

An Analysis of the future of B2B E-Commerce

By

Dale Boeth
Vice President of Strategic Development
PurchasePro.com

PurchasePro.com, Inc.
3291 Buffalo Drive
Las Vegas, NV 89129
(702) 316-7000
www.purchasepro.com

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Introduction

PurchasePro.com would like to thank the Federal Trade Commission for inviting us to take part in this discussion regarding the current state and the future of B2B e-commerce. As the pioneer of browser-based e-marketplaces and the enabler of more marketplaces than any other company (165), PurchasePro.com has been actively researching the industry, including analyzing how new technologies and consumer practices will affect it in years to come. In this statement, we would like to expound upon three issues, the motivation of business for using e-commerce, industry-specific buying consortia, and interoperability standards, that we focused on at the Federal Trade Commission's workshop *Competition Policy In The World Of B2B Electronic Marketplaces*, which was held on June 29th and 30th.

B2B— Past and Present

When B2B e-commerce began in the early 1990s, no one expected the growth explosion it experienced in the latter part of the decade. Moreover, it has continued to expand at such a furious rate that this one-time novelty has now become, according to Jupiter Communications, a \$336 billion industry. Jupiter went on to predict that the nation's online B2B revenues will reach over \$6 trillion by 2005—a 20-fold increase in just five years. This growth can be explained by the converging of new technology with traditional business needs. Businesses from nations all over the world now use B2B e-commerce to purchase over a trillion dollars in goods and services every year; something traditional methods and technologies designed to facilitate procurement could not accomplish.

The first electronic procurement system was electronic data interchange (EDI) networks. EDI processed high volumes of information in batches and translated those orders for receiving networks. These networks revolutionized the way major corporations purchased basic supplies by allowing them to submit requests directly to the distributor, reducing errors, lowering transaction times and significantly cutting paperwork, while lowering costs. EDI is however extremely static and restrictive. The technology is expensive and not a viable option for most businesses. Moreover, the systems are expensive to maintain and provide no community or market transparency. In short, it is not an environment in which new avenues of commerce could grow.

For greater mobility, both buyers and suppliers applied the Internet to supplement or replace their existing EDI systems. By repositioning their websites and using them as a primary sales channel to display their product brochures and order placement, distributors were able to expand their customer base. Major purchasing organizations like Wal-Mart, on the other hand, created an Intranet, a private Internet linked to their various distributors throughout the country.

These two tactics later evolved into the two primary facets of e-commerce, vortals (vertical portals) and private e-marketplaces. Web vortals, an industry-focused website that offers industry information, allows members to access a wider variety of suppliers and to sell their products to a larger audience. Intranet systems evolved into marketplaces where suppliers within the network could buy and sell from each other.

The Future of B2B E-Commerce

Current Driving Forces

We see a number of positive forces fueling future growth of B2B marketplaces and electronic exchanges. Now that most Fortune 1000 companies are actively using an e-commerce or e-procurement product or service, the market segment that promises to provide the majority of future growth is small and mid-sized businesses. Reasons for adoption of B2B e-Commerce vary greatly between businesses of different sizes, between industry focuses, between geographic location, and between product/service line focuses.

Based on feedback we receive daily from the 25,000 companies operating in our exchange and 165 private marketplaces, the most compelling reason joining a B2B marketplace is the ability to sell products and services through a highly efficient, cost effective channel. Three or four months ago, the answer was that businesses hoped to save costs on the products and service they purchased but that trend has now become secondary to the sell-side focus. Most businesses place a higher value on generating new income opportunities than they do on driving costs out of their procurement spend. The ability to interact with new customers in areas well beyond their normal trade zone is very appealing. To do so without incurring the costs of establishing and managing a traditional channel is what makes Marketplace participation a high priority for growing businesses.

Getting these companies online is crucial to forming the critical mass that will make this relatively new commerce vehicle an industry standard.

Buying Consortia

Through our own internal research and careful monitoring of industry trends, PurchasePro.com anticipated the emergence of industry coalitions—where businesses with similar industry and product/service focus are teaming to form their own marketplaces—by the beginning of 2001. We've seen this come to pass now with major competitors announcing industry buying consortiums with the goal of partnering together and pooling their collective spend, to drive down supplier costs to a greater degree than any single member could individually.

We believe that the goal of disintermediation (removal of a third party) will be complicated by competitive pressures and the need to protect trade secrets to the point that many of the planned industry coalitions will turn to neutral, unbiased, professional service firms to manage future marketplaces on behalf of the coalition members. PurchasePro.com refers to these non-industry third parties as “neutramediators.”

Interoperability Standards

Interoperability refers to the ability of a buyer or supplier to participate in multiple B2B marketplaces. As it stands, hundreds of e-commerce and e-procurement systems will not permit a user to access different marketplaces without incurring the cost of software or membership fees. Interoperability is an issue today and will grow in importance in the very near future as more and more B2B marketplaces and exchanges are launched and begin to establish critical mass. It's so early in the cycle that most businesses are just now implementing their first marketplace solution so the issue of participating in multiple marketplaces hasn't been an area of focus. However, many of the early adopters, the pioneers of marketplace participation, such as PurchasePro.com, are facing the issue today. Like most leading edge businesses, they are doing so without a body of standards or a series of proven interface/interchange tools available.

Standards do indeed exist. From a payment authentication and settlement standpoint, SET (Secure Electronic Transaction) standards provide Marketplace owner/operators with a common set of standards for clearing electronic transactions.

More centric to Marketplace transactions, cXML or Commerce Extensible Markup Language functions as a [meta-language](#) that defines the necessary information about a product or service thus standardizing the exchange of catalog content between eMarketplaces and commerce sites. It is also used to define request/response processes for secure electronic transactions over the Internet including purchase orders, change orders, acknowledgments, status updates, ship notifications and payment transactions.

Significantly, cXML began as a collaborative effort among 40+ companies looking to reduce the costs of conducting online business. This standardized methodology now allows participating companies--and others who implement the cXML framework--to constantly improve and streamline [electronic commerce](#). We would expect that SET, cXML, and other industry-sponsored standards will continue to improve the ability to interact within and between multiple eMarketplaces.

PurchasePro.com has begun the exchange-to-exchange (E2E) or marketplace-to-marketplace (M2M) connectivity by linking its private marketplaces with its exchange, and we look forward to being part of the evolution of interoperability and the continuing growth of B2B e-commerce.

About PurchasePro.com

PurchasePro.com, Inc. (Nasdaq: PPRO), a leader in Internet business-to-business e-commerce, operates the PurchasePro.com exchange encompassing more than 25,000 businesses and powers 165 private marketplaces with its highly scalable, browser-based e-commerce engine. PurchasePro.com powers a global marketplace, as well as private marketplaces that make it easy for businesses of all sizes to buy and sell a wide range of products and services. PurchasePro.com enables businesses to compete more efficiently by reducing procurement costs and greatly increasing employee productivity.

PurchasePro.com offers the fastest e-marketplace solutions in the industry designed for important market segments-e-Procurement for corporate procurement needs, v-Distributor for online distributors, and e-MarketMaker for Internet market makers.

A key element of PurchasePro.com's strategy is to develop sales and marketing relationships with industry leaders including AOL, Hilton, IBM, Office Depot, Inc. and Sprint Corp. The company provides extensive support and training programs. For information call toll free at 1-888-830-4600 or in Las Vegas at 702-316-7000 or visit www.purchasepro.com.