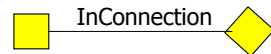


A strategic view on the B2B market

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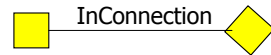
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The main objective of this presentation is to give an overview of the why, how and what on B2B e-commerce. Aspects covered include business models, benefits, collaboration options, and e-finance.

Although B2B covers the so-called e-marketplaces, also buyer and seller sites are a component of this domain. There is however a major distinction between them, which is that buyer and seller sites are by nature one-to-many, whereas e-marketplaces are many to many. The many business models which exist within the area of e-marketplaces mainly distinguish themselves from each other by how the marketmaking and pricesetting mechanisms work. Exchanges for instance operate as spot markets, with instant price setting, whereas auctions can take weeks for the final price setting to occur.

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- Forces driving B2B
- The B2B Landscape
- *What* makes B2B work : CSF's
- *How* to make B2B work : the business and governance model
- The dominant position of Ariba and CommerceOne : an explanation
- What types of purchasing are addressed
- What benefits can be reaped
- When does collaborative commerce equals supply chain integration
- How to look at value chains for orientation in five steps
- What e-finance tools are needed
- What does this all mean for SME's



The main reason, next to highlighting the dominance of these players, Ariba and CommerceOne are covered to illustrate how first mover advantage can be important, although it is not the only criteria for success. E-finance is addressed because this industry, albeit for other reasons, and in a different manner, is next to the music industry, a good example of how digital products and services can revolutionise entire industries by merely going online.

Forces driving B2B

Technology

'e' technologies have been responsible for liberating 'pent-up' industry pressures

- Shift from proprietary to open standards
- Commoditisation of technology
- Faster time to market
- New business models

Customers

There has been a fundamental shift in power from supplier to buyer

- Customers are more sophisticated
- Transparency of service and price required
- Full service solutions required
- Shorter product life cycles
- Increased counterparty identification and decreased trade risk

E-markets

Market

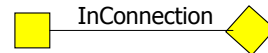
The industry value chain has been broken down and rebundled into a customer-centric value web

- Increased mitigation of risk
- Growth of cross border volumes
- Liberalization of regulatory control
- Breakdown and rebundling of the value chain and supporting financial services

Competition

Competitors are in a 'land grab' race, seeking scale and infrastructure dominance

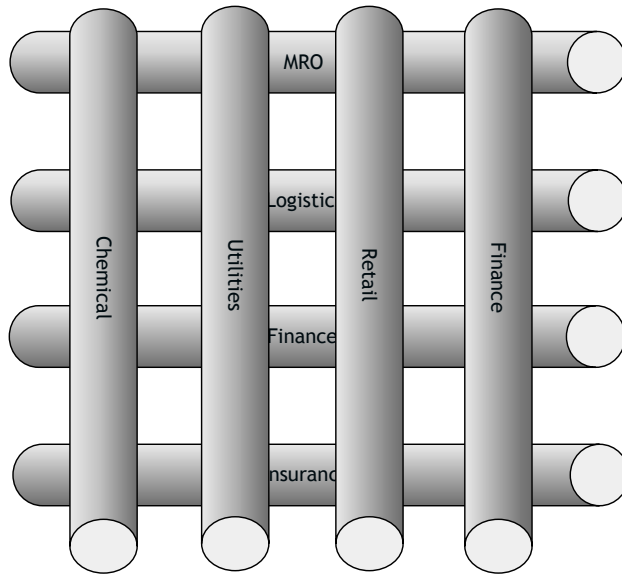
- Formation of utilities to create scale
- Mergers and alliances into the value chain
- Development of new distribution channels
- New entrants
- Incumbents taking defensive plays, placing a number of strategic options



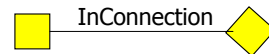
In summary, the added value of B2B for businesses can be summarised as this :

1. Trade used to be fragmented by geography. This lead to inefficient markets and unaware buyers and sellers.
2. Interactions between companies are labor- and information-intensive. All collaborations used to be manual, even today, inter-company integration is pretty much non-existing (with the exception of good old EDI). Increasingly, inter-company processes and information will be channeled through B2B platforms.
3. Supply chains are bloated with excess inventory, because predicting the right mix and volume of products is almost impossible. Internet-based supply chains will have (eventually!) the ability to subsitute inventory with information.

The B2B landscape



- 5 business processes :
1. Marketing
 2. Sales
 3. Delivery
 4. Payment
 5. After sales



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Most industries have a clear horizontal or vertical nature. One exception is the finance industry, which is highly relevant in both orientations. Moreover, the intersection of the industry with itself proves to be a highly dynamic field, including a.o. capital markets.

The 'bitability' of financial products and services, the high added value of many-to-many interactions and the relative wealth of this industry make it a role model for B2B (and B2C) e-commerce.

What makes B2B work : Critical Success Factors

	Criteria for success	Barriers
Product related	Perishable Highly standardized Low-cost Frequently traded	Highly customised
Industry related	Fragmented market Cyclical or unpredictable demand/supply Multiple distribution steps Industry knowledge Recognition as an industry leader Relationship of senior mgt with senior players present	Strong position of existing intermediaries
Customer service related	Offer transaction pattern analysis back to participants (eg Instill in foodservice) Offer free advice Personalise through CRM Offer payment services Offer logistics/transport services Offer insurance services	
Technical related	Target market is PC literate Manage integration (XML) Have consultants ready to do technical hook-up Easy catalog creation High switching cost	Impact on IT unclear Implementation cost
Organisation related	Cover all 4 areas of purchasing Efficiency improvement Reduced processing costs Reduced manual labour Improved control over business operations Lower cost of sale	Disrupts existing business Impact on organisation unclear Cost of re-organisation
Commercial related	Lower customer acquisition cost Maximise value chain offering Presence of large buyer or existing market maker Have a recognised brand Promote trust Improve negotiation power Foresee virtual private marketplaces Foresee multiple market-making mechanisms (auction, exchange, barter)	Cannibalises existing business Channel conflict Limits face-to-face contact Price erosion Offering becomes commoditized Limited differentiation, difficult to demonstrate added value Monopoly issues Unclear ROI

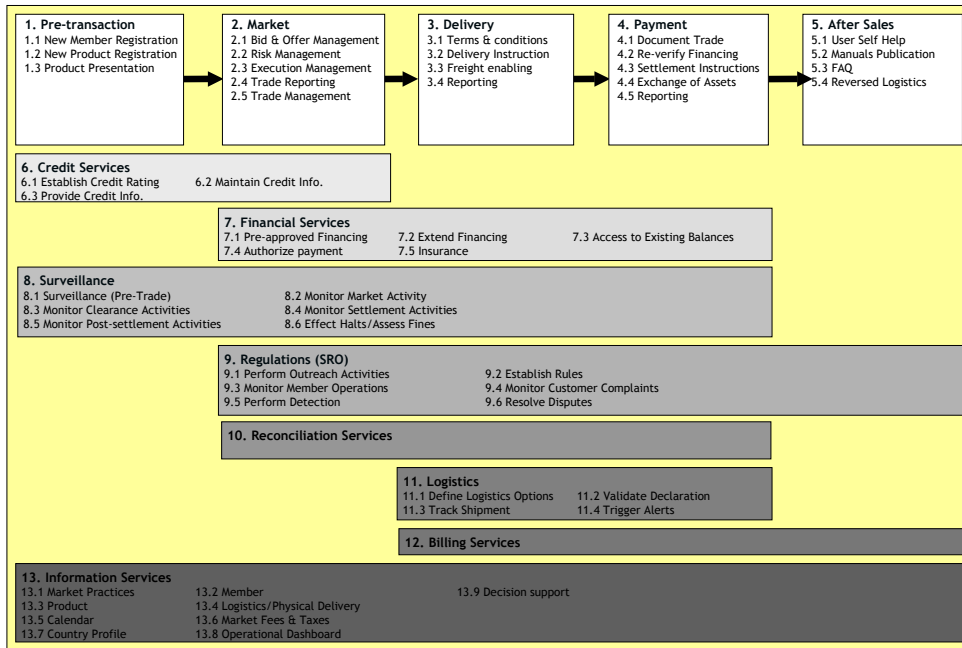
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From a first attempt in defining these success factors based on the 3C model : Content, Community and Commerce, we have now come to a more substantiated and complete picture.

When defining their own implementation strategies, SME's can use this matrix as a guide to steer them in choosing the right ingredients for their B2B mix.

How to make B2B work : the business and governance model.



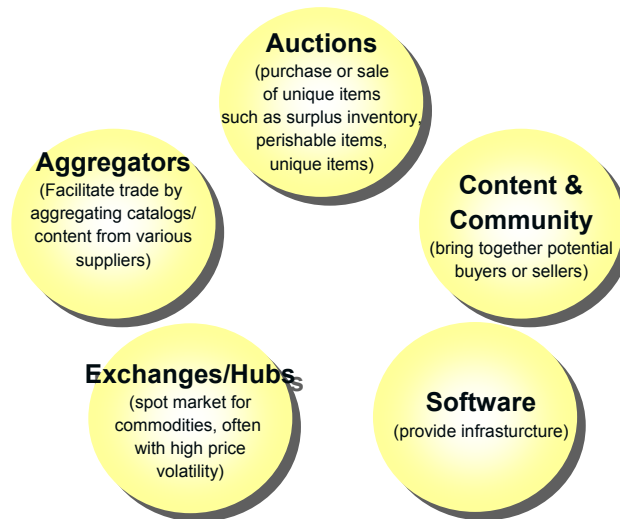
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Again, this chart can serve for SME's to, in function of the business processes included in their e-commerce effort, investigate what underlying services, tools and practices are critical.

The dominant position of Ariba and Commerce One : an explanation

Ariba and
CommerceOne
were the first
to offer all 5
business models.



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The main reason why there are only 2 dominant players are :

1. As of 1998, when the first e-marketplaces were emerging, the major software and IT vendors were solely focussing on ERP and Y2K.
2. Volatility on the Nasdaq has made it almost impossible for challengers to find the required financial backing. They are or already have been eaten by the big fish.
3. **Once a dominant player is present, his attractiveness to his existing and potential customers increases exponentially, and so does his intrinsic value to his shareholders ==> a vicious circle, which no one party can escape from.**

Dominance in Key Markets

■ ARIBA

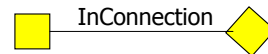
- ARIBA hosted a reverse auction for the Federal Government.
- US Government spending represents roughly 15 % of US GDP

■ CommerceOne

- Metals & Mining : 59 %
- High Tech : 39 %
- Utilities : 45 %
- Paper & forestry : 66 %
- Aerospace : 78 %
- Automotive : 64 %
- Energy : 62 %

These industries represent roughly 20 % of world trade

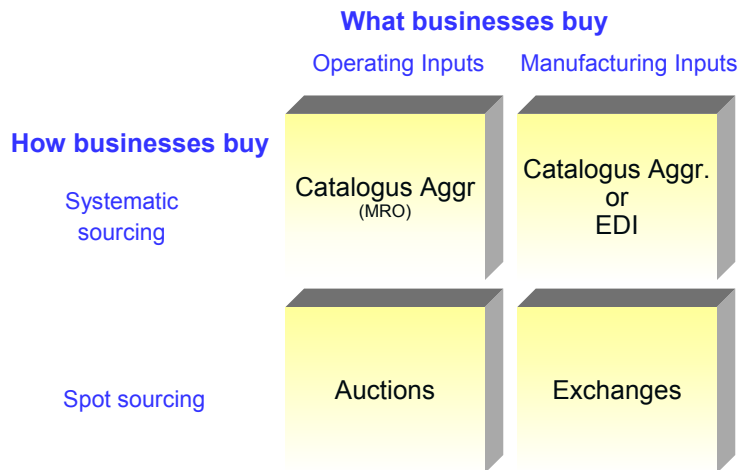
If 20 % within a vertical market is conducted via the Internet, the 'tipping point' is reached (Morgan Stanley Dean Witter)



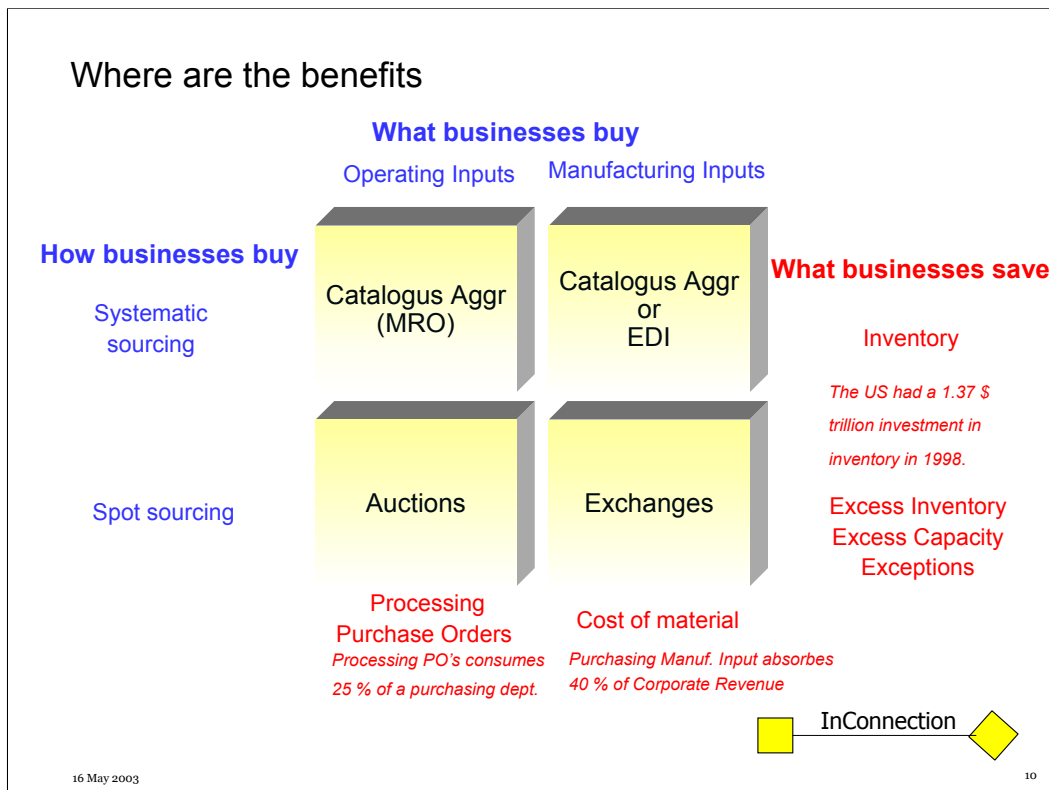
These figures are taken from ariba.com and commerceone.com. The latter mainly illustrate the potential dominance : i.e. the potential trading partners are connected to eventually get to these percentages.

Another main proof of the dominance is that most large software vendors, such as SAP, IBM and Microsoft team-up or collaborate with either Ariba or CommerceOne.

Types of purchasing addressed by e-marketplaces



Most purchases conducted by companies can be divided according to this matrix. One major type of purchasing is not included : project related purchasing.



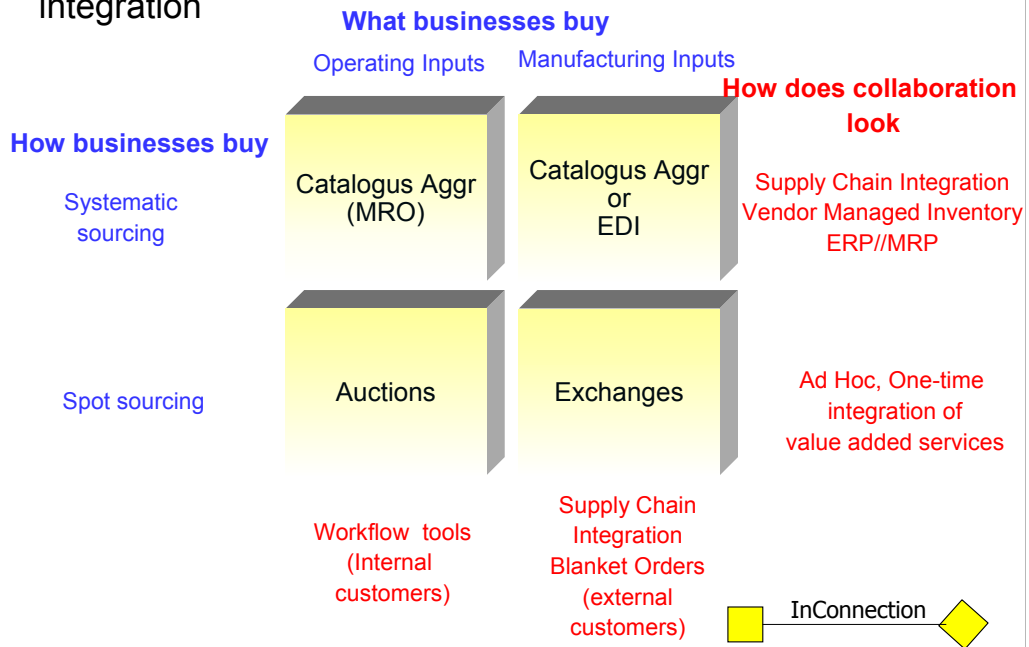
Benefits to be reaped are very different, depending on the type of purchasing addressed. For example, buying office supplies will not lead to a substantial reduction in tied-up capital, but the processing of (small value) orders can drastically improve. Also the reduction in 'Maverick' buying is a major benefit.

On the other spectrum : buying car components in the automotive industry via electronic means can lead to substantial reductions in inventory, heating warehouses, and working capital. EDI serves as the role model, facilitating the strategically important JIT processes.

Examples of benefits are :

1. British Telecom saved 105 \$ on an average processing cost of 113 \$ in a period of 6 months.
2. FEDEX's Purchasing B2B initiative had an ROI of 11 months instead of the planned 36 months.

Where does collaborative commerce equals supply chain integration



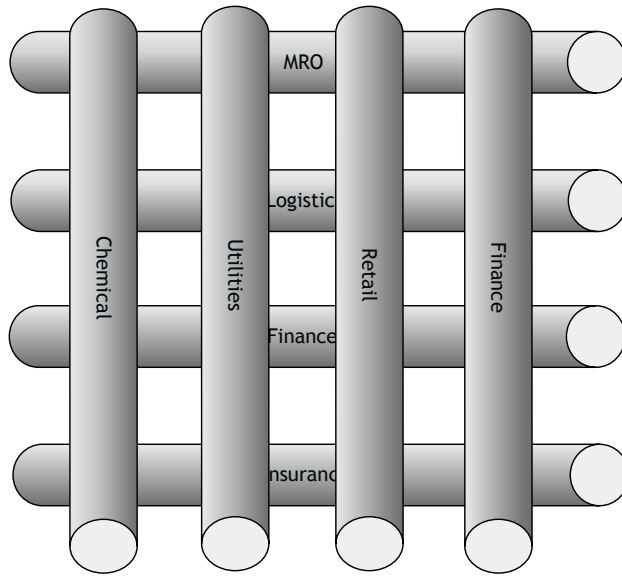
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Collaborative Commerce comes in many shapes and sizes. Supply chain integration is just one of many types of collaboration. Other forms are horizontal added values to facilitate a 'spot' or one-time trade (eg. Credit checks will be highly valued when dealing with unknown trading partners, or mitigating risk by linking a derivative for the trade).

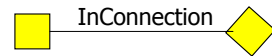
A third form of collaboration, which comes into play when trading operating inputs (eg. MRO products) is the workflow management to streamline the internal purchasing process.

How to look at value chains for defining an e-strategy



5 business processes are conducted :

1. Marketing
2. Sales
3. Delivery
4. Payment
5. After sales

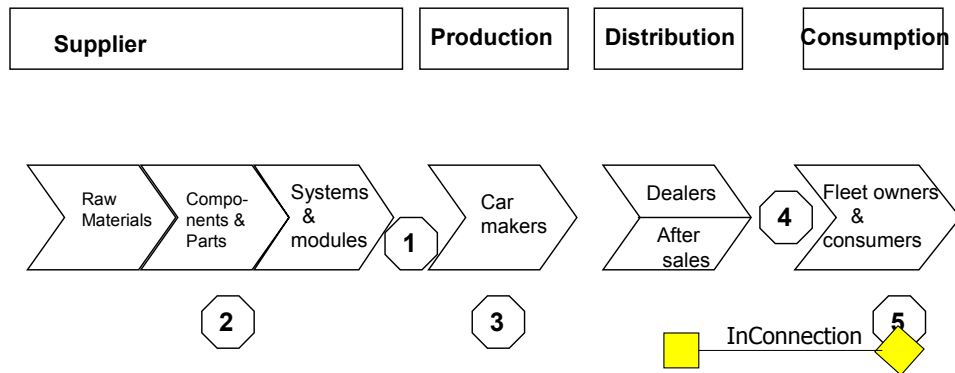


The first trivial analysis is to identify the relevant industry in which you operate, and with which other industries you interact.

How to apply B2B models in existing industries ?
Look at value chain analysis.

Some examples :

Automotive Industry



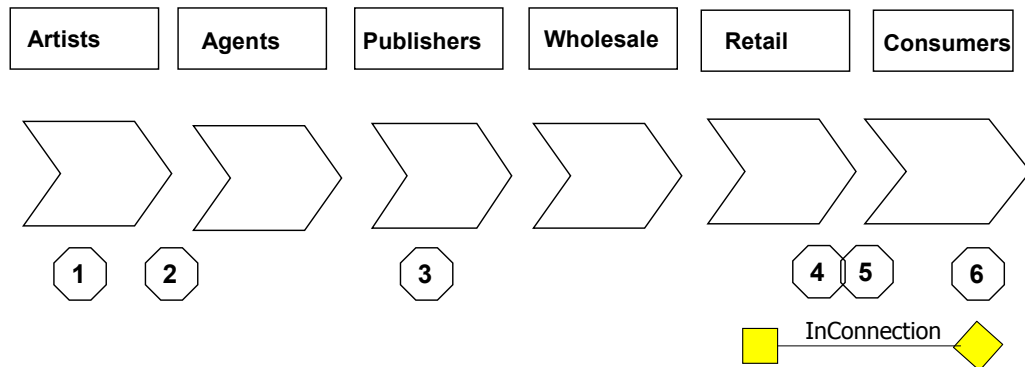
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1. Car makers' online e-marketplaces, such as Covisint.
2. Suppliers' online e-marketplaces.
3. Direct sales and after sales to consumers
4. New intermediaries in car sales
5. From supply-pursh to demand pull : using online tools to maximise the usage of information in the supply chain.

How to apply B2B models in existing industries ?
Look at value chain analysis.

Music Industry



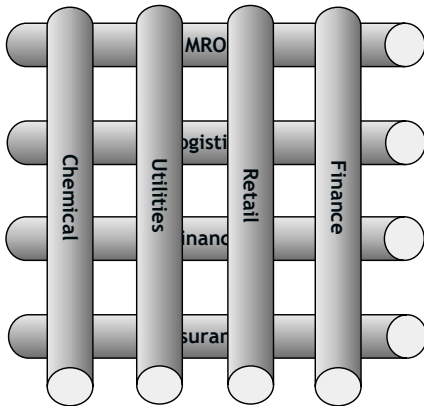
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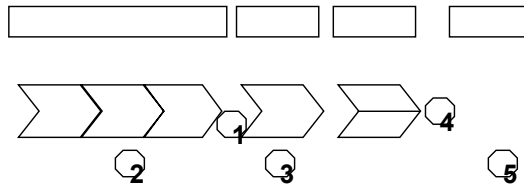
1. Direct digital delivery, eg. David Bowie
2. Talent scouting, eg. iCast.com or MP3.com
3. Direct digital delivery by music publishers
4. CD sales via the internet, eg CD-now
5. Digital music portals, eg Sony, MTV
6. C2C, eg Napster

How to look at value chains for orientation in five steps

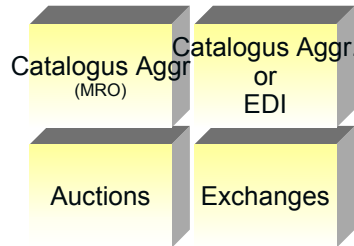
STEP 1



STEP 2

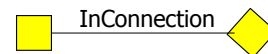


STEP 5



STEP 3 : 1 to many or many to many

STEP 4 : is product or service 'bitable'



In Five steps, SME's can do an initial analysis on where there 'best fit' is situated.

Step 1 is to establish the relevant industry and other relevant where trade is conducted.

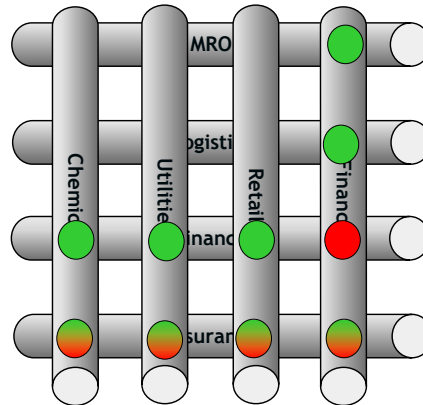
Step 2 looks at the specific value chain for that industry, looking at where opportunities arise.

Step 3 and 4 are trivial but important to establish the best business model in B2B e-commerce, and the potential to re-shape the model.

Step 5 looks at the type of purchasing that SME's may want to facilitate, together with their customers in the entire e-commerce process.

Understanding the potential roles of financial services providers in e-marketplaces

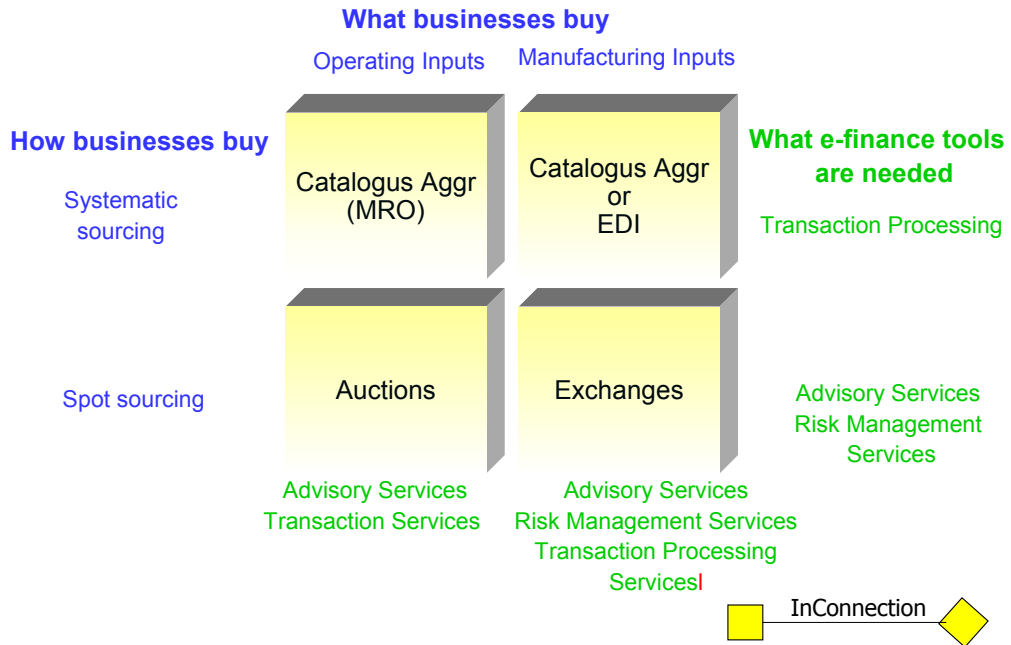
- Create similar marketplaces themselves
- Team-up with corporate customer(s)
- Manoeuvre into a value added proposition by acting as treasurers (eg Bank of America to Farms.com)
- Launch a marketplace of complementary financial services
- Launch a marketplace of novel financial services within the finance industry



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Financial service providers look at a promising future in the B2B arena. They can play 5 potentially important roles.

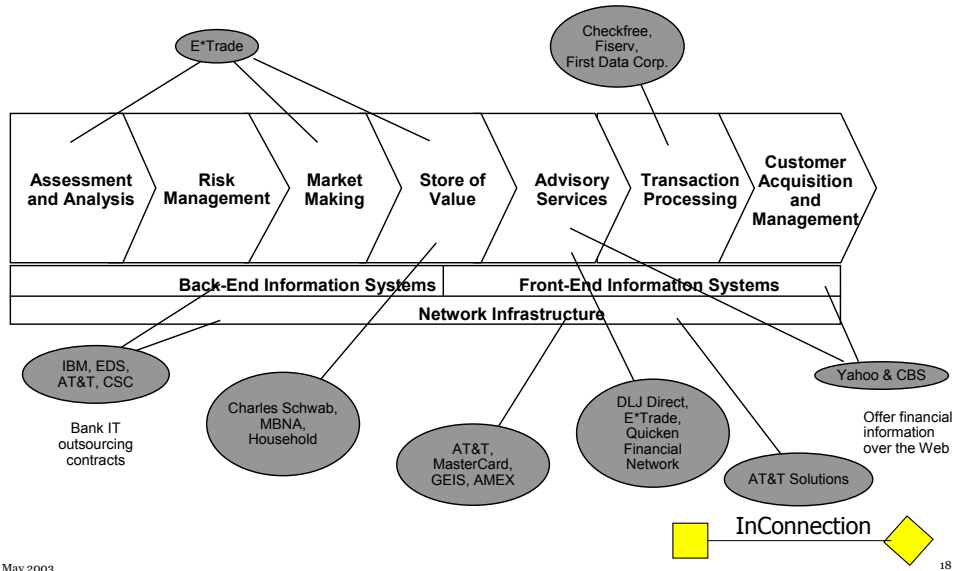
Where do financial services come into play



The various types of purchasing ask for different types of financial services. Systematic sourcing will usually be done with known suppliers, who do not need credit checks. One-time spot sales of eg. excess inventory on the other hand may benefit from a credit check. Exchange-type of trade will need risk management tools.

Already, numerous non-banks successfully deliver key services along banks' value chains

Encroachment on the Banking Value Chain



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The digital nature of finance products and services has made that this industry is highly prone to re-intermediation.

From back-end to front-end, various other players have positioned themselves in various places in the value chain of this industry. Some of them are incumbents who re-invented themselves, others are pure 'dot.com' players.

Current players : old & new



- Select account information view
- Bill-pay services via CheckFree
- Virtual retail banking branch w/ Deutsche Bank (Bank24)
- Financial Webcasting/Channel
- Developing a consolidated financial view capability



- Account information from multiple financial institutions via "My Account" @ Quicken.com
- Bill presentation & payment services
- Online tax preparation
- Personalized financial dashboard, news and alerts via "My Finance" @ Quicken.com



- Stock screening & portfolio analysis
- Financial Internet vertical portal
- EBPP services in cooperation with Intuit



- Financial Internet vertical portal - NetMoney.com, Net@Bank, Goinvest.com
- Online banking - co-branded solution with Scotiabank



- Insurance aggregator site - Sells insurance policies by referring member underwriters e.g. Allstate
- Specialized vertical portal. (Articles, Tools)

Non-traditional players are seeking to expand their relationships



Emerging financial services model

Traditional players are seeking to expand their product lines . . . beyond financial services



- Spectrum alliance for EBPP services
- Internet destination site evolving into an independent portal-like website addressing life's events from a financial perspective



- eBusiness™ Internet portal site facilitating trading and other services
- Merrill Lynch DirectSelect™
- eShopping™ Internet portal site
- Direct Markets Online - Institutional investor portal



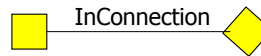
- Transaction capable vertical portal
- Powerstreet.com @ in cooperation with Excite @ Home
- Online tax preparation capability @ fidelity.com in cooperation with Intuit



- Wireless banking
- Electronic bill presentment & payment in cooperation with Yahoo!



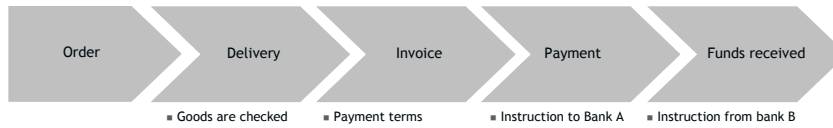
- Member FDIC; State Farm FSB (Bank)
- Distribution through ATM's, Network of 600 Agents and online @ statefarm.com
- Customizable features @ mystatefarm.com
- Integrated products; e.g. auto loans & leases



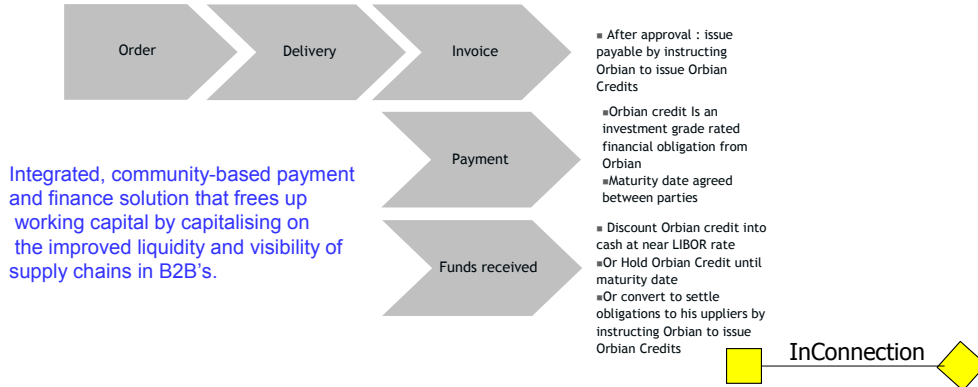
A few examples of incumbents.

An example of a new innovative financing solution for vertical B2B marketplaces : Orbian.com

Currently :



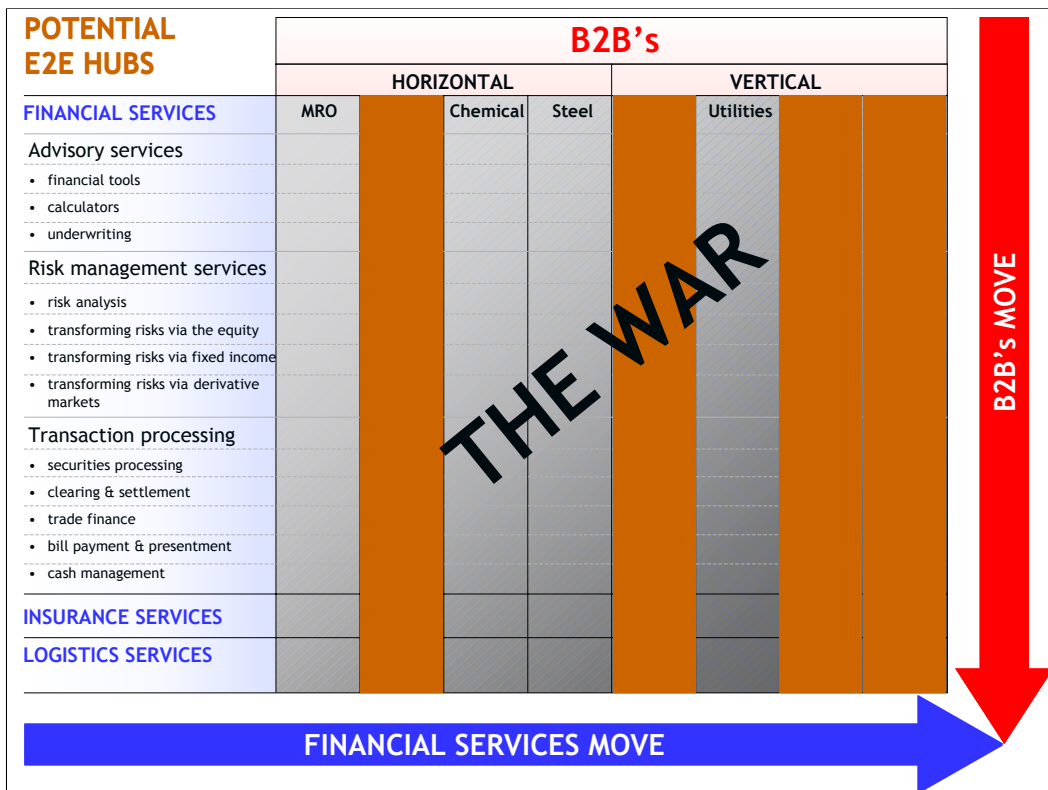
With Orbian :



Integrated, community-based payment and finance solution that frees up working capital by capitalising on the improved liquidity and visibility of supply chains in B2B's.

Current solutions for financing late payments :
commercial paper (near LIBOR rate)
Factoring
Short-term bank loans

Settlement usually involves 2 banks : delay

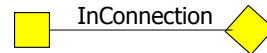


In the struggle for market ownership, banks conduct fierce battles with industry consortia and strong industry leaders.

However, the back-end integration which proves to be much more complex (and not solved by XML) will foster and force cooperation and collaboration rather than war.

What does this mean for SME's

- Analyse your e-commerce potential via the five step model
- Look at Critical Success Factors for guidance on how to ensure ROI
- Look at the governance model for guidance on how to define the critical components
- Transparency is here to stay, but collaboration and service will remain as strong 'customer lock-in' tools
- Do not underestimate the power of P2P



What should be the message for SME's ?

A strong route is to focus on supply chain integration. If you get into the systematic sourcing of your customers, their switching costs AND switching risks may become too high to allow for change.