The sweet taste of e-commerce success

By Adam Turner
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Bert Werden... built his WineStar online wine cellar from the back of a Strathmore bottle shop in Melbourne's north. Photo: Simon Schluter

Tucked away in a suburban bottle shop, Bert Werden is a seven-year e-commerce veteran whose site now turns over $4 million a year.

While well-financed competitors such as Foster's WinePlanet - which collapsed in 2001 - burned cash with no hint of return, Werden quietly built his WineStar online wine cellar from the back of a Strathmore bottle shop in Melbourne's north.

WineStar hosts the most popular wine forum outside the US, receiving a million hits a month. But it was uncorked in 1997 as a five-page website with an order form.

"A guy who used to come in here and buy Jim Beam-and cola cans said we should go online," Werden says.

"I designed our first website in Excel but we still found people actually using it, which amazed us because we were just piss-farting around at this stage. It went from fortnightly inquiries to weekly inquiries to daily inquiries, so we thought we should look at the full e-commerce bit."
Back then, e-commerce was touted as a business revolution. Anybody, anywhere could sell anything to anyone - eliminating superfluous costs such as shopfronts and sales forces. From the selling of car parts to automotive giants to getting text books into school kids’ backpacks, in this electronic grand bazaar anyone could hang out their shingle and be a global player.

Expectations soared with the share prices of the newly listed online retailers (e-tailers) as they built lavish cyber shopfronts for consumers. Online business-to-business marketplaces were also constructed so organisations could screw down their suppliers on the prices of everything from stationery to semiconductors.

No idea was too ambitious, no business plan too sketchy - build it and they will come.

But often, no one came.

An example is winepros.com.au, which is about to be used by wine group Cheviot Bridge for a backdoor listing on the Australian Stock Exchange, five years after the original e-tailer raised $25 million in capital and three years after it went into voluntary liquidation.

Another was Werden's chief competitor, Foster's, which closed down WinePlanet after its bricks and mortar retailers revolted - but not before it dropped nearly $100 million into the venture. It was joined in the same year by bottleshop.com.au, which burned $405,000 in two years.

But it is not all doom. After a hard couple of years Australia's wider business community is embracing the internet after watching the rise and fall of many e-commerce startups.

Half of small business and 40 per cent of medium-sized business are now taking orders online, according to the Sensis 2004 e-Business Report. The past year saw many more shop online - the proportion of small businesses buying goods and services jumped from 45 per cent to 55 per cent and medium businesses rose from 64 per cent to 74 per cent.

Capitalising on this trend, online marketplace corProcure - formed from 14 shareholders including PricewaterhouseCoopers and Telstra - has turned 90 degrees from when it was conceived as a massive buying group for Australia's blue chips. Australia Post bought the flailing online marketplace to be a foundation for its e-commerce platform.

After sifting through the e-commerce graveyard to see where others went wrong, Australia Post's corProcure product manager Karyn Welsh shifted the marketplace's focus from blue chip giants to medium and large-sized companies.
It's a lesson that might have saved corProcure competitor Cyberlynx, which looks set to implode after it emerged last week that five of the seven founding companies will abandon a marketplace that was supposed to generate $9 billion a year in transactions. "The biggest corporates have buying power in their own right, but the medium to large companies don't have so much power and so only by participating in a collective buying group can they achieve similar savings," Welsh says.

corProcure's downfall was a lack of direction, with "14 shareholders pulling it in 14 directions," she says.

"The technology was fine - it was like having a Rolls-Royce motor but no body, so we had to build the body around it."

Fear of missing the e-commerce wave drove the construction of many online marketplaces, but poor management led to their downfall, says Ariba's Asia Pacific managing director, Peter Stavroff.

Ariba builds electronic procurement systems for online marketplaces and itself rode the e-commerce roller coaster but survived by expanding into services and training.

"On paper you'd look at corProcure and say, "That's just got to work', but it was an absolute dud," Stavroff says.

"To get multiple stakeholders to agree on the same thing across multiple businesses is almost impossible - that's really the bottom line. I think a lot of people were blurry-eyed about the hype and there were people making decisions who didn't know what they were doing."

And with in excess of $50 million a year now passing through corProcure, Australia Post's Welsh says e-commerce wasn't a failure, it just failed to match the hype.

At the peak of the e-commerce hype, WineStar was quoted $50,000 to build an e-commerce website. Werden resisted the temptation to build an expensive site in the hope customers would come and instead bought a $200 off-the-shelf e-commerce package. He customised the package himself and also started an online wine forum for customers, which he follows closely to predict sales trends.

Four years after the dotcom bubble burst, and having outlived well-financed competitors, Werden says overcoming the impersonal nature of shopping online is key.
"I think we've succeeded because we've made an impersonal medium quite personal with features such as the forum," Werden says. "Now we need to build on this by winning over the older market - those in their 50s and over who may be comfortable using email and the web but haven't embraced e-commerce."

Despite the demise of so many online business ventures, e-commerce is not a failure and most of those which survived the dotcom mania are turning a profit, says Forrester Research vice-president John McCarthy.

E-commerce rode the wave of dotcom hype and was unceremoniously dumped when it failed to reach unrealistic expectations, McCarthy says.

"I don't think e-commerce failed - like anything else, the people who understood what their target market was and had a viable business plan survived," he says.

"As for the 'Field of Dreams' approach - build it and they will come - that was just crazy. A bad idea is still a bad idea no matter how much money you throw at it."

The new Brisbane owners of dStore, one of the darlings of Australia's short-lived dotcom love affair, have taken heed from the lessons of the past four years. In 2001, while in receivership, dStore was bleeding $300,000 a month, which was less than it was losing when it was trading because of a technology and business model that saw the cost of filling an order rise to more than what the consumer paid.

Under HotShed, dStore turned its first profit after only nine months, says HotShed and now dStore chief executive, Andrew Cooper.

"When dStore was launched we looked at it and thought it was amazing but everyone's expectations of e-commerce were far too high," Cooper says.

dStore's downfall was due to a weak technology platform and poor marketing, he says, and HotShed acquired it for the chance to showcase its own e-commerce platform.

"A lesson that we've taken out of dStore is that we gear our advertising towards finding those consumers that do shop online rather than trying to convert consumers into online shoppers," Cooper says.

"dStore is a profitable business now, it's just nowhere as big as the original investors intended it to be."

Similarly, the challenge to resuscitate Melbourne e-tailer Wishlist fell to Australian dotcom veteran Adrian Finlayson.
As the industry went from boom to bust, Finlayson took on the task of turning around Wishlist. He shed almost three-quarters of his 120 staff when it became obvious the world was not beating a path to the door.

"That was certainly a massive low point for the business," Finlayson says. "Wishlist got caught up in the hype - there's no doubt about it. In those days the business was building for massive growth and the expectations were set for growth of 200 or 300 per cent per annum."

An e-commerce consultant during the excesses of the late 1990s, Finlayson was snapped up by software developer FreeMarkets in 2000 to run their Australasian operations after a stock market frenzy saw its share price peak at $US370 ($A474).

"People spent too much money building solutions they didn't need; you spend money in a different way when the market throws money at you and expects you to grow quickly," he says.

The most successful businesses now build solutions slightly behind their needs rather than anticipating, he says.

"In today's environment, I don't know of any successful business that builds on the belief that they will come. E-commerce does fundamentally change the way people do business, whether it was back then or now, but now the market has a different perception of the value of that change and of how quickly you should grow within that change."

It is a formula that served WineStar well. It has a growing customer base and Werden has turned his attention to the building phase. Preparing to fight off the next onslaught from online competitors, he hopes to move WineStar from the back room into its own premises and modernise the inventory system.

"Strathmore Cellars and WineStar are getting in each other's way," Werden says.

"The retail giants such as Woolworths and Coles Myer are eventually going to make another big push and that will be our biggest challenge."

Andrew Spicer

*chief executive, WebCentral Group, Australia’s biggest web host.*

Broadband is enabling a second wave because it is more convenient.

The rise of micro-markets - online sole traders akin to the stallholders at weekend markets - on sites such as eBay and Amazon has led to the rise of a new class of entrepreneur. These small, home-operated stores, specialising in
categories such as jewellery, are made possible because of the improved quality of shopfront software and mature e-commerce payment security options such as credit-card processing and PayPal.

Women have found goods and services online that appeal, and that broadens the market.

The financial services and entertainment sectors are getting their collective act together. I wouldn't want to be a video store owner with Telstra's video download service letting people people download what they want.

Government is speeding its use of e-commerce providing tenders, documents, forms and other information online.

We will see an acceleration in e-commerce in the next year, but it won't be at the bubble level.

Len Augustine

*Marketing director, SAP, business software developer*

Integration between the website that the customer accesses and the back-end warehouse is becoming huge. Even small entrepreneurial companies that sold online overlooked how to get the product out of the warehouse and into their customers' hands, but that is much of the cost.

The big challenge in Australia was finding a logistics provider to deliver at a time convenient to the consumer. Businesses are using their relationship with SAP to smooth the process of doing business with each other.

The transport and logistics companies had to put in systems to track pallets, which would often get left in yards at the other ends of Australia.

Radio frequency identification (RFID) tags in 10 years make an amazing difference to the supply chain. You will plan and execute a supply-chain delivery using real-time data. Leaving the RFID chip alive as it enters the consumer supply chain, you can do more interesting things, such as a "smart shelf" that queries the warehouse and then supplier to see if a good is in stock and, if not, how long it will take to get it to the consumer.

Bruce McCabe

*Managing director and analyst, S2 Intelligence, independent analysis firm*

We will see a steady increase in volumes of online sales, but it's not explosive any more.
The most important driver of change in the online buying experience is as the "semantic web", where contextual information is added to products and services to help us better search for them.

The next is the ability to be able to find things based on their geographic location, such as what Sensis is now attempting to tie together, but that may be more like a 20- to 30-year process.

Another aspect is trust and security, which has developed slower than we would have thought five years ago, because consumers don't understand these issues.

Demographics play a big part, as youngsters who didn't have credit cards five years ago now do and grew up with shopping online.

Over the last year Australian businesses found B2C delivered the most value but next year they are cranking up their B2B projects, improving the ways businesses interact with each other and streamlining their supply channel.

**Five years of e-commerce**

**2000**

- **March** Optibuy online auction house and freight-matching service formed by Shell. CWO MarketSite formed by Cable & Wireless Optus.
- **July** corProcure online marketplace formed by Telstra, Coles Myer and others. mySAP.com launched, a Telstra joint venture with SAP Australia.
- **August** PricewaterhouseCoopers launches e.conomy online marketplace for medium-size companies.
- **September** Cyberlynx formed by the Commonwealth Bank, Woolworths and others.
- **December** Covisint formed in the US by DaimlerChrysler, Ford, GM and Renault Nissan.

**2001**

- **March** Optibuy folds due to insufficient income.
- **May** mySAP.com folds after heavy loses.
- **July** Telstra Business eXchange abandoned before its launch.
- **August** e.conomy folds after failing to provide adequate returns.

**2002**

- **January** corProcure bought by Australia Post.
• **June** CWO MarketSite forms the basis of the Optus’ Construction Industry Trading Exchange.

• **December** Covisint sells off its auction services business to FreeMarkets

2004

• **February** Covisint’s remaining assets sold to Compuware.

2005

• **November** Five of Cyberlynx’s 7 founders preparing to exit.