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Chapter III

Online Exchanges and Beyond: Issues and Challenges in Crafting Successful B2B Marketplaces

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INTRODUCTION

Rapid advances are bringing new and efficient market mechanisms to industries as varied as aerospace and fish wholesaling. Digital marketplaces provide the opportunity to facilitate product and partner discovery, offer dynamic pricing and deliver a host of value-added services on a global scale. Early research in eCommerce pointed to the high cost of pioneering efforts such as EDI and private exchange formation as a limiting factor in realizing the benefits of electronic markets (Malone et al., 1987). However, a new generation of services is now being enabled by the ubiquity of the Internet, the open standards of XML, the wide use of third-party vendor-based solutions, and the rapid deployment and low maintenance costs of current systems (Gallaugher and Auger 1997). These advances have brought eCommerce to a much broader array of firms than previously thought possible, dramatically increasing the forecasts for global B2B eCommerce. With the development of increasingly sophisticated and more accessible technical solutions, the current chal-

lenge lies in developing and sustaining vibrant markets that attract active participation of both buyers and suppliers, and which generate value for all.

This chapter provides an overview of critical issues associated with crafting a valuable and sustainable electronic marketplace. In order to provide a foundation for examples and discussion, the first section reviews B2B markets and provides a simple classification mechanism. Next, the issues of price presentation and price setting are introduced as they relate to the classification framework. The second half of the chapter explores factors associated with participant motivation regarding the key issues of liquidity formation and maintenance, exchange ownership and governance, and the delivery of value-added services.

B2B MARKET MECHANISMS

Electronic Marketplaces provide the basic infrastructure to allow suppliers and buyers to interact in an online environment. By mid-2000 there were some 30,000 private exchanges in various stages of development and more than 600 public exchanges in operation (King, 2000). The rapid proliferation of B2B marketplaces has caused confusion in understanding the players and the effective use for various types of online marketplaces. A classification mechanism for understanding B2B marketplaces is offered by Kaplan and Sawhney (2000). This simple two-by-two scheme considers the dimensions of what firms purchase (manufacturing inputs or operating inputs) as well as how they purchase (spot buying or systematic buying), and classifies marketplaces accordingly (see Table 1). This mechanism allows us to examine when various types of exchanges are likely to emerge and how they might be used.

Table 1: Classifying B2B Marketplaces (Adapted in part from Kaplan and Sawney, 2000)

	Operating Inputs	Manufacturing Inputs	
Systematic Sourcing	MRO Hubs *low value goods with high transaction costs*	Catalog Hubs *non-commodity manufacturing inputs*	Aggregation
Spot Sourcing	Yield Managers *products have a high degree of price/demand volatility*	Exchanges *commodities or near-commodities used in production*	Matching
	Horizontal Markets	Vertical Markets	