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## White Paper

### *The Economic Benefits Of Online Transaction Management and Fulfillment*

#### Introduction

According to Gartner Group, worldwide business-to-business (B2B) e-commerce revenues reached US\$433 billion in 2000 and are projected by a number of analysts to reach US\$2 to \$6 trillion by 2004. Though smaller than projections during the height of the Internet boom, these figures continue to provide evidence of the irresistible appeal of e-commerce cost savings and efficiency gains to B2B trading partners. As e-marketplaces mature and consolidate, they increasingly are looking to online transaction management, one of the newest disciplines in B2B e-commerce, to add value and deliver seamless solutions to customers.

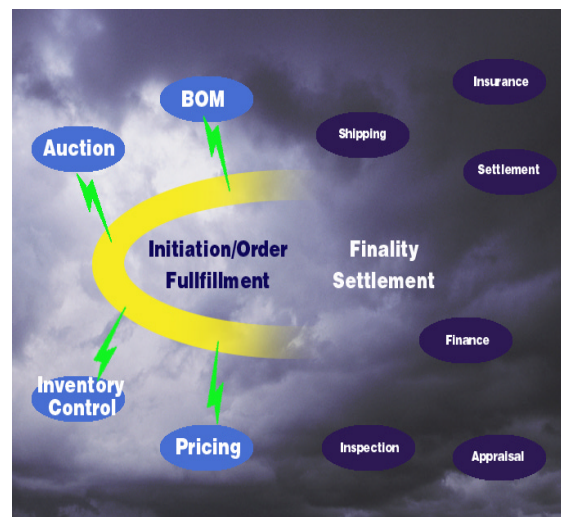
Electronic transaction management complements e-procurement and e-supply chain management to bring B2B transactions to fulfillment and settlement. Despite enormous progress to date, trading partners currently must go offline to complete this crucial step, which encompasses finance, inspection, appraisal, insurance, escrow and shipping. As a result, transaction performance suffers, and buyers and suppliers lose out on much of the cost savings and efficiency gains that they had hoped to achieve through e-commerce.

CocoCommerce's eNetSettle seeks to close this loop in functionality and efficiency by enabling commercial trading partners to manage B2B transactions entirely online – from transaction agreement to fulfillment and settlement.

This white paper illustrates this process and demonstrates the economic value of online transaction management on both a transactional and enterprise level.

#### What is Transaction Management?

Transaction management represents a chain of processes that settles complex transactions – typically between commercial trading partners – on a financial



and legal basis. Without it, no transaction is ever completed or “booked” by either buyer or seller.

Logically and functionally, transaction management corresponds with front-end supply chain management and procurement processes managed by the systems from such companies as Ariba, CommerceOne and PurchasePro.

eNetSettle integrates with these systems on a number of levels to enable complete online transaction management for B2B trading partners.

### **Transaction Analysis**

This White Paper will focus on a recently completed medical equipment transaction processed on Cocoexchange.com Marketplace, a rent and lease e-marketplace built by CocoCommerce to study the implications of e-transaction management. The transaction involved the lease of a \$500,000 magnetic resonance imaging (MRI) machine by a medical center from a large medical equipment manufacturer. Both buyer and seller managed the process from ordering to settlement online and allowed CocoCommerce to document the results.

#### *Methodology*

Cocoexchange worked with both parties to detail the transaction and track cost savings and efficiency gains at each step.

The key phases to completing this transaction included:

- MRI equipment procurement
- Shipping and ownership insurance
- Equipment storage
- Shipping
- Installation
- Lease financing
- Independent equipment appraisal
- Construction of installation facility
- Rigging
- Maintenance

Cost-saving calculations are based on the following criteria:

- Buyers
  - Cost of goods and services
  - Cost of project management labor
  - Reduced trade cycle duration
- Sellers
  - Inventory carrying value
  - Time value of money
  - Cost of project management labor
  - Reduced trade cycle duration

Comparisons for online and offline processes are based on actual transaction tracking on Cocoexchange.com Marketplace, as well as self-reported estimates from the buyer and seller for traditional offline processes to complete the same transaction manually.

#### *Key Findings*

Based on a side-by-side comparison of online and offline methods to complete a \$500,000 MRI lease, the results demonstrate significant efficiency gains for both sides of the transaction.

Transaction Efficiency Gains	Buyer	Seller
▪ In Project Management Labor	\$24,000.00	\$8,500.00
▪ In Goods & Services Purchased	\$33,000.00	
▪ In Inventory Carryover Value		\$6,500.00
Total	\$57,000.00	\$15,000.00
As a percentage of transaction value	11.4%	3.0%
Trade cycle reduction (120 to 90 days)	25%	25%

The calculations are based on lower goods and service costs, as well as lower labor and inventory costs. These savings are pegged to estimated project management labor loaded rates of \$85 per hour and a one percent per month inventory carryover value. Labor costs include project management, installation management, status reporting, clerical support, paper handling and filing, mail and reduced travel, while inventory carryover value reflects the all-in cost of inventory maintenance, an average figure for large-ticket items.

Importantly, none of these efficiency gains reflects supply chain management or procurement savings. Efficiency gains were derived from construction, finance, shipping, installation and rigging.

## Conclusion

While the efficiency gains produce noticeable value on both sides of the transaction, the most significant impact occurred at the enterprise level of publicly-traded. This is particularly true since all of the efficiency gains would drop straight to a company's bottom line and amplify shareholder value for publicly traded companies by a multiple of that figure.

In the case of the seller, for instance, a \$15,000 savings derived from process management and inventory costs per MRI machine sale translates into a potential annual bottom-line benefit of \$30 million. The following represents the value creation process of online transaction management for the seller as it relates to its overall Cost of Goods Sold (CGS):

MRI Revenue	Average Selling Price	Units Sold	Savings Per Transaction	Annual Savings
\$1 billion	÷ \$500,000	= 2,000	x \$15,000	= \$30 million

Additionally, the 25 percent reduction in the trade cycle would significantly improve organizational efficiency and enable the manufacturer to take advantage of 90 extra days of selling and processing equipment per year. Even if the company could realize a fraction of this additional capacity through expanded sales efforts, it could expand its operating margin and bottom line significantly.

Similarly, the buyer saved a significant amount (\$57,000) in direct and indirect costs as a percentage of the cost of goods purchased. The savings derived primarily from more efficient process management and lower value-added service costs. The buyer also gained access to a fully-operational MRI machine – and its revenue potential – 30 days sooner.

## Implications

Industry-wide cost savings estimates for e-commerce range from 2-16 percent of CGS. These savings encompass front- and back-end transaction processes and are derived from lower prices and processing costs, as well as increased revenues, margin, or new Web-based services. Virtually no one, however, has realized the full benefits of e-commerce efficiencies because of the relatively immature state of online transaction management and fulfillment systems.

As this case study illustrates, e-transaction management brings the potential benefits of B2B transactions a large step closer to its widely advertised – and ultimately realistic – potential.

With even a two percent reduction in CGS, a figure projected by Ernst & Young in a 2001 study, companies can realize double-digit increases in net income and add significantly to shareholder value using e-transaction management systems. The following table illustrates the potential impact of a two-percent CGS savings on three potential early adopters of e-transaction management: Sanmina Corporation, a large electronic components manufacturer, Eaton, a leading car and truck parts maker, and Georgia-Pacific, one of the biggest forest and paper companies in the world.

Estimated Benefits From eNetSettle	Sanmina	Eaton	Georgia-Pacific
▪ Fortune Magazine Ranking	426	213	84
▪ Fiscal Year Ending Data	2000	2000	2000
▪ Cost of Goods Sold (CGS)	\$3.1 bil	\$5.6 bil	\$17.3 bil
▪ Estimated CGS Efficiency Gains	2%	2%	2%
▪ CGS Efficiency Gain Value	\$63 mil	\$113 mil	\$346 mil
▪ Fiscal Year End Net Income	\$330 mil	\$552 mil	\$553 mil
Corporate Fiscal Impact*			
▪ Net Income Before Taxes	19 % ↑ Profit	20 % ↑ Profit	62 % ↑ Profit
Shareholder Value Impact*			
▪ Market Cap	\$6.1 bil	\$5.1 bil	\$8.3 bil
▪ Shareholder Value Created	\$1.2 bil	\$1.0 bil	\$5.1 bil
▪ Increase in Shareholder Value	19%	20%	62%

\*Based on Net Income Multiples as of 8/27/2001