

The B2B Horserace: Understanding Buyer Motivations in eMarkets

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Executive Summary

This article continues exploring the problems examined in eMarkets: Fixing What's Broken. In that article, I argue that the B2B eMarket business concept is fundamentally sound, but that, in practice, eMarkets are failing to establish liquidity because they are not focusing on the full range of buyer needs.

But understanding, let alone satisfying, buyer needs is difficult. In this article I argue that a significant part of the difficulty is that the buyer is not really a single entity, but reflects a variety of concerns that are properly the focus of different groups within the buying organization. Worse, the different buyer motivations often conflict with each other and can even reflect different stages of market maturity -- all within a single company. Vendors and eMarketplaces trying to respond to all of the different buyer concerns risk satisfying none of them. The result is failure to ever establish a viable market position.

Though this problem is difficult, it is not unsolvable. A successful approach to buyers in an emerging eMarket depends on separating out and understanding the different buyer motives. Once you can identify the different concerns and requirements, you can focus on the ones that fit your company's offer. You also need to develop strategies for staying out of trouble with the parts of the buying organization that have other needs.

An engineer, an insurance actuary, and a mathematician went to the horse races one afternoon and placed their bets. Things didn't go well for the engineer and actuary. All three retired to the bar after the races to have a drink on the mathematician's winnings. The engineer was bewildered. "I don't understand. I measured all the horses, calculated body mass and leverage, and thought I knew how they would run ..."



"But you forgot to take variation over time into account," interrupted the actuary. "I collected all the data about past races, and ..."

"So, how come you're broke?" said the engineer, not letting him finish. As the mathematician bought another round for the house, the other two turned to him. Clearly, here was a man who knew something about horses. Could he at least give them a tip on picking winners?

Putting down his beer and leaning back against the bar, the mathematician began to explain his secret: "Well, first I assumed that all of the horses were identical, uniform, and perfectly spherical ..."

Anybody that has been paying even a little attention to the business of B2B markets knows that it is a high-risk horse race. There are all kinds of factors that make winning difficult: investors are wary, supplier catalogs are expensive to convert, buyers have complicated purchasing requirements, old habits die hard, and so on.

In short, making an eMarket operation work is hard enough even if you are just dealing with the facts as they are.

Unfortunately, a number of vendors, service providers, and eMarket operators take a difficult situation and make it much worse by starting with overly simple notions about what an eMarket is, much like the mathematician's "identical, uniform, and perfectly spherical" horses. Unlike the mathematician, though, most of these people don't have a streak of good luck that makes their simple assumptions work out all right. Assuming identical, uniform, perfectly spherical eMarkets, or anything like that, is a good way to end up needing someone else to buy your beer. But companies do it anyway.

Nothing Simple About It

A little over a year ago, before the market for tech stocks tanked, back when everything looked simpler, I was helping an eMarket client by doing some business development work with an important buyer that the eMarket hoped to bring into the exchange. My client had managed to get strong support from the executive level of this company, but we also needed buy-in on the purchasing side, since it would be the purchasing people who would be using the system day in and day out.

Consequently, my meeting was with the manager of the purchasing operations. I had met with him before, and that first meeting was friendly but inconclusive. He was more technically savvy than other purchasing managers I had called on and was clearly interested in hearing more about

what my client was offering. But, just a clearly, he wasn't the person to be making decisions about major shifts in the way that the company did business. So, using my initial call as background, we had made our next call higher up in the company and came away with a strong vote of support from the VP of operations. Now I was shuttling back to the purchasing manager to put some meat on the bones of this deal.

The purchasing manager did not report to the VP of Operations, but, instead, reported into the CFO. So, I was now dealing with both sides of the company hierarchy -- operations on the one side and finance/purchasing on the other. As a consequence, I ended up with a meeting with two people at once, the purchasing manager of my earlier acquaintance and an operations counterpart from within the same office. I wasn't sure quite what to make of this from a sales and closing standpoint -- yellow warning lights and concerns about the deal becoming complicated emerged in my mind -- but I wasn't in a position to pick my dance partners at this point. So, I made the call with high hopes but also, to borrow Duke Ellington's phrase, with "both my ears twenty feet high."

It was a strange meeting. The purchasing manager seemed to have forgotten completely about our earlier conversation about the Internet and eMarkets. He focused instead on some relatively obscure, difficult integration work between a number of the company's existing systems, asserting that this was the one thing that, if my client could do it, would deliver value. It was clear that, with other segments of the company showing interest in our offer, the head of purchasing was going to set up some pretty high fences that would either keep me and my client out of his operation or that would keep us busy looking for ladders.

The operations person sat agreeably through the meeting and offered to walk me back to the front door. I was busy trying to sort out the presentation from purchasing and, with that much going on in my head, figured that a guided tour back to reception would beat wandering among cubicles. But rather than walking me out, he walked me over to his office, closed the door, and we started a second meeting.

Suddenly animated, the operations guy told me to ignore everything that the purchasing guy had said. My client's offer did indeed fit into the plans on the operations side, and if the engineering and operations staff had their way, most of the purchasing staff would be out looking for work inside of two years. Purchasing just didn't understand that what mattered was keeping the plant running, not saving dimes and nickels. An eMarket could radically change the nature of the business' operations by tying the company more closely to suppliers. He saw this opportunity, his boss saw it, but purchasing just didn't get it. I should stay in touch.

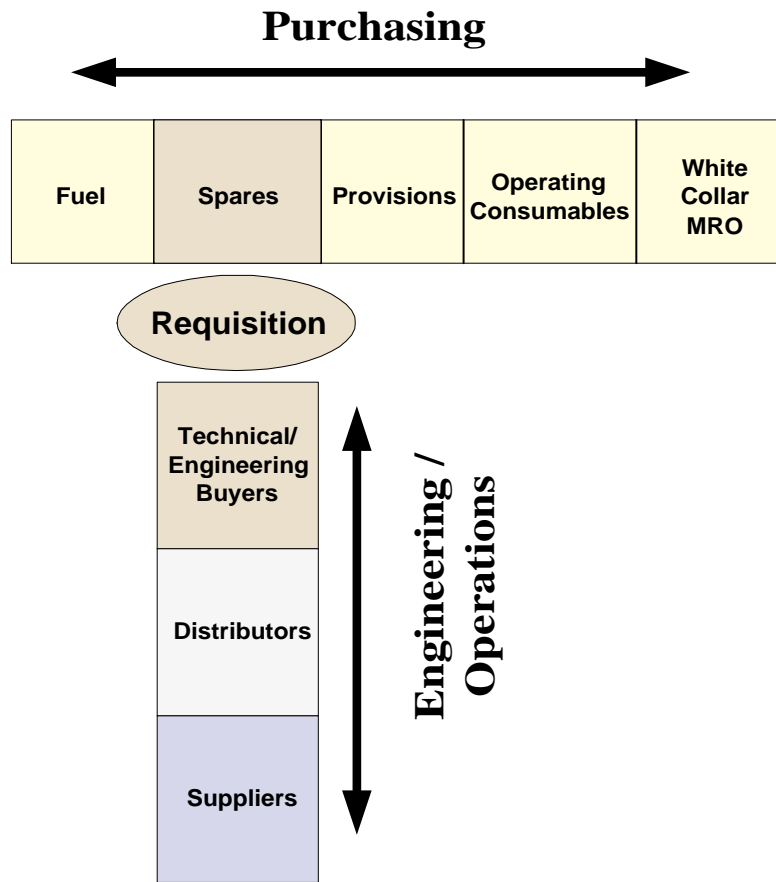
Right. And so I began thinking to myself about burn rate vs. sales cycle. Just how long would it take to get this company to the point where it was doing substantial business in the eMarket? What would it take to get them contributing to my client's liquidity?



A Year's Learning

Behind the dynamics of that call there was a logic at work that, had I been able to see it then, would have changed the approach that my client and I were taking to this particular prospect. In fact, it changes the fundamental approach to building an eMarket.

What I have since learned from looking at many other companies, across different vertical markets, is that the division of interests between purchasing and operations that I encountered at this one company is typically present at most companies, though rarely in such an obvious, antagonistic form. You can think of it as a difference between concern over breadth and concern over depth, putting the two points of view at right angles to each other, as shown in figure 1.



• **Figure 1. Opposing viewpoints of purchasing and operations**

The top management in charge of purchasing is concerned about a broad array of different kinds of purchasing necessary to keep the company running. The details differ from industry to industry, of course. In industries that depend on an investment in expensive, complex machinery and equipment (for example, airlines, high tech manufacturing, mining, shipping,





railroads, construction, heavy manufacturing, telecommunications, and so on) the purchasing group may be concerned about managing the cost and flow of things such as fuel, provisions, consumables, white collar MRO supplies (pencils, light bulbs, floor wax, and so on), and a host of other things. Along with all of these broad concerns, they will also focus on buying the spares and equipment necessary to keep the company's core operations running.

The engineering and operations staff within the buying organization has much narrower, more focused concerns. They have to keep the planes, ships, trains, trucks, mills, presses, crushers, lasers, robots, and other equipment associated with the core business operation up and running so that there is product to sell, whatever it is. In order to do this more effectively, engineering and operations builds close relationships with suppliers and distributors. They want to increase the likelihood that, when something breaks down, the supplier or a distributor will be there with the needed part, technical support, and even, if necessary, a person to do the repair. The goal is to do what it takes to guarantee that expensive equipment is running and producing revenue.

The purchasing manager's concerns, then, are broad but thin. He or she has to worry about a great many things, but those worries don't go very deeply into any area of the company's operations other than purchasing itself. Success to the purchasing manager means keeping prices paid to suppliers as low as possible, within constraints of quality and service. Success also means trying to minimize the cost of each purchase transaction. Breadth is unavoidable -- it comes with the territory -- but thinner is better. The holy grail is getting the best price on everything while spending no time at all on the transactions.

Engineering and operations sees the world very differently. Saving a few dollars on a bearing when it means that an engine will have to be torn down for repairs sooner is penny wise and pound foolish, and these people have the expertise to make that judgment call. Even more important, paying a bit more to create a strong reliable relationship with a supplier who will be able to help quickly when equipment breaks down just looks like good business. A ship that is in port waiting for a part is losing \$10,000 an hour. A 360 ton haul truck waiting for repairs may be losing \$60,000 for every load that it doesn't carry while sitting still.

Given the substantial losses in revenue that occur when assets aren't able to be utilized, the engineering and operations staff is focused on problems that are narrow but deep. The effect is to tie engineering and operations personnel more closely to suppliers than to the purchasing staff within their own organizations. That is why, in figure 1, each of the different players in the equipment supply chain, from the OEM equipment supplier, through the distributor, and up to the technical buyer, are included in a single, continuous rectangle.

This understanding of the different viewpoints held by engineering and operations, on the one hand, and purchasing, on the other, puts my sales call of a year ago in a different light. When I encountered the antagonism between purchasing and operations, I was not just running into some weird

political struggle that was going to get in the way of a sale. I was, instead, confronting one of the fundamental tensions that surrounds purchasing in capital intensive businesses.

My mistake at the time -- and the mistake that many eMarket businesses are still making today -- is like the mathematician's error at the horse race: I was thinking of the buyer as having just a single point of view -- treating the different parts of the buying organization as "identical, uniform, and perfectly spherical." Given all the usual focus in eMarkets on the tension between buyers and suppliers, this is an easy trap to fall into. But it is a mistake that obscures the essential differences of viewpoint that an eMarket must understand and respond to if it hopes to achieve broad acceptance within a buying organization.

The Dimensions of ROE

Figure 1 suggests that the two key groups that an eMarket must satisfy within a buying organization have interests that do not run in parallel. To use a fancy word, their viewpoints are "orthogonal:" they are at right angles to each other and can be viewed as so different as to be essentially independent from each other. The independence is of course limited by the fact that they have to work together within the same organization, but, as my experience illustrates, the "working together" is strained by the inherent differences in objectives.

The financial performance yardstick of "return on equity," or "ROE," provides eMarket practitioners with a nice way of understanding and working with the different viewpoints within the buying organization. It solves the problem of showing how these fundamentally independent objectives can combine to reach a common corporate objective.

As the top line in figure 2 illustrates, ROE, at its most basic, is simply the ratio of Net Earnings, or the "return" from a company, to the company's Equity. This simple equation becomes more analytically useful, however, when you break it into a set of independent factors, as figure 2 also illustrates.



$$\frac{\text{Net Earnings}}{\text{Equity}} = \text{ROE}$$

$\frac{\text{Net Earnings}}{\text{Sales}}$ <p><i>Margin</i></p>	x	$\frac{\text{Sales}}{\text{Assets}}$ <p><i>Asset Utilization</i></p>	x	$\frac{\text{Assets}}{\text{Equity}}$ <p><i>Leverage</i></p>	= ROE
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• **Figure 2. Components of Return on Equity**

The first factor, Net Earnings divided by Total Sales, is the conventional expression of a company's profit margin: of all the money that you received from customers, how much did you keep? Generally speaking, there are two ways to improve margins. One is to increase price, but competitive pressures typically limit the degree to which a company can do that before it begins to lose sales. The other way is to decrease expenses relative to sales, so that the company gets to keep more of each dollar of sales.

The purchasing managers are focused on improving margins. By keeping costs down, margins go up and ROE increases.

The second factor in the ROE equation is the proportion of Sales to Assets. You can think of it as the number of dollars of sales achieved for each dollar of investment in assets. For an airline, this is a measure of the amount of customer revenue produced for each dollar invested in planes and other equipment. For a mine it is the number of dollars of ore achieved for each dollar invested in mining claims and equipment. In short, the second factor is a measure of asset utilization.

Asset utilization is what the engineering and operations managers worry about. Working the assets harder and more efficiently, squeezing more dollars of revenue out of the company's investment in property and equipment, is their way of improving ROE.

The third factor is a measure of the amount of debt that a company has. Long term debt, at attractive rates, can be a very good thing, allowing the company to increase its asset base beyond what is available using investment from shareholders. If those assets are making a lot of money, ROE goes up and everybody wins. This third factor, however, is more a financial management issue than it is something that can be affected by eMarkets.

On the other hand, the first two factors, margin and asset utilization, are very much within the domain of eMarkets. An eMarket can contribute to increased ROE by helping the purchasing department shave costs and increase margins. Similarly, an eMarket can improve the ability of



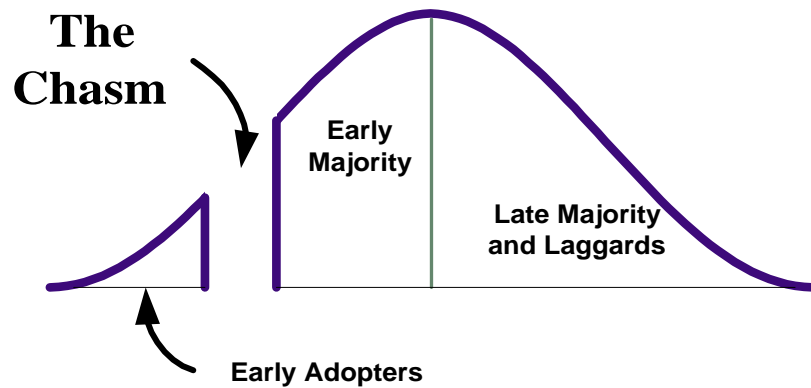
engineering and operations to collaborate closely with distributors and suppliers, thereby increasing asset utilization. Both improvements contribute to ROE. In fact, the effect is multiplicative.

One clear conclusion from this analysis is that the two groups in figure 1, purchasing and engineering/operations, see the world in different ways. That is certainly part of the explanation for the very different responses I received when visiting that prospective eMarket participant a year or so ago. The buyer in an eMarket is not one thing, identical, uniform, and perfectly spherical.

Does it follow, then, that the way to respond to these different viewpoints is simply to develop different presentations for the two key constituents within the buying organization? Unfortunately, it's not that simple. To understand why, it is necessary to consider the pattern that markets and participating companies follow as they come to terms with the new opportunities opened up by eMarkets.

Straddling the Chasm

The pattern of new technology adoption has been ably described by Geoffrey Moore in a series of books that date back to the early 1990s.¹ The fact that new technologies gain acceptance gradually, first finding favor with a few innovators and only slowly working out into the mainstream, is an observation that dates back to research about the diffusion of technology among farmers the 1950s.² Moore's insight was that the adoption does not proceed smoothly. He argued that movement from early adopters to the more mainstream, "early majority" market is interrupted by a "chasm," as illustrated in figure 3.



• Figure 3. Technology adoption, interrupted by the "chasm"

In our work with our clients at Fastwater, including small startups, eMarketplaces, established companies entering new markets, and a few that fall in between these categories, we have learned two things about the chasm:





A product offer (and for smaller companies, it is fair to say that the entire company) cannot successfully straddle the chasm.

But almost everybody tries to do so anyway.

The temptation to try to straddle the chasm is perfectly understandable. As a company introduces a new technology, the early buyers consist of managers who see an opportunity to use the technology to rewrite the rules of their marketplaces or industries. They want to use the technology to gain sudden, new competitive advantage. These are wonderful customers: new technologies would rarely find their way to market without them. But they are also demanding customers, since they typically want custom solutions. Worse, there aren't very many of them.

When a company is supporting a half dozen or so of these early adopters, meeting a half dozen unique and often poorly aligned needs, the other side of the chasm, occupied by the early majority buyers, looks pretty wonderful. There are more buyers and they want a more standard product. But it is the early adopters who are still paying the bills. So, naturally, companies think in terms of continuing to sell to those all-important early adopters while, at the same time, pitching to the early majority, using early adopters as references. They try to straddle the chasm.

The reason that straddling doesn't work is that early adopters and the early majority are looking for entirely different, mutually exclusive offers. Early adopters are looking for something that their competitors haven't got. They are willing to take outsized risks on new technologies in order to get outsized returns. They want to upset the apple cart on the chance that they can pick up more apples than they started with.

The early majority buyers, on the other hand, are pragmatists. They are interested in new technologies, but only when they are proven. They are looking for reference accounts that include other companies that are as pragmatic and sensible as they are. Knowing that Wild And Crazy Inc. has invested heavily in the technology is not a plus, it's a minus. The early majority buyers know that Wild And Crazy has as many projects fail as succeed. Early majority buyers are also looking for 24x7 support, a strong professional services group, training, a field of competing offers that they can compare and contrast, maybe even a user group, and certainly an opportunity to haggle over price.

An offer that makes sense to one side of the chasm will be shunned by the other. An offer that tries to appeal to both groups will be attractive to neither and will fall straight into the chasm.

Crossing the chasm is a step by step affair, not a straddle. Geoff Moore, a master of the mixed metaphor, describes a set of approaches that include bowling alleys and tornadoes that companies can use to make the trip. But that is not my point here -- my point goes back to our two groups that eMarkets encounter within buying organizations, the purchasing managers and the engineering/operations managers. The problem facing eMarkets is that these two groups are often on opposite sides of the chasm, even when they work within one company.

The purchasing managers are pragmatists. After all, they make their living by trying to shave a few dollars off of a purchase and by tuning the ordering and fulfillment process to make it ever more efficient. Adding risk and uncertainty to their operations is not the least bit attractive. They will look at your eMarket offer when you can show that you have a proven system, satisfied customers, and a sure way to save them money. That is precisely what was going on a year ago, when the purchasing manager at my client's prospect began building a fence that my client would need to climb over. There was no contradiction between my first meeting with him and the second one. In the first meeting I was bringing interesting intelligence about eMarket offers, and so he was happy enough to have a conversation in which I could tell him more about new developments that he wanted to keep an eye on. But, when the operations team began talking about actually buying into such an innovative, relatively risky system, the purchasing manager began doing everything he could to make that impossible. His job was to protect and improve his margins, not to take risks.

The engineering and operations managers face a different challenge. Companies have been pursuing margin improvements through the past decade of business process reengineering and other cost cutting measures. The engineering and operations team knows that more BPR isn't going to get them where they need to go when it comes to increased asset utilization. Instead, they are looking at innovative new relationships with suppliers. They are experimenting with negotiating long term supply contracts with suppliers, trading off the possibility of cost savings in return for increased certainty in supply and service. They are rearranging the boundaries of their organizations, outsourcing spares inventory management and other services to distributors and suppliers. They are looking for ways to rewrite the rules.

In a company where purchasing and engineering/ops are on opposite sides of the chasm, the eMarket wanting to sell the company has to do much more than just develop two presentations. Instead, the eMarket has to decide which part of the buyer it is selling to, and which side it needs to keep away from so as not to get into trouble.

What Is an eMarket To Do?

Understanding the different motives and market orientations of the different groups within the buying organization is an important first step toward building liquidity with buyers. Are they looking for breakthrough innovation or a way to shave some costs? Are they risk takers willing to place a bet on your company and its offer or are they risk-averse pragmatists?

The other important step is to develop a realistic picture of your company and its offer: what kind of buyer will you appeal to? Do you have an innovative offer that will potentially allow a company to develop breakthrough capability, rearranging the rules of their market? Does your company talk about vision and get prospects excited about new futures? Or do you have an offer that allows for greater control, more reliability, and guaranteed cost savings?



The advice about not straddling the chasm is really important. You cannot be both high risk, high return and a sure bet. But, the chances are good that you are, in fact, trying to send both of those messages. Don't do that. Figure out which side of the chasm you are aiming at, and then make everything about the company communicate that capability and viewpoint.

When we work with clients on this issue, we point out, only partly tongue in cheek, that if a company is selling to innovators, the receptionist has spiked hair and a nose ring, the conference room still has last night's pizza boxes in the trash basket, and the corporate presentation is delivered largely by engineers drawing on whiteboards. If you are selling to pragmatists, the receptionist is wearing a suit (the jacket can be off and hanging over a chair), the conference room is full of awards and testimonial articles from customers, and the presentation is Powerpoint, better yet a video talking about customer success. Figure out which message you need to send, and do it completely, without mixing messages.

Collecting together the different customer orientations and the two options regarding your own company's attitude and focus, it is possible to lay out the alternatives in a table, as illustrated in figure 4.

		Purchasing	
		Early Majority	Early Adopter
Engineering/Ops	Early Adopter	Sell to engineering/ops -- clean hand off to purchasing systems	Key account -- sell a complete solution -- partner to bring in other components
		Sell to purchasing -- accept requisitions from multiple catalog/ supply chain systems	You can learn from these accounts, but you are not likely to win. Watch your costs.
	Early Majority	Avoid these accounts for now	The Nature of Your Offer Breakthrough offer for Early Adopters Pragmatic offer for Early Majority
		This is your sweet spot - partner with others to sell a complete solution	

• Figure 4. Picking the right horses

The box in the upper left-hand corner describes the situation that I encountered in my call of a year ago: the purchasing operation is interested in a pragmatic effort to reduce processing costs, and engineering/operations is interested in finding a way to change the rules of the game. This mixing of objectives is perhaps the most common arrangement that eMarkets and eMarket technology suppliers encounter.



The way to approach this kind of prospect is to sell to the group that will understand your message and to stay out of trouble with the one that won't. If you look back at figure 1, you see that the "demilitarized zone" (DMZ) between purchasing and operations in this situation is the requisition. Your focus in approaching such a sale should be on not crossing the DMZ. If you are selling breakthrough technology to operations, make sure that the result of all your work is a requisition that is available in a set of formats that can be handled by any purchasing system that the purchasing side of the operation happens to use. This approach allows you to neutralize purchasing's potential concerns about your higher risk, higher gain offer. Similarly, if you have a pragmatic solution geared to purchasing in this scenario, make sure that the requisition is your starting point. Do not cross the DMZ and try to sell operations on your proven, widely used sourcing tools -- at least not at first. They are looking for a revolution, and you are not offering it. Start with a beachhead in purchasing.

Although the upper left-hand box is a common, and difficult, scenario that eMarkets must be able to deal with, not all companies fit there. We also encounter companies that fit into the upper right-hand quadrant, where the entire corporation is focused on early adopter, break through opportunities. In some cases purchasing actually reports to operations -- a clear signal that the prospect is less interested in controlling costs than in maximizing operational efficiency and asset utilization. If you are selling a pragmatist's solution, these are important accounts to learn from, though they are difficult to close. In particular, you should be aware that the demands for custom solutions may make the account difficult to manage and could easily result in unexpected costs. On the other hand, if you are selling a breakthrough solution, these kinds of accounts are the ones where you are most likely to find clear support up to the CEO level. You should, if necessary, find partners with complementary technologies so that you can offer a complete solution for such prospects.

There are also companies that fall into the lower left-hand quadrant, where both purchasing and operations are focused on improving margins by cutting costs through use of proven approaches. Such accounts are the sweet spot for companies selling tested, widely adopted solutions. They should partner with other providers with strong track records to own the entire operation, from the supplier, through sourcing and purchasing, and back to the supplier. On the other hand, if you are selling new, breakthrough solutions you should save your money and energy and wait until later, when your offer is much better established, to call on such accounts. These companies will not be part of your set of initial adoptions. And, when you do eventually call on them, you will be a different company -- the receptionist with the nose ring will be gone.

We have not yet encountered a company where purchasing is ready to take risks and operations is playing it safe. I would be interested in looking at such an operation to better understand the market conditions that would lead a company to such an arrangement. But, for now, until Fastwater has some real experience with such companies, I will just leave the lower right-hand quadrant blank.



Sizing Up the Horses

It is my hope that, in setting out the distinctions between purchasing managers and engineering/operations managers, in looking at their different perspectives and motivations, and in placing these motivations in different positions relative to the chasm, I have made it easy to see that buyers in eMarkets are not "identical, uniform, and perfectly spherical." I hope that the analysis of when a buyer should be a winner for you looks sensible and easy.

I also note, however, that few eMarkets, and few of the technology suppliers trying to serve eMarkets, show much evidence of ability to evaluate the horses and place good bets. A lot of companies are still dependent on others to buy the beer. Getting past the notion that a buyer is one thing and that all the key groups within a buying organization should be interested your offer is a key first step toward engaging more buyers and toward creating liquidity. Then you get to buy the beers.

1. Moore's now classic book on this topic is *Crossing the Chasm*, published by Harper Business Press in 1991.

2. Marsh, C. Paul, and A. Lee Coleman. (1954). "Farmers' Practice-Adoption Rates in Relation to Adoption Rates of 'Leaders'." *Rural Sociology*. 19 (2), 180-181.

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