

KCG **MarketView™**

Collaborative Commerce Solutions: Strategies, Capabilities and Payoffs in the Relationship Economy

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EXECUTIVE SUMMARY

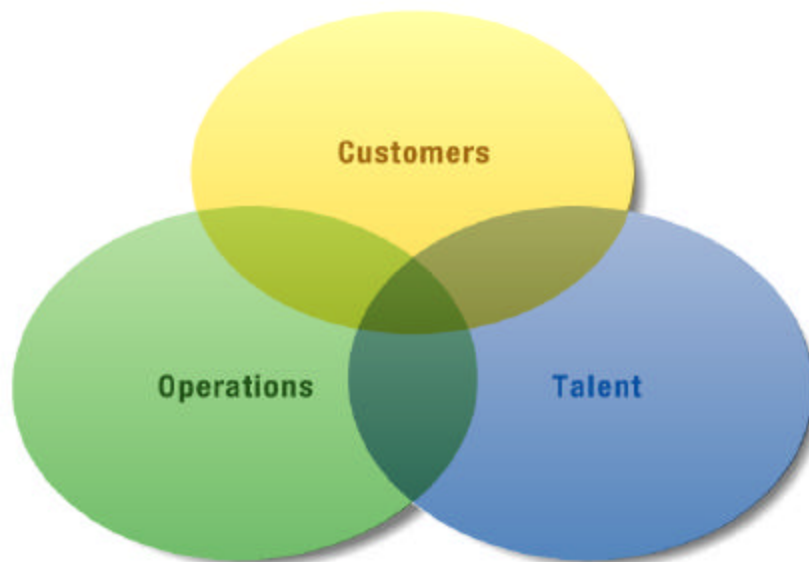
Success now depends on a company’s ability not only to collaborate internally, but to collaborate externally with suppliers, partners and customers. This is an era of Collaborative Business.

But companies also face a growing specter of risk in the wake of terrorist attacks on America. Such concerns, however, will not change the essential fact that collaboration is increasingly vital to corporate success. Contrary to the perspective offered by some opinion leaders in industry and the press, collaboration now becomes more important than ever. Indeed, collaboration offers us the potential to minimize risk and smartly manage vulnerabilities. There is no simple trade-off between security and agility. Collaboration can make us more productive, more resilient and, ultimately, more secure.

Relationship strategy is now central. World-class companies are now reaching out and cultivating powerful relationships with individuals and organizations. They are investing in the management of customer relationships, human capital and operational capabilities – activities that we collectively refer to as *Enterprise Relationship Management (ERM)*.

Collaborative Commerce is the dynamic engagement of individuals, workgroups and enterprises within an extended network of value creation and exchange.

STRATEGIC DOMAINS OF ENTERPRISE RELATIONSHIP MANAGEMENT



Source: The Knowledge Capital Group

Companies are now using sophisticated information technologies to understand the unique needs of their customers and gain visibility into

their supply networks. They are then using this knowledge to move faster and with greater precision than ever before possible. Collaboration enables them to more affectively manage the operational capabilities associated with these activities.

Collaborative Commerce, by our definition, is *the dynamic engagement of individuals, workgroups and enterprises within an extended network of value creation and exchange*. Collaborative Commerce goes beyond transactions to focus on enterprise relationships, resource development and operational capability management. It involves the *perpetual and mutually reinforcing development, exchange and deployment of capabilities among workgroups, enterprises, suppliers, partners and customers*.

Despite the current economic downturn, corporations today are poised to realize tremendous gains in productivity. The ongoing expansion of enterprise knowledge is reducing uncertainty and enabling us all to focus on new wealth-creating forms of activity. Indeed, sound decision-making and the accompanying diminishment of risk enable companies to invest their financial and human capital far more productively. This will help companies take the steps necessary to lead the economy out of its current slump and on to a new era of economic growth.

We see several trends on the horizon that promise to create new waves of economic dynamism and enable collaborative enterprises to thrive for years to come. Among them: the expansion of enterprise capabilities to meet growing customer demands; the replacement of inventory with information; the diminishment of market friction as new “high velocity” markets emerge; renewed efforts to manage organizational change associated with collaboration; and strategic moves to manage relationships across the extended enterprise.

First Principles

Companies are beginning to make impressive strides, demonstrating that there is significant value to be generated – and costs to be cut – through dynamic relationship management. We have identified several “first principles” that companies on the leading edge have embraced:

- **The Boundaries *Between* Enterprises are Blurring.** In today's world, we find that transaction costs have fallen dramatically as the technologies of communications, transportation and logistics have made it easier than ever to collaborate and coordinate. Instead of vertical integration, companies such as Dell and Procter and Gamble now tout the concept of “virtual integration” – a business strategy focused on building dynamic relationships with suppliers and partners (instead of merely buying and subsuming them). Collaboration, therefore, is no longer merely a challenge within a

company. It is now a challenge that has gained an increasing amount of attention across the extended enterprise.

- **The Boundaries *Within* Enterprises are also Blurring.** The functional barriers or “silos” that once separated individuals and groups within organizations are now – by necessity – beginning to collapse. Jack Welch, former CEO of General Electric, promoted a concept that he referred to as “boundarylessness.” Fortunately, the lesson has taken hold and many companies are attempting to emulate the established successes associated with enterprise-wide collaboration.
- **Trust Must Triumph.** If Collaborative Commerce is to achieve its potential in the next few years, companies must find ways to work together that are contrary to the business practices of the past. Companies must overcome the hurdles associated with trust – and proceed to build it – if they are to create trading partner networks that can compete on a world-class level.
- **Operational Excellence Drives Value, Revenue and Profit.** Operational excellence is inextricably linked to enterprise market value. And companies achieve operational excellence through the superb management of their resources, capabilities, products, suppliers and partners.
- **Collaboration Drives Innovation, Cost Reduction and Time-to-Market.** In many firms, the bridge between conceptual design and product engineering has not been crossed. Despite the fact that as much as 70% of product’s costs over its lifecycle are determined in the conceptual phase, professionals in engineering, manufacturing and procurement often have very little influence on the product’s early development stages. Expect this to change.
- **Enterprises are Synchronizing Supply and Demand.** In order to streamline their operations, eliminate needless inventories and better meet customer demands, smart companies realize they must possess leading edge processes and systems for the management of supply and demand planning. They must match their customer’s needs with their own available operational capabilities – whether those capabilities are generated in-house or in coordination with partners.
- **The Collaborative Perspective is Pervading All Business Processes.** We are moving beyond the legacy language of supply “chains.” In the new era, companies will collaborate as part of multi-party, interactive networks as opposed to long, linear chains. Whether the interactions that are taking place touch procurement, logistics, product design, manufacturing or customer service, it’s

clear that the functional organizations within companies (and beyond them) are becoming much more entwined as the processes they engage in overlap. With this in mind, companies are developing new business initiatives that capitalize on the power of collaboration and are implementing new technologies and systems that facilitate these interactions.

The Collaborative Commerce Market Map and Market Matrix

While there is a great deal of intersection with *Customer Relationship Management* and *Human Capital Management*, Collaborative Commerce largely falls within the realm of *Operational Capability Management*. When companies offer technologies, products or services that we refer to here as Collaborative Commerce offerings, we are generally speaking of solutions that are designed to enhance the capabilities of companies.

Operational Capabilities reflect the products, resources, information, suppliers and partners necessary to develop and deliver value to a customer. *Operational Capability Management* therefore depends on effective collaboration among workgroups within an organization, and with partners and suppliers outside of it.

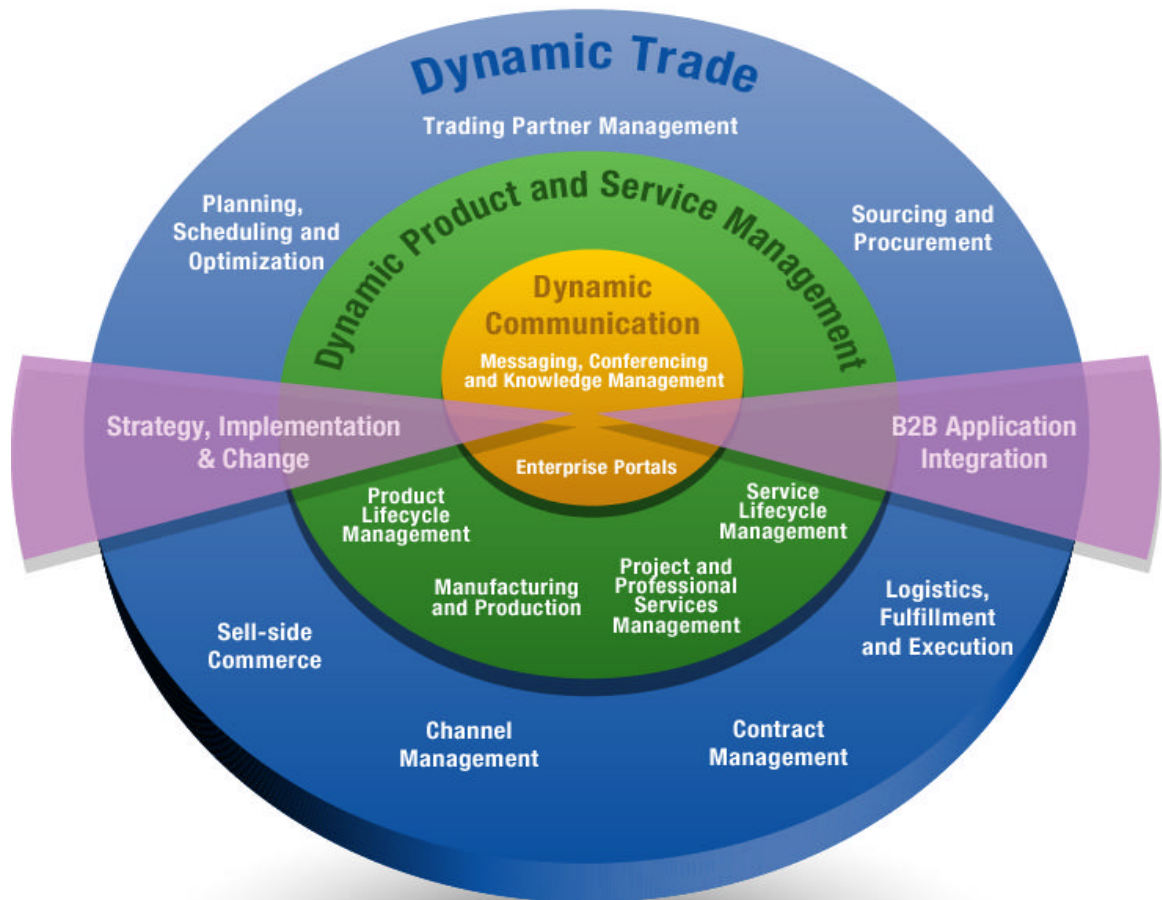
Within the marketplace of Collaborative Commerce, we have identified several overarching market categories and, within these categories, several market segments. While these categories tend to overlap and intersect, each possesses unique characteristics. Companies have much to gain by recognizing the necessity of addressing each area of expertise and considering the powerful solutions that are now available to optimize associated business processes.

As we see it, the three primary categories of Collaborative Commerce are *Dynamic Trade*, *Dynamic Product and Service Management*, and *Dynamic Communication*. These are the key realms of collaboration and capability management – whether they lie within an organization or across many. They cut across and encompass areas traditionally known as the supply chain, the enterprise and the workgroup.

In addition, we recognize another, foundational layer of enterprise and inter-enterprise collaboration which we call *B2B Application Integration*. This is the means by which applications, processes and enterprise systems are integrated across traditional boundaries. Finally, we recognize the need for help in terms of developing plans, implementing systems and facilitating change. We refer to this category as *Strategy, Implementation and Change*.

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COLLABORATIVE COMMERCE: THE MARKET MAP



Source: The Knowledge Capital Group

As companies explore their Collaborative Commerce strategies, these are the areas of expertise they must explore and address. Herein, we have described each category and provide a further description of the components within it. Within our “Market Map,” we have provided a list of the key players within each domain and segment. Within our “Market Matrix,” we link solution providers to their particular area of expertise.

Collaboration in the Post-9/11 World

The September 11 attacks on the United States and the subsequent war against terrorism have changed everyone’s perspective on organizational

The greatest danger facing companies in the private sector now is that they will draw the wrong conclusions from recent experiences and deny themselves the opportunities associated with collaboration. In embracing a new fortress mentality, they would risk undermining the significant productivity gains that have been generated over the past decade – and miss out on gains that lie ahead.

collaboration. Indeed, the concept of collaboration now takes on new importance – encompassing not only our ability to generate value in the economy, but to actively prevent and respond to crises.

Some argue that current concerns will hinder our ability to collaborate in many ways, particularly in regard to private sector trade. Collaboration, they argue, creates new vulnerabilities and unacceptable risks for corporations.

Still others contend that collaboration is often the best means of minimizing risk and reducing vulnerabilities. They encourage enterprises to smartly manage their risks and take opportunities into account as they do. This is the approach favored by this report. We contend that more collaboration, not less, is necessary in the current environment.

This certainly is the case with regard to the public sector's response to current threats. Consider recent criticisms of the US government's alleged inability to effectively collaborate within and among its various branches.

But such criticism (accurate or not) is unhelpful if it is merely a means of shifting blame. Historically, national emergencies and global wars have led to much-needed institutional change as governmental organizations mobilized and focused on clear challenges. Such experiences have also accelerated technological and process-related advancements. This may very well be one of those times. If so, we should welcome the opportunity to reform legal, technological and organizational structures that may well be in need of it. We should welcome the opportunity to enhance our institutions to address the security challenges of our times.

In fact, the public sector may have much to learn from collaborative endeavors in the private sector. Driven by competitive pressures and the promise of higher profitability, many enterprises have demonstrated the power of Collaborative Commerce. Their successes and failures may prove instructive as we embark on new efforts to address security-related issues.

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Instead of dramatically shifting course and abandoning Collaborative Commerce, we think smart companies will draw other lessons from this experience. We think they will determine that collaboration is an inevitable and – for the most part – highly beneficial force in modern

business. The risks associated with intra- and inter-enterprise collaboration, as these companies are learning, can be intelligently managed. Indeed, the risks of collaborating now must be weighed against the risks of failing to do so.

Clearly, companies that effectively collaborate can seize huge opportunities associated with cost-cutting, innovation, and overall enterprise value. Dell Computer, Wal-Mart and Procter and Gamble are all examples of companies that have capitalized on the benefits associated with Collaborative Commerce.

Considerable risks certainly do exist. But these are all risks to be managed – not merely avoided at all costs. Smart companies are seeking ways to contain risks associated with information security. Some are even exploring consortia approaches that will enable them to jointly share the costs of sophisticated security systems. And companies can manage the risks associated with physical materials by determining and maintaining appropriate safety stocks as well as transportation and supply alternatives.

The greatest risk, however, is a competitive one. Companies today compete in a real-time, relationship economy. The smartest ones recognize they must focus on their core competencies and build a network of powerful alliances to meet the needs of increasingly demanding customers.