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E-Business and Business Process Change

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There are many factors that are driving business change today. The slow economy is driving companies to seek economies and to rearrange business processes so fewer employees can do what was previously done by more. Mergers like the one between HP and Compaq, or IBM's acquisition of Rational, drive process change as companies try to sort out their new priorities and identify which processes will remain and which will be eliminated. Global expansion also drives companies to change processes. The world economy may be moving slower than it was a few years ago, but dozens of major corporations continue to develop distribution channels with partners in China, anticipating continued growth as the world's most populous country continues to increase its GDP. Each of these drivers may be the primary driver in a particular company, but, overall, the dominant driver, in our opinion, is still the Internet and its associated technologies. When the Internet and its technologies are used to change business processes, it often results in what is still called e-business.

The current economic slump in the U.S. began in 2000 when the Federal Reserve moved to dampen "irrational exuberance" by raising interest rates. It succeeded in popping the "dot.com bubble" within a few months and brought stock prices down across the board. Today, no one would deny that most of the hundreds of dot.com startups that went public in 1999 and early 2000 were highly speculative, had ridiculous business models, and were grossly over-valued by investors who had lost sight of market fundamentals.

That said, however, it is worth checking on what has happened with Internet companies since the crash. Of the 200 plus public Internet companies in existence as of 2000, 40% made a fourth quarter profit, and that percentage is expected to rise to 50% by the end of this year. Individuals aren't making new Internet connections at the exponential rate they were in 1998 and 1999 (exponential growth never lasts!), but broadband subscriptions in the U.S. have doubled since 2001 and are currently growing at the rate of 56%. U.S. households with broadband will reach 29 million by the end of 2003. In a nutshell, the leading dot.com companies are doing fine, and U.S households not only like the Net, but are paying a premium to do more with it.

Some industries have been changed forever by the adoption of the Internet and Web. The travel industry, for example, is now largely online. Expedia is currently the largest leisure-travel agency in the U.S with higher profit margins than American Express. Thirteen percent of the traditional travel agencies closed in 2002 and a lot more will follow. Computers are now largely sold online. Financial services have moved online and some areas, like stock trading, are almost exclusively done online. Amazon.com and eBay have revolutionized retail sales and are increasingly driving everyone's margins. The music industry is still in shock and while no vendor has emerged to replace Napster, everyone expects that someone will soon find an online model for music distribution that will change the entire music industry. In spite of a blip in Internet advertising in 2000, online advertisers are set to spend $6.6 billion on ads this year. Someone has decided there are customers out that that can be effectively reached via email and the Web.

The dot.coms may have pushed traditional companies in some areas, but the real Internet revolution is taking place at traditional companies. The crash gave leading companies in most all sectors a chance to assess the impact and define an intelligent response. Even while IT spending is flat or declining at most U.S. companies, spending on e-business projects has risen each year since the crash and now comprises 27% of all tech spending. Remember how the press talked about the decline of interest in B2B links and electronic exchanges? It is estimated that companies will do $3.9 trillion worth of e-commerce through B2B exchanges this year! And the icing on the cake is that productivity in U.S. companies continues to increase apace.

We have always argued that the Internet revolution involved two intertwined, but essentially different drivers. The first driver is customer "pull." Customers have demonstrated a willingness to use the Internet to get information and to purchase goods, causing sellers to invest in an Internet presence. The second driver is the Internet's ability to interconnect companies. Companies have wanted to link diverse units and applications for two decades. There have been many efforts of which EDI in the Eighties and early Nineties was perhaps the best known. EDI technology linked companies, but it cost too much, was too inflexible and was difficult to maintain. The Internet has provided companies with an ideal way to link distributed applications into workable systems. Today, a company can realistically begin to plan how it will keep track of a world-wide supply chain, in real time. Everything isn't in place yet, but standards are being developed rapidly and new IT models - Web Services or whatever you prefer - are being put into place. By the end of this decade, global, real-time tracking of goods will be commonplace at leading companies.

Whether one focuses on company interactions with customers, or on building applications that link a company's processes with partners and suppliers, the place to begin is with the redesign of existing business processes. This will require business process teams to envision new ways of solving problems, processing transactions and pleasing customers. It will require experimentation, and when the technology changes during the course of the experimentation, it will require the agility to change and do still more experimentation.

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Consider one simple example. Some companies are now experimenting with placing micro chips in products and tracking the location of the items with radio signals. One clothing store realized an immediate and significant increase in sales when they were suddenly able to identify and locate items immediately. Imagine being a manager and having the ability to look at a screen and know precisely, right now, what inventory you have and exactly where it is. This will be a reality at many large companies by the end of this decade. How will you change your business processes to take advantage of this kind of information?

In spite of the many lamentations over their demise, the Internet, the Web and email are alive and prospering today, as never before. Every smart executive knows that his or her company will be very different in 5 or 10 years time as a result of Internet technologies that are available today. This means that business processes will need to be redesigned, and then redesigned again over the course of the next few years. All of the general predictions made in the mid-Nineties will come true. The specifics will vary. In many cases, a mix of bricks and clicks will serve better than either alone. As we move into the e-business era, the successful business process managers will be on top of the changes in internet technology and will be prepared to incorporate the new techniques into their organization's business processes.

Til' next time,

Paul Harmon