

B2B: Myths About Electronic Platforms

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Electronic commerce has appeared rather recently but with the increase in the level of penetration of the Internet, it has quickly



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grown and has entered into all new spheres of our life. Rather recently in the Russian market there was a new segment — electronic trading in the sphere of purchases in the public and corporate sector. State customers and business firms hold Internet auctions between the suppliers and buy from those who offer the best conditions and the best prices. This segment is growing very quickly. Four years ago only single companies and state institutions of Russia held tenders on Internet platforms. In 2013, state contracts completed on the Internet totaled more than \$150 billion. The commercial sector also shows comparable numbers.

OTC.ru, a group of electronic platforms, is one of the participants in the market. All trading floors of OTC.ru made more than \$50 billion in 2013. More than 130,000 companies offer the goods and services on these platforms. As a result of working with us, our clients saved more than \$4 billion. During the last year there was an explosive increase in demand for our Internet portal services; on average, the increase was 10–15 percent month on month.

A few of the main motives of using an Internet platform is obtaining the best market offer and saving money. This is due to the openness and honest competition between suppliers that they serve. Reducing "paper" work and saving time spent searching for suppliers also has a considerable effect. In spite of the fact that these advantages are demanded by any organization, there are a number of myths and illusions that are disturbing to top management of Russian companies in making the decision to use Internet platforms.

The most widespread myth, based on opinion, is that if the company's purchasing activity is already ideally constructed, transitioning to the electronic auction won't provide an economic benefit. In reality, it is sometimes true that the purchasing systems of companies are organized rather effectively. This means purchasing managers understanding the market

and knowing their suppliers. When purchasing managers negotiate with their suppliers, they can obtain very good discounts.

Nevertheless, the practice of our work shows that even if the company's purchasing system is well organized, the use of an Internet platform can achieve essential benefits. This is the result of two factors. First of all, even in the best companies, the main attention of suppliers is occupied by regular "production" purchases. Thus, in any company when 10-20 percent of purchases aren't regular, the corresponding requirements arise sometimes incidentally and/or spontaneously. Examples of such purchases include: repairs at the office, motor transport purchase, office equipment and stationery, etc. Purchasing managers often have neither the time, nor the opportunity to study the market properly for such purchases and to hold negotiations with all suppliers. Regarding such purchases, work through an Internet platform is especially effective. The creation of a tender on a platform will take only a few minutes. Further, the platform will create everything for you: It will notify hundreds of corresponding suppliers about the new tender and will carry out the competitive bargaining between them. As a result, you receive the best prices and terms of delivery, only having to put in a minimum amount of effort. The second important factor is the variability of a market situation and the continuous growth of competition. Even if your relations with all suppliers are excellent, it is necessary to consider that their situation changes dynamically, like when new programs for discounts appear, sales of warehouse stocks are carried out or a seasonal change of market conditions place. These, and also many other transient factors can force the supplier to give a better than expected price. By carrying out all purchases through open tenders on an Internet platform even among a limited circle of known suppliers, you will be able to catch one of such situations, thus always receiving a price that is a little bit better than average in the market.

The next myth which we face: the illusion that it is very difficult to use this platform, that this activity is strictly regulated and is suitable for only state institutions or big companies. Really, public sector purchasing in an electronic form is strictly regulated by the relevant federal laws, demands a certain knowledge and has a number of restrictions. For business firms, on the contrary, the legislation in any way doesn't limit this sphere. The companies can organize their purchases in any way that is convenient for them. The commercial sector of an Internet platform provides a set of opportunities, many types of tender procedures and a simplified and facilitated interface. Any organization can hold tenders on a platform. For this purpose it is necessary to be registered only on a platform, to choose the most convenient type of procedure, to hold the tender and to receive the best conditions in the market. All of this is taking into account the saving of time for searching for suppliers, coordination of contracts, labor costs and minimization of red tape.

The third myth we face is that when companies believe that purchases on the Internet is an excellent idea, they think that the best method is using their own website. Actually, the role of a website of an organization can't be underestimated, because many suppliers learn about company tenders through it. Nevertheless, even in the largest companies, the number of suppliers registered on a website seldom reaches several thousand while on the platform, the number of suppliers is greater than 150,000. These suppliers represent many different commodity categories and the number of suppliers is growing at a rate of about 300 companies a day. Also, it is important to consider that starting your own Internet system of purchases is a long and expensive process. As a result, having developed their own

platform, instead of saving money the companies receive growth of expenses and in addition a set of technical problems.

The myths described above are easily disproved by practice, and all difficulties of implementation of necessary changes are repeatedly compensated by advantages of purchases through an Internet platform — decrease in costs, control over expenses and improvement of the company's public image. All of this is obtained due to an increase of transparency, an openness to the process of purchasing, the honest competition between suppliers and increases of efficiency in activity of supply.

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