Chapter Six: B2B Exchanges, Directories, and Other Support Services

ONLINE FILE W6.1

TYPES OF TRANSACTIONS OFFERED BY HORIZONTAL EXCHANGES

EXHIBIT W6.1.1

Horizontal Exchange Offers

- Reverse Auctions
- RFQ/RFP Listings, Monitoring, Executions
- Business Services: shipments, insurance, escrow, payments
- Technical Services: security, page design, content, others
- Portal: value-added services; matching, media, news, others
- Catalogs
- Sales via Auctions
- Sales Leads, Information Discovery

For Buyers
For Buyers, Sellers and Service Providers
For Sellers
THE RISE AND FALL OF COVISINT

There are only several major automakers, but they buy parts, materials, and supplies from thousands of suppliers who frequently buy parts and materials from thousands of sub-suppliers. At times, the procurement process is slow, costly, and ineffective.

On February 25, 2000, General Motors Corporation, Ford Motor Company, and DaimlerChrysler launched a B2B integrated buy-side marketplace called Covisint. The goal was to eliminate redundancies from suppliers through integration and collaboration, with promises of lower costs, easier business practices, and marked increases in efficiencies for the entire industry.

The name Covisint (pronounced KO-vis-int) is a combination of the primary concepts of why the exchange was formed: The letters “Co” represent connectivity, collaboration, and communication; “vis” represents the visibility that the Internet provides and the vision of the future of supply chain management; and “int” represents the integrated solutions the venture offers, as well as the international scope of the exchange.

The purpose of the marketplace’s connectivity was to integrate buyers and sellers into a single network. Visibility was intended to provide real-time information presented in a way that speeds decision making and enables communication through every level of a company’s supply chain, anywhere in the world. By using the Web, a manufacturer’s production schedule and any subsequent changes were able to be sent simultaneously and instantly throughout its entire supply chain. The result was less need for costly inventory at all levels of the supply chain and an increased ability to respond quickly to market changes.

To better understand the Covisint concept, examine the attached exhibit. The left side shows an automaker’s traditional supply chain. Typically, an automaker would buy parts from one supplier, who in turn would buy from its suppliers (subsuppliers), who would then buy from other suppliers (sub-sub-suppliers). In this traditional linear supply chain, the automaker communicates only with its top-tier (tier 1) suppliers.

Imagine that the auto manufacturer has hundreds of similar supply chains, one for each supplier, and that many of the suppliers, in all tiers, produce for several manufacturers. The flow of information (as shown by the connecting lines in Exhibit 6.2.1) will be very complex. This complexity introduces inefficiencies in communication as well as difficulties for the suppliers in planning their production schedules to meet demand, resulting in supply chain problems.

The Covisint process greatly changed supply chain communication in the automobile industry. Rather than being at the top point of a pyramid, as in the industry’s traditional supply chain, the auto manufacturers were at the center of a spoke-and-wheel arrangement. By 2004, Covisint served 19 automakers. The Covisint trading hub enables the automakers and their various suppliers and sub-suppliers to communicate directly with anyone else. Instead of an array of unorganized communication lines, it is all organized in one place.

One of the major objectives of the exchange was to facilitate product design. Covisint offered its customers best-of-breed functionality; customers took the best aspects from multiple technical providers. The ability to integrate providers across the supply chain creates a unique environment for collaborative design and development (collaborative commerce), enables e-procurement, and provides a broad marketplace of buyers and suppliers. It makes accessible a wealth of supply chain expertise and experience, ranging from procurement to product development. Covisint’s potential membership was about 30,000 suppliers.

Because of its large size, the exchange has been developing slowly. Nevertheless, Cleary (2001) reports that on May 8, 2001, DaimlerChrysler used Covisint to successfully conduct a $3 billion reverse auction for auto parts that lasted 4 days. However, in July 2002 the founders of Covisint ceased to provide funding. They remain shareholders, but Covisint is now controlled by an independent board and an advisory council made up of 21 of the largest suppliers and OEMs (Original Equipment Manufacturers) to the automotive industry. By early 2003, a new CEO was trying to accelerate Covisint’s progress. In summer 2004, Covisint was acquired by Compuware Corp. By September 2004, the exchange was still struggling financially, even though it provided services to 20,000 companies in 96 countries.

By 2006, Covisint had changed direction, providing global trading services. A major area of Covisint’s focus is partner collaboration and integration. It provides complete solutions for safely sharing internal applications with external users, automating external partner lifecycle management and administration, and providing reliable data messaging (including EDI) between partner applications and systems.

Covisint now provides access to a global community of 100,000 users, representing 30,000 companies in 96 countries.

Questions

1. Describe the concepts upon which Covisint is structured.
2. Describe how Covisint changed the supply chain in the automobile industry.
3. Investigate the current ownership and management of Covisint.
4. Enter covisint.com/about. How does the new company differ from the old one?
The Dutch flower market auction is the largest in the world, attracting 11,000 sellers from dozens of countries, such as Thailand, Israel, and East Africa; 3,500 varieties of flowers are sold in 120 auction groups to about 5,000 buyers using the Dutch auction method. The auctions used to be semi-automated. Buyers and sellers had to go to one location, where the flowers were shown to the buyers. The auctioneer of each flower variety used a clock with a large hand, which was set at a high price. The price dropped as the time ticked off on the clock until a bidder stopped the clock by pushing an order button. Using an intercom, the quantity ordered was clarified; then the clock hands were reset at the starting price level for the next batch of flowers. The process continued until all of the flowers were sold.

In September 1994, the Dutch growers (DFA), who own the auction organization, decided to ban foreign growers from participating in the auction during the summer months in order to protect the Dutch growers against low prices from abroad. By March 1995, some foreign growers, together with some local buyers, created a competing auction called the TeleFlower Auction (TFA), an electronic auction that enables its initiators to penetrate the Dutch flower market.

In the TFA electronic auction, buyers can bid on flowers via their PCs at designated times from any location connected to the private network. The process is similar to the traditional Dutch auction, except that the auction clock is shown on the buyer’s PC screen. The buyers can stop the clock by pushing the space bar on the keyboard. The auctioneer then converses with the buyers by telephone, and a sale is completed. After the sale, the clock on the PC is reset. One difference in the TFA auction is that the flowers are not physically visible to the buyers. However, to offset this potential drawback, a large amount of relevant information is available online. For example, buyers are alerted to a specific auction, in real time, when their item of interest is auctioned.

Initial results indicated that buyers and growers were enthusiastic about the new auction. Although prices are about the same as in the DFA auctions, the process is much quicker, and the after-sale delivery is much faster. Delivery starts within half an hour after the sale; nearby buyers can receive their flowers within that time. A major issue can be the quality of the flowers because the buyers cannot see them. In fact, the quality of the flowers is actually better because the flowers are handled less frequently (no need to bring the flowers to an auction site), and the growers stand behind their products. As a result, there is enough trust so that everyone is happy.

The TFA has gained considerable market share at the expense of existing organizations and is a real new-enterant success story. Using IT, TFA quickly built a competitive advantage. This advantage impressed the DFA, but it took that group more than a year to cancel the import restrictions and implement its own electronic clearinghouse for flowers. However, the TFA continues its own auctions.

Questions

1. Classify this exchange according to the categories presented in Section 6.1.
2. What type of auction is used to sell flowers?
3. With the TFA auction, once a bid is made, a telephone call follows, mainly for security. What mechanism could replace the telephone call and still fulfill the security function?
## REFERENCES FOR ONLINE FILE W6.3


## REFERENCES FOR ONLINE FILE W6.4


### ONLINE FILE W6.4  Managing SRM in Real Time

<table>
<thead>
<tr>
<th>Step</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Access</td>
<td>Identify all the resources required to meet the product or service needs of the enterprise.</td>
</tr>
<tr>
<td>2. Identify suppliers</td>
<td>The availability of a large pool of approved suppliers improves options down the road.</td>
</tr>
<tr>
<td>3. Access supplier performance</td>
<td>Check past performance, testimonials, and stated capabilities.</td>
</tr>
<tr>
<td>4. Negotiate</td>
<td>Prices and other relevant terms count only when combined.</td>
</tr>
<tr>
<td>5. Contract</td>
<td>Identify and register trading partners. Award contracts to the appropriate suppliers.</td>
</tr>
<tr>
<td>6. Connect</td>
<td>Bridge the enterprise and suppliers through procurement procedures everyone involved can see. Facilitate collaboration.</td>
</tr>
<tr>
<td>7. Engage and share</td>
<td>Enable interactions between the enterprise and suppliers. Show suppliers your forecasted needs and their performance ratings. Look at their inventory and projections.</td>
</tr>
<tr>
<td>8. Transact</td>
<td>Collect orders from across the enterprise. Create purchase orders and check them against budgets. Transmit purchase orders using tendering and RFQ.</td>
</tr>
<tr>
<td>9. Deliver</td>
<td>As goods are pulled from the supplier’s stock, wireless barcode readers update inventory levels. Shipping invoices are generated, and the goods are delivered.</td>
</tr>
<tr>
<td>10. Receive</td>
<td>Wireless devices can help in determining whether everything ordered arrives as planned, in good condition, and in the right quantities.</td>
</tr>
<tr>
<td>11. Resolve</td>
<td>Resolve any disputes and pay only if satisfied. Explain why payment is withheld.</td>
</tr>
<tr>
<td>12. Pay</td>
<td>Settle up with suppliers and check the actual cost against the projected cost. Set an ERS (Electronic Receipt Settlement).</td>
</tr>
<tr>
<td>13. Analyze</td>
<td>Access results, design improvements, decide which suppliers to keep.</td>
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*Source:* Compiled from Schecterle (2003). ©2005 Oracle. All rights reserved.
### Building Vertical Marketplaces

<table>
<thead>
<tr>
<th>Steps</th>
<th>Descriptions of Activities</th>
</tr>
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| **Step 1: Think ahead**              | • Think through what the current market environment is, how the e-market can make a change in the target industry, and what the monetary contribution for the players will be.  
  • Align the e-business with existing brick-and-mortar operations of companies in the industry.  
  • Clearly identify potential cost savings and revenue enhancement opportunities for both sellers and buyers.  
  • Find out if there is a competitor or a planned competitor in that industry.  
  • Outline the mission of the exchange.                                                                                                                                 |
| **Step 2: Planning**                 | • Think through the vertical exchange’s business scope, including how the exchange will operate in the target industry and what capabilities and benefits it will have for the players.  
  • Identify strategic objectives for the exchange such as financial returns and a target number of participants in the virtual market.  
  • Estimate the market potential, number of participants/players, and trading volume generated at different times.  
  • Plan details of how to build and implement the virtual exchange, including: functions for sharing industry information, for trading direct parts and materials, for improving communications among companies and their customers and business partners, and for automated bidding and offering processes. |
| **Step 3: System analysis and design** | • Start to design the exchange’s technological platform, such as hosting, the hardware and software architecture, and databases. The platform should take into account scope, objectives, desired capabilities, and estimated trading volume at different time periods.  
  • Do not neglect the important issue of networking and integration of all exchange members.  
  • Formulate a development strategy either using a technology partner or outsourcing the construction of various components of the exchange. |
| **Step 4: Building the exchange**    | • Build, test, and implement the exchange’s platform. A good project management tool may be useful here.  
  • Be sure to consider how to connect exchange members to the exchange and the possibility of integrating members’ systems.  
  • Decide whether the exchange will be hosted on the market maker’s server, a Web hosting vendor, or a combination of the two. |
| **Step 5: Testing, installation, and operation** | • Conduct test.  
  • Make needed improvements based on test results.  
  • Connect members.  
  • Open the exchange for business. |
| **Step 6: System evaluation and improvement** | • Monitor and evaluate the system on an ongoing basis.  
  • Make continuous improvements, which are common in most exchanges. |
### Questions to ask about Exchanges

#### Questions That Buyers Should Ask
- Does the B2B exchange have a critical mass of buyers and suppliers?
- Can buyers and sellers hide their identities (anonymity feature)?
- What kind of secret information does the company have?
- Will it be disclosed by joining the exchange?
- How much will it cost to be online and to use the e-marketplace?
- Can past trading records be traced?
- What are my benefits? (Cheaper? Faster? Better?)
- How many exchanges should a buyer join?
- Is it really an independent exchange?

#### Questions That Sellers Should Ask
- Could the company acquire more buyers by being in the exchange?
- How would participation affect the price of our goods?
- What kind of information do we have? Would it be uncovered and exposed to others?
- How much does it cost to participate in e-trading (fixed cost)?
- What are the transaction fees (variable costs)?
- Could we sell independently in the future?
- How severe is the competition in the exchange itself?

#### Questions That Both Buyers and Sellers Should Ask
- How much will the company save or gain by using the exchange? (See Witherspoon 2001 for a calculation method.)
- Is the exchange viable? Who are its other members? Who are its owners and its management team?
- Who sits on the exchange’s board of directors?
- Are there contracts or technology that would lock us into a long-term relationship?
- Who provides payment, logistics, and other services?

### Sources:

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### REFERENCES FOR ONLINE FILE W6.6

