

E-COMMERCE SETS THE STAGE FOR BIG CHANGES IN BUSINESS-TO-BUSINESS LANDSCAPE

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With online storefronts grabbing the headlines; you could almost believe that consumer sales is the only way to Web-based business success. And while Web consumer sales projections are impressive – more than \$100 billion by the end of the year and \$150 billion by 2004, according to Framingham, MA-based International Data Corporation – the success is miniscule compared to the growth of business-to-business electronic commerce.

Industry analysts with Forrester Research based in Cambridge, MA. recently increased their business-to-business commerce projections based on their discussions with companies in every industry segment. The new report forecasts business-to-business commerce will exceed more than \$842 billion this year compared to projections they made a year ago of more than \$327 billion.

Moving like a tsunami across the business landscape, firms are moving traditional buying and selling activity to the Web in record numbers because it is more efficient and it saves money. Telephone order, fax, sales call, order tracking, shipping and billing which require human intervention can be moved to the Web producing improved communications and major savings for both sides of the transaction.

The rapid conversion is also a domino effect. As more businesses go online they cause their suppliers and partners to react. These organizations bring their transaction activity online so the supplier can continue selling to their business customers. Firms like Cisco Systems, the big three automobile builders, WalMart, General Electric and others don't directly threaten suppliers they simply point out that to be considered a future supplier they have to be able to exchange information more quickly and more effectively online.

Despite what some would have you believe the Web has not killed value-added networks (VANs) and electronic data interchange (EDI) systems. Indeed they have been and continue to be used by many of the globe's largest corporations. But increasingly companies are moving their activities to less costly, less restrictive Web-based systems. More firms, large and small, are implementing virtual private network (VPN) solutions over the public Internet because corporations can shave their monthly costs while making their inter-company communications more efficient and more effective.

Large corporations like Chevron, General Motors and retail giant Wal-Mart have extended their private EDI networks by implementing Internet-based systems and solutions. The new systems cost about one-tenth as much as the VAN EDI systems to deploy and operate thus allowing suppliers to participate for monthly fees which range from a few hundred to a few thousands of dollars per month. It also reduces order-processing time and significantly improves the flow of information.

Tim Bajarin, president of San Jose, CA-based Creative Strategies notes that businesses have been effective in using software to automate many of the internal processes. Unfortunately the external processes (suppliers and customers) have a ways to go. Web-based Extranets (VPNs) are dramatically improving the situation.

Most of the projects that encounter problems do so because of poor planning. Often they are viewed as a part of the company's sales and marketing activities rather than as a part of the overall corporate business environment. There are a number of very excellent business-to-business e-commerce solutions available today. However, none of them is the one solution that will fill all of a firm's needs.

Business Sales

Some of the products are best for sell-side activities, selling products and services to a customer. Others are buy-side products that help firms with their procurement activities. Finally there are marketplace products which bring together multiple buyers and sellers in a virtual community.

Sell-side e-commerce systems have gained the most visibility because of such successes as Cisco Systems, Intel, Dell Computer, National Semiconductor and other firms that let business customers place orders over the Web. National for example saves its distributors more than \$20 million per year by enabling them to purchase products online. Intel, whose customers are computer manufacturers, passed its goal of selling \$1 billion worth of products during the first year of operations two weeks after launching the site. Today, Intel generates more than \$2 billion in sales per month from the site.

Sites like these do more than simply rack up sales for the companies. National Semiconductor obtains detailed sales projections from their distributors to assist them in planning their manufacturing schedules. Cisco which racks up over \$10 billion a year in Web sales saves hundreds of millions in technical support, marketing and distribution costs.

Keep in mind that it isn't enough simply to make it easy for the customer to order products at your Web site. The business-to-business site must also be integrated into your inventory, production scheduling, component purchasing and other systems.

Unlike VANs which have historically required very rigid forms that partners had to complete to do business with the company, customers that don't find the applications easy to use **don't have to** do business with you. As a result, most of the sell-side solutions available are toolkits that can be used to customize and personalize for the seller and the buyer.

Buy-Side

The business-to-business buy-side or procurement solutions give company personnel an improved way to purchase the products they need for the company while allowing management to efficiently manage the firm's acquisitions and spending. Organizations like Los Angeles County. Like thousands of large businesses L.A. County buys millions of dollars in goods and services.

Their electronic ordering and payment purchasing solution saved the county more than \$38 million by enabling them to close their central warehouse. Online comparison-shopping allows people to save as much as 5% on individual product orders. In addition, excess supplies in one department of the county can be "sold" to another department producing additional savings for the county.

Newest Online Offering

The newest are of e-commerce interest is the development of marketplace solutions. These virtual communities bring together suppliers and buyers to carry out business.

The trend-setting approach that everyone in the industry is closely watching is the Automotive Network eXchange (ANX). The Internet-based system brings all automotive trading partners into a single, secure e-commerce/data transfer network replacing unweilding, complex and costly VANs. More than 8,000 firms involved in the productive parts side of the industry are participating and the results will be felt beyond its borders as companies up and down the food-chain want all of their data and communications automated in a similar manner.

Marketplace solutions are forcing almost every organization to more closely examine their internal.

Another virtual community that the industry is watching closely is a consortium called RosettaNet that is establishing e-commerce standards for computer products. Distributors have continually complained that the lack of common language has cost them hundreds of thousands of dollars every year in return goods because people couldn't understand exactly what they were ordering.

Taking a leaf from the EDI VAN book, RosettaNet is helping distributors work with product manufacturers and resellers to establish the infrastructure which will accurately and cost-effectively speed requests, orders and payments.

The potential for savings is so powerful that General Electric created their own Trading Process Network (TPN) and made it available to their customers and suppliers. GE, which uses TPN to purchase goods and products, estimates they will save \$500 million over the next three years by buying through the VPN Extranet.

In all of these applications the firm's start with clear objectives and acquire application tools that have to be used in the development of their solutions. The new systems go beyond simply buying and/or selling products and services. They also involve the reengineering of the organization's processes. The rapid move to Internet-based e-commerce also includes business-to-business linking solutions, business-to-business activities, information delivery and product support/service.

While these changes are often "uncomfortable" to many managers and employees; companies are moving ahead aggressively because of the very real and measurable benefits of Internet EDI.

Once the solutions are in place organizations are able to exchange documents during business and non-business hours, they can reduce business transaction costs and their information float. They can improve customer service, speed their inventory replenishment and have more advanced notification of shortages, cuts and substitutions. In addition suppliers and vendors are more reliably forecast their needs as well as their customers needs as well as improve their shipping, receiving and product tracking. All of this improved data flow streamlines and improves the organization's cashflow.

While Forrester Research's business-to-business e-commerce projections were increased substantially from their earlier forecasts, many wonder if even these expenditures are conservative. They note that there is an increased emphasis on linking Web sites and the relationships between commercial trading partners. At the same time there appears to be a shift from simply selling products to supporting common business processes between business partners. They warn that with the next wave of e-commerce success will be defined by how well a company can interoperate with another organization, how well they can fit into the new commerce communities and how quickly they can profitably adopt the new business models.

It is no longer enough for a company to build a web site and have it hosted. They need to be concerned as to how the organization can handle load balancing, scalability, failover, database connection pooling and other factors.

While the most simplistic solution is to outsource...everything. While it may at first appear desirable because of the daunting tasks especially in the areas of development and maintenance, management needs to ensure that they don't give up their core knowledge or the flexibility and control over their information and processes.

What the company wants and will need in the future is a complete and fully integrated solution.

E-commerce is still in its infancy but the impact on individual companies, company relationships and ultimately the global economy will be tremendous. Internet commerce is completely changing the rules of the game.

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