Question #6

What Centrally Managed Activities Help Spot E-Business Opportunities and Disintermediation Threats in the “White Spaces” Between Business Unit Planning Horizons?

Problem

Business units are too focused on near-term priorities and oligopolistic competitors to detect technologies, project opportunities with “transformational” potential.

Emerging Best Practices

Surf Days

IBM

Microsegment Web Audits

3M

Consumption Chain Mapping

Cimino Mortgage (pseudonym)

Venture Capitalist Partnerships

Value Chain Mapping

Horne Company (pseudonym)
The Idea Flow “Gap”

Screening Through 15,000 Ideas Annually

One indication of the huge idea throughput needed to identify worthy funding opportunities is the typical deal-flow volumetrics of venture capitalists; employing full-time staff to cold-call prospective investment targets, Summit Partners, representative of most world-class VCs, makes 15,000+ company contacts each year, which are winnowed to only 200 proposed ventures deals, of which only 12 result in funded ventures. Few large companies, particularly those characterized by bottom-up, business unit-led funding practices, are within an order of magnitude of this standard.

An E-Business Role for the Corporate Center: High-Volume Idea Screening

To narrow this idea gap, several organizations interviewed by the Working Council have created headquarters-level groups tasked with identifying promising (or threatening) e-business concepts. Not always (or obviously) housed within corporate IT, these groups are uniformly charged with developing a “push” channel to expose business unit heads to e-business opportunities to expedite funding decisions.
The Venture Capital Standard

_Sifting Through One Thousand Proposals to Find, Fund One Worthy Idea_

Annual Deal Flow Analysis
*Summit Partners*

- **15,000** Company Contacts
- **750** Initial Venture Evaluations
- **200** Proposed Venture Deals
- **100** Reviewed Venture Deals
- **12** Funded Ventures

- Venture capital firm contacts 15,000 companies to identify potential opportunities
- Venture capitalists travel to 750 companies annually, conducting broad evaluations of venture strategies, technologies
- 200 companies selected to submit proposals for thorough, rigorous review by firm
- 100 ventures selected for second rigorous review at biweekly partner meetings
- 12 ventures selected for funding

Source: Corporate Strategy Board.
Opportunity Spotting

IBM’s “Surf Days”

A Low-Effort, High-Impact Idea: to give the corporate IT staff a fun, useful way to recuperate from a taxing project, one of IBM’s CIOs conducted a “surf day” as a means of benchmarking and brainstorming concepts for a generational update of Big Blue’s Web site functionality.

Each staff member was given a list of company sites to surf, including both competitors in IBM’s major market lines and companies not in direct competition with IBM enjoying national reputations for the aesthetics (toolbar layout, multimedia graphics, etc.), technical capabilities (transactions, personalization, dynamic pricing, etc.) and cross-linked information (third-party information sources, technical directories, distributors’ inventory levels, etc.) of their sites. Each staffer filled out a checklist of basic site capabilities, and free text field recommending features for the IBM e-commerce group.

The Activity proved so valuable (and relatively effortless) that IBM has formalized what started as a team-building exercise into a standing strategic planning database. Updated quarterly by a network of college students in targeted universities (presumably as an early recruiting tactic), the database compiles dossiers on 413 different reference Web sites, defining the business model of the site and tracking changes in features and functionality. The intent: to provide the e-commerce group and business heads with a window to new ideas for site functions, and an early warning system to react to changes in competitors’ sites.
Spotting the Next Wave

Success of one-time campaign to inventory innovations at competitors, Web exemplars...

Partial List of “Surf Day” Target Companies

• 100 IBM IT staff
• Two-day “surfing” campaign

...leads to establishment of ongoing, on-line “surveillance database”

• Database of 413 Web sites, updated quarterly
• Maintained by college student labor

IBM

Competitor Web Site Database

<table>
<thead>
<tr>
<th>Surf Q1</th>
<th>Surf Q2</th>
<th>Surf Q3</th>
<th>Competitor X</th>
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<tbody>
<tr>
<td>Conclusions:</td>
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<tr>
<td>Over 50% of company Web sites provide merely basic functions</td>
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<tr>
<td>Value Propositions:</td>
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<tr>
<td>What is provided to users</td>
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<td>Intent of the site</td>
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<td>E-commerce capability</td>
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<td>E-Business Capability:</td>
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<td>Personalization</td>
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<td>Registration</td>
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<td>Order forms</td>
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<td>E-Business Models:</td>
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<tr>
<td>Examples of e-business model Web sites</td>
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<td>Operations strategies</td>
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<tr>
<td>How the site makes money</td>
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3M’s Web Microsegment Web Audits

Moving beyond “One Face to the Customer”: fearing that a single, static Web site interface risks lost opportunities to build repeat site traffic and cross-sales, many companies are applying marketing microsegmentation techniques in the hopes of yielding insights that enable design of sites more attuned to specific customer needs, and exchange of richer information.

As part of its overhaul from a product-driven company to a customer-focused one, Minnesota-based 3M hired a third-party Web consultant to parse Web visitors into a segment-based taxonomy of 3M.com users—everyone who used the site, and what they used it for. At the lowest level of microsegmentation, communities within functional areas of particular industries, the design team conducted analyses (clickstream pattern recognition, interviews) to identify the key transactional requirements and information needs of typical users.

The microsegment efforts resulted in a list of unmet information and functionality requirements, organized by segment. 3M has reorganized the 3M.com site into what it calls “Customer Centers,” eschewing site map organized by product lines and regrouping products into combinations most frequently needed by microsegments, audited by internal information (technical sheets, promotional materials) and external information (technical directories, price lists, customer testimonials, etc.)

One interesting finding was that many customers purchased 3M products both professionally and personally. In the health care customer center, it was discovered that some physicians who used the site to replenish medical stocks also owned boats, and used 3M products in their maintenance. Future installments of the microsegmented site will attempt one-to-one marketing, recognizing the identity of an individual making a purchase or inquiry on behalf of an employer, but who might also represent a cross-sales opportunity for personal products.
Getting Granular

Parsing of electronic customers...

*Schematic (Abridged) Overview of Web Microsegmentation Process*

...yields granular insights into unmet functional requirements, product information needs

* Audit outsourced to TSDesign (Web design and consulting firm).

Source: TSDesign.
Partnering with “Idea Pure Plays”

Fearing the statistical improbability that the “next big idea” for e-business will come from incumbent company business leaders preoccupied with quarterly performance targets and limited in technology expertise, a growing number of companies attempting to quickly launch e-business presences are partnering with venture capital firms for access to human and intellectual capital.

Toys “R” Us is one example. Following their difficult run during the holiday 1998 season, the retailer announced an alliance with Benchmark Capital Partners, the technology VC behind successful Internet launches such as eBay and Ariba.

The purpose of the partnership was not primarily to raise funds for expanding the ToysRUs.com site, but rather to marry the strengths of the incumbent company with those of the start-up community. For its part (in addition to $80 million in funding to relocate its site to Silicon Valley), Toys “R” Us gave access to its assets as an established industry leader—a large installed customer base, brand recognition and extant supply and fulfillment networks.

Benchmark furnishes the assets of the VC—headhunting savvy for locating the caliber of Web talent Toys “R” Us was unlikely to find within its four walls (or indeed perhaps in its local labor market), a full pipeline of emerging e-business models, and credibility with Wall Street and Silicon Valley, assets that can be leveraged in combination with those of the incumbent partner.

An imperfect example: The partnership dissolved in the third quarter of 1999 over disagreements in supply chain design. Nonetheless, the concept of alliances with the VC community as a means of accessing a wider range of ideas and talent at order-of-magnitude speeds is recommended as a stratagem for companies intent on keeping up with the cutting edge of the e-business frontier.
Venture Capitalist Partnership

Alliance with an idea screening pure play…

Toys “R” Us E-Business Alliance with Benchmark Capital

Select Past Deals

Sources: Benchmarks Capital

…helps Toys “R” Us stay current with technology and business model innovations

Outsourcing Silicon Valley Expertise

“As far as we know, our technology is OK. Benchmark Capital is a Silicon Valley insider…they've launched eBay…they see thousands of new venture ideas each year. We partnered with Benchmark to get an inside track on the ideas that they see. They will tell us what we don’t know about Internet technology.”

Chief of Corporate Strategy
Toys “R” Us

Consumption Chain Mapping

Companies focused on “adjacency” growth, forward- or backward-integrating into clusters of customer spending, are applying the practice of consumption chain mapping to identify potential e-business site features.

Cimino Mortgage (pseudonym), a major U.S. financial services provider, requires product managers to detail the end-to-end customer expenditures surrounding their core offering. Analysis revealed that mortages account for only ten percent of home purchase fees, or one percent of typical customer spending across the home purchase process (including home search and sale, moving, insurance).

Cimino’s Web strategy consists of building or allying with information sites that assist customers in all of the decisions surrounding a new home purchase, with the goal of being a one-stop destination site for consumers in need of decision support for this large-ticket, infrequent activity. The company signed referral arrangements with quote services, product and service providers from which Cimino earned revenues every time a visitor to the mortgage site clicked on a cross-linked external site. (Some referral relationships are retainers, others based on clicks or closed sales.)
Compressing Customer Decision Processes

Recognizing that company captures small fraction of fees associated with home purchase...

End-to-End Customer Cost for Typical Home Purchase

Customer Consumption Process:
- Identify suitable neighborhoods
- Analyze cost of living
- Find a new home
- Sell previous home
- Insure home
- Move possessions
- Find renovation and redecoration contractors

Cimino Mortgage crafts Web referral arrangements that span entire home-buying “consumption chain”

Cimino Mortgage*: Select Referral Volumes (One Year)

Homes Purchased via Site: 25,890
Moves Managed: 17,310
Property Dispositions: 8,580


* Pseudonym.

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Value Chain Mapping

With many ERP endeavors approaching their natural limits within the corporation, many IT leaders believe the next generation of IT-enabled efficiency improvements will require integration planning with key customers or suppliers. A growing number of process-focused CIOs in the Council membership report devoting increasing time and staff resources to “foreign relations”—collaborative planning on standards or projects with external constituencies.

An ambitious and comprehensive initiative reflecting the extroversion of the corporate IT function is the Value Chain Strategy Summits organized by Horne Company (pseudonym), a $2 billion agribusiness in the Pacific Rim. Carrying the CEO’s seal, so to speak, Horne’s head of strategy and CIO organized a day-and-a-half symposium of their counterparts in constituencies across the agribusiness value chain—producers, distributors, science advisors, regulators and consumer advocates. Moderated by a McKinsey consultant, the intent of the session was to develop alternative scenarios for how social, regulatory and technology trends are likely to influence industry growth and competitive structure.

In addition to presenting a shared “view of the world” to CEOs, a subtext of the session was to explore opportunities for mutually beneficial, multilateral IT projects. The first session yielded a relatively modest statement of intent to pursue collaborative purchasing programs for IT equipment and software; in subsequent sessions, VPNs and shared industry standards for information capture and transfer are planned for discussion.
Collaborative Planning

Horne Company* assembles strategists, IT leaders from across value chain…

Agribusiness Industry Futuring Team: Illustrative

News, Views from All Industry Stakeholders

Producers
IT Direct Reports
CIO
Strategist
Head of Research and Development

Science Advisors
Biotech Specialist
Legal

Distributor
CIO
Distributor IT Direct Reports

Consumer Advocates

Government Functionaries

Distributors

…to craft shared strategic scenarios

Industry Strategic Plan

<table>
<thead>
<tr>
<th>“Godzilla”</th>
<th>“Titanic”</th>
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</thead>
<tbody>
<tr>
<td>Multinationals dominate value chain</td>
<td>Farmers at the mercy of global heavies who control value chain</td>
</tr>
<tr>
<td>Less than 10 food and agriculture companies account for more than 80 percent of volume</td>
<td>Industry a price taker</td>
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<tr>
<td>JVs/alliances</td>
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</table>

<table>
<thead>
<tr>
<th>“Mighty Ducks/Nirvana”</th>
<th>“Local Hero”</th>
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<tbody>
<tr>
<td>Suppliers have market power</td>
<td>Regional focus</td>
</tr>
<tr>
<td>Industry forges ahead at full steam</td>
<td>Status quo</td>
</tr>
<tr>
<td></td>
<td>Wide range of needs/low volume</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Trade Liberalization</th>
<th>Regional Blocs</th>
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<tbody>
<tr>
<td>Strong Demand</td>
<td>Weak Demand</td>
</tr>
<tr>
<td>Pro-Biotech/Collaborative</td>
<td>Anti-Biotech/Protectionist</td>
</tr>
</tbody>
</table>

Aggregation
Transnational

Degree of Industry Concentration

Fragmentation

Vendor Power