Chapter 6

Public B2B Exchanges
Learning Objectives

- List the various types of e-marketplaces
- Describe B2B portals
- Describe the extranet and its role in supporting marketplaces and exchanges
B2B Exchanges

Public e-marketplaces (public exchanges)—trading venues open to all interested parties (sellers and buyers) and usually run by third parties

Exchange—a many-to-many e-marketplace. Also known as e-marketplaces, e-markets, and trading exchanges
B2B Exchanges (cont.)

Market maker—the third-party that operates an exchange (and in many cases, also owns the exchange)

Companies that use exchanges are pleased with them and plan to increase the number of exchanges they participate

Traders expect to more than double the value of transactions that they do through the exchanges
Classifications of Exchanges

- **Systematic sourcing**—purchasing done in long-term supplier-buyer relationships
- **Spot sourcing**—unplanned purchases made as the need arises
- **Vertical exchange**—an exchanges whose members are in one industry or industry segment
- **Horizontal exchange**—an exchanges that handles materials traded in several different industries
Exhibit 6.2
Classifications of B2B Exchanges

Exhibit 6.2  Classification of B2B Exchanges

<table>
<thead>
<tr>
<th>Direct</th>
<th>Indirect (MRO)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Systematic Sourcing</td>
<td></td>
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<tr>
<td><strong>Vertical Distributors</strong></td>
<td></td>
</tr>
<tr>
<td>Plastics.com</td>
<td></td>
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<tr>
<td>papersite.com</td>
<td></td>
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<tr>
<td>Methods: Aggregation, fixed/negotiated prices</td>
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<tr>
<td>Spot Sourcing</td>
<td></td>
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<tr>
<td><strong>Vertical Exchanges</strong></td>
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<tr>
<td>eSteel.com</td>
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<tr>
<td>ChemConnect.com</td>
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<tr>
<td>Methods: Matching, dynamic pricing</td>
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<tr>
<td><strong>Horizontal Distributors</strong></td>
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<td>MRO.com</td>
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<tr>
<td><strong>Horizontal Exchanges</strong></td>
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<tr>
<td>EmployEase.com</td>
<td></td>
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<tr>
<td>Methods: Matching, dynamic pricing</td>
<td></td>
</tr>
</tbody>
</table>
B2B Exchanges

- Dynamic pricing
- Gains and risks of B2B exchange participation
Dynamic Pricing

Dynamic pricing—a rapid movement of prices over time, and possibly across customers, as a result of supply and demand

- Stock exchanges sometimes change minute by minute
- Auction prices vary all the time
Dynamic Pricing (cont.)

Typical process that results in dynamic pricing in most exchanges

1. A company lists a bid to buy a product or an offer to sell one
2. Buyers and sellers can see the bids and offers—anonymity is often a key ingredient of dynamic pricing
Dynamic Pricing (cont.)

3. Buyers and sellers interact in real time with their own bids and offers—join together to obtain a volume discount price (group purchasing)

4. A deal is struck when there is an exact match between a buyer and a seller on price, volume, and other variables such as location or quality

5. The deal is consummated, and payment and delivery are arranged
## Exhibit 6.4
Gains and Risks of B2B Exchanges

<table>
<thead>
<tr>
<th>Potential gains</th>
<th><strong>For Buyers</strong></th>
<th><strong>For Sellers</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• One-stop shopping, huge variety</td>
<td>• New sales channel</td>
</tr>
<tr>
<td></td>
<td>• Search and comparison shopping</td>
<td>• No physical store is needed</td>
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<tr>
<td></td>
<td>• Volume discounts</td>
<td>• Reduce ordering errors</td>
</tr>
<tr>
<td></td>
<td>• 24/7 ordering from any location</td>
<td>• Sell 24/7</td>
</tr>
<tr>
<td></td>
<td>• Make one order from several suppliers</td>
<td>• Reach new customers at little extra cost</td>
</tr>
<tr>
<td></td>
<td>• Unlimited, detailed information</td>
<td>• Promote the business via the exchange</td>
</tr>
<tr>
<td></td>
<td>• Access to new suppliers</td>
<td>• An outlet for surplus inventory</td>
</tr>
<tr>
<td></td>
<td>• Status review and easy reordering</td>
<td>• Can go global more easily</td>
</tr>
<tr>
<td></td>
<td>• Fast delivery</td>
<td>• Loss of direct CRM</td>
</tr>
<tr>
<td></td>
<td>• Less maverick buying</td>
<td>• Price wars</td>
</tr>
<tr>
<td><strong>Potential risks</strong></td>
<td><strong>For Buyers</strong></td>
<td><strong>For Sellers</strong></td>
</tr>
<tr>
<td></td>
<td>• Unknown vendors; may not be reliable</td>
<td>• Competition for value-added services</td>
</tr>
<tr>
<td></td>
<td>• Loss of customer service quality (inability to compare all services)</td>
<td>• Transaction fees (including on your existing customers)</td>
</tr>
<tr>
<td></td>
<td><strong>For Sellers</strong></td>
<td>• Possible loss of customers to competitors</td>
</tr>
</tbody>
</table>
B2B Portals

- B2B portals—information portals for businesses; *Yahoo! Alibaba*
- Vortals—B2B portals that focus on a single industry or industry segment; “vertical portals”
Communication Networks and Extranets for B2B

The Internet—a public, global communications network that provides direct connectivity to anyone over a local area network (LAN) via an Internet service provider (ISP) or directly via an ISP.
Communication Networks and Extranets for B2B (cont.)

Intranets—a corporate LAN or wide area network (WAN) that uses Internet technology and is secured behind a company’s firewalls

- Links various servers, clients, databases, and application programs within a company
- Limited to information pertinent to the company
Extranets—a network that uses a virtual private network (VPN) to link intranets in different locations over the Internet; an “extended intranet”
- Provide secured connectivity between a corporation’s intranets and the intranets of its business partners
- protected environment of an extranet allows
- Allows partners to securely collaborate and share information
Virtual private network (VPN)—a network that creates tunnels of secured data flows, using cryptography and authorization algorithms, to provide secure transport of private communications over the public Internet.
Exhibit 6.12
An Extranet

Exhibit 6.12  An Extranet

Categories of Extranet Benefits

1. Enhanced communications; internal & external
2. Productivity enhancements; JIT
3. Business enhancements; new biz opportunities
4. Cost reduction; ads, admin, travelling
5. Information delivery; low cost publishing, paperless
Support Services for B2B Exchanges

- Directory services and search engines; *B2Business.net*
- Partner relationship management; *call center, pvt trade room*
- Other value-added services:
  - Trust services
  - Trademark and domain names
  - Global business communities
  - E-business rating sites
  - Web-research services
  - Digital photos
  - Client matching
  - Encryption sites
  - Promotion programs
Summary

- E-marketplaces and exchanges defined
- The major types of e-marketplaces
- B2B portals
- Support services
- Extranets