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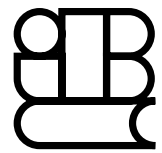Interior Design Biology Chemistry

WILEYe BOOK

From .com
to .profit

From .com to .profit

INVENTING BUSINESS MODELS THAT DELIVER VALUE *AND* PROFIT

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Foreword by Ann Livermore

JOSSEY-BASS
A Wiley Company
San Francisco

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FOREWORD

In business today, the spirit of invention is necessary in everything we do. Bullfighting provides an apt analogy. Whenever the bull is feeling frightened and threatened by the matador, he will consistently return to the same place in the ring. The Spanish word for this spot is *querencia*. This predictability makes the bull increasingly vulnerable, enabling the matador to come in for the kill. In much the same way, businesses today only add to their troubles if they return to their own *querencias*—their comfort zones; they simply can't do that if they are to succeed in today's increasingly competitive business environment. They need to invent new business models and move ahead quickly to capture the unique opportunities of today's wired—and wireless—marketplace. There's no going back.

Nick Earle and Peter Keen understand this and have had the foresight to put together a book that helps business leaders understand the economic drivers of what's been called the biggest change in human life since the Industrial Revolution—the Net Economy. The authors provide a framework for companies to reinvent the products, services, and even the experiences they offer to customers. This isn't just an intellectual exercise. It's an action that's required if companies are to truly deliver value and generate profits in the Internet Age.

The Net has spawned thousands of IPOs. It has created huge market capitalizations. It has made many companies very successful. It has caused many other business leaders to question their whole value proposition and to have many sleepless nights. But it's not enough to simply ".com" your business today—it's necessary to rethink your business model.

When the Net became a driving force behind business decisions, we were all trying to make tradeoffs—this *or* that. Now it's time to unify things. The winners are those who can bring brilliant synthesis between the old and the new, between .com and brick-and-mortar business, and between the old guard and the Young Turks.

Look back at what the industry looked like in the late 1990s. The world was divided cleanly into two camps: "the upstarts" versus "the establishment." On the upstart side, .coms were cobbling together new business models with open Internet technology—and then executing with tremendous speed. Today, these .coms are thinking about permanence. They're focusing on traditional mission-critical issues, things like high-availability systems and robust supply chains. They're replacing hodgepodge technology with systems that are sophisticated enough to run the stock exchange.

Meanwhile, in the establishment camp, brick-and-mortar companies took a little longer to get on the e-commerce bandwagon. Some of them missed it entirely, but others are now making sense out of the Net. They're thinking beyond Web sites and are starting to recognize that the Net can deliver any kind of information, anywhere, on any device. They're reinvigorating their offerings for a world of customers who are more demanding. They're learning how to synthesize—how to balance—two seemingly opposite ways of conducting business to gain new strengths.

From a cultural perspective, we're looking at a new kind of company—one that can marry the best thinking of two extremes and by doing so gain tremendous power and strength in the Net Economy.

Are you inventive in the way you do business? In the partnerships you forge? In how you sell? We're entering a world where creativity, daring, and a human-centered approach are the new currency. Is your business equipped to win in that world?

Look at how established companies are changing. Automotive firms are beginning to understand that the car—the product—is a platform for delivering services. By delivering customer relationship services such as

in-car navigation, emergency roadside assistance, or telecommunications, car companies can deepen their bond with customers and also generate more revenue. Similarly, petroleum companies the world over have figured out that the gas pump is a platform for delivering services of all kinds. It's in the combination of the product and the service that revenue and profit are being made. It's not that the product is any less important; it's just much more useful with a service wrapped around it. Services drive the customer experience.

Here's another example: Corporations all over the world are now starting to think about turning all business processes into digital services. If one of your company's assets is your efficient procurement process, why not make money from that, too, by offering it as a service on the Net?

The revenue opportunities are there. The profit is there. The challenge for all of us is to think hard about how to make money from these e-services. Which e-services do you want to create? Which ecosystems of partners do you want to join? What services are going to define your value proposition to your customers going forward? And when, where, and how can you deliver those services to provide the best possible customer experience?

From .com to .profit: Inventing Business Models That Deliver Value and Profit helps business leaders grapple with these questions. The authors bring years of experience to this useful, levelheaded book. Nick Earle is an expert on business models for the Internet Age. He heads the E-Services.Solutions division of HP and has helped both HP and our many customers—in all fields of business around the world—create innovative new business models that allow them to capitalize on the unparalleled opportunities of the Net Economy. Peter Keen has focused on the intersection of business and technology for nearly twenty years as a consultant, researcher, teacher, and writer. The authors provide practical management advice that will help you take action to advance your business *today*.

We all know that constant change is necessary for survival in the fast-moving Net Economy. The changes we need to make in our business models are real. At times, it is tempting for all of us to go back to the circles of comfort we've enjoyed for years—our own *querencias*. We just don't have that luxury. The Internet has changed the pace of our business lives forever, and if we don't keep up we will slip further and further behind.

On the other hand, the business challenges we all face provide us with an excellent opportunity to truly shoot for the stars. That prospect fires my imagination and inspires me every day. I hope you'll feel the same way after learning the lessons in this book.

Palo Alto, California

Ann Livermore
President, Enterprise and
Commercial Business,
Hewlett-Packard Company

PREFACE

It's time—past time—to stop talking about the Internet as the future of business and to start talking about how to manage that business today so as to be effective as the future becomes the present. Ignoring the Internet is simply not an option. It's time to get down to business. It's time to discover the value path mapped out in *From .com to .profit.*

The question we tackle in this book is, *What can business do—and do now—to set priorities and competitive direction for being on the Web so as to provide value to customers and generate profits at the same time?* That is, How can you make the necessary shift from simply being open for business on the Web to staying in business for the long term—and inventing your value path from .com to .profit?

It is no simple journey, for the Internet business landscape is rugged, mostly unexplored, and much of it is in upheaval even as we try to set the maps on paper. It doesn't fall into any obvious, apparent pattern. That's what has made it so hard for managers. They get plenty of exhortation, hear again and again about a very few companies that have fast become fables for the Internet age, and see the business press spend more and more space on news about Internet business. The competitive playing field is overrun with new players—and the game is changing, it seems daily.

All this is obvious to savvy business executives; it is the answers that are not at all obvious. In *From .com to .profit* we help executives manage the transition and come up with solutions that work. Our focus is not on forecasts of what could, should, or might happen in the future. All anyone needs to know about the future is that the rate of change that developed in the late 1990s—what we term the .com era of Internet business—won't slow down anytime soon. Besides, forecasts don't help answer the question of what to *do* now. What executives do need to know is what we focus on in our book: the basic blueprint for strategy, for setting priorities, for creating real business value.

We now can see patterns and derive business lessons from the earliest phases of the Internet. Business is shifting from technology as supporting the business to technology as integral to the business. The technology base is accelerating the business shift from commerce to services. Technology innovation fuels business innovation. Business innovation fuels technology innovation. There's much more of both to come.

There will be new discontinuities and innovations that change the rules of the game. And there will be new games. Even so, the technology-independent value imperatives—the must-do requirements—of Internet business—are already clear. Common patterns have emerged in the diverse experiences of companies that are in very different markets and that have very different on-the-surface characteristics. Our goal is to bring these to the attention of business managers to help them cut through the fog (or fantasy) of Internet forecasts and hype and handle electronic business as *business*.

OUR EXPERIENCE AND OUTLOOK

For several years, the two of us have been working to gather more and more examples from experience and make sense of them, to tease out what is driving Internet business. Our examples come from case studies, company reports, press articles, surveys, research publications, and from our own work with companies. Based on our experience and research, we lay out what we know from the race to .com, what we can be sure of in

the next phase, and what all this means for business managers in any type or size of organization.

When we talk about business models, capital, e-services, and mobilization, it's from our experiences as business participants—not from an abstract perspective. Nick, having lived for years in the world of technology-for-business, brings his perspective as a senior executive in Hewlett-Packard, a company that had to go through exactly the same management challenges and dilemmas as most businesses today, including what to do about the Internet. Like many large, established companies, HP came dangerously close to being left behind. Now HP is back in the forefront with Nick driving the Internet business strategy for the company, as president of HP's E-Services.Solutions.

While Nick addresses the point where the proverbial rubber meets the road, Peter operates at the helicopter level, scanning the territory. As a consultant, professor, and writer, his role in our collaboration is to provide the big picture and to relate both the technology-savvy Hewlett-Packard view and its own powerful e-services business model to the context of the typical company. Peter has wide experience in helping top executives across the world bring together business and technology, a challenge of long standing and now obviously a necessity that is very high on the management agenda for action.

Together, we answer the question of what business managers everywhere need to do to ensure that, whatever their firm did or didn't do in the beginning of the Internet story, it doesn't miss out in the next era, that of .profit.

LESSONS FROM THE PAST, INVENTIONS FOR THE FUTURE

Internet business is here to stay. It cannot be ignored—and a Web site is not enough. Copying the winners' strategies, most obviously by investing heavily in Web site design and operation, is not the answer—and is often an expense with no return. We've learned from the experiences—successes, failures, and yet-to-be-decideds—of the early stages of the Internet and e-commerce what is necessary to making the switch from simple .com

to .profit. The short answer? The business processes behind the Web site are critical to customized service and customer relationship building—and these, in turn, are the keys to the .profit phase of the Internet.

There is a marked difference between the business assumptions, practices, and priorities of early innovators in Internet business and the new leaders. The differences reflect the priority of relationships, collaboration, and community and are accentuated by the new technology and tools. In .profit, everything is personal and customized. Instead of relatively static Web sites (modeled on a storefront to which the customer comes), we are seeing more and more dynamic interactions—services instead of transactions. Instead of the storefront model, we are seeing brokers, agents, and electronic traveling sales reps roaming the Web, building dynamic offers on the fly, looking for special deals to bring to *you.*

After evaluating the forces and factors that underlie successful Internet business models, we see six value imperatives—the business must-do items that are the base for defining a firm's business model. It is not a surprise that these imperatives relate to the fundamentals of business: if the Internet didn't affect business basics, it would be just an add-on to the use of technology that has been growing for well over three decades. Instead, it has become a major disruption of any status quo in business. Value in Internet business—value for the customer and profit for the company—rests on a business model that responds to these value imperatives. They are what sort out winners from losers and leaders from laggards. Since value derives from these imperatives, the business model has to feed into them. It certainly cannot ignore them, or worse, conflict with them.

These six value imperatives form the core of our book—and can become the base for defining your company's unique business model, regardless of its specific strategy, industry, market target, or size. Your company will place a different emphasis on each particular value imperative, depending on a variety of factors, including its ambitions, history, core competencies, and target customer base. And that's as it should be; the value imperatives are templates—broad outlines—for shaping and implementing a business model for *your* firm. They constitute opportunities to take and warnings to heed. They are the foundation for answering the manager's question of, "So, what do we *do?*"

AN OVERVIEW OF THE CONTENTS
AND A PLAN FOR THE FUTURE

From .com to .profit is divided into two main parts. The three chapters of Part One, "The World of Internet Business," lay the groundwork, discussing the Internet and the direction we expect for the business models of tomorrow. In them, the reader will find a wealth of examples and evidence supporting the imperatives, what we see as the basis for success in the future.

In Part Two, "The Value Imperatives of the Internet Space," we discuss the value imperatives in depth, each in a separate chapter. We provide extensive examples, figures, and discussion of their management implications. Throughout, we point the way for building profitable business models that can be adjusted for your circumstances. The concluding section of each of the chapters on the imperatives includes reminders and action items, steps to get the process rolling, even as the Internet world blasts ahead to the future.

Then, in the final chapter of the book, we look to that future. We imagine (together with Rajiv Gupta, general manager of HP's E-Speak Operation) what the more distant future may hold and how we might best prepare for it now.

Taking the broad view—looking at the past, present, and future—we are reminded that the value imperatives are dynamic. Customer choices, competition, technology, and capital all affect them. There are many communities shaping this dynamic, new competitors and old competitors adopting new business models, new sources and uses of capital that reshape the playing field, and new technology that opens up fresh opportunities within a business model and even enables original models. We are convinced that—even amid all the changes—the value imperatives our book discusses in detail provide a sound and practical set of blueprints for inventing the right value path from .com to .profit.

Silicon Valley, California   Nick Earle
Fairfax Station, Virginia   Peter Keen

To the Market, for proving that .com is not enough:

from April 10, 2000, onward,

it's only .profit that matters

ACKNOWLEDGMENTS

This book would not exist were it not for the efforts, skill, and patience of an enormous number of people, whose lives connect with ours at work, in business, and at home. In looking into the future, we leaned heavily on the expertise and foresight of Rajiv Gupta, general manager of Hewlett-Packard's E-Speak Operation. Rajiv shone his brilliant searchlight ahead, described the scene in the distance, and helped us glimpse that future as we hurtle toward it.

We were most fortunate to have linked up with a stellar publishing team at Jossey-Bass, led by Cedric Crocker, vice president and publisher, Business. Amid nonstop changes in our businesses, offices, and lives, Cedric managed to keep our focus on the book with enthusiasm and energy. Together with freelance developmental editor Janet Hunter, he helped us map out and clarify the value path to .profit and on to the future. The entire Jossey-Bass team deserves high praise for their efforts; it is because of them that *From .com to .profit* now exists in tangible form. Thanks are due especially to Cheryl Greenway, editorial projects manager, and Jeff Wyneken, editorial production manager, whose calm guidance carried our manuscript through what, to others, might have seemed an impossible revision and production schedule. Paula Goldstein, art director,

and Hilary Powers, copyeditor extraordinaire, lent polish and flair where it was much needed. Our thanks to every member of the team.

We are also grateful to Ann Livermore, president, Enterprise and Commercial Business for the Hewlett-Packard Company, who graciously agreed to contribute the Foreword to this book.

Each of us was supported by people at home and at work. We would like to acknowledge these people in turn.

A few thanks from Nick:
First of all, my thanks to Michelle Aquino, executive assistant and office magician. Without her, my level of sanity would be markedly lower. For getting me started and helping me finish the task of co-writing *From .com to .profit,* I would like to thank Mark Barounos and Atchison Frazer of Black Ink Media. My level of intelligence would plummet were it not constantly shored up with input from Allison Johnson, vice president of communications for Hewlett-Packard, and Keith Yamashita, principal with Stone Yamashita, the strategy whizzes behind e-services. Thanks to Liz Sizensky, director of executive communications, whose contributions got us all thinking and added much to the book.

Pat Pekary, manager of Hewlett-Packard Publishing, reviewed multitudinous drafts and received input from all quarters at Hewlett-Packard, thus making the book stronger and more accurate on many counts. Thanks to her and to those throughout Hewlett-Packard Company who offered advice, including: Steve Pavlovich, director of investor relations; Brad Driver, investor relations manager; Steve Brashear, director of corporate financial reporting; Eric Verdult, corporate finance; Jon Flaxman, vice president and chief financial officer, Enterprise and Commercial Business; Craig White, senior vice president and general manager, Financing and Complements Group, Enterprise and Commercial Business; and Keith Melbourne, general manager of Trading Hubs, E-Services.Solutions, Hewlett-Packard Company.

And a deep bow to Renate E. Kammersgard, marketing manager for E-Services.Solutions, who was key to the entire project. Without her, my contributions to the book would surely have never made it to print. Her research, valuable suggestions, and access to the inner workings of Hewlett-Packard, all with absolute professionalism and speed, were commendable.

My thanks and appreciation to Carly Fiorina, president and CEO of Hewlett-Packard Company, for spearheading the reinvention of HP—leading us back to our roots of invention, our DNA of radical beginnings. This spirit of invention, necessary for all of us to thrive and prosper in the new Net economy, is the genesis and promise of e-services.

And finally, enormous thanks to my wife, Debbie, and to our children, Laura and Sophie, who have the patience of saints for living with a dad who decided to write his first book on top of what were already eighteen-hour days. I love you guys.

And from Peter:

This is my twenty-something book, my sixth in three years on management in the Internet era and my third in just under a year. To write about the Internet on Internet time, you need a strong team behind you. Mine is more than just strong. Carey Colvin, Dale Garmon, and Merry Richardson are my much-appreciated research engine room, creatively keeping me up to date and locating many of the stories and figures that ground *From .com to .profit.*

Russell Hunter manages all my technology needs, from Web sites to videoconferencing studio to network, to the toughest of all jobs—helping the techno-inept, laptop-dependent traveler and writer survive the road warrior's all-too-frequent travails, tribulations, and neurotic fits. As anyone who works with me knows, my productivity and personal equilibrium rest on Jennifer Hunter, whom I cannot thank enough.

Roger Sattler, managing principal of Keen Education and a strong advocate for the Greater Washington community, is a powerhouse in the next stages of the Internet economy. He has creatively expanded my contacts and thinking and has always been my reminder that the real issue for the "new" economy is human values and the generation of good living in a better society.

I have many colleagues who have directly and indirectly contributed to the ideas, examples, and experiences out of which *From .com to .profit* has emerged. My special thanks go to Ron Williams of IBM; Sandy Boyson who heads the University of Maryland's Supply Chain Center; Mark McDonald, director of E-Process at Andersen Consulting and coauthor with me of *The Process Edge;* and Craigg Ballance of E-finity, Canada,

coauthor with me of three books (and the worst punster—I hope—in the English-speaking global community). Cern Basher of Provident Bank has helped my stock portfolio profit from .profit insight and has time and again provided brilliant insights into .profit economics. He's a background presence throughout this book.

When your in-laws are your close friends, too, you are really privileged. Thank you to Merry Richardson and Peggy and Bill Richardson, my friends and family. My final acknowledgment, the most important one, is to my wife, Sherry, for just about everything, including putting up with my fifty-hour-a-week authoring neurosis. I love you, sweetheart.

And, together, our thanks to the broader community, to the .commers, entrepreneurs, and imagineers who have sparked this new realm of the Internet. Without all of you, there'd be no Internet age, no value to all the changes afoot, no profit for the future.

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ABOUT THE AUTHORS

Nick Earle is president of Hewlett-Packard's E-Services.Solutions organization, responsible for the company's Internet strategy, known as e-services. His team focuses on applying advanced technology and services to help businesses worldwide derive new value from the Internet. The group's mission includes forming strategic alliances with innovative companies that are building new business models for the Net economy.

Nick joined HP in 1982 from Citicorp Merchant Bank in London. He has held a number of marketing and management positions within HP's European operations and was named European marketing manager in 1993. He was promoted to vice president of worldwide marketing in 1998 and then appointed chief marketing officer for HP's Enterprise Computing Business in May 1999.

Nick holds a Bachelor of Science and an honorary Doctorate of Science from the University of Liverpool and is an honorary Fellow at the MBA Management School in Bradford, England.

Peter Keen has written more than twenty books on the links between information technology and business strategy, including the best-sellers *The Process Edge, Shaping the Future,* and *Every Manager's Guide to Information Technology.* From 1990 to 1996, he served as chairman of the

Advisory Committee on Information Technology to the Comptroller General of the U.S. General Accounting Office. Named by *Information Week* as one of the top ten consultants in the world, he has worked on an ongoing, long-term basis with top managers in leading companies across the world. Peter has taught at leading U.S. and European universities, including Harvard; Stanford; Sloan School of Management, MIT; the Wharton School, University of Pennsylvania; the London Business School; Stockholm University; and Delft University.

Peter received a Bachelor of Arts degree in English Literature from Oxford University, an MBA and DBA from Harvard Graduate School of Business Administration, and a Doctorate of Science from Marist College.