Analyzing Volkswagen’s B2B e-Marketplace

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Abstract

This paper will analyze Volkswagen’s use of its own proprietary B2B e-marketplace. It will explore the advantages and disadvantages of such a system, as well as discuss interorganizational collaboration. It will also demonstrate how Volkswagen’s vwsupplygroup.com is both a horizontal and vertical e-marketplace. Finally, it will describe the business intelligence that can be found in Volkswagen’s iPAD system, as well as explain the system itself.

Analyzing Volkswagen’s B2B e-Marketplace

Proper supply chain set up is a process that will cause a business to grow or fail. The flow of goods and services from the point of origin to the point of consumption is a cross functional process that involves the cooperation and overlapping of multiple sections. Every business has a unique set up and management approach to procure, store, distribute, and transport supplies. Traditionally, companies would utilize the generic brands of B2B e-marketplaces available in order to create communication amongst the business and its suppliers. With the type of business Volkswagen now provides and the volume of products required, any supplier would be without wits if they did not conform to reasonable requests from such a company. Once Volkswagen created its own proprietary B2B e-marketplace, vwgroupsupply.com, it was able to save millions in time and efficiency.

Volkswagen spent $77 billion on components, automotive parts, and MRO materials for its manufacturing operations in 2003 (Haag & Cummings, 2009). The company works with 5,500 suppliers to source the materials and products needed for manufacturing its automobile lines (Haag & Cummings). Before vwgroupsupply.com, purchasing agents spent large amounts of time looking for information and pricing from various sources. When a purchase occurred, the purchasing agent had to use multiple systems to complete the purchasing process. “They had to retrieve information from a supplier system and its database, query information in Volkswagen’s internal parts information system, obtain information from a request-for-quotes database, enter information into a contract negotiation transcript system, and interact with several other systems and databases” (Haag and Cummings, 2009, pp. 152-153). 70% of their time was spent finding, retrieving and analyzing information (Haag & Cummings). In our analysis, we will describe the advantages and disadvantages of Volkswagen’s B2B e-marketplace. We will also discuss the introduction of collaboration to create a competitive advantage, as well as how Volkswagen’s system is an example of both horizontal and vertical e-marketplace implementation. We will then explore the type of business intelligence found in Volkswagen’s iPAD system and explore how this system functions.

**Advantages and Disadvantages of Volkswagen’s System**

Volkswagen’s use of a proprietary B2B e-marketplace offers the firm several advantages. The most significant advantage is the cost savings offered by Volkswagen’s vwgroupsupply.com. In three years alone the company saved approximately $127 million by utilizing its own B2B e-marketplace (Haag & Cummings, 2009). “Due to the possibility of price savings as well as transaction efficiencies and shared infrastructure economies” (White, Daniel, Ward, & Wilson, 2007, p. 94), Volkswagen gains more than just cost savings. In addition, the system offers a secure environment for communication between Volkswagen and suppliers (Haag & Cummings). By drawing in the information purchasing agents would normally spend a great deal of time compiling, Volkswagen is freeing up these employees for other activities, such as negotiating better prices (Haag & Cummings). Volkswagen’s system also allows many people to communicate in one place, which increases productivity and streamlines processes. Volkswagen has control over how its e-marketplace operates and gives access to its suppliers. Most importantly, Volkswagen has improved its supply power by being the only buyer in its B2B e-marketplace. One particular advantage that sticks out among the rest is the fact that Volkswagen’s proprietary B2B e-marketplace is theirs completely. Any required or desirable changes, updates, or reorganizing with the e-marketplace are at the company’s discretion.

Despite these advantages, there are also disadvantages to using Volkswagen’s proprietary B2B system, rather than a generic B2B e-marketplace. Utilizing a generic system with more suppliers would increase the competition among suppliers, which would theoretically result in better prices for Volkswagen. “A consortium marketplace by definition is open to a number of buyers and suppliers in the industry, if not all, increasing the likelihood of participation and use” (White et al., 2007, p. 74). The proprietary system requires that other companies meet the software standards of Volkswagen’s system for integration, whereas the generic marketplace would allow for easier integration. The IT demands of a proprietary system versus a generic one are high, and a company must have the experience and knowledge internally to update and maintain the software.

**Interorganizational Collaboration**

“Workflow systems facilitate the automation and management of business processes” (Haag& Cummings, 2009, p.46). Through Volkswagen’s system, suppliers are able to receive specific information from the customer, allowing them to be knowledgeable about what is happening in the process. The updates listed for purchasing agents are tailored by language and region. Accurate information is paramount to ongoing operations, as well as day to day sales, and permits purchase agents to be honest and provide a great customer experience.

“Integrated collaboration environments (ICEs), knowledge management systems, and e-learning tools are vitally important organizational resources” (Haag & Cummings, 2009, p.47). The system also allows purchasing agents to see what may be available and in what quantity. They can order specific types of vehicles, giving them business knowledge vital to marketing or sales. They can see expected deliveries, as well as if there happens to be a parts shortage or expected delay. These systems save vast amounts of time. Volkswagen gives its supplier the opportunity to work collaboratively with its cross-functional teams of staff members to help the suppliers understand and create designs based on what the customers need and want. Volkswagen has the ability to choose which supplier has become the most trusted and reliable to meet the company’s needs.

**Horizontal & Vertical e-Marketplace Implementation**

There are two types of e-marketplace implementation, horizontal and vertical. Volkswagen’s system contains both horizontal and vertical implementation characteristics. Horizontal e-marketplaces focus primarily on MRO, or maintenance, repair, and operations, materials commerce by connecting buyers and sellers across many industries (Haag & Cummings, 2009). Volkswagen’s vwgroupsupply.com is horizontal as it includes general procurement for items related to MRO (Volkswagen, 2014). Vertical e-marketplaces link buyers and sellers within a specific industry (Haag & Cummings). Vwgroupsupply.com also includes automobile manufacturing-specific procurement, which makes it a vertical system as well (Volkswagen). “While business schools teach future MBAs that centralized operations can cut cost by eliminating overlapping work and duplication, VW maintains strongly decentralized operations with lots of overlap. While business schools preach the benefits of outsourcing to cut cost, VW is very vertically integrated” (McElroy, 2012). The company’s practices equate to a high level of vertical integration.

It is completely essential for Volkswagen to combine these e-marketplaces into one e-marketplace. Doing so provides greater efficiency. Creating two separate e-marketplaces would result in a more challenging environment. To begin with, it is quite likely that one project will require suppliers from both markets. Linking all suppliers in one e-marketplace allows Volkswagen to spend less time switching from one to another. It also allows all communication regarding one project to remain within one system, rather than being split into two.

**Business Intelligence & Volkswagen’s iPAD System**

Business intelligence, which can be defined as collective information that allows a company to make effective, important, and strategic business decisions, is essential to any successful business technology (Haag & Cummings, 2009). B2B e-marketplaces are virtual marketplaces where businesses buy from and sell products to each other, share information and perform important company activities (Haag & Cummings). B2B e-marketplaces are one of the fastest growing trends in B2B e-commerce. B2B e-marketplaces are internet-based technology solutions that aim at facilitating the establishment of new trading relationships between businesses which have significant and proven benefits for the buyers and the sellers. B2B e-marketplaces give buyers and sellers the opportunity to purchase and sell products on the internet using i2 based technology with the use of different applications.

Volkswagen used i2 technology to create a supply chain management IT system “to help its buyers and sellers negotiate for pricing, quality, specifications and delivery timing (Haag & Cummings, 2009, p. 140). The iPAD system provides purchasing agents with a plethora of business intelligence. It contains information regarding each supplier and the products they have available, as well as their costs. It also provides information about Volkswagen’s internal operations. Volkswagen could also take advantage of several other types of business intelligence to make more effective decisions. Such information would include new suppliers in the market, current economic trends of materials utilized by suppliers, and possible pitfalls suppliers are facing that cannot be tracked within iPAD.

**An Exploration of the iPAD System**

Volkswagen’s implementation of the iPAD system yielded a cost savings over three years of $127 million dollars (Haag & Cummings, 2009). The multistage process was replaced by a “simple three-step process” (Haag & Cummings, 2009, p. 153). This process involves streamlining the workflow by (1) creating a business event such as a reorder request that is sent to a purchasing agent, (2) attaching communication and additional information (suppliers, costs, analysis) to the request and (3) sending the corresponding business processes as well as workflows to be completed by the purchasing agent electronically. (Haag & Cummings).  Information is brought directly to the purchasing agents, and the process can be completed electronically in a single system, including supplier catalogs with current pricing, as well as the requests for quotes.

With a single integrated system, Volkswagen’s ability to report on supply chain data increased significantly, and “Volkswagen could view exactly how its procurement and sourcing strategies added, or did not add, to the company's bottom line” (Morphy, 2001). Standardizing the format for the transfer of information allowed for better communication directly from the system to Volkswagen’s suppliers. “Essential fields within the document, such as product number, volumes and unit quantities are expressed in standard data formats and standard transfer protocols are used, thus allowing multi-tier integration” (White and Daniel, 2003, p. 252). Market trends encourage Volkswagen to invest further in technology in order to expand its customer base. The company may need to focus on youth as they make up over 80 percent of the population using the Web. As your next leaders, entrepreneurs, or staff members, knowing how youth think and what they want will help Volkswagen remain competitive. New technology developments are crucial to any business’s ability to remain competitive.

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