An interview with: Marie-Pierre Rogers, CEO of CPGmarket
Joe Laughlin, CEO of GlobalNetXchange
Judy Sprieser, CEO of Transora, and
Colin Dyer, CEO of WorldWide Retail Exchange.

Why bother with exchanges?

JUDY SPRIESER: The vision for exchanges is to drive cost out of the supply chain from end to end, by reducing infrastructure costs for all participants and offering services which enable participants to collaborate with their trading partners. Reducing the cost

Reinventing relationships

INTERVIEW

by Daniel Corsten, Daniel T. Jones and Alan Mitchell

Many people are sceptical about the future of B2B exchanges. We asked the CEOs of all four major industry exchanges: where and how do they really add value? And do exchanges have a viable future?

of infrastructure enables companies to reallocate these resources to value-added, revenue generating initiatives involved in marketing and brand-building.

COLIN DYER: I think we should view exchanges as mediums for exchanging information rather than just "places where transactions happen". What exchanges do – because of their positioning on and use of the Web – is allow a huge of amount of data to pass up and down the supply chain.

This is very important for retailing. Any self-respecting retail chain has hundreds of stores, and each store has, maybe, tens of thousands of SKUs, all of which are selling at speeds of between one per minute and one per day. Their suppliers are selling, maybe, thousands or tens of thousands of units for that retail chain as well. That creates an absolutely massive matrix of detailed information on what is sold, when and where, by SKU, where it's coming from and how its getting from point A to point B and back again.

This mass of data is the operational focus of business-to-business exchanges. The principal benefit is allowing the net to be used in systematic, standardised ways which allow data to pass between retailer and supplier and drive efficiency within the supply chain.

The next question is, what are we going to do with this data? Will it be used for collaborative planning? Forward sales? Forward promotions? Category management work? Tracking where items are in the supply chain so the retailer knows where his or her stock is and where his or her financial commitments are? As a barometer for suppliers to judge the quality of promotional work they're doing by seeing the rate of sales by hour or by day? All those things are made feasible by letting these tools loose on the platform.

You can then go through the whole business agenda and put numbers on it. Reduced back-room costs, lower costs of purchasing through aggregation, lower stocks, lower wastage, half the response times, real time collaborative planning, and so on. So there are potential points of competitive advantage.

Conservatively speaking, we say there are four points of competitive advantage available – that's four points on cost as at the retail price to the consumer. Now, where it ends up between the supplier and the retailer and the consumer – God only knows. But it's a piece of competitive advantage. If you move, you pick up the competitive advantage and if you don't move, you don't pick it up. That's why practically everybody is moving.

MARIE-PIERRE ROGERS: Motives for joining an exchange differ depending on your size. Large manufacturers join because they have a long-term commitment to supply chain optimisation. For them, the concept is a

Grocery retailing generates an absolutely massive matrix of detailed information. It needs a systematic, standardised way of using this data one-stop shop – a set of integrated procurement and supply chain solutions to support the complete commerce cycle, enabling companies to improve their business processes and achieve significant cost savings at each step of the cycle. Companies can source products, set up on-line catalogues, and connect their ERP systems with suppliers, to exchange information – from commercial documents to more complex planning and forecasting data.

But in Europe, middle-sized companies represent the largest part of the business world. They have joined because they want to be part of the revolution without being clear on what their future needs and usage would be. For them, using a B2B marketplace is a better way to gain access to tools which they wouldn't be able to afford on their own.

JOE LAUGHLIN: Exchanges provide small, medium – even big – retailers with better economies of scale than they otherwise could have on their own. They are able to re-deploy their capital into areas that matter to them. But the only thing which will differentiate one retailer from another is who is best able to re-engineer the business and manage change to take advantage of the exchange's capabilities. Right now is a tremendous time for exchanges because of our value proposition. Take auctions, for example. They take costs out of your purchases and deliver process efficiency. There is no better return on investment.

JS: A key benefit to retailers is that Transora's services are free. We do not charge retailers for access to our Data Catalogue and CPFR Enablement capabilities. Our recent agreement with European-Marketplace CPGmarket.com, to offer Data Catalogue and other services to their customers, underscores the industry's commitment to standardising these business processes.

So the efficiency gain comes from providing common infrastructure so people don't have to reinvent the wheel or re-duplicate the process of investment. Or is there an added value?

CD: Obviously the shared cost issue is important. Making some of the software and software applications robust and able to run in a retail environment is sometimes a challenge, so there is a clear cost benefit. For example, there are manpower savings. Beyond that, if each individual retailer establishes his or her own system and each individual supplier does the same thing, then you've got a very large matrix of variables. With an exchange you've got standardisation of tools, standards, and approach. Without standardisation the whole thing won't work.

The efficiency mainly comes from the marketplace's ability to build best-in-class tools which enable optimal usage by its

The exchange web sites are:
cpgmarket.com
gnx.com
transora.com
wwre.org

Many companies have joined exchanges because they want to be part of the revolution, but aren't really clear where it's going or what their needs are members and meet the highest standards for the industry it serves.

MPR: Exchanges built around an integrated platform help to provide what I call eIntelligence, which has two parts.

First, we gather data through many different content providers – for instance coming from the chemical industry – and we shape it and qualify it in ways that suit the needs of a particular customer.

Second, we help to track best practices. Where a customer has conducted a lot of transactions on the market place, using the different services, he or she really wants to see data about their performance against best-in-class in the market. They can use this information to improve their next transactions.

Tell us about auctions

JL: Auctions have become very large, very quickly. We have been completing a billion dollars in purchase lines each quarter. Buyers in the retail organisations are being trained to use this tool and they're using it to make private label and commodity purchases in multiple product categories. Also, we're proving that it is applicable not only for hardware but also for soft home goods, apparel and so on.

For some retailers, 75 to 80 per cent of everything they sell in their stores is auctionable. For others, it could be anywhere from five to 40 per cent. Either way, we have really proved this to be the new best practice globally for buying non-branded and private label products.

How big are the benefits?

MPR: Right now, our customers are averaging about 15 per cent savings. This is obviously no small amount of money. But of course, this is low-hanging fruit and these savings are going to be reduced over time just because of price efficiency.

CD: With auctions, we can measure the benefits our members have gained by switching purchasing against the previous benchmark cost of doing things. There's a big sign in the lobby of our headquarters which says we have saved "X" amount of money. Currently, it's over $100 million.

MPR: Price reduction is only one component. The major components over time are the compliance, the transparency it brings into the system, and the time you save through a process. In the old days – which are not very long ago – the manufacturer would call his or her suppliers, send faxes and have numerous conversations. This could take days, sometimes weeks.

Now, the manufacturer sends the proposal to a set of suppliers with all the references, technicalities and requirements (many of them quality requirements). This is a much more disciplined process. Also, every supplier

Price reductions are only one benefit of auctions. Over time, the main benefits will be compliance, the transparency they bring, and time saving gets the same level of very detailed information, so it's a fair and transparent process too. And it saves a lot of time for both the manufacturer and the suppliers. That's why the eSourcing tool is going to be integrated into the daily life of many of our manufacturers: because it brings discipline and rigour, because it saves time, and because it improves compliance. These non-price benefits are much more sustainable over time.

JS: Auctions are a quick way for new users to build their understanding and comfort level of e-Business services. We have seen many customers start with basic procurement tools, such as auctions, and quickly evolve into more collaborative services. A key benefit to customers is access to a variety of negotiating tools. They can "test-drive" the services without making an additional investment in in-house infrastructure.

JL: You are not going to see 15 per cent reductions year over year over year. But many times, just holding the line on price will be a win. And if you can cut weeks off the process of negotiating for and purchasing a product, and make your buyers more productive, that's a huge win.

And auctions aren't just for the big boys. Some of our most active customers are small – from less than US$1 billion up to about US$3 billion or US$5 billion. These companies have seen what the big guys are doing, they recognise this is becoming the new global best practice, and they are determined to be a fast follower. So auctions can work for anybody.

But nevertheless, auctions do encourage old adversarial attitudes, don't they?

CD: Auctions are easy to do culturally. They actually reinforce existing behaviour – it's the natural extension of the approach of a buyer. But in many ways they're also an unfortunate thing to do first because they are counter-current to the whole drive for increased collaboration.

JL: I don't think auctions make the climate any more adversarial than it has been. If you are competing for a customer's business and you don't know what your economics are, then somebody else deserves to win. As a matter of fact, auctions are giving more opportunities to more small and medium-sized companies to compete for business they have never had access to in the past. An auction is a fair, open competition with good visibility, so if you didn't win, at least know what it's going to take to win next time.

MPR: In the early days, many suppliers were scared. They thought, "Those companies just want to squeeze my prices". Now they're finding it's a way to collaborate – to participate in a fair process – because they all know they have the same level of information, and therefore the same chances. That allows

Auctions actually reinforce existing behaviour. In many ways they are unfortunate because they are counter-current to the drive for collaboration many number two or "challenger" suppliers to get access to markets in a fair and open manner.

Also, it's a mistake to say the determining factor is price. The rationale of sourcing doesn't change just because of the use of an e-sourcing tool. Our tool, eSourcing, has a decision grid. Many times the determining factor is not the price – it's the quality, the availability, the compliance with delivery, the compliance with ISO norms, and so on. Price is no more than 50 per cent of the decision.

What's the progress on CPFR?

CD: CPFR has always been seen by informed people as a wonderful prize which both retailers and suppliers can benefit from. It has been difficult to get CPFR to a workable state, but now it's beginning to come through in realisable form. The managerial, cultural and organisational issues in getting it up and running are not insignificant, however. In trials, even large professional companies on both sides of the divide are surprised at the scale of effort that is required.

It's not just the work involved in gathering and handling the data. You've got to interpret it. You've got to apply some brains. That's where the human component comes in. It's like many of the other things that are going on around exchanges. They have as many consequences and issues about people, skills and organisation as they do about the tools themselves. Frankly, the tools will be available soon, but it will take a lot longer for companies to adapt to them.

JL: I don't think CPFR is anything new. There is nothing innovative about sharing information. It's just that the tools are becoming more robust, more powerful, more scaleable. CPFR is about taking software and exchange and Internet-enabling it so we can run an ASP model where companies come in and pay for usage.

CPFR is big and I think its going to become even bigger. We are proving now that CPFR – at least almost full CPFR – is applicable not only to consumer package goods but also to other categories. Nothing is ever easy, but we have commitments on the part of a number of big retailers, as well as manufacturers, to expand the number of pilots and installations.

Soon we will have a good fact base to talk about the business case for CPFR: what are the types of products that are best for collaboration, how much labour can both sides afford to invest to make it work cost effectively, what are the benefits, etc.

Right now, many people are experimenting. But it's still early days. Many people claim to have a CPFR application but I suggest you go and kick the tyres and see if there really is an exchange-enabled application – and if anybody is using it.

CPG market.com

Distinguishing characteristics

CPGmarket.com was set up to help European CPG companies form a B2B marketplace which addresses the multi-currency, multi-language and differing regulatory issues in the European marketplace.

Membership

19 European manufacturers including Danone, Henkel, L'Oreal, Nestle and Pernod Ricard, plus 7 suppliers

Technology partners

Accenture, B2e markets, HP, SAP, Webmethods

Milestones

22 March 2000: Nestle, Danone, Henkel and SAP markets announce intent to set up e-marketplace
4 October 2000: first eSourcing service goes live
20 December 2000: 25 new investors sign up
1 March 2001: first eSupplychain pilot with Henkel
2 May 2001: new eSourcing, eRequisitioning and eSupplyChain products released
February 2002: total transaction value over €1 billion . So far 600 buyers and 2,500 suppliers are trained to use CPGmarket.com's services.

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CPFR will require a longer period (than auctions) to prove its value – let's say, six months to a year. So far we can't prove that it's a slam dunk high return on investment. We can only give evidence from a few pilots.

JS: Exchange CPFR enables retailers to conduct "passive" CPFR, yet participate in the value of CPFR. Because CPFR's capabilities inter-relate to so many other exchange offerings – such as promotions management and inventory management – engaging with an exchange reduces the customer's future integration costs via linkage to a broad suite of offerings.

Isn't CPFR just for the big boys?

JL: We think there's full CPFR, and then there is "CPFR light". If you are going to carry out full collaboration, there's only a certain number of manufacturers which have the capabilities and the capacity. "CPFR light" takes the same technology but uses it differently, so that retailers and manufacturers simply share information back and forth and use it proactively. You can do all kinds of things, such as generate exceptions, but you don't have to go through the full collaboration process. "CPFR light" is probably more about collaborative planning than forecasting, which is where the maths get really messy.

I think "CPFR light" will happen with most smaller suppliers. They will get access to the information which is necessary for them to make decisions. Exchanges should be able to bring down costs, to much lower than any company can do on their own. This should also expand the base of customers you could do full collaboration with.

MPR: CPFR is much more of a thoughtful process than, say, auctions. A lot of work has to happen before you actually start using the tool. For example, we built a pilot with one of our customers – a leader in the understanding and planning of CPFR – it took six months just to develop the definitions we needed to build the tool. The preliminary work created the basis for massive roll out.

If every player has access to an exchange's services, how can it help them gain competitive advantage?

CD: Retailers and suppliers know it's not a big advantage just to have a better funnel for pushing data around, however. The competitive advantage comes from how you use it – what happens between the clicks and the data movement. That is the real issue. If retailers and their suppliers are to use the data to the full, then they have to change the way people work – in organisation, people's skills, people's attitudes, and organisational cultures.

JL: Competitive advantage will go to those companies which are best able to re-

Globalnetxchange

Distinguishing characteristics

'GNX's focus on retail industry customer success makes it unique among eBusiness solution providers'

Membership

An 'open exchange' welcoming retailers and suppliers of all sizes. No minimum sales volume to join. Is neutral to both retailers and suppliers

Technology partners

Oracle Exchange, Manugistics, Sun Microsystems, iTN

Milestones

28 February 2000: GNX founded

6 June 2001: transaction volume exceeds $1 billion

20 December 2000: 25 new investors sign up

1 August 2001: Japanese operations go live

19 November 2001: supports adoption of retail industry data standards, with WWRE

14 January 2002: launches CPFR solution, fourth quarter auction volume of over $925 million up 85% on previous quarter.

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engineer their internal business processes and systems to leverage the capabilities of the exchanges.

Are your customers internally ready for the effects exchanges have on their internal processes?

MPR: It varies. It relates partly to the number of projects the company is running at the same time. If you are in the middle of implementing a huge ERP programme, for example, you would ideally want to have your ERP in place before you implement, say, new procurement processes.

But also, the technology is just a tool. This tool can be totally useless if the proper business process re-engineering isn't done to maximise its potential. You know, you can conduct an auction today and it will be successful. But tomorrow it might not be. It all depends on how well prepared the buyers and suppliers are, how well trained they are, how well they know their markets, what type of relationship they have, and so on. All of that determines the success, or lack of success, of these tools.

So we are not software providers, which is something that is very much said in the press. We are service and solution providers around a tool. A crucial part of our work is to help our customers find where the benefits are within their organisations and help them implement the new business processes that are required to use this tool.

That is a very challenging part because no book has been written on such things before. Both the software provider – the market place – and the customer are learning together.

But change always breeds resistance, doesn't it?

JL: Yes. Imagine being a buyer inside a retail organisation and somebody comes in and conducts an auction on one of your products and there's this big saving. How do you feel? We've had buyers saying, "Well, I could have got those savings too, but I would have to go through this negotiation process". They're absolutely right. They would have achieved the same savings, but it would have taken longer. So we have to be sensitive to the human factors – allow people to embrace the tools, ask them to be the champions so that they can be the heroes. Believe me, when that happens, usage sky-rockets.

So tell us about the change management process.

JL: It starts with a solid business case and senior management commitment. You then have to get the commitment and the buy-in of the appropriate business units inside each company. So, for example, if you are a retailer, auctions really need to be owned by the buying organisation.

Our technology is just a tool. This tool can be totally useless if the proper business process re-engineering isn't done to maximise it potential

They can't be owned by IT or some other part of the business.

In some organisations where the buyers have embraced it, they said: "Hey, wait a second. Let us develop some experience with this tool and do our own bottom-up analysis. We'll come back to you and tell you what products we think are auctionable, how large the opportunity is, and how to go forward". You know what the answer is then? The percentages that were dictated from the top down are a fraction of what is truly auctionable.

Successful implementers are also very execution-focused. They measure what goes on every week, every month. They say they're going to do it and they do it. They know how to deliver.

CD: Where we can see non-competitive situations where there might be some potential cross learning, we try to get people talking to one another. And where we see some good practice going on (we spot it early on from where we're sitting), we train consultants up and make these good practices available to everyone else. This way, we can spot some of the smart moves and try to spread them around, without making everyone feel as though they've been disadvantaged.

MPR: There are other, more subtle, process changes. To avoid building capabilities that the industry doesn't need, we have created advisory councils – one for eSourcing, one for eRequisitioning, one for eSupply chain and so on. Customers send expert representatives who tell us what they need.

Nobody comes to hear any secrets at these meetings, that's for sure. But when they talk about how to build a new product or how to enhance functionalities, they are all sharing their experience. That means together, they're all raising their level of expectations. That's something very new and very unusual.

What developments are we likely to see over the next year or so?

MPR: Just 12 months ago, we were over-hyped. Now we're under-hyped. But that has never dispirited us from executing.

CD: We've had the Powerpoint days, when everyone got way ahead of himself or herself. Now we've actually got something to talk about.

JL: Exchanges will develop applications which drive common standards. These applications won't necessarily deliver competitive advantage for any one retailer or manufacturer. Instead, they will create what could be called "industry operating systems" which are well suited for collaborating.

CD: There are a number of product areas and process areas where standards need to be introduced or upgraded. Some industries, such as food, have been working with standards for some time. But the further you get away from food

Just 12 months ago we were over-hyped. Now we are under-hyped. But we're not dispirited. Now we've actually got something to talk about and drugs and into general merchandise, hardware, and textiles, the more you have to introduce standards where they haven't been introduced before.

One of the biggest issues is electronic catalogues, because they are fundamental building blocks for other processes on the exchange. Where you have a supplier posting a catalogue (for general viewing or for viewing by specific retailers) the way in which the catalogue is presented, what's in it, how accurate the data is, and, whether it's up to date are all crucial issues.

The data has to be synchronised in real time, all the time. Quite simply, for us, if we don't get this synchronisation, we don't get the traffic we need.

However, getting a catalogue up and running is a significant piece of investment for any retailer or supplier. Then there is the maintenance. So it will take years before common standards are introduced.

MPR: Exchanges are obviously ideal vehicles to improve standards. The big exchanges are all very much aligned towards the necessity of standards.

CD: We're also working on collaborative product development tools which allow people to develop a new version of a product, with the one based in Bradford and the other based in Beijing. At the moment they are not able to do anything except send electronic files by e-mail.

We want to allow people to work on the entire specification from the aesthetics right through to the technical specification on the new product, together, in real time. It's starting in the textile and footwear area, but it's clearly got applications in packaging promotions, and so on.

Supply chain visibility is also important. We need a process which allows retail suppliers to see where products have got to within the supply chain. There are some tools around that do it, but so far there's no great depth of information. We need lots of detail (ie, when did you ship it, from where, etc).

JL: We are already discussing the transportation side. Exchanges will provide content or accessed information tracking from many of these mobile devices (eg, radio frequency identification tagging).

CD: The other big area is procurement as a whole, whether it's buying through an auction, or CPFR. E-procurement is about using all the electronic tools on the exchange – the whole process of ordering, accepting orders, dispatching notes, invoicing, the payment that comes behind it, and so on.

JL: We've introduced a perishables exchange in North America with Kroger, the largest-third retailer in North America, as the first customer. The exchange completely automates the purchase process for buying perishables, starting with

TRANSORA™

Distinguishing characteristics

'created to help global consumer packaged goods industry reduce the infrastructure investments required to enable e-Business processes'

Membership

58 founding investors from Asia, the Americas and Europe. Half are now customers. Some retailers also use Transora's targeted marketing capabilities

Technology partners

Ariba, i2, e-Breviate, Syncra Systems, Cyclone Commerce

Milestones

March – July 2000: Grocery Manufacturers of America back the idea. Opens for business in Chicago
March 2001: launches CPFR service
January 2002: P&G publishes item data to retailers via Transora data catalogue
Feb 2002: forms strategic alliance with CPGmarket.com to sell each others' services

Alliances

ICG (collaboratively sourced categories), CSC (collaboratively sourced IT categories), Transplace (transportation and logistics)

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produce but extending eventually to meat, fish, poultry and so on.

Basically suppliers put their inventory levels on the system and Kroger has the visibility to see these inventories and make purchases on-line. It knows the price points that are being asked, and there is a potential to negotiate on price. We also have the capability of providing visibility into transportation – tracking it.

Everything is electronic. No more paper. It is still in its early stages but it could be very significant. We plan to take this functionality to Europe soon. There is already demand for it.

Competition between exchanges

JL: I think we will see fewer, bigger exchanges, and there will be joint ownership and control and participation by retailers and manufacturers alike. Companies will join multiple exchanges. Frankly, I'm flabbergasted it's not a bigger issue today. All of the exchanges have to get to critical mass, and there is too much capacity. So I think there will be a shake out. A consolidation.

So we're now saying GNX is an exchange that's meant to serve the needs of retailers and manufactures alike. A truly neutral exchange. To do that, we've begun to make changes in the way we do business, in our products, in our research and development and so forth.

Many exchanges have spent money – I'm not going to say who they are – but they've got no traction. I can't tell you the number of companies I've talked to which say, "You know we've spent this money joining this exchange and we've got nothing out of it. Nothing". Fortunately, we enjoy a good reputation.

CD: When you get to the exchange-to-exchange piece, well, that's something we still have to clarify. There is no value added in having two exchanges stuck in between the retailer and supplier in question. It may well be that one provides excellent hosting and the other provides brilliant CPFR, so that it's worth paying the cost.

Our position is that we will link to another exchange where it adds value. We are already doing it in the way we buy fresh produce (via Agribuy). But when you come through CPG to us or GNX to Transora, you've got to be clear on what's the value added.

MPR: I think today there are two groups of exchanges. Some are focused towards optimising the manufacturer retailer relationship. We have decided to concentrate our efforts on optimising the manufacturer/supplier relationship.

Recently, Transora and CPGmarket have signed an agreement to cooperate. Why have you done this, and why now?

JS: CPGmarket.com and Transora have built some complementary services, as we

WorldWide Retail Exchange

Distinguishing characteristics

'the premiere B2B exchange in the retail e-marketplace' for retailers and suppliers in the food, general merchandise, textile/home and drugstore sectors. Claims to have saved members £321m so far.

Membership

Founded by 17 retailers, now open to suppliers too. Currently 59 members from across the world

Technology partners

Deloitte & Touche, IBM, i2, Tata, webMethods

Milestones

20 April 2000: officially opens doors
January 2001: launches negotiations and auctions
March 2000: launches CPFR Collaborative Planner
April 2001: launches eProcurement
June 2001: launches WorldWide Item Management

Alliances

Agribuys (food perishables), Citibank (foreign exchange datafeed), Global Sources (Asian supplier sourcing), UDEX (item normalization), Visagent (surplus goods)

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both have focused intensely on our core investors' needs. Marketing each others' complementary services to our own investor base makes perfect business sense at this stage in our life cycle, as we will benefit from each others' existing developments.

Isn't this agreement to cooperate a clear sign that manufacturers' exchanges are losing out against the "retailer" exchanges GNX and WWRE? Is it the beginning of the consolidation many people in the industry have been hoping for?

JL: This cooperation shows that marketplaces can share services and avoid redundant development costs without having to consolidate. It could and should be the model for the future, where marketplaces (up- or downstream) specialise in specific functionalities and target audiences, and cooperate to cover the supply chain from end to end.

How will your customers benefit?

JS: The agreement ensures that customers have access to the services Transora and CPGmarket.com have already developed, regardless of which exchange they have invested in.

When will exchanges have proved themselves as viable businesses?

MPR: Right now, we plan to be profitable in the early months of 2003.

JL: We've been very conservative in how we spend money. We generated significant revenue this year and we feel proud about that. But it is still way behind where we'd like to be.

I think we will be doing well if we could break even on a pro rata basis in late 2002. We've got a lot of gunpowder that's dry here. Many exchanges got out of the blocks to run a 100-metre dash. We are prepared to be in this for the marathon.

I think we will see fewer, bigger exchanges. There will be joint ownership, control and participation by retailers and manufacturers alike