



Thoughts Around the Myth of Dynamic Collaboration

Mondher Ben-Hamida
Deloitte Consulting
50 Fremont St
San Francisco, CA 94105
mberhamida@dc.com

Introduction

The future will tell whether the end of the 20th century should be remembered as one of the most innovative and fertile eras in the history of human kind. Nevertheless, we can advance without risk of being proven wrong that very few periods in our history can match the wealth of ideas that came about in the last decade or so.

The Internet has been the vehicle of some far reaching and profound changes. The impact has been visible in all aspects of our lives and we can even argue that more profound changes are yet to come.

As with any new concept, people tend to anticipate, predict and sometimes extrapolate future events for the sake of fame and recognition. The business world is a perfect stage for such a behavior. In fact, few things can match the reward of being seen as a visionary business mind. The changes brought by the new Internet technologies and most importantly their exciting promises make a case for many compelling business transformations. It is quite amazing to witness the speed at which we are shifting between novel concepts. The last few years have seen the rise of many new buzz words, SCM, e-Procurement, SRM, CRM, B2C, B2B, CPC, ERM, etc. It used to take years for a single concept to evolve into a compelling vision and win the heart of executives. That fact is not true anymore as more and more businesses got all thrilled about new technologies and tried, whether by conviction or fear of being left behind, to quickly adopt and implement new technologies only to get a painful reality check. Many concepts are pure vaporware while others will need to mature and make their way through the psyche and practices of most businesses. Although some claim we need to think and decide at Internet speed, some old rules still apply when it comes to certain visionary concepts.

In the next few lines, we will share some of our thoughts around the myth of dynamic collaboration and where we think some analysts are mainly selling utopia.

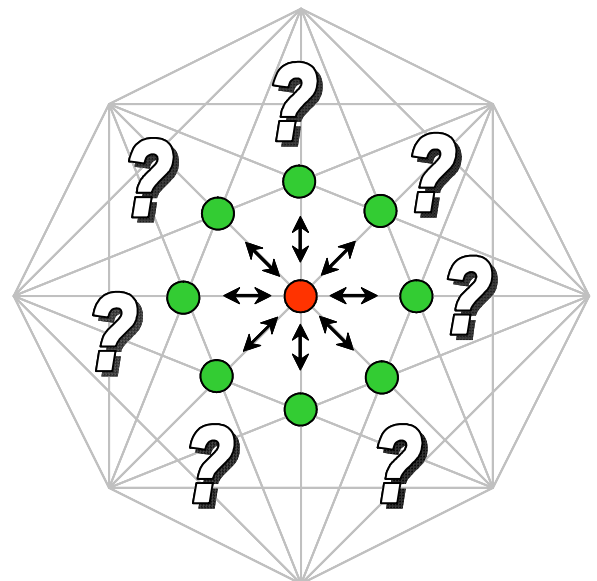
The Myth of Dynamic Collaboration

The arguments provided by the advocates of Dynamic Collaboration are very appealing only at a very high level. In fact, many of the recent analyst reports are vague and lack substance. Let's start with a simple question: *Can we legitimately question what makes Dynamic Collaboration fundamentally different from many of the already known e-Business concepts?* The main argument that could be made by the advocates of dynamic collaboration is that their concept aims to be multi-tiered and much far reaching than most of the collaborative scenarios proposed thus far. What they preach is basically a collaborative federation, the ultimate system where all companies unite for a common cause, adopt a mutual goal and work harmoniously and seamlessly together. This is clearly a utopian vision of tomorrow's business world that we shall never see. This socialist vision never succeeded for human societies and is very unlikely to work with corporations for many obvious reasons.

We believe that the fundamental flaw with the Dynamic Collaboration theory is that its advocates, surprisingly enough, fail to see the full extent of the collaboration impact. In fact, we see it as a surprising paradox: on one hand, they preach the need to collaborate across tiers but on the other they seem to have a very linear view of this network. In other words, they seem to see a supply chain as a linear series of related entities.

The first time we heard Professor Hau Lee suggest that Supply Chain Management should be replaced by Demand Network Management, we thought the new term would take off. It never did. However, we still think it does illustrate the major flaw in most of the Collaboration thinking. Most of the studies talk about collaboration in a very egocentric way. They claim to see the network but what they really see is basically this single imaginary company and its immediate network.

Furthermore, they surprisingly fail, we believe, to extrapolate the concepts they are preaching to the other companies in this web of inter-related entities. In fact, if we use this graph to take any arbitrary walk through this



network of entities, the picture will get more and more complicated as we cover more tiers. The current thinking focuses, almost exclusively, on *a group* of one company and its immediate neighbors at a time. In fact, they don't seem to recognize that any randomly selected company will have hundreds (if not thousands) of clients and suppliers, which in turn have many more partners. Talking about collaboration seems to focus on how one company will build the ultimate bridges between itself and its partners and how commitment to these bridges will benefit everybody. Nevertheless, when we extrapolate this concept, a company will have to build many bridges with many partners and will have to account for different realities, systems, priorities, conflicts, etc. This is clearly a daunting task to say the least as a ripple-thru effect travels through this huge network. It is arguably impossible to find this equilibrium between all these entities, as conflicts of interest are an inherent truth in any type of business. This narrow vision is almost like walking into a dark room with a flashlight and shedding the light on one spot at a time instead of seeing everything; hence the extreme complexity of dynamic collaboration. On one hand, dichotomy does not represent the realities of business interactions; on the other hand, a global view is too complex to capture. That is the dilemma.

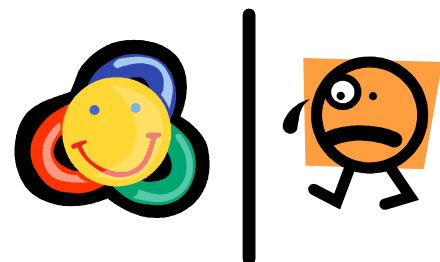
Many recent experiences prove this statement. In May '00, the CEO's of 15 major high-tech companies announced with great fanfare that they were committing \$100 M to start the world's greatest high-tech e-Marketplace. They also claimed they will commit to have a significant portion of their combined procurement transactions flow through this e-marketplace. Having been on the team that helped put together the pilot site and deliver on the promise of having the first transaction executed by 8/1/00, we, along with other colleagues and clients, quickly reached the conclusion that the dream will not be achieved; at least not in its original vision. This conclusion was motivated by two simple facts:

- *Technology is not ready yet* – the last few years have been so fertile in new ideas that technology is having hard time keeping up. We are witnessing a recurring syndrome where *Concepts outgrow the Tools*. In fact, although the executives were all excited about implementing this e-marketplace, the people that were about to have their business lives changed were very suspicious. Human nature tends to ask: “*what's in it for me?*” and having seen a tool that cannot enable direct procurement and was actually about to add more steps to their procurement process was not appealing at all.
- *Public e-Marketplace vs. Private Exchange* – without sounding cynical, it goes without say that the very nature of business is based on ruthless competition and getting over the wall of mistrust is almost impossible. It is quite challenging to convince participants to trust a central hub with some confidential information stored in a remote place and get everybody to collaborate. In addition, many started questioning why they should even participate. In fact, *covisint.com*, the automotive e-marketplace, was subject to government scrutiny as suppliers complained that this hub would simply help the Big 3 use their leverage to hit even harder on their suppliers. In an industry where long established business partnerships characterize the procurement effort, convincing people that dynamic collaboration across tiers will help buyers get better prices and suppliers get exposed to more potential buyers is a challenging task. Deloitte's experience at *ehitex*¹ showed that when it comes to dynamic collaboration between partners, the future is more towards private exchanges.

Bottom Line – *Early signs indicate that private exchanges could be the real catalyst to wider adoption of dynamic collaboration. Deloitte is positioned to capitalize on this trend by using the DNA capabilities we are currently building. Deloitte will be positioned to use the DNA portfolio of complementary offerings and tailor it to any client's needs*

The Issue of Asymmetric Benefit

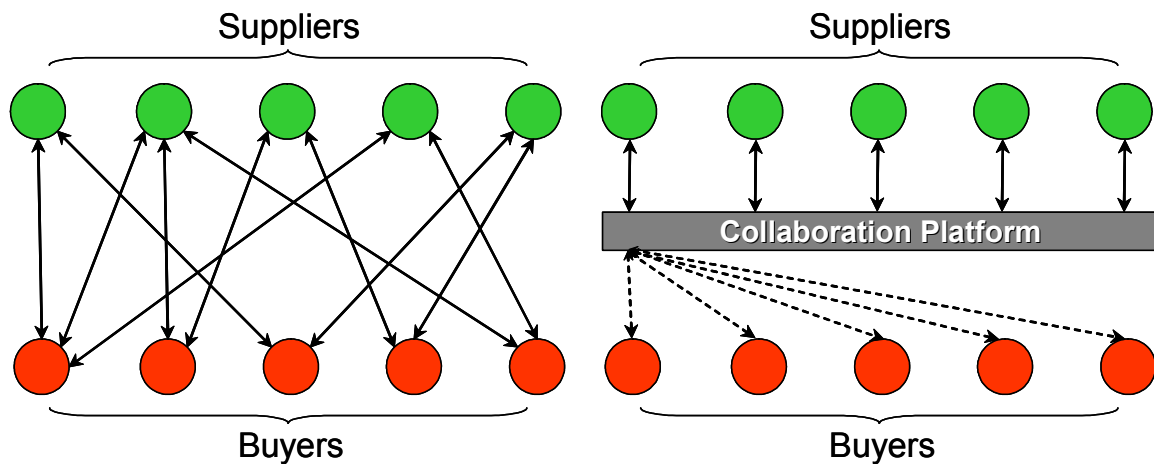
Any business transaction contains certain intangibles that systems cannot capture. In a highly competitive economy, partnership and trust are paramount to any business success. When it comes to planning activities, maverick buying is rarely the rule. In fact, long established relationships are preferred as they increase the likelihood of timely fulfillment between partners in the supply chain. This is arguably the main reason why buyers and suppliers are usually risk-averse. To fundamentally challenge this picture and preach an all-inclusive buying and selling approach has been the major stumbling block to B2B



¹ www.ehitex.com became www.converge.com

implementation. The B2B advocates have been preaching a win-win situation where suppliers will have more exposure to the marketplace and possibly uncover some new markets (and clients) and where buyers would get to know other suppliers and possibly get better prices. If we use the zero-sum approach, the only possible incentive we could give the suppliers would be that even though it's likely they will have to cut their margins because of increased competition, exposure to other clients would help them generate more revenues hence maintaining and possibly increasing their profits.

The other selling point of dynamic collaboration is that by having a common platform we switch from a complex non-scalable many-to-many environment to a scalable many-to-one-to-many model as shown in the graph below. This is definitely a very compelling vision. A buyer or a supplier will simply have to link to one platform to reach known and yet unknown partners. Yet again, we fall in the trap of centric view. How many platforms should a company elect to join and what about its suppliers and its suppliers' suppliers and so on? The more tiers we cover the more exposure we have to other industries and environments and the more difficult it will be to manage relationship and conflicts.



For dynamic collaboration to work, overcoming the issue of asymmetric benefit is critical. Despite the backing of some Fortune 500 companies, many e-marketplaces have been to heaven and hell before knowing it. It has been a challenge to many of them to convince the suppliers in particular that they will profit from dynamic collaboration. Not only this concept is difficult to sell, suppliers will have to decide on how many buyers they have to accommodate in possibly many environments and industries with different realities and requirements.

Bottom Line – Trust is a pre-requisite to any dynamic collaboration endeavor. System integrators such as Deloitte are in a great position to play the role of honest brokers by working with both buyers and suppliers to define the benefits of dynamic collaboration.

The Issue of Depth versus Breadth

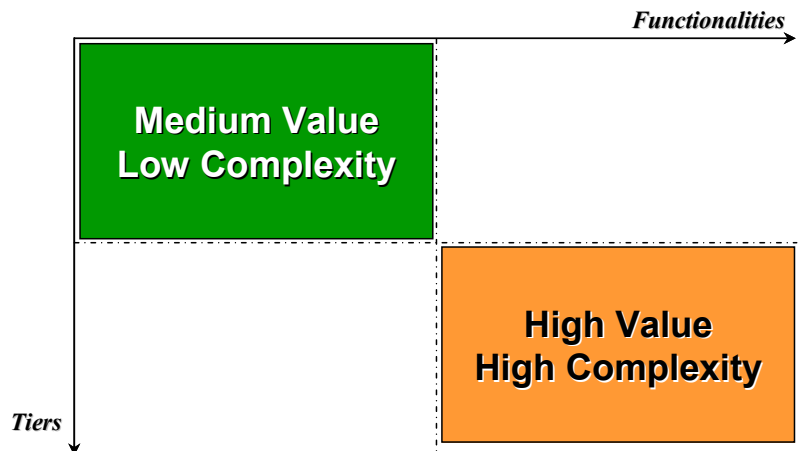
Some of the questions companies contemplating collaboration have to address are:

- Number of relationships:

The question can be formulated as: “How many partners should we (or can we) include in our collaboration effort?” What are the criteria that should qualify some and not the others?

- Nature of relationships:

The question here is: “Should collaboration be driven by strategic goals or should it become a way of doing business with all partners?” This is quite a problem as any answer will have a multi-faceted impact on many aspects of the business.



- Levels of sophistication:

Any collaborative effort needs to find the right balance between depth and breadth. In fact, some of the early efforts pioneered by companies such as Ariba and Commerce One got to a point where they had to address much broader/urgent issues such as direct procurement and true collaborative planning. Although few would question the role these tools can play in reducing maverick buying and laying down a sound structure for the procurement effort, many would cast doubt on the real value of these tools beyond those basic functionalities.

Companies will have to decide on how to categorize their partners and pursue different collaboration schemes using different levels of sophistication. Furthermore, to drive benefit from collaboration, a framework allowing a company to ensure that collaborative planning is being synchronized across many tiers in the supply chain needs to be in place. Speed is one of the key competitive differentiators and tight collaboration between few links does not provide much value if the rest of the supply chain is de-synchronized and therefore not responsive.

The Need for Evolutionary Commitment

Anthropologists often refer to the concept of *Evolutionary Commitment* to explain the evolution of human society and explain many of the characteristics we have. In fact, they argue that by trying to adjust to certain aspects of their environment, humans have committed themselves to certain transformations and ended up becoming what they are. The main point here is that understanding the environment and committing to certain changes will pay off at the end.

We can argue that the internet for the business world is at a point where we need to look beyond the simple tools we currently have and conceive a compelling yet practical vision for the future: A vision that is not utopian and exploits this tremendous means of communication to help companies perform better.

We think that this young eBusiness model will evolve into a more segmented one where we see 2 types of dynamic collaboration:

1. *Large Companies will impose their own private exchanges on their suppliers* – partners will have the daunting task of getting their internal systems to handle the exchanges of their vital clients.
2. *Small to Medium size companies will use public e-marketplaces* – companies continuously looking for bargains on their purchasing spending will be interested in having a central hub where they can search for items and buy them.

One major issue comes to mind: integration will be a key differentiator as transaction speed and superior customer service will be paramount. The challenge will be that if exchange standards, such as RosettaNet for the High Tech industry, are not widely adopted, suppliers will suffer and that's where evolutionary commitment is needed. In a human society people speak the same language; yet not all people are necessarily friends and have relationships. By comparison, enterprise systems need to get to a point where they share a common lexicon allowing companies to collaborate if they elect to.

For this vision to become reality, the genuine commitment of some of the major industry players is vital. Many of our greatest achievements have been the result of single efforts that eventually gained momentum. Early efforts by GE and HP have failed but the lessons we learned should be a good start for the next phase in capitalizing on the promise the internet.

Bottom Line – *There is no doubt that Dynamic Collaboration (or Collaborative Commerce) is here to stay. We are probably at the second stage of any new business process maturity cycle. Disillusion usually follows the early excitement as the business world quickly realizes that the concepts are well ahead of the enabling technology. However, technology is catching up and it is safe to predict a period of high growth with solid tools. Deloitte's multi-faceted offerings and expertise will enable us to play a prominent role in the next phase of Dynamic Collaboration*

What Will the Future Be Like?

As we watch the early B2B excitement subside, other trends seem to be gaining momentum. The belief in the need to leverage the internet to achieve better collaboration is still firm. However, as mentioned above, lack of

appropriate functionalities and the challenging integration prospects (both internal and external) have led companies, analysts and software vendors to a serious introspection. As many of the players re-tool their messages and packages, it seems as ERP companies will be positioned to play a major role in the next phase in B2B evolution. In fact, companies such as SAP, Peoplesoft and Oracle have made significant investments to extend their 'reach' to collaboration-related domains such as SCM, CRM and SRM. Some have elected to develop internal expertise (Oracle, Peoplesoft) while others chose to leverage other vendors expertise (SAP investment in Commerce One). This trend should help address the internal integration challenge. Besides, recent efforts by the World Wide Web Consortium² for a wider adoption of standards such as XML seem to be on the right track which would help mitigate the external integration issues.

Conclusion

Although very appealing, dynamic collaboration is still far from becoming a reality. In fact, the vision currently being sold to the business world is mainly utopian. Slogans such as "*Collaborate or die*" are meaningless. Collaboration needs to be re-defined. The vision of a federation of enterprises collaborating while competing and making money is a stretch. In fact, collaboration needs to be defined within a framework that benefits partners and helps them coordinate their planning efforts. Nevertheless, given the interactions between different supply chains, this collaborative mode needs a platform that helps deliver information that is understandable by all systems. Without agreement on certain data standards, the integration challenge will be too great to overcome.

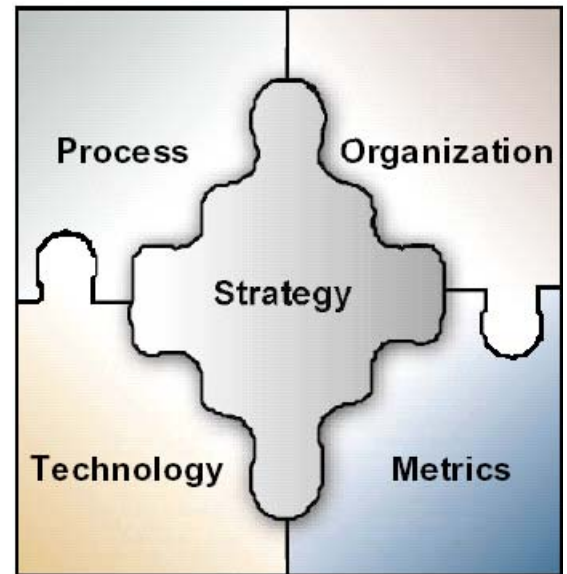
The UN failed to make Esperanto a universal language; yet English evolved as a global business language. Maybe we will see the day where servers will replicate that by uniting us through the applications we use.

² <http://www.w3c.org> and <http://www.w3c.org/XML/>

The Deloitte Approach to Dynamic Collaboration

Most of the early collaboration initiatives have been run as standalone projects, primarily in pilot mode. Some have struggled to expand upon the pilot processes/partners and therefore have been “stalled.” Those who have moved beyond the pilot/point solution stage and have begun realizing the full benefit of collaboration have learned lessons in five key areas: strategy, process, technology, organization and metrics.

To achieve success, companies will need to take a comprehensive approach to their collaboration strategy. Successful execution will require building trust among all ecosystem members in the security and effectiveness of the new processes. The biggest challenge to introducing these cross-enterprise business processes will likely be cultural, as individuals and organizations “have to learn to share information more effectively.” Successful results will be enabled by improving collaboration technology, standards development and demonstrated value to the trade partners. At that time, standalone project are expected to become integrated into a broader collaboration framework which links critical applications. Maximum benefit will be achieved when the processes and tools supporting the design-to-service continuum are connected, giving ecosystem members the ability to execute on information affecting their piece of the process.



Executing Collaboration – Key Considerations



Strategically Targeting Business Benefits

- Perform a prioritization exercise to identify where collaboration will yield the greatest benefits and focus on those areas; e.g., engineering change management. Pursue a modular, bite-sized strategy where functionality and collaborative processes are rapidly rolled out with ROI measures defined. Generate early, demonstrable wins.
- Develop a comprehensive trade partner strategy. Carefully select key partners to educate and bring them on board in a manner that will allow for execution of collaborative processes. The value to the trade partner needs to be clearly defined or demonstrated. There needs to be a “win-win” for projects to be successful. Manage your portfolio of suppliers like you would manage your financial investments.



Defining Collaborative Processes

- Take a business-capability focus instead of a technology-capability focus. Enabling c-commerce is a multi-application, multi-technology proposition.
- Redesign entire processes to be “collaborative,” flowing from the OEM through to the trade partner, so that both parties can execute.



Implementing Technology

- Take a multi-enterprise architecture approach toward data and technology. Learn how to manage data and process flows across applications.
- Put knowledge management tools and corporate portals in place to support the point solutions. Current technology solutions do not offer a total solution and cannot stand alone.
- Create secure transactions.



Promoting Organizational Change

- Redesign the incentive structure to take into account new business practices; this promotes optimization as groups cooperate to perform against the new measures.
- Create an atmosphere of ongoing trust by establishing shared risk/reward mechanisms; partners are getting too sophisticated to be ignored.
- Work with partners to build trust in the security and control of shared information.



Measuring the Impact

- Put in place a mechanism for ongoing measurement of results on both sides of the collaborative process. Metrics need to track improvement throughout the ecosystem. Capture the benefits to partners.
- Translate operational improvements into financial performance. Measure impact to the bottom line.