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FEDERAL TRADE COMMISSION

PUBLIC WORKSHOP:

COMPETITION POLICY IN THE WORLD  
OF B2B ELECTRONIC MARKETPLACES

THURSDAY, JUNE 29, 2000

VOLUME 1

Reported By:

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## P R O C E E D I N G S

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3 CHAIRMAN PITOFSKY: Good morning, everyone.  
4 I'm Bob Pitofsky from the Federal Trade Commission  
5 and I'm delighted to have this opportunity to  
6 welcome you to the FTC's workshop on competition  
7 policy in the world of B2B electronic marketplaces.

8 During the next two days, we will bring  
9 together over 60 industry leaders, practitioners,  
10 academics and consumer representatives to share  
11 information and address questions about B2B  
12 electronic marketplace. These sessions are  
13 certainly topical and this turnout kind of supports  
14 that view.

15 Hardly a day goes by without the  
16 announcement of new plans for a major B2B electronic  
17 marketplace. I saw in the New York Times, I think  
18 yesterday, that \$336 billion is now exchanged on B2B  
19 electronic marketplace activities, and that will  
20 increase to \$6 trillion by 2005. That's my  
21 definition of a growth sector of the economy.

22 We've worked -- we view this work -- this  
23 workshop as an important opportunity to advance the  
24 state of understanding of B2B electronic  
25 marketplace. We know there's a tremendous --

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1     there's a potential for tremendous efficiency in  
2     these arrangements, and we'll be devoting  
3     considerable time to better understanding the  
4     sources and the magnitudes of these efficiencies.

5             We also know that in theory, some of these

1 efficiencies defense in merger analysis.

2           We return today to electronic commerce  
3 issues. At this time, from the perspective of  
4 maintaining competition, rather than consumer  
5 protection, there is a growing number of B2B  
6 electronic marketplaces, some in operation, many in  
7 the planning stage. Some work within one industry,  
8 some operate across industries, and they use a wide  
9 mechanism of mechanisms and structures.

10           Because of this diversity, we have  
11 structured the workshop to facilitate discussion  
12 from a variety of perspectives. Buyers, suppliers,  
13 owners and operators of the marketplace and so  
14 forth.

15           The first panel will address B2B electronic  
16 marketplaces and how they work, then each of the  
17 next three panels will examine issues from one of  
18 the perspective -- from one of these different  
19 perspectives: Seller, buyer, owner/operator. A  
20 fifth panel will concentrate on likely future  
21 developments, and a final panel will focus directly  
22 on competition policy implications.

1 contributing their time and their energy, often  
2 traveling great distances to share their experience  
3 and all of us look forward to an enlightening two  
4 days. Now I would like to turn the podium over to  
5 Susan DeSanti, director of policy planning at the  
6 FTC, and one of, if not the principal, driving force  
7 to organizing this extraordinary event. Susan?

8 (Applause.)

9 MS. DeSANTI: Thank you, Chairman Pitofsky,  
10 and thank all of you for joining us for this  
11 workshop. At the very outset, I would like to thank  
12 the countless people who have helped all of us at  
13 the FTC begin to understand the still-developing  
14 phenomenon of B2B e-marketplaces.

15 I'm particularly grateful to the panelists  
16 who will be here today and tomorrow as well as to  
17 the many other businesspeople with whom we have  
18 begun discussing these issues. We are looking  
19 forward to an ongoing dialogue and we appreciate all  
20 of their time and energy.

21 I also want to thank the many people within  
22 the FTC, as well as those at our host site, the  
23 Department of Agriculture, who have worked so hard  
24 to put this workshop together. I especially want to  
25 thank my staff in policy planning who have worked

1 with creativity and dedication to put this workshop  
2 together, and Mike Antalics, deputy director for the  
3 Bureau of Competition at the FTC who was the one who  
4 had the first idea to hold this workshop.

5 So, why are we here? Our goal for this  
6 workshop is to lay the foundation for understanding  
7 how best to answer traditional antitrust questions  
8 in the context of new B2B technology that it is  
9 driving the re invention of business on a global  
10 basis. B2B marketplaces, just like more traditional  
11 marketplaces, have the potential to raise  
12 traditional antitrust questions, just as the  
13 chairman mentioned.

14 For example, some B2B marketplaces allow  
15 information exchanges among competitors, some  
16 involve collaboration among competitors. Now,  
17 information sharing and collaboration among  
18 competitors may be procompetitive, may be  
19 anticompetitive, it all depends on the factual  
20 circumstances, but that fact alone doesn't answer  
21 why we're here.

22 Literally hundreds, perhaps thousands, of  
23 joint ventures among competitors are joined each  
24 year under the guidance of experienced antitrust  
25 counsel. The federal antitrust agencies in April of

1 this year just issued new antitrust guidelines for  
2 antitrust collaborations among competitors to  
3 provide additional guidance in this area.

4 So, why have a workshop about B2Bs, what is  
5 new here? And we believe the answer is technology.  
6 The technology that underlies B2B marketplace and  
7 its potential for reinventing business processes are  
8 relatively new. All of what it can and cannot do is  
9 not yet clear. Nor is it clear what all of its  
10 capabilities will mean for business transactions.

11 What is clear, is that B2B marketplaces have  
12 the potential to generate remarkable savings. Those  
13 savings can enable businesses to operate more  
14 efficiently and to provide lower prices to, and  
15 greater innovation for, consumers. Antitrust policy  
16 takes those savings into account, so it's important  
17 to understand them. And this is especially true in  
18 those cases where savings arise because the new  
19 technology underlying B2B marketplaces can make  
20 markets more, not less, competitive.

21 So, we are here because we need to develop  
22 the best understanding possible of how to answer the  
23 long-standing traditional antitrust questions in the  
24 context of this new technology.

25 The process of advancing that understanding



1 must be ongoing, just as B2B marketplaces themselves  
2 continue to develop. Many of the businesspeople  
3 with whom we have spoken have said Look, you are  
4 really in the top half of the first inning, or  
5 perhaps more accurately, reflecting Internet time,  
6 this is the first few yards of the hundred-yard  
7 dash.

8           We understand that this is an evolving  
9 marketplace, we hope today's and tomorrow's workshop  
10 will lay the foundation for an evolving  
11 understanding, on our part, of those marketplaces,  
12 the wide variety of models for them, how and what  
13 kinds of efficiencies they generate, and ultimately  
14 their potential effects on competition.

15           It's only through that kind of an  
16 understanding that we can do the best job possible  
17 of assuring that B2B marketplaces realize their  
18 promise for businesses and consumers.

19           Now, before we begin, I would like to  
20 briefly set the stage by reviewing a few basic  
21 concepts that I think may be helpful to keep in  
22 mind. And I do this for those of you in the  
23 audience who may be, as we were in policy planning  
24 about eight weeks ago when we started working on  
25 this workshop, complete and utter novices. We have

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1 found that it is very helpful to have a few key  
2 concepts in mind, so I am just briefly going to  
3 review them for you and then we will get started  
4 with the workshop themselves.

5 I do this with some trepidation, because  
6 some of these concepts have multiple definitions,  
7 but let me give you some rough guides to keep in  
8 your head to help you find a framework for  
9 understanding all that we're going to be talking  
10 about in these next two days.

11 First, a couple of historical precedents.  
12 B2Bs arise in the context of something called ERP,  
13 or enterprise resource planning, and a related  
14 process called MRP, or materials requirements  
15 planning. And these computer systems have been used  
16 by some companies internally, within the company, to  
17 keep track of the products that a company must buy  
18 in order to meet its production schedules.

19 Electronic data interchange, something else  
20 you may refer to -- here referred to, EDI, is a  
21 system that has provided computerized documents  
22 through which businesses can exchange the  
23 considerable information that B2B transactions  
24 require.

25 For example, EDI is currently used by some

1 large companies to transmit electronic forms such as  
2 purchase orders between buyers and sellers. Now  
3 enter B2B e-marketplaces, which potentially  
4 represent a quantum leap beyond these existing  
5 technologies.

6 At its most basic level, B2B commerce refers  
7 to online transactions between one business  
8 institution or government agency and another. There  
9 are software systems that allow multiple buyers and  
10 sellers to carry out sales and procurement  
11 activities over the Internet. In their first  
12 iteration, B2B marketplaces are basically about  
13 taking one or more standard business practices, such  
14 as searching for, identifying, negotiating with,  
15 ordering and receiving from, and then paying an  
16 input supplier. And taking that process and putting  
17 it all online, or some portion of that process and  
18 putting it online.

19 As we're going to hear today, B2Bs have the  
20 potential to expand into many other areas as well,  
21 such as, for example, coordinating the design of a  
22 product between a supplier and a customer.

23 Now, to understand how B2Bs may create these  
24 remarkable savings that we're all hearing about, it  
25 helps to understand the types of goods that

1 businesses buy and sell. Basically, commerce  
2 between businesses involves two broad categories of  
3 goods and services, operating and manufacturing  
4 inputs. Operating inputs, also known as indirect  
5 materials, are used for maintenance, repair or  
6 operation, also known as MRO, another acronym you  
7 may hear, and they do not become part of the  
8 finished product.

9 Now, the purchases of indirect materials  
10 typically account for a large number of  
11 transactions, but a relatively lesser dollar value  
12 for each transaction.

13 Direct materials, by contrast, are raw  
14 materials or components used directly in the  
15 manufacturing process. They typically account for  
16 fewer transactions, but the dollar value of each  
17 tends to be much greater. Moreover, direct  
18 purchasing tends to be a specialized function,  
19 whereas the purchasing of indirect materials may be  
20 fairly widespread within an organization.

21 Things like this matter for which B2B  
22 solution or type of marketplace, best fits what a  
23 company needs. There are a variety of mechanisms  
24 for price determination, catalogs, auctions, and  
25 exchanges that you're going to be hearing about

1 today, and there's one final terminology issue that  
2 I want to address.

3           In the antitrust world, horizontal and  
4 vertical have particular meanings. They have

1 in this area. And there are any number of  
2 companies, including other panelists, who would be  
3 equally well positioned to give us very valuable  
4 presentations, and many others who could have been  
5 candidates for the panels.

6 In putting together these panels, as the  
7 Chairman noted, we have aimed to cover diverse  
8 viewpoints and to provide a sampling of different  
9 types of companies, big and small, in different  
10 industries, different types of marketplaces, et  
11 cetera.

12 But I just want to note, there are any other  
13 number of companies that would be equally wonderful  
14 in making these presentations and discussions on  
15 these panels.

16 Number two, precisely because we have so  
17 much to cover, and relatively little time to cover  
18 it, we're going to keep the record open in this  
19 proceeding. And I would encourage all of you, or  
20 any of you, who have more that you want to  
21 contribute, or if you feel -- inspired after these  
22 two days to add something, to disagree with  
23 something, you think there's an important point  
24 that's been missed, please send us a written  
25 statement, short or long. The website at

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1 www.FTC.gov contains press releases that show you  
2 the procedure for doing that, but we are really in  
3 trying to encourage as diverse a set of observations  
4 in this area as we can find, so we would be happy to  
5 keep the record open and take more written  
6 statements.

7           Okay, now about some ground rules. Other  
8 than the four presentations this morning, we will  
9 have panel discussions, and we have a lot to cover,  
10 and so many panelists with so much to offer, so we  
11 are going to run a very tight ship. We will start  
12 on time.

13           The moderator of each panel will control who  
14 speaks when. We've asked all the panelists to be  
15 short and to the point in their remarks. If you  
16 would like to be recognized, please tip your name  
17 plate up vertically.

18           In terms of you in the audience, a couple of  
19 things to be aware of. When we break for lunch, or  
20 at any other time, please do not leave valuables in  
21 this room, it's not being guarded. Also, you will  
22 need your name tag at all times in this building.

23           Finally, we're going to deviate somewhat  
24 from the written schedule for this morning. We're  
25 going to start with all four presentations in a row

1 and then we'll have a short stretch break, it will  
2 only be about three minutes, while we set up for the  
3 discussion up on the stage.

4           These four presentations are designed to  
5 give all of us some common understandings, and we  
6 are all starting at some basic level together, in  
7 understanding varieties of B2B marketplaces and the  
8 kinds of things they can do. The presentations will  
9 focus on the building blocks, if you will, for  
10 understanding something about this area.

11           We're fortunate to have as our first  
12 presenter Rob Tarkoff, who is general counsel and  
13 senior vice president of corporate development for  
14 CommerceOne. CommerceOne is a leader in global  
15 e-commerce solutions for business, and we've asked  
16 Rob to provide us one of the basic building blocks  
17 here focusing particularly on catalog-type  
18 purchases. Rob?

19           MR. TARKOFF: Thank you very much, Susan.

20           On behalf of CommerceOne, I would like to  
21 thank Chairman Pitofsky and Susan for inviting us to  
22 present today. I would also like to thank Susan's  
23 staff, who I have finally figured out is the next  
24 hardest working group in the world, next to  
25 e-commerce executives, and so I really appreciate



1 what you've done to put this thing together.

2 First I have to, I think, make the standard  
3 disclaimer statement, which is that speaking today,  
4 I speak on behalf of CommerceOne, as an officer of  
5 CommerceOne, and not on behalf of any of the  
6 exchanges that we're involved with. So, you know,  
7 what I'm talking about today is really how we at  
8 CommerceOne see the world of B2B e-commerce.

9 I just want to make one comment as a  
10 starter, and that is Susan gave you a brief analysis  
11 of some of the terms that are used today, and we  
12 typically call that drinking from the fire hose,  
13 because in e-commerce, there's an entirely new  
14 language.

15 In fact, the first meeting I was ever at,  
16 somebody started talking to me about piping EDI  
17 transactions through XML into an MRP system from  
18 another ERP system so they could get the right  
19 output to put into the supplier's order entry  
20 system. And unless you grew up in a manufacturing  
21 world, those were all foreign terms to me as well,  
22 and that's so I'll try to keep as many of those out  
23 of the presentation.

24 What I am going to do very quickly is just  
25 give a brief overview of what I really think are the

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1 fundamental building blocks of B2B e-commerce, and  
2 that is the automated purchase. I have with me  
3 today Alvin Zaad, a senior sales engineer from  
4 CommerceOne who will do a quick demo.

5 So, with that, I will turn over here to the  
6 slide projector. Can I get the mike turned on here?  
7 Is that -- can everyone hear me? Okay, great.

8 One of the things that we talk about when we  
9 talk to people about the promise of e-commerce is we  
10 say that what it's really about, and B2B e-commerce  
11 in particular is really about, making it possible  
12 for businesses, their suppliers and their buyers to  
13 trade from anywhere at any time with anyone. This  
14 is really about creating automation for the  
15 processes that have traditionally governed the way  
16 that companies purchase.

17 One of the most interesting things about B2B  
18 e-commerce is not only its enormity in terms of how  
19 many businesses and people within an organization  
20 that it touches, but also just the relative size of  
21 the market going into the future when compared with  
22 other things that we traditionally see, like  
23 business to consumer e-commerce.

24 GartnerGroup actually predicts that by the  
25 year 2004, there will be \$7.3 trillion worth of B2B

1 e-commerce. Can we just stop and think about that  
2 for a minute, it's an enormous market that we're  
3 talking about, an enormous transformation in the  
4 processes that have traditionally governed  
5 industrial companies.

6 One of the things that I think is the most  
7 important thing to think about as we start this  
8 conference is that today, industries must adapt to  
9 this new economy model. They're going to have to  
10 historically turn back-office functions, the  
11 purchasing manager, who used to just be the guy who  
12 sat in the back and sifted through the purchasing  
13 catalogs, and really turn those functions and those  
14 people into the strategic change agents of the  
15 company.

16 Business units are going to have to start to  
17 rethink the fundamental ways they just do purchasing  
18 and selling, because it's all changing today, and if  
19 you're not deploying the right technologies and the  
20 right services, you can't be efficient as a  
21 business.

22 And finally, it's going to create new  
23 business opportunities, new business opportunities  
24 for suppliers, who previously couldn't access these  
25 markets because they didn't have enough money to buy

1 the expensive technology that had to be implemented  
2 into these systems.

3 Our vision, just real briefly, is to bring  
4 the same ease of use to B2B e-commerce that exists  
5 with B2C. We want to make it easy to search, to  
6 buy, to fulfill and to do all the processes that are  
7 traditionally associated with purchasing within an  
8 organization. We want to create an infrastructure  
9 to allow multiple participants to be able to  
10 participate in e-commerce, without having, again, to  
11 install expensive systems into their industries.

12 Fundamentally, what business to business  
13 e-commerce improves is the existing business  
14 process. Today, so many of the ways in which  
15 purchasing managers and individuals within companies  
16 buy is really based on paper catalogs, fax, and  
17 email. This is really not what we consider to be  
18 e-commerce.

19 E-commerce is about taking your purchasing  
20 people in a company and focusing them on strategic  
21 activities, like finding the best way to drive  
22 efficiencies to their customers. And the only way  
23 to do that in many of these companies where the way  
24 in which they really have to focus on profit is by  
25 cutting costs is to automate traditionally manual

1 processes. Buying and selling, as I have said,  
2 becomes a strategic activity, allowing companies to  
3 have access to multiple tiers of suppliers and  
4 customers.

5 The final analysis on all this is that we  
6 believe when B2B e-commerce is deployed  
7 appropriately and the right technologies are brought  
8 to the organizations, it ends up creating real  
9 savings and efficiencies for the consumer.

10 So, with that, I'm going to turn it over to  
11 Alvin here, who is going to do a demonstration of a  
12 basic catalog purchase from a buyer coming in from  
13 an organization to a supplier whose catalog is on  
14 their system. Alvin?

15 MR. ZAAD: Thanks. Good morning, ladies and  
16 gentlemen. I'm going to take you through a simple

1           So, I'm going to actually have to sit down  
2 to do this. This is going to be running a live  
3 demo, so you will probably hear me, but you won't  
4 see me.

5           In this case, I am going to play the role of  
6 a fictitious employee and his name will be Alex  
7 Medina. So, I am actually going to go in and log in  
8 as Alex Medina. So, I am going to log in as Alex M.  
9 Hit enter. You can see now that I have a selection  
10 of menu choices that I can use. The first thing  
11 I'll show you is that Alex is actually part of New  
12 York headquarters and he belongs to a company, a  
13 fictitious company called Global Electronics.

14           So, Alex can do a number of things, and I'll  
15 just quickly take you in and show you a profile of  
16 what Alex's user ID looks like. So, when I go into  
17 the screen, I know this is difficult for you to see  
18 probably at the back, I will use my mouse as the  
19 pointer, as I don't have a laser point, this will be  
20 easier.

21           But you can see that my use ID is Alex M.  
22 and I have a maximum spending limit of \$250. That  
23 means I have the authority of my company to go out  
24 and spend \$250 without anybody approving it. That's  
25 a good deal. I like spending money.

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1           You can see there that when I spend more  
2 than \$250, I actually have an approver by the name  
3 of Tonya House, so she has to approve anything I do  
4 electronically, if I spend more than \$250.

5           There's a number of other things that I can  
6 do is delegate my authority when I am maybe on  
7 vacation and change my preferences, but we won't go  
8 through all of this, I'm just going to keep it at a  
9 high level.

10           So, I log off, I'll log back in as Alex  
11 Medina, and you can see now I have some menu options  
12 where I can go in and create what we call a purchase  
13 requisition. I am now Alex M. and I am a purchaser  
14 in the organization and I want to buy something. I  
15 may also have the authority to approve some  
16 transactions, if I have that capability, in this  
17 case I do. And I can also look at status of past  
18 orders, and I can also receive items when they're  
19 shipped to me.

20           So, I'm going to take you through a simple  
21 scenario where I actually create an order, so that  
22 means that I'm going to buy something. I'm going to  
23 spend some money.

24           So, I'm going to click on create new  
25 requisition, and this takes me in to a very

1 important screen, in fact the essence of probably  
2 the entire system that runs this. But what we have  
3 here in the area down below where it says "catalog,"  
4 is actually a multiple supplier catalog. This means  
5 that multiple suppliers, as many suppliers as  
6 possible, have submitted their catalog to us in some  
7 kind of a format, some kind of an electronic format,  
8 which we have taken and converted to a standard.  
9 And we've tried to use what we call an industry  
10 standard, in this case, something called the United  
11 Nations Standard Products and Services Code. So,  
12 we've taken all of these suppliers' products and put  
13 them into categories which makes it easier for  
14 buyers to go in and search for them.

15 Now, in this case we have a number of  
16 different categories, not all the categories that  
17 are out there, and in this demo scenario, I believe  
18 we have nine or ten suppliers who have their  
19 catalogs on the system. So, some of these  
20 categories from top to bottom would be cleaning  
21 equipment, communications equipment, and so on.

22 And you can see that most of these items  
23 would be what we would call indirect items or what  
24 Susan referred to earlier is an MRO. So, we're  
25 doing an indirect type of purchase in this scenario.



1 So, one way Alex can find things is to browse this  
2 catalog, or drill down through the catalog. And in  
3 this case, I'll go into laboratory measuring and  
4 testing equipment and click on that. And you can  
5 see that takes me down to another category, or  
6 another level within the category of this catalog,  
7 to laboratory equipment and measuring equipment.

8 So, I will click further to get through  
9 laboratory equipment, and you can see I have a  
10 number of laboratory items there that I can go  
11 another further level down, until I actually get to  
12 the items. So, I'm going to click on laboratory  
13 heating and drying equipment. We go down one more  
14 level to gas burners, hot plates and mantels, and  
15 I'll click on the hot plates.

16 Once I click on hot plates, you can see that  
17 I now have a number of items. This is the lowest  
18 level in the catalog that I can get to, and if you  
19 can see this, it's very small letters, it says it's  
20 displaying one to ten of ten. So, I have ten items  
21 in this particular case that I can look at.

22 Each of these items tell me an item  
23 description, who the manufacturer is, what the unit  
24 price is, some actions I can take on these, such as  
25 adding them to my shopping basket, who the supplier

1 is, the supplier part number, and manufacturer.  
2 These are the items that were supplied to us by the  
3 supplier and put into a standard format.

4           So, in this case, we'll make it simple,  
5 assume maybe the very first item is the one I might  
6 want to buy. What I can do is click on the blue  
7 text, which will actually take me into a picture and  
8 a description of what it is that I might want to be  
9 buying.

10           So, in this case it says semirack top hot  
11 plates, gives a description of the item, and also  
12 attaches a picture as well. And you can see here  
13 that where it says picture, I could also go have  
14 this detached to maybe go to the supplier's website  
15 or maybe there would be a material safety sheet

1           So, you can see here now it says line item  
2 count says one, and it gives me the total of the  
3 item, including estimated tax. And I also have a  
4 requisition name, in this case it's Alex Medina, it  
5 picked up this number automatically.

6           So, I have now added one of these hot plates  
7 to my shopping cart and I am going to say close  
8 this. That's one way that the buyer can go in and  
9 search the catalog to look at suppliers.

10           One other way is to actually do some  
11 searches, you do a keyword search. Assuming the  
12 buyer knows what they want to find and to get down  
13 to it quicker they might search on a keyword. I'm  
14 going to use an example here and search on something  
15 called UPS, which is not the United Parcel Service,  
16 it's actually an uninterruptible power supply or  
17 power source.

18           So, I'm going to click in the word UPS and  
19 click on find. You can see how this is very similar  
20 to some of the B2C experiences you may have had  
21 searching through Yahoo or Amazon.com or something  
22 like that. So, when I clicked on UPS under the item           late7 d

1 scroll through the pages by going from 1 to 10 to  
2 20. I'm going to just scroll to the very last page  
3 and now I'm down to item number 46 at the end where  
4 it says it's a smart UPS.

5           Again, if I click on the blue text, you can  
6 see that it will bring me up with a description and  
7 a picture of what the item is. So, I'm going to say  
8 that I also want to buy maybe two of these power  
9 supplies, click on close. And you should see my  
10 line item control count at the bottom now move up to  
11 be two items instead of one.

12           What happened there? Whoops. Okay, we'll  
13 go back and do that again. So we don't lose you.

1           So, we've got something down here called  
2 services at the bottom of this catalog. I'm going  
3 to click on services. It takes me to a number of  
4 items that might be a service type of item, business  
5 cards, catering. I'm going to click on the business  
6 cards, which is a simple one. That means if I'm  
7 Alex in the company and I need to order my business  
8 cards, I don't have to go through and create a bunch  
9 of paperwork and get approvals, I can just go right  
10 into my catalog, click on the business cards, you  
11 can see what the business card's going to look like.

12           When I go to add this to my catalog, it  
13 automatically brings me up a form that I have to  
14 complete. In other words, I can put my name in  
15 here, my business title, et cetera, it will have my  
16 company's logo on it already. And once I fill in  
17 all that information I can just continue and submit  
18 it. And you can see down below my line item count  
19 has now gone to three.

20           So, I've bought everything that I think I  
21 want to buy in this particular case and now I'm  
22 ready to do a checkout, again, much like a B2C. It  
23 gives me my last chance to review my shopping cart.

24           So, I click on checkout, this gives me a  
25 chance to review my shopping cart, you can see I'm

1 going to buy one hot plate, two UPSs and one set of  
2 business cards. And for each of these line items, I  
3 can go in and look at particular information, such  
4 as line item detail, what is my billing address,  
5 where do I want this sent to, where do I want the  
6 bill sent to, how do I want my cost distributed. In  
7 the essence of time I won't take you through all  
8 those, but this gives me one last chance to check  
9 everything and make sure it's okay before I submit  
10 it to my approval authority to have them have a look  
11 at it.

12 So, it gives me a total cost of my shopping  
13 cart. So, if I'm happy with all this, the last  
14 thing I might want to do is look at the approval  
15 process. Who is going to actually approve this? In  
16 this case, I am Alex and I am in the yellow box  
17 because I haven't submitted it yet. When I do it  
18 will turn green.

19 But I'm sending it to Tonya, she's my  
20 spending limit approver. She also happens to be a  
21 supplier approver. For a particular supplier she  
22 has to do all the approving.

23 Once this is sent and it will be approved by  
24 Tonya, then a purchase order would be created  
25 automatically for all three of these different

1 suppliers that we've chosen to buy from. It would  
2 be sent into the exchange or into the market site  
3 that will automatically send out all these orders to  
4 all the different suppliers.

5 So, basically there's efficiencies to be  
6 gained on both sides: with the openness and the  
7 speed of the buyer creating all these requisitions  
8 and by searching through a multiple supplier  
9 catalog, and from the supplier side might be able to  
10 process these orders faster, give their customers  
11 better service and actually open up markets to new  
12 customers for them.

13 So, I'm just going to close this item, and  
14 the last thing I would do as Alex is I would submit  
15 this item. And you can see here I'm going to get a  
16 message in the middle that says my requisition has  
17 been successfully submitted.

18 And just quickly, I might want to go and  
19 look at the status of my requisition now that I have  
20 submitted it. You can see that at the very top Alex  
21 Medina, 4-102 was the requisition I created and it  
22 tells me the status of this is awaiting approval.  
23 Again, if I go back and look at the work flow, that  
24 it's in green. I have done piece as Alex, I'm done,  
25 it's been sent off to Tonya, and it's now waiting

1 for her to approve it, and the next part of the  
2 scenario would be Tonya logging onto the system,  
3 doing the approval and then it would be sent out to  
4 market site.

5 So, that was a very short and simple example  
6 of how it works to search a catalog, to buy an item,  
7 to send it off to an approver and to send it off to  
8 the market sites, and finally off to the suppliers  
9 for them to fulfill the orders.

10 So, with that, I'm going to pass it back to  
11 Rob, and give me one second just to switch computers  
12 back here so I can put Rob's screen back up.

13 MR. TARKOFF: Thanks very much, Alvin.

14 I think what may occur to everybody is when  
15 you compare this process, which allows anybody in  
16 the organization at any level to have an approved  
17 spending limit and be able to do all of these  
18 processes in an automated fashion without having to  
19 get on the phone, call their purchasing manager,  
20 have their purchasing manager call their supervisor,  
21 have their supervisor call their supervisor's  
22 supervisor, have it come back to you and then  
23 finally have to fill out a manual PO, which is then  
24 faxed to the supplier, matched against the  
25 negotiated prices in the catalog, and an invoice



1 returns.

2           Dramatic efficiencies that are really  
3 created by using this system. And it's not just  
4 indirect goods purchasing. As I know some of the  
5 other panelists will talk about, this is really  
6 about moving an e-commerce model from the simplest  
7 indirect goods and services, purchasing model, into  
8 all sorts of other business services, like auction,  
9 direct goods, collaborative planning, product life  
10 cycle management, and other services.

11           We really think at CommerceOne, and I think  
12 the other panelists will agree, because it's all our  
13 business, that this creates a real win-win solution  
14 for buyers and suppliers. It creates automated  
15 processes, it eliminates maverick purchasing. Every  
16 purchasing activity in the company is captured. It  
17 increases revenue per customers, it reduces  
18 transaction costs and ultimately results in a  
19 substantial return on investment for all parties  
20 involved.

21           One of the things we'll talk about a little  
22 bit today is -- in the panel, I think -- is about  
23 how applications, how these things traditionally  
24 done as static applications are moving into a model  
25 where they're being deployed as services. All of

1 these things we do to purchasing, auctioning,  
2 requisitioning, invoices, these are all becoming  
3 business services that are accessible from  
4 marketplaces to companies of all size at a low cost  
5 and a low level of complexity in terms of being able  
6 to access the service.

7 Our product, called MarketSite, which is our  
8 fundamental marketplace technology, can take all  
9 these processes and ultimately revolutionize your  
10 supply chain. As a business, you take a whole  
11 series of serial processes, a supplier talking to a  
12 contract manufacturer, talking to a manufacturer,  
13 and finally to the customer, and you can bring all  
14 these participants to the marketplace and create a  
15 parallel process for providing all these business  
16 services. Finally, CommerceOne has taken this  
17 concept of automated purchasing and automated  
18 delivery of business services and brought it to a  
19 global community of marketplaces worldwide.

20 Ultimately, we believe e-commerce will  
21 transform the way you do business. We're going to  
22 create new markets, new relationships that were  
23 previously not possible without the facility to be  
24 able to connect to a marketplace and have contact  
25 with a variety of trading partners. Ultimately, we

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1 think that e-commerce will govern all the business  
2 processes within an organization because the  
3 efficiency gain is too great for companies not to  
4 deploy these systems.

5 Thanks very much, thanks, Susan, for letting  
6 us do this.

7 MS. DeSANTI: Thank you very much, Rob.  
8 We're next going to hear from Gary Fromer, who is  
9 Vice President for New Business and Partner  
10 Solutions at SAP America. SAP provides technology  
11 solutions for businesses to manage their enterprise  
12 and business relationships, and Gary is going to  
13 help us focus on the role that B2Bs may play in  
14 terms of facilitating relationships among different  
15 businesses, supplier communications, and also on how  
16 it connects to -- how it can connect to internal  
17 procurement and planning systems. Gary?

18 MR. FROMER: Welcome, everyone. Thank you  
19 to Chairman Pitofsky, to Ms. DeSanti, Mr. Bhaskar  
20 and the FTC staff in general for having us here. It  
21 may take us a minute here to get up the slide.

22 I'm sorry. Rob, were you using a different  
23 -- is this working? Is that better? I apologize,  
24 we're supposed to be technology companies.

25 If you didn't hear me before, I wanted to

1 thank Chairman Pitofsky, Ms. DeSanti, Mr. Bhaskar  
2 and the remainder of the FTC staff for inviting us.

3           You know, we're pleased to be here to  
4 discuss the subject on behalf of SAP, and at least  
5 my own thoughts. I'm going to try to leverage off  
6 of what Rob has already given you here a little bit.  
7 Admittedly, there's a little bit of overlap. But  
8 what I want to try to accomplish here is to give you  
9 some background on what we see the forces that are  
10 driving this business for SAP and for our customers.

11           And historically our customers are  
12 enterprises, large to mid-size enterprises, who have  
13 already spent a lot of time and effort working with  
14 us to automate their business processes internally.  
15 And what the Internet and e-commerce has now made  
16 available is to take those automated business  
17 processes and work with your business partners,  
18 which would include your suppliers, your customers  
19 and service partners and otherwise and take those  
20 processes and automate them across an entire supply  
21 chain, as Rob noted, or a value chain.

22           We've seen some of the analyst groups.  
23 You'll hear from Gartner, you'll also hear from  
24 Forrester talk about the kinds of efficiencies and  
25 advantages that will be generated by enterprises if

1 they're capable of using technology to automate  
2 business processes and make their companies much  
3 more efficient.

4           And the talk about how bilateral  
5 relationships, a relationship -- when we talk about  
6 fax and electronic data interchange and telephone  
7 calls, what we're talking about are relationships  
8 that are one to one. And what marketplaces are  
9 becoming, are an opportunity for those relationships  
10 to become dynamic. It allows us to create standard  
11 environments for connectivity.

12           So, what we see is an old world, where no  
13 matter how much I automate it internally, I need to  
14 establish an individual connection with every  
15 business partner that I have. Every supplier, every  
16 buyer, is a new business partner, and I have to  
17 invest and maintain that relationship from a  
18 technology perspective, from a relationship  
19 perspective, I need to buy technology to do that  
20 and, in general, that is inefficient.

21           In the new e-commerce world, through  
22 marketplaces, no matter who runs those marketplaces,  
23 the basic philosophy is the same. As the  
24 marketplace operators, the marketplace technology  
25 providers are trying to accomplish is to standardize

1 the methodology by which we connect with our  
2 business partners, and to standardize that across an  
3 industry, across a service, across a horizontal  
4 space, however it's done, it's always it's pretty  
5 much the same. And the marketplace becomes  
6 responsible for dealing with issues like technology,  
7 like security. Some of the more difficult issues  
8 around this become a responsibility of a  
9 marketplace, rather than the individual companies  
10 that would ordinarily have this burden, particularly  
11 small companies who aren't capable of making the  
12 kinds of investments that are needed to satisfy  
13 those requirements.

14 What everybody is seeking here is we're  
15 trying to integrate, in a seamless way, transactions  
16 which formerly occurred inside companies, across  
17 companies, through the Internet. Again, these  
18 connectivities are heterogenous right now, to a  
19 large extent. And -- sorry, back up, thank you.

20 And it takes time to establish these new  
21 relationships that I have and to modify my existing  
22 relationships because of these inefficiencies. In  
23 addition, what Rob spent a lot of time talking about  
24 is this an opportunity for us to simplify what can  
25 be a very complicated procurement process.

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1           In Washington, D.C., it's easy to talk about  
2 the \$250 hammer. I assure you that a hammer can  
3 cost \$250 if it takes seven people to approve the  
4 purchase of a hammer, and simplifying those business  
5 processes is a very important process that this is  
6 an opportunity to occur in the same space.

7           Actually, what's further behind all this is  
8 not just operating efficiencies, it's also a change  
9 in the way that people do business nowadays, okay?  
10 There's a dynamic nature of the way we produce  
11 products, and it's easy to talk about it in the  
12 manufacturing context.

13           In older times, my strategy as a large  
14 company was to completely integrate through what  
15 Susan refers to in the old sense as vertical  
16 integration. I would buy -- I would buy the steel  
17 mill and I would produce a refrigerator, and that  
18 old concept is not permitted to occur anymore  
19 largely because of capital markets.

20           Capital markets say to us you are not the  
21 most efficient user of capital refrigerator  
22 manufacturer if you are buying steel mills. We have  
23 people that run steel mills a lot better than you, I  
24 am going to give you capital to design and market  
25 refrigerators, beyond that, you better rely on other

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1 people to do that, because I'm not giving you money  
2 for that purpose.

3 So, competition forces me, as for example a  
4 manufacturer, to focus on my core competency. My  
5 core competencies as manufacturer in many cases are  
6 design, are marketing, and maybe distribution. For  
7 the rest of everything I do, I have to establish  
8 very fluid alliances with a group of suppliers and  
9 service partners. Okay? And those confederations  
10 of business partners are different for every product  
11 that I make.

12 So, it's not that I make 100 products and  
13 that confederation is the same for all 100. There  
14 may be some overlap, but every product has suppliers  
15 and vendors that participates in delivering it. The  
16 goal that I have is I need to be able to interact in  
17 order to deliver efficiently to my customer, I need  
18 to interact with those business partners as if we  
19 were one company. And I need a forum to do that,  
20 okay?

21 And the example that I'll use is a home  
22 appliance manufacturer who is producing a  
23 refrigerator. My focus again, design, the design  
24 marketing and distribution, my goal is make it  
25 efficient as possible for everything else. And in



1 the future, which is now, customers are starting to  
2 expect that they're going to come to my website,  
3 appliance.com, and configure a refrigerator that's,  
4 you know, fabricated, steel-coated and it's this  
5 size and it's got an ice maker in this part of the  
6 refrigerator and I'm going to get it in 15 days  
7 delivered to my driveway.

8 In order to deliver that as a manufacturing  
9 company, when I rely on all the vendors that I rely  
10 on, I need these kind of efficient processes that  
11 really have never existed yet before.

12 In order to really understand this, from a  
13 company's perspective of their existing  
14 infrastructure, you need to understand, as Susan  
15 started to go into, a little bit of what the  
16 infrastructure of a company is today. And what it  
17 may look like, particularly for, you know, a medium  
18 to large-sized manufacturing company.

19 They run software that is of different  
20 types. Financial software runs my financial  
21 systems. I have manufacturing software, Susan  
22 alluded to MRP, manufacturing planning, that runs my  
23 manufacturing operation. I have procurement  
24 software, which Rob just demonstrated, which allows  
25 my procurement people to be efficient in purchasing

1 supplies. I have supply chain planning software,  
2 perhaps, which allows me to plan for the future  
3 based on forecasts I have for how much I should buy  
4 in terms of inventory, so I know how much I have to  
5 produce for what my demand is a month from now.  
6 Product life cycle management software, which Rob  
7 referred to, which allows me to work with my  
8 suppliers and my designers to design new products  
9 and the effects of that on what I build in the  
10 future. And logistics execution, which can't be  
11 undersold, which is how I end up at the end of the  
12 day collecting all this stuff and actually  
13 delivering it to a customer or a distributor or  
14 otherwise.

15           What I'm going to do is I'm going to kind of  
16 talk over it. Our demonstration, by necessity, the  
17 only thing that you can really show in this process  
18 is a procurement process. But I wanted to be able  
19 to show you how a procurement process interacts a  
20 little bit with a -- with a system that is an  
21 existing enterprise resource planning system. So,  
22 we'll go through something that is not too  
23 dissimilar from what CommerceOne just showed you,  
24 but ends up in a transaction event occurring in the  
25 financial systems of the company.

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1           So, similar situation, somebody is actually  
2 going in to procure something, in our case it's  
3 going to be a motor for the refrigerator  
4 manufacturer, for example. In actual fact, what  
5 could happen, both now and in the future, it will be  
6 more common in the future, is that there will be  
7 something pushing this event. Rather than a human  
8 being actually going in and entering a purchase  
9 order, there will be a planning system that says we  
10 need 100 of these to be delivered a week from now,  
11 and that system, that planning system, would push  
12 into a procurement system, but for our purposes,  
13 we'll just show you that happening on a manual  
14 basis.

15           Again, we would be creating a shopping  
16 basket. You can change your shopping basket,  
17 confirm service, goods, receipt, and an in-box.  
18 This is a procurement system. And I'm going through  
19 into -- as soon as we get there -- an opportunity to  
20 create a shopping basket. And I have a choice of a  
21 series of catalogs that I can search from on a  
22 marketplace. I've moved to a marketplace, and that  
23 can be any marketplace. One of our goals  
24 collectively as software developers is that we have  
25 to be able to allow customers to go to whatever

1 marketplace that they want to go to purchase goods.

2 We're now taken to a business directory, not  
3 dissimilar again from what you saw, where I can  
4 choose where I want to go in terms of purchasing  
5 products. I can search or I can drill down, same  
6 situation. We're actually going to search, and  
7 we're going to search for a motor, and we've decided  
8 to select the MySAP.com catalog in order to do that.

9 Again, in a direct goods situation, you  
10 don't -- you want to avoid as much as possible a  
11 human interaction in which somebody has to actually  
12 go in and enter information. You want to have that  
13 as much as possible automated, again, we're trying  
14 to deliver in 15 days, so I don't have time to have  
15 people analyzing and looking, I need a system that  
16 analyzes it and pushes it.

17 We've now entered a catalog. They're asking  
18 me to search through this catalog to seek out what  
19 I'm looking for. So, I'm going to now enter into  
20 this catalog, I'm looking for a motor, so I'm going  
21 to search for a motor. The catalog is giving me  
22 seven items that match what I'm searching for. I  
23 look through the descriptions of the items. I see a  
24 number of different items as a purchaser. Different  
25 horsepower motors for different purposes.

1           I'm going to click on one and drill down and  
2 see what further information I can obtain about this  
3 motor beyond just the manufacturer and part number.  
4 It's going to give me a visual display of what the  
5 product is. Here's different views of this motor  
6 with a different -- with a differing description.  
7 It gives me some prices, tells me who I'm purchasing  
8 from on this marketplace.

9           And I'm going to add this product to my  
10 cart. I'm given the information in my cart, I'm  
11 given the opportunity to update quantities, to add  
12 to the requisition. And I've now moved it into my  
13 shopping basket, similar to CommerceOne buy site,  
14 which was what you saw a minute ago. I have the  
15 opportunity to decide what the shopping basket name  
16 is, so I'm going to give it a new name so I can  
17 recognize it later on. I've called it motor  
18 capacitor start. And I'm going to order it. My  
19 shopping basket was ordered, it's got an initial  
20 value of \$100.

21           And now, what I'm going to do is this system  
22 has actually been integrated with my financials  
23 system. So, inside my company -- well, here I'm  
24 going to first check and I can check the status of  
25 the shopping basket and order. And here's a list of

1 the shopping baskets that I have processed in the  
2 last 30 days, I can click on any one to check its  
3 status, delete items, change items, et cetera.

4 Here's the information I have on the  
5 shopping basket that I just created. And there's  
6 the detail, with all the basic data, including part  
7 numbers and the business partner, who in this case  
8 was Granger. And here's the history of the shopping  
9 basket.

10 I'm now actually pulling up in my financial  
11 system. This is the financial system that my  
12 accountants, my finance department looks at, and  
13 they are looking in purchasing now in a different  
14 system, and they're now able to pull up under that  
15 purchase order, I can go in, I can click in the  
16 purchase order that I had from my purchasing system.

17 And I apologize for this not being as  
18 exciting as Sega or PlayStation, but this is  
19 business software here we're talking about. I would  
20 much rather demonstrate PlayStation.

21 And here I have information in my financial  
22 system, which is very important, because if I didn't  
23 have that, the person who did that procurement would  
24 have had to take some piece of paper or otherwise  
25 send an email or something on an un-automated basis

1 back to my finance department to tell them hey, I  
2 purchased something.

3 So, integration, this is the key piece of

1 attract a supplier for one company, that supplier is  
2 likely to supply to other companies within that  
3 vertical.

4           The areas of activities that we are working  
5 on in a marketplace like this generally are not  
6 market differentiators. Indirect procurement, if  
7 we're buying staplers, pens, and things that don't  
8 go into the product I sell, or even direct  
9 procurement of things that are commodity-like items,  
10 those areas are not generally viewed as market  
11 differentiators. I have opportunities for new  
12 business and operational efficiencies to encourage  
13 suppliers to adopt and enter into a digital supply  
14 chain.

15           Again, when I have a \$2 million manufacturer  
16 of motors, that company can't afford to make a large  
17 investment in a technical infrastructure. So, a  
18 marketplace actually, as Rob indicated, provides  
19 those services for them at a low cost so they can  
20 participate on this digital supply chain.

21           In addition to that, there are similar  
22 processes by industry. So, a process manufacturing  
23 company, chemical company, has a very different  
24 manufacturing process than a high-tech manufacturing  
25 company. And industry exchanges can absorb and



1 deliver knowledge, content and product knowledge  
2 about these business processes.

3           Again, the ultimate goals for these industry  
4 exchanges and exchanges in general is allowing me to  
5 focus on my core competencies. My core competency  
6 may be to design, market and distribute, I need to  
7 work with my business partners efficiently  
8 otherwise. I need to deliver efficiently to my  
9 customers, from a time, cost, quality and customer  
10 convenience perspective, this is a way of doing  
11 that.

12           I maximize the capabilities of my suppliers  
13 and service partners, now they can interact with me  
14 in a way they couldn't before, I make it cheaper and  
15 more efficient for them to participate on a digital  
16 supply chain. I'm open and there's a value  
17 proposition for suppliers to actually participate.  
18 They get huge leverage out of the opportunity to  
19 sell, not just to me, but to all of my other  
20 partners or other people in the industry. And  
21 there's ease of connectivity to multiple exchanges,  
22 which our technology partners are working with us on  
23 to build.

24           I'm going to end very quickly so we can move  
25 on to the next participants, and I thank you for

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1 your time.

2 (Applause.)

3 MS. DeSANTI: Thank you very much, Gary.

4 We're going to take a one-minute break here.

5 This is being videotaped, and the videotapes are

6 being taken over to the Federal Trade Commission

7 where we have an overflow room. The tapes are being

8 shown there on a one-hour and 15-minute time delay.

9 So, every so often we're going to have to break just

10 for a second to allow the videotape to be taken out

11 and a new videotape to be put in.

12 I also want to note for the people that who

13 are standing in the back or sitting on the floor, if

14 you're uncomfortable, we have vans that can take you

15 over to the FTC so you can sit at your leisure and

16 watch the videotape if you would prefer to do so.

17 Don't go anywhere. Don't go anywhere. You may

18 stand up, do not go anywhere.

19 (Brief pause in the proceedings.)

20 MS. DeSANTI: Okay, our next presentation

21 will be by Patrick Stewart, who is the president and

22 CEO of MetalSite. MetalSite is the first Internet

23 site in the world for the buying and selling of

24 metal products. Users can also make use of industry

25 news, statistics, and special industry reports at

1 their site. MetalSite might be characterized as a  
2 vertical industry-specific B2B marketplace, and Mr.  
3 Stewart will be talking about the industry expertise  
4 that they have and how that works in the context of  
5 both catalogs and auctions. Mr. Stewart, thank you.

6 MR. STEWART: Good morning. Can everybody  
7 hear me? Good. I think that I'm going to go  
8 through this morning how a marketplace is built from  
9 an industry perspective. I think what you heard  
10 from the first two presenters is really a technology  
11 company, from CommerceOne who is one of the leading  
12 providers and SAP; but I'm going to go back and I'm  
13 going to give you a reflection point of how an  
14 industry looks at this, as Susan said, from a  
15 vertical perspective.

16 First of all, how many people heard of B2B  
17 e-commerce three years ago? Three years ago? Well,  
18 now you know how MetalSite felt three years ago. We  
19 didn't really know what B2B was. In fact, if you go  
20 back to 1995, that's where the vision of MetalSite  
21 was created. I would like to go to the first slide.

22 If you really look at the industry and the  
23 problems that we have, it's a very, very difficult  
24 industry. In fact, today over at International  
25 Trade Commission, today there's hearings today on

1 the imports and the dumping that's going on in the  
2 industry. The industry has had a very tough road in  
3 the last 20 years. In fact, if you look at the last  
4 ten years in the U.S., one company has returned  
5 their cost of capital, one. That's not an industry  
6 that investors are flocking to, in fact, they're  
7 running from.

8 So, the industry has been struggling for a  
9 long time. If you look at what the industry has  
10 done in the last 20 years, they've cut their  
11 operating costs by 25 percent. It's horrendous.  
12 The company that I came from, by the way, in 1976  
13 produced about a million and a half tons -- 1976,  
14 forgive me, produced about a million and a half tons  
15 of steel with 13,000 people. Today they produce two  
16 and a half million tons of steel with 3,500 people.  
17 Massive efficiency changes.

18 So, the industry has been very, very  
19 familiar with driving change, driving efficiencies.  
20 But the interesting thing as you look at the slide,  
21 is the industry is highly fragmented. If you think  
22 about U.S. Steel, which is a great integrated  
23 producer, in the early 1900s, they really drove the  
24 stock market and the big boy. They were one of the  
25 premier stocks. Today U.S. Steel barely owns 10

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1 percent of the U.S. market. In fact, they're the  
2 largest and they only own 10 percent of the U.S.  
3 market. The largest service center, if you go out  
4 through the supply chain, only owns 12 percent of  
5 the market. It is highly, highly fragmented.

6 In fact, the largest metals company in the  
7 world only owns three and a half percent of the  
8 global market. So, no matter where you go in the  
9 world, metals is highly fragmented. There are  
10 regions that are a little bit different, but  
11 typically it's a good analysis to say that we are  
12 dealing with a very, very fragmented industry. One  
13 of our customers that's a service center has 65,000  
14 active buyers. 65,000. It's a whole new world  
15 dealing with these mass numbers of people. If you  
16 go to the next slide, Michael. I want to back up  
17 one.

18 The reality is that business is done much  
19 different, as SAP and CommerceOne has referenced to.  
20 Business is done so different than consumer goods.  
21 If you go to Amazon, buying a book is pretty  
22 straight forward. You have a credit card, UPS,  
23 FedEx, they deliver it, pick the book. Business is  
24 a lot different.

25 If you look at how business is done in the

1 metals industry, and we mapped this out about two  
2 years ago, there's about 22 discreet processes. 22.  
3 And within those processes, there are dozens of  
4 subprocesses. So, reality is that we're dealing  
5 with a very complex world.

6 And the fact is that about 80 percent of  
7 those processes are still manual. 80 percent. In  
8 fact, the 20 percent that we consider to be  
9 automated, really aren't automated. There's  
10 hundreds of service centers out there that have  
11 bought PC software that allows them to receive an  
12 EDI transaction so they can print it, turn around  
13 and key it into a green screen. That's really not  
14 integration. This is the world the metals industry  
15 that we're dealing with today. Next slide, Michael.

16 You know, it's also a world that's pretty  
17 adverse to change, not from a manufacturing process,  
18 but from a business process perspective. If you  
19 look at how re-engineering has been going through in  
20 the last ten years and what companies have been  
21 doing, it goes back to the book written by Jim  
22 Champion -- Re-engineering the Corporation -- ten  
23 years ago. This has been a way, for the industry  
24 has really struggled with how to re-engineer their  
25 business processes. They have done a marvelous job

1 of gutting the manufacturing processes, but the  
2 business processes have been very difficult.

3           And three years ago, there really wasn't any  
4 off-the-shelf technology. It's kind of interesting,  
5 we did an analogy at the company I was at previous  
6 to this, how many SKUs or part numbers we would have  
7 to create to represent their products in a catalog  
8 versus more in a made-to-order configuration? We  
9 came up with 131 million permutations of products  
10 that they made. And that company only owned three  
11 percent of the marketplace.

12           So, the reality is you cannot catalog  
13 metals. It's a very highly attribute-based product  
14 and you have to define, you have to describe, you  
15 have to build a metals product. And oh, by the way,  
16 none of our products are delivered via FedEx or UPS,  
17 they're all delivered via flatbed trucks, rail or  
18 barge. So, it's a very intense world that we live  
19 in from a technology perspective.

20           Mistrust, the industry has never trusted  
21 each other. It goes back to the early sixties when  
22 the industry was really scrutinized by the Justice  
23 Department, by the Federal Trade Commission, and the  
24 industry has been very guarded ever since.

25           The last thing is we call it the Columbus

1 factor. And this is something that we kind of revel  
2 in, is that three or four years ago when we were  
3 putting this business model together, we had no one  
4 to ask of how to do this. You know, our goal three  
5 or four years ago was to create what we called a  
6 supply chain solution. We didn't know what B2B  
7 e-commerce was. We were really focused on how to  
8 create a supply chain to attack all these  
9 inefficiencies.

10 By the way, when you look at these service  
11 centers that I was talking about, each one is  
12 carrying about 120 days of inventory today. 120  
13 days. That's four turns a year. Most best class  
14 manufacturing process require 50-plus turns a year.  
15 We're doing four turns as an industry.

16 So, no matter where you look throughout  
17 here, there really isn't a pioneering way of doing  
18 business. We're really creating that way of  
19 pioneering the new way.

20 So, what is MetalSite? We were asked here  
21 today to really explain our business model. You  
22 know, I've been calling ourselves a supply chain  
23 solution company now for five years. The reality is  
24 that we've evolved to be in the vanguard of a B2B  
25 e-marketplace, a marketplace that's a global place



1 that people can come and buy and sell metals. And  
2 by the way, it's just not one type of metal, it's  
3 from raw materials all the way to a door panel  
4 delivered to GM. It's the complete supply chain,  
5 because along that supply chain, it's very, very  
6 fragmented.

7           Again, who we are, as Susan said in the  
8 beginning, we really are the first e-commerce  
9 marketplace out there. We've been charting the  
10 waters for a long time. We're really out to get  
11 people the best value on a deal. It's not about  
12 price discovery, it's not about, you know, auctions,  
13 it's about how do you deliver the best deal. Twenty  
14 percent of the final price delivered to the  
15 customer, by the way, could be freight.

16           So, if you're just looking at a product on  
17 price, it won't work. Because typically metals only  
18 ship within a 300-mile radius. So, even though you  
19 can buy it 30 percent less in San Diego, you can't  
20 afford to ship it to Washington. It won't work.

21           So, you have a very complex process to look  
22 at what they call freight equalization, how do you  
23 incorporate freight and all the delivery charges in  
24 order to get to the final price. So, price  
25 discovery in the industry has all been very

1 complicated. It's not about an auction, it's really  
2 about all the variables that you need to really add  
3 up the totals.

4           How are we different? We don't take title.  
5 A lot of B2B marketplaces have been pretty  
6 confusing. Some companies take title, some don't.  
7 We have believed from the beginning that we cannot  
8 take title. The day that we take title, we start to  
9 compete with our marketplace. You know, our view is  
10 that we facilitate a very, very efficient way of  
11 doing business. It's not about us taking title,  
12 making a spread and selling it. It's about us  
13 providing all the ways to do business between the  
14 buyers and sellers throughout the whole supply  
15 chain.

16           Where -- we started -- we decided that three

1 to create a method, a way, that the entire industry  
2 can help drive efficiencies and productivity through  
3 the supply chain. Because the industry has spent  
4 billions and billions of dollars on capital  
5 improvements inside the four walls. The whole value  
6 proposition that we delivered to these potential  
7 investors was we're attacking outside the four  
8 walls. We're helping you attack your distribution  
9 channel where you can't do it yourself. There's no  
10 one large enough in the industry to do it on their  
11 own or help drive the way. We are going to be the  
12 way that we were going to drive the efficiencies.

13 They bought into it. The five people that  
14 we went to instantly said we believe in this,  
15 because the next way to drive costs out of our  
16 market is through the supply chain. We are -- we  
17 can't drive that many more dollars out of our  
18 production cost. I mean, they have -- really, there  
19 are several manufacturing companies here in the  
20 United States who are the lowest cost steel  
21 producers in the world, bar none. They can't drive  
22 anymore cost out of the manufacturing process. They  
23 can drive substantial costs out of the distribution  
24 chain. This was a very easy sell to get them to  
25 understand this concept.

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1           Where are we going? Where are we today?  
2       We're really throughout the entire value chain. We  
3       have major customers on the raw material side being  
4       scrap, we have major customers on the producer side,  
5       we have major customers on the service center side,  
6       and now we're evolving to having major buyers from  
7       the OEM perspective. We're going down the entire  
8       supply chain. It's just not about one segment, it's  
9       about the entire supply chain.

10           And oh, by the way, here comes the  
11       difficulties. How a buyer and seller transact scrap  
12       is a lot different from how somebody -- how GM would  
13       buy a door panel from Bethlehem Steel. The  
14       processes are somewhat alike, but the  
15       characteristics, the product taxonomy, it's  
16       fundamentally different. So, as we enter each one  
17       of these geographies and markets, we have to build  
18       business processes and technology that meets these  
19       processes. It's very complex.

20           How a person buys a book in San Diego is the  
21       same as how a person buys a book in New York. We  
22       don't have that luxury. We have to build very  
23       complex solutions along that entire supply chain.  
24       It takes a lot of time and it takes a lot of money.  
25       We told our investors when we got into this that it

1 would take five to ten years and \$100 to \$200  
2 million to build it and we're right on track to  
3 doing that.

4 We're in our third year of building this  
5 technology and building the infrastructure to  
6 support it. But this is a really long-term play.

7 As Susan said in the beginning, we really  
8 are still in the first mile. Even though MetalSite  
9 has been out there for three years now, we're still  
10 -- we're probably in mile two, but we still have  
11 20-some miles to go before the finish line is there.  
12 This is a long-term effort. And for people to  
13 really see the economies of scale and these benefits  
14 derived from these solutions, you have to have  
15 enough liquidity through these marketplaces to be  
16 efficient.

17 How are we doing? We're doing about six,  
18 7,000 transactions in a month, and people say wow,  
19 Amazon does that in an hour. These transactions  
20 could be \$10,000, they could be a million, \$10

1 are very large orders. So, we'll never do ten  
2 million transactions a day or a month. We'll do  
3 smaller amounts of transactions, very high dollar  
4 amounts. That's how business is typically done in  
5 the metals industry.

6 As far as business, if you annualize that,  
7 it's about a billion dollars of business now going  
8 through our site, which I think makes us one of the  
9 largest sites out there. We have about 200,000 tons  
10 of product that's available consistently on our  
11 site. If you equate that to how big is that, that's  
12 equal to the fifth largest producer in North  
13 America, and that's equal to the fourth largest  
14 service center in North America. There's a large  
15 amount of volume going through our site already  
16 today.

17 And the last thing is we have about 22,000  
18 users, and the interesting thing, Susan was talking  
19 about the adoption rate, but the interesting thing,  
20 at the end of December, we had roughly 10,000 users  
21 on our site, today we have -- and by the way, it  
22 took us two years to get 10,000 metal users on our  
23 site. In five months, we gained 12,000 people.  
24 This thing is really ramping very quickly and it's  
25 taking off, and a lot of it has to do with the

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1 sophisticated solutions we've now developed and  
2 people can do a lot more different types of commerce  
3 on our site.

4           If you look at our site, it's really based  
5 upon what we call very simple process, it's the  
6 inquiry to settlement process. This basically says  
7 from when a buyer shows up to MetalSite, to do a  
8 what-if, to the time that they pay and settle for  
9 that material, which could be a day, it could be  
10 five years. The industry has five-year contracts.  
11 You could release against that contract for five  
12 years. This is very sophisticated. We want to be  
13 able to conduct that online.

14           To give you some examples, if you go across  
15 the research and learn, find and select, order and  
16 track, ship and receive and pay and settle, areas of  
17 opportunities. Ship and receive, for instance I  
18 said the industry uses flatbed trucks. Forty  
19 percent of those flatbed trucks that deliver product  
20 come home empty. And the industry spends four  
21 billion dollars a year on flatbed trucks. Forty  
22 percent come home empty. There's an amazing amount  
23 of opportunity there to help rationalize assets.

24           You know, it was interesting, when we  
25 announced our company in 1998, the first industry

1 that approached us to build solutions for their  
2 industry was logistics industry. Their margins are  
3 even tighter than the steel industry. Because they  
4 realized that they had no way of aggregating data to  
5 be able to help them find loads, and loads would be  
6 product available to ship and receive.

7 So really our job, as an aggregator of  
8 information, is to provide them loads. So, if you  
9 think about the benefits of aggregation in a very  
10 fragmented marketplace, it creates whole new  
11 business opportunities.

12 These logistics companies couldn't go to  
13 anybody and get all this logistics information, if  
14 you didn't have the power of the aggregation. And  
15 really this is I think the true benefit of the  
16 vertical marketplace as you go forward, especially  
17 in the fragmented markets. They are going to be  
18 able to drive brand new services at a cost level  
19 that no one could ever have done before, and it's  
20 going to drive efficiencies well beyond any  
21 individual could ever think about doing on their  
22 own. It will start to create the best practices in  
23 the industry to do certain functions.

24 How we sell product? As far as we're  
25 concerned, how you sell a product is not up to us.

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1 You can use an auction, you can use a product guide  
2 that has a list price, a published price, you can  
3 negotiate online. You can do any way. You know,  
4 you want to do made to order, you want to do an RFQ,  
5 you want to do a capacity guide. And this is  
6 probably the neatest thing that we're building today  
7 is the industry came to us in the last six months  
8 and said: The reality is, yes, we sell product.  
9 The reality is, all we have is capacity. How we  
10 best utilize that capacity is how we benefit our  
11 businesses. Why can't we sell capacity?

12 So, we're actually now driving solutions to  
13 allow producers, service centers, the entire supply  
14 chain start to sell capacity, instead of producing  
15 goods to a forecast, which I had one CEO tell me in  
16 the last 91 years they've never got a forecast  
17 right. So, what makes anybody think they could get  
18 one right tomorrow.

19 Let's sell the capacity. And he's right.  
20 They understand the variable cost, they understand  
21 their margins, so let's sell the capacity at a cost  
22 and a margin that's profitable and the product goes  
23 out the door the next day, versus being inventoried,  
24 you have to downgrade it, sell it, hold it. All the  
25 issues that are created by storing inventory.

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1           These are solutions that the industry is  
2 driving us to build. We had this idea two years  
3 ago, but we never thought the industry would wake up

1 the key to it is having a capabilities model  
2 underneath our profile system that defines how a  
3 manufacturer or processor runs their business.

4 This is the real complex stuff that we have  
5 to build. Our profile isn't just a ship to or  
6 billing address, our profiles get down to mill  
7 capabilities, processing capabilities, and by the  
8 way these capabilities have hundreds of parameters,  
9 hundreds of parameters per unit.

10 So, this is really what makes our technology  
11 more sophisticated as we build this out. And you  
12 could not take our technology to plastics or to  
13 glass or to coatings. It relying is designed around  
14 the intricacies of metals.

15 And if you look at the catalogs and how  
16 things come back, it's the same. Because what we  
17 wanted for a buyer's perspective is consistency.  
18 You didn't want 12 different look and feels of a  
19 site. We wanted a buyer to see product represented  
20 the same way no matter where they were getting it  
21 from.

22 A couple of the last points I will make  
23 about this is that, again, the metals industry is a  
24 very global marketplace and the U.S. is only  
25 one-fifth of the market. We basically did not have

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1 visions of grandeur three years ago that we were  
2 going to be able to run a website out of North  
3 America that was going to sell product from France  
4 to Italy. What we realized, based on our own  
5 experiences, and what we emphatically think is the  
6 right way today is that you must create regional  
7 instances of MetalSite around the world and a major  
8 metals market.

9           So, there's basically five major markets in  
10 the world. So, you create a regional instance, and  
11 that instance is partnered with the major suppliers,  
12 producers, buyers of that marketplace of that region  
13 to help drive the same knowledge awareness that we  
14 have here in North America. What are the  
15 intricacies? What do you need to build to make the  
16 supply chain more efficient?

17           You know, right now we have MetalSite Japan,  
18 which is going live in about two months. We're  
19 working in Latin America and Europe as well, but the  
20 reality is, is these are instances that have major  
21 large regional partners that are helping us build  
22 these.

23           A couple of last points, value propositions.  
24 Why would a buyer like this? This is pretty simple.  
25 It's totally free to them, it's one common way of

1 doing business, it streamlines all the processes.  
2 And this is a little bit broader than buyer, by the  
3 way. Why do we say a buyer organization like this,  
4 because we're streamlining the accounts payable  
5 process, we're streamlining all the other business  
6 areas that really make the connection between buyer  
7 and seller.

8 For a seller, it's limited cost risk. You  
9 don't have to spend \$10 million building your site  
10 or \$30 million. You look at the GartnerGroup or  
11 Forrester Group are saying how expensive it is to  
12 build these sites. You only pay MetalSite when you  
13 sell product. It puts all the risk, all the burden  
14 on us to make sure that we pull the supply chain  
15 together for you. We aggregate your buyers together  
16 to make sure that this is a very efficient channel  
17 of distribution. That's our responsibility. We  
18 even help you put together an e-business plan, our  
19 account managers focus on the sellers, and the  
20 buyers put together e-business plans and help them  
21 understand what is the difference of selling in a  
22 new electronic channel versus the dozens of  
23 distribution channels that they have today. We help  
24 them do that.

25 The last point I'm going to make is really

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1 where are these portals going. And there's been a  
2 lot of debate about neutral portals, industry-backed  
3 portals. My belief is that the industry backing is  
4 what has made MetalSite a fundamentally different  
5 company and why we're still here and why we have the  
6 attraction rate that we do versus independent sites.

7           Because our investors are keenly interested  
8 in helping the value points. How do we drive  
9 efficiencies? How do we increase their margins?  
10 How do we help them, you know, do business better?  
11 And we have buyers and we have sellers that are  
12 investors in our company. It's just not one  
13 representation in the marketplace, it's the  
14 marketplace telling us how to do business. We think  
15 that's the best model.

16           Product on the shelves. When you come to  
17 MetalSite, yesterday there were -- besides being  
18 able to produce a made to order or produce an RFQ,  
19 we had 23,000 different items in the site yesterday.  
20 Items of steel. That's amazing when you look at how  
21 big the inventory is. That's equating some of the  
22 largest service centers in North America right now,  
23 the amount of items that are on their shelves.  
24 These are friendlier technology, integration, it's  
25 key, as SAP and CommerceOne said, it is key that you

1 integrate into these people's integration systems.

2 And by the way, unfortunately in the metals  
3 industry, there really isn't an ERP vendor that owns  
4 the industry. Less than three percent of the  
5 industry has a standardized ERP package. We're all  
6 home grown. So, all of our integration has got to  
7 be customized using technology like XML, actually  
8 we're using some of the EDI technology that they've  
9 spent millions on over the last couple of years.

10 And the last thing is that we want to help  
11 people replicate and improve upon their business  
12 practices. We're not trying to go in and gut the  
13 way they do business. We're trying to evolve them  
14 on how they do business. You know, I went through  
15 enough re-engineering projects throughout my career  
16 in the metals industry to tell you that you cannot  
17 re-engineer an industry overnight. You evolve an  
18 industry.

19 And that's what we're doing. We're  
20 replicating a lot of the business practices today  
21 and we're evolving them. If you go look at  
22 logistics, that's a key way to evolve how business  
23 is done, but as we evolve them, we drive  
24 efficiencies, we reduce the cost. People adapt to  
25 that much quicker.

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1           And with that, I'll thank the FTC for having  
2 MetalSite here today and I look forward to the panel  
3 discussion.

4           (Applause.)

5           MS. DeSANTI: Thank you, Patrick.

6           Our final presentation will be given by Sam  
7 Kinney who is co-founder and executive vice  
8 president of FreeMarkets. Founded in 1995,  
9 FreeMarkets is a B2B marketplace that creates  
10 global, competitive online markets for industrial  
11 parts, raw materials, commodities and services. And  
12 FreeMarkets might be characterized in contrast to  
13 MetalSite as an example of a horizontal or a  
14 cross-industry B2B, and Sam will in particular share  
15 with us some insights into how their auctions work.  
16 Sam?

17           MR. KINNEY: Is this on? Can you hear me?  
18 All right, great.

19           I would like to thank the Commissioners and  
20 the staff of the FTC for taking the opportunity to  
21 try to educate the public and the policy makers  
22 about what's going on in this very fast-moving area  
23 of B2B, and I'm actually very proud to be here today  
24 as one of FreeMarkets' cofounders.

25           We've been very active in this since, again,

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1 early '95. MetalSite was one of the pioneering  
2 companies, as were we. Our claim to fame is that  
3 we've literally commercialized auctions for  
4 industrial purchasing. And anyhow, and as Susan  
5 mentioned, we are horizontal, we hope our buyers buy  
6 a wide range of stuff. And I'm going to apologize  
7 in advance, this is a big topic, and the way I  
8 usually deal with it is to talk kind of fast. So, I  
9 don't know if we're quite technologically ready.

10 I'm sorry for the little transition today.  
11 Three topics I want to talk about today. Quickly I  
12 want to talk about FreeMarkets. We are reasonably  
13 well known in some circles but really not that well  
14 known in other circles. Then I want to talk about  
15 the economics of auctions, okay, because this really  
16 is where we specialize and we're quite advanced.  
17 And then I'm going to go through some auction case  
18 studies and I hope you find that pretty interesting.  
19 Go ahead.

20 A little bit of timing backdrop. I just  
21 want to put a few things in perspective. We founded  
22 in March of '95 before any of the hype about B2B  
23 started, and did our first auction in November of  
24 '95. Just for historical perspective, Java was  
25 announced in June of '95, and Netscape's IPO, which

1 I consider to be the commercial dawn of the  
2 Internet, was in August of '95. So, this is -- you  
3 know, we're going back to the very earliest days  
4 here in building our business. Go ahead.

5 Now, we elected to commercialize auctions by  
6 building a completely functioning marketplace, and  
7 you've seen slides from everybody that looks like  
8 this, with buyers on one side and sellers on the  
9 other side, but what I want to point out is all of  
10 the things that happen in the middle. And as  
11 Patrick was just talking about, business purchasing  
12 is amazingly complex compared to consumer.

13 So, the marketplace works with information  
14 and services and market operations and a whole  
15 technical infrastructure. And then Patrick was also  
16 talking about that multi attributed products, so  
17 it's RFQ technology, and the supplier database to be  
18 able to know the capabilities that are out there in  
19 the marketplace, finally with the dynamic pricing  
20 technology in the middle. All of those are  
21 necessary for success. You can't succeed on any one  
22 of them alone. Go ahead.

23 Now, it's hard for me to present when market  
24 operations, an operating marketplace looks like,  
25 just standing here. So, what I'm going to do is

1 quickly play a video clip, and it's a video clip  
2 that was largely shot in our Pittsburgh market  
3 operations center. Ready to go? Good. So that you  
4 can see what goes on behind the scenes. Because  
5 people think about, you know, ebay and there may be  
6 a server and -- this is active stuff.

7 (VIDEO CLIP.)

8 MR. KINNEY: All right, so I wanted to  
9 show that, because these auctions are for big,  
10 high stakes, dollar amounts, you know, hundreds  
11 of thousands and millions of dollars at a whack,  
12 and it takes a whole lot of support to make that  
13 happen.

14 Now, quickly, we're up to -- as an operating  
15 marketplace, we're actually a big operating  
16 marketplace. Over 47 enterprise buyers now, big  
17 companies like American Airlines and Bechtel and BP  
18 and Delphi Automotive, and now even the government  
19 sector, the Commonwealth PA and the Postal Service  
20 and the U.S. Navy.

21 So, big operating marketplace. The number  
22 of suppliers who have actually participated in the  
23 auctions, over 4,000, that's up a thousand in the  
24 last quarter, again reflecting the ramp. Fifty  
25 different countries. In fact, I was in our

1       Brussels office last week and we were hosting  
2       bidding Indian suppliers to Indian buyers. So,  
3       completely India-based commerce. Go ahead.

4               And then market volume. This is the dollar  
5       amount transacted, cumulatively in our lifetime,  
6       we're over \$5.4 billion through the first quarter of  
7       this year. That was a billion four in the first  
8       quarter alone. So, this is getting pervasive. Go  
9       ahead, Andy.

10              Now, let me jusra

1 categories. Now, we've done this in over 100  
2 product categories, but you can see in printed  
3 circuitboards, 38 percent savings. Huge savings.  
4 And I'm going to replay an example on circuitboards  
5 in a minute. And then all the way down the line,  
6 right, you get down to metals industry, this is a  
7 more competitive market, a little more efficient,  
8 historically, less savings, but savings nonetheless.  
9 Go ahead, Andy.

10 Now, economic -- auctions increase what  
11 economists talk about classical efficiency. And  
12 classical economic efficiencies, when prices reflect  
13 all available information, all right? That's what  
14 we are about. We're about making prices reflect all  
15 available information. And we increase  
16 transparency. Right, supply and demand liquidity.  
17 We put more liquidity in the market so there's more  
18 options for buyers and sellers.

19 We can help buyers understand the price of  
20 substitutes, because I'll show you an auction in a  
21 minute where we're bidding apples versus oranges.  
22 They're heterogenous products and we're creating  
23 competition. And then even the price of complements  
24 that you can understand when you bundle goods. Go  
25 ahead.

1           Now, auctions don't change the structure of  
2 the market. All we do is increase transparency. In  
3 business commerce, we see three generic market  
4 situations, a one-sided buyer market, okay, and  
5 again, Patrick from MetalSite talked about it.  
6 There is incredible customization and complexity in  
7 a lot of business purchasing. When a buyer is  
8 buying a custom product, they're the only buyer in  
9 the world that buys that custom configuration. And  
10 it won't trade on the NASDAQ. It never will. Many  
11 buyer, many seller marketplace can't work if there's  
12 only one buyer. Further, there are unique  
13 transaction costs. It is more expensive to ship  
14 from San Diego to Washington than from Wilmington to  
15 Washington. So, those are very unique costs.

16           So, the old market technology was a downward  
17 price iterative negotiation, conducted over the  
18 phone and on fax and in conference rooms with a  
19 buyer and group of suppliers. The new market  
20 technology is a downward price Internet negotiation  
21 in an auction format. We haven't changed the  
22 structure, we've just automated a piece of the  
23 process.

24           Now, there are other types of markets, a  
25 one-sided seller market, where a buyer has the

1 unique -- a seller has a unique asset like a piece  
2 of art or a used machine tool. The old market  
3 technology was an upward price iterative  
4 negotiation, all it is now is an Internet auction.  
5 Okay? Incredibly important point.

6           Now, there are some markets that could  
7 become many buyer/many seller markets and trade like  
8 an exchange, but frankly all the kinds of frictions  
9 around customization and transaction cost really do  
10 limit that, but there are some markets, like natural  
11 gas, where Internet exchanges have taken on a  
12 prominent role.

13           Now, let me get to the fun stuff here. Some  
14 auction case studies. Go ahead, Andy.

15           Okay, before an auction happens, there are  
16 some basic preparation steps. One is a request for

1 performance of that buyer's product in the field, it  
2 can affect their warranty. Buyers care a lot about  
3 who they buy from. All right?

4 Think about it when you buy 100 shares of  
5 stock on the stock exchange. You don't care who the  
6 seller was, it doesn't matter to you at all. But  
7 buyers care very much about who they buy from.

8 So, they conduct prequalification steps and  
9 they select the invitation list. And in every  
10 single case in our market. Third point, Andy.

11 Next, the supplier's bid preparation.  
12 Again, we're talking about big dollar decisions,  
13 we're talking about custom products, we're talking  
14 about the buyer's unique terms and conditions, the  
15 suppliers have to have a chance to Q and A and get  
16 updates as necessary.

17 And then finally supplier training. No one  
18 goes cold into one of these things. We always helps  
19 the suppliers practice and we literally bid against  
20 them in a mock auction so that they know what's  
21 going to happen. Let's go ahead.

22 Now, I'm going to go through an example --  
23 custom product. You've seen a couple of examples  
24 today of catalogs, okay? In this case we're buying  
25 165 different circuitboards. They are custom-



1 designed for United Technologies, the buyer. There  
2 is never a catalog, there will never be a catalog  
3 that has those circuitboards in it. That's just not  
4 the way the business process works. The way the  
5 business process works is the buyer selects a  
6 supplier and says make it exactly this way. You  
7 will never surf around the Internet and find this in  
8 a catalog.

9           Now, thousands of each of these are ordered  
10 a year, okay, \$15.1 million prebid cost. So, 165  
11 boards, their estimated quantities and their past  
12 prices, all sum up to \$15.1 million.

13           Now, 29 suppliers around the world. There  
14 were eight incumbents that already made these boards  
15 and the buyer decided they wanted to actually go  
16 qualify in some new suppliers in Europe and Asia and  
17 they visited those factories before the event.

18           Now, let me talk quickly about the market  
19 structure here when we watch the event. This is a  
20 very fragmented supply market. There are 1,500  
21 members of the trade association that represent  
22 suppliers of circuitboards.

23           So, what we're doing here is a very wide  
24 open auction, a downward price English auction, and  
25 bidders can see each other, not by name, but they

1 can see the aliases representing each other. Now,  
2 it's going to be a little bit hard to see in the  
3 back, so I'm going to play auctioneer here for a  
4 minute.

5 First thing we're playing this 20 times the  
6 speed that it happened on the bid date. And we're  
7 seeing this from the buyer's perspective. A couple  
8 of things to notice. You'll see six different lines  
9 there. The 165 boards were grouped into six  
10 different lots or packages. Packaging -- like with  
11 -- like to make better, more interesting economic  
12 units. The second thing I would like to point out  
13 is the upper right-hand corner, the time clock.  
14 It's now about 8:30, and this first lot is supposed  
15 to close in ten minutes. Go to the bid history for  
16 me, please, Andy. Okay.

17 Now, I've gone into lot one, and I'm looking  
18 at all the bids in descending order here on lot one,  
19 and you see right now we have a market leading bid  
20 of European bidder number 6 of \$1,311,792, we're  
21 three and a half minutes till close. You may hear  
22 some dings which are bids hitting. Here we are,  
23 we're almost to close, 1307, 1301, 1301, 1281, 1275,  
24 1269, we have 24 bids now, 1237, and in fact we've  
25 just gone into overtime.

1           If we had just closed the auction at exactly  
2 8:40, the behavior we would expect is everyone try  
3 to get the three-point shot at the buzzer. They  
4 would all hold their fingers over the enter key to  
5 try to get in the last bid.

6           Well, how does the real auction close?  
7 Going once, going twice, no, I have a bid over here.  
8 So, we're in overtime. We're up to 33 bids, we're  
9 five minutes into overtime. We have a low bid right  
10 now of 1210, 1201, 1201, European bidder number 6,  
11 European bidder number 9, a preemptive bid, 1144, a  
12 big drop, \$65,000 drop, but immediately European  
13 bidder 6 comes back at 1140 and European bidder 9  
14 comes back 1139. Asian bidder 2, preemptive bid  
15 again, \$1.1 million, so the Asian bidder is back in  
16 at 1.1 million. We're now 14 minutes in overtime.  
17 European bidder 9 at \$1,089,000, European bidder 6,  
18 back at \$1,080,000. We're 16 minutes into overtime  
19 now. There's a bid there for \$1,070,000, from the  
20 Asian bidder.

21           Things seem to be slowing down. Scheduled  
22 to close at 8:58. No, another bid hit, it's going  
23 to close at 9:00 now. We kept adding two minutes  
24 each time someone submitted the last low bid, at  
25 \$1,060,000, the market, in fact, it closed at this

1 level, okay?

2           So, I talked about the prescreen bidder list  
3 being one of the most important features of one of  
4 these. The second important feature here is that  
5 the low bidder doesn't automatically win. And one  
6 thing that's interesting to note is that first place  
7 is \$1,060,000, second place is \$1,070,000, and third  
8 place is \$1,089,000. So, we've compressed down to a  
9 \$29,000 spread on a buy that used to be a \$2.2  
10 million buyer. That is a de minimus difference to  
11 an industrial buyer. Now they care all about  
12 quality and operations, facilities and location in  
13 selecting suppliers. Andy, why don't we shut --  
14 show the graph.

15           Graphically that's what you just saw, dollar  
16 value of the bids on the vertical axis, time on the  
17 horizontal axis. So, that's the shape that we see,  
18 go ahead and shut that down.

19           Forward. Forward again. Okay, so that's  
20 the same graph you just saw. Forward again. That's  
21 where our logo comes from. That is the shape that  
22 we obtain when we do one of these things, and it

1 15.1 million historic, \$8.7 million after this  
2 auction. Forty-two percent savings, \$6.4 million.

3 You've heard today about the benefits of  
4 paperlessness and reducing transaction cost. What  
5 I'm showing you is the benefit of market  
6 transparency. All right, the total annual  
7 transaction costs to do the order releases for all  
8 those 165 boards, was probably \$100,000. So we  
9 saved 64 times that, by focusing on the decision  
10 rather than the cost of the transaction. Let's go  
11 ahead.

12 Now, let's talk about another quick example.  
13 And, Susan, you will have to shut me down here when  
14 I'm running out of time. The product that we're  
15 purchasing here is coal. And the complication is  
16 that not all coal is created equal, all right,  
17 nature determines the specifications when they put  
18 it in the ground. Twenty-one domestic suppliers.  
19 Go forward.

20 Now, so here's the issue. Coal A may have a  
21 certain number of BTU per ton and a certain sulfur  
22 content, and coal B may have a different number of  
23 BTU per ton and a different sulfur content. The  
24 value of the coal to the buyer is what -- how much  
25 electricity that coal can make. It is a function of

1 price and heat, being BTUs, sulfur, moisture, ash,  
2 hardness and others. And the further tweak is that  
3 that function  $F$  is unique for every boiler, all  
4 right, because they were all designed to have an  
5 appetite for a certain kind of coal. Let's go

1 marketplace.

2           Now, what I'm doing here is looking at the  
3 second lot, and I joined this auction way late in  
4 process, and it's very hard to see here, but now I  
5 have a market leading bid which was a call that was  
6 \$15.29 cents a ton and it got undercut by a call  
7 that was \$23 a ton. Why? Because the \$23 coal had  
8 favorable attributes, it had lower sulfur, high heat  
9 content and by the time you do the transformation,  
10 the \$23 coal was worth more to the buyer than the  
11 \$15 coal.

12           So, you can see it going back and forth in  
13 this auction, \$14.19 undercut by \$22, undercut by  
14 \$22.10 from someone who had yet a better coal. So,  
15 show the big graph real quickly and we'll stop this  
16 one.

17           So, what we've been able to do here, and  
18 again, I -- we can take multiple parameters, create  
19 a level playing field and create an auction even  
20 where we have apples and oranges and pears as  
21 products.

22           Okay. Do we have time for one more, Susan?  
23 All right, we'll do one more. This one here,  
24 another unique market format. In this case it's a  
25 refinery column, a fractionator column, a big piece

1 of capital equipment. There are eight suppliers in  
2 the world. It's about a, you know, half million,  
3 \$600,000 piece of equipment. Go forward.

4 The complication here is that the buyer  
5 interacts in this market all the time. And while  
6 they don't think that suppliers get together and  
7 would collude or rig bids, they don't want them to  
8 necessarily learn more that would help signal each  
9 other in the past -- in the future. The old method  
10 would be to do a completely private negotiation, the  
11 new method is another proprietary technique -- a bid  
12 war rank auction.

13 And what I'm going to do is show you, think  
14 about instead of all the bidders seeing the current  
15 market price, you see what you bid and your rank.  
16 So, if I bid \$1,000 and it says you're in second  
17 place and you bid \$990 and you're still in second  
18 place, you bid \$980 and you jump into first place.  
19 A-ha, you know that you're in first -- you've just  
20 jumped into first place.

21 So, you remember that nice, smooth curve we  
22 showed on those other graphs? Well, if you look  
23 here, in fact it's a bunch of little curves. Right?  
24 And why would that be?

25 In the rank bidding format, you don't know



1     how low is low, okay, as an individual bidder. So,  
2     if you're in fifth place and you want to hunt for  
3     fourth place, you don't do it by doing one big drop.  
4     It's like walking through a dark room, you take a  
5     lot of little baby steps down until you find the  
6     bottom.

7             Now, what I'm going to do is highlight, and  
8     this gets a little hard to see. Andy, unclick  
9     number 1 and click number 4 for me. Okay. I've  
10    highlighted the pattern of bidding for three  
11    different bidders, and you can see in blue, bidder  
12    number 2 created a low bid very early on and then  
13    there's this orange line as someone was feeling  
14    their way down to find them, and then you'll see the  
15    orange and the yellow lines leapfrog each other for  
16    about 45 minutes. Why? Because they're going in  
17    these small baby steps to try to, you know, to try  
18    to keep finding the low.

19            Now, what's neat about this? We've created  
20    an equilibrium, market-clearing price here that only  
21    those two contenders at the bottom knew. Right? If  
22    you're in eighth place, you still don't know where  
23    this market cleared. So, we can limit the amount of  
24    feedback to prevent suppliers from learning enough  
25    to signal each other in the future. Andy, go ahead,

1 now let's close this one down.

2           Go ahead. Okay. So, in summary here,  
3 dynamic price auctions are one of the true  
4 game-changing innovations in B2B. They change  
5 transparency, not structure. Increased transparency  
6 generates savings for buyers. And finally, dynamic  
7 pricing is here to stay, in one way, shape or form.  
8 It is very unusual to see markets go from a state of  
9 transparency to regress to a state of less  
10 transparency.

11           So, again, this is one of the reasons why  
12 we're incredibly excited about bringing this  
13 innovation to the marketplace, and as an economist,  
14 I just, you know, I can't get enough of this. So,  
15 anyhow, I want to thank the commissioners and the  
16 staff, this is a great forum.

17           (Applause.)

18           MS. DeSANTI: Thank you, Sam, and I want to  
19 thank all of our presenters for what I think were  
20 very valuable presentations to start off our day.

21           We are now going to take a stretch break.  
22 We will start again a couple of minutes before  
23 11:00, we just have to allow the set-up on the stage  
24 to enable our next panel discussion. Thank you.

25           (Pause in the proceedings.)

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1           MS. DeSANTI: Please take your seats and  
2 we'll start the panel discussion. Thank you very  
3 much. We're very fortunate to have some additional  
4 experts here to discuss these issues with us this  
5 morning. I want to start by getting their  
6 observations about some of these questions that  
7 we've had the initial presentations to introduce us  
8 to.

9           We have Steve Attanasio of WIZNET, Dale  
10 Boeth of PurchasePro.com and Chris Cogan of GoCo-op,  
11 as well as Gretchen Teagarden of Salomon Smith  
12 Barney -- all of whom have either substantial and  
13 extensive expertise in working with B2Bs or studying  
14 B2Bs.

15           I am going to first ask for their  
16 observations on B2B models and how they're evolving  
17 to meet business needs. And especially for you all  
18 who are in the B2B business, I would appreciate it  
19 when you begin your observations, if you could share  
20 a little bit with the audience about how your  
21 business operates in the B2B space, and how your own  
22 B2B operations are evolving.

23           And, Dale Boeth, I would like to start with  
24 you because I believe you have a couple of relevant  
25 observations about two possible trends in the

1 business models -- one a trend toward a focus on  
2 selling rather than buying, and another a different  
3 trend that may respond to a need to manage the  
4 industry-owned B2Bs from a neutral standpoint.

5 Dale?

6 MR. BOETH: Great. Well, first of all, I  
7 would like to thank the Commissioners and staff for  
8 inviting PurchasePro to participate in this panel.  
9 The good news is that you have probably not seen a  
10 company this morning like us. I think we are a  
11 hybrid of what you have seen so far this morning,  
12 and I'll give you just a little background on the  
13 company that might help shed some light on that and  
14 define it better.

15 We are a four-year-old company started in  
16 1996 and we're publicly traded. Our positioning in  
17 the market and what we do is we are an enabler of  
18 marketplaces. We have a B2B e-commerce platform  
19 that we provide to businesses, vertical-focused  
20 businesses and horizontal businesses --  
21 horizontal-focused businesses -- who need an  
22 e-commerce component to round out their business  
23 model from a content or a commerce or a community  
24 standpoint.

25 And we've really got I guess three

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1 particular focuses. Our platform is an  
2 e-procurement platform. It does have the ability to  
3 meet the needs of Fortune 100 companies who are on  
4 the product, using it for streamlining their supply  
5 chain and driving costs out of their businesses from  
6 that standpoint.

7           We also have an aspect of it that has to do  
8 with virtual distribution, which you've seen some  
9 flavors of this morning. And the virtual  
10 distribution nature is when people are aggregating  
11 other people's products or other people's suppliers'  
12 products and services and redistributing those.

13           We have a particular expertise in our  
14 product to do that. And the last is for market  
15 makers, the focus of this conference, folks who are  
16 starting or extending their reach in the online  
17 e-marketplace space.

18           Probably some useful background there, given  
19 the fact that we are a four-year-old company, we  
20 have a presence in the industry. Right now we have  
21 22,000 businesses who are online and trading daily  
22 through our marketplace. We also power 155 private  
23 marketplaces, and we don't count their hundreds of  
24 thousands of users in our customer base, but those  
25 155 marketplaces are actually vertical and

1 horizontally-focused marketplaces.

2           The two thoughts that Susan and I had  
3 enjoyed discussing prior to the panel are kind of  
4 interesting and may cause some -- may be a good  
5 cause for discussion as we move forward here among  
6 the panelists this morning. The first is that four  
7 years ago when we first launched our company's  
8 efforts, we really were focused on e-procurement and  
9 supply chain, driving costs out of the invoicing and  
10 the RFQ, or what we call the RF Star process, RFQ,  
11 RFI, RFP processes. And we felt like that was the  
12 real homerun in the Internet space.

13           We're focused somewhat downmarket from some  
14 of my colleagues who are on the panel here in that  
15 we specialize in the small to medium business market  
16 space. What we've found is that over the last four

1 available there, but businesses are understanding  
2 the Internet can be a very inexpensive channel  
3 through which to market their products and services  
4 to other businesses. And our platform has that  
5 capability to both buy and sell seamlessly through  
6 the single application.

7           So, we've really seen an interesting shift  
8 where businesses are focusing more on the sell side,  
9 and I think that that's going to accelerate here in  
10 the next few months, and even into next year where  
11 it will be the power trend to be, particularly in  
12 our sweet spot, which is that small to medium  
13 business market space.

14           And then the second trend that we'll tee up  
15 here that I find really intriguing was actually  
16 discussed earlier today. And I think Patrick was  
17 right on the issue, as he was putting together or  
18 presenting MetalSite this morning and how they've  
19 found their niche in the marketplace. And that is  
20 we've seen a number of business alliances or buying  
21 coalitions announced between major players in the  
22 industries. And, for instance, in the computer  
23 industry, we're all very aware of the announcement  
24 with IBM, Gateway, Compaq and other major  
25 manufacturers who are going to come together,

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1 combine their collective spend in order to realize  
2 greater savings on components.

3 We've seen similar announcements in the  
4 hospitality industry, where competitors are coming  
5 together to actually create buying coalitions for  
6 MRO and other supplies, airline industry, and the  
7 list goes on and on.

8 I think the concept, and for those of you  
9 who have a pencil in your hand, you may want to  
10 write down the killer buzz word of the future, I'm  
11 going to give you one here. We believe that there  
12 will be a new category of professional services  
13 emerging over the next six months. We are jokingly  
14 creating a buzz word and calling it neutramediaries.  
15 You have intermediaries, these are neutramediaries.

16 These are a group of companies, professional  
17 service firms and organizations, who will step in to  
18 help manage and facilitate from a third party  
19 neutral perspective these industry buying  
20 coalitions.

21 I think Patrick cited the concern is you  
22 come together for transactions as major competitors,  
23 but at some point you are competitors. And there  
24 will likely be opportunities for a whole new service  
25 category of neutramediaries emerging over the next



1 few months. So, a couple of topics there that we  
2 see that are conversational and may be good food for  
3 thought.

4 MS. DeSANTI: I am sure that we will have  
5 reactions, and Patrick, you may want to say some  
6 things about this as well. I would like to first  
7 get Chris and Steve into the discussion. Chris,  
8 what is GoCo-op's perspective on all of this and how  
9 do you operate?

10 MR. COGAN: GoCo-op is a developer and host  
11 of Internet-based e-procurement and supply chain  
12 management systems. We evolved out of an outsourced  
13 procurement company with over ten years experience

1 companies with their supply chain and in purchasing.

2 And we have adapted this technology, our  
3 underlying or core technology, such that it is  
4 easily adaptable. It can go very deep into supply  
5 chain and bring efficiencies not just across a broad  
6 spectrum of products, but deep into a company's or  
7 an industry's supply chain, and yet be easily  
8 adaptable from one company to another, or from one  
9 industry to another.

10 MS. DeSANTI: Thank you, Chris. Steve?

11 MR. ATTANASIO: We've got a four-year old  
12 company that such as Dow has an infrastructure or  
13 service company that deals with the problem of how  
14 to transition legacy content from suppliers onto the  
15 Internet to serve the buying communities.

16 And our position is, just as Susan said in  
17 her opening remarks, that six things businesses do  
18 around the world: they order, receive, they  
19 negotiate/bid, they search and they source and they  
20 specify. WIZNET helps source, search, specify and  
21 negotiate with our client base.

22 And what we do is we allow the suppliers to  
23 transition the content that allows them to maximize  
24 their brand, their identity, their product  
25 knowledge, and their differentiation between their

1 competitors and allows the buyer to see a mass  
2 aggregation of content from many suppliers who want  
3 to see not only just a one-line product description,  
4 but complete detail of content.

5 So, WIZNET's viewpoint on e-commerce is one  
6 of the real engines -- the gas to the engine at  
7 e-commerce is how do we transition the massive  
8 aggregation of legacy formats, mainly paper, both  
9 domestically and globally, that can fit into buying  
10 platforms using transactional systems.

11 We're a four-year-old company that is hired  
12 both domestically and globally to deal with the  
13 issue of content. And we view content not only as  
14 catalogs, but content could be maintenance manuals,  
15 MSDS sheets, OSHA reports, specifications,  
16 three-dimensional CAD figures to help build the  
17 products that the buyers want to see and the  
18 suppliers want to sell.

19 MS. DeSANTI: Thank you. And Gretchen,  
20 you've been following B2B since 1998, what is your  
21 big picture perspective on these developments?

22 MS. TEAGARDEN: Yeah. Good morning, my name  
23 is Gretchen Teagarden, I'm head of the  
24 business-to-business e-commerce practice at Salomon  
25 Smith Barney.

1           From a very macro perspective, B2B  
2 e-commerce is simply the next generation of  
3 productivity growth for the U.S. economy. B2B  
4 e-commerce allows companies to do more with less.  
5 And what that means to a U.S. business is more  
6 output per worker hour. More output per worker hour  
7 allows employees to be more productive and  
8 ultimately should mean higher profits to our  
9 companies.

10           Also, I think another benefit is it allows  
11 them to continue to lower their cost without having  
12 to raise prices. And what that means to you and me  
13 and consumers as a whole is a lower price for the  
14 end product.

15           I think the key thing for members of this  
16 forum to think about is the dichotomy between an  
17 exchange that lowers the cost to effect a  
18 transaction versus an exchange that lowers the  
19 underlying price of the good that's attempting to be  
20 purchased. So, I think there's a real difference in  
21 the two.

22           And most of the exchanges that I've looked  
23 at, and there's over 700 of them out there now, are  
24 focused on the former, which is just lowering the  
25 transaction cost.

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1           So, as Rob mentioned this morning, where the  
2           example of buying business cards, it shouldn't cost  
3           \$40 to buy \$40 worth of business cards. You should  
4           be able to buy \$40 worth of business cards and the  
5           cost to do that should be a very minimal percentage  
6           of the value of what you're buying. And most of  
7           these exchanges are trying to lower that transaction  
8           cost, which ties back to how this improves  
9           productivity generally of a business.

10           MS. DeSANTI: Thank you. Patrick, I want to  
11           come back to Dale's initial observations on the  
12           possible trend toward neutramediaries, and give you  
13           an opportunity to talk with us a little bit. I  
14           understand there are a lot of confidentiality  
15           protections that MetalSite has built in. Could you  
16           describe some of your processes for that?

17           MR. STEWART: Sure. I think it's important  
18           to realize that, you know, MetalSite is no different  
19           than any other company. I mean, when we founded the  
20           company, again, we did not know what B2B was, and  
21           our first meeting that we had with our antitrust  
22           counsel was actually in 1996, two years before the  
23           company is even launched, because I came out of as  
24           people call it the old economy. I spent the last 20  
25           years in the old economy, and the reality is that

1     how you govern a company is governed by the rules of  
2     the land that we've had for decades.

3             And we sat down with Buchanan Ingersoll, our  
4     antitrust counsel, and looked at how do you  
5     aggregate buyers and sellers within a marketplace,  
6     which at the time we were calling it a virtual  
7     supply chain. That was our term for it, or  
8     community.

9             And they helped us through about a two-year  
10    process to develop the control practices, the  
11    procedures, because it really, as much as it is  
12    policies and rules, it's how a business operates.  
13    In fact, we were the first, I think we were the  
14    first B2B company that actually had a big six  
15    auditing company's audit statement on our website.  
16    In fact, Arthur Anderson audits our company every  
17    six months for controls, policies, practices, on how  
18    we're managing our business, how we're controlling  
19    our data, how we're segmenting that data, how our  
20    account managers are dealing with our buyers and  
21    sellers.

22            That's critical. That's how you run a  
23    business, it's like a traditional business, the same  
24    as any company.

25            So, we've never viewed ourselves as a

1 different company. I think the thing that's  
2 happened is that B2B has taken off so quickly, and  
3 these companies are forming literally overnight.  
4 As Gretchen said, there's, what, about 700 now and  
5 the forecast I'm seeing there's going to be 10,000  
6 -- or whatever the number is. They're forming so  
7 quickly, I think people are blowing right by the  
8 fact that they have to run a business like a real  
9 business.

10 We've had the luxury, because as we started  
11 this four or five years ago, to build a real  
12 business. We have the control procedures, we've got  
13 the practices in place, we've got the audit  
14 mechanisms in place, we have the reporting  
15 mechanisms. And I'm sure FreeMarkets, as old as  
16 they are, they have the same.

17 But I think you've got to go back to the

1 when you think about a traditional economy company,  
2 they have only their own -- their transactional data  
3 within a company umbrella.

4           We have a many to many model. We have many  
5 sellers' data, many buyers' data, all in one, and  
6 how we manage that data on a day-to-day basis is  
7 crucial. And it really, you know, as much as people  
8 talk about security and hackers, I think if you look  
9 at any security report, 95 percent of security  
10 breaches are from lack of controls -- not from a  
11 hacker.

12           So, we've kind of based our company, not  
13 that technology security isn't critical, it is. But  
14 we've based our company around the fact that we must  
15 control how we do business on a day-to-day business.



1 that people would trust, and I think that's what  
2 we've accomplished.

3 MS. DeSANTI: Okay. Sam Kinney, is there  
4 anything you want to add on that?

5 MR. KINNEY: Well, yeah, that's a nice  
6 transition, because it is about credibility,  
7 ultimately. And for buyers to want to continue to  
8 come back and work with us, they have to feel  
9 comfortable that their information is being  
10 safeguarded. For suppliers to want to come and go  
11 through the preparation process, to work with our  
12 buyers, they have to believe that it's, you know,  
13 there's real live commerce here.

14 So, you know, the rules of how you operate  
15 one of these things really are largely common sense,  
16 all right, and you did see some examples here, but,  
17 you know, the way we structure our rules is: what  
18 are the representations that buyers make to sellers?  
19 What are the representations that sellers make to  
20 buyers? What are the representations that we as a  
21 market maker make to both other parties?

22 So, you know, the buyer is representing that  
23 this is valid business, that it's not just a market  
24 test, right, you're not wasting your time trying to,  
25 you know, just prove to me that I was doing a good

1 job, right? So, that's an important one of the  
2 rules, right, just good common sense.

3 You know, we have to represent to the  
4 suppliers that, you know, buyers aren't bidding,  
5 right, and there's nothing, you know, there's no  
6 shill bidding going on here. We have to represent,  
7 and one of the positives of it being a selected  
8 market is that if you're an OSHA compliant and  
9 environmentally compliant supplier, you want to know  
10 that you're bidding against OSHA compliant and  
11 environmentally compliant suppliers. Right?

12 So, we can't allow them to be bidding  
13 against someone in a garage that has never even  
14 heard of OSHA, it just wouldn't work that way. So,  
15 again, it's common sense, it's the mutual  
16 representations that you make in order to maintain  
17 the credibility of the market in the long run that  
18 matter.

19 MS. DeSANTI: Okay. Let me broaden the  
20 discussion to open it up to all of the different  
21 kinds of rules that may be necessary in -- for B2B  
22 marketplaces to operate, not just those maintaining  
23 confidentiality and credibility, but other types of  
24 rules, and I'm going to start with Chris Cogan, but  
25 then get some observations from other members of the

1 panel.

2 MR. COGAN: Well, I'm not an attorney, and I  
3 don't know how many rules and regulations are needed  
4 to govern e-marketplaces. I personally think that  
5 there may be sufficient rules and regulations  
6 currently, but there may exist challenges for the  
7 FTC in monitoring and applying existing rules.

8 I think some of those challenges will be  
9 different from one situation to another. As an  
10 example, a private secure system, we have a global  
11 customer that has a private secure system interfaced  
12 into their ERP system, they have all of their own  
13 private nationally-negotiated vendors loaded into  
14 the system, and they do all of their purchases,  
15 nearly a half a billion a year, over that system.

16 Then we also work with industry  
17 e-marketplaces and industry consortia where there is  
18 an opportunity for competitors to get together and  
19 either leverage certain services or have a division  
20 of labor where each of the members provides a  
21 different service or a different portion of the  
22 services to each other, and they gain economies of  
23 scale that way.

24 But that also, then, opens the door for  
25 those members of the industry marketplace or

1 consortia to potentially cooperate or even collude  
2 on price leveraging, purchasing power, what have  
3 you. So, I think a lot of it will depend on the  
4 intent of the parties involved.

5 MS. DeSANTI: Okay. Steve Attanasio, I  
6 think you've thought about some of this in terms of  
7 industry standards and even as international  
8 standards.

9 MR. ATTANASIO: Well, I think that Patrick  
10 put up a good point. Over the next four years,  
11 there's going to be 10,000 verticals globally. And  
12 we talked to suppliers, and our job is getting hired  
13 by clients both domestically and internationally to  
14 deal with suppliers and their concerns about  
15 content.

16 And so when they hear the word -- when a  
17 supplier hears a word 10,000 verticals, two things  
18 happen. One, they say gee, I have maybe a better  
19 way to sell my product faster, and then the other  
20 point is how do I deal with 10,000 verticals, and  
21 how do I protect my intellectual property. How do I  
22 keep my brand, how do I keep them -- another  
23 competitor by going to a vertical to understand how  
24 I make a product that differentiates from them and  
25 giving me a market lead.

1           So, the first question is a lot of suppliers  
2 are going to push back and say there's going to be a  
3 lot of people who I don't know asking for a lot of  
4 information, and how do I protect my core business  
5 brand and what differentiates myself and my business  
6 practices?

7           So, the first push back is, we have 10,000  
8 new exchanges saying come with me, I'm going to sell  
9 more of your product. And the suppliers are pushing  
10 back and saying hey, wait a minute, am I going to  
11 lose my identity or my intellectual property, am I  
12 de-valuing my asset base? What protects me as a  
13 supplier so I don't give in to a competitor by  
14 someone owning a password?

15           So, there are going to have to be rules both  
16 domestically and globally to protect intellectual  
17 property on specifications of products, and a lot of  
18 suppliers are going to start pushing back and saying  
19 I'll be on this vertical, but I don't want to be on  
20 this vertical, because the rules that this vertical  
21 lives under are not enough to protect my product  
22 branding process.

23           And two, we established some rules of how  
24 intellectual property is transmitted and transacted  
25 over many verticals, we might get pushed back by the

1 suppliers in saying prove to me that you're not  
2 damaging me and making me a commoditized effect.

3 Now, the other fear is what Susan just  
4 brought up, is that if we put too many rules in the  
5 United States, does this allow -- the Internet is  
6 truly amorphous and boundless. Rulemaking in the

1           MR. FROMER: Yeah, I think we focused a  
2 little bit on the rules pertaining to a particular  
3 marketplace, and really aside from legal and  
4 regulatory rules, there are really two areas of  
5 particular focus.

6           One is the rules of the business process,  
7 which you've seen some, FreeMarkets exposed to you  
8 and MetalSite exposed to you. The other set of  
9 rules are really standard oriented. What are the  
10 standards by which we communicate. When Steve is  
11 talking about taking supplier content and having  
12 10,000 marketplaces, it's pretty important to the  
13 suppliers that when they take their catalog, that  
14 they only have to digitize it once. They don't want  
15 to have to put it in 10,000 different formats.

16           So, for interoperability purposes, it's very  
17 important that we have consistent standards, whether  
18 they're by industry or horizontal, and that those  
19 standards are well defined for us. And technology  
20 companies, like the companies who are paneled here,  
21 are driving that, as an evolution.

22           The second set of rules actually pertains to  
23 how marketplaces themselves interoperate. And  
24 there's a concept that you will hear called  
25 syndication, which is, you know, ultimately

1 marketplaces are basically service companies to  
2 their participants. And we're all out there to  
3 actually provide -- in terms of marketplaces, are  
4 actually out there to provide services.

5           So, an example just for the panel discussion  
6 would be if I'm a seller of steel and I have 100  
7 tons of steel to sell and I go to MetalSite to sell  
8 them, but I can't find out when I go to MetalSite  
9 that at the same time FreeMarkets has an auction for  
10 100 tons of steel going on, I have a problem.  
11 Because now I have to send somebody to FreeMarkets  
12 and to maybe five or ten or 20 other marketplaces in  
13 which there may be some type of purchase activity  
14 for steel going on.

15           So, it's up to us to cooperate as technology  
16 companies to make that interoperability occur.  
17 There are standards already forming, CommerceOne is  
18 involved with something called the Global Trading  
19 Web which is forming standards for that  
20 interoperability, for example.

21           MS. DeSANTI: Robert Tarkoff, I'm wondering  
22 if the point that you were making towards the end  
23 of your first presentation on migration from  
24 applications to services may have anything to  
25 contribute in the way of solving or addressing



1 to some extent some of these interoperability issues  
2 by making solutions less technologically complex?

3 MR. TARKOFF: Yes, Susan, I think that's a

1 technology services today that deal with issues like  
2 export control that deal with other issues, local  
3 regulation issues.

4           For example, our marketplace in Japan, NTT,  
5 has developed a standard localization for letter of  
6 credit services for their customers who want to buy  
7 on the marketplace. And one of the unique things  
8 about all these marketplaces creating a  
9 service-based company where they're all going to  
10 compete, either starting in a certain vertical, or  
11 starting on a basis offering these services to  
12 customers in any vertical, all these companies are  
13 eventually going to have to compete on the basis of  
14 the level of service that's offered.

15           How many services do I provide to my  
16 customers, what's the quality of that service,  
17 what's the uptime of my exchange, how does all that,  
18 you know, work to provide ultimate benefit to my  
19 customers and ultimate benefit to my suppliers.

20           And so I think if you look at a couple of  
21 things we've talked about. We've talked about what  
22 are the rules. Well, my belief is the rules are the  
23 rules. Whether you're doing exchanges on the basis

1 what our behavior should be.

2 But the second issue is how do I actually  
3 make this efficient? I turn to Sam's example where  
4 he talked about in an auction scenario how you can  
5 create this bidding activity which previously you  
6 never had access to all these participants in a  
7 marketplace. Well, that's one of the services that  
8 people are looking at today, but there are going to  
9 be a lot more services that we are going to need to  
10 offer. And as marketplaces expand, they are going  
11 to need to build new services and they are going to  
12 need to look at ways to become interoperable with  
13 other marketplaces that provide different services,  
14 because nobody can do it all themselves.

15 MS. DeSANTI: Dale Boath, I think you have  
16 some thoughts on this issue of interoperability and  
17 how this is all working out in the marketplace?

18 MR. BOETH: Yeah. I think that looking at  
19 the marketplace, where it stands in its evolution,  
20 it's still in its infancy. We are on the frond end  
21 of this curve, definitely. We're kind of the  
22 inverse of Sam's logo. We're here starting up the  
23 B2B curve. I believe that it's probably not a real  
24 painful issue right now because of that early  
25 adoption phase that we're in. Most businesses are

1 establishing participation in one, maybe two, maybe  
2 a small handful of marketplaces.

3           However, as marketplaces begin to achieve  
4 critical mass, in terms of buyers and sellers, and  
5 services, I think that that point of pain is going  
6 to become high enough that there will need to be  
7 industry-driven standards, formalized, and standard  
8 and agreed to among the market makers and enablers.

9           I would cite historically the technology  
10 that everyone at this panel -- on this panel is  
11 using today, CXML, which began as a grass-roots  
12 efforts of 40-plus companies that got together  
13 looking for ways to make the inner exchange of  
14 information possible. And it's a variant off of XML  
15 technology, which a lot of you might associate with  
16 content and presentation, the CXML, the commerce  
17 flavor of it, can carry transactional information  
18 and descriptive information that's needed for  
19 processing transactions and carrying data to and  
20 from marketplaces.

21           So, I think my observation would be that  
22 interoperability probably hasn't become hugely  
23 painful enough to cause end users to scream out for  
24 us to get together once and for all and work to  
25 create standards, but I think we want to be

1 preemptive and we want to do that on a proactive  
2 basis, and I think that forms, such as the  
3 experience for CXML, are going to be the process for  
4 that.

5 MS. DeSANTI: Okay. Gretchen, can you give  
6 us a little primer on the XML terminology, I didn't  
7 cover that in the beginning, maybe you can help us.

8 MS. TEAGARDEN: Yeah. XML, it stands for  
9 extensible mark-up language, but the way to think

1 going to put the price, in this column we're going  
2 to put the quantity, in this column we're going to  
3 put the name of the supplier, so that as purchase  
4 orders start to proliferate on the web, in a  
5 web-based transaction, they have the same meaning to  
6 different users.

7           And so that's what XML is, and it really is  
8 key to the adoption of all of these exchanges, or  
9 even just a company wanting to do business, because  
10 it is an open environment for communication.

11           MS. DeSANTI: Thank you. We're starting to  
12 run out of time, so in wrapping up, I would like to  
13 just give Sam, if you have anything that you want to  
14 say on the standard-setting process that you've  
15 received, give you one opportunity and then conclude  
16 with one last question.

17           MR. KINNEY: Yeah, okay. I think it's  
18 interesting to look and to follow up on Robert's  
19 point. There will be a lot of services offered by a  
20 lot of companies. It's like the financial services  
21 industry, right, it's not just the NASDAQ, there's  
22 many specialized players, many mutual funds, many  
23 underwriters, many, you know, discount brokers.  
24 They all do work together and it's through those  
25 standards.

1           Now, I think what's interesting is that  
2 we're so early, that it would be almost damaging to  
3 try to stop -- right, stop the innovation now and  
4 agree on a standard right now, because there's so  
5 much innovation going on under the hood. You know  
6 what's interesting about XML is that a purchase  
7 order may end up being one of the simplest documents  
8 in the B2B world using XML, all right?

9           Patrick was talking about multi-attributed,  
10 you know, product descriptions. When I -- the  
11 circuitboard that I described. There's 200  
12 attributes that describe a circuitboard,  
13 technically, and XML can start to encapsulate all of  
14 that.

15           Now, again, though, it's unlikely that we  
16 know enough right now to all get together and set  
17 the standards that would be helpful, all right, it's  
18 probably too early to do that. We would probably  
19 have to let the kind of competitive nature and the  
20 innovative nature of the technology industry push  
21 that a lot further forward before we kind of freeze  
22 under the standard.

23           MR. TARKOFF: Susan, can I just say one  
24 other thing?

25           MS. DeSANTI: Yes, Rob.

1           MR. TARKOFF:  When people talk about  
2 interoperability, the focus really seems to be on  
3 technical standards alone.  One of the points that I  
4 think is important to recognize is that there's more  
5 to interoperability than technical interoperability.

6           Marketplaces have to agree to terms and  
7 conditions around how they are going to do business  
8 with each other.  And that is really one of the  
9 largest tasks I think that all of us, as e-commerce  
10 people, have to face, because we're going to have,  
11 you know, a lot of different -- as many flavors as  
12 there are XML, there's flavors of all the other  
13 application components that go into marketplaces.  
14 People have to agree on service level standards,  
15 they've got to agree on how an auction service  
16 coming in from one system interacts with an auction  
17 service from another system, and the rules around  
18 that, and how those auctions are designed.

19           So, I think that the bigger challenge, the  
20 technical piece is a challenge, and at some point  
21 that, you know, the industry will work that out.  
22 The bigger challenge will be at a business level how  
23 these marketplaces learn to work together and  
24 provide a consistent level of service.

25           MS. DeSANTI:  Okay, let me just wrap up with



1 one final question for our one representative from a  
2 foreign company, SAP. Gary Fromer, can you talk to  
3 us about the extent to which B2B marketplaces are  
4 being established outside the United States?

5 MR. FROMER: Yeah. I think there's an equal

1 focused on how they will deliver services and what  
2 services they will deliver, and how they will help  
3 the participants in the e-marketplace re-engineer or  
4 optimize their supply chains and procurement  
5 processes.

6 MS. DeSANTI: Okay. Well, regrettably, I'm  
7 going to have to wrap up this discussion, because I  
8 would love, myself, to keep going. I have talked  
9 with all of these people and they're all wonderful  
10 to talk with and very informative.

11 Before we close this morning entirely, there  
12 are two more sets of brief remarks. First, we are  
13 very fortunate to have with us today Jeffrey Hunker,  
14 who is senior director for critical infrastructure  
15 at the National Security Council at the White House.  
16 We're honored to have him with us today to outline  
17 some of the important issues that will need future  
18 consideration with respect to B2Bs. He's here to  
19 put some of these issues on the table in a brief  
20 way, and Mr. Hunker, go right ahead.

21 (Applause.)

22 MR. HUNKER: Well, thank you. I'm going to  
23 be brief. I wanted to thank the FTC, in particular  
24 Susan DeSanti for organizing this.

25 You may all have the same question in your

1 minds that I think that Chairman Pitofsky and  
2 Commissioner Swindle had when I originally called  
3 them up some time ago, which is -- why in the world  
4 is this guy from the National Security Council  
5 wanting to talk with me?

6           The reason is, I want to put onto the future  
7 agenda for this group of B2B experts and leaders the  
8 issue of network and cyber-security. Not just as an  
9 issue of national security in the traditional sense  
10 of defense and the FBI and the military need to deal  
11 with it, but as an issue of appropriate risk  
12 management and liability management and commercial  
13 good business practice for you, for your customers,  
14 for your suppliers. And also for your auditors and  
15 lawyers as well.

16           The fact is that we're in an interesting  
17 position -- interesting situation right now. We  
18 have this wonderful dependance on -- and growing  
19 dependance on -- electronic networks. We're all  
20 here today, in part, to help advance that and to  
21 celebrate that. The dirty little secret is that  
22 much of the hardware and software and network  
23 architecture that we depend on today was never  
24 designed to, in fact, have the level of security in  
25 protecting against insider intrusions and misuse or

1 outsider intrusions or a combination of factors that  
2 we -- it nevertheless was designed to have the level  
3 of security that we're really now insisting upon in  
4 our networks.

5           And the other dirty little secret that's  
6 emerging is that there's an increasing number of bad  
7 people out there who are exploiting that fact.  
8 Whether it be at one end, and this is an issue that  
9 I worry about, nation states, or at the other end,  
10 which is an issue you need to worry about in terms  
11 of insider misuse. There's a lot of bad people out  
12 there.

13           It's sometimes described as the electronic  
14 Pearl Harbor is the scenario we need to worry about.  
15 I actually think for this audience and for the  
16 business community as a whole, it's more the  
17 electronic Exxon Valdez that is the subject of  
18 concern for all of us.

19           I head up the White House component of what  
20 is an emerging and very -- now very extensive  
21 dialogue and agenda for action with the IT and the  
22 network business community. We've been working for  
23 some time. This past January, the President issued  
24 a first version of a national plan for information  
25 systems security, and I would encourage all of you

1 if you're interested, you can visit a website -- the  
2 website, [www.CIAO.gov](http://www.CIAO.gov) to get that.

3 My objective today is just to suggest to you  
4 and to let you all know that we want to be working  
5 with you. We will be in the course of the coming  
6 weeks, just as I've contacted the Federal Trade  
7 Commission, seeking to contact a number of you to  
8 have -- to explore the opportunity for a structured  
9 dialogue around improving security in B2B networks.

10 And I would like to suggest that there's at  
11 least three questions out there. One of which is  
12 whether there's an opportunity or value in convening  
13 parts of the B2B community, similar to today, in  
14 different formats, perhaps smaller or larger or  
15 whatever, to raise a question about whether there's  
16 an opportunity and value, from a commercial sense,  
17 for joint action to improve security.

18 I would like to secondly suggest the  
19 question to all of you about whether there are steps

1           And third is are there other steps that the  
2 White House or that the national leadership can take  
3 that would enhance the reliability, security, and  
4 reduce of your networks?

5           I can be reached through the White House,  
6 and I really value that. I'm Jeffrey Hunker, that's  
7 my name card up there, and also if you have -- if  
8 you want to get further information on the website,  
9 the support office for my agenda is, again,  
10 www.CIAO.gov. I will be here throughout the  
11 conference, and thank you very much.

12           (Applause.)

13           MS. DeSANTI: Thank you. Finally, we're  
14 very fortunate that each of the five people at the  
15 Federal Trade Commission who really count, that is  
16 each of the five commissioners, has graciously  
17 agreed to speak. You've already heard a little bit  
18 from Chairman Pitofsky, we are next going to hear  
19 from Commissioner Orson Swindle who is just going to  
20 share a few of his thoughts as we are beginning to  
21 engage in this process of better understanding B2Bs.

22           Commissioner Swindle?

23           COMMISSIONER SWINDLE: Thank you, Susan. As

1 more than anybody in the Commission. The  
2 commissioners vote, that does not necessarily mean  
3 we count, but these people count, because they got  
4 all of you here, which I think is most impressive  
5 and the presenters certainly led us to an  
6 interesting presentation this morning and I think  
7 they all deserve a round of applause.

8 (Applause.)

9 COMMISSIONER SWINDLE: Having said that, I  
10 must tell you that I will not be here the remainder  
11 of the day, I have to go endure pain at the dental  
12 office, I will send you a card wishing you were here  
13 and urge you to take part in the presentations that  
14 are coming up. It's an extraordinary gathering of  
15 people.

16 I have attended a lot of government  
17 conferences in my life, and I want to do a survey,  
18 how many of you are from the business world? Raise  
19 your hands. God, that's encouraging. How many of  
20 you are from government? That's great. How many  
21 from non-government organizations, advocacy groups  
22 and things of that nature? Great.

23 Most government conferences I go to are  
24 attended by government employees and they all

1 before, and when we started talking about this,  
2 Susan and Gail came in and said what do you think?  
3 And I said a grand idea, may I ask one thing be  
4 emphasized, and that is that we, the government, the  
5 Federal Trade Commission, listen, because I would  
6 contend that this is such a fast-moving target and  
7 it's so complex that we probably don't know a lot  
8 about what's going on.

9           In fact, I would even venture to guess that  
10 some of these guys up here actually don't know a lot  
11 about what's going on. It's moving that fast.



1 here? I've seen a few. Oh, they're over here in  
2 one corner. Got to stay together, guys, we can get  
3 you if we split you up.

4 But obviously there's a lot of attention  
5 here. There's a lot of attention to this issue, and  
6 I mean by the very presence of everyone here and the  
7 spillover audience that is getting this by delayed  
8 action unstamped back at the Federal Trade  
9 Commission, your presence means one thing to me.  
10 This is a matter of enormous importance.

11 It's something that we all have to pay very  
12 careful attention to, it represents, you know, this  
13 B2B concept probably in the past, and maybe right  
14 now, has been considered, as I would put it, as sort  
15 of a competitive advantage for those who know how to  
16 do it and those who will participate in it, but it's  
17 very soon going to become a standard cost of  
18 business, because it's the way that business is  
19 going to be run. And it will probably evolve, too.  
20 I'm pleased to hear the words evolution, evolve,  
21 we're just beginning, we're just learning, and I  
22 think these are important things to remember.

23 Another lesson I think we need to gather  
24 from this presentation that I've heard so far, and  
25 I'm sure it will only get better as we go along,

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1 because I think there's that much interest in making  
2 it be the right kind of discussion, and that is that  
3 we in government, we who are responsible for  
4 regulating and passing the laws and establishing  
5 regulations and enforcing those regulations and  
6 laws, whatever we might be prone to do or come to do  
7 in the near future or not too near future, we had  
8 best get it right, because of the magnitude of this,  
9 if we screw it up, we will have caused some terrible  
10 damage.

11 I would suggest that in spite of all the  
12 rhetoric, all of the attention, all of the media,  
13 all of the hyp, that we've got a lot to learn and  
14 that we had best look before we leap.

15 This morning's presentations are glimpses of  
16 the genius of these innovators, these risk-takers,  
17 these entrepreneurs, and I think we're honored to  
18 have them here to share with us their experiences.

19 E-commerce as a general subject in my mind  
20 is about empowerment. It's about more choice,  
21 efficiencies, speed, more productivity, more  
22 profits, more savings, better products, better  
23 services, and all of that in my mind leads to giving  
24 consumers more, better, faster. In other words,  
25 enhancing consumer welfare, which is what we're all

1 about.

2           The Internet, e-commerce is about change.  
3 It's about empowerment. Empowerment often scares  
4 regulators, and politicians, by the way, and I think  
5 some of them dread the thought of all this  
6 empowerment going out there to all these people. As  
7 do middle men, perhaps, as do certain businesses,  
8 and certainly regulators.

9           And I would suggest that there's probably a  
10 good chance that you will see some fighting back and  
11 resisting this, but that's been the way history has  
12 always been. There's always resistance to change.

13           There are buzz words always associated with  
14 change, and I for one am leery when I hear the words

1       cries about this process.   What about middle men?  
2       What about Main Street?

3               We've heard that in the exercise of a tax in  
4       the Internet, and as I said, I can recall some  
5       things like, you know, what about buggy  
6       manufacturers, when the cars came along.   And I'm  
7       not quite that old, but I recall being told of the  
8       concerns that buggy manufacturers had when the  
9       automobile showed up.

10              What about the invasion of privacy?   And I'm  
11       not talking about 1999 or 2000, I'm talking about in  
12       the late 1800s when photography became very easily  
13       accessible, and newspapers learned to spread out and  
14       spread the word, and there was even a great justice  
15       who wrote about the concern that we have about  
16       photography invading our privacy.

17              There's always, and we're in the hallowed  
18       halls of the Agriculture Department where I spent a  
19       few years working.   We've been concerned about the  
20       demise and the change in agriculture.   We've gone  
21       from 30 million farmers down to less than two  
22       million I think is the number today.   And yet look  
23       at all the things that have evolved out of those  
24       changes that make our life better.

25              This is all about, as I said, it's about

1 empowerment, and basically it's about freedom and  
2 new ways of thinking. And in this country,  
3 certainly, and I'm sure in other countries, but  
4 certainly no model like this country, change has led  
5 us to greater and greater accomplishments, better  
6 and better life experiences, standards of living,  
7 and I think this is just one more change that we're  
8 all going to have to adjust to. We have a lot to  
9 learn at the Federal Trade Commission, you have a  
10 lot to teach us, we thank you for coming and  
11 participating. And I hope to be with you tomorrow.  
12 Thank you very much. Thank you, Susan.

13 (Applause.)

14 MS. DeSANTI: Thank you, Commissioner  
15 Swindle. Before you all leave, there's one more  
16 person who really counts who I want to bring to your  
17 attention, my colleague Bhaskar, who brings to  
18 policy planning a technology background as well as a  
19 Yale law degree. In January, Bhaskar came to us and  
20 said you guys have got to pay attention to these new  
21 B2B marketplaces, and we said oh, yeah, Bhaskar,  
22 well we've got these antitrust guidelines and, you  
23 know, we've got this stuff to do. Well, here we all  
24 are.

25 And then in about April, Bhaskar came to us

1 and said there are cyber-security issues involved in  
2 these B2B marketplaces, and we said yeah, yeah,  
3 Bhaskar, but we've got this, you know, other stuff  
4 to figure out in terms of the competition  
5 implications. And then three weeks later Jeffrey  
6 Hunker from the National Security Council called us  
7 up. So, I want to say that we could never have put  
8 this on without Bhaskar.

9 We will start again after lunch at 1:20, and  
10 the Department of Agriculture has a huge cafeteria,  
11 which is down I believe on wing 2. Thank you for  
12 your patience this morning. Look forward to seeing  
13 you after lunch.

14 (Whereupon, at 11:55 p.m., a lunch recess  
15 was taken.)

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## 1 AFTERNOON SESSION

2 (1:20 p.m.)

3 MR. COHEN: Let me encourage some of you to  
4 come on down and look for empty seats. We noticed  
5 this morning that there were a number of people  
6 standing in the back, but there were some spaces  
7 available farther down.

8 Okay. My name is Bill Cohen, I am Deputy  
9 Director of Policy Planning at the Federal Trade  
10 Commission and I welcome you to this afternoon's  
11 session. We're going to have two panels this  
12 afternoon, the first of which will examine B2B  
13 electronic marketplaces from the buyer's  
14 perspective, and the second which will look at the  
15 marketplaces from a seller's perspective.

16 Before turning to the panels, though, it's  
17 my pleasure to turn the microphone over to another  
18 one of the Federal Trade Commissioners, Sheila  
19 Anthony, who will give you some short remarks.

20 (Applause.)

21 COMMISSIONER ANTHONY: Good afternoon, and  
22 welcome to this afternoon's session of the B2B  
23 workshop. Thank you for coming and sharing your  
24 ideas and your perspectives on this promising new  
25 business model.

1           It seems that hardly a day goes by anymore  
2 that I don't pick up the paper and see that a new  
3 B2B venture is being formed. And recognize that the  
4 promise of real efficiencies is very tantalizing.  
5 On the other hand, I can't help but wonder if  
6 perhaps there might be a serpent in the garden of  
7 efficiencies, and I'm speaking about antitrust  
8 problems, of course.

9           Could B2B ventures engender collusion? Are  
10 they likely to facilitate signaling? Might B2Bs  
11 take the form of exclusive arrangements that freeze  
12 out would-be competitors? Well, I don't know, and  
13 that's why I'm excited about this conference.

14           This morning, we listened to panelists speak  
15 about neutramediaries, interoperability issues, the  
16 eventual need for standards, both technical and for  
17 service levels, the importance of security to  
18 protect confidential information and intellectual  
19 property.

20           We also heard Chris Cogan remark that it  
21 will be a real challenge for the FTC to monitor  
22 these new businesses under old rules, and I couldn't  
23 agree more. It's impossible for me to sort out the  
24 realistic threat of anticompetition from those that  
25 are just speculative and unlikely to materialize .



1 I first need to know more detail about how B2B  
2 enterprises will operate, will be structured, will  
3 function.

4           While I understand the overall concept of  
5 B2B ventures, I'm interested in knowing more about  
6 the details, the nuts and bolts of these enterprises

1 from the FTC who will be asking questions. We have  
2 Gail Levine and David Medine.

3 I'm going to try to channel the discussion  
4 for this panel into eight segments. We'll begin  
5 with a series of background questions concerning how  
6 buyers are using and planning to use B2B  
7 e-marketplaces. Then we'll have some discussion of  
8 their efficiencies, followed by examination of  
9 possible buyer reservations.

10 Next, we'll examine the criteria and the  
11 fees for participating as buyers. And then we can  
12 address participation in the marketplaces owned by  
13 suppliers or by competing buyers. We'll follow this  
14 with discussion of limitations on buying  
15 independently or through a second marketplace.

16 Then, nearing the end, we'll turn to the  
17 topic of aggregate buying, that's lumping together  
18 the orders from multiple purchasers. And finally,  
19 we'll conclude with a discussion of information  
20 sharing issues.

21 I would like to use a slightly different  
22 format than we used for our panel this morning,  
23 because I want to try to encourage cross discussion  
24 as much as possible. So, I would suggest that when  
25 you want to be recognized, that you just turn your

1 name plate on its side and I'll do my best to find  
2 you on the stage and recognize you to speak.

3 Time is limited, we want to hear from you as  
4 efficiently as possible, and so I will ask that you  
5 try to keep your answers concise and responsive to  
6 the particular topic at hand.

7 If you think it valuable to give us some  
8 idea of your particular perspective and your firm's  
9 particular perspective on these issues, feel free to  
10 start off with a sentence or two describing your  
11 firm's role the first time you offer an answer.

12 But before we get to that point, I would  
13 like to give each of the panelists an opportunity to  
14 identify yourselves. So, perhaps starting with  
15 Steve, we can just go down the list, if you could  
16 just give your name and your company, we'll proceed  
17 from there.

18 MR. KAFKA: Good afternoon, my name is Steve  
19 Kafka, I am an analyst with Forrester Research. We  
20 are an independent technology research company and  
21 my focus area is on B2B and on e-marketplaces.

22 MR. KINNEY: Sam Kinney with FreeMarkets, I  
23 think most of you saw me this morning.

24 MR. ARNOLD: Jon Arnold with the Edison  
25 Electric Institute, I'm the chief information

1 officer. We represent the investor-owned electric  
2 utilities, which generate over 70 percent of the  
3 electricity in the U.S.

4 MR. CHEN: Good afternoon, my name is David  
5 Chen, I'm the CEO of GeoTrust, and we are a start-up  
6 that is building out what we call a trust  
7 infrastructure to support B2B commerce.

8 MR. VAN BREEN: Good afternoon, my name is  
9 Gerard van Breen, I am executive vice president for  
10 Royal Ahold, an international supermarket operator  
11 with stores in 25 countries around the world, and  
12 also into food service, the food service industry,  
13 and we own, for example, U.S. Food Service here in  
14 the U.S.

15 MR. COHEN: And starting with Kaushik at  
16 this end of the table.

17 MR. SHRIDHARANI: Hi, my name is Kaushik  
18 Shridharani, I'm with Bear Stearns, I'm an analyst.  
19 Bear Stearns is an investment bank based in New  
20 York.

21 MS. KIM: Hi, I'm Angie Kim, I'm cofounder,  
22 president and chief customer officer of  
23 EqualFooting.com, which is a B2B online marketplace  
24 that levels the playing field for small businesses.

25 MS. MIREK: Good afternoon, my name is Lori

1 Mirek, I'm the president and CEO of Currenex.  
2 Currenex has a web-enabled multibank foreign  
3 currency exchange that links banks with corporations  
4 and funds to create a level playing field.

5 MR. KNOLL: Good afternoon, I'm Jay Knoll,  
6 I'm senior staff counsel to Detroit Diesel  
7 Corporation. I happen to wear two hats, one is a  
8 lawyer's hat over at Detroit Diesel, but I also  
9 participate in the e-business strategy there.

10 MR. GRAY: Hi, I'm Rod Gray, I'm the chief  
11 financial officer for Petrocosm. Petrocosm is a  
12 supply chain management site being developed by  
13 Chevron and enjoined recently by Texaco in creating  
14 the service for the oil and gas industry.

15 MR. ALLGAIER: Hi, I'm John Allgaier, from  
16 General Mills, home of favorite brands like  
17 Wheaties, Cheerios, Yoplait Yogurt. I represent a  
18 couple parts, both from a purchasing side within  
19 General Mills and also on the B2B discovery side.

20 MR. COHEN: Very good. Let's begin with the  
21 first question, then. I think the place to begin is  
22 with some general background. I would be very  
23 interested in hearing some discussion of what use  
24 buyers are making of B2B electronic marketplaces,  
25 and what their plans are for future use.

1           And as a point of contrast, you might want  
2 to talk a little bit about how this compares with  
3 the method of purchasing that you used prior to  
4 development of B2B electronic systems.

5           Perhaps we should start with some of our --  
6 one of our true buyers, Mr. Allgaier.

7           MR. ALLGAIER: To answer the question of how  
8 does B2B differ from our current purchasing  
9 practices, it's really no different today than how  
10 we've purchased in the past, when our company was  
11 started.

12           If you think of the grain exchanges, the  
13 pits with the open outcry, we at General Mills and  
14 those that utilize the Chicago Board of Trade and  
15 Minneapolis trade, use that as kind of a reference  
16 point within our company around this is -- the B2B  
17 is no different than that, only rather than  
18 physically getting together with buyers and  
19 suppliers in a pit, you do it over the electronic  
20 network.

21           So, we don't see it as very different,  
22 obviously there would be different rules and  
23 guidelines that govern it, but it's very similar to  
24 the efficient exchanges in the board of trades.

25           MR. COHEN: How about Jay?

1           MR. KNOLL: We're at the very earliest  
2 stages right now of exploring the B2B exchanges. I  
3 would like to say we're dipping our toes in, but  
4 we're just taking our shoes off.

5           Looking forward, I can see us participating  
6 to a great deal on the indirect supplies. The  
7 direct because of the nature of our business makes  
8 it an extremely long-term project, if ever, although  
9 I can see the exchanges offering some opportunities  
10 for us to develop even closer relationships with our  
11 suppliers.

12           MR. COHEN: Well, let me follow up on that,  
13 why would you have the thought that it may take a  
14 lot longer, if ever, for the direct in your  
15 instance?

16           MR. KNOLL: Well, the nature of our  
17 business, and we produce heavy-duty diesel engines,  
18 our primary market is on highway heavy-duty truck  
19 market, and it's a very highly engineered product,  
20 and we integrate highly engineered componentry on  
21 there.

22           The designs don't necessarily originate from  
23 our company. Sometimes we're using third party  
24 designs and integrating them into our solutions. As  
25 a result, we rely on their expertise, and it's

1 difficult -- we don't develop the internal expertise  
2 and we don't want to have the internal expertise,  
3 necessarily, because it's not a core competency for  
4 us. We can get better products by outsourcing that  
5 particular function.

6 MR. COHEN: I see that Lori has her sign  
7 turned.

8 MS. MIREK: Yes. In the foreign currency  
9 markets today, more than 90 percent of the  
10 transactions between the sell side and the buy side,  
11 that's the corporates, and then of course and funds,  
12 relative to the banks, have been conducted by  
13 telephone-based processes and they rely on tape and  
14 dictaphone back-up. A very traditional means of  
15 communicating information.

16 Currenex has developed a web enabled  
17 automated system to allow the banks to communicate  
18 with the corporations and the funds, and we've been  
19 live and operational for a while now.

20 Just recently a number of other third party,  
21 and particularly supply side led exchanges, have  
22 started to be built. And I think customers' or the  
23 buy side's perspective or interest in these types of  
24 systems is fundamentally driven by a desire for  
25 improved pricing transparency, a desire for



1 increased operational efficiencies, such as  
2 back-office integration, more efficient order  
3 processing, and last but not least, improved  
4 information dissemination.

5 So, that is really what has been driving our  
6 customers' needs and requirements and their  
7 utilization of our service.

8 MR. COHEN: Let's move to Steve.

9 MR. KAFKA: To answer your question about  
10 what buyers are doing today, I wanted to share a  
11 little bit of data. We've done a lot of research  
12 with buyers and sellers. We've talked to about 1700  
13 of them, actually, over the last two years about  
14 what they're doing in B2B, and the short answer to  
15 your question is what are they doing today, well  
16 basically not anything. Not much.

17 We did a survey of 80 executives, very  
18 recently, and only a very small fraction of them,  
19 less than 20 percent, are doing the majority of  
20 their trade volume through marketplaces. But I  
21 think that picture is going to change very  
22 dramatically, or at least the buyers and sellers are  
23 telling us that that's going to change very  
24 dramatically.

25 By 2002, a full quarter of our respondents

1 think they're going to be doing the majority of  
2 their trade through e-marketplaces, and basically  
3 only about 80 percent of our respondents expect to  
4 be doing -- participating in e-marketplaces.

5           And I think that this participation, some of  
6 the other panelists started to allude to this, this  
7 participation is actually going to evolve very  
8 dramatically, and I think a theme you'll probably  
9 hear throughout our panel is that, like we heard  
10 this morning, we're only just getting started,  
11 because buyers are starting with kind of the easy  
12 stuff, the online procurement of MRO kinds of  
13 materials, but they're thinking more and more about  
14 how to introduce efficiencies through purchase of  
15 direct materials, through supply chain and  
16 collaboration kinds of activities. So, you know,  
17 it's very early and they're not doing a lot today,  
18 but I think a lot of exciting things to come, is  
19 what our research shows.

20           MR. COHEN: I see signs up, I was going to  
21 get back. I just noticed, we've been joined by our  
22 final panelist, Captain Kurt Huff from the United  
23 States Navy.

24           CAPTAIN HUFF: Sorry I'm late.

25           MR. COHEN: And we're very pleased to have

1 you, particularly because I think this is the  
2 question that I want to bring you in on. You are --  
3 you do represent a buyer who has just recently been  
4 involved in a major acquisition using an electronic  
5 marketplace. I thought maybe you could fill us in a  
6 little bit on your experience.

7 CAPTAIN HUFF: Are you referring to the  
8 reverse auction?

9 MR. COHEN: Yes.

10 CAPTAIN HUFF: About a month ago, we did the  
11 federal government's first reverse auction. And it  
12 turned out, I thought, to be a resounding success.

13 In the business that we're in, at the Navy  
14 Inventory Control Point, we're kind of bound, much  
15 unlike a lot of our civilian counterparts, with  
16 government rules and regulations in regard to  
17 competition and ensuring that everybody has an equal  
18 opportunity to compete.

19 So, that's one of the issues that we  
20 struggled with in this reverse auction. And for  
21 those of you that don't know what a reverse auction  
22 is, essentially buyers -- excuse me, sellers come  
23 online and they bid down the price of a contract.  
24 And for this particular procurement, we bought the  
25 brains behind the ejection seats for Air Force

1 aircraft. It's a sequence where it determines when  
2 the different detonators fire to ensure that the  
3 pilot gets out safely. We had three qualified  
4 sources in this particular case that had previously  
5 manufactured and had successfully competed for these  
6 contracts. They went online and we ended up  
7 achieving a savings of about 28 percent.

8           One of my concerns, when I talk to people in  
9 the government, and the Navy, is reverse auctions

1 there, so that we can, in fact, do all of our  
2 competitive procurements that make sense in a  
3 reverse auction scenario. Eventually, I see that  
4 we're going to have some type of software on the  
5 buyers' work stations that allow them to do reverse  
6 auctions for as little as, say, \$20,000 or \$30,000.  
7 But my sense is we're probably a year away from  
8 that, because not only do we need to get comfortable  
9 and familiar with it, there were a lot of legal  
10 issues that we had to work through to ensure that we  
11 could legally do a reverse auction in the federal  
12 government, but we also have to get industry  
13 involved as well to make sure that all of our  
14 suppliers are comfortable participating in this new  
15 type of procurement.

16 MR. COHEN: I see Sam Kinney?

17 MR. KINNEY: Yeah, I just wanted to make a  
18 point that these supply chains are very long in many  
19 cases, and when Detroit Diesel is buying an  
20 integrated subsystem that the supplier has invested  
21 a fair amount of engineering and design in, that  
22 supplier may, in fact, be buying more commodity  
23 parts.

24 So, it may be the case that a dynamic price  
25 marketplace here may apply, it just it may not apply

1 at the level between a Detroit Diesel and its system  
2 integrator, it may apply a level below that. And I  
3 think there is a lot of flexibility. You know, the  
4 recovery sequencers are an advanced technical  
5 product, but the Navy had already gone through the  
6 qualification steps of qualifying those bidders.  
7 So, it's more to think about where in the supply  
8 chain this can work.

9 MR. COHEN: I will get to you. What I want  
10 to do is throw out a couple of more issues. We can  
11 deal with them all at the same time, maybe enrich  
12 the conversation.

13 One of the issues that might come up in  
14 determining whether buyers are going to be taking  
15 advantage of electronic marketplaces might be  
16 whether the product is homogenous or differentiated,  
17 or to use less antitrust jargon, whether they're  
18 standardized or customized.

19 So, I guess part of the discussion I would  
20 hope to draw on would be what factors and how does  
21 this and other -- how does this and other factors  
22 play into the choice between catalog purchasing,  
23 electronic catalog purchasing, electronic auctions,  
24 and electronic dynamic pricing exchanges? Let me  
25 try Jon next.

1           MR. ARNOLD: Okay. Thanks. You know, from  
2           an electric utility standpoint, we're entering the  
3           age of competition, there's an increased focus on  
4           bottom line. A lot of utilities have put in ERP  
5           systems over the past few years prior to Y2K, and  
6           are looking to leverage those in the digital supply

1 MR. COHEN: At the end of the table, Gerard?

2 MR. VAN BREEN: Yes. We have not very much  
3 experience with negotiating products over an  
4 electronic marketplace as of yet, but we have been  
5 one of the founding members of the WorldWide Retail  
6 Exchange, which is an initiative of a number of  
7 large retailers around the globe.

8 We expect that the WorldWide Regional  
9 Exchange will help us to auction products an  
10 auctioned amount for product from suppliers, and  
11 there I think having homogenous product will help,  
12 but we think that the biggest advantage of this  
13 electronic marketplace will be very much more in  
14 improving the efficiency in the supply chain,  
15 because, for example, if you take the way we are  
16 working now, then we have to be aware of what's  
17 being offered for sale.

18 We have visits from vendors that come to  
19 visit our buyers. We have paper catalogs that we go  
20 through. We go to trade shows and all those type of  
21 things, and that takes a lot of travel, it takes a  
22 lot of time, and with an electronic marketplace, we  
23 get a much quicker exchange of information, and we  
24 will be -- we will be using the exchange to reduce  
25 the cost of time, the cost of documentation, and we



1 expect to have a lot more access to buyers -- to  
2 sellers, rather, that we don't have access to today.

3 So, we think that the real efficiency will  
4 be in reducing the transaction cost on the longer  
5 term, and to a lesser extent, for more homogenous  
6 products, we think the auctioning capability will  
7 really help us drive the costs down.

8 MR. COHEN: Angie?

9 MS. KIM: Yeah. I thought I would bring the  
10 small business buyer's perspective in this and tell  
11 a little story about some of the experiences that  
12 our small business customers have had through our  
13 marketplace, and we have purchasing, lending and  
14 shipping, but I'll focus on purchasing, just because  
15 I think that's sort of the most relevant here.

16 We started this company about a year ago,  
17 and we started in the area of indirect supply, so  
18 MRO, and I think that goes to the question of first  
19 of all, the direct versus indirect. I think  
20 everybody knows indirect supplies just because they  
21 are much -- because they are -- the markets are much  
22 more fragmented on the supply side, it is much  
23 easier to sort of get benefits out of information  
24 sharing and that type of thing from a B2B  
25 marketplace.

1           And it also goes to the point of customized  
2 versus commodity items as far as the catalog is  
3 concerned. And I'll just tell a little anecdote  
4 about one of our customers who's a 20-person  
5 manufacturing company out of Dallas called Deprag.  
6 And one of the VPs of marketing there, before a B2B  
7 electronic marketplace for these types of supplies  
8 happened, the way that she would purchase items such  
9 as even electric screw drivers, was go to these  
10 thick paper catalogs that a lot of small businesses  
11 use, and they're really, really thick, each of the  
12 catalogs, because the suppliers are so fragmented --  
13 I think in the MRO distribution marketplace, the top  
14 50 players make up 13 percent market share. The  
15 number one player has less than three percent market  
16 share. The point being that from the buyer's  
17 perspective, unless you're a large company with  
18 purchasing managers and dedicated resources, really  
19 hard to find exactly who has what items in stock,  
20 you know, at what price, all that sort of stuff.

21           So, she would have to go through lots of  
22 different paper catalogs, find the items. And what  
23 we did was we actually negotiated with seven of the  
24 top ten MRO distributors, as well as some office  
25 supplies distributors, like Staples, got all of

1 their data together and standardized it into a  
2 normalized format, and put it into an aggregated  
3 catalog so that this Lori, you know, VP of marketing  
4 from this small company, Deprag, who doesn't have  
5 the time and resources to try to find the best, you  
6 know, prices out there through lots of phone calls  
7 could actually come to our site, type in exactly  
8 what she's looking for, including the brand and the  
9 part number, and see a very good comparison shopping  
10 list for exactly the same prices, but because  
11 different suppliers are supplying the items, they  
12 actually have different prices, different terms.  
13 And what used to take about two hours of doing the  
14 comparison shopping, is now taking five minutes.

15 So, from that perspective, I think a lot of  
16 the buyers can certainly save time and money,  
17 especially in the commodity areas, in indirect  
18 supplies, where there are price flexibilities.

19 MR. COHEN: I see that Rod Gray has had his  
20 sign up for a while.

21 MR. GRAY: Well, I think the question is how  
22 do we do things differently. I think the answer is,  
23 in particular in my industry, is from the beginning,  
24 you don't do a lot differently, you've automated it.  
25 And then you start evolving towards the advantages

1 that it may give you. And I would put out the  
2 thesis that in the end, most of the value is going  
3 to be gained by speed and accuracy and ease of use  
4 over the actual auction feature that where you're  
5 actually getting people to fight against each other  
6 to win your transaction, that the value is going to  
7 be in the efficiency of the process and the accuracy  
8 of that process.

9 Just to take an example, in our industry,  
10 you may get a PO that has 100 or 200 or 300 line  
11 items in it. That PO doesn't get paid until all of  
12 those line items are reconciled, until someone has  
13 said we received each one of those items, and it was  
14 in the form that we wanted, and now it's okay to  
15 pass from accounts payable onto treasury to make the  
16 payment.

17 The impact on the supplier, that's a heck of  
18 a lot of inventory financing that they need, a lot  
19 of cost to capital that it builds into the process.  
20 By automating it and getting the items standardized  
21 and getting that invoice flowing electronically and  
22 the reconciliation of that invoice electronic, it  
23 saves the most money just in that, versus a raw  
24 auction, where you get suppliers beating each other  
25 up.

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1 MR. COHEN: Kaushik?

2 MR. SHRIDHARANI: I wanted to talk a bit  
3 about the question of how it differs from the past  
4 and how that might relate to competition. A few of  
5 the speakers mentioned some things about control and  
6 standardization. I think those are two important  
7 obvious features of what's happening with B2B and  
8 e-procurement, but I think one of the results of  
9 that will be a change in the way companies go about  
10 purchasing, a centralization of purchasing and  
11 elimination, for example, of maverick buying, which  
12 is a large component of buying by companies. I  
13 think the National Association of Purchasing  
14 Managers estimated that to be about 30 percent.  
15 What that is is buying that's outside the normal  
16 channels of buying.

17 So, if you have this process of  
18 centralization going on, what you're actually seeing  
19 is probably a shift in the field of competition from  
20 perhaps the every-day competition through trade  
21 magazines and the like toward more competition for  
22 relationships. So, you'll probably find that we're  
23 just changing where we do the competition, and not  
24 so much the level.

25 MR. COHEN: Let me -- one thing I've heard,

1 and which interests me, I would like to pursue, the  
2 experience at Detroit Diesel. What you were  
3 projecting was that given that materials were highly  
4 engineered and customized, you might have more  
5 difficulty making some use of electronic  
6 marketplaces, but I know that Captain Huff has been  
7 able to use it for the ejection seats. How did you  
8 deal with the issues on making sure that you knew  
9 exactly what you were getting? How did it work in  
10 that context?

11 CAPTAIN HUFF: In the case of the ejection  
12 seats, we were fortunate in that each of those three  
13 offerors had previously built them. We're doing our  
14 second reverse auction tomorrow and it's for  
15 something pretty low tech, it's berthing to put  
16 aboard Navy ships, and I don't want to simplify, but  
17 basically somebody with a sheet metal shop in the  
18 back of their garage could make that type of  
19 requirement.

20 So, our challenge in that case is we're  
21 going to go ahead and award and make an initial  
22 award based upon price and some technical  
23 considerations on the proposal, but we're going to  
24 have to then go do an actual testing at the winning  
25 offeror's plant to make sure that they're capable of

1 building it. Three of the four offerors have built  
2 it before. If the new guy wins, then we'll have to  
3 go verify that he's capable of doing it. But that's  
4 not much unlike how we do things now.

5 MR. COHEN: And Jay?

6 MR. KNOLL: Well, when I look at that  
7 example, it becomes more of a standardized product.  
8 What we're talking about, or what I was trying to  
9 get across was the point that we have a lot of  
10 concurrent designed products concurrently designed  
11 products in which we get very close with some  
12 suppliers.

13 For example in 2002, we have a new product  
14 coming out, in which we've been very -- we've been  
15 working very closely with our suppliers to develop  
16 new designs that are specific to us. And at this  
17 point, the -- we're talking -- as Rob was talking  
18 about, you know, the value in that situation of a  
19 reverse auction or auction or some type of exchange  
20 doesn't seem to be there, although I think the  
21 process of transacting information with our  
22 suppliers could certainly benefit for some of the  
23 things that exchanges propose to do.

24 MR. COHEN: I'm going to recognize Rod  
25 again, but I want to throw in another aspect of the

1 question, which I think you might be able to address  
2 as well as the point you were about to make. I  
3 would be interested if you had anything to  
4 contribute on how usage differs for items  
5 traditionally subject to long-term contracting as  
6 opposed to spot purchases.

7 MR. GRAY: Yeah. The first point I would  
8 like to make is that in our industry, about 25  
9 percent of the spend is your typical MRO type spend.  
10 Seventy percent is more in the complex engineered  
11 services, though we believe the real value added is  
12 when you bring on the ability for our industry to be  
13 able to transact its complex services across the  
14 site. And that it's more to what Jay is wrestling  
15 with, and I think that that will be a significant  
16 step above this -- the base MRO.

17 In our industry, typically what happens is  
18 that there is an annual negotiation between the  
19 major buyers and the major suppliers to get their  
20 volume contracts established. What we are setting  
21 up in the beginning is taking that end -- the end of  
22 that negotiation, and putting it on the system so  
23 that then they can do their order, individual orders  
24 under those annual negotiated contracts, which goes  
25 to the maverick buying issue. By maverick buying,



1 that doesn't mean somebody's run amuck out there, it  
2 just means that we're not capturing that spend under  
3 our volume contracts.

4 So, by getting a centralized system like  
5 this that's very easy for a field person to use, you  
6 then can funnel that transaction into a contract  
7 that you can get a kicker just by the fact that  
8 you're hitting your volume numbers for that  
9 supplier.

10 So, again, that's a -- that's where the  
11 benefits of the system, it gets the ease of use by  
12 the field personnel, but yet gets you the benefits  
13 of the volume contracts that you've negotiated  
14 annually.

15 Where this will evolve? They may -- years  
16 down the road -- find that it's easier not to have  
17 to go through the annual volume discount  
18 negotiation. That will be an evolution that will  
19 possibly happen, but currently, we need to structure  
20 our site so that they can do it using the annual  
21 negotiations.

22 MR. COHEN: So, if I'm following you, you're  
23 talking about a model where prices have already been  
24 negotiated essentially through an annual contract?

25 MR. GRAY: That's correct.

1           MR. COHEN:  And that would then contrast  
2 with some of what we saw in demonstrations this  
3 morning where prices were being worked out right  
4 through the auction system.

5           MR. KINNEY:  I don't think that's true,  
6 because those were for -- that was the annual  
7 negotiated pricing that was being negotiated in the  
8 auction.  So, it's not catalog versus auction or  
9 collaboration versus auction, it's the mix of all of  
10 those things that are right for the particular  
11 decision.

12           So, you could use an auction to set that  
13 catalog pricing, and then implement those savings by  
14 presenting those prices to users to be  
15 requisitioned.  So, we do that, a fair amount, when  
16 we're asked to do indirect materials, it's often  
17 those prices go into the catalog.

18           So, if it sounds like there's a lot of gray  
19 areas up here, it is.  There's a lot of gray areas.  
20 It's not a black and white answer.

21           MR. COHEN:  David?

22           MR. CHEN:  Yeah, I think that one of the  
23 characteristics of an early stage market is, you  
24 know, when you're a hammer, everything looks like a  
25 nail.  And if you look at a lot of the discussions

1 that have taken place today, so far, we're centering  
2 a lot on the market model called an auction, whether  
3 it's reverse or whether it's a straight-out auction  
4 or a Dutch auction, and yet at the same time, the  
5 big moniker that we've put -- and so the auction is  
6 actually clearing a transaction, matching buyers and  
7 clearing a transaction.

8           And if you take a look at what was actually  
9 talked about for most of the morning with the big  
10 moniker, it was supply chain management. And just  
11 to take an example from Patrick Stewart with  
12 MetalSite, you know, he put out a great model to  
13 sort of hang this on, and he said look, this is  
14 about research and learn, find and select, order and  
15 track, ship and receive, pay and settle, and then  
16 there's a component that I don't think he had on  
17 there which is dispute resolution.

18           And what that is is actually what I would,  
19 you know, it's one of those dirty little technology  
20 words -- it's a work flow, okay -- and it has, also,  
21 a fair amount of complexity built into it. And some  
22 of the words that others would use to describe  
23 components of that would be online due diligence,  
24 online risk management, online dispute resolution.  
25 And these are all supporting functionalities that

1 support the supply chain efficiency versus centering  
2 on the clearing of the transaction called the  
3 auction or a market mechanism.

4           And I think a lot of the concerns that are  
5 being raised here about geez, do we use it with  
6 heterogenous, homogenous, highly engineered and  
7 complex or simple off-the-shelf paper clips, I think  
8 have a lot to do with focusing on the auction as  
9 opposed to focusing on what the Internet is really  
10 doing here in B2B commerce.

11           And what we're starting to see is some  
12 really very, very rapid evolutions that are starting  
13 to take place that are, in fact, bolting on these  
14 components of due diligence and risk management,  
15 onto that process.

16           And, in fact, what Captain Huff was talking  
17 about was applying, in fact, sort of a click and  
18 mortar approach to procurement of the bunk beds, all  
19 right, which is I would like to use some of the  
20 Internet efficiency, but it's kind of awkward and  
21 weird that I'm going to use this Internet efficiency  
22 and then pop off the net to do a brick and mortar  
23 inefficiency process.

24           And I think what we're going to evolve to  
25 here, as this market model continues to evolve, is

1 we'll see more and more of those things we have to  
2 go offline for become part of the online  
3 environment. And that I think goes to solving this  
4 issue of really this is about creating efficient  
5 marketplaces, taking and adding value at each of  
6 those intersection points that Patrick laid out, as  
7 opposed to the one hammer fits all nail, of let's go  
8 with an auction.

9           And then sort of just the play on that,  
10 you're already starting to see pieces of that even  
11 in some of the discussions that have come up today,  
12 like Sam Kinney's example of creating it's not just  
13 about price, it's about actually other components of  
14 evaluating a product other than just pure price.  
15 So, we're starting to see that rapid evolution  
16 already starting to take place.

17           MR. COHEN: We've flowed very much into the  
18 second topic area that I was wishing to address, and  
19 that's the efficiencies and the benefits from using  
20 electronic marketplaces. I think we've covered a  
21 lot of that already, but if anybody wants to add  
22 anything further to that area, as well, feel free at  
23 this time.

24           I would be particularly interested in trying  
25 to find out if anybody wants to -- has anything to

1 suggest as to how the answers as to use and benefits  
2 might differ for buyers outside the United States,  
3 or for buyers who are trying to use suppliers  
4 outside of the United States. Gerard?

5 MR. VAN BREEN: Well, I think there are  
6 additional advantages for international buyers,  
7 because the complexities of buying internationally  
8 are so much greater, and the use of an electronic  
9 exchange will only help you to address these  
10 complexities in a much more modern fashion.

11 If you take, for example, our company works  
12 in 25 countries with I don't know how many languages  
13 and currencies, and an exchange will make it very  
14 easy to, you know, relate different currencies and  
15 different languages back to single catalogs which  
16 are quite often common, but appear in different  
17 forms and different countries.

18 So, we think it is an additional advantage  
19 for companies that work across borders, and can  
20 benefit in terms of larger efficiencies than just  
21 single company -- single country companies let's  
22 say.

23 MR. COHEN: David?

24 MR. CHEN: Yeah, I think that's, you know, I  
25 think that's one of the beauties of the Internet, is

1 that it's a global seamless, yack, yack, yack  
2 marketplace, so you can trade internationally and  
3 all that. And the reality and the funny thing is,  
4 all of a sudden we're realizing hey, that's true.

5           And so if you look on some of these  
6 exchanges, you know, 50, 60 percent of the  
7 registrants are now international. And now we're  
8 starting to ask some very interesting questions that  
9 we really didn't think about, and that is who the  
10 heck is this company that is -- that's no longer  
11 visible, is no longer in my backyard, no longer even  
12 regional, and forget the whole issue of branding. I  
13 just don't know who they are.

14           And especially when you get into the small,  
15 midsize businesses, which most of the companies in

1 interesting. We talk a lot about content, but we  
2 talk a lot about the auctions, but when companies  
3 trade, they trade with actually rich content. Rich  
4 content being things, for example, an RFP, an RFQ.  
5 All right, a proposal document. These are  
6 documents, these aren't single typed line items and  
7 emails.

8           And so when you're now talking about the  
9 exchange of content as a mechanism to facilitate  
10 trade, the authentication of that content, you know,  
11 is this bid and this RFP and proposal really from  
12 the company that or the individual that it purports  
13 to be. And then how do I then link those  
14 transactions, that authentication, then to a set of  
15 risk management products. And that's sort of a  
16 fancy word for how do I offset the risk with the  
17 trade credit. How do I offset the risk with  
18 insurance and guarantee products. And that all now  
19 starts to beg the issue of get identity, scoring,  
20 profiles, et cetera. And so these are some of the  
21 -- I think the very, very near-term issues that are  
22 starting to pop up as the international implication  
23 of these exchanges start to pop up.

24           MR. COHEN: Steve Kafka?

25           MR. KAFKA: I just wanted to follow up



1 actually on a comment that Sam made here about, you  
2 know, this topic is very complex, because to your  
3 question about the efficiencies that buyers are  
4 looking for, I think you need to draw some  
5 distinctions that are particular to the industries  
6 and even the products that you're talking about  
7 trading inside of a marketplace.

8           Because, I mean, we've alluded to some of  
9 this already, when you have industries that are very  
10 highly fragmented or are, you know, then you're  
11 looking for efficiencies about, you know, extending  
12 or being able to reach suppliers at a lower cost.  
13 And you're talking about industries that are dealing  
14 in very complex products, you know, there the  
15 efficiencies are much more about management of  
16 inventory and capacity planning and demand planning  
17 and that sort of thing.

18           When you're talking about commodity-based  
19 kinds of industries, it's much more about matching  
20 and smoothing market volatilities through the  
21 mechanism of the marketplace.

22           So, I think it's very difficult to sort of  
23 come out with generalized statements about what the  
24 efficiencies are, and I think it even gets more  
25 complicated when you start to look at some of the

1 cross-border issues and some of the ex-U.S. issues  
2 about what are those buyers looking to gain.

3 MS. LEVINE: Let me ask a question to the  
4 panel about what B2Bs are going to mean for  
5 traditional middle men, the people who have  
6 traditionally linked up buyers and sellers, perhaps  
7 they took title to the material, perhaps they  
8 distributed the material. Are B2Bs going to make  
9 them rearrange the way they do business? Captain  
10 Huff?

11 CAPTAIN HUFF: That's an interesting  
12 question, because in the business that I am in,  
13 which is basically controlling and procuring all the  
14 inventory for all the ships, aircraft and submarines  
15 in the Navy, in the old days, we bought inventory  
16 and we had warehouses after warehouse full of parts.  
17 We no longer do that. We're trying to get out of  
18 that business.

19 So, in fact, we're establishing long-term  
20 relationships with suppliers so that they keep that  
21 inventory on their shelves and they assume the  
22 responsibility for demand forecasting and things of  
23 that sort.

24 So, as we do that, we scratched our heads  
25 and said well, is there a need for what we do

1     anymore?  And after giving it a lot of thought and a  
2     lot of soul searching, I think that there will  
3     always be a role for a middle man, because  
4     essentially that's what we are in the government.  
5     We're the middle man between the people that  
6     maintain all the Naval aircraft and ships and the  
7     people that make the parts to repair that.  I think  
8     there's a lot of value-added services that we'll be  
9     able to provide.

10            I was also thinking about this question as  
11     regards Amazon.com.  I think that the role of the  
12     middle man, there's going to be significant  
13     opportunities there, because if you look at  
14     Amazon.Com just in the book piece, for instance, you  
15     could say why don't I go directly to the publishers?  
16     Because I don't want to take the time to do that, I  
17     want to go to one site where I can say these are my  
18     requirements, and have that middle man rationalize  
19     that space for me.

20            You know, as we look at all of our  
21     competitors and our suppliers and the buyers out  
22     there, it's almost like the wild west.  You know,  
23     you log onto the Internet, particularly if you're a  
24     sailor or a marine trying to figure out how you're  
25     going to satisfy a requirement, there's hundreds of

1 places to go.

2 So, our vision, and in fact we're signing a  
3 contract tomorrow to help us establish essentially  
4 an electronic marketplace for the Navy that  
5 rationalizes that business space so that somebody  
6 can come in that requires a part and just say I need  
7 this part, and then the electronic marketplace and  
8 the software behind it is going to find that part at  
9 the best price in terms of what we can do.

10 MR. COHEN: I see an array of signs here.  
11 Lori, are you going to respond to the middle man  
12 question?

13 MS. MIREK: Yes. It's an interesting  
14 question because there's obviously three types of  
15 models, which I know we'll probe later for  
16 exchanges. There's supply side led, demand side led  
17 and third party. And I think in many cases the role  
18 of the middle man can evolve into potentially a  
19 third party role. And I think, also, an opportunity  
20 for newcomers arises in this new landscape that  
21 played this type of middle man role, too.

22 So, I just want to tee up the concept that I  
23 think we'll cover later, that I think, you know,  
24 this third party, independent, objective type of  
25 facilitator between the buy side and the supply side

1 can potentially run a very effective, very fair,  
2 very neutral marketplace.

3 MS. LEVINE: You're talking about a neutral  
4 operator of a marketplace or are you talking more  
5 about the neutral provider of the kind of services I  
6 think David was talking about, you know, that can  
7 run credit checks or run settlements and things like  
8 that?

9 MS. MIREK: It candidly can be a combination  
10 of both. The difference in what I'm talking about  
11 is somebody who is not, in effect, the counterparty  
12 to a trade. So, in other words, you know, they do  
13 their job, but they exercise their fiduciary  
14 responsibility by ensuring the most efficient, most  
15 effective most fair mechanism for trading between  
16 the buyers and the sellers.

17 And I think that is a logical and natural  
18 evolutionary spot for middle men, as well as new  
19 opportunities for new entrants in markets where  
20 traditionally it's just been a direct, potentially  
21 telephone-based communication between buy and sell  
22 sides.

23 MR. COHEN: Kaushik?

24 MR. SHRIDHARANI: That's actually a very hot  
25 question, partly because it affects the spin that

1 many of these new online companies want to offer  
2 people. So, I think, I just wanted to say that one  
3 thing that you'll find, that some companies don't  
4 want to talk about the changing role of existing  
5 middle men, because they want to be friends with

1     asset carrying, the cost of inventory carrying isn't  
2     really changing that much.

3             So, the role of the distributor will  
4     probably change more toward the clicks side -- or  
5     I'm sorry, not the clicks side, the bricks side, of  
6     the equation, and I think there is actually a big  
7     role for them in the future. There will always be  
8     the need for physical delivery.

9             The real question is, what happens to those  
10    distributors who are so well entrenched in their  
11    markets that they want to resist the development of  
12    online intermediaries. There will be some who  
13    aren't so entrenched who look at the online

1 that's true, but I think what you'll find is a lot  
2 of the middle men are doing exactly what you're  
3 proposing here, and that is inventory management,  
4 financial carrying, and there are a lot of other  
5 value-added things, and I think they will continue  
6 to remake themselves to add value as a middle man.

7 I mean, Captain Huff's example of  
8 Amazon.com, if you ask Barnes & Noble what they  
9 thought of Amazon.com, that Barnes & Noble is really  
10 a middle man, and they have remade themselves by  
11 offering coffee, a lounge area to sit and read  
12 books, and they have remade themselves to add value  
13 as a middle person.

14 MR. COHEN: Angie?

15 MS. KIM: Yeah, I think the answer to the  
16 question depends a lot on exactly what market you're  
17 talking about, and exactly what role that so-called  
18 middle man plays. So, for example, if I pick two  
19 areas that are purchasing marketplace deals with,  
20 one being MRO, and the other one being equipment,  
21 the answer is vastly different.

22 So, in MRO, the distributors, especially  
23 given their fragmented nature, and given the  
24 differences in the level of items that they carry  
25 and the kinds of value-added services that they



1 perform on behalf of their various clients, they  
2 were -- they would be -- they're very firmly  
3 entrenched, and I think any MRO marketplace that you  
4 talk to will tell you that it would be pretty crazy,  
5 at least in the next five years, to think that any  
6 of these MRO distributors are going to be in any way  
7 displaced by any of the online exchanges.

8           Why? Because they actually carry the  
9 inventory items and they actually distribute them  
10 and they actually help to bring the manufacturers of  
11 these MRO items, of which there are hundreds of  
12 thousands, and their information together into one  
13 place. And then it's the role of the online  
14 infomediary, if you will, to actually take all of  
15 the various disparate pieces of information that are  
16 given by the different distributors and then try to  
17 help the consumer, the end user, actually try to  
18 make heads and tails out of that.

19           On the equipment side, however, so think  
20 about construction, you know, capital equipment, the  
21 market concentration is very different. The  
22 equipment dealers, you know, they're much more  
23 concentrated, but at the same time, the kinds of  
24 roles that they play, and where they actually make a  
25 lot of their money is not in actual physical

1 distribution of the items, but in a lot of the  
2 after-market care.

3           And so in that way, you know, some of the  
4 market thoughts are that probably in that market,  
5 much more quickly than in the MRO distribution  
6 market, the, you know, equipment dealers, the  
7 so-called middle men, will be much more willing to  
8 let the actual equipment manufacturers, especially  
9 the large ones, sell directly to the end user, and  
10 then perform the part of the after-market repair  
11 and, you know, and care and maintenance, which is  
12 really where they make all their money anyway.

13           So, I think the answer is very, very  
14 different. We have to be careful about what market  
15 exactly we're talking about before we can sort of  
16 make any sweeping statements about, you know, middle  
17 men and when they're going to disappear, if ever.

18           MR. COHEN: I think we'll try Gerard and  
19 then we'll have to move on from middle men.

20           MR. VAN BREEN: Regarding middle men, I  
21 think the essence is of whether a middle man  
22 performs a function which adds value, and that is an  
23 issue today, already, and that will not really

1 middle men for, you know, bridging the differences  
2 between the production cycles and the demand cycles,  
3 and that is basically the most important function  
4 that they have in the retail trade, and then I could  
5 see an increased usage of middle men, where you  
6 start to use products coming from abroad to a larger  
7 extent than you do today, because then they can  
8 bring them in larger quantities into your particular  
9 country and disseminate them in a much lower  
10 frequency because the consumption is as a lower  
11 frequency than the production or transportation  
12 cycle.

13 MR. COHEN: Very good.

14 MR. KAFKA: Could I just make a very quick  
15 point about middle men, which is that just to share  
16 a point of data, we talked to a bunch of them  
17 recently, and just to back up what everyone is  
18 saying, three quarters of them see the net as a huge  
19 opportunity for them. The middle men themselves  
20 said that.

21 MR. COHEN: Okay, we've heard a lot about  
22 potential benefits, I'm wondering if there's anyone  
23 on the panel who would like to discuss some of the  
24 possible reservations that buyers may have  
25 expressed, or that they may be thinking about.

1 Things that might be holding them back from joining  
2 up and participating at this point.

3 If we can turn this over, we've got a few  
4 minutes before we have to break for the tape, let's  
5 take a few questions from David, who has a consumer  
6 protection background.

7 MR. MEDINE: The FTC's Bureau of Consumer  
8 Protection has spent a lot of time on B2C online  
9 issues, particularly focusing on online privacy, and  
10 one of the things that we found is that privacy can  
11 be an impediment to the development of electronic  
12 commerce marketplace for consumers. We found that  
13 some consumers are uncomfortable going online at all  
14 because of the concerns about how their personal  
15 information will be used, and that those who do go  
16 online may be uncomfortable making purchases for  
17 those same reasons.

18 So, we have worked in the consumer space to  
19 try to develop self regulatory and legislative  
20 responses to try to increase consumer confidence in  
21 this new marketplace. I guess the question I would  
22 like to pose to the panel is to what extent are B2B  
23 buyers like consumers in this area, particularly  
24 small businesses, are they going to be deterred from  
25 B2B transactions because of buyer profiles are being

1 created, that they may be uncomfortable with, and  
2 that it may be deluged with targeted advertising.  
3 It's one of those some people view it as a  
4 tremendous benefit to get advertisements of  
5 interest, some people find it an annoyance and a  
6 deterrent. So, I guess that might be helpful to  
7 start with the small business perspective, and  
8 Angie, how are small businesses going to respond to  
9 these privacy concerns?

10 MS. KIM: Sure. Our small business  
11 customers are very much like consumers. Most of our  
12 small business customers are less than 20 employees,  
13 contractors, machine shops, that type of thing, and  
14 usually it's the owner or the principal of the  
15 business that's using the Internet, or whatever  
16 other means, to try to get the best prices and terms  
17 for their business.

18 And one of the things that we've found  
19 that's interesting, we've actually been launched for  
20 about four months now, and during that time we've  
21 amassed about 30,000 companies who are buyers in our  
22 system, and over 60 percent of those customers, when  
23 they actually do the transactions, they actually  
24 call us and close the transaction over the phone,  
25 over our toll-free number, rather than through the

1 Internet, which was an astounding number to us.

2 But then what happens, of course, is that  
3 the second transaction that they do a full, you  
4 know, 90 percent of them actually do that online.  
5 So, I think it just goes to the importance that all  
6 B2B marketplaces, probably have to keep in mind,  
7 which is that especially as a newcomer, which we're  
8 certainly, you know, aware of, you have to get  
9 people over this hump.

10 And they certainly ask about the online  
11 privacy issues, they ask, you know, is this the kind  
12 of information that you're going to share with all  
13 of my suppliers so that I'm going to start getting  
14 junk mail from about, you know, 2,000 different MRO  
15 distributors throughout the country, and it's at  
16 those points that you have to sort of make  
17 assurances person to person over the phone before  
18 they will actually make that step.

19 So, it was very enlightening for us.

20 MR. COHEN: Jay ?

21 MR. KNOLL: I have a couple of perspectives  
22 on this one. I think in a lot of respects it would  
23 be nice to get more targeted advertisements. I  
24 think Angie's example of the person who had a, you  
25 know, a three-foot stack of catalogs, they got those

1 by mail or somebody delivering them to their  
2 offices, so they had those contacts anyways. And  
3 targeted contacts may be more beneficial.

4 I also think that as in the consumer  
5 privacy, the issue is who owns the information. My  
6 personal perspective is I own the information and I  
7 should see where it goes and who has access to it.

8 The final perspective that I'll give you is  
9 as a public company, we don't own a lot of our  
10 information. The SEC forces us to disclose an awful  
11 lot of information. So, some of our financial  
12 information, for example, is already public. That  
13 being said, of course, that the business to business

1 are put in place. Most of the exchanges are just  
2 now being built and there's a -- either if a utility  
3 has not aligned with an exchange yet or subscribed  
4 to one, either in the development or in their  
5 processes, they're looking very carefully at what  
6 the safeguards are, because they have a lot of  
7 processes that they like to keep confidential, they  
8 consider competitive and vital to their  
9 organization.

10 So, as these things are being built there's  
11 an awful lot of time being spend on the governance  
12 and the structure and the safeguards being built in  
13 to protect the privacy aspects of the business.

14 MR. COHEN: I think we need to take a break  
15 for the changing of the tape. While -- we will  
16 probably take about a minute and a half or so and  
17 everybody can stand up. While we're doing that,  
18 we'll let -- the panelists might give some thought  
19 to some other possible topics that might come up in  
20 the form of reservations, security, fraud, just the  
21 price, fees, a lack of interoperability and that  
22 type of issue. We'll be back in about a minute and  
23 a half.

24 (Brief pause in the proceedings.)

25 MR. COHEN: Everyone with a sign up is



1 exposed at this point. Kaushik, before we broke you  
2 had your sign up.

3 MR. SHRIDHARANI: Well, I was just going to  
4 touch on that privacy issue once more, just a little  
5 different twist on it. One drawback to some of the  
6 rise of exchanges is the new potential for, well,  
7 frontrunning, which is basically if you have traders  
8 who are aware of a transaction, who are able to just  
9 build a position in a certain commodity, they now  
10 have another vehicle to do that in. So --

11 MS. LEVINE: Well, how would they get that  
12 awareness of the transaction? How would they learn  
13 about that transaction?

14 MR. SHRIDHARANI: Well, that's one of the  
15 concerns companies would have about privacy, for  
16 example, effects on needs to have a certain large  
17 barge of chemicals within one week. If anybody  
18 knows that Exxon needs that, instantly the prices of  
19 that chemical will go up 25 to 30 percent. And so,  
20 Exxon would be highly concerned about being able to  
21 maintain privacy in one of these online exchanges.

22 MR. COHEN: Well, that's very interesting.  
23 How does this play into nondisclosure agreements? I  
24 know, Sam, you may have some experience with this.

25 MR. KINNEY: Yeah, I mean all of the buyers

1 and suppliers in our marketplace do work under  
2 nondisclosures, and I think while it would be nice  
3 to say that there was one universal nondisclosure  
4 that would kind of protect all buyers for all  
5 circumstances, what typically happens is that each  
6 time a supplier requests an RFQ, they're essentially  
7 re-affirming a specific NDA that they are under,  
8 because those RFQs are what contain the information  
9 about, you know, the proprietary product  
10 specifications, or even the existence of that need.  
11 So, there's a lot of NDA infrastructure behind one  
12 of these.

13 MR. COHEN: David?

14 MR. CHEN: Yeah, just banging on the point  
15 that I raised a little bit earlier, and that is that  
16 a lot of the focus right now is on the specific  
17 incidents of shopping, and I think that one of the  
18 important things is actually to look back at who's  
19 the customer here? And the customer here is  
20 oftentimes the purchasing organization or more  
21 globally a purchasing or a business process.

22 And I think that your question about  
23 confidentiality, about fraud, they're actually all  
24 touching on the same issue. And that is that if you  
25 look at some of the earliest online environments,

1 like EDI environments, one of the things that's very  
2 important about the EDI environments is that they're  
3 not necessarily about claiming a transaction,  
4 they're actually about policy implementation in  
5 systems. What are the buying policies of both the  
6 buyer and the seller and then implementing those  
7 policies into a set of systems and triggers.

8           And I think that the issues that you're  
9 dealing with here about confidentiality, some of the  
10 things that you're starting to touch on about  
11 barriers to usage, all have to do, not so much that,  
12 quote unquote, exchanges aren't doing the right  
13 thing or that they're bad, it's just that this is an  
14 early stage market, and a lot of the things that  
15 you're talking about here -- the implementation of  
16 due diligence, the implementation of NDAs, the  
17 implementation of confidentiality agreements --  
18 these are all business processes that are going to  
19 take some time here to implement those into the work  
20 flow of an exchange.

21           And that is that, again, just to beat that  
22 point home, is that the buying process is more than  
23 clearing the transaction, it's all the stuff before  
24 the transaction and it's all the stuff after the  
25 transaction, that, in fact, define a relationship.

1 MR. COHEN: Lori?

2 MS. MIREK: Well, I think what was  
3 particularly interesting for me about Kaushik's  
4 point about privacy and frontrunning is it's most  
5 concerning in a model where the exchange is managed  
6 and owned by suppliers, and the reason is, you know,  
7 with the technology that we have today, it affords  
8 the exchange owners, in a case where they are the  
9 suppliers, an unprecedented level of information  
10 about the complete activities of the customers in  
11 the marketplace.

12 And up until now, suppliers have typically  
13 only known about a small sliver of the customer  
14 transactions that they were particularly bidding on.  
15 So, now supplier owners know about every transaction  
16 that a customer is involved with, whether they  
17 participate or not.

18 Now, in financial markets in particular,  
19 this allows supplier owners to potentially frontrun  
20 a customer's trades, which means they would be  
21 manipulating prices to the detriment of the  
22 customers and the non-owner participants, and that's  
23 obviously a significant concern.

24 Now, what's intriguing, though, in a supply  
25 side led exchange model here, though, is that

1 traditional firewall mechanisms for shielding  
2 information are likely to be particularly  
3 ineffective because of the necessary integration  
4 between the supplier's computer information systems  
5 and that, of course, of the supplier-owned  
6 exchange's information systems.

7           So, you know, the important consideration  
8 here, I think particularly with frontrunning types  
9 of issues, in financial markets or other markets,  
10 gets down to an issue of what is the optimal model  
11 for an exchange in that particular market? Is it  
12 supply side led, is it demand side led, is it  
13 independent third party led? But the privacy issue  
14 has been significantly raised, for example, in  
15 foreign exchange with our customers with respect to  
16 protecting the information flows of their data.

17           MS. LEVINE: Well, is there a concern about  
18 that kind of information data sharing on other kinds  
19 of exchanges, or does the concern only arise where  
20 the exchange is either owned and controlled by the  
21 sellers or owned and controlled by the buyers?

22           MS. MIREK: Right. Here's the fundamental  
23 difference: In a situation -- let me just use a  
24 specific case of foreign exchange -- where the  
25 supplier is the person who is actually determining

1 the rate, the price, all right, they are a  
2 counterparty to the trade.

3           So, there's a natural incentive for them to  
4 maximize the exchange's profitability and their own

1 that's the control point.

2 MR. COHEN: Gerard?

3 MR. VAN BREEN: I think what David said is a  
4 very true point. We are at the beginning of the  
5 development of exchanges, and there is a lot of  
6 concerns that we have to overcome together in order  
7 to make them real viable lasting instruments to do  
8 our business.

9 And that's why we teamed up in the WorldWide  
10 Retail Exchange with 16 others to have, you know,  
11 sufficient large sums of money to develop the  
12 software that is needed to make sure that we can  
13 protect the confidentiality, to make sure that we  
14 can create the databases that we need and the  
15 infrastructure that we need that we can, you know,  
16 be assured that the security and the efficient  
17 procurement systems can be developed that we need to  
18 do business in an international environment in an  
19 e-commerce world. So, I agree that we need to  
20 develop a lot of that still in our systems.

21 MR. COHEN: Yes?

22 MR. MEDINE: Another consumer impediment to  
23 electronic commerce that we've discovered, not  
24 surprisingly, is fraud, and the FTC has brought over  
25 100 cases involving Internet fraud. We've also seen

1 in the auction consumer space tremendous concern and  
2 a high level of consumer complaints, and some of the  
3 industry leaders have responded through insurance  
4 programs, escrow authentication, and I wondered to  
5 what extent those are transferrable concepts, either  
6 have been or will be implemented to, again, assure  
7 greater confidence in B2B marketplaces. I know  
8 David touched on authentication as well.

9 MR. COHEN: Yes, Jon?

10 MR. ARNOLD: I was going to say, in a lot of  
11 these B2B marketplaces and the ones it's my  
12 understanding are being developed, I mean, it's very  
13 -- the certification process buyers and sellers is a  
14 fairly elaborate process. There's a lot of people  
15 interaction involved in this thing. If you look at  
16 the B2B exchanges, there's a lot of people behind  
17 these things making them work to make sure that the  
18 relationships are there to develop and also that the  
19 certification that you really are who you are, that  
20 you are a viable buyer or a viable seller.

21 MR. COHEN: And, David, I know you're  
22 involved in this area.

23 MR. CHEN: Yeah. That's actually what the  
24 bulk of what our company does is actually go right  
25 to the heart of that problem. And I think that,



1 again, this is an oversimplification, but sort of in  
2 the early days of an exchange, your single minded  
3 purpose is get subscribers, okay? And then very  
4 quickly, it evolves to get them to stay there. And  
5 create transactions.

6 And that's when the purchasing agent, the  
7 purchasing organization mentality and needs actually  
8 now start surfacing. And that is what this is  
9 about. If you look at the buy side or the sell  
10 side, you're there to protect -- whether there's an  
11 exchange or not, your job is to protect the  
12 interests of your company. And that means risk  
13 management, it means due diligence, it means  
14 qualifying for guarantees, insurance, it means  
15 offsetting the inventory risks. And these are all  
16 the things that sort of lubricate underneath the  
17 surface the exchange.

18 And I think that if you had asked most of  
19 the major exchanges six months ago whether these  
20 things that you're mentioning, fraud protection,  
21 detailed certification, the use of authentication  
22 technologies, the building out of those solutions,  
23 if you had asked them what do you think about those,  
24 the answer would have been, those are barriers to  
25 get subscribers, okay, because it makes it tough for

1 someone to do that.

2           And now I think if you asked some of the  
3 leading exchanges today that are actually doing  
4 traffic, that's actually becoming now a necessary  
5 requirement in order to drive the transactions,  
6 because those are the things that make people feel  
7 comfortable that, in fact, their trade secrets and  
8 their risk portfolio is going to be managed, and  
9 that now we're starting to see the rolling out of a  
10 series of services to that point.

11           MR. COHEN: Steve?

12           MR. KAFKA: Yeah, I guess I just wanted to  
13 agree with that point, that for buyers, the  
14 credibility of the offer is absolutely an issue in  
15 the exchange. Because if you think about this new  
16 environment, you know, in the extreme, buyers are  
17 dealing now with anonymous trading partners in a  
18 pure style of exchange, and the less extreme than  
19 that, you're dealing with suppliers who you haven't  
20 ever met in the business before.

21           So, who's making the offer, is it actually  
22 credible, is the product that they're offering what  
23 they say it is, are they going to deliver it when  
24 they say they will, et cetera. And I think to  
25 David's point, you know, there are trust brokers who

1 are arising to specifically address that as a  
2 service.

3 I just wanted to add, though, to that, I  
4 think to build on Lori's point or maybe to clarify  
5 about this role of seller-owned exchanges, I think  
6 we need to be a little bit careful about that,  
7 because when you think about the bias inside of the  
8 exchange, there's lots of different ways to slice  
9 that.

10 I mean, it's partially about who owns it,  
11 but it's also who runs it, who governs it and  
12 controls it, but it's also about how is the  
13 information actually presented. And I think it's  
14 really about the information presentation. That's  
15 the key part of what buyers are worried about, is  
16 that there's a trust, a level of trust about the  
17 fact that the information is being presented in a  
18 fair way, and just because an e-marketplace is owned  
19 by sellers or sellers sit on the governing board of  
20 the marketplace does not necessarily mean those  
21 criteria aren't getting met. So, I think we just  
22 have to be a little careful about, you know,  
23 throwing the dagger at seller-owned exchanges and  
24 without being a little more careful about what we  
25 mean.

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1 MS. LEVINE: What do you mean by the  
2 presentation of information? How can that make a  
3 difference?

4 MR. KAFKA: Well, I think it goes to the  
5 points we were making. I mean, I support the points  
6 that were made earlier, actually, that you can --  
7 that information and prices can be skewed, but those  
8 -- that skewing of information is not necessarily  
9 linked to ownership or to governance is my point.

10 MR. COHEN: Jay?

11 MR. KNOLL: I think that this raises an  
12 interesting issue, as I see it, is who's going to  
13 qualify the sellers? Is it going to be me as a  
14 buyer? Is it going to be you as an exchange?

15 I don't know the answer to that, but I do  
16 know that it's opportunities like David's when he  
17 speaks of trust brokers and risk management, et  
18 cetera, offers a unique opportunity and it allows  
19 us, maybe, provides a reason for us selecting new  
20 suppliers, provides us a reason for choosing David's  
21 businesses as a -- or working with an exchange. I  
22 mean, that's a new type of risk management that's  
23 not available yesterday. Tomorrow it is. And I  
24 think that's a really exciting opportunity for us.

25 MR. COHEN: And Angie?

1           MS. KIM: Yeah. On this supplier-led  
2 exchange, I just wanted to share our experience  
3 early on. When we were getting our first round of  
4 funding last year, I remember one of the things that  
5 -- one of our big decisions was do we actually  
6 accept money from a major distributor or do we  
7 actually go with neutral VCs and actually say, you  
8 know, we're going to try to have arms-length types  
9 of agreements with different suppliers.

1 with our suppliers, was so important to our buyers  
2 that we actually took it one step further, and in  
3 both our purchasing marketplace where we do have an  
4 RFQ, request for quote, model, and in our financial  
5 marketplace where we have about ten national lenders  
6 to whom we send applications for small business  
7 loans, equipment leases, et cetera, what we did was  
8 we actually worked out with all of our lenders and  
9 our credit scoring partners like Fair Isaac, et  
10 cetera, a way to pool all of the information about  
11 the buyers that the suppliers would want, and but  
12 make that blind so that the suppliers and the  
13 lenders would actually get all of the information,  
14 the verification information, the credit scoring  
15 information about our small business buyers, without  
16 actually getting their name, the name of the  
17 company, you know, or any other sort of information  
18 other than, okay, what does their credit history  
19 look like, how long have they been in business, et  
20 cetera.

21           And it's actually worked out fairly  
22 successfully and I think it just shows that  
23 sometimes marketplaces have to go to extreme  
24 measures and really work with their suppliers and  
25 lenders, or whomever are on the seller side, to try

1 to make that anonymity issue and privacy issue work.

2 MR. COHEN: Let's return to Lori on this.

3 You have a follow-up?

4 MS. MIREK: So, we heard the same thing from  
5 our customer base as well, with respect to the  
6 supply-side led exchange issue, and I think I can  
7 summarize from all the discussions we had with our  
8 customers, as well as worldwide research we've done  
9 independently, that there's really four major issues  
10 that customers typically have that are concerns with  
11 respect to supply-side led exchanges.

12 The first issue has to do with the potential  
13 for a facilitated mechanism for price fixing. The  
14 second has to do with potential restriction for  
15 access. The third has to do with what we've been  
16 discussing, which is the potential for misusing  
17 sensitive customer data. And the fourth has to do  
18 with the ability to provide potentially preferential  
19 treatment to the exchange owners relative to the  
20 nonowners, whether they are other suppliers or  
21 whether they are buyers.

22 So, if we just look at those briefly, with  
23 respect to the potential for price fixing, you know,  
24 supplier exchanges provide the supplier owners with  
25 unprecedented ability to monitor prices in realtime.

1 That realtime element is a new element brought to  
2 bear by B2B marketplaces. And when suppliers run an  
3 exchange, they know each other's bids and prices on  
4 every trade instantly, and they also know that their  
5 competitors, the other providers, know their bids on  
6 all of the information instantly.

7 And, you know, one could, candidly, hardly  
8 imagine a better mechanism in the hands of large  
9 supplier owners to affect baseline pricing and  
10 horizontal price fixing agreements. So, that is --  
11 I'm not saying this happens in every exchange, I'm  
12 saying that this is a significant concern that's  
13 been voiced by our customer segments when they  
14 analyze do they work with a buyer exchange, a  
15 supplier exchange or an independent exchange.

16 The second issue with the supply-side led  
17 exchanges is around the area of restriction of  
18 access. So, there's a real potential for owner  
19 suppliers to exclude non-owner suppliers or other  
20 third party exchanges from the marketplace all  
21 together. And the largest risk here, candidly, is  
22 exclusivity. Exclusivity provisions that prohibit  
23 non-owners from participating in the exchanges or  
24 preclude owners from participating in other  
25 competitive exchanges. So, this is particularly of



1 concern where the supplier owners have significant  
2 equity stakes. And exchanges if successful, as we  
3 all talked about, will be characterized by network  
4 effects and owners could quickly develop market  
5 power that could potentially achieve the status of  
6 an essential facility within a given market. And  
7 obviously that's a major concern for buyers and  
8 other competitors as well.

9           So, you know, if nonowners are excluded,  
10 immediate and detrimental effect, we believe, would  
11 potentially happen to the buy-side community.

12           The third topic I already covered earlier  
13 when I was addressing the comment about privacy and  
14 the misuse for customer data. And the fourth and  
15 the last issue that is consistently raised on the  
16 buy side for us is that, you know, they're concerned  
17 about this preferential treatment of the exchange  
18 owners that could potentially affect the fairness of  
19 a supply-side driven exchange.

20           So, what do I mean by that? A supply  
21 exchange owner is a counterparty to every  
22 transaction that happens on the exchange. So, they  
23 have an inherent conflict of interest and are  
24 vested, you know, have a vested interest in the  
25 transactions and potentially optimizing for them at

1 the risk of the buyers or other competitors.

2           So, for example, in the bond market,  
3 there's a significant online player that's -- that  
4 basically has ownership by about a half a dozen  
5 major suppliers, and also has a number of other  
6 participants who are not equity owners. And what's  
7 intriguing about this example that they actually  
8 actively limit the access and the supply when a  
9 buyer makes a request for a bid to just five quotes.

1 getting issues like this out in the open today is  
2 the opportunity to start to engage in discussion  
3 about how you can potentially, you know, put  
4 operational policies into effect that would assure

1 particularly means it's going to behave one way or  
2 the other. You just have to understand the policies  
3 of the exchange you choose to use.

4           And I think that in our instance, our  
5 exchange, the incubator was the buyer side, but for  
6 it to be a successful exchange, they believed it had  
7 to be viewed as a neutral exchange so there would be  
8 no reticence on the part of other buyers or other  
9 suppliers to participate in the site, because it's  
10 going to be volume that makes it successful. And  
11 you want as many participants on the site as you can  
12 get.

13           So, I think that you have to really focus on  
14 what is the policies of the site and how have they  
15 segregated the information, what protections have  
16 they given, and how are they going to operate their  
17 business, and that's what you really need to  
18 understand versus really who the owners are.

19           MR. COHEN: Gerard?

20           MR. VAN BREEN: I would basically agree with  
21 the comments that Lori and Angie made regarding  
22 supply-side owned exchanges; however, we also have  
23 to realize that if we want to progress this  
24 electronic business to something that is going to  
25 last and is going to be meaningful, then we cannot

1 do it without either one side.

2 And so I can't really speak on behalf of  
3 other exchanges, I don't have experience with that,  
4 but the WorldWide Retail Exchange that we are trying  
5 to set up together with 16 others, 16 other  
6 retailers, so it is a buyer side owned exchange,  
7 really is open to all retailers that want to join,  
8 and it is open to all suppliers, large or small.

9 And the only reason that we try to construct  
10 it in the way we do is that we think we need to have  
11 an industry -- a standard which will be acceptable  
12 in the industry so that we in the future can link up  
13 any other exchange that provides content which can  
14 be, you know, beneficial to improving the efficiency  
15 of the market, that we can link up any other  
16 supplier in whatever retail sector he is working,  
17 and I think there are really big potential if you  
18 are really, you know, sharing the infrastructure,  
19 and also give the supply side a real vote in how you  
20 are going to do this.

21 And we work, for example, together with the  
22 supplier community in the Global Commerce  
23 Initiative, which is a body that tries to set global  
24 standards for EDI communication over the web, we try  
25 to agree, understand it's not in, let's say, five or

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1 six or ten years as we did in the past, but before  
2 the end of actually this month, it's a matter of  
3 four or five months to create those standards, and I  
4 think if we can agree on those standards, on a  
5 global scale, that's going to improve the efficiency  
6 of working in an electronic environment to a  
7 tremendous extent, and therefore you need to meet,  
8 you know, both desires, the buyer's side and the  
9 seller's side and join forces in this case.

10 MR. COHEN: Since we're on the topic of the  
11 various ownership structures and have just heard  
12 from the two of you, I wonder if you could go a  
13 little further. You're both involved with the  
14 exchanges where you've got some major competitors  
15 which have joined together to form an exchange, and  
16 I'm wondering what do you see as the efficiencies  
17 from competitors joining together, the added  
18 efficiencies which you couldn't get from a single  
19 firm operation or from one of the operations that we  
20 saw demonstrated this morning?

21 MR. VAN BREEN: Well, if you look at -- and  
22 that comes back again to what David said before, we  
23 are in the very early stage of development, and we  
24 need to invest a lot of money to make this, you  
25 know, make this work, make it secure, and make it

1 something that is going to last. And we at Ahold  
2 are quite a big firm around the globe, but we would  
3 never be able to put up the amount of money that is  
4 necessary to create the exchange.

5 And by doing it together, you achieve a  
6 couple of things. One of the things is that you can  
7 share the cost of creating the infrastructure, so  
8 you can operate the exchange on a lower transaction  
9 cost basis, which improves the efficiency, and the  
10 other thing is that because we do it together with  
11 other retailers, it is much more acceptable to the  
12 rest of the retail world, and the rest of the  
13 supplier community, to discuss about standards, and  
14 about common protocols and et cetera.

15 Because suppliers would not like to see us  
16 develop an exchange of our own and have every major  
17 retailer do the same around the globe, and then they  
18 end up with 25 different standards and all kinds of  
19 communication protocols, which is really going to,  
20 you know, not be efficient. So, that I think is  
21 very important reason why we do it together with  
22 other retailers.

23 MR. COHEN: And Rod?

24 MR. GRAY: Yeah, I agree with that, and I  
25 think it comes back to the functionality. You could

1 get some software and run an auction tomorrow, and  
2 that's not all that costly, but to build in all of  
3 the functionality that I think is necessary to be a  
4 successful and a real value-added exchange, that's a  
5 significant investment. Yes, any one company could  
6 do it, but it's very expensive and it really takes  
7 out a lot of the efficiency.

8           And just a rough number on our exchange, and  
9 again, these are rough estimates, horseshoes and  
10 hand grenades, we came up with that it would take  
11 \$10 billion worth of spend to pay for the creation  
12 of the infrastructure. Well, even though many of  
13 the companies in our industry are very large  
14 spenders, not many of them in and of themselves have



1 quarter we did a billion four, so close to, you  
2 know, \$6 billion annual run rate of spending. So,  
3 the \$10 billion is not out of reach, I don't think.

4 You know, this whole thing begs the  
5 question. In my mind is, our capital markets are  
6 very efficient, but there's a lot of very distinct  
7 roles in the capital markets, and there are  
8 independent roles and there's competition for each  
9 one of those roles.

10 You know, would the same logic apply that  
11 would say we have to merge the SEC, Goldman Sachs,  
12 Morgan Stanley, E-trade, you know, the research  
13 firms and everybody into one combined merged  
14 enterprise, or does the fact that, you know, you've  
15 got competition among underwriters, competition  
16 amongst discount brokers, competition for mind share  
17 of investment research and all that, does that,  
18 combined with some interoperability standards, which  
19 says that, you know, as a pension fund, I can buy a  
20 thousand shares of stock with my custodian bank, I  
21 can buy it with any one of the brokers, pretty  
22 seamlessly, there's an infrastructure to clear that  
23 trade.

24 You know, I do wonder whether or not all the  
25 roles have to be commonly owned, and whether or not,

1 you know, all of -- or whether we're better off  
2 having all of those various specialized roles, like  
3 exist in the capital markets, competing for their  
4 own piece of the specialty pie.

5 MR. COHEN: Let's go back to Gerard.

6 MR. VAN BREEN: Well, to comment on the  
7 comments that Sam made, I think it very much depends  
8 on what type of business you are. If you're in the  
9 financial industry, then, you know, bonds and stocks  
10 basically are a somewhat standardized item, I really  
11 don't care who sells me a particular stock of, let's  
12 say, General Mills. I don't care who it comes from.  
13 I know it's good, I know what it's worth, I know who  
14 I can sell it to.

15 But if I'm in the food -- in the food  
16 industry, I want to know who is providing me with my  
17 tomatoes and how they have been treated and how they  
18 have been grown, so I need a much higher, let's say,  
19 supply chain visibility to be able to trace and  
20 track the products and follow them as they go  
21 through the supply chain.

22 So, I think there is a lot more, you know,  
23 software technology necessary and being developed  
24 today to guarantee that I can see all of those type  
25 of things and follow those products.

1 MS. LEVINE: But why is it --

2 MR. KINNEY: I think it's interesting, you  
3 know, the infrastructure that creates price  
4 transparency in the capital markets, right, we have  
5 the SEC, right? As an officer of a public company,  
6 we have disclosure rules, Jay, you were talking  
7 about it, you are not allowed to lie about your  
8 financial status.

9 As a salesman selling widgets, you are still  
10 more than free to lie, right, about your product.  
11 You can over-represent it, all that stuff. There's  
12 -- right, okay, well let's talk about what happens  
13 in, you know, in conference rooms every day all day.

14 No, there's literally, there's other  
15 mechanisms. There's the ability to short sell  
16 product and arbitrage away price differences. There

1 horizontal competitors in order to do what you've  
2 been able to do privately for years?

3 MR. VAN BREEN: I can comment on that. If  
4 you look at the concerns about food safety that have  
5 arisen over the past couple of years, then I think  
6 there is enough demonstration that it is very, very  
7 important, and it's an increasing consumer concern  
8 to know exactly where products come from and how  
9 they have been -- how they have been grown. And we  
10 spend a lot of money today to do it in a relatively  
11 inefficient way, because we do it in a traditional  
12 basis. We go out to a country where they are  
13 farmed, we send out people, you know, every month to  
14 see, to take samples of how the products are being  
15 treated, and we can do a lot of that and support a  
16 lot of this process by using Internet and by using  
17 the supply chain visibility software that we are  
18 being -- that is being developed today.

19 Also, if you talk about when you ship  
20 products across the globe, today we don't --  
21 basically don't track them. We don't know where a  
22 ship is with commodities that -- or merchandise on  
23 it that we are going to sell. And it is important  
24 for us to know it in order to minimize our stocks  
25 and to reduce the level of inventory that we have

1 and get a more efficient retail system.

2 MR. COHEN: For our last two points on this  
3 particular topic, let's go to Rod and then we'll go  
4 to Kaushik.

5 MR. GRAY: Well, just I think the point  
6 about the efficiency of scale, I think that two  
7 points I would like to make. One, I don't believe  
8 that there's only going to be one exchange in our  
9 vertical or any vertical, I think there's going to  
10 be more than one, and I think that yet there is  
11 functionality that we're creating for our vertical  
12 that having a number of players band together, that  
13 it pays for the creation of that functionality that  
14 does really meet the needs for that vertical.

15 But no, I don't believe there will be a  
16 situation where you have one exchange, because there  
17 will be a lot of niche exchanges picking out pieces  
18 of -- in that vertical that are very valuable, even  
19 to the central exchange or the varied three or four  
20 or five central exchanges that may be serving that  
21 vertical.

22 So, I don't believe, even though I think  
23 there was a comment made earlier today that there  
24 would be 10,000 B2Bs, I see the opposite, I think  
25 it's going to go the other direction. I think

1 there will be a consolidation of the B2B exchanges  
2 as we go forward in time and this all settles out  
3 and we really figure out what works and what doesn't  
4 work.

5 MR. COHEN: Kaushik?

6 MR. SHRIDHARANI: I just wanted to ask the  
7 rhetorical question what would happen if there  
8 weren't any hot Internet stocks and these companies  
9 didn't have the potential to realize hundreds of  
10 million dollars in potential capital gains, as an  
11 incentive to start some of these exchanges.

12 MR. COHEN: Let's at this point leave that  
13 as a rhetorical question.

14 MR. SHRIDHARANI: Yeah, but I was just going  
15 to say that using the financial markets as an  
16 example, the reason why it is so vast, or one reason  
17 why it's so vast and broad is, you have a high  
18 degree of specialization in the markets themselves.  
19 A lot of tiering, a lot of different brokers and  
20 providers of services who are actually just going  
21 after little segments to together add up to a very  
22 large number of people.

23 And I think what you will find is that over  
24 time we will see that consolidation. These  
25 exchanges, the independents and the affiliated ones

1 will eventually probably realize that they are  
2 adding more value to each other together, than  
3 apart, and that the independents may find  
4 opportunities in the specialized areas and then come  
5 together with the others.

6 But I actually wanted to bring up the --  
7 respond to the earlier question about the features  
8 and the concerns that buyers and sellers have,  
9 because I think it also relates to this: The market  
10 has been responding to all of these concerns that  
11 buyers and sellers have, and you have independent  
12 exchanges that are coming up who offer these  
13 different features that respond. But the real  
14 concern that buyers and suppliers both have is that  
15 on the other side, they're faced with somebody who  
16 has a lot more bargaining power, and they're being  
17 muscled in a way to participate in these affiliated  
18 online exchanges, and that's because they have a  
19 huge problem of disincentives. They fear losing a  
20 large chunk of existing business for the prospect of  
21 saving some amount of costs in the future.

22 And so what's more important is to save  
23 their existing business today. And so there is, I  
24 think, an element of -- I don't know what to call  
25 it, intimidation, or psychology involved that's

1 slowing down the development of these independent  
2 marketplaces, because of this that's happening with  
3 the industry affiliated exchanges.

4 MR. COHEN: Let's move on to another  
5 subject, we have about another 20 minutes or so with  
6 this panel. I would like to cover three more,  
7 fairly significant topics. One, I would like to  
8 hear what the people's experiences have been, or  
9 what they're hearing as projections, for the issue  
10 of exclusivity. And by that I'm talking about are  
11 buyers in any way being constrained to use just one  
12 exchange, or are they free to use multiple exchanges  
13 or to buy outside of the exchange? And I'm not  
14 focusing solely on absolute rules which prevent  
15 outside purchasing, but also minimum commitments  
16 which might have the same effect, or reduced fees,  
17 or any of a number of things that could affect their  
18 incentives in this way as well, and be the  
19 equivalent of an exclusivity rule. Captain Huff?

20 CAPTAIN HUFF: That really brings to mind  
21 one of the concerns I have, speaking really for the  
22 federal government, and that is, I think there's a  
23 potential clash between what the competitive  
24 marketplace is going to do and what public policy  
25 demands.

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1           Exclusivity probably makes sense in some of  
2 these exchanges, but public policy says in the  
3 federal government we can't have exclusivity, we  
4 have to have an exchange that allows everybody and  
5 anybody to participate. So, that's one of the  
6 concerns that we have in the government is, as these  
7 exchanges get built, will we be able to go into  
8 them, because, in fact, they are open to everybody.  
9 Or are there, in fact, going to be some barriers.

10           For instance, a small mom and pop shop may  
11 want to participate in an exchange, and then they  
12 find that the fee structure or the reimbursement  
13 structure is prohibitive, so they don't do that. If  
14 they decide not to do that, I can't exclusively use  
15 that exchange for federal procurement. So, I think  
16 that a real concern in the government is will we  
17 ever be able to play totally within an exchange, and  
18 I don't know that we will.

19           MR. COHEN: John?

20           MR. ALLGAIER: I would say definitely not.  
21 I mean, I don't see any of us working with one  
22 single exchange. You know, these exchanges will be  
23 specific to some purchases, but it won't be unlike  
24 how we buy anything, any commodity.

25           Sometimes you'll choose to go single source,

1 sometimes you have multiple sources. So, you go  
2 through the due diligence to say what's the value of  
3 that exchange, and how broad can you use that  
4 exchange?

5 You may choose to buy some indirect items  
6 through an exchange that you're involved in, and on  
7 the very other side, you might have a transportation  
8 exchange where you buy a very unique commodity that  
9 you wouldn't buy on the first exchange.

10 So, I would envision and project that most  
11 buyers will be involved in more than one exchange.

12 MR. COHEN: Gerard?

13 MR. VAN BREEN: The WorldWide Retail  
14 Exchange has no requirements of participation of any  
15 of its members, whether they're founding members or  
16 regular members or charter members or whatever, and  
17 it is basically driven by functionality. If our

1 exchanges. And we think we can link them up in the  
2 future. So --

3 MR. COHEN: Steve?

4 MR. KAFKA: I agree with the point that I  
5 think buyers will, in fact, choose to use more than  
6 one exchange, but to your point about exclusivity,  
7 I'm not sure it's quite the definition of  
8 exclusivity that you're thinking about, but there  
9 are definitely deals out there today, particularly  
10 with the industry-affiliated consortia, where  
11 industries are trading or agreeing to provide --  
12 particular companies are agreeing to provide certain  
13 levels of volume to the exchange, in exchange for  
14 equity, or in exchange for ownership.

15 The other place you might see some piece of  
16 exclusivity coming about is the model of some of  
17 these marketplaces is to provide what amounts to a  
18 private trading room for -- there's some initial  
19 matching process that goes on between buyers and  
20 sellers and then, you know, a particular buyer and  
21 seller kind of take the negotiation offline so to  
22 speak, or to a separate part of the -- separate part  
23 of the site, and negotiate the final details.

24 Now, whether you call that, you know,  
25 exclusive or not, I'm not sure. There is equal

1 access to the extent that in the case of an exchange  
2 or auction, everyone has the chance to bid initially  
3 and it's the second stage where there's this private  
4 trading room that comes into being.

5 MR. COHEN: Jon?

6 MR. ARNOLD: I would just kind of echo the  
7 same points, but the exchanges in our industry are  
8 being -- you know, they're free and open. Everybody  
9 wants to drive down the transaction cost by getting  
10 more volume, more liquidity. There's a lot of talk  
11 of, you know, the exchanges being specific, whether  
12 complex RFPs, whether some of these exchanges are  
13 becoming very horizontal, and the linking of the  
14 horizontal to the vertical exchanges. There's lots  
15 of activity going on just really to see how they  
16 complement each other.

17 MR. COHEN: Let me try Sam, from  
18 FreeMarkets. Do you vary based on dollar  
19 commitments, does that affect charges or the  
20 discounts?

21 MR. KINNEY: Well, when we negotiate our  
22 terms, we do negotiate a blanket price for a blanket  
23 dollar commitment, and the reason for that is mostly  
24 so that you don't have to essentially resell every  
25 little increment of service, because that creates a

1 market failure. You actually have a hard time  
2 getting the next increment of service sold, because  
3 the cost of selling the next increment of service,  
4 right, the next auction as it were, may exceed the  
5 cost, you know, the value that we could charge for  
6 it. So, we do do that. It's pretty -- it ended up  
7 being pretty small on a percentage basis, right, so

1 portfolios. They've got their fixed income  
2 portfolios, their equity portfolios, their equity  
3 portfolios that are indexed and managed and global  
4 and domestic.

5 So, the tendency on those high-value  
6 activities, like purchasing decision making or like  
7 asset management, is for proliferation to  
8 specialists, and so I think that would be a trend  
9 that we should see evolve in B2B, also.

10 MS. LEVINE: Can I ask quickly about whether  
11 equity makes a difference? Maybe this is a question  
12 for you, Steve, since you were talking about the  
13 role of equity in getting volume into an exchange a  
14 little bit ago. If I have -- if I'm a co-owner of  
15 the exchange, like the WorldWide Retail Exchange ,  
16 for example, or Petrocosm, do I have more of an  
17 incentive to bring my big buying volume to that  
18 exchange because I've got equity in it and there's a  
19 -- and I'm going to -- if there's a subscription fee  
20 or a transaction fee, a fraction of it is coming  
21 back to me?

22 MR. KAFKA: Absolutely. I mean, that is  
23 absolutely the incentive that these industry  
24 affiliate exchanges have in mind to begin with. As  
25 somebody mentioned earlier, I think it was David,

1 that, you know, the key challenge now for  
2 marketplaces is to build a critical mass of buyers  
3 and sellers. And so what's, you know, an obvious  
4 way to do that? Well, it's to get, you know,  
5 significant players in the industry to have  
6 incentive to participate in that exchange.

1 adds so much minor liquidity.

2 But I wanted to also touch on that point  
3 about exclusivity. Yes, it's actually been used,  
4 but for really small portions, and I think that it's  
5 not a major issue now. And going back to what  
6 Gerard is saying, these are still early days, and  
7 what has yet to happen is that functionality for  
8 many of these marketplaces and exchanges is not  
9 complete, and there's still such a long way to go.  
10 Especially when we bring in the whole -- all the  
11 issues about supply chain management.

12 So, I think what we will find is that these  
13 companies may get involved in exclusive  
14 relationships for small portions of their spend,  
15 which really constitute nothing more than an  
16 experiment, and then there will be a time where  
17 they'll still be able to choose again.

18 We had a -- a conference last week where a  
19 company mentioned how happy they were with  
20 FreeMarkets and said that they would actually use  
21 them for two years and then review the situation.  
22 And they were quite open to looking at alternatives  
23 after that.

24 MR. COHEN: Rod?

25 MR. GRAY: Yeah, I think that there are --



1 everyone's driving for liquidity, and there are  
2 different ways to incentivize liquidity, whether it  
3 be equity for types of volume, or volume discounts,  
4 but what's going to ultimately win out and make the  
5 site successful is the functionality. It's --  
6 you've got to get the liquidity going and get it  
7 moving, but then people are going to start migrating  
8 based on the functionality. Those volumes are just  
9 the initial volumes that are getting you started,  
10 but those are not forever type incentive packages.

11 MR. COHEN: I'm going to use the moderator's  
12 prerogative to shift gears once again. I think we  
13 should spend a few minutes talking about another  
14 phenomenon which you may have encountered out there.  
15 Are any of your exchanges, or exchanges which you've  
16 been dealing with or hearing about being designed,  
17 planning to aggregate the purchase volumes for more  
18 than one buyer when placing requests for quotes or  
19 conducting auctions, lumping it together to get a  
20 larger total? Gerard?

21 MR. VAN BREEN: In the case of the WorldWide  
22 Retail Exchange, we have specifically stipulated  
23 that the exchange itself will never aggregate any  
24 volumes in terms of goods for resale or goods not  
25 for resale, it will not aggregate any volume.

1           However, members of the exchange could get  
2 together and could, you know, make a collaborative  
3 auction on a particular item if they stay within the  
4 competitive rules that are in, you know, in the  
5 United States, or in Europe.

6           So, if there is someone from France that  
7 wants to do something with the United States and  
8 there is -- and they have their own responsibility  
9 to check whether there is any competitive issue  
10 involved, and if there is not, then one of them can  
11 take the volume of the two to the exchange, but the  
12 exchange itself will not aggregate anything.

13           MR. COHEN: And is the exchange in any way  
14 affected with setting up this two-way arrangement?

15           MR. VAN BREEN: Well, they could, the  
16 exchange could be, but then again, there would have  
17 to be some kind of a check by someone that, you  
18 know, there is no FTC or European commission or  
19 other competitive body issue involved. So, that  
20 would -- that would in our view, that would not be  
21 the responsibility of the exchange to orchestrate  
22 that or keep an eye on that or take responsibility  
23 for that. That would be the responsibility of the  
24 individual members.

25           MR. COHEN: Angie?

1           MS. KIM: Yeah, this was something that we  
2 considered because obviously when you're dealing  
3 with small business buyers, one of the things that  
4 you want to try to do is give them some pricing  
5 advantages because the large companies that they're  
6 competing with have, you know, volume discount  
7 pricing and things like that. And we found in our  
8 market that it was really difficult to do any such  
9 aggregate buying in the same way that you can do  
10 sort of in the B2C world with a company Mercata and  
11 things like that, because you're talking about just  
12 in MRO alone, over two million SKUs of items, and  
13 the chance that even though these are, you know,  
14 fairly standard, you know, branded items, that one  
15 person here and another business somewhere else will  
16 need the same item around the same time frame was  
17 just very difficult, especially when you're getting  
18 started like we were.

19           So, what we did instead was, we did sort of  
20 a virtual aggregated model where we went to our  
21 suppliers and we said hey, treat EqualFooting as a  
22 large national account in the same way that you  
23 treat tons of, you know, local branches of GM or  
24 what have you, and got sort of MFN pricing from all  
25 of our suppliers and shippers, et cetera, so that we

1 can actually -- and then we did XML integrations  
2 with these suppliers and sellers and shippers so  
3 that it would -- the cost efficiencies for the sell  
4 side would still be there and they could afford to  
5 give us -- give our members some of the price  
6 breaks.

7 So, we thought that was sort of a more  
8 practical way of aggregating the volumes.

9 MR. COHEN: Steve?

10 MR. KAFKA: I was going to say that I think  
11 it's not the typical model. It's an uncommon model  
12 to see aggregation, but it does exist. There are a  
13 couple of sites in the chemicals industry I'm aware  
14 of that are pursuing a model like this. And I think  
15 it actually harkens back to our discussion earlier  
16 about the role of offline distributors. Because in  
17 a way, that model is simply a virtual distributor  
18 model, where in chemicals, for example, you know the  
19 site is buying at truckload prices, breaking bulk  
20 and then reselling to buyers at less than truckload  
21 prices, or something less than that. I mean,  
22 they're taking a cut of that savings but also  
23 passing some savings on to the ultimate buyer.

24 So, I don't think it's that dissimilar from  
25 what you already see, you know, a traditional

1 offline distributor is doing in many cases, but I  
2 would just echo that it's not the typical model that  
3 we've seen out there yet today.

4 MR. COHEN: I think I see you shaking your  
5 head yes, Rod? Do you have anything?

6 MR. GRAY: Well, I think there's -- if you  
7 want to look at a possible scenario, you can set up,  
8 in essence, a two-way auction that aggregates  
9 volume, and people that are putting onto the market  
10 what types of volume they would want and the other  
11 side of the market is seeing that volume build up  
12 and you can get a volume scenario.

13 There are situations in our industry that we  
14 see possibly there can be a benefit to both the  
15 supplier and the buyer. Let's take an example of  
16 pipe mills. They make or break themselves by  
17 knowing when to run their mill, and if they could go  
18 through a annual industry auction where they could  
19 go in and buy blocks of mill space and they could  
20 then plan their activities and add an efficiency to  
21 their system and that could be passed across the  
22 players.

23 But again, those are things that can be  
24 done, I think, later in the functionality chain.  
25 Once you've built up the volume, there will be

1 information available that people could take and  
2 create new services that would be a value to both  
3 the buyers and suppliers.

4 MR. COHEN: Is this information being  
5 conveyed -- collected and conveyed by the  
6 marketplace back to the buyers? What do you have in  
7 mind?

8 MR. GRAY: Well, as you understand, the  
9 information in the marketplace is private to the  
10 people who are putting those transactions across,  
11 but once you have transacted millions and millions  
12 and millions of transactions, there is an overall  
13 statistic that may come off of that, and those  
14 statistics are going to be valuable to a lot of  
15 people.

16 MR. COHEN: I think for our last topic, we  
17 have just a very few minutes left, let's talk a  
18 little bit about information. And I'm wondering, in  
19 any of your models, is it a situation where one  
20 buyer is -- is one buyer, buyer A, able to see the  
21 purchases being made by buyer B? Lori?

22 MS. MIREK: I really don't see how you could  
23 build a successful exchange and do that. I mean,  
24 it's been very clear from our customers that the  
25 privacy of their data is first and foremost, as well

1 as for our suppliers that the privacy of their data  
2 is first and foremost.

3 So, from everything we've heard in the  
4 marketplace, that would probably be the number one  
5 error that could be executed in building up an  
6 exchange.

7 And to your point earlier, much aggregated  
8 information at the millions and millions of  
9 transaction level that tells you directionally where  
10 a market is headed, that's a completely different  
11 story all together. But the specific information  
12 that a business does in terms of at what time it's  
13 in the market, how it's in the market, and in what  
14 direction, that information could be potentially  
15 misused, as we've already talked about before. So,  
16 I think that's one of the fundamental things that  
17 exchange providers have to worry about is protecting  
18 specifics.

19 MR. COHEN: Perhaps we should return to one  
20 thing that we talked about before and get a few more  
21 opinions on it. I know you were talking about  
22 concern about supplier-owned exchanges and the  
23 information that this gives to suppliers and some of  
24 the concerns that if it comes to them, even in their  
25 capacity as owners or operators of the exchange,

1 that it's difficult to construct a firewall to keep  
2 that information from flowing to them for their  
3 other business.

4 Does anybody -- would anybody want to  
5 comment? Any other views on that? Is that a  
6 problem that you see? Jon, are you up for this one?

7 MR. ARNOLD: Well, actually not, but I'll



1 really between -- you know, information flowing  
2 between buyers and buyers and sellers and sellers,  
3 but for the buyer the information about what kind of  
4 business they're doing, their transactions,  
5 statistics that they can use within their company to  
6 make their processes more efficient, the same thing  
7 with the sellers.

8 MR. COHEN: Steve?

9 MR. KAFKA: I would just offer another  
10 perspective in what we could mean by supplier  
11 preferencing or preferred supplier relationships.  
12 And if you think about it, the way that business is  
13 done in the offline world, buyers have a set of  
14 preferred suppliers already, and a set of business  
15 relationships, and in often cases, in many cases  
16 they've been in place for a long, long time.

17 And so, you know, one of the key factors in  
18 incenting buyers to participate in a marketplace in  
19 some cases may be the ability to preserve some of  
20 those preferred relationships. And I think,  
21 actually I'm going to put Sam on the spot, because I  
22 think that, you know, when you look at it in an  
23 auction kind of situation, you know, most of the  
24 auctions or exchanges that are out there today are  
25 not necessarily returning the lowest-priced bidder

1 as the winner. The buyer can go in and actually  
2 select the winner that they want at the end of the  
3 day, and that's a form of supplier preferencing.  
4 Because they -- you know, they're making a decision  
5 about saying well, maybe I'm paying a little bit  
6 more here, but I know that this supplier is actually  
7 going to deliver on time, I have a much higher level  
8 of confidence that they are going to actually, you  
9 know, provide that product.

10 So, I think it's a little different spin  
11 than what we were talking about the supplier-owned  
12 exchanges and some of the more sinister ways, I  
13 guess, that they could manipulate information, but I  
14 think it's important that we think about the  
15 necessity of preserving these preferred supplier  
16 relationships.

17 MS. MIREK: But to Steven's point, that's  
18 the buyer's choice?

19 MR. KAFKA: Absolutely.

20 MS. MIREK: And that's a key point that he  
21 made, because when it's the buyer's choice, it's  
22 different than if the suppliers chose to limit the  
23 amount of data that's presented.

24 MR. KAFKA: Absolutely.

25 MS. MIREK: And it all comes down to the

1 management oversight of who makes decisions around  
2 how that data gets used. And to somebody's earlier  
3 point, you need to trust that oversight function.  
4 The question is do you really understand what  
5 comprises that oversight function.

6 MR. COHEN: Okay, I see two more name plates  
7 up and then I think we're at the end of our time.  
8 So, let's take David first and then we'll end with  
9 Kaushik.

10 MR. CHEN: I think we're at the very, very  
11 beginning of this whole information, right-to-use  
12 versus right-to-own issue. And if I just take a  
13 corollary from the B2C marketplace, I mean, just  
14 about every business plan in the Internet space was  
15 written with the we'll give away things for free,  
16 collect a bunch of data and then will somehow reap  
17 riches from knowing the data.

18 And we've seen how in the consumer space  
19 that's sort of cratered. One it's hard to do, but  
20 it's really wrought with all sorts of danger, but I  
21 think in the business-to-business space, I think the  
22 bigger danger is one that we've touched on, and that  
23 is that companies view their transactional record as  
24 part of their trade secrets, as part of their  
25 proprietary intellectual property. And then the

1 various documents and policies that are attached to  
2 that purchasing process are further trade secrets.

3           And I think this is going to beg the issue  
4 that a lot of the exchanges have yet to deal with,  
5 and that is the whole issue of are they custodians  
6 of the data, or do they own the data. And I think  
7 there's a massive difference between the two.

8           And if I take an older history of, again,  
9 the capital markets. The credit card industry, I  
10 think, has taken years to negotiate this concept  
11 out, and that is there are pieces of data which  
12 they're entrusted -- that members of that ecosystem  
13 are entrusted to use, never to own, but, in fact,  
14 derive great value from.

15           A great example of that is fraud detection  
16 engines, where there is a conscious pooling of the  
17 industry's -- and on behalf of both the consumer as  
18 well as the banks -- pooling of information that is  
19 massed, that generates a thing called a fraud  
20 detection engine. All right? That is that you will

1 versus an ownership relationship, which is, in fact,  
2 your issuing bank. And I think this kind of concept  
3 here, which is -- and we talked about it earlier  
4 today, we used the word rules, and these kind of  
5 rules are, in fact, one of the fascinating things,  
6 because they inherently require exchange-to-exchange  
7 cooperation at some level. But that's where the  
8 real power starts to come out.

9           And so I'm sort of mixing a couple of  
10 thoughts here that I think we're going to start  
11 dealing with, this issue of the ownership versus  
12 custodial, and the issue of what information is, in  
13 fact, best to be shared across the industry for  
14 very, very useful purposes that are not price, you  
15 know, exchanging of information, but the fundamental  
16 beneficial relationship versus what information is,  
17 in fact, owned by the customer, by the issuing  
18 exchange, and by the intermediary.

19           MR. COHEN: And for our last word on this  
20 panel, we will have Kaushik.

21           MR. SHRIDHARANI: Just in this question  
22 about misuse of information, I think that, along  
23 with several other points that we've talked about  
24 today, all really say that some of these problems  
25 are not peculiar to B2B, they're just problems that

1 are peculiar to business. And that one of the  
2 differences in B2B is that the information can flow  
3 faster, the effects may be seen more quickly, and  
4 the -- whatever damages might be there may be a  
5 little more greater. But some of the solutions to  
6 these problems already exist in the offline world,  
7 they just need to be brought over, as I think Steve  
8 was saying, or someone, that they will be in time,  
9 but it's not necessarily so much a B2B issue as much  
10 as these are the problems of doing business.

11 Relationships will still need to be owned by  
12 companies, they'll still need to do due diligence,  
13 they'll still have to go out there, invest a lot of  
14 money in identifying or figuring out that a supplier  
15 in Shanghai is actually good enough for them.

16 MR. COHEN: Let me thank all of the  
17 panelists. This was very, very helpful.

18 (Applause.)

19 MR. COHEN: I guess we start again at 3:40.

20 (Recess in the proceedings.)

21 MR. WROBLEWSKI: Good afternoon, we would  
22 like to get started, it's Panel 3 on Seller  
23 Perspectives. My name is Michael Wroblewski, and I  
24 act as the advocacy coordinator for the Federal  
25 Trade Commission. We welcome you all here this

1 afternoon.

2 Co-moderating the panel with me this  
3 afternoon will be my colleagues in the policy  
4 planning office at the FTC. Hillary Greene to my  
5 left, and R. Bhaskar to my right.

6 I would like to first introduce the 12 fine  
7 panelists that we have assembled here this  
8 afternoon. Starting from my right, at the far end  
9 of the table, is Mr. Alex Mashinsky. He's the  
10 founder and chief solution provider of Arbinet,  
11 which is a global marketplace for telecommunications  
12 bandwidth.

13 Next to him coming towards me is Harpal  
14 Sandhu, president and CEO of Integral Development  
15 Corp., which founded CFOweb.com, an e-commerce  
16 portal for capital markets.

17 On his left is Timothy Cooney. He's the  
18 cofounder, director and president of  
19 Ventures4Sale.Com, an interactive marketplace for  
20 buyers and sellers of businesses.

21 To his left is Nailesh Bhatt. Mr. Bhatt is  
22 the founder and director of BulkDrugs.com, a  
23 business-to-business marketplace for the  
24 pharmaceutical industry.

25 Mike Sullivan is next. He's the co-founder

1 and chief operating officer of HotOfftheWire.com,  
2 which is a B2B marketplace that brings together



1 I'm going to make all afternoon -- this team is  
2 leading Dow in implementing a company strategy to  
3 use new electronic market channels that enabled by  
4 technology such as the Internet.

5 To his left is Jay Knoll, senior staff  
6 counsel for Detroit Diesel corporation, a  
7 manufacturer of heavy-duty diesel engines for the  
8 on-highway/off-highway and automotive markets.

9 And the final two panelists are our industry  
10 analysts. First we have Ms. Leah Knight, she's the  
11 research director for the GartnerGroup's B2B  
12 Internet marketplaces worldwide program. And  
13 hopefully joining us will be Chuck Phillips from  
14 Morgan Stanley Dean Witter, I'm sure he's having  
15 some problems with the parking that I hear is pretty  
16 terrible out there.

17 A couple of ground rules that we have. It's  
18 going to be very similar to the panel that we just  
19 had on Buyer Perspectives. It will follow the same  
20 ground rules. If a panelist would like to speak or  
21 make a comment or add a comment, please turn your  
22 name tent on its side and we'll recognize you.

23 Also, if you'll move closer to the  
24 microphone, some people had some problems listening  
25 to everybody in the previous panel, so if you'll

1 move closer to the microphone so everybody can hear  
2 when you speak.

3           During this panel, we will attempt to cover  
4 seven topic areas that are of most importance and  
5 relevance to sellers. And as you will hear, they  
6 are very similar to the issues that we just  
7 discussed on the buyer's panel, but now we're going  
8 to hear them from the seller's perspective.

9           These seven topics include: The current  
10 uses of B2Bs by sellers, expected seller benefits,  
11 seller reservations about participating in these  
12 marketplaces, criteria for seller participation,  
13 internal workings of B2B marketplaces. The sixth

1 variety of seats all the way in the front and over  
2 to the right and to the left. Why don't you come on  
3 down and -- well, the price is right, whatever.  
4 Okay. Why don't we get going.

5 The first set of questions that we're going  
6 to start talking with or talking about are how  
7 sellers are using B2B marketplaces today and what  
8 their future uses will be. I'll turn this part of  
9 the discussion over to my colleague, R. Bhaskar.

10 MR. BHASKAR: Thank you, Michael. Let me --  
11 as Michael said, I'll be -- we want to focus on  
12 electronic marketplaces and the kinds of products  
13 that are there, specifically I'm interested in the  
14 factors that affect the choice between goods and  
15 services for sale through different mechanisms,  
16 catalogs, auctions, dynamic pricing, exchanges, what  
17 have you. And the question is whether sellers of  
18 different goods are somehow affected differently by  
19 these marketplaces.

20 So, let me turn to Dwayne Spradlin of  
21 VerticalNet for your comments.

22 MR. SPRADLIN: Yeah, there seem to be --  
23 there do seem to be adoption by different types of  
24 products and services, a difference in the adoption  
25 rate. Certainly, finished goods, products that are

1 effectively easy to understand by the buyer  
2 community, where product information is easily  
3 describable, those seem to be adopted earlier.

4           Complex kinds of services, less tangible  
5 kinds of products which are much more difficult to  
6 describe, much more difficult to sort of  
7 independently or in a disconnected way sort of  
8 verify the quality of the product or the service,  
9 those aren't being adopted nearly as quickly, and  
10 even technologies like RFP, RFQ, which would  
11 effectively allow the description of complex kinds  
12 of services, those are a little bit slower to be  
13 adopted as well.

14           MR. BHASKAR: Well, let me then turn to  
15 somebody at the other end of the aisle, Alex  
16 Mashinsky of Arbinet.

17           MR. MASHINSKY: Well, in Arbinet we trade  
18 bandwidth, or we allow our customers to trade band  
19 width, and we have a unique perspective, most of our  
20 sellers have owned their customers for over 100  
21 years.

22           So, for example, one of the Japanese phone  
23 companies that is selling on our exchange has a head  
24 of monopoly in the country, so they own 100 percent  
25 of the traffic coming in and out of that country,

1 and they have to totally adjust to a new deregulated  
2 environment.

3           So, there's a lot of attraction, for  
4 example, for them to be able to come to our markets  
5 and -- come to the U.S. market and very easily  
6 access U.S. customers, but at the same time they're  
7 very careful about giving access to others to the  
8 Japanese markets. So, there's a lot of learning,  
9 and I think everybody -- we've been at it since '96,  
10 and a lot of people are taking very cautious steps  
11 in entering this market. So, we think we're still  
12 at the learning phase.

13           MR. BHASKAR: Nailesh Bhatt, you seem to be  
14 exactly in the middle between these two firms. Can  
15 you tell us about this a bit, please.

16           MR. BHATT: Yes. The pharmaceutical  
17 industry is quite unique. You've got FDA, you've  
18 got international regulations, and just to give you  
19 a perspective on what the costs are for suppliers,  
20 to make a face-to-face sales call for a supplier, it  
21 costs on average \$575 to -- for example, let's take  
22 BASF, they sell a commodity to Johnson & Johnson.  
23 To go to Johnson & Johnson, introduce the product,  
24 talk about the specifications, it is expensive, it  
25 is inefficient.

1           So, at the same time, they've got long-term  
2 relationships. There are complex specifications.  
3 And what this means is that pharmaceutical industry  
4 and the chemical industry is evaluating this from  
5 many different angles. How can we use this to  
6 eliminate the inefficiencies of the transactions?  
7 How can we use this medium, electronic marketplaces,  
8 to further enhance our relationships between  
9 suppliers and buyers. And to do that, it's not just  
10 auctions, and we heard in the panel before, auctions  
11 and RFQ and RFP. For pharmaceutical industry,  
12 information is the key. So, value-added services is  
13 where the pharmaceutical industry, buyers and  
14 suppliers, are looking to use the electronic  
15 marketplaces.

16           For example, supplier information. Is this  
17 supplier really a manufacturer, or he's just a

1 us what you think?

2 MR. DuPONT: Yes, thank you very much. Dow,  
3 of course, as already mentioned, is a global  
4 supplier of chemicals and plastics. And you ask,  
5 you know, how do we decide which of these various  
6 mechanisms we can use. Well, actually, the first or  
7 the leading way of determining that is what the  
8 customer wants. You find out where the customer  
9 wants to buy from you, and usually that involves the  
10 most efficient way and the most convenient way, and  
11 the highest value way for them, and then you follow  
12 your customer to that location.

13 Dow has had an e-commerce program in place  
14 for a good, long time. If you go back and consider  
15 the EDI, as we talked earlier, mechanisms, and we  
16 have been, you know, looking at how to leverage  
17 various tools, and now these tools and the usage of  
18 these tools is proliferating because of technologies  
19 like the Internet technology.

20 We start by looking at how can we link --  
21 and this hasn't been discussed much in the panel --  
22 and that is direct linkages, for e-commerce directly  
23 between a supplier and a customer, and that's the  
24 number one thing that we're doing to drive  
25 efficiency in the way that we -- as Nailesh was just

1 mentioning, \$350 for a face selling, well you want  
2 to try and get that more cost effective.

3 So, that's the first way. But there are  
4 lots of other tools, and things like auctions or  
5 exchanges are the neutral marketplace that Dow has  
6 recently announced in two areas, in plastics, and  
7 chemicals is another.

8 If you don't mind, I would like to spend  
9 just a minute to talk, as there was a lot of  
10 discussion in the last session about this neutral  
11 marketplace and what it is. Within Dow, and as you  
12 look at these two, one is called our nexus plastics  
13 neutral marketplace, and the chemicals one that's  
14 yet unnamed. The concept there is utilizing the  
15 benefits of ERP innovation, okay, to drive out all  
16 of these costs associated with a huge amount of  
17 information. And today we talked about it through  
18 the entire supply chain, and all of the different  
19 processes that you go through, whether it's order  
20 entry, whether it's billing, whether it's tech  
21 service, whether it's data sheets about your  
22 products, there's just a huge amount of information  
23 that exchanges.



1 efficiently. To do that, though, is very expensive.  
2 And that's one of the reasons that you see the  
3 supplier-led consortia coming together to build  
4 these very complex, but also very efficient,  
5 marketplaces.

6 But the key thing that wasn't mentioned is  
7 that in that marketplace, what you're trying to do  
8 is drive out those inefficiencies, but enable the  
9 traditional supplier to customer relationship that  
10 you've had, wherein the negotiation, the business  
11 that you actually conduct and the products that you  
12 sell, the volumes that you sell, the conditions  
13 under which you sell them, are private, between  
14 supplier and seller. It is not a completely open  
15 public display of what goes on there.

16 I mean, the information is very much secure  
17 between supplier and customer, but you've driven out  
18 the cost in doing it and you've also provided a lot  
19 of efficiency and a lot of convenience to the  
20 customer. And in recognizing the customers want  
21 that, and that is the reason that we headed in that  
22 direction in this particular instance.

23 MR. BHASKAR: Leah Knight, from your  
24 position as an observer, do the goods matter?

25 MS. KNIGHT: Sure. In following from Andy's

1 comment that it's really driven by what the customer  
2 wants, I would say that suppliers and marketplaces  
3 are oftentimes very much driven by what the buyer  
4 requirements or requests are.

5           And you can look at it in the form of five  
6 different types of corporate procurement. The first  
7 is what Gartner calls white collar MRO, which is  
8 basically any types of indirect goods that are used  
9 in an office. It could be office supplies,  
10 janitorial services, and so forth. The second, what  
11 we call blue collar MRO, again indirect products,  
12 but that are used in a factory, ranging from like  
13 gloves, pipes and valves, all the way to the  
14 components that are put into the capital assets.  
15 The third type is direct commodities. Fourth,  
16 direct strategic assemblies, and then fifth is  
17 capital equipment.

18           Well, the initial sweet spot of marketplaces  
19 has really been in the area of white collar MRO, and  
20 in commodities, direct commodities, and in the blue  
21 collar MRO that are commodity-like.

22           Now, and why is that? You know essentially  
23 for white collar MRO, enterprises are just paving  
24 the cowpath when they're using a marketplace, rather  
25 than order through a paper catalog, though, they can

1 gain great efficiencies by ordering through  
2 electronic catalogs, which are housed on a  
3 marketplace.

4 MR. BHASKAR: Let me now turn to our neutral  
5 marketplace, Charles Libicki. Do the goods matter  
6 to you?

7 MR. LIBICKI: Well, what we see in among  
8 bulk suppliers is initially a very -- some reticence  
9 in getting on board with getting online. Part of  
10 it, if you have a bulk supply, where the  
11 transportation costs are a large fraction of the  
12 cost, then many deals tend to be local, anyway, and  
13 the bulk suppliers, especially if the suppliers are  
14 small, with respect to the customers, tend to feel  
15 beat up, or the potential to be beat up in  
16 exchanges. And so they have a certain psychological  
17 dependance where on the mechanics of the  
18 person-to-person trade anyway.

19 And when you -- and if you get into larger  
20 distances, then the issue of trust -- as was brought  
21 up in the MetalSite discussion -- the issue of trust  
22 tends loom very large.

23 MR. BHASKAR: Let me turn back to my right,  
24 Michael Sullivan, HotOfftheWire, can you tell us  
25 what you think?

1           MR. SULLIVAN: Sure, the marketware and the  
2 consumer goods industry is a highly fragmented one,  
3 and you start off in the top strata with the big  
4 bucks, retailers, and it drops pretty much in free  
5 fall until you reach small and midsize retail.

6           And the compelling point for the suppliers  
7 on joining a neutral exchange like ours is that  
8 they've essentially walked away from small and  
9 midsize retail in many cases due to the need to  
10 service the big bucks retailers, hammer their  
11 operating costs and thus not able to support a sales  
12 staff to call on small and midsize retail.

13           So, the first compelling reason to join a  
14 neutral market like ours is for topline reasons, and  
15 that is increasing their distribution to the  
16 260,000-odd small and midsize retail stores and  
17 chains throughout the U.S. And secondly, to Andy's  
18 point, leveraging the web technologies and ERP  
19 technologies out there to integrate into their back  
20 ends and improve their bottom lines.

21           MR. BHASKAR: Harpal Sandhu, could I ask you  
22 the same thing.

23           MR. SANDHU: Thank you. First of all,  
24 let me just explain a little bit about where CFOweb  
25 is coming from from this perspective, although this

1 is a seller side perspective in this panel.  
2 CFOweb technically speaking is a neutral e-commerce  
3 platform that represents sellers, but is, in

1           So, when we talk about a \$6 trillion B2B  
2 market in two or three years, there's a trillion  
3 dollars of foreign exchange traded every single day,  
4 and roughly \$70 trillion of rather arcane products  
5 known as currency derivatives.

6           So, in fact, this is quite a liquid market  
7 in any case. But the reason that it is the way it  
8 is, is because the marketplace itself has pushed  
9 these products towards standardization. And the  
10 other thing that's very, very important is that the  
11 market has evolved to a state where it's essentially  
12 what's called a secondary market. Everybody is  
13 selling and buying used products.

14           So, for example, when you buy or sell a bond  
15 from a bank, the bank didn't issue the bond, the  
16 U.S. Government issued the bond, it's now used, and  
17 it's called a secondary market. And what's very  
18 important about capital markets, and we believe this  
19 is the way that all markets will eventually go, is  
20 that you can both buy and sell products, whereas a  
21 lot of the B2B exchanges that we're talking about  
22 here are essentially unilateral, a seller produces a  
23 product and pushes it through a chain.

24           And this is sort of the point that I want to  
25 get at. In essence, we're seeing a lot of these

1 things that are talked about here today as  
2 representations or manifestations of what the  
3 respective companies happen to have to offer. And  
4 we would actually take the position that it's a  
5 relative coincidence that supply chain enterprise  
6 software companies call themselves B2B e-commerce  
7 infrastructure companies is because that's what they  
8 had to sell.

9           So, it's the best thing to go and apply to  
10 this new world of the Internet and so on. And  
11 virtually everybody is coming at this space from  
12 their historical strength and trying to represent  
13 how they are actually B2B e-commerce in some way or  
14 another.

15           So, it's really important to discount and  
16 distill out what's really the tangible things that  
17 are relevant for this conversation based on the  
18 perspectives that people are coming at. And so I'll  
19 just get to the punchline about what products we'll  
20 actually trade. Fundamentally, every participant is  
21 motivated by either fear or greed. That's it.

22           Buyers like these auction mechanisms, in  
23 particular reverse auctions, for greed. They get a  
24 lower price. We saw an example this morning, where  
25 Free Markets showed us an extremely graphical model

1 of where a buyer of a product had cut out upwards of  
2 40 or 50 percent of the cost of the product within a  
3 matter of hours, and that's purely greed motivated.  
4 The suppliers participate in these exchanges,  
5 primarily, out of fear. If they don't, somebody  
6 else will take their customer.

7 And this issue of the ERP supply chain  
8 management and the processing of all this versus the  
9 transparency mechanism that FreeMarkets was talking  
10 about this morning about changing the price or the  
11 price discovery process, are completely independent  
12 issues.

13 And although one may be related to costs of  
14 the supplier and are used as a so-called benefit  
15 from the ERP vendors' perspective, it's completely  
16 independent of what I think the issue is that in our  
17 perspective, the Federal Trade Commission should be  
18 looking at and so on, which is the price discovery  
19 process and protecting the consumers and  
20 establishing policies that essentially help out the  
21 consumer so that suppliers cannot set up  
22 infrastructures and mechanisms that the price  
23 discovery process is somehow retarded.

24 So, in answering your question, products  
25 that can do -- products that are standardized,



1 mature, that people can get transparency to, will  
2 move to B2B e-markets very quickly. Products that  
3 either because they are too complex for that, or are  
4 what you guys call customized products, or products  
5 that the supply side somehow prohibits the  
6 transparency so they can move into this, or  
7 prohibits the liquidity, will have a retarded growth  
8 into this. But fundamentally they'll all move  
9 there, it's just a matter of time.

10 MR. BHASKAR: Alex Mashinsky?

11 MR. MASHINSKY: Yeah, I agree 100 percent  
12 with the previous statement. I just wanted to add  
13 to that that we are actually creating a  
14 commoditization of bandwidth -- in the bandwidth  
15 industry. So, a product that used to be was not  
16 standardized, is now being standardized. And  
17 actually over 60 percent of our members are both  
18 buyers and sellers, because they all have something  
19 to buy and something to sell.

20 And to add to what Leah was saying, there's  
21 essentially enough players in this market to create  
22 an environment where if you're a producer of band  
23 width, for example, if you're a long distance  
24 carrier and you have fiber in the ground, every  
25 second you generate, let's say, whatever ten

1 gigabits worth of capacity, if you haven't sold it,  
2 whatever you haven't sold depreciates to zero. So,  
3 you have a very high pressure to go and convert or  
4 monetize that unused capacity.

5           So, if you're running at, you know, the  
6 average in our industry, we're running at 20  
7 something percent utilization, so only 20 percent of  
8 what we produce is actually being sold to customers.  
9 So, there's that 80 percent of unutilized capacity  
10 that you can actually monetize if you go to an  
11 exchange and you find a buyer there.

12           So, there's very high pressure from the  
13 people who are trading on our exchange to basically  
14 participate.

15           MR. BHASKAR: Dwayne?

16           MR. SPRADLIN: One of the things that we've  
17 seen is that the notion of a good or a product,  
18 we've almost had to sort of change our thinking in  
19 that regard. We almost look at a good or a product  
20 now in terms of being a synthetic. I mean, there  
21 are all kinds of things available for sale and for  
22 purchase on the Internet and, you know, the volumes  
23 aren't necessarily as high or as impressive yet  
24 across all markets as our friends from GartnerGroup  
25 and Forrester and everybody else would hope, and I

1 think that the reason for that is it's all too easy  
2 on our side of the fence to think about these things  
3 in terms of simple products, simple services.

4 The reality is sitting behind these are all  
5 the things that the folks involved in business  
6 design and operations in the bricks and mortar side  
7 of the world have known for years, and that is that  
8 these are, in fact, very, very complicated things.

9 When we think of products and services now,  
10 we think about them being essentially synthetics  
11 that include financing services, insurance, all of  
12 the financing kinds of capabilities in the back end  
13 that can run the gamut from -- run the gamut from  
14 working with insurance companies and securities  
15 agencies and so forth, through transportation and  
16 logistics and all of those kinds of complexities.

17 And I think one of the things that's  
18 probably very important is that when we talk about,  
19 you know, how -- does the good or the product make a  
20 difference. It absolutely makes a difference, but  
21 it needs to be looked at through the lens of is  
22 there enough business infrastructure and supporting  
23 infrastructure in place for that to essentially be a  
24 viable product offering. And we've talked about  
25 trust in the prior sessions. That's really the tip

1 of the iceberg.

2 A lot of what needs to be done for these to  
3 be legitimate products and services and to really  
4 sort of move and have the impact of the market they  
5 could, is the blending of all of the knowledge,  
6 collective knowledge in the bricks and mortar side  
7 of the world into these products and services, and  
8 then the effective machines and the greasing of the  
9 skid, so to speak, could take place. But in a lot  
10 of ways, the industry has looked too simplistically  
11 at what goods and -- at what products and services  
12 are.

13 MR. WROBLEWSKI: Okay, why don't we move on  
14 over to our second group of questions, and we've  
15 really started talking about these already in terms  
16 of what are the benefits on behalf of sellers for  
17 joining these types of marketplaces.

18 MS. GREENE: Right. I wanted to focus in on  
19 what the benefits are. We could call them the  
20 savings, the efficiencies, and the thing that I like  
21 about this issue is that it proliferates everything  
22 else, because it really explains in the end why  
23 we're here. We're hoping to get something out of  
24 it. And from the seller's distinct perspective,  
25 what is that? I mean, we have the general notion of

1 transaction costs are saved through these  
2 marketplaces, or anticipated savings. What exactly  
3 does that mean, and what form do they take? And,  
4 Hal, why don't we start with you.

5 MR. LOEVY: Yeah. Certainly, as has been  
6 said before, major sources of expected savings are  
7 coming from the reduced administrative costs. One  
8 could say the administrative cost of a paper  
9 transaction could be \$100 and that could be reduced  
10 down to \$10, or even less, quite easily. And you  
11 couple that administrative efficiency with the links  
12 to back office, ERP systems and the ability to track  
13 and trace orders, there's a lot of opportunity for  
14 efficiency.

15 I think you can also translate the expected

1           You take, for example, a small chemical  
2 producer sitting in the midwest, and maybe his scope  
3 of sale today is not beyond the midwest, but he's  
4 got a very good quality of product. And he wants to  
5 go online. And there's a purchaser in Europe, and  
6 perhaps that my colleague from Dallas also got  
7 product on the site. Well, Dallas got a brand  
8 recognition which is going to carry across and bring  
9 trust and some recognition to that buyer in Europe,  
10 but the same buyer is going to say to the seller, in  
11 Ohio, if he is, well, who is this Jay Smith & Sons  
12 Company anyway. So, again, it does raise the issue  
13 of trust and the need for recognition, and that's  
14 going to be a critical factor in bringing sellers  
15 into the marketplace.

16           MS. GREENE: Okay, Jay?

17           MR. WROBLEWSKI: Jay, before you start, I  
18 would like to welcome Chuck Phillips. Thank you  
19 very much, I hope it wasn't too much of a struggle  
20 to get here.

21           MR. KNOLL: In the last panel I sat in I  
22 told you why product differentiation wouldn't work  
23 for sellers when I'm a buyer, now I'm going to tell  
24 you why it works with me as a seller.

25           When I look at the exchanges, there's a

1 couple of things I've seen, and one of the most  
2 important things for us, and why we may consider  
3 participating in an exchange is a reduction of the  
4 transaction costs. I can't tell you exactly what  
5 they are, but I know that it costs us an awful lot  
6 to approach our customers and to make the sales. I  
7 think, though, that another place that we miss on  
8 the transaction costs is the continuing customer  
9 support, the information transactions.

10 We have a, as I said in the prior panel, a  
11 highly engineered product that you have a service  
12 requirement on a continuing basis with the customer.  
13 There's a cost associated with that for us, and the  
14 ability that the exchange is to provide to attack  
15 the market, that whether it be our end users or the  
16 OEMs to whom we sell, and to provide that  
17 information to them through a consolidated means is  
18 very valuable to us.

19 Now, we can certainly do that today through  
20 a single website, using our website as an  
21 information intermediary, the exchange, however,  
22 brings it -- it creates a bit of -- I don't want to  
23 say credibility, but a more focused approach to that  
24 by making it part of an entire value chain.

25 MS. GREENE: I'm a little confused in terms

1 of how is it -- can you clarify the extent to which  
2 the more complex products will be served well  
3 through this type of --

4 MR. KNOLL: Well, as I was saying on the  
5 buyer side, I think it goes through with me as a  
6 seller, if there's a truck down in a remote location  
7 in North Dakota, let's say, it's not going to do  
8 that truck owner much good if I get him the part in  
9 three weeks. And this is going to address a  
10 question I know we're going to talk about later,  
11 which is the role of intermediaries.

12 I still might need my intermediaries to  
13 carry inventory in that location so that they can  
14 get that truck up in a -- very quickly. And if we  
15 look at what our distributors currently do, they  
16 hold, you know, on a first-time pass, 95 percent of  
17 their inventory as -- 95 first-pass hold. We don't  
18 -- in our company, I think we're at 92 percent at  
19 our central location. So, they're able to know  
20 their market, know the requirements better than we  
21 are because they're closer to the market.

22 Your question was more to how can we use  
23 that as a highly engineered product, and again, I  
24 think it goes back to a transaction cost rather than  
25 -- the cost of actually executing the transaction



1 versus the cost that may be the reach.

2 I mean, for us, we know who our customers  
3 are pretty well. North America is a -- there's  
4 three heavy duty truck manufacturers who control  
5 most of the market, overseas, it's mostly vertically  
6 integrated. The customer, which is the trucker, is  
7 the one who pulls through the engine purchase.  
8 Typically it would be a specking process. But the  
9 more we can get our information out, and again, so  
10 using that type of model, you know, we're able to  
11 attack the market, and so I think it's more going to  
12 be from a transaction basis.

13 Even in our own supply chain, for example,  
14 for our distributors and dealers that we have,  
15 there's a cost associated with providing parts  
16 through that service -- through that supply chain.  
17 We're providing service -- warranty service, for  
18 example, through that supply chain. I see that a  
19 seller type exchange that we may have an interest  
20 in, would be a very valuable mechanism for us to  
21 help the customer who may be part of a different  
22 supply chain.

23 MS. GREENE: Interesting. Leah?

24 MS. KNIGHT: Sure, I would like to share an  
25 example from one of my supplier clients who has used

1 marketplaces to essentially fill some of their greed  
2 instincts, as Harpal had referred to earlier.

3 This supplier is using marketplaces to  
4 actually create a richer product offering,  
5 exploiting essentially a build-to-order type of  
6 model where they use the superior software and  
7 communication capabilities of a marketplace to  
8 enable the original promise of e-commerce, which was  
9 mass customization.

10 And in this particular example, they're  
11 creating personalized Post-It notes and personalized  
12 pads of papers that they can make on a much smaller  
13 scale of quantity than ordinarily economies of scale  
14 would have required them to.

15 So, in that respect, to summarize,  
16 marketplaces let the economy of scale requirements  
17 give way to essentially a do-it-yourself sale kind  
18 of model.

19 MS. GREENE: That really casts doubt on the  
20 commoditization of products to the marketplace.

21 MS. KNIGHT: Oh, sure, in this case this  
22 supplier was using marketplaces to actually  
23 differentiate what they're doing.

24 MS. GREENE: Andy?

25 MR. DuPONT: Well, there are actually two

1 issues here. I think that if you look at the value  
2 that -- or the savings that you have, it is very  
3 much dependant upon the solution that you're  
4 providing and the type of transaction that is being  
5 replaced as it goes from a traditional commerce  
6 activity to an e-enabled commerce activity.

7 As I mentioned we worked a lot with direct  
8 connection, it's already been mentioned by several  
9 of the panelists that ERP integration brings a  
10 tremendous amount of transaction efficiency. I 100  
11 percent agree with that.

12 Some customers buy from relatively few  
13 suppliers and they're willing to do those ERP  
14 integration direct to a supplier, but some customers  
15 buy from many, many different suppliers, substantial  
16 quantities from every one, and they actually see  
17 benefits rather than linking individually to each,  
18 to going out to a neutral marketplace and doing that  
19 linkage at a hub.

20 Now, in that hub, that hub is focused on  
21 day-in/day-out contractual fulfillment, which  
22 represents -- I think it was even mentioned earlier  
23 this morning -- probably the vast majority of sales  
24 are still in that, you know, normal contractual  
25 fulfillment, whereas exchanges and auctions and

1 those tools are more focused on spot materials or  
2 special materials, either excess or distressed goods  
3 or aged inventory, that sort of thing. So, it's a  
4 very different type of sale and a very different  
5 type of customer that would buy that.

6 The convenience that a customer would find  
7 in going to a neutral marketplace is the second  
8 issue here. It's not only cost, because you asked  
9 for what are the benefits. The benefits are  
10 certainly on the cost side, but also when they look  
11 at how do I do product selection, the ability to go  
12 into a neutral marketplace and have the broad  
13 breadth of products from multiple suppliers, in one  
14 location, have a chance to see those products and  
15 then enter into an immediate negotiation on the  
16 procurement of those products is very appealing to  
17 some customers.

18 So, that represents another very significant  
19 benefit to those marketplaces put forward.

20 MS. GREENE: Mr. Phillips?

21 MR. PHILLIPS: My apologies for being late,  
22 it's certainly flight problems, so perhaps when this  
23 panel is over we can start with the airline industry  
24 and grill them.

25 I'm here representing Morgan Stanley, and

1 we've, I guess, worked on about 40 exchanges so far,  
2 some of which have been announced. The ones that  
3 have been announced involve about 81 companies with  
4 about \$2.3 trillion in market cap right now, so it's  
5 some fairly large companies that we've been focused  
6 on.

7           And the driving forces we've seen on the  
8 supplier side of it is that many of them cannot  
9 really adequately serve small customers or they had  
10 no interest in it, one or the other, and so the  
11 ability to aggregate small customers in a central  
12 place and let them basically in a self-help model  
13 serve themselves. They can address customers they  
14 couldn't reach before now, and they may still  
15 fulfill that order through a local distributor and  
16 take advantage of existing fulfillment options, but  
17 they can give much better service to small  
18 customers.

19           Secondly, the cost of exception handling  
20 goes way down online. Online orders are much more  
21 accurate. Quantity, price, descriptions, all of  
22 these things are kind of things that people get  
23 wrong when they're doing it manually over the phone,  
24 and so 40 percent of the orders that are done  
25 manually have some sort of rework after the fact,

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1 and if you have that online where it's configured  
2 properly, priced properly, everyone can see what we  
3 agreed on, the exception handling costs go way down.  
4 So, I've found that a lot of the suppliers actually  
5 like that as another channel that they feel they're  
6 efficient.

7 And, lastly, some small suppliers really  
8 don't have a strong e-business strategy. They don't  
9 have the wherewithal to perform this on their own  
10 and they don't think they can build a world-class  
11 experience for their buyer, but they could leverage  
12 a public infrastructure from someone else to provide  
13 that, and be fairly competitive with their  
14 e-business strategy if they a public exchange.

15 MS. GREENE: Mr. Cooney?

16 MR. COONEY: Hi, I'm from Ventures4Sale.Com  
17 and I just want to follow on Andy's point on some of  
18 the values for sellers. We are sort of a little bit  
19 different from some of the other companies here.  
20 We're not actually selling products, we are  
21 businesses actually selling the whole businesses  
22 themselves.

23 Ventures4Sale.Com is a marketplace on the  
24 Internet for buyers and sellers of businesses  
25 themselves. In the offline world, it's a very

1 fragmented, inefficient marketplace. If one wants  
2 to sell their business, or look for a business to  
3 buy, they place ads in the newspapers, which are  
4 pretty costly, and are only seen locally. If they  
5 want confidentiality, they have to use a P.O. box.  
6 With our website, what we're doing is we're  
7 obviously creating efficiency and cost savings,  
8 because for a lot bigger than an ad in the paper,

1 you to contract and deliver a million dollars worth  
2 of band width, and he said, well, it's anywhere from  
3 \$9,000 to \$50,000, it depends on how much golf we  
4 play and how many events in Hawaii we go to and so  
5 on, so on.

6 So, when we're talking about benefits to  
7 buyers, or I'm sorry, benefits to sellers, there's  
8 always that balance of what are you giving, and in  
9 the case of -- and I'm serious, in the case in our  
10 industry, it's very difficult to go to these guys  
11 that are selling the stuff every day and convince  
12 them that moving to an exchange but they will have  
13 to give up the golf outlets and the Hawaii trips.

14 But just on a serious note, just to add some  
15 of the other benefits, obviously with this  
16 transaction cost, increased utilization, which I  
17 mentioned before, ability to enter new markets,  
18 which is critical, because again, Internet is a  
19 ubiquitous international medium, undercut  
20 competitor's pricing through basically anonymous  
21 transactions.

22 So, our exchange is totally anonymous. So,  
23 you can come in and basically decide that you would  
24 like to undercut the price to a certain destination,  
25 at a certain time of day, in a certain week of the



1 year. For example, Mother's Day. While you know  
2 you have a competitive advantage because you have  
3 the largest network or anything like that, so

1 forwards are trading.

2           And then there is the last point, which is  
3 price segmentation, where in our industry, there's  
4 different levels of quality, and what happens today  
5 is that the guy with the lowest price is driving  
6 everybody to kind of play at the same level field,  
7 but what you have in -- again in an anonymous  
8 exchange, is the ability to segment the prices  
9 because the guy with the lowest quality will not  
10 always get the bid, will not always get the  
11 contract.

12           MS. GREENE: Thank you. Mr. Bhatt?

13           MR. BHATT: Thank you. I think when you  
14 look at the benefits to the suppliers, you really  
15 have to look at what is the industry. I mean, you  
16 read the reports, suppliers are going to get more  
17 sales, from Gartner or Morgan Stanley Dean Witter,  
18 but, I mean, I can ask Dow Chemical how much  
19 increase in sales participating in marketplaces or  
20 creating a new website has brought them. So, we  
21 really have to see what industry we're talking  
22 about. For the pharmaceutical and chemical  
23 industries, there are few value propositions.

24           Number one is for suppliers that are not the  
25 size of Dow Chemical, it's the global reach and

1 global branding. And you don't have to spend  
2 \$10,000 to place a full-page ad in Chemical Week  
3 Magazine. So, that's number one.

4           Number two is the higher customer service.  
5 For example, if you look at the lifestyle -- excuse  
6 me, life cycle of a purchase order, when you buy a  
7 chemical, there are associated documents that go

1 happens? There is a voice mail. That voice mail  
2 sits there, in the case of Dow Chemical, they are  
3 known for excellent customer service, so, you know,  
4 what I'm trying to say is that when we talk to  
5 pharmaceutical companies, just the documentation  
6 alone, a good, good cycle for them is seven days, to  
7 get those documentation.

8           So, these marketplaces allows -- allow  
9 better customer service. And obviously, the  
10 transaction cost. Again, I want to focus that  
11 pharmaceutical and chemical industries face-to-face  
12 sales call is about \$575. Our third dealer did a  
13 study on this and they said if that product were  
14 available on a marketplace, it goes down to about  
15 \$10.

16           So, these are the three sort of big value  
17 propositions for the pharmaceutical and chemical  
18 industries.

19           MR. WROBLEWSKI: Thank you. What I would  
20 like to do is switch gears real quick, and we've  
21 been talking about the benefits, and I would like to  
22 turn to talk about what the reservations are about  
23 sellers participating in these marketplaces.

24           Listening to the panel before, two themes  
25 seemed to emerge. One was privacy, and one was what

1 we've talked about kind of generally has been  
2 commoditization of a product. Some industries think  
3 it's good, some think it's bad. I would like to  
4 focus on those two issues, and then we'll take our  
5 video break in about 12 minutes or so, so if we can  
6 do that before we change -- we stand up for a  
7 seventh inning stretch.

8 Harpal, would you like to start? You had  
9 your name tag turned earlier.

10 MR. SANDHU: Okay. Well, I actually wanted  
11 to respond to Alex's observation of the lower cost  
12 that it was to transmit a million dollars of foreign  
13 exchange. I think that may actually be more related  
14 to the fact that the band width guys can get away  
15 with charging \$50,000 to send band width, rather  
16 than that being the actual cost. It may be an issue  
17 of the market rather than the transaction, or rather  
18 than the transmission.

19 MR. MASHINSKY: Yeah, it's both.

20 MR. SANDHU: In terms of the seller's  
21 perspective, I guess you're asking me about the  
22 potential negative impacts. First of all, one of  
23 the things I wanted to just observe in a lot of the  
24 things that are being brought up about the  
25 efficiencies that are potentially created for the

1 sellers. It, in essence, all revolves around some  
2 notion of outsourcing, something that the sellers  
3 receive as not a core competency of theirs.

4 So, for example, if the direct sales process  
5 is too expensive, outsource it to some other  
6 distribution vehicle that is much more cost  
7 efficient.

8 So, in some ways, B2B e-marketplaces in a  
9 way are nothing more than outsourcing or adding on  
10 another channel of distribution. So, that could be  
11 perceived as a positive thing. It has a really  
12 interesting impact, and that has to do with, again,  
13 it comes back to transparency.

14 If you use an open and transparent mechanism  
15 to distribute your product, a lot of the things that  
16 you wanted to hide about your product, and it may be  
17 the fact that it is already commoditized or it is  
18 already standardized, but you tried to give it a  
19 neat trade name or you tried to say it had this  
20 extra bell and whistle to it, or you tried to do  
21 something to differentiate it to potentially  
22 literally confuse the customer into thinking it was  
23 somehow better, so therefore you should pay a  
24 premium price for it. A lot of those things go away  
25 when you increase transparency.

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1           So, the biggest risk that the sellers run is  
2           that their products are forced, literally, to be on  
3           stage next to everyone else's product, and the  
4           customer now knows what it is and what it isn't.  
5           And it's a big issue for them.

6           In fact, what will happen, and what we have  
7           seen happen, in most other marketplaces that mature  
8           through this, is that the buyers then begin to  
9           demand that, in fact, the products are represented  
10          in standardized ways, in apples to apples ways,  
11          because they insist that they be able to compare  
12          them.

13          And, in fact, that's why markets that start  
14          to mature like this, that move towards efficiency  
15          force standardization and force commoditization on  
16          these products.

17          Now, even in the point that I think, is it  
18          Leah, that that brought up about the customized  
19          Post-It note. Our observation would be that, in  
20          fact, the Post-It note was completely commoditized.  
21          The differentiation that was created was a  
22          differentiation in service associated with the  
23          delivery of the Post-It note. So, the fact that the  
24          customer could say, well, it's a Post-It note, I can  
25          buy it from 10 different providers and it's still a

1 Post-It note. I don't need to be educated why  
2 provider number 10 has something special of this  
3 paper with sticky stuff on the back. It's a Post-It  
4 note.

5 Now, provider number 10 happens to be  
6 saying, but we can do something special with it and  
7 it's an added service that we have. So, what we  
8 would say is sellers still can clearly differentiate  
9 themselves. They still can create value. They  
10 still can carry very powerful branding through the  
11 process, but the products themselves will be  
12 commoditized and margin compression will take place.

13 MR. WROBLEWSKI: Thank you. Jay, do you  
14 think that the same thing holds in your industry as  
15 a seller of diesel engines?

16 MR. KNOLL: I would like to say absolutely  
17 not, but I don't think I can.

18 MR. WROBLEWSKI: Will you move a little bit  
19 closer to the microphone, too? Thanks.

20 MR. KNOLL: I would like to say absolutely  
21 not, but I don't think I can. About 15 years ago  
22 there was a sea change in our industry led by our  
23 company. It was really a technological disruption,  
24 and that was great, because it allowed us to  
25 differentiate our product, but the fact of the



1 matter is that our competitors have caught up in a  
2 lot of respects, although I'd like to believe that  
3 ours is, you know, far superior to theirs.

4 We have other factors operating in our  
5 industry that beyond e-commerce things such as  
6 emissions controls and noise regulations, government  
7 regulations, are forcing us into certain  
8 technologies that are very similar to our  
9 competitors, so it's becoming more and more  
10 difficult to differentiate our product based on  
11 outside factors, not just e-commerce.

12 But at the same time, we need to think about  
13 B2B exchanges, though, and we hear about  
14 multifaceted RFQ processes where you have 200, I  
15 think, individual factors. That to me is pretty  
16 scary, because we are getting closer and closer to  
17 commoditizing our product.

18 Secondly, one of the things we talked about  
19 in the prior panel is, you know, where do you  
20 participate on what type of exchanges. As a seller  
21 do you participate. What I like to use is the word  
22 -- it's benign coercion. We have a variety of  
23 customers, and if we're going to be seen as partners  
24 to those customers, and I think that's very  
25 critical, because I think they're looking for us to

1 be partners, we're going to have to participate in  
2 all these -- you know, in a variety of exchanges.

3 And going to Leah's and Harpal's point, the  
4 -- I think where we have to differentiate ourselves  
5 in the future is going to be on customer service,  
6 and that's what I was trying to get at before when I  
7 was talking about information transactions and how  
8 we can do that better with our ultimate customer.

9 MR. WROBLEWSKI: Okay, thank you. Chuck?

10 MR. PHILLIPS: As you can imagine, we've had  
11 this discussion many, many times in each industry,  
12 and we have -- each industry group has anywhere from  
13 75 to sometimes 400 people focusing just on a single  
14 industry and meeting with key companies in those  
15 industries to try to come up with some of these  
16 answers and this question comes up repeatedly, but I  
17 think at the end of the day what all of them came to  
18 independently and what seems to make some sense is  
19 that any strategy of a supplier that is contingent  
20 on the buyer not having information about market  
21 conditions is a flawed strategy to begin with. And  
22 if you can't count on that existing, especially in  
23 the age of information, people are going to have  
24 more information about market conditions and they  
25 are going to get it one way or the other, even if

1     it's just off websites.

2             So, some of this was going to happen anyway,  
3     but what we've seen by examining some of the actual  
4     purchase data through some of the initial exchanges  
5     and auction sites that we've helped finance is that  
6     the low bidder doesn't always win, they do respect  
7     things like availability and the ability to fulfill  
8     quickly branding and reputation, so there are other  
9     areas.

10            But the other extreme is to take the Dell  
11     approach and assume, yes, their products are going  
12     to be more commoditized and more common for some of  
13     the components, so I'm not going to manufacture

1           MR. LOEVY: You know, we have a very, very  
2 horizontal perspective and we're out there talking  
3 to several hundred marketplaces that really span the  
4 globe, and what we find overseas for suppliers or  
5 sellers that are looking to sell product, for  
6 example, into the United States, is a lot of  
7 enthusiasm to get into the market, to sell their  
8 goods. They understand, they've been told what the  
9 benefits are, what they can expect to receive, but a  
10 lot of the attitude is sort of wait and see.

11           And certainly there are costs associated to  
12 get into a marketplace, or in memberships, there are  
13 transaction fees, oftentimes at the top of the  
14 transaction, and whilst the seller may understand  
15 that the benefits should far outweigh those costs,  
16 there is still a bit of a wait and see attitude.

17           And, I think what some of the B2B exchanges  
18 are doing to address those concerns of suppliers in  
19 terms of do I get into it or not, sort of follows  
20 what I would break down as being the six steps of  
21 how a transaction occurs. And how that's evolving  
22 through the business of B2B marketplaces.

23           I mean, you start with the discovery  
24 process, and that's where many marketplaces started,  
25 just joining buyers and sellers together, and then

1 you're moving into negotiation and finally the  
2 placement of an order. And until at least some  
3 months ago, that's pretty much where the online  
4 transaction stopped, and everything else came  
5 offline.

6 And what exchanges are now heading towards  
7 are to bring in the next three steps, and those are  
8 the fulfillment, which includes the logistics, the  
9 delivery, the compliance. In other words, are the  
10 goods really going to be what I'm paying for and  
11 what I ordered, and finally the financial  
12 settlement.

13 So, it's bringing in through value-added  
14 service providers or third parties those additional  
15 components which are going to give the added  
16 momentum to suppliers to join marketplaces. In  
17 addition to the fact that many of these suppliers  
18 outside don't have the infrastructure, don't have  
19 the critical mass for those value-added components,  
20 and bringing those into sort of a one-stop shop is  
21 going to be really good to alleviate their issues.

22 Thank you.

23 MR. WROBLEWSKI: Charles, if you can, if  
24 you can address the privacy issues that we were  
25 talking about earlier, I know we're switching a

1 little bit here, but I would like to get those in  
2 before we break.

3 MR. LIBICKI: Where the sellers would  
4 reveal?

5 MR. WROBLEWSKI: Well, the concern, I guess  
6 the concern is this morning or this afternoon we  
7 heard about what was preventing buyers from  
8 participating in markets, and one of the issues that  
9 they brought up was, you know, it's the privacy of  
10 their data, their orders that they were placing  
11 online. Is there -- is the phenomenon the same way  
12 from the seller's point of view the up -- you know,  
13 in terms of what you're selling, what your prices  
14 are, to your competitors?

15 MR. LIBICKI: Well, many commodity markets  
16 with big customers, there will be a best price  
17 agreement, and then if you are required to post your  
18 prices in an open exchange, then it will be become  
19 obvious that what you're offering is not your best  
20 price. Sometimes a supplier will try to circumvent  
21 this by doing, like, backdoor rebates, but even  
22 that, if you have to expose everything, that becomes  
23 a -- that becomes -- I suppose it's greater honesty  
24 in the end, but it is something that sellers would  
25 be reluctant to get into.

1 MR. WROBLEWSKI: Okay. Thank you. Nailesh?

2 MR. BHATT: Yeah. As far as reservations  
3 go, I mean from what we've seen in the industry,  
4 this is something new. They're still trying to  
5 understand what it all means.

6 For the larger suppliers like Dow and BASF,  
7 they have made a great deal of progress because  
8 either they have the funding or they have the  
9 vision. Smaller suppliers are still waiting and  
10 seeing.

11 The bigger suppliers are worried about  
12 commoditizing their products, and what they forget  
13 is that buyers are not looking for the cheapest  
14 product. Johnson & Johnson cares that the supplier  
15 is certified, is FDA-certified, GMP-certified, and  
16 at the end of the day, is going to provide you a  
17 quality product and quality service.

18 The smaller players are also afraid of big  
19 players pushing them out of the market by creating  
20 these consortiums. When we talk to smaller  
21 suppliers in the U.S. as well as abroad, they say  
22 who owns your marketplace, does Dow, BASF, ISP, do  
23 they all own that, because if they do, we don't want  
24 to participate, because they will have access to my  
25 data, or they will always bid me out.

1           So, this is a big concern. And that is why  
2 when we go into a small or medium-sized supplier,  
3 the first thing we say to them is BulkDrugs.com is a  
4 neutral B2B e-commerce marketplace for the  
5 pharmaceutical industry.

6           MR. WROBLEWSKI: Let's hold those thoughts  
7 real quick because we're going to talk about  
8 ownership a little bit later.

9           Dwayne, do you have something in terms of  
10 the reservation?

11           MR. SPRADLIN: Yeah, I just wanted to throw  
12 out there, I don't know that there's as much  
13 hesitation to join these networks as people may  
14 think. I mean, we've had almost 5,500 new suppliers  
15 come up on our websites in the last 75 days. Which  
16 we think is almost unprecedented. And we basically,  
17 you know, we basically think that to try to  
18 structure the kinds of products we offer suppliers  
19 to come up on our websites in as easy -- as an easy-  
20 to-access kind of way as possible, to sort of go  
21 after the kinds of product information that they've  
22 got easily translatable to the Internet and to the  
23 B2B space.

24           I would sort of suggest that a lot -- I  
25 mean, if there is substantial hesitation to join --



1 to join these exchanges, it's probably more around  
2 whether they've got the internal infrastructure, the  
3 internal data, you know, sort of configured and  
4 arranged in a way that is sort of conducive to going  
5 online. But what we have seen is tremendous  
6 adoption by supplies, particularly in the last  
7 several months.

8 MR. WROBLEWSKI: Thank you. Leah, I think  
9 you -- do you want to follow up on those points in  
10 terms of the costs?

11 MS. KNIGHT: Sure. Really the single most  
12 common reservation that's cited among suppliers in  
13 my client base is that they're concerned about the  
14 price squeeze that could occur, particularly as the  
15 buyer-led industry consortia drive greater and  
16 greater visibility into their costs of materials.

17 And, in fact, we can all expect to continue  
18 to see this happen, and it's happened quite a bit in  
19 one industry, where some of the major electronic  
20 equipment manufacturers, who shall remain unnamed,  
21 do have very good visibility into the costs of their  
22 supplier's components.

23 Now, what this drives is really a

1 rather than being marketing and sales organizations,  
2 more and more become capacity managers. And that's  
3 where some of the concern comes from my client base  
4 is that they don't have the internal decision-making  
5 capabilities automated or integrated.

6 So that if some of their major customers  
7 came to them with a requirement to engage in a price  
8 downward auction, it would cause tremendous fear,  
9 and they are afraid of that right now, because it  
10 requires them to know or to be able to calculate  
11 very quickly, their walk-away price. And sometimes  
12 this information, the supply chain management, their  
13 costs of materials are stored on disparate  
14 spreadsheets, you know, sometimes even on Post-It  
15 notes on someone's desk. And so that's their cause  
16 for concern.

17 MR. WROBLEWSKI: Okay. Thank you, and the  
18 last comment we'll take is Andy and then we'll take  
19 the video break.

20 MR. DuPONT: Okay. This is easily linked  
21 in, I think, to a certain extent to the ownership  
22 issue, from the standpoint that the operational  
23 reliability of these marketplaces is a concern. You  
24 know, when you're moving very important business to  
25 an e-commerce site, you want to know and be sure

1 that it's operationally reliable, that it's robust,  
2 that it's secure, so that when you're doing  
3 confidential transactions between supplier and  
4 seller, that you have no concern about, number one,  
5 that it is going to be able to be fulfilled, that  
6 people live up to their obligations in that  
7 marketplace, and that the data itself is collected  
8 in a manner that is appropriate and shared back to  
9 the users appropriately so that a supplier sees only  
10 his information, okay, and not some other supplier's  
11 information, and the same for the sellers.

12           So, we definitely have those issues, and

1 electronic marketplaces.

2 Previously we heard the buyers discuss, you  
3 know, which ones they participated in and how they  
4 made that decision, so I would like to go through  
5 that calculus within the context of the sellers.

6 So, I would like someone to, you know, start  
7 me off by addressing how they decide which  
8 marketplace to participate in and more specifically  
9 how many to participate in and that type of thing.  
10 Yes?

11 MR. KNOLL: In a lot of respects, we don't  
12 decide which ones we're going to participate in, our  
13 customers do. The point we were just talking about,  
14 somebody on the buyer's side, and I apologize if I'm  
15 duplicating things already said.

16 We talked about a stack three feet high of  
17 MRO catalogs. It doesn't matter to me, as I'm  
18 putting on my buyer hat now, whether I have -- it's  
19 a stack three feet high of these catalogs or I have  
20 three pages of potential suppliers, I mean it's very  
21 difficult to decide amongst them.

22 The other thing is how many different  
23 sources do people need for pencils. So, but  
24 wearing my seller hat, it's going to be decided by  
25 my customers. We already have five-plus customers

1 who are starting exchanges of their own, who are  
2 inviting us to participate, in which we will have to  
3 participate, again, I think I used the word before,  
4 it's benign coercion.

5 If we're going to be a partner with them,  
6 we're going to have to participate in those  
7 exchanges, and I see the number only multiplying.

8 MS. GREENE: What impact do the rules of the  
9 exchanges have on your willingness to participate?  
10 And this I want to throw out to everybody.

11 MR. KNOLL: Well, if we're talking about  
12 benign coercion, not a whole bunch. I think that  
13 the key factor there for us, is given the number of  
14 exchanges we necessarily have to participate is the  
15 interoperability of the exchanges. We have our ERP  
16 system, and I think as I said before, our greatest  
17 efficiencies are not going to be in the -- in the  
18 transparency or the pricing, for us as sellers  
19 especially, but it's going to be in the reduced  
20 transaction cost for us.

21 MS. GREENE: Okay. Alex?

22 MR. MASHINSKY: Yeah, I think buyers when we  
23 look at the exchanges for band width, I think far  
24 most they're looking for liquidity, because what  
25 they're looking for is aggregation of buyers.

1           So, they want to basically access easier,  
2 cheaper and quicker, as many buyers as possible.  
3 They're also looking for the financial strength,  
4 because in our case, we do handle the financial  
5 settlement, the -- all the issues related to  
6 clearing the transactions and reconciling the bills  
7 between the buyers and sellers and so on. They're  
8 also looking for neutrality and anonymity, because  
9 in our case that's important and valuable to the  
10 sellers.

11           MS. GREENE: Harpal, and as we're going  
12 around, if you all can also include the idea of  
13 exclusivity and the question.

14           MR. MASHINSKY: Maybe I can add to that.

15           MS. GREENE: Okay.

16           MR. MASHINSKY: We think we're the leading  
17 exchange as far as volume, and we require no  
18 exclusivity. The reason for that is that  
19 essentially we think that our -- both buyers and  
20 sellers get the best experience at our exchange, and  
21 if you have that -- if you're comfortable with that,  
22 you don't want to go and force your buyers and  
23 sellers to give you exclusivity. There's no need  
24 for that.

25           MR. SANDHU: I think the rules associated

1 with the exchange, and actually we have a fair  
2 amount of experience with this, because we end up  
3 negotiating quite aggressively -- quite intimately  
4 with a number of suppliers from around the world.

5 They fall into two camps, quite frankly,  
6 they fall into a camp of rules associated with  
7 fairness, and then quite frankly rules that  
8 associate with unfairness, and in some cases,  
9 intentional unfairness.

10 On the fairness side, their concerns are  
11 that they be quite -- really just treated fairly,  
12 that they have open access to the exchange, that  
13 they're on a level playing field with the other  
14 supplying institutions, that if they do give a price  
15 and theirs is the best price, under whatever the  
16 mechanism is, that they are really able to fulfill  
17 the request and that somebody else maybe who doesn't  
18 have an unfair advantage to come in and beat their  
19 price or what's called price improvement, et cetera.

20 And then there's a whole litany of very  
21 interesting, what we would consider unfair rules,  
22 that they almost make as a requirement to  
23 participate in exchanges that they don't have the  
24 ability to just dictate those rules. So, those  
25 rules revolve around exclusivity, that if they're

1 going to join, that other institutions not be able  
2 to join, or if they're going to join, particular  
3 sets of institutions are not able to join, and  
4 therefore they can have seemingly competitive  
5 institutions, but, in fact, institutions that really  
6 can't give competitive products for the markets  
7 they're in.

8           Everything from exclusivity issues to access  
9 to in our markets what we call market data and  
10 market data really is coming back to this privacy  
11 issue. And there's one thing I want to bring up on  
12 that, and that there really are two sides to this  
13 coin of privacy or data. And it's not just cut and  
14 dry that everything should be completely  
15 transparent. And if you show everyone everything,  
16 therefore buyers will be able to get sort of a  
17 nefarious playing field, because there is an issue  
18 associated with collusion and cooperation on the  
19 supply side that if they can see all the prices,  
20 there's some extremely advanced techniques of  
21 signaling, and various other things that go on, to  
22 make sure that nobody undercuts each other to get a  
23 price that's too low and we can all, you know, do  
24 pretty well.

25           And some of us have been personally

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1 experienced in this in filling up our gas tanks  
2 lately, it's called a cartel. These are very, very  
3 well understood techniques and mechanisms and, in  
4 fact, it is the rules associated with these  
5 exchanges that will dictate exactly where the value  
6 is delivered, as to whether the incumbent  
7 controllers of supply of the product or to the  
8 consumers.

9           And in fact, even though it was discussed in  
10 the last session about the ownership and various  
11 other things, relatively few of these  
12 affiliate-owned exchanges, if you look at their  
13 long-term mandate, are designed for true capital  
14 gain, and you can even look at it just by their  
15 company structure, they're set up as partnerships,  
16 not as class C corporations that would go public.

17           So, as partnerships, they're not intended to  
18 go public. So, the capital gain isn't the  
19 incentive, it is ownership for purposes of  
20 controlling the rules, because in the rules, in  
21 essence, the rules, then, allow these exchanges to  
22 be an extension of their core business, which is  
23 margin.

24           And so there's a whole long list of them,  
25 but essentially the rules are the genetic code of

1 these exchanges, and there is an extremely advanced  
2 science amongst the established leaders as to how  
3 those rules benefit them and not.

4 MS. GREENE: Mike?

5 MR. SULLIVAN: Well, I think that the  
6 criteria selection for suppliers, certainly, the  
7 exchange has to be neutral, they very much want to  
8 see an exchange operated as a switchellent -- not  
9 bias to the buyer, not bias to the supplier.

10 As far as exclusives, we don't sign  
11 exclusives, because the supplier understands that  
12 one of the key benefits to the buyer is having  
13 choices of brands on our site. If they don't give  
14 them the choices, there's not going to be liquidity  
15 for them and it won't be a win-win.

16 I think they want to understand that the  
17 management team and the people who are operating the  
18 business to business exchange have deep domain  
19 experience in that particular vertical, and they  
20 also want to ensure that the buyer has the ability  
21 to buy a breadth of products for his or her store.  
22 So, I think those are the key criteria.

23 MR. WROBLEWSKI: I just want to follow up on  
24 something that you said. Is that the case for an  
25 industry in which all of the suppliers are

1 fragmented? What if you have the case in which the  
2 sellers or the suppliers are in a concentrated  
3 market? Would there be something -- would the  
4 incentive be different?

5 MR. SULLIVAN: Yeah, I can only speak from,  
6 you know, the consumer goods industry, which is a  
7 highly fragmented one, on both the supply and the  
8 buy side. But I believe for a more concentrated  
9 industry, the compelling selection criteria would be  
10 for integrating into the back-end systems to improve  
11 operating efficiencies.

12 MR. WROBLEWSKI: Okay. Thank you.

13 MS. GREENE: Charles?

14 MR. PHILLIPS: I guess I just have had a  
15 completely different experience than what Harpal  
16 described, but after looking at almost 40 of these,  
17 if anything, both the buyers and the suppliers were  
18 extremely adamant that no one see their data or see  
19 the transactions. So, they didn't want any sharing  
20 of transaction or even in some cases catalogs.

21 I mean, there were a lot of buyers who say I  
22 have certain suppliers who I think are proprietary  
23 to me, we have highly engineered products,  
24 negotiated prices, custom-built products, and I  
25 don't want those displayed in the marketplace.

1           And, so, the bulk of what I have seen has  
2           been basically private relationships that they want  
3           to move to a public infrastructure but still keep  
4           the relationship private. So, they all have the  
5           conversation over a public phone network, but they  
6           don't want anybody hearing the conversation.

7           And, so, a lot of the technologies that I've  
8           seen come down the pike and that are getting funded  
9           right now have to do a lot with that where people  
10          will introduce catalog technology that allow  
11          profiling segmentation, and so you can have  
12          segmented store fronts within a catalog that only  
13          portions of it are seen by certain buyers. So, it's  
14          all completely separated.

15          Most of the catalog items that are for  
16          display don't even have realtime availability on  
17          pricing, so you couldn't do all those trading  
18          techniques around it anyway if you wanted to, it's  
19          just a listing, kind of a semi static listing of  
20          prices for the most part.

21          So, the motivation for most of these  
22          exchanges does include a capital structure, all the  
23          ones that we form are separate legal entities that  
24          do contemplate going public. They have a separate  
25          board, they have a separate management team that

1 they're in the process of hiring, a separate  
2 charter, and they are funding it.

3 So, it would look much like what you'll have  
4 in prior industries for bank processing systems, and  
5 clearing house systems where you have separate  
6 companies that serve an industry, and then there are  
7 indeed separate companies with some ownership from  
8 the companies in that industry.

9 So, I guess just my experience has been that  
10 the buyers and the suppliers are definitely afraid  
11 of anybody seeing anything else. They want these  
12 relationships to remain private with a portion of  
13 the marketplace public for people who want to do  
14 that, for suppliers who want to discover new buyers,  
15 and they want to publish a generic price for  
16 everyone to see. That may be a different price than  
17 they've negotiated for a supplier -- for a buyer,  
18 rather, that they have in a relationship with, but  
19 that's a small portion of what they do.

20 MS. GREENE: Andy?

21 MR. DuPONT: Thank you. There are just some  
22 very, very good comments being made by the panel  
23 here. I wanted to reinforce a few.

24 First of all, flexibility is required, I  
25 think as Jay said, because your customers determine

1 many times where you go. So, you need the  
2 flexibility to move to different marketplaces, and  
3 therefore you can't be bound by exclusivity coming  
4 back, you know, to that issue.

5           So, you know, as I look at the marketplaces  
6 that I am familiar with, exclusivity is absolutely  
7 not a requirement. Now, at the same time, you can  
8 generate fragmentation of these marketplaces. As we  
9 already mentioned, 700 up and running now, will  
10 there be consolidation, probably, yes, but you may  
11 ask why was it that you saw 18 chemical companies  
12 and distributors in that area come together to form

1 duPont, Dow, BASF, Ferro, Ticona, Celanese, and  
2 others have joined now, and yet they have quickly  
3 turned it into its own company, it's Omnexus, and  
4 the management of Omnexus is not from duPont, Dow,  
5 BASF, et cetera, it's an independent, you know,  
6 management that's running that.

7           And, so, yes, it's important for these to be  
8 neutral, but it's also important for them, you know,  
9 to have the right start in order to be -- to cover  
10 all the issues that we discussed earlier, on being  
11 robust, et cetera.

12           Another thing that's important to  
13 understand, at least in the ones that I'm familiar  
14 with, these marketplaces are not exclusive from  
15 membership, either, they are totally inclusive  
16 models. You know, any other supplier that wants to  
17 come in and be a supplier in that marketplace is --  
18 can come in and be a supplier.

19           The people that start the marketplaces, what  
20 do they get for that? And some people would say  
21 what they get is the right to fund the building of  
22 the marketplace, which is very expensive. I mean,  
23 they're putting up, in many cases, you know, these  
24 multimillion dollars to build the marketplace. And  
25 yet the marketplace is intended for all suppliers

1 and customers within that marketplace to use.

2 So, the point there is, is that I don't  
3 think that any of the suppliers in the marketplace I  
4 see went into them thinking that they wanted to get  
5 some sort of competitive advantage over other  
6 people. They just wanted to make sure that the  
7 opportunities for efficiency and cost reduction that  
8 come through efficient marketplaces were realized,  
9 and to make sure that they intervened or that they  
10 initiated that process in order to make that happen.

11 MS. GREENE: Hal?

12 MR. LOEVY: Yeah. Just once again to echo  
13 the panel in terms of exclusivity, and maybe just  
14 put a number on it from our point of view. If there  
15 are 700 marketplaces in the world today, we've  
16 talked to some 200, 250 of them, and I can only  
17 recall two or three cases where those marketplaces  
18 were requiring exclusivity. And I know of two of  
19 them at least that don't exist anymore.

20 So, I couldn't agree more that the  
21 exclusivity -- the exclusivity is something which  
22 won't exist, which will not allow a marketplace to  
23 carry forward.

24 In terms of sellers and how many  
25 marketplaces that they will work with, once again,



1 moving away from maybe to the largest procurement  
2 hubs in the supply chain initiatives, and into the  
3 general marketplace, there will have to be the  
4 marketplace adding value, continually adding value  
5 to their service offering to maintain the stickiness  
6 of those sellers, and that stickiness may be  
7 generated through in-depth content, and domain  
8 knowledge. It may be generated through the  
9 additional integration of value-added service  
10 providers, adding comfort and trust into the  
11 transaction, and certainly high attention to  
12 customer care.

13 And that brings you also into the issue of  
14 standards, and that's been mentioned several times,  
15 the importance of bringing standards into the B2B  
16 marketplace is critical to the sellers. How those  
17 standards evolve, I think is yet to be seen, and  
18 what they are is also yet to be seen. But as long  
19 as they're driven by the market itself, then there

21 raise the confidence in dealing with these  
22 marketplaces, and those are the ones that will  
23 attract and maintain the sellers.

24 And in turn, that should, again, increase  
25 liquidity and that, in turn, should increase the

1 overall competitiveness.

2 At the same time, I think some marketplaces,  
3 yes, they want liquidity, but the successful ones,  
4 as was recently mentioned, also need to create some  
5 differentiation. And what some of these  
6 marketplaces are doing to create that  
7 differentiation is to admit only, and I put in  
8 inverted commas, qualified sellers, so as to raise  
9 the image of their site as one who only has quality  
10 sellers.

11 And there, the reason I say in inverted  
12 quotas is that what is a quality seller. And I  
13 think it just opens up the opportunity for some of  
14 the third party independent value-added service  
15 providers to come in and level the playing field to  
16 make sure that that qualification process, the  
17 criteria which are used and the standards and norms  
18 against which they are measured, are fair and equal  
19 for all players.

20 MS. GREENE: Obviously, it seems to be  
21 coming put, we have some very clean opinions about  
22 whether or not exclusivity is something that is  
23 being mandated in the marketplace. As a practical  
24 matter, how many online exchanges are some of the  
25 participants on or for our experts, do you know

1 about the companies being in? Is it common for a  
2 company to be in multiple marketplaces?

3 MR. PHILLIPS: You mean are they being asked  
4 to join multiple marketplaces?

5 MS. GREENE: A what? Yes.

6 MR. PHILLIPS: Yes, from what I've seen,  
7 yes, that's happening. It depends on -- it's very  
8 different by industry and some companies are  
9 conglomerates, so they're obviously in multiple  
10 industries, but for the most part in a given  
11 vertical, there seems to be one or two major  
12 exchanges that have evolved.

13 There are some huge verticals and that have  
14 complex products that are vastly different where you  
15 really need multiple exchanges, like the chemicals  
16 industry, but it seems to be one or two that most  
17 people are focused on, at least in our conversations  
18 in each vertical, but then the company may be in  
19 multiple verticals.

20 MS. GREENE: Jay?

21 MR. KNOLL: I want to address something that  
22 I think Michael asked Mike Sullivan about the --  
23 Mike was talking about his perspective from the  
24 fragmented markets. I can tell you from the  
25 concentrated markets, we have a limited number of

1 sellers in our market and a large number, but  
2 certainly a manageable number of buyers.

3 We sell to two groups, we sell OEMs as well  
4 as truck users, for example. And in my answer  
5 before, when I slammed my nametag here down, was  
6 about participating wherever my customers told me to  
7 participate, but there's -- we have been invited to  
8 participate in exchanges by independent --  
9 independently owned exchanges.

10 And the question that ultimately comes up is  
11 two things. One is especially in the vertical  
12 exchanges that we're seeing is, if I lend my name,  
13 if I start participating in that exchange as a  
14 seller, automatically I'm providing a certain amount  
15 -- level of credibility to that exchange. Two is,  
16 I'm also giving that exchange pretty valuable  
17 intellectual property, drawings, for example,  
18 databases, are good examples of -- and if I'm not  
19 participating from a capital standpoint, I query why  
20 I want to do that. We're not a nonprofit. And the  
21 independent verticals have not at least for us yet  
22 in a concentrated market, shown to be a valuable  
23 resource as a seller.

24 MS. GREENE: Leah?

25 MS. KNIGHT: Sure. With regard to the

1 question of how many marketplaces are there, we're  
2 aware right now of pretty close to 1,000  
3 marketplaces worldwide, with the majority being in  
4 North America, but Europe is ramping up considerably  
5 and there's probably about 30 or 40 in the Asian  
6 Pacific as well.

7           So, that does beg the question of what will  
8 enterprises do? Will they participate in multiple  
9 marketplaces? And the answer to that really is  
10 based on what the marketplace is. I mean, in some  
11 respects it's two things. You know first of all,  
12 it's like a channel for a supplier, and generally  
13 enterprises do have multiple distributors and  
14 multiple channel partners.

15           Secondly, the marketplace is also a  
16 technology vendor, it happens to be outsourced  
17 technology, but they're still a vendor nonetheless,  
18 and, in fact, we see among our clients they  
19 oftentimes deploy multiple ERP systems, they work  
20 through multiple types of EDI and so forth, and so  
21 from our -- the supply side research that we've done  
22 for years, the Data Quest division, we've seen that  
23 in any technology market, as it matures, pretty  
24 typically the first three, you know, the top three  
25 players, they tend to own about 70 percent of market

1 share.

2 So, you could picture that happening with  
3 any vertical market of these marketplaces. The top  
4 ten, they tend to own about 90 percent market share  
5 all together. And then you just have, you know,  
6 scores more of very small niche players, and we  
7 could easily foresee that happening here.

8 MR. WROBLEWSKI: Okay, thank you. I would  
9 like to go back to -- I had cut Nailesh off earlier  
10 this afternoon when we were talking about some of  
11 the reservations that suppliers had in joining these  
12 marketplaces, and you started to talk about  
13 ownership and does ownership matter. And we've kind  
14 of touched on it here a little bit. I would like  
15 just to allow you to finish up your point because I  
16 cut you off, and then we can open it up broader to  
17 the rest of the panel.

18 MR. BHATT: Thank you. For the smaller and  
19 medium-sized suppliers, yes, it does matter. My  
20 colleague from VerticalNet said that they have  
21 signed on 7,500 suppliers, and that's a great number  
22 and I congratulate them.

23 At the same time, if you look at the model,  
24 it's very much a catalog model, if I understand it  
25 correctly, where suppliers come and put up their

1 products and information, versus participating in a  
2 marketplace that is designed for that industry.

3 For example, when we go to suppliers in  
4 India, they're always asking well, we are FDA  
5 certified, we are ISO 9000-II certified. Yet the  
6 buyers in American, North America, do not know about  
7 us or there is a resistance because there is certain  
8 fear installed by the North American or European  
9 manufacturers about us.

10 So, these are some of the fears that  
11 suppliers have, and by BASF or Dow Chemical owning a  
12 marketplace, there is a lot of education they are  
13 going to have to do to bring on suppliers and create  
14 liquidity onto these marketplaces.

15 MR. WROBLEWSKI: Thank you. Alex, I'm going  
16 to call on you next, but if you can address it, or  
17 Dwayne, in your response, you know, one of the  
18 things that I was thinking about when we were  
19 listening to this same discussion during the buyers  
20 panel was, you know, if somebody tries to rig the  
21 process, what happens? Who kicks out the wrong  
22 doer? If you can address those kinds of questions,  
23 and are the incentives slightly different if it's an  
24 owner -- if the owner is -- or by the participants  
25 as opposed to the owner being what we're kind of

1 grossly calling neutral.

2 Alex, if you want to take that up, I'd  
3 appreciate it.

4 MR. MASHINSKY: Sure. Well, there's --  
5 again, I think telecom is a little bit different  
6 than many other industries, so I don't want the FTC  
7 to take telecom as an example and apply it across  
8 the board to other industries, but in  
9 telecommunication, IntelSat, which was one of the  
10 first vendor or producer-based nonprofit association  
11 that basically took all the supply of satellite  
12 capacity and made it available to anybody who wanted  
13 to use it. It's a total flop. It's a disaster  
14 after 40 years of operating. A little start-up  
15 called PanAmSat is bigger than IntelSat, which is  
16 180 countries, in all of their capacity.

17 So, that's just one example. World Partners  
18 is another example. Sixteen carriers coming  
19 together just six or seven years ago saying okay,  
20 we're going to aggregate all of our buying power,  
21 we're going to exchange our own transactions. All  
22 the benefits we talked about, but it didn't work,  
23 because again, every one of them had his own  
24 political agenda and so on and so on.

25 So, there's -- in our industry, there's a



1 lot of examples. Actually, the FCC issued the  
2 report back in '93 called The Settlement System and  
3 the Incentive to Cheat. That was the name of the  
4 report. So, there's 20 or a 40-year history, it  
5 depends on where we start counting, of attempts by  
6 the industry suppliers to pull all of their parts  
7 and pieces together and deliver basically a very  
8 efficient marketplace or all the things we're  
9 talking about here.

10 And we found that all that hasn't worked,  
11 and there's many reasons to that, but I think the  
12 most important reason is, again, the political needs  
13 and issues that each one of the members brought into  
14 this group. So, that's why, again, anonymous  
15 independent exchange is a solution and it works  
16 pretty well.

17 MR. WROBLEWSKI: Thank you. Dwayne?

18 MR. SPRADLIN: I wonder if I have to talk  
19 to our marketing folks.

20 One of our crown jewels is a company called  
21 NECX, which is the world's largest online exchange  
22 for high and electronic components, and they  
23 actually have well over 1,500 online buyers and  
24 sellers of electronic components, low-level  
25 components and so forth. The -- and what we've seen

1 in that market, just to answer your question, is  
2 enormous adoption by suppliers.

3 When a market actually starts to provide  
4 efficiency and it's much -- and it's very effective  
5 for participants in the market to partake, they do.  
6 And I think what happens is, when these things  
7 become self evident the value, then clearly the  
8 suppliers and the buyers come online. That's what  
9 we've seen. As much as I've typically been against  
10 the notion of build it and they will come, I think  
11 it should be build it, show that it's effective,  
12 actually make somebody money or save them money in  
13 the process, they definitely do come, at least  
14 that's been our experience.

15 The other point that I wanted to make was  
16 this: The -- we kind of look at the world -- we  
17 kind of look at the world with sort of four classes  
18 of -- four classes of these exchanges. There's sort  
19 of the buyer-led, the buyer-led exchanges, as you  
20 know, seller-led exchanges, what we call value  
21 chain, value chain neutral exchanges, and then  
22 independent exchanges.

23 And really the classification is again is by  
24 who owns or has power in the calculus there. And  
25 in the buyer exchanges, we tend to, you know, it's

1 probably no secret, you know, VerticalNet has a  
2 fairly -- has been fairly strongly in favor of the  
3 emergence of sell side in the overall mathematics of  
4 how these things work. On the buy side, if you sort  
5 of think about -- if you sort of think about the way  
6 they're organized, it typically is to lower the  
7 costs in the supply chain by starving, starving the  
8 supply chain downstream.

9 On the sell side, however, there's a  
10 completely different -- different dynamic in our  
11 opinion, and that is that, you know, the sellers  
12 basically want to have effective use of channels,  
13 and those channels include distributors, include  
14 dealers, include direct buyers and all different  
15 kinds of mechanisms.

16 So, it's probably the case that the  
17 psychology of the seller-led consortium are much  
18 more in favor of supporting an entire value chain,  
19 which we think is an important property of that.

20 These value chain neutral exchanges are  
21 really when various members up and down the value  
22 chain have ownership and participation. We are  
23 hoping to be part of what we think will be the first  
24 announcement of a full value chain neutral platform  
25 in the coming months, and it's where the biggest



1 interesting and ideal, it's probably also the least  
2 likely to in a major way start to drive the kinds of  
3 changes we want to see in these industry  
4 marketplaces.

5 So, I would just put forth that I think from  
6 the seller side, which is why I'm on this panel,  
7 from the sell side, the psychology of how sell side  
8 consortias work are much more likely, we think, in  
9 the long run, to actually play out to be fairly  
10 neutral, albeit owned by the industry, exchanges in  
11 which everybody can participate and we can lower the  
12 cost of doing business.

13 MR. WROBLEWSKI: Thank you. Andy DuPont, do  
14 you agree with what Dwayne just said?

15 MR. DuPONT: You know, obviously for most of  
16 it I absolutely do. I think he's supporting a lot  
17 of what I said of why these supplier-led consortia  
18 are forming. I think that the fact that they are  
19 supported by the suppliers means that the ability to  
20 get liquidity in there, which is required to make it  
21 successful, and cover the costs which can be, you  
22 know, hundreds of millions of dollars to build  
23 robust exchanges it seems to me to be of the proper  
24 rationale.

25 I would add, you know, if you look at why

1 you would want to be playing a part in the way that  
2 that is put together, one of the things that these  
3 marketplaces offer to suppliers is ability to have a  
4 better reach and a better connection with our  
5 customers than we've ever had in the past.

6 But at the same time, you don't want that  
7 entity to become a barrier between you and your  
8 customer. You want to be, you know, reasonably  
9 assured that in the future you'll be able to  
10 continue to have good connection and good  
11 understanding of who your customers are, why they're  
12 using your product, how they're using your product,  
13 what's driving the growth of it, what can you do to  
14 make the product better for them, and all of that is  
15 enhanced by ensuring that you've got good connection  
16 with the customer.

17 And so anything that would sort of get in  
18 the way of that information flow between you and  
19 your customer, you know, you want to protect against  
20 you might say, you want to have good flow between  
21 customers.

22 MR. WROBLEWSKI: Let me ask you to follow up  
23 on one point and then I'm going to turn over to  
24 Harpal and then we're going to move Chuck and then  
25 we're going to go into our last topic.

1           But, if it's a supplier-owned --  
2     hypothetically, if it's a supplier-owned  
3     marketplace, and what -- does that affect the  
4     incentive that the supplier who is in that  
5     marketplace to compete, because if they were to lose  
6     the sale, so to speak, is there -- they'll still  
7     get a cut because they are an equity owner in the  
8     marketplace already? This follows up on a question,  
9     I think, that Gail addressed in the buyer side and I  
10    didn't really hear an answer and I would love to  
11    just tee it up again just one more time to see if  
12    there's -- if there's a taker. I mean I think  
13    Harpal will take, but I'm going to ask you first,  
14    Andy.

15           MR. DuPONT: Okay, sure. You know, thank  
16    you. Well, first of all, these marketplaces cannot  
17    generate huge revenues based off of very aggressive  
18    transaction fees, because if they try to do that,  
19    they will not be efficient, and suppliers will --  
20    you know, obviously these marketplaces are in  
21    addition to all the other channels that are out  
22    there, direct channels, channels through  
23    distributors, et cetera. None of those channels go  
24    away, and if you don't have a good value proposition  
25    through this channel, i.e. it's very efficient, then

1 customers will choose to buy, you know, through more  
2 efficient channels.

3 Now, it does raise the issue of the  
4 ownership and should this entity be a profitable  
5 entity or should it be cooperative? I think that  
6 you move into very grounds or careful ground if you  
7 consider making it a cooperative, because it won't  
8 have the proper drivers to continue to push for  
9 efficiency.

10 You want to be able to attract top talent  
11 people into these marketplaces to run them. So,  
12 they do need to have, you know, a profit motive  
13 within the company. You want to attract the right  
14 people, you want them to be continually focused on  
15 what can I do to continue to drive more efficiency,  
16 more convenience, better value for both the buyers  
17 and the sellers. And the way you do that is by  
18 making it profitable.

19 I will tell you of the marketplaces I'm  
20 familiar with, I don't think that any of the



1 the long term.

2 MR. WROBLEWSKI: Okay, thank you. Harpal?

3 MR. SANDHU: Yeah, first of all, let me just  
4 address, I'm not saying that all marketplaces that  
5 supply-side firms are involved in don't have an  
6 incentive to have capital gain. I mean, there  
7 clearly are some. I'm particularly talking about  
8 the few that have been created in the relatively  
9 recent term, particularly in capital markets.

10 And part of the reason, by the way, Chuck,  
11 that you probably don't see them is that you're in  
12 the business of taking these companies public. So,  
13 all the ones you see, by logic, would be the ones  
14 that tend to go public, and the ones that don't go  
15 public --

16 MR. PHILLIPS: That's not true, I'll correct  
17 you later, but go ahead.

18 MR. SANDHU: Okay. I would like you to  
19 comment, though, on Morgan Stanley's participation  
20 in capital market exchanges, but let me get to my  
21 issue.

22 MR. WROBLEWSKI: We'll do that panel after  
23 we do the airlines panel.

24 MR. SANDHU: Because I read through your  
25 report on the way here, and it was a wonderful

1 report and it covered every single vertical area  
2 except capital markets, and capital markets is  
3 probably one of the hottest areas.

4 MR. WROBLEWSKI: Let's move on.

5 MR. SANDHU: Yeah. One of the things,  
6 neutral -- I mean -- I think is an extremely poor  
7 word to describe what we would call a nonsupplier-  
8 owned site. What I would call it actually is a site  
9 that is not incentivized to cheat. So, it just  
10 doesn't have any incentive to look at margins.

11 And there's a really interesting issue is  
12 that I agree that if the management teams of these  
13 companies are incentivized by stock in these  
14 companies, and you absolutely get them to think  
15 independently of their original parents, at best,  
16 they will be as good as an independent site. But  
17 99.999 percent of the time, there's going to be a  
18 conflict, and it is that conflict that will retard  
19 the growth of these exchanges, because they will be  
20 forced to deal with the potential margin compression  
21 issues that come up between they themselves and the  
22 stock that they own that they want to take public  
23 some day, and the parent, who has funded them, that  
24 sit on their board and so on and so forth.

25 The primary issue that we are -- that we are

1 looking at in this case is that the U.S. is in a  
2 position right now where we lead in much of the  
3 infrastructure. We have led in the innovation and  
4 the thought leadership and have had massive  
5 productivity gains in what we've done related to the  
6 Internet.

7 We are at the point right now, literally  
8 within the last six months to a year, where the  
9 upstart companies have sort of acted as a catalyst  
10 for an entire new environment, and now the old  
11 economy companies are stepping in and establishing  
12 B2B exchanges with a slight twist of them that we  
13 believe is slightly conflicted.

14 If these markets grow, like network effect  
15 economies do, it will be winner take most, if not  
16 all. If it turns out the genetic code of these  
17 exchanges are such that they grow slower than what  
18 would have potentially been the case in a truly  
19 independent environment, we run the risk of having  
20 less efficient market mechanisms here within this  
21 environment, and I will tell you, going forward,  
22 given the globalization and given the  
23 internationalization of capital flows, it is a huge  
24 uncompetitive advantage for the U.S. to be in that  
25 situation, and capital is extremely objective. It

1 will move immediately to, you know, a Hong Kong type  
2 thing where these restrictions don't exist.

3 MR. WROBLEWSKI: Okay, thank you. I'm going  
4 to get -- let Chuck, I'm going to let you respond  
5 and then we're going to move on to the last area of  
6 questioning.

7 MR. PHILLIPS: Okay, I'll be brief.

8 On the ownership side of it, the greatest  
9 thing I think that small suppliers have going for  
10 them is that the large suppliers want to keep each  
11 other honest as well.

12 So, the large suppliers who own the exchange  
13 want to set up rules that are independent, that are  
14 objective, because they are fierce competitors.  
15 They don't want -- it's not like they're sitting in  
16 a room and we're all happy and buddies after we've  
17 been competing for the last 50 years. They want  
18 independent rules and an independent company to run  
19 it. So, that's number one.

20 Two, if you talk to some of the banking  
21 companies that have built payment processing systems  
22 from the last 30 years, one of their complaints is  
23 we spent all this money building these payment  
24 processing systems and now everybody can use it for  
25 free and they didn't pay anything to join. And, so,

1 actually for the small suppliers, this may be a good  
2 deal because this infrastructure will get built,  
3 they're not investing the bulk of it, somebody else  
4 is, but they'll get to leverage it later.

5           And then thirdly, I would say that the fear  
6 over disintermediation from your customer is a real  
7 one and I think it's a bottleneck for the industry  
8 but there are a ton of companies who are innovating  
9 right now to provide customer profiling and  
10 segmentation and branding in the context of the  
11 marketplace so you get a much richer experience with  
12 that customer online. So, that's evolving as well.

13           And the last point make is that these  
14 markets are, for most industries, are about really  
15 logistic supply chain, relationships with customers,  
16 that's completely different from trading markets  
17 when the express purpose of being a member of the  
18 market is to trade and make a profit on trading,  
19 which is what Harpal is talking about, it's a  
20 different industry.

21           MR. WROBLEWSKI: Okay, thank you. I would  
22 like to just ask one last question area -- that we  
23 would like to do before we break for the day and  
24 then meet again tomorrow morning at 9:00 a.m. to  
25 start talking really in depth about ownership issues

1 -- is the role of what we had -- I think we had  
2 termed as middle men -- but intermediaries, and you  
3 had teed that up nicely, Chuck, thank you. And I  
4 would like to turn to either Hal or Charles to, I  
5 mean, in this new world of electronic marketplaces,  
6 you know, from the supplier point of view, what is  
7 the future role of middle men/intermediaries?

8 MR. LOEVY: Well, suffice it to say from our  
9 point of view that middle men or intermediaries  
10 won't disappear, and I suppose as perhaps was raised  
11 in the last panel, there may be a differentiation  
12 between the online intermediary and the offline or  
13 traditional middle man.

14 And I think that's primarily predicated on  
15 the fact that the supply chain is complex. It's  
16 sufficiently complex for domestic trade, it's in  
17 orders of magnitude more complex for an  
18 international trade when you start crossing borders,  
19 you have customs issues, you have logistics issues,  
20 you have legal framework issues where other  
21 countries don't have the same legal framework that  
22 we have here.

23 So, yes, there will be players who are  
24 squeezed out, but when we talk about supply chain  
25 disintermediation, we don't talk about end user to

1 manufacturer, we talk about buyer and seller. And  
2 that means that you're not necessarily going to have  
3 products which are sold directly from the  
4 manufacturer to the final end user, the supply chain  
5 is complex.

6 So, it's really a partial disintermediation.  
7 And that, in effect, yes, will squeeze out some  
8 players, but there's many other examples. I think  
9 on one in particular, in the commodity business,  
10 there's a grain marketplace. In the commodity  
11 business, particularly grain, is something -- a  
12 business which is very nontransparent. And traders  
13 play a particular role, yes, in terms of capital  
14 funding, but also in terms of making a spread  
15 between a sale.

16 And this particular grain marketplace was  
17 actually constructed with the intent of bringing the  
18 traders into the marketplace and leveraging not the  
19 administrative work that they do, that will go away,  
20 and those who can only supply that will die, but  
21 those who have value add in terms of domain  
22 knowledge will stay, and the marketplace is built  
23 with that specifically that in mind.

24 MR. WROBLEWSKI: Okay, thank you. I would  
25 like to turn to Tim Cooney, and then we'll go to

1 Dwayne and then we'll finish up with Chuck and then  
2 that will be it for the afternoon.

3 MR. COONEY: Yeah, I concur with Hal that  
4 there won't be disintermediation, and perhaps one  
5 way to explain that would be to give an example. In  
6 the business of buying and selling businesses,  
7 currently if anyone sort of the offline world, if  
8 one wants to buy a business or if they want to sell  
9 their business, their options are really two. They  
10 place an ad in the paper, or they hire a business  
11 broker who is the intermediary for buying and  
12 selling businesses.

13 The broker provides a lot of value, he or  
14 she is knowledgeable on, you know, various  
15 professional services, they know the area, they know  
16 where prospective buyers are. One might think that  
17 with an Internet marketplace that puts buyers and  
18 sellers of businesses together, as Ventures4Sale.com  
19 does, that the broker might get cut out.

20 Just really quickly, at our site, if we all  
21 wanted to get out of the Washington heat here and go  
22 buy a restaurant somewhere in Florida or California,  
23 you go to the website, you do a search by location,  
24 type of business and asking price, and you can get a  
25 list of, say, 15 restaurants in those areas, then as



1 a prospective buyer, you can communicate anonymously  
2 and confidentially with that seller. Will this  
3 replace the broker? And the answer is no.

4 Basically, you know, the broker, as I  
5 mentioned before, is extremely valuable. You know,  
6 they're knowledgeable, and the reality is that many  
7 people want someone on the ground to hold their hand  
8 through that process.

9 With our site, we are doing everything we  
10 can to engage the broker. We sort of -- we do two  
11 things for them in particular, one is we market  
12 their existing businesses that -- their client  
13 businesses that they represent on a national  
14 platform so that as opposed to them placing ads in  
15 the papers, they can actually have buyers from all  
16 over the world, or different parts of the country,  
17 come to the site and see their businesses that  
18 they're trying to sell, that they're taking  
19 commissions on.

20 Secondly, we also we're a prospecting tool  
21 for them in that we drive new client sellers to them  
22 with what's called a broker index where if someone  
23 on the ground wants to, you know, get assistance in  
24 selling their business, they can actually access a  
25 broker there. As well as a tool box where the

1 broker can actually download documents, forms,  
2 checklists, sample purchase and sale agreement,  
3 letter of intent, to walk them through the process.  
4 You know, so we're hand in hand with the  
5 intermediary in this area.

6 MR. WROBLEWSKI: Thank you. Dwayne?

7 MR. SPRADLIN: I think there's extraordinary  
8 little chance that intermediaries that actually add  
9 value ever get displaced. I mean, it makes me think  
10 of about a year and a half ago I was advising a  
11 company that in the chemical trading industry was  
12 one of the world's largest providers of chemical  
13 trading services. And they were very, very  
14 concerned that the 26 or so chemical trading .coms  
15 that had started up were just about to completely  
16 displace them and eat their lunch. And I said I  
17 think you've got some time. And took that to  
18 heart, still very paranoid.

19 Today they're actually joining one of the  
20 chemical consortiums. But my point is this, I met  
21 up with one of the other companies in the -- one of  
22 these .com companies, you know, you've got to  
23 recognize that in this industry, when they started  
24 popping up, these were web front-ends and basically  
25 handshake deals with logistics providers in the back

1 ends. That's what most of these .coms looked like  
2 when they started up a year and a half ago.

3 And I asked him what happened, because odds  
4 are that nobody on this panel can name one of these  
5 companies today. And he said well, this stuff is  
6 hard. These chemicals, some of them are dangerous.  
7 Right? I mean, the reality is most of these  
8 intermediaries were adding value, are adding value,  
9 they just need to figure out how to redeploy  
10 themselves to demonstrate that. I think it's  
11 extraordinarily unlikely that most of those that can  
12 demonstrate the value go anywhere.

13 MR. WROBLEWSKI: Okay, thank you. And,  
14 Chuck, I am going to leave you with the last word  
15 for the panel.

16 MR. PHILLIPS: Okay, thanks. Well, I just  
17 want to make a couple of small points. Is that one,  
18 I think some of the .coms just had simply  
19 unrealistic expectations, that, you know, I can't  
20 tell you the number of business plans I've seen  
21 about, you know, the next guy that you see in a  
22 ponytail who wants to change the entire auto  
23 industry single handedly.

24 It's just a very complex problem, and not  
25 leveraging the existing expertise in those

1 industries doesn't seem to be a way to do it. And,  
2 so, there's no expectation or that's not too  
3 realistic, at least in our view.

4 And, secondly, a lot of the companies that  
5 we've seen that say, well, the small suppliers won't  
6 get the same branding as the large suppliers,  
7 because Dow Jones or Dow Chemical is known around  
8 the world. Well, they've earned that but for the  
9 last 50 years and that branding doesn't change just  
10 because you move it online. You can't instantly  
11 make someone who is unknown in India to have the  
12 same branding as Dow Chemical, but they can become  
13 discovered, and at least publish their services.

14 So, we still think it's a good deal for the  
15 small suppliers who wouldn't have been known at all  
16 otherwise, and at least they can list their services  
17 inside the marketplace, but branding is branding and  
18 it will be equally important on the web as it was in  
19 the old world.

20 MR. WROBLEWSKI: Okay, thank you. Thank you  
21 all very much, I hope you -- well, first of all, if  
22 you will give all the panelists a round of applause,  
23 we would appreciate it.

24 (Applause.)

25 MR. WROBLEWSKI: We start tomorrow at 9:00

1 a.m., the doors won't open until 7:30, so it doesn't  
2 really interest anyone to get here at 6:30 like this  
3 morning, and there will be some room probably, so it  
4 will be okay. And we will have an overflow room  
5 back at the FTC tomorrow as well, once again, on the  
6 hour and 15 minute delay. Thank you very much.

7 (Whereupon, at 5:40 p.m., the workshop was  
8 adjourned.)

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