

Business-to-Business Electronic Commerce:

Mondus.com, an E-marketplace for Small- and Medium-Sized Enterprises

07/2015-4918

This case was written by Michael Mueller, a participant in the Master programme of the Technical University of Aachen, Germany, and Tawfik Jelassi, Affiliate Professor of Technology Management at INSEAD. It was intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

The case was made possible by the cooperation of mondus.com.

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Back from London, after having presented his business plan at the Catapult Competition,¹ Alexander Straub, a 26-year-old German, was wondering whether he had been able to convince the competition's expert panel of his e-marketplace business idea. When the telephone rang, the last thing he was expecting was to be told that he had just won the 1999 competition.

"From that day on, my student life changed tremendously. It was no longer a question of being a doctoral student at Oxford University, sitting in the hall with only dreams, but suddenly with US\$1.7 million in my pocket..."

Alexander Straub, co-founder and vice-chairman, monodus.com ltd.

Background: e-commerce

E-commerce emerged 20 years ago with the use of electronic data exchange (EDI) in the retail and automotive industries. At that time, only 1% of companies used EDI for the business-to-business (B-2-B) exchange of electronic documents.² Today, widespread growth of the Internet has opened up numerous business opportunities and new sources of revenues. While in 1998, worldwide B-2-B revenues amounted to US\$43 billion, they are expected to reach US\$1.3 trillion by 2003. This figure will represent approximately 90% of the dollar value of e-commerce and 4% of the world economy, a percentage that will reach 30% by 2010.³ Also the way of doing business will change. Today, 87% of all deals are settled directly between companies; it was expected that by 2004 most transactions (53%) would be done through electronic marketplaces.⁴

The Emergence of monodus

"In my student time, I was faced with the basics of the net economy."

When Alexander Straub started studying mechanical engineering at the University of Darmstadt, Germany, in 1991, he acquired his first e-mail address. He witnessed the advent of browsers at Cornell University in 1994. When he later joined Stanford University, he accessed disk storage space allowing him to host a web page and heard about the new evolving businesses such as Netscape and Yahoo! In 1996, he was awarded a Rhodes scholarship⁵ to study in the UK. He explained: "I left for the sake of completing my Doctorate, but I was actually really ready to create my own company." During the evenings, he and some friends would meet in the college halls and brainstorm over new business models and opportunities.

1 A competition jointly run by *The Sunday Times* and 3i, the UK venture capital firm, awarding a prize to the best Internet start-up.

2 Timmers, P. (1999), *Electronic Commerce: Strategies and Models for Business-to-Business Trading*, New York: John Wiley & Sons, p. 4.

3 Timmers, P. (1999), p. xi and 4.

4 Forrester Research (2000), 'eMarketplaces boost B2B Trade', *The Forrester Report*, February.

5 A prestigious scholarship granted to foreign students to study at Oxford University. Bill Clinton was also a Rhodes Scholar in 1968.

In 1998, as an intern in Goldman Sachs' private investment area, Alexander Straub attended discussions on Internet start-ups.

"At that time I thought there was something tremendous about the Internet," he recalled. "It was no longer just a marketing tool, nor just about information, but it was also about transactions. It was especially interesting for transactions where you have highly fragmented markets and inefficiencies. It goes beyond what B-2-B software solutions in ERP⁶ systems can provide."

When he heard about the Catapult Competition, he wrote a business plan on his Internet start-up idea and submitted it. In February 1999, six submissions out of 1,600 were invited to make a presentation in London. "For me it was the first time I had ever presented my business plan to venture capitalists," remembered Alexander Straub. "I didn't expect it to go well. But they liked it very much and called me the next day."

Rouzbeh Pirouz, the co-founder of monodus, was a Canadian of Iranian origin who studied international relations and politics at Stanford University and at the Kennedy School of Government in Boston. He was also a Rhodes scholar and had met Alexander Straub at a farewell party in New York before they left the US. They both had an entrepreneurial spirit and often discussed business ideas. He was in Iran conducting research on the Iranian democratic movement when Alexander informed him about the Catapult prize. Pirouz decided to return to Oxford and help his friend launch monodus.com ltd. The name monodus.com had already been registered in 1997, when it was created by a group of students that included Straub and Pirouz. It was derived from mundus, the Latin word for world, and was supposed to be easy to pronounce and without a meaning that could lead to bias.

After setting up an office, Straub and Pirouz invited some friends, companies and consultants to reflect on their business model. While the original focus was on virtual community, commerce and content, they quickly discovered that, for a viable start-up, it was important to concentrate on transactions. They asked businesses about their procurement problems, analysed different product categories and looked at market potential as well as the Internet adoption rate. Pirouz explains:

"The opportunity for businesses to use the Internet as a tool for growth was the driving factor. The main reasons for this are cost, opportunity to compete against 'big players' and access to serious, reputable buyers and suppliers. All these factors were taken into consideration when developing monodus."⁷

On 1 April 1999, 3i transferred the Catapult prize of US\$1.7 million to monodus.com. The company needed large premises to house the marketing and web design specialists who were hired, along with the database designer and the technical support team. The first website became operational in July 1999. At that time, customers were able only to register and to gain information about monodus.

6 Enterprise Resource Planning (ERP) systems are computer applications that allow companies to manage their business operations (e.g. finance, requirement planning, human resources and order fulfilment) using a single, integrated set of corporate data. ERP solutions are offered by software vendors such as SAP, Baan or PeopleSoft.

7 www.monodus.co.uk/mori/mori.cfm.

By August 1999, monodus.com was valued at US\$60 million, after Eden Capital, a venture capitalist firm, committed US\$12 million for the company's expansion into the US and Germany. New offices were opened in New York and Hamburg. In September 1999, the UK website monodus.co.uk was officially launched. One month later, the US website monodus.com became operational and another venture capitalist, Zouk Ventures, invested US\$3 million. Since the local telecommunication company could not set up the Internet connection any earlier, the German website monodus.de started in November 1999. Two months later, an office was opened in Paris and monodus' fourth national website, monodus.fr, became available just one year after the initial business plan had been submitted. The company's original name was monodus.com ltd. On 19 May 2000, it was changed to monodus ltd⁸ (see Exhibit 1). Its headquarters were located in Oxford, England.

The Business Model

*"We offer products and services in the horizontal categories. These are not goods in category A or category B, but category C. For example, not the tires that are produced or the rubber that was used to produce the tires, but in fact what I would call business needs such as office supplies, office services, human resource services, or financial services."*⁹

Marcus Gerhardt, head of communication and UK country manager, monodus.

Mondus was a horizontal web-based B-2-B marketplace.¹⁰ It aimed at offering a one-stop procurement solution to small- and medium-sized enterprises (SMEs) by matching buyers and sellers through its website. The reason why monodus chose the horizontal approach (see Exhibit 2) was because of branding.

"We spoke with a Goldman Sachs analyst back in the summer [1999]," explained Marcus Gerhardt. "He indicated that a horizontal brand was far easier to establish and to create [than a vertical brand]. In fact it meant that you would have leverage over the vertical markets. We have seen this with a few Scandinavian players who had very strong and successful businesses. They came up with a vertical [approach and] it was very difficult for them to sustain their brand in the horizontal space and actually go beyond Scandinavia or into other markets because nobody recognises their brand. Mondus was different; it was taking the horizontal approach. We aim at becoming the one-stop solution for the procurement needs of SMEs."

Mondus' market model was based on the use of a request-for-proposal (RFP). The matching of buyers and suppliers was a three-step procedure. Firstly, the buyer placed a request. Secondly, one or more suppliers replied to the request by submitting a quote. Thirdly, the

⁸ Throughout the case, the term "monodus" will be used to refer to monodus ltd.

⁹ Categories A, B, and C are derived from the ABC-analysis that attempts to classify procurement needs based on the ratio of value and volume. While there are only a few products in category A, of great importance to the company, C-type goods have a low value and account for most of the procurement needs. Category B goods are in between the two.

¹⁰ A horizontal marketplace refers to an application that was offered to a wide range of industries. In contrast, vertical markets only focus on a specific industry.

buyer viewed all the quotes, if necessary negotiated with the sellers, and accepted or rejected the received quotes (see Exhibit 3).

The above process was facilitated through the mondus homepage, which was divided into a buy and a sell section (see Exhibit 4). In the buy homepage, buyers requested the product or service they needed. In the sell homepage, sellers could view the requests currently submitted and place quotes. All users of the system had a personal noticeboard (my mondus) that informed buyers through the buy noticeboard about the current status of their requests, and sellers through the sell noticeboard about their quotes. There was also a “How to” section containing information on mondus.

Placing a Request for Proposal

The buyer selected on the buy homepage the category of products or services he was looking for. A standardised order form popped up and the buyer was asked to specify his needs. Possible answers were provided for each question. It was also possible to use an open-format query or to attach a file with more detailed information. With every question made by the system, online help was provided (for example to explain what a hard disk is, how its size was defined and what size was necessary). Alternatively the buyer could look up the frequently asked questions (FAQs), call a toll-free number or send an email to the helpdesk. Mondus set up call centres in the local markets and trained the centre agents to answer queries about any aspect of the site without having to redirect the caller. The aim was to answer all email messages within an hour of their receipt, which, at the time the case was written, was true for 74% of all incoming calls. A global customer relation strategy tried to provide the same service everywhere.

After the buyer defined the service or product he needed, he was asked for the delivery date, the maximum number of quotes to be received and a deadline for the quotes. To submit the RFP he could either log on or register. When a new customer registered as a buyer he was asked for his name and address, the name and size of his company, his position and a password; he was then assigned a username. After a request was submitted, it could be deactivated or its deadline extended.

Placing a Quote

Once an RFP was submitted, it was posted on the sell homepage and an email sent to all suppliers that had registered for that category. If a seller registered, he had to provide the same information as the buyer and the categories for which he could supply goods. He could decline to be notified daily about RFPs submitted in his categories. It was possible to specify the geographical area in which a seller could provide his products or services, a short description of his company (including its age) as well as the return of goods and guarantee policies.

The email contained the identification number of the RFP. Sellers could go to the sell homepage, enter the RFP number and view the request. Alternatively they could check any category on the sell homepage and view all submitted quotes. The information shown to the seller did not contain the identity of the buyer nor any quotes made by other suppliers. Mondus believed that displaying competitors' prices might prevent vendors from making

quotes, and that customers did not make their purchase decision only based on price, but rather on the complete offer they received.

After a seller viewed an RFP, he could submit a quote or reject the request. When placing a quote the vendor had to specify the delivery date, the volume, the price and give a short description of the offer. Additionally he was asked whether his quote exactly met the buyer's request. In order to submit a quote, the seller had to log in or register. Quotes were binding and not retractable.

Selecting a Quote

All quotes submitted were displayed on the buy noticeboard and could be viewed by the buyer. If the deadline expired, an email was sent to the buyer to inform him of all the quotes. If no quotes were submitted, he was also notified and asked to call mondus for further help. In those cases, the customer service departments checked the requests and tried to call suppliers individually. In order to proceed, the buyer had to open the buy noticeboard. He could decline quotes, put them on hold or accept them. The buyer's choice was automatically displayed on the sell noticeboard to keep the vendor informed of the status of his quotes.

The buyer could also contact the vendor and ask him questions or negotiate with him. He could do this either directly, because each quote contained the seller's address, or via mondus. In the second case, the buyer entered the questions and his address into a query provided on the buy noticeboard. The information was then forwarded to the supplier who was asked to contact the buyer.

Once a buyer accepted a quote, all other quotes were automatically rejected. The selected vendor was asked for his credit card details and a fee was charged by mondus. The vendor then received the buyer's address and both arranged the details of the transaction. In the end, mondus asked the buyer for feedback on the seller's performance.

The Revenue Model

"In B-2-B [e-commerce] the buyer has the power and was the one that decides how things work. If, in bricks-and-mortar businesses, the buyer was sitting in his chair and the salesperson was trying to impress him, in an Internet-based solution this balance of power has to be reflected as well."

Dr Florian Heupel, Director of Business Development, mondus.de, Germany.

Mondus did not only want to consider buyer-centricity through its matching procedure (where sellers submitted binding quotes and buyers chose from these), but also through the revenue model set in place. Mondus only charged sellers a fee on successful transactions settled through mondus. All services provided to the buyer were free. Initially, sellers were also charged for submitting quotes, but mondus changed its policy to motivate vendors to quote and to increase the number of quotes submitted per RFP. Registration was free of charge for both sellers and buyers.

The transaction fee charged was 2% of the transaction volume. Though originally mondus planned to apply different percentages depending on the product category, it finally preferred

to charge a flat fee. “The RFP is a fairly new model and customers first have to get used to it,” explained Christoph Pech, manager of International Development at mondus. “That’s why we decided to keep the billing structure as simple as possible.” In the future, mondus could use a different fee structure that took into account the margins gained by sellers or the average transaction volume per category. Fees could also be used as a marketing tool to offer market incentives.

Developing and Managing mondus

Marketing

For Dr Heupel, “the strategy was to register through various marketing tools as many users as possible in order to make the product known to the market”. When mondus started in April 1999, it first looked at business-to-consumer (B-2-C) players and the way they were marketing their products and services. Having realised that a different approach would be needed for B-2-B e-commerce, mondus performed in November 1999, with the help of an advertising agency, a market test. Based on the test results, mondus launched an integrated marketing campaign in the UK in the first quarter of 2000, which mainly used direct marketing techniques. Marcus Gerhardt explained: “Envelopes or direct mail [were] sent out to buyers and suppliers followed by an e-mail and a telephone call and another e-mail and telephone call. At the same time [we did] some radio advertising to create market awareness.” Advertising in the printed press and on TV did not seem to be effective. The information sent to customers was different for potential buyers and sellers; it contained a letter and a small brochure (see Exhibits 5 and 6). Mondus obtained the customer information from telecommunication and computer providers. “The point is not that we used lists of computer suppliers, but in fact databases that came from companies that are active in the computer area”, explained Marcus Gerhardt. “The reason is that you can assume that this kind of environment feeds into the early adopters. They will have companies [in their customer databases that] are well aware of computers and the Internet and are therefore happier than others about adopting that kind of trading platform.”

The marketing campaign led to a significant increase in customer registration, though it did not have an impact until late February. In February 2000, 17,000 customers were registered worldwide; however, within one month this number had grown to 60,000. Also the number of RFPs increased twice within the same period of time (see Exhibit 7).

A marketing campaign was launched in Germany, its design based on experiences gained in the UK. Online banners were displayed in different websites and in newsletters of other companies starting on 22 March 2000. A one-page advertisement was placed in the major business and non-business newspapers as well as in weekly journals. Additionally radio-based advertising took place in Frankfurt and Hamburg, and direct mailing in combination with telemarketing was used. The best results with respect to customer registration were gained through telemarketing. However, these customers had not placed many RFPs. While advertising in weekly magazines seemed a cost efficient method of increasing the number of RFPs, radio advertising had no significant effect (see Exhibit 8). It could only be used to generate brand awareness and attract customers to the website in the long run.

Another way to attract customers to its web pages was via the affiliate scheme. Mondus offered companies an exchange in links and logos. Affiliates displayed the mondus logo on their website and mondus placed the affiliate's logo in its so-called recourse library, a special section on the web page.

Partnerships

According to Marcus Gerhardt, there were three objectives in creating partnerships: "To attract traffic to the mondus site, to complement our service, and to support it with technical services." Partnerships in Internet business were "crucially important, because you do not just open the market up for yourself, but you close it down to the competition as you create these partnerships."

Accessing New Customers

Mondus tried to cooperate with Internet companies that had strong brands in their markets. Partnerships signed by mondus included those with Internet.com,¹¹ SmartOnline.com,¹² Yahoo.co.uk, Compaq, British Telecom and vertical marketplaces. Marcus Gerhardt explained:

"We don't want to become a vertical market but we could partner with vertical players. For example, we have a partnership in the UK with doctors.net. We don't offer bandages or pharmaceutical equipment, but doctors also need desks, computers and telecommunications. So we provide the C category of goods to doctors. In Germany we just closed a deal with farmpartner.com, which was a very active vertical Internet site for the farmers."

There were also agreements signed with non-profit organisations, such as the German Federal Association for Procurement and Logistics (BME).¹³ Through this agreement, mondus offered its marketplace to all BME members and supported the association through information campaigns on electronic markets.

Extending the Business Model along the Value Chain

In addition to setting up partnerships, mondus tried to extend its business model through cooperations. The service provided by mondus only extended to the point at which the deal was closed. A cooperative agreement set up with Dun & Bradstreet helped to check customers' credit rating. Dun & Bradstreet provided a large database of information on companies, ranging from trading styles to financial statements. When a customer registered, whether as a seller or a buyer, his company was searched through the Dun & Bradstreet database. If found and the feedback was positive, a Dun & Bradstreet logo was displayed next to his name on the sell or buy noticeboard.

For Alexander Straub: "In the long run you must help the buyers along the whole value chain. The next step was payment and logistics. We are [also] looking into financing. Another area

11 Internet.com was a provider of real-time news for the Internet industry and experienced Internet users.

12 SmartOnline.com was an application service provider (ASP), offering productivity applications and information resources to SMEs.

13 BME stands for Bundesverband Materialwirtschaft, Einkauf und Logistik e.V.

which will be a challenge to the marketplace in general is to get the ERP systems on both the buyer and seller side [integrated].” Banks and logistics companies could profit from partnerships with marketplaces such as mondus because new business opportunities could be created. Mondus aimed to extend its business into payment and logistics by the 3rd quarter of 2000 and into financing by the end of the year 2000. Of special interest, mondus and a certain bank were developing a trust account to help increase the number of SMEs that trusted the mondus marketplace. Furthermore, mondus planned to offer integration into the ERP by summer 2000.

Market Models

As stated above, a key assumption underlying mondus’ business model was that B-2-B markets were mainly buyer-driven. However, in addition to the RFP, other buyer-centric models existed, which included multi-catalogues and reverse auctions. Multi-catalogue models worked like mail order companies. Different products were offered with fixed conditions to customers who could choose from a list. The selected goods were then shipped to the buyer. In reverse auctions, a buyer specified his need and sellers were asked to submit the lowest price. In some models, the buyer could also define the price and sellers could either accept or reject it. The RFP model was the most flexible solution since it allowed vendors to compete on price and any value-added feature.

“The RFP was a fairly new model and we are now asking ourselves: Does this model work?” said Dr Heupel. “From what we have seen so far, people are extremely interested in this model, which was more suitable for some categories than for others. For low volume transactions, it was probably not a good model. However, to find services, it seems to be an excellent model. In the future there will probably be more than one product offering in terms of what model you are using. We are currently extending into multi-catalogues and reverse auctions.”

Multi-catalogues

Mondus believed that multi-catalogues were most suitable for urgent needs and small transaction volumes. Alexander Straub explained that a major problem for catalogue businesses was that customers could act as buyers only. “It is very difficult for catalogue businesses to attract buyers and it is often not cost efficient. We haven’t seen the same problem at mondus since, in our marketplace environment, the buyer can also act as a seller and the seller as a buyer. People basically foster themselves.” Mondus did not want to own the catalogues, but to leverage its customer base when using multi-catalogues on its website.

Reverse Auctions

Reverse auctions were usually applied in high value purchases, for instance, of A and B category products. The process itself was quite complicated because vendors had to be qualified and goods thoroughly specified. Mondus believed that for high volume orders (e.g. purchasing 1,000 laptops), this model was the best choice. When integrating reverse auctions into its website, mondus relied on standard auction engines that could be bought “off the shelf”. The multi-catalogue and reverse auction models would become operational by the 3rd quarter of 2000.

Seller-Centric Models

For some product categories, seller-centric models could be more suitable, especially in categories with few suppliers, such as electricity, gas or telecommunications. To offer such a service, mondus intended to select some power-suppliers¹⁴ and cooperate with them. Leveraging the purchase power of its customers, mondus hoped to gain better prices. Negotiations were underway with Royal Dutch Shell. British Petroleum had also contacted mondus.

In the long run, Alexander Straub believed that extending into consumer-to-consumer models would be possible. “Some people have maybe used equipment that they now want to sell for half of the original price, or put into an auction.”

International Activities

International Expansion

From the very beginning mondus focused on its international expansion. Subsidiaries were soon to be launched in Canada and Scandinavia, with others to follow in Spain, Poland, Austria and South Korea. Also market entry studies were to be conducted for Italy and Ireland. Because of Switzerland’s multinational character and small market size, a future website would only provide links to the German, French and Italian sites. Christoph Pech explained how the international organisation would look: “A local office will be set up in each of the countries and run as a subsidiary of mondus.com ltd. The IT back office for all European activities will be located in the UK. For North America it will be in the US. When expanding to Asia a local back office will probably also be needed there. While a team based in Oxford will develop categories that work equally all over the world, the local offices will only be in charge of products and services related to their specific region.” Mondus also tried to have partnerships with multinational companies that offered their services in any country where mondus was present.

International Sales

Although most SMEs did not sell their products and services nor fulfil their procurement needs globally, mondus believed that this situation would soon change. Straub explained: “What I think is most attractive for international categories is everything that has to do with intellectual property and which can be delivered in a digital format and shipped across borders.” For example, software and translation services could be the first global categories.

Competition

The e-commerce market targeting SMEs was underdeveloped and fragmented. Market entry barriers were minimal since new competitors could launch, at relatively low cost, websites offering services and products to SMEs. In the Canadian and US markets, there were then two competitors providing an RFP model to the same customer segment (BizBuyer.com and Onvia.com). While Bizbuyer.com’s business model was equivalent to that of mondus, Onvia.com initially started with a multi-catalogue model designed for small-sized

¹⁴ Power-suppliers refer to suppliers with which mondus built a special relationship.

enterprises.¹⁵ From November 1999, it also provided an RFP model for business-related services as well as content (e.g. news, notices and downloads such as business plan checklists). Onvia.com had its Initial Public Offering (IPO) in March 2000. In Germany, it had just begun working in cooperation with Mercateo.de, which could be accessed at Onvia.de. Mercateo.de also offered a multi-catalogue system and an RFP for services. In addition it tried to establish so-called pool buying, through which, based on the number of buyers willing to buy a product, the price of the product varies. That year, Mercateo.de planned to expand its operations into different European countries. The main competitor in the UK was buy.co.uk, which tried to sell not only to private businesses, but also to public agencies.

Furthermore, other Internet sites offered multi-catalogue models to SMEs, including Digitalwork.com and Works.com. Some sites originally targeting the consumer market also sold to small-sized enterprises (e.g. Beyond.com, Buy.com and Onsale.com). Large Internet players like Yahoo!, America Online and Microsoft also offered B-2-B e-commerce services or planned to do so in the near future. In addition, E-marketplaces set up by traditional multinational companies (such as the one in the automotive industry set up by General Motors, Ford and DaimlerChrysler, or the one in retailing owned by Sears, Roebuck and Carrefour) could attract SMEs due to lower prices resulting from their bargaining power. However, Dr Heupel believed that mondus had a first-mover advantage: “It must be our strategy to have a pool of users set up very quickly, so that we don’t have to get customers off other websites but that others have to get them off ours.”

Customer Perspective

The number of worldwide customers had increased significantly since mondus launched its first website in October 1999. As of 8 May 2000, there were 86,892 customers registered worldwide, 76% of whom were buyers (see Exhibit 9). The average number of orders per active buyer was 1.9 (this percentage should be taken qualitatively only since some sellers had also placed RFPs). Active sellers had placed, on average, 9.7 bids. The most popular categories for RFPs were Desktop and Laptop PCs, Computer Accessories, Printing Services and Web Design; these were also the top five categories for quotes. A third of all quotes were submitted for web design and 13% for desktop PCs.

The average volume of quotes was about US\$3,000 worldwide; however, there was much data variation from week to week (see Exhibit 10). This was largely due to the different transaction volumes in the various product and service categories (e.g. transaction volumes for web design were significantly higher than for printing refills).

Customer Benefits

Buyer Benefits

SMEs’ demand for category C goods varied and trading volumes were usually small. Unlike large companies, SMEs could not effectively leverage their liquidity and bargaining power to streamline the procurement process and cut costs.

¹⁵ The company was founded as MegaDepot in 1997; in May 1999, it changed its name to Onvia.com.

Streamlining the procurement process

Through mondus, the procurement process could be simplified, thus resulting in time and cost savings. Instead of selecting and negotiating with customers individually, procurement needs could be specified only once and quotes would be automatically requested and forwarded to the buyer. The buyer could then compare the offers and choose the one that best suited his requirements. Through its database of suppliers and the variety of services and products offered, mondus aimed to provide a one-stop procurement solution and increasing market and price transparency.

“Using mondus, I didn’t have to call all my suppliers. The system will list the quotes in a way that makes it easy for me to decide. It also helps me to get a better feeling for the market and possible prices.”

Marco Keilholz, managing director, Office Forum, Germany.

Convenient and easy procedure

Customers found mondus’ homepage and the matching process well structured, and both on- and offline help was provided. The implementation of standardised request forms offered a quick and easy specification of products and services. Through the buy noticeboard, the buyer was kept informed of the current status of his requests. He could also view previous RFPs and quotes. Furthermore the website was available 24 hours a day, seven days a week.

Low investment and cost

Requirements to run the electronic mondus marketplace were minimal. Only a PC with a standard web-browser, an e-mail programme and access to the Internet were required.

Customisation

Although most of the RFP process was standardised and automated, individual specifications could be added to the request form using the open-format query or attached files. Quotes did not only contain information on the product and the price, but also on the guarantee and the goods’ return policies. If needed, buyers could contact vendors and negotiate with them individually. It was also possible to extend deadlines and cancel an RFP at any time.

Confidentiality and safety

The buyer’s identity was kept confidential until s/he accepted a quote or s/he contacted the seller himself. Through customer feedback, mondus was kept informed of supplier performance. Since mondus did not act as a seller itself, bias was avoided. For security reasons, encryption was used when credit card details were transmitted and customers were logged out automatically if they did not use the system for 20 minutes.

Seller Benefits

Access to online trading and new market opportunities

As a study by MORI, a UK-based research institute, revealed: “Most companies selling to SMEs see the Internet as a unique opportunity to gain and retain customers, with time and cost savings playing a major role in the drive to trade online.” However, for most SMEs trading online meant a massive commercial upheaval. They could lose online sales if they did not have the resources needed to launch professionally designed websites.¹⁶ Mondus therefore proposed that, through its system, vendors could sell online without having to set up and maintain their own website as well as undertaking marketing activities. Access was provided to potential new customers with less lead-time and with reduced financial outlay. New distribution channels and sources of revenue could be created and possibilities for national and international expansion offered. Rouzbeh Pirouz explained: “By trading through mondus, companies have the ability to exploit new markets without the expense of a bricks-and-mortar presence, or even a website. It presents the opportunity for small businesses to compete in new markets, against more established organisations.”¹⁷

“Mondus offers a huge spectrum of potential customers to me. Through its system I can get in contact with potential buyers that I would never have reached otherwise. Using mondus for four weeks, 30% of my revenues were already generated through it.”

Andreas Schacky, owner, Schacky’s Computer Laden, Germany.

According to Marco Keilholz, his company had not yet generated substantial business through mondus, but he believed there was a huge potential. “You don’t have to access customers individually and ask for their needs. Instead, the buyer specifies the product or service needed himself. This allows a seller to make individual offers without any acquisition costs.” He added:

“From my perspective another benefit was that customers using mondus are generally open-minded about the Internet and new technologies. These are the customers that I’m interested in and that I like to do business with.”

Using the mondus brand

It was often very difficult for SMEs to establish a brand. By aggregating the expertise of various suppliers, mondus eventually created a brand for specific services or products and drove customers to its website.

“My company offers training. But there was always a trade-off because you can’t make acquisitions and give courses at the same time. Through mondus, I hope to leverage their brand and get customers even when I’m teaching.”

Alex Reyss, owner, Step4word, Germany.

¹⁶ ‘SMEs are flocking to buy and sell via the Internet’, MORI, April 2000.

¹⁷ www.mondus.co.uk/mori/mori.cfm.

Gaining a competitive advantage

With SMEs gaining access to a larger market, they could leverage their smaller overheads against bigger competitors. Through customer-oriented offers, such as individual distribution arrangements or product-related services, SMEs could establish a niche in the market and possibly gain a competitive edge.

How Customers Used *mondus*

“People have been using the site for purposes other than for what we intended.”

Audrey Roser, global head of customer relations, *mondus*.

Most buyers used the site to check prices, the number of quotes they could receive and the time it took. A survey revealed that 66% of all buyers just used *mondus* to see how it worked. Also a lot of suppliers used the website pretending that they were buyers to check the prices offered by their competitors.

Dropping Out

Because of the revenue model adopted, it was important for *mondus* that customers followed through the process to the end and performed the transaction through *mondus*. Investigation showed customers dropping out of the process at different stages. Firstly, not all vendors submitted quotes and RFPs could be left unanswered. In addition, most buyers did not get back to their buy noticeboard to check the quotes. Because buyers had the option to contact sellers, the parties could go offline and close the deal without notifying *mondus*. Audrey Roser explained: “[If customers] go offline we have no way to track that effectively.” In other cases, buyers could decide to stick by their traditional suppliers or never close the deal. Because most SMEs, at least in the UK, did not have credit cards, invoices had to be sent, resulting in delayed payment.

Customers’ Complaints

Buyers’ Complaints

According to Audrey Roser, there was a lot of interest in the *mondus* concept but some quotes were not price-competitive and sometimes customers did not get enough quotes. Some buyers complained that they got quotes that did not match their RFP and thus were not relevant. Furthermore, others were unwilling to accept quotes from companies they did not know. However, according to *mondus*’ research, customers would overlook brand if prices were good enough. In addition, response time was an important issue for buyers.

Sellers’ Complaints

Most vendors complained that they never got feedback on their quotes. One reason was that the majority of buyers never viewed the quotes they got nor followed them up. Other suppliers stated that they did not have the time to go through all the RFPs and send quotes for each of them. Many vendors felt unable to compete because they thought other suppliers offered better prices. This situation improved slightly once *mondus* no longer displayed the lowest quote. Others were frustrated with the model because the buyer was kept anonymous

until the end unless the buyer contacted the vendor directly. This prevented the seller from doing his sales job. Some vendors stated that they could not give a price without actually talking to the buyer. “If you were a supplier of a website, there was no way that you can give a price for a website based on the answers to 10 questions.” Other customers suggested that mondus should ask buyers to shortlist some suppliers, which could then contact the buyer directly. Mondus in this case might charge the vendor for the service. At first there were also many complaints regarding technical problems as well as incorrect registrations that either prevented suppliers from accessing the right information or resulted in the receipt of RFP numbers for goods they were not selling.

Challenges for mondus

As a one-year-old company, mondus faced several challenges. How could it increase the number of deals closed? Could mondus recruit sufficiently qualified people to implement its expansion strategy? How was it going to effectively manage all of its activities in so many countries?

Increasing the Number of Deals Closed

It was important for mondus to ensure that sufficient quotes were submitted on RFPs. Audrey Roser explained: “[The idea] was to have a lot of power suppliers, which are suppliers that agree to quote on a competitive level and with which we develop relationships. Currently we have power suppliers only for some categories but not [in] all of them.” Dr Heupel believed that there would be more quotes as the number of sellers grew and customers used the system more frequently. “At first, there was only one offer per request. The number of offers was growing at a higher rate than that of registered users and RFPs. On average today you receive four offers per bid.”

Mondus also called buyers to validate orders and to ask for details that could prevent sellers from quoting. Once quotes were submitted, the customer service department called the buyer four days before the offer deadline expired to motivate him to look at his quotes and decide. Mondus hoped that this would also help filter out customers that were just testing the system (in this case mondus rejected all quotes and gave sellers instant feedback). If buyers rejected quotes, the system asked them for feedback and offered different answers to choose from. By these means mondus hoped to get more information on customers’ needs and decision criteria.

A major problem was that buyers and sellers only used mondus to get in contact with each other. Then they went offline and never returned to the system. Alexander Straub explained: “We open the system up to the end, so negotiations can happen. We believe that this was very important to get the value to our business, especially in highly complex service categories.” He argued that mondus could prevent customers from staying offline if it offered additional services such as logistics, financing and insurance. “At that time we know the whole process and we know the whole volume and we know about the charges.” Dr Heupel was not very worried about the small number of deals currently closed through mondus: “Getting into the arithmetic was very difficult since often people register, look at our system and become active users later on. Plus we are growing very rapidly. So on what do you base your percentage?”

Recruitment

For Marcus Gerhardt, recruitment was one of the critical management issues at mondus. “We are growing at a rate where it is very difficult to find qualified and relevant people who fit into our organisation and still bring along the experience.” At first, mondus recruits were former university friends. Straub explained: “At that time we had no other choice. People [in Europe] didn’t know much about stock options.” In particular, professionals from the technical side preferred fixed salaries rather than share options. For Marcus Gerhardt recruiting through networking also had the advantage that “at least you know the spirit was going to be right and you foster a certain company culture”.

Since those networks were by their nature limited, mondus had to use other means. Headhunter agencies were employed to find executives such as chief financial officer, chief operations officer and country managers. In terms of finding directors and assistant managers, these agencies were “not helpful since they really didn’t understand our needs and couldn’t meet them very well”, remembered Gerhardt. Instead mondus found the Internet to be a useful tool.¹⁸ “Our director for marketing and our director for business development have come to us through the Internet. They were early adopters of the Internet and brought along eight or 10 years of experience in their field,” he added.

Management Challenges

Effectively managing all its activities was yet another major challenge for a rapidly growing company such as mondus. Dr Heupel noted: “Focusing on the financial side to get enough money in, on the marketing side to get customers in, on the product development side in tailoring the product into a suitable form and balancing all these needs, that’s a very difficult task.” The coordination of the four national markets and their office activities especially was a logistical challenge that needed a good communication structure in place.

Furthermore, the company was in a state of transition. While its vision was still founder-led, in terms of its processes mondus had already found its own way. Alexander Straub said: “I have realised that very experienced managers with 10-15 years’ work are much more effective than me because they know the processes.” In January 2000 Straub stepped down as the head of the US office and became vice-chairman of the Board of Directors. Whether Rouzbeh Pirouz stayed in the long-term as the CEO of mondus was still an open question.

Future Outlook

Mondus is planning an initial public offering at the end of 2000. “The timing of the IPO will depend primarily on whether it suits the company’s development and on market conditions,” explained Marcus Gerhardt. “As for evaluation, it won’t make any sense to engage now in any projections, especially in light of the current market volatility ... In the future, it will be important for mondus to consolidate the four markets [where we currently operate] without becoming an overburdened organisation. The high level of productivity was our big plus over established players that have the SME relations that we are seeking, the money that we could never hope to get and the resources that we would never have.”

18 Most people applied through Internet sites like hotjobs.com, topjobs.com or monster.co.uk.

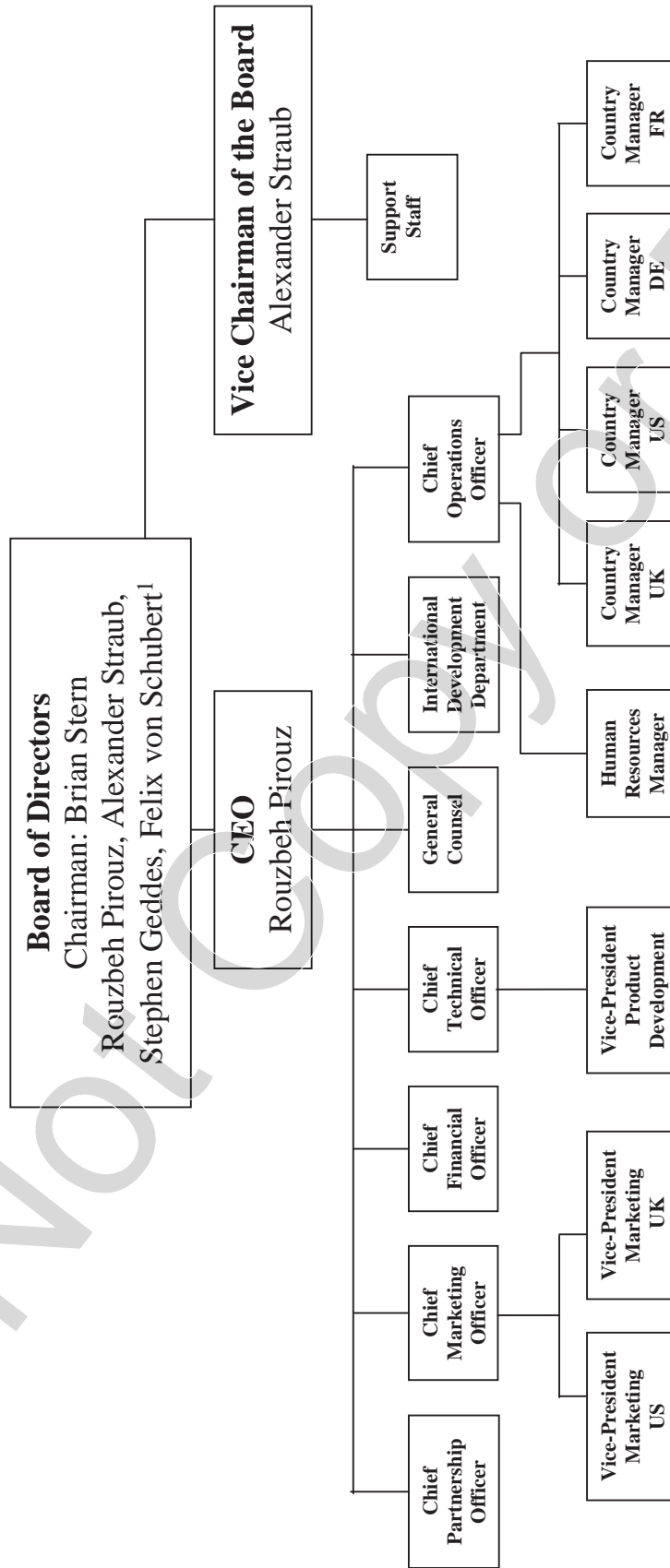
Whether mondus could sustain its business model in the medium- to long-term was still an open question. According to AMR Research, “bankruptcy, mergers, and acquisitions could swallow up as much as 90% of the current crop of online B-2-B marketplaces.”¹⁹ George Reilly, research director at the GardnerGroup, shared this view: “There will be a consolidation of [electronic] marketplaces. And the winners will be those that can execute transactions with value added.”²⁰

19 Enos, L., ‘Report: Most Online Marketplaces Will Vanish’, *E-commerce Times*, 26 April 2000.

20 Dembeck, C., ‘B2B Ventures Losing their Allure’, *E-Commerce Times*, 11 April 2000.

Exhibit 1

Organisational Structure of mondus.com Ltd. (8 May 2000)



Source: mondus.com Ltd.

¹ Brian Stern was senior vice-president of Xerox Corporation and president of Xerox Technology Enterprises. He had served as vice president of corporate business strategy, president of the company's Personal Documents Products Division and president of the company's Office Document Products Group. In these capacities, he oversaw the development and implementation of products for small businesses and home offices through retail distribution channels and the worldwide marketing of the industry's broadest line of office copiers. Stephen Geddes and Felix von Schubert are partners at Eden Capital and Zouk Ventures respectively.

Exhibit 2

Matching Buyers and Sellers through mondus.com

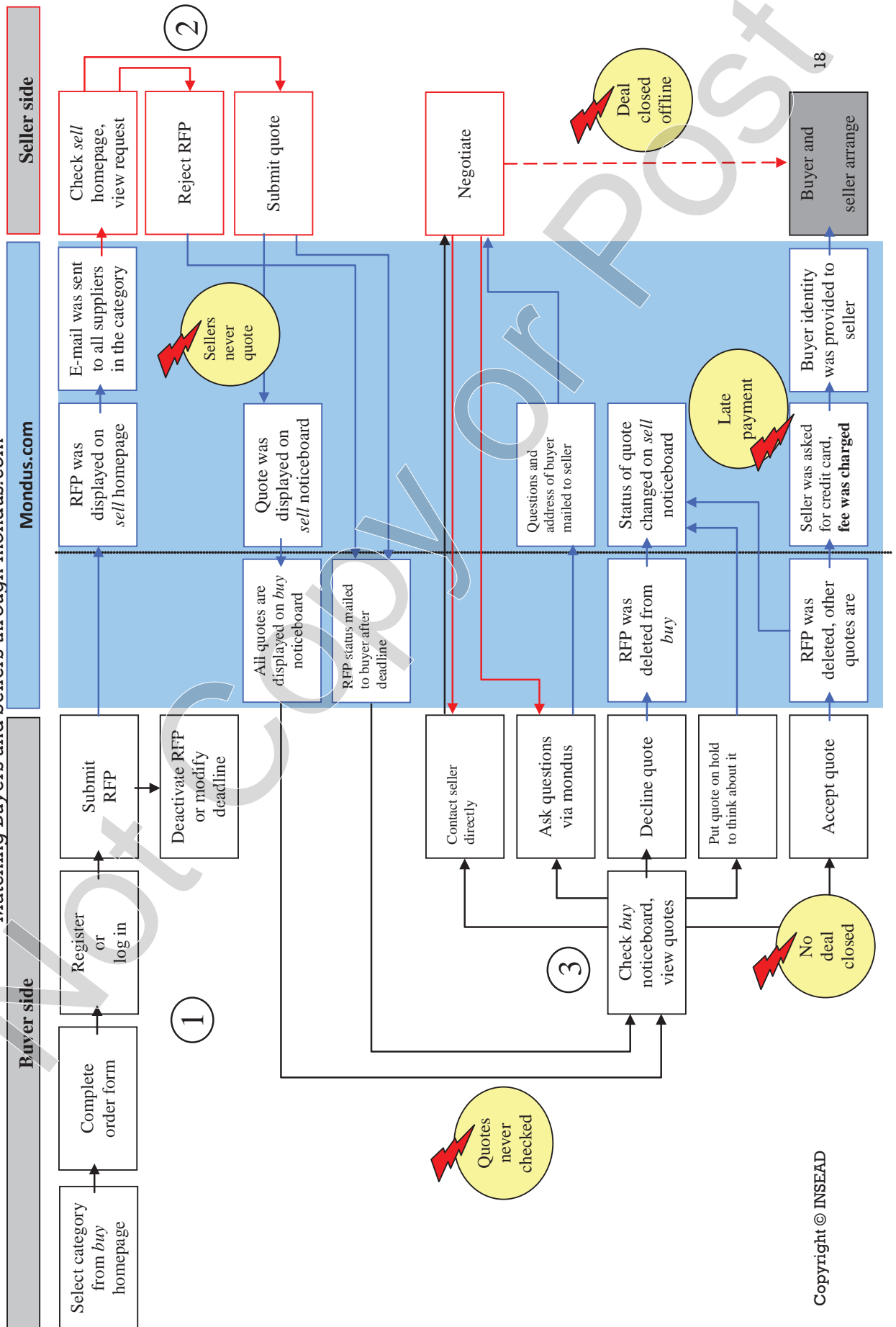


Exhibit 3

Purchasing Categories of mondus.com (8 May 2000)

mondus.com
THE BUSINESS NETWORK

Purchasing categories

Computer Equipment

- Desktop PCs
- Laptop PCs
- Apple Systems
- Computer Software
- Computer Accessories
- Monitors
- Printers

Computer Services

- Software Development
- Network Services

Corporate Hospitality

- Catering
- Event Planning

Couriers

- International Couriers
- Messenger Services
- Nationwide Couriers

Human Resource Services

- Executive Recruitment
- Temporary Staffing
- Payroll Services

Internet Services

- Internet Service Providers
- Website Design
- Website Hosting
- Server Hosting/Colocation
- Internet Security
- Transaction Services
- Web Traffic Analysis

Intellectual Property Services

- Patents
- Trademarks

Marketing Services

- Direct Marketing
- Mailing Lists
- Public Relations
- Telemarketing
- CD Business Cards
- Banner Advertisements

Office Services & Equipment

- Fax Machines
- Copiers
- Projectors
- Scanners
- Printing Refills

Printing & Related Services

- Printing Services
- Business Cards
- Business Stationery

Professional Services

- Translation Services

Promotional Items & Services

- Corporate Apparel
- Corporate Gifts
- Promotional Staffing & Entertainment

Telecom & Communications

- Paging
- Video Conferencing
- Telephones and Accessories

Training Services

- Business and Sales Training
- Computer Training
- Language Training
- Office Support Training

Source: mondus.com Ltd.

Exhibit 4
Structure of the mondus.com Homepage

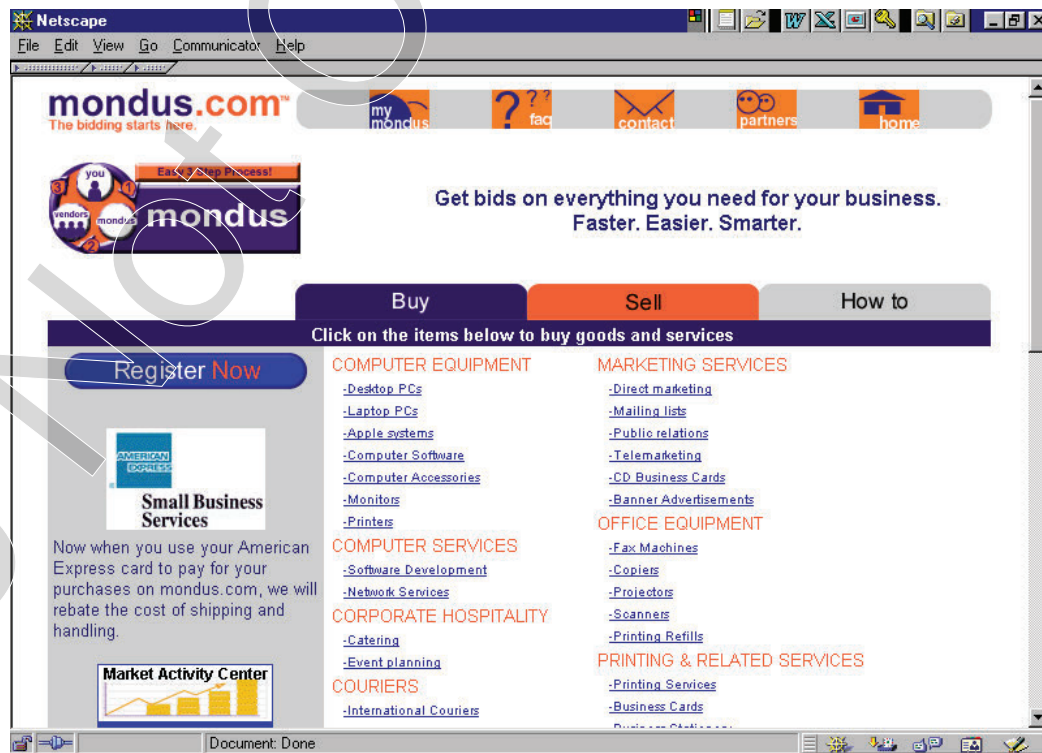
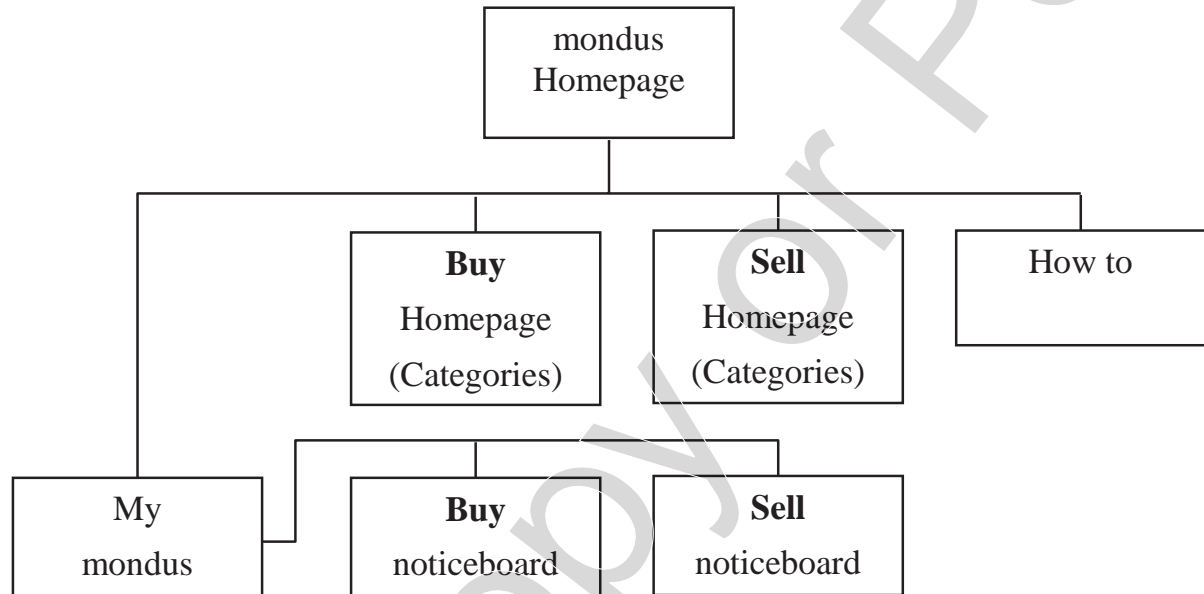


Exhibit 5
Letter Sent to Potential Buyers
(Part of the UK Marketing Campaign, 1st quarter of 2000)



Exhibit 6

*Information Attached to the Letter Sent to Potential Sellers
(Part of the Test Campaign in the UK, November 1999)*

Customers
come to you
at
mondus.co.uk

Faster! Easier! Cheaper!

No cold calls. No pitches. No chasing.
mondus.co.uk is the new way for you to find and win business.
That means new customers in less time, with less effort and for less cost.
And the whole process couldn't be simpler.

How it
all works

Register **FREE** on-line as a supplier with mondus.co.uk.
We will notify you of appropriate orders from buyers - from the thousands we receive everyday - for your particular product or service by email.
You can then quote for the business which will cost you just £1.
If the buyer likes your quote, you win the business and complete the deal directly with them.
Once the deal is complete we'll charge you a minimal commission starting at 0.2% depending on the type of business you provide.

Quote free
until the Millennium

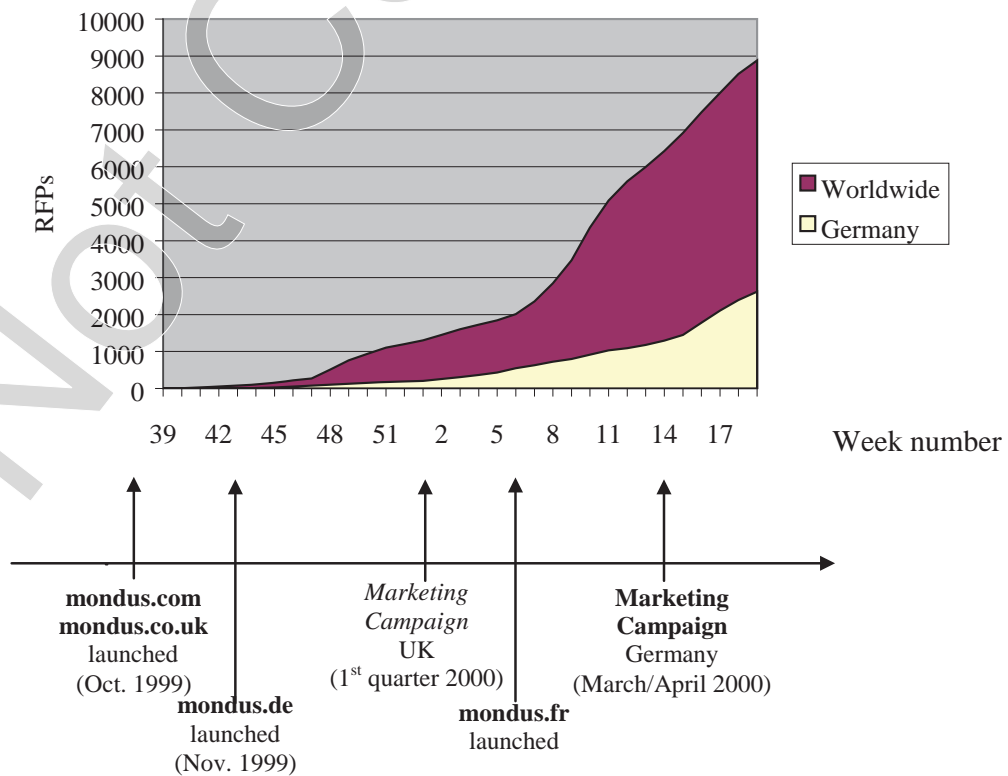
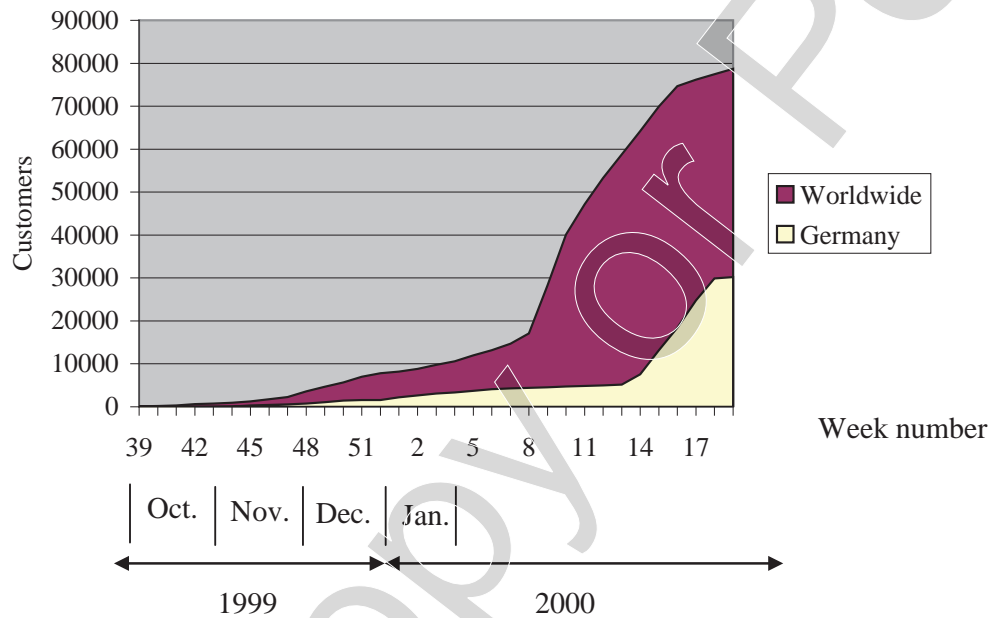
The cost of using mondus.co.uk is already small compared to the old way of doing things, but there are even further savings to be made with our special introductory offer.
Register before **December 3rd, 1999** and you will be able to submit quotes for free until the Millennium.

Remember you're a
buyer, too

While you're looking for new business, there are also people in your company who have the task of finding suppliers of other products and services. Please pass this information on to them. We're sure it's just the sort of thing they've been looking for.

mondus.co.uk
where buyers and suppliers click

Exhibit 7
*Evolution of the number of customers and RFPs
(in Germany and worldwide)*



Source: mondus.com ltd.

Exhibit 8
Effects of the mondus.de Marketing Campaign in Germany (5 May 2000)

	Customers registered	within category	overall percentage	RFQs placed	within category	overall percentage	Contacts [1000]	Total Cost [1000 DM]
Online (Banner)	59	16%	0%	46	29%	3%		
Web sites of IT related businesses								
Other companies' newsletter	23	6%	0%	12	8%	1%		
Other web sites	284	78%	2%	98	63%	5%		
Total online	366	100%	2%	156	100%	9%		
Print								
Daily newspapers								
(FAZ, Süddeutsche Zeitung)	65	9%	0%	35	12%	2%		
Daily business newspapers								
(German FT, Handelsblatt)	158	23%	1%	62	21%	3%	383	192
Weekly magazine								
(Focus)	338	48%	2%	133	44%	7%	972	237
Weekly business magazine								
(Wirtschaftswoche)	137	20%	1%	70	23%	4%	270	96
Other journals	4	1%	0%	2	1%	0%		
Total print	702	100%	4%	302	100%	17%		
Radio								
Local radio station in Hamburg	9	90%	0%	3	100%	0%	750	65
Local radio station in Frankfurt	1	10%	0%	0	0%	0%		
Total radio	10	100%	0%	3	100%	0%		
Telemarketing								
	12,747	100%	77%	106	100%	6%	25	1,163
Others								
Letters	247	50%	1%	108	49%	6%	100	182
Press articles	75	1%	0%	42	1%	2%		
Telephone	66	1%	0%	37	1%	2%		
Promotion in Exhibitions	9	30%	0%	5	27%	0%		
TV	7	1%	0%	5	1%	0%		
Others	429	1%	3%	201	1%	11%		
Total others	833	100%	5%	398	100%	22%		
No information	1,911	100%	12%	859	100%	47%		
Total	16,569		100%	1,824		100%		

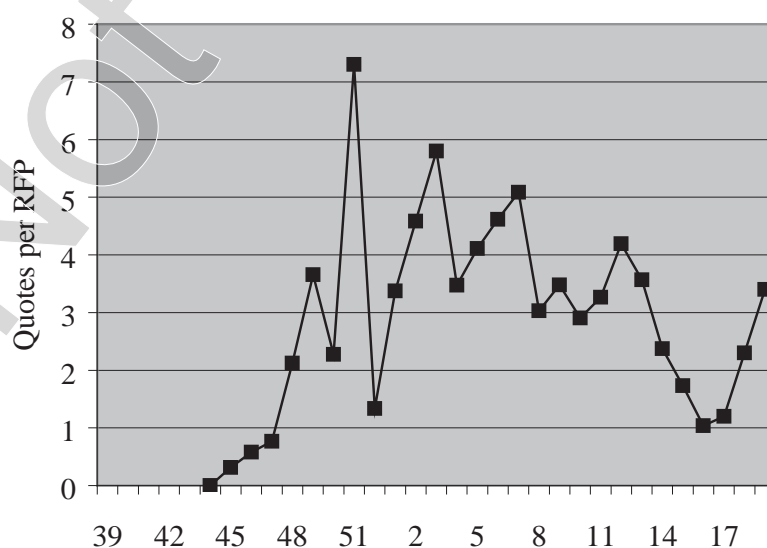
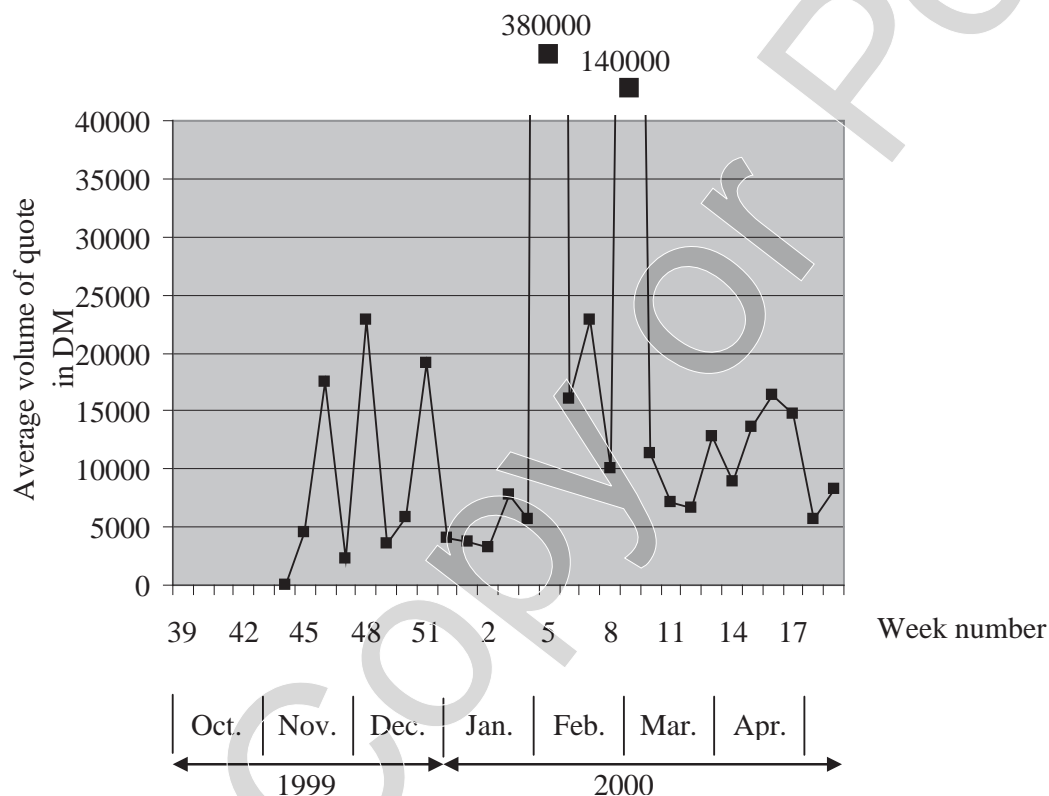
Exhibit 9
Customer Statistics per Country
(for the Period from the Launch of the Website until 8 May 2000)

website fully operational since	UK Oct. 1999	Germany Nov. 1999	France Jan. 2000	US Oct. 1999	Total
Customers	51,660	19,227	354	15,651	86,892
Buyers	46,488	15,755	107	4,065	66,415
Who have placed RFPs	2,304	1,235	33	1,274	4,846
Sellers	5,172	3,472	247	11,586	9,013
Who have placed quotes	1,432	738	32	1,124	3,326
Who have placed RFPs	642	409	28	393	1,472
Total number of PRFs	4,086	2,464	76	2,387	9,013
Total number of quotes	17,904	6,334	61	8,188	32,487
Quotes rejected	4,015	1,113	13	915	4,056
Quotes accepted	129	82	0	33	244
Mean value of accepted quotes	£ 826	1,904 DM	/	US\$ 2,468	

(On 8 May 2000, the exchange rates were: £1=US\$1.5279; 1 DM=US\$0.4586)

Source: mondus.com ltd.

Exhibit 10
Development of the average volume and the ratio of quotes per RFP in Germany (mondus.de)



Source: mondus.com ltd.