
Entrepreneurs

Internet – reinventing business models

Summary of the entrepreneurs debate organised by Pictet Wealth Management at LeShop, Switzerland's leading online supermarket



A round table, jointly hosted with LeShop, illustrates the sweeping changes in corporate strategies brought about by digital tools, ranging from websites, through mobile phones and tablet computers, to interactive television.

“Internet. Everyone talks about you but what do you really do?” This was the slightly provocative topic for the entrepreneurs’ round table held on 20 March at LeShop in Ecublens. The debate, with company directors in attendance and chaired jointly by Christian Wanner, CEO and co-founder of Switzerland’s leading supermarket, and Jacques de Saussure, senior partner at Pictet & Cie, showed that the Internet is not just a tool available to existing companies. It also has its hidden dangers. The best-established corporate strategies are shaken up and new players are able to enter markets that were previously closed off to them by barriers to entry. At the same time, it is creating new empires, such as Google, Facebook, Twitter and Amazon. A new order has emerged that has yet to show the full extent of its power.

Christian Wanner started the ball rolling: “Who would have imagined a few years ago that a computer manufacturer would become the leading seller of online music?”

He then asked the entrepreneurs present whether they knew why it had always been possible to buy goods by correspondence, but never food products. There were plenty of wrong answers, but nobody knew the real reason. An obvious one, once it had been explained: profit margins in this business are so low that as long as it was impossible to transfer management of orders and payment on to the consumer, the business model was not profitable. A mere telephone call to make a choice between a box of six or twelve eggs would have been sufficient to gobble up the profit margin! And then along came the Internet and everything became possible.

Many businesses are still labouring under the impression that they have entered the Internet era merely by creating a website and an e-mail address. However, as the CEO of LeShop reminded the audience in his introduction, “Internet goes beyond the framework of business; it affects all areas: our personal lives, political life and even how we manage our health.” In this latter sector, the heavyweights of the IT world

are already envisaging placing sensors on human beings to have permanent, real-time indicators on their state of health...

Admittedly, this is the stuff of the future. But it cannot be denied that the interactivity offered by the Internet has already profoundly altered several health professions. An entrepreneur who founded a brand specialised in the sale of spectacles refers to “virtual trying-on”. A simple, downloadable 3D application enables us to see how our faces would look with different frames: front on, from the side and in movement. For the time being, the actual purchase still needs to be made in the shop as the “problem of inter-pupillary distance measurements, essential for making up prescription spectacles, has not yet been solved”, the optician added. Plastic surgery is not beyond the reach of the virtual world, either. A well known plastic surgeon is collaborating with Chrysalis, the EPFL start-up. The aim is to offer patients a virtual image during the consultation phase of their future chest after an implant is inserted. The same process, once it has been successfully developed for breast operations, could be used for facial surgery. This would profoundly alter the way doctors interact with their patients. There are many patients who already surf the Net before any visit to the doctor’s and even question their GP’s diagnosis. From now on, doctors will have to manage the effects of the “over-information” available to people who do not necessarily have the skills to analyse it.

This is also true of bankers. “In the past one of the banker’s privileges was to have information”, Jacques de Saussure reminded the audience. Today, our clients sometimes know more than we do, as they have more time to look up the information. However, it is still true that we must not confuse information and knowledge.” He went on: “Once we have access to information, what do we do with it? What do we decide? We must understand clients’ needs and explain our decisions to them.” “Although certain fundamental elements of the profession of wealth manager remain, notably

Internet breaks the rules of the game and thus enables new players to enter the market”
Christian Wanner, CEO and co-founder of LeShop

“We should not confuse information and knowledge. In wealth management advice remains important. We must not forget that we offer trust above all.”
Jacques de Saussure,
Senior Partner
Pictet & Cie

word of mouth, to win over new clients, the Internet has become a tool for broadcasting and communicating the brand.” Pictet & Cie has also ensured that it is present on social networks as well, and is ranked the no. 2 Swiss bank in this domain behind Credit Suisse, which has a high presence on the web thanks to its many sponsoring operations.

The other specific property of the Internet that is shaking up the business model of more than one business is the possibility offered to clients to compare prices before deciding to buy. One entrepreneur, a specialist in the sale of second-hand cars, commented on the effects of this price transparency: “We used to have a car market in Switzerland with Swiss prices. Today, someone who wants to buy a BMW will go on the Internet and see that the same vehicle is offered 30% cheaper in the United States. They will then have a word with their dealer here.” This is a major change for retailers, whereas the Internet has not changed the fact that, often, “only one second-hand car exactly matches what the customer is looking for.” The web has just broadened the search scope to find this “rare gem”. For the new-vehicle market, the Internet is of particular benefit when “pre-selecting” a model”, even though - as with spectacles - the purchase itself is not made directly online. Christian Wanner reminded the audience that “in the US, 70% to 80% of cars are chosen online.” Internet users are, moreover, often unaware of what platforms are hidden behind the screen. A recent start-up allows the prices of the same vehicle to be compared, including all options, across all European countries. This enables the local dealer to buy at the best price, thanks to parallel imports, or to indicate to consumers where they can find the model of their dreams 30% cheaper than elsewhere.

It was then time for the entrepreneurs to consider the next stage ahead, when all a company’s business strategy will incorporate the Internet. “Our business starts with a keyword search on Google, even though we have no control over the result”, warns Christian Wanner. LeShop also has

to take into account that its clients use mobile phones, tablet computers and, in the near future, interactive televisions. So which communication channel is the one to go for? “We need to choose how we are going to use each of the interaction possibilities with our clients.” And the prerequisite for this is in-depth knowledge of our clientele. LeShop carried out a survey to ascertain which digital technologies were favoured by its consumers, and found that the iPhone was now leading the race: “The supermarket on iPhone now accounts for 11% of our sales.” In addition to online sales on a site that also attracts potential buyers, LeShop now uses the telephone and e-mail for after-sales service and tablet computers and mobile phones for ordering. Mobile phones are also valued by customers as stand-in tools.

But even though the Internet offers a wealth of opportunities, it is also fraught with pitfalls that entrepreneurs do not automatically detect. A lawyer specialised in new-technologies law and commercial law has witnessed a certain naivety among companies recently convinced by the virtues of the Internet: “In my opinion, many businesses, including leading businesses, are unaware of the fact that by trying to regain control of their clients or their suppliers, they are simply handing control over to other players in the game, namely Google, Facebook or Twitter,” which suggests that they need to stop and think about the long-term effects of handing over power in this way. While it is true that the company seems to be a winner in the very short term, it then becomes highly dependent on these platforms to distribute information. He went on to say: “You can’t rely on the technology and visibility of Facebook without taking a certain number of precautions.” The same is true of contracts with Google, which are sometimes highly one-sided: a company may “be requested to provide access to the traffic of all its group’s sites to enable the search engine to build its own database.” For this expert there was already “a niche market that consisted of not appearing as a search result on the Internet. In his opinion, the future will belong to “the private social

networks." He reminded the audience that the "Internet is an open network with unfiltered information to which everybody has access."

Security is obviously a major preoccupation for companies present on the Internet. "It is too often handled just by the IT department, Jacques de Saussure points out. Companies try to ensure that one part of the process is secure, but not the whole lot. The security of a company has to involve everyone and must be dealt with at board level".

Is it still worth investing in start-ups that gamble on the potential of the web? Alain Nicod, co-founder of LeShop and an investor in young technological companies, stressed that everything was moving very fast in this area: "A company may make a fortune in a few months or go bankrupt". He cited the example of the Paper.li site, which he has a stake in. "It has gained over three million users in 18 months with its micropublishing site." For this fledgling, as with others founded in Switzerland and tracked by this business angel, the path to success may take the form of a one-way trip to the United States. "The Swiss ecosystem is much too slow to support the rapid growth of the most promising start-ups."

All eyes then turned to Jacques de Saussure, as the topic of investment was mentioned. He pointed out that for investors who wished to gamble on developments in digital communication, but without going along the road of venture capital, Pictet had launched the specialised Digital Communication fund. The fund invests, among others, in Internet players that generate substantial revenue and have succeeded in protecting their business model against new entrants.

After all, even though the Internet opens up new prospects for tomorrow's entrepreneurs-those who will invent new business models-it can also destabilise other businesses. The round table concluded on an optimistic note, however. While it is true to say that new business creators often leave to seek their fortune on the other side of the Atlantic, computer specialists here will not

be short of work in responding to new online, mobile phone, tablet or television developments for Swiss businesses. The final observation shared by Christian Wanner and Jacques de Saussure was that "Regular dialogue between the developer and the future user is vital." ■

ENTREPRENEUR DEBATES

Entrepreneurship lies at the heart of Pictet's values. As such, it is Pictet's ambition to gather together leading players in the economic world to discuss topics close to their hearts, thereby creating a community of high added-value interests for participants. We hope that you will appreciate this document, which summarises these exchanges of experience. The complete Entrepreneurs collection is available online at <http://perspectives.pictet.com/entrepreneurs>