

# Outlook

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Special Edition: **The eSeries**

## Endless shelf space

How all-in-one markets  
are redefining eCommerce

# Outlook

**Outlook**  
**Special Edition**  
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# The Long View

## A new customer dynamic for a new economy



**Joe W. Forehand**  
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Moving any organization—including this firm—toward the digital frontier is not an easy task. It requires a sense of urgency in the entire organization, as well as a bias for action. It requires deep cultural change. And it requires significant shifts in how we relate to our customers, our employees, our alliance partners and our shareholders.

For example, eEconomy pioneers have adopted a relentless focus on customers, and they are constantly monitoring and responding to their customers' needs.

Think about how the customer experience has changed today. We've shifted to a buyer-driven economy. On the Internet, perfect information is only a click away. Your customers know everything about you . . . and your competitors.

In addition, we've moved away from transaction-based products and services to those based on value. The online environment offers an opportunity to bundle products and services to provide value at the level of a specific customer intention, such as buying a home.

Finally, we've moved away from straightforward transactions with customers through a single channel (like a retail store) to complex, multi-channel interactions. In a bricks-and-clicks world, customers rarely think about the channels they use.

In this environment, each customer interaction is a potential misstep unless customer needs are integrated across organizational boundaries and

across channels. Dell Computer Corporation, for example, estimates that it makes 16 million customer contacts per week through a variety of channels ranging from phone to e-mail to in-person product deliveries. Given the potential complexity, Dell takes customer satisfaction very seriously to ensure that customers receive a seamless experience no matter what channel they use.

With this new customer paradigm—buyer-driven, value-based and multi-channel—companies have unlimited possibilities to delight their customers. And this *Outlook* Special Edition, with its focus on the emerging all-in-one market in eCommerce, is highly relevant to those of you evaluating your relationships with your customers in the new economy. As the authors observe, "Internet-based all-in-one markets offer, side by side, several alternatives for buyers and sellers to make a market for almost any product or service."

I hope you find our perspective on eCommerce to be engaging and insightful. As you read on, I encourage you to think about how you will respond to this changing customer dynamic and, ultimately, enhance the lifetime value of your most profitable customers.

A handwritten signature in black ink, appearing to read "Joe W. Forehand". The signature is fluid and stylized, with a long horizontal line extending to the right.

# From the Editor's Desk

## The future of commerce

Last October we introduced the readers of *Outlook* to a new series of single-topic supplements to our biannual journal. The debut issue of *Outlook* Special Edition, "Dispelling the myths of alliances," an in-depth examination of the new realities of alliance management, was very well received and continues to generate keen interest.

In its second issue, Special Edition turns to eCommerce with "Endless shelf space: How all-in-one markets are redefining eCommerce." This important new work challenges conventional wisdom that has suggested that the effects of technology would inevitably lead to the domination of eCommerce by a single means of exchange, one grounded either in traditional open markets or in partnership-based relationships.

Instead, authors Paul Nunes, Diane Wilson and Ajit Kambil argue persuasively that eCommerce is being redefined by the Internet's ability to house multiple approaches to exchange on the same Web site—a phenomenon they have termed "all-in-one markets."

The idea is as elegantly simple as it is compelling: Recognizing that the same customer will shop in very different ways—for example, at an upscale department store, through a catalog or an auction, or at a discount outlet—depending on the circumstances, companies can use the all-in-one market to offer customers alternate ways to buy, all in one virtual place. And this

allows those companies not only to win a larger share of customers' business but to attract entirely new types of buyers as well.

This Special Edition is based on nearly two years of research and observation by a team at the Accenture Institute for Strategic Change in Cambridge, Massachusetts. "It was exciting to watch our original theory evolve over time," recalls Nunes, who as part of this team began in 1998 to study the strategic business implications of the Internet, "from a handful of early examples to the point where we can comfortably say all-in-one markets have become pervasive."

Indeed, the work of Nunes and his colleagues has been sufficiently impressive that the *Harvard Business Review* published an abbreviated version of their study in its May/June 2000 issue. I think you will find the authors' vision of the future of eCommerce equally exciting.

David Cudaback  
Editor-in-Chief



## Endless shelf space: How all-in-one markets are redefining eCommerce

*By Paul Nunes, Diane Wilson and Ajit Kambil*

### 4 Endless shelf space

Multiple approaches to buying and selling are flourishing on the Internet. Across every industry, emerging all-in-one markets are combining these mechanisms on single Web sites—and changing the nature of eCommerce.

### 10 The ultimate one-stop shop?

The broader implications of the all-in-one market will evolve over time. Eventually there will be nearly as many sites offering customized cross-industry solutions for customers as there are customers.

### 20 A new world of buying and selling

Any change of this magnitude in market behavior will bring unexpected opportunities—as well as important new challenges.



# Endless shelf space

Multiple approaches to buying and selling are flourishing on the Internet. Across every industry, emerging all-in-one markets are combining these mechanisms on single Web sites—and changing the nature of eCommerce.

Everyone agrees that the Internet, along with other open information technology networks, is dramatically changing the interaction between buyer and seller. Unanimity, however, stops there. There is an important divergence of opinion about one fundamental issue: Which market mechanisms will eventually dominate eCommerce?

One group believes the Internet's search capabilities will force all goods and services to compete in an open-market setting. The other group says the opposite is more likely—that buyers will find it easier, and more beneficial, to strike up cozy relationships with a few trusted suppliers or partners.

In fact, both views are wrong—and both are right. To be sure, the Internet is transforming the traditional markets for goods and services. But this is not the triumph of one means of exchange at the expense of all others. Rather, the Internet is making it infinitely

easier for buyers to choose either of the two mechanisms—open markets or partnerships—or, indeed, any approach to exchange along the spectrum between them.

The true advantage of the Internet is its ability to house on a shared electronic platform many of the various transaction mechanisms used by buyers and sellers. We call this phenomenon the *all-in-one market*.

## **Mutual benefits**

The all-in-one market addresses a dilemma almost as old as commerce itself. Because of the complexity of selling to different customers in different ways and the daunting physical requirements this involves, sellers traditionally have been forced to limit their commercial transactions to one dominant type of buyer. As a result, they have lost a significant number of potential customers—and have left money on the table. By contrast, Internet-based all-in-one markets offer, side by side, several alternatives for

buyers and sellers to make a market for almost any product or service.

Although combining exchange mechanisms remains one of the Internet's relatively unrecognized advantages, examples abound. Accenture's research shows that 212 of the 320 leading commercial Web sites, or 66 percent, provide multiple

exchange approaches for their customers (see box, page 9). Some of these sites provide as many as seven distinct exchange approaches, each tailored to different buyer or seller circumstances.

One example is the American Airlines Web site. While providing the expected ability to purchase tickets, the site also

## The enduring need for multiple exchange solutions

All-in-one markets have gone largely unnoticed because they run counter to conventional wisdom about eCommerce, which has tended to overestimate the effects of technology and underestimate the enduring need for multiple exchange solutions.

Experts first expected that technology's relentless lowering of transaction costs would eventually push all commerce for any product or service toward an open market. Examples of this phenomenon were seen in the countless electronic markets appearing first on virtual private networks, and now on the Internet, with eponymous names like Seafood.com and e-STEEL. Coupled with new price search engines like PriceSCAN.com, online electronic markets have created virtual spot prices for everything from seafood to seasonings.

But the prediction that all commercial exchange would move toward open markets has been confounded by strong evidence to the contrary. Technology has also caused much of the corporate use of eCommerce to be focused on streamlining operations with select long-term partners.

This second effect of technology on commerce has driven many of the proprietary collaborative systems created in the past—Boeing's Purchasing Control Online System (PCOS), for example, as well as McKesson's distribution system, the Wal-Mart CPFR system and Michelin's Bib Net. Many of these systems are moving to the Internet, but all are designed to achieve better performance in an individual value chain. And until now, achieving the benefits of channel integration has meant forgoing most, or all, of the benefits of participation in an open market.

(In "Electronic markets and electronic hierarchies," a seminal article that appeared in the June 1987 issue of *Communications of the ACM* and later was summarized in the May/June 1989 issue of the *Harvard Business Review*, authors Thomas Malone, JoAnne Yates and Robert Benjamin refer to technology's expan-

sion of open-market and partnership mechanisms as the "brokerage effect" and "integration effect," respectively.)

So where *is* technology taking us—that is, which is the best approach to commercial exchange?

In fact, the best solutions for a growing number of eCommerce transactions are still found in the middle ground between open markets and partnerships (see story). This is because as these two effects of technology—one increasing the use of electronic markets and the other increasing partnering—expand their reach over a greater number of transactions and product categories, they begin to overlap, making *both* open markets and partnering possible.

So while an open market is the obvious place to buy a ton of sugar or 100 shares of the latest hot IPO, and close partnering is the best option when purchasing a million steering wheels for a particular make of automobile, the majority of goods and services eventually will fall into the overlap created by these expanding effects, and will resist moving absolutely toward one or the other solution. Instead, customers will enjoy the benefits of both while leveraging the range of possible mechanisms in between.

There are additional reasons why the sale of most goods and services benefits from being conducted across a range of mechanisms.

- *Price pressure.* For sellers, open markets exert tremendous downward pressure on prices and profit margins, making other exchange mechanisms more attractive. For customers, open markets offer no assurance that sufficient stocks of high-quality goods will be available, at an acceptable price, when they are needed—an especially important consideration in an increasingly just-in-time world.
- *Risk avoidance.* Nor are tightly coupled, partnership-based exchange arrangements always ideal. They put sellers at risk

contains four additional means by which the same online customer can buy a ticket. The customer can:

- Choose from a limited number of deeply discounted fares and special offers using Net SAAs.
- Secure a special fare based on membership in one of a number of special affinity programs.
- Arrange a customized trip based on

profile information he or she has provided by participating in Personal AAccess.

- Select an American Airlines-sponsored vacation package, purchasing the ticket as part of a bundled offering.

Each of these ways in which a customer can deal with American Airlines

by locking them into arrangements that could sour if market conditions shift. The risk for the buyer is that the seller, relieved of competition, may not innovate at the pace of the market and may take advantage of the buyer's irreversible investment in the relationship by raising prices.

- *Segment movement.* Buyers often move across and between the traditional segments sellers place them in—for example, buying in volume for new projects and piecemeal to replace breakage. Buyers also move between business and leisure segments, as in the travel and personal computer industries. Most traditional customer segments were developed to simplify channel creation under physical constraints, not to best serve individual customers.
- *Supply volatility.* Supply remains highly volatile in most industries. This requires sellers with excess inventory to seek additional channels that will move their merchandise but will not affect sales in the traditional channels. Volatility also prevents buyers from completely forgoing partnering, as they hope their previous purchases will secure them special favors in times of shortage. In fact, the ability to reward loyalty has been a powerful driver away from spot markets and toward opportunistic partnering, as in the case of airline frequent-flyer programs.

Clearly, the choice of transaction mechanism is driven by many factors, all of which respond to shifts in the balance of power between buyer and seller over time, and none of which are likely to change any time soon, even in the face of eCommerce.

The deep-seated desire for a low-cost solution, which spans the range of possible exchange approaches and includes various open-market and partnering mechanisms, is driving the creation of a new market space we call *all-in-one markets*.

## Shopping spree

Buyers and sellers can meet on the Internet in at least 15 different ways.

Mechanism	Definition
Static call	Online catalog
Dynamic call	Online catalog with continuous price/attribute updates
Product-tailored	Offerings are tailored to meet individual customer specifications
Price-tailored	Prices change based on purchase history/loyalty
Reverse	Buyer posts desired price for seller acceptance
Spot	Buyer and seller bids clear instantly
Negotiation	Technology-supported negotiation
Seller auction	Buyer bids determine final price of seller offerings
Buyer auction	Buyer requests price quotes from (multiple) sellers
Barter	Buyer and seller exchange goods
Continuous replenishment	Ongoing fulfillment agreement under special terms
Bundled	Seller combines multiple products into a prepackaged offering
Bulletin board/clearance	Offerings limited by availability of product or discount
Partnership	Integration of seller processes with those of buyer
Referral	Link to non-owned mechanism/commercial Web site

SOURCE: ACCENTURE ANALYSIS

## New marketing strategies are required to capture the value of all-in-one markets.

represents a distinct approach to commercial interaction. Each involves a particular level of desired information-sharing, need and relative power, and therefore represents a distinct point on the continuum of open-market to partnership-based exchange.

Granted, these exchange approaches are not new. What is unique is the collocation of these approaches at a single point of customer interface—a Web site—something only recently made possible by the Internet.

The value to customers is a single point of connectivity and interaction for all of their needs. For sellers, the situation is rife with immediate and potential benefits. In addition to lower selling and channel management costs, there is a new ability to deal with customers holistically. Eventually, with better knowledge of consumer behavior and demand across the spectrum of exchange approaches, sellers will improve their capabilities to forecast and plan for demand as well as deliver customer service.

### **“Frictionless” market**

Multiple forms of customer interaction on Web sites hardly appears revolutionary on the surface, but it is an important signpost to the future direction of markets. And American Airlines is not alone in this practice.

Across every industry and every type of transaction, multiple exchange approaches are flourishing. The remarkable growth in the use of this new strategy of customer interaction demonstrates that the truly “frictionless” market many have anticipated is not a spot market with frictionless use. Instead, it is a multimechanism market that features the frictionless transition between mechanisms—a market that is highly responsive to varying user needs and the changing negotiating positions of its participants.

Combining mechanisms this way, however, is seldom practical in the physical world. Most retail channels are hostage to particular customer segments, inventory, investments made in location and the level of sales support available. The advent of the Internet—endless electronic shelf space coupled with electronic customer interaction—has enabled a new dynamism in targeting and forming channels.

With the arrival of all-in-one markets, one can see the real explosion of eCommerce as buyers and sellers realize major efficiency gains across the many markets and mechanisms in which they participate.

But general acceptance will not come easily. Because most channels have been designed under physical-world constraints, new marketing strategies are required to capture the value of all-in-one markets.

In the all-in-one market, part—or all—of a customer’s multichannel purchasing will converge at this new single point of contact. Therefore, segmenting customers by the channels they previously found most convenient (or least inefficient) is no longer useful. Instead, companies must serve customers across all relevant purchasing channels. In addition, companies must develop new models of shared services—such as shopping assistance and fulfillment—for the portions of channel value that must be provided regardless of exchange approach.

All of these changes could leave even the most forward-thinking company gasping for air. But for many companies, the greatest danger posed by the all-in-one market will be that they never saw it coming.

## About the research

*"I want us to sell on the Internet."*

It's a common refrain among top executives today. And judging by the speed at which companies have moved online, these words have been a powerful motivator.

But selling on the Internet is far easier said than done. Once the relatively simple question—"Sell *what?*"—has been answered, the far more complex question—"Sell *how?*"—remains because companies can, in fact, take many approaches to selling on the Internet (see story).

The Accenture Institute for Strategic Change recently conducted a study about the ways companies are embracing eCommerce. First, we compiled a list of 15 online exchange mechanisms, ranging from catalogs to reverse markets (see page 7). The selections were based on academic literature on transaction theory and informed observation of Internet practices (unobserved mechanisms were not included).

Next, 320 leading US commercial Web sites across 15 industry categories (as identified by analyst reports from Morgan Stanley Dean Witter, Goldman Sachs and Bear Stearns) were examined to determine which of these exchange mechanisms they provide.

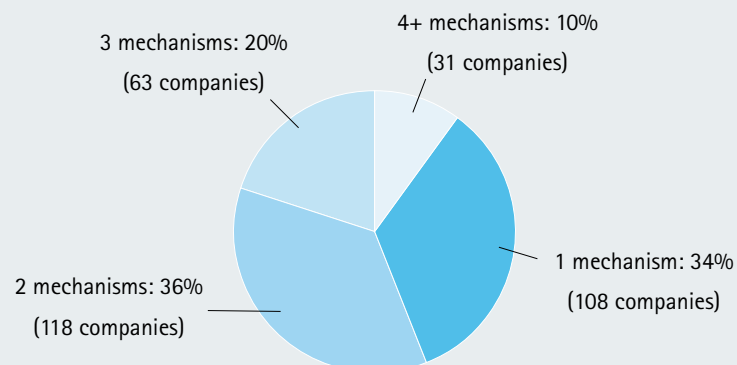
The results were surprising and counterintuitive:

- The dominant approach to commercial exchange on the Internet is not a single mechanism but the combination of mechanisms (see chart below).
- The phenomenon of multiple mechanisms is pervasive within and across industry categories (see chart, page 12).
- The relative strength of the phenomenon has been dispersed fairly evenly across industry categories.
- There is no dominant approach to exchange across industries (see chart, page 14).
- With one exception, no industry category is dominated by any particular approach to exchange (see chart, page 16).
- The findings are almost identical when separated for business-to-business and business-to-consumer (see chart, page 18).

### Coming together

Of the 320 commercial sites evaluated in this study, 212—or 66 percent—support commercial exchange through more than one mechanism.

The highest number of mechanisms employed by a single site was seven by a company in the financial services—banking category.



SOURCE: ACCENTURE ANALYSIS



# The ultimate one-stop shop?

The broader implications of the all-in-one market will evolve over time. Eventually there will be nearly as many sites offering customized cross-industry solutions for customers as there are customers.

**A**s the costs of computing and coordination technologies continue to decline, the categories of goods and services best suited to the two basic exchange approaches—open markets and partnerships—increasingly are overlapping. This overlap is enabling the emergence of all-in-one markets, in which better market information is brought together with lower-cost process integration between buyer and seller.

These new all-in-one markets emerge through the increase of transaction mechanisms available to a buyer or seller in a given market, and the reduction of the cost to switch between them. Those who produce goods and services in that space where open markets and partnerships overlap are newly able to derive the advantages of both approaches simultaneously. Over time, this space will grow until nearly all products and services can cost-effectively use both approaches. As this space expands, the evolution

of all-in-one markets will occur in three phases.

## PHASE 1: Anything goes

In seeking greater flexibility in their interactions, today's buyers and sellers are quickly embracing new transaction mechanisms made possible by the Internet.

This phenomenon has included applying traditional mechanisms of exchange in new market spaces as well as the creation of totally new mechanisms.

### *Old mechanisms, new environments*

Many of the most-talked-about market innovations are, in fact, simply instances of long-established trading mechanisms being transferred into new environments.

*Auctions*, for example, long a staple of commerce in rural communities and the world of high-priced art, have become a viable approach to commer-

## Low-cost computing and connectivity are enabling truly new exchange solutions.

cial exchange in a multitude of new consumer and business markets.

eBay, the online consumer-to-consumer auction house, now facilitates more than 2.5 million active auctions a day in more than 2,000 categories. Yahoo! has an online auctions page that lists more than 300 consumer-oriented auction sites, many of which have significant traffic.

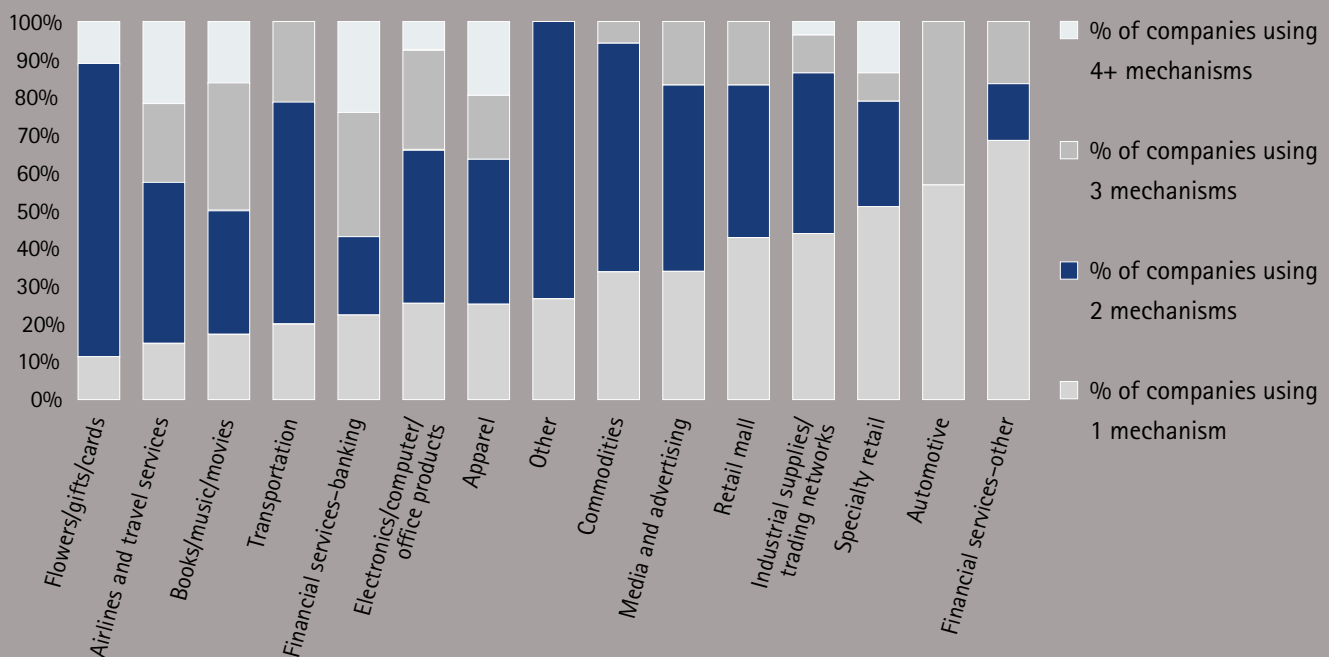
Individual retailers have been quick to adopt auction models, often as a way to unload distressed inventory. For example, Sharper Image—a bricks-and-clicks seller of high-tech consumer products—uses its site to invite bids on “virtually new, repackaged products” and “less-than-new, refurbished products.” (For a related article, see “What goes around comes around,” *Outlook*, Vol. XII, No. 1, January 2000.)

Clothing cataloger Lands’ End successfully added an auction mechanism to its Web site for selling its overstocks. Declining prices are posted twice every week for past-season merchandise; bargain hunters must weigh the temptation to wait for a still-lower price against the risk of losing the goods to someone willing to buy at the current price. This “Dutch” auction approach yields a higher price for the seller than a traditional auction, where the buyer could more easily judge the level of market demand.

At the same time, models from the business-to-business world have been increasingly used in consumer markets. *Relationship-based approaches* to selling, including process integration, continuous replenishment and co-creation of value through partnering, are all finding a larger place in consumer online purchasing.

### Pervasive

In 10 of the 15 industry categories, more than 65 percent of sites support multiple exchange mechanisms. Almost 90 percent of sites in the leading industry category—flowers/gifts/cards—support multiple mechanisms.



SOURCE: ACCENTURE ANALYSIS

Many companies, including iBeauty and Drugstore.com, have scheduled-refill features based on stored customer-created shopping lists and supported by periodic repurchase reminders sent via e-mail.

Amazon.com e-mails registered customers book recommendations determined by collaborative filtering technology that combines a customer's demonstrated preferences, as indicated by purchases and searches, with those of other buyers. By providing a constant stream of reasonable recommendations, Amazon.com effectively has become a partner in the customer's overall book consumption.

More.com, an online pharmacy, took online customer partnering a step further with its "buy now, save forever" offer. Customers who registered and purchased products during the site's promotion period can buy those products at their initial prices forever, as long as they buy the item at least once every year.

Although the lifetime value of this deal is uncertain—commodity prices tend to go down, not up, and improved versions of the product are not included in the guarantee—the approach nonetheless demonstrates another of the new possibilities for customer relationship management offered by online exchange.

### **Energized**

On the business-to-business side, the introduction of previously existing mechanisms into new markets has been equally widespread. Online business-to-business auctions have appeared for everything from polymers to telecommunications bandwidth, and there have been countless experiments with industrial bulletin boards, online catalogs and brokering.

One company that has found significant opportunity in introducing a number of exchange mechanisms is Altra Energy Technologies, the leading supplier of energy industry transaction management software for the natural gas and electricity markets. Altra is also the leading electronic exchange for natural gas, natural gas liquids, power and crude oil markets.

Like electronic trading systems in the financial services industry, Altra's flagship product, Altrade, supports *spot-market* buying and selling—vastly improving price and volume discovery in its markets while enabling trend analysis through its recorded trade histories.

Altrade also supports one-on-one and multiparty *negotiations*, informing participants of requests to trade coming from other Altrade users, and supporting the offer/counteroffer negotiation process all the way through acceptance and confirmation. (Negotiations are always anonymous.)

Altra now has more than 6,000 users worldwide and estimates that more than \$9 billion in energy trades were brokered over its systems in 1999 alone.

### *Entirely new mechanisms*

Beyond the spread of traditional mechanisms across markets, low-cost computing and connectivity are enabling truly new exchange solutions. These mechanisms, which were technologically impossible to create a few years ago, are gradually attracting converts from consumers who have been buying products the same way for years.

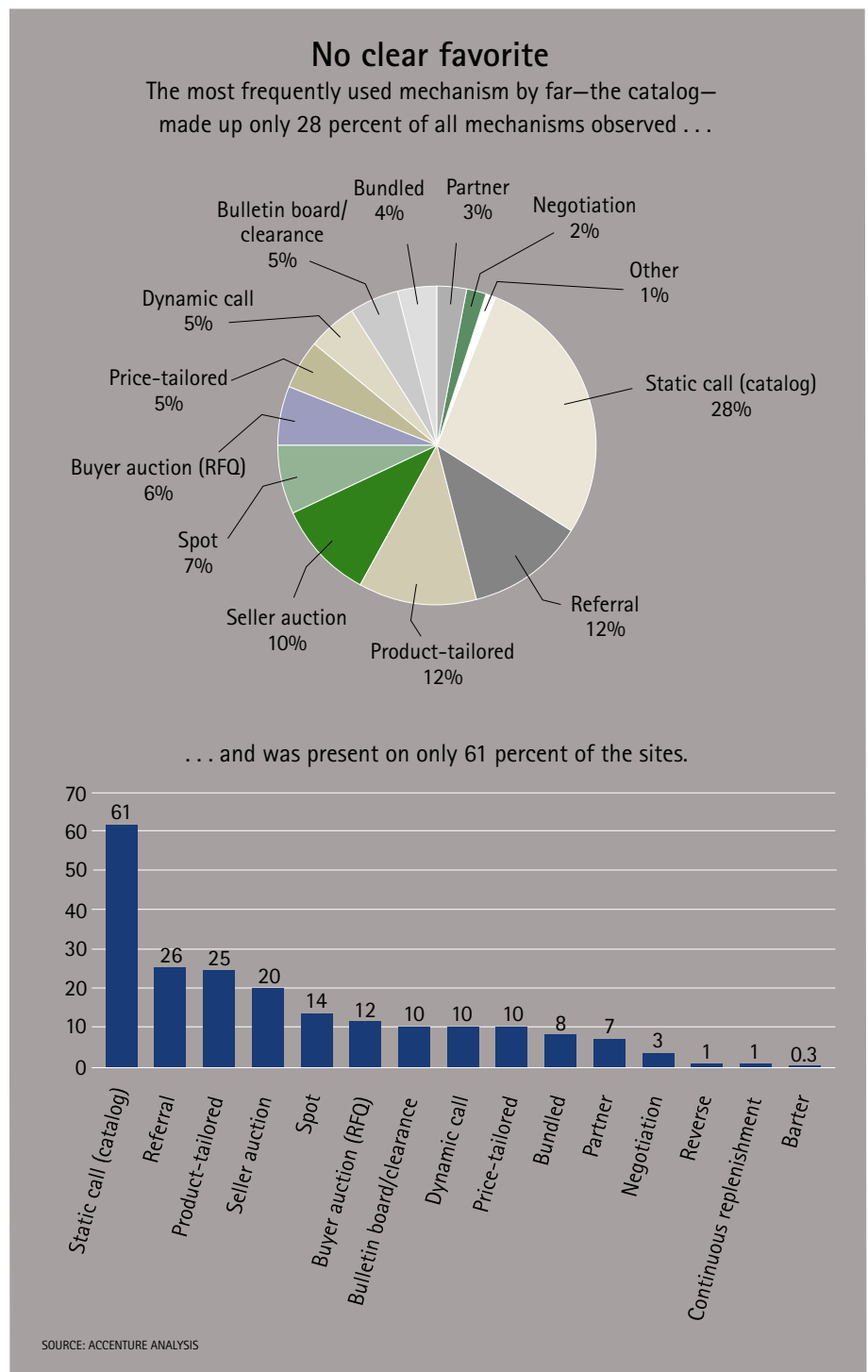
One of these exchange innovations is often called the *reverse market*. Reverse markets allow customers to name their price by identifying a product or service and the price they are willing to pay, thus reversing the traditional model of retailers' list prices.

Even the mature marketplace of equities trading has seen the introduction of completely new trading mechanisms.

Priceline.com has achieved some success with this approach. At Priceline.com, consumers commit to purchasing a certain product at a price of their choosing, selecting from an ever-expanding range of categories that currently includes airline tickets, hotel accommodations, home mortgages, new cars and groceries.

Rapid expansion notwithstanding, the success of this approach ultimately requires a sufficient number of reasonable offers from consumers and enough vendors willing to participate. Both considerations have involved significant start-up costs and may require Priceline.com to become much more targeted in the future.

The customer is never more than a click away from an alternative means of interacting with a particular seller.



Another new online approach to purchasing is *electronic group buying*. Mercata, a start-up backed by Paul Allen of Microsoft fame, lets customers bundle their online purchase commitments to get volume discounts on major brand-name goods ranging from consumer electronics to home products. A similar start-up is LetsBuyIt.com, a UK-based site that enables group buying across the borders (and languages) of 14 European countries.

With C-Tribe, a recent entrant in this field, customers are allowed to commit to group purchasing not of individual products but of gift certificates at participating retailers. Discounts, determined by the number of customers willing to commit, range from 5 percent up to 15 percent or more (for example, a \$100 store credit might be bought for \$85), and participating vendors include such recognized brands as Tower Records, Blockbuster, Barnes & Noble and Footlocker.

Even the mature marketplace of equities trading has seen the introduction of completely new, technology-enabled trading mechanisms. OptiMark, a Web site for equities traders that uses *blind profile buying and selling*, is one such example.

OptiMark provides mutual fund companies and other large institutional investors with a supplemental trading mechanism. This electronic system allows institutional traders to reveal block-trading needs and price requirements through a computer—without alerting the market through the standard dealer mechanism of a pending large movement of shares.

The computer system, at predetermined times, establishes what bids can be filled by what offers at that moment and at what mutually acceptable price. Bids and offers that do not match are never revealed, keeping the

buyers' and sellers' intents confidential. Same traders, same product, but a new mechanism of exchange.

Bizbots is another company that is exploring this approach in business-to-business markets. When a corporate buyer uses Bizbots' eCommerce engine, a built-in agent, or "bot" (short for "robot" because of the artificial intelligence employed), allows a customer to specify criteria (including quality, volume, price, seller reputation and deliverable date). The bot then automatically carries out the search; when it finds matches for the buyer's request, it notifies the buyer.

This process reduces cost, increases efficiency and saves time—all without the loss of negotiating power that comes from the seller knowing which of the customer's requirements competitors might not be able to meet.

The result of this first phase in the evolution of all-in-one markets: Consumers have new ways to buy, some of which may be familiar from other settings, and others that have only recently been made possible by advances in information technology and connectivity.

#### PHASE 2: One customer interface

Phase 2 is the combining of individual trading mechanisms through the use of shared user interfaces. The resulting markets increasingly organize trading so that buyers and suppliers can shift effortlessly between exchange methods.

These shifts are effortless, or frictionless, because the customer remains in the same electronic purchasing environment, continuously known to the market sponsor and other participants, and is never more than a click away from an alternative means of interacting with a particular seller.

The retail industry in particular has moved quickly to offer multiple buying mechanisms on its Web sites.

These new interfaces are being created through two fundamental approaches: physical integration, in which the mechanisms share the same electronic platform, and virtual integration, in which multiple mechanisms share a single user interface but reside across many systems and owners.

*Multiple mechanisms, one platform*

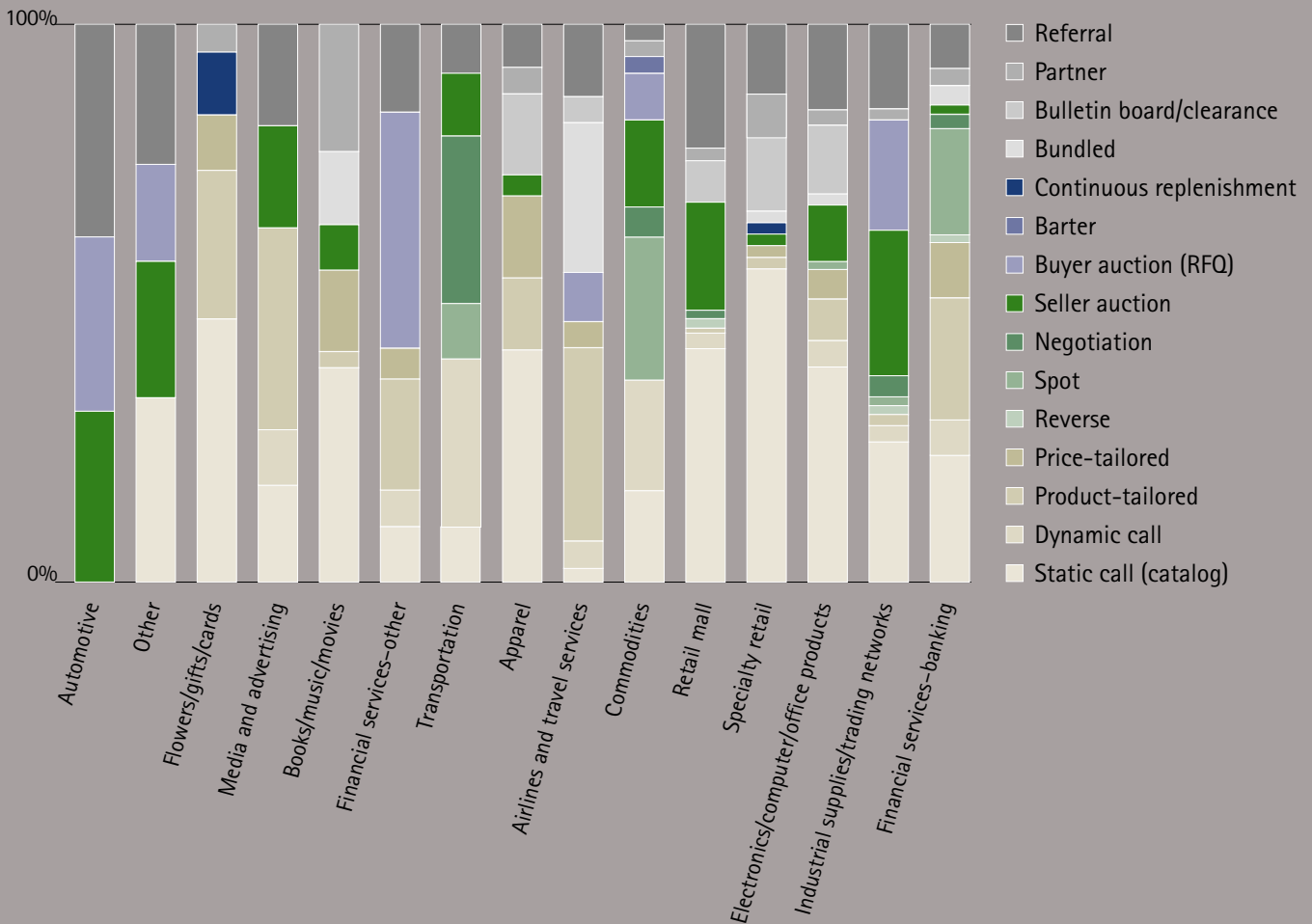
Today eCommerce engine vendors like InterWorld, Ariba and Open Market are accelerating the introduction of online exchange mechanisms by designing software packages that enable sellers to offer many different

types of transaction mechanisms on their sites. In addition, when these applications are coupled with the open standards of the Web, they make it increasingly easy to combine exchange approaches on the same software and hardware platform.

Makers of off-the-shelf software have moved to create packages for specific mechanisms that can be incorporated easily into existing Web sites. OpenSite Technologies, for example, a leading maker of online auction software and dynamic pricing solutions, has seen dramatic sales growth and has

### No clear favorite II

Each industry favors different mechanisms yet none is dominated by a single one. The number of mechanisms per industry ranged from 3 for automotive to 11 in financial services-banking. The average number of mechanism types in use in any particular category was seven.



SOURCE: ACCENTURE ANALYSIS

deployed more than 600 auction installations to date.

CBSsportsline, an everything-sports content and commercial site, is one of many companies that have rapidly enhanced their online commerce capabilities through the addition of an auction offering supplied by a third-party application provider.

Common-platform all-in-one markets are emerging in practically every industry—and all at once. The retail industry in particular has moved quickly to offer multiple buying mechanisms on its Web sites. Eddie Bauer, L.L. Bean and Lands' End all offer traditional catalog purchasing on their sites, but they have also added special sections for discounted merchandise, customized buying and even corporate volume sales.

#### **Customer sensitive**

For example, for the customer who is more sensitive to product attribute than price, the Lands' End site provides a unique shopping experience through two electronic shopping aids, Oxford Express and Your Personal Model, which provide a more integrated and information-rich selling approach than the catalog mechanism.

The company also offers Shop With a Friend, a capability that allows online shoppers to move through its site with another user and communicate via the Web or telephone to share their shopping experience (a significant attempt at simulating the "high touch" shopping experience of a bricks-and-mortar store that lengthens the time spent shopping and increases unplanned purchases). In addition, retailers such as Lands' End offer immediate access to their respective affinity programs, enabling improved relationship-based selling.

The same trend can be seen in consumer electronics and software.

Dell.com offers a customized experience for corporate buyers with Premier Pages. Similar personalized options are offered by OfficeMax.com and online software giant Beyond.com.

Even in the chemicals industry, major new entrants are raising eyebrows and causing a stir. Web sites like GEPolymerland, Chemdex and ChemConnect have brought combinations of auctions, catalogs, spot markets and customized services together to create new marketplaces for their customers. By providing a range of possibilities for interacting and buying, these chemicals companies are creating new shopping environments that keep customers in their online stores longer and leave fewer transactions on the table.

#### *Multiple mechanisms, virtual integration*

An additional approach to creating all-in-one markets is to combine physically separate exchange approaches into a shared electronic interface through both effective page links and process integration. Indeed, in the financial services industry, the integration of disparate trading mechanisms through a single electronic interface is almost as old as the use of information technology itself.

Many electronic equities-trading systems support *crossing* (a negotiated sale) between partner banks, as well as traditional methods of buying and selling through a number of electronically accessible international spot markets. Recently Nasdaq recognized the fundamental need for an all-in-one approach by committing to a strategy of becoming "a worldwide market of markets."

Another example of the virtual integration of mechanisms is FairMarket, a service provider of online auctions. Many leading companies, including Dell Computer Corporation, Lycos and TicketMaster, have outsourced their Web

New all-in-one market providers deliver additional services that give the customer a more coherent and value-added exchange experience.

The newly integrated markets will take on a broader mission of serving customers by bundling goods and services across traditional industry boundaries.

site's auction function to FairMarket; yet in each case it is so seamlessly integrated that users are completely unaware that they are no longer on the sponsoring company's site.

Using such a service can be reasonably priced: Competing provider Auctions.com charges as little as \$750 for a page or \$3,500 for a whole site (including design, creation, hosting and maintenance for both options), plus a 2.5 percent commission on all successfully closed auctions.

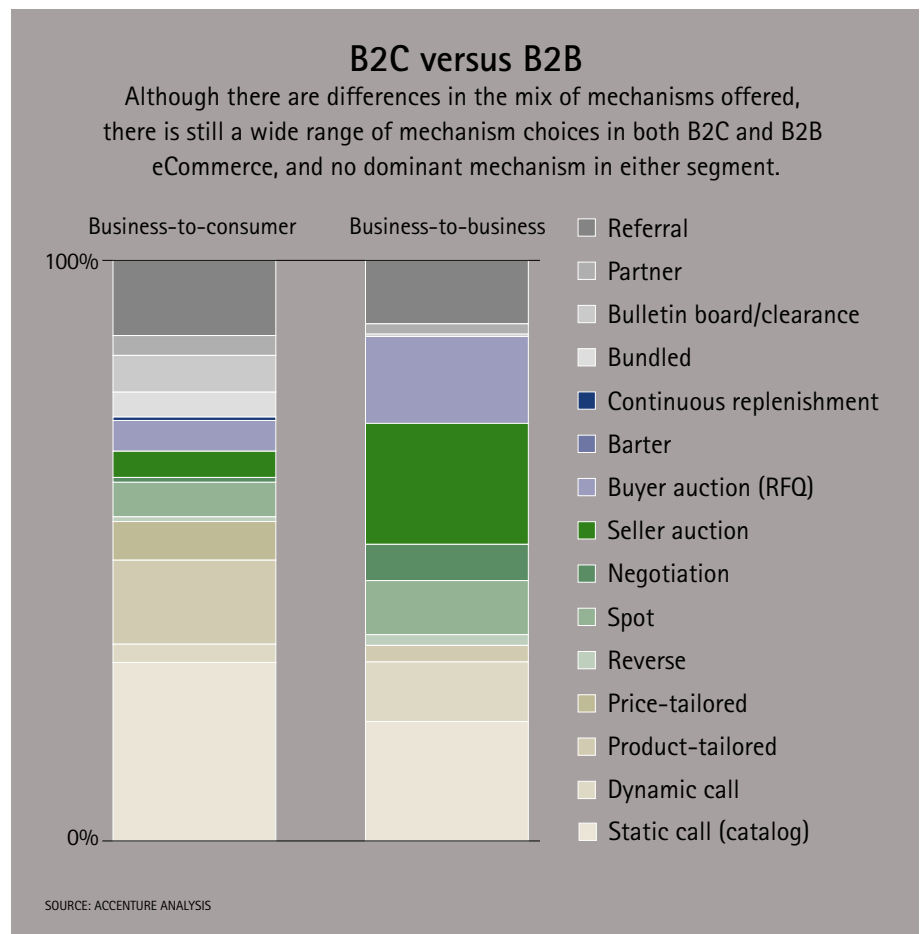
Characteristic of these new all-in-one markets is the move by marketplace providers to deliver additional services that are well integrated across the mechanisms, giving the customer a more coherent and value-added exchange experience. These services include the pre-qualification of participants, anonymous bidding, financial

services such as loans and payment processing, and fulfillment services such as package tracking.

While entirely new all-in-one markets are cropping up everywhere, existing spot-market providers as well as companies that traditionally have sold direct are shifting their products and services to all-in-one approaches by providing more options and better support for a range of exchange solutions.

**PHASE 3: One place, multiple goods**

In the third phase, we see the horizontal expansion of newly integrated markets as they take on a broader mission of serving customers by bundling goods and services across traditional industry boundaries. Sometimes this approach is driven by a broader consumer need. Certainly,



this has been true in the evolution of online travel service companies. Travelocity.com, the leading online travel site (owned by Sabre), may be the best example.

Like the American Airlines site described earlier, Travelocity.com combines a number of exchange mechanisms on a single site. Unlike the American Airlines site, however, it addresses the traveler's broader needs by providing an all-in-one market for related travel products, including hotels and rental cars. Through this site, customers can coordinate multiple transactions for associated products.

Travelocity.com is seeking to exploit the flexibility created when customer profiles can be stored and used in conjunction with buying across a wide range of related goods and services, providing a flexible, efficient transaction environment based on need.

### **Customized**

The "broader need" approach has been popular on other sites as well, such as Autobytel.com, which combines auto sales, lending and insurance. Another example is Move.com. Owned by Cendant Corporation, it combines real estate services, storage, truck rental, insurance, furniture and home-improvement services for people who are relocating.

On other sites, the combination of approaches is driven by the needs of a particular customer segment. ThirdAge.com, a site focused on the needs of first-wave baby boomers, combines and simplifies the purchasing of health, travel and home products that appeal to this demographic.

iVillage, a site that develops online communities of women, offers books, health and beauty, gardening and other products targeted to this market.

And Garage.com, a Silicon Valley-based site, helps entrepreneurs find everything from venture funding to accounting services to cheap pens.

Indeed, today there are nearly as many sites creating customized cross-industry solutions for customers as there are customers. Many more all-in-one markets will appear over the coming months as users increasingly display a preference for one-stop shopping across industries for the goods and services that logically combine to satisfy their needs. (For a related article, see "Best intentions: A business model for the eEconomy," *Outlook*, Vol. XI, No. 1, January 1999.)



# A new world of buying and selling

Any change of this magnitude in market behavior will bring unexpected opportunities—as well as important new challenges.

**T**he all-in-one approach to exchange will create a truly efficient market—that is, one that does not destroy exchange mechanisms but leverages and values them for their contribution to improving market efficiency. As a result, both buyers and sellers will find new and, in all likelihood, unexpected opportunities.

Of course, they will also find the inevitable challenges that accompany any change of this magnitude in market behavior.

## **Opportunities and challenges for sellers**

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All-in-one markets are attractive to sellers of all kinds: retailers, distributors and manufacturers with hopes of selling direct online. By allowing sellers to serve multiple customer segments through a single interface, in addition to lowering costs, all-in-one markets provide opportunities for sellers to improve their share of wallet and, ultimately, to improve

their offerings through greater customer knowledge.

*Leaving fewer transactions on the table*  
“Fire the customer” has been touted as a solution to unprofitable sales. In fact, it may be far more effective to use an all-in-one market. With its many exchange options, sellers can instead offer buyers a product or service at a mutually acceptable cost.

Companies that are improving sales by having the right mechanism in place at the right time include CompUSA, which has added an auction mechanism to its Web site to sell overstocks, floor samples, refurbished goods and returned merchandise. Now inventory that was once a burden is drawing additional customers to its site, is keeping them there longer and is being turned over faster.

Leaving fewer transactions on the table also translates into better inventory management. Inventory can move more freely—that is, virtually—back

## A truly efficient market does not destroy exchange mechanisms but leverages and values them for their contribution to improving efficiency.

and forth between high- and low-margin selling mechanisms online based on relative demand strength at any given moment, a capability few bricks-and-mortar channels can begin to match.

### *Enhancing customer relationship management*

Knowing what customers search for and purchase under different conditions enables sellers to create new buying occasions. The first way to do this is by knowing when a customer is in the market.

A customer who tenders a losing bid on an item in an auction is likely at that moment to be ripe for an offer to buy the item from a catalog at a discount (the amount of which can be chosen based on the customer's offer in the auction).

Immediate buying behavior can also signal future buying intentions. For example, a normally high-volume customer buying small batches of leading-edge components may signal an upcoming new product launch from that customer—and an opportunity for the seller to supply that launch through an immediate volume-discount offer.

By knowing what the customer is willing to buy at the manufacturer's suggested retail price and when, and which items tend to be bought on discount, the seller can fine-tune its offerings to increase sales and improve customer satisfaction.

The second way to create new buying opportunities is by understanding the larger context of the customer's purchases. By observing customer behavior across multiple exchange mechanisms, sellers can better appreciate the real needs of individual customers in that category.

For example, increased small-quantity catalog purchases from a customer

who normally contracts in bulk may be a sign of a quality problem in previous shipments or of a need on the customer's part for a more just-in-time approach to fulfillment. Both of these issues could be profitably addressed with the customer.

However, increased auctions or catalog sales from a top customer may signal that the perceived value of the partnership is fading. This threat to traditionally high-margin business would benefit from immediate attention.

Yet to realize these benefits, sellers must learn how to simultaneously and effectively participate in more channels and trading mechanisms than ever before. They must learn to drive customer participation into mechanisms that favor seller capabilities and strategic advantages—for example, price, focus or quality—and to devise real-time pricing and yield management strategies across multiple mechanisms that optimize their returns.

### **Opportunities and challenges for buyers**

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For buyers, the principal opportunity in all-in-one markets is improving cost-efficiency, both in terms of achieving lower purchase prices and in reducing transaction and coordination costs. By becoming proficient in all-in-one shopping, consumers will enjoy new ways of acquiring their favorite brands and products at lower prices, and business buyers will find dramatic cost reductions in their procurement processes.

In addition, buyers can significantly reduce their sourcing risks, such as vendors failing to live up to contracts, and operational risks, such as stock outs. This is because, as agricultural and other commodities markets have shown, as transaction costs fall and market participation expands, opportunities emerge

for creating futures and other trading instruments to manage risk.

However, like sellers, buyers will confront a number of challenges in realizing the full benefits of all-in-one markets. Both business buyers and consumers must understand their existing buying processes, and what motivates them, to identify their best opportunities in all-in-one markets.

Next, buyers must develop new negotiation strategies to select the sourcing mechanism that minimizes their total costs—including pre-purchase and post-purchase costs. This requires learning how to distribute purchases effectively across market mechanisms and exploit demand pooling across similar buyers. Therefore, procurement professionals are likely to need significant new skills and capabilities to achieve the best purchasing solutions for their organizations in these new markets.

### **Lessons in creating an all-in-one market**

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Many online retailers essentially have stumbled into all-in-one markets, grabbing the opportunity to combine mechanisms on their Web sites. Most of these vendors were seeking simply to increase participation on their sites by using these mechanisms to attract new kinds of customers.

Those that have done this successfully, including sites such as Amazon.com with its auction and zShop options, have seen increased visits and increased time spent by consumers on their sites, a phenomenon known in the vernacular of the Web as *stickiness*.

Other companies, however, intentionally have built the concept of an all-in-one market into their online strategy. Former software retailer Egghead divested itself of its bricks-and-mortar outlets to become

Egghead.com, a leading Internet technology and electronics retailer (or *e-tailer*). It built its initial online presence based on the motto, “Shop three times smarter.” This was a reference to the company’s strategy of using its Web site to integrate catalog, auction and liquidation selling.

But whether intentional or serendipitous, creating a successful all-in-one market has to date depended on a few key factors.

#### *Successful component mechanisms*

Although Egghead.com quickly recognized how valuable aggregating mechanisms online could be to customers, it took the company some time to evolve into a successful all-in-one market provider. One key challenge early on was to build a steady stream of repeat customers.

For customers to value the aggregation and integration of multiple mechanisms, they must first be in the all-in-one market often, and must need to shop across a variety of categories and circumstances. Without a critical mass of repeat customers, who view at least one mechanism as adding substantial value (such as Amazon.com has with books or Lands’ End with clothing), the value of the all-in-one strategy—and, ultimately, its success—cannot be captured.

Egghead.com struggled at first with this critical need to build a base of loyal customers, addressing it in part by merging with Onsale, a successful and dominant Web auction site, and then launching a combined site. As in this example, an all-in-one market provider is unlikely to generate sufficient added value to be successful simply by aggregating mechanisms. It must first create at least one dominant and broadly successful exchange mechanism.

Leading all-in-one market makers have encouraged the success of add-on mechanisms by integrating them into a shared-services model.

To realize these benefits, sellers must learn how to simultaneously participate in more channels and trading mechanisms than ever before.

#### *Value creation through integration*

Leading all-in-one market makers have encouraged the success of add-on mechanisms by integrating them into a shared-services model, including the use of joint customer-preference archives, shared prequalification and registration of customers, and combined shipping across mechanisms and “stores.”

For example, many all-in-one retailers now allow a registered customer to combine purchase selections from across the entire site into a single electronic shopping basket. Then, since the customer’s credit and shipping information has been previously stored, the selections are purchased through “one-click shopping” (as it’s known at Amazon.com). This type of integration has proven to be so valuable that Amazon.com went to court to protect its patent rights to its version of the process.

Successful all-in-one markets combine high-quality integration of the mechanisms with high-quality component mechanisms to provide value. With alternative markets just a click away, both of these features must be present to retain customers.

#### *Modified buyer behavior*

Business-to-business companies also have struggled in their attempts to create integrated purchasing environments. A common mistake made when creating an all-in-one market is assuming that because companies purchase across needs-based segments, their individual buyers do, or are willing to do, as well.

General Electric Company Information Services partnered with Thomas Publishing in 1996 to attract customers by offering the world’s largest industrial catalog. GE split TPN Register off into a separate business in 1997. Although a good number of the original sys-

tem’s users were from companies that had multiple buyers on the system and a need for both mechanisms (Request for Quotation and Catalog), individual purchasing behavior remained focused on a single-mechanism approach, preventing the desired synergies.

In the end, successful all-in-one market makers will be those that focus on achieving high volume through highly valued component mechanisms (like Yahoo! Shopping and Yahoo! Auction); on serving customer segments that buy frequently but whose needs change by circumstances (such as travel buyers on Expedia or health-and-beauty customers on iBeauty); and on creating useful synergies across the mechanisms supported, not just ease of mobility across mechanisms (for example, Amazon.com’s search engine, which returns items from all of the various categories and exchanges Amazon.com supports).

One example of a company that has put it all together is Dell Computer Corporation. Its Web site successfully leverages the high volume of customers in its core-configuration mechanism through component mechanisms, such as Dell Gigabuys, the company’s online consumer electronics store. Dell.com efficiently integrates business and personal buying, as well as volume and one-off transactions, thus owning customer purchasing behavior across needs. And the easily configurable Premier Pages interface ensures frictionless motion and useful integration across mechanisms.

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**A**s eCommerce continues to reduce transaction costs and to enable the cost-effective design and implementation of varied trading mechanisms, all-in-one markets will continue to grow. In time, most of the world’s economic transactions will move through all-in-one markets.

In this new environment, participants will have the benefit of an increasingly *friction-free selection of transactions*, in addition to more *frictionless transactions*. Relationship-based and open-market exchange mechanisms will no longer be viewed as mutually exclusive choices but rather as minute-by-minute preferences in a continuum of transaction options.

In the future, a market will no longer be thought of in terms of the single mechanism that best defines it. Instead, it will be known as a place where some bundle of mechanisms has been brought together and is being used to create the highest level of exchange efficiency possible, in support of the dynamic needs of its participants.

What was unclear in the Internet's early years is now becoming apparent: The future of markets isn't one for all. It's all in one. ■

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