The new infomediaries

"Here's your wings and harp, and along with that, your usage pattern suggests you'll be needing a pair of size 6 1/2 sandals, a copy of USA Today, a can of Coke (regular), a BLT torpedo sandwich, easy on the mayo..."

Will they dominate the networked economy?

Agents, proxies, and filters whose first allegiance will be to customers and to the information they guard

Their challenge? Managing the interplay between trust and value received

John Hagel III and Jeffrey F. Rayport

RECEIVED WISDOM HAS IT that there are two fundamental truths about the networked economy. First, that every networked business is ideally positioned to capture information about its customers – information that represents the main source of value in this economy. Second, that any players specializing in customer information that may emerge will naturally serve vendors, not customers. We take issue with both of these assertions.

Our view is that firms established to capture customer information will serve customers rather than vendors. They will enjoy low capital costs and high ROI – the hallmarks of an emerging category of business that we call *infomediaries.* As its activities start to generate increasing returns, we predict this category will become more and more concentrated, with rising entry barriers excluding mature and new players alike. While infomediaries will emerge first in networked sectors of the economy, we anticipate that they will eventually expand into physical business transactions too, thereby transforming the competitive landscape for traditional as well as networked players.

The scale of this transformation could be formidable. A concentration of large infomediaries in the United States could account for as much as $10 billion in revenue a decade from now, representing market capitalization of at least $40 billion.

Players in this new game will find that success depends on their ability to build strong bonds of trust with their customers. While trust has always been important in business, it will become even more so in the online world, with its expanding choices and declining switching barriers. In the past, information about customers has been taken for granted; in the future, it will have to be purchased. Indeed, if firms fail to establish trust-based relationships with customers, it may not be available at any price.

John Hagel is a principal in McKinsey's Silicon Valley office; *Jeffrey Rayport* is an associate professor in the Service Management Interest Group at Harvard Business School.

Few companies appreciate the scale of the challenge. Many still seem to take trust much too lightly. Witness America Online's announcement in summer 1997 that it would sell its members' telephone numbers to telemarketers – a decision that was rapidly rescinded after members protested.

As consumers become more keenly aware of the value of information about their own tastes and actions, traditional players will have more difficulty gaining access to it. This will enable new entrants – infomediaries – to become customer information specialists in a new information-intensive economy. We define *infomediary* as follows:

> **infomediary** *a business whose sole or main source of revenue derives from capturing consumer information and developing detailed profiles of individual customers for use by selected third-party vendors.*

The emergence of infomediaries will be driven by two key developments. In a networked economy, customers' ability to capture information about their own behavior and preferences implies that they can also choose to withhold this information from vendors that seek it. At the same time, the sheer accessibility of such information has raised a host of concerns about privacy. These two shifts in the nature of economic activity will lead, we believe, to a state of affairs in which companies will negotiate with customers to gain access to information about them.* This bargaining process will create a need for infomediaries that can handle negotiations and payments and add value by the way they process customer information.

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The business model

The infomediaries we see today fall into the vendor-oriented category. In other words, they use customer information to aid vendors in targeting products, services, and promotions to consumers in competitive markets.

Vendor-oriented infomediaries

Two basic types of vendor-oriented intermediary have already appeared on line:

Audience brokers capture information about users across multiple Web sites to help advertisers reach the most appropriate audiences. A leading example is DoubleClick. Audience brokers also exist in the physical world: for example, print brokers in newspapers and magazines, and rep firms in

* This point is argued in more detail in "The coming battle for customer information," *Harvard Business Review,* January–February 1997; reprinted in *The McKinsey Quarterly,* 1997 Number 3, pp. 64–76.

radio and television, use their knowledge of audience composition to help place advertising packages. While they may position themselves as media buyers, their primary value lies in their ability to find the best audiences for advertisers.

Lead generators aggregate potential customers according to their profiles, preferences, and other criteria, translate this data into specific product and service needs, and then direct customers to vendors whose offerings meet those needs. Prime examples on the Web are Auto-By-Tel, which provides a national network of 2,200 car dealers with consumer requests in exclusive sales territories in return for a fee per lead, and 1-800-PCFlowers, which distributes orders to independent florists throughout the United States. Similar services also exist in the physical world: FTD uses a phone and fax network to distribute orders for flowers, while mortgage brokers amass customer profiling data to place mortgages with appropriate lenders.

Customer-oriented infomediaries

We anticipate, however, that a new breed of infomediary will emerge that is distinguished by its overt allegiance to customers rather than vendors. It will:

- Help customers get maximum value from their information profiles by using choices they have made in the past to deduce which product or service would best match their current needs, and then finding the vendor that can deliver the preferred product or service at the cheapest price (**agent** function);

- Represent customers' interests in negotiations with vendors that seek access to information about them (**proxy** function); and

- Screen commercial messages from vendors so that they are relevant to the customer (**filter** function).

These five infomediary types – audience brokers, lead generators, agents, proxies, and filters – will operate according to a variety of economic models.

Vendor-oriented infomediaries will be paid a commission to help vendors target and reach relevant customers. **Audience brokers** and **lead generators** will in effect charge for eyeballs, impressions, click-throughs, and leads on a CPM or segment-of-one basis. Take the audience broker DoubleClick. In return for placing an ad on various Web sites in its network and reporting back on the ad's performance, DoubleClick receives a payment from the advertiser based on the total number of impressions generated. Rates start at $40 per thousand impressions. Meanwhile, the lead generator Auto-By-Tel receives sign-up fees of $2,500 to $6,500 and fees totalling $10,000 to $25,000 per year from participating auto dealers in exchange for qualified leads of prospective car buyers generated through its Web site.

Customer-oriented infomediaries are likely to operate under a radically different economic model reflecting the value that they generate for their clients. Revenues are likely to consist of either payments made directly by clients for services rendered, or commission on revenues accruing to clients from vendors as a result of services provided by infomediaries.

Filters are likely to base their services on a flat fee per client. This fee will probably be modest, given consumers' limited willingness to pay third parties to screen vendors on their behalf. CUC International, a successful purchasing service that preselects vendors offering a wide range of consumer goods and services, levies a membership fee of only $59 per year, for instance.

Agents will probably evolve toward a commission structure. Customers will save time and money by using agents that can perform quick and efficient searches for the goods they need and negotiate prices with vendors on their behalf. In return, they will pay agents a proportion of the savings they make. However, agents may seek, especially in the early stages, to implement flat-fee pricing in an effort to maximize incentives for consumers to purchase through infomediaries.

Proxies are the most likely to be commission based. They represent the interests of customers to vendors (either blindly like Firefly Network, where the vendor is not able to identify individual customers, or transparently like CyberGold, where customers are rewarded for revealing their identities), and aim to extract maximum value for their customers' information. They will take a commission on the revenues they generate for their customers by selling information to vendors.

An industry is born

As infomediaries spring up to take advantage of the opportunity to help consumers profit from the value of their own information, a new industry will be created. This industry will eventually be dominated by customer- rather than vendor-oriented players. Its participants will proliferate rapidly – and perhaps become concentrated just as rapidly. It will generate substantial revenues and create significant value, but only after an initial period of slow growth. And it will change the nature of business in the physical world too.

Customer-oriented players win

While vendor-oriented infomediaries are likely to abound on networks in the near term, customer-oriented infomediaries should eventually prevail as new technologies are deployed and customers become more aware of opportunities to capture for themselves the value of information about their own activities and preferences.

Vendor-oriented infomediaries will predominate initially because of vendors' interest in exploiting the opportunities to capture information offered by networks such as the Internet. As Web sites proliferate and generate an oversupply of advertising venues, the need will arise for someone to help aggregate customer information across fragmented sites – an important intermediary function for audience brokers. Lead generators will play an equally valuable role by helping vendors exploit scale advantages in marketing and by aggregating profiles of sales prospects that can be parceled out to the most suitable vendors.

In time, however, the early success of vendor-oriented infomediaries is likely to be undermined by the advent of technologies giving customers more control over personal information. At present, customers leave a trail of information about themselves as they move from one Web site to another. This information is available to the site operators as a "free good" simply because they are able to attract customers in the first place. Customers are often unaware of the information they are leaving behind – or, in some cases, storing in their own computers through "cookie" software that allows Web site owners to access it each time the customers return to their sites.

Information that was once a free good now becomes an economic good that must be "purchased" by vendors

Technologies are now becoming available that will turn the tables on vendors; they include new forms of electronic cash, "anonymizer" software, and modifications to cookie software. Their main impact will be to allow customers to visit Web sites and conduct transactions in total anonymity. This then creates a bargaining opportunity for customers to reveal information selectively to specific vendors in return for value. Hence, information that was once a free good automatically captured by vendors during interactions with customers now becomes an economic good that must be "purchased" by vendors in exchange for cash or tangible value.

Technology is merely the enabler in this transformation, which is really driven by operational efficiencies. A customer's computer is a far more efficient place to capture an integrated profile of his or her activities and preferences than a fragmented set of vendors could ever be.

Needless to say, the transformation implies a major shift in customers' beliefs and behavior, and will take some time to play out. But customer-oriented infomediaries are likely to speed up the process by providing the necessary technology tools, a portfolio of services to maximize the value of the information captured, and aggressive marketing to make customers aware of the value of the information they are currently giving away. When this happens, vendor-oriented infomediaries will find it harder to survive, since customer-oriented infomediaries will preemptively capture the customer information on which they rely, and deliver – more efficiently – the services they used to provide.

Proliferation followed by concentration

As value creation shifts from vendor- to customer-oriented infomediaries, rapid infomediary proliferation is likely to be followed by a ruthless industry shakeout culminating in concentration and rising barriers to entry.

When the right technology tools become available, there will be a rush to set up customer-oriented infomediary businesses. In the early days, specialized niche players are likely to target specific agent, filter, and proxy service opportunities. Eventually, however, these niche players may find themselves at a disadvantage to full-service infomediaries. The agent, filter, and proxy services they offer all depend on the capture and analysis of the same customer profiles. A situation where multiple specialized providers independently capture and manage the same information is far less efficient than one where the full range of services is delivered from a single database – a fact that is likely to drive the first wave of consolidation.

Trust is the infomediary's lifeblood. How else could it persuade clients to divulge their most sensitive information?

Full-service customer-oriented infomediaries will themselves begin to consolidate, prompted by economies of scope and increasing returns dynamics. Two main economies of scope will arise.

First, infomediaries with large, diverse customer bases will enjoy an advantage over those with narrower customer bases thanks to new collaborative agent/filtering technology. This identifies clusters of customers who display similar needs and interests. When certain customers within a cluster buy a particular product or service, the collaborative agent/filter suggests to the other customers within that cluster that they might also like the product or service. The broader the sample set of customers, the more accurate the clusters are likely to be, and the more valid the recommendations made by the collaborative agent/filter.

Firefly Network has used this technology to register its members' tastes in music. By developing clusters of preferences among like-minded members on its site, now owned by 2Way Media, it has been able to recommend CDs that individual members might not know about, but would be likely to enjoy.

The second economy of scope driving consolidation will be the insight derived from building a customer profile that encompasses many product categories. Early customer-oriented infomediaries are most likely to emerge *within* particular product categories, but they will soon find they are able to deliver more value by expanding their reach *across* product categories. A book buyer who purchases travel guides to Bali is probably intending to spend a holiday there, for instance, while a couple that starts asking for information about baby food may soon be ready to trade in their sports car for a roomier family model. In this way, product-focused infomediaries should give way to broad-based infomediaries serving the full range of their customers' product and service needs.

In addition to these economies of scope, powerful increasing returns dynamics will drive industry concentration over time. These increasing returns result from the powerful interplay between trust and value delivered to the client. Trust is the infomediary's lifeblood. How else could it persuade clients to divulge their most sensitive information? Trust is difficult to build at the outset, but deepens over time and as the client base broadens.

Trust is also reinforced by the increasing value a consumer receives from an infomediary that understands not just that particular individual, but also others with similar tastes and habits. The more interaction an infomediary has with consumers, the more insight it gains into their needs, and the more proactive and precise it can be in delivering agent and filter services. The information profiles it offers to vendors in turn become more compelling and thus generate larger revenues. As consumers see the value of the infomediary's understanding, their trust grows deeper.

The interplay between trust and value also serves to build barriers to entry. As with most cases of increasing returns, a business that at the outset is relatively easy to enter becomes more difficult and costly to enter over time. Imagine trying to compete as a new entrant with a well-established and trusted infomediary. No matter how compelling your service offering may be, you will find it difficult to persuade clients to switch from their established relationship. Trust locks customers in to a particular infomediary. The costs of client acquisition rise prohibitively for latecomers.

The value at stake

The customer-oriented infomediary business is likely to generate substantial revenues for the winners in the consolidation game. It could generate $10 billion a year in the US consumer market alone within the next decade.

To see how, let us assume that 10 percent of US households (roughly 10 million households) subscribe to an infomediary service by 2007. Since customer-oriented infomediary services are likely to be linked initially to purchases made on line, and will thus attract the more affluent households first, our model assumes that this 10 percent of households represents 20 percent of US retail sales. It also assumes that only 20 percent of these households' retail purchases are made on line. Thus, the online purchases of infomediary clients ten years from now represent 4 percent of total US retail sales.

To put this estimate in context, the total thus arrived at, $99 billion, is less than the current sales volume derived from mail order and other forms of direct marketing, which stands at $113 billion. To be conservative, we have assumed no growth in overall retail sales volume or advertising expenditure over the next ten years.

Each household subscribing to a full-service infomediary will pay, according to our model, a basic fee of $55 (roughly equivalent to an annual credit card fee). The remaining infomediary revenue of roughly $950 per average client represents a proportion of the value received by the client and is derived from commissions. This value has three components: (1) cash revenue averaging $730 per household for the sale of customer information (calculated on the basis of that household's likely purchasing activity and the amount that vendors currently spend on advertising and promotion to reach similar households); (2) net savings averaging $1,250 per household (or 15 percent less a 2½ percent agency fee) made on online retail purchases as a result of agent services; and (3) substantial savings in the time households spend in searching for products, capturing and managing purchasing information, and similar activities.

An infomediary with no clients will have a hard time convincing the first client to entrust it with information

If customer-oriented infomediaries achieve the high level of concentration characteristic of other increasing returns businesses, it is likely that the leading player, representing 40 percent of the market, could achieve annual revenue of $4 billion within 10 years. Two other leading players, each representing approximately 20 percent of the market, could account for $2 billion in revenue apiece.

Slow early growth, then acceleration

Because this is an increasing returns business, it will take time for revenue and profitability to build. Once the business gains momentum, however, volumes will rise with remarkable rapidity.

Increasing returns businesses typically grow slowly at the outset, when the network effects that eventually drive increasing returns are being formed. In the case of customer-oriented infomediaries, the challenge will be to build trust among a critical mass of clients. An infomediary with no clients will have a hard time convincing the first client to entrust it with information. Accumulating information profiles that are deep and broad enough to create substantial value for clients is also a slow process. As more clients join and more value is generated by the infomediary on their behalf, it becomes progressively easier to convince the next client to join.

Eventually, an inflection point is reached when the accumulation of a critical mass of clients and information profiles crosses a threshold in terms of perceived value to current and potential clients. Revenue and profitability take off as the value of the service becomes compelling to a larger and larger market. The economic challenge for an aspiring infomediary is to reach this inflection point as quickly as possible, while at the same time ensuring that investors have realistic expectations of the level of funding required and the interval before an acceptable return on investment can be realized.

In this case, there are likely to be several such inflection points as different economic thresholds are reached. One threshold will involve acquiring a critical mass of clients, a second will involve accumulating sufficiently rich profiles of these clients to generate higher revenues, and a third will involve building a robust network of appropriate vendors to maximize the value of the profiles. All of these will take time to achieve.

High ROI eventually

Given the economics of increasing returns businesses – namely, increases in the value generated per incremental unit of investment and strong tendencies toward concentration – it is likely that customer-oriented infomediaries will enjoy substantial returns over time. Operating via networks gives them the added advantage of being able to achieve national and even global reach without having to make expensive investments in bricks-and-mortar sales outlets.

Initially, however, it will be necessary to invest in acquiring clients and building database management capabilities well in advance of the inflection point, so that cash will be consumed and profitability depressed. If the business is highly fragmented, as we might expect in the early stages, the aspiring infomediary faces the prospect of spending heavily on marketing to differentiate itself from the pack while it is suffering intense pressure on prices and margins as other players seek to acquire share preemptively.

Once inflection points are reached and the expected shakeout occurs, the value of these businesses should soar as investors begin to see rapid growth and rising barriers to entry. The combination of improving margins and accelerating growth should generate substantial shareholder value. The leading infomediary ten years from now, with $4 billion in annual revenue, strong profitability, and high growth potential (since we assumed only 10 percent of households would be penetrated in the first wave), might conceivably represent shareholder value of $20 billion. The two other large contenders with revenues of $2 billion could each represent shareholder value of $5 to $10 billion.

The impact on physical markets

The rise of infomediaries will change the nature of business in the physical world too. Traditional businesses may well find themselves under pressure to profit by gathering customer information or exploiting it in their own operations. As consumers become accustomed to personalized service on line, for instance, they will come to expect it in hotels, restaurants, airlines, and stores. These businesses will also find themselves in demand as collectors of data from their everyday interactions with customers. They too will call upon infomediary services.

As smart card and other low-cost information capture technologies spread, infomediaries will rapidly extend the scope of their services to transactions in physical space. It would not be difficult, for example, for an infomediary to modify emerging smart card technology to perform information capture as well as value transfer functions. If it equipped its clients with modified smart cards for making purchases from traditional retail establishments, the resulting transaction records could be regularly downloaded from the smart cards via PCs to broaden its customer profiles. Such an approach would mean the infomediary would no longer be confined by the boundary between network and physical space.

Although smart card technology could help infomediaries record transactions in physical space, they would still find it difficult to log related details such as advertisements viewed and retail establishments browsed in. But even these may begin to be accessible; for example, infomediaries might equip their clients with electronic monitors to record TV viewing patterns, much as Nielsen does today for small sample audiences (the so-called “Nielsen households”). Households might also be asked to make all media purchases (especially newspapers and magazines) with smart cards to build a profile of reading habits.

The point is that as clients perceive the value of the infomediary on the network, they will begin to want the same services in physical space. Aided by advances in technology and market pressures on traditional retailers, infomediaries are likely to exploit their strong positions on line to expand their services beyond the network.

Who can play?

Existing players should ask themselves whether they possess the assets they would need to become infomediaries, namely:

- **Brand breadth.** Do we have a sufficiently broad or flexible brand positioning among our target customers to allow us to market a diverse range of products and services?

- **Emotional bond.** Are our linkages to our target customers sufficiently deep and emotionally based to engender high levels of trust?

- **Transaction intensity.** Do we process, or have access to, a sufficient volume of transactions across a variety of products and services to extract detailed profiles of customer preferences and purchases?

Emotional bond and transaction intensity ensure **access to information**, the first as a result of trust (without which consumers will be unwilling to reveal much about themselves) and the second as a result of the data richness that comes from intensive economic activity (without which consumer profiles will generate insufficient data to support powerful insights).

As clients perceive the value of the infomediary on the network, they will begin to want the same services in physical space

Brand breadth, on the other hand, ensures **quality of information**. Only brands that enjoy broad, cross-category relationships with customers will furnish a context in which horizontal (as opposed to vertical or single-category) patterns of consumer behavior can be observed and interpreted effectively. Narrow brands cannot compete because the relationships they engender are too tightly focused to support the kinds of insight that come from seeing how consumers behave across a range of product and service sectors.

Among existing players, we can identify five separate businesses that may have the potential to play an infomediary role: fiduciaries, retailers, purchasing brokers, database players, and media players.

Fiduciaries

These are companies with large, loyal populations of affluent customers who have grown accustomed to sharing personal information with them. They can be found in financial, entertainment, community-oriented, and lifestyle services.

In financial services, American Express and USAA are prime candidates. Amex has managed its customers' access to purchasing power for decades, first in the form of traveler's checks and later via charge cards and credit cards. Its customer base numbers tens of millions throughout the world. Through its travel and leisure services, Amex markets everything from package holidays to consumer products. More recently, it has extended into financial advice, small business services, and investment vehicles.

The company still performs its familiar role in the lives of travelers overseas. In cities around the globe, Amex offices provide instant credit, replacement checks and cards, and a postal address for tourists and expatriates. It is thus well placed to harness the emotional bond, brand breadth, and transaction intensity to act as an infomediary in building, maintaining, and marketing detailed cross-category customer profiles.

USAA is ideally positioned to pursue a similar strategy among its core community: individuals with past or present affiliations to the US military. Like Amex, USAA has emotional resonance for its customers as a reliable, responsive supplier of financial services. It was the first US property and casualty insurer to offer solutions rather than settlements, purchasing replacements for lost or stolen household items itself instead of haggling over claims and sending checks. As a result, it is one of the nation's leading merchandisers of consumer durables.

Becoming an infomediary would represent a less radical departure for retailers than for fiduciaries

To support its coverage, USAA maintains records not only of replacement goods but also of original household possessions. That gives it unique insights into the contents of millions of American homes, as well as into risk profiles, driving records, incident reports, and loss histories. Such rich segment-of-one information would make USAA a powerful player in the emerging infomediary business.

Other firms that could aspire to an infomediary role are AT&T as the world's leading telecommunications brand and Disney in family entertainment.

In theory, fiduciaries, as entrenched players, are ideally positioned to establish themselves as powerful infomediaries. Yet their scale and history also make them the *least* likely pretenders to the infomediary marketspace. Just as IBM unwittingly created Microsoft's first market opportunity by licensing its original PC operating system, DOS, fiduciaries are more likely to outsource the role of infomediary than to take it up themselves.

Mature players are seldom capable of creating divisions or subsidiaries that can operate effectively in new markets with rapidly evolving competitive dynamics. Notwithstanding their established brands, they suffer various handicaps: often slow to move, they possess limited capabilities in network-based operations, and their brands may not translate readily to new media. In particular, such players should take a long, hard look at the degree of trust their brand engenders among both existing customers and the broader market. Brands can easily be tarnished or constrained by the images and associations evoked by past actions.

Retailers

One type of established player that might have an easier time playing the role of infomediary is major retailers. Their success has always depended on acting as an intermediary between vendors and consumers. Becoming an infomediary would represent a less radical departure for them than for fiduciaries. But few retailers possess the necessary brand breadth or transaction intensity. Those that do may find the infomediary business a natural extension of their existing customer loyalty programs, which already gather detailed transaction histories to build rich customer profiles.

Firms that might qualify include Wal-Mart, Kmart, and Sears in general merchandising, the UK grocery chain Tesco, and Nordstrom in upmarket apparel. General merchandisers enjoy strong links with families or households, and can track long-term buying patterns across numerous consumer segments. Moreover, their stock covers thousands of everyday products, from branded packaged goods to consumer durables. Similarly, grocery chains, with stores boasting an average 35,000 SKUs, are able to use their customers' food choices to gain insights into family size, members' ages and needs, price sensitivity, brand loyalty by category, and possible future health risks, to name but a few. Such insights can be powerful, especially when linked to a loyalty program like Tesco's that rewards regular shoppers in appropriate ways, such as by giving them vouchers for money off frequently purchased goods.

Companies whose high-quality merchandise and outstanding service help them form intense, long-standing relationships with loyal customers are likely to possess the depth of trust to become infomediaries for their target markets. An obvious example is Nordstrom, which has become something of a legend for putting its customers' interests before its own, even "taking back" products purchased from other stores. Indeed, so high is Nordstrom's credibility in its customers' eyes that it might even be thought to represent their interests better than they could themselves. What position could be better for a firm seeking to act as a proxy in the infomediary world?

Retailers do, however, come with the same baggage as fiduciaries. It is difficult for firms that have earned their spurs in the world of retail sites and supply chain management to compete in the market for pure information. But if they can overcome their historical bias, the rich consumer relationships they command would provide the right foundation for the infomediary business.

Purchasing brokers

Firms that exist primarily to aggregate consumer demand as power buyers or brokers are in an even better position to become infomediaries, since they already earn their living by gathering, processing, and exploiting segment-of-one customer information.

One example is CUC International, which offers members of its purchasing service the lowest possible prices on a broad range of goods by selling at or just above cost in exchange for membership fees billed annually. With its claimed 350,000 SKUs of general merchandise inventory, CUC has already amassed a huge database of consumer buying histories, supplemented by its apartment rental, grocery delivery, and travel services.

HFS, the firm with which CUC has agreed to merge, has played a similar game in hospitality and travel services. With its millions of customer profiles, the new firm, Cendant Corporation, will represent a treasure trove of consumer insights. Were the new firm to expand beyond membership fees to collect other types of infomediary commission, it might come to dominate an even larger segment of the US population.

Similarly, the TV home shopping channel QVC could pursue an infomediary strategy. Its databases comprise 5.3 million active customer records. With its 45 percent market share in the $4 billion TV home shopping industry and its broad selection of merchandise, it would have enormous potential as an infomediary if it could devise a strategy to exploit its vast databases without arousing privacy concerns.

Database players

Firms that possess core skills in managing customer information for risk management, payment processing, and other financial purposes are natural contenders in the infomediary marketspace.

Companies such as Equifax and Experian (a merger between CCN Group and TRW Information Systems & Services) have collected decades' worth of consumer credit histories to supply to the retail and banking sectors for credit card purchase approvals, loan authorizations, and mortgage applications. Their records of how much customers spend on what give them an inherent advantage in entering the infomediary fray.

Database marketing consultants such as Epsilon, until recently a subsidiary of American Express, and Omnicom's Rapp Collins Worldwide also have access to substantial cross-category purchase data in their customer records. Rapp operates one of the largest customer information systems in the world for Loyalty Management Group's AIR MILES Canada; its database contains more than 600 million items of data for a customer population numbering millions. Similarly, AT&T's True Rewards loyalty program, administered by the direct marketing agency Bronner Schlosberg Humphrey through its Strategic Interactive Group, claims more than 30 million active customer accounts.

Data warehousing firms such as Acxiom enjoy similar advantages. Having recently acquired mailing list market leader Direct and electronic phone directory start-up ProCD, Acxiom possesses a wealth of raw data and has begun to mine it strenuously to serve marketers in a variety of industries.

Firms like these would, however, come up against one distinct disadvantage in the infomediary role. Though they have access to masses of transaction data pertaining to numerous products and services, they have limited brand presence in consumer markets – sometimes none at all. Where they are known, consumers normally have the opposite of an emotional bond with them; many loathe credit reporting agencies and are deeply suspicious of database marketers.

With such a reputation, database players are unlikely to be able to establish infomediary businesses on their own. Instead, they would have to form partnerships with companies that could bring consumer-friendly brands to "front" relationships with customers. Whether such a strategy is viable remains to be seen.

Media players

Last but not least are the media companies that aggregate audiences around content categories to market them to vendors for advertising purposes. Firms such as Time Warner, News Corporation, and General Electric's NBC in traditional media, as well as America Online, Yahoo!, and c|net in new media, could in theory develop their existing mass audience relationships into individual customer preference profiles. This would clearly represent less of a stretch for AOL than for Time Warner. Nonetheless, such an approach would mean shifting the focus of the business from content origination and packaging to customer analysis and insight, so it is unlikely to come about other than through strategic alliances.

Database players have limited brand presence in consumer markets – sometimes none at all

Among existing media players, the most probable winners are firms that combine several sets of characteristics: the brand presence of the fiduciaries, the emotional bond and transaction intensity of the retailers, and the customer information, access to transactions, and analytical methodologies of the purchasing brokers and database players. Companies such as Intuit, maker of Quicken software, and Charles Schwab, with its online extension eSchwab, might be excellent candidates. Such firms have substantial brand equity; customers view them as reliable and trust them with sensitive financial information.

What is likely to happen is that existing players will form alliances to operate infomediary businesses. Joint ventures could bring together the assets of established players with the organizational capabilities of network-based traffic aggregators. An early example is the recently announced tie-up between Intuit and Yahoo!; one might speculate on similar pairings such as Amex and c|net, Nordstrom and MSN, or Cendant (CUC/HFS) and AOL.

Whether firms lacking well-established brand franchises can play this game is a moot point. New entrants capable of developing strong in-category brand recognition could conceivably build levels of trust that are transferable to a broader infomediary role.

The business opportunities and challenges implied by the infomediary role go to the core of a firm's existing businesses. Today's corporate world is far too cavalier about customer information. While the transformation we describe may take years to come about, companies seeking to turn it to their advantage must act now. Building new skills and mindsets takes time, and raising levels of trust among consumers is a slow process.

Senior executives who wish to alert their management teams to these issues can find out where their company currently stands by asking two critical questions:

- Would my customers trust me to act as a custodian of their most sensitive information?

- Is my company able to extract the maximum economic value from the customer information available today?

Unless the answer to both questions is a resounding "yes," there is no time to waste in developing a plan of action. If senior management does not get personally involved in understanding the possible implications of the rise of infomediaries and move smartly to reposition the business, the information and profits that are flowing freely today will almost certainly be at risk tomorrow.

of interest...

THE COMING BATTLE FOR CUSTOMER INFORMATION

"Consumers have become aware that the ability of companies to collect information far outstrips their ability – or inclination – to deliver meaningful value in return. And the gap is widening as vendors amass huge databases of detailed information about their customers and wrestle with the challenge of mining the data for value. It is precisely consumers' recognition of this growing imbalance that has begun to fuel their resentment over giving away still more information."

John Hagel III and Jeffrey F. Rayport, *The McKinsey Quarterly,* 1997 Number 3