

Examining the Value and Use Cases of Business-to-Business Online Open Marketplaces

By Jimmy LeFever and Amy Fong

Executive Summary

Increasingly, procurement organizations are looking to new ways to reduce purchasing costs, manage tail spend complexity and increase customer satisfaction. Many are considering using business-to-business online open marketplaces to achieve these goals. It is essential to first understand the potential benefits and the differences between today's major solution providers. The solutions reduce labor and process costs in requisitioning and accounts payable, trim shipping costs and increase card rebates while reducing risk, wait time and user frustration. Use of the solutions make the most sense for tail spend that would not otherwise be strategically sourced. The Hackett Group has created a model for estimating the hard benefits to be gained from using an open marketplace.

About this report

In these pages, we discuss the use cases and benefits of business-to-business online open marketplaces from the perspective of organizations with approximately \$1 billion in spend. However, many of these benefits would also apply to significantly smaller or larger organizations.

Defining and Differentiating Online Open Marketplaces

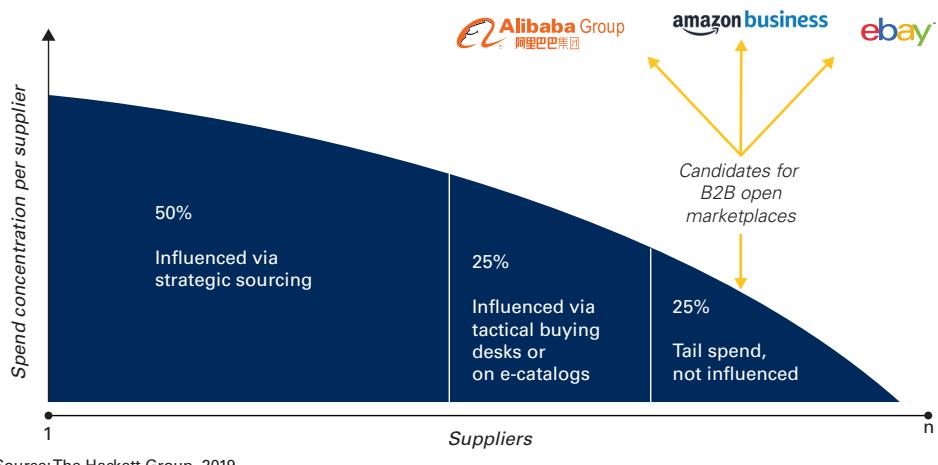
Business-to-business online open marketplaces are similar to consumer-facing e-commerce solutions and traditional B2B supplier catalogs, but with several key distinctions. First, unlike consumer-facing solutions, they are business oriented, with controls that let management directly influence and monitor purchasing decisions and report on spending activity. Second, these marketplaces are "open" because multiple sellers are able to interact with multiple buyers, whereas B2B supplier catalogs typically have a 1:1 buyer/supplier model. An added benefit of this model is that it fosters increased competition among suppliers, thus potentially improving quality and delivery and decreasing prices. Finally, open marketplaces get closer to an intuitive user experience than bespoke business solutions, because the main purveyors of open marketplace solutions are also the largest consumer-facing websites in use today (Amazon, Ebay and Alibaba).

When to Use an Online Open Marketplace

Open marketplaces offer a variety of benefits and are well-suited for certain types of business spend, such as tail spend (i.e., low-dollar spend spread across a fragmented supply base that is not actively managed by a strategic procurement organization). Tail spend is usually not professionally sourced and may not be governed by contracts. Given the spend profile of a typical company (Fig. 1), tail spend can comprise thousands of suppliers, making it difficult to manage, given the volume of ordered line items, item counts and number of subcategories.

FIG. 1 Where B2B open marketplaces fit in the typical spend profile

Example of tail spend at a company with 75% spend influence



Source: The Hackett Group, 2019

Organizations that are considering using an open marketplace should analyze their spend profile carefully. When considering which categories of spend are best suited for an open marketplace, the following criteria should be used to rule out incompatible categories:

- Services (open marketplaces are currently goods-only).
- Items requiring detailed supplier and product discovery or negotiations.
- Items with inherent risks requiring a contract to establish specific terms and conditions.
- IP-centric items that might give away an organization's trade secrets.
- Items subject to regulatory controls.
- Items requiring inventory control.

These considerations generally eliminate any sort of direct materials procurement or items with a major organizational impact.

65%

Study respondents
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consolidate their
supply base by not
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Benefits of Using an Online Open Marketplace

Open marketplaces present "hard" benefits, that is, benefits that are easily quantifiable and measurable and represent real returns. They also offer "soft" benefits, which are more difficult to ensure or quantify but are certainly worth consideration. Each type is explained below, along with relevant findings from a recent Hackett Group poll in which respondents reported on the benefits they have received from using an open marketplace (Fig. 2).

Hard benefits

- **Elimination of supplier onboarding:** Supplier onboarding and payments are completed by the marketplace provider. Therefore, suppliers do not need to be added to the buyer company's supplier master database. This eliminates the need for the procurement organization to correspond with suppliers and collect tax forms, payment information and proof of insurance, or to screen for compliance. In the aforementioned survey, 65% of respondents reported they were able to consolidate their supply base by not onboarding low-spend suppliers.
- **Elimination of supplier maintenance:** Similar to supplier onboarding, the service provider maintains up-to-date supplier records, checks for watchlists, sends out tax reporting documents and verifies payment information.
- **Elimination of invoice routing and workflow:** Because the entire transaction occurs within the solution, the need for invoice receipt, routing and workflow is nearly eliminated. Approval is done at the time of purchase and goods are immediately paid for, thereby eliminating this process except for approval (if required).

5%

Average reduction
in prices occurring
naturally from
competition in an
open marketplace.

- **Easier payment reconciliation:** The payment reconciliation process is substantially streamlined, as all payments are received in a single feed, directly linking to purchases and requisitioners. Some marketplace providers provide level-3 data¹ on all transactions.
- **Reduced shopping time:** Since the solutions' interfaces are well designed and familiar, stakeholders will spend less time looking for things online or going to a brick-and-mortar store to purchase goods. This leaves them with more time to support the organization with higher-value activities.
- **Reduced shipping costs:** The major open marketplace² solutions offer free or reduced shipping to commercial clients. Sixty-nine percent of organizations surveyed achieved significant savings on shipping.
- **Increased card rebates:** Open marketplaces require that all suppliers accept card payments, thereby offering the ability for customers that don't want to pay by ACH, wire or check to transition 100% of spend to purchasing cards. For most commercial cards, this represents an average of 1% savings in the form of rebates.
- **Savings from competition:** In many categories, an estimated 5% reduction in prices occurs due to competition that naturally happens in an open marketplace, even when a full strategic sourcing process is not used. Suppliers can readily see their competitors' pricing and are more likely to compete to win business. Fifty-nine percent of respondents obtained product cost savings from implementing a solution.

FIG. 2 Benefits from using B2B marketplaces



Source: Key Issues Study, The Hackett Group, 2019

Soft benefits

- **Increased stakeholder satisfaction:** The most commonly reported benefit of implementing online marketplaces is a boost in stakeholder satisfaction. Enabling buyers to shop for goods efficiently aligns with the greater focus on customer experience for many organizations.
- **Reduced wait times:** Traditional methods of requisitioning, approval and procurement-driven purchasing can be a complicated and timely process, leaving stakeholders waiting weeks or even months for their goods. Even the most efficient purchase-to-pay organizations average half a business day to convey orders to suppliers.³ Organizations that implement an open marketplace are able to streamline this process, enabling stakeholders to receive their goods within two to three business days in most cases. Seventy-eight percent have seen an improvement in overall operational efficiency of the purchase-to-pay process from implementing an open marketplace.

¹ Purchase date, supplier, transaction amount, sales tax, customer-defined code and line-item detail.

² Global Category Management Study, The Hackett Group, 2017; Tactical Sourcing Study, The Hackett Group, 2011

³ Procurement benchmark data, The Hackett Group, 2019

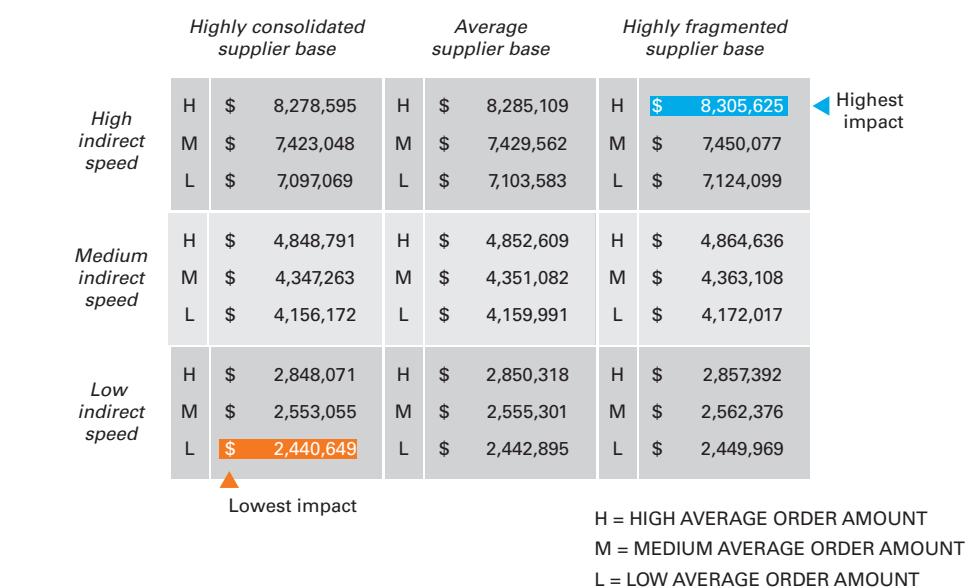
- **Reduced risk:** In the event of a supply shortage, open marketplaces offer fast access to a variety of potential alternate vendors. In addition, supplier risk is reduced by the providers' constant due diligence on suppliers.
- **Reduced maverick spend:** Easy-to-use technology for purchasing is key to reducing maverick spend. Companies that have implemented a P2P platform have 60% lower levels of lost savings traceable to off-contract buying than companies without one.⁴ Further, 71% report a reduction in overall maverick spend or requisitioner non-compliance. These benefits only stand to increase from going the extra mile with an online open marketplace.
- **Increased visibility into purchases:** Thanks to the advanced reporting and data visualization capabilities provided by marketplace solutions, 76% of organizations have obtained greater visibility into clean spend data at the line item level.

Estimating the Impact

The Hackett Group has created a model to help organizations estimate the hard benefits they might gain from using an open marketplace (Fig. 3).

FIG. 3 Online open marketplace estimated benefits model per \$1 billion in spend

The Hackett Group created a model to help organizations estimate the hard benefits they might gain from using an open marketplace.



Source: The Hackett Group, 2019

The variables that go into this model are the consolidation of the supplier base made possible, the percentage of spend that would be affected (indirect versus direct, in this scenario), and the average size of orders (smaller, more frequent orders versus larger, less frequent orders). Below we look at how each variable will affect the outcome.⁵

- **Supplier consolidation:** Typically the result of strategic sourcing efforts, more mature organizations tend to have fewer suppliers. The more consolidated the supplier base, the less benefit procurement will see from supplier onboarding, maintenance and overall process-cost savings related to suppliers. The following categories were used to define supplier consolidation:
 - Highly consolidated: 2,181 suppliers per billion in spend
 - Average: 5,767
 - Highly fragmented: 17,067

⁴ User Experience and Maverick Spend Study, The Hackett Group, 2018

⁵ To calculate the categories, we used median, upper quartile and lower quartile performance data from our 2019 procurement benchmark database.

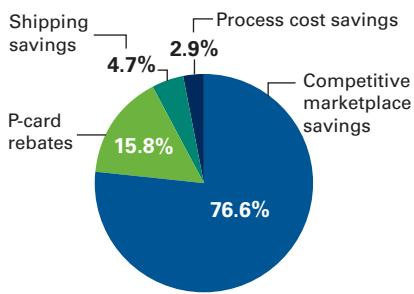
- **Percentage of spend that is indirect:** The direct versus indirect spend mix varies greatly by industry. The higher the percentage of indirect (and thus “tail”) spend, the more that is available for purchase through an open marketplace, thus resulting in greater savings. The following definitions were used for percentage of indirect spend:
 - High: 58% of total annual spend
 - Medium: 34%
 - Low: 20%
- **Average order count:** Order size and frequency can also vary by industry and geographical spread, and by inventory and planning practices. Organizations with smaller, more frequent orders per billion dollars in spend stand to receive larger benefits from P2P process and shipping savings. The opposite is true for those with larger, less frequent orders. The following definitions were used for average annual order amount:
 - High: 231,971 orders
 - Medium: 77,839
 - Low: 19,112

It is important to remember that services are not included as part of the model. Open marketplaces are not yet a good alternative to traditional services procurement, although they may be in the future, which would increase the amount of overall expected benefit. Finally, the model is based on a typical procurement organization with \$1 billion in total spend. Larger or smaller entities can use the estimated outcomes as a guide and adjust as appropriate.

Based on the model shown in Fig. 3, an organization with a highly fragmented supplier base, a high percentage of indirect spend and a high average order count could save \$8.3 million per \$1 billion in spend (highlighted in blue) using a B2B open marketplace. A company with these characteristics would likely put \$145 million per billion of total spend through the marketplace⁶ and realize 5.7% savings in return.

At the lower end of the model, an organization with the opposite characteristics (a highly consolidated supplier base, lower proportion of indirect spend and more consolidated orders) is likely to find about \$50 million per billion of total spend eligible for a B2B open marketplace. A company in this scenario could potentially save \$2.4 million (highlighted in orange), which represents 4.9% savings on spend put through the solution.

FIG. 4 Breakdown of total savings by source



Source: The Hackett Group, 2019

The benefits quantified in this model come from four key areas: competitive marketplace savings through better pricing; shipping savings; p-card rebates; and process cost reduction. The average percentage across various scenarios of the total savings calculated from each of these areas is shown in Fig. 4.

Questions to Ask

Organizations that are interested in learning about open marketplaces should ask the solution provider for a demonstration and a number of company-specific questions, including:

1. Will the provider permit a pilot program to estimate value and impact?
2. Does the provider vet sellers? If so, how – and how often?
3. Ask about price, integration and implementation delivery, engagement length, and contract requirements.
4. What level of data visibility is available and what types of reports will be provided?
5. How many buyers and suppliers currently use the solution? Ask for metrics and success stories applicable to organizations with similar characteristics and in the same or a similar industry.
6. Ask about key categories that are most critical and whether they’re available in the marketplace, potentially even a basket of commonly ordered goods with specifications.

⁶ Calculated as \$1B total spend * 58% indirect * 25% tail

Finally, assuming the choice of providers will be limited to one of today's major competitors (Amazon, Ebay and Alibaba), think about end-user experience. Familiar with online buying in their personal lives, users want something similar for their business purchases. In addition to higher customer satisfaction, onboarding time and cost will be dramatically lower. Buyer location should also factor into the decision about a provider: Alibaba is more focused on suppliers and buyers located in Asia, whereas Amazon and Ebay primarily service the Americas and Europe.

Conclusion and Recommendations

Open marketplaces can be an effective way to manage tail spend. Other benefits include increased stakeholder satisfaction, reduced supply risk and greater spend visibility. For organizations that have already strategically sourced categories and implemented purchase-to-pay tools to harness recurring spend, open marketplaces are a logical next step to rein in the remaining tail. Procurement leaders should assess their company's unique characteristics and the considerations outlined in these pages, including corporate culture and spend profile.

About the Advisors

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In addition to conducting research on topical subjects, Mr. LeFever advises clients as they work to optimize their processes, organization and technology (both on-premises and cloud-based). His subject matter expertise includes sourcing, contract management, procure-to-pay, order-to-cash, payments, and travel and expense management. Before joining The Hackett Group, he was director of research and consulting at PayStream Advisors.

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Ms. Fong has 20 years of experience in industry and consulting with a focus on procurement, supply chain and organizational effectiveness. She helps business leaders improve source-to-pay processes, manage complex supply chain partnerships and mature their organization's service delivery model. She also performs primary research in source-to-pay and operations and is the author of a number of publications on these and other topics.

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