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CENTRE FOR COMPETITION POLICY

June 2007
Competition Policy Implications of Electronic Business-to-Business Marketplaces

Competition Policy Implications of Electronic Business-to-Business Marketplaces: Issues for Marketers

CCP Policy Briefing

BACKGROUND

- Internet technology has significantly changed the ways in which firms collaborate and compete. E-marketplaces – sometimes referred to as e-hubs, business-to-business (B2B), or online exchanges – allow networks of buyers and sellers to conduct business online and to exchange information related to the terms and conditions of trade.
- By trading through portals firms and industries can potentially benefit from reduced buyer/supplier search costs, improved communications, and the improved flow of goods through the supply chain.
- Despite these benefits, concerns persist that the characteristics of some electronic marketplaces might damage competition and consequently be construed as anticompetitive.
- Understanding and addressing potential competition policy issues posed by e-marketplaces not only assists industrial marketers in avoiding legal pitfalls, but also ensures a level playing field for all participants.
- Many marketing managers may not realise the growing likelihood of violating antitrust or competition laws, with many business crimes cause by employees who often unknowingly break the law pursuing firms' objectives.

COMPETITION POLICY CONCERNS

- Concerns have been raised that e-marketplaces enable collaboration and potentially restrict competition. There are concerns with:
    - the characteristics of e-marketplaces, including how information is shared between firms;
    - misuses of buyer power;
    - the potential exclusion or over-inclusion of firms from exchanges
- Information sharing: while greater information availability will be likely to encourage competition and benefit markets, it could facilitate price fixing or other conditions of sale.
- Misuses of buyer power: powerful buyers with a significant share of the buying market can collude to influence process or other terms of exchange; for example, larger buyers might derive better prices through volume discounts. Also, when buyers are relatively few in number and interact frequently, the potential for collusion exists; for example, on prices paid and charged in output markets.
- Exclusion/over-inclusion of new participants: the major issues concerning exclusion/over-inclusion relate to the prohibition of membership and use of rival exchanges; for example, firms would not be excluded from membership of an exchange for reasons other than poor credit history or as a nonqualified buyer/seller.

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POLICY ISSUES

- Firms need to pay attention to governance structures, operating rules and procedures when creating and participating in e-marketplaces. They also need to pay attention to potential competition issues when new technologies afford competitors greater opportunities to collaborate.
- Firms must have a good understanding of competition guidelines.
- Further research into both existing e-marketplaces and the creation of new ones can provide insights into compliance procedures, marketing strategies and audit procedures, and can help to identify who within an organisation is responsible for legal compliance.
- In general, companies should consider: who has access to competitively sensitive information and to what types of information; how current and transaction-specific the information is; if the information is already available through alternative sources; and the structure of the market served by collaborating companies.

THE CCP

The ESRC Centre for Competition Policy (CCP), at the University of East Anglia, undertakes competition policy research, incorporating economic, legal, management and political science perspectives, that has real-world policy relevance without compromising academic rigour.

FOR MORE INFORMATION

The full working paper (CCP Working Paper 07-15) and more information about CCP and its research is available from our website: www.ccp.uea.ac.uk

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