

Chapter 53

ARIBA: A Successful Story in E-Commerce

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ABSTRACT

Ariba services major corporations, and provides services to smaller companies as well. In this chapter, the authors will examine how Ariba, a small startup company during the Internet boom of the 90's was able to overcome hardships, survive market and industry downturns, and continue to thrive and survive in such a competitive industry. The authors will also review major events and innovations that helped the company to grow and succeed rather than to fail.

INTRODUCTION

Ariba, Inc. was born during the dot-com bubble, a star amid countless other e-commerce companies. In the universe of corporations, many bright meteors, like Commerce One, didn't shine too long. 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 besides payroll. Ariba promised to help companies improve their bottom line. 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. The next year their stock reached \$168.75, but a negative turn in the economy lay ahead. Many companies began to cut back on investments and in just 9 months Ariba lost 95% of their 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 world. They are one of the few companies to not only survive the burst of the dot-com bubble, and to this day to remain a successful company.

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BACKGROUND

E-commerce was in many ways revolutionized by Ariba Inc, a leading independent company in the sphere of B2B commerce network providers. 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 has been able to develop business relationships further than anticipated, 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 area. They have 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, the most influential individual being Steven Krach. Krach's early career accomplishments included being one of the youngest vice presidents General Motors (Ariba, 2008). Having struggled with the procurement process in his time there; it became a precursor and impetus for the birth of Ariba. Krach and his associates brainstormed and came up with the idea of automating the purchasing of common supplies and services. This is a seemingly simple idea, but one with a 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. Among the early competitors to Ariba were Commerce One, Oracle, I2, and PeopleSoft, Inc.

The objective was to become a powerhouse

company with the means and resources to provide procurement software and network consulting services, enabling corporations to manage their spending more effectively. This included essentially all non payroll expenses associated with running a business. Ariba offered their clients real-time data by providing information over the Internet. These applications were used in conjunction with the *Ariba Supplier Network* to purchase goods and services. Ariba is customer driven, and offered full support, including technical support, implementation, training, and consulting. 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, C. M Bruton, 2008; Haksoz and Seshadri, 2007). A stunning success for a three year old company which had yet to turn a profit, it benefited from being a "first mover" in the business. However, other Internet start-up companies were beginning to offer similar software and services. Over time, smaller companies began emerging with websites that provided a place to manage procurement, some with lower costs and fees. Facing challenges in the market, Ariba began 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 three *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 chairman and appointed a CEO that would later cost the company

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