Building the Business Network **of the Future**

HOW CAN BUSINESSES OPERATING IN TODAY'S
GLOBAL ECONOMY CONNECT WITH A COMPLEX AND
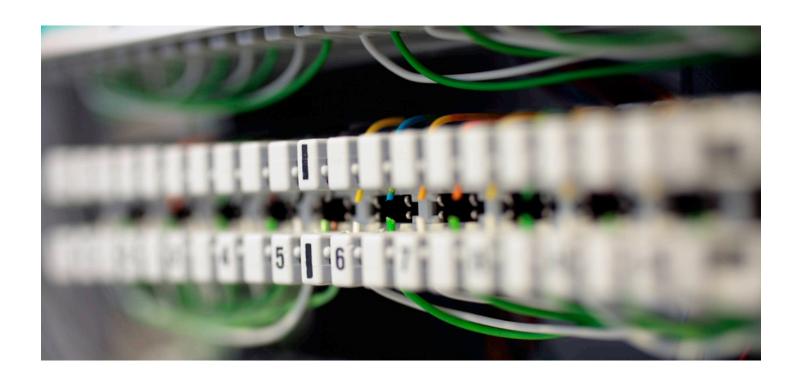GROWING WEB OF COLLABORATORS TO COMPETE?

The first business networks were about creating one-to-one trading connections between companies.

But businesses operating in today's global, networked economy must connect with a complex and growing web of collaborators – from suppliers and customers to workers and business partners – to compete. They need more than a trading platform between buyer and seller.

Thanks to new technologies, like cloud computing, social media, and mobile systems, there is an opportunity to create new destination networks to enable increasing levels of engagement, transparency, collaboration, and trust in the business world.

We talked to a panel of network experts about what the business network of the future might look like and how we'll get there.

Rachel Spasser is senior vice president and chief marketing officer at Ariba.

James Marland is vice president of network strategy at Ariba.

Irfan Khan is senior vice president and general manager of SAP Big Data.

   NO. 44

Q We're more digitally interconnected with other individuals than ever before: We share information on social networks. We perform research on Wikipedia. We buy and sell with partners on Amazon and eBay. We curate content and create communities on YouTube and Netflix. But businesses still seem largely disconnected. Why is that?

Rachel Spasser: It's much simpler to connect in your personal life. You don't have back-end systems. You don't have data privacy and security mandates. Technologically, it's just more complex for companies, and it takes them a lot longer to get their heads around what it means to connect.

But there's huge potential for companies. While the connections in your personal life have qualitative value, connections in the business world have real quantitative value.

> **"** Today, the world is one big trading community, and you have to figure out how to facilitate those connections. **"**
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> – Rachel Spasser, Chief Marketing Officer, Ariba.

Q What's driving companies to pursue more robust business networks right now?

James Marland: In 1937, Nobel Prize–winning economist Ronald H. Coase introduced the concept of transaction costs – the costs incurred from buying or selling things – and showed that the concept of a company made economic sense when it was able to reduce those costs by performing functions in-house rather than dealing in the marketplace. And that has been true since the great days of vertically integrated companies like General Motors – until now.

As those transaction costs have decreased, new possibilities for collaboration have emerged. The focus on the internal is decreasing. Companies are looking for more from their external partnerships, whether that's in finance, logistics, or supply chain.

Spasser: Globalization is moving companies in this direction. In the early days of the assembly line, your partners were within easy driving distance. Today, the world is one big trading community, and you have to figure out how to facilitate those connections. How do you evaluate a new partner on the other side of the world? How do you deal with currency conversions? What about value-added tax compliance issues? It all necessitates a community of companies that share information and insight and the technology to make those connections possible.

Q What kind of network could support increased collaboration among a web of business partners?

Marland: That term "network" is very important. Previous incarnations of digital commerce, such as electronic data interchange, were between two parties. With networks, you have the ability to create a multi-partner value chain. A financial institution could do some hedging or foreign exchange. You could integrate with a third-party logistics provider or access insurance and escrow services. It will be much more than just point-to-point trade. It will be a true destination network.

Spasser: It has to be more than just a trading platform. Every decade that goes by, speed and agility become increasingly more important as competitive advantages. You have to be able to transact quickly, collaborate in real time, and access good information when you need it.

Picture six partners working together to bring a new smartphone to market more quickly than ever before because together they've identified a market need or uncovered a new trend. It becomes a lot more about the intelligence that lives within the network facilitating a new way of working.

Irfan Khan: You have to be able to collaborate much more freely today. Most organizations understand that. They want to have a growth strategy for China, Latin America, and the Middle East. And by doing the necessary groundwork and establishing the real-time business networks, they will have far less latency in their decision making processes.
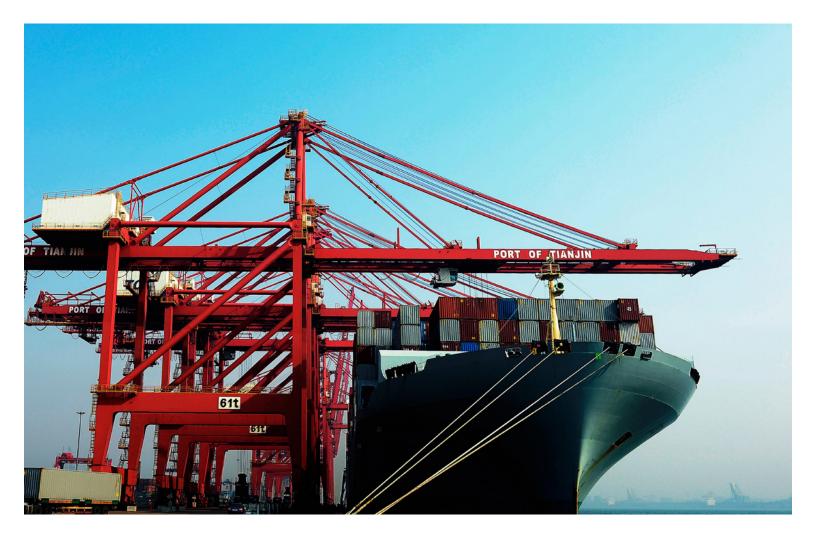
Q So what does this kind of business-to-business collaboration look like?

Marland: Companies are looking to use this kind of network as an innovation platform, not just a place to punch out RFPs. They want to say, "Here's my business problem, Mr. Supplier. What do you propose?" There already are some pretty elegant pieces of software for that kind of spot need. You ask six PR agencies to come up with a plan for reaching 50,000 customers with a Webinar in six weeks. You review their proposals, negotiate a price, and move forward.

Today that's as far as you can go with traditional procurement processes. It's very prescriptive: I buy, you sell. In the future, I think we'll see a collaboration platform that is much more open-ended, more like a social network.

Khan: Companies want more value-added service from their suppliers than the transactional relationship they have today. They want their logistics providers – the DHLs and FedExes – not to act just as a delivery agent but also as a source of business intelligence. The logistics partner might provide a heat map of demand in various regions of the world. They could point out that 40% of product that quarter went to Manila due to a spike in demand for water purification tablets or that special promo you did.

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Q Could such a network also better connect employees within one company?

Marland: Yes, but there's a long way to go. Companies are going to become smaller. More of the global workforce will become independent contractors. Tapping into those resources becomes important, especially when you start to look at countries that have a lot of young, well-educated people who don't have access to business opportunities locally. You want to enable collaboration with them. There will have to be new ways of hooking up those people with opportunities from the business network. Companies that don't do that will rapidly get left behind as their talent pools become older, more conservative, and regionally focused.

Spasser: The ability to find very specific people for very specific projects will be a key use of networks. We see that to a certain extent with LinkedIn, but that is still focused on the traditional job. Going forward, it's going to be about matching skills and opportunities, and there doesn't necessarily have to be a one-to-one relationship between a company and an individual. That network – being able to connect with people globally, negotiate with them, and use them for very specific projects – is going to be the norm.

Q Where do end customers fit into this future business network?

Spasser: The end customer is going to be at the center of everything – more in control of what they buy, from whom, and how fast they get it. They will also play a greater role in the product development process going forward.

Khan: One of the challenges we could overcome with a very efficient business network is the latency between product launch and product acceptance. Look at Apple: You don't know what a product is going to look like until it's unveiled. It's a cloak-and-dagger approach. There can be a mystique to that, but that model will fail in the future because it's so easy to miss the mark.

With a more orchestrated, organized business network that incorporates customer and market intelligence, you could end up with more hits rather than producing something in search of a market.

To make the economy more global, some standards will emerge that a vast majority of countries will adhere to.

Q What are the technological impediments to a more free-flowing business network?

Khan: There are a variety of technology suppliers, which means a variety of different protocols and standards. What you need is more wide-scale adoption of a handful of protocols or standards that could be utilized by the masses, much in the same way that the SQL programming language is now supported by all databases today. That in itself would help to create more of an open space for business intelligence and analytics.

Spasser: Corporate legacy systems are highly customized. Unfortunately, the starting point for a lot of companies is how to accommodate their legacy systems rather than what could work best. As we move to the cloud, we're entering a world of more standardization. I think we'll see that in the realm of business networks too. In order for networks to grow and provide value, the transactions can't be held up artificially by independent business rules.

Marland: We're going down the route of having more standard connections to common systems, so if a company wants to integrate the business network directly into its supply chain systems or sales force automation software, that's going to be a lower barrier. But we do still come up against concerns about data security and ownership, particularly outside the U.S.

Q Might global sentiment shift to support a more free-flowing worldwide network?

Marland: Yes, these countries are opening up in a lot of ways. I think they will understand at a high level that, to participate in the world economy, they need to open up. I don't know how long it will take, but probably quicker than we expect.

Spasser: Just like everything else that has evolved over time to make the economy more global, some standards will emerge that a vast majority of countries will adhere to.

Khan: If you look at the concerns about the U.S. National Security Agency's spying programs, people are petrified. We have to address that head on.

Consider Google. It's perhaps the biggest network out there. Google is the custodian of the Internet. It chose to become the underwriter and the overseer of the Internet, telling all organizations that, if you introduce new content, it would make sure it's up to date and available.

What we need is an enterprise Google – someone who takes on that oversight to make sure that when you share information on the network, there's the right data quality, data governance, data ethics, and information lifecycle management in place.

Q If I'm looking to my network – my partners, my workers, and my customers – for innovation, is there a risk that I can no longer provide that myself? What becomes of the corporate identity?

Marland: If you're outsourcing more, what exactly are you doing yourself? You need to focus on what you're good at and bring in partners to help you be successful.

Spasser: There are risks. But there needs to be new operational models to handle them. At the core of companies, there will always be a set of people who drive strategy and execution at the highest level. They understand the pieces and how to put them together. But as you're looking for specific skill sets to help facilitate a particular project or address a specific opportunity, you will look externally because it's much more cost effective. The downside is you don't lock up that expertise. Companies will have to find new ways to capture that intellectual capital.

WE SEE A LOT OF INTEREST IN BUSINESS NETWORKS FROM THE CORPORATE-RISK PERSPECTIVE.

Q If more companies are interconnected on a business network, does that create more risk? Or less?

Marland: You might say that the economy, generally, would be at more risk if everything is interconnected, in much the same way we've seen increased risk in the integrated financial markets. When you get into a very integrated supply chain with lean inventories, there may be less resistance to external shocks, whether it's a war, a natural disaster, or a new regulation. It could ripple through a supply chain very quickly. I think you can deal with that.

However, we actually see a lot of interest in business networks from the corporate-risk perspective. Think about what happened to BP and the oil spill in the Gulf of Mexico. Or Tesco selling horsemeat. Those problems actually occurred five or six levels down into their supply chains. Companies have corporate goals around things like sustainability or conflict minerals, but it's very difficult to get meaningful, real-time information from their vast supply chains. You can use intelligence from the business network to manage all of that. You'll know if a supplier's missed shipments have increased over the last three months across all its customers. That information is curated. It's cleaned. It's official. And you can bet on it.

Spasser: Information that lives in the network and the visibility it provides enables companies to proactively mitigate risk. Toyota took a major hit to its operations after the Japanese earthquake. If Lululemon had known that one of its suppliers was using inferior materials, it could have pulled the plug and sourced its yoga pants elsewhere. Risk is a huge issue for large companies, especially manufacturers. Is my supplier going to be impacted by a typhoon in the Philippines? What will the business impact be if it can't fulfill orders for a month? Where should I get those parts instead? And are those suppliers rated highly?

Q So this future network would incorporate data from outside a company's particular relationships with suppliers, workers, and customers.

Spasser: There are all sorts of data that can run through it and insight that can be derived from the data. There are obvious unstructured data elements, like ratings and reviews, that will help people make better decisions about who they want to partner with. There's third-party quantitative data that can be infused into networks. There are the insights that come out of transactions. The network will help companies understand the dynamics of their business and whether their operational metrics are where they should be.

Q Could a more robust business network do more than increase efficiency or manage risk?

Spasser: One of the key benefits will be to increase innovation and top line growth, which is very different from the way we think about the benefits of business networks today. Right now, the focus is on cost saving benefits. That's the easiest for corporate leaders to get their heads around, and it's a good starting place. If you can get that benefit, it can help you fund some of the top line growth advantages. But what will be really game changing will be the ability to bring new products and services to market and do so more quickly and nimbly.

Q What about the big, open social networks that already exist, like Facebook and Twitter? Is there no enterprise value there?

Spasser: Companies need to take a step back and figure out how to have conversations with people that they don't lead. How do they insert themselves into conversations in a way that adds value rather than interference? It takes a much more analytical approach than controlling a conversation. Once they figure that out, I think they can find themselves in a better position to really influence consumers using social networks.

Khan: Likes or dislikes on a social network don't give you a consensus of what the market really thinks about you. You need to get to a finer level of granularity before social networks can provide real value. That's where the power of predictive analytics could make social media more meaningful. Companies are looking at more graphing-based technologies to create more real-time context around that information.

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Q When will we see this business network of the future come to fruition?

Marland: We're still in the very early days. Today, it's really about hooking people up and getting the dial tone. You can have a million connected companies, but there are still a comparatively large number of connections yet to be made.

Some customers have been through that stage. We're already seeing companies start to use that connection for more than they have in the past. They set up the network to do electronic invoicing but discover that they're able to have a closer relationship with their suppliers on things like order confirmation or shipping. They bring their suppliers into their planning processes and consider sharing new information like inventory levels.

Spasser: Ultimately, I think that the winners in business networks are going to look very similar to the winners in personal networks when you consider the fundamentals. They'll have critical mass. They'll be global. And they'll be able to facilitate multiple processes. You can have moderate success with specialty networks, but the real power is going to be in that comprehensive global network that connects the most people. That's how we'll create new ways of working together.

Q So just as a social graph maps a personal network, business network participants can create a visual analysis of their own connections and information flows?

Spasser: Yes. It's a commerce graph, and it does act in a very similar way, enabling you to understand all of your connection points. If you think about how Amazon or Netflix uses algorithms to recommend movies or products you might enjoy, the commerce graph does the same thing for businesses. You've been buying a lot of copper in Brazil, but other companies like you are seeing shipments being held up in São Paolo due to a new customs law. It takes what the network knows about you – buying history, business relationships, and transaction data – and compares that to other companies of a similar profile, then comes up with suggestions about other suppliers you might use or business processes you might incorporate.

Stephanie Overby
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