

Business-to-Business e-Commerce for the Metal Casting Industry

By Neil Chaudhry and Bob Dzugan, buyCASTINGS.com Inc. Dayton, Ohio, USA (August 5, 2002)

“We are at the start of a business-to-business e-commerce revolution that will unfold over the next 10 to 15 years and the process of businesses buying from and selling to each other will be totally automated,” according to Steve Harmon, an Internet Analyst in an interview with Business Week, February 7, 2000. This was the vision at the peak of the Internet bubble. The reality today is as good or better in some ways and modified in other ways. The e-Commerce numbers are actually better than projected and it’s not all about automation, it’s about collaboration. Total sales using B2B e-commerce have gone up exponentially from zero a few years ago to \$114 billion by late 1999, to over \$820B in 2002 according to Goldman, Sachs & Co. **Also according to Goldman, Sachs & Co. the metals industry is one of the leading industries capable of increasing the bottom-line 22% due to e-commerce, versus an industry average 12.5%. (Figure 1)** More recently, based on 2001 Gartner Data Research (3/2001), **the actual B2B E-Commerce numbers are higher than those projected in the 1999-2000 studies.** Despite the manufacturing recession, and the .com crash the Internet use by businesses to cut costs and become more efficient continues to grow rapidly!

The Latest Outlook on the e-Commerce Industry

- Over \$820 B in B2B Revenues this year (2002)
- A 74% increase over last year
- This is still less than 2% of all business
- Others Predict Higher
 - Forrester \$2.1 Trillion
 - Gartner \$1.9 Trillion
 - Morgan Stanley \$1.4 Trillion

If You are Sitting Still, You are Missing The Competitive Boat

U.S. and U.K. tech buyers are more optimistic about tech spending than their German counterparts, according to a study by United Business Media's Roper NOP Technology Group and CMP Media. For 2002, both U.S. and U.K. decision-makers predict about 4% growth, while German tech buyers say spending will be flat. The outlook for 2003 is much brighter, particularly for the United States, which expects 7.7% growth. U.K. respondents come in at 6.3%, and German buyers predict 5.4% growth.

Not surprisingly, U.S. spending on IT security software for this quarter is expected to exceed security spending in the United Kingdom and Germany. U.S. buyers forecast 10% growth in that area compared with the same period last year, while the United Kingdom and Germany predict their growth will be less than 8%. IT decision makers overall rank E-commerce as one of this year's top priorities, which probably helps explain their forecast for spending on Web-based apps. U.S respondents expect 6% growth in that area, while the United Kingdom and Germany predict 4% growth.

Survey results are based on interviews with more than 1,400 IT buyers at various-sized companies in the United States, the United Kingdom, and Germany. - Sandra Swanson, Information Week, August 5, 2002.

Role of the Internet in Your Business

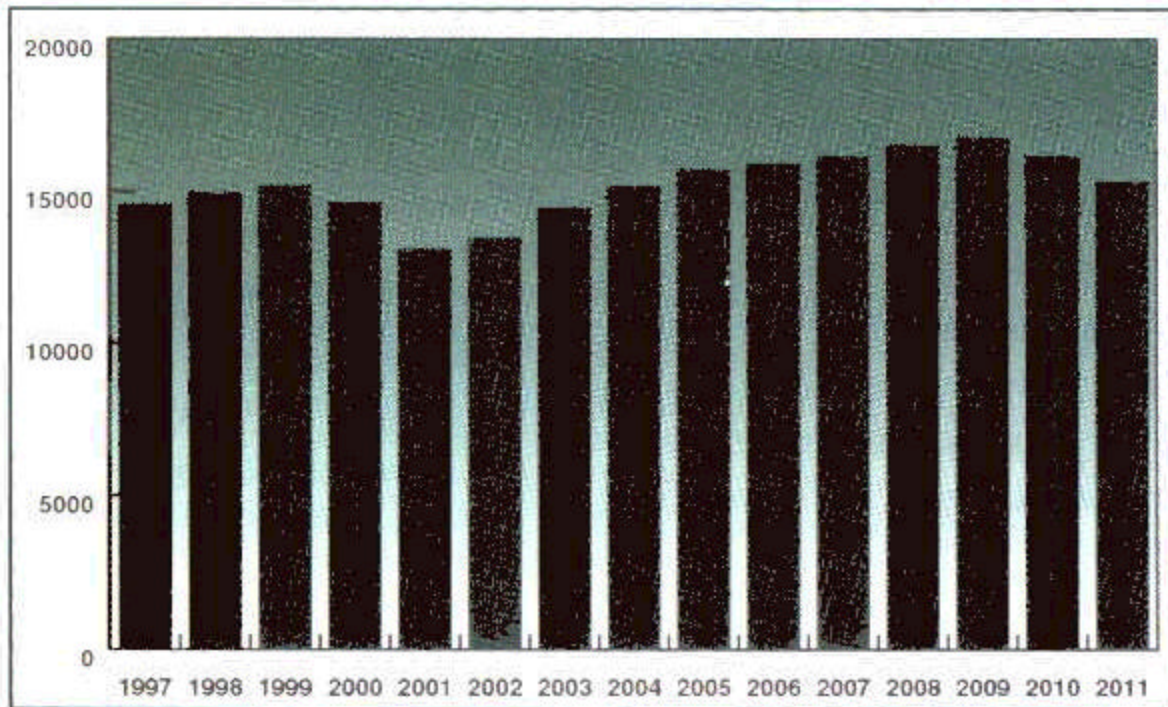
Technology has always helped businesses cut costs (if you never bought a fax machine or a computer for your business then you don't have to believe that.) If you are in the norm, you would agree that every decade, there is a major innovation which helps businesses improve

productivity. In the 1990's, it was clearly the pervasive use of computers and the productivity software that helped us produce more and more with less and less time and resources. We believe, this decade will see a pervasive use of the Internet and the web-based tools by businesses to cut costs AND to get new orders. It's not about automating transactions or doing reverse auctions, it's about spending less time and doing less travel to get new business; it's about reducing soft costs and administration costs. One web-tool that allows businesses to cut costs and get new customers is an e-marketplace. www.buyCASTINGS.com is the world's largest e-marketplace for the Metal Casting industry which allows it's members to cut costs by getting volume discounts and service discounts on freight, shipping, computers, software, natural gas, electricity, and even healthcare, payroll, benefits and OSHA compliance needs. The buying power of over 1100 participating companies and the efficiencies of buyers and sellers meeting through an e-marketplace ALLOW us to do that. In addition, we match our foundries and suppliers capabilities with our buyers' needs.

One of our Foundry Managers reports: "**The dollars we save in cold calling, travel related expenses and in wasted time pursuing nonlegit RFQ's is 50-75%**" by membership in buyCASTINGS vs. the traditional marketing and sales approach. In the long run, the only advantage the foundries will have is technology-how we use it, how quickly we deploy it, how smartly we adopt it and how aggressively we make it a job requirement-will determine our survival, profitability, and growth. At buyCASTINGS, we are doing our part. We welcome your participation and input...please email to nchaudhry@buyCASTINGS.com.

There is Hope!

The metal casting industry is projected to grow 1-3% through 2009, “**...a mild recovery in 2002 will be followed by a series of boom years through 2009 for the metal castings industry**”, according to 2002 industry forecast by Stratecasts Inc. and AFS.



15-year trend in U.S. shipments of castings per year (in 1,000's short tons) Source: AFS & Stratecasts, Inc.

buyCASTINGS by the Numbers

- 470+ Foundries Worldwide
- 550+ Buyers Worldwide
- 205+ Suppliers to Foundry Industry
- Over 70,000 hits last month
- Over 5000 average new users per week
- 75+ Years of Casting Experience on the Management Team
- 100% Focus on the Metal Casting Industry

INTERVIEW WITH MANAGERS AT buyCASTINGS.com

Questions are numbered followed by the Answers

- 1) **What is the essence of buyCASTINGS.com? In other words what is the value proposition of buyCASTINGS.com to your customers? What is it they get from you that they can't get elsewhere and is it the Internet/Web that make your business model possible? Could you exist without this technology?**

buyCASTINGS value proposition is 3C's: Choice, Convenience, Competitive prices. Our Buyers get choice of lots of good suppliers, they get convenience of getting quotes and all supplies from one place (saving time and effort of shopping), and they get good prices because we bring them multiple quotes from pre-qualified suppliers. The value proposition to our suppliers (or sellers) is that they get new customers at lower costs (marketing and sales costs are lower, we charge 3% commission Vs traditional reps at 5%). We also help all our companies get volume discounts through our network of preferred suppliers (for things that all companies need: shipping, energy, computers, HR). All this is only possible through the net because costs are lower, efficiency is higher...A traditional rep system is highly inefficient – a rep can bring only a limited number of foundries or suppliers to a given buyer and cannot offer any volume or service discounts. Therefore, we could not exist without the web-based systems and tools that we have developed.

- 2) **I am interested in understanding why your e-Marketplace is successful and others such as MetalSite.com and ScrapSite.com have flirted with bankruptcy?**

buyCASTINGS has survived and has grown to now over 900 participating companies because we did not try to "sell technology" or expensive software or web-based solutions to automate the world. We are "selling" affordable business service that uses the net to make things easier, better, faster for everyone. The other key difference between buyCASTINGS and some of our other competitors that are now extinct is that buyCASTINGS is founded and run by industry professionals with over 75 years of combined knowledge of the metals industry and NOT by software or web experts (trying to push great solutions into the industry that they know little about.)

- 3) **The Internet is teeming with various permutations of four basic models for doing B2B e-business three of which are intended to dynamically set prices:**

- **e-Procurement using electronic catalogs and set prices.**
- **Three models based on haggling.**
 - **Forward auctions involve one seller entertaining bids from many buyers.**
 - **Reverse auctions are characterized by one buyer considering offers from many sellers competing to provide a product or service.**
 - **Internet exchanges, or central areas where many buyers and many sellers interact to determine market prices.**

What does buyCASTINGS.com feel is the most beneficial model for its customers?

We think that the best model and of-course the model that we have adopted is an e-marketplace or an exchange that is "neutral and balanced" that is, many to many interaction (balance of buyers and sellers) managed by an

independent or a neutral entity like buyCASTINGS (that is not controlled or owned by one or a small group of buyers or suppliers.) In our case, the castings are an “engineered product” so there is no “catalogs” or inventories of off-the-shelf castings for the most part. These are parts made to buyer’s specs and drawings and therefore every part and order is different. Therefore, a collaborative e-commerce (person to person emphasis) is used rather than trying to automate the transactions.

4) Can you hazard a guess how many buyCASTINGS.com customers have their own web sites and are web sites even necessary to be a customer of buyCASTINGS?

Last “show of hands” about 40-60% probably closer to 60% now have website from our universe of potential customers. From the ones signed up with us, I would say nearly 95% have website. However, it’s not required to participate in an e-marketplace because we send customers to our suppliers via email. So, you need a browser to come to our site and an email account to use our site. That’s all you need.

5) Speaking on behalf of your customers what advice would you like to share about deciding if and how to exploit the Internet?

- What pitfalls do you foresee?
- What do you see as “hype” vs. real benefits?
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Companies need to realize that this is how businesses will find each other in the future, get information, get quotes, and do sourcing. The power of the Internet is really with the buyers and every business is a BUYER of something (even when they sign up as a supplier or seller, they still need to buy lots of things to make whatever they supply). Buyers are getting better prices and choices and all small business (that are down the food chain) need to see themselves as buyers too NOT JUST a supplier at the bottom of the food chain getting beat-up by their customers because they are now shopping online. The pitfalls if any are high expectations, you still have to do phone calls, mtgs, visits, face to face many times to build the trust and relationships before getting into a big contract, etc. We encourage that, lot of the other sites discourage or even prohibit that because “everything has to be done through the site for control and payment purposes”. buyCASTINGS’ got around that issue by having the seller pays commission only model after the sale is consummated. Hype is that the Internet is going to revolutionize the world, we think, in our business it’s evolutionizing the metal casting industry (to use the latest tools, no different than a phone, a fax machine, and not the Internet.)

Figure 1: Showing the benefits of e-Commerce For the various industries



E-COMMERCE REDUCES THE COST OF DOING BUSINESS ESTIMATED B-TO-B SAVINGS(%) BY INDUSTRY

