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[Case Study] Commerce One: What Went Wrong With This Supply Upstart?

In 2000, Commerce One was to take the e-commerce market handily. Competitor Ariba was the only perceived rival, as IBM, Microsoft, and Oracle weren't yet major players. The world had survived Y2K and the dot coms were taking over, the perfect playground for Commerce One to grow and prosper. So, what happened? What can we learn from the light speed rise and equally fast fall of this business-to-business software company?

Situation

Image via Flickr by mrkumm

Mark Hoffman was fired as CEO of Sybase in 1996. Unlike many of his counterparts in the software industry, he was readily embraced by both old school business people and the new and upcoming dot coms. Hoffman signed on to lead DistriVision into their rightful place as the industry leader in e-commerce software solutions, due to their innovative software. He changed the name of the company to Commerce One, and embarked on cranking out software solutions packages with neckbreaking speed.

Approach

Image via Flickr by Kevin Burkette

Commerce One produced their software packages so rapidly that they didn't even bother with a beta phase. They quickly garnered media attention by signing on as the software provider of choice for General Motors. Using the media buzz generated by the hype over the rivalry between Commerce One and Ariba, they employed aggressive marketing strategies and hosted outlandish parties for their employees and customers.

After signing General Motors, Commerce One no longer had to beat the streets for clients -- clients competed to be the next customer of this upcoming sensation. Eventually, Commerce One teamed up in an unprecedented companionship with SAP. The not-exactly-a-merger companionship between SAP and Commerce One gave the company credibility to forge ahead with rapid fire product offerings.

Stocks in Commerce One gained value faster than any other stock in the history of NASDAQ trading. By 2001, some of the lowest ranking employees in the company owned stock options worth hundreds of thousands of dollars. The company was worth $29.5 billion and still gaining. But once they reached the top, some inherent problems in their business strategy took their toll.

Impact

Image via Flickr by zolierdos

Since Commerce One had a policy of rushing out new products without beta testing, they ended up with a product line that was neither compatible with their other software offerings nor compatible with offerings by Oracle and others who were entering the industry. This caused customers to become disillusioned, damaging their reputation irreparably. As problems within Commerce One came to the surface, the terrorist attacks on September 11, 2001 shook the entire technology industry.

At this point, SAP decided to pull out of their partnership agreement, leaving Commerce One broken and bleeding. They never became industry leaders in the important business to business software sector, and were essentially sold for parts. Their patents were auctioned off in 2004, and what was left of the company was bought by Novell for the only thing it was really worth: the technology they had developed.

Aside from the age-old story of a company that grows too quickly and can't properly develop, there are other lessons to be learned from the rise and fall of Commerce One. First, it's critical to fully develop a family of compatible products to remain at the top of your industry. Second, testing phases can't be skipped to get a product to market, because problems left uncovered by your company lead to unhappy customers, who may not come back for more.

Finally, Commerce One's merger with SAP was dangerous. When SAP pulled out, it gutted Commerce One's operations, leaving it unable to survive alone. Hopefully, these lessons won't have to be repeated by other companies.

How the Economy is Derailing Green Initiatives in Manufacturing

In most cases, green initiatives cost more to implement than traditional methods of manufacturing. It's one thing to make green decisions when you're building from scratch, but most established businesses are holding off on new construction and expansion until it's clear how the economic recovery is going to hold up. Converting power sources to alternatives such as solar panels costs hundreds of thousands of dollars -- a huge outlay when companies are struggling to avoid layoffs. Are green initiatives doomed due to a bad economy?

Green Parts and Service Aren't as Widely Available

Image via Flickr by USFWS Mountain Prarie

One thing that drives up the costs of green initiatives is a lack of availability in the marketplace. Traditional power sources, plumbing, and other necessary things for manufacturing are less expensive because more people make and service the less green alternatives. It's harder to find green products, and when these products need service, it's almost impossible to find qualified technicians to do the work. Companies that research green alternatives have trouble finding affordable options.

Green is Still New Technology

Image via Flickr by fsse8info

A good example of why new technology is always more expensive than old technology is to look at the video industry. When VCRs first came out, they were too expensive for many middle class Americans. As the makers of VCRs paid for development costs, the price dropped and soon almost everyone owned a VCR. The same was seen as DVD players entered the market, and again now as Blu-ray players drop in price. Developers of green technologies are trying to recoup the expensive process of creating and perfecting these technologies. Until these entities recoup their costs, green technologies will remain pricey.

It Takes Time to See Savings

Image via Flickr by 401(K) 2013

It's true that solar panels, wind turbines, and other green technologies free companies from expensive power grids, but it takes a long time to recoup the hundreds of thousands of dollars these green alternatives cost initially. In many cases, it takes ten years or longer to see the savings of initiatives implemented now. With a shaky future ahead, most companies aren't willing to shell out big bucks now that won't bring a return for many years, especially when other investments can return savings or turn a profit much more quickly.

Government Backing Off Incentives

Image via Flickr by Stefrich823

Between 2000 and 2010, the government offered sizeable incentives for companies (and individuals) to convert to green alternatives. But at the end of 2010, many of these initiatives, such as tax credits, expired and the government hasn't introduced new incentives. Companies that weren't able to cash in during the most difficult part of the recession certainly aren't going to get those benefits now. Many companies decide that other investments are a better tax break than implementing green initiatives.

Though the outlook for green manufacturing may look grim, that's not the whole story. Fracking processes have freed enormous supplies of shale gas and oil in the U.S., driving energy costs down and putting us on the route to energy independence in the foreseeable future. Additionally, new laws limiting the building of more coal-burning power plants and the gradual phasing out of coal power plants currently in operation mean that manufacturers can still continue to produce goods with a lower impact on the environment.

In the end, stricter government regulations, and not green initiatives by manufacturers, may tip the scales toward lower emissions and lesser use of natural resources.

[Case Study] Lessons from Baan: How "The New SAP" Fell From Glory

Business software solutions giant SAP thought they had a competitor. Baan, a Dutch company offering business software, entered the North American market in 1994 when it landed the coveted client Boeing. The next few years, Baan grew at an unprecedented rate of 100 percent, a growth rate almost anyone would realize is unsustainable. It didn't take long for Baan to make mistakes that inevitably cost customers and millions of dollars.

Situation

Image via Flickr by theewarat

Baan offered innovative products which were appealing to customers. It didn't take long for the company to sign an array of desirable customers, and many of their products were especially appealing to small to medium-sized businesses. For a while, the company offered a complete assortment of software products for business using only 15 percent of the resources expended by their main competitor, SAP. It appeared Baan had a virtually unlimited potential for growth.

Approach

Though the software developer began with offerings of ERP design and implementation, they soon acquired a number of third-party software development companies, and expanded their product base to include human relations software, logistics software, finance software, and more. Yet as Baan focused on its acquisitions, it did little of its own development work, preferring to

acquire established software. Baan also offered long-term maintenance and support of their products. Baan's primary goal: to overtake industry leader SAP.

Along the way, instances of financial mismanagement caused concern with both investors and customers. It came to light that in 1997 Baan sold $66 million worth of products and services to subsidiaries of Baan Investment, an independent charitable organization created by the founder of Baan, Jan Baan, and his brother Paul Baan. Jan stepped down from his leadership position shortly after. The company was also found to have failed to disclose 30 separate transactions worth an estimated $60 million in licensing fees.

Impact

The result of acquiring a plethora of third-party software, rather than engaging in their own development endeavors, was that Baan couldn't offer a consistent, well-integrated product. It was more like a patchwork quilt of incompatible or barely compatible components. Over time, they were unable to fulfill promises for long-term product maintenance and support because acquiring and integrating third-party applications was all-consuming.

SAP and other competitors, such as Oracle and J.P. Edwards, began wooing Baan's customers, offering better integration and support, along with a level of customer service that Baan's stressed staff couldn't provide. By 1998, Baan's losses were $31.7 million. Customers like Sensormatic Electronics Corporation and Buckman Labs International Inc worried about the company's solvency and how they would be able to continue to supply upgrades and support with dwindling funds and a lack of focus.

To compound the problems, the ERP market began to slow down about the same time Baan's problems became evident. There wasn't room for struggling software providers in a market barely able to support its strongest members. Baan was eventually bought by Invensys and changed hands several times until its final transfer of ownership to Infor Global Solutions in May of 2006. SAP remains an industry leader with a net worth of $85 billion.

The Enormous Cost of Putting Profits Over Lives

In April, Bangladesh garment factories captured worldwide headlines when a factory collapsed, killing 1,200 workers. Just one day before the collapse, an engineer was arrested for his allegations of unsafe working conditions there. The vice president of the Bangladesh Garment Manufacturers and Exporters Association, Shahidulla Azim, told the Associated Press, "Earlier it was not in our minds. We never thought of this." But how can that be?

Though the Rana Plaza collapse was by far the worst such accident affecting this $20 billion industry, it followed a fire in November at Tazreen Fashions Limited, which killed 112 workers, and the Spectrum sweater factory, which killed 64 workers in 2005. Western retailers that hire Bangladesh suppliers aren't the only ones putting profits above human life. Ford Motor Company refused to spend $11 extra per car when manufacturing the Pinto, costing 9,000 lives. Ford and Firestone teamed up to hide problems with their SUV tires, which resulted in at least 300 vehicle accidents. What's the cost?

Interruption of the Supply Chain

Image via Flickr by rijans

From a business standpoint, these large-scale issues cause serious disruptions in the supply chain. Even the workers who aren't killed or injured are unable to continue to produce. This, in turn, means shipping companies lose business because there are no transportable goods. The company has no goods to sell, and the consumers don't have those products to buy. In some cases, parts of the supply chain are permanently damaged, and the income provided by those jobs is lost to that region completely.

Public Backlash

Western retailers, such as Zana's parent company Inditex, took huge public relations hits in the aftermath of the Rana Plaza collapse. Some companies, such as Wal-Mart Stores Inc., tried to deny their products were produced there, even after documents were found at the accident site indicating the factory had orders from a Canadian Wal-Mart, at least at one point.

A number of European retailers banded together to sign an agreement to help bring Bangladesh factories up to safety code, but at least two major retailers, Wal-Mart and Gap, have refused to sign. However, Wal-Mart does plan to inspect all 279 of their factories. The part of the agreement Wal-Mart and Gap balked on was paying for improvements and the possibility that signing the agreement would open them to legal problems.

Government Involvement

When businesses refuse to regulate themselves, it opens the entire industry up to more government regulation. In the case of Bangladesh, a minimum of 10 percent of their 4,000 factories face closure, at least temporarily. Once the government is involved, costs go up as companies struggle to meet demands of new regulations. Inspections, upgrades, and other safety measures are more costly than if the companies had done the right thing to begin with.

Human Lives

In the end, none of the government regulations, public outrage, or supply chain interruptions are as costly as the loss of human life. Executives who ignored unsafe working conditions or chose a cheap route over a safe way of doing business must live with the fact they caused the loss of innocent human life.

Hopefully, the world's businesses will learn from the tragedies of history and begin valuing human life more than profit margins. Yet the one thing we know about history is that we do not learn from history.

[Case Study] How McDonald's Overcame Supply Chain Obstacles in the Furtherest Corners of the Globe

In 1993, Martha Cooper and Lisa Ellram co-wrote and published the Characteristics of Supply Chain Management and the Implications for Purchasing and Logistics Strategy. After more than twenty years of debate, trials, and errors, many supply chain professionals believed the practices described in the paper simply weren't able to be put into effective practice.

Situation

Image via Flickr by Hakan Dahlstrom

Cooper and Ellram created the idea of SCM (Supply Chain Management), wherein they define the systems of a supply chain and described how to establish and maintain such a system effectively. The primary focus was on the collaboration of members within the supply chain in order to lower costs and improve service. The process appeared to work beautifully on paper, but was rarely seen working as described on paper. McDonald's Sweden changed this more than two decades later.

Approach

Since McDonald's Sweden was established, it followed the SCM as described by Cooper and Ellram. This involved collaborating with the entire supply chain, including sharing information, joint planning, and fully sharing in both the risks and the rewards of each endeavor. To date, there have been several obstacles identified that usually inhibit this process. These barriers

included technical problems (such as incompatibility issues) and cultural problems (such as a lack of trust among companies).

Impact

McDonald's Sweden, however, did not face these obstacles. This hereby proves that the SCM framework described by Cooper and Ellram does, in fact, have validity. The McDonald's corporate philosophy was applied all the way across the supply chain, fostering a sense of open communication and trust. However, it is important to note that free sharing of information only relates to information which is important for the various members of the supply chain to know. Sharing of all information without regards to its relevance or importance simply overwhelms the lines of communications and builds different obstacles to overcome.

Advantage

Nowhere is the success of McDonald's Sweden's supply chain more evident than in their relationship with their carrier, HAVI. This is the only logistics company McDonald's Sweden uses. By having a single carrier for all their logistics needs, McDonald's Sweden was able to negotiate prices for all its franchises, meaning that prices could be consistent across the area of Sweden.

If different carriers were used for different areas or franchises, McDonald's would not be able to offer the same prices in restaurants in different areas. Because consistent food quality and consistent pricing is one of the main selling points of McDonald's food, this was a key issue for this company.

The most significant element in the success of the McDonald's Sweden supply chain is the trust factor. They have effectively established a high level of trust across all suppliers, the McDonald's company, and the restaurant franchises. McDonald's effectively broke down the barriers to long term collaboration and proved finally that the beautiful idea of SCM can actually work just as described by Cooper and Ellram.

Since McDonald's has reached market saturation in Sweden, the next challenges to await are finding ways to grow the business and continue to increase profit margins in the region.