# Analyzing B2B eMarkets - the Impact of Product and Industry Characteristics on Value Creation and Business Strategies

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**Abstract.** Many of the B2B eMarkets that were predicted a glorious future one or two years ago have encountered huge problems and have already failed. The purpose of this paper is to shed light upon how B2B eMarkets can create value and how their businesses can be described. The suitability of business and value creating strategies depends on the characteristics of the market the eMarket serves; specially business relationships, product types, and industry structure. The paper presents the B2B Analyzing Framework, a method for describing B2B eMarkets when the prerequisites of an eMarket's long-term viability are analyzed. The method is illustrated with data from three case studies of Swedish B2B eMarkets, Merkant.com, Meatingpoint and TextileSolutions.

## 1. Introduction

### 1.1 B2B eMarkets - business to business trade on the Internet

This paper deals with B2B eMarkets that, like a traditional off-line marketplace, strive to connect *many sellers* with *many buyers*. Private B2B eMarkets, like corporate web applications that are used by *one* company (buying or selling) to connect with its trading partners, are excluded.

After decreasing valuation and increasing failures among companies involved in business-to-consumer trade (B2C), the use of the Internet to facilitate business-to-business trade (B2B) became the next big thing. In January 2000, GartnerGroup predicted that the worldwide electronic B2B trade would grow from $145 billion in 1999 to $7.29 trillion in 2004.[1] Many other analysts at that time presented similar forecasts for rapid growth in B2B e-commerce. However, in early Spring 2000, the B2B hype started to diminish. The news articles changed focus from success stories to reports about lay-offs and restructuring. AMR Research predicted in April 2000 that only 50-100 of the, at that time, 600 venture capital-backed B2B eMarkets would survive through year 2001. Only one or two huge B2B eMarkets per industry were supposed to survive in the long run[2]. During the last year, the problems met by eMarkets became obvious. Corsten & Hofstetter reported that, according to industry sources, only 23 per cent of the hundreds of B2B previosly announced marketplaces have conducted their first trade.[3]

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[1] GartnerGroup: *Dynamic Pricing: Not Just a Fancy Name for B2B Auctions*. Gartner Group Strategic Analysis Report, January 4, 2000.

[2] Latham, Scott: *Evaluating the Independent Trading Exchanges.* AMR Research, Boston, Mass., 2000.

[3] Corsten, Daniel & Hofstetter, Joerg: "The future of online exchanges". *ECR Journal*, Vol.1, No. 1, Summer 2001.

### 1.2 B2B eMarkets and Hype

The GartnerGroup Hype Cycle illustrates the mentality of the technology field and the impact of media descriptions on peoples' opinions about a new technology[4]. Many high-tech products trigger fantasy when they appear on the market. Everything seems to be possible until the peak of inflated expectations is reached. When weaknesses in business plans and other limitations appear, the trough of disillusionment is reached. For some products, that's the end. Other products trudge ahead, some remain in niches until technology catches up or a market emerges, and others prove quietly profitable. The hype cycle is a good illustration of what happened with the early expectations of rapid business revolutions caused by B2B eMarkets, similar to what took place with multimedia on CD-rom, electronic publishing on the Internet, B2C e-trade, and WAP.[5]

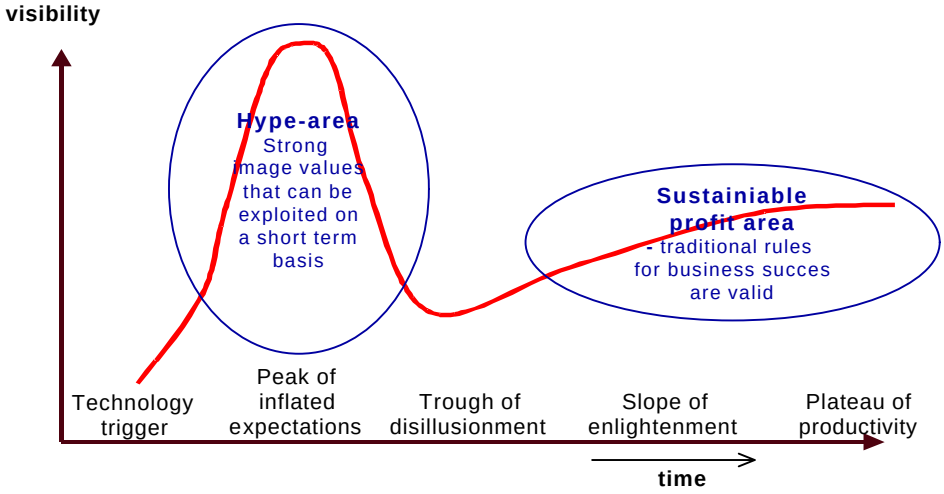


Figure 1. Values and profits during the GartnerGroup Hype Cycle. (Source Lennstrand 2001)

It should be mentioned that Michel Porter's analysis of evolving industries[6] captures much of the characteristics which underlie the IT hype: technological and strategical uncertainty, immature companies and dropouts, unskilled buyers, short-term perspectives, and subsidized businesses. Porter stressed that an evolving industry is attractive if its final structure, rather than its initial structure, gives above normal revenues, and if a company can reach and maintain a good position in the long run. When discussing the advantages of B2B eBusiness, there has been a focus of the possible savings and profits that the buyers and sellers can make. According to Porter and his 5-forces-model, it is important to consider in what manner and to what extent an eMarket can gain from such profits. These considerations have, however, been of minor interest for those venture capitalists, whose main objectives were to exploit the strong image values in the early stages. See figure 1. As Lenz & Miklovic stressed, expecting an 800 stock price gain within a short period could have been reason enough for some players to start an eMarketplace[7].

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[4] Bond et al: *E-Marketplaces: Is the Bloom Off the Rose?*. GartnerGroup Strategic Analysis Report, 28 June, 2000.

[5] Fry, Jason: "Consumers and Young Firms Best Beware of the Hype Cycle". *The Wall Street Journal Interactive Edition*, dec 15, 1997.

[6] Porter, Michael: *Competitive Strategy*. The Free Press, 1980.

[7] Lenz, Carl & Miklovic, David: "E-Marketplace: Winners Today, Losers Tomorrow?. In GartnerGroup Strategic Analysis Report, 28 June, 2000.

### 1.3 B2B eMarkets as vision and reality

The hype phenomenon is related to a gap between vision and reality. In the vision gap model (figure 2) the journey of a new technology is divided into three stages[8]. In the creation stage, a vision is formed through rhetoric. In the demonstration stage, the vision is transformed into some kind of illustration, picture, physical model, or prototype. The realization stage implements the illustration into a system solution that people can use. Between these stages appear two gaps. The first is between words and action, between visionary thoughts of the opportunities and what can be concretized through physical illustrations. The second gap appears as the difference between what the illustrations promise and what can be offered to people for use.

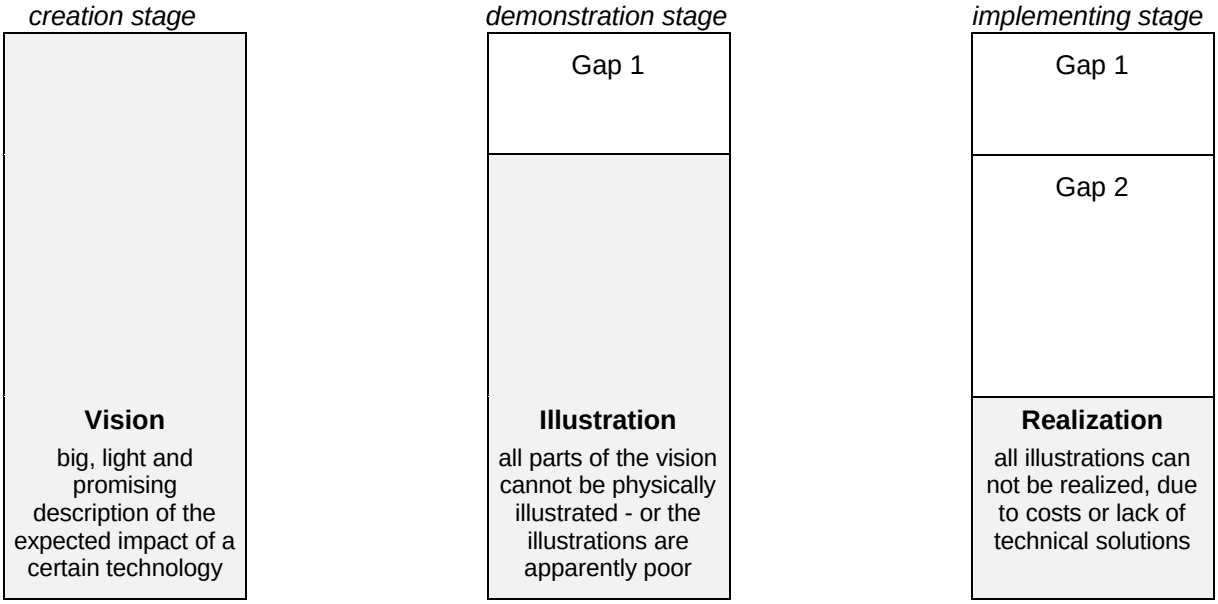


Figure 2. The vision gap model (Lennstrand 2001)

Gap factors affecting the first gap can be tendency, doctrines, metaphors, product category, technique, economy, and needs and benefits. The tendency factor points out that producers and their agents[9], i.e., journalists, early adopters, consultants, and researchers, all can be biased by a mutual belief in the technology visions. To balance their view, users should also be questioned and concrete applications should be investigated.

The doctrine about the rapid development can imply unrealistic expectations in technical breakthroughs[10]. But, as Fidler put it: "most ideas take much longer to become 'overnight successes' than anyone is ever prepared to admit"[11]. When using new technological facilities as tools in a business, it is what these tools can do now or in the near future that counts.

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[8] Lennstrand, Bo: *HYPE IT: IT as Vision and Reality. On Diffusion, Personalization and Broadband.* Doctoral dissertation, Stockholm University. School of Business Research Reports 2001:6, Akademitryck, Edsbro, Sweden, 2001.

[9] This reasoning is based on Bourdieu's field theory. See Lennstrand, Bo: "The Ravine - About Faith in Information and Communication Technology". In Roger, Jean-Yves, Stanford-Smith, Brian, Kidd, Paul T., eds.: *Business and Work in The Information Society: New Technologies and Applications.* IOS Press, 1999.

[10] Lennstrand, Bo: "Diffusion of Information and Communication Technology to Households - How come it goes so slowly when it goes fast?" Presented at the Twelfth Biennial ITS Conference in Stockholm, June 21-24, 1998. Published on www.its98.org/conference/theme1.asp#1.

[11] Fidler, Roger: *Mediamorphoses.* Pine Forge Press, 1997.

Another factor that can cause a gap between vision and reality is misleading metaphors. The concept of virtuality can, for instance, be regarded as a metaphor that hides the fact that only a minor part of real stimulus can be conveyed by IT.

Finally, the market characteristics can have a big influence upon the first gap. This paper will evolve the impact of some of them: product category, industry structure and business relationships.

According to gap two, technical limitations are often salient in the implementation stage. The market can be the most critical issue, often suffering from the critical mass phenomenon.

The principle behind the vision gap model is simple: use what exists as the starting point when looking at new technological promises. This is a user perspective, relevant for companies when deciding whether or not to use a new technical solution in their business. It is also a short-term perspective. For users it can be hazardous to base decisions on verbal descriptions and visions of technical opportunities. With a vision, you can only choose whether to believe or not. An actual illustration is something that can be investigated. Inquiries related to the illustrations can give a well-founded idea of the needs that eMarkets do satisfy, the benefits they provide and the technical prerequisites. Of vital importance are the economic factors. What is the cost to implement and use a new technical method? What receipts can be expected? Can it be profitable?

In contrast to this, the providers of technical solutions can have a longer sight, also considering opportunities in the long run. Will there be a first-mover advantage, that will settle the winners when the technology finally is fully adopted? Therefore the providers of a new technology may be guided by visions, while the users make their decisions based on the illustrations at hand. Thereby the long-term opportunities for the providers for long will depend on the users short-term sight.

### 1.4 B2B eMarket vision gaps.

B2B eMarkets, which have not have conducted their first trade can be regarded as mere illustrations of the B2B eMarket vision, illustrations that are sometimes poor examples of the visions they are trying to demonstrate. Some reasons for the first gap in the vision gap model when applied on B2B eMarkets are:

- Technology
  - The technology is far more complicated than expected[12] [13].
  - The technical solutions often depend on use of off-the-shelve-tools (i.e., middle-ware and databases), that only can handle relatively simple services[14].
  - Lower-tech existing alternatives are ignored or underestimated[12].
  - Lack of standards for interfaces and data format [12] [14].
- Needs and Benefits
  - The B2B exchanges are too price-focused. They are driven by a simplistic, micro-economic vision of a perfect, commodity-like market where goods are sold via spot contracts[14]. When this simplistic vision is applied to markets where other needs are essential, the benefits of the exchanges are minor and their shortcomings become critical.

[12] Lawrence, Andrew: "B2B marketplaces. Does the failure of Efdex signal a cold winter for business-to-business marketplaces?". *Infoconomy*, 13 November 2000. (www.infoconomy.com)

[13] Boyer, Kenneth K.: "E-Operations: A Guide to Streamlining with the Internet". *Business Horizons*, Januari-Februari 2001.

[14] Corsten, Daniel & Hofstetter, Joerg: "The future of online exchanges". *ECR Journal*, Vol.1, No. 1, Summer 2001.

- Product and industry characteristics
  - No single business model for eMarkets can meet all needs and circumstances.
  - The business models must adapt to different situations due to the relationship between buyers and sellers, the type of products traded, and the industry structure.

The chicken-and-egg-problem easily leads to a big gap between illustrations and realizations, gap two, because of the difficulty to obtain a critical mass of users, to obtain liquidity. In eMarkets, liquidity is actually a critical mass problem raised to the second power - a critical mass of buyers and a critical mass of sellers have to be attracted simultaneously. This is not an easy task, since buyers and sellers, though they may have many mutual interests, can also have conflicting interests. And if only one of these critical masses is achieved, the critical mass can quickly become a mass of critics who will leave the eMarket again -- now disappointed.

## 2. The question at issue

The future of B2B eMarkets will depend on whether or not they get further support from the finance market, and on successful reduction of the vision gaps - making the visions more realistic and decreasing the impact of the gap factors. This calls for improved technical solutions, standardization, and business models that take into account what technology can really do at a reasonable cost. However, in spite of the obvious problems of B2B eBusiness these days, most professional analysts and industry people still seem to agree that electronic trading over the Internet will have a tremendous impact on how companies will conduct businesses in the future. What they don't agree about is how the business models of the B2B eMarkets will look like. A business model can be regarded as a hypothesis of how needs and benefits can be fulfilled. Such hypotheses can be tested by viewing existing eMarkets as different types of illustrations of eMarket visions.

This paper presents an *Analyzing Framework,* which can be used to structure analyzes of B2B eMarkets when looking for the elements that characterize successful eMarkets. The Analyzing Framework is created through the investigation of three questions: what eMarkets do, how they do it and where they do it:

- How do B2B eMarkets *create value*?
- How can B2B eMarkets' *business strategies* be described?
- How do the *market characteristics* influence the value creation and business strategies of a B2B eMarket?

The research is limited to eMarkets with a vertical approach, alluding to the buying of direct goods, services, and mission-critical components in a company's production (manufacturers markets) or reselling (resellers markets). This paper will only consider B2B eMarkets that offer commerce transaction capabilities, thereby excluding Internet sites that in fact work only as bulletin boards where buyers and sellers can post messages regarding supply and demand of products.

### The research approach

The B2B Analyzing Framework have been simultaneously developed and used as a tool while working with three case studies of B2B eMarkets, which are presented in part 4: Meatingpoint (meat), Merkant.com (food products) and TextileSolutions (textiles and trims). The research

started as a collection of information concerning B2B eMarkets from secondary data and continued with interviews with representatives of Swedish B2B eMarkets in the textile and food & beverage industries, and of traditional brick-and-mortar companies within these fields.

The studied B2B eMarket companies are very young. This means that some important data is hard to obtain. There are few publicly available accounts reporting earnings and costs[15]. The companies are unwilling to answer questions about these issues for competitive reasons. It is also important that they paint as bright picture as possible of their business. Reporting earnings and costs may spoil the picture. We have striven to describe the three cases in a similar way, but because of varying access to data the descriptions are somewhat different.

To obtain credibility in the study, the results of the underlying research have been discussed with some actors in the field, especially Intentia, a Swedish company that develops, sells, and implements Movex, an ERP system. Intentia is now also becoming a B2B eBusiness and eCollaboration facilitator.

## 3. The B2B eMarket Analyzing Framework

Before reporting from the case studies, a summary of some central aspects of the framework is presented in the following part[16].

There are several models aiming to structure B2B eMarket issues. Models can be found in a lot of reports and white papers from consultant companies, in news articles, and on Internet sites, as well as some books and research journals (see listing under references). To mention only a few central sources: Kaplan & Sawhney's B2B Matrix[17] separates four kinds of eMarkets, depending upon how businesses buy (negotiation or lowest cost) and what businesses buy (raw material/components or operation inputs). Their classification framework also involves the value creation mechanisms of aggregation and matching. Based on the e-hub ownership structure they separate neutral from biased e-hubs. Trading mechanisms have been structured and described by e.g. GartnerGroup and ATKearney. Atlas Commerce focused on the issue of eMarkets providing competition or collaboration in a white paper.

The Analyzing Framework is an attempt to put several important issues together in one model (figure 3). Every B2B eMarket has a strategy for value creation and a business strategy. These are regarded as dependent variables in the framework. Market characteristics like the relationship between buyers and sellers, the type of products traded and the industry structure can, unlike in Kaplan & Sawhney's B2B Matrix, be looked upon as independent variables that determine which business and value creation strategies are best suited for a certain situation.

The value creation strategies are separated into two dimensions. First, an eMarket can create value either by supporting increased competition, or by endorsing synergies of increased collaboration. Secondly, eMarkets can strive either to enable or disable channels in a supply chain. The business strategies are divided into three fundamental and three optional parameters. The *fundamental parameters* concern trading mechanisms, sources of revenue and ownership structures.

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[15] Butler, Steve: Tracking Online Trade. *eMarketer,* May 18, 2001. (www.emarketer.com)

[16] For more details, see: Frey, Martin & Johansen, Martin: *Analyzing B2B eMarkets - An analysis of value creation strategies and business model executions.* MSc thesis, The Royal Institute of Technology, Stockholm, Feb. 21st, 2001.

[17] Kaplan, Steven & Sawhney, Mohanbir: "E-Hubs: The New B2B Marketplaces". *Harvard Business Review,* May-June 2000, Pp. 97-103.

They are the core elements of the B2B eMarket's business model. Every eMarket must choose a strategy for each one of them.

The *optional parameters* represent different ways to add special values for the customers and to differentiate the eMarket from its competitors. They deal with content, services and connectivity. An eMarket must have transaction mechanisms, i.e., a form of content, but apart from this, no other optional parameter is necessary. The optional parameters will not be discussed further in this paper - because of limited space and because these issues are of minor importance in the early stages of the B2B eMarkets when compared to the fundamental ones.

The value creation strategies and the fundamental business strategies will be described briefly in the following two subsections.

The Analyzing Framework also have a block containing market characteristics, which are looked upon as independent variables, influencing the suitability of value creation and business strategies in different industries. The kind of *business relationship* between buyers and sellers mainly affects the value creation strategy. The *type of products* traded mainly affects the trading mechanism, and *the industry structure* mainly affects the ownership structure. These issues will be further discussed in the case studies in part 4.

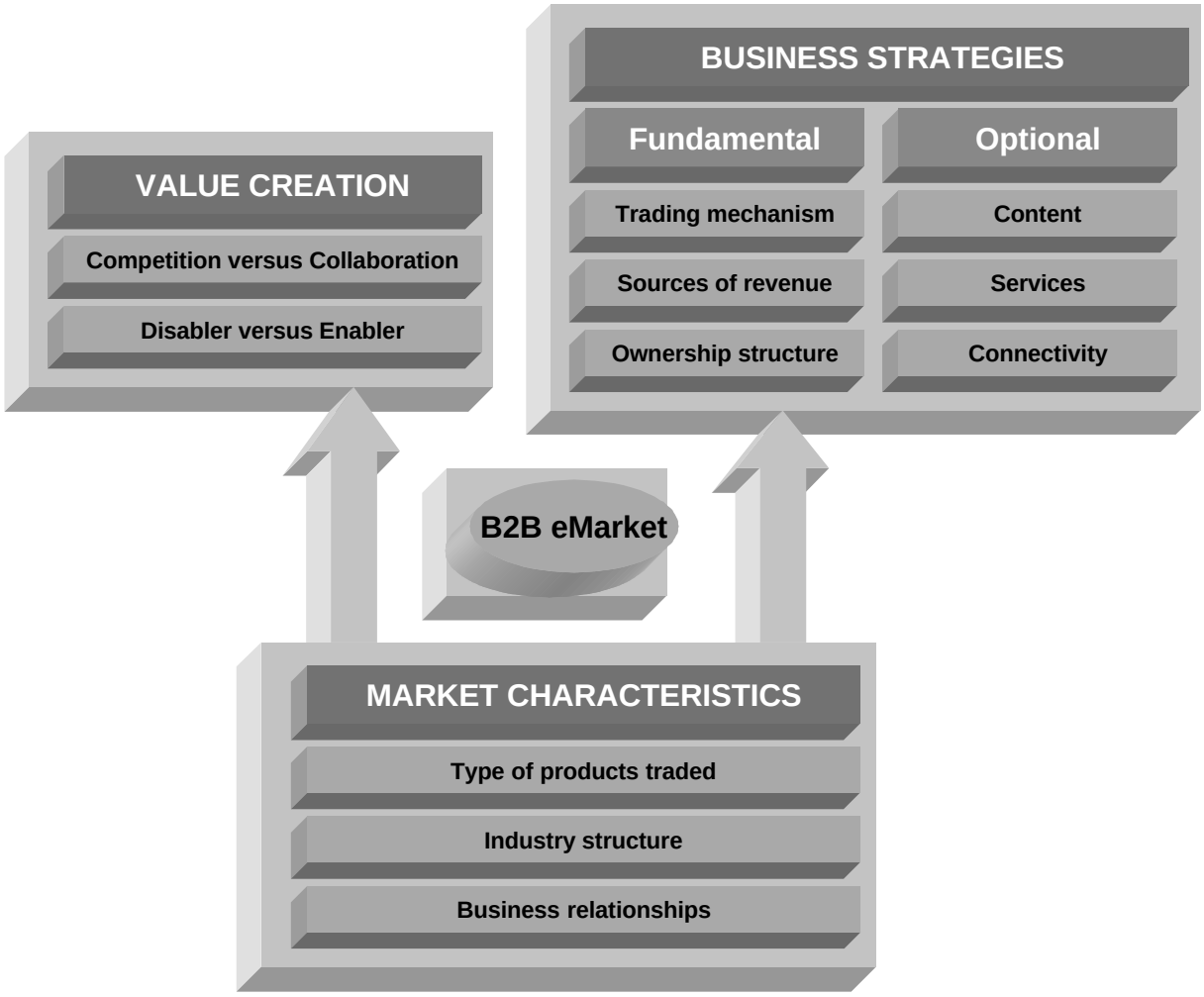


Figure 3. The B2B Analyzing Framework. Applied from Frey & Johansen 2001.

## 3.1. Value creation

### 3.1.1. Competition versus collaboration

When looking at B2B eMarkets from a *competition* versus *collaboration* perspective, there exist two distinct categories: *open* and *privatized* B2B eMarkets.

In an *open* trading environment, suppliers' products and prices are exposed to all buyers. The ambition is to create a centralized trading hub where multiple buyers and sellers can interact and transact. The main value for the buyers is the increased transparency and the aggregation of products and potential suppliers. The main benefit for the suppliers is that their products are exposed to all buyers on the eMarket. The increased transparency encourages open sourcing and enhances competition among the suppliers. An open eMarket can also enhance competition between the buyers.

In a *privatized* trading environment the buyer is only exposed to the suppliers with whom it has predefined trading agreements. This means that the product assortment and the supplier selection on the eMarket will differ, depending on who the buyer is. The objective for the buyers and sellers to join the eMarket is not to find new trading partners but to streamline the buying and selling processes with their existing partners. Instead of facilitating competition, the privatized eMarkets facilitate *collaboration*.

### 3.1.2. Disabler versus enabler

There are two fundamental roles that a B2B eMarket can occupy, either as *channel disabler* or as *channel enabler*.

A *channel disabler* claims to facilitate direct trade between producers and retailers. This means that a retailer can buy directly from a producer, without using traditional middlemen like agents, traders and wholesalers. Since the supply chain is short-circuited, the margin may be better for the producer. However, there are complications associated with channel disablers, especially the risk for channel conflicts[18].

A *channel enabler* strives to facilitate trade between traditional supply chain participants, rather than excluding any of the actors. The channel enablers manage an existing trading network of supply chain relationships. The object is to attack inefficiencies in the supply chain and to simplify trade between its participants.

## 3.2. Business strategies

As mentioned, six parameters are used in the framework to describe a B2B eMarket's business strategies. These parameters are more or less interdependent and could be classified in following way. (Only the fundamental parameters are described in this paper[19].)

| Fundamental | Optional |
|---|---|
| ➢ Trading mechanism | ➢ Content |
| ➢ Sources of revenue | ➢ Services |
| ➢ Ownership structure | ➢ Connectivity |

[18] * Bowersox, D.J. et al.: *Management in marketing channels.* McGraw-Hill, 1980.
* Stern, L.W. et al.: *Marketing channels.* Prentice Hall, 1992.

[19] On optional parameters, see: Frey, Martin & Johansen, Martin: *Analyzing B2B eMarkets - An analysis of value creation strategies and business model executions*. MSc thesis, The Royal Institute of Technology, Stockholm, Feb. 21st, 2001.

### 3.2.1. Trading mechanism

From two fundamental ways of setting prices, fixed or dynamic pricing, basically four different trading mechanisms can be outlined: Catalog, Auction, Reverse Auction, and Exchange.

*Catalog*: B2B eMarkets that support the catalog trading mechanism strive to streamline purchasing by aggregating the product catalogs of many suppliers in one place and in one format. The product prices posted in a catalog are normally fixed list prices that have to be (pre)-negotiated. Some B2B eMarkets include online negotiation capabilities in their catalog solution.

*Auction*: Here prices are set dynamically through buyers bids submitted on unique and/or individual items over a certain period of time. Several types of auctions exist on B2B eMarkets.

*Reverse auction*: In a buyer-driven or reverse auction the price tends to fall over time as the counterparts approach the close of the auction. The reverse auction favors buyers over sellers, especially if there are multiple sellers able to offer items that come close to meeting the buyer's requirements. A special type of the reverse auction mechanism is the reverse aggregator. B2B eMarkets that support his trading mechanism aim to form groups of buyers within specific vertical or horizontal markets. By gathering together the purchasing power of many buyers, B2B eMarkets that supports the reverse aggregator mechanism claim to make small and midsize companies able to negotiate price reductions on the same conditions as larger buyers.

*Exchange*: The exchange mechanism enables buyers and suppliers to negotiate prices in a bid and ask system, similar to Stock Exchange systems. This two-side marketplace allows for both upward and downward price changes. In this sense the exchange is the only B2B eMarket trading mechanism that supports true dynamic pricing. A successful exchange format requires a critical mass to provide liquidity, allowing buyers access to numerous suppliers.

### 3.2.2. Sources of revenue

There are several possible ways for an eMarket to earn revenue[20]. An eMarket's income model often is built upon a combination of these. We have identified five major sources of revenue:

- Transaction fees
- Membership/license fees
- Advertising
- Professional service fees
- Value-added service fees

*Transaction fees*: The eMarket charges a fee that is based on the value of the transactions conducted through the eMarket. In order for the eMarket to earn substantial revenues from transaction fees, the amount of transactions has to be relatively high, or the value of the products being traded has to be high, given that the fee is based on percentage of the value.

*Membership or license fees*: The most established form is a one-time joining fee and an annual maintenance fee for retaining the membership. The membership model is widely used. The price for membership must reflect the benefits and cost savings for the members, otherwise the eMarket will not be able to create a critical mass of members.

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[20] See for instance:
* Reilly, George: "E-Commerce Revenue Models: Don't Bet on Just One Horse". In GartnerGroup Strategic Analysis Report, 28 June, 2000.
* Trepp, Lynn: "Valuing the new industrial model: B2B Internet exchanges". Electronic Market Center, Inc, Philadelphia, August 4, 2000.

*Advertising*: Many eMarkets generate revenues based on advertising. The advertising can be in the form of banners, sponsorships, extended listings and hyperlinks to companies' web sites or commercial e-mail to targeted members.

*Professional service fees*: Some eMarkets provides implementation and training services for their customers, usually on a time-and-materials basis. Billing rates and manpower utilization rates drives the economics of the professional service model.

*Value-added service fees*: This revenue comes from third parties whose services add convenience and value to eMarket transactions: inspection services, logistics, trading partner authentication, credit information services and financing services. The partners are often tightly integrated to the eMarket for ease of use and increased customer value.

To sum up this section it can be said that the transaction fee model and the membership/license fee model are appropriate as main sources of revenue. Further, it is argued that a membership/license fee is more suitable than a transaction fee if replenishment transactions and long-term contracts characterize the trade conducted over the eMarket.

### 3.2.3. Ownership structure

A B2B eMarket can basically have three different types of ownership; a *third party* owner, a *consortia* of traditional companies within an industry (brick-and-mortars), or a *single* traditional company within an industry[21].

*Third party*: A third party owned B2B eMarket is often a venture backed company and is typically neutrally oriented. Many of these companies were highly valued during last year's technology-stock race, but they are now often facing problems. Neutral eMarkets operated by independent third parties are true market makers since they do not favor buyers over sellers or vice versa. Neutral oriented eMarkets face challenges from the chicken-and-egg problem: buyers do not want to participate unless there are a sufficient numbers of sellers and vice versa. Neutral eMarkets also have to overcome the seller's conflicts with their normal distribution channels.

*Consortia*: A consortium ownership structure is typically built on a few large traditional companies (often competitors) collaborating in establishing an eMarket. These CoBAMs (as in Consortium of Brick-And-Mortar's) have the transactions, but often not the technology. By October 2000 more than 100 of these industry mega-marketplaces have been announced, although this far with few real results[22].

*Single company*: A single brick-and-mortar company owner of a public eMarket is not common. One example is Endorsia (www.endorsia.com), a B2B eMarket for branded industrial goods.

Obviously, both the consortia and the single company owned eMarkets are by nature favoring either the buying or the selling side. To prevent such biases, they are often organized as stand-alone ventures with an independent advisory board, management team and name. However, the problems of neutral eMarkets described above are typically less critical for these ventures.

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[21] Butler, *eMarketer*, 19 June 2000.

[22] * ZDNet: *B2B: Back to Basics.* October 2, 2000.
* Butler, Steve: "Tracking online trade". eMarketer May 18, 2001. (www.emarketer.com)

# 4. Case studies

In the following three case studies, information has been structured and reviewed according to the B2B eMarket Analyzing Framework. The aim is to illustrate a method for describing B2B eMarkets, thus showing how the framework can be used when the prerequisites of an eMarket's long-term viability are analyzed. As already mentioned in part 2, the case descriptions are somewhat different because of varying access to data.

## 4.1 Meatingpoint

The Swedish B2B eMarket Meatingpoint[23] offers buyers and sellers within the meat industry a web-based transaction platform and additional services. The company's mission is to simplify the trading process, increase the available market, and facilitate supply chain management for their clients.

Executives from the meat industry and professionals within IT and E-commerce established Meatingpoint in January 2000. The eMarket was launched in Scandinavia in September 2000, and has recently (mid November) also been established in the UK and Ireland. Launches in France, Germany, Benelux and Italy are planned for later this year.

### 4.1.1 Value creation

Meatingpoint's value creation strategy is to facilitate the ordering and selling process between existing and new trading partners within the supply chain of meat. As oppose to Merkant.com (case 4.2), Meatingpoint doesn't strive to exclude any traditional intermediaries with their eMarket solution. Instead the company's vision is to enable producers (e.g. slaughterhouses and boning-halls), meat processors, and wholesalers to conduct trade over Meatingpoint's transaction platform[24]. In this sense Meatingpoint could be classified as an *enabler*.

Moving on to the eMarket's value creation as seen from a competition versus collaboration perspective, Meatingpoint has covered both of these scopes by offering their customer two different trading environments. On one hand, the eMarket creates value by facilitating *competition* in an open marketplace where buyers can search for new suppliers and vice versa. On the other hand, there are opportunities for the customers to create their own privatized marketplace, giving, for example, a supplier the ability to expose parts of their catalog to selected buyers with whom they have long standing relationships. In this sense Meatingpoint is creating value for its users by facilitating *collaboration*.

### 4.1.2 Trading mechanism

The trading mechanism used at Meatingpoint is based on a catalog solution. The content of the catalog is based on what type of meat products connected suppliers choose to offer. For example, slaughterhouses that want to expose by-products to a wider market could typically use the catalog on the open marketplace and suppliers who only want to trade with their predefined customers can create a privatized catalog with their assortment and prices. Further on, the eMarket is offering possibilities for buyers to post request for quotes and for both parties to conduct online negotiation on everything from prices to package size and terms of delivery.

[23] www.meatingpoint.com

[24] Anders Dahlberg, *Vice President*, Meatingpoint

### 4.1.3 Sources of revenue

On every order generated over the eMarket, Meatingpoint is charging the seller a transaction fee of 0.4 to 1.8 percent. The size of this fee depends on how much the supplier sells through the system and to whom. Meatingpoint is currently letting buyers use the open marketplace for free. However, if any of the parties want to create a customized solution (privatized marketplace) they have to pay a license fee. Up to this date, there are no external ads on the site and consequently no money coming in that way.

Meatingpoint's revenue strategy seems to be an appropriate way to make potential customers try the system. However, the company's success is probably, to a large extent, dependent on the customers' willingness to use and pay for the customized trading platform. We suspect that in the long-term the transaction fee is too low to compensate alone for the eMarket's costs. Further, Meatingpoint must be able to motivate why only the sellers, and not both parties, pay transaction fees. Otherwise it might be difficult to attract and keep suppliers.

### 4.1.4 Ownership structure

Meatingpoint claims to be a totally neutral eMarket, i.e. it has no ownership interest from current or potential customers. The eMarket's founders and a set of private investors (e.g. venture capitalists IT Provider) own Meatingpoint. Among the founders is Lowe Björklund, former President of Swedish meat processing company Samfood.

### 4.1.5 Market characteristics

Since Meatingpoint is a relatively new B2B eMarket, launched in late September 2000, no customers that use the system have been interviewed in this study. Yet, some conclusions of Meatingpoint's business concept can be drawn based on facts about meat products, the structure of the meat industry, and the type of relationships in the industry.

*Product segment:* Meat is one of the most important food products. Total world meat business-to-business trade turnover amounts to $270 billion. In Europe alone, the meat trade is estimated to $50 billion annually[25]. In 2000, only 0.2 percent of the European food was traded online, but Meatingpoint estimates that in three years time 3 percent of the buying and selling of meat in Europe will be conducted online. Meat is a non-durable and highly perishable food product that is traded on both resellers- and industry markets. In the industry markets meat products are bought as component material by meat processing companies. Since meat in bad condition (BSE etc.) could constitute a major health hazard, handling of meat products is regulated by numerous national and international rules and regulations.

*Business relationships:* Most buyers in the meat industry have long-standing relationships with their suppliers when it comes to mission critical purchases (as for SCAN's component material or McDonald's hamburgers). These types of relationships are not likely to change, even if ordering and offering are conducted on-line. Of great importance in meat trade is the ability to trace products all the way back to the source of origin[26]. It seems like Meatingpoint has taken this into account when designing the company's eMarket transaction platform. With the ability for both buyers and sellers to connect with their traditional channels in a privatized trading environment, Meatingpoint has chosen the suitable value creation strategy of an enabler. By inviting all traditional meat-trading partners to use Meatingpoint for their transactions, the company is probably in a better position to attract customers than if the eMarket had had a disabling focus.

[25] www.meatingpoint.com

[26] Bo Skugge, *Managing Director*, Ikea Restaurant Division

*Industry structure*: The history and geography of meat trading has created varying levels of fragmentation in the European food supply chain. The most highly fragmented part of the supply chain is the food service sector (i.e. restaurants, schools etc.). Conversely, the food-retailing sector has undergone a period of consolidation, resulting in a low level of fragmentation. The food manufacturing and meat supply sectors have medium levels of fragmentation.

Today 75 – 85 percent of meat trade is done domestically[27], but the increasing number of international retail chains has laid the foundations for the emerging globalization of the meat industry. This trend will have a lasting effect on retailers' supply chain as they seek to achieve economies of scale and the quality assurance necessary to protect their brand.

At present, countries such as Denmark and Ireland have strong meat export industries, supported by highly efficient meat producers. Other European countries have increased their import of meat. The historically valued state of self-sufficiency in meat production of a nation is therefore no longer a political priority. For this reason, the World Trade Organization is backing attempts to increase the global trade of meat products.

#### 4.1.6 Conclusions of the Meatingpoint case

Meatingpoint could be classified as an enabler that seems to be the proper *value creation* strategy. Further, it can be argued that the professional on-line business-to-business trading of meat requires an eMarket that facilitates collaboration, which is one of Meatingpoints' aims. It lies in the very nature of the product. On the other hand, Meatingpoint has also created the open eMarket that could facilitate competition among sellers of by-products. It is questionable, however, if Meatingpoint will be able to attract buyers and sellers to conduct this type of trade online. The reason for this is, once again, that when it comes to trading of meat the seller must always be able to guarantee the product's origin, and this often requires a trusted supplier and a close relationship.

The *trading mechanism* that is incorporated on Meatingpoint is probably the only mechanism that could work for this type of products. The reason for this is that few businesses would buy or sell physical meat products in a regular- or reverse auction or in an exchange-based system with a constant flow of bid and ask. On one hand, the ability to negotiate different terms of trade may be important for the interaction with new suppliers and customers. On the other hand, this function seems quite unnecessary when it comes to the privatized solution that is used by trading partners with close relationships. Close relationships often involve a general agreement, that in turn is created to avoid time- and resource consuming negotiation.

The *ownership structure* and neutrality of Meatingpoint suits the meat industry structure in a majority of the European countries where Meatingpoint intend to launch its business concept. However, looking at the ownership structure from a Swedish meat industry perspective its value is not that obvious. In Sweden there is a cooperative organization called Swedish Meats that is responsible for 75 percent of the country's slaughtering and 30 percent of the selling of processed meat (through their brand SCAN). Obviously, as this company is responsible for the major part of the business-to-business meat transactions in Sweden, it is important for Meatingpoint to have Swedish Meats as a supplier/customer in its system. However, the only way to get Swedish Meats as a customer might be to offer them an equity stake in Meatingpoint, and thereby change the company's ownership structure and neutrality focus.

[27] www.meatingpoint.com

## 4.2 Merkant.com

### 4.2.1 Company and Strategies

Merkant.com is an eMarket in the food&beverage industry. Most of the transactions conducted through Merkant.com have until now involved Swedish buyers, and sellers from other European countries. The products traded have mainly been fruit, vegetables, cheese and bread. Imported food products traditionally pass many channel levels before they reach their final destination. Merkant.com offers a way to supersede these intermediaries.

Merkant.com's *value creation* model is to disable intermediaries in the traditional supply chain.

The main *trading mechanism* is catalog. The catalog's content depends on what the selling members choose to register in the trade room. The sellers can not use their own catalogs (cf. gap one in the vision gap model, caused by complicated technology in combination with the lack of standards). This can be a great disadvantage, since the costs when registering a big assortment, especially if frequent updates are necessary, can be high compared to the expected profits from sales on the eMarket[28]. However, for sellers only interested in selling parties of single products, like on a spot market, this is not a problem.

Merkant.com's *revenue model* consists of two sources: a subscription fee of 100 Euro, and a fee for every transaction. Both the buyer and the seller pay a commission fee of 2% of the transaction value. No advertising is posted on the site.

Merkant.com is a neutral B2B eMarket with a third party *ownership structure*. Merkant.com is owned by its founder along with venture capitalist Speed Ventures, Stena AB, Robu,r and private investors.

Merkant.com is not making enough money. The first half of 2000 they recorded a loss of 19 million SEK (near 2 million US$), after a modest turnover of 150 000 SEK (15000 US$) [29].

### 4.2.2 Market characteristics

*Product segment* Merkant.com is mainly operating on the resellers market and in the segment of non-branded food products. The products are typically perishable.

*Industry structure* The structure of the Swedish Food & Beverage industry is very concentrated at the wholesale level of the supply chain. There are many individual retailers, but most of these are members of large purchase organizations (i.e. ICA, KF or Axfood). The supply chains are often very long and complex, i.e. the products pass many intermediaries before they reach their final destination. Further, the supplier base of the product segments that Merkant.com focuses on is very fragmented. The supplier base consists of producers, traders, and wholesalers, mainly from European countries.

The ownership and operating structure seems to be suitable when looking at the selling side, consisting of many suppliers in fragmented industries. The buying side is partly fragmented with many small buyers, partly oligopolic. The eMarket is independent in order to be equally attractive to both the buying and the selling side. But, to increase the transaction volume and revenues accordingly, Merkant.com might be forced to enter into partnership with a strong buyer like ICA, KF or Axfood. However, if any of these large purchase organizations want to expand their supplier base via a B2B eMarket, it is more likely that they will participate in any of the global

[28] Lennstrand 2001

[29] Dagens Industri, *E-frukt blir billigare*, 2000-10-12

consortia operated initiatives (e.g. WorldWide Retail Exchange or GlobalNetXchange) that have been initiated in this field[30].

*Business relationships* From our interviews with industry people from mainly large companies and organizations, it appeared that retailers and food service organizations often develop close relationships with their suppliers. Both parties want to develop and maintain such relationships, because this can substantially lower transaction costs, inventory levels and lead times[31]. For example, around 90 percent of an individual ICA retailer's product assortment are supplied from one wholesaler (ICA). For non-branded products like fresh fruit and vegetables, meat and fish, the individual retailer often choose independent suppliers instead of buying the products via a central negotiated agreement. Most important purchase parameters for these types of products are quality and the suppliers' ability to deliver often and on time[32].

### 4.2.3 Conclusions of the Merkant.com case

Merkant.com's *value creation* strategy is to disable traditional intermediaries in the supply chain and facilitate open sourcing of new suppliers and customers. Loose relationship between trading parties lies in the very nature of this strategy. However, many relationships in this industry are, as mentioned built on strong activity links, resource ties and/or actor bonds. Consequently, all of Merkant.com's customers contacted for this study stressed the fact that they saw Merkant.com only as a complementary channel to their traditional suppliers.

Some companies that Merkant.com pointed out as customers had not yet used the service. One of them was Ikea Restaurant Division, described as follows in a press release from Merkant.com August 10, 2000:

> "IKEA restaurants buy on-line at merkant.com.
>
> IKEA Food Services in Sweden is a new member of merkant.com, Europe's leading marketplace for everyday commodities on the net. IKEA intends its membership to enable it to make smart purchases for its restaurants in Sweden."

At the time of our interview (Nov 27, 2000), IKEA had not completed a transaction on Merkant.com. The reason for their doubts about this eMarkets value addition was mainly[33]:

- Ikea restaurant division wants to thoroughly evaluate and test new suppliers before doing any major purchases from them
- The importance for "senior chefs" to have a telephone contact with their established suppliers.
- The risk of channel conflicts with the restaurants' traditional suppliers.

The company Kronfågel, a leading brand on the Swedish poultry market, is another of Merkant.com's customers that highlighted the issue of channel conflicts when using an open eMarket[34]. Merkant.com's value creation strategy of short-circuiting traditional channel members can be used to find good prices on one-off deals. But since such deals are only a minor part of a retailer's, wholesaler's or restaurant's purchases, it is questionable if the strategy is viable in the long run.

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[30] Dagens Industri, *ICA svarar på e-hot*, 2000-10-13

[31] Jan Levén, *Sales Director*, Kronfågel

[32] Björn Persson, *Store Manager*, ICA Dragonen

[33] Bo Skugge, *Managing Director*, Ikea Restaurant Division

[34] Jan Levén, *Sales Director*, Kronfågel

The catalog solution on Merkant.com seems to be a suitable *trading mechanism*. An advantage of catalogs is that they represents the simplest step away from off-line purchasing, thus making it easier for users who are not familiar with electronic trading to try the service. Moreover they fit the industry structure of many fragmented producers (suppliers) as well as the product segment. When Merkant.com's members become more familiar with this way of doing business, a natural step for the eMarket would be to introduce the auction as a trading mechanism. The reason for this is that the auction is often a traditional way of selling bigger lots of, for example, fruit and vegetables.

In summary, it will probably be difficult for Merkant.com to survive while holding on to its existing value creation strategy and some aspects of its business model. More specifically there are weaknesses both in the strategy of disabling traditional actors from the supply chain and in the revenue model, as well as in the ownership structure.

## 4.3 TextileSolutions

### 4.3.1 Company and Business model

TextileSolutions is an open B2B eMarket for the textile industry. At the time of the study, the company employed 65 people and had a global scope with sales offices in London, Paris, Milan, Lisbon, Dussledorf, New York, Boulder, Bangkok, Hong Kong, Seoul and several offices in China. The head office is located in Gothenburg on the Swedish West Coast. The customers are companies that either buy or sell high-tech textiles and trims used primarily for sportswear, activewear, leisurewear and workwear. The sellers are either wholesalers/agents, fabric producers, trim wholesalers/agents or trim producers. The buyers are either manufacturers or brand owners.

Accordingly, TextileSolutions *creates value* by enabling online B2B trade between the supply chain participants and not by disabling the intermediaries. Further, Textile-Solutions offers an *open* trading environment where the buyers are exposed to all registered suppliers. TextileSolutions has about 300 customers, both buyers and sellers.

The main *trading mechanism* is the catalog. If an order is substantial to the textile manufacturer he/she can post a quotation (RFQ) even if the textile isn't in his/hers standard assortment.

TextileSolution has a *revenue model* that is based on license fees ($3000), transaction fees for every deal carried out through the eMarket, and advertising fees. This means that TextileSolutions charges a substantial license fee, as opposed to Merkant.com. At the same time, since the license fee is a revenue source, it also gives incentives to the members to use the service. However, it seems uncertain if the users will consider the value of this eMarket's benefits as worth this cost. Fjällräven AB, a large Swedish designer of activewear, joined TextileSolutions Autumn 2000. They can use the full service of TextileSolutions free of charge until May 2001. The purchasing department has been using TextileSolutions quite frequently, but have not yet completed any online purchases. The main value they see is the aggregation of suppliers and textiles that makes it easier to source new suppliers and materials. The interviewee said that Fjällräven will weight the value of becoming a paying customer against the cost of acquiring a license when the test period is over. Up to this date, Fjällräven's experience is positive, but they argue that the liquidity must be greater before the cost is justified.

TextileSolutions is *third party owned* by its founders and independent investors. The segments in which TextileSolutions have its customers are highly fragmented both on the buyer and seller side. Therefore third party ownership seems to be appropriate.

### 4.3.2 Market characteristics

*Product segments:* The products that are traded through TextileSolutions, textiles and trims, are component materials and component parts respectively. The textiles are mainly used for sportswear, activewear, leisurewear and workwear. These textiles are called performance fabrics and are often hi-tech, like fleece and GORE-TEX®, which are non-commodities that demand detailed description in order to be bought sight unseen.

*Industry structure:* The industry is fragmented. The textile manufacturers are relatively small companies that by tradition are predominantly located in Asia, Turkey, Italy and the USA[35]. Local channels like textile agents and wholesalers also have strong positions in the supply chain. The buyer side consists of both garment manufacturers and brand owners. The garment manufacturers that TextileSolution addresses are often midsize-companies that produce apparel at the request of brand owners. The brand owner/designer normally specifies exactly what textiles and from which suppliers the manufacturer shall order. The garment production requires a great quantity of manpower and is often located in low-income countries. For this reason TextileSolutions customers in this segment are primarily located in Portugal, Turkey, the Far East, Mexico, the Caribbean and Eastern Europe. The brand owners that TextileSolutions addresses range from small designers that buy textiles for their own production to large companies that buy textiles that are transported to a manufacturer.

*Business relationships:* As in any industry, the nature of relationships between buyers and suppliers vary in the segment in which TextileSolutions operates. Some relationships are close and long-term, whereas others are looser and of one-off deal character[36]. However, function is generally more important than trends for sportswear, activewear, leisurewear and workwear which implies that the brand owner/designer often works closely with its textile suppliers in order to influence material development. On the other hand, the strive to be in the front end of designing high-tech apparel also implies that brand owners' purchase departments have to follow the development of other textiles than its suppliers'[37].

### 4.3.3 Conclusions of the TextileSolutions case

There is no such thing as a correct business model, but TextileSolutions choice of value creation, trading mechanism, sources of revenue and ownership structure seems to fit the industry in which they operate. The value creation strategy of enabling online B2B trade between traditional actors fits the business relationship type. The open trading environment appears suitable for the product category, because the fashion industry is characterized by continuously shifting trends, where the brand owners and designers always are looking for the latest materials and colors. The fragmented industry structure with many small and middle-sized buyers as well as sellers can be regarded as well suited for eMarket businesses. The catalog trading mechanism is suitable for a B2B eMarket as TextileSolutions. The aggregation of suppliers and textiles simplify the buyer's purchasing process in the highly fragmented supplier universe. The catalog also gives the relatively small suppliers a chance to expose their products to potential customers. Further, textiles are not commodities but extremely differentiated products that need to be described from a number of different parameters, such as composition, wash instructions, etc. This is best done in a catalog format where such information is available together with pictures of the products.

[35] Mats Palmquist, *Head of Sales*, TextileSolutions

[36] Jonas Berg, *Purchase Manager*, Fjällräven AB

[37] Ibid

The RFQ is also a suitable trading mechanism when large quantities of textiles are traded. Buyers often order large amounts of textiles for entire collections of apparel.

So, will TextileSolutions survive and become the leading B2B eMarket in its segment? When summarizing our data half a year ago, we concluded that this would be largely depending on the company's ability to attract new members. The more members the eMarket gets the greater the value of using it.

Now it is clear that TextileSolutions did not succeed. In April 2001 this eMarket suspended its payments[38].

# 5. Conclusion

## 5.1 Todays B2B eMarkets - early steps on an evolutionary path

By looking at B2B eMarkets in general and the case studies, we have come to the conclusion that the phenomenon is still in its infancy. There are few B2B eMarkets that live up to their value propositions. A main reason is that they suffer from a catch-22: in order to create value the eMarket must attract a sufficiently large mass of users. The buyers won't come unless there are a substantial number of sellers connected, and the sellers won't commit unless there are a large number of potential buyers on the eMarket. Therefore, liquidity in eMarkets is a critical mass problem raised to the second power - a critical mass of buyers and a critical mass of sellers must be attracted simultaneously. However, the liquidity problem is dependent on other factors. In part 1.4, it was argued that the providers of a new technology are often guided by visions, while the users make their decisions based on the illustrations at hand. It is not enough for the user to have visionary predictions of the glorious future of B2B e-trade; they must see the benefits in it right now. Samuelsson stressed that the adoption of new technological solutions is slow and dependent on the creation of simple, initial useful applications[39]. Such applications outline an evolutionary path that gradually leads to a revolution. In this process, the long-term opportunities for providers are dependent on the users short-term sight.

The vision gap model (p. 3) takes this into account. Here, the lack of liquidity appears as a big gap between an eMarket illustration, the Internet application, and its realization, which is the use of this application. It takes a good illustration that the users can really benefit from to overcome this gap. In the vision gap model, an eMarket's business model is an important issue that affects the need-and-benefit gapfactor between vision and illustration.

## 5.2 Business models and market characteristics

The case analyses have shown that TextileSolutions' business model appears to be well suited to market characteristics, while Meatingpoints' model have some weaknesses, and Merkant.com's model is rather questionable.

TextileSolutions choice of value creation, trading mechanism, sources of revenue, and ownership structure seems to fit the industry in which they operate. The fragmented industry

[38] Finanstidningen, May 7, 2001.

[39] Samuelsson, Mats: "Market Opportunities and Pitfalls for New Information Technology in the Home". In Dholakia, Mundorf & Dholakia, eds.: *New Infotainment Technologies in the Home*. Lawrence Erlbaum Associates, 1996, pp. 23-34.

structure with many small and middle-sized buyers, as well as sellers, can be regarded as well suited for eMarket businesses.

Meatingpoint could be classified as an enabler that facilitates collaboration, which seems to be an appropriate value creation strategy. Meatingpoint also facilitates competition among sellers of by-products. It is questionable if this can attract buyers and sellers in this industry, but since it only is an optional strategy, it probably won't harm the entire business model. The ownership structure and neutrality of Meatingpoint suits the meat industry structure in a majority of the European countries, but not the Swedish market. A market structure characterized of fragmented sellers and concentrated buyers is not suited for third party owned eMarkets.

Merkant.com's value creation strategy is to disable traditional intermediaries in an industry where many relationships are built on strong activity links, resource ties and/or actor bonds. Because of this, Merkant.com's business model is highly questionable. More specifically, there are weaknesses both in the strategy of disabling traditional actors from the supply chain and in the revenue model, as well as in the ownership structure.

From the analyses, it could be expected that TextileSolutions would have the best chance to survive. But, as mentioned, this eMarket was the first to fail. This can be a signal that factors other than the business model are essential, and not a sign that the business model was wrong. It can also be argued that the failure of TextileSolutions shows an example of the difficulties early entrants in a new technology field are likely to meet - and that we will see new eMarkets succeed in this field in a decade or two.

### 5.3 Sticks or carrots as drivers of the eMarket evolution?

A good business model can be regarded as a carrot, which can be used in the search of liquidity. There are also sticks, that can more directly address the liquidity problem. A recent development is that large companies in some industries have joined together and formed industry consortium B2B eMarkets. This development has mainly taken place in industries that are characterized by a number of concentrated actors who, to a large extent, control the entire supply chains. These consortiums often possess huge buying power and can bypass the catch-22 when creating liquidity by forcing their suppliers and buyers to go online. However, there is a question mark whether these companies, that are traditionally fierce competitors, will be able to collaborate in joint ventures.

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www.whatis.com

## Interviews

### Interviews related to the fashion industry

Robert McKee, IAC Manager Movex Fashion, Intentia. 25/8-2000, Stockholm
Lars Kärrbäck, Owner, Bomullsbolaget. 17/10-2000, Stockholm
Tobias Andréasson, Brand Manager, Sportmanship. 17/10-2000, Stockholm
Jonas Berg, Purchase Manager & Ulf Wolgast, Marketing Director, Fjällräven. 24/10-2000, Stockholm
Maj-La Pizzelli, Production Manager & Anders Wiberg, Purchasing Manager, Filippa K. 31/10-2000, Stockholm

### Interviews related to the Food & Beverage industry

Göran Olsson, Intentia (videoconference). 5/7-2000, Stockholm & Malmö
Björn Persson, Store Manager, ICA Dragonen. 11/10-2000, Stockholm
Lars-Åke Jonsson, Managing Director, Nordic Food Ingredients. 12/10-2000, Stockholm
Anders Johansson, Logistic Director, Arla Ost & Smör. 12/10-2000, Stockholm
Jan Levén, Director of Sales, Kronfågel. 2/11-2000, Stockholm
Peter Jibrant, Logistic Director, Pripps Ringnes. 24/11-2000, Stockholm
John B. Gledhill, IAC Manager Movex Food & Beverage, Intentia. 24/8-2000, Stockholm
Bo Skugge, Managing Director, Ikea Food Service (telephone interview). 27/11-2000, Stockholm

### Interviews with B2B eMarket makers

Ulrika Wahlgren, Country Manager Nordic Countries, Merkant.com. 14/9-2000, Stockholm
Sven-Erik Jugås Andersson, Integrity. 14/9-2000, Stockholm
Stellan Rosegren, RestaurangNET. 14/9-2000, Stockholm
Jan Svensson, Managing Director, Grozer. 18/9-2000, Gothenburg
Mats Palmquist, Head of Sales, TextileSolutions. 18/9-2000, Gothenburg
Anders Dahlberg, Vice President, Meatingpoint. 18/9-2000, Gothenburg
Nick Basta, Vice President Editorial, VerticalNet Inc. 20/12-2000, New York
Pernilla Andersson, Comunnication Manager, Merkant.com (telephone interview). 27/11-2000, Stockholm

### Others

Bengt Arvidsson, Intentia Consulting Sverige AB. 29/6-2000, Stockholm
Carl Tivelius, IAC Manager Movex Steel, Intentia Europe AB. 29/6-2000, Stockholm