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Discussion

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DISCUSSION FOLLOWING THE REMARKS OF MR.
MATHAISEL AND MR. SULZENKO

QUESTION, PROFESSOR KING: I have a question for Bud Mathaisel. When you have all of this high-tech communication, do you see any loss of human contact? What about the human factor? Is there any value in terms of the dealer contact, for instance, with the sale of cars? In other words, when you talk about selling and buying cars on the Internet, is there something being missed there, and do you weigh that at all in terms of how you evaluate technological change?

ANSWER, MR. MATHAISEL: I mentioned that there are market segments, and that each are different. The Internet is allowing us to do a better job of optimizing against each. You may choose to go to the dealer. It is interesting, but most of the population would rather not have to go to an auto dealer. There are some who would prefer to have the dealer experience. My wife is one of them. I am privileged that, because of my position with Ford, I can get almost any one of our vehicles, but even before I order it on the Internet, my wife and I go down to the dealer lot and kick the tires. She wants to see the different colors and that sort of thing. For different generations, I noticed there are different approaches. I have a son and daughter who are very well-connected, and they love their cellular phones. They love the Internet. When they get together with people, it is to party. When we get together with people, it is to do other kinds of things. So what we are finding, rather than seeing a loss, is that we are getting a little bit more optimization to the preferences of any one particular group.

COMMENT, PROFESSOR KING: Most people have been through the dealership experience. First, you give the dealer an offer on the car. Then, he says, I cannot do that, but I will check with my manager. Then you lose a half-hour while he is checking with the manager. Finally, the manager ordains that the price is \$100 more than what you offered. There are a lot of people who do not like that.

COMMENT, MR. MATHAISEL: I will tell you a quick little story because I think it is indicative of what I am talking about. I met with someone whom, according to *Forbes*, is one of the wealthiest women in the United States. She was telling me how pleased she was with Ford. She used the Internet to cut \$200 off the price of a Lincoln Navigator. I thought this was interesting. Here is one of the wealthiest women in the United States. A Navigator costs \$45,000 to \$50,000 (U.S.). That is a lot of money. I asked her how she chose the dealer. It did not matter, she replied, since she has the

vehicle serviced in the parking lot of her company. That sounded like a good service, so I asked her how much that cost. She replied that it costs \$200 every time they come for service.

She blew the \$200 she had saved on the car on one oil change. The point was, though, she went armed with all the information she needed. Cost is a big part of it, but for some people, it is only sort of a sideshow.

QUESTION, PROFESSOR KING: I had a question for Andrei Sulzenko. You mentioned that Canada needs to focus on certain industries. When you look for great progress, how do you determine which industries you want to place first in your focus?

ANSWER, MR. SULZENKO: That is a very good question. I guess there are two answers. One is that industries choose themselves, and we try to help. For many years, we have had a very strong telecommunications presence, and we try to reinforce that. We have developed, in recent years, a very strong presence in the aircraft business, and the federal government tries to make sure that continues. So, in some sense, it is a bit of self-selection. The automotive sector is critical to the Canadian economy, and particularly to the economy of southern Ontario. We pay a lot of attention to it. But, in terms of new and emerging businesses, that is, in part, a dialogue between government and the private sector.

There has been, to some extent, some government leadership because, as these companies are emerging, it means that we can affect the base for those industries, largely through the university sector in terms of research. Take biotechnology as a good example. That sector has had huge increases in terms of market capitalization, but all of these firms that are worth zillions of dollars have no sales. We are trying to nurture them, mainly through the R&D side. To be frank, that has been a government-led initiative.

We had an OECD Ministerial Conference in Canada last fall to try to launch the process by which governments are going to set the rules for electronic commerce. We have actually been pushing our business community on that. It is a mixture, but we are not trying to go back to the old industrial policy of picking the winners, if that is the underlying question. We are trying to be careful not to do that, but we are trying to seize opportunities where we think opportunities lie.

QUESTION, MR. DELAY: This question is addressed to Mr. Mathaisel. I am wondering how much the new electronics will be used to change the geographic distribution of the supply chain and maybe mirror it with all technologies. For example, the Lordstown Automobile Assembly Plant, which is in northern Ohio, assembles small automobiles for General Motors. General Motors states that it does not make any money from that plant, and it is supposed to be closed down. There has been some talk of starting it back

up. The concept to make it work this time is to combine modular assembly and bring the suppliers closer. They also want to move the manufacturer much closer to the plant and, perhaps, put some of those plants on rail lines. Then, they would tie them in very tightly with electronic information so that the suppliers would bring in the parts, make an electronic set of decisions, build the modular assembly on a Wednesday afternoon, ship it to the plant on Thursday morning, and perhaps have it installed that day or the next day. So, they would be changing it so the suppliers are very close, within fifty miles of the auto plant and electronic information would be exchanged instantaneously, along with having a very close geographical relationship with the supplier.

Do you see that happening at Ford as well?

ANSWER, MR. MATHAISEL: Yes, it is. There is a yin and yang to it, though.

You think about the Ford Motor Company plant, the River Rouge, which was memorialized as being sand and rubber and iron ore at one end and completed vehicles out the other.¹ That literally was true. The River Rouge now does disparate jobs, and it no longer operates in that way. We buy tires, we buy modular assemblies, as you point out. Each of the manufacturers would love to have a supplier co-located right on the property to do everything, but if you were a supplier, think of the relative inefficiency of serving Ford, General Motors, and Toyota each in that way. It means you have to chop up your plant into disparate plants that you have to manage. You have an economy of scale having a single tire plant.

So, there is a yin and yang, but the movement is towards shorter cycle times, which means co-location wherever possible. Using information about orders and electronic orders, you can configure a vehicle that immediately, at the speed of light, gets dispatched to the whole supply chain, precisely with the right wheels, colors, and everything.

QUESTION, PROFESSOR SHANKER: Mr. Picker pointed out that Canada and the United States have an awful lot in common. I cannot think of two countries that ought to have more in common than Canada and the United States. We share the same language, the same basic background, and a lot of the same values. In the years of studies, have you ever tried to identify why there are differences in the things that you have pointed out? Is it something about your culture, something about the policies, something about the weather? Why should there be differences between the two countries on the various things you have talked about?

¹ For background information on the River Rouge complex, see *Ford River Rouge Complex* (visited July 26, 1999) <<http://www.cr.nps.gov/nr/detroit/d38.htm>>.

ANSWER, MR. SULZENKO: That is another zinger. I guess it is an issue we are trying to understand better. I think you are right, if you are talking about the last ten years. But, in my view, the differences between the two countries were much more significant before the Free Trade Agreement (FTA). So, in a sense, we are playing catch-up. We are trying to adopt the best things of the United States, and we are trying to keep away from some of the other things we do not like so much, which are more on the social side of the equation.

We have a much lower disparity between high and low incomes in Canada. I think our social programs, on average, are better, particularly, our health programs. We want to keep that. At the same time, we want to become more like the United States in terms of economic performance. We have been a little slower to adapt.

The major economic restructuring of the United States, I think, took place in the 1980s when you faced the Rust Belt issue. Ours really only took place in the 1990s because our recession in the 1980s was not nearly as severe as yours, plus we had the impact of the FTA. So, we are a bit behind, and it is going to be really hard to catch up.

This is theoretical for a government official to say, but overall, and Canadian business people will agree with us, it is not just our government. We are not as dynamic. It just takes time; it takes the right environment. As a government, we are trying to create an environment where risk and reward are a better match. The tax system probably has a lot to do with that, so we are trying to emulate the United States in terms of our entrepreneurial drive and our speed. Speed wins. We used to say speed kills. Now, we say speed wins. I think Canadian business people are getting the message, particularly in these high-growth areas. We are doing pretty well in those. It is in the more traditional areas where we have to do some catching up.

QUESTION, PROFESSOR CHODOSH: You mentioned a productivity paradox. I am wondering whether you have studied alternative explanations of that paradox. I have always wondered about the misuse of computer technology, particularly in the work force. I remember when I was a consultant in 1985, and we made the switch from typewriter to computer, which meant greater efficiency for us. Case Western Reserve University has been declared the "most wired" university by *Yahoo!* magazine.² Some of our students are sitting in the classroom plugged into the Internet. Maybe they are shopping on the Internet for a new motorcycle instead of paying attention to what is going on in the lecture.

² See *America's 100 Most Wired Colleges 1999*, YAHOO! INTERNET LIFE (visited July 26, 1999) <<http://www.zdnet.com/yil/content/college/>>.

I am wondering whether there is a “solitaire hypothesis” or something of that sort to explain the productivity paradox. Have you seen any of the down side of opening up this world of computer technology and information to the work force while they are in the workplace?

ANSWER, MR. MATHAISEL: I have paid attention to this question because I have earned my living trying to sell companies on allowing me to invest their money in the technology. I have, with some humility, noticed the following. I will suggest two factors, which sometimes may conflict with one another. One factor that is very important is that information technology is an industry, but it is mostly an enabling capability for everything else.

The question of whether you can make money on the Internet is not a relevant question. The question should be whether you can make money with a business that happens to use the Internet as a capability. Can you improve product development, manufacturing, and research using the Internet? It is an enabling capability, so productivity has to be reflected in the primary function much more than directly.

The second phenomenon we observed is that everybody invests in the technology; and so productivity is measured on the basis of the average. Averages in information technology can be hugely disparate. Take a bank, for example. There are some banks that make phenomenal use of information technology, and some who just pour it into a rat hole. On average, you may not see a productivity gain, but it has caused a huge difference. And, to Andrei Sulzenko’s point, the very fast market response to kill off the weak life forms will eventually be reflected in a healthier economy in most of the not-very-regulated economies. Those are the two phenomena we observed. We always want to be at the leading edge of that second one and not the one who is pouring money into something that is actually lowering our net income.

QUESTION, MR. WOODS: Actually, I am here because Professor King told me I had to come and ask questions. My first question is what happened to our coffee breaks? The schedule I have says we have a coffee break now. I think Professor King is making us work harder.

The issue about the dealers raises a question in my mind. There was a conference at Queen’s University in November where we talked about electronic commerce and disintermediation. We are competitive in some things in Canada like hockey, or at least we used to be. The good news is that we are getting Wayne Gretzky back; the bad news is he is quitting his day job. Scotty Bowman used to tell his team, “throw speed at them.” Speed equals movement, equals profit, equals competitiveness, but what happens to the middleman? We are in a room full of middlemen. Most of us are lawyers or bureaucrats or accountants or parts of structures, except the lucky ones who are still students, who stand for regulation and maintaining regulations. What is

going to happen to that structure to eliminate the middleman, or what does the middleman have to do to help speed the process and not slow it down?

ANSWER, MR. MATHAISEL: The new technologies have shone a spotlight on where the value is contributed in the economy. Any middleman, whether it is in our industry or any other industry, that is not a value is going to get very quickly identified and pushed aside.

There are a lot of new middle opportunities. I do not use the phrase dis-intermediation; I call it re-intermediation, meaning it is just taking a different form. Case in point, the dealers who are going to survive are the ones who are going to use information very aggressively to do something worthwhile.

I recently had my twenty-fifth wedding anniversary. Even though the dealers knew that, not one approached me in advance to ask if I would like a gift for my wife. I heard nothing like, "it is your twenty-fifth anniversary, so you name the vehicle. We will deliver it. We will tie a blue ribbon on it or a pink ribbon on it. We will have a couple of theater tickets in the front seat." Not one dealer used the information. Not one of them approached me when my kids graduated from high school and said, "we have wonderful cars that are coming off leases. They are only two and a half or three years old. They are wonderful. Do you want one?"

So, the dealers who are stuck in the Stone Age dragging their wheel to somebody else's territory are going to get pushed aside. It will not necessarily be by us, but by the market, by Microsoft, or by the new intermediaries that have been created. Those who use information wisely are going to be connected to the consumers, and they are going to have huge rewards to reap.

COMMENT, MR. ALLEN: I thought Morris Shanker's question was particularly interesting, and I am not sure that it got fully answered. Why is there the difference between Canada and the United States? I would like to comment on what I will call the Jekyll and Hyde nature of the Canadian government.

The Canadians do some very, very good things in terms of providing virtually free education for people so we can achieve high levels of education. At the same time, Canadians have such repressive tax measures that the people who have achieved their education in Canada, without much personal expense, pick up and leave. Then, they earn their money elsewhere and pay taxes elsewhere at a very small fraction of what they would have paid had they remained in Canada. You said that the gap has narrowed. That is because the people who are serious contributors to the economy get taxed at such an excessive rate that frankly, they do not have anything left over. So, yes, we have narrowed the gap, but we have also encouraged the best and brightest to leave.

COMMENT, MR. SULZENKO: I will comment only if this young lady will stop typing, otherwise, I will get fired when I get home.

COMMENT, PROFESSOR KING: We have to end it here. I think the important thing is that we have moved the dimension of knowledge of this group here a great deal further. I think these people deserve a round of applause.

