

NPS-AM-07-048



ACQUISITION RESEARCH SPONSORED REPORT SERIES

B2B Models for DoD Acquisition

30 July 2007

by

Magdi N. Kamel, Associate Professor

Graduate School of Operational & Information Sciences

Naval Postgraduate School

Approved for public release, distribution unlimited.

Prepared for: Naval Postgraduate School, Monterey, California 93943



ACQUISITION RESEARCH PROGRAM
GRADUATE SCHOOL OF BUSINESS & PUBLIC POLICY
NAVAL POSTGRADUATE SCHOOL

Report Documentation Page

Form Approved
OMB No. 0704-0188

Public reporting burden for the collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to a penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number.

1. REPORT DATE 30 JUL 2007	2. REPORT TYPE	3. DATES COVERED 00-00-2007 to 00-00-2007			
4. TITLE AND SUBTITLE B2B Models for DoD Acquisition		5a. CONTRACT NUMBER			
		5b. GRANT NUMBER			
		5c. PROGRAM ELEMENT NUMBER			
6. AUTHOR(S)		5d. PROJECT NUMBER			
		5e. TASK NUMBER			
		5f. WORK UNIT NUMBER			
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) Naval Postgraduate School, Monterey, CA, 93943		8. PERFORMING ORGANIZATION REPORT NUMBER			
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)		10. SPONSOR/MONITOR'S ACRONYM(S)			
		11. SPONSOR/MONITOR'S REPORT NUMBER(S)			
12. DISTRIBUTION/AVAILABILITY STATEMENT Approved for public release; distribution unlimited					
13. SUPPLEMENTARY NOTES 4th Annual Acquisition Research Symposium: Creating Synergy for Informed Change, May 16-17, 2007 in Monterey, CA					
14. ABSTRACT					
15. SUBJECT TERMS					
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT	18. NUMBER OF PAGES	19a. NAME OF RESPONSIBLE PERSON
a. REPORT unclassified	b. ABSTRACT unclassified	c. THIS PAGE unclassified	Same as Report (SAR)	73	

The research presented in this report was supported by the Acquisition Chair of the Graduate School of Business & Public Policy at the Naval Postgraduate School.

To request Defense Acquisition Research or to become a research sponsor, please contact:

NPS Acquisition Research Program
Attn: James B. Greene, RADM, USN, (Ret)
Acquisition Chair
Graduate School of Business and Public Policy
Naval Postgraduate School
555 Dyer Road, Room 332
Monterey, CA 93943-5103
Tel: (831) 656-2092
Fax: (831) 656-2253
e-mail: jbgreene@nps.edu

Copies of the Acquisition Sponsored Research Reports may be printed from our website www.acquisitionresearch.org



ACQUISITION RESEARCH PROGRAM
GRADUATE SCHOOL OF BUSINESS & PUBLIC POLICY
NAVAL POSTGRADUATE SCHOOL

Abstract

A central vision of B2B e-commerce is that of an electronic marketplace that would bring suppliers together with major buyers of goods and services for the purpose of conducting “frictionless” commerce. The hope is that these suppliers would compete on price, transactions would be automated and low cost, and as a result, the price of goods and services would fall. Numerous Internet marketplaces came into being during the Internet boom; however, an almost equal number disappeared following the Internet bubble burst. Still, many survive today based on a variety of models that are quite successful. If a right model is selected, it could help large organizations, like the DoD, achieve great efficiencies for their acquisition and procurement processes.

The objective of the paper is to examine models for classifying and differentiating the business functionality provided by Internet marketplaces and to investigate the impact of the various models on government and DoD acquisition. The models will consider such variables as types of goods and services purchased, how these goods and services are purchased, pricing mechanisms, the characteristics of the markets, and ownership of marketplace.

Keywords: B2B E-Commerce, Internet Marketplaces, B2B Exchanges, Collaborative Commerce



THIS PAGE INTENTIONALLY LEFT BLANK



ACQUISITION RESEARCH PROGRAM
GRADUATE SCHOOL OF BUSINESS & PUBLIC POLICY
NAVAL POSTGRADUATE SCHOOL

About the Authors

Magdi N. Kamel is an Associate Professor of Information Systems at the Naval Postgraduate School in Monterey, California. He received his PhD in Information Systems from the Wharton School, University of Pennsylvania. His main research interest is in the analysis, design and implementation of computer-based information systems. Specifically, he is interested in B2B and B2C e-commerce, enterprise resource planning, e-procurement, supply-chain management, data mining, and knowledge discovery in large databases and on the Web. He has lectured and consulted in these areas for many DoD and government organizations and is the author of numerous published research papers on these topics. Dr. Kamel is a recent recipient of a Fulbright grant for teaching and research in the computer and information systems area. He is a member of the Association for Computing Machinery and the IEEE Computer Society.

Magdi N. Kamel
Department of Information Sciences
Naval Postgraduate School
589 Dyer Rd
Monterey, CA 93943
Phone: (831) 656-2494
Email: mnkamel@nps.edu



THIS PAGE INTENTIONALLY LEFT BLANK



NPS-AM-07-048



ACQUISITION RESEARCH SPONSORED REPORT SERIES

B2B Models for DoD Acquisition

30 July 2007

by

Magdi N. Kamel, Associate Professor

Graduate School of Operational & Information Sciences

Naval Postgraduate School

Disclaimer: The views represented in this report are those of the author and do not reflect the official policy position of the Navy, the Department of Defense, or the Federal Government.



ACQUISITION RESEARCH PROGRAM
GRADUATE SCHOOL OF BUSINESS & PUBLIC POLICY
NAVAL POSTGRADUATE SCHOOL

THIS PAGE INTENTIONALLY LEFT BLANK



ACQUISITION RESEARCH PROGRAM
GRADUATE SCHOOL OF BUSINESS & PUBLIC POLICY
NAVAL POSTGRADUATE SCHOOL

Table of Contents

Executive Summary	ix
Introduction	1
B2B Characteristics	3
Parties to the Transaction.....	3
Types of Transactions	3
Types of Products and Services	3
Direction of Transactions.....	3
Number and Form of Participation.....	4
Buy-side Electronic Marketplaces Models.....	5
B2B Exchanges	7
Classification of Exchanges.....	7
Horizontal Exchanges.....	8
Horizontal Distributors	9
Vertical Exchanges.....	10
Vertical Distributors	10
How Are Exchanges Evolving?	11
Collaborative Commerce	13
Conclusions.....	15
References.....	17
Initial Distribution List	19



THIS PAGE INTENTIONALLY LEFT BLANK



ACQUISITION RESEARCH PROGRAM
GRADUATE SCHOOL OF BUSINESS & PUBLIC POLICY
NAVAL POSTGRADUATE SCHOOL

Executive Summary

While B2B e-commerce today accounts for a small percentage of the total B2B, it is growing steadily and expected to reach 40% – 50% of the total B2B trade in a few years. B2B transactions promise to help organizations run more efficiently by achieving significant cost savings and reductions in cycle-time

This research examines various models for classifying and differentiating the business functionality provided by Internet marketplaces and investigates the impact of these models on government and DoD acquisition. The models investigated consider such variables as types of goods and services purchased, how these goods and services are purchased, pricing mechanisms, the characteristics of the markets, and ownership of marketplace. The research also examines how current models are evolving and what future models will likely look like.



THIS PAGE INTENTIONALLY LEFT BLANK



ACQUISITION RESEARCH PROGRAM
GRADUATE SCHOOL OF BUSINESS & PUBLIC POLICY
NAVAL POSTGRADUATE SCHOOL

Introduction

Business-to-business (B2B) e-commerce refers to transactions between businesses conducted electronically over the Internet, intranets, extranets, or private networks. Such transactions may be conducted between a business and its suppliers or between a business and any other business.

It is estimated that in 2003, B2B e-commerce in the United States was a \$1.5 trillion business. This represents about 11% of the total B2B trade estimated at \$13.5 trillion (Laudon & Traver, 2004). Gartner group predicts this percentage to grow steadily to reach over 40% in 2010. Forrester's research predicts a higher percentage of 53%.

There are many potential benefits of B2B e-commerce. These benefits depend on the model used, but are thought to include the following:

- Significant cuts in acquisition cost
- Expediting cycle-time
- Reducing errors and improving quality of service
- Seamless integration with suppliers
- Ability to have purchasing data instantly
- Reducing inventory levels and costs
- Immediate response to changes in customer purchasing patterns
- Facilitating mass customization
- Increasing opportunities of collaboration between buyers and sellers

In this paper, we examine models for classifying and differentiating the business functionality provided by B2B e-commerce and the impact of the various models on government and DoD acquisition. The models will consider such variables as types of goods and services purchased, how these goods and services are purchased, pricing mechanisms, the characteristics of the markets, and ownership of marketplace.



THIS PAGE INTENTIONALLY LEFT BLANK



B2B Characteristics

There are many ways to characterize B2B transactions. In this paper, we differentiate between different types of B2B transactions based on the following characteristics: Parties to the transaction, types of transactions, types of products and services procured, the direction of trade, and number and form of participation.

Parties to the Transaction

B2B commerce can be conducted *directly* between a buyer and seller or through a third-party intermediary.

Types of Transactions

There are two types of transactions: Spot purchases and long-term sourcing. Spot purchases refer to the purchasing of goods and services as they are needed at the prevailing market prices. Long-term sourcing refers to purchases made through long-term contracting agreements that are negotiated between the buyers and the sellers.

Types of Products and Services

There are two types of Products and Services: Direct and Indirect. Direct products and services are used directly in making the product, such as wood in furniture or paper in a book. Direct products and services are usually purchased in large quantities using long-term sourcing. Indirect products and services (such computer equipments, lights, or tools) support production, but are not directly involved in creating the end product. They are usually referred to as maintenance, repairs, and operations (MROs).

Direction of Transactions

B2B transactions can be classified as either vertical or horizontal. A vertical market is one that provides products and services for a specific industry. Examples



include cars, steel, or electronics. Horizontal markets refer to markets that serve many different industries. Examples are office supplies, computers, and tools.

Number and Form of Participation

There are four types of electronic marketplace participation: 1) Sell-side, 2) Buy-side, 3) Exchanges, and 4) Collaborative commerce.

In sell-side commerce, there is one seller that does all the selling to many buyers. In buy-side commerce, there is one buyer that does all the buying from many sellers. Both types are collectively referred to as company-centric electronic commerce, because they address a single company buying or selling needs.

Exchanges are many-to-many electronic marketplaces, where many buyers and many sellers meet in electronic markets to conduct business transactions. Exchanges are usually owned and managed by a third party or by a consortium, and are open to all interested parties, and are, thus, considered public electronic marketplaces.

Collaborative commerce goes beyond selling and buying activities and includes activities that represent more than financial transactions—such as communication and sharing of information, planning, design, manufacturing, and management. Collaborative commerce is relationship-based rather than transactions-based and bears resemblance to internal workgroup collaborative environments.



Buy-side Electronic Marketplaces Models

Under these models, a buyer opens an electronic marketplace on its own servers and invites potential suppliers to bid on the products and services that the buyer needs. This invitation could take the form of: 1) a request for Quote (RFQ), or 2) an invitation for a reverse auction. An example of the former is FedBizOpps (2007) and GSA e-buy (2007). An example of the latter is NAVSUP NavyAuctions (2007).

FedBizOpps is the single government point-of-entry (GPE) for Federal government procurement opportunities over \$25,000. Government buyers are able to publicize their business opportunities by posting information directly to FedBizOpps via the Internet. Using the same portal, commercial vendors seeking Federal markets for their products and services can search, monitor and retrieve opportunities solicited by the entire Federal contracting community.

E-buy is an electronic Request for Quote (RFQ)/Request for Proposal (RFP) system designed to allow Federal buyers to request information, find sources, and prepare RFQs/RFPs, online, for millions of services and products offered through GSA's Multiple Award Schedule (MAS) and Government-wide Acquisition Contracts (GWAC).

Navy Auctions is a secured Internet portal that allows online suppliers to compete in real-time for contracts by lowering their prices as they see other offers. In its first reverse auction, the Navy estimates that they achieved savings of 28.9% over the historical price for these items. The auction lasted 51 minutes, and the contract, valued at \$2.375 million, was awarded within an hour of the reverse auction closing.



THIS PAGE INTENTIONALLY LEFT BLANK



B2B Exchanges

As discussed earlier, exchanges are electronic marketplaces where many buyers and sellers meet to buy and sell goods and services. Exchanges are known under different names: e-marketplaces, e-markets, Internet exchanges, Net marketplaces, and B2B portals.

Classification of Exchanges

There are numerous ways of classifying exchanges. We use an approach similar to that suggested by Kaplan and Sawhney (2000) and Kerrigan, Roegner, Swinford and Zawada (2001). The classification model consists of a 2x2 matrix, as shown in Figure 1. The x-axis represents the types of goods and services purchased (indirect goods vs. direct goods), and the y-axis represents how these goods and services are purchased (spot purchases vs. long-term contractual agreement). The intersection of these dimensions produces four cells representing four types of exchanges: Horizontal exchanges (also known as e-distributors), horizontal distributors (also known as e-procurement), vertical exchanges (also known as independent exchanges), and vertical distributors (also known as industry consortia). Each of these exchanges seeks to provide value to customers in different ways. We discuss each type of exchange in more detail in the following sections.



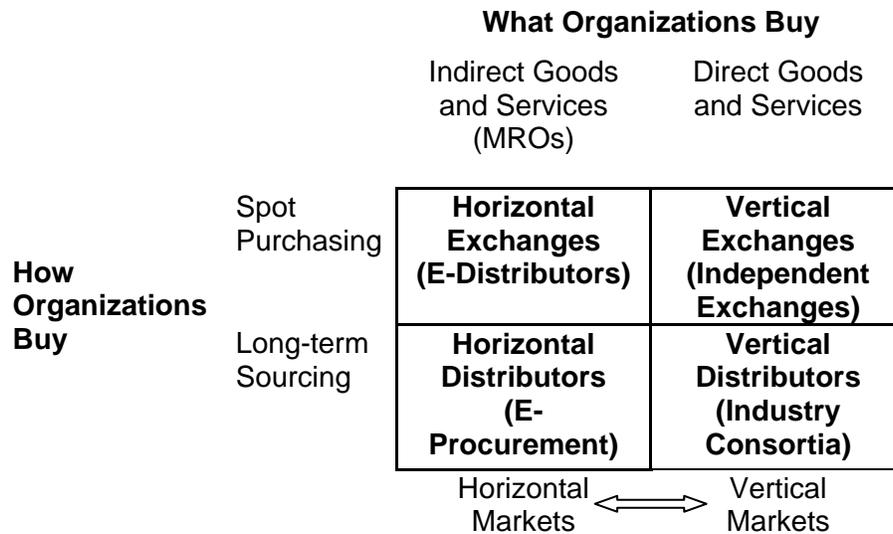


Figure 1. Types of Internet Marketplaces

Horizontal Exchanges

Horizontal exchanges are independently owned intermediaries that offer individual customers a single source from which to make spot purchases of indirect or MRO goods. They operate in a horizontal market that serves many different industries with products from many different suppliers. Horizontal exchanges are usually “public” markets that any firm can participate in. They usually charge fixed prices, and their owners make money by charging a markup on products they distribute. The primary benefits to customers are lower search costs, lower transaction costs, wide selection, rapid delivery, and low prices. An example of a horizontal exchange is Grainger (2007) and the DoD Email (2007).

The DoD Email was launched by the Defense Logistics Agency (DLA) in 1998 as the DLA Email. It was created to leverage purchasing power across agencies to provide the Military Services and other Federal Government Agencies with volume discounts from Military and Commercial suppliers. Its mission is indicated in the FY99 *DoD Authorization Act* which states, “the Joint Electronic Commerce Program Office of the Department of Defense shall develop a single, defense-wide electronic mall system, which shall provide a single, defense-wide electronic point of entry and a single view,



access, and ordering capability for all Department of Defense electronic catalogs.” DLA was named the executive agent for the DoD Emall, which remains dedicated to its DoD-wide mission.

There are currently over 28,000 user accounts on the DoD Emall with 500 new users added each week. These users represent the DoD (All Services, National Guard, Reserves) as well as other Federal Agencies (DHS, FBI, etc.). More than 850 Commercial Contracts are currently hosted on DoD Emall, with additional catalogs added weekly. The DoD Emall has shown tremendous growth—with a sales increase from \$14M in FY02 to \$336M through April of FY05.

Horizontal Distributors

Similar to horizontal exchanges, horizontal distributors are independently owned intermediaries connecting hundreds of online suppliers offering millions of MRO goods to thousands of business firms. They differ from horizontal exchanges in that they operate in a horizontal market in which long-term contractual purchasing agreements are used to buy indirect goods. Another important difference is that horizontal distributors usually provide value-chain management services, which could include the automation of a firm’s entire procurement process on the buyer side and the automation of the selling business processes on the seller side. For buyers, this includes the automation of purchase orders, requisitions, invoicing, and payments. For suppliers, it includes the automation of catalog creation, content management, order management, order fulfillment, invoicing and shipment. Horizontal distributors make money by charging a percentage of each transaction, licensing consulting services and software, and assessing network use fees.

The two largest horizontal distributor players are Ariba (2007) and Perfect Commerce, previously CommerceOne (2007). Although some Government and DoD initiatives include some characteristics of this model (e.g., e-buy), there is no Government or DoD effort that provides a full automation of the acquisition process on the buyer side and the automation of the selling process on the seller side.



Vertical Exchanges

Vertical exchanges are independently owned online marketplaces that connect hundreds of suppliers to potentially thousands of buyers in a dynamic real-time environment. They are typically vertical markets in which spot purchases can be made for direct inputs (both goods and services). Similar to horizontal exchanges, the benefits for buyers include reduced search costs and lower prices, while the benefits for sellers include access to the global purchasing environment and opportunity to unload production overruns. Vertical exchanges make money by charging a commission on each transaction; pricing can be through an online negotiation, auction, RFQ, or fixed prices. Vertical exchanges are “public” markets and are biased in favor of the buyer. An important measure of success for vertical exchanges is their liquidity—which is measured by the numbers of buyers and sellers in the market, the volume of transactions, and the size of transactions. If there is a small number of participants, a low volume of small transactions, an exchange usually fails.

Examples of Vertical Exchanges include E-steel (2006), a spot market for steel products and Foodtrader (2003), a spot market for the food-products industry.

Vertical Distributors

Vertical distributors, also known as industry consortia, are industry-owned vertical markets in which long-term contractual purchases of direct inputs can be made from a limited set of invited participants. They serve to reduce supply-chain inefficiencies by unifying the supply chain for an industry through a common network and computing platform. They make money through: 1) Industry members who pay for the creation of the site and contribute initial operating capital and 2) Buyer firms who pay transaction and subscription fees. The pricing mechanism of this model ranges from auctions to fixed prices to RFQs. The bias of industry consortia is toward large buyers who benefit from competitive pricing. Benefit to suppliers is from access to large-buyer-firm procurement systems, long-term stable relationships, and large-order sizes.



There are numerous vertical distributors in many industries, with many industries having more than one. The industries with the most common consortia are metals, chemicals, and retail. The long-term viability of Vertical Distributors is yet to be seen.

Examples of Vertical Distributors are Covisint (2007) for the automotive industry and Exostar (2007) for Defense and Aerospace.

How Are Exchanges Evolving?

Exchanges' capabilities are evolving rapidly and growing increasingly sophisticated. Figure 2 depicts some of these changes. Horizontal exchanges are moving away from being simple electronic marketplaces toward more active and sustained relationships with buyer companies by providing added-value services and participating in industry consortia as suppliers of indirect goods. These added-value services include the automation of part or the entire procurement process on the buyer side and the automation of the selling business processes on the seller side. For example, selling value-added services could include Web store fronts, the ability to configure and price products, and customer support, such as order-status monitoring, demand planning and collaboration.

Similarly, vertical exchanges are being absorbed into industry consortia as many were not attracting enough players to achieve liquidity. Another important trend in exchanges is the movement from simple transactions of spot purchases to longer-term sourcing agreements involving both direct and indirect goods (Wise & Morrison, 2000).



What Organizations Buy

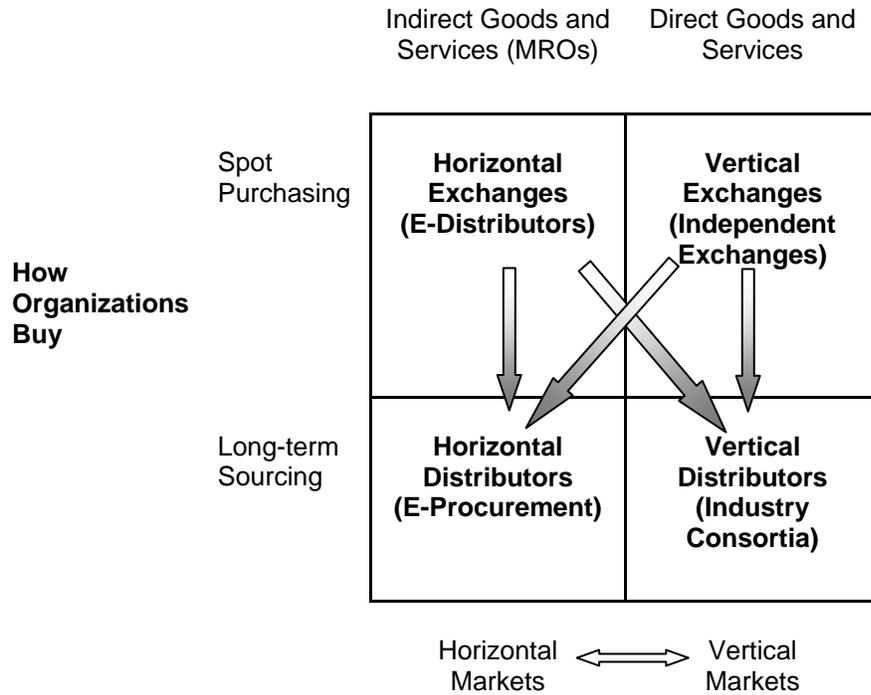


Figure 2. Evolution of Exchanges



Collaborative Commerce

Collaborative commerce is used to describe Web-based communication environments that extend beyond procurement to include coordinating trans-organizational business processes. Collaborative Commerce permits buyer firms and principle suppliers to share product design and development, marketing, inventory, production scheduling, and unstructured communications. It generally starts as an enterprise resource planning (ERP) system in a single firm that is then expanded to include the firm's major suppliers. This fact differentiates private industrial networks from consortia, which are usually owned collectively by major firms through equity participation. Collaborative commerce is considered a buyer-side solution with buyer biases. It is the most prevalent form of Internet-based B2B.

A good example of the benefits of collaborative commerce is its collaborative resource planning, forecasting, and replenishment (CPFR)—which require the collaborating members to forecast demand, develop production scheduling plans, coordinate shipping, warehousing, and replenishment activities to ensure retail and warehouse shelf spaces are replenished “just in time.” This approach could potentially realize hundreds of millions of dollars in excess inventory and production savings and, therefore, produce large benefits to justify the cost of developing the collaboration network.

A second example of collaborative commerce is demand-chain visibility, in which excess capacity and supplies in the supply-and-distribution chain is visible to all members of the chain. Adjustments could then be made in real-time to production capacities to avoid excess inventories that usually create pressure to discount merchandise, reducing profits to all parties involved.

Collaborative commerce faces many implementation barriers. First, participating firms are required to share sensitive data with their business partners. This is a particularly major impediment for government and DoD organizations.



Second, integrating collaborative networks into existing ERP systems and EDI networks is expensive and time-consuming. Third, collaborative commerce requires a change in mind-set and behavior of employees, which constitutes a major paradigm shift.



Conclusions

While B2B e-commerce today accounts for a small percentage of the total B2B, it is growing steadily and expected to reach 40% – 50% of the total B2B trade in a few years. B2B transactions promise to help organizations run more efficiently by achieving significant cost savings and reductions in cycle-time.

Many models of B2B e-commerce have emerged, each providing different functionality for the business it supports. Initially, B2B models' focus was commerce and transaction execution. However, newer models' focus is increasingly on value-added services and support for cross-enterprise collaboration. It is important for the DoD to examine these models, their characteristics, and trends in order to leverage the future of B2B and, therefore, to do business more efficiently.



THIS PAGE INTENTIONALLY LEFT BLANK



References

- Ariba. (2007). Retrieved March 20, 2007, from <http://www.ariba.com/>.
- Covisint. (2007). Retrieved March 22, 2007, from <http://www.covisint.com/>
- DoD Email. (2007). Retrieved March 12, 2007, from <http://www.emall.dla.mil/>.
- E-buy. (2007). Retrieved February 26, 2007, from <http://www.ebuy.gsa.gov/>.
- E-steel. (2006). Retrieved March 22, 2007, from <http://www.e-steel.com/>.
- Exostar. (2007). Retrieved March 22, 2007, from <http://www.exostar.com/>
- FedBizOpps. (2007). Retrieved February 26, 2007, from <http://www.fedbizopps.gov/>.
- Foodtrader. (2003). Retrieved March 20, 2007, from <http://www.foodtrader.com/>
- Grainger. (2007). Retrieved March 12, 2007, from <http://www.grainger.com/>.
- Kaplan, S., & Sawhney, M. (2000, May–June). E-Hubs: The new B2B marketplaces. *Harvard Business Review*, 97–103.
- Kerrigan, R., Roegner, E., Swinford, D., & Zawada, C. (2001). B2B basics. *McKinsey Quarterly*.
- Laudon, K., & Traver, C. (2004). *E-commerce: business, technology, society*. Boston, MA: Addison Wesley.
- Navy Auctions. (2007) Retrieved February 26, 2007, from https://www.navsup.navy.mil/pls/p5star/docs/page/navsup/ourteam/navicp/business_ops/tab153279/index.htm
- Perfect Commerce. (2007). Retrieved March 20, 2007, from <http://www.perfect.com/>.
- Schneider, G. (2003). *Electronic commerce* (4th Annual ed.). Boston, MA: Course Technology.
- Turban, E., King, J., Lee, J., & Viehland, D. (2004). *Electronic commerce: A managerial perspective*. Upper Saddle River, NJ: Prentice Hall.
- Wise, R., & Morrison, D. (2000, November–December). Beyond the exchange: The future of B2B. *Harvard Business Review*, 86–96.



THIS PAGE INTENTIONALLY LEFT BLANK



Initial Distribution List

1. Defense Technical Information Center 2
8725 John J. Kingman Rd., STE 0944; Ft. Belvoir, VA 22060-6218
2. Dudley Knox Library, Code 013 2
Naval Postgraduate School, Monterey, CA 93943-5100
3. Research Office, Code 09 1
Naval Postgraduate School, Monterey, CA 93943-5138
4. Robert N. Beck 1
Dean, GSBPP
555 Dyer Road, Naval Postgraduate School, Monterey, CA 93943-5000
5. Keith F. Snider 1
Associate Professor, GB
555 Dyer Road, Naval Postgraduate School, Monterey, CA 93943-5000
6. James B. Greene 1
Acquisition Chair, GB
555 Dyer Road, Naval Postgraduate School, Monterey, CA 93943-5000
7. Bill Gates 1
Associate Dean for Research, GB
555 Dyer Road, Naval Postgraduate School, Monterey, CA 93943-5000
8. Magdi N. Kamel 1
Associate Professor, IS
589 Dyer Road, Naval Postgraduate School, Monterey, CA 93943-5000
9. Karey L. Shaffer 1
Program Manager, Acquisition Research Program, GB
555 Dyer Road, Naval Postgraduate School, Monterey, CA 93943-5000

Copies of the Acquisition Sponsored Research Reports may be printed from our website www.acquisitionresearch.org



THIS PAGE INTENTIONALLY LEFT BLANK



2003 - 2007 Sponsored Acquisition Research Topics

Acquisition Management

- Software Requirements for OA
- Managing Services Supply Chain
- Acquiring Combat Capability via Public-Private Partnerships (PPPs)
- Knowledge Value Added (KVA) + Real Options (RO) Applied to Shipyard Planning Processes
- Portfolio Optimization via KVA + RO
- MOSA Contracting Implications
- Strategy for Defense Acquisition Research
- Spiral Development
- BCA: Contractor vs. Organic Growth

Contract Management

- USAF IT Commodity Council
- Contractors in 21st Century Combat Zone
- Joint Contingency Contracting
- Navy Contract Writing Guide
- Commodity Sourcing Strategies
- Past Performance in Source Selection
- USMC Contingency Contracting
- Transforming DoD Contract Closeout
- Model for Optimizing Contingency Contracting Planning and Execution

Financial Management

- PPPs and Government Financing
- Energy Saving Contracts/DoD Mobile Assets
- Capital Budgeting for DoD
- Financing DoD Budget via PPPs
- ROI of Information Warfare Systems



- Acquisitions via leasing: MPS case
- Special Termination Liability in MDAPs

Logistics Management

- R-TOC Aegis Microwave Power Tubes
- Privatization-NOSL/NAWCI
- Army LOG MOD
- PBL (4)
- Contractors Supporting Military Operations
- RFID (4)
- Strategic Sourcing
- ASDS Product Support Analysis
- Analysis of LAV Depot Maintenance
- Diffusion/Variability on Vendor Performance Evaluation
- Optimizing CIWS Life Cycle Support (LCS)

Program Management

- Building Collaborative Capacity
- Knowledge, Responsibilities and Decision Rights in MDAPs
- KVA Applied to Aegis and SSDS
- Business Process Reengineering (BPR) for LCS Mission Module Acquisition
- Terminating Your Own Program
- Collaborative IT Tools Leveraging Competence

A complete listing and electronic copies of published research within the Acquisition Research Program are available on our website: www.acquisitionresearch.org





ACQUISITION RESEARCH PROGRAM
GRADUATE SCHOOL OF BUSINESS & PUBLIC POLICY
NAVAL POSTGRADUATE SCHOOL
555 DYER ROAD, INGERSOLL HALL
MONTEREY, CALIFORNIA 93943

www.acquisitionresearch.org



Acquisition Research Program:
Creating Synergy for Informed Change

B2B Models for DoD Acquisition

Magdi N Kamel

Objective

- Examine models for classifying and differentiating the business functionality provided by B2B E-commerce and investigate their impact on government and DoD acquisition



Agenda

- What is B2B Electronic Commerce?
- Benefits of B2B E-Commerce
- Characteristics of B2B E-Commerce
- Basic B2B E-Commerce Models
 - Buy-side
 - Sell-side
 - Exchanges
 - Collaborative Commerce



What is B2B E-Commerce?

- Business-to-business e-commerce (B2B EC)—transactions between businesses conducted electronically over the Internet, extranets, intranets, or private networks
- In 2003 it represented about 11% of total B2B trade estimated at \$13.5 trillion
- Predicted to grow steadily to reach 40 – 50% by 2010



Benefits of B2B E-Commerce

- Significant cuts in acquisition costs
- Expedites cycle time
- Reduces errors and/or improves quality of services
- Provides seamless integration with suppliers
- Reduces inventory levels and costs
- Provides immediate response to changes in customer purchasing patterns



Benefits of B2B E-Commerce (cont'd)

- Increases production flexibility, permitting just-in-time delivery
- Facilitates mass customization
- Increases opportunities for collaboration between buyers and sellers



Characteristics of B2B E-Commerce

- Parties to the transaction
 - Directly between buyer and seller
 - Online intermediary—an online third-party that brokers a transaction between a buyer and a seller; can be virtual or click-and-mortar
- Types of transactions
 - Spot purchases—the purchase of goods and services as they are needed, usually at prevailing market prices
 - Strategic sourcing—purchases involving long-term contracts that are usually based on private negotiations between sellers and buyers



Characteristics of B2B E-Commerce (cont'd)

- Types of products and services
 - Direct—products and services used directly in the production of a product (e.g., steel in a car or paper in a book)
 - Indirect—products and services used to support production (e.g., office supplies or light bulbs), also known as MROs (maintenance, repairs, and operations)
- Direction of transactions
 - Vertical marketplaces—markets that deal with one industry or industry segment (e.g., steel, chemicals).
 - Horizontal marketplaces—markets that concentrate on a service or a product that is used in all types of industries (e.g., office supplies, PCs)



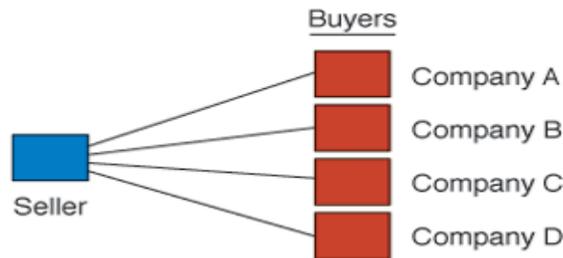
Basic Models of B2B E-Commerce

- Sell side—one seller to many buyers
- Buy side—one buyer from many sellers
- Exchanges—many sellers to many buyers
- Collaborative commerce—communication and sharing of information, design, and planning among business partners

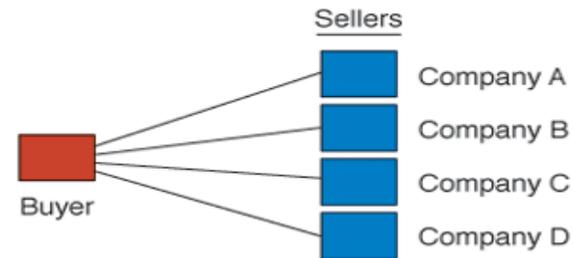


Basic Transaction Types of B2B E-Commerce (cont'd)

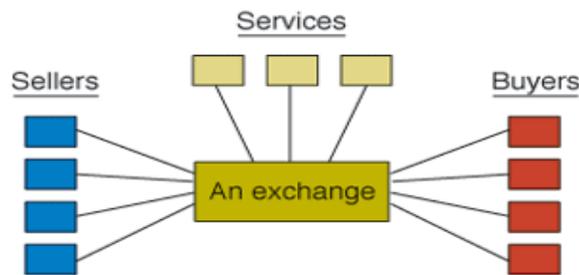
Exhibit 5.1 Types of B2B E-Commerce



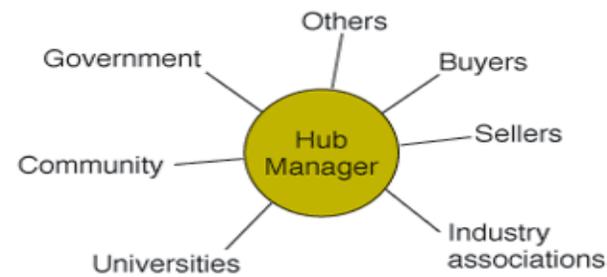
(a) Sell-Side B2B



(b) Buy-Side B2B



(c) Electronic (Net) Marketplaces or Exchange



(d) Collaborative Commerce

SOURCE: Turban and King, *Introduction to Electronic Commerce*. Upper Saddle River, NJ: Prentice Hall, 2003.



Buy Side B2B – E-Procurement

- Buyer opens an electronic marketplace on its servers and invites potential suppliers to bid on products and services needed
 - A request for quote (RFQ)
 - An invitation for a reverse auction



Examples of Government and DoD Buy-Side Electronic Marketplaces

- *FedBizOpps*—Single government point-of-entry for Federal government procurement opportunities over \$25,000
- *E-buy*—An online Request for Quote (RFQ)/Request for Proposal (RFP) system for federal buyers
- *Navy Auctions*—An Internet portal that allows online suppliers to compete in real-time for Navy contracts by lowering their prices as they see other offers



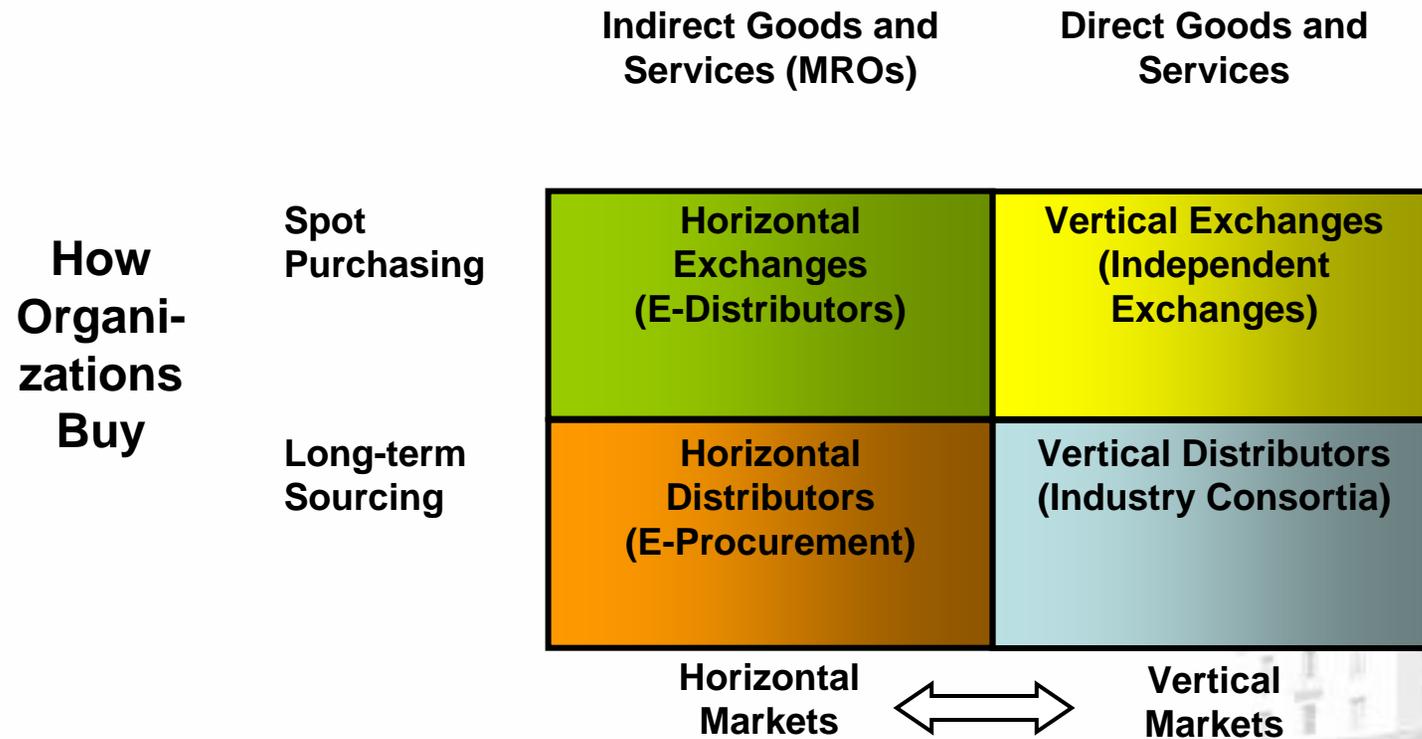
B2B Exchanges

- B2B exchanges bring hundreds of buyers and sellers into a single Internet-based environment to conduct trade
- They can be organized by ownership, pricing, revenue, bias, and the markets they serve



Types of Exchanges

What Organizations Buy



Horizontal Exchanges

- Independently owned intermediaries that offer individual customers a single source from which to make spot purchases of indirect or MRO goods
- Operate in a horizontal market that serves many different industries with products from many different suppliers
- Operate “public” markets and usually charge fixed prices

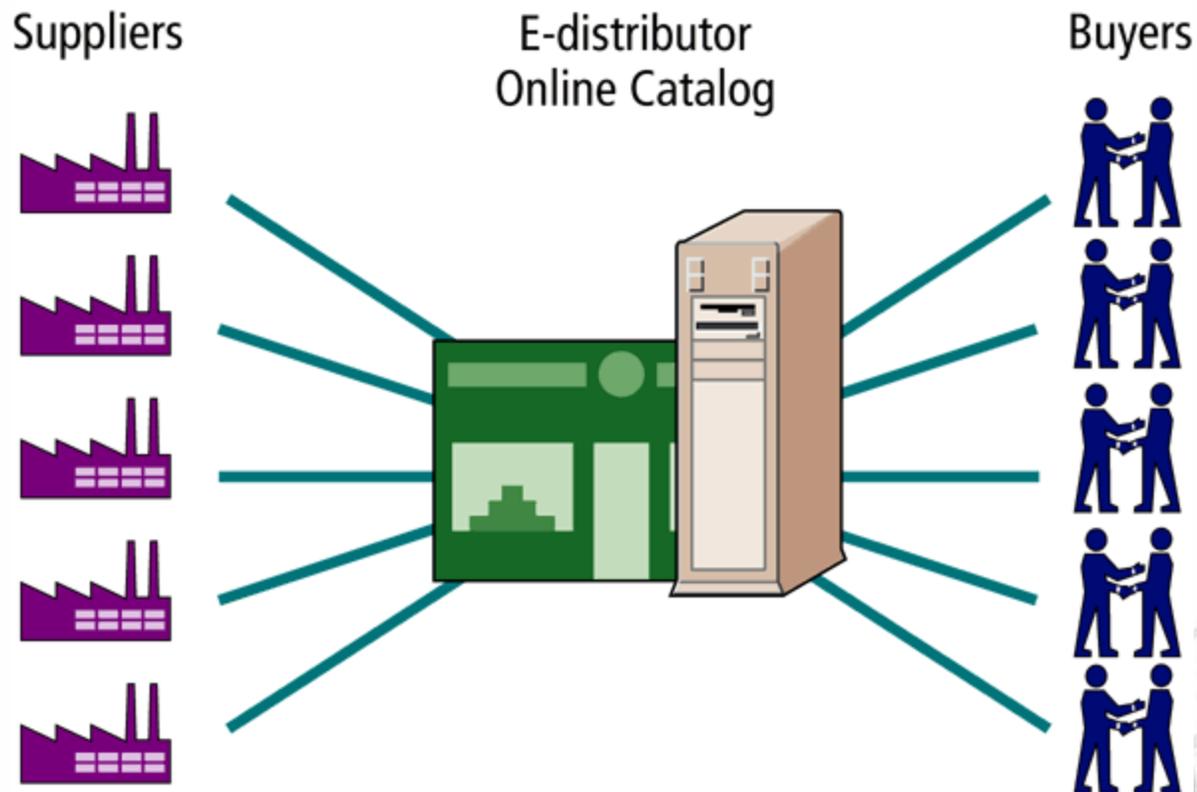


Horizontal Exchanges (cont'd)

- Primary benefits to customers are lower search costs, lower transaction costs, wide selection, rapid delivery, and low prices
- Make money by charging a markup on products they distribute
- Example of a horizontal exchange is Grainger and the DoD Email



Horizontal Exchanges (cont'd)



SOURCE: Laudon & Traver, *E-commerce: business, technology, society*, 2001



Horizontal Distributors

- Independently owned intermediaries connecting hundreds of online suppliers offering millions of MRO goods to business firms who pay a fee to join the market
- Operate in a horizontal market in which long-term contractual purchasing agreements are used to buy indirect goods

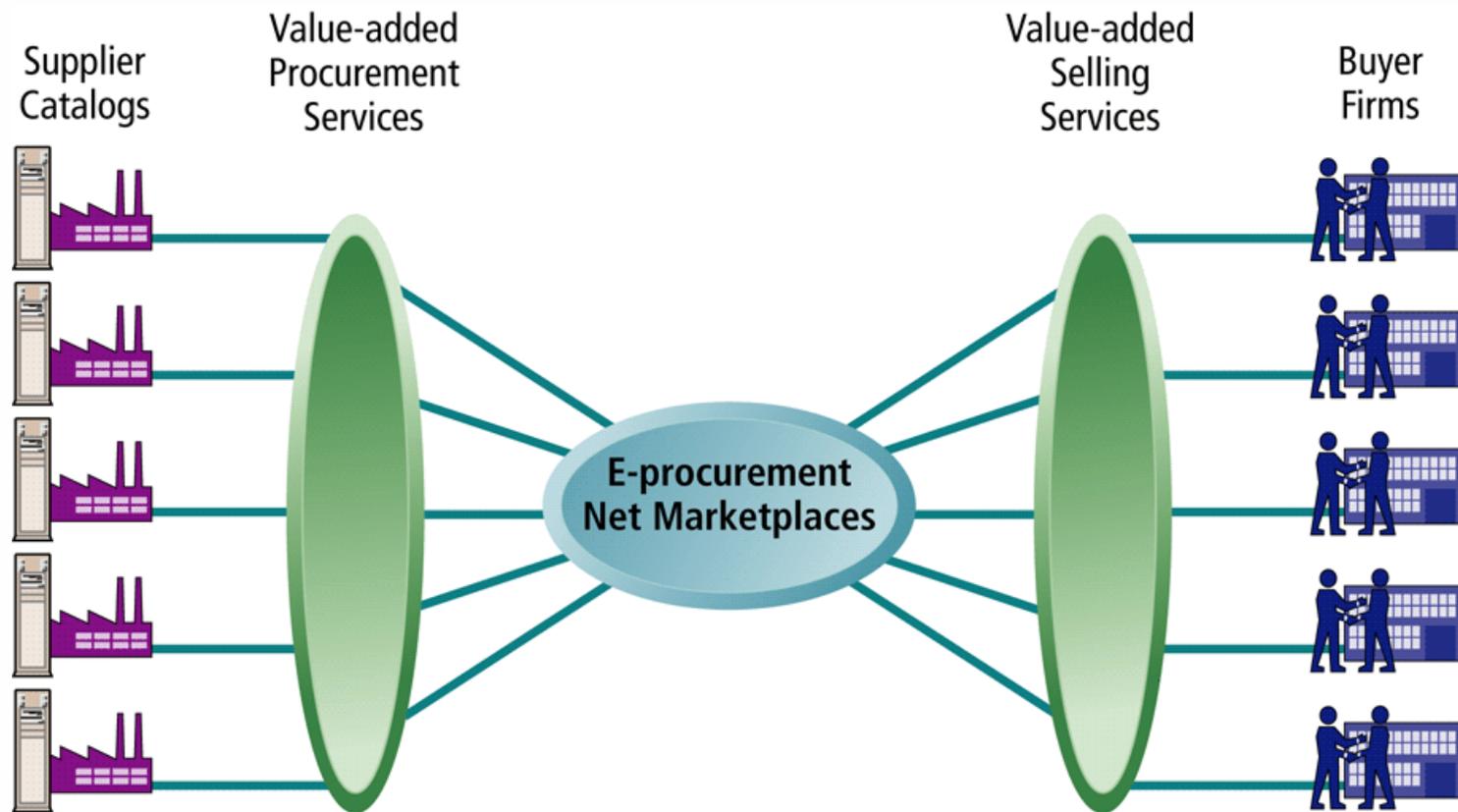


Horizontal Distributors (cont'd)

- Provide value chain management services -- include the automation of a firm's entire procurement process on the buyer side and the automation of the selling business processes on the seller side
- Two largest e-procurement players are Ariba and Perfect Commerce



Horizontal Distributors (cont'd)



SOURCE: Laudon & Traver, *E-commerce: business, technology, society*, 2001



Vertical Exchanges

- Independently owned online marketplaces that connect hundreds of suppliers to potentially thousands of buyers in a dynamic real-time environment
- Typically vertical markets in which spot purchases can be made for direct inputs (both goods and services)
- Make money by charging a commission on each transaction

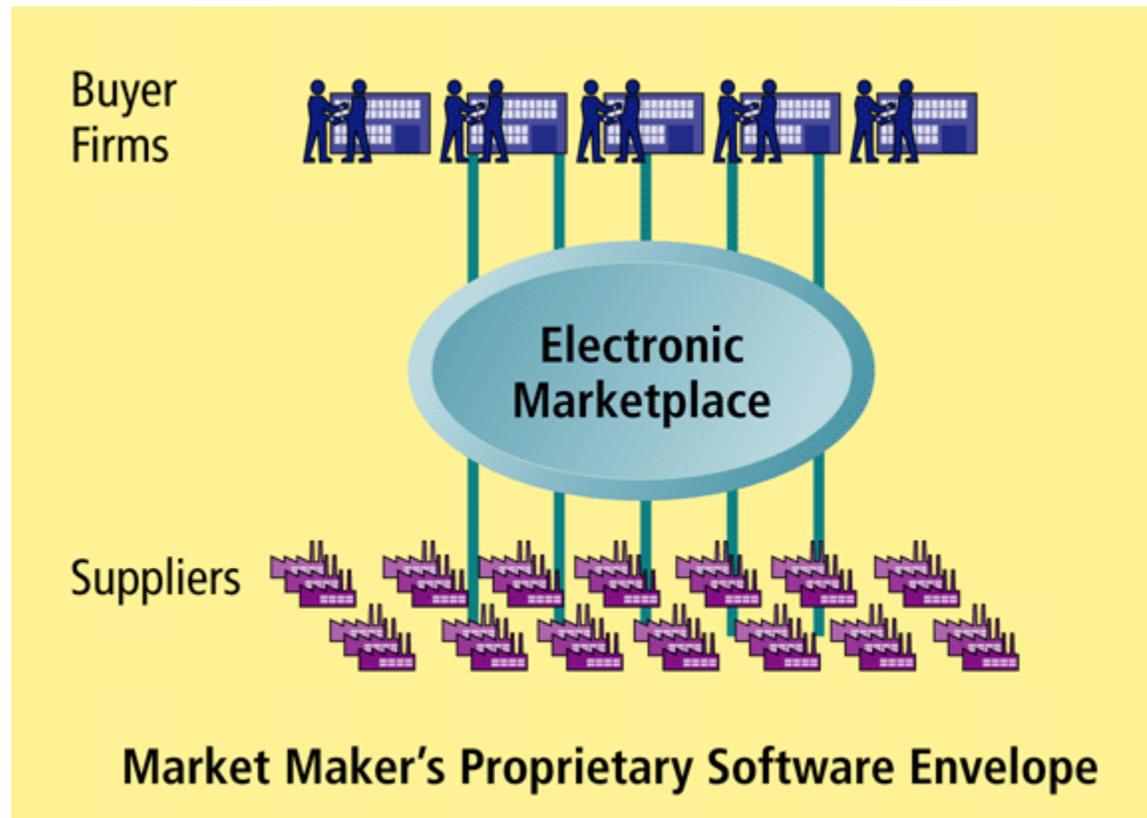


Vertical Exchanges (cont'd)

- Pricing can be through an online negotiation, auction, RFQ, or fixed prices
- Benefits for buyers include reduced search costs, lower prices
- Benefits for sellers include access to global purchasing environment and opportunity to unload production overruns
- Exchanges are “public” markets and are biased in favor of the buyer



Vertical Exchanges (cont'd)



SOURCE: Laudon & Traver, *E-commerce: business, technology, society*, 2001



Examples of Vertical Exchanges

TABLE 12.4 SOME EXCHANGES	
EXCHANGE	FOCUS
E-Steel.com	Spot market for steel products.
Altranet.com (Altra Energy)	Real-time online network for trading gas, power, and liquids.
Smarterwork.com	Spare professional services from Web design to legal advice.
AskAD.com	Unsold advertising auctioned online.
Activeinternational.com	Trading in underutilized manufacturing capacity.
Foodtrader.com	One of the largest B2B spot trading sites for the food products industry.
E-greenbiz.com	Online spot market for nursery supplies.
Powerfarm.com	Online spot purchasing for the farm industry.
Textradeinternational.com	Global textile network for fiber and yarns trading.
Carrierpoint.com	Spot market for the trucking industry.

SOURCE: Laudon & Traver, *E-commerce: business, technology, society, 2001*



Vertical Distributors

- Industry-owned vertical markets where long-term contractual purchases of direct inputs can be made from a limited set of invited participants
- Serve to reduce supply chain inefficiencies by unifying the supply chain for an industry through a common network and computing platform



Vertical Distributors (cont'd)

- Make money through:
 - Industry members who pay for the creation of the site and contribute initial operating capital
 - Buyer firms who pay transaction and subscription fees
- Pricing mechanism ranges from auctions to fixed prices to RFQs

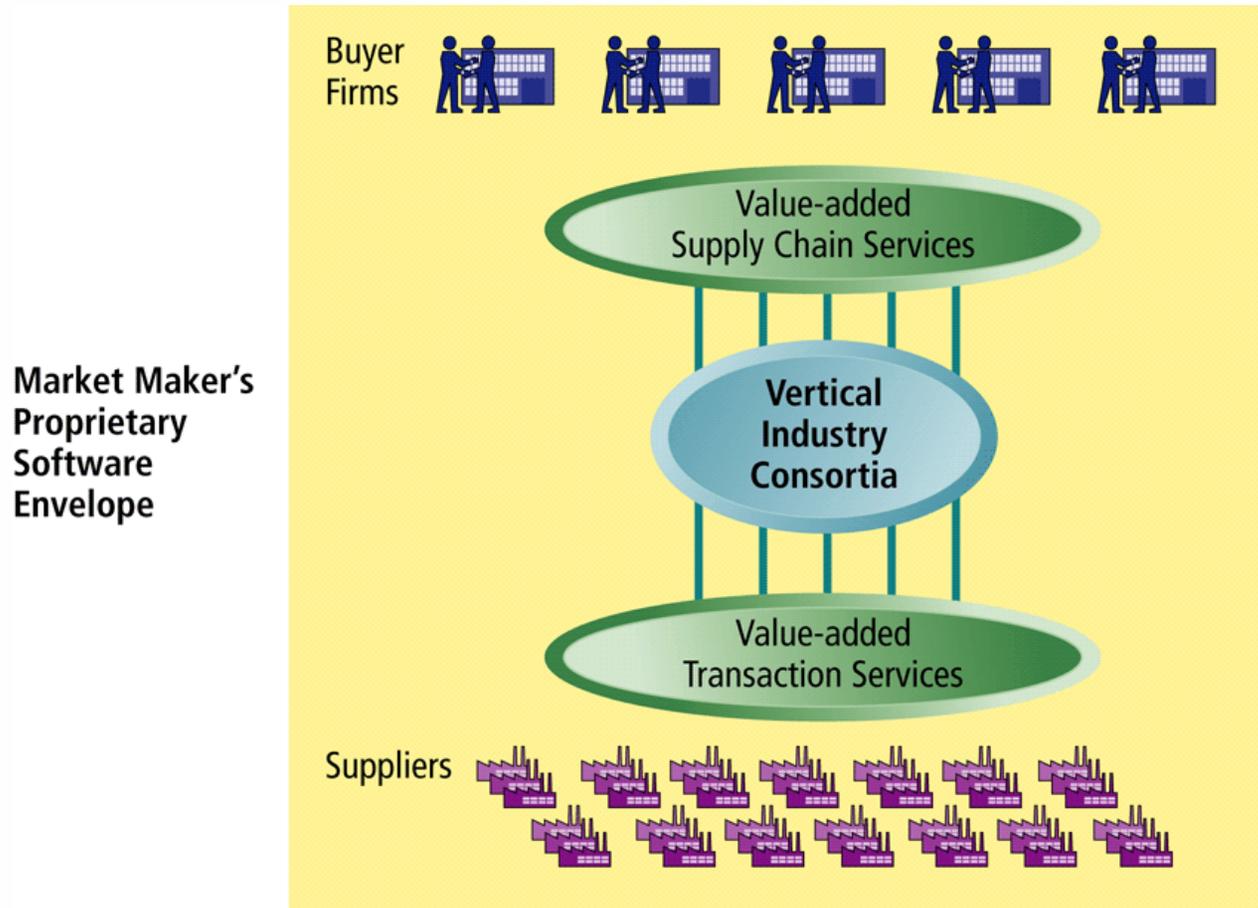


Vertical Distributors (cont'd)

- Bias of industry consortia is toward large buyers who benefit from competitive pricing
- Benefit to suppliers is from access to large buyer firm procurement systems, long-term stable relationships, and large order sizes



Vertical Distributors (cont'd)



SOURCE: Laudon & Traver, *E-commerce: business, technology, society*, 2001



Vertical Distributors by Industry

TABLE 12.6	INDUSTRY CONSORTIA BY INDUSTRY (NOVEMBER 2000)
INDUSTRY	NAME OF INDUSTRY CONSORTIA
Aerospace	Aeroxchangewww.find; Cordiem.com; Exostar.com
Agriculture	Rooster.com
Automotive	Covisint.com; SupplyOn.com
Chemical	AllianceChem.com; Elemica.com; ChemConnect.com; RubberNetwork.com; ElastomerSolutions.com; Omnexus.com
Computers, Consumer Electronics, and Telecommunications	e2open.com; eHITEX.com
Construction	Mercadium.com
Consumer Products	RetailersMarketXchange (rmx.com); Transora.com; GlobalNetXchange (gnx.com); WorldWideRetailExchange.com; UCCnet.com
Energy and Utilities	Pantellos.com; Enporion.com
Engineering	ec4ec.com
Financial	MuniCenter.com
Food	CPGmarket.com; Dairy.com; Electronic Foodservice Network (eFSNetwork.com); FSXchange.com
Hospitality	Avendra.com
Legal	LawCommerce.com
Medical Services, Supplies	Global Healthcare Exchange (ghx.com); HealthNexis.com
Metals and Mining	WorldMetal.com; The Global Steel Exchange (gsx.com)
MRO	CorProcure.com
Manufacturing	ManufacturingCentral.com
Oils and Metals (Trading)	IntercontinentalExchange.com
Paper and Forest Products	ForestExpress.com
Petroleum	Trade-Ranger.com; Pepex.com
Real Estate	ConstellationRealTechnologies.com
Shipping	LevelSeas.com; OceanConnect.com
Textiles	TheSeam.com (Cotton Consortium)
Transportation	Transplace.com

SOURCE: Jupiter Media Metrix, 2000b; www.nmm.com, 2001.



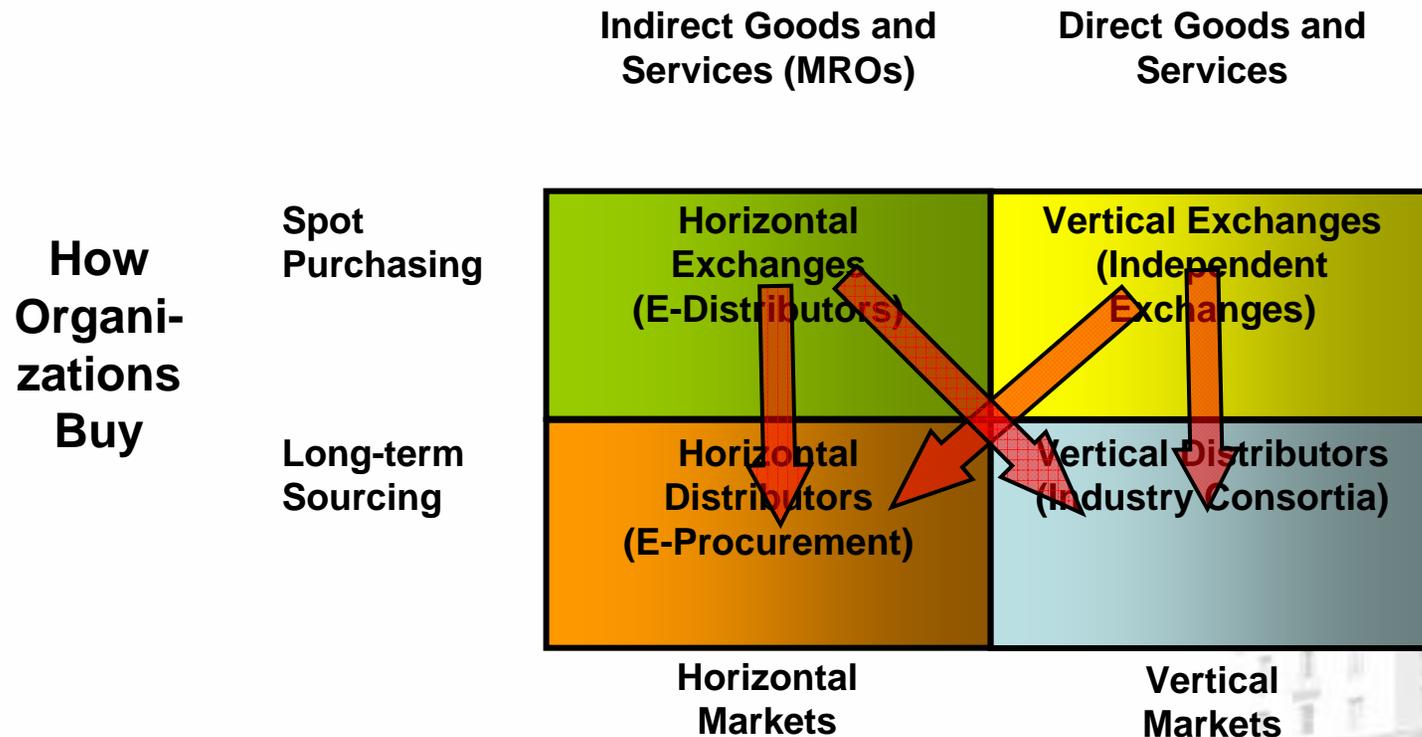
How are Exchanges Evolving

- Movement from simple transactions of spot purchases to longer-term sourcing agreements
- Horizontal exchanges are moving toward more active and sustained relationships with buyer companies by providing added-value services
- Vertical exchanges are being absorbed into industry consortia



How are Exchanges Evolving (cont'd)

What Organizations Buy



Collaborative Commerce

- Collaborative commerce describe Internet-based communication environments that extend beyond procurement to include trans-organizational business processes
- Permit buyer firms and principle suppliers to share product design and development, marketing, inventory, production scheduling, and unstructured communications



Collaborative Commerce (cont'd)

- Range in scope from a single large firm to an entire industry
- Generally start as enterprise resource planning system in a single firm that is then expanded to include the firms major suppliers
- Transforms the supply chain by focusing on continuous business process coordination between companies

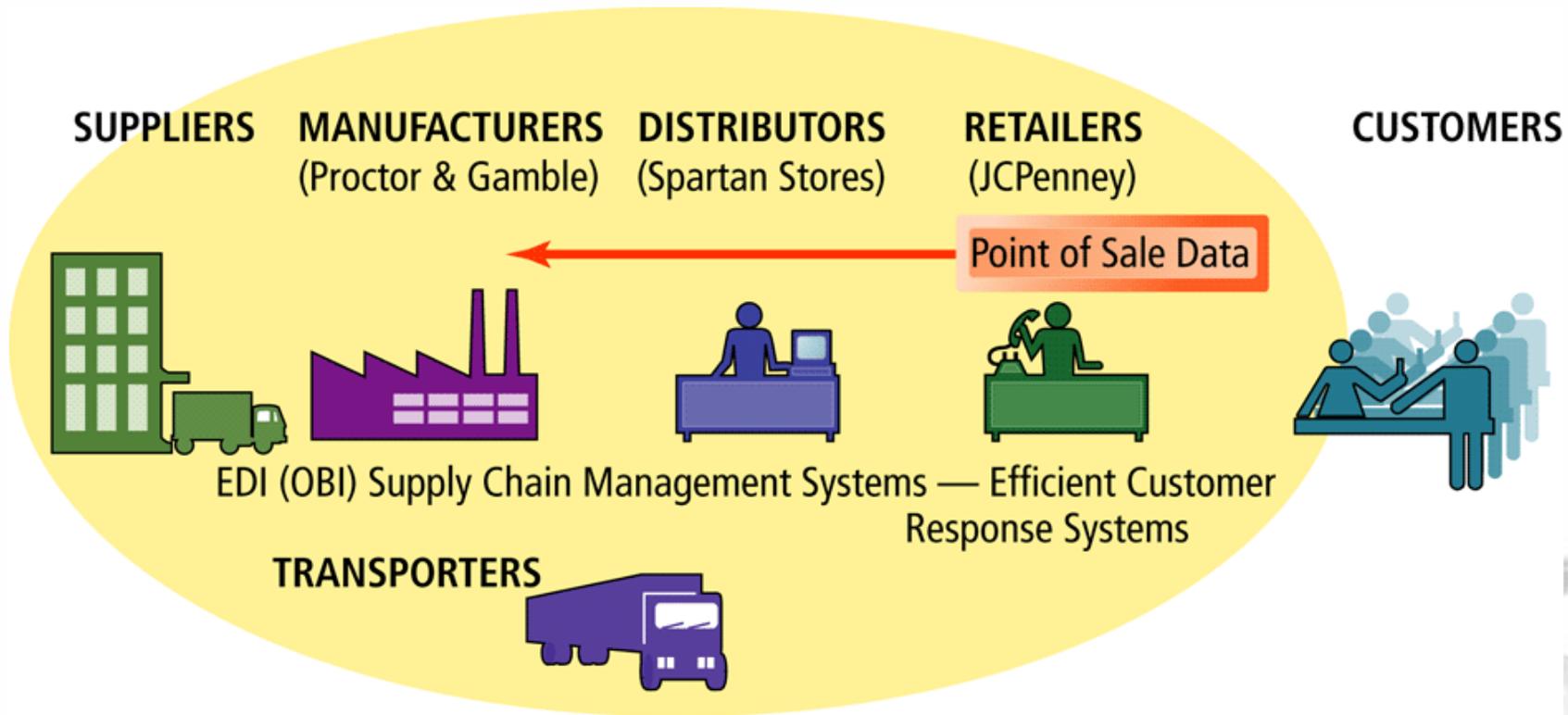


Collaborative Commerce (cont'd)

- Coordination includes product design, demand forecasting, asset management, and sales and marketing plans



Proctor & Gamble's Private Industrial Network



Private Industrial Network

SOURCE: Laudon & Traver, *E-commerce: business, technology, society*, 2001



Implementation Barriers

- Participating firms are required to share sensitive data with their business partners
- Integrating private industrial networks into existing ERP systems and EDI networks is expensive and time consuming
- Collaborative commerce requires a change in mind-set and behavior of employees



Conclusions

- B2B e-commerce is growing and is expected to reach 40 – 50% of total B2B trade
- Many models of B2B have emerged each providing different functionality for the business it supports
- Newer models focus increasingly on value-added services and support of enterprise collaboration
- Important for DoD to examine these models in order to leverage the future of B2B



Questions

