

Chapter 53

ARIBA: A Successful Story in E-Commerce

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ABSTRACT

Ariba services major corporations, and provides services to smaller companies as well. In this chapter, the authors will examine how Ariba, a small startup company during the Internet boom of the 90's was able to overcome hardships, survive market and industry downturns, and continue to thrive and survive in such a competitive industry. The authors will also review major events and innovations that helped the company to grow and succeed rather than to fail.

INTRODUCTION

Ariba, Inc. was born during the dot-com bubble, a star amid countless other e-commerce companies. In the universe of corporations, many bright meteors, like Commerce One, didn't shine too long. However, the interesting evolution of Ariba, from a pioneer to a sufferer to a survivor, has taught us much about survival in the competitive business to business (B2B) software industry. Ariba's software would help many companies save money on their procurements, and control expenses besides payroll. Ariba promised to help companies improve their bottom line. Many of Ariba's clients today hold

positions on the coveted Fortune 100 list. Going public in 1999, Ariba's stock price at one time reached \$259 per share. At the time, Ariba was still getting their feet wet; they had not yet made a profit. The next year their stock reached \$168.75, but a negative turn in the economy lay ahead. Many companies began to cut back on investments and in just 9 months Ariba lost 95% of their value. This would be disastrous to any company, and would be the downfall of most, but Ariba made some critical key decisions that helped continue its leadership in the B2B world. They are one of the few companies to not only survive the burst of the dot-com bubble, and to this day to remain a successful company.

DOI: 10.4018/978-1-61520-611-7.ch053

BACKGROUND

E-commerce was in many ways revolutionized by Ariba Inc, a leading independent company in the sphere of B2B commerce network providers. The company has been evolving constantly, in cooperation with leading companies in the industry, in order to deliver E-commerce platform products to its customers/clients. Its value chain model has been able to develop business relationships further than anticipated, the results of which made it a top 40 Fortune 500 company.

Ariba has overcome many obstacles, including lawsuits, changing customer requirements, and organizational restructuring, however still managed to remain a leader in its specific niche area. They have done so by delivering solutions and services that meet customers' expectations, and have been able to cope with intense competition by keeping up with today's technologies as well as developing solutions for tomorrow. Ariba was founded in Sunnyvale CA, in September 1996, by seven men, the most influential individual being Steven Krach. Krach's early career accomplishments included being one of the youngest vice presidents General Motors (Ariba, 2008). Having struggled with the procurement process in his time there; it became a precursor and impetus for the birth of Ariba. Krach and his associates brainstormed and came up with the idea of automating the purchasing of common supplies and services. This is a seemingly simple idea, but one with a huge demand and potential.

After three months of intensive research, which included meeting with 60 Fortune 500 companies, Ariba had a prototype developed and ready for their initial marketing campaign. Having signed software licensing deals with Cisco Systems, Advanced Micro Devices and Octel Communications, prior to software completion, the pieces were put into place for the launch of their product. Among the early competitors to Ariba were Commerce One, Oracle, I2, and PeopleSoft, Inc.

The objective was to become a powerhouse

company with the means and resources to provide procurement software and network consulting services, enabling corporations to manage their spending more effectively. This included essentially all non payroll expenses associated with running a business. Ariba offered their clients real-time data by providing information over the Internet. These applications were used in conjunction with the *Ariba Supplier Network* to purchase goods and services. Ariba is customer driven, and offered full support, including technical support, implementation, training, and consulting. E-payment and service agreements were made with American Express and Bank of America. All of these were considered large and bold undertakings for a young startup company at that time. In June of 1999, Ariba went public at a modest \$23 per share, however traded as high as \$259 per share at times later that year (Schneider, C. M Bruton, 2008; Haksoz and Seshadri, 2007). A stunning success for a three year old company which had yet to turn a profit, it benefited from being a "first mover" in the business. However, other Internet start-up companies were beginning to offer similar software and services. Over time, smaller companies began emerging with websites that provided a place to manage procurement, some with lower costs and fees. Facing challenges in the market, Ariba began to be faced with difficult challenges and had to make major decisions in order to stay in business.

Ariba finally saw a profit of \$10 million in December of 2000, which also included the completion of three *acquisitions*. Soon after, in 2001, the economy began to weaken in a downward spiral and Ariba's stock plummeted 95%, making a business overhaul necessary. Ariba decided to take drastic cost-cutting measures, cutting about a third of their staff. Because of their specialized and niche product line, their business was able to continue and survive the setbacks faced by other Internet software companies. Krach resigned as CEO in 2001, but stayed on chairman and appointed a CEO that would later cost the company

much money and negative publicity. The bursting of the dot-com “bubble” marked the beginning of a relatively mild yet rather lengthy early 2000s recession (Marshall, 2001; Sahay, 2007). In time, Ariba, along with the rest of the B2B business community ran into two big problems. First, the brick-and-mortar Old Economy was stable and could adjust more readily to economic downturns. Secondly, companies were interested in saving transaction fees by using alternate means of such as word processors instead of using costly B2B networks. However, they were less interested in cutting their savings in terms of transaction fees (Cerquides, López-Sánchez, Reyes-Moro, & Rodríguez-Aguilar, 2007).

Still, Ariba persisted and would once again regain its position as a leader in the B2B procurement industry. The firm made adjustments where necessary to still deliver the goods to their clients, without sacrificing their own bottom line. According to the current CEO, Bob Calderoni, Ariba is well positioned in the spend management market and will continue to grow in the current tough global economy.

The following sections explore the internal (*adaptations to a competitive environment, acquire to advance, consulting adds value, emphasis on the customer*) and external (*severe competition, high-priced software, regulator’s investigation, unhappy customers*) factors that affect the company’s struggles and challenges.

INTERNAL FACTORS

Adaptations to a Competitive Environment

At the height of the e-procurement frenzy, two companies dominated the B2B space: Commerce One and Ariba. With the near-collapse of the original B2B procurement model, both companies sought new niches. Commerce One moved towards web services in an attempt to

seek viable markets. Ariba, meanwhile, emphasized enterprise spending management (Kinsey, 2004). Ariba strongly believed that a software firm’s role is to be a software tool provider. As the B2B world divided into industry sponsored exchanges and independent marketplaces, Ariba avoided involvement in managing its customers’ exchanges. Conversely, Commerce One believed that software makers had to do more than simply provide software tools. They had formed strategic partnerships with its customers and helped manage their online marketplaces (Anderson, Opie, & Watton, 2003; Bannan, 2008). It also directed its customers towards an international trading network in order to build critical mass and facilitate e-commerce between them.

As a new CEO, Calderoni monitored the external environment, where a fundamental shift in the marketplace existed, and responded promptly to adjust the company’s product offering. He believed that B2B e-business had a direct and indirect impact on all functional areas, and those linkages with a company’s supply chain system was critical. In effect, Ariba was changing its focus from e-procurement, to offering products that can increase customer satisfaction by solving a variety of “spend-related” problems faced by corporations (Tadeschi, 2008).

With the concept of division of labor as a microeconomic view, Calderoni added a purchasing system, general ledger, and field system into Ariba’s line of products. The added features in the company’s products were favored by Ariba’s existing customers in the auto, chemical, and manufacturing industries due to the ease of system comparability. The need to transfer data from legacy systems enabled these customers to remove outdated and inaccurate data from their systems and which also helped to improve relationships with their customers.

Acquire to Advance

According to Krach, a major component of Ariba's business model is partnering followed by organic growth and acquisition, and so the company continues to follow this basic approach to help ensure the firm's success. Ariba acquired companies that had the technology and resources they needed to survive, instead of taking the time to develop them in-house. By acquiring Agile Software, a leading provider of Internet-based B2B communication technology, Ariba was able to add collaboration capability to its services, allowing its customers to communicate and coordinate product supply, design, and other specialized electronic-commerce functions. Mr. Calderoni implemented an aggressive acquisition strategy that significantly expanded Ariba's technology offerings and service capabilities, and positioned the company as a recognized leader in its market. One goal was to secure top Fortune 10 companies and Global 500 companies as customers.

In 2004, Ariba acquired Alliente Inc. and FreeMarkets Inc. to link their spend management software with its existing capacities as a B2B procurement hub. The acquisition of FreeMarkets increased Ariba's offerings by providing global supply management software and services. This acquisition also positioned Ariba as a serious contender in the automotive industry, adding General Motors Corp., Daimler-Chrysler AG and Ford Motor Co. to their customer base. By acquiring Alliente, Ariba expanded its spend management and procurement capabilities to include a procurement out-sourcing provider (Hosford, 2007).

In December 2007, Ariba announced that it had completed the acquisition of Procuri, Inc. a privately held provider of on-demand supply management solutions, rounding out Ariba's offerings that help companies automate the procurement process. According to Ariba CEO Bob Calderoni, more than 70% of Procuri's 300 customers have under \$5 billion in revenues. As a result, this

deal also gave Ariba greater access to midmarket customers (Anonymous, 2007).

Consulting Adds Value

Calderoni believed that Ariba has survived by expanding beyond software that focused mainly on transactions, to encompassing additional facets of the buying process. Calderoni hired hundreds of consultants to advise companies on how to buy goods and services cheaply, using Ariba's software. Although consulting is less profitable than selling software, Calderoni predicted he can successfully combine the two as an integrated set of offerings. While consultants coach Ariba's clients on how to use the software effectively, Ariba's clients can also reply on Internet-based purchasing systems to help them buy direct materials that are core to their company's manufacturing processes.

In order to extend Ariba's consulting services, which in 2004 accounted for nearly half of the company's \$323 million in sales, Ariba made consultants available via email and phone for a fraction of the price that is charged to the larger companies who require dedicated consultants through in site visits.

Emphasis on the Customer

In 2001, investors were looking for a change in leadership at Ariba after the firm missed revenue and earnings projections by a wide margin. Ariba moved Keith Krach out of the CEO position, filling the post with the company's President and COO, Larry Mueller. Mueller entered the position with a new strategy: to halt the company's current plans to enter new markets, and instead opting to add new features, including electronic payment and invoicing, to its existing e-procurement and auction applications. Mueller heightened the focus on improving e-procurement applications by making heavy investments in existing e-procurement

and sourcing platforms; and building technology around the key interactions that enterprises have with trading partners.

Mueller remained focused on bolstering Ariba's role as a traditional B2B transaction platform. Ariba announced plans to invest heavily in its *Ariba Commerce Services Network* and its network-centric applications, including *Network Connect*, which allowed non-Ariba customers to come into the Ariba services network and conduct business or procure services. The company also organized its development, sales, and marketing staff to focus on specific industries. According to Mueller, "Customer ROI is the focus." A focus on international expansion has boosted revenue from outside the US from 10% in the third quarter 2000 to 25% in the same period for 2001 (Purdum, 2007). Ariba is trying to rebuild its fortunes as public marketplaces that use its technology are struggling - some economists feel this is due to the fact the industry just isn't ready for e-commerce.

Since joining the company in 2000, new (and current) chairman and CEO of Ariba, Mr. Calderoni has successfully transformed Ariba from a narrowly focused e-procurement vendor to a comprehensive spend management solutions provider that companies of all sizes rely on to transform the way they do business globally. Under Mr. Calderoni's leadership, Ariba has led the way in developing and delivering innovative solutions that combine technology, commodity expertise and services to help companies streamline the procurement process and drive bottom-line results.

EXTERNAL FACTORS

Severe Competition

Simply being a dot-com business survivor, however, would not ensure its continued existence and profitability, and Ariba was at risk of losing business to the likes of other competitors such

as SAP and Oracle. SAP, a German enterprise resource planning software maker, joined this market and signed on with Hewlett-Packard for a product called mySAP.com e-business solutions. In addition, it built a marketplace for chemical and pharmaceutical firms by educating them on mySAP.com, and with the result of installing a large SAP user base among Fortune 500 companies.

Nevertheless, Oracle had already anticipated a shift in the market and made plans to capitalize on it. Right now, the procurement sector is dominated by leading software companies Ariba and Commerce One. But as the slowdown in the U.S economy continues, Oracle is hoping the opportunity for companies like Ariba will start to shrink as users look to more established ones, like Oracle, for an all around e-commerce package (Arora, Greenwald, Kannan, Karthik, & Krishnan, 2007). Ariba had in fact provided Oracle with an opportunity to gain market share when it cut a third of its workforce and announced reduced earnings during economic recent downturns.

Ariba recognized that to remain competitive, it had to address the problem of hidden costs associated with the products they sell, in addition to the price they charge for the software itself within the supply chain, especially when the product was in the later stage of its cycle. When a company does not paying attention to the hidden costs of new software implementation, it can creep up and well-intentioned efforts can be result in the form of financial penalties (Angeles & Nath, 2007; Brown, 2008).

By August 2008, the market for supply chain management (SCM) software market has grown. Worldwide spending on SCM solutions reached \$6 billion in 2007, which was up 17.6% from 2006. SCM Technologies are well-positioned to address the economic realities facing worldwide markets where costs are skyrocketing while competition and customer demands are intensifying (Eschinger, 2008). A number of the SCM solution vendors are merging, and expanding their capabilities within

the realm of supply chain technologies. In comparison, Ariba's 2007 revenue was \$160.3 million, which significantly trailed behind Oracle and SAP, who reported \$955.2 million and \$1,334.4 million in revenue, respectively, showing that the threat of these products cutting into Ariba's bottom line is a real one (Orme & Etkorn, 2007).

High-Priced Software

Without a doubt, e-procurement is rising substantially among the nation's largest 500 companies. Well-financed corporations are willing to invest in Internet software and technology that can reduce the inefficiency associated with the purchasing and buying processes. The use of this software can help companies to track spending and make sure they purchase products in accordance with contracts they have negotiated with suppliers. In fact, businesses that spend billions each year on supplies can often save tens of millions in costs by implementing such technology. However, it's only the large firms that can devote the time and money to installing such systems, which frequently required that suppliers link to such systems as well. Since the software is generally expensive and can be complicated to install on the customer's system, for small- and medium-sized businesses facing an uncertain economy, investments of this magnitude are can be difficult to justify.

Ariba took advantage of this situation, and in 2005 announced a strategy to sell its software and services to smaller companies on an on-demand basis, so they can buy supplies more efficiently online, as well. Ariba reshaped its software system so its customers can plug into Ariba's software through the Internet instead of installing it on their own systems. One major benefit of this approach, Mr. Calderoni said, is that Ariba can sell software to procurement managers and others in charge of spending, without involving the company's information technology staff.

Regulator's Investigation

In early 2003, Ariba became under investigation by the Security and Exchange Commissions (SEC). The reason for the investigation was linked to Ariba's accounting errors, doubtful partner deals, and questionable e-payments items including chartered airplanes. Among the specific allegations were that Ariba failed to record a \$10 million payment from chairman Keith Krach to former chief executive Larry Mueller as an expense. The restatements are unusual because the chairman -- not the company -- covered the expense (Lau and Wang, 2007). Then three weeks later, Ariba had decided to do the same for \$1.2 million in chartered jet services that was considered as Krach's compensation to Mueller, who subsequently left Ariba in July 2001. The problem is that United States laws and regulations require that payments by a principal holder to executives be treated as expenses paid on behalf of the company.

In addition, Ariba reported an additional \$7.5 million to its expenses. In 2000, Ariba acquired TradingDynamic Inc., Tradex Technologies Inc., and SupplierMarket.com, and it reclassified stock options, or goodwill, that it gave to employees of these companies as a compensation expense. So by combining all of these expenses, the results were 18.7 million of added expenses. Ariba was aware that the regulator had begun an informal inquiry into its accounting practices after the firm said it would restate its earnings for 10 quarters.

Unhappy Customers

Ariba was subject to bad publicity after sending out automated emails to mid-size suppliers announcing their accounts had been upgraded to Premier level status. The email listed premier supplier benefits as well. However, the email also informed them that as a Premier Member, they were now required to pay associated annual fees. Many of the small and mid-size companies viewed this as a marketing ploy and felt they should not all of a

sudden pay fees associated with their membership (Eschinger, 2008).

FUTURE RESEARCH DIRECTIONS

A number of the challenges Ariba faced from its start to the present time allowed them to evolve over time. Ariba has been able to face these challenges head on and continue to be the leading B2B software provider for the past 11 years. During the collapse of the dot-com era Ariba suffered a blow economically, as did others in the industry, and in effect had reduced the company's size by half (Lau and Wang, 2007), as did everyone else. However, they were able to build upon their core competencies and maintain key personnel, managing knowledge that formed the basis of their competitive advantage.

They were also able to stay ahead of the competition through strategic mergers which enhanced their products and services. These mergers should be credited to its CEOs, Presidents, and Board of Directors. Ariba would continue to enhance its products with the availability of constant upgrades and varieties of new products.

With incredible technology growth and its global demand, came the opportunity for Ariba to expand and acquire a more precise goal and target. Ariba has painted a vision of a world in which spend management would be affordable and available to all types of companies, and released an initial set of integrated, on-demand solutions designed to make this happen (Purdum, 2007). In keeping this promise, Ariba would make on-demand products and subscription-based purchasing software and services available to meet the needs of those mid-market customers not wanting to make huge upfront investments. This strategy of meeting the needs of various types of clients was in some way risky, but Ariba has thrived on making strategic, yet controversial decisions throughout the years. Having gone through ups and downs during the years, they still managed to

regain a leadership position even though markets and needs have evolved and changed. Overall, they have been able to provide customers with superb services and innovative products, and reliability is what keeps old customers, and helps to bring in new customers.

There is never a guarantee of success in business. Successful companies also must be surrounded by a committed and devoted management team, supported by well-trained employees. Are these together a recipe for success? We may never know for sure, but taking advice from a company which has been successful since its start, weathered some very tough times, and was able to survive and stay above the rest before seeking out the next realm of opportunity, is certainly an approach that appears to be sound.

CONCLUSION

Ariba achieved recognition for its *Supplier Network*, an e-business center where millions of buyers and suppliers can electronically transact business online, with the goal of more efficient procurement. In addition, Ariba developed spend management software, and is taking the network mainstream. Ariba's application-driven strategy of an open platform, hosted and implemented by partners with vertical-market domain expertise, has helped to secure them a dominant position in the B2B e-commerce application marketplace.

It is interesting to note that while many firms who came up around the time of Ariba and offered competing solutions, Ariba is one of the few that has survived and thrived, using continually new strategies to stay in business, providing a better customer experience, and utilizing advances in technology and ideas that no other companies dared to try. Ariba has been, and remained a pioneer and a leader in an exceedingly competitive and changing marketplace. Due to increased globalization and deregulation, for a company to succeed, it must have leverage over the impact of

competitive forces. Ariba has done a great job in setting themselves apart from their competitors by strategically aligning themselves with their partners, and also expanding its service offerings to a wider range of customers. Ariba's software offerings help companies focus on profitability, and together with its wide array of service options, are customizable for both larger and smaller companies. The firm's products are concrete and customizable, depending on a client's needs. In addition, the product offerings are offered on a common platform, allowing information to travel accurately and quickly through the supply chain.

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KEY TERMS AND DEFINITIONS

Acquisitions: Acquiring control of a corporation, called a target, by stock purchase or exchange, either hostile or friendly.

Business to Business (B2B): The exchange of products, services, or information between businesses.

E-Commerce (electronic commerce or EC): The buying and selling of goods and services on the Internet.

E-Payments (online payments, Electronic Payments, Internet Payments, Web Payments, and e Payment): An electronic payment made via a web browser for goods and services using credit or debit cards.

ARIBA

E-Procurement: A system utilizing Internet technology to streamline the purchases of goods and products to reduce costs.

Supplier Network: It works with a network of screened and qualified small-scale producers and committed medium-sized suppliers.

Supply Chain Management (SCM): The process of strategically managing flows of goods, services and knowledge, along with relationships within and among organizations, to realize greater economic value.