

***Don't Let B2B Sub-Optimize Your
Business!***

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The New Economy Brings New Opportunities, and New Pressures

In today's dynamic new economy, corporate managers face unlimited opportunities to grow and expand their business. Harnessing the power of the Internet, managers seek to develop new solutions to the age-old challenges of improving customer responsiveness, shortening product development cycles, and accelerating time to market. A critical component to meeting these challenges is managing the company's supply chain through business-to-business (B2B) transactions.



The goal of improving the company's tight-knit supply chain is not a revolutionary concept. During the enterprise resource planning (ERP) implementations of the 1990's, companies invested billions of dollars to capture real-time information across their organizations, enabling better decision making around demand and capacity planning, inventory control, and order fulfillment. With the advent of the Internet, companies now see the benefit of leveraging this technology to extend efficiencies gained through supply chain management beyond the four walls of their organization, to their supplier and customer network.

There is no question that the opportunities for companies who invest in B2B e-commerce are huge. In a recent study by the Boston Consulting Group, they estimate by 2004, business-to-business e-commerce will generate productivity gains equivalent to 1 to 2 percent of sales; by 2010, this figure could grow to 6 percent.¹ For a large multinational company, this could not only translate into tens of millions of dollars in cost savings to the bottom line, but also allow these companies to be tougher competitors as their lower unit costs make them more flexible on price. Moreover, as B2B customers become more demanding, the increased visibility across their entire end-to-end supply chain will allow them to compete more nimbly on additional dimensions such as product mix, packaging, and distribution options.

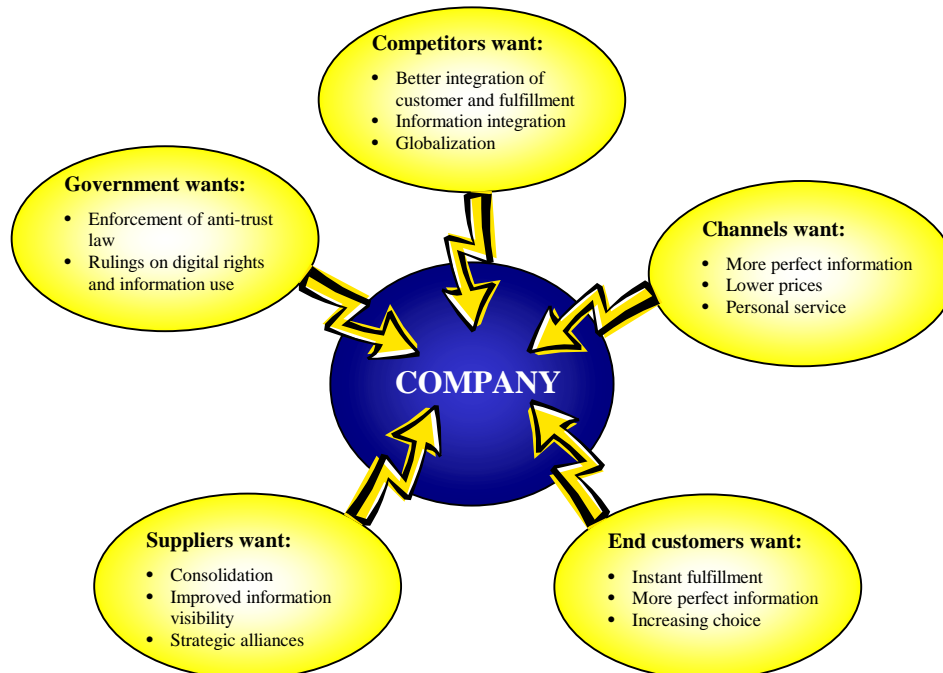
"B2B customers have become more sophisticated and demanding... Price is no longer the prime purchasing decision factor... Customers are raising the bar on a number of fronts, including customization of products, speed to delivery, individualized packaging options, and customized transportation choices."

-Manufacturing Systems "Building a Customer-Focused Value Chain" 2000

¹ Boston Consulting Group, "The B2B Opportunity, Creating Advantage through E-Marketplaces", 2000

Does all of this sound too good to be true? Well, it is certainly easier said than done. Accompanying the limitless opportunities enabled by Internet technology are significant pressures on corporate management from each player involved. The diagram below depicts each how each stakeholder is raising the bar to compete in the B2B marketplace.

NEW ECONOMY PRESSURES ON CORPORATE MANAGEMENT



Furthermore, the idea of B2B e-commerce brings two paradoxes. First, companies must answer the question of how much information should be shared. To be truly effective, B2B e-commerce requires transparent visibility, which can mean placing critical and competitive information in the hands of suppliers AND customers. It also places a magnifying glass upon the way companies do business, exposing both the good and the bad to the outside world. Finally, sharing information at this level can also invite questions about collusion and anti-trust activities from the critical eye of the government.

The second paradox revolves around the concept of aggregating many buyers and sellers, one of the hot promises of B2B exchanges. Proponents argue that this will lead to a more competitive marketplace, lowering costs as companies utilize Internet technology to compare multiple offers with the click of a mouse. What this argument neglects to mention is the increased processing costs of dealing with not dozens, but hundreds of suppliers. The Internet also invites increased levels of intermediaries, such as B2B exchanges, which might in turn raise transaction costs.

Finally, contracting with many buyers or sellers may sound appealing, but can companies afford to trust these parties to deliver on time, when inventory buffers have been reduced?

“Most B2B efforts betrayed a pronounced cluelessness about how industrial buying actually works. Start with the supposition that purchasing managers would be thrilled to take bids online from dozens if not hundreds of suppliers... each vying to be the lowest bidder...”

[However] corporations have long been moving in precisely the opposite direction, establishing deep relationships with a few favored suppliers in a “total cost” approach.

-Fortune, “Dot-coms, What Have We Learned?”, 2000.

Why B2B Efforts Often Fail



The concept of extending the supply chain to suppliers and customers through B2B e-commerce is sound. However, the experience of many companies that have tested these waters is a mixed bag at best, in some ways making things worse not better. The table below shows that the costs of B2B e-commerce have often outweighed the gains realized to date for many companies.

BENEFITS AND COSTS OF B2B E-COMMERCE

	Seller	Buyer
Benefits	<ul style="list-style-type: none"> • Reduced administrative costs (if they are lucky) 	<ul style="list-style-type: none"> • Lower prices (MRO for the most part) • Reduced administrative costs
Costs	<ul style="list-style-type: none"> • Material shortages • Increased SG&A expenses • Declining/negative margins 	<ul style="list-style-type: none"> • Late shipments • Incorrect invoices • Stock-outs

Why do B2B efforts fail? Nextera’s experience shows that three factors consistently contribute to dissatisfaction with B2B efforts:

- ▶▶ Companies fail to appreciate all the ways that B2B transactions impact multiple elements of complex supply chains
- ▶▶ Companies take a myopic view of the Web as a transaction engine, versus a suite of tools for managing customer interaction

- ▶▶ Companies implement B2B approaches and tools without clear understanding of their strategic ramifications

These disappointments are often a consequence of companies rushing into the e-marketplace without sufficient thought and planning. This is a classic mistake of scrambling to remain competitive by jumping on the latest technology enabler without first figuring out exactly what it is going to enable. Unfortunately, companies sink millions of dollars and months of time into these initiatives before they conclude that technology alone isn't going to magically produce the results they seek, but simply magnify existing business problems.



Three Keys to Unlock the Potential of Your B2B Effort

1. Don't Be Hasty

In a complex supply chain, the effects of a hasty move to the Web are often immediate and surprising. Companies fail to ask key questions along the way, such as:

- ▶▶ Have we created a support infrastructure to encourage OUR customers to use the Web?
- ▶▶ Are the orders “clean” when they hit our system?
- ▶▶ Are my customers able to order the correct product configurations?
- ▶▶ Can we process orders directly from the Web, or do we need to re-enter the data?
- ▶▶ Have we accurately forecast demand patterns from the new channel?
- ▶▶ Do we have sufficient manufacturing capacity to handle order volume and mix?
- ▶▶ How do we integrate our legacy systems to allow customer visibility?
- ▶▶ How do we train our suppliers and customers to use our interface?

By answering these questions, companies can begin to think through the complex supply chain interdependencies that must occur seamlessly in order to fully harness the power of B2B transactions.

2. Look Beyond B2B to Leverage your Web Investment

While B2B attracts the greatest attention as an Internet-enabled transaction, there are many other applications of Internet technology that can positively impact supply chain transactions between buyers and sellers, specifically web collaboration tools such as work flow tracking, net meetings, program management, hosted applications, and knowledge management. Sellers can use these tools to determine:

- ▶▶ How do we use the Web to create win-win products?
- ▶▶ How can we make our sales materials available interactively?
- ▶▶ Can our Customer Service Representatives, Product Engineers, etc. meet with our customers on the Web?

Similarly, buyers can consider:

- ▶▶ Can we get access to design and engineering drawings?
- ▶▶ Can we have our supplier's production schedules feed our APS system directly?
- ▶▶ How much inventory do we remove from the chain because of better visibility?

Obviously, these are just a sample of the ways that Web collaboration tools can be developed to support critical interchanges between sellers and buyers. There are unlimited opportunities for companies to leverage their investment in Internet initiatives to reach broader than B2B transactions.

3. Make Sure B2B Efforts are Aligned with Business Strategy

Just as a company's business strategy must be clear for successful execution, so must the B2B strategy. Moreover, careful deliberation between those answering critical questions of business strategy and those addressing B2B strategy must occur for a successful execution of a B2B initiative. The table below shows the critical strategic considerations of B2B initiatives and their impact on key business strategy questions.

IMPACT OF B2B STRATEGIC CONSIDERATIONS ON BUSINESS STRATEGY

Business Strategy	B2B Strategy Consideration
<ul style="list-style-type: none"> • What is our value proposition? 	←
<ul style="list-style-type: none"> • Where are we going, and how long do we have to get there? 	←
<ul style="list-style-type: none"> • Where do we gain strategic advantage? 	←
<ul style="list-style-type: none"> • What products and services will we offer? 	←
<ul style="list-style-type: none"> • Who are our customers? 	←
<ul style="list-style-type: none"> • Who are our suppliers? 	←
<ul style="list-style-type: none"> • What are the demands of our stakeholders? 	←

Conclusion

There is no question that there are lucrative efficiencies to be realized by extending the company's supply chain network through B2B e-commerce. However, to reap these gains, companies need to be strategic about their approach to B2B initiatives:

- ▶▶ Determine the company's B2B strategy, making decisions around:
 - Level of visibility given to partners (access to proprietary information, managing anti-trust/collusion inquiries)
 - Best type of partner approach given business strategy (many suppliers/customers or exclusive contracting arrangements with favored partners)
- ▶▶ Carefully consider complex supply chain interdependencies before investing time and money into Internet applications to support B2B e-commerce
- ▶▶ Leverage web investment not only for B2B transactions, but also web collaboration and customer support
- ▶▶ Align B2B strategy with overall business strategy

Kirsten Kingseed, an Associate at Nextera Enterprises, assisted in the preparation of this paper

About Steller Carson Associates

Steller Carson Associates, LLC provides management consulting services by applying advanced business tools to business fundamentals. SCA develops practical solutions specifically tailored to each firm and business situation, and works closely with client staff to ensure that their recommendations add significant value to the business. SCA focuses on the maritime, travel and leisure, and manufacturing industries, helping clients take advantage of business opportunities and respond to competitive threats through:

- Strategic and tactical planning
- Benchmarking and cost and price analyses
- Market research and development
- Business process realignment
- Operations and supply chain improvement
- Organizational alignment
- Program and project management
- Attorney Support
- Management development

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