

The success factors of B2B e-markets

Summary:

The concept of B2B e-marketplaces has undergone fundamental transformations during recent years. The B2B e-commerce expectations have changed from euphoria to scepticism or even pessimism. According to Deloitte research 1.400 Internet trading platforms have been launched or announced by the end of 2000. Whereas some analysts predict that the number of e-marketplaces will grow to 10.000 level, others consider that the current number is already too high. Internet-based electronic marketplaces use Internet technologies and standards to distribute product data and to facilitate online transactions, but the primary function of digital markets, aggregating buyers and sellers to provide increased information and choice, seems to be in many cases not enough to provide value to participants to trade through B2B platforms. This paper analyses the most important success factors of B2B platforms such as critical mass of participants, deep industry knowledge and value-added services. Finally, it describes the optimal e-market's strategy and key issues for survival and success.

1. e-Marketplaces – basic characteristic

Internet-based electronic marketplaces use Internet technologies and standards to distribute product data and to facilitate online transactions. These many-to-many platforms are the most advanced e-business models that started with the use of one-to-one EDI (Electronic Data Interchange, the computer-to-computer exchange of standardized electronic transaction documents) almost 20 years ago[1]. They create online communities of buyers and sellers, matching them with increased effectiveness and lower transaction costs through increased market transparency.

B2B e-marketplaces earn revenue from multiple sources, including transaction fees (in the second half of 2000 trading fees were in the range of 0.25% to 5%[2]), membership fees, service fees, advertising and marketing fees, and sales of data and information. However advertisement, which was the revenue model of some of the early e-markets, is declining visibly[3].

Another source of revenue originates from value added services such as logistics, transportation, fulfillment, settlement and credit.

More than half of today's leading B2B e-marketplaces focus on providing only short-term value to buyers. Successful B2B e-marketplaces should create win-win environments for all participants, giving them appropriate trading mechanisms, valuable content knowledge that is unique and not easily replicated and effective connections and cooperation across supply chains [4].

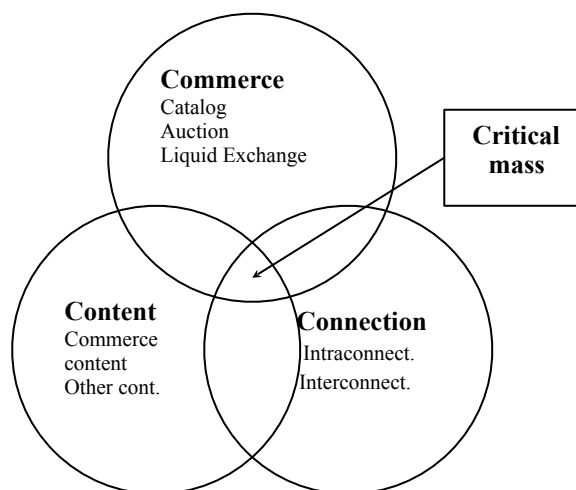
2. Key drivers of success – 3C Strategy

What makes e-marketplaces successful? According to A.T. Kearney research the key success factors, cited by most of interviewed virtual markets and industry experts, are critical mass of transactions[5] and deep industry knowledge. Based upon its experience A.T. Kearney derived a useful strategy called 3C – commerce, content and connection[6].

Achieving critical mass in the B2B environment requires the right mix of commerce, content and connection.

The first step for virtual markets is to understand the product characteristic, because this characteristic determines which commerce model will be most appropriate and should be adopted. The parameters such as price volatility, industry liquidity and ability to parameterize the traded product or service will determine most suitable commerce model and trading mechanisms.

Picture 1. 3C Strategy



Source: [6]

2.1. Commerce

Every e-marketplace has to determine which commerce model (catalog, auction and exchange) or combination of models will be the best taking into account that all of them offers specific benefits and certain limitations.

E-marketplaces, offering commerce models, have to remember that lower product prices get attention but aren't where the real value lies. Virtual marketplaces must deliver value to all participants by incorporating factors other than price (such as quality, terms of delivery, terms of payment etc.) that influence buying decision into an automated auction.

Full understanding of the different types of commerce models allows virtual marketplaces to better define their value proposition to specific industry.

A Catalog solution is the simplest and most common commerce model providing one-stop electronic shopping. It aggregates multiple product catalogs allowing product comparisons on customized pages enabling rapid identification and purchase of desired goods for buyers. Catalog solutions in most cases guarantee that a listed product is available for purchase at the listed fixed price.

Accordingly this solution is most appropriate for industries with the following characteristics:

- High search costs of product
- Low price volatility
- Purchasing are time-critical

Another model is the Auction, where prices are determined dynamically through bids submitted on items over a certain period of time. This model, no matter if it is regular or reverse auction, is based solely on price and favors the initiator of the request.

This dynamic pricing solution is most appropriate for industries with the following characteristics:

- Products and services are unique and their value is not easy to determine
- Prices are volatile
- Buyers and/or sellers are fragmented
- Familiarity with an auction model among participants
- Purchases are not time-critical

The most advanced model is Hyper Auction model which combines the benefits of offline purchasing with the efficiencies of online transactions. This model speeds and automates whole purchasing process by defining and standardizing the buying criteria (not only the price but also quality rating, technical specification, brand name etc.) and eliminating the human from the bidding process (which is based on preferences predefined by the buyer), saving a lot of time for buyers and sellers.

In order to succeed, virtual markets have to choose the commerce model that best fits their industry.

2.2. Content

The second important element of 3C strategy is content, which allows e-marketplaces to differentiate from the competition and create buyer and seller loyalty.

The functional focus of the market and the adopted commerce model will determine what types of content and information will be most suitable.

Generally content falls into two categories:

- Commerce content related to the commercial purpose of the product
- Other value-added content encouraging participants to remain on the site.

According to this, deep industry knowledge and offering unique information and services are a key competitive advantages for digital marketplace. Consider vertical marketplaces like e-Petrol that mediates between buyers and sellers in the specialized petrol marketplace, or ce-market, that makes a market between steelworks and buyers and sellers of steel. The founders of these vertical specialized markets have extensive industry experience and relationships with key buyers and suppliers. Domain expertise and relationships are key barriers to entry for these e-marketplaces.

The main types of commerce content:

- Product description – all product information needed to support purchasing decision.
- Inventory listing – when time is a critical factor in a purchasing decision inventory listed on the site must be available.
- Information about prices – which allows comparison between different products and vendors.
- Information related to products – information such as technology reports, specifications, industry standards etc.
- Company descriptions and rankings – depending on the neutrality of the market. Neutral sites offer unbiased company and product information while affiliated markets will present information from their channel partners.
- Management of the transaction process – possibility of tracking every step of entire transaction process.
- Historical purchasing behavior – information about previous purchasing and prices can be useful in analyzing trends and creating forecasts.

Other value added content may include:

- Community forum – forum for buyers, sellers and other industry participants to interact, share experience, ask questions and solve problems.
- General industry data – information about seminars, exhibitions, trade association, courses or certification may attract site users.
- Career information such as job listing or recruiting events.

Good and professional content enables building relationships between all participants and creates a loyal, sustainable user base. It can help virtual marketplaces to achieve a critical mass of buyers and sellers.

2.3. Connection

The final determinant of the e-marketplace success is connection, which can be divided into two types:

- Intraconnection – automation of internal processes between buyers and sellers in the transaction.
- Interconnection – connecting other supply chain participants involved in the transaction to provide end-to-end services (for example, logistics, risk management, order fulfillment).

The ability to interconnect the entire supply chain seems to be not only a significant opportunity for virtual marketplaces to distinguish themselves from their competitors but first of all a necessity in the future.

3. Conclusion

Prospective B2B marketplaces have to answer a lot of questions to assess their potential of success. They have to know the size of the industry, how fragmented are the buy and supply sides of the industry and how inefficient are procurement, sales and distribution in the industry.

B2B Marketplaces have to decide what specific industry problems are going to solve and how they intend to induce the participation of suppliers, particularly large ones. Having good industry knowledge virtual marketplaces can make a right choice of appropriate commerce model, support the site with unique content and establish connections between participants and supply chains, which will position them for success.

Bibliography:

[1] The complete characteristic of communication' forms can be found in Hoffman D. L., Novak T. P.: *Marketing in Hypermedia Computer-Mediated Environments: Conceptual foundations*, <http://elab.vanderbilt.edu>, 1995.

[2] Ca'Zorzi A.: *B2B Marketplaces in Wood Products, A Brief Review*, Inter-American Development Bank, 2002.

[3] Dai Q., Kauffman R. J.: *To be or not to B2B? An Evaluative model for e-procurement channel adoption*, 2001.

[4] McKinsey&Company; CAPS Research, *Coming in to Focus Using the Lens of Economic Value to Clarify the Impact of B2B e-Marketplaces*, 2000.

[5] Deloitte&Touche, *How e-Marketplaces Survive (and Succeed). B2B Darwinism*, 2000.

[6] ATKearney, *Building the B2B Foundation. Positioning Net Market Makers for Success*, 2000.