
Choosing an Internet Business Model to Fit Your Corporate Objectives

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Corey Stone, Managing Director

EASTON CONSULTANTS

www.easton-consult.com

Enter the Internet...and its Hype

- *'A ".com" after a company name increases p/e'*
- *'Cyber companies will drive traditional ones out of business'*
- *'First-movers always have the advantage'*
- *'Friction disappears'*

Good decisions mean...

- ...challenging the new hyperbole,
- adapting opportunistically,
- while focusing on the big dislocations in existing business models.

Good decisions mean challenging the new hyperbole...

- Won't traditional models adapt? (*B&N, Schwab*)
- Are 'first movers' always permanently advantaged? (*Peapod*)
- How 'sticky' will portal users really be? (*MSN*)
- Won't friction still be a friend? (*ENRON*)

...adapting opportunistically:
doing what you must to stay in the game.

FUNCTION

IMPLICATION

Advertising, Promotion

- Expanded market reach

Sales

- Improved productivity

Product Development

- Shortened life cycles

Distribution, logistics

- Savage cost reduction

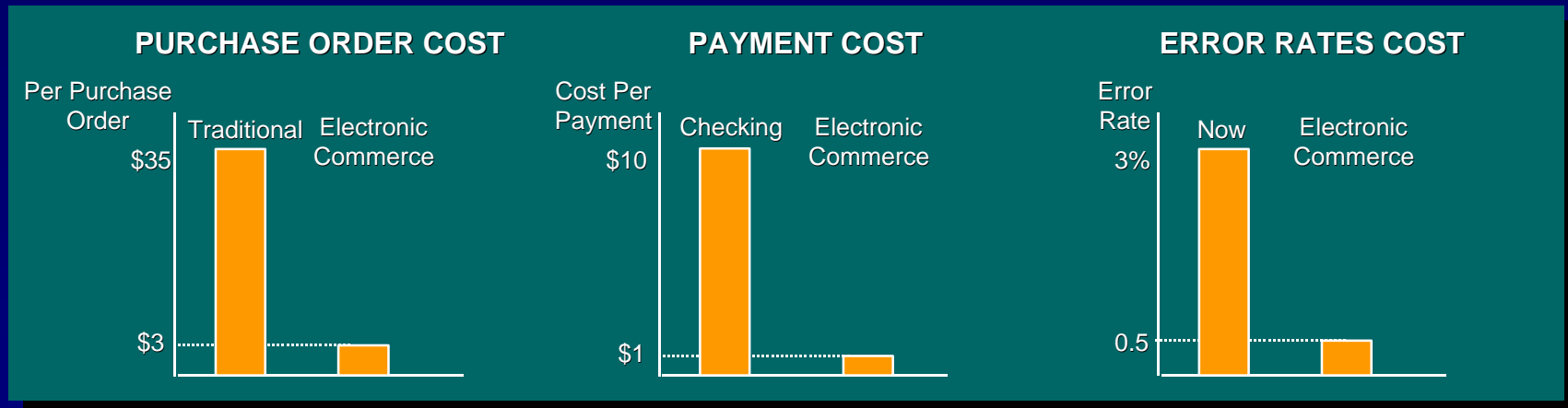
Customer Service

- Call displacement

Migrating key activities to the Web is imperative, but shouldn't distract from evaluating new/alternative business models.

Many Electronic Commerce adaptations are non-strategic.

- Savings at the functional level can be dramatic...



- ...but lead all players to make the same investments and compete away these savings. Only customers benefit.

...while addressing dislocations in the business model

FUNCTION

DISLOCATION

Brand Equity

- Explodes or disappears

Capital Expenditure

- Less discrete investment decisions

IT

- Value of customer information?

R&D

- Diminishing half-life of intellectual capital

Competitive Intelligence

- Inadvertent competition

Culture

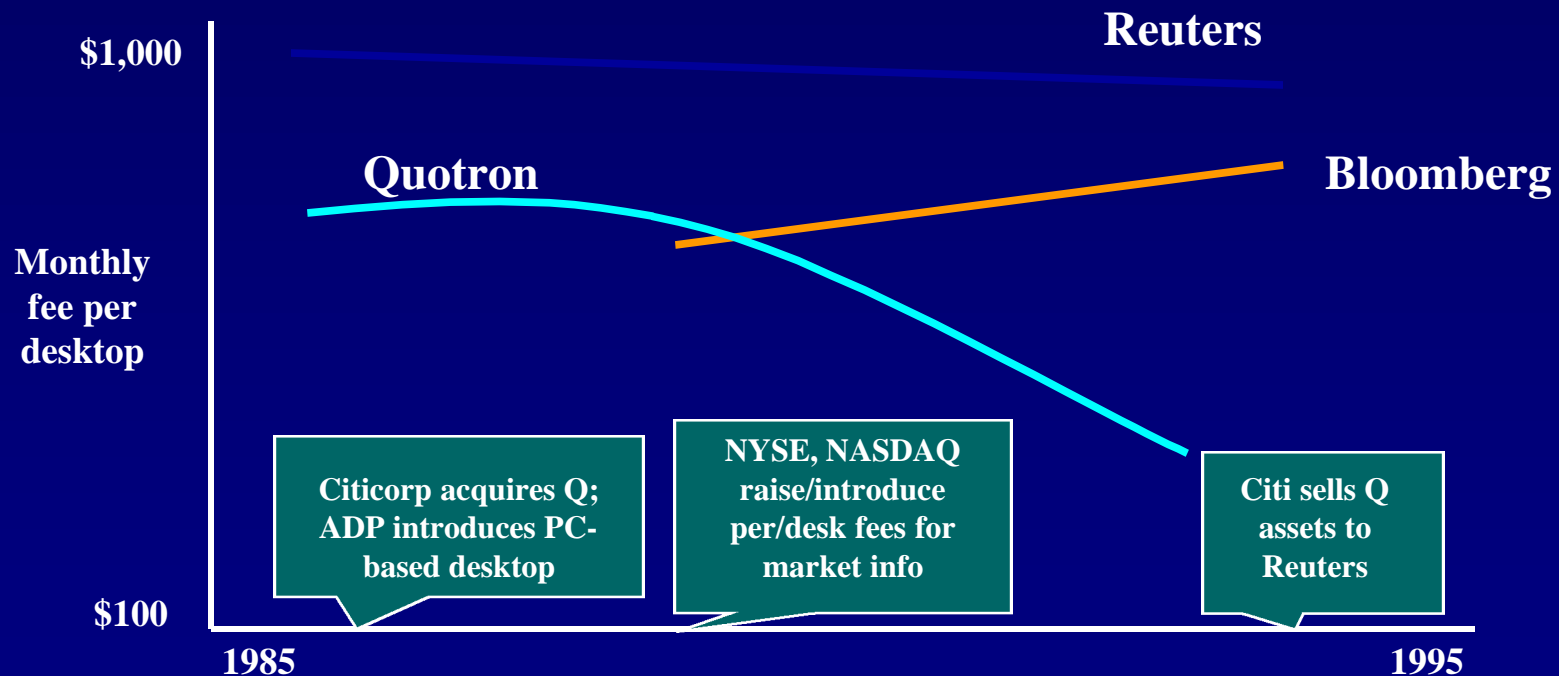
- Increasing penalties for slow decisions

Pricing

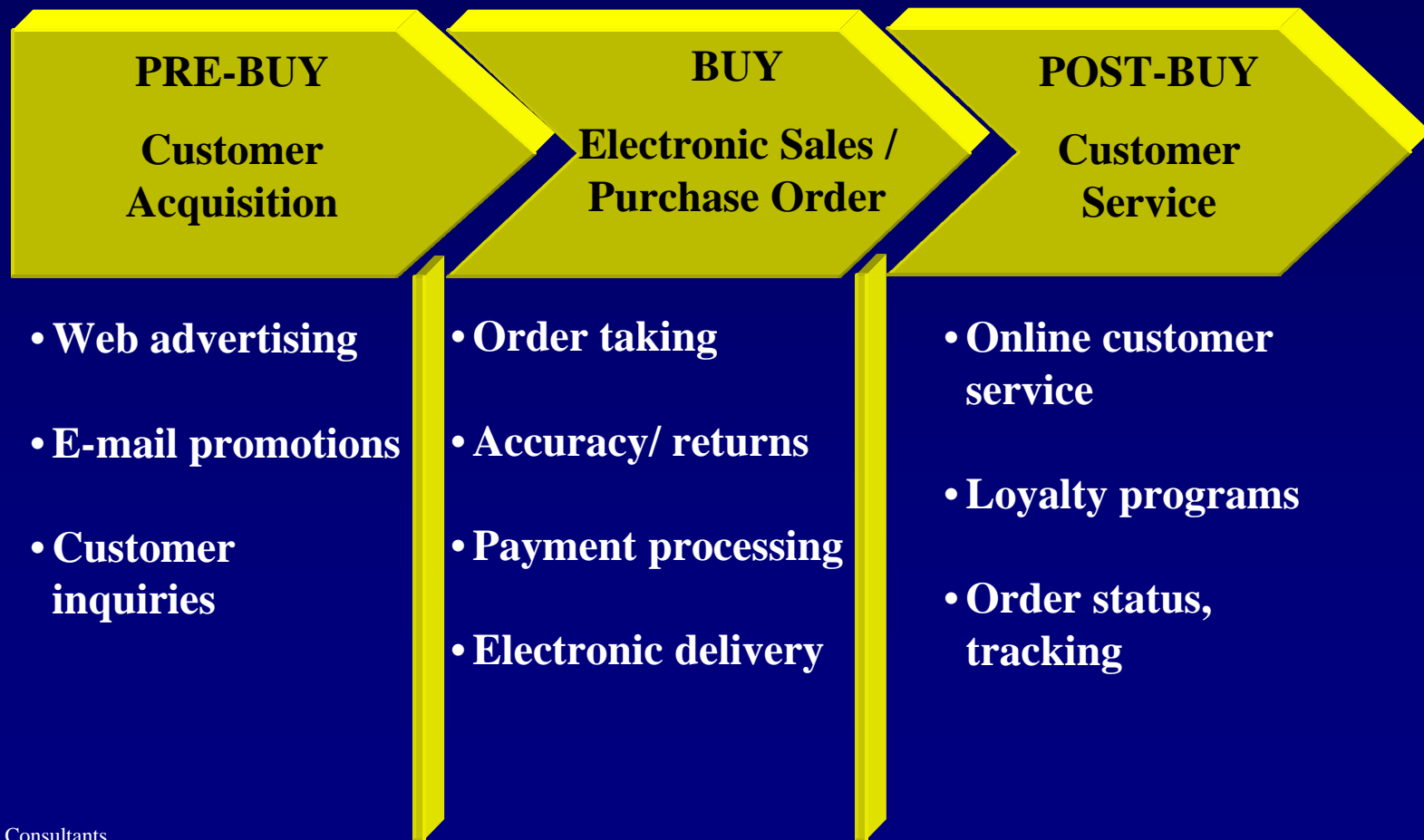
- Loss of profit shelter from habit or friction.

Quotron and Citi: A cautionary tale about business models.

- Pricing in the real-time financial information business.



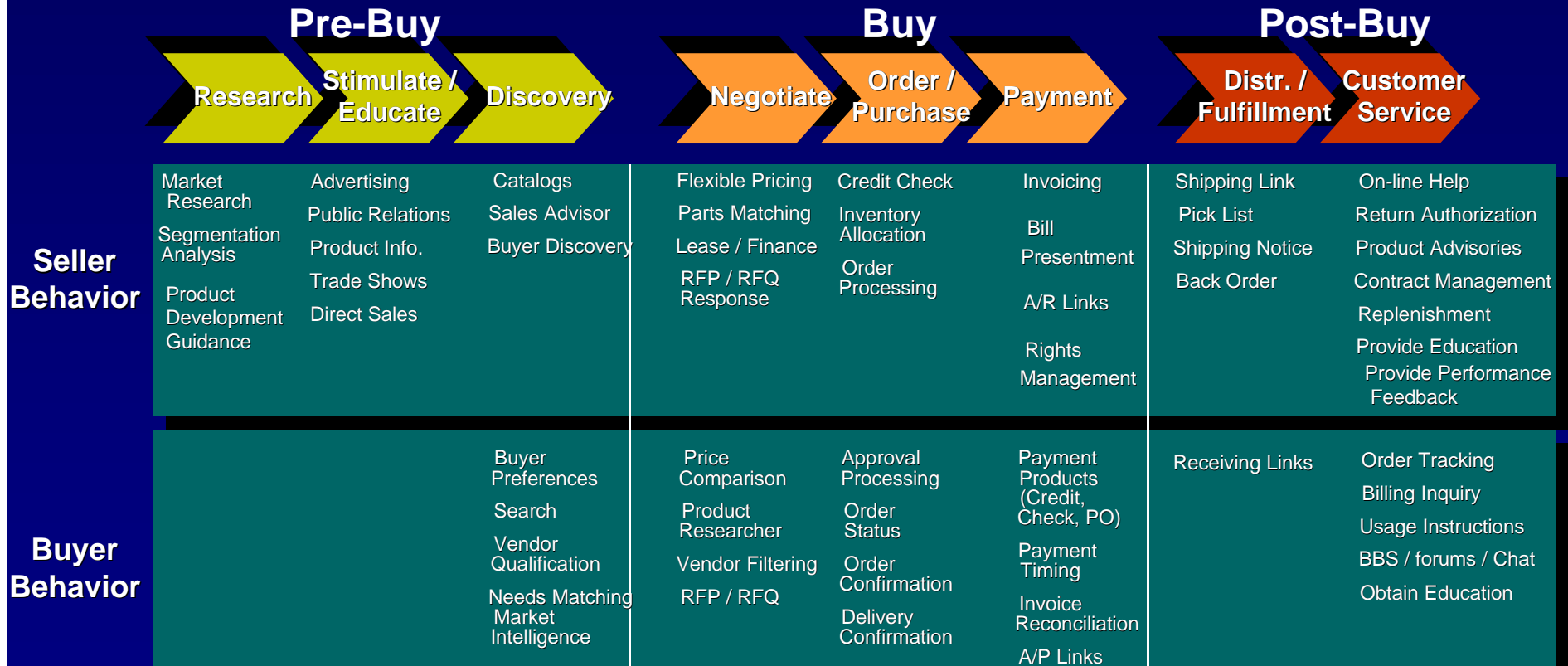
Internet marketing models-- relationship value framework:



The Internet's CRM promise.

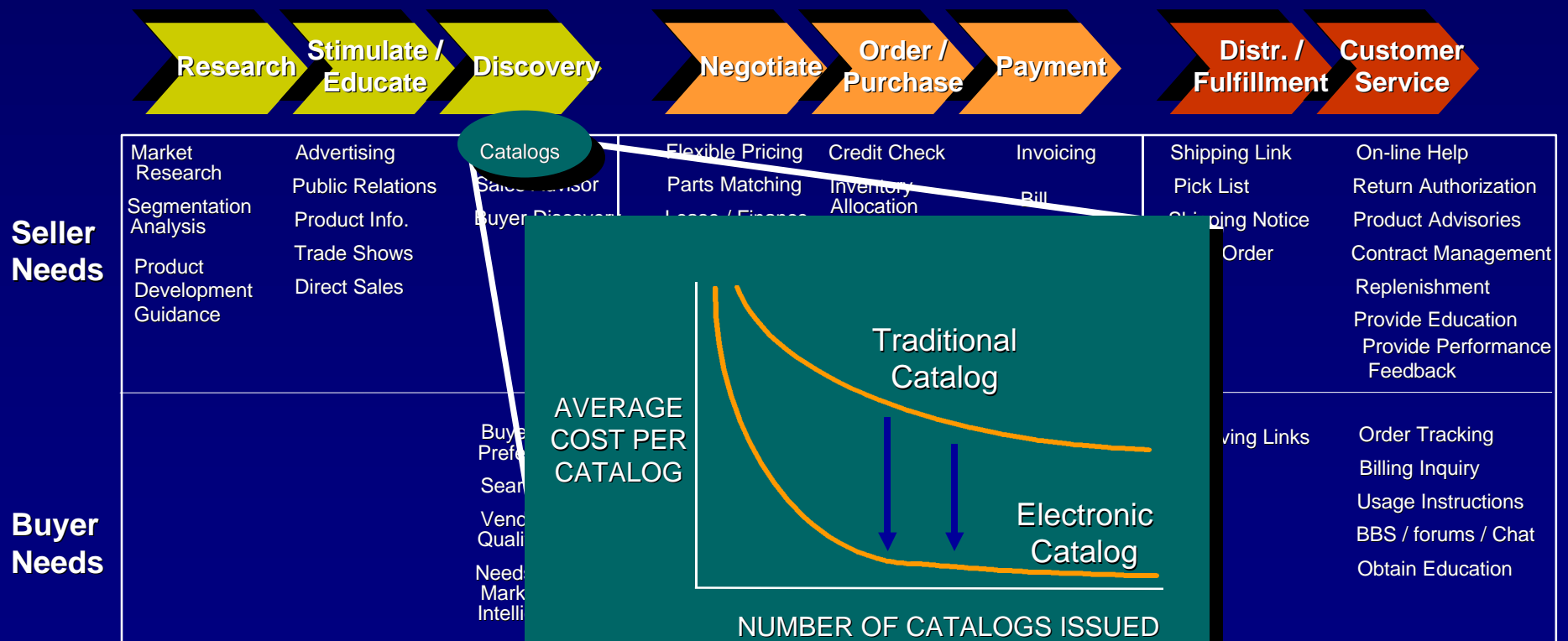


Actual activities involved are complex and vary by industry and segment.

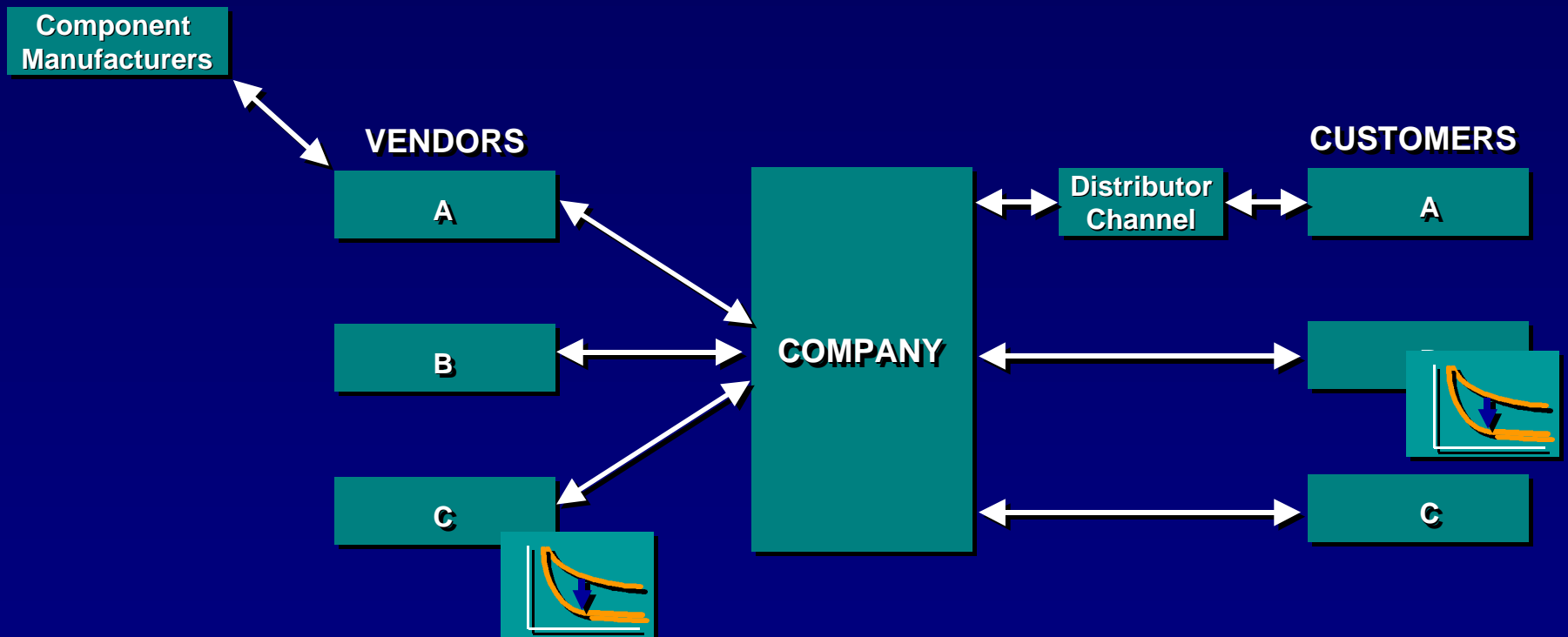


With Internet economics, some activities lose power as source of advantage.

- ...leverage of improved information flow (more speed, detail, accuracy); less reliance on scale.



The relevant impacts occur at customers and suppliers, also.



Office products example: will EC change the best strategy?

- Traditional sources of advantage in the business relied on local presence and account density...
 - To lower costs of account servicing
 - To achieve higher fill rates from inventory
 - To improve salesforce productivity and lower recruiting costs.

Office products example: EC suggests new strategy options.

STRATEGIC ALTERNATIVES	CUSTOMER ATTRACTION	CORE BUSINESS SYSTEM ELEMENTS	CONVENTIONAL WISDOM ABOUT PROSPECTS
CATALOG	<ul style="list-style-type: none"> • Good price • Shipping cost • Cherry pick 	<ul style="list-style-type: none"> • Catalog development • Marketing/Brand 	<ul style="list-style-type: none"> • <i>Catalog will be superseded</i>
LOCAL PRESENCE	<ul style="list-style-type: none"> • Service • High fill rate 	<ul style="list-style-type: none"> • Local inventory • Commission driven salespersons 	<ul style="list-style-type: none"> • <i>Vulnerable to pure information services</i>
BUYER ADVOCATE	<ul style="list-style-type: none"> • Outsourcing the purchasing function 	<ul style="list-style-type: none"> • Purchasing contracts • Leveraging content 	<ul style="list-style-type: none"> • <i>Outsourcing will reduce costs significantly beyond transaction cost saves</i>
"INFO-MEDIARY"	<ul style="list-style-type: none"> • Connecting many buyers to many sellers 	<ul style="list-style-type: none"> • Sophisticated technology, from the GUI to transaction engines 	<ul style="list-style-type: none"> • <i>Creation of connectivity will bring greater value to buyer and seller</i>

Common Wisdom

Office products example: will EC change the best strategy?

- Research shows...
 - Cost savings from Electronic Commerce can be substantial: 7-10%.
 - Buyers only marginally interested in best price on an item-by-item basis.
 - Problem resolution is important.

Office Products: Local presence still an advantage.

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Best Strategy →

Value of a framework for strategy in the midst of change:

Differentiate the various threats and opportunities presented by E Commerce:

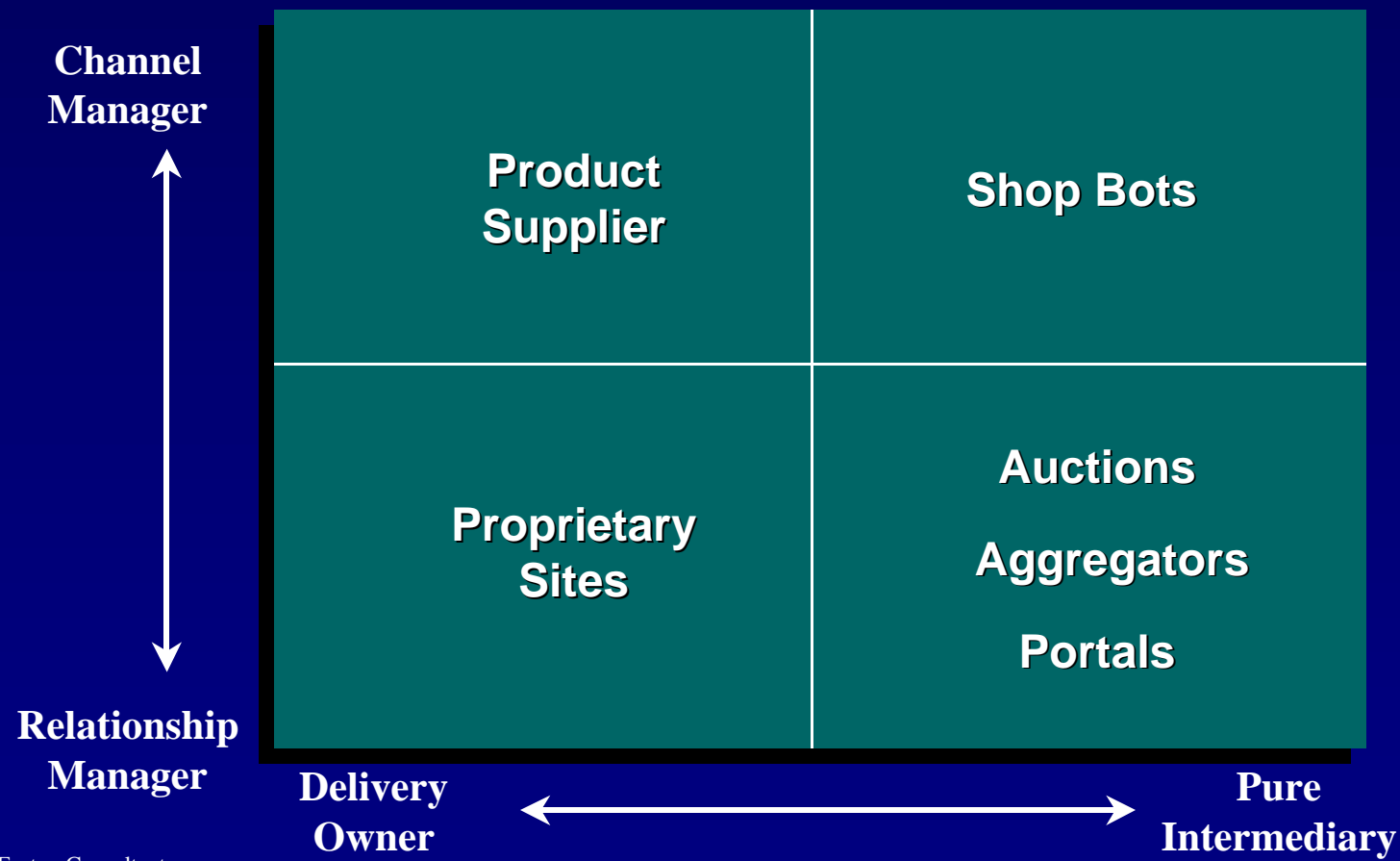
- For the business *system*...
 - Function-by function re-engineering
 - Substantial cost savings are likely.
- For the business *model*...
 - Changes in the basis of competition
 - Shifting ‘*sources of advantage.*’

Taxonomies of possible business strategies abound...

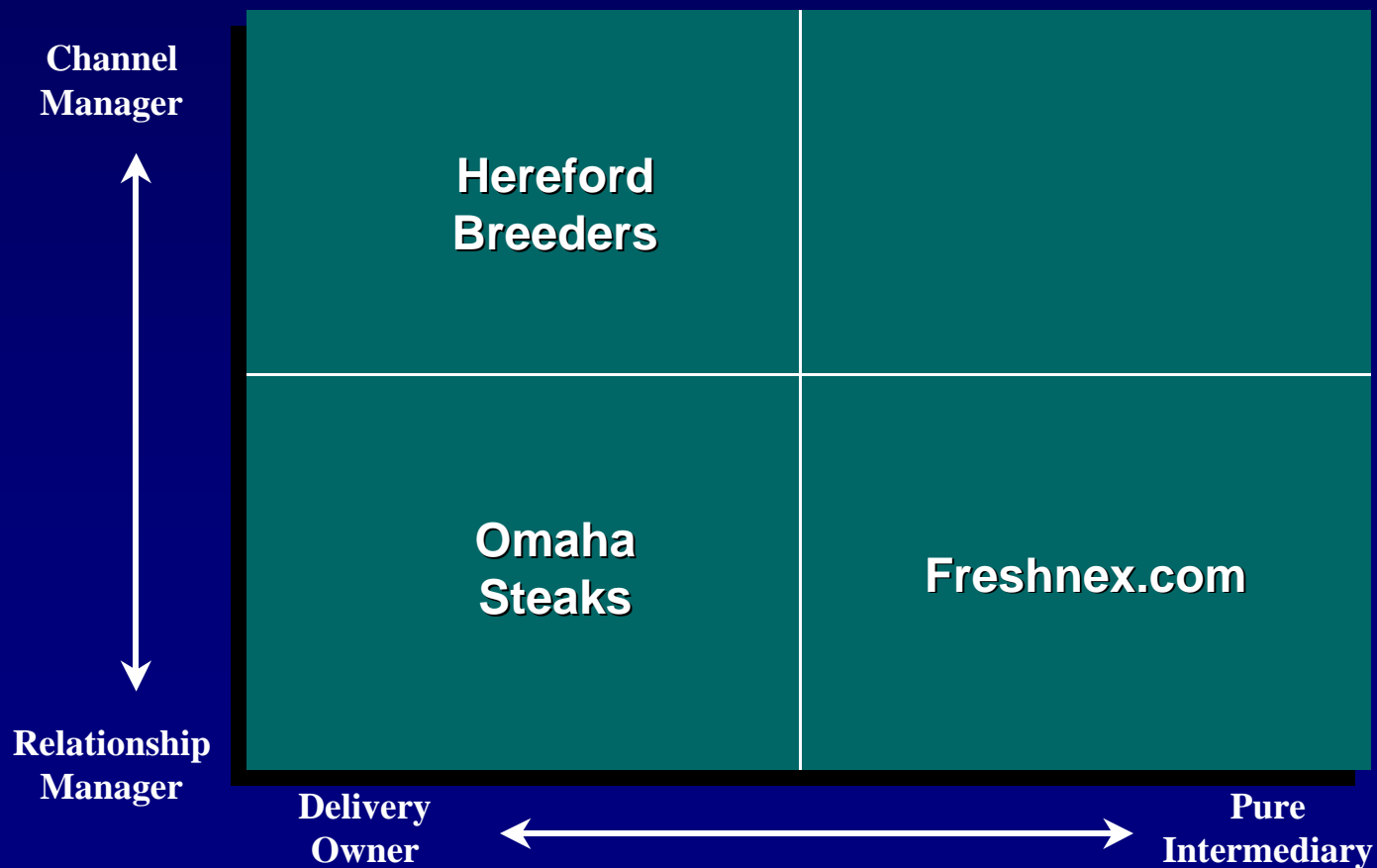
- *“Five steps to success in electronic commerce”*
- *“Eight critical success factors”*
- *“Five stages of electronic business”*
- *B2B, B2C, C2C, C2B*
- *“Seven strategies to survive Digital Darwinism”*

...and new life forms are evolving daily.

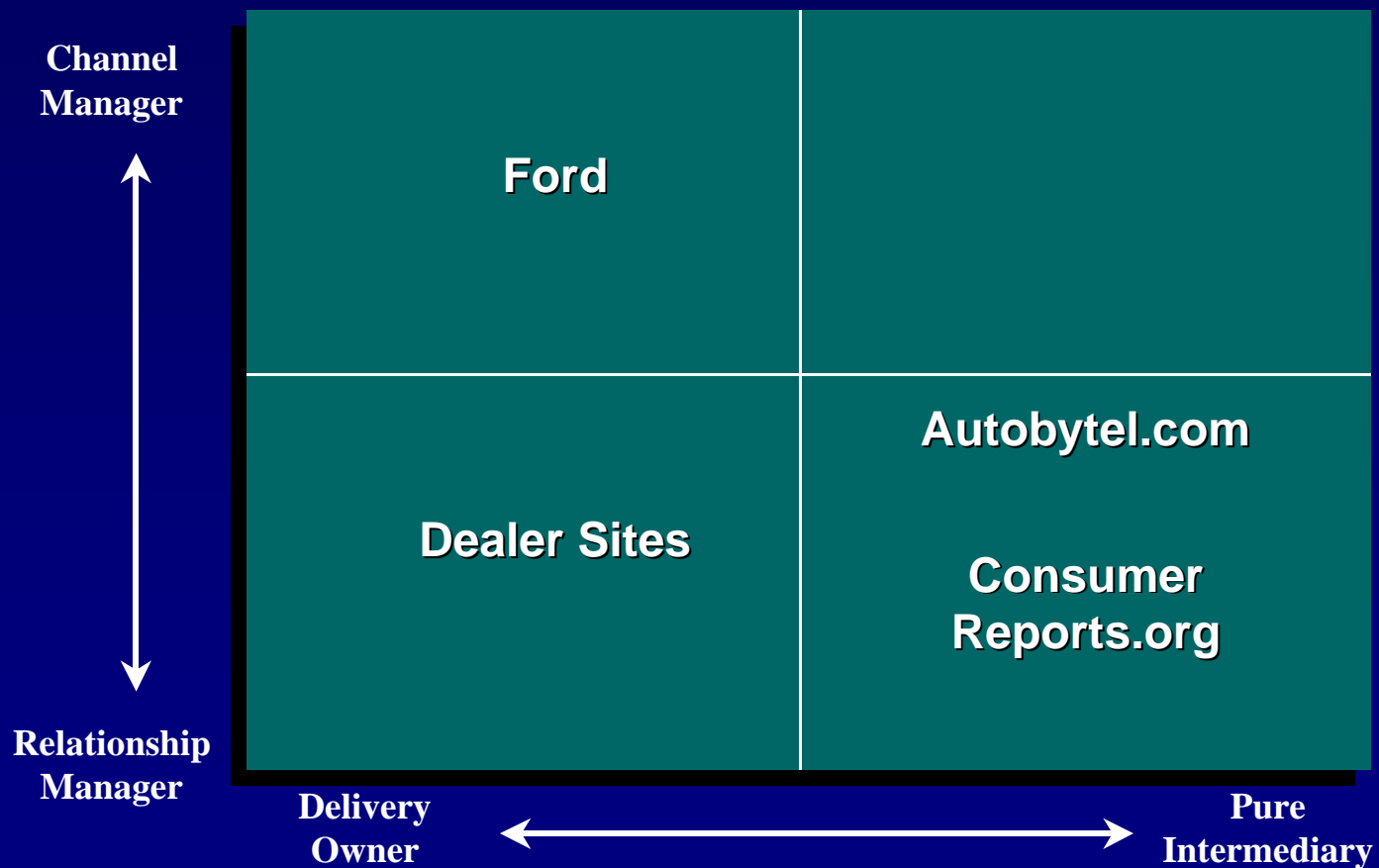
From marketing framework to business models:



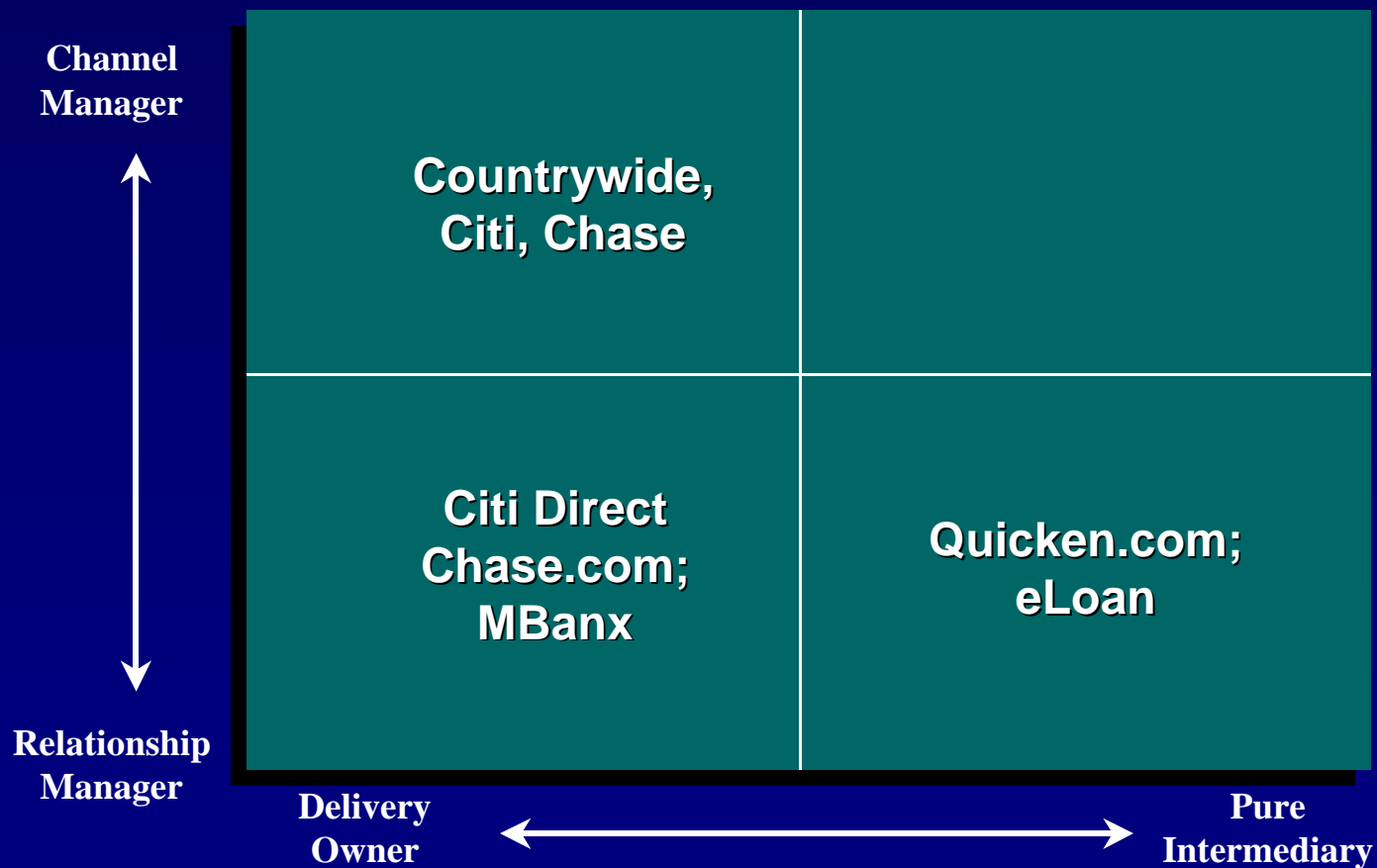
Example: Beef



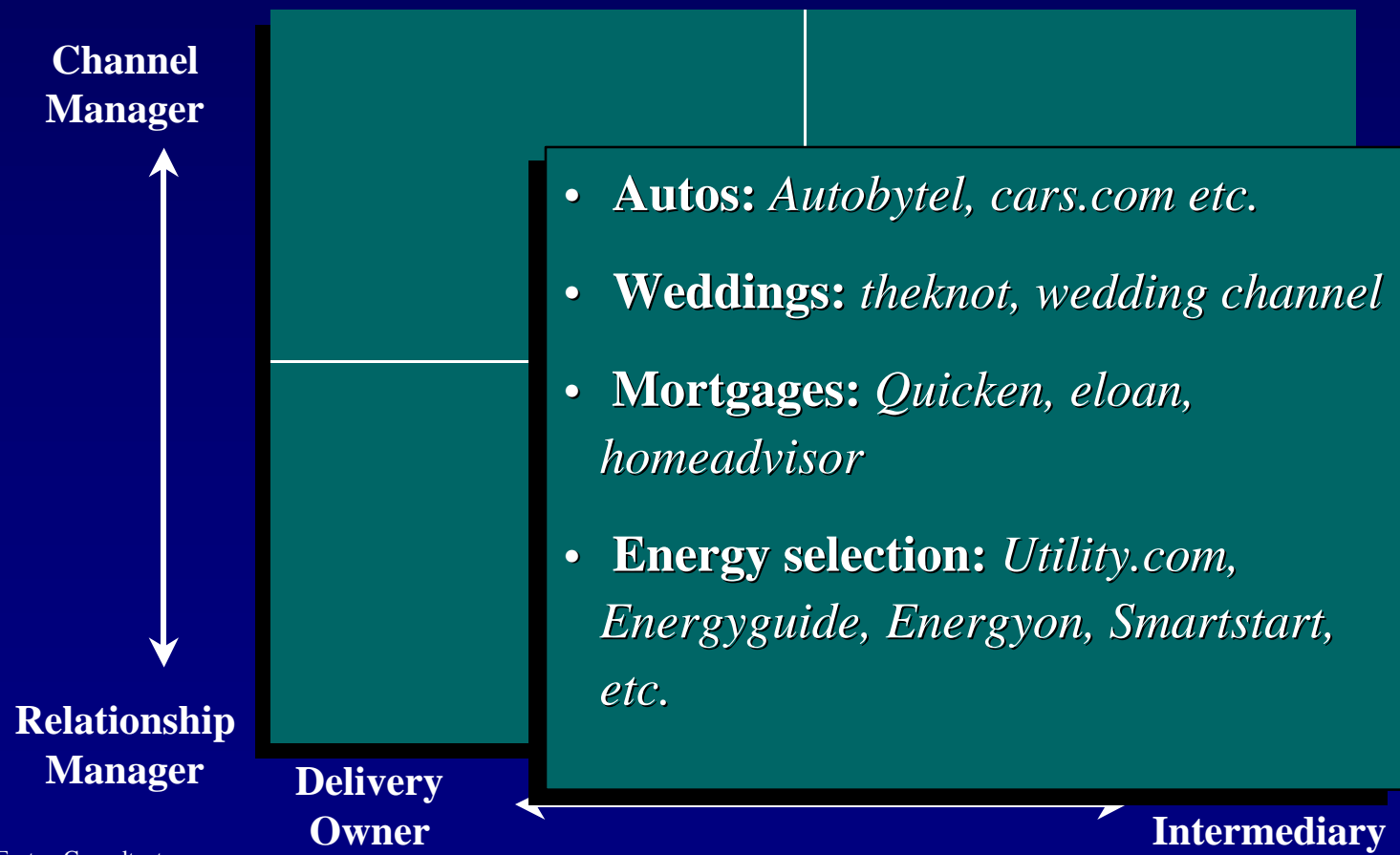
Example: Cars



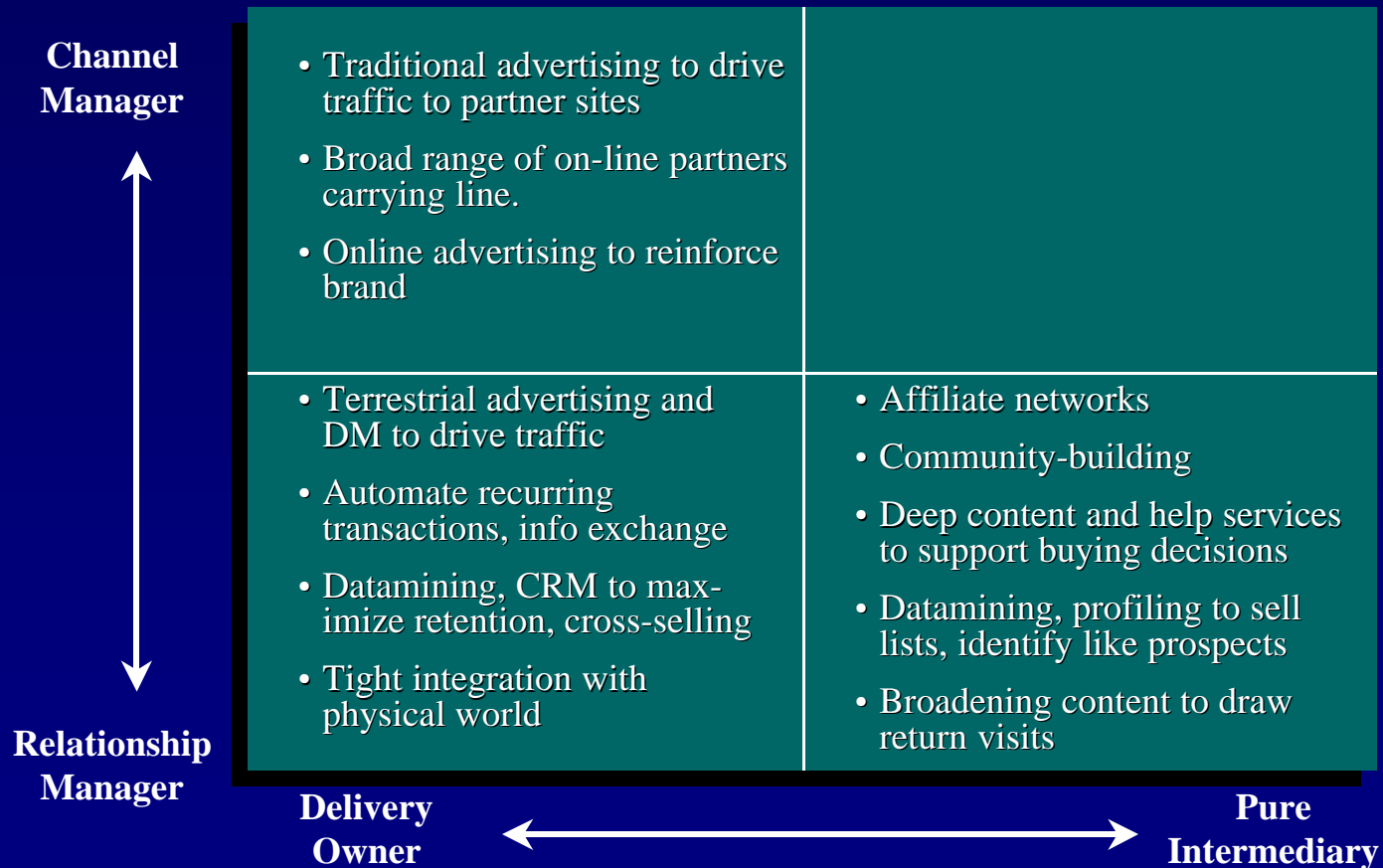
Example: Mortgages



The new intermediaries are the most dynamic. Most are interest-specific, address infrequent decisions

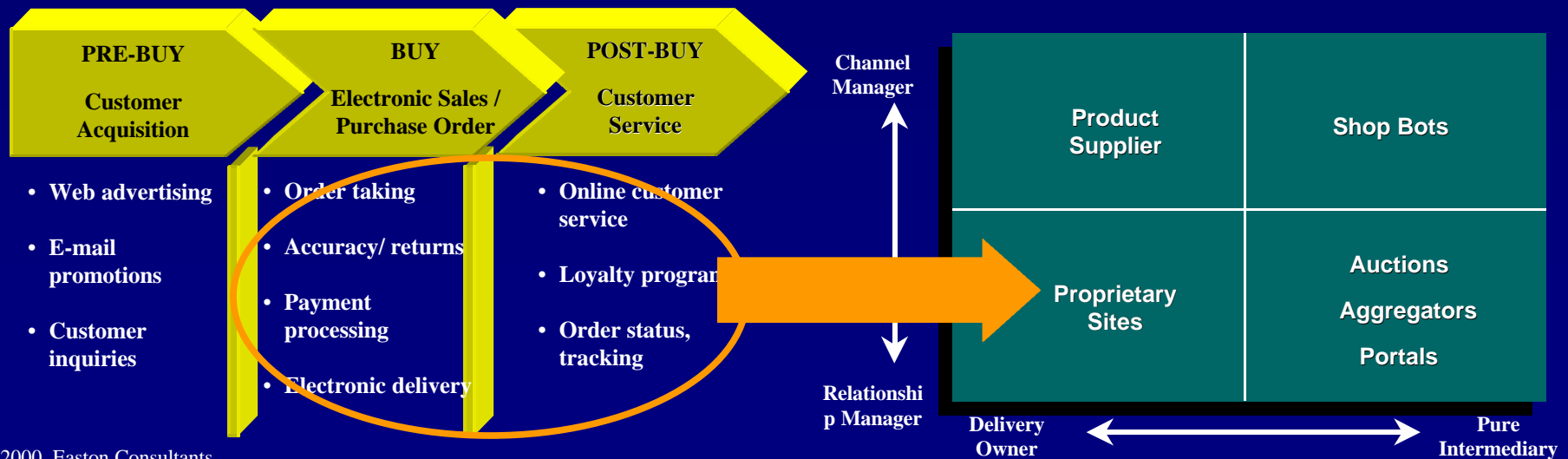


Strategies and tactics:



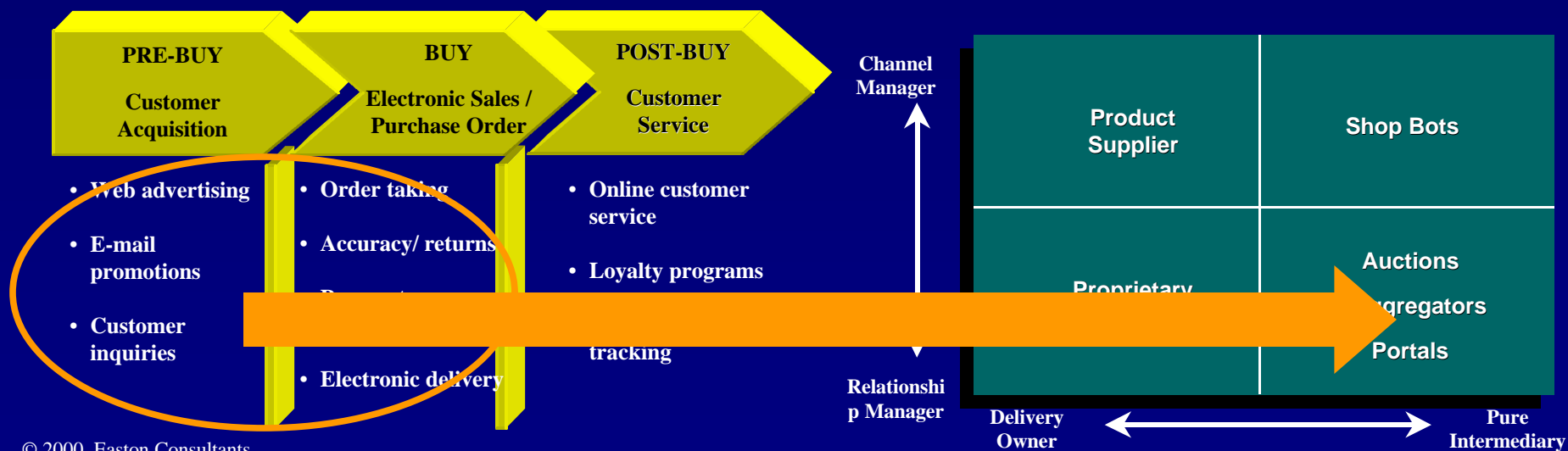
Model selection:

- All but the largest business users gravitate toward proprietary sites with long term relationships...
 - Importance of in-person customer acquisition
 - Information rich transactions and customer care
- ...but intermediary sites keep commodity suppliers honest



Intermediaries offer a better customer acquisition and transaction model for consumers.

- Innovations in consumer energy services will reflect its status as a low-interest category.
 - Bundled utility and telecoms services
 - Bill presentment and payment aggregators



Models to watch: hybrids of physical and virtual worlds.

- eCiti and St. Luke's LifeWorks
- Bill pay kiosks
- Mobile Internet and field force productivity...
- etc.

Please direct comments and
questions to:

Corey Stone
Managing Director
Easton Consultants

4 Landmark Square
Suite 301
Stamford, CT 06901

Phone: 203-348-8774

Fax: 203-348-9541

E-mail: cstone@easton-consult.com

URL: www.easton-consult.com