Supply and Demandware: New on-demand e-commerce platform focuses on the bottom line

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The recent announcement of a newcomer in the on-demand arena, Demandware, once again raises two fundamental questions regarding such e-commerce services: What are they exactly, and has the market demonstrated a need for them? Announced in October 2004 and slated for a formal launch in the first quarter of 2005, the Boston-based company is currently working with its first group of customers to bring their e-commerce solutions online.

Demandware (www.demandware.com) promises "a complete on-demand e-commerce platform," offering users a simple proposition: e-commerce solutions customized to their specifications and seamlessly integrated into their existing business systems. But the new offering's best-selling point might be its bottom line. Demandware says it will deliver advanced customized e-commerce solutions with no upfront layout of capital.

Pay as you go

The company's pricing scheme is based on usage (traffic-based pricing), which the company asserts will result in operating costs being directly aligned with business results.

"This solution combines the functionality of a packaged application with the flexibility of a custom system and delivers it with the reliability and low-cost pricing of an on-demand
service," says Demandware President and CEO Stephan Schambach, who also started Intershop, an e-commerce software provider, in 1992. "The result is that companies can create very affordable e-commerce sites and have the freedom to focus on driving business results instead of worrying about infrastructure."

Demandware says its customers will never have to worry about software, hardware, hosting, scalability, upgrades, or reliability.

So what's the catch? There is none, according to Schambach.

"We are often told that our offer sounds too good to be true," recounts Schambach. "Consequently, it can be a challenge to get companies to move their first project onto our platform."

But once they do, Schambach says they're typically glad they did.

"I've spent 10 years working in the e-commerce market, and while e-commerce was becoming increasingly important from a strategic perspective, few companies could afford to deliver state-of-the-art solutions with the existing infrastructure options," Schambach says. "Companies were being forced to make unreasonable tradeoffs between functionality, flexibility, and costs because they had to choose between licensed packaged applications that were too expensive, custom-built systems that lacked functionality, or turnkey hosted solutions without flexibility."

Bruce Hudson, a technology analyst with METAGroup, has his doubts about whether Demandware will be able to deliver on its promise.

"Demandware is talking about Web services to lower the cost of integration," Hudson says. "Nice on paper, but if you're targeting small and medium-sized business [SMB], not a lot of them will have backend systems that lend themselves to nice, clean Web services-enabled integration. SMB is still an area where integration is a nightmare and waving Web services at them isn't going to change much."

**Targeting "The Middle Man"?**

SMB indeed appears to be Demandware's target market—at least for the time being.

"E-commerce is a field with constant innovation," says Ulrike Mueller, Demandware's chief software architect. "Normally, it is too expensive for most midmarket, multichannel
retailers to keep up with these innovations, but we will be able to incorporate new capabilities into our platform as they are developed, so Demandware customers can quickly take advantage of them to remain competitive."

In terms of the size company that would "fit" the Demandware model, the company appears to have a floor but not a ceiling. Schambach says the company is generally targeting "manufacturers, wholesalers, and retailers that operate e-commerce sites with online revenue starting at US$2 million and ranging to more than $100 million."

**The economics of technology**

The technology that supports Demandware's on-demand, pay-as-you-go scheme lies primarily in the use of Web services and grid computing. But with the emphasis firmly placed on its pricing system, what, if anything, is novel about Demandware's technology itself?

Hudson believes the two considerations aren't all that different, especially in today's e-commerce environment. "The 'gee-whiz' effect is gone and consequently companies are going to look at the total cost of ownership and short-term return on investment," he says. "E-commerce has fallen down the stack from a 'transformational' investment to a 'run the business' type of investment. Accordingly, value is now a driver, rather than opportunity. The cost of performance, the cost of ownership—that's the issue. In the past, it was less so because companies needed to establish electronic channels quickly or face being eclipsed by the competition."

And in discussing its technological components, Demandware inevitably makes mention of the financial ones.

"By leveraging a grid computing architecture, Demandware is able to scale with customer demands," Mueller says. "We can dynamically increase or decrease the share of the computing grid for each customer as they need it. Ultimately the benefit is that we can ensure customers have the capacity they need when they need it, without having to make major capital outlays for excess capacity up front."

Mueller adds that by designing the software around a service-oriented architecture, Demandware has been able to create a system that is highly customizable for each individual customer solution. "This lets us give customers flexibility without incurring higher costs for maintaining multiple instances of the application," he says.
Conclusion

Hudson concedes the point but reserves judgment on the numbers. "Architecturally, if they have a product that can host many customers in a single instance, that saves money too," he says. "The technology is cheaper now so the cost structure has changed. But the price points are also lower, so managing this for profitability is going to be challenging."

"Most software vendors are using this [on-demand] to mean 'hosted' and are riding IBM's marketing coattails," he says. "The jury is still out whether this will work this time around."