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The Role of Financial Institutions in Implementing a B2B E-commerce Strategy

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Business-to-business (B2B) e-commerce is not taking off as quickly as many have hoped. The rush to implement strategy has proven difficult, even as cross-industry success in e-business has proven the phenomenal possibilities the Internet imparts to the B2B marketplace. No company can afford to be left behind, but as firms begin to tackle the nuts-and-bolts issues that surround implementing a B2B e-commerce strategy, many are finding that although the benefits of the Internet for B2B commerce are enormous, so are the complexities. Once buyer and supplier are brought together, how can sufficient transaction settlement be guaranteed? How can trading partners ensure that risk is properly managed or mitigated?

What we’re seeing now in the B2B e-commerce marketplace is that many behind-the-scenes issues have come to the forefront – issues like logistics, distribution, financial settlement and payment and information management. The discussions are no longer about getting buyers and sellers together in a virtual environment, but about the groundwork that needs to be laid for e-commerce to realize its potential.

Global financial institutions, like ABN AMRO, are well positioned to help companies build a foundation for B2B e-commerce transactions because of their deep understanding of local market positions, industries, and international trade issues. In addition to building core B2B functions internally, they are developing partnerships and alliances with other financial institutions, key technology vendors and logistics firms for e-commerce product development and eventually, for distribution.

For example, ABN AMRO’s partnership with Ariba, Inc., the leading B2B e-commerce platform and network services provider, has allowed the bank to develop a secure, B2B e-procurement marketplace for its customers. Ariba’s technology also will be the basis for ABN AMRO’s global roll-out of numerous e-commerce solutions.
Another example is Identrus, a for-profit organization founded by a consortium of global financial institutions, including ABN AMRO Bank, with the goal of adding a dimension of trust and integrity to enable B2B e-commerce transactions worldwide. Identrus establishes a uniform set of identification and operating practices, coupled with a clearly defined, contract-based liability framework upon which financial institutions can support services that verify the identities and authenticity of trading partners. An analogy would be that Identrus is the highway, or the infrastructure, on which financial institutions build and drive the cars, or the applications that facilitate payments and trade. For example, in a typical transaction based on the Identrus infrastructure, a buyer places a purchase order with the manufacturer via the Internet, and the seller is able to verify the buyer by initiating an Identrus Service Request, or identity check, with its personal bank. The seller then routes the request to the buyer’s bank, the buyer’s bank processes the request and replies to the seller’s bank and finally, the seller’s bank subsequently replies to the seller to complete the transaction.

These partnerships not only help banks build the framework on which to conduct B2B transactions, they also allow financial institutions to help corporations better manage the effects of technology advancements, such as the risks associated with the speed the Internet brings to transactions and dealing with unknown trading partners. With the Internet, business cycles are significantly crunched into a matter of hours and days, whereas the old environment allowed for weeks and months between product order, delivery, payment and reconciliation. Banks can help companies manage this tighter timeframe, capitalizing on opportunities for better management of working assets and overcoming the challenges of managing security procedures and rethinking policies for signing authority.

Additionally, using authentication systems like Identrus, banks can verify transactions to protect companies from unknown business partners, eliminating the increased risk that results from no longer having the luxury of time to dig into a counterparty’s financials. These security measures allow users to conduct business faster, more efficiently and at less cost, reducing the
time, detail and money often lost through traditional processes. Additionally, Identrus is the first truly global interoperable system for identifying trust based on common business practices, system rules and technical interoperability specifications. And, to ensure security for all transactions, a uniform global system of rules and operating procedures concurrently binds all parties. If disputes occur, the Identrus structure provides a well defined dispute resolution process and recourse mechanism to resolve all business conflicts.

So what else can we expect to see from financial institutions? In the coming year, financial institutions will help companies adopt products such as electronic bill payment and presentment and authentication systems. Traditional financial settlement and risk mitigation products, such as letters of credit and derivative products, will be available online in real time. Getting these products online is more than simply Webatizing a manual process. It’s taking a formerly manual process and developing complex bridges with multiple touch points from the company level down to the individual environment, allowing organizations of all size and scope to take advantage of the enormous possibilities of the Internet.