

The New, New B2B Hub

As short a time as six months ago, conventional wisdom within the e-commerce community was that the business model for B2B hubs was well understood – value would go to whoever owned the “on-ramps” to the digital economy, and the on-ramps of the B2B world would be hubs. And the stock market valuations of most of the players in the industry reflected this. However, the last six months however have shown that perhaps the business model wasn’t actually all that well understood. As might be expected, B2B stocks as a group suffered in the downturn of March and April just as much as other e-commerce stocks. But looking in more detail at the results shows that something else has also happened: the market seems to have changed how it values B2B business models. The belief that value would go to whoever owned the on-ramps hasn’t changed, but the markets’ belief as to where and what those on-ramps will be have changed. By way of example, exhibit 1 (following page) shows the relative stock prices of three leading B2B players with distinctly different business models. Ariba and Commerce One both began life as e-procurement system providers, and are now rapidly moving into the B2B hub arena although with different business models. Ariba is on record as “just wanting to be a switch”, while Commerce one has a more hub-centric approach with single regional hubs containing various on-line markets. VerticalNet on the other hand is probably the best proxy for a “pure-play” centralized B2B hub creator. →

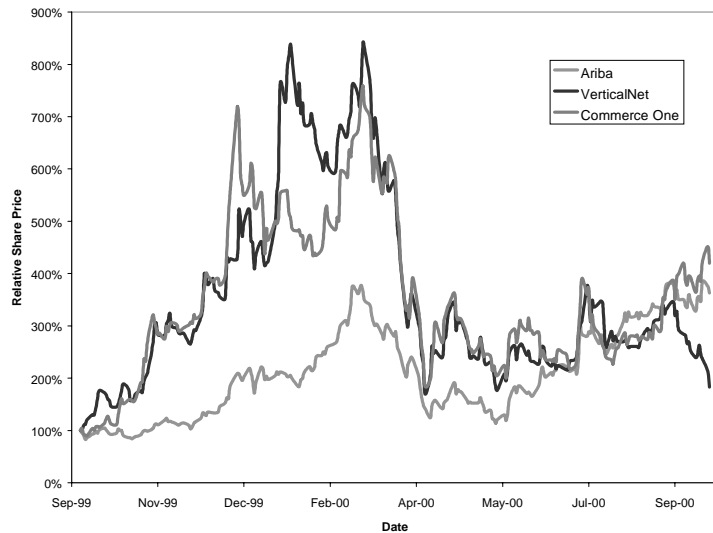


Exhibit 1. Relative share price performance

What’s significant here is the relative strength pre- and post-correction, with VerticalNet the strongest pre-correction, followed by Commerce One, and with Ariba trailing behind. Post-correction however, this exactly reverses, with Ariba the strongest and VerticalNet’s performance the weakest.

While it's always dangerous to draw conclusions from the performance of individual stocks – for example, both Commerce One and Ariba have concluded significant alliances (with SAP and i2/IBM respectively) in the period under consideration, a powerful argument can be made what is happening here is a fundamental move in market sentiment away from centralized “single hub fits all” structures where any given customer was expected to transact exclusively on one hub to “many-to-many” structures where any given customer will connect to many hubs. Firstly, customers perceptions of their real needs have changed, with customers shying away from single hubs on the basis of “not wanting to be tied to anyone”, as well as a powerful move across the industry to form hubs based on business alliances rather than use neutral third party hubs. Secondly, technology issues are driving a more distributed structure – central catalogue maintenance has turned into a nightmare for players with “single hub” models, and linking hubs together effectively, a requirement for single hub systems to offer a broad array of goods, has become a non-starter. Finally, B2B solution providers themselves have started to move away from single hub models. Not only do they have an incentive to sell as many proprietary solutions as they can, rather than the standards based solutions that single hub models require, but they also need alliances with other players, alliances that are more easily made if it doesn't look as if they are trying to take over their alliance players' core business. A good example of this is the SAP and Commerce One alliance, where Commerce One building hubs with powerful transactional capabilities could easily threaten SAP's ERP system franchise.

Sandy McGuffog, Jun 2000