



Bargaining Power

Achieving sustainable advantage is always a corporate goal. In the New Economy, understanding and developing networked business leadership is required to succeed.

A New Economy Series White Paper
from Cambridge Technology Partners



Foreword

Last year, when super-CEO Jack Welch described General Electric's new Internet exchange business, he trumpeted the company's increased leverage over its suppliers.

He missed the point. Bilateral leverage is only part of the equation.

For many otherwise smart business leaders, the sheer complexity and fluidity of today's New Economy has muddied the notion of the exchange of value. Although they've grown up with the concept of bilateral trade — between supplier and purchasing agent, for example — and although they've been able to keep up with the idea of basic eMarkets, they've **lost sight of how bargaining power affects entire networks** of business entities.

Jack Welch, along with countless other executives, may have missed a crucial point. The Internet takes the exchange of value from a local plane — entity-to-entity interactions — to a constantly shifting network of trading maneuvers. It converts the potential energy locked inside networks of business relationships into the kinetic energy that characterizes bargaining power today.

The real potential of Internet exchange mechanisms has less to do with one trading partner's ability to extract an advantage from another and **much more to do with the ability of the entire value-creating network — buyers, sellers and trading communities — to appropriate bargaining power.**

In this white paper, Cambridge Technology Partners lays out three distinct contexts in which bargaining power must now be viewed. And we make the case that a new skill is needed; we call it "network leadership."

This is where you start to understand what it takes to apply bargaining power to best effect — and to become a network leader.

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Introduction:

The Real Power of Exchange

To most economists, bargaining power is the ability of one party to influence the outcome of an exchange in order to realize an economic surplus. But that definition doesn't go nearly far enough today.

In what seems in hindsight to have been a headlong rush to exploit the power of the Internet, companies of every stripe have concentrated on using the technology to redouble their efforts to engage customers, strengthen relationships and increase market share. And with good reason. Since the exchange of information almost always precedes an exchange of value — the buying and selling of goods and services — what better application is there for a ubiquitous communications medium?

In their exuberance, most businesses lost sight of the fact that as an exchange mechanism, the principal power of the Internet was to enlarge the bargaining power enjoyed by the buyer. Now more than ever, thanks to the transparency provided by the Internet, customers could easily find the consummate offering of price and utility, could easily determine whose offering was wanting as well as whose wasn't, and could easily act on the information so conveniently provided. But in the rush to acquire new customers, most companies forgot that a principal advantage of the Internet was the bargaining power they might gain as potential customers themselves.

While the ultimate impact of the Internet as

an exchange mechanism has yet to be determined, we can begin to gauge its speed and trajectory. Business models have already begun to evolve in response to lower exchange costs. Long-standing hierarchies in industries as old as automobiles, banking and insurance are slowly starting to crumble and morph into market-mediated networks. Just look at how the Covisint exchange organization is beginning to rearrange the building blocks of the global auto industry.

Now, as most companies come to grips with the longer-term consequences of the Internet as a means of exchanging value, it's appropriate to reflect on exactly how the redistribution of bargaining power will reshape or reinforce the boundaries of the company.

While there are many activities that fuel the engine of what's been called the New Economy, one of the oldest and most widely recognized is the proclivity for humans to traffic in the exchange of goods and services in order to realize a favorable outcome. From the earliest farmers' markets to the Silk Road from Europe to the Orient to today's complex web of global commerce, trade is humankind's most enduring occupation.

Regardless of our age, background or cultural differences, our species seems predisposed to engage in the activity we call bargaining. In fact, most of us would readily confess that we enjoy it. The satisfaction we obtain from bargaining rests both with the effort we invest and the outcome we achieve through the consummation of a transaction — an exchange of value. Very often this satisfaction can be subjective or emotional in nature: after all, one man's trash is another man's treasure, an axiom at the heart of several Internet businesses such as auctioneer eBay.

But for a majority of transactions where demand is relatively constant and value is routinely established by price and competition, exchange becomes a serious business where the outcome can determine the success or failure of the parties to the transaction. Many

The effects of bargaining power do not begin and end with the consummation of a simple transaction between two parties.

auto-industry suppliers still wince at the memory of the draconian price cuts demanded by the executive who headed General Motors' procurement in the early 1990s.

In the normal course of business, the ability to predict with some certainty that an exchange

will result in a positive outcome is said to be a reflection of the bargaining power enjoyed by each party to a particular transaction. Economists characterize this slightly differently. To most economists, bargaining power is considered the ability of one party to influence the outcome of an exchange in order to realize an economic surplus. This surplus may not be readily apparent to either party at the time of the transaction, and it need not represent an immediate material gain. The surplus itself may not become apparent until a later time during what may seem to be a subsequent, unrelated exchange; yesterday's price of grain may enlarge or reduce the baker's profits tomorrow. Similarly, bargaining power need not only serve one party at the expense of the other. In fact, successful bargaining is judged by the satisfaction of both parties to a transaction. So when both parties obtain a surplus, they are both deemed to have enjoyed some form of bargaining power.

But the effects of bargaining power do not begin and end with the consummation of a simple transaction between two parties. In an economy as complex and as global as ours, the value derived from exchange is created through the continuous transformation of goods and services between multiple trading partners. Under such conditions, the real power of bargaining cannot simply be measured by the satisfaction of two parties to a single transaction. It results from the accumulated

economic surplus produced through multiple exchanges of value. For instance, crude oil, a fundamental energy feedstock, has tremendous value potential as fertilizers, plastics, medicines, solvents and explosives.

In an economy as complex and as global as ours, the value derived from exchange is created through the continuous transformation of goods and services between multiple trading partners.

While there's widespread acknowledgement of the Internet's facility to communicate and inform, its power to influence the fundamental structure and behavior of the economy is only beginning to be understood. As an agent of commerce, the Internet has to date been employed primarily as an exchange mechanism. Since it seems uniquely suited to this task, it stands to reason that it is here that the Internet's influence will be most evident. The degree to which the Internet will succeed in altering the behavior of the economy will largely be the degree to which it can influence the distribution of bargaining power between the various trading entities that make up the New Economy.

The odds are that for many transactions, the bargaining power between certain elements of the economy will not be significantly altered simply by virtue of the introduction of a new electronic means to exchange goods and services. Napster may scare the pants off of music executives, but it probably hasn't caused too many cement companies to rethink their Internet marketing plans. In instances where the exchange mechanism doesn't influence bargaining power, chances are that other economic circumstances particular to that industry will determine how each player realizes an economic surplus by bargaining. However, where the Internet succeeds in redistributing bargaining power between the different elements of the economy, we can anticipate that larger and more profound changes will occur. Then the very nature of the governance of economic activity is likely to change — and along with it the prospects of the players that make up those segments in the New Economy. ■

Experiments in Bargaining Power

Despite the hype, B2C eCommerce has not changed the economy — B2B will.



To date we have seen two successive attempts — experiments, really — to employ the Internet to substantially alter the behavior of the modern economy. Each has focused on the use of the Internet as an exchange mechanism — the medium whereby goods and services are bought and sold. Each has focused on a different set of constituencies — the first on business-to-consumer (B2C) and the second on business-to-business (B2B) — as the primary beneficiaries of the proposed change. And each promised that it would revolutionize the way in which business would be conducted in the 21st century. The likelihood is that they eventually will. However, it's abundantly clear that the promised changes have not mysteriously repealed the laws that govern the modern economy.

In fact, in many ways, these initiatives have succeeded and failed in precisely the ways that economists have long predicted they might. The notion that the form of economic governance would evolve as a consequence of exchange costs has been widely subscribed to for years. Likewise, the idea that buyers and sellers would behave differently based on the availability of information within a given market has also been thoroughly explored. The economic benefit resulting from the

complementary specialization of competencies was first proposed by Adam Smith over 200 years ago. So it seems that in many ways the New Economy still adheres to some time-tested and well-known rules.

At this juncture, the challenge faced by most organizations — whether dot.com, brick and click or brick and mortar — is not in conceiving an end to the economic world order, but to anticipate how technology-driven changes to economic activity will produce tangible benefits. The potential to create new and totally unique business models will remain a powerful incentive to experiment with technology. However, a critical examination of the changes wrought by existing experiments already indicates where leverage exists in the application of the Internet as an exchange mechanism. Evidence suggests that where the Internet can affect a shift in bargaining power between the incumbents in a given industry or market, the likelihood is that the change will have a lasting and profound effect on the overall governance of economic activity for that particular industry. When this occurs, the affected players will have to reestablish a new balance of power between themselves, their suppliers and their customers.

Experiment #1: EVERYWHERE A DOT.COM

The first experiment in using the Internet as an exchange mechanism focused primarily on B2C, engaging the nearly \$5.0 trillion domestic market represented by consumers. Here, embodied by the Internet, was the perfect blend of information, entertainment, community and commerce that was ideally suited to engage consumers and stimulate transactions. Or so the logic went. Everyone acknowledged right up front that there were a few kinks that would have to be worked out to perfect the medium for consumers. Security would need to be tightened. Fulfillment would need to be seamless. Service would need to be enhanced. Privacy would have to be protected. Issues to be sure, but nothing that couldn't be addressed through the normal course of technology adoption.

What wasn't as easily addressed were the costs required to acquire customers for a class of items often ill-suited to the current economics of the medium. Frequently, the products in question were low-priced and had inherently lower margins, demand was random, and impulse proved as easy to abandon as shopping carts in cyberspace. In spite of

the millions spent on co-branding and tenancy deals, the “buying moment” for one category could not easily subsidize the sale of another as it traditionally did in conventional retail since the products themselves were often on separate Web sites. Finally, and most important, the value of relationships could not be fully realized because the relationships themselves could not be easily sustained.

For many consumer-oriented products and services, technology did not decide the success or failure of the Internet as an exchange mechanism; economics did. For many products, the cost to acquire customers using

the medium simply exceeded the value of the relationships produced. And while consumers enjoyed an increase in bargaining power brought about by increased information transparency, lower search costs and greater convenience, rarely was this directly translated into increased purchasing power. Prices for all but a few consumer goods remained at or near parity with their offline counterparts. Research conducted by the Center for eBusiness at the Massachusetts Institute of Technology indicates that the prices consumers pay online for some items such as books can be from 6% to 16% lower than

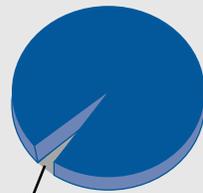
conventional retail. However, for most consumer products that difference is often made up simply by adding back the shipping costs and sales tax. In all but a few instances, the bargaining power of consumers and the online eTailers that hoped to win them over was not substantially improved by the current generation of Internet marketing techniques.

Consequently, narrowly focused consumer dot.coms have begun to drop like mosquitoes in an early frost. Some consumer sites such as boo.com, Living.com, Petstore.com, Toysmart.com, Healthshop.com and Redrocket.com have already expired. Others find their prospects hanging

BARGAINING POWER AND INTERNET EXCHANGE MECHANISMS

B2C Adoption 2004

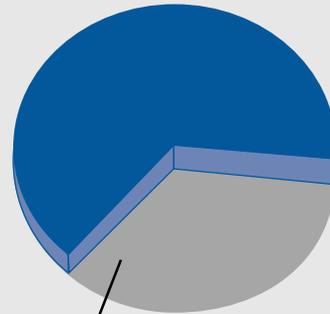
Total Domestic Consumer Spending = \$5.0 Trillion



Total Consumer Spending Online = \$200 Billion

B2B Adoption 2004

Total Domestic B2B Spending = \$16.9 Trillion



Total B2B Spending Online = \$5.7 Trillion

Bargaining power can act to accelerate the adoption of Internet-based exchange mechanisms. Where there is little or no redistribution of bargaining power, such as in B2C, adoption will be slow. But where there is significant redistribution of bargaining power, as in B2B, adoption will be aggressive.

Source: Cambridge Composite of Analyst Estimates: AMR, IDC, Forrester, SalomonSmithBarney

by a thread. Many analysts acknowledge that by 2004, when the Internet as a retail channel will be seven years old, only \$200 billion or about 4% of total domestic consumer spending will be completed online. As a consumer-oriented exchange mechanism, the Internet seems destined to become more of a channel augmentation than channel replacement strategy.

Experiment #2: BUSINESS EXCHANGES

The second initiative focused on exploiting the potential efficiencies of the Internet as an exchange mechanism between business entities. Here was an arena populated by rational actors where bargaining power mattered and where keeping score meant keeping customers. The stakes are high and very real. (See "Business Models for the New Economy," another in Cambridge Technology Partners' New Economy series of white papers.)

Like B2C, most initial B2B eCommerce initiatives started out as proprietary extensions of existing sales and marketing practices. And they too face daunting challenges with privacy, security and fulfillment. However, within the last eighteen months a new model has emerged. Shared Internet exchange mechanisms (what Cambridge has previously referred to as "eMarkets") that facilitate the exchange of goods and services in a specific category of product or service, industry or

value chain have suddenly captured the imagination, not to mention a growing number of the B2B transactions of more and more Fortune 500 businesses. At the same time, there is a growing recognition that private exchanges in the form of Web-enabled, bilateral trading mechanisms will become an important part of trusted trading relationships.

eMarkets' success is evident in their rate of adoption and in the redistribution of bargaining power these mechanisms afford the parties that employ them. Estimates put

the portion of transactions conducted through eMarkets at anywhere from 17% to 33% of total B2B trade, or as much as \$5.7 trillion, by 2004. While we may not know yet how many industrial exchanges will survive or which of the hundreds now in operation will prove successful, increasingly, the economics of these mechanisms appear to be both sound and compelling. For starters, the cost of exchanging goods and services using eMarkets is anticipated to be around 2% to 3% of the value of the transaction in question. Compare

FORECASTED IMPACT ON COMBINED FINANCIAL STATEMENT OF COVISINT SPONSORS		
	STATUS QUO	eMARKETPLACE
INCOME STATEMENT		
Revenue growth	+1.5%/year	+1.5%/year
Growth margin	No Change	+100 bp
SG&A % of sales	No Change	-130 bp
Other income growth	+1.0%/year	+1.0%/year
Interest rate on new cash	NA	4.5%
Tax rate	No Change	No Change
BALANCE SHEET		
<i>Assets</i>		
Trade DSOs	No Change	Cut in half by 2005
Inventory turnover	No Change	365 turns by 2005
Other current assets	+1.0%/year	+1.0%/year
Net PP&E	+1.0%/year	-0.5%/year
Other assets	No Change	No Change
<i>Liabilities</i>		
Trade payables/cost of goods	No Change	Cut in half by 2005
Other current liabilities	+1.0%/year	+1.0%/year
Other liabilities	No Change	No Change
Debt	No Change	No Change
CASH FLOW STATEMENT		
DEPRECIATION/AMORTIZATION = CAPITAL EX — NO NEW FINANCINGS		
Between 2001 – 2005, the use of an eMarket is projected to produce \$21.1B and \$24.9B in net cash from income statement and balance sheet activities, respectively.		

Source: SalomonSmithBarney

this to sales expense for B2B transactions ranging anywhere from 9% to 30%, depending upon the type of product or service being sold and the nature of the distribution mechanism employed.

Assuming that these eMarkets charge for additional services such as market analytics and integrated business services, the transaction fee might increase to somewhere around 6% of the value of the transaction. That would still represent a 30% to 80% reduction in exchange costs exclusive of any transaction costs explicitly assumed by the buyer. Add in the reduction of buyer-borne purchasing costs and exchange costs could be reduced by as much as 28% to 90%, savings enjoyed by both parties that could immediately be reflected in the cost of the items being sold. Similarly, the transparency provided by shared exchange mechanisms can have dramatic effects on the purchasing power enjoyed by buyers. Anecdotal evidence from reverse-bid B2B companies such as FreeMarkets suggests that in such auctions, buyers can realize anywhere from 10% to 30% reductions in the price of goods acquired. A recent report from SalomonSmithBarney estimates that during the next four years the Covisint exchange has the potential to generate \$46.0 billion in net new cash to its three principal sponsors — an outcome that can be quickly turned to competitive advantage. (See chart on page 8.)

Today, we are only beginning to see the

adoption of shared, Internet exchange mechanisms. There will probably be several generations of eMarkets before sustainable mechanisms are established. However, given the fact that these mechanisms can substantially redistribute bargaining power, in most instances placing more power in the hands of the buyer, the likelihood is that they will become permanent additions to most B2B value chains. In the process, the redistribution of bargaining power will cause most value chains to undergo fundamental restructuring, diminishing the leverage of incumbent players and anointing fresh contenders, until a new balance of power emerges.

Traditionally, hierarchical business models have enjoyed significant bargaining power due to the combination and number of value-creating processes brought under proprietary control. (See “Business Models for the New Economy,” another in Cambridge Technology Partners’ New Economy series of white papers.) Some of this power was derived from the amortization of fixed costs over unit production, or the subsidization of multiple revenue opportunities through the application of common business processes — economies of scale and scope. Some came about through the utilization of assets or competencies uniquely designed for the creation of a particular product or service. And some accrued through the elimination of exchange costs that would have compounded if the

product or service in question could only be produced through the transfer of value between numerous discrete entities.

Increasingly, the case could be made that the bargaining power traditionally enjoyed by large hierarchical organizations will be gradually eroded by the lower exchange costs afforded by Internet-based exchange. In industries where this occurs, it’s highly probable that the governance of economic activity will move from proprietary command-and-control organizational structures to market-mediated networks. In both their private and public forms, these networks will comprise loose confederations of value-producing entities serving common end-markets whose activities are coordinated through bargaining within shared exchange mechanisms.

The winners in this environment will be those businesses that can correctly determine the extent to which their bargaining power will be enhanced or diminished using such shared exchange mechanisms. Just as important will be a concise understanding of what roles the company, the market and the industry play in creating or destroying bargaining power for a particular business entity in the context of new network-based business models.

Knowing the source of economic surplus, whether it originates through financial leverage, exchange mechanisms, the company or the industry, will become the key to success in the New Economy. ■

The Sources and Uses of Bargaining Power

Internet exchange mechanisms are by no means the only factor at work in shifting the patterns of bargaining power.

In the long run, the Internet will almost certainly change the way in which all types of commerce are conducted. However, the largest near-term opportunity appears to be in altering how goods and services are exchanged between businesses that align their activities to compete for common end-markets.

Very often the players involved in these activities constitute a complex value chain. In these instances exchange mechanisms might easily provide for the redistribution of bargaining power between specific trading partners. In fact, the hesitancy of many companies to join an Internet exchange is an open acknowledgement of the exchange's potential to transfer bargaining power downstream to customers and to end markets. As we will see, this need not always be the case.

But exchange mechanisms are not the only way for players to harness bargaining power. Another significant influence factor is the composition of the company itself and how well-suited it is to cooperate or compete for the markets it seeks to serve. For instance, successful innovation in the creation of a product or service offering is perhaps the best means a company has to obtain and wield

bargaining power. If you are the first and only company to cure the common cold, you will enjoy tremendous bargaining power.

A third source of power has to do with the industry as a whole and how process specialization and subsidization combine to produce and transfer economic surpluses between trading partners and markets. For instance, many industries, including insurance, pharmaceuticals, agriculture, and pulp and paper products, employ sophisticated independent distribution networks whose economies of scope produce a shared economic surplus. Contract manufacturing plays a similar role for the high-tech industry. But regardless of company composition or industry structure, the ultimate source of economic surplus enjoyed by the constituents that make up a particular value chain originates from the end market being served. Where markets fail to gain an economic surplus through improved innovation or productivity, none can be shared with the constituents that make up the value chain for that particular activity. For instance, despite the marvelous technological advances in health care, the cost borne by individuals that enjoy these benefits continues to increase. This apparent lack of productivity

has caused healthcare benefits to become a target for elimination by other industries and has invited increasing amounts of government regulation, a circumstance even well-funded Internet companies such as WebMD seem helpless to address.

Internet exchange mechanisms can affect a powerful redistribution of bargaining power between value-producing and value-consuming entities, but only when measured in terms of the economic surplus or deficit experienced by the end market in question. In other words, while Internet exchange mechanisms might provide a unique advantage to specific trading partners, the real power of Internet exchange rests in its ability to create an economic surplus for all of the entities that make up the value-creating network.

In the next few pages, we'll examine how the discrete attributes of exchange mechanisms, companies and industries combine to determine how economic surpluses and company boundaries are shaped by bargaining power.

Bargaining Power and Exchange Mechanisms

The success factors for Internet exchange mechanisms are clear: they will need to lower the cost of completing an exchange, provide greater amounts of information to improve trading decisions, perform reliably, provide services to facilitate exchange, and increase the amount of value derived by trading partners.

The importance of each of these factors can vary from industry to industry as well as by where in the value transformation process the exchange occurs. The exchange mechanism best suited for trading commodities early in the value transformation process will probably not be the preferred exchange mechanism for trading partners that sit downstream.

In selecting a particular exchange mechanism — whether public or private, shared or bilateral — every opportunity for one party to exert bargaining power over a particular aspect of an exchange is counterbalanced by the other party's ability to exert influence over that same aspect of the exchange. Buyers and sellers figuratively occupy two sides of the same coin.

However, whether an exchange occurs early or late in the value transformation process, in a public or private venue, there are certain attributes that all exchange mechanisms possess that facilitate the transfer of bargaining power between the parties to any given transaction. Some of these attributes are subtle such as the degree to which sellers and buyers can value offers and bids in the context of changing market conditions — an abrupt change in weather can alter prices for commodities from oil to oranges.

Cambridge has identified four primary dimensions where buyers and sellers can increase or decrease bargaining power based on the way in which value is exchanged. These are:

1. **exchange costs** — or the opportunity to influence the cost of exchanging value;
2. **transparency** — or the availability of information to make informed trading decisions;
3. **trust** — in the ability of the mechanism to faithfully represent and execute the transactions; and
4. **collaboration** — the opportunity to facilitate the exchange of information between trading partners.

Exchange Costs

The nature of the mechanism used to make the exchange can in many instances influence the relative amounts of bargaining power that buyers and sellers enjoy. Conventional exchange techniques often favor the seller. Asymmetric information, inability to control exchange costs, bundled offers and indirect channels often furnish sellers increased amounts of bargaining power during conventional exchange processes. However, Internet-based exchange mechanisms — eMarkets in particular — can change that.

For instance, Internet-based exchange mechanisms can often transfer bargaining power downstream to buyers simply by lowering their cost to do business. Buyers can choose to opt-in/opt-out of the new exchange mechanism based on whether total purchasing costs are substantially lowered as a result of using the exchange mechanism. Sellers have the same opt-in/opt-out opportunity depending on

whether or not costs of customer acquisition are reduced. However, if buyers determine that substantial advantages exist in moving to a new exchange mechanism, it will be difficult for sellers to resist. Under such circumstances, sellers may have little choice but to attempt to use the same exchange technique to extract increased bargaining power from their own trading partners.

For industries that have perennially high costs of sales and consequently high costs of facilitating transactions, the decision to adopt a lower cost, Internet-based exchange mechanism should be relatively straightforward. Both parties win. In fact, the successful adoption of eMarkets will likely hinge on whether both buyer and seller can simultaneously experience an increase in bargaining power and lower costs through the use of a shared trading mechanism.

Transparency

In the short term, the increase in transparency — the amount of information available to improve trading decisions — is probably the single largest factor fueling the adoption of Internet exchange mechanisms. Current sentiment suggests that higher degrees of transparency will assist buyers in overcoming information asymmetry, giving them significantly more bargaining power. Similarly, if buyers can increase their visibility to the total number of sellers, or available offers, they can enlarge their bargaining power as well. This

also explains why some sellers are reluctant to join buyer-sponsored eMarkets. Sellers can also increase their bargaining power if they can gain greater visibility to a larger number of buyers or find additional ways to gain access to higher-value opportunities. That's how shared exchange mechanisms can simultaneously increase bargaining power on both sides.

For many industries, the visibility to downstream opportunities is why eMarkets, or shared exchange mechanisms, are likely to emerge upstream or early in the value-creation process and private, bilateral exchanges are likely to occur downstream or later in large complex value chains (see sidebar). Take the case of a provider of raw material or building-block components: its products can be transformed into a number of different

applications with different relative values. Oil can become gasoline or plastics. Coal converts into electricity or steel. Silicon wafers can power mobile phones or PCs. But once consigned to a particular application — say the silicon slice is etched into an integrated circuit for a mass-market PC instead of a missile guidance system — the degree of added specialization will limit the opportunities that a product can address downstream. Hence, bargaining power for component suppliers stems from the ability to view each opportunity with respect to its relative value next to all other available opportunities that could be realized from the exchange.

To a degree, the issue of diminishing downstream opportunities can be overcome if the number of options available to the end market

is constantly changing. For instance, several consumer products such as financial services, automobiles, computers and mobile phones could find their value chains "book ended" by shared eMarkets. When consumers can configure their preferences online, the relative value of the component inputs that make up the final product would change based on shifts in the end-market demand. In such instances, complete end-to-end transparency has the potential to influence upstream price and availability of component inputs and would increase the amount of bargaining power of the suppliers that participated through a shared exchange mechanism. The Intel Inside campaign is a clear example of an effort to influence consumer preference in order to enhance the bargaining power of an otherwise commodity component. A start-up

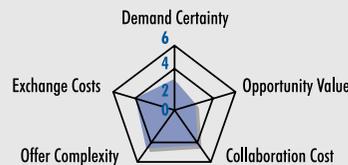
EXCHANGE ATTRIBUTES AND BARGAINING POWER

Exchange mechanisms with different properties are better suited to transferring bargaining power between buyers and sellers depending upon where in the value transformation process they are employed and how they support value-creating activities. Early in the value chain, eMarkets support commodity exchanges that need visibility to and assessment of the value of opportunities at stake. Later in the value chain, mechanisms that support higher degrees of collaboration are important. Where products near the culmination of value in build-to-order situations in their terminal markets, private bilateral exchanges help ensure that the exchange process preserves and enhances value.

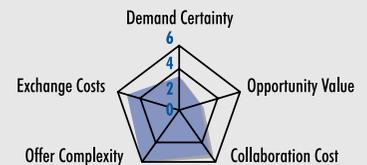
Commodity Exchange



Collaborative Exchange



Bilateral Exchange



firm, Model E, is attempting to do the same thing for the automobile industry allowing consumers to select specific components in the fabrication of a completely custom car. As we will see later, this type of end-to-end transparency is beginning to influence the trading techniques and bargaining power of the players that make up the high-tech manufacturing sector.

Trust

In order to be successful, an exchange mechanism must secure the trust of the parties that employ it. This begins with whether or not an exchange performs in a consistent and reliable fashion but is more than a simple matter of availability. The exchange must be an honest broker, faithfully representing all of the information pertinent to a particular transaction. In many cases this means exposing not only all the offers and opportunities available at any particular moment, but also the trading behavior of the parties behind them. This is why a growing number of eMarkets are incorporating business services such as Avantrust, a joint venture of the American International Group (AIG) and the Dun & Bradstreet Corporation. Avantrust helps indemnify the parties to Internet trade by providing authentication and verification services to trading partners. These services include the verification of identities, inspection of goods, identification of credit risk and insurance of delivery. Since a significant portion of exchange cost is directly related to the

formation and performance of contracts (see "Rethinking Customer Acquisition," another in Cambridge Technology Partners' series of New Economy white papers) the ability of the exchange mechanism to mitigate these costs is an important factor.

Where the Internet succeeds in redistributing bargaining power between the different elements of the economy...the governance of economic activity is likely to change — and along with it the prospects of the players that make up those segments in the New Economy.

Collaboration

In many respects, transparency to price, availability and quality information need not only provide advantages to buyers. Several studies have shown that the more information that buyers obtain, the greater their propensity to act on information other than price. Buyers might discount price information in light of evidence that sellers behave opportunistically when it comes to issues of service and satisfaction. As the amount of information

surrounding trading practices becomes available, there is a strong case to be made that information other than price and offer/opportunity transparency will determine successful trading relationships.

This is especially true downstream in complex value chains where a significant degree of value transformation has been embedded in products. In such instances, Web-enabled bilateral trade may make more sense than do shared eMarkets since the total number and nature of downstream opportunities is dictated by the value potential of the product in its then-current state. Under those circumstances, trading partners have an added incentive to cooperate to ensure that the products so transformed realize their full value potential. For these trading partners, exchange mechanisms that can enlarge the amount of collaboration become more important than those that can increase the amount of offer/opportunity transparency.

As eMarkets mature, other aspects of exchange, including the degree to which trading partners can increase collaboration, may well have a greater impact on how bargaining power is achieved.

Bargaining Power and the Company

Businesses possess unique sets of properties that serve to either enhance or diminish the amount of bargaining power they enjoy.

There's a case to be made that the boundaries of the company reflect the bargaining power that the combination of its competencies, assets and processes produce. The greater the number of proprietary capabilities, the greater the bargaining power the company should enjoy over the market that it serves. But that isn't always the case. In many instances bargaining power is not derived directly from tangible assets but rather from the ability to create a uniquely invested offer. Coca-Cola may be flavored water but Coke, as a brand, enjoys tremendous amounts of bargaining power. Like exchange mechanisms, each of the dimensions that companies can employ to improve their bargaining power has a complementary aspect that their customers employ as buyers to influence the economic surplus that results from an exchange of value.

Bargaining power as a function of company capabilities has been debated by business strategists for several years. Thus far, this debate has not taken into account the ability of the Internet to substantially alter the relative advantage of incumbent firms due to lower exchange costs and newer exchange mechanisms. As this playing field now levels, Cambridge has pinpointed five key corporate dimensions that can influence the amount of bargaining power businesses have over the markets they serve:

1. **innovation and offer creation** — the ability to successfully create offers and commercialize innovations;

2. **economies of scale, scope and speed**

— the ability to achieve efficiencies in production, management and execution;

3. **cost of capital** — the capability to continually lower the cost of operations;

4. **trust** — for their performance in trading relationships; and

5. **position** — their ability to leverage upstream and downstream bargaining based on their location in the value-creation network.

Innovation and Offer Creation

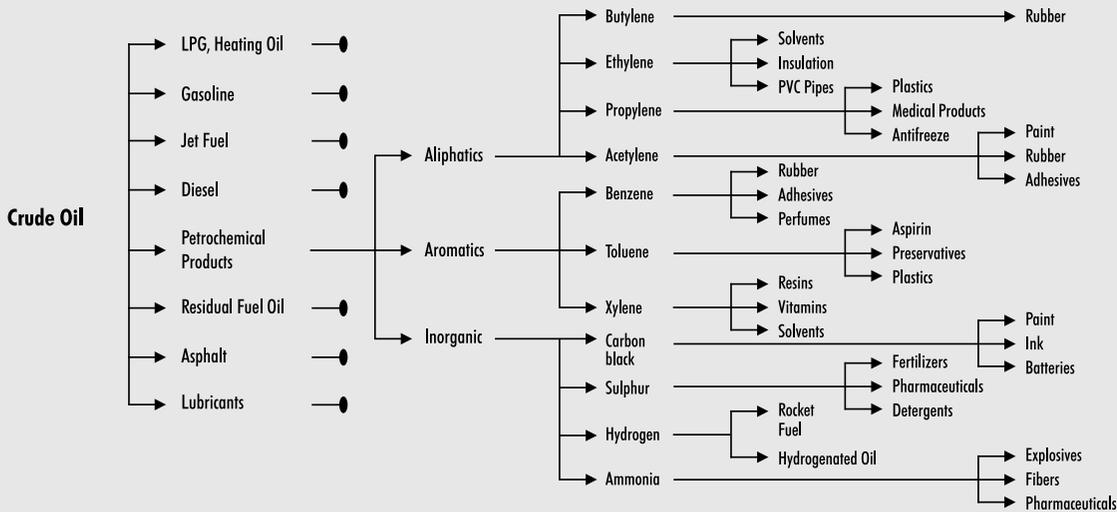
The first of these is arguably the most important. Few things can rival the economic consequences produced by the successful invention and commercialization of an innovative product or service. Usually this stems from exploiting a particular competency or group of competencies that are hard to imitate by either buyers or rival suppliers. This is not only true with respect to innovation but also with offer creation in general. Offers are often bundles of value incorporating different attributes of product, price, quality and service. Taken together they constitute the "buyer experience." To the extent that offers feature unique vendor capabilities, such as the ability to sustain the buyer experience over multiple product generations, the seller can enhance bargaining power. However, the buyer's desire to willingly accept a bundled offer or adopt an innovation in large measure deter-

mines the innovator's success. So when financial analysts are asked to predict who will be the next Microsoft, Pfizer or Charles Schwab, it's not surprising that they reply that the market will decide. (See "Creating Value Through Innovation," another in Cambridge Technology Partners' series of New Economy white papers.)

Economies

Companies also build bargaining power through process and asset efficiencies that result in higher rates of throughput or lower total costs of operation. For instance, companies can enhance bargaining power by exploiting economies of scale related to a particular process or economies of scope that provide for lower total costs from the amortization of shared common assets or management competencies. In most instances, these efficiencies are manifest in the cost a supplier bears in creating an offer for the market it wishes to serve. Lower total costs provide the seller greater flexibility in establishing price and greater degrees of freedom in selecting and accepting bids from the market. Also, the degree to which a seller can construct an offer that incorporates unique economies of scale or scope, the greater their bargaining power will be. For instance, financial services companies such as Citigroup can create extremely rich product offerings through the breadth of capabilities they maintain.

EXCHANGE MECHANISMS AND VALUE INVESTMENT — PETROLEUM PRODUCTS AND BY-PRODUCTS



eMarkets are often best employed early in the value transformation process when they can direct trade toward higher value opportunities. Later, collaborative exchange mechanisms help ensure that goods that have large amounts of invested value realize their greatest potential in their terminal markets.

Cost of Capital

In the final analysis, the customer bears all the costs to conceive, produce, acquire and use any product or service. These costs include the cost of money that is consumed to acquire the assets and establish the competencies that make up the value chain. In many instances it includes the cost to create credit in order to facilitate the transaction between the seller and buyer. All these various activities result in an accumula-

tion of cost that is directly related to the use of capital. Business entities that can lower the accumulated cost of capital can improve their bargaining power. But herein lies an interesting dilemma. If firms can increase their bargaining power by increasing the number of proprietary assets and processes, they also increase the amount of capital required to acquire those assets and sustain those processes. Where financial leverage in the pursuit of scale is a prereq-

uisite to success, as it seems to be in certain industries such as financial services, this may be a prudent course of action. However, where sheer size conveys no competitive advantage this can become a trap. Often, as we shall see later on in the case of high-tech manufacturing, the balance of competencies, processes and assets can either increase or diminish the amount of capital required and the bargaining power enjoyed by the company in question.

Trust

As in the case of exchange mechanisms, trust between trading partners becomes increasingly important when the successful outcome of a transaction, particularly its ultimate value,

becomes contingent upon performance of the trading partners. This usually occurs when one trading partner becomes highly vulnerable to the actions and decisions of another. For instance, a product whose market value is

predicated on the delivery of a production facility can be completely compromised if the facility isn't finished on schedule. In general, the greater the amount of value that can be derived from a particular transaction, the

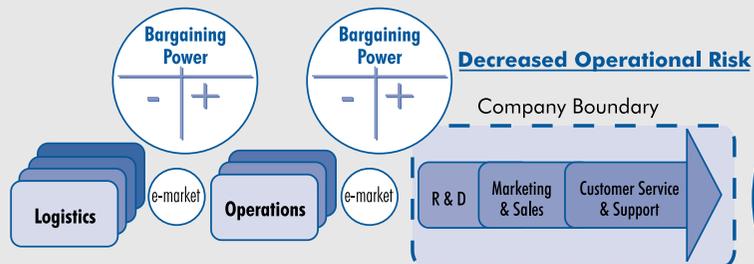
BARGAINING AND BOUNDARIES

Firms can increase or decrease the amount of proprietary processes and assets they employ based on whether or not the increased ownership provides greater or lesser degrees of bargaining power over the markets that they serve. In most instances firms will attempt to maximize the number of proprietary processes they own in order to extract the greatest amount of value from the market. However, every increase in capability represents an increase in invested capital and an increase in operational risk should anticipated demand not materialize. Firms can syndicate financial and operational risk by relying on partners to furnish capabilities. Where transaction mechanisms can provide increased bargaining power to the market-facing entity, firms can simultaneously lower risk and increase bargaining power.

Increased Operational Risk



Increasing the number of combined processes not only increases bargaining power, but also increases operational risk.



Decreasing the number of combined processes can lower operational risks while sustaining bargaining power for market-facing entities. This is especially true when upstream exchange mechanisms can transfer bargaining power to downstream trading partners.



greater the need for predictable performance from the parties to that transaction. (See “Trust Within Networked Businesses,” another in Cambridge Technology Partners’ series of New Economy white papers.)

Position

Companies are both buyers and sellers; their relative positions in their value chains also impact the bargaining power they enjoy. For instance, if a company sits downstream from key suppliers whose products or services comprise a critical aspect of the final product that the company seeks to produce, the upstream partner can wield a substantial amount of bargaining power. Without the contribution of its upstream trading partner, a market-facing company can be held hostage and fail to create value for its end market. Companies recognize this and seek to alter the bargaining power attributable to relative upstream/downstream position through a host of different tactics that include aggressive innovation to achieve substitution, long-term contracts, and mergers and acquisitions. GE’s recent purchase of Honeywell is frequently cited as a move to consolidate upstream bargaining power in the aerospace industry.

The selection and utilization of an exchange mechanism needs to be made in light of the bargaining dimensions and relative trading position of the company. If, for instance, the use of an Internet exchange mechanism can free working capital from demand-generation

activities so it can be applied to innovation and increased efficiency, then it might make sense to do so. If the market served is not a downstream trading partner but rather an after-market customer, then the use of an eMarket should reflect these circumstances as well. If end-market buyers adopt an exchange mechanism that allows them to specify upstream components, the bargaining power of intermediary suppliers can be compromised.

Finally, the decision not to employ an Internet exchange should be thoroughly examined. In many instances the decision not to employ an Internet trading mechanism may not immediately decrease bargaining power. However, if the market and competitors opt in, that could quickly change.

Bargaining Power and Markets and Industries

Where there are numerous players that make up a given value chain, there are numerous sources of bargaining power available to them. Only a portion of this bargaining power is directly related to exchange and the nature of the company; the rest is obtained from the composition and behavior of the industry and the markets that the companies seek to serve. Very often the members and activities that make up markets and industries create subsidies that aid in the creation and distribution of bargaining power. Markets and industries pose a chicken-or-the-egg conundrum. Since they aren’t discrete

entities, and emerge and evolve together, it is difficult to assign specific behaviors to each. However, Cambridge has identified three primary dimensions where the activities of markets and industries influence bargaining power:

1. **life cycles** — formation, steady state, and expiration;
2. **shared economies** — of scale, scope, and speed; and
3. **cross-subsidization** — of processes, inputs and infrastructure.

Knowing the source of economic surplus, whether it originates through financial leverage, exchange mechanisms, the company or the industry, will become the key to success in the New Economy.

Life Cycles

Generally, both markets and industries obtain and influence bargaining power based on their life cycles including formation, longevity and expiration. For example, in an instance of product innovation, rapid market formation can convey significant bargaining power to a single initial supplier until rivals enter and begin to acquire share. The longer a market

survives and the more consistent its demand, the greater the opportunity for rivals to add capacity, exploit economies of scale and lower costs, thereby increasing the bargaining power enjoyed by buyers. As markets mature,

The hesitancy of many companies to join an Internet exchange is an open acknowledgement of the exchange's potential to transfer bargaining power downstream to customers and to end markets.

rivals exhaust efficiencies, which often leads to a condition where market share lock-up occurs. Finally, as markets expire, suppliers are forced to merge, consolidate or redeploy capabilities and reconfigure offerings in search of higher value opportunities.

To some extent, exchange mechanisms facilitate all of these processes, variously improving or diminishing the bargaining power of the market constituents and their suppliers along the way. For instance, eBay in B2C markets, and FreeMarkets in B2B, have clearly demonstrated the role that Internet exchange mechanisms can play in the creation of markets. The auction of collectibles through eBay is a

good example of simultaneous market formation and expiration; the market exists only as long as the auction for a particular item remains in effect. Buyers enter and exit the market simultaneously. As a market maker, eBay primarily creates bargaining power for the seller, since in eBay's absence, the seller's offer could not easily or inexpensively obtain bids. But as a market maker, eBay also provides a subsidy for both the buyer and seller alike since without its market-making activity the transaction could not be completed.

Shared Economies

Very often different economic endeavors give rise to shared activities that over time produce shared benefits. This is often true when two or more industries participate in serving different aspects of a single market or when different industries share a common factor of production or fulfillment. In such instances, the combined activities from each industry can sometimes produce an economy of scale or scope that is jointly shared. This shared economy is often distributed to producers and consumers in the form of lower total costs.

For instance, mortgage banking, part of the financial services industry dedicated to producing loans, works in cooperation with the home builders, part of the construction industry, even though both are involved in two distinct economic activities. By sharing the same customer, they can often lower customer acquisition costs as well as lower overall busi-

ness risks while financing the construction of homes. This is true for a number of consumer-oriented industries including automobiles, health insurance and credit.

Similarly, businesses that have common needs can share common processes or services in order to lower costs and business risks. Shared business services, including logistics, contract manufacturing, contract customer management, facilities management, professional services, etc., fulfill primary needs while lowering capital expenditures and improving the cashflow for their customers. Many of these shared services achieve scale economies through the sheer number of customers that they service and these benefits can be passed along to their customers. Increasingly, network-based businesses will rely on shared services in order to harvest some of their scale properties and lower costs for the markets that they serve.

Cross-Subsidization

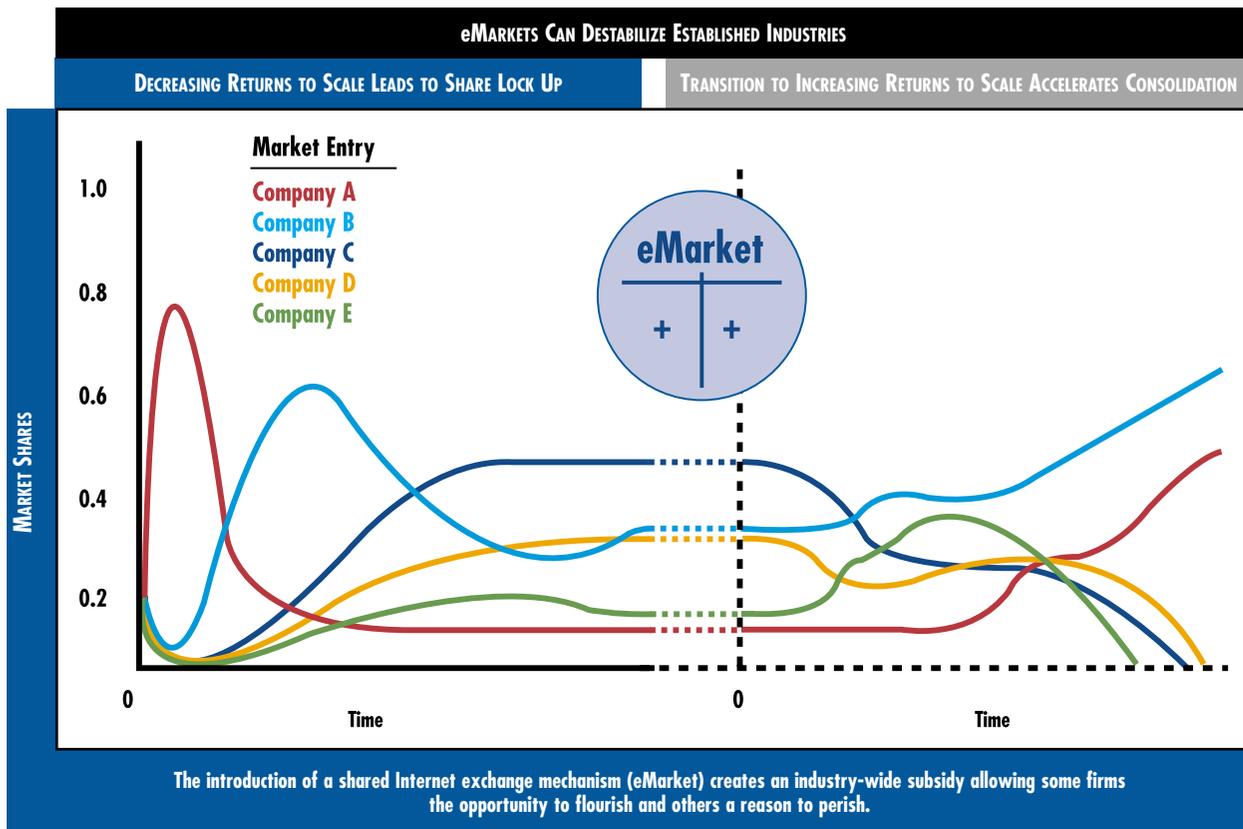
Increases and acceleration in demand are often accompanied by factors that enlarge and enhance the affordability of a given value proposition. Most often these increases are accompanied by increases in shared infrastructure. Highways enrich regional commerce. Airports expand air travel. The Internet expands international trade. With each addition of infrastructure, the opportunity to extend value penetration and market participation is enhanced.

For instance, most businesses expend a significant part of their economic model on market-making activities. These include using media to stimulate demand, engaging channels to locate buyers, and hiring and training sales forces to engage customers and facilitate transactions. It's not unusual for businesses to spend as much as 25% of every revenue dollar on market-making activities. Businesses recoup these expenses through the sale of their products and services, passing the costs along to the buyer. When numerous rivals engage in market-making activities, it is often said that they

jointly subsidize the demand-creating process since any effort to stimulate demand that results in a transaction, whether by the seller or a rival, is said to have influenced the market.

Successful Internet exchange mechanisms can furnish a similar market-making subsidy to a group of competitors. If the market aggressively adopts a lower-cost Internet exchange mechanism, it can produce a subsidy for competitors by lowering the conventional exchange costs that were formally part of their economic models. Under these conditions, competitors can immediately incorporate the lower exchange costs

into their economic models and pass the savings on to their customers. Or they can use the subsidy to fund activities that can enhance the value of their products or services. Companies that either refuse to participate in the new trading model or that simply take the savings to their bottom lines run the risk of being abandoned by their customers or outflanked by competitors that apply the subsidy to increase bargaining power in other areas. ■



Source: Cambridge & M. Mazzucato

Case in Point

The Distribution of Bargaining Power in High-Tech Manufacturing

High-tech manufacturing is frequently cited as an industry ideally suited for reorganization through the introduction of shared eMarkets.

In many ways the products themselves — computer and communication devices — lend a certain inertia to the acceptance of eMarkets. Most electronic products are assembled from standardized components whose specifications can be easily conveyed and whose conformance to published specifications can be readily established. Most of these products share some common components, so both buyers and sellers would be motivated to employ a common exchange mechanism that supports a critical mass of transactions and market-based liquidity.

So high-tech manufacturing could be an ideal candidate for the transition from large hierarchically based organizations to loose confederations of market-mediated networks where bargaining power could be easily redistributed through shared exchange mechanisms. On closer inspection, though, it appears that exchange mechanisms are not the only factor that determines how bargaining power is established and employed in that industry sector. As an emerging network-based value chain, high-tech manufacturing achieves a balance of bargaining power through a combination of exchange mechanisms, innovation, economies of scale, scope and speed, and the complex structural subsidies that stem from the nature of the industry.

For market-facing businesses like Nokia and Cisco, bargaining power comes from innovation, mostly in the guise of the products that they develop and occasionally, as in the case of Dell Computer, from the business processes it employs. These days, their consumer and business customers have started to adopt different types of Internet exchange mechanisms — both shared eMarkets and proprietary Web-enabled bilateral mechanisms — in an effort to wrest some of the bargaining power away from these innovators.

In turn, the Ciscos and Dells have aggressively outsourced manufacturing operations. Their primary rationale is clear: they know that owning manufacturing capacity only increases operational and financial risk without enlarging the bargaining power that comes from innovation. In turn, contract manufacturers have sparked a wave of mergers and acquisitions to realize an economy of scope that increases their bargaining power over their end markets — the innovators.

Further up the value chain, component suppliers and buyers have spun off eMarkets such as Converge and e2open in an effort to rebalance the bargaining power upstream and to impede the amount of bargaining power that the contract manufacturers are attempting to flex by increasing scope. In general, components have sufficiently low degrees of asset specialization that markets are more efficient at directing them to higher-value opportuni-

ties downstream. This same phenomenon can work between market-facing entities and consumer markets if the market mechanism can give buyers more choice in the configuration of their desired end products. In this case, the greater choice enjoyed by buyers can furnish component suppliers with higher-value opportunities than those selected by value-adding intermediaries.

Shared standards in component specification and business processes produce an industry-wide subsidy that creates an economy of speed, and that in turn lays the groundwork for the rapid introduction and retirement of technology-based devices that benefit consumers and businesses alike. The resulting value network is a hybrid made up of specialized hierarchies, bilateral networks and market-mediated exchanges that provide for the efficient distribution of bargaining power between the networked entities and the markets they serve.

If you were to look at the cash conversion cycles for each respective component of the value network, you'd find an interesting picture emerging. Using Standard & Poors data on publicly traded companies, we found that cash conversion cycles vary by the market being served as well as by whether the value-creation vehicle is networked or hierarchically based. B2C-oriented producers have an average cash conversion cycle of about nine days; B2B-oriented producers convert cash in 41 days,

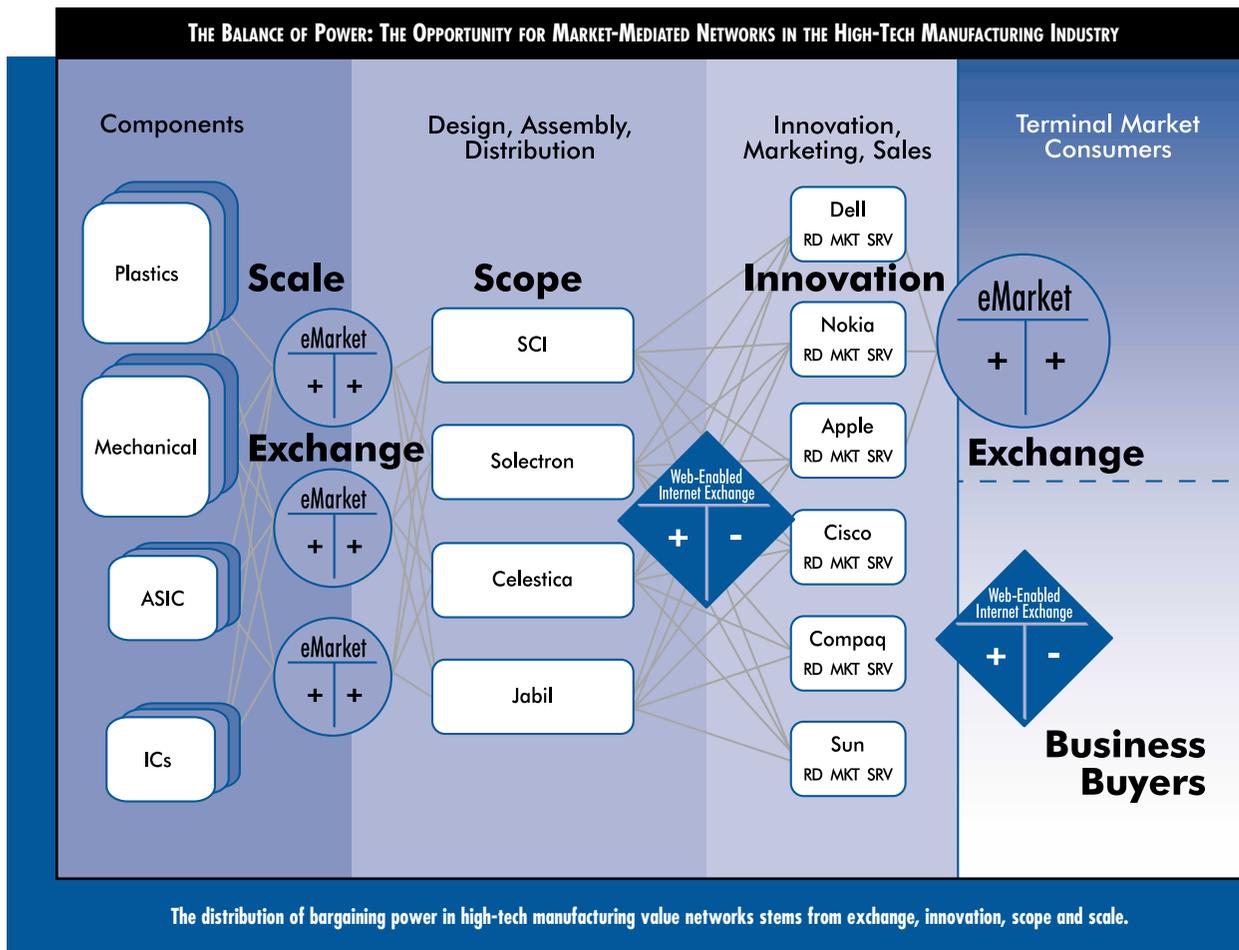
contract manufacturers in 32 days, and component suppliers in 70 to 116 days, depending upon the type of component manufactured.

When you compare the cash conversion properties of large, hierarchical manufacturers to those of network-based manufacturers, the differences are stunning. The latter feature a total end-to-end average cash conversion cycle of 121 days, whereas it takes B2B2C hierarchies 210 days to turn cash around. This

difference in cash conversion rates would be of only passing interest if the application of financial leverage in order to produce scale proved a significant competitive advantage for this industry. However, innovation appears to be much more important than sheer size when your products have an expected life span of no more than 18 months on average. If only a small portion of the working capital consumed by the combined value network

passed through to customers, both suppliers and consumers could experience increased bargaining power in the form of lower total costs.

But the economic advantages don't stop there. When your average day of cash conversion is equivalent to 1% to 2% of working capital, the slightest decrease in cash conversion can produce a substantial increase in liquidity. Very often this difference is directly reflected in bargaining power and market



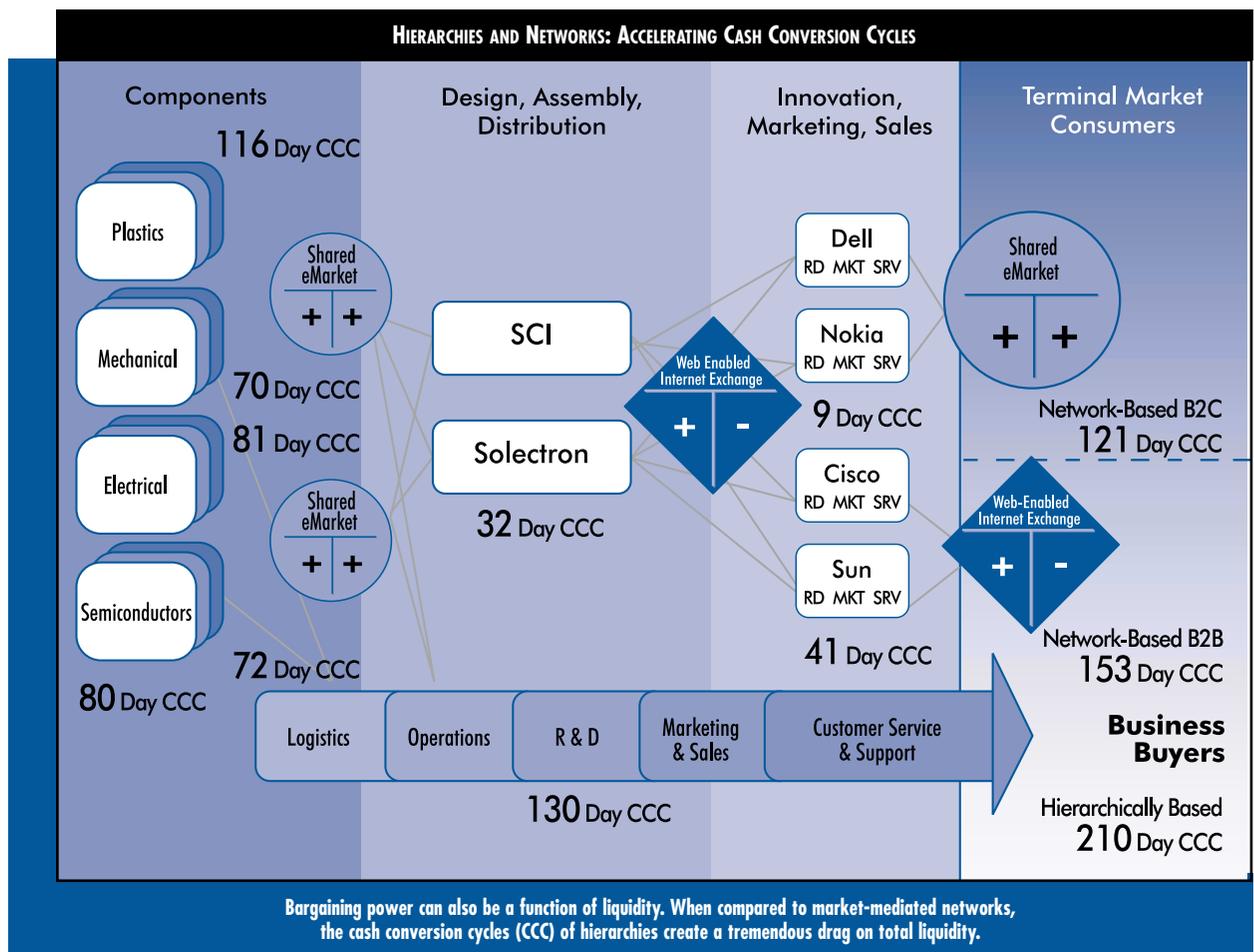
Source: Cambridge Technology Partners

capitalization. Companies with higher degrees of liquidity can pass lower total costs on to the markets that they serve and at the same time reward their shareholders with higher market capitalizations.

Cambridge, again using Standard & Poors data on publicly trading companies, has found that there is a significant correlation between changes in working capital and changes in market capitalization for many players in the

high-tech value network. For some, a 1% increase in working capital can result in as much as a 0.4% to 0.8% increase in market capitalization depending upon whether the existing business model is networked or hierarchically based. That may not sound like much, but applied to an Intel or a Cisco, it measures in the millions of dollars. Where such sensitivity exists, even the smallest acceleration in cash conversion cycles can

yield sharp increases in market capitalization. To the extent that Internet exchange mechanisms, both market-based and bilateral, can facilitate the creation of networked business models, there is a huge potential to unlock value for competitors, customers and shareholders alike. ■



Conclusion:

Where to from Here

In the overall scheme of things, exchange mechanisms are just one lever available to both buyers and sellers in the creation and distribution of bargaining power. The Internet, as an exchange mechanism, can sometimes alter the established bargaining positions of buyers and sellers and transfer bargaining power between them.

While this has not been of tremendous benefit to consumers, it appears that it has been — and will continue to be — of benefit to B2B trading partners. Business partners will still need to determine where and when the use of Internet exchange mechanisms will furnish them some form of advantage. In the case of eMarkets, this will usually occur when the total number of opportunities and the total number of offers can be simultaneously increased or improved for both parties. If these conditions don't exist, then private bilateral exchanges may become the preferred trading mechanism, where close collaboration can significantly reduce the amount of shared risk for trading partners serving common end-markets. Increasingly, the risk for any given business lies in not knowing which of these options to choose.

However, the real potential of Internet exchange mechanisms may have less to do with the ability of one trading partner to extract an advantage from another and much more to do with the ability of the entire trading network to realize an increase in bargaining power. That goes for buyers and

Several studies have shown that the more information that buyers obtain, the greater their propensity to act on information other than price.

sellers — industries and markets — alike. In the absence of operational and technological risk, where financial leverage can be employed to achieve comprehensive capabilities at lower total costs than market-mediated networks of specialized competencies — size beats speed and bigger is better. However, where exchange mechanisms can facilitate network specialization and accelerate liquidity without substantially increasing the amount of opera-

tional risk between trading partners, all the members of the value-creating network can realize an increase in bargaining power. The quick and nimble beat the big.

While this reasoning may seem to be a form of economic altruism, it isn't. Owners of business entities will still incentivize managers to realize as much economic surplus for their particular enterprise as possible. Profits still matter. But in a world where business models compete as aggressively as products and services, the model that produces and delivers the greatest amount of economic surplus to the market will likely be the one that wins.

Increasingly, the challenge for business leaders will not lie in wresting unilateral concessions from trading partners, but in constructing a trading community whose agenda is the appropriation of bargaining power from competing business models. Do this and you'll achieve sustainable advantage in the networked economy. ■



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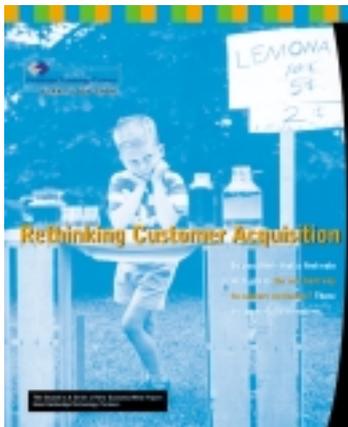
The New Economy

White Paper Series



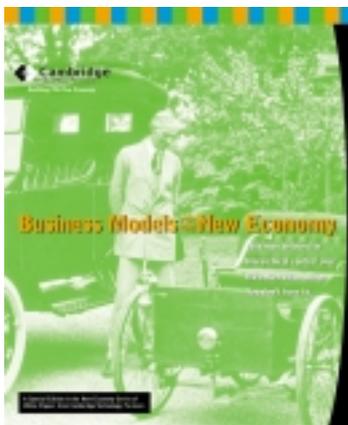
New Economy Primer

No business will be untouched by the New Economy. It will affect the way in which your organization must interact with customers, suppliers and employees, and it may provoke alliances with competitors and with temporary partners whose value-add you can't yet imagine. In the "New Economy Primer," a 50-page publication that launches the New Economy series from Cambridge Technology Partners, the New Economy is defined, put in historical context, and broken out in six dimensions whose characteristics are shared by all New Economy leaders. (Summary is also available.) ■



Rethinking Customer Acquisition

The Web is commonly viewed as an ideal mechanism for acquiring customers, especially when compared with proven but costly approaches such as advertising and direct mail. And many are enchanted with the ease with which it scales to reach more prospects. But in a medium where business models are evolving faster than the technology they're built upon, eMarkets — electronic mosaics of buyers and sellers — often prove much more effective at driving the right new customers in your direction. Learn more in "Rethinking Customer Acquisition," the second in the New Economy series from Cambridge Technology Partners. (Summary is also available.) ■



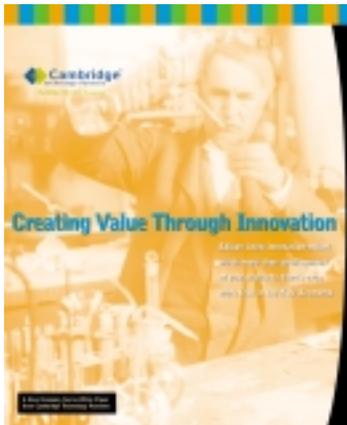
Business Models for the New Economy

We've lived so long with the "vertical" organizational structure — the hierarchical business model — that it would be reasonable to assume it's irreplaceable. Not so. Now that the Internet is promoting the evolution of organizations into value-producing and value-exchanging entities, networks and eMarkets become highly effective alternatives. So should your organization be structured differently? Find out in "Business Models for the New Economy," the third in the New Economy series. ■

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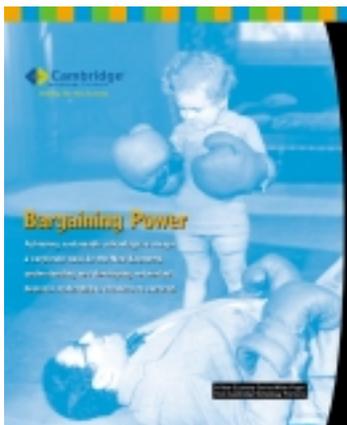
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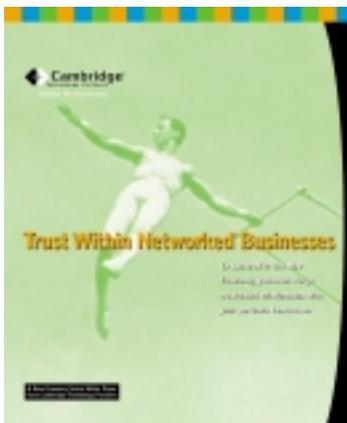
Creating Value Through Innovation

When businesspeople actively think about innovation, most think of it in terms of a shiny new product or perhaps a new manufacturing process. But innovation has always been about new business models too. Look how quickly the telegraph toppled the Pony Express. That's all the more true in an Internet economy, as Web sensations, such as amazon.com, have vividly demonstrated. "Creating Value Through Innovation," the fourth in the New Economy series, spells out the significance of "disruptive innovation" and argues for an "innovation portfolio" that helps balance profitability with market value. (Summary is also available.) ■



Bargaining Power

Thus far we have seen two successive attempts to use the Internet as an exchange mechanism to alter trade behavior — B2C and B2B. While the results of these experiments are mixed, one thing is clear: the Internet has the potential to fundamentally redistribute bargaining power, not just between trading partners but throughout entire trading networks. In this white paper, Cambridge lays out the case for how to convert the potential energy locked inside trade relationships today into the kinetic energy that characterizes the network leaders of tomorrow. ■



Trust Within Networked Businesses — Available Q2, 2001

One of the biggest inhibitors of the transition to networked business models is trust between trading partners. The shift requires you and your partners to jointly address head-on the conditions that foster the need for trust: risk and interdependency. "Trust Within Networked Businesses" explores the dynamics of trust within shared-risk environments. This paper lays out strategies for building trust as well as for dealing with the threat of partners acting opportunistically. The paper also makes the case for transparency amongst partners as a primary means to establish and maintain trust. ■



Cambridge Technology Partners provides strategic and management consulting as well as systems integration services to transform its clients into eBusinesses. Working in collaboration with Global 1000 and high-velocity middle market companies, Cambridge combines a deep understanding of New Economy issues with integrated, end-to-end services and a proven track record of shared risk and rapid, guaranteed delivery.

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