

EMERGING BUSINESS MODELS IN THE eECONOMY

Discussion Document

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- Traditional seller-driven business models are giving way to customer-centric business models as a result of changes in demand and the emergence of the eEconomy
 - In the near future, new buyer-driven business models, like Intentions Value Networks (IVNs), will become more prevalent
 - These emerging business models present considerations which need to be addressed as TelcoA creates its next generation customer care experience

Emerging Business Models

Customer-Centric Business Model Overview

Buyer-Driven Business Model Overview

Discussion

The world in which TelcoA operates is changing rapidly because of several factors - shifts in consumer demand...

Life's Pressures...



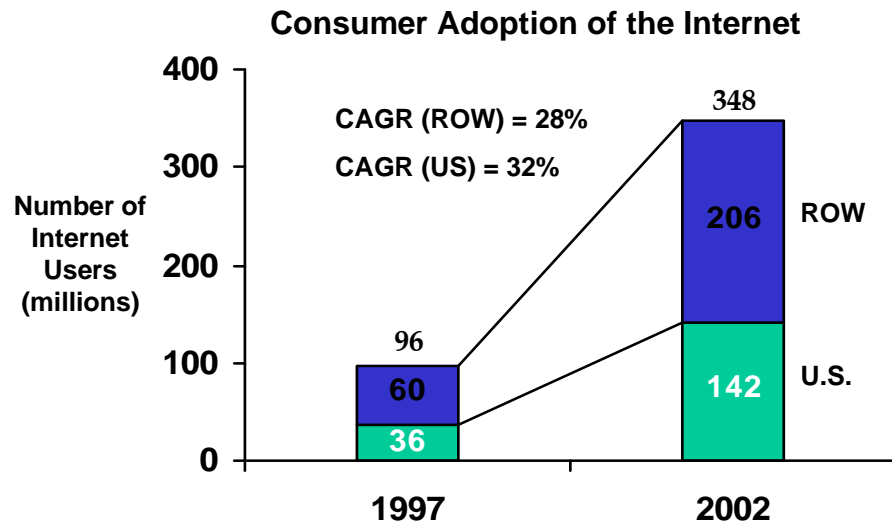
- Decreasing Available Time
- Increasing Complexity of Choice
- Increasing Responsibility
- Increasing Financial Constraints

...Create Demand for Simplification

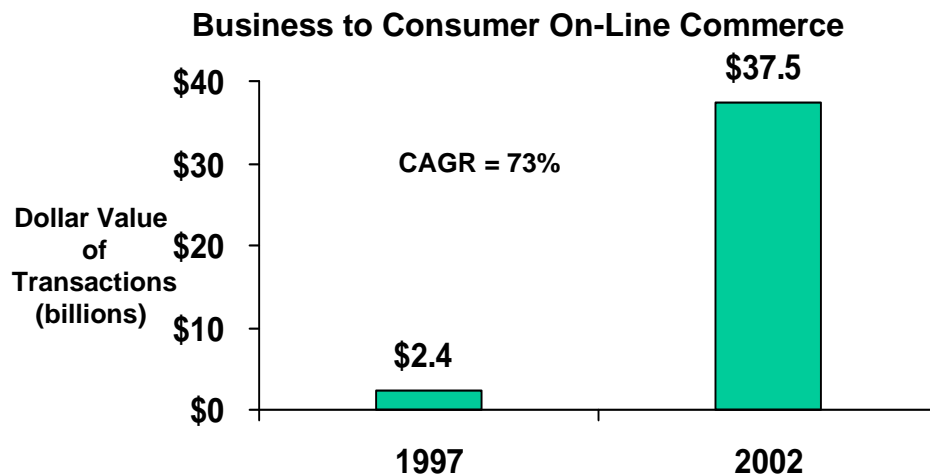


- Simplify Daily Life
- Assimilate Information Faster
- Rely on Predictable Results
- Enjoy Freedom to Be Flexible

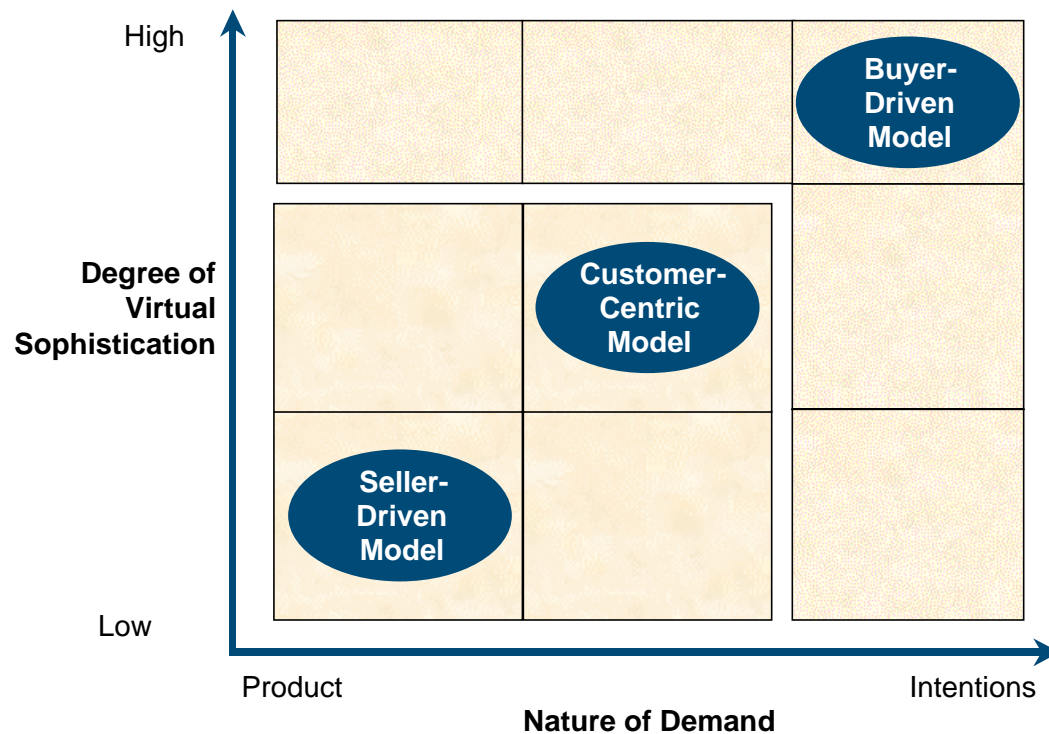
...and the emergence of the eEconomy.



- Close to perfect information for consumers about providers' offerings
- Unrestricted access to providers' products/services around the globe
- Unlimited choice
- Access 24x7
- Ability to view discrete products in a wider context



These factors are leading to the evolution of new business models.



“Competition today is not between products, it’s between **business models**. The most dangerous new business models are on the web...and if you don’t understand the advantages of starting early and learning fast, you’re going to lose.”

FORTUNE

“The Internet has made possible new **business models** that simply blow away any old-economy equivalent.”

BUSINESS 2.0

“Because of their tendency to improve existing technology and operate within existing **business models**, incumbents notice and respond to change when it is already too late.”

TELECOMMUNICATIONS Online

Each model has unique characteristics.



	Seller-Driven	Customer-Centric	Buyer-Driven
Role	Product innovator	Relationship manager	Integrator, “trusted” third party
Core Offering	Discrete products/services	Value packages	Intentions solutions
Objective	Market share	Customer retention	Customer acquisition & retention
Customer Ownership	Proprietary	Proprietary	Shared
Customer Protocols	Uniform	Segmented	One-to-one
Customer Insight	Historic	Current	Real-time
Business Scope	Single company, single industry	Multi-company, single industry	Multi-company, multi-industry

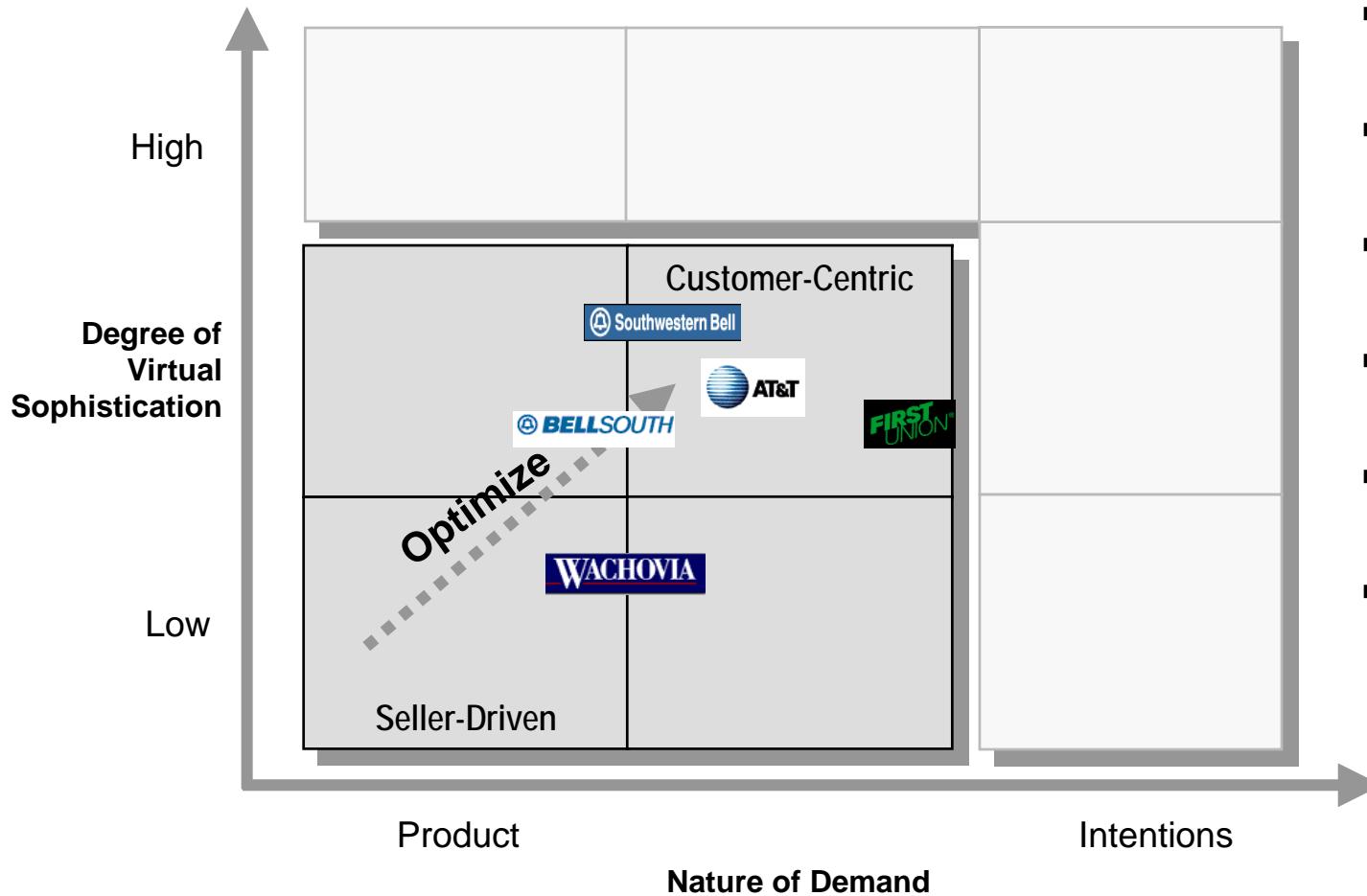
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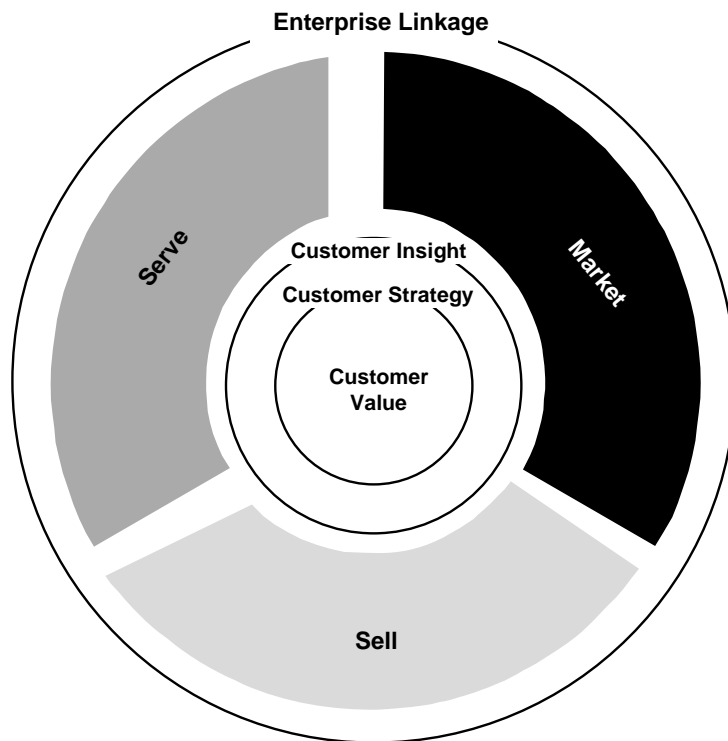
Discussion

Like TelcoA, many firms are migrating to customer-centric models.



- Customer relationship manager
- Value packages/solutions
- Retention of best customers
- Multi-company, single industry
- Physical and/or Virtual
- Connect customers through channels to products

These players are launching Customer Relationship Management (CRM) programs to become more customer-centric.



Know and Understand Customers

- Segment customers by lifetime value to the organization
- Anticipate and understand customers' values

Align Organization

- Recognize customers across channels and products
- Create a customer-centric enterprise that provides for seamless, integrated interactions with customers
- Create common, reusable processes with clearly defined ownership

Interact with Customers

- Develop learning relationships with customers
- Provide differentiated treatment for valued customers
- Gain share of customer
- Retain customers over their lifetime by becoming an ally for their financial needs

Meanwhile, innovators are creating next generation customer insight and customer interaction experiences.

Improve Offering Through Timely Customer Insights

- ThirdAge.com improves offering based on common interests
- iVillage.com processes online research overnight to quickly glean customer insight

Build A Sense of Community

- Earthweb has created a thriving community of IT professionals
- Cisco's community members help each other solve technical problems

Save Customers' Time

- Schwab.com offers real-time investment portfolio monitoring
- First Union offers bill presentment and payment on its web site
- Hallmark.com manages their customers' diary for birthdays and anniversaries

Create Reason to Return

- American Airlines offers incentives and rewards on its web site
- Progressive Insurance creates trust by offering comparative quotes for its products

Customer insight capability is grounded in an understanding of business-winning and business-destroying moments of truth.



- Where is the value created or destroyed in each inquiry, buying and using interaction?
- Are there discernible patterns across products and channels?
- Are customer values concentrated enough to turn into crisp messages that can be delivered to everyone who touches major customer processes?
- Which customer processes provide the greatest opportunity to meet or exceed what customers value?

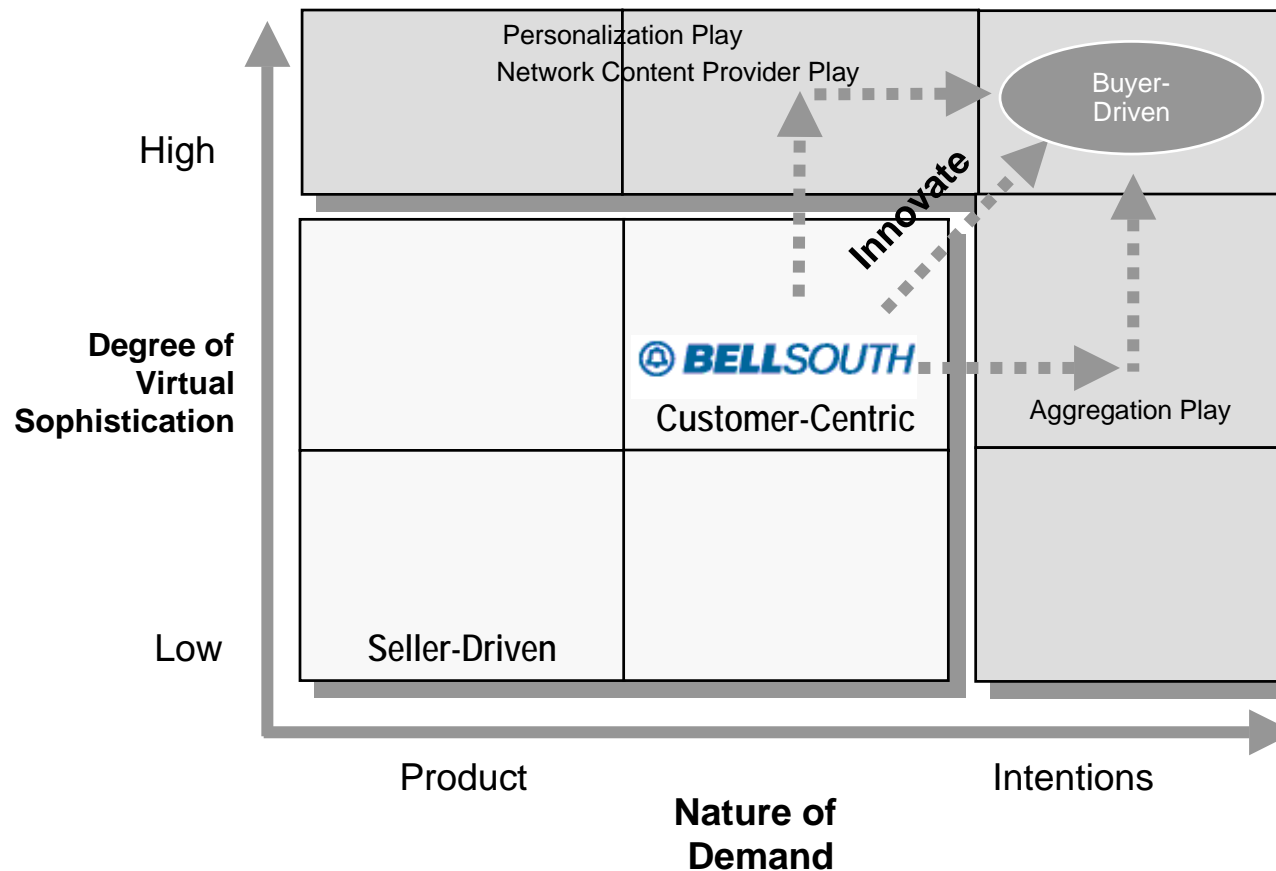
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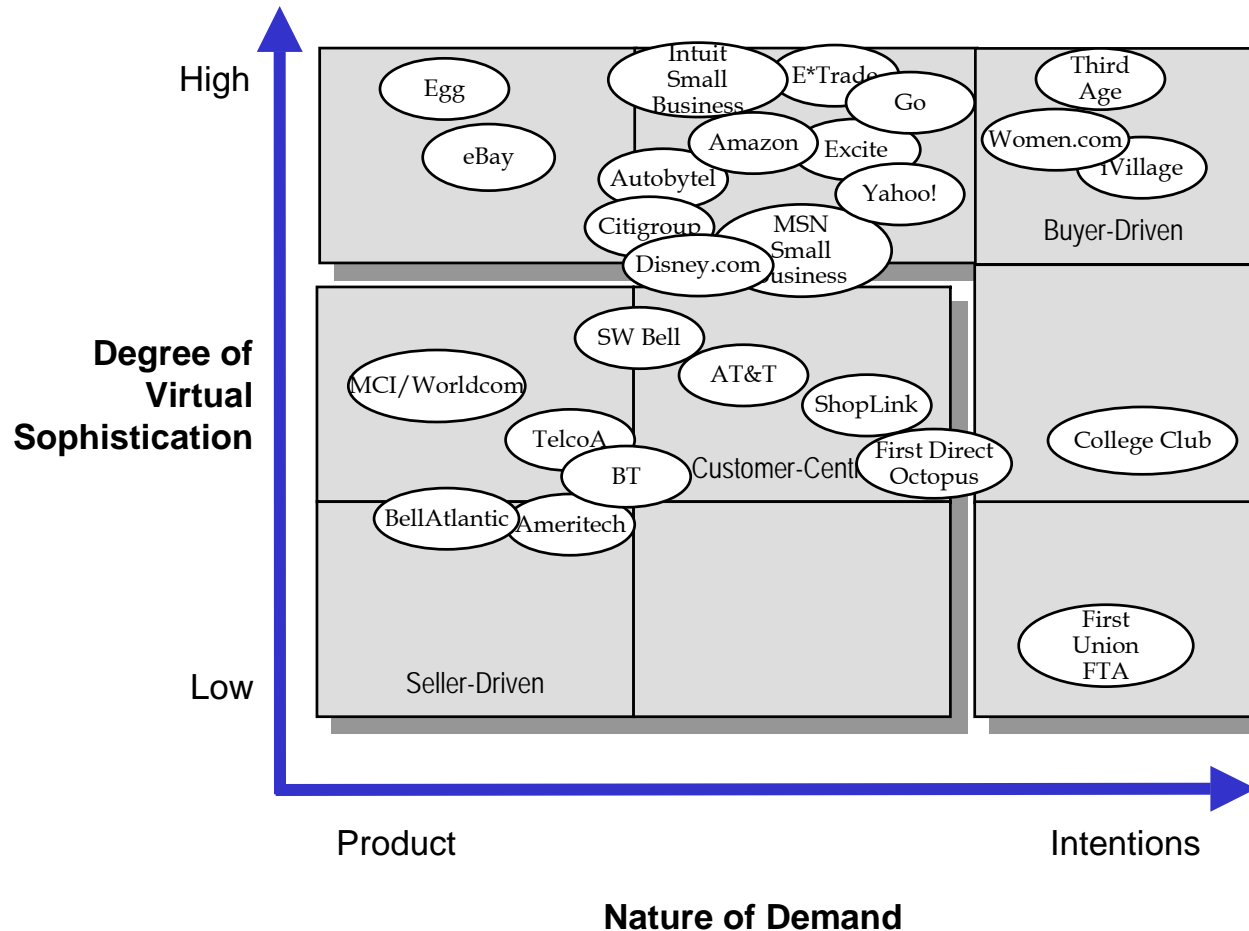
Migration to buyer-driven business models is capturing new sources of value.



Value Creation

- New revenue sources
- Lower customer acquisition costs
- Ability to effectively attract and retain customers
- Differentiated value proposition
- Innovative eCommerce strategy
- Development of next-generation customer insight capabilities

Innovative players are already moving toward buyer driven models.



Innovative Access and Delivery

- Prudential Egg has launched a new personalized banking service and brand targeting affluent, young customers and received 100,000 inquiries in the first week of operation
- Southwest Bell allows customers to gather information and purchase services online
- AT&T and iVillage are offering a co-branded ISP/Portal targeted at women

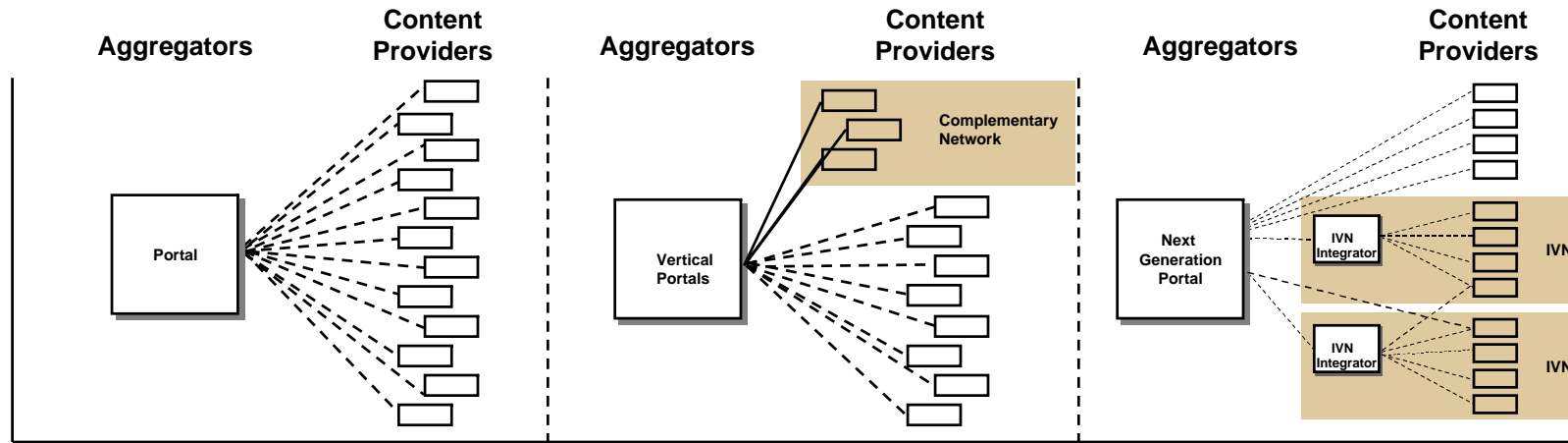
Personalized Offerings

- MSN's Small Business Channel is developing a provider network that will satisfy any business need
- First Direct's Octopus will answer customer questions about any topic imaginable

Non-Core Offerings

- Wells Fargo sold flowers at its Web site on Mother's Day
- In one year, Tesco supermarkets (UK) has successfully acquired 700,000 customers for its own banking service

Innovators recognize that, within a short time, buyer-driven value networks will become prevalent.



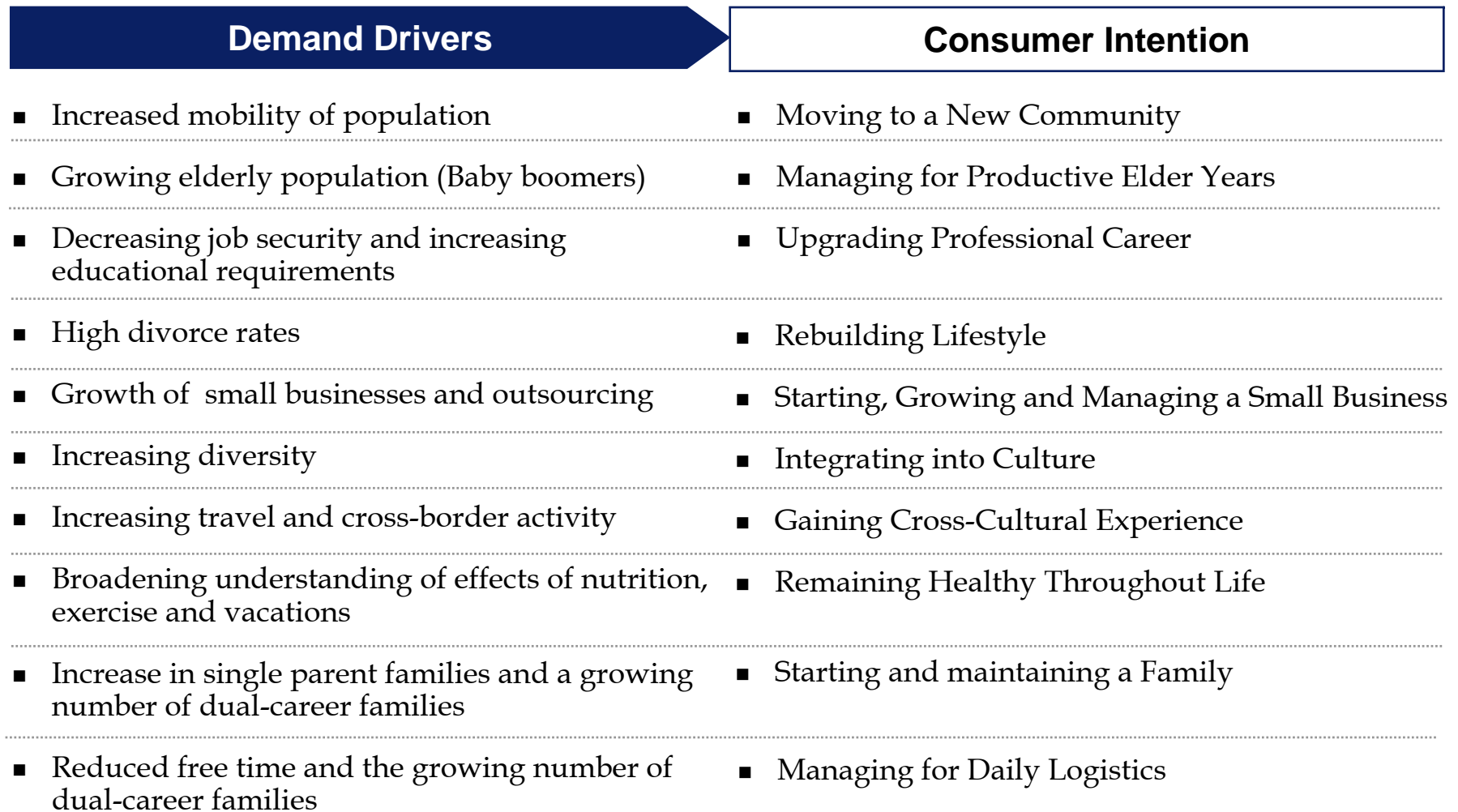
Portals were the rage → **VertiPorts are emerging** → **Buyer-driven networks (IVNs) become increasingly prevalent**

- Sites containing links to relevant sites around common theme
- First generation personalized Web sites

- Formation of small, loose alliances around complementary products and services
- Shifting from seller-driven to customer-centric approach
- Destination, encouraging longer visits through sticky apps and solutions-focus

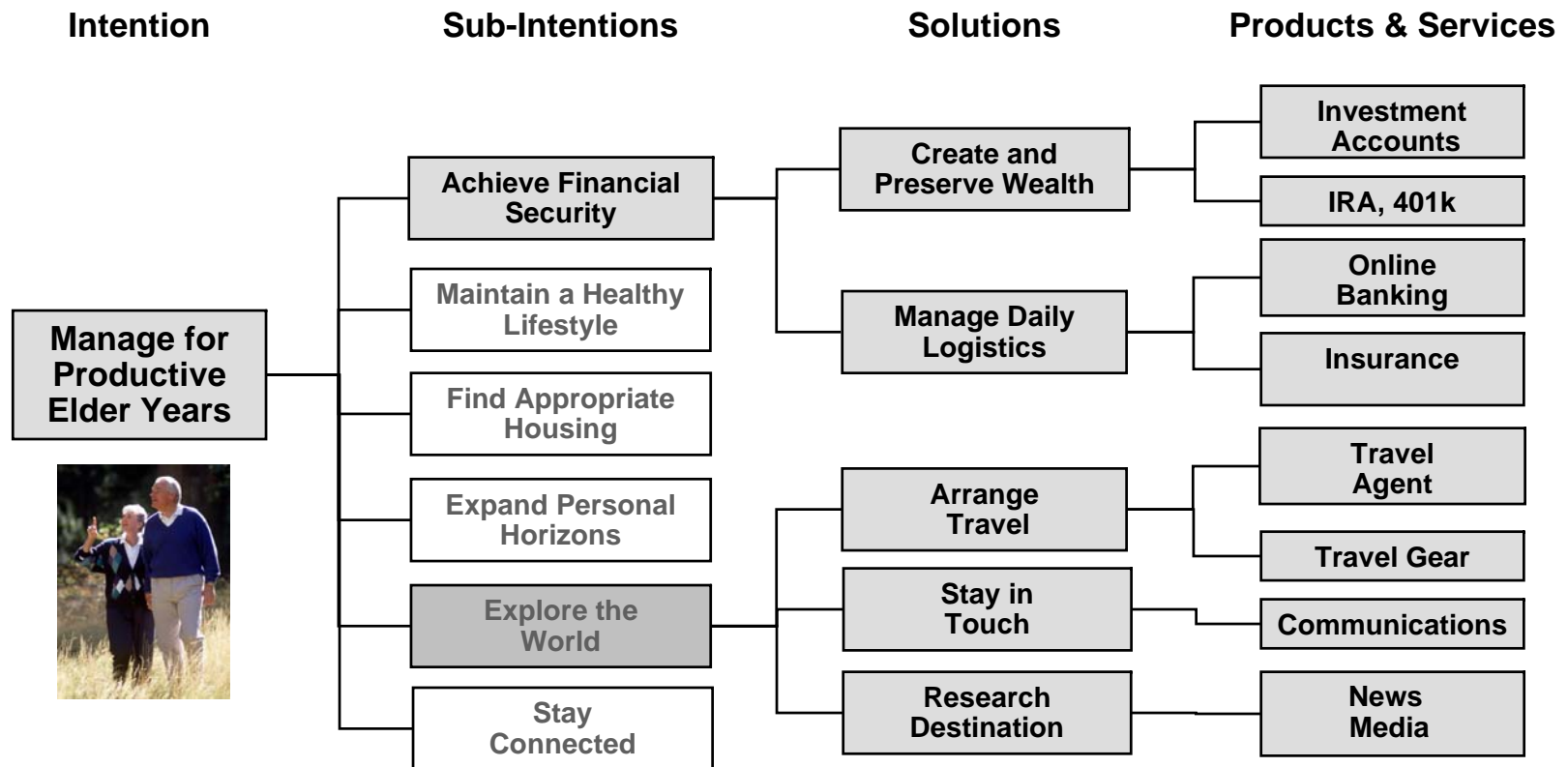
- Cooperating, tightly integrated networks of content providers deliver all components of an Intention
- Next generation personalized Web sites are self-directed with an intelligent, learning agent to assist buyer
- Delivery of power and information to the buyer
- Buyers co-develop products and services with Network Content Providers on a one-to-one, real-time basis

These emerging buyer-driven value networks are built around Intentions.

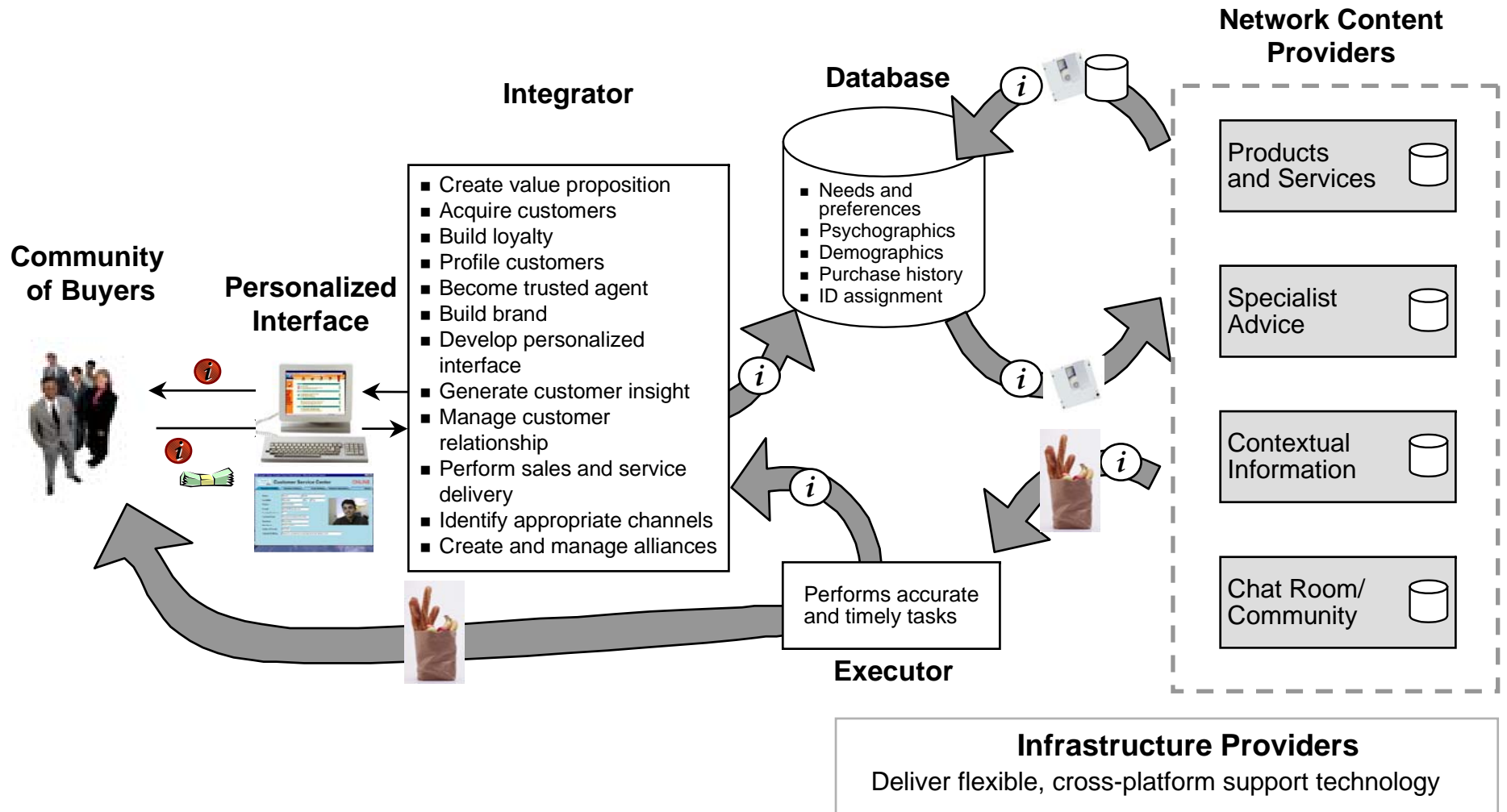


Intentions are fundamental needs requiring extensive and integrated planning, decisions and coordination.

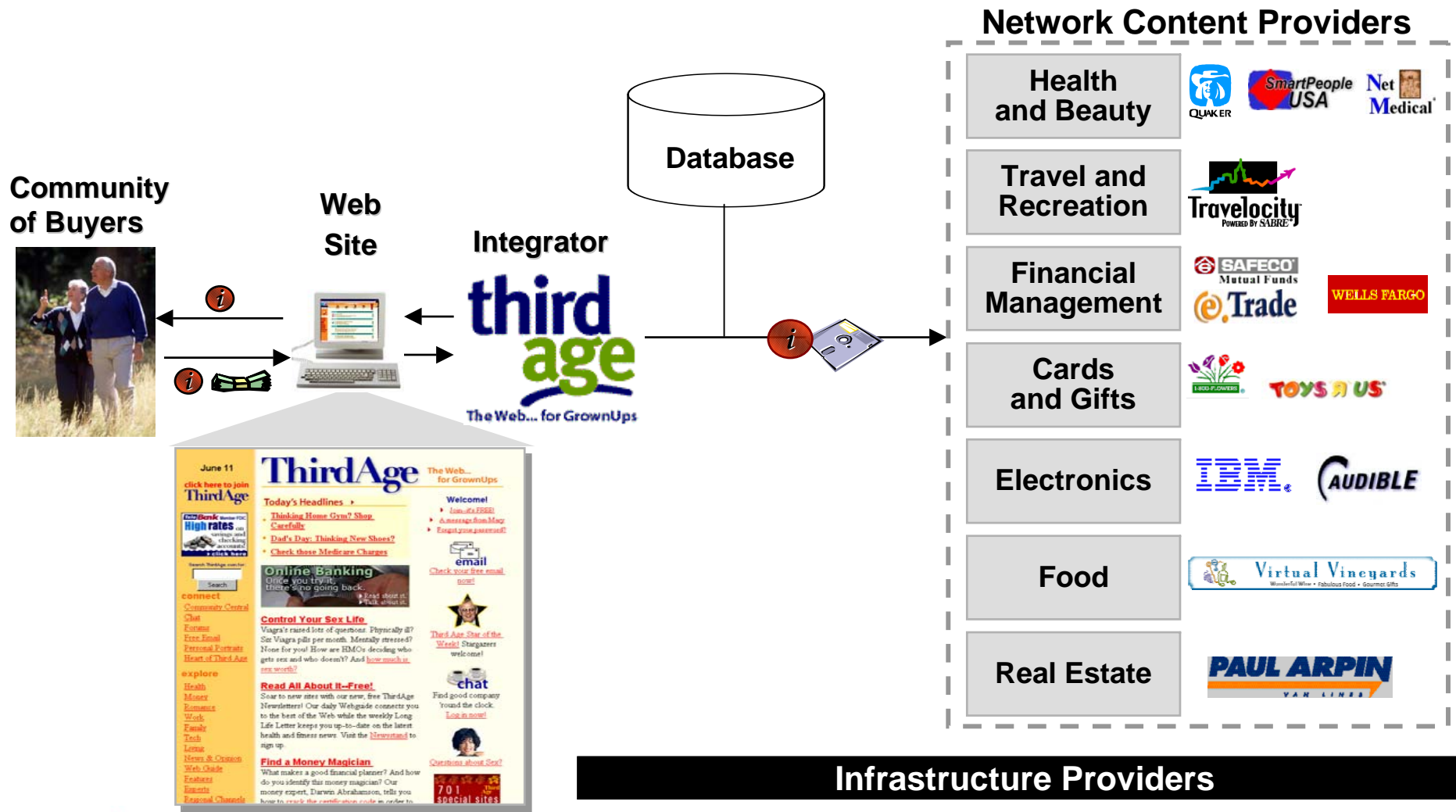
Intentions integrate all discrete components of a complex need.



Intentions Value Networks (IVNs) allow the customer to seamlessly interact with network participants.



Third Age, for example, is fulfilling the 'Managing for Productive Elder Years' Intention through a virtual network.



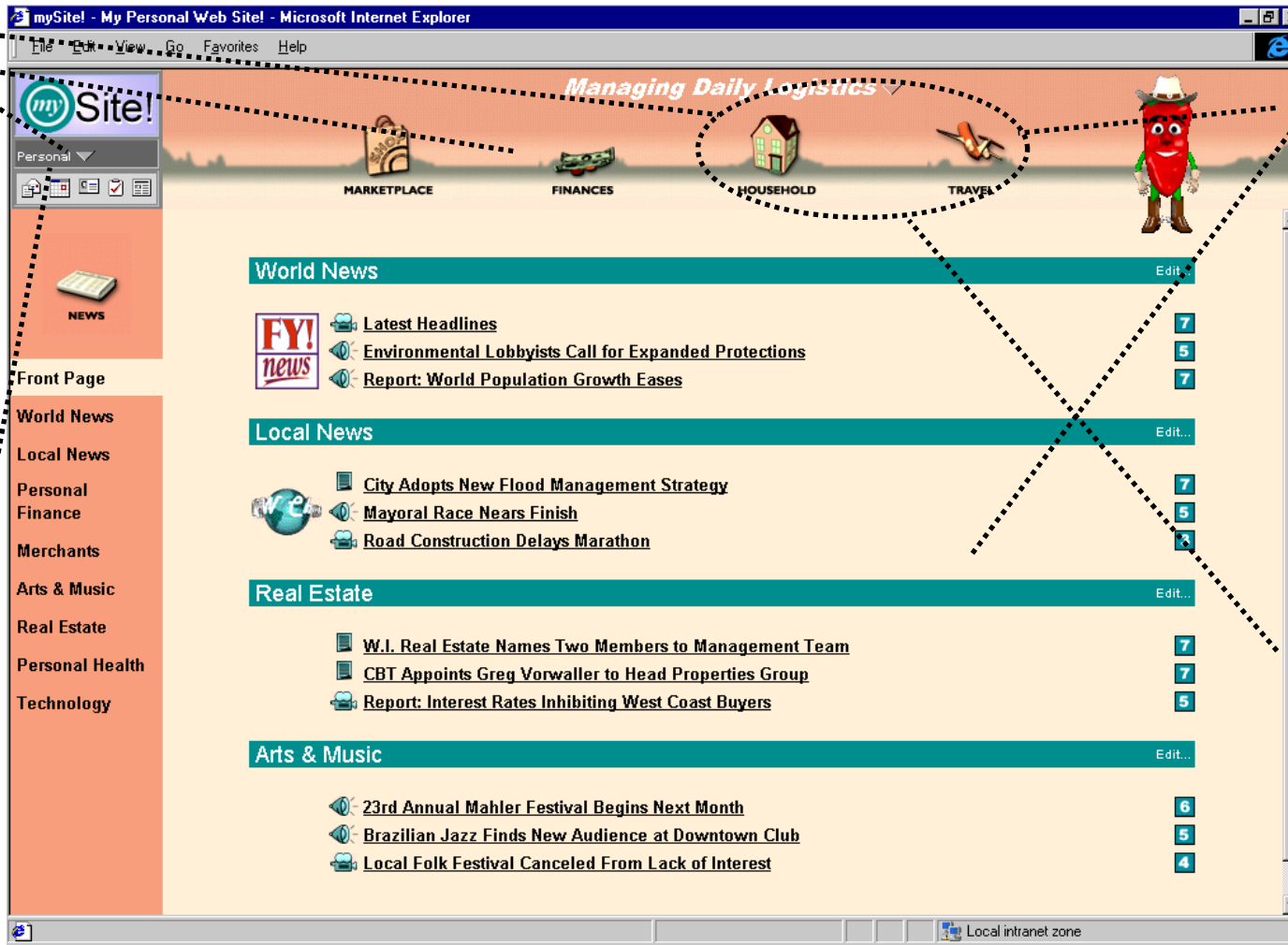
Infrastructure Providers



A personalized customer interface with an intelligent, learning agent brings substantial value to the customer.

SSL and encryption ensures that transmitted data is secure




Open profiling standards allow customers to control the use of their customer profile information



Collaborative filtering technology enables pattern recognition and identification of customer preferences for specific products and services

XML standards enable customers to post a request for products and services to the open market

IVNs create value for Integrators by generating new sources of revenue and superior customer insights.

Integrator's P&L		
REVENUE		
 Sponsor Fees	52%	↓
 Advertising	17%	↓
Transactions	1%	↑
 Other income*	30%	↑
	100%	
COSTS		
Personnel	66%	↔
Services	18%	↔
Facilities & Equip.	8%	↑
Professional Fees	2%	↔
Travel & Admin.	6%	↔
	100%	
* Includes development, bounty fees, news royalties, marketplace		



- Non-traditional sources of revenue generate tremendous economic value
- Over time, more value is generated through transactions as networks migrate from sponsorship to commerce models
- Customer insights will drive delivery of referrals to network content providers and the resulting referral fees to Integrators



IVNs also create value for Network Content Providers.



Key Levers in IVN Model

- Product/Service Sales
 - Enhanced value proposition
 - Improved and customized based on insights
 - Higher customer profitability

- Fixed Costs
 - Shared costs within network
 - Economies of scale and scope
 - Virtualization minimizes overhead

- New customer insights enabling greater innovation
- Differentiated value propositions

Performance Improvements of the: IVN Model

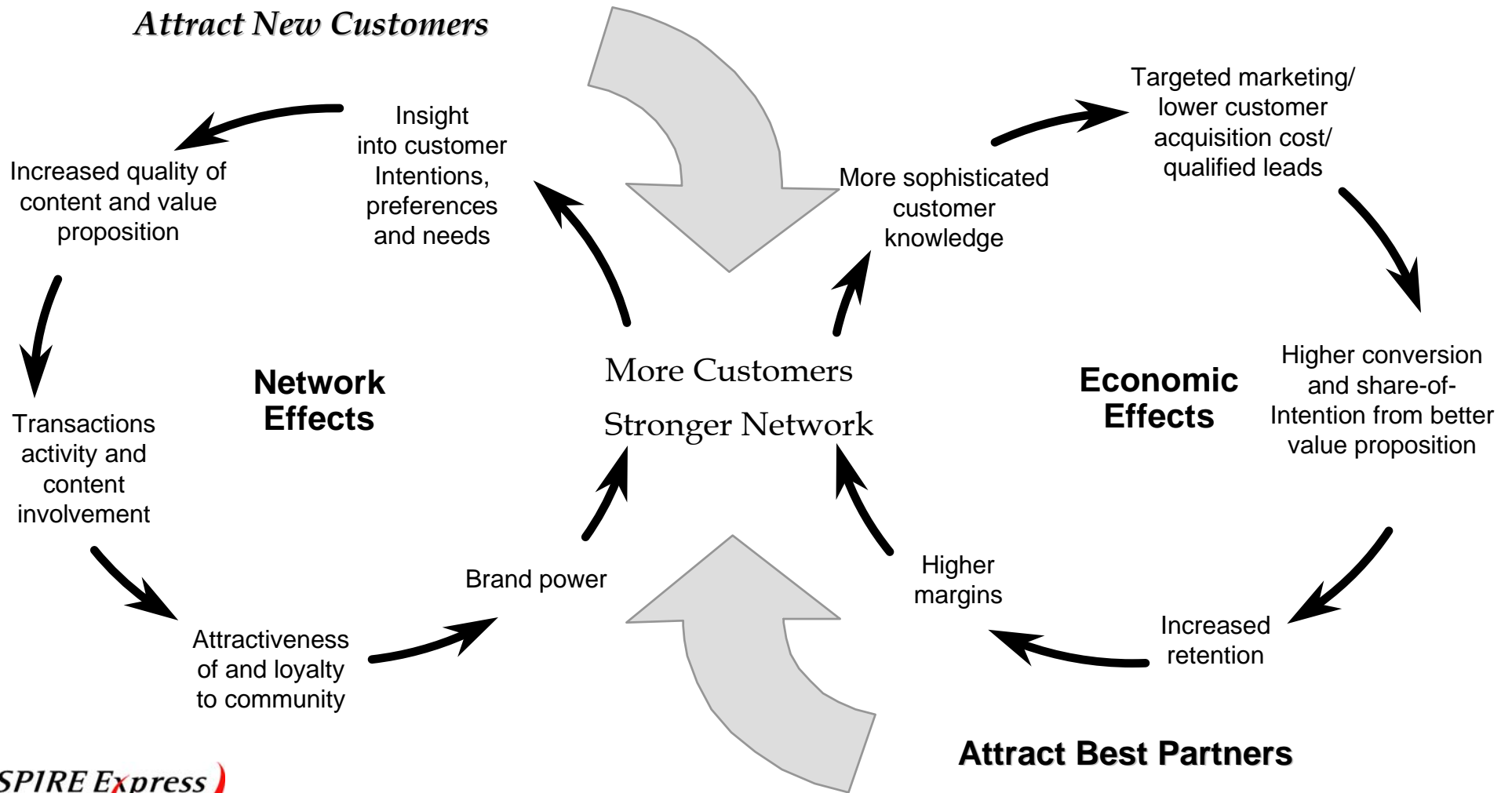
- 30% increase through product improvements
- 15% increase in share of wallet

- 10-20% decrease in acquisition costs
- Transaction and infrastructure savings through economies of scale and scope

- Higher loyalty and retention from more meaningful value proposition
- Increased customer conversion rates

Early movers have a huge advantage since they lock in customers and partners.

IVN Virtuous Cycle of Value



First movers are locking in customers and locking in the partners through next generation customer relationship management.



Creates Connectivity:

- Uses chat rooms to create connectivity between its members
- Directs members seeking advice to “like” members in an effort to build an interactive and information-sharing community



Provides Meaningful Value Propositions for All:

- Facilitate the entire car buying process for the customer
- Sends network dealers and lenders pre-qualified consumers who are well-informed, credit worthy and ready to buy



Creates Customer Loyalty:

- Provides financial management, health care and concierge services for high net worth clients
- Generates customer retention rates of 99+%



Provides A Differentiated and Valued Offering:

- Provides direct home delivery of household consumables using electronic ordering system
- Realizes high customer satisfaction ratings and 90+% customer retention

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Several questions warrant discussion.

Migrating to Customer-Centric...

- Are we moving fast enough?
- Will we be able to sustain a competitive advantage as a customer-centric company in light of new value propositions and new business models?
- Will our best customers be at risk given these emerging business models?
- Are we building the requisite capabilities fast enough?
- Can these capabilities be leveraged in the migration to buyer-driven?

...or to Buyer-Driven

- How far and how fast do we believe this evolution will occur?
- Can we afford to wait and see how quickly the environment changes?
- For which Intention, are we best positioned?
- What role should we play?
- How much demand will be driven through IVNs?
- How do we effectively manage customer ownership in a buyer-driven world?
- Do we have the skills to form and manage alliances with content providers from other industries?