Key strategic challenges in B2B e-commerce

WHITE PAPER
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FOREWORD

The manufacturing industry is undergoing a dramatic change, pressured by new level of globalization and economic downturn.

The opening up of markets is intensifying competition at home and abroad. Coupled with rising customer expectations and shrinking profit margins, this competition is putting pressure on manufacturers to compete more effectively on levels of customer service and on prices. Additionally, in the context of today's economic downturn, the ability to ensure excellent customer satisfaction is key to survival. Companies need to provide their customers with superior responsiveness and outstanding reliability in meeting their fulfillment needs, as this is a unique way to ensure customer loyalty and win over competitors.

Interestingly enough, the struggling economy we are experiencing today is driving more purchasing to happen online. Although the ongoing down market trend has hit online purchasing growth as well, B2B e-commerce spending continues to grow and will take a share from the struggling offline economy.

So, what do manufacturers need to do? We have identified six key challenges, which are shown opposite. These are not the only areas manufacturers need to focus on, but we believe they are among the most important. In short through B2B e-commerce initiatives manufacturers can lower their operating costs and increase productivity; they can enhance customer experience and customer retention; they can manage increasing product complexity and boost sales in product-related service. Also, they can enter into new markets much faster and with limited investments and they can gain faster time-to-market for new product introductions.

So, it’s not an easy task. Yet the Internet is worth persevering with; and those manufacturers that get it right online are much more likely to emerge in a stronger position from the downturn.
INTRODUCTION

- The advent of the Internet revolutionized the way manufacturers practice business. The web offered an alternative manner in which companies could communicate with each other, providing an unprecedented opportunity for business diversification and expansion.

- There are several categories of commercial activity taking place over the Internet. These include Business-to-business e-commerce (B2B), which refers to the commercial activity between two or more business organizations, and Business-to-consumer e-commerce (B2C), which refers to the commercial activity between businesses and consumers.

- Although the B2C portion of Internet commerce has been visibly the highest, however, it is the B2B e-commerce that provides the largest portion of the electronic marketplace spending. According to IDC estimation, B2B e-commerce spending represents more than 85% of total B2X e-commerce spending worldwide.

- Since the inception of the Internet era, most manufacturers started evaluating the opportunities connected with opening new sales channels through the web in order to connect, collaborate and automate selling processes with their business customers.

- At the very beginning, just opening a B2B e-commerce web site to sell few, well-diffused products represented true innovation and, thus, a differentiation with respect to competitors not being able to offer the same capability.

- Originally, the hype of e-commerce was driven by the wrong perception that just the technology was able to bring companies' alternative business models, and enough to guarantee success. What many businesses made wrong in early days was lacking in identifying the business case for B2B e-commerce initiatives.

- The hype of e-commerce has since then vanished, however, throughout the years B2B e-commerce has grown constantly and quietly to the extent that it is now, just a normal part of business. According to Eurostat, the number of European companies that accept orders on line has grown by a 39.4% CAGR between 2003 and 2007, representing now 34% of total European companies.

- Interestingly enough, the struggling economy we are experiencing today is driving more purchasing to happen online. Although the ongoing down market trend has hit online purchasing as well, B2B e-commerce spending continues to growth and will take a share from the struggling offline economy, as it typically offers bargains for buyers and lower costs for sellers.

- Globally, Internet commerce is expected to exceed $8 trillion for the first time in 2009 and, although the online economy is also suffering from the economic downturn, IDC estimates a 10-12%
growth rate in 2009. Growth rates estimation slightly differs between Europe and United States. Research shows that B2B e-commerce is more widely used by U.S. firms. However, spending through B2B e-commerce is growing faster in Europe as manufactures are willing to cover the existing gap

- It must be noticed that, according to recent data from Eurostat, only 4% of total manufacturing turnover is generated from B2B e-commerce sales. Therefore, the expected significant growth in e-commerce spending in Europe will not only call new companies opening B2B e-commerce channels, but will call the vast majority of manufacturers having B2B e-commerce capabilities already to extend the range of products sold through the Internet.

- Today, manufacturers are looking to find the business case for their B2B e-commerce strategies. Indeed, manufacturers are now focusing on a less ambitious yet more pragmatic approach, based on achievable results and precise ROI estimation. They need to analyze what their business challenges are, how can be solved through a B2B e-commerce initiative, and what application can support their initiative at best.

- To support manufacturers prepare for new or extended B2B e-commerce initiatives, we identified in this paper six major challenges that characterize manufacturing organizations selling through a B2B value chain. Each of them can find relief through the implementation of a B2B e-commerce initiative.

**KEY BUSINESS CHALLENGES**

1. Lower costs and increase productivity
2. Retain existing customers
3. Manage product complexity
4. Innovation through services
5. Exploit new markets
6. Faster time-to-market for new product introduction
Lower costs and increase productivity

- The most relevant pain point that harasses the manufacturing industry – particularly in today's bad market conditions – is certainly the ability to find continued ways of gaining additional efficiency and productivity out of any business processes, thereby to reduce operating costs.

- In a context of an elongated supply chain, the interactions between companies in their selling and purchasing processes represent a relevant area of operating costs.

- Cost reduction is, thus, a leading driver for suppliers in undertaking a B2B e-commerce strategy. As literature supports, in fact, it is not unusual for many B2B e-commerce initiatives to achieve fast return on investments (ROI) with more cost reductions in one year than total cost to implement. Additionally, the payback from cost savings is augmented by other returns such as increased revenue, faster time-to-market, and improved customer satisfaction, that in turn support higher margins, and thereby achieve faster ROI.

- Cost advantages are gained through more efficient and streamlined selling and purchasing processes and can be measured at both the seller side and at the buyer side.

- On the seller side, the extension of the order entry activity towards customers' purchasing offices and the elimination of internal manual order entry are key to achieving those savings. In this way, suppliers can attain dramatic returns on investments thanks to the reduction of back-office support personnel costs and the reduction of expensive traditional communication costs (such as phones, fax, etc., relative to the Internet alternative).

- These cost advantages come in the form of head count reduction, revenue growth without incremental head count, internal productivity increase through the reduction in errors and, therefore, rework, elimination of unnecessary and repetitive tasks and the refocus of back-office workers towards more added-value activities.

- Estimates of traditional order processing costs vary, but are somewhere in the range of 10€ to 50€. Internet based orders have trended between 1€ and 2€ per order. Additionally, literature suggests a reduction of 15% in customer support calls and a 10% increase in back-office productivity.
Retain existing customers

- For suppliers in a B2B value chain, the increasingly tough competition, the heavy cost of acquiring new customers and the complexities connected with global trading are all reinforcing the value of existing customers and the importance of retaining them. Additionally, fast commoditization of products, soaring buyer expectations and weak demand are calling for manufacturers to find ways to provide existing customers with additional value as a way to keep them.

- These trends are increasing the focus on enhancing customer experience during the purchasing process as a way to add value and thereby improving customer retention.

- An adequate B2B e-commerce capability increases the ease with which customers do business with suppliers, thereby reducing their need to go to competitors when they want to find product information, develop specifications, or make purchases. As customers become more familiar with supplier's e-commerce capabilities – and more so, when these capabilities are immersed in their established purchasing processes – their desire to go elsewhere obviously diminishes. The result is that customer retention increases.

- Therefore, the approach suppliers should follow in their B2B e-commerce strategy is that they have to provide their clients a modern "purchasing service" that needs to be tailored to fit customers’ business process workflow.

- The capability of supporting complex workflows over the web is not an option for modern B2B e-commerce platforms. Indeed, for the majority of B2B interactions – particularly for buyers in the most structured value chains of automotive, high-tech, and industrial equipments – the purchasing process requires to follow strict process workflows with milestones to be achieved, tasks to be completed, due dates to be respected, approval levels to be confirmed, and contractual thresholds to be considered for pricing, volumes, and product mix.

- Additionally, in today's information-based society, customers are expecting to find extended information about the products they are looking to buy. Buyers need to search and access detailed technical specifications to rapidly qualify if and how products fit specifications. Also, customers are looking for unstructured qualitative information such as product application areas, customer usage examples, 3D interactive design, and assembly instructions.
Manage product complexity

- If deploying B2B e-commerce is an essential capability for suppliers to increase revenue, reduce costs, and improve customer loyalty, these efforts are worth nothing if complete, up-to-date, and consistent product information are not available at buyers' fingertips.

- However, the severe market competition, combined with increasing product variations based on customer requirements and the need to comply with safety and environmental regulations, has resulted in a substantial increase in the complexity and number of products. In addition, product life cycles are shortening, and this means that products reach end-of-life more frequently, with an increased number of new products coming into force. In this context, product data becomes out of date sooner and ensuring complete, up-to-date, and consistent product information internally to the organization and along the value chain is not an easy task.

- For suppliers in a B2B value chain to work effectively, the complete visibility of product information and the ability to seamlessly transfer product data towards customers as and when needed is required. Indeed, the availability of good information is critical to managing an efficient B2B e-commerce initiative. In effect, without complete, up-to-date, and consistent product information, suppliers frequently suffer from flawed orders, incorrect shipments, and pressing customer support requests.

- The lack of conformity in product data also stems from the fact that product data typically remains scattered in multiple enterprise systems ranging from engineering, sales, service, financial, manufacturing, logistics, and marketing databases to word documents and excel spreadsheets on individual desktops.

- When considering the opportunities of B2B e-commerce initiatives, suppliers need to examine the possibility to aggregate all product information into a central repository, thereby resolving discrepancies and updating information gathered from different internal systems. These initiatives – that goes under the name of Products Information Management (PIM) – result is a single version of the truth that can eliminate many of the product data hiccups that turn customer relationships sour and that create most of selling process costs and inefficiencies.

- PIM initiatives are thus an essential ingredient in a successful B2B e-commerce implementation. The key benefits include lower delivery costs, accelerated time-to-market, increased sales, reduced errors, and improved efficiency.
**Innovation through services**

- In today's flat global markets, commoditization of products is advancing rapidly, as "traditional" product features (such as functions, quality, or design) are no more assurance of lasting competitive advantage.

- As part of the strategic response to the above trend, manufacturers are turning their attention to the delivery of product-related services that, not only provides an additional revenue source, but also enables higher customer satisfaction.

- With soaring R&D costs and falling return on investment (ROI) on R&D spending, the service business represents a safer harbour to maintain healthy growth and sales margins, as service products can be introduced faster and with lower investment.

- Most importantly, higher profit margins are originated from services provided on top of physical products. For example, colour cartridge selling provides higher margins than printers themselves, and the same applies for spare parts and aftermarket services in the automotive industry or servicing equipment operations in the machinery industry.

- These trends towards service-based revenues are deeply changing manufacturers' way of doing business as they are blurring the boundaries between products and services. Indeed, many physical products are today the platforms for delivery of services.

- A B2B e-commerce strategy may effectively help suppliers carry on this massive business transformation, as it enables them to stay closer to customers and better understand their product-related service needs.

- An adequate B2B e-commerce capability, in fact, provides suppliers with detailed insights on buyer behaviour and preferences and represents a fast channel to fulfil support-intensive products such as spare parts, servicing equipment operations, or warranty management.

- Through the analysis of information that B2B e-commerce provides, suppliers are much better placed to decide which products-related service will appeal or be necessary to which customers and when. By leveraging on cross-selling and up-selling techniques, suppliers can direct a buyer towards product-related services and consumable products that better fit customers' applications, thereby increasing the proportion of revenues coming from the sales of product-related services.
Exploit new markets

- Many organizations – particularly mid to small sized ones – are limited in their ability to reach new customers or enter into new markets. Often, this inability is simply due to prohibitive cost of sales when compared to the potential return of investments.

- Setting up an adequate B2B e-commerce capability eliminates those restrictions and reduces business risks. Indeed, opening a new sales channel over the Internet allows B2B suppliers to market their products to new geographies or industries with a fraction of the investments that would have been necessary to establishing an onsite or telemarketing sales force for that targeted market.

- Additionally, a B2B e-commerce initiative enhances suppliers' ability to sell to new buyers within existing accounts. In fact, it is often the case that even for customers who are serviced directly, the best account team cannot penetrate all of the potential opportunity. By establishing a B2B e-commerce capability, suppliers can leverage the reach and penetration of existing sales force to incremental buyers in those accounts.

- When deploying B2B e-commerce applications, it is important that suppliers take steps to raise awareness of the Internet e-commerce site. Particularly when selling in new accounts represents a relevant share of business, suppliers need to make sure that the site can be easily found via search engines.

- Achieving better ranking and relevance at Google or on other search engines might represent a good opportunity to raise awareness particularly in new markets. However, suppliers need to take into consideration that their new potential buyers will be searching for specific products features or attributes and not at all for product names. Therefore, suppliers need to pay attention when choosing their B2B e-commerce platform as it must have the modern technology that provides automated search engine optimisation functionalities. The latter ease the task of making relevant pages with product attributes visible on search engines.

- Communication is another key element to attract new customers. In a world overwhelmed by tons of information – B2B suppliers needs to be able to provide the right in-context information at the right time it is needed. Providing editorial contents that make the B2B e-commerce site more "sticky" to the needs of buyers and – most interestingly – creating communities of buyers sharing the same needs is showing rapid return on investments through up-selling and cross-selling opportunities.

- It is also important for the solution deployed to support multiple languages, currencies, unit of measures, and specific local regulations to maximize the benefit of the geographic coverage.
Faster time-to-market for new product introduction

● Most of our surveys show that today, among the most critical business objectives manufacturers are prioritizing, there is the ability to streamline new product design and introduction.

● With the reduction in product life cycles and with the continued emphasis in selling to narrower market segments or micro niches, the time it takes to bring a product to market – to be ready to announce, sell, deliver, and support – becomes a larger percentage of a product’s useful economic life.

● Therefore, shortening time-to-market is an essential task for any business, as, not only it assures that new products are available into the market quicker, but also ensures that there’s enough time to reach return on investment through adequate selling during the narrowing product’s life cycle.

● Introducing new products and services to customers points to the need to focus on enhancing sales, marketing and after-market business processes. In particular, companies with a diverse set of product lines have to deal with lengthy new product introduction cycle that includes traditional catalogue creation, product pricing definition, available product configurations, phone-based channel announcement, readiness, and support activities.

● The implementation of B2B e-commerce capability can eliminate a significant amount of the time it takes to go to market or to be ready to introduce new products. Research findings suggests the possibility of a 40% reduction in the time from product readiness to product availability to buyers, and in the time it takes to edit and change products, pricing, and configurations.

● For some companies, the ability to put a product up for sale, or to change a product in less time than a competitor may mean the difference between being able to profitably market a product at all.
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