THE EVOLUTION OF E-MARKETPLACES: ARE THEY USEFUL TO SMALL COMPANIES?

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Conclusion

Yes, e-marketplaces are useful to small companies. It is true that e-marketplaces are not the centre of all business as some predicted five years ago. But large companies get improved efficiency in the order process with their suppliers. And many e-marketplaces prove to be very cost efficient tools in marketing, match making and market information for small companies.

The evolution of e-marketplaces

At the end of the ‘90’s many experts had high expectations to IT and in particular to e-business:

“Ultimately all business will buy on a marketplace, sell on a marketplace, host a marketplace or be marginalized by a marketplace.”

Ariba 2000 [A]

There was a belief that the efficiency that could be achieved by electronic exchange of information would convince most buyers and sellers to use the new sales channel. Since this did not happen, blame has been put on the dot.com boom, where many IT companies first attracted high investment and then went bankrupt due to lack of paying customers.

It is a fact that many independent third party exchanges started up, but later went out of business because they did not have the participation of enough users. This is a pity, since their solutions often were technically very good.

The other groups that had a better chance were the industry sponsored and private e-marketplaces. These were either backed and funded by an industry, or run and operated by one major company, usually a buyer.

As with most IT focused industries, the e-marketplaces have also gone through quick changes, not least has the terminology changed rapidly. It is therefore often difficult for an interested SME to understand what is available and how one type of e-marketplace distinguishes itself from another. Words like “horizontal”, “vertical” and “butterfly” have been used, and terms like e-marketplace, eMarket, electronic trading platforms, e-business and e-commerce are extending the range of almost similar words that make it hard to come to grips with the actual subject. And it does not help that what was yesterday defined as an electronic marketplace now wants to distinguish itself from the “hype” and redefines itself as something else.

The actual number of users is hard to find. According to e-business W@tch [B], 23% of firms (by employment) purchase at least 5% of their supplies online. This includes a wide range of online services (from e-mail to ERP integration), and only a small percentage (estimated at 2-3% of the European SME participate in e-marketplaces, and 6% of the large companies (more than 250 employees).
The growth of e-commerce is slow, although steady [C] as the pressure from major business partners, mainly buyers, is mounting and the necessary knowledge and competence grows.

**SMEs and e-business**

Many companies are already advanced users of IT. A Danish study shows [D] that companies can be advance users of IT equipment (web-sites, intranet, extranet and EDI) and internet applications (using the internet for marketing and online selling) and still lag behind when it comes to integration with suppliers and customs where operation data is exchanged (such as orders and invoices).

According to professor Niels Bjørn-Andersen at Handelshøjskolen in Copenhagen [E], this is a problem because these are the areas where major efficiency savings are made. It may come as a surprise to the Danes that companies in countries like Mexico and Singapore and Taiwan are more advanced users of IT.

Although it does not explain the differences between the Danish and Mexican companies, a factor that must be considered when evaluating e-business integration is the size of the companies. According to the Observatory of European SMEs, 93% of all European companies are classified as micro-companies with less than 10 employees [F, p. 16]. In a country like Norway, 85% of the companies have less than 5 employees.

The Welsh eCommerce Innovation Centre defines a 7-step ladder of e-commerce. Less than 5% of the Welsh companies have reached level 4 [Have online store], level 5 [Integration] or level 6 [Advanced e-commerce] [F, p. 74].

The small and micro-sized companies may be able to see the advantages of e-commerce, but they may not have the resources or the competence to act upon it. In addition the uncertainties of e-commerce make it difficult to put high priority on e-commerce.

Such uncertainties are either System-dependent (caused by technological problems or unclear/non-existent legal norms) or Transaction-specific (asymmetric distribution of information between transaction partners) [C, p. 334].

SMEs that are likely to adapt IT will normally have a CEO with a positive attitude, is innovative and is knowledgeable about the development and application of IT [K, p. 374].

It is a pity that use of advance tools is not more common among SMEs. With other tools, like the use of Web and the development of open standards e-business has been brought to the doorstep of the SMEs. This has helped in reducing the gap between large and small enterprises. Small businesses today are using the Internet to attract new customers, building relationships with suppliers and cut the cost of serving established clients.

“E-marketplaces represents a quantum leap in economic efficiency. It is therefore highly problematic that (Danish) companies stay away from them”, says Niels Bjørn-Andersen [E].

The lack of adaptation of advance e-business tools (like integration with ERP software and use of e-marketplaces) is due to several reasons: lack of financial resources, lack of management enthusiasm and entrepreneurship, external pressure and support (Poon and Swatman, 1998) [K, p. 373].
As with other technologies, e-commerce and e-business is gradually being adapted. There is no doubt that successful adaptation is a tool for increased efficiency, but it has taken longer than was expected in the early days of e-business and e-marketplaces.

**Are e-markets useful to small buyers and the sellers?**

About 70% of the members of the National Association of Manufacturers (2001) had reached the “transaction focus” of e-commerce transformation, and only 3% had reached the “extended enterprise” stage where the organization bundles services with practices and strategic allies for virtual integration and their business functions take place in a networked environment. [H, p. 305]

Companies are often reluctant to disrupt existing business processes, systems and relationships. Studies have shown that buyers are often not willing to invite suppliers with whom they already have a long-term relationship to e-marketplaces. [H, p. 298]

This finding would support the notion of the suppliers that e-marketplaces are tools for the buyers to limit prices by looking for new suppliers.

However, another study shows that 60% of online auctions are awarded to the existing supplier, and that 65% of the suppliers who won contracts as a result of a buyers auction believed they won it on more than just price. All suppliers interviewed said they would continue to participate in buyers’ auctions [G].

So, what are the companies looking for in e-marketplaces and what do they achieve?

Morten Rask and Hanne Kragh [I] have studied 41 case studies published by eMarket Services and applied these to a theoretical frame for categorizing motives for e-marketplace participation:

- **Efficiency**: Reduce process time and cost
- **Positioning**: Improve company’s competitive position
- **Legitimacy**: Must maintain relationship with trading partners

The Drivers for participation are “Internal” and “External” and the nature of decision is “Planned” and “Emerging”. According to Rask and Kragh, the buyers have Efficiency (Internal & Planned) as their main reason and “Positioning” (External and Planned) as their second.

The suppliers have “Positioning” as prime reason and “Legitimacy” (External and Emerging) as their second reason. The overall difference between these two groups is that buyers tend to be proactive and planning oriented, while external forces drive suppliers.

The study shows that buyers should realize that e-marketplaces are useful tools for increasing the number of suppliers, and should market themselves as attractive, potential customers.

The suppliers should realize that buyers on e-marketplaces do not necessarily give top priority to a reduction of the price level, but may give it to gaining efficiency in terms of improved process time – a goal that the suppliers support.
An Aberdeen survey [J] has found that the typical sourcing time without advanced tools is between 3.3 and 4.2 months. It is a general agreement that tools like an e-marketplace can reduce this tremendously.

“Greek company finds Italian suppliers through Edilportale.com”

Through an e-marketplace [we] were able to buy abroad highly sophisticated [products] that are not produced [in our country] and that could not be found either through other means. Buying through [the e-marketplace] took just 5 days.

www.emarketservices.com - October 2002

Even though suppliers decide to wait to join an e-marketplace until forced by their buyers, Rask and Kragh argue that suppliers should maintain a reactive capacity in order to know which buyers to follow into which e-marketplaces.

The eMarket Services project

eMarket Services is a joint project set up in 1999 by trade promoting organisations to make it easier for companies, particularly SMEs, to use e-marketplaces for international business. Today, the project is co-funded by the EU Commission and organisations in 23 different countries are participating.

The main activity of eMarket Services is to present information about electronic marketplaces (e-marketplaces) and e-business on its portal www.emarketservices.com. The portal contains facts and information about e-marketplaces and e-business from the perspective of the companies, and a detailed directory of available e-marketplaces. eMarket Services portals are available in English, Italian and Spanish and every month it is has more than 50,000 visitors.

In addition, eMarket Services monthly produces an electronic newsletter, case studies and reports. More than 7,000 cases and reports are downloaded every month.

The move towards e-business and integration is a slow process, as we have seen from the evidence above. Although many experts exaggerated the trends and the adaptation of the new technology, none would argue that the future is without e-business.

The user experiences, the demands of the trading partners and the available infrastructure (hardware, software, legal regulations and adapted codes of conduct) together with the practical competence of the companies will move towards processes where efficient electronic exchange of information will be ever more important.

The studies referred to in this report show that companies require information and more competence within the field of e-business and e-marketplaces. The development is towards more electronic communication and the trend is led by major business partners that will require trading partners to be e-business ready in order for them to remain trading partners.

eMarket Services has since 1999 been in the forefront in the know-how of e-business and e-marketplaces. The project has gathered neutral and objective information on how companies use e-marketplaces in practice and provided knowledge into topics that are
useful for the companies. It has also provided an up to date and extensive directory of the available e-marketplaces in industries and regions of interest to the companies visiting our portal.

eMarket Services as a provider of e-business information attracts a high number of visitors. This is due to their interest in learning more about e-business and e-marketplaces and due to the independent status of eMarket Services and the fact that eMarket Services do not have vested interests in the technology or ties to companies trading on or operating e-marketplaces.

Sources


