CHAPTER 1

The New Rules

Here's a safe bet. Five years ago, Jack Welch was not about to harness the future of General Electric to e-business. Nor was Jeff Skilling at Enron, Leslie Wexner at Victoria's Secret, John Roth at Nortel, Rick Wagoner at General Motors, Herb Kelleher at Southwest Airlines, Peter Lewis at Progressive Insurance, or Tom Stemberg at Staples.

These top executives—many of whom are certified visionaries in their respective industries, and all of whom have crafted notable success stories during their stellar careers—were on the sidelines when the cyber-revolution began. Few, if any of them, had ever touched a computer keyboard or surfed around the World Wide Web. They, like legions of fellow industry leaders, moved into a humbling stretch of business history in which the biggest companies seemed the farthest away from the arc of the New Economy. Something huge was happening. An unstoppable wave of new companies was seemingly changing the world, and these captains of industry were suddenly lost at sea.

And as it turned out, it was the best thing that could have happened to all of them.

Why? Because the frenzied race to the Internet over the past five years was a modern-day Gold Rush, where the promise of unimaginable riches touched off a chaotic and often incomprehensible charge into uncharted territory. A few found the gold, but most were left with empty pockets, glazed eyes, and heartache. It wasn't the cyberspace 49ers who changed the world; it was those who followed and built the virtual railroads, cities, telegraph lines, and industries in the aftermath.

In other words, now that the dot.com mania has faded into obscurity, it is time to get down to real e-business.

Despite the disappointments many companies now associate with the Internet, no one doubts that the Internet is cataclysmic in its own right. The implications of this burgeoning channel of communications and commerce are huge. But after five tumultuous years of hype and hysteria, the real advent of the Web and of e-business is *now.* What we have seen so far is only prologue. Most important, the winners on the Web will not be start-ups, but big businesses. Unlike the doomsayers of the late 1990s, we believe big businesses have the advantage in e-business, if they understand how to exploit and leverage the virtues of *big.*

Business legends like Jack Welch and Leslie Wexner don't pretend that they understood the implications before, but they do understand them now. There is opportunity amid the chaos. Forrester Research predicts that by 2004, $2.7 trillion worth of goods and services will be transacted on the Web. An Internet strategy built on speed and agility is the bridge to the real New Economy. Companies that have been paralyzed by uncertainty and fear of the Internet find that they still have time to get into the game. In many ways, the clock has only just started.

Though it would be difficult to find a company, big or small, that has yet to launch a Website, we believe that most organizations are still wrestling with the Internet rather than embracing it. A recent survey of CEOs by PricewaterhouseCoopers found that 69 percent of these CEOs worry that they didn't think things through before embarking on their e-business initiatives. And 34 percent worry that their efforts could fail. As David Kenney and John F. Marshall wrote in a recent *Harvard Business Review* article, "The Internet has been a letdown for most companies." Though the Internet remains a high priority and tens of billions of dollars have been spent on Website development, the payoff for most companies has been painfully small, both in generating revenues and in gathering strategic customer data.

But after looking deeply into the Internet fortunes of dozens of big companies, we believe it simply doesn't have to be that way. Big businesses can learn the dance, and quickly, too. Though it continues to be a work in progress, the Internet is producing winning strategies. Because this is new, unexplored territory, it is tough to predict long-term success. But the early returns are more than promising.

Enron Corporation, for example, did not launch its e-business initiative until November 1999. A year later, Enron handled $336 billion worth of transactions online! General Electric Plastics didn't create its own e-business unit until June 1999, when it was doing $100 million in annual revenues online. A year later, GE Plastics did more than $1.3 billion in sales online. In February 2000 General Motors initiated Covisint, an online supplier marketplace, along with Ford and DaimlerChrysler, and the automakers expect to handle more than $60 billion worth of transactions in 2001. Nortel Networks made its Internet debut in 1999 and in 2000 did $10 billion worth of business online. The company estimates that 87 percent of its revenues can now be traced back one way or another to its Website.

In truth, as Jack Welch told the *New York Times* at the end of 2000, "The Internet was made for big companies. With the Web, every day you wake up and laugh at how little you knew the day before. It's like peeling back an onion. Every day we uncover hundreds of millions of dollars in efficiencies."

What is most impressive about these online success stories is that they emanate from very big organizations—places, as New Age business thinkers have often told us, where ideas go to die. Instead, what we've found in our research and in hundreds of interviews with executives is that these companies are thinking and acting in a surprising way. They are, in fact, being *radical* at a time that calls for radical behavior. And most illuminating is that these companies are using the Internet to alter significantly the way they do business. Marcia Stepanek, writing in *Business Week,* says, "What distinguishes many of the most Web-savvy companies is not their technical prowess but their imagination. Everyone has access to Net technology. The crucial question is, Who has the brains, guts, and creativity to take full advantage of it?"

What a growing cadre of business leaders has learned as the dot.com dust has settled is that it is *not* business as usual on the Internet. It is also not a completely revolutionary field of enterprise. Instead, it is an intriguing mix of solid, long-held business tenets coupled with radical ideas about reaching customers in ways heretofore impossible to imagine. It is about instilling into the very heart and culture of the organization that the rules have both changed *and* stayed the same. That apparent paradox is at the heart of being radical and is an intensely difficult concept for big companies to grasp and an even finer line to walk. But the winners are emerging from among those who grasp it and execute it the best and the fastest. Being radical doesn't guarantee success or even survival, but it undoubtedly provides a huge advantage.

And even though it is probably premature to declare winners in a game that has just gotten underway, we have identified a group of players who, by any measure, are well ahead of the competition or, at the very least, are demonstrating extraordinary results when it comes to e-business. Our list is hardly exclusive. New, impressive candidates for case studies already offer enough inspiration for a second book. But having spent countless hours researching these cases and speaking with the principals involved, we believe there are great e-business lessons to be learned from these radicals:

General Electric Plastics

Enron Corporation

Victoria's Secret

Nortel Networks

David Bowie

General Motors

Southwest Airlines

Progressive Insurance

Staples, Inc.

Getting to Radical

Success on the Internet will require a new kind of excellence, which we call *Radical E.* It will require the right approach, the right strategy, and the right tactics. Further, it will require something intangible: the right spirit. For companies prepared to radicalize themselves for the Web, we are quite optimistic.

E-business, to the radical thinkers, is no longer a separate concept. It is an element that will continue to be integrated into nearly every aspect of the way we conduct commerce. In fact, we believe that e-business *is* business. We also believe that established, brand-owning companies have the best chance of winning the e-business battle. Big businesses' vast distribution channels, global marketing prowess, networks of partnerships, supply chains, financial stability, and existing customer bases provide the foundation and scale that dot.com startups could never replicate.

But e-business is no monolith. It will have multiple futures and multiple forms. As in most areas of life, success will go to those with the most innovative ideas. Companies establishing winning e-business strategies are making long-term commitments to this new and explosive channel. They are deftly integrating the Internet into existing channels and building cross-channel foundations that strengthen the entire enterprise. The Internet doesn't *replace;* it reinforces excellence, rejects the old and outmoded, and rekindles excitement. Big companies find that being out front generates positive energy throughout the organization.

Major players—like the ones featured in this book—see the Internet as a powerful agent of change, but they also see it as something short of *cataclysmic* change, at least so far. Radicals are good at keeping things in perspective.

The Internet *eventually* will work its magic on every level of business and in every aspect of society. It might do so a little more gradually than the early masters of hype suggested it would. And when it does, it will do so in ways that will be advantageous for large companies with large resources. Today, according to PricewaterhouseCoopers, some industries can more easily use the Internet to enhance their bottom lines than can others. Industries with highly standardized products that suppliers can easily compare, or those that deal in frequently traded, low-cost wares, will benefit greatly from the transaction efficiencies that the Internet provides. The evidence is already clear that big retailers with big brand names are more successful on the Web than are dot.com start-ups. And perhaps more revealing, the most successful players in the coveted business-to-business segment of e-business are all large, established companies with winning Internet strategies.

What is happening today with regard to e-business is what has always happened in business, but more rapidly and with higher stakes. Failure, perhaps not as volatile and widespread as the dot.com conflagration, is instructive not because it is unique, but because it is normal. Companies do not have a right to prosper—they must earn it every day, new companies and mature companies alike.

The winners win by doing things differently. They do it by having different business strategies and different business models. And when they do it *right,* it takes a long time for their rivals to catch on and catch up.

Southwest Airlines, Dell Computer, Whole Foods, Snap-on Tools, Home Depot, and others have survived and thrived in mature markets by solving basic business problems differently—*radically.* Other companies have tried to emulate their approaches but have, for the most part, failed. Companies that adopt radical approaches can retain their leadership roles for years, and sometimes for decades, despite competition. The companies featured in this book have solved their e-business problems in ways that are no less radical.

What do we mean by radical? Simply put, radical companies have embraced the Internet with two key ingredients: passion and focus. If they were late to the game, measured in Internet time, they turned that tardiness to their advantage. When they joined the fray, they did so in bold, steady strokes, refusing to panic when the dot.com frenzy was at its height. Innovation is a corporate anthem; taking risks, a mantra.

For some of our case studies, like Progressive Insurance or GE, risk taking and innovation are long-held cultural imperatives. For others, like GM and Nortel, getting radical has meant overcoming entrenched and moribund internal hierarchies and traditions. Radicals, whether newly converted or old hands, put tools into the hands of bright people with bright business ideas who question the status quo. And then, most important, they hold those bright people accountable, and if they succeed, they reward them well.

The case studies we present are a diverse and eclectic group. Not every characteristic is shared, not every experience taken in the same manner. But in exploring these organizations, we found several radical elements that most shared in their approach to the Internet:

- They don't "dabble" in the Internet. They do it right or not at all. They have embraced the idea that they must adapt and change and that failure is not an option.
- The people leading the e-business initiatives are not technologists by background and are not burdened by careers in information technology (IT). In effect, they don't know what they don't know, and that is incredibly liberating. They bring a fresh view and a solid understanding of the core business to the Internet.
- In that light, they don't allow the IT organization to highjack the e-business initiative and turn it into another long-term, low-payoff project whose seriousness is then undermined in the eyes of the rest of the organization.
- They have created the excitement of a dot.com start-up (the original, precollapse excitement, that is) within the company but have done so with the stability of a big company with deep pockets, global reach, and a chance to change the world.
- They share best practices across the entire organization; plagiarism of good ideas is encouraged, and turf wars are virtually nonexistent.
- They realized early on that multichannel customers are the best customers, so they are not afraid to promote the Web across all channels. They've seen the evidence that offline buying is heavily influenced by online shopping. At the same time, they've taken advantage of the Web's ability to gather crucial customer data to strengthen their marketing efforts.

Out of the Dot.com Haze

As you will see in the forthcoming case studies, the road to Radical E is paved with clear-sighted leadership, solid execution, and a healthy dose of serendipity. The leaders of the organizations in our case studies had a mix of reactions to the dot.com tidal wave that washed over the second half of the 1990s. David Bowie, as a legendary rock star with roots deep in the traditional bricks-and-mortar recording industry, saw the vast potential of the Internet early on and rushed to embrace it. His digital philosophy cut against the grain of the music business, and in his fifties, at a time when most rock legends are launching retro tours and playing to nostalgic baby boomers, Bowie was reinventing himself on the Internet.

Jeff Skilling at Enron, on the other hand, had grown deeply suspicious of the Web propaganda and had made clear to Enron employees his disdain for traditional bulletin-board Websites. He thought there was little value in spending time and money on information sites when Enron was in a transaction-intense business. It took an enterprising 30-year-old gas trader in Enron's London office to initiate the company's move to e-business, and Skilling was kept out of the loop until just before the initiative was about to launch. He has since become Enron's e-business champion.

Wherever they stood on the issue, the e-business leaders in this book plainly felt the impact of the dot.com frenzy. What characterizes all these radicals is that they didn't rush to respond for the sake of responding. They felt the pressure and took the time to make decisions that made sense for their organizations. And when they moved, they moved decisively. John Roth at Nortel Networks, for example, penned a now-legendary memo to all employees in 1998 about the need for a right-angle turn toward the Internet. In January 1999 Jack Welch signaled to 300 GE executives that the Internet era had begun and that laggards would not be tolerated. Rick Wagoner, upon becoming president and chief operating officer (COO) of General Motors in 1998, told his senior managers that he didn't want GM merely to keep pace online—he was betting the company's future on the Internet.

Of course, radical enlightenment can only come with a solid understanding of what went wrong. The dot.com start-up frenzy of 1998 and 1999 proved to be a classic white elephant for Wall Street and millions of disappointed investors. But if it did nothing else, the rush to the Internet got the attention of big business. And what became clear is that it is far easier for a large company, with its attendant infrastructure and resources, to learn e-business than for a start-up to gain the scale and leverage of an established company.

What wasn't so clear was how to turn the Internet into a positive business opportunity. When it comes to the three most basic imperatives of business—revenue, profit, and share-price growth—for most companies, established and new, e-business has been a disappointment. A big disappointment! E-business has often been a tangle of conflicting aims mixed with wild-eyed and sometimes oversold expectations. It is, in some ways, business's problem child.

More troubling still, for many companies e-business has so far produced no indicators that would suggest that today's big buildup of Web-enabling capabilities—along with its appetite for capital—will result in tomorrow's growth in profit and revenue performance. Just consider three indicators usually associated with profit and growth:

Building strong brands. Although many powerful brands have successfully migrated to the Web, few new, Web-only brands have been created on the Internet, Amazon, eBay, and Priceline notwithstanding. Given the sheer number of Internet start-ups, shouldn't there be more new e-brands by now?

Customer loyalty. Research suggests that customers are *less* loyal on the Internet than in the world of bricks and mortar. Poor service, slow downloads, confusing navigation, and unfulfilled expectations trigger a quick click away, usually forever. As a result, customer acquisition costs are often very high—sometimes even higher—than offline. Further research suggests that profits elude many Internet companies, especially Internet retailers, because high customer acquisition costs can only be justified if there is long-term customer loyalty. Without brands, what you have are commodities. And as every beginning business school student knows, sales of commodities are driven almost exclusively by price.

Pricing power. Without strong brands and customer loyalty, prices are what drive sales. But so far, to get those sales, prices have been moving the wrong way: down! Selling-off surplus inventories at a discount—the Priceline model—is the icing on the cake; it is not the cake itself. But few Internet businesses, whether start-ups or spin-offs, have figured out how to bake a premium-priced, high-quality Internet cake. Very few businesses have developed ways to make their online business offerings exclusive.

No wonder executives have lost sleep. The Internet, for many executives, has assumed the punch line of an old joke: You can't live with it and you can't live without it.

At his CEO summit in 2000, Microsoft Chairman Bill Gates spoke about the dilemma that he and other industry leaders face. Gates believes that American business has so far captured less than 10 percent of the benefits to be had from digital commerce. "Part of the goal here is to take all the transactions, all the business understanding we have today, and get those into digital form," he said. "You could say it's a transition from a still largely offline economy to a real-time, digital, online economy."

Gates characterized the Internet era in three phases, each defined by "a little different kind of mania." In phase one, the mania was to get a Website up and running; it had to be "neat," and the measure of success in this phase was hits on the site. He said that this phase lasted from 1995 to 1998, and concepts such as the notion of how many unique users there were and what the reach and scope of the site were "had not really developed."

The next phase had its transaction mania. Companies bragged about the percentage of revenue they got on the Internet or spun off that portion of the company to try to get a separate valuation for that piece of the organization. "Gross sales were what people worshipped, even in many cases at the expense of developing a long-term profitability model," Gates said.

Now, he added, we are at the very beginning of what he calls the rational phase of the Internet. In the rational phase, people ask, "What does it have to do with profits?" Though big vestiges of second-phase thinkers are still out there, Gates believes that the rational phase will allow traditional companies to ask the question, "How can we take the things we've done and do them differently?"

If nothing else, Gates' view, which is widely shared, gives comfort to big companies that continue to struggle with their e-business initiatives. The cornerstone of the rational phase will be radical action. Radicals will find great opportunity moving forward if they push their organizations to think and act differently. In this book you will see how radicals think about the daunting chaos of the Internet. At Enron, for example, if you want to see the eyes of executives like Jeff Skilling get wide with excitement, just tell him that the analysts and industry experts are nay-saying an idea. That is when Enron knows the opportunity is the greatest.

Lessons for Radicals

In order for any book on e-business to be of value, there must be lessons to take away. We believe that the case study method, as taught at vaunted business schools such as Harvard, offers the best illustrations of radical thinking. Rather than laying out academic platitudes that may or may not apply, a hands-on case study provides the details that often fall through the cracks in broad discussions.

We have visited the companies in the case studies and have talked to countless executives about their e-business experience and enlightenment. We pushed for an understanding of where they were, what they were thinking, and how their e-business strategies were born, evolved, and came to fruition online. We talked to the business leaders as well as the technology leaders to get their insights and philosophies about the company behind the Website, where they started and where they hoped to go.

Without question, each of these case studies is unique. Citing David Bowie and General Motors in the same sentence will likely raise some eyebrows. What can giant automakers learn from rock stars? What can those selling sexy lingerie learn from those selling optical networking equipment? How does an auto insurance giant dance to the same online tune as an airline selling discounted airfares?

Prospective radicals will understand. Nontraditional thinking is more vital today than ever before. Radicals embrace failure, learn from it, and move on. As Enron's Skilling likes to say, "No shots, no ducks."

And while the industries might differ dramatically, what we did find is that the labor of passion, especially as applied to this new world of the Internet, bears very similar fruit. Commonalities across strange borders caught our attention as we put together this book. We concluded that while there are many lessons to be learned from these radicals, ten demand special attention:

1. The CEO Must Lead the Way to E-Business.

If there is one trait common to all successful e-businesses, it is the presence of a CEO who has not only made the commitment but also is personally involved in the effort. From Jack Welch at General Electric to John Roth at Nortel, the leaders of our case study companies have made the transformation of their organizations into e-businesses a personal mission. Speak with the executives and employees and you quickly understand the impact the CEO has on any corporate iniatitive.

"One of the beautiful things about GE is that when Jack makes something important, everybody understands very quickly that it is important," says Peter Foss, president of GE Polymerland in Huntersville, North Carolina. By making e-business a corporate priority, Welch has turned GE into a veritable template for e-business transformation. He not only sent the message but also initiated an Internet mentoring program for himself and the company's other top executives so that they could be hands-on participants in the makeover.

At Southwest Airlines, founder and CEO Herb Kelleher used to fumble just turning on a computer, but his imprint is all over the company's Website, nevertheless. No executive surpasses the Southwest CEO when it comes to keeping things simple, and this operating philosophy is embodied in the Website.

Not only did David Bowie personally help design the BowieNet Website, but he is also an active participant in its chatrooms and message boards. "Post an intelligent question on the BowieNet message boards, and you may well get a response from Bowie himself," says Chris Mitchell, an Internet journalist and editor of *Spike* magazine. "How many CEOs can say that about their Website? For that matter, how many CEOs have the faintest idea how their own Websites work? BowieNet works because Bowie gets the Web."

CEOs who hand off the e-business initiative do so at their peril. Without their personal support, e-business runs the risk of becoming another program du jour or getting usurped by the IT department and ending up as a long-term technology project that never quite reaches fruition.

2. Launch and Learn.

Time is of the essence in the transformation to e-business. While we believe the real battle has just begun, we don't believe that old, hierarchical management styles will win this battle. Big companies must shed their bureaucratic hackles and get into the game. Those who want to take endless meetings, do e-business studies, and seek perfection in their e-business initiatives are more likely to fail.

General Motors, with its reputation as a stodgy, slow-moving leviathan, decided to "launch and learn" when it came to the Internet. Get the core pieces in place, GM says, and you can add, subtract, and adjust as you go. By launching its OnStar program in the mid-1990s, for example, GM had the beginnings of new, breakthrough technology that would transform cars into rolling Internet portals. Much of what OnStar has evolved into has come in recent years, but by starting early, GM gained a huge competitive advantage in that space. As the noted consultant and author Gary Hamel says, "The risk of forging ahead is much lower than the risk associated with doing too little."

3. Reward the Nuts and Dissidents.

Radicals create a culture where offbeat ideas and entrepreneurial freethinkers are sought out and rewarded. Start an e-business unit inside a big, traditional, bricks-and-mortar organization and the lunatic fringe usually shows up immediately looking for jobs. E-business gurus say to hire them and let them shake things up.

Enron's Jeff Skilling, for example, is a former McKinsey consultant who learned early on that nontraditional businesses require nontraditional thinkers. At Enron, he has long encouraged such behavior, and it has paid off in a raft of new business opportunities built around the Internet. "In every company, you've got the radicals, the nuts. We searched them out," Skilling says, "because they needed to be in these new businesses."

4. Use the Web to Build a Community around Your Brand.

The Internet is first and foremost about making and keeping human *connections,* not about moving bits or bytes or conducting online transactions or even about creating frictionless markets. It is about people. Radicals understand that in this way online is not a far reach from offline and that building a community around a company's brand is critical to long-term success. The best and most radical e-businesses realize that they constitute a single interactive community with their customers. They further realize that they must create strong bonds to hold that community together and that they can never take those bonds for granted. To that end, radical companies realize that when it comes to e-business, it's not the Internet, stupid—it's the *access* to people that the Internet provides that is important.

According to Carl Steidtmann, chief retail economist for PricewaterhouseCoopers, "Everyone will be a retailer because virtually all businesses will be just one click away from interacting directly with their customers. All companies must think like retailers. That is, they must develop their key asset: their relationship with their customers. Time Warner and AOL are merging because AOL has 20 million relationships. Customer relationships are paramount to success."

After all, the Web is a crowded place—far more crowded than any main street or shopping mall. It is cluttered with billions of unique pages, millions of addresses, and tens of thousands of businesses. So how do you cut through the clutter? The old-fashioned way. The most effective way to cut through the electronic debris of the Internet is by using a name that everyone already knows. Having a powerful brand is even more important on the Web than it is in the mall.

Victoria's Secret, for example, is so attuned to its brand and the community around that brand that it has designed features into its Website specifically to enhance that relationship. Buying sexy lingerie is an extremely personal endeavor, and to that end Victoria's Secret created a Wish List option on its site so that women can trigger personal e-mails to specific people (i.e., husbands, boyfriends) explaining exactly which bra or panties or silky teddies they desire, along with size and color. Acknowledging intimacy makes its customers feel part of the community.

5. The Internet Gives You the Power to Control the Customer Experience.

Most pundits praise the Internet because it shifts the power from the seller to the buyer. While we agree wholeheartedly with this assessment, we have seen radicals flip this to their advantage. Radicals know that bricks-and-mortar experiences for customers can vary all over the lot in terms of quality, customer service, and interactions that they simply can't control, with suppliers or intermediaries of one sort or another. On the Internet, a company using superior technology and an innovative game plan can produce a Website that redefines the customer experience in a positive way.

David Bowie has embraced the Internet for just this reason. While music industry executives and artists flail about trying to fight the Internet tide, Bowie has seen a future that flourishes online. Rather than be constrained by middlemen such as record companies or promoters, the Internet allows Bowie and his customers to decide what they want, how they want it, and when they want it.

Staples, Inc., the giant office products company, has done the same thing by empowering its customers on the Internet. Staples has empowered purchasing managers inside client companies. Purchasing managers are the very same individuals that the Internet was supposed to replace. However, Staples turned purchasing managers into staunch allies by creating a rule-based purchasing software module and placing it on everyone's desk. When people need a pencil or copying machine, they click on the item on the Website and add it to their shopping cart.

The Staples system requires a purchasing manager to approve each order before it is actually entered into the Staples order system. When it asks for approval, it provides the manager with data on all purchases and purchasing trends and on each client's Staples account. The overall aim is to give power and information to the purchasing manager. Another aim is to save time for the manager and enable the manager to see what each employee needs. Those data, in the hands of the purchasing manager, become strategy. They can be used to negotiate better deals, forecast purchases, and see what is well utilized and what is wasted. It also allows both Staples and its customer to feel in control of the buying experience.

6. The Business Use of the Internet Is to Increase Profits.

Big business is interested in profits, and that is what the Internet must be about. Too many companies have rushed online without a plan for profitability and have ended up with sinkholes rather than positive additions to the bottom line. Ask Leslie Wexner what his metrics for success online are and he will respond, "Show me the money!"

Radicals see the Internet's power to increase earnings, often as quickly as the Website is launched. By keeping its Website transactions as simple as its offline ticket sales, Southwest Airlines has reaped added profits from ticket sales. Enron has what Jeffrey Skilling calls a loose/tight organization—an organization that has sharply focused goals, tightly managed financial controls, and the right rewards system, all inside a loosely structured, nonhierarchical organization. The point of having a loose/tight organization is that anyone with a bright idea can pursue it. The point of having sharply defined controls is to make people understand that they should only pursue opportunities that will truly make money.

Companies are not research universities, and they are not places for techies to play with new technologies. The purpose of businesses—e-businesses or otherwise—is to create products and services in the pursuit of profits. Enron's secret has been to hire smart, motivated people and give them the wherewithal to pursue those profits.

7. Seek Agility over Speed.

Though we believe there is still time for big companies to build a strong Internet presence, speed helps. The road to Radical E is an expressway, not a two-lane country road, and companies must implement and move fast. Like any other new business opportunity, first-movers do have significant advantages, but while there is time to get in, there is not time to make mistakes.

Thus, radicals understand that agility is more important than pure speed. As John Roth of Nortel Networks points out, speed alone can send you careening over a cliff. Being agile means you can move fast but change directions when necessary. And with the volatility of the New Economy, changing directions is a way of life.

8. Expectations Are Higher on the Web, so Failure to Deliver Is More Destructive to Your Business.

Radicals understand Internet time and Internet space. Surveys have shown that customers are far less tolerant of failure online than offline, so the best e-businesses have made the commitment to underpromise and overdeliver. They understand that a customer who is disappointed once or twice is unlikely to return to the Website again.

GE Plastics has used Six Sigma, a quality management measurement tool, to shrink its order-to-delivery time on the Web dramatically. Rather than ignore customers' desired delivery dates and ship materials when they were ready, GE Plastics is now meeting or exceeding request dates. Whereas orders were regularly a week or more late, GE Plastics is now delivering 85 percent of its orders the next day. "Six Sigma fits like a glove with e-business because it allows us to produce and deliver just what customers need when they want it," Jack Welch says.

At Victoria's Secret, chief information officer Jon Ricker knew that the company would need an industrial-strength Website to handle the expected traffic. He and his team specifically avoided the technology hype and designed a site that would maximize the experience for home PC users with 28.8K modems and 200 megahertz computers. And despite the very visual brand, they carefully adhered to the unspoken eight-second rule for Websites. If Web pages don't download in eight seconds or less, a visitor is likely to log off. In a recent study by Keynote Systems, an Internet performance tracking service, Victoria's Secret had the fastest download time of any retail site in the survey: 1.16 seconds. Wal-Mart.com took the full eight seconds.

9. It Doesn't Matter Whether You Develop or Acquire the Needed Technology as Long as You Have It.

Too many big companies, especially in the high-tech arena, get hopelessly stuck on the not invented here (NIH) syndrome. Engineers want to develop new technology in-house regardless of how long it takes. Radicals know that there is no time anymore for this type of thinking. Some of the most successful e-businesses, such as Cisco Systems, have grabbed substantial market share through acquisitions and mergers.

Nortel, which was an old-line engineering company with an entrenched NIH philosophy and culture, began its march to e-business success by spending $7 billion to acquire Bay Networks in 1998. Since then, it has made 16 strategic acquisitions and has become a leader in the optical networking arena. More significantly, the Bay Networks acquisition was the key ingredient in turning Nortel into a Radical E company. It was a classic case of the tail wagging the dog as Nortel's

Roth decided to spread Bay's Silicon Valley culture all over Nortel rather than swallowing up the smaller company without a trace. Thus, Nortel got not only needed technology to sell, but also the leadership and vision to build Nortel's own Internet presence.

10. Seek Disruptive Customers Who Lead You to Needed Change and Advancement.

Radicals turn to their customers as partners in designing their e-businesses, and really smart radicals seek out leading-edge customers who will push them and the business to the limit. Nortel's Roth has coined the term *disruptive customer* to describe such customers (playing off the term *disruptive technology*, coined by Clayton Christensen, a Harvard Business School professor and author of *The Innovator's Dilemma*.)

What are disruptive customers? Simply put, they are your fastest-moving customers. If you stay with them and cater to their needs, they will keep you ahead of the pack. But—and this is a powerful caveat—they will continually require you to change. As a result, Roth says, to play defense and protect your assets is the surest way to *e-xtinction*. Rather than defend assets, you should trash them, Roth says, and keep moving. By selling off assets and buying new ones when the need arises, you can keep your company focused around the customer.

How to Use This Book

The next nine chapters present a lineup of remarkable organizations and their varied reactions to the advent of the Internet. While we have purposely subtitled this book "Winning Strategies in the Race from Big Biz to E-Biz," we acknowledge that it is extremely difficult to declare winners in a game that is clearly still in progress.

However, if one or two or even all of these companies fall into economic difficulties—and business cycles almost guarantee that some will—it will not be because they sat back and let the e-business tidal wave pass them by. As we have heard time and again from our radicals, the risk of sitting back and waiting is far higher than that of taking decisive action to get your company into the e-business fray. These are winning strategies not because they guarantee victory, but because they are serving as catalysts for these organizations to move forward quickly and deftly into the online world.

As you read these case studies, you will see our list of ten key lessons in action and will hopefully find countless other lessons that emerge and may not be common to each case study but are valuable to you. It is enlightening to see the range of reactions to e-business just among these nine organizations. While there are many commonalities, there are also glaring philosophical differences. GM, for example, is a staunch believer in the power of the online exchange with its Covisint venture. GE Plastics, conversely, refuses to participate in online exchanges, believing that its brand will only get diluted by cooperating with competitors in such a venture. One shared view: Even the most radical don't see the Internet as a panacea or as a solution to all their offline woes.

For companies like GM, the present-day business realities of a slowing economy, sluggish vehicle sales, bloated inventories, supplier pricing issues, and product design cycles add up to what would be insurmountable problems for most corporations. Facing high-pressure quarterly earnings demands and anxious shareholders must take precedence over long-term strategic business solutions. Integrating the Internet while all this is happening might be more than most companies could handle. Yet what is instructive is that GM executives believe that the Internet will not only change the entire automotive industry but may also be the company's last best hope to fuel the return of the golden shine to its vaunted name.

For others, like Southwest Airlines, the Internet came along at exactly the right time to solve a potentially disastrous problem—that is, how to sell tickets to customers when the usual distribution systems were disrupted, and in a way that keeps the airline economically viable.

In all, we have purposely chosen a group of industries—insurance, office supplies, automotive, plastics, airlines, entertainment, energy, high technology, and retail—that provide a variety of e-business challenges. In this way, we address both the business-to-consumer and business-to-business concerns that have thus far characterized the e-business debate.

But more than that, by offering a range of industries, company sizes, and competitive situations, we hope that you will begin to think differently—radically—about your own product, service, or brand. Whatever stage of e-business your company may be in, we hope the lessons from these radicals will be inspiring and invaluable to you as you push ahead.