Trading Strategies in the New Economy

Sir Peter Bonfield
Chief Executive Officer, BT plc

Sir Peter Bonfield CBE is Chief Executive of British Telecommunications plc, a post he has held since January 1996. Before that he was Chairman and Chief Executive, from 1985 to 1996, of ICL, having become Managing Director in 1984. He joined the Board of STC plc in 1985, acting as Deputy Chief Executive from 1987 to 1990. He remains on the Board of ICL as Non-Executive Deputy Chairman. He is a non-executive Director of ZENECA Group plc, and Vice President of the British Quality Foundation. Sir Peter began his career with semiconductors and computers at Texas Instruments Inc., becoming a Division Director in 1974. He is a Fellow of the Royal Academy of Engineering, the Institute of Electrical Engineers, the British Computer Society and the Chartered Institute of Marketing.

The "information revolution" is a much-used phrase. But is it a valid one? Does what is happening today deserve to be described as a revolution?

If we had simply discovered new ways to carry out our existing business, the description would not be justified. But the changes underway today go much further than that.

Markets are opening at a rapid pace. And at the same time, many business activities are migrating from the physical world, the world of atoms, into the virtual world, the world of digital bits.

This enables us to do a new kind of business altogether. It more than meets the dictionary's definition of a revolution as "a great upheaval" or "a radical change".

New kinds of companies are emerging. Established companies are changing shape. New business models are being developed. Entrepreneurs and innovators are thriving. We are experiencing what can rightly be described as a 'new economy'.

Who would have guessed 15 years ago, for example, that some of today's most successful companies – the Internet portals – would have no paying 'customers' in the traditional sense, but make most of their revenues from advertising drawn to their sites by the large numbers of 'eyeballs' they attract?

Who would have guessed that companies like BT, which had been national, state-owned, telecommunications operators, would become innovators in their domestic markets, new entrants in other national markets and global players in a much wider communications marketplace formed by the convergence of information technology, telecoms, broadcasting and other industries?

Companies and governments are now rethinking their trading strategies to take advantage of the opportunities of this new economy and to make sure they are not left behind.

One approach to such a rethink is to begin by looking at the sources of the changes underway. Essentially, these changes spring from the simultaneous release of two powerful forces – liberalisation and innovation:

- Liberalisation, particularly of telecoms, has created open markets and brought choice to customers who were crying out for it.

- Innovation has brought 'open' systems that dramatically expand the possibilities of communications. Digital technology can convert all kinds of information into a common format. The information can be parcelled up and addressed to anywhere in the world using TCP/IP – the protocols of the Internet.

The speed of such transmissions increases all the time, driven by such developments as dense wave division multiplexing – which makes it possible for a single strand of optical fibre to carry multiple streams of data.

The open systems and the open markets provide the power. The toughest challenge is to have the open minds that are needed to make the most of it. Understanding that you have potential access to unlimited numbers of customers or that you can deal in very large volumes of information is only half the story. The trick is to find a distinctive way to apply that power.

One of the most important features of the communications revolution is the 'virtualisation' effect. Anything that can be converted into bits – news, music or mail – will increasingly be conveyed in digital, or 'virtual', form. Only those things that can only consist of atoms – furniture, cars or food – will always have to be transported physically. Goods that we once thought of as physical – CDs, newspapers, videos, even telephone directories – can now be handled in the virtual world.

The question for business is:What can we 'virtualise' today? Customer transactions? Procurement? Internal communications? Billing systems?

The interface with customers is an obvious starting point for many businesses. Ten million people worldwide have already bought or sold products or services on the Net. And given the benefits for buyers and sellers, the figure is bound to multiply.

It costs an estimated US$8 to sell an airline ticket by conventional means, while on the Net it costs US$1. A banking transaction that costs US$1.08 through traditional channels costs just 13 US cents online.

BT's website now has some six and a half million 'hits' per day – and the most popular areas are the online services which enable customers to view their bills, look up phone numbers through the online directory or change their 'Friends and Family' calling circle numbers.

These are all examples of doing existing business in a new way, thanks to the Internet. But things are moving on. The Internet is also providing entirely new business opportunities.

For example, music and movies can be sold direct from Internet retailers to consumers, without the need for a physical store. PC buyers lap up the chance to order PCs online, configuring their computers from the components offered by the supplier. And customisation does not end with high-tech goods. In the UK, an 'e-bakery' is doing a roaring trade by enabling its customers to specify the ingredients they want in their cakes.

BT is working with customers across many sectors – from construction to health, manufacturing to leisure – to create applications that enable them to add value to their businesses by entering the virtual world.

Of course, not all information will always be converted into bits and bytes. Amazon.com has shown that members of the Internet population are still avid consumers of hard-copy books.

And neither does this trend mean that those who deal only in physical goods will lose out – or that the Internet has no use for them:

- it can help them display prices that compare favourably on the global market;
- it can help them reach new customers;
- it can give them a global presence for the price of a local phone call;
- it can give them a voice in the international trading community; and
- it can help them reduce their buying costs.

This last point is sometimes overlooked. In fact, despite the headlines created by online shopping, the business-to-business arena is where some of the most radical rethinking is taking place. Procurement processes are being streamlined. Buying costs are being slashed. Inventories are being reduced and lead times for purchases compressed. So-called 'indirect' procurement – covering everything from office equipment to catering and building supplies – is estimated to take up between 40% and 70% of company revenues. A 5% reduction in these costs can equate to a 50% increase in sales.

So naturally, many companies, including BT, are automating indirect procurement via the Internet or their own networks, generating substantial savings and freeing employees to concentrate on activities that add more value.

The automation of the back office offers new business prospects to companies worldwide who have the technology and the skills to undertake them.

We are seeing the rise of companies that specialise in outsourcing functions such as inventory control or

It is tempting to think that, because it is now such a high profile phenomenon, the Internet is somehow fully established. Far from it. It is growing, evolving and changing every day.

billing – functions once thought central to a company's business.

But in the new economy, different priorities apply. When millions of companies are clamouring for trade, the key assets are the ability to attract attention, a strong and valued brand and trusting relationships with customers, suppliers and partners.

Partnership is a vital factor. The infrastructure of communications is too complex for any single player to be an expert across the whole waterfront – networks, hardware, software, applications, service provision and content.

And the variety of markets around the world – each with their own established players and cultures – is such that it makes sense for new entrants to work with companies who understand local conditions and have well established businesses on the ground. This is why BT has built its global family of alliances from New York to New Delhi, Spain to Singapore.

That family includes AT&T, with whom we are working to address one of the largest and most complex markets – the market for global services.

In our Global Venture, we will offer seamless global coverage from a single source and develop a new Internet Protocol-based network to support services such as global e-commerce, global call centres and intranets – Internet style networks within organisations.

But what of governments and regulators? While companies are busy trying to work out what they can 'virtualise', what can public authorities do to capitalise on the benefits of the new economy? The simple answer is to help the 'virtualisation' process by any means possible.

Most governments in the world have now accepted the most basic imperative – to open their markets. The World Trade Organization Accord, signed by 69 countries and now coming into force, in addition to liberalisation in Europe, the Asia-Pacific region and elsewhere, is galvanising the industry, driving up quality and extending choice.

By next year, open telecoms markets will have increased fourfold in three years to cover 90% of the world's trillion-dollar market.

Together, innovation and liberalisation have created a situation in which countries are now laying down networks the way they laid down roads and railways many years ago. Only, in the virtual world, networks are the foundation of an economy, not simply one of its features.

The number of end-user devices connected to the world's public and private networks is growing dramatically. Because of a lack of fixed line facilities, wireless growth outside the US is going off the charts. China is creating the equivalent of a US Regional Bell Operating Company each year – 15 million access lines.

Governments and regulators who swim with this tide and make a priority of communications infrastructure will find their regions becoming more attractive to inward investors. They will also give their own companies a launch pad into the virtual world.

The race is also on to make the most of e-business. It is imperative that regulators allow the market a free rein here if their countries are to reap the benefits. Governments that make full use of e-business methods themselves, for transactions with citizens and suppliers, are likely to be among the most enlightened in this respect.

Innovation is critical, and anything governments can do to encourage it must be welcomed. This can mean anything from tax breaks and support for small businesses to projects that bring new products out of the workshop and into the marketplace.

The US, UK and Nordic countries have demonstrated the advantages of putting communications high on the agenda. India and Ireland are examples of countries that have invested more recently with spectacular results. In India, it is forecast that the information industries will create a million jobs by 2008, with annual revenues growing from US$262 million to US$18 billion.

That forecast reminds us that in many ways, we "ain't seen nothing yet". It is tempting to think that, because it is now such a high profile phenomenon the Internet is somehow fully established. Far from it. It is growing, evolving and changing every day. Mobile communications and e-business are also in their infancy.

The combination of liberalisation and innovation has started a chain reaction that will take business and government into a very different environment from that which they experience today.

In this 'new economy' there are many chances for established companies to renew themselves, but also for new players to shine, and for all countries and regions to develop new prospects for growth.