Internet Phase 2: Positioning for success

Overview
The initial integration of the Internet to business has taught some important lessons relating to innovation, service management, organisation and integration. Application of these lessons will be critical to the success of the next phase of the Internet.

Introduction
The first phase of Internet has identified issues, provided valuable lessons and challenged assumptions about how technology is introduced, integrated and exploited by business.

In the following sections some of the areas important to the second phase of the Internet are looked at.

Technology Introduction
The first phase of the Internet brought to light interesting situations in the dynamic relationship between business and technical functions.

This phase of the Business Internet can be characterised as being driven by technologists on the basis of technology and its efficiencies. There was a significant lag in the business understanding of the service, quality and value potential of the emerging capabilities. Many businesses were seduced by the technology and the hype. This led to ill-considered initiatives that proved to be disruptive, failed to deliver the promised benefits and, in some cases, reduced competitive capabilities or brought business failure.

Over time, as business developed an understanding of the service implications of the technologies, they generated demands that often exceeded the actual capabilities of the technologies. This inability to deliver the promised benefits was generally the result of difficulties in integrating the new Internet technologies to the existing applications and infrastructure; business processes and operational environments required; and business environments.

The tensions between technical and business functions were a core difficulty in the integration of early Internet technologies to existing businesses and processes.

For the next phase of the Internet it is important for organisations to have an integrated technical and business team responsible for a comprehensive analysis of the impact of new technology. This team should be tasked with the lead position in managing the implementation of new capabilities to functions, processes and procedures.

By implanting this team an organisation generates a core set of knowledge and experience available to manage expectations, guide process change, provide competent advice and monitor business impact and return.

Service Channel Management
A major assumption of Phase One was that there would be a rapid and radical elimination of traditional channels of service provision.

That assumption was based on a calculation that the efficiency and facility of Internet use would convince users to change channels and would provide clear benefits to them.

However, this failed to happen. What was missing from the equation was an understanding of the innate conservatism of users in relation to changing to new channels and services.

Users have a cost of change when moving channels. This is generally reflected in a learning time investment, new tools introduction and time to understand the value proposition. Many
users are suspicious of businesses introducing new channels or services.

Where a business is unconvincing in their explanation of the future benefits to the user, there will be a suspicion that the real motivation is supplier not user benefit.

This can leave the business with an investment case based on unfulfilled assumption as to channel transition rates and the associated returns/savings that this would have brought.

User behaviour has emerged as a key variable in the successful exploitation of new technology and channel management.

Users have continued to access services via the traditional channels. Interestingly users have adopted the Internet as an additional channel of information access and support rather than as the primary channel of commercial interaction.

It is only in the area of digital products that the Internet has established itself as the primary channel of trade due to its speed, efficiency and relative value enhancement.

As a result businesses have had to maintain existing channels whilst introducing the Internet-enabled channels.

This has placed a number of additional challenges before them. The main one is ensuring similar and equivalent service value across the multiple channels.

The establishment of service level consistency across all the channels ensures that the core offer is fulfilled irrespective of which one is used.

Once established, the additional value of the new channels can be exploited to encourage user transition at their own pace. Forced migration is likely to lose customers whilst value-driven migration is likely to increase business retention and increase acquisition opportunities.

It is essential that businesses analyse and understand the unique channel value proposition the user perceives. These values can include usability, feature richness, security, familiarity, access, geographical scope, product support, information availability, semantics, process flow and performance.

From this analysis emerges the channel value proposition. The design of new channels can then be positioned to replicate existing values and / or position the channels with additional value designed to encourage migration.

Once this is in place, the technical design can be created to achieve the service consistency, access, visibility, cost repositioning and enhanced usability.

During design and testing the marketing and sales materials can be designed. These should provide implicit or explicit value-based reasons for users to trial and then use the new service channels.

**Channel Elimination**

Elimination of a service channel should be managed in the same fashion as service channel introduction.

Extensive migration from an existing channel will eventually force consideration of the viability of the impacted channel.

Here a business should look at the residual users, their value in business terms, costs of channel maintenance, comparative cost of service unit provision, potential for channel revaluation, market trends and future strategic business relevance.

A business should analyse the consequences to the entire business environment. Discussions and briefings should be carried out internally and with users. A roll in plan should be created
and value-based marketing and sales materials created to ensure that the remaining channel users are alerted, briefed, encouraged, guided and supported in the period up to channel termination.

Channel elimination is still rare but is a management skill that is critical to ensuring business retention.

Skills and Organisation
One of the areas of greatest challenge in Phase One was in the integration of the Internet personnel, skills and processes to established organisations.

Central to these difficulties were: the speed of innovation; rapidly expanding skill demands; scarcity of personnel; rigid and ineffective decision making; market response expectations; and the relative devaluation of traditional skills and personnel.

Many businesses sought to run their Internet or E-Business initiatives as separate entities or functions. This proved problematic as they drew personnel, budget and skills from existing entities, diverted management time from core business issues and duplicated many processes and functions.

Others businesses faced a severe brain drain to external start-ups. These companies were initially more attractive in environment, career and earnings for skilled staff.

Many businesses succeeded but then encountered business integration and transition difficulties with the deliverables from the " E-group ".

When new methods of service access, management and operation became available, many businesses began to encounter resistance from existing service groups.

Slow integration and the impact of the lower than expected user uptake had a major impact on the credibility and perceived value of the new deliverables. Formal and informal internal resistance helped undermine many good initiatives.

Some businesses swung rapidly away from the new technologies, services and business potential. This happened when it became evident that the initial simplistic approaches failed to deliver the time to market and commercial benefits core to their business justification.

The ongoing danger of this reversal is that such businesses may fail to adequately invest in future technologies and be immediately disadvantaged in the next phase.

To position for the next phase a business must be able to establish the appropriate business, technical and transitional strategies for emerging technology based opportunities.

To achieve this they must look to provide an integrated view of the value of their existing business propositions, services and capabilities.

They must ensure that existing groups, functions and skill sets are intimately involved in the generation of an evolutionary strategy of technology investment and introduction. This evolutionary approach allows both the internal structures and the external user community to be managed in terms of expectation, value change, timing and transition.

Internally this approach allows the business to develop an environment in which skilled personnel feel that they are valued and can expand their skill sets in a progressive environment. This can assist businesses in resisting future brain drain.

Externally it allows businesses to manage user and financial market expectations in the period up to and beyond delivery of the new capabilities.
Returns to the Business
Many of the posited returns on investments in the first phase failed to be fully realised.

This occurred because of the incomplete understanding of the business implications, time to market difficulties and classic inertia of the business environment and users.

Investment models based on the potential impact of the new capabilities often failed to take account of the parallel costs that emerged due to internal and external resistance to channel migration.

In addition the overhead costs of development and integration were underestimated, as businesses failed to realise the premium that was emerging on very scarce skill sets required to manage and develop the new capabilities.

Replacement costs of personnel lost to other businesses only emerged as a key factor later in the cycle. This had a severe impact on many business cases related to the first phase.

In a number of businesses, the impact of late delivery or the inconclusive impact of deliverables on the business had an impact on share price and investor confidence. Businesses announcing their “transformation” to an “Internet” or E-Business enjoyed a stock boost that in most cases failed to be sustained.

The failure to sustain the premium value stock valuations was a result of a number of factors. These included: increased investor sophistication in analysing the potential impact of Internet technologies; failure of businesses to achieve business returns; spurious media analyses of Internet difficulties; impact of market saturation for Internet Infrastructure equipment; and the concomitant damage caused by the rapid devaluation of pure play Dot Com businesses.

Recovery has proven harder for these businesses than for businesses that took a less aggressive adoption stance in the first phase. These businesses benefited from the development of a hybrid capability that balanced the needs of retention and future technology facilitated business expansion.

For the next phase businesses should position capability enhancements as evolutionary processes. These should be analysed and business justified in relation to realistic costs and benefits from all areas of the business.

Lessons from Phase One illustrate that the Internet can deliver large real benefit only if it is part of a business model that includes present business maintenance, managed services, evolutionary channel capability, user transition management and realistic Cost Benefit calculations.

Businesses should avoid considering and justifying Internet investments on any criteria other than those that underlie their normal business investments. To do so can mean that the measures and metrics across capabilities and services are mis-aligned and not cross comparable.

It still remains unclear whether the billions of Euro / Dollar investments made across all businesses, in Phase One, have generated returns to even cover the investment let alone make an appreciable contribution to sustainable corporate profits.

In considering any future investment in new Internet technologies or capabilities, a business must identify if the return from previous investments has been realised or is delivering to the business case schedule. Should the returns be slow or unrealised the focus should be on realising it prior to or as part of any future investment cycles.
Conclusions
Phase One of the Internet has proven disappointing for many businesses because it was over sold, under analysed and badly positioned in relation to evolving the business models.

To avoid this in the next phase businesses should:

• Create a joint Business Technical team to identify and analyse technology opportunities. They can also serve as a resource in support of introduction and monitoring of technologies.

• Analyse and understand the value of each service channel to internal and external users.

• Create an integrated plan for the integration of any new service channel technology.

• Establish consistency across channels as an essential prerequisite to maintaining user satisfaction.

• See Service Channel elimination as a critical management skill.

• Manage Service Channel elimination needs as carefully as channel introduction.

• Create an organisational environment that maintains and re-values the critical existing skill sets whilst integrating new skills, personnel and initiatives in a non-disruptive manner.

• Manage user and market expectations carefully to avoid customer defections and market value fluctuations.

• Appraise and evaluate the introduction of new channel technologies using the same metrics as existing channels.

• Make real quantification of returns only where they include the costs and benefits from all impacted business areas.

• Refocus prior investments that failed to deliver benefit in order to at least recover their investment and maintenance costs.