



Online Commerce

Conducting business on our clients' terms



IBM

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About twenty years ago, IBM embarked upon a transformation process that would ultimately reenergize our brand and our business. That transformation began when the company made the critical decision to refocus the entire organization – every function, every product, every investment -- around a single design point: our clients.

Although we could not see all of its implications at the time, this profound change in corporate strategy was the beginning of a new system of doing business; a system that would, over time, reorient our entire value chain – from how we source materials to the competitive positioning of our company to how we sell and service our solutions – around the needs of our clients. This system would eventually drive the integration of our global supply chain. It would foster IBM's emergence as a globally integrated enterprise, where work is performed whenever, and wherever, is best for the client. And it would lay the foundations for the client-oriented system of business that we now call Smarter Commerce.

During this transformation, many strategic decisions have been made, and there are many stories to tell about the changes that took place, some of which are still being written. But the Smarter Commerce Series of case studies are the specific stories of how we reoriented our operations around our clients. They are pieces of the whole, but they are instructive to any organization that believes there is a better way to do business, and that it all starts with the customer.

Smarter Commerce

Smarter Commerce is a strategic approach to building high performing businesses by serving customer needs in three ways:

1. Customer Value

Rethinking operations in order to profitably deliver value to the customer.

2. Customer Insight

Gaining a deeper understanding of customer needs and behaviors through data gathering and real-time analytics.

3. Customer Engagement

Connecting with customers in a regular cadence, using a variety of means, and offering a valuable customer experience.

Learning From Our Customers

Over the last decade, the dynamic between buyers and sellers has changed dramatically. Today's customers are empowered by technology, transparency, and an abundance of information. They expect to engage with companies when and how they want, through physical, digital and mobile means. They expect value at every stage of the sales cycle, and beyond. And if they don't get these things from your company, they'll find the competition is only a click away.

About five years ago, not long after IBM sold its personal computer division to Lenovo, we began a process of trying to understand the changes taking place within our client base, and their implications on the future of online commerce at IBM and elsewhere. For years IBM had sold products and services online, using traditional, retail-oriented ecommerce solutions available on the *ibm.com* web site. But as the company exited its consumer products business and focused on higher-end products and services, it was clear that a more sophisticated, integrated model of online commerce was needed. Online shopping carts and credit card transactions weren't going to suffice.

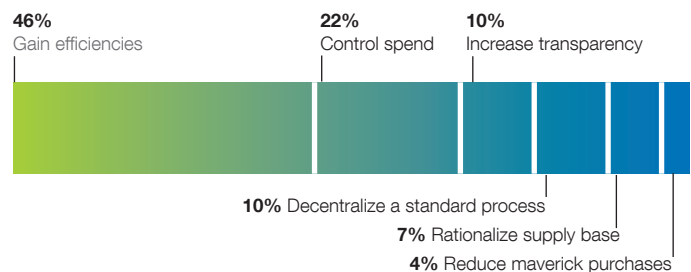
This realization touched off an intense information gathering process that included two commissioned studies, a series of customer forums, and countless customer interviews. Through these exercises, we learned of three important market shifts that were driving the need to improve our online commerce capabilities: 1.) IT buyers were increasingly willing to purchase complex, high-value products and services electronically; 2.) Chief Procurement Officers were increasingly adopting and executing ePurchasing strategies for their firms, and many were mandating to suppliers that ePurchasing was a condition of doing business; and 3.) ePurchasing technology had become more reliable, affordable, and accessible than ever before.

We also came to understand the chief procurement officer's increasing influence in the selection and management of preferred suppliers and importance in the overall client relationship. We recognized the top factors driving client adoption of online commerce, including efficiency, control, and transparency (see Figure 1. *Top CPO Priorities for Adopting ePurchasing Strategies*). And we discovered that IBM's clients didn't just want the purchasing process to be online. They wanted the entire sourcing process automated, from evaluating suppliers all the way to invoice receipt and payment. (See "The Smarter Commerce Series: Integrated Supply Chain").

In short, we heard loud and clear that our clients wanted us to change. "We were very fortunate to have several flagship customers that were really on the forefront, challenging us to evolve our online relationships," says Paula Summa, general manager of *ibm.com* inside sales, who leads IBM's online commerce organization globally. "We had the benefit of clients committed to working together with us."

Figure 1

Top CPO Priorities for Adopting ePurchasing Strategies



Building the Capabilities

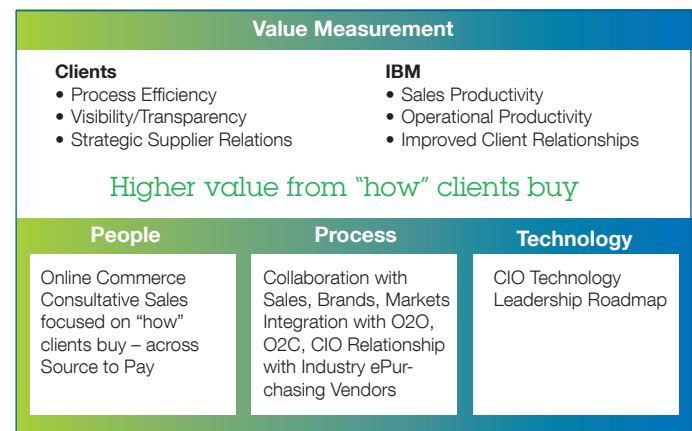
In response to these client demands and market shifts, IBM began a comprehensive reevaluation of its people, processes, and technology. We expanded the online commerce team globally to support local and multinational clients and developed consultative skills tailored to the objectives of our clients' electronic purchasing goals. And we developed a detailed educational curriculum to teach various functions, from sales to fulfillment, about the changing market.

"We went to a leading business school in Europe, Politecnico di Milano (MIP), and had them create a custom curriculum for our sellers on the perspective of the customer and how they want to buy from their suppliers," says Guido Gerlotti, vice president of global online commerce. "We taught them the dimensions of the market and the goals of our clients to achieve a central, common purchase process. And we did week-long road tours, in classroom settings, all around the world."

IBM also engaged internal strategy and change experts from IBM Global Business Services. These consultants collaborated with the team to design the Online Commerce Value Model, which illustrates the various aspects of the online procurement process, and helps clients visualize where the value comes from. (See Figure 2. *Online Commerce Value Model*). Using this model, and a tool called the Client Value Smart System, IBM can quantify the potential value of greater online integration with a client, based on that client's current state.

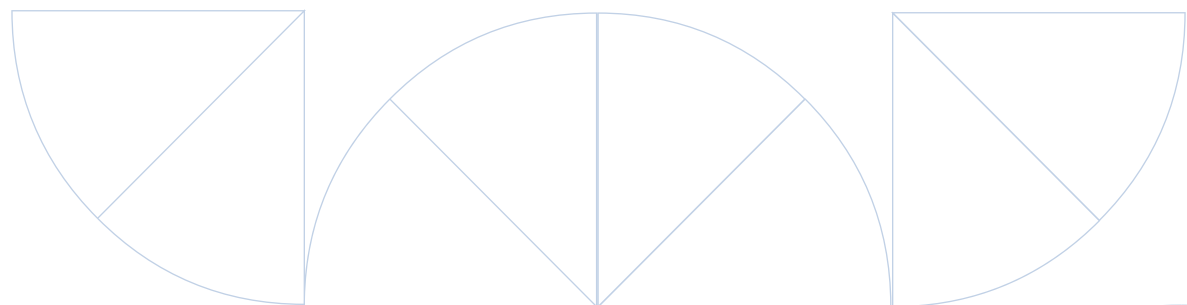
Figure 2

Online Commerce Value Model



And perhaps most importantly, IBM created a new role within the company; called the Online Commerce Solution Representative. These specialists are dedicated to working with both new and existing clients that request online commerce enablement with IBM. The team provides a full range of support, from answering questions about IBM's capabilities within a request for proposal to consulting with the client's purchasing function on a joint roadmap to full integration. And the reps are supported by custom-designed educational programs, methods and tools on an ongoing basis.

Ultimately, all of this work resulted in IBM sharpening its online commerce capabilities in four areas, taking advantage of our own products and services, including IBM WebSphere Commerce, IBM WebSphere Portal Server, IBM WebSphere Application Server, DB2 data management, and IBM Coremetrics Web Analytics.



The four areas are as follows:

IBM.com Public Web Site

IBM's primary digital presence is capable of conducting commerce for hardware, software, and services in 45 countries. For public cloud offerings in many regions, IBM is also pioneering significant "ease of doing business" terms on the web, including one-click contract acceptance.

Customized Sites

These sites incorporate a client's contracted pricing and product set in a private, secure, and easy-to-use setting. They often include purchase approval workflows integrated with the client organization.

ePurchasing

By far the most popular method of online commerce, third-party ePurchasing vendors offer a Web-buying experience compliant with company policies and practices. Many of IBM's clients are now enabled throughout the world.

IBM Web Solutions

These solutions provide integrated work flows, spanning multiple roles, locations, and privileges. They offer a deeper level of client intimacy and are often tailored to specific interactions.

Mutual Benefits

The benefits of these changes are apparent among our client base. For example, a leading IT service provider to the German financial industry was manually generating high volumes of orders and sending them to IBM via facsimile. Online Commerce and the client worked jointly to change both the process and the method for buying to one that was more efficient for the client and adhered to strict security policies for the German banking industry. Now, the client and IBM systems are integrated so that orders flow seamlessly and securely from the client to IBM.

Or consider one of the world's largest financial institutions, which now centrally manages its delivery, scheduling, installation and forecasting online, directly with IBM. This integration has taken time and costs out of the relationship, including reducing the time it takes to complete a manual lease process from 2 hours to 3 minutes. And the client estimates that it saves 2 percent when leasing products or buying services from IBM.

Over time, clients like these can increase their level of integration with IBM, while also increasing the value they get from the relationship. From simple electronic purchase orders to fully automated source-to-pay solutions, clients can increase the efficiency of doing business with IBM in stages. (See Figure 3. *Online Commerce Client Maturity Curve*).

The results and benefits of this work accrue to IBM as well. In 2010, hundreds of clients were enabled for electronic purchasing. Revenue conducted online increased by 30 percent in the same time period. And in the first quarter of 2011, the percentage of IBM's direct business conducted through online commerce has grown by 40 percent.

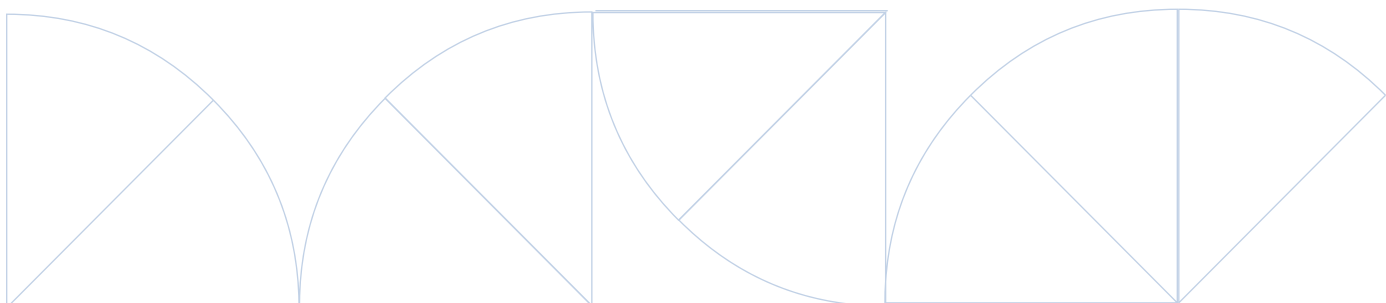
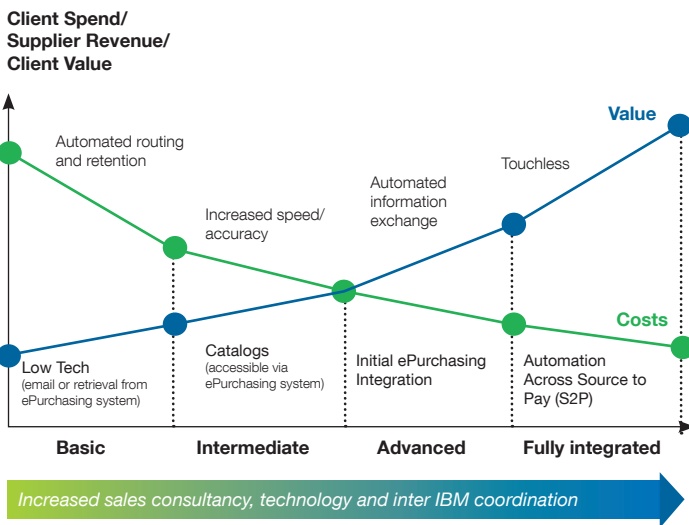


Figure 3

Online Commerce Client Maturity Curve



IBM has experienced dramatic benefits on two fronts – increased productivity for the IBM sales teams and operational roles supporting our clients. Rather than spending time and effort on transactional back office activities, IBM sales teams can focus on working with clients and helping them solve their business problems. Operational teams have increased access to accurate information and reporting to share with clients – reducing reconciliation of information between clients and IBM.

Conclusion

Conducting business with clients according to their terms is a central tenet of Smarter Commerce. And so is driving the efficiency of every client relationship. That's why IBM's online commerce transformation, which is still ongoing, is such a critical part of the company's Smarter Commerce initiative. The changes the company made during the last five years were driven entirely by client demands. And though these demands required significant investment on the part of IBM, the benefits have accrued to both our clients and us.

Adopting Smarter Commerce as a strategic goal is not a process that is undertaken all at once. Rather it happens in stages, with each step yielding results and enabling the next. Online commerce was just one stage of IBM's transformation. We encourage you to read about the other stages of our journey toward Smarter Commerce, especially those that transformed the marketing function at IBM, including the recasting of our Market Insights group and our embrace of social marketing.

To find out more about the IBM solutions referenced in this paper, please visit

ibm.com/smarterplanet/commerce



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