B2B Collaboration
No Longer Optional

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Bryan Ball

~ Underwritten, in Part, by ~
B2B Collaboration: No Longer Optional

B2B collaboration is becoming a priority for all businesses as a result of the pressures they are facing in today's business environment. These pressures come from the rising complexity of operations and the increasing service demands from customers. Our February 2012 CSCO survey indicates that B2B collaboration with suppliers and customers were ranked as the number two and four strategies by Best-in-Class companies. Internal collaboration was number one for both supply chain planning and supply chain execution. To further highlight the importance and priority of B2B collaboration, our April 2012 B2B Collaboration and BI survey indicates that 83% of industry leaders (see Table 1 for definition) have a B2B collaboration initiative in place. Of that 83%, 18% have been started in the last year and over half (42%) within the last two years. This momentum toward B2B initiatives is due, in part, to the increasing need to support multi-channel customers.

One of the best ways to reduce costs is to eliminate the barriers to sharing the information between the manufacturer and channel partners. Eliminating these barriers allows them to streamline the operations and reduce wasted resources. The key, though, is that companies must go beyond just integration toward true B2B collaboration. Collaboration is the next step in establishing a holistic approach to the supply chain by tying the replenishment systems and fulfillment systems together, and developing the trust required to make those processes work across boundaries.

The same factors exist for the supplier side of supply chain execution. In some respects, outsourcing highlights the importance of collaboration just to satisfy the need to maintain that same level of visibility and confidence with outsourcing partners. In many cases these collaborative tools have already been put in place with partnership relationships due to the need to maintain that same level of visibility. Since the capability exists, extending these capabilities to the rest of the supplier base is the next logical step.

When we examine the pressures in the next section, the necessity to do that will become more apparent.

In this Analyst Insight, we will examine the "why" behind the priority and concentrate on what actions the leaders are taking, the challenges they face, and their plans to execute on their B2B collaboration initiatives. We will summarize our critical findings and recommend a course of direction based on the action of the leaders. We begin by understanding the pressures that companies are facing.
**Pressures**

It is important to understand the implications of all the pressures in Figure 1 in order to realize what steps have to be taken. Rising costs in material, fuel and logistics are at the top of the list. These increases are increasing the pressure to reduce costs in other areas of the supply chain or operations. One of the best places left to go to find those savings is in the process steps involved in supporting customers and working with the suppliers beyond the four walls of the organization. Secondly, there is the pressure of escalating service demands from the customer. This comes in the form of supporting more channels, speed of response and the need to make accurate and timely commitments, while at the same time dealing with increasingly more complex supply chains.

![Figure 1: Pressures](source: Aberdeen Group, April 2012)

As companies outsource and partner, the visibility at all those nodes in the supply chain that were once internal are now external. However, the need for the view of that information that was previously available is no longer there without creating some form of connection and visibility. Globalization is extending the supply chain even further into other countries, which adds even more complexity due to the need for further dependence on third party providers to provide the critical services required in unknown countries. The ability to monitor the flow of product across these extended networks adds to the visibility problem.

All of these pressures point to the need and challenge of getting timely information in a form that can be acted upon, and in the time frame necessary to respond to the customer or supplier. In our next section we will identify how the leaders are performing so that we can better gauge their actions within the context of their performance.

“Suppliers rarely quote accurate lead times to ensure they do not lose a sale, but that has manufacturing lead time issues for me. Demand forecasting and segmenting products into push/pull replenishment has enabled us to prioritize and better schedule shop floor plan, inbound raw materials, and outbound logistics. Also, it allows us to lower our overall working capital investment. Starting to develop more insights into supplier capacities, on time deliveries, etc., has enabled us to better forecast when actual raw materials and when sub-assemblies will arrive.”

~ EVP of Procurement at a Large Industrial Manufacturer
Maturity Class Table

The metrics that represent the leader and follower definitions are in Table 1. We have chosen these as indicative of overall company performance and areas that would be most directly influenced by B2B collaboration initiatives. In every case the leaders have substantial advantage compared to the followers. We can see that they have a better handle on their total landed costs and a cash to cash cycle that is half of what the followers have. Reviewing the actions and capabilities will help shed the light on why the leaders enjoy these superior numbers.

Table 1: Best-in-Class Maturity Matrix

<table>
<thead>
<tr>
<th>Definition of Maturity Class</th>
<th>Mean Class Performance</th>
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| Leaders: Top 30% of aggregate performance scorers | - Had a customer service (complete and on-time) rate of 96.7%  
- Have an average cash conversion cycle of 19.4 days  
- Have a gross margin of 27.9%  
- Increase their total landed costs by 1.9% |
| Followers: Bottom 70% of aggregate performance scorers | - Had a customer service (complete and on-time) rate of 89.4%  
- Have an average cash conversion cycle of 40.7 days  
- Have a gross margin of 24.8%  
- Increase their total landed costs by 8.8% |

Source: Aberdeen Group, April 2012

Actions

Now that we have a context around the leaders and followers, we will review the actions in Figure 2. The top two priorities for the leaders indicate the two areas we would expect to see effort being spent, which is collaboration with the suppliers and the customer, but the likelihood is 72% greater for the leaders than the followers to collaborate with the suppliers and 46% greater to collaborate with the customers than the followers. The reason for the gap is seen by the priority given to the integration effort by the followers.

Note that the leaders are far less likely (45%) to be working on integration of external partner facing systems than the followers. This is ranked as the highest priority for the followers and would be an indication of the followers trying to catch up to the leaders. The integration would need to be established before collaboration can begin.

Both classes are focused on trying to use the collaboration capability to address the problem of visibility into inventory upstream. This would indicate that there is some capability in place that is being deployed by both to solve a business issue, in this case visibility. The leaders are also less likely to be concentrating on internal collaboration than the followers, a further indication that the leaders are ahead in their collaborative initiatives.

"World events as well as operational challenges and inefficiencies have made collaboration more of a priority for the organization. Improving our overall awareness is the real value of these tools."

~ VP of Supply Chain at a Large Industrial Manufacturer
The one takeaway, after reviewing the priorities placed on the actions by the leaders compared to the followers, would suggest that they are further along with their internal collaborative abilities, and for that reason they are able to focus more attentions on the external B2B collaboration with customers and suppliers. Let’s now examine the capabilities in place to see where the gaps are and how the plans going forward support the direction to complete the B2B collaboration initiatives.

### Capabilities

Table 2 reflects the capabilities that are currently in place plus the plans to add them for both the leaders and the followers. The prioritization of the actions is now clearer based on the significant advantage the leaders have over the followers on internal collaboration and process integration with unique business processes for selective products customers or channels. Further, when considering the planned capabilities 100% of the leaders expect to have the internal collaboration ability in place. Both the leaders and the followers have a high commitment to moving forward on their collaboration initiative but the leaders still maintain an edge even when considering the planned capabilities.

In addition to the internal collaboration and the ability to support selective processes, the leaders are clearly ahead in the customer and supplier capabilities as well, particularly in the customer collaboration where the leaders are 60% more likely to have the B2B customer capability in place. A further point is that when considering the planned capabilities the leaders would still maintain a sizable lead, achieving 93% and 84% penetration for the customer collaboration and the supplier collaboration respectively compared to the mid 70’s for the followers.
Table 2: Current and Planned Capabilities

<table>
<thead>
<tr>
<th>Data Summary</th>
<th>Leader</th>
<th>Follower</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Current</td>
<td>Planned</td>
</tr>
<tr>
<td>Internal collaboration across your enterprise to gather supply chain data</td>
<td>71%</td>
<td>29%</td>
</tr>
<tr>
<td>Ability to support unique business processes for selective product categories, customers or channels</td>
<td>64%</td>
<td>21%</td>
</tr>
<tr>
<td>Ability to electronically collaborate with a network of key customers</td>
<td>50%</td>
<td>43%</td>
</tr>
<tr>
<td>Ability to electronically collaborate with a core set of critical suppliers</td>
<td>46%</td>
<td>38%</td>
</tr>
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Source: Aberdeen Group, April 2012

The insight behind why these gaps would continue to exist and to understand the hurdles that both leaders and followers are dealing with in the implementation of these initiatives, let’s examine some of the challenges and constraints they face.

Challenges

Given the emphasis being placed on B2B collaboration, it is important to examine what challenges are being faced by both the leaders and the followers. Figure 3 gives us a perspective on the internal factors regarding the cost and support to get started as well as some of the process challenges in establishing a B2B collaboration initiative.

Figure 3: B2B Collaboration Challenges
One key factor to realize, since B2B collaboration extends beyond the company boundaries, is that there is a "new" requirement to support and resolve issues that come up at those boundary points. The first reason is just supporting a new process and application, but perhaps more importantly is the aspect that when engaging customers and suppliers, there will be a range of maturity levels in terms of capabilities and commitments at the partner level to make the collaboration process work. It could require getting involved with the partner’s systems and process to facilitate the onboarding process.

One key revealing point that stands out when looking at the cost and values section is the difference in the awareness of the value of B2B collaboration. The leaders have a small percentage that might not have made that case but the followers were more likely to have this challenge by a factor of nearly three to one. The leaders have made the case to their management and that is revealed in their metrics that would directly benefit from better collaboration such as total landed costs (1.9% increase for leaders compared to 8.8% for followers) and a cash-to-cash cycle that is better than half that of the followers. Conversely the followers have not been nearly as successful in making the case to their management.

Both leaders and followers have identified the cost of the B2B solution as being a challenge but less so for the leaders. Another telltale point is that the executive support to spend indicates a lower resistance for the followers and their leadership to spend on new technology. So the obvious question is why they would not be further along in having the capabilities in place. The answer is in understanding that the first point made, the value is not clearly understood. Thirty-eight percent (38%) of the followers indicate that the value of B2B collaboration is not clearly understood compared to only 11% of the leaders. Even though the leaders face a tougher sell, as indicated by a higher likelihood of resistance to executives supporting new technology spending (33% for leaders compared to 22% for followers), they have clearly made the sale as evidenced by the advantage they hold in their capabilities.

Another area to point out is the lack of infrastructure and support to sustain the initiatives. This is an issue for both leaders and followers. This is actually not surprising when considering the fact that B2B collaboration is a new process incremental to the normal way of doing business and that infrastructure and support will need to be developed as part of the initiative.

On the process side, again there is the realization that establishing a successful B2B collaboration process requires agreement on the other side of the fence with the either the customer or supplier, who themselves have varying levels of maturity and commitment.

Although it is worth spending some time in understanding these challenges, the takeaway is that the value is clearly there as demonstrated by the superior metrics of the leaders. The opportunity is great for those who have not yet made the value of B2B collaboration clearly understood.
Key Takeaways

B2B collaboration has a lot of interest and emphasis:

- The number of leaders engaging in a B2B initiative has doubled in percentage over the last two years
- The pressures driving the need for B2B collaboration are not temporary, due to increasing demand from customers, increasing complexity in supply chains and increasing globalization
- Metrics directly impacted by B2B collaboration show significant gains for leaders compared to followers:
  - A cash-to-cash cycle that is half
  - A 6.9% less increase in total landed costs
  - A 7.3 point better service level of 96.7%

Companies should consider the following points and action items.

Leaders:

- Consider strategically how to deploy a collaborative solution based on a vision for the future. Think beyond the current state. The decision should be about capability but also long-term cost considerations.
  - One to one - point to point - possibly effective for very close partner relationships
  - One to many using some platform or network - certainly a consideration for supplier, logistics and transportation networks
  - Many to many solutions using some marketplace or network that might satisfy both customer and supplier collaboration - consideration for industries that already have robust marketplaces such as hi-tech

- Technology should include cloud-based SaaS, internal or some hybrid combination, and the same consideration should be made regarding longer term vision and costs

- Consider other functional areas that could benefit from B2B collaboration beyond supply chain (such as product development and design when selecting a solution) and determine if the technology supports the many types of collaboration

- Collaboration is more than just integrations, it is the breaking down the walls between collaborative partners – which could possibly require incremental effort in support since there will be varying levels of maturity within the partner community

- Stay the course and follow through on planned capability improvements
Followers:

- Make the case for B2B collaboration first, and identify and champion the value of the solution
- Complete the internal collaboration within your control
- Follow through on planned capability improvements
- Realize this is a new process that extends beyond the four walls and a different type of support and infrastructure must be developed as part of the B2B collaboration initiative
- Collaboration is more than just integration, it is breaking down the walls between collaborative partners, which could require incremental effort in support since there will be varying levels of maturity within the partner community
- Consider the deployment and technology recommendations for the leaders

There is tremendous opportunity as the emphasis for B2B collaboration starts to break down the silos between and across companies. A more holistic view of the supply chain from end to end will begin to emerge as a result. Challenges lurk but the value has been demonstrated. As the bar gets raised by those who collaborate more effectively with their customers and suppliers, B2B collaboration will become a requirement, not an option.

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Author: Bryan Ball, Vice President and Principal Analyst, Supply Chain Management (bryan.ball@aberdeen.com)
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E2open
4100 East 3rd Ave., Suite 400
Foster City, CA 94404
Telephone: 866.432.6736
www.e2open.com
e2open_us@e2open.com