

B2B EXCHANGES — WE'RE NOT TALKING BOBKS HERE

By Alan Gahtan

A business-to-business (B2B) marketplace or exchange is a service which matches buyers and sellers in a particular industry. Sales take place either through online catalogs posted by each supplier or through real-time Internet-based auctions. In either case, the consolidation of sales through a single marketplace fosters price discovery and reduces the inefficiencies that are otherwise associated with highly fragmented purchasing processes.

In addition to the increased price competition, which can be expected to result from the reduced cost of comparing prices among suppliers and the use of competitive bidding processes encouraged by the availability of auction facilities, B2B exchanges can also eliminate manual processes and lower transaction costs through implementation of integrated purchase order and supply chain management tools. In short, B2B exchanges can help fulfill the broken promises of electronic data interchange (EDI).

Further, more sophisticated B2B exchanges also offer inter-enterprise collaborative product development and communication tools. Such tools can include centralized document management, the sharing of otherwise incompatible computer-assisted design files and secure communication facilities. The combination of the above facilities into a single industry portal, along with news feeds and ancillary services, can be expected to result in significant cost savings to all participants.

While the revenue model for a B2B exchange may include subscription fees (paid monthly by each participant, or each participant's employee who has access) and various types of referral fees, the real payoff is usually expected to come from transaction fees. For example, a B2B exchange may charge a 1 per cent transaction fee on all sales processed through the exchange. If B2B exchanges actually capture a good share of the US\$3.7 trillion dollar market

projected by industry pundits, this could amount to US\$30-70 billion in annual fees.

First generation B2B exchanges began as single company B2B Web sites, set up to facilitate purchasing by a major company from its many suppliers. For the most part, these have evolved into industry-wide exchanges. The participation of market leaders from the particular industry is essential to the success of these second generation exchanges. One or two key technology providers (such as Commerce One) are usually also brought in to reduce costs and time to market.

The most significant B2B player is expected to be Covisint, the venture formed by Ford, DaimlerChrysler, General Motors, Renault and Nissan Motor Co. Ltd. and consisting of an online marketplace and collaboration facility. Covisint's primary purpose will be to electronically enable transactions between the world's top automakers and their 30,000 or so suppliers. It provides tools to facilitate direct and indirect purchasing activity, as well as providing manufacturer-to-customer connectivity tools, including automotive supply chain management and product development collaboration. Industry analysts have projected that the total volume of transactions could exceed US\$300 billion.

Lawyers performing work for B2B exchanges are typically called upon to provide advice in a number of key areas. Formation of the exchange will typically involve significant negotiation between the founding members. This is particularly the case where an exchange includes more than one major industry competitor. Depending on the size and significance of the exchange, competition law/antitrust issues may need to be addressed. However, the most significant work will typically include the drafting and negotiation of technology contracts between the exchange and its key technology suppliers. The subscriber or membership agreement between the exchange and its customers (including product schedules and exchange rules) will also be a key document. The ability of a firm to mobilize a large, experienced team of IT and e-commerce lawyers will be essential, particularly in respect of larger B2B exchanges. ☪

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