

***Sex, Lies
and
E-Business:
Imperatives for the New Economy***

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IW's Best-Managed Companies





An Executive Guide To IT Strategy

CREATIVE CIOs

They're moving out of the back office and into the mainstream of companies—with dramatic results.

By **Laura McCartney**

WHEN DAVID W. SMITH joined Pittsburgh-based PPG Industries Inc. as vice president of IT, one of the company's core businesses, automotive glass, was flourishing. At the time, insurance companies were becoming increasingly reluctant to process the high volume of customer-replacement claims, a process that was costly, slow, and error-prone.

For consumers getting a claim resolved often was an exercise in frustration that involved multiple calls to the insurance agent and glass-installation shops. Meanwhile, the big glass chains were setting up their own EDI networks and using their negotiating clout to drive down glass prices and drive a number of independent shops out of business. The bottom line: PPG was losing customers and seeing margins for automotive glass shrink.

PPG's response to this challenge was to have IT, along with marketing, purchasing, and a number of other departments, create a new line of business called LYNX Services. This automated claims center manages auto-glass claims for insurance companies by arranging with glass service shops for policyholders to have their car windows replaced or

repaired. Using state-of-the-art switching and communications technology from Lucent Technologies Inc. and other vendors, the center also handles billing and payment.

The center, which went into operation about 18 months ago, now ranks as the nation's largest auto-glass claims processor and will have about 900 employees when a third service center opens soon in Paducah, Ky. "LYNX Services represents a unique partnership between insurance companies, independent glass installers, and PPG to provide one-call service to consumers," Smith says. "The integrated telephone and computing technologies supporting LYNX form a new core competence for PPG, which we expect many other business units to use to build additional customer partnerships."

LYNX Services clearly is having a positive impact on PPG's business, so are other IT-driven initiatives in other companies. As an example, Sea-Land Service Inc., Charleston, S.C., is introducing a new technology system for the management of customer cargo and attendant information requirements. The technology initiative, a proprietary system called Shipman Management, will allow vast improvements for customers including:

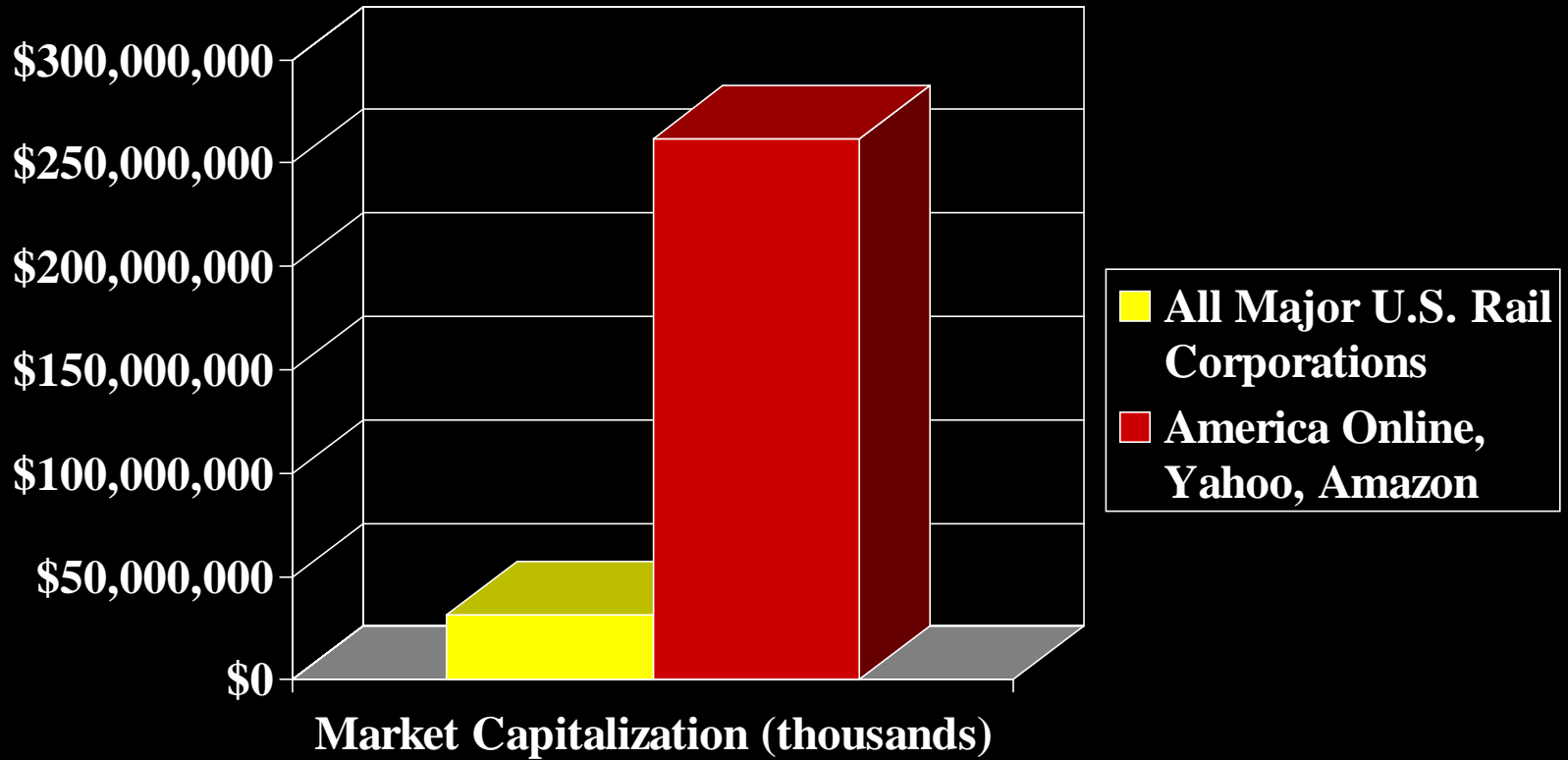
- Customer profiles that contain critical information about customers' service preferences.
- Customized reporting capabilities from a single data repository for all shipments.
- An electronic trip



A Digital World

- The greatest boom any of us will ever see.... But the most difficult time, too
- Where are we headed?
 - Changing industry dynamics
 - Oil vs. software
 - Changing management dynamics
 - Ownership
 - Changing investment dynamics
 - .coms vs. traditional companies

Changing Investment Dynamics



What is a Company?

- The “decline” of brick and mortar
- The perception of Value
 - Bricks vs. Clicks
- The continuing importance of brand and customer relationships
 - Customer Acquisition costs
 - >100% of revenues for some retail Dot.coms
 - 10-15% for brick-and-mortars
 - Including Dot.com extensions

The Company of the Future

- Focused less on **Old Economy Marketing & Process** than on **New Economy E-Commerce & Value Chain Management**
- Will require a new title: **CVCO**
 - Expertise in:
 - Marketing
 - Operations
 - Information technology
 - Partnership management



The Company of the Future: Definition

- *Old Economy*: Someone who provides a service or makes something
- *New Economy*: An entity that adds Value:
 - To a service, process or physical commodity
 - In any manner

What is Value?

- Value is fundamentally determined at the point of the end-user
- Value extends beyond physical or service quality characteristics
 - Delivery
 - Total cost of ownership
 - Data and information
 - Value or solution “bundles”
 - Business expertise
 - Brand experience



New Economy Imperative #1

- Identify new customer value propositions that include information and mobility as well as products or services

What is Value?

- Auto industry
 - Advertise in mass media to small market
 - Hit rate in dealerships is 1 or 2 in 10
 - Distribution costs of car are \$2500 - \$4000 car
 - \$800-\$1500 per unit savings
 - Customers hate it:
 - Experience ranks just above....

What is Value?

- Customer Revolution:
 - autobytel.com
 - eBay
 - CarPoint
 - 60% of prospective buyers go to web
- eGM
 - 100 unconnected websites
 - OnStar
 - 75,000 subscribers
- From concept clinics to interactive internet experience
 - DaimlerChrysler on PT Cruiser
- Revamp product design for modularity
 - Build-to-order
 - 3-day car?
 - 20-hour assembly time?
- Covisint
 - Sharing product information and processes

What is Value?

- Ford: The Internet Car

Ford wants to be the leading company; and part of getting there means we have to be the world's leading internet company.

--Jacques Nasser, CEO

The Company of the Future: Activities

- *Old Economy:* Provides a service or product
 - Focused on service or product development and attributes
 - Service or product is paramount
- *New Economy:* Participates in and manages a series of competencies that satisfy an end customer with a service or product
 - Focused on total solutions that satisfy end-customer needs
 - Does not respect ownership of processes



New Economy Imperative #2

- Recognize that data about your product or service is now as important as the product or service itself

Creating Value

- JIT Mentality
 - Nervous Customers
 - Information about shipments and service almost as important as shipment itself
- Gilbarco Interactive
 - Web site
 - Parts ordering
 - Order status
 - Look up training data
 - Technical documentation
- Built-in intelligence encourages purchases to increase orders to get discounts
 - Average order up 220% since going live
 - 80% of distributors use system
- PartsNet
 - Excess inventory sales
- Improved service levels
 - From days to seconds

The Company of the Future: Issues

- *Old Economy:*
 - Internal process optimization
 - Efficiency
 - Price
 - Quality
- *New Economy:*
 - External Process Optimization
 - Trust
 - Reliability
 - Communication
 - Speed
 - New business models



New Economy Imperative #3

- Map the customer value creation process from beginning to end, regardless of process ownership

Creating Value Externally

- Deere & Co.
 - Outsourced 82% of costs of goods sold, but had lack of flexibility
 - Forecasts, 1 yr. Inventory @ dealer
 - 21-day to forever fulfillment on impulse buy
- VC Strategy:
 - Goal: 7 day replenishment w/90% 1st time fill rate
 - Central Dist. Warehouse (50% FGI reduction)
 - Supplier Development
 - Consulted at suppliers
 - Reductions 5-25%



The Company of the Future

- *Old Economy:*
 - Leveraging efficiencies of scale within the enterprise to produce services and products at low cost and high quality
- *New Economy:*
 - Leveraging human talent across multiple enterprises with knowledge, training, empowerment, communication and technology to satisfy customer needs



New Economy Imperative #4

- Re-organize your company and value chain around customer value propositions

Reorganizing around Customer Value

- American Standard
- Abolished traditional functional roles—
sales, marketing, accounts payable
- Adopted Process model
 - Process Owner for Chinaware Order Fulfillment
 - Responsible for every step in delivery of
products to customers
 - Training
 - » 30,000 people in DFT
 - Communications

Reorganizing around Customer Value

- Film-processing: Shutterfly.com
- Prints 35mm quality prints from digital cameras
 - Connects camera to PC
 - Drag and drop images in window
 - Archive on secure website
 - Order prints shipped
 - To Anywhere
 - To Anyone
 - At Anytime



Are you ready for the Future?

- What have you done to identify new customer value propositions that include information and mobility as well as products or services?
- How have you demonstrated to customers that data about your product or service is now as important as the product or service itself?
- Have you mapped the customer value creation process from beginning to end, regardless of process ownership?
- How have you used IT to re-organize your company and value chain around customer value propositions?



Becoming a Company of the Future

- New Economy Companies vs. Old
- New Economy Imperatives
- When will you start?



Questions and Answers

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