

Becoming an E-Company: A Strategy for Doing Net Business

Hiroshi MATSUNO

Nomura Research Institute

Becoming an E-Company: A Strategy for Doing Net Business

Hiroshi MATSUNO

- I How “T” Can Become “E”
 - 1 The Information Paradox
 - 2 How a T-Company Can Become an E-Company
- II Understanding the Net Business
 - 1 Defining the Net Business
 - 2 Business Models as Profit Mechanisms
 - 3 Factors Behind the Success of the Net Business
 - 4 Proven US Business Models
 - 5 Need for Business Models to Develop
- III Where Can Money Be Made in the Net Business?
 - 1 The Rise of the Dot-Coms
 - 2 B2C Infomediaries and B2B Agents
- IV Becoming an E-Company
 - 1 Drawing a Line Between Rationalization and the Battlefield
 - 2 Net Business Threats
 - 3 Net Business Opportunities
 - 4 Repositioning on a Changing Battlefield
 - 5 Become an E-Company!

In the United States, the home of net business, dot-coms have made big money by exploiting the inefficiencies of existing companies in areas such as information intermediation, credit intermediation and infrastructure provision. Companies that are only capable of adding value as part of a value chain in the traditional way risk losing their sources of revenue before they realize what is happening.

Such “t-companies” (“t” standing for “traditional”) can try to prevent intermediaries from stealing their business by using the Internet to make their product development, procurement, physical distribution and administrative operations much faster and more open and by being more innovative. In addition, they need to reconsider their market position and aim to become service aggregators that can become involved at any stage of the value chain. For t-companies, net business represents both a threat and a major opportunity. They need to enter the market and establish a brand identity as soon as possible and become so-called “e-companies”—companies that are responsive enough to be constantly updating their business model.

I How “T” Can Become “E”

1 The Information Paradox

In his book *“Kyoso Yui” no Shisutemu* [“Competitive Advantage” Systems], Tadao Kagono of Kobe University’s Faculty of Business Administration has the following to say about the “information paradox”:

“Now that information systems have become a commodity item, they no longer offer any intrinsic competitive advantage. Companies will have to try to achieve this in some other way. This has opened up a need for “business systems” that can create unique products and services from a common technology by ingenious use of variety and detail.”¹

The revolution in information systems that has been accelerated by the spread of Internet technology has made it easier for rivals to copy not only the best products and brands, but even the best channels and marketing systems such as customer services based on creative Web site interfaces and network-based, high-speed business systems and databases. In the Internet age, competitive advantage will have to be sought in “business mechanisms” other than information systems.

2 How a T-Company Can Become an E-Company

The rapid advance and commercialization of the Internet has meant that not only businesses but also consumers are now linked by networks and that companies which are only capable of adding value as part of a value chain in the traditional way risk losing their sources of revenue before they realize what is happening.

I propose to refer to companies that continue to try to produce added value from their existing business as “t-companies” (“t” standing for “traditional”). For such companies the important thing used to be to know their position within their industry and to maximize added value by deciding where in the value chain they would produce value.

As we shall see later, however, now that third parties can enter the value chain in many different capacities as agents or intermediaries and use their established information networks to extract profits, t-companies are being forced to review their market position so that they can become part of any value chain.

I propose to call those companies that are pioneering the net business or e-business, as it is called, “e-companies” (“e” standing for “electronic”). T-companies now face the task of having to become e-companies as soon as possible.

In addition to having high-speed business systems that enable them to engage in net business, e-companies also possess characteristics that make it possible for them to differentiate themselves from all the other companies in

the value chain: namely, a better customer base, computerized business know-how and an efficient, flexible management.

The net business has got off to a flying start in the United States, but in Japan the race may be run under quite different rules. The following are only some of the factors that suggest that Japan may experience a net business revolution very different from the one experienced by the United States: (1) communications charges are still much higher in Japan than in the United States; (2) cyber-kiosks and convenience stores are within walking distance of most homes; (3) Japanese consumers still prefer to pay cash; and (4) mobile phone and game machine networks were developed earlier than those for PCs.

Nor do Japanese consumers and purchasers always act rationally when they purchase goods and services. Instead, they are easily misled by information and tend to exhibit group behavior. It would therefore be risky for Japanese companies trying to differentiate themselves in terms of their customer base or their business know-how to base their strategies solely on US experience.

The following is an attempt to analyze the latest business models adopted in the United States—the home of the net business—and to suggest how t-companies might set about trying to become e-companies within a Japanese business framework.

II Understanding the Net Business

1 Defining the Net Business

The term net business refers to (1) the use of innovative business infrastructure systems based largely on Internet technology to provide customer services, sell goods, and engage in e-commerce and to (2) efforts to improve the speed and efficiency of business and enlarge the customer base. The term e-business is used in more or less the same sense.

The area of business that has developed as a result of net business is also called the “e-economy” or, if the intention is to emphasize the innovative nature of the business, the “e-revolution.” The net business is a new business area and market that incorporates the concepts of the Internet business and e-commerce.

2 Business Models as Profit Mechanisms

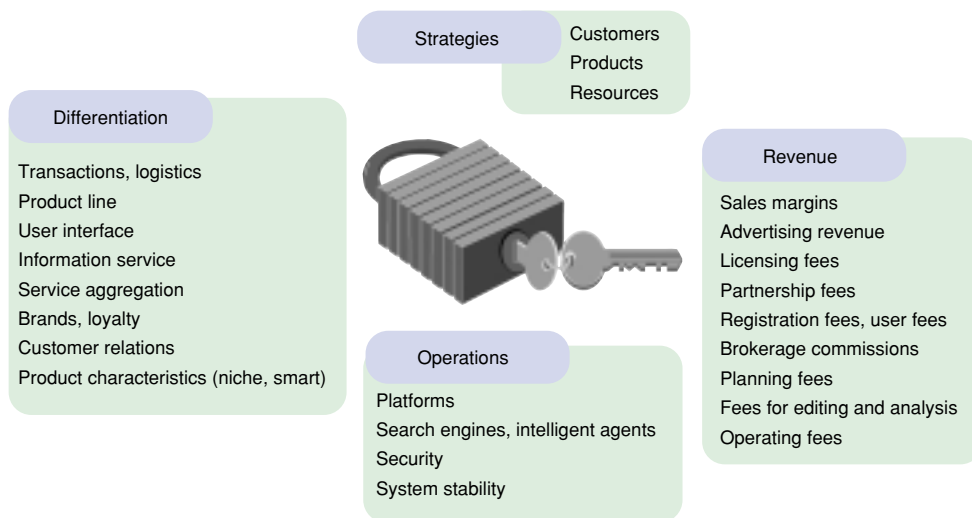
To put it in simple terms, business models are profit mechanisms. There has recently been a great deal of interest in business model patents. A growing number of companies are patenting profit mechanisms and carrying out their business as a monopoly or on a license basis.

Let us begin by taking as an example of a net business model Autobyte.com, which is one of the leading automotive purchasing service companies in the United States. (See Figure 1.) Autobyte.com serves its customers by

Figure 1. Autobytel.com's Business Model (profit mechanism)



Figure 2. Four Components of Net Business Models



relaying details of the vehicle they would like to purchase to its network of registered, contracted dealers, and returns to its customers details on prices, terms of delivery, and related services submitted by these dealers. At that stage the customer and the selected dealer enter into price negotiations, and the buying process proceeds in the traditional way. Autobytel.com will also put customers in touch with loan companies and apply for insurance on their behalf, thereby adding value to its service, or arrange for customers to contact other net business companies specializing in such services.

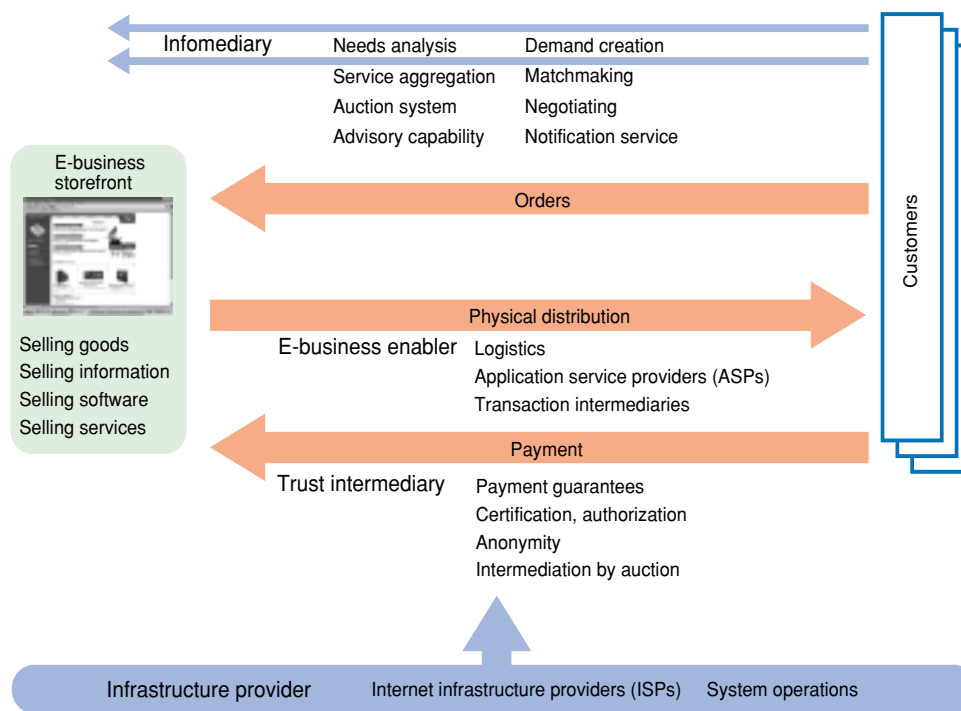
While one might expect that charging customers for this service might seem the most rational approach as they would appear to be the main beneficiaries, a key aspect of this business model is that the dealers to whom Autobytel.com introduces potential customers actually pay for the service in the form of a registration fee and a success fee if a deal is completed.

This type of business is often called B2C (“business-to-consumer”) business because it links sellers (dealers) to buyers (customers). In fact, however, it could also be described as B2B (“business-to-business”) because transactions take place between Autobytel.com and the dealers in its network as well as between Autobytel.com and the companies advertising on its Web site, from which the service can be accessed. In fact, most net businesses in the United States depend on revenues from B2B business.

3 Factors Behind the Success of the Net Business

The success of the net business depends on four factors. (See Figure 2.) First, a company has to have a clear strategy for supplying something (a product) to someone (the customer) by means of some mechanism or system (re-

Figure 3. Typical US Net Business Model



Source: NRI, from Amir Hartman and John Sifonis with John Kador, *Net Ready: Strategies for Success in the E-economy*, McGraw-Hill, 1999.

source). Also, unless the company has a clear idea of how it is going to make a profit, how it is going to differentiate its service from similar services, and what exceptional operations it is going to provide, the business will not get off the ground.

In the United States, many companies still use a business model that relies on income from advertisements displayed on their Web site. However, a growing number of models derive their income from Web site partnership fees, a success fee charged when a deal is completed, and software licensing fees. There are even companies, such as Amazon.com, that make a profit by selling goods in an innovative way using existing distribution networks. (Because of its investment in marketing and expanding its business, Amazon.com has still to post a profit.)

The most important aspect of the net business is differentiation. Because it is so easy to copy the superficial mechanism of a net business, look-alikes abound. Successful net businesses therefore ply their daily trade on a very weak and risky basis. The only way they can ensure that rivals do not catch up is by improving and revising their business model in short cycles. Differentiation is therefore nothing less than the key to survival for net businesses.

Meanwhile, a company’s operations will determine whether or not its net business will expand or even survive. Once a net business gets off the ground—even if only temporarily—the need (1) to respond to the resulting increase in hits (and therefore to increase its systems capability), (2) to ensure security, and (3) to maintain operations means that there will be a sharp increase in costs.

Finally, in addition to having the computer systems needed for these purposes, net businesses will have to

improve their operational capability, such as by making more use of computer systems to deal with customers and by aggregating services to increase added value. Once a net business is up and running, it becomes a very different beast, and one that requires huge investment.

4 Proven US Business Models

In the United States, many different net businesses are already in active operation. In their book *Net Ready*, Amir Hartman and John Sifonis of Cisco Systems divide net business models into a number of types.² In the following, I have used this as a basis for suggesting five general types of business model. (See Figure 3.)

(1) E-business storefront

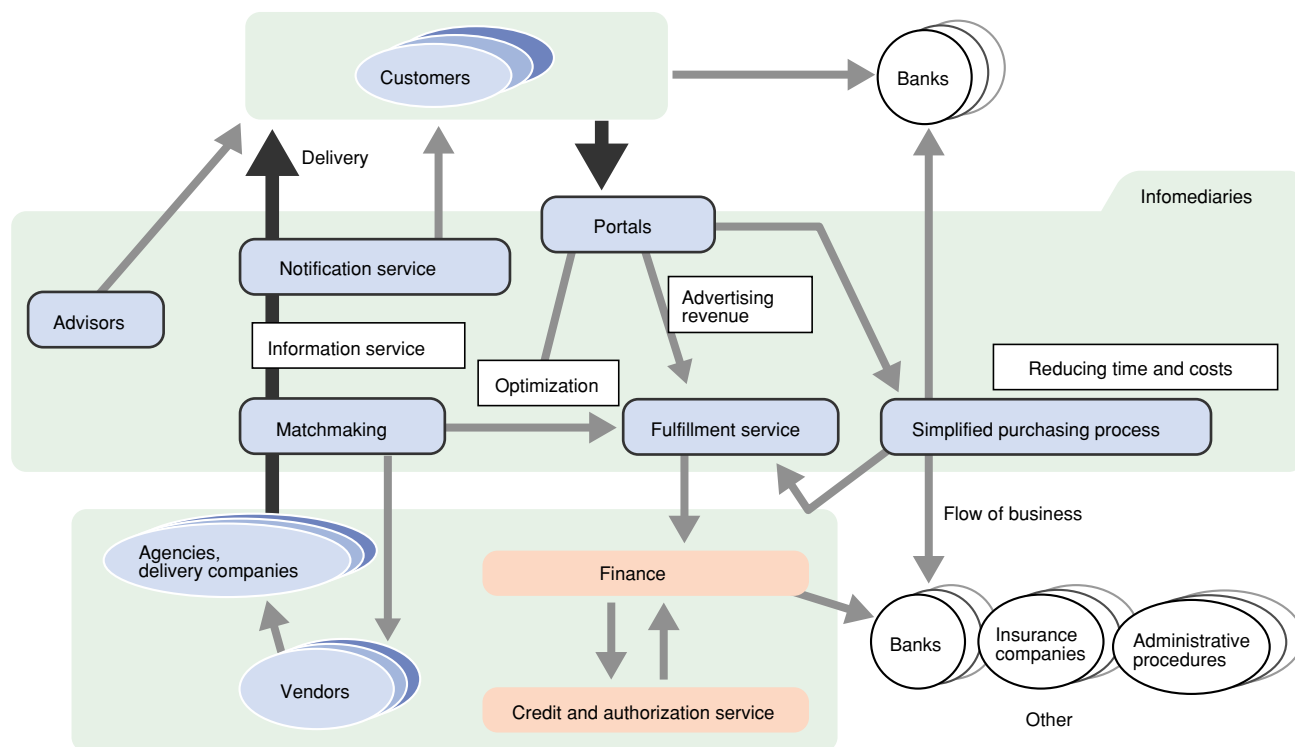
In this model an established business creates new sales or service channels, such as by using the Internet, to broaden its customer base and increase revenue. This is a typical first-generation type of net business model. Examples include Dell Computer, which has been highly successful at direct marketing, and Amazon.com in its early years, when it used virtual storefronts to increase sales.

As we shall see, the mere use of e-business storefronts is usually not enough to enable a net business to differentiate itself. Therefore companies typically combine this approach with one or more of the business models described below or form partnerships with companies that can provide complementary services.

(2) “Infomediary”

This is an intermediation business that involves (1) aggregating the information, knowledge and experience col-

Figure 4. Structure of Infomediary Model



lected in the course of conducting different aspects of the net business and (2) adding value to a particular type of net business to make a profit. In the United States, such an intermediary is called an “infomediary.” This is the most common and most important type of net business model.

To put it more simply, it involves helping to improve the existing distribution system or acting on behalf of buyers and sellers and taking a cut in proportion to the efficiency gains achieved. In the United States there have been many such business models, ranging from Yahoo’s portal business to Autobytel.com’s automotive purchasing service, MySimon’s shopping service and eBay’s auction service, and the landscape is constantly changing.

Figure 4 shows the two-way nature of the infomediary business. By analyzing customer buying processes in detail, it creates two basic patterns of service: first, a “buying process simplification service” and, second, a “matchmaking service” that compares the requirements of both customers and vendors. Finally, in order to complete the buying process, this type of service hands the process over to a third player, a “fulfillment service” that provides such services as financing and payment guarantees as well as offering to deal with administrative procedures on behalf of the customer.

In addition, a fourth element, a “notification service,” aggregates these three types of service and offers customers advice on how to make the best purchase or introduces bargains. Finally, there is a fifth component, a “portal service,” that provides a search service to encourage customers to use the service as much as possible and

serves as an access point for the first four services. Most portal services generate income from advertising based on the number of people visiting the Web site concerned.

(3) Trust intermediary

This type of net business establishes trust between the buyer and seller, and enables intermediaries to make a profit in the form of commissions. It also covers payment guarantees, certification/authorization, order processing, invoicing, billing, settlement and security as well as tracking all of these smoothly.

The companies handling this type of business are also involved in many other types of transactions besides the net business, but they play a particularly important part in net businesses, where the identity of the parties to a transaction is not revealed. Although such companies, which include VeriFone, TradeSafe and E-Loan, are few in number, many of them are important players.

(4) E-business enabler

This is an infrastructure-type business providing integrated physical distribution and operational services as well as software licensing to enable companies to carry on their e-commerce business accurately and securely. Application service providers (ASPs)—a new type of business—also come under this heading.

The best-known example of this kind of company is Federal Express, but others include companies providing services such as integrated processing services (e.g., Chrome.com), companies providing infrastructure software (e.g., DoubleClick), and ASPs providing enterprise

resource planning (ERP) services. Most of these companies are in partnership with companies involved in the first three categories of business types enumerated above.

(5) Infrastructure provider

This type of business involves operating systems—especially computer systems—used in the net business. The services offered include providing a common infrastructure (e.g., protocols, rules and formats) for e-commerce and offering hosting services for structuring, operating and managing servers on behalf of customers as well as a housing service for communications equipment which is then also operated and managed on behalf of its customers.

A well-established example of this is the computer reservation service offered by airlines, while a more recent—and increasingly popular example—is the Internet server-housing service offered by companies such as Exodus Communications.

5 Need for Business Models to Develop

As was suggested above, net businesses will only survive and thrive if they continually strive to modify and improve their business models. Figure 5 gives some examples of how business models need to develop.

(1) Switch from zero inventory to own inventory

A good example of this is the switch from a “zero-inventory model” to an “own-inventory model.”

One of the successes in the early days of the net business was the example of companies such as Amazon.com and etoy.com, which were able to dominate their markets by offering a wide range of goods rather than simply reduce costs and cover a wide area by dispensing with physical shops and selling goods via virtual storefronts on the Internet. However, although it is all very well for an infomediary to depend on orders so long as its customers value its service, once a business reaches a certain size, it needs to be able to guarantee customers that it can procure and deliver goods and settle transactions.

Given also that such companies became involved in the net business in order to take advantage of the ineffi-

ciencies of the existing supply, inventory and physical distribution systems, they found that they could not continue to serve customers without a minimum level of inventory. Firms such as the home delivery companies HomeGrocer.com and Webvan.com have therefore switched to an own-inventory model and have their own warehouses.

(2) Switch from advertising income to partnership fees

The bulk of income from the net business continues to come from advertising. However, with ever more Web sites trying to gain acceptance as portals and some of the largest portals, such as America Online (AOL) and Yahoo, charging ever-higher advertising rates, the value of Internet advertising is being questioned. As a result, the “advertising income model” is gradually being replaced by a more complicated model that we shall call a “partnership model.”

This is a kind of contingency fee model whereby companies pay each other a commission on transactions conducted on their interlinked Web sites and have a special order Web site linked to the marketing events on their main Web site—rather than simply advertisements.

(3) Switch from discounting to on-line communities

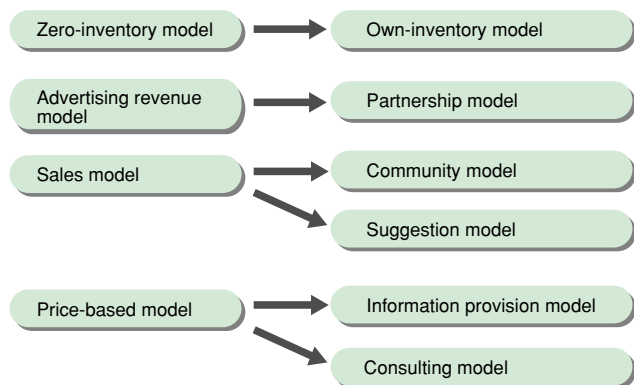
Since selling via the Internet means abandoning traditional face-to-face retailing, companies cannot expect their net business to be successful unless they can add the appeal of discount sales, mainly by reducing the cost of outlets and distribution. However, by itself this model is not enough to erect entry barriers against rivals, and companies are likely to find it difficult to continue to differentiate themselves from the competition.

Companies have responded in a number of ways. These have included: (1) creating forums where purchasers can evaluate products and exchange information on how best to use them (the “community model”); (2) providing prospective purchasers with specimen lifestyles and detailed information to win them over (the “suggestion model”); and (3) bringing together prospective purchasers to enable them to enjoy volume discounts (the “collective purchasing model”). All three are net business equivalents of traditional methods such as the network business (compare Amway), teleshopping and cooperative schemes.

(4) Switch of emphasis from price to information

Many infomediaries provide comparative information for consumers by collecting price information on products using intelligent software agents (the “comparison shopping model”). In the United States, however, there have been so many Web sites of this type, many of which have been associated with problems such as the non-delivery of goods, that now less than 20 percent of purchasers are reported to choose the goods with the lowest prices displayed.

Figure 5. Examples of Changing Business Models



Web sites have evolved and now display non-price information, such as the number of days it will take to deliver a product as well as related services such as coupons, and leave it to the purchasers to make up their own minds (the “information provision model”). And others actually offer advice (the “consulting model”). Even in such cases, however, attempts have been made to create a model whereby an infomediary can generate a return through a partnership with the seller’s Web site (such as by displaying the seller’s logo) while maintaining its neutrality.

III Where Can Money Be Made in the Net Business?

1 The Rise of the Dot-Coms

No matter how highly net businesses may be valued by the stock market because of their prospects, it is often unclear how these companies achieve a return or whether they make one at all. In Japan a new net business (or dot-com) is likely to have the kind of profit structure illustrated schematically in Figure 6.

First, existing companies will tend to suffer from cost inefficiencies in areas such as marketing, their supply chain (e.g., distribution and inventory), data processing, and sales/administration. The first thing that dot-coms can do is to convert some of the marketing costs into Internet advertising income.

Similarly, dot-coms can convert a significant proportion of their supply chain costs into commissions, sys-

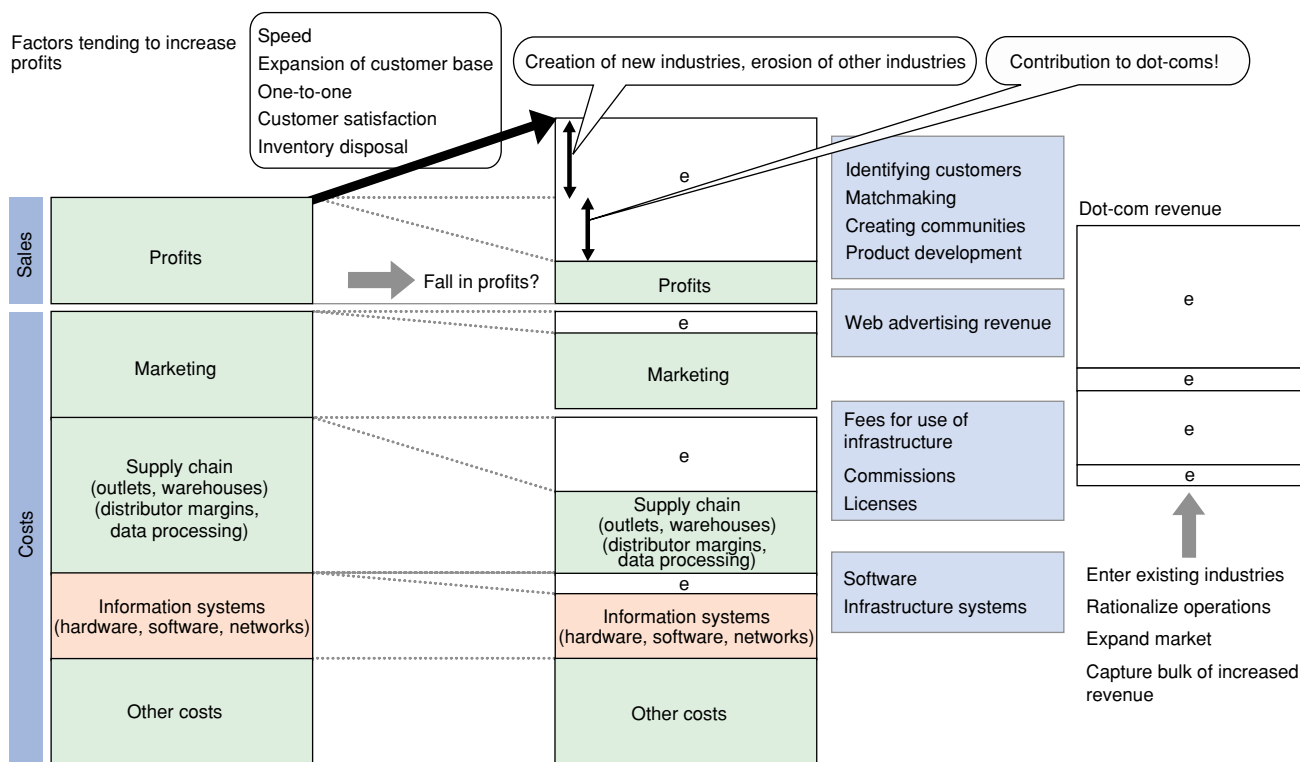
tem infrastructure charges, and licensing fees (e.g., for software) by means of the rationalization effects of the Internet. In addition, they can sell systems and software with the latest information technology.

The net business is not simply about cutting costs, however. The Internet can also help to speed up the way a company is run and does business, and to reduce inventory by means of better controls. In addition to expanding a company’s customer base, it can also increase customer satisfaction by means of a more personalized service and one-to-one marketing. This, in turn, will boost sales, helping to create new industries and increase employment.

Here, too, however, the dot-coms walk away with all the extra profits—whether it be from acquiring new customers, matching buyers and sellers, creating purchaser communities or developing new products—as well as helping to boost sales. In other words, we have a situation where the dot-coms enter an established industry and capture most of the extra revenue generated as a result of improving efficiency and expanding the market. In the current situation, where the Japanese economy as a whole is not expanding, the net business is likely to develop with such a zero-sum profit structure.

In the United States, on the other hand, the net business market is actually growing as part of the revolution in information technology and is likely to be a major source of employment. Even in Japan, once the net business has passed the stage of simply rationalizing the distribution systems of existing industries (see above), it has the potential to become a major new market—an opportunity that should on no account be missed.

Figure 6. Revenue Structure of Net Business



2 B2C Infomediaries and B2B Agents

On closer examination, dot-coms can be seen to fall into one of the two categories illustrated in Figures 7 and 8.

Figure 7 illustrates the B2C model, where, in spite of the fact that the Internet has enabled companies to market more goods and services to customers (consumers), the dot-coms have interposed themselves as infomediaries and extracted the profits that would otherwise have accrued to consumers.

Figure 8 illustrates the B2B model, where—in addition to the business infrastructure providers, outsourcing suppliers, and logistics subcontractors that have played a useful role as agents in rationalizing part of the corporate value chain—supply agents and purchasing agents have appeared alongside the customers, to whom the bulk

of the added value should have accrued. Here again, the dot-coms have extracted the profits deriving from efficiency gains and expanding markets.

Value chains are being rebuilt as more industries are hit by deregulation and globalization. The early entry of dot-coms to such markets and their success in generating a profit indicate the end of the first stage in the development of this new business.

IV Becoming an E-Company

1 Drawing a Line Between Rationalization and the Battlefield

As was mentioned in Section III, the players in the net business—and especially the dot-coms—have succeeded in generating profits by removing some of the inefficiencies of existing businesses. This leaves the question how the players in established businesses (i.e., t-companies) should respond. The first thing such companies need to do is identify threats and opportunities.

If we take manufacturing as an example, Figure 9 shows how the existing value chain might look in the world of e-business. Product design and development, the supply and distribution of raw materials, and the accounting and information systems supporting such business processes can all undergo far-ranging innovation by using the latest Internet technology.

In order to prevent outside agents from gaining entry to these processes, companies have to be able to rationalize and innovate of their own accord. In Figure 9 the terms e-engineering, e-procurement and e-operations are used. These refer to the world of rationalization—i.e., those areas where companies can boost their earnings by using the Internet to reform their business processes and create an e-business.

Figure 7. Development Pattern of Infomediary Business

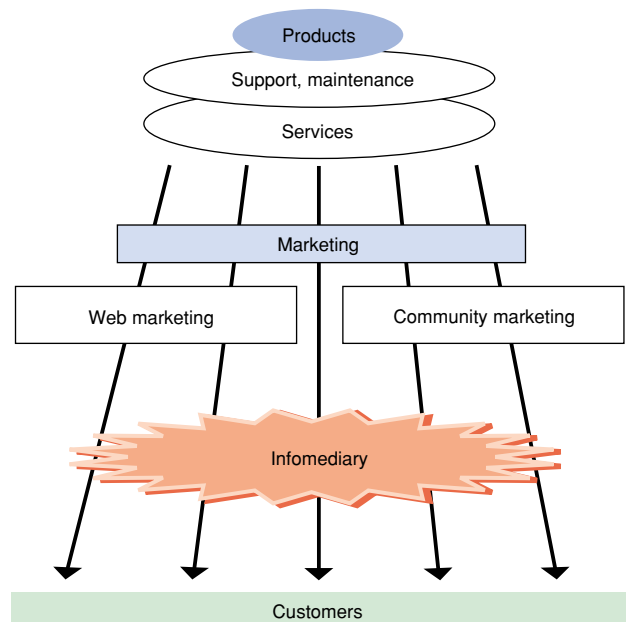


Figure 8. Development Pattern of Agency Business

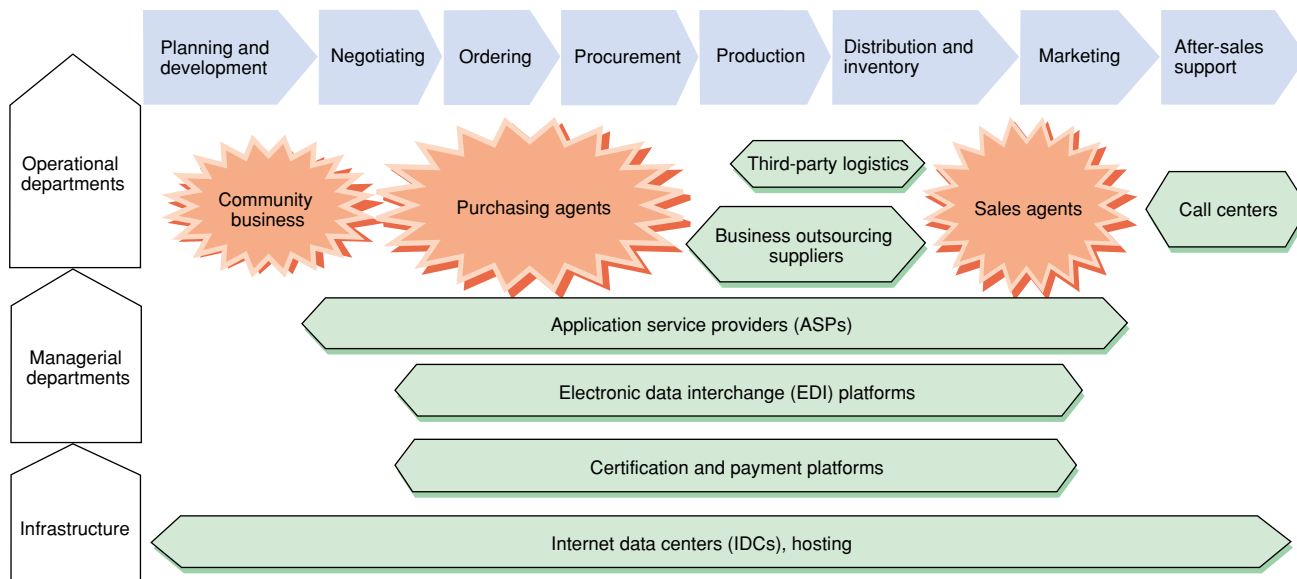
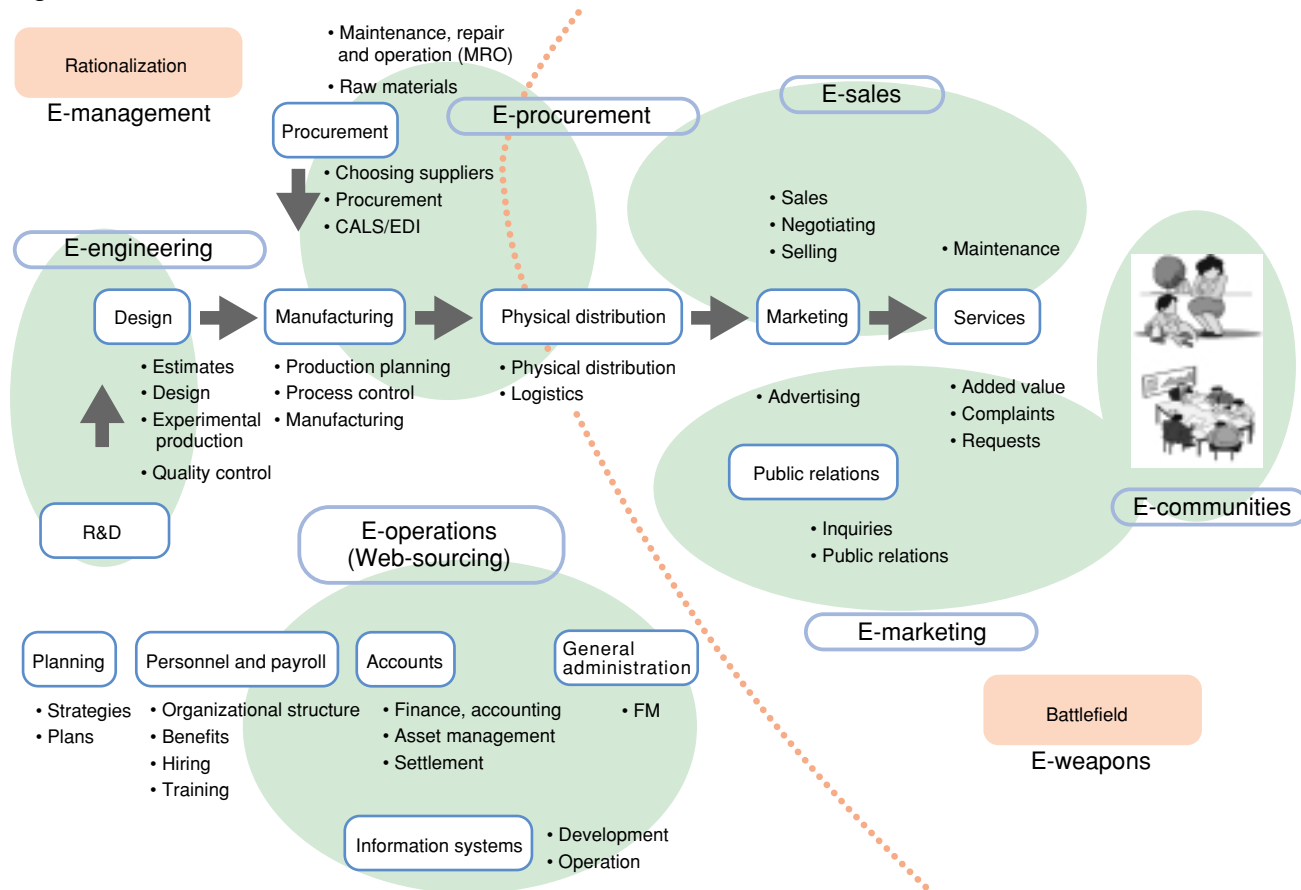


Figure 9. Internal Rationalization and the Net Battlefield



Note: CALS (computer-aided acquisition & logistics support).

In those parts of the value chain nearest the customer (the sections corresponding to marketing, sales and customer communities), however, innovation by itself will not enable companies to make a profit. Nevertheless, these areas offer companies the opportunity to expand their businesses by tapping a virtually unlimited source of customer demand from all over the world and creating all sorts of goods and services. In Figure 9 these areas are labeled e-sales, e-marketing and e-communities, and they mark the battlefield of the players in the net business.

T-companies will have to take on the dot-coms, using customer support, databases and intercompany networks as “e-weapons.” Otherwise, they risk losing all their customers to them and becoming either mere suppliers (in the case of manufacturers) or disappearing altogether (in the case of distributors).

T-companies should not feel unduly obliged to become involved in all areas of the net business battlefield. They need to distinguish between those areas where they can boost earnings by defensively rationalizing their operations and those where they need to acquire and use weapons to go on the offensive. In other words, they need to identify threats to their existing business and deal with these as best they can while preparing to do battle in the ever-wider battlefield of the net business.

2 Net Business Threats

Figure 10 is a list of questions for t-companies to check whether their existing businesses are indeed threatened. There are three main sets of questions.

The first set is designed to find out whether there is any scope for an intermediary function in a company’s existing value chain, in other words whether its business processes are as fast and well adapted to customer needs as they should be. The second set is designed to find out if the company ever loses sight of its customers, whether it knows what they are thinking and in what ways they are dissatisfied, and whether it is really helping them to create value. The third set is designed to find out whether the company knows how its goods and services are rated in the open world of the Internet—a particularly important aspect of the net business.

It is surprisingly common for t-companies, which are the major players in existing businesses, to be unaware of their customers. In the world of net business where comparison shopping is so easy, customers cannot be counted on to remain loyal forever, no matter how carefully a company has analyzed its customer database and concluded that a particular customer is loyal.

A quick way for a company to find out whether it faces a threat is to devise a means of monitoring objectively

how its customers rate it. And in order for a company’s e-sales and e-marketing to understand customer needs and evaluate the company objectively, it needs to form partnerships with other companies. This is a vital aspect of the net business.

3 Net Business Opportunities

Figure 11 is a checklist of questions for t-companies to determine whether there are any opportunities for them to equip themselves with e-weapons and set forth for the net business battlefield. There are five main sets of questions.

The first set of questions is designed to identify opportunities for companies to boost cash flow by rationalizing their operations. Even in the United States, the home of the net business, there are still many such opportunities. This is especially true in the area of B2B net busi-

ness, where there have been studies showing that there is still scope for rationalization in all sectors of industry. By managing their demand-and-supply chains, companies should be able to maximize profits.

The second set is designed to identify opportunities in e-marketing and e-sales to use e-weapons to increase brand recognition and expand the company’s customer base on a global scale, if possible. This is the common angle from which to consider net businesses opportunities, and some texts on the subject provide numerous valuable insights.

However, the current surge of interest in the net business in the United States suggests that most opportunities exist in areas that can be identified by the fourth and fifth sets of questions in Figure 11—namely, the intellectual assets business, which uses well developed business models, and the capital gains model, which uses public listings. Originally, this was the preserve of dot-

Figure 10. Net Business Threats

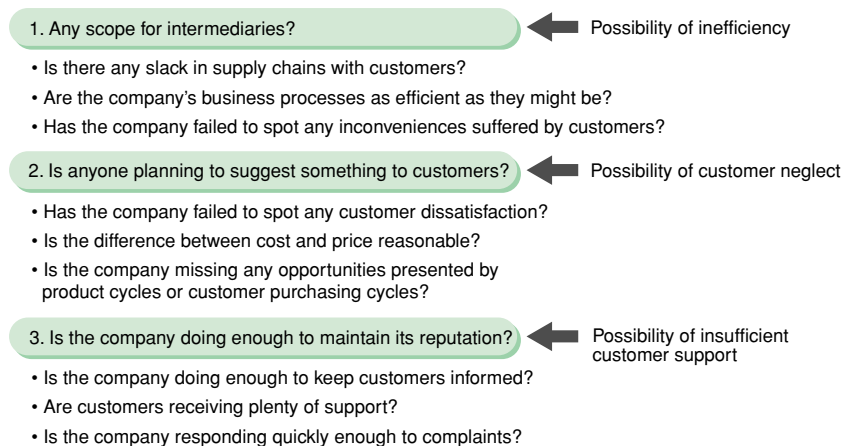
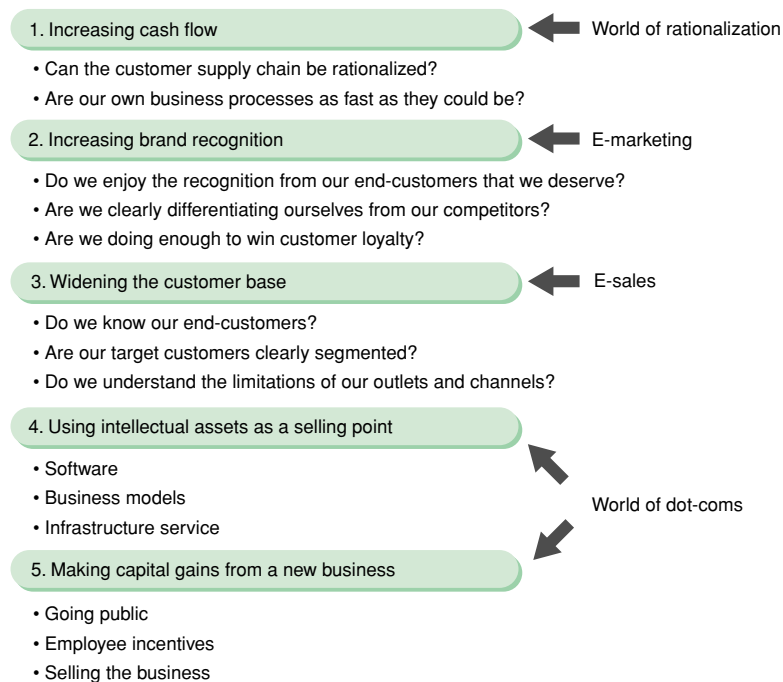


Figure 11. Net Business “Opportunities”



com start-ups, but this phase of business is now shifting to t-companies.

This is a world of aspirations. No matter how small a company or where it comes in the industry pecking order, it can achieve considerable success in the net business if it has the know-how to analyze its rivals and has suitable partners to help it put this know-how into practice. If necessary, it should buy this know-how. But if it fails to put it into practice quickly, it will rapidly find its position being eroded.

4 Repositioning on a Changing Battlefield

It is obvious from the way in which dot-coms have come to dominate the net business in the United States that it is no easy matter for t-companies to become e-companies. Also, the recent over-investment in the net business in the United States has tended to obscure the real effects of the e-revolution achieved by reforms in the way companies conduct existing business.

However, there is no doubt that the net business is beginning to have a major impact on the way companies carry out their existing activities in the United States. The spread of Internet technology means that t-companies will learn the hard way what it is to be driven out of a market unless they radically rethink the way in which they create added value.

We shall look at examples of some common US net business models for hints as to how t-companies should go about becoming e-companies.

Figure 12 is a schematic diagram of the process of buying a house. A whole series of players—ranging from magazine publishers, real estate agents and building ma-

terials manufacturers to equipment manufacturers, financial service companies and moving companies—are involved, each being remunerated for adding some more value. Let us look at what happens to this in the world of the net business.

Figure 13 is a rather extreme redrawing of Figure 12. The net business players do a thorough analysis of the process of buying a house and identify all the customer's needs, thereby blocking off the t-companies' business. After capturing these needs (see Figure 13), the infomediary and the sales agent then pass the customer on to the purchasing agent and the e-business enabler (or service aggregator). Meanwhile, all the existing t-company players simply fade into the background, becoming suppliers of goods and services to the net business players (or dot-coms).

Let us assume, for example, that a company has been an equipment manufacturer. In the world of the net business a company should never label itself. There is little point in trying to establish the most favorable position for itself in its existing business domain or trying to hold on to a particular bit of added value, as it will only find all its profits disappear.

In a situation such as that illustrated in Figure 13 where new players come along and snatch the existing players' added value, the sensible thing for a company to do is to see its position in a broader perspective and try to reposition itself near the customer as a purchasing agent, for example, or, even nearer, as a sales agent. This is not to say that a company should abandon its core competence. Rather, it should reconsider how it is going to make a profit on this battlefield and reposition itself in a bigger value chain.

Figure 12. Example of a Business Process: Purchasing a Home

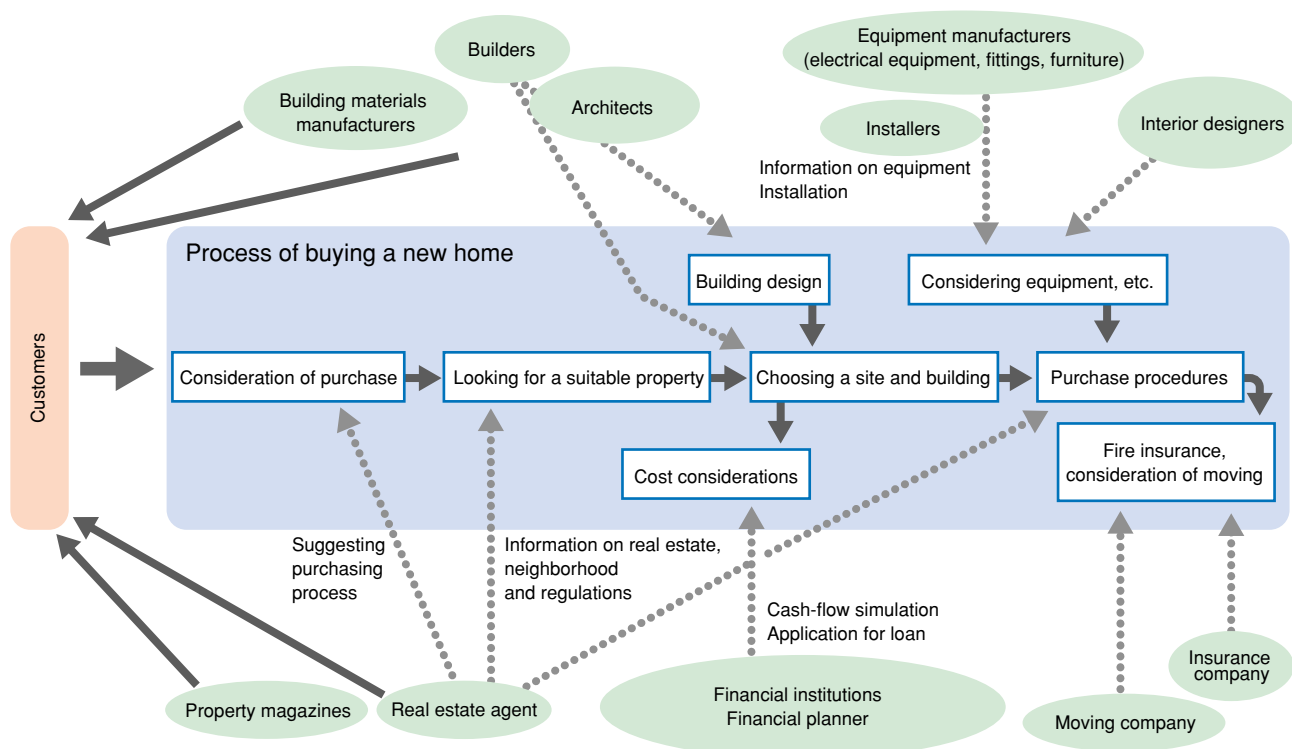
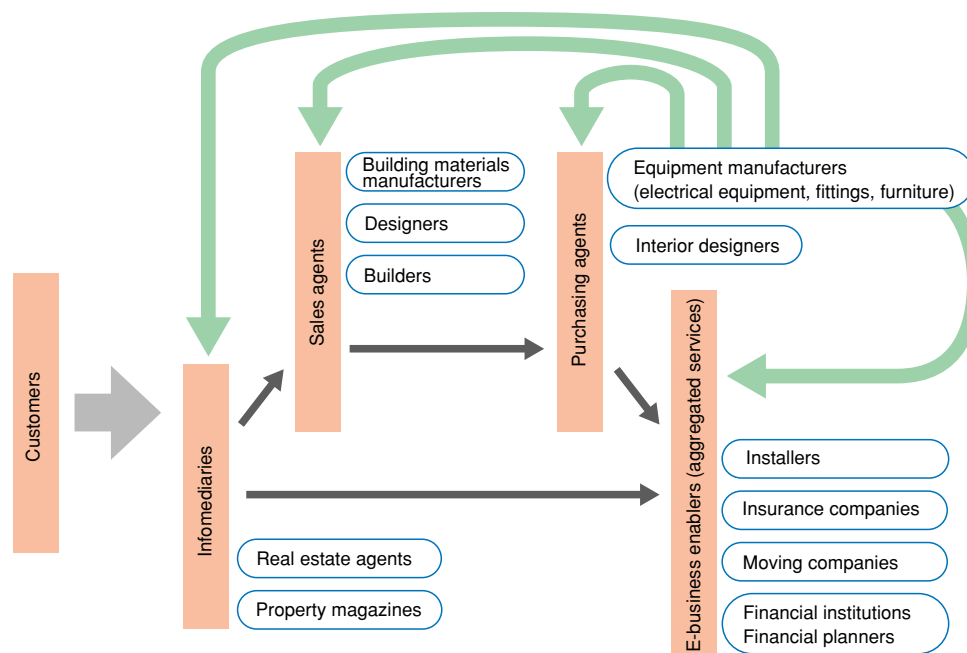


Figure 13. Enlarging the Company's Position



5 Become an E-Company!

In order to survive on the net business battlefield, t-companies will have to become e-companies. In this final section, we shall consider how a company should go about this.

In Figure 9 the net business is shown as a battlefield where e-sales, e-marketing and e-communities are deployed. In order to become a contender in this struggle, however, companies have to reform their own business processes and existing demand-and-supply chains.

On the net business frontline, companies need to have an overview of the value chains in their industry and reposition themselves in terms of how they are going to create added value. For example, they should aim to be diversified enough to be involved in all the value chains in their industry—whether upstream or downstream. In other words, their new business domain should be that of a service aggregator who creates value for customers and tries to improve the quality of the services offered them.

The net business world is awash with information, not all of which is accurate and much of which tends to become obsolete very quickly. Business models that were successful one month can seem quite run-of-the-mill the next. A company that thought it understood its customers' needs can find itself becoming a mere supplier in a very short space of time. In the initial stages, net business planning tends to be based on intuitive forecasts and expectations. Time is therefore of the essence, as indicated by the term time to market.

The following are some rules of thumb for companies considering entering the net business:

(1) Don't think too hard before you decide to take the plunge.

- (2) Once you do take the plunge, revise your business model regularly. If your rivals look like they're catching up, be prepared to reposition yourself radically.
- (3) Keep a close eye on what your rivals are up to. If their business complements yours, form a partnership with them as soon as possible.

Managing an e-company requires much firmer leadership than managing a t-company. Such a leader should take a good look at the company's customers and assemble staff who are keen to do the job and provide as efficient a service as possible. The leader also needs to be dynamic and place more emphasis on "action and correction" than "planning." The most important attribute a Japanese t-company needs at the moment is the ability to "conceptualize" changes in Japanese industry. NRI's consultants, who have been involved with Japanese industry ever since the company was founded, would also like to play an active part in this endeavor.

- (1) See Tadao Kagono, "Kyoso Yui" no Shisutemu ["Competitive Advantage" Systems], PHP Shinsho, 1999.
- (2) Amir Hartman and John Sifonis with John Kador, *Net Ready: Strategies for Success in the E-economy*, McGraw-Hill, 1999.

Hiroshi MATSUNO is the general manager of NRI's Management Information Consulting Department and a specialist in the design of management and business systems, business process innovation, and strategies for e-business.

As a leading think-tank and systems integrator in Japan, Nomura Research Institute is opening new perspectives for the 21st Century through creating intellectual property for the benefit of all industries. NRI serves domestic as well as overseas clients both in the public and private sectors through knowledge creation and integration in the three creative spheres of “Research and Consulting,” “Knowledge Solutions” and “Systems Solutions.”

With the opening of the new millennium, the world economy is facing rapid structural changes led by the dramatic growth of IT industries and the rapid expansion of worldwide Internet users—the challenges of which require new concepts and liberation from outdated systems. As one of Japan’s top solutions providers, NRI is dedicated to equipping its clients with strategies for success in this difficult environment through providing the best in knowledge resources and solutions.

NRI Papers presents selected works of NRI’s 3,000 professionals in its worldwide research network. The mission of ***NRI Papers*** is to contribute new ideas and insights to business management and future policy planning that are needed to overcome many of the obstacles before us.

All copyrights to ***NRI Papers*** are reserved by NRI. No part of this publication may be reproduced in any form without the prior written consent of NRI.

Inquiries to: Editorial Section I
Corporate Communications Department
Nomura Research Institute, Ltd.
E-mail: nri-papers@nri.co.jp
FAX: +81-3-5255-9373