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## B2Buy.com is ready to launch from its roots in FedBid.com

Paul Demery | Jan 20, 2014

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Launched as an online marketplace for government agencies, schools and other public institutions in 2001, FedBid has about 10,000 buyers and 70,000 commercial sellers. Now it's launching an e-marketplace for its commercial clients at B2Buy.com. "I can see it benefitting us as both a buyer and seller," says Susana Robledo, CEO of FedBid seller Cube Care Co., a provider of hospital room curtains.

When Ali Sadaat founded FedBid as an online marketplace in 2001, he faced competition from established business-to-business Internet trading exchanges. To set his apart, he decided to have a strong focus on providing service to both buyers and sellers. Today, when some of the early Internet exchanges are long gone, FedBid reports that about \$2 billion a year in gross merchandise sales are conducted on its marketplace, by more than 10,000 buyers and 70,000 sellers.

Sadaat attributes part of his success to his early decision to provide customer service to both buyers and sellers—he notes that some early exchanges were primarily designed for the needs of either buyers or sellers—and his willingness as an entrepreneur to delay profits for several years while focusing on service. "It took us over five years to reach a plateau and cross a network effect of building trust among buyers and sellers," he says. "We did over \$300 million in transaction volume in 2006-2007—that was our turning point; we broke even that year."

Close to 1,000 of FedBid's buyers are commercial businesses, the rest government agencies, schools and other public institutions. By the end of this year, Sadaat says he expects to have about 2,000 commercial businesses among his list of buyers. The sellers tend to range in size from 10 to 200 employees, and as a group offer products ranging from office supplies to major hardware systems for I.T. departments of large organizations. Sales range from \$3,000 to as high as \$150,000, though the average sale transaction is about \$40,000, Sadaat says.

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FedBid operates what's known as a "reverse auction" marketplace, where buyers post what they want to purchase and at what targeted price; sellers then bid for the sales. Although sellers can't see the names or bids of other sellers, they can see if their bid is currently in the lead or lagging behind the leader. FedBid adds a transaction fee to each seller's bid (typically about 3% of the price). Once a buyer completes a purchase transaction—which on FedBid have been completed offline between buyer and seller—the seller can click on FedBid.com to use FedBid's online payment service to pay FedBid's commission.

Miami-based Cube Care Co., which manufactures privacy curtains used in hospital rooms, does about \$1 million a year in sales through FedBid, much of it with the hospitals operated by the Veterans Health Administration of the U.S. Department of Veterans Affairs, Cube Care CEO Susana Robledo says. "The system lets us know when we need to be more competitive and sharpen our pencils," she says. Robledo adds, however, that Cube Care has often won bids without offering the lowest price because of her company's reputation for service.

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As FedBid shifts slightly to focus more on purchases by commercial businesses, the company is preparing to launch a new marketplace for them. It will still be a reverse auction, but the trading partners will be able to complete the payment transaction online, Sadaat says. B2Buy.com, due for launch in the middle of this year, will cater to commercial buyers and sellers, with sales transactions starting in four figures and averaging between \$15,000 and \$20,000, Sadaat says.

B2Buy.com will offer a new online payment service that FedBid developed with American Express Co. that provides an online escrow service to protect buyers and sellers. Like eBay Inc.'s PayPal, the new payment service will hold a buyer's funds prior to a transaction and provide a transaction settlement guarantee to both buyer and seller. Unlike PayPal, Sadaat says, his payments service will set no limit on the size of payment transactions. The service will charge fees equal to "low single-digit" percentages of transaction values, making them less than typical commercial payment card fees, he adds.

Sadaat says that he hasn't yet decided whether to offer the new payment service on FedBid.com, where most buyers from government agencies and other public institutions have preferred to complete payment transactions offline.

One commercial seller on FedBid that is considering B2Buy.com as a marketplace to both buy and sell is Cube Care. Robledo says her experience with how FedBid operates makes her feel confident about the doing business on B2Buy. "They're very good at what they do," she says. "It will be a good way reach new markets."

Although FedBid launched in 2001 without outside financial help, it has been backed for the past two years by Revolution Growth, a venture capital firm operated by Steve Case and Ted Leonsis, the founders and former executives of Internet services company AOL Inc. Neither FedBid nor Revolution have said publicly how much Revolution Growth has invested in FedBid, but Revolution Growth says its typical investment ranges between \$25 million and \$50 million.

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FedBid expects to have 300 employees by the end of this year, up from 200 today, Sadaat says.

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