

## Chapter 7.8

# Partnering for Perfection: An Economics Perspective on B2B Electronic Market Strategic Alliances

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### **ABSTRACT**

New technological innovations have made it possible for new intermediaries to create value in business processes that involve the procurement of manufacturing and services supplies. Associated with these innovations is the emergence of business-to-business (B2B) electronic markets. These act as digital intermediaries that aim to reduce the transaction costs and mitigate the risks inherent in procurement. They improve buyers' capabilities to search for attractive prices and also serve to increase the liquidity of sellers' products. In this chapter, the authors explore the evolution of B2B e-market firms in terms of the strategies they employ to "perfect" their value propositions and business processes for the firms. This is a

critical aspect of their attractiveness as business partners for the buyers and sellers that participate in their electronic marketplaces. The key theoretical perspectives of this work are adapted from economics and strategic management. They enable the authors to construct a "partnering for perfection" theory of strategic alliances in e-procurement markets. This perspective is captured in a series of inquiries about "why" and "when" B2B e-markets are observed to form alliances. The authors carry out an innovative econometric analysis that delivers empirical results to show the efficacy of the theory in interpreting real world events. The chapter concludes with a discussion of the implications of this work in academic and managerial terms.

## **INTRODUCTION**

Business-to-business electronic markets proliferated in the mid to late 1990s with the widespread application of the Internet and World Wide Web to inter-firm transactions. By the middle of 2000, there were about 1,500 B2B marketplaces in the United States, according to the estimates of Deloitte Consulting (2000). However this boom turned into a bust in early 2001, when many B2B exchanges either shut down or were acquired. Recent estimates suggest that there are only about 150 surviving B2B e-markets (Day, Fein & Ruppersberger, 2003).

### **B2B E-Market Firms: Evolution and Transformation on Internet Time**

All the changes that we have seen reflect the intense competition that has unfolded in the arena of B2B e-commerce. In this environment firms that operated e-markets made great efforts to develop and adapt their business models and strategies to meet the competition, while the landscape of digital procurement also rapidly evolved out of their control. The earliest e-market firms followed in the footsteps of their business-to-consumer (B2C) counterparts to build Web sites with e-catalogs and search functions. They also created public marketplaces where buyers and suppliers could exchange product and price information with low transactions costs.

Later on, having observed and participated in the public B2B exchanges, buyers and suppliers entered into this area with their own online marketplaces. In some industries, firms combined their efforts and resources to operate a shared platform on which they could buy or sell products via the Internet. For example, the major automobile manufacturers, including General Motors, Daimler Chrysler, Ford, Nissan, and Renault (later to be joined by Peugeot-Citroen) formed Covisint. This provided an industry-wide electronic marketplace connecting firms so that

they could buy and sell parts and supplies more cheaply. Another approach that firms took is to develop private exchanges to conduct transactions online with their selected customers or suppliers, like what Wal-Mart has done. At the same time, third-party B2B e-market firms that pioneered public exchanges developed functions to meet the demands for private transactions and collaboration between firms that are participating in their online marketplaces.

We define a B2B e-market firm as an independent firm or a subsidiary of a firm that hosts and operates Internet and Web-based information systems by which other firms can purchase and sell products. As a form of business organization, B2B e-market firms present themselves as transformational information technology (IT) firms. On the one hand, they are IT firms because they use computer and telecommunication technologies to produce the products and services that they offer. Their products and services are inseparable from the development, design, and operation of computer systems and telecommunication networks. On the other hand, they differ from traditional IT firms in that their offerings are completely built upon the Internet and Web technologies instead of legacy systems. Most of them have been recognized as new entrants in the IT industry and as explorers in the arena of new business models and strategies.

As technology solution providers, B2B e-market firms offer an innovative form of interorganizational information systems (IOS), utilizing the Internet and Web technologies to provide shared infrastructure and a means for commercial exchange. They typically offer electronic product catalogs, price discovery mechanisms, and other market-making functions. In addition, they provide new procurement and distribution channels for firms that manufacture or consume the products that are transacted in their online marketplaces.

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