

After Sept. 11: The road to recovery

CNET News.com and Knowledge@Wharton host a special roundtable discussion with business leaders from the worlds of finance and technology. The question on the docket: how to guide companies—and customers—through an increasingly uncertain time.



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Even before the Sept. 11 attacks on the World Trade Center and the Pentagon, it was clear the U.S. economy was in weak shape. Even more clear: The tech economy was worse.

Since then, myriad questions have emerged. Chief among them: How long will the slowdown last and is it going to be worsened by the current political uncertainty?

In a bid to get some answers, CNET News.com and Knowledge@Wharton assembled a panel of business leaders in the fields of finance and technology for a roundtable discussion. They talked about how to manage companies, customers and expectations in these volatile times.

The participants included Beth Kaplan, a managing partner for venture capital firm Axcel Partners; Andrew Heller, CEO of Heller Capital Corporation, a private equity organization; Sir Paul Judge, chairman of Isoworth, a manufacturer of beverage-dispensing systems in the United Kingdom; and John McCartney, deputy chairman of Datatec, a global provider of Internet-related products and services with more than \$2 billion in annual sales.

The roundtable was moderated by Charles Cooper, CNET News.com's executive editor of commentary.

CNET roundtable

Q: How had your businesses been faring prior to Sept. 11, and how have things changed, if at all, as a result of the attacks?

McCartney: I think the biggest change since Sept. 11 is the slowdown in decision making. When you're talking about \$100,000 (or) multimillion-dollar networks, the level of authority required to approve the expenditure, and the time a customer is willing to take to decide and their scrutiny of how quickly the productivity paybacks are going to come just gets heightened. And that slows everything down, with the consequent impact on the economies involved.

Are decisions, then, being elevated to the CEO level?

Kaplan: Oftentimes they are being elevated. Project managers can't make decisions any longer. Division heads can't even make decisions. We have one customer—we went through 10 different layers of decision-making authority, with the ultimate authority resting in the chairman's office.

Does anybody here still believe in the "New Economy," even after the dot-com meltdown?

Judge: I think the total size of the e-commerce market was about \$60 billion. It seems helpful to remember that that's less than half the sales of either Ford or General Motors. That helps put it in perspective.

Kaplan: I think it's a misnomer to link "New Economy" with "dot-coms." Dot-coms blew up because most of them didn't have sustainable business models. That in no way is necessarily reflective of new technology. In fact, there's a lot of Old Economy businesses who are investing heavily in new technology, in New Economy kinds of businesses...So I don't think the New Economy is dead at all. I think it was just mislabeled and mislinked to e-commerce.

McCartney: From my point of view, the New Economy never existed. What did happen, especially over the last two years and especially (in the Bay Area), is a massive

transfer of wealth from investors to small companies and/or individuals. And a great deal of that wealth then in turn transferred to manufacturers of equipment—in many cases without any real economic activity behind it. That's gone, and that's probably a good thing in the long run for the economy, while the impact (in the Bay Area) is pretty dramatic.

But in terms of Silicon Valley, I think there's a real distinction people need to get their hands around between the engines of new technology, economic growth and stimulus—which are still here and still very, very strong and will continue—and the dot-com boom, which we probably would have been better off without, unless you're one of the people who benefited tremendously from it.

Heller: I think the concept of a New Economy is here to stay. It's simply an evolution of the need for technology to improve productivity. During the bubble, there was an over-allocation or misallocation of financial resources to unfounded business plans, and there was far too much investment in capital equipment by large manufacturers. We simply need to go through this recession now to digest that investment. But the development of technology will absolutely continue and will increase productivity forever more.

Kaplan: One of the interesting things that's going to happen with business is that corporations—whether mid-sized or large or even small—are going to focus on fewer priorities. They're going to go back to what really matters. There was a lot of investment in technology over the last number of years that may not have been related to the core mission of the companies. There was a lemming effect, (and) a lot of companies invested in technologies without clarity about what the real paybacks were going to be. But during a time where companies were doing very well and there were funding organizations to identify those kinds of technologies, it was an OK thing.

Andrew, from the perspective of a financier, what sorts of things are you doing differently in this climate? When an entrepreneur knocks on your door and asks about investment, are you asking different questions? Are you thinking different things?

Heller: I'm certainly more cautious than I had been. I receive many proposals—in fact, more desperate proposals than had been received previously. Especially for second- and third-stage funding; people are very desperate to keep their businesses running. And I basically take a harder look at things than I used to.

Judge: Cash is now very important. Cash is the key. And of course, reducing the interest rates for those who've got cash is not good news, because they were at least getting some money from that. But I think the whole speed of development is now slower. We encourage people very much to take it more slowly, not to burn at the rate at which perhaps they were prepared to do before. And the message is that cash can either come from customers or financiers. We want much more of it to come from the customers than from the financiers. It was too easy in the last couple of years to get money from financiers and not have to worry about the customers.

Kaplan: I think there's been a real sea change. It used to be—until fairly recently—that...we used to fund PowerPoint presentations without any evidence of real traction in the marketplace. And that's dramatically shifted.

McCartney: It's the same challenge, basically, for policy-makers and...for businesspeople—and that's the uncertainty in the situation and how to deal with it. (In the '70s,) the cause of the recession globally was the oil-price shocks and OPEC curtailing production. There was a defined cause, and there were several responses that were developed and implemented over a period of time, which led to recovery. While we may well be a ways into the general economic slowdown, the impact of Sept. 11—its immediate and medium-term repercussions—is still unknown.

McCartney: It's probably more uncertain for people in technology and related industries that were slowing beforehand...The capital markets aren't there to rescue (us) any longer, so the pace of investment is going to be a little lower. The demand for gradual returns is going to be greater, and therefore, the willingness to invest huge amounts of money in a portfolio of investments that may generate one great new product technology—it's just not going to happen as quickly anymore.

When that last global recession occurred, in the mid-'70s, it lasted a year and a half. How bad of a mess are we in now, and how do you think it compares to that last one?

Judge: This is more psychological, maybe, than economic. I think a lot of the durable-goods downturn is people not wanting to make decisions in September. But in fact, they'll still need a



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new refrigerator, a new oven or whatever it may be. And that should bounce back...Quite a lot of that will bounce back quite quickly.

Do you think the events of Sept. 11 will curtail globalization?

Judge: I think that generally America has become much more globally conscious in these last couple of months. And many businesses, when they see what the issues are at home—that may again help them to look overseas...Many of the businesses...have been very U.S. focused, and (the) tremendous technology in the U.S. does have great application overseas. It's often hard to imagine that half the people in the world have never made a phone call...Think of the amount of telecommunication technology there is in America; there's huge potential out there...I think there will be continuing globalization.

Heller: I would also hope that the political alliances that have been created as a result of this tragedy may later lead to additional business alliances.

McCartney: Global economic development—and that's what globalization is really about—is *the* No. 1 force that will help mitigate some of the activities that are going on in the world today and the best chance for the Third World to become the Second World and the Second World to become the First World. I think businesspeople, companies and nation-states will recognize this more in the aftermath of Sept. 11 and as things play out over the next six or nine months.

But sometimes business plays second fiddle to politics. Because of the situations in those particular countries, there might be political factors that take precedence.

McCartney: Well, businesspeople, like anyone else, operate in a political world, governed by nations and alliances. Certainly there will be countries in which investment and development is simply not going to take place for a period of months or potentially a period of years. But if you look at the world market as a whole, the populations of underdeveloped countries—those that may be slowed by political or military actions over the next several months—are only a small fraction. And I think that global opportunities to help develop the world economy and advance the stature and economic well-being of people are out there, and companies will take advantage of those opportunities.

If you all had a chance to advise both President Bush and Alan Greenspan, what would you say?

Kaplan: I think it's very important that they put into place...incentives for businesses to make...investments in their businesses: in technologies, in organizational development. That is one of the most important things to do. And in terms of the Fed, I think (it's) doing all the right things in terms of reducing the cost of money.

Heller: I'm extremely supportive of Bush and Greenspan. I think they just need to continue the course, and the economy will turn around as they're directing it.

Judge: I think the economic measures are right, but I would again stress the psychological. And I think—if I can say as a Britisher—with the Blitz and with the IRA, the political message was “life must go on.” And as tragic (as) these events are, only a very small fraction of the population has actually been affected...I think all the political leaders should be saying life should go on, we shouldn't take defeat. If we all go into our bunkers ourselves, we're handing victory to the terrorists. So I think there should be a strong political leadership message.

McCartney: I think the Fed is on the right (track). I think economic stimulus is coming. But no government—neither the United States government nor any other government—is going to pull any country or the developed world out of a recession. It is businesspeople on the ground making business decisions and leading their companies—whether it's a small operation on a street corner in San Francisco or whether it's Chevron or DaimlerChrysler. It's going to take the focus on continuing to identify opportunities, invest in markets that are reasonable, treat your people correctly, and build good-quality products and sell them. That's what leads to economic recovery. Politicians in the governments can create a more receptive or more difficult environment by policy decisions, but they alone are not responsible for leading us out of this. ■



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