Category: Dot-Com Experiences

Internet in a Commodity Mining Company

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BACKGROUND OF THE BUSINESS

On August 16, 1999, the world's first Internet commodity exchange-traded metals sale took place when WMC, an Australian resources company, sold five tons of cobalt at $18.25 a pound. Some metal traders had been buying and selling steel through Web sites, however, commodity exchange-traded metals had lagged behind the steel industry in the use of e-commerce, with most nonferrous companies and exchanges offering only information on products and services through the Web while continuing to trade using standard processes. WMC had introduced electronic commerce to one of the world's oldest industries and became the first metal producer to use the Internet to support the marketing of nonferrous metals. This was only the beginning for WMC.

In the mid- and late 1990s, high-technology e-stocks boomed. There were excited discussions about a new economy that was commonly presumed to be immune to the cyclical problems that confronted the resource sector. As the resource shares were declining, commentators were talking about an Internet gold rush. A new-economy gold fever had gripped investors. Mining companies were treated as relics of an old economy. They were seen as old-economy companies using rusting-edge practices that reflected their dinosaur-sized machinery. It seemed inconceivable that a mining company could sell a larger tonnage of product over the Internet than Amazon.com and make a profit that Amazon had not yet achieved.

DESCRIPTION OF THE BUSINESS

WMC was Australia's third-largest publicly listed resource company.[1] Established as an Australian gold-exploration and -mining company in 1933, WMC Limited became a major global minerals explorer and producer with business interests in 16 countries. It had four competitive and world-class core businesses: copper and uranium, alumina, nickel, and fertilizers. The 2000 annual report (http://www.wmc.com.au) recorded 3,483 employees, and with contractors, the total number of staff was 5,212. At the end of the 2001 financial year, it had a market capitalization of approximately $10 billion.

Selling Cobalt in the New Economy

In 1999, Peter Johnston was 4 years into his role as executive general manager of WMC's nickel division and was frustrated with a problem endemic to the world cobalt market. The Metals Bulletin, a London mining magazine, had for decades provided the only publicly posted cobalt price. However, the published price was rarely current when a deal was done so the cobalt market lacked transparency and as a result pricing was an issue. Then London-based marketing executive Roger McSweeney presented Johnston with a "brainwave," a radical suggestion to sell cobalt over the Internet. The mining sector, mired in tradition, had not embraced e-commerce. Initial discussions had started on developing e-marketplaces for suppliers to the industry, but these had not progressed.

It was the result of a recent restructuring that placed Johnston in the joint role of head of WMC's nickel division as well as head of information technology, which enabled informal discussion about the advantages of Internet enabling WMC's business practices to occur. There was a volley of e-mails between WMC technology experts in Perth and senior executives in different parts of the world, and buoyed with the assurance "We can do it in 4 weeks," Johnston decided to champion the idea. He felt that the project had little strategic risk as cobalt was a niche market for WMC. In 1999, they produced only 700 to 800 tons a year as a nickel by-product.

Internet selling of commodity items was common in other industries, so it was quickly decided that it was technically feasible and that a viable pilot could be mounted for $100,000. Overcoming mild skepticism by Hugh Morgan, WMC's CEO (chief executive officer), it was decided that this initiative could be accomplished in a short time frame and might offer WMC some strategic advantage. The decision was made to test cobalt sales on the Internet. Within days of posting cobalt on a hastily created Web site, WMC not only sold all the cobalt it was offering, but had also increased its customer base. Customers who had

previously dealt with metal brokers were now dealing directly with WMC.

Is There Any Money in This?

Starr (2003) considers the operations-management aspects of e-business from a retailing perspective. In order to do this, he has considered the cost of B2C (business-to-consumer) Internet operations and used Webvan as a case study, in which the operating costs simply precluded that company from achieving a break-even point, leading it to bankruptcy. While very many companies were burning cash fast on their e-initiatives, WMC was moving forward with sensible business strategies that made use of these Internet technologies.

Like many mining companies, WMC was dominated by strategies that aim to enhance cost efficiency. Competition in such commodity markets is traditionally seen as being based on cost. However, the Internet pilot quickly led to an expansion in WMC's strategic thinking. Senior management rapidly realized that the Internet created an opportunity for a resource company to differentiate on customer service. This customer-service focus also minimized the historical role and cost of intermediaries. This insight gave birth to what WMC was later to call its e-WMC initiative. At this stage, a full e-strategy was not formulated, but it soon emerged organically. The first step in this growth was Johnston's realization that one Internet success could be followed by another.

Four weeks after the first cobalt Internet sale, WMC posted its surplus nickel on the Web site and had a similar response. In 1999, WMC was selling about 60,000 tons of nickel a year under long-term contracts and an additional 10% to the on-the-spot market. WMC was also getting up to 3% more for the nickel sold on the Internet than nickel sold to a metal trader. The degree of success of the WMC Web site, particularly with North American customers, came as a surprise. It also surprised the entire metal world, and WMC was quick to take advantage of this success. The opportunity was not only to sell products to customers more efficiently, but also to change the nature of its customer relationships.

There was little downside to the initiative. The London Metal Exchange (LME) was supportive because WMC used it for benchmark prices, and 90% of its business is in trading financial derivatives anyway. WMC's customers were very happy because Internet-sourced sales cut transaction times down to about a minute since availability, pricing, and shipping details that had formerly been negotiated over the phone could now be posted online. However, metal traders who brokered the transactions for the on-the-spot market, and had previously been paid commission on these transactions, were not as happy. They were being disintermediated.

Initially, it had been assumed that long-term contractual customers would not be interested in using the Internet. This assumption was soon proved wrong. Long-term contractual customers started to use the Web site to top up their requirements and to make requests for additional information. By 2000, this pilot project had caused a change in WMC's strategic thinking. The new strategy was to gain leverage from an initiative started 5 years before.

Getting Ready without Really Knowing It

In 1995, WMC started an information-integrity program. At the time there was no indication that 5 years later this initiative would become a key building block of its e-commerce strategy. The program used an SAP platform to establish a standard system and consistent language for the management of information within WMC. Unlike many mining companies, it would remove a host of legacy systems that had been used in different locations, businesses, and countries worldwide. SAP was chosen to be the common platform across all its operations worldwide.

In September 1996, WMC started the implementation of its information-integrity program group-wide. The aim was to implement standard processes throughout the entire group underpinned by SAP. Even while it was being installed, WMC was able to cut its level of inventory and gain a better understanding of the operations of its plant and equipment. One of the earliest advantages was the consolidation of the group's contracts with various suppliers.

Like many organizations, different divisions within WMC used disparate information systems. This presented problems in product ordering and inventory control since the systems at each of the sites coded inventory in its own manner. This effectively guaranteed that an integrated overview of inventory throughout the group was next to impossible. The advantages from being part of a group were not being realized. Not only did WMC realize stock control and inventory efficiencies with a central inventory-management system for the entire group, it also centralized stock ordering and received direct financial savings. Its inventory-management flexibility also improved the movement of goods between WMC's Australian sites since the common system automatically updated values in the financial-accounting, asset-accounting, and control databases.

Through SAP, ERP (enterprise resource planning) was seen as having the potential to be a key building block