

Understanding Vertical E-Markets

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INTRODUCTION. Internet-based online business-to-business (B2B) exchanges are fundamentally changing the purchasing and supply chain management processes for many major buying organizations and industry groups.

VERTICAL and HORIZONTAL MARKETS. Online marketplaces are now being organized into “verticals” which focus on specific commodity areas for particular industries. According to the book “**B2B Exchanges**” by Arthur Sculley, these verticals occur in three forms:

- Aggregators. Provides one-stop shopping by aggregating the product catalogs of many suppliers in one place and in one format. Examples are e-Chemicals, Chemdex, MetalSite, and PlasticsNet.
- Auctions. Allows many buyers and sellers to bid competitively for contracts.
- Exchanges. Create a centralized market for standardized products and/or services. Examples are e-Steel and PaperExchange.

Verticals help remove inefficiencies in fragmented markets between buyers and sellers by providing a centralized marketplace. This reduces transaction costs, speeds the procurement cycle, and provides a more flexible way to set prices based on fluctuating market conditions. For example, the May 1st edition of The New York Times notes Bristol Myers Squibb is saving an estimated \$400 million to \$600 million a year using B2B software buy its goods over the Web. Verticals provide other advantages such as common contract forms, a neutral forum, pre-qualification of suppliers, improve efficiency of distribution channels, and provide standardized products & services.

By contrast, a “horizontal” markets support buyers and sellers in many different industries. However, the vertical is the dominant B2B e-commerce model based on the reasons discussed above.

As a reality check, implementing vertical markets is much easier said than done. Many industries have challenges with incompatible product standards, many suppliers are slow to come online, changing ingrained buying habits is not easy, and some suppliers balk at having to pay transaction fees when they sell something. It also can cost a lot of money to buy the hardware, software, and support services to operate effectively in a vertical e-marketplace. There is also a shakeout occurring in the B2B marketplace since it can take 3 to 5 years to reach profitability.

M/WBE ISSUES. Vertical markets pose both challenges and opportunities for minority- and women-owned businesses. There are several challenges such as:

- Disintermediation (Cutting-Out the Middleman). Traditionally, a manufacturer or service provider had to work through layers of middlemen such as distributors, wholesalers, sales representatives, etc. before getting to a buyer or customer. Now, the technology of Internet allows manufacturers and service providers to directly communicate with buyers. Many M/WBEs operate in these intermediate roles in corporate supply chains.
- Contract Bundling. E-Commerce is accelerating the pace of contract bundling and supplier consolidations. Bundling raises the average dollar value of contracts and/or increases the scope with a larger geographic territory, product volume, number of products, etc. This puts small and mid-sized M/WBEs at risk.
- Reverse Auctions. Bidding prices using Web-based “reverse auctions” is great for buyers. However, M/WBEs may be putting their companies at risk by bidding too low and end up with a money-losing contract.

On the other hand, vertical marketplaces are creating new opportunities for M/WBEs by providing access to new geographic markets and industry groups. The Internet also allows M/WBEs to form online “supplier consortiums” to aggregate their selling power to service a particular vertical market (this is also known as creating a “virtual” company). Joining a vertical also makes it easier for buyers to find M/WBE suppliers, which helps eliminate the all-too-common excuse of “I can’t find anybody.”

SUMMARY. The key thing to remember is vertical marketplaces are changing the rules of supply chain management and adding new online competitors. Minority- and women-owned businesses must educate themselves and adapt to the new reality of Internet-based “vertical” marketplaces to ensure they succeed in the digital economy of the 21st century.

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