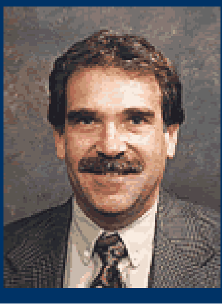
Articles & Commentaries

p-Watch — USA



by Michael Manson, long and closely associated with the APO when he was the Assistant Director of the East-West Center's Institute of Economic Development and Politics in Honolulu. He helped to initiate a number of collaboration programs between the APO and the East-West Center. Manson also served in the Asian Development Bank, and was Director of Communications with the State of Hawaii's Department of Business, Economic Development and Tourism. He is presently an educator, and a regular contributor to this column.

E-Commerce: Productivity's Best Friend

As anticipated, productivity in the United States grew at an impressive rate of 4.9 percent in the third quarter of 1999, and unit labor costs fell 0.2 percent which represents the largest drop in unit labor costs since 1997. These are very heady statistics and bode well for keeping inflation down and the U.S. economy strong. Who do we thank for this robust economic picture? First to thank might be Alan Greenspan who was just re-appointed as chairman of the Federal Reserve. He would be quick to nominate America's huge investment in technology, and technology is repaying the compliment by presenting business with another opportunity to push productivity to new heights through business-to-business e-commerce. Before we consider what makes business-to-business e-commerce so promising, it will be useful to take a look at the breathtaking growth of its twin brother retail e-commerce.

Retail e-commerce proved optimists correct when U.S. holiday sales over the Internet reached the upside of early estimates hovering around $12 billion. That compares with $3 billion in 1998. Amazon.com, the biggest Internet retailer, witnessed a rise of 81 percent from a year earlier. The second largest retailer, eBay, had a 76 percent increase in business over the holidays, and the number of orders received by retail web companies rose 328 percent.

Many "akamai" (Hawaiian for wise/smart) people saw this coming and drove the stock value of Internet related companies to dizzying heights. Take, for example, CGMI, an Internet holding company. In retrospect, at 33 cents a share in 1994, CGMI was a terrific buy. December 1999 saw the stock selling at $326 per share. Akamai Technologies produces software to accelerate web browsing. Akamai was initially offered in October 1999 at $26 per share; two months later it was $326 per share. If these examples do not impress you, consider Sycamore Network, a developer of optical communication equipment. Sycamore stock went from $38 to $184 in its first day of trading, a 486 percent increase. My purpose in highlighting these success stories is not to encourage you to buy these stocks (the potential for a fall is quite real), but to impress you with the notion that this spectacular growth may be nothing compared to what is looming on the horizon with business-to-business e-commerce.

What could be more tantalizing to investors and venture capitalists than the rich playing field of retail e-commerce worth an estimated $108 billion in three years? Perhaps business e-commerce is expected to be worth $1.3 trillion. Business e-commerce has the benefit of looking at larger, less competitive markets where the customer base is not as volatile. The idea of companies dealing with each other solely over the Internet for procurement, production, and sales transactions has intrigued business, but the obstacles have been considered too intimidating. That was until some of the braver companies who took the chance early on began to provide feedback on what savings might accrue under business-to-business e-commerce. Estimates have been floated about that suggest a 70 to 80 percent savings in unit costs when processing a purchase order from A to Z over the Internet. A major U.S. company reported reducing costs from $100 per order to $3. The company processes 800,000 orders per year. Experts claim a 2 to 3 percent bottom line reduction can be achieved using an Internet-based purchasing system. A $10 billion company could save roughly $300 million dollars. These are impressive figures, but many companies were concerned that practice may not bear out the promised savings.

Enter GM and Ford. Internet companies had been knocking at the doors of GM and Ford to extol the benefits of business e-commerce. Not more than a year ago, GM had decided to hold off on plans to plunge into the Internet. The landscape changed dramatically with the announcement in December by GM and Ford (on the same day) that they were going the way of the Internet - big time. As reported in the Wall Street Journal by Gregory White, "In the world of e-commerce, the GM and Ford ventures are the shots heard around the world. GM spends about $87 billion a year working with about 30,000 suppliers. Ford purchases are only slightly smaller." The article goes on to say "Both auto makers hope to save billions replacing an elaborate network of personal contacts and triplicate forms with a global electronic forum where deals can be done almost instantly." The word to the suppliers is that you better come along or lose the contract. I am not sure we should label this a "revolution" or an "evolution." Companies have been moving in this direction and one pioneer of online business efficiency, Michael Dell of Dell Computers, is being wooed to help the car giants realize the promised gains. Ford is impressed with Dell's made-to-order approach that earns Dell 160 percent return on invested capital.

If business-to-business e-commerce can realize the magnitude of savings through projected productivity and efficiency gains, productivity may well stay ahead of wages despite the tight U.S. labor market. Workers will reap higher returns from their labor without igniting worries over inflation. The idea that productivity has reached a plateau and increased inflation is inevitable may give way to increased faith in the wondrous world of technology. We need to keep in mind, however, the wisdom of Mr. Ray Alta, chairman of Analog Devices, "All we have to do is change everything we do and how we do it."

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