

Chapter 7

Public B2B Exchanges and Portals

Learning Objectives

Upon completion of this chapter, you will be able to:

1. Define e-marketplaces and exchanges and describe their major types.
2. Describe the various ownership and revenue models of exchanges.
3. Describe B2B portals.
4. Describe third-party exchanges.
5. Distinguish between purchasing (procurement) and selling consortia.
6. Define dynamic trading and describe B2B auctions.
7. Discuss integration issues at e-marketplaces and exchanges.
8. Describe the major support services of B2B.
9. Discuss exchange networks and exchange management.
10. Describe the critical success factors of exchanges.

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Appendix 7A Communication Networks and Extranets for B2B

Answers to Pause/Break Section Review Questions

Section 7.1 Review Questions

1. *Define B2B exchanges and list the various types of public e-marketplaces.*

A B2B exchange is a many-to-many e-marketplace for business-to-business transactions. Exchanges are categorized as direct or indirect, and then systematic or spot sourcing.

2. *Define systematic sourcing and spot sourcing.*

Systematic sourcing is purchasing completed through long-term supplier relationships. Spot sourcing is making unplanned purchases as the need arises.

3. *Differentiate between a vertical exchange and a horizontal exchange.*

A vertical exchange works with specific products for a specific industry while a horizontal exchanges works with general products for many industries.

4. *What is dynamic pricing? How does it work?*

Dynamic pricing is pricing that changes based on the demand for the product or service at a specific time. Auctions are an example.

5. *Describe the types of ownership and the possible revenue models of exchanges.*

Exchanges can be owned by an industry leader, a neutral party or by a co-op. Revenue can be created by transaction fees, service fees, membership fees, advertising and other sources.

6. *List the potential advantages, gains, limitations, and risks of exchanges.*

The gains and risks of exchanges are summarized in Exhibit 7.6.

Section 7.2 Review Questions

1. *Define B2B portals.*

These are information portals for businesses.

2. *Distinguish a vortal from a horizontal portal.*

A vortal is a vertical portal that concentrates on a single industry or industry segment. A horizontal portal deals with a wide variety of products of general appeal.

3. *List the major services provided by Alibaba.com.*

The primary services that this firm provides include a horizontal information portal for classified ads and reverse auctions. Additionally, the firm offers secondary services such as e-mail, club memberships, news, legal information, arbitration, and discussion groups.

Section 7.3 Review Questions

1. *What is a third-party exchange?*

A third-party exchange is an exchange that is owned by a neutral third party.

2. *Define liquidity.*

Liquidity is the result of having a sufficient number of participants in the marketplace as well as a sufficient transaction volume.

3. *Describe the supplier aggregation exchange.*

The supplier aggregation exchange offers catalogs by a variety of suppliers that are placed in the same ordering area.

4. *Describe a buyer aggregation exchange.*

In a buyer aggregation exchange, buyers are grouped together to purchase from a single seller.

5. *List the market characteristics that are most suitable for third-party exchanges.*

They appear to succeed in industries based on MROs with stable prices.

Section 7.4 Review Questions

1. *Define CTEs.*

Consortia trading exchanges are formed and operated by a group of major companies providing industry-wide transaction services.

2. *Describe purchasing-oriented consortia and selling-oriented consortia.*

Consortia that are concerned primarily with the efficient purchasing of goods are purchasing-oriented consortia. The consortia that are concerned primarily with effectively selling products are selling-oriented consortia.

3. *Describe potential legal issues for consortia.*

The consortia generally deals with issues of antitrust.

4. *List the major critical success factors of consortia.*

The major critical success factors of consortia include: the size of the industry, the ability to drive user adoption, elasticity, standardization of products, management of intensive information flow and smoothing inefficiencies in the supply chain.

Section 7.5 Review Questions

1. *Explain how matches are made in exchanges.*

Matches are made by linking goods and their quantities between buyers and sellers. This is generally a fully computerized process.

2. *Explain how private and public auctions are conducted in public exchanges.*

Public auctions are conducted openly for all to view and participate in. Private auctions are conducted by invitation only in private trading rooms.

3. *Compare fully dedicated and partially dedicated auction exchanges.*

Fully dedicated auction exchanges focus purely on auctions as their business model. Partially dedicated exchanges provide auctions as a part of the overall package of services delivered.

Section 7.6 Review Questions

1. *List the steps in building a vertical exchange.*

The steps in building a vertical exchange include thinking ahead, planning, systems analysis and design, building the exchange, testing-installation-operation, and system evaluation and improvement.

2. *Describe the integration issues for third-party exchanges.*

Integration issues with third-party exchanges include communications, process and information coordination, and system and information management.

Section 7.7 Review Questions

1. *What type of information of use to B2B is provided by directory services and search engines?*

The service provided is one that allows buyers and sellers to sort through the large volume of potential partners.

2. *How does PRM differ from CRM? From SRM?*

PRM is different from CRM in that it is focused directly on servicing business partners and not individual customers. SRM is focused on servicing suppliers.

3. *List five other services for B2B.*

Student responses will vary.

4. *Describe e-communities in B2B.*

E-communities help to integrate the supply chain participants and provide a valuable tool for networking and market research.

5. *Describe the integration issue in exchanges.*

Integration issues with third-party exchanges include communications, process and information coordination, and system and information management.

Section 7.8 Review Questions

1. *List the problems of public exchanges.*

Public exchanges have the following problems: transaction fees keep the users away, companies do not like to share information, cost savings are not as high as expected, recruiting suppliers is difficult, too many exchanges existed and supply chain improvements were not factored in.

2. *List the problems of private exchanges.*

Private exchanges are sometimes distrusted because of the private ownership. Additionally, they may face antitrust issues.

3. *How can exchanges cause disintermediation?*

Exchanges can create disintermediation by removing traditional B2B intermediaries from existing supply chains.

4. *What are some of the questions one should ask when evaluating exchanges?*

Detailed questions that should be asked can be found in "Insights and Additions 7.1 " on page 288.

Section 7.9 Review Questions

1. *Describe a network of exchanges.*

A network of exchanges joins together several different exchanges to provide a more comprehensive listing of potential trading areas.

2. *List the five critical success factors for exchanges cited by Ramsdell.*

The five critical success factors include: early liquidity, the right owners, the right governance, openness and a full range of services.

3. *Discuss other critical success factors for exchanges.*

Other critical success factors for exchanges are detailed on page 287.

4. *Review the new directions of B2B.*

Many potential directions exist, but many focus on increasing information flow to increase trust.

Answers to EC Application Case Questions

EC Application Case 7.1: Global Trading of Raw Materials at Rawmart.com

1. *Enter **rawmart.com**. Read any recent developments. What is the site's current revenue model?*

It appears that the site is still working with the buying and selling of commodities as a consultant/broker.

2. *Why is third-party ownership suited for this exchange?*

It ensures the neutrality of the exchange.

3. *Examine Exhibit 7.3. Which of the transactions listed there is offered by Rawmart.com?*

It appears that Rawmart.com offers the Portal.

EC Application Case 7.2: Covisint: The E-Market of the Automotive Industry

1. *Describe the concepts upon which Covisint is structured.*

The purpose of this exchange is to integrate buyers and sellers into a single large network that would allow for greater efficiency in the entire market. The hope is that the creation of this exchange would create better communication, visibility and integration across the entire marketplace by making supply chains more efficient.

2. *Describe how Covisint changed the supply chain in the automobile industry.*

This exchange has changed the supply chain by creating a transparent hub and spoke-and-wheel model out of the traditional linear supply chain.

EC Application Case 7.3: Asite' B2B E-Marketplace for the Construction Industry

1. *Identify the success factors of this company (see the list of success factors in Section 7.9).*

The factors are early liquidity, ownership, governance, openness and a range of services.

2. *How would you classify the ownership of this e-marketplace?*

It is run by a co-op.

3. *Examine the Webcor Application Case in Chapter 8. How does Webcor differ from Asite? How is it similar?*

Webcor also uses EC technology to enable communication and collaboration, but not in a portal setting.

4. *Enter **asite.com** and read about new developments (within the last six months).*

Student responses will vary.

5. *What is the exchange's revenue model?*

The firm appears to have a revenue model based on consulting and IT solutions.

6. *Using the classification scheme presented in this chapter, is **asite.com** a portal or an exchange?*

This appears to be an exchange.

Answers to Discussion Questions

1. *How does dynamic pricing differ from fixed pricing?*

Fixed pricing must be manually updated whereas dynamic pricing is changed in real-time based on the supply and demand of a given product.

2. *Suppose a manufacturer uses an outside shipping company. How can the manufacturer use an exchange to arrange for the best possible shipping? How can a shipment status be tracked?*

The manufacturer can consult an exchange to find a shipper that provides the best overall value. The shipment status can be tracked through that vendor's Web site.

3. *Explain the legal concerns regarding consortia.*

Consortia generally involve groups of competing firms working together collaboratively. This collaboration can be seen as anticompetitive and can fall into the arena of antitrust law.

4. *Which types of exchanges are most suitable for third-party ownership and why?*

Exchanges work best in fragmented markets, seller-concentrated markets, and buyer-concentrated markets. Exchanges are successful in fragmented markets because of the large number of buyers and sellers and no clear industry leaders. Exchanges are successful in seller-concentrated markets because of the large number of potential buyers served by a more limited number of sellers. Exchanges are successful in buyer-concentrated markets because of the large amount of buying conducted by a few large companies.

5. *Compare and contrast the supplier aggregation model with the buyer aggregation model in an industry of your choice.*

Student answers will vary. Supplier aggregation is the grouping of the goods offered by several suppliers in a single marketplace. Buyer aggregation is the grouping of several buyers who purchase as a cooperative from a single seller.

6. *Describe the various issues of integration related to B2B exchanges.*

Integration is important in exchanges because often there is a need to communicate across several different information systems. The most common elements of integration solutions include: external communications, process and information coordination, and system and information management. The external communication issue deals primarily with the ability of businesses to communicate across various systems. The process and information coordination issue deals with the need to link extra communications with the exchange to internal information systems. The system and information management issue deals with the management of software, hardware and several information components.

7. *Explain the logic for networks of exchanges.*

Networks of exchanges are helpful because they capitalize on the benefits of the exchanges themselves, namely the aggregation of buyers and sellers. Networks of exchanges allow several vertical and horizontal networks to be linked creating a larger overall marketplace.

8. *Discuss the need for auctions in exchanges and the types of auctions used.*

Auctions can be important in exchanges as a method of sales as well as a reason for members to return to the exchange frequently. Depending on the type of exchange, all auction formats can potentially be used.

9. *Explain the importance of early liquidity and describe methods to achieve it.*

Early liquidity is very important for exchanges because it puts that exchange in a more

competitive position because of easier access to it or the lack of need for additional capital. The keys to early liquidity focus on increasing transaction volume as quickly as possible. Transaction volume is achieved by having more buyers and suppliers in a network, by increasing transaction volume and decreasing transaction cost.

10. *How do exchanges affect disintermediation?*

Exchanges can potentially create disintermediation when buyers purchase from members of the exchange instead of traditional members of their supply chain.

11. *What questions should buyers and sellers ask when evaluating exchanges?*

Buyers should ask the following questions:

Does the exchange have a critical mass of buyers and suppliers?

Can buyers and sellers hide their identities?

What kind of secret information does my company have? Will it be disclosed?

Can past trading records be traced?

Sellers should ask the following questions:

Could the company acquire more buyers by being in the exchange?

Does total participation affect the price of my goods?

What kind of information do we have? Will it be uncovered and exposed to others?

How much does it cost to participate in trading?

What is the transaction fee?

Could I resell independently in the future?

How severe is the competition in the exchange itself?

12. *Compare the operation and viability of private exchanges versus public exchanges.*

Student answers will vary. Both public and private exchanges have certain drawbacks. Private exchanges suffer from a lack of trust because they are run by an industry leader. Public exchanges suffer from the need to gather users while still creating a profit. Public exchanges are more open and therefore may have better trust from businesses, but sometimes the openness is also considered a liability. Private exchanges can rely on the revenues and core competence of the parent business in order to survive.

Internet Exercises

(Note: URLs may change over time; please check the Internet Exercises on the Turban Web site for possible updates: www.prenhall.com/turban.)

1. Visit ariba.com and commerceone.com. Find the software tools they have for building e-markets. Check the capabilities provided by each and comment on their differences.

Both companies provide software for the creation of exchanges. It appears that Commerce One focuses on the creation of the exchange itself with integration playing a secondary role,

while Ariba concentrates on integration first and exchange creation second.

2. Go to alibaba.com and sign up (free) as a member. Go to the site map and find the “sample house.” Create a product and place it in the sample house. Tell your instructor how to view this product.

Student answers will vary.

3. Compare the services offered by globalsources.com with those offered by alibaba.com and meetworldtrade.com. Assuming you are a toy seller, with which one would you register? Why? If you are a buyer of auto parts, which one would you join, and why?

All three firms appear to focus on trade with China and Asia. All firms appear to offer an exchange system that is directed at buyers. Alibaba.com appears to offer the largest variety of potential markets. Globalsources.com appears to be focused on consumer goods while meetworldtrade.com offers a variety of categories but a smaller number of suppliers. Student responses will vary.

4. Enter chemconnect.com and view the demos for different trading alternatives. Examine the revenue model. Evaluate the services from both the buyer’s and seller’s points of view. Also, examine the site policies and legal guidelines. Are they fair? Compare chemconnect.com with chemicalonline.com, trade-ranger.com, and omnexus.com. Which of these do you think will survive? Explain your reasoning.

Both buyers and sellers have a wide variety of services available. Both buyers and sellers have access to market information to help them evaluate the current state and pricing of products in the market. Additionally, the firm provides access to tools that assist negotiation information to flow, as well as advanced trading options and fulfillment services. The policies and procedures section of the Web site clearly spells out the rules for members and the policies under which trades can be made. These policies are clearly defined and members are aware of the policy before they become members and before they make trades. Based on this logic, these are fair policies.

All services offer similar functions. Student responses on company longevity will vary.

5. Most of the major exchanges use an ERP/SCM partner. Enter i2.com and view its solutions. What are the benefits of these solutions?

This firm provides a wide variety of solutions to assist in value chain management. According to the Web site, some of the benefits of the solutions include: improved relationships with suppliers, expanding business relationships, focusing on customers, integration of systems across the value chain, rapid network connections and software tailored to specific industries.

6. Enter fastparts.com and review the services offered there. Write a report based on your findings. Compare it to freemarkets.com.

Student answers will vary.

7. Enter eBay's Business Industrial area (pages.ebay.com/catindex/business.html or ebay.com, select "wholesale"). What kind of e-marketplace is this? What are its major capabilities?

It appears that this is an eBay marketplace that caters to firms wishing to buy in quantity and resell.

8. Visit converge.com. What kind of exchange is this? What services does it provide? How do its auctions work?

Converge.com appears to be a horizontal exchange that offers a variety of different markets. The firm offers a variety of products including forward and reverse auctions, online exchanges and market tracking information.

9. Enter bigyellow.com and netb2b.com. What services do they provide that are relevant to exchanges?

Bigyellow.com appears to offer information services (addresses, businesses, etc.), while netb2b.com (now BtoBOnline.com) is an online magazine about B2B.

10. Enter communityb2b.com and find recent material on B2B exchanges (within the last 6 months). Prepare a report on developments not covered in this chapter.

Student reports will vary.

11. Enter commerceone.com and review its Composite Application Solution. Describe this system and its connection to UCCNet's global registry. Write a report.

Student reports will vary.

Team Assignments and Role Playing

1. Form two teams (A and B) of five or more members. On each team, Person 1 plays the role of an assembly company that produces television monitors. Persons 2 and 3 are domestic parts suppliers to the assembling company, and Persons 4 and 5 play foreign parts suppliers. Assume that the TV monitor company wants to sell televisions directly to business customers. Each team is to design an environment composed of membership in exchanges and present its results. A graphical display is recommended.

Answers will vary widely. Students will construct exchanges that facilitate advantage in the creation in sales of televisions. Exchanges will link domestic and international parts suppliers to assembly companies. The exchanges can be public or private, and may include all members or only include specific members.

2. *Investigate the status of Covisint, both in the United States and in Europe. What are the relationships between Covisint and the company-centered marketplaces of the large automakers? Have another team find similar industry-wide exchanges and compare them with Covisint.*

Covisint maintains a wide array of relationships with auto producers and suppliers throughout the United States and Europe. Many of their relationships are with multinational firms that operate on both continents. Covisint operates the exchange used by these corporate allies. The firm was actually created by large automakers to increase efficiencies. ENX is a similar system that is an alliance of European-only auto producers. It provides many of the same services and functions of Covisint. ANX is also similar to a system developed by consortium of American automakers. Both ENX and ANX appear to be similar exchange systems, but Covisint appears to have the largest network of manufacturers and parts suppliers. Student answers will vary on other exchanges depending on the exchange selected.

3. *Enter isteelasia.com, metalworld.com, lme.co.uk, and newview.com. Compare their operations and services. These exchanges compete in global markets. Examine the trading platforms, portal capabilities, and support services (e.g., logistics, payments, etc.) offered by each. In what areas do these companies compete? In what areas do they not compete? What are the advantages of isteelasia.com in dealing with Asian companies? Are regional exchanges needed? If it is good for Asia to have a regional exchange, why not have a Western European exchange, an Eastern European exchange, a Central American exchange, and so on? If regional exchanges are needed, can they work together? How? If there are too many exchanges, which are likely to survive? Research this topic and prepare a report.*

Student answers will vary considerably depending on the time at which an evaluation is made, and the sources used for that evaluation. All of these firms act as exchanges for the steel industry and provide a wide variety of services, and do most large successful exchanges. Some exchanges attempt to be global while others serve regional markets. Student answers will vary on the necessity and success of regional vs. global exchanges. Students will also address the viability of the large number of exchanges in this industry and whether the competition from various exchanges is good, or will create a shakeout in the industry. Students may also suggest ways that competing exchanges might work together.

Answers to End-of-Chapter Real-World Case Questions: Global Transportation Network

1. *Identify the critical success factors of this exchange.*

The factors are early liquidity, ownership, governance, openness and a range of services.

2. *Is a consortium the best type of ownership for this kind of exchange?*

Student responses will vary.

3. *Although there are thousands of shippers, some of them are very big (e.g. Wal-Mart). Does it make sense to have them create a shipper's exchange? Why or why not?*

Student responses will vary.

4. *What motivates a carrier to participate?*

The incentive is additional contracts.

5. *What motivates a shipper to participate?*

The incentive is reduced price.

6. *How was customer service improved by the exchange?*

It allowed for greater communication and information flow.

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