

VW Group Supply.com

Where we integrate with our suppliers.

Going Big, Going Bold: B2B Marketplace Implementation at Volkswagen

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Tom Slaight (A.T. Kearney)

Meike-Uta Hansen (Volkswagen)

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Introduction

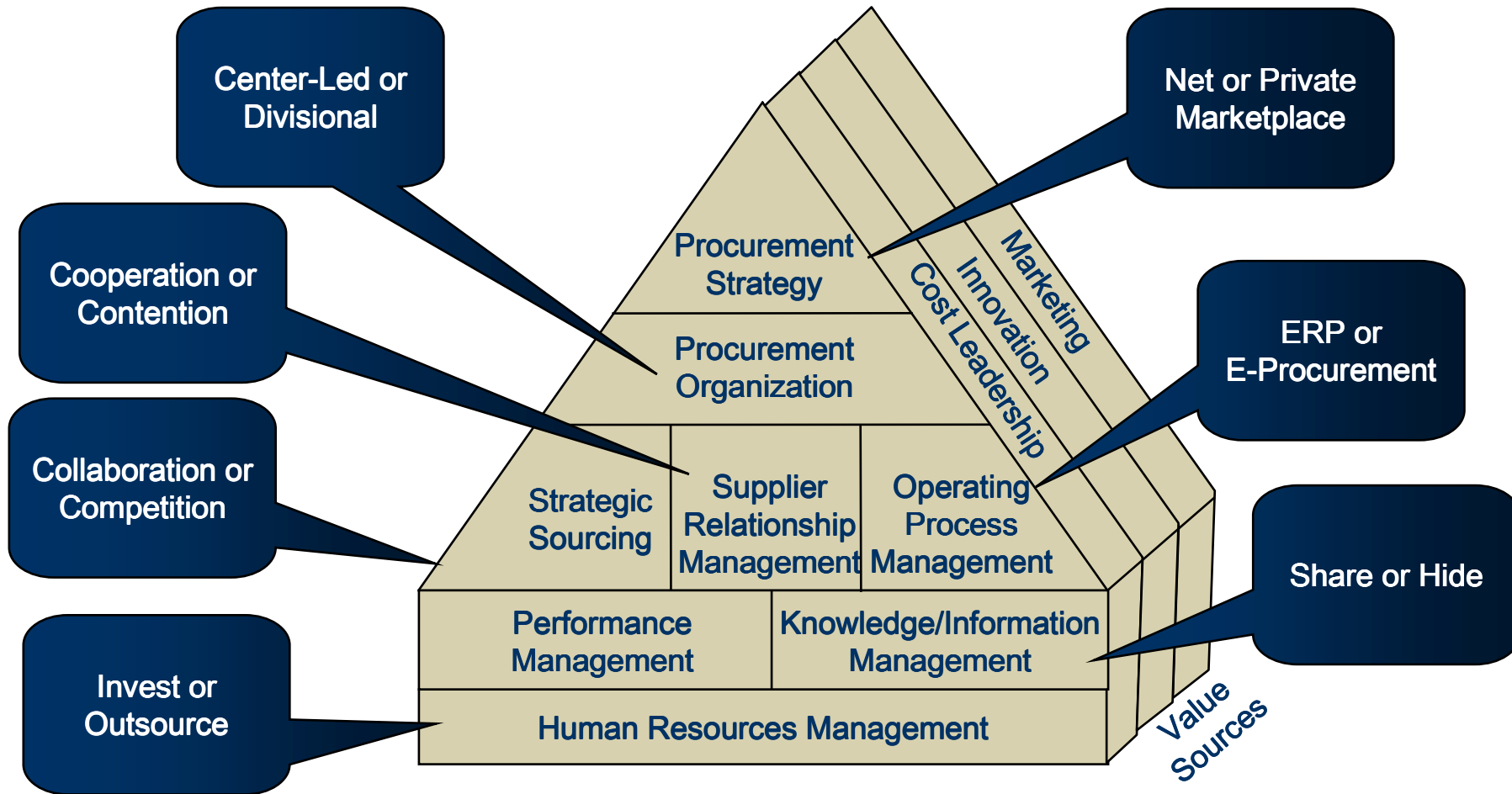
Tom Slaight (A.T. Kearney)

In 1998, electronic commerce began to emerge as the issue of the future

- The Center for Advanced Purchasing Studies and A.T. Kearney conducted a broad study
 - An environmental scan
 - CEO interviews
 - Purchasing and supply executive focus groups
- After 1998, frenetic activity began to bring this issue to the forefront
 - Web tool proliferation
 - Communications bandwidth
 - A sea of investment resources



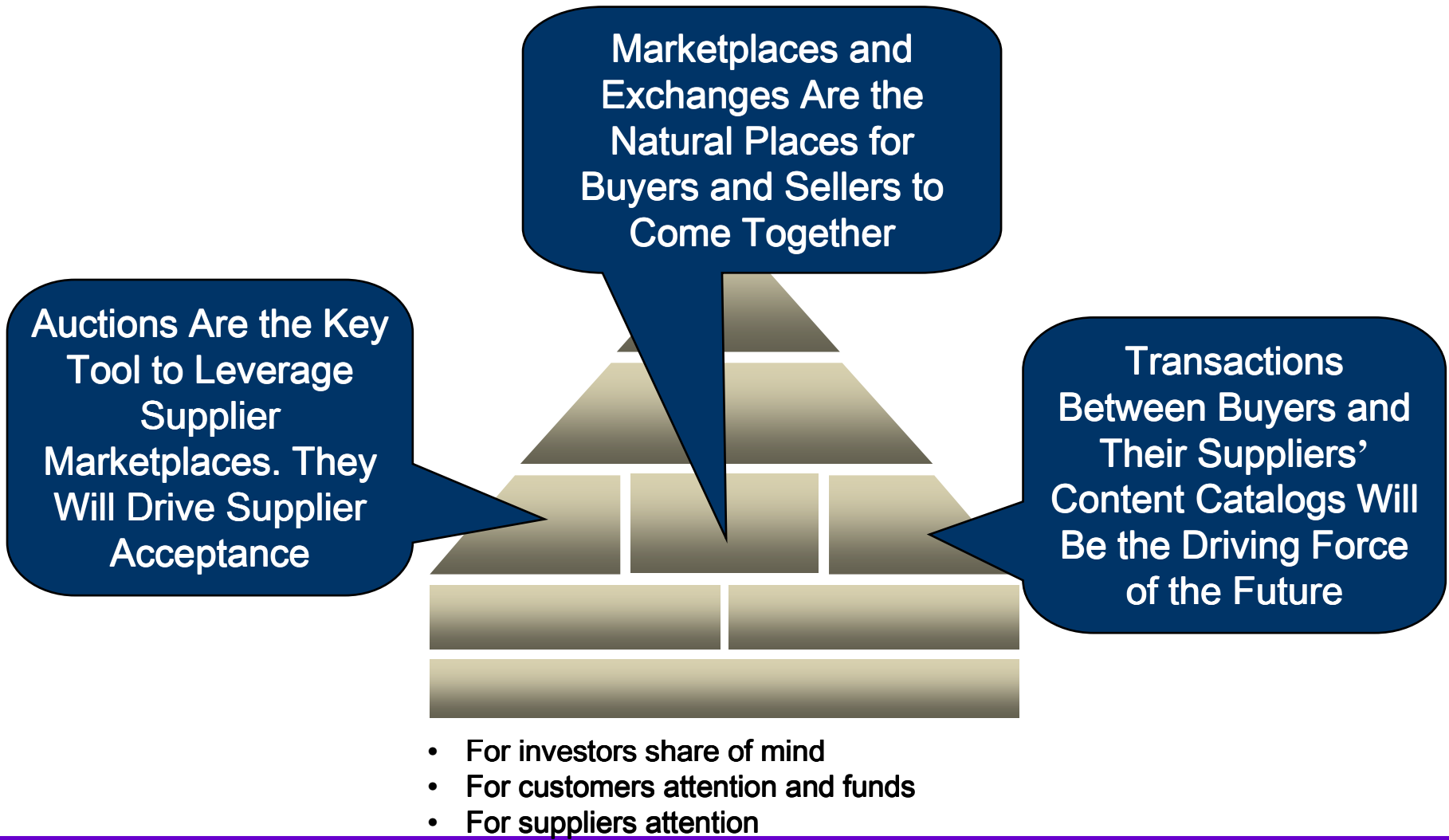
Since 1998, many issues have emerged



In 1999, investors discovered purchasing and supply technologies

- Analysts started covering the tools
 - Ariba
 - Commerce One
 - VerticalNet
 - Chemdex
- Analysts started to describe the function
 - Goldman Sachs
 - Morgan Stanley
 - Robertson Stephens
- New business opportunities were seen everywhere

A three-way competition emerged between solutions



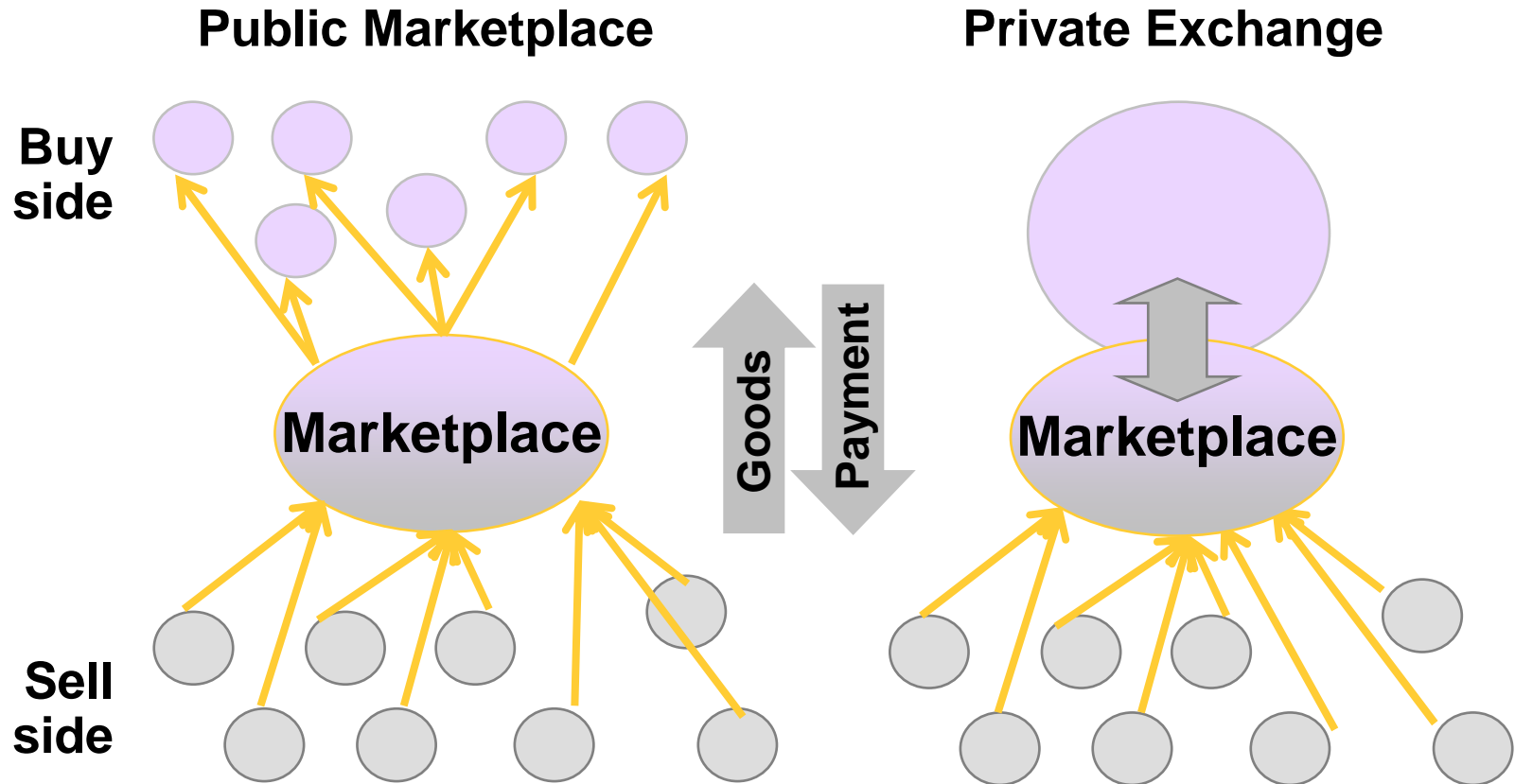
VW chose to Go Big and Go Bold

- They connected to their supply base using purchasing functionalities
 - eRFP (ESL)
 - Online Negotiations (Auctions)
 - Online Catalogs
 - Capacity Management (eCAT)
 - Supplier Database
- They chose to learn by doing
 - 600 auctions
 - 4,000 suppliers
 - €12 billion in spend
- The risk was smaller than anticipated
- The rewards from the learning experience were greater than could be imagined

Nature and differences between private exchanges and public marketplaces

Meike-Uta Hansen (Volkswagen)

Definition of public vs. private marketplaces



A private exchange is favourable for large corporations

Public Marketplace

Pros:

- + No investment for participating buyers
- + Setting industry standards
- + Volume bundling (cartels)
- + Real market making

Cons:

- No process integration
- No process cost reductions
- High transaction cost (usually pay per use)
- Hard to get traffic

Private Exchange

Pros:

- + Process integration
- + Strongly process driven
- + Early user involvement
- + Traffic from the 1st day
- + Material and process cost reductions

Cons:

- High investment
- No bundling beyond company borders
- Risk of taking wrong standards

Pros outway cons for large corporations

Overview of Volkswagen's VW Group Supply.com

Meike-Uta Hansen (Volkswagen)

Volkswagen decided to go for a private exchange

Guidelines:

- Focus on processes
- Orientation on economic benefits
- Step-by-step approach

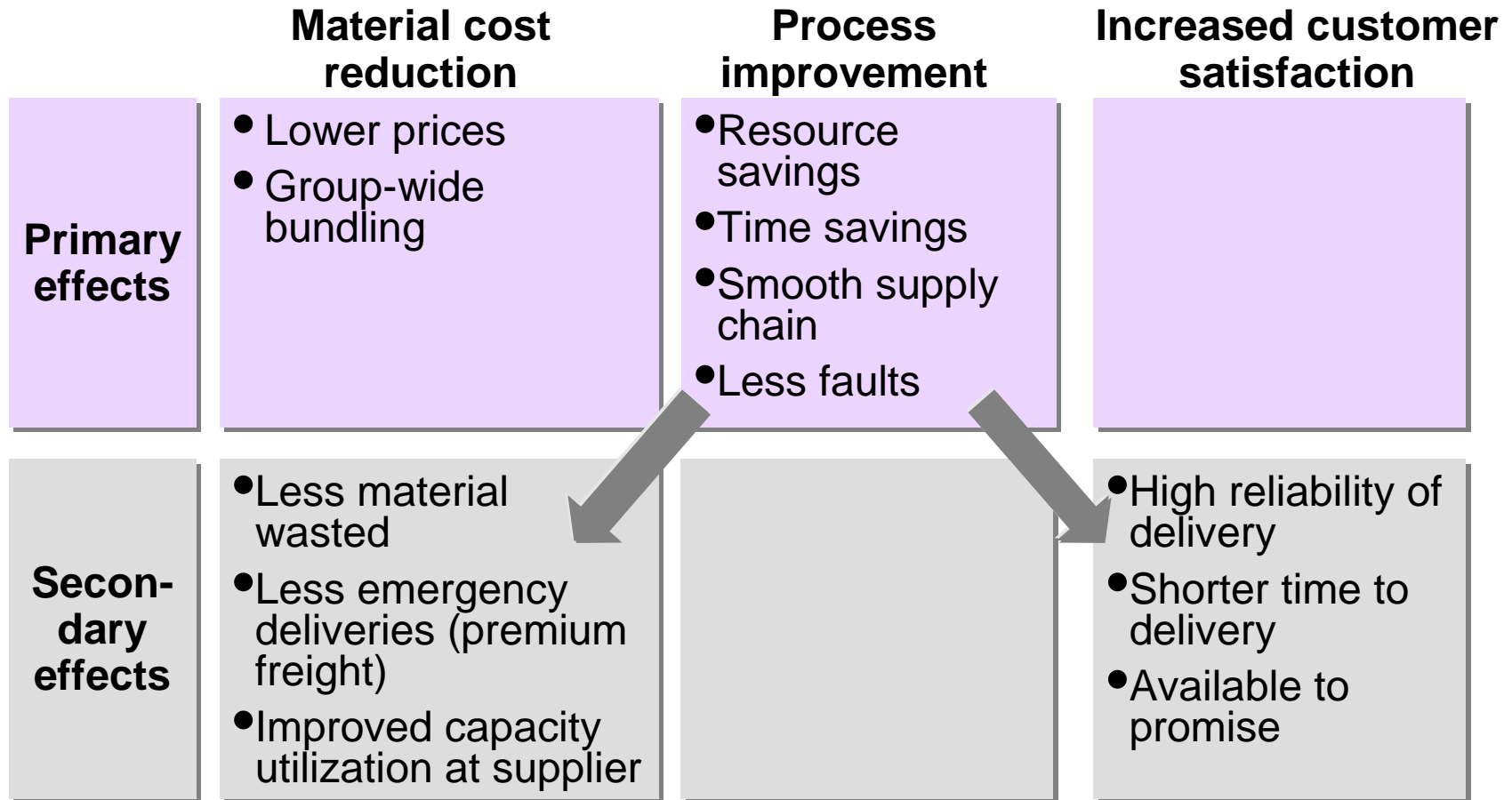
Goals:

- Success factor time
- Success factor transparency

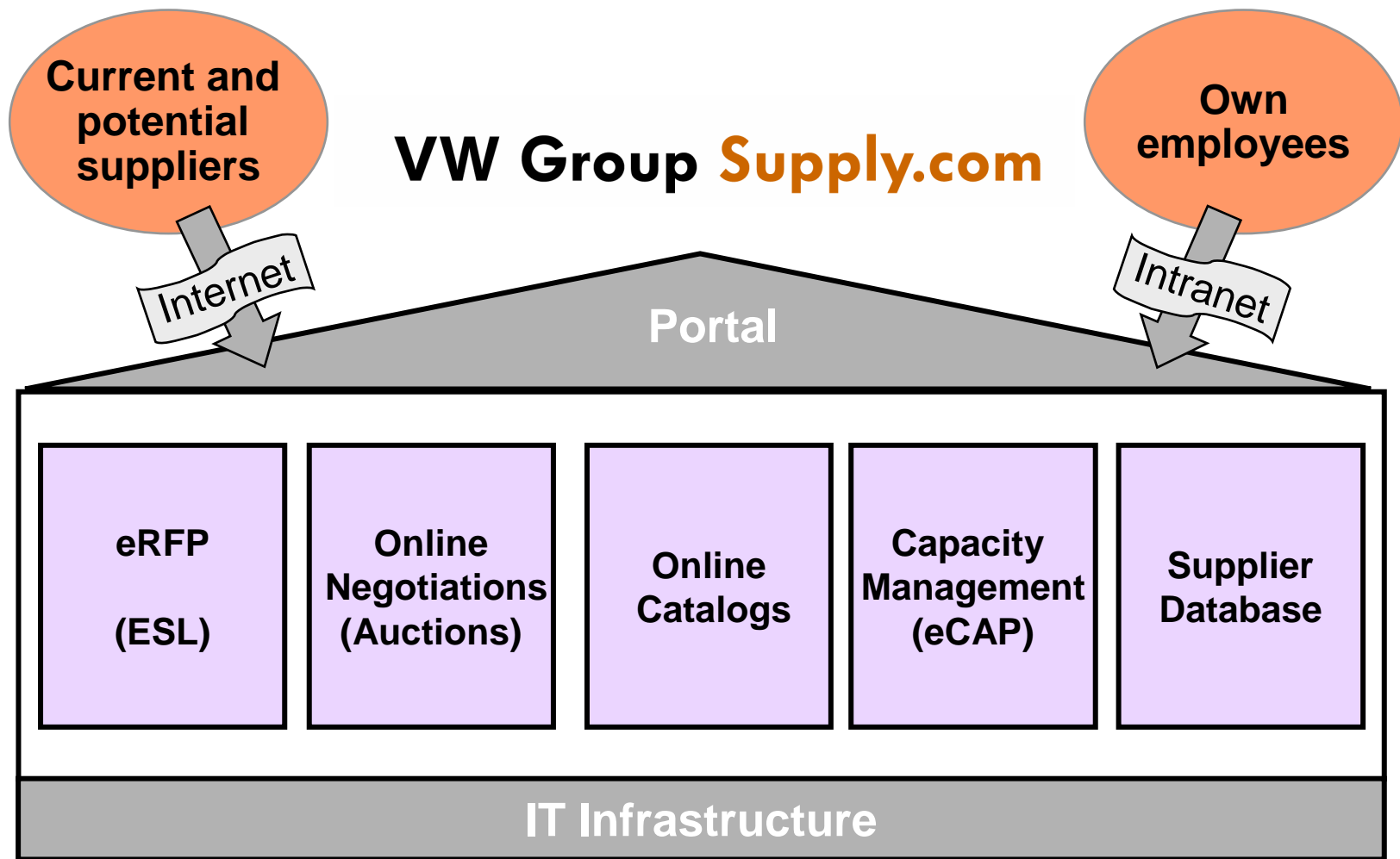
Private platform:

- Better integration in the processes
- Faster introduction

Volkswagen's exchange targets 3 dimensions of benefits



VW Group Supply.com hosts several applications for the collaboration with suppliers



Volkswagen already manages more than 80% of its spend on its private exchange

VW Group Supply.com

Facts & Figures

Overall

5,500 suppliers

500,000 transactions this year

50 billion € transaction volume

>80% of Volkswagen group's total spend

Online Negotiations (Auctions)

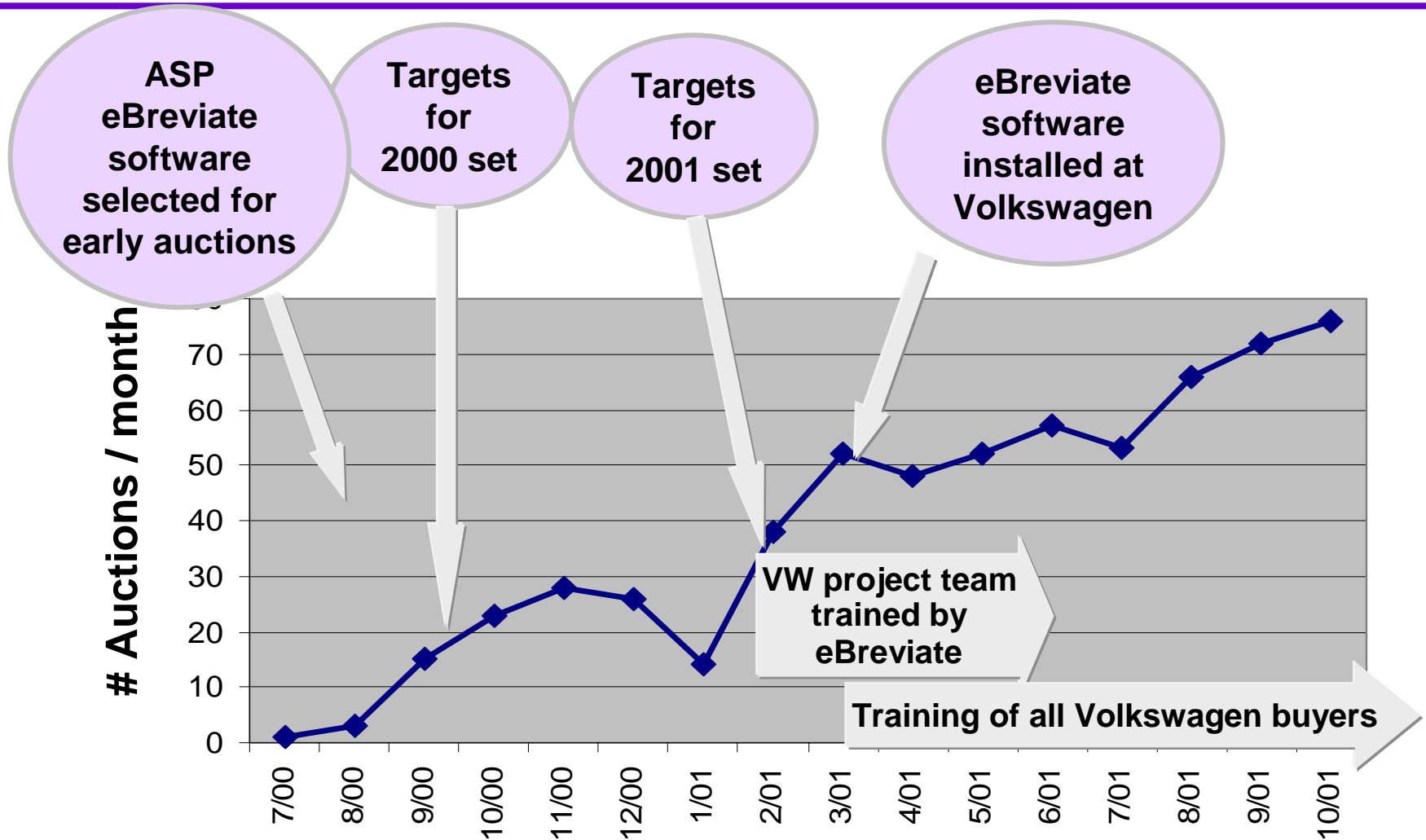
4,000 suppliers

600 auctions this year

12 billion € transaction volume

20% of Volkswagen group's total spend

The # of auctions conducted per month is still increasing



VOLKSWAGEN AG

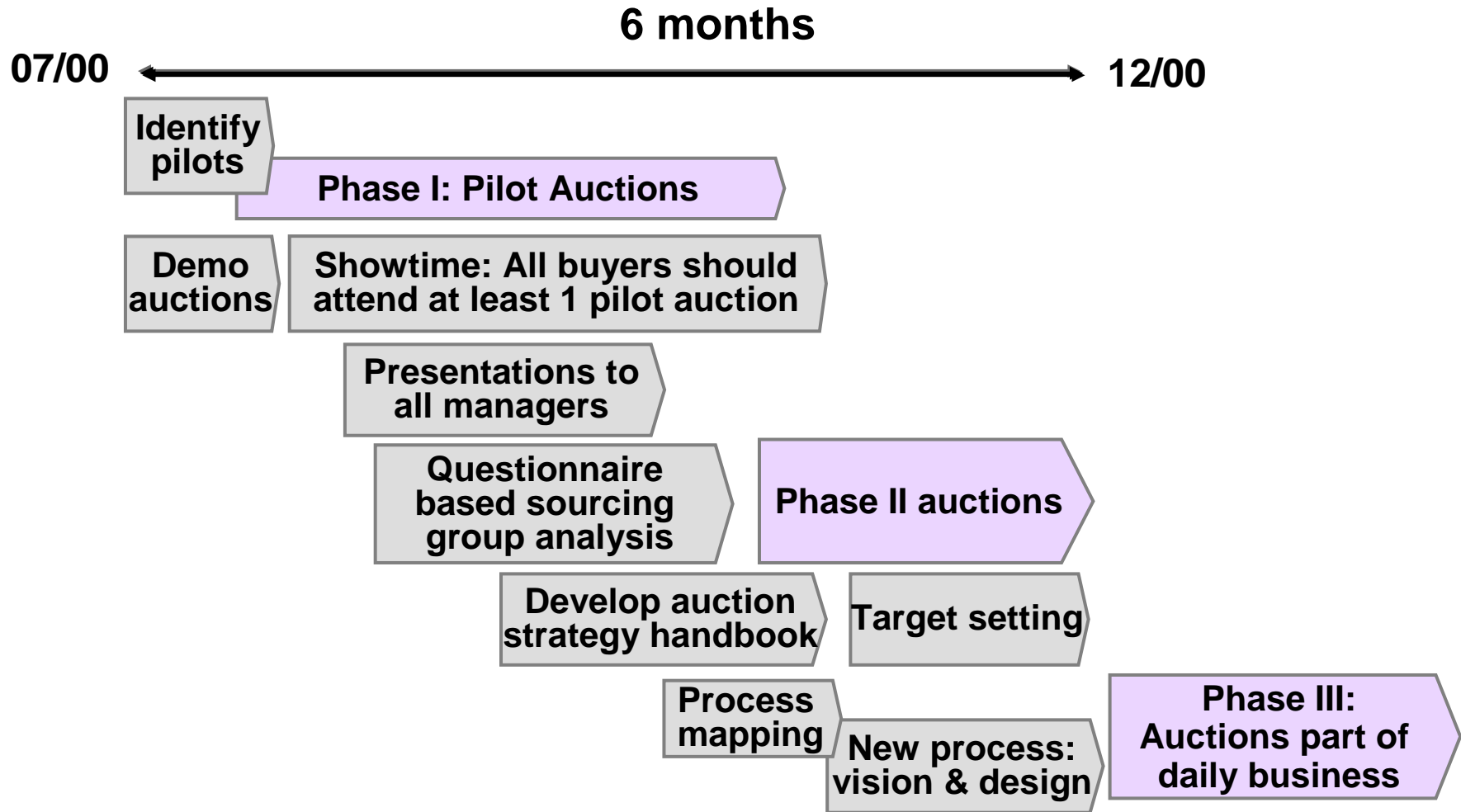
eBreviate™
an EDS company

Our success is based on the combination of experienced buyers with an excellent software tool

Success Factors for Auctions

- ▶ With the introduction of the auction tool we will **add further means** to achieve excellent purchasing results.
- ▶ Auctions do not replace the “classic” negotiations process. They are to be looked at as an **additional negotiation tool**.
- ▶ The use of the tool must be decided on a **case by case basis** by the responsible buyer.
- ▶ Auctions will be most successful if **employed by experienced buyers**.

Volkswagen managed to conduct its first 100 auctions within 180 days



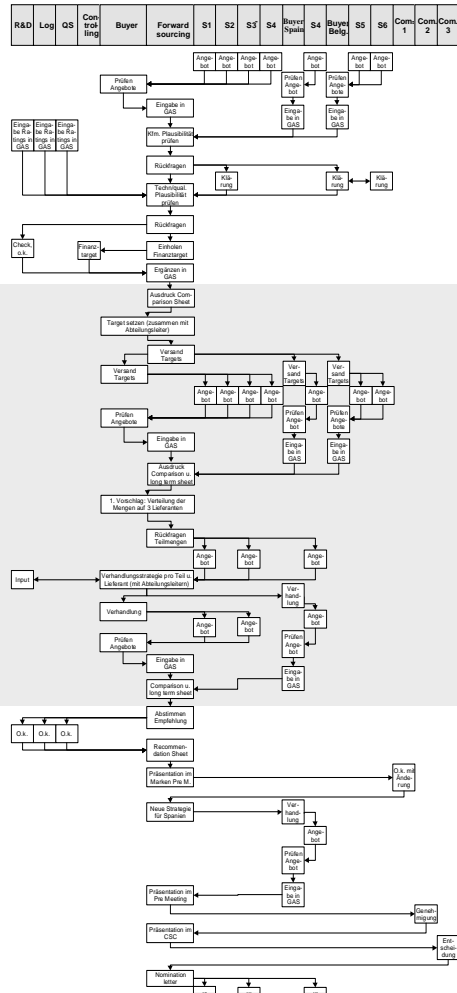
New processes will accelerate sourcing and require less resources

Traditional

Check plausibility of initial quotes (2 weeks)

2 negotiation rounds: First (remote) round with 7 suppliers, second round face-to-face with 3 suppliers. (8 weeks)

Decision preparation, presentation, approval (2 weeks)

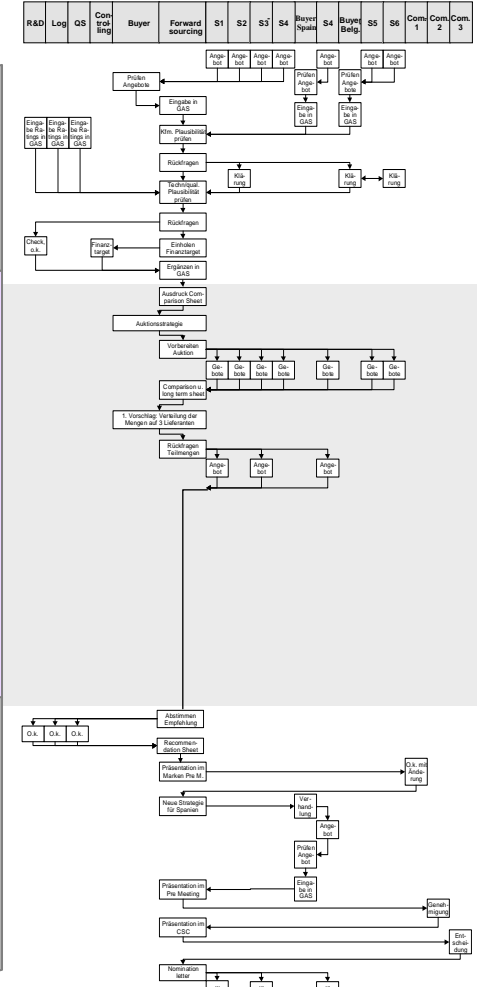


Auction-powered

Check plausibility of initial quotes (2 weeks)

Auction preparation and 1 auction with 7 suppliers (2 weeks)

Decision preparation, presentation, approval (2 weeks)



Five Important Elements of Successful Change Management

1. Run Auction Pilots

- Ask auction provider to conduct at least one pilot event per week
- People need to feel what it is all about
- People need to play with it
- Early feedback on client's peculiarities that need to be considered in auction strategies

2. Show time

- All buyers should attend at least one pilot auction
- Observers will lose the initial fear of the new
- Observers will spread discussion throughout the organisation
- Important feedback on client's peculiarities that need to be considered in auction strategies

3. First Executive Letter

- After the first pilot auction
- Some pressure from upper management to participate
- To kick off and facilitate the sourcing group analysis

4. Presentation to All Managers

- Take time to present to everybody

5. Second Executive Letter

- After business plan is available
- After approximately 30 auctions
- To kick off and facilitate implementation of "auction powered" processes

Lessons Learned

Meike-Uta Hansen (Volkswagen)

Four success factors for a successful implementation of a private exchange

- ▶ “Focus on Functionalities”: Step-by-step implementation versus unrealistic marketplace visioning
- ▶ “Back to the Basics”: No benefits without process redesign & strategic sourcing
- ▶ “Hard but hearty”: Strategic IT partners must be carefully selected and supervised.
- ▶ “Board Backing”: Cross-functional character of project requires active top management support

“Focus on Functionalities”: Step by step implementation versus unrealistic marketplace visioning

Lessons learned

- ▶ **Many projects get caught up in trying to realize “true” marketplaces (n:n relationships/“open” marketplaces)**
- ▶ **Reasons for failure:**
 - **Lack of infrastructure and standards**
 - **Maturity of platform software**
 - **Underestimation of required (internal) process changes**
 - **Excessive need of harmonization among partners**



Consequence

- ▶ **Focus on functionalities where software is relatively mature and benefits have a fast bottom line impact: e.g., catalogue buying und auctions (step by step approach)**
- ▶ **Strategy development and pragmatic implementation in parallel**

“Back to the Basics”: No benefits without process redesign & strategic sourcing

Lessons learned

- ▶ **B2B Software doesn't equal savings – it's only as effective as the underlying lean process**
- ▶ **Required process changes are extremely time consuming and costly to implement**
- ▶ **Benefits are also based on strategic sourcing: “E-Procurement requires and enables Sourcing” (e.g., catalogue buying und auctions)**



Consequence

- ▶ **There are no benefits without the ground work of process re-engineering and sourcing**

“Hard but hearty”: Strategic IT partners must be carefully selected and supervised

Lessons learned

- ▶ **The maturity of the software varies dramatically by application**
- ▶ **Many providers are spoiled by the web-hype and have established questionable pricing models**
- ▶ **Resources of vendors are limited. Third-party implementation providers are lacking know-how.**
- ▶ **Some consortia providers' software must be transformed of a common IT-infrastructure.**



Consequence

- ▶ **Rigorous vendor selection process**
- ▶ **Close operative supervision, resource commitments early on**
- ▶ **Optionally: Agreement on development partnerships, success-based pricing models, risk-sharing clauses.**

“Board Backing”: Cross-functional character of project requires active top management support

Lessons learned

- ▶ **Technology implementation is only possible on internal, cross-functional processes.**
- ▶ **Savings are leveraged by group-wide, (across division/bu's) implementation. Introduction of standard processes across divisions and/or BU's required top-down support.**
- ▶ **Usually, there are two-three natural “owner” of a B2B project in a corporation: Procurement/Logistics und IT**



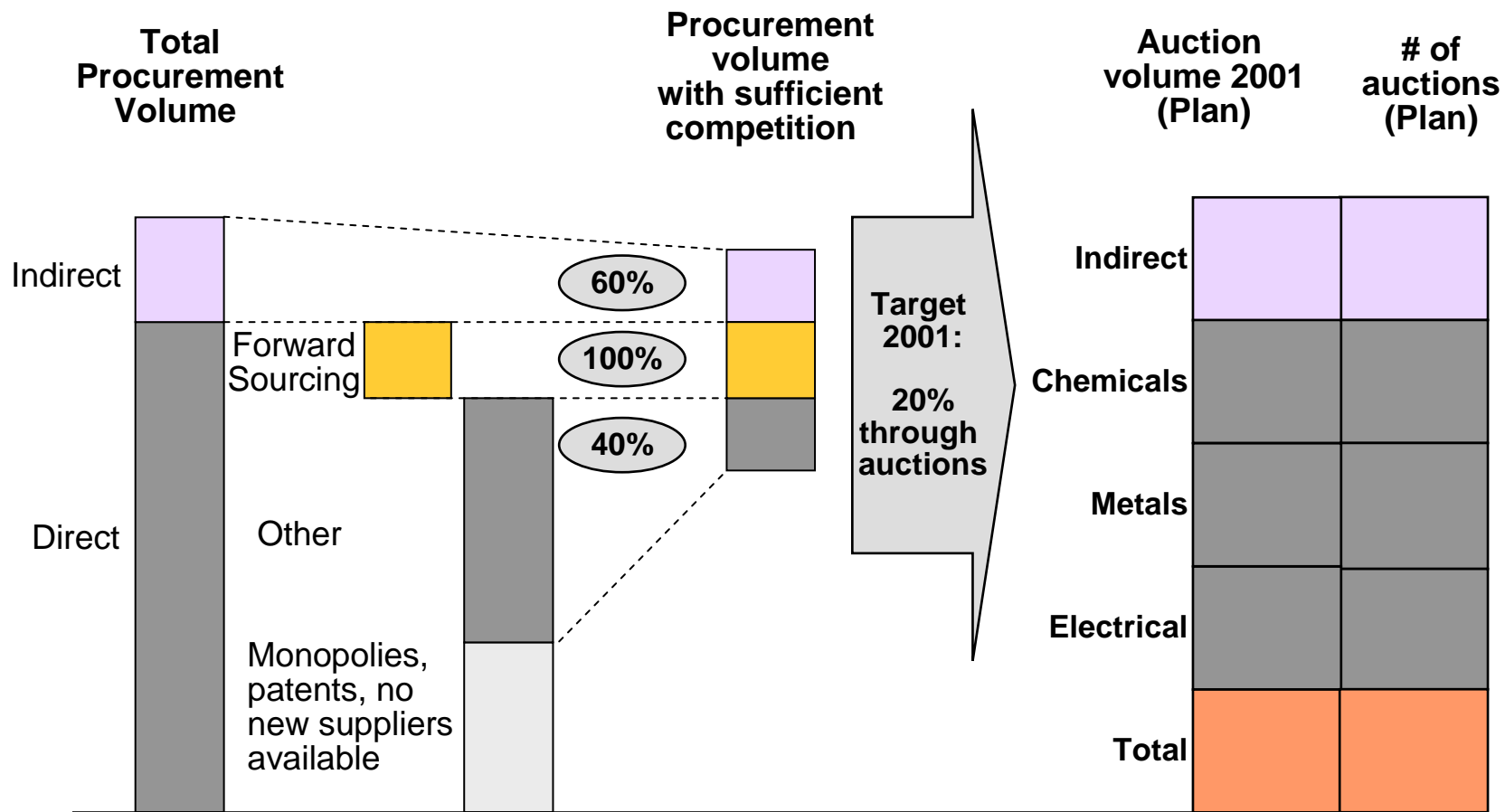
Consequence

- ▶ **Lack of active top management support (ideally on highest level) could cause failure based on “political fights” between functions/divisions/BU's.**

Performance Management

Meike-Uta Hansen (Volkswagen)

Target for 2001: 20% of volume with sufficient competition to be auctioned



The group-wide performance report indicates problems clearly

Group-wide auction summary report

Units	Number				Volume (€ mil.)				Savings (€ mil.)			
	Target	Target ytd	ytd	%	Target year	Target ytd	ytd	%	Target year	Target ytd	ytd	%
1												
2												
3												
4												
5												
6												
7												
8												

- Decentralized operations
- Central collection of reports
- Review by CPO

- Ahead of Plan
- On Plan
- Behind Plan

Outlook: Volkswagen targets to expand its private exchange even further

VW Group **Supply.com**

Targets achieved

- Degree of realisation: six months ahead of schedule
- Savings today are already higher than investment

Future targeted

- Strengthen integration with suppliers
- Expand 'win-win' situation Volkswagen / supplier
- Complete networking of the entire value chain

Reality in the “Internet Winter?”

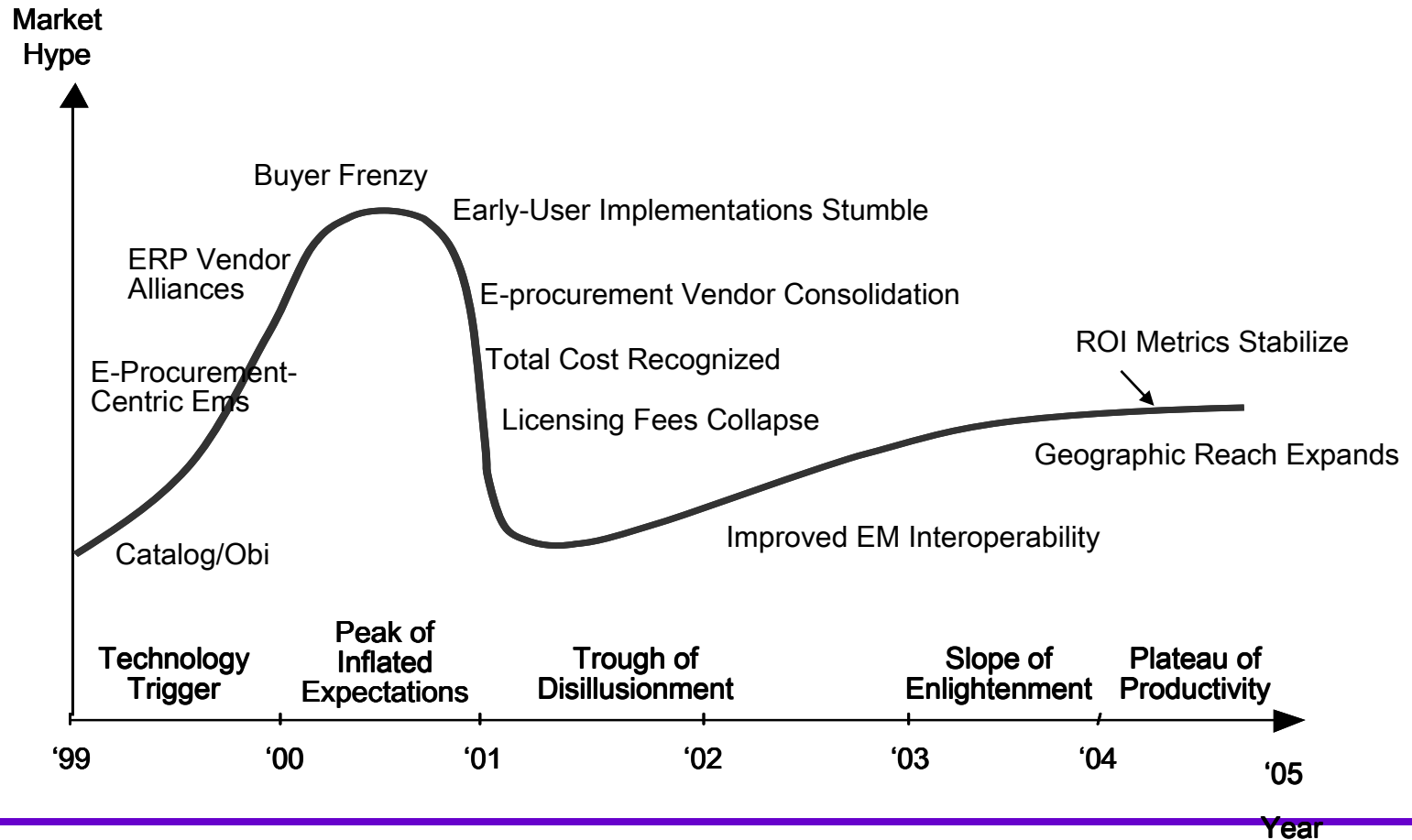
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The situation today — what is reality in the “Internet winter?”

- **Procurement strategy for B2B public markets**
 - **Clear Benefits are elusive; multi-company governance is difficult**
- **Procurement strategy for private marketplaces**
 - **Benefits are available – for the bold**
- **e-Sourcing**
 - **Some proceed cautiously; others test the limits**
- **e-Supplier management**
 - **Few demonstrate the discipline; software is only the beginning**
- **e-Transaction processing**
 - **Content is costly; content is difficult; content is necessary**

Many lessons have been learned - companies are now beginning to respond rationally

eProcurement Hype Cycle



Source: Gartner Research

From now until 2004 — What will the future be?

For eSourcing — Continued Expansion and Visibility?

- Continued progress along the learning curve
- More CEO, Senior Executive recognition of eSourcing
 - Scott McNealy article in March, 2001, Harvard Business Review
 - CEO attendance at Auctions
 - Jack Welch comments in auto-biography about e-Sourcing
- Continued expansion of the eSourcing process stream (Spend analysis, Design management, Supply Market research)
- Emergence of one to three players in each segment
 - ASP tools providers
 - Behind-the-firewall tools providers
 - ERP, eProcurement connected tools
- Global expansion across a broad eSourcing front
- Gradual supplier acceptance; emerging selling adaptation

From now until 2004 — What will the future be?

For E-Supplier Management — Continued Inactivity?

- **Supplier Classification is the First Step – Strategic, Leveraged, Bottleneck, Non-Critical**
- **Collaborative Performance Metrics must be defined for Strategic and Bottleneck**
- **Performance Metrics should be negotiated for Leveraged and Non-Critical Classes**
- **Technology must be created for each Class**
 - **Strategic and Bottle Neck– Private marketplace or Web-site**
 - **Leveraged – Multi-factor auction**
 - **Non-Critical – Supply Chain Efficiency**
- **Agreement must be reached for each set of suppliers**

Questions?