LEADERSHIP INSIGHTS

For Winning Leaders and Companies

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Leaders Quickly Build B2B Strategies And Implementation Plans. With Benefits Large, Time-To-Achievement Is Differentiator

Business-To-Business (B2B) e-business is estimated to be $270 billion in 2000 and will grow by a factor of 10 in three years. It is becoming the favored way of transacting business and in many cases will soon be our only choice. It is a force that is changing the way our businesses compete and is playing an active role in determining who are the winners in the *New Economy*.

e-business is an amorphous term misunderstood by many leaders (see *Definition Of Terms* graphic below). e-commerce is what many of us use the Internet for every day. As a customer we buy something from someone else. It may be from a retailer like Wal-Mart or Amazon.com or from a trader/aggregator like Enron.

e-B2B Is Big Getting Bigger

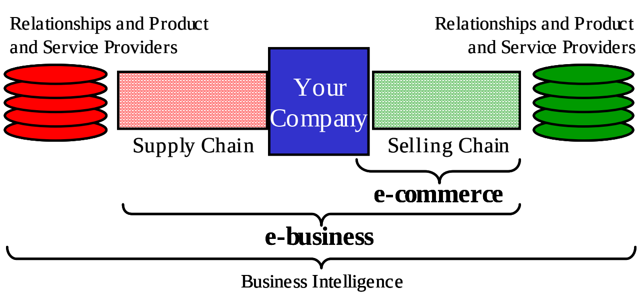
1998	$43 billion
2000	$270 billion
2003	$1,800 billion
2004	$3,.000 billion

Source: Robertson Stephens

Enron is an example of an *Old Economy* company which has transformed itself. Their growth rate and profits are up and their gas trading e-commerce site, put in place last November, quickly became the 2nd largest B2B site (in revenue) on the Internet. It's one of the reasons their stock jumped $12/share at their January 21st analyst meeting... and their stock price is up 200% in six months.

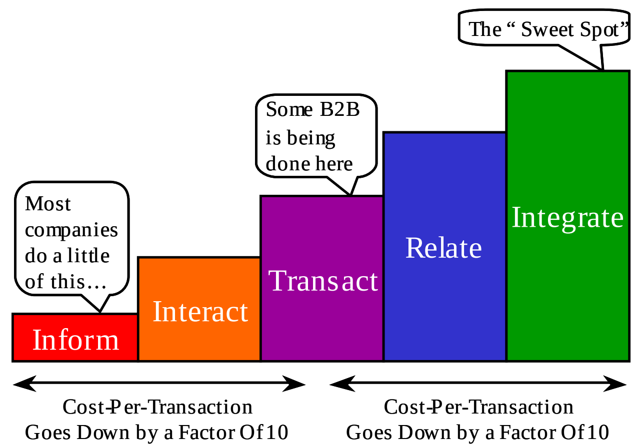
e-business is where most of our firms are going to benefit the most. As buyers and sellers of a lot of products, materials, assets and services, the efficiencies that e-business offers will significantly enhance our business processes. Yes, we will have to change our business processes to gain the benefits, but most estimates suggest we'll be spending between 10 and 25% less money in the future than we are spending today -- and shipping a better product and service as a result. Efficient *Early Adopters* and *Fast Followers* are predicted to reap the largest share of these benefits.

e-business – Definition Of Terms



From a *Phases of Maturity* standpoint, most of us have a web page today that at least puts us at the *Inform* level. Some of you can *Interact* with investors, suppliers and customers, but very few businesses today are doing many e-business transactions computer-to-computer over the Internet. When doing so, it is expected that we will experience a 10 fold *decrease* in the cost per transaction. If the cost of placing an order is $100 today, it will most likely cost $10 once you get to the *Transact* level. Once you begin to *Integrate* your supply chain with that of your suppliers and customers, this cost is expected to drop to $1 – a hundred fold decrease. This is the model driving many of the *New Economy* company values today. As an

e-business – Phases Of Maturity



Inform provides information via a web presence
Interact provides and collects information via the web
Transact action is taken as a result of a web interaction
Relate builds proactive intelligence through a series of interactions
Integrate automates processes and decisions across all interfaces

example of this, consider the volume of transactions done on Enron's "Gas Trading" site and consider the value they are reaping if they keep the 90% savings e-business is providing them over what used to be done by *human* gas traders. There are a lot of traders out there today wondering about their future. It's the same phenomenon that will soon effect *all* of the functions within our companies.

Yes, *Old Economy* Companies *Can* Compete

In the longer term, Wal-Mart's objective is to sell everything to everybody
Nick White, EVP -- Wal-Mart (PE 44)

I think of everything in terms of the Internet.
Jack Welsh, CEO -- General Electric (PE 50)

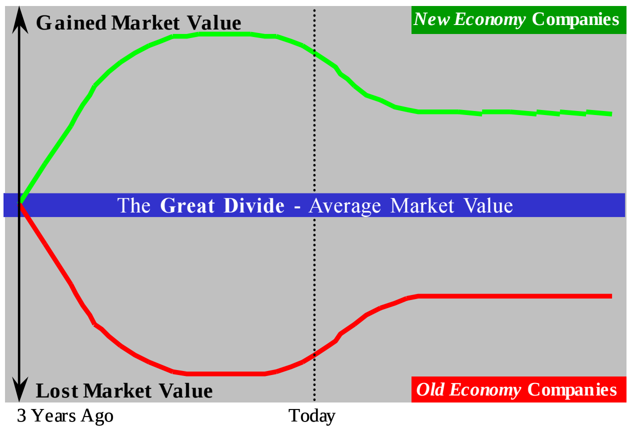
There will be no Internet companies in the future, only those that use the Internet and those that have been crushed by competitors who do.
Andy Grove, Chairman -- Intel (PE 55)

e-business is talked a lot about because it is already so big and is growing so fast — $43 billion last year to $3 trillion in 2004. You have seen the effect it is having on market values; Yahoo, (over)

Amazon.com and e-bay with their infinite Price/Earnings multiples. Cisco is now the most highly valued company in the world and it's only a little more than 10 years old.

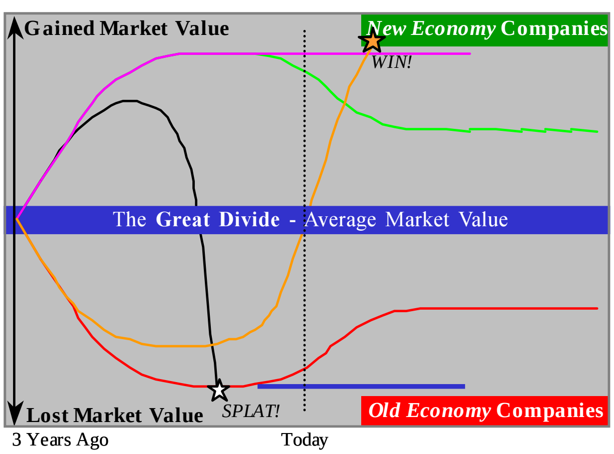
More mature companies are riding the *New Economy* wave as well, whether it's Enron or GE, where Jack Welch "thinks of everything in terms of the Internet" or Wal-Mart, claiming that they want to "sell everything to everybody" – their market values have gone through the roof. Poor Emerson Electric, consistent quarterly earnings has earned it a PE of 18 and a stock price down substantially from 2 years ago.

e-business Has Been A Very Disruptive Technology



That is the story that the *Disruptive Technology* graphic has to tell. Investors have a choice regarding the company with whom they want to buy shares. They may be over-hyped, but you and I have seen the *New Economy* stocks take all of the new value and more than their share of what was there to begin with. Therefore, if your investors don't see your company with *New Economy* quotes around it, you're probably disappointed in its current valuation.

e-business – The *Good*, The *Bad* And The *Ugly*



The Good	General Electric, TI, Enron, Wal-Mart, Lucent, Nortel
	Cisco, Yahoo!, Amazon.com, I2
	Intel, Microsoft, Dell, Compaq, SBC Communications
The Bad	Service companies, mature companies slow to adapt
The Ugly	Mature commodity producers who do not adapt
	1,000's of e-commerce start-ups that never made it

This story is going through a slight correction. There is a "re-appreciation" taking place amongst stocks that are creating real cash flow and profit value. However, this should not lead us to believe that the "old times are here again," we still need value growth. e-business benefits are only beginning to flow and these benefits will continue to provide companies with a competitive advantage in their industries for many years to come.

There are also more than two variants to this story. The "black" line represents the thousands of over-hyped e-businesses that fail every day – we tend to forget about them. Most of them are so small that we've never heard of them. They have the ultimate capital problem, they don't have any and can't get any. The "orange" line represents the possible – Enron, GE and Wal-Mart were all initially labeled *Old Economy,* but changed their message, changed their strategies and are changing the way they do their work. Just because your company hasn't made the transition today doesn't mean that you can't be a high-value player tomorrow.

How do we recommend that companies harvest their e-business opportunity? First, go after your growth options. Present a much more robust story to your investors, customers, potential partners and suppliers about why YOU are the company of choice. Most companies have a lot more to sell than they realize – remember to turn your technology into a service offering. Until you can tell a more compelling story it will probably remain in the *Old Economy* part of your business. Well-run, mature businesses are finding they can grow revenue by 12% and more from internal sources. This significantly enhances Price/Earnings ratios and gives your stock the needed lift to make acquisition alternatives more feasible.

While you are addressing your e-growth opportunities, attack the cost side of your business from multiple positions. Get your internal quality, predictability and reliability up to speed so that you become the low-cost provider. Then use multiple e-procurement sites to further lower your cost of materials and services. Take advantage of the auction sites to get rid of those excess inventory items you've had around for years. Partner with your suppliers to provide them with the real-time information they need from you so that they can better meet your ongoing materials and services needs. Recontract these services to reflect the lower costs both of you will incur. Bid your material and service needs using the web to gain broader exposure to alternative sources. Use business intelligence to identify new business opportunities and become the favored supplier to your customer providing a pure electronic management model for your interactions. This will allow your sales and business development force to focus on new business and relationship management rather than problems and customer service issues.

e-business – Opportunity

(Cost Reduction/Value Enhancement)

Procurement	
Direct Goods	25%
Indirect Materials	10%
Supply Chain Management	10%
Better Product or Service	
Value Enhancement	10%
Used Materials & Equipment	
Recapture of Lost Value	50%
Asset Buying and Selling	
Value Enhancement	5%

In each case your e-speed-to-achievement will determine your level of value creation. Remember PIMS theory, the first to arrive gets half of the benefit, the second gets half of what's left, the third gets half of that and after that it's gone for all practical purposes. The value and rewards of e-business will go to those companies making the most effective changes to their business processes in order to capture the new value created in their industry's value chain. Unless you are dominant in your industry, don't build systems yourself; sites on the web will offer what you need.

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