EDITOR'S NOTE

This is an edited excerpt of a case study written by the Allianz Management Institute with Christoph Lechner, Karolin Marx and Günter Müller-Stewens of the University of St. Gallen. It was originally intended for classroom discussion but in this form, supplemented by a new commentary from Friedrich Wöbking, member of the board of Allianz Versicherungs AG and Dresdner Bank responsible for IT, it provides key insights for EBF readers into change management, strategic decision making and corporate venturing. In particular, readers might like to reflect on what differentiates a highly successful development process from a moderately successful or unsuccessful one. The full version of this study is available at the European Case Clearing House, http://www.ecch.org.uk



The race for new e-business models

CASE STUDY

The case of Allianz Group's drive to break away from the competition illustrates the positive impact inter-firm competition can have on overall firm strategy.

Allianz

In 1999, the German insurance giant Allianz recognised that it was lagging behind the market place in e-business activities. The time had come to counter its aggressive competitors. Friedrich Wöbking, a Board member of two major business units, was therefore assigned by the main Board to lead the effort.

Supported by a small team, Wöbking first analysed industry trends, discussed the strategies of the main competitors and examined what each subsidiary of Allianz had already done in internet-related activities. Based on these insights, the team recommended development of a company-wide e-publishing strategy strengthening the corporate identity, an internally focused e-service strategy and an aggressive e-sales strategy for the internet.

As they reflected on their recommendations, however, it became clear that with all these initiatives Allianz would only close the competitive gap, not out-perform others in the market-place. It became clear that something more was required and that Allianz should launch an initiative aimed at generating completely new business models.

In February 2000, the team presented its recommendations to the Board. The Board responded very positively and pledged full support. Once again, Wöbking was given the task of continuing the process and coming up with proposals by June 2000.

Launching the 'new e-business models' initiative

As competitive pressure intensified with each passing day, a process for providing Allianz with excellent business ideas was urgently required. Reflecting on the fact that competition is an impetus for progress not only in the market-place but also inside a firm, Wöbking decided to form two temporary teams to work simultaneously on the development of new business models. His first step was to identify team leaders from the Allianz staff. He chose Thomas Heinrich and Thomas Wiesemann – both experienced in major projects and in leadership under pressure. Between them they launched a search for team members with either a strong internet interest or a sound general business approach. It was also decided to hire external consultants to support both teams with internet-specific knowledge.

After a 'beauty contest' competitive pitch, three consultancies were chosen: IBM, McKinsey and IconMedialab. IBM was selected for its pragmatic implementation-oriented approach, McKinsey for its strategic orientation and IconMedialab for its internet focus.

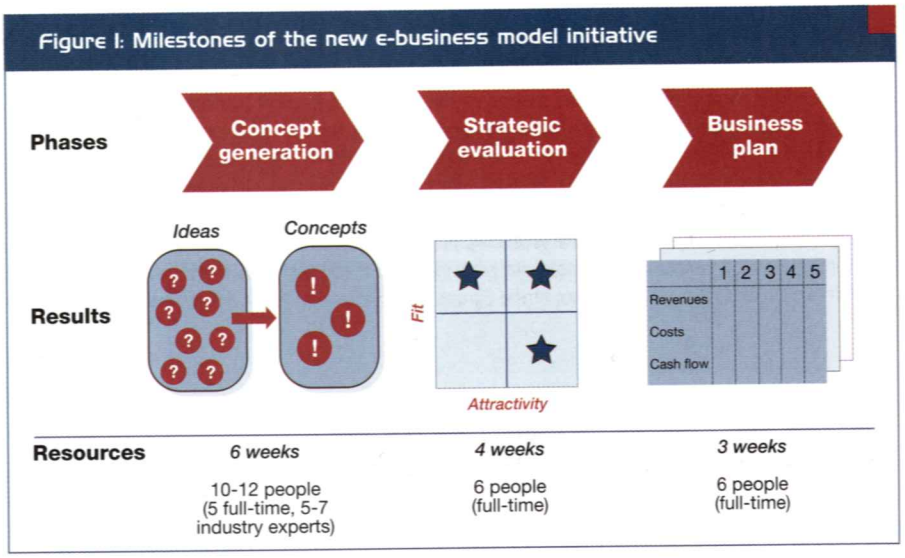
Heinrich chose McKinsey and

IconMedialab to support his team, while Wiesemann preferred to work with IBM.

Wöbking, meanwhile developed some basic questions to serve as guidelines to keep the teams moving in the right direction:

- *Who is the target customer group?*
- *What is the product range?*
- *What is the preferred local presence?*
- *Is it a vertical or horizontal model?*
- *Are existing channels integrated?*
- *What is the underlying IT?*
- *What is the timeframe?*
- *What is the appropriate branding strategy?*
- *What is a potential partnering strategy?*
- *What is the investment perspective?*
- *What is the business plan for each model?*
- *Greenfield or in-house development?*

Figure I: Milestones of the new e-business model initiative



Wöbking also established a steering committee consisting of members of the corporate Board, whose duty was to guide both teams and monitor progress with the help of a detailed timeframe and milestones. Six weeks were allowed for concept generation, four weeks for strategic evaluation of the models, and three weeks for a detailed business plan (see Figure 1). The commitment of the Board was crucial for team members, as it showed them that their work was regarded as highly important, then and for the future of the Group.

In March 2000, both teams were ready to start their work. They went about their tasks in quite different ways.

The Heinrich team

Thomas Heinrich recognised that most of his team members found it difficult to look beyond their traditional way of thinking shaped by their experience in the insurance industry. To foster creative, boundary-breaking behaviour, Heinrich took his team to a hotel offsite for a few weeks, thereby limiting contact with the daily business and providing a more conducive environment for creative work. In a series of brainstorming sessions, the team generated some 90 ideas for new business models. IconMedialab supported the process by acting as a moderator and as a provider of new insights.

After this first phase, the team systemised and clustered the ideas. One major topic during this phase was the relationship between the existing capabilities of Allianz and the new ideas. As they tried to recognise patterns, three basic segments of e-business models emerged: new internet-related insurance products, new horizontal business within the insurance industry, and transfer of existing strategic assets into new businesses. The team classified the previously created ideas within these three segments, and as not all business models fitted the structure, they reduced their ideas from 90 to 60.

However, 60 ideas were still too many. Wöbking wanted only the three best. Heinrich therefore proposed to run three subsequent selection processes with varying criteria, which were increasingly narrowed down in order to find the most valuable ideas. First, the team applied criteria such as the estimated economic value added and the general plausibility of the models; second, it examined the affinity of the models to the company; and third, it explored market potential, strategic relevance, and innovation. Finally the list was refined to three. With only two weeks before the Board presentation, however, it was not possible to produce detailed business plans.

The Wiesemann team

At about the same time, the Wiesemann team started work with the IBM consultants. Wiesemann decided that first a deep e-business knowledge base had to be achieved by the team. With the help of IBM, several promising e-business models already in the market-place were analysed. Then the team examined the core competencies as well as future challenges for the Allianz Group, gaining insights into its relative strengths and weaknesses. Further, the team investigated all current e-business initiatives under way in the Allianz subsidiaries, and how they could be employed.

Only then did brainstorming begin, the sessions generating about 80 business ideas. Again, too many. It was decided as a first step to reduce the list to about ten. Criteria were agreed, supplemented by these questions:

- *Does the business idea improve our customer relationships?*
- *Does it expand our customer base?*
- *Can it sustain profitability in the long term?*
- *Does it improve our competitive advantages?*
- *What is the ease and speed of implementation?*

Based upon these criteria, ten business ideas were selected. After a scenario analysis, the four most promising ones were chosen. For each of these a detailed business plan was written, with exact calculations and guidelines.

Board showdown

As the presentation to the corporate Board approached, Wöbking and the teams asked themselves whether their ideas were good enough. Which models would the Board finally adopt? In June 2000, Wöbking and the two team leaders flew to Athens where the seven business models were presented. They were:

1. Risk Market

Under this plan Allianz would aim to become the dominant online risk market platform for reshaping the industry by building an online communication and transaction

platform between insurers, brokers and carriers. The model strove to reduce the necessary processing costs and offered a real time pricing mechanism. It was targeted for the commercial line segment in the United States, with the possibility of rolling it out world-wide later on.

2. **Workplace Marketing**
This model offered retirement services to employers and employees of large companies through their own intranet. It was to serve as a one-stop shop for retirement planning for employees.

3. **Senior Citizen Web**
The target group here was the 50-plus age group planning for retirement and offered targeted products and services in a community-centred form. The five major offerings were wealth management, health/wellness, web-enabling, social environment, and daily needs.

4. **Virtual Online Insurer**
The idea of the Virtual Online Insurer was to offer online insurance services for the retail market at aggressive prices. Due to the necessary low cost structure it was recommended that this business model be built as a lean 'greenfield' organisation free to select internal and external outsourcing partners to help it achieve speed and efficiency.

5. **Small Business Network**
Through an Allianz-branded website, small firms would receive advice on insurance and related issues over their whole life cycle. A network of partnerships would provide links with the most successful small business sites. The idea was to offer an entrepreneur-focused online channel that would attract and provide leads on the internet which could then be submitted to Allianz agents. The plan was to start in Germany and, if successful, roll it out to other countries.

6. **European Investment Platform**
This would offer a wide array of investment products (funds and securities) from Allianz companies and third party providers. It was designed as an interactive platform to which local Allianz Group Financial Portals could link themselves. Besides a consolidated view of investment portfolios, it would include advice on education, tax planning and other financial services.

7. **E-Market Trusted Advisor**
The idea here was to offer checks of creditworthiness for platform operators and other 'trust' projects on a business-to-business basis. Virtual letters of credit and/or online credit ratings for e-market-place trade partners as well as commercial insurance for e-market players (e.g. transport and liability) would be available in real time.

At the end of the presentation, the corporate Board surprisingly supported all models and wanted them all processed – an outcome that neither Wöbking nor the team leaders expected. It was agreed that a team for each business model would be formed and would write a detailed business plan and start building the new venture, all under time pressure. A further meeting with the Board was scheduled for October, when progress would be reported.

Seven teams were formed, each eager to prove the viability of its business model and receive further funding. The development processes of the seven initiatives differed widely and led to different levels of performance. In order to draw conclusions on the factors that supported or hampered the success of initiatives, the following section describes the processes of one successful, one unsuccessful and one very successful project.

'Small business network' model
Simone Greiser was appointed to lead the Small Business Network. At first, the team progressed well, but after some time, problems arose. The steering committee set up to support and monitor the project rarely appeared at the scheduled meetings and Greiser did not find a corporate sponsor to provide the necessary resources. The project languished and the first voices were heard recommending its termination.

However, shortly before that point was reached, Ralf Schneider, manager of the e-business activity in Germany, offered to help Greiser. As he and his department poured their energy into the project, it got a second life. The team was able to work out a convincing business plan, which was presented to the Board in October and approved.

The next critical task was to gain the commitment of insurance agents. While the internet-based Small Business Network would facilitate access to new clients and lure them to the platform, the insurance agents had to close the final deal. Without their backing, the business model would be unable to survive. Team members travelled to various agencies throughout Germany and sought their co-operation. They also used enthusiastic agents to act as multipliers, helping them to convince their more sceptical colleagues.

Shortly before the launch of the model on the market, a last, almost fatal, challenge arose – IT incompatibility. After substantial reprogramming of the underlying software, the platform was brought into line with the requirements of the Allianz IT infrastructure. The Small Business Network was launched in March 2001. In the following months it exceeded its expectations and as a result, plans for an international rollout were prepared.

'Risk market' model
Kevin Brannon, leader of the risk market business model, knew that the model would not be an easy 'sell' within the industry. The main risks were the high degree of competition the model would probably attract in the market-place and the reluctance of other insurance firms to participate, as well as its low potential for customer retention. However, as management in the US, where Brannon wanted to integrate his model, was much more open to new e-business ideas than in Germany, and as the American business community had the worldwide lead in e-business activities, the project was quite successful at the outset and got Board approval in October. By November the team has already outlined the IT infrastructure and specified the necessary conceptual details of the platform.

The most critical element of the business model was the entry and integration of other big insurance companies. In order to achieve this, Brannon travelled around the US and visited major insurance firms. Although all seemed to be interested in the idea and urged him to continue, they were reluctant to make the first step and to commit themselves officially. He concluded that they were afraid of losing valuable data and clients. After several trials, Brannon had to accept that the whole process would take much more time than expected.

This bad news slowed the project and dampened the team's enthusiasm. In addition, when an institutional investor backed out at the last moment, the motivation of the team reached its lowest point. In December, the corporate Board recognised that the milestones had not been met and that success was unlikely. They gave Brannon three more months. As the situation could not be substantially changed, the Board decided in April 2001 to abandon the project.

'Virtual Online Insurer' model
Werner Waldner and his team wrote a detailed business plan and presented it to the steering committee. Although Waldner

was thankful for the overall support, he felt that some members of the Board were sceptical. They expressed concern that the Virtual Online Insurer could cannibalise the business of the insurance agents who are largely responsible for the competitive strength of Allianz. After some discussion it became clear that this was mainly a German issue. In other countries Allianz did not work with such an exclusive sales channel. Nevertheless, Waldner was afraid that the model would be killed if it did not have the full backing of the entire top management team. He therefore decided to visit each Board member and discuss the advantages and potential of his model. This had a positive effect and led to the continued approval of the Virtual Online Insurer by all Board members in October.

Waldner knew that his model was quite distinct from the normal Allianz way of doing business so he decided to use a 'greenfield' approach - as far as possible outside the working procedures of the giant mother organisation and with as little integration as possible. Further, he put a high priority on team formation, which led to a good working spirit. One month before the planned launch, however, the team realised that the deadline could not be met. Technical questions and the functionality of the platform required more time. Still, rather than waiting until everything was perfect, it was decided to go ahead with minimal functionality.

In April 2001, the Virtual Online Insurer hit the market. Within a couple of weeks, about 50 sales were made and the team celebrated its early success. Waldner reported the results to the management Board and informed other subsidiaries of the Allianz Group about the increased turnover. In May a slightly modified version of the platform was launched in India and preparations were made to roll it out in Korea and Indonesia.

Seeds of change

For Wöbking, the new e-business models had much greater implications for the group than expected. They also triggered numerous changes across the organisation. Some of these changes would come to an end, some would progress gradually, while others would need to be enhanced to be sustainable.

Most importantly, Wöbking and his colleagues had recognised that the generation and implementation of new business models needed to be methodical rather than *ad hoc*. Allianz had had to incorporate a proactive behaviour into its normal routines and institutionalise it accordingly. Specialised individuals and organisational units were needed to screen new market opportunities continuously, to identify and search out innovative business models within the group, and to push those possibilities forward.

Several managers were appointed as e-co-ordinators, focusing on e-business activities. At the lowest organisational level, encompassing the major lines of business, these e-co-ordinators were needed to identify and promote potential e-commerce business. They reported to 16 national e-commerce leaders, these again to a company-wide e-centre, which was then supervised by an IT steering committee at the corporate Board level.

Crucial for this bottom-up process were the e-co-ordinators on the lowest level. As they had to represent the interests of the Allianz subsidiaries as well as their insurance agents, their support mainly decided whether a specific idea would reach top management. Only when they become

In my opinion...



by Friedrich Wöbking, member of the Board of Allianz Versicherungs AG and Dresdner Bank, responsible for IT.

Even during the dot-com boom and the e-business hype at its height, Allianz remained true to its strategy: 'We do not intend to use everything that is possible in e-business, but we do intend to make everything possible that is useful to us.'

During this time, Allianz began examining the potential that e-business holds specifically for our business. To do this, we subjected several business models to thorough testing. With two teams working in parallel, within a short space of time we were able to gain many valuable practical insights. As the case study shows, we ultimately authorised the implementation of seven models in order to assess their feasibility in practice at Allianz - with varying success.

Our chosen approach made it possible to set-up a number of business models very quickly and test them carefully on the market. As expected, some models did not pass the practice test. Thus all models that did not reach pre-defined milestones (particularly those of economic nature) were abandoned. The three models that ultimately made it through are today being applied very successfully in practice, albeit in moderately adapted form.

The 'Workplace Marketing' model is already being used profitably in Germany. It has opened up an additional service and sales channel for company pension scheme products, which fits in nicely with Allianz's multi-sales-channel strategy. The service marketed under the product name FirmenOnline is easily adapted to customer specifications, is always available, and helps the corporate customer to simplify processes involved in its company pension scheme while reducing costs. Today several hundred large and medium-sized companies are already benefiting from this Allianz service.

The second model, the 'Virtual Online Insurer', was originally launched as a pilot project in Australia to sell motor insurance online. During the development of the IT solution, looking ahead to its application in practice, reusability was one of the top priorities. The resulting platform can be used both for sales purposes and for optimising internal business processes. Today its successor system, web-enabled OPUS, is under ongoing development for use in various fields of application in a number of countries. In Indonesia, for example, the platform supports the administration of life-assurance products where it has led to a shortening of response times and thereby

champions for a new business opportunity could higher management levels be expected to give their consent.

Further, specialised organisational units were established. On the corporate level, an e-business and group information technology department were created to set company-wide standards, execute strategic control activities and offer shared services for the operating units of the group. This structure was complemented by regional e-business departments on the division and business unit level. These units had to accomplish tasks related to e-business and IT applications, basic services and project control.

New opportunities were not limited to e-commerce. In each business of the Allianz Group, innovative ideas and market potential were waiting to be discovered. As a consequence, a new unit called Allianz Venture Partners was founded. This unit operated like a venture capitalist and reported directly to the CFO. Its task was to search, evaluate and develop promising business ideas everywhere in the group.

There were also implications for Allianz employees. Entrepreneurial spirit had received an unexpected boost. Employees now appreciated that the insurance business was not as stable as they had perceived it to be. More than ever they understood that they must be actively engaged in developing and nurturing their businesses. With successful role models now visible, motivated employees could start to move beyond their normal duties.

Further, attitudes towards the steering and monitoring of such initiatives also altered. Major initiatives had typically been launched only after a long and careful consideration of all potential benefits and risks. Now it had become clear that in many fast-changing market segments it is often not possible to determine in advance which will succeed and which will fail. Thus it was crucial to initiate various initiatives and to kill the ones that were not successful.

"For big projects, new as well as classical ones with high risk potential, we have introduced the idea of a 'ripcord'," commented Wöbking. "These are the points where we stop the project if it does not fulfil the set requirements. We have learned to look at investments a little bit cooler. In that sense our attitude in the firm has already changed a lot."

Finally, the e-business initiative also had an impact on the overall strategy of the firm. On the one hand, Allianz recognised that in some competitive market segments, innovation and corresponding e-business activities are crucial and have to be sustained. For example, as Workplace Marketing showed, employees of client firms were better able to handle their personal insurance affairs through corporate intranets than dealing with the previous load of paperwork.

However, on the other hand, the core capabilities of the firm and the need to protect them against aggressive competitors had been clearly underlined. The firm realised that it had neither to incorporate products of other firms nor to fight on virtual market-places that merely compete on price.

Allianz Group may have captured a leading position in the insurance and financial e-business market, but the biggest risk after any initiative like this is falling back into old habits. How can Allianz keep the momentum that it has built up over the last months?

How can it ensure - despite all formal requirements - that the seeds continue to grow?

improved customer service. On the sales side, web-enabled OPUS is in operation in India, enabling marine certificates to be issued to policyholders on the spot.

A further model was the 'Small Business Network', a network of internet portals specifically for entrepreneurs, providing useful advice for successfully starting a company and drawing attention to products and services of relevance to new businesses. The difficult economic climate has meant that both this target group and the partner portals have dwindled in number. This has led us to adapt the original model: the target group has been extended to include all corporate customers, partnering is now limited, and our running costs reduced. With these adaptations the business model is now proving successful in Germany: every year we receive several hundred customer enquiries that lead to new business on a more substantial scale.

'The three models that ultimately made it through are today being applied very successfully in practice, albeit in moderately adapted form.'

Looking back I am pleased to say that the approach we have taken has proved its worth, because it has enabled us to draft a range of different e-business models within a short space of time, has minimised our risk exposure and produced some lastingly successful models.

Of course, over the past two years we have also set up other e-business models. The Allianz 'Autowelt' and the Allianz 'Immobilienwelt' were launched in a successful co-operation with leading specialist portals from the automotive and real estate sectors. Prospective customers using the sites to search for vehicles or real estate are offered appropriate Allianz products and services directly at the point of sale. Sellers who are already Allianz customers can be consulted by their agents regarding relevant financial and insurance questions. The secret of these models' success lies in the benefit to all involved.

Besides the concrete business models, in the past two years we have continuously and actively promoted the use of internet technology with all of its manifold possibilities. e-business has become an integral part of our daily business. Today we are concentrating above all on enhancing sales support, using e-business as a catalyst for optimising the process cycle time, and coming into line with customer processes. Another focus is on minimising overhead costs and optimising internal processes.

What remains of the e-business hype is the following lesson: you must constantly measure the success of your e-business models and take corrective action when they're off track.