white paper
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Buying and Selling on the Web: Is a Meeting of Technologies Really a Meeting of Minds?

Sellers want to get closer to customers, manage the full relationship lifecycle, and increase margin by selling value-added services. They're using the Web for this. Buyers want to automate the buying process, drop or add suppliers in seconds, and negotiate discounts on commoditized products. The Web is being used for this. Is there something wrong with this picture?

On Internet Time

This paper was completed on January 30, 2000, at 7:45 p.m. We're on Internet time now. By 8:15 p.m., some of what drives these comments will be out of date, and by the time you read it, the world in which it was written will be the stuff of nostalgia.

Still, isn't there something to be said now, on January 30, which will be true in future times, like in February?

I think there is, if you step back from the technology and start looking at what you might call "the struggle." The struggle is the struggle to make money, to get people to buy, to get a good price, to make a deal, to deliver on a deal. The struggle is older than the Internet – at least that's what they say – and the struggle on Internet time retains at least some of the features of that older struggle.

Let's express it in simple Internet terms. For all businesses, the ratio of e-selling activity to e-buying seems to be roughly 4:1. And I'm just talking about activity. If you start looking at corporate focus or C-level energy, it's 97% on the sell-side, and if you look at valuations – well, nobody ever doubled their stock price by spinning off a buy-side dot-com.

But looking at the economy as a whole, shouldn't the amount of buy-side activity roughly match the amount of sell-side?

Here's another way of looking at things:

For any two companies that are buying products through most of the commercial marketplace products (e.g., Ariba, CommerceOne, Intellisys), the large company shoulders the lion's share of the fees. This is in keeping with the famous "wallet" principle of software pricing, for example "charge what's in the wallet." But again, it doesn't make much macroeconomic sense. The fees should be roughly similar.

And one more angle to consider:

Sellers think that the Internet brings them closer to buyers, whereas buyers think the Internet makes it easier to buy automatically or else to hold auctions, where all suppliers are held at arm's length.

The struggle is a bit out of whack, here on Internet time. But if we can figure out how the "whack" is going to get back in, maybe we can actually see farther ahead than February.

Let's look first at the situation from the buyer's point of view, then from the supplier's and then from the trading communities (see Figure 1.0).

Contradictions on the Buy Side

Let's make a distinction between ordering and buying. Buying is figuring out what you want, finding it at a good price, ordering it, getting it, and paying for it. Ordering is sending in the order.

Why doesn't buying and selling activity match up? Partly because buying companies are just trying to improve ordering. They want to order over the Internet instead of faxing in the order, phoning in the order, or sending it EDI.

Boy, is that boring. No CEO is going to transform his/her company and triple valuation by Internetting orders. It's boring, too, because the technology is stupefying: bits and bytes, messaging and publish/subscribe, XML.

Notice that the prospect of providing your customers with operational efficiencies should

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not keep sellers all agog. A lot of these buy-side technologies are just null from the seller's point of view. The Internet buy is just the same buy. No new channels, no new revenues – just fewer fax machines and fewer telephones ringing.

Of course, partly because it's not exciting, you might think that stuff would get done. But, oddly enough, here's what seems to be happening.

To take the same order, there are now three ways of transmitting it. Buyers set up a way of creating an order and transmitting it over the Web, possibly with some kind of Web page in the DMZ on their site, but very often expecting an EDI back end. (Let's call this a buyer-based order.) An intermediary sets up connections on both ends with a catalog in the middle. (Call this a trading community order.) The seller sets up a way of using the Web directly; just log in and place an order on their Web store. (Call this a "seller-based order.")

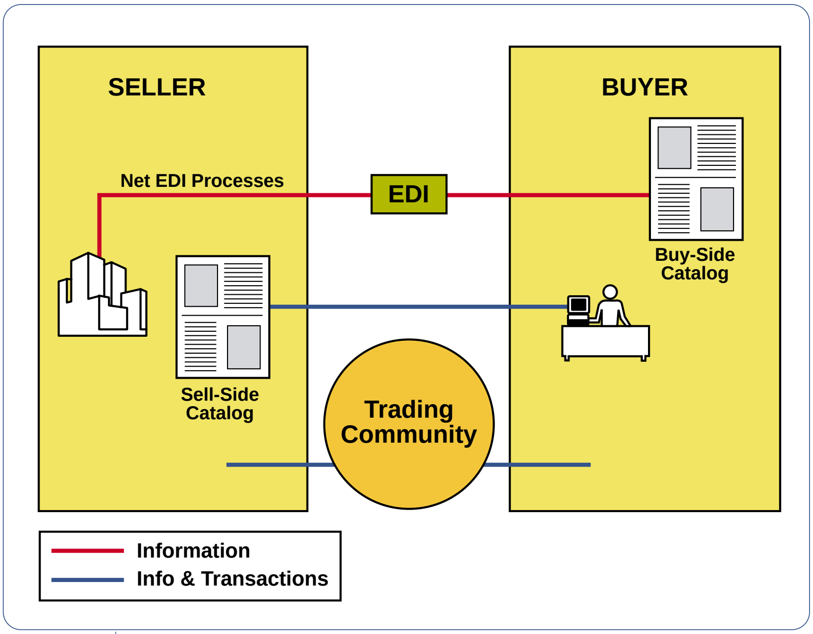

Figure 1.0 **The buyer's point of view, the supplier's point of view, and then that of the trading communities.**

"If only everyone did it my way!" Buyers want sellers to use buyer-based orders. But those stubborn sellers would have to log into the Web sites of all their customers, and they find that burdensome. Sellers want buyers to use their store. To satisfy them, all the buyers would have to log into the Web sites for everything they buy – no way! Intermediaries tell everybody to quit wasting time and just log in to their portal. And confusion reigns.

When you extend the discussion beyond ordering to the full buying process, you see the same tensions. Buyers and sellers aren't getting together because each has different goals and different expectations of benefit. Viewed from their point of view, the behavior makes sense, but from a macro view, it can sometimes verge on the silly.

Take, for instance, the one benefit on the buy side that really does make CEOs wake up and take notice: sourcing. The logic goes something like this. "You're spending $2.5 billion a year. If you could consolidate your spend and get a 10% discount with the selected suppliers, you could save $250 million a year, and it all flows to the bottom line."

Never mind that this sourcing argument long predates the Internet and, technically, has nothing to do with the Internet. (You could have consolidated suppliers and negotiated discounts long before the Internet.) And set aside the fact that macro-economically, this can't work. (If everybody could negotiate a 10% discount, the economy would deflate by 10%.) What are the real problems?

The first is that "getting control" can impose new costs on the company even as the price of purchased goods goes down. There is a reason why purchasing has always had a hard time enforcing its rules: employees find it more efficient for them to go around the system. If they can't go around the system any more, they'll pay the costs of lost time, failed deliveries, getting the wrong product, etc. Like any other new requisition system, an Internet requisition system can slow the company down and cost it money. There is also a cost that is specific to Internet requisitioning – internal and external logistics costs can go way up, because orders are smaller.

The same set of effects can also be seen at the supplier. Once they get over the chagrin attendant on realizing that an Internet hookup means lower margins, they react in the natural way – by lowering service levels. They shift the cost back onto the customer in less visible ways.

Both internally and externally, unless sourcing over the Internet provides benefit to all the parties involved – actual buyer, supplier, etc. – it is unlikely that the sheer exertion of power will accomplish very much.

Everywhere else in purchasing the same contradictions emerge. The Internet systems designed to enable purchasing haven't yet evolved to the point where they enable the buyer and seller to cooperate. Without that cooperation, you're off Internet time; benefits will be slow, painful, and expensive (relative to our ambitions for the Internet). Not only will we not be in a new age come March, the struggle will probably be pretty much the same.

Why is it that the companies that have the money are paying the money to set up buy-side solutions? It's simple. The marketplace actually perceives the risks of setting up these buying solutions, and they are insisting that the companies that are setting them up shoulder the risk.

Contradictions on the Sell Side

The essential contradiction on the sell side, of course, is the mirror of the contradiction on the buy side. Buyers are out for discounts and operational efficiencies; they want to commoditize their suppliers. Suppliers are out to sell more services and more highly differentiated products. They want to create a new relationship with the customer and exploit it.

Internet technology, on the one hand, seems to be on the seller's side. It lets you track relationships; it makes it easier for your customer to place orders, track orders and get information; it makes it easier for the sales force to communicate.

Wait a minute – the technology also makes it easier for buyers to seek out all of your competitors and get information from them, too. The technology makes it tempting for buyers to work on an exception basis, where servers are actually placing the orders and tracking all normal orders, so you, the seller, have no control over the order placement and timing. The technology makes it harder for salespeople to work in the normal way, because so much of setting up a trading relationship now involves managing the bits and bytes.

Dig in and you get even more contradictions. Take the desire to sell services and products more suited to individual customers (mass customization). The more complex the product and the more service attached to it, the harder it is to buy over the Internet. It's hard to set up systems to take in more and more variations in product. It's hard to assess or compare highly differentiated products. It's hard to measure delivery of services and often hard to value them.

These same companies are also investing on the sell side in two competing Internet technologies, often without realizing that the competition is occurring. On the one hand, they are putting serious money into sales force automation tools. These have the aim, on the short term, of making the sales force more efficient and freeing them up for more face time with the customer. Eventually, they will be the tools for managing the complex relationship with the customer that they plan on setting up. On the other hand, they are putting up e-stores and – very slowly – putting up catalog content on trading communities or participating in auctions.

Typically, they are worried that an e-store might create channel conflict with their distributors. But their biggest channel conflict is with the sales force that they're empowering. If people want to do buying over the Internet (as opposed to just ordering), and if they want to put more and more of their spend into disengaging buying processes, like auctions or empowering the requisitioner, what is the salesperson going to be doing with all that face time? Shouldn't they be putting the money into people who know how to behave at a reverse auction? (A reverse auction is a situation where the buyer puts out a proposal and asks the sellers to name an ever-lower price.) What happens when actual buyers are spread throughout the company? This isn't a relationship sell any more.

Contradictions at Trading Communities

A fair number of companies have already seen how they can step into the middle and resolve these contradictions – and maybe make a little money for themselves in the process. They are setting up trading communities.

Trading communities are good for buyers because they allow companies to leverage the cost of managing the buy. If buyers are smart, they can also combine their total spend and get discount based on the total volume.

Trading communities are good for sellers because they give you low-cost access to new customers, and they take some of the trouble and expense out of selling. They're doing the distribution for you.

Of course, trading communities are bad for buyers, because they create the illusion of a free market, when in fact the number of sellers is limited, and the trading community itself (typically) depends for its income on the sellers. The trading communities, moreover, are offering market-making services (guaranteed delivery, payment and billing, and financing) without either the regulation or the capitalization to back them up.

And trading communities are bad for sellers because each community has multiple barriers to entry, which are expensive, and it's unclear whether the community is doing anything more than cannibalizing existing customers. With trading communities, too, you lose control of the relationship with your customers and the sales process, and you invite head-to-head competition on price with other factors – like quality and reliability, which are more difficult to bring into the process.

Trading communities are good for the people who run trading communities, at least today, because of the stock valuations, but the business model is difficult to work out. Do you charge the buyers or the sellers? Plus, it is difficult to recruit participants, the technologies are in their infancy, and if the communities do succeed, the barriers to entry are much smaller than they were for the original player. To differentiate oneself, one must provide content and an easy buying experience to the buyer, but the former is difficult to get, and the latter is difficult to build.

Eventually, all this will shake out, but probably in a very messy way. There won't be just one trading community; there will be many. People will end up deploying resources just to deal with all the trading communities. Some people will learn how to exploit the systems; some will not.

The people who are paying for trading communities right now are the people who have the most money – usually the buyers. This means a) that trading communities are tilted in favor of the buyers; and b) that the marketplace makers can't yet make enough money by setting up a marketplace where everybody pays a (relatively) equal amount. If you join in a marketplace quickly, because this is Internet time, you may get burned. Maybe you should look at working with it on regular time.