

BUILDING DIGITAL MARKETPLACES

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The Dot.com bubble may have burst in the business press but the emergence of new digital trading sites continues unabated. What are the key issues driving this trend and why are companies so keen to seize the e-Business revolution?

THE CASE FOR DIGITAL TRADING

There is a need for the e-Trading marketplace, well-known examples in the recent press include:

Asite.com

Consortium of property and technology companies including Stanthorpe, Rotch, Microsoft, CommerceOne and Compaq.

A Construction industry site. Share best practice and encourage standardisation.

Worldwide Retail Exchange

Consortium of more than 10 leading retailers: Kingfisher (own Woolworths, B&Q, Superdrug), Tesco, M&S and retailers in Europe, America and Japan.

An electronic marketplace for food, clothing, pharmaceuticals and general merchandise.

Launched March 2000 with total £500 billion.

Automotive Marketplace

Consortium between Covisint and Exostar.

Aerospace Marketplace

Consortium between Boeing, BAE Systems, Lockheed Martin and Raytheon.

Many of these industries have grown up with EDI and funds transfers and have developed elaborate infrastructures for supply chain management. With the advent of Internet commerce tools, a new generation of information system possibilities is opening up for electronic trading right across the supply chain. In industries such as construction and steel there are opportunities to develop digital trading spaces that exploit the common supply and customer needs. The exterior effect maybe to appear leading edge but often the needs are based on more fundamental needs, to create and maintain market presence, customer value and, of course, in doing so drive costs out.

But what are the fundamental issues in the drive for digital trading? What are some of the factors that organisations need to consider in building digital trading?

- The ability to sustain volume
- The potentially different marketing and branding strategies for web based channels and physical 'bricks and mortar' channels
- The right choice in customer and supplier collaboration
- Planning for the future growth (in the near future).

BUILDING VOLUME AND MARKET CHANNELS

There are arguably many digital trading initiatives that may not go the distance; many people have got onto the new technology bandwagon opportunity. But how many will be there in one, two or five years time. It is very likely that in the next few years there will be considerable consolidation in the industry as companies realise volumes cannot be sustained as was once envisaged at their inception. High profile examples such as the merging of: Toys-R-Us and Amazon.com show that even the great and the good have to deal with sustainability over medium term business (meaning less than a year in many cases in the Internet world.) Some will need to change their business model to offer more services or a different value proposition.

Yet the push continues on, many organisations see this as the new frontier for trading. You only have to look at the funding the automotive industry is putting into the *Covisint initiative* and the targets of 30% reduction in transactions costs sought to see the high expectations.

The fundamental business dilemma of volume versus price cutting competitiveness is still at odds with each other even in cyberspace. The fine line is indeed narrow in breaking even. The criticality is in getting the volumes up to achieve throughput of the web trading space but yet still offer and attain pricing reductions to provide attractive commercial buying incentives on-line (for both the customer and supplier through alternative on-line adoption benefits).

It's about sustainable transaction volume - but still offering very low transaction rate costs. If this volume falls through then bricks and mortar companies can have more financial capital to ride out the storm.

Companies need to carefully assess how they measure the viability of volume and pricing strategies and the costs in development of web trading.

A key element of this will be new marketing strategies that work on two fronts: the physical trading and the web space presence and trading. The need to get the right message and service to these channels will be essential to success. An example is seen in some companies that provide catalogue selling who are now printing out paper copies and providing it to potential and existing customers as a way to build awareness. How you direct traffic to your site is an essential strategy.

Another key facet is a clear understanding of the nature of trading on-line compared to off-line 'in the street, in the board room' business. In the physical world the number of personnel involving in the transaction process can range from one to many parties. In dealing with on-line however it is possible to distil it down to essentially two types of relationships with fundamentally different needs.

The issue is that you have essentially two different types of users:

- Customers who want to select the product and have knowledge on content, pricing and availability
- Administrators who place the order and want simple fast processing.

Web trading needs to serve both these masters. Often there are web sites that can mix these two up resulting in slower less user-friendly sites. Much has been written on web page design, but in the end customers come back because they have the ability to get what they want quickly, to get information, to place and track orders – to get low cost value, traceability and transparency. If this utility or the general access to information is difficult then market channel viability is undermined.

THE RIGHT CHOICE OF RELATIONSHIPS

In comparing B2B and B2C trading, a general suggestion can be made in that B2B trading is more about reducing costs whereas B2C seeks more to increase revenue.

If this is taken as a possible comparison then B2B can be considered as potentially easier to establish for three reasons:

- Push is on reduction of order costs in existing processes under business control
- The electronic trading is built up using existing customer base and therefore using existing relationships in place
- The greater opportunity to ‘lock in’ customers in a value proposition through using your system.

CASE STUDY

A leading Biotechnology supplier used the B2B route to establish these benefits. The company had products with high technical content and a well-developed customer base that sought knowledge and trading on-line.

The B2B trading system enabled three opportunities:

- Ability to offer high customer service value with product information and technological help on-line
- Ability to build revenue protection through providing an on-line trading capability
- Ability to gain cost reductions in order processing.

Through their e-Trading initiative they were able to position their service to retain market share and compete with potential lower cost base than competitors. By building the integration between the front-end web storefront and the back office systems, it has also opened up the possibility to involve and move the service to other customers and marketplaces. Linking up to new customers is potentially viable, as the integration corner stones have already been laid back into the business end. Essential to this success was the partnership established between the company and the web marketplace service provider in order to do this, rather than going it alone.

B2B trading can deal with existing accounts; the contract side and static data is already set-up. The contract, pricing and relationship exist enabling the B2B trading to progress under the right conditions through the e-Trading medium.

B2C however, can potentially deal with a much wider variation in markets and customers. Technically more information will need to pass between the sides, as standard agreements may not be in place. Mechanisms such as taking pre-payments and

credit cards or advanced credit may be involved. Problems can arise in the management, selection and validation of potential customers and markets. If restricted goods are being sold, for example radioactive materials, then more difficulties in validating registered buyers can ensue.

Both B2B and B2C are possible trading business models (B2C has many well know examples including Amazon that are now trading internationally). A key issue is who the customer base is in establishing the market volume. Choosing these markets and customers may involve established relationships with the existing customer base. By careful development these markets may allow establishment of volume and sustainable trading partnerships.

TECHNOLOGY IS MOVING ON AND SO IS THE TRADING BUSINESS

The whole area of e-Business is awash with ‘buzz’ words in information technology. New software tools such as Enterprise Application Integration (EAI), Digital Servers for trading and Electronic Commerce tools termed Customer Relationship Management (CRM) and e-Procurement are becoming mainstream solutions. Certainly in the last two years there has been a rapidly growing acceptance of the ‘hub and spoke’ concept rather than the ‘point to point’ integration. By this we mean the move away from one-to-one interfaces with every trading partner towards creating a trading ‘hub’. Organisations can use these new technologies to establish connections or ‘spokes’ to customers and partners and so enable the possibility for inter-enterprise trading environments over the Internet.

While the integration standards for exchanging data is still not completely resolved, XML extensible Mark-up Language is moving towards a more open and widely accepted format. Software is evolving too. Pre-configured adaptors (like linking up with ready made payment sub-systems for easier web site design) are starting to make things easier to set-up. Enterprise application integration tools are becoming more ‘drag and click’ in operation enabling greater range of possibilities in managing interfaces and mapping out links as well as protecting legacy back office system investments. Pre-configured adaptors potentially take the ‘pain’ out of the integration between front and back-office systems, using XML heavily to support this.

But where is this all leading to? It is still early days and large market projections are being made by leading market research companies. AMR Research cited:

The size of internet-based commerce market will be \$5.7 trillion by 2004, with as much as 60% of all companies transactions conducted through some form of internet exchange.

Electronic Trading marketplaces are aspiring and becoming One-stop shops for customers, and as they grow in size they potentially increase in bargaining power.

At this stage many possibilities can be envisioned. Increased bargaining power may get to a point where its pricing may fall below list price and this could open up under-cutting with own products sold back. On the other hand the digital markets may grow out covering more services and markets resulting in large industry infrastructures and new information trading super highways.

It is not just digital exchanges and integration tools in this space for creating digital trading. We also see business portals and collaborative planning systems as other possible alternatives emerging.

It may be still early days; complex pricing structures on-line are still difficult to replicate on-line. The trend is to still simpler pricing structures rather than complex adaptive pricing but yet we are starting to see '*intelligent agents*' that can mine customer pricing and start to automate some of the trading activities.

These are interesting times. Even as recently as two years ago these terms would have been considered still emergent ideas. What is certain is that IT will be the most significant challenge for business over the next 10 years as confirmed in a recent KPMG Consulting survey of Global Supply Chain Best Practices and Benchmarks. The fundamental change however is how business strategy will change to take into account the new digital business models and the method of execution of the operations through collaborative Internet technology.

Key points to look for in Building Digital Marketplaces

- Keep it simple
- Start slowly – use a pilot
- Pilot in one country/site
- Build experience in this pilot and then roll-out
- Steer away from the big bang approach
- Keep interfaces as static/simple as possible
- Use good technical expertise for effective firewall protection design
- Project is business led (not just IT) to enable correct ownership and focus on relationships and marketing strategies
- Select trading accounts carefully to develop web trading – get volume and viability
- Utilising partnering programmes to reduce risk – therefore joining a marketplace rather than trying to build one from scratch
- Develop technical partnerships with e-Trading software vendors with experience in the marketplace you are seeking to develop
- Develop dual marketing strategies for on-line and off-line trading and branding.

About the author

Mark Skilton MIOM is in the KPMG Consulting Supply Chain Group and is based in Birmingham, and is a Member of the Institute of Operations Management.

He has extensive experience of business process re-design in supply chains and the selection and implementation of a wide variety of supply chain systems.

Mark's work includes forecasting and in finite scheduling systems in the Food and Drink Sector and programme and supply management in the Aerospace sector. He has also implemented supply chain planning systems into European Electronics and in Consumer Retail Sectors.

He has completed supply chain assessments in a number of industries and is a contributor to the development of advanced planning systems methodologies and a speaker on supply chain systems best practice.