

## **B2B E-COMMERCE: A PRIMER**

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Most of us have heard or read headlines about the explosive growth potential of the B2B e-commerce market from newspapers, television and magazines. Well-known technology research firms such as Forrester Research Inc. and Yankee Group have forecasted that the B2B e-commerce market may reach \$2.7 trillion by 2004. For those who have only a passing acquaintance with B2B e-commerce, all of the excitement being generated by these projections may seem perplexing, particularly when the commonly held layperson's view is that B2B e-commerce is simply another term to describe a transaction between a business and other businesses.

One of the purposes of this article will be to explain why the B2B e-commerce revolution is so important, highlighting some of the profound transformations in the conduct of business that B2B e-commerce has begun to usher. Another will be the crucial issue of valuation of B2B technology and alliances.

### **What is B2B?**

Simply stated, B2B generally refers to Internet-based buying and selling marketplaces for businesses. In effect, a particularly useful analogy is that of the stock market, where all of the sellers and buyers of a particular stock or of stocks of companies in a particular industry will find each other, financial information flows freely, current prices are posted, stocks bought are delivered efficiently and there exist settled ways of transacting business.

Why is the establishment of Internet-based buying and selling marketplaces significant ? For one thing, most suppliers in the past had an advantage over buyers simply by knowing more about the product sold, the efficiency of their manufacturing processes and the availability and cost of raw materials and components. B2B eliminates, or greatly reduces this type of advantage, by shifting the emphasis to the comparative value of the product or service, which ensures greater transparency than ever before. Buyers can now use product search engines, compare offerings from most, if not all, of the suppliers of a particular product almost instantaneously, and make their decision secure in the knowledge that they have obtained the best possible deal available at the time.

Another key advantage of B2B is that it allows buyers to become intimately involved in the procurement process. B2B offers the possibility of constant interactive exchange of information between seller and buyer, covering design requirements, specifications relating to raw materials or components, tracking of costs and order fulfillment, and requests for service and advice. For the seller, it means reduced transaction costs, improved inventory management and increased volume-related scale economies.

For the buyer, B2B can cut costs dramatically, in at least three ways. Procurement costs are greatly reduced, making it easier to find the supplier with the best price from all over the planet and to cut the cost of processing transactions. There are several examples of businesses that have used B2B to reduce the average purchase order processing time from 30 days to 1 or 2 days, and

the average rate of unauthorized, or mistaken, buying from 30% to 2-3%. Secondly, B2B allows better supply chain management. Thirdly, tighter inventory control becomes possible, allowing further reduction and control of costs.

While not a very sexy strategy, cost reduction provides significant benefits: in a business with a 10% profit margin, it takes \$10 of sales to provide the same bottom line return as \$1 saved through cost reduction.

A simple B2B procurement solution from a buyer's perspective could include any of the following components: (i) management chooses from several suppliers' online catalogs those products which it considers appropriate for purchasing within the organization, (ii) employees are given access to those products or catalogs through the Internet, with appropriate automated controls (i.e. requests for authorizations automatically sent to the appropriate supervisor, based on the employee's position and/or the dollar value of the purchase). These first two components will have the benefit of eliminating or at least reducing rogue buying, (iii) authorized purchases result in a purchase order being electronically sent to the appropriate supplier, with an electronic update of the buyer's records, (iv) automated credit check and confirmation of receipt of the purchase order by the supplier, (v) ability of the buyer to check on status of the order and estimated delivery times, as well as the possibility to make changes to the order, and (vi) automated billing and delivery of the product by the seller.

While online procurement and supply chain management constituted the first applications of B2B, there are many other areas in which businesses can benefit from B2B. B2B can extract efficiencies in manufacturing processes, for example - second, third and even subsequent tier suppliers can use B2B solutions to monitor remote assembly lines where their components are being installed and correct any developing problem before the principal supplier is even aware of them. Similarly, every member of the supply chain can use such links to anticipate demand, reduce inventory, troubleshoot problems and coordinate deliveries. Another area with enormous potential is Human Resources, where employees can be given access, by an intranet accessible through the Internet, to policies, requests and eventually even medical, retirement and other benefit plans.

### **Earlier B2B Technologies**

The attempt to make the procurement process more efficient (and, by extension, automated wherever possible) isn't new. Electronic Data Interchange (EDI) has been around for quite some time and, just like B2B, it allowed electronic communication between businesses. Why hasn't EDI taken the world by storm? Firstly, the cost of implementing EDI prevented many businesses from considering it; in fact, EDI is dedicated point to point, meaning that both businesses using it must invest in common software and processes. Secondly, EDI transmits data in batches, not in real time.

When comparing EDI to B2B, one begins to appreciate why B2B represents such a leap forward. B2B allows communication between any two businesses, without complications or significant costs – the infrastructure of the Internet provides the platform. B2B is real time, allowing participants to communicate immediately, frequently and accurately. B2B is an equalizer, allowing even small businesses to reap its many benefits.

More recently, larger B2B companies and Application Service Providers (ASPs) have been working together to develop what is known as Enterprise Resource Planning (ERP) systems. ERP systems integrate supply chains by introducing the same digital communication interface to the buyer, which

reinforces stock control, reduces purchasing cost and increases efficiency overall. Once again, however, ERP systems are quite large, complex and costly, putting them out of reach to all but the largest of corporations.

While companies that have developed ERP systems through ASP providers are more likely to derive the most benefit from the B2B revolution in the short term, B2B will force all business, regardless of their size, to better understand and evaluate their internal processes, and to exchange their findings with their suppliers and customers with a view to integrating as many of the processes as possible. This will, in turn, lead to more businesses tapping into the significant benefits provided by B2B.

Unfortunately, many CEOs in established companies still view e-commerce as a defensive strategy rather than an offensive one, and that the e-commerce part of their business will never be profitable. Most of them feel that e-commerce success is dictated by a catchy website or the creation of a new channel. Most analysts instead feel that established companies are best placed to reap the most benefit from B2B e-commerce strategies, but in order to do so must recognize e-commerce not as an end in itself but as the cornerstone of an integrated business system.

### **Various B2B Business Models**

Most B2B solutions can be regrouped into one of three emerging models, more commonly known as the buy-side model, the sell-side model and the e-marketplace model.

1. A buy-side model usually addresses principally the restructuring of the procurement process within a company. Many companies have already adopted this solution as a first step that allows for efficient, consistent, enterprise-wide procurement systems which eliminate rogue buying and guarantees that the company gets the best pricing and volume discounts. While benefits from this type of B2B solution are not to be ignored, it misses many of the additional benefits that can be obtained through other models.

2. A sell-side model usually involve the posting of catalogs of products and services on the Internet by a group of suppliers or by a third party on their behalf. This model allows for transparency through to the back-end systems, allowing buyers to view all products, enter their own orders and check in the status of their order in real time. For the suppliers, this model allows them to use the information obtained about their customers to tailor the website and its message to each customer and maximize revenues from cross-selling and up-selling.

3. The e-marketplace model is the model that has the most potential. Analysts at the Gartner Group predict that buy-side and sell-side solutions will eventually converge into e-marketplace models. E-marketplaces include online auctions, exchanges and vertical portals (i.e. within a specific industry). There are various models for e-marketplaces, but two of the most common are:

- ⇒ third parties operating online markets which target a specific industry or products and services for a particular group of businesses. The online markets allow buyers to obtain prices and other relevant information concerning products and buy those products online. The markets are often in the form of an auction.
- ⇒ buyers and/or sellers in a particular industry operating an online market together, aimed at facilitating real time purchases and sales among members of this industry or joint purchases (e.g. like a buying group). An example would be the announcement by Ford,

GM and Daimler-Chrysler concerning their creation of an online marketplace for the procurement of car parts.

Other models are also evolving. Certain B2B portals are following a closed environment, with their own elaborate rules governing processes, transactions and contractual dealings. These have proven to be very effective in industries, such as maritime shipping, where there are complex factors involving several third parties in completing a single transaction - the many complex facets of the transaction can now be handled through a single portal, in a simple, efficient and cost effective manner.

Ultimately, in the discussion about B2B business models, perhaps the most important thing to keep in mind is that there are, and will continue to arise, different models whose success flows from being better suited to the needs of the companies in a particular industry or marketplace.

### **Licensing and other legal issues**

While it is beyond of the scope of this article to deal with the myriad legal issues that arise from B2B solutions, alliances and marketplaces, we would like to briefly highlight the principal areas of law which must be closely looked at when dealing with B2B e-commerce transactions.

Firstly, we would point out that there is one common element in all B2B-related matters whose legal ramifications should not be ignored, namely the licensing component. It is universally present in these transactions in the form of licensing of trade marks, service marks, copyrights and other intellectual property rights. Each licensed element should be identified and dealt with in a manner appropriate to the B2B transaction under review.

Electronic documents and signatures are becoming more prevalent as the legal framework is being developed to ensure security of online transactions. A good working knowledge of this new legislation is key to implementing successful B2B e-commerce.

Another key area is the anti-trust implications of B2B marketplaces, insofar as some of them resemble buying groups and others may present real barriers to competition in certain industries.

Privacy legislation is being adopted throughout most jurisdictions in the world which have a strong internet infrastructure, and any firm operating a website which collects, uses or discloses personal information must have privacy policies in place, not only in order to comply with such legislation but also to allay growing privacy concerns of business partners and customers.

Finally, various common online practices, such as linking to or framing other websites, use of cookies, metatags, key banner ads, stealthing and spamdexing, raise legal issues which must be addressed in order to reduce the risks associated with B2B activities.

### **Conclusion**

The ways in which B2B e-commerce is transforming the existing business models are countless, and we've truly only begun to explore its potential. In order to face the challenges presented by these transformations, it is crucial to maintain a willingness to reevaluate existing business processes and to invest in what surely constitutes the most exciting business development in years: B2B e-commerce.

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