The New Bottom Line

To be successful in e-world, we have to recognize how it differs from what we knew and counted on in the past. The figure shows the hallmarks of e-world. You can reflect on how they differ from i-world (industrial world). It’s not a question of better - only different. E-world is bigger, faster moving, open to everyone, more demanding, continually and rapidly changing, talent-dependent, information-driven, and customer-centric.

Many of the proven techniques in the industrial age will fall back into minor roles in e-world. Although incremental improvements in processes using quality control and reengineering are useful, they will not produce the types of gains that e-world speed demands. We can’t keep up if we persist in continual tweaking to gain minute increments of efficiency. Process improvement may wring another percent out of operating cost, which does improve margins slightly. But while we dedicate resources to that exercise, competitors will be changing the market on us. We might wake up one day to find ourselves being the low-cost producer of a bleeding-edge product.

In e-world, the better we get at one thing, the more vulnerable we are to the new thing. Extreme competence blinds us to new possibilities for competitive advantage. There is a natural tendency to focus on things we do well while ignoring the discomfort of our weaknesses. Ted Williams, the last man to bat .400 in the major leagues sixty years ago, said that the good hitters continually practice hitting and the good fielders continually hone their fielding skills, and it should be the other way around. When we focus only on doing what we do well better, innovation blindsides us.

Kevin Kelly, executive editor of Wired magazine, states that “To achieve sustainable innovation you need to seek persistent disequilibrium. To seek persistent disequilibrium means that one must chase after disruption without succumbing to it, or retreating from it.” (Kevin Kelly, New Rules for the Economy, New York, Viking, 1998, p. 114). He goes on to claim that there are three types of change:

1. Change in the game
2. Change in the rules of the game
3. Change in how the rules are changed

In the first case, there are visible changes: new winners and losers. Examples are Wal-Mart and Dell Computer, which displaced Sears...
and Compaq. In the second case, there are new kinds of business. Examples are Federal Express and Amazon.com, which declared a new set of rules for package delivery and retailing. The third type of change is when change accelerates still more change. It is like the old ramjet engine: The faster it went, the faster it went ... until it was ready to blow itself apart. In the third-order change, we find creative destruction. We don't do something better; we make it obsolete. The old is blown apart by the new. The key question is, "Are we going to blow apart our old methods, or are we going to let someone else do it to us?"

Despite the differences and in many cases improvements in e-world versus i-world, we need not abandon i-world. A great body of truth and value has been built during a century of experience in the marketplace. I-world simply needs to be updated to serve 21st-century conditions. Just as railroads connected industry with consumers and expanded commercial possibilities in the 19th century, the Internet is making connection ubiquitous today. To operate effectively — to be highly competitive — management must merge the best of the two worlds.

The winners will be the traditional companies that are able to combine the fleeting, intangible, dynamic qualities of the digital world with their hard-won capabilities, experience, and physical assets. Chris Meyer and Randy Love wrote about these qualities of what they called the dot companies ("Meet the Connected Economies New Species: The Dot Companies," Perspectives on Business Innovation; Cap Gemini Ernst & Young, Center for Business Innovation, Cambridge, MA, 2000, pp. 13-20). They claimed the dot companies would bring together the growth prospects of the young Internet companies with the infrastructure of the traditional, profitable corporations. The combining will spawn a new species of organization that is stronger, faster, and better equipped to deal in e-world than either of the parents. The risk-averse parent will be prodded by the upstart to trade some stability for adaptability. Enron is cited as an example of this new species. It transformed itself from a traditional energy company into an energy trader and risk manager. Since the defining element of the e-world economy is disequilibrium, the concept of stability is an anachronism. The lesson behind the dot com phenomenon is: Evolve or die.

Retiring General Electric CEO Jack Welch brought a note of reality to the e-world hypemeisters when he said: "Old companies thought this was Nobel Prize-type work. This is not rocket science. It’s just like breathing. The existing business already has sales and expenses. Digitize it and costs fall. Sales climb. Instantly (the old guy) gets to break even. Then the margins just pour in."("The E-Gang," Forbes, July 24, 2000, p. 148).

Who was it that said that the more things change, the more they stay the same? The laws of physics have not changed. Gravity still rules. Integrity is still inviolable. Choose carefully the star you follow.

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