

Best intentions: A business model for the eEconomy

By Joel P. Friedman and Toni C. Langlinais

Success in today's virtual marketplace will depend on creating networks of cross-industry partners to provide products and services related to the customer's basic life objectives.

Today's traditional business models have changed little since they first emerged during the Industrial Age. In many industries, individual companies still offer discrete products or services through physical distribution channels to a proprietary, undifferentiated clientele. Virtually overnight, however, the Internet and user-friendly technology have empowered a new generation of consumers, who are challenging this long-accepted structure of commerce.

The result is a fundamental shift from a seller-driven to a buyer-driven world—and the onset of a new battle between business models. To succeed in this world, companies will need to evaluate innovative new strategies that capitalize on both the power of the Internet and the changes in consumer demands. Many companies are adopting a customer-centric business model, becoming more responsive to and developing deeper relationships with customers. Others, however, are leaping forward into buyer-driven

value networks and in the process are rewriting the rules of competition.

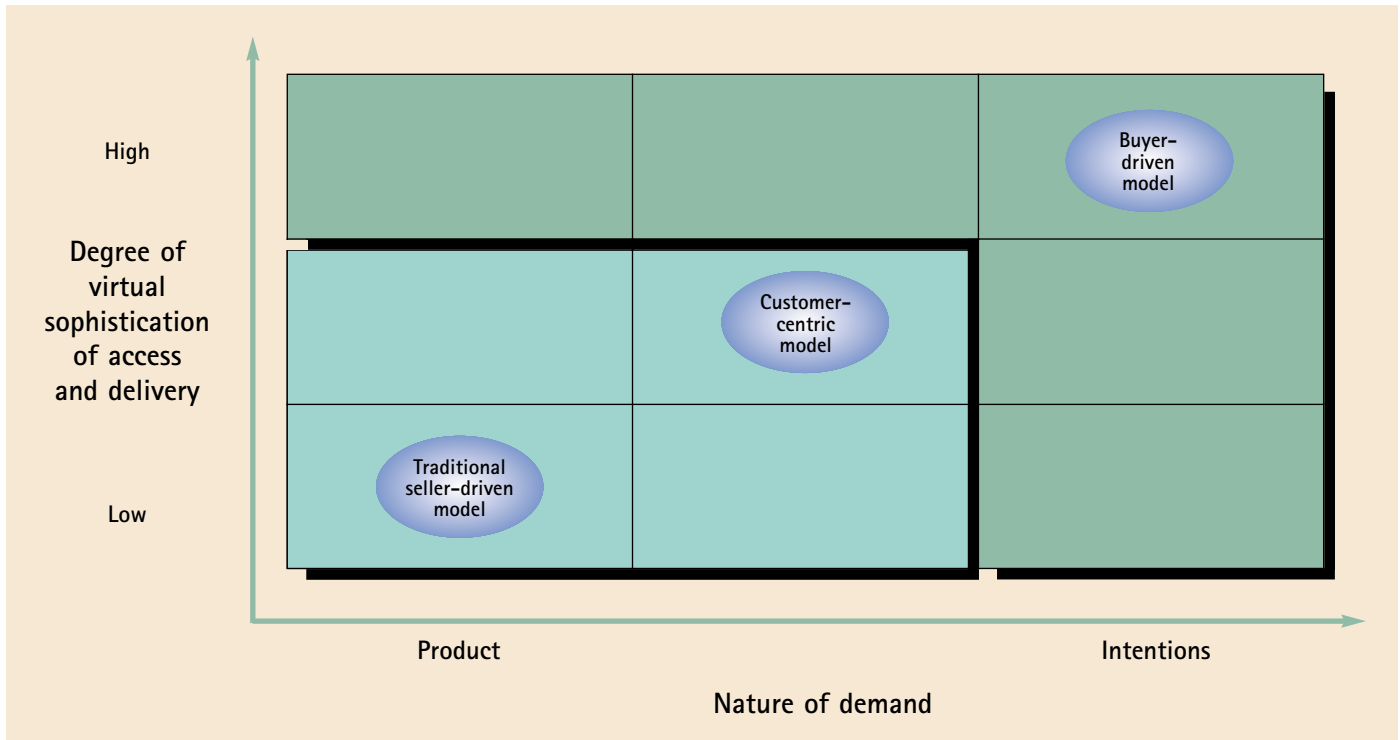
Inundated by the proliferation of choices in nearly every facet of their lives and with less free time than ever to deal with these issues, consumers are looking for ways to manage basic needs and achieve key objectives in a simplified way. These objectives—such as a secure, healthy and productive retirement; a new, more rewarding career; moving to a new community; and starting a family, to name a few—are increasingly important issues to consumers. Moreover, our research suggests that consumers want help cutting through the information clutter surrounding these important issues to make it easier for them to make more knowledgeable decisions.

Accenture refers to these life objectives as Consumer Intentions. Satisfying Intentions requires extensive planning and coordination across many areas, ranging from financial security, housing and transportation



Power shift

The emerging business model for the electronic economy is being driven by a shift in power from the seller to the buyer, who will increasingly demand products and services linked to a specific life goal.



SOURCE: ACCENTURE ANALYSIS

to health care, personal and professional development and entertainment, among others. For example, to fulfill the Intention of a secure, healthy and productive retirement, consumers today need to draw on as many as a dozen or more product and service providers across various industries, make many complex decisions and manage this process over several years.

Provider alliances

Already taking shape are the first networks of product and service providers allied to satisfy the Intentions of today's savvy, more sophisticated consumer. These alliances of providers, some of which have been formed through loose groupings around complementary products and services, are emerging examples of what we refer to as Intentions Value Networks. Within a short time, these

networks will become increasingly prevalent in retail and small-business markets. Eventually, mature versions of these early networks will create value that is greater than the sum of their individual parts by delivering all components of an Intention through a tightly integrated network of partners.

Our analysis suggests that this model would enable cross-industry providers to increase their profit per customer significantly by pooling customer intelligence and coordinating their offerings. This increase results from the networks' superior ability to identify, convert and retain customers. For example, our research indicates that in an Intentions Value Network aimed at helping consumers move to new locations, a mortgage service can expect to convert approximately 40 percent of referrals from network real estate brokers into

sales—compared with the 25 percent average conversion rate for independent mortgage brokers. Once the customer uses the network, the partners learn more about the customer's needs and preferences—and can therefore deliver an increasingly customized package of Intentions-centric goods.

Higher value

Until now, the electronic commerce model has been to use the Web's infinitesimal customer acquisition costs to offer specialized value to as many individuals as possible. The basis of this new model is to leverage the customer insight of a network of providers to construct a higher order of value by integrating a broad array of services into a customized Intention solution.

The Internet is not, of course, the only means of constructing an Intentions Value Network. Some large enterprises have constructed rudimentary networks to address specific Intentions, such as managing a secure retirement. One example is First Union's Family Trust Account, which is a network of phone and physical contact points.

Another example is ShopLink, a personal computer-based shopping service that helps consumers with their "managing daily logistics" Intention. ShopLink provides customers with proprietary CD-ROM software; customers can order groceries, videos and other products through their personal computers using ShopLink's network, and ShopLink delivers the products using its fleet of trucks. While the Web is not an essential component for such a solution, advanced information technology has made network creation a viable and natural outgrowth of nascent Internet electronic commerce efforts.

There are several reasons why the Web makes such networks more feasible. Most importantly, it:

- Allows for the seamless integration of specialized content providers through any of which customers can enter the network.
- Compresses the space between the solicitation and the customer's moment of purchase.
- Permits information about each customer's behavior to be collected and refined against other customer data to create customer Intentions intelligence that is distributed to all network partners.
- Enables the creation and deployment of a personalized interface that empowers the buyer.
- Allows for the creation of a community of buyers.
- Enables interactive, continuous and real-time customer dialogue.

Although there are no mature Intentions Value Networks in operation today, several existing networks already foreshadow this model.

- Third Age, a Web-based business started in 1996, acts as an integrator serving the "manage for productive elder years" Intention. The company, aimed at individuals who are in the "third age" of their lives, collects information to construct a detailed customer profile and offers targeted products and services covering health, nutrition, financial management, travel and leisure and current events. Network partners include E*Trade, 1-800-Flowers, Toys "R" Us, Travelocity and IBM. Third Age is one of the most popular sites on the Web with more than 130,000 registered members.

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- HomeAdvisor, a new site launched by Microsoft in August 1998, integrates content and service solutions that fulfill the “moving to a new community” Intention. Although still in its infancy, HomeAdvisor is expected to become highly sophisticated. Microsoft is already partnering with American Finance & Investment, Principal Residential, RE/MAX, SchoolMatch and RentNet.

- Britain’s National Westminster Bank recently began test trials of Zenda, a personalized information service. First-stage Zenda offerings include services to help people manage their day-to-day information needs—including weather reports, traffic and travel information, news, cultural events and financial information, as well as a car-buying service. The information can be sent via telephone, fax, the postal service, e-mail or even through a message pager. If the test trial is successful, NatWest plans to expand Zenda’s current offerings to potentially include a wedding planner, a job search service and a household moving service, among others.

While the requisite mind-set shift from a seller-driven to a buyer-driven business model sounds straightforward, it could prove to be a challenge, particularly for older, more established firms. Why? Because the focus of this new model is radically different from that of most of today’s companies.

Intermediate model

Most traditional seller- or product-driven businesses create value primarily at the product or line-of-business level. An intermediate or hybrid business model is customer-centric, where value is created at the relationship level across products and channels rather than at the individual product level. One

important area of focus in the customer-centric model is on bundling different products and services within the same industry to create solutions. An example is an insurance provider that aggregates term life, annuities and 401(k) products to create an estate-planning solution. Another major area of focus for customer-centricity is integrating channels for a seamless common experience for the customer, who is recognized and receives the same treatment regardless of which channel he or she uses.

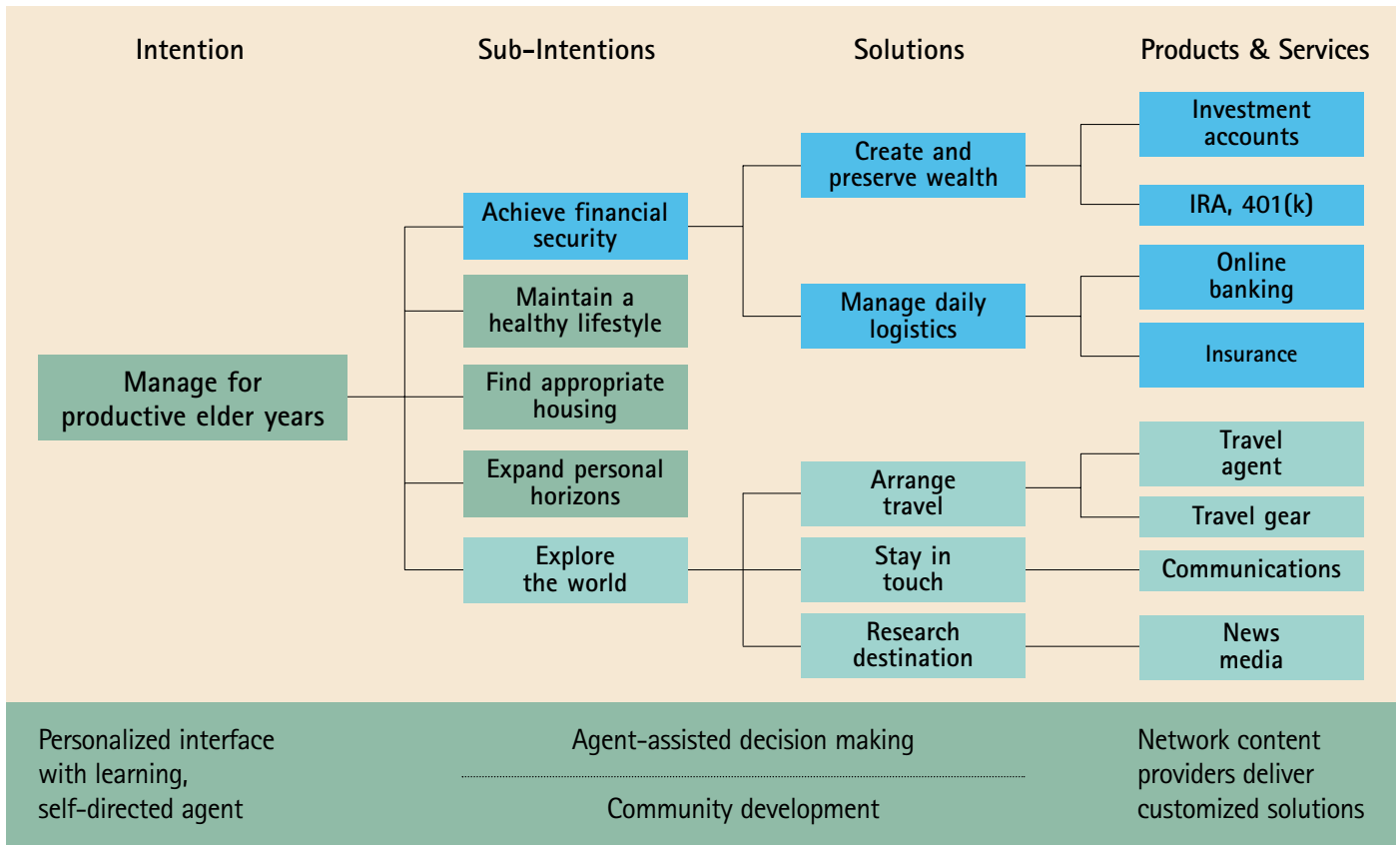
Intentions Value Networks, on the other hand, require a buyer-driven business model—one that focuses not on individual products and services per se but on the integration of a wide variety of information, products and services to satisfy the specific Intentions of a community of buyers such as retirees, new families, employees or Generation Xers. Value is created at the network level, across the entire partnership of product and service providers, rather than at the individual enterprise level.

Under this framework, the delivery of products and services is coordinated by a single firm—an Integrator—that oversees a network of approved suppliers providing the products and services. As the principal point of contact with consumers, the Integrator coordinates the suppliers’ fulfillment of consumers’ Intentions—providing the consumer with information about products and suppliers and offering objective advice, among other things.

One critical role of the Integrator is to understand the customer’s values, needs, behavior and preferences related to the overall Intention. This understanding of the community of buyers is shared with network content providers to enable them to enhance

How the networks work

Companies work together to offer all of the discrete components that fulfill a complex need.



SOURCE: ACCENTURE ANALYSIS

their products and services. Suppliers in the network can identify profitable market segments and target their offerings to give these customers a better deal than other suppliers can.

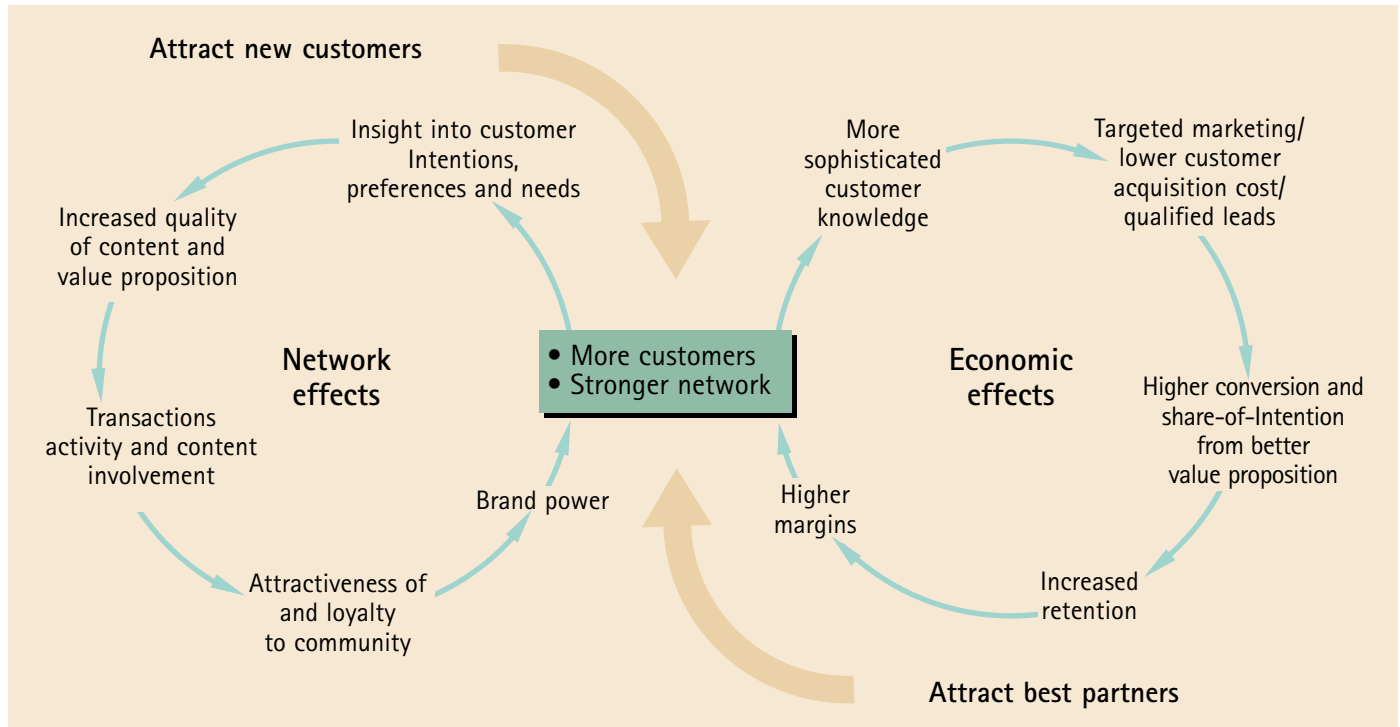
This continuous sensing and responding between the Integrator and the network partners drives a virtuous cycle of value between the network of customers and the network of providers. The more customers contribute insights and invest emotional equity in the community, the greater the insight provided to the partners and the more they can make their products and services relevant to the needs of the customers. This strengthens loyalty and brand value. Existing customers have reason to return, and new ones are attracted; this, in turn, attracts and

retains the best partners. At the same time, members of a network have an advantage over unaffiliated suppliers because they pool their customers, substantially reducing acquisition costs.

This model, therefore, is a highly integrated network rather than a single enterprise—and integration is therefore critical, not only internally, but with network partners as well. Whereas a customer-centric business integrates its own internal products and channels, a mature Intentions Value Network requires integration of other providers' products, channels and processes, like marketing, sales and fulfillment. The overriding design principle is to create the most competitive network that benefits all participants.

Virtuous cycle of value

Early movers have a huge advantage, since they lock in customers and partners.



SOURCE: ACENTURE ANALYSIS

Playbook

How does one get into the game? The first step may well have to be to abandon processes and mind-sets that are impediments to the underlying concept. A number of traditional service companies—financial services firms, for example, as well as local telephone companies and cable operators—are well suited to compete in the Intentions Value Network marketplace and to act as Integrators. After all, they have a large base of customers, “virtual” products integral to most Intentions, a stockpile of relevant customer data, deep relationships with potential providers and oftentimes a trusted brand. But before such firms can perform as Integrators, they must jettison some dearly held beliefs about customer “ownership” and in some cases be willing to reconsider their commitment to a physical distribution network.

The Network Content Provider Play:

The most readily accessible plays for an established organization to enter this marketplace involve leveraging existing products and services into networks that are already forming. This can be characterized as “taking your products upstream” into a broader customer buying experience. Leveraging existing products and services into emerging networks is a sound strategic play, especially if your products are a significant and important component of a broader need.

Leveraging existing products upstream can be accomplished by thoughtfully assessing the relevance of your current suite of products and services to an Intentions-based value proposition, and then identifying potential partners that are a part of the broader need and the broader buying experience. It’s quite likely that an organization will already have relationships

with some of these potential Intentions partners.

This approach offers increased relevance of your products and services—at the point of need—to qualified leads, extended reach for your products and services, as well as lower acquisition costs (since you share those costs with the other providers who are plugging in their relevant products and services to the total buying experience). In today’s highly competitive customer environment, these are no small advantages.

The Aggregator/Integrator Play:

Another way to get in the game, although a more difficult and challenging one, is to pursue an aggregation and integration strategy. It’s a daunting task for many traditional players—particularly retailers and banks that have huge investments in physical infrastructure and legacy systems geared toward

pushing a specific type of product within a specific industry.

To aggregate and integrate products, content and information from other industries for a set of customers, these companies will have to undergo a fundamental mind-set shift—from an orientation around their own products, customers and channels to an orientation around a community of buyers with a common need, a partnership network and a total solution set. And doing that within the existing organization may prove impossible, given the need for different management skills and measurement systems and a stepped-up sense of urgency.

The New Venture Play: To move quickly—and this game demands fast moves—traditional companies will have to form autonomous units that are unconstrained by the bureaucracies and finely tuned control processes of the existing organization. They will have to do this in a group or business that is separate from the overall company in order to compete with the small, nimble, innovative players that are already moving aggressively into the Intentions Value Network space.

In fact, our research suggests that the most successful way to launch a new business model is to create a new business—call it a pure-play new venture—rather than through the traditional method of launching an initiative that is one of 150 other planned initiatives. This business model demands relentless focus from the type of individuals who know how to start and run a new business. Venture models allow for decentralized operations, developing new capabilities, flexible processes and dynamic management systems. This enables them to foster the requisite entrepreneurial culture. And since

“first movers” have the advantage in this market, a new venture model might prove the most efficient and flexible go-to-market approach. In addition, the flexible and innovative equity structures of new ventures enable wealth creation for multiple constituents.

Successful networks will be those that can first assemble several key components, the most important of which include an Intentions-based value proposition; a personalized point of interaction; a critical mass of customers; the right alliance partners; a high-impact brand identity; expertise at assimilating and leveraging customer information; and a network-oriented culture and leadership.

Some companies are already moving in this direction, although none has yet fully captured the benefits. The first movers have an advantage. But it is not too late for the more traditional, established companies to exploit the potential of an entirely new way of doing business that promises to trigger explosive growth.

One thing seems certain: Even if companies resist this new business model, their customers will not. ■



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