

10 ways e-business can reduce costs

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In a survey of members of IMA's Cost Management Member Interest Group, 46% of the respondents reported that their companies use e-business, and another 28% said they plan to, but only 16% sell goods or services over the Internet. In follow-up interviews, we found that most respondents' companies have created a website to market their products and facilitate basic customer orders, and there is general optimism that sales online will grow as general business use of the Net grows.

Today, most firms look to the Internet to enhance marketing rather than reduce costs of operations, but we found 10 ways companies are using the Web to save money and increase capacity.

1. Lowering sales transaction costs

Most companies are using e-business to handle a variety of business transactions. Table 1 shows the most important reason for using e-business is to increase transaction speed and efficiency, but reducing costs is also very important.

One benefit of electronic transactions is that they can dramatically lower the costs of selling a product. Esco Corporation's Steel Distribution Division (www.esco-steel.com) in Portland, Ore., receives most of its orders by phone or by fax. In effect, the company always incurs certain costs in handling a sales transaction, regardless of the dollar amount involved. For many of these orders, particularly the smaller ones, transaction costs per sales dollar can get quite high. Esco has focused on moving the less



complex orders to the Web, eliminating the salesperson and the incremental cost of handling the transaction.

Esco also changed its performance measures to better assess its e-business effectiveness. Instead of measuring only sales dollars, it's also tracking the number of sales transactions because this is what drives its transaction costs. According to General Manager of Operations Robert Acheson, the company website will pay for itself by handling a large quantity of transactions.

Esco also tracks "e-events" that save salespeople time. According to E-Commerce Marketing Manager Jodi Walder-Biesanz, the two most significant time savers are online order tracking and online report requests. These activities don't contribute revenue but can consume a lot of phone time. Customers who handle these requests via self-service on the Web provide savings by freeing sales-

Table 1: Purposes for Using E-Business

PURPOSE	CURRENT	FUTURE
Increase transaction speed/efficiency	4.56	4.39
Reduce costs of doing business	4.27	4.36
Increase sales to current markets	4.06	4.18
Keep up with competition	3.95	3.54
Expand to new markets	3.44	3.85

Note: 1=least important; 6=most important.

Source: IMA's Cost Management Member Interest Group

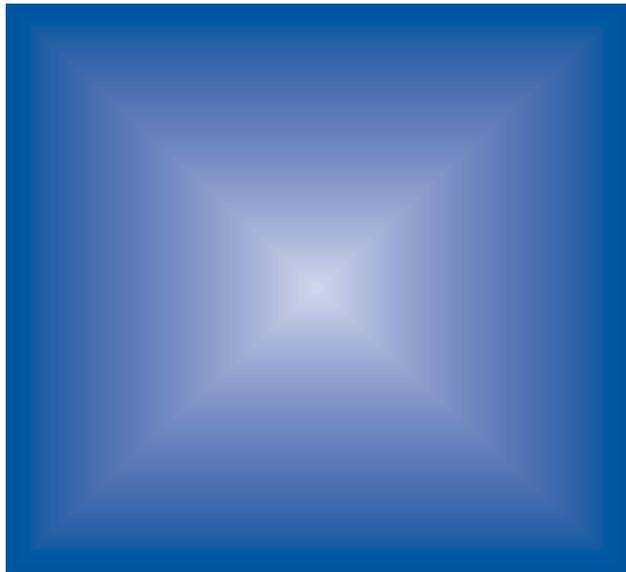
people to focus on profit-generating activities. Customer satisfaction and retention may also increase as they get their desired information immediately.

Esco hopes to move 20% of sales transactions online. It is overcoming internal inertia through strong support from the company president, who is passionate about e-business. To increase Web use, Esco has marketed its website both internally and externally with a variety of sales contests, incentive programs, and training. The company compensates its salespeople for their Web sales with the same commissions as for regular sales. "We want them to encourage their customers to use the Web," Acheson says, "and not have it taking money out of their pocket." But the company has found training to be the most effective marketing tool. Sales staff are trained one-on-one regarding the benefits of the website from the customer's perspective.

2. Providing online information

BusinessWeek reports that IBM eliminated 99 million customer calls and avoided \$2 billion in costs in 2000 by offering online support information. Of course, reducing human contact with customers has the potential risk of alienating them. Each company should carefully assess and monitor their customers' feelings toward technology changes. A key point is to make sure that only small-dollar, routine transactions go through the Web.

Table 1 shows an interesting flip-flop between current and future expected purposes for e-business. "Keeping up with the competition" is much more important now, but "expand to new markets" becomes more important for future strategies. Esco's Steel Distribution Division, which has about 5,000 active customers, has not reduced the number of its sales personnel. Instead, the Web has



allowed the division to increase its sales capacity. Using e-business for many of its simple calls and low-dollar orders gives salespeople more time to handle more complex, high-dollar orders. E-business is freeing up capacity to grow the business without adding sales reps.

Another important benefit of the Web for Esco's Steel Distribution Division is that it lets the customer choose the transaction channel. Jodi Walder-Biesanz says, "Customers are in charge. They can use many channels—phone, fax, e-mail, Web, and so on—to conduct their business. For a business to thrive in the future, it must be willing to service the customer through the customer's channel of choice." Robert Acheson adds, "We are in a business where we have a high number of customers and fairly high transaction volume. We want to use e-business for that strata of transactions that is lower in dollar amount and less complicated. We think that it is better not only for us but better for our customers as well."

Table 2: E-Business Cost-Management Methods

METHOD	
Receive/send invoices electronically	3.55
Use an e-marketplace to find the best purchase price	3.10
Increase supplier competition with better and more timely information	2.73
Reduce inventory through online suppliers	2.62
Use online buying groups to obtain lower prices	2.50

Note: 1=very low; 7=very high.

Source: IMA's Cost Management Member Interest Group

Tommy House Tire (www.tommyhousetire.com) in Decatur, Ill., is also using e-business to efficiently increase its sales capacity. Allowing customers to access the company's website to place orders and check stock status eliminates phone time for salespeople. CFO J. R. Ohmen indicates that his company plans to let customers log on to the company's website to view or print their invoices and check their account. The company has traditionally received many phone calls and customer visits requesting nothing more than a copy of an invoice or to check account status, so the website should save considerable time.

3. Using electronic invoices

Besides reducing sales-related costs, companies are using e-business methods to manage operating costs better. The most popular method is receiving or sending electronic invoices (see Table 2). This method is a priority, regardless of industry classification, level of company sales, or strategic focus.

On the other hand, our survey did find that the frequency of other e-business cost-management methods varied by strategic focus. Firms that focus most on customer service or low costs are more involved with e-business cost-management methods than companies with high-quality or product-differentiation strategies. A utility company controller commented that e-business allowed the firm to "reduce [the] volume of phone calls to both customer service and accounts payable—allowing more transactions with the same level of people."

4. Settling disputes

Robert Swanson, controller for Fulton Industries, reports that e-mail has been especially helpful in the finance area for handling accounts receivable and accounts payable disputes. "We're able to settle disputes quicker so we don't have to use fax or mail. You can send an electronic copy and get hold of people a lot easier than you can over the phone."

5. Using online suppliers

As shown in Table 2, the second most popular e-business cost-management method is using an e-marketplace to find the best prices. E-marketplaces are dedicated websites where buyers and sellers find each other. Forming online groups of buyers, although still not as popular as using e-marketplaces, can be a great way to gain volume discounts.

Table 3: Percentage of Dollars Spent via the Internet

CATEGORY	ALL FIRMS	MFG. FIRMS	NONMFG.
All goods and services	4.5%	3.8%	6.2%
Office supplies and equipment	34.6%	38.5%	27.2%
Computer hardware/software	26.1%	32.7%	14.3%
Travel costs	22.1%	24.7%	18.2%
Raw materials or merchandise for resale	6.5%	8.7%	2.1%
Advertising	1.0%	0.8%	1.3%

Source: IMA's Cost Management Member Interest Group

Table 3 shows that Internet purchases, as a percentage of total dollars spent on vendor-supplied goods and services, are still quite low (4.5% overall). About one-third of purchases of office supplies and equipment, especially computer hardware and software, however, are made via the Internet for these firms. And 22% of travel-cost purchases are made online. Of the respondents offering comments, the number-one success of e-business cost management is finding lower prices from suppliers. Of commodities purchased over the Internet, airline tickets were mentioned most often.

Many companies are also taking advantage of the convenience of the Internet to reduce inventories through online suppliers. Those with a low-price strategy ranked their use of online suppliers especially high, presumably to keep inventories low. A senior cost accountant with a precision-machined components firm reported the biggest success with e-business is “having our raw material supplier stock material for us, with a 24-hour turnaround based on electronic orders.”

Other companies, like Whirlpool, are using Internet technology to enhance—not replace—their legacy EDI agreements with suppliers to provide more access to inventory data. (See the “Whirlpool” sidebar in the online version for more information.)

6. Bidding online

Others are using the Internet's speed to increase supplier competition. The Internet makes it easier to exchange information with suppliers (such as providing forecasted demand) and to look for potential suppliers. For example, Fulton Industries (www.fultonindoh.com), a metal stampings manufacturer in Wauseon, Ohio, is using the

Internet to get information and bid on Tier-1 automotive supplier contracts for stamp parts and even for some government contracts. Letting vendors see the other bids and what they can bid on improves the efficiency of the bidding process.

The U.S. Coast Guard has started using a process known as reverse auctioning: It puts out a specification, say for aircraft parts, and, in real time, outside bidders try to underbid each other over the Internet during a 60- to 90-minute period. According to CDR Larry White, Chief of the Office of Financial Systems, “The old method was you got one sealed bid from each company, and you took the lowest bid. Now the companies and the vendors have the opportunity to reconsider their bid over that hour-and-a-half-long period.” This process saves time, eliminates mistakes, and makes for a more competitive marketplace.

7. Buying used equipment online

Fulton Industries hopes to purchase commodities and some raw materials over the Internet, but, for now, the majority of its suppliers and vendors don't have interactive websites and don't post prices over the Internet. What this company has been able to use the Internet for, says Controller Robert Swanson, is to search for used capital equipment. For instance, stampers going out of business might be trying to sell their presses or related equipment. When Fulton finds something it needs, it can save money buying online.

8. Recruiting employees

Forrester Research (www.forrester.com) predicts that 96% of all companies will soon use the Internet for recruiting. The Internet offers many advantages. Hire Intelligence (www.hireintelligence.co.uk), a U.K. online recruiting company, estimates it can reduce the time and cost of the hiring process by more than 50% and improve the quality of hires through video interviews over the Internet, video conferencing, a patented interview question generator, and automated interview software.

An Application Service Provider (ASP) can be integrated into a company's personnel system, providing a customized application. The Web can be a speedy and less complicated screening tool than more traditional methods. An online recruiting process tailored to a specific company lets the company react quickly to applicants, reduce the recruitment period, and significantly reduce costs.

9. Doing research

The Web facilitates research, especially for companies located in remote areas, thus reducing the need for investment in reference materials or trips to the library. “We’re kind of out in the boonies here,” Swanson of Fulton Industries reports, “and it’s easier to get materials on the Internet than it would be to go to a technical library.” Information and publications, even the latest FASB pronouncements to help with unusual tax or reporting issues, can be found on websites maintained by the IMA (www.imanet.org), AICPA (aicpa.org), and Rutgers Accounting Web (accounting.rutgers.edu), among others.

On the operations side of its business, Fulton engineers belong to the Society of Plastics Engineers (www.4spe.org) and a few other engineering-type affiliations. They are able to use e-mail exchanges to talk to other engineers about problems as well as access online libraries. These resources save on the cost of providing a complete on-site technical reference library, something the company would use only sporadically.

10. Training via the Web

A unique way to save money with e-business is to provide Web-based training to employees. Online CPE opportunities are available from a variety of outside sources. Other firms provide their own training. For instance, the U.S. Coast Guard Training Center (www.uscg.mil/hq/rtc) in Yorktown, Va., is putting its primary training courses on the Web. According to CDR Larry White, the Coast

Guard is paying for the infrastructure and developing the capability with money saved on travel. Trainers are encouraged to convert courses to the Web to build a more robust network. “We’ve converted some significant courses, and the money that we expected to save and redirect seems to be happening,” White reports.

But he believes that the biggest Web advantage is that the Coast Guard can offer far more training than in the past. A lot of training is offered in several places around the country either by individuals who travel or by groups (units). Some courses have been challenging to convert on the Web, especially those requiring students to be physically located at the training facility. Nevertheless, many of these programs are being shortened by putting segments of the course on the Internet at regularly scheduled intervals and requiring completion of those parts prior to attending the shorter resident course.

Overcoming lack of expertise

Overall, respondents rated the success of using e-business to reduce costs at 2.7 (with 7=very successful). E-business is still new for most companies, and they are only now discovering what it can do. Other potential Internet-based cost-management methods include telecommuting, online performance management, online logistical tracking and planning, and Web advertising.

Clearly the number-one rated challenge was the lack of expertise. Tommy House Tire is addressing this challenge with a hands-on approach. Time constraints and expensive training have led the CFO to do as much learning, reading, and “picking the brains” of the vendors as possible. CFO J. R. Ohmen offered the following advice:

“Study, study, study before you jump in. Get as many quotes as you can; talk to as many people as possible; get as many vendors in as you can. It’s amazing what you learn from each one. You just can’t get enough people to talk to, enough articles to read, or enough vendors to come in and look at. Take your time. It should be a long-term plan. It’s not something you’re going to jump into overnight.” ■

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