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Chapter VII

Adaptive Strategies of Firms in High-Velocity Environments: The Case of B2B Electronic Marketplaces

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ABSTRACT

The adaptation-evolution strategies of firms have been a major area of interest. Internet based businesses operate in highly unstable environments witnessing shakeouts and changes in the industry structure. In this paper, we focus on the adaptive strategies and paths of adaptation of independent B2B marketplaces. The independent B2B marketplaces have undergone tremendous change with regard to their business models and products/services. Since their inception as pure market makers, these marketplaces have morphed into integration service providers with market making being one of the functions. What makes the adaptive strategies of B2B marketplaces interesting is the extremely short time period within which these changes happened. The research uses the case study methodology to identify the adaptive strategies of B2B marketplaces in

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terms of their product/service class evolution. The results based on the case studies suggest a three-stage adaptation model wherein the marketplaces progress through stages such as aggregation, transactions and integration.

INTRODUCTION

The Internet is having a profound influence on the nature of interorganisational commerce. According to Forrester Research, business-to-business (B2B) electronic commerce (e-commerce) in the US now stands at US $2.4 trillion. Inspite of the failure of hundreds of B2B exchanges, B2B e-commerce is expected to reach US $3.9 trillion in 2003 (*Business Week*, 2003). eMarketer predicts that worldwide business-to-business ecommerce would reach US $1.41 trillion by the end of 2003. According to eMarketer, the worldwide e-commerce revenues will touch US $2.4 trillion by 2004. B2B e-commerce refers to transactions wherein both the buyer and seller are organizations. Business-to-business e-commerce is not a new concept and we can trace it back to EDI (Electronic Data Interchange). EDI allows businesses and their partners to exchange information through a standard set of transactions over value-added-networks (VANs). EDI facilitates transactions such as purchase orders, invoices, shipping notices and a multitude of other documents. However, the high costs associated with EDI can be afforded only by the large companies (Khazanchi, 1995, 1999). The common forms of B2B e-commerce include electronic procurement, electronic catalog management systems, B2B marketplaces, etc. The broader business adoption of the Internet laid the foundation upon which B2B marketplaces evolved. A number of business-to-business marketplaces emerged to facilitate efficient commerce among organizations. These marketplaces facilitate efficient search and transactions by offering services such as buyer/supplier and product/services searching, transactions such as procurement and asset disposal. In addition to their market making function, the marketplaces also offer integration services such as supply chain and ERP integration and have entered into alliances with various firms to offer value-added services such as vendor rating, logistics, payment processing, etc.

The Internet reduces search costs of buyers, resulting in price competition among sellers Bakos (1991, 1997). Bakos (1997) explores the implications of reducing buyers' search cost in electronic marketplaces, the benefits for buyer and seller, the social welfare and the incentives to create such a marketplace. Garicano and Kaplan (2000) provide empirical evidence that the benefits of electronic marketplaces may come from price advantage as well as process improvement. B2B marketplaces differ from the traditional marketplaces, as they offer increased personalization and customization of product offerings, and aggregation and disaggregation of information-based product components to match customer needs. They are able to overcome some of the problems related to richness vs. reach of information, as they are able to facilitate real-time transactions. They also enable new types of price discovery to be employed in different markets. B2B marketplaces also improve information sharing between buyers and sellers, helping lower the cost of logistics and promoting quick, just-in-time deliveries and reduced inventories.

B2B marketplaces can be broadly classified into horizontal vs. vertical marketplaces, buy-side vs. sell-side marketplaces, etc. For this research, we classify them into

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