

Building Online Markets and Exchanges

> e-Markets and e-xchanges

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The advent of e has turned virtually every aspect of our professional lives on its ear. The online interconnected environment that is the World Wide Web and brethren intranets has allowed us to redefine the way we communicate with peers, partners, suppliers and customers, and subsequently the processes that exist amongst this extended value chain. Business in the age of "e" has been met with a plethora of challenges and opportunities. At the heart of each of these is a redefinition of how we can build and maintain community. More than any other technology, the advent of the web has collapsed the time and distance between individuals. It has empowered asynchronous communication models between individuals and organizations alike. Our sense of community has forever been altered.

Nowhere is this changing sense of community more felt than in commercial markets and exchanges. Community has always been at the heart of our business models. Partnerships were built on life long relationships that created a community of manufacturers, suppliers and distributors. Salesman focused on building community within their territories. It is no surprise then, that for well over a decade,



organizations have contemplated and attempted to leverage the capabilities of online communication to shrink time and distance to customers and suppliers/partners. Indeed, the belief that online communication could positively effect community and business processes came long before (in web time anyway) the emergence of the internet. In the 80s and 90s, organizations ranging from the US government to Sears built online markets and exchanges, focused on automating procurement and maximizing the efficiency of trade. I am speaking of course of EDI.

The Role of EDI

EDI focused on the speed of procurement and payment. Vicariously, however, it did

effect community. Based on proprietary networks, technologies and exchange protocols, EDI created a tightly bound community of supplier and manufacturer. In order to support the proprietary nature of these online exchanges, the community had to be tightly knit. Participants had to be physically networked. Business processes, databases and data had to be manipulated to adhere to agreed-upon data formats. The cost of buy-in to an EDI exchange was high enough that it resulted in a loyal group of participants.

But the greatest asset of EDI was also its demise. The limitations caused by the proprietary network and communication protocols caused limited growth. Smaller organizations/suppliers

> From Bulletin Board to Vortals: The new Marketplaces

were often precluded from participation. EDI left little room for the consumer. In spite of this, EDI did pave the road for the e-markets of today. It created the first B2B networks, demonstrating that community could be built and maintained electronically. Just how successful EDI might have been can only be speculated at this point. For, with the advent of the World Wide Web and the ubiquitous browser, the concept behind EDI was greatly expanded and improved.

From Bulletin Board to Vortals : The new Marketplaces

The Web has quickly become an infrastructure of seemingly limitless possibilities. In this simple environment, every user is but a browser away from virtually any web site. Yet in this simple premise lies the ability to create complex connections, communities, markets.

Once envisioned as an academic community of informational urls, the commercializing of the web occurred at a pace that changed the way we measure time in the business world. The leveraging of this open network environment in a commercial capacity started with the simple bulletin board approach. The web was nothing more than an extension of the marketing department for many

organizations a few years ago. Community building was limited. Business transactions were still predominately handled off-line.

However, as the community building capabilities of the web were realized via the establishment of chat rooms and virtual communities, businesses began to extend the marketing function of the web to include simplified, intelligent, value added e-commerce capabilities. Focused on the end consumer, these sites provide the ability to shop online, including the procurement/ payment for goods online. Sites such as Amazon.com and Drugstore.com became household words overnight. Similar to the forerunner EDI, they allowed a community of buyer and seller, but focused the attention on the end-user consumer. Along the way, value was added in the form of simplified product identification and the furthering of community by exposing shoppers to the preferences of their peers.

It was the success of models such as these that led to the model of Disintermediation. By simplifying the value chain through direct access with the consumer, manufacturers could now supply product directly to the consumer. For example, PCs no longer needed to be purchased through a middleman. The consumer could visit the

DELL web site and configure a product online, arrange for its shipment and enact a financial transaction. Disintermediation allows simple communication between a single supplier and any number of customers over the network.

But this model leaves a fragmented marketplace. The consumer must shop across several web sites in order to gain a pure view of the entire marketplace. This realization gave way to the reintermediated model of e-business. Using the ability to syndicate content, the Re-intermediation model allows the development of single-point-of-access to an entire e-commerce market. We hear daily of vertically-oriented e-based distributors such as automobiles.com, e-steel.com and plasticsnet.com. These sites aggregate content from multiple suppliers and make it centrally available to any number of consumers through a consolidated, single-point-of-access. While these sites broadened the procurement capabilities to include online auctions, reverse auctions, etc., the focus is still on a single product genre. The success of this model suggested, however, that there was real value in building vertically oriented commercial sites, around which a community of seller and buyer could be attracted.

The power of community was

more fully realized under the infomediary e-markets broaden the community of sellers as well as buyers. Infomediary leverages the connection capabilities of the Web. Underlying technologies and tools enable e-businesses to log and interpret the activity and behavior patterns of online customers, visitors and community members. The information gathered about these interchanges helps the online e-business understand the nature and interests of these online interactions as well as make inferences about the quality of the online

relationships. This understanding forms the basis for tailoring compelling web business experiences and intimate markets. Buyers are exposed to related products in the same trusted community, e.g. the car purchaser is provided a community of insurance brokers.

These broad communities gave way to the concept of an industry Vortal. The Vortal is an

online market place built on a demand side driven model. It is focused on a particular vertical market, but seeks to include all players in the market – from materials supplier to manufacturer, from service provider to consumer. The vortals represent the automation of the entire value chain that stands behind

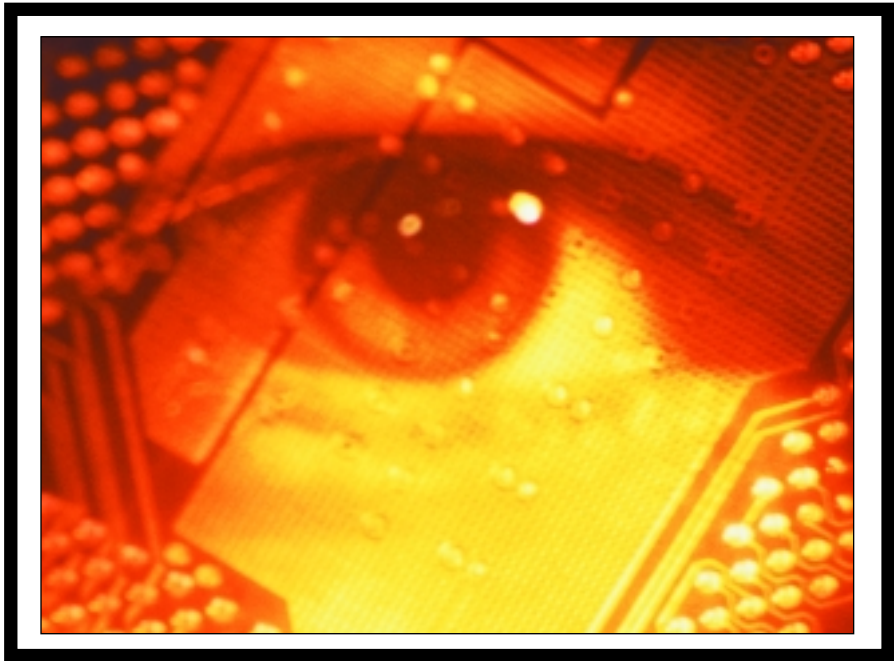
- 2) accelerate markets and innovation
- 3) increase market efficiency
- 4) allow fast interchange of both buyer and seller
- 4) create demand-driven markets.

The vortal aggregates market information and know-how as

well as supplier information and consumer requests/needs, brokering one against the other. In essence the e-procurement capabilities of a single consumer to supplier are extended across an entire related community. In the Vortal, the initiator is the consumer or customer, whose need for a particular product is

the focal point of the Vortal. This is an aggregated reverse market environment specifically targeted at the B2B market space. Speed is determined by Time to Community.

With the vortal, the value of community is fully realized. The faster you are able to create a community of suppliers, partners, and distributors, the more likely you are to succeed in the B2B



the finished product and purchase. Vortals are Web-based vertical portals around which trading communities and business-to-business (B2B) interactions and value chains are continuously being formed. Vortals provide a single-point-of-contact, coordination, and execution of B2B transactions. They...

- 1) open markets to all available participants (consumer and supplier)

world. Forming a community involves many component tasks: from identifying partners, to negotiating terms and contracts, to justifying the costs of building each new value chain. Vortals offer a mechanism for establishing markets at this new level of complexity and a lower level of granularity. They are catalysts for a new marketplace that is more complex and more sophisticated than anything our traditional business institutions are prepared for.

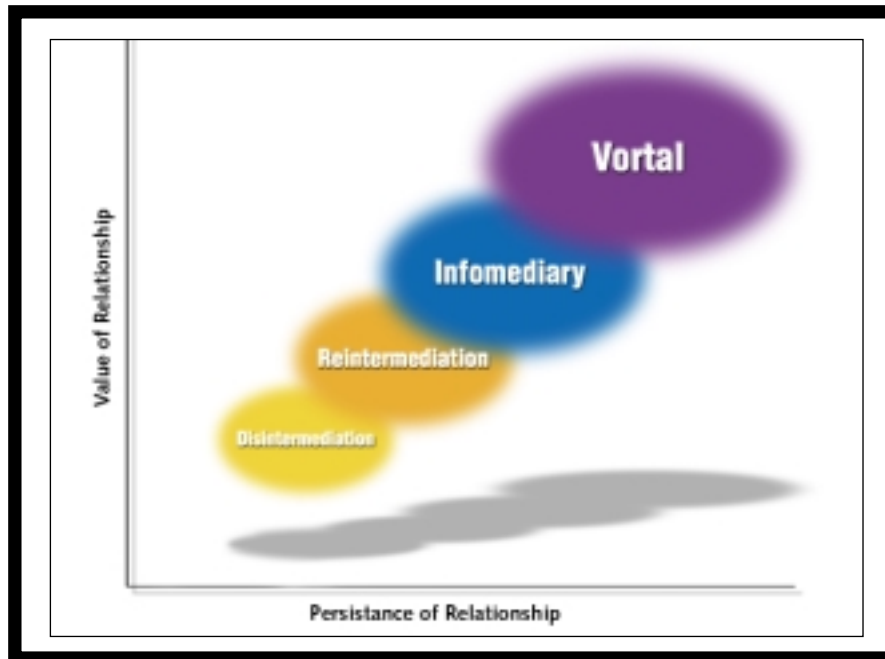
Today, there are nearly 200 active vortals on the web, ranging from seafood to automobiles. Why are Vortals catching on so

quickly? In complex markets, myriad transactions and mechanisms comprise complex value chains that unite a seemingly endless stream of suppliers. The community is vast. The path from innovation to the construction of any new model consumes enormous amounts of people, time and effort as the new value chain is established. A Vortal makes it possible to remove the tedium, market and pricing

inefficiency, and process latency involved in this chain of events. Coordination of the community of providers and suppliers (current and potential) can be handled instantly working from the demand side rather than the supply side of the industry. The result is an extraordinary increase in the velocity of

It is not unlike the reverse market concept familiar to anyone who has used Priceline.com to make travel arrangements: simply name your price and the online buying agent matches your offer with a willing seller. Companies such as Priceline, eBay and CarsDirect make the headlines for consumer applica-

tions of reverse markets on the web daily. However, some of the most exciting examples of e-business reverse markets are far less well known despite the fact that their potential impact on the economy and the dollar volume of transactions involved is actually much greater.



innovation and market efficiency. It is the focus on the demand side that makes the vortal a radically new approach to building community.

Many do not fully comprehend the value in moving from a supply-side model to a demand-side model. At the heart of the Vortal is an anonymous marketplace that allows for the instantaneous creation of trading communities.

Vortal players such as VerticalNet have developed a community-based approach to the reverse market that simplifies bidding for business goods (from raw materials such as iron ore to aerospace components), increasing the market opportunity for suppliers and decreasing costs for buyers. These advantages are maximized in the business partnering environment because Vortals

> Conclusion

establish a lingua franca for the dissemination of buyer information in near real-time across the community of sellers. Vortals act as the "hub" of a global anonymous market, mediating relationships between the available universe of buyers and sellers.

Conclusion

The traditional view of partnerships, trading communities, consumers, even the very notion of a free market, is giving way to new models that describe the way tomorrow's businesses will be run. Free markets have always encouraged diversity, choice, and evolution. The World Wide Web— that invisible network of electronic transactions between partners, suppliers and consumers that results in business, markets and work— is fueling e-commerce and B2B transactions that drive today's commerce. The evolution of this network has, in web-speed, resulted in the rapid emergence of several e-business models. While many may still remember EDI, and acclaim it as the precursor to today's e-markets, we must realize that EDI has been much overshadowed by the

e-business models of the web. The wide open nature of these models has allowed rapid deployment and a lower cost of entry to all players. From end consumer to suppliers, the entire value chain becomes automated. We have come way beyond the proprietary attempts to create procurement loops in EDI.

To learn more about the evolving e-business models and electronic markets, I suggest visiting:

- <http://www.B2B50.com> for a look at the top 50 publicly held companies providing tools and markets for this space.
- <http://www.thevortals.com> to view a short video on the vortal concept.
- <http://www.delphigroup.com> for research and news on e-business.
- <http://www.oneclickb2b.com> to become a member of a B2B-focused online community

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