E-COMMERCE: PANACEA OR PLACEBO?

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SUCCESSFUL E-COMMERCE SITES BUILD RELATIONSHIPS, FOSTER POSITIONING, OFFER CLEAR PROCEDURES, AND MAINTAIN CONFIDENTIALITY.

THE FOLLOWING ARE SOME QUOTES THAT ONE CAN FIND regarding e-commerce in the pulp and paper industry when surfing the Web:

- "... the leading business-to-business (B2B) e-commerce operating platform and trading applications provider ..."
- "... Our aggressive designs for this e-market require a foundation that supports seamless technology integration—both inside and outside our marketplace ..."
- "... is a leading global e-commerce marketplace for the pulp and paper industry ..."
- "... launched itself 2 years ago and built itself into a leading B2B player ..."

Give it a rest, please!

What is really going on in e-commerce in the pulp and paper industry? Finding quantitative, not qualitative, information is very tricky. In most business endeavors, getting prognosticators to agree on what might happen is difficult. In this one, e-commerce, it is even difficult to get them to agree on what has happened in the broad market, let alone in the pulp and paper corner of the world. For instance, Goldman Sachs has been quoted as determining that "Paper Industry eBusiness" was slightly less than US$ 5 billion/year in 2000 and will grow to nearly US$ 45 billion/year by 2004. On a broader scale, eMarketer predicts worldwide B2B revenues will grow from US$ 185 billion in 2000 to US$ 1.26 trillion in 2003. The University of Texas, in its report "Measuring the Internet Economy," January 2001 (disclosure: this report was funded by Cisco), states "The Internet Economy generated an estimated US$ 830 billion in revenues in 2000." Granted, "e-commerce" and the "Internet economy" are most likely two different metrics, but this goes to show how difficult it is to get one's arms around this activity.

In the latest data released by Enron, the company claimed to be operating at a level approaching US$ 4 billion in trades for 2000 in the pulp, paper, and wood sectors. If this is correct and one believes the Goldman Sachs numbers, then Enron represents most of the pulp and paper industry's e-business in 2000. And by the way, these sectors represent only 3 of at least 15 in which Enron is trading today.

In other places, Cisco's online e-commerce revenue for 2000 is cited as being US$ 4 billion, or roughly equal to that of the entire pulp and paper industry according to Goldman Sachs, as quoted previously. Yet John Chambers, the CEO of Cisco, can't tell us what his company will do in the next quarter, as it is in complete crisis at the moment, according to the financial press pundits. If one CEO can't forecast his own business, what are the rest of us supposed to do about prognosticating what whole sectors of e-commerce B2Bers will do?

To confuse the quantification of e-commerce size a bit further, General Electric reported e-commerce via the old system of EDI (electronic data interchange) of just over US$ 4 billion in the year 2000. If one combines GE's and Cisco's efforts, this US$ 8+ billion represents slightly more than 4% of the entire e-commerce world last year. But, is EDI in the widely quoted statistics?

In 1903, Henry Ford had a problem. He split with his backers, because they wanted to build expensive cars and he wanted to build inexpensive ones. The backers stayed with an automobile called Cadillac, and he went off to build the Model T. What strikes one when looking at the old advertisements for Model Ts is that the ads focus on what the Model T can do for the prospective buyer. Not once is anything mentioned about Henry Ford's "vision," and there is no discussion of his business plan or how many rounds of what kind of financing he had achieved by a certain point in time. Instead, the ads promote the performance of the car and what the car can do for the buyer.

B2B sites, on the other hand, tend to talk about the founder's vision, how many rounds of financing he has had, and so forth. It is very difficult to discern what's in it for the user from all the self-promotion hype surrounding these ventures.

ACHIEVING E-COMMERCE GOALS

I would like to discuss the various kinds of sites that are available and what might entice someone to use them. But before I do that, let's speculate, based on past practices, as to what a business, particularly one in the pulp and paper industry, might want to do. The answer seems relatively simple: to sell the maximum amount of product at the highest margin with the minimum amount of sales costs and a minimum amount of returns, allowances, and write-offs for bad credit. Achieving these goals requires relationships, positioning, procedures, and confidentiality. Relationship selling is why suppliers and pulp and paper companies have salespeople. We buy from those we get to know and trust, and from those who keep their word. We buy from those who pull out the stops and fill an order ahead of schedule when we goofed predicting when we'll need it.

Positioning is done by adding something extra to a product to differentiate it from the commodities. Yes, you can buy bearings from many different sources made to identical specifications, but you are most likely to buy them from the source that air-freighted one when you needed it in a hurry or from one that can statistically show that its products last the longest. Selling procedures involve considerable boilerplate fine print, among other things. These contracts are developed over long periods of time, based on many painful mistakes. They protect both the buyer and seller, and are important and unique to each company.

Confidentiality, the cornerstone of a business relationship, is critical. If one cannot keep his customers—and the unique ways of dealing with these customers—confidential, nearly all is lost.

There is a reason why paper grades are not traded on the Chicago Board of Trade (CBOT)—relationships, positioning, procedures, and confidentiality. However, Internet B2B sites have many aspects of the CBOT, e.g., auctions.

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MAJOR APPROACHES

There are four major e-commerce business approaches:

- The independent stand-alone provider
- Proprietary sites by individual companies
- Proprietary sites by a consortium of companies
- Mixed sites.

The independent stand-alone provider

This type of site operates similarly to the original telephone company (AT&T). These sites provide a communication and protocol service but are not direct players. Such sites tend to favor buyers rather than sellers, because they tend to make all sale offerings appear as commodities. They provide procedures but fail at providing relationships, positioning, and confidentiality. For "price buyers," those who buy strictly on price, these sites are fine. Such sites currently tend to derive revenues based on some type of commission scheme, but when the market determines that they are merely updated versions of the phone company (in other words, just a communications channel), I predict that they will be forced to change to a "fixed price per transaction" revenue model.

Proprietary sites by individual companies

These sites favor sellers. Using passwords to permit access only by prequalified buyers, the seller can use the site to build relationships, position his products, make procedures routine, and maintain confidentiality. The disadvantage for buyers is that they must prequalify separately on many similar sites and browse from site to site to determine the best price for their purchase. But, for the buyer who single-sources or believes in long-term relationships, these sites are fine. At times, the buyer may go exploring to make sure he is paying competitive prices, but otherwise he will remain loyal to the site.

Proprietary sites by a consortium of companies

Such sites are a compromise for sellers because they tend to present products somewhat as commodities, and some confidentiality is lost. They also are a compromise for the buyers; although there are choices from several suppliers to fulfill a given order, these choices do not represent the universe of potential suppliers. There is some possibility of building relationships, at least within the site. Positioning, with the whole site serving as a brand, is established. Procedures can be well developed. Confidentiality is in question; I believe that these sites must be very careful regarding potential antitrust violations.

"When the technology fades into the background, working silently and efficiently, you'll know you have it right."

Mixed sites

The largest trading site in business today started as an independent stand-alone provider but has moved to acquiring its own manufacturing capacity. Other sites have been started by manufacturers but welcome their competitors. Feedback that I have received from the field indicates that this approach may not be well received. The CEO of one manufacturer told me that once a certain site went from being independent and "became a competitor," his company stopped dealing with it instantly.

WHICH APPROACH WORKS BEST?

Interestingly enough, many businesses are willing to buy online but express reluctance in selling online. This has been confirmed in several surveys. These companies see definite advantages, particularly in the prices they pay, by buying online. At the same time, they do not want these same tactics reversed and applied to them. Eventually, of course, the buyers will win, resulting in more products becoming commodities and eroding margins for sellers.

What business approach makes the best sense? General Electric may be the model to follow. As reported in *The Economist,* May 19, 2001, there are three initiatives in GE's big divisions: "e-buy", "e-sell", and "e-make." The article goes on to report that the biggest hurdle to this implementation has not been technology but culture. GE has been diligent about watching the use of "parallel paths" such as the telephone, and in some divisions, the company only opens its mailrooms and printer rooms one day per week. Company executives are serious about destroying parallel paths as quickly as possible.

Perhaps there will be some innovative ways to avoid products becoming commodities and to develop stronger links up and down the supply chain. For instance, if a linerboard and medium producer linked with an independent corrugated container producer, perhaps linerboard could be sold based solely on what the independent ships as good boxes. If both the buyer and seller had full access to each other's manufacturing processes and could see what the other was doing online in real time, this would work. The same approach could work with fine paper manufacturers and printers. But, as with GE, this is a cultural issue, not one of technology; it will probably be resisted for a long time.

There is, however, one issue bigger than culture, an issue that will be particularly important to a global industry such as pulp and paper. It is the issue of inconsistent laws from country to country. A good example of this is the music-exchange service Napster. Napster has been fried in U.S. courts for violating copyright law. However, if Napster should move to China, its activities would be within the law of that country, and since the Internet is global, anyone could download its music without fear of retribution. This issue is just as ominous on the business side. The European Community has proposed strict standards for data protection. If the standards are enacted, it may be legal to exchange data on European customers, as long as you do it, for example, in Illinois. This is a problem that will not be solved overnight. In fact, if you are buying or selling online internationally today, you are most likely violating some law.

GETTING IT RIGHT

In the end, success will come to those who focus on efficient transactions and forget the technology. These will be sellers who determine how to keep relationships, positioning, procedures, and confidentiality in place and, at the same time, give the buyers what they want. Will the sellers use the Internet? Most assuredly. Will they shorten response times and reduce transactions costs? Definitely. But first and foremost, they will focus on getting the transaction right, and then pick and choose among the many available technologies to meet their goals. When the technology fades into the background, working silently and efficiently, you'll know you have it right.

Finally, to wrap up with some good, quantifiable numbers about the e-commerce and tech worlds, the following facts were gleaned from *Forbes ASAP,* May 28, 2001:

- The record-holder for tech firm layoffs is IBM in 1993, when it shed 63,000 people. The largest layoff in history occurred in 1991, when General Motors cut 74,000 jobs. The biggest layoff year in the United States was 1998, when 677,795 people lost their jobs.
- The largest one-day percentage decrease on the NASDAQ exchange was Oct. 19, 1987, when it lost 11.35%. Three of the four largest one-day percentage losses in the NASDAQ took place that month.
- The largest one-day percentage increase in the NASDAQ's history occurred on Jan. 3, 2001, when it increased 14.17%.

Who says the dot-com world is dead? **TJ**

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