The New Rules: Mastering the Challenges of the New Economy

We are at an inflection point, emerging into a New Economy, in which developing and managing intangible assets will drive many businesses. Rapid access and digestion of information concerning critical business issues is fast becoming a battleground on which companies are either destroyed or fortified for explosive growth. According to a survey of CEOs attending the 1998 Business Week Symposium, the majority of respondents agree that a New Economy is definitely emerging, with less than 5% feeling this is not the case (Figure 1).

The information revolution driving the New Economy

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Figure 1: Is a New Economy Emerging?

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Prepared by Bain & Company for the 1998 Business Week Symposium of Chief Executive Officers
brings with it an abundance of data, but more is not necessarily better. Some companies sink in the new sea of information, while information-sophisticated companies transform the sea of data into value-added information to build a competitive edge.

New Threats, New Opportunities

These key drivers of the New Economy can offer both threats and new opportunities. Threats materialize when consumers have more information at their fingertips, and competitors have new methods to gain share. Internet-enabled free information flow has the potential to drive pricing to commodity levels, as seen by existing software which enables on-line bidding for parts procurement. Small start-ups are on the rise, as the information revolution enables nimble entrants to take advantage of new technologies that industry incumbents have not yet adopted.

The CEOs surveyed see these trends, citing the most significant impacts of the New Economy on their businesses as increased demands for higher quality standards and the pinch of lower margins (Figure 3). Some experts believe that the information revolution and globalization may result in a “tidal wave” — changing the way business is done. Bain & Company believes that for most industries, change may come like crashing Jenga Blocks™ — a game in which a tower of intersecting
blocks are stacked, then removed one at a time until the tower is no longer stable. Like the Jenga Blocks™ tower, each step of an industry’s value chain may face supplier to customer dis-intermediation or alternative forms of intermediation, where technology-savvy competitors cherry-pick the key blocks in the value-chain ‘tower,’ as well as the most profitable customers.

In this model, the good news is that each company can strengthen itself by pro-actively seeking the most attractive blocks in its industry’s supply chain and capitalizing on possible changes, rather than waiting for the current business model to topple. Opportunities do exist for those ready to act.

**Leveraged Information, Winning Strategies**

Leveraging data and transforming it into ‘value-added’ information can turn new obstacles into a competitive edge, and the majority of CEO respondents agree, believing that increased global opportunities exist in the New Economy (*Figure 3*). Preventing the crash of Jenga Blocks™ often starts with capitalizing on customer-related information. The majority of CEOs surveyed are exploiting information by improving customer service, finding new channels of distribution, targeting new customers, and capturing more customer information (*Figure 4a*). More customer knowledge enables gaining greater share-of-wallet from today’s customers, as well as acquiring new customers.

In addition, a good offense is still the best defense.

While the New Economy means customers have more information about companies, it can also provide companies with more customer information. More direct access to customers enables greater understanding of their emerging needs and desires. When this knowledge is rapidly translated into new product development, market share can be gained.

Customer data can also be used to pursue a highly segmented approach, targeting the most profitable customers, as well as finding methods to obtain improved returns from marginal customers. Firms such as Amazon.com and Dell Computer are segmenting down to the level of each individual, providing the ultimate in tailored product offerings. Commodity pricing can

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**Figure 3: Impacts of the New Economy on Business and Industry**

![Figure 3: Impacts of the New Economy on Business and Industry](image)
be prevented by using the abundance of customer information to enhance the value of your products. Providing full customer solutions which meet multiple, integrated needs, allows for complex, bundled pricing. Pricing in this way is more opaque and difficult to commoditize.

The New Economy brings additional, non-customer-focused opportunities, as well. CEO respondents are capitalizing on key elements, such as improving internal company knowledge and using technology to lower cost position. Both are necessary, given the increased competition that comes with globalization (Figure 4b).

Figure 4a: CEOs are Exploiting the New Economy to Increase Customer Contact

Figure 4b: Other Ways CEOs are Exploiting the New Economy
Developing Winning Strategies in the New Economy

The survey results are consistent with the trends seen by Bain & Company in the last few years. There are a few major initiatives that a large portion of our clients are taking advantage of in the New Economy. Winning companies are evaluating each initiative as part of their strategy development efforts.

- Lay-out each step in your industry's value chain, and determine which activities are likely to be targeted by technology-savvy competitors
- Evaluate how easy it will be to execute these new ways of doing business, then fast forward to predict the likely end-game
- Determine how critical each activity and customer segment is to your company's future profitability
- Explore both defensive and offensive actions to take, including:
  - direct customer contact to drive new product development, minimize selling and distribution costs, and optimize customer service
  - integrated supply chain management to improve manufacturing efficiency and reduce cost
  - bundling and packaging, to develop fully integrated customer solutions, rather than offering only single products with transparent pricing

In the New Economy, developing and managing intangible assets will drive many business successes. Continuous re-examination of a company's use of technology and information, along with its relationship to strategy and the overall organization must be a high priority. Managers can expect that both the risks and potential rewards involved in the information revolution will continue to increase. Is the New Economy a threat or an opportunity? Each company will determine whether it will drown in the sea of data, or create value-added knowledge to improve its strategies and gain a competitive advantage.
Bain & Company: Strategy for Sustainable Results

Bain is one of the world’s leading global strategy consulting firms. Its 2,000 professionals serve major multinationals and other organizations through an integrated network of 25 offices in 18 countries. Its fact-based, "outside-in" approach is unique, and its immense experience base, developed over 25 years, covers a complete range of critical business issues in every economic sector. Bain's entire approach is based on two guiding principles: 1) working in true collaboration with clients on customized and implementable strategies that yield significant, measurable and sustainable results, and 2) developing processes that strengthen a client's organization and create lasting competitive advantage. The firm gauges its success solely by its clients' achievements.