

# DIGITAL MARKET SUCCESS:

# 10 eSSSENTIALS

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In the 1980s and '90s, corporations focused on systems and business integration. They connected desktop systems with networks, common architectures and shared applications, first within functions, then across the entire organization.

Now in the new economy, it's all about integration between organizations and across markets, how you interact with your customers, your trading partners, and even your competitors to achieve competitive advantage. It's about how you create market-facing and supplier-facing systems that help you differentiate, integrate and evolve very quickly.

#### Digital markets rule

Digital markets quickly are becoming the touchstone for market

integration. These dynamic business-to-business trading hubs are systematically uniting buyers and sellers both within and between industries in ways never even imagined five years ago.

For traditional brick-and-mortar enterprises and emerging dot-com companies alike, digital markets represent a revolutionary approach to the velocity of products and services within and between industries.

Yet despite the promised benefits, there are still many challenges. Technical infrastructure, capital investment, alliance management, legal entanglements, protection of intellectual property...the list goes on – all of these are slowing the process of launching successful digital markets. The fact is, if you are going to create

## Steps to Success

- 1 Assess the market – understand relationships.
- 2 Focus on specific market category – it's only a niche if it's a niche.
- 3 Leverage individual expertise and relationships – call in your “chits,” trivia that you know helps you succeed.
- 4 Find creative ways to attract initial buyers and sellers – make it a “love fest.”
- 5 Identify market models and mechanisms – transaction fee, subscription based; also auction based, dynamic pricing, etc.
- 6 Select a revenue model that is fair to both buyers and sellers – both must have liquidity across the market.
- 7 Select appropriate enabling tools – a flexible, reliable platform.
- 8 Build content and community – offer more than a buying opportunity, and remember, it's never over.
- 9 Invest capital up front to acquire market base.
- 10 Be first to market – focus on short projects; must be 90 days or less, or you lose.

or participate actively in a digital market – if you are going to wager a sizeable piece of your company on the initiative – you must have a very strong game plan.

To create a successful digital market, you must consider many factors and complete many tasks. Among these, 10 planning, operational, launch and ongoing issues are absolutely critical:

### Planning issues

To be successful, you must be among the *best to market* with a correct and sustainable business model. Once you are entrenched in your niche market, the barriers to entry will be too great for most other players to compete.

It's important to deploy rigor in performing a *market assessment*. You then will be positioned to develop a very strong understanding of what the demand is for the marketplace you want to create, and what the sustainable competitive advantages are that you offer. This understanding must be fact based, and the value proposition you build for all participants must be clearly understood.

Your digital market must have a *very specific, defined focus*. Through the market assessment you can discover your niche. It is important to initially focus your digital market to gain rapid liquidity, create value for the participants and build high barriers to competitive entry. Once you own your niche, you can expand your focus.

## There is no such thing as a discount digital market. If it breaks, you're broke.

Secure your niche by *leveraging industry expertise and relationships*. Make sure you draw industry leaders into your initiative – you want the visibility of leaders who have recognizable domain expertise. Include both buyer and supplier input as you design the marketplace. Leverage all these relationships to help promote activity and community in

the marketplace. This will instill loyalty among participants and also create barriers to entry for your competitors.

Determine your approach for *buyer and supplier adoption*. Use creative incentives to encourage participation. Today many companies offer equity in the marketplace as a reasonable short-term incen-

tive; however, long-term customer traction is driven by other factors, such as deep integration into the individual participant's supply chain.

### Operational issues

Determining *the right revenue model* is critical to securing participation in the marketplace. Among

## Investment Models for Net Marketplaces

We're halfway through the "breakout year" for B2B Internet marketplaces, and a variety of investment models are evident among trading partners looking for efficiencies, and third parties looking for profit. Unfortunately, most of these announcements are not yet operational, leaving buyers and sellers (and Wall Street) to wonder which ownership structures will prove most competitive.

On one hand, you have joint ventures between competitors. PetroCosm, for example, is the first global, independent online marketplace for the energy industry, linking buyers and suppliers of oil and gas products and services, and was developed by equity investors Chevron and Texaco (other partners are Ariba, Crosspoint Venture Partners, Requisite Technology and KPMG Consulting). As of May, more than 60 such marketplace consortiums had been announced, accounting for some 278 companies with \$3 trillion in annual purchasing, according to Credit Suisse First Boston.

On the other hand, some Internet marketplaces result from alliances between non-competitors – usually merchants, technology providers and/or investors. eMac Digital, the new food-service marketplace announced in July by McDonalds and venture capital firm Accel-KKR, demonstrates a

hub-and-VC partnership model. The host of small start-ups seeking funding to pursue their marketplace visions may be wholly-owned at the moment, but they will likely fall into this partnership category after VCs buy into their enterprises.

The most unusual case is the wholly-owned marketplace, where an 800-pound gorilla actually lays out the cash to own and operate its own, private marketplace. This is like the kid who has a full basketball court in his backyard when the local public school has six up the road. You have to wonder why a company would be so intent on total control.

Whether it's consortiums, single merchants, technology developers or VCs fueling the new crop of digital marketplaces slated to roll-out this fall, most of them say they will operate as independent enterprises where founding organizations will enjoy no more influence than their fair market girth allows. If that's true, equity structure won't be a key differentiator in the long run. Buyers and sellers will gather around the most complete user communities, the most streamlined distribution and delivery mechanisms, as well as the most effective online trading tools with relative blindness to marketplace ownership.

– Felix Gorrio,  
Washington News Bureau

the most popular today are transaction fees, subscription fees, advertising, and fees for auction management. Advertising alone cannot sustain a marketplace. Transaction fees will decrease as the marketplace evolves. Lower prices on commodity goods only work for 12 to 18 months. After that they, too, will be unable to support the marketplace. Ultimately, what a long-term, sustainable marketplace will require is a way to create value-added services for which companies will be willing to pay higher fees.

To help operationalize your marketplace you must have strong *alliance management*. Digital markets are rapidly established through the deep collaboration of funding partners, industry experts, content providers, software, hardware, systems integrators and much more. A good alliance management group will ensure that all parties are tied closely with your strategic and operational goals and that you build a supportive ecosystem.

### Launch issues

Significant *capital investment* is required to launch a digital market. Plan for an initial funding of between \$8 and \$10 million, but realize that it will likely cost more than that. You can only be first to market if you concurrently accomplish the key objectives discussed here, and that requires spending. Attempting to launch without the appropriate funding can only lead to failure. Plan and budget aggressively,

and you'll maximize your opportunity for success.

The *technology component* of the digital market is a good example. There is no such thing as a discount digital market. If it breaks, you're broke. You must have the techno-

of freshness and stickiness.

### Bringing the digital market to reality

As more companies launch digital markets, we are seeing an interesting phenomenon: Huge *eCommerce*

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logy that is both extendable and very reliable. This is not the time to choose the cheapest software, nor is it time to custom-build a marketplace solution. It's the time to look for proven solutions that work and can be supported.

### Back to the future issues

Finally, understand that once you launch a digital market, *it's never, ever over*. You must continue to enhance the content and community creation of your marketplace to maintain your competitive advantage. As the participants of your marketplace gain knowledge and experience, you must offer new enticements. Think creatively and keep in touch with what others are doing to maintain this combination

*ecosystems* are being formed, consisting of the participants' internal eProcurement systems, horizontal corporate exchanges and vertical digital markets. All three of these areas must converge to provide the greatest value to any single organization. If you are going to win in this arena, it's critical that you have expertise – or access to expertise – in each of these areas, because you'll be dealing with them as both a buyer and supplier.

### Bringing it all together?

1. Develop a comprehensive strategy around all three components of the effort – buy-side, sell-side and digital market.
2. Select the most flexible and reli-

## PetroCosm Goes Live

**P**etroCosm (www.petrocosm.com), the industry-owned online exchange for the oil and gas industry, went live on July 17. The first transaction was a reverse English auction for Texaco, through which the company purchased drilling equipment.

According to Alexandra Pruner, vice president of marketing for PetroCosm, the business-to-business eCommerce marketplace was up and running in record time: “PetroCosm was formed in January, and the management team brought on in the April/May timeframe. We launched the new look and feel of PetroCosm on June 30, and we transacted our first business on July 17.”

“The PetroCosm Marketplace is a truly compelling proposition,” said President and CEO Norman C. Chambers. “I came from the supplier sector [Halliburton Company] and PetroCosm’s business model is empowering for both buyers and sellers worldwide. We’re starting with a procurement and auction capability, and will quickly move on from there.”

PetroCosm offers energy companies reduced transaction costs, increased productivity, access to new customers and suppliers, and gives them a competitive advantage. A unique in-house 24/7 customer support call center provides quick answers by phone.

### **An independent, neutral market**

“Neutrality is an important

success factor for industry trading exchanges,” says Bruce Richardson, senior vice president of research for Boston-based AMR Research. “In the case of PetroCosm, not only has a new independent company been created, but the players have taken the concept of neutrality further by creating an equity structure that encourages industry ownership and broad participation from both buyers and suppliers. Not only is there an equity play for participants, but they can also benefit from the efficiencies created by such exchanges.”

“It’s important to note that we are not a buying consortium. We are bringing in buyers as well as suppliers,” explains Pruner. “We are working closely with Ariba in building out a complete supply chain capability.”


Houston-based PetroCosm currently has regional offices in London, Aberdeen, Singapore and Bombay, and is continuing to expand its global presence by creating locally owned and managed hubs in major petroleum markets throughout the world. “We will be building out regional hubs, where we will address the currency, language, and cultural business practice distinctions to a region,” says Pruner.

PetroCosm Corporation’s founding members are Chevron, Texaco, Crosspoint Venture Partners, Requisite, KPMG Consulting and Ariba, Inc. *—LD*

able software solution, both for your procurement initiative and the digital market itself.

**3.** Speed to market is critical, so focus on short, intense projects of no more than 90 days. The days of two-year implementations are long gone. Instead, plan and launch the marketplace in the first 90 days. Add functionality and content over the next 90 days, etc. Deal with each segment discretely, but make sure it conforms to the overall strategy.

**4.** Above all else, make sure you and the other marketplace participants have a very strong alliance framework in place. You must get along with other participants and this means sharing more information than you ever have before. So you must have a carefully considered plan to take full advantage of opportunities while mitigating your risk. Marketplace governance inadequacies will cause many markets to fail.

By partnering with organizations that have proven track records in executing these four steps, and addressing the 10 essentials described, you will be well positioned to launch a successful digital market. 

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