Strategic Issues of B2B E-Business

an article by Christoph Wenna

Johannes Kepler University

March, 2002
1 Introduction

Business-to-business electronic business [B2B e-Business] means a lot of different things to many different people. For some it is no more than selling goods and services to channel partners over the Internet and maybe participating in Internet auctions for procurement purposes. However, reality shows that this perception does not hold water.

These days more and more traditional firms, commonly known as Old Economy, are getting on the B2B e-Business train. This has enormous consequences, as the incorporation of the Internet and Internet technology into the gaols, strategies, structures and processes of Old Economy companies herald the advent of the Real New Economy. An infrastructure of real and virtual and personal corporate networks such as Intranets, Extranets an the Internet (see fig. 2), which continuously grow in ubiquity, robustness, bandwidth, and function, network our planet (Kalakota & Robinson, 2000). These emerging networks are the nervous system of the globalised economy. Moreover, they lay the foundations for global competition calling for new corporate strategies to gain and sustain competitive advantages.
The interplay of B2B e-Business and corporate competitive strategies is a key issue in cutting-edge e-Business development. Research on this field has just started to emerge. This article is a basic contribution to this discussion. It will provide comprehensive and pragmatic information for people familiar with e-Business, e-Commerce and strategic management and interested or involved in the implementation of B2B e-Business models in traditional firms. To do this, it has three major objectives:

- to provide a simple but holistic definition of e-Business and B2B e-Business,
- to explain, in short, the nature of B2B e-Business,
- to make the case for the reinforcement of competitive strategies and appropriate strategic management in the business-to-business domain as a result of the dawning e-Business era.

2 Definitions

Many diverse, often contradictory, definitions and concepts of B2B e-Business used in the Real New Economy are turning the life of people involved into a confusing nightmare. Moreover, they curb the hyper-evolution in this field as they draw an unclear picture of the situation and the emerging opportunities. It is essential for an effective and efficient e-Business transformation of traditional firms to enlarge and clearly define the concept of business-to-business electronic business.

The following simple but holistic definitions of e-Business and B2B e-Business anticipate the magnitude and complexity of this field and serve well as a foundation for future research and development:

- e-Business means doing business electronically (Kalakota & Robison, 2000).

Consequently,

3 B2B e-Business – A new way of conducting business

B2B e-Business is a new way of viewing and conducting business and creating value. It is also the major driving force of the whole e-Business revolution. It will shape and transform today’s business world in a fundamental and sustainable manner, way beyond the changes and benefits commonly expected today.

B2B e-Business, in addition to encompassing B2B e-Commerce (see fig.1), includes both front- and back-office applications that form the infrastructure for modern business. It is more than just traditional commerce transactions performed on the Internet. B2B e-Business is a technology based concept which is about redefining and transforming old corporate strategies, organisational structures and business processes - sometimes whole business models - with the aid of Internet technology to cut costs and / or maximize customer value (Kalakota & Robinson, 2000). This is a new variety of the classic problem of optimisation.

![Diagram showing e-Commerce as an integrative part of e-Business.](image)

Figure 1: e-Commerce as an integrative part of e-Business.

B2B e-Business is not limited to the externalities of a firm. A company that wants to leverage the promising opportunities of B2B e-Business has to focus not only on its external relationships with channel partners along the value system. It also needs to adopt its value chain internally, to an appropriate extend (Turban et al., 2000). B2B e-Business, in a broad sense, offers solutions to both, the external as well as the internal challenge. Moreover, it gives an organisation the possibility to redefine itself,
its strategic position within its industry and its relations with its business and non-business environment. Consequently, Kalakota and Robinson suggest that the e-Business transformation is inextricably linked to the management of change (2000).

4 B2B e-Business – The evolution of the division of labour

From an macroeconomic point of view e-Business electronically integrates the different value chains of an industries value system, from the extraction of raw materials to the consumer point of sale. From a microeconomic point of view (single firm value chain) e-Business encompasses the streamlining, standardisation, integration, and opening up of an organisations operational and managerial structure and processes toward its business and non-business partners. This has been rendered possible through the widespread acceptance and adoption of corporate Intranets, Extranets and the Internet (see fig. 2) as business platforms during the past 7 years (Timmers, 1999).

![Figure 2: Schematic illustration of the relations and interplay between the Internet, Intranet and Extranet.](image)

Consequently B2B e-Business represents the evolution of the commonly held principle of the division of labour, on an internal and external level. Kalakota and Robinson make it clear that networks of (small / medium sized / large-scale) highly
specialised and integrated, independent operational modules, in organisational and legal terms, have started to replace huge, vertically integrated corporations which have been ruling the business world for more than a century (2000).

5 B2B e-Business – The case for strategy

To date, we are still in the trial and error period of the Internet age. Hence, there is an enormous need for Old Economy companies to refocus and reconfigure their strategies, structures and processes toward and around the Internet and its possibilities to gain and sustain competitive advantages. This is not an easy task. Each manager in charge of e-Business needs to analyse the internal and external situation of his firm in general and in terms of B2B e-Business to be able to pave its road ahead. Consequently, the following question is of major importance for those executives leading the e-Business transformation:

How does B2B e-Business influence corporate strategies and strategic management?

Within the scope of this article, this question is discussed with reference to Michael E. Porters classic works on competitive strategy (1980) and competitive advantage (1985). This promises a lot of interesting findings as we are facing a number of divers opinions on the interplay of corporate strategy and the Internet. Many prophets of the New Economy foresee the end of sustainable competitive strategies and traditional strategic management, due to hyper-competition and an ever-accelerating speed of business in a globalised world and networked economy. B2B e-Business will, of course, shape and transform corporate strategies and strategic management in a fundamental and sustainable way but it does not render them obsolete. Rather, competitive strategies and appropriate strategic management will be reinforced as a result of the dawning e-Business era.

5.1 B2B e-Business is not a plug and play solution

In general, expectations of B2B e-Business are high and in most cases justified. However, B2B e-Business is not just an application program and thus not a plug and
play solution. e-Business is a contingency approach, meaning that there is no one best way for the e-Business transformation. Each case needs separate evaluation.

It takes a conscious, thorough and extensive internal and external analysis (e.g. SWOT analysis) of the organisation, clear and appropriate goals, a deliberate strategic concept and change management at its best, to turn an organisation into an successful e-Company and hence to be able to leverage the opportunities of B2B e-Business in an optimal way.

Whether B2B e-Business results directly or indirectly in an increase in effectiveness and efficiency and generates a competitive advantage, depends on:
- the internal and external situation of the organisation direct and indirect competitors (Porter, 1980).
- the quality and appropriateness of a firms e-Business concept and its strategic implementation relative to the e-Business concept of its direct and indirect competitors (reactive, active or proactive strategy).

5.2 Strategy vs. efficiency
Norris et al point out new technologies mean new opportunities for business and the more revolutionary the nature of a new technologies is, the more opportunities for new competitive advantages accrue from them (2000). Concerning B2B e-Business the new opportunities can be classified into two major categories which equal the two categories of the classic problem of optimisation:
- cutting operational costs and
- increasing customer value.

Cutting operational costs means improving the operational effectiveness and / or efficiency of a firm. Increasing customer value stands for improved strategic positioning. Depending on a firms internal and external situation and its objectives B2B e-Business can be both the ultimate tool for effectiveness and / or efficiency improvement or for the implementation of new competitive strategies.

Although the race for more efficiency is often an imperative, it is in most cases a lost one per se if not accompanied by thorough strategic management. Efficiency is not a strategic goal, it is a precondition for successful strategy implementation. During the
late 1980s the quest for efficiency started to replace strategic thinking, launching a vicious circle of deadly competition, organisational and / or strategic unification of competitors which lasts until today. This resulted in a massive destruction of firm and customer value alike. Many companies sacrificed their very own competitive strategy, their USP and core competencies for the sake of non-strategic and unstructured growth (Porter, 1998). This problem became even more relevant with the commercialisation of the Internet in 1993 and the increasing employment of Internet and network technology in the mid-1990s (PWC, June 2001).

The standardisation of ERP Systems [Efficient Resource Planning Systems] and Intranet and Extranet applications has lead to an ever-increasing unification of competitors within an industry and across industries, not only with reference to technology and infrastructure but also concerning management, organisational structure and business processes. This results in the following conclusion. The efficiencies achieved through the use of the Internet and Internet technology, are hardly ever of sustainable nature (Porter, 2001). Moreover, in the Real New Economy it is not a strategy anymore, it is a precondition for the success of corporate strategies.

It has become increasingly difficult to compete through increased efficiency, meaning through price, as more and more competitors reach the limits of productivity through the same means. As soon as a company successfully employs a new technology, management approach, strategy, structure, business process or application program, many competitors become dedicated followers of fashion leaving longstanding and successful strategies and strategic positions behind.

<table>
<thead>
<tr>
<th>Business Applications</th>
<th>Vendors</th>
<th>Web Addresses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Relationship Management</td>
<td>Amdocs</td>
<td><a href="http://www.amdocs.com">www.amdocs.com</a></td>
</tr>
<tr>
<td>Enterprise Resource Planning</td>
<td>SAP</td>
<td><a href="http://www.mysap.com">www.mysap.com</a></td>
</tr>
<tr>
<td>Supplier Relationship Management</td>
<td>I2 Technology</td>
<td><a href="http://www.i2.com">www.i2.com</a></td>
</tr>
<tr>
<td>Business Application Integration</td>
<td>CrossWorlds Software</td>
<td><a href="http://www.crossworlds.com">www.crossworlds.com</a></td>
</tr>
</tbody>
</table>

Table 1: Business applications and vendors.
The 1990ies were the decade of ERP systems (= inside of a firm). Today Customer Relationship Management [CRM] Systems (= sell-side of a firm) and Supplier Relationship Management [SRM] Systems (= buy-side of a firm) are leading the way. The next wave of e-Business development will be Business Application Integration [BAI], on an internal (cross-functional application integration, back-office / front-office integration) as well as on an external (B-to-B) level (Kalakota & Robinson, 2000). Table 1 shows examples of business application vendors operating in these fields.

Speed, in terms of operations, service and organisational change, is believed to be the ultimate business rule in the New Economy and the Real New Economy. However, speed is only a yardstick for efficiency and not a sustainable competitive advantage. At the end of the day, B2B e-Business technologies enable many competitors in many industries to deliver their goods and services at the same speed, price and quality. Competitors stand face-to-face just like the soldiers in the Napoleonic wars, fighting with the exact same weapons shooting ten thousands dead. Only a distinct strategy and / or a niche focus tailored to the exact needs of a specific target group or market will generate sustainable competitive advantages. Furthermore, they will end the vicious circle of price competition many industries are in due to B2B e-Business (Porter, 2001).

An example par excellence is the automotive industry which is a leader in e-Business development. e-Business leads to hyper-competition on a global base which in turn forces all competitors in the automotive value system to improve their productivity at an ever-accelerating pace. This development has been launched by the Original Equipment Manufacturer [OEM] (e.g. BMW, Ford, VW, etc.), forcing, from top down, the different tiers of the automotive industry to adopt to their requirements and standards for B2B e-Business. The OEMs, have first of all, a clear efficiency focus, as their major objective is to cut costs through buy-side B2B e-Business. Those suppliers who do not have sufficient resources to transform themselves into an e-Company crash on the wall of change or will be bought up by a competitor, supplier or channel partner.
The e-Business transformation takes up a lot of resources in monetary as well as in human resources terms. Thus the first day of a truly integrated e-Value System in the automotive industry may be doomsday for those suppliers which lack a strong strategic positioning or a strategic positioning at all to direct and channel the quest for efficiency. Although B2B e-Business has the potential to generate win-win situations for both suppliers and OEMs, reality shows that suppliers are in most cases at the short end. To counter this negative trend automotive suppliers need to employ a more strategic and more active approach in the course of the e-Business transformation process, instead of only reacting to the pressure of customers. OEMs and the different tiers of suppliers need to be partners in the process to achieve fundamental and sustainable improvements. This applies not only for the automotive industry but for many others as well.

6 Conclusion

B2B e-Business provides better and cheaper opportunities for suppliers and customers to establish distinctive strategic positioning than any forgone generation of information and communication technology [ICT] (Porter, 2001). The most important concepts to mention in this context are networking (in technical and organisational terms) and collaboration. They are the key to new sustainable competitive advantages.

This results in one of the most important impacts of B2B e-Business on strategic management. Corporate strategies, strategic positioning and strategic integration do no longer concern only one company but its respective value system of collaborating business partners. Competition will no longer be restricted to single firms. The competitors of tomorrow are complex value systems consisting of companies of different levels and various industries. The automotive industry provides an example for this development. B2B e-Business enables OEMs to further outsource activities as it electronically integrates direct suppliers into the own value system (e.g. through an Extranet). Furthermore, it enables separate part suppliers from the same and different tiers to cooperate, more intensely than ever before, to better meet the
requirements of following tiers and / or OEMs. Direct part suppliers of OEMs turn into 

system suppliers which integrate the goods and services of preliminary tiers.

Due to B2B e-Business the automotive industry and many other sectors will be 
dominated by intense competition between such supply networks (e.g. Delphi 
Automotive Systems) in the years to come.

7 Bibliography

Gruyter.
e-Business and ERP: Transforming the enterprise. New York, NY: John Wiley & 
Sons, Inc.
March 2001, 63 – 78.
PwC - PricewaterhouseCoopers. The history of e-Business. Available: www.e-
Timmers, P. 1999. Electronic Commerce: Strategies and models for business-to-
business trading. West Sussex, England: John Wiley & Sons Ltd.