

Our Point of View on eCommerce

Why is eCommerce a business imperative?

The Internet is fundamentally changing the business landscape

The Internet is redefining the way we do business. It is transforming the way products and services are bought and sold and communication between customers, producers, suppliers and intermediaries exchanged. It is changing how companies communicate with suppliers and customers. It is changing how customers perceive companies. In short, it is changing everything. The Internet has fundamentally changed some of the rules of the economy as we now – the industrial economy.

The Internet based economy, also called as the knowledge economy or marketspace, has brought into forefront the theory of increasing returns. The QWERTY keyboard is a good example of this theory. This theory was probably one of the reasons why Sun Microsystems launched JAVA free. This theory has also increased the importance of being first to the market and establishing a de-facto standard for a particular service. MP3 is fast becoming a de-facto standard for audio data format.

Since the Internet gives the same reach to everyone, company size has been relatively less important. However, early movers and “established” names along with company size can create a formidable advantage, something, which Amazon.com or Yahoo! enjoy. The Internet also provides opportunity for understanding customers like never before and gives the opportunity for targeting customer individually at relatively lower costs. Customer profiling can be undertaken easily and one can now theoretically, segment the market for every customer individually and customize a product or service for him/her. Amazon.com tested this principle recently when it priced the same book to different people differently based on the user preferences about the author. (Though there was some public reaction to their tests, it did indicate the power of individually segmenting the customer). The knowledge economy, thus, places high importance on intellectual property, as majority of the company’s assets are intangibles. Most of the assets would be stored as information and managing that becomes a business critical imperative.

Since time is of prime essence in this marketspace, the way we work is also undergoing change. Partnerships and alliances have become important not only for growth but for survival itself. Microsoft, a company that believed in propriety technology, has developed and is developing multiple partnerships for its .NET platform. This has also impacted how companies work internally. Increasingly, companies are resorting to projects, special taskforces and working groups to get things done. The Internet has made it possible to collaborate with people in other cities, countries and continents easy and cost-effective. Company structures are becoming more open and less hierarchical. As more activities get performed over the net, many of the company’s processes are becoming “virtual”. For example, inventory (a physical asset) is replaced by information (a virtual

asset/intangible). All this places more importance on Information management and people than ever before.

Summarizing:

	Traditional economy rules	Internet economy rules
Theory of returns	Diminishing returns	Increasing returns
First mover advantage	Somewhat important	Very important
Company size	Very important	Size matters less
Company assets	Physical	Intellectual
Customer segmentation	Mass market	Customer segment of one
External Relationships	"Arms length"	Good relationships, a must for survival and growth
Information availability	Restricted to some	Available to all
Company structure	Hierarchical	Open, networked
Process	Physical	Virtual
People	Secondary importance	Prime importance
Information Technology	Construed as storage and retrieval of data	Integral part of business strategy

How can a company leverage the Internet?

eCommerce impacts the key business levers. It helps in

- Increasing revenues
- Lowering costs

Increasing revenues:

A study by Jupiter Communications indicates that organizations can show a 52 percent increase in revenue and a 47 percent growth in their customer base after just 12 months of doing business online.

Companies can increase revenues by:

- Opening up of new markets:
 - Opening up of new geographical markets – the Internet is making national boundaries disappear
 - Attracting new customers through online marketing and advertising
- Increasing customer's share of business:

- Increasing consumer's knowledge of company's products and services through online access of information
- Increasing customer satisfaction via web based customer service and support tools
- Clearly defined customer segmentation based on consumer profiling
- Faster response to customer problems, requests and orders
- Promoting new products and services
 - Companies can launch products and services online and quickly market it to all target customers
- Customer word-of-mouth
 - The Internet makes it very easy to spread experiences. A good or bad experience can be quickly e-mailed to many people simultaneously

Lowering Costs

Oracle Corporation claims to have saved more than \$ 1 billion through its online initiatives. eCommerce can help:

- Cut transaction costs
- Simplify processes which can help in significant lowering of costs
- Improve business relationships with their suppliers and customers by managing transactions and communications online.
- Reduce cycle times / increase business velocity by increasing the speed and accuracy of transactions
- Manage inventory: Companies are substituting inventory with information and thereby reducing inventory holding costs
- In disintermediation, which can reduce inventory and distribution costs
- Lower customer support costs by managing customer relationship through online FAQs, interactive help functionalities and e-mails
- Logistics management and others

In conclusion

eCommerce is a critical business imperative to most organizations. Ignoring the Internet and doing Business as usual is the surest way to going out of business.