

TILTING AT ECONOMIC WINDMILLS

BY

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The new economy centred on the Internet presents a tremendous opportunity for Canadian business to step ahead into a much stronger position. Governments and business recognize the opportunity and put forth propositions and ideas for what should be done to capitalize on the opportunities for the next generation. Mostly they chase the chimera of ecommerce and ebusiness to excess. The ideas are solid, but subordinate to the real needs for control and power over the Canadian new economy: a mind-set and behavioural change that emphasizes domestically commercializable research and development.

The minister of finance, Paul Martin, made a statement recently to the Toronto Board of Trade outlining his thoughts for a Canadian new economy. Among the things he said, evincing Laurier's "The 20th century will belong to Canada . . ." rallying cry, was that government and business must together bolster what he identified as four pillars upon which the bright Canadian future will be based. They are ecommerce, research and development (and the commercialization of resulting advances), financing, and education. For the latter three, Mr. Martin scoured up statistics and objectives drawing attention to current and historic inadequacies in the Canadian economy.

When addressing ecommerce, Mr. Martin was a little more dodgy. He stuck to the high-road notion of it being the great opportunity and the need to not only be there but to win. The Canadian government would do its part by getting itself online by 2003. That would create a "multiplier" effect as suppliers were forced to get on board the ecommerce wagon or be left behind. The only tangible goal the Finance Minister raised was to endorse a target of "5 per cent of global

ecommerce trade" for Canadian firms, as put forth by the Canadian Ecommerce Opportunities Roundtable (CEOR).

Various think tanks and lobby firms, not the least of which is the CEOR, have undertaken to study the Canadian situation viz. the Internet-based new economy. With CEOR's findings, as prepared by Boston Consulting Group (BCG), comes a set of priorities. The following are the general themes, or "building blocks," within which are specific goals and general courses of action. Not surprisingly, they fairly resemble the Minister's ideas.

1. "To establish Canada's brand in e-business, domestically and globally.
2. "Accelerate the transformation of existing businesses in Canada [into e-businesses].
3. "Foster e-business creation and growth.
4. "Expand the e-business talent pool in Canada.
5. "Make government online a major priority for all governments in Canada.
6. "Build Canada's leadership in international Internet policy development."

All of these are noble goals that nobody could justifiably denounce given the impact and influence of the Internet on business in the past several years. Certainly I can not fault the ambition as I agree that the Internet-based economy affords Canada and Canadian business a tremendous opportunity to leapfrog into a position of global leadership. Action needs to be taken quickly, though. And, we must be mindful to choose the right path, not merely the most obvious or inviting.

To be certain, there is opportunity despite the news from the front being not quite so encouraging any more. Dot-coms are going bust and the market is punishing the new economy sector, sales are slacker than expected, holiday season preparedness is questioned, and age-old wisdom (for the Internet Age that means at least more than one year) such as “first mover advantage,” “mindshare capture,” and “pure play” is being questioned. Generally there seems to be a little more circumspection about this Internet economy and its promise of new gold. All of which is, of course, both to be expected and adds depth to the relief. It does not materially change the developing economic structures; perhaps only making the transition more challenging. But let’s get back to the issue at hand, which is really about this electronic opportunity and the value in the proposals for how Canada should go about exploiting it.

To begin, one must question the proposals by the possible motives of the parties speaking out. The Finance Minister is probably quite genuine in the belief encapsulated by his speech. But, he is also stumping: for re-election and in his leadership aspirations for his own party and as Prime Minister. Regardless, the real question is whether the government has the political will to do what it will take to implement and lead—if a government can even do that anymore—its people out of the low tech wilderness.

CEOR exemplifies and represents a less obvious set of motives. The Roundtable is under the joint direction of BCG and Nortel Networks, and includes participants from the largest players in the Canadian ebusiness world and government. While it is conceivable that the primary private

sector participants are acting from concern for the national welfare, it is likely that there are (and maybe even should be) other more self-serving motives. That is not to cast judgment: depriving a businessman of his obligation to seek profit is like denying a shark its obligation to frenzy.

Regardless, the primary commercial benefactors of this quantum change to the business landscape are the infrastructure providers: software and hardware based networking manufacturers, the providers of the telecommunications systems, Internet service providers, ebusiness consultants and developers, suppliers of ecommerce transaction processing and fulfillment facilities, and all their investors and shareholders. Coincidentally, the CEOR directorship comprises both public service advisors (there to take equity in and support the directives when put before the government) and representatives of those commercial entities that would benefit most from expansion of the Canadian ebusiness economy. But a rising tide raises all boats, and there are many other beneficiaries, right?

Will the less privileged underclasses benefit from all this? Undoubtedly there may be more jobs created in not only knowledge work, but also in the information manipulation and servicing operations as well as in high tech hardware manufacture. Of course, we may all have the opportunity to purchase those wares online! With any *luck* whatsoever, success will support lower taxes and a better micro-economic picture as well. That, however, remains to be seen.

Conversely, traditional, domestically-oriented small to mid-size enterprise (SME), which has been a key driver of the Canadian economy for years, stands to gain only peripherally from these initiatives. Yet these non-new economy start-ups are included among those to be converted to ebusinesses under prevailing plans. While this sector has kept up its part in the past by employing Canadians and spending in the economy, it is neither sexy nor in many instances suitable for conversion to ebusiness anyway. Large old-line businesses for which the Internet is a small value addition, like resource companies and the transport

industry generally, may benefit only marginally from ebusiness development beyond the most rudimentary use of Internet communications. That these sectors are under-represented in the discussion is neither surprising nor unusual, but within the context of the Finance Minister's tilting their absence is notable.

These particular SME businesses simply will not be the international vendors using the paradigm-shifting ability of the Internet to change Canada's rank in the global ebusiness economy. For many of the vast number of localized businesses that might be urged toward conversion, the Internet is considerably less valuable than it is to the high tech start-up and the internationally-oriented merchandise vendor. Obviously the high tech businesses will benefit largely and may turn out to be the drivers in the next economy, but they are only one part of the Canadian economy. And, not to propound the obvious, a single-industry economy is highly susceptible to global marginalization.

The emphasis on the new economy "end" and a way to achieve it is overdue; but, the "means" to do so appear to be a little scattered and misplaced. Some of the more specific initiatives and directions being put forth tend to not work to Canada's traditional strengths. They attempt to build anew on no real foundation. Others, such as the contentious tax issues and government's role are typical quibbling. Critically, however, the lack of sustained, concentrated emphasis on domestically-commercialized research and innovation inhibits anything more than a follower-vendor status regardless of whether the other initiatives are successful.

In these discussions, ecommerce, ebusiness, and the Internet need to be kept in perspective. Ecommerce is merely the use of the Internet as a communications and transaction medium both backward down the supply chain and forward to the customer and consumer. Ebusiness includes a broader array of businesses serving the Internet economy such as online intermediaries, infrastructure and equipment providers, and application providers. The Internet itself is a telecommunications system that allows for the near instantaneous transmission and sharing of

information between two points in an (ideally) always available, webbed network of many computers. It is a very high tech, wide-reaching coffee klatch: a medium not especially different from paper or telephone.

With this in mind we can go through a few of the broad proposals to comment.

First, expanding the Internet's reach and educating every Canadian to be proficient with its use could provide an excellent general social benefit if we agree that the Internet is a long-term social force. It may benefit commerce as well. But at the end of the day, the knowledge may be of less value than we hope or anticipate. While some people truly love the Internet, and it does have special application to some markets, it is a medium for commerce that simply will not work to the extent of displacing other channels in the long run. For instance, one still has to question what extraordinary benefit and value there is to buying pet food online, with the wait and extra charges, as opposed to picking up the bag at a store. Unless I am isolated or my dog is especially discriminating toward a locally unavailable brand, the value is purely subjective and ultimately questionable. Besides which, the same result can be achieved on the phone or via catalogue.

One of the situations in which catalogue sales work is when product is unavailable locally. (Think North Bay and the Eaton's company 30 years ago, or Mountain Equipment Company today.) Where the product is readily available at similar value in a local store, history has shown that catalogues often come up short. This same problem will plague Internet-based offerings. Ecommerce is now and will be forever solely another of a multitude of channel choices to business in reaching its markets; not the evolutionary final option. Besides, a large tract of the Internet-literate population may not have convenient computer access for conducting ecommerce anyway.

Second, as noted earlier, many domestically-contained businesses are simply not reliant upon nor needful of Internet and ecommerce facility. They function just fine without and there is no justified pressure to convert. So the capital

investment is not materially valuable. These are the local businesses that trade on access, demonstration, and immediate fulfillment. The day that I can use the Internet to buy a bolt and nut set from my hardware store and have it in my hand 15 minutes later without leaving my back yard—without price premium—is the day that these businesses will need the Internet in a large scale way. Why convert them: to save them from foreign competitors?

It is actually the potential for broad and easy export market access that the Internet affords to all competitors which must be exploited, not domestic market control and protection. Everyone acknowledges that larger business volume, bringing external money into the country, is essential to increase national wealth. It is also a requirement of making the ecommerce model work: efficiencies plus volume from broader reach. The dark side is that our economy, closed at the 49th parallel—practically or psychologically—is too small to be of significant independent value. It will never provide the scale that individual Canadian businesses need to fend off the incursions of extranational businesses also accessing the Canadian market.

Domestic market orientation, for ebusiness in Canada, is probably a short-term delay of the inevitable loss of market to powerful extrationals if one believes in the supremacy of retail ebusiness. If our businesses are to grow and operate on a global scale, they have no alternative but to operate and compete in the global context, not in Canada alone. Creating or converting ebusinesses solely or primarily for the domestic market is, in the long run, under the competitive conditions imposed by the Internet and aggressive extranational marketers, a chimera. For ebusiness, the domestic market is rapidly becoming just the closest part of the global marketplace. To protect the domestic market from electronic incursion without making it only a small part of the overall global market addressed by Canadian companies is to deny ecommerce.

Third, while it is important that government take a leading role in the development of new economic drivers to lead the nation along, as the much-lauded Japanese MITI did in the post-War

rebuilding of that economy, there has to be both initiative and commitment from business. The multinational beneficiaries of government largess, whether from protective tariffs and barriers or through investment and support, have to be counted on to plough the fruits of their success back into Canada—without equivocation. When these companies take off their training wheels and go riding in the big park, invariably they backtrack on their Canadian commitments. By charging it to high taxes and lack of support/too much interference from government then threatening or actually moving out of the country, they make one question why the government should be involved and support commercial development at all. Whether the government should be there is, in fact, debatable at many other levels—but we'll let it go at that.

To expand on the quibbling subject of business wanting more from government while demanding that it get out of the way, let's briefly consider the brain drain issue and corresponding "lack of talent" problem. Allegedly there are not enough qualified (technical) workers in Canada. What's more, it is apparently the government's responsibility to remedy the situation by reducing taxes, especially as they relate to the potentially lucrative stock option packages used to pay high tech employees. The "brains," they say, head for the bigger money in the U.S.A. But, what about all the other issues such as opportunities to do exciting work, to be part of an environment that seeks to do great—not just profitable—things, and so forth that Canadian businesses don't appear to be creating for the "brains?" Even Jeffrey Simpson, in his research for *Star Spangled Canadians*, uncovered that money is not the sole motivator for this second lost generation.

Specifically regarding the capital gains tax, lowering it is a great idea that should be implemented immediately—subject to minimum term reinvestment of the gain into targeted, Canadian developing commercial endeavors. If the design frees up capital so it can compound and create large pools for further investment in the risky Canadian future rather than be removed for consumption, shifted out of the country, or hoarded

in the “blue chip” equity markets where it currently makes home, then let’s do it now.

The more important second complaint here is that the education system and training programs have not addressed the special knowledge needs of workers in the new economy. So, what about internship and apprenticeship training programs? Canada now ranks 6th out of 10 in the OECD for employee training. Doesn’t the state’s responsibility end when it underwrites a basic, globally acceptable level of literacy and supports broader higher education designed to create thoughtful people capable of learning the specific knowledge that commerce will demand? (Now, it is quite possible that the bar has been raised, and Canadian grade 8 students *do* lag at 14th in math and science.) At that point, educating for specialized commercial skills and knowledge is industry’s responsibility: like any other type of resource/reserve exploration.

Fourth, the targeted focal point of Canada’s ebusiness development initiative should draw on and augment historic Canadian strengths, not attempt to invent new fields of expertise. A good (albeit overworked) individual example or this in action is Nokia’s change from lumbering/pulp and paper to cellular. The consistency in the shift from an old world resource for communication medium to a new economy resource for communication is readily discernable. On a national scale, consider that Japan’s industrial manufacturing strength started with ships not tractor or cars because there is more sea-based than land-based context. Its ongoing, dominant electronics and automotive development and marketing reflects the Japanese need to miniaturize and conserve space and resource. Strategically, it makes more sense to build from strength or out of the expertise that circumstance and environment dictate.

Canada and Canadian business needs to be cognizant of what our natural strengths are and should be. Consider our context: Canada enjoys (!) a very low population density because of a limited number of people spread throughout a very large land. We are subject to a generally harsh climate. Our land is resource rich, and replete with world cultures and languages. There’s more, but

we should have a fair picture within which to explore two examples.

Canadian companies have and continue to play successfully on the world stage in the so-called “new economy” sectors of telecommunications and networking in addition to the more traditional resource and agriculture-based industries. Why not? To connect Canadians one to the other more readily and efficiently, Canadian business should be constantly improving and developing more efficient and intelligent ways to do so. Where was cellular phone technology first developed but not broadly commercialized? The bandwidth and technical feasibility for video telephony should long ago have been developed *and commercialized* here in Canada so average folk in Victoria could see and talk to their kin in Moncton without a second thought practically or economically. Why haven’t Canadian-developed ground and satellite-based wireless efforts been established and commercialized long ago?

Modes of distance transportation are, sadly, regressive in Canada. They need to be progressive and, frankly, should be given our national context. In a nation with so widespread a population, transportation problems from infrastructure development and maintenance through harsh-climate performance to load management should have been solved ages ago. Prices and efficiencies ought to be among the lowest and greatest in the world, respectively, which would put our methods, skills, and businesses in demand everywhere. From there, innovation would address new forms and needs for transportation. There ought to be much more support, and a hew and cry to keep all the “Ballards” now and coming, in Canada. Instead we don’t even have passenger trains, let alone high-speed rail. Our air service is practically a monopoly. And, the highway infrastructure is good only for mechanics servicing vehicle chassis and wheel alignment.

There are a lot of “shoulds,” but it would appear that both the government and business long ago stepped away from the aggressive research and development necessary to achieve such expertise and global leadership in these and other areas. Canada now ranks 15th among OECD

countries in R&D as a percentage of GDP. The government stepped aside in its direct funding and support obligations both at the academic and the commercial levels; business by simply relying on others to do their hard research and development for them. Notably, creating R&D primacy is absent from the CEOR building blocks upon which to launch an assault on ebusiness opportunity. The more consistent shortcoming, which the Finance Minister noted, is the apparent Canadian inability to commercialize innovation without it leaving the country. Second place—or worse—seems to be OK to us.

So, while the tools and means to achieve new economy success such as tax restructuring, financing, conversion, and even education are important; and while targeting the new Internet economy is also important; Mr. Martin, CEOR, and the rest of us need to do a little serious naval-gazing and concentrate our efforts on hard research and internal innovation when looking for where and how we can dominate in the world's new economy. The rest of the noted "strategic" ideas are actually more tactical at this level, are byproducts or functions of other means, and probably immaterial to determining true economic leadership. They are necessary and valuable but do not cohere to achieve the goals without solid, aggressive R&D at the core. There is a definable and obvious inconsistency between leadership aspiration and innovative hesitation. In fact, unless this changes there is practically no chance for Canada to achieve the fullness of Mr. Martin's dream in any other respect.

Ecommerce is, as noted, just another way to conduct business. Ebusiness would appear to be the next broad strategic development in human economic history. The details and specific ways to capitalize on that development are, typically at this stage, a little more uncertain. The only certainty is that as long as Canada and Canadians—individual and corporate—play catch-up by chasing the research work of others; do not play to our established strengths; do things adequately instead of exceptionally; run after the herd by sticking to the past too long instead of embracing the future; and are unwilling to act to the benefit of all citizens

of this country, which includes striving to keep and commercialize innovation here by any and all means necessary; then Canada can not succeed in the new economy.

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