

Global marketplace

Sourcingparts.com and MFG.com merged in 2006, but from a user perspective full integration occurs this year when the two previously separate Web-based marketplaces for manufactured parts become a single platform. Andrew Allcock explains

MFG.com and Sourcingparts.com, both now under the MFG.com umbrella, are business-to-business (B2B) supplier/buyer marketplaces where companies meet to do business based on buyer-posted requests for quotations (RFQs). Both companies have their roots in 2000 and the dot.com boom/bust period. MFG.com was started by Mitch Free in the USA (pictured on the right). Sourcingparts.com was set up by Paul de La Rochefoucauld in Europe (seated), headquartered in Switzerland.

As Mr de La Rochefoucauld, co-founder of Sourcingparts.com explains, the two had slightly different focuses in establishing their businesses. In Europe, the model was aimed at delivering value to buyers by giving them control of the tendering process where previously there had been none. In the USA, it was essentially aimed at widening the supplier base for buyers and delivering cost reduction benefits.

TENDERING CONTROL

"The two continents are different, so the approaches were different. In Europe, we went after the large buyers such as ABB, Thales and Schneider," says Sourcingparts.com's co-founder. "In the buying and sourcing process there is information that is going outside of the company and coming back in. ERP



Founded on two different continents, Sourcingparts.com and MFG.com founders have joined together in search of global dominance with a single platform, backed by heavyweight finance

systems can't control it; the fax does it well and email does it very well, but it is not a controllable process. The great part about the Internet is that you can easily integrate your supply chain partners into your process.

"Fortune500 companies have 100s of buyers spending billions; companies like this make more of their margin on the purchasing side than on the sales side, since purchased content represents 60 to 80 per cent of the cost of the goods sold. So companies are equally interested in buying at reduced price."

The supplier audience for Sourcingparts.com was created from the buying companies' existing supplier

bases, with the full knowledge that their suppliers would also be available to other large buyers. In fact, they welcomed this sharing, says Mr de La Rochefoucauld. "They felt much more safe and secure that they were not the only client of a supplier. There are very few suppliers that a company wishes to hide. Also one large company was very happy to deal with the supplier of another since they knew that the supplier will have invested in a certain level of quality."

The potential leakage of intellectual property from one buyer to another was not an issue. "That was possible with drawings and faxes; the Internet doesn't solve or add to that," Mr de La



Rochefoucauld offers. Indeed, forthcoming developments in electronic document security (specifically Digital Rights Management) will deliver greater safeguards, he underlines.

Suppliers also benefit from being part of this shared supplier database as it gives them access to other companies without them needing to spend time establishing a relationship first.

So revenue for SourcingParts.com was tilted towards income from purchasing companies and less from the supplier side. In the USA, revenues came more from the supplier side. Bringing the two models together delivered what Mr de La Rochefoucauld calls the mixed model; meaning that both suppliers and buyers have both a free and a fee-paying proposition. Buyers use the system for free and pay for advanced features such

as multi-user reporting and increased intellectual property protection. Suppliers also use the system for free to do business with their existing clients and pay a fee to discover new clients.

“But the key to success is that you bring value to both sides; that’s why we do not run reverse auctions, for example,” he says. (Reverse auctions are where suppliers compete for business from buyers). So on both supplier and buyer sides there are tools to provide transparency. Suppliers can see whether a buyer is more concerned with price, quality or delivery; whether the company is easy to deal with; whether it pays on time. On the buyer side there are other appropriate tools. But, says Mr de La Rochefoucauld, equilibrium must be maintained. “If we give buyers tools to drive down suppliers’ quotes, suppliers don’t like it and they will simply leave and go back to the phone and the fax.”

FALSE PRETENCES

This transparency is not always welcome, as it happens. In Europe, there were certain large buyers in particular sectors that wanted to post RFQs under a false name in an attempt to trap their existing group of suppliers into revealing that they were quoting higher prices for prestigious buyers. “We wouldn’t do it. We said that isn’t the way to do business. Post the RFQ and open it up to suppliers other than your existing group and you will see the market price.”

Now while buyers are keen to minimise price, downward pressure on price is not automatically an enemy to the supplier, suggests Mr de La Rochefoucauld. In the automotive

From marketplace to platform

MFG.com is set to move from being a marketplace and become a platform, says Mr de La Rochefoucauld. This has the potential to deliver exponential growth versus the linear growth so far experienced, he believes. This platform strategy will see third parties allowed to sell their “value proposition” to MFG.com’s audience. This means the availability of plug-in utilities that will allow, for example, the online sourcing/quoting of transportation as opposed to offline arrangement via the telephone or online but through a separate website. Banks could also be brought in to underwrite security of payment, for example. MFG.com will provide the ‘toolkit’ necessary to develop these plug-ins but, importantly, development of the plug-in will be by the third party. This advance is scheduled for this year and will add a new revenue stream to the business. It will also, of course, bring more value to the existing audience, making MFG.com more attractive/useful.



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Internet entrepreneur and Amazon founder Jeff Bezos is involved in the financing of MFG.com

industry, for example, where there can be many price elements that need to be separately listed in a quote, if this information is revealed to all suppliers by the buyer (but not the supplier names), suppliers can easily benchmark their prices against these and determine whether they themselves are getting best value from outsourced parts of the job, such as plating or transport.

PROGRESSIVE TRANSPARENCY

"Knowing why you haven't won the deal can be as valuable as winning the deal; it brings value to the supplier. Of course, this transparency can work against buyers because the lowest cost supplier can see that he is the cheapest and the buyer can't get the price down further. So this is a tool to be used progressively, revealing more information to those suppliers engaged in the RFQ as time progresses, but not all of it up front."

So just how 'sticky' is the system, in terms of keeping the user base engaged? "We don't lose any buyers – which is astonishing," Mr de La Rochefoucauld offers. "Suppliers invited by buyers to be part of the system stay for as long as they are preferred supplier of a buyer – these suppliers don't pay. But for suppliers that

have paid to receive RFQs – if we have done our job right, meaning we brought clients to him – he is not going to leave because he is winning more work."

As to policing the veracity of supplier claims regarding their capabilities and basis for supply, MFG.com does undertake thorough supplier checks in China, while in Europe a check is made to see that the company is a registered legal entity. But suppliers must fill in a comprehensive profile: "They know very well that this is their business card and they not only tick boxes but, in the case of quality certificates, for example, upload copies to the site."

Currently MFG.com has more than 100,000 buyers and suppliers, and transactions processed each month are valued at \$1 billion. It supports 10 languages and 12 currencies. So why isn't every buyer and supplier in the industrial world using the system? "It is really a matter of adopting a new and more efficient way of doing business. Any new technology takes a while to fully propagate within an industry. We are very happy with the rate at which the industrial world is adopting MFG.com and it is accelerating every day.

"Our best sales agents are our users, in fact," Mr de La Rochefoucauld reveals. The company is looking to exploit the viral marketing phenomenon to increase its audience – viral marketing is where your message is spread by recipients of the marketing information independently of the initial sender; emails circulated by satisfied users, for example.

MFG.com is already the global leader in its sphere, claims Mr de La Rochefoucauld, having grown from a \$14 million turnover company in 2006 to \$23 million last year with \$40 million with predicted this year.

It has a strong hold on the US market, while in Europe, France is its strongest market: "80 per cent of the suppliers in our areas of competence know us". In the UK, MFG.com's focus is currently on recruiting buyers. On a global basis, expansion into Japan, India, Eastern Europe and other Asian countries is planned.

EXPANSION PLANS

Indeed, growth will be driven by recent funding. The company has just received (January) further funding to the value of \$26 million which will be used to "support global expansion, technology development, create innovative new online services and support potential acquisitions" (see box on page 52). The investment was led by Fidelity Ventures and Fidelity Asia Ventures, with an additional contribution by existing investor European Founders Fund (EFF), based in Munich (see box, below).

This investment follows on from funding led by existing investor Bezos Expeditions and European Founders Fund (EFF) early last year, and which supported the purchase by MFG.com of Sourcingparts.com (Bezos Expeditions is the personal investment vehicle of Amazon founder Jeff Bezos).

Already established in the US, Europe and China, the rest of Asia is the next big opportunity. Interestingly, China B2B e-commerce site *Alibaba.com* was backed by Fidelity Ventures, while Fidelity's Larry Cheng, who invested in Alibaba, has taken a seat on MFG.com's board.

The Internet lexicon already boasts global household brands such as eBay, PayPal and Amazon; MFG.com appears keen to join this club, at least as far as recognition in the global manufacturing community is concerned. □

European Founders Fund

The European Founders Fund is a highly selective investment company run by brothers Marc, Oliver and Alexander Samwer, with offices in Munich, Germany. The Samwers are the founders of eBay Germany (alando) and Jamba! (part of News Corporation). The Internet companies founded by the Samwers have achieved combined sales of more than €1 billion.