Reviews

Net Worth

John Hagel III and Marc Singer

Harvard Business School Press; 1999; ISBN 0-875848893; 313pp;
hardback; £18.99

Net Worth is relevant to three very different audiences. To business leaders in perhaps 50 large and mature businesses not yet publicly associated with innovation on the Net, it provides a detailed plan for building a \$4bn turnover business within ten years by dominating a new business category, that of 'infomediary'. Achieving category dominance has high initial investment costs but, particularly in relation to other Net business lines, it is genuinely a category where winner takes all and with highly attractive barriers to new competitors. To database marketers, to vendors of consumer data and to CRM specialists, it sets out the very different model which the Net will create in the way consumer data are accessed, used and profitably traded. To the generalist reader of business titles it offers a clear and challenging argument as to why, to survive, most businesses will have to focus much more selectively on a much narrower section of the value chain than they currently attempt to cover.

Despite its title, I suspect that *Net Worth* has little to say to those whose interest in the Internet is as a tool for delivering information to consumers. Its focus is on the Internet as a tool for generating information about consumers. But do not think you could not profit from this book just because you are not an e-commerce specialist.

The authors are consultants at McKinsey & Co. For one, John Hagel, *Net Worth* represents the evolution of a thought process begun in *Net Gain*. The thought process is an original one — it does not seem to borrow from other academic literature — but it is clear that the authors have benefited from much collective pondering on the part of McKinsey as to where equity value is most likely to be gained in an Internet-enabled world.

The style is neither that of an academic nor that of a practitioner. To some it may seem too much a polemic. At times it is as though you are reading transcripts of board-level management presentations. You are bludgeoned rather than seduced. There is little room for uncertainty — other than who will win the prize — and none for humour. Full marks, however, for the clarity of the text and of the argument. Copyright, interestingly, is vested in McKinsey.

The *Net Worth* thesis is built on a clearly articulated model. In this model companies will in the future increasingly specialise in particular stages of the value chain; in innovation within the production of specific consumer services, almost as commodities; in the manner in which these products and services are communicated to, and delivered in customised form to meet the increasingly specific demands and circumstances of, individual customers; and in infrastructure support services which will become increasingly standardised. Innovation, customisation and cost reduction will be the core qualities needed by successful companies in these three stages of the value chain.

For infomediaries...

**...or database
marketers...**

...or generalists

**A sequel to
*Net Gain***

Polemical clarity

Customer profiles

The 'customisers', which specialise in the management of the customer relationship, will have at the core of their business proposition the leveraging of information on consumers, or customer 'profiles'. To deliver effective personalisation and satisfy increasingly demanding consumers, these organisations will need to operate across multiple product categories. In addition, they will increasingly rely on their ability to gain the active endorsement of the consumer for access to and use of their Web usage, as well as demographic and product purchasing characteristics. Expertise in the manipulation of these data to provide tailored services to both consumers and potential providers will be their key competence.

Infomediaries

To the consumer, allowing a trusted infomediary to consolidate their personal profile into a single data source has a number of attractions. It reduces the number of times common personal attributes have to be made available to suppliers. Assuming the infomediary can be trusted, it reduces the concerns over privacy and misuse of personal data. By interposing between the consumer and providers, the infomediary can negotiate better terms with suppliers; can require them to customise their offers in such a way as to better meet the needs of groups of consumers with similar needs; can enforce controls to suppress irrelevant communication; and conversely can initiate relevant proactive communications. In an era when the consumer is increasingly unwilling to offer personal information without exacting a price, and when most companies lack the expertise to pattern existing data into sensible communication strategies, such a shift would offer benefits all round.

A frictionless market?

Few readers would find flaws in this logic, other than the touchingly Benthamite faith in the extent to which rational self-interest can be relied on to drive consumer behaviour into a world in which brand values — other than those of the trusted infomediary of course — would increasingly wither away. Hagel and Singer's heaven is a totally frictionless market — which marks them out as inhabitants of the Net world rather than that of Madison Square.

Outsourcing

Whatever companies' ambitions to relive past glories, Hagel and Singer are particularly compelling when they argue how, in an increasingly complex business world, companies cannot survive unless they develop management cultures appropriate to the positions in the value chain they want to fill, and that the contrasting cultures for each position are becoming increasingly difficult for any single organisation to nurture and sustain within a single operation. From outsourcing the canteen and the cleaning, and then the manufacturing of assembled components, it may not be absurd for Ford to move to the outsourcing of the entire manufacturing process, but not the design, while it positions itself to the consumer as the relationship manager for all consumer (and business) needs associated with the funding, provision, insurance and maintenance of personal transportation needs.

The other proposition I found compelling — as one might expect from McKinsey employees — was that, unlike other Internet businesses, many of which suffer from very low entry barriers and attempt to replicate traditional businesses but in more frictionless and hence lower-cost forms, the position of an infomediary was more akin

The benefits of scale

to the owner of an operating system in terms of benefits of scale. The more customers you have persuaded to trust you with their data, the greater your commercial influence with suppliers on their behalf. The more producers you deal with, the greater the width of data you build up on your consumer customers, and the more attractive you become to them. The more they deal through you, and the longer your relationship, the richer becomes your database and the more difficult it becomes for competitors to provide your customers with a service of equal value. Such dynamics do not apply to the same degree to individual sites or to portals, or indeed to suppliers of 'old-world' products and services.

Given the pace of change in the world of e-commerce, you might suppose that the *Net Worth* thesis could increasingly be justified or refuted by market events in the 18 months since its original conception. Other than Scoot I cannot at present identify any aspirant European infomediary as would be defined by Hagel and Singer. However, in markets such as financial services, utilities, cars, home buying and travel, in the UK at least, we are daily witnessing the decomposition of the traditional value chain as predicted. What is foretold in this book is, I am confident, a long-term shift, and I would hazard that evidence so far supports rather than refutes the arguments it sets out.

In summary, a worthwhile read. You do not have to read it all, or read it in any particular sequence. Better read in a train or plane than at home or on holiday.

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Next generation home shopping

Jeremy Smith

Report for Reuters Business Insight 1998; 160pp; A4; £495

A current overview

This report belies its title. It is less of a forecast of the future than a summary of progress to date. Nevertheless, it is a useful briefing document for those who are interested in an overview of recent developments. It is likely to be of less interest to those who are actively involved in the sector, because it is essentially a description of 'what is going on' rather than offering detailed insight into future developments.

The report is structured around several major themes. It begins with a review of trends in home shopping. Discussion then moves on to an analysis of the critical importance of costs in managing the home-shopping process. This is followed by a discussion of the development of specialist home-shopping channels. A further section considers how the major high-street retailers are fighting back, particularly through the development of their own home-shopping activities. There is a section on Internet retailing, and then a final section in which the author develops a series of forecasts of development for the UK home-shopping sector.

Some of the chapters in this report are more interesting than others. The second chapter, which focuses on trends in home shopping, probably had to be included in the report, but readers will be likely to skim most of

Good chapter summaries

this material. The major issues identified here are all revisited later on. This is a chapter where the reader could simply read the summary. Incidentally, the summaries for each chapter are all well written and very useful for readers wanting to get the overall messages quickly.

Costs are a major driver in retailing. Although this reviewer found the analysis of costs in this report a little 'dry', the discussion here is essential. A case study on The Internet Bookshop is used to illustrate some of the major issues. The author suggests that store-based retailers have a head start in home shopping because they already have a clearly defined merchandising strategy in place. This reviewer would also suggest that they have a major advantage in terms of an established brand, which other start-up businesses are finding expensive to create. The recent well-documented problems of Boo.com illustrate only too well the problems of trying to build a brand without established high-street presence.

Cybermalls

There is also an interesting analysis of the development of 'cybermalls', essentially the electronic equivalent of a purpose-built shopping centre. Such cybermalls bring together a group of associated retailers in a virtual environment. This is an interesting emerging feature of Internet shopping. It would have been even more interesting if the discussion had been extended to include issues such as creating the overall brand for the 'mall', choosing partners and building an appropriate retailing environment. Who owns these processes, and how are they best delivered by the partners involved? Who will the 'landlord' be in such circumstances, and how can the members of the mall usefully pool information on customer flow?

Specialogues

'Big book' companies have long been the mainstream home-shopping channel. The author concludes that the major threat to such businesses is the development of specialist companies which pick off specific segments of the market. The majors have already responded to this trend through the development of their own 'specialogues'. These focus on particular product categories and are frequently separately branded. They are leveraged off existing investment in logistics and information technology. They are also supported by existing expertise in merchandising and range management. The author's conclusion is that mainstream catalogue businesses will have to develop the same level of customer service and support which characterises the store-based retailer. Many would argue that this expertise is already considerable, particularly in areas such as knowledge of the customer base, profiling and targeting.

Large UK retailers have already made major investment in their own home-shopping activities. The author suggests that this investment is largely exploratory at the moment, and that many retailers do not expect to see an immediate return on their investment. Retailers interviewed suggest that for some product categories, such as clothing and electrical goods, customers enjoy (demand) the shopping experience. In such categories the traditional retail environment will continue to be attractive to shoppers. Next is cited as an example of a retailer which has probably gone furthest in its category in terms of home-based shopping, but is still predominantly a store-based company.

Physical distribution problems

Home grocery delivery is one of the areas which has seen greatest expansion in the last few months. The report identifies a range of difficulties in implementing an effective strategy, particularly in urban environments where there are constraints on physical distribution. Asda's warehouse-based strategy is compared with Tesco's store-based strategy and Iceland's free home delivery service, the only service among the multiple grocers reviewed at the time to make no service charge. The comparison of the different grocery multiples in this section provides a useful insight into the dynamics of this sector. It is obvious that the major multiples are still trying to find their way in this sector, and in the intervening period since the report was written there is still no dominant business model.

Internet retailing

A final section of the report examines the growth of Internet retailing. This area has changed most during the time frame covered by the report. The author sets out a useful overview of the trends in Internet retailing at the time of the report. However the report does not (could not?) anticipate a paradigm shift in the nature of retailing. Readers who pick up this report expecting a visionary forecast of future developments will not find it here. The report views Internet marketing as an extension of the mail-order business, where the catalogue is now 'virtual' rather than real. There is some acknowledgement of the higher level of interaction with the customer, but the author does not really get involved in a discussion of the fundamental changes which may occur as a result of greater levels of customer information, more effective response systems and new forms of strategic alliances (eg electronic malls).

Had it been written today it would probably have focused more on the application of information technology to customer profiling, driven by greater processing capability and new techniques such as data mining. It would probably have said more about internationalisation and market concentration (Wal-Mart made its acquisition of Asda after the report was written).

Briefing document

Nevertheless, the report is a useful briefing document for someone who wants to get a quick overview of major trends in the sector.

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