

## Getting Past the Existential Connectivity Funk: Stop Waiting for the Supplier Network Revolution

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“Let’s go. Yes, let’s go.” (They do not move).

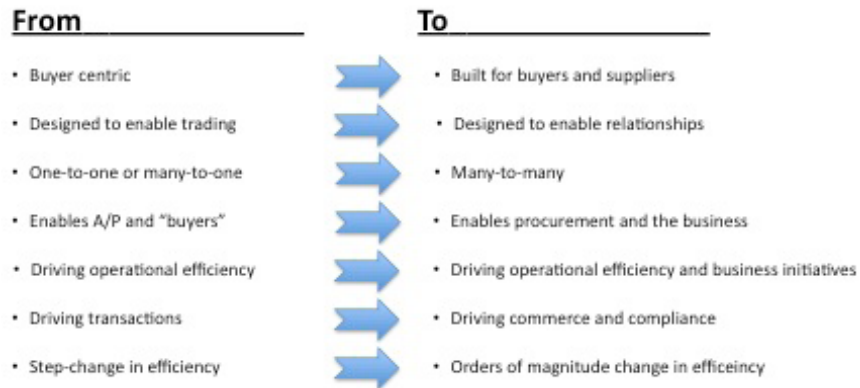
“They give birth astride of a grave, the light gleams an instant,  
then it’s night once more.”

- Samuel Beckett, *Waiting for Godot*

In Samuel Beckett’s *Waiting for Godot*, two chaps philosophize, debate and engage in quite a lot of self-pitying while aimlessly waiting around for a figure they call Godot (who never in fact arrives). The entire play, depending on one’s perspective, is an exercise in either rhetoric or existential thinking. But regardless of your vantage point, it’s pretty clear that the protagonists accomplish just about nothing by the end. Inaction – and the status quo – end up ruling the day. *Waiting for Godot* actually presents a number of useful lessons for the universe of supplier networks. For one, the great majority of organizations deploying supplier networks in any capacity to this date have realized a tiny proportion of their potential value, despite extensive planning, investment and, well, waiting. Just as Vladimir and Estragon were sucked into a world of apathetic ambition, current supplier networks (nearly all of which have focused 99% of their efforts on solving singular challenges rather than transforming buyer/supplier connectivity and relationships) initially aspired to greatness, but ended up amounting to little more than a supplement or replacement for EDI.

In the early days of e-procurement, supplier networks emerged from a world of proprietary EDI providers, VANs and competing standards to enable basic document (e.g., PO, ASN, invoice) exchange, translation and connectivity between buyer and supplier systems for simple purchases. Ironically, these new “open” networks ended up largely being anything but – the majority positioned themselves under the guise of open standards (e.g., cXML), but in reality, eventually became a hybrid tollbooth and connection point between buyers and suppliers rather than enabling broad interoperability and non-transactional data exchange. Once initial connections were established between organizations, some providers like Ariba raised prices on suppliers to transact and attempted to lock in new procurement organizations, requiring them to use their network for purchase-to-pay transactions linked to SaaS deployments. Despite positioning to the contrary, networks such as this have essentially amounted to low – or high, depending on the supplier perspective – cost tollbooths on the PO, invoice, ASN and ACH transaction superhighway rather than fulfilling a much broader market need.

It’s important to step back and understand what stopped the supplier network revolution that began over a decade ago. Most certainly, vendors created and organizations deployed supplier networks for an incomplete set of reasons, at least initially. Limited by available technology (and thinking) at the time, organizations attempted to justify the value of these connectivity services based entirely on reducing transactional, per-unit (i.e., document) exchange and interchange costs, and to a lesser degree, content/catalog management and compliance validation. At the same time, companies approached networks from the inside out rather than the outside in. In other words, the initial generation of supplier networks weren’t really networks at all – they were buyer-led connectivity tools that forced suppliers down a certain path with limited network benefit. Any true network requires an equal build-up (and two-party rationale) of benefit and interest from both sides of the relationship, an equation that was lacking as companies strong-armed their suppliers into a new connectivity model, often with limited benefits. The following graphic depicts this evolution as well as others, as we enter a new network paradigm.



Spend Matters believes the concept of building a network around trading partner connectivity as vendors conceived initial network structures, rather than relationship-enablement, potentially in concert with other value propositions, has inherently limited the potential value that buyers and suppliers can realize. Moreover, such a structure fundamentally torpedoes much of the "network effect" benefit of the network to begin with, a topic we'll examine in more detail shortly.

At the end of the day, organizations that deployed initial networks got very much what they bargained for (albeit often with a smaller percentage of suppliers than they expected) – limited enablement of transactional, silo-focused initiatives at the expense of broader supplier/vendor management coordination and collaboration. In short, initial networks may have solved aspects of the limited problem set they set out to conquer, but nearly all ended up focusing on one or a handful of issues exclusively, ignoring the broader potential of what they could bring to organizational relationships.

## Our Premise: A Revolution is Afoot

*"Keep away from those who try to belittle your ambitions. Small people always do that, but the really great make you believe that you too can become great."*

– Mark Twain

With apologies to Mr. Beckett, we here at Spend Matters find Mark Twain's healthy dose of optimism and prescription to offer far more pragmatic guidance, offering grounded inspiration rather than serving to limit potential ambitions. Our premise today is that a revolution is afoot in the supplier network world and that a new breed of networks – or enhanced versions of existing offerings – have the fundamental ability to do great things. And, perhaps sooner rather than later, they will.

More important, in enabling this reality, companies have started to ask for solutions to problems that existing solutions can't solve. Spend Matters is aware of three Fortune 500 organizations, in three separate industries, who fundamentally believe their needs are not being met by any current offerings or vendor roadmaps in combining supplier connectivity and relationship management. One of the fundamental challenges these organizations point to is the amount of duplicated effort involved in maintaining basic supplier information, and how this has sapped innovation and collaboration out of buyer/supplier relationships. Suppliers must maintain similar information profiles and updates across all of their customers today, duplicating effort in a range of areas including:

- Corporate Details
- Mailing Address
- Phone Numbers
- Key Individuals
- Banking Information
- Insurance Certifications
- Licenses
- TIN/Tax/W9
- Catalogs/Products
- Spend Data
- Multi-tier information (e.g. tier 2 diversity data)
- Diversity Status – minority, women, veteran, 8(a)
- SBA
- FCPA
- Business Continuity
- Performance/Risk/Health Information
- Labor Compliance
- CSR/Sustainability

Compounding this challenge is the breadth and complexity of processes that companies increasingly use in procurement, invoicing and supplier management solutions today. From the rise of e-procurement adoption to early inroads by electronic invoice presentment payment (EIPP) and related discounting solutions in North America – not to mention broader e-invoicing adoption in the EU – organizations are depending on electronic connections and information exchange with suppliers to support an increasing array of capabilities. At the same time, procurement, finance, operations, legal, compliance and related leaders in companies are increasingly depending on supplier-focused systems to capture a range of vendor details from basic insurance certifications to advanced risk ratings and reports. Moreover, sourcing and supplier management professionals inside companies are looking to new capabilities to identify new sources of supply and better manage the performance of existing relationships.

Today, supplier networks fail to openly enable a combination of these scenarios. Moreover, nearly all existing network models outside of transactional connectivity continue to focus on point-to-point connections that really do not provide a “network” at all and instead continue to drive duplication of effort for buyers and suppliers. Under the guise of connecting once, these networks still require massive duplication of effort.

## The Supplier Network of Tomorrow

The supplier network promise of tomorrow will be transformative for buying organizations. Spend Matters believes it is only a matter of time until open networks (with no or minimal entry barriers or forced transactional requirements) for suppliers begin to combine supplier management and other capabilities in a many-to-many fashion. These approaches will unite a number of capabilities to create new value propositions for buying organizations, from integrated supplier management and search to global transactional connectivity and standards for transactions and information exchange. To eliminate duplication of effort, some will provide a single location for non-procurement (and procurement) stakeholders to manage up-to-date supplier information for special initiatives like CSR, diversity, risk, etc. At the same time, others will offer plug and play connectivity for P2P and transactional systems of record, regardless of the overall heterogeneity of an organization’s systems environment or other existing supplier network connects.

To understand the order of magnitude change in operating efficiency that suppliers will realize from a many-to-many approach, the diagram, below, makes a number of basic assumptions about the time for suppliers to conduct basic information update and validation tasks across customers. It then applies these assumptions across 500 customers, accounting for a significant efficiency gain. Even after this gain, illustrative models like this suggest an over 200 times efficiency improvement, including factoring in the need to report different information to different customers.

	Hours / Year
<b>Basic Data Updates / Maintenance</b>	
Corporate Information	4
Insurance Certifications	1
Diversity Status	2
Licenses	2
Labor Standards / Information	4
CSR Information	6
Risk Profile Data	4
Remediation / Corrections	4
<b>Total</b>	<b>23</b>
<b>Number of Customers</b>	<b>500</b>
<b>Number of Hours (Base)</b>	<b>11500</b>
<b>Number of Hours (Remediation)</b>	<b>2000</b>
<b>Efficiency Gain (hours)</b>	<b>-5750</b>
<b>Total Hours (one-to-one maintenance)</b>	<b>8250</b>

The promise of integrated transactional and non-transactional supplier management and collaboration in a networked environment will occur sooner than we think. For suppliers, the benefits will be significant. They will gain a single portal to manage their profile information, access order information, see when they’ll get paid and potentially even gain competitive insights into how they’ll stack up overall (e.g., “your overall CSR compliance ranking puts you in the top 10% of suppliers we work with and has resulted in part on \$520,000 of newly awarded business from managers who made decisions factoring into account this profile information”). We will also see transactional capability integrated into supplier portals that enable vendors to manage orders, invoices, receivables/payables and early-payment discounting options.

Perhaps more interesting, commercially, is how new supplier networks will level the playing field between buyers and suppliers and help suppliers to differentiate on their unique assets, from sustainability practices and certifications to past performance standards and diversity/woman-owned status. In contrast to the marketplace-type discovery solutions today, which primarily focus on driving volumes of suppliers to different RFQ opportunities, these new approaches will focus on identifying the right match even before users exchange specification or bid information.

## Along the Network Path – A Journey Begins

Spend Matters research suggests that the majority of companies that aren't truly leading edge, seeking to create their own network solutions or piecing existing elements into a common collaborative platform, will likely pursue the following course of supplier network adoption from today:

**Foundational Building** – In the foundational building phase, companies will supplement first generation P2P connectivity with new, many-to-many approaches in a single area. For supplier management, these might take the form of Aravo Assure-like offerings; for electronic invoicing and commerce connectivity, new models such as Trade Shift and Pagero are likely to drive increasing levels of buyer/supplier connectivity. Organizations are also likely to deploy a range of supplier discovery approaches leveraging many-to-many networks as well. It is likely that as companies progress in the Foundational stage, that they will become more comfortable with aggregating third-party data sources such as risk ratings, extended firmographic details on vendors, etc. Some of this information may come from networks that leverage many-to-many connectivity models; other details may come from customized information requests supplemented by enterprise data collection efforts based on the availability of network-based information sources.

**Integrated Process and Management** – At the integrated process and management phase, organizations will leverage many-to-many network approaches that cross supplier management, P2P connectivity and supplier discovery bounds, integrating two or all three areas into a single offering. Suppliers will likely have a single portal into their customers to manage their own profile details, certifications and transactional content (not to mention being able to search for new business opportunities with existing buying organizations and new customers). Moreover, profile details will be store in the network environment, becoming a single source of truth to update enterprise systems. It's important to note that a single network may not emerge to provide all options, and organizations may opt to piece together different capabilities into a single internal and supplier facing portal/hub. They may also rely on vendors to create integrated, partner-driven offerings.

**Advanced Connectivity** – When networks and organizations achieve stages of advanced connectivity, new types of business models and relationships will ensue, built on top of the connectivity foundation underlying trading partner and relationship management network capabilities. These new use cases will help buying organizations to uncover entirely new opportunities, from greatly enhancing working capital and reducing forecasting uncertainty through cash management, demand aggregation, hedging and treasury programs that incorporate the extended supply chain to enabling suppliers to launch new products and drive business growth through new network-based relationships and collaborative interchanges.

The open supplier network of tomorrow will undoubtedly increase productivity, potentially by an order of magnitude, when it comes to both buyer and supplier relationship management. Duplication of effort, whether it involves suppliers uploading insurance certifications or buyers searching for a niche supplier that meets a specific, regional environmental standard, will be eliminated. Suppliers will provide and update administrative information once – which will cascade across all of their customers. Networks of tomorrow will ultimately foster entirely new ecosystems that go beyond the initial capabilities entering the market today. As an archetype for this, consider how LinkedIn groups have created a new type of social connectivity between like-minded individuals and how Facebook games comprise a material component of overall time and interaction on the social networking site.

## The Revolution is Here

With the advent of new network models, there is a fundamental paradigm shift away from simply being an enablement tool for applications – that can, in the case of certain networks, mandate how a relationship interchange takes place – to true applications in their own right that exist between organizations without requiring lock-in on either the buyer or supplier's behalf. Such models will also be fundamentally self-policing. For example, suppliers are highly unlikely to let profile, banking details, certification or other information lapse, or to present false or misleading data to buyers given that the single profile will become their private (and public, in certain cases) face to all of their current customers – plus a massive set of potential customers. Buying organizations are also less likely to engage in any circumspect practices given the potential for suppliers to identify and share patterns of behavior (e.g., consistent payment of invoices at 30 days past agreed upon terms).

Throughout his life, Mark Twain saw a river (and river boat) of opportunity. In contrast, Beckett's characters in *Waiting for Godot* trapped themselves in waiting for the impossible. It's time to change the supplier network paradigm entirely – shareholders, customers and suppliers can no longer afford the luxury of existential, transactional musings while smothering themselves in legacy technical capabilities and business models that constrain the power of network models. The onus must be on buyers and suppliers to drive change in the network market by voting with their time and dollars on which approaches will come closest to enabling the capabilities they need today and what they're likely to rely on in the future.

Companies should stop waiting for the supplier network revolution. With the advent of new models, the revolution has finally arrived, even if the guillotine has not yet fallen on legacy practices and models. The coming decade will lead to a breakout provider (or two) that becomes the ubiquitous standard, the eventual PayPal, Facebook or LinkedIn for buyer/supplier connectivity across a range of enablement areas. Who will it be? Check in on Spend Matters as we cover this revolution by the hour as it unfolds in front of us.

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