Lecture 4
E-Marketplace & Business to Business E-Commerce

B2B E-Commerce

- The use of digital technologies to support inter-firm relationships
- Organisations doing business with other organisations electronically
- Related to the exchange of products, services, or information from one business to another

Importance & Significance of B2B EC

- US$7 trillion - US$10 trillion (projection for 2005)
- Projected growth 2000-2005 (Internet based B2B): 2.1% to 10%
Types of B2B E-Commerce

What & Who are Involved in B2B & EM?

It is about options too

(Lea, 2002)
What’s Important?

- Enterprise applications
  - ERP
  - SCM
  - CRM
  - SFA

- Legacy applications

- Interoperability mechanisms

- Business-to-Business framework (e.g., ebXML, OASIS, RosettaNet, B2Business)

B2B Main Activities

- Search
- Source
- Specify
- Negotiate/bid
- Order
- Goods Received

For example:

Lost Wax e-Commerce Platform

- (www.lostwax.com)
Benefits of B2B E-Commerce

- **Straight-through processing**
  - No error
  - More efficient & faster processes
  - No paper
- **Reduce costs**
  - Storage cost with JIT inventory mgmt
- **Service levels**
- **Productivity**

What about E-Marketplace?

- **Lower & transparent prices**
  - Automated procurement process
  - Reduce processing, operational, transaction cost
- **Access to more choices** (i.e., suppliers, buyers, goods & services)
- **Reaching for critical mass**
- **Acting as virtual distributor / wholesaler**

E-marketplace a.k.a

- **E-markets**
- **E-commerce hubs**
- **Net markets**
- **B2B exchanges**
- **Digital marketplace**
E-Marketplace

Some predictions

- E-marketplace transaction volume will reach US$1.4 trillion by 2004 (Forrester Research 2000)
- 53% B2B transaction of the coming five years will be processed through e-marketplace (Forrester Research 2000)
- 37% B2B transactions will be processed through e-marketplace by 2004 (Gartner Group)

Potential Benefits for Buyers & Sellers

**Buyers**
- Choice of suppliers
- Choice of products & services
- Aggregation of small orders
- Volume discounts
- Lower product prices, search price
- Transaction price
- Process efficiency, straight through processing

**Sellers**
- Expand the market, more buyers
- Aggregation of orders
- Increased volume of sales
- Reduce operational & inventory cost
- Process efficiency, straight through processing

Potential Risks for Buyers & Sellers?

**Buyers**
- Poor quality of products & services
- Unreliable source & level of supply
- Unreliable delivery of products & services
- Initial cost may be high
- Technology incompatibility
- Legal issues
- Relationship issues
- Failure in the marketplace

**Sellers**
- Increased competition
- Price reduction
- Incapable of handling the volume of transactions
- Initial cost may be high
- Technology incompatibility
- Legal issues
- Relationship issues
- Failure in the marketplace
Remember the costs…

• **One-time cost**
  – Registration, implementation, content (data) conversion, training, infrastructure

• **Recurring cost**
  – Membership fee, subscription fee, content management fee, transaction fee, infrastructure maintenance & upgrades, training

Remember the potential risks…

• Joining a non-bonafide e-marketplace
• Uncertainty of the business partners
• Too many competitors in the same marketplace
• Legal issues

**Taxonomies of E-Markets based on Ownership**

- **3rd Party Hubs**
  - Independently owned & operated
  - Based on alliances with industry sponsored marketplace
  - Ensure that no parties dominate the market
  - The number of 3rd party exchanges has been decreased significantly (88% unprofitable – Forrester, 2002)
  - Example: Commerce One
    - Originally known as DistriVision Development Corporation
    - e-market solutions, enterprise buyer-technical integration/consulting
    - platforms: online, open-source, native
    - Currently have major exchanges in: China

- **Industry sponsored**

- **Private exchanges**
Taxonomies of E-Markets based on Ownership

3rd Party Hubs

Industry sponsored

Private exchanges

Industry Sponsored Exchanges
- A consortium of organisations (commonly the dominant players in the old marketplace/economy)
- Aims to consolidate/combine market share, resources, expertise
- Can be problematic for SMEs
- Example: Covisint
- GM, Nissan, Peugeot, Ford,… (50% of automotive production in the world)
- pre-negotiated prices
- Auction-based system

Private Exchanges
- Developed by a single large buyer or provider
- May “require” business partners/customers to be “e” enabled & join the marketplace to gain special privileges
- Typically, provide more complex capabilities; require em systems to be integrated with back-office systems, may require some sort of ERP systems for all players
- Example: GE
- Internet-based electronic market
- E-catalogue based
- pre-negotiated prices
- Auction-based system

The Current Status of e-Marketplace

- Independent public markets (i.e., 3rd party hubs) are struggling
- Upwards trends for private exchanges with sophisticated services and capabilities
- The industry sponsored (consortium based) e-marketplaces are still somewhat at an immature stage
- There is a realisation to constantly updating and refining value proposition by the key players of e-marketplace
Do you know what ‘vertical’ and ‘horizontal’ B2B?

“Vertical” B2Bs

- Catered for / specific to a single industry
- Expertise & in-depth content knowledge for one industry
- Product focus is on the supply chain of one product category
- Typical characteristics:
  - Large base of transactions
  - Many fragmented buyers and/or sellers
- Look at Covisint (automotive), MetalSite, Neoforma (healthcare)

“Horizontal” B2B

- Aims to serve many different industries
- Broad product focus
- Services across multiple vertical industries
- Look at NTE (National Transportation Exchange), Chemunity, GEMS
Some Problems with E-Marketplace…

- Too techno-centric
- Technology immaturity
- No understanding of the industry
- Competitions
- Scarce VC market (late 1999 onwards)
- Standardisation
- Not many B2B exchanges/e-marketplace could reach critical mass

Did You Know?

- ~ 1500 B2B exchanges in 2001
- < 700 in July 2002
- More than 80% of B2B exchange providers exited via failure or acquisition

What about 2003 & 2004 & 2005?

(Forrester, 2001; Forrester, 2002; Gartner Group, 2003)
Remember that in B2B…

“...price is not necessarily the most important feature of business-to-business transactions”
(Knapp, 2003, p. 297)

“Most companies have come to realize that getting supplies at the lowest price may not be in their best economic interest.”
(Wise & Morrison, 2000, p. 88)

If price is not the main issue, than what?

What Matters in B2B Exchanges?

• Quality of products
• Types & Quality of services
• Timing of deliveries
• Customisations
• Buyer – Seller relationships
• Critical Mass

The Emerging B2B Landscape

(Wise & Morrison, 2000)
Suggested Readings


Please read chapter 4 of the Jelassi & Enders textbook for this week’s lecture.

Please read chapter 6 & 10 for the next 3 sessions.