"The next chapter in the e-business revolution involves the transformation of entire markets and the redefinition of industries. We will see the rise of a new class of entities -- e-Marketplaces -- that will help online buyers and sellers find each other, attack the inefficiencies of traditional markets, and carve out for themselves important roles in the e-business economy."

Louis V. Gerstner Jr.
Chairman of the Board and
Chief Executive Officer,
IBM Corporation

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In a recent *Business Week* commentary, IBM CEO Lou Gerstner cautioned companies against leaping rashly into e-Marketplaces as a reaction to today’s dot.com fever. In response, several CEOs have contacted IBM seeking further advice about how they should proceed. This white paper is intended to provide an overview of the evolution of e-Marketplaces and highlights the key guidelines and pitfalls which should be considered in crafting a business-to-business (B2B) strategy.

**Simplistic Trading Networks**

To date, trading networks have traditionally focused on reducing purchasing costs and have been formed by one or more buyers who establish online trading capabilities. These networks are typically developed within a single industry. They are designed to enable buyers to squeeze procurement benefits from processes and trading partners.

**The Evolution of True B2B e-Marketplaces**

The enduring value of marketplaces must go beyond merely squeezing supplier’s prices to reducing costs and assets for all participants throughout a supply chain. Therefore, we believe much more sophisticated B2B e-Marketplaces which go beyond simplistic trading networks to provide a collaborative environment linking multiple trading networks, individual buyers, suppliers and service providers will quickly emerge. These B2B e-Marketplaces represent not only the next stage of the Internet economy, but also the catalyst for tremendous growth in B2B trade.

Gartner Group predicts that worldwide online trade will reach $7 trillion by 2004, with approximately 40% of transactions flowing through e-Marketplaces. The core of these new e-Marketplaces will be collaborative information which will allow trading partners to integrate, synchronize and optimize the flow of materials, finished goods and services. It will enable participating companies to anticipate and intelligently plan for changing market conditions. This evolution will introduce unprecedented levels of market transparency that will highlight both the strong and the weak competitors in an industry. As they evolve, e-Marketplaces will add new capabilities such as integrated financial services, logistics and data-mining of transaction information. Ultimately, they will enable companies to dynamically join together to forge partnerships using the Internet to link key business processes.
Why Should You Care?

The evolution of e-Marketplaces will re-invent the way that companies and entire industries are structured and operate. The use of timely collaborative information will enable a company to focus on its core competencies and enhance its competitive advantage. It will support linkages with other organizations who can perform these tasks more efficiently and effectively. New e-webs will emerge as all non-critical functions are outsourced to specialized services providers. If implemented effectively, B2B e-Marketplace strategies should allow participants to increase revenues, cut costs, broaden reach, gain competitive advantages, and improve relationships to a degree never before possible.

What this means to you and your business is dramatic, and it can be difficult to identify your enterprise’s best course of action. Make no mistake, action is absolutely essential. The story you see in the press is not just about someone else’s business. But while action is required, acting wisely is even more important. Don’t rush in without a realistic expectation of benefits, a sound game plan, a clear understanding of your organization’s core competencies, the support and unity of your management team, and a reliable partner who can support you in harnessing the power of these new channels to benefit your business, your suppliers and your customers.

What is the Value to your Business?

The value of participation in an e-Marketplace is dependent upon a number of factors including your company’s role, how the exchange is structured and its ability to attract and retain trading partners. Your strategy should address whether your company will participate as a buyer, seller, or combination of both. Benefits should be balanced so that all parties are motivated to help the exchange succeed and grow.

Typical Buyer Benefits:

- **Reduced Transaction Costs**: Using an e-Marketplace to facilitate the transaction process have allowed organizations to cut transaction costs in excess of 10%.
- **Identification of New Suppliers**: Buyers find it much easier to identify, qualify and measure the performance of new suppliers.
- **Faster Time to Market**: Increased collaboration between suppliers, buyers and customers reduces the time to develop, produce, and distribute new products. The improved communications enable stronger and more beneficial relationships between parties.
- **Improved Market Transparency**: Improved insight into changing trends within the industry, helping smooth supply-and-demand shocks that are the result of unpredictable factors.

Typical Supplier Benefits:

- **Increased Exposure to New Buyers and Sales Opportunities**: Sellers can showcase their products to the global marketplace 24 hours a day, 7 days a week. E-Marketplaces enable you to present buyers with a personalized purchasing experience complete with cross-selling, contextual advertising and promotional opportunities.
Reduced Transaction Costs: Through aggregation, improving the accuracy of orders, collaboratively viewing product design and movement data, streamlining internal administrative processes and reducing sales expenditures, suppliers can reduce costs and improve overall financial performance.

Market Intelligence: Suppliers gain a much better insight into the trends in the industry and buying patterns of key customers.

Anonymous Posting of Excess Inventory: E-Marketplaces provide a supplier with anonymity to liquidate excess inventory without jeopardizing their ability to maintain established prices and terms.

Leveled Playing Field for Small Organizations: E-Marketplaces do not discriminate by size, and therefore enable small buyers and sellers to compete more effectively. Furthermore, smaller organizations can benefit from the efficiencies of e-commerce without the extensive IT infrastructures that are required by (Electronic Data Interchange) EDI systems or extranets.

The Road Map to Success

There are a number of key factors that should be considered as part of defining and implementing an e-Marketplace strategy for your company. There is no “one right answer.” You will arrive at a different design point based on the unique aspects of your company, your competitors and the market conditions driving your industry. You must balance the need to move quickly with the need to define a solution that protects your customer relationships, operating margins, current investments and preserves your future flexibility. Several of these key criteria include:

Competitive e-Marketplace Strategy: A top priority is to develop an e-Marketplace strategy that reflects your business objectives and creates a competitive advantage for your company and your trading partners. How can you best leverage the collaborative capabilities and transparency of the e-Marketplace to differentiate your products, services and operational effectiveness. Are you a buyer, a seller, or both? If you create an exchange, will you go it alone or partner with others in your industry? Once you determine your overall approach, you must decide what type of B2B systems you will deploy, and whether you will build and operate your own systems or partner with an established solutions and services provider.

E-enablement of your business processes: There is limited value in simply automating today’s manual business processes. Implementation of your e-Marketplace strategy enables you to streamline your business processes, eliminate the need for manual intervention, and protect your existing investment in Enterprise Resource Planning (ERP), Supply Chain Management (SCM), and Customer Relationship Management (CRM) solutions.

Speed to Market: Early leaders will accelerate the operational, financial, and customer relationship benefits of e-Marketplace solutions. They will also have the opportunity to shape the competitive landscape within their industry.

Open Standards: The solution you implement must effectively integrate your business process and functions including, but not limited to, planning, procurement, fulfillment, customer care, and product development. Companies must select solutions and supporting infrastructures that are open and flexible enough to provide quick interoperability with partners, suppliers, customers, and other e-Marketplaces.
• **Mission-Critical Reliability and Availability**: The success of your business will depend upon the reliability, availability, and security of your e-Marketplace solutions. You should identify those technology and service providers that have the capabilities and proven track record to deliver seamless availability and ensure the security of these mission-critical solutions.

• **Globalization**. The global nature of e-Marketplaces creates the opportunity to reach an expanded customer set and identify new sources of skills and materials. Your selection of solutions and service partners should provide the breadth and flexibility needed to support your expansion into these markets.

What Pitfalls Should You Avoid?

While there are numerous benefits associated with the implementation of e-Marketplaces, there are also several pitfalls that you and your management team should avoid:

• E-Marketplaces that fail to deliver a balance of benefits to both buyers and suppliers will find it difficult to attract sufficient participants to enable effective collaboration and efficiency. Successful e-Marketplaces will be those that enhance the valued relationships between trading partners through improved collaboration and reduced overhead.

• Implementations that are based upon closed or proprietary architectures will limit a company’s ability to link with other e-Marketplaces and external trading partners and may substantially reduce the overall value to your company.

• An undue focus on the potential equity value of an e-Marketplace IPO can lead to the choice of sub-optimized business structures that may limit the long term effectiveness of the e-Marketplace.

Should You Develop a Private or Join a Public e-Marketplace?

Many large companies have developed EDI with their key trading partners. There is a natural tendency to extend these closed networks into a “private” e-Marketplace. While significantly reducing costs and improving communications throughout the procurement process, these networks have tended to be expensive, closed and have provided limited flexibility and functionality. Today’s public e-Marketplaces are a logical next step in the evolution of exchanges and offer a number of advantages which include:

• A set of industry standards that enable effective interoperability and collaboration.
• Open connectivity to a larger number of trading partners.
• Greater flexibility and functionality
• Enhanced collaboration between trading partners
• The ability to link with other e-Marketplaces.

What are the Pro’s/Con’s of creating a “Newco” or Spin-off?

Some companies focus on becoming the first in their industries to establish an e-Marketplace in hopes of taking the entity public and participating in the value created by an IPO. A “Newco”
approach can provide a vehicle to enable the timely and effective implementation of an e-Marketplace. On the other hand, an approach that places undue focus on the extravagant multiples associated with IPOs often leads to sub-optimized structures that result in the eventual failure of the e-Marketplace. Recent stock market behavior demonstrates the specious nature of assuming that an IPO will act as a money machine. When evaluating alternatives, you should consider:

Pros:
- A formal business structure can assist the development of a set of standards and operating disciplines between trading partners.
- It can help accelerate the implementation of an e-Marketplace.
- In the formative stages, the potential value created in a “Newco” can help to align the motivations of the owners and technology partners and attract top notch management talent.
- Equity sharing can attract additional participants into the “Newco”, but it can also drive them toward competition.

Cons:
- In most cases, those companies that have created “Newcos” have experienced limited stock appreciation while their “technology partner’s” stock value has grown considerably.
- These decisions have the potential to lock a company into a closed or proprietary solution that will limit your flexibility and freedom-of-action in the future.
- Trading partners, both buyers and suppliers, have been outspoken with their concerns about joining e-Marketplaces where the control and financial benefits flow to a small number of owners who also participate in the network (the fox in the hen house).
- Over time, the management of these ventures will become more and more difficult due to the disparate motivations and business requirements of each party.

Why Is IBM Uniquely Qualified to Serve You?

IBM’s vision is to be the leading provider of e-business solutions. Executing on this vision, IBM and its alliance partners i2 and Ariba have implemented more than 100 B2B e-Marketplaces across multiple industries.

IBM provides the most comprehensive e-Marketplace global solutions to its customers and business partners. Our strategy is built around an open B2B platform that will allow users to connect and interact with unlimited trading partners on the Internet at large. IBM can assist in the development of your e-Marketplace blueprint through the alignment of internal processes, design of the technical architecture and development of your implementation strategy. IBM can also provide the technology and services to build your e-Marketplace solution, host your e-Marketplace system, and in appropriate cases, establish an exchange in partnership with your company and its trading partners.

The combined breadth and depth of B2B capabilities differentiates IBM and its partners from other B2B vendors. The IBM/i2/Ariba team possesses the following unique strengths:
• **End-to-End Solution:** From consulting services that help companies successfully craft their e-Marketplace strategies to the solutions, hardware and hosting services required to run them; the IBM/i2/Ariba alliance provides the most robust portfolio of capabilities available in the industry. IBM contributes its experience in developing e-Marketplaces and its breadth of e-business and e-Marketplace solutions; i2 delivers its comprehensive TradeMatrix services to power intelligent decision support and supply-chain management; and Ariba provides its B2B Marketplace with dynamic trade solutions. A customer can start at any point from procurement through supply chain management to implement a fully integrated marketplace.

• **Open Architecture:** Best-of-breed applications on an open platform allow you to easily expand your system, integrate with partners’ systems, and protect your investment in installed solutions.

• **Global Hosting:** Provides the worldwide infrastructure and integration support to enable e-Marketplace to e-Marketplace interoperability through the IBM Global Commerce Backbone.

• **World Class Service Capabilities:** The IBM Global Services team is unparalleled in providing consulting, project management, system integration, large-scale implementation, and operation of global e-Marketplace solutions and is recognized as the largest e-business systems integrator in the world.

• **Seamless Integration:** Leading messaging and transaction middleware enables seamless integration with installed business systems— including ERP and CRM applications—allowing you to leverage your existing IT investments.

• **Thought Leadership:** IBM’s ongoing research has produced more than 40 patents for e-Marketplace technologies, which has given IBM recognized leadership as a developer of e-business solutions.

• **E-Business Practitioner:** IBM has transformed its own business processes into Web-based systems—including its online selling, customer service, internal communications, training, and procurement systems. Recently, IBM won the Medal of Professional Excellence in e-Procurement for the implementation of its internal e-Procurement system, which supports 14,000 suppliers and has enabled IBM to save $9 billion in costs. The alliance with Ariba and i2 will allow us to continue to expand and enhance our capabilities.
Summary

Implementing an e-Marketplace solution provides you with an unprecedented opportunity to transform your business and your industry. If done correctly, these initiatives will reduce costs, increase competitiveness, and enhance your relationship with customers and suppliers. While action in the B2B e-Marketplace is required, you should proceed judiciously.

Key factors you should consider as part of your e-Marketplace implementation plan are:
- Alignment with your corporate business strategy.
- Leverage the collaborative capabilities of an e-Marketplace to drive a competitive advantage for you and your trading partners.
- Speed to market.
- Mission-critical reliability and availability.
- Globalization.

The following four steps should be the basis of your implementation plan:
- Determine whether you are a buyer, seller, or both, and whether you will establish an online exchange (alone or in partnership) or join existing public or private e-Marketplaces.
- Develop a strategy that enables you to streamline your business processes, eliminate the need for manual intervention, and protect your existing investments in ERP, supply-chain management, and CRM solutions.
- Select a technology and service provider that has the capabilities to implement and, if necessary, operate an open and scalable solution across all geographies. Ensure that the provider is committed to open industry standards to enable you to link with your suppliers, customers, and other e-Marketplaces today and in the future.
- Aggressively implement your strategy to enable your company to improve business performance and establish a first-mover advantage in your industry.

IBM provides the full breadth of worldwide consulting, solutions, and services required to support your e-Marketplace implementation requirements. We have teamed with the leading solution providers across the industry to offer a robust and proven set of solutions. We are strongly committed to delivering the flexibility and open industry standards required to preserve your investments and maximize your long-term benefits from this exciting new business approach.
Industry analysts identify the IBM/i2/Ariba team as the clear technology and market leader for providing advanced e-business operating platforms, solutions, and services:

“IBM can now deliver both catalog content and custom sourcing for the B2B exchanges it builds. Oracle’s single-vendor approach to building e-Marketplaces won’t cut it.”

Forrester Research

“We believe the ability to deliver a complete end-to-end solution with full integration capabilities and scope will give the IBM/i2/Ariba alliance a unique competitive advantage in an explosive B2B market place.”

Prudential Securities

“The B2B dream team has been created to bring e-commerce solutions and Internet trading exchanges to market.”

Morgan Stanley

“Currently, the IBM/i2/Ariba alliance has the best potential to offer a complete, robust integrated solution.”

GIGA Information Group