



The Internationalization Process of the E-marketplace Ex-Trade

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Abstract

This case describes the internationalization process and the considerations about a future international expansion of a very successful e-marketplace. The case illustrates the complexity of internationalizing an internet-based SME. Ex-Trade has identified the most suitable entry modes; i.e. entry modes that can handle a fast, broad and deep international expansion process with very limited resources. The case raises important questions as to the importance of physical presence for a dot.com firm selling digital products; products that in theory can be distributed digitally but in practice need to be organized by real people having real face-to-face dialog.

Introduction

Ex-Trade is an internet-based egg exchange. The Ex-Trade e-marketplace is based on an Application Service Provider idea. The application software resides on Ex-Trade's server and is accessed by users through a web browser. In other words, no installation at the user premises is required.

The traded shell eggs range from cage eggs, barn eggs, free-range eggs to organic eggs either graded, ungraded or for the egg-breaking industry. Egg products range from liquid egg white, whole egg and egg yolk in bulk tankers or full tanker loads and also frozen and powdered egg products. The Ex-Trade e-marketplace ensures that buyers and sellers spend as little time as possible on placing their trade bids via Ex-Trade (Ex-Trade, 1999). Ex-Trade is a member owned organization. Companies that are operating egg packing stations and/or egg product plants can become members. All members must be approved by Ex-Trade. The focus of the Ex-Trade e-marketplace is to assist their members in trading eggs and egg products that the members are in extraordinary need of or have a surplus capacity of: "We are talking about fresh food and if you have a surplus, you need to get rid of it hastily, and if you have too few eggs, you need to get some hastily" (Pauli, 2006). When a buyer or seller is interested in

The author will like to notice that this case was made possible through the generous co-operation of Ex-Trade. The case is intended as a basis for class discussion rather than to illustrate either effective or ineffective handling of management situations.

trading, the following procedure is used: Ex-Trade is contacted either by telephone, fax or e-mail or the buyers or sellers access the Ex-Trade trading page themselves. Information about a given product, price and other conditions is then immediately accessible for all Ex-Trade's members. If a member is interested, Ex-Trade is contacted and a price is given. That price is passed on to the member looking for a contract who can then accept the price, give a counter bid or wait for a better price. When a contract is closed, it will only be shown on the Ex-Trade trading page during the week of closing (Ex-Trade, 1999). In other words, the focus of the Ex-Trade e-marketplace is Request for Quotation/Proposals/Bid trading functions. It means that the seller or buyer sends a request to sell or buy something. The request is then put on a list on the site and is also sent to the trading partners by e-mail. In addition to these traditional e-market trading functions, Ex-Trade assists in surveillance by giving access to a real and continually updated up-to-the minute account of the market situation, and thereby a real picture of the market price of the eggs of a given quality etc., at any given time.

Approaching the customers

Ex-Trade is a member owned organization. In order to have activities on the e-marketplace, a membership is required. Only companies that are operating egg packing stations and/or egg product plants can become members. All members must be approved by Ex-Trade. Members are charged a one-off non-refundable initial fee of EUR 4000. In other words, the customers, the selling and buying companies in the egg industry in Europe, are also the owners. According to the CEO of Ex-Trade Jens Pauli there is approximately 15-20% market potential left, which means a relatively limited number of potential companies that could be members/owner/users of the Ex-Trade e-marketplace.

Because the e-marketplace is well-known in the industry, most of the new members contact Ex-Trade. The potential members are offered a test-membership that includes full-membership opportunities for trading like ordinary members. The test-members pay a monthly administration fee of EUR 90 like full members. After testing the e-marketplace for 3-4 months, the company can become a full member. Besides the companies that come forward by themselves, a proactive personal face-to-face sales process is used by Ex-Trade where the CEO contacts the potential members and pays them a visit. Personal face-to-face selling is important in order "to look into their eyes and talk about it. When visiting potential members, we just log-in on their computers. Then we can explain what they need to know" (Pauli, 2006). Tradeshow are not in use as a sales and marketing tool. However, industry conferences as the annual conference of the International Egg Commission are very important for Ex-Trade: "It was at a conference in Montreal that I saw the first steps into internet-based trade of eggs. Many firms had put up posters in the lobby where you drink coffee in the breaks between the speeches. We had moved our whole office to that lobby. Via a projector, everybody could then follow the live trading and they could also make deals through Ex-Trade. That week was our best ever" (Pauli, 2006). Face-to-face dialog is therefore very important.

Price

Besides the initial membership fee of EUR 4000 and the monthly administration fee of EUR 90, Ex-Trade charges a commission for each kilo or apiece depending on how the trade is configured. The commission is divided equally between the buyer and the seller. Because Ex-Trade is a membership owned e-marketplace, no-one is interested in creating extraordinary profit which means that the commission shall merely cover the costs of running the e-marketplace. The low costs, and the secure trading are important. A member shall be able to bid/offer products via Ex-Trade without thinking too much about the costs of trading.

After-sales support

General adjustments and developments of the e-marketplace are often discussed at board meetings. Because Ex-Trade is a member owned organization, the board elected from its members, to which Ex-Trade's day-to-day management refers, functions as a forum for changing the e-marketplace if needed in order to handle an efficient trading. This means that it is important to have a very diversified board: "...fortunately, we traditionally have a board with people from as many different countries as possible. At the moment, we have two Dutchmen, an Englishman, a Frenchman, a Spaniard, a Dane, a Pole and a German in our board" (Pauli, 2006).

Because all the members come from EU-countries, there are no problems with comparing prices. In this respect, the complexity of using the e-marketplace is relatively low and there is no need for support in issues like customs and tariffs, export subsidies, etc. as would have been the case if the members were coming from all over the world.

More specific support questions related to the day-to-day use of the e-marketplace are handled through the homepage, chat room, e-mail and phone. The normal procedure is handled on a distance: "They log-in and we log-in. Then we guide them through because we have the same screen as they have" (Pauli, 2006). Also if Ex-Trade has implemented new features, the CEO often shows the functionality of the new feature when visiting the members.

Development of Ex-Trade's offerings – from a minor to a dominating impact

According to the CEO Jens Pauli Ex-Trade has a market share of 1-2% of the total egg market in Europe. However, most of the market consists of annual contracts with a direct sale. Only 10-15% of the total market is open where the price is based upon the daily supply and demand (Pauli, 2006). It is in that segment of the market, Ex-Trade operates, thus giving them a market share of 10-30% of the total open market. This major position has been built up over the last 7 years.

The Danish e-marketplace Ex-Trade was launched in 1999 by the Nord-Ei A/S, an egg-trading company that was a co-operation of 5 Swedish and 5 Danish egg packing stations. Nord-Ei A/S had traded eggs on a traditional basis in Denmark, Sweden, Finland, England,

Holland and Germany. Nord-Ei A/S established the new company Ex-Trade in order to create an e-marketplace in order to expand the market for eggs and to create openness in the price formation (Andreassen & Lund, 1999). When Ex-Trade was up and running, Nord-Ei sold the assets and the know-how to the members of Ex-Trade which up to that point had only been a marketing name. After having sold the assets, Nord-Ei was closed as a company.

The start of the e-marketplace actually took off in 1997 at which time the CEO Jens Pauli was at the annual conference of the International Egg Commission in Montreal: “Whenever there was a break between the speeches, all the Canadians and Americans hurried out to see a man with a computer and worried a lot about what was going on. I came to talk with the people from the company Egg Clearinghouse, Inc.. They had started to use the Internet instead of their former system that was based upon faxes and satellites. This was in 1997. At that time, talks about the internet started and people gradually got a PC on their desk. Also at that time, Nord-Ei was ready to look for new opportunities and this was something we could use. We started out with 12 founding members from Denmark, Sweden, Germany, England and Holland” (Pauli, 2006). CEO Jens Pauli got into contact with an IT student and together they visited Egg Clearinghouse for a period of 2-3 weeks. In that period, Ex-Trade bought the parts of the software that they could use for a fixed amount of money included some consultant assistance and made the agreement that Egg Clearinghouse would not enter the European market. Based upon the software, the consultant service, the exclusive agreement and a lot of working hours, the Ex-Trade e-marketplace became a reality in 1999.

A major difference between Egg Clearinghouse and Ex-Trade was their markets. The American market was large and had a high level of homogeneity with one currency, one system of measurement (English units), same standards and trading traditions. Ex-Trade’s European market was much more diversified and many were of the opinion that this would be a major entry barrier for Ex-Trade. However, today no one can imagine the European egg market without Ex-Trade. Ex-Trade has done a big job in standardization of the European egg market. “When we started, we introduced a standard and this standard became the standard of the egg industry. So, when we started to trade eggs for industrial use we just labeled these eggs PRO as an abbreviation for eggs to be used for egg products. Today everybody will say that they sold X numbers of truck loads of PRO. When we started in 1999, the Euro was not official but we used the currency from the start in order to have one currency” (Pauli, 2006). Another issue of standardization is within the financial area where the industry up till then was characterized by very loose terms of payment, where a seller could wait for months before he was paid for his eggs. With the introduction of Ex-Trade, the seller was guaranteed to get paid on the agreed date. “We give guarantee of payment. It is the policy of Ex-Trade not to trade with members without payment being secured via credit insurance or similar arrangements. This is somewhat different from the ordinary moral codex of the industry. We said from the beginning that we should have the money after 25 days and that the sellers got their money after 30 days. The first time we did that in Spain, as an example, they called us and asked if it was a mistake that they already got their money, because they were used to get the money after 2-3 month. This means that potential sellers/buyers may prefer to trade via Ex-Trade because they will know that they will get their money after 30 days instead of having the prospect of using a lot of time on asking the buyer to pay up. This is extremely

important. This has of course been the biggest fight. But we have succeeded. And suddenly we had created a standard. This gains respect. People are getting their money speedily. No one has lost money and we are self-financed” (Pauli, 2006).

The understanding of the impact of the Ex-Trade offering has changed over the years: “On account of our increasing number of members, we have a great coverage of the market so our members think they are a part of something that has a significant meaning in their day-to-day work. They are busy people and often only spent 15 minutes at their desk 2-3 times a day. They do not have the time to call 3-4 traders by phone, as they did before” (Pauli, 2006). In other words, the asynchronous type of trading is a benefit for the users of Ex-Trade. However, this has developed gradually: “We have developed the homepage in line with what our members could accept. When we started in 1999, they would for example not have accepted to receive an e-mail every time there was a new bid/offer on the trading page. First of all, they did not work with e-mail and many did not have a computer. Decision makers did not know what a PC was and was not interested. They preferred to call their normal trader. This was what we were up against in the start” (Pauli, 2006). Today, Ex-Trade can look back and see that Ex-Trade was so fortunate to be the first-mover and that it will be difficult for other competitors to take their market among others due to the “ownership” concept. Ex-Trade has organized the market and almost all important players in the industry are members and owners of Ex-Trade so why should they join another e-marketplace?

Because Ex-Trade has a relatively dominating position in the industry, the surveillance of the price formation is very sufficient: “It is safe to say, with the development we have been through, that our price formation effect has increased dramatically. In the start, people were shaking their heads and said that it would not mean anything for the market. No one is shaking their heads anymore” (Pauli, 2006).

Organizational development: A customer owned organization with one central headquarter

The development of the e-marketplace was a hard fight, and Ex-Trade is one of the few Danish dot.coms that survived after the stock-market-driven dot.com hype. The 2003/2004 gross profit of EUR 210,061 and result before interest of EUR 8,879 increased in 2004/2005 to a gross profit of EUR 290,001 and a result before interest of EUR 55,381, which was “above the forecast and was considered as very satisfactory”. Ex-Trade has 3 employees in 2005 (Ex-Trade A.m.b.A., 2005). In other words, Ex-Trade has with limited resources created an impressive growth rate of 38% increase in gross profit and 524% in result before interest.

One of the reasons for the good economy is the investment policy of Ex-trade. The e-marketplace is developed by assistance from various students that served as part-time employees. This arrangement has been flexible because the student can often log-in to the system when he is at the university and fix the problems quickly and at a low cost. “This means that our facilities are paid for, we do not have any debt and we have done it all for a reasonable amount of money” (Pauli, 2006). Half of the salary for the second consultant at Ex-Trade was paid by setting up the monthly administrative cost for using the e-marketplace.

Thereby the risk was reduced. “The principal idea is that we should not make a lot of profit, because we are owned by the members.” (Pauli, 2006).

Another reason is the ownership where all members are owners of Ex-Trade, which limit the opportunistic behavior of the users of the e-marketplace: “Our mission is to be a servicing unit for our members and we do only trade with members. Our company is a co-operative society and we have done it this way for several reasons. Firstly, it creates commitment to trade through Ex-Trade. Secondly, it is easy to leave Ex-Trade because you own a share that can be priced and you can sell this share. Thirdly, all owners have minimal influence. However, our goal is to create as high a volume of trades as possible with the lowest costs possible in order to trade through Ex-Trade as cheap as possible” (Pauli, 2006).

Because Ex-Trade only serves members from EU countries, the risk is reduced and it is possible to serve all markets from the small office in Denmark. The foreign currencies risk is eliminated because Ex-Trade only uses EURO as currency. There are no problems with barriers related to customs and tariffs. In general, the time-zone does not create problems despite the fact that all trades are handled through Denmark, but there are a few challenges: “We do have minor problems with Finland and Greece because they are an hour ahead of us, so often, when we are most busy, they are gone for lunch. We have also a problem with England, because when we close for the day, they actually have yet an hour and they are not really with us when we open at 9 o’clock in the morning, because they have at that time just arrived in their office” (Pauli, 2006).

In other words, the organizational setup of Ex-Trade is optimized to serve the EU countries. Even though Ex-Trade is not in Hungary and is not very active in the Baltic countries, the fact that Ex-Trade is represented in almost all EU countries gives the e-marketplace a strong foothold in the industry, which is reinforced by the EU enlargement: “The last EU enlargement made our existing network stronger. We could approach the potential members in Poland with the selling point that for EUR 4000 they could get access to our network. It worked. We now have the 3 biggest industry players in Poland, which is a country with 8-9 million chickens compared to the 3½ million in Denmark” (Pauli, 2006).

International experiences

In order to finalize a trade, the parties must call Ex-Trade in Denmark. In other words, somebody needs to be in the office. These calls are proportional to the amount of trade done on Ex-Trade, and therefore the number of calls (together with the paperwork needed to be done manually for each trade) has increased dramatically. Before hiring an extra sales assistant, it was only the CEO of Ex-Trade who could take these calls and his opportunities for traveling in order to get new members were thus very limited. Thus Ex-Trade had to make a decision. Should they hire individual agents in each of the markets to handle potential members? The decision was instead to expand the capacity at the Danish headquarter allowing the CEO to travel without disturbing the day-to-day activities: “Now I have got more people at the office. We decided to increase the capacity at the office so I could travel. Before there was a risk of decreasing the turnover when I traveled and that is not good when we want

to expand. This is over now and we have found a really good helper who finds the work fun and exciting so we have no problems when I am away. It has actually worked out fine. We are ahead of our forecasts for the last 2 years so it is working very well” (Pauli, 2006).

When there is a need for physical presence, the CEO travels to the potential member’s location and he also participates in conferences in order to meet existing members. Altogether he travels 5-7 times a year with 3-5 days duration for each trip.

The knowledge of the egg industry is the crucial competency needed. Besides the personal industry network, the important competencies are in relation to the professional knowledge about eggs and the market: “You can only learn it by working in the industry. We do trade with cage eggs, barn eggs, free-range eggs and organic eggs. Also you need to know something about chickens and their egg laying time, and about shell and yolk colors. And you need to know the problems with a certain type of egg when you want to cook, peel, color and/or crack them, and also something about bacteriology, etc. Most importantly, market knowledge: What are the expectations, how was it last year and what do we expect this year. Often we do contracts for 3, 6 or 12 months. You have to have a feeling of what is going to happen, because if you give some bad advice, then they will not talk to you again. It is like banking staff, belt-and-braces, on one hand - on the other hand. You need to have your own opinion, just making sure that it is your personal opinion and that the members must draw their individual conclusions. (Pauli, 2006).

Personal competences such as being polite, diplomatic, patient, open-minded, interested and automotive and language skills are also important: “First and foremost it is important to be able to speak different languages, the more multi-lingual the better. In this respect, it is important to say that our language skills are important. We speak English, German and French and understand Norwegian and Swedish. It is, in other words, important to be a good negotiator and trustworthy because this is an industry where you are dead if you cheat” (Pauli, 2006).

With the competencies mentioned above, the internationalization process can be handled through the office in Denmark combined with some sales trips to potential members and thereby there is no need for being physically present in the foreign markets: “At board meetings, we discussed the need for being physically present a few times and at one time I was an advocate for it and maybe it will be a reality some day. If we would like to have an extraordinary focus on a certain market, we could have an employee living and working in that country. This employee could work from home because phone, fax and PC are the only facilities you need” (Pauli, 2006).

Interestingly, IT-literacy is not seen as important at the e-marketplace Ex-Trade: “...knowledge about computers. It is easy to learn... You could say about the net that it is enough that you are an ordinary user. This is quickly learned. This is so easy. We have people to handle the technical stuff. The difficult issue is to learn the concept. It takes at least a year before you can let one go. And you can still make stupid things” (Pauli, 2006).

Internationalization challenges facing Ex-Trade

The overall challenges facing Ex-Trade in order to expand globally are to continue the good development of increasing the volume of trades made on Ex-Trade and to handle the possible challenge in the longer run that Ex-Trade needs to follow its members to countries outside EU.

Even though Ex-Trade has experienced two digit growth rates of the number of trades in the last years, there is no reason to believe that it will stop in the near future: “With the members we have now, there is a great potential. We can easily double the turnover if we can make them using us more than they do now. So the task is to encourage the members to use us more” (Pauli, 2006).

Another issue is the possible change of the place of the egg product plants “Cage eggs are not very popular anymore. EU legislation states that in 2012, cage egg production is not allowed in the EU. This is a serious challenge. Somebody says that in the longer run, egg product plants will not have the sufficient supply of cheap raw material in order to maintain a profitable production in EU. Therefore the egg product plants will move to countries outside EU... If they move, we need to consider having members outside EU” (Pauli, 2006). This means that Ex-Trade’s efficient organizational set-up, based upon servicing members in the EU, needs to change.

The open questions are: How can a firm like Ex-Trade increase the trade for each of their members? And in the longer run: How will Ex-Trade be able to serve non-EU members?

Sources

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