

Competitive Strategies for... The New Economy

Scale is diminishing

as a source of advantage
as more costs become
variable and as the
Internet and Intranet
connectivity yield
order-of-magnitude
improvements
in efficiency.

EASTON CONSULTANTS / "Strategy in an Internet World"

The Management Consulting
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Competitive Strategies for the New Economy

Easton Consultants

Our firm helps clients forge successful competitive strategies for the new economy. Founded in 1984, we have worked for large and midsize U.S. and European companies in a wide range of industry and service categories to help them achieve revenue and profit growth. Our firm has developed special expertise in financial and information services, publishing, automotive and energy utilities.

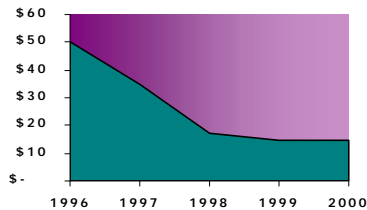
We assist companies for whom the increasing value and velocity of information, coupled with the explosive possibilities of electronic commerce, are playing a vital role in service creation, delivery and marketing. These companies face changes that are creating a "new economy" in which many of the old paradigms for business success no longer apply. Prospering in the new economy requires new strategies.

Our Invitation

The new economy poses many challenges for companies that fail to adapt to it and vast opportunities for the ones that understand it. We would welcome the opportunity to discuss how Easton Consultants can assist you in forging strategies that exploit the new environment.

Characteristics of the New Economy

Online Trading



Average Commissions, 1996-2000

The massive shift now altering the rules of business is known by various names: the information economy, the network economy, the knowledge economy, the new economy. We like the term "new economy" because it encompasses all the dislocations that are literally reshaping the business landscape.

This new economy presents challenges for virtually all businesses, as well as tremendous opportunities for competitors that understand how the new economy differs from the old.

What are some of the new realities?

- Product life cycles are increasingly measured in months, rather than years.
- The best products become both better and cheaper each year.
- Customer price resistance is a way of life in even mature businesses.
- Continuous-loop information enrichment—about markets, customers, suppliers, and competitors—plays an ever-growing role in decision making.
- Costs that have to do with chips, communications, calculations, or transactions are falling geometrically.
- Most existing knowledge, including most operations, marketing, and product-development experience, is quickly shared across industry competitors.
- Ubiquitous and cheap connectivity and information access via the Internet is creating new electronic distribution channels that are both complementing and displacing old ones.
- Free movement of information from country to country is creating borderless markets increasingly unfettered by physical or regulatory barriers.
- Integrated companies and industries are deconstructing and the resulting parts in the value chain are becoming stand-alone businesses.

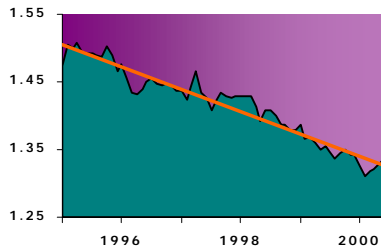


—Kevin Kelly, *Out of Control*

Companies that understand these realities and recast their strategies in response to them will thrive. Those that continue to play by the old rules in the new economy will not.

The Changing Competitive Landscape

Retail Inventories



Inventory to Sales Ratio, 1995-2000

"...cheaper stuff is part of an inexorable trend brought on by silicon, computers, plastic, and globalization-and it's forcing us to rethink the ways we compete"

—EASTON CONSULTANTS, "Pricing Paradoxes"

In the new economy, speed, flexibility, intellectual capital development, and networks become the basis of value creation as connectivity and interactive technologies pervade all business activity. At the same time, traditional strategic assets such as fixed capital and the economies of scale in production that once accompanied them become much less important.

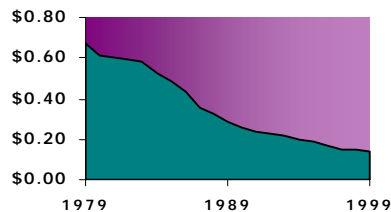
In the new economy companies and products increasingly serve global markets. An important element of strategy becomes deciding which activities and assets can be conducted or managed best centrally vs. which are best handled or managed at the local level.

In the new economy, industries and companies that were once integrated are now becoming virtual as their parts become plug-and-play. As a result, discrete activities in the value chain—such as transaction processing, call-centers, paper handling, and some manufacturing—become stand-alone and are free to migrate to the lowest-cost providers. Once these core activities are no longer central to knowledge creation or network development, these businesses see their economic profits competed away.

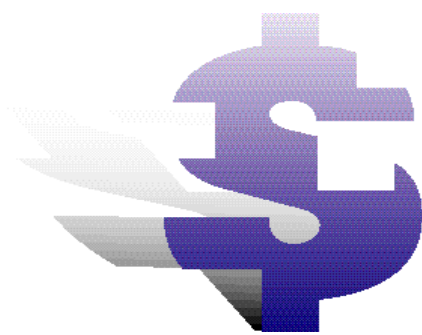
In the new economy, opportunities to deliver superior value to customers—and thereby earn superior returns—are shifting to knowledge-developing activities. Unlike relatively static investments in capital equipment and process technology, knowledge investments must be continuous and unique to be effective. Moreover, underlying value creation potential relates directly to both the rate of knowledge replenishment and the degree of knowledge uniqueness a business is able to sustain versus competitors. Also, knowledge-developing activities are more leverageable, creating increasing returns as the business expands.

Our Services

Interstate Long Distance



Price Per Minute, 1979-1999
(1999 Dollars)



Entire industries have embraced employee empowerment, business process reengineering, and the mantra of customer responsiveness. But cost reduction has often resulted in value removal as the new techniques intensified competition but provided little durable leverage.

—EASTON CONSULTANTS,
"Strategy in an Internet World"

Easton Consultants created and continues to refine and adapt an effective analytical framework we call *Sources of Advantage*. With this tool, we identify and evaluate those activities and assets, including information and knowledge development, that are most leverageable and drive the most effective and sustainable competitive strategies. Using this framework, we help clients develop successful strategies for the new economy in three general levels:

- *Competitive Strategy*. We help clients achieve superior returns vs. their competitors by determining where, when, and how much to invest in their business. This involves conducting or facilitating analysis of the businesses' markets, systems, partners, and competitors to identify competitive vulnerabilities, opportunities and strategy options.
- *Acquisitions, Mergers, and Strategic Alliances*. We help plan and implement acquisition strategies, including searching for and screening candidates, making initial contact with the selected companies, conducting due diligence and creating programs for acquisition integration. These assignments focus on building strategically defensible positions in the client's industry, calibrating price paid to value created, and managing risk through successful execution. Our approach to identifying value and hidden potential is rooted in use of *Sources of Advantage* techniques and new economy insights.
- *Marketing*. We work with clients to adjust and optimize their marketing mix to exploit the realities of the new economy. Engagements have centered increasingly on creating new channels (including electronic ones) and realigning existing ones to benefit from customer information and knowledge capture, segment and product profitability analysis and increasing mass customization. We believe that electronic commerce is rarely simply an additional channel, but rather a tool that can create a sustainable competitive advantage when woven into current marketing activities.

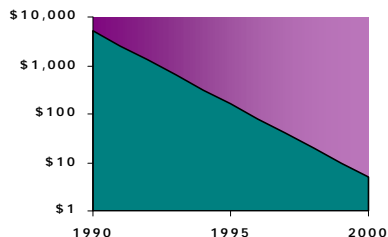
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Competitive Strategies for the New Economy

Case Study

Competitive strategy: Reconfiguring a service bureau

Data Storage



Cost Per Gigabyte of Storage, 1990-2000

"New sources of advantage exist, but not in the familiar locations of the past. Most of them now involve the pace and sophistication of intellectual capital development and decisionmaking."



—EASTON CONSULTANTS,
"Strategy in an Internet World"

Suffering two years of losses, the number two player in a highly competitive transaction-processing business serving retail merchants coveted the high revenue growth of the leading competitor. Our client, a division of one of the world's largest banks, had invested heavily in customized services and systems to attract its newest customers and recapture market share. The intent was to spread underlying fixed costs over higher transaction volumes. However, these investments, and resultant growth, led to deeper losses.

Easton Consultants worked closely with senior managers in sales, account management, systems development and operations to develop a comprehensive economic model of the business. Analysis indicated that with declining hardware and development costs, the business' fixed costs and its ability to leverage them through scale had been highly overestimated.

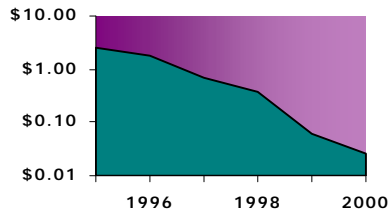
Extensive competitor analysis and market research among retailers demonstrated that the client's customization efforts had been wasted: the market leader had succeeded by offering a choice of standardized service modules that allowed customers to tailor the core offerings to their specific needs. Other "bells and whistles" bundled into the clients offering proved to have far less value to customers than the costs they generated.

We helped the client standardize its service offering, introduce à-la-carte pricing, and eliminate one-off processes that had been developed to support customization. The result: the client reduced costs by more than \$20 million annually, achieving a lasting turnaround to profitability and returns that exceeded its parent bank's corporate hurdle rates.

Case Study

Acquisitions, mergers, strategic alliances: The virtual utility

Data Connection



Monthly Cost of a Kilobyte
Per Second Connection, 1995-2000

**The boundaries -
geographical,
informational,
organizational - between
customers, suppliers, and
competitors are
increasingly blurred. The
new business
environment is creating
inadvertent competition
and fostering unexpected
alliances.**

—EASTON CONSULTANTS,
"Strategy in an Internet World"

A midsize energy distribution company faced a fundamental regulatory change: factor cost increases could no longer be passed automatically to customers, but shareholders could now realize benefits from cost reductions and improved organizational effectiveness.

We facilitated a strategy review encompassing the entire business that placed the company's traditional activities into three categories:

- Those the company would continue to provide internally within its regulated operations.
- Those in which internal operations were not competitive compared to a third-party provider; these would be outsourced.
- Dynamic activities, in particular customer billing and information systems, that required substantial industry-wide technology investment and represented a new service business opportunity that would leverage this technology.

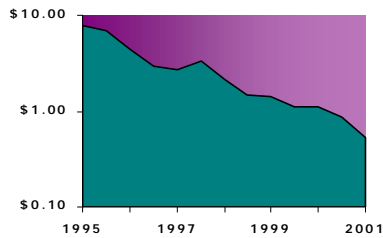
To pursue the dynamic activities, the company recognized it needed information technology partners versed in both systems development and integration, and familiar with service bureau operations. We identified and evaluated potential investor/user partners (other utilities) for scale and IT partners well positioned to deliver on the promise of the new business. With a straw man business plan in hand, the utility initiated negotiations with the most promising targets. The result is a nimble joint venture, well positioned to compete against established software vendors or in-house IT departments of other utilities.

Case Study

Marketing:

Developing a partner information channel

Processing Speed



Cost Per MHz, 1995-2001

Lots of companies will eventually be far smaller because using the information highway will make it easy to find and work with outside resources.

Big

is not necessarily good when it comes to business.

—Bill Gates, *The Road Ahead*

A global computer hardware and services giant determined that its salaried sales force was no longer able to drive the company's sales in its traditional vertical markets. A changing product line and more knowledgeable customers increased emphasis on direct-to-customer channels for small systems and on a global network of business partners for large systems.

These partners, who numbered in the tens of thousands, demanded faster and more accurate delivery to respond to their own customers' bidding and implementation time frames. Our client viewed the new economy phenomenon as a major opportunity to create a stronger competitive position for both itself and its partners.

The company built a comprehensive electronic channel, enriched beyond EDI, to service the product information, ordering, pricing, and order tracking needs of partners. To define the content and operational specifications of the system and to determine how it would support both partners and in-house channels, Easton Consultants conducted critical research and analysis among the business partners, the company's principal competitors and in other dynamic business-to-business markets. Our recommendations have been accepted by all parties as mutually agreeable standards for the entire industry.

The benefits of the new electronic commerce approach go far beyond cost reduction. The new channel has created an information advantage for all connected parties by providing insights and therefore strategic advantage to product developers, production schedulers, sales managers and personnel responsible for marketing promotion and pricing.

How We Work With You

The word "boutique", connoting custom-tailored service, describes our approach to strategic consulting. Unlike many full-line consultancies that rely on templated approaches, we treat each assignment as requiring a unique combination of research, economic analysis and client-consultant interaction and communications.

But we also bring tools to the task that add immediate efficiency and focus. We use our Sources of Advantage framework as an organizing principle in identifying and evaluating strategic options and we review all elements of a business, its markets, and its competitors with an eye to the effects of the new economy.

Because we specialize in strategy in a number of vertical markets, we can offer a range of perspectives in any specific assignment. This serves us well when encountering crucial strategic issues.

Common elements to every assignment maintain a standard of performance we consider to be among the highest in consulting.

- *Fact-based:* Virtually every assignment involves creation of an information base—about your markets, your business system, cost dynamics, technology and competitors. We take no industry “rules of thumb” for granted, nor do we rely on off-the-shelf research.
- *Decision oriented:* We work closely with you to clarify the critical issues and outline your strategic choices. Our work is oriented toward creating actionable options and securing participation and consensus among the key constituencies within your organization.
- *Working from the market back:* Creating value for customers is at the root of shareholder value. Virtually all of our assignments involve original research among current and prospective customers—what we call “working from the market back.” We use a combination of approaches, always careful to calibrate customers’ stated preferences with their actual behavior.

At Easton Consultants, we welcome the new economy’s challenges as an opportunity to find new ways to compete in your existing business, or to help create a new one. Call us.

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