

Tips for Joining an Online Exchange

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What is an Online Exchange? A business-to-business (B2B) exchange is an online community of buyers and sellers who do business over the Internet. Exchanges function as intermediaries between buyers and sellers. They improve the procurement process by:

- Reducing order cycle times
- Reducing costs, e.g., inventory holding requirements
- Promoting uniformity in the purchasing process
- Improved procurement planning
- Providing buyers and sellers with global reach and visibility

Exchanges are usually focused on specific commodity areas and/or geographical regions. Examples of B2B exchanges are TradeRanger.com (petrochemicals) and Covisint.com (automotive).

Vertical vs. Horizontal Markets. There are essentially two types of online exchanges:

- Vertical marketplaces. These bring buyers and sellers together within a particular industry or commodity area. The focus is on a specific commodity or service area such as metals, plastic, energy, aerospace, government, paper, and transportation. This is the dominant form in the B2B area.
- Horizontal marketplaces. These cross industries. The book *B2B Exchanges* notes “We call this model a horizontal trading hub because the companies seek to offer similar applications and support at the buyers and sellers across multiple diverse industries (or verticals).”

Why Join an Exchange? There are several excellent reasons small and minority-owned businesses should join an online exchange. They are:

- Costs. E-commerce is estimated to reduce transaction costs 10% to 15% by eliminating paper-based processes. Electronic purchase orders can be processed much easier and faster than paper. Exchanges help eliminate many inefficiencies in markets, especially when buyers and sellers are dispersed or with uneven information flow. This is important since purchasing organizations usually have annual goals to reduce their costs.
- Market Access. Exchanges can provide sellers unprecedented access to major markets and new customers. This is especially important for minority-owned businesses who traditionally have been the most historically underused group of suppliers.

- **Growth.** Online B2B exchanges will become the mainstream way of doing business. The October 2, 2000 edition of *ChicagoBusiness.com* notes "Online supply chain models for buying and selling goods are expected to become the norm, not the exception, for doing business by 2005. Jupiter forecasts business-to-business commerce activity will account for 42% of domestic trade in 2005, up from 3% this year." The growth in the number of online exchanges is also telling. In early 1999 there were about 20. This number is expected to grow to about 10,000 by 2003.
- **Customer Requirement.** Many major corporations are going online to save costs and improve productivity. They expect their suppliers to follow their lead. Some buying organizations are requiring their suppliers to join their exchange or else risk getting replaced by another supplier.
- **Providers.** There are companies who specialize in building online B2B electronic marketplaces. There are also several who specifically focus on exchanges dedicated to minority- and/or women-owned businesses.

The implications are obvious. Not being on an online B2B exchange will greatly diminish your company's opportunities to continue to be successful.

Types of Costs. There are five major types of costs associated with joining an online exchange. They are:

1. **Set-Up Costs.** These are the cost required to put the company's catalog and price list in an electronic format, Web site development, etc. This fee varies depending on the amount of content that needs to be put on the online exchange.
2. **Subscription Fee.** This is the fee required to join the particular online B2B marketplace. This can be a one-time or annual fee. This is usually a fixed fee.
3. **Transaction Costs.** This is fee paid by the seller to the e-marketbuilder. Ranges are typically from 1% to 5% of the value of the sale. These fees vary with the volume of sales.
4. **Training.** This is the cost to train your staff and senior decision makers on how to use the online sales channel optimally. This is needed to prepare for successfully negotiating contracts on line.
5. **Marketing.** This is the cost to market your company online. There are three key issues to be addressed. First, how you will differentiate your business from competitors that are also on-line. Second, is personal inter-action encouraged or discouraged among buyers and suppliers? Third, is there a "Frequent Flyer" incentive or loyalty program that aligns the interest of all members?

Small and minority-owned businesses should make sure they thoroughly understand all fees associated with the particular e-marketplace(s) they want to join. Some e-marketbuilders waive these fees, typically set-up and subscription, in order to build a critical mass of suppliers on their exchange.

Tips for Joining an Exchange. There are many things to consider before joining an online B2B exchange. Below are some of the more compelling reasons:

- Follow Your Customer. Find out which online exchange your customer(s) use. Make sure you join that exchange or join another exchange that access to that exchange. Otherwise your customers may find another supplier to replace you.
- Customer Benefits. A B2B exchange needs to add value to its members such as reducing costs, saving time by creating a “one stop shopping” process, sharing information, and providing access to diversity suppliers. Make sure you correctly target the market niche you want to compete in.
- Negotiate Fees. Suppliers need to realize they can negotiate fees with e-marketbuilders. Their leverage is to shop around and/or create virtual alliances with other suppliers to aggregate their selling power to get volume discounts.
- Update Business Model for the Web. Online exchanges help provide your business access to major industry players and more opportunities to grow. However, there is a downside since your prices become more exposed. Also pricing can be very dynamic so you need to be able to quickly adapt to changing situations, especially with online reverse auctions.
- Critical Mass. A key driver for an online B2B exchange is to aggravate enough volume to create a critical mass of buyers and sellers. This should be a key point when deciding which exchange to join. Is the exchange a “one-stop shop”?
- Value-Added Services. Additional services are essential to ensuring a B2B marketplace remains a going concern. Examples of value-added services are auction services, Web site hosting, and logistics support.
- Adoption. Make sure the e-marketplace has a structured process to bring your Web business on their exchange. This could be a tie-breaker in the selection decision.
- Use the Exchange to Move into Other e-Markets. Intermediaries can provide additional opportunities by exposing your company to customers in other industry and/or geographic regions. This helps leverage your businesses into new markets.
- Buying Between Minority Businesses. The exchange should promote minority businesses buying from each other. This can be done with electronic links, a private marketplace, and/or search feature.

- Impartial/Neutral Exchange. Is the exchange seller centric or buyer centric? If seller oriented, the risk of industry exchange disenfranchisement is high. If buyer oriented, the risk of being “commoditized” is high through pricing pressure and or competition from larger better capitalized suppliers.
- Competition Fairness. All exchanges need competition to deliver value to buyers. Is the competition fair and on a level playing field? Is the competition among similar sized suppliers? Can price and other small business value attributes such as delivery dates, payment terms, custom features, etc. be negotiated on-line on a "real time" basis?
- Search Characteristics. Can you be found by company, industry, or affinity? How will buyers find you? If you are identified by product alone, the risk of being commoditized may be high.
- Scalable Technology. Is the exchange transaction ready? Is it interoperable/linkable with other desirable exchanges? Is it "off the shelf"? Has it been customized to reflect the differences among industries, ethnicities, and other factors?

The decision on how to rank the above factors will vary by individual company, industry, and competitive situation. The key is to decide which of the above factors means the most to your e-business and which online exchange best meets your needs.

Final Thoughts. Simply joining a B2B e-marketplace is not enough. To truly be successful, small and minority-owned businesses need to update their business models for Web-based customers and markets. Suppliers can expect exchange costs to decrease over time due to increased competition. Suppliers can also expect more value-added services from e-marketbuilders that will help them improve their businesses. Joining an online exchange is a “must do” for small minority owned businesses who want to ensure their long-term survival in the Internet economy.

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