

A DIGITAL BIT

FROM DIAMOND'S
INSURANCE, ASSET MANAGEMENT
AND HEALTH CARE PRACTICE

If you let them build it ...

As executives begin to embrace electronic commerce, few seem to recognize that the Internet offers huge opportunities to connect with customers in new ways. Companies have typically concentrated on communicating with customers and selling to customers. But the old approach to business doesn't work nearly as well in the digital world. Instead, companies can make better use of their Web sites by encouraging their customers to interact and transact with each other.

To do that, you'll need to create and host a "community of value," an on-line environment that facilitates interactions between and among all participants. Customers need to play a key role in building the community if you want them to remain a part of it. In the process, you'll build far more enduring customer relationships and find plenty of ways to make money.

There are lots of ways to build a successful on-line community. These are the ones we think are most effective:

- ◆ Create the appropriate **context** for your community. Your on-line community needs to attract the right members and encourage them to identify with your site. You'll also want to allow your members to personalize the site and the way they interact with it, giving them the biggest say in how the community develops over time. You'll need to establish and enforce the ground rules and policies (including privacy rights).

- ◆ Facilitate **transactions**, not only between you and your members but also among the members themselves and between members and other suppliers with whom they would like to do business.

- ◆ Host interesting and relevant **content**. Outsource a big part of content creation to the members and other third parties.

What customers will find so valuable about your Internet-based community is that it allows for both two-person conversations, *as well as*

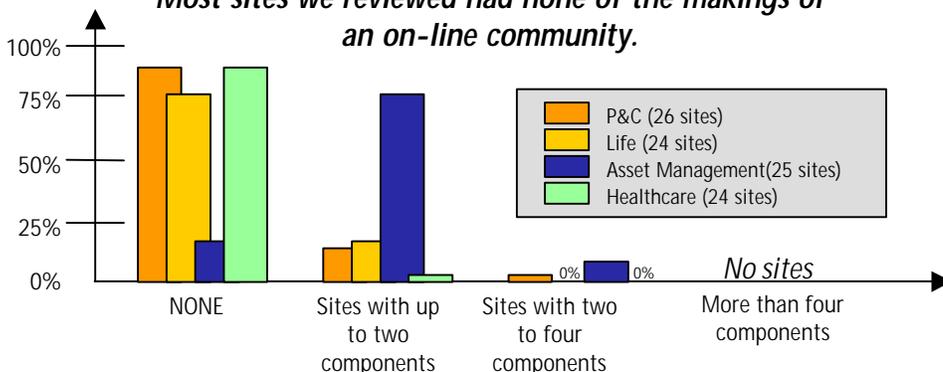
'Communities of value' will launch the next phase of the Internet revolution.

- ◆ Enable members to **interact** with each other, with outside suppliers and you. Allow members to easily form and disband sub-communities around topics of interest. Use tools like chat rooms, team rooms, buddy lists, message boards, e-mail distribution lists, and membership directories to make this happen.

conversations among groups of members or even members of the entire community. The value of a community goes up exponentially with the number of members since members can interact in a myriad of different sized subgroups, each created and disbanded with ease. Given a choice, a customer would be far more likely to join a community than they would a network, which generally allows for only two-person conversations at any given time.

The key is to enable both interactions and transactions.

Most sites we reviewed had none of the makings of an on-line community.



And once a community gains a foothold it doesn't cost more to extend the benefits to new customers. In other words, the marginal cost of serving a new customer approaches zero. The whole process feeds on itself. There are other big advantages in moving first to form and host a community. Once it becomes established, it becomes the place where everyone wants to go.

There will be huge 'first-mover' advantages.

Here are at least five ways to make money hosting a community:

- ◆ Charge a membership or access fee. Allow other suppliers access to your community in return for access fees. Charge members a monthly fee to belong.
- ◆ Earn money from transactions that take place within the community. Take a small percentage of each transaction that occurs between members in return for providing the enabling infrastructure and capability. Charge outside vendors a higher percentage on all the transactions they do with your members. Sell your own goods and services to make even more money.
- ◆ Sell sponsorships and advertising.
- ◆ License content created for your site to others (with appropriate permission from the authors).

◆ Sell aggregate data on the community to outside vendors. The behavioral, demographic, socio-economic and psychographic information that you can collect will be better than they can get from any other source. Sell data on individual community members but only with their permission.

When we looked at the Web sites of major life companies and health care insurers we determined that few of them had the components we think are critical for establishing a community of value. Asset management firms do a bit better in some areas but could still do far more to capitalize on the potential of hosting a community of value.

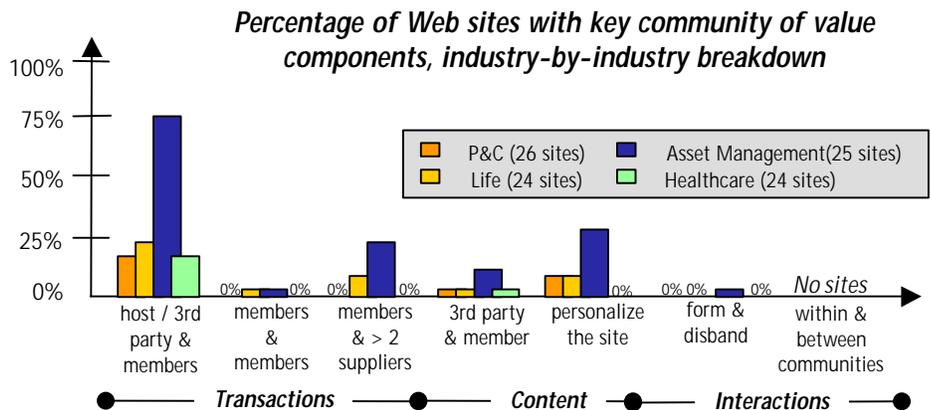
The good news is that communities of value represent a way for these companies to develop a business model that can succeed in the digital economy. The bad news is that most of them aren't moving fast enough to capitalize on this transformational opportunity. In next

month's *Digital Bit*, we will look at two companies that have established communities of value and why they are likely to be winners.

The economic possibilities are tremendous.

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The "Digital Bit" series is designed to offer our clients a monthly snapshot of what the insurance, health care and asset management industries are doing to take advantage of digital technology. To request additional copies or to add the name of a colleague to the mailing list, you can reach us at digitalbit@diamtech.com or call Lisa Castro at 312.255.5041.



COMING NEXT MONTH: A look at two 'communities of value' and why they are off to a good start.



Diamond Technology Partners is a management consulting firm that specializes in synthesizing business strategy with information technology to create innovative digital strategies to improve its clients' competitive positions. Headquartered in Chicago, the firm serves clients across the United States and internationally in the insurance, health care, financial services, telecommunications, energy, consumer products and consumer services industries. Visit us on the Web at www.diamtech.com.