Chapter 4

NET MARKET MAKERS IN THE AUSTRALIAN B2B E-SPACE

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Abstract: This paper discusses the role of net market makers as intermediaries in the emergent Australasian B2B e-space. The discussion and findings of this paper are from a research project that investigated the business and operational issues of these intermediaries as highly volatile business entities. The findings include business opportunities arising from technology, revenue sources from intermediary services, factors contributing to success and the challenges of operating in an evolving and dynamic industry.

Key words: B2B E-Business, net market makers, intermediaries, e-procurement, e-auctions, e-marketplace

1. INTRODUCTION

B2B e-business in Australia is largely dependent on intermediation from net market makers either private, consortia based, national or international, to facilitate e-procurement, B2B exchanges, e-supply chain management and information sharing between business partners. B2B exchanges include various categories of market spaces, including vertical market portals, horizontal exchanges, hubs and various types of online auctions. Intermediaries generally referred to as net market makers or e-markets bring together exchange partners, organise and manage auctions, generate e-catalogues and other auxiliary services pertinent and relevant to efficient exchanges in the B2B e-space. Since 1998 Australian businesses have increasingly adopted e-procurement largely depending on net market makers to provide intermediary services and facilitate the exchange. As a result net market makers proliferated at an astounding rate because of the business opportunities in facilitating B2B exchanges. For buyers these

intermediaries lower purchasing costs while reaching new suppliers. For suppliers they lower sales costs and help the supplier reach new customers.

However, as reported by Frew (2002) and NOIE (2001) many of the net market makers in Australia either collapsed, did not get off the ground or consolidated. It is now believed that as many as only 100 e-markets (net market makers) exist in Australia (Frew, 2002).

Although the Internet offers great opportunities to net market makers, operational and business issues for success and survival as business entities and current and future challenges have not been addressed. In this paper I present the findings of a research project that highlights the business practices, success factors and challenges faced by Australian net market makers. Net market makers and e-markets in this paper mean the same thing and are used interchangeably.

2. LITERATURE REVIEW

Electronic intermediaries provide an information infrastructure by which traders can realise commerce over electronic networks (Lee and Clark, 1999). Deganaïs and Gautschi (2002) describe net market makers as organizations that own and operate the e-marketplace. Characteristics of net market makers according to Deganaïs and Gautschi are that these owners and operators may be companies that are fully independent (that is, are not also buyers or sellers) or could be major and dominant participants in the exchange as buyers and sellers. It is important for net market makers to adopt a business model that will allow them to operate the exchange and make a profit. These net market makers also depend on ancillary services to complete the exchange with support from electronic payment agencies, security system providers, and in some cases the engine (technology) to host auctions.

A business-to-business electronic marketplace has several buyers and several sellers. It is an arena on the Internet where a trusted intermediary (e-market) offers trading functionality to registering companies (Swedish Trade Council, 2001). Archer and Gabauer (2002) describe an electronic marketplace to be a virtual marketplace where buyers and suppliers meet to exchange information about prices and product and service offerings, to collaborate, and to negotiate and carry out business transactions. Gallagher and Ramanathan (2002) suggest that electronic marketplaces provide the basic infrastructure to allow suppliers and buyers to interact in an online environment.

Based on the above definitions, in this paper the terms net market makers and e-markets are terminologies used interchangeably meaning the same thing.

E-markets (net market makers) offer services that facilitate transactional service needs to buyers and suppliers. Weill and Vitale (2001) and Zwass (2000) advocate that e-Markets enable easy search of products and services, information on product specifications which reduce communication costs for both buyers and sellers, dynamic pricing based on demand relationships, sales transactions that include payment and settlement, product delivery, market surveillance for stock market, auction results and enforcement of proper conduct by buyers and sellers.

The large amount of bid, order and transaction management for the B2B procurement of parts and supplies usually require assistance from auxiliary services such as e-markets (Thomson and Singh, 2001, Laudon and Traver, 2002). An 'e-market' functions as a trusted intermediary whose well-integrated business procedures and technology save costs and streamline the purchasing and sales processes (Swedish Trade Council, 2001). They provide customers with buy and sell services to enhance business, efficiencies and competitiveness.

There are generally different value propositions for buyers and suppliers to participate in a trading exchange or an industry consortium. Archer and Gebauer (2000) advocate that e-markets can reduce costs of acquiring and communicating information about prices and products, as more organisations join the marketplace benefits to participants increase, e-markets can impose significant switching. Palmer (2002) suggests that buyer benefits gained from e-markets are easier and faster buying process, reduced transaction cost and time, reach to global community of sellers, easy access to a large amount of information, reduced search costs, streamlined business processes, a wider choice, quick order fulfilment and less chance of errors. For supplier benefits Palmer includes cost saving and tighter inventory control, reduced transaction time and cost, broader customer base, information privacy and security, savings in time and capital, streamlined business processes, easy to update prices, availability and other product information, enable smaller regionalised suppliers a level playing field with larger suppliers and consolidation of orders onto a single invoice.

2.1 The Role of Net Market Makers in E-Procurement

Business and government organisations in Australia and around the world are increasingly moving from paper-based traditional procurement to e-procurement, to capitalise on the efficiencies of price transparency, online catalogues, easy search for products and suppliers, and to capitalise on the

benefits of technology and automated processes. While EDI has been the most common method for automating procurement, its extent was limited by its substantial cost that made it only accessible to large firms with recurring volume purchases (Pavlou and Sawey 2002). The more ubiquitous Internet, which is also economically accessible to small-scale B2B exchanges, has further advantaged e-procurement. Developments in B2B e-business in Australian has seen businesses and the government, both at the State and Federal levels adopting Web-based e-procurement to achieve volume purchase, dealing with a wider choice of buyers and suppliers, lower costs, better quality, improved delivery, and reduced paperwork and administrative costs (Singh and Thomson, 2002).

Businesses buy a diverse set of products and services, ranging from paper clips to computer systems, from steel to machinery. At the broadest level these purchases have been classified by Kaplan et. al. (1999) into manufacturing inputs and operating inputs. Business purchases are dominated by systematic sourcing and spot sourcing of goods and services. Systematic sourcing, buying through pre-negotiated contracts with qualified suppliers, is relationship oriented and contracts are long term. Spot sourcing is fulfilment of an immediate need, typically of a commoditised item for which it is less important to know the credibility of the supplier (Thomson and Singh, (2001) and Chaffey, (2002) and Christiaanse, et al (2001)).

E-marketplaces or e-hubs that enable B2B purchases have been categorised by Kaplan et al (2000) as MRO (maintenance, repair, operating) hubs, horizontal markets that enable spot sourcing of operating inputs for manufacturing, labour, and advertising. Vertical exchange markets that enable spot sourcing of manufacturing inputs and commodities and vertical catalogue hubs that enable systematic sourcing of non-commodity manufacturing inputs.

E-markets support e-procurement by providing technology and governance solutions, auctions, electronic catalogue content, aggregating supplier input, industry news and standardised data access to buyers (Archer and Gabauer, 2000). Archer and Gabauer further explain that e-markets face the challenges of a balancing task as they set up solutions that satisfy suppliers and buyers ensuring that their costs do not outweigh the overall benefits they will receive from the arrangement, the need of a particular business model to determine which buyers and suppliers to recruit as participants and compete with other techniques that suppliers and buyers use to meet their needs.

2.2 Net Market Makers in Australia

In the year 2000, many market makers (e-markets) proliferated in Australia due to e-procurement being the most important B2B e-business application. However, in the year 2001 consolidation of some e-markets took place in Australia due to online exchanges being new and unproven roles of these intermediaries (NOIE, 2001).

Standing and Stockdale (2002), who did a preliminary study of the net market makers in Australia report that initiatives such as 'try before you buy', free transactions, site tours and lengthy FAQ sections, strongly addressing security information an important feature of their web sites. They also indicated that the most important means of revenue generation was a charge on transaction costs. Standing and Stockdale also suggest that Australian ownership of e-marketplaces is generally based on first mover advantage operating as intermediaries. These are either horizontal or vertical hubs enabling catalogues, auctions, exchanges, storefronts and negotiations.

Bryant (2002) is of the opinion that in Australia and New Zealand there are too many market makers for the size of the industry in this region. According to Bryant (2002), most of these net market makers have similar offerings and flawed revenue models. Therefore to survive and expand business e-market makers need to build specialist businesses to support B2B e-business and look beyond their current business model.

Net market makers in Australia do have an important intermediary role in e-procurement matching buyers and sellers, ensuring trust among participants, supporting market operations and transactions, ensuring quality control and aggregating buyer and supplier information. However, with evolving e-business models and technological developments, consolidation and liquidation of a large number of these market makers have taken place. It is not clear from literature, the challenges, revenue models, success factors, management and operational issues that affect these intermediaries and their roles in B2B exchanges. Therefore to investigate business practices, governance issues, challenges and success factors research was carried out with five Australian e-markets (net market makers). The method of investigation, findings and discussions are presented in the next section.

3. RESEARCH APPROACH AND METHODOLOGY

This research project was exploratory in nature. Profiles were gathered from 5 companies operating as net-market makers in the Australian B2B e-space via interviews. The interviews explored company demographics, business model, practices and governance, success factors and challenges of

these intermediaries operating as business entities. The companies were selected on the basis that they had been identified as successful e-markets from their presence on the Internet and other industry based literature. The 5 organisations investigated are those that agreed to participate in the project. Initial contact was made by email with the person who headed the organization, emphasising the importance of this research and agreeing to share the findings with these organizations. Five organizations were considered adequate for an exploratory study.

The interviews were semi-structured because of the exploratory nature of the research. Open-ended questions were used to guide discussion about each firm's business practices, successes and challenges. With the permission of the interviewees all discussions were recorded on tape and later transcribed. The questionnaire included seven sections to extract information on company demographics, business practices, strategic issues, infrastructure issues, services offered, success factors and challenges. Data collected are summarised in Table One. The method of analysis was qualitative the findings of which are discussed in the following section. For reasons of confidentiality, names of companies discussed are not identified. In this paper they are referred to as Companies A to E. One of the respondents was a large organization that provided the infrastructure for online auctions and exchanges only. Therefore some of the analysis is drawn from four companies only.

4. FINDINGS AND DISCUSSION

Company demographics, business practices, challenges and success factors identified from the findings are discussed in the following section.

4.1 Company Demographics

Organisations investigated were less than five years old, set up to provide intermediary services in B2B exchanges. Except one all were small organisations with less than 20 employees. Company D was a large international organisation which did not provide intermediary services only the infrastructure for auctions, bidding and payments. Companies B, C and E were privately owned while companies A and D were subsidiaries of international organisations. Companies B and E facilitated vertical hubs providing services to the construction and the steel industries, A and C facilitated horizontal and vertical hubs providing services to specific industries as well as exchange of commodities. Company D provided support services to other locally based B2B intermediaries.

Table 1.

	Co A	Co B	Co C	Co D	Co E
Demographics	New, small, international parent co., Melbourne based	New, small, local, Melbourne based	New, small, Melbourne based	New, large, Australasian based with international parent co.	New, small and privately owned
Business Motivation	Technology opportunities	Business & technology	Business opportunity	Technology opportunity	Business opportunity
Bus Model & Governance	Vertical & horizontal	vertical	Vertical & horizontal	None	Vertical
Services	Auctions, catalogues, RFQ, participant selection	Forward auctions	Reverse auctions, search, catalogues	NA	e-catalogues, tendering, search assistance
Revenue Model	Flat fee & charges for exchange services	Transaction fees	Auction & service fees	Software lease fees	Software, training users, negotiations
Strategic Issues	Holistic solutions	Niche applications	A focused business model	New alliance	New services
Infrastructure Issues	Bidware	Developed in-house	Developed in-house	Commerce One	JAVA/LINUX

The respondents' positions ranged from senior consultant with the company to partner and director. Core services provided by these organizations included document tracking, online catalogues, strategic sourcing of suppliers, technology for online auctions, prequalification of suppliers and facilitation of product sales.

4.2 Motivation to Act as an Intermediary

Business opportunities from the Internet and e-procurement being the largest component of B2B e-business were the main motivating factors for these organisations to act as intermediaries. Company A saw a window of opportunity in the Australasian B2B E-Business, thus decided to expand its operations in this region. Core services provided by these intermediaries included provision of technology for online bidding and auctions, sourcing of solutions and suppliers, document and transaction management and online catalogues. Company E provided services specifically to the Construction industry and Company B capitalised on technology to reach out to global buyers of Australian Steel. Company D being a supplier of ERP systems in

Australia and New Zealand was pressured by large users of these systems to provide an infrastructure to support e-procurement that could be integrated to its back end ERP systems.

It is apparent that opportunities arising from technology are a strong driver of net market makers to provide intermediary services and to operate as business entities. Another compelling reason to operate as a net market maker was first mover advantage in the emergent Australian B2B e-space.

4.3 Business Models and Governance Issues

Companies A, C and D operated as neutral third parties supporting both vertical and horizontal exchanges, Companies B and E operated as vertical intermediaries supporting two specific industries the construction and steel. All five organizations had over 100 buyers and sellers on their database and the value of trade facilitated ranged from half a million to 100 million dollars. Vertical exchanges took advantage of the knowledge of the industry to target suppliers and buyers. Horizontal operators used advertising both formal and informal and allowed 40 % of the potential suppliers, based on prequalification and buyer selection to participate in any event. In most exchanges, the suppliers were known to the buyers due to the limited number of suppliers of some goods and services in this part of the world.

Value proposition to the buyers and sellers included transparency of information and prices, business efficiencies resulting from reduced costs of purchases, administration accuracy of data transmitted, reduced time for acquisition of products, scalable and reliable applications and improved and standardised business processes.

Findings of this research reveal that business models of intermediary operations in the Australian B2B sector of e-business are similar to those identified by Kaplan (2000), discussed earlier.

4.4 Services Provided

Intermediary services included provision of directories listing suppliers, their profiles and ratings; inventory listing; bulletin boards and online information browsing capability; information about the site and customer service, buyer guides and news. Auctions, reverse auctions, online negotiations, RFQ's and document management and after event reports and payments were some of the other important services provided to buyers and sellers. Training users to use technology to bid online, access information and to negotiate online are also provided by these e-markets.

4.5 Revenue Model

The most common revenue model for services included a flat fee and a percentage of transaction fees charged to the buyer. Other sources of revenue included charges for technology for bidding and auctions, preparing e-catalogues and other small technology solutions. Company D collected a licensing fee for the use of its software and Company E servicing the construction industry included a subscription fee for participating organizations. All charges were levied on the buyer, except in the case of Company B, which supported the suppliers of steel. Prevalent payment methods used were traditional, although all had the infrastructure to support e-payments. Most received payments for their services 15 to 20 days after the event. Two respondents indicated that the fee charged covered costs but was inadequate. Low fees were maintained to attract business.

4.6 Strategic and Tactical Issues

Main strengths of their business included open source technology, skilled staff, a focused business model, technology for niche applications, holistic solutions encompassing services and technology, leveraging global knowledge base, applications of technology and first mover advantage in the industry. Competitive threats common to these organizations were other net market makers operating in the region and in the specific industry, as well as consulting organizations. Consulting organizations such as Peat Marwick and A T Carney provided B2B solutions as well as the engine for auctions. Business strategies for these e-markets focussed on business expansion, capitalising on technology, new and profitable business models, packaging of disparate issues for simplified solutions, new partnerships for business growth. To form new alliances with organizations that can support software development, content, catalogues, payment services and technology.

The findings indicate that competition for these net market makers is stiff, although their strategy is focused on growth and expansion. Technology can be capitalised on for differentiated services and integrated solutions to lock in customers.

4.7 Infrastructure Issues

Infrastructure for managing an electronic marketplace varied for all the respondents. Company D specialised in e-marketplace technology and supported intermediaries, buyers and suppliers setup and create an e-marketplace for bids, product information, payments, security and transactions. This organization used Commerce One operating system, a

friendly user interface, 'on ramp' solution to allow companies to participate in the online exchange and a 'plug and play' solution to enable them integrate the e-marketplace to its back office. Company A, which is a subsidiary of an international net market maker owned its e-marketplace platform called 'Bidware' which supports global markets and hosted on a server in Pittsburg. Companies B and E supported vertical exchanges with privately owned technology either developed or modified in house to support the online exchange. Company B's platform required participants to make their bids from their personal computers, and Company E was based on open source JAVA and LINUX.

From the above it is clear that e-market services are not technology specific and can be operated from different platforms. The need for a seamless integration of procurement data and the back end system is essential for online real-time processing of information. Information technology is the backbone to B2B e-business exchanges.

4.8 Success Factors

Factors that contributed to the success of net market makers included skilled and motivated employees, a focused business model, first mover advantage, open source technology, e-market technology compatibility with internal business processes, knowledge of the industry, a good value proposition to participants, and Australia's limited supplier base.

Technology and business knowledge of the market makers, need for support in B2B exchanges with the increased application of the Internet, and a well planned business model clearly leads to first mover advantages in innovations such as e-procurement and e-business.

4.9 Challenges

Challenges faced by net market makers identified from this research project are clearly more than the benefits. The most common ones being the small size of the industry in which they are operating, fragmented market, a lack of belief in the industry that e-market will work, undoing the legacy of existing markets, old inflexible back end systems, credibility issues due to the small size of the company, limited access risk capital in Australia, fear of change to a new way of doing business, negative perception created by the collapsed and unsuccessful market makers, a lack of trust, education and awareness of the benefits of e-marketplaces.

The above findings indicate that overcoming conservatism, finding a champion in the organization to promote the role of e-market services in B2B exchanges, the need for a leader company in the industry to support net

market maker services, breaking existing supplier and buyer relationships, convincing buyers and sellers of the benefits achieved from intermediary services, the need for standards to support trust and security, winning investor confidence and overcoming internal resistance are hindering the growth of net market operations in Australia and New Zealand.

5. CONCLUSION

From this research it is apparent that technology opportunities gave birth to a new type of business, the intermediary services. Business models of e-markets are predominantly neutral third parties operating in the horizontal, vertical or both horizontal and vertical markets. Leading intermediary services include e-catalogues and auction management. It is a very competitive business which is indicative of the need for new, innovative and integrated services and business strategies for revenue expansion and future survival. The evidence that intermediary business is possible from disparate technology platforms reveals that for technology savvy people this is a business opportunity without a huge outlay. It is also evident that technology skills, industry knowledge and the implementation of e-procurement contributed positively to the business of net market makers. Challenges faced by these business entities are the same as those of most innovations including change management and leadership issues, overcoming resistance to change, creating trust to win investor confidence and the need for standards to support the marketplace.

Further research issues arising from this research are identification of future business trends in the B2B e-space, impact of new technologies in e-procurement, a sound business model and establishing the value of ancillary services of logistics management, e-supply chain management. Determining the issues for developing standards for secure e-marketplace negotiations and transactions is also required.

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