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Exploring Business-to-Business Marketsites

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Abstract
Business-to-business (B2B) marketsites are quickly becoming one of the major issues for companies in their search for opportunities to improve visibility of their trading activities and sources of further cost reduction. The paper begins with a synthesis of potential benefits resulting from participation in marketsites and then provides a number of initial classifications of marketsites. The paper then introduces some of the major inhibitors and enablers of marketsites and views these from a number of perspectives such as the structure of marketsites, the degree of centricity and the types of products purchased through such marketsites. Finally, some recommendations for further research are made.

Keywords
e-procurement, Marketsites, Inter-organisational trading

1. Introduction

The last 5 years have seen a massive escalation in internet use, with dynamic growth in user numbers, web-sites, and electronic traffic. Businesses have seized new internet-based opportunities in terms of faster information flows as well as easier and cheaper access to markets, organisations and individuals. The business-to-consumer (B2C) online trade has dominated attention in the media, with companies such as Amazon, eToys and Lastminute.com[1] becoming household names relatively quickly. However, most of these B2C companies have not as of yet managed to break-even and their economic feasibility remains uncertain, with some such as "e-tailers" already having ceased trading.

The business-to-business (B2B) trade has enjoyed a quieter existence in the last 2–3 years with the establishment of new intermediaries that trade products/services between businesses. Less well known newcomers such as Chemdex, Verticalnet and e-Steel[2] have become dominant companies within their own industries[3], with many businesses now realising the potential benefits of the internet as a new source of B2B trade. These new virtual intermediaries are represented on the internet by a complex web-site, where buyers and sellers meet to exchange products and services. These new electronic "marketplaces" have already received new and imaginative names such as eXchange, eHub and meta-mediaries, however, in this paper, they are referred to as "Marketsites".

The key benefit of these new intermediaries is that they offer increased visibility in terms of product information, availability and price. For the buyers, this should result in lower prices as well as lower search and order costs. On the other hand, suppliers gain increased market coverage as well as lower marketing and distribution costs.

At present, a week does not go by without an announcement of a new B2B marketplace being established. According to certain sources (Anonymous 2, 2000) there are already between 1000–1200 known marketsites world-wide (August, 2000). However, this number varies significantly according to the source. In addition, many marketsites are, at this point of time, still only a public announcement, and are without any transactions, CEOs or actual suppliers or buyers. It could be argued that this industry is still in an early growth phase, however, at a similar pace to its rise the industry could easily be said to be already consolidating. Many are already questioning the growth projections, believing that at some stage the influx of new marketsites will slow down and winners will emerge, forcing the rest into acquisition or closure. The exact time of this decline in marketsites is suggested by some research organisations to be happening already with some predicting that there will only be between two and three marketsites operating within each industry by the end of 2001 (Latham, 2000).

The objective of this paper is to gain a deeper understanding of the current situation within the B2B marketsite industry in Europe, including a categorisation of the different types of marketsites, their structure and the forces that drive these new companies. This is achieved by virtue of an extensive literature review to produce some of the main issues in terms of the enablers and inhibitors of marketsites. Finally, some conclusions are drawn, and recommendations for further research are made. It should be noted that the research focuses on European sites, and disregards US, Latin American and Asian operators.

2. Why marketsites are important

Out of the estimated $109 Trillion B2B market (Rohde, 2000), it is unclear as to how large a market share these marketsites will gain and predictions vary significantly. Every prediction is truly overwhelming and suggests a shake-up in every industry and a creation of a whole new industry in itself—the electronic B2B marketsite industry.

From the predicted transactional volume (see Table 1), marketsites will generate revenue either through a percentage of the transactional value or through other values adding service fees (such as collaborative planning, collaborative design, finance, settlement, advertising or the selling of market information).

Table 1. Global transactional volume for B2B marketsites[a]

Predictions	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**
Jupiter research	—	$311	$617	$1,235	$3,135	$4,137
Gartner	$145	$403	$953	$2,180	$3,950	$7,300
Keenan vision, Inc.[b]	$59	$141	$314	$692	$1,311	$2,071

a Source: Screiber and Husak (2000); Gartner, cited in Rohde (2000); Keenan (2000).
b US market only. NB: billions.

Hypothetically, if the average transaction fee was set at 5%, this new industry would then generate potentially up to $365bn (5% of $7.3Tr) in the annual revenue by 2004. This clearly shows why the interest for these new intermediaries is so great, and why so many companies invest in B2B marketsites, with venture capital firms also investing heavily in this new sector, as shown in Fig. 1.

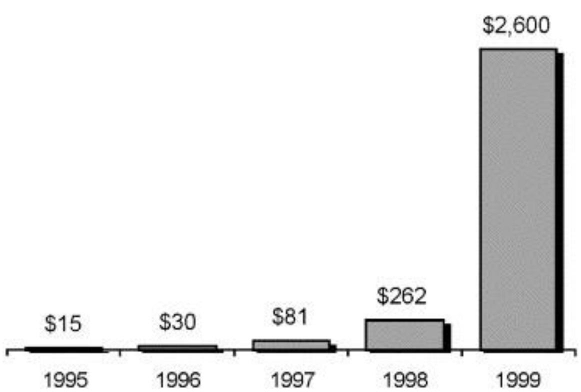

Fig. 1. Venture capital investment in B2B marketsite business. Source: PriceWaterhouseCoopers (2000), World Venture Capital Survey, as cited in Messmer (2000).

Many marketsites will face an uncertain future if reports of the potential demise of the transaction fee are realised (Morgan Stanley Dean Witter, 2000). They will survive based upon their ability to deliver other services such as collaborative planning, collaborative design, financing, settlement, fulfillment, market intelligence, etc.

3. Buyer and seller benefits

One of the main objectives of the marketsite is to drive out any inefficiency within the industry. The potential savings accomplished through driving out these inefficiencies vary significantly, but the estimate for driving out inefficiencies could benefit marketsite participants[4] with savings up to $60bn by the year 2003 (Kalin, 2000).

As mentioned in the introduction, a number of potential benefits of B2B marketsites have been identified (Blodget and McCabe, 2000; Detourn, 2000) (Table 2, Table 3).

Table 2. Marketsites—buyer benefits

Benefits	**Comments**
Access to multiple suppliers	Buyers get instant access to multiple suppliers around the world.
Easier comparison of supplier products	Because of the increased access and improved search capabilities, buyers are able to search for different products and supplier specifications. The listed products are then shown in the same format and with the same type of product information, which makes it easier to compare and select the right product or service.
Improved procurement processes	The marketsite also improves the procurement process through new software, which is installed at the buyer's organisation. This software reduces the amount of paperwork and links the various decision-making employees electronically in order to reduce approval time.
Lower prices through aggregate buying	Many marketsites also enable aggregate buying, which means that multiple buyers can aggregate their spend in one basket, reducing the price through purchasing larger quantities. However, for marketsites with large buying enterprises, aggregate buying may encounter problems with certain anti-trust legislation.
Less maverick buying	Since every item is pre-negotiated and catalogued, expensive emergency buying by individuals within large organisations is significantly reduced.
Easier to monitor a company's expenditure	If the majority of a company's spend is purchased through a marketplace, it is easier to monitor the expenditure on different items by different locations, departments and employees. Monitoring expenditure can be managed up-to-the-minute, since all the company's purchase data is stored electronically within one marketsite.
Disintermediation	Since the marketsite acts as facilitator between the buyer and the seller, the need for middlemen, wholesalers or agents is significantly reduced.
Decreased inventory levels	Manufacturers have instant access to all the raw materials and other production related goods leading to reduced inventory levels. This results in lower working capital requirements.

Table 3. Marketsites—supplier benefits

Benefits	**Comments**
Rapid e-commerce solution	Since many organisations have not yet introduced an e-commerce strategy, the marketplace enables them to enter into the e-commerce arena without high initial investments (Blodget and McCabe, 2000; Detourn, 2000).

Access to all buyers	The advantage of the marketsite is that it gives the suppliers access to a wider range of buyers.
Catalogue cost reduction	Since marketsites centre on electronic catalogues, this eliminates the cost of creating physical catalogues. These electronic catalogues can also be updated on a regular basis.
Reduced marketing and sales costs	Since the marketsite provides access to all the buyers in the market, there are potential savings in the sellers' marketing and sales departments.
Standardised order processing	Marketsites significantly improve and enable the standardisation of purchase orders, regardless of the buyer.
Disintermediation	The marketsite eliminates the need for middlemen, which results in either higher profit margin or the ability to lower the price to improve the competitive advantage.
Better forecasting ability	Since the demand is real on the marketsite, it potentially improves the company's up-to-the-minute forecast ability.
Cheaper connectivity	For suppliers having EDI links with their existing customers, they no longer have to rely on this expensive link (Teach, 2000). In addition, the smaller suppliers are no longer excluded from marketsites, as the Internet access is much more affordable than the EDI links.

A recent study conducted by the Aberdeen Group, shows that the main drivers for businesses to join a marketplace (see Fig. 2) are to gain cost savings or to optimise the supply chain.

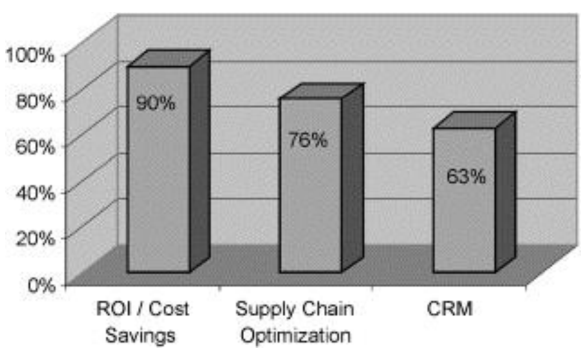

Fig. 2. Benefits of joining a marketplace. Source: Abrams (2000). (NB: ROI—return on investment, CRM—customer relationship management).

However, as Fig. 3 shows, the motivation among buyers and sellers to join a marketplace is very different. Buyers mainly focus on cost savings and improved processes, whereas the sellers' main motivation is in expanding the market.

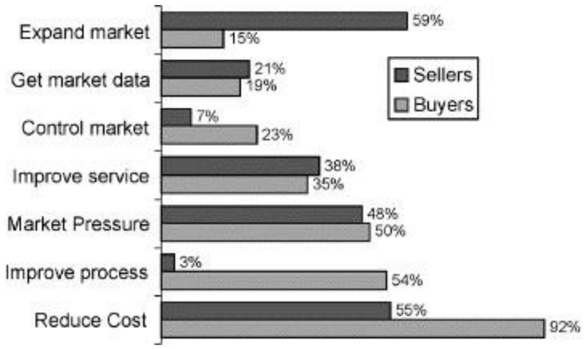

Fig. 3. Main motivation for using a marketplace. Source: Favier (2000).

Even though there are potential benefits for both buyers and sellers, there are also certain disadvantages, especially for the seller, which are highlighted and discussed later in the paper.

4. An initial classification of B2B marketsites

With this new industry still at a relatively early phase of its development, there is a clear need to classify the electronic marketsites in order to gain a deeper understanding of these new businesses. This section introduces a number of classifications which may be used to further the knowledge of the enablers and inhibitors. The five different classifications presented are not mutually exclusive.

4.1. Buying behaviour

Marketsites can be categorised into four overall groups according to "how" and "what" the companies buy (Kaplan and Sawhney, 2000). The first distinction is "*how businesses buy*", which can either be systematic sourcing or spot sourcing. Systematic sourcing often involves negotiated contracts with pre-qualified suppliers, and these purchases are often long term and are based on previous relationships. Spot sourcing, on the other hand, involves an immediate need for a specific product/service. This is often a commodity, such as steel, oil or energy resources. From this two-by-two matrix (Fig. 4), four categories emerge—"MRO Hubs", "Yield Managers", "Exchanges" and "Catalogues".

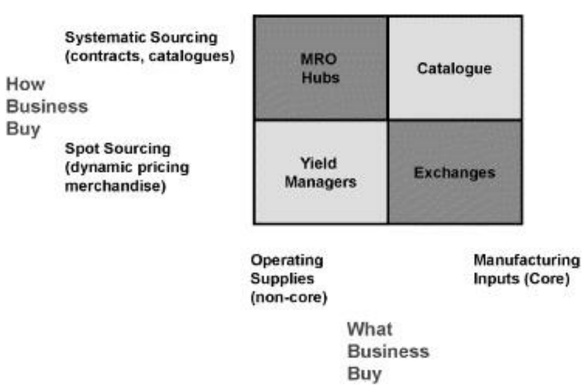

Fig. 4. How and what businesses buy. Source: Kaplan and Sawhney (2000).

The second distinction is "*What businesses buy*" and is classified into production related goods, such as raw materials, and non-production-related goods, such as "pens and pencils". The non-production related goods are not considered as core products, and are also known as maintenance, repair and operating goods (MRO). This division between production related and non-production related goods is, however, very different in each industry and for each company.

The *MRO Hubs* are mainly established to improve the efficiency of procurement of regularly purchased non-core items. *Yield Managers*, on the other hand, focus on spot buying of non-core products. The goal of this type of marketsite is to alleviate the volatility in the operation for buyers and sellers, which is why these marketsites are more successful in markets with high price volatility. *Exchanges* are predominantly vertical marketsites[5] that provide the so-called spot sourcing of manufacturing inputs. These markets are mainly created for commodities such as steel, metals, chemicals and plastic (Exchanges can also be horizontal marketsites, whereby there is a focus on providing services, such as travel services or MRO items, across a broad range of industries). Finally, *Catalogue Marketsites* are set up as a means to improve supply chain management, in terms of streamlining systematic sourcing by automating the entire process. The products are rarely commodities, but instead highly specialised items with a high degree of product specification.

4.2. Vertical vs. horizontal

Another way of categorising the marketsites is by determining whom the buyers are (Fig. 5).

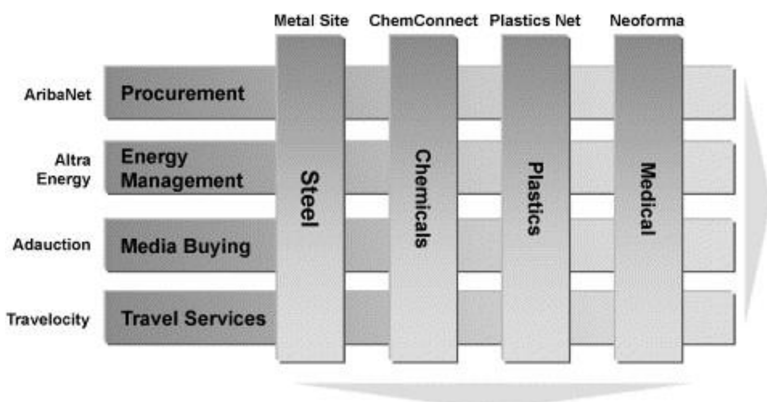

Fig. 5. Vertical and horizontal marketsites. Source: Blodget and McCabe (2000); Detourn (2000).

4.2.1. Vertical B2B marketsites

The main factor of a Vertical marketsite is that it only operates within one specific industry, which means that both buyers and sellers come from the same industry to exchange “known” products (for example, e-Steel—bringing together buyers and sellers in the steel industry). Such marketsites are often very specialised in terms of products, and a deep knowledge about the products and how the industry operates, is vital to the success of these marketsites.

In addition to the Vertical marketsites, new multi-vertical marketsites are emerging, where the company has several separate vertical marketsites (for example Vertical Net[6] currently has 57 independent vertical marketsites). The main advantage for such a company is that it uses the same technology and software platform for each of the marketsites, although a disadvantage is the potential lack of industry knowledge, focus and activity within each marketsite.

4.2.2. Horizontal marketsites

Horizontal marketsites are categorised as operating with cross-industry buyers. MRO.com[7] is a typical horizontal marketsite that sells non-production-related products to a wide range of buyers. Since non-production related goods are different in each industry, MRO.com must also have suppliers from different industries. The products on these sites are, however, often standardised products.

4.3. Centricity

"*Centricity*" is a terminology used to actually describe where the power resides between buyers and sellers of the marketsite, as well as how many buyers and sellers the marketsite has. Centricity also refers to those who set up, own and control the marketsite, and often reflects the existing power structure within the industry.

4.3.1. Buyer-centric marketsites

These marketsites are established by large and often Fortune 1000 companies (as buyers). They are set up by either one or a few companies, as shown in Fig. 6. The main objective of these marketsites is to streamline the supply chain and save money through:

- better prices,
- less maverick buying,
- aggregate buying (when there is more than one buyer),
- more efficient procurement processes, and
- less paperwork

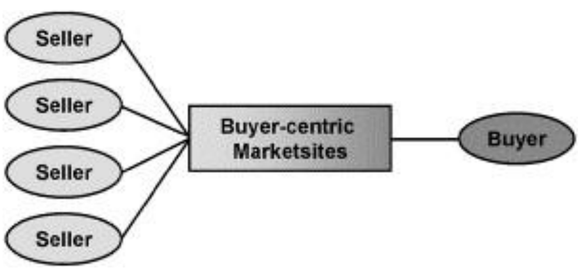

Fig. 6. Buyer-centric B2B marketsites. Source: Moore (2000); Andersen Consulting (2000).

Since the buyers set up these marketsites, they tend to start out with the buyers and their existing suppliers as members. The marketsite then catalogues known products where the prices have already been negotiated. An example of this type of marketsite is "Covisint"—the automobile exchange set up by Ford, GM, and Daimler–Chrysler. Since the announcement of this marketsite, several other buyer-centric marketsites have been announced in many different industries. Most of these buyer-centric marketsites involve partnerships between several buyers, and in some cases even between the fiercest competitors (for example Ford and GM). The buyer-centric marketsites, also known as *consortium sites* are often a separate company owned by the founding enterprises (on a shared equity basis).

Most of these marketsites are not yet operational and some of them have only recently been publicly announced. Among the main problems for these marketsites are:

- agreeing on the equity share,
- anti-trust legislation,
- neutrality, and
- supplier reluctance

4.3.2. Seller-centric B2B marketsites

Seller-centric marketsites are set up by one or few suppliers (see Fig. 7). These marketsites were among the first and are often set up by powerful companies that sell to smaller and less influential buyers. The suppliers are often technologically "savvy" and are definitely first movers within their industry (for example Dell and Cisco).

Fig. 7. Seller-centric B2B marketplaces. Source: Moore (2000); Andersen Consulting (2000).

Since the seller-centric marketsites want to get away from "commoditisation"[8] of their products, these companies mainly aim at the promotion of their goods, as well as increase the customer service.

In addition, these sites also aim to improve the supplier's manufacturing-, forecasting- and supply chain processes by improving visibility of the product demand.

4.3.3. Neutral B2B marketsites

Neutral Marketsites seek to reduce waste and inefficiency in highly fragmented industries, by offering increased visibility, and a neutral knowledge base for both buyers and sellers. Buyers or sellers do not establish these marketsites, but are instead set up by an independent company. The Linear marketsite in Fig. 8 illustrates that the company brings together two separate groups—buyers and sellers. The seller benefit comes from getting access to more sellers, whereas buyers get potentially lower prices for a greater choice and/or superior quality of products.

Fig. 8. Neutral linear B2B marketsites. Source: Moore (2000); Andersen Consulting (2000).

Products can be either standardised or non-standardised goods, and these sites often have added services such as logistics, financial services, inspection of goods etc.

4.3.4. Neutral exponential marketsites

These marketsites are distinguished by having several customers, who are both buyers and sellers, as shown in Fig. 9. These marketsites have the advantage that both buyers and sellers benefit from new participants. Since the companies are both suppliers and buyers, fewer participants are needed to reach "critical mass"[9]. In addition, all participants are "treated equally", and the power base is therefore, more difficult to locate, and certain participants are not able to dominate or control the site.

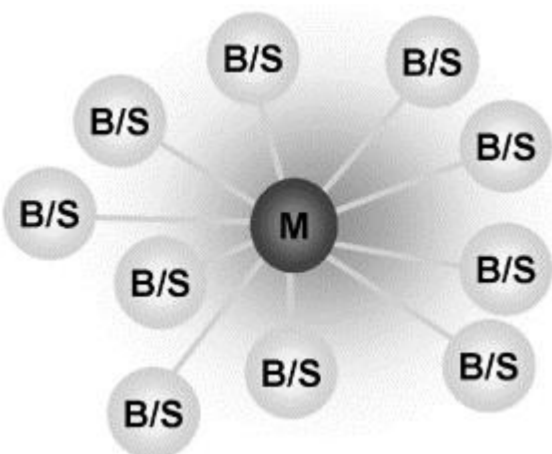

Fig. 9. Neutral exponential B2B marketplaces. Sources: Andersen Consulting (2000).

This concept is, however, very recent and none of the existing marketsites have yet reached this level or type of marketsite.

5. B2B marketsites: enablers and inhibitors

In this section, enablers and inhibitors are identified by addressing a number of issues relating to B2B marketsites.

5.1. Value added services

Value added services (VAS) are defined as services, which supplement the actual transaction, cataloguing and search capability. A recent survey conducted by Forrester Research highlights the main services that the marketsites currently offer and intend to offer in the future (Fig. 10).

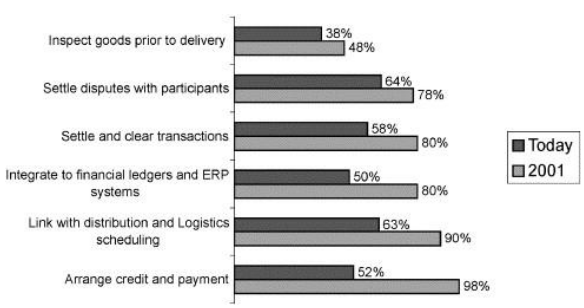

Fig. 10. Current and future services. Source: Lief (1999).

The five main services include financial services, logistics services, ERP integration and settlement of disputes. It is clear that most of the companies surveyed intend to add additional services to their marketsite, and the two most important services are “credit & payment” and “logistics services”.

These research findings coincide with the views of Woods (2000), who sees order fulfilment and financial settlement as the two key areas, where marketsites can differentiate themselves. Woods believes that close links or partnerships with both logistics provider as well as financial institution are absolute necessities. The importance of having financial services is made even clearer by Keenan (2000), who suggests that in fragmented markets, marketsites must offer a “frictionless” environment, because the parties do not necessarily have previous relationships and have therefore not built up any trust between them.

In addition to these service offerings, there is also a belief among researchers and market leaders that marketsites must connect to each other. The vision is that buyers are then given a one-stop experience, where they can buy all the relevant products through one marketsite. The need for this connectivity is mentioned by certain industry experts, who envision that a future marketsite is connected to other marketsites that have complimentary products to the original purchase (Lief, 1999, Unkeless, 2000). In addition, the future marketsites are also connected to several individual service marketsites offering services such as transportation, insurance and credit. Lief (2000) emphasises that if a marketsite cannot offer these services and complimentary products by itself, then the marketsite must connect to the other ones to ensure customer satisfaction.

5.2. Revenue sources

Even though there seems to be a large influx of new marketsite companies, none of them are yet economically viable businesses and most of them operate with huge loses. The following section highlights gloomy predictions and a number of the different means of generating revenue.

Forrester research predicts that only one in twenty marketplace initiatives will survive the early competition, which will result in many bankruptcies, acquisitions and mergers. Less than half of all the current European marketsites have the revenue sources to reach critical mass (Favier, 2000). A recent Forrester research survey identifies seven different ways of generating revenue (Fig. 11).

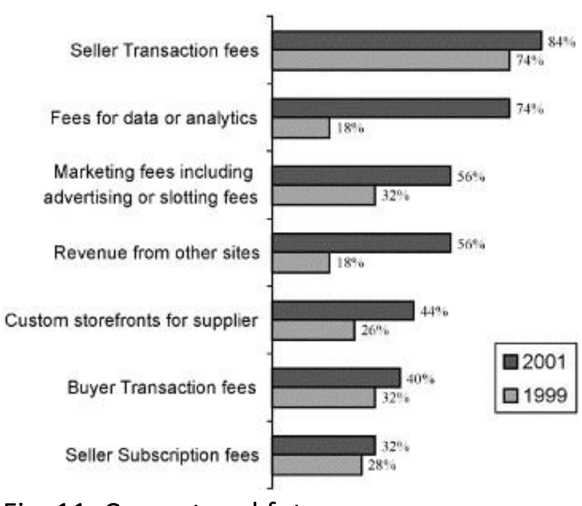

Fig. 11. Current and future revenue sources. Source: Lief (1999).

The seller transaction fee seems to be the most predominant source of revenue at present, whereas the buyer transaction fee is less popular. In addition, very few companies seem to cover their costs through subscription, and no one generates revenue through buyer subscription. Advertising and selling market information is also seen as a major source of income in the future. This shows that the suppliers are largely paying for the marketsite participation, and may indicate that the buyers will not pay to join. In addition, many business models for the marketsites rely on being able to sell "market information" to suppliers in the future.

AMR research supports the finding that suppliers pay more than the buyers do. "Many ITEs[10] initially divided the transaction fee equally between buyers and sellers. However, buyers were reluctant to pay for the privilege of buying. As a result, many ITEs have shifted the entire transaction fee to the supplier." (Latham, 2000, p. 5). This has resulted in an outcry by the suppliers in many marketsites and created a general mistrust of the marketsite concept. However, many marketsites are still able to attract enough suppliers through the sheer volume of the buyers' spend.

As the number of marketsites increase, certain suppliers become more selective about those they should join. This has created a shortage of quality suppliers, which also gives rise to additional challenges for the marketsites (Wilson, 2000).

In addition to the mentioned revenue sources, other marketsites have been able to generate significant income through value-added services. The marketsite Ventro, is able to charge customers for special services such as invoicing and payment guarantee (Kaneshige and Leon, 2000).

5.3. Market conditions

For the different marketsites, it is important to understand what kind of market characteristics companies look for before entering a specific market. Clark (1999), Clark (1999), identifies several questions regarding the suitability of a market, as follows:

- *Market size:* How big is big enough? Is there a lower limit to how large the market must be to make it worthwhile for the marketsite? Is there a problem of going for too large a market, when the product range increases and the focus diminishes?
- *Volume:* How much of all the purchasing is generated outside existing relationships, and can therefore be handled by the marketsites? If a majority of the buying is done through existing collaborative partners, then that share of the market must be discounted as potential transactional volume.
- *Prices:* What kind of trading is done within the industry—are they commodities with spot pricing or are the products unique with high profits and with little or no competition. And does the industry have a need for dynamic or static prices?
- *Pain:* When procuring, does the industry/market require much paperwork or hardly any? Are there any additional documentation or customs requirements?
- *Volatility:* Is the price fluctuating or is it stable. Large manufacturing companies dislike volatile prices and would like to see them disappear, whereas some third parties usually benefit from this fluctuation.

- *Settlement:* How are transactions normally settled. If the parties are anonymous, the settlement needs to be handled by a third party such as the marketplace, whereas if the parties are not anonymous, the two parties could easily handle the settlement themselves.
- *Fragmentation:* Is the market fragmented with many buyers and sellers or does it have certain dominant companies. Does the market serve buyers or sellers? Who are the essential companies to be included in the marketsite, which will increase the transactional volume significantly and lead to many followers?
- *Adoption:* Is the industry technically savvy or will it take significant changes for the industry participants to adopt the marketsite technology. To what degree is the industry ready for a marketplace, both technologically and mentally.
- *Product specifications:* How detailed is the product description and consequently, do the marketsites need to add these specifications to the catalogues? How often are the products upgraded and how often are new products launched?
- *Inefficiency:* Apart from these important market characteristics, marketsites must also focus on how they can drive out inefficiency within an industry (Beckord, 2000).

5.4. Marketsite inhibitors

For the different marketsites, certain aspects stand out as the main inhibitors to progress. The first real obstacle is capital, where several marketsites are quickly forced into rethinking their strategy and either let buyers or sellers take equity share or let the marketsite merge with a competing company (Feuerstein, 2000). Besides the lack of capital, some companies also experience supplier reluctance, which stems from the suppliers' unease about the trend towards "commoditisation", and the squeeze on supplier's profit margin. As mentioned earlier, the suppliers also seem to be charged more by the marketsites than do the buyers.

Finally, there is a significant challenge in the integration between the marketsites and the buyers' network. This integration is often difficult, time-consuming and expensive, and could be a real inhibitor for the marketsites. Latham (2000) backs up this integration problem, and adds that the marketsites have difficulties with the lack of standardised technology platforms. He follows up this point with "As a result, ITEs (see footnote 10) have been partnering with Enterprise Application Integration (EAI) vendors and system integrators. ITEs that do not offer integration capability will wither on the vine by this year" (Latham, 2000, p. 3)

Other experts (Barry, 2000) believe that the greatest challenge/inhibitor for truly Pan-European marketsites is to overcome the differences within the European market and cater to the different needs within the separate markets. In addition, (Woods, 2000) certain European nations have different protectionist laws, such as the French law which prohibits the auctioning of new goods and the Italian legislation against online auctions. Finally, the current European tax laws regarding stock options could also limit the proliferation of these new companies, and be serious inhibitors for these companies (Woods, 2000).

5.5. Growth prospects and marketsite evaluation

It is widely acknowledged among industry experts that this new B2B industry will continue to grow in the near future. (See Table 1).

This is made even more evident by the Forrester Survey (Fig. 12) which concluded that 74% of buyers and 68% of sellers believe they will trade over 25% of their products through marketsites by the year 2004. For the near future, different elements/facets are important in this new industry. As shown in Fig. 13 below, there are different views about the most crucial aspects for these marketsites in the near future.

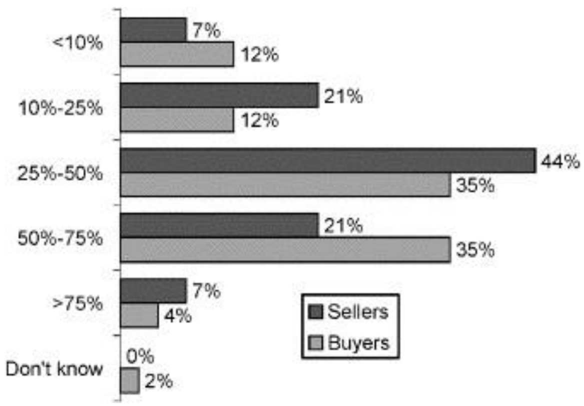

Fig. 12. Future trade through marketsites. Source: Favier (2000).

Fig. 13. Growth drivers for the future. Source: Favier (2000).

Fig. 13 shows that the main objective of the B2B marketsites is to reach critical mass and to offer additional services to their clients. The research also indicates how important leadership is (24%) to the marketsites, which confirms the belief that “winner takes all” or at least “winner takes most”. The growth of these marketsites will occur through not only a larger market share of the existing market but also through Vertical expansion (into new industries, markets and products) as well as through geographical expansion (Favier, 2000). The buyers will drive the vertical expansion, as they need greater choice of products, whereas the geographic expansion is mainly to meet the needs of truly European companies in their quest to trade internationally. The advantage of these expansion strategies is that the same technology can be used again in new markets. This expansion will take place quickly in order to avoid competition from local marketsites.

5.5.1. Marketsite evaluation

In evaluating marketsites, investment firms look for five distinct indicators/areas, which is the base of their financial evaluation (Detourn, 2000):

- *Traction:* two key indicators are the number of customers (both buyers and sellers) and the transactional volume of the marketsite. Even more important is the rate by which these two indicators increase on a regular basis.

- *Strategic partnerships:* to expand industry intelligence and reduce costs, it is important to partner with the right companies to enable the increase in transactional volume.
- *A large war chest:* having enough cash to attract both buyers and sellers to join the marketplace is vital. Going public is necessary for some companies and not only increases the war chest but also increases the public awareness.
- *Technology platform:* the platform must be robust, scalable, secure and easy to use. It must also enable the connectivity to other marketsites.
- *Must be leader:* due to there being room for only a limited number of marketsites, the marketsite must be among one of the first in the specific industry.

6. Equity relationship

There are often several companies involved in the formation of a marketsite, no longer just privately funded, but instead relying on investment from large buyers, large sellers, banks, consulting firms and venture capital companies. This creates a whole range of different equity agreements, as well as different types of "centricity" among the marketsites.

The "buyer-centric" marketsites (*owned by the buyers*) have a clear advantage in that they only have to add their existing suppliers and eventually invite new ones. This however, places a strain on the collaborative nature of the buyer–supplier relationship, or as Pouty (cited in Teach, 2000, p. 2) describes it: "a lot of collaborative industry initiatives degenerate into the World Wrestling Federation"[11]. Even with the obvious supplier reluctance, the buyer centric consortium marketsites have a distinct advantage in that they already have the buyers' spend to attract suppliers and thereby increase the transactional volume.

For the seller-centric sites, (*owned by the sellers*), the main obstacle is to attract the buyers to their sites, and for the neutral independently owned marketsites, these companies have to attract both buyers and suppliers.

When looking at the consortium marketsites it is evident that they mainly appear in industries where the partners (buyers) control a significant percentage of the purchasing power within that industry. However, most markets, especially in the overall European scenario, are moderately or highly fragmented—where few companies rarely control a significant share of the purchase power. These large marketsites are clearly disadvantaged because they are less agile than the smaller neutral marketsites. Johnson (2000) describes additional problems for consortium sites as follows:

- *Organising:* in fragmented industries with many buyers, it can be difficult to organise and agree on a company structure and equity share among the many partners.
- *Sharing value:* the value proposition of the marketsite often favours some equity partners more than the others, and will be difficult to agree upon.
- *Managing:* finding the right management team that can cope with these highly politically charged companies is difficult. The employees may end up spending too much time on politics, and not enough time managing the company. Many consortium sites have had problems of this sort, and some are not even able to find and select a CEO.

Besides these problems, the buyer-centric marketsites can easily find themselves involved in legal trouble due to anti-trust legislation (Dignan, 2000). However, this buyer equity problem can be solved by setting up a dynamic ownership agreement, where equity shares are matched to the partners' share of activity on the marketsite (Johnson, 2000). Not only does it solve the equity problem, but it also encourages early activity.

Despite these equity problems, not everyone sees the ownership issue as a problem in the long run, and due to the fierce competition and focus on reaching critical mass and becoming industry leader, mergers and acquisitions will rapidly sweep the industry (Favier, 2000). Buyers and sellers will give up their initial dominant intentions to enable the marketsite survival. This will significantly change the ownership structure and will ultimately force the marketsites to become neutral simply due to there being too many equity partners.

7. Conclusions and areas for further research

The objective of this paper was to gain a deeper understanding of the current situation within the B2B marketsite industry in Europe, based upon an initial categorisation of the different types of marketsites, their structure and the forces that drive these new companies.

The paper demonstrates that there are numerous enabling and inhibiting factors that determine the type of marketsite (i.e. "centricity"), its structure in terms of ownership, centricity, often reflecting the current state of the industry that the marketsite operates in.

Several different types of companies have ownership of these marketsites, forming various types of equity agreements. The companies having ownership include venture capital firms, buyers, sellers, software providers, consulting firms and private funds. Agreeing on the equity share often involves new partnerships between competing companies, which can be both time-consuming and a major inhibitor for the marketsite. Many marketsites have tried new and innovative approaches to this equity share problem such as granting shares according to the partner's activity on the marketsite. Certain marketsites also tried to involve suppliers and gave them the ownership to overcome supplier reluctance and to turn the marketsite into a real industry-wide exchange.

Involving either buyers or sellers as equity partners certainly has an advantage (an enabler) in that the marketsite achieves a real head start in terms of the transactional volume. Neutral marketsites with no buyer or seller partnership do not have this advantage and these marketsites must be able to attract both buyers and suppliers to have any transactional volume. In certain industries, bringing together the main players may even deter other marketsites from even entering the industry/market.

The markets that the marketsites aim for are large (*with revenues of at least $7bn*), and the markets range from domestic and European to Global markets. None of the marketsites aim for niche markets, and it is generally believed that these markets will be approached at a later stage when all the large markets are occupied by marketsites. The size and requirement of the initial investment to establish a marketsite is large, and as a result capital is perceived both as an inhibitor and enabler for these companies.

The VAS are also perceived as enablers and inhibitors. Most marketsites perceive VAS as the main area where they can differentiate the value proposition. Other marketsites only see their role as facilitators of information, and as a result do not offer any of these services. The three main services include “logistics”, “ERP integration” and “credit & payment”. The findings also suggest that there is a need for the marketsites to be connected, which will enable customers to only have a single entry point for a wider range of products and services. However, even though the customers need the services, there is a real concern that adding these services may slow down the marketsite's ability to get to the market fast.

The main goal for the marketsites is to reach critical mass and to become market leader, which it is suggested is one of the most important enablers for success in this industry, where it is believed that “winner takes most”. Speed, is therefore of essence and the marketsite must be among one of the first in that industry.

8. Further research

Whilst this paper has sought to answer many questions it has also raised many more. Will product types and degree of market fragmentation determine the number of marketsites in a particular industry? Will fragmented markets need to customise their service to local requirements, and will this be an inhibitor. This in turn raises the question that if the marketsites need to enter new geographical markets to generate transaction revenue, will the “localisation” issue push the required transaction level for critical mass still further away.

Another major area that requires further investigation is the issue of ERP integration between buyers and suppliers, which would increase the capital investment requirement even more, and could prove to be a genuine obstacle that slows down the progress of the marketsite. At present, integration of the marketsite software with buyers and sellers’ ERP systems would appear to be the key to real transaction processing efficiencies. The marketsite offers the opportunity, albeit yet to be realised, to become the intermediary hub that allows one-to-one integration (e.g. seller-to-marketsite-to-multiple buyers). The alternative is for individual pairs of buyers and sellers to integrate their ERP systems. This is possibly much easier to achieve, but more costly in terms of requiring a separate integration interface for every new seller or buyer. It would also radically limit the potential for synergetic benefits in terms of transaction processing.

Following on with the technology theme, a further area for investigation is the software solutions which at present it is suggested are both inadequate and flawed, and do not have the functionality and capability to deliver the service that is required of them.

It has been suggested that buyers may need to set up equity agreements with partners, who may also be their competitors. This could prove to be a major inhibitor as we have already seen that supply chain integration between buyers and suppliers is difficult, let alone working with the competitors.

Finally, there is a need to consider the issue of “branded products” as there is a potential “commoditisation” effect arising from the use of catalogues by marketsites, which may diminish product differentiation, as the products’ description is open to comparison with other products, whereby price is the only differentiator.

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Notes

[1]http://www.amazon.com, http://www.etoys.com, and http://www.lastminute.com
[2]http://www.ventro.com, http://www.verticalnet.com and http://www.e-steel.com
[3]NB: Chemdex is no longer trading—lack of revenue being cited as the main reason for its demise.
[4]This would be for all buyers and sellers on all marketsites when taken as the overall level of savings.
[5]Marketsites within a single industry.
[6]http://www.verticalnet.com
[7]http://www.mro.com
[8]Commoditisation—turning non-commodity products into commodities.
[9]Critical mass—the transactional volume required to break-even.
[10]ITE—independent trading exchange.
[11]Wrestling in a sports-entertainment format where collaboration with other wrestlers is a critical success factor.