

## 2B or Not 2B

Shakespeare's famous line from the play Hamlet focuses our attention on one the most important strategic decisions for most firms today. It's almost as if Shakespeare knew of the dilemma faced by a company trying to decide whether to participate in today's business to business (B2B) marketplace exchanges. As Prince Hamlet's soliloquy (Hamlet, Act 3, Scene 1) goes:

To be, or not to be: that is the question:  
Whether 'tis nobler in the mind to  
suffer  
The slings and arrows of  
outrageous fortune,  
Or to take arms against a sea of troubles,  
And by opposing end them?

The Bard was close, but in e-commerce terms, he didn't hit the proverbial nail right on the head. And many companies are missing the key strategic question as well. Most companies seem to be asking the question much as Shakespeare would: "What should we do about these B2B exchanges—wait, join, or ignore?" And if, after a reasoning process torturous enough to put Hamlet to shame, they decide to join, they'll do it reluctantly.

That, however, is neither the right question, nor the correct approach. Strategically, the only way to approach this situation is with straight-on realism: B2B marketplace exchanges are here to stay because they make great business sense. They create value throughout a value delivery system by improving speed, lowering costs, increasing choice, and potentially improving quality for a wide range of products and services.

Don't be fooled by the current confusion and turbulence in capital markets. B2B exchanges will survive and prosper because they dramatically improve the entire market system.

### That Is the Question!

Judging the viability of any new e-commerce model should be straightforward: Does it create value? If the answer is yes, and in the case of B2B exchanges it is a very definitive yes, then it will survive and prosper.

The question for the strategist, then, is not whether to plan to participate, but when to join an exchange(s), which one(s) to join, and how best to maximize returns from participation. And an answer

is needed from virtually every firm, and from both the procurement and the marketing sides of the business.

### And the Answer Is Needed Now!

While the rapidly changing landscape of e-commerce leaves plenty of room (and perhaps still a little time) in consumer and more general business-to-business areas, the decision time for participation in B2B marketplace exchanges is rapidly closing in. In most industries, the time is now.

Moving faster than a teenager's fashion tastes, B2B online activities have gone through some very turbulent times lately. Historically, there have been a few times where the nature of a business practice, in this case business-to-business sales, has gone through such manic ups, downs, and twists.

In the space of two years, the idea of B2B marketplaces has gone from obscurity to euphoria and then to disappointment and frustration. First the Internet was all about consumer sales. Then when growth didn't materialize as rapidly as expected, B2B was hailed as the recipient of Web-based efficiencies.

Venture capital flowed to companies setting up exchanges for anything from chemicals to coffee. A PricewaterhouseCoopers survey estimated that marketplace exchanges gobbled up \$2.6 billion in venture capital seed money in 1999 alone.

Revenue estimates for B2B marketplaces ranged from the mildly optimistic—2004 revenue figures estimated at about \$2.7 trillion—to the gung-ho—2004 revenues estimated to reach \$7.3 trillion.

But then some of the difficulties of such exchanges began to emerge, the overall economy slowed, and the oversaturated list of competitors started to thin. With nearly 1,000 exchanges competing for enough customers to create liquidity, the smaller and weaker ones have refocused their businesses or gone under. Even the strongest have watched their stock price decrease 90% or more, with Vestro's stock plummeting dramatically from \$243 to \$1.

However, a company's need to focus on B2B has not gone away. The idea of an electronic marketplace exchange may be wounded, but it is certainly not dead. Once the smoke clears, the surviving marketplaces will be stronger and deeper. Belonging to a liquid, Web-based marketplace will be even more important than it was in the last few years. Each quarter of delay will mean another quarter where competitors are buying goods more cheaply, selling inventory more quickly, and spending less valuable labor on menial order-entry tasks.

## Definitions

B2B exchanges are becoming as diverse as the industries they serve. In general, they bring together buyers and sellers in a liquid, efficient marketplace that operates in real time, all the time. While no totally agreed upon scheme exists for categorizing these exchanges, a simple approach might be as follows:

A vertical hub is organized by industry, with domain-specific content and relationships.

In a horizontal or functional hub, the marketplace serves as a facilitator, providing a function or business process across different industries (such as advertising, project management, or transportation).

A commodity mart is an exchange for standardized items, such as energy, agricultural items, or raw materials.

Each of the above can follow several different methods for the exchange:

- Catalog (sellers offer fixed prices)
- Auction (buyer or sellers transparently bid on prices)
- Exchange/Barter (members negotiate directly, or communicate via RFP)

### Players

In the B2B space, most marketplaces are privately run sites, third-party providers, or industry consortia.

In the first category are those companies large enough to set up their own buyer-centric marketplace and to dictate the rules of engagement: Think Wal-Mart for retail, General Electric for electronics and industrial supplies, and Enron or Williams for energy. GE reportedly bought \$6 billion of goods in 2000 online and sold \$11 billion worth of goods over the Internet; in 2001 that figure is expected to double. Transaction times have been cut from two weeks on average to 24 hours. In order to participate, suppliers must be invited by the buyer and must follow the buyer's bid processes.

Third-party providers make up the bulk of the B2B exchanges, and can be broken down into three sub-categories: buy-side aggregators, sell-side aggregators, or neutral exchanges. Industry-specific marketplaces set up by VerticalNet and FreeMarkets are the most successful thus far, sharing the space with dozens of industry-specific exchanges run by lesser-known companies.

Industry consortia, despite the antitrust concerns, are taking wind out of the sails of some third-party providers. The biggest is Covisant, a marketplace that will enable the Big Three U.S. automakers to

buy parts and materials from more than 30,000 automotive industry suppliers.

VerticalNet has essentially conceded some of its business to industry-run organizations. The company sold its profitable chip exchange, NECX, to consortium-led Converge Inc., which is made up of heavyweights such as Compaq and Hewlett-Packard. VerticalNet is also trying to diversify more into software and is selling its solutions to organizations such as Elastomer-Solutions, an online marketplace for the synthetic rubber industry.

An interesting hybrid consortium was recently developed in the airline industry, with buyers and sellers both investing in the exchange. Initial investors include nine airlines, UPS, B.F. Goodrich, United Technologies, and Honeywell. Set to launch in the second quarter of this year, Cordiem LLC will offer products and services touching maintenance, catering, fuel, procurement, and more.

Software providers that enable these B2B marketplaces function in all three areas. Ariba, Commerce One, I2 Technologies, WebMethods, and PurchasePro are the strongest survivors and are likely to be the ones still standing a year or two down the road. All have formed partnerships with other companies (such as IBM or SAP) to offer a full solution.

The shakeout has actually led to more and better services for new participants. Rather than just focusing on transaction fees for exchanges, many players are now making it easier for companies to run their business. GoFish, a seafood industry exchange, sells credit reports for all industry members, ensuring that all its deals are solid. Electronics marketplace Converge offers order bundling services, financing plan services, and even a collaborative design platform. VerticalNet's various platforms have always been as much about content as transactions, keeping members up to date on industry trends and news.

## No System Is Perfect

While there's plenty of uncertainty in the market, the advantages of a Web-based exchange are undeniable.

We in the West often talk about the efficiency of the market system over planned economies. And, in theory, that is true. However, research has consistently shown that in most industries, large numbers of buyers and sellers fail to connect with each other. This leads to higher costs, lower innovation, and reduced productivity. In addition, there are heavy marketing, sales, and procurement costs just to get a subset of potential buyers and sellers together.

Electronic exchanges lead to lower transaction costs, greater efficiency, tighter inventory control, and the ability to quickly sell perishable goods or overstocks. FreeMarkets boasts that its customers saved an average of 18% last quarter, while Ariba customers commonly boast of savings in the multi-millions.

A look at most companies' current procurement and fulfillment procedures will explain why. With phone calls, faxes, and manual entries on printed forms the norm in many businesses, a well-run exchange can make a dramatic difference in both speed and cost. Sellers can more quickly find a buyer for their goods, while buyers can be sure they are getting the best possible price.

On the down side, some companies find that the exchanges are too immature or inflexible to be useful. High-volume, low margin businesses such as produce sales seemed a natural fit until the sellers realized the software couldn't handle all the subtleties and variations they needed on a daily basis. Organizations that have invested millions in inventory systems find that they can't use that same system to participate in the exchange.

Sellers that compete on service complain that auction situations don't recognize the value they add. Businesses on both the buy and sell side bemoan the lack of loyalty and the absence of trust and relationships.

## Both a Buyer and a Seller Be

Strategically, there is only one conclusion to be made: despite their growing pains, B2B marketplaces are here to stay. Therefore, companies must get involved as both buyers and sellers.

Once you've made the strategic decision to join an exchange, here are some tactical guidelines for you to consider:

1. Closely analyze your competitive landscape and the future trends in your industry. Determine whether one exchange will suffice or whether you should join several to hedge your bets.
2. Determine participation on market factors, but since there are still significant technology compatibility issues, make sure you have a good handle on the technical requirements.
3. Ask your legal counsel to review your participation to avoid any anti-trust issues (various government departments are reviewing the rules of these exchanges).
4. Build internal expertise (marketing and procurement as well as technical) to manage your participation.

5. Develop programs that build relationships with customers and suppliers after the transaction (in service, technical support, etc.) and always with thought for what can be charged for, not given away.

6. Never let the loss of a sale deter you. As in the real world, not all suppliers can carry through on their commitments, so be persistent in presenting your value proposition (although some exchanges are "blind" bids).

7. If no exchange exists in your industry, consider starting one or helping a consortium get started.

So, as Shakespeare might say if he were alive today and writing advertising copy, when it comes to B2B exchanges, it's not a question of 2B or not 2B, it's "Just do it!"

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