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Second Coming for E-Business

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Many business leaders, relieved by the widespread failure of the dot.com firms, have been easing back on all things 'e'. That seems to make sense. Yet research from Bain & Company finds 62% of respondents saying that their companies don't take full advantage of the Internet.

Why don't the deeds match the words? Bain's 2001 Management Tools survey shows that company leaders clearly want to benefit from 'e-business' – using the Internet and related technologies to improve as many of their business operations as possible. The survey, which polled 451 senior executives worldwide on their use of and satisfaction with 25 top management tools, also asked about Internet activities. Only 11% thought that their companies had spent too much on Internet initiatives.

The truth is that the Internet has befuddled most corporate chiefs, making it tough for them to see it as a long-term strategic priority. In the mid-1990s, they viewed it as exotic, experimental, non-strategic – a controllable expense. Then, as dot.com start-ups multiplied, many traditional firms worried that they were missing a big opportunity. So they spent more on e-commerce, expanding their Web sites, and planning to transact significant business online. And many moved into 'corporate venturing,' setting up units to fund new businesses – particularly businesses based on the World Wide Web.

Today, managers are disillusioned. One signal: in our 2001 Tools survey, corporate venturing

Tesco.com: a first-rate example of excellent on-line retailing

had the lowest satisfaction rate and highest defections. Forty-two percent of firms that had tried corporate venturing in the past five years dropped it, blaming lack of results. Another sign of disillusion:

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with few if any profits to show for their efforts, and with no better Internet ideas, many e-business proponents have yielded to the cost-cutters' red pens. The German media conglomerate Bertelsmann AG recently folded BOL.com, its struggling online book and music retailer, into its book-club operations and broke up BOL's management group. Ford Motor has put the brakes on many Web-based initiatives – for example, selling its stake in a prominent e-business incubator. And France's big retailer, Carrefour, shuttered four online shopping sites for lack of revenues.

Smart companies will learn from such failures, but they won't put a freeze on all e-projects. That could

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stunt earnings growth as much as misplaced Internet investments. The Internet is here to stay, and online activity – including financial transactions – continues to accelerate. Research firm Gartner predicts that global business-to-business e-commerce will grow from more than $900 billion in 2001 to $3.6 trillion next year. So what *does* work? We find that the companies which are most successful with e-business stick closely to two key principles, and persist with two significant practices:

1. Put thought before technology

The leaders in e-business are very clear about what their core businesses are. They understand how the Internet affects those core activities, but they don't let technology fads cloud their thinking. Only after they've reviewed their business strategies do they start planning how the Internet can strengthen and accelerate the growth of their core businesses. A good example is Imerys, a leading industrial minerals producer. In July 2000, it began crafting its e-business strategy by recording all its grassroots Internet activities. It found 52 projects, ranging from a corporate intranet to e-commerce portals.

Now here is the critical step: Imerys focussed on the few Internet projects that held the most potential for quickly improving its operations, communications or business prospects. Its managers then developed a business case for each high-potential initiative, defining the specifications and mapping how internal and external teams – such as software vendors – could implement them As a result, there are potentially large savings from an e-procurement platform which Imerys shares with mining and minerals conglomerates including RTZ and Alcoa.

2. Do as the venture capitalists do

Leading companies that have exploited the Internet know how to generate and sustain momentum without blind investment. They adopt the approach of venture capitalists, sifting for best ideas and assembling strong teams to manage the activities they choose to support. They set tough but realistic targets. Then they drip-feed funds to match emerging results, and act quickly to adapt or kill off initiatives that aren't working out.

Tesco is a first-rate example. The supermarket chain tiptoed into online grocery service in 1996 at a time when the concept was attracting plenty of attention. But it never let its Tesco.com venture outrun shoppers' acceptance of online buying. And it used only its existing assets – its 690 bricks-and-mortar shops – as its delivery warehouses. In consequence, Tesco has been able to demonstrate net operating margins from groceries of about 5%. Last summer, Tesco extended its online business model to North America, purchasing a stake in Safeway's online-grocery operation, with deliveries coming from Safeway's stores.

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Relying on Tesco's existing brand, suppliers, and database of affinity-card holders, Tesco.com got started for $56 million. By contrast, Webvan, which planned to dominate 24 U.S. markets for online groceries within three years, spent $1.2 billion to start from nothing. Fixed costs overwhelmed revenues, and last summer Webvan shut down. Another sign of Tesco's success is imitation by a key rival. In January, British grocery chain Asda, owned by WalMart, shut down the dedicated depots that supplied its online service, opting instead to ship from its regular supermarkets.

3. Use the Internet to slash costs

E-business exemplars keep looking for where the Internet will most quickly cut costs and streamline operations. In purchasing, for example, GE last year expected savings of as much as $600 million as its locomotive unit got suppliers to bid via Web-based exchanges. And Dell Computer saved $50 million in parts inventory – reducing from 13 days' worth in 1997 to five days – once it let its suppliers peer into its factories through a Web window. It's hard to argue with such results.

Internally, intranets can improve a wide range of activities: enhancing employee communications, reducing the cost of administering benefits, and helping employees share and manage knowledge. Database software provider Oracle claims it has used the Internet to cut the costs of internal processes by more than $300 million over four years. On the customer side, the Internet not only provides an additional distribution channel, but offers superior customer service. For example, customers can check the progress of their orders at their convenience. In institutional financial services, Internet technology automates order entry, portfolio tracking and account management by connecting customers straight through to dealers' back offices. Although technical problems still abound, financial-services transaction costs can be expected to fall by 15% a year for several years.

Credit-card firms have been quick to use the Internet to manage customer-service costs. It makes it easy to see which customers generate what profits. Knowing that, firms can move their least-profitable clients to low-cost self-service on the Web and continue to offer high-level personal service to the clients who really bring in the money. There are broader benefits. At minerals producer Imerys, one major customer wanted to produce some complex designs that were sensitive to the properties of the raw materials used. So a Web-based collaborative design process was used to simulate stress, heat and other tests in real-time – a powerful way to lock in a customer.

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4. Use the net to build new assets

Perhaps the most exciting aspect of e-business is the Internet's ability to create brand-new products that are valuable to existing customers and attractive to new ones. GE has done just that. With a huge installed base of equipment – from gas turbines to medical-imaging machines – and constant streams of information on how its customers are using the equipment, GE has created a new service. Its customers can now pay GE for data that makes real-time comparisons between the performance of their machines and that of similar equipment run by other GE customers. Not only is the service profitable, but competitors can't copy it. And the best benefit may be this: the database itself becomes a reason to purchase new GE gear.

Now that the dot.com frenzy is over, the Internet's second phase has taken over, with leading companies redesigning their business systems to take advantage of the Internet. The same thing happened a century ago when alert business leaders realized what they could do with electricity. Agile manufacturers such as Siemens and Philips obtained huge cost reductions by changing their production layouts to exploit the way that electricity could be distributed. Their slower rivals, still using central power to run production, soon lost share.

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Heading toward 2003, the Internet is becoming as fundamental to business as the telephone. Before long, e-business initiatives such as online purchasing of components or employee intranets will be so commonplace that they will confer almost no advantages over competitors. The companies that do outrun their rivals will be those that understand both their own core businesses and the Internet's potential well enough to identify hidden gems among their intangible assets – their networks, databases, brands and market share. Such opportunity appears much richer than any former dot.com promise. ■

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