COMPETITION AND THE APPLIED FORCES OF ECONOMICS WITHIN TRADING EXCHANGES

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Abstract

Recent diligence activity within the Federal Trade Commission (FTC) suggests that trading exchanges and networks will face scrutiny for competitive behavior and policy violations as the new millennium introduces these Internet-enabled frameworks of commerce. Antitrust matters—and the hinge upon fair business practices—represent a daunting argument for those companies rallying behind the creation of or seeking to engage in business-to-business (B2B) trading arrangements. While many of the contemporary network models boast such benefits as enhanced purchasing efficiencies or greater economic productivity, little empirical evidence exists to substantiate these claims and herein rests the burden of proof upon the shoulders of the markets themselves to demonstrate business value. Yet for certain, the role of competition is changing the underlying nature of domestic and global operations in such a manner as to redefine the rules by which agents of the economy—whether buyer or seller—function according to capitalistic ideals.

This brief examines the application of competition and the economic impacts among those activities specific to trading networks—henceforth referred to as B2B markets. We begin with an overview of the current marketplace's role in shaping a dynamic breed of competition and then move to explain the relevant linkage of economic theory behind policy affecting survival of B2B entities. Subject matter focused on collaboration and efficiency shall be covered in greater detail and length throughout subsequent briefs.

Edict for change among buyer and seller behavior

Old economy rules challenged sellers against competitors and pitted buyers against individual sellers in a battle for price control. Never would one contemplate the virtue of sitting face-to-face with your competitor and sharing assets to reach new customer service levels. Nor would the seller of a single product or service realize the captive audience of many buyers at their marketing disposal through a visible purchasing network. And how could these ironclad rules of commerce bend to transform overnight single-buyer organizations into collaborative economies—enjoying discounts and quality of service afforded only to larger companies? In practice, the value crux of B2B markets center upon reshaping economy agents into an expansive array of options and aggregating supply schedules to meet a higher demand multiplier.

By itself, the ability to pool resources and address a single, larger market entity would produce some level of incremental efficiency. But despite such assumptions, many of the B2B markets continue to implode upon themselves at a quickening pace. The conformity of buyer and seller interests remains unchanged—buyers impose strength for lower prices while suppliers seek greater volume alongside optimal profit margins. However, most of the Internet markets of late fail to consider the consequences of *network imbalance*—a point at which disharmony of goals exists and disruption becomes inevitable. If suppliers attain a perceivably greater advantage over the interests of buyers, then the prevailing circumstance is collapse of trade activity.

Likewise, under conditions of a monopsony interest—where one buyer exists within a given market—the same disruption effect occurs to correct the alignment of commerce goals for the supplier. The key lesson to be learned: network survival relies upon compatible and mutual goals being met in equilibrium. Once either side of the network pursues a tactical advantage over the other, sheer demise is eminent. Only by the principles of true *collaboration* can a market perform to meet the objectives of its agents and thereby produce sustainable economic value. Collaboration, in a wider perspective, involves a complex design of business components that may include:

- **Synergy value among single-facing party relationships** (e.g. buyer-to-buyer composition and supplier-to-supplier capabilities)
- **All agents must affirm economic productivity and output measurements from the network**
- **Trust and policy for maintaining assurance of the network's goals**
- **Risk must be balanced between the agents**
- **Rewards must be fairly distributed across the member participants**

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While collaboration is emerging as a dominant theme in the B2B marketplace, the economic proof has just begun to trickle out of those network models that embrace collaborative commerce principles. At early-stage analysis, the potential landscape for boosting productivity and streamlining efficiency is promising significant dividends. On the opposite side, kinetic realization of benefit has only started to be observable among a select few of the trading networks—and limited primarily to the industrial economy sector. As time continues forward, we expect to see the benefits align tangibly to measurable outputs and savings goals. However, the important conclusion resides in seeing the ways in which competition has forced the global economy to rethink its position and decide on methods toward exploiting competitors as a strategic weapon.

Consolidation and the intermediary model

With perceived dominance and mass of economic power, the rise of B2B markets scares the regulatory bodies of trade and leads to causal inspection of their impact along the lines of fair business practices. Charged with oversight and protection of commerce interests for the American people, the FTC has taken a cautious stance in probing the potential for violation of law and policy among B2B markets. In June of 2000, the Commission sponsored an in-depth solicitation of knowledge regarding trading networks during a weeklong public workshop. The discovery process and general inquiry produced a summary of findings entitled, "Entering the 21st Century: Competition Policy in the World of B2B Electronic Marketplaces", as a primer for discussion surrounding this new venue for competition. As a highlighted goal, the Commission seeks to establish a framework for operating rules by which to ensure compliance of antitrust concerns. These guideposts, as referred to in the report summary, can be understood in fairly simple terms and applied generically across the board to most network examples.

But with guideposts set aside, the essence of debate with concern for competition and antitrust issues converges on two fronts: 1) *the market for goods and services traded on B2Bs at both the buyer and seller levels*, and 2) *the market for B2B markets themselves*. Herein, collaboration is viewed as a competitive agent and one that requires diligence of policy to ensure consistent adherence across the same boundaries as traditional business networks. The bottom-line conclusion: treat B2B markets in a similar fashion as normally governed markets. Although the FTC recognizes that B2B markets inherently contain particular nuances with regard to technology and the liquidity of information, a prescription for broad treatment of competitive concerns seems to be close at hand.

The driving impetus that has fueled the Commission's introspection of B2B markets is best summed in fear of *marketshare dominance* and the pronounced momentum at which the Internet marketplace has arrived on the scene of commerce—in a revolutionary way. This hedges the policy analysts to examine the comparative effects of market consolidation and the mode by which trading networks might function as intermediary models—acting as gatekeepers to the smooth and uninterrupted flow of trade activity in normal circumstances. Under constraint, B2B markets could erect foreseeable barriers to entry for participants and place speculative restraints on policy or interoperability with a large-scale impact. Implying that this conclusion could reach fruition, the Commission proactively sought to invite public opinion and detect any trend evidence prior to imparting specific action against or for policy of B2B markets.

Knowing that exchange networks embody an organic sense of homeostasis to maintain their viability as an economic producer may calm some fears, especially those on the regulatory portion. In other words, when alignment of these trading bodies exceed tolerances of their design, a natural correction in the form of supply and demand might easily curb profit spoils or abuse of unfair agents. By autonomy and self-policing within the member network, we anticipate that stable B2B markets will ultimately embrace principles of collaboration—or fail on their own merits of destroying the value proposition between members.

And to the claim of efficiency that is defined by most in terms of lower prices, improved quality, and greater innovation, the real determination of benefit exists when the agents of a trading relationship can meet the simple criteria of measurable output and experience tangible economic earnings. To date, very few of the B2B markets can define their network model in respect to measured productivity, let alone a reasonable value proposition for member attraction. Before leaping across the abyss of the unknown, prudent advice would consider the ways in which competition may act as an asset and seek to define methods (including trade networks) whereby collaboration delivers economic sensibility.

Summary

Markets of the future will encounter new forms of old structures; careless abandon of historical lessons can be costly, in light of global activity and the short lapse of time between innovation. And like age-old traditional lines of commerce, B2B markets already ingest a similar set of problems and traits typical of new market evolutions. Yet, due to the size and magnitude of the entrants giving rise to potential mega-markets, competition and the alleviation of policy breach remains a point of fixation for governments and regulatory bodies as they face the development of operating rules in uncharted waters. Unlike periods of previous inquiry, a wealth of data and information exists today to refute or support conclusions on the likelihood of monopoly structures—and their implication to fair commerce practices.

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