E-Markets in Emerging Economy: A Case Study from Indian Steel Industry

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EXECUTIVE SUMMARY

MetalJunction.com is a joint venture of TISCO and SAIL, the steel makers contributing more than 60% to India's total steel production. The case illustrates how organization(s) can use information technology to spin off key processes such as procurement and selling. In its first year of operations MetalJunction.com generated substantial savings for TISCO and SAIL. The case also supports the argument that the business context in emerging economies is significantly different from developed economies; hence setting up a successful B2B marketplace may require creation of basic services that are taken for granted in developed economies.

Keywords: business-to-business; electronic commerce; emerging economy; e-marketplace; India

INTRODUCTION

“What a great monsoon¹ it seems to be,” thought Viresh Oberoi, MD and CEO of MetalJunction.com. A few days back Mumbai stock exchange’s index dropped by 200 points when Indian metallurgical department predicted a poor monsoon, and when it arrived late on south coast, the index further registered a drop of 50 points. A good monsoon is essential for the good health of Indian economy, including the steel sector. With a good monsoon ahead, along with socio-political stability in the region, the Indian economy is showing all positive signs for a great year ahead. However the technology firms are still struggling for survival. The dot com burst, September 11 terrorist attack and sluggish American economy made survival of pure play companies extremely difficult. However, Viresh has enough reasons to celebrate the monsoon. His firm not only survived the dot com bloodbath but also generated substantial profit in the very first year of operations.

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BACKGROUND

Before moving to MetalJunction.com, Viresh spent his entire career with TISCO. He has an extensive knowledge of the Indian iron and steel industry, which is nearly a century old. Established in 1907, Tata Iron & Steel Company (TISCO) is the first integrated steel plant in India. Today India is the tenth largest producer of steel in the world with Steel Authority of India (SAIL) and TISCO contributing over 60% to India’s total steel production. SAIL is the largest steel conglomerate in the country and the world’s ninth-largest steel maker. On the other hand, TISCO is the second lowest cost producer in the world after South Korean steel giant POSCO. SAIL and TISCO differ considerably in ownership pattern, processes, governance structure and organization culture. SAIL is a government of India enterprise, whereas TISCO is a private sector organization. However, during the dot com boom, these two fierce competitors realized the immense potential of the Internet and information technology and entered into a joint venture to launch MetalJunction.com Private Limited.

The Inception

It was the year 1999 — the year when the dot com boom was at its peak and e-commerce was the new buzzword doing the rounds. It was the time when Dr. J.J. Irani, MD, TISCO and Mr. Arvind Pande, Chairman, SAIL had a spate of offers to join domestic and international e-commerce platforms for the steel industry. Rather than joining any ill-conceived dot com, SAIL and TISCO independently set up internal e-commerce task forces to study various e-commerce models that had sprung up during the dot com boom of the late ’90s. These two task forces came to identical conclusions, that whilst e-commerce is definitely the way forward, it would make more business sense for two or three of the larger players in a similar industry/region to come together and consolidate their e-commerce plans on a common platform. Thus MetalJunction.com was born.

The Organization

MetalJunction.com is not a neutral marketplace between buyers and sellers. It is a selling and procurement service provider. It has two separate divisions, which provide these services operating under two different URLs viz., www.metaljunction.com and www.commercejunction.com. Thus it tries to create value across the entire value chain except manufacturing (Figure 1). The organization has its head office at Kolkata and regional offices across India (Appendix A). MetalJunction.com currently offers three services, namely, procurement services, selling services and channel finance services. Insiders feel that the company has potential business of over Rs. 50 billion (approximate USD 1 billion) a year. The following graph (Figure 2) shows the potential value that MetalJunction.com can realize as a percentage of sell.
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