

## Click Starting Your Organization: How Traditional Companies Are Mobilizing for E-business



# Executive Summary

Every day, it seems, another e-business task force or swat team is announced with great fanfare, as CEOs try to exploit and extract full value from the powerful and myriad opportunities presented by the Internet. But as companies reorient themselves to capitalize on this powerful new medium, they are confronting a host of new challenges. Prominent among them are *organization* and *people* issues, the subject of this *Viewpoint*.

Based on our research, including interviews with many CEOs and top e-business executives around the world, we've identified the following key insights:

- 1. A follow-the-leader approach won't work.**
- 2. Prepare to juggle. Most companies will simultaneously pursue a broad portfolio of e-business opportunities.**
- 3. All e-business opportunities are not created equal.**
- 4. There is a method to the madness.**
- 5. Traditional companies *can* attract the talent they need.**

While the Internet presents a different portfolio of opportunities to virtually every company and approaches to e-business development vary dramatically, there *is* a strikingly consistent four-stage path that companies tend to follow. The four stages are:

- STAGE I: Grassroots** Different e-initiatives are under way throughout the organization, but there is little central coordination.
- STAGE II: Focal Point** A lead e-commerce executive is named and a centralized e-business group is formed to prioritize and organize the company's e-business efforts.
- STAGE III: Structure & Deployment** The e-business group prioritizes e-opportunities, develops an organization structure for each and begins deploying those with the most promise.
- STAGE IV: End Game** E-business opportunities are developed enough to transition to their end game structure (e.g., IPO) and compete in the marketplace.

Recognizing this process and its distinct phases is the first step in addressing the opportunities the Internet poses today and positioning one's business for the changes that lie ahead. Unique challenges, concerns, priorities and resource requirements attend each step along the path. This *Viewpoint* describes each of these stages in turn including a basic description; the objectives and benefits of each stage; and finally the challenges and signals that it is time to move on.

Just as traditional companies struggle with organization issues, so they wrestle with how to put the right people programs and policies in place. In fact, given the scarcity of Internet brainpower in the marketplace, people issues are profound. The ability to attract and retain the right talent is a critical success factor in the development of most e-businesses. As companies migrate through the phases just outlined, it is crucial that they identify the skills and capabilities they will require at each juncture and institutionalize ways to attract and retain that expertise.

By making targeted use of equity-based compensation mechanisms, crafting tailored employee value propositions and sourcing talent broadly, traditional employers can successfully compete with the dot.coms in the battle for talent, as this *Viewpoint* will explain.

## Click-Starting Your Organization: How Traditional Companies Are Mobilizing for E-business

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**T**raditional companies no longer question whether or not the Internet will impact their business. The answer is an indisputable “yes.” Nor is there much debate over whether e-business belongs on the CEO agenda. It does. Most companies even have a pretty firm grasp on what they want or need to get their e-business initiatives off the ground.

Still, the challenges in getting from here to there are considerable. As this new medium of electronic connectivity accelerates the very pace of business, chief executives wrestle with the challenge of implementing new business models in Internet time, while bringing the rest of the organization up to speed. Expedited decision making, heretofore unimaginable alliances, new performance metrics... these are among the issues they must address.

However, nearly all CEOs and e-business executives agree that *organization* and *people* issues are two of the most formidable challenges they face as they develop and execute their e-business priorities.

This *Viewpoint* focuses on these two specific challenges and addresses not the “what” or “if” of the e-business opportunity, but the “how.” How are traditional companies organizing and staffing themselves to capture and capitalize on the promise of the Internet?

## The Internet Changes Everything

As organizations grapple with the sea change in their business models wrought by the Internet, they are recognizing that nothing is as it was. This powerful new medium not only rewrites the rules of the game, it levels the playing field, lowering costs, opening new channels and, in some instances, creating whole new markets. In every industry it touches, it accelerates the pace of development, intensifies the nature of competition and shifts the balance of power to the customer.

Moreover, it overhauls the way companies are valued in the public markets.

So, it is little surprise that e-business issues have risen to the top of the CEO agenda. Every day another e-business task force or swat team is announced with great fanfare, as chief executives try to get their arms around the powerful and myriad opportunities presented by the Internet and capture their full value. These centralized groups bring focus and coordination to the organization's disparate and fledgling e-business ventures and help the organization marshal its resources around those prospects that promise the greatest returns.

But as companies reorient themselves to capitalize on the Internet, they are confronting a whole new set of organizational challenges (see Exhibit 1).

As companies address the full gamut of these issues, two are rising to the fore as deserving of special focus and attention. Those are **organization** and **people**. This *Viewpoint* focuses on key insights and initial lessons learned in these two critical areas.

We base our observations on our work with clients, conversations in the marketplace, extensive secondary research and a special survey we undertook in early 2000 (see Exhibit 2).

### Exhibit 1. E-business Challenges

<b>Mission and Goals</b>	<ul style="list-style-type: none"> <li>• What should our e-business strategy be?</li> </ul>
<b>Organization</b>	<ul style="list-style-type: none"> <li>• How should we organize to capture new opportunities and demands that do not fit our current business model?</li> <li>• How should the organization change over time?</li> </ul>
<b>Processes</b>	<ul style="list-style-type: none"> <li>• How will governance and control be achieved?</li> <li>• How do we get this done in Internet time?</li> <li>• How do we speed up our decision-making processes?</li> </ul>
<b>Performance Management</b>	<ul style="list-style-type: none"> <li>• How should we measure success?</li> </ul>
<b>People</b>	<ul style="list-style-type: none"> <li>• What resources and skills do we need?</li> <li>• How do we quickly fill skills and capabilities gaps?</li> <li>• How do we attract and retain the right talent, particularly given the dot.com lure?</li> <li>• Given the high turnover in e-business positions, how do we capture knowledge at an institutional level versus an individual level?</li> </ul>
<b>Capital Structure</b>	<ul style="list-style-type: none"> <li>• How should e-business activities be funded?</li> <li>• What level of funding is required to succeed?</li> <li>• How can we best create and capture value for our shareholders?</li> </ul>

Source: Booz-Allen & Hamilton

As part of this research, we have interviewed 25 CEOs and top e-business executives around the world about their e-business evolution up to the present and beyond. We've asked them to identify the major challenges they have overcome and the key lessons they have learned as they have reconfigured their organizations. And we've asked them how they have filled critical skills and capabilities gaps through creative compensation and other means.

We identified commonalities as well as points of differentiation in these companies' approaches and have analyzed how these both contributed to success in establishing effective e-business models.

Below are some of the key insights that emerged:

**1. A follow-the-leader approach won't work.** Each company must develop and drive its own evolving and dynamic Internet strategy. It also must mobilize its organization and people in a way that maximizes *its* likelihood for success. Its approach to individual e-opportunities will depend on 1) its unique industry and organizational environment; 2) the stage it has reached in its overall e-business development; and 3) the nature of the opportunity.

**2. Prepare to juggle.** Most companies will simultaneously pursue a broad portfolio of e-business opportunities. These opportunities will be highly diverse, requiring different funding, different resources, different structures, different skills, etc.

## Exhibit 2. Booz·Allen E-business Benchmarking Research

INDUSTRY	COMPANIES
Financial Services	<ul style="list-style-type: none"> <li>• American Express</li> <li>• Chase Manhattan Bank</li> <li>• Fleet Bank</li> <li>• Charles Schwab</li> <li>• CitiGroup</li> <li>• State Street Bank</li> <li>• Washington Mutual</li> <li>• Northern Trust</li> <li>• Merrill Lynch</li> </ul>
Healthcare	<ul style="list-style-type: none"> <li>• Blue Shield of California</li> <li>• Express Scripts</li> <li>• Insuremarket</li> <li>• MetLife</li> </ul>
Media and Entertainment	<ul style="list-style-type: none"> <li>• Globo (Brazil)</li> <li>• Gruner + Jahr (Germany)</li> <li>• Elsevier Science (The Netherlands)</li> <li>• USA Today</li> </ul>
Automotive	<ul style="list-style-type: none"> <li>• Ford</li> <li>• General Motors</li> <li>• Toyota</li> <li>• DaimlerChrysler</li> <li>• Fiat</li> <li>• Johnson Controls</li> <li>• PACCAR</li> </ul>
Industrials	<ul style="list-style-type: none"> <li>• W.W. Grainger</li> <li>• Whirlpool</li> <li>• Herman Miller</li> <li>• GE</li> <li>• Federal Express</li> <li>• UPS</li> <li>• Cargill</li> </ul>
Airlines/Aerospace/Travel	<ul style="list-style-type: none"> <li>• Boeing</li> <li>• United Airlines</li> <li>• Carlson Wagonlit</li> </ul>
Telecommunications	<ul style="list-style-type: none"> <li>• IMPSAT (Argentina)</li> <li>• Freenet (Germany)</li> <li>• Ascom (Switzerland)</li> </ul>
Computing	<ul style="list-style-type: none"> <li>• Dell Computers</li> <li>• IBM</li> <li>• Cisco Systems</li> <li>• National Semiconductor</li> <li>• Intel</li> <li>• Gateway</li> <li>• Oracle</li> </ul>
Consumer Products	<ul style="list-style-type: none"> <li>• The Gillette Company</li> <li>• Barnes &amp; Noble</li> <li>• Land's End</li> </ul>
Energy	<ul style="list-style-type: none"> <li>• Enron</li> <li>• Chevron</li> <li>• BP Amoco</li> <li>• Shell</li> <li>• Petroplus</li> </ul>

Source: Booz·Allen & Hamilton

### 3. All e-business opportunities are not created equal.

Opportunities range from evolutionary to revolutionary, from online extensions of existing products and services to brand new market constructs. Companies need to organize and develop each of these differently to capture the full value of the opportunity.

### 4. There is a method to the madness.

While the pace and nature of e-business change can seem chaotic and unfocused, there *is* a strikingly consistent four-stage path that companies seem to follow. Recognizing the path and the challenges that attend it can help organizations anticipate the future and succeed.

**5. Traditional companies can attract the talent they need.** By making targeted use of equity-based compensation mechanisms, crafting tailored employee value propositions, and sourcing talent broadly, traditional employers can successfully compete with the dot.coms in the battle for talent.

None of this is easy, however. In fact, the transition to e-business can place great strain on the organization if mishandled. While executives recognize the tremendous potential of e-business opportunities, they struggle with how to harness them within the context of their corporate organizations. Some of the comments we heard during our interviews communicate this dilemma vividly (see Exhibit 3):

## There Is a Method to the Madness

While the Internet presents a different portfolio of opportunities to virtually every company, and approaches to e-business development vary dramatically, there is some method to the madness. The companies we have surveyed and worked with adjust to e-business opportunities with a strikingly consistent four-stage plan of action.

Recognizing this process and its distinct phases is the first step in addressing the challenges the Internet poses today and positioning one's business for the changes that lie ahead.

The four stages are (see Exhibit 4):

### **STAGE I: Grassroots**

Different e-initiatives are underway throughout the organization, but there is little central coordination.

### **STAGE II: Focal Point**

A lead e-commerce executive is named and a centralized e-business group is formed to prioritize and organize the company's e-business efforts.

### **STAGE III: Structure & Deployment**

The e-business group prioritizes e-opportunities, develops an organization structure for each and begins deploying those with the most promise.

### **STAGE IV: End Game**

E-business opportunities are developed enough to transition to their end game structure (e.g., IPO) and compete in the marketplace.

### Exhibit 3. Quotes from Executive Interviews

*"It's not clear that the way we're structured now is the best way to create and capture shareholder value nor to attract the talent we need."*

*"There is no clear home for e-business."*

*"Dedicated support resources (e.g., finance, human resources, legal) are required for the e-business unit, but it is unclear how it should be structured."*

*"Business units have to understand that the e-business division is not stealing from them, but is there to add value."*

*"Finding the right skills (e.g., technical background with project management and business skills) is very difficult."*

*"We feel that we are a training ground for e-professionals, because our talent leaves so often."*

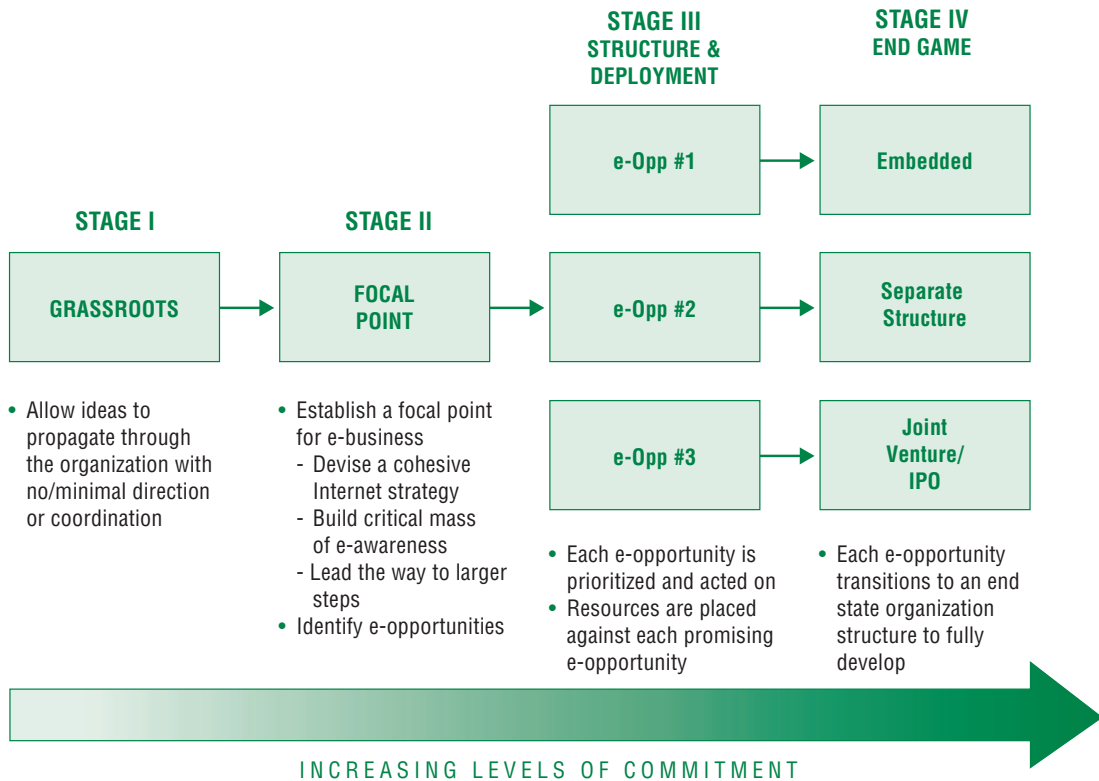
Source: Booz-Allen & Hamilton interviews

## Stage I: Grassroots

**Description:** It is during the Grassroots phase that companies awaken to the impact of the Internet on their business and take their first steps toward harnessing this medium's potential. IT divisions, product groups and business units all begin to explore ideas, identify opportunities and launch initiatives.

While the Internet has clearly registered on the CEO agenda, it is not yet a priority. Resources are allocated business unit by business unit, as each independently identifies e-opportunities and begins to pursue them, resulting in

## Exhibit 4. E-business Evolution



Source: Booz-Allen & Hamilton

a frenzy of disjointed activity. The Internet is still basically perceived as an information technology and marketing vehicle, something on which to mount a Web site.

**Objectives/Benefits:** It's during the Grassroots phase that a thousand e-flowers bloom. Awareness grows and learnings are gathered. As opportunities are exploited across the company, an entrepreneurial zeal takes hold as people are converted into Internet believers. Companies begin to appreciate the true potential of the Internet to transform their business models or create entirely new ones.

### Challenges/Time to Move

**On:** As trials unfold, lessons are learned but not necessarily

shared; there is a general lack of coordination and communication among business units. Consequently, there are many inconsistent strategies and redundancies throughout the organization, as well as unpleasant surprises. For example, one company we surveyed discovered they were actually spending some \$50 million more on Internet initiatives across the company than the \$5 or so million they had earmarked in the corporate budget.

Without any central coordination mechanism or top-down strategic direction, the Grassroots phase can quickly devolve into mayhem, confusing customers and compromising the brand. General Motors, as an example, had some

*“Our e-business started organically with several independent project teams working on specific e-projects. This approach allowed us to start an e-business quickly, but resulted in a hodgepodge of e-activity across the company without an overall strategy, central coordination or cross-communication.”*

— E-business executive interview

160 Web sites up and running during its Grassroots phase, each with a slightly different “look and feel.” Initially encouraged to pursue their own Internet marketing and product support initiatives,

business units ended up spending millions of dollars on disparate product, divisional and brand sites, contributing to an almost schizophrenic brand image on the Web.

As people and funding are stretched thin, companies may find they are not putting enough resources behind the one, two or ten ideas that promise the greatest shareholder returns. The strain of being pulled in myriad directions can result in a loss of talent as employees become disenchanted. While the Grassroots phase is a necessary first step to “audition” new ideas, companies should aim to not stay here too long, and, indeed, the vast majority of companies have progressed beyond this stage.

## Stage II: Focal Point

**Description:** As companies acknowledge the need to organize their various activities and formulate an overall e-business strategy, they create a central e-business group with a visionary, results-oriented leader and move into the Focal Point phase. By this time, companies have begun to acquire a critical mass of e-business skills and recognize the importance to their brand of establishing common standards and a consistent “look and feel.” Moreover, given the competitiveness of the labor market, they are anxious to impress upon employees that they have an e-business career path to offer.

During the focal point stage, the CEO focuses on the opportunities presented by the Internet and dedicates his or her attention and the company’s resources (i.e.,

*“Assign a visionary e-business leader and then build a strong team to identify bold e-opportunities.”*

*— E-business executive interview*

people, technology, funding) to targeting those opportunities. As mentioned, the CEO designates a focal point person for e-business initiatives across the company.

This person should be a visionary, someone with a proven track record of taking well-researched risks. This person should be fully versed in the company’s core competencies, limitations and culture. He or she should know how to get things done.

Moreover, this e-business guru should know how to plot strategy, manage brands and negotiate online alliances. He or she should be a leader capable of attracting and inspiring the skills and capabilities so prized in an economy. That includes the development of a compelling people value proposition and compensation plan.

Given these attributes, it is no surprise that 70% of the e-business executives we surveyed report directly to the CEO. In addition to facilitating access to resources and fostering greater accountability, this direct line to the top of the organization demonstrates senior level commitment and speeds decision making. That reporting line and a separate budget or P&L often distinguish the strong e-business champion from the mere facilitator. One e-business executive we spoke with learned this firsthand; “If the top three executives do not buy

into the e-strategy, you will hit many road blocks.”

This e-business group also has to put a mechanism in place to demonstrate its value to the company as a whole and to key line units. This is critical as they will often need the overall organization’s support to get their job done.

Additional resources for the e-business team are recruited from both within and outside the organization with roughly 40% hired internally and 60% brought in from outside. Based on the companies we surveyed, the size of the e-business group averages about 25 to 50, plus web development personnel who are typically housed in IT and/or outside agencies. Most e-executives we interviewed expressed their desire to keep the group lean to maintain optimal agility.

During this stage there are strong motivators to centralize many of the functional resources, including selected information technology, human resources, business development and finance staff. Pulling these staff together within the e-business unit allows them to focus on issues critical to e-business and customize their activities. For example, in light of some of the unique e-business recruiting demands, the human resource staff can target specific sources and customize the compensation program. Similarly, creating a centralized competency center for information technology staff is attractive to today’s IT professionals as they seek to become expert in Web technologies and learn from a cadre of like-minded folks. The competency center also serves as the best way to leverage this limited resource.

In focusing these staff within e-business it is important to maintain their linkages to the mainstream functional units given their need to fit within corporate-wide organizational, technical and process constraints.

**Objectives/Benefits:** In addition to serving as an incubator for the development of new ideas and a repository of e-business knowledge, the focal point team is responsible for identifying and prioritizing the range of e-business opportunities that confront the company across all its lines of business.

All e-opportunities are not created equal. They vary based on risk, required capabilities, urgency,

complexity, cost, impact and value. Companies are pursuing opportunities today that range from the evolutionary to the revolutionary— from product line extensions to the transformation of the company’s core business model (see Exhibit 5).

Evolutionary e-opportunities, such as those listed on the left of the table, enable a company to extract additional value from its existing business model. They improve business performance through a line extension, more cost-efficient distribution or simply improved communication with the customer.

As examples, Ford is now using a Web-based application to facilitate the utilization of its

### E-business Group Objectives

- Coordinate with the business units on e-business strategy
- Obtain buy-in from key stakeholders
- Develop and maintain corporate standards
- Build a center of excellence in e-business knowledge and skills
- Recruit necessary skills and resources
- Take an inventory of all e-opportunities
- Identify and prioritize a subset of those e-opportunities

**Exhibit 5. Range of E-business Opportunities**

	TYPE OF E-OPPORTUNITY			
	I. NEW PRODUCT/ MARKET EXTENSION	II. ADDITIONAL CHANNEL	III. NEW BUSINESS OPPORTUNITY	IV. TRANSFORMED COMPANY
OBJECTIVE	<ul style="list-style-type: none"> <li>• Offer new online products and services</li> <li>• Build e-capabilities within existing organization</li> </ul>	<ul style="list-style-type: none"> <li>• Offer same products and services over the Internet</li> <li>• Build e-capabilities to create a new channel</li> </ul>	<ul style="list-style-type: none"> <li>• Develop breakout business ideas such as horizontal or vertical portals</li> </ul>	<ul style="list-style-type: none"> <li>• Offer same products and services</li> <li>• E-transformation to complete Web-based organization</li> </ul>
COMPANY EXAMPLES	<p><b>USA Today:</b> Launched <i>USA Today</i> Online to take the <i>USA Today</i> brand name into the online market.</p>	<p><b>Dell Computers:</b> Working to move 50% of their sales to the online channel.</p> <p><b>Land's End:</b> Extending their product offering to the Web to increase their sales and customer base.</p>	<p><b>GM, Ford, DaimlerChrysler:</b> Leverage combined purchasing scale to decrease total supply costs via an automotive-parts exchange run through the Internet.</p> <p><b>Intercontinental Exchange:</b> BP Amoco, Deutsche Bank, Goldman Sachs, Morgan Stanley Dean Witter, Royal Dutch/ Shell Group, Societe Generale and the Totalfina Elf Group to create B2B exchange for energy, metals and other commodity-based over-the-counter products.</p>	<p><b>Charles Schwab:</b> Merged e.Schwab unit with the traditional brokerage house to transform the business into a complete online trading company.</p> <p><b>Merrill Lynch:</b> Building an institutional portal for their corporate clients, transforming their entire global capital markets business.</p>



Source: Public data search

internal company lease program. A leading life insurer we surveyed has been utilizing an e-business application to provide policy quotes online. And many banks are upgrading their Web sites to add bill paying to their standard list of services.

In general, evolutionary opportunities tend to be easier to manage and govern, and, while the upside is limited, these improvements can add considerable incremental value to a company's top and bottom line through improved revenues and cost savings. Evolutionary e-opportunities draw on existing internal resources and capabilities for the most part and utilize traditional corporate structures and governance mechanisms. They typically are handed off to the appropriate business unit during the implementation phase.

At the other extreme, we have revolutionary e-opportunities, such as those in the last two columns of Exhibit 5. These breakout ideas radically reshape a company or industry by transforming its business model or creating a whole new market.

While these revolutionary innovations can markedly increase a company's bottom line, market share and growth rate, they are not without their downsides. Revolutionary e-opportunities can be highly risky, not to mention costly and complex. They are also sometimes the most difficult to achieve as they often force a change to some fundamental elements of the company, abandoning the status quo in favor of a radically different business system. Oftentimes, these ideas need to be incubated by the central

e-business group in their own organization structure as they don't conform to the business processes and governance procedures prevalent throughout the rest of the company.

e-Citi, Citigroup's full-service online bank, is an example. To accomplish its goal of securing one billion customers, this new business unit, headed by Ed Horowitz, a former media executive brought in from the outside, has developed its own organization with 1,200 assorted employees and a lavish budget. As Horowitz says, "We're creating a company from scratch."<sup>1</sup>

Most e-opportunities fall somewhere between the two extremes described above. They are relatively innovative, increase value to the customer and improve the cost-effective performance of the business. Implementing a Web-based knowledge management system is an example. Most business-to-business e-commerce solutions also fall into this category—as well as most consumer clicks 'n' mortar plays.

**Challenges/Time to Move On:** As more and more e-opportunities are incubated, it quickly becomes apparent that the central focal point team cannot continue to manage them all. Each e-opportunity requires distinct management skills, distinct funding levels, distinct structures. Depending on the nature and the stage of the opportunity's development, it will either migrate back into the organization or establish a separate structure for deployment.

#### Case Study: Charles Schwab

Schwab did not resolve overnight to become an online trading company. The evolution of its business model—though rapid—was incremental and planned prudently. Careful groundwork was laid and company-wide buy-in solicited, as Schwab began amassing and disseminating the e-business expertise necessary to transition its business model to the Internet.

At first, the e-business initiative was the province of a special task force within Schwab. Over time, as both front-end and back-end systems were migrated online, the e-Schwab group began operating as a separate business unit. Gradually, as the distinctions between clicks and mortar disappeared, e-Schwab became Schwab. The two are now indistinguishable.

Of course, the transformation process was far from easy. Each part of the organization had to be re-tooled to manage the Internet strategy. Customer representatives on the phone and at branches had to undergo exhaustive Web training. The IT infrastructure had to be overhauled to support the new trading volume. But it was successfully accomplished and serves as a useful road map for companies looking to follow Schwab's lead.

<sup>1</sup>Information Week, 5/3/99

## Stage III: Structure & Deployment

**Description:** During the Structure & Deployment stage, e-businesses move into high gear as project teams are mobilized, structures put in place, partnerships formed and pilot programs launched. It is during this phase that each viable opportunity's organization structure is identified and incubated.

Trials abound during the Structure & Deployment phase as companies decide how to develop various e-business concepts. For

instance, a consumer electronics retailer recently transferred its e-business assets to a wholly owned subsidiary, as an interim step to an anticipated IPO. A European food chain company established ten different legal entities for the various e-opportunities it is pursuing. Those that bear fruit will eventually be taken public. Then there's the incremental—but wholesale—transformation that Charles Schwab effected (see case study).

**Objectives/Benefits:** During Structure & Deployment, the e-business team determines the organizational structure best suited to the risk, required capabilities,




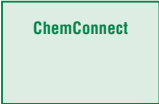
urgency, complexity, cost impact and value creation potential of each e-opportunity. Typically, opportunities migrate to one of four end game organization structures, each with its own set of unique issues (see Exhibit 6).

- Embedded
- Separate Structure
- IPO
- Joint Venture

*"E-commerce is the future of our company. We can't pull it out and create a separate company or position, because it is where we're going."*<sup>2</sup>

—Laurie Tucker, Senior Vice President of e-commerce, FedEx

### Exhibit 6. End Game Structures

	ACTION	WHY IT IS WORKING
<p><b>EMBEDDED</b></p> 	<ul style="list-style-type: none"> <li>• IBM Internet division is formed in 1995</li> <li>• Irving Wladawsky-Berger, head of the division, ensured that every IBM product incorporated into the Web</li> <li>• Internet division focused on developing the "white spaces" — empty spots where the company needed to develop products</li> <li>• All developed products eventually embedded into existing divisions</li> </ul>	<ul style="list-style-type: none"> <li>• Senior management commitment — CEO Lou Gerstner states, "Every IBM product must be Internet friendly."</li> <li>• Developed a full range of e-opportunities around business services, online product/services, procurement and outsourcing — e-business represents 25% or \$20 billion of revenues</li> <li>• Invested \$2.5 billion in net-related R&amp;D</li> </ul>
<p><b>SEPARATE STRUCTURE</b></p> 	<ul style="list-style-type: none"> <li>• In 1999 established a separate business unit to own the development of an institutional portal</li> <li>• Unit has its own profit and loss statement</li> <li>• Set up a team in a completely separate area from the traditional business</li> <li>• Culture is more casual, e.g., casual dress, toys in team room</li> </ul>	<ul style="list-style-type: none"> <li>• Taking control and deciding to cannibalize themselves, rather than let competitors do it</li> <li>• Moving aggressively to gain first-mover advantage. Merrill Lynch arrived two years late to online trading on the retail side and does not want that to happen again.</li> </ul>
<p><b>IPO STRUCTURE</b></p> 	<ul style="list-style-type: none"> <li>• In October 1996, Microsoft launched its online travel services product</li> <li>• Set up as a separate operating unit within Microsoft</li> <li>• In November 1999, Microsoft spun off Expedia, raising \$84 million in capital</li> <li>• Microsoft owns 85% of their common stock</li> </ul>	<ul style="list-style-type: none"> <li>• Full financial backing from Microsoft</li> <li>• First mover advantage</li> <li>• Category killer business model</li> <li>• Aggressive acquisition strategy. In January 2000 purchased both Travelscape.com and VacationSpot.com</li> <li>• Investing \$50 million in advertising this year to boost brand awareness</li> </ul>
<p><b>JOINT VENTURE</b></p> 	<ul style="list-style-type: none"> <li>• Internet chemical exchange created in 1995</li> <li>• Involves nearly all of the 25 largest chemical producers</li> <li>• Provides an open neutral marketplace for manufacturers, buyers and intermediaries to conduct online transactions for chemicals</li> </ul>	<ul style="list-style-type: none"> <li>• Innovative solution which reduces product, transaction and distribution costs</li> <li>• Broad membership (over 10,000 members, 20% from Europe, 45% from Asia), which creates a competitive marketplace</li> <li>• Well-funded—recently received an additional \$30 million in financing from investors</li> </ul>

Source: Public data search

<sup>2</sup>Information Week, 10/25/99

## Embedded

The term “embedded” describes those e-opportunities that are reabsorbed by the company and developed in the existing organizational structure, either within one of the business units or distributed across the enterprise. These embedded e-opportunities run the gamut from product line extensions to a complete overhaul of the company’s core business.

In general, evolutionary e-opportunities become embedded, specifically, in the line of business where they tend to fit. As a natural extension of that traditional business’ offerings, these e-initiatives tend to roll out in a fairly straightforward manner.

But revolutionary e-opportunities can also become embedded. In these situations, the opportunity often overtakes the entire company, transforming every business unit and department.

IBM’s Internet division is an example of the latter. Formed in 1995, this unit is responsible for filling the “white spaces” in the company’s Internet presence and strategy. Charged with fulfilling CEO Lou Gerstner’s mandate that “every IBM product must be Internet friendly,” the Internet division is an institutionalized “focal point” squad. It develops a full range of e-opportunities encompassing business services, online offerings, procurement and

outsourcing, and has done so very successfully to date. IBM estimates that 25% of its revenue—some \$20 billion—is driven by e-business demand.<sup>3</sup>

Many leading companies in their respective industries have taken a similarly comprehensive approach. Intel, Ford, FedEx, Charles Schwab—all have revisited their core business strategies in light of the Internet and have embedded e-business transformation initiatives.

## Separate Structure

In those cases where a company wishes to incubate an e-opportunity with minimal interference from the rest of the organization, it often develops a separate structure. This quasi-independent structure allows the fledgling initiative to draw on the people, technology and funds of the parent company, as needed, while creating a sense of autonomy and agility. Speed to market and breaking some of the established corporate rules are facilitated by this structure.

Separate structures also signal to investors and analysts that the company wants its e-business initiatives to be viewed and valued separately. It’s a value creation strategy designed to unlock shareholder value. It also sends a clear message to employees looking for an e-business career path and a more entrepreneurial working environment. Separate structures are not as constrained, for example, by traditional compensation formulas.

The skunkworks Merrill Lynch has set up to build an Internet-based portal for its institutional clients is an example of a separate structure, at least for

### Case Study: Ford

Ford is taking many of the first steps in transforming the century-old infrastructure of the auto industry. With the vision of a vastly streamlined, build-to-order business model in mind, CEO Jacques Nasser has equipped its entire global workforce—350,000 people—with home computers, printers and inexpensive Internet service. Moreover, the company has created a business group called ConsumerConnect and recruited a young sales executive from GE’s appliance unit to run it. This “focal point” leader has recruited dozens of other Internet-experienced employees from companies such as Whirlpool and Procter & Gamble. Says one employee “We see ourselves as a kind of Alpha squad, here to lead change and help make the cultural difference required to bring Ford into the 21st century.”

One of ConsumerConnect’s most promising efforts is Auto-Xchange, an online trading site that will link Ford’s 30,000 suppliers to the company for quicker communications, better prices and faster delivery—potentially saving \$8 billion in procurement costs. In March 2000, this market site became an industry exchange when Ford joined its efforts with those of GM and DaimlerChrysler.

Besides Oracle and Cisco, its partners on Auto-Xchange, Ford is working with partners such as Yahoo! and Priceline.com to design systems that will deliver personalized warranty, loan, repair and customized services. Meanwhile, the company is teaming up with its auto parts subsidiary to wire future Fords for e-mail and news, voice recognition systems and satellite phones.

<sup>3</sup> *Business Week*, 12/13/99

now. Removed both physically and culturally from Merrill Lynch's investment bank and sales and trading operations, this new e-business initiative will ultimately allow the firm's corporate clients to track their holdings and buy and sell a wide variety of stocks, bonds, futures and options directly with the click of a mouse, much as individual investors do today on E\*Trade.

As you might expect, separate structures can generate a host of challenges and issues. As an entirely new business, these units need to develop appropriate processes, skills and technology capabilities—in essence, a new business model—in Internet time. Meanwhile, the very existence of this separate structure poses challenges to the existing organizational structure. How does a company confer upon the separate structure the flexibility and independence it requires without alienating traditional lines of business? How does the organization promote inter-division coordination and establish universally fair and appropriate performance measures? Companies are wrestling with these issues and, though the jury is still out, creative solutions are beginning to emerge.

For all their challenges, separate structures do present a number of exciting opportunities as well. Removed from the processes, procedures and other constraints of life in the corporate fold, separate structures can unleash a lot of creative and positive potential in their people.

### **IPO/JV Structure**

Finally, many companies make the decision to spin off revolutionary e-businesses through an initial public offering or joint venture. This structure becomes a new public company, separate and apart from the original organization, with its own board, management team and performance objectives and incentives.

Companies take this step for all the same reasons they create separate structures. They want to unlock the value in their e-businesses in the eyes of investors, analysts, employees and other key constituencies.

Expedia.com is an IPO structure recently spun off by Microsoft. Launched in 1996 to target the growing online travel market, Expedia is today one of the top travel sites and booking engines on the Web with content tailored to a number of regional markets including the U.S., Canada, United Kingdom and Germany. Microsoft took Expedia public in November of 1999 and retains a 85% ownership stake.

Meanwhile, a number of industries are turning to joint ventures to promote "coopetition" and streamline their supply chains. Online trading exchanges—sometimes formed in partnership with an e-business software vendor (e.g., Oracle, Commerce One, Ariba)—already have been announced in the auto, retail, metals, chemicals, oil, paper, steel, pharmaceutical and construction industries, among others. ChemConnect, one of oldest such exchanges formed

in 1995, involves nearly all of the 25 largest chemical producers and has effectively reduced product, transaction and distribution costs across the industry.

Ford, DaimlerChrysler and GM have now formed a similar exchange to streamline the auto industry's supply chain (see Ford case study). Chevron and McLane Co, a unit of Wal-Mart, have teamed up to create a convenience store supply network. And Sears and Carrefour SA have joined forces on a procurement site for retailers. The list goes on.

IPO and JV structures face all the same start-up challenges as separate structures and then some. Not only do they have to establish an appropriate business model in short order, but they must contend with the legal and financial implications of the IPO or joint venture process, including the distribution of stock and stock options.

### **E-business Organizational Drivers**

Determining which organizational structure is appropriate to a particular e-business opportunity depends on a number of drivers (see Exhibit 7).

*Value Creation Potential:* In many cases, companies can unlock substantial shareholder value by spinning off their e-business or maintaining it as a separate structure. They can realize much higher multiples. In other situations, it makes more sense from a value creation perspective to keep the e-opportunity in-house.

*Cannibalization:* If it seems likely that an Internet-based venture will cannibalize a company's traditional revenues, then it's generally in the organization's best interests to set it up as a separate structure, allowing it to develop its own value proposition and a distinct customer base.

*Product Expansion:* If an e-opportunity involves expanding a current product or service offering, then leveraging the existing organization structure may be more appropriate.

Otherwise, a separate structure is in order.

*e-Transformation:* If the potential e-business will result in the development of a brand new market, business model or brand, it's best to establish a separate organization for it. However, if the e-opportunity is predicated on the transformation of an existing business model, then the company needs to embed it.

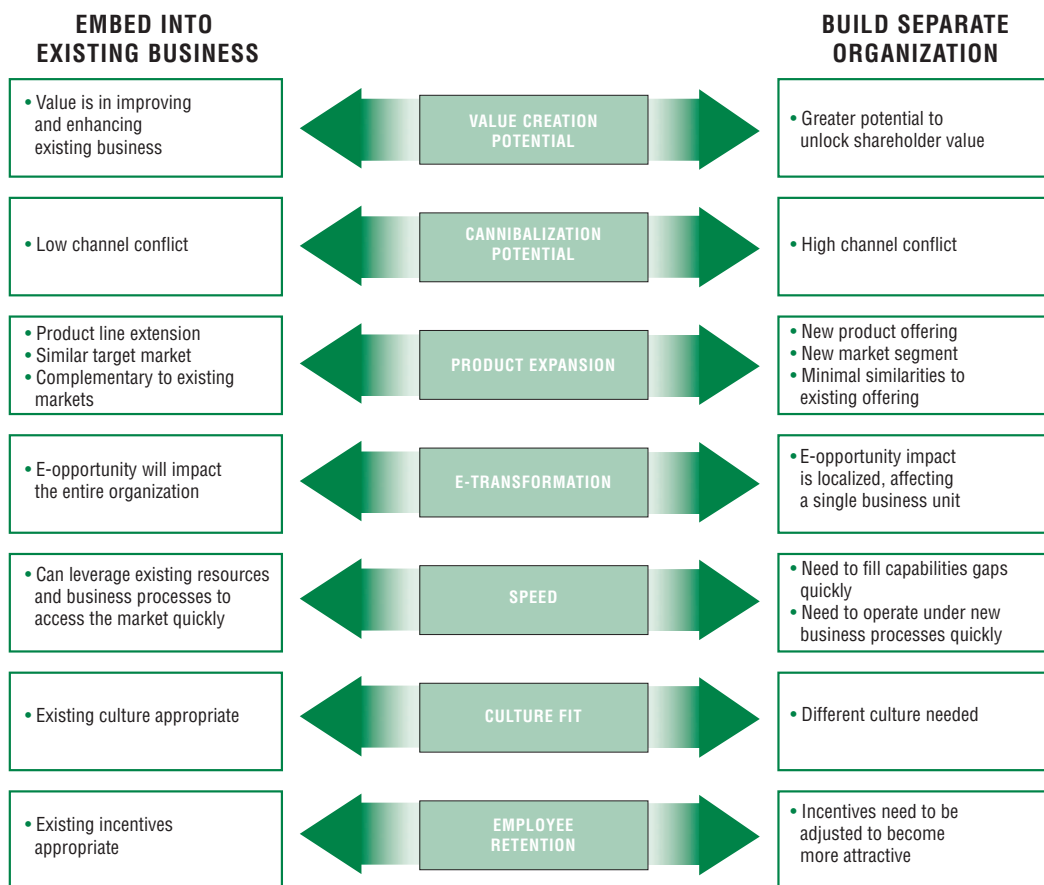
*Speed:* If a new e-business can leverage existing resources and processes quickly, then an organization can embed the new structure. However, if capability

gaps need to be bridged or new processes introduced quickly, then the business should operate separately.

*Culture Fit:* If the Internet opportunity requires a dramatic shift in the culture of an organization, it's best to build it as a stand-alone entity.

*Employee Retention:* Finally, if existing compensation and incentive structures cannot accommodate the development of the e-opportunity, a separate structure—either IPO or non-IPO—is best.

### Exhibit 7. E-business Organizational Drivers



Source: Booz•Allen & Hamilton

### Challenges/Time to Move

**On:** It is important to remember that the Focal Point and Structure & Deployment phases are but a transition to the e-business end game, which itself is at best temporary. In the end, the e-business “czar” and his team are simply one leg of a relay race. Just as the business units hand off their individual e-initiatives to the focal point team, so too will this team likely hand off the e-business opportunities they incubate to those who will implement and sustain it.

## Stage IV: End Game

**Description:** In the fourth stage of development, the e-opportunity transitions to its end-state and, it is hoped, begins delivering on its early promise. While far from proven or permanently established, business ideas have at least been

validated in terms of their expected value and high potential for success. E-opportunities that are too risky given their potential returns have been weeded out.

It is at this stage that the e-business completes the transition to its end game organization structure. Leadership often migrates from the e-group to a more permanent team with different skill sets that are more appropriate to the day-to-day running of a business. While the “focal point” group remains the guardian of the brand and customer experience, continues to be the competency center of web expertise and maintains its role as an incubator for new ideas, their involvement in these specific opportunities may diminish.

**Objectives/Benefits:** In many ways, this stage is the hardest to manage. This is where the rubber meets the road. Companies must simultaneously roll out a whole portfolio of e-opportunities, each with its own competitive set

and its own internal dynamics. Executives must allocate resources, motivate people and produce results on an ongoing basis. Speed, as always, is critical. In this phase, the early promise of an e-opportunity is translated into a concrete product or service offering. Its incubation period is over.

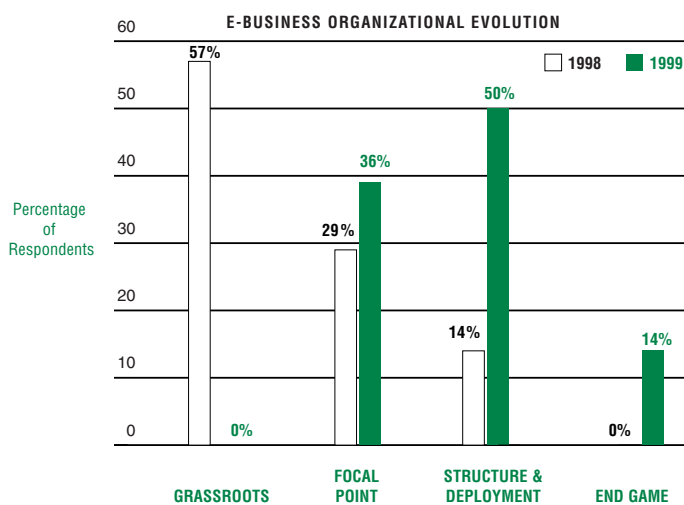
### Challenges/Time to Move

**On:** Just because an end game has been defined, it does not mean this process ends. This end game structure may not be a final resting place. The development of e-business opportunities is an evolving, dynamic and iterative process that will change as the market changes. Embedded structures ultimately may be separated and separate structures reabsorbed as market conditions warrant. Organizations need to maintain a high degree of flexibility as they pursue Internet opportunities.

## Organizational Evolution

The speed with which companies progress through these four stages is remarkable. In 1998, 57% of the companies we surveyed were in the Grassroots phase of their e-business evolution (see Exhibit 8). A year later, all had progressed beyond Grassroots, and nearly 65% of respondents were in the Structure & Deployment or End Game phase. But it doesn't end there. As the Internet and its influence continue to spread, new opportunities will surface and be subjected to this iterative process.

Exhibit 8. Sample Companies' Progress



Source: Booz•Allen & Hamilton survey

## People

Just as traditional companies struggle with organization issues, so they wrestle with how to put the right people programs and policies in place. In fact, given the scarcity of Internet brainpower in the marketplace, people issues are profound. The ability to attract and retain the right talent is a critical success factor in the development of most e-businesses. As companies migrate through the phases just outlined, it is crucial that they identify the skills and capabilities they will require at each juncture and institutionalize ways to attract and retain that expertise.

Some companies will encounter more difficulty than others in attracting and retaining the right skills and capabilities. Companies in technical, fast-moving industries on the West Coast or Northeast corridor confront a brutally competitive labor market. Moreover, some critical talents (e.g., executive leadership, IT, marketing, partnership building) are in short supply.

But traditional companies, no matter where they are located or what industry they are in, can compete—and win—in the battle for talent.

The following pages outline challenges and insights in two key areas:

- 1) Identifying the skills and resources required; and
- 2) Getting creative about attracting and retaining talent.

*“E-business is like a frontier. We’re looking for raw talent with the right attitude, drive and thinking. We hire for attitude and train for skills.”*  
— E-business executive interview

### Identifying Skills and Resources Required

The skills and resources required to exploit e-business opportunities depend on the same three factors that dictate organizational structure:

- 1) Stage in the company’s e-business development;
- 2) Nature of the opportunity; and
- 3) Stage in the development of that opportunity.

For instance, in the Focal Point stage of a company’s e-business development, a great deal of attention is focused on identifying the visionary, “cowboy” leader who will corral the company’s various online initiatives and rally the organization behind those with the most promise. As the company settles into its Internet strategy, however, a different, more managerial skill set is required.

The nature of an e-opportunity will also dictate the type of skills required. For example, pursuing an e-procurement opportunity is different from creating a B2C Web site, which is different from establishing an intranet to improve productivity. Each opportunity has its own set of issues and, therefore, different resource needs.

Finally, as individual e-opportunities mature, they go

through their own evolutionary process. For example, new business start-up ventures often require visionaries, entrepreneurs and risk takers. But as the opportunity grows, a different type of leadership is generally required—a need for more organized, formal business management.

But as traditional organizations confront the trials of gearing up for e-business, they face some consistent challenges. Since the emphasis of this article is on “click-starting” one’s business, we’ll focus on the skills and capabilities needed to incubate and launch e-business opportunities.

Creativity often trumps experience on the Internet and the reason lies in the nature of the medium. Whereas traditional organizations tend to be structured, stable, risk-adverse environments, the Internet prizes the maverick, “frontier” spirit. It is a market in constant flux, ever-changing and ever-ambiguous where unleashed entrepreneurial cultures flourish. Organization structures are flat on the Internet; titles are meaningless. Rapid growth and continual transformation are the name of the game.

Those visionaries who are able to translate work and life experiences online—in a way that will make companies money—are the heroes in this new universe. Self-starters who are willing to take risks and think “outside the box” are highly sought after. Carefully honed managerial skills are less valuable than the ability to come up to speed quickly. Adaptability and comfort with change are critical.

In terms of specific skill sets, the following were

consistently cited in our research as the most important:

- Business development
- Partnership and vendor negotiation
- Project management
- Marketing
- Content management

Interestingly, technical skills were not as highly prized as an open mind, a bright intellect and an eager attitude, what Theresa Garza, Dell Computer executive, calls the “hum.”<sup>4</sup> As one survey respondent said, “Initially we staffed the e-business unit with Internet-experienced people, but then we realized that the best bet was to hire the best and brightest and then train them on the Internet.”

### Partnering

For those looking to get a head start, establishing a network of partners is key. These partners can arm fledgling e-initiatives with the flexibility, capabilities and speed that they need to operate in Internet time and Internet space.

Where once “strategic alliances” were long-term unions entered into after great deliberation, today’s fluid partnerships are more like casual dates. The guiding philosophy is “launch and learn.” Capabilities are shared “round-by-round,” and either partner can pull out at any time. In fact, most of today’s alliances are measured in months rather than years. While often strategic, Internet partnerships are generally short term and informal in structure.

According to the research we conducted, many e-businesses determine very quickly what critical skills they want to keep

*“Traditional partnerships involve probabilities, which are measurable, while Internet partnerships involve possibilities, which are not measurable.”*

— E-business executive interview

in-house and what ancillary skills they can outsource. For instance, content companies (e.g., news organizations) rapidly align with distribution partners and technology companies partner with integrators who can supply their infrastructure with front-end solutions. Most alliances are formed to satisfy a very specific purpose (e.g., Web site design, access through a portal) and are structured around a revenue-sharing arrangement such as a joint sales agreement or payments for “hits.”

Given the necessity to leverage partnerships to come up to speed quickly, it is not surprising that many companies place a high premium on vendor management skills, including negotiation and business development.

*“The New Economy is heavy on intellectual capital. The sharing of knowledge is what really makes it go. In the New Economy, you expect lifelong learning, not necessarily lifelong employment. People used to work for wages. In the New Economy, they work for ownership.”*

— John T. Chambers  
CEO, Cisco Systems, Inc.

Being able to access necessary skills and capabilities easily is an imperative.

### Getting Creative about Attracting and Retaining Talent

Relatively speaking, identifying the skills and resources required to launch e-businesses is the easy part. Attracting and retaining those capabilities in a marketplace that covets them is much more difficult. Competing against the lure of the dot.com recruiting pitch is hard duty. With stock options and other equity-based incentives, these Internet start-ups can offer attractive candidates potentially huge upside.

One e-business executive we interviewed lamented that he recently lost a key employee because a dot.com offered half a million dollars worth of stock options: “We could match the higher salary, but there was no way we could match that.” Another respondent commented, “We had an employee walk away from a multi-million dollar bonus to join a dot.com, and the bonus was only two months away!”

Acquiring employees with the right balance of business savvy and Internet prowess is difficult in a market where demand outstrips supply. But it is by no means impossible for traditional companies to fill their talent gaps if they exploit one or a combination of the following options:

- 1) Make targeted use of equity-based compensation mechanisms;
- 2) Tailor employee value propositions that look beyond compensation;
- 3) Source talent broadly.

<sup>4</sup>Business Week, 10/4/99

### **Equity-based compensation**

The most obvious way to address the lure of the dot.com recruiting call is to include a higher variable pay component in key employee's compensation packages. These equity-like incentives include:

*Stock options*—The carrot dangled by the dot.coms, stock options are a powerful way of leveling the playing field, if a traditional company can issue them.

*Phantom/Tracking Stocks*—An alternative to a spin-off for privately held companies and divisions within public companies, phantom or tracking stocks offer long-term incentives similar to stock options. These are stocks with dividends tied to the financial performance of the e-business.

*Co-investment*—Co-investment opportunities give employees the chance to invest in e-business initiatives alongside the company. For example, if \$5 million is needed for an e-opportunity, the employer can allow employees to contribute, say, 20% or \$1 million (often loaning them the money interest-free). When the \$5 million turns

to \$50 million—as is hoped—employees receive a windfall of \$10 million.

*Bonuses*—Based on the performance of the business and the employee's position, companies may award cash bonuses at fixed intervals.

*Hybrid Schemes*—Some companies get especially creative when it comes to incentivizing their e-business employees. One company we interviewed benchmarked the salaries at a venture capital firm and a dot.com start-up to come up with a blended level pay scale. Then it established a mutual fund for employees that tracked the performance of the company's e-business initiatives.

### **Tailored Value Propositions**

While compensation is certainly an important piece of the employee value proposition puzzle, it is not the only—nor even necessarily the best—way to attract and retain talent in an e-economy. Traditional employers need to consider the broader value proposition they offer their employees and drive to make that

proposition as robust and flexible as they can. Indeed, they need to custom-tailor it to meet their key employees' needs.

Given that three of four dot.coms will likely fail,<sup>5</sup> “blue chip” employers still hold considerable appeal for many prospective employees—that is, if these incumbents can step up to the plate and offer a competitive and well-rounded package.

The truth is, large, traditional companies offer employees considerable and continuing benefits. These companies have a proven track record of success and often more opportunities for career advancement. They also offer more structure and job security than the ambiguous dot.com operating environment.

From a retention point of view, there are a lot of reasons why talented, motivated employees would choose to stay where they are. They have children in school, a mortgage, a support system they've developed in their local community. They have personal sweat equity invested in the company they've worked years for and are loath to give that up. They might not want to work the long hours that most dot.coms demand.

In other words, traditional employers should not feel compelled to meet the dot.com compensation package dollar for dollar. Instead they should be looking beyond compensation at the key behavioral drivers of their target workforce. People are motivated by a complex web of intersecting influences, and companies are well served to take the

*“The industry supply and demand is out of balance and employers will have to get creative about how they compensate employees; no one has it figured out yet. Traditional companies must distinguish between whether they need Internet experience or literacy and then fill positions appropriately. They should tap into internal talent – those who wanted the IPO lifestyle are gone by now. Seek out the individual who is ambitious, somewhat risk averse, interested in a challenging job in the environment he is currently in. Many individuals in their mid-30s do not want the risk or lifestyle associated with a dot.com firm, nor do they want to manage capital-raising issues or interact with VCs and banks.”*

— Executive Recruiter

<sup>5</sup> Gartner Group, *The Business Technology Journal* 12/10/99

time to explore these myriad influences.

It takes more than just money to lure the right employees (see Exhibit 9). These people also want to feel a sense of *mission and impact*. They want a job that fulfills them emotionally and stimulates them intellectually. They want to make a meaningful difference on the organization as a whole.

Employees also seek out *development opportunities* such as “fast track” promotions, access to senior management and broad training opportunities. In fact, most employees place a premium on e-business experience. They see it as a ‘must-have’ for advanced job opportunities in the

future. One financial services firm we spoke with has employed all of these techniques and kept turnover very low as a result. FedEx plows 3% of its total expenses into training, six times the proportion at most companies.<sup>6</sup>

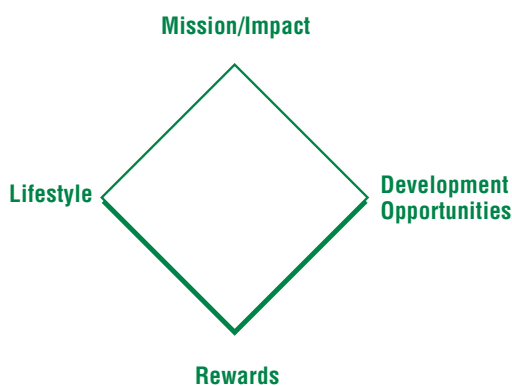
As for *culture and lifestyle*, traditional companies need to unleash the creative potential of their people. They need to create an internal environment that is empowering, fast-moving, progressive, flat and informal. They also need to tout the superior work/life programs they have developed over time. One company we surveyed mimicked dot.com behavior by bringing in pool tables and a more casual dress code to accomplish this aim.

Another noted, “We have been very successful at retaining people on lifestyle issues. People want to make a difference, but aren’t crazy about leaving their communities or signing up for 80-hour plus work weeks. If you give them the opportunity to make an impact, chances are they’ll take it.”

Finally, as we’ve stated before, *rewards* never go out of style. Companies must offer competitive compensation packages to attract and retain talented people.

## Exhibit 9. More than Money

### A MIX OF ELEMENTS TO TARGET PEOPLE . . .



### . . . MUCH MORE THAN JUST MONETARY COMPENSATION

What It Would Have Taken for an Ex-Employee from a Well-respected *Fortune 500* Company to Stay Versus Leave for an Internet Start-up (In Rank Order)

1. Opportunity to create a breakout business model—change the world  
“A 3-year window of opportunity to do something big. I can always go back to my old company.”
2. Capital funding and performance measures that facilitate breakout opportunity.  
“Focus on near-term earnings limits funding needed for breakout model.”
3. Compensation — equity upgrade.  
“My old company’s cash compensation is good but options are pretty small.”

Source: Booz•Allen & Hamilton

<sup>6</sup> *Business Week*, 10/4/99

Creating the right mix of career development opportunities, lifestyle benefits and compensation is a complex task, which varies on a case-by-case basis. Exhibit 10 illustrates some potential value propositions tailored to specific e-opportunities.

There is some question as to whether corporate human resources departments, as traditionally configured, are up to the challenge of delivering these multi-faceted, tailored-value propositions.

Unfortunately, many Human Resources departments respond to the mandate for change with traditional responses such as new grade levels, meaningless titles and shifted pay ranges. For example, one e-executive we interviewed lamented that it took him months to finalize the compensation package he was offering talent because of all the red tape in HR. He needed to offer a certain salary level, but HR wouldn't approve it because of the grade level of the position. He eventually named everyone he

hired a vice president, just to get the package he needed. Given HR intransigence in certain cases, the central e-business team often takes the lead in defining the "people" side of the various e-businesses in the company's portfolio.

Longer term, however, many companies will need to revisit their approach to human resources management and attract innovative thinkers to these positions. HR departments need to shift from an administrative

**Exhibit 10. Example Tailored Value Propositions**

		TYPE OF E-COMMERCE OPPORTUNITY		
		EMBED BACK INTO EXISTING BUSINESSES	BUILD SEPARATE BUSINESS UNIT	IPO OR JV
TAILORED VALUE PROPOSITION	MISSION	<ul style="list-style-type: none"> <li>To transform the existing businesses by making e-strategy synonymous with business strategy</li> </ul>	<ul style="list-style-type: none"> <li>To guide a traditional business into an environment where speed and flexibility are everything</li> </ul>	<ul style="list-style-type: none"> <li>To build a completely new product or service offering leveraging Internet technology</li> </ul>
	KEY CHALLENGES	<ul style="list-style-type: none"> <li>Getting others in the organization on board</li> <li>Managing implementation across several business units</li> <li>Running the business while simultaneously changing the business</li> </ul>	<ul style="list-style-type: none"> <li>Attracting top technical and business talent</li> <li>Increasing the speed of internal decision making</li> <li>Leveraging existing brand equity</li> <li>Motivating the "old company" employees to provide required capabilities</li> </ul>	<ul style="list-style-type: none"> <li>Branding the product or service</li> <li>Finding the right strategy</li> <li>Enhancing the customer experience</li> <li>Leveraging technology and infrastructure</li> <li>Attracting top technical and business talent</li> <li>Leveraging the parents' assets</li> </ul>
	INCENTIVES	<ul style="list-style-type: none"> <li>Leverage personal equity and experience with the company</li> <li>Opportunity to change a company and make an impact</li> <li>Access to senior executives</li> <li>Viewed as a future company leader</li> <li>More stable work environment and lifestyle</li> <li>A creative compensation package of salary, bonus, stock options and benefits</li> </ul>	<ul style="list-style-type: none"> <li>A more entrepreneurial venture without all the personal risk</li> <li>Opportunity to change a company and make an impact</li> <li>Access to senior executives</li> <li>Viewed as a future company leader</li> <li>More stable work environment and lifestyle</li> <li>A creative compensation package of salary, bonus, stock options and benefits (potentially for "old company" staff as well)</li> </ul>	<ul style="list-style-type: none"> <li>Greater wealth-generating potential</li> <li>A mission to change the world</li> <li>A cutting edge product or service</li> <li>A smaller, more intimate environment</li> </ul>

Source: Booz•Allen & Hamilton

mindset to a marketing point of view. Their job is to “pitch” the company to the right candidates and then keep them motivated and satisfied. Given the Internet economy’s expedited turnover rates, this is no easy task. Companies can no longer merely counteroffer with a higher salary to keep their employees. They must establish a competitive, flexible and custom-tailored value proposition that preempts possible resignations. Companies of all descriptions, including executive search firms, struggle with how to fill this tall order.

**Source Talent Broadly**

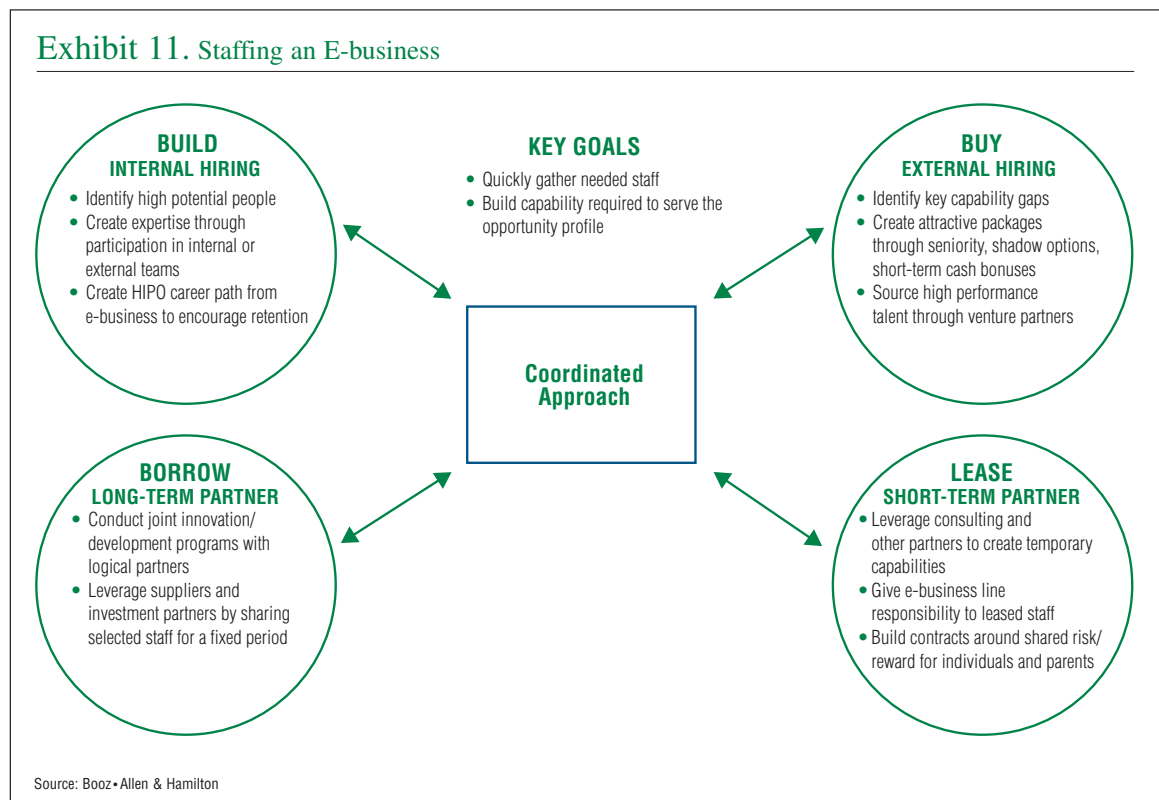
Given the tough recruiting environment we’ve just described, companies need to think creatively about how they fill the skills gaps they have. Their dilemma is exacerbated by the following Internet market forces:

- *Uncertainty*—In many cases, companies are not exactly sure of what or how much they need when it comes to various skills and capabilities. And given the fact that these needs will change over time, they wonder how many of the new positions should be added to the company’s payroll versus outsourcing them.
- *Speed*—Speed has been and always will be critical in staking

a claim in e-space, and filling positions quickly is an imperative. Our interviews and work with clients indicate this is one of the thorniest issues for companies trying to transition to e-business.

- *Scarce Experience*—While some skills are easier to secure than others, much of this talent market is brand new. Experience is a scarce and therefore prized commodity.

Faced with these grim realities, companies have started to source their talent more broadly. They are looking at options beyond the simple hire; they can build, buy, borrow or lease (see Exhibit 11).



It is possible for more traditional companies to compete head-to-head with the dot.coms for talent if they keep these options in mind and exploit them. Through internal identification and development of high-potential employees, organizations can “build” e-capabilities. In fact, one financial services executive we interviewed said, “Internal hires can make things happen more quickly because they understand the organization better. Just make sure the new rules of the game are explained to them.”

Companies can also “buy” talent by creating attractive packages combining seniority, shadow options and short-term bonuses or some of the other value propositions mentioned above. Many of the companies we’ve talked to have seeded their e-business teams with external Internet-experienced people and then trained additional personnel in the technical and other needed skills as time moves on.

Traditional companies can “borrow” talent by leveraging the resources of partners and vendors. Finally, they can “lease” them through contractors, consulting firms, alumni networks or temporary staffing agencies on an as-needed basis. Many leading edge companies are finding creative ways to find the talent they need.

The key is to develop and maintain a coordinated and carefully targeted approach to staffing e-business opportunities—and move quickly. And, as with anything related to the Internet, be creative. Cisco Systems, as an

example, shops for talent at the Los Altos Wine & Art Festival and the Santa Clara Home & Garden show, as well as the more typical job fairs. The company has even parked a mobile billboard alongside the California freeway suggesting to frustrated drivers that they could cut their commute by working for Cisco.

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## Conclusion

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Organization and people issues, the subjects of this *Viewpoint*, are essentially two sides of the same coin. Just as organizational structure clearly impacts people strategy, so people needs tend to influence an e-opportunity’s end game structure. In fact, the need for innovative human resources practices and policies is often a key driver in the decision to create separate e-business structures. And the way an e-business is set up structurally is often a major factor in attracting and retaining key talent. So the two are inextricably linked.

To successfully manage these two issues, companies must chart their own Internet course, prepare to juggle a myriad of e-opportunities, recognize that e-opportunities vary, be cognizant of the evolutionary path of e-business and, finally, leverage their strengths to attract and retain talent.

## What Booz·Allen Brings

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Booz·Allen & Hamilton is a global management and technology consulting firm. In more than 90 offices, our team of 9,000 professionals serves the world’s leading industrial, service and governmental organizations. Each member of our multinational team has a single common goal – to help every client we serve achieve and maintain success.

As world markets mature, and competition on an international scale quickens, we are harnessing the strengths of our entire firm to address the needs of our clients. Specifically, by combining the deep functional and industry knowledge of our Worldwide Commercial Business with the technology expertise of our Worldwide Technology Business, we are uniquely positioned to solve the most challenging e-business problems.

We assist clients in developing their e-strategy and agenda, launching and implementing specific e-opportunities (e.g., new businesses, customer management, portal/Web site strategy, e-sourcing, value chain restructuring, innovation, etc.), and developing Web sites. Additionally, we support venture capital firms and private equity fund managers to increase the success of their e-business ventures.

For more information on our e-business service offering, please contact any member of the Booz·Allen team.

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