BUSINESS TO BUSINESS
ANOTHER BLOOD BATH?

Yogesh Upadhyay
Shiv Kumar Singh

THE world-wide recession has entered into its third year. Though the worldwide phenomena was that the recession lasted at the most for one or one and a half year. The stock exchanges round the world has witnessed the bubble burst in case of new market companies i.e. dot coms, as they are known. On an average the stock of dot coms lost about 90 per cent in value round the globe. In this down turn their were expectations that though nothing significant could be achieved in case of B2C, the B2B could not be hit by this down turn. But as the indications are coming from the market they too are loosing value. The pertinent question is are they going to face the same fate or is there some scope for revival or it is only a temporary face? The present paper makes an attempt to put forward the complexities involved and state of affair of B2B and tries to predict its course especially in case of India.

Clearly, companies and consumers are discovering that global networking and other technological innovations are powerful assets if used as competitive weapons in their day-to-day activities. These activities also permeate organisations where increased demands of the efficient collection, dissemination, and processing of information are evident because of various economic factors – global competition and other market forces – and consumer demands for high service and improved quality. These demands are forcing companies to integrate previously isolated “islands of automation” into coherent weapons (Ravi, 1996).

Today, the emphasis has shifted from this narrow focus to the invention of entirely new business applications for reaching and getting close to the costumer. And while earlier efforts resulted in small gains in productivity and efficiency, integrating them into the Information Superhighway will fundamentally change the way businesses done. these new ideas demand radical changes in the design of the entire business process (Ravi, 1996).

E-business is tiny at present, but Forrester Research, an Internet consultancy, estimates that this will increase to more than $1.5 trillion in America by 2003. Internet bulls calculate that this would be equivalent to about 13 per cent of GDP (The Economist, 1999).

As we get ready to enter the next century, yet another fundamental redefinition of time and space called the Internet promises to bring about unprecedented changes in society (The Economist, 1999). It is shaping the very nature of competition by leading it towards perfect competition (Yogesh, 2000). It has transformed the very way business is conducted (Yogesh, 1999).

Internet growth has led to a host of new developments, such as decreased margins for companies as consumers turn more and more to the Internet to buy goods and demand the best prices, as observed University of Michigan Business School professor, C.K. Prahalad said

The Internet means that traditional businesses will change because “incumbents (in markets) and large firms do not have the advantage” just by virtue of being there first or by being big.

The world of e-commerce is changing daily. Ten years ago e-commerce was defined as participating in an EDI initiative. Today e-commerce means much more than just EDI: it means supporting interactive Web sites; it
means using XML and the Internet to conduct interactive business-to-business (B2B) communications; it means enabling the communications with multiple exchanges (http://www.gegxs.com).

The Net economy is fundamentally different from the physical economy in terms of leveraging information, knowledge and speed for coordination and collaboration between trading partners and knowing and fulfilling customer requirements.

**e-Valuating India Inc. (Business Today, 1999)**

A survey on the status of E-commerce has been conducted by KPMG, covering a sample of 116 companies operating in the country more than two-thirds of which have a turnover of over Rs 100 crore. The survey evaluated the perceptions, status, and triggers of the use of e-commerce in Indian companies.

![Bar chart showing benefits from e-commerce](image)

**Source:** KPMG India Electronic Commerce Survey Report, 1998-99 adapted from Business Today, March 22, 1999 p.80-83

In generic terms, the benefits are of 3 kinds:

- Opening up new markets;
- Improving productivity, and
- Automating Supply Chains.

The first, of course, is the primary advantage that e-commerce should be offering companies as they extend their operations into the virtual market space. But, both in terms of expectations and actual gains, the benefits appear to be focused more on operations than on e-commerce. Specifically, the two most important pay-offs that corporate India expects e-business to yield are improved customer-service and productivity. The actual benefits that they are reaping are slightly different, though: improved productivity and product quality are No. 1 and No. 2 respectively, with improved customer-service taking third place.

**The debacle**

The recent debacle of dot coms have impressed corporates to rethink their strategy of e-commercising their business. Till recently it was understood that the debacle in the dot coms has much to do with B2C hype rather than B2B. The Global Survey of KPMG also hinted the growth of B2B. But latest trends show a downfall in the value of B2B too.
B2B
B2B (meaning “business to business”) portals are a relatively recent development. Almost always by definition a vortal (vertical portal), B2B portals combine many of the real world functions performed by (http://www.practicalportals.com):

- Trade magazines
- Professional bodies
- Contract brokers
- Purchasing consortia

Simplistically, a B2B marketplace is just a website where goods and services can be exchanged between a wide range of suppliers and buyers. It is a many-to-many web-based trading and collaboration solution that enables companies to more efficiently buy, sell and collaborate on a global scale. B2B marketplaces can be categorised along the following lines:

a) ‘Vertical’ industry-specific marketplaces revolve around and satisfy the needs of a particular industry or sector.

b) ‘Horizontal’ product-specific marketplaces based on specific products form around a supply market that cuts across several industries.

c) Function-specific marketplaces focus on specific functions when there is value in concentrating functional skills (http://www.etinvest.com).

The common themes of shared purpose, economies of scale, market focus, are leveraged by the internet strengths of scale and reach, and low cost communications.

What are the benefits?

For Buyers (http://www.etinvest.com)
E-marketplaces can help buyers reduce purchasing costs and achieve faster time-to-market. By aggregating purchasing across divisions and companies, buyers can achieve better, higher-volume commercial terms with preferred suppliers. By aggregating multiple suppliers, selection costs are low. Also, e-marketplaces reduce time-to-market through more efficient supply-chain processes. Buyers can aggregate multiple vendor and product details and compare them. Because of this market transparency, companies can enhance their reach and can source material from the best suppliers (in terms of cost, quality, and any number of other relevant parameters) available on a global scale.

Analysts estimate that process costs comprise between 30 and 50 per cent of the total costs of intermediate goods. Also, purchasing staff spend nearly three-fourths of their time on administration tasks and very little time on developing strategic outsourcing partners. Thus, an estimated 65-70 per cent of the contracts are NOT centrally negotiated, and a high percentage of purchases are made from unauthorized suppliers. Analysts estimate that B2B implementations will save the process costs by 10-25 per cent. In addition to process-related savings, B2B solutions also offer potential savings on the product side of procurement also. The typical purchasing manager is not an effective researcher. Due to poor research an estimated 90 per cent of the purchases are awarded to 20 per cent of the suppliers. One of the key weaknesses of procurement is poor information flow. B2B solutions automate the information process, maximizing the cost efficiencies. For example, some B2B exchanges have introduced buyer-driven auctions through which suppliers compete with each other to fulfill publicized RFQs. Thus, the product side of costs can be reduced by more than 20 per cent, adding to the already gained savings on the process side.

E-marketplaces enable companies to overcome geographical barriers, and expand globally to reach markets that were beyond reach earlier. Besides, they help optimise internal buying processes, improve selling processes and eliminate most of the administrative costs of traditional processing.
For Sellers (http://www.etinvest.com)
E-marketplaces can help sellers increase sales with existing customers, expand sales channels and reduce selling costs. Sellers can improve customer service and get more business from customers who use e-procurement to channel corporate spending across company divisions. Also, suppliers can anonymously post and liquidate excess inventory without jeopardising established pricing norms.

They can reach out to new geographies, and reduce selling costs through lower inventory requirements, improved order accuracy and streamlined electronic processes. Sellers can also receive faster payments through electronic payments.

Additionally, for demand chain (or B2B sell-side) situations, portals provide an integrated environment not only for the aforementioned information, but also for access to key applications and services.

Growth of e-Commerce in India

<table>
<thead>
<tr>
<th>Year</th>
<th>B2C transactions (in Rs crore)</th>
<th>B2B transactions (in Rs crore)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998-99</td>
<td>131</td>
<td>12</td>
<td>119</td>
</tr>
<tr>
<td>1999-00</td>
<td>450</td>
<td>50</td>
<td>400</td>
</tr>
<tr>
<td>2000-01</td>
<td>3,500</td>
<td>300</td>
<td>3200</td>
</tr>
<tr>
<td>2001-02</td>
<td>15,000</td>
<td>1,800</td>
<td>13,200</td>
</tr>
</tbody>
</table>


The Evolution
A global survey (www.theeconomist.com) of 331 companies and in-depth interviews with 42 senior executives in seven global industries (Automotive, Chemicals, Communications, Consumer markets, Electronics, Financial Services and Pharmaceuticals) was conducted by The Economist Intelligence Unit and KPMG. The survey examined how major international firms in seven global industries are transforming their supply chains, internal operations, distribution channels and customer relationships to ensure their survival in the digital age.

The Internet is transforming industry value chains. Of survey respondents, 57% say that e-business is transforming their company’s role within their industry. For example, many electronics manufacturers are moving up the value chain to offer e-business advisory services. At the same time, new web-enabled competitors are appearing at each point on the value chain, threatening companies’ accustomed sources of value.

Intermediaries are changing, not disappearing. Companies have found it difficult to bypass their traditional intermediaries-37% of survey respondents say that a reluctance to disintermediate intermediaries poses a very major obstacle to their e-business plans. Instead, companies are searching for new ways of working with intermediaries. For some financial service firms are attempting to turn insurance salesmen into customer-service agents, and many pharmaceutical firms have web-enabling relations with wholesalers rather than selling directly to pharmacies or patients.

Executives hope to improve internal and external collaboration with e-business. The Internet is turning to be more than a sales and purchasing channel. According to 71% of respondents, improved collaboration with business partners is a highly important objective for their e-business strategies and 70% say that improved knowledge management is highly important. Alliances intensive industries, such as pharmaceuticals, are especially concerned with collaboration, with 82% citing improved collaboration as highly important.
E-business investment will continue to shift to B2B. Recognizing that some of the quickest benefits of e-businesses are likely to come from business-to-business initiatives, companies are increasingly devoting their investments to B2B. Currently, companies spend on an average 57% of their e-business investments on B2B activities, in 18 months this number will increase to 62%.

Online B2B exchanges will grow in importance, but they must change to meet user demands. Online marketplaces such as ChemConnect and Global NetXchange are becoming an important tool for sales and procurement – 19% say that industry-specific online exchanges are important for their supply chain management today and 48% say they will be in 18 months. But in interviews executives expressed dissatisfaction with current offerings, wishing to see more specialised and customised products. Of survey respondents, 55% said that the ability to customise an exchange’s products and services is a very important feature.

Above survey made it clear that specialised B2B exchanges have to adapt to the needs of the customers. The market is still evolving to the findings of survey and could not timely feel the pulse of the market. The trend as of now is not an enthusiastic one as far as B2B is concerned.

Following pathfinder launches of B2B portals for a few key industries, a number of service providers are now appearing who offer a flexible B2B portal framework that can be adapted to a range of portal needs.

It seems reasonable to expect that B2B portals will follow the route of other portals, and we should expect to see more and more highly specialised portals appearing – and the sub-division of existing B2B portals. In due course, a tier of over-arching meta-portals are likely to appear, consolidating access to specialized B2B portals by sector, geography, or other criteria.

When they first appeared on the scene a year or two ago, the Web’s business to business (B2B) companies held out a bold promise to use internet technology to bring a drastic change in business world. Today, the companies are in big trouble.

First came the news of Ariba, a pioneer of the B2B software market, slashing forecast and people. Followed by a profit warning from Commerce One, its closest rival, leaving both Wall Street and analysts startled. So is it all over for B2B exchanges? (http://infotech.indiatimes.com)

According to the Wall Street Journal, some of these B2B companies would be lucky if they themselves can stay open for business (http://infotech.indiatimes.com).

Gartner Consulting has forecasted a bloodbath in business-to-business e-marketplace during the next one year, with 90% of the dotcom companies unlikely to survive. Things will, however, start looking up from 2002-03 (http://infotech.indiatimes.com).

The biggest myths about B2B (http://infotech.indiatimes.com)

Follow the Money: B2B is not about how much revenue can be generated online, according to analysts, but rather about making connections with business partners.

The idea of pure online sales as something onto itself has a very limited potential, according to Jupiter Media Metrix analyst. Most B2B work towards relationship building.

According to Gartner, “B2B is more about the process than a single transaction”. Implementing a B2B strategy is a decision that reaches though the entire organization and will affect every department.

The B2B process could include buyers and sellers collaborating on designs, supply chain management and work flow management. A study released in June by Forrester Research supports this view, saying that firms must master dynamic collaboration – the sharing of information not only across the enterprise but outside the enterprise – to achieve their next big B2B breakthrough.

B2B Follows B2C: Companies hoping to translate business-to-consumer (B2C) e-tail success, would do well to realize that B2B and B2C are not even broadly the same. B2C e-tailers sell goods on a first-come, first-serve
basis, but most B2B is done through negotiated contracts that allow the seller to anticipate and plan for buyer demands.

The nature of B2B is radically different than B2C. It is a much deeper and longer process than B2C. One e-tailer preparing to test the B2B waters is Amazon.com. The internet behemoth recently announced that it will open a new division later this year catering to corporations, libraries and other institutional buyers.

One potential problem Amazon faces is that selling on credit means shipping orders before they are paid for, which could affect the company’s cash flow.

“Depending on the size of the order, it could add to Amazon’s problems”, Gibs said.

B2B Is for All: Some companies jump on the B2B bandwagon without analyzing whether buying and selling online is right for their business. Thinking we have to do something ‘e’ now, just because everyone else is doing it, “is a mistake”, according to Shu, adding that some companies jump in without thinking it through.

Although all companies could benefit by using tools that automate business processes, B2B is generally “not for everyone”.

B2B Is Simple: Early on, the perception was that integrating supply chains was reasonably quick and easy. Covisint, the e-marketplace backed by the major automakers, is a prime example of the difficulties inherent in B2B e-commerce. When Covisint was first announced in February 2000, its founding partners – General Motors, Ford and DaimlerChrysler – expected it to be live within 30 days and predicted that it would eventually handle $750 billion in annual purchasing. However, more than a year later, the online auto marketplace is not fully operational.

All Aboard: One of the biggest challenges facing B2B is not technology, but corporate culture. Analysts said that the mental resistance to adopting B2B can be a greater problem than any technological hurdle. The harder task is changing the culture and convincing humans to think in a new way. It is very difficult. For, it's very hard work to get users to commit.

King added that convincing buyers and sellers to use e-marketplaces was cited as the top B2B challenge by the 25 industry-sponsored marketplaces (ISMs) Forrester surveyed for an upcoming report.

B2B Is IT: One of the biggest ways companies oversimplify the B2B e-commerce process is by viewing it as simply a project for the information technology (IT) department. To rush to automate, many companies fail to properly evaluate their businesses for inefficiencies.

Moving sloppy, inefficient business processes online usually does not solve a company’s problems, the analysts point out. They recommend that companies should fix their internal problems before migrating their business systems online. Like, if a company has a problem with an inefficient system, software is not going to help. Software also cannot totally eliminate the need for human intervention.

B2B Is Dead: Despite the obstacles and the misperceptions, B2B is not failing. There’s been lots of gloom and doom that the internet is dying. However, the truth is that “companies have made incredible headway in the past year and a half”. Gartner predicts that B2B e-commerce will reach $919 billion in 2001 and $1.9 trillion in 2002. The research agency is also pretty bullish on what B2B can accomplish.

The State of Affair
As per a report (http://www.infotech.indiatimes.com) of the thousands of online exchanges set up within the last year and a half, hundreds never made it off the pages of the news release, and of those that did, a huge number have either gone bust or are teetering on the brink of bankruptcy.

Last month, Ventro Corp., which owns and operates B2B exchanges, closed two of its key marketplaces, chemical exchange Chemdex and medical industry exchange Promedix, resulting in a loss of $382.5 million. Year-end losses totaled $618.1 million, 11 times greater than the $48.6 million loss for 1999.
Dell Computer Corp. quietly closed its exchange, Dellmarketplace.com, which connected its customers with third-party suppliers of office goods and services, in February. Earlier this month, in Washington, DC, Delaware electric utility Potomac Electric Power Co. (PEPCO) said it was closing its office supplies and services exchange due to lack of uptake from buyers and suppliers.

Traffic Still Slow in the B2B Lane
As the list of new portals continues to lengthen, it is nevertheless becoming increasingly clear that a portal launch does not necessarily ensure immediate B2B success. Customers are not flocking to the portals as quickly as expected and even those who make the trip are often unwilling or unable to make transactions.

Jerry Jasinowski, president of the National Association of Manufacturers (NAM), said that in a recent survey of 2,500 manufacturers, 68 percent of those responding said their companies are not using electronic commerce as a forum for business transactions.

“The prospects for robust B2B internet-based communication, distribution and service are extremely promising”, he observed. “But our survey shows that most manufacturing companies are still at a rather basic level, when it comes to integrating the web into their corporate business activities. While 80 percent claim they have a website, the vast majority offer only an information storefront. Furthermore, only 10 percent say that their current business process technology systems are fully automated (Mick, 2000).”

Only the large, public marketplaces – Covisint in the automotive industry, Transora in consumer packaging goods and Exostar in aerospace and defense, for example – are still visible. But try to take out hard data about transaction volume, or actual savings, and it’s like trying to penetrate a heavily guarded fortress.

No participants
But the biggest factor holding back exchanges is the lack of suppliers, analysts said. “Nobody, not one of the big vendors nor any of the public exchanges has to online exchanges. But if they don’t get every supplier involved they won’t get critical mass and the exchanges will just remain a bunch of press releases.”

What Went Wrong?
Though the facts are Ninety percent of all e-commerce conducted in 1999 involved online business-to-business (B2B) deals, according to the US Department of Commerce. Additionally, a study by Gartner found that B2B e-commerce revenues reached US$433 billion in 2000, a 189 percent increase over the $145 billion in revenues raked in by B2B e-commerce in 1999 (http://www.infotech.indiatimes.com).

“So what happened?” the Journal said. “For one thing, there has been a slowdown in corporate spending on all kinds of technology. But it also turns out that B2B and B2C had a lot in common after all. Both sectors overstated the extent to which the internet was changing the world of old line businesses (B2B).”

B2B models and technologies were viewed as an effective tool to achieve transformation. But companies made a basic mistake. They viewed B2B as a `quick-win' technology initiative (http://infotech.indiatimes.com).

Allured by the inexpensive worldwide reach of the Internet, most companies decided to participate in global e-marketplaces.

Some joined existing e-marketplaces while others decided to set up their own. Unfortunately, majority of these e-markets just focused on automating transactions. The technology was there but business issues were never addressed.

B2B collaboration is a means of using the internet technologies to enable a set of complex cross-enterprise business processes allowing them to share information, workflow and decision-making (http://infotech.indiatimes.com).

“There was a general perception that since all applications were web-based, somehow the software could be designed, debugged and implemented in these 90 day time frames and work, when it had never been proven and tested”, said Bruce Richardson, an analyst at industry research firm AMR Research in Boston. International
Data Corp's Leo Lipis agreed. “They're certainly not even meeting the expectations that were set for them a year ago”, he added (http://www.infotech.indiatimes.com).

Thomas Chen, ZDNet Asia observes “Most portals are very much focused on consumers and catalogues with some transactional capabilities, but the question is whether they can make the leap to provide a marketplace or exchange-type functionality”, said Brand. “And even if they can do that technically, is the market there to support it? (http://www.zdnetindia.com)”

The current volume of B2B commerce does not match the astronomical projections made by renowned research firms. The gap in the Indian context is perceived to be due to the lack of infrastructure such as bandwidth, cyber laws, payment gateways and logistics providers. This is partially true. The more crucial reason is that, a significant portion of business processes cannot be handled easily using the plethora of solutions in the marketplace (Srinivas, 2001).

Down but not out (http://www.infotech.indiatimes.com)

Nevertheless, analysts still believe there is a place for online exchanges in business-to-business commerce. “There is no question that expectations outpaced reality”, said Morgan Stanley's Digital Transformation Group Peter Pashigian, vice president of Morgan Stanley's Digital Transformation Group, which invested in e2open, among others.

“If you think of it as a pendulum, it swung too much to one side last year, but now it’s swung too much to the other. The answer is it should be somewhere in the middle, because the same business problems still exist”, Pashigian said. According to AMR's Joan Harbin, author of a new report on exchanges, due out this week, electronic marketplaces are here to stay.

Harbin's team reviewed data from the top exchanges in 10 industries from a list of more than 1,400 survey recipients. “Though money is changing hands, no one profitable yet” Harbin said, adding that AMR saw revenues crossing exchanges in retail, chemical, utilities and some in aerospace.

For example, CheMatch.com, an online exchange in the chemical industry, completed more than $450 million in transactions in 2000. And since going live in October 2000, $9 billion worth of electricity has been traded via Tradespark, an exchange in the utilities sector.

All of which supports an important point. Exchanges that automate buying and selling of commodity goods, such as plastic or electricity, are taking off fastest because the transaction is simpler than the more complex collaborative planning and design processes required for other products, such as cars. “But broader-scoped exchanges are floundering in their attempts to deliver capability”, Harbin said, pointing to companies like Covisint and Transora.

The Way Out (http://www.zdnetindia.com)

Some of the success stories in the Collaboration space are Walmart, Dell and Cisco. It is important to note that these companies did not have the sole intention of improving the operational efficiencies but also coming up with radically new business models and innovative ways of providing customer value.

As per India Global management consultant A T Kearney, India is yet to realise the full potential of the business-to-business (B2B) transactions, much like the rest of Asia, but holds considerable unexploited potential. As per a study conducted by Kearney, India is in Wave One, which means high-end, almost ready, state of country readiness with advantages of early global penetration, specifically in the European markets.

India, like the rest of Asia, has not done too well in the B2B space but it holds vast potential. This can be judged from the fact that 10 per cent of the $85 billion business revenue generation target from Asia is expected to come from the Indian B2B space by 2003, said the vice president and managing director south-east Asia of Kearney, John Yoshimura(Kearney, 2001).

The B2B segment is very clearly the largest segment for e-business worldwide. In India, it is particularly important because of the low penetration of computers, which will further restrict the growth of B2C for some years (Financial Express, 2001).
To ensure successful B2B collaboration, the key aspects are re-aligning enterprise-wide business strategies, adoption of trading partners, developing multi-enterprise business processes, sound implementation approach and choosing the right consulting and systems integration partner.

Part of the problem is the level of technological complexity that is required to make online B2B business work. Most of the technologies available today, according to Kammerer, are “patchwork” solutions that do not replicate real world conditions nor add enough value to the process to make B2B attractive to businesses.

To really take advantage of B2B, businesses actually need to build a layer of technology around themselves to connect into portal and marketplaces, to have the flexibility to switch from marketplace to marketplace and still have the ability to conduct end to end, seamless transactions. That’s a tall order, and it’s going to cost a lot (http://www.znetindia.com).

Enterprise-wide business strategy is the first step. Define the value proposition for collaborative commerce for the enterprise, identify all collaborative opportunities and evaluate the financial and operational aspects.

Adoption of trading partners: A strong value proposition needs to be defined to make it lucrative for the trading partners to come on board. A strong process also needs to be in place.


Companies in India currently overvalue secrecy and underestimate the value of sharing information. If this mindset is changed, there is a lot to be gained.

Conclusion
It could be fairly concluded on the basis of the facts and opinion discussed above that their lies a vast untapped potential in India as far as B2B is concerned. For a resource constrained country, B2B is a boon to effectively utilize scarce resources. A sure way to achieve the same is by effectively utilizing the strengths of B2B. India has one advantage over developed countries. It has a learning curve that can be utilized in implementing B2B effectively. The success and failure stories of B2B shall surely help in devising the future.

References
B2B exchanges: Down, but not out. Ibid.
B2B sector in trouble: WSI. Ibid.
Ibid.
Ibid.
Chen, Thomas, “B2B taking shape” Ibid.
http://www.consumergoods.com/TechStudy/seperated_at_birth.html
http://www.practicalportals.com


“Ultimately, there will be a big market for both B2B and B2 in India” and interview with Ashok Soota one of the founders of MindTree Consulting Pvt Ltd, Financial Express, Sunday, January 28, 2001.
