

## ONLINE FILE W5.11

## THE RISE AND FALL OF COVISINT

There are only several major automakers, but they buy parts, materials, and supplies from thousands of suppliers, who frequently buy parts and materials from thousands of subsuppliers. At times, the procurement process is slow, costly, and ineffective.

On February 25, 2000, General Motors Corporation, Ford Motor Company, and DaimlerChrysler launched a B2B integrated buy-side marketplace called Covisint. The goal was to eliminate redundancies from suppliers through integration and collaboration, with promises of lower costs, easier business practices, and marked increases in efficiencies for the entire industry.

The name Covisint (pronounced KO-vis-int) is a combination of the primary concepts of why the exchange was formed: The letters “Co” represent *connectivity*, *collaboration*, and *communication*; “vis” represents the *visibility* that the Internet provides and the *vision* of the future of supply chain management; and “int” represents the *integrated* solutions the venture offers as well as the *international* scope of the exchange.

The purpose of the marketplace’s connectivity was to integrate buyers and sellers into a single network. Visibility was intended to provide real-time information presented in a way that speeds decision making and enables communication through every level of a company’s supply chain, anywhere in the world. By using the Web, a manufacturer’s production schedule and any subsequent changes were able to be sent simultaneously and instantly throughout its entire supply chain. The result was less need for costly inventory at all levels of the supply chain and an increased ability to respond quickly to market changes.

Typically, an automaker would buy parts from one supplier, who in turn would buy from its suppliers (subsuppliers), who would then buy from other suppliers (sub-sub-suppliers). In this traditional linear supply chain, the automaker communicates only with its top-tier (tier 1) suppliers.

Imagine that the auto manufacturer has hundreds of similar supply chains, one for each supplier, and that many of the suppliers, in all tiers, produce for several manufacturers. The flow of information will be very complex. This complexity introduces inefficiencies in communication as well as difficulties for the suppliers in planning their production schedules to meet demand, resulting in supply chain problems.

The Covisint process greatly changed supply chain communication in the automobile industry. Rather than being at the top point of a pyramid, as in the industry’s traditional supply chain, the auto manufacturers were at the center of a spoke-and-wheel arrangement. By 2004, Covisint served 19 automakers. The Covisint trading hub enables the automakers and their various suppliers and subsuppliers to

communicate directly with anyone else. Instead of an array of unorganized communication lines, it is all organized in one place.

One of the major objectives of the exchange was to facilitate product design. Covisint offered its customers best-of-breed functionality; customers took the best aspects from multiple technical providers. The ability to integrate providers across the supply chain creates a unique environment for collaborative design and development (collaborative commerce), enables e-procurement, and provides a broad marketplace of buyers and suppliers. It makes accessible a wealth of supply chain expertise and experience, ranging from procurement to product development. Covisint’s potential membership was about 30,000 suppliers.

Because of its large size, the exchange has been developing slowly. Nevertheless, Cleary (2001) reports that on May 8, 2001, DaimlerChrysler used Covisint to successfully conduct a \$3 billion reverse auction for auto parts that lasted 4 days. However, in July 2002 the founders of Covisint ceased to provide funding. They remain shareholders, but Covisint is now controlled by an independent board and an advisory council made up of 21 of the largest suppliers and OEMs (Original Equipment Manufacturers) to the automotive industry. By early 2003, a new CEO was trying to accelerate Covisint’s progress. In summer 2004, Covisint was acquired by Compuware Corp. By September 2004, the exchange was still struggling financially, even though it provides services to 20,000 companies in 96 countries.

By 2006, Covisint had changed direction, providing global trading services. A major area of Covisint’s focus is partner collaboration and integration. It provides complete solutions for safely sharing internal applications with external users, automating external partner user life cycle management and administration, and providing reliable data messaging (including EDI) between partner applications and systems.

Covisint now provides access to a global community of 100,000 users, representing 45,000 companies in 96 countries.

### Questions

1. Describe the concepts upon which Covisint is structured.
2. Describe how Covisint changed the supply chain in the automobile industry.
3. Investigate the current ownership and management of Covisint.
4. Enter *covisint.com/about*. How does the new company differ from the old one?