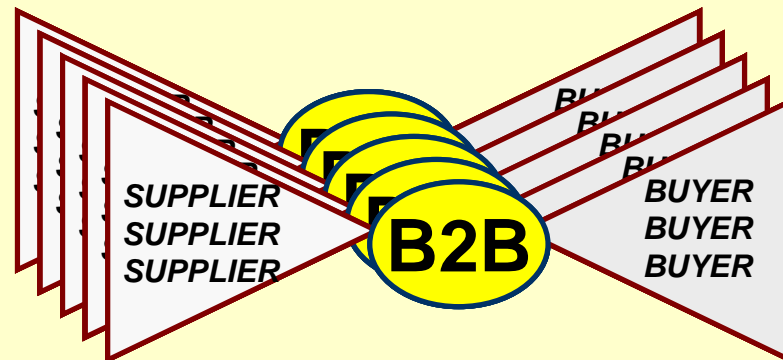


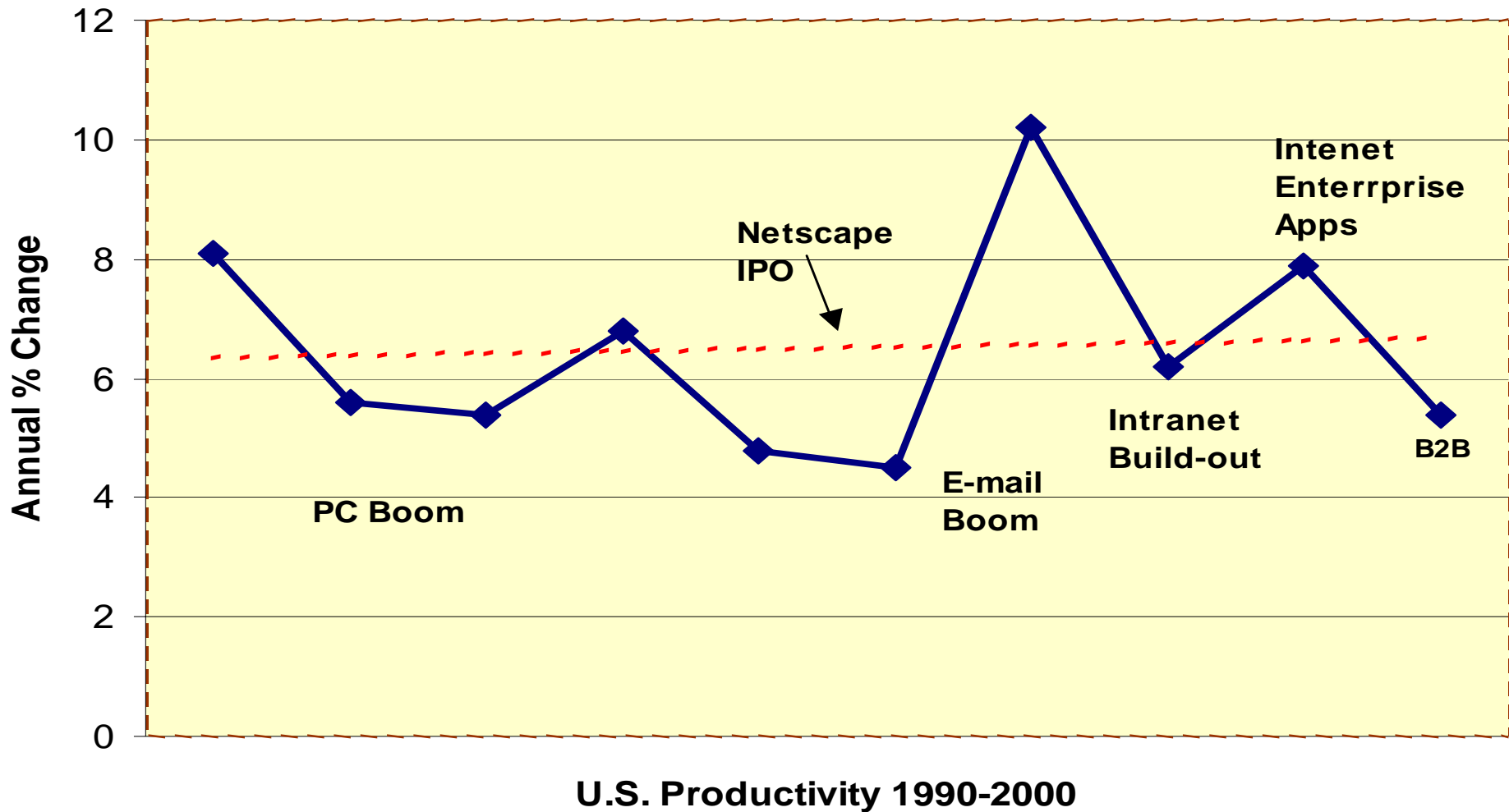
B2B E-Commerce Stalled out or Transitioning?

Automotive E-Commerce

Chuck Phillips
Managing Director
Morgan Stanley Dean Witter
1-800-MRCHUCK
charles.phillips@msdw.com
www.msdw.com/mrchuck



The Internet is Driving Productivity Growth

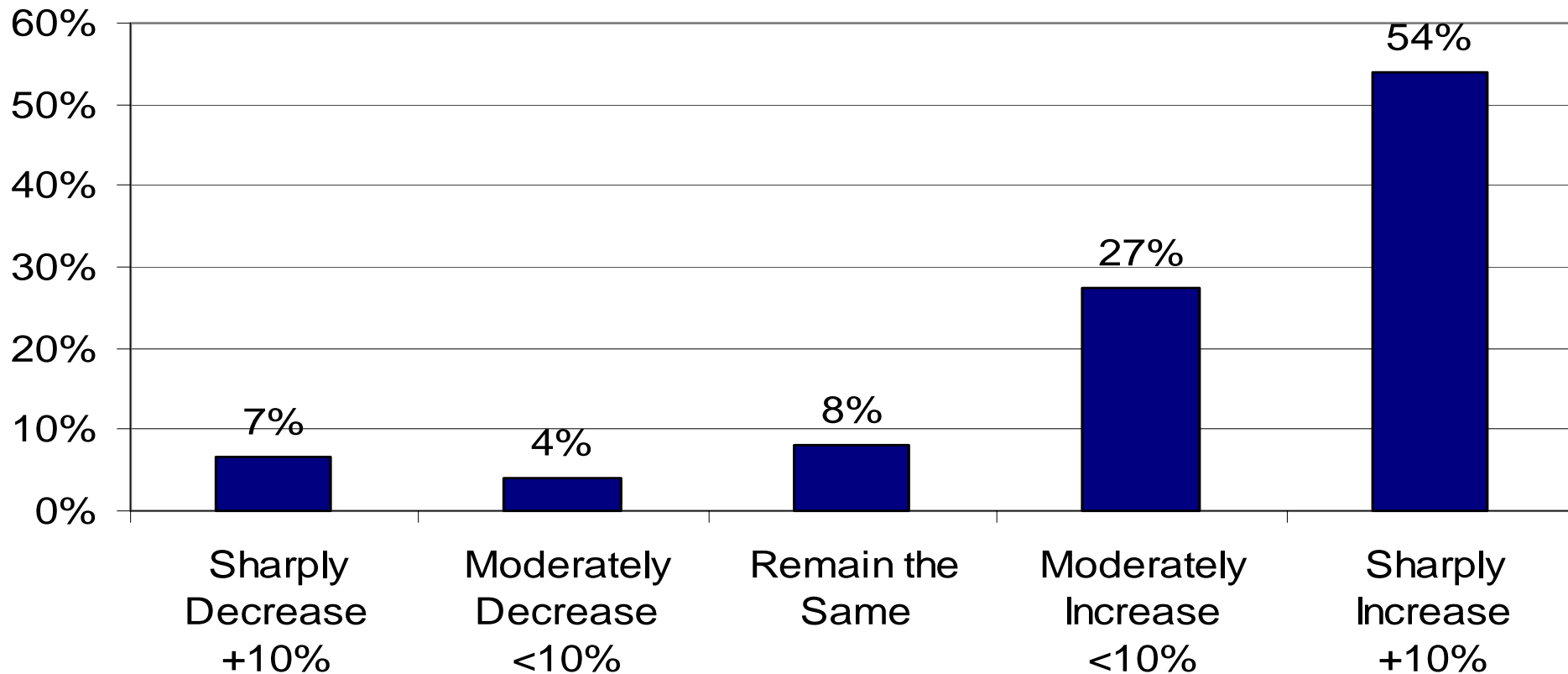


Economic Transformation

- **By 2006, half of all U.S. workers will be employed in industries that produce or intensively rely on technology products**
- **Technology grew from 6% of the economy in 1993 to 8% in 1999**
- **Technology represents 30% of the growth of the economy**
- **Technology grew at 11% rate compared to 5.0% for the U.S. economy over the last four years**
- **Technology's contribution to inflation has been -7.5%**
- **Technology increased to 19% of exports from 16% over the last five years; Europe poised to re-invest?**
- **Other economies moving up the digital readiness scale**

Spending Outlook

What is the percentage change in your IT budget this year versus last year for total IT spend?



Identifying The Technology Edge

- **The economy is moving on line so... investors are looking for ways to play the theme beyond the infrastructure providers**
- **Tech Edge Conference to identify the 30 non-Tech Companies on the Edge**
- **Will get a lot more topical going forward**
- **Technology IQ of senior management will be a criteria**
- **Ten Trends to Screen for...**

The Ten to Win

10 to Win

10 to Win Evaluation Companies Relative to 10 Winning Technology Trends

1. Understand and Predict Customer Behavior

Know Your Customers

– *Someone else does*

- **Customers have more choice; Easier to establish new relationships**
- **Critical to assess existing customer relationships**
- **All customers aren't the same; figure out which ones pay you the most and why**
- **Cross selling, profiling, segmentation,**
- **Analyze, Personalize, Attract, Deliver, Refine**
- **360 Degree View of the Customer – multiple channels, geographies, products, currencies – one profile**

The Five Day Car

- **Configurable if not custom**
- **Draw out premium buyers**
- **Shift focus from price to service and choice**
- **Less inventory**
- **Fewer defects**
- **Easier to adapt to shifting preferences**

10 to Win

10 to Win Evaluation Companies Relative to 10 Winning Technology Trends

- 1. Understand and Predict
Customer Behavior**
- 2. Restructure relationships with
channel partners**

Restructure Relationships with Channel Partners

- **65-75% of all Fortune 500 Revenues are derived through alternate channel**
- **Complex relationships supported by archaic infrastructure**
- **Commissions, lead sharing, customer service, parts and accessories, warranty registration, team selling**
- **Manage partners better and provide them with better service to help you gain market share;**
- **Touch the end customer**

Tread Carefully

Middlemen -To Zap or Not to Zap..

Key Considerations	<i>Disintermediation Likely</i>	<i>Distributor Entrenched</i>
Inventory	No physical inventory held/shipped	Physical inventory; drop ship for producer
Multivendor	Few or one product line	High number of vendors/product lines
Order fragmentation	Concentration of orders; small in number high in dollars	Fragmentation of orders; small in dollar size but high in number
Customer support	No or little customer support	Customer support; call centers
Customer Relationship	Identity of customer known to producer	Identify of customer unknown to producer

10 to Win

10 to Win Evaluation Companies Relative to 10 Winning Technology Trends

- 1. Understand and Predict
Customer Behavior**
- 2. Restructure relationships with
channel partners**
- 3. Outsource with confidence**

Enterprise Apps Lose Functions to Portals

Now

**4 Walls of
The Enterprise**

Accts Payable
Payroll
Accts Receivable
Shipping
Inventory
Gen Ledger
MRP
Order Entry

Future?

**Full
filment**

**Community
Shipping Portal**

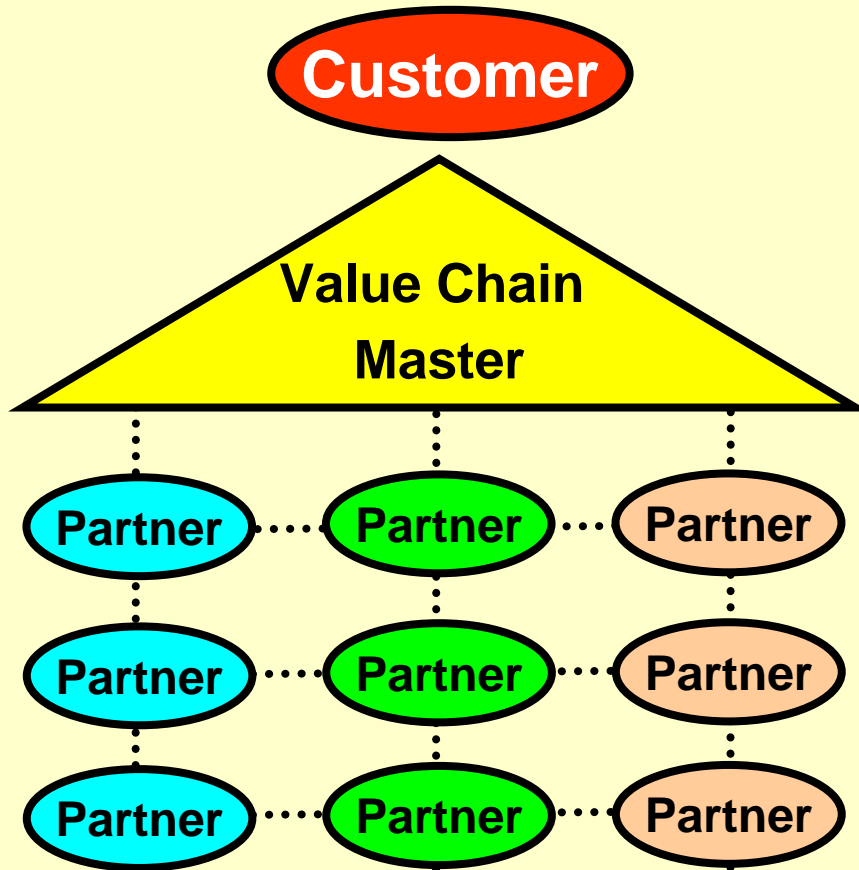
**Planning /
Scheduling**

**4 Walls of
The Enterprise**

**Tarrifs/Taxes
Portal**

**Other Shared
Services**

Virtual Companies Coordinate the Value Chain



- Not serial but parallel
- Team oriented
- Outsource comparative disadvantages
- Real time
- Dynamic
- Flow manufacturing between companies
- Transparent fulfillment

10 to Win

10 to Win Evaluation Companies Relative to 10 Winning Technology Trends

**4. Integrate demand with production
in real time**

Blind Spots in the Chain of Commerce

Buyers

Resellers

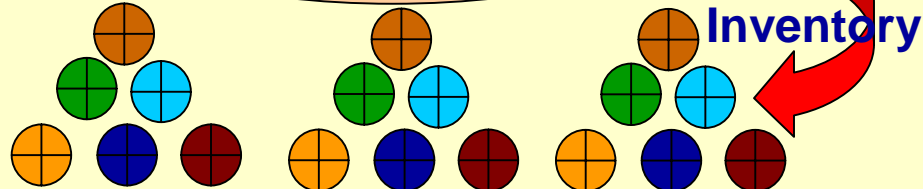
Distributors

Demand Chain

Blind Spot #1

What's selling out there; what should I produce?

Manufacturer

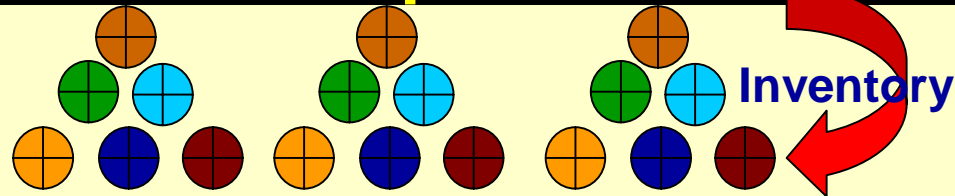


Blind Spot #2

What will my customer manufacture?

Suppliers

Freight Carriers

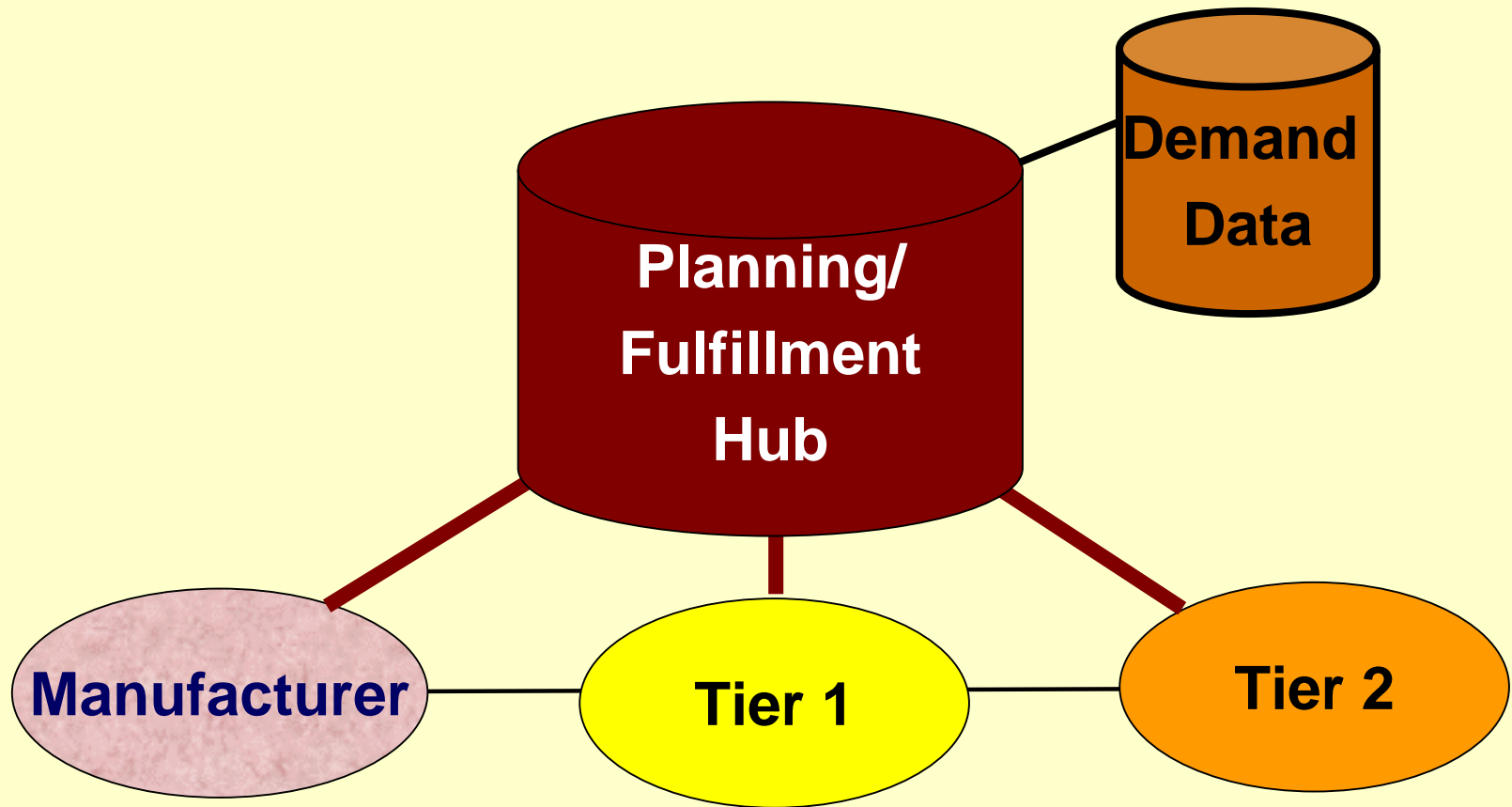


Supply Chain

Integrate Demand With Production

- **Production plans normally built with little point of sale input**
- **Customers want more information about availability, substitutions, and fulfillment at the time of purchase and not after**
- **Buffer inventory to cover volatile demand environment and escalating product configurations proving costly**
- **Multi company order management**
- **Value Chains vs Value Chain prepare for battle**

Serial vs Parallel Planning and Production



10 to Win

10 to Win Evaluation Companies Relative to 10 Winning Technology Trends

- 4. Integrate demand with production
in real time**
- 5. Optimize everything**

Optimize everything

- **Easier to automate business process**
- **Standard technology with shorter implementation times**
- **Collaboration technology enables document sharing, project management, group discussion, Web conferencing and white boarding**
- **Easier to collect, organize, index, search, analyze, and share unstructured information**
- **Apply some of the same information disciplines that have evolved for structured data**

10 to Win

10 to Win Evaluation Companies Relative to 10 Winning Technology Trends

- 4. Integrate demand with production
in real time**
- 5. Optimize everything**
- 6. Self-help employee services;
reduce costs**

Self-Help Employee Services

- **Enterprise Information Portals (EIP)**
- **Role-based Information Systems**
- **Off load basic procedures to self help – classic HR (address, benefits)**
- **Digital Dashboard for my relationship with my company**
- **Easier to train people; easier to implement consistent policy**
- **Same concept applies to partners**

10 to Win

10 to Win Evaluation Companies Relative to 10 Winning Technology Trends

7. Commerce doesn't stop at your desk; go mobile

Mobile for the Enterprise

- **MONITOR:** Alerts for customer events, production problems and thresholds, potential resource constraints,
- **COMMUNICATE:** Facilitate team communication and coordination
- **SERVICE:** Enable richer field service experience; employee armed with current and deep information while facing the customer.
- **RELATE:** Give customer a wireless portal and you have a unique relationship and 24x7 access

10 to Win

10 to Win Evaluation Companies Relative to 10 Winning Technology Trends

- 7. Commerce doesn't stop at your desk; go mobile**
- 8. Assume all product/devices will be instrumented with technology**

All Product/Devices Instrumented With Technology

- **Ability to monitor an asset from its assembly to disposition**
- **Self diagnosis and communication in all products**
- **What would you do differently if you didn't have to wait for a customer to tell you about a product problem**
- **Audit trail and asset management profile**
- **Self diagnosing car**

10 to Win

10 to Win Evaluation Companies Relative to 10 Winning Technology Trends

- 7. Commerce doesn't stop at your desk; go mobile**
- 8. Assume all product/devices will be instrumented with technology**
- 9. Revenue Management**

Fixed prices becomes Dynamic

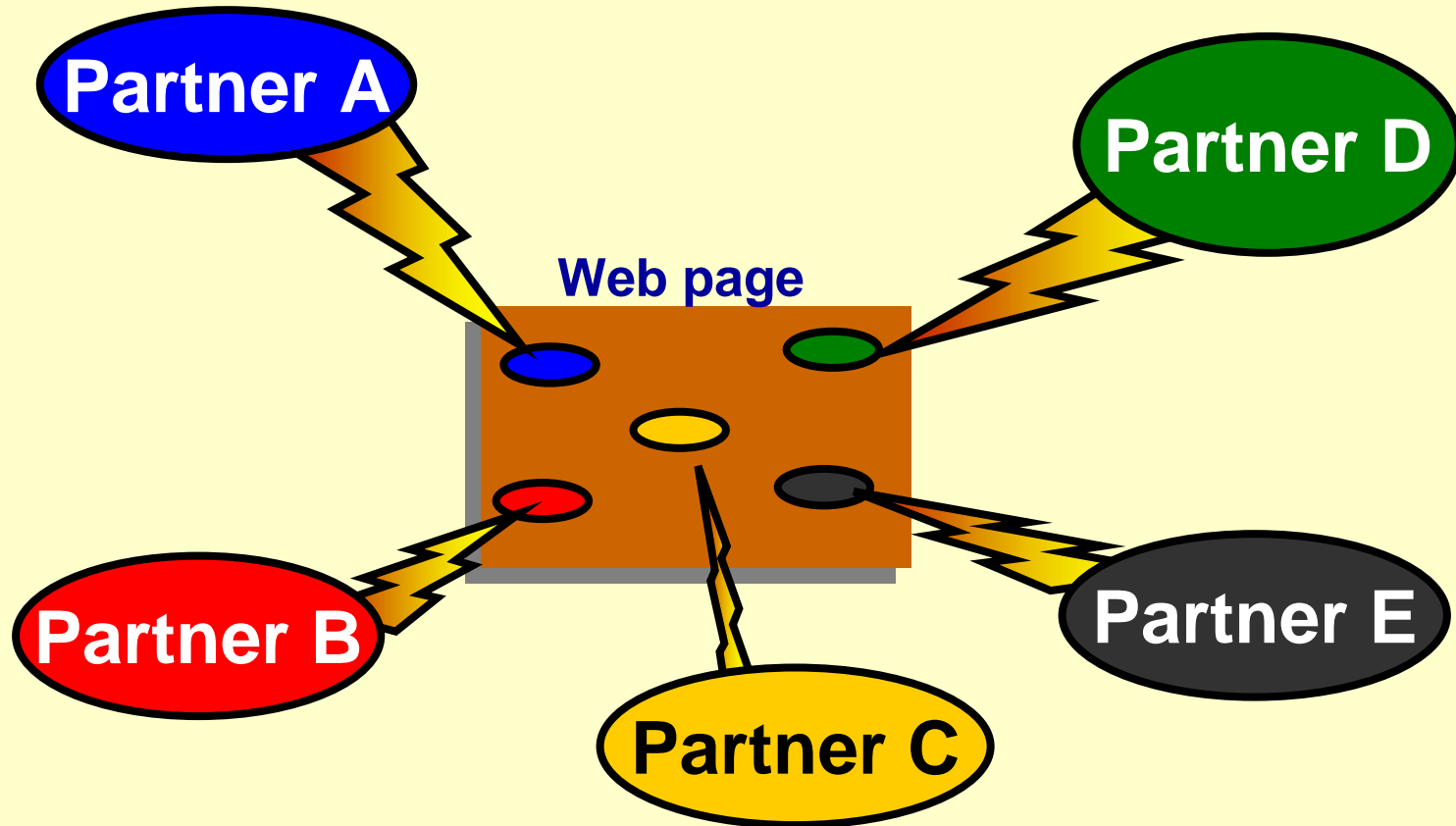
- **Great segmentation of buying audience**
- **More information about demand drivers and what buyers value**
- **More information about fulfillment capabilities and resource constraints**
- **More choice**
- **Airline seat pricing**

10 to Win

10 to Win Evaluation Companies Relative to 10 Winning Technology Trends

7. **Commerce doesn't stop at your desk; go mobile**
8. **Assume all product/devices will be instrumented with technology**
9. **Revenue Management**
10. **Create new electronic selling channels by the hour; your competitor will**

Dynamically Linked Content Community Application Services



New Electronic Selling Channels

- **Store within a store**
- **Instant resellers and channel partners**
- **Dynamically linked, little technology overhead**
- **Explosion in channel partners**
- **Brand propagation**

Covisint

How many of these e-business services will show up there?

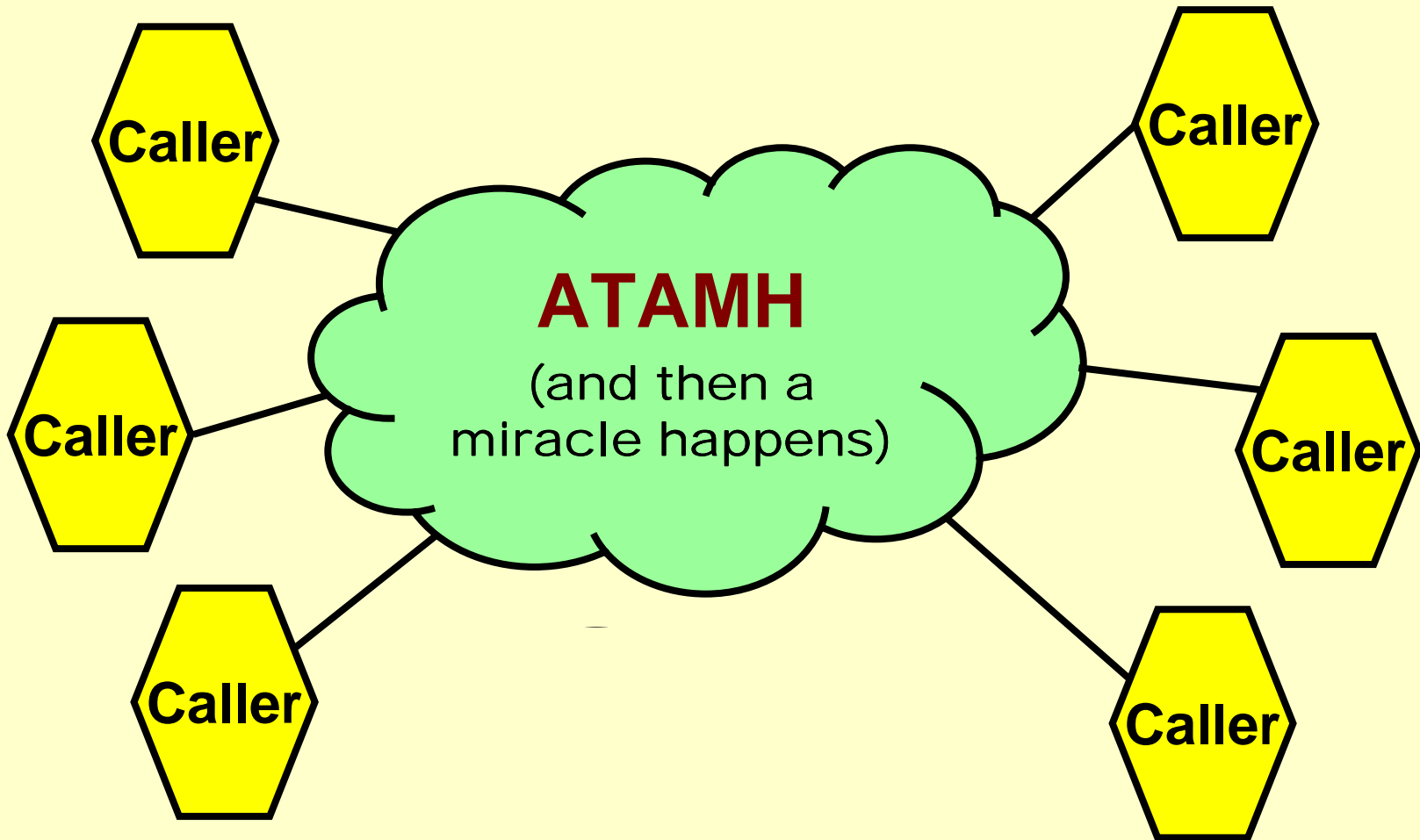
Exchanges – The Industry Utility Model

- **Faster time to market; aggregate scarce resources; more attention from technology vendors**
- **Less confusion for buyers and sellers**
- **Common plumbing/ utility optimized for the industry**
- **NewCo structure encourages innovation and new services; attracts right type of management**
- **Private relationships combined with enhanced discovery**
- **Intra industry optimization easier**
- **Collective public market will explode in innovation; private market won't be able to keep up**
- **Why not have a vote?**

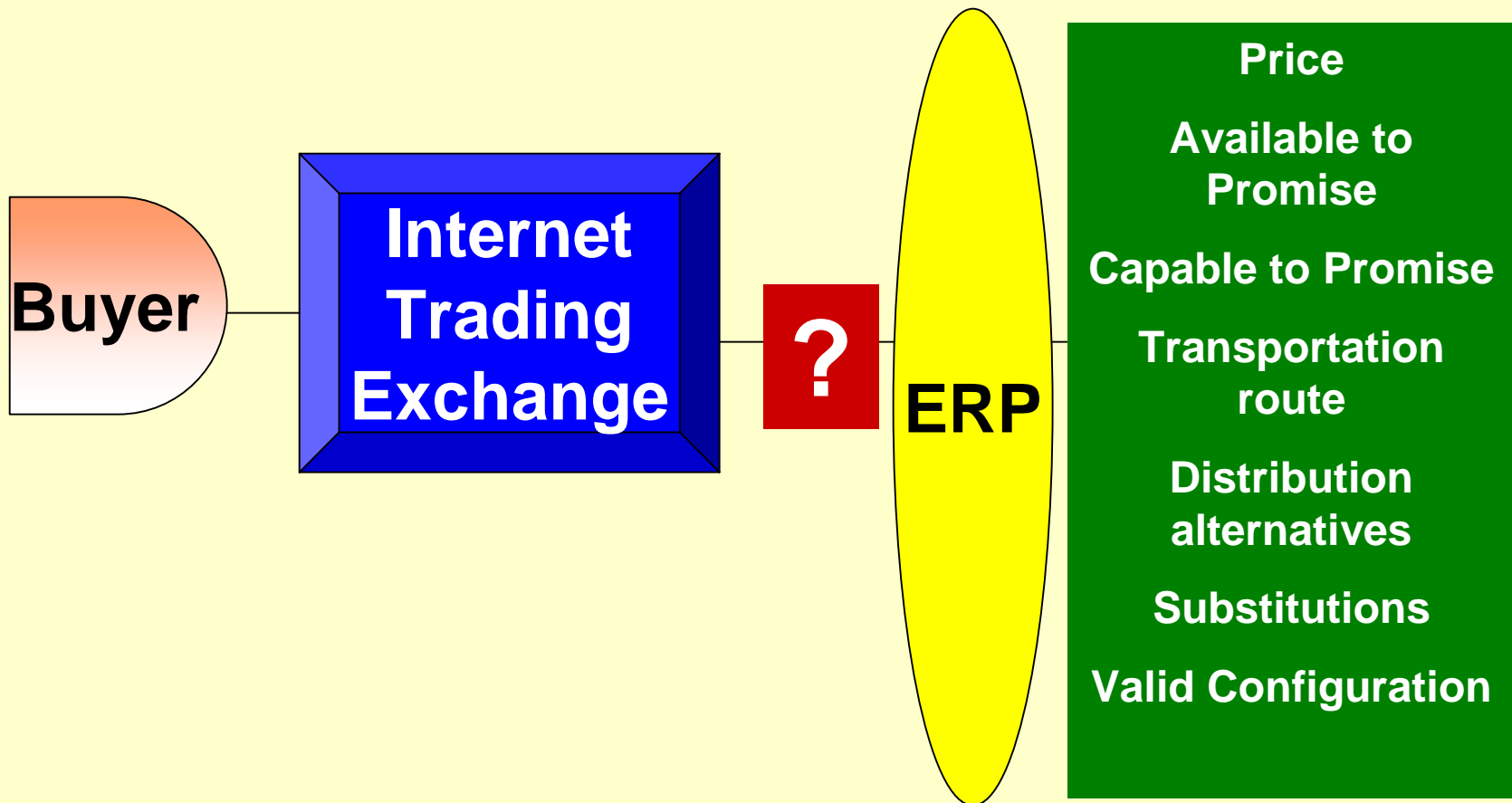
Real World Example

- Large Fortune 50 Transportation Company
- Receives 10,000 invoices a week
- Manually enters those invoices into ERP system
- Reconciles invoices with purchase orders
- Manages the exceptions
- Sends out 10, 000 checks to suppliers
- **TRY THIS INSTEAD:** One combined invoice per week with line item/vendor detail received from an exchange...Then one ACH payment per week sent through exchange and routed to suppliers
- There's a reason EDI was implemented through third party VANs – **too many connections!**

The Telephone Network Model



B2B Exchanges – they need the Backend Info



Some Win-Win Elements for Suppliers and Buyers

- **Economies of Scale**
- **Eliminate Maintenance of point to point connections**
- **Move manual, intercompany processes online; everyone saves**
- **Inventory reduction; less capital, better quality, and more flexibility**

Covisint Today

- **No face to the public**
- **Technology concept without context/detail**
- **Threatening aspects that need to be flushed out**
- **Complex task ahead without roadmap people can see**

Covisint – Imperative for Next Year

- **Filled out management team**
- **Marketing organization**
- **Roadmap for customers to evaluate**
- **Take on dirty work**
 - **Integration/connectivity**
 - **Catalogs**
 - **More value added functions later**
- **Must develop into a compelling outsourcing alternative**
- **Suppliers have to be taken care of**

Private vs Public Exchanges

Private Exchange

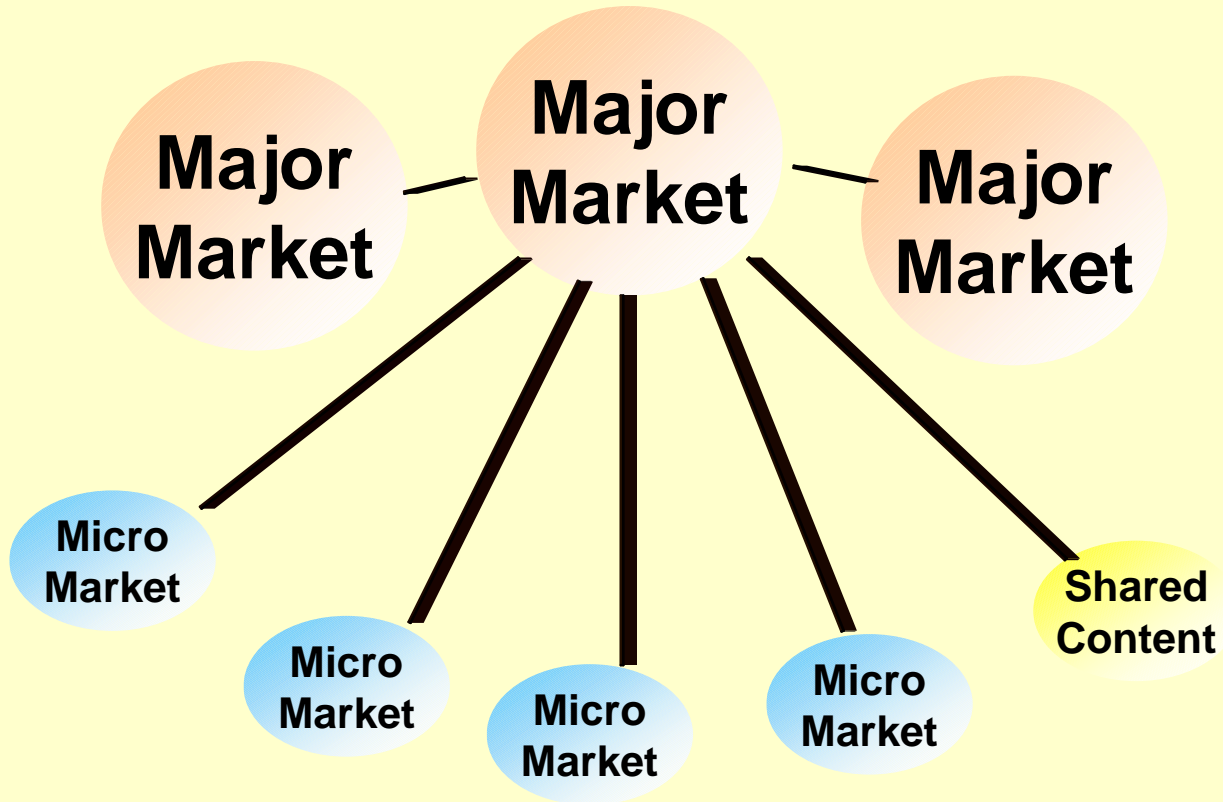
- **Strategic suppliers/customers**
- **Low number of suppliers**
- **Low turnover of suppliers**
- **Private exchanges will be hosted on public infrastructure over time as a service**

Public Exchange

- **Can serve small customers and suppliers**
- **Need for discovery of new suppliers; frequently establishing new relationships**
- **Advanced marketplace services**
- **Economies of scale**
- **Reduced one to one connections**

Federated Net Markets

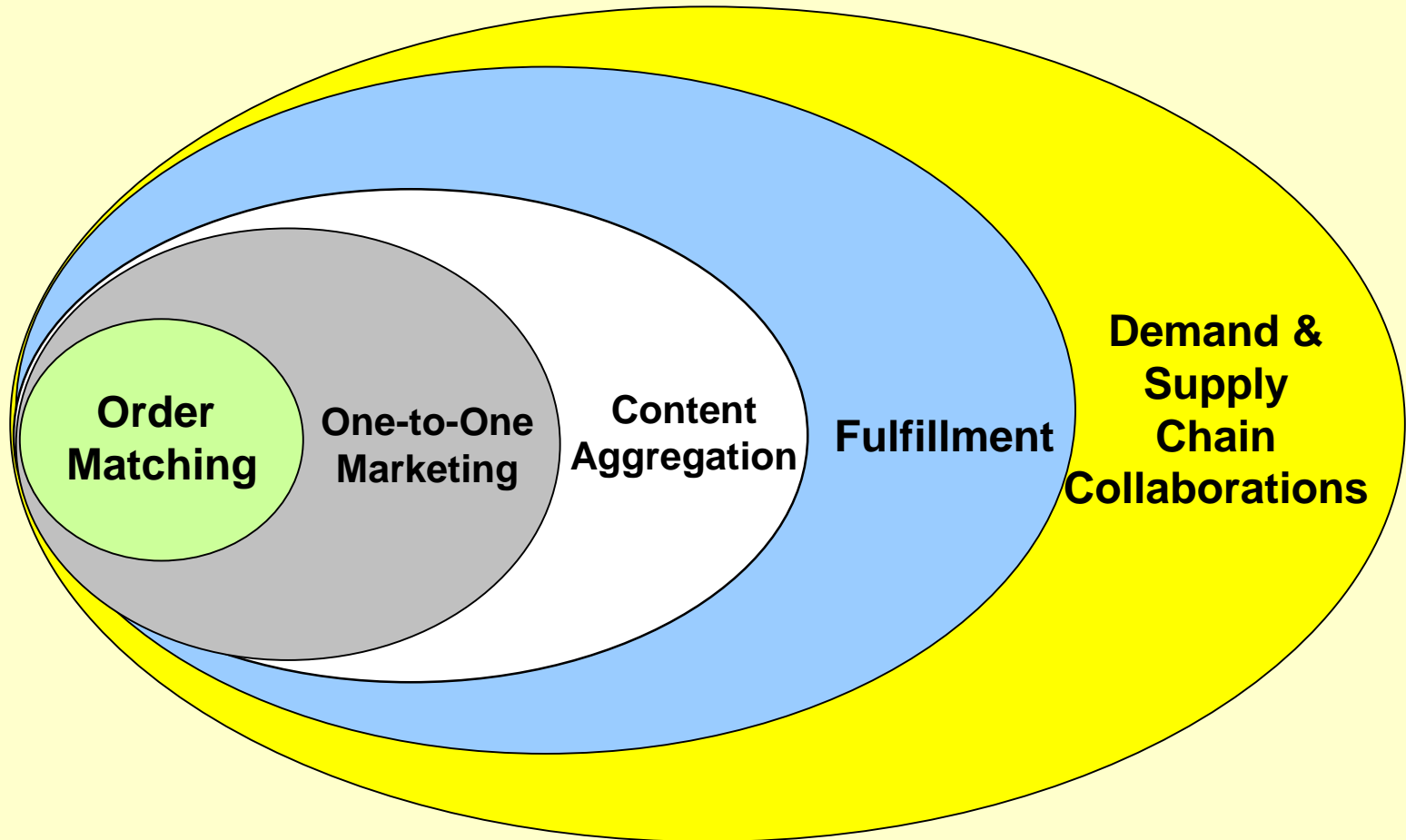
Buyers Will Force Integration



Status Check – Industry Sponsored Exchanges

- **The hype curve settling back down to reality; this is going to take a while and its hard stuff**
- **Shift from we can build everything mentality to examining what can be bought off the shelf and plugged in as a marketplace service**
- **Better definition of services to be offered and tiering of pricing**
- **Still staffing management teams**
- **Equity participation worked out**
- **Systems integrators, lawyers, consultants, and I-banks hired**
- **Indirect transactions by year end in several ISEs; direct by mid year next year**

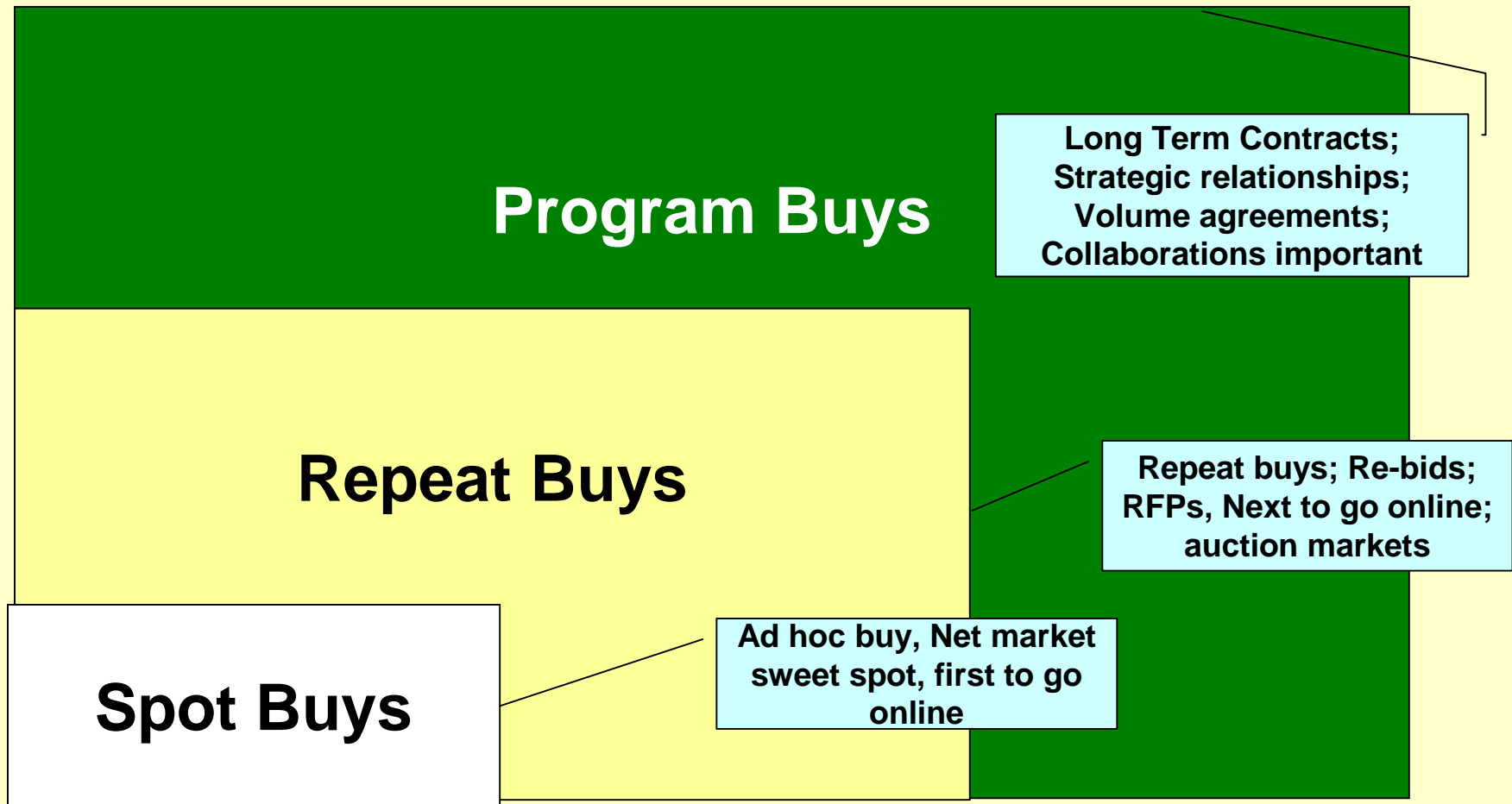
Layers of Value From Exchange to Hub



Some Sweet Spots/Bottlenecks to On-Line Markets

- **Content – huge bottleneck; constraint to liquidity**
- **Customized, negotiated pricing**
- **Back end integration; need to get cheaper and faster – and quickly**
- **Customer intimacy and personalization – no one wants to be a generic entry in a catalog**
- **Payment services – buyers revert back to manual payment processes for purchases that don't fall under credit card limits; need to tap into existing credit lines and escrow on the fly**
- **Product life cycle collaboration**
- **Collaborative design and engineering**
- **Sourcing/RFP**
- **EDI/XML integration through virtual gateway**
- **Configuration**
- **Lots of “On Ramps” – buyers and suppliers can get to market places through many different technologies**

Stratification of Enterprise Procurement



Source: VerticalNet, Morgan Stanley Dean Witter

The Suppliers Have to Taken Care Of

- **Sell side solutions will become on ramps to the marketplace**
- **Sellers need more sophisticated selling and fulfillment system to handle advanced procurement platforms their customers are using**
- **Benchmark data help evaluate buyers and sellers**
- **Point to point integration breaks down for anyone with thousands of suppliers**

Thanx
Questions??

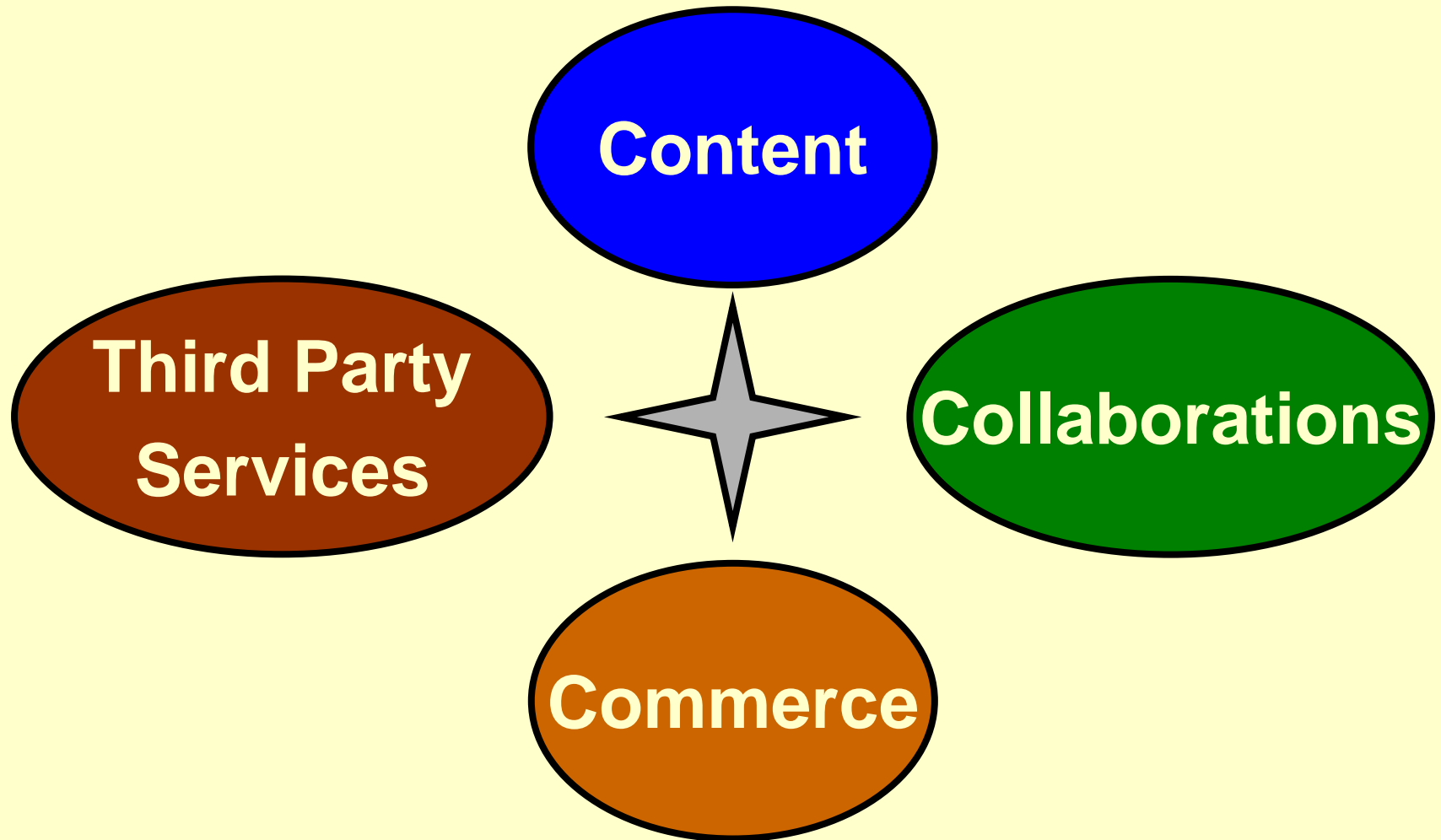
Chasp@ms.com

How Big are We Talking Some Numbers

- **\$20 trillion in revenue for all companies with greater than \$500 million in revenue**
- **External spending of this audience is \$10 trillion**
- **65% is for direct procurement (going into end product for resale; 35% indirect (admin support and MRO).**
- **8% procurement overhead in processing cost or \$800 billion**

E-Hubs

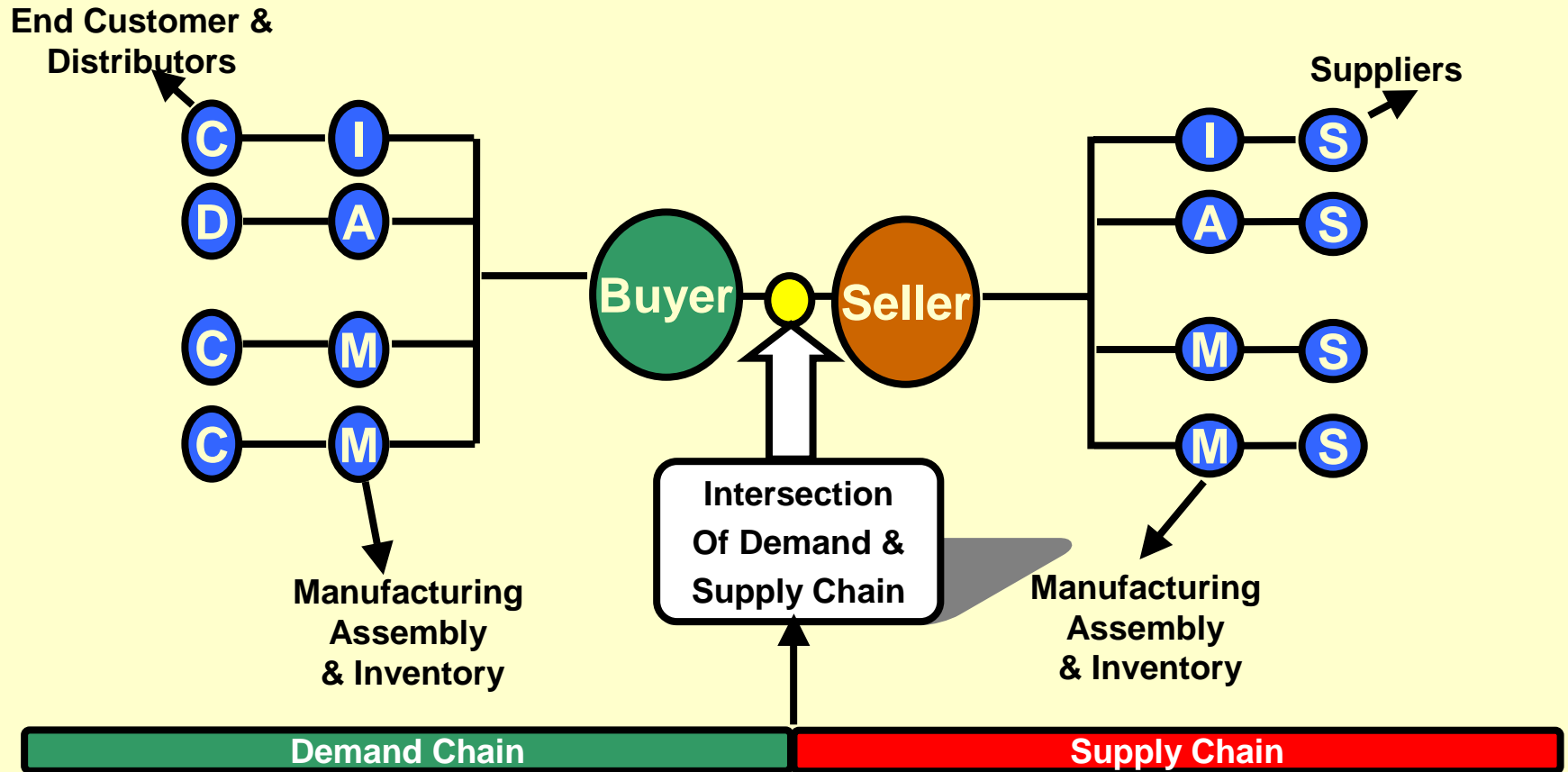
The Pillars of Value



Order Matching Won't Cut It

- **NYSE volume of \$7.3 trillion in 1998**
- **168 billion trades**
- **Profit of \$110 million**
- **Companies won't pay a lot to route transactions over a free network to people they already know;**
- **Remember, its down to 6 cents a share**
- **Look for more value-added services or else**
- **Add collaborations to commerce**

The Head & Tail of B2B Transactions



B2B Buyer Under Stress

I need it Now!

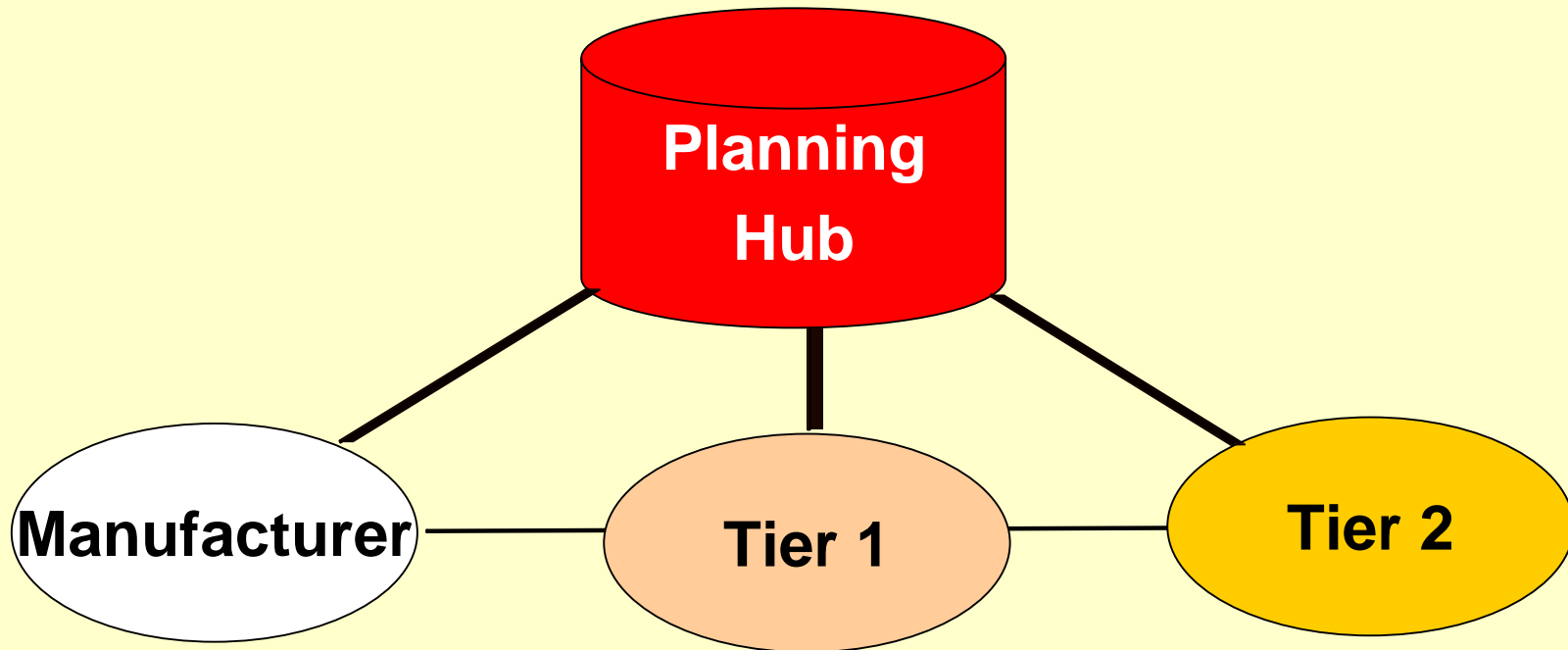
- **Available to promise – in stock**
- **Capable to promise – can be made by DD/MM**
- **Substitute products**
- **Transportation alternatives**
- **Valid Configuration**
- **Partial ship/Backorder**
- **Fill or Kill option**

B2B Supplier Under Stress

Limited Resources...

- **Is this a profitable order?**
- **What's the incremental cost of rushing this order?**
- **Are there substitute products?**
- **Will they wait if I lower the price?**
- **Fill or Kill option – should I kill this order if I have five larger ones behind it?**
- **Is a component backordered; if so, don't rush ship?**
- **Is this a premier customer; then fill it anyway?**
- **Is this a new customer I want to impress?**
- **Do I want to fill high margined orders first?**
- **A machine is down; what orders should I accept that by pass that equipment and minimize setup?**
- **All my suppliers should be asking the same questions**

Serial vs Parallel Planning and Production



The Drivers to E-Hubs

- **Lower inventory**
- **Lower interaction costs**
- **Process transparency; internal and external**
- **Digital audit trail; better measurement**
- **Improved 24 x 7 service; multi lingual**
- **Leverage expertise**
- **Enhanced discovery**

The Chain of Commerce in the 21st Century

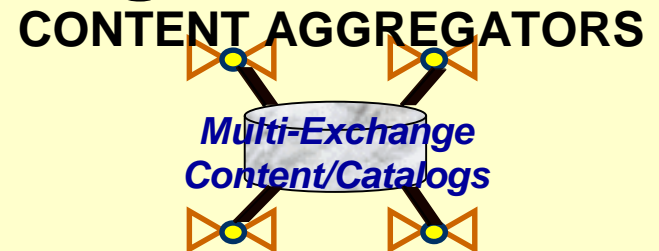
- **Collaborative**, project-based manufacturing and services
- **Each partner a value-added node** in the chain - contributing content, knowledge, and specialized services
- **Flexible, transparent channel** responsive to market conditions
- Acute need to **share information** and **coordinate** decisions and activities

The Challenge of Managing Content

- **60% on Catalogs on paper**
- **Remaining 40% in cryptic format meant for machine to machine interaction**
- **Redundancies and abbreviations**
- **Synchronizing content a challenge; constantly changing**
- **Categorizing content for user friendly, parametric search requires expertise**
- **Must support multiple languages, currencies, units of measure, and customized views**

Content Matters

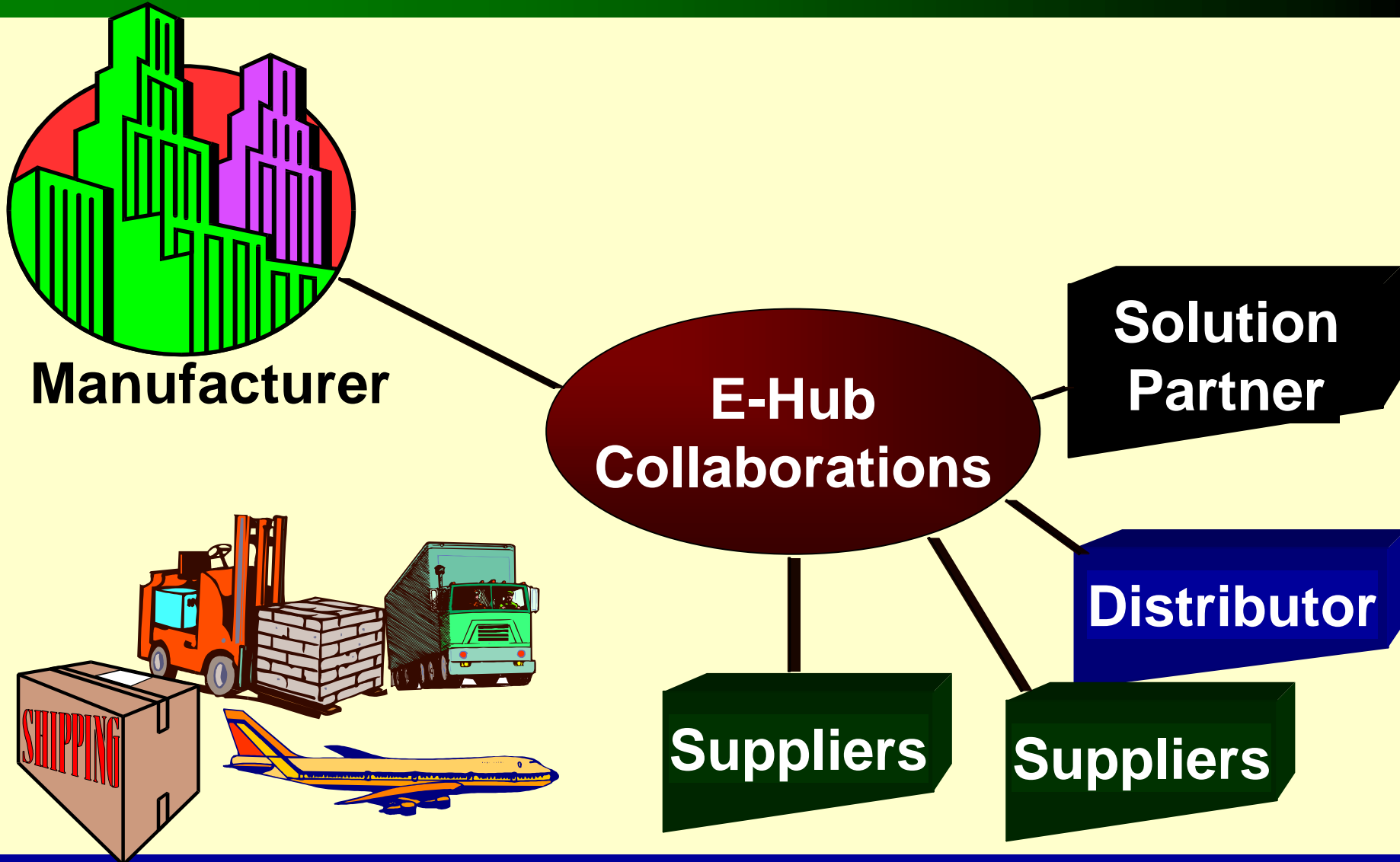
- **Source** – find relevant content
- **Aggregate** – consolidate for insight
- **Transact** – support commerce
- **Collaborate** – between design, procurement, and manufacturing
- **Analyze** – decision support
- **Improve** – build on knowledge and experience



Is the Fat Lady Singing for middlemen?

- **No but she's clearing her throat**
- **Geography created a market for intermediaries**
- **But not so fast, new intermediaries are being created**
- **Distributors can still add value**
 - Sourcing
 - Certification of products and suppliers
 - Aggregation of demand
 - Credit and Inventory
 - Displaying catalog content from multiple suppliers,
 - Finding difficult to locate products
 - Serving unique needs of preferred customers
 - Advising customers on product life cycles

Hubs Integrate Multiple Facets of Commerce



Collaborations – B2B Stickiness

- **Supplier certification -reputation**
- **Application Hosting**
- **Sourcing of products**
- **Contract administration**
- **Transportation mgmt**
- **Tariffs and Duties Assessment**
- **Product Life Cycle Management**
- **Regulatory filings**
- **Planning, Scheduling, Forecasting**
- **Warehousing and Inspection**
- **Promotions/Campaign Mgmt**
- **Risk mitigation services**
- **Profiling and personalization**
- **Catalog display/maintenance**
- **Authentication/security**
- **Training and Education**
- **Product Configuration**
- **Private markets, negotiated terms**
- **Derivative instruments**
- **Electronic bill presentment**
- **Post sale support, Warranty programs**
- **Community news, employment, etc**
- **Receivables management**
- **Performance mgmt/benchmarking**
- **Returns processing, Repair Claims**
- **Scrap management/Reverse Logistics**
- **Payment processing/order mgmt**
- **Inventory availability**
- **Order explosion/routing**
- **Shipping status, SKU resolution**
- **Partner/team selling and promotions**
- **Advertising and Interactive Selling**
- **Workflow and Business rules**
- **Backorder management**
- **Escrow and warranties**
- **Complex pricing**
- **Liquidity**
- **Financing**

Outsource with Confidence!

- **Web architecture dictates that data and applications can be location independent of the user – breakthrough**
- **No need for HR system in every country**
- **Optimize and centralize expertise**
- **Better information and cleaner data; Uniform access interface - Browser/WAP**
- **Shared services and third party ASP services much more viable with the Web**
- **Value chain disaggregation – outsource it if you aren't the best at it; focus on comparative advantage**

Enterprise Apps Lose Functions to Portals

Now

**4 Walls of
The Enterprise**

Accts Payable
Payroll
Accts Receivable
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**Full
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Shipping Portal**

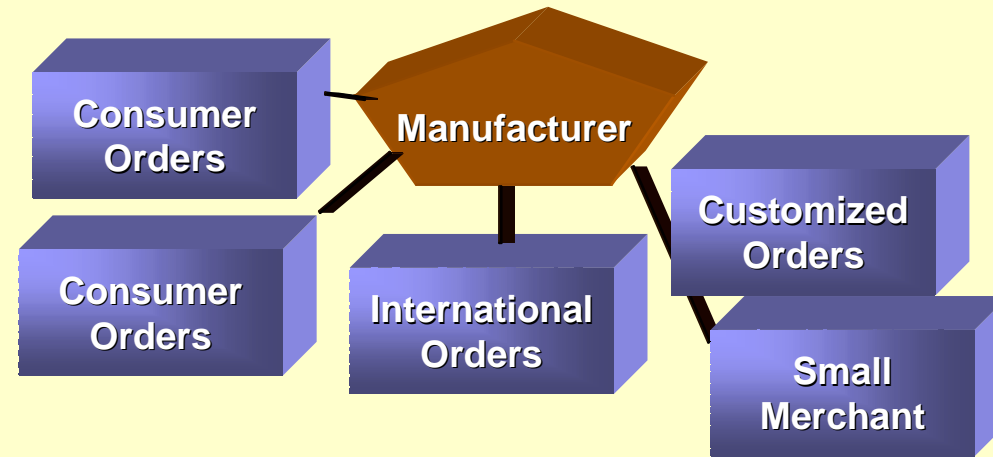
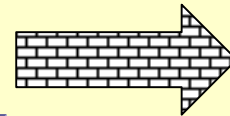
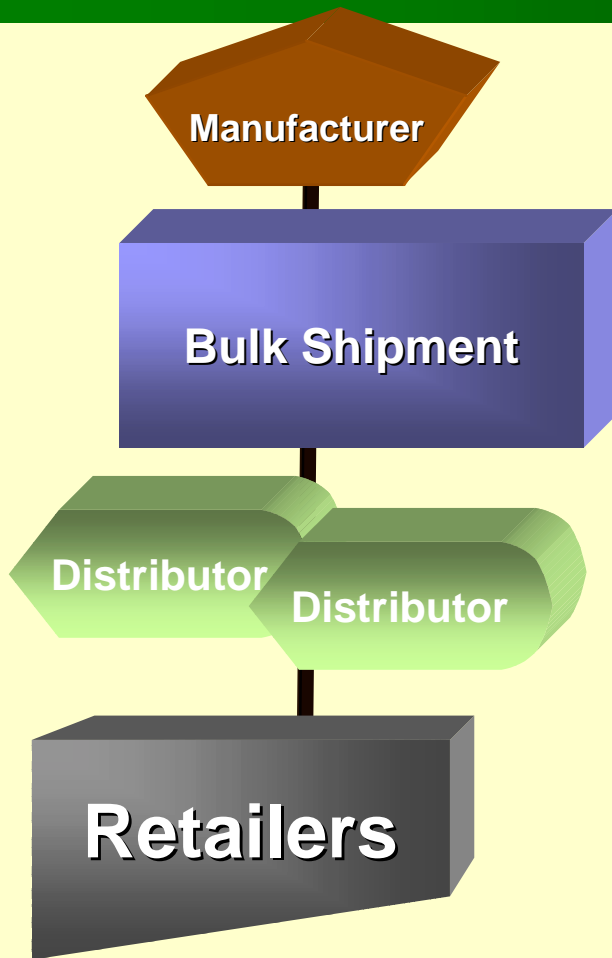
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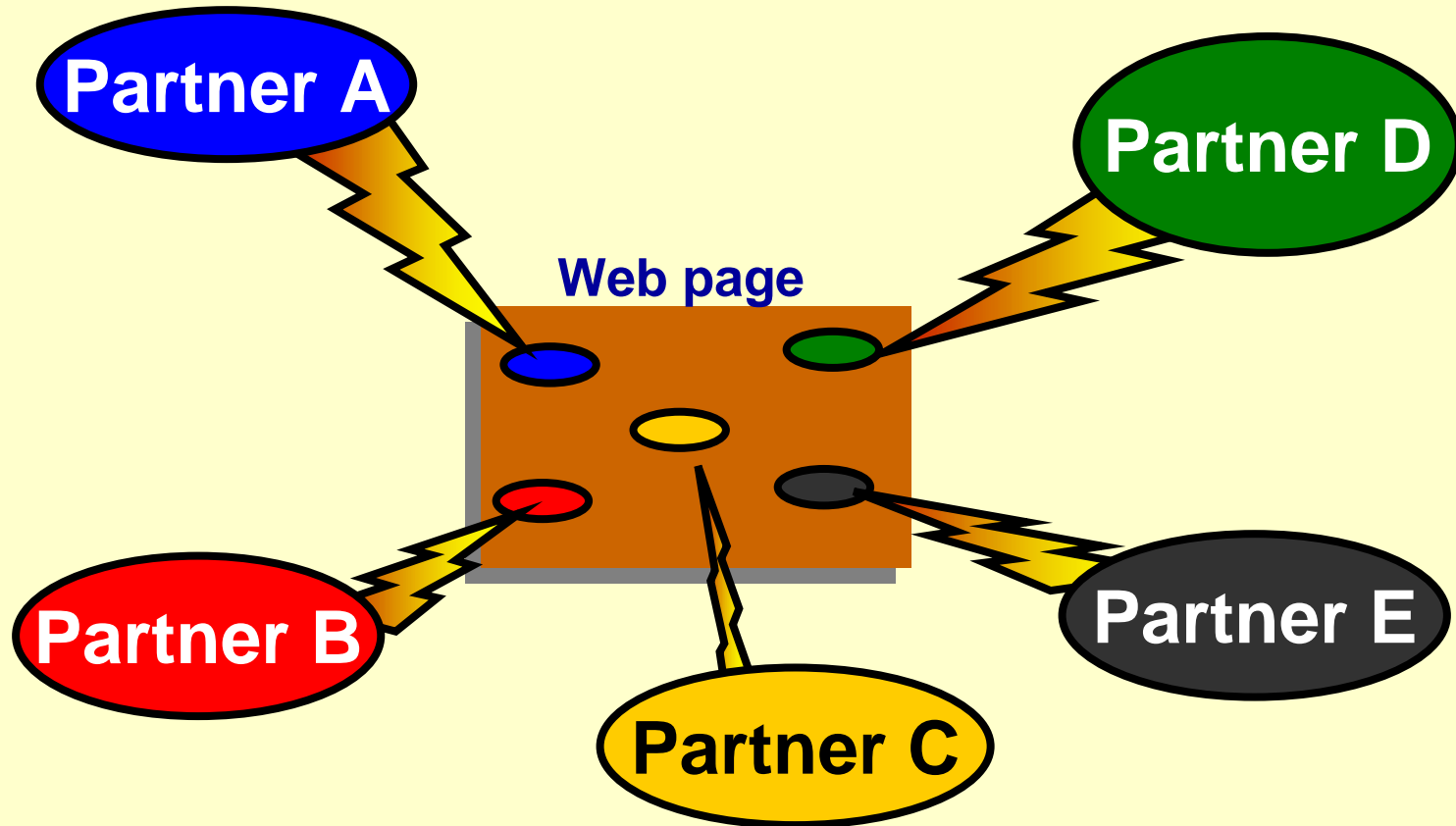
**Other Shared
Services**

The Logistical Nightmare of E-commerce Operations

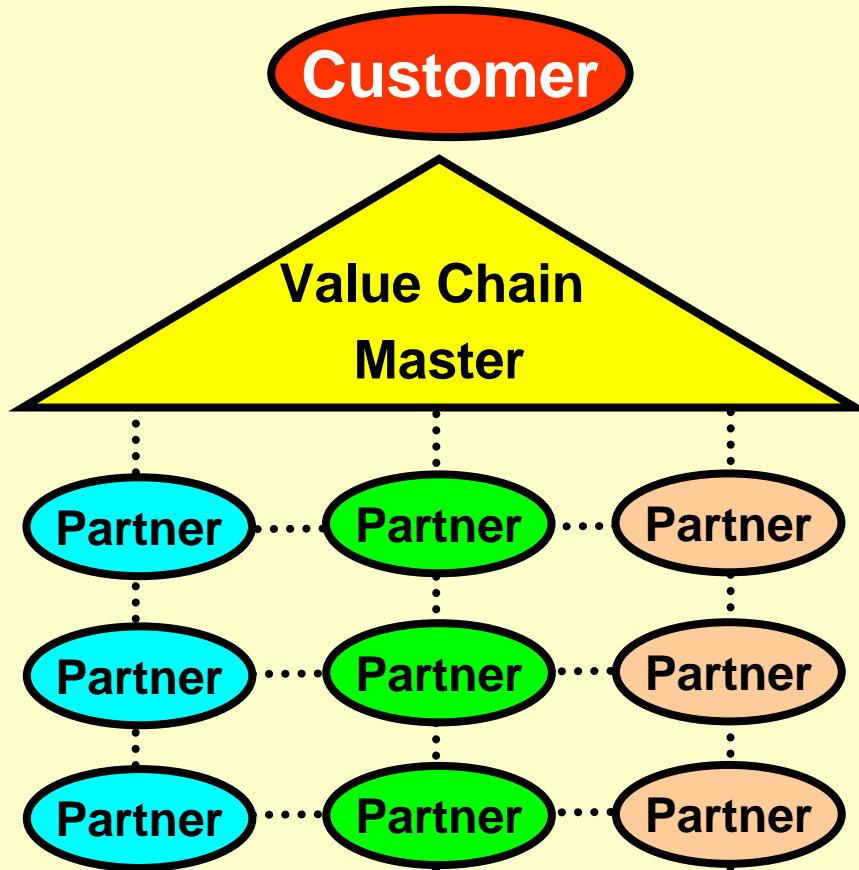


INVENTORY CHOICES	DESCRIPTION
Self Stock, Integrated	Integrate consumer orders with bulk orders; logistically impossible for many; creates inefficiencies and raises costs
Self Stock, Separated	Create separate inventory facility for small orders; added costs but retains control
Outsourced Warehousing	Third party handles consumer orders; predictable costs; better response time
Drop-Ship	Supplier/distributor ships directly to consumer; not always applicable

Dynamically Linked Content Community Application Services



Virtual Companies Coordinate the Value Chain



- Not serial but parallel
- Team oriented
- Outsource comparative disadvantages
- Real time
- Dynamic
- Flow manufacturing between companies
- Transparent fulfillment

The E - Supply Chain – What Changes

- **More choice – for both supplier and buyer**
- **More Market Intelligence – everyone marked to market on price, performance, and desirability**
- **More real time interaction**