Chapter One

In Search of the Holy Grail

Make voyages. Attempt them. There's nothing else.

—Tennessee Williams

It's a simple fact: The rules of business have changed.

In the New Economy, it's all about speed and service. With today's instantaneous availability of information, new cultural trends can take hold globally within weeks—and fade just as rapidly. With technological advances occurring at such a pace, new products quickly gain in popularity, only to be replaced by more advanced gadgets.

What's more, customers are unwilling to settle for mass-produced items and plain-vanilla services. They want specialized products in the size, color, and shape they prefer. They expect these products to show up at the exact time and place they need them. To keep up, companies must anticipate changing market conditions and produce a greater variety of customized products in the rapid time frames customers expect.

The challenge for business has always been to get the right products and services to the customer at the right time and at the right price. It's an ever-greater challenge with today's accelerated pace. Corporations face a whirlwind of change, highly variable demand, and shifting economic, geographic, and political influences. Businesses no longer have an option: They must adapt to survive.

What happened during the dot-com crash to Cisco Systems, the leading supplier of telecommunications equipment and Internet routing infrastructure, provides a good example of the importance of being flexible as market conditions change. When business was booming in the 1990s, Cisco signed long-term contracts with suppliers committing to inventory

SHRINKING SHELF LIVES

Over the years, everyday consumer products and services have changed to accommodate the rapidly changing nature of people and their growing expectations. Today, consumers have a broader range of wants and are less willing to wait for them. A look at children's toys and music recording media provide cases in point.

Toys Lose Their Luster

In 1959, Mattel introduced the Barbie Doll, and more than 40 years later, it is still popular. Yet, toys introduced on the market today may have a shelf life of a couple of years, if that. There are Tamagotchi games, Beanie Babies, and Cabbage Patch Kids dolls. There are Star Wars and Power Ranger action figures and Harry Potter toys spawned by movies and books. There are Spice Girl dolls generated by the rock group.

Music Technology Quickly Advances

From the 1940s to the 1980s, teenagers bought LP recordings of their favorite music. Yet, today's teenagers will likely replace their music recording collections several times to keep up with advancing technology. The 33-rpm record, first introduced in 1948, was the leading audio storage technology until the compact disc surpassed it in the late 1980s. However, today MP3 files downloadable from the Internet are already superseding the CD. If the same pattern continues, MP3 will have an even shorter life span as it's replaced by even more advanced audio recording technology.

and production capacities months in advance. This allowed Cisco to speed shipments of products to customers and maintain profitability.

The approach worked well when times were good and sales were strong. But when the economy started to slow and many of the start-up telecommunications companies and Internet businesses Cisco served went out of business, the company suddenly found its warehouses full of obsolete routers and other networking equipment, with payments due on contracted capacity commitments. Cisco suddenly became painfully aware of the need to quickly adapt to anticipate potential market shifts. Once they occurred, the company lacked the ability to respond to them in a timely fashion.

This inability to comprehend what was happening and respond quickly cost the company dearly. Cisco's revenues dropped 30 percent in the first quarter of 2001 over the previous three months, and the company announced it would lay off 8,500 workers and write off $2.5 billion in excess inventory.[1]

The situation wasn't unique to Cisco. Many high-tech companies were caught off guard by the dot-com failures. Although market changes will always be difficult to predict, companies can no longer afford to run their businesses assuming that market conditions won't change or

A HAZE OVER HAYES MODEMS*

When Dennis C. Hayes, the father of the personal computer modem, first developed the device in 1977, he had no idea his popular invention would spawn a company that would ultimately collapse due to its inability to adapt to market changes.

Hayes Corp., originally D.C. Hayes Associates Inc., was the premier maker of computer modems through the 1980s and into the 1990s. The company established an industry standard for modem commands and relished in its dominance over a market that saw most other modem makers label their products as "Hayes compatible."

Personal problems and a prior bankruptcy filing distracted the founder and his company, causing Hayes Corp. to stumble. Analysts and industry experts say Hayes was slow to capitalize on the upgrade to 56kbps modems just as overseas sales slipped due to the Asian economic crisis.

Suddenly, Hayes had trouble competing with equivalent models from U.S. Robotics, 3Com, and other modem makers. Meanwhile, modems began to be bundled with PCs, which, coupled with competition from low-cost Asian manufacturers, turned the dial-up modem into a commodity.

By then, Hayes had overproduced its modems, leading to excess inventory and the eventual halting of manufacturing shifts, worker layoffs, and a second Chapter 11 bankruptcy filing in 1998. Hayes failed to recognize the shifting market, overproduced its products, and couldn't sell its excess inventory. Hayes failed to adapt, and the company died.

* The Great Idea Finder, "Dennis C. Hayes" (October 30, 2001), http://www.ideafinder.com/history/inventors/hayes.htm.

will change at the same pace as yesteryear. To play by the new rules of today's fast-moving economy, businesses need mechanisms to allow them to swiftly react and change direction—even when they cannot foresee what lies ahead.

THE CURRENT BUSINESS CLIMATE

Today, businesses face a number of key challenges:

- *Globalization Demands Ever-Quicker Response Times.* For most companies, it is no longer sufficient to have an international presence with stand-alone bureaus in multiple countries. A company's operations, products, and employees must now be coordinated globally yet enable local operators to react to local market conditions on a local basis. The complexity of operating on a global scale requires that organizations have the infrastructure in place to "follow the sun" 24 hours a day, seven days a week, worldwide. Companies are doing business with new partners in unfamiliar languages and distant time zones. They are employing workers in different cultures with different work habits and legal protections. They are competing with companies, products, and ways of doing business that may be completely unfamiliar. And they are branching into new and unfamiliar markets. Meeting these challenges requires that businesses respond quickly and communicate instantaneously across all their operations worldwide.
- *Industrial Production Capacity Exceeds Demand.* Improvements to manufacturing processes have resulted in a situation where many industries now produce more goods than the economy has the capacity to consume. Moreover, the speed at which companies can add new production capacity outpaces the speed at which new markets develop. As a result, companies are increasingly finding themselves in a position where they cannot sell enough products to keep ahead of working capital, additionally, these companies look for ways to market the excess capacity through collaborative activities with companies that may require additional capacity. To thrive in this environment, companies must identify new, creative opportunities to market their products.
- *Working Capital Is Increasingly Limited.* The expectations of capital lending institutions have changed, creating a more competitive

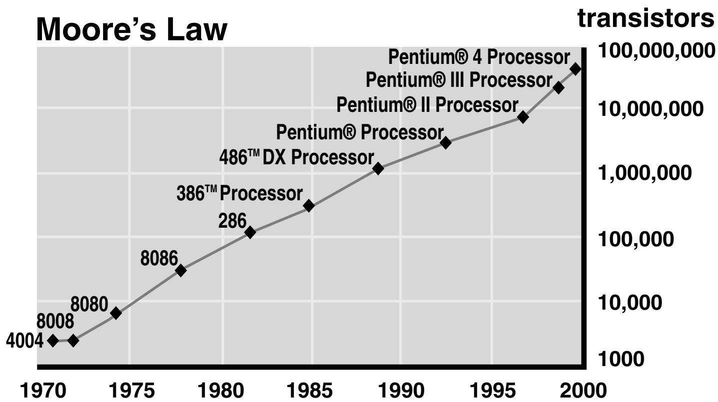
environment for access to working capital. Today, institutions are focused on earnings per share and price-and-earnings ratios (P&Es), and prefer sustained, quick-turnaround returns over long-term investments. Companies are forced first to fight for capital, and then to focus on business practices that stress short-term performance in an effort to deliver positive quarterly results, even if these actions are not in the best interest of the long-term viability and health of the company. Companies need to find ways to borrow less working capital and use it more efficiently.

- *Consumers Have Higher Expectations Than Ever Before.* Consumers have become accustomed to getting what they want, the way they want it, right here, right now. Mass-produced goods and services no longer suffice in a climate where consumers increasingly expect customized goods and services to be tailored to their unique taste. For instance, cable TV brings in hundreds of channels 24 hours a day. But even so, consumers are increasingly turning to digital recording devices like TiVo, which allow viewers to personalize their cable programming into their own "channels." For example, the machine can be programmed to record only Star Trek reruns, Italian soccer games or all the films in a given week that star Audrey Hepburn.

But it's not just entertainment. Consumer expectations are higher than ever across a broad spectrum of industries. For example, 20 years ago travel by airplane was expensive, time-consuming to arrange and restricted mostly to well-dressed business travelers. Today, nearly everyone can afford to fly, and customers instead have turned to complaining about the food, how long it takes to reach their destination, and how crowded the planes are. Today if customers don't find the price they want, or the flexibility in layover stops and flight times, they frequently will seek out another competitor.

These factors—increasing globalization, excess capacity, reduced access to capital, and higher customer expectations—present new challenges for business. To meet these challenges, companies need to be more adaptable and flexible than ever before. They need to develop quick response times on a global basis. They need to develop new markets for their products and borrow working capital more efficiently. They need to adapt to keep up with their competitors and to respond to changes in customer demand. In the New Economy, speed and variety are key. Although some companies have made strides in meeting growing expectations, many businesses are struggling to keep up with the pace (see Figure 1.1).

FIGURE 1.1 MOORE'S LAW



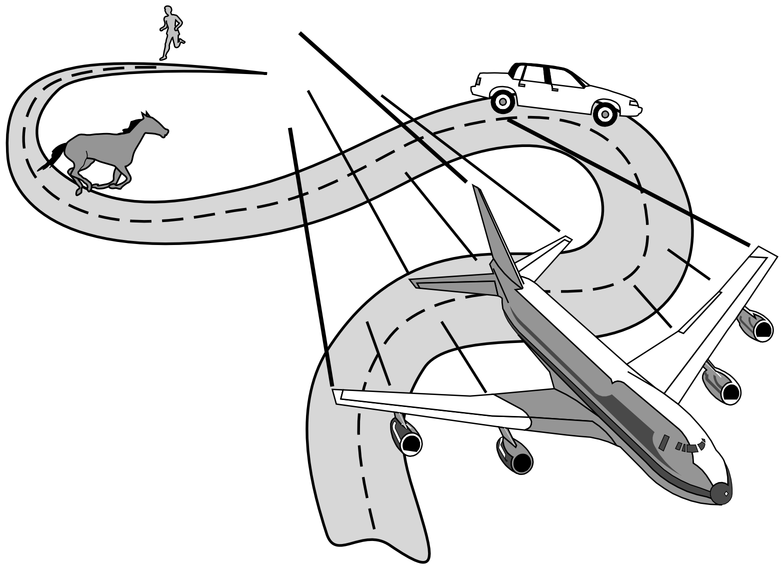
MORE THAN 25 YEARS AGO, INTEL CO-FOUNDER GORDON MOORE PREDICTED THAT THE NUMBER OF TRANSISTORS ON A MICROPROCESSOR WOULD DOUBLE APPROXIMATELY EVERY 18 MONTHS. THAT PREDICTION, WHICH STILL HOLDS TRUE TODAY, DEMONSTRATES THE RAPID PACE OF TECHNOLOGICAL ADVANCES THAT HAS OCCURRED OVER THE PAST 25 YEARS. TO KEEP UP AND AVOID BEING PASSED BY THEIR COMPETITORS, COMPANIES MUST CREATE MORE PRODUCTS AND GET THEM TO MARKET FASTER. REPRINTED BY PERMISSION OF INTEL CORPORATION, COPYRIGHT INTEL CORPORATION.

THE SAME OLD RESPONSE

In response to these changing business dynamics, many organizations have tried to either grow from within as vertically integrated companies or assemble smaller companies into massive corporate conglomerates. Management teams continue to focus on a variety of business efficiency initiatives that are confined to fixing problems solely within the four walls of their company. Some have sought mergers and acquisitions or other equity vehicles such as joint ventures as the best route for adapting to changes in the business environment.

These attempts at reaching the Holy Grail of business most often fall short of this goal on one account: They don't provide the flexibility that organizations need to succeed in today's fast-moving economy. Companies keep paving the same stretch of road again and again, hoping the new asphalt will make their journey more comfortable (Figure 1.2). As it turns

FIGURE 1.2 THE WINDING ROAD OF PROGRESS



COMPANIES FREQUENTLY STRIVE TO IMPROVE THEIR BUSINESS PROCESSES BY SIMPLY DOING THEM FASTER, CHEAPER, AND BETTER. IN THE ABOVE EXAMPLE, THE SAME STRETCH OF ROAD IS FIRST COVERED ON FOOT, THEN BY HORSE, THEN BY AUTOMOBILE, WHEN, IN REALITY, THE FASTEST AND MOST DIRECT ROUTE MAY BE TO TAKE AN ENTIRELY DIFFERENT ROAD OF TRANSPORT. BUSINESSES OFTEN FOLLOW THE SAME INDIRECT PATH, COMMITTING THE SAME MISTAKES AS IN THE PAST, WHEN THERE MAY BE AN ENTIRELY DIFFERENT, FASTER AND MORE DIRECT WAY OF DOING THINGS.

out, the shortest route is often somewhere else entirely. The problems have shifted, and the old rules no longer apply.

What's needed is a new approach that provides the flexibility required to adapt to the rapid pace of today's business world, and extends beyond the company's walls. In the New Economy, a company's success no longer depends on how efficiently it operates in isolation, but rather on its ability to form flexible interdependent relationships with its partners, both customers and all suppliers.

Keeping Everything Under One Roof

The classic vertically integrated company owns and operates most or all of the elements of its supply and distribution system. It is usually a collection of smaller divisions and wholly-owned subsidiaries operated as a single company. Each of these is responsible for producing a component, a product, or a service that goes into the finished offering of the larger company. Many companies are managed as top-down hierarchical structures. Management decisions are passed down the authority ladder to the company's operation level (Figure 1.3).

A wood products company such as Weyerhaeuser Co. provides a good example of a vertically integrated company. Weyerhaeuser controls a supply chain that literally goes from dirt to consumer, and it owns almost all of the component industries in between. As of December 31, 2000, the company owned or was leasing 38 million acres of woodland in the United States and Canada.[2] From this land, timber is harvested and shipped on Weyerhaeuser-owned logging trucks to Weyerhaeuser lumber or pulp mills. The resulting lumber or paper is shipped, on Weyerhaeuser trucks, to distributors or to a Weyerhaeuser building site. Weyerhaeuser also owns and operates a real estate and land development company, which specializes, unsurprisingly, in building wooden houses.

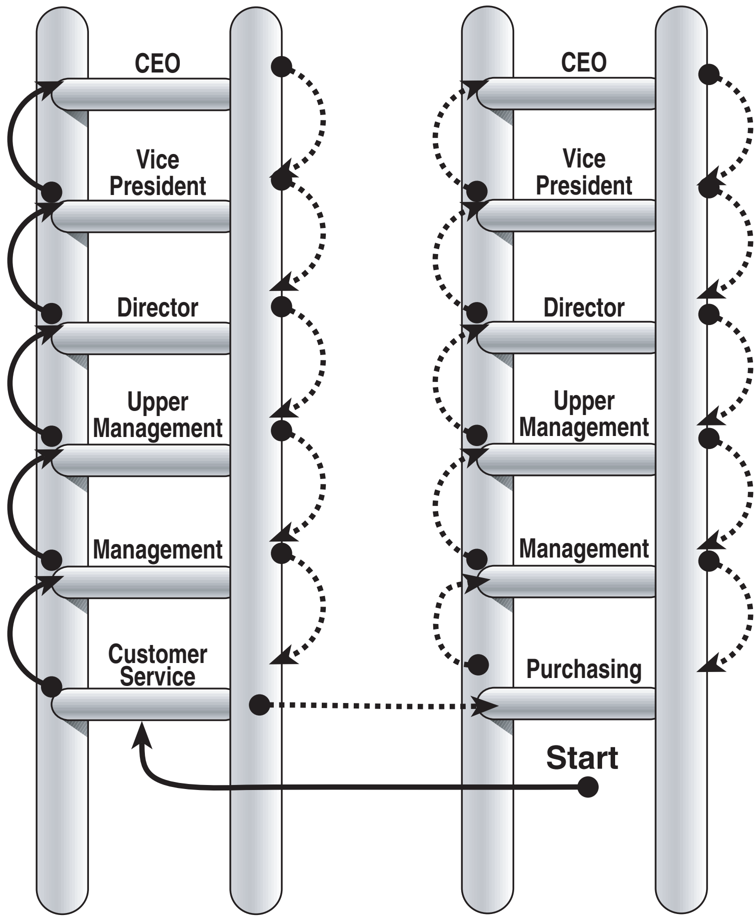
On the other hand, a conglomerate is a centralized corporation that acts something like a holding company. It comprises independent companies managed as stand-alone entities, though the central corporation provides some direction and strategy and, in some cases, a unifying brand.

Philip Morris Cos. Inc., a multinational tobacco products company, is a conglomerate. In addition to making cigarettes, Philip Morris owns a stable of prominent food and beverage companies—including Kraft Foods, makers of Kool-Aid, Oreos, and other confections, and Miller Brewing Co., makers of Miller beer—which are managed as distinct brands. Philip Morris remains the "silent" owner, while the companies are allowed to pursue their own marketing opportunities.

A conglomerate like Philip Morris is similar to a vertical company like Weyerhaeuser in that they are both hierarchically integrated, inherently slow to respond, and normalize on the least radical thought. Companies of all types, whether they are like Weyerhaeuser or Philip Morris, need to adjust their structure so they can adapt to ever changing market conditions.

Historically, the business strategy of keeping everything under one roof was a competitive choice as companies sought to attain critical mass. In a time when access to resources and availability of distribution networks were a problem, the vertically integrated company and the conglomerate were the most efficient operating structures. The strategy allowed companies to maintain control over all facets of supply and distribution related to their products. Companies were able to increase their reach by

FIGURE 1.3 DECISION MAKING IN VERTICAL COMPANIES



THE VERTICAL CHAIN OF COMMAND IN MANY COMPANIES LEADS TO CRITICAL DELAYS IN THE FLOW OF INFORMATION AND DECISION-MAKING PROCESSES WHEN PROBLEMS ARISE. INFORMATION IS PASSED UP THE CORPORATE LADDER TO DECISION MAKERS AND UPPER EXECUTIVES BEFORE IT CAN BE ACTED ON, LEADING COMPANIES TO USE TIME AND RESOURCES INEFFICIENTLY WHILE FAILING TO EMPOWER EMPLOYEES.

expanding to provide an entire supply chain's worth of goods and services. Because the companies owned all the units within the supply chain, they could control where raw materials came from and how products were delivered to the consumer. Owning everything also gave them close oversight of costs and allowed them to maintain a consistent level of quality, which in turn made it possible to develop a solid reputation for their product brands.

Today, however, this is an expensive, inefficient, and risky way of attaining corporate reach. Companies tend to lose focus, and often spread themselves too thin as they attempt to do everything from within their own four walls. Even though it remains an enduringly popular way to operate, in the fast-moving electronic economy, having everything under one roof has proved cumbersome and unwieldy.

As conglomerates and vertically-oriented companies grow, they slow down. They lose the ability to move quickly and strategically because their structure is built to withstand external market pressures and has a hierarchical decision-making process. Anything that falls outside of the delegation hierarchy is dealt with as an "exception." In an effort to be diligent, committees are formed, task forces are structured, and due diligence is performed until a critical mass of managers and executives believe they have the information necessary to make a decision. This process, by its very nature, is slow and makes it difficult to adapt to rapidly changing market conditions.

In addition, these companies often duplicate many of their internal operational functions. In some cases, costly operational roles such as human resources and financials are even duplicated from division to division, greatly inflating company-wide overhead. Similarly, the management teams of individual divisions eventually become hierarchical bureaucracies, inevitably slowing the pace of business and leading to higher overhead.

Once these hierarchies form, each operational unit tends to be managed with an eye toward its own profitability. It's called *suboptimization*—the process of ensuring one's business unit or subsidiary meets its goal despite the impact on the company's best interest. It's such a part of business today that internal bonus and incentive programs often offer rewards for business divisions to achieve levels of production that, in fact, run contrary to the company's larger goals. The goals may not be sufficiently aligned to variable demand and producing more units than the business is able to absorb might bring healthy bonuses to a few individuals, but the practice can bury the rest of the company in costly inventory.

PASSING THE BUCK

Have you ever worked in a company where each division is responsible for its own fiscal health and viability? Many companies operate this way. Often, each division is referred to as a "profit center." On the surface, individual profit centers make sense especially if the company wishes to maintain the option of selling the profit center some day in the future. After all, if a division isn't profitable, why keep it around, right?

Well, it's not that simple. Creating separate profit centers within companies often motivates workers to do whatever it takes to ensure their division is profitable—even if their actions aren't in the best interests of the entire company. For example, a production plant manager may need to run the assembly lines at maximum capacity in order to be profitable, or to achieve an annual bonus. This means the plant will make as many widgets as possible 24 hours per day. However, perhaps the market for widgets has declined and sales are slowing. It might be best for the company to balance production with demand to avoid lowering its retail price for widgets. Despite the benefits to the company of curtailing production, the production plant keeps on producing widgets to meet its division goals.

Another problem with running divisions as individual profit centers is transfer pricing. Transfer pricing occurs when two or more divisions within the same company are run as individual profit centers, but work together to develop or deliver a product. Perhaps it is engineering and production, or manufacturing and transportation. These divisions often transfer money between them to pay for services rendered. While many profit centers operate this way, it often causes workers to lose sight of the real customer. Employees often believe their customer is another division within the same company.

Wrong! The only customer is the one who purchases a company's products or services, the one that pays with actual money—not theoretical currency. Until companies rectify this problem, overhead costs will continue to rise, customers will continue to feel disillusioned, and business divisions will keep passing the buck.

THE SEARCH FOR EFFICIENCY

To compensate for the major inefficiencies brought about by such growth, many companies have turned to a variety of business excellence programs to help them operate more effectively. Over the last 20 years, businesses have implemented a myriad of initiatives in an effort to achieve greater efficiency.

These initiatives read like acronym soup—TQM, BPR, TOC, ERP, MRP, and on and on. To varying degrees, they all have helped businesses improve efficiency and reduce costs. Yet each time companies have gone through the time and expense, the elusive cure-all has eluded them. Too often companies have perceived these initiatives as stand-alone solutions.

These initiatives have had mixed results. In most situations where such programs have failed, the reasons come down to cultural, organizational, and personal inhibitors. The barriers to change are too high and companies cannot or are unwilling to make the shift. Often companies institute a fragmented solution that only addresses a part of the problem. They try to find a piece of it to digest. In other situations, companies aren't willing to make the changes required to address the problem on a permanent basis. Companies also seem to use technology as a sort of penicillin, injecting it where any problem lies and trusting that the cure will follow.

The decision to pursue these business initiatives is sound—such initiatives generally represent the best thinking of the time, and often help businesses to achieve significant improvements and provide a foundation from which to build. But business-excellence initiatives do not go far enough in today's economy, because they are focused solely on making improvements within the four walls of the company. In the New Economy, the question is no longer how effectively a company operates internally, but rather, how effectively it works with its partners, where the majority of significant time delays now exist.

Following are examples of well-known excellence initiatives that have helped businesses improve in the last decade:

- *Total Quality Management (TQM).* A highly popular business initiative, TQM focused companies on the goal of delivering quality products and services to the customer while reducing manufacturing costs by eliminating useless tasks. Originally meant to help manufacturers produce consistently high-quality products, TQM preached continuous improvement of internal company processes. Quality did improve, but in most industries today quality has become a requirement and by itself

WHEN CHANGE IS GOOD*

What do local phone giant Pacific Bell and automotive insurer Progressive Insurance have in common? Both companies know that change is in their best interests.

Struggling to cut costs and boost profits, Progressive Insurance and Pacific Bell are among the hundreds of companies that have remade their corporations by embracing Business Process Reengineering (BPR), a business productivity initiative.

BPR is a process designed to increase efficiency and boost sales through structural changes and solid planning. Companies sometimes seek quick fixes by attempting to use BPR programs to cut costs. However, companies that have successfully implemented BPR have done so by improving their service to customers and by putting solid measurements in place by which to evaluate their success.

For example, Progressive Insurance improved its service to its customers, high-risk automobile drivers, by offering them 24-hour-per-day services. It also offered them mobile claims programs in which claims adjusters travel to accident sites to survey the scene and take photographs, and on-site payment and towing services.

Like Progressive Insurance, telecommunications carrier Pacific Bell undertook its own BPR program intending not merely to cut costs, but also to increase benefits for its customers. Every time it considers changing a business process, Pacific Bell weighs the costs and benefits of doing so. The company calls this "Process Value Estimation." Pacific Bell measured its BPR successes by comparing its service to customers before and after its BPR efforts. The company, which continues to remake its core processes, has seen benefits in customer satisfaction and loyalty.

In short, change can be good for corporations, provided they begin with measurable goals aimed at improving service for customers.

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* Thomas J. Housel, Arthur H. Bell, and Valery Kanevsky, "Calculating the Value of Reengineering at Pacific Bell," *Planning Review* (January 11, 1994): 40.

is no longer enough to differentiate a company and its products from its competition.

- *Business Process Reengineering (BPR).* Another popular business initiative, BPR helped fuel the economic growth of the late 1980s and 1990s. BPR enables companies to significantly reduce costs, improve organizational efficiency, and increase customer satisfaction by streamlining their organizational processes. BPR initiatives also help remove some extraneous processes within companies and improve business fundamentals. Now BPR needs to be taken to the next step as companies develop standardized business processes with their trading partners.
- *Theory of Constraints (TOC).* TOC improves manufacturing efficiency by identifying and reducing "constraints" or bottlenecks in the production process. TOC focuses on the idea that all production processes are interdependent, and that the speed of any system is dictated by the slowest part of the process. Like BPR, TOC now needs to be extended beyond the four walls of the company to help organizations reduce bottlenecks that occur when working with their trading partners.
- *Resource planning.* Resource planning tools, including Enterprise Resource Planning (ERP), Material Requirements Planning (MRP), Distribution Resource Planning (DRP), and similar efforts, focus on reducing inventory, transportation costs, manufacturing bottlenecks, and other processes through improved planning. All of these initiatives are capable of providing sustainable benefits, but there have also been failures. Primarily, these initiatives were taken on as information technology projects, and the process changes were never institutionalized within the companies. With the speed of the new economy, simply planning faster is no longer effective—companies must collaboratively plan with external trading partners.

Merger and Acquisition Fever

Many companies realize that doing it all themselves doesn't provide the speed and opportunity needed to compete in today's economy. As a result, they have turned to mergers and acquisitions.

Today, mergers and acquisition activity is at a fever pitch. You can't pick up *The Wall Street Journal,* the *Financial Times,* or the Tokyo *Yomiuri*

Shimbun without reading about another deal in the works. Whether it be Time Warner Inc. merging with America Online Inc. in the communications industry to create the largest corporate merger in U.S. history, or Daimler-Benz AG and Chrysler combining two national assets in the automotive industry, mergers are taking place in sectors as diverse as media, automotive, energy, telecommunications, paper, airline, financial services, and soft drinks.

Mergers and acquisitions typically occur for one of two reasons: to gain market share or to acquire technology, intellectual capital, or other assets. Yet, they often come with a huge price tag, both monetarily and culturally.

Mergers and acquisitions are painful because businesses often view them as financial transactions and overlook the complex business-process-engineering problems they present until well after the problems start to occur. Integrating business functions such as human resources and customer service can be hugely challenging. Combining processes, data, and information systems can be both time-consuming and expensive.

Second, the cultural challenges of merging two companies are enormous. Once a merger occurs, loyalties to the old company often prevent workers from performing their best for the new one. Moreover, the management cultures of the merged companies often collide, leading to irresolvable conflicts that prevent the merged company from functioning

A MARRIAGE LOSES LUSTER

The merger of America Online, the world's leading Internet service provider, and Time Warner, a major global media conglomerate, created a powerful new corporation with potential implications for the New Economy. But like so many mergers before it, the AOL-Time Warner marriage did not gain in capital value following its completion. In January 2000, when the board of directors of both companies approved the deal, the combined market value of the companies stood at approximately $350 billion. By May 2002, however, the market capitalization of AOL Time Warner was about $78 billion. The value of the combined companies did not fall only because of the merger. All companies in this business sector have experienced significant capitalization loss. In the case of AOL and Time Warner, the merger has exacerbated an already difficult situation.

effectively. Finally, there's the problem of customer loyalty. Customers who were loyal to the old company may not be loyal to the new one, especially if the brands and procedures they are accustomed to are replaced by those of the new company.

JOINT VENTURES

On the surface, joint ventures and other equity-based alliances would seem to provide an excellent stepping-stone between a merger and a true partnership. While mergers combine two existing companies, joint ventures create a new company as an outgrowth of two otherwise separate companies. For example, telecommunications giants AT&T and British Telecom created a joint venture, dubbed Concert, to serve the worldwide communications needs of multinational corporations. Similarly, Microsoft, the world's largest software company, and U.S. television programming company NBC created the MSNBC joint venture to provide news and information and to blend the data-driven world of the Internet with the more conventional medium of television.

Companies form joint ventures to create new products or services, or to give hidden business units the opportunity to operate and innovate freely on their own. Joint ventures also allow companies to tackle new markets without the constraining regulations and other obstacles facing the parent companies.

However, joint ventures rarely provide the level of integration and cooperation that the founding companies hoped for. For one, they require an entirely new, independent management team. This new team takes time to assemble and more time to reach peak performance. Even then, few joint ventures are ever truly autonomous, instead operating in the shadow of their parent companies.

In addition, new products and services developed by the joint venture can sometimes be tainted in the marketplace by their affiliation with the parent companies. For example, MSNBC has yet to turn a profit, and the company's news operation suffers from ongoing concerns that Microsoft's involvement will harm MSNBC's objectivity with regard to technology and other news. Concert was dissolved in October 2001 after annual losses of $800 million and tepid demand.

For a variety of reasons, joint ventures offer some competitive benefits for businesses. However, they also can be problematic, and those challenges often outweigh the benefits.

M&A, JV, divestitures, and all other forms of legal arrangements will continue and are often not the root cause of the business's difficulty. However, to believe that through an essentially legal arrangement tremendous business benefits will magically materialize has been proven wrong in the past 20 years.

THE STATE OF PARTNERSHIPS TODAY

In today's fast-paced economy, keeping all business processes under one roof is too cumbersome and unwieldy. Business initiatives have helped, but don't strike at the heart of the problem. Mergers and acquisitions come with an enormous price tag, both logistically and culturally. Joint ventures and other equity-based alliances often fail to provide the level of integration and cooperation required for success.

So where is the Holy Grail that has eluded companies despite all of their efforts? It's very simple, and it comes down to this: Businesses must cooperate today to survive tomorrow. A company's success in the twenty-first century economy will be determined by the relationships it develops with its suppliers and customers.

Like mergers and acquisitions, these supply chain partnerships help companies to quickly acquire a technology, product, or market access they don't currently have. With the ability to easily add and drop trading partners as strategic needs change, companies can adapt to changing market conditions much more quickly than is possible by keeping all their operations within the four walls of the company.

Such partnerships also present a way for companies to develop the broader mix of offerings needed to meet the demand for personalized products. In addition, they allow companies to strategically bundle products and services in ways that distinguish them from their competitors.

Over the years, companies have made strides in working with partners along the supply chain. Some companies pursue linear supply chain strategies, forming strategic buyer-seller relationships with their suppliers and customers. In other cases, companies purchase materials from suppliers through hub-and-spoke systems such as the public and private exchange. Yet, as discussed in Chapter 2, neither of these partner relationships goes far enough in providing companies with the flexibility required to play by the new rules of today's fast-paced economy.