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NINE WAYS TO A BETTER INTERNET STRATEGY

Practical advice from industry experts for successfully bringing your business into the Internet economy.

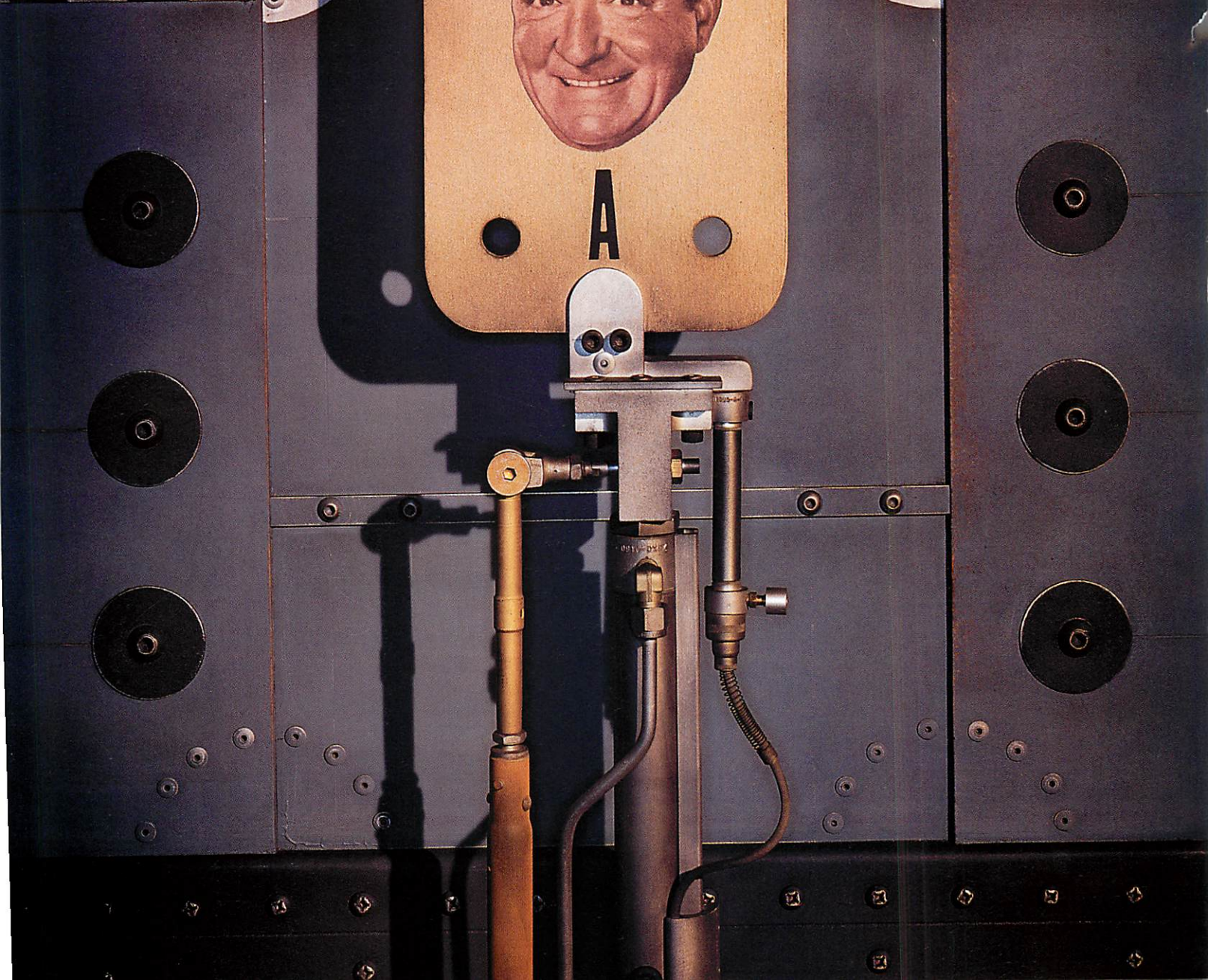
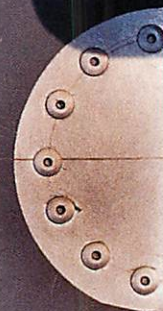
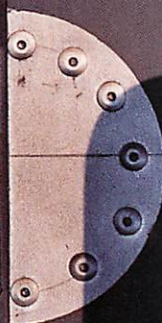
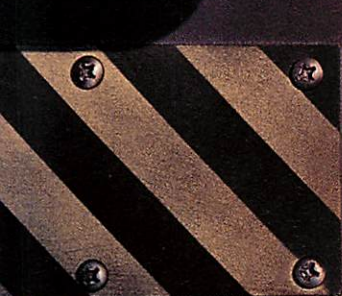
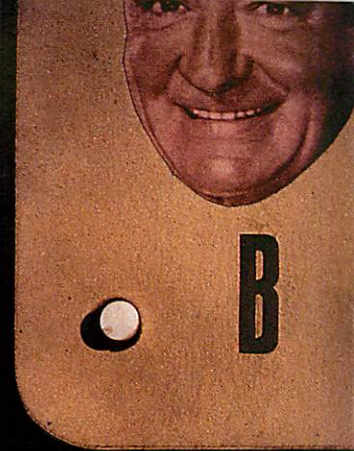
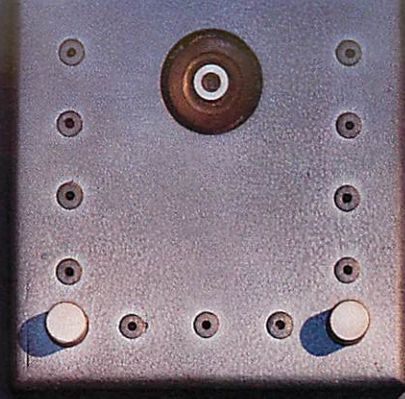
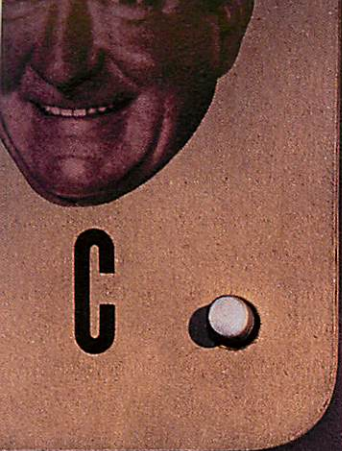
While it may seem obvious, companies would do well to remember that the Internet is fundamentally about communications. And Internet business is fundamentally about, well, business—it just uses a new communications medium to perform it. To develop and successfully deploy a competitive strategy, companies must know how to apply Internet technologies to business processes. Integrating a company's core processes and culture is a key part of the equation. To build a stronger Internet strategy, companies must first outline a realistic set of expectations. Following are nine ways to more clearly define your Internet business strategy—and to help you build one with greater results.

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How to Evaluate Strategy Providers

With more than 80 percent of large enterprises turning to outside help for development and implementation of Internet business strategy, chances are your organization will also be looking outward. As a result, strategy providers are proliferating at an amazing rate, making evaluation difficult.

Forrester Research grades strategy providers by four criteria that are designed to gauge their ability to respond to a company's Internet business needs and support their internal efforts to innovate.

Internet IQ: How well does the provider understand the evolution Internet technologies in both business-to-business and business-to-consumer environments? Do they know how marketing, customer service, and supply-chain relationships will change over time in the Internet economy? Can they articulate how your organization, channel structures, and business processes must be modified in light of Internet business development? Are they up to speed on how wireless and broadband technologies will affect Internet business?

Strategy Acumen: Are clear methodologies used to identify and qualify initiatives that have the greatest competitive advantage or return on investment? How does the provider define the organizational and business-process changes required to leverage the Internet and align it with existing channels?

Global Expertise: Is the provider a global player? Does its global expertise extend to an understanding of how trading communities, pricing models, regulatory requirements, technology infrastructures, and consumer desires vary by country?

Industry Depth: Does the provider have the scale and vision to build deep vertical expertise among their strategists? How are specific industry skills arrayed with general Internet business skills?

within the company follow through on their responsibilities.

Your customers, whether they are corporations or individuals, should have the same experience and high level of service, no matter how they approach your organization—via a store, Web site, toll-free number, or catalog.

4. DEVELOP A FLEXIBLE INFRASTRUCTURE

Establishing a flexible infrastructure is critical if your Internet business strategy is to succeed. Since the company needs to respond rapidly to external changes, a flexible infrastructure makes it easier to change processes, adapt applications, and modify structure. Using a standards-based architecture further simplifies your organization's ability to adapt readily, since there is no need to invest in new elements or applications to get everything to work together smoothly and reliably. Test all of the elements to be sure your infrastructure allows adequate connectivity with customers, suppliers, partners, and employees. Once the infrastructure is in place, you can deliver applications and services reliably, and can scale it to accommodate increases in use.

Companies that have a strong history of mass logistics and mass distribution need to adapt their systems to handle the individual purchaser. "Mega retailers need to master the logistics of quantity one," explains Cisco's Moazami. "They know how to ship 200,000, return 10,000, and credit the account \$1 million, but they have to learn—in a cost-effective way—how to ship three, return two, and credit a customer's Visa card for \$29.95."

5. DEVELOP USEFUL METRICS

Implementing a successful Internet business strategy also requires discipline when applying metrics to measure the process as the project moves forward.

"Specific initiatives must build continual reevaluation into the process," Herzog says. "Measurable results are their lifeblood. Those who act with the 'If we build it, they will come' mentality are wasting their time and money."

META Group's Martin agrees, describing the metrics as a timing mechanism in a four-phase engine: "The metrics are established at the end of phase one, after the business process is thoroughly examined. Phase two is the selection of tools. Companies should pick appropriate tools based on cost, risk, and maturity. Only then do you begin design, which is phase three—but it's where most companies mistakenly want to start. Phase four involves going back to the metrics that you set up in phase one—measuring what you have achieved and reexamining the metrics to verify that they were appropriate. This takes you back to the initial phase, and the process begins again."

How a company measures effectiveness will vary according to the strategic model set up at the outset. What is the model? Are you trying to create a profit today? Or are you trying to build an asset customer base, like Amazon.com? Amazon's strategy of using the Internet to create—and take ownership of—a community of buyers with transactional interests well

1. KNOW THYSELF

"The Internet is a combination of voice, data, and images—and the ability to communicate with all three—that powerfully changes the way we communicate among people, among businesses, and between businesses and consumers," says Michael J. Herzog, senior vice president for High-Tech Solutions at KPMG Consulting, LLC. "There's too much focus on Web sites as a mode of communication, a focus that diminishes the transforming power of the Internet."

Herzog recommends that companies look inward in order to look outward. Rigorous self-assessment is an essential part of developing the vision necessary for successful Internet business deployment.

"What we say to our clients is, 'How has this change in communications changed your business?'" he says. "We ask them to look at how, in terms of the initiatives and ideas they have, the Internet has changed their competitive landscape."

Likewise, Kip Martin, director of electronic business strategies at META Group, a market-assessment company that provides analyses of Internet trends and organizational issues, agrees that the first step in developing a successful Internet business strategy should be intensively self-inquisitive. "Phase one is not looking at the Internet, but rather looking at business processes across the entire enterprise," he says. "What do you want to do? What are your business processes? How do you want to change those? What are the metrics by which to measure that change? What value propositions are raised?"

Such introspection doesn't just help an enterprise develop the self-awareness necessary to produce an informed Internet business strategy; it also helps companies better utilize whatever consultative resources they employ.

"You have to know where you are now in order to go forward," says Herzog. And when it comes to working in Internet time, if you don't go forward you fall perilously behind.

2. KNOW THY CUSTOMER

Truly embracing the Internet as a strategic part of your business means carefully examining how your customers—as well as your employees, partners, and suppliers—will interact with you electronically. Consider what kind of collaboration, communication, and transactions you can do differently by incorporating the Internet into the process.

Few companies have undertaken the effort necessary to link their internal business processes to their customers' processes in a way that adds perceived value for the customers. Yet such value enhancement is precisely what companies need to make their Internet businesses competitive and increase market share.

Knowing where you're going and being prepared to change is vital, says Donald Rosenthal, vice president, strategy practice for Proxicom, an Internet consulting firm.

Brian Eckert, vice president for marketing at Proxicom, cites Mobil Oil as one case in point: "When we began working with Mobil, they were conducting EDI for their largest customers. They had been doing this for years, and although

it was an expensive process, it was a profitable one. Yet they knew it could be made even more effective by being enhanced and better executed."

Adds Rosenthal, "They felt they knew where they wanted to go—to better execution of EDI. But we convinced them to change. We told them to eliminate their proprietary EDI network and move to the Internet. Their ability to make that change resulted in a powerful competitive advantage."

In moving these operations to the Internet, Mobil provided its lubricant distributors with real-time access to inventory, while building-in business rules that enabled customers to always place an exact order. In doing so, the company took a system that was less than 50 percent accurate and achieved 100 percent accuracy. Mobil also eliminated network fees—for itself and its distributors—and scored a triple-digit return on investment.

Many companies compromise their branding when they establish an online presence, either by creating a separate online identity, offering a different product set, or treating their customers differently. "Brands are as critical as ever, because people gravitate toward trusted brands," says Mohsen Moazami, managing director of retail and consumer products manufacturing consulting for the Cisco Systems Internet Business Solutions Group. "You have to respect your brand's history. If you change the message, you change the image the customer has of your company. If you're a traditional off-line branded entity, your competitive advantage is in synchronizing your efforts across all channels—stores, catalog, call center, and the Internet. Your consistency in customer experience across all channels is a key to your success."

3. ESTABLISH AN INTERNET CULTURE

Embracing change and succeeding in the Internet economy requires you and your employees to think outside the box. Many of the limitations that existed in the traditional economy—geography, distribution reach, and marketing opportunities—are no longer barriers when you incorporate the Internet into your business processes.

What's more, company executives must strive to embrace the same Internet strategy in order to lead the company in a clear, definitive direction.

As you approach the cultural aspects of the project, consider whether the required changes will affect process, organizational structure, or both. A successful culture change requires executive commitment and impetus that comes from the top. Are there organizations within the company that are more likely to embrace change? If so, then target those groups first.

Helping employees accept a major cultural shift requires a champion in the company's leadership who realizes that integrating the Internet into business processes is a cornerstone of success. Each project related to the Internet initiative requires executive commitment to establish cross-functional teams to carry out project goals, to support the projects as a major corporate priority, and to ensure that different groups

beyond their core business has become a model of how to leverage the technology to create exceptional value.

Many other companies establish more traditional return-on-investment models. For example, Cisco measures everything in terms of customer satisfaction—an increasingly important metric in the assessment of Internet business performance.

Also, as value chains are integrated to accommodate the consumers' new speed and value requirements, companies must develop skills to handle inter-enterprise process development and project management, and they must create management metrics to promote collaborative efforts across companies and cultures.

6. PLAN TO MOVE QUICKLY

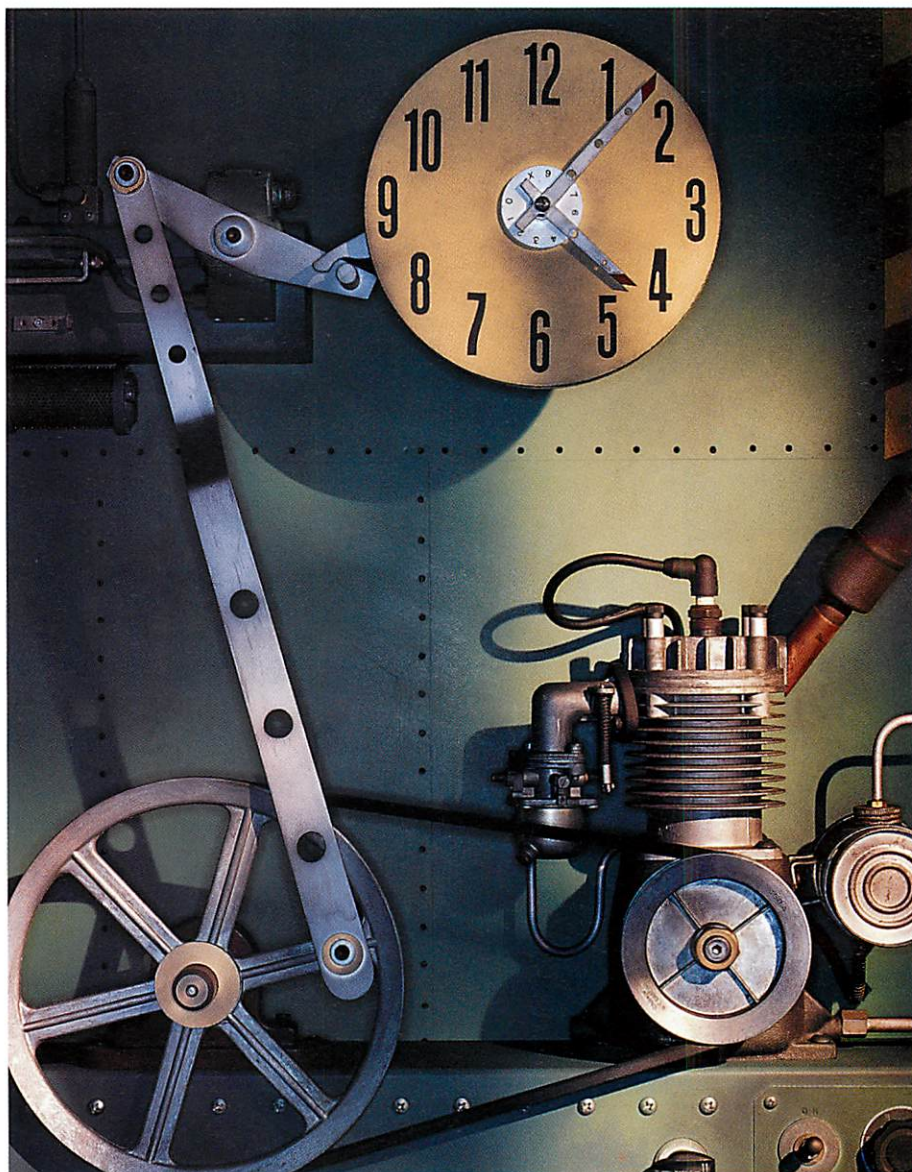
"We tell our clients to pack lightly and carry a compass," says Proxicom's Rosenthal. "By that, we mean a client can't spend a year doing a large analytical study on Internet business. You have to know where you're going and be prepared to change."

The need for agility is driven by the accelerating speed of the Internet—which, according to KPMG's Herzog, measures years in 90-day increments. "Any successful Internet business venture must be committed to the process," he says. "You look at ideas, examine them in light of your own strengths and weaknesses, build hypotheses around them, develop prototypes to test them—and often abandon them. If the venture doesn't produce results, you must accept the facts and move on."

"E-business is like hockey, not ballet," says Rosenthal. "Not every move is planned in advance." Changing course can sometimes be jarring, but other times it puts you right in front of the goal. In fact, Mobil scored to the tune of a \$750 million revenue stream.

Choose the opportunities that will lead to big wins quickly. Small, high-impact, low-risk projects are the best candidates. As you evaluate potential projects, consider the following:

- Is there an area in your organization where changing an approach or introducing new technology would have significant impact?



- Is there a project in which you can easily define goals, take clear steps to meet them, and achieve early successes where the benefits are obvious?

To garner support for a larger effort, start with a smaller division or unit and demonstrate success with the model by achieving quick, tangible results. Starting small has three primary benefits: It allows you to quickly judge whether you are achieving the expected goal; it enables you to terminate a project easily if it is not likely to succeed; and it generates momentum for future efforts.

Ingram Micro's VentureTech Network portal is one example where a company started small, but has shown impressive growth. VentureTech has grown into a leading national community network of more than 500 technology solutions integrators servicing the small- to midsize business market. The portal has become a significant resource for a network of resellers, and is currently sponsored by such industry leaders as Cisco, Compaq, IBM, and Microsoft.

Contrary to what might seem logical, major business organi-



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zations and information technology departments are generally not the right place to start. The processes these groups follow are often firmly established, making it difficult to get the mind-share needed to introduce new efforts and introduce change.

7. UNITE BUSINESS AND TECHNOLOGY

Forging partnerships between business and IT groups is critical, often requiring a top-down effort to ensure project success. Traditionally seen as separate parts of the organization, the two areas must partner to make Internet business strategies a reality. Both must agree on objectives, time lines, metrics, and their roles within the effort to achieve the related goals.

"Having a combined effort is crucial, both within the enterprise and among the service providers it uses," says Martin. "Within the enterprise, you need representation from the executive and technology—for instance, someone who knows the difference between Java and CORBA, the ramifications of the words being used to define the infrastructure elements of the process—plus people from line-of-business management, maybe legal, maybe marketing—it depends on what you're doing. This group must reach a common set of vocabularies, and it must be collaborative. When one functional element takes control of the process, the process loses balance."

The IT team's role is to build and manage the infrastructure and necessary applications, and act as a consultant to develop and deliver what the business functions need. The objectives and related compensation should mirror that of the business side, which helps strengthen the partnership.

Business units should consider the cost of deploying applications as part of their budgets and prioritize projects accordingly. A good rule when considering budgets is to select projects that can be completed in three to six months, achieve a payback within a year that is greater than the cost of the project, and contribute to improving customer satisfaction.

8. REACH OUT TO PARTNERS

When Forrester Research surveyed more than 60 "Global 2,500" companies on their implementations of Internet business strategies, it found that more than 80 percent engaged external providers for help. The companies cited an array of advantages to bringing in outside consultants, ranging from skills augmentation to diversification of perspective.

"A big part of the implementation depends on whether you outsource or go with in-house creation," says KPMG's Herzog. "A lot of steps will follow from that." Herzog sees the trend toward companies' using partners to help develop Internet business strategies as a similar practice to using agencies for advertising.

"Using consulting specialists demands self-examination," says Christine Spivey Overby, an associate analyst at Forrester. "To get the most out of their help providers, firms must stop labeling all Web-based activity as 'Internet business strategy.' This involves a self-assessment in response to market pressures to innovate and upgrade internal capabilities to support Internet business."

"In an initiative that's ultimately designed to reach out to new markets, it rarely makes sense to limit the perspective to one informed by in-house views alone," says Herzog. "Enterprises have their core competencies, but to reach the market they need to be connected to trusted parties outside their four walls."

The trend of outsourcing for strategy help is likely to continue. Of those companies in the Forrester survey that used outside help, more than half expect that number of providers

Avoid the Traps

Market-analysis firm Gartner cites five essential reasons why many Internet business projects fail.

1. **Narrow definition:** When they're too narrowly defined, Internet business projects typically have little impact on overall revenue generation, customer satisfaction, or customer retention.
2. **Poor or inadequate metrics:** A lack of performance-tracking mechanisms cripples the ability to monitor the effectiveness of an Internet business initiative.
3. **Misapplication of technology:** The application of Web technologies to processes that are not part of the value-creation mechanism is counterproductive.
4. **Clumsy process integration:** The inability to build smooth, integrated processes due to inconsistent interfaces.
5. **Tunnel vision:** When initiatives are designed without taking the capabilities of business partners—customers and suppliers—into consideration.

To avoid these pitfalls, continually revisit the process while it is underway and strive to understand that measurements must ultimately be fitted to the customer if satisfaction is to be gauged.

will remain constant or increase in the next two years.

Partnering is beneficial among suppliers as well, Herzog points out, particularly where complementary expertise can really drive initiatives forward. KPMG's relationship with Cisco is one such example of how such partnering can add tremendous leverage to a company in devising Internet business strategy, he says.

"It makes sense to invest in a network of partnerships," says Proxicom's Rosenthal. "No one company has everything, so you look to work with companies whose partnerships maximize responsiveness and resources."

Adds Forrester's Overby, "Firms that do not keep strategists on tap will find themselves ill-equipped to experiment with emerging pricing models such as reverse auctions, or new geographical opportunities such as connecting to trading partners in Singapore."

9. ACCEPT FAILURE

One of the common mistakes that organizations make in forming an Internet business strategy is failing to realize that failure itself is part of the process. "An organization must build into its culture the capacity to accept failure as a part of growth," Herzog says. "Not everything you build will work. And if something isn't working, you must be prepared to recognize it and change—especially considering the pace of the Internet age. You might like your idea, but if your customers don't, it must go—and quickly."

Internet business opportunities are abundant and moving with accelerating speed. Companies that are best positioned to seize them will have devised and implemented an Internet strategy based on a thorough understanding of their business needs—and how emerging Web-based technologies will be shaping those needs.

The best advice is simple and straightforward: Know who you are. Know who your customers are. Act now—and be

prepared to change. Measure what you do with discipline and rigor, and when you don't measure up, don't let failure deter your commitment to advance. Understand that business and technology must work together, and nurture a culture that embraces the Internet as a development fostering both indi-

Tapping into the expertise of others is a key part of forming your Internet strategy. To learn about how Cisco Systems developed its own Internet strategy, go to the Internet Business Solutions home page at WWW.CISCO.COM/GO/IBSG. Here, you'll find examples—and bottom-line results—that Cisco has experienced by harnessing the Internet, as well as strategies and solutions on everything from e-commerce and supply-chain management to customer care and e-learning.

NEXT STEPS

vidual and enterprise growth. Be flexible—in your thinking and in building adaptable infrastructures. Reach out to others—they can help you on this journey, just as you are eager to have others leverage your expertise. ■

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FROM CISCO CISCO SYSTEMS DELIVERS MORE THAN \$825 MILLION EVERY YEAR TO ITS BOTTOM LINE AS A DIRECT RESULT OF ITS INTERNET-POWERED BUSINESS PRACTICES, ALLOWING THE COMPANY TO STAY COMPETITIVE AND INVEST IN ITS FUTURE. SUE BOSTROM, SENIOR VICE PRESIDENT OF THE INTERNET BUSINESS SOLUTIONS GROUP AT CISCO—WHICH HELPS COMPANIES ACCELERATE THEIR SUCCESS AND AGILITY IN THE INTERNET ECONOMY—OFFERS A FEW INSIGHTS:



iQ \ What are some useful rules that senior managers can follow in developing an Internet business strategy?

BOSTROM \ First, the management team should understand how each Internet business initiative will benefit customers and increase their levels of satisfaction. Second, they should view Internet initiatives not as monolithic activities, but as a portfolio of approaches—multiple

strategies across different functional areas—that all link together. Third, senior executives must develop strong partnerships with their IT organizations to execute on these strategies. And finally, they need to track performance of initiatives fervently, increasing funding, if necessary, for those initiatives that are gaining traction and quickly abandoning those that are not.

iQ \ How has Cisco followed these tips?

BOSTROM \ Cisco has always been focused on customer satisfaction. While we talk about the bottom-line financial benefits of our Internet business initiatives, those economic benefits are really a outgrowth of our emphasis on increasing customer satisfaction. Our CEO, John Chambers, heavily promotes Cisco's internal use of Web applications, ensuring a strong link between management accountability and IT execution. Each executive is responsible for taking a portfolio approach toward Internet business strategy in his or her functional area—such as manufacturing, sales, human resources.

We are very proficient at tracking results, quarter by quarter,

throughout all of our initiatives with executives reporting results of Internet projects to the management team.

iQ \ Why is speed so important when executing these strategies?

BOSTROM \ The Internet is bridging time and distance, enabling markets to change much more quickly. That means that the competitive dynamics can change just as quickly. If you don't deploy your Internet business strategy within a short time frame, your competitors will. Furthermore, as you execute that strategy, rapid iteration in three- to four-month segments is essential to adjust your approach to meet changing customer needs.

iQ \ How then can companies move faster in the Internet economy?

BOSTROM \ One option is for companies to establish a separate organization to pilot specific Internet initiatives and then integrate these projects back into the mainstream corporation. When possible, though, it is best for targeted initiatives to remain part of the main functional activity. This approach allows existing management to become personally involved, setting clear expectations and tracking progress—just as they would for other operational initiatives. Management sometimes grants incentives to these targeted teams based on fast execution and results.

iQ \ What are some of the challenges companies face as they build an Internet business strategy?

BOSTROM \ Companies can easily fall into the trap of believing that their Internet strategy is a technology strategy—not a business strategy. Companies need to view the Internet as a tool for transforming the core business, not merely as some interesting new technology. Keeping the strategy fresh is another challenge. In the old-world industrial economy, you could set strategies for a three- to five-year time frame. In the Internet economy, strategies must evolve much more rapidly and retain a high degree of flexibility.

A third challenge involves focus and speed: The organization must become fully engaged in Internet business initiatives, place them among the top imperatives for the business, understand that they can significantly impact the bottom line, and drive for aggressive results. —TOM FERMAZIN