

Under the Buzz **Back to Basics in e-Business**

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Under the Buzz is an electronic "viewsletter" authored by Philip Lay, managing director at the Chasm Group, a Silicon Valley strategy consulting firm. It is published each month, and delivered free to subscribers via e-mail. It is also posted on the Chasm Group website at: <http://www.chasmgroup.com/underthebuzz.htm>. Back issues can be downloaded from the site at: http://www.chasmgroup.com/underthebuzz_archives.htm.

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1. Announcements and Upcoming Events

Role as Advisor on Community B2B Web Site

As announced via Businesswire and Yahoo!Finance on June 4, I have agreed to act as occasional advisor on the Community B2B website. CommunityB2B.com serves as a catalyst for the exchange of B2B and related e-business strategy, ideas, and definitions. The website provides members access to current and relevant information on cutting edge issues, such as supply chain management, collaborative commerce, content management, e-procurement and application integration. CommunityB2B also promotes the effective and rapid adoption of technology standards; and enables e-business leaders to deliver their marketing message to core prospects, gain qualified sales leads, and attain brand dominance. Membership is free to qualified business and IT professionals at <http://www.CommunityB2B.com>.

B2B Application Integration: Panel on New Tools to Connect Trading Partners

Later this month, on Wednesday June 27, I shall be moderating a panel on B2B application integration at Technologic Partner's Enterprise Outlook Conference at the San Francisco Airport Marriott. The subject that we shall be discussing is "Providing the New Breed of Tools that Connect Trading Partners", and my panelists will include executives from two public and two private companies:

Private companies:

- Mani Chandy, Chief Scientist, iSpheres
- Sean Fitts, interim president & CTO, CrossWeave

Public companies:

- Rocky Stewart, CTO, e-Commerce Integration - BEA Systems
- Dale Skeen, CTO, Vitria Technology

Mani Chandy, one of my four panelists, asserts that inventory buildup during the current economic downturn suggests that the prevailing level of streamlined business processes is not sufficient. *"Enterprises lack the ability to probe into their extended environment to detect complex events and they do not respond to these events rapidly and effectively,"* he claims.

Among other developments in technology standards, XML has been hailed as the new, cost-effective standard for facilitating collaboration and transactions between trading partners, but it has also been tagged as slow and complicated to implement. In an ongoing attempt to identify ways of simplifying implementation and utilization, while at the same time providing sufficiently advanced capabilities, I shall be posing questions such as these:

- 1) What is the latest status of EDI/XML integration, and what does adoption of XML look like today among trading partners?
- 2) Assuming basic application integration is a given, how is your company able to streamline complex intra-enterprise and inter-enterprise application integration between trading partners, in order to facilitate procurement and customer intimacy?
- 3) How are you enabling customers to automate workflow mapping and standardization in order to facilitate complex collaboration between multiple trading partners, regulatory agencies, and so on?
- 4) What significant benefits is your company enabling major customers to achieve - name your best example?

Conference Topic: "The E-Business Dilemma - ROI vs. Strategy"

At the "Line 56 Live" Conference on June 28-29 in San Francisco, I shall debate this topic with two other speakers - Rick Andrade, Senior Manager, B2B Strategy, Cap Gemini Ernst & Young; and Bill Brandel, Research Director, e-Business, Aberdeen Group. According to the conference notes, the majority of e-business related investment decisions today are based on Return on Investment (ROI) or Total Cost of Ownership (TCO) models. However, in developing such models the tendency is to focus on those product and service benefits that can be easily measured, such as "orders per day" and "cost per order". In such cases, the strategic significance of such investments is often ignored. For example, improved customer experience and increased customer loyalty may be the result of a particular initiative, but this strategic advantage may not be reflected in a ROI or TCO calculation. In today's economic climate, the need for rapid ROI is paramount, and longer-term strategic objectives may be taking a back seat. Should this be the case? Such is the e-business dilemma: balancing the requirement for immediate ROI against long-term strategic objectives. My

focus will be to answer the question: What does e-business look like to enterprise executives these days, and how can technology vendors align with their concerns and requirements?

For further details on "Line56Live! San Francisco Must-See 2001 e-Business Event", I suggest you check out the information on Line 56's site:
<http://biz.yahoo.com/bw/010604/0091.html>.

2. Leaders Are Expected to Transmit Certainty - Especially in Troubled Times

"Managing well includes, as a basic ingredient, the knowledge that, sometime, the bottom will fall out of the market, the economy, the company, or all three ... Artful managements do nothing in their purple periods that would cause infinite regret in the dark; nor, in the depths of gloom, do they take any steps that might impair their capacity to enjoy the coming boom."

- Robert Heller, *The Super Chiefs* (1992)

"The first responsibility of a leader is to define reality. The last is to say thank you."

- Max DePree, *Leadership is an Art* (1989)

"A decision is the action an executive must take when he has information so incomplete that the answer does not suggest itself."

- Arthur W. Radford

The sharp downturn in high-tech quarterly earnings since the end of last year, and the contrasting rhetoric of certain prominent CEOs, such as John Chambers, Carly Fiorina, Tom Siebel, and others, leads me to reflect on the nature of high-tech company leadership during tough times. Though, as a former CEO myself, I empathize with business leaders suddenly faced with conflicting signals from the market, I must confess to being underwhelmed by the "I can't see no visibility" lament that many CEOs have echoed. On the positive side, it probably buys some time among Wall Street analysts - perhaps even as much as two quarters' worth of time - to allow the executive team to figure out what's going on in the marketplace.

On the minus side - to be hard-hearted about it - this "plea" sounds a bit like a cop-out, as Tom Siebel has implied in his recent comments on this issue. In essence, Siebel stated that he was sure that the same CEOs who had been quoted as no longer having any visibility did indeed have quite clear visibility; it's just that they didn't like what they were seeing. All of this leads me to philosophize about the nature of true corporate leadership, of which much has been written by authors such as Warren Bennis, Max DePree, Peter Drucker, Charles Handy, and Robert Heller. My two cents on the subject is as follows:

A Sense of Certainty: The Key to Orderly Recovery in Tough Times

Among other qualities, strong leaders transmit certainty - especially in tough, uncertain times. So, what does "certainty" mean in this context? Well, whereas in successful times good leaders are able to consistently demonstrate why their organizations are more effective than their closest competitors, in challenging times, certainty starts with a clear

statement recognizing that there is a serious obstacle ("Houston, we have a problem"). In my opinion, this should be announced as soon as the leadership detects its existence for real. This should be followed by a description of the problem currently in view ("the pirates are a hundred yards of the port side and are about to board the ship"), then an initial plan to deal with it ("I expect every crew member to drop what they are doing and take up arms on the port side and make every attempt to prevent a single pirate from successfully getting on board!").

To take the current situation in the telecom marketplace as an example, here is a possible "script" for a statement of intent - especially relevant to companies like Cisco, Nortel, Juniper, JDS Uniphase, and others - that can be conveyed to customers, employees, investors and the press, in an effective manner, transmitting an optimal degree of certainty that we are taking the situation seriously and acting responsibly, while we provide ourselves with more time to assess progress and/or additional measures:

"The present downturn is due to over-capacity in infrastructure and loose business practices by many companies, including in some cases ourselves. This problem is serious enough to take at least eighteen months to wash through the market. While this macro situation is sorting itself out, we intend to maximize shareholder value by adopting three main measures: 1) we are going to review all our major customer and supplier relationships in order to correct any significant imbalances we find, 2) we shall put a temporary hold on hiring in most areas, and even prune our outsourcer contracts by 50%, and 3) we shall hold back on our acquisition strategy in order to focus for several months on increasing effectiveness in our current organization. Should we discover that these three measures are insufficient, or that the economic environment has not noticeably improved by the end of this period, we shall review possible new measures. Throughout this process, we shall keep you informed of all major developments as they occur. "

I must say that I have not heard too many CEOs speak with an equivalent amount of clarity during the present technology recession. To summarize what I see as the types of "certainty" that need to be transmitted during times of significant change and challenge, here is my short list:

- Certainty that we are using our antenna to detect problems ahead of time, and that we do not under-estimate the seriousness of such problems;
- Certainty that we have a process for dealing with emergencies, and that we are working on Plan A, B, and C;
- Certainty that we care about more than our personal or corporate image, and that we know what we are doing;
- Certainty that we understand the impact of sacrifices, by undertaking them ourselves before asking others to do the same;
- Certainty that we will find a way to adapt to the situation, in order to gradually mould events going forward.

I suppose you could also use the words "clarity" or "firmness" in this context. Perhaps the decade-long economic boom we just experienced has put some of us off our guard, but I'm not sure we have seen these qualities in the responses of some of our CEO icons during the past few months.

3. Collaborative Procurement from a Single Supplier's Viewpoint

In last month's issue of *Under the Buzz* ([May 2001 - Vol 2, Number 5](#)), I described four main obstacles to adoption of internet-based collaborative applications: (1) the need for vendors to use relevant and compelling business justifications to convince customers of the need, (2) the need to be selective about which enterprise customers have suitable management cultures, (3) supplier adoption, and (4) the need for strategic and implementation services from major consulting firms, among others. This month I want to focus on demonstrating how point number 3 above - supplier adoption - can be accelerated, by targeting a few key suppliers with whom the enterprise already has a close, "collaborative" relationship, and influencing this group to adopt the new collaborative applications ahead of their more cautious competitors. To achieve this, here are some interesting snippets that describe one supplier's decision to adopt collaborative direct procurement technology, and the results they are achieving.

My source here is Rodney Babcock, CEO of Next Intent, a supplier to high-tech manufacturers based in San Luis Obispo, California. Babcock tells here why his organization has become an early adopter of collaborative procurement, which is about to be extended to collaborative design engineering. To begin with, the catalysts for Next Intent to adopt the use of internet-based collaboration were two of its major high-tech customers - first PRI Automation, then Lam Research.

Next Intent, which makes machined components and sub-assemblies for its customers' chemical-mechanical polishing (CMP) machines, was initially selected by PRI Automation because of its status as one of the company's favorite suppliers, Next Intent having won the "QuickTurn Supplier of the Year" award from PRI in 2000. At the same time, Babcock discovered that Lam Research was starting to use the same product, from BlackHog, a collaborative direct procurement software company based in Sunnyvale, California. After less than an hour's training, Next Intent started using the product with Lam Research, and later with PRI Automation.

Result #1 - RFQ-to-order cycle time savings of 60%-80%: Just to review the pre-existing workflow, all RFQs were sent via fax, then Next Intent would submit its quote via fax (with lousy fax quality frequently requiring re-transmitted faxes and precious lost time); wait to receive proper drawings (because NI could not afford to make a product off of poorly reproduced drawings); then later go through a similar cycle when engineering changes were ordered. With this web-based system, Babcock says that the former two-week RFQ-quote-purchase-produce cycle has been reduced to between two and four days - a time saving of 60%-80%. Today, *"as soon as my customers says 'go,' we have everything in hand, including the latest revised drawings and specs. We also have a much more secure exchange of all the documents in the process: RFQ's, business proposals, purchase orders, product component drawings, in addition to zero transposition errors, because materials no longer need to be transcribed."* Finally, Babcock is pleased with his organization's ability to control the documents involved in the entire process, since with the new system everything is tied to a single RFQ, rather than having various versions and iterations of the information spread over several drafts and papers. Babcock is the first to say that the above benefits, though extremely gratifying, are nothing compared to the stretch goals that both suppliers and customers are aiming for now: they are trying to reduce the total RFQ-to-order cycle from two-to-four days, to just a few hours.

Result #2 - Neutralizing a competitive disadvantage: According to Babcock, today's depressed market is so competitive that "if we don't respond within 4-8 hours to RFQs from

Lam Research or PRI Automation, the opportunity is gone. After all, we are competing with 2,500 shops located in the Bay Area, and we are way down here in San Luis Obispo." The clear implication is that Next Intent needs to excel in one or two dimensions, such as rapid response and eliminating friction points, in order to compete effectively with its better located Bay Area competitors.

Key anticipated benefit - Collaboration in the design process leading to zero lead times for order confirmation: In the future, Lam Research and other customers intend to allow Next Intent and similarly equipped suppliers to participate in concurrent design engineering. In this scenario, a customer's engineers will be able to send drawings from an offsite location (say, their home) to Next Intent as well as their own company simultaneously, then conduct live design reviews via each other's web sites, leading to virtually zero lead times in confirming orders based on approved drawings, taking into account all change orders.

Footnote - Benefits for enterprise customers: Just to balance this picture, let's look back to the supplier's major customers who are mainly responsible for stimulating these initiatives. For them, internet-based systems that eliminate the friction points and time lags in getting response to RFQs and being able to close business in 20% of the time also serve to strengthen their supply chain relationships and ensure much more cost-effective order documentation - RFQs, quotes, purchase order issuance, drawings, engineering changes, shipping, and invoicing.

4. e-STEEL: From B2B Exchange to Supply Chain Integration Software Provider

"We've emerged from a period when almost anyone could do it, to a world where almost no one can do it!"

Michael Levin, CEO of e-STEEL, one of the first B-to-B exchanges to gain notoriety during the brief, heady days of late 1999 through early 2000, uses this colorful juxtaposition to illustrate his company's continuing odyssey toward the elusive goal of market success. He's talking, of course, about the extremes that B2B companies have experienced in terms of the receptivity and interest of investors in internet companies, during the past two years.

I spoke recently with Levin and his senior director of marketing & PR, Sherry Sigler, and asked him to relate how e-STEEL is progressing in its makeover from exchange-based marketplace to software and services provider, especially in terms of real, measurable results generated for its major customers. In addition to quoting Levin, I am also borrowing liberally from an article in *Purchasing Magazine*, which is referenced at the end of this section.

The main customer referred to in this article is Ford Motor Company. Through its online trading portal, Ford uses e-STEEL SupplyNetwork software to link its steel suppliers (such as U.S. Steel, Bethlehem Steel, and Corus, the British steel producer), its Tier 1 stampers (such as Dana and Tower), and internal Ford purchasing personnel online to streamline the way it procures much of its \$30bn. in direct materials. Ford's ambitious growth plans were becoming handicapped by complex, inefficient processes that prevented the company from reviewing history and identifying trends that would enable it to make better strategic sourcing and material quality decisions. Bob Mateer, global manager of raw materials purchasing for the world's second largest automaker, explains that the changes required in this streamlining process must be based on collaboration between sheet steel buyers and their suppliers: *"That's the most effective way to reduce costs and deliver steel to the*

numerous fabrication sites of Ford and its tier-one suppliers. We value suppliers as our partners, working with us to deliver the highest-quality vehicles providing the best value to our customers, and that will help us move closer to our vision of becoming the world's leading consumer company of automotive products."

In case this sounds like a pitch by one of the Big Three automakers to entice suppliers into the procurement torture chamber that exchanges (such as Covisint) are often feared to promise, Mateer goes on to say that Ford's corporate goals are achievable (only) through a democratic exchange of ideas. *"Communication with suppliers is the key to effective buying and always will be."* Why is this so important? *"Because if we can get to single sets of global specifications for sheet-steel based automotive parts through these buyer-supplier partnerships, it will be a tremendous cost advantage."* Still, he points to a significant learning curve in developing new partnerships between tier-one suppliers and steel mills, processors and distributors. *"We want to put the right people together, but there are pitfalls. Sometimes the product capabilities of certain steel suppliers don't mesh with the processing or logistics systems of some part suppliers or Ford fabrication plants."*

e-STEEL's role in this major long-term industry transformation project is to provide technology and services that automate and expedite all of the procurement transactions and post transaction business processes involved in managing material, information and financial flows across Ford's Tier 1 supply chain. *"The multi-tier procurement initiative is an example of how Ford is accelerating its adoption of the internet as a way to drive efficiencies throughout the value chain to find the best deals on raw supplies, track the inventories of its suppliers, and cut down delivery time,"* says Mateer.

Understandably, e-STEEL's evolution to web-based software provider has been a response to what Levin understands as a move away from "open markets" or exchanges, toward "supply networks," because major enterprise buyers did not want to *"expose traditional buying relationships to competitive sniping"* in a "public" marketplace. Levin describes this phenomenon as a shift "from Net Markets to Net Channels." What the Ford relationship exemplifies, in his mind, is in *"managing the complex workflow s. . . surrounding direct material procurement among the multiple tiers of a supply chain."* This is what *Under the Buzz* has been calling "value chain integration," or at least one half it - *supply chain integration (or compression)*. Incidentally, e-STEEL has, it seems, been addressing the other half of the value chain - the demand chain - in a different project - for the giant Australian steel producer and mining conglomerate, BHP. Despite BHP Steel's dominant market position, the company faces challenges to maintain customer loyalty. Thus, e-STEEL has implemented a sell-side SupplyNetwork solution designed to enhance the company's relationships with its customers.

Challenges for e-STEEL Going Forward

Adoption by pragmatist customers: Since its days as a pure independent exchange, e-STEEL has transformed itself into a restart-up in a new space - supply network integration software. As a result, it is still engaged in early market development, discovering new customer requirements with each new deal - most in different industry segments, including electronics, food processing, aerospace, freight and logistics, and telecoms. Levin suggests that these potential customers are mostly visionary adopters eager to do custom projects in the search for significant competitive advantage. But he also admits that what will help to make the company successful is having *"a second customer who buys a version of the already existing buy-side or sell-side SupplyNetwork offering."*

Expected and unintended benefits from existing contracts: Besides the enormous savings from the 170+ manual, paper-based workflows automated since the beginning of the Ford project, Levin cites the many "unintended benefits" that are leading Ford to expand the contract with e-STEEL - despite the increasing sense that Covisint must sooner or later turn into something for the Big Three automakers. Undoubtedly, increased commitments by the two major customers so far, Ford (which has apparently committed to execute over \$1bn. in raw materials purchasing on the SupplierNetwork in the first complete year of operation) and BHP, will tend to make it easier for pragmatic customers to emulate their example. Nonetheless, I see a real risk regarding the chances of e-STEEL - and others like it - "crossing the chasm" into the mainstream market within the next six months or so, before any more established competitors in procurement facilitation businesses (including companies as diverse as CommerceOne, FreeMarkets, i2, or Oracle) can win the race for the enterprise customer's allegiance. In e-STEEL's favor, my guess is that the experience of these two demanding customer projects has refined the company's domain expertise considerably, and this value-add may be difficult to imitate.

Repositioning as a world-class enterprise software vendor: This point is connected to the past one: in view of the notoriety the company gained during the love affair with B2B exchanges, it is still not clearly repositioned as a software-plus-services provider or, better still, as a supply chain integrator. Levin and his colleagues admit that this handicaps the sales force in gaining access to the right deals. So, what position should the company attempt to claim? In my mind, "supply chain integration in highly-attributed direct materials industries" is jargon-laden, but describes what e-STEEL does. However, any tendency to cling to the "procurement" tag may be a hindrance, because of the fall out of favor of procurement applications during the past few months (see below).

Procurement software isn't cool any longer: In a recently published Morgan Stanley Dean Witter report (Enterprise Software, May 2, 2001), the results of a survey of IT investments *most* likely to be cut in a slowdown, placed procurement software in third place (up 14 places from the month before - March!), though supply chain software didn't fare too well either, though it remained reasonably stable in tenth place. In contrast, on the list of IT investments least likely to be cut, customer service applications figured in seventh place, while e-commerce initiatives came in eighth. What this all suggests to me is that all major customer projects need to be clearly identified as addressing clear and urgent, tangible business problems, otherwise they run a serious risk of looking like yesterday's glamorous idea - and, as implied above, procurement seems now to be in the "penalty box," as far as continued adoption is assumed. This probably helps to explain the disturbing shortfall in growth and revenues in the first quarter for companies such as Ariba, CommerceOne, i2 and Oracle, among others. Thus the clear message to vendors in these spaces is: don't rely on the association with procurement to bring you any deals from now on. Rather, it's okay to deliver procurement related functionality and benefits, just hide them beneath a more compelling value proposition, such as a private trading network directed towards facilitating customer-supplier relationships - and the more collaborative in nature, the better.

* Purchasing Magazine - March 8, 2001 Lead story, "Ford Shakes Up It's Steel Buy":
<http://e-steel.com/news/pressroom/inthenews/2001/mar/fordbuy.shtml>

Under the Buzz offers a monthly commentary on the business-to-business e-commerce sector. The goal is to provide provocative and accurate insights into the latest events and thinking shaping the rapidly evolving business-to-business marketplace. *Under the Buzz*

focuses on strategies for building sustainable competitive differentiation and maximizing market valuations.

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