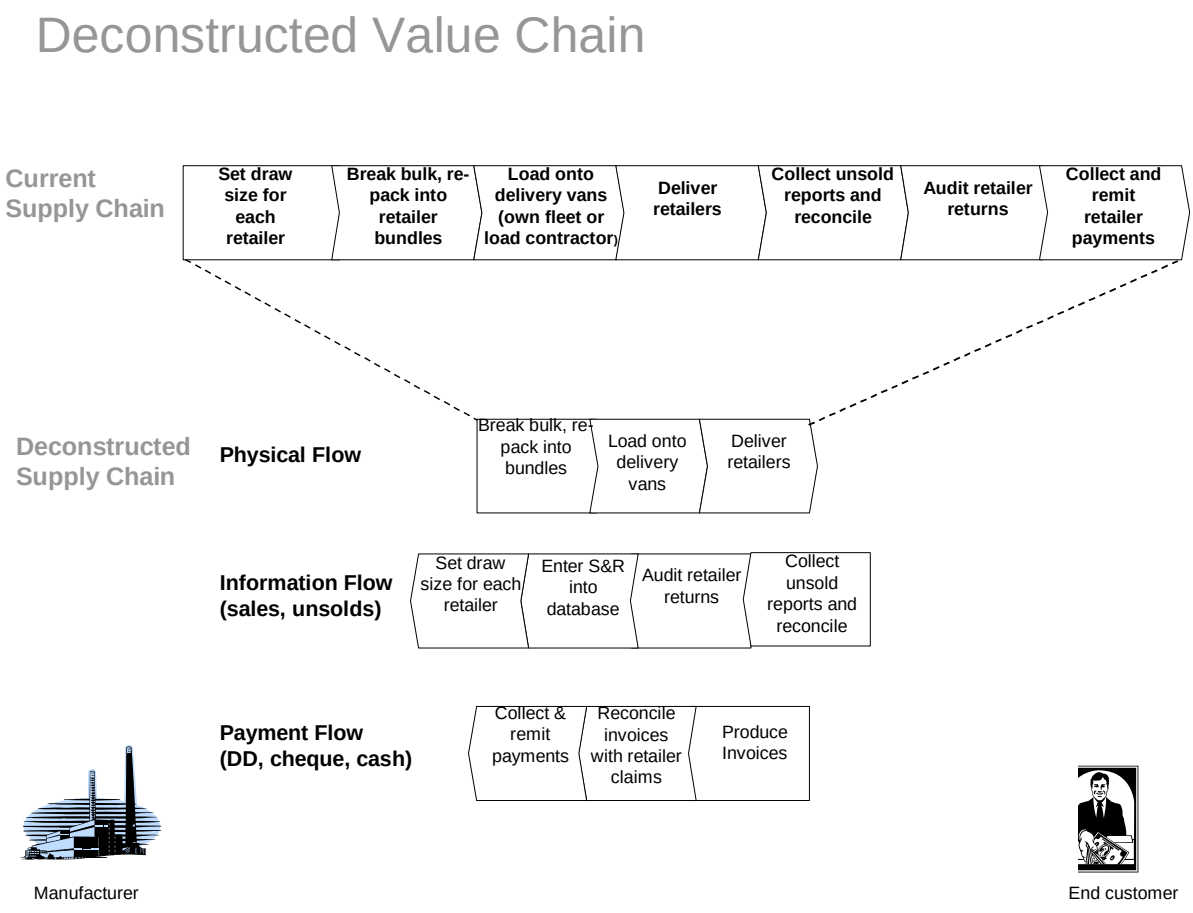
The Lifecycle of B2B Portals: We are at the Second Stage

The supply chain of each industry integrates physical, information and payment activities. So far, these activities have been managed by any sort of middlemen. The Internet revolution allows the deconstruction of each supply chain into three basic flows: the physical, the information and the payment flow.

The internet based deconstruction of each supply chain discloses a window of opportunity for B2B Portals to separate and optimise these three flows since 1) middlemen are now obsolete and costly given that portals help reduce T-taxes from 30% to 3-8% and 2) portals can now better control their key data viz. volumes of goods and services purchased, customer information, price transparency, hour to hour updates etc. We



take a look at 2 stages in the development and evolution of B2B Portals:

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FIRST STAGE: In the first stage of B2B portals this business window has been exploited by the start-ups - usually a young and aggressive management team backed by VCs. They have been working with a simple plan and business model:

- Invest in technology and quickly develop a technological platform with standard functionalities and standard software (Commerce One, Ariba, SAP etc)
- Invest in branding to gain speed to market
- Achieve liquidity trying to convince the traditional old brick and mortar companies (BAMs) to join/use their platform for their traditional purchases
- Keep control of information about end-customers needs and prices
- Extract T-taxes from each intermediated transaction
- Give away a percentage of the T-tax to software houses as a partial payment for technological development

The start-ups, by utilising the information and the payment flows of the supply chain, have increased the dependency of the manufacturers on their platforms. This business model has forced the BAMs to give away to the start-ups the control of their key relationships, i.e. customers and suppliers, the information related to them (i.e. transactions, prices and discounts) and more importantly - a percentage of their traditional profit margins.

This is an illogical monster not acceptable to any person with a good sense of business.

SECOND STAGE: The second stage of the lifecycle of B2B portals sees a counter attack of the traditional BAMs. They possess the liquidity (purchasing volumes) that often constraints start-ups and can stay alive if competitive. They have a high degree of knowledge and understanding of their current industry but may, however, not be as aware of the intricacies of doing business in the digital domain. The main challenge facing the BAM's is their ability to respond and react at Internet speed.

By directly jumping into the B2B business and building their own B2B portals BAM's only better exploit their assets. One of their biggest assets is the ability to encourage (i.e. force) current suppliers to trade through their portal thus creating immediate liquidity. If two or more BAM's join these efforts this effect can only dramatically increase. The portal customers would also be motivated to increasingly utilise this platform due to the higher level of utility. This liquidity results in better prices and the broadest product selection and is hence one of the key measures of success for B2B portals.

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Another key success factor is the availability of funding. VC funding has dried up and this has led to the death of many start-ups and hence the shift to the second stage of the lifecycle given the fact that BAM's have far greater access to internal funds and resources. There are two main causes for the drying up of VC funding:

- *Reducing rates of return:* VCs always look for high rates of return on their investment, from a financial more than an industrial perspective. Since many start-ups have not been able to reflect these target rates there has been a dramatic reduction of funds at their disposal. Many have died, others have been sold.
- *Longer breakeven periods:* The VC's usual goal is to find a new market, invest rapidly in it and sell out quickly achieving high rates of return in a short period of time. They are hence wary now of investing in start-up business models where the competition is increasingly high and the market exceedingly crowded.

The engineering and construction industry is a valid example of the second stage of the lifecycle of B2B portals. In Europe there are over 20 portals catering to this industry including AECVentures, E*difica and Globoworks all of which have no venture capital in their equity structures. These portals are talking with each other to partner and concentrate their liquidity in the pursuit of critical mass. Should they succeed, which VC would be willing to touch a young Harvard like team of e-capitalists wanting to build a B2B portal in the E&C arena? Whose transactions would these platforms intermediate? How expensive would it be to find users?

A similar proliferation of BAM owned B2B exchanges is now being noticed in other major industries. Examples include Transora.com and CPGMarket.com in the FMCG industry, Covisint (created by the consolidation of AutoXchange and TradeXchange among others) in the automobiles industry and Levelseas.com in the petrochemicals industry.

Now that the dotcoms are starved of funds and way short of getting anywhere near critical mass, the corporate BAM's have the upper hand. The winners will be those corporate players who can make bold decisions rapidly leveraging their key assets, resources and relationships. The key question then is – will the market for B2B portals and exchanges stabilise at the second stage or is there another evolutionary wave in the offing and if so then what are the changes it will bring with it?

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