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THE Internet has created a paradigm shift in the way people communicate, find information, socialise and are entertained. But the larger, and perhaps quieter, revolution is in the way companies are now conducting business over the Net, saving substantial sums in the process due to the efficiency, speed and simplicity it enables.

The Boston Consulting Group (BCG) estimates that between 1998 and 2003, B2B electronic commerce will grow by 33 per cent each year to reach \$2.8 trillion in transaction value. The BCG also reports

that companies that are already conducting B2B e-commerce, have cost savings on material of up to 15 per cent. The growth of business over the Internet is not only in the more graduated markets of the West, but very much a reality in India. Of the one million Internet connections expected in the near future, nearly 70 per cent will be business users. While this number is expected to grow exponentially, so will business transacted over the Internet. PricewaterhouseCoopers has estimated that the value of business transacted online by 2003 will be Rs 40,000 crore.

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conquer

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It is imperative that companies formulate their strategies for business over the Net and execute them now, so that they are early adopters. An early-mover advantage on the Net offers tremendous competitive advantages, not the least of which is an early learning curve so that they are more competitive than the laggards.

The Net for competitiveness

Using the Internet results in a company becoming more competitive in two ways:

1. By improving efficiency and productivity within the enterprise and thus boosting the bottomline. When a company operates thus, it is known as an e-business.

2. By improving the effectiveness and the capability of the external transactions of the enterprise and so improving the topline. This is when a company is deemed to be engaged in e-commerce.

Worldwide, the better companies are doing both to enhance their businesses. There is a process of graduation, whereby the cycle moves from the inside out, from the enterprise to the extended enterprise. Ultimately, when the company interfaces with its customers directly over the Internet, in addition to its suppliers, vendors and distributors, it becomes what is known as a 'public facing enterprise'.

The graduation process

The first phase: In the first phase, a company usually focuses on saving costs. For example, implementing company-wide e-mail and messaging solutions, or by replacing expensive private networks with Internet-based virtual private networks and so on. All of which lead to significant savings in communication costs.

For example, Eicher Consultancy Services with widely dispersed offices, both its own, and those of associates, needed a high level of communication to conduct business. The installation of an effective messaging solution has resulted in multiple benefits such as reduction in costs, improved communications, assured security of communications and better knowledge management.

The second phase: Once the company's staff is used to basic tools such as e-mail, and is conversant with browsing the Internet, the next steps can be implemented. These would be business processes to improve workflow, such as intranets to share information across the



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enterprise, and collaboration tools that allow people in different locations to work together.

For instance, ITC Bhadrachalam implemented a workflow application that helped capture order details from its dealers and business partners, and integrated them into its production planning system in real-time. Based on the production plan, the company then communicates the schedule of deliveries to its business partners and customers. Its entire business processes, therefore, operate over the Internet with an efficiency and speed not possible before. This is of particular significance due to the need to operate at high capacity utilisation for cost efficiency and increased profitability.

The third phase: The company can now focus on enhancing its core functions. For instance, a cost-effective automation of its supply chain through an Internet-based solution which can dramatically streamline its procurement processes. A digital exchange with its suppliers, for example, can enable the company to access and provide information in real-time from and to its suppliers, reducing the need to hold inventory against lead times, or worse, slowing down production because of unavailability of raw material or ancillaries. Or an electronic data interface via the Internet can simply and cost-effectively connect a company with all its vendors and suppli-

ers. This is commonly referred to as 'buy side networking'. Companies such as Whirlpool have implemented this to enable savings by reducing inventories to the minimum.

A similar network for dealers and distributors of a company is what is called 'sell side networking'. Here, too, considerable savings may be made in unlocking inventory by ensuring supplies that are as per market demand and not built up in anticipation or because of long lead times in the supply chain. Hindustan Lever is a good example of a company that is in the process of establishing such a network to bring in efficiencies that will save them crores of rupees every year.

The final phase: Finally, a company will be ready to interface with the world at large through the Internet, to become a 'public facing enterprise'. Wherein, in addition to its regular channels, it uses the Internet to reach customers directly in a click-and-mortar model.

While it will take some time for the Net to become the largest volume channel, an online channel has valuable benefits:

- * Direct customer interaction tells the company exactly what the customer wants and expects. This information is invaluable in formulating products and product strategies as the company has a direct feedback mechanism on what the customer wants and expects, especially when aggregated over a period of time.

- * As volumes increase, sales can go directly from the factory to the customer without the need for high inventory volumes in a pipeline.

Companies in the country that have already implemented their e-strategies and are offering products online to customers are as diverse as Tata McGraw Hill for its books and Color Plus for its clothing line. Xerox is using the Internet to have a direct interface with its customers while Maruti has an online e-catalogue of spares for its dealers to place orders from.

A good example of an international company that was an early adopter of this process and now does 60 per cent of

its sales online directly to customers, both corporate and individuals, is Dell Computers. Intel is another company that sells a large volume of its products directly to customers over the Net.

In addition, a company that is well versed with conducting its business over the Internet can achieve tremendous economies of scale by collaborating with other enterprises who are also well graduated in their use of the Net. The best known example of this sort of inter-company, multi-enterprise venture is the automobile exchange being established by General Motors, Ford and Daimler-Chrysler. When operational, it will be the world's largest virtual marketplace. The exchange will offer open participation to all auto manufacturers from all over the world, and their respective suppliers, partners and dealers. The entire graduation process is illustrated in the figure.

Virtual markets, an opportunity

Many industries offer opportunities for virtual markets, where buyers and sellers interact and transact business. Examples of such virtual markets are seekandsource.com, a virtual market for maintenance, repairs and operation; and satyamplastics.com, a virtual market for the plastics industry in India. Identify a virtual market for your business and, if available, ensure representation through a virtual office on it. Provide links to your Web site for people who would like to know more about you, and to encourage them to deal with you on the long term.

If you are the leader in your category, you could even consider opening a virtual market for your industry along with an Internet specialist.

When to begin?

There's no better time than now. The IT Bill has just been passed, promising a legal framework to ensure that online transaction agreements are honoured with legal recognition to make them binding. In addition, verification and authentication processes are soon going to be available.

In collaboration with Verisign, Satyam

Infoway will enable businesses and individuals to obtain and implement digital certificates and public key infrastructure solutions and integrate them into their Web servers, e-mail systems, intranets and other applications. Digital certificates are electronic signatures that identify parties online, enabling encrypted communications and legally binding signatures for online transactions – for e-commerce, financial services, supply chain management, virtual private networks as well as wireless and mobile commerce environments.

This will result in an explosion in the number of companies that will start doing business online. The early adopters will emerge with the largest share of market a few years from now. The Internet regime is such – size begets value and there is a continuous chain of self-fulfilling virtuous circles giving rise to increasing returns. So, the sooner you begin, the more competitive you will be in the future.

Net strategy for growth

The Internet is an area that is only beginning to be explored and used by companies in the country. The time is right from the point of view of a legal framework as well as security of online transactions. Expertise and infrastructure is growing everyday. So is the number of companies doing business online. I believe it is the largest opportunity, and competitive weapon, a company can empower itself with at this point of time.

The Net is an efficient enabler, that lets companies operate their businesses faster, better and more competitively, while building strong relationships and exit barriers with customers. Are you going to be an early mover on the Net as part of your growth strategy? The choice is yours. ■

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