We asked both buyers and suppliers to share with us their main reasons for using a marketplace. Here are the top 5 reasons from both groups.

Fig. 5: Top 5 reasons why buyers and suppliers use marketplaces

Top 5 reasons why buyers use a marketplace

- 1. To reduce total goods / service acquisition time
- 2. To give the organisation a competitive edge
- 3. To support our suppliers adoption strategy
- 4. To support or stimulate an increasing usage of the e-procurement system
- 5. We are an innovation driven organisation

Analysis

Buyers

The results here show that the value of online marketplaces for buyers remains the same as when they first launched: reducing operating cost and improving internal efficiencies.

Suppliers

Unsurprisingly, the main reason for suppliers joining a marketplace is in response to customer requests. Much has been written already on the "carrot and stick" approach to supply chain management; most recently, the carrot approach seems to have reported beneficial results.

Moving forward from this research, it's important to note that suppliers are now seeing tangible benefits, such as a better ability to trade and greater

relationship with their customer base. What's more, they are also reducing the numbers of order discrepancies and improving certainty of order placement – key factors in maintaining a stable and solid supplier /buyer relationship. Finally, it remains clear that both suppliers and buyers feel joining a marketplace can give their organisation a competitive advantage.

Top 5 reasons why suppliers use a marketplace

2. Improves our ability to trade electronically

3. Improves the buyer supplier relationship

5. Provides competitive advantage

4. A natural progression from a paper catalogue

1. Customer driven

Savings and improvements achieved from using a marketplace

We asked buyers currently using a marketplace where particularly they had seen real savings or improvements through the marketplace and what value could they put on these. Here are the top 6 areas with average savings or improvements achieved by percentage.

Fig. 6: Savings and improvements achieved from using a marketplace

Average reduction in time spent on order discrepancy	69%
Average reduction in time spent on catalogue creation	65%
Quality of service to internal customer	28%
Improvement in overall supplier relationship	22%
Reduction in approvals within purchasing process	20%
Increase in speed of placement	17%

I-EXCHANGE Conclusions

It became clear in our initial literature review that the experience of online marketplaces over the past 5 years has been largely a challenging one. The perception has been heavily tarnished by the whole dot.com era, with some highly publicised failures.

When we started this research. therefore, our expectations of real positive feedback were quite low. However, the overall conclusion we have drawn from the I-EXCHANGE research is that marketplaces are now finding a defined role within the overall e-enablement of procurement. We base this conclusion on the following:

• user buyers were prepared, maybe for the first time, to acknowledge that they were experiencing real savings through the marketplace.

Some typical comments made during the research

By buyers using marketplaces

"It allows you to invite suppliers in from anywhere."

"It provides a mechanism for cost reduction."

"Although the speed of use improves once staff have used it a bit, you need some training at the start to build up the confidence."

These were primarily in terms of

catalogue creation time and 69%

reduction in order discrepancies

• user suppliers are now prepared,

sometimes reluctantly, to use a

However, there is a note of caution to

be sounded over supplier participation.

It is clear from our research that the

primary reason that suppliers use

marketplaces of all kinds is due to

encouragement or pressure from

important customer(s). Suppliers

themselves have yet to conclude that

marketplaces are an important channel

marketplace as part of their overall

customer relationship approach and

are finding an enhanced relationship

efficiency: savings of 65% in

cannot be ignored

as a result.

By buyers not using marketplaces

"It should give buyers the ability to track where you are on the purchase right through the process."

"If only connected suppliers are allowed on to the marketplace, it may help retain spend and reduce the potential for maverick spend."

By suppliers using marketplaces

"There needs to be cross party agreement; all parties have a vision on what they require, however everybody should be looking in the same direction."

"The technology and stability of the systems is key."

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BRISTOL

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to market. For marketplace operators, therefore, the challenge is to convince suppliers of the value of participation directly.

There also appears to be a key benefit in terms of delivering value back to internal stakeholders. Respondents, on average, have seen quality of service to their internal customer rise by 28% as a result of using a marketplace.

In conclusion, online marketplaces seem to have come a long way in the last 5 years, though not all of that direction has been forward. Today though, the research indicates, they are increasingly creating a business model and service that the buying community recognises can add tangible value to their eprocurement business model.

I-EXCHANGE

Qualitative research into the use perception of Online M

Research conducted by the Chartered Institute of Purchasing and Supply and the West of England in associati





The online marketplace, or business exchange, was developed in the late 1990s as a means of using the Internet to facilitate commerce transactions. Subject to enormous publicity at the time, the online marketplace has seen varying degrees of success since: some marketplaces have disappeared altogether, whilst a significant number have survived and now appear to be thriving.

This research project is designed to examine online marketplaces and reflect on their value for both suppliers and buyers. What features do they like? What features do they dislike? And why do some organisations refuse to use the marketplace model?

The research was carried out by professionals from the Chartered Institute of Purchasing and Supply (CIPS), the School of Operations and Information Management at University of the West of England, Oracle and BT. It is the third I-RESEARCH project, following the extremely well-received I-SAVE (published February 2002) and I-ADAPT (published April 2003).

What is an online marketplace/business exchange?

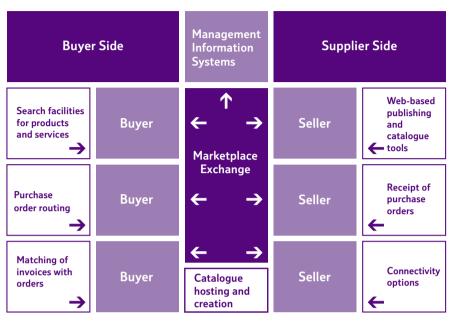
For the purpose of our research we defined an exchange or marketplace as follows.

"An electronic business to business procurement marketplace is an inter-organisational information system, facilitated by a third party, through which multiple buyers interact with multiple approved/preferred suppliers to accomplish corporate purchasing activity."

The concept was developed as organisations sought to maximise the potential of the Internet as a means of trading with one another. It was viewed as a way of lowering the financial barriers to ecommerce participation, as organisations could gain benefits, such as speed of transaction and increased automation, without having to build their own transaction engines.

Like many other ebusiness initiatives, the online marketplace was heavily hyped and an enormous number of vendors produced offerings of different

Diagram 1: Typical features of an online purchasing marketplace



This process would typically involve:

• creating and standardising online

providing a range of connectivity

Increasingly, it appears that market-

challenges and today beginning to show

value. This research looks at where they

are gaining that value, and where there

buyer's and the supplier's perspective.

places are solving these kinds of

remain drawbacks, both from the

¹Alan Lawson, Analyst, Butler Group –

Sourcing/Procurement Technology Audit,

suppliers to connect to the

options to allow a diverse set of

and catalogue updates

commodities

cataloques

marketplace.

Nov 2003.

• selecting appropriate suppliers and

defining processes for price changes

shapes and sizes. Today the industry has seen considerable consolidation and along with it a more realistic appraisal of what eprocurement can offer.

Butler Group believes that whilst businesses have embraced the value of conducting trade via electronic formats, they have struggled to integrate ecommerce channels with their existing business systems, and in particular with financial applications. As a result, the return on investment has not met initial expectations. Transactions were not faster, nor more cost-effective to manage.¹

As an example of the complexity, consider the task of enabling a supplier base to transact with an organisation electronically.

Research methodology

Research was carried out using telephone-based questionnaires and interviews with a wide spectrum of organisations. Respondents covered a total of 21 marketplaces using a wide variety of enabling software. The research received 93 responses of which 63 were from purchasing research received 93 responses of which 63 were from purchasing organisations, both users and non-users of online marketplaces and 30 we from supplier organisations, all of which had experience of supplying withi an online marketplace environment. The buyer organisations were from throughout the UK whilst the suppliers also included some respondents fro mainland Europe. The sample included respondents from the public and private sectors with representatives ranging from local government, central government and education to the manufacturing, retail, food & drink and petro-chemical sectors.

edule in March 2004

I-FXCHANGE Benefits and drawbacks of working with online marketplaces

Respondents were asked to rank out of ten the importance of a range of potential benefits and drawbacks from using an online marketplace. Figs 1, 2, 3 and 4 show the most significant factors for buyers and suppliers.

Top 5 buyer benefits

We asked buyer users and non-users what benefits they thought an online marketplace provided.

Analysis

What these figures show is that organisations currently using a marketplace are far more enthusiastic about the benefits than those that do not. Furthermore, it is generally encouraging that all of the average scores are in the mid to upper quartiles.

What is of particular interest is how marketplaces are being deployed to achieve *strategic* goals within procurement, giving organisations the ability to streamline high frequency spend through the marketplace and so freeing up time to focus on strategic supplier management.

Top 5 buyer drawbacks

We asked buyer users and non-users what drawbacks there were to using an online marketplace.

Analysis

Again, it is non-users that are the more negative towards online marketplaces, though both users and non-users see their lack of suitability for certain goods as the biggest drawback. One particularly interesting observation is the fact that cost did not come in the top 4 drawbacks, perhaps indicating that increasingly the commercial models that marketplaces are adopting are now appropriate for their target customers.

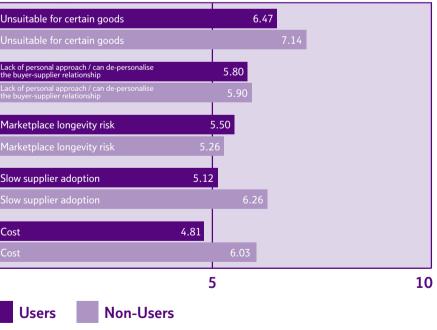
Slow supplier adoption and marketplace longevity risk both hint at the relative infancy of the online marketplace: it is likely that these figures will continue to drop as the industry matures further. Finally, the overall scores for drawbacks were typically a whole 2 points lower than the benefits. This seems to indicate that, even for the non-users, the benefits are outweighing the drawbacks.

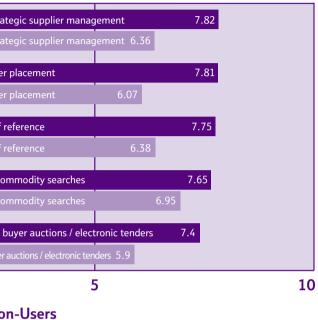
Fig. 1: Top 5 buyer benefits

lt	allows me to focus on stra
lt	allows me to focus on stra
lt	provides certainty of orde
lt	provides certainty of orde
lt	provides a single point of
lt	provides a single point of
lt	provides fast access for co
lt	provides fast access for co
lt	provides an ability to run l
lt	provides an ability to run buyer
0	
	_
	Users No

Fig. 2: Top 5 buyer drawbacks

	Unsuitable for certain good
	Unsuitable for certain good
	Lack of personal approach / can de-p
	the buyer-supplier relationship
	Lack of personal approach / can de-p the buyer-supplier relationship
- 1	
	Marketplace longevity risk
	Marketplace longevity risk
- 1	
	Slow supplier adoption
	Slow supplier adoption
- 1	
	Cost
	Cost
. U	
0	





I-FXCHANGE Benefits and drawbacks of working with online marketplaces

Top 5 supplier benefits

We asked suppliers who currently trade using a marketplace what they saw as the benefits of doing so.

Analysis

It is clear from these results that for suppliers, the main reason to participate in online marketplaces is to ensure customer satisfaction. both in strategic and operational terms. Interestingly, the reduction in customer order errors was the highest operational benefit recorded, perhaps suggesting that when organisations move to a supplier-managed environment rather than managing catalogues internally, the level of transaction accuracy increases. This is a benefit to customers, but also of course to suppliers themselves.

Top 5 supplier drawbacks

We asked suppliers who currently trade using a marketplace to identify the biggest drawbacks.

Analysis

The biggest concern for suppliers is the fact that there is no one marketplace they can join, or single format they can work with, that supports all buyers. This leads to increased cost and complexity for suppliers. The perception remains that there is no route around this problem: whilst marketplaces are starting to connect to each other, it is extremely unlikely that a single site will serve an entire country or market sector.

Interestingly, the longevity concern reappears with suppliers, as well as buyers. The onus here is on marketplace operators and vendors to alleviate such concerns.

Fig. 3: Top 5 supplier benefits

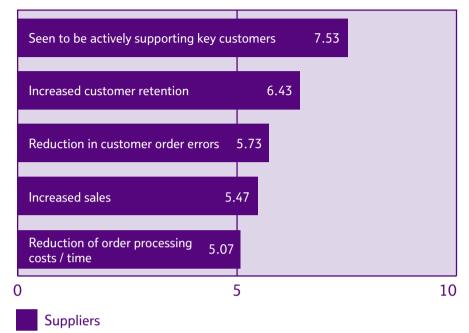


Fig. 4: Top 5 supplier drawbacks



tems purchased through online marketplaces

Laboratory supplies, computer hardware and software, raw materials, office supplies, copier paper, packaging, nappie food products, marketing services, engineering parts, temporary staff, fridges, electrical consumables, filters, iernanoi, mobile phones, forecourt intrastructure (for petrol stations), pumps, pressure vessels, automotive part ouriers, PC consumables, audiovisual equipment, computer rental, industrial tools and consumables. Christmas counters, i e consumables, audiovisual equipment, computer rental, industrial tools and consumables, Christmas decorations, protective clothing, rubber and plastic products, cable ties and wiring appliances, graphics services, pipil materials and sign fixtures.

This list stands in stark contrast to the common perception that marketplaces are only suitable for purchasing commodity goods like stationery, furniture and PC peripherals. Instead, it proves that marketplaces are capable of transacting a much richer flow of goods and services.