

Extreme Competition

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Latest book:
Extreme Competition: Innovation and the Great 21st Century Business Reformation,
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To launch the 2 minute video
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The Five Transformers Driving Extreme Competition

*“Something is happening
But you don’t know what it is
Do you, Mister Jones?”*
– Bob Dylan, *Ballad of a Thin Man*

Something is going on in business, although it is not clear exactly what. We are, perhaps, in the midst of one of the greatest business transformations ever in the industrialized world, a transformation that is being shaped by five key drivers: 1. knowledge as business capital, 2. the Internet, 3. jumbo transportation, 4. three billion new capitalists, and 5. the New IT – where business automation focuses on outward-facing business processes, not back office record keeping. Together, the results of these forces are far greater than the sum of the parts – and they are of historic proportions.

The Five Transformers:

1. Knowledge is Business Capital
2. The Internet
3. Jumbo Transportation
4. Three Billion New Capitalists
5. The New IT

Knowledge as Business Capital

The late Peter Drucker claimed to have coined the term “knowledge worker” and asserted that knowledge workers, collectively, are the new capitalists. In 2001 he wrote, “Knowledge workers see themselves as equal to those who retain their services – as ‘professionals,’ rather than as ‘employees.’ The knowledge society is a society of seniors and juniors rather than of bosses and subordinates.”¹ As Drucker noted, “Within 20 or 25 years, perhaps as many as half the people who work for an organization will not be employed by it, certainly not on a full-time basis. Multinationals now tend to be organized globally along product or service lines. But, like the multinationals of 1913, they are held together and controlled by ownership. By contrast, the multinationals of 2025 are likely to be held together and controlled by strategy. There will still be ownership, of course. But alliances, joint ventures, minority stakes, know-how agreements and contracts will increasingly be the building blocks of a confederation. Increasingly, in the next society’s corporation, top management will, in fact, be the company. Everything else can be outsourced.” Oh my!

These new realities are certainly why China, India, and Ireland have made great sacrifices to invest in education, so that they can grow the knowledge workers of the future. China and India already turn out many times the number of science and engineering graduates as the U.S. Specialized knowledge leads to a new kind of workforce with intellectual knowledge workers – such as scientists – able to claim an “intellectual capital” stake in wealth in the way that industrialists claimed a stake in wealth through monetary capital.

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And, with the exception of tasks requiring that a technician work on site with their hands (X-ray technicians, nurses, physical therapists, psychiatric counselors, network cable installers, and dental hygienists), such work can be carried out virtually anywhere (today lab tests for patients in New York are analyzed in New Delhi).

A hundred years ago, 95% of Americans worked with their hands and backs on the farm. Today, that number nears zero. Although manufacturing gave rise to America's economic might after World War II, today only around 15% of the workforce works in factories. So, where do we go from here? Part of the answer to that question centers on what *kind* of knowledge will be needed in the years ahead. Because the blind continuation of the "hydrocarbon economy" will choke us all to death, learning to build an ecologically sustainable future is not only a good idea, it represents the knowledge base for "green innovation" that will underpin market leadership going forward. China's leaders know that as China grows more prosperous, and more Chinese buy homes and cars, it must urgently adopt green technologies; otherwise, it will destroy its environment and its people. Green China will be much more challenging than Red China. A Chinese auto company is now rushing to develop a green diesel engine for passenger cars that will set the standards for the world. And what's the U.S. doing as green technology is emerging as the most important industry of the 21st century? Let's see: The current administration in Washington is telling our manufacturers they don't have to improve auto mileage standards or appliance efficiency, is looking to ease regulations on oil refiners and is rejecting a gas tax that would help shift America to hybrid vehicles.

Once China comes up with low-cost solutions that work inside China, it will take them global at China prices. It's called *blowback*, and if you think China is cleaning our clock now with cheap labor, in a decade, we will have to import our green technology from Shanghai, just as we have to import hybrid motors today from Japan. In the 21st century, the right kind of knowledge is the cornerstone of economic leadership. "Knowledge is all" in 21st century markets.

The Internet

Now, all this knowledge industry stuff discussed in the section above may seem academic, but when you consider the Internet 2.0, some very interesting, and some really *big* things, start to happen. Nobuyuki Idei, chairman and CEO of Sony, nets it out, "Broadband is comparable to the meteor that supposedly hit the earth 65 million years ago and wiped out the dinosaurs."² As Assif Shameen reported in the magazine, *Chief Executive*, "It may be surprising to some that Korea is the world leader in broadband." By 2010, the bulk of Korean households will have migrated to 100 megabits per second. There is even more on the horizon for Korea's broadband leadership. Korea Telecom (KT) is creating a new WiBro (*Wireless Broadband*) network with the cell-to-cell roaming capabilities of regular cell phones. That means users can not only gain wireless broadband access from traditional WiFi or WiMax hot spots, but Samsung, the world's third-largest cell phone vendor, has demonstrated that WiBro can also reach up to 2 Mbps inside a car moving at 120 kilometers per hour. Hmmm? Isn't America supposed to be the innovator and the most technologically advanced country? Caveat America.



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Google is on a worldwide buying spree of dark fiber, which analyst, Dave Burstein, thinks could ultimately support “the world’s largest video server network,” what he calls “the largest TV ‘anti-network’ in the world.” Speaking of broadband meteors hitting the Earth and wiping out dinosaurs, it won’t just be television and movie industries disrupted by Google’s free broadband. Every knowledge worker on the planet will be affected, and perhaps even commoditized, with \$20,000-a-year PhDs at your fingertips. With broadband costing next to nothing, all is changed, changed utterly.

But even greater bandwidth is not the end of the story of what is to come with the Internet. The next giant leap is called the Executable Internet, the X-Internet or Internet 2.0. The XInternet overcomes the slow and cumbersome page-by-page download of information we have become so accustomed to with today’s Internet. The X-Internet is precisely why Google strikes fear in the heart of Microsoft, for Google isn’t basing its future on its search engine,; it’s building the next-generation *computing platform*, wanting to supersede today’s dominant Windows platform. Google is making a huge investment in developing Web-based computer applications that have the richness and responsiveness previously only seen in desktop applications. For example, if you are using Google Maps, when you use your cursor to scroll around a map, everything happens almost instantly, with no waiting for pages to reload.

Even Microsoft’s cash cow, its desktop application suite, Office, could be threatened with a new breed of productivity tools, such as OpenOffice.org, offered as a service by Google™ for free. And that would only be the beginning as third party developers rush to build all manner of rich XInternet applications. The X-Internet could also become the dominant computing platform for the bulky and cumbersome enterprise systems that run today’s corporations. And with “the Internet is the software” approach, today’s monolithic enterprise apps will be blown to bits as an inevitable process-oriented, connect-and-collaborate O/S emerges for the X-Internet.

It’s certainly not your father’s Internet anymore. But, then again, it may not wind up being Google’s Internet anymore, either. While acknowledging the risks inherent in any start-up venture, Indian Internet pioneer, Rajesh Jain, speaks eagerly of what he calls the phenomenon of the black swan – a rare, but not impossible, event. “Google was a black swan,” he said. “No one expects the next Microsoft or Intel or Cisco to come out of India, but I believe it is entirely possible.” Will Jain out-Google Google? Stay tuned.

The issues that businesses now face have never been larger or more imposing than those posed by Internet 2.0 and its potential to restructure the whole economy to achieve heretofore unattainable efficiencies and efficacies in getting work done. Traditional supply chains of the industrial economy are being transformed by “value chains of knowledge.” The transformation is well under way – there is no turning back.

Jumbo Transportation

Today, right here in steamy Tampa, Florida, I ate some fresh honey-smoked wild



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Salmon from Alaska. Yesterday that very fish was in Alaska. It arrived overnight, packed in an iced-chilled box. "Megalogistics," made possible by awe-inspiring jumbo jets and jumbo cargo ships, is a key driver of globalization, and just-in-time manufacturing. Just about anything can be shipped within 36 hours, from anywhere in the world, to anywhere in the world.

Except for products and services that are purely digital (e.g., software, information and music), the other side of the global commerce coin is physical distribution. Dennis Jones, former V.P. and CIO of FedEx, explains, "What often gets lost in discussions about Internet commerce and the digital economy is the physical aspect of doing business. The Internet has engendered a feeling that anyone can start up a Web site to sell widgets, and instantly they're worldwide marketers. To succeed in Internet commerce, we believe a company has to be as effective in the physical world as it is in the electronic arena. The ability to move information around the world at the speed of light is a great enabler of commerce, but it breeds a corresponding need for the physical goods. The information network needs a physical network."³

While computers and the Internet capture our imagination as the greatest technological achievements of the 20th century, the taken-for-granted marvel of our times, and cornerstone of accelerating globalization, is the jumbo jet. In its all-cargo version, the new Airbus A380-800F, will be the first commercial freighter with three full cargo decks – offering the unprecedented capability to carry a 150-ton payload over distances of 5,600 nm. This range enables the A380-800F to fly most major cargo routes non-stop, enhancing productivity by spending more time in the air. On a 5,000 nm. sector, the A380's direct operating cost is a full 21 percent lower than the largest competing freighter.

And let's also not take for granted the jumbo cargo ship that kicks in when jet speeds don't matter, but cost matters a lot. On July 11, 2005, Samsung Heavy Industries (SHI) handed over two completed 9,300 TEU (twenty-foot equivalent units) container ships to its client after holding a christening ceremony. The ships can carry up to 9,200 units of 20 foot containers. This is equal to 1.2 million 29-inch color TVs or 50 million mobile phones each.

But there is more to the story of jumbo transportation than just moving stuff around the globe. Geoffrey James reported in the July 2004 issue of *Business 2.0* magazine: "When people think of UPS, they usually think of brown delivery trucks and guys in shorts dropping off packages. They do not think of laptop repairs. But that's exactly the business UPS has decided to enter. Toshiba is handing over its entire laptop repair operation to UPS Supply Chain Solutions, the shipper's \$2.4 billion logistics outsourcing division. UPS will send broken Toshiba laptops to its facility in Louisville, Ky., where UPS engineers will diagnose and repair defects. Consumers will notice an immediate change. In the past, repairs could take weeks, depending on whether Toshiba needed components from Japan. But because the UPS repair site is adjacent to its air hub, customers should get their repaired machines back in just a matter of days."⁴

Meanwhile, FedEx now serves 190 cities in China, and plans to expand service to 100 additional cities within the next five years. Today, even the smallest company can have a global supply chain and world-class logistics support,



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allowing them to think globally and act globally.

Three Billion New Capitalists

The years 1979, 1989, and 1991 could be the most significant years in portending the world economy for the 21st century. Great changes have come about in China since 1979, and China is now the world's workshop, and soon to become a powerhouse of innovation. In 1989, the Berlin Wall came tumbling down, shifting the Soviet Empire into a market-driven group of independent nation states. And in 1991, Manmohan Singh, the finance minister and now prime minister of India, moved the country to abandon Soviet-style central planning, massive bureaucratic socialist regulations, and steep tariffs blocking the import of state-of-the-art equipment, and opened India up to free enterprise.

The result of these three watershed years is described at length in a book by Reagan administration trade official, Clyde Prestowitz, *Three Billion New Capitalists: The Great Shift of Wealth and Power to the East* (2005). According to Prestowitz, "These new players are unusual. While having the low wages of developing countries, several hundred million of them have first world skills. That they are effectively next door and also planning to grow by exporting to U.S. markets dramatically increases the pressure on an already stressed system. Even for America there are ultimate limits on consumption and borrowing. As of 2005, the American government depends on Japan, China, the United Kingdom, Saudi Arabia, and Korea primarily to loan it money every day of the year. In America it's about spending money. In China, India and Japan, it's about saving money. China and India are using their vast savings to offer investment incentives to lure high-tech companies such as Microsoft and Intel to their shores."

Prestowitz points out that in China and India the thinking goes beyond money and talent to *desire*: "Intel's CEO, Craig Barrett, is better known in China and India than Britney Spears. Barrett is feted by millions of Chinese at personal computer festivals. 'These people are crazy in love with technology,' says Barrett. According to our elite economists, America's future lies with high tech – with companies like Intel and IBM. Yet here are two of U.S. high-tech industry's top CEOs saying the future may lie abroad, especially in China. Add the fact that U.S. trade in high-tech products has swung from a surplus to a deficit, and it is not at all clear that this country's future will be in high tech. At the heart of the problem is the false assumption that all the countries in the globalization contest are playing the same game. They're not. Some countries have strategies, but others don't have a clue. The United States is in the latter category."⁵ IBM already employs 40,000 research and tech workers in India.

When you think of globalization, you might tend to think China and India. Think again. When you think of the Middle East you might tend to think of gushing oil wells and petrodollars, but little else, except, perhaps terrorism. Think again. The folks that gave us our numbering system and algebra are hard at work building a technological foundation for a 21st century economy. Omar Mark Ragel, Managing Director of BPM-Middle East, tells the story, "The Gulf region has its eyes set on knowledge work. Dubai Internet City provides a Knowledge Economy Ecosystem that is designed to support the business development of Information



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and Communications Technology (ICT) companies. It is the Middle East's biggest IT infrastructure, built inside a free trade zone, and has the largest commercial Internet Protocol Telephony system in the world. Dubai Internet City is a strategic base for companies targeting emerging markets in a vast region extending from the Middle East to the Indian subcontinent and Africa, covering 2 billion people with a GDP of \$ 6.7 trillion. At the moment, Business Process Management (BPM) is rolling across the region as companies recognize the need to interact with other businesses across a wide spectrum of industries, across the globe, from petrochemicals, to agriculture, to tourism, to business process outsourcing." Ragel explains the current investment situation in the Gulf states, "Recent political threats, and the imposition of a massive regime of investment restrictions by the current U.S. administration, has seen billions of dollars pulled out of Western financial markets and brought home, where it has found a bright, creative and energetic 21st century business environment. Dubai is like Singapore on steroids. It's in Dubai these days where you'll find Arab investors who have pulled billions of dollars out of Western financial markets meeting with Indians and Chinese to reallocate those investments." Last November, Rabea Ataya, CEO of Bayt.net, spotted former U.S. President Bill Clinton in the upper lobby of the Burjhotel (rates start at \$1,250 a night). On another occasion, while riding an escalator, Ataya spied Sir Richard Branson of the U.K.-based Virgin Group holding court about the Virgin Megastore that just opened here (and perhaps bringing space travel to the United Arab Emirates). Roughly 22 percent of the world's supply of construction cranes is in the UAE. In all, \$224 billion in construction projects are under way in the UAE, the federation of states that includes Dubai and Abu Dhabi.

In line with Dubai's liberal economic policies and regulations, Dubai Internet City offers foreign companies 100% tax-free ownership, 100% repatriation of capital and profits, no currency restrictions, easy registration and licensing, stringent cyber regulations, and protection of intellectual property. The global ICT giants are all there: Microsoft, Oracle, HP, IBM, Compaq, Dell, Siemens, Canon, Logica, Sony, Ericsson, and Cisco, to name just a few. These companies represent a formidable community of over 5,500 knowledge workers. The cluster of ICT companies in Dubai Internet City are comprised of software development, business services, e-commerce, consultancy, education and training, sales and marketing, and back office operations. DIC provides a scalable state-of-the-art technology platform that allows companies that are looking to provide cost effective business process outsourcing (BPO) services such as call center operations.

Globalization doesn't just mean offshoring jobs to India and China; it means we've crossed the threshold to a whole new economic world order, all across the third rock from the Sun. Business will never be the same – so, get used to it. And don't fight these the three billion new capitalists, employ them – and get them to employ you.

The New IT

In 2003, the infamous article, "IT Doesn't Matter," splashed onto the pages of the *Harvard Business Review*, and subsequently got used in boardrooms across America as ammo for deep IT budget cuts. Contrary to the HBR article, it's not



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time to constrict the role of IT, but to expand it – and innovate in ways not possible prior to the advent of universal Internet connectivity. However, it's not the kind of IT known as data processing or transaction processing or record keeping, as cited in the HBR article. It's not the kind of IT that, as the article correctly points out, companies blindly threw money at during the dot-com frenzy, thinking it would magically deliver competitive advantage. It's IT of a different kind. You can think of this badly needed new category of *business-interaction technology*, Business Process Management (BPM), as *the New IT*, technology that animates human work and business process collaboration, similar to the way that software animates computer hardware.

The Old IT applied automation to information; the New IT applies automation to *relationships*. The Old IT was about keeping records and transmitting data; the New IT is about “*connecting and collaborating*” to get work done – now that productivity doesn't require proximity.

The New IT requires a new kind of leadership, the Chief Process Officer (CPO), not the traditional Chief Information Officer (CIO), whose chief concerns were mostly the management of technical assets. To this extent, the HBR article is certainly correct that traditional IT, *the Old IT*, doesn't matter, for this form of IT is indeed a commodity. The new CPO's chief concerns will be in providing a technology-enabled capability to manage a company's business process assets and support the ability for knowledge workers to “connect and collaborate” inside and outside the walls of their companies.

Think of BPM as simply *technology-enabled support for business interactions*, much as email is technology-enabled support for business communications. If we look at BPM more closely, it becomes obvious that its power is its capability to revamp the interactions among a company's suppliers, its trading partners, and the customers almighty. With BPM, events or requests by customers can trigger processes across trading partners located, let's say, in New York, New Delhi, and Taipei. *These business processes interact so seamlessly that it appears that they are all being handled by a single system, a single company, rather than by an alliance of companies acting as one.* BPM supports both system-to-system (S-2-S) interactions and, increasingly, human-to-human (H-2-H) interactions. If you thought BPM was about improving some back office process in your company, think again. BPM is the capability your company needs to become an extreme competitor in the age of total global competition.

Putting It All Together

There are those who would argue now that the world-wide interconnectivity of people and computer systems through the Internet will transform what it means to be a business and what it takes to win at business. But it's not just the possible connections between people and computers that are important; it's how companies redefine and reorganize their *work* and organizational structures to take advantage of that connectivity that counts. That's precisely where BPM comes in. For large and small companies alike, BPM can fundamentally change the ways they operate – and operational innovation is the secret sauce of



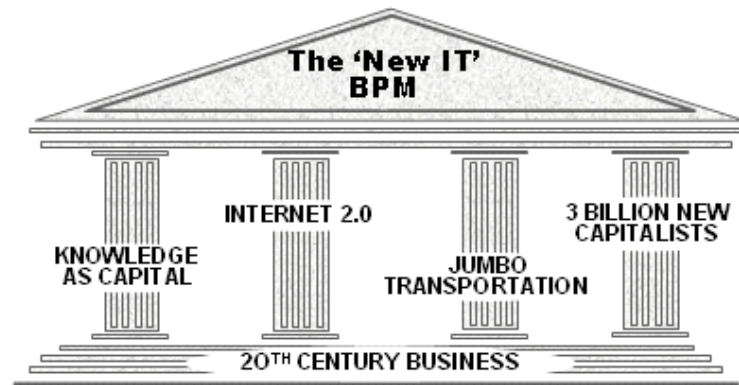
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competitive advantage in the global economy.

While the other four drivers of extreme competition provide the essential pillars of a new way of competing, it's BPM that's needed to tie them all together – to “connect and collaborate with superspecialized knowledge workers; to bring the raw connectivity of Internet 2.0 to life; to optimize jumbo transportation for razor sharp logistics; and to put those three billion new capitalists to work for your company. Taken by themselves, the other four drivers are interesting, but when the capstone of BPM ties them together, your company can become “delightful to do business with (DTDBW).” And that's exactly what your company must become if it is to win in the 21st century.



Building a 21st Century Business on a 20th Century Foundation

The results of having BPM capabilities are profound and will directly affect the firm's profitability and survivability. Companies will be able to provide customers what they want, when they want it, and where they want it, at a price they are willing to pay. By orchestrating the activities of suppliers who work in parallel, cycle times can be reduced from weeks or months to hours or minutes. Each participant in a supply chain can optimize its work as customer-generated events and market activities are known to all in real time. Productivity can soar as manual work is reduced and human errors eliminated, leaving humans to concentrate on the exceptions that only humans can handle. Customer satisfaction climbs as errors and inefficiencies are wrung out of customer service, and process-powered self-service allows customers to become more self-reliant in solving problems.

But BPM isn't something a company can just go out and buy. Buying a word processor won't make its owner a novelist. Email won't make its user have something interesting to say. BPM must not be considered as just another “product” IT vendors will be happy to sell. Properly understood, BPM is a technology-enabled way of running a business. On the other hand, it's not business as usual, for the process-managed company with technology-enabled BPM



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capabilities will have the agility to stay one step ahead of the competition and set the pace of innovation in global markets. So the next time your CEO asks why he or she should invest in yet another three-letter acronym, just smile and say, "because you have to."

Notes

¹ *Drucker, Peter, "Survey: The Near Future," The Economist, November 2, 2001.*

² <http://www.financetech.com/featured/showArticle.jhtml?articleID=14701418>

³ *Dennis H. Jones, "The New Logistics," in Blueprint to the Digital Economy, McGraw Hill, 1998.*

⁴ <http://www.business2.com/b2/web/articles/1,17863,655497,00.html>

⁵ *Globalization's Next Victim: US, Production, wealth, power, services and technology are slip-sliding away to the East, Clyde Prestowitz, San Francisco Chronicle, July 10, 2005.*

