# E is for business?

**E-business is eulogised as the great way forward. The 'virtual' pill for your business ills. But do e-business experiences always live up to expectations? David Green in Arthur Andersen's Knowledge Services finds out whether the real world still has the edge.**

E-business is generally defined as the use of Internet technologies to increase the value-chain of business processes. It ranges from re-engineering internal systems to improving the way businesses organise supplier and partner relationships. It also covers e-commerce, currently the most popular string to e-business's bow, which focuses primarily on business-to-consumer transaction-orientated websites and related applications.

But, in this brave new world of emerging economic models, is experience validating widely-held beliefs and expectations?

The effectiveness of e-commerce is largely determined by your organisation's approach. On the constellation of computers known as the Internet, it's easy to adopt a global perspective. The potential market is unlimited. Yet, in its recent paper *The Globalisation of E-Commerce*, research consultants IDC found that it is often more rewarding to think locally. The message is that consumers trust national and localised websites more than international ones.

## Faster! Faster! Cheaper! Cheaper!

With none of the associated costs and overheads of a physical presence, you'd think that pure e-commerce ventures would enjoy a significant cost advantage over real-world 'bricks-and-mortar' companies. But do they? While both must continually improve business processes and customer relationships to maintain competitive parity, web-based ventures, operating in the collapsed time frames of the Internet, must do so at a much faster pace.

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On the Internet, the agility and speed at which new applications are deployed is critical. But, in such a constantly evolving environment, what is the return on investment (ROI)? The current ethos is that it's acceptable for businesses to incur huge losses in the *hope* of securing a market share in the near future. When challenged about calculating the return on investment for web ventures, Andy Grove, the chairman of Intel Corp retorted: "The ROI on electronic commerce? Are you crazy? This is Columbus in the New World. What was his ROI?"

Yet the Internet is in a state of constant flux. Such constant change highlights business risk. For example, just as the mass-market portals were hoping to reverse years of losses, the market appears to be moving away from their business model. Data from Nielsen Netratings shows e-commerce is shifting from mass–market portals to vertical portals that address niche markets. Many investors on pure Internet stocks have yet to recoup, let alone see a return on their investments.

## Ball and supply chain?

Of course, the Internet is ideally suited to information-based products that can be reduced to binary bits and immediately distributed via the web – banking, information services and software publishing to name a few.

But what about physical goods? Virtual retailers such as amazon.com, with its premature cost advantages, are being forced to re-evaluate their business models. To fulfil customer orders, Amazon and most other pure e-commerce ventures have tended to lease rather than buy warehouse and distribution space. Yet, it historically took Amazon a few weeks to deliver an order that took the customer just a few seconds to place.

When real-world rival Barnes & Noble launched onto the web, it already had its own physical distribution network enabling it to fulfil orders within days. Now amazon.com is ploughing huge resources into building its own distribution network in order to compete with bricks-and-mortar rivals – and making losses as a result.

Even after this investment, amazon.com will still lack the facilities of its real-world rivals. For example, shoppers buying from the Barnes & Noble website can choose to order on-line and collect at the store later, or return on-line ordered goods in person to the store.

Many companies which have been around since long before the Internet explosion also benefit from long-established brands. These embody the lifestyle values associated with a product or service and help to build an affinity between an organisation and its customers. Consequently, the websites of real-world companies, whose brands have been carefully nurtured over the years, are often seen as more trustworthy destinations than websites of new virtual e-commerce organisations that are attempting to rapidly establish their brands at great financial cost.

## Concerned consumers

A strong brand can also help to calm privacy and security fears that are emerging from the initial 'Internet gold rush'. A survey by the US National Consumer League showed that an incredible six million US consumers have been victims of on-line fraud. In the UK, research by Durlacher, *Why UK users don't shop on-line*, showed that 31% of UK shoppers did not buy on-line due to concerns about unsecured payment systems and confidentiality.

However, new legislation such as the UK's reinforced Data Protection Act or the EU's consumer-privacy directive should help to combat these problems and give buyers more confidence in the Internet. On a purely commercial level, Internet technologies allow for greater personalisation of customer relationships. However, legal issues such as the formation and enforceability of electronic contracting and jurisdiction remain areas for concern.

## Business strategy

The current media emphasis on using the Internet for sales and marketing is eclipsing another vitally important area – improving internal business systems.

Using Internet technologies to create secure connections – an extranet – companies can integrate their internal systems with suppliers and partners. Relatively inexpensive, and based on open standards, extranets deliver real cost benefits to both mission critical and business supporting processes. By focusing on internal improvement and cost reduction, companies can also gain the added benefit of creating a web-enabled business environment that more readily adapts to e-commerce transactions with customers via the web.

Organisations need to define clearly their business proposition and the business model required to realise this. They will need an infrastructure based on open standards to avoid technological churn and allow for continual evolution and adaptation.

## Clicks and mortar

As our experience and knowledge of the Internet increases, we are achieving greater synthesis between the web model and the physical world. The Internet will not supplant existing market channels, but rather it will act as an additional value-added market channel. It seems that the virtual organisation is being tempered by reality. ■

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