



# Models made “e”: What business are you in?



## **Introduction**

With the Net so tightly woven into the fabric of today's business world, it's not surprising that one hears a lot about Internet business-model adjustments. Just listen to the news: One report blames an online company's demise on a flawed business model; another describes an organization's relaunch of its Web venture—an attempt to hit upon the “right” approach. So what's the hype all about? Why so many shifts?

Does your e-business need adjustment? Are you sure you would know if it *did*?

Running a profitable e-business is a continual challenge, and finding the right business model is not always easy. But thanks to many Internet pioneers, corporations now have some history to analyze for clues.



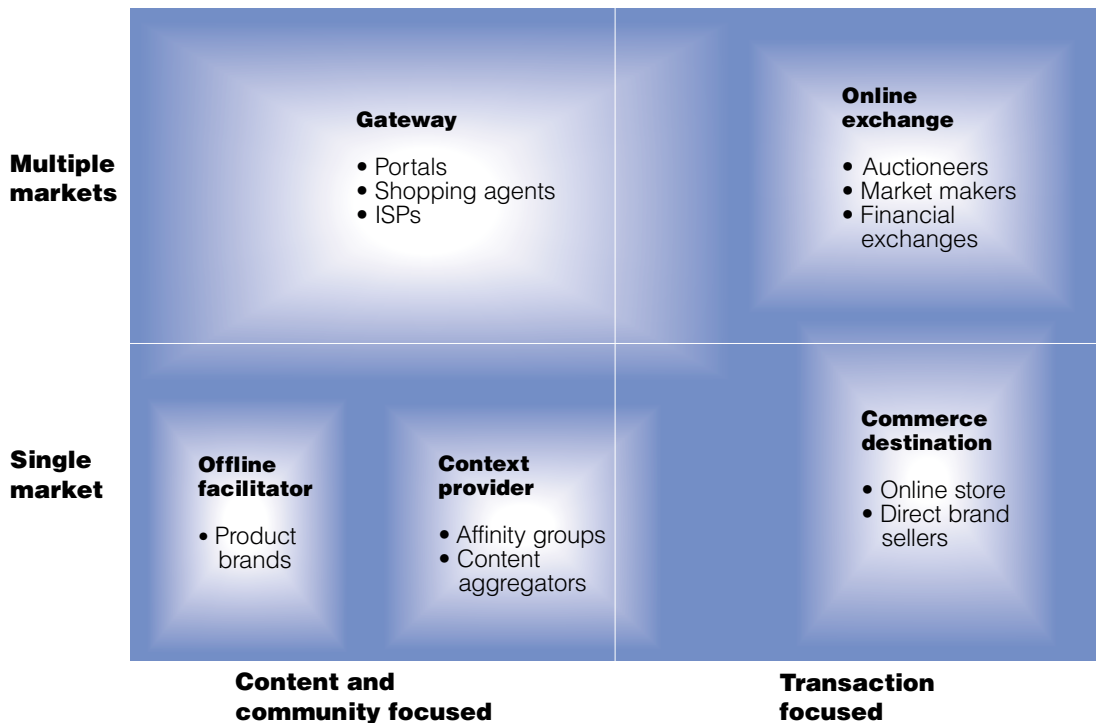


**Who are you in the online world?**

In an IBM analysis of over 700 companies currently active on the Web, specific online business model patterns emerge. Interestingly, while these groupings remain constant across geography, industry, company size or type of commerce (B2B versus B2C), their distinction is marked by their primary focus (“content and community” versus “orders and transactions”) and market scope (serving single or multiple markets):

- *Offline facilitator*: These companies promote their brands online, but never take a Web-based order. They want to avoid any potential channel conflict.
- *Context provider*: Sometimes known as affinity groups or content aggregators, these businesses are typically expert in a particular domain, and are aligned with a specific value proposition. Their businesses might be based on subscriptions, advertising or transaction fees.
- *Commerce destination*: These direct sales channels exist primarily to sell a company’s products and services.

**Finding the right e-business model**



- *Online exchange:* Whether auctioneers, financial exchanges or market makers, these entities bring buyers and sellers together to help seal deals. Revenues come primarily from transaction commissions, but can also be supplemented by advertising or subscription fees.
- *Gateway:* With a variety of origins—such as a search engine, Internet service provider (ISP) or shopping agent—these companies provide an easy way for users to find what they need on the Net. As a frequent and often first stop for Web users, these online businesses derive most of their revenue from advertising.

While some organizations find themselves firmly ensconced in one of these arenas, hybrid models also exist. In fact, the dynamic nature of the digital economy demands constant reevaluation and adjustment. For some companies, improving their existing business model through new Internet capabilities is enough. Executives at other firms wonder whether a more fundamental shift is required. To fuel these restless thinkers, we've brought together some stories—composites created from a host of client experiences—to highlight the nature of business change underway in today's marketplace.



**Out of the garage...onto the information highway**

**Before**

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<b>Primary business</b>	Used vehicles
<b>Environment</b>	Buy, refurbish and sell  Employed manual processes  Took up to a year to move inventory
<b>\$\$ Implications</b>	Tied up millions of dollars in inventory  Suffered from low profit margins

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Driven by the need to shore up its financially draining used-vehicle unit, ModelFleets began looking at ways the Internet could help. Some improvements—like bringing the unit's buying and selling processes online—were obvious, and could be implemented immediately. The company had developed solid relationships with a significant number of fleet buyers and sellers, and the organization seemed well suited to playing a middleman role. But as the company looked closer, a more significant realization occurred.

The information ModelFleets required to buy a used vehicle was exactly the same information that it used to sell it. With the right data at its disposal and electronic ties established with its buyers and sellers, the company questioned whether it ever needed to actually touch a vehicle. Why should it assume the inventory and manage the reconditioning process? Refurbishment could be outsourced and included as part of the sales agreement. Wasn't matchmaking the company's core value? Armed with this insight and the capabilities made possible through the Web, ModelFleets launched its new e-business.

**After**

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<b>Primary business</b>	Broker
<b>Environment</b>	Leverages existing relationships with fleet buyers/sellers  Handles transactions electronically
<b>\$\$ Implications</b>	Speeds the sales cycle  Frees funds tied up in inventory  Realizes higher profit margins

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**Assembler turned advisor**

**Before**

<b>Primary business</b>	Manufacturing
<b>Environment</b>	Make, package, ship and recycle containers  Company in operation for decades
<b>\$\$ Implications</b>	Capital-intensive business  Ceiling on margins

When it came to packaging, ModelPackaging was an expert. From cardboard boxes to steel drums, the firm manufactured it all. Business efficiencies gained by managing inventory and logistics electronically via the Net were already showing up in the company’s bottom line. However, cost reductions could only go so far. To fuel growth, the company knew it needed to find other top-line opportunities.

When pressed to articulate its true core capability, ModelPackaging came back with a surprising answer: logistical expertise. Its customers—even its suppliers—frequently asked for advice on how to reduce packaging and shipping costs. Why not sell this strength?

Through its Internet-based applications, this established manufacturer began to offer consulting and, in some cases, outsourcing services for managing a customer’s entire logistical operation. Rather than simply sell containers, ModelPackaging can now add more value by providing advice on best practices and overseeing the entire packaging process.

**After**

<b>Primary business</b>	Outsourcing
<b>Environment</b>	Expanded existing customer relationships  Manages logistics electronically
<b>\$\$ Implications</b>	Opened new revenue streams from consulting and outsourcing  Achieved higher profitability



**Catering to connoisseurs—not just consumers**

**Before**

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<b>Primary business</b>	Groceries
<b>Environment</b>	Highly competitive market Commodity-based business
<b>\$\$ Implications</b>	Slim margins Large investment in facilities

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To escape the price wars of its highly cost-competitive industry, ModelGrocer knew it had to distance itself from the typical perception of a food store. Careful introspection revealed resources that could prove advantageous. For instance, the company’s facilities—although comparable to others’ in square footage—were tastefully decorated and more visually appealing than competitors’ stores. Its premium product lines seemed to sell well when customers were invited to watch meal preparation, or became inspired by tempting menus complete with wine recommendations. How could ModelGrocer capitalize on these unique capabilities as it launched its online presence?

By blending gourmet advice provided over the Internet with the upscale environment established in its stores, ModelGrocer soon built a thriving

online community of dining enthusiasts. At the company’s Web site, visitors are offered weekly menus that feature beautiful images of prepared entrees accompanied by recipes, shopping lists and online demonstrations. Carefully designed interactive services encourage patrons to visit the store, where preordered deli and bakery items are waiting. Nutrition and fitness advice is provided electronically through monthly columns written by respected experts. Preparing for special events is a breeze, thanks to party tips and easy-to-order platters of food, favors and floral arrangements. With the right Web presence, the company is attracting buyers who place a premium on edible art and are willing to pay more for a superior culinary experience.

Razor-thin markups on traditional stock have been quickly offset by more comfortable margins on higher-dollar items. Without question, the company has placed itself in a class all its own.

**After**

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<b>Primary business</b>	Culinary arts supplier
<b>Environment</b>	Enriched shopping experiences Better-informed consumers
<b>\$\$ Implications</b>	Products priced at a premium Highly profitable business

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**Everything’s riding on this**

**Before**

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**Primary business**    Manufacture and sell cars

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**Environment**        Established brand  
                                 Commodity business

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**\$\$ Implications**    Eroding profit margins

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With relentless competition driving down margins on its core product, ModelMotors sought to diversify into more service-oriented lines of business. The carmaker was already thinking “outside the box,” using the sale of its vehicles as a catalyst for selling a variety of complementary offerings—from insurance to leasing. Why not explore thinking “inside the box”—about services provided in and through the cars themselves?

The answer was in wireless Web access. With onboard computing systems, ModelMotors could offer valuable services, such as directions or emergency assistance, when and wherever needed by consumers. Its product—which just happened to be cars—would become “a carrier” of sorts, a conduit for providing a full range of Internet-supplied services. As consumer expectations grow and profits on car sales shrink, ModelMotors is well positioned with a steady, services-driven revenue stream.

**After**

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**Primary business**    Transportation and support

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**Environment**        Platform for ongoing services

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**\$\$ Implications**    Steady revenue stream with higher margins  
                                 Commissions from partners and alliances

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### What a difference the “e” makes

Look under the covers and you'll see that the business strategies discussed in the preceding examples are not new; businesses have always used knowledge, expertise, creativity and unique skills to drive additional revenue. What's different here? In every instance, these companies were inspired by reflecting on what could be achieved by blending their corporations' core capabilities with the power of the Internet. These organizations used the Net to enrich, extend—even replace—their existing business model. The “e” in e-business became a prime ingredient for business growth.

With e-business, traditional tactics can be redesigned to seize brand new opportunities:

#### **Making the most of information**

Information has always been critical to business; the Internet has only elevated the demand. The Web has spawned unprecedented levels of data, provided a highly accessible and efficient method

for sharing it, and fueled rising expectations for realtime exchanges. In some situations, the value of the capture and transport of information has actually eclipsed the value of an organization's product. For those companies, information is the business.

#### **Sidelining the product in favor of services**

For years, product makers have been hedging their bets with service-based offerings. Whether built around it, on top of it—or even in it—services often out-sell or outlast the product that originally prompted them. Now, with the degree of connectivity and interactivity that's possible through the Net, businesses have even greater opportunities to develop and deliver innovative services. This wide-open field is bounded primarily by business imagination. If product producers don't grab these opportunities first, someone else will take the lead—relegating others to the role of interchangeable commodity supplier.

### **Capitalizing on expertise**

Knowledge and experience that were once held closely within a single department can now be leveraged throughout the corporation and, where appropriate, by customers themselves. Companies can provide services like inventory management or specialized consulting to other organizations electronically. Geographic and physical barriers that once hampered growth disappear.

### **Giving to get**

Selling razor blades to people you've given razors to is a common tactic today. Companies give away phones in exchange for a cellular service contract, personal computers for an Internet services commitment—even free Internet service for the right to monitor Web habits. Regardless of a product's price tag, the Net often presents unique opportunities for transforming a single purchase into a recurring revenue stream.

### **Differentiating your business**

Traditionally, a company's brand serves as its primary vehicle for building emotional ties with customers. Today, businesses are extending their established brands into the digital domain—interacting with consumers via an increasing array of channels, including the Web, cell phones and PDAs. By nurturing online communities, businesses can encourage customer loyalty while gaining new insights into their customer base. They can begin looking “from the outside in”—sensing their customers interests and desires and creating highly personalized offers that set them apart from the competition.



### Stretching your imagination

Doing business on the Net is a challenge; running a profitable e-business is even harder. A viable business model often provides the key. However, uncovering the right combination of strategies involves looking at your business—particularly your core capabilities—from a fresh perspective. It requires an unconventional view of the obvious—a new, “e-enabled” lens for examining current problems. Here are a few questions to help you get started:

- Why do customers buy from you? What’s the primary value you provide?
- Would your customers benefit from interacting with each other—and with you? Would their use of your product or service be enhanced by what they learn from one another? What might you discover from them?
- How significantly does consumer education affect the propensity to buy your product or service? Do you really know?
- How is your product utilized? Do you have expertise related to its usage, maintenance or disposal that could be helpful to your customers?
- Who are your online competitors? Your opposition may come from unexpected sources.
- With the Web shaking up traditional affiliations and interrelationships, which alliances are best suited to your e-business?

- How could wireless (anytime, anywhere) access to the Internet alter the dynamics of your business?
- Have you considered sacrificing product margins (or even giving your product away) in exchange for an ongoing services revenue stream? How would that change your business?
- How much is your company learning from simply “doing business”? With the right sensors in place, each transaction or interaction is an educational occasion. Are you getting smarter every day?

Questions like these can expose intriguing possibilities. At IBM, we're ready to help you explore your options and find the right answers. Our business strategists would welcome the opportunity to work with you on a Web business assessment—to identify what the competition is doing, learn from trials in other industries, and hone in on a viable e-business model for your particular organization. To discuss how we might put our creativity to work for you, contact us at [enVision@us.ibm.com](mailto:enVision@us.ibm.com). To learn more about the Centers for IBM e-business Innovation and other IBM resources for business executives, we invite you to visit:

[ibm.com/services/innovation](http://ibm.com/services/innovation).



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12-00  
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