SEARCH

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European Newsletter
Alexander Hughes
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[EDITORIAL]

THE NEW E-CHALLENGE

In this issue of SEARCH we look at the way the internet revolution is entering a second phase. The second half of 2000 and the beginning of this year have seen many dotcom failures and the British media have focused heavily on these and on the crash in technology stocks.

Behind all this negative publicity the number of users and internet transactions has continued to climb. More and more 'old economy' companies have embraced the internet as a means of speeding up time to market and taking costs out of their businesses. From

a management viewpoint there is an increasing acceptance that directors and senior managers must all be aware of the way in which the internet can improve their business performance. On-line strategy is no longer the exclusive territory of the IT department.

I have invited Tobin Ireland and Kevin Gaskell to contribute to this issue of our Newsletter. Both are successful businessmen who have grasped the internet opportunity in different ways, and they have been kind enough to share their views and experience with us.

I have detected a recent management trend which seems to be a consequence of the dotcom failures I mention above more than a result of general confidence in the economy. This trend is a more risk averse attitude amongst senior executives across a range of business sectors. A new level of caution appears to have crept in amongst senior people, not just about their own career moves but about taking new and untried steps within their area of business responsibility. I have raised this with a number of Chief Executives who have confirmed this view.

Most of our work revolves around board level appointments and much of our contact is at Chief Executive level, so we see ourselves as a good barometer of the mood of senior management. It will be interesting to see whether this cautious trend will become more pronounced, or fade away over the course of this year.

I would be delighted to hear from any readers of SEARCH who have anything to add from their own perspective. ■

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Tapping into internet talent and experience

Tobin Ireland left a successful management consulting career at McKinsey & Company to join the front-line at failed online style retailer boo.com. He is currently a Partner at eVolution Global Partners, a venture capital firm focused on building new economy businesses with corporate partners.

As the first wave of the "new" European internet economy spectacularly crashed into the wall of economic reality at the back end of last year, and the short, sometimes irrational, albeit passionate love affairs between internet entrepreneurs, investors and the financial markets abruptly ended, I am sure that many senior business leaders were privately pleased.

For the shortest period of time, the "internet start-up" had threatened to turn the traditional world business order on its head as young upstarts with limited "real-world" experience showed unbelievable success at creating enormous paper wealth out of somewhat half-baked business plans.

In the space of 12 months from September 1999, incumbent businesses at the centre of the European economy began to feel acute pressure as a result – in a few cases from real business threats from new economy competitors (well at least Amazon has achieved this), but more usually from the flight of often the best, most talented junior and senior management to dotcoms, and pressure from financial markets to develop and support internal internet activities to energise the share price and attempt to retain key staff. Individuals and businesses alike were jumping on the internet bandwagon in the latest 21st century goldrush.

So, people argue, the return of economic reality and rational economic order should be welcomed. The "greyhairs" were right after all: you cannot build a business from scratch, with no business experience, in a few months, and expect a $billion IPO. Incumbent businesses who have been diverted by the hype of the last 18 months should go back to basics, scrapping all wasteful internal new economy investment, and continue on their hitherto successful and time worn strategic paths.

There is some truth in this, of course, but as a calmer economic and financial climate emerges, too many companies are seeing the failure of the dotcom sector as the removal of a threat rather than the opening up of an enormous opportunity. The human resource implications of the events of the last 18 months have yet to be fully played out, and businesses who see the last 18 months as an aberration that can be forgotten have failed to grasp the real learnings from the "new economy".

Potentially one of the most significant long term effects of the "new economy" in Europe will be the discontinuity in the career development and the displacement away from traditional businesses of a generation of future business leaders. People left for dotcoms in swathes not just because of the promise of millions, but because they were turning their backs on traditional management career paths and the lack of speed and excitement, bureaucratic hierarchies, and low job satisfaction that they often entailed.

Irrespective of the success of their entrepreneurial ventures, these individuals will have gained solid experience of accelerated management responsibility, project management to exacting deadlines, high levels of commercial exposure, and seeing a business develop throughout its life in often acute financial circumstances. As the newly established dotcom sector is decimated, where will all of these battle-scarred and now-even-better qualified individuals go? How can they be reabsorbed into the established industries they so recently fled?

The skills that these people have developed provide a vital opportunity for established businesses to reinforce their management ranks and to accelerate the development of their own activities. However, with the slowdown of the economy as a whole and cut-back of internal internet-related activities, established businesses may be discouraged from tapping into the talent currently available in a growing external and internal resource pool. This may be a lost opportunity.

So, companies should look ahead and selectively develop structures for harnessing the talent that fuelled the hidden successes of the dotcom boom and keep an open mind to identify what mix of "new" and "old" economy expertise is required to capture the real value of the "new" economy experiment: empowerment of employees, independence from constraining corporate structures, accelerated time frames and decision making. Choices will have to be made how to best deploy scarce internal management talent while leveraging the full latent value of their corporate assets.

In a period when financial market scrutiny is encouraging strategic focus, many companies should explore relationships with external partners to develop new economy businesses to leverage non-core capabilities and assets. Creating separate specific equity structures allows alignment of incentives of management with value creation, and provides the governance and financial expertise required to make these ventures a success. Although it is early days to see whether such "corporate ventures" will generate profitable businesses, they certainly enjoy the strategic and financial backing which would make even the most successful dotcom green.

■ TOBIN IRELAND ■

TOBIN IRELAND

[INTERVIEW]

KEVIN GASKELL WHO SUCCESSFULLY RAN TWO UK CAR COMPANIES BEFORE MOVING INTO AN E-BUSINESS, TALKS HERE ABOUT HIS FAITH IN THE INTERNET REVOLUTION

At the age of 32 Kevin Gaskell became Managing Director of Porsche GB with the task of resurrecting the company's health in this country. Five years later his success at Porsche attracted the attention of German giant BMW AG and in 1997 he moved on to BMW GB as Managing Director. In 2000 he joined Cars Direct, the US based on-line car retailer, to head up their expansion in Europe, a move which led him into an on-line business to business venture, www.epyx.co.uk which is already proving a great success.

When did you first see the potential of the internet?

KEVIN GASKELL : At BMW in 1997 I became convinced that the internet would change the way we did business, and knew we had to take the initiative. I didn't believe that change would happen overnight but, I felt we needed a strategy in place through which the internet could become an integrated part of our business.

How did you achieve this?

K.G : I put together a cross-sectional team with representatives from finance, marketing and logistics plus an external agency and one of our dealers. The car industry was, and still is, heavily regulated and there were established business practices that were hard to escape. The team had a brief to look at every area in which we operated, and to work on the assumption that the internet would liberate the consumer and therefore speed up the disappearance of many of these practices.

Were you able to implement change?

K.G : The car industry is facing the possible end of the 'block exemption'. This legislation determines the dynamics of the industry allowing manufacturers to channel cars through selected dealerships which have exclusive rights to geographical territories. Significant change is taking place in the industry in preparation for possible new legislation. The strategy we developed was designed to deal with potential new legislative scenarios. Although I am no longer with BMW, I understand the UK company has now adopted elements of the plan we put together.

Why did you leave BMW?

K.G : By 1999 my conviction that the internet would change the way we do business had developed into a strong desire to become more closely involved in using technology to speed up and enhance the route to market. A member of the Soros team approached me to head up the European development of Cars Direct, which was the leading on-line automotive retailer in the US. I was excited by this opportunity.

Did you have any reservations about joining the dotcom world?

KEVIN GASKELL

K.G : No. This was very early last year when technology stocks were riding high. Setting the hype aside, Cars Direct were selling around 2,000 cars a month in the USA, this would have given them an annual turnover close to half a billion dollars, and backed by blue chip investors they had $300 million in the bank to take their business forward.

You didn't proceed with the Cars Direct opportunity, why?

K.G : The internet is a great enabler, but it will not automatically prove to be the best solution for developing every market opportunity. I put together a first class team to run a feasibility study on rolling out the Cars Direct concept in Europe. The market dynamics of car retailing in Europe are very different from the US. We reached the conclusion that given the European legal framework the model wouldn't fly, certainly not at that time.

Had the technology market collapsed at this point?

K.G : The cracks were starting to appear. Idealab! owns Cars Direct and they were rightly wary of any major investment in Europe. As often happens, when you rigorously explore one opportunity another emerges in the process. From the study we made I felt the real on-line opportunity lay in providing a business-to-business service to the automotive industry. This was not a strategy that interested Cars Direct and, in the deteriorating market conditions they were happy to put their European plans on hold. We found new backers to take the idea forward.

Do you think the internet revolution is over?

K.G : No. The analogy I use is that if you want to go down to the beach the fastest route is not always the most sensible. In other words take the path, don't go over the cliff, and I'm afraid many of the dotcoms were in too much of a hurry and we know what happened to them. There has been a shift in emphasis as more high street and household names are reaching new and existing customers through the net.

Do you think large companies generally are rising to the challenge?

K.G : The challenge is not just about harnessing the internet in one or two operational areas, I think even successful companies need to question the very way they do business. Many senior executives still lead a cushioned existence from which they are unwilling to escape. I say this having enjoyed the trappings of a large established business myself and moved to a leaner hungrier world that needs to question the existing order.

How have you put your views into practice?

K.G : Our strategy is focused on a business-to-business-to-consumer model for which we found our own funding. We formed our new company epyx limited (www.epyx.co.uk) and specialise in providing fully automated, scaleable transactional capability to the automotive sector.

Can you be specific about how Epyx breaks the mould?

K.G : We are in the process of implementing a major system for a tyre distribution company. In essence what we offer this client is an on-line capability to link their business to wholesalers, and on through to small independent retail outlets, and on still further to the 'man in the van'. The system controls the inventory, provides management data and accounts, is linked to a call centre and can even organise work sheets for the operatives. The next logical step for this client in the not too distant future could be to put a retail end onto the system which would allow retail customers to order on-line.

We have developed a similar system for car fleet management companies allowing them to strip cost from their operation. We have also changed the investment model for our customer as we can provide a system with minimal up-front capital expenditure whereby epyx generates its revenue from transactions completed through the system.

Can you put a value on a change of this sort?

K.G : No, because the benefits will be felt right through the business. Time to market is speeded up, inventory control is tighter and the whole process has become more efficient. There will be significant savings in operating costs across the board. The fact that we use web browser technology means that the systems can be deployed quickly and without major investment in remote computer hardware.

Where should the initiative to explore change come from in companies?

K.G : It has to come from the top, whether this is the CEO or the strategy director. Big corporations are recognising how powerful the internet can be in taking cost out of the business and leveraging technology to their customers' benefit. Having said this, I am staggered at the number of Chief Executives who still respond to a one line email with the help of a secretary, or send a faxed copy of the original email with handwritten comments scribbled on it!

Do you have a final comment on the internet revolution?

K.G : It is a revolution because it is still changing dramatically the way we do business. But it is not a revolution to my kids - the internet is as natural to them as turning on a computer. When I accidentally disconnected the computer at home recently the kids were on the phone to me immediately demanding to know why they could not get on-line. What they do on-line is a separate issue but there is no doubt about the internet's role in the future of their lives and therefore of all of our businesses. ■

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