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by

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How Fast Is Net Fast?

On the Internet, companies have to be ready to change goals or strategy virtually overnight

If you think all this talk about Internet time is just a lot of hokum, you probably haven't heard of startup Ac-company Inc. The San Francisco online buying club went from an idea among friends during a mountain-biking weekend to a full-fledged company, complete

with business plan, startup money, and launch—in just three months.

Not fast enough for you? Check out home-furnishings startup GoodHome.com. It went from idea to business plan to a first round of venture-capital funding to a completed merger with a potential rival—and then, gulp—to its Sept. 29 launch in just 10 weeks. CEO Doug Mack used to take longer than that to read a book. How does GoodHome.com do it? "We don't sleep," says Mack, only half-joking.

CUSTOMERS RULE. The word from the Silicon frontier is that you can kiss your five-year plan goodbye. Or, for that matter, any plan that ends in -year. And that goes for the Rust Belt, too. Some companies are writing and rewriting strategy every

ary. Net-speeds force all sorts of cultural changes. Hierarchies flatten out. Budgeting cycles get compressed. Decision-making gets pushed out to the front lines. And customer expectations, not the executive board, guide the next big project.

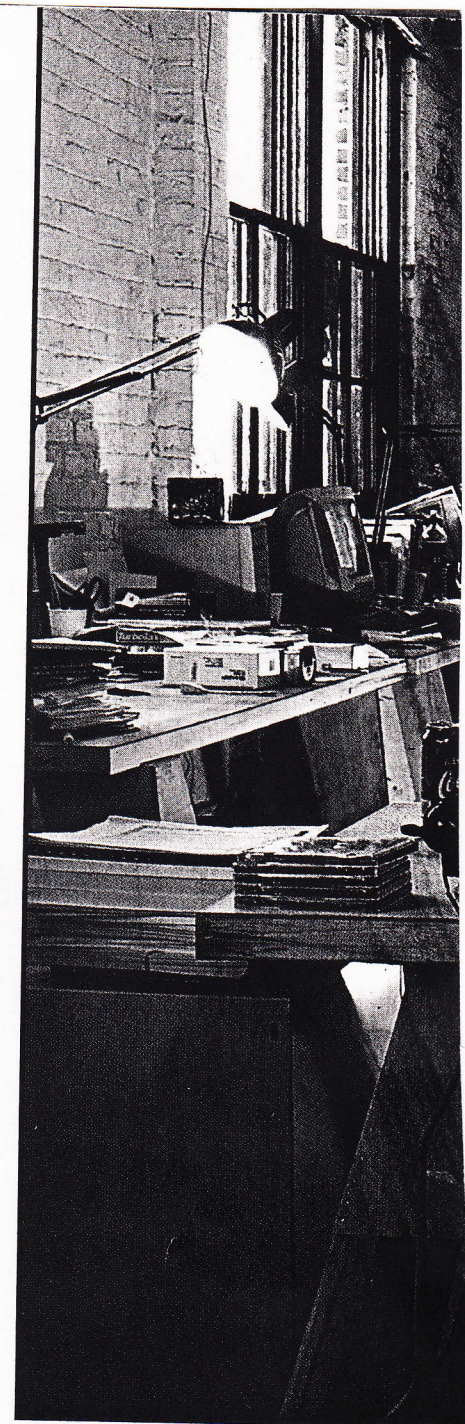
What's driving all this zap? Certainly Web economics is a factor. As costs plummet for new entrants in businesses such as retailing or finance, new competition springs up faster and forces everybody to counterpunch constantly. But a bigger factor is how the Net puts companies in closer touch with customers, both through direct sales and by soliciting regular feedback. "Strategic planning used to be based on a build, then sell model," says John M. Jordan, director of e-commerce research

Says one venture capitalist: "It used to be that the big ate the small. Now the fast eat the slow"

quarter, or even every week—or else. "It used to be that the big ate the small," says Geoff Yang, a partner in the Menlo Park, Calif., venture-capital firm IVP/Redpoint Ventures. "Now the fast eat the slow."

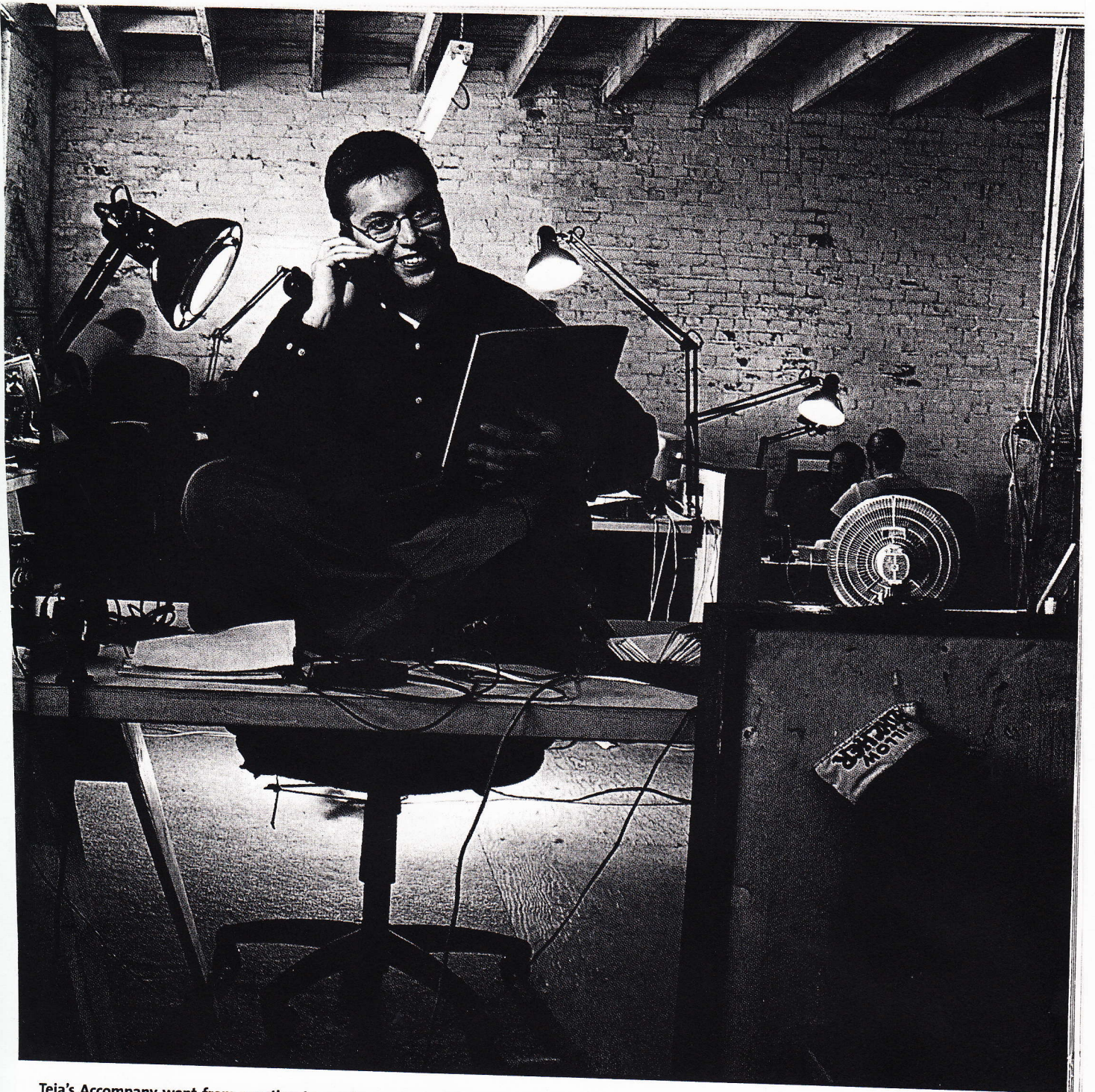
The impact on planning is revolution-

ary. Now, he says, that's out the window. "Customers are calling the shots, telling companies what they want, and companies have to respond to those desires or lose out. It's a whole new way of thinking about strategy."



Think flexibility. "It's the difference between a bus, which follows a set route, and a taxi, which goes where customers tell it to go," says Stephan Haeckel, director of strategic studies at IBM's Advanced Business Institute. You can get to the party either way, but the taxi is more likely to get you there before the caviar runs out, especially at rush hour.

Coping can be costly. Cisco Systems Inc. has had to keep pace with any number of customer whims and technological innovations in the network hardware business over the past few years. By using its richly



Teja's Accompany went from a notion to a going concern within three months

valued stock—Cisco shares are priced at 114 times earnings—the company keeps up largely by acquisitions. Just in the last two years, it has bought some 22 companies, and 18 before that, remaking its entire strategy almost annually.

Speed is also costing Enron Corp. The energy company's new power facilities in the Midwest are "way more expensive than a rigid powerplant," says Enron President Jeffrey K. Skilling. But they will allow the company to add or subtract power from a grid in 20 seconds flat when demand—or price—changes suddenly. Enron controls

the plants from its trading floor, so that if gas prices drop by a penny and power prices go up by a dollar a megawatt hour, it can flip switches immediately to respond.

For most companies, the only way to move that rapidly is to retool management. A popular approach is to get fast in much the same way troops prepare for battle: Plan simultaneously for a variety of possibilities. At Solutia, Monsanto's chemical spinoff, strategists do scenario planning. That is, they plan for four different short-term outcomes for each initiative, setting up predetermined "signposts" to in-

dicade when it's time to take another course. This, says chief scenario strategist Mitch Pulwer, enables Solutia to abandon a strategy or alter it in hours or days.

The planning came in handy a year ago, when Solutia was considering whether to resell another producer's chemical used in computer-chip production. "We thought that because of our expertise, we'd have a wonderful new business opportunity here," recalls Pulwer. But at the first inklings of a lackluster market for chip memory—one of the company's pre-determined signposts for danger—Solutia abandoned the project in hours. "In the past, we'd have had

STRATEGIES AT NET SPEED

The 5-year plan is dead, and so is the 3-year version. In the Information Economy, many companies are now writing—and rewriting—the strategic plan every quarter. Here's how some firms are able to turn on a dime:

Scenario	At Solutia, Monsanto's chemical spin-off, strategists now plan for four different short-term outcomes for each initiative, enabling them to change and act fast when they have to.
Reality Checks	Sun Microsystems President Ed Zander holds weekly "whack-o-meter" sessions, among the company's key decision-makers to assess ways that rivals might "whack" Sun in the marketplace. That sets the stage for quick reactions. "It helps us think strategically," says Zander.
Communication	At Accompany, a Silicon Valley-based online buying club, executives broadly communicate strategy-shifts within hours of making decisions in group e-mails and meetings, "so that everyone feels invested in the outcome and ready to fly," says CEO Jim Rose.
Hire for Speed	Fill jobs with people who thrive on change and ambiguity. At Accompany, "we're not interested in people who can only deal in black and white," says Salim Teja, vice-president of strategic development. "They'd slow us down."
Hasten the Budget Cycle	At Ingram-Micro, the company now devises "rolling forecasts" from the financial balance sheet for five quarters out, adjusted every 60 days. And at Internet clothing startup Bluefly.com, budgeting requires weekly revisions to keep up with changes in strategy.

one goal—to make the business work regardless of what happens in the marketplace," Pulwer says.

Another technique is rolling reality checks. What's working? What's not? Sun Microsystems Inc. President Ed Zander holds weekly "whack-o-meter" sessions with key decision-makers to assess all the ways that rivals might "whack" Sun in the marketplace. That sets the stage for quick reactions.

"It helps us think strategically," says Zander. "It also doesn't let anybody get complacent."

At every company, getting up to speed starts with hiring. But as the life cycle of the average business model shrinks to two years, companies need to get even more choosy. "We're not interested in people who can only deal in black-and-white situations. They'd slow us down. We look for people who thrive on ambiguity," says Accompany co-founder and chief strategist Salim Teja.

MORALE BOOSTER. Even the sharpest people need instant communication, though. Ensuring that everyone knows of shifts in strategy or goals as they occur helps people feel they have a stake in the outcome and keeps morale high. "You can't keep people in the dark when you're moving really fast or they start thinking that change is something sinister," says IBM's Haeckel. A recent three-year study by University of Denver management professor Stephen Erbschloe found that poor communication and political infighting were the No. 1 and No. 2 causes, respectively, for slowing down change at 46 companies setting up Net businesses. Erbschloe says successful companies were able to resolve internal strategy conflicts quickly.

Companies have something else to resolve—those old annual and semi-annual budget reviews. "Many companies still want to have it both ways—a fast, flexible strategy, but in the end, they're still reporting to the boss just once or twice each year about what their goals are," says Adrian Slywotsky, a strategy expert at

Mercer Management Consulting. Net startup Bluefly.com, an online discount clothing outlet, tunes up its sales budget weekly to keep up with strategy changes, says CEO Ken Seiff. "For us," he says, "11 months is long-term planning."

Get used to the weekly concept. At Portera Systems, a Campbell (Calif.) software and e-services firm, every Monday morning executives analyze sales reports to see which

products are doing well and which ones might be cooling in the marketplace. "Every week we're changing strategy, based on what we see," says CEO Gary Steele. Customers can even request changes through feedback forms on the Web, and Portera can respond instantly. "We can change the software every couple of weeks," McDonald says. "It used to be every 18 months."

Among most companies, however, shifting into a higher gear still evokes ambivalence. Of 3,000 industry, government, and education executives who have gone through IBM's Advanced Business Institute since 1996, 70% say that constant change is the future, and 52% say there's no use predicting market behavior in the old ways anymore. "But when you ask them what they plan to do about it," IBM's Haeckel says, "their answers are all about getting better at making and selling products. They miss the point. They're in denial."

Once people get beyond the denial phase, says Haeckel, they can stop planning in the traditional sense. "You have to move from build-and-sell to sense-and-respond. It's all about what the customer wants, now, and figuring out, now, how the customer is going to get it." Can things get much faster? Plan on it.

—Contributing: Steve Hamm in New York and Andy Reinhardt in Silicon Valley

ONLINE LINK

For more on the speeding up of strategy cycles, see a Q&A with Stephan Haeckel, director of strategic studies for IBM at ebiz.businessweek.com.

