



Preparing for

The networked economy will push the need for newer ways of doing business and newer devices, from static PC-based computing to mobile non-PC appliances.



the e-revolution

— M. J. Xavier —

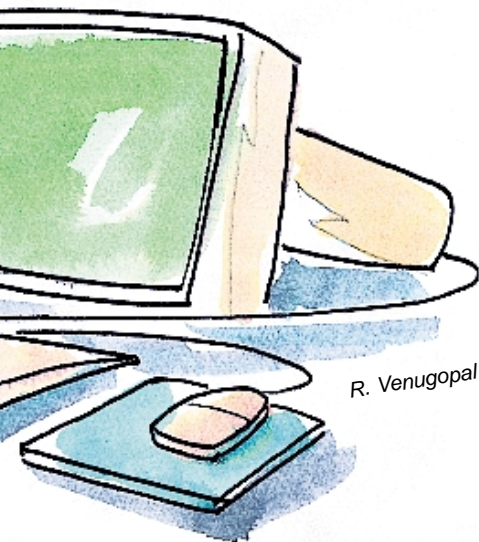
THE Internet revolution is sweeping every aspect of business, and the success of a few dotcom companies such as Yahoo!, Hotmail or eBay has created a mad rush to form new dotcoms. In India, Rediff, Satyam and a host of other companies are creating new business models for the Net. The question, however, remains: What role will brick-and-mortar companies play in the new economy? Presented here is an overview of the Internet revolution and some possible strategies for brick-and-mortar companies that are making the transition to the new economy.

The early days

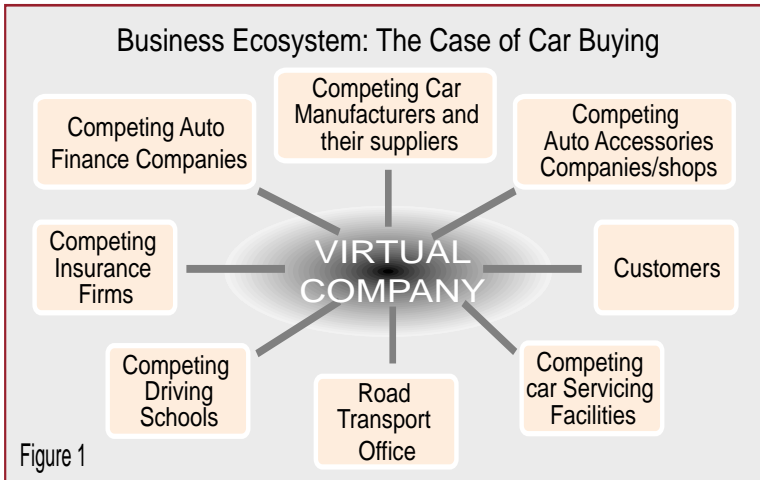
In the early days of the Net revolution, there was a rush to get online. Most companies established their Net presence through corporate Web sites. The Web offered huge real estate space to present one's products and services with significant information content. Companies used the Net as a new low-cost channel, with unlimited reach.

Corporate Web sites 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 and services – was important to succeed.

As Web sites grew in number, it became difficult for customers to search the Net for sites of their choice. Search engines thus emerged and went on to become key players, directing millions of surfers to various sites. Web commuters found a unique value addition, as they



R. Venugopal



In the future companies that dominate the navigation business are more likely to survive.

could go and search for any product or service from any part of the world by just clicking on the mouse. Search directories such as Yahoo!, Alta Vista and others saw surfers flock to them.

The phenomenal growth of search engines was accompanied by unprecedented choices opening up for the customer. With virtually unknown companies rubbing shoulders with large corporations, the basis of competition was redefined. Instead of competing on width, players were forced to compete on depth. While reach was taken for granted, the richness of content and the way one presented one's products and provided information became critical for success on the Net. A notable example is Amazon.com which did not own a store, but owned more customers than all other booksellers put together.

Portals and e-commerce

As the consumer became exposed to more choices, another challenge emerged – it became simply impossible to scan every supplier available online. It naturally led to the development of neutral navigators, that directed consumers to the right suppliers. These portals leveraged their position of neutrality and were able to attract more customers than any individual corporate Web site. This made suppliers compete not with their rivals, but with navigators who commoditised their products and educated

customers with their product dissections. Companies also realised that mere clicks were not enough to generate business, Web sites had to move from simply being a repository of information to a place/space for transacting business.

Portals were able to generate sales on their sites far more easily than suppliers 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.

Thus, it became clear that companies which dominate the navigation business and are able to convince customers into commerce are the only ones that will survive. They went on to realise that the Internet is not a new channel but a new way of doing business.

Companies which quickly realised this and integrated their supply and delivery chains, and acted as navigators rather than suppliers, far out-performed their peers.

Collaborative commerce and digital bazaars

As navigators became the hubs that controlled consumer time and money, they were able to build better customer loyalty than the suppliers. On the other hand, companies which integrated their entire business to the Net were able to become useful partners to the navigators. Integrating navigation with commerce led to collaboration from suppliers.

The portals became digital bazaars that offered end-to-end integration. It became possible to source components, design products, attract customers, sell, deliver and 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 and distribution), operate from the same space.

Digital bazaars that integrate multiple buyers and suppliers as well as provide

neutral and comparative shopping experiences to consumers are gaining popularity. This has paved the way for business eco-systems on the Web, where even traditional competitors join hands to provide 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 complementary 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 ecosystem that play a vital role in the survival of its members. Using the same logic, it makes immense sense for multinationals 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 neighbourhood on the decline is likely to die.

The business ecosystem concept helps in the creation of value for all the parties involved while offering value to customers that is superior to any other formal system. Internet technology provides the interconnectivity that supports the creation of new business ecosystems. Symbiotic relationships between the company and its partners and suppliers provide them with a mutual advantage, while offering seamless customer service. (See box.) Of course, the smooth functioning of this scenario requires more than just hot-linking one site to another.

In the example of shopping in a business ecosystem, we find Levi Strauss partnering with several firms to provide complementary services and products to its customers. In the eco-system model, even competitors are included. The Detroit-based auto companies have come together for sourcing their components and sub-assemblies. Consortiums

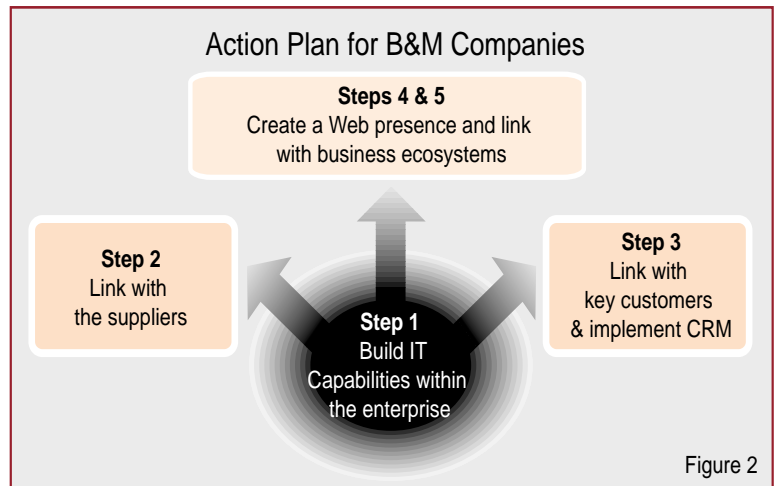


Figure 2

of banks use common ATMs to deliver their services.

In India, paisapower.com has brought together a number of competing companies offering financial services on 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 such as paisapower.com and make a comparative evaluation of different automobiles and different financing options. She can even make a purchase, choose the right insurance from competing insurance options, and get the registration from the RTO. The new business ecosystem model for auto buying is presented in Figure 1.

The virtual company shown in Figure 1 can also provide links to a number of complementary services such as adventure tourism, car rental services, petrol pumps and so on.

The traditional model, where gaining the 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 a cost advantage over competitors will find themselves in trouble sooner or later.

As the Internet commuter population touches a billion, the Net itself will become a commodity.

Total shopping experience

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 Kipling backpacks, and two tickets to a weekend excursion to a ski lodge in Lake Tahoe, California, which 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 for the ski weekend. The Levi's affinity Visa card is verified and authorised for the jeans, shirt, and shoes. The eco-store's frequent shopper points are redeemed for the backpack, and the consumer's personal Federal Express account is

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Similarly, blocking competitors from using distribution channels developed by a company may also prove counter-productive. The ecosystem approach to business believes in the creation of value through collaboration, and sharing the same with the members of the entire system.

Key drivers of the future

As the Internet commuter population touches a billion, the Internet will itself become a commodity. The networked economy will push the need for newer ways of doing business and 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 a need to be proactive and reach consumers through new devices.

From groups of companies collaborating to deliver consumer experience, the move will probably be towards companies reaching out to groups of consumers or communities. The Internet will create more space for consumers than companies.

Hence, the shift is from a simple Web presence in the form of a corporate Web site to e-commerce with portals, and then to e-commerce in the form of digital bazaars. The current state of business on the Internet can be explained away by

the ecosystem model that we have discussed earlier.

Lessons for lesser mortals

While the Web is spinning off new business models regularly, traditional brick-and-mortar businesses are yet to work out the strategies they need to follow. Some are content 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. However, the bottomline is that companies should do some homework before they become Web-enabled and start transacting online business. The action plan that brick-and-mortar companies should follow is summarised in Figure 2 on the previous page.

1. Build IT capabilities within the enterprise: Most brick-and-mortar companies are yet to build proper information systems linking various divisions of the enterprise. Quite often, the left hand doesn't know what the right does. Suppliers to such companies know how difficult it is to do business with them. The lead time between material reaching the plant gate and getting the final payment may take as much as six-nine months. Similarly, order processing too takes a much longer time for customers who buy from brick-and-mortar companies. All this happens because there is no

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 on location, delivery capacity, and workload. The factory makes the

items to 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 FedEx 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.

proper co-ordination within the organisation. Hence, 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 suppliers: The second step is to build IT links with suppliers using the Net 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 demand and preferences. The company can also cut inventory and material handling costs.

3. Links with key customers: This can be done on parallel with the second step. This will help companies streamline their order management systems. By using a proper supply chain management technique, companies can reduce distribution costs and also ensure timely supply of goods and services.

At this stage, 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, but the identification of key customers may prove to difficult at this stage. Basically, customers of strategic importance to the company, those who bring image, challenging assignments and so on, and

those who have long-run profit potential may have to be included, apart from the current Category A customers who account for 80 per cent of profit and sales.

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 provides quick response capabilities. Coming to the public domain will help companies 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 other ecosystems, such as watch or machine tool makers, which use its products.

In the Indian context, commoditisation of the Internet is still some distance away, but the opportunities can yet be leveraged. The idea of collaboration could be used to share infrastructure. Though it is physically difficult to bring suppliers, manufacturers and buyers together, the Internet provides immense opportunity to form several ecosystems that can benefit larger sections of society. ■

(The author is Dean, IFMR, Chennai.)

Companies should do some homework before they become Web-enabled and start transacting online.



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