

## B2B E-commerce: Seizing the Money-Making Opportunities

In theory, one of the key attributes of the internet is that it makes markets efficient. Competitors, after all, are just a click away. Yet Amazon.com, the leading book seller on the web, is not even close to being the lowest cost site for books –the power of its brand and service offering are such that consumers remain loyal to Amazon despite their not having the best financial proposition. Amazon is therefore able to operate a business model in which they earn higher margins from book-selling than they could if their B2C customers were more price sensitive.

This approach won't work in B2B.

On-line business users must be able to calculate demonstrable financial benefit of using a particular e-commerce service, otherwise, they just won't sign up. This applies to all B2B players conducting e-commerce transactions: direct B2B sellers using web-enabled sales channels (one to many model), large buyers putting in e-procurement sites (many-to-one model), and intermediary B2B hubs focused on matching buyers and sellers (many-to-many model).

In each case, the marketer of a B2B service needs to sign-up users by demonstrating the additional value brought to buyers and sellers by using the site. For example:

- Direct sellers should offer an additional sales discount for web-generated sales that reflects their reduced order processing costs, or, their improved supply chain efficiency from building to customer order rather than to build up inventory.
- Large buyers considering the purchase of E-procurement software are given a detailed payback analysis by vendors such as Ariba and Commerce One. It shows the time it will take for cost savings resulting from all buyers using the best contract to offset the \$1M-5M software package cost. After 12-24 months, the software has paid for itself and buyers know savings on an on-going basis are going into their own pocket.
- Intermediary B2B sites that charge a transaction fee must first figure out the financial improvement they offer buyers/sellers, and then charge accordingly.

As a general rule, the more economic benefit you provide to the buyer/seller, the more you can charge. Depending on the type of value added being provided by the intermediary, transaction fees can vary from 1% to 30% . Money making opportunities along the purchase process have been mapped out in the figure below as a guideline to assist with analysing potential revenue strategies.

## B2B Intermediary Revenue Opportunities Along Buying Process

Preliminary



In addition to cost efficiencies, intermediaries may also generate higher revenue for customers via increased sales reach. Once again, margins should be in line with the source of the economic benefit. For example, commissions from selling perishable items via the web can be as high as 50% since the alternative sales return would be zero – examples here include space on trucks which would otherwise return empty (NTE), or internet advertising space that would otherwise pass unfilled (Aduaction.)

Overall, the \$1B forecast by Forrester Research for B2B e-commerce in 2003 makes it clear that significant transaction volumes will be flowing through B2B e-commerce players. The goal for B2B managers should therefore be to develop revenue strategies that maximise their money making opportunities based on a detailed understanding of the improved economics they bring to their market.

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