

BOB TOY

E-Business from the Front Line of a 140-Year-Old Brick and Mortar Company

Abstract

This article presents a real-world perspective based on the lessons learned from the writer's first year spent on pursuing e-business solutions within one of Union Pacific Railroad's business units. It depicts practical examples and insights for e-business efforts and, in doing so, covers issues relating to four themes: The Culture of e-Business; Delivering Results; Winning Customers; and Personal Success Factors. Principal conclusions highlight how e-business requires firm grounding in everyday business principles, such as creating a strategy, listening to customers, and conducting solid market research. Simultaneously, the article provides perspective on how e-business requires a new paradigm for success. Components of this new paradigm include the need for flexibility in products, patience in changing culture, and recognition of the incredible power of the Internet to change business.

"You want to do what?!"

"You're making a lot of people nervous."

"I don't have time for this nonsense!"

"Quit spending money on e-business, and just fix the service!"

"So, you're here to tell me how I can do more of your company's work?!"

"A railroad has a web site?!"

Comments of this genre stand as fond memories, now more than one year into the author's role of expanding customer e-business at Union Pacific Railroad. While there are still miles to go in our efforts, we're also hearing comments these days that tell us we're on the right path:

"Your capabilities save my team an hour a day!"

"What do we need to do to make it even more successful?"

"We can't move fast enough!"

"Our customers really need to hear what we're doing in e-commerce."

"It's great to see the progress your company's making!"

That progress is part of a transforming journey for our 140-year-old brick and mortar com-

pany. While we'd been on the World Wide Web for four years, in March 2000 I took on a new half-time role focusing on customer e-business for one of Union Pacific Railroad's business units. We've grown e-business significantly enough to turn our area's part-time role into a full-time pursuit. Since the start, we've watched the rise and fall of many dot-coms. We've seen customer knowledge and interest expand. We've listened to customers and greatly expanded their use of our web site. We've tested products and built capabilities. We've sized up the incredibly wide competitive environment and pursued several external alliances. We've learned a great deal, including how challenging it can be to change paradigms and deliver immediate results.

Some may wonder, "Isn't e-business dead? Hasn't the 'e' fad has run its course?" Comparing the frenzy of mid-2000 to the doldrums of early 2001, it's easy to jump to the wrong conclusion. In reality, the use of technology is more critical than ever to providing short- and long-term customer benefits, and the focus on results is more significant than ever. That means that e-leadership is paramount to success.

This article seeks to provide a real-world perspective of a classic transportation provider's quest for success in e-business. It does not take a "scientific" approach rooted in

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statistical rigor. Instead, it seeks to define primary experience-based lessons for the pursuit of e-business within the context of four primary segments:

- The Culture of e-Business
- Delivering Results
- Winning Customers
- Personal Success Factors

THE CULTURE OF E-BUSINESS

It's e-business, *not* e-commerce. As we've defined our focus on e-business, it's important to start there. While e-commerce is a critical component of e-business, it's just part of the story (and why, as people talk about the death of the dot-com, they're missing a much larger point). E-commerce is merely an electronic transaction. E-business goes much further and speaks to using technology to add value to business. Whether it's as simple as sending an e-mail for immediate consumption, expanding vital information that customers have at their fingertips, or creating an information network connecting partners around the world, technology offers the potential to speed decision making, improve information flow, and achieve mutual financial benefits.

Someday, we'll no longer call it "e-business." It will be "business" with a growing amount of technology at its core. How much technology? Forecasts range widely. One thing they all have in common: No forecast calls for reduced use of technology, and most take the perspective of William Harrison Jr., creator of Chase.com: "I am absolutely convinced that we are in the early stages of a technology revolution that will far surpass the industrial revolution" (Shuchman, 2000). This poses the challenging necessity of keeping informed about new and emerging developments.

The options for viewing all that's happening include trade and technical publications, industry contacts, networking beyond one's own industry, universities, and even personal forays as a consumer onto the Internet.

Follow Your Strategy

During the spring of 2000, readers of the *Wall Street Journal* were overwhelmed by announcements of dot-com births, and intimidated by the consequences of not rushing immediately to embrace initiatives. An example of

the latter was an article on Reliance Steel entitled "The Web? There's No Reason to Rush," which appeared to highlight the peril awaiting a company that was slow on the uptake to the Internet (Arndt). Seen in retrospect, the Reliance Steels of the world were in reality much closer to the mark—the temptation to follow the herd without carefully thought-out plans only leads to wasted energy, time, and money.

The focus of e-business initiatives should fall squarely on where a firm has defined that it wants and needs to go. A recent article in the *Journal of Business Strategy* makes this point clearly: "Technology has almost unlimited potential, but remember this: Your solution may or may not include e-Commerce. It may or may not include an enterprise planning system. It may or may not include electronic data interchange. Think strategy first, then technology" (Brache and Webb).

Research at Union Pacific in defining that strategy has revealed several challenges in our e-business quest. A wide variety of people within an organization use our web site, which means that we must build stand-alone *and* connected capabilities. It also means that site loyalty will take effort to win. Additionally, we've found that managerial decision makers visit our site less frequently than day-to-day operative users. This means that we must build further product functionality to win the hearts of those most likely to tell day-to-day users which site to use.

In mid-2000, one could have made the argument that Union Pacific needed to solve these issues within months or quickly face disintermediation (i.e., computers would write us out of the equation). As we look at web satisfaction scores from our early technology adopters, however, our data tell us that such a threat is not immediate. Nevertheless, disintermediation clearly lurks on the horizon. We're thus very focused on creating and perfecting products and alliances that minimize the disintermediation concern and maximize our ability to attract new business. In an industry where long-term revenues have stayed fairly flat, market shares have dropped, and our trucking competition presents a much simpler product, our mission is clear.

There's Always a Better Idea Around the Corner

With technology, we've only begun to realize what's truly possible. Evidenced by all the

dot-coms that didn't have a value proposition firmly in place, e-business can be very difficult to define. You have a perspective in your mind, but it's difficult to envision the twists and turns you'll encounter.

Even customers, who can provide tremendous insight, have a hard time defining needs because e-business creates a product out of thin air. We've held a variety of customers forums on e-business, and this author is always struck by how quiet customers are when they walk in. Many aren't sure why they're there—they just know that there's a meeting about e-business, so it must be worth seeing if it finally holds the magic answers. Once we break the ice with perspectives about where we're going and tips on how to get more out of our site, we open the floor for customer suggestions. Then, the wheels in customers' minds really begin to turn. As long as our list of potential enhancements has become, every forum has produced new ideas for further improvement. Given the chance to emerge, new ideas constantly flow.

The "Perfect" Product Doesn't Exist on the First Try

We're challenging ourselves to appreciate the fact that close enough is good enough. Because the Internet is so transparent, it's tempting to make sure that you have a perfect product before it rolls out the door. In reality, it's rarely been that important to us.

People at GE's Aircraft Engine division call this a "launch and learn" mindset, which one employee calls "blasphemous" for his industry. Dave Overbeeke, GE Aircraft Engine's former general manager of e-commerce, says, "Some people are not willing to go out until they're sure their solution is 100 percent right. It takes a different type of person to be willing to have a 95 percent solution and be willing to change it" (Cummings).

Creating the "perfect" product costs money that can translate into wasted dollars. As we began creating a surplus capacity product, it was unclear how successful we'd be in "ringing the cash register." We had the potential of spending \$150,000 to automate deal processing. We opted to avoid the bells and whistles of such an approach until we gauged customer interest. It turned out to be a good choice—we didn't anticipate the frequency of offline discussions and collaboration required to get cus-

tomers to take advantage of our specials.

DELIVERING RESULTS

It's a Complex Journey

Whether the concept of "Internet time" is real or not, it's clear that delivering results takes more time and effort than we'd like (Useem). Colleagues continually remind the author that three- and six-month views are far more appropriate measurements than evaluating yesterday's results.

Of course, the luxury of long-term study rarely holds in the real world. "None of your organizing efforts [are] worth anything if you can't demonstrate that your ideas actually work...You have to help your company feel its way toward revolutionary opportunities, step by step" (Hamel). So, our focus has been on experimenting, taking calculated risks, and tweaking as we go.

In the process, we've found that building relationships takes the same tender loving care that it always has. With the technology aspects of e-business, it may take even longer for those relationships to mature, because some people take longer to find their comfort zone.

For example, we've been pursuing a relationship with one dot-com that appears to hold beneficial customer reach and functionality for us. For them, we appear to bring a brand name and customer relationships that would be valuable. But railroads are a whole new world for them, and dot-coms are a new world for us. Two bi-polar cultures are meeting at an intersection of the future. It took six meetings and more than fifteen hours of face-to-face interaction to truly define the opportunity. And it wasn't until the dot-com took the role of defining the opportunity on paper that we began to sense their true interest in cementing the relationship.

Generate Enthusiasm, Identify a Common Language, and Open Minds

There are a number of barriers some people must overcome to become an e-business convert: aversion to technology, concern about job stability, adaptability to change, and specific product knowledge. Overcoming these obstacles takes education, patience, and an excitement level. Mohan Sawhney, an e-business professor at Northwestern University's Kellogg

Graduate School of Management, says that preparing for the changes ahead is far more about people and culture issues than technology. From Sawhney's perspective, managing that change requires evaluating e-business issues and challenges from brand-new perspectives (Sawhney).

While having a boss who also pushes for that change makes a major difference (co-workers admit that they wouldn't be nearly as excited about e-business were the author's boss not endorsing it), it's still each individual's choice to jump on board. That happens when you sell benefits and show results. Creating fear with "sky-is-falling" predictions only brings tension and encourages team members to dig in their heels. "Frightening people won't work. You have to win on facts," according to Amy Radin, who initiated Internet activities at Dime Savings Bank (Radin).

With a business team of about 130 people, our goal at Union Pacific has been to increase our team's knowledge and comfort level, which leads to accountability for taking action. We've taken simple actions to expand our team's focus on e-business. Some work well; some fizzle. All make some difference. As a result, we're finding breakthroughs within our business unit at the rate of about one person every eight days. That sounds slow, but that's growing converts at a ten-fold rate per year. Tangible examples of our approach include the following steps:

- For fun and to identify those willing to take risk on the Internet, we offered \$10 to anyone completing an e-Bay transaction. How could anyone argue with free money? Only nine people took advantage of the deal, and this author received almost as many questions trying to understand why we were giving the money away as he did queries from deal takers.
- We followed that up with an offer to spend an hour a week researching the growing sea of e-marketplaces. Here, we weren't giving anything away, and the response far exceeded expectations. Twenty people signed on within forty-eight hours. Why? We'd opened up the opportunity to learn e-business in a very low-risk environment. We released the group after the first phase, and twenty signed on for the second phase of further learning.
- We've invested time: presentations, conference calls, staff meetings, joint customer calls.

- We created an "e-Business Pioneer" award to recognize the greatest contributors to change.

These simple actions, all with the goal of widening perspectives and getting over the hurdle that e-business is mysterious or a threat, have changed culture, expanded energy, and deepened commitment. These changes mirror those at Enron, a company that has successfully made major leaps by moving from an energy-based organization to one that competes on the web in chemicals, paper, financial products, and more. *Business Week* summed up Enron's success by reporting, "The lesson for 21st century leaders...isn't just about clever application of the latest software. It's about culture and mind-set. By refusing to limit itself to the traditional notions of what an energy company should do, Enron has pioneered completely new businesses" (Byrne).

Set Priorities and Establish Goals

Once you generate enthusiasm, so many e-business possibilities jump to the top that it takes constant focus on priorities to deliver results. It's easy to wander. Staying focused doesn't take complicated measurement techniques. Simple criteria ratings have proven quite helpful. At Union Pacific, we size up projects based on customer need, overall expected return, and potential for success.

With our mission to experiment and complete R&D in e-business, it's often difficult to specifically define goals. Nevertheless, knowing a desired state helps confirm the priorities. While revenue generation and cost savings are most obvious, understanding the impact of long-term proactive efforts and defensive actions is also important.

Actual priorities need to focus on delivering value for customers. A new study by the Center for Research in Electronic Commerce at the University of Texas says that companies that give customers more information and ordering tools produce better financial results. Michael Dell, whose company initiated the study, says that the results point Dell toward even more focus on e-business, saying that there is a "key correlation between how much you integrate the Internet into your business and the financial returns you can achieve." The study (available at <http://crec.bus.utexas.edu>) found that companies that receive large amounts of revenue from the Internet tend to have higher gross

margins, revenue per employee, return on assets, and return on capital than those that generate primary revenues offline (Kirkpatrick).

Get Ready for Failure, or at Least Frustrating Results

Filling freight cars that were moving empty on a daily basis seemed like a simple place for us to create our first Internet product. Our team created a surplus capacity web-only product in 90 days. It took a lot of sweat as we worked through 100 steps with 80 people. With the technology in place, the back-office approach ready, and the promotions in process, we launched. We dreamed of life imitating art as we pondered the television commercial in which the team launches and then watches turtle-like response mushroom into overwhelming demand.

And we keep dreaming. However, the product hasn't worked in the initial lanes we'd targeted. Disappointing results? Yes. A waste of time? Not by a long shot. The project has produced significant learning points—confirming that it takes offline promotion and multiple plugs to generate interest, significant behind-the-scenes efforts to make an online product work, and different products to succeed on the Internet than most any we've ever created. These lessons and others position us for new efforts.

WINNING CUSTOMERS

Offline Rules Apply in the Online World, Too

In the early days of the dot-com frenzy, it was hard to pick up an article without reading that the rules for success in the New Economy were different than those in the Old Economy, as exemplified by these quotes from two Internet companies in late 1999: "For us, 11 months is long-term planning," and "Every week we're changing strategy, based on what we see" (Stepanek).

Certainly, playing Monday-morning quarterback is easy. However, the author's experience at Union Pacific confirms that the luster of the newness of e-business does not diminish or override long-standing principles of sound business practice. While I agree that e-business creates new challenges and presents new issues, these fundamentals of yesterday have always ruled the day for us:

- Profits matter.

- Customers vote with their feet, and keeping them is far cheaper and easier than finding new ones.
- Relationships and promotions are still critical.
- The selling process always grows more sophisticated.
- Customers accept change when they understand the benefits.
- Word of mouth (or in an e-mail!) still wins or loses business.
- Technological advances add value but rarely hold sustainable competitive advantage.
- Competitors rarely sleep or wait for your next step.

The art and science of business have been around for generations, and technology's enhancements cause continual change in the practice. However, we can't change the overriding fact that we're talking about *customers*. Consider this perspective, expressed by Katharine Mieszkowski: "It's not about 'keeping up with the Joneses'; it's about thriving in a completely new world. It's not about transactions; it's about communications and relationships" (Mieszkowski).

The Answers Are Right at Your Fingertips

The Internet—and the insatiable interest in e-business—have opened up a minefield of information. While all that information provides amazing insight, it's been striking to get very precise—and virtually immediate—information that applies directly to our business. The Internet delivers quick data on a vast number of elements, such as these:

- The frequency with which our customers go to our site.
- Customer interest in specific Internet solutions, lane offerings, and other information.
- The value of promotional efforts.
- The ability to generate customer feedback.
- The number of people our business touches within a company.
- Competitor interest in our functionality.

The last item reiterates how transparent the Internet makes a company's business. Our chief rail competitor accesses a single page on our site once every other day. Visits are so frequent that the chief intramodal competitor falls in the top five of visiting companies to the page!

While getting information from the Internet without talking to anyone is easier than ever, our greatest opportunity lies in listening to cus-

tomers and anticipating their technology needs. That opportunity has been a hallmark of our e-business efforts. Through customer surveys, phone calls, and visits, we've learned the following:

- How we're most likely to get a customer doing business with us online.
- The primary benefits customers receive from our site.
- What spurred customers to actually jump online or open a specific page.
- Enhancements that will matter the most.
- The "stickiness" of our site in keeping customer interest.
- The profile of our users across a spectrum of demographics.

The e-Savvy Expect New Capabilities, Frequent Updates, Rapid Response—and They're in Charge

Maybe most helpful, and often most scary, is the huge array of "great" sites. No longer can you make the case that "we're different" or "that may work for their industry, but it doesn't work for us."

Historically, customers left work and headed home. Purchases at the grocery, book store, or department store rarely converged with their work routine. A clear division existed between time spent at work and time spent at home watching television, listening to the radio, or playing with the kids. Today, and even more tomorrow, we complete these simple tasks online. The more time we spend on the computer, the more our work and home life blur, and the more frequently customers expect our product to match capabilities of virtually any web site. Even though these are usually B2C experiences, virtually every one will apply in our B2B world.

Directly related to this issue is the challenge of overcoming the "hassle" factor. While customers feel more empowerment to express opinions via the Internet, there's little room for online collaboration. We've created several avenues for customers to identify business opportunities, which they're willing to do. If there's a need to get more information from them to process their input, through, it proves difficult to get them to respond with a second e-mail. While today's caller-ID can help in the case of a phone call, it can be impossible to get around an Internet service provider's address,

and thus, the opportunity may be lost forever.

PERSONAL SUCCESS FACTORS

Even when it comes to personally preparing for e-business, the message again is that the fundamentals that have always applied to business success still rule. Here are some guiding principles that the author has found to hold true:

- If not me, who? You control your accountability, passion, and willingness to create change.
- Be willing to challenge conventional wisdom *and* learn from those with experience.
- Knowledge of the business helps in creating and selling solutions.
- Communications skills are vital—both for the web and with people.
- It won't happen without taking risk, making mistakes, and having a thick skin.
- Accept ambiguity. There's little black and white, no defined path, and little solid ground.
- You're not alone in seeking wisdom! Of all the jobs I've had, none has had as significant an impact on my spiritual walk.

Read the list a second time. Nothing here applies solely to e-business, and there's no single mention of the need to be a technological wonderkid. In fact, the opposite may be more true than ever. E-business is all about changing business processes, and it just happens to use technology to accomplish it. Winning in e-business simply takes your willingness and ability to apply business savvy in a new dimension.

CONCLUSION

It's been an exhilarating ride over the past year in our quest for e-business results. From the front line, where the script is still being written, we've learned key principles that we'll continue to pursue and refine.

Paramount to success is the ability to recognize that nothing's changed—and that it's *all* about change. While technology produces new approaches to old problems, solid business principles play an important role in delivering results and winning customers in e-business. Those principles include establishing a strategy, listening to customers, and creating solid market research. Similarly, tried and true personal success factors result in the difference between leadership and stagnation.

At the same time, e-business requires open-

ing one's mind like never before. Yesterday's product and approach will mean very little as we tap into technology's potential. As a result, it's imperative to push for change, open minds through education, and take advantage of new possibilities that become available overnight.

The journey ahead brings the threat of disintermediation, which will be driven by decision makers who choose where to send their troops. At about the same time, we'll have made so many technological leaps that we'll begin calling "e-business" simply "business." Whether it's a 140-year-old brick and mortar company or a start-up, smart choices along that journey start with the recognition that you need the right blend of old and new.

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