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The Ebb and Flow of B2B Marketplaces

A look at the current state of Business-to-Business activities.

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This issue presents highlights of the 2001 Alliance Conference, which dealt with state-of-the-art applications of E-commerce. A complimentary article on the current status of B-2-B digital marketplace activity is also featured, along with Take-aways from recent Roundtable meetings dealing with project management.

by
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The first wave of Business-to-Business (B2B) digital marketplace activity in corporate America, surfacing a few years ago, has sputtered in a quagmire of economic and operational obstacles. What exploded onto the business scene as a logical product of the evolving cost advantages of utilizing the Internet for transactional activity has taken a backseat to other business priorities, especially the focus on company earnings amidst the recent economic downturn. The same risks that caused many companies in non-manufacturing industries to hesitate in cashing in on operational efficiencies during the initial inception of the B2B typhoon, are back with heightened effects. Adverse conditions that have limited B2B activity, and thus digital marketplace development and involvement include, but are not limited to, the following:

- Global economic unpredictability
- Funding requirements to build infrastructure (e.g. $5-$30 million based on size of marketplace)
- Market risk (i.e. depleting shareholder value)
- Unproven business models as demonstrated by financial bankruptcies of dot com's concentrating in digital marketplaces.
- Lack of capital to sustain activity and operational efficiency within and outside of organization
- Executive fear of the unknown
- Assumptions of negative change impacts to the organization

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However, the upside of embracing the Internet as a key source for conducting business transactions is still huge.

Digital marketplaces, may be defined as virtual trading forums that bring competitive buyers and preferred sellers together for the purpose of exchanging goods and services in return for some form of compensation. These forums are virtual since they physically reside somewhere in "technical space", and participants meet there through electronic means via an Internet connection. This ability to transcend the physical nature of conducting business transactions reduces cost and cycle time significantly. Savings figures range anywhere from 10-30% – an incredible value for any company looking to tighten operations and better its financial outlook. For a major Fortune 50 company, such as American Express, General Motors, or Ford, this translates into hundreds of millions of dollars.

Last year, Gartner Group's predictions were that some of 7,500 to 10,000 of these digital marketplaces would emerge by 2002, and that Internet-based electronic business relationships would account for $7.2 trillion in sales by 2003. Boston Consulting Group viewed digital activity more conservatively in the range of $2.8 trillion in sales during this same timeframe. Other estimates, by Giga and IDC, projected that B2B marketplaces and exchanges would allow companies to save between $180 billion and $480 billion in transaction costs and related expenses. Although none of these figures accounted for the recession-like slowdown in the market that currently exists, one thing is still certain – there are accessible by significant savings using the Internet to optimize current processes and technologies in all areas of business. The greatest mistake any company can make today and in the future is to ignore the potential of B2B marketplaces and eCommerce altogether.

The big question is not whether the next renaissance of digital marketplace expansion will come, but rather when. And, during the present economic challenges, how does a company prepare itself for the Digital Age without huge capital or outside investment amid unpredictable financial times? To better understand the answers to these questions, we must look at what drove the inception of digital commerce in the first place.

The exact birth of what is termed as B2B or eCommerce is debatable; however, many would agree that the concepts appeared sometime in the mid-1990's. One company that was on the forefront of developing B2B solutions back in 1997 was a Silicon Valley outfit called Ariba Technologies, developed in the mind of Keith Krach, a former General Motors executive. Ariba was very instrumental in developing the eCommerce causeway by building an Intranet solution, Ariba Buyer, to improve the purchasing function for indirect materials. Indirect materials, by definition, are any items procured which are not linked directly to a final product or service. For example, office supplies are a very common indirect good for any company since it supports the company's business, but is not used as an ingredient in a product or service. Many of the Fortune 50 companies spend more than a billion dollars on ***indirect goods!*** Using a conservative estimate, there is a potential of at least $100 million in cost reduction by embracing an Internet-based solution just considering products like office supplies, contracting services, computers and peripherals, office furniture, etc.

Due to Ariba's demonstration of eCommerce as a valuable savings tool, eProcurement (i.e. ePurchasing) was one of the first eCommerce applications to resonate in the market. Ariba sold initial versions of its product in 1997, but didn't become a buzzword in the business world as an eCommerce entity until late-1998/ early 1999. Ariba's development and demonstration of the benefits of eCommerce led to a rush of efforts to take advantage of the Internet which, not surprisingly, coincided with the onslaught of dot com corporations. Dot com businesses came to the surface with a quickness and speed unknown in the history of business. The virtual aspects of Internet services removed the need for the physical presence of a traditional organization, and allowed entrepreneurs to build corporate images on-line without having, in many cases, the resources or capital to support their services. [All of a sudden, purchasing departments, so long looked upon within the corporate structure as a necessary evil, were thrown to the forefront of company politics and placed in a position of critical importance for revenue enhancement and operational efficiency.]

In the struggle for market share, business, and dollars that ensued, Darwinism's 'Survival of the Fittest' ruled. Over the last several years, as new companies formed faster than in any other stage of corporate history, the land grab for B2B dominance

B2B Marketplaces (Continued)

was heated, competitive, and downright fierce. The reason is the development of Business-to-Consumer (B2C) initiatives had come months earlier, and it was estimated that B2C business closed within 2 ½ years. Not wanting to be left behind and hearing that B2B business would close twice as fast established a very cut-throat environment. Ariba's disputes with its formidable competitor, CommerceOne, is a perfect example of how companies would stop at nothing to gain advantage over their corporate foes from discrediting them in press releases to informally presenting them in a bad light during the sales process to potential clients. The fact is that neither company possesses the full functionality that is required to make their individual products complete, leaving of opportunity for others, to provide the necessary back-office and application connections.

However, the development of eProcurement and eCommerce by dot coms and more established businesses did alter the business landscape forever. At the present time, eCommerce ideas, processes, and technologies have expanded into all areas of business. New acronyms soon became familiar, such as CRM (Customer Relationship Management), ERP (Enterprise Resource Planning) and SCM (Supply Chain Management). Basically, every aspect of corporate America was converted into an Internet component with the thought that anything with an 'e' in the front of it would turn to proverbial gold. Services, such as eSales, eMarketing, and eWorkforce soon followed. By late 1999, the B2B wave was gaining in force, even though many of the dot com companies were finding it difficult to stay afloat financially. Unfortunately, this also led to many companies building impressive websites as marketing tools, but without any back office expertise to deliver on their promises. This led to lost clients and business, and many of these companies, once their service deficiencies became known, were laid to rest with the other dot com disappearances. Meanwhile, major companies relying on dot com services were left empty-handed with lost cash and capital. The year 2000 would find bankruptcy declaration the norm and the closing of dot com's a daily occurrence. The disappearance of the dot com's in large magnitudes demonstrated an evolutionary force, as the strongest companies watched their weaker brethren turn into eCommerce fossils. Certainly, the snowballing effects of defunct companies, and major corporations' outlaying capital, resources, and funding to applications that were no longer supported, assisted in spinning the economy into a recession-like state.

Fortunately, several solution providers for different services did survive. For example, ITWO and Manugistics claimed and still do have the lion's share of direct goods purchasing clients. Ariba held onto its eProcurement business, and tried to expand into the area of digital marketplaces as businesses began to look beyond their own infrastructure and into collaborating with competitors and partners to optimize every 'touch point' in the business process. CommerceOne was one of the first major businesses to structure their business model on the invention of digital marketplaces. The ability to bring all of the value chain players within a company's operations onto an Internet portal to share ideas, designs, information, and knowledge began to gain momentum. There were and still are many advantages to digital marketplaces. Today, the buzzword has been stashed away, awaiting a future when capital is more available and investment spending more loose.

Digital marketplaces showed a glimpse of what capabilities the Internet has to improve upon the way business is conducted in many offices across the United States. The following highlights the advantages of utilizing a digital marketplace:

- ***low barriers to entry***
  - front-end Web presence costs ranged from $3,000 to $5,000 in 1997 to almost zero in 2000 due to free, Internet service availability
- ***use of leading-edge technology to generate new customers and users***
  - Internet user estimates now number more than 60 million and are supposed to double in 2002
- ***ability to connect users, companies, suppliers, etc. on a technical protocol for communication on such information as orders, payment, inventories, and other business activity***
  - no other medium, except possibly face-to-face sales, allows users to 'click through' to initiate a purchase or transaction
- ***may incorporate old technologies, such as EDI, Fax, Print, etc.***
- ***has the ability to promote collaboration among companies in designs, strategies, and other business initiatives that will shorten the time to market for a service or product***

Yet, all the promise of the Internet and its infinite

B2B Marketplaces (Continued)

capabilities were knocked back by the U.S. economic struggles. In the summer of 2000, business and economic pressures put a gridlock on the B2B community development. Soon, companies were turning away from deals that on paper were risk averse and offered significant savings. With dot com businesses becoming extinct overnight, the economic climate tightening corporate spending, and valuation downgrades of stock making the entire market more dynamic and risky, B2B activity slowed considerably. And thus, digital marketplaces, once the talk of corporate America, became a term eliminated quickly from executive jargon.

Today, companies are still stuck in the digital dilemma: How far should technology investment go to keep up without overspending? One old adage seems to be the controlling theme: 'How can I help my neighbors when my own house needs cleaning.' In other words, instead of looking at ways to improve efficiency and connection with partners, suppliers, and other companies, businesses are concentrating on their internal operations for improvement. The reason is relatively simple. These internal projects are needed, they have a clear value proposition back to the company, and cost, in general, is less and more controllable than the financial risk associated with outside partners.

Yet, the current climate gives many companies a chance to even the playing field or get ahead of its competitors from a technology and efficiency standpoint. Companies that utilize this downtime in the digital evolution to make wise investments in their internal infrastructure in preparation for the next digital storm will leap frog their industry rivals. Investments of this nature include the following features:

- fully-functional Internet access and web servers to support future loading of application resources;
- intranet connections;
- single sign-on access across applications;
- meta directory development which flows changes in one system to all other dependent systems;
- security systems to provide confidentiality of information; and
- outside connection shells that allow partners to access limited, key information.

The big question is not whether the next wave of digital marketplace expansion will come, but rather when.

Brian P. Tumpowsky is the Consul General of his own company, The Consulate, LLP, focusing on Supply Chain and eProcurement Implementation and Strategies. He has over 8 years of experience with Big 5 Consulting companies, and has worked on over 25 projects with Fortune 100 companies across consumer products, financial services, medical, and retail industries.