



## **iStart Industry Report: Virtual Marketplaces Need Real Value**

**23 November, 2001. By Keith Newman**

Electronic marketplace first emerged about three years ago in the belief that collaborative communities of complimentary businesses would attract buyers and sellers in their droves to conduct instant secure on-line transactions. Many lessons from home and abroad have shaken the concept, yet some companies continue to demonstrate that Kiwi tenacity and innovation and are making the model work...

The push to extend into corporate portals, exchanges, e-procurement, application service providers (ASPs), marketplaces or trading posts is full of confusion with overlap in terminologies and definitions, systems and business models and sales hype.

For smaller companies in particular the big attraction was that they could leverage highly sophisticated technology they might not otherwise be able to afford. While the idea remains compelling, local take-up has been sluggish, although the Global Trading Web Assoc (GTWA) reports that e-marketplace transactions have increased from 106,168 to 884,166, a 733% increase when comparing January-June 2001 activity with same time period in 2000.

### **The Seamless Dream**

Many of the early models failed either to deliver on the promise or to recover enough of their investment to survive. Buyers didn't understand what was in it for them and the technology and the mix of proprietary standards was too hard. For many the seamless, secure technology for on-line trading just hasn't eventuated.

Part of the backlash has occurred against the backdrop of high profile US failures in the pharmaceutical and computer industry - including Dell, which closed its B2B exchange after only six months, blaming market immaturity. This had a flow-on effect causing the market value of software operators including Commerce One and ARIBA, to plummet over the last year. Suppliers were also concerned their products would be commoditised and their margins undercut.

Even in New Zealand, which was slow to adopt the model, there are already bones in the graveyard. After scientific equipment and stationary site OneZone was shut down by owners Biolab when it failed to meet revenue targets, technology supplier ARIBA closed its local operation. Now Telecom has backed off its commitment to the ARIBA electronic procurement system leaving the company with no local customers.

### **New Zealand Companies Quickly Adjusting**

A number of developers have invested significant sums building their own sites or contracting out to groups of businesses looking for a common platform for their own market efforts. Among these is Greenwoods with its ProcureIT application and SupplyNet which is rapidly growing its client base. Another early developer was e://volution, which by July had invested a million dollars pulling its supply chain site using IBM's Websphere package. It services over 70 buyers and sellers.

A handful of serious industry specific marketplaces or portals have emerged in the past 18 months including Fencepost.com, which provides information services and products for the rural community, StockThePot, which caters for larger players in the catering hospitality industry, and fisheries, nursery and produce portal Southfresh.

### **No Common Description**

Southfresh has been managing remote business for 10-years and its web interface where buyers and sellers of goods interact is simply 'version three'. Southfresh developed its own in-house technology, which it licenses for use by suppliers who're part of its on-line communities.

While confident he has the business model right, CEO Toby Warren, believes terminology and marketing hype have obscured the real business issues for many companies. "The market is confused because there is no recognised nomenclature around this whole business and its been completely debased by everything American."

Mr Warren says his company can look like a marketplace or a system to enable distributors. "What we really do is facilitate the connection of a variety of people - maybe its virtual vertical integration which is a business term."

The successful chains craft a way of doing business and replicate that process across their stores. Using the internet and offering ubiquitous access to a database to deliver relevant views as a management tool for example, can make a major difference to the way a business is run.

Southfresh, while selling seafood to large retailers also enables suppliers to sell to each other and to outlets around the country using software which automates the process from downloading orders to packing and advising couriers.

### **Back to Connectivity and Speed**

"If you were able to take any industry or a business process today and reinvent it with the understanding of the connectedness of the internet you'd almost certainly do it differently," says Mr Warren.

"I think e-commerce is only about connectivity - enabling computers to talk to each other and exchange worthwhile information -and speed, to enable you to do more business in less time."

While agreeing there's a problem with terminology, Carl Mitchell-Turner chief operating officer with SupplyNet is convinced e-marketplaces are no longer at the bleeding edge or only for early adopter adopters. "This is becoming a mainstream solution in the US and it's just a matter of time before that happens here too."

He says those companies who believe marketplaces won't work over the internet, preferring to hold off for peer-to-peer technology such as that which powered Napster, could be waiting around five years "which puts them right back on the bleeding edge again," he says.

Mr Mitchell-Turner says the failed OneZone's customer-facing model was fine but they were trying to be an IT and marketing and a procurement company at the same time. "We tried to convince them we weren't their competitor and that they needed to stand up a number of different ventures using their technology and spread the cost to make it work in a New Zealand context."

A marketplace can be used by mid-sized corporates to completely outsource procurement using the web browser for everything or by large companies to fix e-procurement problems in the supply chain. At the small end it can represent access to aggregated buying deals and getting a

catalogue and on-line transactions up and running. "It's just a question of staging the projects so they cost less than buying an application to stick behind your own firewall," says Mr Mitchell-Turner.

### **Mass Market Needs eMarket**

"You might develop strategies to get the first 20-30 suppliers on a point-to-point relationship but the problems begins when you want to get the 450th supplier on. If you're a large company trying to sort out 1000-2000 suppliers you can't do that on a point to point basis - you will need a marketplace," he says.

SupplyNet has about 300 suppliers engaged - more than 60 of those have been enabled. It has relationships with SAP, JD Edwards and others and uses a procurement application called EBD.

SupplyNet is negotiating with an accounting software vendor with 16,000 installed users about to launch a web-enabled version of its product. Users will log on monthly to download updates and changes or using the appropriate modules join the market site where they can host their catalogue, link back to an order entry system and spit information out to the inventory line.

SupplyNet is also assisting other electronic marketplace get their footing. SME Connections ([www.smeconnections.co.nz](http://www.smeconnections.co.nz)) for example, targeted at small-to-medium enterprises, has so far signed up about 50 customers from a potential base of 500 businesses. The company has 41 categories from broadband internet to car leasing, courier services to plumbing and liquor and is expected to be up and running by Christmas.

Microsoft and Compaq are also developing a strategy called B-Connected, based around Windows XP. "They're trying to put tools in the hands of every business to enable XML transactions. Files are sent out with an XML wrapper around them so they can be read directly into your accounting system for example, the translator is sitting there waiting," says Mr Mitchell-Turner. SupplyNet has been selected as one of the marketplaces that can be natively joined to the service.

### **In-house Systems Must Interact**

According to Gartner Group private e-marketplaces are expected to grow as large companies seek to gain control over their supply chains but the number of public marketplaces in the US will shrink over the next 12 months and only those focussing on serving a specific business function such as finance or logistics will thrive.

Gartner warns that small to medium businesses must ensure their in-house technology including enterprise resource planning (ERP) can interact with many types of marketplaces to avoid being locked in and wasting their time and resources.

And marketplaces themselves must increasingly work together to provide networks of business services. "Private buyer-seller entities will align with consortia to reach deeper into their supply chains. And consortia marketplaces and private exchanges will link to public marketplaces to buy specific business services and product suites," says Gartner.

The minimum requirements for e-marketplace funding, participation and survival have dramatically increased. "Venture capital firms, equity markets, buyers and suppliers will increasingly scrutinize the offerings of marketplace vendors and closely monitor their financial vital signs for evidence of troubles. As a consequence, buying organisations should continually revise their marketplace selection criteria and evaluate their portfolio of marketplaces in which they are operating," says the company in a recent report.

Consulting company Ovum cautions "the current climate for portals has gone cold" and those aggregating multiple sites in the hope of attracting more traffic and hence more business need to deliver much more than they have been to attract and retain customers.

### **Portals Must Change Strategy**

Annelise Berendt, senior analyst at Ovum says existing portals must metamorphose and become multi-accessible exploring new revenue streams to stay afloat. While global revenues from multi-access consumer portals will be nearly \$US70 billion by 2006 portal operators must adapt their business strategies now if they want to cash in, or suffer the fate of Excite, which filed for bankruptcy with \$1 billion debt, or Altavista, which continues to de-emphasise its consumer-facing content, forcing it to plummet down the rankings of the most popular sites.

Ovum predicts that the current shake-out in the fixed Internet portal sector will leave only a handful of global players dominating the market. Smaller, niche players built around particular communities of interest, will exist but must have a strong consumer brand. Partnerships will be a crucial element in order to deliver attractive content and services to the end-user, ranging from short-term project partnerships to vital long-term alliances and even acquisitions.

The focus has shifted to private marketplaces, either operated by one dominant customer, or by a group involved in a supply chain. "They have moved from one extreme, doing something big, public and ambitious, to the complete opposite - small, private, and doing something really limited."

### **Get Your Own Web In Order**

The trend away from public marketplaces to private operations has also placed the emphasis back on corporate websites, which the public have already become comfortable with. That means self service with the company opening up part of its database allowing suppliers to check accounts payable and check the progress of invoices with the web and for customers to interact with the business which addresses many of the original supply chain issues which ERP systems are trying to address.

There's plenty of evidence that marketplaces, exchanges and corporate portals do provide value but as with any new concept they require flexible back-end technology and proven business cases to build confidence.

SupplyNet's solution is providing for this through 'RoundTrip' technology which allows a buyer on their e-Marketplace ability perform one purchasing transaction with multiple vendor web sites that are round-trip compatible. Supplier sites require little adjustment and primarily need to have transactability and be XML compatible (or use Microsoft [BizTalk Server](#) as the communication layer).

To attract loyalty between partners and ensure customers keep coming back there's a clear requirement to add value including relevant and timely content and services and access to essential business information.

Once you get past all the terminology and the sales talk it's all about extending the borders of your business. Once internal business processes have been reviewed, automated suppliers and distributors need to be engaged in on-line relationships so they can order and pay for goods and track the distribution process.

In the end e-marketplaces, exchanges, e-procurement and corporate portals are another link in the supply chain, in other words it's simply e-commerce and some New Zealand companies are starting to make a good fist of getting it to work on a local scale.