

Boost your b2b commerce in with the online tra

Collaboration between other companies is at the heart of conducting business on the internet. To be successful in e-business you have to connect buyers, sellers and partners in a common trading environment, and linking up inter-company processes. Currently this activity is defined in terms of online trading exchanges, also known as e-markets. Over the next couple of years failure to become a player in the exchange game will seriously restrict your company's impact on the business-to-business (b2b) market.

Businesses must now consider how to reap the potential of the internet – by trading more efficiently, getting to market faster, cutting costs and raising return on investment. Involvement in exchanges may be low level right now, but things will change rapidly. SMEs can benefit enormously from being part of an exchange, due to aggregation – the online gathering of suitable buyers and sellers. This replaces older, more hit-and-miss trading

methods, where you don't know if you have located the best suppliers or clients. It can be argued that the benefits from aggregation outweigh concerns about exposing crucial company data to third parties. During the past decade, companies have focused on using software to link systems and integrating

fourth phase of competitive advantage to be gained from e-business (*see chart, opposite*). This shows a progression from marketing, through self-service to collaboration, and then to the most advantageous state – where fully integrated supply chains are built on successful exchanges. There are three main ways in

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departments. This trend has now been extended to link with other organisations across networks and supply chains.

Considering the changes

One key issue is how to reach the point where communications are predominantly handled on a computer-to-computer basis. Exchanges represent a further evolution towards what leading analyst AMR Research sees as the

which companies can get into the trading exchange action. It is important to decide which role, or multiple roles, your company should adopt:

- As a buyer Joining an exchange because it is the quickest and most effective way to obtain the components or services you need, while operating closer to a just-in-time business model. This is a step further than the idea of e-procurement with selected suppliers
- As a seller Your company might find that the best medium for bringing your products and services to market is through an exchange, where more of your potential buyers can be found
- As a market maker You may decide to set up an exchange to bring together buyers and sellers in a common trading environment. Distinctions can become blurred, however, as exchange owners can also be traders.

Such definitions can also be further refined. Nigel Montgomery, research director for e-business applications at AMR Research, provides four basic descriptions of online exchanges. In the first two cases, the owners facilitate trade. In the second pairing, owners are also major traders:

- Independent vertical (IVX) and horizontal (IHX) exchanges The owners facilitate trade between buyers and sellers, either in a vertical market segment, or across a broader market. The IVX is distinguished by issues like supplier aggregation, serving buyers and providing a virtual distribution service.

Issues » The trading exchange experience

The market in Eire is composed predominantly of up to 90,000 SMEs, creating the perfect opportunity for a horizontal trading exchange to be developed. This has led to the creation of icommerce, which aims to eventually sign up 40,000 companies to the cause, and at least 20,000 firms by 2001, according to Iain Hyland, CEO of icommerce. Launched in October, the company also has strategic deals with Clarus, Hewlett-Packard and MCI WorldCom. A number of partners have given support to this exchange, such as *Business & Finance* magazine, Comit Gruppe and the Chamber of Commerce of Ireland.

Hyland describes icommerce as the first online b2b marketplace in Eire, but intends to provide both buyers and sellers with a complete channel to acquire and vend business products and services that will extend to international markets over time. The Chamber of Commerce of Ireland, the Irish Institute of Purchasing and Materials Management, the Marketing Institute of Ireland and the Irish Exporters Association are all supporters of the icommerce project. Hyland anticipates icommerce revenues to reach IRE2.2 million (£1.7m) by 2001, rising to IRE8 million (£6.2m) by the following year. He describes icommerce as a business tool that has to be capable of high performance. Its features need to include reliability, speed, security, rich functions, flexibility and practicality. Hyland expects to see a payments system in place by 2001, but icommerce is geared as much towards providing real-time information as simply delivering a trading environment. Icommerce is also looking for joint-venture partners in the UK and continental Europe.

Value by joining trading exchange



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more than just technology, according to Nick Mayo, head of e-markets for solutions provider, Clarus. While the technology is important, an effective exchange is more about companies transacting effectively. Physical meetings are still valuable, after which business can occur electronically with greater assurance and trust.

Signs of the times

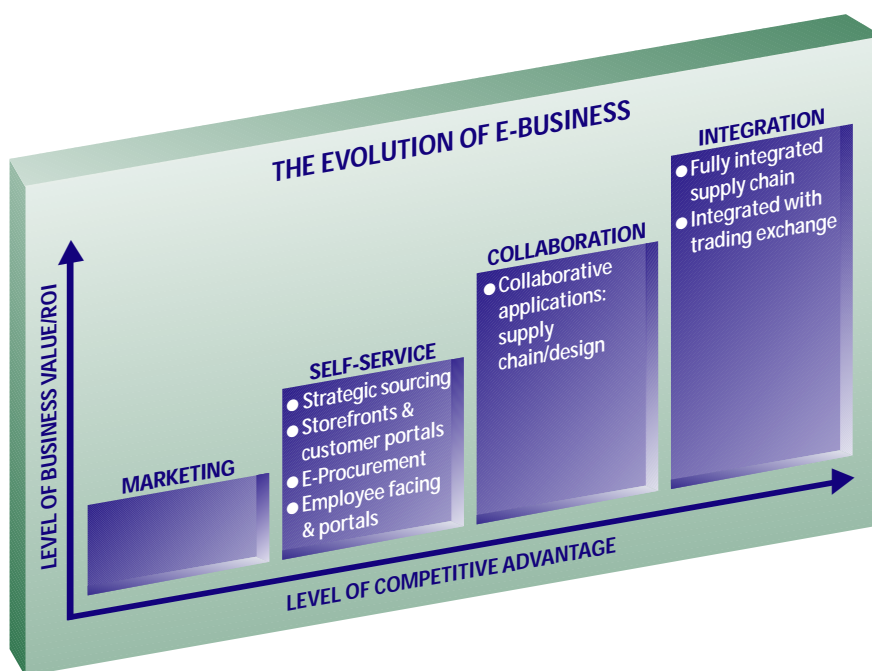
Mayo points out that the key drivers behind joining an exchange are cost reductions, boosting market share and new business opportunities. He believes that by shaving just three per cent off costs, a company in a trading exchange can achieve a 50 per cent hike in profits. The benefits include strategic sourcing of products and services, reduced maverick buying by customers and shorter turnaround times.

You should be looking for exchanges that offer a long-term business model and involve experienced partners. AMR sees exchanges failing due to lack of 'stickiness', where new companies fail to join the exchange in sufficient numbers and transactions can default to one-off events. A small exchange can also lose focus within a larger project.

Despite some early issues to do with exchanges, they offer great opportunities. Collaboration is the key to the b2b commerce world and e-markets are an important way to make this come about. ●

Intelligence gathering »

- www.amrresearch.com
- www.claruscorp.com
- www.tbcresearch.com
- www.icommerce.ie
- www.europa.eu.int



The IHX shows domain expertise, buyer aggregation and acting as a virtual sales rep.

● Consortia-based (CTX) and private (PTX) trading exchanges With a CTX, a consortium of sellers and buyers is formed. It's based on consensus, activity aggregation, serving members and providing a virtual co-operative environment. The PTX shows qualities like trust, buyer aggregation, serving activities and delivering a virtual electronic data interchange hub.

AMR is actively tracking the exchange phenomenon. There will be between 2,500 and 10,000 trading exchanges launched globally over the next few years, according to Montgomery. Yet he also foresees this number shrinking – with equal rapidity back to around 1,000 exchanges worldwide. AMR also predicts that b2b internet commerce will be worth \$5.7 trillion (£4t) by 2004, rising rapidly in value during the intervening years.

Eventually, Montgomery predicts that there will be around three or four such online markets per vertical industry sector, although these might well include several other smaller

exchanges. Many exchanges will be absorbed into larger entities following the mergers and acquisitions expected over the next few years. There is plenty of hard thinking going on about how to work and trade electronically. Finding the right routes to market to achieve such goals is a major management issue. One of the main challenges is the cultural factor. Companies are asking the question whether or not it is a good idea to allow electronic access to outsiders, thus enabling essential collaboration, but in the same instance exposing precious data to third parties.

Building trusted business connections takes

Issues » Should exchanges be regulated?

Several leading b2b technology suppliers are calling for the European Union to lay down clear guidelines about the regulation of e-markets. The European Commission has investigated only one exchange so far – MyAircraft.com – to ensure that competition rules had been violated. No action was taken in that case, easing concern that heavy regulation might be applied to European exchanges. Now the industry wants the entire situation clarified, to remove all doubts about the operation of e-markets and to encourage potential users to get involved.