



2005-01-01

E-Procurement in the Aviation Industry: Value Creation Potential of B2B Emarketplaces

Claudia-Maria Wagner

Dublin Institute of Technology, claudia.wagner@dit.ie

Bernd Huber

Dublin Institute of Technology

Edward Sweeney

Dublin Institute of Technology, edward.sweeney@dit.ie

Austin Smyth

Dublin Institute of Technology

Follow this and additional works at: <http://arrow.dit.ie/nitlart>

 Part of the [Business Administration, Management, and Operations Commons](#)

Recommended Citation

Wagner, C. et al (2005) E-Procurement in the Aviation Industry: Value Creation Potential of B2B Emarketplaces. *Quarterly Journal of Transport Law, Economics and Engineering*, Vol. 24, pp. 24-30.

This Article is brought to you for free and open access by the National Institute for Transport and Logistics at ARROW@DIT. It has been accepted for inclusion in Articles by an authorized administrator of ARROW@DIT. For more information, please contact yvonne.desmond@dit.ie, arrow.admin@dit.ie, brian.widdis@dit.ie.



This work is licensed under a [Creative Commons Attribution-NonCommercial-Share Alike 3.0 License](#)



**E-PROCUREMENT IN THE AVIATION INDUSTRY: VALUE
CREATION POTENTIAL OF B2B E-MARKETPLACES**

Claudia-Maria Wagner (PhD Student)

Bernd Huber (PhD Student)

Edward Sweeney (Director of Learning)

Prof Austin Smyth (Director General)

National Institute for Transport and Logistics,

Dublin Institute of Technology

17 Herbert Street, Dublin 2, Ireland

Ph.: +353 1 669 0806

Fax: +353 1 661 1943

e-Mail:

claudia.wagner@dit.ie

bernd.huber@dit.ie

edward.sweeney@dit.ie

austin.smyth@dit.ie

Abstract

In academic literature, only limited research has been undertaken in exploring the value creation of B2B (Business-to-Business) e-Marketplace models in the aviation industry. The aim of this publication is a theoretical analysis to explore whether or not B2B e-Marketplaces can make a contribution to the achievement of competitive advantage in procurement in the aviation industry. The research focuses on the potential of B2B e-Marketplaces in terms of improving an airline's competitiveness in its procurement value chain and discusses empirical results from a survey among international e-Marketplace / portal operators.

Keywords: Airline Industry, B2B e-Marketplaces, E-Procurement, Competitive Advantage

1. Introduction

The airline industry can be characterised as a very unique kind of industry. Bourgeois and Eisenhardt (1988) have described it as a high velocity environment, where there is sharp and discontinuous change in demand, competitors, technology, and regulation, overlapped with continuous dynamism or volatility. They argue that in this kind of environment, strategic decision making is problematic because of these dramatic changes and because of the difficulty of predicting the significance of a change. The airline industry to date has still very nationalistic characteristics, but is becoming more and more globalised due to liberalisation trends and consequent construction of global strategic alliances. Moreover, the industry is characterised by complexity in terms of various regulatory needs. Information and communication technology (ICT) has played a major strategic role in several steps of the airline value chain framework since the development of CRSs (Computer Reservation Systems) and EDI (Electronic Data Interchange). In the 1990s, the use of the Internet as a sales channel for airline tickets has been promoted as highly promising (e.g. Roy and Filiatrault, 1998) and nowadays public online booking portals are widely used. In the late 1990s, B2B e-Business became more and more the focus of firms' strategies, while simultaneously a relatively large number of B2B e-Marketplaces emerged. One of the recent most meaningful developments has been the formation of strategic alliances, partnerships and mergers, which, beyond the co-ordination of schedules and fares, aims at cost reductions through the possibility of joint-procurement opportunities. More recently, airlines have studied intensively the potential of such joint-procurement possibilities and have taken measures in creating consortia-led e-Marketplaces as mediators for aggregating demand and to facilitate transactions. Christiaanse and Markus (2003) argue that e-Marketplaces have the potential to positively impact company and supply chain performance, thus altering industry structure. However, e-Marketplaces have gained little momentum in the industry so far and their failure rate is very high (Gill and Wu, 2001). Due to the lack of revenues they have generated many had to cease operations or merge with other industry players. It is predicted that only a few e-Marketplaces will survive in each industry by succeeding to reach a critical mass of participants, and the right variety of products and services to cover the needs of the particular industry (Oesterle and Fleisch, 1999). So far, limited academic research has been undertaken in exploring the value creation of B2B e-Marketplace models, particularly in the aviation industry. A sound theoretical analysis is necessary to explore whether or not e-Marketplaces have the potential to add value to procurement in the aviation industry. Thus, this research focuses on the potential of B2B e-Marketplaces in terms of improving an airline's competitiveness in its procurement value chain.

2. Theoretical Background

A B2B e-Marketplace exchange is a central marketplace facilitated by ICT, in which multiple buyers and suppliers come together to gather information and buy and sell goods and services (Bakos 1998). The concept of B2B e-Marketplaces in the aviation industry cannot be researched without taking into account the link between the diversity of theories of competitive advantage and ICT as well as the specific industry-related drivers. The concept of ICT as a competitive means has been strongly researched in the literature. Similarly, the overall concept of e-Business (and its subset e-Commerce) and their potential for value creation and thus the potential for creating sustained competitive advantage has been the focus of most recent research work (e.g. Amit and Zott, 2001; Rasheed and Geiger, 2003; Lee, Cho and Lee, 2002; Zott, Amit and Donlevy, 2000; Phan, 2003). However, academic literature to date has outlined the central issues of e-Business to a limited extent and so far no unified theoretical model has been developed which captures the unique features of this phenomenon (Amit and Zott, 2001). Furthermore, most of this research has focused on businesses and transactions in terms of B2C (Business-to-Consumer). In terms of B2B, ICT has been increasingly researched in recent years as the basis for inter-organisational information systems (IOS) that enable firms to transcend organisational boundaries, facilitate the flow of information, and manage linkages between suppliers and customers in the supply chain. E-Marketplaces have evolved from IOS (Reimer, 1996). The evolution of virtual B2B e-Marketplaces, created by Internet-based ICT, is an innovation that spans firm and industry boundaries while creating value through new exchange mechanisms, unique transaction methods, and new forms of collaborations between firms (Rasheed and Geiger; Büchel and Raub, 2002; Van Tulder and Mol, 2002). Yet, the value creation potential of e-Marketplaces in the airline industry and their role in enhancing competitive advantage has not been the focus of academic research to date.

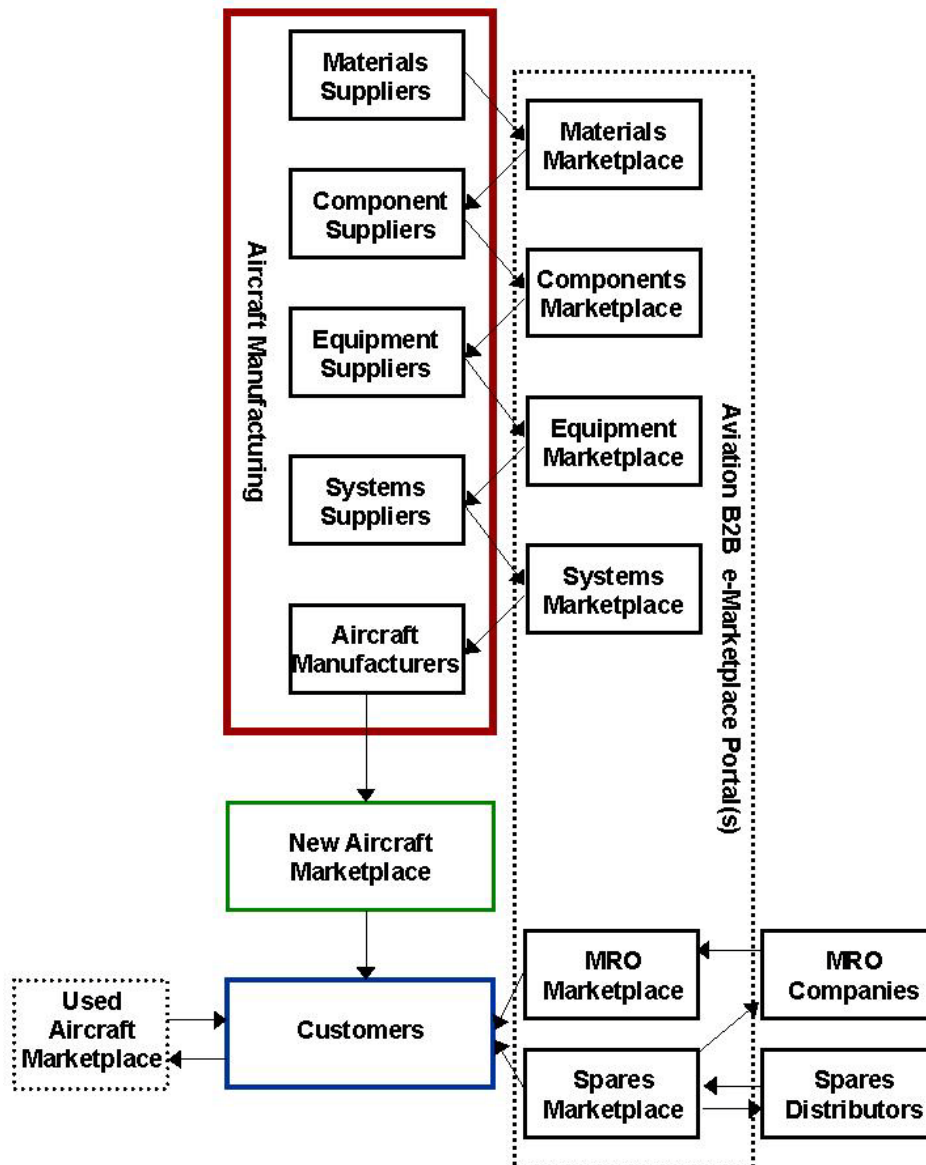
Several theories of competitive advantage provide potentially useful frameworks for the analysis of B2B e-Marketplaces in the aviation industry. The resource-based view has become a popular perspective for explaining sustainable competitive advantage in ICT and e-Business (Barney, 1991; Barney, Fuerst and Mata, 1995; Clemons, 1991; Clemons and Row 1991; McFarlan, 1984). Resource-based theory has also been suggested as a meaningful theoretical framework for pursuing competitive advantage through the development of IOS in value chain activities because of the required diffusion of new technology assets (Rasheed and Geiger, 2003, cited Angeles and Nath, 1999; Kumar & Crook, 1999). However, resource theory as it relates to using ICT to establish a sustainable competitive advantage has been equivocal. In particular, the resources involved in web-based e-Commerce may not be a source of competitive advantage. Resources in this technical context can at best be viewed as a temporary source of competitive advantage or a source of competitive parity. In fact, except for managerial ICT skills, Barney, Fuerst and Mata (1995) concluded that ICT can not be a source of sustainable competitive advantage. Because ICT resources are mobile and imitable, firms can only expect to have a temporary competitive advantage, and should view ICT as necessary in maintaining competitive parity (Rasheed and Geiger, 2003). In determining the value creation of e-Business, Amit and Zott (2001) observed that new value can only be created by the way in which transactions are enabled. In brief, these authors developed a model of the sources of value creation in which the value creation potential depends on four interdependent dimensions: efficiency, complementarities, lock-in, and novelty. Clemons (1986) identified the “create-capture-keep” paradigm by focusing on ICT-based customer switching costs as a potential source of competitive advantage. Another theory that describes sources of value creation and thus the achievement of competitive advantage is the transaction

cost theory. Transaction cost can be defined as the costs of planning, adapting, executing, and monitoring the completion of a specific task (Williamson, 1983). In ICT literature, the leading perspective on e-Marketplaces is transaction cost theory (see Christiaanse and Markus, 2003). The strategic network theory is equally relevant in understanding the value creation of e-Businesses. Networks can be defined as two or more firms which, due to the intensity of their interaction, constitute a subset of one or several markets (Thorelli, 1986) and are possibly the most efficient form of organisation for today's economic circumstances (Miles and Snow, 1984). Jarillo (1988) defines strategic networks as long-term purposeful arrangements between organisations that allow these firms in them to gain or sustain competitive advantage in comparison to their competitors outside the network. Strategic networks are furthermore differentiated from vertical integration by the relative independence of participating firms. Therefore, strategic network theory expands transaction cost theory to explain the emergence of long-term relationships between firms in terms of the reduced transaction costs enabled by network collaboration. A combination of the presented theories is required to situate the value creation potential of e-Marketplaces to e-Procurement in literature.

3. Value Creation Potential of B2B e-Marketplaces in the Aviation Industry

Weller (2000) notes that the types of e-Marketplaces that develop in a given industry will depend on the complexity and frequency of transactions, the extent of industry concentration and the relative power of buyers and suppliers. The deployment of B2B e-Marketplaces is potentially enabling a more efficient and streamlined flow of information, goods, services and payments between businesses (Bakos, 1991). In their early evolutionary stages, e-Marketplaces were meant to present a new business model focusing on the matching of buyers and sellers including the support of customers, products and services (Raisch, 2000). For the airlines, the B2B websites are an opportunity to use their leverage as major buyers to wring savings from suppliers and sell excess inventory. However, e-Marketplaces are currently evolving from simple matching services focused on transactions and e-Commerce to the provision of a variety of value-added services that support transactions. A further step in the development will be the integration of knowledge services into the transaction exchange, thereby building value trust networks that enhance collaboration within the member communities (Raisch, 2000). Improving liquidity and addressing inefficiencies in supply chains by facilitating transactions and improving business processes, these virtual markets provide a value proposition to procurement and supply management in the aviation industry. Every supply chain consists of multiple layers of companies, which individually can be involved in several different supply chains. Figure 1 represents the aviation industry value chain incorporating potential e-Marketplace platforms. The various transactions between the manufacturing and non-manufacturing entities are shown in the diagram. To simplify the diagram, the organisations are represented as operating at a single level in the value chain and supplying to the respective higher levels. However, in reality, many subjects operate at and supply to more than one level.

Figure 1: Airline Industry Value Chain



(Source: Derived from Department of Trade and Industry, A study of the impact of e-Business on the UK aerospace sector, 11 October 2000, p. 4-2)

To date, a small percentage of purchases have been undertaken in electronic marketplaces in the aviation industry compared to the traditional method of buying and selling aircraft parts and services. The emergence of B2B e-Marketplaces spanning both vertical and horizontal markets has the potential to add value to procurement practices by:

- Disintermediation
- Reduction of Search Costs and Time Efficiency Enhancements
- Increased Transparency of Supplier Base
- Inventory Reductions
- Joint-Procurement

3.1. Disintermediation

New information technologies, such as wide-area and transparent communication through the Internet, shared database infrastructures, Internet auctions, and Internet search and document display capabilities, suggests that traditional intermediaries can be replaced by more efficient e-Businesses pursuing disintermediation strategies (Young and Johnston, 2000). The term disintermediation can be defined as the alleged move towards shorter value chains in electronic marketplaces. Intermediaries have been known to add significant costs to the value chain, thus suppressing the profit margins of producers while at the same time resulting in higher final prices for end users. The introduction of a third party that acts as a "certification agent" (Timmers, 1998) can create the necessary trust by assuring quality and creating a de facto standard. However, Maddox (1998) argues that the role traditional middlemen are playing is changing. Advanced use of ICT and the evolution of e-Marketplaces can be hypothesised to reduce the transaction cost for producers, thus enabling them to internalise activities that have to be purchased from intermediaries in a traditional market and resulting in a redistribution of profits within the value system (Giaglis, Klein and O'Keefe, 1999). E-Marketplaces potentially facilitate the direct matching of buyers and sellers, and as a result traditional intermediaries may be reduced or even eliminated, leading to disintermediation (e.g. Gellmann, 1996; Gates, 1995).

3.2. Reduction of Search Costs and Time Efficiency Enhancements

The use of ICT has created increased industry competition, reduced technology costs, and increased interconnectivity of technology through open architectures in the past. Complementing these trends with infrastructures like the Internet, the consequences are more effective markets (Grover and Ramanlal, 1999). According to Jarach (2002), a web interface can generate two types of advantage: (1) greater effectiveness due to the possibility of shorter buyer search times and due to the possibility of reducing supplier response times, and thus simplifying the planning process; (2) greater efficiency, as B2B online negotiations also allow other actors, that are not part of the usual supplier network to participate in the process with a product or service offer, thus resulting in economies of variety and considerable savings in management. The power of Internet technologies to match buyers and sellers, share information, reduce search costs, and compare complex products, has been argued to alleviate market imperfections, resulting in more effective markets (Bakos, 1991). Due to the sometimes sporadic nature of demand for unpredictable aircraft maintenance parts, airline operators perceive difficulties in parts demand forecasting (e.g. Clarke, 1998; Ghobbar and Friend, 2002). Airlines often face very high costs in locating spare parts and components, especially for older aircraft types. This is also true for AOG (aircraft on ground) repair where besides the parts required by the aircraft manufacturer to be in inventory at the airlines' bases, appropriate parts have to be located in a very limited timeframe. Due to the lack of transparency of aircraft spare part inventory locations, airlines often face very high costs for such AOG repair parts.

3.3. Increased Transparency of Supplier Base

When analysing the effect of e-Marketplace on transaction and procurement processing costs, it also needs to be considered that the airline industry is a highly complex one. In order to ensure the quality necessary and required by many federal aviation authorities to ensure safety, the aviation and aerospace industry differs from other sectors, as there are very high barriers to entry due to regulatory requirements. Usually, projects would be of high technical

complexity and risk and are quite frequently collaborative between risk sharing partners. Sometimes, projects have long life cycles that can extend out to 50 years including ongoing modification, rebuilding and re-engineering. Furthermore, products are manufactured in low volume with unique design modification and option configuration status and quite often products require individual configuration history and modification tracking for certification, as well as full trace ability which is required on parts and materials. About 5% of the total parts purchased makes up about 25% of the total procurement cost in the aviation industry (Ghobbar and Friend, 2002). Mostly, high value products are sold under a requirement for full life support with in-service modifications and upgrades and vendors almost invariably supply initial maintenance packages including both spares and support. Finally, at the top of the value chain the industry has become highly consolidated with almost no competition (Chan, 2000). The world-wide market for aviation parts and products is highly fragmented and parts are supplied by many types of suppliers, including airlines, OEMs, numerous distributors, fixed base operators, traders and brokers. Suppliers of aviation parts and products are geographically dispersed and because of the specialised and complex nature of aviation parts and products, the particular part or product desired by a buyer may not be easily accessible. Buyers frequently search for a specific part or product to meet the parameters of a specific aircraft at a particular location. Buyers may spend a significant amount of time examining multiple paper catalogues and other information from different suppliers to identify the most appropriate part or product. After locating the desired part or product, buyers typically must place orders with multiple suppliers in order to obtain parts or products related to a single aircraft. The use of e-Marketplaces has the potential to result in improved search capabilities, which results in a higher transparency of markets, and thus lower product prices.

3.4. Inventory Reductions

Aircraft availability has to be maximised at peaks and maintenance fitted into times when the planes are not required for commercial activities (Ghobbar and Friend, 2002). Demand for air transport varies with time. There are variations in daily, weekly, and annual demand, leading to peaks at popular times. For example, a charter airline would experience its peaks during the summer months, and therefore schedule heavy maintenance to the less busy winter times. However, the usage patterns of a lot of parts is unpredictable, and estimating future demand is done by considering available maintenance contract information and by looking at scheduled maintenance plans, with some companies preparing manual forecasts for expensive parts (rotables/repairables). Forecasting of parts is generally category dependent, due to parts being defined either as life limited (predictable) or condition-monitored (unpredictable). Such forecasts are generally based on usage patterns such as flying hours or past parts demand, or the number and type of checks planned for every aircraft, and the fleet size. Historically, airlines are attempting to control the majority of the aviation parts and products inventory. Airlines are now beginning to reduce the size of their parts inventories in an effort to reduce inventory carrying costs. These inventory reductions have increased reliance of airlines on suppliers of new, used and overhauled parts and products, many of which may be difficult to obtain from manufacturers on a timely basis, if at all. If airlines demand time responsive inventory procurement processes, responsibility for inventory storage and handling will shift to suppliers. Bakos (1998) argues that e-Marketplaces improve information sharing between buyers and sellers, helping to lower the cost of logistics and promoting quick, just-in-time deliveries and thus reduced inventories. Most airlines, that perform at least the line maintenance at their own in-house facilities, must hold a certain amount of spare parts in their own inventories, based on projected annual flying hours. This is required by the large airframe and engine manufacturers. Also when new types of aircraft are introduced, the

airframe and engine manufacturers provide a spares provisioning list. However, in many cases, airlines do hold more inventory than required, due to reasons such as avoiding AOG situations and also due to the fact that there is often still a huge amount of parts available that cannot be used anymore because of changes in the fleet type. In such cases, there is often an inventory overload, which binds a significant amount of capital that could be used elsewhere otherwise. Also many parts have a shelf life that cannot be used anymore after a certain amount of time. To reduce inventories, airlines can take advantage of means such as e-Marketplaces in order to manage their inventories and source missing parts in a time and cost efficient manner.

3.5. Joint-Procurement

The cost of material input accounts for about between 35% up to 57% of total costs at airlines, thus being the most important component (Oum, 1998). By reducing market fragmentation, a larger customer base for a specific product increases collective buying power. Also, low ICT costs enhance customer access to this product (Grover and Ramanlal, 1999). Similarly, Jarach (2002) argues that sophisticated e-Procurement applications can generate competitive improvements for firms because of the sharing of information and the planning of joint activities. In recent developments in the airline industry, a rising number of airlines involved in strategic alliances, as well as co-operations managed by holding companies can be observed. By viewing horizontal forms of co-operation as one entity in the airline industry, the procurement volume expands considerably. When putting together the purchasing power of such entities, one can identify potential cost savings in procurement. Operationally, airlines can co-operate across a wide range of activities. Oum, Park and Zhang (2000) defined 11 areas of joint or co-ordinated activities, including joint-maintenance and joint-procurement of fuel or other supplies. As the base facilities and headquarters of airlines embedded in strategic co-operations are quite often located globally, an e-Marketplace can be seen as mechanism for realising these joint-purchasing benefits by enabling aggregate buying, which means that multiple buyers can aggregate their procurement volume, reducing the price through purchasing larger quantities. When considering the fact that co-operation in network relationships can lower total costs of various activities, e-Marketplaces can be understood as participants in collaborative supply networks (Christiaanse and Kumar, 2000).

4. Results of a Survey among E-Marketplaces in the Aviation Industry

4.1. Survey Background

In order to study the value creation potential of e-Marketplaces in the airline industry in more detail, a survey was initiated addressed to the population of 59 e-Marketplaces and aviation specific portals and service providers worldwide dedicated to the airline and aviation industry. In the year 2000, the whole industry witnessed a tremendous rise in numbers of new e-Marketplaces entering the market. Not surprisingly, the industry saw many failures, bankruptcies as well as mergers and consolidations within the population over the following years. As a result, out of these 59 portals identified, only 26 were still operational as aviation portals in 2002, whereas the rest of them ceased their operations fully or changed their business focus in another direction. Out of the 26 e-Marketplace identified as being valid for this research, 13 returned the survey, which is a response rate of 50% (see table 1).

Table 1: Background Information to Survey Response Rate

	<i>Number of Participants</i>	<i>Related Percentage</i>
Initial total number of aviation portals	55	
Number of portals that ceased operations	12	21,8%
Number of portals active in other sectors	17	30,9%
Number of active aviation portals (AAP)	26	47,3 %
Responses/Response Rate	13	50% (of AAP)

Most answers came from the United States with 46% of total received surveys, followed by 23% of answers from Great Britain and 15% from Germany. This result shows that the United States is market leader in numbers of e-Marketplaces. This finding is acknowledged by Raisch (2000). To investigate the possibility of non-response bias in the data, results were tested for statistically significant differences in the responses of early and late returned surveys. No significant differences were found and it therefore can be assumed that the sample results are representative as the population.

4.2. Services Offered

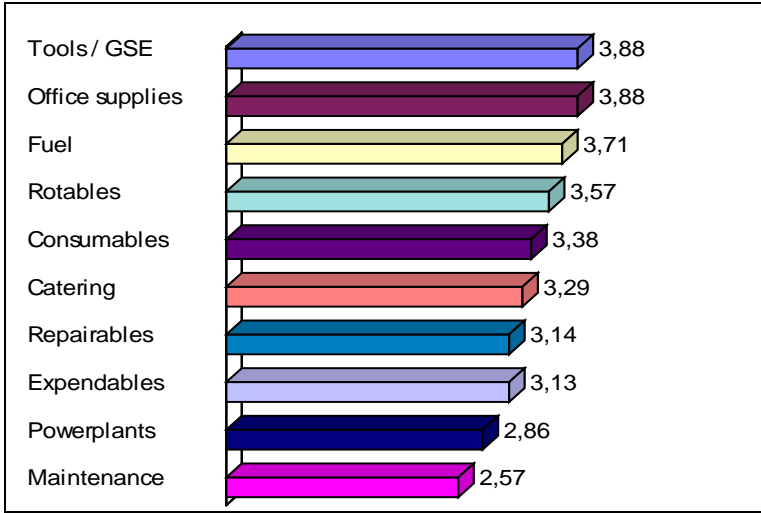
The average number of 10 months for an e-Marketplace to become operational gives a hint that at least a rudimentary e-Marketplace system is relatively easy to implement and maintain. However, this implementation time leaves room for speculation concerning the ability of such systems meeting all requirements of customers regarding content, security, service and functionality. Most e-Marketplace operators indicated that they are still in an evolutionary phase, but overall they expected that functionality and service might considerably change in years to come to better fit customer needs. The fact that most e-Marketplaces are still being in an evolutionary process can be strengthened with regard to the number of people employed. Most of e-Marketplaces only employ up to 50 people. The business focus is predominantly on offering vertical e-Marketplaces combined with a B2B focus. Few participants operate a horizontal e-Marketplace. It has further been asked if the e-Marketplaces focus on a particular customer base and if they are for profit or non-profit. From this question, it can be identified that the majority (69%) of e-Marketplaces that participated in the survey classify themselves as neutral intermediaries. Only 15% cited operating a buyer-centric and equally 15% an industry consortia-led exchange as well as 7% a seller-centric e-Marketplace. 69% of all respondents said that there is no airline financial involvement in its e-Marketplace. Only in one case was there a supplier involvement. Some participants believe that their customers tend not to prioritise the use of the Internet in procurement activities. The results indicate that the Internet still has a minor role in procurement and is not used to the full potential in the aviation industry. While supplier sourcing, posting RFQs and the use of e-Marketplaces were rated as relatively important, seeking general information about suppliers and the maintenance of procurement web sites were believed to be less relevant.

4.3. Current Status and Appropriateness of Aviation Specific E-Procurement

There was a clear indication that the use of the Internet will become more important in all aviation procurement fields in future. It can be observed that most goods and services being

traded on an aviation e-Marketplace are maintenance services and repairables, followed by expendables, rotables and consumables. A relatively small number represent powerplants and tools/GSE (Ground Support Equipment), which are often traded on separate platforms specifically designed for these product groups. This also relates to fuel. However, office supplies are barely traded on aviation platforms at all. This finding suggests that office supplies might be traded on general horizontal e-Marketplaces, which are not designed for the aviation industry in particular. 53% of participants believed that their customers could improve their purchasing processes and so save time during procurement and sourcing. 46% fully thought that customers could achieve reductions in prices as well as a reduction in processing costs. Getting a better market overview was regarded as a major benefit. As fairly to highly realisable, survey candidates rated inventory reduction and reduced lead times. Better control over prices and a wider range of suppliers were rated as fairly important while the elimination of bogus parts plays a very minor role. Regarding documentation, 53% of participants indicated that paper reduction was very realisable on their e-Marketplaces. 46% claimed to offer extensive up-to-date documentation and 30% intelligent links. Maintenance help was rated as fairly to highly realisable. Regarding services, 46% specified that the tracking/tracing of order processes and more satisfied supplier sourcing are offered on their e-Marketplace. However, opinions diverge in view of repair/maintenance status tracking with 38% believing it to be fully realisable on their e-Marketplace and 23% rating it as not realisable at all. 31% of e-Marketplace operators offer auctions/reverse auctions and 32% rated this model as being suitable for procurement in the airline industry. Consumables, powerplants, rotables, tools/GSE and office supplies have been quoted as extremely appropriate products regarding this model of dynamic pricing. Repairables have only been quoted as fairly appropriate for auctions/reverse auctions (see figure 2).

Figure 2: Reverse Auction Feasibility for Aviation Procurement Groupings (on a Scale from 1 = No Importance at all to 5 = Extremely Important)



Regarding fixed price catalogues, participants stated uniquely that all aviation product groupings are appropriate to extremely appropriate for this model of exchange. The joint-purchasing model has also been regarded as extremely appropriate for all products groupings. Security, speed, a high number of e-Marketplace participants, participant identity known, confidence in the operators of the e-Marketplace and system integration are all rated as extremely critical factors for an e-Marketplace. Perceived as just somewhat important are the handling of the delivery, the pre-selection of suppliers, air worthiness requirements, quality

proof of offered products, homepage in native language, regional arrangement of e-Marketplace, as well as offers and demands described with pictures. Having its own clearing bank was not regarded by the participants as being an important service. Regarding any collaboration with other e-Marketplaces, 54% stated that they would co-operate with another e-Marketplace and 77% stated that their e-Marketplace was compatible with any ERP system.

4.4. Obstacles to Improvement and Critical Success Factors

In terms of the percentage of purchasing processing cost savings, the responses of e-Marketplaces ranged from as little as 10% up to 60% and more. In view of possible cost savings regarding product costs participants indicated an average of 12%. However, the use of e-Marketplaces involves considerable investment costs for airlines and their respective supplier base. Characteristics of e-Marketplaces that affect the generation of their success and revenue are the number of members, transaction volume, number of product types, scope for expansion into related industries, scope for vertical integration, and the number of web site page views. These cost channels can include license fees, professional services, transaction fees, advertising fees, payment for supply chain savings, and subscription or membership fees. Most respondents claimed to levy a monthly or yearly fee (69%) to make use of their services, followed by the percentage per transaction fee (38%). Only 15% charge a one-off admission fee or some other alternative. Almost half of participants (46%) responded that both buyers and suppliers had to share the costs, while 30% charged costs to the supplier only. Not surprisingly, no one claimed to charge the costs to the buyers only, which suggests a relatively strong position of buyers in the e-Business world. Apart from these investment costs, e-Marketplace operators named different barrier patterns that prevent adoption of e-Marketplaces for procurement in the airline industry. The fear of a lack of security for transactions and accuracy of information were cited as the predominant barriers. The implementation of e-Marketplaces requires change management and training of employees to proceed with e-Procurement. This drawback is accompanied by employee's fear of job losses through automation. That is why many portal operators confirmed that many aviation industry participants, e.g. airlines and suppliers, are still reluctant to use e-Marketplaces at present. Rather self-critically, some e-Marketplaces admitted that they are still in an evolutionary phase and they have not yet developed to their full value creation potential. At the same time, portal operators were positive that they can extend their value propositions in future to increase e-Marketplace adoption in the aviation industry. So far, consolidation of portal operators is an ongoing process, but is likely to be followed by a more concentrated approach by these organisations left towards special core competencies which distinguish themselves from potential competitors.

5. Concluding Comments

It is evident that recent years have witnessed rapid rates of developments in ICT generally and in e-Marketplace technology specifically. Effective exploitation of e-Marketplaces has the potential to enhance the value proposition of the airline industry. To date, however, the use of such collaborative approaches has been limited. Furthermore, little research has been conducted into the barriers to adoption, and into the critical success factors, in the light of existing and possible future potential. This paper has outlined the current status of e-Marketplaces in the industry and has focussed on the measures which need to be implemented if the potential is to be realised. If such measures are incorporated as part of the overall strategic development of companies in the industry converting e-Marketplace potential into operational reality can be achieved.

References:

- Amit, R. and Zott, C. (2001) Value creation in e-Business. In *Strategic Management Journal*, 22, pp. 493-520.
- Angeles, R. and Nath, R. (1999) An empirical study of EDI trading partner selection criteria in customer-supplier relationships. In: *Information & Management*, 37, pp. 241-255.
- Bakos, J.Y. (1991) Information Links and electronic marketplaces: The role of interorganisational information systems in vertical markets. In *Journal of Management Information Systems*, 8 (2), pp. 31-52.
- Bakos Y. (1997) Reducing buyer search costs: implications for Electronic Marketplaces. In *Management Science*, 43, 12.
- Bakos, Y. (1998) The emerging role of electronic marketplaces on the Internet. In *Communications of the ACM*, Aug. 1998.
- Barney, J.B. (1991) Firm resources and sustained competitive advantage. In *Journal of Management*, 17(1), pp. 99-129.
- Barney, J.B., Fuerst, W.L., Mata, F.J. (1995) Information technology and sustained competitive advantage: a resource-based analysis. In *MIS Quarterly*, 19(4), pp. 487-505.
- Burgeois, L. and Eisenhardt, K. (1988) Strategic decision processes in high velocity environments: four cases in the microcomputer industry. In *Management Science*, 34, pp. 816-835.
- Büchel, B. and Raub, S. (2002) Building Knowledge-creating Value Networks. In *European Management Journal*, 20(6), pp. 587-596.
- Christiaanse, E. and Kumar, K. (2000) ICT Enabled Co-ordination of Dynamic Supply Webs. In *International Journal of Physical Distribution and Logistics Management*, 30, pp. 268-285.
- Christiaanse, E. and Markus, M.L. (2003) *B2B electronic marketplaces and the structure of channel relationships*. ICIS Barcelona.
- Clarke, M.D. (1998) Irregular airline operations: review of the state-of-the-practice in airline operations control centres. In *Journal of Air Transport Management*, 4(2), pp. 67-76.
- Clemons, E.K. (1986) Information Systems for sustainable competitive advantage. In *Information & Management*, 11(3), pp. 131-136.
- Clemons, E.K. (1991) Corporate Strategies for Information Technology: a resource-based approach. In *Computer*, 24(11), pp. 23-32.
- Clemons, E.K. and Row, M.C. (1991) Sustaining IT advantage: the role of structural differences. In *MIS Quarterly*, 15(3), pp. 275-292.

- Gates, W. (1995) *The Road Ahead*. Penguin Books, New York (NY).
- Gellmann, R. (1996) Disintermediation and the Internet. In *Government Information Quarterly*, 13(1), pp. 1-8.
- Ghobbar, A.A. and Friend, C.H. (2002) Sources of intermittent demand for aircraft spare parts within airline operations. In *Journal of Air Transport Management*, 8(4), pp. 221-231.
- Giaglis, G.M., Klein, S., O'Keefe, R. (1999) *Disintermediation, reintermediation or cybermediation? The future of intermediaries in electronic marketplaces*. Brunel University.
- Gill, M.A. and Wu, Z. (2000) E-Markets: failed business model or barriers to diffusion of innovation? In *Proceedings of the Seventh Americas Conference on Information Systems*, Diane Strong, Detmar Straub, Janice I. de Gross (eds), Boston (MA).
- Grover, V. and Ramanlal, P. (1999) *Six myths of information and markets: information technology networks, electronic commerce, and the battle for consumer surplus*. Society for Information Management (SIM and Management information Systems Research Center (MISRC), University of Minnesota, pp. 1-47.
- Jarach, D. (2002) The digitalisation of market relationships in the airline business: the impact and prospects of e-business. In *Journal of Air Transport Management*, 8(2), pp. 115-120.
- Jarillo, J. C. (1988) On Strategic Networks. In *Strategic Management Journal*, 9, pp. 31-42.
- Kumar, R. and Crook, C. (1999) A multi-disciplinary framework of the management of interorganisational systems. In *Database for Advances in Information Systems*, 30(1), pp. 22-37.
- Lee, H.G., Cho, D.H., Lee, S.C. (2002) Impact of e-Business initiatives on firm value. In *Electronic Commerce Research and Applications*, 1(1), pp. 41-56.
- Maddox, K. (1998) *Web Commerce-Building a Digital Business*. John Wiley & Sons, Inc.
- Mc Farlan, F.W. (1984) Information Technology changes the way you compete. In *Harvard Business Review*, 62(3), pp. 98-103.
- Miles, R. and Snow, E. (1984) Fit. Failure and The Hall of Fame. In *California Management Review*, 26, pp.10-28.
- Oesterle, H. and Fleisch, R. (1999) *Business networking: shaping enterprise relationships on the Internet*. Springer Verlag, Berlin, Germany.
- Ordanini, A. and Pol, A. (2001) Infomediation and competitive advantage in b2b digital marketplaces. In *European Management Journal*, 19(3), pp. 276-285.
- Oum, T.H. and Yu, C. (1998) *Winning airlines: productivity and cost competitiveness of the world's major airlines*. Kluwer Academic Publishers.

Oum, T.H., Park, J.H., Zhang, A. (2000) *Globalisation and strategic alliances: the case of the airline industry*. Pergamon Press, Oxford.

Phan, D.D. (2003) E-business development for competitive advantages: a case study. In *Information & Management*, 40(6), pp. 581-590.

Raisch, W.D. (2001) *The E-Marketplace: Strategies for Success in B2B eCommerce*. McGraw Hill, New York, NY.

Rasheed, H.S. and Geiger, S. (2003) Performance implications of internet-based information technology in value chain management. Available at <http://www.coba.usf.edu/departments/management/faculty/rasheed/tasktechnology.pdf>.

Reimer, K. (1996) The non-market preconditions of electronic markets: implications for their evolution and applicability. In *European Journal of Information Systems*, 5, pp. 75-83.

Roy, J. and Filiatrault, P. (1998) The impact of new business practices and information technologies on business air travel demand. In *Journal of Air Transport Management*, 4(2), pp. 77-86.

Thorelli, H. B. (1986) Networks: Between Market and Hierarchies. In *Strategic Management Journal*, 7, pp. 37-51.

Timmers, P. (1998) Business models for electronic market. In *Electronic Markets*, 8, pp. 3-8.

Van Tulder, R. and Mol, M. (2002) Reverse Auctions or Auctions Reversed: First Experiments by Philips. In *European Management Journal*, 20(5), pp. 447-456.

Weller, T.C. (2000) *B2B eCommerce: The Rise of eMarketplaces*. Research Report, Legg Mason Wood Walker, Inc., Reston, VA.

Williamson, O.E. (1983) Organisational innovation: the transaction cost approach. In *Entrepreneurship*, Ronen, J. (ed), Lexington Books, Lexington (MA), pp. 101-133.

Young, L.W. and Johnston, R.B. (2000) A new transaction cost analysis of disintermediation and illustrative case. In *The Australasian Conference on Information Systems*, Brisbane.

Zott, C., Amit, R., Donlevy, J. (2000) Strategies for value creation in e-commerce: best practice in Europe. In *European Management Journal*, 18(5), pp. 463-475.