

Trends and Current Strategies in Use of B2B e-commerce

Recommendation to Plan for the Implementation of a Business-to-Business e-Commerce System

Introduction:

This memo will provide information in support of generating a business plan for incorporating a Web-based transaction system into our purchasing and marketing strategies - initially for use with our suppliers, and later with our business customers. Included will be information relative to the trends and current strategies in the use of business-to-business (B2B) electronic commerce, as well as some of the considerations that must be included in B2B planning, such as the potential economic benefits and hazards.

Discussion:

Electronic commerce has emerged as a significant and rapidly growing component of U.S. economic exchange. Jupiter Communications forecasted that business-to-business (B2B) e-commerce would reach \$7.3 trillion or nearly 42 percent of all B2B commerce by 2006 (Dembeck, 2000). The Gartner Group predicted that B2B e-commerce sales would reach \$8.5 trillion by 2006 (Gartner, 2004), and The Federal Reserve Bank in Dallas reports that B2B sales account for 90 percent of all e-commerce transactions (FRBD, 2005).

Although such figures may be helpful to us in sizing the potential of B2B Internet sales, of more immediate importance to our company is that implementation of an Internet-based system can help us to achieve greater economic efficiencies by reducing transaction costs of procurement and supply management. In short, B2B e-commerce can save our company money.

As suggested by Lucking-Reiley and Spulber (2000), “B2B e-commerce aims to reduce the cost of procurement before, during and after the transaction. B2B e-commerce lowers the cost of procurement before the transaction by reducing the searching costs associated with procuring inputs and by increasing the ease of price setting and product comparison. B2B e-commerce also reduces the cost of procurement during the transaction by reducing the level of interpersonal communication needed to facilitate the completion of the transaction. Finally, it can reduce the costs associated with monitoring contractual performance and confirming product or service delivery.”

Some of the primary economic objectives for us to achieve while planning the implementation of our B2B e-commerce strategy, as delineated by Elana Varon in the August 2001 edition of CIO Magazine, should include:

- Managing inventory more efficiently
- Cutting the cost of paperwork
- Reigning in rogue purchases
- Obtaining lower prices on some supplies
- Streamlining supply chain processes to help reduce errors and increase productivity.
- Reducing delivery costs and time associated with labor and paper-based processes.
- Simplifying and reducing costs with electronic payments.
- Decreasing inventory and warehousing expenses by linking directly to vendors.

Dell Computer is a good example of a company that has realized tremendous cost savings by using B2B e-commerce for both its sales and procurement. The world's largest computer maker, Dell sells over \$50 million per day via its e-commerce site, primarily to business and institutional customers. The company provides real-time information exchanges with its suppliers regarding

inventory levels and product quality. Its efficient supply chain allows Dell to assemble its products within hours of receiving customer orders, while keeping only seven hours of inventory. Dell has procured over \$26 billion of materials via ValueChain.Dell.com. (Lewis, 2001).

Trends:

An emerging trend that is perhaps the best mechanism to help us quickly unlock the value of e-commerce is by aligning us with sellers in B2B marketplaces, sometimes called “hubs”. A B2B marketplace is an online venue where buyers and sellers come to communicate, collaborate and do business transactions (Ansberry, 2000). Hubs can help us change the way we handle our procurement, bringing improved productivity and sustained profitability to the bottom line. Gartner Group predicts over 10,000 B2B marketplaces will have emerged by 2006, while Giga and IDC project that B2B marketplaces and exchanges will allow companies to save between \$180 billion and \$480 billion in transaction costs and related expenses. Some compelling reasons why our company should investigate using B2B hubs include:

- Lowering transaction costs by streamlined transaction processing.
- Providing access to new suppliers – B2B marketplace participation removes geographical barriers and provides access to new suppliers.
- Providing for faster approval, ordering processes and delivery tracking.
- Reducing inventory costs by improving visibility of needs
- Reducing order processing costs.

How Should We Start?

Planning:

As a first step, I recommend we develop an “E-Business Plan”, keeping in mind the immediate goal of streamlining our procurement processes, then perhaps using e-commerce to help us grow the business and obtain new customer bases. Included in our plan will be such topics as:

Resources, documentation and training, technical support, security expertise, cyber-law, banking, payment gateway, hardware & software, procurement history and scheduling, cost analysis and desired return on investment. As well, we must consider the potential hazards, such as: costs over & above those we currently expend for procurement; the possible lack of suitable expertise; long set-up & training times; restructuring of software packages, accounting systems, data management systems and manufacturing schedules (Bovee, Thill and Mescon, 2005).

Procurement:

We should start with buying indirect supplies like pencils, chairs and copy paper, as it will be easier to set up an online catalog of approved office supplies than it is to automate procurement of our specially engineered parts and materials. Plus, doing so will not affect our day-to-day operations. While the payoff will not be as big as for more mission-critical purchases, it can be significant. The Burlington Northern Santa Fe railroad company, for example, reduced the cost of its indirect purchases by an estimated 3 percent to 28 percent by implementing an online purchasing process (Varon, 2001).

Conclusion:

E-business has the potential to decrease operating costs and eventually to increase the scope and profits of our business. Web-based hubs and marketplaces offer us the chance to develop and enhance our most important relationships – those with suppliers and buyers – which makes a compelling case for planning the implementation of an e-commerce system. By effectively addressing our market and financial requirements, we can map a solid plan - one that can respond to our current requirements and will react and grow with our ongoing competitive needs. Doing so will require considerable thought and planning, combined with a readiness to invest in technical and human resources to do it right. It is therefore highly recommended that we immediately initiate an e-business plan for the purpose of implementing this exciting cost-savings and revenue-generating medium.

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