

Meta- Capitalism

THE E-BUSINESS REVOLUTION
AND THE DESIGN OF
21ST-CENTURY COMPANIES
AND MARKETS

Grady Means
David Schneider

PRICEWATERHOUSECOOPERS 

FOREWORD BY JAMES J. COHLEN

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JAMES J. SCHIRO



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Foreword

A fundamental transformation of the business model is under way, to which the central precept of Darwinism applies: Companies must either adapt or perish. The book you have in your hands digs beneath the breathless anecdotes about instant success and explosive wealth creation to discover a truth that is at once exhilarating and sobering.

The authors identify an emerging economic framework to which they give the name *MetaCapitalism*. They expect the world-wide business economy to configure and behave in entirely new ways—an astonishing prediction. More astonishing still is their contention that businesses have only the narrowest window of opportunity to remake themselves—at most, a few years, and those years are now upon us.

Some companies are already embracing the e-business revolution and assuming leadership roles in the New Economy. Their instructive and inspiring stories are told here. Other companies—particularly those in traditional heavy industry—have yet to fully leverage the enormous possibilities of Internet-enabled business. But the authors leave no room for doubt that they too must accept the new paradigm, because e-business will transform *every* industrial sector.

While the clock is ticking for every business, the message of this book is exciting and optimistic. It foresees a world in which the business-to-business e-business revolution will sweep every corner of the economy, where the supply chain will be dramatically

streamlined, where tremendous efficiencies will be attainable, and where worldwide capital market value will explode.

The opportunities for companies with the financial means and human and intellectual capital are manifest. The key is to know how to leverage those assets in time to ride the wave into the e-business future. No mere exercise in futurism, this book is a survival guide for the New Economy, an invaluable road map of the digital landscape.

I urge business leaders, entrepreneurs, educators, legislators, and public officials to absorb its chief findings. The transformation of the global economy will have profound social and political implications. MetaCapitalism will literally change our world. I invite you to read on and discover how.

James J. Schiro
CEO
PricewaterhouseCoopers

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The development of the basic draft of this book was quick (two months), virtual (many contributors worked online with the authors), and “meta” (ideas were reviewed, refined, and discarded or adopted over short periods of time by an ever-changing set of teams).

Contributing to the overall content of the book, Michael N. Bazigos was tireless in assembling and structuring the material. Robert Avila, an outstanding economist and business forecaster, developed many of the most insightful ideas and forecasts for the book. Michael Hanley helped sharpen our focus and direction. Ric Anderson performed a “technology and value chain sweep” to ensure the accuracy and focus of our technology discussions as well as improve the overall content. John Jacobs and Peter Davis provided pragmatic senior executive business insights that strengthened many chapters.

In preparing the discussions of business-to-business e-business and MetaMarkets, the authors drew heavily from the work of Matt Porta, Rory Jones, Karin Blair, Philip Landler, Rich Krigger, Amy Wright, Patrick King, Bill Bound, and Bill Battino. Each of these consultants has thorough experience in guiding major corporations toward successful e-business strategies. Collectively, they have created a virtual encyclopedia of new business concepts associated with the Internet and business-to-business e-business.

Roger Heijens, Don Schulman, Frank Milton, and many others helped us better understand the new business processes associated with MetaMarket companies.

Industry examples matter in this book, and we had the help of many contributors to get them right. Special thanks go to J. Ferron and Dave Garfield for their insights on the automotive industry; Jill Kidwell for her extensive work on higher education; Mark Austen for framing our views on financial services; Bob Reeve, Colleen Wesling, and their associates for their insight into MetaMarket solutions for government; Mark Kingdon for his insights into virtual retail companies; Joe DeVittorio for his expertise on the chemical industry; and many others.

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Finally, this book would never have reached publication without the great support and nearly tireless guidance of our in-house

editor, Roger Lipsey; the encouragement and contributions of our partner, Joel Kurtzman; and the enthusiasm of Bill Dauphinais—our partner, nay our Virgil, as we explored the Net world.

A final word, to acknowledge a market reality. Because stock markets *will* rise and fall, we want to make clear that the thoughts in this book are not tied to the Dow, NASDAQ, Nikkei, or any other market index. We are confident that the new MetaCapitalist design of companies and markets in the twenty-first century will produce astonishing expansion and wealth. But securities markets worldwide will naturally remain volatile, nervous. Many new MetaCapitalist ventures will be created. Some will succeed, many will fail, all will reflect attempts at real transformation and progress. Our book points toward a new and incomparably more successful model for businesses worldwide. But as we write in later pages, there are risks ahead and there will be stumbles. This is not bad. This is what markets do. MetaCapitalist markets will do it faster *and* better.

Grady Means David Schneider

Introduction

$$e_{(t)} = M(C)^2$$

A worldwide earthquake is shaking the foundations of traditional economic and business thinking. And for once the results of a quake are good. It is generating a tidal wave of economic growth and prosperity, changing not only business but also politics and international relations. Economic value and wealth creation will accelerate to unprecedented levels. Global capital market value will grow from \$20 trillion to \$200 trillion in fewer than 10 years, unleashing undreamed-of possibilities and solutions to longstanding problems. This book documents the early tremors.

Moore's law (the power of information and computer technology grows exponentially as its cost diminishes) now applies to economics and business conditions as much as to technology. Worldwide economic conditions and frameworks change ever more dramatically over ever shorter periods of time: This is Moore's law in its broadest application. *The period from 2000 to 2002 will represent the single greatest change in worldwide economic and business conditions ever, and most of the impact will occur during the next 18 months.* If companies (and countries) do not change their assumptions and strategies during the next 12 months, they will almost certainly fall behind and probably be left behind.

The key driver of this change is the business-to-business (B2B) e-business revolution. But the strategic principles underlying the change and the formulae for business and economic success are not

just technological. Their roots lie in a vast array of changes that have occurred over the past 20 years—among them:

- Globalization of the world economy and the integration of worldwide capital markets through widespread privatization, lowering of trade and capital barriers, and the development of global market and investment strategies
- Dramatic restructuring of companies over the past 20 years through business process standardization, simplification, and refocusing under the rubrics of cost reduction, business process reengineering, supply chain synchronization, Enterprise Resource Planning (ERP), and customer understanding and management
- Increasing installation and reliance on technology for business management, based on the economics of Moore's law combined with the year 2000 (Y2K) threat and the growing power and usefulness of technology applications—leading to a transformation of business systems
- Growing acceptance of the need to focus on core business skills and processes and the resultant movement toward spinning off or outsourcing noncore processes
- Exponential growth of business-to-consumer (B2C) e-business, accelerating use and acceptance of the Internet, and the rise of e-retail and e-finance as accepted consumer activities

The era we are moving into—the B2B revolution—will transform the leading companies in each industry worldwide and force them to compete in entirely new ways that take advantage of this vast array of changes. Competition will be characterized by the emergence of brand-owning companies that devote their energies to meeting customer requirements and driving product innovation. They will be allied with companies that focus on key parts of the supply chain and demand chain. Efficient supply chains will support deeper levels of customer satisfaction, while demand chain activities will also increase customer satisfaction through

e-supported customer relationship management. Far more than at any time past, competitive pressure to assure customer ownership will drive intense and continuous optimization of markets, responsive operating and backroom processes, and the continuous refinement of marketing and customer ownership strategies. Companies will be forced to innovate continuously and to transform regularly simply to keep pace with this intense level of competition. Economic growth and value creation will accelerate to unprecedented levels. The stock market valuations that have been common in B2C .com businesses will become common across the major industrial and financial services sectors. And all of this will be bought at a price: The required speed and flexibility of response will demand huge changes and an entirely new level of management competence and discipline.

We term this massive business and economic transformation *MetaCapitalism*. It will sweep the world in the next few years, triggering enormous economic growth and value creation and changing many of our fundamental assumptions about wealth creation and distribution. Unless corporate leaders fully understand these trends and the principles underlying them, they are likely to be unprepared for the transformations required by B2B e-business.*

The first glimmerings of this revolution are just becoming evident. Internet-based companies, which created valuations that were hard to understand during the business-to-consumer period of the past few years, are now joining major industrial and service companies in launching the B2B revolution. This will lead to an even more dramatic increase in corporate value—which will again be hard to understand and digest on the basis of conventional business principles. We are, at least temporarily, in an uneasy zone of paradox: The market is not wrong, *and* most traditional principles of business management still hold true. Tremendous imagination and

*While this book deals with B2B e-business and intersections among allied companies and industries, many of these processes are closely linked to B2C processes. In effect, many of the changes noted in this book are business-to-business-to-consumer (B2B2C). Overly fine distinctions would be misleading and are not intended.

insight, combined with courage and an occasional leap of faith, are needed to enter into and succeed in this new world of virtual business and virtual economics.

$$e_{(b)} = M(C)^2$$

MetaCapitalism requires a new math. We need to move from the arithmetic of business to something closer to relativity theory:

$$e_{(\text{business-to-business})} = M(C)^2$$

A well-intended corruption of Einstein's classic equation for the relationship between energy and mass (energy equals mass multiplied by the speed of light squared) turns out to be a highly useful metaphor in understanding the new mathematics of e-business:

$$\begin{aligned} &\text{Business-to-Business e-Business} \\ &= \text{Management (Change} \times \text{Courage)} \end{aligned}$$

In short, to create new B2B e-businesses that overtake the leading incumbents in *every* industrial and service sector requires a management team that:

- has enormous insight into the *changes* that have occurred over the past 20 years and will occur over the next 2 to 10 years, and the imagination and instinct for innovation that will allow them to design entirely new approaches to business based on these new principles
- has the *courage* to launch a total transformation of their companies over the next 12 to 18 months, to build on the changes of the last 20 years and take advantage of today's B2B revolution, thereby positioning their companies to benefit from the "disruptive technologies" and economic changes that will surface over the next four to five years

(As a parenthetical comment, we want to add that *management* refers not only to corporate and business management, but also to the management of public institutions. Political and public leadership based on insights, courage, and political skill will be necessary to lead countries and public institutions wisely through these transformations. Leadership of that quality will make the difference between countries whose economies grow successfully and those that do not.)

To extend the relativity metaphor a little farther and apply it to MetaCapitalism:

- **The B2B revolution will occur at the speed of light.**

Major companies in every sector will transform from the conventional to the e-business model over the next 12 to 18 months. New companies will form and rapidly take market share from those that are slow to change. This too will occur in every sector, including all phases of manufacturing, financial services, health care, retail, entertainment and media, telecommunications, and government.

- **“Mass” will be converted into “energy.”** The advantages of owning the physical capital of production capacity will be replaced by the need to dominate *MetaMarkets*. What are MetaMarkets? They are outsourced, managed networks that continuously replace elements of the supply chain with more efficient players. Participants at various points along the demand or supply chain will be essentially free agents, easily replaced to improve performance at that point in the value chain.

- **The transformation will shrink both time and space.**

The leveraging of the Internet to create closer integration of supply chains and operating networks, global access to markets and suppliers, global communications across management teams, and the growing use of information exchange using broadband techniques will allow institutions to serve worldwide customers and use a global supplier network—from their desktops.

■ **The market will accumulate mass exponentially.**

Worldwide capital market value expanded tenfold from \$2 trillion to \$20 trillion in the period from 1980 to 1999. The enormous leverage created by the factors of change outlined above and consolidated by B2B strategies should increase capital market value another tenfold to \$200 trillion over the next 8 to 10 years. As in the relativity equation, time accelerates— $(c)^2$ —and shortens the period for reaching higher valuations and earnings multiples because of greater capital leverage (financial, human, and brand capital). The Dow is likely to continue to expand dramatically, and the world is likely to experience an unprecedented expansion of economic value and wealth—books forecasting a 36,000 or 100,000 Dow argue among other things that the market is well below proper value in light of the transformations now approaching. Like nuclear fusion, MetaCapitalism creates continuous reactions along the value chain and can be expected to create value and release energy for decades. The implications of this growth, not just for the developed economies but for developing economies, will be dramatic. (In a sense, the right law to apply here is not Moore's, but Metcalf's: The value of a network increases by n^2 with the number of players in the network.)

The Internet leverages financial capital, as well as human, intellectual, and brand capital, on a worldwide basis. This is reflected in the unprecedented growth and value of the .com companies, which still today represent only a tiny fraction of the economic value and wealth creation possible through B2B transformations. As major industrial and financial institutions “decapitalize” and leverage MetaMarkets on a scale that dwarfs the B2C enterprises, the economic disruption (in a positive sense) and expansion will be enormous.

This level of change challenges even the most sophisticated managers and management teams. The purpose of this book is to propose frameworks for thinking about this transformation and for

incorporating those frameworks into corporate strategy, decision making, and processes for management change. As with any revolution, or any exploration of a new universe, participants cannot help but experience tremendous excitement, and they will encounter very real risks. They will feel as if they are stepping off a cliff. The enterprise will require expert business skills, a taste for risk, and no small amount of confidence to succeed.

There are only a few central ideas in this book, which is intended as a strategic primer for management rather than an exhaustive review of B2B. But we are well aware that some elements in the pattern of MetaCapitalism are complex. This is not of our doing; we simply try to reflect the emerging pattern of the New Economy. Network technology, building on other major changes of the past 20 years, does appear to be producing enormous new economic growth and wealth. In addition, because of its ubiquity, anonymity, and accessibility it is creating a new meritocracy in which skillful players from all corners of the world begin to compete with far less restriction than ever before. Network technology also provides the greatest opportunity in recent memory for developing nations, and we sincerely hope that our book finds an audience in countries where the fear of a “digital divide” is strongest.

To take a page from *Star Trek*’s Gene Roddenberry, we may be on the verge of moving from the *realm of necessity* to the *realm of surplus and freedom*—from an economic version of violent adolescence to productive young adulthood. We may be poised to create a better worldwide balance of productive capacity and wealth, to move from competition for survival to competition for the earned privilege of defining future cultural models that include business and economic models and much more. As the tycoon in the movie *Contact* said to the Jodie Foster character before she was launched at warp speed to Vega: “Wanna take a ride?” Of course we do—it’s the most exciting ride around.

Contents

	Foreword	ix
	Acknowledgments	xi
	Introduction	xv
1	The Business-to-Business e-Business Revolution Begins: The “Decapitalizing” of Traditional Companies	1
2	The Dynamics of MetaCapitalism: Value-Added Communities and MetaMarkets	19
3	New Business Process Models for B2B	45
4	“It’s Alive!” The Intelligent Behavior of MetaCapitalist Markets	81
5	Industry Examples: B2B Transformation and MetaMarket Formation	89
6	The New Economics of MetaCapitalism and Performance Measurement	129
7	Bubble In, Bubble Out, Transformation: The Organizational and Change Management Challenge	157
	Epilogue A New World: Closing the Digital Divide	175
	Index	181

1

The Business- to-Business e-Business Revolution Begins: The “Decapitalizing” of Traditional Companies

As we interviewed chief executive officers worldwide in many different industries for our recent book, *Wisdom of the CEO* (John Wiley & Sons, 2000), we were struck by their similarity of perspective. These were, to say the least, independent-minded men and women, influential thinkers and doers—yet looking at their