

The SMB Guide to E-Marketplaces

Mika Yamamoto Krammer, James A. Browning, Carol Rozwell, Lauren Shu

E-marketplace trading today offers more promise than reality. Small and midsize businesses should set priorities for participation based on competitive pressures and opportunities to cut costs.

ANALYSIS

When they burst onto the scene in 1998, e-marketplaces offered a compelling vision of the future of business commerce:

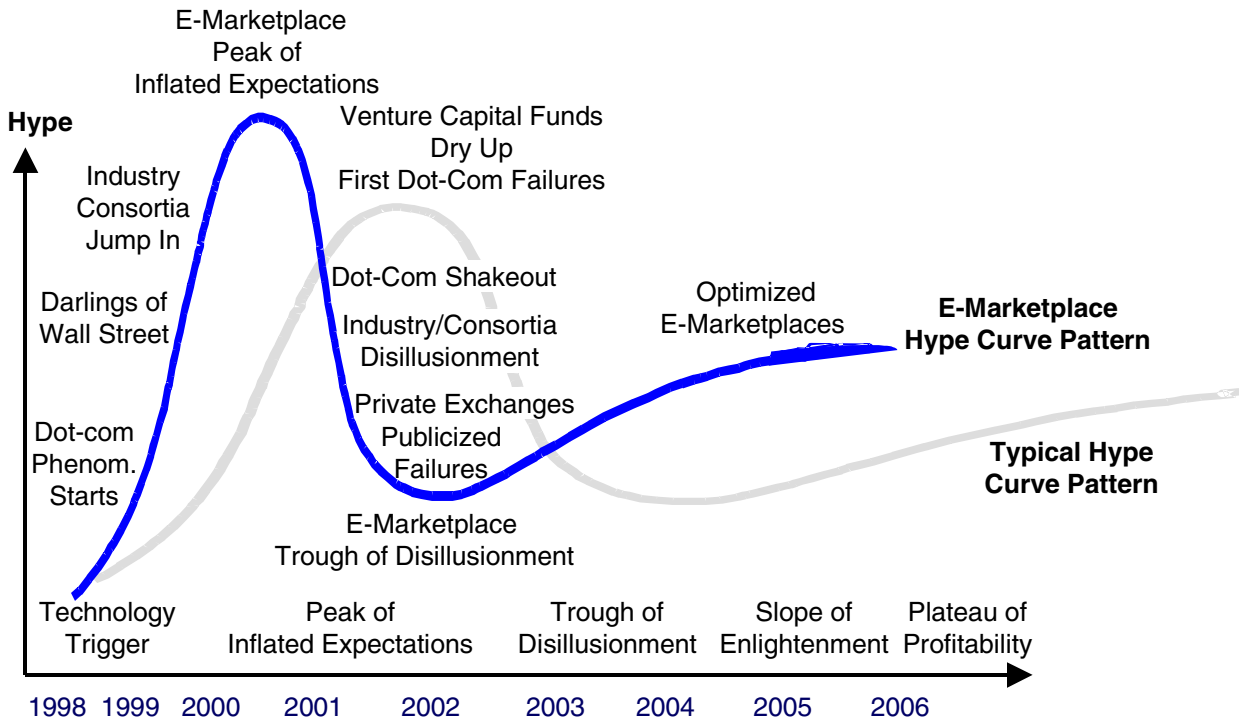
- They would be online and, thus, offer instantaneous transactions
- They would bring together hundreds of buyers and sellers across the world for the exchange of consumable goods and services
- Buyers would gain from deep cost cuts
- Sellers would tap into unlimited new markets
- Marketplaces would profit by offering higher-margin integration services and richer-function products and services to customers who want to do all their shopping at one, easy-to-use, online location

The vision proved to be a mirage. Hundreds of independent and industry marketplaces were launched during the heyday of the e-marketplace buzz, from 1998 through 2000. Most, however, failed to deliver on their rosy promises. Here are some reasons why:

- Buyers ran into suppliers who were perplexed by online applications
- Suppliers reeled under conflicting requirements
- Marketplaces misread their value proposition, neglected application functionality and didn't ease the number of conflicting technology standards

Consequently, by 1Q01, enterprises already had grown disillusioned — two years sooner than anticipated — with the marketplaces' inability to meet lofty expectations, as shown in Gartner's e-marketplace Hype Cycle (see Figure 1).

Figure 1. E-Marketplace Hype Cycle



Marketplaces blamed their problems on venture capital purse strings that tightened amid the 2000 to 2001 dot-com shakeout. Moreover, during that period, e-marketplaces began evolving away from fixed-priced sales (e.g., from office supply catalogs on Web sites) toward activities to enhance efficiency in the interenterprise process.

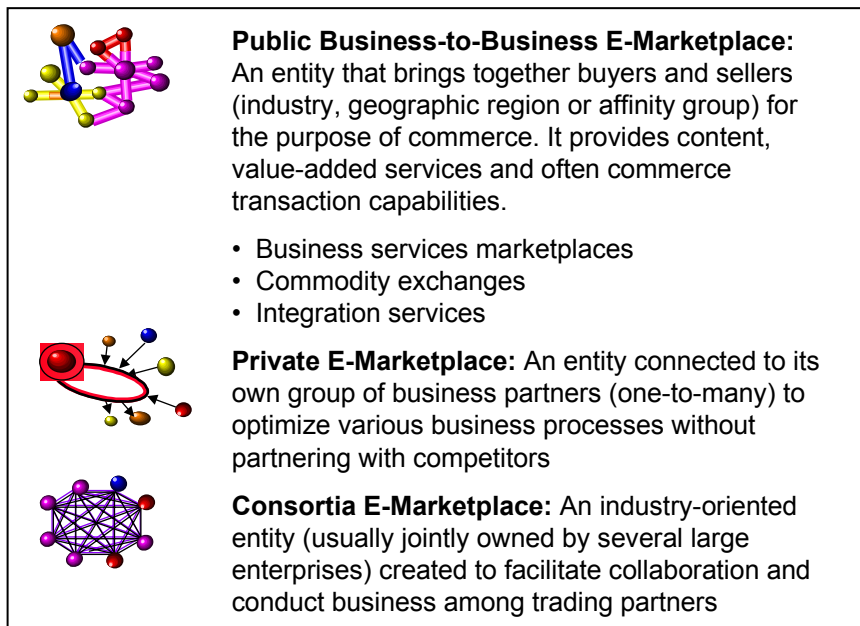
This new focus on supply chain efficiency impeded the speed of development and acceptance of e-marketplaces, since it takes longer to build a supply chain e-marketplace and solicit partners and participants. Weaving that collaboration web requires enterprises — particularly small and midsize businesses (SMBs) that often must cope with limited IT resources — to accommodate key customers' requests to connect to their e-marketplaces. The challenge for SMBs is to ensure that the accommodation occurs with their strategic customers (see "How Many E-Market Connections Can SMBs Afford?" DF-14-3617).

Nevertheless, supply-chain-oriented marketplaces will boost participation in marketplaces and propel supply chain efficiency and e-commerce. By 2005, more than 500,000 enterprises will participate in marketplaces as buyers or sellers (0.7 probability).

Types of E-Marketplaces

Although e-marketplaces will facilitate collaborative commerce (c-commerce) between and among enterprises, no one type of marketplace is emerging as a one-stop shop for online trading. There are three types of e-marketplaces (see Figure 2).

Figure 2. Marketplace Types



Source: Gartner Research

There are approximately 1,500 public business-to-business (B2B) e-marketplaces, a growing number of private marketplaces and fewer than 100 consortia e-marketplaces. During the next six to 12 months, the number of public marketplaces will shrink, and only those focused on serving a specific business function (e.g., finance or logistics) will thrive. The number of private e-marketplaces is expected to grow significantly as large companies attempt to gain tighter control over their supply chains (see "SMB E-Marketplace Choices: 'Privacy, Please'," T-14-4241). The number of consortia marketplaces will also grow, but at a much slower pace than private marketplaces.

Weighing the Marketplace Options

By their very nature, marketplaces — whether online or in brick-and-mortar public squares — are a dynamic and disruptive force. They insinuate between buyer and seller, and interrupt the common give and take of the buying and selling process. Maintaining such an intimate relationship is time consuming. To cope with an ever-challenging global economy, SMBs mustn't squander scant resources.

To accommodate a rapidly fluctuating marketplace environment, SMBs must ensure that their in-house technology architecture — especially their enterprise resource planning (ERP) systems — permits interaction with many types of marketplaces (see "Beyond Paper Clips: The Future of E-Markets for SMBs," COM-14-3799). All three types of marketplaces will increasingly work together to provide networks of business services. Private buyer-seller entities will align with consortia to reach deeper into their supply chains. And consortia marketplaces and private exchanges will link to public marketplaces to buy specific business services and product suites.

Assess the Risks Carefully

The minimum requirements for e-marketplace funding, participation and survival have dramatically increased. Little evidence suggests that a reversal of this trend will be forthcoming. On the contrary, venture capital firms, equity markets, buyers and suppliers will increasingly

scrutinize the offerings of marketplace vendors and closely monitor their financial “vital signs” for evidence of troubles. As a consequence, buying organizations should continually revise their marketplace selection criteria and evaluate their portfolio of marketplaces in which they are operating (see "Attention SMBs: E-Markets Offer Rewards and Pitfalls," COM-14-3859). By engaging in such practices, buyers are less likely to be caught off-guard by marketplace failures and acquisitions.

Features

"SMB E-Marketplace Choices: 'Privacy, Please'" (T-14-4241) Growth will vary considerably among B2B, private and consortia e-marketplaces. **By Cathy Spencer and David Hope-Ross**

"How Many E-Market Connections Can SMBs Afford?" (DF-14-3617) SMBs must adjust business practices so key customers can connect easily to their e-marketplaces. **By Carol Rozwell**

"Beyond Paper Clips: The Future of E-Markets for SMBs" (COM-14-3799) E-marketplaces will herald a world of opportunities and challenges for SMBs. **By Robert Anderson**

"Attention SMBs: E-Markets Offer Rewards and Pitfalls" (COM-14-3859) Guide to evaluating how to succeed in e-markets. **By Mika Yamamoto Krammer, David Hope-Ross and Cathy Spencer**

REGIONAL HEADQUARTERS

Corporate Headquarters

56 Top Gallant Road
Stamford, CT 06902-7700
U.S.A.
+1 203 964 0096

European Headquarters

Tamesis
The Glanty
Egham
Surrey, TW20 9AW
UNITED KINGDOM
+44 1784 431611

Asia/Pacific Headquarters

Gartner Australasia Pty. Ltd.
Level 9, 141 Walker Street
North Sydney
New South Wales 2060
AUSTRALIA
+61 2 9459 4600

Japan Headquarters

Gartner Japan Ltd.
Aobadai Hills, 6F
7-7, Aobadai, 4-chome
Meguro-ku, Tokyo 153-0042
JAPAN
+81 3 3481 3670

Latin America Headquarters

Gartner do Brazil
Av. das Nações Unidas, 12551
9º andar—World Trade Center
04578-903—São Paulo SP
BRAZIL
+55 11 3443 1509