Internet Integration in
Business Marketing Tactics

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OPTIONAL OPENING QUOTES

“Companies have got to learn to eat change for breakfast” Tom Peters

“. . . it behooves us to adapt oneself to the times if one wants to enjoy continued good fortune “ Niccolo Machiavelli
ABSTRACT

Business Market Management (BMM) over the Internet has been receiving a “lot of ink” in current periodicals and to a much lesser degree in academic literature. Practice changes so rapidly that principles emerging from last month’s successes may need revision before they are derived and printed. There is yet a general theory of business-to-business Internet integration. Nonetheless, there is a need to build such knowledge on “the fly,” and to attempt to see patterns even if they have a short life span.

The present work takes a look at the state of business-to-business Internet marketing practices as the year 2000 came to a close for larger companies. Not surprisingly, and just like the hardware that make Internet distribution density so high, we find that the Internet is having an impact on: market size and structure, business buying and selling behavior, negotiation strategies and associated pricing practices. Moreover, distribution systems are experiencing a major realignment while logistics optimizing is even greater. The Web and e-mail are becoming more fully integrated into the business communication mix.

The attempt here is to learn what has been done, as well as to discern how to learn about the most rapidly emerging and changing communication technology of the past 100 years. Business-driven technology now appears to be driving tactics and results augmented the multifaceted complex use of the Internet.

- Keywords: Internet Integration, Electronic commerce, Business Marketing
INTRODUCTION

“The Internet’s core advantage lies in its great capacity of fast, efficient, integrated, and interactive exchange of information...Thus, the Internet facilitates the information exchanges between organizations, concerning issues such as discovery of new customer needs, trends of the local and global markets, competitive moves, joint development of products, joint selling activities, etc.”

E-commerce was, and still is by many measures, hailed as a revolutionary force in business, being able to both improve the way business is conducted today, and perhaps more importantly to reshape complete industries. The increased transparency that is made possible by the Internet should make inefficient markets more efficient and thus send ripple effects throughout the economy. Major companies are expected to use the Internet to alter existing industry structures and business processes, to improve company information, redefine their information with clients, leverage global resources, and pioneer new business models. Similarly, they are to use it to streamline their supply chain, and eliminate inefficiencies with increased automation. Businesses are expected to place orders totaling 3.2 trillion dollars worldwide via the Internet by 2003, according to Forrester Research.

A recent empirical study performed on American and European companies, suggests that the Internet enhances business performance in business-to-business organizations, both in terms of total sales and net profit margin, though the evidence shows that it may do so indirectly. Whereas just a few years ago, companies may have asked themselves whether or not to move their business to the Internet, today companies
no longer ask themselves that question. The answer is simple: there can be no room for the company to exist without somehow being on the Internet. Goldman Sachs estimates that using the Internet will reduce purchasing costs in several industries by more than twenty percent, thus reducing the total cost of doing business by as much as 12.5 percent.

“...The Internet can be used to conduct marketing research, reach new markets, serve customers better, distribute products faster, solve customer problems, and communicate more efficiently with business partners. The Internet is also a useful tool for gathering intelligence on customers, competitors, and potential markets, as well as communicating information about companies and/or products.”

While there are many positive aspects to harnessing the power of the Internet to conduct business, some of the negative aspects have begun to recently surface as well.

The present focus is on one of the most prevalent themes in today’s Business Marketing Management (BMM) scene, that of the different variances of the exchanges / electronic-marketplaces. A basic premise of this paper is to show how these emerging technologies impact traditional elements of business marketing tactics. The goal is to explain how BMM is evolving through their use of the Internet, high-speed communications, and computers for big business marketers. We will also try to determine how major businesses marketers benefit more from these exchanges and why. This is achieved through the use of both academic and business periodical literature. The subject is based on a relatively new phenomenon and therefore there has been a limited amount of time for academic emphasis on the specifics of Internet BMM, and their impact on marketing mix management. In order to be current, especially in this rapidly changing field, one must follow the recent literature and uncover emerging patterns and trends.
Electronic Business – To – Business Models & Their Promise

**Size Matters:** The mere volume of business moving to the online exchanges means that BMM marketers have to add them to the marketing mix. A study by the *Boston Consulting Group (BCG)* of the BMM e-commerce market predicted that one-fourth of all U.S. BMM purchasing will be done on-line by 2003. Additionally, they estimate that by that year BMM will reach an annual value of 2.8 trillion dollars. This is in contrast to 1998, where the U.S. BMM e-commerce was 671 billion dollars, much of which was *Electronic Data Interchange* based. Forrester Research surveying eighty executives from Fortune-1000 firms found that 70 percent of both buyers and sellers expect to become members of an online marketplace by 2002, using them for either transaction or information. Deloitte Consulting estimates that a thousand five hundred e-marketplaces have already been launched or announced, and at the same time predicts that in two years about a thousand of them will fail or merge.

**Market Mechanisms:** Business markets generally tend to create value by two main mechanisms: *Aggregation* - bringing together many buyers and sellers under one virtual roof, where their positions are fixed; *Matching* - brings buyers and sellers together to negotiate prices on a real time basis. Additionally, these markets can be classified into four main categories: *MRO hubs* are horizontal markets that enable systematic sourcing of operating inputs. Because the inputs tend to be of low value goods with relatively high transaction costs, these hubs provide value by increasing efficiencies in procurement. *Yield managers* are horizontal markets that enable spot sourcing of operating inputs. They add the most value in situations of high price and demand volatility. *Exchanges* are vertical markets that enable spot sourcing of manufacturing inputs. They allow buyers and sellers to conduct business with relative ease by maintaining long-term relationships.
and having terms and conditions agreed upon in advance. Catalog hubs are vertical markets that enable systematic sourcing of manufacturing inputs. They in fact automate the sourcing of non-commodity manufacturing inputs, thus creating value by reducing transaction costs. As opposed to MROs, they tend to be industry specific.\textsuperscript{11}

Analysts at the Gartner Group have distinguished between two often-confusing terms that are used interchangeably by most people: E-marketplaces and BMM exchanges. While e-marketplaces offer little more than information and an online-meeting place, BMM exchanges bring groups of buyers together to cut transaction costs through integration with back-office systems.\textsuperscript{12}

**Market Dyads - Balance & Content:** Within these structures there seems to be another level of business-to-business electronic commerce classification. Their classification is based upon their control of the marketplace. Seller-oriented marketplace is the most common, also sometimes known as an e-store. Practically every company has it, where they offer their products for all buyers. Also sometimes has auction mode to clear any surplus. Buyer-oriented is where the buyer opens a marketplace and invites sellers to offer bids for announced Requests For Quotes/Proposals. Intermediary-oriented is where a third-party company opens a marketplace where buyers and sellers may meet. BMM e-commerce holds great potential for several areas in particular. Among them are issues such as procurement reengineering, JIT, and others.\textsuperscript{13} (See table 1)

**INSERT TABLE -1- ABOUT HERE**

While there is still is much experimentation with different approaches and models for BMM exchanges, they seem to be evolving along four levels of functionality. Information-based are highly vertically focused, featuring buyer and seller directories for
an industry, product databases, discussion forums, classifieds, and job postings; *Facilitation-based* typically focus on sourcing, enabling RFP/RFQs, product/service postings, negotiation, collaborative planning, etc; *Transaction-based* offer daily transactional capabilities between registered users that manage the payment process, and typically supporting pre-negotiated terms and prices (essentially a platform for automating existing business relationships); *Integration-based* is seen as the top of the evolutionary ladder - where successful exchanges are heading. A fully integrated BMM marketplace would enable seamless data exchange between both buyers and sellers' back-office systems and the exchange. Moreover, to be truly integrated and successful they need to integrate with other trading exchanges too. Most analysts predict that eventually no more than 2-3 marketplaces will remain in each industry, and that for them to function well they will need to inter-exchange data between them.  

*Exchanges as Alliances:* The reason why BMM e-commerce can work is because most companies still prefer partners as opposed to mergers or buyouts. Not only does it typically lower associated costs and investments, but also the required level of communication and coordination required is more easily handled now. Furthermore, with the degree of technical knowledge required today, there isn't one company that can quickly do it all, so collaboration has become essential.  

Companies are drawn to these exchanges not just for the reduction in transaction costs, but also because they create added value by providing extended services such as logistics scheduling, credit and payment options, aggregated data to analyze own buying habits, and systems integration. Technologically and financially though, there still seem to be some challenges for the companies wanting to join an exchange.
Market Maker Mechanisms: Currently there are three basic ways to connect to an online exchange: Web browser interface - regular connection where any qualified buyer or seller can sign up, and usually get revenues from transaction fee, therefore cost to the user is minimal; Companies wanting more integration can install middleware that streamlines some of the functions; Under the most expensive approach, companies can choose to develop and install their own software on site and run the exchange on their own systems. \(^{16}\)

In many ways this has become a very similar dilemma to that of doing it in-house or outsourcing. Should the company 'drive' or 'ride' - start its own Web hub, or join a third party's. ‘Driving’ has its advantages, particularly if the company is the first-mover in the industry. Then again, it may mean that the company has to invest time and money in something other than its core competencies. ‘Riding’ has its advantages if you tie a partnership with a sound, knowledgeable hub management that understands your industry, your company and how to run a hub. Then again, signing up with the wrong hub may eliminate the advantages and put you in the inferior position of an undifferentiated company in a pack. \(^{17}\)

For those companies without the resources to create their own hubs, or those that can create only a limited Web presence, the exchanges seem to be the only viable option for them to level the playing field. \(^{18}\) And being able to do so is especially important for small businesses. BMM exchanges have a way for them to get better deals and leverage some of the clout within that environment. It is estimated these small companies can get between a fifteen and twenty-five percent additional reduction on prices than those that would have been negotiated by the business itself. For small businesses, these exchanges
may also provide a safety net for by pre-qualifying members and screening out those who may be risky. The problem however remains that for some industries the margins are small and the exchanges do not make a profit. ¹⁹

**Cycles Upon Cycles:** Exchanges seem to have gone through three major phases in their short history: the first (about 3 years ago with GE and Wal-Mart) had to do with simply moving the selling and buying online to cut paperwork and save in procurement time and cost; next were the 3rd party exchanges whose goal was to create a market by bringing together buyers and sellers. This was and still is more difficult to achieve, since there is a critical mass to be reached for it to work and that means cutting margins for the participants; the latest stage that has been set is the consortiums of industry giants such as Covisint by GM, Daimler Chrysler, Ford, GlobalNetXchnage by Sears, Roebuck, and Carrefour, and Rooster.com by Cargill, DuPont, and Cenex Harvest. These exchanges seek to create huge virtual markets, and to be (or attempt at least to portray themselves as) independent. They are ultimately also expected to smooth out demand and lead to fewer inventories. These most likely be large enough to reach critical mass because of the guaranteed business of their founders, leading companies in their respected industries. ²⁰

There are also those who think that the exchange model’s days are numbered. The assumption is based on the Napster ‘Peer-to-Peer’ networking model, which through its use would allow rapid, secure and efficient transactions without the need for an exchange to function as an aggregator or facilitator. The model’s advantages are: avoiding the exchanges’ fees; reducing the complexity and expense of networking; and having a theoretical boundless network. Though the technology to perform all the functions that exchanges perform is there, it will still need more work before it could replace the
existing exchanges. Moreover, it will not be able to replace all, since 3rd parties will still be required for unbiased, trustworthy services.\textsuperscript{21}

**BMM PRACTICE & PRACTICALITIES**

Some of the enthusiasm and the naivety associated with the BMM e-commerce has been displaced by the realization that there is really no such thing as a total win-win situation for all. *Online Marketplaces (OLMs)* are a good example of that. Whereas, they have captured many a company's imagination by offering sellers better market coverage, lower sales and marketing costs, and fewer markdowns on inventory, many companies did not stop to fully consider all of the implications involved. The OLM model seems best suited for industries that have large, multibillion-dollar markets, are highly fragmented, inefficient and lack existing intermediaries, and would therefore not favor many companies. Additionally, companies have to decide what role they would benefit most from. Should they assume a leading role and thus absorb the added costs, or simply join an existing marketplace and give up some control.\textsuperscript{22}

Ultimately, it will probably be those companies with the best knowledge about their particular industry that shall survive the shakeout. An example from the electronics industry that is thought to be a benchmark, according to *Forrester Research‘*s estimates that by 2004, the fifty major exchanges, which handle most of the electronic industry’s, needs today will dwindle to a mere nine.\textsuperscript{23} That is also why many predict that even though much of the industry was built on neutral, 3rd parties, it will be the industry-led consortia who will be the true survivors, provided they treat all participants equally. Equal treatment, even if the participant doesn't have a stake in the exchange is very
important to guarantee the participation of enough companies to make the exchange work. Perhaps the most important factors are the number of buyers and sellers, and the predictability of supply and demand. In an industry where there are many parties who place different valuations on a product and unpredictable supply and demand, an exchange will fit. Where there are few buyers and sellers and a tight, well-specified delivery schedule is required, then a direct channel may be more suitable.24

**PRODUCT LINE MANAGEMENT & POLICY**

Another factor considered to be critical for the degree of success is the measure of being able to collect a critical mass of products and services, currently eighty percent or more of the product/service offerings is seen as the necessary critical mass.25 One thing to remember though is that *no one solution fits all*. It really depends on the industry, the type of product, the position the company has (seller/buyer), and the amount of clout it has within the industry. Buying on-line implies three levels of brand selection: item, Website, and service provider. To be successful, the new and continuing ventures needs to provide the structure that matches the industry’s needs.

*Product Mix and the Impact of “Design” On-line:* It is generally believed that product lines stretch over time.26 Regardless of the location (e.g., low or high end) of the initial offering(s), product mix length and width expand based on buyer and sales rep requests as well as internal development initiatives. For many firms, the question of ‘what variations of the product do we carry?’ need not be answered in advance given the impact of the Internet. Rather, buyers can be provided with the products’ parameters and options thereby allowing the buyer to vary the firms offering, at the moment of purchase,
based on their present needs. Many computer manufacturers (e.g., Dell and Gateway) have found this buyer driven menu approach works quite well.

**New Product Development & Imitation:** The earliest phases of product development focus on generation and screening of ideas. A firm can derive ideas for new offerings based on unique configurations ordered and soliciting buyer’s suggestions over the Internet. Exposing business buyers to new product concepts through email or Website likely allows for easy participation and response. The efficacy of such an approach needs validation.

Companies looking to expand their own product line may learn of their competitor’s offering (to be imitated) by simply searching the Internet. And, if needed, perhaps order a unit anonymously, for closer inspection by in-house R & D staff.

**Patents, Trademark and Protection:** The patenting of methods used in e-business is raising questions as to the practices of some companies as well as the Patent and Trademark Office. Some of these questionable patents, such as Amazon's *one-click shopping* have ignited a debate as to whether these patents foster innovation or stifle competition. Despite the heated issue, the *Patent and Trademark Office* has stated that it intends to continue issuing patents on digital business practices.²⁷

**CHANNEL ALIGNMENT, LOGISTICS & SUPPLY CHAINS**

The goals of supply chain management have always included cost minimization, increased level of service, improved communication, and increased flexibility in delivery and response time. The growth of the Internet has presented companies with many opportunities to further improve services and reduce costs. The key for success in
managing a supply chain is fast, accurate information from a wide range of operating areas including transportation, inventory, purchasing, customer service, production scheduling, order processing and vendor operations. The ability to quickly react to market changes and to adjust inventory, production, and transportation systems is necessary for cost reduction and improved utilization of assets. The Internet has, and will continue, to provide managers with this type of information and enable them to improve the profitability of the supply chains.  

**Channel Alignment:** Focus on the economics of a channel is important, but not as crucial as aligning the channel with how the customer wants to do business. Business buyers will order less if you don’t meet them where they want to do business. Several steps are required to adopt this approach. First, identifying demonstrated business buyer buying behavior by tracking prior channel choices. This is evidence of what exists and does not reflect what is ultimately possible. To stay on the cutting edge, the underlying criteria which buyers use, to make channels these choices must be derived and constantly monitored (e.g. expert advice & training, customization, delivery options, order ease/speed, lower prices, 24/7 support, etc). Key is the need to understand how these criteria are used in relation to channel alternatives selected. This approach can help push the envelope out from what has already been done to some more innovative and attractive options for business buyers. Finally, it must be recognized that a diversity of buying situations are likely faced by any business marketer even for a single customer. If this not the case, than a single well maintained efficient channel will do. More likely though, is that multiple channels may be required to satisfying the influx channel selection habits of served and prospective customer bases.
**Channel economics:** Another of the pressing challenges facing e-businesses today is how to fulfill customer orders and still maintain reasonable profit margins. What has been well known for brick and mortar institutions for years is now being found out for e-companies. Traditional companies are simply better at managing and operating supply chains - years of investment and experience. Doing it well today requires a lot more effort than it did in the past. It requires accurate sales forecasting, increased integration with shipping hubs, real-time integration with back-end systems and call centers, real-time tracking and scheduling, invoice reconciliation, and performance management. (see table 2) Working with exchanges and outsourcing some of the requirements will allow some companies to deal better with these changes.  

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**INSERT TABLE -2- ABOUT HERE**

A popular type of exchange that has seen rise lately, has been the *Logistics Exchange*, also known as *LXs*. With businesses extending themselves globally, they encounter a myriad of new logistics challenges, which they are not always capable of handling. *LXs*, both private and independent, were set up to handle some of these needs. *LXs* exist for all modes of transportation, nationally and global, with different business models and currently there are essentially four different types: *freight matching services* (connect buyers and sellers of transportation services to each other in the form of bulletin board), *auctions* (where the exchange acts as an intermediary in the process - see table 3), *portals* (manage every transaction that occurs within the portal and offer services for both buyer and seller), and *marketplaces* (similar to portals, however with additional functions and access to an open marketplace). These *LXs* vary in the services provided, from the
simple sites that connect your need to a potential supplier, all the way to sophisticated transportation management.\textsuperscript{31}

\textbf{INSERT TABLE -3- ABOUT HERE}

As more and more companies move to the Internet and conduct businesses in e-marketplaces environments, companies know less and less about their trading partners. Trust issues will become important since there will not be time to spend weeks checking references in the traditional way, especially when these partners are half way across the world. One of the results has been that there are a lot less transactions occurring between new partners. Rather, existing partnerships have been moved online and automated. A possible emerging solution is the so-called ‘Trust Infrastructure’ - a set of technologies and e-business practices that will allow buyers to evaluate suppliers, confirm their identity, and make trusted transactions.\textsuperscript{32} One example of a site that would facilitate such needs is \textit{Asian-trader.com}. The company’s site offers price lists of several hundred manufacturers and allows the users to then place orders with Asian-trader thus avoiding language, shipping, and customs barriers.\textsuperscript{33}

\section*{PRICING, PARRYING & PAYING}

The common expectation that BMM exchanges were to turn industrial procurement into one big transparent electronic marketplace, where buyers and sellers turn all goods into a commodity that is comparable only on price, has not turned out entirely as anticipated. Analysts think that this view overly simplistic and that it does not fully take into account the character of real-world business relationships, the importance
of customer relationships, and the impact of brand equity.\textsuperscript{34} It may also be based on a basic misunderstanding as to how industrial buying actually works.

\textit{Presumptuous:} First, is the erroneous assumption that companies would welcome dozens or even hundreds of suppliers promising to be the lowest bidder for a product. To an extent this is naturally true, but only for specific cases such as spot buying of commodities. In most cases, companies were actually going in the other direction - establishing deep relationships with preferred suppliers with a "total cost" approach, where price is only one of several criteria such as quality, order cycle time, augmented services, geographic proximity or desirability, etc.

Another assumption was that the exchanges would be able to control an industry, something, which may indeed happen in a highly fragmented industry. That has not happened in most cases because the companies with the purchasing power refused to relinquish their control. What many manufacturers really are doing is in fact no more than automating and computerizing many of their existing processes while improving their interaction with their suppliers/clients, and ironically the only winners so far are the companies who created the software for the market making.\textsuperscript{35}

\textit{Unexpected Insights:} Nevertheless, it seems that through this process, the networks may have in fact given sellers unprecedented direction into identifying the needs and preferences of buyers, thus a better understanding of how to fulfill them.\textsuperscript{36} Also, fixed pricing is thought to completely change or be eliminated by the fact that price lists and catalogs will become customer-specific.\textsuperscript{37} Moreover, the use of purchasing agents, reverse auctions, side-by-side price comparisons, and new agent shoppers will probably mean a long-term change for companies and marketers that rely on brands.\textsuperscript{38}
Some analysts believe that exchanges will ultimately carry less activity than originally expected (twenty percent at most for the industry) for another reason. These ultra-efficient exchanges could turn the manufacturing industry into a low-margin, commodity business by way of giving the buyers and other competitors great price and product visibility.

**Complete Commoditization Unlikely:** Nevertheless, besides pricing and differentiation issues, companies should realize that there are a large number of products that simply cannot be commoditized at all. Some of these products are simply too unique or engineering complicated to be handled by these sites, unless under a simple re-buy mechanism perhaps. Struck with the possibility that they would have to compete mainly on price and product specifications, some manufacturing companies are trying to devise strategies that will help them deal with the imminent threat of eroding profits that may be the result of these exchanges.

Some of these efforts are concentrated on the banding together of some independent Internet trading hubs to fight back against the consortiums of the biggest buyers and sellers in the respective industries. To some, it seems that partnership may be the only way for a company to survive the onslaught of competitive pressures it faces on all fronts today. While most companies take control of procurement in particular, there may be many other niche marketplaces in areas such as project management, industry workflow, and design collaboration.

An interesting pricing phenomenon is the rise of the surplus inventory web site. It is generally attributed to the fact that traditional mechanisms for getting rid of excess or surplus inventory have usually resulted in a low, or negative, return on investment. This
market is estimated to be able to generate some 350 billion dollars, and use of these types of sites will have an impact on inter-day and intra-day price fluctuations. These sites allow for different dynamic pricing mechanisms, which appeal to the users because of the following reasons: increase in revenue on inventory because they reach prospects more efficiently; decrease cost by eliminating paper trails and lengthy communications; elimination of costly middlemen; test pricing to get market price; increase inventory turns by removing excess inventory; create new intermediaries for bringing buyers and sellers together; and increase revenue by getting the highest possible price for scarce items.42

Finally, monitoring intra-day and inter-day price fluctuations may give great insight into the value added aspect of pricing through electronic markets the more visible hand of this marketplace.

**Regulation In Moderation:** Some see it as perhaps the greatest paradox and cruelest of ironies of the Internet economy, where the “great leveler” has the potential to disenfranchise the most. Anti-trust experts have three main concerns: the exclusion of some companies, thus limiting competition; requiring companies to use one exchange exclusively, thus creating a dominant one that will have too much power; and perhaps the greatest concern is that buyers or sellers would collude on pricing and set prices in unison. It is believed that the increasingly rapid exchange of information may mean that companies would be able to signal one another without having the need to coordinate the prices formally, and without having the government pick up on that activity.43 Nevertheless, privacy and security issues are also of great importance, especially for the small companies.44
**Industry:** Some of these concerns exactly have been expressed with the creation of the consortium Covisint, an online trading exchange created by General Motors Corporation, the Ford Motor Company, and Daimler Chrysler, and later joined by Renault and Nissan. The name itself is supposed to be a reflection of the service - “Co” represents connectivity, collaboration and communication. “Vis” represents vision and visibility of the Internet, and “Int” represents integration and international scope. So far, the consortium is estimated at already having been able to aggregate more than three hundred billion dollars in purchasing volume, and has raised concerns of oligopsony, where many sellers encounter few buyers with too much power, also termed monopsony - the power of an oligopoly to impose a form of monopoly. Due to Covisint, the five companies are expected to account together (versus some fifty-thousand suppliers) for forty-four percent of the cost of goods sold and ninety-one percent of the net profits. As a similar example is: the Exostar aerospace consortium of Boeing, Lockheed Martin, BAE, and Raytheon which accounts for seventy-one percent of cost of goods sold and sixty-two percent of net profits. It seems that for many suppliers, at least those that are not in a niche market, to successfully compete in such an exchange will require either merging or dropping out.

**Federal Government:** So far, it seems that the Federal Trade Commission (FTC) and the Department of Justice (DOJ) have not found any reason to be overly suspicious. Covisint managed to pass their scrutiny, while the exchanges in the aerospace, automotive, computer, chemical, retail, steel, and other industries, though reviewed, did not seem to draw as much fire. Despite the investigation into Covisint, it seems that the FTC and the DOJ are still far from setting clear, elaborate guidelines for industry.
the FTC indicated it will not regulate the exchanges until the technology that they encompass, and the degree, which allows them to violate anti-trust issues, shall be determined.\textsuperscript{49}

Companies though, are already looking at ways to protect themselves by: hiring anti-trust lawyers, setting up clear guidelines whose compliance is routinely audited by 3\textsuperscript{rd} parties, and choosing 3\textsuperscript{rd} party personnel to fill executive positions. In addition, looking for processes and structures that limit accessibility of product and price information to competitors, and making sure the exchange is open to all legitimate buyers and sellers. Another approach that seems to have worked for Covisint, was attempting to distance itself as much as possible from the original companies as a show of independence and neutrality.\textsuperscript{50}

Encouragingly, the \textit{Department of Commerce (DOC)} is to conduct its first survey of business-to-business e-commerce. As part of the plan, the \textit{DOC} is to survey tens of thousands of companies, see how much they buy and sell over the Internet and come out with a report that will serve as the benchmark for BMM e-commerce.\textsuperscript{51} On a final note regarding this important issue, should be given to the fact that we are in a period of transition, where current laws and practices do not always present the solutions to problems that emerge.

\section*{PROMOTIONAL MIXTURES}

With competition in e-markets growing rapidly, providers of the marketplaces need volume and quickly. To attract the buyers and sellers, these companies need to spend a great deal of money both on-line and off-line. Interestingly enough most of the
money (approximately eighty percent of it) gets spent on advertising in only twenty-five sites, thus following the trend set before hand with the B-to-C companies.\textsuperscript{52} Forester Research estimates BMM Internet advertising will grow to 2.5 billion in 2002.\textsuperscript{53}

Online promotional campaign management continues to gather importance and to evolve rapidly. Some ways may help companies to automate their marketing function. Among them: automating their data warehouses; making the buy-or-build decision; preparing to test; measuring the whole media mix; focusing on ROI; keeping an eye on the competition, and getting the right data rapidly into the right hands.\textsuperscript{54} It is in this context, that \textit{Customer Relationship Management (CRM)} has become a quickly growing trend. With the marketplace being as competitive as it is companies must get as close to their customer as possible in order to know their needs. Touch-point management is a term often used to describe the approach. \textit{CRM} means giving your customer many points of contact and though it has always been part of the BMM transaction, its importance and complexity have recently grown. So much, that companies spend millions of dollars on consulting, relevant software, and investment in this field.\textsuperscript{55}

Overall, there is a need to discover how traditional BMM promotional forms such as trade shows, personal selling and direct mail interact with websites, email and even fax technology in moving a business buyer to the conclusive act of selecting one business brand over another. A shift is underway that will recognize that \textit{integrated marketing communications elements} (trade shows, personal selling, advertising, sales promotion and publicity) and \textit{integrated direct marketing elements} (face-to-face personal selling, telemarketing, catalogs, direct mail, on – line marketing) must be merged into one
summative unit for assessing impact of corporate communications for enhanced buying and selling as well as sustaining contact with publics relevant to the firm.

Linking the various media to effectiveness in achieving traditional communication is a likely first step (see Table 4). Each medium has its own unique attributes that make it best suited for a particular communications task.

Advertising, FAX and EMAIL have in common, relatively low cost of exposure per thousand, with only the later providing the opportunity for convenient immediate response on the part of target market member. They are best suited for generating awareness and providing knowledge and, unlike publicity they are under the marketer’s control to a much greater degree. Easy linkage to a WEBSITE gives EMAIL a leg up on all three as well as direct mail and catalogues which require greater buyer effort to respond.

Direct mail and catalogues are more costly per thousand reached although they likely provide information about a greater variety of items in more depth. In addition, the may be saved for easy reference and have better visuals.

Common to all six is that the marketer “initiates” the contact with the target market and the buyer has to engage in a higher threshold activity to respond (i.e., using an 800 number, call a sales rep, ordering on-line). The remaining media, except sales promotions generally requires the buyer initiate contact with the marketer.

On-line, in many ways has the best of all worlds. It likely costs the least per thousand and is available 24/7. However, it is almost entirely buyer initiated. There are no reasonable limits on variety and quantity of information as long as the WEBSITE is
easy to navigate for all steps of the buying process. As well, it is perhaps the lowest cost tool that can bring a buyer through all stages.

Trade shows do what other mediums can not by allowing face-to-face contact and product inspection in a relatively safe environment for the buyer. The closest approach to missionary selling, and attended in teams, companies know that they can gather product and company information without the usual pressure of buying. There is safety in numbers.

Promotions or incentives (i.e., discounts or free samples) are often used in tandem with any other medium to induce trial leading to preference and intention to repeat purchase. Chemical supply companies for dry cleaners have used this approach for decades. If a new charge system (i.e., soap) is developed for use in cleaning fluid, plant operators are given enough of the new material to try it in their equipment to determine if new product benefits such greater brightness, less need to pre-spot stains, more pounds of clothing per gallon cleaned, etc. will materialize in their environment. Chemical used for stain removal are sold this way as well. Through positive low cost experience, the dry cleaner has the opportunity to develop preference and intention to buy.

The last two media, telemarketing (outbound) and personal selling cost and therefore are often relied upon for the final stages of the process developing buyer conviction and ultimately purchase.

These eleven elements of the communications mix must be creatively employed in “flexible distribution” to allow buyers maximum access while gently moving them through these mentally stages of readiness to the conclusive act of buying. Perhaps, as discussed in channels alignment, a similar assessment approach must be taken. Tracking
the hierarchy of “communications consumption” that buyers already used is a first step. Pushing the envelope will require monitoring the learning the underlying reason for why buyer “enter” the company through various communication portals.

SECURITY ISSUES

Some of the enthusiasm that companies have experienced about the new degrees of cooperation that can be achieved through the exchanges, has been withdrawn by the realization that they must be prepared to reveal information about themselves, their products and business processes, sometimes even to competitors. Information of a proprietary nature being passed between companies and potential competitors would require exceptional trust, possible safeguards, as well as monitoring the access of the information. Some companies have taken information sharing to an extreme by creating a sort of Demilitarized Zone, whereby the posted information to be shared cannot be used for the practices of either of the companies involved.\textsuperscript{58}

Yet another factor though to be taken into account is the fact that companies may pass information due to different security levels, a mismatch of integration between the two. Good security starts within the company and with a well thought out security policy, and should also be the means to secure your data and communication with your partner. Two basic rules of thumb: good fences make good neighbors (something Robert Frost wrote) and that your security is only as strong as the weakest link.\textsuperscript{59}
AREAS FOR FURTHER RESEARCH

There are several areas of interest requiring immediate investigation. So much so, that to call this section by its traditional name “future research” gives the wrong connotation regarding the urgency for Internet integration into business marketing tactics.

First, is the need to study design and maintenance of WEBSITE(S) while focusing on the integration of the Internet into the marketing mix. As established in this paper, all business marketing mix areas are affected by the Internet, hence, site purpose and features (content, format and structure), as well as their number and linkages must be created and sustained so as to make for maximum customer value and satisfaction.

Next, and in a sense in tandem with the aforementioned, is the need for an elucidation on the use of the Internet for generating competitive intelligence and its use for collecting traditional forms of market research data. Issues needing examination include: enhancement of in-house web based information intelligence gathering and dissemination; monitoring “survey” response rates, the impact on respondent perceived anonymity and willingness to participate and disclose their views; data quality versus quantity and MIS as a continuous process with periodic discrete “reporting events.”

Finally, implicit throughout our discussion is focus on larger business entities. Only anecdotal reference is made to the Internet’s impact of allowing smaller firms to compete more effectively with larger firms given its ability to offset economies of scope and scale. However, a similar analysis should be conducted with an eye toward smaller firms (less than 50 employees as well as for sole proprietorships & small partnerships) enumerating in detail, the impact across all mix elements than any firm likely faces.
CLOSING REMARKS

Accelerating Competition & The Other Trends: BCG predicts that by 2003, over 65% of all BMM e-commerce purchases will be made in six primary sectors: retail, shipping, high-tech, motor vehicles, government, and industrial equipment. By that year, they expect E-BMM will reach an annual value of 2.8 trillion dollars, and account for 24 percent of all BMM commerce at that time. Worldwide, the projected number estimated by the Gartner Group is 7.3 trillion dollars.

Sadly though, it seems that the competitive forces that have rattled the B-to-C market are now doing the same to the BMM exchanges. Too many sites chasing too few dollars, too many operating under misguided strategies, and some poor management have led to the all-too-familiar crash & burn cycle. It is by now apparent that the industry is in the midst of another shakeout. AMR Research predicts that ninety percent of current online BMM marketplaces will become bankrupt, merge, or be acquired.

In theory, it was to be a wonderful proposition, its promise hailed across the business world and throughout industries – streamlining the sales and procurement, ensuring good competition, and much more. But reality has sunk in. The costs for participation in these exchanges have not made the e-marketplaces accessible to all, as was originally anticipated. Additionally, there is a great deal of uncertainty attached to the field, all this while the stakes are increasingly higher – supply chains, marketing strategies, processes, operations, and business models, are all going to depend and be shaped by the outcome of the electronic BMM. Essentially, there are three major flaws that have been described: the value proposition – getting the lowest price for products,
does not work for all companies, and even for those which it does, not all the time; there is absolutely no reason for the suppliers to compete anonymously on products that are commoditized; finally, most exchanges in their rush to market have not considered all of their customers’ priorities and needs. Some look to the financial industry for clues as to how the exchanges may evolve. (See table 5)  

According to analysts at the Gartner Group, many exchanges are not going to succeed for long simply because there are too many of them. Currently, the number stands at approximately ten per industry, while analysts tend to believe, and predict, that only three per industry shall remain. Some of the key issues that will determine whether the exchanges will succeed seem to be: offering easy integration with the company's resource planning product; openness to future developments; and connectivity to other e-marketplaces. Other analysts seem to think that there will ultimately remain a few mega sites that will offer a soup-to-nuts array of products and services. 

Research sponsored by the National Association of Purchasing Management shows nearly 73% of firms indirectly purchase over the Internet, up from 71% second quarter 2001. During the same period, 54% of buyers said they purchase direct materials over the Internet, up from the 46% last quarter, and sent 9.8% of their total direct materials over the Net. Online auctions expanded as over 20% of firms bought products or services through this vehicle, up from 15%. Large-volume buying organizations engaging in online collaboration with suppliers was 46%, down from 56%. But small-volume buyers increased their online collaboration activity to 41% from only about 35% second quarter 2001. Overall participation in online exchanges increases according to
number of employees, and even more dramatically according to revenues reports Cyber Dialogue. 8% of online small businesses, or 316,000 businesses, actually participate in these online channels. In the future, 12% plan to do so. Selling (62%), seeking information (58%), and making purchases (42%) are the most common activities that small businesses conduct when they participate in exchanges or online marketplaces. Retail (13%) leads the way on industry participation rates for online exchanges, followed by wholesale (11%) and manufacturing (9%)\textsuperscript{69}.

\textbf{Volatility, Time Compression & the Future is Now}: Nevertheless, there still seem to be some analysts who predict that despite the shakeout, the failures and consolidations of exchanges, their number will rise to more than 5,000 by the end of 2002. \textit{Jupiter Research} believes that the need for companies to tie product demand to supply chains and fulfillment will ultimately fuel their growth.\textsuperscript{70}

BMM e-commerce has also been named the great leveler, reducing barriers to market entry and likely allowing small companies carry the same leverage as some of their bigger counterparts, but it does require careful planning and execution.

Indeed the reckoning of time itself has changed. Business marketers must learn to think ahead. In the 70's, long, intermediate and short run respectively meant 24 quarters, 24 months and 24 weeks while in the 0’s it is likely to be 24 weeks, 24 days and 24 hours primarily due to the impact of the Internet.

There is still a lot of un-chartered territory with regards to how competition is conducted under these circumstances, issues of technology obsolescence, rising customer power, and many others that have been described in this paper. Nevertheless, in order to
simply survive in the surrounding business environment, where e-business will become
the primary way of doing business, companies must regard this as a prerequisite. 71
<table>
<thead>
<tr>
<th>TYPES OF INFORMATION OFFERED TO COMPANIES BY BUSINESS-TO-BUSINESS APPLICATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>• <strong>Product</strong> - specifications, prices, sales history</td>
</tr>
<tr>
<td>• <strong>Customer</strong> - sales history and forecasts</td>
</tr>
<tr>
<td>• <strong>Supplier</strong> - product line and lead times, sales terms and conditions</td>
</tr>
<tr>
<td>• <strong>Product Process</strong> - capacities, commitments, product plans</td>
</tr>
<tr>
<td>• <strong>Transportation</strong> - carriers, lead-times, costs</td>
</tr>
<tr>
<td>• <strong>Inventory</strong> - inventory levels, carrying posts, locations</td>
</tr>
<tr>
<td>• <strong>Supply Chain Alliance</strong> - key contacts, partners’ roles and responsibilities, schedules</td>
</tr>
<tr>
<td>• <strong>Competitor</strong> - benchmarking, competitive product offering, market share</td>
</tr>
<tr>
<td>• <strong>Sales and Marketing</strong> - point of sale, promotions</td>
</tr>
<tr>
<td>• <strong>Supply chain process and performance</strong> - process descriptions, performance measures, quality, delivery time, customer satisfaction</td>
</tr>
</tbody>
</table>

*Source: Turban [13]*
Table 2

<table>
<thead>
<tr>
<th>SEVERAL OF THE RULES STATED BY BRITISH COMPANIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Integrate all new channels with current logistics, or build both ends at the same time with full integration.</td>
</tr>
<tr>
<td>2. Integrate systems so that both processes and attendant data are linked from the customer, through the supply chain and back to the customer.</td>
</tr>
<tr>
<td>3. Match the proposed infrastructure to likely demand so that each transaction is sure to make a profit.</td>
</tr>
<tr>
<td>4. Avoid making fulfillment commitments you cannot meet.</td>
</tr>
<tr>
<td>5. Aim for channel synchronization to ensure that new and old channels are integrated and built to serve customers who may use all these channels at different times and will expect consistency of service.</td>
</tr>
</tbody>
</table>

*Source:* Computer Weekly [27]
### Table 3

**Characteristics of Auction Markets**

<table>
<thead>
<tr>
<th>Bid-Ask Neutral Marketplaces</th>
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</thead>
<tbody>
<tr>
<td>Standardized Products</td>
</tr>
<tr>
<td>No Quality Difference</td>
</tr>
<tr>
<td>Many Buyers Buy Exact Same Product</td>
</tr>
<tr>
<td>More Than One Seller Sells Product</td>
</tr>
<tr>
<td>Buyers Are Indifferent Among Suppliers</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Seller-Bidding Reverse Auction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Products Customized To buyer Specifications</td>
</tr>
<tr>
<td>Price Depends On Public &amp; Private Value Variables</td>
</tr>
<tr>
<td>Buyers have Preference For Certain Sellers, Price Being Equal</td>
</tr>
<tr>
<td>More Than One Seller Can Produce Product</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Buyer-Bidding Auctions</th>
</tr>
</thead>
<tbody>
<tr>
<td>One Unique Version Of A Product Exists</td>
</tr>
<tr>
<td>Price Depends On Public &amp; Private Value Variables</td>
</tr>
<tr>
<td>More Than One Buyer Interested in Product</td>
</tr>
</tbody>
</table>

*Source: Kinney[2]*
### Table 4

BUSINESS MEDIA LINKAGES TO COMMUNICATION OBJECTIVES

<table>
<thead>
<tr>
<th>OBJECTIVE</th>
<th>AWARENESS</th>
<th>KNOWLEDGE</th>
<th>LIKING</th>
<th>PREFERENCE</th>
<th>CONVICTION</th>
<th>PURCHASE</th>
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<tbody>
<tr>
<td>Publicity</td>
<td>X</td>
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<tr>
<td>Advertising</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
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<tr>
<td>FAX</td>
<td>X</td>
<td>X</td>
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<td>EMAIL</td>
<td>X</td>
<td>X</td>
<td>X</td>
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<td>Direct mail</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
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<tr>
<td>Catalogues</td>
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<td>X</td>
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<td>X</td>
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<tr>
<td>On-line</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
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<tr>
<td>Trade Shows</td>
<td>X</td>
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<tr>
<td>Promotions</td>
<td>X</td>
<td>X</td>
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<td>X</td>
<td></td>
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<tr>
<td>Telemarketing</td>
<td>X</td>
<td>X</td>
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<tr>
<td>Face to Face</td>
<td>X</td>
<td>X</td>
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</tr>
<tr>
<td><strong>Table 5</strong></td>
<td><strong>Key Enabling Characteristics</strong></td>
<td><strong>Relevant Industries or Markets</strong></td>
<td><strong>Required Capabilities</strong></td>
<td><strong>Sources of Competitive Advantage</strong></td>
<td><strong>Sources of Profit</strong></td>
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<tr>
<td><strong>Mega-Exchange</strong></td>
<td>Maximum Liquidity, Common Transaction Standards</td>
<td>Most Vertical Markets, Major Horizontal Purchase Categories</td>
<td>Large-Scale Transaction Processing, Perceived Neutrality</td>
<td>Scope and Liquidity</td>
<td>Profits are Slim or Exchange is Non-profit</td>
<td></td>
</tr>
<tr>
<td><strong>E-Speculator</strong></td>
<td>High Degree of Product Standardization or Fungibility, Moderate to High Price Volatility</td>
<td>Electrical Power, Chemicals, Replacement Auto Parts</td>
<td>Financial Engineering and Hedging Skills, In Depth Knowledge of Market &amp; Market Dynamics</td>
<td>Timely Market Information, Transaction Scale Alignment with a major buyer or seller</td>
<td>Playing the Spread Selling Hedging Instruments to Participants</td>
<td></td>
</tr>
<tr>
<td><strong>Sell-Side Asset Exchange</strong></td>
<td>High Fixed Costs, Relatively Fragmented Supplier &amp; Customer Base</td>
<td>Transportation, Metal Machining Construction</td>
<td>Strong Supplier relationships, Ability to Offer Additional Relevant Services, Perceived Neutrality</td>
<td>Liquidity, First Mover With Key Suppliers</td>
<td>Selling Ancillary Products/Services to Members</td>
<td></td>
</tr>
</tbody>
</table>
Endnotes

8 The research approach involved an intensive review of the literature on business marketing management (also known as industrial marketing) and its relation to electronic commerce. This literature review process included business marketing journals and current periodicals as well as those dealing primarily with electronic commerce. Some useful information was obtained in the form of white papers on business marketing and/or electronic commerce found on the Internet. As with any literature review, we developed a lexicon of terms related to the continually evolving business-to-business Internet marketing theories and concepts such as e-marketplaces and BMM exchanges. This lexicon included, but was not limited to, popular terms such as B2B, e-commerce, the Web, as well as the Internet, industrial marketing, business marketing, electronic marketplaces, and electronic exchanges. Important considerations in the literature review process involved focusing in on critical periods before the proliferation of activity and hence, press coverage on “B2B” and its implications to electronic commerce. In this manner, we began reviewing literature from 1998 through November 2000.
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38 Bradsher, Keith: Exchange this: Making sure a tire is more than a tire. *New York Times* p20 (June 7, 2000).
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National Association of Purchasing Managers, 7/16/01; www.napm.org/NAPMReport/Forrester

Cyber Dialogue, 7/16/01: www.cyberdialogue.com
