From Business-to-Business Software Startup to SAP's Acquisition

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INTRODUCTION

Nearly one trillion in commerce was contributed by more than two million buyers and sellers around the world last year. Organizations tapped into the comprehensive source-to-pay solutions and business network offered by SAP Ariba. They digitized their supply chains and efficiently managed their trading relationships (SAP Ariba, 2016).

Ariba, Inc. was born during the dot-com bubble, at that time a start-up with great potential along with countless other e-commerce companies. The shake-out that occurred later on among a plethora of competing businesses, confirmed the solidity of Ariba's focus and business model while competitors like Commerce One, could not stay in business. However, the interesting evolution of Ariba, from a pioneer to a sufferer to a survivor, has taught us much about survival in the competitive business to business (B2B) software industry. Ariba's software would help many companies save money on their procurements, and control expenses in numerous areas aside from payroll. Ariba promised to help companies improve their bottom line, and many of Ariba's clients today hold positions on the coveted Fortune 100 list. Going public in 1999, Ariba's stock price at one time reached $259 per share. At the time, Ariba was still getting their feet wet; they had not yet made a profit. In 2000 their stock reached $168.75, but a negative turn in the economy lay just ahead. Many companies began to cut back on investments and in just 9 months Ariba lost 95% of its value. This would be disastrous to any company, and would be the downfall of most, but Ariba made some critical key decisions that helped continue its leadership in the B2B e-commerce world (Clarke & Pucihar, 2013; Schumann et al., 2014). They are one of the few companies to not only survive the burst of the dot-com bubble, and but to thrive, and to this day remains a successful company. Ariba was purchased by the German software firm SAP for $4.3 billion in 2012 (Jones, 2012).

BACKGROUND

E-commerce was in many ways revolutionized by Ariba Inc., a leading independent company in the sphere of B2B commerce network providers. Since the time of its founding, the company has been evolving constantly, in cooperation with leading companies in the industry, in order to deliver e-commerce platform products to its customers/clients. Its value chain model was successful in helping it to develop business relationships further than expected, the results of which made it a top 40 Fortune 500 company.

Ariba has overcome many obstacles, including lawsuits, changing customer requirements, and organizational restructuring, however still managed to remain a leader in its specific niche

industry area. The firm has done so by delivering solutions and services that meet customers' expectations, and have been able to cope with intense competition by keeping up with today's technologies as well as developing solutions for tomorrow. Ariba was founded in Sunnyvale CA, in September 1996, by seven men, one of the most influential being Steven Krach. Krach's early career accomplishments included being one of the youngest vice presidents of General Motors (Ariba, 2008). The challenges of procurement that he encountered there became the impetus for the development of Ariba. Through the use of the Internet and B2B e-commerce, Krach and his associates brainstormed and came up with the idea of automating the purchasing of commonly used supplies and services. While this may seem to be a rather simple concept, it turned out to be an insight and area that held huge demand and potential.

After three months of intensive research, which included meeting with 60 Fortune 500 companies, Ariba had a prototype developed and ready for their initial marketing campaign. Having signed software licensing deals with Cisco Systems, Advanced Micro Devices and Octel Communications, prior to software completion, the pieces were put into place for the launch of their product. While Krach and Ariba were innovative in their concepts and efforts, they were not the only pioneers in the area, Commerce One, Oracle, I2, and PeopleSoft, Inc. were competitors with similar, but not necessarily identical, offerings.

The objective was to become a leader in this niche industry with the means and resources to provide procurement software and network consulting services, which would allow corporations to manage and automate their spending more effectively and efficiently. The management of these would include essentially all non-payroll expenses associated with running a business. Since access to data was one critical component, Ariba offered their clients real-time access over the Internet. These applications were used in conjunction with the *Ariba Supplier Network*

to purchase goods and services. Ariba is a firm that is customer driven, and as such offered full support, including technical support, implementation, training, and consulting programs and packages. E-payment and service agreements were made with American Express and Bank of America. All of these were considered large and bold undertakings for a young startup company at that time. In June of 1999, Ariba went public at a modest $23 per share, however traded as high as $259 per share at times later that year (Schneider and Bruton, 2008; Haksoz and Seshadri, 2007). This was a phenomenal success for a three year old company which had yet to turn a profit at that time, since it benefited from being a "first mover" in the business. However, as mentioned earlier, other Internet start-up companies were beginning to offer similar software and services. Over time, smaller companies began offering websites that provided a place to manage procurement, some with lower costs and fees. Facing challenges in the market, Ariba was to be faced with difficult challenges and had to make major decisions in order to stay in business.

Ariba finally saw a profit of $10 million in December of 2000, which also included the completion of a few *acquisitions*. Soon after, in 2001, the economy began to weaken in a downward spiral and Ariba's stock plummeted 95%, making a business overhaul necessary. Ariba decided to take drastic cost-cutting measures, cutting about a third of their staff. Because of their specialized and niche product line, their business was able to continue and survive the setbacks faced by other Internet software companies. Krach resigned as CEO in 2001, but stayed on as Chairman and appointed a CEO that would later cost the company much money and negative publicity. The bursting of the dot-com "bubble" marked the beginning of a relatively mild yet rather lengthy early 2000s recession (Marshall, 2001; Sahay, 2007). In time, Ariba, along with the rest of the B2B business community ran into two big problems. First, the brick-and-mortar Old Economy was stable and could adjust more readily to economic

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