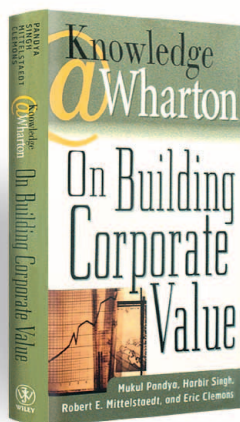


SOUNDVIEW Executive Book Summaries®



Modern Strategies for Building Corporate Value the Old-Fashioned Way

KNOWLEDGE@WHARTON ON BUILDING CORPORATE VALUE

THE SUMMARY IN BRIEF

From the beginning of the so-called “dot-com bubble,” there were those who thought the Internet would be a revolutionary force for immediate change in the world, and those who thought the whole thing was simply speculative mania intended to con the gullible. They were both wrong. Indeed, the truth resides somewhere between those two extreme modes of thought — the Internet can be a powerful tool if companies and consumers learn how to use it creatively and imaginatively. It can open up possibilities for value creation and enhancement heretofore unimagined, providing companies with sustainable competitive advantage.

Part theoretical framework, part hard reality, Knowledge@Wharton On Building Corporate Value is based on articles and research drawn from the Wharton School’s online resource, Knowledge@Wharton.

By Mukul Pandya, Harbir Singh,
Robert E. Mittelstaedt
and Eric Clemons

CONTENTS

Creating Internet Strategies For Competitive Advantage

Pages 2, 3

Customer Behavior And Internet Strategy

Pages 3, 4

Managing Risks In Internet Strategy

Pages 4, 5

Financial Services And Internet Strategy

Pages 5, 6

Internet Strategy And New Media

Page 6

Do Online Exchanges Have a Future?

Pages 7, 8

Practical Lessons in Building Value

Page 8

What You’ll Learn In This Summary

- ✓ **The effects of technology on business strategy.** Learn how to use the Web’s communication, brokerage and integration effects to your advantage.
- ✓ **What makes a solid business model.** These days, you had better know what you are doing prior to entering into a Web value strategy.
- ✓ **How customer behavior fits in.** Understanding how consumers behave is critical to companies interested in establishing a Web retailing strategy. You’ll learn what to look for, and how to use that information appropriately.
- ✓ **The challenges of channel conflicts.** When using the Web to eliminate middlemen and deal directly with customers, learn to address the concerns of those middlemen and eliminate conflicts in your business channels.
- ✓ **The future of online exchanges.** Learn how to leverage public and industry exchanges to build value.

— THE COMPLETE SUMMARY

Creating Internet Strategies For Competitive Advantage

For companies eager to approach their Internet ventures like real businesses (i.e. with revenues and the hope of profits) it is important to analyze both conceptual strategies, as well as real-world business models, in order to gain the best, most powerful competitive edge. Both are critical to success, particularly in the aftermath of the enormous losses in capital investment brought about by the bursting of the dot-com bubble.

Technology's Effects

Those who poured billions into entrepreneurial ventures in the mid- to late 1990s recognized the three broad conceptual effects inherent to Internet technology:

- **Communication effect.** The Internet has made it easy to search for and find vast amounts of information, in addition to making it much less expensive to store and transfer it. Note, it is less expensive, not free — a point overlooked by dot-com investors and entrepreneurs in their relentless drive to attract traffic to their businesses. For example, many companies that once gave away their content for nothing, generating revenues through advertising, discovered ads couldn't generate sufficient funds to maintain their businesses.

- **Brokerage effect.** Some analysts compare the Web to a giant market marked by openness, informality and interactivity. This effect makes it possible for Internet users to access global markets at minimal cost, flattening the playing field enough for small companies to take on large conglomerates for the same customers. A good example of this effect is eBay, the online auction site whose mission is "to help practically anyone trade practically anything on earth." It boasts 40 million registered users, 126 million auction listings, and gross merchandise sales of \$11 billion annually.

- **Integration effect.** The Internet realigns players in industry value chains as some players are disintermediated in the wake of the new technology. When the value chain changes, it provides opportunities to create value. In addition, the Web's ability to connect buyers and sell-

ers directly to one another knocks middlemen out of the value chain by eliminating the need for their participation in transactions. The Web can also create new intermediaries, or infomediaries, that mine customer transaction data to make "mass customization" possible.

Business Models

A business model is made up of a company's goals, strategies, processes, technologies and structure — the things that enable an organization to capture and deliver value to customers. A business model must have four important elements: scalability, complementary resources and capabilities, relation-specific assets, and knowledge-sharing routines.

Information assets, which dominate e-business, are generally costly to produce initially, but typically are easy and inexpensive to reproduce. Exploiting this on the Web requires companies to develop scalable business models. Technological advantages are often short-lived, however, requiring companies that want to lead in the digital arena to acquire complementary resources, capabilities and assets to keep competitors at bay.

No firm can hope to dominate the Internet, but networks of allied firms can provide competitive advantage for those involved in such alliances, particularly if they are adept at managing collaborative relationships and relationship-specific assets. In such collaborations, effectiveness depends largely on the knowledge-sharing routines collaborators develop between one another. These routines help partners enhance their collective competitive advantage over rivals and their partners.

(continued on page 3)

The authors: Mukul Pandya is the executive editor of *Knowledge@Wharton*. Harbir Singh is chair of the management department at the Wharton School. Robert E. Mittelstaedt is vice dean and director of the Aresty Institute of executive education at the Wharton School. Eric Clemons is a professor at the Wharton School.

Copyright© 2003 by John Wiley & Sons, Inc. Summarized by permission of the publisher, John Wiley & Sons, 111 River Street, Hoboken, N.J. 07030. 227 pages. \$29.95. 0-471-00830-3.

For Additional Information on technology's effects on businesses, go to: <http://my.summary.com>

For Additional Information on the authors, go to: <http://my.summary.com>

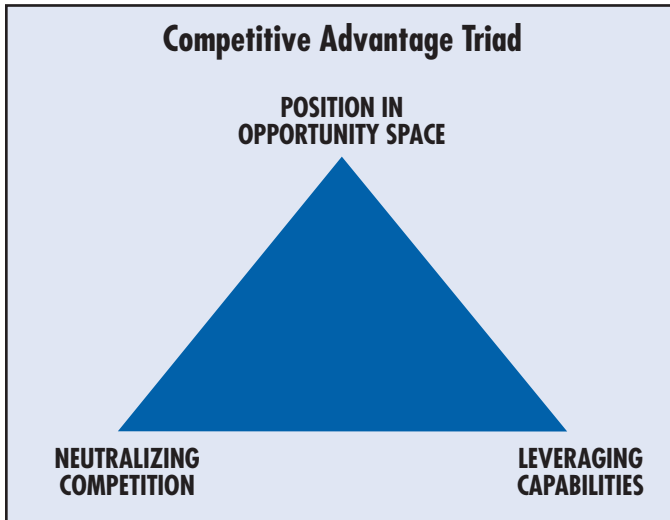
Published by Soundview Executive Book Summaries (ISSN 0747-2196), P.O. Box 1053, Concordville, PA 19331 USA, a division of Concentrated Knowledge Corporation. Published monthly. Subscriptions: \$195 per year in U.S., Canada & Mexico, and \$275 to all other countries. Periodicals postage paid at Concordville, PA and additional offices.

Postmaster: Send address changes to Soundview, P.O. Box 1053, Concordville, PA 19331. Copyright © 2003 by Soundview Executive Book Summaries.

Available formats: Summaries are available in print, audio and electronic formats. To subscribe, call us at 1-800-521-1227 (1-610-558-9495 outside U.S. & Canada), or order on the Internet at www.summary.com. Multiple-subscription discounts and Corporate Site Licenses are also available.

Soundview Executive Book Summaries®

ROB SMITH — Senior Contributing Editor
DEBRA A. DEPRINZIO — Art and Design
CHRIS LAUER — Managing Editor
CHRISTOPHER G. MURRAY — Editor-in-Chief
GEORGE Y. CLEMENT — Publisher



Creating Internet Strategies For Competitive Advantage

(continued from page 2)

Once a company has a strong business model in place, it needs to gain and sustain competitive advantage through leveraging three elements:

- **Position in opportunity space.** If firms want to gain competitive advantage over rivals, they must position themselves appropriately in their markets. After the Cold War, for example, defense contractors had to find ways to put their technologies to commercial use to stay afloat in a market that didn't need tools of defense.
- **Leveraging capabilities.** Companies must learn to develop capabilities — the combination of skills, resources and knowledge firms bring to the table when they compete — that are unique. These capabilities should be difficult to duplicate, yet widely applicable across several products and services.
- **Neutralizing competition.** As important as it is for companies to position themselves correctly and develop unique capabilities, they should also adopt strategies that anticipate competitive reactions. ■

For Additional Information on Competitive Advantage, go to: <http://my.summary.com>

Customer Behavior And Internet Strategy

Understanding how consumers behave is critical to companies interested in establishing a Web retailing strategy. This behavior should be the principal determinant of that strategy — while technology can always improve, the loyalty of consumers is likely to differ among the many Web-enhanced businesses in operation.

Two factors are critical in predicting behavior: the

duration of the relationship between buyer and seller, and the scope of goods and services linking the two parties. If a buyer looks for different sellers for every transaction, chances are there will not be a stable, long-term relationship built between the buyer and any given seller. If the buyer returns to the seller repeatedly, however, that seller has a unique opportunity to tweak product offerings and keep the customer over the long term. Those product offerings can be bundled with other complementary products, or sold as stand-alone items — the former suggests the consumer searches for the best individual goods, regardless of provider; the latter suggests a search for the best provider of the goods.

Four Competitive Landscapes

The combination of these factors indicates that different companies in different industries will find themselves in one or more of four competitive landscapes:

- **Opportunistic spot.** These purchases exhibit no loyalty — each purchase might be from a different provider. A consumer may buy an airplane ticket from British Airways one day and United Airlines the next. It is essential to recognize consumers who are exhibiting this kind of behavior and develop an appropriate marketing and pricing strategy.
- **Opportunistic stores.** These markets occur when consumers exhibit no loyalty or relationship continuity to brands or stores. Unlike the spot market, however, they do use intermediaries to construct bundles of goods, and those intermediaries can add value through logistical savings, or through assembly or integration of complementary items.
- **Loyal links.** Consumers buying in this category exhibit continuity when choosing vendors and service providers, but do not want bundles prepared for them.

(continued on page 4)

Amazon's Unusual Offer

In the holiday season of 2001, online retailer Amazon.com did something unusual: It offered a 30 percent discount on all books worth \$20 or more. The offer was unusual because books are rarely discounted in this manner — when booksellers offer such steep discounts, they are usually limited to a narrow range of books (a particular category or publisher, or bestsellers). Even though it seemed counterintuitive that lower prices could help make the company profitable, Amazon's leadership believed that lower prices would lead to higher volumes, which would lead to higher profits. The offer also helped distinguish the retailer from other online businesses, like Barnes & Noble's Web presence.

Customer Behavior and Internet Strategy

(continued from page 3)

They might use an American Express card, but have no need for the company's other financial services.

- **Loyal chains.** People buying in this category have preferred vendors, and they count on those vendors to provide a range of tightly bundled offerings. They would use American Express for financial services, and might use it for insurance as well.

Across all four landscapes, only differences between brands, and consumer awareness of them, can blunt pure price competition in an efficient market. Cost control is important; efficient access to information makes it almost impossible to overcharge. As online information makes markets more efficient, pricing strategies will be limited by adverse publicity companies receive from charging different prices for the same goods. ■

Managing Risks in Internet Strategy

The bursting of the dot-com bubble in 2000, combined with the technology slump that has followed, have all but removed the risk of established companies being toppled by upstarts with a Web site and a business plan written on Post-It notes. This situation does not, however, mean that the risks associated with formulating an e-commerce strategy have vanished. These risks do indeed exist, and understanding each of them is crucial — particularly the six important ones listed below.

Risks to Avoid

- **Structural risks.** A company might develop an e-commerce strategy that, for reasons related to industry structure, cannot be profitable. An online retailer that acquires the latest Harry Potter book for \$10, then turns around and sells it to customers for \$10, cannot be profitable in the long term. For other companies, acquiring customers involves a cost that needs to be recovered over time, so that if they lose a customer to another supplier before that relationship becomes profitable, they might not be able to recover costs.

- **Channel risks.** These risks stem from the fact that companies use distribution channels to supply products and services to consumers, except in the e-commerce world, where companies can reach customers directly through their own channel. There exists in this action the potential for alienating the entire network of middlemen a company might use as a bridge to customers.

- **Sourcing risks.** Substantial risks arise if a company enters into a strategic alliance with one or more businesses that can use the alliance to seize substantial

How the Best Approach Knowledge Codification

Several excellent examples of codified knowledge can be found among the best and brightest companies in the business of e-commerce. Hewlett-Packard, for example, has created a 400-page manual that provides codified tools, templates and other resources for managers in the process of forming and managing alliances. Examples include partner due diligence checklists, negotiation frameworks, draft alliance contracts, alliance termination checklists, company-specific case studies, and more. Lotus, an IBM subsidiary, has created what it calls its "35 Rules of Thumb" for similar purposes.

These and other similar efforts are winning attempts to transfer past experiences in order to manage similar situations in the future more efficiently, consistently and successfully.

value. The sourcing risk also increases the possibility that a company might become vulnerable to poachers of its intellectual property.

- **Strategic uncertainty risks.** Some risks of creating e-business strategies arise because the future is unknown. Managers should identify key strategic drivers for their industries, as well as a set of alternative futures and strategies to deal with each of them.

- **Organizational risks.** Companies that seek to implement e-business strategies must change their organizations to support those initiatives, and all attempts to change organizations have an element of risk. Employees might object to such changes out of concern for their jobs or out of resistance to an altering of their job duties. A strategy, however, is only as good as its implementation, and an organization's capability to implement its strategy involves considerable organizational risk.

- **Liquidity risks.** The existence of liquidity enables companies to convert assets or instruments into cash, and vice-versa. Liquidity makes markets attractive to buyers and sellers alike. Conversely, a company's inability to create liquidity by ensuring minimal critical mass of e-commerce transactions could land it in a liquidity trap. This is particularly true of business-to-business (B2B) exchanges, where falling into a liquidity trap could mean gradual irrelevance and eventual death.

Making Alliance 'Marriages' Work

As companies develop Internet strategies, they must pay special attention to these risks, and to any alliances they form to counteract risks. Firms often form alliances to strengthen their capabilities, but nearly half of these

(continued on page 5)

Managing Risks in Internet Strategy

(continued from page 4)

“corporate marriages” end in painful separation.

Companies that practice some of the knowledge-based alliance capability processes have a better chance of succeeding. They can build and sustain their alliance capability in four ways:

- **Knowledge articulation.** The backbone of alliances are the jobs done by individuals, using their personal and professional skills. These skills must be captured in some form — via a database or some other repository — so personal knowledge is articulated and others have access to the experiences of the company’s work force.

- **Knowledge codification.** A company can codify its alliance knowledge in guidelines, checklists and manuals. This process distills articulated knowledge and transforms it into a form that can be used productively in future alliance situations.

- **Knowledge sharing.** Not all prior alliance experience is easy to articulate and codify; a process of knowledge sharing must also be put into place. This process can involve something as simple as an informal discussion between managers, or more formal mechanisms, such as teams and task forces.

- **Knowledge internalization.** Without question, the people involved in an alliance are the final arbiters of its success. Training programs and briefings are traditional mechanisms used by companies to get knowledge across to those within allied organizations who need it most. ■

Financial Services And Internet Strategy

In 1999, traditional securities firms had some competition to worry about — namely, upstart dot-com companies that enabled customers to engage in securities trading online, a new way of investing that threatened to overwhelm the industry. These dot-coms gave customers the ability to have around-the-clock access to markets; they also made it easy to research information about stocks and companies online. The paradigm of the industry shifted — the securities firms’ monopolies on information and execution in the financial markets were gone.

Companies like E*Trade and Ameritrade thrived because they made it easy to search and research data about stocks (the information effect); made it easy for buyers and sellers to find each other (the brokerage effect); and threatened to disenfranchise traditional brokerages that stood in the way of this transformation (the integration effect). In the last four years, this seemingly revolutionary change has actually proved to be more evolutionary. Discount brokers have seen sharp declines

E*Trade’s Offline Revolution

One way some online brokers have survived in the post-dot-com bust years has been to establish a presence in the world outside the Web, much as the traditional firms had to set their stakes in the online world four years ago. A good example is E*Trade, which in early 2002 announced the launch of a financial center in San Francisco. The company had earlier opened brick-and-mortar offices in New York, Denver, Boston and Beverly Hills, showing that even an online firm benefits from a real-world presence.

Customers can go to these E*Trade centers to open or review accounts, or work one-on-one with licensed “relationship specialists” who can help them with their financial needs. This concept forms part of E*Trade’s strategy to offer customers broader, more comprehensive financial services.

in trading volumes and commissions, and the slow economy of 2001 and early 2002 aggravated problems that online brokers faced since the dot-com bust. These brokers have gone through a shakeout, merging with and acquiring one another with great speed.

Some have survived, though, moving toward offering a broader range of financial services [see above sidebar]. Meanwhile, traditional financial services firms such as Merrill Lynch have made the Internet an important part of their operations. There were, however, some growing pains along the way.

The Challenge of Channel Conflict

In the late 1990s, Merrill Lynch found itself losing customers rapidly, as Charles Schwab and other competitors added significant online capabilities to go with their discount structure. After some initial heated resistance, Merrill Lynch announced in June 2000, that it would be adding an online presence, but the system would not be operational for six months — an eternity in Web time. A strange thing happened, though — the announcement reportedly stopped the net customer loss. Merrill Lynch built its system, but its use has not been as high as one might have expected.

There is a simple lesson here — customers do not always know what they want, especially when it comes to technology-supported customer service. Customers want choices, especially if they know those choices exist elsewhere. Companies must make decisions on technology investments in ways that help them manage conflicts in their distribution channels. Before trying to distribute its products or services directly to customers (bypassing its traditional distribution channels), a company should examine which products or services lend

(continued on page 6)

Financial Services and Internet Strategy

(continued from page 5)

themselves to be distributed electronically.

Industry stalwarts like Merrill Lynch had several key advantages when entering the e-commerce fray:

- **They had scale on their side.** The established financial services organizations already had an established business base, which gave them advantages in terms of size and resources.

- **They had a brand.** The Merrill Lynchs of the world had proven brand names, a distinct advantage over companies like E*Trade or Ameritrade, which were still trying to establish brand identities, adding significantly to their marketing budgets.

Cultivating Crucial Relationships

- **They had crucial relationships.** It is difficult to quantify how critical relationships are in the financial services industry. Established companies that spent years cultivating clients' confidence had an edge in carrying those relationships into the online world.

- **They seized the opportunity.** The dot-com crashes did not automatically lead to the rise of established companies, phoenix-like, from the ashes. Old or new, the most successful organizations not only see what is next; they also have the resources to take advantage. ■

Internet Strategy and New Media

As the dot-com bubble went, so went *The Industry Standard*, the award-winning publication that chronicled how the Internet was changing business. In August 2001, after three years of operation, the magazine folded, shocking readers and businesspeople alike. Though critically lauded, it paid a heavy price in the media shakeout that followed the bursting of the Internet bubble and the ensuing recession, as did a number of other print magazines and their Web-only counterparts. Staff layoffs and general financial woe laid low once proud and successful media empires that heralded the coming of a new age in business.

The meteoric rise and fall of *The Industry Standard* and the problems at other publications raise the broader question of how media companies can create sustainable value — especially with their Web-based publications. During the mid-1990s, many media companies set up Web-based versions of their publications that flouted the rules of traditional publishing — that new publications had to build slowly to find an audience, that advertisers subsidized the costs of producing and distributing the publication to readers, etc.

In keeping with the expectations of many Internet

users, the content offered on the Web versions was free. The logic behind this strategy was twofold — online publications wanted to introduce their content to a younger generation of readers they couldn't reach as easily in print; and they also hoped that keeping content free would drive more traffic to their Web sites, which would in turn help them gain additional advertising.

New online publications, which did not have print counterparts, assumed that because they did not have to deal with printing and mailing — two major costs of publishing — they could afford to give away their content. They felt they had an edge over print magazines because they could offer advertisers unique information, such as which articles were being read, how long readers spent on each page, and so forth. Armed with these advantages, online publishers argued it was only a matter of time before they would gain support from advertisers. While this belief had an element of truth, reality turned out quite differently, as the people behind TheStreet.com found out.

Trouble on TheStreet.com

Launched in 1996, TheStreet.com was once regarded as one of the most promising online publishers of financial news and analysis. Unlike most online publications and the Web sites of most print publications, TheStreet.com adopted a rare business model. Like *The Wall Street Journal's* online version and a handful of other Web sites, it began life by charging a subscription fee for its content, rather than simply depending on advertising. Later, TheStreet.com became a free Web site, and the company developed a companion site called RealMoney.com, charging higher subscription fees and aiming its content at professionals within the finance industry.

Like most other dot-coms that found fleeting fame, TheStreet.com hit financial highs almost right away, but today the publication struggles to find a sustainable revenue model, and is betting heavily on subscriptions. It is also finding providing content to be a challenge. James Cramer, who co-founded TheStreet.com, recently told an audience not to watch too much CNBC or read too much of the popular financial press, including his own TheStreet.com, because too many people who appear in these outlets are scripted and do not provide sufficient information to form a basis for real analysis.

Turning Eyeballs Into Ad Revenue

As TheStreet.com's experience shows, the idea that online media sites could turn eyeballs into ad revenue and profits was seriously flawed. As the U.S. economy has slowed and gone into recession, the problem has become increasingly serious. ■

For Additional Information on information-based strategies in action, go to <http://mj.summary.com>.

Do Online Exchanges Have a Future?

Now that dot-coms are no longer fashionable as “get-rich-quick” stocks, discussions about business-to-business (B2B) e-commerce exchanges have fallen out of favor. This is actually a healthy situation: The less hype that surrounds B2B exchanges, the more meaningfully their true value can be debated and assessed. Once, at the height of the hype, exchanges were being touted as revolutionary vehicles that would transform the way in which companies do business with one another. Visions abounded in which supply chains would be coordinated perfectly over the Web, and where customers would

connect with businesses through seamless interfaces.

The reality of B2B exchanges, of course, has been very different. Companies whose B2B “visions” raised their stock prices toward the \$100-per-share range at the end of 2000 were lucky to still be around and selling their shares in the \$1 to \$3 range by the middle of 2002. A few trends are, however, becoming evident in the B2B arena, giving credence to the idea that B2B will be evolutionary rather than revolutionary, and it will continue to be used in a way that enhances, rather than replaces, companies’ business strategies.

Two issues surround online exchanges: the fate of public B2B exchanges, and the relative success of industry exchanges.

The New York Times Digital

According to one recent report, *The New York Times*’ Internet operations went cash-flow positive, making an operating profit of \$780,000 in the third quarter of 2001. Its experience offers clues to other media companies aiming to create sustainable business value on the Web, particularly in five key areas:

✓ **Aggregating content.** The *Times Digital* site has been willing to compile content from other sources (such as CNET news and the *Financial Times*) rather than create completely unique content that could drive up costs. The site accepts content of only the highest quality, and aims to position itself as a repository for as many such feeds as it can aggregate in one place.

✓ **Targeting paid content.** The *Times Digital* offers special bundled content, via monthly or yearly subscription, on such topics as baseball, terrorism, personalities and even crossword puzzles. The site generates revenue by adding more value to those interested in certain narrow topics.

✓ **Cutting early.** The *Times Digital* cut staffing and other expenses before the economic recession hit hard, in part because the publication’s leadership conducted analyses that helped bring costs closer in line with current economic reality.

✓ **Focusing on repeat readers and advertisers.** The site focused on building loyalty with its readership and advertiser base, shifting costs away from promotion to developing a stable readership and creating the most effective ad formats possible.

✓ **Continuing small enhancements.** Rather than cutting costs too deeply during difficult times, the *Times Digital*’s leadership instead introduced small editorial enhancements, such as special compilations, as well as new advertising formats. By doing this, the site was able to reduce the risk of readers and advertisers defecting to other publications.

The Public Exchange — VerticalNet

VerticalNet is a Horsham, PA-based company that early in its inception (in 1995) specialized in creating vertical trade communities among companies in specific industries, or with specific specialties. VerticalNet’s goal was to create virtual B2B bazaars, where participants could do everything from exchange basic information to finalize e-commerce deals. It was the company’s contention that as it grew the number of such communities, the value of each member organization within the communities would likewise grow, which would, in turn, increase the company’s value to sponsors.

VerticalNet was also trying to raise revenues from the sale of virtual storefronts, where client companies would sell their goods, and VerticalNet would earn a commission on each sale. Initial results were promising, but VerticalNet continually lost money, in part because it never sold products itself.

The company tried to stem its losses by changing leadership, then reorganizing itself into multiple divisions. All this effort was to little avail: VerticalNet continues to lose money by the hundreds of millions of dollars. Its latest change in strategy, though, might be its most successful — the company (led by the former CEO of SAP America) is attempting to transform itself into a provider of enterprise software and collaborative supply chain solutions. Early successes on this track are impressive, but whether VerticalNet can sustain its success will only be answered in time.

The Industry Exchange — Covisint

While VerticalNet aimed at dozens of markets, Covisint has focused on one — the automotive industry. The company’s stated goal from its inception was to form “a single global B2B supplier exchange,” bringing together its individual e-business initiatives to avoid the burdens suppliers would endure if asked to interact with redundant proprietary systems. Integration and collabo-

(continued on page 8)

Do Online Exchanges Have a Future?

(continued from page 7)

ration were the company's key focuses.

Initially created by an alliance of Ford, General Motors and DaimlerChrysler, Covisint also brought in Renault-Nissan, Peugeot and Toyota, as well as technology providers Oracle and Commerce One, in the process developing enormous clout. Some estimates put Covisint's potential volume of transactions among its network of auto heavyweights at close to \$750 billion.

As it drives this massive amount of volume through its exchange, Covisint has three major goals:

1. To promote collaborative product development by harnessing the Internet's communications prowess.
2. To streamline procurement for the auto companies by setting up market mechanisms, such as auctions, in an effort to lower transaction and other costs.
3. To streamline the operations of the auto industry's supply chains, making its work processes more efficient and customer-friendly.

Challenges to the Vision

Covisint's ability to realize its ambitious vision will depend on how it deals with some key challenges:

- **Competition.** Covisint is not the only game in town. Major players such as Volkswagen, BMW and Honda have not come aboard Covisint's exchange, and could conceivably set up an alternative exchange of their own. Competition can also come from large auto components suppliers and threaten Covisint's prospects.
- **Fairness.** In order to survive, a B2B exchange must work — and appear to work — fairly for all its participants. Covisint's strong connection to Detroit's auto giants could be a turn-off to current or potential members from Europe and Japan, who might fear their American counterparts have too dominant a role in the exchange. To combat this, Covisint needs to establish who owns the exchange, who makes its policies, and what kind of balance exists between buyers and sellers.
- **Government intervention.** Anti-trust regulators have been closely examining B2B exchanges, ensuring that no collusion or price fixing is taking place. Covisint must be certain to open its doors to all potential members in the auto industry, regardless of their competitive stance for or against existing members.

Covisint will need to grapple with these and other issues as it moves toward realizing the exchange's full potential in all areas, including the possibilities of collaborative production and design. These challenges are formidable, but then, creating a B2B exchange that is powerful enough to overhaul a giant, global industry's supply chains is hardly an easy task. ■

Practical Lessons In Building Value

There are many lessons to learn from the companies that have built lasting value, particularly those that continue to sustain competitive advantage amid the uncertainty of today's business climate. Among the most practical of those lessons are the following:

- **What you spend on IT infrastructure is less important than what you do with the money.** A few years ago, it was rumored that K-Mart spent more on IT than did Wal-Mart. Regardless of the truth, it is clear that Wal-Mart transformed the discount retail business through management of its supply chain, and K-Mart, currently mired in bankruptcy, did not.
- **Creativity matters — be observant and seek out ideas.** You must add value to your customers' experience. This is particularly important in the context of B2B, where survival is dictated by the determination of what adds customer value and the delivery of that value.
- **Creating and adding to shareholder value is the ultimate evaluation.** Firms must employ measurements to ensure the returns on their IT and Web investments are real. However, the markets do not always see things in the same way that management does, and more may need to be done to achieve maximum shareholder value.
- **The communication, brokerage and integration effects are the drivers.** If you cannot locate the value added in terms of one of these concepts, it will not magically show up later.
- **Small experiments matter.** Organizations are still struggling to understand the specific ways the Internet can add value to their operations. Small experiments can be valuable in showing what works and what does not. These insights may be small, but they are real, and can build up to an enormously valuable perspective on how the Internet adds value to an organization's business.

Study Your Customers

- **Do not just listen to customers — study them in depth.** Study not just explicit customer feedback, but every interaction that implicitly shows what customers want. The information that you already possess about your customers could help you forge ahead of rivals.
- **Value may lie in microsegments.** During the dot-com bubble, one of the most overhyped features of the Web was that it would allow companies to customize products and services for customers. Personalizing products and services beyond the most superficial level can be difficult, and it is not clear whether customers want that level of customization. The Internet makes it relatively easy and cost-effective to customize products and services for microsegments of customers. ■