BUSINESS TO BUSINESS ACTIVITIES: Improving Efficiency and Reducing Costs

Electronic commerce possesses the potential for cost reduction and business process improvement in purchasing, logistics, and support activities.

An emerging characteristic of purchasing, logistics, and support activities is that they need to be flexible.

Purchasing Activities (1)

- Purchasing activities include:
  - Identifying vendors
  - Evaluating vendors
  - Selecting specific products
  - Placing orders
  - Resolving any issues that arise after receiving the ordered goods and services

**PROBLEMS:** Late deliveries, incorrect quantities, incorrect items, and defective items etc.

Purchasing Activities (2)

Purchasing OR Procurement

Procurement includes broader range of responsibilities:
- Purchasing activities
- Monitoring of all elements of purchase transactions
- Managing and developing the relations with key suppliers
Purchasing Activities (3)

- Business purchasing process is usually much more complex.
- Businesses make a distinction between direct and indirect materials.
- Direct materials are those materials that become part of the finished product.
- Indirect materials are all other materials that the company purchases.

Motorola has a spend of about $60 billion about worldwide operations.
- More than a million purchase orders and recording inventory receipts more than 6 million times each year.
- In 2002, after implementing a set of information technologies they save $2.5 billion.

Logistic Activities

- The classic objective of logistics is to provide the right goods in the right quantities in the right place at the right time.
- Inbound movements of materials and supplies.
- Outbound movements of finished goods and services.
- Businesses have been increasing their use of information technology to achieve this objective.
- FedEx and UPS have freight tracking Web pages available to their customers.

Support Activities

- Support activities include:
  - Finance and administration.
  - Human resources.
  - Technology development.

![UPS.com](http://www.ups.com)
Training and Knowledge Management

- Knowledge management is another support activity that intentionally collects, classifies, and disseminates information about a company, its products, and its processes.

- BroadVision has installed K-Net, or Knowledge Network, that organizes all the information sources that its employees use regularly in their jobs.

Knowledge Portal

- “Information portal” and “knowledge portal”
- An information portal is often described as a gateway to information to enable the user to have one, more simplified way of navigating towards the desired information.
- However a “knowledge portal” is far more than an information portal because it includes:
  - Information navigation and access,
  - Software technologies,
  - Virtual team communication and collaboration and
  - Intelligent agent software to identify and automatically distribute information and knowledge effectively to knowledge workers based on knowledge profiling

E-Government

- Although governments do not typically sell products or services to customers, they do perform many functions for their stakeholders.
- Governments also perform business-like activities; for example, they employ people, buy supplies from vendors, and distribute benefit payments of many kinds.
- The use of electronic commerce by governments and government agencies to perform these function is often called e-government.
  - Faster response
  - Lower cost
  - More up-to-date and complete information
Electronic Data Interchange (EDI)

It occurs when one business transmits computer readable data (invoices, purchase orders, bill of lading etc.) in a standard format to another business

- American National Standards Institute
- In 1979, ANSI chartered a new committee to identify EDI standards
- Specifications for several hundred transaction sets
- In 1987, the United Nations published its first standards under the title EDI for Administration, Commerce, and Transport (EDIFACT, or UN/EDIFACT)

Supply Chain Management

- The part of an industry value chain that precedes a particular strategic business unit is often called a supply chain.
- A company’s supply chain for a particular product or service includes all the activities undertaken by every predecessor in the value chain to design, produce, promote, market, deliver, and support each individual component.

Electronic Data Interchange (EDI)

From paper-based transactions to computer-based transactions

Value Creation in the Supply Chain

- The process of taking an active role in working with suppliers to improve products and processes is called supply chain management (SCM).
- SCM was originally developed as a way to reduce costs.
- Market-responsive flexibility
- Sharing information with supplier
Internet Technologies in the Supply Chain

Many companies are using Internet and Web technologies to manage supply chains in ways that yield increasing efficiency throughout the chain.

In 1997, production and scheduling errors cost Boeing over $1.5 billion.

Using EDI and Internet links, Boeing is working with suppliers so that they can provide the right part at the right time.

Building and Maintaining Trust in the Supply Chain

- The major issue that most companies must deal with in forming supply chain alliances is developing trust.
- Continual communication and information sharing are key elements in building trust.
- Vendors are finding that the Web gives them an opportunity to stay in contact with their customers more easily and less expensively.
Refreshment with out-class study:

- What is **RFID**?
- Is it adventagous or disadvantagous?

Electronic Marketplaces and Portals

- As the Web emerged in the mid-1990s, many business researchers and consultants believed that it would provide an opportunity for companies to establish information hubs for each major industry.
- These industry hubs would offer news, research reports, analyses of trends, and in-depth reports on companies in the industry.
- In addition to information, these hubs would offer marketplaces and auctions.

Private Stores and Customer Portals

- Many of these large companies had already invested heavily in Web sites that they believed would better meet the needs of their customers than any industry marketplace.
- For example, Cisco and Dell offer private stores for each of their major customers within their selling Web sites.
- Other companies, such as Grainger and Milacron, provide additional services for customers on their sites.

Private Company Marketplaces

- Large companies that purchase from vendors that are relatively small can exert great power over those vendors in purchasing negotiations.
- These companies can invest in procurement software.
- Companies that implement e-procurement software usually require their suppliers to bid for their business.
Private Company Marketplaces

- When industry marketplaces opened for business, these large companies were reluctant to abandon their investments in e-procurement software.

- These companies use their power in the supply chain to force suppliers to deal with them on their own terms rather than negotiate with suppliers in an industry marketplace.

- As marketplace software became more

Industry Consortia-Sponsored Marketplaces

- Some companies had relatively strong negotiating positions in their industry supply chain, but did not have enough power to force suppliers to deal with them through a private company marketplace.

- These companies began to form consortia to sponsor marketplaces.

- An industry consortia-sponsored marketplace is a marketplace formed by several large buyers in a particular industry.

![Marketplaces](image)