

Does e-business investment pay back?

Let's start with a quiz!

Question 1: Which rock / pop singer has been a leading e-business innovator?

- a. Paul McCartney
- b. Madonna
- c. David Bowie

The answer is David Bowie.

Why?

I'll explain in a moment.

Question 2: Which writer / author has also been a leading user of technology?

- a. Jeffrey Archer
- b. Charles Dickens
- c. Stephen King

The answer is in fact both Dickens and Stephen King. We can come back to Dickens also in a moment but what have Bowie and King been up to?

Bowie especially has made a lot of his content available online. He prefers the Net for interviews. He feels he reaches more of his target audience in one interview worldwide, rather than having to travel to every major city in the world. He likes the instant communication, the immediacy. He now often puts new tracks on the Net first, before any CD gets made, either for free or pay per download.

What's his motivation?

- 1) Direct access to target customers: he can reach all his target audience directly
- 2) Cut out intermediaries in supply chain: he can cut out media purchasers, manufacturers, wholesalers and retail distributors
- 3) Speed to market: by shortening the supply chain he can impact the market very quickly and avoid lengthy delays
- 4) Cost savings: by reducing the supply chain he cuts out intermediaries' margins and so can charge less for his product
- 5) Increased profitability: more of the margin for him
- 6) Market reputation: he is perceived as being innovative and he enhances his reputation, his product and pricing potential

While Bowie is doing this quite aggressively, King has been more tentative but he has not ignored this opportunity, as many others have. He has selectively chosen content for Net communication. He has also tried to do this in collaboration with his publishers and supply chain partners rather than cutting them out. So he's mostly published direct on the Net either a few short stories or a couple of "teaser" chapters of his next book. It's an alternative strategy to Bowie's. He's gotten some of the benefits using the new Technology tools but he's only really scratching the surface.

Dickens of course was an early pioneer. He took advantage of the revolution in printing and the new publishing formats of weekly, even daily newspapers being sold at low prices. It was targeting a mass audience based on the lower costs of production and wider commercial availability of printing machines. It got him a unique position, not just because his new content was very good but also because he was one of the first to really exploit the new medium.

Back to today's apparently more sophisticated and certainly more technologically advanced world and another Quiz question.

Which of these companies has gotten the biggest amount of benefit out of e-business?

- a) Microsoft
- b) Oracle
- c) Tesco
- d) Dell
- e) British Airways

The answer is Oracle and Dell tie equal first. Oracle has in fact been a persistent pioneer of e-business technology tools and advantages. Not only have they adapted their own software products to exploit web-based technologies. They have also used the Net aggressively internally to drive huge levels of cost-savings - \$2bn in 2004 – and big process efficiencies.

Dell has in similar fashion been a leading exponent of Net-based technologies. They had of course a big advantage in that their business model is only c. 15 years old and they were able to build in a green-field environment, which took early advantage of emerging new technology tools. As many of you know they are the archetypal virtual company building their business on a network of manufacturing and supply chain partnerships all linked through e-business. It enables them to hold down costs and in fact their Sales, General & Administration costs at c. 8% of sales are half if not a third of their rivals like HP and IBM. No wonder they can price so aggressively, innovate and still make big profits.

These are just some examples of what those who really exploit the new technology tools can achieve. Let's stand back and examine this opportunity more strategically.

The first 3 years of this decade have been no-go zones for technology and Internet investment generally. Stock markets were in free fall, demand and confidence slowed, company profits came under pressure and everyone blamed the TMT (technology media and telecomm) bubble of 1998 and 1999 for overstressing expectations and creating a fantasy business model where the internet was going to replace everything.

Now we've reached the second quarter of 2005 and business is in reappraisal mode. Corporations across the globe are waking up to the fact that the Net has not gone away, that in fact despite appearances, in the background, quietly, there has been a low key low cost widespread adoption of Net-based applications. And rather than be guided by wild forecasts of what might happen there is now data and market stats for the past 5 or 6 years of real activity that shows, in fact, just how entrenched the Net has become.

- Right now the global internet-connected population stands at 660 million people according to a recent Reuters report
- During the run up to Xmas in the UK in 2004, 15% of all retail sales were through the online channel
- Broadband take-up in the UK is getting close to 20% of all the UK households and if I dare mention a forecast, it is expected to be in one third of UK homes by the end of next year
- Digital TV is already in 45% of all UK homes, Press the Red Button!
- The average amount of time spent online in the US is now up to 12 hours a week
- People aged 65 plus are currently the fastest growing age group Online
- 72% of all UK small and medium-sized enterprises have internet connectivity according to a recent UK Online government survey

The list of facts and statistics goes on but it's now clear that the Net has really become a mainstream medium for communication both internally within a business and externally to partners and customers.

Right now there is a further set of dynamics that are causing business to not just acknowledge the presence of this technology but to now reappraise the role it should be playing and what investment is going to be required to enable the company to operate in this new environment.

These further dynamics can be summarised as follows:

- 1) Competitive threat: if we don't do it then our competitors will. Indeed in many industries as we will look at later there are already a number of pioneers who are seizing competitive advantage through their stubborn persistence in pursuing Net-based investment opportunities. For example, just look at how Easyjet and Ryanair have revolutionized travel booking. They now sell c.90% of all their tickets direct online. They cut out the agent. They are more profitable. Their customers love it. And all the other travel companies are being forced to follow and are in desperate catch-up mode.
- 2) Broadband penetration: combined certainly in the UK with interactive TV this is opening up a new world of communication possibilities direct to the end user and consumer
- 3) Wireless: combine broadband with wireless and you have something really exciting. The emergence of WiFi and wireless local and wide area networks is changing the way business people can communicate among themselves. No longer chained to desks or forced to plug in somewhere on a fixed line, people can be truly mobile, 24/7, instantly, able to access information and transmit data at the touch of a button, no delay, no call back, no waiting around. And now that hotels and airlines are installing WiFi antennae, even when we're travelling or on holiday in some far off Caribbean Island (we wish!), we're still in touch! If we need to be.
- 4) Net Technology itself is now maturing: 5/6 years ago tools such as Broadvision or Vignette for e-commerce transactions and content management, or Autonomy for knowledge and know-how sharing or Siebel for CRM (Customer relationships) were new, especially expensive, and unproven. Now the bugs are out of the systems, prices have come down, people have learnt better about where and how to apply these tools. Competitor products have emerged which are cheaper than these early pioneers and which deliver just the key functionality, rather than all the bells and whistles. Critical ERP enterprise-wide systems such as SAP, Oracle and Peoplesoft have all been adapted to embrace the Net and support and leverage Net wide applications. So it's just easier to do things.
- 5) ASPs: Well I'm sure you're all familiar with it but this development has simply enabled companies to access new software tools much more quickly and cheaply. So, for example in web metrics, that is measuring the effectiveness of a website, companies like Nedstat and Red Sherriff make their highly developed software solutions available from their own hosted and managed environment at a monthly license fee starting at just a few hundred pounds. The data and insight they provide on how a Company can improve their website is extraordinarily valuable. But companies can avoid capital costs of buying and installation and the need for maintenance and upgrades, that's all now taken care of by the supplier.
- 6) ROI and the Nedstat, Red Sherriff, ASP examples are another reason why companies now can look at the new technology investment much more comfortably. The business case is now much more certain, the evidence, the proof much more fact-based, examples and case studies of what has already been achieved by others much more widely syndicated.

[Speech 1]

So, for example, I've been working with First Choice Holidays recently looking at their new internet-based holidays program. Booking holidays and airline tickets on the Net is now very popular. First Choice is already seeing c. 20% of all holidays booked that way. And of course it's attractive to First Choice because it saves them a lot of money. For every holiday booked direct online they save the c. £50 commission paid to an agent plus there are savings at the call centre in paperwork administration. It's immediate without delay and they enable the customer to book when they want (and there are lots of bookings between 8pm and 10pm at night!)

So for First Choice, any new investment in Net technology provides a great ROI. Payback is typically within 10 months. It's got to the point where the First Choice board is almost begging the e-business team for new investment proposals given the rapid return they are seeing on each investment made!

So let's stop just stop and sum up what are the potential benefits for a company if they decide to invest more determinedly in this whole e-business arena.

There are 5:

- Cost savings
- Speed / immediacy of contact + communication
- Efficiency / right first time
- Smarter customer supplier, partner relationships
- Company reputation and competitive advantage

Each of these benefits are real and tangible and as First Choice and others like them are finding they are increasingly easy and sure to get.

And if a company wants to go get all of this, where should they be looking?

There are in fact 4 main chunks of opportunity. These are:

- 1) Procurement
- 2) Supply chain management
- 3) Knowledge management
- 4) CRM

Any guesses as to which are the most popular areas and where companies typically first start their e-business activities?

In a recent survey among FTSE 250 companies, "procurement" emerged as far and away the most popular. It's attractive partly because it's externally focussed so a lot of the change management issues can be dealt with at arms length. But also because it's an area of great leverage with especially quick payback. So thru 2003/04 we've seen the following:

- Bristol Myers Squibb report over \$100m of e-procurement savings with a 50% ROI
- Motorola reporting a \$54m saving achieved in just 18 months
- HP claiming \$70m in 6 months with a target of \$300m in 2 years (and by all accounts they are ahead of schedule, as I can personally confirm as HP are one of my clients!). At Modem Media for example, there is a HP dedicated extranet site specially set up. It details all current agreed purchase orders, all invoices, and the status of invoice processing. Queries from HP or Modem are posted on the site and dealt with electronically. There's no call centre and indeed the supplier is not allowed to phone anyone! There is no paperwork and much of the transaction process is done via a few clicks on the Net.

[Speech 1]

- Even smaller companies like Hill & Knowlton the PR firm can benefit. They got a £2m return on a £300k investment within 12 months

So e-business investment in the Procurement arena can show up a lot of benefits very quickly. Let's look at a specific war story in more detail.

Eastman is a US corporation employing 15,000 employees in over 30 countries. It produces more than 400 types of chemicals, plastics and fibres from animal feed to x-ray film. It also buys a lot of paper clips, white board pens & laboratory gloves.

Eastman decided to focus initially not on the key raw material purchases but on the less important basic stuff which are the MRO or maintenance, repair and operational items. It found that these categories alone made up 30% of the total cost of the goods bill. They were doing 30,000 transactions a year in this area at an average value of \$45 each and on calculating the cost of processing each transaction it worked out at an average of \$115, taking 9 person days on average to fulfil! The total MRO bill was over \$900m. It was spread across 15 facilities and involved 6,500 suppliers from around the world. Purchases of \$1000 or less made up 85% of the transaction but only 11% of the total spend. In other words most of the effort was going into commodity-like items adding the least value.

But there was no automated systems connecting with suppliers. They did use EDI but much of the process work was done manually and where there were systems they often were regarded as unreliable and weren't used. People stuck to the manual process anyway!

The first thing Eastman did was to deal with all orders of \$2000 or less. Eastman established a Buysite. It was accessible from each person's desktop via their web browser. It was built using established Net-based procurement software tools. It was initially linked to Commerce One a leading e-procurement company, which had an established MRO catalogue online. In the Buysite there were automatic constraints for spending levels, also determining which suppliers can be used and who can buy.

Buysite was trialled among 50 employees in one facility. Investment costs were controlled. No further investment till tests and trials proved the value on an incremental rollout basis. The Net-based procurement environment worked very efficiently, it established basic disciplines and procedures very quickly. The main challenge was to stop the traditional individual behaviours of buying from a local supplier down the street even though the Buysite could produce a better deal.

Eastman has now rolled this out across the whole corporation and uses auctions, ebay and other net-based sources to continue to drive down its MRO costs as well as pushing this into the raw material area.

Now, in the interests of time, I won't go through each stage of the e-business value chain but I would like to share one more war story in this part of the presentation. It is my favourite and it is basically a CRM initiative but it cuts across the other areas and takes advantage of wireless technology too.

Progressive Insurance was a sleepy US auto insurer. They were a weak No. 10 player in their markets and losing money. In 2001 a new management team was brought in to rescue the company. They did some of the basic cost-cutting and restructuring which improved profits a bit but the internal processes were poor and slow. Progressive decided they would take a radical view of their business operations and see if they could

find a way to transform things. They were excited by the emerging new Net and Wireless technology tools. What could they do, what could they achieve?

They looked across their whole business and decided a key area of underperformance that was handicapping them badly was the 'claim settlement' area. Never an easy area but at Progressive it had gotten very poor. If policy holders had an auto accident the time delays in filling in a complex claims form, sending it through, chasing it, dealing with follow-up questions and gaining any settlement was taking months even years and the average settlement time was near the worst in the industry.

Progressive could have tried to e.g.: simplify the claim form or set tight time-tables internally but instead they decided to change the whole thing. They've moved to what they call "roadside settlement".

Now, if there's an accident, a 1-800 call through to the company's call centre and a "mobile claims assessor" nearest to the scene of the accident is automatically contacted. The goal is: get to the customer ASAP and if possible "within 20 minutes". Once there, the claims assessor uses a pocket pc with a wireless internet connection. Dials up the data warehouse, checks the policy details, assesses the accident and, if the assessor is satisfied and it's appropriate, then click "submit". A check in settlement for the policy holder can be automatically dispatched! The claim can be settled right there and then.

From having the worst claims settlement delay, Progressive now has one of the best. It's shot up from its sleepy No. 10 market position to a "fast-tracking" number 4 player in its industry. It has streamlined and simplified and automated high-cost poor service processes. Yes, costs have been reduced but Progressive has managed to capture a whole raft of these wider benefits and has especially succeeded in transforming its customer reputation. Now, its call centre focuses on new business rather than being swamped by customer complaints!

What about the Finance function itself. Where do you think are the areas of greatest leverage?

- Payroll
- Expenses
- Cash management
- Payables
- Receivables
- Queries / RFI's
- Management Accounts
- Statutory Accounts
- Analysis
- Audit
- Tax
- Capex/ fixed assets

A recent PA consulting survey among Finance Dept Managers of 50 different organisations suggested that from an e-business context, "payables" was the area of particular attractiveness. Respondents talked about quick wins, linking up with suppliers on the Net, automating connections and contracts between companies, giving suppliers access to the company's invoice processing status via a secure network, reducing supplier invoice queries, and providing the ability to reallocate manpower to other activities in the Finance chain.

But what also came through from the survey was that there was a wide spread of "top answers", so payables was more leveraged often among manufacturing companies with

[Speech 1]

large supplier networks, rather than service companies, and a large proportion put “management accounts preparation and analysis” together as one high profile topic.

For example one company gave the non finance people outside the department controlled access to the data so they could do their own analysis themselves via the Company’s Intranet. They established some pre-set pro-formas and templates to facilitate this. This helped replace the previous process of bombarding the finance team after every month end for queries and analysis of the numbers.

This whole DIY, “do it yourself” theme is something we might return to because it is one of the unexpected consequences of Net connectivity. Now customers and others prefer to do tasks themselves rather than rely on or wait for or depend on others to do it for them. Whether booking holidays online or doing your own financial analysis, companies and departments are learning that the Net enables them to offload a lot of tasks to others!

Here’s an example of one organisation, which has pioneered improved effectiveness in the Finance function using e-business tools and applications.

Cisco is a \$20bn revenue company, which among other things routes traffic over the web. In 2002, it achieved savings of \$1.4bn through e-biz related initiatives. That’s equivalent of c.7% of sales or 7 net margin points. That’s an increase in profitability that many would dream of but much of it has been within Cisco’s control. One area that’s made a surprisingly strong contribution is the Finance function. The cost of the function has halved from 2% of sales to 1% and that’s close to the low cost end on a benchmark basis versus other corporations. How has it done that?

The answer lies in using the Internet for all data and financial information transfers within and without the company. The whole organisation is linked on a common platform. Disciplines and procedures have been painstakingly put in place to get every business unit and every country to use that platform. There is now a common “chart of accounts” with developed and accepted definitions of how to treat different costs and income items. Suppliers and customers are on the same network and use the same chart of Accounts coding, invoices in and out are processed in the same way to a standard timetable, income is recognised against clear procedural points (e.g.: not when made or when shipped but against a customer purchase order number).

“We use the Web like a weapon”, Cisco people say. They are actively incentivised and bonused on innovative and effective ways of using the web to streamline processes and improve efficiency. They’ll say it’s still not perfect. But almost uniquely Cisco are in a position to close off the monthly management accounts within 6 hours, that’s hours not days, of the end of the month. It also means that at any time management has an updated view of the financial position of the company. It also means management can react to any issues or problems in real time as they arise, rather than say wait 3 or 4 weeks after the month end!

And to reassure all those in the audience that this is not just a “big company thing”, take Fisher Scientific which is a smaller laboratory supplies distributor. They wanted to take advantage of all these opportunities but had very limited funds. Eventually they put up £40k to pilot a new web-invoicing system. The initial test showed they could reduce payment-processing costs by 80%. Fisher rolled out the program and got pay back in under 6 months both in terms of costs but also cash flow.

As is I hope it’s becoming clear, this e-business thing has wide-ranging benefits and implications.

It's one reason why the term "e"-business is getting used less and less. Partly that's because it now carries a legacy of Tech bubble and burst and all the problems that came with it. Partly it's also because management consultants like Accenture are keen to try to continuously reinvent the same basic idea and give it a new label to show how up-to-the minute they are, and partly it's also because managers are beginning to recognise that these e-biz tools do have in fact a far-reaching and total organisation impact.

So instead of e-biz, some people are using the expression "total business", others like Accenture have migrated to "the high performance business", others like IBM use the expression "business on demand". But at the end of the day when you strip away the packaging, they are all saying much the same message... companies can gain advantage in today's tough environment. There's a choice between slow incremental change, or like Progressive Insurance the option of redesigning a business process completely using increasingly proven new Net Technology to do that.

As the final piece of this presentation I'd like to spend a little bit of time talking about the "how to", how to make it happen. What are the lessons learnt, what will drive success and what are the possible causes of failure and the pitfalls to watch out for?

There are ten top tips:

1. Win hearts and minds
 2. Dare
 3. Empower the workforce
 4. Neutralize + Co-opt
 5. It *is* the technology
 6. Get sufficient resources
 7. Involve partners and customers, aggressively
 8. Test + Trial
 9. Align the rewards structures
 10. MMR
- 1) Hearts + minds: This is mostly about "leadership". It's about establishing a vision and communicating it in such a way that is captures the imagination and interest of the employees in the company... who are of course the people who have to make things happen! All the research shows that achieving this "hearts + minds" commitment requires two things – (1) sharing the strategy and (2) sharing the upsides and benefits for the company and the individual. Great examples of this come from companies like Toyota. So as Toyota set out its stall in the late eighties to become a strong automotive player in Europe it established a vision which was "Beat Mercedes" and everything from operational improvement through to customer service was all continually benchmarked versus that target. It was a simple idea which people could get. It excited, motivated and got people focussed. As Jack Welch formerly head of GE has put it: "if people are to put out the extraordinary effort required to realise corporate targets then they must be able to identify with them and share in the ideas and goals that they represent".
- 2) Dare: Approaching this e-biz opportunity right now requires some courage and conviction given that there are still many doubters and sceptics out there who'll keep referring to the tech bubble burst. But companies do have a choice: - do nothing, do a few incremental things or carpe diem, seize the day and the time. Take advantage of this catalyst and catapult the organisation forward. "Dare" is about setting big audacious goals that stretch the imagination. The most famous example is President Kennedy's 1961 declaration: "we're going to have a man on the moon at the end of

the decade". The goal was certainly stretching but people believed that technology had advanced enough that it was nevertheless just about achievable.

- 3) Empower the workforce: People at Dell will talk about the Internet as being "part of our core value set". The company has created an environment where there is widespread understanding of Net technologies and a recognition of how leveraged they can be. Employees have been trained specifically in this and when they pass certain internal training courses they get a certificate that says "Michael says (that's Michael Dell, not me, the CEO of Dell!) Michael says that I know the Net". It's got to the point that senior management no longer need to encourage or push or demand, the workforce themselves are searching ever wider for new ways of how internet (and now wireless) connectivity can improve productivity and performance.

Other companies like Yahoo, British Airways and Ford are developing specific programs and incentives to try to build this same level of awareness and bottom-up commitment so that web initiative-taking becomes part of the DNA of the individual employee.

- 4) Neutralize + Co-opt: As Net awareness spreads it's useful to reflect on an IBM war story. A few years ago there was a group of managers and staff at IBM who saw all the advantages ebiz could bring. They became evangelical and when others refused to cooperate they became vociferous and disruptive. The learning is that they were just a bit ahead of the average employee curve and rather than being sensitive to that they railed against it. A number of that early group then either left in open frustration and some even got fired. As IBM looks back on that period it acknowledges that the better way to build this widespread Net commitment is to adopt more of a "neutralise + co-opt" program. That is co-opt those who are ready as quickly as possible and for the ones who are not, the simple goal is limit their sphere of possible negative influence don't stop working on them and with them to convert them.
- 5) It is the technology. Technology innovation and investment has had a poor reputation recently but the fact is that it is about the technology. It is about getting an understanding of the different tools and applications, of the different software solutions, of the different cost: benefit options, of the risk, of knowing where it's been done before and so where there is already a proven track record and a more certain ROI. This know-how and insight comes from having people who really do know the relevant Net technologies. The difficulty right now is that as companies wake up to the Net the number of people with this knowledge and skill is not great and the good ones are in very short supply. But it's important to get the right skills on board as much as possible from the start if you can.
- 6) Get sufficient resources: It's simple. Any exercise involving change needs to be adequately staffed and resources. Trying to do new things with people who are already fully absorbed and utilized on the day job is going to be especially difficult. Many companies will get points 1 to 5 above sorted and then fall down on point 6 because they try to implement on the cheap. I'm not sure the following analogy really holds up but you'll get my point I'm sure. It's like wanting a burger and getting it from the dodgy kebab shop on the corner, rather than walking down the street to McDonalds. The kebab shop may be cheaper and more convenient but you risk your health in eating it!
- 7) Involve partners and customers: the more you gather input, get help and support, solicit co-investment, syndicate involvement and ownership then the more you reduce risk, lower investment and actually ensure it's more likely to deliver a result. A recent survey by Forrester showed that 63% of executives in the survey put "collaboration

with partners” as a top lesson learnt for success in new e-biz initiatives and companies like Proctor & Gamble and Dell have long been engaged in proactive supply chain collaboration. Apart from anything else, it also helps develop relationships with customers, builds trust and as P&G will show leads to increased business e.g.: P&G’s 12% year on year volume growth with Walmart is attributed to just this “partner involvement”.

- 8) Test + Trial: because no-one can ever be sure that huge multimillion pound technology investments will pay back, Business is moving ever more aggressively into a “Test + Trial” mode. And as Net technologies are cheaper and ASP arrangements can provide lower cost options and suppliers are increasingly flexible as they competitively seek new business, there are a number of ways of breaking up a project into a series of low risk modules that allow an organisation to learn and discover the value as it goes.
- 9) Align the rewards structure. All the top 10 companies in Fortune magazine’s latest “Most Admired Corporations” list were members of the “Employee Ownership” list which is a listing of corporations where employees own (not just have options in) more than 4% of the stock of the company. It’s simply a question of getting everyone a stake, and ownership of the business, a sense of shared responsibility but also a sense of shared reward (whether through cash, bonuses or shares) if the target value is achieved.
- 10) MMR: finally and perhaps obviously never stop learning. MMR here stands for “Monitor, Measure and Report”. The only way to manage to improve is to build the web metrics, the dashboard, the key performance indicators, which can tell the organisation what is working... and what is not!

So, ten rules or topics here reflecting the lessons learnt in trying to make new Net initiatives work, payback and deliver. There’s no question that those companies that do pursue this path, cautiously but also persistently, are finding great reward on the journey. It doesn’t happen overnight and it does require a certain commitment but I hope that the last 45 minutes have convinced a few more people to try, and have encouraged others to keep going!