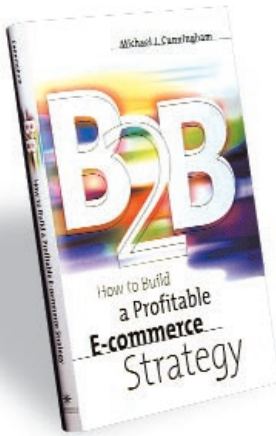


SOUNDVIEW Executive Book Summaries®



By Michael J. Cunningham

How To Build A Profitable E-Commerce Strategy B2B

THE SUMMARY IN BRIEF

For anyone involved in the world of business, these are wild times. Companies are gearing up to use the Internet to create new ways of doing business. For many, this will mean redefining themselves and carving out new roles. The Internet is changing whole industries from the manufacturing to the service sector. And it is all happening at break-neck speeds.

In this summary you will learn what it takes to build a profitable e-commerce strategy from scratch whether you are currently a brick-and-mortar operation or are an upstart with a new business model. Here's what you will discover:

- **Fundamentals of B2B E-Commerce.** The amount of business being done on the Internet is big and getting bigger. With the Web as the foundation, businesses are finding new ways to forge partnerships and make a profit. Old supply chains and partnerships have to be changed and renegotiated for the Web.
- **Relationships Are the New Focus.** Relationships are at the heart of any B2B e-commerce strategy. You will find yourself forging fluid partnerships in order to enter the marketplace quickly and maintain a competitive advantage once there.
- **Best Practices.** Already, the B2B scene is seeing the emergence of best practices for success. You will learn what they are, how they work, and how to apply them to your B2B venture.
- **Essential Technologies.** Creating a credible B2B presence requires that you obtain the services, applications, and software needed to operate effectively. You will see how to create the infrastructure to support sales, marketing, and service. The result will be a customer-centered enterprise delivering content, products and services quickly, efficiently and profitably.
- **Changing Organizational Thinking.** As a B2B e-commerce enterprise, you have to reinvent yourself over and over as e-commerce matures. To do that, you must create a corporate culture capable of changing as the need arises.



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B2B

by Michael J. Cunningham

— THE COMPLETE SUMMARY

Fundamentals of B2B E-Commerce

In these new times, with new rules and new players, business-to-business e-commerce will be the main underpinning of a company's strategy, operation and technology systems. E-commerce replaces traditional supply chain and distribution network models that have provided the materials, services and products for companies. Those who want to succeed must build a strategy that ensures them a position in the new e-commerce world.

Skeletal Beginnings

Fortunately, most companies already have at least the skeletal beginnings of an e-commerce business already in place. That foundation is your internal computer network, which is a key component of any future business-to-business e-commerce system. Your internal network likely includes an **Intranet**, which is an internal proprietary site created for effective collaboration and information sharing by company employees. Through it, employees share computer resources and data and communicate via email. Your company may also already have in place an **Extranet**, which is a section of your network accessible to partners or vendors outside the company who may have a need for the information.

Portals

Intranets and extranets are only a small part of B2B e-commerce, but serve as a starting point. As e-commerce matures, companies will need to create or use portals as gateways. Portals are the work spaces of the future where people will go for information specific to their jobs. If you expect to become a participant in e-commerce transactions, you will need to create or use portals with content that attracts other participants. For example, industries will begin seeing specific portals which gather and organize industry information. Those needing that information will return again and again.

Portals that provide information about specific industries will rely on **infomediaries**. Portals purchase, package and deliver content while infomediaries create, package and sell that content. For example, infomediary ZDNET.com creates computer and software-related content for their own site and sell that same content to others who need it.

Defining B2B E-Commerce

Business-to-business e-commerce consists of business transactions conducted over public or private networks, including transactions that use the Internet as a delivery vehicle. Financial transfers, online exchanges, auctions, delivery of products and services, supply-chain activities, and integrated business networks are all examples of B2B e-commerce. Business to Business e-commerce is already an oversized monster with a big appetite for growth. By the year 2004 the B2B marketplace will top \$2.7 trillion, according to Forrester Research.

Digital Markets

Procurement systems are one of the first successes of the B2B market. Using the Internet to share information about products and services cuts the cost of procurement. Many business procurement processes can easily be adapted to the Internet. In fact, some functions that were very expensive when human interaction was required can become inexpensive when the need for a live person to perform the service disappears. Some B2B procurement solutions include using an online travel agency to arrange business travel, an online computer store to customize and purchase computer hardware and software, and online payroll services for payroll and 401(k) payments. As time goes on, procurement services will become more centralized, allowing business customers to make one stop for payroll processing, shipping, office equipment purchases, credit services, travel arrangements and investment planning.

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Fundamentals of B2B E-Commerce

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Another emerging e-commerce marketplace is the **B2B exchange**. A B2B exchange is a place where suppliers, buyers and intermediaries congregate and offer products to one another using a predetermined set of “rules.” Eventually, the B2B exchange will provide a fully automated business exchange for partners looking for products, geographic locations and buyers. The exchange itself may take a commission for each successful match much as a broker does or charge a membership or referral fee. Examples of B2B exchanges are Plasticsnet.com and VerticalNet.com.

Another type of e-commerce marketplace is the **auction**. Typical auction sites require you to register your company, agree to the rules, supply credit information, and specify shipping preferences. You may have access to automated bidding software that lets you set price limits. You are then ready to place a bid. If your bid wins, you receive e-mail confirmation and your account is charged. A variation is the reverse auction, in which the buyer posts what he or she wants and the seller responds.

Supply chains are also moving online. For example, Ford and Oracle have announced they will create a huge e-business supply-chain program to coordinate more than \$80 billion in annual purchases from 30,000 suppliers into a single system. Companies that have already invested heavily in coordinating supplier and business partner activities into supply chains see that using the Internet can lead to even greater savings and efficiencies since all the information the partners need can be available instantly. ■

A New Focus

In the ideal world, business-to-business e-commerce systems would be self-service systems providing everything the participating business needs. There would be a seamless transition from sign-up through sale, transaction and delivery of the goods or service. In reality, e-commerce enterprises still have to build relationships. Trust, value and performance still count.

Branding is another crucial aspect of any e-commerce relationship, whether it is a consumer oriented or a business-to-business company. A B2B company will pay great attention to building its brand within its market segment.

Marketing is another area companies must focus on. One marketing tool B2B firms have borrowed from business-to-consumer companies is the affiliate model. Affiliate programs pay a commission to a Web site that refers a buying customer. Another tool is the customization of the information a customer views when visiting a B2B Web site. ■

Innovation in Action: B2B Best Practices

The B2B market is an extraordinary one — so many opportunities and so little time. One segment of the market that is particularly worried about B2B competition are the traditional brick-and-mortar companies afraid of upstarts building new online business models from scratch. To compete, brick and mortars have begun migrating to the Internet.

Take traditional retailer Staples. Its online presence, Staples.com, boasted \$94.3 million in revenues in 1999 and quarter-to-quarter growth of 80 percent. Although its brick-and-mortar revenue of \$7 billion dwarfs its online revenue for now, Staples demonstrated that moving online is possible and profitable. Staples did it by creating a separate operating division. Its strategy is to grab substantial market share in the small business and SOHO (small office/home office) market.

Successful Dual Crossovers From B2C, Brick-and-Mortar Industries

Some firms manage to enter the Internet B2B market as dual crossovers. They come from a business-to-consumer, brick-and-mortar background.

Take, for example, the highly successful online travel firm Travelocity.com. The company started as an intranet for American Airlines. From there, the company began including travel agents from around the world in an extranet. Its back-end system links agencies, companies and suppliers in the travel industry. Its entry on the Web initially focused on consumer travel. Today, it is expanding to include a new focus on the business traveler.

Also crossing over from the business-to-consumer model to a business-to-business model is online auction giant e-Bay. It has the tools, methods and clients to become a dominant player. With the world’s largest personal on-line trading community, it has an established brand, and can pair buyers, sellers and suppliers fast. By shaving a portion of the revenue from each transaction, e-Bay is one of the few profitable companies on the Internet.

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Brick-and-Mortar Advantages

Companies with successful off-line operations have a considerable advantage over new entrants into their markets when moving online. These include:

- Existing market share
- Brand recognition
- Back-end infrastructure in place

Innovation in Action: B2B Best Practices

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Other entrants to the B2B e-commerce game are strictly Internet-based operations. These include VerticalNet, a business exchange. The company has over fifty sites that are destinations for information about industries. Each is a community offering specific content, services and products for participants. Its long-term plan is to take a portion of each transaction it facilitates, but currently most of its revenue comes from sponsorships and advertising. The company also features direct and reverse auctions, web storefronts and content licensing to generate income.

Best Practices

Here are some best practices that can be gleaned from successful B2B e-commerce companies:

- **Think Fast, Work Fast.** The ability to think and work quickly is essential to successful e-commerce. Agility is crucial.

- **Partnerships Are Essential.** Successful B2B e-commerce companies don't go it alone. Instead, they rely on partnerships for help with marketing, strategy, industrial development, sales and distribution.

- **Leverage Existing Relationships.** By leveraging existing relationships, B2B firms can penetrate new markets and seek out new business opportunities. Companies can migrate, for example, from delivering travel information to consumers to delivering travel information to business travelers.

- **Go International Early.** As it becomes more difficult to grab market share in the United States, consider the advantages of going overseas. There is an advantage in being first.

- **Understand Supply Chains.** Those who understand how the supply chain works in their industry already have a model for getting to online markets quickly.

MeetChina.com

MeetChina.com is an e-commerce portal dedicated to facilitating business-to-business trade with Chinese manufacturers. Already it has over 15,000 electronics manufacturers planning to offer goods through the service. The site will offer cultural, financial, and work-practice advice for organizations planning to use China as a resource in their manufacturing activities. With support from the Chinese government, the portal is poised to reap the benefits of a market worth \$195 billion and growing.

- **Leverage Your Brand.** If you have a developed brick-and-mortar brand, you have an immediate advantage online. You don't have to spend millions developing brand recognition.

- **Multi-Headed Business Models.** Don't use one business model when several will work better. Many successful B2B operations have models that include exchanges, sponsorships, advertising and content licensing. More is better.

- **Build the Base First, then Leverage It.** First create a base of business clients and partners, then leverage them by introducing new products and partnerships or extend your site's reach through other portals or partner sites.

- **Add Value.** Partners will remain loyal and customers will keep coming back if you continually add value and improve the site.

- **Be Prepared to Spend Money.** It can be expensive to enter and keep a strong position in emerging B2B markets. Make sure you have enough cash to sustain yourself through periods of intense competition.

- **Ditch Old Market and Development Programs.** Sequential, long-term market planning and testing cycles are history. Integrate market research, testing, prototyping, and awareness programs from the start.

- **Develop Your Own Practices.** Evolving in real time is a challenge. But remember, while speed can kill, staying put is a guarantee of failure. ■

Building Alliances

Few firms can do it all in the e-commerce business. From marketing to hosting the site, developing a B2B organization requires forming strategic partnerships. This is especially true when experienced staff is in short supply. Whether the need is for funding, development, marketing or support, partners are involved in almost every phase. Partners can be used to outsource tasks, to assist sales, and as financial participants in the business.

The paramount principle behind developing effective partnerships is to recognize that the relationship must be win-win. In addition, speed is crucial and has a major impact on partnerships. Fast, smart partnering can produce results quickly, scaring competitors and creating unstoppable momentum. In general, the speed at which partnerships are being formed has accelerated as agreements become standardized for specific partnerships such as affiliate programs and content licensing.

Finding Partners

A major obstacle in the search for appropriate partnerships is the limited size of the experienced **Internet**

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Building Alliances

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gene pool, those individuals who have the skills and talent to guide companies into the uncharted waters of B2B. Premium talent commands premium prices, if it is available at all. Firms wanting to move fast therefore have to partner and outsource like crazy. Those who partner find themselves succeeding while others flounder.

Finding the right partners means hiring an Internet B2B dream team. Different partners are needed for different phases of development. You need to develop a partnership network with **inside** partners for the development and execution of your business strategy and **nearside** partners for extending reach and market penetration. Finally, your network should include partners to assist the execution of your business model without day-to-day contact. These partners include associations, distributors and the media.

Next, develop clear goals to orchestrate the partnership strategy, including creating realistic scenarios. A typical 9-month plan might look like this:

- **Perform market research** (30 days)
- **Develop business plan** (30 days)
- **Select development and marketing partners** (30 days)
- **Specify systems to be used** (45 days)
- **Develop the systems** (60 days)
- **Implement the systems and rollout site** (30 days)

Measuring Partners

Partnerships need monitoring and measuring. You can't afford to just measure revenue and customer acquisition and ignore the partners who are making it happen. Nor can you afford to keep those partners who

aren't contributing much value to your venture.

The inside partnerships are easy to measure, since there tends to be a lot of contact. Nearside partners are harder to measure, but their activities can have a profound impact on timing of new products and their acceptance in the market. Their activities need tight coordination. If you can, tie their compensation to success or failure and measure their performance against predetermined goals and schedules, such as time to market, cost performance, flexibility, market value, market perception of company (for PR partners), and customer acquisition and cost.

If partners don't measure up, you must be willing to fire them. They don't belong in your network. Comprehensive legal agreements drafted in plain language will make it easier for partners to understand their obligations and to fire a non-performing partner. ■

Selecting B2B Applications, Services and Software

Determining what to build and how to build it is a major concern for new B2B e-commerce companies. The applications, services and software you choose must be designed with the user of your site in mind. People who are enjoying a site (i.e. are getting useful and relevant information for the job) are likely to stay, and having people stay is what e-commerce is about. When they do leave, getting them to come back for more becomes crucial. To accomplish this you must make the site both relevant and compelling.

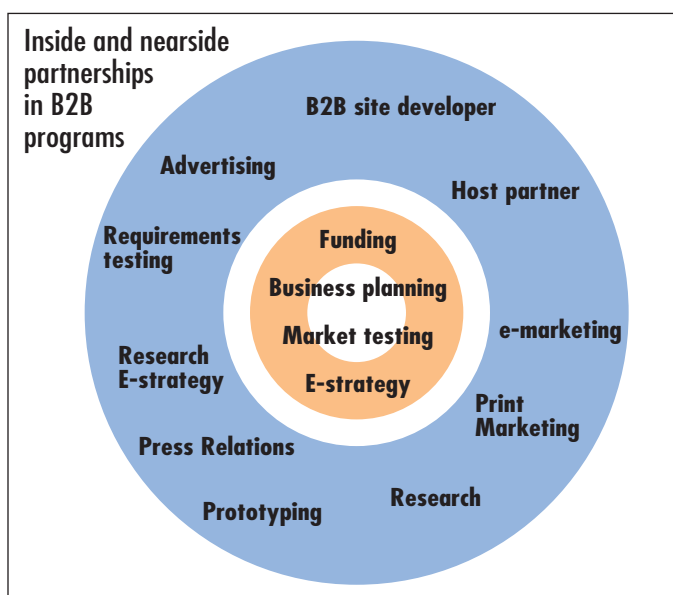
An ideal site:

- **Is the first stop for your service or product.**
- **Is extremely relevant to the visitor's business needs.**
- **Provides service or products in a way that increases brand loyalty.**
- **Allows for a customized experience so the customer is unlikely to go elsewhere.**
- **Accommodates the customer's needs.**

To create such a site, you must start at the core and work out. The first layer of your system is your intranet, which forms the core of your internal communications. Every intranet includes a TCIP/IP computer network, an electronic mail server, client e-mail software, a Web server, a browser, perhaps a chat function, and an FTP, or file transfer protocol, system. Together, these tools facilitate communication within the company and serve as the foundation of your system.

The second technology layer may be an extranet, which allows outsiders access to some parts of your

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Selecting B2B Applications, Services and Software

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electronic system. Back-office systems also play an important role in many companies. These systems can include financial, inventory, order-entry, and human resource systems. When integrated into an extranet, those who need access to the information back-office systems contain can get the information they need quickly and directly.

Hosting Firms

You don't have to build an entire computer network full of servers to host your B2B e-commerce site. Hosting providers now offer the best options for most firms entering the B2B market. The costs associated with creating a dedicated data center along with rapid obsolescence have helped make hosting services the first choice for most enterprises.

Some Internet Service Providers (ISPs) have grown beyond providing Internet service and now offer at least limited Web hosting for individuals and businesses. However, full-fledge hosting firms can provide the bandwidth e-commerce sites need as well as the ability to accommodate growth. They also provide twenty-four hour per day access to sites.

A recent entrant to the field is the application service provider, or ASP. ASPs provide both Web hosting and the software businesses need to run their firms via the Internet. Companies no longer need to have software installed on individual desktops, but can use software available on the ASPs servers through the Internet.

You must create a security system for your e-commerce site. Most B2B firms allow some level of public access to their internal systems. Examples include credit card processing and data collection. These contacts need to be secure and private. Technological features like firewalls and routers guard the system and control the traffic. ■

Essential E-Commerce Technologies

In order to understand just how open and powerful the Internet has become for e-commerce applications, it helps to understand the components. The framework for the Internet was started in the late 1960s when the Department of Defense funded a network of computers to connect researchers, government workers, and defense contractors. The computers needed to communicate with one another even though they were manufactured by many companies. A set of protocols, or rules for communication, were developed that allowed the

computers to connect. Eventually, this led to the creation of the TCP/IP protocol still in use today.

Today the Internet is a huge collection of networked computers around the globe. Each computer on the Internet has a unique name, known as the domain name, and each system has an extension that describes the general function of the organization using it. Domain names fit into one of six categories: *com* for commercial organizations, *edu* for educational institutions, *mil* for military, *gov* for government, *org* for miscellaneous organizations and *net* for networking organizations.

The Internet can be used to send and receive electronic mail, browse sites, transfer files, access newsgroups, chat and send instant messages, confer, search for information, and send bulk e-mail. Perhaps the most popular Internet software is the browser, which allows people to reach the content of remote sites.

Security

Since the Internet is essentially a system of connected computers with access to each others, security is a major concern. Computers connected to the Internet may contain sensitive information its owners want to keep private while allowing access to information that can be shared.

There are several security systems available to lessen the impact of the problem. One security measure is to encrypt data that is sent between computers to keep it safe from unauthorized snooping. Encryption software encodes data so it can only be read by the sender and the recipient. Authentication software then is used to verify that the sender and receiver are who they say they are so that the transaction can take place. Messages can also be checked to be sure nothing was added or deleted along the way.

Firewalls prevent unwanted users and data from getting into corporate networks. Companies considering B2B e-commerce must pay attention to the development of firewalls. With the use of proper security systems, you will be able to handle credit transactions.

Generating Web Content

While the World Wide Web has been around for a few years, until recently getting content formatted in a way that could be read by the browsers used by those surfing the Web depended on converting the content using HTML, or Hypertext Markup Language. Today a new language has arrived on the scene, XML.

XML is the standard that is linking Web and database activities. It allows individuals visiting a site to query a database for information. The information is then found and displayed in the visitor's browser. XML understands

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Essential E-Commerce Technologies

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the context of a request. For example, a visitor could ask for a list of all conferences where Mike Cunningham is the speaker. The request is then processed by looking through the files for all conferences featuring Cunningham as the presenter.

With XML, data can be sorted and arranged according to the need of the individual requesting the information. This means catalogs, article archives and other databases can be repackaged for different users many times over. To sum it up, businesses that use XML to create e-commerce sites can:

- **Reuse and repurpose information quickly and efficiently.**

- **Reduce maintenance costs.**

- **Design flexibility into the system.**

- **Share information easily inside and with business partners.**

As the Internet matures, companies that want to enter e-commerce will find more and more software that simplifies the creation of Web sites and manages the content. Online catalogs, searchable archives and other databases can be organized to individualize each visitor's experience to his or her needs. ■

Architecture and Infrastructure: Designing a B2B Business

Moving into Internet territory requires a whole new mindset. The new corporate assets are flexibility, integrity, continuous pursuit of value, creating a sustainable advantage, and staff and customer loyalty. But designing a B2B business is more than putting up a Web site. It changes aspects of your organization. Whether you are building a new company or revamping an old one, take some time for planning.

The easiest way to plan a B2B e-commerce business is to create a plan that integrates and includes a go-to-market strategy. The process should begin with a meeting that includes all groups involved in creating the business plan. The purpose of the meeting is to build consensus.

Next, create the go-to-market plan. It should include:

- **Marketing plan and tactical actions**
- **Press plan and tour**
- **Introduction to existing and new clients**
- **Pricing and packaging information**
- **Site traffic promotion**

- **Introductory offers, if any**
- **Partner programs**
- **Internal promotion and explanation**
- **Validation of the business model**
- **Internal communications**
- **Product development and release schedules**

Sales and Distribution Plan

The approach you will take to the development of sales and distribution plans for your B2B depends on whether you are a start-up or an established company. Existing enterprises already have operations and channels to protect (while new enterprises don't) and must take care not to cannibalize those existing channels. If you redesign existing systems, you must do more than make minor improvements.

New sales channels will rely heavily on changing the way the current business model is working. Therefore, you will need to start by doing a total review of current market conditions. Keep the following points in mind when revising or modeling new sales strategies:

- **How will you access business partners?**
- **How will you reduce distribution costs?**
- **How can you increase revenue per employee?**
- **What is the cost of acquiring new clients?**
- **How can you cross-sell to existing market segments?**
- **How can you provide as much self-service as possible?**

The electronic sales process offers many opportunities to improve the quality, speed and cost of bringing purchasers to a decision. Build in features that keep customers who come to your site on the site. Some tech-

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How Channels Are Changing

Here is a quick look at how e-commerce is changing old ways of doing business:

Old Channels	New Channels
Brick-and-mortar distributors	Web distributors and catalogs
Manufacturer's reps	B2B exchanges
Value-added resellers	Information on the Web
Direct sales	Web sales
Geographic distributors	Geographic distributors with Web support
	Self-service sales
	Partner development centers on the Web

Architecture and Infrastructure: Designing a B2B Business

(continued from page 7)

niques to keep surfers engaged include a self-guided tour of your product or service, as well as self-service sales. If you can get a buyer to make decisions about getting more information about the product, follow it with a demonstration, references and self-configuration.

A key to creating effective self-service sales tools is gathering enough information about the buyer to tailor the sales presentation to his or her needs. One B2B e-commerce firm that does this well is bizbuyer.com. Within the first ten to fifteen-minute session on the site the following actions have occurred:

- **Customer has approved legal agreements.**
- **Customer has provided a profile.**
- **Customer has provided a detailed description of needs.**
- **Bizbuyer.com has distributed the information to its partners.**

The customer then begins receiving on-line quotations from the first three vendors that meet the customer's needs, and is free to contact the vendors directly.

Marketing

It's not enough to have a great system in place to close the sale once the customer arrives at your site. First you must drive him or her there. Customer acquisition costs must be calculated and included in your marketing plan. Acquiring customers is a major issue in developing an e-commerce business.

There are several effective ways of driving traffic to your site. The first is an infomediary approach. Customers want quality content and will return to your site if you provide it. Crafting a strategy for acquiring content is essential. Content can be obtained from existing sources like a company magazine or licensed from other publishers or aggregators.

Once you have content, the next challenge is to keep it fresh and up-to-date. Every strategy should also include using e-mail and bulletin boards. Another technique is to provide customers with a free service or application that is useful, requires registration, and will make them want to return. Examples are online training, project management centers like shared document storage or calendars. B2B companies with cash to burn can also acquire customers through the purchase of competitors. Finally, proper pricing will help you acquire market penetration.

If there is one marketing method at which the Internet excels, it is one-on-one marketing. The technology available allows you to provide customized

versions of information and products. Take advantage of it. Every B2B needs to design its customer database to become a **customer relationship management database**. In other words, the data you collect must be available to help everyone who interacts with the customer to customize that interaction. This is integrated Customer Relationship Management, or CRM. Use it. ■

Changing an Organization In Real Time

Preparing a company for dramatic changes is not easy. Being ready for change and making it happen are two different things. Getting a company to commit to embrace the current turbulent business climate is an ongoing management challenge. Attitude is pivotal. But cultivating a can-do culture without terrorizing staff and managers is a balancing act.

How do you manage to get everyone aboard when changes are happening at incredible speeds? It requires that you make everyone aware of the impact the changes will bring to the organization, that they be included in those changes, that there is true collaboration and involvement in the changes. In particular, there must be candid discussions of what will happen as a result of the new business processes being rolled out. Outline the game plan, explain why it makes sense and what the consequences of inaction are. Once the organization had chosen a path, those who will be included must be given the straight facts. Keeping secrets can result in key staff departure at a time the company needs them most.

Relationships

One problem with business relationships is that many organizations keep them in place too long. Relationships that have worked well for years may not work in B2B e-commerce. To guard against staying bound in a relationship too long, take stock of the relationship regularly. Don't just measure the relationship by what the partners have done for each other in the past. Since much of B2B success depends on having the right partners, some tactical introspection is required.

Start the analysis by drawing a map of who us in your business network. Then determine how those relationships can be leveraged to reduce steps, cut costs, and improve the effectiveness of the processes for which they are responsible. If you find that the current business model isn't working, it is time to end relationships and form others that allow you to compete in the marketplace. The B2B market is changing in real time, and you have to change with it. ■