

# Failure and Success of B-to-B Exchange Business Models: A Contingent Analysis of Their Performance

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The *new economy* presents extraordinary opportunities for growth and profit of electronic management of business-to-business relationships. E-marketplaces, or digital exchanges, represent one of the most promising phenomena in this environment but, despite the promises, many of these B-to-B exchanges have failed in the last few years, while a few 'survivors' remained in the market.

The purpose of this paper is to investigate business models of active e-marketplaces, to understand which features make the difference between successful initiatives and failures. The paper is based on a survey of a sample of European exchanges located in Italy. Alternative business models are described through a cluster analysis along with three dimensions: content, structure, and governance. By comparing performances of the alternative business models, the analysis is able to show key features of successful business models for B-to-B e-marketplaces.

The findings show that private large exchanges have a superior capability to generate turnover compared to vertical niche operators, due to specific choices of content, structure, and governance. Managerial implications and suggestions for future research are proposed.

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## Preface

The *new economy* presents extraordinary opportunities for growth and profit for firms related to the electronic management of business-to-business relationships through renovated IT-based business models, or so-called *electronic marketplaces* (or exchanges) (Bakos, 1998). Despite promises, many of the B-to-B exchanges have failed in the last few years. For example, in Italy at the end of 2000, more than 120 operators were active, while three years later this number fell to approximately 40, and less than half of these survivors are able to reach the break-even point. The same trends seem to occur in other European countries (Brunn *et al.*, 2002), and also in the US (Kalakota *et al.*, 1999; Day and Kauffmann, 2002), showing that:

- ❖ A large share of these exchanges was based on models which were not rooted in 'real' business, but often artificially pushed by *ex-ante* theoretical considerations;
- ❖ A few operators are able to exhibit growth and profit capabilities, suggesting the existence of some 'successful traits' of these business models.

This paper deals with these issues and, in particular, proposes to identify the conditions that, at present, seem to foster competitiveness and superior performance at some B-to-B exchanges. The paper is structured as follows.

In the next section, the evolution path of B-to-B electronic marketplaces is detailed, suggesting the emergence of two big trends: neutral pure intermediaries and private captive operators. In the third section, a theoretical framework with the essential dimensions of an e-business model (structure, content, and governance) is proposed, in order to determine the discriminating features of successful models. The fourth section contains the methodology of a survey of 32 B-to-B European exchanges located in Italy, used to investigate the performance of business models. Outcomes are provided in the fifth section, confirming the existence of the two big categories of exchanges, qualifying their organizations and strategies, and pointing out how alternative structure, content, and governance approaches can either lead to profit or to failure. Superior performance of the group of 'private' marketplaces, with their distinguishing features, leads to some theoretical and managerial implications, discussed in the final section of the paper.

## B-to-B Exchanges: A Dual Picture

### Neutral Hubs

New intermediaries developed during the growth of the *new economy* focused attention on ICT potentialities in terms of electronic management of transactions, specifically among firms (B-to-B). At the end of the 1990s, many middlemen arose, offering firms innovative electronic platforms: electronic marketplaces. With respect to dis-intermediation scenarios (Chircu and Kauffman, 2000), those players exploited the tools to promise new sources of competitive advantage, assuring firms that their presence would add value to economic relationships due to information technology potential (Sarkar *et al.*, 1998; Wimmer *et al.*, 2000).

As opposed to the previous organization of B-to-B exchanges — essentially firm-centric and based on EDI proprietary systems — a new phase of electronic commerce arose from the Internet as an open worldwide network based on public standards and low costs of access.

In the early stages, B-to-B exchanges grew under the typical form of neutral market makers (*hubs*). These were third-party intermediaries that exploited the Internet infrastructure to provide buyer–seller matching within a specific industry (*vertical*) or a specific business function (*horizontal*) in a public marketplace (Kaplan and Sawhney, 2000). In short, these hubs should have become the primary arenas for business-to-business exchanges, by electronic management of most of the value of B-to-B. Specifically, these hubs provided a many-to-many infrastructure able to sustain B-to-B relationships either within the boundaries of closed and private networks such as EDI, or in

public environments such as those of open online markets. However, the main characteristic of hubs is their neutrality: as intermediaries; they are third parties that occupy a central position between supply and demand, aggregating both buyers and sellers in a neutral exchange environment. Market makers proposed benefits to firms in terms of efficiency, on payment of fees generally based on the transaction value electronically managed. This business model was built on the idea of a progressive process of cost decreases in transactions (efficiency) — that is, an increasing value of online exchanges through the marketplace (Sawhney and Di Maria, 2003). As an independent third party between buyers and suppliers, the hub must develop critical mass in order to sustain its market model, increase match opportunities, and thereby attract members to support its growth. And this is even more important when considering the network of partnerships promoted by the intermediary, through whom firms could access transaction-related services such as logistics, insurance, or financial support, and the intermediary could achieve additional revenues (Ordanini and Pol, 2001).

These pure players proposed their market infrastructures as the source of new value in terms of efficiency and effectiveness of B-to-B transactions, on the basis of their neutral position between the two sides of the market. However, they did not seem to perceive their marginal roles in the B-to-B connections largely controlled by large firms, and many of these hubs started to modify their value propositions by focusing on an innovative management of specialized information (industry content management) or on technology solutions and services. On the one hand, by exploiting their industry specialization, independent hubs developed new services for firms to access and to customize valuable online content (such as dynamics of the market, technology innovations, and competitors' behaviours) through the hubs' electronic platforms. Those services were considered to be of particular importance to small firms, which could enrich their traditional informative sources (such as face-to-face interaction in local contexts) (Micelli *et al.*, 2002). On the other hand, these electronic markets have recently developed more sophisticated technological solutions to support complex business relationships, such as supply chain management solutions, logistic and settlement services, and consultancies. These innovative services should be at the core of the new hub strategy, where intermediaries offer their competencies to solve firms' problems by using innovative solutions and promoting consultant support services.

### Private Exchanges

As the case of Covisint in the automotive industry showed, big companies became particularly interested in increasing supply chain efficiency and so

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