CHAPTER 1

The New Playing Field

Running a business today is harder than ever before. Why? Because of the speed and complexity of change in the so-called new economy. By "new economy," I don't simply mean the high-tech sector or the dot-com bubble; the phrase has taken on a much wider meaning than that. It refers to the new rules of competition and how they are affecting everyone, everywhere. Indeed, the most profound effects of the new economy are being felt in large, well-established, old-economy businesses.

To succeed in the new economy there are three questions every business leader must be able to answer.

The Three Leadership Questions in the New Economy

1. *What is the environment in which our organization must compete and win?* What are the underlying forces that are driving our industry in the new economy? We need to understand the environment in which leaders must lead. Until we

have achieved insights into these shifts, we cannot answer the next question.

2. *What are those few things our organization must do outstandingly well to win and go on winning in this environment?* Have the rules of effective leadership changed in the new economy? What are the key things that leaders must do to drive success in their organizations?

3. *How will we mobilize our organization to implement these things faster and better than our competitors?* Knowing *what* to do is important, but that will never be enough to put you in front. To win, you must also know *how* to do it. You must be able to move beyond the rhetoric and actually implement your strategy. As Henry Ford put it, "You can't build a reputation on what you're *going* to do."

This book aims to answer all three of these questions. Let's begin with the first question: What is happening in today's business environment?

It is a leader's first duty to understand the field the company is playing on. Obvious? Maybe. But many executives simply throw up their hands and say, "The market is complex and changing fast," and leave it at that. That's not good enough. One of the most important roles of today's business leader is to be *chief sense maker* for his or her organization—the person to whom others look for a clear understanding of the competitive environment on which a sound winning strategy can be based.

To create a winning strategy, we must understand better than our competitors the forces driving the new economy, how they affect us, and how we can use them to our advantage. Doing this is the first stage of Strategic Learning—an insight-generating process called the situation analysis (see Chapter 5). To gain such insights, every company will have to scan and interpret its particular environment. There are, however, a number of universal forces—such as the Internet, globalization, deregulation and privatization, convergence, and disintermediation—that are radically altering the way *all* business is conducted today (see Figure 1.1).

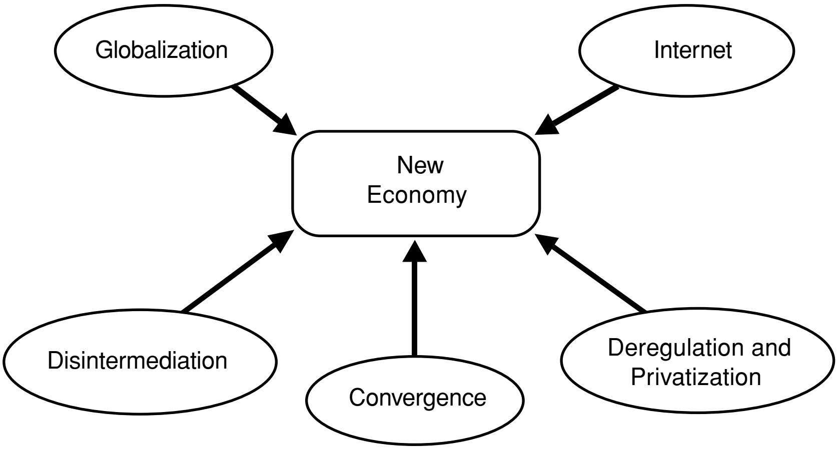

Figure 1.1 Five Discontinuities Are Shaping the New Economy

While each of these forces is distinct, they all interact with one another. Consider the Internet and globalization, the two most powerful forces of change at work today: The Internet connects people and promotes globalization, while globalization of the marketplace pushes people to connect and do business via the Internet. When we step back to consider these major discontinuities as parts of a larger, epochal transition, then we begin to understand how they affect our businesses and what we must do about it.

"New economy" has become a nearly ubiquitous buzzword. While buzzwords can help us get a quick handle on things, they can also become a crutch, a substitute for real thought. In the pages that follow, I attempt to define the significance of the new economy by explaining the nature of the changes taking place around the world at the dawn of the twenty-first century. Rather than offering a long, bland description of these forces—forces that you are probably aware of—I have tried to distill the chief *consequences* of what we call the new economy and how the changes underway have altered the rules of competition. Only with this understanding can business leaders understand and meet the challenges they now face.

Understanding the New Economy

As the economist Joseph Schumpeter noted, capitalism is largely a process of "creative destruction": One era creates new tools and methods that supersede and destroy those of the previous era. As with the agricultural revolution and the industrial revolution, the changes being wrought by the new economy today—most notably the Internet—are not simply extensions of the old ways; they are significant, revolutionary breaks from the past. Today we are in the information age, which has seen the most rapid and complex change of all. At the dawn of the twenty-first century, we are moving from asset-based to knowledge-based competition.

Sense Making in the Information Age

Knowledge is power, the old saying goes. But in the so-called information age, the distinction between true *knowledge* and mere *information* has become more important than ever before.

Thanks to modern technologies such as the digital computer, electronic communications, and especially the Internet, information has become a commodity, and a cheap one at that. As the world becomes networked, mere facts are now more mobile than ever before—they can come *from* anywhere and go *to* anywhere almost instantaneously. The result is that information is becoming an abundant, cheap, and rapidly transferable commodity.

But despite the flood of information in which we are all daily immersed, true knowledge is as rare and valuable as ever—perhaps more so. Knowledge makes distinctions among kinds of information, winnowing the valuable, practical, and important from the useless, unnecessary, and insignificant. In an age when everyone has instant access to infinite information, sense making—the ability to turn floods of information into real knowledge—has become today's scarcest and most valuable resource and the key leverage point for value creation.

A company's primary source of wealth is therefore derived from its insights, knowledge, and ideas. Its success depends on how it leverages its intellectual capital. But leveraging intellect is quite different from leveraging assets, and the business world is still coming to terms with what that means.

Power Shift

For the majority of executives I come in contact with, the Internet is the big question today—a huge, knotty issue that many feel they are not properly addressing. On the one hand, the Internet is simply a tool; it happens to be a very fast means of distributing information—from one desk to the next, or across town, or around the world. On the other hand, the Internet ruthlessly squeezes out inefficiency. Indeed, the Internet is shaking up entire business categories, forcing companies to reinvent themselves and enabling ordinary individuals to accomplish extraordinary tasks.

The Internet is a double-edged sword. It has shifted the balance of power from sellers to buyers, even as it has given sellers better tools to find and serve buyers. One result is that buyers now have a much wider range of choices and lower switching costs than ever before, which has created a fiercely competitive environment, one in which innovation is the key to success.

The most revolutionary aspect of the Internet is that it gives virtually everybody access to the same information. It is this transparency that has caused the shift in power from sellers to buyers—a massive, revolutionary change, which puts a premium on knowledge-based services rather than on products.

This power shift is upending many established relationships. Consider the balance of power between doctor and patient, for example. Traditionally, doctors have been the keepers of specialized knowledge (a form of power), while patients have been their supplicants. Today, however, patients can research their conditions on the Internet, learn about possible treatments, and scour multiple web sites for resources; when they arrive at their doctors' offices, they may know more about what ails them than their doctors do. This puts pressure on doctors to provide extra service in order to retain their patients.

The Internet has also afforded producers much better tools to find and serve customers. Indeed, a number of traditional companies have used the Internet to reinvent themselves and make their core competencies the best in the world. Perhaps the best example of this is General Electric. Traditionally a paradigm of the old, asset-based economy, GE is now a leader in the information age. Under former CEO Jack Welch, the company reconceived itself as a "learning laboratory" that uses the Internet to provide efficient products and services to its customers.

When GE sold a jet engine in the old days, it would sign its client up for a maintenance program that produced a steady annuity. Today, GE Engine Services offers customers like Southwest Airlines "power by the hour," an online service that monitors engine performance in flight and tracks all maintenance and repair data in real time. Customers use GE Aircraft's Customer Web Center to purchase spare parts and to access technical publications and warranty records. Airlines also gain access to online remote diagnostic systems that allow GE engineers to pinpoint engine problems from thousands of miles away without having to make on-site visits. "That's an information-based service as much as a product," Welch told *Fortune* magazine. "I think it's a better game."

Although some old-economy stalwarts might like to think that the dot-com shakeout of the past two years signals an end for the new economy, in fact the new economy is still in its infancy. Historically, new technologies have always spawned cycles of rapid experimentation led by start-up players, followed by periods of absorption by those mainstream firms that survive the discontinuity. As GE's ongoing reinvention suggests, the Internet is no longer a business fad reserved for entrepreneurs. It is a massive enabler, every bit as profound in its effects as the introduction of electrical power was around the turn of the last century.

Margin Squeeze

The unprecedented efficiency of the Internet is driving down purchasing costs for all kinds of goods and services. This is true in both consumer and B2B (business-to-business) markets. For an example of the former, consider CNET, the Web-based service that offers instantaneous price comparisons among hundreds of suppliers of computers, cameras, stereo equipment, and other high-tech products. The effect is to make it extremely hard to compete for business in these categories unless you're willing to match the lowest price in the market.

Similar processes are at work in the B2B arena. Companies in almost every business are using the Internet to connect themselves closely with suppliers around the world, making it fast and easy to buy raw materials, machine parts, or manufactured equipment in just the amounts needed at the lowest possible cost. The effect is the same: to drive prices down to rock-bottom levels.

The inevitable result is a margin squeeze that is steadily moving up the supply chain. The personal computer (PC) maker that is forced to sell its products at bare-bones prices can do so only by demanding the lowest possible prices from its suppliers—chip makers, fabricators of plastic cases and electrical wiring, makers of cardboard shipping cartons, and so on. These companies, in turn, must maximize their own efficiencies while putting the squeeze on those who supply them with raw materials, manufacturing services, and so forth. Little by little, excess costs are being wrung out of the entire system. Thus, sellers seldom get to keep the benefits of the lower costs; they must be passed on to buyers in the form of lower prices if the sellers hope to remain in the game.

The first challenge for any company doing business in this merciless environment: to improve your own efficiencies fast enough to maintain your profit margins—and to keep from being squeezed to death. But such improvement alone merely allows you to remain in the game. You'll never save your way to success. To win, you must go beyond cost cutting to produce genuine strategic innovation that creates new and better ways of serving customers.

The Resurgence of Brands

As a result of these forces, the battle for the customer has grown much more intense. The big question in customers' minds is: *Whom do I trust?* The broad array of choices on the Internet can be liberating, but it can also be confusing, and increasingly customers are looking for guidance.

One consequence of this that some may find surprising is a resurgence in the importance of brands. Robert Reich, the former secretary of labor, points out in his book *The Future of Success* that the "distribution oligopolies" that dominated the first half of the twentieth century are now giving way to what he calls "oligopolies of trustworthiness." In the twenty-first century, superbrands like Walt Disney are becoming our guides to what is good and trustworthy for a wide range of products and services. Such companies are increasingly filling the role of knowledge brokers for consumer audiences. They can prescreen information for us; they can function as a catalog or a showroom; they can subcontract, or forge partnerships with others in the value chain. Many consider Disney, for example, their trusted guide to all sorts of family entertainment, not all of which it directly produces or controls.

Multichannel Marketplaces

As an instantaneous, incredibly flexible medium for interactive communication, the Internet is opening up new channels for sales, marketing, and customer service. Consequently, distribution networks in industry after industry are being reshaped. In many industries, the challenge will be to move from a single-channel to a multichannel approach. Hence, the rush to launch online sales and marketing venues to complement traditional retail outlets—the so-called "clicks and bricks" strategy.

But here's the rub: To remain competitive today while also preparing for tomorrow, it's not simply a question of getting out of one strategy and into another. Rather, you must decide how to maintain your *existing* business, your "installed base"—the existing customers, revenue stream, technological competencies, and other assets you've built up over the years that are still profitable but becoming obsolete—long enough to buy the time needed to adapt to a *new* model at the same time. Sometimes, it's simply not possible to maintain your existing business indefinitely; the challenge then becomes to maintain your overall profit stream and avoid sudden collapse. This is a tricky balance, one that Harvard's Clayton M. Christensen has dubbed "the innovator's dilemma."

Avon Products, Inc., for example, is the largest direct seller of beauty products in the world: 98 percent of its revenue comes from the sale of lipsticks, perfumes, and powders by the famous "Avon ladies" directly to women. Today, however, that business model—which has been successful since 1886—is in the midst of its own makeover.

The Avon Lady Goes Online

When she was named Avon's CEO in 1999, Andrea Jung faced a classic reinvention dilemma. In the United States, Avon's growth was flat, and niche players were nibbling away its market share. Sephora, the French-based firm whose huge stores selling an enormous array of cosmetics and fragrances had successfully imported the "category-killer" concept into beauty retailing, had launched an invasion of the U.S. market. Furthermore, given that three-quarters of American women now work outside the home, Avon's door-to-door sales model was in danger of becoming obsolete. Jung's dilemma was: How could Avon develop new sales channels without alienating its famous sales representatives, the Avon ladies, and undermining its existing sources of revenue?

But it was the advent of the Internet and the development of e-tailing that posed the most direct challenge ever to Avon's traditional direct model. After all, the Internet made possible a variety of direct-to-consumer sales interactions that were even more flexible, customized, and immediate than those practiced by the Avon ladies. For example, the Internet is available 24 hours a day and can be accessed in the evening by a busy homemaker or during a coffee break by a deskbound female executive. As other beauty-products companies established footholds on the World Wide Web, it was increasingly obvious that Avon couldn't afford to ignore this new marketplace.

Understandably, the Avon ladies felt threatened by the Internet, fearing that an Avon e-strategy could hurt their livelihoods. In 1997, the company had launched a bare-bones web site that offered only a limited number of products—for fear of upsetting its sales force. This fear was well founded: Even innocuous acts, like printing "www.avon.com" on product brochures, were met with great hostility; many Avon ladies simply covered that label over with their own stickers. Meanwhile, Avon's Internet policy prohibited the sales reps from setting up their own web sites, and many of them quit in frustration.

Others in the cosmetics industry had embraced e-tailing. By 1999, when Andrea Jung was named CEO, it was clear that Avon's head-in-the-sand approach to the Internet could continue no longer.

In a speech given to industry analysts in December 1999, Jung acknowledged the new realities. While door-to-door sales will "continue to be a very relevant mode of buying beauty and related products for women around the world," she said, the company must also create a new business model—one "with the potential to appeal to a much broader consumer base in a broader range of distribution channels." In other words: Avon had no choice but to adopt a multichannel approach.

Jung outlined a best-of-both-worlds strategy designed to grow Avon's customer base without disenfranchising its field reps. From now on, she said, Avon products would be distributed through five channels: through its three million Avon ladies in 137 countries; through middle-market retailers, such as JCPenney; through mall kiosks franchised to local Avon representatives; through chic, company-owned Avon Centers; and through the company web site, Avon.com.

"No one has the direct-to-the-consumer relationships that we have with tens of millions of women in the United States through our sales representatives," Jung said. "We intend to leverage that unique competitive advantage in bold new ways using Internet technology."

Jung quickly earmarked $60 million over three years to build a new Internet site to provide a direct sales channel for Avon's full product line, while at the same time moving to help the Avon ladies sell online through personalized web pages developed in partnership with the company. For $15 a month, any rep can become what Avon calls an "eRepresentative" who can sell online and earn commissions ranging from 20 percent to 25 percent for orders shipped direct or 30 percent to 50 percent for orders they hand deliver. Indeed, the new Avon web site allows eRepresentatives to conduct all aspects of their business online, including customer prospecting, ordering, getting account status, and making payments. The site even has a message board where reps can exchange selling tips.

The jury is still out on the ultimate success of Jung's initiatives, but she has shown enormous courage in placing her bets. In just the first five days of Avon's e-commerce initiative, 12,000 Avon reps had created personal web pages. Currently 20 percent of product orders are input online by eRepresentatives. The 2002 target is 35 percent.

So don't be surprised if the familiar "*Ding-dong* . . . Avon calling" is soon replaced by a new Avon greeting from your computer: "You've got mail!"

What Andrea Jung has created is not necessarily a perfect or lasting solution, but it is a bold and intelligent response to the new realities of the marketplace, one that adapts to the forces of the new economy and allows Avon to learn its way to success.

Likewise, to remain competitive in the new economy, every company must formulate a well-thought-out response to the Internet. But don't wait until you've figured out a perfect solution. The key is to make a start. Only then can the real learning begin.

Disintermediation

Certain businesses are more vulnerable than others. In the past, intermediaries like insurance brokers or travel agents helped clients get the goods and services they needed. Today, many of these niche players are being "disintermediated"—squeezed out of the game—by the harsh new efficiencies created by the Internet. As the distance between producers and consumers is shrinking, highly specialized experts are emerging as the new intermediaries. These "reintermediaries" are helping people conduct business more efficiently while adding value through knowledge services.

With the advent of cheap online ticket sales, for example, travel agencies can no longer survive as mere ticket brokers: They must now provide extra value to make their services worth paying for. The smartest have begun to do this by arranging scholarly tours, providing unusual access to remote regions, or organizing groups of people with specialized interests—things that typical tourists wouldn't have access to if they were buying a cheap flight to London from Virgin.com.

From Products to Services

As customers become empowered by the access to information, and suppliers sell directly to customers, we're seeing a shift from products to services, and from simple services to superservices. To understand this shift, consider the dilemma of a medical-supplies company that I'll call Med-Surg Supply Corporation.

Retooling Med-Surg

Med-Surg is a billion-dollar medical supplies distributor based in the Southwestern United States. For more than 30 years, the company has been highly successful in selling basic medical and surgical supplies to dentists and doctors, but lately its profits have been dropping off. Why? First, some buyers have begun to bypass intermediaries like Med-Surg and buy directly from the manufacturers (Med-Surg's suppliers). Second, they are using the Internet to compare prices and handle transactions, which squeezes margins and emboldens customers to squeeze Med-Surg for better prices and value-added services.

But an even more fundamental threat is looming over Med-Surg. Sophisticated new entrants have used the Internet to offer doctors and dentists high-end value-added services—Internet-based office systems such as inventory control, scheduling, and office management. These high-end services, it turns out, are near the top of customers' hierarchy of needs, and are far more important than Med-Surg's low-end distribution of things like rolls of gauze, boxes of surgical masks, or tubes of ointment. Indeed, one of these companies that provides excellent high-end office services could enter the product distribution game (perhaps through an acquisition) and steal customers from Med-Surg by offering end-to-end solutions.

In short, the Internet has changed Med-Surg's world: It compels the company to be efficient in its internal operations to protect margins, while at the same time forcing it to retool its business from being solely a supplier of *products* to being also a supplier of Internet-based *services* (much as GE has done with its jet engines). This is a large transformational challenge. The good news is that Med-Surg has the technology to exploit the Internet. But it must also change its culture and the competencies of its sales force. Today the company is making good progress in its change efforts, even as the clock of marketplace transformation continues to tick.

The Networked Enterprise

Web-based outsourcing is creating a new business model: the networked enterprise able to work interactively with its suppliers, distributors, and service providers around the world, thus creating a finely tuned business ecosystem. This approach is much more dynamic and efficient than old-economy outsourcing, which kept vendors at arm's length. For example, a company like Nike, Inc. manufactures nothing: The Portland, Oregon–based athletic equipment company, which is the world's leading supplier of athletic shoes, creates brilliant design and highly effective marketing, then uses its computer networks to make design alterations with production partners around the globe, virtually in real time. Nike's 21,000 direct employees are supported by more than half a million indirect employees who work for Nike's manufacturing partners. And thanks to its excellent supply-chain technology, the system is so tightly interconnected that Nike's partners are not simply contract outsourcers—they are an integral, vital part of its business.

Convergence

In the new economy, traditional industry boundaries are disappearing. The days when distinct borders existed between products or between industries—say telephones, television sets, computers, consumer electronics, media and entertainment—are long gone. You may find yourself competing against new rivals from disparate fields bringing unique skills or products into your arena. Everyone is facing this dilemma, and it's becoming much more unrealistic to go it alone. This has led to some innovative new strategies.

For example, Cisco Systems—the leading producer of Internet networking gear—grew throughout the late 1990s using a simple but powerful acquisition strategy: It created some of its new technologies in-house, but it also routinely made 15 to 20 acquisitions a year, typically of small, pre-IPO start-up companies that were developing promising technologies. (As I write, Cisco is scrambling to adapt that strategy to a new environment of diminished stock valuations and a slower-growth economy. Will it succeed? The smart money isn't betting against Cisco.)

To keep your hand in the game, you may have to jump into someone else's business, buy an existing segment leader, or form a joint venture with an active player. Or you'll simply have to learn to compete against your new rivals, who, left unattended, will nibble away at your business with all the relentlessness of piranha. Indeed, a new chess game is emerging. Companies that compete *against* each other are also forging partnerships or joint ventures together. It's a complicated game, as Encyclopædia Britannica, Inc. learned the hard way.

Fatal Convergence

The *Encyclopædia Britannica* was first published in 1768, and by 1989 its sales reached an all-time high of $627 million. But since then, sales of the distinctive multivolume set have plummeted 80 percent. What happened? In short: convergence. A new product was introduced by an indirect rival, which stole the encyclopedia business away from Britannica.

The product was the CD-ROM, which could hold an entire set of encyclopedias on one small, flat, relatively inexpensive disk. At first, Britannica didn't take this new technology seriously. After all, its indirect competitor—Microsoft's Encarta—used inferior text licensed from Funk & Wagnalls, poor illustrations, and low-quality sound recordings. The leaders of Britannica were unimpressed. How could a computer software company hope to compete in a knowledge-based product arena against one of the world's oldest and most respected reference book publishers?

Nonetheless, the Encarta Encyclopedia proved to be an enormous hit. The convenience, low cost, and speed of access of the CD-ROM product outweighed its content weaknesses, and Microsoft's enormous marketing clout ensured that hundreds of thousands of copies of the Encarta would find their way onto the hard drives of students, families, and professionals around the world. Soon Britannica sales slumped—at first slightly, then massively.

Britannica responded slowly. To produce a competitive CD-ROM, Britannica realized it would have to cut its text from 40 million words to 7 million. To make matters worse, its vaunted sales force began to revolt against the loss of lucrative commissions. Britannica eventually produced its own CD-ROM, but by then it was too late. In 1996, the company was sold for $135 million, significantly *less* than its book value.

Globalization

Along with the Internet, the globalization of the marketplace is the major driver of the new economy. "Globalization," like "new economy," is an all-encompassing buzzword that means different things to different people, so we need to clarify what we mean by it. When you analyze it, it emerges that globalization has not one but three interrelated components—the globalization of markets, business functions, and knowledge, each of which has a different set of consequences.

First, there's the *globalization of markets*. Most executives tend to think of globalization in terms of massive geopolitical shifts—such as when the Russian, Eastern European, and Chinese markets suddenly opened to the West in the 1990s, or the gradual dropping of trade barriers throughout the European Union and among the American members of the North American Free Trade Agreement (NAFTA). The world is now open for business to an unprecedented degree. This aspect of globalization creates great opportunities to enter new markets and increase volume.

Second, there is the *globalization of business functions*. The opportunity to consolidate worldwide R&D, procurement, manufacturing, and information systems, for example—while maintaining local responsiveness—can create great new global efficiencies.

Third and most significant, there is the *globalization of knowledge*, which puts a premium on global best practices. Caused by today's unfettered mobility of ideas, this has produced the most profound changes of all.

The Death of Local Competition

Today, virtually every business in every part of the world—from the local pizzeria to DaimlerChrysler, or even the rogue oil barons of Iraq—is part of the global economy. Ideas now come from literally anywhere, at any time, from any messenger. The result is a stunning new reality: *Local competition is extinct.*

This may sound like an overly bold or simplistic statement. But the truth is that one of the greatest mistakes a company can make is to ignore the fact that local competition has gone the way of the dodo bird and will never come back. *All* competition is global. If there is a better idea for your business anywhere else in the world it will eventually come into your market, whether you use it first or someone else does.

"I'm not worried about the Taiwanese coming to Cincinnati," a client once said to me. Mark ran an air-conditioning manufacturing business in Cincinnati, and I had been trying to explain why he needed to pay attention to global best practices.

"Okay, fair enough," I said. "You know more about the intricacies of the air-conditioning business than I do. Maybe the Taiwanese have no interest in coming to Cincinnati. But who's your main competitor?"

"Jerry Etheridge. He's across town. We've been competing against each other for 20 years, and I know all his tricks. Nah, I'm not worried about Jerry."

"Does he like to travel?" I asked.

"Oh, yes. He and his wife Debbie take a trip every summer."

"Well, suppose Jerry Etheridge takes a trip to Taiwan, discovers a leading practice used there—such as a way to make his machines quieter and more fuel-efficient—brings it back to Cincinnati, and wipes you out. What then? The Taiwanese themselves don't have to come to Cincinnati. But if they have a better idea, sooner or later it *will* come here and compete against you. You can run from globalization, but you cannot hide."

Thus, companies are faced with the need to shift gears away from being the best locally to being the best globally, wherever they compete. The new game is global best practices, everywhere, all the time. The new cardinal sin is to allow a competitor to steal one of your best ideas and globalize it before you do. As a result, knowledge sharing is becoming the crucial new competency. Philosophically, globalization is more of an *idea* than a *place*.

As we've seen, in the new economy the rules of competition have changed not just for the dot-coms and high-tech players, but for everybody. All these changes call to mind the famous parable of the boiled frog, with which you may be familiar. According to this parable, the behavior of a frog is predictable: If you put a frog into hot water, it will jump out; but if you place it in a pot of cool water and heat it gradually, the frog will slowly grow accustomed to its surroundings, be lulled to sleep, and eventually will be boiled alive.

This may sound like a French culinary lesson, but it's much more. It's a way to explain that companies that grow complacent about change, especially incremental change in their surroundings, will end up as boiled frogs. Those who fail to interpret and respond to the changes swirling around them are at risk of being parboiled by the rising heat of the new economy.

The changes brought by the new economy can be summarized this way.

Eleven Hallmarks of the New Economy

1. Information has become a commodity. It is now sense making that has become the key lever for value creation.
2. The Internet gives buyers more information, wider choices, and lower switching costs. But it is a double-edged sword. While it has shifted power from sellers to buyers, it has also given sellers better tools to find and serve buyers.

3. The Internet is ruthlessly creating a more efficient supply chain, confronting many sellers with a margin squeeze.
4. The battle for customers is becoming more intense. This puts a premium on creativity and innovation, and means that brands are likely to grow in importance.
5. The single-channel business model is dying. Most marketplaces are becoming multichannel games.
6. Purely transactional intermediaries are disappearing.
7. Business models are shifting from products to services and from services to superservices.
8. Web-based outsourcing is creating a powerful new business model: the networked enterprise with the ability to orchestrate.
9. Industry boundaries are disappearing, producing greater complexity and dangerous new competitors for most companies.
10. Going it alone is becoming increasingly unrealistic. A new chess game is emerging that incorporates more partnerships, joint ventures, and other forms of alliances.
11. Local competition has become extinct.

The challenges of competing in the new economy have placed extraordinary pressures for change on companies of every kind. To develop an effective response, it is necessary to understand what these challenges mean at an organizational level. This is the central theme of the next chapter.