

B2B Banks: The future financial engines of B2B E-Commerce

Electronic B2B marketplace pioneers may offer buyers and sellers high value added vertical content and community services, as well as excellent market data and price discovery mechanisms. However, once they've helped a buyer and seller agree on a transaction, even the most sophisticated B2B marketplace usually runs out of steam in the "checkout" line: payment and financing options offered are typically very poor, and may include only off-line alternatives (e.g., payment via company check) or else the corporate version of the credit card, the Corporate Purchasing Card.

There is, therefore, a huge opportunity for new on-line B2B banks that can provide a sophisticated financial solutions engine tailored to serve the new Internet driven needs of online and offline B2B intermediaries and direct sellers. As a result, existing and new players are racing to create new B2B payment and value added financing products, as well as to agree on the technical standards that will be required to share B2B transaction data universally and securely.

From the B2B marketplace perspective, they have a complex start-up task. On one hand, they need to offer significant new value added compared to offline business processes to get users to sign-up for their internet-based hub, but on the other hand, they also need to easily integrate into existing processes and systems, such as payments and financing, that are part of their new users' established way of doing business. Since existing payments/finance processes are quite complex and also not typically a core skill of new B2B hubs, B2B hubs are relying on existing financial business processes. However, new B2B Bank offers will change this very rapidly.

Developing a new seamless Internet-based B2B financial payment system will require new technical standards and new processes. Technical standards for transaction data needed can be divided into two main parts: 1) money transfer data – describing the movement of funds from Bank A to Bank B (amount, authorisation, etc.), and 2) invoice transfer data – data describing full invoice detail in a standard electronic format (item description, price, quantity, VAT, cost centre, general ledger code, etc). New processes will then be required in order to move from mostly manual to fully electronic payments processes.

Significant additional value to users will be released from a fully on-line B2B Bank compared to current off-line, manual, paper-based process. Reducing costly and inefficient paper based billing will allow companies to downsize their expensive A/P and A/R departments and lower their high costs per invoice. Converting all paper invoice data to electronic form will allow electronic-bill databases to be created with detailed records of in-going/outgoing payments that buyers and sellers can manage. New

electronic financing (e.g., for sellers discounting A/R for short term financing of day to day operations, or for buyers financing) will improve working capital management. Overall, new B2B Banks will provide a range of functionality that does not yet exist to meet the needs of B2B buying rapidly moving online.

The consequences for B2B Bank players will be the creation of three primary linked functions. First, new online payments products will be created that are equivalent to offline products, to enable Internet transactions and financing. Second, electronic bill databases will be created that enable paper invoices to be replaced with electronic invoices and that enable buyers and sellers to consolidate and manage all their A/P and A/R. Third, new on-line transaction financing products will be created to manage account balances, in-flows and out-flows, either in the original transaction stage at the marketplace, or afterward within the electronic-bill database. Taken together, the B2B Bank will provide value to users both at the point of sale as well as via a new high-value highly-differentiating service: the ability to offer customers on-going working capital management optimisation.

Though the vision for the B2B Bank is relatively clear, several key hurdles will make rapid widespread implementation a challenge, including agreement on technical standards and achieving reliable internet-based systems for payment authorisation and risk scoring. Nevertheless, once B2B Banks are in place, B2B marketplaces will truly be able to offer complete solutions to their users, all the way through to helping their buyers and sellers better integrate and manage their finances.

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