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**B2NP: A MODEL FOR EMPLOYING
BUSINESS-TO-BUSINESS COMMERCE EXCHANGE
TECHNIQUES IN THE NONPROFIT SECTOR**

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B2NP: A Model for Employing Business-to-Business Commerce Exchange Techniques in the Nonprofit Sector

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INTRODUCTION “THE WAVE OF THE FUTURE”

Across the American economic landscape - and indeed around the world – managers are facing the realization that today, e-business is fast becoming *the* way that business will be done in the future. As Stewart Alsop (1999), writing in *Fortune* magazine, recently declared:

The "e" in e-business will soon be irrelevant...e-business is not so much e-anything as it is figuring out how to use technology to move stuff around efficiently. In the next wave, in other words, businesses will make "e" such a core part of their business that the difference between "e" and everything else will be nonexistent. Or they won't be businesses any more (pp. 86-87).

As can be seen in Figure 1 (attached), we are fast approaching the point – projected by Scannell, Nelson, and Briody (1999) to be between 2006 and 2008, where e-business will end – just becoming, as Alsop (1999) observed, the way things will work.

Scannell, Nelson, and Briody (1999) were especially prescient in predicting that in this current year (2001), we would be experiencing both a NASDAQ downturn and a great shakeout in the e-commerce sector from massive “dot.com” failures. Yet, executives should not take this temporary malaise as a sign that the changes being wrought by e-business are coming to an end. In contrast, they should appreciate that it appears that we are collectively riding the unmistakable curve of a sweeping change of history - and a sweeping change in the way business will be done throughout the economy.

Most of the focus of both the business press and academic research has – to date – focused on e-business developments in the private sector. Attention has turned from the so-called

B2C (business-to-consumer) sector (exemplified by companies such as Amazon.com and Yahoo) to the much larger B2B (business-to-business) sector. According to Deloitte Consulting, online B2B sales will outpace B2C sales by a six-to-one margin (cited in Cohn, 2000). As can be seen in Figures 2 & 3 (attached), the forecast growth in these markets over the next few years, both domestically in the United States and in the global marketplace, is staggering. The New Economy is indeed bringing about what Sawhney (1999) termed “the death of distance,” as buyers and sellers can interact from anywhere around the globe with the click of a mouse (p. 10).

There is, however, a much neglected aspect of the potential e-business revolution.

The nonprofit sector, representing six percent of the nation’s gross domestic product, has great potential for transformation from e-business applications as well.

This paper will briefly overview several potential business models that could be applied in the often overlooked “B2NP” – Business-to-Nonprofit – sector of the economy. These models include ideas for applying B2B concepts to the areas of:

- Nonprofit Procurement Exchanges
- Nonprofit Management

While this venue does not allow for a full analysis of these concepts, the models for each will be introduced and briefly discussed here. The author, however, looks forward to receiving your feedback on these ideas at the upcoming Nonprofit Research Forum. In the concluding section of this paper, the author will briefly discuss his perspective on the impact of these developments on nonprofits and their constituencies.

B2NP MODELS

New Marketspaces

Does the Internet create entirely new business models, or does it merely replicate in cyberspace what can be accomplished in the physical world? There is ample thought that the former is the case, as the Internet creates new “marketspaces,” making online exchanges possible. The marketspace concept was first set forth in a *Harvard Business Review* article, in which Rayport and Sviolka (1994) simply stated:

One of the profound consequences of the ongoing information revolution is its influence on how economic value is created and extracted. Specifically, when buyer-seller transactions occur in an information-defined arena (which they labeled the ‘marketspace’), information is accessed and absorbed more easily, and arranged and priced in different ways. Most important, the information about a product or service can be separated from the product or service itself. In some cases, it can become as critical as the actual product or service in terms of a company’s profits” (p. 141).

Jay Walker, Founder and Chairman of Priceline.com, stated that the ideas behind these new marketspaces are rooted in the concept of “debundling,” as, for the first time, the “information component of the economic activity is handled separately from the physical component” is separated in online exchanges (quoted in Rothenberg, 2000, p. 92). As Sawhney (1999) commented, today, “the Internet enables the separation of information (bits) from the physical product (atoms)” (p. 14).

What kind of marketspaces will be made possible in the New Economy? Most evident today is the concept of a “B2B exchange,” which has quickly gone “from a ‘huh?’ word to a buzzword” (Schwartz and Joseph, 2000, p. 41) and has been touted as being “the single greatest creation since Henry Ford invented the assembly line” (Henig, 2000, p. 121). Procurement officers and big companies are taking the lead in moving towards purchasing through B2B marketplaces. This is because they want both to enjoy the cost savings involved in conducting

business online and to take advantage of the liquidity and increased competition found in e-marketplaces (Seybold, 2000).

According to Seybold (2000), we will likely see B2B e-marketplaces become the dominant mode for both fixed and dynamically-priced (auction-based) transactions between businesses. Indeed, by 2006, Forrester Research anticipates that almost 40% of *all* B2B commerce will be transacted online (Hof, 1999, p. EB10).

Nonprofit Procurement Exchanges

The most direct transference of B2B concepts to the nonprofit sector can be found in the area of procurement. Fundamentally, the challenge present today is how both nonprofit organizations, making their necessary expenditures for purchases of all types of goods and services, and their interested suppliers can make use of online e-marketplaces to make better and more efficient connections with each other. In the area of procurement, the players currently interact much in the fashion shown in Figure 4 (attached), entering the marketplace – whether that is a physical marketplace or an electronic one - as independent entities.

Just as is occurring in the private sector, the major question is who will take the lead in establishing such exchanges in the B2NP marketplace that presently exists? There are basically three options. These are:

1. *An Independent Trading Exchange*
2. *A Consortium Trading Exchange, Led by Suppliers*
3. *A Consortium Trading Exchange, Led by Nonprofit Organizations*

An Independent Trading Exchange

The first type of e-marketplace that may well emerge for linking nonprofits and their suppliers may not be established by either of these parties themselves. As depicted in Figure 5 (attached), an ITE (*Independent Trading Exchange*) may be set-up by entrepreneurial ventures seeking to link a specific category of nonprofits – based on a common characteristic (locality, service orientation, etc.) – with current and potentially new vendors.

Quite literally, new, industry-specific marketplaces are being announced everyday across every avenue of the private sector (Bowles, 2000). Why this explosion of B2B marketplaces? Well, as Dave Perry, CEO of Ventro, says, the goal of his, along with all the other, start-up independent exchanges is to essentially place themselves “in the middle of a market that already exists and facilitate it by setting up an e-commerce site” (quoted in Hutheesing, 2000, p. 52). Largely, it is a matter of what Lyons (2000) labels a case of “Chinese math,” namely being the entrepreneur’s dream of creating an exchange that could capture 1 or 2% of a market worth billions – maybe even hundreds of billions – of dollars. These fees are based on the amount saved by procuring through the exchange (paid by the buyer) or for an expanded reach and/or sales volume (paid by the seller).

Thus, we have seen a proliferation of such exchanges – serving both specific industries (i.e., steel.com, farms.com, paperexchange.com) and attempting to span many industries (i.e., VerticalNet, CommerceOne). Most of the independent B2B exchanges are still in their infancy, with many having not conducted their first meaningful trade or established firm partnerships with major industry players. As Henig (2000) characterized the situation, many of these firms quite simply are at the “press release stage” of their business plan (p. 121). And the field is becoming especially crowded in some areas that would appear to be exceptionally lucrative.

Such is the case with health care, where at least forty such ITE e-marketplaces have been established.

Therefore, the rush will likely be on in 2001 to establish such exchanges for the nonprofit sector as well, with interest coming from entrepreneurial ventures seeking to put in operation a business model founded on the ability to enable nonprofit ventures to enjoy some of the cost savings of their private sector counterparts. Additionally, they can appeal to businesses, many of who may not have been able to tap the buying power of nonprofit organizations in the past.

Much of the recent shake-out in the “dot.com” area has been of such narrowly focused exchanges. As Schwartz and Joseph (2000) observed, as with most of the e-commerce world, actually making the promise of B2B pay will be “tricky” for those entrepreneurs who attempt to set up independent exchanges. In fact, they believe that “only a few players will emerge from the scrum of hours-old e-companies as the marketplaces of choice.” As the consensus is that only 1 or 2 exchanges will survive in any given industry, “the race is on to become the de facto exchange” for every area of the economy (Henig, 2000, p. 130).

A Consortium Trading Exchange, Led by Suppliers

The second option for creating e-marketplaces involving nonprofit organizations could be a collaborative venture. Such a CTE (*Consortium-led Trading Exchange*) would take the form shown in Figure 6 (attached). The push for establishing CTE’s could come from either the supply-side (the vendors seeking to supply nonprofit organizations) or from the buy-side (nonprofits themselves).

In the first scenario, the shape of such an exchange could take a form such as that shown in Figure 7 (attached). Why would suppliers band together in such a fashion? Simply put, it

would be to better reach the nonprofit sector). As is beginning to be seen with the public sector marketplace, suppliers of everything from computers to medical equipment will push for a common platform through which to do business with government, as opposed to having to deal with each government's – and perhaps government agency's – procurement systems (Robinson, 2000). Thus, one can envision that various supplier groups will take a great interest in forming such supply-side e-marketplaces in the near future for the nonprofit world as well.

A Consortium Trading Exchange, Led by Nonprofit Organizations

The final type of procurement exchange may be formed by consortia of nonprofit organizations themselves. Such an exchange may take the form shown in Figure 8 (attached), whereby nonprofits join together in consortia to combine their purchasing activities. Like as has occurred in the for-profit sector, purchasing power can be vastly increased through such combinations – creating more of what Glen Meakem, founder and CEO of FreeMarkets.com, categorized as “blue-chip” buyers, amongst the not-for-profit community (Tully, 2000). As procurement is not the main focus of nonprofits, by banding together in such consortia, the organizations can combine resources to conduct these activities online in a collaborative manner to the betterment of all with a minimal investment of time and resources. Further, suppliers wishing to do business with nonprofit organizations could enter this marketplace through a single point of contact.

The Nonprofit Marketplace Reinvented

Reforming procurement activities, which are not at the core of any nonprofit venture's existence, may be a way of streamlining operations and saving dollars that may be redirected

toward fulfilling the true mission of the organization. Such changes may indeed be incremental in nature. Yet, there are applications of B2B concepts in the nonprofit sector that could have far reaching potential in reshaping organizations and their relationships with their constituencies and with the wider nonprofit community.

Recall the idea of a marketpace. For the first time in history, the Internet allows for the separation of the physical and information components of all parts of an economic transaction. This “debundling” can be applied in the nonprofit arena to change the way in which resources – both physical and human - are deployed *within* and even *between* nonprofit organizations. Debundling can also change the way nonprofits relate to their donor and talent bases as well.

How can this be brought about? A good place to start is to consider the question both on a theoretical and a practical level. Indeed, Michael Schrage (1999), a fellow at the MIT Media Lab, proposed a potentially far-reaching paradigm shift in the management of organizations. Essentially, Schrage believes that the organization itself can be viewed as a marketpace, wherein market mechanisms can be employed to best allocate its physical, financial, and human resources, as shown in Figure 9 (attached). Through the application of exchange concepts and dynamic pricing, the best utilization of the organization’s resources can be achieved.

How are these concepts being put into practice in the for-profit sector? Already, we are seeing the beginnings of a potential revolution in our conceptualization of how to manage resources, as leading companies have put the power of e-marketplaces to work. For example, Carly Fiorina, CEO of Hewlett-Packard, reports that her company has but in place an internally developed “Web agent” that helps managers to allocate HP employees to where they are most needed within the firm’s business units (cited in Corcoran, 2000). Increasingly, organizations are also turning to “talent exchange marketplaces” (i.e., elance.com, freeagent.com, iq4hire.com) to

supplement their core workforce for project work (Alexander, 2000). And it is not only in physical resources where the marketplace concept is being employed in management. For example, Masuda and Whang (1999) proposed a dynamic pricing model for the internal allocation of limited computing services within an organization. The researchers studied how those needing the services exercised their “buying behavior” for these services, both where the pricing structure is centrally controlled (by a manager allocating resources) or where it is decentralized (determined by users engaged in bidding for the services). In more complex and volatile environments, the latter, dynamically-driven environment proved much more beneficial.

If Schrage’s concepts are adopted by nonprofits, we could well see the emergence of new ways of managing nonprofit organizations and new relationships between the nonprofit entity and both its constituency and funding bases. Mohanbir Sawhney (1999) foresees that we will see – in all forms of online commerce - the development of cognitively-defined markets, in which groupings of activities are matched to the needs of the buyer. Metamediaries will manage the process of information, product, and service flow – as defined by the buyer – through the marketplace. In the case of nonprofits, the *buyer* would be the group whom the organization is in place to serve. The role of nonprofit management would be to – as Rayport and Sviolka (1994) framed the issue - manage the marketplace, bringing together the combined resources of the organization – and perhaps even between nonprofit organizations – to further their unique missions by best serving the interests of their populations. In time, this may radically reshape the nonprofit sector of the economy.

CONCLUSION

At the outset of this paper, the sweeping change of the advent of e-business was outlined. Indeed, in the midst of the Internet Revolution and the development of a New Economy, we are indeed living in a unique era. Yet, as Hal Varian (2000), the author of *Information Rules*, observed, in the long view of history, the “feeding frenzy” surrounding the development of the Internet is really nothing new. Even though it may be a mania unique to our own lifetimes, the Internet Revolution is following – albeit at a faster pace perhaps – the same trajectory as have earlier technological revolutions, including the introduction of:

- steam engines
- telegraph
- telephone
- radio
- television
- airplanes.

Way back in Internet time – 1996 – Bill Gates, the founder of Microsoft, envisioned the beginning of a new era of “friction-free” interactions in the marketplace. In his best-selling book, *The Road Ahead*, Gates (1996) observed that the Internet has the potential to make the “invisible hand” of capitalism a virtual, operative one. With imagination and initiative, nonprofit managers can make it a friendly hand as well.

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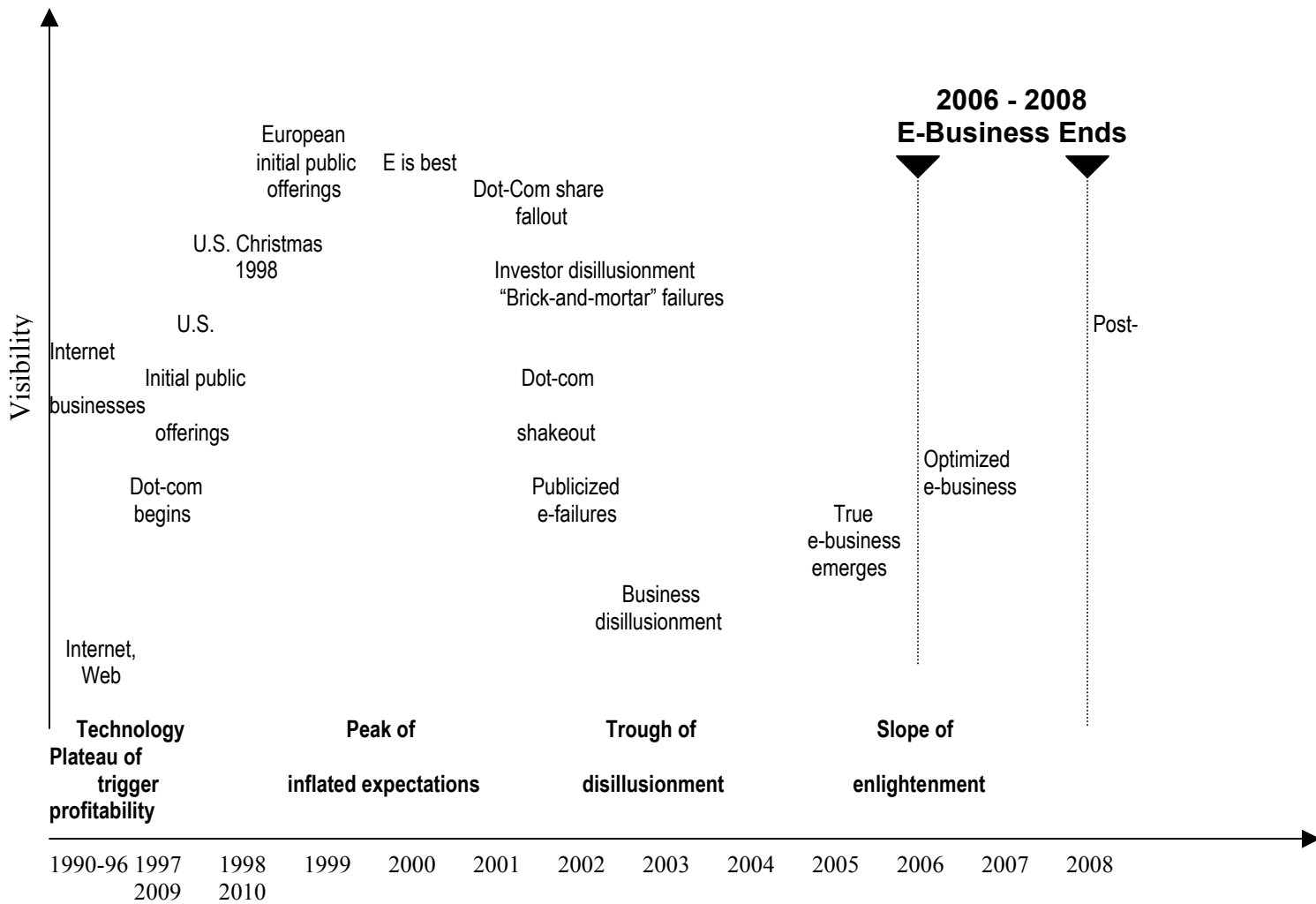


FIGURE 1
The Wave of the Future: e-Business Becomes Business

SOURCE: Based on Scannell, Nelson, & Briody (1999, p. 37).

Figure 2 - Overview of the Domestic B2B Market, 1999-2003

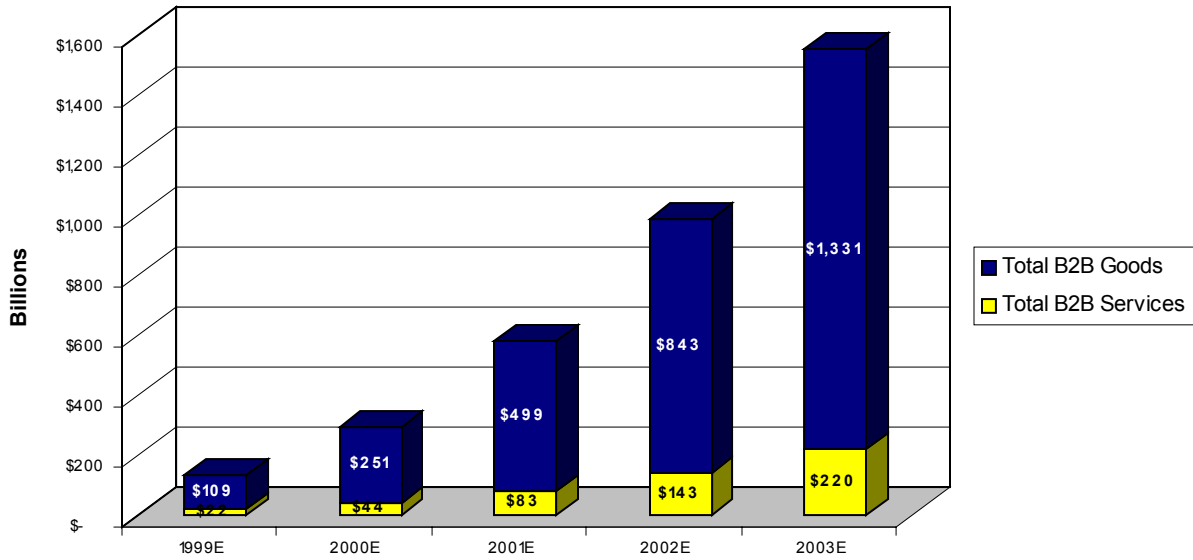
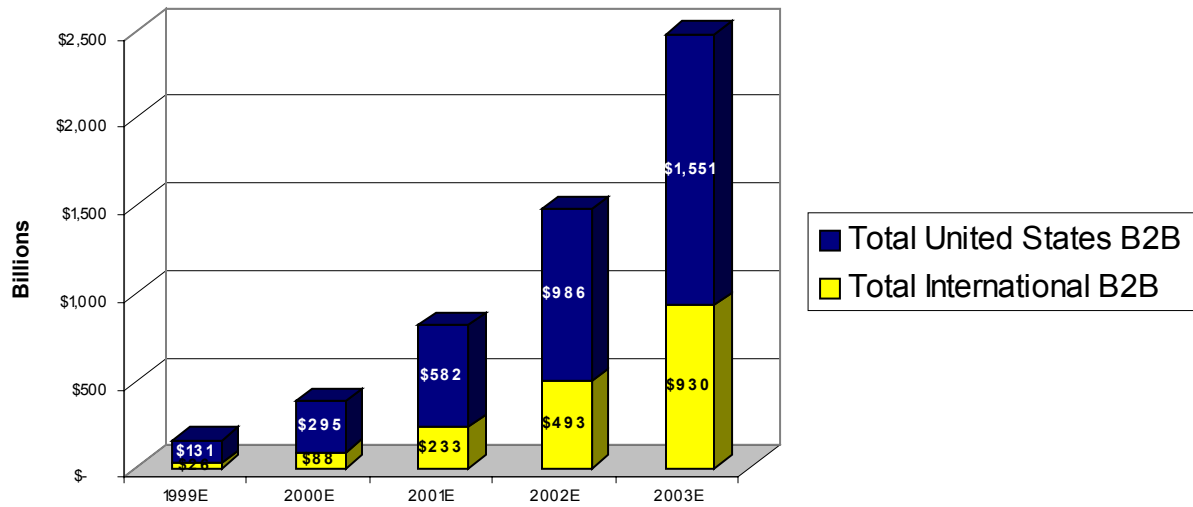


Figure 3 - Overview of the Worldwide B2B Market, 1999-2003



Public Sector Procurement
Spending

	1993	1994	1995	1996	1997	1998	1999
State & Local Government	230	240	265	280	290	310	345
Federal Government	240	230	233	236	234	240	235
	470	470	498	516	524	550	580

	1993	1994	1995	1996	1997	1998	1999
State & Local Government	49%	51%	53%	54%	55%	56%	59%
Federal Government	51%	49%	47%	46%	45%	44%	41%
	100%	100%	100%	100%	100%	100%	100%

	1850	1910	2000
Railroad Companies	173	1380	30

	1845	1860	1950
Telegraph Companies	1	53	1

	1980	1985	2000
Hard Disk Companies	30	52	12

	1999E	2000E	2001E	2002E	2003E
Total United States B2B	\$26	\$88	\$233	\$493	\$930
Total International B2B	\$131	\$295	\$582	\$986	\$1,551

	1999E	2000E	2001E	2002E	2003E
Total B2B Services	\$22	\$44	\$83	\$143	\$220
Total B2B Goods	\$109	\$251	\$499	\$843	\$1,331

FIGURE 4
The B2NP Marketplace

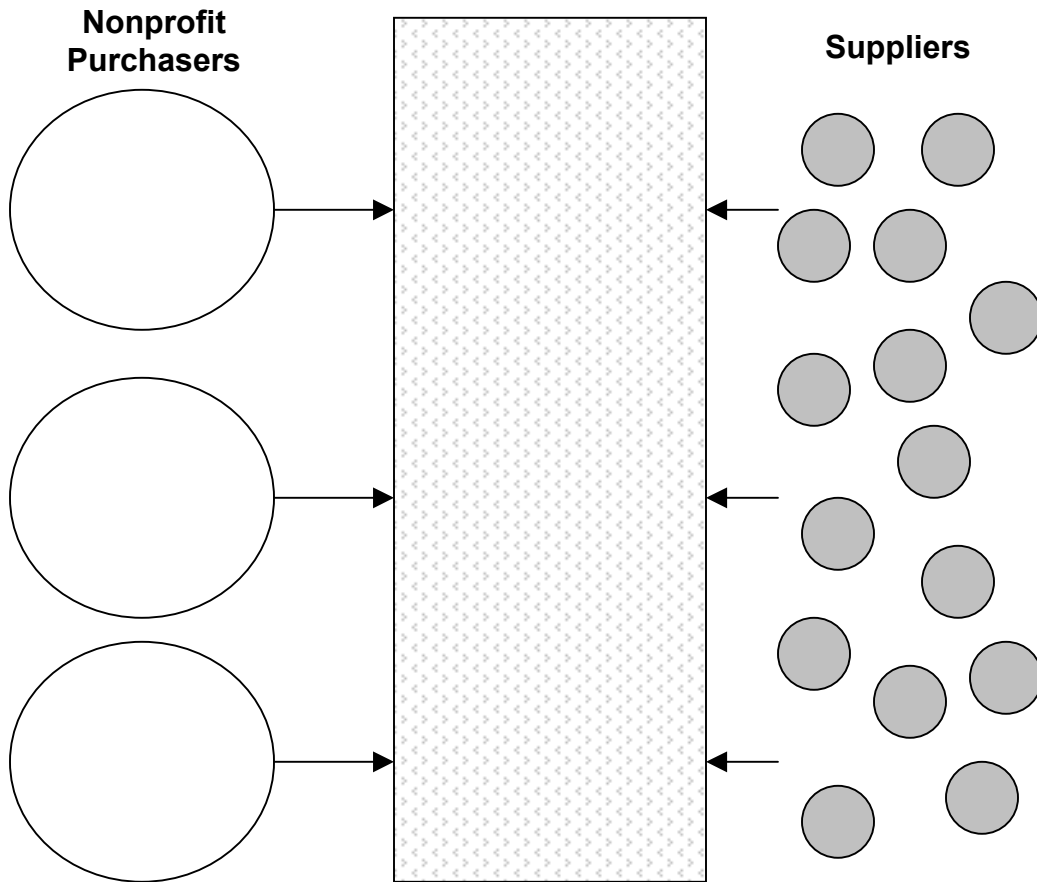


Figure 5
Independent Trading Exchange

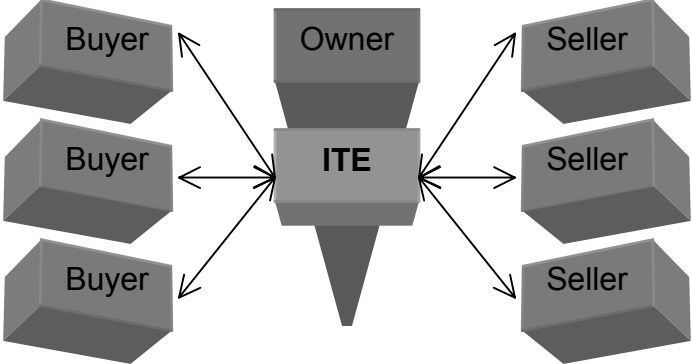


Figure 6
Consortium-led Trading Exchange

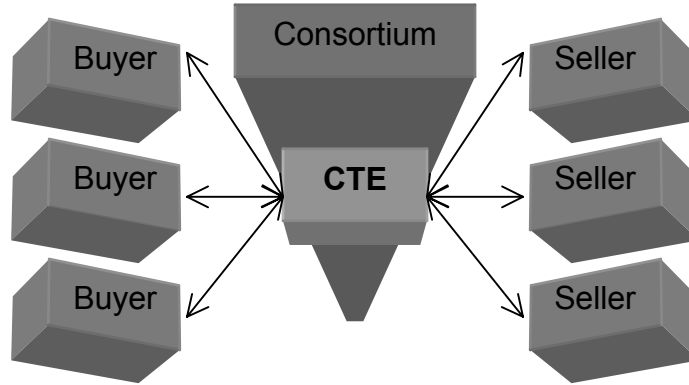


FIGURE 7
A Model for an Industry-led Consortium
for the B2NP Marketplace

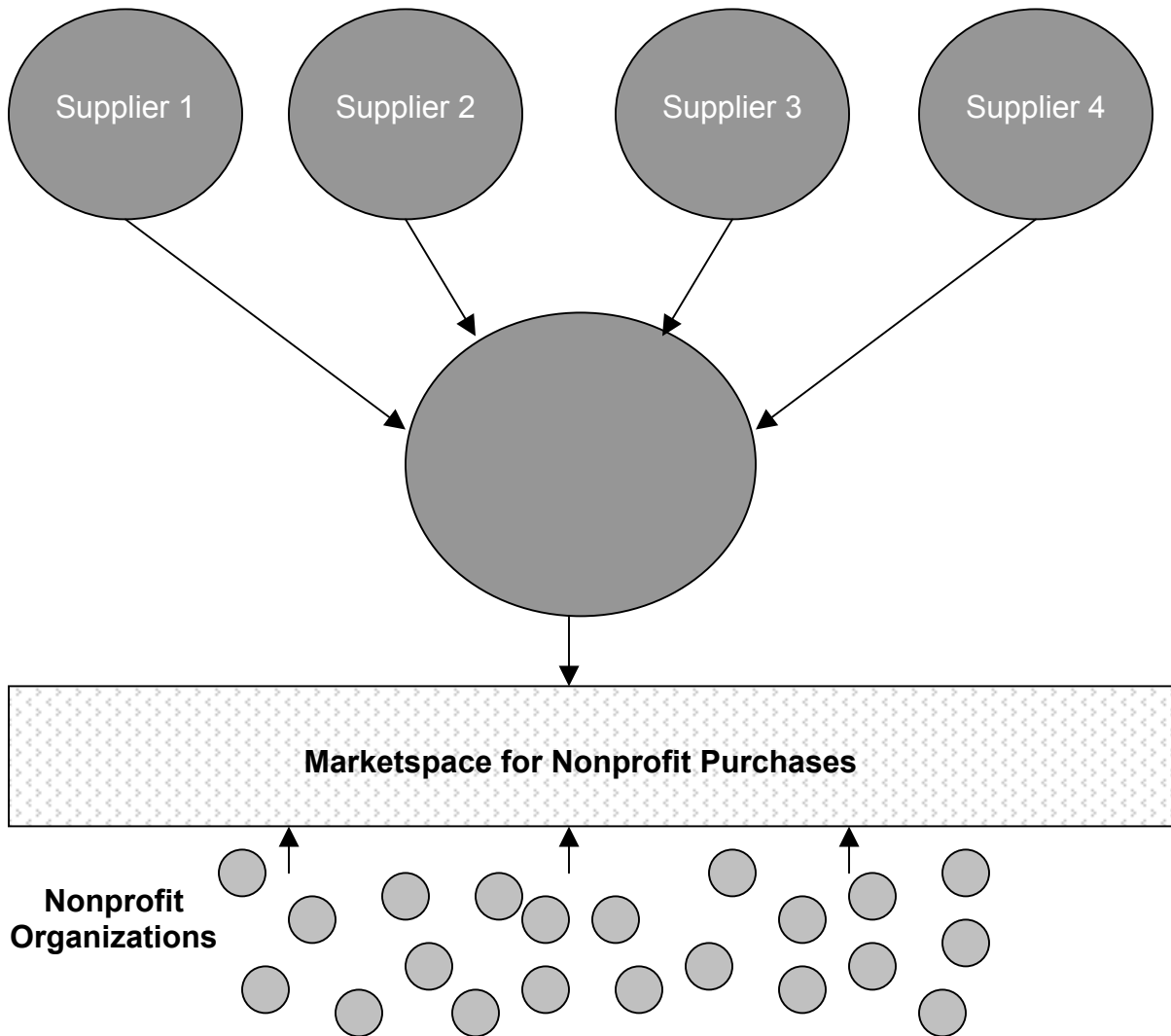


FIGURE 8
A Model for a Nonprofit-led Consortium
for the B2NP Marketplace

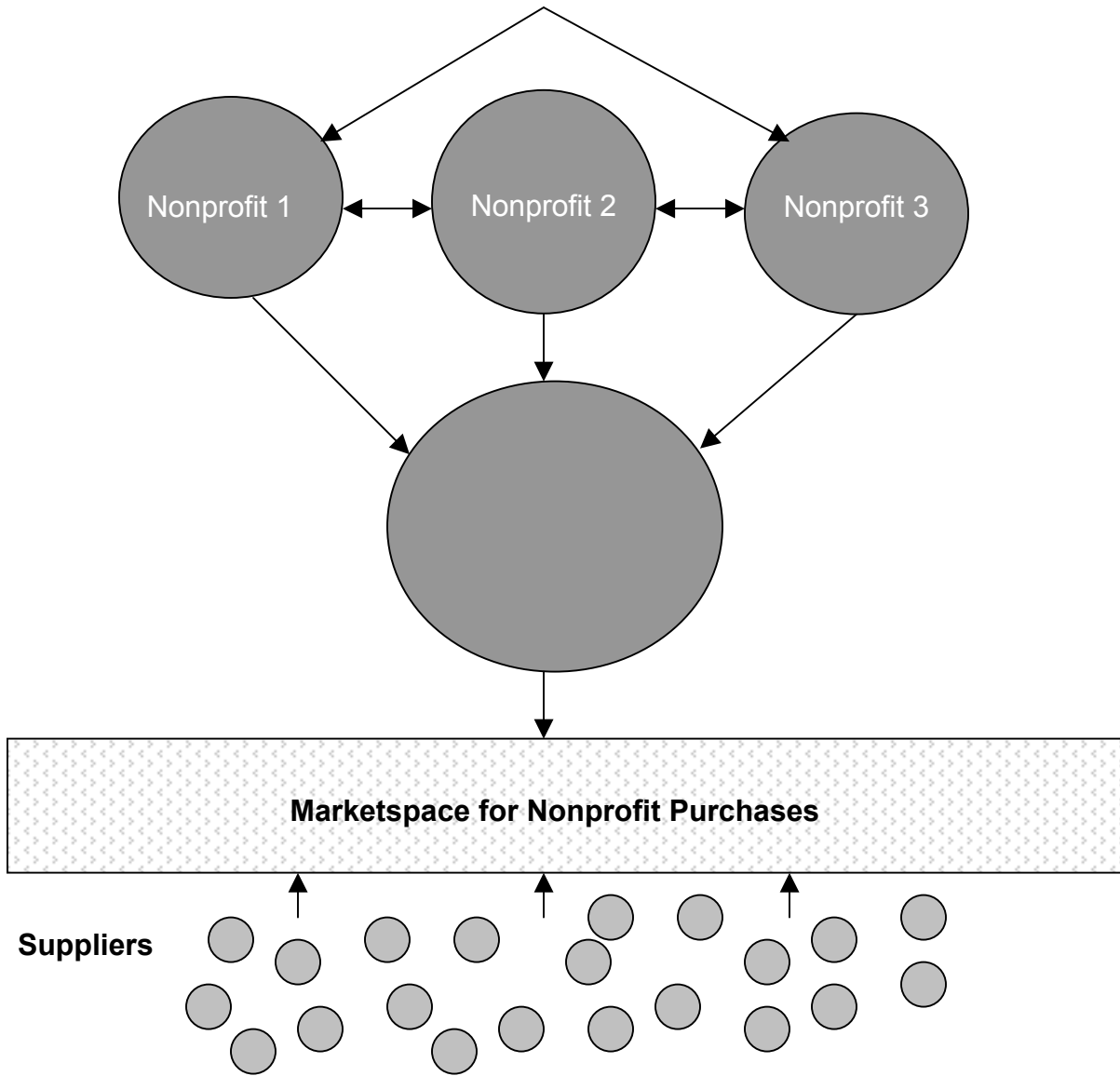


FIGURE 9
Schrage's (1999) Conceptualization of the Firm
as a Marketspace

