Stephanie Woerner:

Hello, and welcome to the audio edition of the MIT CISR Research Briefing Series. I’m Stephanie Woerner, a research scientist with MIT CISR—the MIT Center for Information Systems Research, or M-I-T C-I-S-R. CISR is a research center at the MIT Sloan School of Management that studies digital transformation.

Today I’m excited to share with you the January 2021 research briefing that I co-authored with Peter Weill and Andrea Diaz Baquero, “Hello Domains, Goodbye Industries.”

For decades, companies have thought of themselves as operating in industries such as banking, retail, shipping, automotive, and energy. In contrast, most customers seek to fulfill specific needs—business customers might aim to manage their energy consumption, and consumers might navigate getting an education. We call these different customer problems and opportunities domains. The mismatch between a company’s industry-based mindset and a customer’s domain-based need often results in fragmented customer experience, with the company only solving for parts of the domain need and the customer having to integrate and add to the fragmented pieces. Digital technologies, and new business models such as ecosystems, provide an opportunity to rethink how to solve your customers’ needs in each of their important domains. In this briefing, we share our first efforts at identifying the key domains, scope the size of the opportunity, and provide examples of companies that are successfully serving customer domains. Most importantly, we argue for a company mindset shift from industries to customer domains.

A domain describes a customer’s end-to-end need in an area such as home, mobility, energy, education, corporate services, or secure supply chain. Currently the customer’s domain need is fulfilled by combining digital services curated from companies across different industries—with the customer often doing the curating. Companies that are embracing the shift to customer domains curate the needed services themselves to create a go-to destination within a domain, while also refining the customer experience to reduce friction, such as by implementing single sign-on and coordinating compliance.

For example, in serving B2B customers, Schneider Electric moved from selling discrete products to connected energy solutions. The company’s best customers now realize 65 percent energy efficiency, compared to average business energy efficiency of 30 percent. Schneider identified a customer domain—managing energy needs—and has curated a set of services that span the traditional energy products industry as a basis for energy management solutions. The result is that over 50 percent of Schneider’s revenues come from IoT-enabled digital services.

Fidelity recognized that its B2C customers wanted solutions, not just stand-alone products, and so has curated life event-driven offerings. For example, for the life event of sending a child to college, Fidelity combines its own products such as mutual funds with partner products like student loan refinancing through Credible.

MIT CISR characterizes an ecosystem driver business model as one where a company becomes a go-to-destination for a particular domain by curating its own and partners’ products and services to produce a great customer experience. In a 2019 survey we found that companies with an ecosystem driver model grew at 27 percentage points faster than their industry, with 19.9 percentage points higher margins. Companies can also achieve a domain focus via an omnichannel model, where a company integrates products and services from across its own business units to create solutions for its customers.

To understand the size of the prize, in our survey we asked C-level executives about their firm performance and the dominant domains in which their enterprises operate. The three fastest growing domains at the end of 2019 were B2B marketplace, housing, and education; the three most profitable domains were education, global corporate services, and housing. This is our first attempt at identifying the appeal of various domains, and we believe that how domains are defined will change quite dramatically over the next five years. Now, let’s look at examples of today’s B2B and B2C domains.

B2B Domain: eCommerce

Shopify exemplifies a company shaped around a domain rather than an industry. Shopify CEO Tobi Lütke had set out to start an online snowboard shop, building the e-commerce software to support it—and in the process realized the software itself would be a more promising venture. Shopify holds a 5.9 percent share of US retail e-commerce sales, second only to number one Amazon. Shopify’s vision is deceptively simple: the company supports the entire customer journey—building a brand, creating an online presence, setting up a store, selling, marketing, and managing. To cultivate its go-to destination, Shopify partners with developers, designers, marketers, warehousers, payment companies, and others. A customer can also get educated on how to run a small business or hire help from a vetted freelancer or agency via the Shopify Experts Marketplace. A million-plus merchants use Shopify, including Walmart, Heinz, and Heineken, fueling a 46 percent compound annual growth rate. Perhaps the most important and for now largely untapped benefit of a focus on customer domains is potential access to data: As Shopify adds functionality to its platform and its share of e-commerce services grows, so will the company’s access to transactional level data it can analyze to identify additional customer needs.

B2C Domain: Home

Zillow focuses on the home domain in the United States; the US home transaction market opportunity was estimated to be $1.9 trillion in 2019. The company began with Zillow 1.0, which focused on helping consumers—buyers, sellers, and renters—search for and find properties and connect with professionals—agents, lenders, and landlords. To facilitate this connection, the company created Zestimate, a home valuation model that incorporates public and user-submitted data to estimate how much a dwelling is worth. Recently the company released Zillow 2.0, which broadened the original offering to include buying, selling, renting, and financing.

Our analysis of the home domain shows there are participants from multiple industries including services, IT services, insurance, financial services, and heavy industry. And over the next few years, we expect to see companies from other participating industries—for example, banking, insurance, professional services (such as legal and real estate), and telecom and media—also partner or converge, producing more end-to-end services in this domain. Digital partnering will become a key capability in companies following the domain approach.

Most companies think industries rather than domains because that’s what they’ve always done. This thinking is reinforced as Wall Street analyzes companies by industry, the federal government classifies companies by industry (for example, the North American industry classification system, or NAICS), and industry associations provide industry-specific skills training for executives and lobbying for their industry. But most limiting of all are the company strategy taxonomies that frame competition as industry-based.

To get you thinking about domains versus industries, in figure 1 we’ve listed the industries participating in the home and B2B services domains. This listing highlights how the profitability of companies within an industry varies widely based on the dominant domain in which those companies are operating. For instance, telecom and media companies focusing on B2B services are more profitable compared to their industry than telecom and media companies operating in the housing domain.

It takes a massive mindset change for a company to shift its focus from industry to domain, and requires a digitally savvy top management team to lead it. Digitally savvy top management teams have an understanding, developed through experience and education, of the impact that emerging technologies will have on businesses’ success over the next decade. They use that understanding to ensure the company focuses on fulfilling customers’ needs, both now and in the future.

In our research, we found that digitally savvy top management teams were significantly more effective than their non-savvy counterparts at creating multiproduct, cross-business solutions, and that they allocated more of their digital spending to transformation investments. Ecosystem drivers had, at 58 percent, the largest percentage of digitally savvy top management teams, followed by omnichannel top management teams at 42 percent, indicating that companies with either business model are well positioned in the short term to focus on domains. We are seeing digitally savvy top management teams leading their firm into a domain perspective by managing at least three changes:

One: Using data to inform action. Taking a customer-centric outside-in approach rather than a company-centric inside-out approach is a significant shift for companies. Companies in our research that were more effective at creating multiproduct, cross-business solutions were statistically significantly better than their peers at customer journey mapping and using agile methods that incorporate customer feedback.

Two: Innovating and tracking to prioritize investments. Companies making the switch to domain thinking will have to make hard decisions about which projects they are going to fund. An effective business case process that allows experimentation coupled with dashboards showing real-time progress is key to getting those investments right.

Three: Architecting systems around strengths to create connectable services. Companies that were in the top quartile of more effectively creating multiproduct, cross-business solutions had 54 percent of their core capabilities API-enabled and open to external parties, significantly higher than bottom quartile companies at 23 percent.

If we are right that the world is moving from industries to domains, a rethink is required in most companies’ strategies and mindsets. We recommend that you:

First, identify your typical customer’s end-to-end journey, including beyond your company’s scope, and consider how you could improve it—or even own it as a one-stop destination.

Second, enable customer curation of your company’s products and services and break down silos to make it easier for the customer to create their own domain solution.

And finally, digitally partner to achieve coverage of the customer’s domain needs, enabling cross-system information sharing that you manage to produce a great customer domain experience.

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