Chapter 7
Public B2B Exchanges and Portals

True-False Questions

1. A public e-marketplace is an example of a company-centric B2B business model.

   Answer: F **Reference**: B2B Electronic Exchanges – An Overview

2. Systematic sourcing deals with long-term supplier-buyer relationships.

   Answer: T **Reference**: Classification of Exchanges

3. Spot sourcing occurs on an as-needed basis.

   Answer: T **Reference**: Classification of Exchanges

4. In classifying exchanges, direct materials are purchased in horizontal exchanges.

   Answer: F **Reference**: Classification of Exchanges

5. In classifying exchanges, indirect materials are purchased in vertical exchanges.

   Answer: F **Reference**: Classification of Exchanges

6. IBM placed a large number of its own patents for sale on a Web site and invited its competitors to join the exchange. This is an example of the sell-side model.

   Answer: T **Reference**: Ownership of Exchanges

7. In horizontal and vertical exchanges, it is the seller that sets prices for the exchange based on its profitability goals.

   Answer: F **Reference**: Dynamic Pricing

8. In the consortia model, several industry players come together to establish an exchange for the benefit of all.

   Answer: T **Reference**: Ownership, Governance, and Organization of Exchanges

9. The membership fee model for an exchange can fail either as a result of charging too high a fee and so discouraging membership, or charging too low a fee and so producing insufficient fees for operations.

   Answer: T **Reference**: Revenue Models

10. In a drive for sources of revenue, many information portals have begun to act as exchanges.

    Answer: T **Reference**: B2B Portals

11. In 2001, a number of exchanges collapsed.

    Answer: T **Reference**: Advantages and Limitations of Exchanges

12. In the trading exchange model, the independent organizer of the exchange often tries to team with industry partners as a way to secure financial viability.

    Answer: T **Reference**: Third-Party (Trading) Exchanges

13. In the supplier aggregation model, RFQs are aggregated and linked to a pool of potential suppliers.

    Answer: F **Reference**: The Supplier Aggregation Model

14. The major challenges faced in the supplier aggregation model are recruiting suppliers and pushing the system to buyers.

    Answer: T **Reference**: The Supplier Aggregation Model

15. Fragmented markets are dominated by a single, large seller.

    Answer: F **Reference**: Consortium Trading Exchanges

16. In buyer-concentrated markets, there are many buyers and a few large suppliers.

    Answer: F **Reference**: Consortium Trading Exchanges

17. In a buyer-concentrated market, a consortium is the most appropriate approach.

    Answer: T **Reference**: Consortium Trading Exchanges

18. A CTE is made up of a large number of small companies brought together by an independent third party in order to make volume discounts available to members.

    Answer: F **Reference**: Consortium Trading Exchanges

19. The purchasing-oriented consortium is the most popular B2B consortium model.

    Answer: T **Reference**: Purchasing-Oriented Consortia

20. A consortium, which includes the largest competitors in a given industry must be careful of violating antitrust laws.

    Answer: T **Reference**: Legal Challenges for B2B Consortia

21. Elasticity is the measure of the incremental spending by buyers as a result of the savings generated.

    Answer: T **Reference**: Critical Success Factors for Consortia

22. In a dynamic trading environment, prices should not change more often than daily.

    Answer: F **Reference**: Dynamic Trading: Matching and Auctions

23. When private trading rooms are used in an exchange, the one-to-many model is activated.

    Answer: T **Reference**: Auctions

24. In the stock market, it is the role of market makers to match the bid prices of sellers with the asking prices of buyers.

    Answer: F **Reference**: Matching

25. For an exchange to be successful, there must be seamless integration between the third-party exchange and the marketing systems of each exchange member.

    Answer: F **Reference**: The Integration Issue

26. The purpose of directory services in B2B markets is to make consumers aware of all companies that sell a given product.

    Answer: F **Reference**: Directory Services and Search Engines

27. The unifying interest in B2B e-communities is trading.

    Answer: T **Reference**: E-Communities and PRM

28. One reason that large sellers often refuse to join public exchanges is they have to pay transaction fees on all transactions conducted through the exchange, even on business they would have gotten anyway.

    Answer: T **Reference**: Private Versus Public Exchanges

29. A private exchange is owned and operated by an industry giant while public exchanges are owned and operated by consortia.

    Answer: F **Reference**: Private Versus Public Exchanges

30. A current trend in exchanges is the shift toward forming networks of exchanges as a way to quickly add buyers and sellers.

    Answer: T **Reference**: Networks of Exchanges (E2E)

31. The speed with which exchanges achieve the necessary level of liquidity is rarely an issue in exchange survival.

    Answer: F **Reference**: Critical Success Factors for Exchanges

32. In most exchanges, the more suppliers that use the exchange, the lower the transaction fees, which leads to improved liquidity.

    Answer: T **Reference**: Critical Success Factors for Exchanges

33. For an independent exchange, partnering with a large, well-established player in the market will usually lead to decreased liquidity.

    Answer: F **Reference**: Critical Success Factors for Exchanges

34. To build liquidity quickly, an exchange should develop a unique set of proprietary protocols governing all trading activity and implement these protocols as soon as possible.

    Answer: F **Reference**: Critical Success Factors for Exchanges

35. In the long run, exchanges must expand the scope of services beyond bringing together buyers and sellers to include other value-added services such as providing industry news, and supplying expert advice.

    Answer: T **Reference**: Insights and Additions 7.1

36. The management of a successful exchange needs to understand the mechanics of the B2B exchange model, but industry knowledge is not required because all exchanges operate the same regardless of the industry involved.

    Answer: F **Reference**: Insights and Additions 7.1

37. High switching costs for exchange members in most exchanges result in high brand loyalty and make the switching of members to other exchanges rare.

    Answer: F **Reference**: Insights and Additions 7.1

38. Exchanges realize the greatest "stickiness" by emphasizing content and community features rather than focusing attention on the conduct of EC transactions.

    Answer: F **Reference**: Insights and Additions 7.1

39. Intranets are the most important infrastructure component in successful B2B exchanges.

    Answer: F **Reference**: Communication Networks and Extranets for B2B

40. An intranet is a LAN or WAN that uses Internet technology and adds firewall protection.

Answer: T **Reference**: Communication Networks and Extranets for B2B

Multiple Choice Questions

41. The party that operates and often owns an exchange is called the:

a. marketer.
b. channel controller.
c. market maker.
d. auctioneer.

Answer: c **Reference**: B2B Electronic Exchanges – An Overview

42. In spot-sourcing, prices are:

a. set by long-term contract.
b. based on supply and demand.
c. based solely on the cost structure of the seller.
d. set by the market maker.

Answer: b **Reference**: Classification of Exchanges

43. When systematic sourcing is used in a B2B e-marketplace,:

a. there is never a market maker.
b. the market maker matches supply with demand.
c. the market maker aggregates buyers and/or sellers and provides a framework for negotiations.
d. prices are determined by the market.

Answer: c **Reference**: Classification of Exchanges

44. A rapid movement of prices over time is called:

a. market making.
b. dynamic pricing.
c. static pricing.
d. demand pricing.

Answer: b **Reference**: Dynamic Pricing

45. Dynamic trading occurs when:

    a. static pricing is used in systematic sourcing systems.
    b. prices are negotiated in a short period of time.
    c. companies engage in bartering.
    d. dynamic pricing occurs in an auction setting.

    Answer: d **Reference**: Dynamic Pricing

46. In dynamic pricing,:

    a. different prices are charged to different customers for exactly the same product.
    b. different prices are charged to different customers for different products.
    c. the same price is charged to different customers for the same product.
    d. the same price is charged to different customers for different products.

    Answer: a **Reference**: Dynamic Pricing

47. A market maker evaluates an exchange between a buyer in the United States and a seller in Spain to assure that import laws for the U.S. are followed. This is an example of the market maker:

    a. facilitating an exchange.
    b. interfering in an exchange.
    c. matching a buyer and seller.
    d. maintaining exchange policies and infrastructure.

    Answer: d **Reference**: Functions of Exchanges

48. In the consortia model,:

    a. a neutral third party establishes and manages the exchange.
    b. several industry players come together to establish the exchange for the benefit of all.
    c. a dominant player in the industry establishes the exchange and invites others to join.
    d. the public is invited to join the exchange as a way to offset expenses.

    Answer: b **Reference**: Ownership, Governance, and Organization of Exchanges

49. Exchange members who can make offers, pay, and arrange deliveries through the exchange are known as:

    a. full members.
    b. trading members.
    c. observing members.
    d. market makers.

    Answer: b **Reference**: Ownership, Governance, and Organization of Exchanges

50. The exchange model in which a third party sets up the exchange and promises to run it efficiently and without bias is called:

    a. the industry giant model.
    b. the co-op model.
    c. the consortia model.
    d. the neutral entrepreneur model.

    Answer: d **Reference**: Ownership, Governance, and Organization of Exchanges

51. An exchange charges an annual fee of $10,000 for all parties who want to trade in the exchange. The revenue model in use by this exchange is the:

    a. transaction fee model.
    b. fee for service model.
    c. membership fee model.
    d. advertising fee model.

    Answer: c **Reference**: Revenue Models

52. A market maker charges a percentage on every buy and sell made in the exchange. The revenue model in place in this exchange is the:

    a. transaction fee model.
    b. fee for service model.
    c. membership fee model.
    d. advertising fee model.

    Answer: a **Reference**: Revenue Models

53. A market maker bills a buyer for reviewing several seller contracts and making a recommendation on what to buy and from whom. The revenue model being used in this example is the:

    a. transaction fee model.
    b. fee for service model.
    c. membership fee model.
    d. advertising fee model.

    Answer: b **Reference**: Revenue Models

54. A market maker charges a percentage on every buy and sell made in the exchange. The revenue model in place in this exchange is the:

    a. transaction fee model.
    b. fee for service model.
    c. membership fee model.
    d. advertising fee model.

    Answer: a **Reference**: Revenue Models

55. All of the following are potential sources of revenue for an exchange **EXCEPT:**

    a. fees for services rendered.
    b. annual membership fees.
    c. advertisement fees.
    d. shipping fees.

    Answer: d **Reference**: Revenue Models

56. When membership fees are the basis for revenue generation in an e-exchange, it has been shown that:

    a. low membership fees often result in losses to the exchange, yet high fees discourage participation.
    b. the higher the fees charged, the greater the total revenue generated.
    c. when fees are very low, the exchange sees greater utilization, and so greater revenue.
    d. there should be a fee for every service provided; there should be no free services for members.

    Answer: a **Reference**: Revenue Models

57. All of the following are potential risks for sellers in an exchange **EXCEPT**:

    a. potential for loss of direct CRM and PRM.
    b. potential for price wars.
    c. possible loss of customer service quality.
    d. possible loss of customers to competitors.

    Answer: c **Reference**: Advantages and Limitations of Exchanges

58. All of the following are potential benefits for sellers in an exchange **EXCEPT**:

    a. a new sales channel is opened.
    b. maverick buying is eliminated.
    c. it provides an outlet for surplus inventory.
    d. it is possible to sell 24/7.

    Answer: b **Reference**: Advantages and Limitations of Exchanges

59. An information portal that works in a single industry is called:

    a. a database.
    b. a vortal.
    c. a horizontal information portal.
    d. a membership exchange.

    Answer: b **Reference**: B2B Portal

60. The exchange model in which RFQs are aggregated then linked to a pool of suppliers who are automatically notified of the RFQ is the:

    a. buyer aggregation model.
    b. seller aggregation model.
    c. supplier aggregation model.
    d. reverse auction model.

    Answer: a **Reference**: The Buyer Aggregation Model

61. Aggregation models work best in all of the following situations **EXCEPT when:**

    a. products and/or services are well defined.
    b. the buyer or supplier base is fragmented.
    c. dynamic pricing is widely used.
    d. prices are stable.

    Answer: c **Reference**: Suitability of Third-Party Exchanges

62. Markets in which several large sellers sell to a large number of buyers are called:

    a. seller-concentrated markets.
    b. fragmented markets.
    c. buyer-concentrated markets.
    d. differentiated markets.

    Answer: a **Reference**: Consortium Trading Exchanges

63. Consortia are only appropriate in:

    a. both buyer-concentrated and seller-concentrated markets.
    b. fragmented markets.
    c. buyer-concentrated markets.
    d. seller-concentrated markets.

    Answer: a **Reference**: Consortium Trading Exchanges

64. The consortium model in which a group of buying companies in the same industry join together to streamline the purchasing process is called the:

    a. horizontal purchasing-oriented consortium.
    b. vertical selling-oriented consortium.
    c. horizontal selling-oriented consortium.
    d. vertical purchasing-oriented consortium.

    Answer: d **Reference**: Vertical Purchasing-Oriented CTEs

65. The consortium model in which a group of buyers from various industries unite to improve the supply chain is called the:

    a. horizontal purchasing-oriented consortium.
    b. vertical selling-oriented consortium.
    c. horizontal selling-oriented consortium.
    d. vertical purchasing-oriented consortium.

    Answer: a **Reference**: Horizontal Purchasing-Oriented CTEs

66. All of the following are critical success factors for consortia **EXCEPT:**

    a. the industry must be large enough to generate and support the volume of transactions needed to produce cost savings.
    b. the industry must show elasticity.
    c. the consortium must smooth out inefficiencies in the supply chain.
    d. advertising expenditures for consortium members must increase.

    Answer: d **Reference**: Critical Success Factors for Consortia

67. An example of a market maker engaging in matching is:

    a. in the stock market where market makers match bids from buyers with asking prices from sellers.
    b. a double auction.
    c. a vertical auction.
    d. a catalog aggregator.

    Answer: a **Reference**: Matching

68. E-marketplaces are usually built by:

    a. independent entrepreneurs working alone.
    b. major B2B software companies.
    c. the IT department of the largest company in a consortium.
    d. a joint effort of the various IT departments in all the marketplace member companies.

    Answer: b **Reference**: Building E-Marketplaces

69. Attracting large business sellers to public exchanges is often difficult for all of the following reasons EXCEPT:

    a. they are required to pay transaction fees even when they engage in transactions with existing customers.
    b. advertising costs in public exchanges are exorbitant.
    c. competitors who are also exchange member may gain access to confidential information.
    d. it is sometimes difficult to recruit large suppliers.

    Answer: b **Reference**: Private Versus Public Exchanges

70. The concept of liquidity for a B2B exchange is:

    a. the amount of available cash on hand at any given time.
    b. the ease with which information flows between exchange members.
    c. the volume of business conducted on the exchange.
    d. the ease with which orders can be placed, processed, and shipped using the exchange.

    Answer: c **Reference**: Critical Success Factors for Exchanges

71. In dealing with exchange members, the management of the exchange should:

    a. take special care of the companies that share ownership in the exchange.
    b. leave the management of day-to-day operations of the exchange to the members.
    c. make certain that the exchange in neutral in its dealings with all members.
    d. strive to maximize exchange revenues through charging the highest possible fees.

    Answer: c **Reference**: Insights and Additions 7.1

72. The most attractive industries for a vertical exchange are characterized by:

    a. a few very large players that totally dominate the industry.
    b. a market in which a small number of very large orders account for more than half the total market volume per year.
    c. stagnant technology.
    d. many fragmented buyers and sellers.

    Answer: d **Reference**: Insights and Additions 7.1

73. Brand building is important in B2B exchanges because:

    a. it is easy for exchange members to change to another exchange.
    b. exchange members typically buy only the best brands of product.
    c. information flow is poor in most exchanges, making trust of suppliers very important.
    d. brand loyalty toward a given product is usually more important than cost.

    Answer: a **Reference**: Insights and Additions 7.1

74. Compared with the Internet, an extranet:

a. provides additional security.
b. suffers from lower bandwidth.
c. is much less secure.
d. is more widely available to all users.

Answer: a **Reference**: Extranets

75. An Internet that uses tunneling technology to improve security is called:

a. EDI.
b. a VPN.
c. an intranet.
d. a wide area network.

Answer: b **Reference**: Extranets

76. Tunneling technology makes an extranet more secure than the Internet by:

a. burying the cables connecting member intranets far underground.
b. connecting the firewalls of the various intranets.
c. using cryptography and authorization algorithms.
d. using low frequency transmissions to transfer data between intranets.

Answer: c **Reference**: Extranets

Essay Questions

77. What is dynamic pricing and how is it different from static pricing?

Answer: In dynamic pricing, the price for a product changes rapidly based on the information available to traders. The price charged may then actually differ from customer to customer. In static pricing, the same price is charged to all customers. It is usually stable over time.

Reference: Dynamic Pricing

78. What are the three major functions of an exchange?

Answer:
1. Matching buyers and sellers.
2. Facilitating transactions.
3. Maintaining exchange policies and infrastructure.

Reference: Functions of Exchanges

79. List four potential gains for buyers and four potential gains for sellers in B2B exchanges.

Answer: Four each of the following:

For Buyers

1. Variety.
2. Comparison shopping.
3. Volume discounts.
4. 24/7 ordering.
5. Make one order from several suppliers.
6. Unlimited information.
7. Access to new suppliers.
8. Easy reordering.
9. Less maverick buying.
10. Speedy delivery.

For Sellers:

1. New selling channel.
2. Eliminates need for physical store.
3. Reduce ordering errors.
4. Sell 24/7.
5. Reach new customers at little cost.
6. Promote the business via the exchange.
7. Provides an outlet for surplus products.
8. Easy to go global.

Reference: Exhibit 7.6

80. List five factors that are critical to the success of B2B exchanges.

Answer: Five of the following:

1. Early liquidity.
2. Owners that can bring liquidity to the exchange.
3. Neutral governance.
4. Open to all.
5. Provide a full range of services.
6. Market makers have an in-depth understanding of the industry.
7. Targeting industries that can benefit from an e-exchange.
8. Building brand loyalty.
9. Exploiting economies of scope.
10. Match the business and revenue models to the industry.
11. Blend content, community, and commerce.
12. Manage conflict effectively.

Reference: Critical Success Factors

81. List three of the categories of extranet benefits.

Answer: Three of the following:
1. Enhanced communications.
2. Productivity enhancements.
3. Business enhancements.
4. Cost reductions.
5. Information delivery.

Reference: Communication Networks and Extranets in B2B