

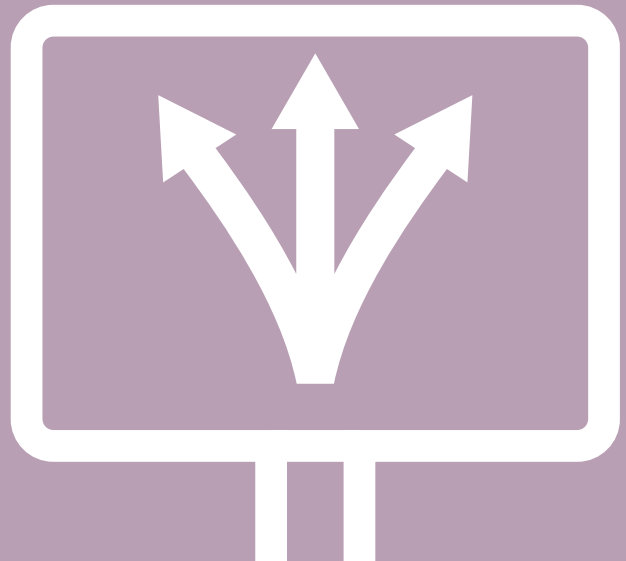


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Modelling for success:
why strategy comes first





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Modelling for success: why strategy comes first

eBusiness is not really about technology. It's about new ways of doing business and making money: new business models and new revenue streams. While it may seem safer to take your existing business model online, you could be making a very expensive mistake...



The Internet has consolidated so quickly that, of the millions of sites, the top three already account for a phenomenal 15 percent of all traffic.

eBusiness is sounding the death knell for many current business models, some of which have been highly successful for decades. But at the dawn of the new economy, the past is no longer a reliable guide to the future.

Business and competition have always been about winners and losers. eBusiness only changes the odds and the speed – more companies will lose and it will happen in a timescale of years (or months), not decades.

Key questions to consider

Success in the new economy is about good strategy. (It is also about good technology, people and implementation, but good strategy comes first.) Key questions to ask are:

- How will the total flow of profits in my industry change?
- Which industry participants will (or won't) earn this profit?
- Who will my new competitors be?
- What will the successful business models be?

You need to understand the new business models and how to take advantage of them. Taking your existing business model online could be the most expensive mistake of your career.

"For the billions companies are now spending on net-related technology, most of this investment will be spent on web-enabling old business models, rather than using the Internet to create radical new business models. For every Dell Computer or Amazon.com, there will be hundreds of others that will spend millions playing an endless game of catch-up."

Gary Hamel, *Leading the Revolution*.

Why business models matter: a case study

British Airways is one of the world's most successful airlines, with a simple, well-operated business model of selling airline seats through travel agents to passengers. This has been threatened over the past 18 months by the Internet, a Greek tycoon and a 27-year-old businesswoman.

BA's first response to eBusiness was to announce a strategy to take its existing business model online. Its website, which allowed people to purchase tickets directly from BA at travel agency prices, won a few awards and generally seemed to be doing the trick. After watching its traditional competitors' forays into eBusiness, BA felt confident it was on the right track.

But new entrants were exploiting the power of the web to develop new business models. Stelios Haji-Ioannou, founder of easyJet, set up a new business model for airlines, establishing a low-cost, 'no frills' service and selling directly to passengers over the web and by phone. On the routes where he competed head-to-head, BA's volumes and prices were soon under pressure.

Meanwhile, lastminute.com, co-founded by Martha Lane Fox, and other online travel sites such as Expedia and Travelocity were developing new aggregator models. They offered more choice and price transparency to customers, and used Internet technology to reach them 24 hours a day, 7 days a week.

BA realised that 'e-enabling' its existing business model was not enough and took action. First it launched its own low-cost airline, Go, as a separate business to take on easyJet. Then in May 2000, new Chief Executive Rod Eddington announced

BA was joining forces with ten other major airlines, including Air France and Lufthansa, to create a European online travel agency. Eddington commented: "This will revolutionise the way European customers arrange their travel plans". The City responded positively to the new model, pushing up the share price, even though BA had lost potential first mover advantage.









No guarantees

Dot.coms also need to get their business models right – the start-up graveyard is beginning to fill up. Recently, digital business-to-business (B2B) marketplaces AviationX, FleetScape and M-Xchange have run out of cash. These businesses made the same mistakes: not spending enough time on strategy – defining the killer proposition to get customers to their sites and how to turn traffic into revenue and profit. When AviationX announced it was closing down, its CEO, Henrik Schroder, said his only regret was chasing "a flawed business strategy".

Emerging B2B business models

In an environment moving so quickly, new business models are emerging constantly. Yet profits remain elusive for Internet and eCommerce companies. The Economist reported that *"of the 1,000 or so business-to-business (B2B) firms, fewer than 200 have revenues, and only 30 are publicly listed."*

So who is succeeding? Any attempt to define emerging business models is, almost by definition, both incomplete and out of date. However, on the following page we describe some business models that are hot at the moment in the largest area of growth, B2B.

Business model	Example	Description	Revenue streams
Exchanges Digital Marketplaces (DMs)		An independent virtual market for trading international wholesale telecommunications capacity. Band-X runs four 'trading floors' that allow buyers and sellers to connect. Co-location and bandwidth is traded via a web site that allows users to anonymously post details of the capacity they wish to buy or sell and to broker meetings with interested parties.	<ul style="list-style-type: none"> – Commission on completed transactions (0.625 percent – 2.5 percent of revenue) – Referral fee on secondary products and services
Exchanges Commerce communities		An online workspace, toolset and marketplace for the agriculture community. Content includes news, weather, markets, links and decision tools to help the producer to make timely and informed decisions. It also acts as a platform for producers and the industry to conduct commerce online. Producers and agri-businesses can purchase their farm inputs, buy or sell cattle and hogs, or find new recruits.	<ul style="list-style-type: none"> – Transaction fee (eg \$2.25 to \$2.60 per pig) – Referral fees – Advertising and sponsorship
Exchanges Platform providers		The leading provider of B2B technology solutions, producing commerce platforms to build digital marketplaces, manage corporate purchasing and electronically enable suppliers and commerce service providers on the Internet.	<ul style="list-style-type: none"> – Licence fees – Professional services
Content Players General syndicators		A platform to enable fast and wide syndication of utility/news-oriented content across a variety of electronic media. It distributes content from over 1,000 providers, including FT.com and Reuters, to over 270,000 sites. This is a volume business!	<ul style="list-style-type: none"> – Licence fees – Click through fees of 1-10 cents per click
Content Players Niche syndicators		Leading company providing fully-branded golf content and services to traffic-seeking sites such as AOL, CNBC.com, CNN.com, USA TODAY Online and others. Content helps partners to increase brand awareness and loyalty by encouraging golfers to return for golf-related content.	<ul style="list-style-type: none"> – Licence fees – Advertising – Commerce referrals
Content Players Content providers		Content provider that has invested in acquiring high-quality content, including purchasing a 20-year licence to exploit the ITN news archive on the Internet. It plans to package content for specific sectors, such as the educational market, as well as providing content directly to end users.	<ul style="list-style-type: none"> – Consumer subscriptions – Licence fees – Consulting fees – Revenue sharing
Application Service Providers (ASPs)		Provides an outsourced service covering a company's front and back office IT functions, giving connectivity with internal workflow and communication software plus customers and suppliers. Its customers effectively rent use of shared software which is delivered over the web.	<ul style="list-style-type: none"> – Initial integration fee – Rental fees – Consulting fees
Ecosystem		The quintessential eBusiness community company, having developed a new business model for not just its own organisation, but a whole industry. As a provider of high-performance, multi-protocol internetworking systems, it outsources all non-core competencies (including most manufacturing) and partners relentlessly, sharing knowledge with suppliers to drive the whole value network to superior levels of performance.	<ul style="list-style-type: none"> – Product sales – Provision of end-to-end networking solutions

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Two of the most interesting business models are the most established player and one of the newest entrants. Most established is network equipment manufacturer Cisco – long the poster child for eBusiness success. In 1993, Cisco reinvented its business by opening its information infrastructure to suppliers, resellers and customers. It created an open, collaborative environment that overcomes traditional obstacles to true cooperation in business relationships, which Cisco calls the Global Networked Business model. It allows all parties to access information, resources and services in the way that best suits them. This has proven to be more efficient and responsive than the traditional model, where a few ‘gatekeepers’ distribute information as they deem appropriate.

A recent entrant to the business model story is the digital marketplace, which has generated tremendous interest. Digital marketplaces bring buyers and sellers together globally in online marketplaces that allow companies to exchange information, source products and services, and execute online transactions, often through real-time auctions (or reverse auctions). Some marketplaces are being established by traditional competitors while others are independent. The number of digital marketplaces is forecast to rise from 100 in 1999 to 10,000 in 2002/2003 and Gartner Group predicts that these marketplaces will be transacting more than \$3 trillion by 2003. Telecom exchange Band-X was the first to offer reverse auctions of bandwidth in 1999. Band-X has revolutionised the way that Internet connectivity is bought and sold. Today Band-X has 11,000 members, and estimates it transacts over 80 percent of all trades that are executed within the telecom B2B exchange industry.

Building success

The new economy is changing the B2B market dramatically: companies are partnering with traditional competitors, industry value chains are changing irreversibly and old economy companies are redefining themselves with radically new business models.

While there is a certain appeal to dipping the corporate toe into the eBusiness water and considering new business models later, the safe approach comes at a cost. As new business models like digital marketplaces take hold, some companies may be caught in a Doomsday scenario – being on the wrong end of a digital marketplace or new business model set up by their major customers or competitors.

For many companies, going to market with the right business model will determine their future. Waiting to see how things unfold is not really an option.



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