INTERNET REVOLUTION – LESSONS FOR LESSER MORTALS

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Abstract

The use of Internet for business has been traced in three distinctive stages, viz., Corporate web-sites, e-commerce and c-commerce. (C-commerce refers to community commerce practiced in digital bazaars.) The future developments are pointing towards the formation of several business eco-systems. The strategies for companies joining business eco-systems will be built based on co-operation, co-evolution and co-existence as opposed to conflict, confrontation and competition in the traditional brick and mortar model.

The brick and mortar companies, referred to as brick and lesser mortals have been advised to follow the following five steps to cope with the internet revolution.
1) Build IT capabilities within the enterprise, 2) Build IT capabilities within the enterprise, 3) Link with major suppliers, 4) Link with key customers, 5) Create a corporate web site for e-commerce and 6) Link to several business ecosystems.

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"I don't think there's been anything more important or widespread in all my years at GE…
Where does the Internet rank in my priority?
It's No. 1, 2, 3, and 4."
- Jack Welch

With the internet revolution sweeping every aspect of business, the businesses that have embraced the Internet are called e-businesses while the traditional businesses are called Brick and Mortar (B&M) businesses. The success of a few dot com companies such as Yahoo, Hotmail , eBay etc. has created a mad rush to the internet to form new dot com companies. Back home, Rediff, Satyam and a host of companies are creating new business models for the Internet. In this chapter we shall show how the new business models operate on the principles of collaboration. We also discuss the strategies for brick and mortar companies to cope with the new realities.

The evolution of business on the internet can be studied in three stages as shown in Figure 1. In the first phase large companies like Ford, General electric and others built corporate web sites and started using Internet as a new channel to extend their reach. In the second phase is marked by the emergence of portals that offered neutral platforms to transact business and thus paving the way for e-commerce. In the third phase digital bazaars or cyber markets are cropping up in the Internet that has led to the development of C-Commerce.

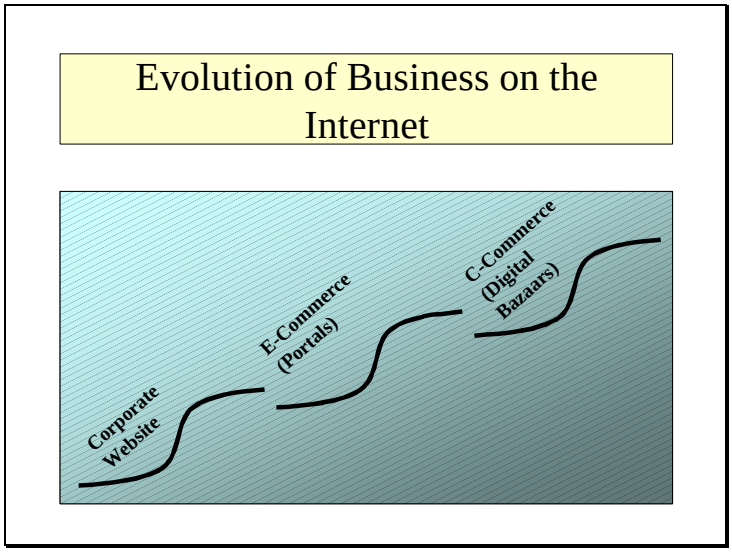

Figure 1

The Early Internet Revolution –Traffic & Content (Search Engines and Corporate Web Sites).

In the early Internet Revolution there was a rush for every company to be On-line. Most companies established their presence on the net through corporate web sites. The World Wide Web offered a large Real Estate to present one's Products & Services with large information content. Companies used Internet as a new low cost channel, with unlimited reach. People who got connected to the Internet grew in millions.

Corporate Websites used the net primarily to enhance reach and attract customers to their Products. As the customer was exposed to more information she/he became more aware and was given more choices than ever before. Attracting customers to one's Web site and presenting rich content on the offerings –products & services-- was important to thrive & succeed.

As the web sites grew in number, it became difficult for customers to search the net for the sites of their choice. ***Search Engines*** thus emerged and went on to become a key players. Search Engines directed Traffic of millions of Customers to millions of Sites.

Commuters of the Web found a unique value add, as they could go and search for any product or Service from any part of the world by just a click on the mouse. Search Directories like Yahoo, Alta Vista and others saw commuters flock to them.

The phenomenal growth of Search engines was marked with an unprecedented choice to the customers. With competition from virtually unknown & small companies rubbing shoulders with traditionally large corporations redefined the basis of competition. Instead of competing on width the players were forced to compete on depth. While reach was taken for granted the richness of content and the way one would present one's products and providing all information became critical for success on the net. A notable example is Amazon.com who did not own a store owned more customers than all the rest of the book sellers put together.

Navigation Business - Portals and E-Commerce

As the consumer got exposed to more choices, it also threw up another challenge; it became simply impossible to scan through every supplier to shop. It naturally led to the development of navigators who were neutral and directed consumers to the right suppliers. Navigators as we call them ***Portals*** leveraged this Positioning of neutrality and were able to attract more customers than any individual corporate Website.

This made suppliers compete not with their contemporaries but on navigators who commodatised their products and educated their customers by dissecting their products. On the contrary companies also realised that mere clicks were not enough to generate business. The Web site has to simply move from being a repository of information to a place/space for transacting business.

Portals were able to generate sales on their sites far easier than a supplier due to their position of neutrality. For example, Microsoft's CarPoint is competing with every Car manufacturer in the world for a larger share of the Auto Market. Every music company is competing with Amazon.Com more often than they ever competed with each other.

Then it was clear that companies, which dominate the navigation Business and are able to convince customers to perform commerce are the only ones to survive. Internet as they went on to realise is not a new channel but a new way of doing Business.

Companies which Quickly realised this and integrated their supply chain and became efficient in delivery and acted as navigators (and not as suppliers) to their customers far outperformed their peers.

Collaborative commerce & Digital Bazaars

As Navigators became the hub that controlled consumer's time and money they were able to build better customer Loyalty than the suppliers. On the other hand companies which integrated their entire Businesses to the net were able to become useful partners to the Navigators. Integrating navigation with commerce lead to collaboration on the part of suppliers.

The shift can be seen in three stages, viz., (1) traditional enterprise domain (ERP), (2) value chain integration (E-Commerce) and (3) joing a digital bazar (C-Commerce). The shifting business models and their characteristics summarized in Figure 2. As regards the scope of connectivity, ERP helped companies connect different divisions of a company; E-Commerce forced the enterprises to connect themselves with their suppliers and customers; and C-Commerce helps an enterprise connect with digital bazaars that include several partners and even competitors. The nature of information exchange in a stand alone ERP system is one of reactive reporting, i.e., the top management gets notified after the event has happened. In the E-Commerce model, there is a proactive notification of customer specifications across the value chain. C-Commerce moves a step ahead to create a collaborative interaction with customers, competitors and a the community as a whole.

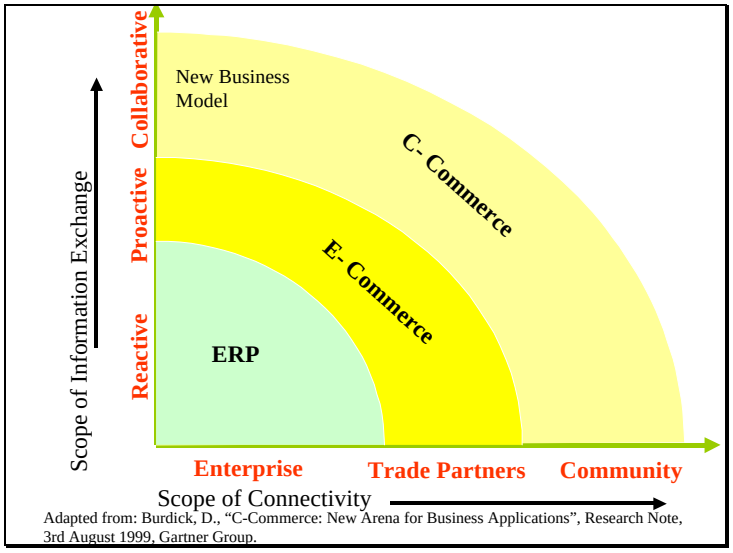

Figure 7.2

Shifting Business Models

Actually the Portals of the previous phase became ***Digital Bazaars***. They offer end-to-end Integration. It became possible to source components, design products, attract customers, sell, deliver & support - all in one place. The same could be done simultaneously by many companies at a time. Today many companies along with their suppliers (of Raw Materials or components) and partners (Channel & Distribution) operate from the same place.

According to Burdick (1999), "The value of C-Commerce applications is the enablement of collaboration (defined as mutually beneficial co-operative and problem solving and opportunity exploitation) beyond traditional, predefined trading partners to more quickly find new, different and innovative ways of solving business problems and capturing new business. C-Commerce applications will enable enterprises to to deliver greater value to customers by both synchronising and optimising events and activities among a set of business partners, and by enabling dynamic, recombinant business process execution driven by supply and demand conditions."

The Digital Bazaars that integrate multiple buyers & suppliers as well as provide neutral and comparative shopping experiences to a consumer are gaining popularity.

NeoPharma.com is a classic example with path breaking trends. This has paved the way for business eco-systems on the web where even the traditional competitors join hands to offer better service to the community as a whole.

Business Ecosystem:

The term business ecosystem was first coined by James Moore and elaborated in his book `Death of Competition'. He defines the ecosystem as being made up of "customers, market intermediaries (including agents, channels, and those who sell complimentary products and services), and suppliers". Moore prefers to use the term co-evolution, in place of competition. There are complementary forms of evolution in a business eco-system that play a vital role in the survival of its members. Using the same logic, it makes immense sense for multi-nationals and global corporations to develop the bottom of the pyramid (supply chain) to sustain their businesses in the long run. After all, a good restaurant in a falling neighbourhood is likely to die.

The business ecosystem concept helps creation of value for all the parties involved while offering superior value to customers than any other formal system. Internet technologies provide the interconnectedness that supports the creation of new business ecosystems. See Box on `Shopping in a Business Ecosystem' for an interesting example of how the symbiotic relationships between the company and its partners and suppliers provide them with mutual advantage while offering seamless service to the customer. Of course, the smooth functioning of this scenario requires more than just hot-linking from one site to another.

Shopping in a Business Ecosystem

The Levi's online eco-store has just received an order for two pairs of custom-made men's jeans, two pairs of custom-made women's jeans, one denim shirt, two pairs of Timberland walking shoes, two rugged Kipling backpacks, and two tickets to a promotional weekend excursion to a Ski Lodge in Lake Tahoe, California, that includes a jeep rental. Payment will be made with a combination of electronic money, frequent-

flyer miles, and Levi's affinity points. This order needs to be processed and delivered to the customer through her selected delivery service within one week.

The Levi's order management system processes all transactions across multiple systems and businesses. The air miles credit card is verified and authorised for partial payment, and the airline frequent-flyer account is charged for the remaining amount of the ski weekend. The Levi's affinity Visa card is verified and authorised for the jeans, shirt, and shoes. The eco-store frequent shopper points are redeemed for the backpack, and the consumer's personal Federal Express account is charged for the delivery services. All these payment verifications and authorisations are made through the eco-store's partner responsible for payment transactions and loyalty programs.

As soon as the payments are verified, the ski excursion bookings are confirmed and printed. The Levi's orders are automatically sent to the factory best suited to manufacture the items based upon location, delivery capacity, and workload. The factory makes the items to the specified measurements and confirms pick-up times.

Timberland orders are sent to the warehouse that fills all its East Coast deliveries. The Kipling order is sent to its dispatch centre, and all the confirmed orders, their pick-up times, and delivery details are sent to FedEx.

When Federal Express receives the order, its warehouse is alerted and the pick-up service takes over. Based on the confirmed pick-up times for the various orders, the service collects all goods and brings them to the packaging warehouse where the entire order is verified, checked, bundled, and sent to the consumer.

The entire process is accomplished within the required time.

Source: Sanjiv Gossain and Gajen Kandiah, “Reinventing Value: The New Business Ecosystem”, Strategy and Leadership, November/December 1999, pp. 28-33.

In the above system we find Levis partnering with several firms to provide even complementary services and products to its customers. In the eco-system model even competitors form a part of the same. The Detroit based auto companies have come together for sourcing of their components and sub-assemblies. Consortiums of banks do use common ATMs to deliver their services. In India paisapower.com has brought together a number of competing companies offering financial services on to their web site to provide advice and offer services to customers on their financing needs. These infomediaries (information + intermediaries), as they are called, bring together competitors to form new business models based on the ecosystem theory. For example, a typical customer wanting to buy a car can go to a site like paisapower and make a comparative evaluation of different automobiles and choose between different financing options. She can even make a purchase, choose the right insurance from competing insurance options and get the registration done with the RTO office. The new business ecosystem model for auto buying is presented in Figure-3.

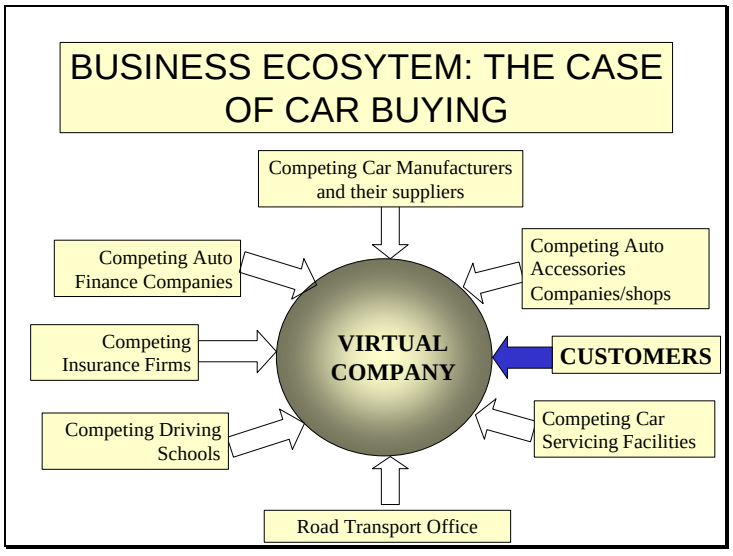

Figure – 3

An Example of a Business Ecosystem

The virtual company shown in Figure-7.3 can also provide links to a number of complementary services like adventure tourism, car rental services, petrol pumps etc.

The traditional model where gaining competitive advantage was seen as the mission of companies is no longer valid in the current context. What is essential is the survival and growth of the entire ecosystem. Companies that squeeze their suppliers to gain cost advantage over their competitors will find themselves in trouble sooner or later. Similarly blocking competitors from using the distribution channels developed by a company may also prove counter productive. The ecosystem approach to business believes in creation of value through collaboration and sharing the same with the members of the entire system.

Key Drivers of the future

As Internet commuter population touches a billion, the Internet would itself become a commodity. The networked Economy will push the need for newer ways of doing business & newer devices –from Static PC based computing to Mobile non PC appliances.

The Web from being a passive medium may need to become an active medium. This could mean to be proactive and *Reach* consumers through new devices that are waiting to be reached. The shift from groups of companies collaborating to deliver consumer experience will probably move towards, companies reaching out to groups of consumers or communities. Internet will find more space for consumers than companies.

Hence the shift is from simple web presence in the form of a corporate web site to e-commerce using portals and then to c-commerce in the form of digital bazaars. The current state of business on the Internet can be explained by the ecosystem model that we have discussed earlier.

Lessons for the Lesser Mortals:

While the web is spinning off new business models every now and then, the traditional brick and mortar (B&M) businesses are yet to work out their strategies that they need to

follow. Some are contended with creating a corporate web page while a few others look at the Internet as an additional channel for the distribution and sale of their products. What we propose is that the companies should do their homework before they could get web enabled and start transacting business on the web The action plan that Brick and Mortar companies should follow are summarized in Figure –4.

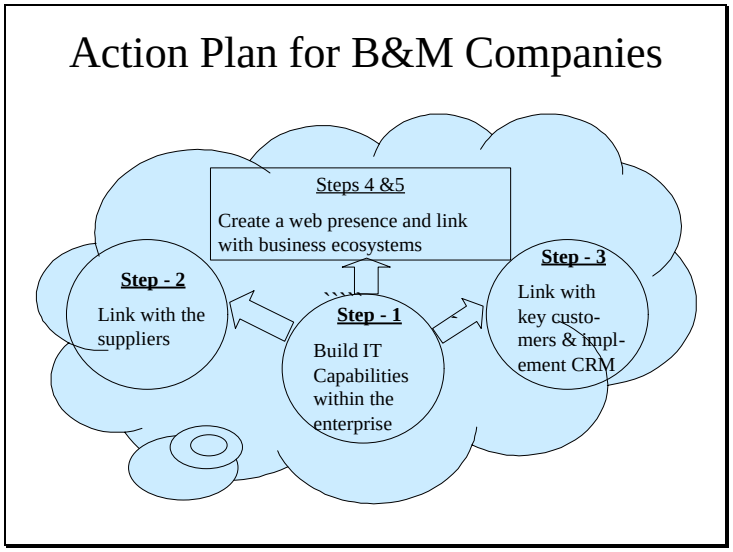

Figure – 4

1. Build IT capabilities within the enterprise:

Most brick and mortar (B& M) companies are yet to build proper information systems linking various divisions of the enterprise itself. The left hand does not know quite often what right hand does. Suppliers to such B&M companies know how difficult it is to do business with them. The lead-time between reaching the material to the plant gate and getting final payment for the same may take as high as 6-9 months. Similarly the order processing too takes much longer time for customers who buy from B&M companies. All these happen because there is no proper co-ordination within the organization. Hence these companies should build internal IT capabilities by building a proper ERP (Enterprise Resource Planning) system that links various departments and divisions of a company.

2. Link with the suppliers:

The second step is to build IT links with the suppliers using the World Wide Web as the interface. Some companies may have the traditional EDI (electronic Data Interchange) system. By building hot links with the suppliers the company acquires the capacity to respond quickly to changes in market demands and preferences. The company also can cut inventory and materials handling costs.

3. Link with key customers:

This can be carried out parallelly with step 2. This would help the companies to streamline their order management systems. By using proper supply chain management techniques, the companies can reduce their cost of distribution and also ensure timely supply of goods and services to their customers. At this stage the CRM (Customer Relationship Management) systems can also be put in place. The important point to note is that the companies should focus on their key customers for best results. Identification of key customers may prove to be a difficult proposition at this stage. Basically customers who are of strategic importance to the company (those who bring image, challenging assignments etc.) and those who have long-run profit potential may have to be included apart from the current A-category customers who account for 80% of profit and sales volume.

4. Create a corporate web site for e-commerce

Most companies rush to build a corporate web site even before they build the IT backbone that provided the quick response capabilities. Coming to the public domain will help the companies to serve their smaller customers and the public at large.

5. Link to several business ecosystems

The next stage is to link themselves with appropriate business ecosystems on the net. A company manufacturing abrasives may join ecosystems such as watch makers, machine tool makers etc. that use their products.

In the Indian Context, commoditation of The Internet is a distance away, but the opportunities could yet be leveraged. The Idea of collaboration could be used to share the infrastructure. Though it is difficult to bring together physically the suppliers, manufacturers and buyers together, Internet provides immense opportunity to form

several ecosystems such as poultry, sugar, milk, etc. that would benefit larger sections of the society.

In sum, success in the post industrial society will depend to a large extent on how a company manages to build networks with its stakeholders -- including competitors -- and co-evolve in a business ecosystem. We clearly see a shift from profit maximisation at the individual firm level to improving effectiveness of the network of businesses. These networks are called as electronic hubs, vertical portals, e-markets, electronic bazaars, value added communities and a host of other names. In order to join the networks, the companies need to get IT enabled. After all, one cannot hope to win a race using bullock carts in the rocket age. Basically companies need to equip themselves with relevant technologies if they have to survive.

We also see a major shift from conflict and competition to collaboration and co-operation. Even the ruthless competitors in the brick-and-mortar world become allies in cyber space. The reason for the same is that e-markets offer tremendous time and cost advantages for those willing to collaborate. This does not mean that competition will get totally eliminated. The point being emphasised here is that competition will not attract the same kind of attention that it managed to get during the industrial age. It is collaboration and co-operation that is likely to be at a premium in the post industrial age. At the same time it is not implied that people will totally get out of selfishness and work for the collective good. The fact of the matter is that the emerging post industrial society demands collaboration for success; though it is possible that people/companies practice collaboration for altruistic motives. Even then it makes immense sense to work in a collaborative manner to enhance the collective good thereby ensuring the survival and growth of the individual/company.

References

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