**E-marketplaces in Germany**

By Gerda Geyer, eMarket Services, NTC - Germany

**Abstract**: e-marketplaces are alive and well in Germany, despite the dot-com crash of 2001, with large investments from Germany's big industrial players in sectors from automotive to logistics. Government is also since May 2002 a player with the launch of its e-marketplace e-vergabe, which channels online its annual procurement of euro 422.6 million. Small suppliers still have their concerns however and call for rules of conduct particularly in the management of reverse auctions.

**History**: 2000 was the boom year for the foundation of e-marketplaces in Germany with 100 new e-markets being established, mainly by Internet start-up companies. A year later saw some closures of early ventures but 150 survived. In the subsequent consolidation phase, fresh money and new business models were applied to e-marketplaces from the old economy and at the start of 2003 Germany had over 90 active e-marketplaces.

**Building Critical Mass**: Early German e-marketplaces focused on attracting a high number of participants. Income was generated mainly through membership fees and a percentage fee charged on transaction values. The further development and the increasing competition between e-markets showed however that the number of participants was only one of the key success factors. Once a new supplier was found through the e-market, there was no longer a need to pay the membership fee.

**Value Adding**: So in the second phase, to retain members, e-marketplaces started to focus on sector specific target groups and to offer more value added services such as logistical support, credit history analysis, online payment facilitation, industry specific content and e-business consulting.

**Concerns – Cost & ROI**: The advantages of e-markets are compelling and yet many companies in Germany and elsewhere still have reservations. One key concern is cost. Will the cost of integration with ERP systems (Enterprise Resource Planning) and implementation, together with the cost of internal re-organisation and adaptation, be more than offset by the expected benefits? And how long will it take until the company sees a return on their investment?

**Concerns – Security & Legality**: Further issues important to users have been data security and confidentiality. Who else would have access to their commercially sensitive enterprise data? In addition, what are the legal obligations of parties transacting online?

**Addressing Concerns**: Some of these concerns have been resolved.

Modern encryption technology ensures that data is safe from the access of third parties. In March 2001, the German government enacted a digital signature law meaning that contracts in order to be legally binding do not need to be in paper format, with a personally signed signature. This law is in accordance with the EU directive for electronic business dealings.

**Transparency – the pros and cons**: e-marketplaces provide transparency on the availability and demand of products and services. Not only can a buyer choose from a variety of products but can also select the best price from the worldwide offers. In some sectors however the transparency is not welcome, particularly amongst suppliers. In Germany, suppliers to the
medical sector profit from old purchasing structures. An e-marketplace for medical products breaks up these channels and the supplier has to compete with foreign medical products, which are often less expensive than German products.

**Industries most represented by e-marketplaces in Germany**

The spread of e-marketplaces across sectors reflects Germany’s industrial profile. Most of the e-marketplaces with German sales offices listed by eMarket Services [www.emarketservices.com](http://www.emarketservices.com) focus on equipment and machinery. Below are those sectors with the largest number of e-markets.

- Industrial Equipment & Services 22
- Multiple Industry e-Markets 15
- IT Products & Services 10
- Transportation & Logistics 9
- Building & Construction 9
- Chemicals 8
- Plastics & Rubber 8

Many German e-marketplaces today were established by leading German companies, aiming to reduce transaction and procurement costs and increase market transparency.

**Automotive Sector**

Volkswagen has its own private marketplace with [www.vwgroupsupply.com](http://www.vwgroupsupply.com). The main advantages of the private B2B supplier platform for the Volkswagen Group include:

- Reduced administrative tasks
- Acceleration of processes
- Improved planning accuracy
- Improved transparency in collaboration with suppliers

Covisint ([www.covisint.com](http://www.covisint.com)) the joint platform of DaimlerChrysler, General Motors, Ford, Nissan and Reanault was one of first and international working e-marketplaces.

On automotive equipment supply side, Supplyon [www.supplyon.com](http://www.supplyon.com) was founded in 2000 by Robert Bosch GmbH, Continental AG, INA Wälzlager Schaeffler oHG, SAP AG as well as ZF Friedrichshafen AG. Today it serves more than 1,000 internationally active supplier companies from over 30 countries.

**Chemical Sector**

In fragmented sectors such as the chemical industry e-marketplaces are characterised by an aggregation of market leaders. The German companies BASF, Bayer and Henkel are founders of the market [www.cc-chemplorer.com](http://www.cc-chemplorer.com). It is the leading global network for chemical buying, selling and supply-chain management.

**Models and Trends**

German e-marketplaces vary in the way they facilitate trading and transaction processes depending on the sector. There is a clear trend for large German companies to establish private e-markets where suppliers are connected through to the buyer’s ERP-system.
Consequences for small companies

In Germany, the automotive and the chemical industry are role models for integrated communication of ERP-systems between supplier and buyer. The engineering, construction and building sectors also follow this development and have started with electronic orders and integration of catalogues.

Small companies however seem not to have benefited to the extent of large players. A 2003 survey by Hertwig Markus et.al; E-Business in der Automobilzulieferindustrie - Vorsprung auf allen Ebenen; of suppliers of automotive components showed that companies with less than 50 employees in particular did not have the financial and human resources to cover the start up costs and investment needed to enable electronic transactions. They feel overwhelmed by the requirements to participate in an auction. Additionally, they complain about unfair behaviour of larger partners, for example if the buyer starts an auction just to test the market price or to drive prices down.

German associations recommend establishing rules of conduct. One suggestion is that after an auction all information and the names of the participants should be published. Also it is recommended to standardise and agree to generally accepted delivery conditions and procedures.

E-procurement for the government

May 2002 saw the launch of www.e-vergabe.bund.de, the German government platform for public procurement and procurement by tender. The National Procurement Bureau is the central organ for purchasing goods for 26 governmental bodies and authorities and the German Federal Armed Forces. Not only standardised products such as office material are traded but also PC equipment, automobiles and office furniture. First the National Procurement Bureau must approve a supplier and then his catalogue can be published on the virtual marketplace. Only authorised members have access to this virtual marketplace and can retrieve products and services. On a part of the site, all calls for tenders are published and national and international companies can register to tender online.

In 2002, the budget of the procurement office was 422,6 million euro for purchases. Independent studies estimate savings of up to 8 percent for public procurement. Considering the size of procurement for federal state bodies as well as for municipalities, savings worth of 20 billion euro have been projected.

Conclusions & Success factors for e-marketplaces in Germany

e-marketplaces are expected to continue to remain important to German industry. Large and small e-marketplaces will survive if they have competitive advantage in specific sector knowledge, IT applications relevant to the sector and enable business system integration to improve process efficiencies, and reduce transaction and product costs.

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