B2B- Marketplaces
– Strategic Value for Whom?

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Abstract

The engagement in business to business (B2B) internet marketplaces is presently an issue frequently discussed among practitioners and researchers. In this paper we address which strategic value the participation in internet marketplaces have on the marketing channel parties. Our study of value creation, adapted to electronic marketplaces from a marketing channel perspective, has resulted in many interesting findings. In an industrial context the name "marketplace" is to some extent misleading. The business relations are still important and there are a limited number of them so the marketplace is more of a network place or business place in this context, created, maintained and managed for the marketing channel.

The marketing channel as analytical unit is addressing the interaction between efficiency, effectiveness and networks as sources to value creation and cost reductions. The focus in the majority of the value theory is on costs but the customers value (their goals) is a source that the marketplaces have started to focus on. The common focus is presently transaction oriented for all parties. In the empirical study we see clear patterns for the different actors, buyers, marketplaces and sellers that follow the discussion of generic benefit factors for the demand and supply side in marketing channels. The added value through a wide range of marketing channel functions is not realised today but the empirical analysis shows it as a prioritised topic for future enhancement. For the buyer, one-stop shopping, convenience and reduced transaction costs are the main value whereas the seller side value the reduced number of contacts and smooth transaction process highest. Since the marketplace have not accumulated all present network relations the full network value have not been achieved and the therefore the value is on an efficient and smooth transaction process.

1. Introduction

It is perhaps a truism that the role and impact on today's marketing channels of information technology (IT) and especially Internet has significantly changed over the last years. Across marketing channels in a wide spectrum of countries, businesses and markets, Internet is transcending the "back office" rationalisations and is evolving toward a "strategic" role with a potential not only to support chosen strategies, but also to shape new ones (Pine II and Gilmore, 1998). An Internet based "phenomena" that have lead to a multitude of initiatives both from the old economy actors, as well as the new economy actors, have been labelled marketplaces (Timmers, 1999), portals (Pitta, 2000) or e-hubs (Kaplan and Sawhney, 2000). We will use the label marketplaces throughout the remainder of the text. In examples like Endorsia, Covisint and Chemdex the value for the market channels actors has been to reduce the transaction costs and create values that goes beyond the present ones. Based on this the commitment to engage have been large; maybe as the losses of not engaging have been seen as even larger. There is on the other hand an increasing concern among business managers that the anticipated value of the investments in money and business efforts is not being achieved. The decision to do business through a marketplace is therefore a strategic decision. It involves not only the focal company, but also the network in which it does business through the changes it imposes on the company's existing marketing channel. The research has been conducted in the research program e-B2B industry partnership research programme about Electronic Commerce applications and management implications, a collaboration between IMIE, the Marketing Technology Center and partners in the Swedish industry.

Purpose

The question that we will address in this paper is thus: What strategic value can be achieved for the marketing channel partners in an industrial relation from an engagement in business to business (B2B) Internet marketplaces? The deliverable is a value creation hypothesis for electronic marketplaces.

Method

A lack of prior theorising about a topic makes the inductive case study approach an appropriate choice of methodology for developing theory (Eisenhardt, 1989). Hence, to gain a deeper understanding of value creation through electronic marketplaces, we first discussed with several industrial firms participating in or planning participation in electronic marketplaces during five seminaries. The participants were both industrial seller and buyers representing large as well as SME companies with multi country operations and sales. The seminaries draw our attention to aspects already discussed in industry and constantly strengthened our focus. As a second step we conducted interviews with one electronic marketplace and two industrial firms. A third step planned but not reported here is to investigate multiple electronic marketplaces in a marketing channel perspective.

We therefore use a research design that is allowing a replication logic (Yin, 1994). That means that we treated the seminaries and the interview we conducted in the second phase like two series of experiments. Each seminar served to test our understanding of the theoretical insights in the new empirical setting, and a basis to modify or refine our theoretical base. Case studies is a good strategy for examining "a contemporary phenomenon in its real-life context, especially when the boundaries between phenomenon and context are not clearly evident" (Yin 1994: 13). This difficulty is present in the electronic marketplace context.

2. Endorsia - A Marketplace for MRO-products

Endorsia.com is originally an offspring of the Swedish SKF group, well known for their roller bearing solutions. It started life as part of SKF:s own sales strategy but has since then developed to incorporate INA Holding Schaeffler KG, Rockwell Automation, and the Timken group as equal share owners. Endorsia.com has been positioned as a marketplace that is neutral to customers, distributors and manufacturers of MRO products (e.g. indirect material, repair material and spares). After 2 years of operation they now cover 27 countries, does business in 15 languages and execute 15000 transactions per week. It is not an open marketplace, doing business there require membership as customer, distributor or supplier or a combination thereof. Another prerequisite is that there has to be an existing relationship between the buyer and the seller to use Endorsia. Their objective is to improve the sales process in a value chain perspective. The initial driving force has been the saving for transaction costs when purchasing MRO material. Concepts such as decentralised purchasing under a general agreement can be mechanised with marketplaces. Search and ordering costs can be reduced as much as 60-70% provided there is a catalogue with the desired assortment that is easy to search. Today they are providing services for ordering, order acknowledgement, order tracking and product information. They say that to realise the full savings potential of a marketplace, full supply chain support services must be provided, not just the transaction element. A functional development is taking place where the next steps are incorporation of invoicing, financing and payment. The geographical reach for the companies is affected mostly indirectly since the marketplace builds on existing business relations but new relations can also arise through the marketplace.

We have chosen to interview two potential manufacturer members to Endorsia.com that are part of the e-B2B research programme, Sandvik Coromant and AGA Europe North. The value for the buying part is more transparent, i.e. administrative cost reductions of 40-80% (Horndahl, 2000), while the value for a manufacturer is not as clear so we have chosen to concentrate on the manufacturer side for this first step of empirical research.

Sandvik Coromant is a Swedish company, part of the business area Sandvik Tools in the Sandvik group. Their main product is tools and techniques for metal cutting machinery in different manufacturing industries. Sandvik Coromant operate in 60 countries, employ 7200 people worldwide and has 15 000 products in their offer. Sandvik joined Endorsia.com as owners in January 2001. They also have proprietary e-commerce solutions for their individual businesses and are part owners of b-business partners, an e-business venture capital company backed by several Swedish industry companies.

AGA Europe North is part of the Swedish company AGA which was taken over by Linde Technische Gase of Germany to create Linde Gas AG in the year 2000. Their main product is gas for industrial customers. Linde gas employs 19000 people in 50 countries. AGA has two proprietary e-commerce solutions, web-order to sell gas and ACCURA for a gas bottle administration service.

3. Marketing Channel Perspective

The research is performed with a marketing channel perspective on marketplaces and the involved actors. Key actors in a market channel are buyers and sellers but there is potentially an array of 3rd party suppliers of e.g. technology and logistics services in addition to or as part of the marketing channel. Marketing channels connect producers and suppliers with buyers, directly or through intermediaries. They provide service outputs through the flows that pass through them. The description of marketing channels has in the literature evolved from economic structures to add behavioural dimensions in a network context. In the industrial context we argue that the marketplaces has characteristics that make a marketing channel perspective suitable. The purchasing process is generally long and may involve building long term relationships. The purchasing process is structured and involves a number of decision-makers. The products may be very complex. The marketplace functions are part of those that are performed in a marketing channel. The marketplace is structurally positioned as an intermediary in the marketing channel. The number of actors is limited which makes the market an oligopoly rather than a perfect market.

The starting point for this paper is that the marketplace from a buying or selling company's perspective is part of a marketing channel. The marketing channel perspective is used to give a picture of the value created in the system, while the actors may view the created value differently from the demand and the supply side. An overview of how supply meets demand through the marketing channel described by commodity, institution, function and flow (Cox, 1965) is shown in figure 1.

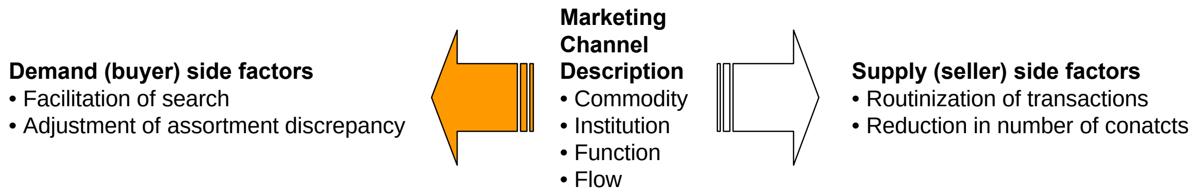

Figure 1. An overview of the marketing channel (from Coughlan, 2001 and Cox, 1965)

Two ways of describing market channels are through the service outputs that they produce and the flows through them. The service outputs, that represent the value that the channel adds to the core product, consist of, but is not limited to, bulk-breaking, spatial convenience, waiting and delivery time and assortment and variety (Bucklin, 1966). In a time with increasing customer expectations, where products become commoditized and the competition is envisioned as being between supply chains (Christopher, 1998), the channel value added may be the differentiating factor. The flows generally consist of physical possession, ownership, promotion, negotiation, financing, risking, ordering and payment (Coughlan, 2001). All these flows represent cost in the channel. An example of channel structure based on the physical possession flow is presented in figure 2 below in the form of a multiple distribution channel.

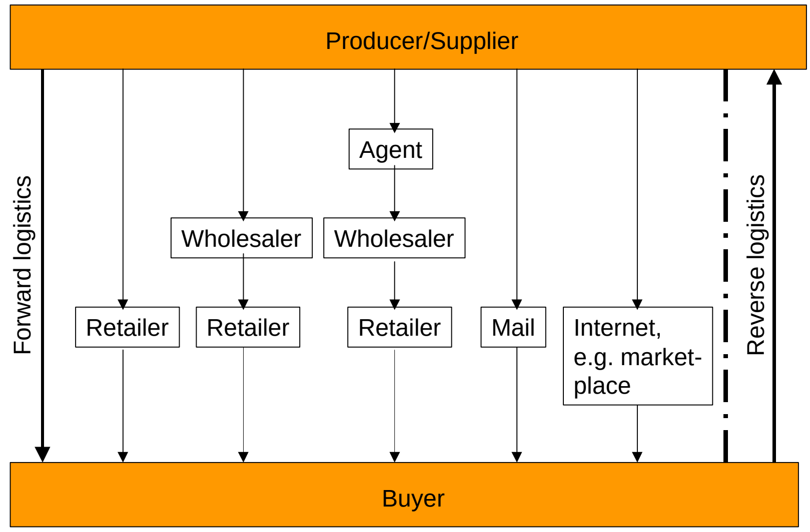

Figure 2. Multiple distribution channels (adapted from Christopher&McDonald, 1995)

In many cases companies use multiple channels as drawn above. The service outputs are provided through physical and/or electronic media so that the marketing channel will consist of a hybrid between electronic interfaces and physical fulfilment (Coughlan, 2001). The marketplace potential to add economic value lies in firstly to provide a positive difference between service outputs (added value) and the flows (costs). Secondly, the potential is determined by how many of these service outputs and flows that the marketplace performs. If the offer includes a limited amount of service outputs and flows, e.g. ordering information only, the potential to add economic value is small from a marketing channel perspective.

The multiple channels described in figure 2 require co-ordination to avoid channel conflict. Each channel involves actors that have costs for the flow produced. They have an interest in ensuring volume and that they get a sufficient share of the value created. An existing structure with retailers may lose out on both volume and value if the producer were to redirect a certain amount of the total flow via a marketplace. This require channel management to avoid channel conflict.

An important behavioural dimension is how leadership and control is exercised in a market channel system. If no party takes leadership, the actors may be inclined to optimise their own operation rather than the channels. An actor that can exert power over the other actors in the channel can influence the other parties to pursue an agenda that is better for the channel as a whole or an agenda that is better for the party with power. There is therefore opportunities for a marketplace to add network value to a marketing channel by taking a leadership role or provide business or technical expertise.

Multiple channels, hybrids, numerous actors and the competitive context together with the behavioural aspects adds complexity to the description of marketing channels far beyond what a picture as in figure 2 can describe. The network approach is an answer that better describe the complexities of the marketing channel. It captures the network dimension that a marketplace has whether it has a transaction orientation or a closer relational orientation. Although a network approach may be argued to better describe an objective reality, it lacks the explanatory power that the market channel distribution economy theory has. The two are also interrelated, without the transaction there would be no relation and without a relation there would be no transaction. The discussion in this paper is therefore based on elements of both approaches to capture both network value as well as the economic value that keeps the company's figures in the black.

4. Electronic Marketplaces

There are two generic types of Internet based electronic commerce, the private netmarket and the open electronic market. The first type of e-commerce is the private netmarket controlled by the party with most power, often the buyer, see figure 3.

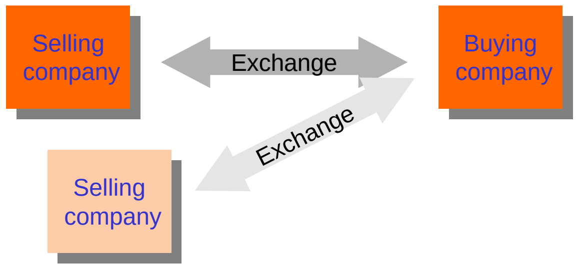

Figure 3. The private netmarket

Usually this is a consequence of the fact that the buyer is more interested in an equal and fixed quality of the purchased material than on the lowest cost at each purchasing situation. Here the parties have invested a lot in establishing the relationship and the electronic exchange is concentrated to information connected to ordering, shipping, deliveries and sometimes invoicing. A buyer (or a seller) can operate a number of private netmarkets that are separated from each other.

The open electronic market is created if both buyers and seller sees benefits in an open communication where products and prices are comparable see figure 4. The initialisation of the market can be driven by the objective to serve specific customers or sellers objectives. The focus of the open electronic markets can be to serve companies in many different industries with similar products (horizontal markets) or from a industry specific focus cover all products that is required within the specific industry (vertical markets) (Kaplan and Sawhney, 2000).

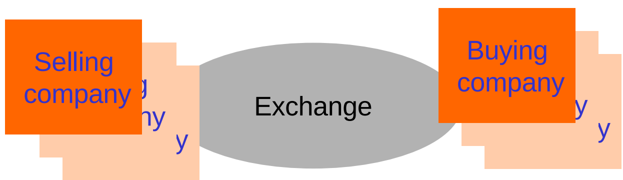

Figure 4. The open electronic market model

For products like MRO-supply (Maintenance, Repair and Operating resources) the open electronic market is creating an exchange solution where search and transaction costs are reduced. The reduction in cost creates both new business opportunities and threats for participating companies. The motives for joining an exchange range from win-win prospects for all parties to power of one of the parties. Through the open electronic market transparency in the quality/price mixture is a crucial aspect of the actor's outcome of the participation. Sellers can't hide its performance from the buyer's critical evaluation, which evolves over time through the participation in the open electronic market.

The general description of open marketplaces above does however not capture all the differences that exist between different marketplace solutions. The marketplace may have the role of anything from a "junction box" for buying information and transaction to support the financial transaction, the fulfilment process and the after sales service. They differ for example in the number of actors involved, the openness, the buying behaviour that they serve, the ownership bias, the kind of products they offer, the exchange mechanism, whether they serve vertical or horizontal markets, the coverage of the buying process, order fulfilment and after sale services and the degree the they integrate the supply chain. Figure 5 shows the dimensions of ownership bias and the number of sellers and buyers. The finite number of sellers and buyers was previously discussed as one basis for the choice of marketing channels as the theoretical reference frame.

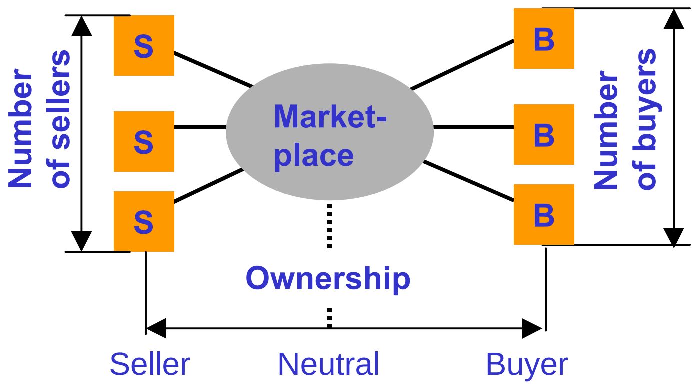

Figure 5. Some dimensions of marketplaces

The ownership is here a crucial point for the acceptance of the marketplace by buyer and seller. Whether its seller or buyer owned the other parties may see it as in the short term strengthening the counterpart and not the relationship. Introducing a neutral owned marketplace is very difficult in already establish industrial relations which a number of marketplace incentives encountered during the last year. The "neutral" owned marketplace is however something that both buyer and seller owned marketplaces tend to strive towards, e.g. Covisint (Holstein and Robinson, 2001).

The description will in the following focus on the marketplace as used for buying and uses the purchasing product classification by Kraljic (1983). It was conceived for describing purchasing of industrial goods based on the economic importance and the supply risk associated with the purchased product. The Kraljic model being conceived for the purchasing sides supplier strategy gives a view of the buying side but the buying side is part of and crucial whether we are talking sell side or buy side marketplaces.

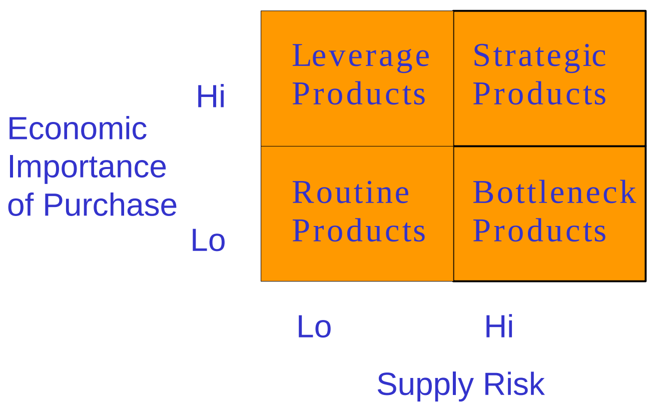

Figure 6. The Kraljic purchasing matrix (Kraljic, 1983)

The four product categories require different purchasing strategies. For the strategic and bottleneck products the objective is to create purchasing advantage. This can be achieved through product specification improvements, joint process improvements and relation restructuring. Product specification improvements are mostly an in-house activity but for an outside source with a large knowledge and competence base this is an opportunity for providing buyers with expertise and specification benchmarks. Joint process improvements require that the processes, logistics and operations of the buyer and the seller be harmonised. Standardisation and compatibility of business software and systems are important but the harmonisation issues goes all the way to the way people are working. Relation restructuring so that actors focus on developing few deep relations may result in tailored products developed exactly to fit the needs of the buyer. For leverage and routine products the strategy should be to exploit buying power. Volume concentration to fewer suppliers, best price selection and global sourcing are some approaches that can be used. Persson and Virum, 1998, suggest that competitive bidding should be used for leverage products and that system contracting should be used for routine products.

The purchasing strategies of the Kraljic matrix product categories have implications for the potential of marketplaces. The strategies for strategic products involve close collaboration so that the characteristics of a private netmarket are better suited for these products, e.g. EDI type solutions. They also have such a high relational content that the whole process is not suitable for digitalisation. For the leverage and routine product categories, e.g. MRO products, it is easy to see that there is a better fit between the capabilities that can be built into a marketplace and the purchasing strategies proposed by the literature. The volume concetration is facilitated by the marketplace aggregation and matching process (Kaplan and Sawhney, 2000). Exchange mechanisms such as competitive bidding can also be built into the marketplace for these well-defined and standardised products. The marketplace may even be equipped with functionality that facilities working with system contracts but here as in most other cases, when discussing a complete marketing channel it must consists of a hybrid of electronic and physical interfaces.

To conclude the marketplace description section, there is no definitive description of a marketplace since they in e.g. a buyer centric solution become a private netmarket and on the other end of the scale the Internet is the marketplace. For the discussion of value we will use an "Industrial marketplace" definition which involve several, but a finite number of, buyers and sellers. It has a neutral stance toward the sellers and buyers and distributors even if the ownership involve e.g. buyers. The product focus for the discussion is on leverage and routine products, i.e. MRO products.

5. Value Creation in Marketing Channels

Value creation beyond the products is a hot topic today. Virtually all managers are keenly aware that the key to winning in a market today is excelling in tailoring one's offerings to the specific needs of each customer while still maintaining low costs and prices. In pursuit of those goals, suppliers and manufacturers have implemented flexible assembly and manufacturing systems, created modular components that can be used in a wide variety of configurations, and designed platforms (the basic structure that customers don't see) that can be used by several products. Despite the manufacturers recognition of the other elements importance for the customers they are focused on the product themselves. The product is on the other hand the base for the establishment of industrial market channels. Markets are increasingly becoming commodity markets where technical differences of products are hardly distinguishable.

The basis for creating differential advantage is to create added value to the product (Christopher, 1998). The marketing channel can add value to the product through time and place utility. The market channel consists of marketing, logistics, informational, and transactional elements. For it's performance it involves not just the industrial parties but rather a network of actors whose interactions leads to the market channels time, cost and quality performance. Establishing a electronic marketplace in an established market channel, or as a new additional channel, means those parts of the value creation process change.

The value chain analysis within virtual markets

Discussions around the creation of value has traditionally been centred on the value chain (Porter, 1985). Although the concepts still are useful they take an internal view on traditional companies and the value it delivers instead of the customer's perspective. Normann and Ramirez (1993) argue against the value chain and its description of value. They claim that this understanding of value is as out of date as the old assembly line that it resembles. Today's fast changing markets are opening up new ways of creating value. To be successful it is no longer enough for organisations to add value along a fixed value chain. Instead they must reinvent value with a focus on the total value-creating systems and work together with suppliers, allies, and customers to co-produce value. The real secret of value creation lies in building a better fit between relationships and the organisations knowledge and competencies.

In a later article Porter (1996) also indirectly acknowledge the shortcomings of the value chain. He reasons that real value (for both suppliers and customers) is created when an organisation does things in a different way than its competitors. By giving the customers a unique mix of value organisations can create closer relations with their customers. Furthermore, Porter (2001) argues that combining activities and multiple channels (traditional and Internet based) improves the response to dynamic needs and is a more sustainable source for competitiveness. Through this an organisations activities reinforce one another in enhancing the customer value in a strategic way.

Supply chain thinking has brought in the outside world, the supplier and the customer into the picture (Christopher, 1998). Even if the context have been more emphasised in M.E. Porters later writings the value creation is mainly inside the organisation. With e-business solutions which connects organisations to each other, the greatest value for the customers might be achieved by letting the customers create the value themselves. Even though Porter (1996, 2001) extends the concept of the value chain to a value activity system, it still falls short of how value can be created together with the business environment as Normann and Ramirez (1993) agitate for.

Porter defines value as "the amount buyers are willing to pay for what a firm provides them. Value is measured by total revenue…. A Firm is profitable if the value it commands exceeds the costs involved in creating the product" (1985:38). Value can be created by differentiation along every step of the value chain, through activities resulting in products and services that lower buyers' costs or raise buyers' performance. Drivers of product differentiation, and hence sources of value creation, are policy choices (what activities to perform and how), linkages (within the value chain or with suppliers and channels), timing (of activities), location, sharing of activities among business units, learning, integration, scale and institutional factors (Porter, 1985, 124-127).

Value chain analysis can be useful in examining value creation through virtual marketplaces if products and critical activities for the value creation within the firm can be identified. Stabell and Fjeldstad (1998) argue that the value chain is more suitable for the analysis of the firms that create value by transforming inputs into products through manufacturing rather than services. They propose that the value shop is a more appropriate model for analysing firms that create value by solving a client’s problem and that the value network better capture the value creation which are facilitated by exchanges among clients/partners in a network. Building on similar ideas Rayport and Sviokla (1995) propose a "virtual" value chain, different in each realm, that builds on a sequence of gathering, organising, selecting, synthesising and distributing information. Our tentative conclusion is that marketplaces by its way of working are more connected to the notion of value shops, value networks and "virtual" value chain than the original value chain. With these modifications the notation better corresponds to the virtual marketplace where the value creation opportunities is a result of combinations of information, physical products and services, innovative transactions, and the reconfiguration and integration of resources, capabilities, roles and relationships among suppliers, partners and customers.

Customer value, What is value?

In 1965 Ted Levitt proclaimed that there must be made a distinction between marketing and selling. He reasons that selling concerns the tricks and techniques of getting people to exchange their cash for your product. It is not concerned with the values that the exchange is all about. And it does not, as marketing invariably does, view the entire business process as consisting of a tight integrated effort to discover, create, arouse, and satisfy customer needs. His thoughts, that management must think of itself not as producing products but as providing customer value creating satisfaction, were far before his time and the ideas were not totally picked up until the 1980s.

A market offering has two elemental characteristics for the customer: its value and its price. The difference between value and price equals the customer's incentive to purchase or use a market offer. Anderson and Narus (1999) put this in the following equation:

$$(\mathbf{Value_B} - \mathbf{Price_B}) > (\mathbf{Value_A} - \mathbf{Price_A})$$

$\mathbf{Value_B}$ and $\mathbf{Price_B}$ are the value and the price of the best market offer, which always is compared with the next best alternative, A, by the customer. Since both the price and the value are negotiable and both are influenced by a number of uncertainties the exact calculation is difficult without understanding what influence it. Koopmans (1957) made a distinction between primary and secondary uncertainty. Secondary uncertainty arises "from lack of communication, that is, from one decision-maker having no way of finding out the concurrent decisions and plans made by others". Primary uncertainty arises from "random acts of nature and unpredictable changes in concurrent preferences" (1957: 162-3). Williamson (1975) recognise the third kind of uncertainty, what he calls behavioural uncertainty, attributable to opportunism. Uncertainty in the marketing channel also makes information a valuable commodity. Information about which outcomes will occur, or are more likely to occur, will obviously have great value not only for the customer, but also for other parties in the marketing channel.

Another side of the value creation is the distribution of value among the actors. Ideally, the win-win concept of integrating the supply chain (Christopher, 1998) makes all involved parties winners. However, already at the conceptual stage and looking at the example of the purchasing marketplaces in the car industry, it is evident the purchasing power may make the decision for suppliers to join a prerequisite to stay in business. The value focus in a specific marketplace is from mainly three perspectives, seller, buyer or an independent intermediate.

Value hierarchies and categories of value

An important issue is the customers' perception of the value and price. Woodruff and Gardial (1996, p.54) define customer value as"…the customers' perception of what they want to have happen in a specific use situation, with the help of a product or service offering, in order to accomplish a desired purpose or goal." Woodruff and Gardial argue that the definition states that products and services should be seen as means of accomplishing the customers' purposes. The creation of value lies not in the characteristics of the products or services, but in their delivery of consequences that the customers experience. Furthermore the value in their judgements of customers are determined by the particular use situation. These judgements are subject to change across use situations, over time, and due to specific "trigger" situations. Since customer value is a multidimensional and rather abstract concept, Woodruff and Gardial (1996) created a framework for determining and breaking down customer value. They call this the customer value hierarchy and it shows how a product, or service's, three levels can represent relation to customers: attributes, consequences, and desired end-states, see figure 7.

Desired End-States
Describes the goals of the person or organisation

↑

Consequences
Describes the user/product interface

↑

Attributes
Describes the product/service

Figure 7. Value hierarchy (Woodruff and Gardial, 1996 p.65)

The levels become increasingly abstract with movement from the lower to higher levels, as well as becoming increasingly more relevant to the customers. The lowest level, attributes, describes what the product/service is, its features, and its components, part or activities. The consequences represent the customers' more subjective considerations of the positive and negative effects that result from the product or service use. The top of the hierarchy, desired end states, describe the user's core values, purposes, and goals. This abstract level is constituted by the values that serve as fundamental motivators for the customer, such as security and achievement. Traditionally companies have focused on attributes to define what they do. This is the case with earlier customer satisfaction studies. They measure how customer have perceived a products attributes or features. If no consideration is taken to higher levels of customer values there is a risk that the companies' products or services will be outdone by alternative products or services in the long run. It is also by focusing on customer consequences that great innovations can occur. Off course the attributes are always important to enable continuos incremental amelioration.

An understanding of the desired end-state is also the base for what Thompson and Stone (1997) define as “moments of potential value”. This goes beyond what the customer want, and also includes the benefit or value they can receive. The moment then becomes an opportunity to influence customer behaviour and loyalty by providing the optimum possible benefits or value delivery. If the organisation’s deliverables fit into the customer’s hierarchy of needs, the moment of truth will turn into moments of value. The introducing of the term "needs" draw our attention to customer satisfaction and for example the work by Kano (Bergman and Klefsjo, 1994) which divides the needs of customers into basic, expressed, and unrealised ones. The basic needs is taken for granted by the customer and if not meet sufficiently, the customer becomes very dissatisfied. These are basic value that all competitors must posses and maintain. Expressed needs are often one-dimensional; they focus either on value or price related attributes, and results in customer satisfaction. These can be seen as offers that relatively easy can be taken up by competitors and introduced in their market offer, offer values.

The unrealised needs or sources of attraction is essential in attracting customers but their absence does not cause dissatisfaction because they are not expected by customer and customers are often unaware of what they are missing. If supported and developed over time they create relationships between the channel parties and are building blocks for relationship values. Examples can be personalisation of message, loyalty programmes, a learning dialog, and sharing of information. The three value categories related to the two Kano-dimensions customer satisfaction and degree of realisation is shown in figure 8.

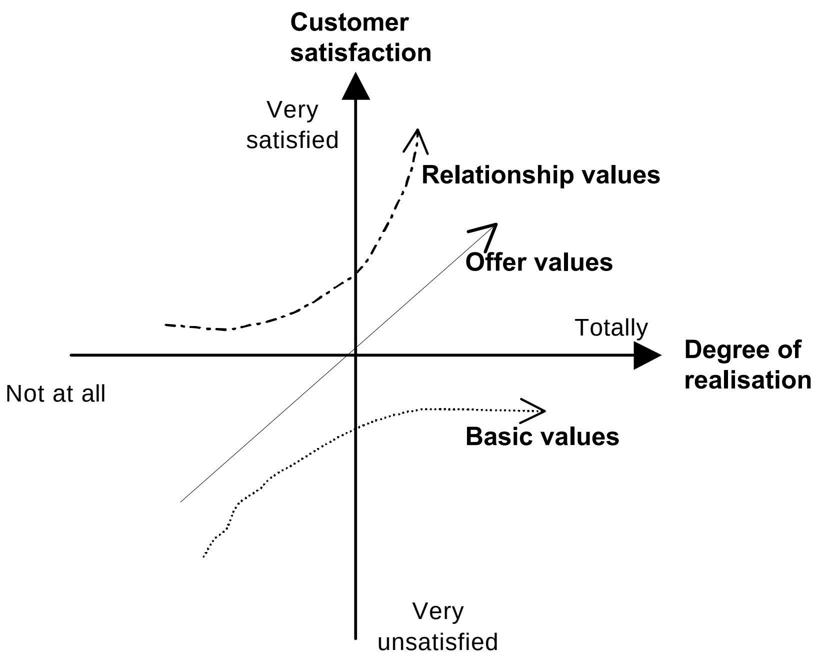

Figure 8. Modified Kano-model with value categories

Sources that drive the customers and other parties to use a new channel or an additional part of the existing one can be seen in a similar way. It is sources that increase the satisfaction (move higher on the vertical axis) and that is realised, implemented, and can be experienced by the parties (move to the right on the horizontal axis) that drive the parties to new market channel solutions that provide increased value.

6. Marketplaces and Value for the Marketing Channel

Each theoretical framework discussed above makes valuable suggestions about possible sources of value creation. As we have seen, many of the insights gained from research on marketing channels, value chains and customers are applicable to e-business and electronic marketplaces. We use the term "value" for referring to the total value created in the marketing channel through transactions, communication and physical activities regardless of whether it is the firm, the customer, the marketplace, or any other participant in the business relationship that appropriates that value.

Sources of value creation: An emergent theory

The multitude of value drivers that can be identified and are suggested in the literature raise a question: Precisely, which sources of value are of particular interest and importance for electronic marketplaces in a marketing channel context? Each framework also has limitations which calls for the importance and the need for identifying and prioritising the sources of value creation in electronically supported market channels. In this inductive case study we have searched for previous categorisations that can be used in analysing for whom the sources of value are achieved. We therefore adopt the dimensions discussed by (Möller and Törrönen, 2000), a concept in which the value of the market channel activities can be classified into efficiency and effectiveness dimensions (Pfeffer and Salancik 1978), and a network dimension (Möller and Törronen, 2000). In this paper we begin this process by grounding a model of value creation in three dimensions through initially studying Endorsia and two industrial parties. The questionnaire used is presented in appendix 1. Figure 9 depicts the three dimensions and its sources of value creation through electronic marketplaces for the marketing channel that emerged through our data analysis.

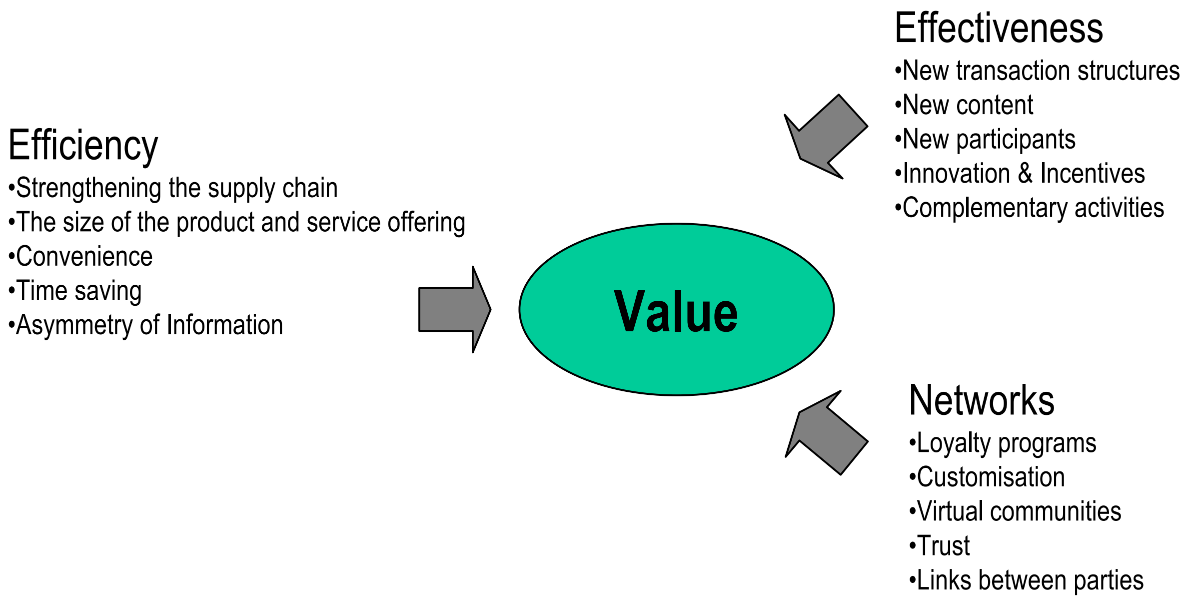

Figure 9. Sources of value creation through virtual marketplaces

Each of the three major value dimensions identified in the analysis – efficiency, effectiveness and networks – and the linkages among them, are discussed based on literature and the study of Endorsia. We propose that these value drivers and their components enhance the value creation by electronic marketplaces for the marketing channel. In their discussion Möller and Törronen also present dimensions of value in form of core value, added value and future value. A marketplace change the value creation process for especially added value and future value, whereas the core value is not effected in it self. A potential way to added value is the outsourcing of marketing channel functions to the marketplace, e.g. sales, and concentration on the core competencies of the firm.

Efficiency

The analysis points at transaction efficiency as one of the primary value drivers for electronic marketplaces and the market channel parties. Reducing the costs per transaction is however an initial value and something that each party easily can experience, a quick win. Also, as the respondents put forward, it can be questioned if the survival of an electronic marketplace can be built on these reductions alone.

Efficiency enhancements in a marketing channel can be realised in a number of different ways. One is strengthening the supply chain between buyer and sellers through viewing the supply chain as the main value creating unit and that the relationships is supported by the electronic marketplace. In industrial marketing the relationships has always been an essential part of the activities and something that always is discussed and traded towards other tangible value aspects such as costs and delivery performance (Håkansson, 1992). A part of strengthening the relationship is reducing the information asymmetry between buyer and sellers through the supply of up-to-date and comprehensive information. The speed and smoothness with which the information can be transmitted through the Internet makes the use of the electronic marketplace convenient and easy. Here is it essential that a standard of how the information exchange between different computer systems (ERP, CRM and other ICT systems) should be handled. Without this is it is likely that information have to be entered manually more that once leading to delays and lack of smoothness in the marketing channel. Endorsia focus on solving this for participating buyers and sellers.

The efficiency effects from providing a large array of products is an essential part for Endorsia. Products that complement each other should be gathered and possible to supply by ordering through Endorsia. This convenience reduces the time the buyer have to spend on selecting and purchasing the products, speeds up the entire ordering process both at buyers, vendors and suppliers through a smooth standardised process.

Today Endorsia does not provide logistics or payment/financing marketing channel services. However, as all parties indicated, they expect this to be future values of the electronic marketplace. For logistics this means that a buyer purchasing from three different suppliers today achieves three unsynchronised deliveries. In the future all parties want to offer the possibility for the buyer to have one delivery which requires the electronic marketplace to co-ordinate the logistics activities from the buyer point of view, a service that seldom is offered in existing marketing channels. This will increase the efficiency for the buyer in the future.

The focus on efficiency as the main value driver is in alignment with the discussion of Porter (1985, 1996, 2001) but the difference between electronic marketplaces will in the longer perspective diminish since the technology is likely to be more generic and standardised and commercially accessible for all. However, the efficiency oriented platform and the relationships built there can be used as a development platform for future strategic values for all parties.

Effectiveness

Effectiveness value is created when the marketing channel parties, of which the electronic marketplace is one, experience that the resources to produce a desired effect with the marketplace is less than the alternatives and provide more value to parties than the existing marketing channels. This is increasingly taking place through co-work and co-production between the parties in the marketing channel (Teece et al. 1997). The co-work/co-production presently performed is through information flows regarding the transaction-oriented information and partly by product specifications and usage data.

Our analysis therefore emphasis similar relationship as Hanson (2000) discuss, that the most important value aspects are based on information collection and the incremental improvement that can derive from that. The improvement in the product and services offered through the electronic marketplace are at this stage of the development difficult to identify beyond the enhanced information exchange. Our analysis points at the incremental achievements made regarding the transaction structure and the broadening of the information content exchanged in the marketing channel. The focus is currently on sales and marketing issues, whereas distribution, logistics and financing activities is a second step from the marketplace point of view but has high importance for the sellers and buyers. This is in alignment with the first e-commerce model of Saarinen and Vepsilainen (1998). Using information creatively in developing distribution and logistics structures drives values to the marketing channel that is sustainable and difficult to imitate by others (Porter, 2001). Our analysis suggests that this is recognised and a topic for the future.

The possibility to one-stop shopping is the second most important effectiveness related value driver. For example, a paper mill that orders material to a planned replacement of bearings often require additional products (electrical parts, gear-components. etc.) which they with the electronic marketplace can source at one place. Positive buyer experience has the indirect effect that they influence their suppliers presently not participating in the electronic marketplace to join. Hence, complementary products can be expected to increase the value by increasing revenues as well as complementary supplier can be expected to increase the marketing channels total value. Competition between brands is a potential value destroyer from the suppliers' point of view. In the short-term perspective competing products is pointing at an increased focus upon the efficiency values on the expense of the relationship and its effectiveness effects. From buyers and the electronic marketplace point of view, competing products improves the decision-making, a result of the focus on information collection in both the vertical (more deep information regarding one product) and the horizontal (additional and exchangeable products and services) dimensions.

Endorsia is presently not offering any after-sales services or other complementary activities. However, the broad geographical coverage, 27 countries, in which there often is independent service providers for one manufacturing brand makes this a very complicated issue to offer through Endorsia. In the future our analysis point at the consolidation towards fewer after-sales service actors in Europe, a development we already have seen in US market. Endorsia is here adding a strategic possibility for the sellers to broaden the coverage without establishing new sales and service units. This is in alignment with Abrahamsson and Brege (1995) findings of how information technology is enabling a restructuring of sales and logistics activities among the marketing channel parties as well as a centralisation of administrative matters.

Networks

The value-creating potential of a electronic marketplace in a marketing channel is enhanced by the extent by which the participants are motivated to repeat transactions, and to which extent the parties have incentives to maintain and improve their links and relations - networking. With repeated transactions the volume increases and with networking the willingness to pay increase and competitive brands is less competitive, in all creating values through a lasting network (Håkansson, 1992).

Our analysis indicates that trust and increased links between the parties are enhancing the network values. Trust is mainly gained through different elements of the transaction (smoothness, secure transactions and information regarding product safety and usage) but also by supporting a standard procedure that a global acting company can use throughout their entire operations. An element of importance here is the use of standardised prices for a customer with operations in several countries. Electronic marketplaces is driving the development of common prices since the removal of asymmetric information and price transparency undermines the trust built on other aspects if sellers maintain price differentiation to buyers in the same group. Trust is also related to that the marketplace must maintain the business information integrity so that e.g. sales information only goes to the selling company and not to their competitors. Increased links is built on convenience for the parties to maintain the relationship. For Endorsia this can be manifested by the buyers ability to retrieve past orders, modify it and place the new one – letting the customer initiate the loyalty rather than the electronic marketplace personalising for the customer. Our analysis shows that loyalty program and customisation of the electronic marketplace is not a priority for Endorsia and the marketing channel parties. However, our initial discussion with a broader range of companies indicates that this is important. The workshops discussion indicates that for other marketplaces is customised information to buyers and sellers that enrols a prioritised aspect in building and maintaining the network and creating sales volume.

Creating and initialising network values through marketplaces for the marketing channel can also have positive effects on its efficiency and effectiveness. With already established relationships as a prerequisite, as in the case of Endorsia, there is an attractive incentive for sellers and buyers with different profiles to participate. For example highly profiled brands and parties can use it as a platform for exchanges within present relations and at the same time have the opportunity to extend their business share through complementing brands and products. For the total value it is thus important to stress the relationship between efficiency, effectiveness and networks as sources of value creation. The potential value of the electronic marketplace depends on the combined effects of these value drivers.

7. Conclusion

The study of value creation, adapted to electronic marketplaces from a marketing channel perspective, has resulted in many interesting findings and the value creation hypothesis in figure 9. In an industrial context the name "marketplace" is to some extent misleading. The business relations are still important and there are a limited number of them so the marketplace is more of a network place or business place in this context, created, maintained and managed for the marketing channel.

The marketing channel as analytical unit is addressing the interaction between efficiency, effectiveness and networks as sources to value creation and cost reductions. The focus in the majority of the value theory is on costs but the customers value (their goals) is a source that the marketplaces have started to focus on. In a value hierarchical discussion (Woodruff and Gardial, 1996) it is mainly attributes and partly consequences that is in focus, not at all the highest level which might be difficult to handle through the electronic marketplace. The theoretical discussion also suggest that the product must have attributes that are suitable for the value creation characteristics of a marketplace, i.e. MRO products are suitable but more complex products need a closer relation for the purchasing process. The synthesis of the marketing channel perspective and the value discussion has generated the value creation hypothesis in figure 9. The hypothesis show the potential total value that a marketplace can bring to the marketing channel and the empirical study gives one example of how actors view the different aspects of value. The common denominator is that the current values are transaction oriented and that added marketing channel functions is a future value.

Transactions is not something to build a strong network upon, it has to be built on values originated from effectiveness and networks in order to be sustainable. The marketplace offer currently include basic values and some offer values. The relationship values are few but they can be managed which is important for the success of the electronic marketplace. A potential for relationship value is for the marketplace to take on a leadership or expertise role to facilitate the competitiveness of the chain in which it is a part. Endorsia.com shows that a way round some of the relationship issues is to simply build on already established business relationships and move transactions on to the marketplace to increase efficiency. With Porters (1996) definition of strategy, the transaction values currently created have little strategic value since they are easy to imitate, several marketplaces actually sell their technical platforms commercially. Sustainable strategic value has to be built on linked systems of activities and relationships, a development for which the efficiency oriented marketplace may be a platform. Porter, 2001, proposes that a unique combination of physical and electronical activities together in a hybrid value chain create sustainable competitive advantage.

In the empirical study we see clear patterns for the different actors, buyers, marketplaces and sellers that follow the discussion of generic benefits for the demand and supply side in marketing channels. The value outcome for the marketplace is currently built on transaction fees which are a generated by a few of the marketing channel activities and easily imitated by others. They need to widen the offer of marketing channel functions to create a revenue base that is sustainable in the future. For the buyer the value is a convenient one-stop shopping facility with reduced transaction costs. For the sell side the values should be that the number of sales contacts is reduced and transaction process improvements but this is where there is a gap at this point in time. The marketplaces have not accumulated all the buyers for a particular seller and the processes are only improved for ordering and order information. The strategic decision to join a marketplace is therefore easier for a buyer than for a seller where additional concerns may be for the brand, price transparency and a general transaction orientation rather than a relational orientation.

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Appendix 1

Marketplace value aspects and how they can contribute to the total value in a market channel

The literature value aspects are compiled below for evaluation by marketplaces, buyers and suppliers. Each aspect, both the main aspect and the sub aspects are to be weighted with a scale consisting of - / 0 / +. A - sign indicates that this aspect has no significant value, 0 that there is no value difference to existing market channels and + that this aspect has significant higher value when doing business through a marketplace. In addition there are blank spaces at the end for adding additional value aspects that should be weighted in the same way.

Value aspect
Strengthening the supply chain
How effectively supplier cost is reduced, The degree of supply chain integration, The supply chain as a source of value creation rather than each actor (firm) by themselves, Provisioning of leadership / expertise in the supply chain, Co-branding

Provide a large array of products and services
Enhances transaction efficiency, One stop shopping, Complementing products and services, Provision of after sales services

Making the transaction convenient for the consumer/buyer/seller
Minimising stress, Smooth processing, Complete shipping, 24h availability, Multiple channels, Payment / Financing

Allow the parties to save time
Reduced search time, Reduced work with statistics, Links to existing ICT-systems (entering order once for all), Reduced delivery time

Reduce the asymmetry of information amongst parties
Increased knowledge of both the parties, Reduced information-based inefficiencies, Preferences clearly stated to all parties

Reward parties for their loyalty
Encouraging repeat purchasing, Frequent orders with few order lines vs. few orders with many order lines

Personalise the product or customise the service
Tailoring for particular use or requests, Use of buyer/seller information to create closer relationships and speed of the process

Build virtual communities
Share experiences and opinions, Comparison between similar products, A source to improve communication flow

Establish a reputation of trust in the transaction
Security in the process, Security for the product/service purchased

Structural change
Use the information flow to fit the physical activities required together, Change the geographical limits, Use information to change product or service content (info for development)

Innovation
Introduce solutions not previous used in this industry (exchange mechanism), Presence of "being the first one" gets advantage, Innovations in design processes, production processes, distribution channels, and markets

Network effects
Adding one more supplier/buyer strengthen all other present actors in the marketplace, Adding one more supplier/buyer strengthen actors outside the marketplace (i.e. force them of rethink their previous relationships/strategic decisions)