need to be taken now to make sure that in the future there is the right balance when e-commerce is a serious part of the business? Is the organisation geared up sufficiently well to be able to make the necessary adaptations to the property portfolio? A number of leading retailers are already engaged in reviewing where they stand in this regard.

It is necessary to plan quite far ahead because many shops are accustomed to taking on lengthy leases with upwards only rent reviews, particularly in the UK environment. Without foresight, there won't be the flexibility to move quickly when the drift to the internet starts to accelerate. There is already every indication that a growing number of consumers are embracing the idea that staple grocery items, for example, can be delivered to their home, reducing the time and effort they need to devote to shopping. It is, therefore, reasonable to assume that the number of shopping aisles found in typical supermarkets today will shrink in the future, freeing up extra space. What can this available space be used for? Should it be re-merchandised for other products? Or will the store of the future be quite different from how it is today? Maybe in future it will no longer consist of people pushing trolley carts up and down endless rows of aisles. Maybe it will be conceived as something entirely different, fulfilling a completely different social need (see Chapter 9 and 'store of the future').

Rule 4 – Get on interactive TV. Because so much of the approach to electronic shopping is US driven, debate tends to focus on the internet. There is also much discussion and hype about mobile phone commerce. There is nothing wrong with that, but it should not be forgotten that Europe – and the UK in particular – is a pioneer of digital interactive shopping on TV. There is every indication that interactive TV is in itself going to become a powerful medium for home shopping in the future. There are a number of leading UK companies developing the technology, such as News International's Open, Telewest and NTL. Retailers need to keep abreast of these developments and ensure that they are well placed to reap the benefits when the technology is sufficiently advanced to turn the potential into mass market appeal (see Chapter 17 and the case study (p. 291) for more interviews and detail).

Engineers are already developing set-top boxes for TV, which will give access to the internet and will feature special buttons to link users, for example, to the local pizza take-away or their preferred supermarket. These hot buttons will operate automatically and bypass having to specifically log on and dial up the internet.

Rule 5 – Think in terms of convenience, convenience, convenience. The sophism or motto that retailers have lived by in the past decade has been 'location, location, location'. The internet has turned that on its head. Location is irrelevant on the internet. Everybody starts in the same cyberspace location. It's all about convenience, convenience, convenience. It is now all about making it easy for customers to reach out, access your website and enjoy the experience. It is all about making it convenient. Convenience is at the heart of what fundamentally drives the demand for the internet. It is because it offers services in a more convenient way that people have become attracted to it. The retailers who are going to be successful are those who recognise this essential fact and are able to turn it to their advantage.

'Companies that deliver products with the greatest convenience are those that will prosper in the New Economy,' suggests *Business 2.0* in an article looking at the new success factors for e-commerce. 'Whereas traditional merchants are open during so-called business hours, limited hours of operation will soon be an anachronism for many types of business.' The on-line store stands ready to provide sales and service 24 hours a day, seven days a week. The Gap advertises that its on-line store is 'always open'. Banks once ran on what was called the 3-6-3 system: Borrow at 3 per cent, lend at 6 per cent, and make it to the golf course by 3 o'clock, giving rise to the expression 'bankers' hours'.

Electronic banking has changed that forever. Now Citibank tells us ‘the Citi never sleeps’.

A lot of observers insist the reason people shop on the internet is because it is the place to find bargains and it is all about price, price, price. This is a fallacy. The McKinsey study shows that most people shop on the internet for the sake of convenience and that price is in fact some way down the list of benefits. Amazon also argues that heavily discounted prices are not the main factor in its success. The internet book supplier insists that it is its excellent customer service that persuades people to shop with it. Its success is attributable to the provision of a totally satisfying customer experience. While it is true Amazon is using discounted prices today to grab some headlines and to give a fillip to its market share performance, this is only a short term strategy. Like all businesses, whether on the internet or not, Amazon will ultimately need to settle on sustainable prices in order to achieve sustainable margins. It believes that its customer service model – striving toward ‘customer ecstasy’ – will enable it to achieve that goal.

There is a lot of debate about what constitutes fulfilment or delivery in the context of internet shopping. One of the issues most frequently raised concerns how an efficient delivery to the door service will be achieved, which many people argue is at the heart of the focus on convenience. It is early days and logistics companies are still trying to work out the most practical way to achieve home delivery. At the moment there are lots of delivery vans dashing about all over the place, getting in each other’s way and finding it difficult to deliver on time because of traffic congestion and other obstacles. However, there is a whole raft of experiments being pioneered. The US is in the forefront of this innovation and its successful experiments will inevitably transfer to Europe. The focus is on how to reach the consumer in the most leveraged way. That has led, for example, to an experiment in Manhattan called ‘Urban Fetch’, which is also scheduled to cross the Atlantic. It offers within Manhattan delivery within two hours of things like pizza, basic shopping items, videos, books and CDs. To overcome traffic congestion, deliveries are being made by people on roller-blades, bicycles, motor-bikes – anything that ensures a trouble free delivery. This is essentially a solution for urban areas where the density of population is such that suppliers can achieve economies of scale. It is probably not the answer nationwide.

Other suppliers believe that to overcome the complications of delivery to the door, it might be more efficient to deliver to a neighbourhood pick-up point. It could be a local petrol station, the convenience store on the corner of the street or secure deposit boxes – typically places that are

manned 24 hours a day anyway. These are yet more aspects of convenience that are being explored. Ways to make home delivery more economical will continue to be looked at. At the moment each company providing an electronic shopping service has its own delivery arrangements, but this is likely to consolidate so that eventually we will get single service provision operating in a particular locality or sector of a town and a few leading major operators working nationwide with the necessary drop densities and economies of scale to deliver a very profitable business.

Rule 6 – Content is key. If companies are going to develop a web business they need to create an environment where it's about selling more than just the product range. It's about providing a website that can also be an informative and worthwhile experience. Just having a list of products on a page can be extremely boring. It needs to include, for example, a facility for providing product knowledge. Where groceries are concerned, a list of products is perhaps all that is required. It doesn't need to have that much elaboration. But when it comes to travel, books, CDs, holidays, financial services products, and that kind of thing customers want to find out more. They are seeking information and the internet is an excellent environment for providing all that. It can be provided in a fun, user-friendly way. It then develops what is called a *stickiness* to the site. It is a site that people want to access, to linger with and come back to time and time again, because things are happening on the site which are informative and are of benefit to them in planning their lives.

CDs are a good example of how this expanded service can be provided on the internet. Reviews of latest issues and samples of tracks can be downloaded. If it is a classical recording, different versions can be compared on line to help the potential purchaser make up his or her mind about which suits their particular taste. So don't simply put the brochure on line. Consider the net as a channel, a medium, in its own right, which requires the development of its own customer value proposition.

Rule 7 – Create a sense of community service. While getting on-line and learning about the net environment, try in effect to create a sense of community, so that those who log on feel they are coming to something that is more than just a list. Excite their interest and instil in them the feeling that this is the place to come to find out what is going on. A car dealer, for example, can establish a motor club with an abundance of

information about cars in general – make it the place to come to chat to people about the experiences they have had with various models of the car the site is selling. Maybe provide a site for do-it-yourself enthusiasts who want to converse with like-minded subscribers about how to go about their own car repairs. It provides an opportunity to exchange ideas and experience. Currently, this is done in written form, but there is already the technological means to do it verbally. It will soon be possible to have an interactive dialogue with a call centre representative, for example, who will be able to answer queries via a video picture in the corner of the PC screen. All that is part of community service.

There are a growing number of internet companies that have already seized the opportunity to exploit the on-line potential for creating a community service. One of them is called *Motley Fool*, which is in the financial services arena. Subscribers come on site to learn about financial services products, stocks and shares, among other things. The information is presented in a relatively fun environment with the emphasis on tailored and personalised communication. It's the place to find out what is happening with net stocks and shares in a club atmosphere. It has created a buzz of excitement about its up-to-the-moment, easy-to-use facilities. It's good at generating word of mouth so potential customers feel this is *the* site they should subscribe to rather than other competitors. Another community site is *ivillage*, which essentially is targeted at working women and families who want to learn about issues affecting their lives. Another is *Seniornet*, which is for senior citizens, and deals with issues affecting them. For example, members can also club together to buy computers and other products at discounted prices.

These community sites are again more than just a product list. There is something else going on that makes people feel it is the place to visit. It's very intangible and a bit emotional. It's somewhat contact-driven. It's a bit about brand values, which makes participants feel it is a comfortable, warm place to be, where they will meet others for a friendly chat to exchange ideas and information and learn about the latest developments in a particular product range. Another obvious possibility would be a site for mothers and babies, where parents can learn more about bringing up children, while at the same time buying on-line all the clothing and equipment for their offspring. This could even be extended to take advantage of the changing nature of bricks and mortar establishments. Mother and baby clubs could be launched in the product-vacated space where parents can meet each other physically and compare notes. It needn't be only a virtual experience!

Rule 8 – Measure the metrics. How to measure the progress of an internet business? Before even starting to grapple with earnings and profit, companies need to focus on a much more immediate set of metrics. In some relative order, these are:

- number of page impressions
- number of visits
- number of unique visits
- number of orders
- number of customers
- number of repeat customers
- individual customer value
- average basket/transaction value per order
- length of time visiting the site
- average clicks to order
- e-mail response times
- delay/drop-out rates per page
- delivery lead times
- customer survey satisfaction scores.

There are other measures of course. But what companies must learn to do is to monitor these key trends, develop the statistics and, most importantly, actively respond to them. It means trying to encapsulate and capture centuries of retailing and merchandising experience into just a few short years. It is about learning how to optimise and make most effective an internet business. It was never going to be easy but today's information technology environment means this data *is* available and the more determined management teams can learn to exploit it.

Obviously, in the long run, no company can ignore a lack of profits, but in the early stages when retailers are beginning to build up their internet trade they can use these new metrics to boost their confidence that things are going in the right direction and to pinpoint weaknesses in their approach. These measurements can also be used to benchmark against other on-line competitors and rival companies in general. If the metrics are more favourable than those of rivals, it would suggest the organisation is doing better than them. They might also be fed to the City via the annual report to assure investors that even if there are currently no profits, developments are progressing in the right direction.

These kinds of metrics have typically in the past been buried in the marketing department. Today they should receive wider exposure, because if a company is not making profits, how else do you evaluate

it, estimate when it might become profitable or whether it is capable of becoming a success in the future? There is now this new approach to the way companies in the internet space are being evaluated, particularly pure plays that are losing money.

Rule 9 – Invest 10% of capital expenditure now in e-commerce. Today, e-commerce may be no more than 1% of sales, but it can be expected to grow rapidly and it is necessary to create the circumstances in which a business can compete in that environment. If it only invests 1% of total capital in developing the on-line business it is not going to be able to achieve very much. It needs to start thinking about spending 10% of the capital expenditure now to create a viable e-commerce environment for the future. It is not uncommon to find US-based companies spending \$30 to \$50 million a year developing one web business. That is a significant amount of money. Some are spending more, some are spending less. But as the game shifts, as companies get better at exploiting on-line opportunities, the idea of getting on the web for \$50,000 by just posting a brochure on the screen and listing with Yahoo! as a search engine is entirely inadequate. Current trends demand something far more enterprising. Consumers' expectations are beginning to rise and the functionality of the information technology employed in the business needs to grow in parallel with these expectations. To be successful, companies must, for example, personalise the experience so that when particular individuals log on they can indicate that they recognise them and are aware from previous occasions what their special preferences are.

Restricting investment to 1% is short-sighted. A business needs to engage in a more aggressive spend to keep pace with the internet's rapid growth. If it doesn't invest ahead of the game it won't be in a position to ride the wave and reap the undoubted benefits to come. On the contrary, it will be caught out by others who have invested more daringly. It will also be in a weak position to compete against all the new entrants that are streaming onto the internet. While it has become less easy for new plays to attract venture capital nowadays compared with the end of 1999 and early 2000, good propositions are still managing to raise the money and will continue to do so.

Rule 10 – Test, trial and learn. Waiting to see how electronic retailing will develop in the future is a dangerous game. The cautious-minded may think they ought to bide their time and see how things pan out and perhaps review the situation when e-commerce has become a more significant force in the market place. But by then they may well have

missed the boat. Better to follow the example of Tesco for one which took the plunge early on in the game to learn important lessons that are keeping it in the forefront of latest developments.

In the beginning people scoffed at Tesco for manually downloading the on-line orders and re-keying them into their existing systems – an approach that seemed the very height of inefficiency. The lack of automation came in for a certain amount of derision. But the last laugh may well be with Tesco, because it had made up its mind to learn in easy stages. It was not prepared to ramp up too quickly sophisticated electronic links in its back-end information systems environment. It shrewdly decided to test the waters and try to measure the level of demand there was out in the market place for on-line shopping. Tesco was prepared to become part of the game and to learn from trial and error, trying out different approaches. It has proved to be a sensible route to take because by the year 2000 its internet home shopping business had become the biggest in the world with annual sales of £125 million plus. Its internet business – including its home shopping operation Tesco Direct and its own internet service provider – has now become so significant that it has decided to spin it off as a wholly owned subsidiary. It was reported in 2000 to be investing £35 million into Tesco.com in the current financial year. If it were to float Tesco.com on the stock market it would probably find that it had created £1 billion plus piece of shareholder value, which will of course become even more valuable as time goes on.

The Ten Rules for Manufacturers

In this section we look at the ten new rules applicable to manufacturers and suppliers of consumer goods. They are equally applicable to the providers of services, such as banks and building societies. Manufacturers generally have been slower than their retail counterparts to take advantage of the net and to exploit it as a medium. The main inhibiting factor has been that they have not wanted to upset their retail distributors. Manufacturers have feared that if they disintermediate their retail distributors they will retaliate by cutting them out of their order books and that, naturally, is something manufacturers are very anxious to avoid. This understandable caution compelled manufacturers to tread very carefully in the early stages of e-commerce. Between 1995 and 1998 they hardly embraced the net at all. If they did anything it was to place some general information about their products on a website, maybe mentioning the retail outlets they could be obtained from.

There are signs, however, that this cautious attitude on the part of manufacturers is beginning to change, for two basic reasons. One is that they have seen other more adventurous competitors taking advantage of the web and stealing a march on them. Secondly, manufacturers are beginning to see that others of their ilk have developed much more of an internet presence and still managed to retain good relations with their retail distributors. In this section we explore the ten new rules manufacturers should adopt based on current experience that will help them to pursue best practice in this area. We firstly look at five market-facing opportunities for manufacturers and then at five rules to help them take advantage of new internet technologies in the supply chain.

Five market-facing rules for manufacturers:

- 1 Get the product on the web
- 2 Get networked
- 3 Establish direct on-line links with customers
- 4 Develop a net-differentiated value proposition
- 5 Sell selectively on the net

Five supply chain rules for manufacturers:

- 6 Joint venture with other manufacturers
- 7 Link with own suppliers
- 8 Join an exchange
- 9 Use the net to improve productivity
- 10 Outsource

Rule 1 – Get the product on the web. It is pointless taking no action for fear of upsetting retail counterparts. The fact is manufacturer suppliers just cannot afford to ignore the challenge of the internet. They don't necessarily have to use it as a selling medium. But at a barest minimum it is essential to be present in the e-world and make as much of that presence as market conditions will allow. At least describe the product and make information about it widely available.

Take the examples of Sony and Toyota, which have both created very informative and entertaining websites. Sony's website incorporates games, competitions, kid zones. Even though there are only limited possibilities to buy a Sony product on line, there are still powerful reasons for visiting its website. Sony has created the sense of community and 'stickiness' we referred to earlier in this chapter. It has given Sony the chance to learn about being on the net, how to create an effective website. It has also given Sony direct access to its customers, because each customer who visits the site provides Sony with detailed information for its customer records, which is invaluable for future marketing campaigns and provides immediate market intelligence and consumer research.

Long before Toyota began to think about selling cars on-line it decided that, rather than do nothing, it would create an on-line environment that would not upset its dealers. So when it offered car promotions they were advertised on-line, not just on the telephone. People could dial 1-800 to hear the commercial or go to Toyota.com. In fact, Toyota found that with some of its promotions more people went on-line to obtain the information than used the telephone. This consumer interest prompted Toyota to go a stage further and it has since set up Gazoo.com, which has become one of Japan's most popular cyber gateways, peddling everything from brake pads to hit compact discs to horoscopes. According to *Business Week*, Toyota's Gazoo.com division 'boasts more than 50 vendors, 500,000 members and 2,000 new subscribers every day. It's so popular that almost 13,000 convenience stores want Gazoo.com terminals to go in their locations. Consumers will order stuff at Gazoo kiosks, then pay and pick up their deliveries later at the store.'

Manufacturers like Sony and Toyota have gone beyond just sticking their brochures on the web. They are providing information and entertainment and hot links to other relevant sites. It could actually be hot links to their retail partners. So, while retaining good relations with their retail partners and dealers, they are learning about the web, picking up customers and reinforcing the brand name.

Rule 2 – Get networked. There is no point keeping the website passive. Wherever possible link up with other people, while still maintaining current distribution arrangements. Link up with affiliate partnerships, as Toyota does, so that, while not necessarily selling on line, a manufacturer can still actively engage with and through other people who, for example, do sell complementary products on-line.

It is possible through the network to develop new promotions and sponsor other people's sites. The decision of Unilever and Procter &

Gamble to back teenage websites is a good example. Unilever has invested in *Wowgo*, a new on-line Europe-wide lifestyle brand for teenage girls, which was launched in 2000. The internet venture is targeted at girls aged between 12 and 16. It features a customised homepage and links to separate microsites covering issues such as health and beauty, relationships, music and entertainment. It is also being used to collect generic, non-specific data on users and trends in the teen market, which is then being sold to third companies. As a further revenue stream, Unilever is looking at potential sponsorship tie-ups with 15 to 20 partners for specific parts of the site. The Unilever initiative is expected to use the site to go head-to-head with rival Procter & Gamble, which also announced plans in 2000 to launch a teenage-focused website in conjunction with portal, Excite@Home. It was reported that the site would have a budget of several million pounds and would provide community, chat and other interactive services alongside content secured through third-party networked deals.

Rule 3 – Establish direct on-line links with customers. Manufacturer suppliers can now use the opportunity, not just to reach customers on line in the way Unilever and Procter & Gamble does, but actually to build up their own customer on-line data base. This can be valuable not just for marketing campaigns, but maybe eventually, if it is appropriate, for direct selling. The latest internet technologies facilitate this. The advances that have been made in this area were outlined in a special report in *Business Week*: ‘The latest advances in software technology make it possible for companies to amass detailed profiles of customers, offer them just the things they’re likely to buy, reward them for loyalty, and quell their frustrations. And, thanks to the web, companies can keep all of their information about customers in a single electronic storehouse, easily accessible through web browsers for executives at headquarters, salespeople on the road, and service reps in remote call centres. It’s all about delivering TLC (tender loving care) – internet style.’

David Caruso, a vice president at market researcher AMR Research, told *Business Week*: ‘Everybody is scrambling to grab the customer and not let them go.’ The *Business Week* article goes on to point out that the latest internet technology promises to transform the way companies do business. ‘Gone are the days when they could afford to build products without knowing for sure if customers would snap them up. Now they can learn precisely what their customers want before they design a single widget. Manufacturers can even let buyers specify the key features they would like before a product is assembled. And by using technology to

track their every encounter with a customer, companies can easily separate out the best from the bad – and focus their marketing muscle on customers who are likely to buy often and pay their bills on time.’

For example, Cozone.com, an on-line computer retailer, has taken full advantage of the latest internet technology to glean data about its customers. Using Silknet’s new virtual sales assistant, Cozone.com has created ‘Jill – the Notebook Advisor’. It’s a piece of software that walks customers through a series of questions about their lifestyles and what they’re looking for in a computer – then makes recommendations. Cozone.com gathers a vast amount of data from cybershoppers and uses it later to target them with e-mail promotions. But mostly, ‘Jill’ is about making customers feel good about their experience so they want to come back for more. Other internet-based software packages, like Siebel, enable companies who are new to the game to develop better links with their customers, understand what their customers’ needs are and manage the customer relationship more efficiently. There’s no excuse for not getting close to customers.

Rule 4 – Develop a net-differentiated value proposition. When potential customers visit the net to understand more about what’s on it they have certain expectations. It’s not like walking into a shop. They will want a different experience, because it is a different medium. And so different value propositions need to be established (as Coca-Cola did). Think through what needs to be said and how to package it. What sense of community needs to be achieved? What contents? What games and competitions? It may be appropriate to set up distinctive websites for kids and a separate one for older customers. Again, it may not be essential to sell to them, but it is essential to come up with ideas to attract them.

One way to achieve this is to use personalised software. A company called Netperceptions, for example, has developed highly personalised software that enables companies to tailor their response to a customer’s individual needs. If, for example, a company is a supplier of CDs and learns that one of its customers is interested in classical music, it can direct that person to the latest releases the minute they arrive on the website rather than making them wade through a lot of other selections before arriving at particular preferences. Companies can get customers to buy things they might not have intended to purchase if they personalise those customers’ experiences enough through a developed value proposition.

Rule 5 – Sell selectively on the net. Manufacturers may have been inhibited about upsetting retailers through exploiting the net, but that

does not mean manufacturers need be excluded from selling direct on line, provided they go about it in a subtle and shrewd manner. Procter & Gamble, which sells its Hugo Boss perfume over the net, illustrates how the softly, softly approach can work. Procter & Gamble's research shows its mainstream retailers that this particular line of perfume appeals only to a certain target niche and so it wants to use it for a pilot experiment. It wants to develop a community and selling environment on the net for Hugo Boss, but one where both P&G and its retailers will win because it will enhance awareness, build brand values and so total sales across the whole market will grow. P&G is attempting to create a life-style website, while at the same time selling its perfume. It reassures its retailers that it is not competing with them or trying to disintermediate them. It's a tactic that helps companies like P&G learn more about the net, little by little, rather than burying their heads in the sand, saying they are not prepared to risk upsetting their traditional outlets.

Another good example of this approach is to look at how Quaker Oats dealt with a poor selling cereal called Quisp. For a decade, the crunchy corn cereal could only be found in five and a half US cities. The half was Buffalo, where Quisp showed up in one or two groceries. With only 92,000 boxes sold over a 12 month period, the brand was barely a blip for industry-data collectors. But Quaker couldn't bring itself to pull the plug. Quisp, a cross-eyed cartoon character with a propeller on his head, whose popularity peaked in 1968, inspired nostalgia at Quaker's Chicago headquarters, reminding old hands of a time when the cereal business wasn't so competitive. So the cereal survived, albeit barely – until Quisp began its quirky quest on the internet.

It turned out that veterans at Quaker were not the only ones to feel nostalgic about the offbeat cartoon character. Quaker, which maintains websites for each of its cereal brands, noticed that www.Quisp.com was drawing far more attention than bigger brands like Cap'n Crunch and Life. Quaker's marketing department sensed an opportunity. But it needed a way to satisfy Quisp lovers without taking precious grocery-store shelf space from other Quaker cereals. To solve the problem, Quaker built a link between Quisp's website and www.netgrocer.com, an on-line retailer that sells only nonperishable grocery items and delivers them throughout the US within two days. Quisp quickly became NetGrocer's best-selling cereal, outselling even the industry titans, Cheerios and Frosted Flakes, often by ratios of two to one.

The outcome could hardly have been better for Quaker. Provided it keeps Quisp in a contained environment, it is learning a great deal about selling on-line without causing much concern among established outlets.

Rule 6 – Joint venture with other manufacturers and suppliers. As we've discussed, anything that looks to directly disintermediate retail customers is viewed as threatening by them. Often that perception among retailers is just that – a purely emotional reaction without real consideration of the underlying economics and actually how both parties can win. Because manufacturers can't stand still, what other ways are there to respond to the e-commerce challenges and opportunities?

One way might be to collaborate and joint venture with other manufacturers in the same industry. Co-operate rather than compete. Establish a joint approach that is so compelling that retailer customers just cannot resist it. They might be able to delist one brand in the category, but they can't delist them all. It's always possible as well to start to do this in a less confrontational manner and choose relatively small product categories to test the ground rather than putting the entire business range on the line.

With this approach no doubt in mind, Ford and General Motors have each launched initiatives to sell cars directly to the buying public on line. There is no suggestion there was any collusion between them but, because these two major car companies are both moving in the same direction and more or less at the same time, it becomes an industry-wide trend which defuses some of the opposition that might have come from established car dealers. They can say to their dealers that the industry is changing and they have got to change with it. By moving in this way, Ford and GM are creating an industry-wide dynamic that gives them the muscle to leverage the internet in a more positive way. Of course dealers are pushing back and even using political lobbying to assist their cause, but there's no doubt the likes of Ford and GM are putting their stakes in the e-space.

Similarly, a UK plastics manufacturer, looking for ways to avoid upsetting its traditional wholesalers, decided to create what might be called a plastics portal on the web. Visitors to the site, including its existing customers, can obtain information about plastics and other manufacturers can exhibit their plastics-related wares on it. The plastics portal is an example of a manufacturer trying to establish new routes to market and potentially new markets of distribution, but through collaboration with its supply chain, strengthening its own market position.

Rule 7 – Link with own suppliers. The Matsushita Industrial group recently announced it will set up a vast internet bazaar for most of the

materials and components it buys from thousands of suppliers, in one of the biggest moves by an Asian industrial group to tap the web for efficiency gains. By March 2001, Matsushita – a conglomerate of 11 makers of products such as fax machines, VCRs and digital camcorders under brand names including Panasonic and National – expects all its manufacturing-related purchases in Japan to go through the new web-based marketplace. It is planning to bring overseas suppliers into the system at a later stage.

Given Matsushita's clout as one of Japan's dominant electronic equipment makers, the move may well inspire similar steps at other Japanese companies, which have been struggling to restructure but have been slow to weave the internet into their manufacturing operations. Matsushita plans to switch 3,000 large-scale suppliers of parts and materials to the new web-based system by March 2001. Those suppliers account for more than 98% of the parts the group procures from a total of 7,000 suppliers in Japan.

IBM is another company that is exploiting the internet to achieve greater efficiency in its dealings with its suppliers. A new on-line procurement system has eliminated five million pieces of paper a year, among other things. IBM bought \$13 billion worth of goods and services over the web in 1999, saving more than \$270 million. Still, IBM continues to look for ways to improve efficiency. It is getting smarter about saving money on computer parts too. It buys from suppliers who may build only a small part of the machine – say, the motherboard for a personal computer. But in the case of a motherboard, scores of microprocessors from other manufacturers go into making that part before it is delivered to IBM. So IBM asks the company making the motherboard to supply it with a list of all the chips, along with their prices and their suppliers. To do that, IBM has wired up some 12,000 suppliers to its network. All the information IBM gathers is then placed in a huge database that includes what IBM pays for every microchip or part to make other products the computer giant sells.

IBM uses data-mining software to drive down procurement costs and improve efficiency. It can see whether, for example, chip X used by its motherboard supplier is also used elsewhere in the company. The software compares the price IBM pays with what the motherboard maker spends. If IBM is getting a better deal on chip X, then IBM will go to the manufacturer of chip X and demand the motherboard maker get the same price. The motherboard maker has to lower its prices to IBM by the same amount.

Rule 8 – Join an exchange. There has been a significant new development in the B2B market during 1999 and 2000 that has seen major companies joining together to form buying exchanges. The collaborations have mostly been between corporate giants, mainly the market leaders in their respective fields. These industry giants have realised that combining their strengths leaves them less vulnerable to dotcom start-ups looking to break into their market. The trend began in the autumn of 1999 when General Motors and Ford announced plans for electronic-based B2B procurement systems. GM – together with Isuzu and Suzuki, its Japanese affiliates – teamed up with Commerce One, a leader in e-commerce software, to form TradeXchange, while Ford partnered with Oracle, the US software group to form AutoXchange.

The potential for both these systems was quickly seen as huge, reports the *Financial Times*. Both manufacturers interact with about 30,000 suppliers and the GM-Isuzu extended supply chain is thought to total about \$500 billion annually, while Ford's is around \$300 billion. Comments Nikki Tait of the *Financial Times*: 'Not only would the car companies' own purchasing requirements be pushed through these systems, but suppliers could also use the on-line facilities to do their sourcing, for anything from nuts and bolts to stationery.'

The car industry initiative was followed in early 2000 by the launch of a global B2B on-line exchange for the retail industry by Sears and Carrefour, two of the world's largest retailers, and Oracle, the US software group. The exchange, GlobalnetXchange, will enable retailers to buy all types of goods and services over the internet. It will handle Sears' and Carrefour's combined \$80 billion annual purchases from 50,000 suppliers and will be open to all retailers – a \$50 billion world market. The retail exchange, observes the *Financial Times*, provides further evidence of the rapid growth of B2B business e-commerce, which is expected to reach \$2,000 billion by 2004. 'Establishing a single industry-wide exchange rather than numerous competing exchanges was critical to achieving cost savings', the retailers said. Often alternative exchanges have also been set up in this space as companies scurry to find appropriate partners.

Rule 9 – Use the net to improve productivity. Re-engineering was all the rage in the mid-1990s. But the vast and speedy internet is ushering in an even bigger wave of business transformation and cost restructuring. *Business 2.0* magazine suggests it might be called E-engineering.

‘Companies realise that it is not enough to put up simple websites for customers, employees and partners. To take full advantage of the net they’ve got to re-invent the way they do business – changing how they distribute goods, collaborate inside the company, and deal with suppliers.

Technology companies like Intel, Dell and Cisco Systems were among the first to seize on the net to overhaul their operations. At Intel Corp, for example, web-based automation has liberated 200 sales clerks from tediously entering orders. Now they concentrate instead on analysing sales and pampering customers. Cisco Systems, for its part, handles 75% of sales on-line. And 45% of its on-line orders for networking gear never touches employees’ hands. They go directly from customers to the company’s software system and onto manufacturing partners. That helped Cisco hike productivity by 20% over the past two years.’

Rule 10 – Outsource. When thinking about going onto the net, take advantage of the fact that internet technologies are enabling application service providers (ASPs) to help a company make it work. Rather than investing in the software and hardware involved and having to upgrade the software at regular intervals, let the ASPs take care of it, saving the hassle. A case study reported in the *Wall Street Journal* illustrates the advantages of taking this route:

Jim Dybalski, chief executive of LoanCity.com, an on-line mortgage company based in California, set up his operation from scratch by outsourcing to an ASP. His business plan was ambitious. He wanted to build up a customer base of more than a million within a few years. Any on-line operation of that scale would require a sprawling computing centre, which in turn would require a sprawling set of resources costing millions of dollars. Dybalski decided to let someone else worry about that problem. He hired an ASP to set up and run the various enterprise resource planning (ERP) business software packages that LoanCity.com would need to handle such areas as sales, accounting and human resources. Instead of making a huge technology investment upfront, he uses the internet to connect to the applications he needs located at his ASP. ‘I had six months to go from a mom-and-pop start-up to a world-class system. I don’t think I could have done that myself.’

A growing number of outsource providers are vying for a piece of the on-line customer support market. Though web-based support systems

are quite expensive, they can be a very worthwhile investment. For example, Cisco Systems has used on-line outsourced technical support to reduce its technical support staff by 1,000 people – most of whom were highly-paid engineers who were transferred to more complex and suitable tasks. In the past four years Cisco's sales have quadrupled, while support staff only doubled.

Outsourcing, utilising the latest internet technologies, can solve a lot of headaches, but never forget that the most important assets will remain the people. They are the intellectual capital and they will be the key in managing the relationships and driving future business success. As Don Tapscott, also writing in *Business 2.0*, puts it: 'In an economy like this, the only assets that really count are the intellectual assets – knowledge contained in the brains of knowledge workers.' And this asset needs to be nurtured even while the company is pursuing all the opportunities to capture further internet-enabled efficiencies.

* * *

What these 'new rules of the game' add up to is a blueprint for doing business in the twenty-first century. It is not that brands and service and customers and price and product features have suddenly become less important. They're just as critical. It's that there is now a new context in which they need to be applied, a new economic and business framework. And organisations generally need to become keenly aware of this new environment, embrace these new and additional opportunities and disciplines, and ensure they are continually evaluating their progress. The new game in town means some of the traditional barriers and boundaries are breaking down and new ones are taking their place. Understand these new rules and win. Ignore them and die.

Index

- AA 142
- ABC1 consumers 314, 315
- accounting rules 187–8
- Ackerman, James 277, 280–4
- ADSL (asymmetric digital subscriber lines) 174, 175, 294, 295, 301
- ‘ADSL Lite’ 174
- Advanced Micro Devices 271
- advertising 247–9, 254
- age 85
- agility, organisation 263–5
- Ahold supermarkets 152
- Alcatel 181
- Alexander, G. 9
- alliances 13, 170–1
- Allied Domecq 71
- Amana 100
- Amazon.com 8, 12, 109, 237, 240, 284–6
 - convenience 21
 - networking 13
 - pioneer 68–9
- America On-Line (AOL) 68, 138, 201, 240
- American Airlines 245
- Apple 304
- Argos 119–20
- Asda 123, 210, 271
- assets
 - retailers’ investment in fixed assets 304–7
 - shift to knowledge 58, 183–9
- ATM (asynchronous transfer mode) 173, 174
- AT&T 49, 180, 181, 198
- auctions 299
- audits of websites 254
- automatic teller machines (ATMs) 2, 152–3, 312
- automotive industry 70–1, 218
- AutoXchange 34
- Avis 270
- Avon 211
- B&Q 136
- ‘band together’ strategy 229–30
- bandwidth 278
- Bank of America 122
- banking 142–3
 - case study 312–18
 - ‘no-people’ branches 152–3, 230
 - supermarket banks 122
 - see also* financial services
- banner ads 249
- Barclays Bank 65, 72, 119–20, 153, 198
- Barnes & Noble 16–17, 68
- Barnevik, Percy 254
- Bartlett, Professor 50, 264
- basic rules 10–15
 - alliances are key 13
 - customer knowledge 13
 - data must move on real home 13–14
 - earnings dilution 11
 - flotations 12–13
 - implementation in weeks, not years 14
 - networking is key 13
 - portfolio approach to risk 14–15
 - strong rewards with employees 15
 - valuation 11–12
- Bayerische Hypotheken und Wechselsbank 317
- benefits: sharing 273
- Berry, Professor 165
- ‘best of both’ strategy 143–6
- store of the future 154–8

- Betamax 285
- betting shops 72
- Bezos, Jeff 68, 284
- biometry 196–7
- Black & Decker 209
- ‘Blacklist of inappropriate advertisers’
web home page 194
- Blackwell’s 136–7
- Blair, Tony 168
- Boeing 227
- Boots 122, 306
- Borders 68
- ‘brand-driven’ strategy 223
- brands
 - customer familiarity and
confidence 108–10
 - values 186–8
- brewers 71
- Bristol Myers Squibb 247
- Britannia jeans 209
- British Airways 142
- British Interactive Broadcasting
(BiB) 72, 276, 277
Open 280–4, 290
- British Satellite Broadcasting 65
- British Sky Broadcasting (BSB or
BSkyB) 177, 178, 276, 291, 292
- British Telecom 153–4, 301
- broadcasting digital
technology 293–5, 299–300
- broadband ISDN (B-ISDN) 174
- ‘bucking the trend and revitalisation’
strategy 133–4, 146–7
- Burke, Raymond 40, 42
- business-to-business sector 227
- button ads 249
- buying exchanges 34

- Cable & Wireless 276
- call centres 126–7
- Campbell’s 212
- cannibalisation 16–17
- capital expenditure 25
- car industry 70–1, 218
- Carlton Television 276
- Carrefour 306–7
- Caruso, D. 29
- cash: electronic 198–9, 300
- catalogue companies 2
- cellular phones 180–2
- CentrO 3
- channel conflict 63, 65
managing 127–8, 209–14
- Chaparral Company 261
- Chemdex.com 74
- chief executives (CEOs) 88–9
- children 168–9
- children’s drop-in centre 156
- Christensen, C. M. 12–13
- CIDCO Inc. 181
- Cisco Systems 35, 36, 227
- Citibank 317
- Citicorp 179
- click through 253
- Clinton, Bill 168
- clothing 105
- clubs: consumer 75, 225–7
- co-branded ads 250
- Coca-Cola 17, 187, 207, 208, 210,
276
- Code of Fair Information
Practices 193
- coffee shop: electronic 158
- ‘collect and go’ operations 71,
137–8
- Collins, J.C. 49, 267–8
- Commerzbank 122
- communication 38, 50–1, 271–2
- communications technology
infrastructure development 81–3
supply-side investment 170–82
see also technology
- community bidding 299
- community centre 145
- community service 22–3
- community-wide ES projects 76, 169
- Compaq 17, 213, 219, 304
- competencies: changing 124–5

- complementary
 - segmentation 210–11
- CompuServe 316
- confidence
 - consumer confidence and
 - familiarity 45, 101–2, 107–10, 115, 117
 - in using new technologies 87
- consortia 9–10
- consumer attributes 101–2, 110–14, 116, 117, 166–7, 317
- consumer clubs 75, 225–7
- consumer demand 38, 40–1, 161–70
 - community ES projects 169
 - customer service gap 163–6
 - digital TV 282, 286
 - future growth of ES 86–9, 98–9
 - impact of 15% switch 169–70
 - interest in ES 166–8
 - 'kiddie power' and interest in ES 168–9
- consumer familiarity and
 - confidence 45, 101–2, 107–10, 115, 117
- consumer trends 55–9
 - eating habits 310–11
 - looking to take control 57
 - retail banking 314, 315
 - time poverty 57
- content 22
- content providers 296, 297
- content sites 242
- control
 - consumers and 57
 - general regulation and 200–1
- convenience 20–2, 46
- convenience 7–11s 130, 131
- convenience shoppers ('frenzied copers') 64, 111, 112, 113, 166–7
- convergence of technologies 58, 170–1, 263
- Cook, Paul 272
- Coopers & Lybrand 254
- copper telephone wires 172–5
- core competencies 124–5
- Cormany, Doug 250
- cost per click 253
- cost per head 253
- cost per thousand 253
- costs
 - banks 314, 315, 316
 - retailers 186–7
- Cotswold Shopping Service 74
- Cozone.com 30
- credit cards 196, 197–8
- critical mass 38, 42–3, 52, 77, 93–9
- Crowell, Robert J. 74
- CSC 264
- CU See Me 153
- CUC International 240
- customer satisfaction 163–6, 285
- customers
 - direct on-line links with 29–30
 - information about for
 - sellers 237–8
 - information for 238–9
 - knowledge of 13
 - power 13
 - managing loyalty 251–3
 - understanding 243–4
 - see also* consumer attributes; consumer demand; consumer trends
- CWC 291, 294
- Cyberway 92
- Daewoo 153
- Dalgety 221
- Data Encryption Standard (DES) 195–6
- database marketing 237–8
- De Walt 209
- decoder boxes 177–8, 178–9, 276, 280, 289
- delivery *see* home delivery

- Dell 66–7, 240, 259, 304
 demand *see* consumer demand
 design of website 244–5
 destination specialists 130, 131
 Deutsche Bank 122
 Dewhirst 221
 digital cash (digi cash) 198–9
 Digital Equipment Corporation 224–5
 digital television 291–301, 316
 broadband 293–5, 299–300
 investment 177–8
 next wave in electronic shopping 275–90
 satellite and terrestrial 292–3
 Telewest 295–301
 walled gardens 291–2
 Open 280–4
 digitisation 58, 258–9, 138–9
 dilution, earnings 11
 direct distribution 47–8
 Direct Line 62–3, 229, 317–18
 disintermediation 262–3, 312–13
 Disney 169
 Dixons 138, 276, 277–80
 Doc Marten's 4
 Dockers 209
 Drucker, Peter 185
 Duel, Charles 93
 DVB standard 177
 Dybalski, J. 35

 E*Trade Group 247–8
 earnings distribution 11
 eating habits 310–11
 Eccles, Julian 277
 Edah 252
 Eddie Bauer 139
 Edison, Thomas 93
 efficiency, supply-chain 121, 309–10
 Ekornes 219
 electricity grid 182
 electronic cash 198–9, 300
 electronic coffee shop 158
 Electronic Communications Privacy Act 1986 194
 electronic information-based options 215–16, 223–7
 electronic shopping (ES)
 continuing revolution 275, 276
 critical mass 38, 42–3, 52, 77, 93–9
 definition 55
 impact on shopping and retailing 38, 40
 revolution is going to happen 38, 38–9
 scenarios 77–9
 stages of growth 96–9
 employee ownership 9, 15, 273
 empowerment 268–74
 encryption 195–6
 entertainment
 retail/leisure parks 2–3, 129–30, 131, 146–7
 on website 245–6
 entrants: new 74–5, 143
 Ernst & Young 254
 Eroski 307
 'ES Test' 38, 45–6, 52–3, 101–17, 147, 216, 265
 consumer attributes 110–14
 familiarity and confidence 107–10
 product characteristics 103–6
 scoring 114–7
 ethical shoppers 112, 113
 Excedrin 247
 exchanges, buying 34
 Excite Inc. 68, 248
 Experian 14
 'experimenters' 112–13, 166–7
 'export' strategy 136–7

 familiarity and confidence 45, 101–2, 107–10, 115, 117
 fast-packet switching 173
 FBI 200–1

- Fedex 126
 fibre optic cable 175–7
 financial services 2, 44–5, 78–9
 banking *see* banking
 insurance 317–18
 new entrants 74
 product characteristics 106
 separate business strategy 229
 Finland 76
 Firefly 238
 firewalls 197
 First Direct Bank 64–5, 317
 First Virtual 317
 First Virtual Corporation 260
 FitzGerald, Niall 70, 214
 fixed assets *see* assets
 flagship stores and on-line
 delivery 140–2
 Flanagan's 74
 flexibility 263–5
 flotations 12–13
 Food Ferry 74
 'foods from around the world'
 counter 157
 Ford 32, 34, 276
 'forming a club' strategy 225–7
 France 86, 89–90, 199, 200
 Frank's Nursery 153
 Fred Meyer 243–4
 'frenzied copers' 64, 111, 112, 113,
 166–7
 fresh foods 157
 future growth 77–100
 consumer acceptance 86–9
 country snapshots 89–93
 critical mass 93–9
 infrastructure development 81–3
 scenarios 77–9
 size of the internet economy 83–4
 stages of growth 96–9
 users 84–6
 virtual store 79–80
 Future Wave Software 172
 Gap 245
 Gates, Bill 40, 179, 308, 312
 General Electric (GE) 8, 14–15, 180,
 211, 227, 271
 General Mills 245
 General Motors 32, 34
 Germany 86, 91, 122, 194, 199
 Ghoshal, Professor 50, 264
 Globalink 90
 GlobalnetXchange 34
 'go fully direct' strategy 230
 'going with the flow' 134
 Goodyear 219
 Gore, Al 39
 Great Universal Stores (GUS) 126–7,
 139
 grocery sector 2, 56
 change in eating habits 310–11
 product characteristics 105
 scenario 77–8
 Grove, Andrew 40, 184, 247
 growth: future *see* future growth
 GSM (global system for mobile
 communication) 180–1
 Guinness 71
 Gupta, Sunil 45
 'habitual die-hards' 111, 112, 113
 Hair, Joseph 50
 hand-held terminals 151–2
 Handy, Charles 51, 270
 healthy eating 157
 Heijn, Albert 152
 Hewlett Packard 213, 260
 high-street shops/malls 38, 43–4,
 129–30
 Hill, Kenneth 51
 Hoffman-LaRoche 261–2
 holidays 75
 home delivery 21–2, 250–1
 flagship stores and on-line
 delivery 140–2
 retailers and 125, 126–7

- home-delivery companies 72–4, 239–40
- home-delivery shop 155–6
- Home Depot 123, 305–6, 309
- host computers 81
- HOT (Home Order Television) 91
- households: penetration of
 - internet 1, 39, 81–2
- HTML 288, 290, 294
- Hughes Electronics 180

- IBM 197, 213, 227, 247, 316
 - PC/mainframe dilemma 303–4
 - supply-chain efficiencies 33
- ICL Computers 72
- immersion 111
- implementation 38, 50–1, 54, 134–5
 - people-empowered 268–74
- in weeks, not years 14
- industry pioneers 61–70
- infomediary service 300
- information
 - for buyers 238–9
 - local information area 157
 - moving data in real time 13–14
 - personal privacy 192–5
 - for sellers 237–8
 - sharing 271–2
- Information Infrastructure Task Force 200
- ‘information-only’ strategy 135–6, 223–5
- information technology (IT)
 - investment 86
 - and marketing 263
 - outsourcing 126–7
- infrastructure
 - consolidation 97
 - development 81–3
 - security issues 191–202
 - supply-side investment 170–82
 - see also* technology
- initial hype 96, 97
- innovation 111
 - retailers and 120–4
- instant gratification 162–3
- insurance 317–18
- intangible assets 183–9
- Intel Corp 35
- intellect 106
- Intellectual Law* 246–7
- interactive kiosks 153–4, 317
- interactive service platforms 291–301
- interactivity 246–7, 283
 - getting an interactive TV 20
 - see also* digital television; Web TV
- intermediaries: new 72–4, 239–40
- internet 55, 80
 - compared with digital TV 279, 283
 - consumer acceptance 86–9
 - country snapshots 89–93
 - critical mass 93–9
 - infrastructure development 81–3
 - ‘kiddie power’ 168–9
 - Net Generation 39
 - PC access and Web TV
 - access 288–9
 - penetration of consumer segments 248–9
 - penetration into households 1, 39, 81–2
 - retail banks 316
 - security issues 53, 191–202
 - size of the internet
 - economy 83–4
 - supply-side investment 170–82
 - types of connection 175, 176–7
 - users 84–6
 - Web TV 178–9, 277, 280, 286–90
 - see also* websites
- Internet Mall 138
- ‘interstitial’ advertising 248
- intuition 111

- investment
 - in e-commerce 25
 - in IT 86
 - in real estate 304–7
 - S-curve analysis 96–8
 - supply-side 170–82
- iPhone 181
- ISDN (integrated services digital network) 174, 175
- ivillage 23

- Janus Software 197
- Japan 207, 273
- Jewel/Osco 122
- John Lewis Partnership 273
- Johnson & Johnson 213
- joint ventures 32
- Jospin, Lionel 90, 168

- Ka-band 179
- Keep, William 93
- keyword ads 250
- ‘kiddie power’ 168–9
- Kniss, Liz 76
- knowledge: shift from assets to 58, 183–9
- knowledge capture 261–2
- Kodak 210
- Kohl 123
- Komenar, Margo 49
- Koogle, Tim 254
- Kopf, Curtis 277, 284–6
- Kraft 242
- Kroger 122
- Kumar, Nirmalya 47–8, 217

- Ladbroke’s 72
- large shopping malls/centres 2–3, 129–30, 131, 146–7, 306
- ‘learning, experimenting, investing’ stage 97
- learning from testing 25–6
- leisure/retail parks 2–3, 129–30, 131, 146–7
- Levi Strauss 4, 139–40, 213, 242
 - bonus 273
 - pioneer in ES 67
 - product segmentation 209
- Liberate 294
- Liedl & Schwartz 307
- lifetime value 8
- Lincoln Electric 271
- Littlewoods 126–7
- Lloyds TSB 65, 72, 316
- LoanCity.com 35
- local information area 157
- Lockheed Martin 180
- Logan, David 260
- London 76
- long-term strategy 38, 49–50, 265–8
- Loral Aerospace 179
- L’Oréal 242
- Lowe’s 309
- loyalty: managing 251–3
- loyalty schemes 252
- Lucky stores 122
- Lynn, Bruce 277, 286–90

- Macmillan, Harold 121
- Malaysia 176
- managed networks 316
- manufacturers 38, 47–8, 54, 99, 203–14
 - complementary segmentation 210–11
 - managing channel conflict 211–14
 - pioneers in ES 70–1
 - product segmentation 209
 - relationships with retailers 203–8
 - strategic options 215–33
 - ten rules for 26–36; direct on-line links with customers 29–30; get product on the web 27–8; joining an exchange 34; joint ventures 32; links with suppliers 32–3; net-differentiated value proposition 30;

- networking 28–9;
- outsourcing 35–6; selling
- selectively on the net 30–1;
- using the net to improve productivity 34–5
- territorial segmentation 210
- ‘Manufacturer’s Test’ 212–13, 216, 265
- market-facing rules 27–31
- market position 212–13
- marketing 38, 48–9, 54, 125, 235–55
 - advertising 247–9, 254
 - challenges 237–40
 - delivering on promises 250–1
 - design of website 244–5
 - entertainment 245–6
 - interactivity 246–7
 - with the IT department 263
 - managing loyalty 251–3
 - measuring 253–4
 - networking the net 249–50
 - overall electronic
 - objectives 241–3
 - understanding customers 243–4
- marketing services 126–7
- Marks & Spencer 105, 120, 139
 - partnerships 218
 - private label 121, 221
 - retail space 305, 309
- mass marketing 97, 98
- Matsushita 32–3
- Mayo Clinic 173
- McCann, Jim 64
- McCaw, Craig 180
- McDonald’s 221, 270, 272
- MCI 171
- measurement systems 253–4
- ‘mercenaries’ 111, 112, 113, 166–7
- Merck 222
- Merrill Lynch 17
- message security 195–7
- metrics 24–5
- Metro Centre 3
- micropayments 199
- microprocessors 184
- Microsoft 13, 177, 178, 247, 254
 - security 195, 198
 - Web TV 178–9, 277, 280 286–90
- Microsoft Network 201
- Microsoft TVPAK 287, 288, 290
- microwave oven 99–100
- Miller Brewing 250
- Milliken, Robert 94
- Minitel 89–90
- ‘mixed system’ strategy 140–2
- mobile commerce 180–2
- mobilisation of workforce 54, 268–74
- Mondex 300
- Morgan Stanley Dean Witter 14
- mortgages 78–9
- mother and baby clubs 75, 227
- Motley Fool 23, 226
- Motorola 179
- ‘move to private label’
 - strategy 220–1
- multi-channel operators 17–19, 279
- multimedia kiosks 153–4, 317
- music sales 74–5
- Nabisco 242
- National Computer Board (NCB) 92
- National Computer Security Association 197
- National Information Network (NIN) 92
- National Westminster Bank 140
- Nations Bank 122
- Nationwide 143
- Nationwide Insurance 210
- Net Generation 39
- Net Nanny 194
- Net Market 138
- Netperceptions 30
- Netscape 195, 249
- networking the net 249–50

- networks/networking 13
 - managed 316
 - manufacturers ad 28–9
 - retailers ad 127
 - value networking 127, 260–1, 262
 - wireless networks 151–2
- Nevin, Mike 277–80
- new products centre 157–8
- ‘new wave of technology and equipment’ stage 97
- News International 276
- Next 91, 123, 139
- Nielsen, A.C. 111, 166–7
- Nike 4, 211, 271
- Nissan 218
- Nokia 181
- Nordstrom 163
- Norman, Archie 271, 309
- Nortel 182
- Northern Rock 317
- Northern Telecom 181
- Norweb Communications 182
- Novon 207
- NTL 276, 278, 291, 294
- number of hits 253
- number of visits 253

- objectives: overall electronic 241–3
- ‘obstinate’ shoppers 167–8
- OECD (Organisation for Economic Co-operation and Development) 193
- ‘old guard’ consortia 9–10
- Olson, Ken 94
- OnDigital 293
- on-line communities 201
- on-line delivery and flagship stores 140–2
- on-line shopping malls 138
- 1-800-FLOWERS 63–4, 240
- one-stop shops 121–2, 129
 - virtual sites 229–30
- Onvia.com 14
- Open... 280–4, 290, 291, 292–3
 - open profiling standard 195
 - OpenTV 293
 - ‘order and collect’ operations 71, 137–8
 - organisation agility 263–5
 - organisation impacts 257–65
 - convergence 263
 - digitisation 258–9
 - disintermediation 262–3
 - knowledge capture 261–2
 - networking 260–1
 - virtualisation 259–60
 - Otto Versand 91
 - out-of-town centres 129, 306
 - outsourcing 35–6, 126–7
 - ‘own direct’ strategic options 215–16, 227–30

 - Pacific 92
 - packaging 105
 - Palo Alto, California 76
 - parking 155
 - Parkinson, Thomas 73
 - ‘partnership-based’ options 215–16, 217–21
 - Patterson, John 261
 - payment security 197–200
 - PC banking 313
 - PC private dial-up services 314–16
 - PCs (personal computers) 178
 - access to internet compared with Web TV access 286–90
 - household penetration 81–2, 92
 - IBM’s dilemma 303–4
 - internet shopping compared with digital TV 279, 283
 - portable 152
 - Peapod 73
 - Pentium Pro chip 184
 - people-empowered
 - implementation 268–74
 - Peripheral Vision 196
 - personal insurance 317–18
 - personal privacy 192–5

- personalisation 137–8, 299
- pet food suppliers 211
- PetsMart 211
- Petrillo, John 49
- pharmaceutical companies 211
- Philip Morris 212, 219
- Philips 178–9, 181
- Phillips, Fred 47
- picking area 158
- pioneers 4, 52, 61–76, 134
 - consumer clubs 75
 - general trial and experimentation 70–5
 - industry pioneers 61–70
 - manufacturers 70–1
 - new entrants 74–5
 - new intermediaries 72–4
 - retailers 71–2
- Pittman, Robert 84, 240
- planning 265–8
- Pocket Net Phone 181
- Porras, J.I. 49, 267–8
- portable PCs 152
- Porter, Michael 264
- portfolio approach to risk 14–15
- PowerTV 294
- Pressac 218
- Price Waterhouse 254
- privacy, personal 192–5
- private label 121, 206, 207, 220–1
- Procter & Gamble 213, 222, 237, 245, 254, 276
 - consumer clubs 226–7
 - Hugh Boss perfume 31, 228
 - relationship with Wal-Mart 217–18
 - teenage website 28–9
- product characteristics 45, 101–2, 103–6, 115, 117
- product segmentation 209
- productivity 34–5
- products 55–6, 84
 - getting products on to the web 27–8
- profit and loss account (P&L) 186–7
- profit margins 38, 41–2, 169–70, 308
- Progressive Networks 173
- promotional sites 242
- property portfolio 19
- Publix 122
- ‘pull-based’ options 215–16, 221–3
- ‘pursuit on all fronts’ strategy 139–40
- Quaker Oats 31
- Quantum 209
- Quelle 91
- Quisp 31
- QVC (Quality Value Convenience) 2, 65–6, 282, 289
- Radio Shack 123
- Raychem 272
- ready meals 157
- real estate 304–7
- reception area 155
- Reed, John 312
- regulation 200–1
- Reichheld, F.F. 252
- relationship–management skills 125
- ‘reluctant’ shoppers 167–8
- resisting the trend 133–4
- retail banking *see* banking
- retail/leisure parks 2–3, 129–30, 131, 146–7
- retail margins 38, 41–2, 169–70, 308
- retail price maintenance 204–6
- retailers 3–4, 38, 44–5, 53, 99, 119–31, 284
 - ability to respond 120–8; changing skills and competencies 124–5; making the transition 125–8; pressure to innovate 123–4
 - future face of shopping 128–31
 - intangible assets 186–8
 - multichannel operators 279
 - pioneers in ES 71–2
 - profitability of shops, dilemma 303–11

- retailers (*cont.*)
 - relationships with
 - manufacturers 203–8
 - sales densities have plateaued 308
 - saturation in number of
 - shops 309
 - store of the future 53, 144–6, 151–9
 - strategic options 38, 46–7, 53, 133–49
 - supply-chain efficiencies already captured 309–10
 - ten rules for 15–26;
 - cannibalisation 16–17;
 - content is key 22;
 - convenience 20–2; getting an interactive TV 20; invest 10% of capital expenditure in e-commerce 25; measuring the metrics 24–5; multi-channel operators 17–19; reappraising the property portfolio 19; sense of community service 22–3; test, trial and learn 25–6
 - revenue forecasts 83–4
 - revenue multiples 11–12
 - ‘revitalisation and bucking the trend’
 - strategy 133–4, 146–7
 - RF (radio frequency)
 - systems 151–2
 - risk: portfolio approach to 14–15
 - Ridpath, Michael 79–80
 - Roddick, Anita 270
 - Royal Bank of Scotland (RBS) 138–9
 - rules of the game 7–36
 - basic rules 10–15
 - for manufacturers 26–36
 - for retailers 15–26
 - S-curve analysis 96–9
 - Saatchi, Maurice 43
 - Safeway 137–8, 152
 - Sainsbury 4, 119–20, 120–1, 137, 138 207, 252, 305
 - pioneering projects 71–2
 - sales densities 308
 - Sara Lee 219
 - Sasser, W.E. 252
 - satellite communication 179–80, 292–3
 - satisfaction, customer 163–6, 285
 - saturation: in number of shops 309
 - Schwab, Charles 17
 - Screen Phone 181
 - Seagate 227
 - search enquiries 299
 - Sears 123, 126, 211
 - Sears Home Services 251
 - security 53, 191–202
 - general regulation and control 200–1
 - message security 195–7
 - payment security 197–200
 - personal privacy 192–5
 - Security First 317
 - segmentation 111–13, 127–8, 209–14
 - complementary 210–11
 - product 209
 - territorial 210
 - segmentation grid 114
 - self-help 194, 198
 - self-service 120–1
 - sellors: information for 237–8
 - selling selectively on the net 30–1
 - SeniorNet 23, 226
 - senses 103–6
 - ‘separate business’ strategy 138–9, 229
 - service gap 163–5
 - need to address 165–6
 - services 55–6, 84
 - services arcade 157
 - SET (Secure Electronic Transactions) 197–8
 - ‘set up as a separate business’
 - strategy 138–9, 229
 - Sharing Plan 269–73

- Sherwin Williams 219
- Sheth, Jagdish 39, 42, 95
- shoes 78
- Shoplink 73–4
- shopping centres/malls
 high-street 38, 43–4, 129–30
 large 2–3, 129–30, 131, 146–7, 306
 on-line 138
 out-of-town 129, 306
- shopping.com 138
- shops *see* stores
- Shreeve, Gavin 313
- Siemens 199
- sight 103–6
- Silver, Jeremy 49
- Singapore 91–3
- Singapore ONE 92–3
- ‘singles’ nights’ 112
- Singnet 92
- Skiing in Vail 75
- skills
 changing 124–5
 sharing 272–3
- Slates 209
- smart cards 199–200
 loyalty system 252
- ‘Smart Valley’ project 76
- SmartGATE 199
- smell 103–6
- Smith Barney 181
- social shoppers 112
- socioeconomic groups 85
- Solectron 271
- solutions integrator: retailer as 127
- Sony 28, 178–9, 222, 228, 242
- Sotheby’s 8
- sound 103–6
- space: retail 304–7
- sponsorship 250
- SSL (Secure Socket Layer) 198
- Stern, Louis W. 43, 95
- store of the future 53, 144–6, 151–9
 ‘best of both’ illustration 154–8
 in-store technologies 151–4
- store traffic: impact of 15%
 switch 38, 41–2, 169–70
- stores 279, 284
 danger of dying out 38, 43–4
 dilemma of profitability 303–11
 saturation in number of 309
- strategic options
 manufacturers 215–33; band
 together 229–30;
 brand-driven 223;
 comparison 231, 232; form a
 club 225–7; go fully
 direct 230; information
 only 223–5; private
 label 220–1; separate
 business 229; strategic
 choices 232–3;
 technology-led 221–2; treat
 as another channel 227–8;
 woo the retailer 217–20
- retailers 38, 46–7, 53, 133–49;
 best of both 143–6;
 comparison and
 evaluation 147–9;
 export 136–7; information
 only 135–6; mixed
 system 140–2; pursue on all
 fronts 139–40; revitalise and
 buck the trend 133–4,
 146–7; separate
 business 138–9; subsume
 into existing business 137–8;
 switch fully 142–3; treat as
 another channel 138
- strategy
 clear long-term 38, 49–50, 265–8
 sharing 270
- Streamline 74
- structural difficulties *see* security
- ‘subsume into existing business’
 strategy 137–8
- Sun Trust 122
- ‘super retailers’ 206–7
- super smart card 199–200

- supermarket banks 122
- supermarkets *see* grocery sector
- suppliers, links withstore
 - operations 12532–3
- supply-chain efficiencies 121, 309–10
- supply chain rules 27, 32–6
- supply-side investment 170–82
- 'switch fully' strategy 142–3

- Taco Bell 123
- Tait, N. 34
- Tapscott, Don 36, 39, 47, 258
- taste 103–6
- technology 39, 53, 161–2
 - confidence in using new technologies 87
 - convergence of technologies 58, 170–1, 263
 - infrastructure development 81–3
 - innovations wrongly dismissed 93–4
 - store of the future 151–4
 - supply-side investment 170–82
 - time to penetrate mass market 94, 280
- 'technology-led' strategy 221–2
- Teledisc 179–80
- telephone banking 313
- telephone booths 153–4
- telephony
 - copper telephone wires 172–5
 - fibre optic cable 175–7
 - wireless cellular phones 180–2
- Teletext 281, 289
- television (TV)
 - digital *see* digital television
 - TV-based banking services 316
 - TV cable 175–6
 - using interactively 289
 - Web TV 178–9, 277, 280, 286–90
- Telewest 277–8, 291, 294, 295–301
 - maximising broadband technology 299–300
 - technological innovation 300–1
- Teo Chee Hean 93
- terrestrial digital technology 293
- territorial segmentation 210
- Tesco 4, 16, 26, 120, 139, 152
 - Extra stores 122
 - pioneering projects 69–70
- test, trial and learn 25–6
- Third Age website 250
- Thornton's 305
- 3-D virtual reality 79–80
- Tide Laundry 245
- Tillman, Robert 311
- time poverty 57
- touch 103–6
- touch screens 152–4
- tourist centres 130, 131
- Tower Records 141
- Toyota 28, 222, 248, 270, 272
- Toys Я Us 250
- TradeXchange 34
- training 272–3
- transaction sites 242
- travel 75
- 'treat as another channel' strategy 138, 227–8
- 'triple DES' 196
- 'Triple I' model 111

- ubiquity 17–19
- understanding customers 243–4
- Ungermann, Ralph 260
- Unilever 70, 207, 212, 214, 222, 228, 262
 - teenage website 28–9
- unit transaction costs 314, 315
- United Biscuits 221
- United Kingdom 82, 86, 193–4
 - digital TV 276, 281–2
 - interactive digital TV coverage 298
 - major new shopping centres 306
- United Parcel Services (UPS) 50, 126, 162–3

- United States (US) 82, 122, 273
 - Defense Department 173
 - digital TV 282
 - Electronic Communications Privacy Act 194
 - IT investment 86
 - regulation 200
 - top ten brands 187–8
- 'Urban Fetch' 21
- USA Today* 162–3
- USAA 243
- users 84–6, 98–9
- UUNET 171

- valuation 8, 11–12, 187–8
- value added services 299
- value networking 127, 260–1, 262
- value proposition 30
- value shoppers ('mercenaries') 111, 112, 113, 166–7
- values: sharing 270–1
- Vauxhall Cars 70–1
- Vavricek, Eleanor 100
- vending machines 210–11
- VHS 285
- Victoria Wines 138
- video format wars 285
- video on demand (VOD) 300–1
- Virgin Megastore 142
- virtualisation 40, 79–80, 185–6, 259–60

- Waitrose 72
- walled gardens 291–2, 294, 297

- Wal-Mart 120, 217–18, 305, 308
- Warner, Harvey 94
- Watson, Thomas J. 94
- Web TV 178–9, 277, 280, 286–90
- websites 48–9, 81, 119–20
 - banks and 316
 - designing 244–5
 - directions to 249–50
 - entertainment 245–6
 - information-only 135–6, 223–5
 - interactivity 246–7
 - measurement systems 253–4
 - on-line shopping malls 138
 - role 241–3
 - see also* internet; marketing
- Wehling, Bob 48, 254, 255
- Weitz, Barton A. 43, 95
- Welch, Jack 51, 270, 271
- Wells Fargo 122, 198, 317
- Wertkauf 308
- Windows 2000 128 178
- wireless cellular phones 180–2
- wireless networks 151–2
- women 84–5
- 'woo the retailer' strategy 217–20
- workforce: mobilisation of 54, 268–4
- World Trade Organisation (WTO) 200
- WorldCom 171
- WPP 249

- Yahoo! 68, 138, 250
- You Rule School 245