

- Manufacturers -

The Business Case for Outsourcing e-Commerce to Your Extended Enterprise

In the new economy, some business solutions are more easily arrived at than others. Solutions that seem obvious because they are technically feasible may turn out to be unworkable when confronted with the realities of human nature and established business practices. Over the years, marketing professionals have detailed many case studies in which customers responded in unexpected ways to a “sure thing”.

With this in mind, it is not surprising that we are still learning many things about the nature and acceptance of e-commerce by manufacturers, their dealers and their customers. The rush by IT industry gurus to dismiss manufacturers’ dealers as irrelevant in the digital economy has proven to be premature. They predicted that customers would bypass dealers, going directly to a manufacturer’s web sites to purchase everything from automobiles to clothing to perfume. They even coined a term for the phenomena. It was called *disintermediation*. Of course it hasn’t happened; at least not to the extent that many predicted. Manufacturers still produce things and dealers still sell things. Each link in the value chain has its own culture and skills.

The public has shown that it will use the Internet for certain retail purchases: books, music, toys, etc. But, they have also shown a decided reluctance to purchase many manufactured items like boats, appliances, tools, automobiles, and even computers. Clearly, the majority of American consumers still like to experience a product’s look and feel before they make a purchase. For many, their process is to shop the Internet for information and then go to a dealer for the purchase. Many manufacturers have acknowledged this process by providing a “dealer locator” on their web site. Dealers have been content with the process because they still “own” the customers.

Our research bears this out. It shows that less than 2% of manufacturers’ retail dealers have deployed an e-commerce site and only about 45% have even deployed a simple company web site.

This is an effective process for a primary purchase – a snowmobile, a lawn tractor. But, what about the other elements of the dealers’ business: parts, accessories, and supplies – high margin items? Once a primary purchase has been made, dealers depend upon these items to boost the profits from the sale. As customers use their new acquisition, they naturally find a need for more accessories and supplies. As the item becomes older, they need parts and/or may want to trade it in for new. Dealers have traditionally relied upon this pattern to bring customers back to their dealership.

But, these items are also ideal candidates for e-commerce. And, to satisfy a growing customer demand, manufacturers have resorted to selling these items on their own corporate web sites. This approach has two negative consequences:

- (1) It erodes the dealer’s relationship with its customer
- (2) It erodes the manufacturer’s relationship with its dealers

The Need: Rather than entering into competition with their dealers, manufacturers need to find ways of opening this channel to them. They must enable dealers to play a role in their e-business strategy. By

doing so, they will inevitably improve their relationships with their dealers. However, the obstacles that small/medium sized businesses face in deploying e-commerce sites are formidable and workable solutions are few.

For manufacturers' dealers, the obstacles include the:

- (1) Lack of an e-commerce strategy of their own
- (2) Lack of an IT department experienced in e-commerce
- (3) Lack of suitable content for building a professional site
- (4) Enormous cost of a corporate e-commerce solution

Manufacturers can play a key role in assisting dealers to overcome each of these.

- (1) By participating in manufacturers' strategic marketing development, dealers can gain insight into their own roles in e-commerce.
- (2) Most large manufacturers have an experienced IT department. Dealers can rely upon them for solution analysis and technical recommendations.
- (3) Manufacturers have developed repositories of product information in digital format that is suitable for online catalogs and promotions. This content is readily shared with dealers in other media. It can certainly be appropriated for dealers' e-commerce.
- (4) By enabling a manufacturer's entire dealer network to share a common e-commerce solution, the cost can be reduced to a fee that each dealer can afford.

Manufacturers who expand their e-business strategy to include their dealers also enjoy an expanded commercial online presence, resulting in overall increased sales of parts, accessories and supplies. By actively sponsoring the dealers' solutions, manufacturers can ensure a measure of quality control of the product content and manufacturer's branding elements.

But in order for a manufacturer to adopt this approach, it must have a solution that is simple, understandable, no-hassle and affordable to the dealer. Impact on the manufacturer's IT department must be minimal and it should be easy for the dealers and their customers to use. Most of all, it must provide obvious value to the dealers' customers, extending the dealers' traditional services.

Solution: Designing, developing and deploying e-commerce solution as a dealer service that is simple, understandable, no-hassle and affordable has not been an easy task. Rather, it has taken four years of selecting, creating, integrating and refining elements of a leading e-commerce technology (ProStores), a world class data center (Cari.net) and a unique business model (one of our own design). Our DealerStack service is, literally, a compendium of lessons learned.

Simple: To keep it simple, we used the power of ProStores technology in designing a solution that could be efficiently delivered as a service. We restricted the functionality and features to those we felt the dealers would need and could handle without extensive preparation or administrative workload. Our solution had to fit within the dealers' current business processes.

Understandable: To make it understandable, we have positioned the service as a marketing tool and designed it to complement the media mix familiar to most dealers: print advertising, trade shows, billboards, yellow pages, etc. The service is available through manufacturers' co-op

marketing programs. The pricing model consists of two simple fees: a onetime setup fee and a fixed monthly subscription fee. All dealers pay the same fees for the basic service.

No-Hassle: To make it hassle-free for the dealers, we removed all of the traditional impediments of an IT implementation. There are no ROI studies, no requirement workshops, no development and testing phases, and optional training takes one hour. By designing our solution to be outsourced, we have removed *the* major dealer obstacle to e-commerce, the need for an IT department. Dealer signup is automated through a set of web-based forms. Each dealer is notified in a few days that its new site is available.

Affordable: To make it affordable, we targeted markets in which the development costs could be amortized over hundreds of dealers and the cost of the infrastructure shared by tens of dealers. We reduced the system administration burden by designing the applications to serve hundreds of users from a single instance. We reduced the application administration burden by providing dealers with web-based tools to manage their online business themselves. The results speak for themselves: setup fees starting at \$495/dealer and subscription fees starting at \$115/mo/dealer.

Technology: The DealerStack service was built on ProStores platform using their ProStores Advanced edition. For a number of years, this technology has been recognized as a world's leader in retailer e-commerce. Our challenge has been to deliver this technology to dealers as a service, consistent with our belief that a company must have access to the best online technology in order to be competitive on the Web.

In designing the application architecture, we applied the features and functionality that we knew would be important to the dealers and could add immediate impact to their business. We also wanted the application to be easy to manage since most dealers would be getting involved in e-commerce for the first time. We decided to leave many of ProStores vast array of bells and whistles dormant in our baseline service, available to be turned on at a later date to counter competition without rebuilding the applications. This also helped to keep the design, setup and support costs down.

To map the technology to our business model we have:

- (1) Built the application as a set of dynamic (templates). The templates are tailored to each manufacturer's specifications for its network of dealers. Yet, because they are data driven, we can still provide each dealer a unique Home Page with a separate URL.
- (2) Used a single instance of the application for the manufacturer's entire dealer network, designating each dealer and its customers as a unique community of users. Unique business content can be delivered to each customer according to their own business profile and the specific content offered by each of their vendors.
- (3) Provided the ability to incorporate more than one manufacturer's catalog in the solution. This is an important consideration for dealers who often represent more than one brand. Many dealers have been forced into maintaining multiple web sites (or pages) to fully represent their entire product inventory. As a general rule, they must maintain a presence on each brands' corporate page and maintain a site of their own with links to each of their brands. Our approach enables the dealers to consolidate their web presence on their own site. In addition to the cost savings, there is a competitive advantage for the dealers to have their own, consolidated site. If a prospect follows a link to one of their brand's corporate sites, they may find another dealer. For a discussion of the issues related to a manufacture sponsoring a dealer site with multiple

manufacturers, you are referred to WebStack's white paper:

Strategic Issues - e-Commerce for Manufacturers' Dealer Networks.

(4) Provided the ability to incorporate dealer-specific items, such as used equipment, into the site. This is an important consideration in making the application fit each dealer's business. They often have affiliated products that they want to represent, as well as a unique inventory of used equipment.

(5) Made the entire used-equipment database available across the entire dealer network, thereby expanding the prospective buyer-base to all those who visit any site on the dealer network. Used-equipment inventory can tie up a considerable amount of dealer cash. This feature provides an important channel for increasing a dealer's turnover rate of used-equipment.

(6) Provided dealers (or their distributors) the ability to manage their own online business using web-based tools. This capability includes setting their own pricing, offering merchandising specials and even running local advertising to offset the cost of the site.

This application architecture permits us to:

(1) Use a building-block approach to the infrastructure architecture. We can size the servers for each manufacturer's dealer network. This is an important consideration in controlling the price.

(2) Setup each new dealer by using a set of web-based tools that are built into the technology. This is an important consideration in decreasing the time to deploy a single dealer, a very important consideration if the manufacturer happens to have 3000 dealers.

(3) Limit the application administration to a single application per manufacturer network, instead of the thousands that would be required if each dealer had its own application. It also offloads much of the business administration to the dealer. With this solution, a dealer's owner can be as aggressive as he/she desires in pricing, creating merchandising specials, or offering incentives for increased customer participation.

(4) Conduct a top-down integration of a single application to the manufacturer's order entry system and product content repository. This is a distinct advantage for the manufacturer who might otherwise be faced with hundreds (or thousands) of separate integration projects, one for each dealer as they decide to enter into the e-commerce arena. This is an opportunity for the manufacturer to benefit from a pro-active approach. This issue is also discussed in WebStack's white paper: *Strategic Issues - e-Commerce for Manufacturers' Dealer Networks.*

Methodology: Two separate methodologies are used to successfully deploy a manufacturer's dealer network onto the DealerStack service.

(1) One methodology is used to adapt the application (a set of templates) to the manufacturer's specifications – tailoring it to the way the manufacturer's dealers do business. This methodology is similar to traditional software deployment methodologies and is conducted prior to offering the service to a manufacturer's dealers.

a. We start with a set of baseline templates that have been pre-built for the segment of the industry in which we are interested. In the case of DealerStack, the industry segment is manufacturer's dealers.

- b. With the manufacturer's assistance, a forum of manufacturer and dealer representatives is assembled to review the baseline templates and recommend changes or additions that will best suit the needs of the dealers.
 - c. The coding changes are made to the templates.
 - d. A step-by-step "cookbook" is prepared for deploying a new dealer onto the modified templates, including a set of online "sign-up" forms for automated DealerStack signup. These forms feed information directly into the "community" profile for each dealer in the application's database.
 - e. A server/network infrastructure is sized and deployed according to the manufacturer's estimate of dealer participation.
 - f. The modified templates are deployed onto their hardware infrastructure.
 - g. A cadre of dealers is deployed onto the application to test the "cookbook", templates, integration and usability and acceptance of the service.
 - h. The service is revised as necessary to facilitate full deployment.
- (2) A second methodology is used to deploy the dealers as they sign up for the service. This is a monumental undertaking when the manufacturer has thousands of dealers. Obviously, traditional software application methodologies would not suffice. We have designed an "Assembly Line" methodology for this part of the business.
- a. Assign the manufacturer's project to a team of application administrators.
 - b. Map discrete steps in the template's "cookbook" to workstations on the "Assembly Line".
 - c. Direct new dealers to a secure URL through which they may sign up for the DealerStack service. In signing up for the service, dealers will provide information such as their name, address, hours, contact information and dealer-specific product information. They will also provide a point of contact for submitting any additional information necessary to deploy the site.
 - d. The dealer's site is scheduled for production.
 - e. Application administrators on the assembly line use dealer's online submission to configure their site by establishing a "community" of users for the dealer, loading product information, setting fulfillment and payment preferences, and setting initial business rules for the content.
 - f. Once it begins, the process of deploying each site is passed down the "Assembly Line", each application administrator performing a discrete task until the dealer is notified that the site is available online.

Business Organization: The DealerStack service is offered by a formal coalition of service providers. The partners include a software developer (ProStores, an eBay Company), a systems integrator, a data center operator (Cari.net) and an application service provider (WebStack Corp).

As the foundation of the DealerStack service, the business organization is as important as the technology or infrastructure. It is ultimately responsible for providing the service levels, financial stability and technical competence. The key elements of the business organization are:

- (1) There are no outside, or passive, investors

- (2) Every partner provides a portion of the resources or technology needed to build the service (servers, network, software, licensing, design, system integration, and cash)
- (3) Every partner is compensated with a portion of the gross revenue from each project.
- (4) Every partner participates in marketing and sales support.
- (5) Every partner has a role in the operational delivery of the service.
- (6) The organizational responsibilities are formally agreed to through a series of bi-lateral agreements with WebStack, the application service provider.

Every partner shares in the benefits of this approach:

- (1) Critical resources and skills can be brought aboard in a measured way, as they are needed, without having to hire all of them. It also ensured that we have access to the right skills to build our service, often using bench resources.
- (2) No partner bears the risk of providing services outside of its core competencies.
- (3) There is no undue pressure to meet the financial expectations of outside investors, leaving time to develop the service right and let the outsourcing market mature.
- (4) The resource burden on each partner can be managed within its normal business framework. The burden is spread across the partnership in proportion to their new business potential.

Every customer shares in the benefits of this approach:

- (1) Each service provider is financially vested in delivering satisfactory service.
- (2) The core expertise necessary to successfully deliver the service is part of the business
- (3) The financial risk is distributed over a broader corporate base, reducing the risk that the “manufacturer” may have to seek a new service provider.

Value Proposition: DealerStack’s value proposition differs, depending upon whether you are a dealer, distributor, or a manufacturer. In the end, both receive terrific value. But the costs and benefits to each are very different.

- (1) Manufacturers: In the case of a manufacturer, it greatly extends its online presence, builds its electronic commerce channel, and cements its relationships with participating dealers in exchange for exclusively sponsoring the DealerStack solution.
- (2) Distributors: Distributors have the opportunity to benefit from their customers (retailers) success by sharing the revenue generated by the Dealers e-commerce channel. They can also achieve greater economies in their sales and delivery efforts by automating the order/fulfillment process online. And, they can improve their dealers’ service to their customers (consumers) by acting as the fulfilling agent for their dealers.
- (3) Dealers: Dealers finally have the opportunity to extend services to their customers through a professional e-commerce presence on the Internet at an affordable price. The DealerStack solution is designed to meet their specific needs and provides them the capability to manage their online business in a way that complements their offline business. And the service is available without driving the dealer to invest in resources outside its core capabilities, sales and service.