CAN SMES IN INDIA BENEFIT FROM B2B ELECTRONIC MARKETPLACES?

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Abstract: *B2B Electronic Marketplaces are internet portals that provide a unique opportunity for small and medium enterprises to showcase their products and services in the global market. There are several business models of B2B electronic marketplaces in India that have demonstrated significant transactions and good number of registered users. While the vertical e-marketplaces focus on a particular industry, horizontal e-marketplaces focus on the wide range of products from multiple industries. Each e-marketplace has a unique revenue model depending on their core customer: either buyer or seller or both.*

This paper is an attempt to review various electronic marketplaces in India and their service offerings. The paper also looks from the perspective of small and medium enterprises and discusses the various key benefits and strategic opportunities for them on internet through these new generation online intermediaries.

Key Words:

B2BE - market place, Small and Medium enterprise, Internet marketing.

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INTRODUCTION

B2B electronic marketplace (e-marketplace) is a portal that provides an electronic platform for business organizations to discover new business partners and conduct transactions online. Bakos define e-marketplace as an interorganisational system that allows the participating buyers and sellers to exchange information about prices and product offerings. (Bakos, 1991, pg 294). E-marketplace provides several value added services to the participating companies and act as intermediaries between buyers and sellers. According to a report by BCG-NASSCOMM, there are more than 75 B2B exchanges in Indian Market. (NASSCOMM, 2002). There are around 24 e-marketplaces registered from India in International e-market directory, emarketservices.com.

This paper studies various e-marketplaces of Indian origin and reviews their service offerings with focus on Small and Medium Enterprises (SMEs). The criteria that was used for selecting the e-marketplaces were

- Origin: The e-marketplace is of Indian origin and focus is on Indian market. However it may facilitate Indian buyers/sellers to conduct transactions with foreign buyers/sellers.
- Transactions: The e-marketplace has good traffic in terms of number of registered users, revenue, and number of transactions done etc and is not a mere information site without any recent significant transactions.
- Visibility: Ranking in the search engine (www.google.com) and their visibility in various Indian publications
- Ownership: The study focuses mainly on neutral or intermediary owned

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E-marketplaces and does not discuss the buyer-owned or seller owned E-marketplaces.

Electronic Marketplaces: Typology and services

Electronic Marketplaces offer diverse services and support various activities of the supply chain either by enabling a particular transaction electronically or by aggregating information from several sources. Based on the types of products and industry segments they cater, e-marketplaces are classified as vertical or horizontal. Vertical e-marketplaces focus on products and services pertaining to one particular industry such as pharma, textile and the like. They find business opportunities in some inherent problems in the industry and intervene by adding value to existing activity in the value chain. Some of the Indian vertical e-marketplaces are Fibre2fashion.com, Chemicalregister.com, 123plastics.com, etc. Fibre2fashion.com is one of the leading e-marketplace in the apparel and textile industry providing services for manufacturers as well as service providers in the industry.

Horizontal e-marketplaces are those e-marketplaces which facilitate companies from multiple industries to participate and conduct transactions on the internet. Some of the popular horizontal e-marketplaces in India are Indiamarkets.com, Indiamart.com, Tradeindia.com, Trade2gain.com etc.

Apart from the kind of products they trade and industry they serve, electronic marketplaces also differ depending upon their services provided and electronic trading process supported. The e-marketplaces provide various services such as product listing and electronic catalogue, disposal of unused inventory or used machinery, buyers and seller's posting, industry news in general. The B2B e-marketplace may also provide value added services such as transaction settlement, distribution, insurance, credit rating and verification, content management, financing as well as integration with back end system. E-marketplace support several electronic trading functions to establish the price of the products exchanged such as electronic multi vendor catalogue, electronic auctions, electronic RFP (Request for Proposal), electronic exchange and the dynamic pricing strategy. Credit rating service provided by the e-marketplace helps the firms to get a credit rating through a third party credit rating firm or through e-marketplace itself to establish trust among business partners. For example, Indiamarkets.com a leading horizontal e-marketplace has an alliance with Dun and Bradstreet, India, to provide credit rating to the participating companies. On the other hand, electronic marketplaces such as IndiaMart.com provide authentication and verification services on their own through India Mart Trustseal service. To establish trust, few e-marketplaces also have ground presence in key locations such as industrial estates and provide various services through their physical offices. For example, Indiamarkets.com has its presence in over 42 locations and offers several facilities like workstations, discussion rooms, conferencing and training facilities for small enterprises. (Upadhyaya and Ranjith VK, 2006, pg 232)

E-market place support several electronic trading functions to establish the price of the products exchanged such as electronic multi vendor catalogue, electronic auctions, electronic RFP (Request for Proposal), electronic exchange and the dynamic pricing strategy.

Electronic Marketplaces also differ based on their focus towards the particular business type. Most of the Indian e-marketplaces focus on enabling small and medium enterprises to have web presence and with a marketing management perspective of small enterprises. These e-marketplaces focus their services towards the sellers. Popular e-marketplaces like Indiamart.com, Fibre2fashion.com are some of the examples and these companies primarily have advertising based revenue where they charge users for catalogue and products display or postings with a sell offer. These e-marketplaces only facilitates buyer and seller discovery and have very less support for conducting transactions through the internet.

E-marketplaces in general, provide benefits such as lower search costs, lower transaction costs, wide selection and lower prices.

Very few e-marketplaces like Indiamarkets.com focus on buyers, usually a large company. They facilitate large companies to automate their procurement process. Indiamarkets.com has tie up with several companies such as Britannia and Marico who have made transaction through e-marketplace as part of their regular purchase process (Upadhyaya and Ranjith VK, 2006, pg 235). These e-marketplaces generate revenue through transactions and provide necessary tools to facilitate transactions online. They provide end to end business solutions from requirements identification to order fulfillment.

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Electronic Marketplaces and SMEs

Small and Medium Enterprises have a unique opportunity to have access to global markets and compete globally as internet provides a more level playing field for them. According to a study conducted by IAMAI and estatsindia.com, out of 13 million MSMEs in India, only 3.65 million MSMEs use ICT and Internet in the year 2006-2007 (IAMAI, 2009, pg 7). There is general lack of awareness of effective use of internet marketing. Among different other internet marketing methods such as email marketing, website, banner advertisement, advertising through e-marketplace is simplest and economical. In India, most of the e-marketplaces offer free registration services where-in a small firm can have web presence with absolutely no cost. Use of E-marketplace by SMEs in India is in the growth stage with around 3.6 million SMEs currently subscribing to online e-marketplaces (IAMAI, 2009, pg 8). Though the transactions through the e-marketplace are low, it is expected to rise in near future. With globalization, SMEs are forced to look beyond the local markets. Intermediaries such as e-marketplace facilitate competitive SMEs to contact large buyers and build long term relationships with them. Table 1 shows some SMEs in India that have been able to supply to big players through the electronic marketplaces.

Table 1 Some Indian SMEs who made it big through Electronic Marketplaces

Vendor	What it Supplies	To Whom	Xchange
Punch	High-Precision Steel Metal Components	GE Motors, GE Transportation Corp., GE Medical	Indiamarkets www.gegsn.com
NP Solders Delhi	Lead-Free Solder Wire	GE Motors	Trade2Gain
Shivam Sales Corp.	Linen For Industries	Maruti	Trade2Gain
Uttam Steel	CRCA Steel Sheets & Coils	Hindustan Motors	Trade2Gain
Homefit Exports	Brass Fittings	Korean & Hungarian companies	Indiamart
Dynatech	Wrought Iron Furniture	Pottery Barn (US) Bedpath & Beyond (US)	Indiamart

Source: Mahanta (2001), The Easy Riders, Business Today, June 21, http://india-today.com/btoday/20010621/dotcom.html

Several benefits can be achieved by SMEs by participating in e-marketplace such as access to wide range of markets, greater potential for partnerships, 24/7 accessibility, enhanced information exchange, improved customer services, ease of updating catalogues/product information and distribution, lower search and transaction costs, ability to enter supply chain of larger companies (Stockdale and Standing, 2004, pg 307). E-marketplaces aggregate information from several sources and provide information on latest industry trends, new technologies, trade fairs etc. They also facilitate in disposing unused excess inventory, used machinery and overstocked finished goods through transaction mechanisms such as seller postings and auctions.

Even though there are several benefits, several barriers and challenges exist in developing countries like India in adoption of e-marketplace among SMEs. Some of the barriers are lack of understanding of SME need by the e-marketplaces, no common technology standards, lack of understanding of internet and their mechanism by SMEs, financial constraints, lack of awareness of global trading mechanisms (Stockdale and Standing, 2004, pg 309). Neutral e-marketplaces have to ensure that they provide benefit to both buyers (usually large organizations) and sellers

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(usually SMEs). Most of the SMEs thrive on long-standing relationship with the buyer which the electronic marketplaces should also take into account. SMEs would be willing to participate if they wish to preserve an important business relationship. If larger profit margins are available by exercising traditional distribution channels, suppliers would focus on traditional distribution channels (Gulledge, 2002, pg 48). There is also empirical evidence that coordination mechanisms vary from industry to industry, depending on factors such as the importance of buyer-supplier relationships, the degree of buyer and supplier concentration, the uniqueness of the product or service, and the frequency of transactions. (T. Olavson, 2001). The vertical portals have a better opportunity for providing tailor made solutions for business organizations in the industry and addressing their concerns.

With several mushrooming verticals and horizontal e-marketplaces, biggest challenge for SMEs is to select an appropriate B2B e-marketplace for their internet marketing initiatives.

However with more and more companies having web presence on the internet, the small enterprises have to be competitive and transparent to gain advantage. Services such as credit rating help firms to have better brand image on the electronic marketplaces. With several mushrooming verticals and horizontal e-marketplaces, biggest challenge for SMEs is to select an appropriate B2B e-marketplace for their internet marketing initiatives. Some of the factors which SMEs can consider while selecting the e-marketplace are ownership and history of the portal, recent ongoing transactions and business referrals, the right product category in the e-marketplace suiting the company's product, trust services and security on the site and type of transactions facilitated.

Conclusion and Future Scope of Research

Small enterprises need to equip themselves to face the ongoing globalization and internet technology adoption is a stepping stone. B2B E-marketplaces provide SMEs showcase their products and look beyond their traditional markets. SMEs that familiarize with such new generation technologies faster than others in their industries will have a competitive advantage.

It has been observed that there is lot of varied patterns of adoption of B2B e-marketplaces among SMEs. Therefore what factors influence SMEs participation in the e-marketplaces can be studied. Studies focused on specific industry sector can provide valuable inputs of problems of small enterprises and possibilities of interventions by e-marketplaces. Sectors that are highly export oriented such as textile, sectors which have high fluctuations in demand and supply and industry that is highly fragmented can provide lot of scope for intervention by neutral e-marketplaces. Product related characteristics that influence adoption can be explored. Neutral marketplaces with many buyers and many sellers scenario provide a competitive environment for SMEs. Unless there is a tangible economic value created by these marketplaces, long term strategic use of e-marketplaces by SMEs would not be possible.

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