INTERNET-ENABLED B2B LINKAGES: ECONOMIC, STRATEGIC, AND RELATIONSHIP ISSUES

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ABSTRACT

The fast-paced development of the Internet as a mechanism for efficient communication and transactions has led to the growth of diverse forms of electronic business-to-business marketing linkages. These linkages have great potential for the development and exploitation of newer constellations of supply chains as well as for the re-design and re-orientation of existing ones. Newer sources of value and competitive advantage enable firms to better manage their existing relationships with suppliers and customers. Moreover, firms are now equipped with better tools for engaging in advantageous alliances with other firms possessing complementary resources.

While varied forms of business-to-business linkages using Internet technologies are only evolving, the shift towards electronic markets and electronic hierarchies has profound impacts on the central problem of coordination in inter-firm relationships in business markets. This paper details the various operational and cost efficiencies of electronic linkages and offers the view that in selecting a form of Internet exchange, strategic considerations must be balanced with the benefits of operational efficiency.

Internet technologies (Intranets, Extranets, WWW, etc.) have certain immediate impacts on business-to-business marketing. First, such technologies foster better and efficient coordination of economic activities within and between firms and have a great potential to reduce coordination costs. Second, a greater degree of direct contact between the buyer and seller is now enabled, thereby threatening the existence of traditional intermediaries. Third, such technologies create newer constellations and types of firms that operate either as intermediaries providing specific brokerage functions, such as the information intermediary, or provide architectural support for the maintenance of buyer-seller relationships. Fourth, there is now greater potential to personalize business transactions to an extent previously considered infeasible without concurrent high capital and operational costs. Lastly, such technologies have the potential to change existing rules of competition by uncovering newer firm capabilities and sources of competitive advantage.

Capital investments in information technology would reduce the unit costs of coordination to an extent where they hardly matter and thus, render markets more attractive in cases where hierarchies were previously favored. However, exchanges involving specific assets and complex products will call for electronic hierarchies as the preferred governance mode. Moreover, the trade-offs between electronic markets and electronic hierarchies may be impacted by a variety of organizational and environmental factors.

In general, factors favoring electronic markets are routine transactions involving standardized products, reductions in search costs for buyers, production cost reductions, and the dispersal of electronic technologies and infrastructure across the industry. On the other hand, multi-layered transactions involving complex products and implicit knowledge, preference for avoiding small-numbers bargaining situations, presence of specific assets and non-contractible investments, and the possibility of reductions in internal costs of organizing production – all favor the use of electronic hierarchies.

When strategic issues are considered, it can be seen that electronic linkages between buyers, sellers, and other relevant intermediaries, such as market makers, have transformed the traditional value chain. While erstwhile conceptions of the value chain focused more on the physical dimension of value-added activities, from raw material procurement to the distribution of the finished product, the virtual value chain focuses primarily on creation and delivery of information through information-based channels.

By joining B2B networks, the firm also stands to gain from a variety of network externalities. Electronic linkages with larger installed bases create more value for each participant and enhance their selection of buyers and sellers. Moreover, supply innovations are absorbed faster and cheaper through the network and there is a greater possibility of obtaining complementary resources needed for innovation success. Diverse sources of knowledge and expertise can be leveraged within and across organizational boundaries. Essentially, the entire value constellation created through interactive electronic linkages could itself be a source of competitive advantage.

However, an important dark side that cuts through the rhetoric of knowledge management and competitive advantage is the consideration of strategic risks of electronic networks. The risks of outsourcing too much must

be balanced with the opportunity and transactions costs of outsourcing too little. But, where to draw the line remains the crucial challenge. It is conceivable that due to the presence of various strategic risks, B2B networks will be more tightly coupled, involve fewer participants and involve intermediation only to a degree that would maintain an optimum balance between economic costs, strategic benefits, and vulnerability.

The use and spread of Internet-enabled technologies have several deeper effects on the historically vexed problem of coordination of economic activities. The initial enthusiasm for B2B exchanges and networks is sure to phase out unless due attention is shifted from simply price and transactions to the development of long-term relationships. Strategic, economic, and relationship issues must be well balanced within the B2B chain in an attempt to create and deliver superlative customer value.

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