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TECHNOLOGY

Be ready for B2B

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The Gazette

Forget phones, faxes and the mail - the Internet is taking over as the commercial medium of choice for companies that supply products and services to other businesses.

In high-tech parlance, it's called business-to-business, or B2B, electronic commerce.

While the public and the media were captivated by the consumer-oriented dot-coms stories of Amazon, Yahoo! and eBay, B2B e-commerce was quietly taking the business world by storm.

Compared with mass-market E-tailing, B2B e-commerce encompasses a much larger piece of the world's commercial activity. The volumes are larger, as are the profit margins.

In Canada, the entire consumer online market is less than one-fifth the size of Internet-based B2B sales.

Embracing digital commerce is about more than latching on to a new sales channel or throwing up a Web site. It's a complicated, costly and time-consuming endeavour that often entails completely rethinking the way a company operates.

That daunting prospect is holding some Canadian companies back, particularly small and medium-size businesses, some analysts said.

But they increasingly see the potential, according to analysts and surveys. They realize that moving to deal with partners, suppliers and customers over the Internet can help "improve productivity and hopefully grow sales by extending their market," said James Vogtle, e-commerce research director at Boston Consulting Group.

Sectors like the automotive industry are already reaping the benefits as the computer systems of car makers are integrated with those of their the computer systems of car-makers are integrated with those of their suppliers and their suppliers' suppliers.

The e-commerce shift started in the U.S., the most gung-ho adopter of new technology. Though behind the U.S., Canada is ahead of western Europe, Japan and Asia-Pacific -Êfor now.

In Canada, banks and car-makers have led the way. In some cases, Canadian companies are being pressured by big customers hoping to cut costs by eventually dealing with suppliers exclusively via the Internet.

"The real advantages of e-commerce are the cost savings," said Joe Greene, a vice-president at market researcher IDC Canada. "It's just far more efficient than the old way of doing it."

Typically, a company would order products using the phone, fax or mail. That meant delays, extra costs and errors because orders had to be re-keyed several times - from raw material to finished product to customer. The invoicing process also added delays, costs and the potential for errors.

"When you do it electronically, you cut all that stuff out," Greene noted. "It's faster, it saves time and money, there are fewer errors. You get a reduction in the cost of producing or selling the goods and you can presumably turn around and pass that on to some of your customers." Some companies are also able to cut warehousing costs by ordering supplies as needed, rather than stockpiling.

Adopting the e-way could give a company a competitive advantage, or simply put it on an even footing with competitors based around the world who are also e-commerce-enabled, Greene said. If major customers only deal with Internet-ready suppliers, making the change can be a matter of survival.

New Web sites are popping up to serve as commercial hubs for individual industries. Known as global exchanges, digital marketplaces, e-marketplaces or vertical portals, they have one thing in common: they allow various industry players to interact electronically. By 2004, about 17 per cent of all business trade will be transacted online, Forrester Research predicts, much of it through such central sites.

The impact of e-commerce is being felt in every part of the economy, but a few industries were quicker to jump on it. Top among them is computing and electronics.

The giant automotive industry is No. 2. A global business involving a many suppliers, it quickly saw the potential of e-marketplaces. When Ford has to buy tires, "that ripples through to their suppliers like Goodyear and Dunlop, but it will (also) ripple through to their suppliers' suppliers - the people actually making the plastics, the polymers, that go into the tires, like DuPont or Bayer," said Vogtle of Boston Consulting. Integrating and automating the industry's tangle of players cuts processing and accounting costs. That's why car-makers force trading partners to do business with them electronically.

"But the bigger win is that it will allow better integration of production," Vogtle said. "That will allow companies to reduce inventories, to have faster turnarounds in terms of manufacture of products, and ultimately will result in better products being designed because of closer collaboration on the actual design processes."

Today, most industries are still working at slashing transaction costs, with a few companies starting on "supply-chain integration" and some moving to collaborative design, Vogtle said.

In the automotive industry, the supply chain stretches from polymer-makers to actual car manufacturers, Vogtle said. The polymer company "would be able to see forward into Ford's production plan and plan around that, not just the orders that they currently have. They can see steps down the supply chain and have a tighter integration around production schedules."

Until recently, the Canadian companies scurrying to become e-businesses were busy building the informational infrastructure required, said Greene of IDC Canada. "We believe that this is the year we'll see quite a big uplift in Canadian businesses moving to the transactional capability required to really conduct e-business." Still, he said, many companies are holding back. The key inhibitors: the high cost, a lack of skills and managers who haven't been sold on the benefits.

While the 70 per cent of Canadian companies figure e-commerce will transform or have a major impact on their businesses, only one in five say they have fully adopted Internet-based services, according to a recent survey by Samson Belair Deloitte & Touche. "It's clear that all this fuss around e-business is significant, and it's in their minds, but when push comes to shove, and when you need money to invest and do this type of thing, there's very little that's been done, comparatively speaking," said Umberto Delucilla, the global consulting firm's e-business leader for the Montreal region.

Confidentiality and security are the two top concerns, followed by cost. Deloitte & Touche figures an "e-business strategy from beginning to end" costs about $10 million.

That kind of price tag spooks many mid-sized companies with sales of up to $100 million, Delucilla noted.

"Someone looking from the outside in might say, 'What are you waiting for? You're being complacent," he said. "But someone from the inside looking out is saying, 'I'm doing the best I can with what I have. I don't want to lose what I have now. It's really uncharted territory for me.' It's a real culture-shock for businesses."

Even when they do take the plunge, getting e-commerce right is difficult. After reviewing 30 business-to-business Web sites in December, Forrester found that every last one failed basic tests of value, ease and reliability. Major problems included missing content, meagre functions and frequent errors.

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Smaller businesses are having an even harder time adapting to the new world. For entrepreneurs running a business seven days a week, e-business solutions quickly fall down priority lists. But software and hardware makers are simplifying the process, leading industry observers to predict that e-commerce will soon sweep through small and medium businesses.

In Quebec, which has the lowest Internet use in Canada, small business is even farther behind. In its budget last week, Quebec introduced tax credits to encourage smaller companies to invest in e-commerce.

The province fears businesses not prepared to transact electronically will be trounced by Internet-savvy rivals from around the world, and miss out on new opportunities, such as tackling new markets.

Canadian small businesses represent a big and growing opportunity. Last year, they bought and sold $670 million in goods and services over the Net, according to a recent survey by SES Canada Research. Forty-four per cent of the companies polled plan to engage in e-commerce by the end of 2000, compared with just 27 per cent that had engaged in it as of spring 1999.

Some Web sites want to cash in on that trend.

One of them is OnVia.com, which launched a hot initial public offering on March 1. Founded by a Vancouver entrepreneur, it's a "business-to-business e-marketplace for small-business buyers and sellers." Everything from accounting to telecommunication services can be purchased via the site, which acts as a virtual middleman. Buyers fill out a "request for quote" describing what they need. Multiple providers receive that request. Within 24 hours, local and national sellers respond with customized responses.

The Toronto-Dominion Bank, for its part, is teaming up with U.S.-based Commerce One to create TD MarketSite, which will link buyers and suppliers in what they describe as "an Internet-based trading community" that will allow businesses to cut costs by automating procurement.

Others are targeting niches.

Through its Web site, Montreal-based DataCHEST.com, for example, provides scientific, technical and regulatory information for the management of chemicals and hazardous or controlled substances.

Another local firm, Surplustraders.net, is a wholesale distributor of surplus electronic, computer and scientific parts and equipment. Other Montreal companies have created online trading floors for everything from computer chips to used telephone equipment.

Canadian companies are also popping up to help businesses get online.

BCE Emergis, Bell Canada's e-commerce sister company, helps businesses use the Internet to boost revenue and cut costs. Smaller players like SureFire Commerce and UDUCAT.com also provide helping hands.

hands.

Over-all, Canada - pulled along by the tech-intensive U.S. economy and Canadian branch plants of American companies - is doing well when it comes to e-commerce, analysts say.

Though it only represents a tiny fraction of the world's economy, Canadian e-commerce represented 6 per cent of global e-commerce last year, according to IDC Canada. But the growth rate isn't as high as those in Europe, Japan and Asia-Pacific - and by 2003, Canada's proportion of global e-commerce will drop to 4 per cent, IDC says.

That's why business leaders and federal and provincial politicians are clambering to encourage Canadian companies to jump on the bandwagon.

"It's a digital marketplace, it's a global marketplace," Greene said, so even if most of a company's customers are in Canada today, it's much easier for U.S. or European rivals to knock on the same doors. "And if the price is lower, your customer's patriotism goes out the window," Green said. "The reason they might be able to offer lower prices is that they're conducting business electronically and you're not."

Canada can seize the opportunity that comes with being No. 2, Vogtle added: "We're in a fantastic position to be able to capitalize on e-commerce and really build global businesses that are based in Canada."
