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The network effect

Ariba's Supplier Network (ASN), which boasts more than 160,000 e-enabled suppliers across 120 countries, is one of the largest open trading networks. As **Bob Solomon**, vice president and general manager, ASN, explains, it is also helping forge the next generation of supply chain efficiencies in the form of supplier financing and discovery.

When you started the Ariba Supplier Network it was at the peak of the internet hype, which soon dissipated. Why did others fail where Ariba succeeded?

In the summer of 1999 when the Ariba Supplier Network was first launched, certainly there was an element of hype surrounding the internet. But remarkably our vision was dead on. At that point there were people that had a lot of vision, but without the underlying commerce. In retrospect a lot of the electronic marketplaces back then didn't understand that in the B2B world, the change necessary between buyers and suppliers does not occur at the same pace as it does in the consumer world. For example, whereas a consumer can adopt PayPal quite easily, adopting a new way to send purchase orders or receive invoices or make payments, is something that takes many organisations a little longer to do.

EDI (Electronic Data Interchange) a form of electronic business communication between two business partners has been around for 30 years and has been widely adopted in certain business segments.

However, it took many years for the percentage of buyers and suppliers using it to grow. E-payments via the ACH network in the US have grown consistently at 15% to 25% for 25 years. At some point e-payments will take over cheque payments, but it will not occur as quickly as the consumer side. We should not overestimate the speed of adoption.

When did the tipping point come for adoption of Ariba's Supplier Network?

The tipping point came in March 2002 when we came out with an invoice product that allowed suppliers to send invoices electronically. Initially the network enabled suppliers to receive a purchase order electronically. So 100% of suppliers were purchase order-



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enabled and about 7% were purchase order and invoice e-enabled. Today 99% of suppliers on the Ariba Supplier Network are invoice enabled and approximately 80% are purchase order e-enabled as well.

E-enabling the invoice had an important effect. Suppliers realised they were connected to receive an order electronically and that made them happy. But the thing that makes them really happy is to receive payment earlier. Anything that accelerates that process, like e-invoicing, which enables them to view the status of an invoice in terms of whether it has been received or approved, provides a valuable foundation for both buyers and suppliers. Suppliers want to eliminate paper for both speed and efficiency.

You are teaching people a new way of doing business. The key is making it easy for them to do it so they don’t need a specialist. The internet really helps with that. We use open standards which makes it easier in terms of getting everybody connected. You have to sell the value to them. If you talk about the additional costs of sending purchase orders and invoices manually, and the time and hassle involved, the light goes on and they start to get it. The credit crunch will also change a few hearts and minds.

What impact do you anticipate the credit crisis will have on suppliers’ and buyers’ willingness to address inefficiencies in the supply chain?

For a long time interest rates were low and the spread between a Triple A-rated borrower and a junk borrower was at historic lows. There was very little difference. With the credit crisis that went through the roof. The cost of credit jumped tremendously, which makes a supplier far more interested about the speed with which they are going to be paid. In Europe there tends to be a huge gap between when the buyer approves the invoice and typically pays. In the electronic world, invoices are approved more quickly.

An invoice can be approved seven days after it is sent, and in an electronic world you can give the supplier visibility into approved invoices. If the invoice is paid earlier that presents an opportunity for the buyer and supplier to negotiate a discount. The supplier may give a 1% discount if they pay now, or the buyer may like to extend it another 25 days and pay an extra 1%. The dynamic discounting model is facilitated by all of the processes being made electronic and visible. In a paper world, you cannot imagine what it would take to get that invoice approved.

How have you succeeded in getting suppliers on board?

The reasons for our success are fourfold. First, we have longevity, having started in 1999. Second, our buyer community represents some of the largest buyers who have created efficiencies in their back-end processes by eliminating paper. Third is our technology support. Our network is open and we are easy to deal with. We accept EDI, HTML and a wide range of other formats. We don't force suppliers to adopt any one technology. Fourth, our support documentation and tutorials make it easier for suppliers to connect to the network. What ends up happening is that you get a network effect. At

some point a supplier in a particular industry gets to a point where they have five to 10 or 15 to 20 customers using the network.

You accept a variety of different formats for automating purchase orders and invoices. But wouldn't it be easier and more cost effective to have a single format?

We want a single standard to happen as quickly as possible, but you have to accommodate the day to day realities. There are many variations within the various industries and disagreements as to what are the right formats. The answer is not to wait for a single standard, but to build translation, mapping and flexibility so that a supplier does not have to worry

THE HISTORY OF ARIBA'S SUPPLIER NETWORK

In 1999 as the internet age entered its halcyon phase, B2B marketplaces which leveraged IP-based technology, were a dime a dozen. However, of the 20 or 30 marketplaces that emerged in 1999 and 2000, most were industry centric – retail, mining, chemicals, oil/gas and defence. Ariba started by selling broad e-procurement and e-sourcing solutions that could be used across categories and industries and was one of the first to develop a network focused on one-to-many relationships between buyers and suppliers.

At the onset, Ariba realised that for buyers to be successful with e-procurement, suppliers had to be involved. So over the years it expanded its services to include:

- A Supplier Membership programme. Multi-tier levels of access to the network. Different tiers based on level of use. Enhanced access for larger suppliers in network;
- Supplier connectivity.

At the beginning, the ASN was primarily for indirect spend, but it grew to span all industries and into helping buyers with direct spend as well. Today it is one of the world's largest open business transacting systems, providing a single point of integration where organisations can trade globally, in real time. The network encompasses hundreds of buying organisations transacting with more than 160,000 e-enabled suppliers across 120 countries grossing USD 95 billion in annual spend and driving 16 million purchase orders each year.

about what format their buyer wants to receive. Some people have said they will translate any [format], but it is hard to build an unbreakable network when you are trying to translate everything. We try to pick the right standards as best we can so it is easier for suppliers to adopt.

Where is the fastest growth of your network occurring?

The fastest growth is still in the developed world. It is still so much more manually oriented than people think in the developed world in terms of invoices and other documents. There is a lot more money at stake and the processing costs are higher.

Having automated collaboration between buyers and suppliers around the purchase order and invoice, is supply chain financing the next big thing?

The momentum around supply chain financing is picking up. But two things really held it back. First the gap between when the invoice is approved and the day payment is due and the cost of capital between buyers and suppliers. If the buyer has a lower cost of capital and the supplier has a higher cost of capital, it presents an opportunity for the buyer to leverage their credit standing to ensure the supplier gets paid earlier, often at more favourable terms than traditional factoring.

Do you think banks can be successful in the supply chain financing space?

In 2000 when our Supplier Network was getting started, most of the banks had a shot at it, but they were not successful. We partnered with Citi (in June Ariba announced that Citi would integrate Ariba's Invoice and Payment with its own electronic payment and supplier

finance offerings to enable end-to-end financial supply chain management. Citi is the first financial services company to private label Ariba's spend management solutions) because we think that banks can be successful in this space. It takes a combination of factors. Banks have the payment technology. They can provide access to financing. They are also trusted advisors of treasury and accounts payable. However, banks have found it hard to be at the cutting edge of software and the internet. So we are combining a software company with a bank.

How has e-procurement and spend management on your network evolved?

The question in 1999 was are people going to buy over the internet? We don't hear people talk about that much anymore. All our customers are doing it. It is also easier for them to search for and compare suppliers to make sure their spend is going to the right suppliers.

What plans do you have for the future of ASN to ensure it remains cutting edge?

Supplier discovery is the main next generation item and we are going to use the network to enable buyers to search for quality suppliers. Suppliers will be able to build profiles and transaction histories and buyers can review them as part of their efforts to enhance their supply base. We conduct site visits in low-cost centres via sourcing personnel and audit supplier sites so that buyers can be sure the suppliers are high-quality and worthy of inclusion in their final list. It will increase the competitiveness and transparency around quality and excellence of service. ■

A MESSAGE TO BUYERS AND SUPPLIERS DURING TOUGH TIMES

By Bob Solomon, senior vice president and general manager,
Ariba Supplier Network

It is often said that the perception of a recession is more powerful than the recession itself. And more often than not, it is the former that creates the latter. During tight times, the tendency for most organisations is to shore up costs and adopt a myopic approach to conducting business. Buyers become complacent bystanders as suppliers begin to run into trouble. Suppliers in turn become less flexible in their negotiations with buyers, eyeing badly-needed present revenue over long-term growth. Isolated and wary, organisations on both sides often find themselves navigating through tough economic times on their own. They give less, they spend less, and in doing so, they gain less.

This is not the way to prepare for, or pull through, a market slowdown. As the perception of recession looms large over today's economy, it is more important than ever for buyers and suppliers to work more closely together, share the economic burden of the times, and embrace innovative ways to ensure their mutual health. Indeed, it is during such slow times when buyers are presented with the highest risk of disruptions in the supply chain, and in turn, cash-strapped customers are much less likely to tolerate these disruptions. If a supplier cannot access capital, it will fail. And when suppliers fail, the companies that rely on them face a higher likelihood of failing as well.

How can buyers and suppliers bind together to better weather the storm? As the gap between low-quality and high-quality borrowers grows, more suppliers will experience cash flow problems.

For forward-looking buyers willing to come to the rescue of their most important suppliers, third party supply chain financing options exist today that enable buyers to hold onto their cash and suppliers to be paid early at far more competitive rates than traditional factoring or card providers allow. Buyers can use their good credit rating to help suppliers borrow at lower rates than they could achieve on their own. The result is a healthier and more productive relationship and supply chain. In addition, buyers who have the capital to pay suppliers early can also offer suppliers accelerated cash flow through dynamic discounting, which gives suppliers quick access to capital by offering buyers discounts in exchange for early payment.

By joining together to optimise working capital and lower overall costs, buyers and suppliers can dramatically reduce risk and create the strong relationships that will not only protect themselves in the short term, but also give both sides greater flexibility in pursuing opportunities in the long term. Entire supply chains can stretch their capital, accomplish more with less, and not merely survive the tough times, but create an entirely new competitive playing field.

To buyers and suppliers: remember, these are your key business partners, and they should be valued as such. By creating a more collaborative environment, buyers and suppliers are both positioned to achieve their own working capital goals. Improving terms of trade and managing spend is of course always important. But in the face of an economic downturn, it is an absolute must. ■