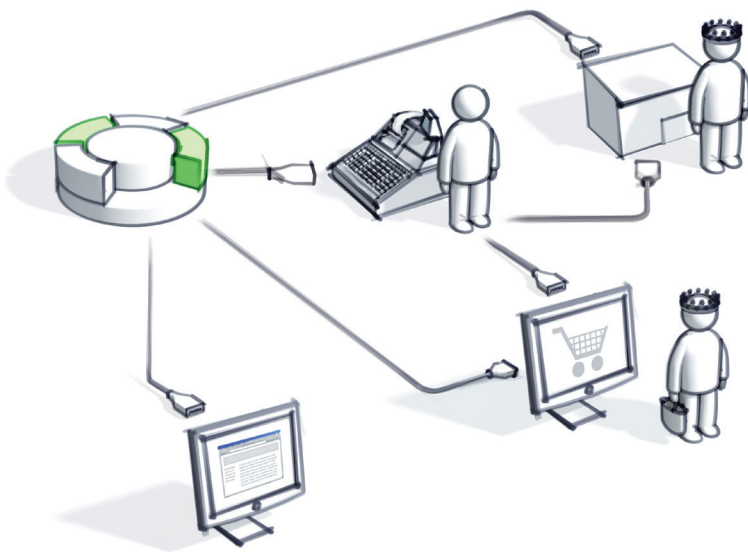


Building an ROI model to Evaluate Your B2B E-Commerce Initiative

A how to guide for manufacturers, distributors and other b2b organizations on building a financial model to assess the value of e-commerce.

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B2B companies everywhere are under heavy pressure to offer their customers and employees robust e-commerce capabilities that rival best-of-breed consumer-focused companies like Amazon.com and Dell. Whether buying books for themselves, computers for their family, or industrial parts for their employers – shoppers demand and expect the same features and performance from e-commerce systems. They want easy-to-use platforms that deliver a high level of personalization and a well-designed, intuitive interface.

B2B companies that fall short of customer expectations risk losing them to competitors who have stepped up their game. Offering a superior e-commerce experience makes excellent economic sense. There is a compelling return on investment opportunity, grounded in significant potential cost savings and increased revenues.

This paper provides a framework for building an ROI model that can be used to demonstrate the advantages of a new e-commerce implementation to senior executives and board members.

Building a B2B E-Commerce ROI Model

Before a company selects a new e-commerce platform, business stakeholders and the technology implementation team should establish a consensus on all strategic objectives.

Most companies create a business case that highlights the investment required compared to the cost savings and revenue improvements of a modern e-commerce platform. Then, they input the expected benefits into the annual budget process to ensure a full business commitment to the new commerce model enabled by the platform.

Two major categories feed into this business case and budgeting process:

- Hard cost savings such as reduced order processing costs, lower cost of goods and supplies, and increased efficiencies in sales and marketing expenses.
- Revenue gains that can be expected from increased agility, real-time updates (products, pricing) for customers, and improvements in the customer ordering experience, including self-service.

A Systematic Approach for Evaluating New Projects

Calculate the Total Cost of Ownership (TCO) of the new B2B e-commerce platform by including:

- Total one-time, purchase price of the platform
- Cost of implementing the platform
- Ongoing operating and maintenance costs
- Potential upgrade costs

Determine the business benefits (savings and improved revenues or margins).

Map the TCO against the sum of the business benefits to determine the ROI. Then, examine the five-year ROI, and evaluate the results at various levels of growth and success.

Total cost of ownership can vary widely from one platform to another. For example, the total one-time price is strongly related to the operational efficiency of the platform, because modern platforms require less hardware and a smaller license. Cost of implementation, maintenance, and upgrades is greatly influenced by architectures that are based on open standards.

Enterprises should design a customized ROI model to address the uniqueness of the industries and segments they serve, the stage of their e-commerce channel evolution, and the mindsets of the company's key executives. When building an ROI model, some companies will gravitate towards salesforce productivity and effectiveness, while others will assign more value to the associated revenue gains. The following sections address both cost and revenue considerations.



Potential Cost Savings

Entering and Servicing Orders

Perhaps the most obvious efficiency is in decreasing the cost of entering and servicing orders. In most B2B firms, order costs may range from \$50 to \$150 per order without an e-commerce system. This can drop to \$25 or less with a best-of-breed platform integrated with back office systems. These e-commerce systems can reduce lead times and manual data errors by offering self-service to customers and automatically processing orders through one or more systems.

Estimating this number is not complicated. Start with the number of minutes a sales or customer service team spends entering each order, plus the aggregated time they spend updating, editing, or otherwise reviewing an order. Then think forward to how this process could be improved with e-commerce automation in place:

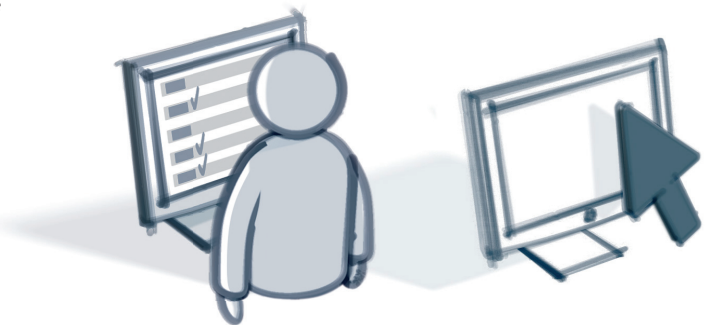
Assisted selling:

- Pre-population of order history to select from, the ability to specify or update recurring orders, and a potential for mobile ordering while at a customer site (eliminating a subsequent order entry step).

- Continuous updates of products and prices, eliminating the need for follow-up activities to adjust the order with the new information, then communicate it to the customer.

Self-service:

- Customers assume most of the burden of the order entry process, possibly supplemented by chat or call center support.
- Customers can view orders, shipping status, and make adjustments 24/7 without having to send a fax or email, or make a call.



Once these efficiencies have been achieved, an organization may choose to invest the labor savings from their sales and order entry teams into the redeployment of personnel, rather than post the savings to the bottom line. In that case, they may opt for additional revenue-generating activities.

Imagine how much more productive a sales team could be if they spent 90% of their time selling instead of 30% of their time selling and the rest of their time servicing existing orders.

Reducing or Eliminating Printing and Mailing Costs

A typical large cost savings achieved from implementing an e-commerce platform is in printing and mailing catalogs and product literature to customers. A 100-page product catalog mailed to thousands of customers can cost hundreds of thousands of dollars per year to produce and distribute.

- Reduced mailing costs alone can sometimes pay back the cost of a new e-commerce system.
- Even if a main catalog is still sent (perhaps to selected customers), updates, additions, and corrections are instantaneous and can eliminate the need to create and send addendums.

In addition to the cost savings associated with moving company product information online, B2B customers will gain a better shopping and buying experience.

Fewer Processing Errors and Reduced Lead Times

Traditional, manual order entry systems have a high potential for human error. Perhaps an incorrect discount code is entered. An invoice might be sent to the wrong customer bill-to address. Maybe the order entry team forgets to check a box for a regulatory or compliance concern. Any number of other “honest mistakes” can take place. How many hours will the order team spend on the phone with customers trying to fix these issues?

With an automated, self-service ordering environment provided by a state-of-the-art e-commerce system, the number of errors is decreased significantly. The vendor’s order entry team no longer has to serve as the middleman by inputting orders into the system of record – and they no longer have to struggle to read illegible faxes or strain to understand the regional accents of international customers dialing in on less than perfect telephone circuits.

To estimate the total value of the potential cost savings when processing errors are reduced, consider the following scenarios.

When an incorrect item or quantity is entered into an order:

- At a minimum, the seller will have to pay to ship the correct item to the customer, and they may have to absorb the cost of shipping back the incorrect item (or just write it off).

A shipment is sent to the wrong customer location:

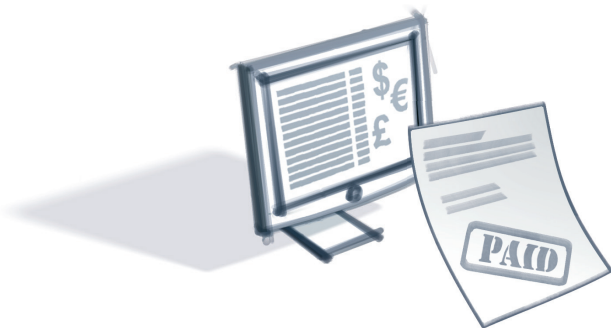
- The item will have to be returned (if economically feasible) and re-shipped to the correct location.

Incorrect orders also generate workload for the accounts receivables team:

- The reconciliation process requires time from both the seller and the buyer.

Electronic Invoicing

Electronic invoicing systems embedded in today's e-commerce platforms provide a strong level of cost savings. The ability to automatically generate an invoice the second a shipment arrives at a customer's location (and in some instances, when it the shipment leaves the seller's warehouse) can greatly decrease a company's accounts receivable days. Electronic payment processing capabilities within e-commerce platforms can also hasten access to funds, as described here:



Before E-Commerce

A customer places a \$10,000 order. The order is processed in one week and ships. The shipment takes a week to arrive. An invoice is sent to the customer and arrives in a week. The invoice winds its way through the buyer's internal mail system and is paid two weeks later by check. The check is mailed and reaches the seller in another week. The seller takes the check to bank three days later and waits a few days for the check to clear. In this scenario, the seller has access to their payment six weeks after the order is placed.

After E-Commerce Deployment

A customer places a \$10,000 order and pays via ACH on the seller's e-commerce platform. The order is processed in one week and ships. The shipment takes a week to arrive. When the goods are unloaded from the trailer at the buyer's warehouse, an ACH transaction is initiated, and the seller receives

the funds within three days. In this best-case scenario, the seller has access to their payment in two and a half weeks.

- A big benefit in this instance is the reduction in receivables balances multiplied by the cost of capital to the company.

Sunsetting Legacy Systems

Implementing a leading e-commerce platform can render a variety of legacy systems obsolete – including systems like order entry and fulfillment. These legacy solutions can be quite costly to maintain, both in terms of the technology and staffing. Many companies find that the cost savings enjoyed by sunset-ting even one legacy system will go a long way towards offset-ting the cost of funding an e-commerce platform.

Potential Revenue Gains

The potential revenue upside can be substantial. The best run companies are increasingly finding that an e-commerce business powered by a modern e-commerce platform can be essential to growing their market share. This share gain comes at the expense of less sophisticated competitors who are un-able to match the customer experience.

Increasing Customer Satisfaction

The biggest revenue gains achieved from implementing an e-commerce platform come from more satisfied customers. This rising tide occurs because customers are able to shop and purchase on their own terms. They're able to browse and purchase 24/7/365 from virtually anywhere they choose – from their office on a web browser, in their warehouse on a tablet, or on their couch at home using a smartphone.

- Customers prefer to make their purchases from online environments for increased ease and convenience, includ-ing self-service, which favors sellers who are e-commerce enabled.
- E-Commerce enabled ordering often leads to higher aver-age purchase amounts.

Saving the Sale

An agile e-commerce platform allows buyers to more easily locate substitute products for items that may be out of stock or discontinued. For example, a seller might have plenty of nine-inch bolts but may be out of the nut and washer required for a particular assembly. If an e-commerce platform can suggest a substitute bolt and washer set, more sales are likely to be made.

- The strength and agility of an e-commerce platform to recommend alternate products contribute to both larger order sizes and, in some instances, to "saving" a lost sale.
- Over time, larger orders and fewer lost sales result in lower customer attrition and higher revenues.

Targeted Selling

Another way in which companies can leverage an e-commerce platform to increase revenues is through targeted selling. E-Commerce systems excel in tailoring promotions and offers to past behaviors as well as the self-identified customer preferences.

Here's an example to consider. A customer visits a company's website powered by a leading e-commerce platform. The e-commerce platform recognizes that this customer regularly orders an industrial component at least once per quarter, and they frequently pay for expedited shipping. The platform could offer the customer a discount if they purchase two of the item or include free expedited shipping if they buy three or more of the item.

New Product Launches

E-Commerce platforms increase revenues for B2B sellers by helping them take quicker advantage of new product launches. The best e-commerce platforms allow sellers to dynamically add products at any time and begin processing orders for that item immediately. This can also greatly increase the effectiveness of promoting substitute or replacement products.

- Without an e-commerce platform, a vendor would have to alert customers by producing and shipping a new catalog or catalog addendum.
- This would cost more and would delay the company's ability to begin accepting orders for the new product.
- Without an e-commerce platform, replacement or substitute product information must be supplied by customer service reps. Otherwise, customer errors may lead to returns and their associated costs.

Salesforce Automation



Perhaps the greatest opportunity for revenue gains in implementing an e-commerce platform comes from providing the salesforce with mobile capability to interact with the platform and close sales in real-time.

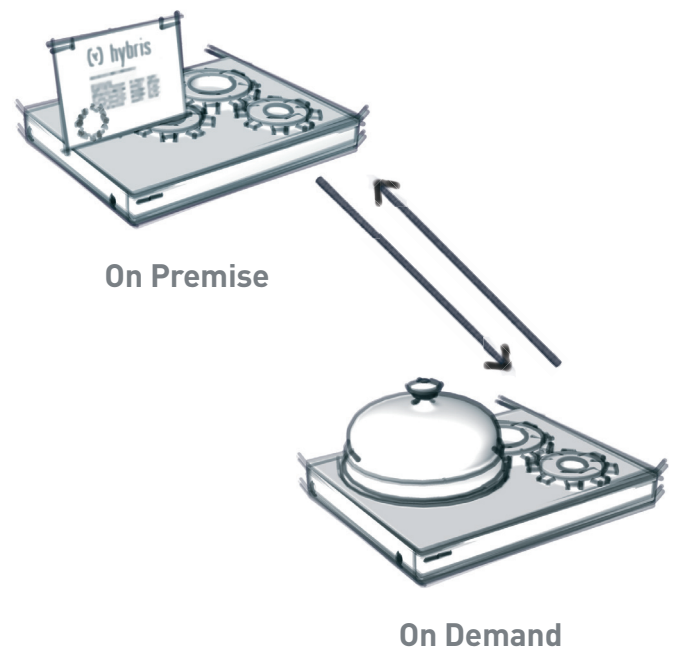
- By using the e-commerce platform, the salesforce can have more visibility into their customer's activity, and provide more effective service.
- The salesforce and customer service / order entry teams can be redeployed to more valued-added activities such as proactive selling (upselling/cross-selling).

Using Speed as a Multiplier

These cost savings and revenue boosters are impressive, but it's important to remember that speed-to-market with an e-commerce platform can act as a multiplier of these benefits. The sooner a company can start saving money and earning incremental revenues, the quicker it will be able to pay back the investment made in the platform. With this in mind, here are a few capabilities to look for in an e-commerce platform that typically lead to a speedier implementation.

Flexible Deployment Options

There is frequently a trade-off between on-demand solutions (which allow for a quicker go-to-market strategy) and on-premise solutions (that are slower to implement but can have a greater breadth and depth of functionality). Companies should choose a vendor who doesn't compromise – one who offers the same full functionality available on-demand or on-premise – with an ability to start with on-demand and then bring the same solution in-house, if desired, in the future.



Critical Features in an e-Commerce Platform

While positive ROI can usually be easily achieved, implementing the right e-commerce system is not always as simple. Every e-commerce implementation is unique, but there are several foundational capabilities that most business customers will need:

- **Real-time Pricing and Inventory** – If customers can't tell what is in stock and what is being discounted, companies won't realize the true benefit of their e-commerce platform.
- **Robust Product Information** – Customers must be able to dive deep into product details, regardless of whether they're at their desk or on a mobile device.
- **Conforming to Existing Processes** – A platform that matches existing internal processes will speed adoption and increase ROI.

- **Global Functionality** – Platforms that don't support global customers with multi-language and multi-currency capabilities leave money on the table.
- **Borrowing Consumer Features** – The most successful B2B platforms borrow heavily from the features of leading consumer platforms, such as personalization and robust search.
- **Scalability** – Prepare for success: an e-commerce platform should be able to scale without limits and go global, if and when desired.
- **Flexibility** – Select a flexible solution that provides the ability to conform to existing processes and support rapid innovation.

Feature Set and Agility

Picking the right solution requires an in-depth evaluation of a platform's feature set and capabilities. The success of a B2B system rollout is dependent on the ability to mirror internal business processes and expose them to end-users. Each business is unique, and finding the right combination of out-of-the-box features is difficult. A platform's ease of configuration to closely match internal process is an important consideration – including the ability to tailor processes and workflows, build extensions for custom functions, and maintain a clean upgrade path for future enhancements.

Out-of-the-Box Integrations

Whether an on-demand, on-premise, or hybrid solution best suits a company's needs, another way to get to market faster is to adopt an e-commerce platform that offers ready-made integrations to be used either with tools already instrumental in a company's success or those likely to be used in the near future. These may include social media tools, mobile tools, marketing tools, or analytics tools.

Optimizing the ROI Model

Customers are increasingly demanding feature-rich, high-performance shopping experiences across all of their digital touchpoints – especially their newer mobile devices. B2C companies took an early lead in satisfying these expectations, and now B2B companies are under heavy pressure to implement platforms that equal or exceed the best consumer properties.

Depending on the nature of a company's business lines, and the issues that need to be addressed by a new e-commerce system, there are a dozen or more elements that may be included in an ROI model.

By selecting and considering the right criteria, implementers can often cost-justify the entire e-commerce system, paving the way to additional expense savings and increased revenues.

→ COST SAVINGS

Core Assumptions



TOTAL SALES	SALES THAT BECAME PART OF THE ONLINE CHANNEL	AVERAGE ORDER SIZE	NUMBER OF ORDERS
\$100,000 K	\$50,000 K	\$667	74 K

Order Entry

AVERAGE # OF MINUTES SPENT ENTERING AN ORDER PRE-ECOMMERCE SYSTEM	EFFICIENCY GAINED FROM ECOMMERCE SYSTEM	AVERAGE # OF MINUTES SPENT ENTERING AN ORDER POST ECOMMERCE SYSTEMS	TIME SAVED PER ORDER	TOTAL MINUTES SAVED	FTE SAVINGS (IN YEARS)	YEARLY COST OF ORDER ENTRY PERSONNEL
60	 60%	24	36	2,698 K	22.31	\$70 K

YEARLY COST SAVINGS **\$1,561 K**

Customer Service

NUMBER OF ORDERS	% REQUIRING CUSTOMER SERVICE PRE-ECOMMERCE SYSTEM	% OF THOSE THAT CAN SELF SERVE WITH AN ECOMMERCE SYSTEM	AVERAGE # OF MINUTES OF CUSTOMER SERVICE PER ORDER	TOTAL MINUTES SAVED	FTE SAVINGS (IN YEARS)	YEARLY COST OF CUSTOMER SERVICE PERSONNEL
74962,51 K	 65%	 50%	45	1,096 K	9.06	\$60 K



YEARLY COST SAVINGS **\$543 K**

Printing Costs

NUMBER OF CATALOGS MAILED	COST PER CATALOG	COST OF POSTAGE	ADOPTION OF ONLINE CATALOGS
200 K	\$2.50	\$0.75	 50%



YEARLY COST SAVINGS **\$325 K**

Order Errors

NUMBER OF ORDERS	PRE-ECOMMERCE SYSTEM ERROR RATE	POST-ECOMMERCE SYSTEM ERROR RATE	COST PER ERROR
74 K	 5%	 1%	\$47

YEARLY COST SAVINGS **\$140 K**

Electronic Invoicing

# OF INVOICES	% THAT OPT IN FOR E-INVOICING	AVERAGE ORDER SIZE	COST OF PRINTING AND MAILING AN INVOICE	SUBTOTAL IN PRINTING / MAILING	AR DAYS PRE COMMERCE SYSTEM	AR DAYS POST COMMERCE SYSTEM	INTEREST RATE	SUBTOTAL IN AR DAYS
74 K	 50%	\$667	\$0.75	\$28 K	44	10	 1%	\$23 K

YEARLY COST SAVINGS

\$51 K

Sunset Systems


SYSTEM 1 MAINTENANCE	SYSTEM 2 MAINTENANCE	ETC
40 K	30 K	

YEARLY COST SAVINGS

\$70 K

→ REVENUE GAINS

Customer Satisfaction

SALES THAT BECOME PART OF THE ONLINE CHANNEL	% BUMP DUE TO INCREASED SATISFACTION / COMPETITIVE ADVANTAGE
\$50,000 K	 0.50%

YEARLY REVENUE BENEFIT

\$250 K

Substitute Products

SALES THAT BECOME PART OF THE ONLINE CHANNEL	% BUMP DUE MORE PRODUCT SUBSTITUTION
\$50,000 K	 0.10%

YEARLY REVENUE BENEFIT

\$50 K

More / Better Promotions

SALES THAT BECOME PART OF THE ONLINE CHANNEL	% BUMP DUE TO MORE & BETTER PROMOTIONS
\$50,000 K	 0.25%

YEARLY REVENUE BENEFIT

\$125 K

Quicker Additions to Product Catalog

SALES THAT
BECOME
PART OF THE
ONLINE CHANNEL

\$50,000 K

% OF SALES
THAT COME FROM
NEW PRODUCTS

10%

HOW MUCH MORE
QUICKLY DO
CUSTOMERS SEE
NEW PRODUCTS (% OF YEAR)

8.33%

ONLINE
CATALOG
ADOPTION RATE

50%

YEARLY REVENUE BENEFIT

\$208 K

Sales Force Automation

TOTAL
SALES

\$100,000 K

% OF SALES
FORCE TIME
THAT FREE UP

5%

SALES PRODUCTIVITY
OF SAVED TIME*

50%

* Relative to the Rest of their Time How Productive Are They in the Saved Time

YEARLY REVENUE BENEFIT

\$2,500 K

YEARLY REVENUE BENEFIT

\$5,826 K

Cost of System

SOFTWARE
LICENSE

\$475 K

PROFESSIONAL
SERVICES

\$364 K

SOFTWARE
LICENSE
ANNUAL SUPPORT

\$78 K

ANNUAL
HOSTING AND
MANAGED SERVICES

\$85 K

COST AT END OF YEAR ONE

\$1,002 K

ROI PAYBACK

63 DAYS

If you would like to receive this table in a spreadsheet format, please e-mail us at sales@hybris.com.

About hybris

hybris helps businesses on every continent sell more goods, services and digital content through every touchpoint, channel and device. hybris delivers "OmniCommerce™": state-of-the-art master data management and unified commerce processes that give a business a single view of its customers, products and orders, and its customers a single view of the business. hybris' omni-channel software is built on a single platform, based on open standards, that is agile to support limitless innovation, efficient to drive the best TCO, and scalable and extensible to be the last commerce platform companies will ever need. Both principal industry analyst firms rank hybris as a "leader" and list its commerce platform among the top two or three in the market. The same software is available on-premise, on-demand and managed hosted, giving merchants of all sizes maximum flexibility. Over 500 companies have chosen hybris, including global B2B sites W.W.Grainger, Rexel, General Electric, Thomson Reuters and 3M as well as consumer brands Toys"R"Us, Metro, Bridgestone, P&G, Levi's, Nikon, Galeries Lafayette, Migros, Nespresso and Lufthansa. hybris has operations in 15 countries around the globe. hybris is the future of commerce™. For more information, visit www.hybris.com

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