

Are Public Supplier Marketplaces Gone Forever?

In the short run, the marketplace concept has been severely discredited. In the long run, the concept will evolve into a number of technology models that will transform the way businesses buy from their suppliers.

The Initial Marketplace Vision

The initial vision sounded good. So good that venture capitalists and clients bought the vision and invested billions of dollars into those technology suppliers who promised to deliver the vision. What was the vision?

Illustration 1.1

Marketplace Model



Simply put: Provide the internet hub for transactions between thousands of buyers

from thousands of companies and thousands of suppliers.

The value proposition to company buyers was an average investment ROI, in the software solution, exceeding 700% based on significantly lower transaction costs and an average supplier cost savings leverage (remember, thousands of buyers teaming together) exceeding 20%. No wonder many companies paid millions of dollars to participate! Unfortunately, we don't know any buying company where the vision was met. We do know of companies who actually experienced a negative ROI.

Was the vision flawed? Yes, in a number of areas. Technologically, common standards for XML do not yet exist, item codes for the same products from different suppliers are not standardized, and the cost of the technology is too high. Interestingly, most suppliers still use fax machines!

Commercially, why would suppliers want to participate in lowering their margins in a downward death spiral? Higher revenue and market share with negative margins only works in venture capital or equity market boom-times, not for the other 80-90% of suppliers. From a financial control perspective, company controllers found less control in quality, buying from leveraged suppliers, and accounts payable float.

The result, even for private marketplaces, was low supplier participation, few categories of spending being covered, and higher buying on strictly price rather than total cost or best value, after spending millions on the software to participate!



Marketplace Transition

Is the marketplace concept dead? No, but it is evolving. The technology issues are still unresolved. In 5-10 years, standardization and technology cost will be resolved and in common usage. Commercially, most suppliers will still not want to compete in unrestricted competition but will agree to channel strategies and pricing models that make the marketplace transaction cost reductions benefit everyone. Financial controls will require supply management strategies for better total value with lower transaction costs from leveraged suppliers and EFT payment systems integrated within their ERP processes that allow continued control of payment terms and cash flow.

The second major transition is a better understanding that different type of supply chains require different processes and technologies. There is no one software package or process that covers all types of suppliers. What works best for office supplies will not work for service companies or for local requirements where the time urgency outweighs even substantial percentage savings on small dollar items.

Supply Management Transition

IEM Group believes that 80% of improvements are available with limited technology improvements. For the other 20%, technology is a tool, not the solution, to higher profits and competitive advantage. The key is knowing what process and technology is appropriate for each of your supply chains. Then, by applying experience to your unique business, it is possible to create significant results - today.

Interested in learning more? Give us a call. We want to help you mine the real gold – before your competitors do.

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