INSIGHT

IBM Synchronizes Its Commerce 2.0 Strategy with "Smarter Commerce" Initiative

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IDC OPINION

When IBM put together a string of acquisitions in quick succession late last year, beginning with Coremetrics followed by Sterling Commerce and then Unica, to integrate into its WebSphere ecommerce platform, the industry couldn't help but take notice. We didn't have to wait long to see the results.

On March 14, IBM announced "Smarter Commerce", a strategic initiative that addresses the surging market for Commerce 2.0 solutions that take advantage of the convergence of a number of disruptive software and hardware technologies. The combined impact of these technologies and their application has blurred the lines between traditional and ecommerce, tying mobile, social, analytics, and cloud computing with brick and mortar.

IDC believes that IBM Smarter Commerce offers a compelling combination of social business, ecommerce, and order fulfillment software and services to help customers and prospects deploy Commerce 2.0 systems and embrace the profound shift in the way consumers research, shop for, and purchase goods and services.

IN THIS INSIGHT

This IDC Insight highlights the important elements of the IBM Smarter Commerce announcement and looks at the implications of the announcement in the context of a powerful movement that is occurring in the commerce solutions marketplace, both business to business (B2B) and business to consumer (B2C).

SITUATION OVERVIEW

On March 14, IBM announced Smarter Commerce, a strategic initiative that addresses the surging market for ecommerce solutions that take advantage of the convergence of a number of disruptive software and hardware technologies — disruptive because of their combined effect in altering the way companies enable commerce, both B2B and B2C, and in how consumers interact. IBM is looking to help clients harness the power of these technologies through the creation of new dedicated service resources in IBM Global Business Services (GBS) together with

integrated organic and acquired software assets now in IBM's Software Solutions Group. The Smarter Commerce offering spans the buy-market-sell-service aspects of the commerce life cycle and, as Craig Hayman, general manager of Industry Solutions within IBM's Software Solutions Group describes it, places "the customer at the center of decisions and actions, leading to greater customer loyalty, revenue and margin growth, and agility."

The specifics include a new services practice with 1,000+ dedicated members and access to $2.5 billion in commerce-related acquisitions and new software investments since 2010, including the acquisitions of Coremetrics, Sterling Commerce in August, and Unica in October 2010. The combined offering includes:

☒ New cloud analytics including an IBM Coremetrics offering to measure and optimize social presence in such social media properties as Facebook and Twitter

☒ Software solutions that allow companies to deliver relevant and consistent messages across all sales and marketing channels — from the Web to email to stores to call centers

☒ A newly launched Smarter Commerce University to help build the skills needed for both sellers and partners

Three Elements to IBM'S Smarter Commerce Approach

Smarter Commerce is the largest integration of acquired and organic assets IBM has undertaken in quite some time, and more complex in many ways than the integration of Cognos and PwC. IBM's goal is to redefine the value chain, helping clients become more connected with their customers. Indeed, IBM sees this convergence of software and hardware technologies as heralding in "the age of the customer."

Placing the customer at the center of its clients' business operations, IBM Smarter Commerce seeks to help:

☒ Maximize the insight generated through customer interactions

☒ Capitalize on social and mobile commerce

☒ Drive growth by enhancing, extending, and redefining the value provided

☒ Improve collaboration and visibility for customers and partners

☒ Increase margins by boosting efficiency at every stage of the commerce cycle

☒ Synchronize the value chain to deliver consistent and predictable outcomes

IBM looks to achieve this by focusing on three important elements:

☒ **Customer insight.** This is about predicting and driving customer loyalty through socialytics and business intelligence integrated into systems of record with

master data management capabilities. IBM's acquisitions of Coremetrics and Unica ties in nicely with earlier acquisitions of SPSS, a provider of predictive analytics, and business intelligence provider Cognos. Among the capabilities this suite of applications provides is the ability to use semantic recognition technology to monitor, capture, and analyze consumer mentions of brands and products in social networks, and then combine that data with information about how consumers are shopping online and in stores. This fundamental perspective of individual visitor behavior can then be used to power directed and relevant campaigns and offers, delivering a higher level of targeted personalization.

☐ **Customer value strategy.** IBM's focus here is on optimizing customer and supplier interactions across extended value chains and improving order fulfillment processes. With Smarter Commerce solutions, and leveraging the back-end order management and distributed order orchestration capabilities of Sterling Commerce and IBM's own (ecommerce) WebSphere platform, an organization could run a Web campaign focused on a particular customer profile based on what is in stock, the purchase history, and the buying behavior of the individual as well as real-time Web activity. In this way an informed campaign can be created that is timely, targeted, and responsive to market dynamics with the added ability of fulfillment.

☐ **Customer and partner engagement.** With cloud analytics to measure and optimize social presence in such social media properties as Facebook and Twitter, IBM believes it has created for its customers and their partners the ability to anticipate behavior and deliver flawless customer service across all channels for a differentiated customer experience. Combined with the Smarter Commerce–integrated order management and distribution capabilities, IBM has brought together a solution allowing customers and partners to buy any offer from any supplier across any channel.

To some extent, IBM could have called this the "smarter consumer" offering, acknowledging the fact that businesses, including those in the manufacturing and retail industries, are reevaluating their strategy in response to the more enlightened (and dare we say agile and sophisticated?) consumer in the digital world. IBM's WebSphere commerce technology is well suited to serve as the center platform for its expanded suite of marketing technology applications, all of which were designed in a Web-enabled environment that supports cross-application data integration.

Why Now? Commerce 2.0

IBM Smarter Commerce is designed to capitalize on what IDC calls Commerce 2.0, which describes new ways in which commerce is being conducted and is characterized by a blurring of the lines between traditional and ecommerce, tying mobile, social, analytics, and cloud computing with brick and mortar. This convergence of technologies and their application has created a disruptive shift in both consumer expectations and the delivery of commerce to meet those expectations (notwithstanding the geopolitical implications we are witnessing today). Both the consumer and the networked workforce are enjoying the benefits and demanding more.

For one example of just how disruptive Commerce 2.0 has become in retail, look no further than Best Buy's less-than-expected third-quarter fiscal year 2011 earnings. The retailer's Christmas season was adversely impacted in part by customers' use of RedLaser, the built-for-mobile bar code scanning application that offers comparison pricing among competing vendors, which is also why Best Buy now puts QR tags alongside the bar code that pushes specific details on the item of interest to a built-for-mobile Best Buy Web site, where the item can also be purchased directly and received at the shopper's home.

From a consumer perspective, the most critical capability is an efficient shopping experience — Web, mobile, store, and call center — which includes access to inventory information and the ability to fulfill the order any way consumers desire — ship to home, ship to store, or pick up in store. Nordstrom recognized this several years ago and launched a series of initiatives to enable a continuation of superior customer service, 21st century style. Nordstrom's continuing efforts encompass implementing multichannel execution, merchandising, and collaborative supply chain applications targeting improving the customer experience.

The work Nordstrom did with Sterling Commerce and IBM predates the acquisition of Sterling, but Nordstrom implemented several solutions within Sterling Selling and Fulfillment Suite, including Sterling Catalog and Offer Management and Sterling Order Management, to enhance its order capture and fulfillment capabilities. A critical element of the Sterling Commerce implementation is the centralized order hub that synchronizes and orchestrates customer orders, without having to replace warehouse or distribution systems. Instead, the software extends Nordstrom's existing systems to help improve service, make more efficient use of inventory, and reduce costs. For example, Nordstrom is able to open up Web site inventory to the stores, operating a single distribution center to fulfill deliveries for every channel. More recently, Nordstrom announced that it will be adding in-store mobile capabilities to further assist customers. The end result is a better shopping experience for the consumer and better control over the entire fulfillment life cycle for the retailer.

Commerce 2.0 is also increasingly compelling for manufacturers — certainly from the perspective of improving B2B relationships, but most importantly in the cultivation of new B2C interactions, where brand owners are desperate to blunt the progress of retail private label by engaging in new and productive ways with consumers. The combination, particularly, of IBM WebSphere and Sterling Commerce — both of which had good but not dominating positions with manufacturers — gives the new IBM a much stronger position from which to drive these new technologies.

Commerce 2.0 is changing the way products are purchased and sourced, as well as manufactured and distributed. The rising expectations of the consumer, a result of innovations in mobile, social, and cloud computing technologies and their application, offer the ability to research through trusted networks and resources, evaluate and compare, and then purchase both products and services from anywhere and at anytime. This capability is applicable across vertical industries, as the list of early customers suggests — Staples, ING, and Crocs.

Early Customers

☑ **Staples.** With its online channel a critical part of its growth strategy, Staples needed a commerce platform that would support and fuel its online business growth. Teaming with IBM to deploy its commerce platform, Staples was able to realize impressive business benefits in the way of online conversion rates (up 60%) and peak transaction volume handled (up 30%) while improving customer satisfaction metrics. As important, Staples sees this project as improving its infrastructure scalability to support rapid business growth, and its ability to bring differentiated services to the market more rapidly and efficiently.

☑ **ING Bank.** For the Dutch Bank ING, serving over 85 million customers, Smarter Commerce means transforming its marketing so personalized product offers can be delivered across multiple channels in real time. The bank expects a €20 million increase in corporate earnings annually through improved direct marketing effectiveness. And it expects a reduction of 35% per year in direct marketing cost. The new unified cross-channel solution controls marketing via direct mail, email, Web, call center, and branches. Marketing silos are eliminated by enabling a centralized customer intelligence team with the tools to plan and execute multichannel marketing campaigns.

☑ **Crocs.** For Crocs, a $700 million manufacturer, Smarter Commerce means transforming its fulfillment operations and supply chain so Internet customer orders are filled with nearly 100% accuracy through its network of suppliers at the lowest cost. As a manufacturer and retailer, integration enables Crocs to transcend divisional boundaries.

FUTURE OUTLOOK

This is not the first shot to be fired by a megavendor to win the Commerce 2.0 landscape, but it is the most comprehensive. Oracle's acquisition of ATG in November indicated Oracle's intentions, Microsoft Dynamic's release of Microsoft Dynamics AX for Retail R2 at NRF 2011 was certainly significant, and SAP's acquisition of Sybase with its mobile platform, as well as SAP's retail focus and recent Sourcing OnDemand release are evidence of SAP's crystallizing commerce strategy. In addition, Amazon, Google, and Facebook are all building out their strategies for an expanded piece of this market.

However, by combining IBM commerce applications and advanced business intelligence tools with consulting and services, and its leading systems infrastructure, IBM offers in essence an end-to-end multichannel commerce solution spanning buying, marketing, selling, and related services along with order fulfillment and distribution capabilities. With this comprehensive, integrated offering, IDC believes IBM to be well positioned to differentiate itself from competitors and potential market entrants. IBM has already integrated many of the capabilities of its recent acquisitions, and promises to get customers up and running on many of the SaaS-enabled products, including Coremetrics and Sterling Commerce, in as little as 90 days, depending on customer requirements. This is certainly a leading differentiation.

ESSENTIAL GUIDANCE

Software vendors, notably Microsoft, Oracle, and SAP, are certain to counter with their own commerce platform and ecosystems for retailers and B2B, combining with consulting and services providers and technology ISVs. But having consulting and services together with an end-to-end commerce suite and associated infrastructure, all under one roof, affords IBM the ability to be more nimble in responding to course corrections in the marketplace. Of course, ability must translate into execution.

At the same time, with such a complete offering, IBM needs to guard itself from becoming too insulated to external innovations that occur in this rapidly changing space. To do this, IBM will need to articulate the role of partners in its commerce ecosystem. ISVs, regional SIs, and technology partners will all need to know where they can grow their own business and continue to innovate for IBM and their customers.

For customers and prospects, IBM Smarter Commerce offers a compelling combination of social business, ecommerce, and order fulfillment software and services that will help them embrace this important shift in the way consumers research, shop for, and purchase goods and services.

LEARN MORE

Related Research

- ☒ *Perspective: NRF 2011 — New Energy for New Operating Models* (IDC Retail Insights #GRI226758, February 2011)

- ☒ *Perspective: IBM Acquires Sterling Commerce — What It Means for Retailers* (IDC Retail Insights #GRI224866, September 2010)

- ☒ *Perspective: IBM Acquires Sterling Commerce — What It Means for Manufacturers* (IDC Manufacturing Insights #MI224867, September 2010)

- ☒ *IBM Continues to Build Out Software Strategy with Addition of Web Analytics Vendor Coremetrics* (IDC #lcUS22390410, June 2010)

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