



Simplifying B2B for Suppliers Enables Buyers

A White-Paper by Sourcing Innovation

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#2 in a 3-part B2B 3.0 Series



Introduction

As an enterprise software user, you're tired of hearing about "Web 2.0" because, despite all of the buzz it has generated for the last few years, and all of the "value" it has delivered to consumers through Amazon, Google Apps, and Facebook, it hasn't done a single thing for you. And that's good. Software is supposed to serve you – you're *not* supposed to serve it.

That's why this paper is about B2B 3.0 (Business-to-Business 3.0), the next generation of technology for the enterprise, and how it not only generates value for you and your supplier, but helps you both save time and money in the process – because *that's* what enterprise software is supposed to do. Your enterprise software should free you from the mundane and allow you to spend your time conducting **commerce** instead of fighting with primitive interfaces that force you to do everything *but* accomplish your goal.

As highlighted in the first paper in this series, B2B 3.0, which is the first generation of software technology that actually puts business users on the same footing as consumers (who have had "3.0" technologies at their fingertips for years), is the first technology to enable **true commerce** in the global marketplace. Returning to the fundamentals of e-Commerce, that have been *lost* for the last decade or so, B2B 3.0 gives us connectivity that is open and free to all, content that is managed *once* in a non-redundant fashion by the content owner, and an open community where buyers and sellers can come together for short periods of time through virtual networks that allow them to conduct the business they need to conduct – *when, and how, they need to conduct it*. No "technical" strings attached.

In addition, B2B 3.0 is the first technology to level the playing field between buyers and suppliers and put them both on the same footing. Previous generations of B2B technology focused primarily on the buyer, the target customer, under the fallacy that 'streamlining' the process for the buyer would lead to the greatest cost savings. The reality is that this 'streamlining' resulted in increased work, and thus increased cost, for the supplier who had to ultimately increase their prices to cover their costs. The technology should have focused on 'streamlining' the process for the supplier, because this not only results in cost and process savings for the supplier, but it results in cost and process savings for the buyer as well. True commerce is simple for all. That's B2B 3.0!



B2B 1.0: The “Free Network” Era

In the beginning, the enterprise software market was dominated by the big enterprise vendors like SAP, Oracle, JD Edwards (acquired by PeopleSoft in 2003), and PeopleSoft (acquired by Oracle in 2004). They specialized in monolithic software installations that took a team of people to build, a team of people to install, and teams of people to maintain. At a minimum, you needed one team to maintain the application, and another team to maintain the content the application needed to run in a useful manner.

With regards to e-Procurement, the systems had clunky form-driven screens that worked off of built-in catalogs, which had to be assembled by the content-management team into a rigid, pre-defined text-only format before they could be loaded by the application-maintenance team as part of a batch-job during the next scheduled maintenance cycle (as [part of] the application had to temporarily be taken off-line for the updates to take place). In addition, search functionality was limited, and even if the product you wanted was in the catalog, chances are, unless you knew the correct spelling, you couldn't find it. This meant that if you didn't know exactly what you were looking for, not only did you have to waste your time going out to get the information from the supplier, but the content manager's time was wasted, as he or she spent time populating the catalog with information that never got used, and the application manager's time was wasted, as he or she wasted time loading the data that never got used.

Buyers lost, because they had to spend a lot of time maintaining inefficient systems that usually ended up complicating commerce with their closed connectivity, their need for replicated content, and their utter lack of support for community. But suppliers' lost big-time. The truth of the matter is that while a buyer only had to deal with one monolithic system – a supplier had to deal with dozens. Every e-Procurement system had its own schema and its own standard for catalog data. That means that every time a buyer went e-Procurement, a supplier had to cut, and then maintain, a new version of their catalog for the buyer, which quickly became a monumental task. Furthermore, even if two buyers were using the same basic e-Procurement system, because each supported non-standard “customizations”, and because each buyer received a non-standard, negotiated rate on a subset of products, the supplier still had to create a new catalog from scratch. In effect, the introduction of e-Procurement created dozens of new channels that the supplier had to deal with, and the traditional channels weren't eliminated because, every time the system failed the buyer (because a product couldn't be found or a price was out of date), the buyer still had to call the supplier, who had to fax back a paper quote. The “Free Network” era turned out to be the “Super Expensive” technology minefield for the supplier, who had to increase prices across the board just to survive.

B2B: 2.0 The “Marketplace” Era

Then came the naughts, which ushered in the era of marketplaces and punch-outs for the B2B Community. No longer did a company have to acquire an extensive hardware and software architecture to do business with its trading partners. Whereas before the buyer had to host the marketplace itself, in the new era, third parties created on-line marketplaces where buyers and suppliers could gather to do business, with a double-edged catch. First of all, there was the hefty fee. The infrastructure didn't go away, it just got shifted to a third party who had to maintain it, and who then added a hefty margin on top of the hefty fee to make a profit in the tail-end of the bubble economy.

Then there was punch-out. I've heard people say punch-out is a bad implementation of a great idea...the great idea being “why replicate and load supplier catalogs into my e-procurement systems when they available right on the web”! Supposed to be a boon for a buyer who could “integrate” any supplier who supported punch-out into the punch-out enabled e-Procurement solution, it was actually a bane to their end users because of the way punch-out integrated...a one-to-one connection! If there was one thing that buyers liked about B2B 1.0 solutions was that users could access all their suppliers and catalogs from a single user interface. Need a “pen”, type “pen” in your search box and your results appear, aggregated and sorted...simple! Of course the problem with 1.0 was the data was usually missing or not up to date, but the usability was great. Punchout takes this away...if you have ten punch-outs, your users have to learn to use ten different user interfaces (e.g. supplier web sites)...plus they still have to access the local catalogs because, although almost every supplier has a web site, only a small percentage of supplier web-sites support punch-out. Another issue with punch-out is compliance...the buyer has no visibility into whether the supplier is maintaining the contracted price until after an order is placed! This is another reason many buyers never moved from 1.0 to 2.0, since they felt they needed visibility and control of the pricing. Managing the catalogs, albeit expensive and error-prone, gave the buyers this control.

Which brings us to the suppliers. Although punch-out was built on XML, each e-Procurement company had their own version of the standard, such as Ariba's cXML, or their own extension to someone else's standard. So now, not only did the suppliers still have to maintain dozens of catalogs for their buyers who were still on B2B 1.0 solutions, they now had to maintain dozens of punch-outs as well. Net effect, the supplier who used to have at most three sales channels (account sales through phone, fax, and maybe e-mail; tele-sales; and retail) which required only a phone, a fax machine, and e-mail account, now had dozens (upon dozens) of channels (one for every B2B 1.0 e-Procurement solution and every B2B 2.0 e-Procurement marketplace) and had to support dozens (upon dozens) of punch-outs in addition to the dozens (upon dozens) of catalogs.

A supplier, who used to be able to maintain a catalog with a single research assistant in the back-room now required a whole team of content managers and a whole team of programmers just to do business with their buyers. Their costs skyrocketed, and this cost, in turn, had to be passed on to the buyer in the form of increased overhead mark-up across the board.

(And, in case you're wondering, punch-out 2.0 (a.k.a Level 2 Punchout) isn't any better. In punch-out 2.0, you have to maintain a static catalog in addition to the punch-out. It's a double whammy!

And supplier networks, which emerged from the marketplace fall out, have the same problems. Like marketplaces, they are expensive for suppliers and most don't obtain the critical mass necessary to succeed. As a result, the early adopters, buyers and suppliers alike, often get burned.)

Short story, if you thought B2B 2.0 solved your problem, for you, the naughts were the noughts!

B2B 3.0: The “Virtual Network” Era

As we discussed in part one of this series, B2B 3.0 is a revolution in enterprise software that, for the first time, delivers what e-Commerce has been promising for well over a decade – true, unencumbered commerce where connectivity is simple, open and free to all, content only needs to be managed *once* in a non-redundant fashion by the content owner, and the community can come together whenever, and however, they like. There is no community restriction, as there still is today in many “supplier networks”. For example, if a supplier can provide a product at the price the buyer wants to pay, the buyer should have that option ... but in today’s supplier networks, the buyer has to pay the previously defined price. Furthermore, how many times has a buyer ordered a part from his preferred supplier, either from his internal catalog (1.0), his chosen marketplace or supplier network, or a punch-out site, only to check another supplier’s retail site (or even the retail site of the same supplier) and find a lower price. This happens more and more often as the Web continues to commoditize certain categories like IT, office suppliers and MRO (as it did on the consumer side with PC’s, big screen TVs and the like).

B2B 3.0, particularly B2B 3.0 catalog and shopping solutions, use agent technology ... so data format isn’t an issue. Hosted catalogs, market-ready punch-outs, and database-driven web-sites can all be parsed and manipulated via web-services into one consistent and coherent “virtual” web-based database that can be dynamically searched on-the-fly by any buyer, anywhere, using meta-search technology that finds the products the buyer needs and the suppliers capable of providing those products. (And it even works if the supplier isn’t web enabled, as it can integrate with a hosted catalog maintained by the buyer on behalf of the supplier...but compared to the early days of 1.0, this is becoming the exception more than the rule as more and more suppliers “go online” every day)

Buyers win, and for the first time, suppliers win too.

Since most suppliers already have a web-site with an on-line catalog complete with pricing information, they don’t have to do anything to do business with a buyer except, maybe, provide the buyer with a login. This is true even if they offer each buyer different price terms, since modern e-Procurement solutions that are B2B 3.0 enabled allow a buyer to define pricing rules that override supplier prices with contract prices, mark-ups, or mark-downs. This means that they no longer need a small platoon of people to support their buyer’s e-Commerce solutions and can literally go back to the days when an army of one sufficed. This, in turn, not only reduces their overhead costs (by a very significant amount), but it encourages supplier adoption of your e-Procurement initiatives and increases their willingness to collaborate.

This insures that buyers not only win, but actually realize savings.

In B2B 1.0, by the time you added up all of the overhead associated with the multi-million dollar e-Procurement systems, which generally included (tens of) millions of dollars worth of man-power to support the systems and maintain the content that was needed to use them, most buyers lost. (Note that when B2B 1.0 hit the street, so to speak, few suppliers had web sites, so it made sense at the time. Once suppliers started going online en-masse, the market looked for a better way to leverage online content, thus the invention of punch-out.)

In B2B 2.0, most buyers came out even at best. It's true that their overhead costs went down slightly, as they didn't need to buy and maintain expensive systems to play in the marketplaces, but by the time you added up the high subscription costs and the additional costs of maintaining an in-house procurement system to handle all of the business that couldn't be put through the marketplace, the savings the marketplace generated were negated by the losses that resulted from needing to do procurement through multiple channels. (The reason that most marketplaces failed is that most didn't reach the critical mass of suppliers necessary for a buyer to conduct the majority of their transactions through the marketplace, and this is because most suppliers couldn't afford to be in more than one or two marketplaces, or "supplier networks", due to the high cost of business those channels came burdened with.)

But in B2B 3.0, buyers win.

Buyers win because the software was written to run on the web, using a multi-tenant on-demand Software-as-a-Service architecture, the costs of the software is usually an order of magnitude less than B2B 2.0. In B2B 1.0, the total cost of ownership of an enterprise software system with an e-Procurement module was often in excess of ten million a year by the time you added up license costs, maintenance costs, hardware costs, supporting software costs, implementation costs, upgrade costs, and the manpower costs of the IT team(s) dedicated to supporting the implementation and your user base. In B2B 2.0, the cost came down by about a factor of 5. Marketplace solutions ran about 2M to 3M a year by the time you added up subscription fees, local B2B 2.0 procurement solutions to manage your orders and maintain your transaction history (which was itself five times cheaper than B2B 1.0 procurement technology), and a smaller support team to maintain it. But in B2B 3.0, the fully burdened total cost of ownership is usually in the 500K range a year for an average organization, since all the organization has to pay for is the monthly subscription fee. No local infrastructure or support team is required. No additional software is required. No implementation is needed. You sign up, the provider creates a new virtual instance, gives you a user name and password, and off you go.

And then buyers win again. Since, for the first time since the inception of e-Commerce, B2B 3.0 eliminates the supplier overhead injected by B2B 1.0 and B2B 2.0, suppliers don't have to increase their overhead costs just to do business. So, not only are suppliers paying less for the solution, they aren't paying the hidden fees of B2B 1.0 and 2.0.

And then buyers win yet again. Since a supplier isn't wasting time trying to support a myriad of e-Procurement platforms that it doesn't understand, it gets to focus its energies on innovation and collaboration with the buyer, which can lead to the joint identification of savings opportunities that would likely not have been identified otherwise.

By enabling suppliers, B2B 3.0 enables buyers.



B2B 3.0 In Action

To illustrate how B2B 3.0 saves suppliers, and ultimately buyers, time, money, and, for those who have been down the B2B 1.0 and B2B 2.0 roads, unending frustration, consider what the following companies are doing for their customers.

Vinimaya, with their web-services enabled agent-based meta-search technologies can plug into any electronic product listing a supplier has at its disposal – punch-out, e-catalog, web-enabled database, or plain old ASCII flat file – and integrate the listings into one consistent, coherent view for the buyer. This allows a buyer to maintain ONE version of their “catalog”, and although similar in concept to punch-out (a bad implementation of a good idea), it’s completely different in its applications (a good implementation of a good idea), and it works. If you look at Vinimaya’s client list, it contains some of the largest and most well-known companies in the world, many of whom were also pioneers in the usage of B2B 1.0 and 2.0.

Another example, CustomPart.Net, built on open web services, allows buyers and suppliers to collaborate on part designs over the web, where they can start with a parts library, a process selector, and a history of cost estimates for similar parts over the last 30 days. This allows both parties to focus on designing the best and most effective part to meet the customer’s need, and not on trying to get two matching versions of a CAD system installed that will allow them to send design files back and forth. Again, the supplier gets to focus on what it does best, not a third party’s technology platform. Additionally, once a part is built, it’s specifications are available to the community for re-use or customization...in other words, the content is community generated!

Apriori, with their new support for CAD-independence, built on agent technology, allows buyers to design a part, select a process, and then share a CAD-independent file with the supplier who can collaborate on the design through their new web-viewer. It also allows suppliers to provide their current CAD designs to the buyer as is, who will be able to load and manipulate them as-is. Again, no fussing with a myriad of systems to share data with the buyer. And Apriori’s customer-base reads like a who’s who in manufacturing.

Co-exprise, with the first Sourcing Lifecycle Management (SLM) solution for direct materials, allows for a single transaction to capture the entire procurement lifecycle. Built on web-services, the platform also allows for life-cycle analysis of the transaction by way of end-to-end data analytics, extensive bill-of-material management via agent-based integration with over 1,500 data formats, and supplier collaboration through a web-services enabled supplier portal. The latter allows a supplier to engage the buyer over the web with nothing more than a desktop, a browser, and an internet connection.