

American Express Interactive

American Express *Interactive*

Lessons from launching a
global
interactive business-to-business service on the
Internet

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Introduction to global business-to-business services

- **In 1953, American Airlines - with IBM - had a problem to administer its ticket reservations - the outcome was the well known *SABRE system***
- **In 1997, American Express - with Microsoft - had an opportunity to serve customers better - the outcome was a global service concept - the *AXI service***

- **Why did it take so long time?**

A “Service Environment”

- **In 1978, airline travel was deregulated (US)**
 - 20 years - and internet technology - later, interactive service concepts based on a global standard (IP)
- **Point #0: Services demand a deregulated environment to be successful**
 - Compare also financial services, health management services, insurance services, etc

Agenda

- **Look at the case**
- **Point #1 - #6**
- **Results achieved by AMEX**
- ***Possible* epoline® e-business strategy**

AXI - American Express Interactive

- **1995, Recognizing the potential of the Internet (Very early)**
- **1996, Finding a technology leader as partner - Microsoft (1 of 12)**
- **June 1996, Developing an interactive corporate travel product**
 - Automating the booking process and make travel policy management easier for corporate travel managers
 - Position AXI as a market leader in the interactive corporate travel arena
 - A clear focus on only medium-to-large corporate travel customers in US
 - Take cost out of “the system” (ticket booking and travel management) - creating additional value for the customer beyond “ticket sales”
 - A component in AMEX end-to-end travel management platform
- **Nov 1997, The service launched with Sabre - 18 m. time-to-market**
- **March 1998, Version 1.1 with Worldspan CRS - 4 months**
- **July 1998, Version 1.5 was launched with Apollo CRS - 7 months**
- **Sept 1998, Thinking of going global with Amadeus, Galileo, Abacus**

Lesson # 1

- **E-business is primarily a cultural issue**
 - **A separate organization in a different location was created to host the AXI team (development and implementation)**
 - **Close - and early (9m) - involvement from customers**
 - **Customers and AMEX people went to partner Microsoft Development Center**
 - **Creating a new entity is often a must to realize new customer values (AMEX, Toys-R-Us, Ericsson, ...)**
 - **Interactive services become a strategic issue with e-business**
 - » **It's not a matter of creating systems but creating a new access channels to existing and new customers**
 - » **If properly taken care of, the customer base represent enormous value (E*TRADE, e-...)**
 - » **You just need an “entry ticket”**

Lesson # 2

- **The money is in the "future" not the "past" work done**
 - **The AXI service should cut 20-30% cost out of the system, i.e. the customers cost. Doing that (which is in the future) will enable ticket "transactions"**
 - **This is in effect an expression of a new business logic**
 - » **Helping the customer helping the customer helping ...**
 - » **AMEX moves from *agent* to *operator* of a travel service to *organizer* of value creating system that lowers the clients cost, or becomes customer oriented**
 - **That relationship generates transactions back to the ticket service.**
 - » **The income is given (reducing travel management costs) not the cost structure ("selling tickets")**

Lesson # 3

- **Build your service for your existing customer relations**
 - **Leverage track record of excellent global service provider and add another, interactive access channel**
 - **AMEX decidedly went for medium-to-large corporate customers**
 - » **Only business travel customers**
 - **Less business risk in developing new services for existing customers**
 - **You need the customer relationships to develop a service**
 - **Building the services in steps.**
 - **New customers arrive when the service is launched (track record)**
 - **This *stepwise market strategy* is also reflected in the IT-infrastructure**

Lesson # 4

- **Develop new price strategies as a consequence**
 - **Traditional commission pricing cannot drive a business**
 - **Three steps of development:**
 - » **Commission pricing (variable cost) => 0% in channel**
 - » **Transaction pricing (fix cost) => # of transactions fee**
 - » **Solution pricing (variable cost) => repeated service fee**
 - **An infrastructure business is created as an "options value" together with solutions**
 - **Solutions must generate detailed information about ticket usage and transactions**
 - **The role becomes that of an operator and a organizer**
 - » **"On-line consulting"**

Lesson # 5

- **Organizing the IT-function as part of the business**
 - **Separation of IT-infrastructure and IT-applications**
 - » **A key issue in successful e-business**
 - » **IT-infrastructure strategic (cust. access): Multi-CRS, multi platform capabilities necessary to set the standard - transaction business**
 - » **You have to make applications that can serve the customers: applications and business processes - solutions business**
 - **The 1000-fold factor**
 - » **You become involved with helping your customer helping their customers. Information captured in customers' market**
 - **Decision process run by top management**
 - » **All technology project decisions taken by top management**
 - **Separate entity for web-based venture**
 - » **New interactive competencies required**

Lesson # 6

- **Don't do it alone - choose a *technology leader* as partner**
 - ***Time-to-market* was critical for AMEX and core competence were not in software development**
 - **AMEX and Microsoft made a joint software project**
 - » **Both global actors with a track record of delivering global services successfully**
 - » **AMEX got the credibility of MS as technology leader - important to set a standard**
 - » **MS got competence in travel management and leverage on their Back Office platform to create a new travel management platform for future businesses. This "option value" has come to your living room as Microsoft .**
 - **A good cultural fit in global product / service design**
 - **Key account customers were involved in the software development process from the very beginning**

American Express and Microsoft... Leaders in Service and Reliability (from their web-site)

- **American Express, the leader in corporate travel services, has a track record of success in providing advanced, cost-effective travel management *solutions*.**
- **Microsoft, the leader in desktop and server-based software, developed the Microsoft Travel Technologies *platform* expressly for the travel market.**
- **Together, American Express and Microsoft will provide the four-star, user-friendly product which will ensure travel policy compliance, realize cost reductions in travel spending, and increase employee productivity - all in a secure on-line environment.**

AXI - Results

- **1998, -9 m, 120 customers representing 4.8b\$ sales (of 17b\$)**
- **Taking 20-30% cost out of the system (customers cost!)**
- **Ticket reservation time: Average: 17 minutes. AXI: 2-3 minutes.**
- **Transaction fee and solution business in stead of commission.**
- **One time implementation fee, transaction fee (# of trans.), monthly maintenance fee (prop. Company size and IT-infrastructure)**
- **Generating “options value” through the new infrastructure (Secure Extranet platform/or public Internet)**
- **Competition did not manage to penetrate: Less customer access and less transparency (BTS (Sabre), ITN (not std), Via (Anderson Cons.))**
- **Cost, millions of \$**
- **Revenues 1998, 2001**
 - **On-line ticketing sales for 2001 are projected to be 8% (8b\$) of total industry sales of 100b\$. With a market share of c:a 22% in 1996 on-line ticket revenues for 1998 would be at least 200m\$ and for 2001 in the order of 1.8b\$.**

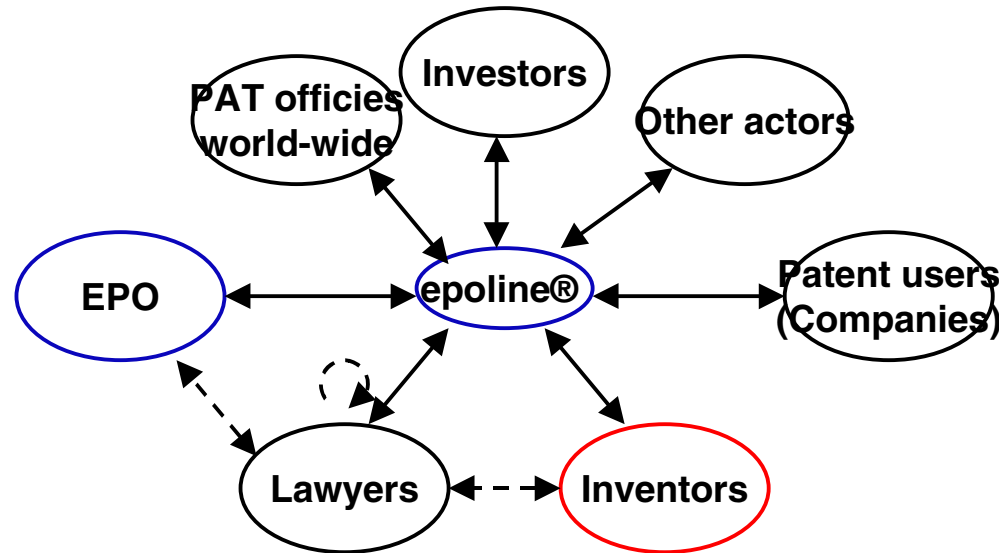
Possible ^{Service} epoline® global e-business strategy

- * **De-regulate patent handling (if possible)**
 1. **Organize and locate separated from EPO -> time gain**
 2. **Develop a business strategy around “*patenting*”**
 3. **Go step by step starting with lawyers, large companies**

Develop IT-infrastructure for matching customer access

4. **Re-package old&new services and *price value* not cost**
5. **Organize the IT-function as part of the business**
6. **Find a technology leader in patent filing systems**

epoline® develops a new concept for “patenting”



epoline® becomes an “access channel” for the customer to EPO Patent and other services. epoline® becomes the ORGANIZER of patent related on-line services to inventors, patent users and others

AXI Travel - American Express Interactive

- **AXI Travel is a HBS case from 1999**
by prof. Lynda Applegate

If time left - look at

<http://www6.americanexpress.com/corporateservices/booking/travel/docs/axi.asp#4>

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