B2B e-Commerce Transaction Fees in a World of $60 Oil

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In upstream oil & gas, operators and suppliers are implementing electronic invoicing as part of a B2B e-commerce strategy to reduce costs. Paper invoices can cost as much as $25 to produce and process, while electronic invoicing can reduce that cost to $4[1]. Who should pay for such a cost-saving strategy? When oil is $140, nobody cares. When oil is $60, everybody cares.

Direct Integration vs 3-Corner Model or 4-Corner Model

While some large suppliers may send electronic invoices directly to the larger operators, typically there are one or more intermediaries, networks, or service providers in the middle. The direct model does not involve 3rd party transactions fees. Each trading partner pays his own share. Each trading partner mows his yard up to his property line, so to speak.

In the 3-Corner Model, one party (usually the operator) utilizes a 3rd party service provider to receive supplier invoices, transform them into the operator's preferred format and load them into the operator's AP system. The 3rd party may provide other services, such as automatic price validation against a previously approved price sheet. The 3-Corner Model is the most common.

With the 4-Corner Model, both supplier and operator hire their own 3rd party service provider to facilitate the electronic invoice process. Much like the direct integration model, each trading partner pays his own share.

Of course, the 3rd party service providers charge for their services. While some also charge transaction fees to suppliers, most only charge the operator who hired them. But should the operator pay the price for a process that reduces costs for both the supplier and the operator?

The Case for Operators Paying for the Services of the 3rd Party

By using a 3rd party service provider as a gateway for incoming electronic invoices, the Operator only needs to manage a single integrated connection to that 3rd party, rather than multiple connections to multiple suppliers. Invoices from small, medium, and large suppliers can all be presented to the Operator in the same manner and format, further simplifying the Operator's processes. These savings should easily justify the cost of the 3rd party service provider..

1 https://www.beanworks.com/blog/does-it-really-cost-25-to-process-and-pay-a-vendor-invoice/

Large Operators
Large operators, including oil majors and national oil companies, do business with a large number of suppliers. Even though they probably have the IT capabilities to receive electronic invoices directly from all suppliers, a 3rd party can streamline the process and reduce costs.

Small Operators
Many small operators, such as those active in unconventional oil and gas, may not have the IT capabilities to support fully integrated electronic invoicing. It is a requirement to do business with their preferred suppliers. In these cases, hiring a 3rd party service provider is not optional.

The Case for Suppliers Paying Fees
Both supplier and operator share in the cost savings associated with implementing an electronic invoice process. It is reasonable that both share in the cost of such a process.

Large Suppliers
Many large suppliers take the position that they will not pay transaction fees to service providers hired by operators. ***In real life, they do pay transaction fees, but through a third party so it is not disclosed***. Large suppliers are much more concerned about other aspects of B2B transactions, such as data ownership and confidentiality. Sharing transaction fees is much more acceptable if suppliers know their sensitive pricing information is protected. Operators may be concerned that suppliers will charge back the fees in the form of higher service prices, but large suppliers are already charging every dime they can, especially at $60 oil.

Small Suppliers
The concern with sharing transaction fees with small suppliers is simple. Small suppliers say they can't afford the fees. The reality is they can't afford to lose business. They benefit greatly from electronic invoicing which reduces Days of Sales Outstanding (DSO), improving cash flow.

Let's Sum It Up
Operators can choose to pay the 3rd party transaction fees for B2B e-commerce transactions. Using a 3rd party service provider does benefit the operator. It also benefits the supplier through reduced costs, decreased DSO, and improved cash flow. Operators should consider asking suppliers to pay for the benefits they receive.