

Wally Bock & Jeff Senné

NET INCOME

Cut Costs,
Boost Profits,
and Enhance
Operations
Online

Foreword by **James L. Barksdale**
Netscape Communications Corporation

NET INCOME

*Cut Costs, Boost Profits, and
Enhance Operations Online*

WALLY BOCK JEFF SENNÉ

VAN NOSTRAND-REINHOLD

I(T)P™ A Division of International Thomson Publishing Inc.

New York • Albany • Bonn • Boston • Detroit • London • Madrid • Melbourne
Mexico City • Paris • San Francisco • Singapore • Tokyo • Toronto

Copyright © 1997 Walter H. Bock and Jeffrey M. Senné



Van Nostrand Reinhold is an International Thomson Publishing Company.
ITP logo is a trademark under license.

All rights reserved. No part of this work covered by the copyright hereon may be reproduced or used in any form or by any means—graphic, electronic, or mechanical, including photocopying, recording, taping, or information storage and retrieval systems—without the written permission of the publisher.

The ideas presented in this book are generic and strategic. Their specific application to a particular company must be the responsibility of the management of that company, based on management's understanding of their company's procedures, culture, resources, and competitive situation.

The term TACTICS used throughout this book is a protected trademark of Jeff Senné and Wally Bock.

Printed in the United States of America

Visit us on the Web

www.vnr.com

For more information contact:

Van Nostrand Reinhold
115 Fifth Avenue
New York, NY 10003

Chapman & Hall GmbH
Pappelallee 3
69469 Weinham
Germany

Chapman & Hall
2-6 Boundary Row
London SE1 8HN
United Kingdom

International Thomson Publishing Asia
60 Albert Street #15-01
Albert Complex
Singapore 189969

Thomas Nelson Australia
102 Dodds Street
South Melbourne 3205
Victoria, Australia

International Thomson Publishing Japan
Hirakawa-cho Kyowa Building, 3F
2-2-1 Hirakawa-cho, Chiyoda-ku
Tokyo 102 Japan

Nelson Canada
1120 Birchmount Road
Scarborough, Ontario
M1K 5G4, Canada

International Thomson Editores
Seneca, 53
Colonia Polanco
11560 Mexico D.F. Mexico

1 2 3 4 5 6 7 8 9 10 QEBFF 01 00 99 98 97

Library of Congress Cataloging-in-Publication Data available upon request.

ISBN: 0-442-02558-0

Production: Jo-Ann Campbell • mle design • 213 Cider Mill Road, Glastonbury, CT 06033

Jeff:

This book is dedicated to four wonderful people who have each made important contributions to the quality of my life: my mother and father, Margaret and Clifford Senné, who have always believed in me; my life partner, Michelle Murphy, who is my closest counsel, friend and the source of much joy for me; and to my co-author, Wally Bock, who provides both inspiration and a model of excellence in our strategic alliance.

Wally:

To Absent Friends

Tom Mandel

Officer Mike Soto

and all the others who would be in the midst of this excitement if they weren't names chiseled on walls of honor.

ACKNOWLEDGMENTS

This project really began on a hot summer afternoon a couple of years ago. We were having a telephone discussion about the Net and the Web and all the things it meant for business. Jeff had been connecting it up to his background in sales leadership and in facilitating sales culture change in banks and other financial institutions. Wally was bringing up the stuff that he'd learned from years of working on effective business and marketing with his clients, most of whom, as he puts it, usually make or carry physical product.

The discussion turned to what book we should recommend to our clients to tell them about this exciting new technology that we saw as transforming business. And the silence got pretty long.

The fact is, that even then, there were lots of good books out there. Most of them, though, fell into one of two broad categories. There were technical books about the specifics of TCP/IP and HTML and filled with screen shots. There were, and are, a lot of marketing books. What we were looking for, and couldn't find, was a book about business strategy and how to use this new technology to make it more effective while increasing productivity, cutting costs, and boosting profits. So we decided to write one.

The further we got into this material, the more excited we got. You'll probably catch our excitement from several pages in the book. It's not that we're not old-time business folk who see the obstacles that are out there. Instead, it's the fact that after a couple of decades in business, we've stumbled on something that we think makes business strategy work the way it should. That something is

Net and Web technology.

To make this book happen we looked at the experiences of over a hundred companies and made extensive use of the resources and tools available on the Internet and the Web. We conducted interviews with many people who took time from their busy schedules to speak with us at length, share their information, and sometimes share access to their private networks. This book and the quality examples would not exist without the help of the following:

Bill Andiaro, Lockheed Martin
Suzanne Anthony, Netscape Communications Corp.
Dr. Robert Atherton, Sun Microsystems
James Barksdale, Netscape Communications Corporation
Gary Base, Community Credit Union
Frank Berrish, Vision Federal Credit Union
William Buonnanni, Lockheed Martin
Ian Campbell, International Data Corporation
Jerry Cellucci, Johnson Controls
Bruce Chovnick, General Electric Information Services
Dave Copeland, Intuitive Technologies
Lorraine Darrell, Arkansas Federal Credit Union
Carolyn Drake, Fort Knox Federal Credit Union
Bob Edelman, Marshall Industries
Troy Eid, InfoTest International
Tod Fetherling, Columbia/HCA
Katie Finneran, Lockheed Martin
Jerry Gross, Country wide Home Loans, Inc.
Lou Harm, Burson-Marsteller
Chris John, Resource Financial Group
Cindy Johnson, Texas Instruments
Barbara Kachelski, Credit Union Executives Society
Debra Kaplan, General Electric Information Services
Gary Kayye, Extron Electronics
Jody Kramer, Netscape Communications Corporation
Ed Landt, Minvalco
Steven Neathery, R.E. Michel Corp.
Peggy Odem, American Productivity & Quality Center
Dennis Passovoy, Amicus Networks

Bob Peck, Hewlett Packard
Alan Powell, American Productivity & Quality Center
Michael Sanders, Commerce Bank
Neil Schmitt, Hewlett Packard
Mark Takahama, Wintronix, Inc.
Steve Telleen, Silicon Valley Intranet Partners
Edward D. Withee, PE, Manufacturing Applications Experts
Stan Witkowski, Prudential Securities
Susan Wood, Financial Services Corporation
Tom Vassos, IBM
Ann Yakimovicz, Columbia Quantum Innovations, Inc.

We'd like to thank the other writers and journalist who are out there. The folks writing for *Fortune*, *Business Week*, *Industry Week*, and *Information Week*, and all the other weeks and months and dailies. They gave us ideas for people to call and places to look. They gave us some of the facts that you'll find in this book. And they helped us document the excitement, the success, and the obstacles.

This was not the first book for either one of us. Between us, in fact, we've done almost 20. This time, though, we had something special going for us—a great editor. Noah Shachtman, our editor at Van Nostrand Reinhold, conceived the project and brought it to us as a possibility. He helped us shape the initial idea and pushed us on schedule. And every time we sent him some work, he was supportive and told us how good it was, and then suggested eight or ten ways it might get just a little bit better.

Again, and again, Noah held our feet to the fire. The results are four blistered feet and a much better book. If you appreciate the specifics in many of the examples you read here, he merits your thanks as well as he does ours.

There are also personal thanks to be done. For Wally there's family, my wife Kaye, my daughters Debbie and Di, my son Dave, and my grandson Teddy. They, my father, and his wife put up with a great deal of "Wally won't be here today, he's working on the book." Sandra and Angel, who shared our home for much of the time that this was being written and who suffered many of the trials of family without having the same last name, deserve thanks too.

For Jeff there's family, my life partner Michelle and my two sons Jared and Justin. There's my business partner in The Expertise Center Web site, Ken Braly. All of whom supported me by giving me advice and encouragement and allowing me to not spend as much time with them as they might have wanted or needed while I worked on this book. There is also a special thanks to Suzanne Anthony, the Public Relations Manager at Netscape Communications Corp., for her support, guidance, and direction in finding our way around Netscape's Web site with all it's valuable information resources and for referring us to contacts within many of Netscape's customers and business partners who supplied many of the practical business challenges, strategies, solutions, and lessons learned from their experience using Net technology.

Finally, from both of us, thanks to our readers of this and other books, and our clients who make it possible for us to do what we think is exciting and meaningful work. We appreciate you all more than you know.

FOREWORD

At Netscape, we talk about the Networked Enterprise—a seamless business environment that enfolds employees, partners, and customers in a web of information. Wally Bock and Jeff Senné have written the business professional's guidebook about the practical strategies that drive this new enterprise.

We've seen companies that share this vision achieve astonishing results. On average, they've achieved returns on investment of over 1500%—spectacular by any standard. Many of those companies are our customers, and you'll learn more about them and how they did it on these pages.

But you'll find a lot more. This is not just another Internet book. It's not even another technology book. It's a business guide. The authors are businesspeople who care about business results—just as you do. From the moment they contacted us for help with research on the book, they asked the kinds of questions our customers ask. Instead of technical updates on the latest software, they asked for real-world examples of companies that have raised profits using the Net. That's because Bock and Senné know that the value of this technology is determined by how businesses can cut their costs and enhance their operations online to be more competitive in today's tough global marketplace.

What you'll find in this book is the result of research into the experience of over a hundred businesses, from small entrepreneurial and medium-sized businesses to Fortune 500 companies. You'll also find the results of the years that Bock and Senne have spent running

their companies and consulting with other businesses.

They told us they got started on this project because they couldn't find a good book that they could recommend to clients and their audiences about how business could use the Net. Now they've written it and it's packed with:

- Facts about how companies are using the Net for profit.
- Ways that businesses are forging profit-building links of information all along their value chains.
- Details about how companies integrated this technology into the business and used it to support their strategic goals.
- Advice from the trenches about what works and what doesn't.
- Recommendations about how you can make this work for you.

The outcome is more than an interesting book; from finance to manufacturing, training to customer service, *Net Income* is an operating manual for producing results.

Very simply, this is an excellent book about how you, in your business, can create a Networked Enterprise and use it to increase your net income.

Read it. Learn the lessons Bock and Senné have to teach. And I hope you'll enjoy the same great returns on investment that many of our customers have already achieved.

James L. Barksdale
President and Chief Executive Officer
Netscape Communications Corporation

INTRODUCTION

WHY READ ANOTHER BUSINESS BOOK ON THE INTERNET?

Does your business need to be on the Web? A group of successful owners and managers of fruit-growing and -packing companies didn't think so. They were doing quite well, thank you, without the Web.

One of the authors, Wally Bock, was speaking at one of their conferences. During a social event the day before his speech, one of the owners challenged the idea that the Net or Web could do anything for his business.

"All I'm going to get from this Net and Web thing you're talking about is a bunch of people who want to buy a couple of peaches at a time. I'm not interested in that. I'm not even interested in selling a case of peaches. What I want to do is sell truckloads of peaches. And I know how to do that using my salespeople and the relationships we've built up over a couple of generations."

As far as it went, that business owner was right. He knew his business well; he knew it was based on sales, transaction, and service relationships built up over the years. But he was looking for a way to make *more* profit from that basic business. And Wally showed him and the other owners and managers how the Net and the Web could work for them. He asked one business owner, "Would it help you to save money on as many of those orders as possible by saving on the order-processing cost?" It would. That could run from around \$5 to \$20 per order, depending on whether the order coming in over the Net replaces a mail or phone order and how much rekey-

ing of information is saved after the initial order entry.

Would it help the sales representatives in the field to have certain kinds of specific information immediately available? It would. It's almost impossible to quantify the value of better decisions and presentations, but most people who've done direct sales work would agree that salespeople with good and timely information about customers, products, and offers make more and bigger sales.

Would it help if customers could get information about special situations or offers without tying up customer service people on the phone? The customers would like that a lot because they could do things on their own. The company would like that a lot because they'd get more information shared with the right people without incurring additional costs.

Using the Web, each of these three suggestions could save money and increase revenues for the fruit produce owners and managers. Using the Web, you and your business can do the same.

This book is a practical business manual that will show you—whether you're concerned with a large business or a small one—where to find the hidden profits in Internet income. Those profits are in product development and administration, in manufacturing and marketing, in customer service and human resources—in every process and function of modern business.

We have researched hundreds of businesses in preparing this book for you. Here are hundreds of solid examples, advice, tips, strategies, tools, and tactics from leading-edge businesses that are optimizing their everyday business activities with Net/Web technology and related technology. They are improving their net income.

SNAPSHOTS FROM CASE STUDIES OF BUSINESSES USING NET TECHNOLOGY

Our research shows lots of bottom-line reasons why the business community is so interested in the Internet and World Wide Web. There's lots of money to be made from implementing a *Networked Enterprise* strategy in conducting business. Here are just a few examples.

- Columbia/HCA Healthcare Corporation saves \$6000 per physician every time it delivers training over the Net instead of sending the doctor away to a conference.
- Boeing saves relocation costs for an entire unit by bringing the members together in virtual space.
- Liberty Mutual reduces its number of purchase orders from 17,000 per year to 8000 while increasing the amount of maintenance supplies ordered from preferred vendors.
- Countrywide Home Loans cuts communications costs from seven figures per year to five figures by moving from fax and phone to the Net.
- McDonnell Douglas covers the cost of operating its intranet from the savings on its automated bidding system.
- An executive at NASA saves four hours a week because administrative functions can be handled automatically over the Net.
- Booz-Allen & Hamilton connects all its partners to a sophisticated knowledge base that allows them to be more productive more quickly.
- An engineer at Tektronix can find a data sheet from National Semiconductor in seconds rather than having someone search for it through a 16,000-square-foot warehouse filled with file cabinets.
- A salesperson for Hewlett-Packard prepares for a sales call with a computer system that provides suggestions on presentation as well as product and customer information.
- Heineken USA cuts its order cycle time from 10–12 weeks to 4–6 weeks.
- General Electric cuts its average purchasing cycle from 14 to 7 days.

These companies, as well as many others you'll meet in these pages, are using Net and Web technology as one of the tools to improve their net income.

If all that's true, why have you read so many articles saying that

the Web isn't a place to do business or that electronic commerce is still a year or two away? We think it's because most of those articles, books, and news stories focus on only part of the business equation.

Take one of our clients—let's call him Gary. Gary told Wally, "Our Web site really isn't helping us all that much." The site was taking an increasing number of orders a day—an average of 32 orders at an average order size of \$130—with revenue coming off the site a bit over \$1 million a year. But Gary thought that probably half to two-thirds of those orders would have been received via mail or catalog sales. "It's not bad," Gary said, "and we're making a profit on the site, but it's not really what I'd hoped for."

But there's more to profit than just sales. There's also the costs saved by having those sales on the Web and tied to an internal network. The exciting part of doing business on the Net is seeing the profit jump when cost goes down and revenue goes up at the same time.

Gary's order-processing cost for a phone-in catalog order is about \$16. Phoned in, those 32 orders a day would cost \$500; \$2500 per week; \$133,000 per year. The cost to process those orders through the Web site and into the network? About \$2. That's \$16,640 a year, and a direct and immediate saving of over \$100,000 a year.

That's Net and Web economics: the possibility of increased sales and, more important, the increased profit on all those sales. The promise of cost reductions on administrative services that go directly to the bottom line.

In the excitement of a new technology, it's easy to forget the business basics. Traditional business basics hold the key to how you can increase profits by using Net technology.

The basic equation from Business 101 is

$$\text{Profit} = \text{Revenue} - \text{Expenses}.$$

With an equation like that, there are two ways to make profits go up: Increase revenue or decrease expenses.

When Gary was looking at whether his Web site was helping the business, he was looking only at building profit by making revenue go up. But the real profit builder for his company was in making ex-

penses go down. Gary's company would have had to make millions in sales to earn the \$100,000 profit generated just by those cost savings.

So just what is the Internet and what is the Web, and how can they earn you more revenue and cut your expenses?

KEY DEFINITIONS OF NET TECHNOLOGY

The Internet is a worldwide collection of computers, the links between them, and agreements about how information is going to move over those links.

The World Wide Web is the point-and-click multimedia part of the Internet. It's the part you get to with a program called a *browser*.

Those two, the Internet and the World Wide Web, are the public face of IP, or Internet Protocol, technology. It's the part of the Net you use when you send e-mail to someone at another company or a friend on another continent. It's the part of the Net or the Web you use when you visit a Web site to look for good travel fares for your next trip. The public face of the Web widens the range of a business's marketing, sales, and advertising at very low cost.

Then there's the private face of the Web created by an intranet. This is a miniature Web site inside your company, protected from outsiders by what's called a firewall. An intranet enhances the efficiency of your internal business operations.

The next step, an extranet, extends your local intranet out to your key business partners, suppliers, and customers.

These are the key elements you use to boost your net income.

ACTION STRATEGIES: USING NET TECHNOLOGY TO BOOST PROFITS AND ENHANCE OPERATIONS

The action strategies outlined here give you an idea of some of the ways the Internet, Web, intranets, and extranets can build your business into a "networked enterprise" and use this twenty-first century technology to improve your bottom line now.

1. BUILDING A PUBLIC WEB SITE FOR MARKETING, SALES, AND ADVERTISING

This is how many companies start on the Net, and it's a strategy that can provide some profitable results.

The Net and Web can be a way for a business to extend its reach. That's what a small hot-sauce retailer in Pasadena is doing. The store is called Hot, Hot, Hot, and it uses its Web site to sell hot sauce to customers who live far beyond easy driving distance. Web sales now account for a third of the store's business and are growing at a rate more than double either walk-in or catalog sales.

The Net and Web can be a way for a business to provide more detailed information about products than would be feasible in a print catalog and, at the same time, make it possible for customers to easily order items as they move through the site. That's what Lands' End does with its site.

The public Web can help boost sales at a retail location. That's what companies like Saturn, Goodyear, and Wal-Mart do with their store locators. And that's not the whole story. Consider the following:

The marketing cost for Hot, Hot, Hot's Web sales is 5% of sales compared to 22% for catalog sales. That's direct bottom-line impact.

The order-processing cost for an order placed on the Web is about 70% less than handling an 800-number order. But taking orders on the Web also frees up order takers to do other work for your business.

For retail stores like a Saturn dealership, Goodyear, and Wal-Mart, the public Web eliminates lots and lots of printing and postage and the need for some of the telephone staff.

This is the public face of the Web, and it's been written about a lot. Direct sales to consumers are important but, right now, they're not where the big profits are. If you'd like more information on direct sales, see Appendix A. But now let's step into the area where the big profits from Net and Web technology happen. They happen when the technology is used inside your business to make it more

profitable and when you use the technology to connect your business more effectively to the outside world.

2. BUILDING AN INTRANET

Take Net and Web technology, bring it inside your firewall, and you have an intranet. Once you do that, you can reap some profit-building rewards.

Basic administrative information, like the employee phone directory, can be totally current without any of the cost of printing updates. The same is true for product specification sheets, production and shipping schedules, benefits information, company calendars, and a host of other information that is frequently updated.

Any company—large or small—that requires forms to be filled in is a natural for an intranet: expense reports, travel advance requests, simple purchase order processes, and order-tracking requests. Consider also the documentation that needs to be maintained on quality assurance, emergency procedures, nonroutine administrative functions (such as bringing in temporary staff). Having those items available on the intranet makes everyone more effective.

Once again, that's not the whole story. Consider this:

There are immediate savings in printing and postage. There are savings in people's time. Personnel-benefits specialists, purchasing agents, and others with specialized knowledge can use their knowledge, skills, and abilities to deal with the situations that really require their higher-level skills. And clerical costs drop.

There are technology savings because the Web was developed to manage and link lots of information across a number of different computer platforms. If your company has different computer systems, an intranet will link them easily as long as you've already got them networked.

International Data Corporation, a consulting and research firm based in Framingham, Massachusetts, has studied the return on investment to companies that have implemented an intranet. The result: The average ROI is in excess of 1000% a year. Payback periods range from 6 to 12 weeks.

There are several factors pushing these numbers upward. The