IAN GORDON ARTICLE

CRM and e-Marketplaces

Ian Gordon
President - Convergence Management Consultants Ltd.
Author: "Relationship Marketing: New Strategies, Techniques and Technologies to Win the Customers You Want and Keep Them Forever" (Wiley, 1999).

Electronic marketplaces are changing the procurement process for a wide variety of goods and services. This article discusses impacts of e-marketplaces on Customer Relationship Management (CRM).

E-Marketplaces

Companies have long transacted business electronically but now e-marketplaces have moved beyond simply facilitating transactions to changing the way goods and services are purchased. For example, traditionally a management consultant would meet a client to understand their issues, prepare a proposal, discuss this with the client and make modifications as necessary, and only then commence the engagement. Most consultants still conduct their profession this way. Today, however, consultants can visit eBay and have the opportunity to bid for contracts ranging from a few hundred dollars to tens of thousands. Consultants can offer their services for a wide range of projects to meet the posted terms of references, and may even do the work without ever seeing the client in person. In essence, a portal such as this takes an information system, and by adding on-line procurement, makes it into an e-marketplace.

Earlier in the evolution of the Internet, predictions were made that "friction," the mark-up taken by each member of the distribution channel, would be reduced by the increased efficiency of on-line transactions. Most people thought that margins would decline most significantly for lower priced consumer goods. However, the area most dramatically affected has proven to be B2B exchanges. In this space, businesses not only buy and sell products that are uniform and relatively easy to describe such as chemicals, seeds and fertilizers but increasingly services and high value items that are dissimilar one from another, such as bulldozers and logging machinery.

Changing Procurement Processes

Many businesses are today affected by purchasing portals in two main ways:

1. Their most important customers direct them to do business using the portal
2. The nature of selling using an e-marketplace has changed.

The president of a company supplying consumable products to one of the largest retailers in the world recently said that he was very concerned about a change in direction in this key customer. His firm had worked hard to develop customer

relationships and compete on scope in the account, providing an increasing array of goods and services so that his company would become more relevant and strategic to the account. Now he company had set up an on-line auction for all consumables and many other goods and services. Existing suppliers would have to bid against all-comers on the Internet for the customer's business. The president was concerned that the considerable customer-specific investments that they had made in areas such as relationship development, buildings and infrastructure, people, help desks and other technology might become redundant with this new approach to procurement.

This example of a customer-specific portal for procurements at auction follows the emergence of similar e-marketplaces for entire vertical markets in a number of industries. For example:

- Aerospace, where companies such as British Aerospace, Boeing, Lockheed Martin, and Raytheon are sponsoring Exostar.
- Automobile industry, where DaimlerChrysler, Ford and GM have sponsored the e-marketplace Covisint.
- Electric and gas utility and pipeline sectors, where many major power companies including Cinergy, Consolidated Edison, Duke Energy and Ontario Power Generation are sponsoring an e-marketplace called Pantellos. Other companies such as Allegheny Energy, Minnesota Power, and Northern States Power are sponsoring Enporion.

In each of these cases, the significant importance of the sponsors makes it likely that suppliers to the industry will participate in the exchange or run the risk of not being at the table when future business is awarded. The immense purchasing power of the customers and their alignment in support of the e-marketplaces they define is changing the purchasing process in industries where these e-marketplaces have been instituted.

E-marketplaces and CRM

So what do e-marketplaces have to do with CRM? There are two main impacts:

1. Commoditization
2. Re-intermediation

E-marketplaces facilitate comparison of like products and services. This makes it possible for buyers to focus on price, which has the effect of reducing differentiation and making commodities of most goods and services. One of the objectives of relationship marketing or CRM is to create new value for customers. When customers define procurement requirements on the e-marketplace they make it harder for a supplier to work with them in a collaborative process. In other words, commoditization brought about by an e-marketplace can undercut CRM investments.

An e-marketplace that is not operated by a single buyer re-intermediates the supply chain by adding another level between supplier and customer. This distances the company from its customers and creates a new series of processes and communications that are channeled through the e-marketplace. When an e-marketplace is operated by customers, a CRM initiative must recognize, address and integrate e-marketplaces into CRM. If not, the CRM initiative will increasingly create relationships with customers who are not empowered to buy. Worse yet (from the perspective of the suppliers), some of these customers will limit access to vendors because customers will expect that contact and collaboration will be through the e-marketplace.

Managing CRM and e-marketplaces

What then is the company to do about its CRM processes? First, the firm should think

about what is missing from the e-marketplace. For example, e-marketplaces can be efficient but may lack the information that fully describes the context within which the customer does business, such as:

- The customer's business vision, mission, objectives and strategies.
- The personnel who comprise the purchase decision-making unit.
- Product, service and company selection criteria, especially the informal criteria comprising likes and dislikes that are not posted on the e-marketplace.
- The process by which the terms of reference for the product or service were determined.
- The process by which the vendor will be selected and the timing for this decision.
- The positioning of existing and potential suppliers in respect of key criteria.
- The willingness of the customer to entertain a primary or second source bid from an untested supplier and the extent to which the decision varies for a new buy, modified rebuy or straight rebuy decision.
- Opportunities for the vendor to go beyond the Terms of Reference or to innovate.

If considerations such as these are typically absent from an e-marketplace, the company has to decide whether to only transact business through the e-marketplace or to also pursue CRM, perhaps in a modified form.

Companies that choose to do business only through the e-marketplace may win some initial contracts and reduce some of its costs but these gains could come at the expense of longer-term competitiveness. Additionally, the loss rate on the early bids may be high if the company does not have lines of communication to provide it with the intelligence it needs to prepare winning bids. Over time, the company may become even less competitive if it is not visible with the account and lacks the strategic capabilities needed to win and retain business. These capabilities need to be defined and refined in consultation with customers as part of the CRM initiative.

By complying with the customers' preferences to do business exclusively or largely using the e-marketplace, the potential exists for vendors to become little more than reactive producers and pricers. Innovation will be customer-led and customer-defined. The company will have abdicated its strategies to its customers and will have very few levers left to innovate and differentiate.

By the time opportunities appear on the e-marketplace, the CRM company should know about them. The company that becomes aware of opportunities from the e-marketplace has no meaningful relationship with its customers. Further, the company that has not been shaping the initiative from the outset is also not sufficiently close to its customers. The opportunity exists for a few companies to get close enough to customers to:

- Know how the product or service will help the customer achieve its objectives.
- Help customers to specify the product or service, or to help shape the specifications.
- Understand the unsaid purchase criteria and vendor positioning.
- Understand the customer's perceptions of the strengths and weaknesses of competitors.
- Know what it will take to differentiate the winning bid.

The opportunity to get close to customers is not available to every supplier and, with e-marketplaces, it is possible that fewer suppliers will obtain widespread customer access, and less opportunity to plan and innovate together. The customer's door is slowly closing on suppliers that are either efficient or less than effective. These companies are being steered to the e-marketplace to do business. If a company is to keep customers' doors open, it will need to incorporate an understanding of the impact e-marketplaces

will have on their CRM strategy and evolve CRM processes to create even more effective customer relationships.

--- Ian Gordon

****

Ian Gordon is President of Convergence Management Consultants Ltd.
(www.converge.on.ca), a B2B marketing, research and strategy consultancy specializing in customer relationship management. He is author of over 80 articles and three books, and is on the Boards of Directors of a number of companies. His recently released "Relationship Marketing: New Strategies, Techniques and Technologies to Win the Customers You Want and Keep Them Forever" (Wiley, 1999) provides a roadmap for implementing relationship marketing. Ian assists companies with developing trust-based relationships and listening cultures, CRM planning, customer value analysis, customer research for bonding and relationship amenability, development of collaboration processes and training in CRM. He is a featured public speaker at company events and industry forums on subjects such as the CRM and the management of e-channels. He can be reached at gordonih@aol.com.