

HABURI.com: IBM Produces Real Benefits for the Virtual Factory Outlet

An IDC e-business Case Study

WHY IBM

"We were convinced of the superiority of the IBM platform in terms of the ability to customize and create a robust commerce solution in a very short time frame. When you have 100 days to create a world-class platform, the ability to develop quickly—with no compromises on functionality—is an invaluable asset."

THE GOAL

| | |
|------------|---|
| NEAR-TERM: | To rapidly develop a robust B2C platform to handle the challenges of pan-European e-commerce. |
| LONG-TERM: | To build a solution flexible and scalable enough to accommodate tomorrow's e-commerce requirements. |

THE COMPANY

| | |
|---------|--|
| VITALS: | Based in Denmark, HABURI.com provides a platform for manufacturers to sell their branded products at discounted prices to consumers in 14 European countries under its "virtual factory outlet" model. |
|---------|--|

THE SOLUTION

| | |
|----------------------|---|
| PROFILE: | Extranet and Web-based B2C e-commerce platform |
| DEPLOYMENT TIME: | 100 days |
| IMPLEMENTATION TEAM: | IBM Global Services and IBM Business Partner ProActive Consulting A/S (Denmark) |

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The Solution

Core Functionality

- Secure Extranet and Web-based B2C e-commerce Solution

Software

- IBM Net.Commerce
- IBM DB2 Universal Database

Servers

- IBM RS/6000

Services

- IBM Global Services Hosting Services

IBM Business Partner

- ProActive Consulting A/S

Benefits

- Rapid deployment (100 days) significantly shortened HABURI's time to market.
- Highly scalable architecture enables unimpeded growth in transaction volume.
- HABURI expects to achieve a five-figure number of orders within its first eight months of operation.
- 99.9% solution up-time has yielded high levels of customer satisfaction.

HABURI.com, the “virtual factory outlet” based in Denmark, was founded on the premise that Web technology can create a more effective clearinghouse for manufacturers to sell out-of-season branded apparel to bargain-seeking consumers. The impetus for the company's formation was the sheer magnitude of the opportunity, exemplified by the fact that 10 to 15 percent of branded apparel production typically ends up in warehouse storage. While technically a B2C e-commerce site, HABURI's business model is distinct in its focus on serving the interests of both brand manufacturers and consumers.

HABURI sees the viability of its business strategy as a function of its ability to move nimbly and flexibly to keep its e-commerce platform state-of-the-art. Soon after its founding, HABURI quickly ascertained the need to build a solution that could be deployed rapidly and provide the company with the flexibility needed to keep pace with the changing needs of its customers. It also saw issues such as integration, security, and scalability as key. Moreover, HABURI's highly international focus presented even more challenging issues, such as the myriad consumer laws, value added tax structures, currencies, and languages that needed to be taken into account.

In December 1999, HABURI selected IBM Business Partner ProActive Consulting A/S, also based in Denmark, as its e-business solutions provider and IBM Global Services as its hosting services provider. The key factor influencing HABURI's choice of ProActive and IBM Global Services was the team's experience in developing complex e-commerce infrastructures. As a result of the team's experience and its own confidence in the strength of IBM's technology, HABURI sought peace of mind from its belief that the solution would meet its performance challenges over the long term. Another key factor was HABURI's belief in the superiority of the IBM platform in terms of its ability to customize and create a robust commerce solution in a very short time frame—an important factor given the roughly three-month development window HABURI faced.

HABURI's solution was developed using IBM Net.Commerce and IBM DB2 Universal Database running on IBM RS/6000 servers. The solution's architecture is built around a secure extranet, which serves as the main channel over which manufacturers access and modify their content. The extranet also links HABURI to its manufacturers, its warehouse and logistical facilities, and its call center operations. Another key element of the solution is Global Merchant, an IBM Global Services offering that enables HABURI to display prices in different currencies, manage the issue of value-added taxes (VATs), and provide payment clearance services. Since its launch in April, 2000, the HABURI site has experienced a strong and sustained increase in both visits and order volume, with both of these measures exceeding their forecasts. The company's goal is to achieve a five-figure number of orders by the end of the year. HABURI believes that the quality of its solution—which has an up-time record of approximately 99.9 percent—manifests itself in the number one ranking the company has received for customer satisfaction as compared with similar companies.

► Background

Factory outlets have long represented a mecca for consumers seeking top-quality apparel products at bargain prices. On the other side of the value chain, manufacturers of branded apparel products have also come to recognize factory outlets as a crucial vehicle for clearing excess stock. By most measures, factory outlets embody the most important core benefits of the free market system: a high-efficiency channel providing strong value to both the buyer and the seller. Can such a singularly efficient channel be improved upon? HABURI.com, based in Denmark, was founded on the premise that it could.

e-business Challenge HABURI.com

“One of our biggest challenges was to accurately incorporate a wide variety of consumer laws, value added tax structures, currencies, and languages into our platform, and to do so in a timely way.”

— Thomas Laurbjerg,
Chief Operating
Officer, HABURI.com

HABURI (www.haburi.com), which in Japanese loosely translates to “social prestige and popularity,” was started in the summer of 1999 by a team of former consultants with strong experience in retail. Their vision was to create a “virtual factory outlet,” which would serve as a clearinghouse through which brand manufacturers could sell their out-of-season merchandise. According to Thomas Laurbjerg, HABURI’s Chief Operating Officer, the impetus for the company’s formation was the sheer magnitude of the opportunity. “Our founders saw that fully 10 to 15 percent of branded apparel production ends up in some warehouse,” says Laurbjerg. “We saw in these numbers a huge potential to create an online factory outlet.”

While acknowledging some similarities between HABURI and other standard apparel-oriented B2C e-commerce sites, Laurbjerg highlights the key factor that marks the company’s business model as distinct. “We are not simply buying and then selling clothes over the Internet,” notes Laurbjerg. “We are in fact going to market and using information technology to solve a structural problem—namely overstocks—in the branded goods business.” The HABURI business model is most unique in its role as a “middleman” in the truest sense of the word—serving the interests of both brand manufacturers and consumers. However, in the months following its founding, HABURI was distinctly aware that unique business models tend not to stay unique for long in the Internet economy. As discussed below, the company’s key challenge was to rapidly develop an e-commerce platform that would allow it to establish a first-mover advantage.

► e-business Challenge

Internet technology is the bedrock on which HABURI’s business model is built. Indeed, the viability of HABURI’s business strategy is a function of its ability to take full advantage of advances in Web-based technology—to move nimbly and flexibly to keep its e-commerce platform state-of-the-art. Reflecting this reality, HABURI saw as its main challenge the need to build a solution that could be deployed rapidly and provide the company with the flexibility needed to keep pace with the changing needs of its customers. The complexity of the solution, driven by the uniqueness of HABURI’s business model, also posed a major challenge. For example, in addition to technical issues such as

integration, security, and scalability, the company also needed to take into account various geography-specific factors, due to the pan-European scope of HABURI's planned service offering. As Laurbjerg explains, the solution's highly international flavor represented some of the most challenging issues. "One of our biggest challenges was to accurately incorporate a wide variety of consumer laws, value added tax structures, currencies, and languages into our platform, and to do so in a timely way," says Laurbjerg. "On top of this, we needed to unify our own far-flung data center, administrative, and logistical facilities, which are spread over four European countries, into a single, seamless platform. Any way you look at it, we faced an extraordinarily complex undertaking."

Notwithstanding the enormity of the technical challenge it faced in the waning weeks of 1999, HABURI's fundamental challenge was quite simple. It needed a solution that worked, and it needed to be up and running in just over three months in order to seize—and hold—first-mover advantage.

Action Plan and Decision Process

Key Decision Criteria In Selecting IBM

"We quickly became convinced of the value of IBM and ProActive's track records in building complex e-commerce infrastructures. We understand how arduous it is to work with vendors who lack this experience, and it's something that we decided to avoid at all costs."

—Thomas Laurbjerg

After beginning its vendor selection process in late November, 1999, HABURI selected IBM Business Partner ProActive Consulting A/S as its e-business solutions provider, and IBM Global Services as its hosting services provider, in early December, 1999. ProActive Consulting developed the platform using IBM Net.Commerce (now known as WebSphere Commerce Suite) and IBM DB2 Universal Database as the key software elements. According to Laurbjerg, the dominant driver behind HABURI's choice of ProActive and IBM Global Services was the total package of experience the two brought to the project. "While we looked at a number of other providers, we quickly became convinced of the value of IBM and ProActive's track records in building complex e-commerce infrastructures," says Laurbjerg. "We understand how arduous it is to work with vendors who lack this experience, and it's something that we decided to avoid at all costs."

While IBM's e-commerce experience provided HABURI with an umbrella of confidence, it was the quality of IBM's portfolio of products and services that closed the deal. As Laurbjerg explains, the complexity and time-sensitivity of HABURI's e-commerce plan called for a flexible solution that could be rolled out fast, but would also be robust enough to accommodate the rapid growth HABURI expected. "We were convinced of the superiority of the IBM platform in terms of the ability to customize and create a robust commerce solution in a very short time frame. When you have 100 days to create a world-class platform, the ability to develop quickly—with no compromises on functionality—is an invaluable asset." Cited examples of Net.Commerce's flexibility include its ability to handle a broad range of languages and value-added tax (VAT) rates.

In selecting IBM Global Services as its hosting and facilities management services provider, HABURI cites the quality of IBM's facilities, its expertise in providing hosting services and the quality of IBM's support. From a performance perspective, HABURI's main criteria related to:

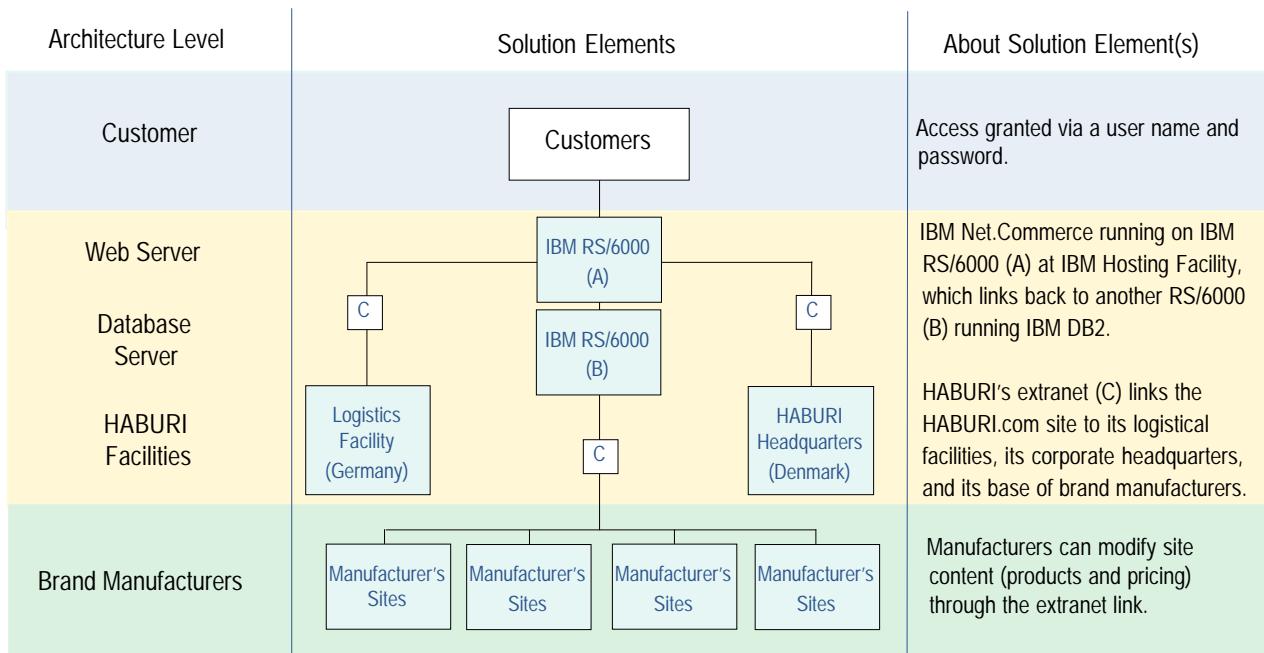
- System availability
- Backup and redundancy
- Stability of the solution
- Security of the solution

"We have always seen hosting as a crucial element of our overall solution," says Laurbjerg. "The fact that we were able to implement within our required time frame, and that we have never had any problems with performance, is a testament to the correctness of our original decision to go with IBM Global Services."

Solution Profile

Structured as an online mall, HABURI's virtual factory outlet platform provides individual branded manufacturers with their own "store" through which to sell products. [At present, the main source of HABURI's business volume is women's apparel, although accessories, children's wear, cosmetics, and jewelry are also expected to account for a larger share in the near future.] While IBM Global Services hosts the solution's technical platform, HABURI manages the mall's less technical functions, including content posting and the majority of

Basic Architecture of the HABURI Solution

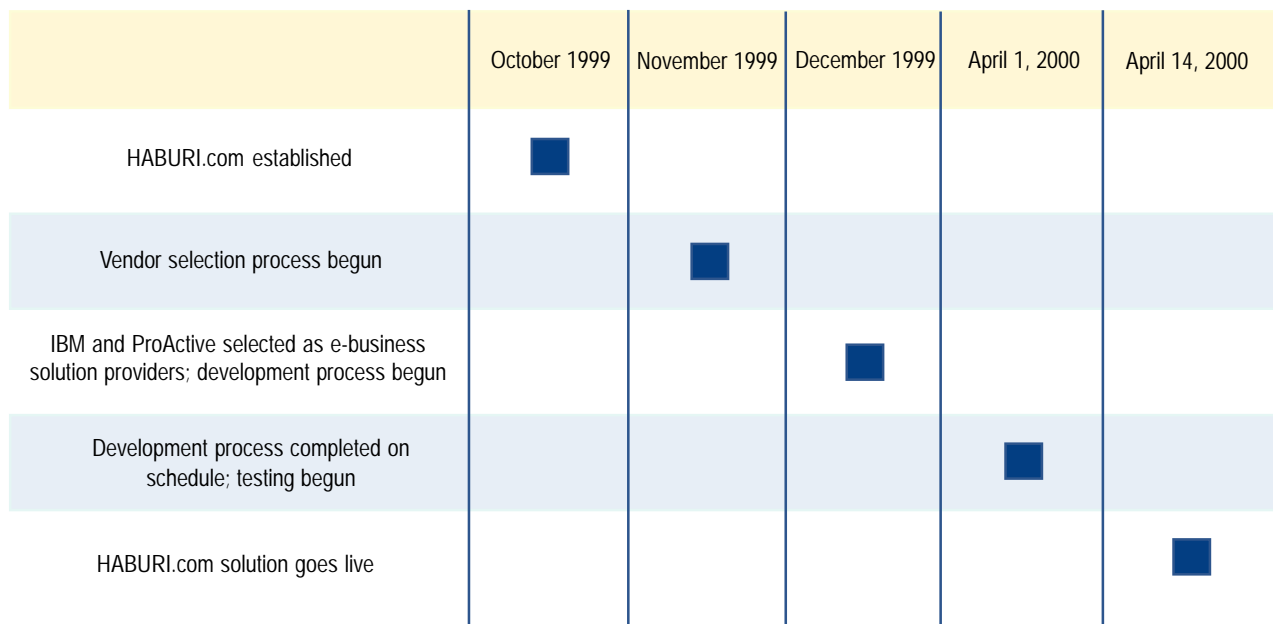


Source: HABURI and IDC

content management. HABURI also manages a call center that supports the site. The role of the manufacturers hosted on the HABURI platform is to manage their own pricing, sales, and promotions, and exercise complete autonomy over merchandising decisions (i.e., which goods are added or removed from the site). While HABURI presently serves consumers in 14 European countries, it has focused the majority of its marketing efforts on Denmark, Sweden, UK, Germany, France, and the Netherlands. The other eight countries in which HABURI has been less actively promoting its service are Ireland, Italy, Spain, Belgium, Luxembourg, Norway, Finland, and Austria.

The core of the solution is the IBM Global Services hosting facility in Denmark, where HABURI's IBM Net.Commerce and DB2 Universal Database deployments run on two IBM RS/6000 servers, respectively. The site also employs four additional RS/6000s for various other tasks, including load balancing. Under the solution's architecture, HABURI maintains a two-tiered database structure. Product and pricing data for the "virtual factory outlet" stores located on the site is stored in Net.Commerce data tables housed on an RS/6000 at the IBM Global Services site. This data is periodically uploaded to a DB2 database also running on an RS/6000 at the hosting facility. The solution allows HABURI's approximately 50 manufacturers to input or modify this data at their discretion.

Implementation Timetable for the HABURI Solution



Source: HABURI and IDC

A key element of the solution's architecture is a secure extranet, which serves as the main channel over which manufacturers access and modify their content. The extranet also links HABURI to its base of hosted manufacturers, its warehouse and logistical facilities, and its call center operations. Another key element of the solution is an IBM Global Services offering known as Global Merchant, a hosted service that enables HABURI to display prices in different currencies and manage the issue of VATs. The Global Merchant service also provides payment clearance services which allow HABURI to take payment in local credit cards and (in some countries) post receipt invoices, under which customers pay after they receive the goods.

IBM Business Partner ProActive Consulting, based in Denmark, performed all aspects of the development effort, from the creation of the extranet to the design and deployment of the B2C solution. High-level project management was performed by HABURI staff. Development of the platform began in December, 1999 and was completed on April 1, 2000—after just 100 days. After testing, the site was officially launched on April 14, 2000.

Business Results

Since its launch in April, 2000, the HABURI site has experienced a strong and sustained increase in both visits and order volume, with both of these measures exceeding their forecasts. The company's goal is to achieve a five-figure number of orders by the end of the year. [Like most other retailers, HABURI expects some 40 percent of its annual business volume to be generated in the fourth quarter.] While Laurbjerg considers such metrics important,

Overview of HABURI's Business Results Achieved

| Business Process Area | Nature of Benefit | Description or Metric |
|-------------------------------|--|---|
| Sales and Marketing | Speed to Market | Rapid deployment of the solution (100 days) allowed HABURI to bring its solution to market in advance of rivals. |
| IT Infrastructure Performance | Availability, Scalability and Security | The HABURI solution has achieved an up-time of approximately 99.9%. Its architecture, based on IBM RS/6000s, provides a high degree of scalability to keep pace with site volume. |
| Strategic Partnering | Strengthened Relationship | HABURI has been able to leverage its selection of IBM technology as the core of its e-infrastructure to attract new manufacturers and investors. |

Source: HABURI and IDC

he points to an even loftier set of ambitions, which he sees as critical for HABURI's long-term success. "Our target is to be among the five best-known destinations for e-commerce," says Laurbjerg. "For us to achieve this, we need to field a robust offering that gives consumers what they want. IBM has clearly helped us to create such an offering." Laurbjerg believes that the quality of HABURI's solution—which has an up-time record of approximately 99.9 percent—manifests itself in the number one ranking the company has received for customer satisfaction as compared with similar companies. Moreover, by allowing HABURI to rapidly implement its e-commerce solution, the use of IBM technology proved a critical catalyst to the company's efforts to bring its service to market quickly, thus reaping significant first-mover advantage.

In addition to a robust infrastructure, Laurbjerg also concedes the importance of increasing his company's exposure to both potential buyers and manufacturers. HABURI plans to address the first of these challenges through branding programs and affiliate partnerships (e.g., with petrol retailers). However, capturing the attention of manufacturers is a somewhat more complex proposition, given the high degree of scrutiny most manufacturers typically perform when evaluating potential e-commerce partners. Here, says Laurbjerg, HABURI's affiliation with IBM has provided a major downstream benefit. "We are a relatively unknown entity in the B2C e-commerce space," says Laurbjerg. "So our association with IBM has been a real asset in getting our foot in the door with potential manufacturer partners. For e-commerce start-ups, the emphasis has increasingly focused on being able to deliver real business results—instead of promises. We've been pleased that our solution has been able to deliver this value from the very start."

Expected Contribution to HABURI's ROI by Value Chain Segment

| | | | |
|---|--------|---------------------|-----------|
| Cost Reduction or Cost Avoidance | | ■ | |
| Improved Productivity | | ■ | |
| Reduced Cycle Time | ■ | ■ | |
| Strengthened Relationship/ Increased Satisfaction | | | ■ |
| Enhanced Revenue | ■ | ■ | |
| Value-Chain Segment => | HABURI | Brand Manufacturers | Customers |

■ Major Contribution
 ■ Moderate Contribution

Source: HABURI and IDC

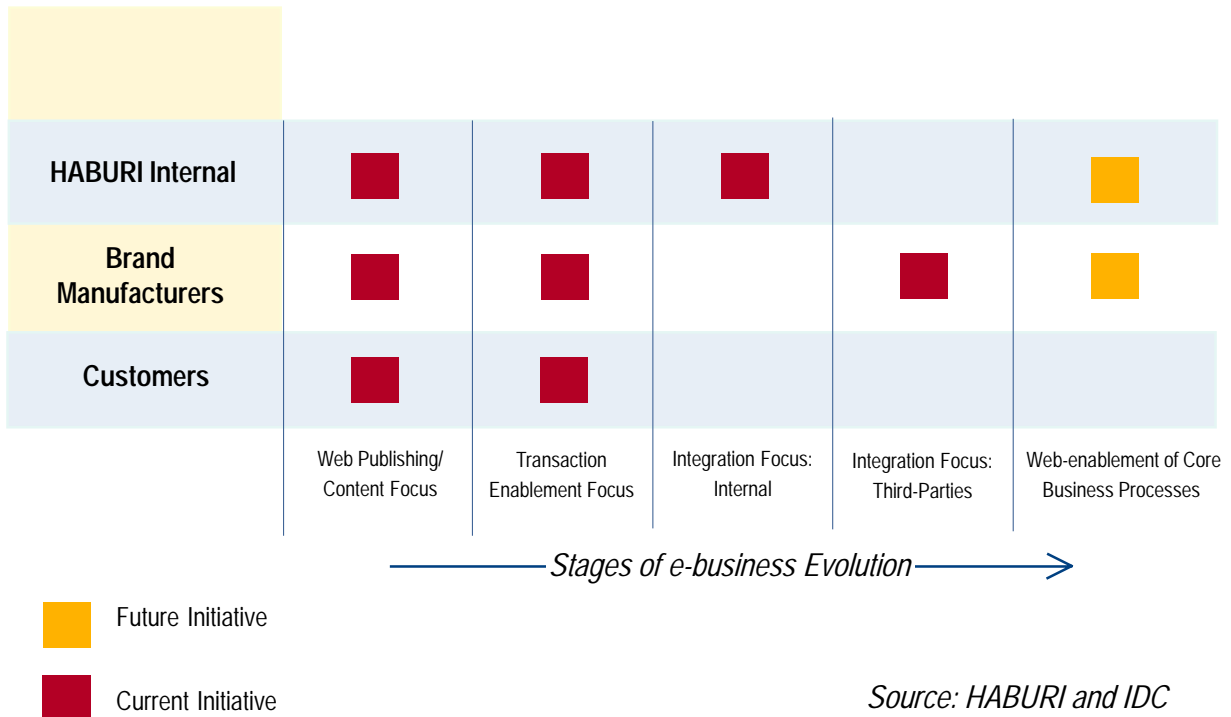
Case Epilogue

Going forward, HABURI plans to expand its European presence into Poland, Hungary and the Czech Republic, and to establish a foothold in the Asia-Pacific region by the end of 2001. HABURI also plans to significantly expand the functionality of HABURI.com by migrating to WebSphere Commerce Suite in order to take full advantage of its personalization capabilities. “We plan to combine our growing CRM capabilities with WebSphere Commerce Suite’s inherent personalization strengths,” says Laurbjerg. “We see this as a very effective way of increasing our ability to provide the customer with an outstanding online experience.”

Other functional improvements planned by HABURI include a closer degree of integration with its manufacturers’ back-end systems, which Laurbjerg sees as a key source of competitive differentiation. “By establishing closer data linkages with our manufacturers, we create a barrier for our current and future competitors in this market, and we make manufacturers want to stay with us over the long-term,” notes Laurbjerg. “In the future, we expect IBM middleware and other e-business technology to be very useful in this effort.”

Looking back on his company’s experience working with IBM Global Services and IBM Business Partner ProActive, Laurbjerg reserves the highest praise for their ability to help HABURI anticipate and plan for their future needs. “IBM and ProActive have been very effective at helping us develop a solution that

HABURI's e-business Evolution and Value Chain Focus



delivers real performance today, and positions us well for tomorrow's needs," says Laurbjerg . "They provided us with a very forward-looking architecture that allows a clear path for future upgrades so that we can grow our business—and not grow out of our infrastructure." Laurbjerg also lauds the team's ability to deliver a complex project within a timeframe whose end-point was essentially immovable. The importance of a timely delivery of the solution can scarcely be overstated, given the need to bring a solution to market ahead of competitors.

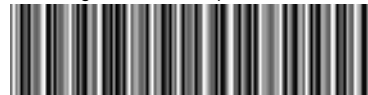
According to Laurbjerg, the most significant challenge now faced by HABURI is to ensure that its existing e-infrastructure can support their ambitious projections of growth, adding that one of the key ingredients of success will be not only getting customers—but keeping them coming back. "For every start-up, whether it's a dot com or in the physical world, the biggest challenge is to achieve the volume necessary to become profitable and maintain that profitability over the long haul," says Laurbjerg. "We see repeat customers as a very big part of our business model, and we see the performance and scalability of our infrastructure as a key to achieving that goal."

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