World class companies in the 21st Century

Francis McInerney

Francis McInerney and partner Sean White founded North River Ventures in 1990 with a simple mission: To build the shareholder value of their clients. A New York-based investment firm and venture consultancy specializing in telecommunications, NRV advises carriers, manufacturers and telecom investors the world over on the best way to grow and prosper in telecom during this period of extreme turbulence. With Bell Canada, Matsushita Electric, The Centennial Funds, and Vanguard Venture Partners, NRV has formed CentCom V, an electronics communications business accelerator located in Palo Alto, Calif. McInerney and White have authored "Future Wealth: Investing in the Second Great Wave of Technology."

Francis McInerney was scheduled to talk about “Future Wealth: Investing in the Second Great Wave of Technology,” the book he coauthored with Sean White. However, his flight out of Denver was cancelled due to weather conditions, and he was unable to get to Aspen. Donald L. Stevens, director of the Institute for International Business, made the presentation.

Throughout history, the falling cost of information has been the driving force in the creation of wealth, say authors McInerney and White. This is especially true in today's Internet world, which is revolutionizing the global economy and creating fantastic opportunities for the accumulation of wealth.

In this new world, the consumer is king, powerful enough to dematerialize whole industries. An example would be the CD industry, now at risk because content can be transmitted over the Internet, making it unnecessary for consumers to go into a store to buy product.

Companies must understand the dynamics involved and become skilled at using the Internet to cut distribution time and build a direct relationship with customers. Those companies that understand the forces at work will prosper; those that don't will fall into the "black hole of cyberspace." In fact, say McInerney and White, some Fortune 50 companies won't be around in a few years, while some much smaller companies will do well.

The authors identify four world class companies which they think have most effectively harnessed these forces to separate themselves from the rest of the world: Charles Schwab, Wal-Mart, Dell Computer and Cisco Systems. They all have in common great cash flow, huge market share, rapid growth, and strong brands that will survive the test of time in the global economy.

Amazon.com, Sprint, and Sony also have bright futures. On the other hand, the authors are doubtful about the futures of AT&T, Intel, and Yahoo!. Yahoo!, they say, is dangerously reliant on advertising, an unproven revenue stream on the Internet.

The power of information

The concept is simple: Information can be substituted for other assets, such as labor, land and capital.

Authors McInerney and White say that this concept is represented by Moore's law which states that the price performance of microprocessors doubles every 18 months. (Based on an observation made by Gordon Moore in 1965, in which he described a trend that is still accurate.)

"Moore's law has induced what McInerney and White call a 'big bang' in the information universe. There is an incredible increase in the capacity of microprocessors, which has resulted in an incredible decrease in the cost of information. The big bang has made PCs cheap and powerful enough to be widely available, and launched the Internet as a major way of connecting the world," said Stevens.
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"The convergence of TV and the Internet create what the authors call an ‘information singularity.’ So today, the mechanics of wealth creation are built on the underlying principle that the cost of information is always falling. Ahead are successful opportunities, behind is this black hole."

Iron laws

The book outlines four iron laws of information:

- Cheap information always chases out expensive information.
- Disorder always increases.
- Profit always flows to the least regulated company or market.
- Laws 1-3 always operate simultaneously on any organization.

A Forum guest elaborated on the second law. "The Internet market is a perfect example of disorder always increasing. If you have an environment in which discovery, innovation, and diffusion are occurring, and they can happen more rapidly, they will," he said.

"So you see disorder increasing in all the marketplaces as the cost of information falls and enables you to substitute it for something else. This is a negative economy in the sense that you put a small amount of energy in and you get a large amount of energy out."

Economic development and the cost of information

All through history, according to McInerney and White, the falling cost of information has triggered changes in technology and economic development.

"For thousands of years, agriculture was the central activity around which people lived. How to get food to grow and how to harvest food was central to survival," explained Don Stevens in his presentation of the book "Future Wealth."

"But all of a sudden information and knowledge began to accumulate about how to make the land more productive. People learned when to plant, when to water, and how and when to fertilize the crops. And this information substituted for a whole lot of labor that was misused and not productive," said Stevens.

In the last 100 years, the substitution of knowledge for agricultural labor has helped emerging economies become developed economies.

Emerging economies, said Stevens, have anywhere from 30 percent to 60 percent of their population involved in agriculture. In the U.S., only 1 percent to 2 percent of our population is involved in agriculture, but we have incredible output."