

E-marketplace — Facts and Fictions

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Not long ago, industry pundits were touting B2B marketplaces or exchanges as Internet era panacea for productivity and cost-cutting problems of corporate world. Buoyed by excessive investor interest and driven by a desire to cash in on the enormous dot-com valuations of late 90s, marketplaces were sprouting like autumn mushrooms. With the collapse of stock market, it did not take much time for burgeoning B2B marketplaces to come to a screeching halt!

When in 2001 high profile marketplaces like Chemdex, a life science marketplace started to tumble down, and most of the marketplaces started to show sign of disappointing growth rate, it became clear that something is wrong with the prevailing business model of b2b e-marketplaces.

Optimists claim nothing is wrong with B2B e-marketplaces, as a new technology, it is merely going through the normal evolutionary stages. Others feel that business processes are way too complex an issue, substantially based on human behavior and intricate relationships; and this complexity will prevent wide spread implementation of online supply chain mechanisms through B2B exchanges.

But, the truth is probably somewhere in between! There is no doubt that any business, irrelevant to its size, is able to create some sorts of value if they use B2B marketplace effectively. As far as B2B E-commerce is concerned, most agree, that eventually businesses have to do significant part of their transactions online. The only thing is - it might take a bit more time for widespread adoption, than initially expected.

Slow implementation of B2B e-marketplaces is a natural consequence of some inadvertent stumbling blocks.

1.

The investment in B2B sector started to dry up at the end of 2001 as unrealistic expectations of many investors and funds did not materialize. As a result of this, many exchanges were forced to close down; and much needed transformation in the technology process slowed down in existing ones due to liquidity challenges.

2.

Many early marketplaces were built in a hurry to exploit prevailing at that time budding stock market. For these marketplaces, value creation for the participants was not a priority. By the time

they realized that members need something more than comparison shopping and product display ability, it was a bit too late for quite a few of them.

3.

Contrary to popular believe, buyers did not start flocking on to the e-marketplaces as expected. As it became clear, buyers require real incentives in order to go through the complex process of online dealing. In most cases, in order to get integrated to an e-marketplace, buyers are ready to learn, hire professionals, and invest on technology if they know that most of their offline suppliers are available on a particular exchange. But, until then, they prefer to refrain from changing their way of doing business.

4.

There are number of reasons why suppliers don't expedite the process either. They are mainly scared of comparison shopping and brand dilution. Complexity of back end office integration and product catalog conversion also creates major impediment in mass adoption of e-marketplaces within the supplier community. Suppliers with websites, who previously had disappointing e-commerce experience, are also quite skeptical about the benefits that they might achieve from exchanges.

5.

Many exchanges' revenue depends on the percentage-based transaction fee, imposed upon the participants. Some companies consider that these fees will reduce their net profit margin, especially, in a down market. This is another cause, why many are not very keen to participate in e-marketplaces.

All these conditions are maybe right and, probably mass scale adoption of e-marketplaces won't take place another several years. However, don't think that companies should relax. As some industries are more advanced in their adoption of B2B technology, companies should constantly check where they stand. If their competitors are already practicing e-business actively; or many of their suppliers are by now on some sorts of exchanges, this is the right time for these companies to consider their online business approach seriously.

The sooner companies understand the benefits that they can reap from B2B exchanges the better it would be for them. For suppliers e-marketplaces offer benefits like liquidity improvement, cost savings, better inventory management, demand forecasting, dynamic pricing etc. Buyers benefits include: cost reduction, real-time purchase, best available price and many others. Research indicates that companies, thanks to B2B exchanges, can gain remarkable cost reductions: 20 to 40 percent of overhead expenses, 5 to 15 percent of buying cost, Purchase Order processing cost from US\$ 75 to just US\$ 6-8; and decrease of document errors from 20 percent to less than one percent.

Apart from these benefits, early adoption of B2B marketplaces also has great implications for companies. Early birds get considerable information advantage over their competitors; have enough time to learn from trial and error and participate in setting the rules for the exchanges as opposed to - forced to abide by the rules as it would be the case for late-comers.

Whatever approach the companies decide to take in their quest of B2B technology, one thing is for sure that the e-marketplaces are here to stay. Over time, they will definitely evolve and their business models will also change, however, there is no doubt that a major portion of e-business will transact through e-marketplaces in near future.

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