



Trading on the online marketplace

Markets conjure up images of tourists and housewives haggling over prices while vendors shout out their wares and make bold claims of undercutting the competition. Online marketplaces are pretty similar, says Tracey Caldwell, but they can also help small businesses find new customers and cheaper suppliers

We have all heard of online shopping malls – many of us drift to this type of site when there's a few minutes to kill at the end of the working day. More often than not, though, you'll aimlessly click on desirable objects with little intention of actually making a purchase. However, there is another sort of online superstore, one that's not just for window shopping: the business exchange.

A business exchange offers most of the products and services your company would ever need, and you can also market your own products to other firms. Rather than flogging cut-price football boots and job-lots of cleaning products, you'll find traders asking 'How much can I bid for a year's supply of photocopier paper?' or 'Who wants to win our office cleaning contract?'

Businesses are increasingly trading between themselves via the web, as well as supplying goods or services to consumers. In return, companies benefit from the lower overheads of online trading. The internet is an ideal medium for this type of market, known as B2B (business-to-business) trading. Analysts forecast that it will be huge and are already touting it as a genuine online success story.

Wheelin' and dealin'

Like other forms of e-commerce, B2B trading can take place on a business' website. However, to get maximum benefit, B2B trading is best done where other firms can find you – on a marketplace site. A huge number of such marketplaces, known as exchanges, have been established over the past couple of years. Offering secure trading, these websites allow even small companies to tender for contracts and have suppliers compete for their business.

Businesses will find procurement costs lower because time is not spent contacting firms separately for quotes. Suppliers, meanwhile, get access to new customers. Competition among suppliers for your business may also drive down the price, meaning you get a better deal in the long run. And, if you centralise the purchasing activity of your

business towards buying on the internet, there should be economies of scale from which you can also benefit.

So far, smaller firms are participating in marketplaces mainly as buyers, while larger companies act as suppliers. However, there are signs that this is changing and that local businesses are getting access to a wider market by selling through exchanges.

Indeed, small companies have perhaps the best chance of participating as sellers in B2B e-commerce in the public sector as the government expects 90 percent of its routine procurement to be done online by the end of the year. For more information, visit www.ogcbuyingsolutions.gov.uk.

Breaking rank

B2B trading uses the web as a forum to bring buyers and sellers together in a number of ways. The web may simply offer linear communications between a number of suppliers and major customers. Another option is to be part of a closed community, often in a vertical market. A vertical market serves a particular industry, for example, the automotive trade or banking – with similar products and services developed and marketed using similar methods.

As already discussed, another alternative is to join a B2B e-marketplace. These are set up by third parties to bring together registered buyers and sellers. Businesses may well get involved with more than one type of B2B e-commerce site and medium-sized companies are already leading the way as suppliers. In theory, small businesses may be buyers or sellers in e-marketplaces. Small firms with high procurement costs – say a 10-man steelworks company – are most likely to benefit from buying this way.

Trading places

Trading through a marketplace can take a number of forms, so we've listed the most common types of exchange:

- **Catalogues** Buyers can search the stocklists of different suppliers and obtain price comparisons. Trades are typically high volume and low value per item, such as stationery, with small businesses buying from medium-sized or larger businesses.
- **Prices** are generally fixed – for example, Eurooffice (www.eurooffice.co.uk) features more than 250 manufacturers' products and claims it offers savings of between 20 and 80 percent. Eurooffice also provides

small businesses with useful management tools to control budgets and forecast monthly spend.

- **Reverse auctions** If you want suppliers to compete for your order and be open to negotiation, you can submit your shopping list to a reversed auction. Sellers submit offers, reducing their price every time a lower bid is submitted as they compete to win your business. Alternatively, you may wish to visit an auction site and compete to buy items.

• **Request a quote** Exchange sites also let suppliers compete for business using RFQ (request for quotation). This does not involve an auction, as sellers are not privy to competing bids. Buyers list their requirements and a deadline for response, while sellers submit quotes, with room for negotiation. Mondus (www.mondus.co.uk) is a marketplace site aimed at small- to medium-sized UK businesses. It offers both catalogue procurement and RFQs.

- **Commodity exchanges** This form of B2B trading probably accounts for most of the turnover in online exchanges at present, but commodity exchanges tend to be aimed at large companies. They list the prices of the same products – such as energy and telecoms bandwidth – which change continuously, based on supply and demand.



Let's get vertical

Vertical marketplaces – that is, selling goods or services for a particular industry – are well served by e-marketplaces. Barbox (www.barbox.com), for example, has 900 pubs which pay a weekly subscription to order stock and food. Another exchange is provided by eZoka (www.ezoka.com). It acts as a marketplace for professional and commercial associations working with SMEs (small- and medium-sized enterprises) across the UK and Europe, including the Chartered Institute of Purchasing and Supply.

The eZoka co-buying method allows businesses to obtain economies of scale by purchasing together. It agrees

competitive prices and bulk discounts with the supplier, while in return carrying the cost of catalogue integration for them.

B2B in practice

B2B was the great hope of last year and was projected to be massive, but there have been some high profile failures. Dell Marketplace was shut down in February – just four months after being established – as it was only able to attract three quality suppliers. And Jupiter Media Matrix has predicted that fewer than 100 of the 500 marketplaces that exist today in Europe will survive, even though the value of goods traded will increase massively.

Despite this, the volume of business done over B2B exchanges is forecast to increase dramatically. In July, Forrester Research predicted that online B2B revenues in the UK alone will grow from £1.3bn this year to £300bn by 2005. Forrester also expects online marketplaces to account for 41 percent of online B2B transactions by 2005.

A Business Intelligence Research survey earlier this year found 40 percent of UK firms already use the web in some way for procuring goods and services. A further 38 percent said they plan to do so over the next two years. Most companies reported cost savings of five percent or less, but additional savings ranging from five percent to over 30 percent are anticipated over the next two years.

Additional benefits

According to the Business Intelligence Research report, firms are looking for benefits beyond cost savings. 'Improved information management' was cited as the most significant benefit, with 'reduced transaction costs' coming a close second. Other benefits for small businesses selling their products or services through online B2B marketplaces include the following:

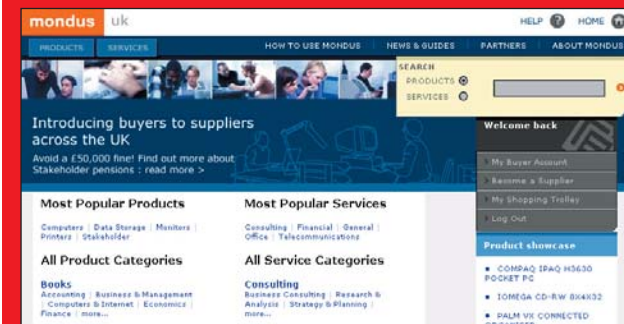
- **Improved relations** A better relationship with existing customers and access to new ones.
- **Easily accessible** You can publish details of your products and services more fully and be open for business 24 hours a day.
- **Reduced costs** Not only do firms experience lower sales costs since processes are streamlined, they also see improved order accuracy and reduced data entry costs as requirements are stated online by the customer. Plus, there's improved cashflow as payment terms are set and agreed by the site users. Moreover, if you have not yet set up shop online, B2B trading is a relatively low-cost way to do this.
- **Take control** Companies purchasing via online B2B marketplaces find more choice, competitive pricing and more control over staff spending.

Deciding to use B2B

Marketplace providers are keen to promote the ease of use of their sites, but there are issues to consider before taking your

A typical trade

No two marketplaces will have identical processes for buying and selling, but the steps are similar.



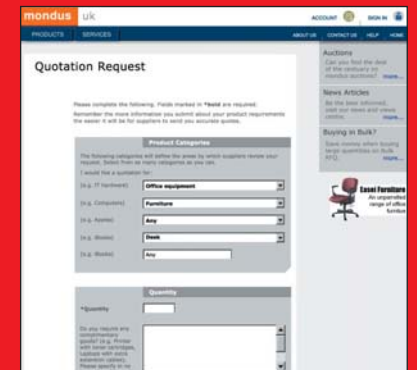
↑ Mondus is an independent site targeting the SME (small- to medium-sized enterprise) market. Businesses wishing to buy in its marketplace are presented with a choice of purchasing a product from a selection of supplier catalogues, making an RFQ (request for quotation) from a number of suppliers or entering an auction.

→ Buying from the catalogue is a simple matter of browsing the catalogue by product type until the desired product is found. A number of vendor prices will then be displayed.

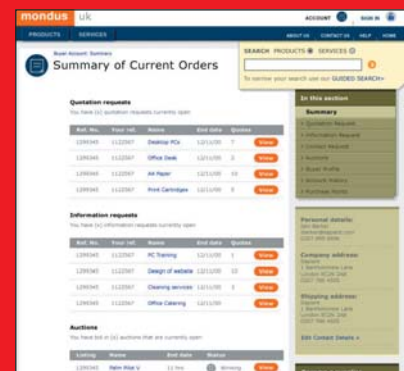


← Having chosen which vendor's price to accept, the buyer must preregister its credit card details in a 'secure wallet' before the purchase can be made. Full company details, including company registration number, must be given. Mondus then checks these details thoroughly.

→ The terms and conditions on this page, which must be accepted, clearly point out that the law applying to business transactions is not consumer law. Mondus is a trusted third party with no legal involvement in the business transactions of those using its site.



Alternatively, the user may follow the links from the search facility on the home page to make an RFQ. For example, a search for 'desks' on the home page may bring up a number of suppliers. Follow the 'Get Quotes' link on the righthand side menu and fill in the resulting form. You can enter a fair amount of detail about your requirements, including deadlines for responses. Suppliers may set their own terms and conditions, such as delivery times, in their responses.



← Responses are shown on the password-protected virtual account pages for suppliers and buyers. These highlight the status of any negotiations and bids.

If the buyer wants to go with a certain bid, he or she must then click to say that the bid, as well as any stated terms and conditions, has been accepted. Again, the contract is between buyer and seller in the usual way.

Businesses wishing to register as suppliers on an exchange and make their product catalogue available must go through a much less mechanical procedure. First, they contact Mondus which then checks out their credentials in detail and uploads the catalogue on to the website. This process varies for each supplier.

B2B activity online. Obviously, you'll need to integrate your e-marketplace activities with other sales and purchasing activity on your website. This will result in cost savings, rather than confusion, from your new way of trading.

You will need to assess the time and effort that will be required to get product

data into a publishable format. Even after all this extra labour, it can still be hard to establish the cost benefits and return-on-investment of online B2B trading. You may also be concerned about publishing information about your product range and maintaining your profit margins in B2B e-commerce.

Setup costs

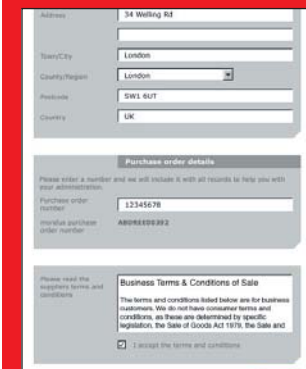
Companies don't need expensive secure servers to trade via an exchange, as this is taken care of by third-party marketplace providers. The business in question simply uploads its product catalogue using its own catalogue software, which can cost as little as £1,000. Prices vary between

Top 10 B2B trading tips

If you are thinking of taking your company on to a B2B (business-to-business) exchange site, or marketplace, read on for some practical dos and don'ts.

1. Get experience Most businesses that use B2B exchanges already have e-commerce facilities, a product spreadsheet and merchant account on their own website. If your company has not yet set up an e-commerce website, this would be a useful – though not essential – step.
2. Research the marketplaces There are 199 marketplaces to choose from in the UK, according to Emarketservices.com. Make sure you opt for the best site for your business.
3. Check out the competition What other suppliers are on the exchange? Plus, are you willing and able to compete with them on price?
4. Try before you buy If possible, test your chosen exchange first by using it as a buyer.

5. Check out catalogue management facilities You may be required to update your product catalogue at given intervals. Alternatively, you could pay someone to do this. Lloyds TSB's Marketplace site offers a deal with Requisite Technology to maintain your catalogue. If you do it yourself, ensure you have the technical capability.
6. Listen to others Make the most of advice offered by the marketplaces about which products to sell via B2B online trading.
7. Take note of any marketing tips Even the selection of keywords in the product descriptions is critical.
8. Combine purchasing Try to combine purchasing into large orders so you get the best prices.
9. Plan ahead Be prepared to greet and deal with new customers and prospects who may expect your firm to act as a larger company than it actually is.
10. Monitor your marketplace Structure time to check activity on your chosen marketplace. Supplier responses and/or RFQs (request for quotations) are made online – don't miss out.



Case study: Trident Online

Trident Online is an offshoot of Trident Microsystems Group, which makes flat-screen displays for PCs and widescreen TVs, as well as selling general office equipment. Trident Online set up its website 18 months ago. It was then invited to join the BarclaysB2B and Lloyds TSB B2B sites.

Sarah Grenville Grey, Trident Online's business development manager, is one of a staff of three running the operation. She says the banks were clearly not targeting SMEs (small- to medium-sized enterprises) as suppliers in the beginning: "I think the banks were looking for companies already in e-commerce with a good backing and a good reputation." Now, most of Trident Online's B2B (business-to-business) customers are small companies buying office-related equipment.

Trident Online decided to get involved with B2B, mainly for the kudos of being associated with the big-name banks. Grenville Grey says return on investment was not an issue: "There was very little effort involved in getting on the site, so it didn't matter what the return was." She says anyone who has already gone through the mechanics of setting up a product

catalogue for their website will find B2B exchanges straightforward. "If you have used Excel-type catalogues with live links, all you will need to do is adapt it slightly for each B2B site you get involved with."

She believes visibility is the key benefit of having your product set on a B2B exchange: "The more portals and people you can deal with the better. The more you improve your links the better your listings will be."

Grenville Grey says Trident Online has completed only limited business via BarclaysB2B so far. "We have not done as much business as we had hoped," she says. BarclaysB2B says the exchange is open to more suppliers, but Grenville Grey does not want to see too many sellers. She believes the key to growth is promoting the security of doing business over the internet.

"You are really handheld by Barclays. It has already checked out the people you are doing business with, as they are Barclays account holders. This is important because there is a lot of fraud on the internet. One in four of the orders that comes in to our consumer marketplace is fraudulent."

marketplaces and also tend to be negotiated with each site user. For example, Mondus charges suppliers £1 for each bid posted in response to a buyer's RFQ. If the bid is successful, Mondus charges suppliers up to five percent of the transaction cost, depending on the type and volume of the product or service. Ongoing expenses also vary, including the costs of keeping your catalogue up to date. For example, fees for BarclaysB2B start at around £5,000, which includes access to supply and updating your catalogue.

Setting up your stall

Having decided B2B could work for your firm, you need to choose your marketplace – see www.emarketservices.com for a regularly updated list of all UK sites. Some larger B2B marketplace suppliers are reaching down to the SME sector, but it is very early days for most of these offerings. CommerceOne and Ariba have recognised most B2B trading has been a one-way street with large suppliers selling to smaller enterprises. Ariba's Commerce Services network allows small businesses to log on to the marketplace and offer their services to large corporates.

General Electric's GE Global Exchange Services (www.geis.com/gxs) Express Marketplace is a hosted public marketplace aimed at smaller businesses.

Microsoft has moved into B2B, too, with its Great Plains eProcure scheme scheduled for launch at the end of 2001. Your bank – notably Barclays or Lloyds TSB – or trade association may also host a relevant marketplace.

A fair exchange

Getting involved as a buyer is usually a simple matter of registering with an e-marketplace (see *A typical trade* on page 157). This is where non-business buyers are weeded out, so firms must provide their registered company number. All exchange sites will check out this data and, in many cases, run a credit check.

However, selling is a more complex process. The good name of the marketplace depends on the reliability of its suppliers, so the relationship between the two is often tight. A marketplace will be looking for a good track record and finances. In the past this has limited the supply side to larger businesses, although this is slowly changing. Most sites require a certain amount of bespoke software development in order to tie in your system with theirs.

Some marketplaces offer a high degree of handholding to get you up and running as a supplier. This may be because there's a lot of one-off bespoke work to get your product

information on to their site. Off-the-shelf packages, such as Actinic Business or SoftQuad's MarketAgility Express, are cheaper and easier to implement than an entirely bespoke solution.

The type of marketplace and technology needed to get your products on to an exchange will become clearer once you have decided which exchange(s) best suit your business. Online B2B may be daunting for those who have not even come to grips with consumer e-commerce, but it can offer a reasonably straightforward route to significant procurement savings and volume B2B sales. ■

