

## B2B Marketplaces: Establishing the right stuff

As many as 10,000 new on-line B2B marketplaces will be launched by 2003, according to a presentation by B2B software vendor Ariba, Inc in 2000. This trend to rush into new economy business models is being accelerated by both multi-billion dollar forecasts for on-line B2B and the new business opportunities being created from the transformation to on-line commerce.

However, taking a view on what the end-game for B2B marketplaces will look like in 10 or 15 years, it seems a safe bet that there will only be 3-5 winners in any B2B category, as the largest hubs will be able to attract ever more users due to the broader service and market liquidity they can offer. Large player's competitive advantage will then be maintained via their network effect advantages over smaller players from both economies of scale and scope.

Given this B2B end game view, therefore, the most important strategy question for companies that want to set-up a new B2B marketplace today quickly becomes: what is the best approach for a new B2B player to position itself to become one of the few ultimate winners?

By definition, a winning B2B marketplace will be able to sign up many buyers and sellers. To do this, players will need to establish "the right stuff" for B2B marketplaces across several key success factors: 1) compelling customer value proposition, 2) neutrality as a marketplace, and 3) market power and knowledge. Obviously, both start-ups and well-established companies are rushing into the new economy, vying for ownership of the winning B2B marketplaces. However, because their relevant skills are quite different across these KSFs, new market entrants have invented several different marketplace forms that leverage their relative strengths as well as compensate for their relative shortcomings.

All new entrants must offer a compelling customer value proposition to get out of the starting blocks, regardless of the form they establish for their marketplace. Buyers and sellers must be convinced that the offer of the new site is attractive enough to change from their existing offline transaction processes and adopt new internet-based processes -- some new feature or service must attract them to try a new site in the first place. Well designed business models are therefore offering a range of new and improved user value including: time savings, improved pricing, reduced paper processing, ability to link transaction information directly into the supply chain logistics or accounting or payments systems, and better market information from access to more buyers and sellers.

Different marketplace forms that new players are establishing are being driven by their distinct abilities in terms of the other two KSFs described above: marketplace neutrality vs. existing market

power and knowledge. Broadly, four marketplace forms are appearing:

1. **Direct sellers marketplace:** Industries with very large and powerful suppliers will find the largest players (e.g., Cisco.com) are able to set-up very successful direct sales channels that become leading marketplaces due to their market power. Neutrality is less of an issue since it is clear they, as leading suppliers, are the focal point of their marketplace, although they may also offer complementary products from other suppliers to further reinforce their site as a one-stop shopping destination.
2. **Independent intermediary hubs:** More fragmented markets will typically be targeted by start-ups that focus on creating a neutral intermediary able to provide an unbiased hub linking many buyers and sellers (e.g., Chemdex.com). Larger direct sellers will likely have difficulty establishing themselves as intermediaries due to their lack of neutrality, resulting in difficulty to sign up direct competitors as users, who would be reluctant to provide confidential pricing info, share T-tax with them, etc.
3. **Oligopoly cooperative hubs:** In industries with many large players, an accelerating trend is for them to cooperate and establish a group intermediary (e.g., FXAll.com- a foreign exchange hub from leading banks, B2Build.com – a construction portal from leading builders in Spain). Owning the hub together helps to skirt the neutrality issue (though it is doubtful that large players not included will want to join). It also pours significant transaction volume / market power into the intermediary from day one. Working together effectively will be a key issue for these B2B marketplaces.
4. **Metamarkets:** In industries where many B2B hubs are already in place, these start-up sites will be able to scan and consolidate marketplace information across many hubs into one view. For example, in B2C, the proliferation of auction sites has led to metamarkets such as Auctionwatch.com, which allows users to see auctions across eBay, Amazon auctions, etc. Clearly, this type of hub adds value to users that might otherwise need to check several hubs, and it could diminish the relative importance of any one hub before it has a chance to become dominant. Control of data is a key issue here: eBay has already sued to prevent accessing and redisplaying their information.

New B2B marketplace entrants will select the form best suited to them. Once they do so, additional key strategic decisions required include their customer value proposition, the type of market

making/ price setting mechanisms they offer as well as their revenue producing strategy.

Given the many B2B marketplaces that have started so far, many different strategic combinations are being pursued. An obvious follow-up question is, which models are doing best so far at becoming winners?

**Oliver Slesar, Jun 2000**