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REVIEWS OF BOOKS

TERRITORIES OF PROFIT

Communications, Capitalist Development and the Innovative Enterprises of G.F. Swift and Dell Computer

By Gary Fields

Stanford, CA: Stanford University Press, 2004. Pp. xviii, 281. \$60.00, cloth; \$24.95, paper.

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Many of us in teaching and casual conversation draw analogies between events occurring at widely different moments in time. Such comparison can draw out fundamental processes underlying economic change and help us get our bearings in the face of rapid technical and economic transformation. The dramatic emergence of the internet and the world wide web has sparked a burst of such analogy-making in the press and trade publications. The exercise seems to have yielded a consensus opinion. The most promising candidates for comparison are the railroad and its oft-neglected essential complement, the magnetic telegraph, dubbed by one author as "the Victorian internet."

In this interesting and thoughtful book, Gary Fields pursues the analogy with exceptional sophistication and rigor. His approach melds the case-study method of business historians with recent theoretical work in organizational behavior and the dynamics of innovation. At its core, the book presents case studies of the two firms identified in the subtitle. Fields shows how Swift and Dell, though supplying vastly different products, each succeeded by seizing upon opportunities opened by changes in transport and communications. Both developed new "demand-pull" distribution systems, in which information flowed directly from final customers back through a network of assembly (or, in the case of Swift, disassembly) facilities and suppliers. These novel exercises in logistics yielded economies of speed and coordination, largely in the form of reduced inventory and waste. Returns of this sort were especially large in these cases because both meat and personal computers diminished rapidly in value, due to spoiling in one case and technical obsolescence in the other.

Fields draws several implications from these studies. One is the critical role of firms as innovators. Both Swift and Dell were start-ups that found ways to displace established firms and compelled others to imitate its methods or exit the business. Another is the importance of distribution as a driver of change. In both cases, these pioneering firms innovated first in the realm of distribution. Other features of their enterprises, such as massive slaughterhouses and automated assembly plants,

followed from the crucial breakthrough in marketing channels.

What most interests Fields is how the cascade of change triggered by the critical innovations in distribution ultimately worked their way back through the supply chain and reshaped the distribution of economic activity among firms and across space. He characterizes this process as expansive, yet concentrating. Swift and Dell coordinated activities across a much larger geographic reach but in the process bypassed many intermediaries and concentrated activities in a few facilities and regions. These are the "territories of profit" to which the title refers.

Significantly, Fields argues that Dell has not utilized the internet to spark a bidding process among an expanded pool of suppliers. Rather, it has narrowed its supplier base and leveraged its market power to extract significant concessions from those suppliers, much as Swift did in the late nineteenth century with stockyard operators, drovers, and grazers. Dell's suppliers must deploy information technology compatible with Dell's and supply components on short order to supply centers that are ostensibly independent but in fact captive to Dell. Contracts require suppliers to keep larger inventories than those of Dell and to delay receipt of payment for more than two months, even though Dell itself collects from its customers upon order. Far from serving to promote market interactions at the boundaries of the firm, the internet has actually enabled Dell to exert administrative authority up the supply chain, without incurring the large risks associated with ownership of facilities and inventories. The "new" knowledge and information economy of the new millennium thus strongly resembles the old.

The inherent risk in such comparisons is that they lead us to accentuate the common elements while overlooking other influential factors at work in each individual case. Fields is alert to the problem but does not duck it entirely. His treatment of Swift, especially, at points seems strained to highlight logistics at the expense of production. Fields exaggerates the importance of custom orders from the field, for instance, while downplaying the mass marketing of byproducts made from parts of the animal that previously went to waste.

Much like the firms he examines, Fields concentrates his focus on certain elements of the two enterprises, while broadening his reach by connecting their stories to a large body of theory. The essential comparison at the heart of this volume might well have been presented in a single scholarly article. Fields fills out the book with lengthy summary chapters and a long preliminary chapter in which he attempts a grand theoretical synthesis of thinking pertaining to technical change, the firm, and the geographic distribution of economic activity. Chapters preceding each of the case studies analyze the rise of the critical communications infrastructures through the lens of such theory. These nicely executed primers, though resulting in considerable repetitiveness, might well prove very useful for readers looking for accessible introductory treatments of these subjects.