

In a nutshell: Information transparency of B2B online platforms

Scientific articles contain valuable management implications but are usually not very easy to digest. We summarize the core results so that you can use the latest research findings for your company.

Original

Despite the controversies surrounding online business-to-business (B2B) exchanges, the Internet-based digital marketplaces are considered to have the potential to reduce transaction costs, add product and pricing transparency, generate market liquidity, and facilitate bidding by a broad spectrum of potential suppliers in a standardized platform. In particular, online B2B exchanges allegedly streamline information flow in supply chains. The rebalance of information asymmetry is an important motivation for establishing B2B exchanges. [...]

In such a transparent environment, it becomes easier for suppliers to obtain information that may allow them to infer their rivals' costs. Is this good news or bad news? In this study, we focus on the informational effects of B2B exchanges and explore firms' incentives to join a B2B exchange that provides an online platform for information transmission. We then study the equilibria by developing a game-theoretic model under asymmetric information. We examine whether the incentives to join a B2B exchange would be different under different competition modes (quantity and price), different information structures, and by varying the nature of the products (substitutes and complements).

Our results challenge the "information transparency hypothesis" (i.e. open sharing of information in electronic markets is beneficial to all participating firms). In contrast to the popular belief, we show that information transparency could be a double-edged sword. The individual rationality of participation in the online exchange reflects the trade-off between information transparency and data confidentiality. This may have important implications for the microstructure design (e.g. data access rules) of B2B electronic marketplaces.

Key statements

Digital B2B platforms* are a long-established way of conducting business. They reduce transaction costs and increase processing efficiency and transparency. However, suppliers often worry that the information transparency that goes hand in hand with using such platforms does more harm than good, allowing competitors to exploit information related to price and cost levels.

In their article exploring this question, the authors analyze a B2B platform model using game theory. They conclude that there are in fact winners and losers when it comes to information transparency. Whether it is beneficial for suppliers to use a B2B platform depends on their products, costs, and the competitive environment. Particularly for suppliers in the high-priced commodities business, a presence on digital B2B platforms is not always advantageous. However, suppliers with complex products or a low cost level benefit from such platforms. The following pointers help companies take advantage of the transparency afforded by digital platforms:

- **Select the right kind of "digital":** Digital presence has long been a must for suppliers. B2B platforms can provide customers and suppliers added value in the digital realm. However, in order to really benefit, they should choose and limit themselves to platforms tailored to and optimal for their business.
- **Disclose information gradually:** Do not disclose information in a blanket manner and without any restrictions. Instead, tailor the information to the procurement stage of the customer. Do not hesitate to request information from the other party before disclosing detailed information.
- **Know the information requirements of the product:** Customers can compare commodities independently and procure them digitally if they have all the information they need. For complex solutions, information should be broken down so that it is intelligible to the customer and provides a good general overview. Refrain from providing detailed information.

* In this article, “digital B2B platforms” refer primarily to digital B2B bidding platforms. B2B e-commerce platforms were given less consideration because of the article’s date of publication (2004).

Source:

Zhu, K. (2004). Information transparency of business-to-business electronic markets: A game-theoretic analysis. *Management Science*, 50(5), 670–685.

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Would you like to learn more? Do not hesitate to contact Anna Lindenau in case any questions remain unresolved.

Center for Industrial Marketing

Anna Lindenau

T: +41 71 310 00 70

E: anna.lindenau@industrialmarketing.ch

www.industrialmarketing.ch

