INSEAD

Gatetrade.net (A, B1, B2 & B3)

Teaching Note

07/2003-4986

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The authors gratefully acknowledge support from eLab@INSEAD and from the TDC Research Fund.

Executive Summary

In January 2000, four major Danish companies in search of a joint business opportunity elect to launch an online B2B marketplace. The alliance process forces each to consider its own capabilities and strategy, as well as its compatibility vis-à-vis the other partners. Their business model chooses future flexibility over predetermined answers to key issues. The venture quickly encounters unforeseen obstacles and opportunities, including a chance to develop the world's first B2G (business to government) marketplace. Simultaneously, similar alliances launch competing Nordic marketplaces, threatening the venture's expansion if not its survival.

Case Synopsis

In the fall of 2000, four of the largest companies in Denmark – Den Danske Bank, TDC (the incumbent telecoms operator), Maersk Data, and Post Danmark (the national post office) – are finalizing an alliance to launch an online B2B marketplace called gatetrade.net. A number of executives and board members at the Post still wonder whether their firm should join the venture. Since January 2000, different combinations of the four companies, together with software provider Oracle, have sought to define a joint project, beginning with wide-ranging informal discussions and culminating in the drafting of a business plan for the B2B marketplace venture. During the same period, potent competitors enter the sector across the Nordic region. Familiar players in online services, like banks, telecommunications firms and IT service providers, are joined by governments seeking to move public purchasing online. The success of marketplaces like the automobile industry's Covisint confirms that the sector has a future. But will gatetrade.net be part of it?

Case A describes how the interests and priorities of each partner and their visions of the emerging e-marketplace industry become apparent through the discussions and negotiations that precede the formulation of a clear proposal. It concludes at the moment when the partners, with the exception of the Post, have signed a shareholder agreement and are ready to incorporate and launch gatetrade.net. Annexes offer portraits of the founding firms (with emphasis on their individual strategic situations), an overview of e-marketplaces, and an analysis of pricing issues for gatetrade.net.

The B cases, organized as a suite of three "mini-cases", deal with key issues that arise from implementation of gatetrade.net's business plan during its first year of operations. Each section may be treated as a logical extension of discussions begun with Case A, or as a separate object of discussion. The three key issues, which involve considerable change for gatetrade.net, include:

1. The marketing of gatetrade.net and the respective roles of its shareholders and IT partners (such as Cap Gemini) in that process, emerge in Case (B1). The fundamental issue here may appear deceptively simple: Can gatetrade.net succeed without the active involvement of these two groups? If the answer is "No", the basic business model of the enterprise is thrown into question. Hesitation by the shareholders inevitably translates into a lack of

liquidity for the marketplace; disinterest from the IT partners means that gatetrade.net must face formidable issues of integration largely on its own.

2. In Case (B2), the focus is the development of the world's first online B2G marketplace, including an annex on the sometimes extreme difficulty of creating online catalog content. The decision by the Danish government to launch an online procurement portal at the point when gatetrade.net is incorporated alters the assumptions of the enterprise's business plan. From gatetrade.net's standpoint there is a genuine risk: Will the government's demands and needs sink the marketplace? Or will the volume of government purchases offer the new venture the critical mass of liquidity that it needs to survive?

3. Finally, Case (B3) explores strategies for international expansion, an essential step for gatetrade.net from the standpoints of both regional survival and building liquidity. The Nordic context, in which numerous banks and telecoms providers seek to establish regional primacy in a hurry, evokes an issue raised in the initial business plan – the assumption that the first mover will obtain a lasting advantage. In practice, gatetrade.net must reconsider whether or not it can retain control of the local and national alliances that appear essential to rapid expansion.

Teaching Objectives

The gatetrade.net case has been developed in the context of a course on the management of strategic alliances and can be offered as an MBA elective, a stand-alone executive seminar, or a segment in a longer executive development program. It is designed to fit in a section on partner selection and alliance definition and design. These issues appear relatively early in a course on strategic alliances that adopts a lifecycle perspective – in other words, they reflect the usual sequence of events in a typical alliance.

The case could also be used in a course on new businesses and business models, in a section on new ventures within large corporations or e-marketplaces. It is worth noting that online marketplaces survived the dot.com crash – vertical or industry-specific marketplaces and proprietary, buyer-driven marketplaces are beginning to demonstrate major benefits for their shareholders and operators. Case A allows the instructor to explore key strategic dimensions of designing B2B marketplaces:

- Horizontal vs. vertical scope
- Supplier or buyer driven
- Auction, catalog or dynamic trading-based
- Exclusive vs. inclusive, etc.
- Revenue issues, notably the multiple bases on which to price (e.g., membership, transaction fees) and which value-added services may be required to make the marketplace attractive, thus creating and maintaining liquidity.

The fact that critical success factors in this new industry are still largely unknown means that the founders must define them on their own. But how many uncertainties should they attempt to resolve up front, and how many should be reserved for collaborative solutions later on?

The emphasis applied respectively to the shareholders' assessments of interest compatibility, and to the definition (and feasibility) of a business system proposition for gatetrade.net, can be modulated by the instructor. Of course, a viable business system is required for value creation and interest compatibility is at the heart of value appropriation. It should thus be borne in mind that both value creation and value appropriation concerns need to be satisfactorily addressed by partners for an alliance to be successful.[1] Throughout the case the issue of how value can be created and captured – not only by gatetrade.net but by its stakeholders and customers – surfaces repeatedly.

The B cases offer the opportunity to explore strategic issues in an emerging industry, which individually and collectively have immediate impact on the fortunes of gatetrade.net:

- Technical issues, such as systems integration and content management, are treated from a strategic standpoint in terms of who captures (or misses) the value in available solutions.
- The role of shareholders on several levels (as customers, venture capitalists, and guarantors of the venture) becomes progressively more, not less, important.
- Expanding the venture requires partnerships with external firms and public entities in ways not foreseen by the business plan.

Note that the traditional character of the founders, especially in relation to the newness of e-marketplaces, raises the question of whether and how they can adapt to these rapidly shifting circumstances and address these issues.

Teaching Format

The cases are meant to be used in two MBA sessions (+/- 90 minutes each) or over a half-day in an executive program. For such a program the schedule could be:

0 – 75' : Discussion 1 : Gatetrade.net (A)

Discussion may be organized along five themes (10 to 20 minutes each):

A.1. What makes a B2B marketplace successful – at least in theory?

A.2. How likely is gatetrade.net to meet those criteria for success?

What must gatetrade.net do in order to succeed?

A.3. How robust is the gatetrade.net alliance likely to prove?

How compatible and complementary are its partners?

A.4. How much confidence in gatetrade.net's robustness does its creation process instill?
What elements characterize that creation process?

1 See Yves Doz & Gary Hamel "Alliance Advantage", (Boston Harvard Business School Press, 1998), chapters 2 & 4

A.5. What unresolved issues will the partners have to address over time?

75'- 120': Group work on the issues (Handouts: one or more B cases)

120'-180'. Discussion 2: Gatetrade.net (B)

B.1. How feasible does the marketing of gatetrade.net and the role of IT systems integration partners (e.g., Cap Gemini) appear to be? What possible obstacles need to be considered?

B.2. Is the opportunity to develop a public sector (B2G) procurement portal as rich as it appears? Are the government's demands really deal-breakers? Is the development of a sufficiently large catalog simply a major task or an impossible one?

B.3. Is gatetrade.net's vision of internationalization and competition among B2B marketplaces across the Nordic region accurate? Is the first mover advantage as crucial as gatetrade.net believes? If so, is its strategy optimal?

180'-225': Summary lecture on:

1. Interpartner compatibility
2. The process of alliance inception and partner selection
3. Strategy for B2B marketplaces.

The respective importance given to the above three themes should vary according to the focus (e.g., on alliances or e-marketplaces) of the course.

Assignments (Pre-class)

In a course with a stronger concentration on alliances, assignments for case preparation may focus squarely on the partners' respective contributions and interests. When appropriate - e.g., in an executive seminar with a relatively limited number of participants - it is useful to divide participants into four groups, each group taking the perspective of one of the partners. (A fifth group can be created to represent Oracle). A typical assignment would thus take this form:

Please take the following perspective:

- Group 1: Maersk Data
- Group 2: Danske Bank
- Group 3: Post Danmark (PDK)
- Group 4: TDC

Consider the following questions:

1. Contributions and benefits:

   - What does your company bring to the gatetrade project? What more may it bring in the future?
   - What benefits do you expect to extract from the alliance?
   - How does this compare with the other partners' contributions and potential gains?

2. Common ground and second thoughts:

   - Do you see sufficient common ground between these partners to justify the decision to go ahead?
   - What might hold you back?

3. Looking ahead:

   - Should the venture be launched, how would you expect the gatetrade.net alliance to evolve over the next few years?
   - How would you see gatetrade.net developing internationally?
   - How well would particular international development strategies serve the interests of each partner?

In a session more strongly oriented toward strategic aspects of launching ventures, it may be beneficial to pose in advance a question otherwise reserved for group discussion: "What are the critical success factors for gatetrade.net?" Participants are likely to address this question on their own while preparing and discussing the case; however, posing it first allows the instructor to "set the specs" of the venture for discussion and ensure that issues of partner compatibility do not obscure the need for "hard" benefits from the enterprise.

In particular, participants should understand:

1. That liquidity (or transaction volume) is key to e-marketplace success, and that liquidity itself is likely to be driven by buyers joining the exchange to obtain purchasing cost savings related to searching, transactions, and fulfilment of orders. In other words, where there are buyers, sellers will follow.

2. However, few horizontal marketplaces to date have definitively demonstrated the value of joining for buyers and sellers, in part because of recurrent and widely-reported problems with integrating customers into marketplace IT systems, and in part because the reluctance of sellers (who fear extreme downward pressure on prices) to join exchanges has prevented the latter from attaining a "critical mass" of liquidity.

The questions are thus posed:

- How will gatetrade.net convince its customers that it can deliver, and how long will it take? Is the technology at a point that inspires confidence?
- How crucial is the first mover advantage to gatetrade.net's success?

- Who is qualified, capable, and motivated to sell the marketplace to buyers and suppliers? Are they likely to be the people who will actually do the job?
- How crucial is it that gatetrade.net's shareholders be among the first and largest buyers? Are they positioned and prepared to play that role?
- What exactly are the advantages of joining for buyers and sellers? Are the advantages for larger companies (operating across borders) the same as for smaller ones? In other words, can a marketplace venture limited to Denmark succeed in the long term?

Analysis: Case A

The Critical Success Factors for Gatetrade.net

A. Defining the Business Model

The four partners choose to define gatetrade.net as a *horizontal* marketplace – that is, it will serve a broad range of suppliers and buyers who provide or seek non-strategic or indirect goods in a variety of industries – in contrast to a *vertical*, industry-specific exchange. Non-strategic or indirect supplies are those not required directly for a production process such as office supplies, furniture, miscellaneous maintenance products, etc. Strategic goods, such as raw materials or production tools (or, in the case of a telecoms service provider, capacity), are those without which a company cannot produce.

- Vertical marketplaces tend to be industry-specific. They also tend to be buyer-driven: typically, a few large customers (such as automobile manufacturers, in the case of Covisint) join together to gain improved leverage on component suppliers and reduce prices.
- In contrast, horizontal marketplaces succeed not by cutting prices but by making transactions easier and more efficient. (For more information on e-marketplaces, including Covisint, see Appendix 2 to Case A, "The Trials and Promise of B2B Marketplaces").

Although auctions were and are the most common form of online exchange and the simplest way to set up a B2B marketplace, they are poorly suited to the routine purchasing of (usually) small quantities of non-strategic goods. Here, individual orders are unlikely to be large enough to justify the cost of organizing auctions. Likewise, auctions are likely to be neither frequent nor homogeneous enough to meet the routine needs of supply managers. Thus, though auctions remain necessary to online marketplaces, including horizontal exchanges, they are insufficient to meet many buyers' or suppliers' needs.

This fact drives gatetrade.net toward a catalog structure, where the online marketplace aggregates catalogs from multiple suppliers for a variety of frequently-used goods. Catalogs, of course, existed prior to online marketplaces and still do. However, e-marketplaces offer two distinct advantages over traditional catalogs, at least in theory:

- B2B marketplaces are *transaction-enabled* – that is, they do not just provide information about goods to be purchased, they also allow the purchase to take place online.

Depending on the marketplace's functionality, an online purchase can reduce processing costs for the customer by up to one-tenth of the cost of an offline purchase.

- B2B marketplaces may also allow customers and suppliers to look into one another's inventories and trigger automatic reordering and purchase orders as a function of both. In other words, they allow for *integration* of the purchasing process thus further reducing processing costs.

B. Unknowns in the Business Model

It is essential to recall that from the moment of gatetrade.net's founding to the present, the essential aspects of B2B marketplaces and their business models have remained in what may fairly be called an experimental phase. For example, the two advantages of an online catalog cited above are dependent on a standardized transaction environment – and hence on information technology that can deliver required functions across diverse software platforms. However, there are as yet no industry-wide standards of functionality or integration, and this is a factor that gatetrade.net (and Oracle) must confront. How will integration be accomplished and who will pay for it? In effect, the business plan leaves this issue to be resolved by gatetrade.net's management in the future (which has yet to be recruited as Case A ends).

Moreover, the benefits of a horizontal marketplace depend on its capacity to enable – not only through IT but through a critical mass of buyers and sellers – large volumes of transactions. In other words, to a greater degree than auctions or continuous markets, catalog-based B2B marketplaces are characterized by very significant network externalities and economies of scale. The implication is that gatetrade.net needs to capture a major (if not dominant) share of B2B non-strategic transactions in the entire Nordic region, beginning with Denmark. This assumption underlies the urgency behind the launch of the venture.

Obviously there is a "chicken and egg" effect at work here:

- Without the presence of numerous and active buyers – including their current or potential major customers – suppliers will not join the marketplace and buyers will not realize the expected benefits.
- However, suppliers frequently see online marketplaces (even horizontal ones) simply as a means of helping buyers obtain price reductions. They are leery of putting their catalogs on a marketplace where they will be in direct competition with other suppliers (as opposed to simply posting their catalogs on their own websites). There are also genuine costs of entry beyond sign-up fees e.g., re-formatting an existing catalog for an e-marketplace. There may possibly be significant exit costs in the event a supplier wishes to join another marketplace that uses a different catalog format.

Hence, the question of whether or not the alliance founders will move a significant amount of their purchasing onto gatetrade.net is central from both an alliance and an e-business perspective. Their presence is essential to help build liquidity and to attract suppliers. It is also crucial from an image standpoint in a sector where success stories are still rare. How can the shareholders prescribe a medicine that they won't take themselves? If *they* cannot realize significant benefits from the marketplace, who can?

The fact is, neither the business plan nor the shareholder agreement requires them to become major buyers on gatetrade.net. All that is set in writing is an understanding that shareholders will eventually place up to 25% of their own purchasing on the exchange, without deadlines or sanctions. If gatetrade.net builds momentum on its own, that may prove irrelevant; if not, it may be a make-or-break issue.

Further, both suppliers and buyers will want to be able to transact safely, in trust and in confidence. This assumes that membership and behaviour on the marketplace are monitored (if not policed), and that secure and efficient complementary services are provided – for payment processing, shipping, logistics and fulfilment, credit rating and insurance, etc.[2] On the one hand, these value-added services (VAS) may evolve into considerable revenue streams, as marketplace operators in general and gatetrade.net in particular hope. Each of the shareholders is capable of providing certain VAS and eventually their joint venture may well propose its own.

However, there are at least two potential conflicts latent in this situation:

- Certain VAS – e.g., electronic signatures or billing – may be provided by more than one founder which may prompt competition among the founders for dominance of particular VAS on gatetrade.net.
- A second issue is that such services may involve significant development costs – costs which may not ever be recouped if customers come to expect that certain VAS will be provided free by the marketplace. Who, then, will pay for their development?

At this point, the question is raised as to whether gatetrade.net's capitalization of 100 million DKr (approximately US$12 million) will prove adequate – a question that becomes more urgent in direct proportion to gatetrade.net's expansion.

C. Maximizing the Leverage of the Alliance Founders

The reputation of the marketplace founders, particularly in a relatively small, tightly-knit business community like Denmark's, could be a key to gatetrade.net's success. The combined power of their names may discourage at least some potential competitors from creating their own exchanges. Their reputations can also be used to reassure prospective customers that the company will make the necessary investments and decisions to keep the venture going (thus enabling customers to recoup their own entry costs). Their legacies as trusted third parties (most notably for Post Danmark) can likewise serve to validate the marketplace's claim to be trustworthy and confidential. Finally, their well-known purchasing power may help to attract suppliers to the marketplace on the (crucial) condition that the founders use it themselves.

In sum, gatetrade.net's partners have several roles to play in order to make the marketplace a success:

2 As a means of comparison, the instructor can show the map of e-Bay's complementary service providers (see exhibit TN1) and ask what gatetrade.net's equivalent map should look like and who would provide these services.

- As founders whose reputation among Danish (and to a lesser extent, Nordic) businesses can be "borrowed" by their new joint venture
- As customers who will become early and significant users
- As providers of complementary, transaction-enabling services ensuring complete and seamless functionality to both buyers and suppliers
- As venture capitalists whose deep pockets ensure the resources necessary for the development and expansion of the marketplace.

What Does Each Partner Bring to gatetrade.net?

The partners are, in effect, highly complementary: each brings a set of strategic assets that contributes to gatetrade.net. Exhibit TN2 provides a list of contributions from each partner in table form.

Rather than making a piecemeal, inductive analysis of these elements, it may be useful to apply a relational system analysis grid which can facilitate and accelerate understanding of key aspects of partner compatibility. A complete conceptual analysis is unnecessary here. The core of the exercise revolves around a few key questions about each partner, who is viewed as a player in the relational system centered on the gatetrade.net joint venture proposal:

A. What are the Actual Objectives of each Partner?

Besides the stated objectives of the shareholders, there may also exist latent or hidden objectives. These may include what they want to *avoid*, not just what they wish to *accomplish*.

In the description of each player's participation in the discussions that led to the gatetrade.net project, the case provides a reasonably complete (albeit brief) description of their respective concerns and objectives. These are partly revealed in their reactions to each others' ideas and proposals. In fact, objectives vis-à-vis an alliance are often revealed in this way – over time during the planning and negotiating process rather than being made fully explicit at any given point.

No partner can be taken as a unitary player without internal divergences. For instance, at the time of the case there was an active debate within Post Danmark about how far it should go beyond its traditional (and declining) letter and parcel business. Likewise, TDC was undecided about how to best organise its Internet-related efforts – as a separate business unit or as part of existing ones – and how an alliance with Maersk Data might affect its strategy as an applications and systems integration provider.

As shown in Exhibit TN2, it may be useful to separate, analytically, the objectives of each partner has for the gatetrade.net venture – that is, what it wants the *alliance* to achieve – from the objectives the success of the alliance would allow *each partner* to achieve.

B. What are the Resources of each Partner?

1. In the present:

Here, the resources that are pertinent to the alliance's success, and strategically differentiated, matter most. For example:

- Danske Bank, TDC and the Post Office all have small Danish companies as a major segment of their customer bases, but Danske Bank tends to have a more intimate and specific relationship with them than the others. Via its extensive network of local branches whose personnel are in close contact with small businesses, it can directly promote gatetrade.net (At least in theory – the question of how to motivate Danske Bank's personnel in the interests of gatetrade.net may arise in discussion of Case A, as it does through events treated in Case (B1).
- Maersk Data is probably more capable than the other shareholders of assessing the technical features of Oracle's proposal and of driving Oracle to refine its offering. By the same token – and because its structure is relatively small and supple – Maersk Data may also be among the first partners to undertake the efforts required to integrate ordering and billing systems so that online transactions become genuinely attractive, feasible and efficient. In so doing it can extend that knowledge to gatetrade.net's customers.
- The Post brings its incumbent position and skills as a logistics partner for the shipment of small parcels. The more integrated the services provided by gatetrade.net, the more important its resources may be. However, the liberalization of postal services mandated by the European Union and the proposed "arm's length" relationships between gatetrade.net and its founders specified by the shareholders' agreement, may make it difficult for the Post to seize these opportunities. Can gatetrade.net's services be "bundled" to include the Post's logistics without contravening these rules?

2. In the future:

During the discussion it is useful to separate perceptions of resources that the shareholders have *already* contributed at the beginning of the venture from those they have the *potential* to contribute later on. All the partners make an initial contribution of brand image and reputation as well as time, people, and financial investment. However, a key point to make clear is that gatetrade.net's success will require raising their initial contributions. Future contributions, particularly when they can be modulated, provide bargaining power within an alliance. And in the end, success may depend more on some shareholders than on others. For instance:

- Danske Bank, with its network of retail branches throughout the Nordic countries and a cohort of cash management specialists for small- and medium-size enterprises, can choose to contribute more or less to gatetrade.net by mobilizing (or not) these personnel to promote the marketplace.
- To some extent, TDC, an established provider of a portfolio of telecoms services to enterprises – including directories, which are first cousins to catalogs – can do the same. And, as the company with the largest amount of non-strategic purchases, it can choose to provide vital liquidity to the marketplace.

- Maersk Data can be more or less diligent in helping companies to adopt interfaces and ERP (enterprise resource planning) systems that will enable them to take full advantage of gatetrade.net membership.
- The Post is a more complex case. If bundling of services is efficient and authorized, then it can bring great future advantage to the venture – if otherwise, perhaps not.

C. What are the Constraints Faced by each Partner?

Discussing what the Post contributes may be a good point at which to shift the discussion toward the *constraints* faced by each partner – that is, what is it that they *cannot* bring to the alliance.

- In the Post's case, there is the possibility that European Union rules for public procurement will foreclose the option of integrating its purchasing into gatetrade.net and thus deny the Post the major process benefits of the marketplace, in addition to reducing the potential transaction volume of gatetrade.net.
- Maersk Data and TDC face another potential quandary: as each moves toward providing applications development services to their clients, can they sacrifice part of that business to gatetrade.net? Can either take the risk that a service it develops for gatetrade.net might be recouped by other shareholder/competitors? From another standpoint, while Maersk Data is part of a far larger corporate entity (the A.P. Möller group), its intrinsic financial resources are very limited compared to its partners. TDC's revenue streams are far more ample but its skill sets in e-business are less developed than any of the other partners.
- The chief constraint on Danske Bank might reside in its expectations of near-term profits. Though the bank has been a key driver of the venture, it is more subject to direct competition in e-business than any of the other shareholders, and thus under more pressure to see growth, profits, or both, from gatetrade.net. Neither can the bank afford to risk undermining its profitable business lines, like cash management, by tying them to an under-performing venture.

Finally, like all the other partners, Danske Bank is constrained by the shareholder agreement's requirement that any business with the marketplace must be conducted on an "arm's-length" basis: any services it provides to gatetrade.net must be competitive with other offers.

D. How Compatible are the Partners?

The analysis sketched in Exhibit TN2 and summarized above leads to a few simple observations:

1. The partners have complex and perhaps mixed motives vis-à-vis the alliance's boundaries. They all agree to put into the alliance resources it will need to succeed but they may be tempted to keep back from the alliance certain outstanding and differentiating contributions. They may wish to provide such contributions to gatetrade.net's customers but only if they retain full control of them, along with the benefits. In other words, benefits *from* the alliance may well be greater than benefits *in* the alliance. Not infrequently, "in-alliance" benefits are small vis-à-vis the induced benefits. This may lead

to typical conflicts between being both an investor *in*, and a business partner *of* the venture.

2. This point again evokes the issue of exclusivity. A shareholder of gatetrade.net who supplies value-added services on an arm's-length basis (which is what the shareholder agreement stipulates) may not display great loyalty to the venture should other customers and channels for the provision of these services emerge. Conversely, gatetrade.net should not – and, according to the shareholder agreement, *cannot* – link itself exclusively with its owners but must likewise remain open to more profitable service offers.
3. The shared value creation agenda is essentially around learning (for all four core partners) and potentially shared profits. Danske Bank and TDC, and perhaps the Post, could also benefit from significant transaction processing cost reductions on their purchases, provided they gear up to use gatetrade.net on a big scale.

However, whether the partners want to learn the same things is not clear – which raises the question of how long each will want to remain committed:

- Maersk Data may want to have a "pilot" at home though which it can gain insight into B2B marketplaces, then exit and create marketplaces in other countries.
- The Post may be less interested in online procurement per se (given that it has already undertaken such an initiative independently) than in exploring the creation of VAS related to its logistics business.
- TDC's first interest could reside in leveraging its existing resources and getting a closer look at its potential competitors, through alliances.
- Danske Bank's desire to expand its online offerings indicates that it is still exploring a range of activities and the relations between them; there is no guarantee that gatetrade.net will remain its priority in this domain.

How much Confidence in Gatetrade.net's Robustness does its Creation Process Instill?

By retracing in some detail the steps that led to the founding of gatetrade.net, the case reveals a key feature of the process. Three of the partners start discussions to explore what they might do together, identify several more or less attractive – and in some cases very unimaginative – possibilities, including WAP services, workstations and terminals, and select one as the basis for their venture. Only when Oracle's representative in Denmark fortuitously articulates the B2B marketplace option does it become an obvious choice. And only then does the complementarity between the five (including Oracle) key players emerge clearly.

In slightly more conceptual terms, the entrepreneurial process of alliance inception is driven – almost by chance – by the prior knowledge the partners possess of each other in a very "embedded" process. Equally important, the embedded nature of the creation of gatetrade.net and the high level of mutual understanding, forbearance and trust between the partners, allow them to found gatetrade.net on the basis of a surprisingly incomplete contract, in the spirit of a learning alliance.

Participants unfamiliar with the close-knit character of the upper ranks of Danish business society may well be surprised at this process, expecting a much more strategic (if not legalistic) approach. Yet the fact remains that in this case, the initial motivations are relatively vague. Certainly, each partner is looking for a way to take part in the New Economy and thus reinforce its position within Denmark and the Nordic region. And, three of the four hope to shed their distinctly stodgy corporate images (Maersk Data being an exception). Nonetheless, at several points the precise nature of the project seems almost secondary to the wish to collaborate.

Of course a business plan is drawn up but everyone involved recognizes its limits. It contains assumptions on volume growth and liquidity, on the introduction of VAS, and on the evolution of costs that each participant knows to be approximative – given the current state of e-marketplace industry knowledge and experience, it could not be otherwise. The only really clear commitments are:

1. An equally shared investment of DKr 100 million, giving each partner a 25% equity interest in gatetrade.net, and
2. An *informal* commitment for each partner to put 20% to 25% of its non-strategic purchasing volume on-line via gatetrade.net, with a ramp-up schedule starting in 2001.

What happens if the assumptions that justify these commitments prove erroneous, if the informal commitments are not kept, or if greater commitments are necessary?

From a venture standpoint, it is also worth asking if the remarkably high cultural compatibility among the owners is as much of a long-term advantage as it is in the short term. Certainly, it appears to have greatly eased the creation of the venture. However, it may prove to be a complicating factor in relations with Oracle, a US-based company, and with foreign partners as gatetrade.net expands abroad. The fact that Oracle offered to become a shareholder and was turned down, may be significant here. Can the owners be as trusting and confident of others as they are among themselves? Will they be perceived as a purely self-interested group, or as a parochial, national alliance in an industry that allows for global economies of scale?

Analysis: Case (B1-3)

The new venture begins to assume an identity distinct from those of its founders and to confront the world beyond the business plan. Each of the three B cases treats a distinct aspect of this confrontation – the recruitment of buyers and sellers through various channels, the opportunity (and potentially fatal risk) of developing a government purchasing portal, and the imperative of international expansion. However, two common themes traverse these cases which may be taught through any or all of them.

The first, in the words of several participants in gatetrade.net, is that “there is a long way between a PowerPoint® presentation and the reality.” The B cases begin at the moment when the business plan encounters the real world as gatetrade.net confronts a series of issues that are at once typical of e-marketplaces worldwide and specific to the Nordic and Danish contexts. Now the ambiguities and uncertainties of e-marketplace technology on the one hand, and of gatetrade.net’s relations with players outside the company and the alliance on the other, assume proportions that were not foreseen in the business plan.

Of course, any new enterprise can expect surprises, good or bad. Yet this is particularly true of a venture like gatetrade.net. Up to the present, no e-marketplace operator or application service provider can seriously claim to have resolved (much less foreseen) all the issues – such as content management, systems integration, customer education – that arose as such ventures multiplied. A major implication is that without launching a marketplace it would be difficult even to identify potential roadblocks in the technology and market environment.

The most interesting question, then, is not whether gatetrade.net's business plan was overly optimistic or inadequately detailed, but rather, given the scarcity of verifiable information, should the founders have sought to nail down details of the operation in advance at the risk of losing future flexibility, or simply deal with issues as they arise, hopefully in a spirit of cooperation? If they take the latter route, how robust will their alliance (and venture) prove in the face of adversity?

The second common theme is that, to a far greater extent than many start-ups, gatetrade.net's success does not depend solely on its own efforts. The number and diversity of stakeholders constantly expands beyond the initial shareholders (and venture capitalists) and the management and staff of gatetrade.net. Among the newcomers are consulting companies cast in the role of "IT partners" who will sell the marketplace to customers and help them integrate; sales personnel within the shareholding companies who are likewise called upon to create a customer base; the Danish government, through its ambitious plan to create a public purchasing portal that will effectively "wire" the entire national economy and foreign alliances or partners who can help gatetrade.net to expand beyond Denmark. In short, gatetrade.net (as its name suggests) is effectively constructing not only a marketplace but a network, and its success increasingly depends on that network.

This widening of the stakeholder circle can bring necessary competencies and resources to gatetrade.net without forcing it to burn its own (fairly minimal) cash. But it may also turn into a vicious circle in which each participant (or node in the network) waits for the others to take the initiative at crucial moments – either in the hope of improving his or her bargaining position for current or future rewards, or out of scepticism as to the marketplace's success – and thus slows or compromises the venture's progress.

It important to note that no other stakeholder in gatetrade.net's network – neither its IT partners, nor the Danish government, nor even its individual founders – has as much at stake in the venture as the new enterprise itself. Can gatetrade.net count on them in the long run?

Case (B1): Building Critical Mass

The framework of this case is the fundamental problem facing any marketplace: building a critical mass of buyers and sellers, and thus creating liquidity. A large proportion of marketplaces founder on this issue – they fail either to attract buyers whose purchases in turn draw sellers, or sellers decline to sign up thus depriving buyers of the savings they require from the exchange.

Gatetrade.net's strategy for eliminating this danger is three-pronged:

- The founders will inject liquidity into the marketplace through their own purchases.

- The founders will also encourage their own sales forces to sign buyers and sellers to gatetrade.net as an additional offer within their current portfolios of services.
- Consulting companies will act as IT partners, selling the exchange to their own clients and providing integration services in the place of gatetrade.net.

The most crucial aspect of this strategy is probably the first – and, in practice, it immediately runs into obstacles. Danske Bank moves slowly toward implementation, declining to force its purchasing managers to use the exchange. Maersk Data immediately undertakes an integration study, discovers benefits surpassing its expectations, and sets out to implement – which means a major buyer for gatetrade.net in the medium term but no additional liquidity until Maersk Data finishes its IT overhaul. The Post, the most committed founder in the short term, finds it difficult to convince its suppliers to move onto the exchange because until their contracts reach term there is no advantage for them in doing so.

Likewise, engaging the founders' sales forces for gatetrade.net means resolving questions left hanging by the business plan: Which sales people at each founder, in which units, are best qualified for the job? How can gatetrade.net get their attention and their commitment? Is it ultimately worth the effort and expenditure for gatetrade.net? Failure to resolve these questions will have immediate implications for the venture:

- The inability or reluctance of the founders to enter the exchange right away – either as customers or as a marketing force – may be read by prospective customers as evidence that either they do not believe in the benefits of their own venture, or that the exchange is still unworkable. At worst, the effect may be to sacrifice the leverage of the founders' reputations, one of gatetrade.net's key assets. At best, the probable result will be to encourage a wait-and-see attitude among potential customers.
- Either way, the situation will certainly undermine the highly optimistic revenue projections of the business plan, thus raising the question of whether further capital contributions are needed.
- Note, however, that certain aspects of this predicament can generate great rewards for gatetrade.net and its shareholders – for example, if integration solutions can be found and their value captured.

Similarly, the IT partners do not behave entirely as expected. Gatetrade.net is asking them to make a triple investment: provide personnel for training, generate leads to prospective clients, and entice clients onto the exchange by providing free studies of how it will benefit their business. The resulting conflicts are both commercial and ethical:

- Why, in effect, should a firm like Cap Gemini deliver its clients to gatetrade.net if gatetrade.net will not also send clients to Cap Gemini?
- Why would a consulting company do free work, especially if key benefits accrue to a third party?
- It can be argued that such an arrangement compromises a fundamental ethical exigency for consultants: their independence of judgement and counsel. How can a consultant consider gatetrade.net objectively if he has already invested billable time in trying to sell it to a client?

Thus the fundamental question is: Has gatetrade.net designed these relationships in a durable way? If not, what must be changed and how?

Case (B2): Creating the World's first B2G Portal

The focus here is on the Danish government's solicitation of competitors – including gatetrade.net and its chief Nordic rivals – to develop an online purchasing portal for all public sector entities in Denmark. It may be useful here to separate four factors: the rewards, risks, technical issues and legal issues.

1. The rewards are evident and clear, if all goes well:

   - A critical mass of buyers, sellers and liquidity on the winning exchange
   - Tremendous gains in the knowledge and experience required to operate a successful e-marketplace
   - A solid advantage for future business in the (likely) event that other governments follow Denmark's example

It can be argued that gatetrade.net has no choice but to enter the competition, and no choice but to develop the portal if it wins. The alternative is to stand by and watch as a competitor takes the business and hope that it will fail. Indeed, potential future competitors are already undertaking similar projects in Sweden.

2. The risks can be summed up quite simply: Can anyone succeed on the terms defined by the Danish government? Is it, in fact, a viable partner? Funds provided by the state for development can fairly be described as peanuts – that is, clearly inadequate to the task. The creation of the portal will just as clearly be only the first step in a long and difficult process of systems integration and change management, segmented across a myriad of separate agencies, each with its own systems and culture.

Assuming that gatetrade.net cannot afford to lose the competition, regardless of the risks, the question then becomes: How can the company reduce those risks? What concessions and engagements should it demand from the government, and how can it obtain them?
Here it is important to note that despite the government's tacit assumption that, in the end, there will be no suitable candidate, or no candidate who can accept its terms, it is in fact bound by visible commitments and claims. The competition has been loudly announced and promoted as a major step forward for the Danish economy. If it fails the government will have to accept at least some of the blame. Also, the government may well believe (or want to believe) its claims – namely that the portal will play a major role in reducing government expenditures. But the government dares not attempt building a portal itself; its past failures in the IT domain are still fresh. In short, the government needs gatetrade.net (or something like it) to succeed, at least to a certain extent.

1. The technical challenge raised by the public portal begins with content creation and management – an aspect of e-marketplaces that the industry as a whole largely underestimated prior to 2001, as shown in the appendix, "Finding is Not Searching: The Global Online Catalog Crunch".

- First, building online catalogs sufficient to suit the Danish government's needs will be neither simple nor cheap. Indeed, it could swiftly burn most of gatetrade.net's capital. Once again, application service providers have no standard solution to propose.
- If the government's wishes are followed to the letter, gatetrade.net will find itself in the position of investing massively in content that can subsequently be removed from its portal and used anywhere the government sees fit.

The interesting question here is not whether gatetrade.net chooses the right catalog format, but what future value it may extract from mastering a given solution. Competency in creating catalog content is presently a scarce resource and its value will probably grow in direct proportion to the growth of the marketplace sector.

2. The crucial legal issue resides in the still-unresolved matter of whether such portals are in accord with European Union public procurement rules, which were written well before e-marketplaces were conceived and thus make no allowance for them. If not, then crucial benefits of marketplaces, such as savings through buyer-supplier integration, must be foregone.

Post Danmark has already confronted Brussels on this issue, with no results at the moment the competition draws to a close. The Danish government now promises to throw its weight into the battle, hinting that if necessary it will place the European Commission, which rules on such matters, before a fait accompli. Can gatetrade.net count on the government to be an effective champion? Otherwise the energy, time and resources invested in the project may not be compensated for a long time, if ever.

Case (B3): International Competition and Expansion

A major theme of this section is the competitive environment around gatetrade.net – whose pattern and structure emerges while the new venture takes shape.

- One cause of this phenomenon lies in the advanced IT infrastructures and skills of the Nordic region, and the desire of both governments and industry to maintain that lead over the rest of Europe.
- A second driver emerges from the banking sector, which views e-marketplaces as a natural extension of ongoing activities and as a way to assure the loyalty of key customers.
- A third resides in telecommunications companies seeking new uses for their networks and capacity, and (like TDC) a chance to expand into applications services.
- Finally, application service providers, especially in e-commerce, push towards the formation of alliances with the capabilities and resources to launch and sustain e-marketplace ventures, effectively tying their future in the sector and region to such alliances.

The cumulative result of these forces is a growing array of ventures in virtually every Nordic country that closely resemble gatetrade.net in founder membership, strategy, and even in specific business sectors (such as B2G). This can be read as confirmation of the fundamental soundness of gatetrade.net's structure, or as a game of catch-up whose basic assumptions may be flawed. Given the difficulties of launching marketplaces, even for firms with established IT competencies, are the supposed synergies between telecommunications firms, banks, and IT companies as inherently potent as the new Nordic competitors believe? Or could competitors from outside these industries, particularly in vertical sectors, mount the same learning curves over the same time-frames with equal or better results?

A factor specific to the business model of gatetrade.net assumes great importance here: its horizontal conception focused on non-strategic goods. What is the benefit for a major multinational firm with operations across borders, of purchasing non-strategic goods from relatively small, localized suppliers? If gatetrade.net remains a purely Danish venture it may be unable to satisfy the purchasing needs of major corporations who can seek suppliers virtually anywhere in the world.

The specific character of the Danish economy underlines the question because it is characterized by a few large corporations (such as the founders of gatetrade.net), a mass of small businesses, and very little in between. The ideal customer of a horizontal e-marketplace, it can be argued, is a mid-sized corporation with mainly national or regional operations – a company big enough to wield purchasing clout and to benefit substantially from the cost reductions of a marketplace, but not big enough to establish its own EDI system or a proprietary online exchange. Within Denmark, gatetrade.net will have difficulty finding a great many such customers.

Gatetrade.net is hardly the only Nordic marketplace grappling with this issue. Commerce One, the applications service provider for the IBX alliance, gatetrade.net's main rival, is seeking (with varying success) to establish a global trading network linking all users of the Commerce One platform. Oracle cannot yet offer a comparable network to gatetrade.net or its other clients (though it is thinking along these lines).

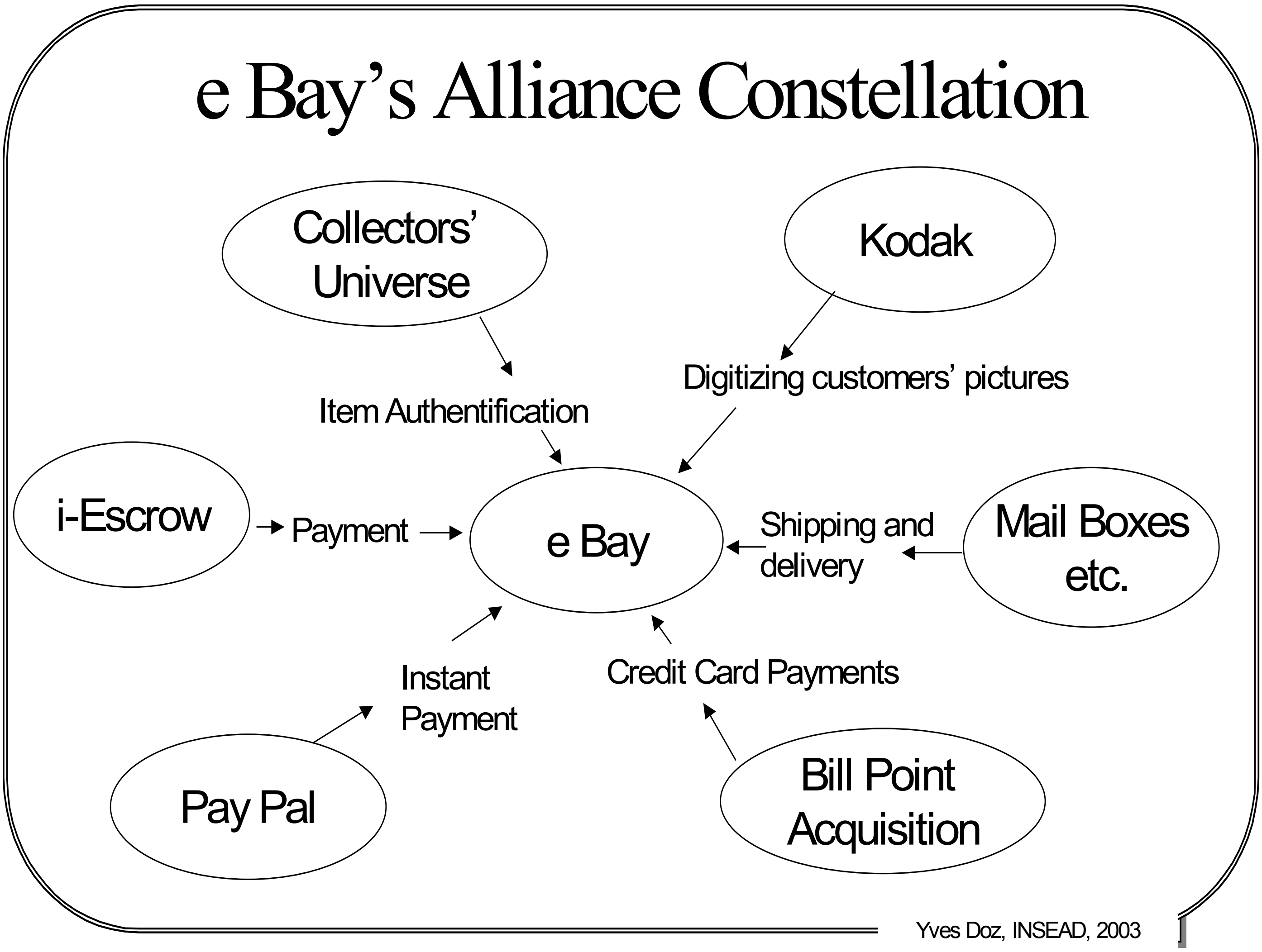
Gatetrade.net thus opts for a different strategy: to replicate itself in neighboring nations and regions. It will offer its platform, in exchange for fees or commissions, to other new marketplaces either as a portal for a vertical exchange, or as an ally who has already resolved critical development and content problems and can offer a base of liquidity to a start-up. In keeping (consciously or not) with the Nordic model, gatetrade.net wishes its new allies to include established and highly reputable firms with visible competencies in financial transactions, IT, and telecommunications.

The validity of this strategy depends, first, on gatetrade.net's demonstrable success in resolving technical problems and generating liquidity; otherwise it does not have real assets to share. But given that such success will take time, and that international expansion cannot be put off indefinitely while competitors are on the move, further issues arise:

- Are there sufficient benefits for a similar alliance with the same competencies, in accepting a de facto subordinate position to gatetrade.net, compared to the possible benefits of starting from scratch, like gatetrade.net's founders?
- If no one has yet found the keys to success of a horizontal e-marketplace, how can gatetrade.net convince its potential allies abroad that it already has them?

- Finally, rather than encourage the creation of start-ups by placing certain assets at their disposal, would it be wiser to initiate or join a network of existing e-marketplaces, as Commerce One and its customers are seeking to do?

Exhibit TN 1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Yves Doz, INSEAD, 2003

Exhibit TN 2
Alliance Partners Analysis

	DANSKE Bank	TDC	MAERSK DATA	POST DANMARK
OBJECTIVES For / Within Gatetrade	. Increase e-com experience . Reduce procurement costs . Update traditional image . Revenue /Profit /Stream	. Increase e-commerce expertise	. Leadership in B2B . Further expertise . Capital gains	. Increase e-com expertise . Update traditional image
From / around Gatetrade	. Extend cash management/ transaction business . Increase customer retention . Block expansion of Nordic rivals, reinforce links to Danish corporations . Provide other services . Extend /replicate in other markets	. Gain alliance experience . Sell Telecom services . Turn Maersk Data into friend, limit expansion into telecoms… . Expand into value-added services	. Sell other IT services, systems integration … . Block other (Nordic) competitors . Opportunity to expand Gatetrade internationally	. Extend e-logistics . New revenue stream . Increase efficiency . Prepare for partial privatization . Counter entry by competitors
Resources	. Branch network, sales force, credibility . Added services within Gatetrade, complementary value-added services . Significant purchasing potential	. Sales force, credibility . Further business via Gatetrade . Largest purchasing potential among partners	. Credibility, ramp up of interface . Potential for purchases from AP Möller	. Logistics integration . Standardization effort
Constraints	. "Arm's length rules": need to perform well… . International expansion	. Limited resources, not so differentiated . Risk of competition with Maersk Data . Nordic consolidation?	. Fewer resources . Venture positioning . "Lone wolf" image risk of being seen as competitor . Desire to exit	. State-owned status, still national utility . Unclear how will comply with public purchasing rules
Likely Behavior	. Fast first-mover, to increase customer retention … . Expand to provide other value-added services	. Learning, expertise gain	. Pilot for "B2B" development, then exit	. Fast first-mover, develop integrated logistics services

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