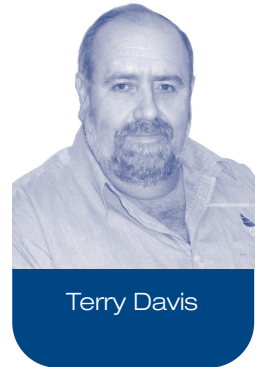


Advancing with e-commerce

Davis Engineering

www.davisengineering.com.au



The business

Davis Engineering Pty Ltd (Davis) is located in Clifton, Queensland, and was established in 1974. The company has 16 employees and its core business is manufacturing brassware for the plumbing and hardware industries. The company also produces components for specialised contract work.



The idea

Davis has used e-commerce since mid-1999, when Terry Davis recognised the wide range of benefits it offered the company.

Terry admits that development of the company's e-commerce strategy has been slow and incremental. Initially the company only used the Internet for research. It was then used to search for raw materials and capital equipment. The Internet also allowed the company to check the background of potential customers and establish initial impressions of their credibility. In addition, Davis adopted online banking when the local bank branch closed.



The investment

The company's initial set-up costs were \$4,150, and year one ongoing costs were \$1,140. Capital costs of \$2,225 relating to developing the website were incurred in the second year.

The company did not require any additional computer hardware for its e-commerce activities, as it already had multipurpose computers. However, a new telephone system was installed to facilitate Internet access by several people at the same time. Software for website development was also purchased in the first year, and although the website was not developed immediately, the web address was registered for a small fee to claim the domain name.

Website development was completed in March 2001. The factory manager learned the relevant skills, so this task could be performed in-house.



Hurdles

Half a day after launching an online consumer sales function on its website, the company faced a significant commercial issue. One of the company's major customers requested Davis remove the retail site as it was in direct competition with them, which Davis duly did.

An ongoing issue is some suppliers' and customers' reluctance to use e-mail. This has limited the benefits the company can realise from its most productive e-commerce initiative.



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Results

In just two months, the company reached a payback position on first year set-up and ongoing costs of \$5,290.

The major cost saving was in staff time, as approximately ten hours each week (at an average of \$50/hour) was saved by using the Internet for bill paying, banking and payroll. Over a year, that saving was worth \$26,000. Internet banking also saves the cost of approximately 25 telegraphic transfers each month, at a cost of \$2 each. In addition, e-mail negates the need for approximately 10 courier deliveries each month, at an average cost of \$17 each. In addition, by communicating with customers through e-mail, staff save one hour a week.

In addition to quantifiable net cost savings, Terry believes that e-commerce has generated a number of qualitative improvements. For example, knowledge is now gained through regular reviews of industry, supplier and competitor websites.

Customer service has also improved due to changes in the design approval process. For example, if a customer in Sydney changes the size or design of their components, Davis now e-mails digital photos for customer approval. This service has also resulted in repeat business.

Future

Davis has obtained substantial net cost savings through its e-commerce initiatives by adapting its business processes. Terry's next goal is to use e-commerce to increase the profile of the company nationally and internationally, to generate increased sales.

	2000 Actual \$	2001 Forecast \$	2002 Forecast \$
Gross profit from e-commerce	-	-	-
<i>Add: E-commerce cost savings</i>			
Postage & courier	2,040	2,040	2,040
Bank fees	600	600	600
Telecommunications	225	225	225
Banking, payroll and bills	26,000	26,000	26,000
E-mail	2,600	2,600	2,600
Total e-commerce cost savings	31,465	31,465	31,465
Gross benefit from e-commerce	31,465	31,465	31,465
<i>Less: Ongoing e-commerce costs</i>			
ISP	(1,140)	(1,140)	(1,140)
Website hosting	-	(420)	(420)
Total ongoing going e-commerce costs	(1,140)	(1,560)	(1,560)
Operating benefit from e-commerce	30,325	29,905	29,905
<i>Less: E-commerce establishment costs</i>			
Telephony	(3,000)	-	-
Software	(900)	-	-
Web address registration	(250)	-	-
Website development	-	(2,000)	-
Web hosting	-	(225)	-
Total e-commerce establishment costs	4,150	2,225	-
Net benefit from e-commerce	26,175	27,680	29,905

For further information on this case study please go to www.noie.gov.au