The Ariba Interviews: Re-engineering the Future of On-Demand?

Earlier this month I was contacted by Ariba's PR firm indicating that they wanted to schedule an interview between myself and a senior executive from the company. The purpose for the interview was to discuss Ariba's latest contract win in the Healthcare sector. For those of you who may not already be aware, Horizon Blue Cross Blue Shield of New Jersey will be, and I quote "leveraging Ariba's on-demand Procure-to-Pay offering to drive savings, efficiencies and competitive advantage." (Note: here is a link to the actual press release; http://www.ariba.com/company/news.cfm?pressid=2672).

The timing of their call was interesting in that I had just read an article which had appeared in the August 9th issue of Supply Chain Digest proclaiming that the halcyon days of the pre-internet "bubble crash" had returned for supply chain software providers. Citing "strong" increases in stock values, and a spate of new contract signings, I could not help but wonder if this latest press release from Ariba would be lost in the celebratory noise of the "happy days are here again" atmosphere implied by the article's author. In an earlier posting I had referred to the growing cynicism of procurement professionals who, being inundated with press releases and announcements of exciting breakthroughs, have for the most part discounted "brand-centric" promotion as a reliable indicator of a vendor's ability to deliver results.

Based on this trend, I could not understand Ariba's (or for that matter any other vendors') decision to employ what is certainly a jaded if not outdated method of promoting their product's virtues. Specifically, are press releases designed to succor existing clients by telling them that a new account meant that they had made the right decision? Or is it believed to be an enticement for prospective clients being the equivalent of the old saying come on in, the water's fine? Perhaps it is a little bit of both.

With this as the backdrop, I went into the first of what became three separate interviews over a two week period with both an open mind and a flexible ear. Joined on the call by a member of the PR Firm, and an in-house

PR representative, I listened to the executive's responses to my obligatory questions involving the new contract. While interesting to a degree there was very little said that would stand out from any other vendor interview. In short, and to no ones discredit it was another infomercial.

The Importance of Vendor Financial Performance?

For example, the PR Firm's assertion that Ariba's recent earnings combined with the 108% growth in their on-demand client base means very little to what is becoming an increasingly sophisticated market. Especially when there is an absence of a point of reference by which said growth can be compared or quantified.

And this is my issue with the Ariba announcement as it is with the majority of all vendor announcements.

What is particularly egregious about this archaic practice of platitude filled, self-congratulatory press releases is that it actually undermines what I believe is a sound overall strategy. In this particular case the decision by Ariba to be one of the first to move toward an on-demand (now commonly referred to as a software-as-a-service or SaaS) product offering. (Note: a November 14th, 2005 article in eWeek.com titled Ariba Follows the On-Demand Trend, Renee Boucher Ferguson reported that software companies from "Microsoft Corp. to SAP AG and Oracle Corp. were also embracing the on-demand model" at that time.)

With recent stories such as today's (August 30th, 2007) article in Canadian Business On-line (ERP: Small fish, big sea by Mike Ouellette) in which both hosted ERP and SaaS were identified as a potential competitive advantage for smaller ERP providers, the attempt by a vendor to differentiate their organization through the announcement of a contract win, or by making reference to financial performance and percentage increases is largely ineffectual. In fact this time worn(out) practice has limited upside in today's market. But it does have a definite downside. I will illustrate my point.

The PR team provided me with a July 25th, 2007 press release that reported Ariba's third quarter results for fiscal year 2007. The numbers are as follows; total revenues for the third quarter were $75.6 million, as compared with $73.6 million for Q3 of 2006. Net loss for the third quarter of fiscal year 2007 was $2.0 million (or $0.03 per share for those who follow the stock market), as compared to a $31.5 million loss ($0.48 per share) for the same quarter in 2006.

Referring once again to Ouellette's article, St. Paul, Minnesota-based Lawson software (NASDAQ:LWSN) which "develops ERP systems for SMEs in the manufacturing, financial and healthcare industries" has seen their stock rise 50% since August 2006. (According to the August 9th Software Digest article, Ariba experienced a 19% growth over the same period.) Lawson's fiscal year end-revenue grew to US $212.9 million from $126.1 million last year, which resulted in an $8.1 million quarterly profit.

While Lawson may not be a supply chain software vendor, companies such as JDA and Manhattan Associates which are in the Ariba space have also posted considerably stronger numbers with a growth rate of 37% and 30% respectively. Based on these results, the implications of focusing on financial performance is pretty clear. If you were a prospective customer and areas such as overall profitability and growth percentages were determining factors in your decision, with who would you choose to do business?

This is what I mean by a definite downside. Using financial data or growth percentages (i.e. the 108%) as an indication of market acceptance for one's product is unlikely to stimulate consumer confidence. However, it does have the potential to marginalize an organization's sales efforts.

Quite frankly, I have yet to speak with a procurement professional who honestly considers financial data to be more than a perfunctory issue that is usually addressed before the first meeting.

Please do not misunderstand me. I am not attempting to discount the general importance of a financially stable organization. What I am saying however, is that its relevance is misdirected when it is used as a marketing tool.

More Important Questions

In the two subsequent interviews in which the PR representatives were participants, I asked a number of questions including what was the driving force behind Ariba's original decision to as they put it "re-engineer" their software to adapt to the on-demand or SaaS world? Was there a concern that the new business model would cannibalize their traditional business rather than expand their market share into new areas such as the SME community? Was there a point in which they would come to a fork in the road and have to embrace one model over the other? In short, how will customers (and prospective customers) respond to their strategy in the long run?

Ariba was unable to provide definitive answers to these as well as other questions by the time our final interview had concluded. A member of their PR team did indicate that they would send me the information at a later date for inclusion in a future post.

While I will look forward to providing you with the Ariba responses when they are available, perhaps the key to their success as well as the success of the other software goliaths can be found in today's "Little fish, big sea" article.

According to Simon Bragg, research director for enterprise software at ARC Advisory Group, smaller ERP providers are successful because of their ability to exploit what he referred to as niche markets. Combined with IDC's Joel Martin's position that the SaaS model provides smaller players with a competitive advantage, offers some insight into the success these firms have experienced in terms of client acceptance at the SME level.

That said Bragg cautions that “SAP and Oracle are getting exceedingly good at identifying niches which could be served with only minor tweaks to their core products.” “For years” according to Bragg “SAP couldn’t do it,” however as they develop their capabilities in response to market changes, the “niches” as he calls them are “disappearing fast.”

While Ariba may have “started down the on-demand path inadvertently” (at least according to the previously referenced November 2005 eWeek.com article), CEO Calderoni’s statement that “we are now putting powerful spend management results within the reach of every company, regardless of size” leads one to believe that they should pay closer attention to these “smaller” fish.

Note: To obtain a complete listing including links for the materials referenced in this post send me an e-mail at jhansen@procureinsights.com and put “Ariba” in the subject line.