IT, the internet & competitiveness: How IT impacts my company

Richard H. Bard, Leo Th. Schrutt, Thomas M. Shane

Richard H. Bard has founded or acquired six companies, starting in 1978 when he ended his early career with Citicorp. After building revenues, he sold the first five of these companies. His most recent enterprise is IdeaSpring, Inc., which he formed in 1999 to invest in early stage e-commerce and technology companies. Bard holds an MBA in finance from Baruch College, City University of New York, and a B.S. in civil engineering, Pennsylvania State University.

Leo Th. Schrutt, Ph.D. has held positions in the finance sector his whole career. He is a Member of the Group Executive Board, Julius Baer Holding Ltd. and Head of Institutional Asset Management, which has about $40 billion under management. Prior to Julius Baer, Schrutt was with SBC Switzerland, president of the Swiss Bank Corporation Investment Foundation. He earned a doctor of political science at Basle University.

Thomas M. Shane is chairman of the board of Shane Co., a privately held corporation established in 1971 and headquartered in Denver. One of the largest direct diamond importers in the U.S., Shane Co. has 20 stores across the nation. Tom Shane is a graduate of the University of Colorado where he majored in marketing. He has had extensive executive training at Harvard Business School and Northwestern University. He serves on the advisory board of CU Denver's Bard Center for Entrepreneurship Development.

In the following panel discussion, participants were asked to talk about the impact of the Internet on their business, the size of the impact, and whether they see the Internet as an opportunity or a threat.

Moderator Steven C. Halstedt described the companies represented on the panel, saying, "We have one company, Symblus, that has an entire business model based upon the Internet. It's a big impact and it's a huge opportunity for that business model because of that."

The other two companies -- Julius Baer and Shane Co. -- are bricks-and-clicks companies, Halstedt said. "They have made substantial investments in investigating the Internet and in implementing it to the extent that they think it makes sense for their business."

Supply chain management
Richard H. Bard: Symblus

For Richard H. Bard, the impact of the Internet is big; it created the niche that Symblus was developed to fill. Symblus is a business consulting company specializing in supply chain management and solutions for Internet-focused business-to-business companies.

Through the use of "enabling technologies" related to data warehousing and data information, Symblus helps companies dramatically improve back office operations across the value chain: Suppliers, manufacturing/assembly, fulfillment, distribution, clients. Other links in the chain include personalized fulfillment, supplier integration, global distribution, end-to-end visibility, inventory management, and service partnerships.

"It's all the information that makes suppliers and buyers work together to create better product movement - getting it to the customer quicker and more competitively than somebody else."
Only a few months old, Symbius was established to fill the rapidly growing need for supply chain logistics. According to forecasts by several research companies, e-commerce consulting is enjoying a 46 percent annual growth rate. And the supply chain management software industry, at $2.6 billion in 1998, will grow to $18.6 billion by 2003 -- a 48 percent annual growth rate.

Prior to the Internet, said Bard, supply and warehousing decisions were not the responsibility of a CEO. But supply chain management has now become a critical factor in a company's success. "If CEOs don't get this right, they get fired."

Symbius helps companies design the optimum systems and guides them through the implementation cycle. "Our customers can virtually beat anyone, from trucking companies that want to become fulfillment houses for dot-coms, to supply companies that want to go direct from the manufacturer to a building site - the old brick and mortar manufacturing companies that have to get to the new economy."

As a solutions company, Symbius does not develop software. But it does have a proprietary knowledge library and the professional expertise "to stay current on new and existing technologies so we can come up with the right solution."We set up the desired metrics and then we monitor the system. And as new technology becomes available, it's the way we have of continuing a relationship with the client. We'll go back and do a diagnostic about once a year and reset their metrics to their competitor world," said Bard.

"The beauty of the Internet is that it's put everyone on the same computer, basically. Everyone is on the same platform; you don't have everyone running on different systems that have to talk to each other."

Julius Baer is a "fabulous brand name," said Leo Schrutt. "It stands for the fine art of private banking and Swiss banking. We are now in Europe probably the biggest private banking group." Baer's clientele consists of high net-worth individuals and institutional clients, especially pension funds.

While Schrutt views the Internet as a big opportunity, "it has a relatively small impact on my business at first glance. Conceptually, it is not very new," he said. For Baer, the Internet is an additional tool in a tool box that includes the mail, the fax, telephone, and an electronic link to the stock exchange or to brokers.

"While the use of the Internet for executing securities transactions is still at an early stage in Europe, other areas make wide use of the new technologies," said Schrutt. The most significant are: Information at the macro and micro levels, transparency of stock market operations and transactions, mutual Fund sales, virtual banking, etc.

"Physical stock market trading has been largely replaced by electronic transactions," he said.

The Internet has simplified other functions, as well. It's no longer necessary to fax a client page after page of information; it can all be done via e-mail. And Schrutt appreciates being able to discuss a portfolio with a client thousands of miles away, while both of them view the same portfolio on the screen.

"This is not the revolution; it's just a process that is a little bit more facilitative."
Unlike smaller investors, Baer's professional clients "do not want to see the portfolio in real time, online; they don't have the time. They want to have a periodic update on performance." The other issue for Baer is security. "How can client data be protected while, at the same time, meeting client requests for Internet accessibility?" Baer has stand-alone solutions (separated from the main host) for its institutional clients, but the industry has not yet come up with satisfactory solutions for individual clients.

And while the Internet facilitates the flow of information, it can do nothing to facilitate the personal touch, which is so important to banking relationships. Baer's multimillion dollar investors like to see the person who is handling their money, Schrutt pointed out. "I'm not sure you can attract the high net-worth individual with that technology only."

Recently, however, Baer attracted its first institutional client through the Internet. It was a professional pension fund manager from Australia, who set up a large investment portfolio with Schrutt's people in London. It was all done online, and there was no personal contact at any point in the selection process. "But I expect this will be the exception for many years," said Schrutt, acknowledging that the Internet is "a big facilitator once you have the client's attention."

Shane Co., with retail jewelry stores in eleven states, is a brand name, said Tom Shane. "We stand for price leadership. Much of our marketing and competitive strength is predicated upon our successfully conveying to the prospective customer that we add value, as a retailer."

Each of the items at Shane Co. is presented as a unique piece. A customer trying to comparison shop might find something similar at another store, but it won't be identical. However, it should be reasonably close to satisfy the customer that "we provide a better quality product at a lower price and overall better value."

After experimenting with a Web site the last half of 1998, Shane Co. is getting ready to launch a new site in the fall, armed with information it obtained the first time around.

"On the new site, we'll be selling jewelry at the same price as we sell it in our stores. We view it as another store. We believe if we price the merchandise any differently, we're going to have a problem." Loose diamonds will not be sold on the Web site, though they will continue to be sold in the stores.

"Did we sense that we would lose business to the Internet if we didn't participate in it? The answer is No," said Shane. "In some areas of retail, the philosophy is that if you don't cannibalize yourself, a better operator will come along and do it for you. In general, we subscribe to that theory.

"Nonetheless, we feel that we're better off serving our existing customer base with the Internet, as well as giving prospective customers a convenient way to reach us."

Shane estimates that the new Web site will account for about 10 percent of his annual volume. Ultimately, the convenience factor may reduce the number of stores that are needed in outlying markets.

Shane does not think that competition from the Internet will cause him to lose his price leadership position. "I don't think the dot-coms that are selling jewelry will be able to deliver online cheaper than we
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do. I don't believe their operating costs and their fulfillment costs are going to be lower than ours are in a store." Nor does Shane think his operation will be undersold "by anybody that's in the business of selling a quality product and making a profit."

On the other hand, the Shane Co. Web site will be able to offer better selection and prices than independent jewelers. "So it's an opportunity, but a relatively small one."

It's possible, though, that the Internet could become a bigger opportunity if it provides clues to expansion. As geographical buying patterns emerge, they may identify areas for future stores. "I think it will give us a chance to become global much sooner."

Also, Shane believes that repeat sales will be higher on the Internet than it is in the stores. "The idea that customers can buy 24-7 will go a long way."

Shane said, "The real threat is not from the Internet, but rather from the effect the dot-coms have had on advertising costs and availability. Last fall, the price of our advertising shot up because of competition from dot-coms buying TV and radio spots. That had more of an impact on us than anything else."