eMarket Services makes it easier for you to use electronic marketplaces for international business

E-MARKETS
AND ONLINE DIRECTORIES
A HANDBOOK FOR SMALL BUSINESSES
Handbook by eMarket Services (www.emarketservices.com)
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eMarket Services is a not for profit project, funded by the trade promotion organisations of Australia, Holland, Iceland, Italy, New Zealand, Norway, Spain and Sweden. The purpose of eMarket Services is to make it easier for companies to find and use electronic marketplaces for international business.

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Executive Summary

The Internet offers new opportunities for small businesses to conquer new markets and to find better and cheaper suppliers. E-markets and other business-to-business (B2B) Internet platforms play a central role in realising this promise. If you are involved in a small company’s marketing, sales or purchasing decisions, then this handbook is for you. It helps you to understand the different functionalities, which you can use on these platforms.

There are many reasons for using a B2B Internet platform:

- From a **buyer’s perspective**, you might for example be interested in searching for new suppliers, in posting your buying requests or in searching for new or used investment goods.

- From a **seller’s perspective**, you might be interested in finding new leads, in offering new and used products for sale or in searching through tender databases. You can also use e-markets to get market information about the competition.

- And from the point of view of a **seller to large companies**, the large buyers may want you to participate in reverse auctions or to exchange data electronically to save costs.

The different types of functionalities on B2B Internet platforms each support some of these activities in their own, very specific way. Using the platforms successfully requires, therefore, a good understanding of their purpose and the way they work.

Many B2B Internet platforms have two things in common: they can be used with a web browser and they bring together many suppliers and many buyers. We call these platforms business-to-business (B2B) portals. The main trading functions on B2B portals are:

- **Supplier directories and search engines** help buyers to find new suppliers and help sellers to get leads. They are databases of suppliers, in which you can search by the products or services the suppliers offer. Sellers can get listed in such databases to be found and to get leads. The benefit for buyers is a clearer view of potential suppliers for markets and regions they are not familiar with.

- **Tendering services** are a place to find and announce calls for tenders to a large number of potential suppliers. Some also provide some basic support for the tendering process, but most services just publish the call. There are public tendering databases that aggregate the calls
for tenders from several government institutions, and there are open tendering platforms, which enable any company or public institution to announce calls for tenders, often in a particular industry.

- **Classifieds** help buyers and sellers to trade discrete products. They display offers of specific products for sale, sorted by the type of product, the brand or even the seller. They very much resemble the “for sale” sections in newspapers or trade magazines and are often focused on an industry or a certain range of products. Some classifieds services – the best known being eBay – also provide a functionality to negotiate prices, e.g. via an auction.

- **Auctions** help sellers get the right price for products ranging from fish and flowers to chemicals and patents. Auctions can also be used to get rid of surplus assets and offer buyers the opportunity to find a bargain. Often they are a combination of online and offline auctions, where traditional auction houses also make their auctions available online, either by themselves or in cooperation with Internet platforms. Most of these services are more than just a B2B Internet platform. They should rather be regarded as auction full service providers.

- **Reverse auctions**, also called sourcing auctions or buyers’ auctions, help buyers to find the cheapest supplier for a contract. Within the auction the potential suppliers decrease their bids und underbid each others until the supplier with the lowest bid wins the contract. Reverse auctions often take place on dedicated Internet platforms, but they can also be found as part of larger B2B Internet platforms or as an element within enterprise software for supply management.

While portals with these functionalities can be used with a web browser, there is a second group of B2B Internet platforms that focus on integrating the IT systems of buyers and sellers. These trading networks are part of the e-business infrastructure of companies with the main purpose of enabling an electronic information flow without interruptions. They are not for finding new suppliers or customers but rather for making transactions and the flow of information efficient within existing trade relationships.

For these different types of Internet trading platforms this handbook provides many case studies, tips and checklists that help you to understand the services and to use them efficiently to the benefit of your company.
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1 Introduction

Giovanni Carbotti has managed what many owners of small enterprises want to achieve: His company, the Carbotti leather factory, combines the flexibility and creativity of a small business with the international presence of a large enterprise. The Internet, and especially an e-marketplace, has enabled the company to sell its high-quality women’s handbags from Italy to all over the world. “Thanks to an e-marketplace,” so Carbotti, “we have entered foreign markets where we otherwise would not have been able to do so. Our experience has definitely been positive.”

As this example shows, the Internet offers new opportunities for small businesses to conquer new markets and to find better and cheaper suppliers. E-markets and other business-to-business Internet platforms play a central role in realising this promise.

This handbook will make you familiar with how you can use e-markets and supplier directories today to the benefit of your company. We will call all these platforms in the handbook B2B (business-to-business) Internet platforms.

B2B (business-to-business) Internet platforms include all Internet-based technical solutions that aim at facilitating the establishment of new trading relationships between companies or at supporting existing relationships.\(^2\)

This definition includes e-markets but also other platforms like supplier directories, where no actual trade takes place but which support companies in establishing new business relationships. It does not include platforms focusing on non-trading activities like collaborative design or people collaboration.

Who is this handbook for?

The perspective of this handbook is your perspective – that of a small company that wants to know what it can use these platforms for. But you might think, aren’t e-markets dead? Not really. For many companies the use of Internet technologies has become a routine task. They exchange

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1 See case study on page 20.

data in electronic form with buyers and suppliers, they search for information on the Internet, and they establish new business relationships. They just do not always call it e-business. By the same token, they do not call all B2B Internet platforms e-markets.

This handbook wants to support you in this new, sober era. If you are involved in a small company’s marketing, sales or purchasing decisions, then this handbook is for you. Note that we have not listed IT decision makers or the webmasters here – decisions about using B2B Internet platforms are business decisions. If IT departments have to be involved at all, it is mostly in a supporting role.

We want to show you in this handbook how you can use e-markets and supplier directories today to the benefit of your company. You will find that many of the early claims have been exaggerated and that often the costs and efforts necessary to use such services have been understated. Nevertheless, you will see that B2B Internet platforms do provide significant benefits – if used wisely.

After reading the handbook, you may even come to the conclusion that Internet platforms do not have much to offer to you – because your products are not suited, because your industry or your customers are not yet embracing the Internet, or because there are no suitable platforms for your company. But then you know that this decision is based on facts and an understanding of the relevant issues – not just on gut feeling.

**How this handbook is organized**

This handbook is written from the perspective of a small company. We will therefore focus on familiar business activities and processes supported by these platforms, for example finding leads, selling used investment goods, or negotiating with your customer.

We have organised the handbook like a buffet lunch: You can scan the table of contents for the type of support you are interested in and then choose the appropriate chapter.

- Chapter 2 explains the concept of B2B Internet platforms and its changes during the recent years.

- Chapter 3 is focused on portals, i.e. Internet platforms used directly by humans through a web browser. Sections 3.1-3.5 in this chapter explain the different functionalities on these portals – from supplier directories to reverse auctions. Section 3.6 explains, how to select an appropriate platform.
Chapter 4 discusses a different type of B2B Internet platforms: trading networks. These are part of the technical IT infrastructure between companies and are not used directly by humans.

And if this handbook has made you curious and you want to learn more, chapter 5 has a list of further references – on the Internet as well as in plain, old printed form.
2 Options for purchasing, selling and supplying via the Internet

Business-to-business (B2B) Internet platforms like e-markets and supplier directories support the purchasing, selling and supply activities of large and small businesses alike. These platforms are, however, not simply an electronic counterpart of traditional offline markets. Rather, each platform supports specific elements of the purchasing, selling and supply activities between companies, as this chapter will explain.

E-commerce, e-business and e-markets

We start with the distinction between e-commerce and e-business.

- Roughly, e-commerce means selling and buying on the Internet. Online shops are an example for e-commerce solutions.
- In comparison, e-business is a much broader concept. It means the support of business processes with information technology. Buying and selling are just two examples for such business processes. Enabling your customer to update his address information via the Internet is another example for e-business.

The original idea of e-markets focuses on e-commerce: selling and buying on the Internet. However, this is very much a consumer concept transferred to the enterprise. Consumers “shop” at Amazon or “auction off” their surplus china on eBay.

But businesses are different from consumers. Businesses have more complicated purchasing and selling processes if it comes to business-to-business (B2B) transactions. E.g., large enterprises often negotiate framework contracts and then order within these contracts. Sometimes the invoice even comes months after the order has been received. So the term “buying” has no clear meaning in this context, as the concept of e-commerce is not well suited for B2B transactions.

In addition, unlike many consumers, businesses want to minimize overall purchasing costs, not only the product price. Searching for a cheap supplier for every buy is costly, which is why most businesses prefer to have only a few suppliers with reasonable prices. And secondly, they have quality, warranty and liability demands for those supplies that serve as inputs for their own products. Both needs can best be satisfied in long-
term relationships. Information technology can then be used to minimize transaction costs in these relationships.

Therefore the idea of e-business, i.e. supporting business processes through IT, fits the company world much better. And if we put this concept together with the idea of using specialised Internet platforms to support business-to-business activities, then we come straight to the subject of this handbook: B2B Internet platforms.

**The role of B2B Internet platforms in supply management**

To understand what B2B Internet platforms can do for you, let us start from the point of view of a “procurement manager” or “Chief Purchasing Officer” (CPO). In most small companies this is only a role, not a full-time employee.

This perspective might look inappropriate at first sight when your primary goal is to generate leads through these platforms. However, as we discuss business-to-business transactions, there is necessarily a CPO involved on one of the sides, either you – when you buy – or your counterpart – when you sell. In the latter case you need to know what matters to the CPO to sell successfully.

**Figure 1: Elements of supply management**

![Figure 1: Elements of supply management](image)

Fig. 1 shows what this person is responsible for. These responsibilities are, at the same time, the major elements of what is often called supply management – the professional management of everything related to purchasing supplies for a company.
When a consumer purchases on the Internet, these different steps are gone through quickly one after another by the same person on the same platform: you go to eBay or some other platform, search for the item you want, bid, win and initiate your payment there.

In large companies, in contrast, the different steps are often gone through by different people at different points in time, as the following example for finding a new supplier of widgets shows:

- In the first step somebody does market research and creates a list of widget-producing companies in the target sourcing region, e.g. China.
- Then these potential suppliers are investigated further by another team. Eventually some of these companies will meet all requirements and become qualified potential suppliers.
- Later, these selected companies will be invited to participate in an online auction for a framework contract. They may even be invited repeatedly on several occasions.
- If necessary, the winner connects its IT systems to those of the buyer so that orders and invoices can be transmitted in electronic form.
- Once this is done, someone in the buyer company can actually place an order. After the ordered item and an invoice are received, the financial department will initiate payment.

**What Internet platforms can do for you (and your business partners)**

Looking closer at the different activities in supply management, we can see how B2B Internet platforms might be of help and what they can do for.

- **Finding (new) suppliers** is part of the sourcing process. Buyers search for two types of suppliers: long-term suppliers of direct inputs or indirect MRO (maintenance, repair, operation) equipment like office material and one-time suppliers of a specific product or service only needed once, e.g. an investment good or a project service. All B2B Internet trading platforms in chapter 3 (B2B portals) support this activity in one way or another.

- **Finding leads** is obviously the counterpart of finding (new) suppliers from the point of view of a supplier. Therefore, this can also take on different forms: Maybe you want to find long-term customers for a range of products you are selling or you only need a one-time buyer for a used capital good.
Negotiations between buyers and suppliers are also part of the sourcing process. Whenever price, volume, or other terms and conditions are not fixed by the seller, they have to be agreed upon. This negotiation can take place in many ways: in auctions or by answering to a request for quotes (RFQs); offline in face-to-face meetings as well as online on the Internet. B2B Internet platforms also support this part of the sourcing process. Reverse auctions (chapter 3.5) are a formal way of negotiating, as are ascending auctions (section 3.4). Many platforms that focus on classifieds (section 3.3) also support simple negotiation procedures like RFQs and may even offer auctions.

The ordering process for continuous purchases (e.g. purchases within a framework contract) in larger companies is often rather formalized. This makes it suitable to support by information technology. One example is workflow solutions, which model the different steps of ordering (request, confirmation by superior, aggregation of single orders to reasonable shipping volumes, etc.). Aggregated catalogues are another type of support. They compile the product catalogues of several suppliers into one big catalogue. And finally, the exchange of electronic documents like orders, shipping notices, billing etc. needs IT support. B2B Internet platforms play an important role here (chapter 4) as do individual software solutions.

Payment as a final step is also supported by IT but is typically done via existing established networks and IT solutions outside of B2B Internet trading platforms.

This list of activities is quite heterogeneous, and so are the demands on IT solutions supporting them. An auction, for instance, needs a totally different type of software from a solution for the exchange of electronic business documents. Therefore most platform operators have specialized in supporting one or very few activities. Nevertheless, you will often see the label “e-market” attached to all of them, which is sometimes confusing.

While the benefits of these platforms are obvious from the perspective of buyers, they benefit sellers equally: Those platforms, where buyers search for new suppliers are the ones where sellers have to be present to be found and generate leads, or to sell their products directly. Negotiation platforms can also help both parties: While the goal of reverse auctions is to achieve the lowest possible price for the buyer, the goal of “normal” auctions is to obtain the highest possible price for sellers. And finally the process cost savings from ordering electronically benefit not only buyers but also sellers.
Using B2B platforms: motivations for buyers and sellers

As B2B Internet platforms support so many different activities, there are different motivations for using them:

- From a buyer’s perspective, you might, for example, be interested in searching for new suppliers, in posting your buying requests or in searching for new or used investment goods.
- From a seller’s perspective, you might be interested in finding new leads, in offering new and used products for sale or in searching through tender databases.
- And from the point of view of a seller to large companies, the large buyers may want you to participate in reverse auctions or to exchange data electronically to save costs.

If your company sells its products and services only to consumers, then only the buyer’s perspective is of interest to you. In this case B2B Internet platforms can support you mainly in finding and selecting new suppliers and in ordering products from existing ones. Reverse auctions and electronic data exchange with your suppliers are often only of interest if your company is at least of medium size.

Depending on your needs, however, you might not even want to use these platforms for buying inputs. If you are, for example, a small service company that mainly buys office material and computers, a large online distributor may offer all you need – good selection, reliable delivery, and billing facilities suited for companies (e.g. payment after invoice, tax-compliant invoice). So B2B Internet platforms are not a “must” for every company – but they do have something to offer for many small companies.

Figure 2: Alternatives and supplements to B2B Internet platforms

While B2B Internet platforms can play an important role for small businesses, one should not forget that they are not the only possibility for purchasing and selling on the Internet. Your own web site and your distributors are also important.

Having a good web site – i.e. a site with relevant content and functionality that also has a decent up-to-date design – is a must for any company using the Internet. Many potential business partners finding a reference to you on an Internet platform will first have a look at your site to get a better impression.

If you are a supplier, you might also want to check out the web sites of potential suppliers for procurement sections, for calls for tenders or for similar information. Many larger companies have such a section and are constantly interested in learning about new suppliers.
If you want to purchase products, many (larger) suppliers have introduced Internet-based tools supporting purchases. These range from simple shops for business customers on their sites to multi-vendor catalogues that can directly show you the availability of products and help you in decreasing the costs involved in purchasing from different vendors.

**Distributors** are actually very similar to B2B Internet platforms in that they have an intermediary function. They are an intermediary between many suppliers and many buyers and are the single contact point for both parties. Normally they sell their products at fixed prices.

From the point of view of a supplier, they are an interesting channel for selling products, as they have established business relationships, are often well-known and invest significant resources in marketing. For buyers, their advantages are that they provide some form of guarantee for the products they sell and they are a single point of contact for delivery, billing and payment.

Purchasing from distributors can be more expensive than purchasing from suppliers via B2B Internet platforms. However, this does not have to be the case, as they have significant negotiating power and can often buy products at significant discounts.

**Conclusion: check before you start**

In the light of this discussion you should try to answer for yourself the following questions, before you start using B2B Internet platforms:

- **Why do I want to use these platforms?** Do you want to generate leads or sell specific products? Did your best customer ask you to be prepared for reverse auctions? These different activities are offered by different Internet platforms and you need to know what you are looking for.

- **For which goods do you want to use these platforms?** Do you want to buy or sell investment goods? MRO products? Direct inputs for production? Or service contracts? Depending on the type of goods, different platforms are suitable.

- **How e-ready is my company?** Some platforms are technically sophisticated, and you need to meet certain requirements to get some benefit out of them. The requirements can be technical like the need for electronic product catalogues or they can be educational like having an understanding of best-practice strategies in reverse auctions. You shouldn’t use the B2B platforms without being prepared.

- **Does using a B2B Internet platform create a channel conflict?** Before you start using such a service, you should make sure that it does not bring you into a conflict with existing sales channels. You might use a platform and direct requests to your partners or sales offices in other countries.
3 Trading functions on business-to-business portals

Many B2B Internet platforms have two things in common: they can be used with a web browser and they bring together many suppliers and many buyers. We call these platforms business-to-business (B2B) portals. From consumer portals they differ in their focus on businesses only and from supplier portals of individual enterprises they differ in their focus on many buyers and sellers.

Using them is typically fairly easy: All you need is a web browser and an Internet connection. They are generally open to every user (although you might need to register for the full functionality) and they are easy to use. In particular you do not need to invest heavily in IT to use these platforms.

In this chapter, we want to make you familiar with the different portal functionalities and the business activities these support. Many B2B Internet platforms offer a combination of the different functionalities we describe here. Therefore platforms offering only one of these functionalities are rare, as you also see from the case studies in this chapter. The different functionalities are:

- **Supplier directories and search engines** for finding suppliers and getting leads (section 3.1),
- **Tendering services** for finding orders and placing requests (section 3.2),
- **Classifieds** for finding and publishing discrete offers (section 3.3),
- **Auctions** to achieve the highest price when selling (section 3.4), and
- **Reverse auctions** for determining the cheapest supplier (section 3.5).

Eventually in section 3.6 we show how you can find the right portal service for your needs.

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3 In the early days of e-markets another functionality was intensively discussed: that of a stock market-like exchange. A variety of platforms focused on the trade of commodities like telecommunications bandwidth, chemicals or energy. Many of these platforms have disappeared; others have been combined with financial exchanges.
3.1 Finding suppliers and getting leads: supplier directories and search engines

Supplier directories and search engines are databases of suppliers, which are searchable by products or services the suppliers offer. Sellers can get listed in such databases to be found and get leads. The benefit for buyers is more transparency about potential suppliers for markets and regions they are not familiar with. Any business transactions are conducted outside this service.

- **Relevance for small buyers:** high
- **Relevance for small suppliers:** high
- **Technical know-how required:** low
- **Number of B2B Internet platforms offering this service:** high

These platforms contribute to the increasing importance of the Internet in market research. We use Google and other search engines when we want to buy a new car or book a vacation. But search engines often return far too many irrelevant entries if you use them for work, especially if you are looking for something that can also be used by consumers.

Nevertheless, the Internet is also used extensively for preparing commercial purchasing decisions, as a recent survey by German market researcher GfK has shown:4

Thus, having your own web site and optimising it for search engines is obviously important. But you also have to be present exactly where your potential customers are looking out for you. There is a high probability that this will include supplier directories and search engines because they are professional services targeted at purchasing professionals.

The main characteristic of supplier search engines and directories is that you can search their databases for products and get a list of suppliers for the products in return. Therefore the results of any search request can only be as good as the completeness and accuracy of each individual entry.

Accuracy requires that the platform operator has selected appropriate words and terms for products suitable for the targeted markets. In a directory targeted at makers of electrical products, a category “light bulbs” is not sufficient: There are just too many different types of light bulbs. The implication is that those companies listed in the databases as well as those searching need to get familiar with the words and terms used.

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4 According to this survey 76% of purchasing decision makers in Germany rely primarily on the Internet as a research tool in their purchasing process, 29% do research exclusively online. See “Internet zentrales Recherche-Medium für die Einkaufsentscheider der deutschen Wirtschaft” from 28.1.2005, [www.wlw.de/presse/DE/de/pressemitteilungen/].
The landscape of supplier directories and search engines

Although all supplier directories and search engines are very similar from a conceptual point of view, they differ in their scope. Some are focused on a single industry in a single country. Other services aim to become a central supplier database for all suppliers within a country or region. And a third group focuses on export-oriented companies within a certain region.

Figure 3: Examples for supplier directories and search engines

- **BritishExporters** (www.export.co.uk) is a directory of export-oriented British companies. The companies listed can also indicate whether they are looking for business opportunities in specific countries. The operator also helps buyers to locate British suppliers for a specific product.

- **Cheminitaly.it** is a sourcing portal to promote the Italian chemical industry. The service has been set up jointly by Federchimica, the Italian Federation of the Chemical Industry, and by the Italian Institute for Foreign Trade (ICE). It contains a directory of Italian chemical companies, which can be searched by product, function, substance, brand and company.

- **Wer liefert was?** (www.wlw.com) is a general supplier search engine for several countries. Started in 1932 as a German publisher of a printed supplier directory it now belongs to the Eniro group, its Swedish counterpart, and focuses on its Internet directory. WLW lists suppliers from all industries, but is traditionally strong in manufacturing industries.

Sometimes supplier directories come as stand-alone platform, but often these services are one functionality among many on B2B portals. They are frequently combined with tendering services and classifieds, since a combination of different functionalities tends to attract more users.

### 3.1.1 Supplier perspective

You might ask yourself how big the chances are of finding new buyers on the Internet. Don’t most enterprises already have their preferred suppliers? However, according to the GfK survey, many companies are continuously searching for new suppliers. In Germany, for example, 29% of companies are looking for a new supplier several times per month, 45% at least once per month. This is because on average one third of purchases is freely available. Only one third of purchases is done via framework contracts, another third with preferred suppliers.

Just like the Yellow Pages, many supplier directories offer basic listings for free but charge for a more sophisticated listing that contains your logo or other additional information. You can collect first experiences with a new platform by starting with the basic listing and decide later, whether you want to buy additional exposure.
Case study 1: Carbotti gets leads for handbags from a supplier directory

The Carbotti leather factory (www.carbotti.it) in Martina Franca (Italy) is a manufacturer of women’s high-quality handbags. Through the B2B Internet platform ItalianModa.com (www.italianmoda.com), Carbotti is able to reach a wide international audience.

ItalianModa is an Italian-based platform for leather and textile, with a geographical focus on Europe and North America. No fee is required from buyers. Carbotti has an electronic catalogue on the ItalianModa Marketplace at www.italianmoda.com/bstores/carbotti where it is possible to find information about their collections.

Giovanni Luca Atena from eMarket Services and ICE (Istituto Nazionale per Il Commercio Estero) has conducted an interview with Carbotti’s President Giovanni Carbotti, which was published in its original form in February 2004.

Q: How did you find out about ItalianModa and why did you join the e-market?
A: We first met them in February 2001. I got my university degree with a study about Internet portals, so I was aware of the opportunities offered by e-markets. We joined ItalianModa because it fitted in with our needs.

Q: How did you start trading on ItalianModa?
A: ItalianModa increased our contact list by placing us on a mini website in its directory. We then started using an electronic catalogue to sell to international markets over the Internet.

Q: How does the electronic marketplace work?
A: We have an on-line catalogue with photos, prices and description of every item. We directly process the order when we receive it. Often, at first, the client will buy a sample to check the product; if they are satisfied, they place an order according to the established minimum quantities.

Q: How do you get in touch with a company that posts a purchase request?
A: First, we answer them by sending further information about ourselves. Then we invite them to join ItalianModa so that they can view our catalogue. In some cases, we also send samples of our products.

Q: Which countries do you receive enquiries from?
A: Basically, we receive requests from retailers or specialized distributors from any country – more or less the percentage is as follows: America 75%, Asia 14%, Europe 9%, other countries 2%.

Q: How do you cope with the trust issues of using an e-marketplace?
A: Generally speaking, you must trust the process right from the beginning. ItalianModa has been very helpful to us with every kind of commercial and non-commercial problem that may have occurred during a transaction.

Q: On balance, given it is your first experience in using an e-market, do you feel satisfied and do you plan to go on using this means of trading?
A: Our experience has definitely been positive. We have entered foreign markets where we otherwise would not have been able to do so.
Many potential buyers learning about you will first look at your web site to get further information before they contact you in person. It is therefore important that your website looks professional and makes it as easy as possible for them to get in touch with you personally.

In addition to supplier directories and search engines, trading networks (see chapter 4) can also help you to generate leads. Buyers connected to such networks often look first among those suppliers already connected if they need new or additional suppliers. Some trading networks actively advertise this “supplier network” to buyer clients.

### 3.1.2 Buyer perspective

While lead generation might be your top priority, supplier directories and search engines can also support your purchasing activities. They inform you at low cost about alternatives to your current suppliers or about suppliers for products not yet purchased. And the best thing is that these services are normally free for buyers.

However, identifying the relevant portals in other countries might not be easy. There might be language problems, for example. If you know the sourcing country, often the trade promotion organisations (TPOs) in these countries can be of help.

The information provided about each supplier on these platforms differs. While some directories only list products, address and contact details, others include more information to facilitate selection. Wer liefert was?, for example, has started to add information about whether a company is certified (ISO 9000 or other standard certifications). Searches can be limited to those companies where this applies.

Supplier directories and search engines are only a first step in finding new or additional suppliers. They are the beginning, not the end of a supplier search process for a variety of reasons:

- **Supplier directories and search engines are not complete.** The best directories conduct research on their own and also list companies without their collaboration. However, most directories rely at least to some extent on the companies submitting their data, which necessarily leads to some gaps. In addition, services may be traditionally strong in some sectors and weaker in others. Therefore you might need to combine the results from several services to obtain a fairly complete picture. If you want to know how complete a directory is, search for your current suppliers and a number of other suppliers you know.

- **The information may not be fully correct.** Especially those services that rely to a large extent on information provided by the companies
themselves often have a problem with outdated information or with exaggerated claims. The information therefore has to be validated.

- **The suppliers have to be evaluated.** Especially if you are looking for long-term suppliers or if the products sought are expensive or important for your company, you will have to evaluate the potential supplier just as you would with any other company recommended to you.

**Figure 4: Checklist for supplier directories and search engines**

**General:**
- First identify the most relevant platforms for your industry. Use databases like eMarket Services to identify potential platforms. If necessary, use the help of trade promotion organisations. Follow the direction in section 3.1 to identify the platforms you want to start with.
- Make yourself familiar with the taxonomy and the keywords used.
- Start slowly with getting listed on the most important services and extend your activities later if you are satisfied with the outcome.
- Reassess your choice of platforms periodically.

**Suppliers:**
- Keep in mind that buyers might check out your website before they talk to you – make sure it looks professional before you start advertising your products and services in directories.
- Get listed at the most important services, but reassess your decision periodically.
- Before entering your company information into these directories, make yourself familiar with the taxonomy and the keywords used. Searchers will rely heavily on these and you must choose the right keywords to be found.
- Use a specific e-mail address for requests and organise an email workflow so that lead emails reach the relevant people quickly and spam or other unsolicited offers are filtered out early.
- Be prepared to spend more time on converting leads from these platforms than on converting leads from trade fairs or other personal encounters.

**Buyers:**
- Combine the outcome of several platforms if you need an exhaustive overview of suppliers. No database is complete.
- Note that other countries may follow different conventions in web design and marketing. Make sure you understand those to avoid misjudgements.
- Remember that the quality of data may vary. You need to verify and double-check the claims, e.g. in a first step via the web sites of suppliers.
- Keep in mind that finding a potential supplier is only a first step – you still need to check quality and credentials.
3.2 Finding orders and placing requests: tendering services

Tendering services are a forum for finding and announcing calls for tenders to a large number of potential suppliers. While some provide basic support for the tendering process, most services just publish the call. The submission of tenders is then done offline, often in traditional paper form.

- Relevance for small buyers: low
- Relevance for small suppliers: high
- Technical know-how required: low
- Number of B2B Internet platforms offering this service: medium

In this section we will focus on tendering services. At the heart of these is basically a large database of open calls for tenders. The idea is to announce the wish to award a contract to a large number of potential suppliers, then collect their proposals offline (sometimes online as well), and finally select the best proposal from those received.

The calls for tenders can take different forms: RFQs (requests for quotes), for example, ask for price quotes for clearly defined products or services, whereas RFPs (requests for proposals) ask the tenderer not only for a price but also for a description of how a job could be done best.

The landscape of tendering services

Tendering services make up a significant part of B2B portal services today. Some are stand-alone services, but many are integrated with other types of B2B portal services like directories or classifieds. You will encounter two major different types:

- Public tendering databases aggregate the calls for tenders from several government institutions.5
- Open tendering platforms enable any company or public institution to announce calls for tenders. Tendering platforms often focus on a particular industry. You will seldom see them as a standalone service. Typically they are integrated with a tendering database for public tenders or with supplier directories.

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5 Some companies publish their open calls for tenders on their own website or within their supplier portal. While closely related to the tender databases here, we would not include these in the group of B2B Internet platforms, as the buyer is only a single company. Nevertheless, if you want to search for potential buyers, watch out for relevant sections on the websites of potential buyers. Many buyers are always eager to learn about good new suppliers.
Figure 5: Examples for tendering services

- **Elance Online** (www.elance.com) is a tendering platform for project services like translation, web site design, training, etc. The platform has access to a pool of 40,000 experts in various areas. Buyers can post their project and have suppliers bid on it. There is also a supplier database.

- **Tenderlink** (www.tenderlink.com): Tenderlink operates in New Zealand and Australia. It advertises tenders from all levels of government as well as from the private sector. The e-market had approximately 5,000 registered suppliers and 140,000 closed tenders in December 2004.

- **www.vergabe-bayern.de**, the tender database for building contracts for the German state of Bavaria is a typical example for a regional government-operated tender database. The service contains tenders in this area and offers support for all steps along the tendering process including electronic signature of tender documents.

The popularity of public tendering databases stems from the legal requirement for public institutions in Europe to conduct public procurement processes. These rules also apply to some semi-governmental institutions like railways or certain utility companies.

The major “official” public tendering database in Europe is TED, which stands for Tenders Electronic Daily and is the Supplement to the Official Journal of the European Union (ted.publications.eu.int). Within TED all public calls for tenders are published that have to be announced Europe-wide. Many countries also publish a variety of national or even regional calls at this location.

Many more government-operated tender databases exist on national or regional level. As the regional databases contain the smaller calls from local or regional authorities, these are often especially suited to smaller companies.

Apart from these official databases there are also aggregators, which compile the contents of many smaller databases into a single larger one. Often they have a regional or an industry focus or they want to help local companies exporting into certain regions.

Open tendering platforms differ from public tender databases in that everybody can place calls for tenders there. Many of these have a focus on a specific industry.

You will seldom see an open tendering platform as a standalone service. Often they are integrated with a tendering database for public tenders or with supplier directories. These services create additional traffic on the sites so that published tenders are exposed to as many qualified eyes as possible.
Some portals have also enriched the tendering platform with additional services like scoring systems for suppliers, the opportunity to publish technical drawings, or project management tools. The choice of service depends on the needs of the respective industry.

3.2.1 Supplier perspective

Compared to supplier directories and search engines, where you have to wait for buyers to contact you, tendering services enable you to take the initiative. You can scan the open calls for tenders for those that fit your profile and abilities best and concentrate then on winning these contracts. If you are targeting the government market, you also do not have much of a choice, as public authorities often have to go through an extensive formal tendering procedure involving such platforms.

If you want to search in public tender databases, you have many portals to choose from: Apart from TED there are many smaller sites for tenders from national and regional authorities. If the number of services you need to monitor becomes too large, look for an aggregator that has all the calls of your target authority included. Be aware that many aggregation services use the same (sometimes publicly available) information.

When searching for calls, you might also encounter calls that are not meant seriously. It may be the case that the call is still open but the contract has already been awarded, that the call is only posted to get price quotes from potential suppliers and to understand their pricing better, or that (government) regulation requires publication while in reality a preferred supplier exists. Especially if tendering requires some investment from your side, it is often useful to contact the tendering party and verify that the call is indeed serious.

When you are searching larger tender databases, you need to get familiar with the taxonomy systems used on these portals: TED, for instance, uses the CPV (common procurement vocabulary) to organize its calls. However, not every civil servant preparing a tender knows the CPV by heart and places his tender in the right category. Therefore be prepared to look into every category remotely related to the product or service you offer. Often it pays to combine a taxonomy search with keyword searches. For example, if you are offering computer training, you might search for “computer” in the “training” category as well as for “training” in the category for IT equipment.
Italian Venegazzù spa is a wine producer company based on an ancient vineyard. The company was founded in the 1950's by Count Piero Loredan, a direct heir of the Doge of Venice, Leonardo Loredan. Their philosophy is one of respect for and enhancement of the tie between the vine variety and the region.

Venegazzù uses Global Wine and Spirits (www.globalwinespirits.com), based in Canada, a B2B Internet platform for wine and spirits in the world; their site counts hundreds of daily visitors and most of them have regular transactions.

Giovanni Luca Atena from eMarket Services and ICE (Istituto Nazionale per Il Commercio Estero) has conducted an interview with Venegazzù’s Giovanni Dall’Ozzo, which was originally published in August 2004.

Q: Please tell us about your use of Global Wines and Spirits (GWS).
A: Since its inception, our company has produced high quality wines. We are currently using GWS to promote our wine – our contacts in the market have increased and we have received many requests for wine.

Q: How did you find out about GWS and why did you join them?
A: We were already receiving news from GWS before joining them; we were aware of their advantages. When ICE invited us to join their promotion of GWS we quickly applied. We now have a one-year paid subscription.

Q: How does the platform work and what services do you use?
A: We mainly use the ‘call for tender’ service; buyers from many countries make requests and we are able to reply with an offer. For our product, it’s the most suitable tool.

Q: How do you get in touch with a company that posts a purchase request?
A: Basically we get in touch by e-mail through the GWS platform; this happens 90% of the time. Sometimes we contact them directly, but it’s rare.

Q: How many requests have you responded to and from what countries?
A: So far we have received 10 interesting requests; most of them come from European countries.

Q: How do you manage this new trade channel?
A: We have a member of our staff responsible for checking the site and replying to offers.

Q: Trust is a major issue concerning the use of an e-marketplace: how do you cope with this problem?
A: As standard procedure, we carefully check any request posted on the site; we need to be sure about reliability.

Q: On balance, given it is your first experience of using such a platform, do you feel satisfied and do you plan to go on using this means of trading?
A: The first results are interesting, but we actually don’t plan to go any further than this step.
3 Trading functions on business-to-business portals

3.2.2 Buyer perspective

Open tendering platforms are also of interest to companies that want to buy something. They are especially suited for project services, e.g. market research, design, printing, translation, or construction projects, but also for buying larger volumes of physical supplies like computers or paper. Keep in mind, though, that the tendering volume must be large enough to make it worthwhile for a supplier to submit a tender.

The main advantage of open tendering platforms for small businesses is the combination of low costs and high reach. In theory at least, posting your call makes it available to a large number of potential suppliers, the best of which will then bid for your business. Often you can also select suppliers you want to invite according to certain criteria like region or industry. This is especially interesting for small companies that need to keep their supplier selection activities lean.

Figure 6: Checklist for tendering services

<table>
<thead>
<tr>
<th>Suppliers:</th>
</tr>
</thead>
<tbody>
<tr>
<td>■ First get a clear understanding about what kind of tenders you are looking for. If you are looking for a new type of customers like large enterprises or governments, ask yourself: Are you really prepared to deal with these customers? Do you understand their procedures?</td>
</tr>
<tr>
<td>■ Next identify relevant tendering services. Select those that are most appropriate for your company. Follow the suggestions given in section 3.6. Use databases like eMarket Services to identify potential ones. If you are looking for tenders outside your home country, use the offers of trade promotion organisations as well.</td>
</tr>
<tr>
<td>■ For government contracts there is typically one “definite” publication (online or offline), where tenders have to be published. You can either scan the relevant platforms directly or use the services of an aggregator.</td>
</tr>
<tr>
<td>■ Note that you might also find calls for tenders on the homepages of large enterprises or government institutions. You might also want to include those in your search for tenders.</td>
</tr>
<tr>
<td>■ Once you have identified tendering services, make yourself familiar with the taxonomy and the keywords used so that you find all relevant tenders.</td>
</tr>
<tr>
<td>■ Make a habit of searching the tendering services regularly – or use e-mail notification services if they are available. By doing so you get familiar with the services and do not risk missing a call for tenders.</td>
</tr>
<tr>
<td>■ Once you have found an interesting call, get in contact with the institution that has posted the call to discuss specifics if necessary. This is also a good occasion to check whether the call is serious.</td>
</tr>
</tbody>
</table>
Reassess your choice of platforms periodically. How many relevant calls did you find on the platform? If none or too few, stop watching it and spend your time on more valuable activities – even if you risk missing a potential future call.

**Buyers:**

- First identify the most relevant open tendering services. Use databases like eMarket Services to identify potential platforms. Especially if you want to reach suppliers abroad, you might want to use the help of trade promotion organisations.

- Make sure that the tendering platforms chosen are indeed used intensively by your target group. Follow the suggestions in section 3.1 to learn more about the platforms.

- When specifying the call, it should be clear and precise while giving tenderers the freedom to suggest their own solutions whenever this is appropriate. Be more precise and specific than necessary when asking an existing supplier for a proposal.

- Use tendering services in combination with traditional ways of receiving proposals. You might receive many tenders or none.

- Suppliers from far away can apply, so you need to define early how to deal with distance-related costs (e.g., transport, travel costs for meetings, impossibility of spontaneous personal meetings).

- Evaluate the quality as well as the economic and financial capabilities of suppliers you do not know. Determine which documents you require and which procedures you want to follow. Reputation services used by some platforms are a start.
3.3 Finding and publishing discrete offers: classifieds

Classifieds typically display discrete offers of products for sale, sorted by the type of product, the brand or even the seller. They resemble very much the “for sale” sections in newspapers or trade magazines and are often focused on an industry or a certain range of products. Some classified services also provide a functionality to negotiate prices, e.g. via an auction.

- Relevance for small buyers: high
- Relevance for small suppliers: high
- Technical know-how required: low
- Number of B2B Internet platforms offering this service: high

Classifieds – sometimes also called “bulletin boards” – very much resemble the “for sale” sections in newspapers or trade magazines. And in fact classifieds are often part of the web site of trade magazines, frequently as a significant element of their online presence. But there are also Internet pureplays, one of the most prominent is the business site of eBay (business.ebay.com) and its localized variants.

Many classifieds focus on pre-owned or secondary goods like machines, trucks, or office equipment, others on excess inventory. But classifieds are also an important channel through which to sell and buy new products.

The landscape of classifieds

Sometimes classifieds are focused on a certain industry (e.g. Fordaq on the wood industry), sometimes they are open to any sort of product and order them according to their own taxonomy (e.g. eBay, Alibaba).

Other services concentrate on used or new investment goods. Typically these services concentrate on a tight range of goods (e.g. motor vehicles) or a specific market (e.g. laboratories). And finally, another type of specialization is on excess stock, either with an industry focus like Excesstrade.com for electronics or Canaltextil.com for textiles or across several industries like Solostocks.com or CommoditySurplus.com.

It is not unusual that the classified service is integrated with a tendering platform, especially if the portals have an industry focus. This has the advantage that you can search for products on sale as well as ask for quotes for similar products (see e.g. resale.de). In some cases an industry directory is also included.

The services follow different strategies with respect to pricing and negotiation. Some services list the products without price, and price enquiries,
as well as price negotiations, have to take place offline. Others have a fixed price policy, and a third group even provides auction functionality. As known from its consumer site, eBay’s business site offers a combination of auctions as well as fixed prices (“buy it now”).

**Figure 7: Examples for classifieds**

- **eBay Business & Industrial** (business.ebay.com) is a special site by eBay that focuses on industrial equipment, industrial supply and agricultural equipment. As with eBay’s consumer service, local sites are available, too (e.g. business.ebay.de, business.ebay.co.uk). This special service also supports the specific requirements of businesses, such as support for value added tax.
- **Fordaq** (www.fordaq.com) regards itself as “the timber network”. The platform is a combination of classifieds and tendering services for anything related to timber – from sawn timber via logs to whole forests. It also contains an industry directory.
- **Truckmarket** (www.truckmarket.de) is a classified service by the German magazine Truckmarket. The site lists everything big with wheels and a motor: trucks, agricultural machines, construction machines, buses, etc. It also serves as a subscription-generating site for the publisher’s various print magazines covering transport and logistics.
- **Solostocks.com** (www.solostocks.com) is a Spanish classifieds service covering all sorts of products and targeting buyers as well as suppliers of surplus stocks. This service is integrated with a tendering service.

### 3.3.1 Supplier perspective

Classifieds are an easy-to-use sales tool whatever product you are selling – new or used, MRO product or direct input, surplus or regular. While most services are most useful for occasional sales, others like eBay or Mercateo provide tools for “power sellers” that regularly post many classifieds.

For those selling new products, classifieds are often an additional way to get leads. You may also regard your posting as advertising; this offer drives new customers to your regular web site. For those selling surplus or used investment goods, there is the additional advantage of having a larger reach compared to traditional means. Typically this leads to higher prices.

To increase trust, the operators have often stipulated certain rules about when a contract is agreed upon, who pays for transport or insurance cost or how payment can be conducted. Some even provide an escrow service and act as a middleman who forwards payment to the seller only after the buyer has confirmed that the goods arrived in the expected condition.
Once you have started using such services, there are a variety of tools and good practices to help you in maximize your turnover. Professional photos of the products or precise descriptions are just two ways to achieve a good result. Many services provide additional tips; eBay has even compiled a 76-page handbook on successful selling on its platform.

### 3.3.2 Buyer perspective

The extensive reach as well as large number of posts on the most important classifieds portals make success much more likely than traditional offline markets, especially for unusual, surplus or used goods.

The most important task for a start is, again, to find the relevant services for the products you are searching for. When you have found a compelling offer on one of the classifieds platforms, take into account that the seller might be located far away. If the service guarantees anonymity, even the seller’s identity will be unknown. In addition the products sold via this channel might come without service. So you need to make sure that the associated risk is really worth the lower price. If you want to buy used capital equipment, the seller typically offers the opportunity to visit and inspect the item. If there is no other guarantee, you should accept this offer.

Finally, if the seller is located abroad, you also need to take into account import, tax, and other legal regulations and costs. Some products need to meet certain technical standards; some capital goods need certain certificates to be usable in your home country. Make sure that these exist.

### Figure 8: Checklist for classifieds

**General:**
- First identify the relevant platforms for the type of products you want to purchase or sell. Use databases like eMarket Services. Follow the direction in section 3.6 to identify the platforms you want to start with. A good platform should be targeted and highly frequented.
- Make sure you understand the specific platform rules, e.g. for auctions.
- Start slowly by getting listed on the most important services and extend your activities later if you are satisfied with the outcome.
- Reassess your choice of platforms periodically.

**Suppliers:**

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www.emarketservices.com
First define why you want to sell which products at which prices via classifieds and choose the platform according to your targets. Make sure you don’t create a channel conflict and risk losing your regular customers.

Once you have started using a platform, try to improve your offers continuously. Use the learning material provided by the operators to understand how to create a compelling offer. Learn from successful suppliers which kind of product presentation leads to high turnover and high prices.

Get familiar with export regulations if you want to sell abroad. Contact a trade promotion organisation to get further assistance.

Inform the people taking calls in your company about the posting.

If you do not know a buyer, make use of the platform’s escrow services if available so that you will get paid for your products.

Separate e-mail addresses for offers as well as professional e-mail management can help you reduce spam.

**Buyers:**

- Don’t look for bargains as you would do as a consumer. Remember, your time is valuable. Therefore concentrate on the most important platforms.

- When deciding to bid or to buy, take into account that the seller might be located far away. Transport costs apply, warranty might be difficult, or it may not be permitted to use the product in your country. Make sure you understand these risks and adjust the price you are willing to pay accordingly.

- If the classifieds platform has auction functionality, make sure you understand auctions well, know your maximum price and don’t get carried away in the bidding process.

- When you do not know the seller, make use of the platform’s escrow services if available. This way you will not risk paying for a product that does not meet your expectations.
3.4 Selling high and hunting bargains: auctions

The auctions covered here are a combination of online and offline auctions, where traditional auction houses make their auctions also available online, either by themselves or in cooperation with Internet platforms. Most of these services are more than just a B2B Internet platform. They should rather be regarded as auction full service providers.

- Relevance for small buyers: medium
- Relevance for small suppliers: medium
- Technical know-how required: low
- Number of B2B Internet platforms offering this service: low

As we have seen in the previous section, auctions can often be found as part of classifieds – eBay is the best-known example for this. There is one strand of B2B Internet platforms, however, that started out in the same way but after the dotcom crash took a different route: auction service providers.

Often started as Internet pure-plays, these platforms are now closely cooperating with traditional auction houses or have even merged with them. They can now be described as an extension of these traditional offline auction services to the online world. This extension makes more potential bidders aware of ongoing auctions, and thus tends to lead to higher prices. On some platforms it also enables bidders to participate in these auctions via the Internet, so that they do not have to be physically present at the auction.

Often the goods sold on such platforms are surplus products and capital goods as well as liquidation stock. So the main potential benefit for buyers is finding a bargain, e.g. by buying a used expensive machine well below the price for a new one. But there are also auction service providers for products where auctions have a long tradition, for example fish or flowers.

The operators of auctioning platforms are often full service providers. They do not only operate the B2B Internet platform; they also provide additional services, e.g., consultation on how best to sell one’s products, coordination of product inspections, valuation of assets or advice on reasonable reserve prices, as well as billing and payment collection. Thus, they are much more than just an Internet platform.

In contrast to pure online auctions, e.g., in classifieds, where the seller directly auctions off the products, here the auction company and site operator typically acts as an intermediary. Often, it is also in physical possession of the goods or has access to the premises where these are kept.
Legally, however, you will normally buy the goods from the previous owner, as the auction house is not in legal possession of the goods. It is important to keep in mind that you buy the goods “as they are” and that you will only have very limited possibilities for returning goods or getting a refund for defunct products – especially if the goods are from a liquidation sale.

**Auction rules**

While in theory there are many different types of auctions, the auction platforms mostly use the best-know rule, an (English) open bid ascending auction: Everybody can see each others bids and the highest bid wins.

The decision on when an auction ends is normally the same as in the offline world. This is obvious for those cases where online and offline auction take place at the same time; e.g. at Surplex, an auction ends after three unsuccessful requests for higher bids by the auctioneer. This differs from auctions in classifieds, e.g. eBay, where an auction ends at a specified date and time.

Some platforms also offer other negotiation mechanisms in addition to auctions. Surplex, for instance, offers a so-called treaty sale: Interested buyers can make bids (and set a time limit for the bid), sellers can accept the bid or not.

**Figure 9: Examples for auctions**

- **Dovebid (www.dovebid.com)** is a global provider of capital asset auction, valuation, redeployment, and management services, which has currently existed for more than 60 years. Starting in the 1990s, Dovebid has extended its traditional offline auctions with extensive online activities. Some traditional auctions are webcasted, and bidders can bid on site as well as via the Internet, other auctions are only conducted online in eBay style.

- **Pefa (www.pefa.com)** is an auction site that connects various European online and offline auctions for fresh fish. The site enables fresh fish professionals to buy fish via their computer, whenever it comes ashore.

- **GoIndustry (www.goindustry.com)** is just like Dovebid a combined on- and offline auction house. It also offers services for asset valuation.

- **Surplex (www.surplex.com)** is a German service for used machinery. In online auctions as well as a classifieds section (so-called treaty sales), machines from a variety of categories are sold. In addition Suplex offers valuation services.
3.4.1 Supplier perspective

Generally, auctions can help you to get a higher price for goods on sale. However, whether this really works, depends on the number of potential buyers and their interest in the products. You get the highest price those bidders participating in the auction are currently willing to pay.

The advantage of Internet auctions is that they enlarge the pool of potential bidders. A large number of bidders create the tight competitive atmosphere that drives prices up.

One major factor in selecting your auction service should be how well the service is able to attract many bidders. Ask about the marketing efforts you can expect from the operator: does it advertise your auction only on its own site or also in newspaper and trade magazines? Does it have a database for e-mail or postal mailings it uses for this purpose?

Also enquire about current and past auctions via these services and ask for the prices realized. Ask also about how much better than reserve prices these values were. This way you get an impression of the value added these services are able to provide.

If you select a platform with extensive additional services on offer, you also get all services you need out of one hand. This includes consultation on achievable prices and the best set-up for auctions, marketing, administration of online as well as offline auctions, billing, and payment collection. If you do not want to deal with all these and are only interested in getting a reasonable price for your goods, this is an interesting offer.

3.4.2 Buyer perspective

From the perspective of a buyer, the major benefit of auctions is the possibility of finding a bargain. This is of interest especially for those small companies that cannot afford or do not want to buy new capital goods.

Before bidding you should make sure that you understand the auctioning mechanism as well as the psychology of auctions. If you have never participated in auctions, get some practice on eBay. Be aware of the exact terms for the particular auction you want to participate in. These may even differ for auctions on the same platform. Important points to consider are:

- Who is the seller? The auction service or the previous owner?
- Is there any guarantee? Can non-functioning items be returned?
- Is there a possibility of withdrawing from your bid if you make a mistake (e.g. enter a zero too many when bidding online)?
If you win the bid, do you own the item or is there a possibility that the seller could withdraw? There might also be a reserve price set by the seller. If this is not met, he does not need to accept your bid.

When do you have to pay? Which means of payment are accepted? Is there a need for a down payment or bank guarantees?

Is the commission for the auction house included or does it come on top (buyers’ premium)? How much is it?

If you do not want to buy anything in auctions, you can still use the price information from them for negotiations with your local dealer, especially if you are offered used equipment or surplus goods there.

Figure 10: Checklist for auctions

General:

For surplus auctions there are two ways to identify the appropriate services. Just like with other B2B Internet platforms, you can start with databases like eMarket Services. Since many surplus auction services also have an established offline business, you will also find them via Yellow Pages or their advertisements.

Suppliers:

Generally you can only auction your products at one service at a time. So selecting the one that has a good track record for high prices is important. Inquire about the prices at previous auctions, the number of bidders at previous auctions and the marketing activities planned for selling your products. Choose the auction service with the best offer.

In addition consider, which sort of additional services you need (e.g. consulting, fulfilment) and take these into account when choosing your service provider.

Buyers:

If you are searching for specific products, scan the potential surplus auction services regularly for upcoming auctions.

Check small services carefully. While they might just be new or operating in a niche, their smallness might also be a sign of bad reputation due to bad customer service or disputes between buyers and sellers.

Once you have found an interesting offer, inspect the goods in person or have them inspected by a trusted party if possible.

Before you start bidding, make sure you understand the rules, commissions and other small print. They might differ from auction to auction.

Also before bidding, determine the maximum price you are willing to pay and stick to it. Don’t get into a bidding frenzy.

Take into account the risks inherent in used equipment, especially if you bid on goods from a liquidation. Adjust your bid accordingly.
3.5 Winning contracts: reverse auctions

For this handbook we define reverse auctions as sourcing auctions or buyers’ auctions, where a buyer wants to find the cheapest supplier for a contract. Within the auction the potential suppliers decrease their bids und underbid each others until the supplier with the lowest bid wins the contract. Reverse auctions often take place on dedicated Internet platforms, but they can also be found as part of larger B2B Internet platforms or as element within enterprise software for supply management.

- Relevance for small buyers: low
- Relevance for small suppliers: high
- Technical know-how required: low
- Number of B2B Internet platforms offering this service: small

Reverse auctions are by now fairly common within the sourcing processes of larger companies, so if you are a supplier to large enterprises, you might already have come in contact with them.

Reverse auctions are normally by invitation only. So you cannot shop around for potentially interesting supplier contracts and than bid on these. Rather, they are typically the final step of an extensive sourcing process.

These auctions are one of the most fiercely debated inventions within the field of e-sourcing. Many suppliers, especially smaller ones, have the fear that the only purpose of these auctions is to put them under considerable price pressure. We will show in this chapter, however, that product cost savings are not the only motivation for reverse auctions, and we will also show that for you as a small supplier, reverse auctions initiated by your large customers can actually provide some benefit.

Although companies often talk about refusing to participate in reverse auctions, in the long run this is not a sustainable strategy. If one of your major buyers asks you to participate in an auction, you need to do so to keep this buyer.

To participate successfully in auctions, you need to understand how reverse auctions work and where the pitfalls are, so that you can follow the best bidding strategy. If you do not go down far enough with your bid, you will lose a customer, and if you go down too far with your bid, you lose money with each product shipped.
Case study 3: Riegens saves cost by using reverse auctions

Riegens A/S (www.riegens.dk) is one of Europe’s leading lighting manufacturers, specialising in technical lighting solutions. Using scanmarket.com (www.scanmarket.com) to purchase paper and office supplies, has allowed Riegens to has save 30-35% on their non-strategic purchasing costs.

Martin Jacobsen from eMarket Services has conducted this interview with Henrik Jacobsen, purchasing and logistics manager. It was originally published in September 2003.

Q: Tell us how you came to consider using Scanmarket for doing business?
A: Scanmarket was able to provide us with the opportunity of inviting several companies to submit at tender for our purchases of indirect goods. By doing so, we believed we would gain a reduction in our purchasing costs.

Q: Please take us through the steps of getting connected to Scanmarket.com.
A: It was actually very simple, we held a meeting at Scanmarket where we agreed on our requirements for using this new tool. Then a consultant from Scanmarket came and installed the necessary software, explained to us how to use the tool, and afterwards we were ready to begin.

Q: What made you choose Scanmarket?
A: Choosing Scanmarket would enable us to perform our own search for suppliers. Furthermore, trading on this e-marketplace seemed simple.

Q: Did you have any concerns about using this new tool?
A: No, not really, worries are only attitudes that need to be changed. Unfortunately, we lost some suppliers who did not want to participate. But no, we did not have any concerns.

Q: How does Scanmarket work? Could you take us through the steps?
A: First we invite four or five suppliers to submit a tender at an auction on a certain day. We inform them of our yearly consumption, briefly describe the use of the product and any specific characteristics. The suppliers can then send material to us and call us if they have questions. We do not want them to come and visit us. Finally, we inform them of the price paid last year so they have a feeling of what we are searching for. During the auction, the suppliers cannot see their competitors’ names, only their bids. Afterwards we evaluate the offers and meet with the winner to sign a contract.

Q: In what way do purchasers benefit from using an e-marketplace?
A: We have reduced our administration costs; we do not need to arrange meetings and visit suppliers.

Q: What did you achieve as a result of using the e-marketplace?
A: We have achieved a reduction in non-strategic purchasing costs by 30-35%. We might be able to achieve this reduction by traditional trade too, but not with this speed.

Q: Will you continue to use e-marketplaces for your business?
A: We definitely wish to continue to do business at Scanmarket.com.
Reverse auctions from the buyers’ perspective

Reverse auctions are the climax of an extensive sourcing process. This process starts with the identification of potential suppliers, it includes their evaluation and, if necessary, qualification to the standards required by the buyer, and it also includes the exact specification of the products to be bought.

This specification has to be precise enough to enable a final decision based solely on price. It also includes a mapping of non-price characteristics to monetary terms. E.g., each bid by a very distant supplier may get an additional pro-forma mark-up of 2% to account for higher coordination costs due to the long distance.

Traditionally, this price negotiation has taken place offline, sometimes by negotiating with one potential supplier after another, sometimes with “hotel room negotiations”, where all suppliers have been invited into a hotel and then had to provide their bids in envelopes at the same time in several rounds. Such offline negotiations are costly and time-consuming. Many large buyers also came to the conclusion that they haven’t gotten the lowest possible price this way but paid too much.

Thus, an improvement in these negotiation procedures can also be a motivator to start with reverse auctions. This is confirmed by I-Adapt, a UK research report on online reverse auctions, which shows that the main reasons for buyers to initiate an auction are both cost savings as well as expected improvements in the negotiation process.

The landscape of reverse auctions

From a technical point of view, reverse auctions can be realized in different ways – not all of these include the use of B2B Internet platforms. However, from the point of view of the user, there is not much difference between these:

- Sourcing service providers: Some B2B Internet platforms used to be specialised in providing reverse auction functionality (e.g. Freemar-

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6 There is one exception: multi-attribute auctions. In these auctions you can change your bid in more than simply the price, e.g. by giving pairs of price and quantity (5 cents per piece for 5,000 pieces, 4 cents per piece for 20,000 pieces). Multi-attribute auctions are not used very often in online negotiations, as they are relatively complicated. An example for a reverse auction platform is NegoMetrix [www.negometrix.com].


www.emarketservices.com
kets, now part of Ariba, Portum). They are sometimes called “sourcing service providers”. These platforms offer so-called virtual trading rooms in which to conduct an auction. In addition, they provide auction-related services like training, helpdesk services during the auction, or fallback solutions like taking phone bids in case the browser crashes or the Internet connection is interrupted during the auction. While they are still active in this business, selling their auction engines as software typically has become more important than the original Internet platform.

- **Industry-specific Internet platforms:** Some industry-specific platforms (e.g. ChemConnect) also provide reverse auction functionality. This is useful in cases where price negotiation is an important element in the sourcing processes in this industry. Their advantages are that they are well-known in the industry they cover and that they can modify the auction processes to suit industry requirements.

- **Enterprise software applications:** Some applications for large enterprises (e.g. SAP SRM/Enterprise Buyer) also include reverse auction capabilities. Using this software, enterprises can conduct their own private negotiations. In addition, many sourcing service providers are also software companies which offer their auction engines for sale. Both ways buyers can set up their own reverse auction capabilities.

This list shows that reverse auctions show some overlap with B2B Internet platforms, but are not restricted to this type of Internet service.

**Challenges and benefits for sellers**

The discussion of reverse auctions primarily emphasizes the (alleged) drawbacks of these auctions for suppliers. The I-Adapt survey has asked suppliers in the UK for the severity of different issues and came up with the following list:

1. Customer focused on price alone.
2. Supplier forced to focus too much on solving cost problems.
3. Reduces long-term competitiveness of suppliers.
4. Drives down price below sensible economic level.
5. Buyer becomes too dominant.

This list shows that most suppliers fear a too strong dominance of the price factor in negotiations, which forces them to engage in (short-term) cost cutting and neglect expensive (long-run) activities to increase quality or other non-price characteristics. In the long run this would affect their competitiveness negatively.
However, the same suppliers also agree that there are various positive aspects to reverse auctions:

1. Ability to react to competitors’ price.
2. Provides a visibility of competitors’ market pricing.
3. Reduced negotiation process time.
4. Provides impetus to improve competitiveness.
5. Provides more level playing field for suppliers.

As this list shows, the suppliers like on their side what they don’t like on the side of buyers: using the price as a strategic instrument in negotiation. A transparent online negotiation provides buyers with much better possibilities for reacting to competitors – the risk of losing a contract because the bid was only a tiny bit too high, decreases significantly.

If you are a small supplier, this assessment of reverse auctions can be summarized by the following implications:

- **Reverse auctions force you to become more competitive:** You cannot go below cost in your offers – otherwise you will be out of business. So the only chance of offering lower prices and winning the auction is to decrease costs. While this might be a painful process, it also increases the chances of winning other customers.

- **The price focus of online auctions is also an opportunity.** While you might have to make price concessions to your customers, you can use the price transparency in most online auctions also as a weapon against competitors. You learn about their prices and you can react better. This requires, however, that you are competitive enough to offer lower prices than your competitors.

- **Both parties can speed up the negotiation process.** You get the results faster and do not need to spend so much time in negotiations. This facilitates planning, as you do not need to juggle with several potential contracts in the pipeline.

As these implications show, a reverse auction simply ensures that you as a supplier provide your products at competitive market prices. Once this is ensured, buyers and suppliers can move on to focus on the non-price aspects of their relationship, e.g. quality, reliability, flexibility, and improve their relationship with this focus. Therefore the often-heard fear that reverse auctions destroy any long-term relationship between buyers and suppliers is exaggerated.
Case study 4: Iskraemeco successfully bids in reverse auctions

Slovenian Iskraemeco (www.iskraemeco.si) is one of the world’s leading companies in the field of equipment and systems for energy measurement and management segmentation. It won an important part of a supply contract for measuring equipment after having been invited to an e-auction on FreeMarkets, now part of sourcing software manufacturer Ariba (www.ariba.com).

Andreja Pucihar and Désirée Pecarz from eMarket Services have conducted this interview with Slavko Vidic, Chairman of Board of Directors of Iskraemeco. It was originally published in October 2004.

Q: How did you come to consider using an e-marketplace for doing business?
A: In your opinion, what are the benefits of doing business on e-marketplaces?
A: It was originally published in October 2004.

Q: How did you come to consider using an e-marketplace for doing business?
A: At the end of 2001, we were invited by a company from Hong Kong, which provides a safe and reliable electricity supply to two million domestic and commercial customers, to join the marketplace FreeMarkets and participate in a reverse auction along with other invited suppliers.

Q: What made you decide to accept such an invitation?
A: We already had a business relationship with such a company. They decided to purchase measuring equipment for the next three years from the most suitable supplier. We seized the opportunity and decided to participate.

Q: What made the difference? How did you gain the contract?
A: After having registered, we were trained to use the marketplace bidding software BidWare so that we were able to participate in the auction. We needed to be very well prepared and to have the appropriate data available in real time for decision making about possible price decreases.

Q: What were the steps to start doing business in FreeMarkets?
A: The auction started on January 22, 2002 at 7 a.m. and finished at 10.56 a.m. It took place in real time, and participating suppliers were able to compare their offers with others. Two weeks after the auction’s closing time, we had been selected and the contract signed. We won a big part of the business.

Q: How did the auction on FreeMarkets work?
A: In our case, price was not the only key element for winning the business. There were also other important elements such as: quality of products and services, timing for order fulfilment and after sales services. Iskraemeco did not offer the lowest price but we were close to the middle. However, our offer better fulfilled the buyer’s other requirements.

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Q: In your opinion, what are the benefits of doing business on e-marketplaces?
A: E-marketplaces bring benefits for companies that are currently not leading and well known in their industry. The main benefit is having the chance to compete on an equal footing and at reasonable costs for the business with better-known companies, all over the world.

Q: Do you plan to use e-marketplaces in future?
A: Iskraemeco will use e-marketplaces for creating global relationships. We keep our eyes open and look for opportunities by regularly participating in other auctions when invited.
This is also confirmed by the I-Adapt survey results: Only 22% of interviewees state that they have won auctions solely on price. And they point out that in many cases the incumbent supplier wins the bid. Even if he does not, he is often back in the game in the next round, after having reduced his costs. Therefore all companies interviewed for the above mentioned survey said that they would continue to participate in reverse auctions.

**Success factor for sellers**

If you want to succeed in reverse auctions, there are a couple of things to take into account. Probably the most important advice is that you should compete on cost, not on price. Try to understand exactly what the costs are for your product – this is often not an easy task. And while you should not offer your products below costs, you should do everything you can to lower your production costs. Your competitors probably will.

If for whatever reason you want to avoid auctions and the price competition aspects they bring with them, you need to move somewhere else. Move out of mass markets and specialize. From the point of view of a buyer a reverse auction only works if there are enough sellers of sufficiently similar products to set up a really competitive atmosphere. So if you are (almost) the only producer of a specific good, you won’t be asked to participate in an auction.

**Terms and conditions**

The terms and conditions of auctions are frequently an issue of debate. When suppliers have the perception that reverse auctions by buyers are “unfair”, then the terms and conditions are often the reason for that. You should therefore check them carefully and decide whether you can and want to accept them. For any auction, they should be clearly specified. If this is not the case, it is in most cases a good idea to stay away from such an auction.

You also may want to check whether the platform operator has published a code of conduct (CoC), which describes how buyers and sellers have to behave, which behaviour and strategies are acceptable and which not. The European Commission has published a guideline for codes of conduct.8 You can compare this guideline with the CoC of your specific platform to find out whether the most important potential conflict areas are covered.

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8 It is part of the Final Report of the Expert Group on B2B Internet trading platforms, 7 July 2003, [europa.eu.int/comm/enterprise/ict/policy/b2b/].
eMarket Services has already conducted such a comparison for a variety of Internet platforms, which may serve as an example.¹

Often discussed issues within the terms and conditions are the following:

- **Winning bid**: Will the lowest bid win the contract or can the buyer still decide to award the contract to another bidder? This should be clearly specified. If the buyer can choose, you should take that into account in your bidding strategy. In this case, being the lowest bidder doesn’t necessarily pay off.

- **Contract volumes**: Will the contract really be awarded for the whole contract volume specified to one bidder? Or can the buyer split the contract? If you calculated a competitive price for 10,000 pieces and you only get a contract for 4,000, you risk losing money.

- **Puffing or shilling**: These terms describe a situation, where the buyer lets a hired third party provide fake bids with the sole purpose of driving the price down and driving the other participants into submitting even lower bids.

- **Applicable law**: Reverse auctions are often international activities. This requires the specification of which country’s law should apply to the auctions. It does not have to be the law of the country where the platform is located (if this can be determined at all). Often the buying party decides. The law in turn has consequences for what behaviour in reverse auctions is deemed acceptable and what is considered to be unfair behaviour.

The main message from these last issues is that you should prepare your participation in a reverse auction thoroughly. Develop a strategy for participating in auctions, learn about the different rules and potential conflict issues and decide which rules you are willing to accept and which not. Remember, if you learn faster than your competitors, you may snatch some business from them.

General:
Suppliers are usually invited by buyers to participate in reverse auctions and cannot initiate their participation themselves. However, buyers frequently search for new suppliers in industry directories and search engines, in supplier networks of trading networks or via their own website. Suitable potential suppliers are then invited to participate in auctions.

Suppliers:
As a supplier who has been invited to participate in a reverse auction, you need to take several things into account:

- If you reject reverse auctions and want to avoid them, you must move out of commodity business into a niche business, where you have only few competitors.
- Reverse auctions provide you with new opportunities to use the price as a strategic variable.
- Before you start, make sure you understand your costs. Never compete solely on price. You must lead on cost and reduce your costs sufficiently to be able to win a bid – otherwise you will lose money.
- Check the terms and conditions carefully. They may differ between auctions, platforms and countries. Even those aspects of an auction that are covered by common law may be regulated differently in different auctions.
- Make sure you understand the rules with regard to behaviour that might be considered as unfair, such as not accepting the lowest bid. In some auctions this may be allowed and you need to adjust your strategy accordingly.
- When participating in a reverse auction make sure that those with executive power over pricing participate – you won’t have time to ask for advice once the auction has started.
- If you have lost an auction, analyze the reasons carefully. Can you decrease your costs to become more competitive? Can you increase your quality or offer any other value that might bring you bonus points in an auction?
- If you have won an auction against a previous supplier remember that many long-term suppliers win the contracts back after a while. Use the head start you have to better understand your new customer and to decrease your own costs. Otherwise you might lose the customer again in the next auction.
3.6 Selecting the right B2B portal service

It’s important that you concentrate on the significant B2B platforms. There is not much value to be gained from being listed in all possible services. Firstly, only a few big ones and some very focused and specialised ones tend to survive. And secondly, being listed on too many platforms makes it more difficult to maintain all entries. Finally, being listed on dubious platforms might even be negative for your reputation and might lead to a significant amount of email spam.

Ways to find relevant platforms

So you need to find the relevant platforms. There are several ways to do that:

- First check out the information at eMarket Services. This service not only provides a list of platforms searchable by industry or region, but also additional information about each service, such as transaction and membership statistics, description of products and services traded, and available trading functionality.

- Then look at the platforms themselves. Do they appear to be alive? Are there fresh entries, news, press alerts, or any other sign of ongoing activity? On the Internet, there are still many “zombie services” from the Internet boom era, where the operator has long ago closed shop but the Internet platform is still alive. You should learn to identify such zombies quickly to avoid wasting time on them.

- If you are in doubt, a phone call or email to the portal operator always works well. If there is no phone number, and your email isn’t answered within a business day or two, move on to the next platform.

- While you are in contact with the platform, you may also want to ask them for user data (sometime called media data if the platform makes its money from advertising). Ask them for the number of visitors and their business demographics. Any serious platform should be able to provide you at least with some fairly up-to-date data about the number of buyers and sellers.

- In addition, look in trade publications for advertisements of the platform and look at who is present in your industry’s trade fairs. Most serious services spend money on marketing via these channels, as they are only useful if they are known and used in their industry.

- Finally, if you have something to sell, you should also ask your (potential) customers about where they search for new suppliers or specific products.
What else to take into account

Finding the relevant portals for an industry is one thing, finding the optimal platform for your company requires some more things to be taken into account.¹⁰

- **Ownership and history:** The ownership and (financial) history might be an indicator for the survival chances of the platform. It might also be the case that a platform is owned by your competitor.

- **Membership and cost:** On the platforms at least one of the parties using it has to pay sooner or later for their services. You might have preferences for certain membership models and fee structures and you might also have an idea about how much the services are worth for your company.

- **Ethics, security, and privacy:** Depending on how you want to use the platform, you might have certain demands. Normally you would want to keep your data confidential and your privacy protected. Some platforms provide guarantees for this or are even audited, others not. Platforms also differ in whether they allow anonymous use.

- **Risk management:** As you will see in the next sections, using B2B Internet platforms involves some risk, for example risk related to delivery and payment, product quality or legal terms and conditions. You might have specific preferences for bearing this risk, and platforms might offer to take over some of this risk.

- **Additional services:** You might want additional services like training in how to use the platform, or fulfilment and logistics services. Different platforms offer different sets of additional services.

¹⁰ See also the checklist on selecting the right e-marketplaces by eMarket Services [www.emarketservices.com/upload/Basics/Checklist_Selecting.pdf].
Figure 12: B2B Internet platforms and trust

| **Trust in the platform operator**: If sensitive data is transmitted via the platform (e.g. price information), the operator must keep this data confidential. The security measures on the platform must also be strong enough to ensure that third parties do not get access to this information. Another element of trust might concern the survival chances of the operator: If you invest in connecting to the platform, you want to be assured that these investments are not lost soon after due to the platform operator going broke. |
| **Trust in the trading partners**: You want to be sure that the trading partners are really who they claim they are – and not possibly your competitor. Also you want to be assured that the products sold to you are really those advertised and are in good condition. Likewise, if you are a seller, you want to be assured that the buyer will indeed pay. |

There are many ways to reduce trust problems. However, there is no silver bullet for all of them. Trust marks for B2B Internet platforms might assure you that the platforms use your sensitive information in a reliable way, but they do not ensure that your trading partners are serious with their offers. Digital signatures might ensure that your trading partners are indeed who they claim they are – however, they do not guarantee payment. Finally, Codes of Conduct (CoCs) published by platform operators describe how the operator and users are supposed to behave – but they typically address only some trust problems.

An assessment of the current state of CoCs and trust marks has recently been conducted by eMarket Services and confirms that no platform fully eliminates all trust problems.\(^{11}\)

In the end, trust is based on experience. Therefore tools that aggregate the experience of many parties, such as eBay’s evaluation system, provide a good indicator of whether you can trust a trading partner. Likewise many of the indicators for relevant trading platforms described above are indeed indicators of long-term positive experience by several parties. Now that the Internet is already some years old and many players in B2B e-business are already established, you can increasingly rely on such experience-based indicators.

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4 Trading networks: connect to business partners

Trading networks are B2B Internet platforms that focus on integrating the IT systems of buyers and sellers. Unlike portals they are part of the e-business infrastructure with the main purpose of enabling an electronic information flow without interruptions.

- **Relevance for small buyers:** low
- **Relevance for small suppliers:** high
- **Technical know-how required:** high
- **Number of B2B Internet platforms offering this service:** small

The previous chapter has focused on a type of Internet platforms that we described as B2B portals because these platforms are used with a web browser. The topic of this chapter is trading networks, a different type of B2B Internet platforms that focus on integrating the IT systems of sellers and buyers.

**Trading networks vs. B2B portals**

These platforms are less visible than portals, they are more like an iceberg: only a small part of their functionality is visible to the average human and can be used with a web browser. The largest part is invisible backend technology, for example for converting different data formats or for ensuring secure connections between trading partners. These platforms are B2B e-business infrastructure.

You do not use these platforms to generate leads, nor do you auction off surplus equipment. Unlike B2B portals, the aim of trading networks is not to bring buyers and sellers together. Rather they aim at supporting existing relationships between sellers and buyers. In the systematic overview in chapter 2 their focus is on e-ordering, not on e-sourcing.

To summarize: trading networks are totally different from B2B portals. However, you will often find them listed as one type of e-markets together with B2B portals. That is sometimes confusing, but is due to the historic development of B2B Internet platforms.
Case study 5: Philips uses a trading network to connect with retailers

Royal Philips Electronics of the Netherlands (www.philips.nl) is one of the world’s biggest electronics companies. Philips has been using the e-marketplace Tradeplace (www.tradeplace.com) as a supply chain between manufacturers and the distributors and retailers of household and consumer electronics appliances within Europe. Tradeplace is a platform for European retailers and manufacturers of household appliances and consumer electronics.

Shanti Pahladsingh from eMarket Services has interviewed Karel van der Horst, Senior Manager CRM & e-Business CE Europe.

Q: Tell us how you came to consider using a B2B platform for doing business.
A: We wanted to give our retailers and distributors the convenience of ordering in real time 24 hours a day, 7 days a week. Through standardization of manufacturers on XML, messages such as order entry, product price, and availability can freely be exchanged between all participants through the central Tradeplace hub. We benefit through staff efficiency, but the main benefits are process improvements: fewer mistakes, faster order processing, permanent up-to-date information, and fewer hidden costs.

Q: Did you have any concerns about using this new tool?
A: Yes, we first looked carefully on the Internet to get an idea of the demand of the different existing platforms. Not all of them seemed to have strong corporate security guidelines.

Q: How did the e-market work?
A: Retailers no longer have to log in and out of the separate platforms. They can access the portal immediately through an Internet browser and search for product information and availability, as well as place orders. Retailers are also able to connect their own order processing systems directly to the portal, through XML Internet technology.

Q: Have B2B Internet platforms changed the way you do business?
A: The only change is that we use e-markets as an alternative to the fax machine. And we are now able to be in touch with the retailers on Sundays, whereas that was not possible before.

Q: What was difficult? What does it cost? Which IT equipment did you need?
A: Currently, no fee is applicable for Tradeplace’s service of accessing brand portals. Registered users can access information and transactional services offered by the different manufacturers such as product information and availability, order entry and tracking, etc. Users can also contact a call centre for troubleshooting and tips on accessing services through the Internet.

Q: What are the advantages of doing business through Tradeplace?
A: We were able to reduce the costs enormously by automating the order desk. Before using Tradeplace, our target group (SMEs and independent buying groups) was difficult to reach during peak hours. Sending a fax to around 30,000 customers can be very time consuming and chaotic. Now we send a message to a central hub and the message is distributed automatically.
Trading networks and large buyers

If you represent a small company selling to other enterprises, then sooner or later one of your larger customers will ask you to participate in the trading network this company favours. Large buyers are normally the initiators: they have to process many orders and have extensive purchasing activities. Even if the use of electronic platforms lowers their cost per transaction only by a tiny amount, the total saving justifies even large investments. We will, therefore, focus on small suppliers in this chapter.

By connecting all their suppliers electronically via such trading networks, the large companies can make their procurement processes more efficient and save money. As a supplier to these companies you normally have no choice but to get connected. What might seem unfair is that you are unable to exercise the same kind of power towards your own suppliers. As a small company, you are simply not important enough to them.

So as a small company you are stuck in the middle. Nevertheless, as we will show, there are also some advantages of getting e-ready and connecting with your customers. In particular, it might provide you with a head start on your competitors.

4.1 The landscape of trading networks

The number of trading networks is comparatively small, especially when compared to the number of portals. In addition, there has been tremendous consolidation going on during recent years, since few big networks can operate more cheaply and provide a larger utility to their customers than many small networks.

Most trading networks are specialised. Some focus on a single industry. GHX and mediciforma, for example, focus on the healthcare market. Others focus on products with specific characteristics like MRO products; cchubwoo is an example. The main reason for such a focus is that each industry or product category requires a different set of services. The four main services or elements in trading networks are:

- **Aggregated product catalogues**: makes your product catalogue available to many buyers,

- **Desktop purchasing tools**: support the buyer’s procurement workflow and might be connected directly to your backend system.

- **Integration infrastructure**: enables supplier and buyer to exchange electronic orders, invoices, payment, etc.

- **Supplier networks**: connecting many suppliers to the network gives buyers a choice of pre-qualified and “e-ready” suppliers.
Figure 13: Examples for trading networks

- **cc-hubwoo** ([www.cc-hubwoo.com](http://www.cc-hubwoo.com)) develops and operates private online e-procurement platforms and an e-marketplace for more than 40 large European companies. These can access their suppliers, access personalized electronic catalogues and perform electronic transactions. It currently has a network of more than 9,000 suppliers connected in 44 countries.

- **Elemica** ([www.elemica.com](http://www.elemica.com)) is an integration hub for the chemical industry and related industries. It was built to facilitate the order processing and supply chain management of contract and repeat chemical transactions. Since Elemica was founded in early 2000, over 1,200 companies have connected to the network. Most companies connect their backend systems directly, but for smaller sellers or those unwilling to connect directly, Elemica offers a web front-end.

- **IBX Nordic** ([www.ibxnordic.com](http://www.ibxnordic.com)) is a large provider of services and solutions for efficient purchasing in Europe. Several Nordic buyers such as Ericsson, Volvo or SEB use the platform. Recently it acquired Trimondo, a similar German platform. IBX Nordic has built an extensive supplier network of more than 10,000 suppliers, of which 1,200 supply an electronic catalogue. Many of the suppliers are small or medium-sized businesses.

**Aggregated product catalogues**

Aggregated product catalogues like those offered by cc-hubwoo or IBX Nordic are an important building stone in the e-business strategy of large companies. Office supply and other MRO (maintenance, repair, operations) equipment in particular, is increasingly ordered from electronic catalogues. This enables each employee to simply order via the intranet. But it also provides procurement officers with better control and reduces a company’s procurement costs by eliminating manual steps.

Such electronic ordering requires that the product and price data of different suppliers must be aggregated into one catalogue. Large enterprises can either do this themselves to create their own internal aggregated catalogue or they can use an external catalogue provided by a trading network.

However, aggregating electronic product catalogues is complicated, and setting up such systems is a lengthy process: Suppliers must be trained; small suppliers in particular often need help to upload their data into electronic catalogues. Therefore large buyers often prefer to have somebody else connect and train the small suppliers. Trading network operators are natural candidates. Not only can they provide some real value-added to all parties involved, they can also accomplish the task at lower cost than each individual company alone. If suppliers serve several large buyers, they only need to get connected once.
Desktop purchasing tools

Desktop purchasing tools, integrated with aggregated catalogues, are also provided by many trading network operators. These tools are mostly browser-based and allow the definition of roles and rights for purchasing. They allow buyer organisations to create a purchasing workflow.

The importance of these tools for small sellers is limited, except that the orders coming out of this system somehow have to be transmitted to the supplier. If this is done electronically, the role of B2B trading platforms as integration infrastructure comes into play.

Integration infrastructure

Trading networks like Elemica that offer an integration infrastructure connect the backend IT systems of large buyers with those of their business partners, but they also increasingly connect small companies. Their value is obvious: Purchasing not only involves the selection of products from catalogues, but also the subsequent exchange of business documents like orders, invoices etc.

Traditionally, their electronic exchange has been a domain of large companies that have connected to each other by means of expensive special-purpose EDI (Electronic Data Interchange) networks. Mostly, these were bilateral connections.

Trading networks have changed this situation in two ways: First of all, they use the Internet and not proprietary networks for the exchange of data, which decreases costs considerably. Encrypted data transfer makes the Internet data transmission as secure as special-purpose networks. And secondly, these trading networks enable a hub-and-spoke connection instead of bilateral ones: Each partner only has to connect once to be able to exchange data with all other partners. This decreases costs.

These lower costs also make connecting to such networks feasible for small businesses. Some trading networks offer additional help or connection kits especially targeted to small and medium-sized enterprises to make it easier and cheaper for them to get connected.

Supplier network

Finally, trading networks – especially aggregated catalogues – constitute a pool of potential suppliers or a supplier network for large companies. Once companies are connected to these platforms, they can easily conduct trade with other parties that are also connected.
So if you have just joined one of these networks at the request of your major customer, you are also “e-ready” to become a supplier for other buyers. Compared to non-connected competitors your advantage is that the lengthy period of getting connected, learning how to use the platform, etc. is not necessary.

However, connecting to such a network just in the hope of becoming a supplier for a larger company is somewhat risky. There are investments involved in getting connected. It is not, therefore, typically worthwhile to connect to such platforms proactively.

Trading networks and private e-markets

Those trading networks described above are open to any company in the sense that any interested company can get connected. (You cannot participate immediately with only a mouse click, though.) In addition there exist quite similar networks with similar functionality that are only available to a small number of companies. These closed networks are often called private e-markets or private networks.

Case study 6: Nordbike connects the IT systems of motorcycle dealers

Nordbike is a cooperation of 26 small independent German dealers of motorcycles and accessories, which has been founded to strengthen the competitive position of these companies against large chain stores. One goal of the cooperation was to decrease costs related to purchasing and storing products by delegating purchasing activities to a common organization – Nordbike.

These dealers have recently set up an internal trading network with the help of an integration company. The network now connects the backend IT systems of dealers with each other and with the central IT of Nordbike. The network supports product ordering and provides Nordbike as well as each individual dealer with better information about products in stock. This information helps to reduce stocks and the costs associated with stock keeping.

In addition the network is also the foundation for a common B2C shop solution.

Source: Press release

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12 There is one exception, special portals that connect small companies with only limited IT systems to trading networks. On these portals small companies can simply enter order or invoice information manually or upload spreadsheet files with orders, invoices or product catalogues. The portal system then translates this information into a standard messages format and sends this message to the backend systems of the larger companies connected. Such portal systems are also known under the name WebEDI if they transform the data into EDI messages.

Such networks are the result of a set of companies that have created their own internal platform. This private network may be used for common catalogues, to exchange order and billing information or for other integrated forms of e-business. It is often initiated and dominated by a large buyer, but it can also result from a cooperation among small companies.

4.2 Benefits and challenges for small suppliers

As a small supplier you do not usually have any choice but to participate in a trading network if you are asked by one of your major customers. So the “benefit” of participating is keeping one’s client happy.

Benefits for small suppliers

However, you can also look at this situation from a more positive perspective. As shown by the GfK survey mentioned in section 3.1, many companies are constantly searching for new suppliers. If these buyers are already connected to a trading network, then those suppliers already connected will be an obvious first choice. Establishing business relationships with these companies is much easier and quicker for the buyer than qualifying and connecting a new supplier to the network.

So if you are already participating in such networks you have a head start compared to your competitors that are not yet online. But in addition there are also a few other advantages:

- **Boost your e-business:** To connect to the platform, your internal IT infrastructure must meet minimum requirements. With the increasing importance of e-business, these requirements must be met sooner or later anyway. So why not start now?

- **Advantages of e-business:** Faster flow of information, fewer errors, fewer telephone calls to verify orders and invoices are improvements gained from electronic data transmission. These save costs, which is also relevant for small companies.

- **Buyers and networks may subsidize you:** The trading networks want to connect as many suppliers as possible to increase the value of their platform for buyers. So they often take on part of the costs for connecting buyers. The same argument applies for large buyers and private networks.
Case study 7: Tasmanian Shipping Supplies is connected to 3 networks

Tasmanian Shipping Supplies is a ship chandler and contract provision supplier for Australian and overseas vessels calling into Australian ports. The company uses trading networks Shipserv (www.shipserv.com), Sea Supplier (www.seasupplier.com), and Marine Xchange (www.marinexchange.com.au). All platforms are targeted at the shipping industry.

Edwin Kuller from eMarket Services interviewed Richard Fader, Managing Director of Tasmanian Shipping Supplies.

Q: What made you begin using electronic marketplaces?
A: Our use of electronic marketplaces has in most cases come at the suggestion or request of our clients. Our initial goal was to make the supply chain more efficient and to remove the problem of re-keying paper-based orders into our computer system, with an end result of fewer errors in our orders.

Q: Please explain how the company interacts with those particular e-markets.
A: We interact via the Internet with all e-marketplaces we transact with. We have EDI linked with our accounting and ordering system giving seamless integration from the client placing the order to the final invoice and manifest.

Q: Please list and briefly explain the benefits to your company of using electronic marketplaces. Have your objectives been met?
A: The benefits we have found in using an electronic marketplace are that the integrity of the data/order is held between the order/supply/invoicing processes as there is no chance of keying errors. The time saving involved in not having to re-key a 600-line order is significant. Another benefit is that we can return quotes to and receive purchase orders more quickly.

Q: Has your company encountered any problems or difficulties when using electronic marketplaces?
A: Earlier versions of the platforms were not flexible enough. Another problem is that there is no standard for our industry. There are many systems available, and clients are adopting different approaches to their electronic purchasing. This means that a company like Tasmanian Shipping Supplies must be able to ‘match’ any idiosyncratic purchasing format.

Q: Do you have any suggestions for those companies that are not currently using electronic marketplaces but are considering doing so in the future?
A: Do a lot of research into the system you join, talk to your clients and use their recommendations as part of your selection process. Be aware that a seamless integration between your back-end accounting system and an electronic marketplace should not be assumed. Be realistic regarding your expectations. E-markets haven’t opened up new markets for us or generated additional business. However, they have allowed us to deal more efficiently with our existing clients, and this is a very useful thing for us.

Q: What lessons have you learned?
A: The initial set-up can be very time-consuming and frustrating, but once you have a good system in place, the time-savings are considerable.
Challenges for small suppliers

Often the trading network is chosen for you – so there are no selection problems. However, in your decision as to whether or not to participate, you might want to pay attention to the following items:

- **Is the trading network established?** Getting connected to trading networks is an IT project. You spend time, effort and money on connecting to the platform; So you want this investment to have lasting value, something which is often more likely with established services.

- **How many potential buyers are connected?** The higher this number, the more likely it is that you can use this platform as a lever to win new customers (see above).

- **How SME-friendly is the platform?** Many trading networks are primarily targeted to the needs of large companies, and their operators have a large company mindset, especially when it comes to cost and the complexity of IT solutions. Be sure that your platform also understands the needs of small suppliers and can help you with the task of getting connected, for example with special small business tools.

Figure 14: Checklist for trading networks

**General:**

Note that the advantage of trading networks is cost reduction in the ordering process, not price negotiation or finding leads. In most cases, large buyers initiate trading networks and will ask suppliers to connect to them.

**Suppliers:**

If you have the choice between different platforms, you should take the following considerations into account:

- **Is your IT infrastructure developed enough to participate in trading networks?** Do you have a central master data management for the product data? Many trading networks also provide special web-based solutions for small companies that cannot connect directly to the service.

- **Is the trading network established, so that it will most likely continue to exist for some time and protect your investments?**

- **Is the number of connected buyers large, so that your investments can be leveraged for several buyers?**

- **Are other potential buyers already connected to the network?**

- **Is the platform SME-friendly and does it take into account the special needs of small enterprises?** Does the platform subsidize your e-business investments in one way or another?

The more questions you can answer with yes, the better are your chances of deriving a benefit from connecting to a trading network.
5 Appendix

5.1 Web sites with more information on B2B Internet platforms

eBusiness Lex (www.ebusinesslex.net): This “E-Business Legal Portal” aims to provide European small and medium enterprises with extensive, clear and practical information on all legal aspects of e-business. The objective is to facilitate online activities by SMEs by making them aware of the legislation in force.

eMarket Services (www.emarketservices.com): Database of e-markets as well as case studies, guidelines and other material on e-markets targeted at small and medium size companies. eMarket Services makes it easier for companies to find and use electronic marketplaces for international business.

European Commission (europa.eu.int/comm/enterprise/ict/): The unit for ICT industries and e-business at the Commission’s Directorate General for Enterprise and Industry has published several documents on B2B Internet platforms, e.g. about Codes of Conduct, legal barriers to using such platforms, etc.

Line56 (www.line56.com): An online magazine focused on e-business with special sections on portals, sell-side and buy-side technology support.

ONCE (www.connect-once.com): The Open Network for Commerce Exchange is an industry consortium of marketplace owners, vendors, customers and technology providers.

5.2 Glossary

Auction: mechanism for fixing a price. Many different auction types exist. In ascending English auctions, bidders openly increase their bids and the highest bid wins. In Dutch auctions, the seller starts from the top and lowers the price in fixed intervals. The person agreeing first to the current price wins the bid. In reverse auctions (also sourcing or procurement auctions), the bidders are the suppliers and offer ever-lower prices. The supplier with the lowest price usually wins the contract. Many modifications of these general rules exist.
B2B (Business-to-business): Commercial activities involving only businesses.

B2B e-market: Any Internet site, where several sellers and several buyers come together to conduct trade (traditional definition).

B2B platform: all Internet-based technical solutions that aim at facilitating the establishment of new trading relationships between companies or at supporting existing relationships (more than e-markets).

B2B portal: Any B2B platform that can be used via a web browser.

B2C (Business-to-consumer): Commercial activities involving business and consumers like selling to consumers via the Internet.

C-Products: the same as MRO products.

Classifieds: ads ordered by product category. Well-known from newspapers, but also a functionality of e-markets.

Consortium e-market: A B2B Internet platform that has been funded and operated by a number of industry players, buyers or sellers. Typically, the owners also use this platform.

EDI (Electronic Data Interchange): Old and established standard for exchanging electronic documents between businesses.

Industry directory: The same as a supplier directory.

Horizontal e-market: A B2B Internet platform focused on a certain range of products that are used by many industries, e.g. office supply.

MRO products: Maintenance, repair and operating equipment, e.g., office supply, machine oil, towels, etc.

Reverse auction: see auction.

RFI (Request for information): A buyer asks a potential supplier for basic information about company and products before he is invited to submit a bid or participate in an auction.

RFP (Request for proposals): A buyer asks for proposals and price quotes for a contract, e.g. a project service. The suppliers have to suggest how the project could be conducted and have to provide a price quote for their own proposal.

RFQ (Request for quotes): A buyer asks for price quotes for a clearly defined product or service.

SME: small and medium-sized enterprises, according to EU definition enterprises with fewer than 250 employees. SMEs are also called SMBs (small and medium-sized businesses).
Supplier directory: A database of suppliers that can be searched by product.

Tender: Mostly used in connection with public procurement, a tender is the proposal of a supplier following a call for tenders. It typically includes a suggested problem solution as well as a price.

Vertical e-market: A B2B Internet platform focused on a certain industry