Speaker 1: Welcome to the MIT CISR Research Briefing series. The center for information systems research is based at the Sloan School of Management at MIT. We study digital transformation.

Ina Sebastian: Hi, I'm Ina Sebastian, a research scientist with MIT CISR today. I'm happy to share with you the October, 2021 research briefing that I co-authored with Nils Fonstad. Unlocking value as a modular producer, three key mechanisms. MIT CISR research has shown that companies have a choice of four digital business models to create value and make money in the digital era. Companies that choose a modular producer business model, provide innovative digitized products to the customers of ecosystem drivers and omnichannel companies. A digital strategy to grow reach your partners. In a 2019 survey, we found that companies with a modular producer business model perform better relative to their industry than companies with an omnichannel or supplier business model. In financial services, for example, modular producers had an average revenue growth of 14.9 percentage points, and an average net margin of 9.6 percentage points above industry average, a significant premium. Given these benefits, we believe that in the next five years, many large traditional companies in financial services and beyond will experiment with adding modular producer offerings to complement their already successful established business models.

 Three mechanisms to develop modular producer offerings. In our interviews, companies describe three mechanisms, i.e., sets of capabilities and practices they found were crucial to enabling speed and flexibility in developing offerings for new partners, thereby mitigating risks, such as not engaging directly with customers, and depending on a partner to scale a product within an ecosystem. An agile organization. Companies created agile structures based on business components. Leaders specified critical outcomes and responsibility and led agile teams innovate to drive speed. Modular systems. These shared systems enable teams to combine and recombine technology and data components to create new digital offerings for partners and to generate value from operations for the company, decreasing time and cost. Evidence-based decision making. Teams based decisions regarding partners and their partners customers on evidence, produced via sophisticated data and analytics capabilities, which helped improve products and customer experience.

 Established companies pursuing new modular producer offerings have an advantage. They can leverage their existing business models, such as draw on established customer knowledge to strengthen new offerings. Companies, particularly new ones that pursue only modular producer models, typically have little knowledge of the customers they serve, as offerings are delivered via partners platforms. This research briefing describes how two financial services companies Munich Re and WeBank have applied the three mechanisms to create modular producer offerings. Munich Re built such offerings as part of the company's digital transformation. WeBank has developed them from the company's early days. Both companies have benefited from knowledge of customers to strengthen evidence based decision making. Munich Re, a supplier of reinsurance to primary insurance companies, B2B, knows its customers well, which was a good foundation for new B2B2C modular producer offerings for these companies. WeBank was established by a powerful ecosystem driver, Tencent, and can draw on data models developed for use in WeBank's other products in Tencent's ecosystem.

 While the regulatory environments and economic contexts in which WeBank and Munich Re operate differ, each company's leverage of the three mechanisms to create modular producer offerings provides valuable insights. Munich Re develops its B2B2C offerings. In 2016, the Munich, Germany based global reinsurance company, Munich Re, commenced a digital transformation to create new revenue generating digital offerings, including building a foundation to provide dedicated expertise and a digital platform of shared services. By the end of 2019, more than 70 of the company's innovation initiatives relied on this foundation, including those developing new B2B2C modular producer offerings. Munich Re was developing these offerings to help insurance companies, brokers, and other businesses provide better customer experience and increased revenue via improved rate quote bind insurance underwriting processes. For example, modular producer offerings MIRA Digital Suite and Realytix enabled automated risk assessment, and resulted in a faster insurance process. In the case of Realytix, reducing the time required from multiple days to 10 minutes. Munich Re benefited from an increase in customers and generated revenue via service fees and larger reinsurance contracts.

 Munich Re created an agile organization to support the company's innovation initiatives. A new innovation lab treated each initiative as a startup, providing initiatives with staged funding, innovation processes, and workspace. To support the B2B2C innovation teams, in 2018, the IT organization created a new unit, Business Technology to provide specialized talent such as initiative chief technology officers, developers, and security compliance experts. Between 2017 and 2019, Business Technology reduced the average length of projects by 20 to 30%, with some projects launched in as little as 12 weeks.

 Business Technology created a modular system, a digital platform of shared services named Excite to help the innovation teams simplify and speed up product development for modular producer offerings. As of 2020, Excite offered more than 30 reusable components. For example, submit claim, insurance fraud detection, data pipeline services, to more than 70 innovation initiatives. The components were organized in three layers, digital front end services, insurance services, and data and analytics related services, supporting evidence-based decisions such as for portfolio optimization, Munich Re leveraged knowledge of its business customers and evidence-based decision making during development of new B2B2C offerings. In the initial stage of the innovation process, the company engaged with customers to understand how an opportunity for a new B2B2C offering could improve customer experience and generate revenue.

 For example, MIRA Digital Suite, was developed to simplify insurance companies risk assessment, regarding their customers with chronic conditions. The Excite team also used an evidence based approach to grow the Excite platform, adding components gradually and learning what the innovation initiatives needed, and selling them as managed services to these initiatives. The Excite team measured success with faster time to market, improved customer experience, revenue growth and cost savings. In 2020 Munich Re, was evaluating the opportunity of extending its modular producer model to offer Excite as a revenue generating platform.

 WeBank develops its auto loan offering. The Shenzhen, China based digital only bank, WeBank, the online banking affiliate of Tencent Holdings Limited, is the first privately owned bank in China. Established in 2014. Tencent Holdings is also the owner of the WeChat super app. WeBank provides the consumer loan product [Weilidai 00:08:36], and payment services from and to bank accounts as part the Weixin Wallet within Weixin, the WeChat product for the Chinese market. That WeBank established key mechanisms and agile organization, modular systems, and evidence based decision making at the company enables it to experiment with also distributing loans in other ways. For example, WeBank offers an SME loan product in its app, and a consumer auto loan product on partners platforms.

 The auto loan product [Weiyedai 00:09:08], or micro car loan in Mandarin, is a modular producer product. WeBank provides loan options to customers of its partners, online used car retailers, through the partners mobile apps or websites. WeBank partners on Weiyedai with the majority of major online used car retailers in China. For example, nationwide online used car dealer Uxin Group. And has grown to cover 31 provinces and 660 cities. The product offers easy online application, a quick automated approval process, and flexible repayment.

 The Weiyedai product team's core strength is their ability to deliver the product via different ecosystem partners at high speed and low cost, leveraging the three key mechanisms as follows. WeBank is an agile organization. Weiyedai product teams include embedded business, technical, and compliance professionals. These teams execute projects from the beginning of a partnership discussion through implementation, checking in with cross-functional enterprise teams, such as compliance, IT security, data governance, and financial planning at key points. With this process design, the teams have in some cases reduced the time to launch embedded loan products from two months to as little as 10 days. WeBank product teams leverage modular systems based on a micro core design. Micro cores, or functional business blocks, are more modules that can be bundled together via APIs when developing a new product.

 The Weiyedai auto loan product combines modules for loan application, EKYC, or electronic know your customer, and fraud tech, with data and other components. Evidence-based decision making is pervasive at WeBank. The company uses more than 600 in-house data models, including those developed for use in its customer lending product Weilidai innovation ecosystem, to make evidence based decisions on loans in a fully automated evaluation process with over 1000 variables. Weiyedai product teams continuously test new features and limited releases, and leverage an enterprise-wide, big data platform that provides analytics tools for product performance, customer acquisition, user experience, and risk management.

 The Weiyedai teams work with potential partners, evaluating their daily traffic, online and offline operations, producing different types of fraud risks, data collection methods, and the types of data available for risk modeling to determine if they're a good fit. Synchronization of the three mechanisms. At Munich Re and WeBank, all three mechanisms are crucial to creating innovative modular producer offerings that can plug into any ecosystem. Agile teams depend on readily available modules and data to adapt, innovate, and scale new modular producer offerings. In a large traditional company, developing the three mechanisms and synchronizing them, typically requires a digital transformation. But many companies have efforts well underway creating these mechanisms, positioning them to experiment with modular producer offerings. We urge these companies to explore how they can build on their already successful established business models to unlock new value as a modular producer.

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