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Abstract

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This scorched-earth view of the Internet was written by Messrs. [Philip Evans] and [Thomas Wurster] before last Christmas, when e-tailers came crashing down to earth. Turns out customers quite like intermediaries, and on-line shopping has serious limitations. It also turns out that Internet businesses haven't been good at managing the bricks-and-mortar aspects of their companies such as warehousing, delivery and customer service. Web sites may get better and their messages may get richer, but people still want to touch a product and be reassured by a salesperson. "Blown to Bits" misses the key human elements of business in its eagerness to promote a new model.

With "Blown to Bits: How the New Economy of Information Transforms Strategy," the smell mostly comes from a brain overheated by some tortuous language. Otherwise, this book by Philip Evans and Thomas Wurster of The Boston Consulting Group is a worthwhile examination of what businesses need to think about if they are to cope with the digital age. Part warning of the consequences of ignoring the Internet and part guidebook to keeping up, "Blown to Bits" manages to offer a range of strategies to encompass almost all businesses without coming across as faddish or extreme.

How can you keep this from happening to your business? According to Messrs. Evans and Wurster, it is all about appreciating changes in richness and reach of information. That may involve deconstructing your business. What this means is possibly cannibalizing your current profit centers to ensure their future profitability -- for example, newspapers have had to offer cheaper online classifieds to head off the threat to this from the Internet. Incumbent businesses such as Britannica are going to come under attack from digital insurgents; in this case it was Microsoft Corp.'s dismal but cheap encyclopedia Encarta.

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Blown to Bits: How the New Economics of Information Transforms Strategy

by Philip Evans and Thomas Wurster

Harvard Business School Press, \$27.50

Whenever I read books by management consultants I always sense a slight burning smell. I never know whether it is a trace of smoke wafting about the mirrors, something more dangerously sulfurous from people widely held to be the spawn of Satan or just my neurons frying as I try to untangle all that jargon. The smell immediately arouses skepticism about the advice of people who need to create a new business fad every few years just to keep themselves employed.

With "Blown to Bits: How the New Economy of Information Transforms Strategy," the smell mostly comes from a brain overheated by some tortuous language. Otherwise, this book by Philip Evans and Thomas Wurster of The Boston Consulting Group is a worthwhile examination of what businesses need to think about if they are to cope with the digital age. Part warning of the consequences of ignoring the Internet and part guidebook to keeping up, "Blown to Bits" manages to offer a range of strategies to encompass almost all businesses without coming across as faddish or extreme.

The book points out that in the physical world there is always a tradeoff between the richness and the reach of information. For example, a salesman can deliver a rich message to clients but can reach only a few people, while a newspaper ad is less rich in content but has a wider audience. With the Internet, it is possible to tailor your message individually and still send it to a large number of people. It is a shift that has a profound effect on sales and supply lines for almost all businesses.

"Blown to Bits" opens with a cautionary tale. Encyclopaedia Britannica was one of the world's most venerable brands, founded in 1768 and reaching \$650 million in sales by 1990. The introduction of CD-ROMS caused sales to collapse by 80%, and by 1996 it was sold for half its book value. What happened? Well, parents buy encyclopedias to feel as though they are helping educate their children, even though the books are generally opened just once a year. With the arrival of personal computers and their free encyclopedias, parental guilt was assuaged with a PC -- hence no need for Britannica's product.

Sales of all encyclopedias are now a 10th of what they were in 1990, and there will probably never again be a collection of scholarly work like the last edition of Britannica, although the company is trying to recast itself as a digital portal to a world of high-quality information. Essentially, the encyclopedia business has been wiped out by the digital age.

How can you keep this from happening to your business? According to Messrs. Evans and Wurster, it is all about appreciating changes in richness and reach of information. That may involve deconstructing your business. What this means is possibly cannibalizing your current profit centers to ensure their future profitability -- for example, newspapers have had to offer cheaper online classifieds to head off the threat to this from the Internet. Incumbent businesses such as Britannica are going to come under attack from digital insurgents; in this case it was Microsoft Corp.'s dismal but cheap encyclopedia Encarta.

Most businesses are too afraid of deconstructing their current systems and end up being beaten by an insurgent, the book says. Companies have too much invested in sales forces, showrooms and other predigital means of selling. Those businesses that have been intermediaries are particularly at risk. The example given is car dealerships, which are being rapidly pushed out by Web sites that can offer considerable information about vehicles and credit terms and suffer from none of the image and cost problems faced by dealers.

Dell Computer Corp. transformed computer sales by cutting out middlemen, and that has happened because it has been able to provide reach and richness of message through the Internet.

But reaching more people through the Net isn't easy because of the clutter out there that has made navigators -- from Yahoo! to Amazon.com -- vital nodes that companies either need to beat or join through affiliations. For businesses that have not thought this through, the authors offer this stark warning: "The only alternative to deconstructing your own consumer business is letting someone else deconstruct it for you."

However, this scorched-earth view of the Internet was written by Messrs. Evans and Wurster before last Christmas, when e-tailers came crashing down to earth. Turns out customers quite like intermediaries, and on-line shopping has serious limitations. It also turns out that Internet businesses haven't been good at managing the bricks-and-mortar aspects of their companies such as warehousing, delivery and customer service. Web sites may get better and their messages may get richer, but people still want to touch a product and be reassured by a salesperson. "Blown to Bits" misses the key human elements of business in its eagerness to promote a new model.

Also, while the book is good at giving examples of companies that have got it all wrong, it loses some focus on those that have got it right. When advising on what to do, it sinks into platitudinous management consultant slogans such as "strategy really matters" and "incumbents can become insurgents, if they choose." Essentially, the authors recommend a more flexible approach to suppliers and a breaking down of rigid hierarchies within companies -- ideas that most firms already have heard before, even if they haven't implemented them.

A few months ago, the idea of deconstructing your business and turning it into an Internet play might have been appealing. A few stomach-churning months riding the Nasdaq, and businesses may be less willing to restructure from the ground up. Those that do, of course, will be obliged in a few years to bring in some expensive management consultants to work out where they went wrong.

(See related letter: "Letters to the Editor: Sifting Through the Rubble" -- AWSJ June 23, 2000)

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