

Purchasing has seized the e-revolution – why are sellers so far behind?

It should concern any sales professional that the majority of successful initiatives in harnessing the e-revolution for trade come not from their own ranks but from their customer's buying departments.



Buyers appear to be seeing more potential in the revolution and not surprisingly are deriving more immediate value than sellers. The opportunity to trade more efficiently is clear, but there is also the ability to trade more ambitiously, through access to a much wider pool of suppliers. We may even be seeing a reversal in the trend of the late twentieth century – the reduction of supplier numbers.

Two recent developments see the initiative being taken further away from the seller. The arrival of the *Internet online auction* places the buyer squarely in the driving seat for a range of basic purchases, and the *B2B marketplace* phenomenon sees the emergence of new middlemen, mostly acting for the buyers interest. Sellers are at risk of losing any kudos participating in the technology, they will just suffer if they don't.

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There are of course some rational explanations for the buyer's lead:

- It is hard for a supplier to impose a system on a customer, much easier for a customer to lay down the law on what must be used.
- It is usually easier for a buyer to gain approval for investment in their e-capability based on clear and tangible returns, like reduced purchasing costs or improved prices. Much harder for a seller to do the same with as much certainty.

So much for the rational reasons, now to the truth in more cases than not – fear of the unknown, or a half informed fear of the seemingly uncontrollable. Fear has led many suppliers to underrate the value of these new media. Too many marketing folk see it as just another means of promotion while too many sales people see it merely as a way of receiving orders. Both are dangerously limited views of the e-revolution.



A Purchasing Revolution

The e-revolution is at the heart of a purchasing revolution, indeed it has made that revolution possible. Improved IT has given the buyer the information to build sophisticated supplier positioning and management strategies. E-commerce has allowed them to reduce the 'transactional noise' from the mass of their supplier portfolio, to remove costs from their supply chains, and so help them concentrate their time and efforts on strategic suppliers, and those where dramatic price and cost reductions can be effected. *Spend intelligence, lean supply, and supply base rationalisation* have been the watchwords.

A Sales Revolution?

Might the e-revolution also be at the heart of a sales revolution? If call centres and CRM systems allow sales teams to manage the majority of their customers more efficiently, then what might they be able to achieve with the extra time freed up for managing their key accounts? And if they can seize back some of the initiative on new and beneficial means of trading might the result be a customer/supplier collaboration to the advantage of both parties?

Not without a better understanding of what the e-revolution can do, for both seller and buyer, and some bold initiatives. With tales of woe from failed seller initiatives hitting the headlines almost daily, too often the bright thing to do seems to be to wait and see, and wait and see, and wait...

Most of these high profile disasters result, not from the technology, nor from the sales proposition, but from the lack of attention to basic stuff like – do we have the stock, will our logistics system cope, do we have enough cash?

[! Case study !]

Boo.com was created by two fresh faced entrepreneurs to retail clothes over the Internet, a simple enough idea, and it grew to a business valued at £250 million only to crash in May 2000 for the simplest of reasons – 'we didn't attend to costs and we ran out of money' – the two founders admitted with a candid innocence that can be a lesson to any of us.

A common epitaph to other such failures might be, "*The success of their e-venture exceeded all their expectations. It also exceeded their capabilities.*"

[! End case study !]

Understanding the Challenge

The starting place should be an understanding of what advantage the customer sees in using the medium. If we regard this as the challenge then we will be able to assess the opportunities.

Lets consider how a buyer might see the e-revolution helping them in four distinct phases, and how the smart supplier might respond.

Removing 'transactional noise' – *EDI, Purchase Cards*

'Lean Supply', reducing costs and improving prices – *Internet Online Auctions and B2B Marketplaces*

Ensuring security of supply – *Telemetry and Vendor Managed Inventory*

Genuine partnerships – *Extranets and Joint Supply Chains*

Removing Transactional Noise

A simple *EDI* system, or the use of *purchase cards* removes paperwork, eliminates invoices, and dramatically reduces the need for expensive and time consuming personal intervention by buyers or sales people. Ironically, the smart supplier will aim to add value by allowing the customer to spend more of their valuable time *not* speaking with them! Using purchase cards will involve a cost for the seller, just like accepting payment by credit cards, but consider the value of oiling the wheels of trade and so winning *preferred supplier* status.

These forms of e-commerce are primarily about making it easy to do business with a host of often small suppliers and a large range of everyday purchases. For the buyer there are quick wins for relatively low investment, and so it is no surprise that this is where we saw most activity in the closing years of the twentieth century. For the supplier attention to detail is vital – anyone selling to the retail trade knows that getting your barcode listed is every bit as vital as communicating your brand strategy.



Lean Supply, Reducing Costs and Improving Prices

The opening of this century has seen attention moved to a different kind of purchase – large scale, so called 'near commodity' items. By using the Internet customers can send offers for tender to suppliers as yet unknown. As well as reducing their own purchasing costs this injection of new competition can have a dramatic effect on prices. For the supplier, Internet trading can reduce selling costs and these savings can be passed on to the customer. There is potential for win-win even in this highly competitive arena.

Just as the medium allows customers to look for the best offers, this ready access to customers gives suppliers an outlet for those offers. A supplier seeking economies of scale from a big jump in volume might find it difficult to 'turn on the taps' through traditional channels; too small a sales force, too small a home market, etc. The Internet opens up a whole new range of customers, from the un-visited to the unknown, even to the 'un-thought of'.

The Internet Online Auction

Suppliers are asked to bid for business within a short time frame and in immediate competition with other suppliers. This is an excellent medium for trading in what are called 'near commodities' – easily defined products with broadly similar specifications across competing suppliers. Sometimes they will be given the results of the first round of bidding and asked to resubmit. This calls for new skills for the supplier and unfortunately many of them will be gained the hard way.

[! Case Study !]

An evangelist for the technique is United Technologies (Otis Elevators and Sikorsky helicopters amongst others) who regularly determine contracts worth millions through online auctions. Suppliers to UT are virtually obliged to use e-commerce one way or another. The head of purchasing at UT Kent Brittan has argued strongly that e-commerce has huge benefits for large industrial companies in what might be regarded as the 'old economy', just as much if not more than for the 'new economy'. He also sounds a warning, "Some of our suppliers didn't think we could do it. They are no longer with us."

[! End Case Study !]

There is a danger that online auctions if they only focus on price will drive down the quality of products and service. Since the price of the product is only a part of the story for most buyers (there are then the costs in use) this could lead to problems and so a decline in use of the medium. This is a case where experience will lead to the medium reaching its appropriate level, but doubtless many fingers will be burned in the interim.

So is this a threat? The buyer is in the driving seat – they set the rules, the field is thrown open to your competitors, you might even have to pay for the privilege of participating, and having made your bid the buyer can still ask you to 'have another go', just in case you hadn't reduced your margins enough already! Is it just a new cost of doing business?

Yes, the buyer sets the rules, but current evidence is that they also break them – they cheat. They want the efficiency and low prices of an auction but they still want to make the right choice. Sometimes they are not sure how to get all of these three from the new medium. The seller, if they remove their heads from the sand, can help if they understand the buyers motivations. Inside tracks are still very available.

The B2B Marketplace

An early prediction of e-revolution pundits was the death of the distributor – all business could now be direct. In fact we are seeing quite the reverse. Traditional distribution channels still move products, and we are seeing the emergence of a new kind of middleman, the B2B marketplace.

Not, as Bob Geldof famously mistook, a website for bed and breakfasts, these electronic trading exchanges provide a place for suppliers and customers to meet and do business. They are most prevalent in fragmented markets where there are literally hundreds or even thousands of participants. By building critical mass they seek the benefits of *lean supply* through processes hitherto only possible in highly integrated markets.

[! Case Study !]

A marketplace can be established by an individual buyer in search of efficiency from an inefficient supply chain. These might in time become larger but still industry specific (*vertical marketplaces* in the jargon) if other buyers, sometimes even competitors, join the exchange. **Covisint** is such an example in the automobile market, made up of Nissan, Renault, Daimler-Chrysler, General Motors and Ford. If such an exchange can 'encourage' its suppliers to use it (and these are powerful names) then it will quickly gain the level of transactional volume required for sustainability. The buyer now has a one-stop shop, run on *efficient response* lines, for a huge range of items.

Vendor led marketplaces also exist, an example being **SoftgoodsMatrix.com**, an exchange that targets the clothing market and includes Lee, Wrangler and Ralph Lauren in its list of participants. The challenge of such an exchange is to have a sufficient range of participants to attract buyers – very like the challenge for an out-of-town shopping centre.

[! End Case Study !]

The customer led marketplace is currently set to take the lead over vendor led equivalents – they promise to deliver more value to both parties in the exchange.

Ensuring security of supply

The customer knows that some suppliers are more vital than others. These supply items that they simply cannot do without – running out of stock would be a disaster. Telemetry is often the answer. The customer's stock levels are monitored remotely. A typical example would be fluids held in tanks with electronic sensors that monitor the level at any time. Re-ordering can be completely automatic.

[! Case Study !]

The humble barcode has provided a hugely successful telemetry system, where the process of scanning a product through the supermarket cash-out starts the whole process of re-ordering by remote and automatic means. WalMart have used this process par excellence to drive out the costs of purchasing and become one of the world's most efficient retailers.

[! End Case Study !]

Such *efficient response* ordering systems shorten the supply chain and reduce the customer's working capital. Beyond this, suppliers might be given the task of managing stock levels for the customer – *Vendor Managed Inventory*.

Suppliers prepared to accept the costs can achieve significant 'lock in' provided they ensure the system never fails. This raises an important requirement for telemetry systems to work – mutual trust. The customers are increasing their reliance on a supplier, so increasing their risk, and they will expect something in return. A supplier that pursues telemetry purely for their own interest is unlikely to be given full control of the system. We see here the successful use of the e-revolution going well beyond questions of technology.

Genuine Partnerships

The most ambitious use of the e-revolution, and so as yet the least utilised, is where supplier and customer supply chains are merged through openly shared information, forecasts, costings, etc. Access to each others *extranets* is a typical feature of such an activity, clearly only to be undertaken by the most collaborative of seller/buyer partnerships. Again, the challenge to make such arrangements work goes well beyond the technology – there is also a need for cultural compatibility.

To act or not to act?

Answer these questions and you will gain an insight into your need to act.

1. What does the customer want most in doing business with you?
2. Can this be delivered or enhanced by use of the e-revolution?
3. Will using a particular medium bring you competitive advantage, or simply avoid competitive disadvantage?
4. What are the relative costs/benefits, to each party, of each medium?
5. What is the competition offering?
6. Can your actions seize the initiative, and so help promote a sales revolution to match and work with the purchasing revolution?

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