FEDERAL TRADE COMMISSION

PUBLIC WORKSHOP:

COMPETITION POLICY IN THE WORLD
OF B2B ELECTRONIC MARKETPLACES

THURSDAY, JUNE 29, 2000
VOLUME 1

Reported By:

Sally Jo Bowling, RPR

For The Record, Inc.
Waldorf, Maryland
(301) 870-8025

CONTENTS

P R O C E E D I N G S

- - - - - -

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

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

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

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

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

We also know that in theory, some of these marketplaces could give rise to antitrust concerns, and we expect that this workshop will provide some insights into ways of fostering development of these marketplaces and achieving their efficiencies in a manner consistent with maintaining competition.

Let me emphasize that this is not a program designed to identify enforcement targets. On the contrary, the workshop continues a tradition reflective of the FTC's unique role to study competition and work with the business community to anticipate new developments.

That's why this agency was established, at least in part, in 1914, and we've tried to restore that tradition of anticipating new and dramatic trends, reporting to the public and reporting to Congress. We did that in connection with our hearings on global competition, then innovation competition, and also on consumer protection in an electronic world, and those hearings have led to real developments, including the introduction of an efficiencies defense in merger analysis.

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

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

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

We have a very ambitious program scheduled for the next two days and an outstanding roster of participants. I commend the participants for contributing their time and their energy, often traveling great distances to share their experience and all of us look forward to an enlightening two days. Now I would like to turn the podium over to Susan DeSanti, director of policy planning at the FTC, and one of, if not the principal, driving force to organizing this extraordinary event. Susan?

(Applause.)

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

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

I also want to thank the many people within the FTC, as well as those at our host site, the Department of Agriculture, who have worked so hard to put this workshop together. I especially want to thank my staff in policy planning who have worked with creativity and dedication to put this workshop together, and Mike Antalics, deputy director for the Bureau of Competition at the FTC who was the one who had the first idea to hold this workshop.

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

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

Literally hundreds, perhaps thousands, of joint ventures among competitors are joined each year under the guidance of experienced antitrust counsel. The federal antitrust agencies in April of this year just issued new antitrust guidelines for antitrust collaborations among competitors to provide additional guidance in this area.

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

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

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

The process of advancing that understanding must be ongoing, just as B2B marketplaces themselves continue to develop. Many of the businesspeople with whom we have spoken have said Look, you are really in the top half of the first inning, or perhaps more accurately, reflecting Internet time, this is the first few yards of the hundred-yard dash.

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

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

Now, before we begin, I would like to briefly set the stage by reviewing a few basic concepts that I think may be helpful to keep in mind. And I do this for those of you in the audience who may be, as we were in policy planning about eight weeks ago when we started working on this workshop, complete and utter novices. We have found that it is very helpful to have a few key concepts in mind, so I am just briefly going to review them for you and then we will get started with the workshop themselves.

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

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

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

For example, EDI is currently used by some large companies to transmit electronic forms such as purchase orders between buyers and sellers. Now enter B2B e-marketplaces, which potentially represent a quantum leap beyond these existing technologies.

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

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

Now, to understand how B2Bs may create these remarkable savings that we're all hearing about, it helps to understand the types of goods that businesses buy and sell. Basically, commerce between businesses involves two broad categories of goods and services, operating and manufacturing inputs. Operating inputs, also known as indirect materials, are used for maintenance, repair or operation, also known as MRO, another acronym you may hear, and they do not become part of the finished product.

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

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

Things like this matter for which B2B solution or type of marketplace, best fits what a company needs. There are a variety of mechanisms for price determination, catalogs, auctions, and exchanges that you're going to be hearing about today, and there's one final terminology issue that I want to address.

In the antitrust world, horizontal and vertical have particular meanings. They have particular meanings in the B2B world as well, but they're somewhat different.

In the B2B world, horizontal marketplaces typically help buyers purchase a wide variety of products. They can serve many different industries, and they span across markets. By contrast, vertical marketplaces tend to serve particular industries and provide product expertise and in-depth content knowledge in that industry.

So, with that background in place, let me now move to the nitty-gritty of how this workshop will proceed. The basic, overall point here is we have a huge amount of territory to cover, and relatively little time in which to cover it. So, this has dictated some choices that we've made and some ground rules that we've had to set.

In terms of our choices, we have an outstanding group of panelists, a very few of whom will give short presentations this morning, but honestly I have to tell you all, and I'm sure none of you will be surprised about this, talent abounds in this area. And there are any number of companies, including other panelists, who would be equally well positioned to give us very valuable presentations, and many others who could have been candidates for the panels.

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

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

Number two, precisely because we have so much to cover, and relatively little time to cover it, we're going to keep the record open in this proceeding. And I would encourage all of you, or any of you, who have more that you want to contribute, or if you feel -- inspired after these two days to add something, to disagree with something, you think there's an important point that's been missed, please send us a written statement, short or long. The website at www.FTC.gov contains press releases that show you the procedure for doing that, but we are really in trying to encourage as diverse a set of observations in this area as we can find, so we would be happy to keep the record open and take more written statements.

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

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

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

Finally, we're going to deviate somewhat from the written schedule for this morning. We're going to start with all four presentations in a row and then we'll have a short stretch break, it will only be about three minutes, while we set up for the discussion up on the stage.

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

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

MR. TARKOFF: Thank you very much, Susan.

On behalf of CommerceOne, I would like to thank Chairman Pitofsky and Susan for inviting us to present today. I would also like to thank Susan's staff, who I have finally figured out is the next hardest working group in the world, next to e-commerce executives, and so I really appreciate what you've done to put this thing together.

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

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

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

What I am going to do very quickly is just give a brief overview of what I really think are the fundamental building blocks of B2B e-commerce, and that is the automated purchase. I have with me today Alvin Zaad, a senior sales engineer from CommerceOne who will do a quick demo.

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

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

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

GartnerGroup actually predicts that by the year 2004, there will be $7.3 trillion worth of B2B e-commerce. Can we just stop and think about that for a minute, it's an enormous market that we're talking about, an enormous transformation in the processes that have traditionally governed industrial companies.

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

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

And finally, it's going to create new business opportunities, new business opportunities for suppliers, who previously couldn't access these markets because they didn't have enough money to buy the expensive technology that had to be implemented into these systems.

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

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

E-commerce is about taking your purchasing people in a company and focusing them on strategic activities, like finding the best way to drive efficiencies to their customers. And the only way to do that in many of these companies where the way in which they really have to focus on profit is by cutting costs is to automate traditionally manual processes. Buying and selling, as I have said, becomes a strategic activity, allowing companies to have access to multiple tiers of suppliers and customers.

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

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

MR. ZAAD: Thanks. Good morning, ladies and gentlemen. I'm going to take you through a simple scenario through what Rob was leading into, regarding a catalog purchase, doing a search, being a fictitious employee and taking you through a scenario where someone is going to go in and search a catalog, buy something and submit the order.

This is just going to be a small piece of what we were talking about this morning with Susan's lead-in to what the B2B exchanges and markets are all about.

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

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

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

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

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

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

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

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

So, I'm going to click on create new requisition, and this takes me in to a very important screen, in fact the essence of probably the entire system that runs this. But what we have here in the area down below where it says "catalog," is actually a multiple supplier catalog. This means that multiple suppliers, as many suppliers as possible, have submitted their catalog to us in some kind of a format, some kind of an electronic format, which we have taken and converted to a standard. And we've tried to use what we call an industry standard, in this case, something called the United Nations Standard Products and Services Code. So, we've taken all of these suppliers' products and put them into categories which makes it easier for buyers to go in and search for them.

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

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

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

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

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

Each of these items tell me an item description, who the manufacturer is, what the unit price is, some actions I can take on these, such as adding them to my shopping basket, who the supplier is, the supplier part number, and manufacturer. These are the items that were supplied to us by the supplier and put into a standard format.

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

So, in this case it says semirack top hot plates, gives a description of the item, and also attaches a picture as well. And you can see here that where it says picture, I could also go have this detached to maybe go to the supplier's website or maybe there would be a material safety sheet attached to it or a video or some kind of other multimedia format.

So, in this case, I'll assume that I want to buy the hot plate. A lot of guys say these make good coffee warmers. So, I'm going to say I want to buy one. My quantity I am going to put in is one, and when I click on the plus button, it's actually going to add this to my shopping basket, and down below at the bottom in the dark blue text is my shopping cart.

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

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

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

So, I'm going to click in the word UPS and click on find. You can see how this is very similar to some of the B2C experiences you may have had searching through Yahoo or Amazon.com or something like that. So, when I clicked on UPS under the item description, it brought me everything that had UPS in it. In this case I have 46 different items. I'm showing page -- items one to ten on page 1 and I can scroll through the pages by going from 1 to 10 to 20. I'm going to just scroll to the very last page and now I'm down to item number 46 at the end where it says it's a smart UPS.

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

What happened there? Whoops. Okay, we'll go back and do that again. So we don't lose you. Don't you love that in a live demo when the guy doesn't do it right. Okay. So, we're going to say that we'll go to item number 46. Okay, so we're going to add one of these, we'll add two of them. I'm going to click on my plus sign and you can see the line item count at the bottom has now grown to two.

So, we've bought two items so far, and by the way we've bought these from two different suppliers. And the last thing we might want to do as a buyer is look at an item that's not really an indirect good, but more of a service.

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

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

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

So, I click on checkout, this gives me a chance to review my shopping cart, you can see I'm going to buy one hot plate, two UPSs and one set of business cards. And for each of these line items, I can go in and look at particular information, such as line item detail, what is my billing address, where do I want this sent to, where do I want the bill sent to, how do I want my cost distributed. In the essence of time I won't take you through all those, but this gives me one last chance to check everything and make sure it's okay before I submit it to my approval authority to have them have a look at it.

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

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

Once this is sent and it will be approved by Tonya, then a purchase order would be created automatically for all three of these different suppliers that we've chosen to buy from. It would be sent into the exchange or into the market site that will automatically send out all these orders to all the different suppliers.

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

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

And just quickly, I might want to go and look at the status of my requisition now that I have submitted it. You can see that at the very top Alex Medina, 4-102 was the requisition I created and it tells me the status of this is awaiting approval. Again, if I go back and look at the work flow, that it's in green. I have done piece as Alex, I'm done, it's been sent off to Tonya, and it's now waiting for her to approve it, and the next part of the scenario would be Tonya logging onto the system, doing the approval and then it would be sent out to market site.

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

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

MR. TARKOFF: Thanks very much, Alvin.

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

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

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

One of the things we'll talk about a little bit today is -- in the panel, I think -- is about how applications, how these things traditionally done as static applications are moving into a model where they're being deployed as services. All of these things we do to purchasing, auctioning, requisitioning, invoices, these are all becoming business services that are accessible from marketplaces to companies of all size at a low cost and a low level of complexity in terms of being able to access the service.

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

Ultimately, we believe e-commerce will transform the way you do business. We're going to create new markets, new relationships that were previously not possible without the facility to be able to connect to a marketplace and have contact with a variety of trading partners. Ultimately, we think that e-commerce will govern all the business processes within an organization because the efficiency gain is too great for companies not to deploy these systems.

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

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

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

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

If you didn't hear me before, I wanted to thank Chairman Pitofsky, Ms. DeSanti, Mr. Bhaskar and the remainder of the FTC staff for inviting us.

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

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

We've seen some of the analyst groups. You'll hear from Gartner, you'll also hear from Forrester talk about the kinds of efficiencies and advantages that will be generated by enterprises if they're capable of using technology to automate business processes and make their companies much more efficient.

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

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

In the new e-commerce world, through marketplaces, no matter who runs those marketplaces, the basic philosophy is the same. As the marketplace operators, the marketplace technology providers are trying to accomplish is to standardize the methodology by which we connect with our business partners, and to standardize that across an industry, across a service, across a horizontal space, however it's done, it's always it's pretty much the same. And the marketplace becomes responsible for dealing with issues like technology, like security. Some of the more difficult issues around this become a responsibility of a marketplace, rather than the individual companies that would ordinarily have this burden, particularly small companies who aren't capable of making the kinds of investments that are needed to satisfy those requirements.

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

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

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

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

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

Capital markets say to us you are not the most efficient user of capital refrigerator manufacturer if you are buying steel mills. We have people that run steel mills a lot better than you, I am going to give you capital to design and market refrigerators, beyond that, you better rely on other people to do that, because I'm not giving you money for that purpose.

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

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

And the example that I'll use is a home appliance manufacturer who is producing a refrigerator. My focus again, design, the design marketing and distribution, my goal is make it efficient as possible for everything else. And in the future, which is now, customers are starting to expect that they're going to come to my website, appliance.com, and configure a refrigerator that's, you know, fabricated, steel-coated and it's this size and it's got an ice maker in this part of the refrigerator and I'm going to get it in 15 days delivered to my driveway.

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

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

They run software that is of different types. Financial software runs my financial systems. I have manufacturing software, Susan alluded to MRP, manufacturing planning, that runs my manufacturing operation. I have procurement software, which Rob just demonstrated, which allows my procurement people to be efficient in purchasing supplies. I have supply chain planning software, perhaps, which allows me to plan for the future based on forecasts I have for how much I should buy in terms of inventory, so I know how much I have to produce for what my demand is a month from now. Product life cycle management software, which Rob referred to, which allows me to work with my suppliers and my designers to design new products and the effects of that on what I build in the future. And logistics execution, which can't be undersold, which is how I end up at the end of the day collecting all this stuff and actually delivering it to a customer or a distributor or otherwise.

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

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

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

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

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

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

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

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

And now, what I'm going to do is this system has actually been integrated with my financials system. So, inside my company -- well, here I'm going to first check and I can check the status of the shopping basket and order. And here's a list of the shopping baskets that I have processed in the last 30 days, I can click on any one to check its status, delete items, change items, et cetera.

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

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

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

And here I have information in my financial system, which is very important, because if I didn't have that, the person who did that procurement would have had to take some piece of paper or otherwise send an email or something on an un-automated basis back to my finance department to tell them hey, I purchased something.

So, integration, this is the key piece of actually our demo here, which is that the information ends up in a financial system automatically. Okay? And that kind of processing now has to take place across the board, in terms of being able to deliver that integration from a planning system, from a manufacturing system, not only from a procurement system to a financial system. And I just wanted to show you from a demonstration perspective that that has actually occurred and now it's in my financial system.

I think that's the end of our -- that's the end of our demo.

I want to talk a little bit about what the -- quickly -- about what the ultimate goals of these exchanges are, and why they've formed the way they have to date. I think everybody is very interested in particular in industry vertical focus. When we talk about industry verticals, we talk about industries themselves forming a vertical marketplace.

In a vertical marketplace, there are lots of overlapping suppliers and products. So, if I attract a supplier for one company, that supplier is likely to supply to other companies within that vertical.

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

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

In addition to that, there are similar processes by industry. So, a process manufacturing company, chemical company, has a very different manufacturing process than a high-tech manufacturing company. And industry exchanges can absorb and deliver knowledge, content and product knowledge about these business processes.

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

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

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

(Applause.)

MS. DeSANTI: Thank you very much, Gary.

We're going to take a one-minute break here. This is being videotaped, and the videotapes are being taken over to the Federal Trade Commission where we have an overflow room. The tapes are being shown there on a one-hour and 15-minute time delay. So, every so often we're going to have to break just for a second to allow the videotape to be taken out and a new videotape to be put in.

I also want to note for the people that who are standing in the back or sitting on the floor, if you're uncomfortable, we have vans that can take you over to the FTC so you can sit at your leisure and watch the videotape if you would prefer to do so. Don't go anywhere. Don't go anywhere. You may stand up, do not go anywhere.

(Brief pause in the proceedings.)

MS. DeSANTI: Okay, our next presentation will be by Patrick Stewart, who is the president and CEO of MetalSite. MetalSite is the first Internet site in the world for the buying and selling of metal products. Users can also make use of industry news, statistics, and special industry reports at their site. MetalSite might be characterized as a vertical industry-specific B2B marketplace, and Mr. Stewart will be talking about the industry expertise that they have and how that works in the context of both catalogs and auctions. Mr. Stewart, thank you.

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

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

If you really look at the industry and the problems that we have, it's a very, very difficult industry. In fact, today over at International Trade Commission, today there's hearings today on the imports and the dumping that's going on in the industry. The industry has had a very tough road in the last 20 years. In fact, if you look at the last ten years in the U.S., one company has returned their cost of capital, one. That's not an industry that investors are flocking to, in fact, they're running from.

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

So, the industry has been very, very familiar with driving change, driving efficiencies. But the interesting thing as you look at the slide, is the industry is highly fragmented. If you think about U.S. Steel, which is a great integrated producer, in the early 1900s, they really drove the stock market and the big boy. They were one of the premier stocks. Today U.S. Steel barely owns 10 percent of the U.S. market. In fact, they're the largest and they only own 10 percent of the U.S. market. The largest service center, if you go out through the supply chain, only owns 12 percent of the market. It is highly, highly fragmented.

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

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

If you look at how business is done in the metals industry, and we mapped this out about two years ago, there's about 22 discreet processes. 22. And within those processes, there are dozens of subprocesses. So, reality is that we're dealing with a very complex world.

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

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

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

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

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

The last thing is we call it the Columbus factor. And this is something that we kind of revel in, is that three or four years ago when we were putting this business model together, we had no one to ask of how to do this. You know, our goal three or four years ago was to create what we called a supply chain solution. We didn't know what B2B e-commerce was. We were really focused on how to create a supply chain to attack all these inefficiencies.

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

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

So, what is MetalSite? We were asked here today to really explain our business model. You know, I've been calling ourselves a supply chain solution company now for five years. The reality is that we've evolved to be in the vanguard of a B2B e-marketplace, a marketplace that's a global place that people can come and buy and sell metals. And by the way, it's just not one type of metal, it's from raw materials all the way to a door panel delivered to GM. It's the complete supply chain, because along that supply chain, it's very, very fragmented.

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

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

So, you have a very complex process to look at what they call freight equalization, how do you incorporate freight and all the delivery charges in order to get to the final price. So, price discovery in the industry has all been very complicated. It's not about an auction, it's really about all the variables that you need to really add up the totals.

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

Where -- we started -- we decided that three years ago the industry is just highly fragmented, we didn't trust each other. How could you create a business model like this? Our only view back then was we had to go to the industry and we had to co-op our input. We had to use the industry as the driving force.

So, we went to five very major metals players within the entire supply chain and we said here's our business plan, here's our idea. We want to create a method, a way, that the entire industry can help drive efficiencies and productivity through the supply chain. Because the industry has spent billions and billions of dollars on capital improvements inside the four walls. The whole value proposition that we delivered to these potential investors was we're attacking outside the four walls. We're helping you attack your distribution channel where you can't do it yourself. There's no one large enough in the industry to do it on their own or help drive the way. We are going to be the way that we were going to drive the efficiencies.

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

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

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

How a person buys a book in San Diego is the same as how a person buys a book in New York. We don't have that luxury. We have to build very complex solutions along that entire supply chain. It takes a lot of time and it takes a lot of money. We told our investors when we got into this that it would take five to ten years and $100 to $200 million to build it and we're right on track to doing that.

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

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

How are we doing? We're doing about six, 7,000 transactions in a month, and people say wow, Amazon does that in an hour. These transactions could be $10,000, they could be a million, $10 million transactions. These are not small parts, these are large quantity orders, these are large coils of steel.

For instance, one coil of steel of stainless on a truck could cost somebody $200,000. So, these are very large orders. So, we'll never do ten million transactions a day or a month. We'll do smaller amounts of transactions, very high dollar amounts. That's how business is typically done in the metals industry.

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

And the last thing is we have about 22,000 users, and the interesting thing, Susan was talking about the adoption rate, but the interesting thing, at the end of December, we had roughly 10,000 users on our site, today we have -- and by the way, it took us two years to get 10,000 metal users on our site. In five months, we gained 12,000 people. This thing is really ramping very quickly and it's taking off, and a lot of it has to do with the sophisticated solutions we've now developed and people can do a lot more different types of commerce on our site.

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

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

You know, it was interesting, when we announced our company in 1998, the first industry that approached us to build solutions for their industry was logistics industry. Their margins are even tighter than the steel industry. Because they realized that they had no way of aggregating data to be able to help them find loads, and loads would be product available to ship and receive.

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

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

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

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

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

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

These are solutions that the industry is driving us to build. We had this idea two years ago, but we never thought the industry would wake up and drive this type of solution so quickly. And the reality is, is that they're starting to understand that e-commerce is a new way of doing business. It's not just a catalog, it's a whole new way at times of doing business. And again, we're just focused on metals, you know, unlike SAP and CommerceOne who does a very broad, deep array of services, we are truly focused on metals. That's the definition of a vertical marketplace.

The metals industry is about an $800 billion global industry. It's very big. And the U.S. is only about one-fifth of that global marketplace.

Quickly, if you'll look at our catalog, we don't have a demo, I will just go through this real quickly. Basically the concept when you come to our site is we basically prompt the buyer to say what are you looking for, and then we represent product back to them and where they can find it. Can they find it in an auction, can they find it in a catalog, do they have to build a quote, do they have to do a made to order. We basically say here are the ways that you are able to find the product. And the key to it is having a capabilities model underneath our profile system that defines how a manufacturer or processor runs their business.

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

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

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

A couple of the last points I will make about this is that, again, the metals industry is a very global marketplace and the U.S. is only one-fifth of the market. We basically did not have visions of grandeur three years ago that we were going to be able to run a website out of North America that was going to sell product from France to Italy. What we realized, based on our own experiences, and what we emphatically think is the right way today is that you must create regional instances of MetalSite around the world and a major metals market.

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

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

A couple of last points, value propositions. Why would a buyer like this? This is pretty simple. It's totally free to them, it's one common way of doing business, it streamlines all the processes. And this is a little bit broader than buyer, by the way. Why do we say a buyer organization like this, because we're streamlining the accounts payable process, we're streamlining all the other business areas that really make the connection between buyer and seller.

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

The last point I'm going to make is really where are these portals going. And there's been a lot of debate about neutral portals, industry-backed portals. My belief is that the industry backing is what has made MetalSite a fundamentally different company and why we're still here and why we have the attraction rate that we do versus independent sites.

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

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

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

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

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

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

(Applause.)

MS. DeSANTI: Thank you, Patrick.

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

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

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

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

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

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

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

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

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

Now, it's hard for me to present when market operations, an operating marketplace looks like, just standing here. So, what I'm going to do is quickly play a video clip, and it's a video clip that was largely shot in our Pittsburg market operations center. Ready to go? Good. So that you can see what goes on behind the scenes. Because people think about, you know, ebay and there may be a server and -- this is active stuff.

(VIDEO CLIP.)

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

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

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

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

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

Now, let me just talk about how pervasive, right, this was one week in December of '99. Twenty-four different events, we call them, hundreds of different lots of commerce up for bid, 16 buyers, $200 million worth of spend in a diverse array of types of materials ranging from pipes and valves to sugar to cables to deoxidized aluminum. So, really broad range of stuff that this is proving to be applicable to.

Now, quickly, let me turn to the economics of auctions. Because this is fundamentally an economic play here. Go ahead.

Everyone has talked about the value proposition. This is our value proposition. This is the rate of savings below, essentially the last price the buyer had paid, in a bunch of example categories. Now, we've done this in over 100 product categories, but you can see in printed circuitboards, 38 percent savings. Huge savings. And I'm going to replay an example on circuitboards in a minute. And then all the way down the line, right, you get down to metals industry, this is a more competitive market, a little more efficient, historically, less savings, but savings nonetheless. Go ahead, Andy.

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

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

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

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

Now, there are other types of markets, a one-sided seller market, where a buyer has the unique -- a seller has a unique asset like a piece of art or a used machine tool. The old market technology was an upward price iterative negotiation, all it is now is an Internet auction. Okay? Incredibly important point.

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

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

Okay, before an auction happens, there are some basic preparation steps. One is a request for quotation. This is the solicitation document that the buyer uses to describe what it is that he or she wants to buy, and it has to have all the specifications and the commercial terms and conditions spelled out.

Second, supplier selection. Buyers that are building product, and we're talking about direct material here, the stuff that goes into product. The supplier's performance can affect the performance of that buyer's product in the field, it can affect their warranty. Buyers care a lot about who they buy from. All right?

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

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

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

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

Now, I'm going to go through an example -- custom product. You've seen a couple of examples today of catalogs, okay? In this case we're buying 165 different circuitboards. They are custom-designed for United Technologies, the buyer. There is never a catalog, there will never be a catalog that has those circuitboards in it. That's just not the way the business process works. The way the business process works is the buyer selects a supplier and says make it exactly this way. You will never surf around the Internet and find this in a catalog.

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

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

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

So, what we're doing here is a very wide open auction, a downward price English auction, and bidders can see each other, not by name, but they can see the aliases representing each other. Now, it's going to be a little bit hard to see in the back, so I'm going to play auctioneer here for a minute.

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

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

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

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

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

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

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

Forward. Forward again. Okay, so that's the same graph you just saw. Forward again. That's where our logo comes from. That is the shape that we obtain when we do one of these things, and it works well. Go ahead forward.

Now, what was the result of this? And we didn't watch the whole thing through to completion.

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

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

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

Now, so here's the issue. Coal A may have a certain number of BTU per ton and a certain sulfur content, and coal B may have a different number of BTU per ton and a different sulfur content. The value of the coal to the buyer is what -- how much electricity that coal can make. It is a function of price and heat, being BTUs, sulfur, moisture, ash, hardness and others. And the further tweak is that that function F is unique for every boiler, all right, because they were all designed to have an appetite for a certain kind of coal. Let's go ahead, Andy.

So, what do we do? A proprietary technique, we use a bid war transformation auction. Bidder 1 submits a bid and all those other parameters for BTU content and sulfur. We transform through that function F for that buyer's -- that bidder's coal and create a value on the server. That's the buyer's notion of value.

In this case, it's cents per million BTU. Go ahead. Then what we do is we take that value and we give bidder number 2 feedback as we detransform it through their own function, all right, function F2, so that they're seeing feedback in terms of the same type of coal that they provide.

So, think about conceptually what we've done here. Everyone else is still trying to put people on the same virtual trading floor, the same auctioneer floor like Christie's. We're leveraging the fact that they're all separate, and so we can show each one of them a different view into this marketplace.

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

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

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

Okay. Do we have time for one more, Susan? All right, we'll do one more. This one here, another unique market format. In this case it's a refinery column, a fractionator column, a big piece of capital equipment. There are eight suppliers in the world. It's about a, you know, half million, $600,000 piece of equipment. Go forward.

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

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

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

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

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

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

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

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

(Applause.)

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

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

(Pause in the proceedings.)

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

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

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

And, Dale Boeth, I would like to start with you because I believe you have a couple of relevant observations about two possible trends in the business models -- one a trend toward a focus on selling rather than buying, and another a different trend that may respond to a need to manage the industry-owned B2Bs from a neutral standpoint. Dale?

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

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

And we've really got I guess three

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

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

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

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

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

We're focused somewhat downmarket from some of my colleagues who are on the panel here in that we specialize in the small to medium business market space. What we've found is that over the last four months or so, we've really seen a shift, where businesses do indeed realize cost savings averaging 15 to 20 percent in MRO, that was one of the defined terms earlier today.

But the real appeal now in the small to medium segment and even upmarket, has become the desire to sell through these marketplaces. In other words, saving money on purchasing is certainly an honorable goal. There are huge cost efficiencies available there, but businesses are understanding the Internet can be a very inexpensive channel through which to market their products and services to other businesses. And our platform has that capability to both buy and sell seamlessly through the single application.

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

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

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

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

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

I think Patrick cited the concern is you come together for transactions as major competitors, but at some point you are competitors. And there will likely be opportunities for a whole new service category of neutramediaries emerging over the next few months. So, a couple of topics there that we see that are conversational and may be good food for thought.

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

MR. COGAN: GoCo-op is a developer and host of Internet-based e-procurement and supply chain management systems. We evolved out of an outsourced procurement company with over ten years experience in purchasing for large companies in several primary industries, including hotel and hospitality, restaurant, food service and health care.

This experience brought to GoCo-op an understanding of the inefficiencies involved in traditional procurement, paper-based purchasing, and in the suboptimized management of supply chains. Our technology falls into the general category of e-hubs, functionally it is similar to that of the CommerceOne demo that you saw earlier; however, our system has taken into consideration our vertical domain expertise and our involvement in helping companies with their supply chain and in purchasing.

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

MS. DeSANTI: Thank you, Chris. Steve?

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

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

And what we do is we allow the suppliers to transition the content that allows them to maximize their brand, their identity, their product knowledge, and their differentiation between their competitors and allows the buyer to see a mass aggregation of content from many suppliers who want to see not only just a one-line product description, but complete detail of content.

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

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

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

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

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

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

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

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

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

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

MR. STEWART: Sure. I think it's important to realize that, you know, MetalSite is no different than any other company. I mean, when we founded the company, again, we did not know what B2B was, and our first meeting that we had with our antitrust counsel was actually in 1996, two years before the company is even launched, because I came out of as people call it the old economy. I spent the last 20 years in the old economy, and the reality is that how you govern a company is governed by the rules of the land that we've had for decades.

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

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

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

So, we've never viewed ourselves as a

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

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

But I think you've got to go back to the principles of how you run a business. I love the term neutramediaries, another buzz word, just what we need. I think my definition of a neutramediary would be a group of people that could help an organization understand from an antitrust and a controls policies standpoint, how do you form a company? How do you run a B2B marketplace? Because you're -- this is a little bit different, because when you think about a traditional economy company, they have only their own -- their transactional data within a company umbrella.

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

So, we've kind of based our company, not that technology security isn't critical, it is. But we've based our company around the fact that we must control how we do business on a day-to-day business. And every one of our employees has to have an antitrust policy reviewed with them, they go through an educational class, they sign the antitrust policy. We have the employment agreements with all of our employees that defines confidentiality, noncompetition, all those things that really give our buyers and sellers complete trust that our marketplace is an unbiased, neutral place to conduct business. And that's, you know, that was our vision four years ago was to create a neutral environment that people would trust, and I think that's what we've accomplished.

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

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

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

So, you know, the buyer is representing that this is valid business, that it's not just a market test, right, you're not wasting your time trying to, you know, just prove to me that I was doing a good job, right? So, that's an important one of the rules, right, just good common sense.

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

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

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

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

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

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

But that also, then, opens the door for those members of the industry marketplace or consortia to potentially cooperate or even collude on price leveraging, purchasing power, what have you. So, I think a lot of it will depend on the intent of the parties involved.

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

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

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

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

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

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

And two, we established some rules of how intellectual property is transmitted and transacted over many verticals, we might get pushed back by the suppliers in saying prove to me that you're not damaging me and making me a commoditized effect.

Now, the other fear is what Susan just brought up, is that if we put too many rules in the United States, does this allow -- the Internet is truly amorphous and boundless. Rulemaking in the United States can in effect limit our competition versus global exchanges, and Patrick again brought up a good analysis. He broke his business down into four regions, I have a far east region, a Latin American region, Europe, North America. We view content exchanges and intellectual property to be broken down just exactly how Patrick had on the board.

So, there are going to be rules how to protect intellectual property and for the suppliers, because they're going to demand it.

MS. DeSANTI: Gary Fromer, I think you have some thoughts on this and it seems that this discussion is beginning to get us into also issues of interoperability. You bring up, Steve, multiple suppliers trying to deal on multiple vertical marketplaces. What interoperability issues may arise there in addition to the kinds of operating rules that we've just been discussing?

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

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

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

The second set of rules actually pertains to how marketplaces themselves interoperate. And there's a concept that you will hear called syndication, which is, you know, ultimately marketplaces are basically service companies to their participants. And we're all out there to actually provide -- in terms of marketplaces, are actually out there to provide services.

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

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

MS. DeSANTI: Robert Tarkoff, I'm wondering if the point that you were making towards the end of your first presentation on migration from applications to services may have anything to contribute in the way of solving or addressing to some extent some of these interoperability issues by making solutions less technologically complex?

MR. TARKOFF: Yes, Susan, I think that's a great question. I'm going to try to tie together a couple of things that were said here, because I think it all leads to the new business model that these exchanges create around being able to take processes that were historically static and applications centered and moving them to a service/delivery mechanism.

So, what I mean by that is, for example, CommerceOne produces a set of infrastructure software. What we do is we go to our customers who want to build marketplaces and we say we'll provide you the foundation, the architecture, for how to scale your transactional activity. I don't care whether it's purchasing, auctions, all sorts of other transaction activity. You need a platform to start.

And once that platform is in place, the whole movement to e-commerce is about how many new and different kinds of business services can I offer to my customers? There are services that I have to offer, for example, we've talked about some of the rules around that. Well, there are actually technology services today that deal with issues like export control that deal with other issues, local regulation issues.

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

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

And so I think if you look at a couple of things we've talked about. We've talked about what are the rules. Well, my belief is the rules are the rules. Whether you're doing exchanges on the basis of electronically or manually, you still have to abide by the right behavior, and the rules tell us what our behavior should be.

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

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

MR. BOETH: Yeah. I think that looking at the marketplace, where it stands in its evolution, it's still in its infancy. We are on the frond end of this curve, definitely. We're kind of the inverse of Sam's logo. We're here starting up the B2B curve. I believe that it's probably not a real painful issue right now because of that early adoption phase that we're in. Most businesses are establishing participation in one, maybe two, maybe a small handful of marketplaces.

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

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

So, I think my observation would be that interoperability probably hasn't become hugely painful enough to cause end users to scream out for us to get together once and for all and work to create standards, but I think we want to be preemptive and we want to do that on a proactive basis, and I think that forms, such as the experience for CXML, are going to be the process for that.

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

MS. TEAGARDEN: Yeah. XML, it stands for extensible mark-up language, but the way to think about it is it's really the alphabet of business to business -- of the business-to-business e-commerce language.

Now, if you think about an alphabet, that might provide some structured communication, but you still have the Chinese language and the Spanish language and the English language. All these different derivatives of XML, like CXML, FPXML, there's almost as many derivatives as there are exchanges, are these different languages that are using the same core alphabet of XML.

And what it is to a business or to someone interfacing with this technology is it's a way to describe a purchase order. It's not very exciting. That's really all it is, is in this industry, a purchase order for, say, steel, in this column we're going to put the price, in this column we're going to put the quantity, in this column we're going to put the name of the supplier, so that as purchase orders start to proliferate on the web, in a web-based transaction, they have the same meaning to different users.

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

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

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

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

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

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

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

MS. DeSANTI: Yes, Rob.

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

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

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

MS. DeSANTI: Okay, let me just wrap up with one final question for our one representative from a foreign company, SAP. Gary Fromer, can you talk to us about the extent to which B2B marketplaces are being established outside the United States?

MR. FROMER: Yeah. I think there's an equal degree of activity outside the United States in terms of the creation of B2B marketplaces. I think the extent to which companies get excited by what we in the U.S. talk about as more hype is a little bit different.

Companies are pretty focused, actually, in particular in Europe, on extending automated business processes they have with their business partners. And so they've maybe taken even a more sophisticated view of, you know, let's not worry about our announcements and, you know, whether we're going to take these things public, they're focused on actually building exchanges, and in a sense that puts them ahead in some cases.

MS. DeSANTI: Yeah, and I think Chris Cogan and GoCo-op, you have some experience here.

MR. COGAN: Well, we're involved with a few global e-marketplaces or industry consortia. And I tend to agree with Gary that so far none of them have been big on making press releases, but more focused on how they will deliver services and what services they will deliver, and how they will help the participants in the e-marketplace re-engineer or optimize their supply chains and procurement processes.

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

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

(Applause.)

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

You may all have the same question in your minds that I think that Chairman Pitofsky and Commissioner Swindle had when I originally called them up some time ago, which is -- why in the world is this guy from the National Security Council wanting to talk with me?

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

The fact is that we're in an interesting position -- interesting situation right now. We have this wonderful dependance on -- and growing dependance on -- electronic networks. We're all here today, in part, to help advance that and to celebrate that. The dirty little secret is that much of the hardware and software and network architecture that we depend on today was never designed to, in fact, have the level of security in protecting against insider intrusions and misuse or outsider intrusions or a combination of factors that we -- it nevertheless was designed to have the level of security that we're really now insisting upon in our networks.

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

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

I head up the White House component of what is an emerging and very -- now very extensive dialogue and agenda for action with the IT and the network business community. We've been working for some time. This past January, the President issued a first version of a national plan for information systems security, and I would encourage all of you if you're interested, you can visit a website -- the website, www.CIAO.gov to get that.

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

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

I would like to secondly suggest the question to all of you about whether there are steps that the federal government can take in terms of the $600 million in R&D for cyber security that we'll be spending, or in terms of procurement, or in terms of our own e-gov initiatives that could improve the liability and security and reduce the liability exposure that B2B networks face?

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

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

(Applause.)

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

Commissioner Swindle?

COMMISSIONER SWINDLE: Thank you, Susan. As to who counts around here, I would like to point out that Gail Levine and Susan DeSanti probably count more than anybody in the Commission. The commissioners vote, that does not necessarily mean we count, but these people count, because they got all of you here, which I think is most impressive and the presenters certainly led us to an interesting presentation this morning and I think they all deserve a round of applause.

(Applause.)

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

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

Most government conferences I go to are attended by government employees and they all exchange the same ideas they've been talking about before, and when we started talking about this, Susan and Gail came in and said what do you think? And I said a grand idea, may I ask one thing be emphasized, and that is that we, the government, the Federal Trade Commission, listen, because I would contend that this is such a fast-moving target and it's so complex that we probably don't know a lot about what's going on.

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

And I think it would be most opportune to have the experts, the risk-takers, the creators of jobs, the innovators and all of these people who are creating this marvelous new world come in and tell us what they know at this point in time.

And as someone mentioned, we just got started. So, I think that's one of the crowning points to make here about what we're doing, we at the Federal Trade Commission, in particular, I hope are listening and I would hope that everybody who is participating would certainly offer up their thoughts on what they know.

Obviously there's a lot of attention here. I didn't ask, how many people from the media are here? I've seen a few. Oh, they're over here in one corner. Got to stay together, guys, we can get you if we split you up.

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

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

Another lesson I think we need to gather from this presentation that I've heard so far, and I'm sure it will only get better as we go along, because I think there's that much interest in making it be the right kind of discussion, and that is that we in government, we who are responsible for regulating and passing the laws and establishing regulations and enforcing those regulations and laws, whatever we might be prone to do or come to do in the near future or not to too near future, we had best get it right, because of the magnitude of this, if we screw it up, we will have caused some terrible damage.

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

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

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

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

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

There are buzz words always associated with change, and I for one am leery when I hear the words level the playing field. And I even get concerned when I hear words like privacy and digital divide. Be concerned about how these words are used. We're on the edge of incredible changes in the way we do business, as has been said up here. Let's make sure that whatever we do, we do it to protect consumers, to protect business interests, certainly to protect competition so that consumers make out.

With change are always anxieties. I can recall the expression -- well, for one thing, I mentioned middle men. There's, you know, you hear cries about this process. What about middle men? What about Main Street?

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

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

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

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

(Applause.)

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

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

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

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

AFTERNOON SESSION

(1:20 p.m.)

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

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

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

(Applause.)

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

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

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

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

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

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

While I understand the overall concept of B2B ventures, I'm interested in knowing more about the details, the nuts and bolts of these enterprises and the transactions they will facilitate. And, of course, I'm interested in hearing from you, the would-be participants, about your concerns and more about your suggestions to avoid antitrust problems.

In short, we at the FTC are very much here to listen. So, thank you, let's get on with the panelists this afternoon.

(Applause.)

MR. COHEN: We'll wait a few seconds for people to take their seats. Okay, this panel will look at B2B electronic marketplaces from the buyer's perspective. As I indicated just a few minutes ago, my name is Bill Cohen, and I will be moderating. Seated to my right is Hillary Greene, also from the FTC. I'll stop right there, so that it can sink in that you will be able to go back and tell your spouses and colleagues that you came to Washington to appear on a panel led by Bill and Hillary. All joking aside, we do have two other representatives from the FTC who will be asking questions. We have Gail Levine and David Medine.

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

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

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

I would like to use a slightly different format than we used for our panel this morning, because I want to try to encourage cross discussion as much as possible. So, I would suggest that when you want to be recognized, that you just turn your name plate on its side and I'll do my best to find you on the stage and recognize you to speak.

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

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

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

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

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

MR. ARNOLD: Jon Arnold with the Edison Electric Institute, I'm the chief information officer. We represent the investor-owned electric utilities, which generate over 70 percent of the electricity in the U.S.

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

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

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

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

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

MS. MIREK: Good afternoon, my name is Lori

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

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

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

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

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

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

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

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

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

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

MR. COHEN: How about Jay?

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

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

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

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

The designs don't necessarily originate from our company. Sometimes we're using third party designs and integrating them into our solutions. As a result, we rely on their expertise, and it's difficult -- we don't develop the internal expertise and we don't want to have the internal expertise, necessarily, because it's not a core competency for us. We can get better products by outsourcing that particular function.

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

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

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

Just recently a number of other third party, and particularly supply side led exchanges, have started to be built. And I think customers' or the buy side's perspective or interest in these types of systems is fundamentally driven by a desire for improved pricing transparency, a desire for increased operational efficiencies, such as back-office integration, more efficient order processing, and last but not least, improved information dissemination.

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

MR. COHEN: Let's move to Steve.

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

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

By 2002, a full quarter of our respondents think they're going to be doing the majority of their trade through e-marketplaces, and basically only about 80 percent of our respondents expect to be doing -- participating in e-marketplaces.

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

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

CAPTAIN HUFF: Sorry I'm late.

MR. COHEN: And we're very pleased to have you, particularly because I think this is the question that I want to bring you in on. You are -- you do represent a buyer who has just recently been involved in a major acquisition using an electronic marketplace. I thought maybe you could fill us in a little bit on your experience.

CAPTAIN HUFF: Are you referring to the reverse auction?

MR. COHEN: Yes.

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

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

So, that's one of the issues that we struggled with in this reverse auction. And for those of you that don't know what a reverse auction is, essentially buyers -- excuse me, sellers come online and they bid down the price of a contract. And for this particular procurement, we bought the brains behind the ejection seats for Air Force aircraft. It's a sequence where it determines when the different detonators fire to ensure that the pilot gets out safely. We had three qualified sources in this particular case that had previously manufactured and had successfully competed for these contracts. They went online and we ended up achieving a savings of about 28 percent.

One of my concerns, when I talk to people in the government, and the Navy, is reverse auctions are not a panacea, they don't apply to everything. In my view, you need to have a relatively robust competitive marketplace, probably three, maybe two folks. You probably need to have the type of commodity that's got a lot of price flexibility. For instance, you couldn't auction the price of gold, because there's not much flexibility in the price.

And thirdly, it's got to be something, in my view at least at this point in the federal government, and where we're headed with the Navy, something in excess of $750,000 and maybe a million dollars so we can attract interest in participating in those types of auctions.

Our long-term vision is to have a contract with one of the many auction houses that are out there, so that we can, in fact, do all of our competitive procurements that make sense in a reverse auction scenario. Eventually, I see that we're going to have some type of software on the buyers' work stations that allow them to do reverse auctions for as little as, say, $20,000 or $30,000. But my sense is we're probably a year away from that, because not only do we need to get comfortable and familiar with it, there were a lot of legal issues that we had to work through to ensure that we could legally do a reverse auction in the federal government, but we also have to get industry involved as well to make sure that all of our suppliers are comfortable participating in this new type of procurement.

MR. COHEN: I see Sam Kinney?

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

So, it may be the case that a dynamic price marketplace here may apply, it just it may not apply at the level between a Detroit Diesel and its system integrator, it may apply a level below that. And I think there is a lot of flexibility. You know, the recovery sequencers are an advanced technical product, but the Navy had already gone through the qualification steps of qualifying those bidders. So, it's more to think about where in the supply chain this can work.

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

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

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

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

If you look at the buying power, it's in excess of $40 billion in supplies that the electric utilities purchase. So, it's a fairly large number.

Some of that is very common items that can be used in catalogs. There's a number of issues in terms of like transformers, you think a transformer is a transformer is a transformer, but actually there's unique design specifications that a lot of utilities have for these things, and that's where more complex procurement vehicles, like custom RFPs, highly complex RFPs come in.

So, utilities are looking to -- with the competition -- increase the efficiencies, move it to the bottom line, throughout the digital supply chain. We're looking for very sophisticated tools to help them do that beyond catalog on the typical MRO-type items so they can do complex designs and for these unique items that they have.

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

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

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

We have visits from vendors that come to visit our buyers. We have paper catalogs that we go through. We go to trade shows and all those type of things, and that takes a lot of travel, it takes a lot of time, and with an electronic marketplace, we get a much quicker exchange of information, and we will be -- we will be using the exchange to reduce the cost of time, the cost of documentation, and we expect to have a lot more access to buyers -- to sellers, rather, that we don't have access to today.

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

MR. COHEN: Angie?

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

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

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

So, she would have to go through lots of different paper catalogs, find the items. And what we did was we actually negotiated with seven of the top ten MRO distributors, as well as some office supplies distributors, like Staples, got all of their data together and standardized it into a normalized format, and put it into an aggregated catalog so that this Lori, you know, VP of marketing from this small company, Deprag, who doesn't have the time and resources to try to find the best, you know, prices out there through lots of phone calls could actually come to our site, type in exactly what she's looking for, including the brand and the part number, and see a very good comparison shopping list for exactly the same prices, but because different suppliers are supplying the items, they actually have different prices, different terms. And what used to take about two hours of doing the comparison shopping, is now taking five minutes.

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

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

MR. GRAY: Well, I think the question is how do we do things differently. I think the answer is, in particular in my industry, is from the beginning, you don't do a lot differently, you've automated it. And then you start evolving towards the advantages that it may give you. And I would put out the thesis that in the end, most of the value is going to be gained by speed and accuracy and ease of use over the actual auction feature that where you're actually getting people to fight against each other to win your transaction, that the value is going to be in the efficiency of the process and the accuracy of that process.

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

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

MR. COHEN: Kaushik?

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

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

MR. COHEN: Let me -- one thing I've heard, and which interests me, I would like to pursue, the experience at Detroit Diesel. What you were projecting was that given that materials were highly engineered and customized, you might have more difficulty making some use of electronic marketplaces, but I know that Captain Huff has been able to use it for the ejection seats. How did you deal with the issues on making sure that you knew exactly what you were getting? How did it work in that context?

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

So, our challenge in that case is we're going to go ahead and award and make an initial award based upon price and some technical considerations on the proposal, but we're going to have to then go do an actual testing at the winning offeror's plant to make sure that they're capable of building it. Three of the four offerors have built it before. If the new guy wins, then we'll have to go verify that he's capable of doing it. But that's not much unlike how we do things now.

MR. COHEN: And Jay?

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

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

MR. COHEN: I'm going to recognize Rod again, but I want to throw in another aspect of the question, which I think you might be able to address as well as the point you were about to make. I would be interested if you had anything to contribute on how usage differs for items traditionally subject to long-term contracting as opposed to spot purchases.

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

In our industry, typically what happens is that there is an annual negotiation between the major buyers and the major suppliers to get their volume contracts established. What we are setting up in the beginning is taking that end -- the end of that negotiation, and putting it on the system so that then they can do their order, individual orders under those annual negotiated contracts, which goes to the maverick buying issue. By maverick buying, that doesn't mean somebody's run amuck out there, it just means that we're not capturing that spend under our volume contracts.

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

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

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

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

MR. GRAY: That's correct.

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

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

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

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

MR. COHEN: David?

MR. CHEN: Yeah, I think that one of the characteristics of an early stage market is, you know, when you're a hammer, everything looks like a nail. And if you look at a lot of the discussions that have taken place today, so far, we're centering a lot on the market model called an auction, whether it's reverse or whether it's a straight-out auction or a Dutch auction, and yet at the same time, the big moniker that we've put -- and so the auction is actually clearing a transaction, matching buyers and clearing a transaction.

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

And what that is is actually what I would, you know, it's one of those dirty little technology words -- it's a work flow, okay -- and it has, also, a fair amount of complexity built into it. And some of the words that others would use to describe components of that would be online due diligence, online risk management, online dispute resolution. And these are all supporting functionalities that support the supply chain efficiency versus centering on the clearing of the transaction called the auction or a market mechanism.

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

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

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

And I think what we're going to evolve to here, as this market model continues to evolve, is we'll see more and more of those things we have to go offline for become part of the online environment. And that I think goes to solving this issue of really this is about creating efficient marketplaces, taking and adding value at each of those intersection points that Patrick laid out, as opposed to the one hammer fits all nail, of let's go with an auction.

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

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

I would be particularly interested in trying to find out if anybody wants to -- has anything to suggest as to how the answers as to use and benefits might differ for buyers outside the United States, or for buyers who are trying to use suppliers outside of the United States. Gerard?

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

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

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

MR. COHEN: David?

MR. CHEN: Yeah, I think that's, you know, I think that's one of the beauties of the Internet, is that it's a global seamless, yack, yack, yack marketplace, so you can trade internationally and all that. And the reality and the funny thing is, all of a sudden we're realizing hey, that's true.

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

And especially when you get into the small, midsize businesses, which most of the companies in the world are, whether they're on the buy side or the sell side, now get into all sorts of issues of sort of the second order of infrastructure that's required to support these exchanges. That is, who the heck is it, how do I know and how can I authenticate that. If, in fact, a bid or an offer is coming up that is for tens of thousands of dollars, how do I know this person is authorized to, in fact, represent that company.

The issue of content. This is very

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

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

MR. COHEN: Steve Kafka?

MR. KAFKA: I just wanted to follow up

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

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

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

So, I think it's very difficult to sort of come out with generalized statements about what the efficiencies are, and I think it even gets more complicated when you start to look at some of the cross-border issues and some of the ex-U.S. issues about what are those buyers looking to gain.

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

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

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

So, as we do that, we scratched our heads and said well, is there a need for what we do anymore? And after giving it a lot of thought and a lot of soul searching, I think that there will always be a role for a middle man, because essentially that's what we are in the government. We're the middle man between the people that maintain all the Naval aircraft and ships and the people that make the parts to repair that. I think there's a lot of value-added services that we'll be able to provide.

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

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

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

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

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

So, I just want to tee up the concept that I think we'll cover later, that I think, you know, this third party, independent, objective type of facilitator between the buy side and the supply side can potentially run a very effective, very fair, very neutral marketplace.

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

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

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

MR. COHEN: Kaushik?

MR. SHRIDHARANI: That's actually a very hot question, partly because it affects the spin that many of these new online companies want to offer people. So, I think, I just wanted to say that one thing that you'll find, that some companies don't want to talk about the changing role of existing middle men, because they want to be friends with those middle men now, because they're still getting some business from them.

But if I were to just try to define middle men a little more clearly, I would say that you have offline middle men and online intermediaries. Leaving aside the online intermediaries, in that offline universe, you have low value brokers to high value distributors who actually do carry inventory and get very involved in providing service. And I think you'll find that there will be different effects at each end of the spectrum.

And one way to look about it, one way we think about it, is that intermediaries basically bear two costs, the cost of information carried and the cost of inventory carried or the cost of asset carried, and what's happening with the rise of the Internet is that the cost of information carrying, which is the cost you used to bear to form relationships and hold onto them, is falling, with the rise of online intermediaries. But the cost of asset carrying, the cost of inventory carrying isn't really changing that much.

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

The real question is, what happens to those distributors who are so well entrenched in their markets that they want to resist the development of online intermediaries. There will be some who aren't so entrenched who look at the online intermediaries as partners and may find that their offline role is expanded in the future.

MR. COHEN: John, at the end.

MR. ALLGAIER: Bill, in response to, you know, what the middle man would look like, and I think, Gail, you mentioned it. I think the middle man will look at what they're doing, what services they're providing now. If they're pushing paper for the customer, there may be some concern, because I think we all have talked about moving to the mouse rather than using paper.

And so, if the middle man is doing that,

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

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

MR. COHEN: Angie?

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

So, in MRO, the distributors, especially given their fragmented nature, and given the differences in the level of items that they carry and the kinds of value-added services that they perform on behalf of their various clients, they were -- they would be -- they're very firmly entrenched, and I think any MRO marketplace that you talk to will tell you that it would be pretty crazy, at least in the next five years, to think that any of these MRO distributors are going to be in any way displaced by any of the online exchanges.

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

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

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

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

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

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

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

MR. COHEN: Very good.

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

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

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

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

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

So, we have worked in the consumer space to try to develop self regulatory and legislative responses to try to increase consumer confidence in this new marketplace. I guess the question I would like to pose to the panel is to what extent are B2B buyers like consumers in this area, particularly small businesses, are they going to be deterred from B2B transactions because of buyer profiles are being created, that they may be uncomfortable with, and that it may be deluged with targeted advertising. It's one of those some people view it as a tremendous benefit to get advertisements of interest, some people find it an annoyance and a deterrent. So, I guess that might be helpful to start with the small business perspective, and Angie, how are small businesses going to respond to these privacy concerns?

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

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

Internet, which was an astounding number to us.

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

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

So, it was very enlightening for us.

MR. COHEN: Jay ?

MR. KNOLL: I have a couple of perspectives on this one. I think in a lot of respects it would be nice to get more targeted advertisements. I think Angie's example of the person who had a, you know, a three-foot stack of catalogs, they got those by mail or somebody delivering them to their offices, so they had those contacts anyways. And targeted contacts may be more beneficial.

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

The final perspective that I'll give you is as a public company, we don't own a lot of our information. The SEC forces us to disclose an awful lot of information. So, some of our financial information, for example, is already public. That being said, of course, that the business to business exchanges permit a certain type of aggregation that's unavailable currently with SEC information. Now, the SEC is looking to go, I think, with a more dynamic way of holding onto information at EDGAR, such that or presenting information to EDGAR so it's easier to data mine, but again, these concerns are books that in a lot of respects are open today.

MR. COHEN: I note Jon Arnold has his sign up.

MR. ARNOLD: Yes, thanks. You know, in the electric utility industry, there's -- utilities are very concerned about the privacy and safeguards that are put in place. Most of the exchanges are just now being built and there's a -- either if a utility has not aligned with an exchange yet or subscribed to one, either in the development or in their processes, they're looking very carefully at what the safeguards are, because they have a lot of processes that they like to keep confidential, they consider competitive and vital to their organization.

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

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

(Brief pause in the proceedings.)

MR. COHEN: Everyone with a sign up is

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

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

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

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

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

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

MR. COHEN: David?

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

And I think that your question about confidentiality, about fraud, they're actually all touching on the same issue. And that is that if you look at some of the earliest online environments, like EDI environments, one of the things that's very important about the EDI environments is that they're not necessarily about claiming a transaction, they're actually about policy implementation in systems. What are the buying policies of both the buyer and the seller and then implementing those policies into a set of systems and triggers.

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

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

MR. COHEN: Lori?

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

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

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

Now, what's intriguing, though, in a supply side led exchange model here, though, is that traditional firewall mechanisms for shielding information are likely to be particularly ineffective because of the necessary integration between the supplier's computer information systems and that, of course, of the supplier-owned exchange's information systems.

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

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

MS. MIREK: Right. Here's the fundamental difference: In a situation -- let me just use a specific case of foreign exchange -- where the supplier is the person who is actually determining the rate, the price, all right, they are a counterparty to the trade.

So, there's a natural incentive for them to maximize the exchange's profitability and their own profitability, and those motivations are aligned, versus with a third party model, you have a natural incentive to maximize the profitability of the exchange, which means satisfying both the demand side and the supply side requirements.

That's why, you know, economists and academics will typically agree that the most effective, most neutral, most fair market mechanism is a third party independent mechanism if it can get off the ground in that particular market space.

MS. LEVINE: What about a buyer owned and controlled exchange, is it liable to the same problems?

MS. MIREK: Well, in the respect that the buyers don't control the pricing, no, but there are other situations I know that people are starting to explore now where that might be open to question. But the specific case here is a supplier-led exchange, because again, they're the ones who are actually setting the prices or control the final decision on what price they choose to sell at, and that's the control point.

MR. COHEN: Gerard?

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

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

MR. COHEN: Yes?

MR. MEDINE: Another consumer impediment to electronic commerce that we've discovered, not surprisingly, is fraud, and the FTC has brought over 100 cases involving Internet fraud. We've also seen in the auction consumer space tremendous concern and a high level of consumer complaints, and some of the industry leaders have responded through insurance programs, escrow authentication, and I wondered to what extent those are transferrable concepts, either have been or will be implemented to, again, assure greater confidence in B2B marketplaces. I know David touched on authentication as well.

MR. COHEN: Yes, Jon?

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

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

MR. CHEN: Yeah. That's actually what the bulk of what our company does is actually go right to the heart of that problem. And I think that, again, this is an oversimplification, but sort of in the early days of an exchange, your single minded purpose is get subscribers, okay? And then very quickly, it evolves to get them to stay there. And create transactions.

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

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

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

MR. COHEN: Steve?

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

So, who's making the offer, is it actually credible, is the product that they're offering what they say it is, are they going to deliver it when they say they will, et cetera. And I think to David's point, you know, there are trust brokers who are arising to specifically address that as a service.

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

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

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

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

MR. COHEN: Jay?

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

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

MR. COHEN: And Angie?

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

And obviously one of the big things that we did was talk to our potential buyers and ask them, you know, would it make any difference to you with respect to your worries about this being a neutral marketplace, with it truly being competitive, and some of the information that might be shared about you with some of these incumbent distributors, or even one, and the resounding answer that we got was yes, it would definitely make a difference and we feel that if it's not a supplier-led or supplier-owned exchange, it would make them, the buyers, have much more trust in the system and the neutrality and the fairness of the system.

And the second thing that follows on that is because it's this issue about, you know, our buyer's trust in us and our non-sharing of our information with our suppliers, was so important to our buyers that we actually took it one step further, and in both our purchasing marketplace where we do have an RFQ, request for quote, model, and in our financial marketplace where we have about ten national lenders to whom we send applications for small business loans, equipment leases, et cetera, what we did was we actually worked out with all of our lenders and our credit scoring partners like Fair Isaac, et cetera, a way to pool all of the information about the buyers that the suppliers would want, and but make that blind so that the suppliers and the lenders would actually get all of the information, the verification information, the credit scoring information about our small business buyers, without actually getting their name, the name of the company, you know, or any other sort of information other than, okay, what does their credit history look like, how long have they been in business, et cetera.

And it's actually worked out fairly successfully and I think it just shows that sometimes marketplaces have to go to extreme measures and really work with their suppliers and lenders, or whomever are on the seller side, to try to make that anonymity issue and privacy issue work.

MR. COHEN: Let's return to Lori on this. You have a follow-up?

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

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

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

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

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

The second issue with the supply-side led exchanges is around the area of restriction of access. So, there's a real potential for owner suppliers to exclude non-owner suppliers or other third party exchanges from the marketplace all together. And the largest risk here, candidly, is exclusivity. Exclusivity provisions that prohibit non-owners from participating in the exchanges or preclude owners from participating in other competitive exchanges. So, this is particularly of concern where the supplier owners have significant equity stakes. And exchanges if successful, as we all talked about, will be characterized by network effects and owners could quickly develop market power that could potentially achieve the status of an essential facility within a given market. And obviously that's a major concern for buyers and other competitors as well.

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

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

So, what do I mean by that? A supply exchange owner is a counterparty to every transaction that happens on the exchange. So, they have an inherent conflict of interest and are vested, you know, have a vested interest in the transactions and potentially optimizing for them at the risk of the buyers or other competitors.

So, for example, in the bond market, there's a significant online player that's -- that basically has ownership by about a half a dozen major suppliers, and also has a number of other participants who are not equity owners. And what's intriguing about this example that they actually actively limit the access and the supply when a buyer makes a request for a bid to just five quotes. And whose quotes do you think show up the majority of the time? The owners or the nonowners?

So, there's a lot of interesting examples from already the early examples in the marketplace that show this is indeed a significant area for concern. So, you know, if -- just to summarize, basically, it doesn't mean that anything is per se good or bad, it's just the point I'm trying to make is that when you're analyzing a supply-side exchange relative to, let's say, a neutral third party exchange, there are significantly enhanced opportunities or concerns around the potential for pricing collusion, the potential for restriction of market access, the potential for misuse of customer data, and, of course, the potential for preferential treatment there. And I think part of the benefit of getting issues like this out in the open today is the opportunity to start to engage in discussion about how you can potentially, you know, put operational policies into effect that would assure equal and open access for buyers, for other competitors, for everybody who's out there in these emerging marketplaces.

And bottom line is, at least with the third party independent model, you know, the whole purpose of that model is to facilitate a fair and open marketplace and to facilitate the broadest possible market with the largest number of competitors.

So, there is fundamentally a difference in the two approaches that I think is consistently taken in a respect, at least from our buyer community and other buyers that we've done worldwide research on, similar to what Angie had discussed.

MR. COHEN: Let's move the focus now to the exchanges that are sort of buyer-owned groupings. Rod, do you have comment?

MR. GRAY: Yeah, I guess the way I look at this issue is any exchange you choose to go on, you're going to have to understand the exchange and trust it. I don't care whether it's buyer side or supplier side, and I don't think ownership particularly means it's going to behave one way or the other. You just have to understand the policies of the exchange you choose to use.

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

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

MR. COHEN: Gerard?

MR. VAN BREEN: I would basically agree with the comments that Lori and Angie made regarding supply-side owned exchanges; however, we also have to realize that if we want to progress this electronic business to something that is going to last and is going to be meaningful, then we cannot do it without either one side.

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

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

And we work, for example, together with the supplier community in the Global Commerce Initiative, which is a body that tries to set global standards for EDI communication over the web, we try to agree, understand it's not in, let's say, five or six or ten years as we did in the past, but before the end of actually this month, it's a matter of four or five months to create those standards, and I think if we can agree on those standards, on a global scale, that's going to improve the efficiency of working in an electronic environment to a tremendous extent, and therefore you need to meet, you know, both desires, the buyer's side and the seller's side and join forces in this case.

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

MR. VAN BREEN: Well, if you look at -- and that comes back again to what David said before, we are in the very early stage of development, and we need to invest a lot of money to make this, you know, make this work, make it secure, and make it something that is going to last. And we at Ahold are quite a big firm around the globe, but we would never be able to put up the amount of money that is necessary to create the exchange.

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

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

MR. COHEN: And Rod?

MR. GRAY: Yeah, I agree with that, and I think it comes back to the functionality. You could get some software and run an auction tomorrow, and that's not all that costly, but to build in all of the functionality that I think is necessary to be a successful and a real value-added exchange, that's a significant investment. Yes, any one company could do it, but it's very expensive and it really takes out a lot of the efficiency.

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

So, it's that efficiency and pulling together to create one platform that saves money for everyone. And again, it comes down to that functionality that you're going to build into.

MR. COHEN: Let me throw this over to Sam, since you haven't really been using the consortia model quite as much.

MR. KINNEY: Well, it's interesting, I mean, $10 billion worth of spend, we haven't tried to do that as the break-even calculation, but in the first quarter we did a billion four, so close to, you know, $6 billion annual run rate of spending. So, the $10 billion is not out of reach, I don't think.

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

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

You know, I do wonder whether or not all the roles have to be commonly owned, and whether or not, you know, all of -- or whether we're better off having all of those various specialized roles, like exist in the capital markets, competing for their own piece of the specialty pie.

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

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

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

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

MS. LEVINE: But why is it --

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

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

No, there's literally, there's other mechanisms. There's the ability to short sell product and arbitrage away price differences. There are research analysts, securities analysts whose role it is is to shed transparency on the markets.

So, now I come back. You do need to know who you're buying tomato paste or tomatoes from, and you have been able to do that for decades without doing it with another one of your competitor's arm in arm, do you need to do it now? All right? Why do you need to be working in an exchange that's, you know, explicitly co-owned with you and some of your horizontal competitors in order to do what you've been able to do privately for years?

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

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

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

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

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

So, I don't believe, even though I think there was a comment made earlier today that there would be 10,000 B2Bs, I see the opposite, I think it's going to go the other direction. I think there will be a consolidation of the B2B exchanges as we go forward in time and this all settles out and we really figure out what works and what doesn't work.

MR. COHEN: Kaushik?

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

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

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

And I think what you will find is that over time we will see that consolidation. These exchanges, the independents and the affiliated ones will eventually probably realize that they are adding more value to each other together, than apart, and that the independents may find opportunities in the specialized areas and then come together with the others.

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

And so what's more important is to save their existing business today. And so there is, I think, an element of -- I don't know what to call it, intimidation, or psychology involved that's slowing down the development of these independent marketplaces, because of this that's happening with the industry affiliated exchanges.

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

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

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

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

MR. COHEN: John?

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

Sometimes you'll choose to go single source, sometimes you have multiple sources. So, you go through the due diligence to say what's the value of that exchange, and how broad can you use that exchange?

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

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

MR. COHEN: Gerard?

MR. VAN BREEN: The WorldWide Retail Exchange has no requirements of participation of any of its members, whether they're founding members or regular members or charter members or whatever, and it is basically driven by functionality. If our involvement in this exchange can deliver an exchange which has superior functionality, we'll participate in it, and we'll benefit from it.

But if not, and if there are other exchanges that offer content or services that are superior to the WorldWide Retail Exchange, be it for a part or for particular product groups or particular countries or regions, then we'll use other exchanges. And we think we can link them up in the future. So --

MR. COHEN: Steve?

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

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

Now, whether you call that, you know, exclusive or not, I'm not sure. There is equal access to the extent that in the case of an exchange or auction, everyone has the chance to bid initially and it's the second stage where there's this private trading room that comes into being.

MR. COHEN: Jon?

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

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

MR. KINNEY: Well, when we negotiate our terms, we do negotiate a blanket price for a blanket dollar commitment, and the reason for that is mostly so that you don't have to essentially resell every little increment of service, because that creates a market failure. You actually have a hard time getting the next increment of service sold, because the cost of selling the next increment of service, right, the next auction as it were, may exceed the cost, you know, the value that we could charge for it. So, we do do that. It's pretty -- it ended up being pretty small on a percentage basis, right, so a company that buys $4 or $5 billion a year might be making a commitment to do $100 million or $200 million a year. So, fractionally it's pretty small.

Now, I think -- again, I keep -- I always turn to the financial markets for the analogy. I think left to its own devices, people will -- there will be a proliferation in the specialty offerings, all right? I think it's interesting that there's more mutual funds than there are their stocks.

So, there's more aggregators of stocks than there are underlying stocks. Because they're adding value in their own unique ways.

And again, when I look at corporate pensions, which I think corporate pensions are the financial equivalent of corporate purchasing, all right, they're the big buyer, the big-kahuna buyer out there in the marketplace. Corporate pensions almost always have a lot of different specialty portfolios. They've got their fixed income portfolios, their equity portfolios, their equity portfolios that are indexed and managed and global and domestic.

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

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

MR. KAFKA: Absolutely. I mean, that is absolutely the incentive that these industry affiliate exchanges have in mind to begin with. As somebody mentioned earlier, I think it was David, that, you know, the key challenge now for marketplaces is to build a critical mass of buyers and sellers. And so what's, you know, an obvious way to do that? Well, it's to get, you know, significant players in the industry to have incentive to participate in that exchange.

So, you know, will that -- it's not clear that that's going to, you know, remain -- again, the picture may change over time, because many of these e-marketplaces, you know, had an initial set of participants, but have also opened the invitation to other industry participants and have equity structures that, you know, sort of allow them to spread that equity amongst any industry participant who would choose to want to have that kind of arrangement.

MR. COHEN: I'll throw this to Kaushik.

MR. SHRIDHARANI: I think that question about equity varies from industry to industry. If you're looking at a concentrated industry in general, anybody who's been trying to establish an exchange has used equity as a way of seeding the liquidity, and those who are dealing with more fragmented markets haven't really done it as actively because each little partner you bring only adds so much minor liquidity.

But I wanted to also touch on that point about exclusivity. Yes, it's actually been used, but for really small portions, and I think that it's not a major issue now. And going back to what Gerard is saying, these are still early days, and what has yet to happen is that functionality for many of these marketplaces and exchanges is not complete, and there's still such a long way to go. Especially when we bring in the whole -- all the issues about supply chain management.

So, I think what we will find is that these companies may get involved in exclusive relationships for small portions of their spend, which really constitute nothing more than an experiment, and then there will be a time where they'll still be able to choose again.

We had a -- a conference last week where a company mentioned how happy they were with FreeMarkets and said that they would actually use them for two years and then review the situation. And they were quite open to looking at alternatives after that.

MR. COHEN: Rod?

MR. GRAY: Yeah, I think that there are --

everyone's driving for liquidity, and there are different ways to incentivize liquidity, whether it be equity for types of volume, or volume discounts, but what's going to ultimately win out and make the site successful is the functionality. It's -- you've got to get the liquidity going and get it moving, but then people are going to start migrating based on the functionality. Those volumes are just the initial volumes that are getting you started, but those are not forever type incentive packages.

MR. COHEN: I'm going to use the moderator's prerogative to shift gears once again. I think we should spend a few minutes talking about another phenomenon which you may have encountered out there. Are any of your exchanges, or exchanges which you've been dealing with or hearing about being designed, planning to aggregate the purchase volumes for more than one buyer when placing requests for quotes or conducting auctions, lumping it together to get a larger total? Gerard?

MR. VAN BREEN: In the case of the WorldWide Retail Exchange, we have specifically stipulated that the exchange itself will never aggregate any volumes in terms of goods for resale or goods not for resale, it will not aggregate any volume.

However, members of the exchange could get together and could, you know, make a collaborative auction on a particular item if they stay within the competitive rules that are in, you know, in the United States, or in Europe.

So, if there is someone from France that wants to do something with the United States and there is -- and they have their own responsibility to check whether there is any competitive issue involved, and if there is not, then one of them can take the volume of the two to the exchange, but the exchange itself will not aggregate anything.

MR. COHEN: And is the exchange in any way affected with setting up this two-way arrangement?

MR. VAN BREEN: Well, they could, the exchange could be, but then again, there would have to be some kind of a check by someone that, you know, there is no FTC or European commission or other competitive body issue involved. So, that would -- that would in our view, that would not be the responsibility of the exchange to orchestrate that or keep an eye on that or take responsibility for that. That would be the responsibility of the individual members.

MR. COHEN: Angie?

MS. KIM: Yeah, this was something that we considered because obviously when you're dealing with small business buyers, one of the things that you want to try to do is give them some pricing advantages because the large companies that they're competing with have, you know, volume discount pricing and things like that. And we found in our market that it was really difficult to do any such aggregate buying in the same way that you can do sort of in the B2C world with a company Mercata and things like that, because you're talking about just in MRO alone, over two million SKUs of items, and the chance that even though these are, you know, fairly standard, you know, branded items, that one person here and another business somewhere else will need the same item around the same time frame was just very difficult, especially when you're getting started like we were.

So, what we did instead was, we did sort of a virtual aggregated model where we went to our suppliers and we said hey, treat EqualFooting as a large national account in the same way that you treat tons of, you know, local branches of GM or what have you, and got sort of MFN pricing from all of our suppliers and shippers, et cetera, so that we can actually -- and then we did XML integrations with these suppliers and sellers and shippers so that it would -- the cost efficiencies for the sell side would still be there and they could afford to give us -- give our members some of the price breaks.

So, we thought that was sort of a more practical way of aggregating the volumes.

MR. COHEN: Steve?

MR. KAFKA: I was going to say that I think it's not the typical model. It's an uncommon model to see aggregation, but it does exist. There are a couple of sites in the chemicals industry I'm aware of that are pursuing a model like this. And I think it actually harkens back to our discussion earlier about the role of offline distributors. Because in a way, that model is simply a virtual distributor model, where in chemicals, for example, you know the site is buying at truckload prices, breaking bulk and then reselling to buyers at less than truckload prices, or something less than that. I mean, they're taking a cut of that savings but also passing some savings on to the ultimate buyer.

So, I don't think it's that dissimilar from what you already see, you know, a traditional offline distributor is doing in many cases, but I would just echo that it's not the typical model that we've seen out there yet today.

MR. COHEN: I think I see you shaking your head yes, Rod? Do you have anything?

MR. GRAY: Well, I think there's -- if you want to look at a possible scenario, you can set up, in essence, a two-way auction that aggregates volume, and people that are putting onto the market what types of volume they would want and the other side of the market is seeing that volume build up and you can get a volume scenario.

There are situations in our industry that we see possibly there can be a benefit to both the supplier and the buyer. Let's take an example of pipe mills. They make or break themselves by knowing when to run their mill, and if they could go through a annual industry auction where they could go in and buy blocks of mill space and they could then plan their activities and add an efficiency to their system and that could be passed across the players.

But again, those are things that can be done, I think, later in the functionality chain. Once you've built up the volume, there will be information available that people could take and create new services that would be a value to both the buyers and suppliers.

MR. COHEN: Is this information being conveyed -- collected and conveyed by the marketplace back to the buyers? What do you have in mind?

MR. GRAY: Well, as you understand, the information in the marketplace is private to the people who are putting those transactions across, but once you have transacted millions and millions and millions of transactions, there is an overall statistic that may come off of that, and those statistics are going to be valuable to a lot of people.

MR. COHEN: I think for our last topic, we have just a very few minutes left, let's talk a little bit about information. And I'm wondering, in any of your models, is it a situation where one buyer is -- is one buyer, buyer A, able to see the purchases being made by buyer B? Lori?

MS. MIREK: I really don't see how you could build a successful exchange and do that. I mean, it's been very clear from our customers that the privacy of their data is first and foremost, as well as for our suppliers that the privacy of their data is first and foremost.

So, from everything we've heard in the marketplace, that would probably be the number one error that could be executed in building up an exchange.

And to your point earlier, much aggregated information at the millions and millions of transaction level that tells you directionally where a market is headed, that's a completely different story all together. But the specific information that a business does in terms of at what time it's in the market, how it's in the market, and in what direction, that information could be potentially misused, as we've already talked about before. So, I think that's one of the fundamental things that exchange providers have to worry about is protecting specifics.

MR. COHEN: Perhaps we should return to one thing that we talked about before and get a few more opinions on it. I know you were talking about concern about supplier-owned exchanges and the information that this gives to suppliers and some of the concerns that if it comes to them, even in their capacity as owners or operators of the exchange, that it's difficult to construct a firewall to keep that information from flowing to them for their other business.

Does anybody -- would anybody want to comment? Any other views on that? Is that a problem that you see? Jon, are you up for this one?

MR. ARNOLD: Well, actually not, but I'll try to take a stab at it anyway. You know, as the exchanges are being developed, one of the things, you know, this is an issue, whether it's neutral, whether it's a .com doing it, whether it's a consortium doing it, but every one of them is working very hard to create -- to make these things as neutral as possible.

And just the added value of service here as far as information and safeguards, I mean, I think one of the services that some of the exchanges are trying to develop is to the buyer or the seller to give them information about what they're doing, better information as an added value of service in their supply chain, that they can use back whether it's the seller back to their sellers or it's the buyer back to into their internal back-office systems.

So, that's one of the key points. It's not really between -- you know, information flowing between buyers and buyers and sellers and sellers, but for the buyer the information about what kind of business they're doing, their transactions, statistics that they can use within their company to make their processes more efficient, the same thing with the sellers.

MR. COHEN: Steve?

MR. KAFKA: I would just offer another perspective in what we could mean by supplier preferencing or preferred supplier relationships. And if you think about it, the way that business is done in the offline world, buyers have a set of preferred suppliers already, and a set of business relationships, and in often cases, in many cases they've been in place for a long, long time.

And so, you know, one of the key factors in incenting buyers to participate in a marketplace in some cases may be the ability to preserve some of those preferred relationships. And I think, actually I'm going to put Sam on the spot, because I think that, you know, when you look at it in an auction kind of situation, you know, most of the auctions or exchanges that are out there today are not necessarily returning the lowest-priced bidder as the winner. The buyer can go in and actually select the winner that they want at the end of the day, and that's a form of supplier preferencing. Because they -- you know, they're making a decision about saying well, maybe I'm paying a little bit more here, but I know that this supplier is actually going to deliver on time, I have a much higher level of confidence that they are going to actually, you know, provide that product.

So, I think it's a little different spin than what we were talking about the supplier-owned exchanges and some of the more sinister ways, I guess, that they could manipulate information, but I think it's important that we think about the necessity of preserving these preferred supplier relationships.

MS. MIREK: But to Steven's point, that's the buyer's choice?

MR. KAFKA: Absolutely.

MS. MIREK: And that's a key point that he made, because when it's the buyer's choice, it's different than if the suppliers chose to limit the amount of data that's presented.

MR. KAFKA: Absolutely.

MS. MIREK: And it all comes down to the

management oversight of who makes decisions around how that data gets used. And to somebody's earlier point, you need to trust that oversight function. The question is do you really understand what comprises that oversight function.

MR. COHEN: Okay, I see two more name plates up and then I think we're at the end of our time. So, let's take David first and then we'll end with Kaushik.

MR. CHEN: I think we're at the very, very beginning of this whole information, right-to-use versus right-to-own issue. And if I just take a corollary from the B2C marketplace, I mean, just about every business plan in the Internet space was written with the we'll give away things for free, collect a bunch of data and then will somehow reap riches from knowing the data.

And we've seen how in the consumer space that's sort of cratered. One it's hard to do, but it's really wrought with all sorts of danger, but I think in the business-to-business space, I think the bigger danger is one that we've touched on, and that is that companies view their transactional record as part of their trade secrets, as part of their proprietary intellectual property. And then the various documents and policies that are attached to that purchasing process are further trade secrets.

And I think this is going to beg the issue that a lot of the exchanges have yet to deal with, and that is the whole issue of are they custodians of the data, or do they own the data. And I think there's a massive difference between the two.

And if I take an older history of, again, the capital markets. The credit card industry, I think, has taken years to negotiate this concept out, and that is there are pieces of data which they're entrusted -- that members of that ecosystem are entrusted to use, never to own, but, in fact, derive great value from.

A great example of that is fraud detection engines, where there is a conscious pooling of the industry's -- and on behalf of both the consumer as well as the banks -- pooling of information that is massed, that generates a thing called a fraud detection engine. All right? That is that you will use a card anywhere in the world, and there is a fraud protection mechanism there, regardless of bank or regardless of card.

So, yet at the same time there's a custodial, so they have a custodial relationship, versus an ownership relationship, which is, in fact, your issuing bank. And I think this kind of concept here, which is -- and we talked about it earlier today, we used the word rules, and these kind of rules are, in fact, one of the fascinating things, because they inherently require exchange-to-exchange cooperation at some level. But that's where the real power starts to come out.

And so I'm sort of mixing a couple of thoughts here that I think we're going to start dealing with, this issue of the ownership versus custodial, and the issue of what information is, in fact, best to be shared across the industry for very, very useful purposes that are not price, you know, exchanging of information, but the fundamental beneficial relationship versus what information is, in fact, owned by the customer, by the issuing exchange, and by the intermediary.

MR. COHEN: And for our last word on this panel, we will have Kaushik.

MR. SHRIDHARANI: Just in this question about misuse of information, I think that, along with several other points that we've talked about today, all really say that some of these problems are not peculiar to B2B, they're just problems that are peculiar to business. And that one of the differences in B2B is that the information can flow faster, the effects may be seen more quickly, and the -- whatever damages might be there may be a little more greater. But some of the solutions to these problems already exist in the offline world, they just need to be brought over, as I think Steve was saying, or someone, that they will be in time, but it's not necessarily so much a B2B issue as much as these are the problems of doing business.

Relationships will still need to be owned by companies, they'll still need to do due diligence, they'll still have to go out there, invest a lot of money in identifying or figuring out that a supplier in Shanghai is actually good enough for them.

MR. COHEN: Let me thank all of the panelists. This was very, very helpful.

(Applause.)

MR. COHEN: I guess we start again at 3:40.

(Recess in the proceedings.)

MR. WROBLEWSKI: Good afternoon, we would like to get started, it's Panel 3 on Seller Perspectives. My name is Michael Wroblewski, and I act as the advocacy coordinator for the Federal Trade Commission. We welcome you all here this afternoon.

Co-moderating the panel with me this afternoon will be my colleagues in the policy planning office at the FTC. Hillary Greene to my left, and R. Bhaskar to my right.

I would like to first introduce the 12 fine panelists that we have assembled here this afternoon. Starting from my right, at the far end of the table, is Mr. Alex Mashinsky. He's the founder and chief solution provider of Arbinet, which is a global marketplace for telecommunications bandwidth.

Next to him coming towards me is Harpal Sandhu, president and CEO of Integral Development Corp., which founded CFOweb.com, an e-commerce portal for capital markets.

On his left is Timothy Cooney. He's the cofounder, director and president of Ventures4Sale.Com, an interactive marketplace for buyers and sellers of businesses.

To his left is Nailesh Bhatt. Mr. Bhatt is the founder and director of BulkDrugs.com, a business-to-business marketplace for the pharmaceutical industry.

Mike Sullivan is next. He's the co-founder and chief operating officer of HotOfftheWire.com, which is a B2B marketplace that brings together manufacturers of consumer hardware and houseware goods with small and medium-sized retail buyers.

To my immediate or second to the right here is Mr. Dwayne Spradlin. He's vice president of corporate development for VerticalNet.com. VerticalNet.com operates 56 vertical trading communities on the Internet.

The next two panelists on my left are going today to be representing the view points of third party service providers. Mr. Hal Loevy is vice president of global marketing for SGSonsite.com, which provides verification, testing and certification services to third parties.

To his left is Mr. Charles Libicki. Mr. Libicki is coprincipal of Interface Logic Systems. ILS systems are used to manage data collection, weighing functions and automated device control in attended and unattended applications.

Next to Mr. Libicki are two company representatives that will be wearing their supplier hats this afternoon. Andy DuPont is director of electronic market channels for the Dow Chemical Company. This team is -- it's going to be a mistake

I'm going to make all afternoon -- this team is leading Dow in implementing a company strategy to use new electronic market channels that enabled by technology such as the Internet.

To his left is Jay Knoll, senior staff counsel for Detroit Diesel corporation, a manufacturer of heavy-duty diesel engines for the on-highway/off-highway and automotive markets.

And the final two panelists are our industry analysts. First we have Ms. Leah Knight, she's the research director for the GartnerGroup's B2B Internet marketplaces worldwide program. And hopefully joining us will be Chuck Phillips from Morgan Stanley Dean Witter, I'm sure he's having some problems with the parking that I hear is pretty terrible out there.

A couple of ground rules that we have. It's going to be very similar to the panel that we just had on Buyer Perspectives. It will follow the same ground rules. If a panelist would like to speak or make a comment or add a comment, please turn your name tent on its side and we'll recognize you.

Also, if you'll move closer to the microphone, some people had some problems listening to everybody in the previous panel, so if you'll move closer to the microphone so everybody can hear when you speak.

During this panel, we will attempt to cover seven topic areas that are of most importance and relevance to sellers. And as you will hear, they are very similar to the issues that we just discussed on the buyer's panel, but now we're going to hear them from the seller's perspective.

These seven topics include: The current uses of B2Bs by sellers, expected seller benefits, seller reservations about participating in these marketplaces, criteria for seller participation, internal workings of B2B marketplaces. The sixth issue is ownership issues, and then the last the role of intermediaries.

And because this panel is going to cover many of the same topics that were covered in the previous panel, if an audience member has a question, why don't you please just write them down, we're going to take a video break like we've done in each of the other panels, bring them up here and we'll try to work them in in the last hour or last 45 minutes of the discussion.

Also, I notice there are about 15 people up against the wall in the back there. There are a variety of seats all the way in the front and over to the right and to the left. Why don't you come on down and -- well, the price is right, whatever. Okay. Why don't we get going.

The first set of questions that we're going to start talking with or talking about are how sellers are using B2B marketplaces today and what their future uses will be. I'll turn this part of the discussion over to my colleague, R. Bhaskar.

MR. BHASKAR: Thank you, Michael. Let me -- as Michael said, I'll be -- we want to focus on electronic marketplaces and the kinds of products that are there, specifically I'm interested in the factors that affect the choice between goods and services for sale through different mechanisms, catalogs, auctions, dynamic pricing, exchanges, what have you. And the question is whether sellers of different goods are somehow affected differently by these marketplaces.

So, let me turn to Dwayne Spradlin of VerticalNet for your comments.

MR. SPRADLIN: Yeah, there seem to be -- there do seem to be adoption by different types of products and services, a difference in the adoption rate. Certainly, finished goods, products that are effectively easy to understand by the buyer community, where product information is easily describable, those seem to be adopted earlier.

Complex kinds of services, less tangible kinds of products which are much more difficult to describe, much more difficult to sort of independently or in a disconnected way sort of verify the quality of the product or the service, those aren't being adopted nearly as quickly, and even technologies like RFP, RFQ, which would effectively allow the description of complex kinds of services, those are a little bit slower to be adopted as well.

MR. BHASKAR: Well, let me then turn to somebody at the other end of the aisle, Alex Mashinsky of Arbinet.

MR. MASHINSKY: Well, in Arbinet we trade bandwidth, or we allow our customers to trade band width, and we have a unique perspective, most of our sellers have owned their customers for over 100 years.

So, for example, one of the Japanese phone companies that is selling on our exchange has a head of monopoly in the country, so they own 100 percent of the traffic coming in and out of that country, and they have to totally adjust to a new deregulated environment.

So, there's a lot of attraction, for example, for them to be able to come to our markets and -- come to the U.S. market and very easily access U.S. customers, but at the same time they're very careful about giving access to others to the Japanese markets. So, there's a lot of learning, and I think everybody -- we've been at it since '96, and a lot of people are taking very cautious steps in entering this market. So, we think we're still at the learning phase.

MR. BHASKAR: Nailesh Bhatt, you seem to be exactly in the middle between these two firms. Can you tell us about this a bit, please.

MR. BHATT: Yes. The pharmaceutical industry is quite unique. You've got FDA, you've got international regulations, and just to give you a perspective on what the costs are for suppliers, to make a face-to-face sales call for a supplier, it costs on average $575 to -- for example, let's take BASF, they sell a commodity to Johnson & Johnson. To go to Johnson & Johnson, introduce the product, talk about the specifications, it is expensive, it is inefficient.

So, at the same time, they've got long-term relationships. There are complex specifications. And what this means is that pharmaceutical industry and the chemical industry is evaluating this from many different angles. How can we use this to eliminate the inefficiencies of the transactions? How can we use this medium, electronic marketplaces, to further enhance our relationships between suppliers and buyers. And to do that, it's not just auctions, and we heard in the panel before, auctions and RFQ and RFP. For pharmaceutical industry, information is the key. So, value-added services is where the pharmaceutical industry, buyers and suppliers, are looking to use the electronic marketplaces.

For example, supplier information. Is this supplier really a manufacturer, or he's just a distributor. For example, is he GMP certified, ISO 9000-ii certified? What kind of product liability insurance does he have. So, pharmaceutical industry, especially the suppliers, are looking at it from many different angles, and so are the buyers.

MR. BHASKAR: Let me turn to this side of the aisle now. Andy DuPont of Dow, could you tell us what you think?

MR. DuPONT: Yes, thank you very much. Dow, of course, as already mentioned, is a global supplier of chemicals and plastics. And you ask, you know, how do we decide which of these various mechanisms we can use. Well, actually, the first or the leading way of determining that is what the customer wants. You find out where the customer wants to buy from you, and usually that involves the most efficient way and the most convenient way, and the highest value way for them, and then you follow your customer to that location.

Dow has had an e-commerce program in place for a good, long time. If you go back and consider the EDI, as we talked earlier, mechanisms, and we have been, you know, looking at how to leverage various tools, and now these tools and the usage of these tools is proliferating because of technologies like the Internet technology.

We start by looking at how can we link -- and this hasn't been discussed much in the panel -- and that is direct linkages, for e-commerce directly between a supplier and a customer, and that's the number one thing that we're doing to drive efficiency in the way that we -- as Nailesh was just mentioning, $350 for a face selling, well you want to try and get that more cost effective.

So, that's the first way. But there are lots of other tools, and things like auctions or exchanges are the neutral marketplace that Dow has recently announced in two areas, in plastics, and chemicals is another.

If you don't mind, I would like to spend just a minute to talk, as there was a lot of discussion in the last session about this neutral marketplace and what it is. Within Dow, and as you look at these two, one is called our nexus plastics neutral marketplace, and the chemicals one that's yet unnamed. The concept there is utilizing the benefits of ERP innovation, okay, to drive out all of these costs associated with a huge amount of information. And today we talked about it through the entire supply chain, and all of the different processes that you go through, whether it's order entry, whether it's billing, whether it's tech service, whether it's data sheets about your products, there's just a huge amount of information that exchanges.

So, what we really want to find is a way to connect within the industry to do that a lot more efficiently. To do that, though, is very expensive. And that's one of the reasons that you see the supplier-led consortia coming together to build these very complex, but also very efficient, marketplaces.

But the key thing that wasn't mentioned is that in that marketplace, what you're trying to do is drive out those inefficiencies, but enable the traditional supplier to customer relationship that you've had, wherein the negotiation, the business that you actually conduct and the products that you sell, the volumes that you sell, the conditions under which you sell them, are private, between supplier and seller. It is not a completely open public display of what goes on there.

I mean, the information is very much secure between supplier and customer, but you've driven out the cost in doing it and you've also provided a lot of efficiency and a lot of convenience to the customer. And in recognizing the customers want that, and that is the reason that we headed in that direction in this particular instance.

MR. BHASKAR: Leah Knight, from your position as an observer, do the goods matter?

MS. KNIGHT: Sure. In following from Andy's comment that it's really driven by what the customer wants, I would say that suppliers and marketplaces are oftentimes very much driven by what the buyer requirements or requests are.

And you can look at it in the form of five different types of corporate procurement. The first is what Gartner calls white collar MRO, which is basically any types of indirect goods that are used in an office. It could be office supplies, janitorial services, and so forth. The second, what we call blue collar MRO, again indirect products, but that are used in a factory, ranging from like gloves, pipes and valves, all the way to the components that are put into the capital assets. The third type is direct commodities. Fourth, direct strategic assemblies, and then fifth is capital equipment.

Well, the initial sweet spot of marketplaces has really been in the area of white collar MRO, and in commodities, direct commodities, and in the blue collar MRO that are commodity-like.

Now, and why is that? You know essentially for white collar MRO, enterprises are just paving the cowpath when they're using a marketplace, rather than order through a paper catalog, though, they can gain great efficiencies by ordering through electronic catalogs, which are housed on a marketplace.

MR. BHASKAR: Let me now turn to our neutral marketplace, Charles Libicki. Do the goods matter to you?

MR. LIBICKI: Well, what we see in among bulk suppliers is initially a very -- some reticence in getting on board with getting online. Part of it, if you have a bulk supply, where the transportation costs are a large fraction of the cost, then many deals tend to be local, anyway, and the bulk suppliers, especially if the suppliers are small, with respect to the customers, tend to feel beat up, or the potential to be beat up in exchanges. And so they have a certain psychological dependance where on the mechanics of the person-to-person trade anyway.

And when you -- and if you get into larger distances, then the issue of trust -- as was brought up in the MetalSite discussion -- the issue of trust tends loom very large.

MR. BHASKAR: Let me turn back to my right, Michael Sullivan, HotOfftheWire, can you tell us what you think?

MR. SULLIVAN: Sure, the marketware and the consumer goods industry is a highly fragmented one, and you start off in the top strata with the big bucks, retailers, and it drops pretty much in free fall until you reach small and midsize retail.

And the compelling point for the suppliers on joining a neutral exchange like ours is that they've essentially walked away from small and midsize retail in many cases due to the need to service the big bucks retailers, hammer their operating costs and thus not able to support a sales staff to call on small and midsize retail.

So, the first compelling reason to join a neutral market like ours is for topline reasons, and that is increasing their distribution to the 260,000-odd small and midsize retail stores and chains throughout the U.S. And secondly, to Andy's point, leveraging the web technologies and ERP technologies out there to integrate into their back ends and improve their bottom lines.

MR. BHASKAR: Harpal Sandhu, could I ask you the same thing.

MR. SANDHU: Thank you. First of all, let me just explain a little bit about where CFOweb is coming from from this perspective, although this is a seller side perspective in this panel. CFOweb technically speaking is a neutral e-commerce platform that represents sellers, but is, in essence, an advocate for the buyers in the platform.

We are a mechanism by which buyers can actually look at an aggregated set of multiple financial products, foreign exchange derivative products, money markets and so on, and also see them from multiple banks simultaneously in a reverse auction process, and then in conjunction with transacting those products, actually manage the post transaction life cycle.

So, clearly there's a compelling argument for buyers to come there, but I think the comments that I want to make are sort of from a vantage point of capital markets, where I think we have the luxury of a little bit of hindsight, given that capital markets, in a way, are the largest B2B market and have existed for sort of a much longer time.

I mean, just to give you some anecdotal evidence, the foreign exchange market, which is one of many products we trade in, transacts well over a trillion dollars of movement of real product every day.

So, when we talk about a $6 trillion B2B market in two or three years, there's a trillion dollars of foreign exchange traded every single day, and roughly $70 trillion of rather arcane products known as currency derivatives.

So, in fact, this is quite a liquid market in any case. But the reason that it is the way it is, is because the marketplace itself has pushed these products towards standardization. And the other thing that's very, very important is that the market has evolved to a state where it's essentially what's called a secondary market. Everybody is selling and buying used products.

So, for example, when you buy or sell a bond from a bank, the bank didn't issue the bond, the U.S. Government issued the bond, it's now used, and it's called a secondary market. And what's very important about capital markets, and we believe this is the way that all markets will eventually go, is that you can both buy and sell products, whereas a lot of the B2B exchanges that we're talking about here are essentially unilateral, a seller produces a product and pushes it through a chain.

And this is sort of the point that I want to get at. In essence, we're seeing a lot of these things that are talked about here today as representations or manifestations of what the respective companies happen to have to offer. And we would actually take the position that it's a relative coincidence that supply chain enterprise software companies call themselves B2B e-commerce infrastructure companies is because that's what they had to sell.

So, it's the best thing to go and apply to this new world of the Internet and so on. And virtually everybody is coming at this space from their historical strength and trying to represent how they are actually B2B e-commerce in some way or another.

So, it's really important to discount and distill out what's really the tangible things that are relevant for this conversation based on the perspectives that people are coming at. And so I'll just get to the punchline about what products we'll actually trade. Fundamentally, every participant is motivated by either fear or greed. That's it.

Buyers like these auction mechanisms, in particular reverse auctions, for greed. They get a lower price. We saw an example this morning, where Free Markets showed us an extremely graphical model of where a buyer of a product had cut out upwards of 40 or 50 percent of the cost of the product within a matter of hours, and that's purely greed motivated. The suppliers participate in these exchanges, primarily, out of fear. If they don't, somebody else will take their customer.

And this issue of the ERP supply chain management and the processing of all this versus the transparency mechanism that FreeMarkets was talking about this morning about changing the price or the price discovery process, are completely independent issues.

And although one may be related to costs of the supplier and are used as a so-called benefit from the ERP vendors' perspective, it's completely independent of what I think the issue is that in our perspective, the Federal Trade Commission should be looking at and so on, which is the price discovery process and protecting the consumers and establishing policies that essentially help out the consumer so that suppliers cannot set up infrastructures and mechanisms that the price discovery process is somehow retarded.

So, in answering your question, products that can do -- products that are standardized, mature, that people can get transparency to, will move to B2B e-markets very quickly. Products that either because they are too complex for that, or are what you guys call customized products, or products that the supply side somehow prohibits the transparency so they can move into this, or prohibits the liquidity, will have a retarded growth into this. But fundamentally they'll all move there, it's just a matter of time.

MR. BHASKAR: Alex Mashinsky?

MR. MASHINSKY: Yeah, I agree 100 percent with the previous statement. I just wanted to add to that that we are actually creating a commoditization of bandwidth -- in the bandwidth industry. So, a product that used to be was not standardized, is now being standardized. And actually over 60 percent of our members are both buyers and sellers, because they all have something to buy and something to sell.

And to add to what Leah was saying, there's essentially enough players in this market to create an environment where if you're a producer of band width, for example, if you're a long distance carrier and you have fiber in the ground, every second you generate, let's say, whatever ten gigabits worth of capacity, if you haven't sold it, whatever you haven't sold depreciates to zero. So, you have a very high pressure to go and convert or monetize that unused capacity.

So, if you're running at, you know, the average in our industry, we're running at 20 something percent utilization, so only 20 percent of what we produce is actually being sold to customers. So, there's that 80 percent of unutilized capacity that you can actually monetize if you go to an exchange and you find a buyer there.

So, there's very high pressure from the people who are trading on our exchange to basically participate.

MR. BHASKAR: Dwayne?

MR. SPRADLIN: One of the things that we've seen is that the notion of a good or a product, we've almost had to sort of change our thinking in that regard. We almost look at a good or a product now in terms of being a synthetic. I mean, there are all kinds of things available for sale and for purchase on the Internet and, you know, the volumes aren't necessarily as high or as impressive yet across all markets as our friends from GartnerGroup and Forrester and everybody else would hope, and I think that the reason for that is it's all too easy on our side of the fence to think about these things in terms of simple products, simple services.

The reality is sitting behind these are all the things that the folks involved in business design and operations in the bricks and mortar side of the world have known for years, and that is that these are, in fact, very, very complicated things.

When we think of products and services now, we think about them being essentially synthetics that include financing services, insurance, all of the financing kinds of capabilities in the back end that can run the gamut from -- run the gamut from working with insurance companies and securities agencies and so forth, through transportation and logistics and all of those kinds of complexities.

And I think one of the things that's probably very important is that when we talk about, you know, how -- does the good or the product make a difference. It absolutely makes a difference, but it needs to be looked at through the lens of is there enough business infrastructure and supporting infrastructure in place for that to essentially be a viable product offering. And we've talked about trust in the prior sessions. That's really the tip of the iceberg.

A lot of what needs to be done for these to be legitimate products and services and to really sort of move and have the impact of the market they could, is the blending of all of the knowledge, collective knowledge in the bricks and mortar side of the world into these products and services, and then the effective machines and the greasing of the skid, so to speak, could take place. But in a lot of ways, the industry has looked too simplistically at what goods and -- at what products and services are.

MR. WROBLEWSKI: Okay, why don't we move on over to our second group of questions, and we've really started talking about these already in terms of what are the benefits on behalf of sellers for joining these types of marketplaces.

MS. GREENE: Right. I wanted to focus in on what the benefits are. We could call them the savings, the efficiencies, and the thing that I like about this issue is that it proliferates everything else, because it really explains in the end why we're here. We're hoping to get something out of it. And from the seller's distinct perspective, what is that? I mean, we have the general notion of transaction costs are saved through these marketplaces, or anticipated savings. What exactly does that mean, and what form do they take? And, Hal, why don't we start with you.

MR. LOEVY: Yeah. Certainly, as has been said before, major sources of expected savings are coming from the reduced administrative costs. One could say the administrative cost of a paper transaction could be $100 and that could be reduced down to $10, or even less, quite easily. And you couple that administrative efficiency with the links to back office, ERP systems and the ability to track and trace orders, there's a lot of opportunity for efficiency.

I think you can also translate the expected savings into increased customer base. So, you've got in particular small and medium-sized enterprises which will now have the opportunity to engage in trades and transactions that they never would have even considered an efficient transaction to engage in, they now will have the opportunity to do so.

So, that sort of raises the big promise of B2B, and as we all know, there's a lot of business that has transacted with SMEs, but that raises other issues as well.

You take, for example, a small chemical producer sitting in the midwest, and maybe his scope of sale today is not beyond the midwest, but he's got a very good quality of product. And he wants to go online. And there's a purchaser in Europe, and perhaps that my colleague from Dallas also got product on the site. Well, Dallas got a brand recognition which is going to carry across and bring trust and some recognition to that buyer in Europe, but the same buyer is going to say to the seller, in Ohio, if he is, well, who is this Jay Smith & Sons Company anyway. So, again, it does raise the issue of trust and the need for recognition, and that's going to be a critical factor in bringing sellers into the marketplace.

MS. GREENE: Okay, Jay?

MR. WROBLEWSKI: Jay, before you start, I would like to welcome Chuck Phillips. Thank you very much, I hope it wasn't too much of a struggle to get here.

MR. KNOLL: In the last panel I sat in I told you why product differentiation wouldn't work for sellers when I'm a buyer, now I'm going to tell you why it works with me as a seller.

When I look at the exchanges, there's a

couple of things I've seen, and one of the most important things for us, and why we may consider participating in an exchange is a reduction of the transaction costs. I can't tell you exactly what they are, but I know that it costs us an awful lot to approach our customers and to make the sales. I think, though, that another place that we miss on the transaction costs is the continuing customer support, the information transactions.

We have a, as I said in the prior panel, a highly engineered product that you have a service requirement on a continuing basis with the customer. There's a cost associated with that for us, and the ability that the exchange is to provide to attack the market, that whether it be our end users or the OEMs to whom we sell, and to provide that information to them through a consolidated means is very valuable to us.

Now, we can certainly do that today through a single website, using our website as an information intermediary, the exchange, however, brings it -- it creates a bit of -- I don't want to say credibility, but a more focused approach to that by making it part of an entire value chain.

MS. GREENE: I'm a little confused in terms of how is it -- can you clarify the extent to which the more complex products will be served well through this type of --

MR. KNOLL: Well, as I was saying on the buyer side, I think it goes through with me as a seller, if there's a truck down in a remote location in North Dakota, let's say, it's not going to do that truck owner much good if I get him the part in three weeks. And this is going to address a question I know we're going to talk about later, which is the role of intermediaries.

I still might need my intermediaries to carry inventory in that location so that they can get that truck up in a -- very quickly. And if we look at what our distributors currently do, they hold, you know, on a first-time pass, 95 percent of their inventory as -- 95 first-pass hold. We don't -- in our company, I think we're at 92 percent at our central location. So, they're able to know their market, know the requirements better than we are because they're closer to the market.

Your question was more to how can we use that as a highly engineered product, and again, I think it goes back to a transaction cost rather than -- the cost of actually executing the transaction versus the cost that may be the reach.

I mean, for us, we know who our customers are pretty well. North America is a -- there's three heavy duty truck manufacturers who control most of the market, overseas, it's mostly vertically integrated. The customer, which is the trucker, is the one who pulls through the engine purchase. Typically it would be a specking process. But the more we can get our information out, and again, so using that type of model, you know, we're able to attack the market, and so I think it's more going to be from a transaction basis.

Even in our own supply chain, for example, for our distributors and dealers that we have, there's a cost associated with providing parts through that service -- through that supply chain. We're providing service -- warranty service, for example, through that supply chain. I see that a seller type exchange that we may have an interest in, would be a very valuable mechanism for us to help the customer who may be part of a different supply chain.

MS. GREENE: Interesting. Leah?

MS. KNIGHT: Sure, I would like to share an example from one of my supplier clients who has used marketplaces to essentially fill some of their greed instincts, as Harpal had referred to earlier.

This supplier is using marketplaces to actually create a richer product offering, exploiting essentially a build-to-order type of model where they use the superior software and communication capabilities of a marketplace to enable the original promise of e-commerce, which was mass customization.

And in this particular example, they're creating personalized Post-It notes and personalized pads of papers that they can make on a much smaller scale of quantity than ordinarily economies of scale would have required them to.

So, in that respect, to summarize, marketplaces let the economy of scale requirements give way to essentially a do-it-yourself sale kind of model.

MS. GREENE: That really casts doubt on the commoditization of products to the marketplace.

MS. KNIGHT: Oh, sure, in this case this supplier was using marketplaces to actually differentiate what they're doing.

MS. GREENE: Andy?

MR. DuPONT: Well, there are actually two issues here. I think that if you look at the value that -- or the savings that you have, it is very much dependant upon the solution that you're providing and the type of transaction that is being replaced as it goes from a traditional commerce activity to an e-enabled commerce activity.

As I mentioned we worked a lot with direct connection, it's already been mentioned by several of the panelists that ERP integration brings a tremendous amount of transaction efficiency. I 100 percent agree with that.

Some customers buy from relatively few suppliers and they're willing to do those ERP integration direct to a supplier, but some customers buy from many, many different suppliers, substantial quantities from every one, and they actually see benefits rather than linking individually to each, to going out to a neutral marketplace and doing that linkage at a hub.

Now, in that hub, that hub is focused on day-in/day-out contractual fulfillment, which represents -- I think it was even mentioned earlier this morning -- probably the vast majority of sales are still in that, you know, normal contractual fulfillment, whereas exchanges and auctions and those tools are more focused on spot materials or special materials, either excess or distressed goods or aged inventory, that sort of thing. So, it's a very different type of sale and a very different type of customer that would buy that.

The convenience that a customer would find in going to a neutral marketplace is the second issue here. It's not only cost, because you asked for what are the benefits. The benefits are certainly on the cost side, but also when they look at how do I do product selection, the ability to go into a neutral marketplace and have the broad breadth of products from multiple suppliers, in one location, have a chance to see those products and then enter into an immediate negotiation on the procurement of those products is very appealing to some customers.

So, that represents another very significant benefit to those marketplaces put forward.

MS. GREENE: Mr. Phillips?

MR. PHILLIPS: My apologies for being late, it's certainly flight problems, so perhaps when this panel is over we can start with the airline industry and grill them.

I'm here representing Morgan Stanley, and we've, I guess, worked on about 40 exchanges so far, some of which have been announced. The ones that have been announced involve about 81 companies with about $2.3 trillion in market cap right now, so it's some fairly large companies that we've been focused on.

And the driving forces we've seen on the supplier side of it is that many of them cannot really adequately serve small customers or they had no interest in it, one or the other, and so the ability to aggregate small customers in a central place and let them basically in a self-help model serve themselves. They can address customers they couldn't reach before now, and they may still fulfill that order through a local distributor and take advantage of existing fulfillment options, but they can give much better service to small customers.

Secondly, the cost of exception handling goes way down online. Online orders are much more accurate. Quantity, price, descriptions, all of these things are kind of things that people get wrong when they're doing it manually over the phone, and so 40 percent of the orders that are done manually have some sort of rework after the fact, and if you have that online where it's configured properly, priced properly, everyone can see what we agreed on, the exception handling costs go way down. So, I've found that a lot of the suppliers actually like that as another channel that they feel they're efficient.

And, lastly, some small suppliers really don't have a strong e-business strategy. They don't have the wherewithal to perform this on their own and they don't think they can build a world-class experience for their buyer, but they could leverage a public infrastructure from someone else to provide that, and be fairly competitive with their e-business strategy if they a public exchange.

MS. GREENE: Mr. Cooney?

MR. COONEY: Hi, I'm from Ventures4Sale.Com and I just want to follow on Andy's point on some of the values for sellers. We are sort of a little bit different from some of the other companies here. We're not actually selling products, we are businesses actually selling the whole businesses themselves.

Ventures4Sale.Com is a marketplace on the Internet for buyers and sellers of businesses themselves. In the offline world, it's a very fragmented, inefficient marketplace. If one wants to sell their business, or look for a business to buy, they place ads in the newspapers, which are pretty costly, and are only seen locally. If they want confidentiality, they have to use a P.O. box. With our website, what we're doing is we're obviously creating efficiency and cost savings, because for a lot bigger than an ad in the paper, you get a full-page description if you're a seller, but also you get confidentiality, you can list the business anonymously, you can look for a business, if you're a buyer, anonymously. So, that's just another value is the anonymous aspect.

MS. GREENE: Mr. Mashinsky?

MR. MASHINSKY: Yeah, just to add. I recently was in a conference on the panel and we were talking about the costs of transaction. I think Harpal here has mentioned the currency, and we had the guy who was doing currency trading and we asked him, so, what does it take, what does it cost to move a million dollars worth of currency from county A to country B, and he said about three cents. That's the cost of the transaction.

And we had another guy from one of the carriers and we asked him, well, what does it take you to contract and deliver a million dollars worth of band width,and he said, well, it's anywhere from $9,000 to $50,000, it depends on how much golf we play and how many events in Hawaii we go to and so on, so on.

So, when we're talking about benefits to buyers, or I'm sorry, benefits to sellers, there's always that balance of what are you giving, and in the case of -- and I'm serious, in the case in our industry, it's very difficult to go to these guys that are selling the stuff every day and convince them that moving to an exchange but they will have to give up the golf outlets and the Hawaii trips.

But just on a serious note, just to add some of the other benefits, obviously with this transaction cost, increased utilization, which I mentioned before, ability to enter new markets, which is critical, because again, Internet is a ubiquitous international medium, undercut competitor's pricing through basically anonymous transactions.

So, our exchange is totally anonymous. So, you can come in and basically decide that you would like to undercut the price to a certain destination, at a certain time of day, in a certain week of the year. For example, Mother's Day. While you know you have a competitive advantage because you have the largest network or anything like that, so there's a lot of unique issues. If you have a dynamic network, a dynamic system that can handle that, it could become very important.

Knowing the exact pricing information, that's critical. I mean, in the financial markets, we take it for granted, you can go and get a quote at any time, anywhere, but price discovery in our industry in telecommunications is very, very difficult. You've got to be an expert, you've got to have all the right connections, you've got to make 50 phone calls to figure out what Jamaica is selling for right now. So, there's a lot of issues there.

Also, for planning purposes, you have to be able to create what we call a forward curve, which again exists in financial markets, does not exist in the band width markets, and it's a critical issue if you're a Global Crossing and you want to lay fiber, you know, to Asia, that project would cost you $4 billion, it would be very helpful if you could see what the price of band width is expected to be six months from now, a year from now, based on where the forwards are trading.

And then there is the last point, which is price segmentation, where in our industry, there's different levels of quality, and what happens today is that the guy with the lowest price is driving everybody to kind of play at the same level field, but what you have in -- again in an anonymous exchange, is the ability to segment the prices because the guy with the lowest quality will not always get the bid, will not always get the contract.

MS. GREENE: Thank you. Mr. Bhatt?

MR. BHATT: Thank you. I think when you look at the benefits to the suppliers, you really have to look at what is the industry. I mean, you read the reports, suppliers are going to get more sales, from Gartner or Morgan Stanley Dean Witter, but, I mean, I can ask Dow Chemical how much increase in sales participating in marketplaces or creating a new website has brought them. So, we really have to see what industry we're talking about. For the pharmaceutical and chemical industries, there are few value propositions.

Number one is for suppliers that are not the size of Dow Chemical, it's the global reach and global branding. And you don't have to spend $10,000 to place a full-page ad in Chemical Week Magazine. So, that's number one.

Number two is the higher customer service. For example, if you look at the lifestyle -- excuse me, life cycle of a purchase order, when you buy a chemical, there are associated documents that go with it. For example, certificate of analysis, material safety data sheets, EPA, OSHA regulation documents. If any of these documents are missing, and the product arrives, let's say, at Johnson & Johnson at their dock, they will not be allowed to take that product and put it in their warehouse without those documentation.

So, what happens is, let's picture this, there's a guy sitting at the dock, he calls up the purchasing agent saying I've got this product, a drum from Dow Chemical, and it doesn't have one, two, three document.

So, the purchasing agent, hopefully he's there, so he picks up this call and then he calls the salesperson at Dow Chemical. Obviously the salesperson at Dow Chemical is responsible for one thing, making more sales.

So, he's not in the office. So, what

happens? There is a voice mail. That voice mail sits there, in the case of Dow Chemical, they are known for excellent customer service, so, you know, what I'm trying to say is that when we talk to pharmaceutical companies, just the documentation alone, a good, good cycle for them is seven days, to get those documentation.

So, these marketplaces allows -- allow better customer service. And obviously, the transaction cost. Again, I want to focus that pharmaceutical and chemical industries face-to-face sales call is about $575. Our third dealer did a study on this and they said if that product were available on a marketplace, it goes down to about $10.

So, these are the three sort of big value propositions for the pharmaceutical and chemical industries.

MR. WROBLEWSKI: Thank you. What I would like to do is switch gears real quick, and we've been talking about the benefits, and I would like to turn to talk about what the reservations are about sellers participating in these marketplaces.

Listening to the panel before, two themes seemed to emerge. One was privacy, and one was what we've talked about kind of generally has been commoditization of a product. Some industries think it's good, some think it's bad. I would like to focus on those two issues, and then we'll take our video break in about 12 minutes or so, so if we can do that before we change -- we stand up for a seventh inning stretch.

Harpal, would you like to start? You had your name tag turned earlier.

MR. SANDHU: Okay. Well, I actually wanted to respond to Alex's observation of the lower cost that it was to transmit a million dollars of foreign exchange. I think that may actually be more related to the fact that the band width guys can get away with charging $50,000 to send band width, rather than that being the actual cost. It may be an issue of the market rather than the transaction, or rather than the transmission.

MR. MASHINSKY: Yeah, it's both.

MR. SANDHU: In terms of the seller's perspective, I guess you're asking me about the potential negative impacts. First of all, one of the things I wanted to just observe in a lot of the things that are being brought up about the efficiencies that are potentially created for the sellers. It, in essence, all revolves around some notion of outsourcing, something that the sellers receive as not a core competency of theirs.

So, for example, if the direct sales process is too expensive, outsource it to some other distribution vehicle that is much more cost efficient.

So, in some ways, B2B e-marketplaces in a way are nothing more than outsourcing or adding on another channel of distribution. So, that could be perceived as a positive thing. It has a really interesting impact, and that has to do with, again, it comes back to transparency.

If you use an open and transparent mechanism to distribute your product, a lot of the things that you wanted to hide about your product, and it may be the fact that it is already commoditized or it is already standardized, but you tried to give it a neat trade name or you tried to say it had this extra bell and whistle to it, or you tried to do something to differentiate it to potentially literally confuse the customer into thinking it was somehow better, so therefore you should pay a premium price for it. A lot of those things go away when you increase transparency.

So, the biggest risk that the sellers run is that their products are forced, literally, to be on stage next to everyone else's product, and the customer now knows what it is and what it isn't. And it's a big issue for them.

In fact, what will happen, and what we have seen happen, in most other marketplaces that mature through this, is that the buyers then begin to demand that, in fact, the products are represented in standardized ways, in apples to apples ways, because they insist that they be able to compare them.

And, in fact, that's why markets that start to mature like this, that move towards efficiency force standardization and force commoditization on these products.

Now, even in the point that I think, is it Leah, that that brought up about the customized Post-It note. Our observation would be that, in fact, the Post-It note was completely commoditized. The differentiation that was created was a differentiation in service associated with the delivery of the Post-It note. So, the fact that the customer could say, well, it's a Post-It note, I can buy it from 10 different providers and it's still a

Post-It note. I don't need to be educated why provider number 10 has something special of this paper with sticky stuff on the back. It's a Post-It note.

Now, provider number 10 happens to be saying, but we can do something special with it and it's an added service that we have. So, what we would say is sellers still can clearly differentiate themselves. They still can create value. They still can carry very powerful branding through the process, but the products themselves will be commoditized and margin compression will take place.

MR. WROBLEWSKI: Thank you. Jay, do you think that the same thing holds in your industry as a seller of diesel engines?

MR. KNOLL: I would like to say absolutely not, but I don't think I can.

MR. WROBLEWSKI: Will you move a little bit closer to the microphone, too? Thanks.

MR. KNOLL: I would like to say absolutely not, but I don't think I can. About 15 years ago there was a sea change in our industry led by our company. It was really a technological disruption, and that was great, because it allowed us to differentiate our product, but the fact of the matter is that our competitors have caught up in a lot of respects, although I'd like to believe that ours is, you know, far superior to theirs.

We have other factors operating in our industry that beyond e-commerce things such as emissions controls and noise regulations, government regulations, are forcing us into certain technologies that are very similar to our competitors, so it's becoming more and more difficult to differentiate our product based on outside factors, not just e-commerce.

But at the same time, we need to think about B2B exchanges, though, and we hear about multifaceted RFQ processes where you have 200, I think, individual factors. That to me is pretty scary, because we are getting closer and closer to commoditizing our product.

Secondly, one of the things we talked about in the prior panel is, you know, where do you participate on what type of exchanges. As a seller do you participate. What I like to use is the word -- it's benign coercion. We have a variety of customers, and if we're going to be seen as partners to those customers, and I think that's very critical, because I think they're looking for us to be partners, we're going to have to participate in all these -- you know, in a variety of exchanges.

And going to Leah's and Harpal's point, the -- I think where we have to differentiate ourselves in the future is going to be on customer service, and that's what I was trying to get at before when I was talking about information transactions and how we can do that better with our ultimate customer.

MR. WROBLEWSKI: Okay, thank you. Chuck?

MR. PHILLIPS: As you can imagine, we've had this discussion many, many times in each industry, and we have -- each industry group has anywhere from 75 to sometimes 400 people focusing just on a single industry and meeting with key companies in those industries to try to come up with some of these answers and this question comes up repeatedly, but I think at the end of the day what all of them came to independently and what seems to make some sense is that any strategy of a supplier that is contingent on the buyer not having information about market conditions is a flawed strategy to begin with. And if you can't count on that existing, especially in the age of information, people are going to have more information about market conditions and they are going to get it one way or the other, even if it's just off websites.

So, some of this was going to happen anyway, but what we've seen by examining some of the actual purchase data through some of the initial exchanges and auction sites that we've helped finance is that the low bidder doesn't always win, they do respect things like availability and the ability to fulfill quickly branding and reputation, so there are other areas.

But the other extreme is to take the Dell approach and assume, yes, their products are going to be more commoditized and more common for some of the components, so I'm not going to manufacture anything, but I'm going to have superior execution, superior customer service and innovate and see what the next trend is.

And so there are other dimensions, I guess, of the competition, but on the core product itself, in some areas, if it's a commodity-like product, yes, that could happen, but that was likely to happen anyway.

MR. WROBLEWSKI: Okay, thank you. Hal?

MR. LOEVY: Yeah, maybe if I take a little international spin on that.

MR. WROBLEWSKI: Sure, that would be great.

MR. LOEVY: You know, we have a very, very horizontal perspective and we're out there talking to several hundred marketplaces that really span the globe, and what we find overseas for suppliers or sellers that are looking to sell product, for example, into the United States, is a lot of enthusiasm to get into the market, to sell their goods. They understand, they've been told what the benefits are, what they can expect to receive, but a lot of the attitude is sort of wait and see.

And certainly there are costs associated to get into a marketplace, or in memberships, there are transaction fees, oftentimes at the top of the transaction, and whilst the seller may understand that the benefits should far outweigh those costs, there is still a bit of a wait and see attitude.

And, I think what some of the B2B exchanges are doing to address those concerns of suppliers in terms of do I get into it or not, sort of follows what I would break down as being the six steps of how a transaction occurs. And how that's evolving through the business of B2B marketplaces.

I mean, you start with the discovery process, and that's where many marketplaces started, just joining buyers and sellers together, and then you're moving into negotiation and finally the placement of an order. And until at least some months ago, that's pretty much where the online transaction stopped, and everything else came offline.

And what exchanges are now heading towards are to bring in the next three steps, and those are the fulfillment, which includes the logistics, the delivery, the compliance. In other words, are the goods really going to be what I'm paying for and what I ordered, and finally the financial settlement.

So, it's bringing in through value-added service providers or third parties those additional components which are going to give the added momentum to suppliers to join marketplaces. In addition to the fact that many of these suppliers outside don't have the infrastructure, don't have the critical mass for those value-added components, and bringing those into sort of a one-stop shop is going to be really good to alleviate their issues.

Thank you.

MR. WROBLEWSKI: Charles, if you can, if you can address the privacy issues that we were talking about earlier, I know we're switching a little bit here, but I would like to get those in before we break.

MR. LIBICKI: Where the sellers would reveal?

MR. WROBLEWSKI: Well, the concern, I guess the concern is this morning or this afternoon we heard about what was preventing buyers from participating in markets, and one of the issues that they brought up was, you know, it's the privacy of their data, their orders that they were placing online. Is there -- is the phenomenon the same way from the seller's point of view the up -- you know, in terms of what you're selling, what your prices are, to your competitors?

MR. LIBICKI: Well, many commodity markets with big customers, there will be a best price agreement, and then if you are required to post your prices in an open exchange, then it will be become obvious that what you're offering is not your best price. Sometimes a supplier will try to circumvent this by doing, like, backdoor rebates, but even that, if you have to expose everything, that becomes a -- that becomes -- I suppose it's greater honesty in the end, but it is something that sellers would be reluctant to get into.

MR. WROBLEWSKI: Okay. Thank you. Nailesh?

MR. BHATT: Yeah. As far as reservations go, I mean from what we've seen in the industry, this is something new. They're still trying to understand what it all means.

For the larger suppliers like Dow and BASF, they have made a great deal of progress because either they have the funding or they have the vision. Smaller suppliers are still waiting and seeing.

The bigger suppliers are worried about commoditizing their products, and what they forget is that buyers are not looking for the cheapest product. Johnson & Johnson cares that the supplier is certified, is FDA-certified, GMP-certified, and at the end of the day, is going to provide you a quality product and quality service.

The smaller players are also afraid of big players pushing them out of the market by creating these consortiums. When we talk to smaller suppliers in the U.S. as well as abroad, they say who owns your marketplace, does Dow, BASF, ISP, do they all own that, because if they do, we don't want to participate, because they will have access to my data, or they will always bid me out.

So, this is a big concern. And that is why when we go into a small or medium-sized supplier, the first thing we say to them is BulkDrugs.com is a neutral B2B e-commerce marketplace for the pharmaceutical industry.

MR. WROBLEWSKI: Let's hold those thoughts real quick because we're going to talk about ownership a little bit later.

Dwayne, do you have something in terms of the reservation?

MR. SPRADLIN: Yeah, I just wanted to throw out there, I don't know that there's as much hesitation to join these networks as people may think. I mean, we've had almost 5,500 new suppliers come up on our websites in the last 75 days. Which we think is almost unprecedented. And we basically, you know, we basically think that to try to structure the kinds of products we offer suppliers to come up on our websites in as easy -- as an easy-to-access kind of way as possible, to sort of go after the kinds of product information that they've got easily translatable to the Internet and to the B2B space.

I would sort of suggest that a lot -- I mean, if there is substantial hesitation to join --

to join these exchanges, it's probably more around whether they've got the internal infrastructure, the internal data, you know, sort of configured and arranged in a way that is sort of conducive to going online. But what we have seen is tremendous adoption by supplies, particularly in the last several months.

MR. WROBLEWSKI: Thank you. Leah, I think you -- do you want to follow up on those points in terms of the costs?

MS. KNIGHT: Sure. Really the single most common reservation that's cited among suppliers in my client base is that they're concerned about the price squeeze that could occur, particularly as the buyer-led industry consortia drive greater and greater visibility into their costs of materials.

And, in fact, we can all expect to continue to see this happen, and it's happened quite a bit in one industry, where some of the major electronic equipment manufacturers, who shall remain unnamed, do have very good visibility into the costs of their supplier's components.

Now, what this drives is really a significant restructuring of the industry where suppliers of commodity and near commodity products, rather than being marketing and sales organizations, more and more become capacity managers. And that's where some of the concern comes from my client base is that they don't have the internal decision-making capabilities automated or integrated.

So that if some of their major customers came to them with a requirement to engage in a price downward auction, it would cause tremendous fear, and they are afraid of that right now, because it requires them to know or to be able to calculate very quickly, their walk-away price. And sometimes this information, the supply chain management, their costs of materials are stored on disparate spreadsheets, you know, sometimes even on Post-It notes on someone's desk. And so that's their cause for concern.

MR. WROBLEWSKI: Okay. Thank you, and the last comment we'll take is Andy and then we'll take the video break.

MR. DuPONT: Okay. This is easily linked in, I think, to a certain extent to the ownership issue, from the standpoint that the operational reliability of these marketplaces is a concern. You know, when you're moving very important business to an e-commerce site, you want to know and be sure that it's operationally reliable, that it's robust, that it's secure, so that when you're doing confidential transactions between supplier and seller, that you have no concern about, number one, that it is going to be able to be fulfilled, that people live up to their obligations in that marketplace, and that the data itself is collected in a manner that is appropriate and shared back to the users appropriately so that a supplier sees only his information, okay, and not some other supplier's information, and the same for the sellers.

So, we definitely have those issues, and that's why you'll see some companies wanting to jump into and make sure that when we put together these neutral marketplaces that they address those issues to the standards that people will be comfortable with.

MR. WROBLEWSKI: Okay, thank you, we're going to take about a minute and a half.

(Brief pause in the proceedings.)

MS. GREENE: Okay, welcome back, and so we're in the last session of the last panel, and the questions that we have actually are fitting in perfectly to things we wanted to address, and what's coming up next is a question of participation in electronic marketplaces.

Previously we heard the buyers discuss, you know, which ones they participated in and how they made that decision, so I would like to go through that calculus within the context of the sellers.

So, I would like someone to, you know, start me off by addressing how they decide which marketplace to participate in and more specifically how many to participate in and that type of thing. Yes?

MR. KNOLL: In a lot of respects, we don't decide which ones we're going to participate in, our customers do. The point we were just talking about, somebody on the buyer's side, and I apologize if I'm duplicating things already said.

We talked about a stack three feet high of MRO catalogs. It doesn't matter to me, as I'm putting on my buyer hat now, whether I have -- it's a stack three feet high of these catalogs or I have three pages of potential suppliers, I mean it's very difficult to decide amongst them.

The other thing is how many different sources do people need for pencils. So, but wearing my seller hat, it's going to be decided by my customers. We already have five-plus customers who are starting exchanges of their own, who are inviting us to participate, in which we will have to participate, again, I think I used the word before, it's benign coercion.

If we're going to be a partner with them, we're going to have to participate in those exchanges, and I see the number only multiplying.

MS. GREENE: What impact do the rules of the exchanges have on your willingness to participate? And this I want to throw out to everybody.

MR. KNOLL: Well, if we're talking about benign coercion, not a whole bunch. I think that the key factor there for us, is given the number of exchanges we necessarily have to participate is the interoperability of the exchanges. We have our ERP system, and I think as I said before, our greatest efficiencies are not going to be in the -- in the transparency or the pricing, for us as sellers especially, but it's going to be in the reduced transaction cost for us.

MS. GREENE: Okay. Alex?

MR. MASHINSKY: Yeah, I think buyers when we look at the exchanges for band width, I think far most they're looking for liquidity, because what they're looking for is aggregation of buyers.

So, they want to basically access easier, cheaper and quicker, as many buyers as possible. They're also looking for the financial strength, because in our case, we do handle the financial settlement, the -- all the issues related to clearing the transactions and reconciling the bills between the buyers and sellers and so on. They're also looking for neutrality and anonymity, because in our case that's important and valuable to the sellers.

MS. GREENE: Harpal, and as we're going around, if you all can also include the idea of exclusivity and the question.

MR. MASHINSKY: Maybe I can add to that.

MS. GREENE: Okay.

MR. MASHINSKY: We think we're the leading exchange as far as volume, and we require no exclusivity. The reason for that is that essentially we think that our -- both buyers and sellers get the best experience at our exchange, and if you have that -- if you're comfortable with that, you don't want to go and force your buyers and sellers to give you exclusivity. There's no need for that.

MR. SANDHU: I think the rules associated with the exchange, and actually we have a fair amount of experience with this, because we end up negotiating quite aggressively -- quite intimately with a number of suppliers from around the world.

They fall into two camps, quite frankly, they fall into a camp of rules associated with fairness, and then quite frankly rules that associate with unfairness, and in some cases, intentional unfairness.

On the fairness side, their concerns are that they be quite -- really just treated fairly, that they have open access to the exchange, that they're on a level playing field with the other supplying institutions, that if they do give a price and theirs is the best price, under whatever the mechanism is, that they are really able to fulfill the request and that somebody else maybe who doesn't have an unfair advantage to come in and beat their price or what's called price improvement, et cetera.

And then there's a whole litany of very interesting, what we would consider unfair rules, that they almost make as a requirement to participate in exchanges that they don't have the ability to just dictate those rules. So, those rules revolve around exclusivity, that if they're going to join, that other institutions not be able to join, or if they're going to join, particular sets of institutions are not able to join, and therefore they can have seemingly competitive institutions, but, in fact, institutions that really can't give competitive products for the markets they're in.

Everything from exclusivity issues to access to in our markets what we call market data and market data really is coming back to this privacy issue. And there's one thing I want to bring up on that, and that there really are two sides to this coin of privacy or data. And it's not just cut and dry that everything should be completely transparent. And if you show everyone everything, therefore buyers will be able to get sort of a nefarious playing field, because there is an issue associated with collusion and cooperation on the supply side that if they can see all the prices, there's some extremely advanced techniques of signaling, and various other things that go on, to make sure that nobody undercuts each other to get a price that's too low and we can all, you know, do pretty well.

And some of us have been personally

experienced in this in filling up our gas tanks lately, it's called a cartel. These are very, very well understood techniques and mechanisms and, in fact, it is the rules associated with these exchanges that will dictate exactly where the value is delivered, as to whether the incumbent controllers of supply of the product or to the consumers.

And in fact, even though it was discussed in the last session about the ownership and various other things, relatively few of these affiliate-owned exchanges, if you look at their long-term mandate, are designed for true capital gain, and you can even look at it just by their company structure, they're set up as partnerships, not as class C corporations that would go public.

So, as partnerships, they're not intended to go public. So, the capital gain isn't the incentive, it is ownership for purposes of controlling the rules, because in the rules, in essence, the rules, then, allow these exchanges to be an extension of their core business, which is margin.

And so there's a whole long list of them, but essentially the rules are the genetic code of these exchanges, and there is an extremely advanced science amongst the established leaders as to how those rules benefit them and not.

MS. GREENE: Mike?

MR. SULLIVAN: Well, I think that the criteria selection for suppliers, certainly, the exchange has to be neutral, they very much want to see an exchange operated as a switchellent -- not bias to the buyer, not bias to the supplier.

As far as exclusives, we don't sign exclusives, because the supplier understands that one of the key benefits to the buyer is having choices of brands on our site. If they don't give them the choices, there's not going to be liquidity for them and it won't be a win-win.

I think they want to understand that the management team and the people who are operating the business to business exchange have deep domain experience in that particular vertical, and they also want to ensure that the buyer has the ability to buy a breadth of products for his or her store. So, I think those are the key criteria.

MR. WROBLEWSKI: I just want to follow up on something that you said. Is that the case for an industry in which all of the suppliers are fragmented? What if you have the case in which the sellers or the suppliers are in a concentrated market? Would there be something -- would the incentive be different?

MR. SULLIVAN: Yeah, I can only speak from, you know, the consumer goods industry, which is a highly fragmented one, on both the supply and the buy side. But I believe for a more concentrated industry, the compelling selection criteria would be for integrating into the back-end systems to improve operating efficiencies.

MR. WROBLEWSKI: Okay. Thank you.

MS. GREENE: Charles?

MR. PHILLIPS: I guess I just have had a completely different experience than what Harpal described, but after looking at almost 40 of these, if anything, both the buyers and the suppliers were extremely adamant that no one see their data or see the transactions. So, they didn't want any sharing of transaction or even in some cases catalogs.

I mean, there were a lot of buyers who say I have certain suppliers who I think are proprietary to me, we have highly engineered products, negotiated prices, custom-built products, and I don't want those displayed in the marketplace.

And, so, the bulk of what I have seen has been basically private relationships that they want to move to a public infrastructure but still keep the relationship private. So, they all have the conversation over a public phone network, but they don't want anybody hearing the conversation.

And, so, a lot of the technologies that I've seen come down the pike and that are getting funded right now have to do a lot with that where people will introduce catalog technology that allow profiling segmentation, and so you can have segmented store fronts within a catalog that only portions of it are seen by certain buyers. So, it's all completely separated.

Most of the catalog items that are for display don't even have realtime availability on pricing, so you couldn't do all those trading techniques around it anyway if you wanted to, it's just a listing, kind of a semi static listing of prices for the most part.

So, the motivation for most of these exchanges does include a capital structure, all the ones that we form are separate legal entities that do contemplate going public. They have a separate board, they have a separate management team that they're in the process of hiring, a separate charter, and they are funding it.

So, it would look much like what you'll have in prior industries for bank processing systems, and clearing house systems where you have separate companies that serve an industry, and then there are indeed separate companies with some ownership from the companies in that industry.

So, I guess just my experience has been that the buyers and the suppliers are definitely afraid of anybody seeing anything else. They want these relationships to remain private with a portion of the marketplace public for people who want to do that, for suppliers who want to discover new buyers, and they want to publish a generic price for everyone to see. That may be a different price than they've negotiated for a supplier -- for a buyer, rather, that they have in a relationship with, but that's a small portion of what they do.

MS. GREENE: Andy?

MR. DuPONT: Thank you. There are just some very, very good comments being made by the panel here. I wanted to reinforce a few.

First of all, flexibility is required, I think as Jay said, because your customers determine many times where you go. So, you need the flexibility to move to different marketplaces, and therefore you can't be bound by exclusivity coming back, you know, to that issue.

So, you know, as I look at the marketplaces that I am familiar with, exclusivity is absolutely not a requirement. Now, at the same time, you can generate fragmentation of these marketplaces. As we already mentioned, 700 up and running now, will there be consolidation, probably, yes, but you may ask why was it that you saw 18 chemical companies and distributors in that area come together to form a neutral marketplace.

As you get fragmentation, you also lose a lot of the value that we talk about in getting the integration. Does that mean that there's only going to be one chemical exchange? Absolutely not. I mean, there are going to be multiple. But do I think there should be 100? No, because you probably will not get the efficiency that you need.

So, you know, how can a supplier-led exchange be neutral, right? I can -- I can refer back to last week when there was a national plastics exposition, we had Nexus, which was a supplier-led plastics neutral marketplace, but it was, you know, duPont, Dow, BASF, Ferro, Ticona, Celanese, and others have joined now, and yet they have quickly turned it into its own company, it's Omnexus, and the management of Omnexus is not from duPont, Dow, BASF, et cetera, it's an independent, you know, management that's running that.

And, so, yes, it's important for these to be neutral, but it's also important for them, you know, to have the right start in order to be -- to cover all the issues that we discussed earlier, on being robust, et cetera.

Another thing that's important to understand, at least in the ones that I'm familiar with, these marketplaces are not exclusive from membership, either, they are totally inclusive models. You know, any other supplier that wants to come in and be a supplier in that marketplace is -- can come in and be a supplier.

The people that start the marketplaces, what do they get for that? And some people would say what they get is the right to fund the building of the marketplace, which is very expensive. I mean, they're putting up, in many cases, you know, these multimillion dollars to build the marketplace. And yet the marketplace is intended for all suppliers and customers within that marketplace to use.

So, the point there is, is that I don't think that any of the suppliers in the marketplace I see went into them thinking that they wanted to get some sort of competitive advantage over other people. They just wanted to make sure that the opportunities for efficiency and cost reduction that come through efficient marketplaces were realized, and to make sure that they intervened or that they initiated that process in order to make that happen.

MS. GREENE: Hal?

MR. LOEVY: Yeah. Just once again to echo the panel in terms of exclusivity, and maybe just put a number on it from our point of view. If there are 700 marketplaces in the world today, we've talked to some 200, 250 of them, and I can only recall two or three cases where those marketplaces were requiring exclusivity. And I know of two of them at least that don't exist anymore.

So, I couldn't agree more that the exclusivity -- the exclusivity is something which won't exist, which will not allow a marketplace to carry forward.

In terms of sellers and how many marketplaces that they will work with, once again, moving away from maybe to the largest procurement hubs in the supply chain initiatives, and into the general marketplace, there will have to be the marketplace adding value, continually adding value to their service offering to maintain the stickiness of those sellers, and that stickiness may be generated through in-depth content, and domain knowledge. It may be generated through the additional integration of value-added service providers, adding comfort and trust into the transaction, and certainly high attention to customer care.

And that brings you also into the issue of standards, and that's been mentioned several times, the importance of bringing standards into the B2B marketplace is critical to the sellers. How those standards evolve, I think is yet to be seen, and what they are is also yet to be seen. But as long as they're driven by the market itself, then there is certainly the opportunity to raise the trust and raise the confidence in dealing with these marketplaces, and those are the ones that will attract and maintain the sellers.

And in turn, that should, again, increase liquidity and that, in turn, should increase the overall competitiveness.

At the same time, I think some marketplaces, yes, they want liquidity, but the successful ones, as was recently mentioned, also need to create some differentiation. And what some of these marketplaces are doing to create that differentiation is to admit only, and I put in inverted commas, qualified sellers, so as to raise the image of their site as one who only has quality sellers.

And there, the reason I say in inverted quotas is that what is a quality seller. And I think it just opens up the opportunity for some of the third party independent value-added service providers to come in and level the playing field to make sure that that qualification process, the criteria which are used and the standards and norms against which they are measured, are fair and equal for all players.

MS. GREENE: Obviously, it seems to be coming put, we have some very clean opinions about whether or not exclusivity is something that is being mandated in the marketplace. As a practical matter, how many online exchanges are some of the participants on or for our experts, do you know about the companies being in? Is it common for a company to be in multiple marketplaces?

MR. PHILLIPS: You mean are they being asked to join multiple marketplaces?

MS. GREENE: A what? Yes.

MR. PHILLIPS: Yes, from what I've seen, yes, that's happening. It depends on -- it's very different by industry and some companies are conglomerates, so they're obviously in multiple industries, but for the most part in a given vertical, there seems to be one or two major exchanges that have evolved.

There are some huge verticals and that have complex products that are vastly different where you really need multiple exchanges, like the chemicals industry, but it seems to be one or two that most people are focused on, at least in our conversations in each vertical, but then the company may be in multiple verticals.

MS. GREENE: Jay?

MR. KNOLL: I want to address something that I think Michael asked Mike Sullivan about the -- Mike was talking about his perspective from the fragmented markets. I can tell you from the concentrated markets, we have a limited number of sellers in our market and a large number, but certainly a manageable number of buyers.

We sell to two groups, we sell OEMs as well as truck users, for example. And in my answer before, when I slammed my nametag here down, was about participating wherever my customers told me to participate, but there's -- we have been invited to participate in exchanges by independent -- independently owned exchanges.

And the question that ultimately comes up is two things. One is especially in the vertical exchanges that we're seeing is, if I lend my name, if I start participating in that exchange as a seller, automatically I'm providing a certain amount -- level of credibility to that exchange. Two is, I'm also giving that exchange pretty valuable intellectual property, drawings, for example, databases, are good examples of -- and if I'm not participating from a capital standpoint, I query why I want to do that. We're not a nonprofit. And the independent verticals have not at least for us yet in a concentrated market, shown to be a valuable resource as a seller.

MS. GREENE: Leah?

MS. KNIGHT: Sure. With regard to the

question of how many marketplaces are there, we're aware right now of pretty close to 1,000 marketplaces worldwide, with the majority being in North America, but Europe is ramping up considerably and there's probably about 30 or 40 in the Asian Pacific as well.

So, that does beg the question of what will enterprises do? Will they participate in multiple marketplaces? And the answer to that really is based on what the marketplace is. I mean, in some respects it's two things. You know first of all, it's like a channel for a supplier, and generally enterprises do have multiple distributors and multiple channel partners.

Secondly, the marketplace is also a technology vendor, it happens to be outsourced technology, but they're still a vendor nonetheless, and, in fact, we see among our clients they oftentimes deploy multiple ERP systems, they work through multiple types of EDI and so forth, and so from our -- the supply side research that we've done for years, the Data Quest division, we've seen that in any technology market, as it matures, pretty typically the first three, you know, the top three players, they tend to own about 70 percent of market share.

So, you could picture that happening with any vertical market of these marketplaces. The top ten, they tend to own about 90 percent market share all together. And then you just have, you know, scores more of very small niche players, and we could easily foresee that happening here.

MR. WROBLEWSKI: Okay, thank you. I would like to go back to -- I had cut Nailesh off earlier this afternoon when we were talking about some of the reservations that suppliers had in joining these marketplaces, and you started to talk about ownership and does ownership matter. And we've kind of touched on it here a little bit. I would like just to allow you to finish up your point because I cut you off, and then we can open it up broader to the rest of the panel.

MR. BHATT: Thank you. For the smaller and medium-sized suppliers, yes, it does matter. My colleague from VerticalNet said that they have signed on 7,500 suppliers, and that's a great number and I congratulate them.

At the same time, if you look at the model, it's very much a catalog model, if I understand it correctly, where suppliers come and put up their products and information, versus participating in a marketplace that is designed for that industry.

For example, when we go to suppliers in India, they're always asking well, we are FDA certified, we are ISO 9000-II certified. Yet the buyers in American, North America, do not know about us or there is a resistance because there is certain fear installed by the North American or European manufacturers about us.

So, these are some of the fears that suppliers have, and by BASF or Dow Chemical owning a marketplace, there is a lot of education they are going to have to do to bring on suppliers and create liquidity onto these marketplaces.

MR. WROBLEWSKI: Thank you. Alex, I'm going to call on you next, but if you can address it, or Dwayne, in your response, you know, one of the things that I was thinking about when we were listening to this same discussion during the buyers panel was, you know, if somebody tries to rig the process, what happens? Who kicks out the wrong doer? If you can address those kinds of questions, and are the incentives slightly different if it's an owner -- if the owner is -- or by the participants as opposed to the owner being what we're kind of grossly calling neutral.

Alex, if you want to take that up, I'd appreciate it.

MR. MASHINSKY: Sure. Well, there's -- again, I think telecom is a little bit different than many other industries, so I don't want the FTC to take telecom as an example and apply it across the board to other industries, but in telecommunication, IntelSat, which was one of the first vendor or producer-based nonprofit association that basically took all the supply of satellite capacity and made it available to anybody who wanted to use it. It's a total flop. It's a disaster after 40 years of operating. A little start-up called PanAmSat is bigger than IntelSat, which is 180 countries, in all of their capacity.

So, that's just one example. World Partners is another example. Sixteen carriers coming together just six or seven years ago saying okay, we're going to aggregate all of our buying power, we're going to exchange our own transactions. All the benefits we talked about, but it didn't work, because again, every one of them had his own political agenda and so on and so on.

So, there's -- in our industry, there's a lot of examples. Actually, the FCC issued the report back in '93 called The Settlement System and the Incentive to Cheat. That was the name of the report. So, there's 20 or a 40-year history, it depends on where we start counting, of attempts by the industry suppliers to pull all of their parts and pieces together and deliver basically a very efficient marketplace or all the things we're talking about here.

And we found that all that hasn't worked, and there's many reasons to that, but I think the most important reason is, again, the political needs and issues that each one of the members brought into this group. So, that's why, again, anonymous independent exchange is a solution and it works pretty well.

MR. WROBLEWSKI: Thank you. Dwayne?

MR. SPRADLIN: I wonder if I have to talk to our marketing folks.

One of our crown jewels is a company called NECX, which is the world's largest online exchange for high and electronic components, and they actually have well over 1,500 online buyers and sellers of electronic components, low-level components and so forth. The -- and what we've seen in that market, just to answer your question, is enormous adoption by suppliers.

When a market actually starts to provide efficiency and it's much -- and it's very effective for participants in the market to partake, they do. And I think what happens is, when these things become self evident the value, then clearly the suppliers and the buyers come online. That's what we've seen. As much as I've typically been against the notion of build it and they will come, I think it should be build it, show that it's effective, actually make somebody money or save them money in the process, they definitely do come, at least that's been our experience.

The other point that I wanted to make was this: The -- we kind of look at the world -- we kind of look at the world with sort of four classes of -- four classes of these exchanges. There's sort of the buyer-led, the buyer-led exchanges, as you know, seller-led exchanges, what we call value chain, value chain neutral exchanges, and then independent exchanges.

And really the classification is again is by who owns or has power in the calculus there. And in the buyer exchanges, we tend to, you know, it's probably no secret, you know, VerticalNet has a fairly -- has been fairly strongly in favor of the emergence of sell side in the overall mathematics of how these things work. On the buy side, if you sort of think about -- if you sort of think about the way they're organized, it typically is to lower the costs in the supply chain by starving, starving the supply chain downstream.

On the sell side, however, there's a completely different -- different dynamic in our opinion, and that is that, you know, the sellers basically want to have effective use of channels, and those channels include distributors, include dealers, include direct buyers and all different kinds of mechanisms.

So, it's probably the case that the psychology of the seller-led consortium are much more in favor of supporting an entire value chain, which we think is an important property of that.

These value chain neutral exchanges are really when various members up and down the value chain have ownership and participation. We are hoping to be part of what we think will be the first announcement of a full value chain neutral platform in the coming months, and it's where the biggest buyers, the biggest sellers, and even the trade associations in that industry will all be equity participants.

It's our view that the sell-side consortia are much more likely to evolve into these value chain neutral, distributed equity participation kinds of exchanges than the buy side, which is -- I mean we'll support any kind of an exchange, don't get me wrong, but we think that that's sort of natural evolution.

And the last, of course, the independent, which is third party, and we play that role today, but there's also sort of I think a fact of life there that's important, and that is that, you know, there has to be capital to get these exchanges.

As somebody indicated earlier, these are expensive to do, and they're expensive to do right. And it's everything from the technology to the sales and marketing budget. And, so, not only is capital needed to sort of get these things off the ground, but somebody has got to get some skin in the game to get the transactions on there, to essentially, you know, put it on the right path to liquidity.

So, although the independent exchanges from an ownership standpoint is probably the most interesting and ideal, it's probably also the least likely to in a major way start to drive the kinds of changes we want to see in these industry marketplaces.

So, I would just put forth that I think from the seller side, which is why I'm on this panel, from the sell side, the psychology of how sell side consortias work are much more likely, we think, in the long run, to actually play out to be fairly neutral, albeit owned by the industry, exchanges in which everybody can participate and we can lower the cost of doing business.

MR. WROBLEWSKI: Thank you. Andy DuPont, do you agree with what Dwayne just said?

MR. DuPONT: You know, obviously for most of it I absolutely do. I think he's supporting a lot of what I said of why these supplier-led consortia are forming. I think that the fact that they are supported by the suppliers means that the ability to get liquidity in there, which is required to make it successful, and cover the costs which can be, you know, hundreds of millions of dollars to build robust exchanges it seems to me to be of the proper rationale.

I would add, you know, if you look at why you would want to be playing a part in the way that that is put together, one of the things that these marketplaces offer to suppliers is ability to have a better reach and a better connection with our customers than we've ever had in the past.

But at the same time, you don't want that entity to become a barrier between you and your customer. You want to be, you know, reasonably assured that in the future you'll be able to continue to have good connection and good understanding of who your customers are, why they're using your product, how they're using your product, what's driving the growth of it, what can you do to make the product better for them, and all of that is enhanced by ensuring that you've got good connection with the customer.

And so anything that would sort of get in the way of that information flow between you and your customer, you know, you want to protect against you might say, you want to have good flow between customers.

MR. WROBLEWSKI: Let me ask you to follow up on one point and then I'm going to turn over to Harpal and then we're going to move Chuck and then we're going to go into our last topic.

But, if it's a supplier-owned -- hypothetically, if it's a supplier-owned marketplace, and what -- does that affect the incentive that the supplier who is in that marketplace to compete, because if they were to lose the sale, so to speak, is there -- they'll still get a cut because they are an equity owner in the marketplace already? This follows up on a question, I think, that Gail addressed in the buyer side and I didn't really hear an answer and I would love to just tee it up again just one more time to see if there's -- if there's a taker. I mean I think Harpal will take, but I'm going to ask you first, Andy.

MR. DuPONT: Okay, sure. You know, thank you. Well, first of all, these marketplaces cannot generate huge revenues based off of very aggressive transaction fees, because if they try to do that, they will not be efficient, and suppliers will -- you know, obviously these marketplaces are in addition to all the other channels that are out there, direct channels, channels through distributors, et cetera. None of those channels go away, and if you don't have a good value proposition through this channel, i.e. it's very efficient, then customers will choose to buy, you know, through more efficient channels.

Now, it does raise the issue of the ownership and should this entity be a profitable entity or should it be cooperative? I think that you move into very grounds or careful ground if you consider making it a cooperative, because it won't have the proper drivers to continue to push for efficiency.

You want to be able to attract top talent people into these marketplaces to run them. So, they do need to have, you know, a profit motive within the company. You want to attract the right people, you want them to be continually focused on what can I do to continue to drive more efficiency, more convenience, better value for both the buyers and the sellers. And the way you do that is by making it profitable.

I will tell you of the marketplaces I'm familiar with, I don't think that any of the companies that invested, invested to do an IPO, watch it run up and get out. That's not why they've done this. They've done this because they've recognized the true efficiency that can come into this marketplace and they're there to have that for the long term.

MR. WROBLEWSKI: Okay, thank you. Harpal?

MR. SANDHU: Yeah, first of all, let me just address, I'm not saying that all marketplaces that supply-side firms are involved in don't have an incentive to have capital gain. I mean, there clearly are some. I'm particularly talking about the few that have been created in the relatively recent term, particularly in capital markets.

And part of the reason, by the way, Chuck, that you probably don't see them is that you're in the business of taking these companies public. So, all the ones you see, by logic, would be the ones that tend to go public, and the ones that don't go public --

MR. PHILLIPS: That's not true, I'll correct you later, but go ahead.

MR. SANDHU: Okay. I would like you to comment, though, on Morgan Stanley's participation in capital market exchanges, but let me get to my issue.

MR. WROBLEWSKI: We'll do that panel after we do the airlines panel.

MR. SANDHU: Because I read through your report on the way here, and it was a wonderful report and it covered every single vertical area except capital markets, and capital markets is probably one of the hottest areas.

MR. WROBLEWSKI: Let's move on.

MR. SANDHU: Yeah. One of the things, neutral -- I mean -- I think is an extremely poor word to describe what we would call a nonsupplier-owned site. What I would call it actually is a site that is not incentivized to cheat. So, it just doesn't have any incentive to look at margins.

And there's a really interesting issue is that I agree that if the management teams of these companies are incentivized by stock in these companies, and you absolutely get them to think independently of their original parents, at best, they will be as good as an independent site. But 99.999 percent of the time, there's going to be a conflict, and it is that conflict that will retard the growth of these exchanges, because they will be forced to deal with the potential margin compression issues that come up between they themselves and the stock that they own that they want to take public some day, and the parent, who has funded them, that sit on their board and so on and so forth.

The primary issue that we are -- that we are looking at in this case is that the U.S. is in a position right now where we lead in much of the infrastructure. We have led in the innovation and the thought leadership and have had massive productivity gains in what we've done related to the Internet.

We are at the point right now, literally within the last six months to a year, where the upstart companies have sort of acted as a catalyst for an entire new environment, and now the old economy companies are stepping in and establishing B2B exchanges with a slight twist of them that we believe is slightly conflicted.

If these markets grow, like network effect economies do, it will be winner take most, if not all. If it turns out the genetic code of these exchanges are such that they grow slower than what would have potentially been the case in a truly independent environment, we run the risk of having less efficient market mechanisms here within this environment, and I will tell you, going forward, given the globalization and given the internationalization of capital flows, it is a huge uncompetitive advantage for the U.S. to be in that situation, and capital is extremely objective. It will move immediately to, you know, a Hong Kong type thing where these restrictions don't exist.

MR. WROBLEWSKI: Okay, thank you. I'm going to get -- let Chuck, I'm going to let you respond and then we're going to move on to the last area of questioning.

MR. PHILLIPS: Okay, I'll be brief.

On the ownership side of it, the greatest thing I think that small suppliers have going for them is that the large suppliers want to keep each other honest as well.

So, the large suppliers who own the exchange want to set up rules that are independent, that are objective, because they are fierce competitors. They don't want -- it's not like they're sitting in a room and we're all happy and buddies after we've been competing for the last 50 years. They want independent rules and an independent company to run it. So, that's number one.

Two, if you talk to some of the banking companies that have built payment processing systems from the last 30 years, one of their complaints is we spent all this money building these payment processing systems and now everybody can use it for free and they didn't pay anything to join. And, so, actually for the small suppliers, this may be a good deal because this infrastructure will get built, they're not investing the bulk of it, somebody else is, but they'll get to leverage it later.

And then thirdly, I would say that the fear over disintermediation from your customer is a real one and I think it's a bottleneck for the industry but there are a ton of companies who are innovating right now to provide customer profiling and segmentation and branding in the context of the marketplace so you get a much richer experience with that customer online. So, that's evolving as well.

And the last point make is that these markets are, for most industries, are about really logistic supply chain, relationships with customers, that's completely different from trading markets when the express purpose of being a member of the market is to trade and make a profit on trading, which is what Harpal is talking about, it's a different industry.

MR. WROBLEWSKI: Okay, thank you. I would like to just ask one last question area -- that we would like to do before we break for the day and then meet again tomorrow morning at 9:00 a.m. to start talking really in depth about ownership issues

-- is the role of what we had -- I think we had termed as middle men -- but intermediaries, and you had teed that up nicely, Chuck, thank you. And I would like to turn to either Hal or Charles to, I mean, in this new world of electronic marketplaces, you know, from the supplier point of view, what is the future role of middle men/intermediaries?

MR. LOEVY: Well, suffice it to say from our point of view that middle men or intermediaries won't disappear, and I suppose as perhaps was raised in the last panel, there may be a differentiation between the online intermediary and the offline or traditional middle man.

And I think that's primarily predicated on the fact that the supply chain is complex. It's sufficiently complex for domestic trade, it's in orders of magnitude more complex for an international trade when you start crossing borders, you have customs issues, you have logistics issues, you have legal framework issues where other countries don't have the same legal framework that we have here.

So, yes, there will be players who are squeezed out, but when we talk about supply chain disintermediation, we don't talk about end user to manufacturer, we talk about buyer and seller. And that means that you're not necessarily going to have products which are sold directly from the manufacturer to the final end user, the supply chain is complex.

So, it's really a partial disintermediation. And that, in effect, yes, will squeeze out some players, but there's many other examples. I think on one in particular, in the commodity business, there's a grain marketplace. In the commodity business, particularly grain, is something -- a business which is very nontransparent. And traders play a particular role, yes, in terms of capital funding, but also in terms of making a spread between a sale.

And this particular grain marketplace was actually constructed with the intent of bringing the traders into the marketplace and leveraging not the administrative work that they do, that will go away, and those who can only supply that will die, but those who have value add in terms of domain knowledge will stay, and the marketplace is built with that specifically that in mind.

MR. WROBLEWSKI: Okay, thank you. I would like to turn to Tim Cooney, and then we'll go to

Dwayne and then we'll finish up with Chuck and then that will be it for the afternoon.

MR. COONEY: Yeah, I concur with Hal that there won't be disintermediation, and perhaps one way to explain that would be to give an example. In the business of buying and selling businesses, currently if anyone sort of the offline world, if one wants to buy a business or if they want to sell their business, their options are really two. They place an ad in the paper, or they hire a business broker who is the intermediary for buying and selling businesses.

The broker provides a lot of value, he or she is knowledgable on, you know, various professional services, they know the area, they know where prospective buyers are. One might think that with an Internet marketplace that puts buyers and sellers of businesses together, as Ventures4Sale.com does, that the broker might get cut out.

Just really quickly, at our site, if we all wanted to get out of the Washington heat here and go buy a restaurant somewhere in Florida or California, you go to the website, you do a search by location, type of business and asking price, and you can get a list of, say, 15 restaurants in those areas, then as a prospective buyer, you can communicate anonymously and confidentially with that seller. Will this replace the broker? And the answer is no.

Basically, you know, the broker, as I mentioned before, is extremely valuable. You know, they're knowledgable, and the reality is that many people want someone on the ground to hold their hand through that process.

With our site, we are doing everything we can to engage the broker. We sort of -- we do two things for them in particular, one is we market their existing businesses that -- their client businesses that they represent on a national platform so that as opposed to them placing ads in the papers, they can actually have buyers from all over the world, or different parts of the country, come to the site and see their businesses that they're trying to sell, that they're taking commissions on.

Secondly, we also we're a prospecting tool for them in that we drive new client sellers to them with what's called a broker index where if someone on the ground wants to, you know, get assistance in selling their business, they can actually access a broker there. As well as a tool box where the broker can actually download documents, forms, checklists, sample purchase and sale agreement, letter of intent, to walk them through the process. You know, so we're hand in hand with the intermediary in this area.

MR. WROBLEWSKI: Thank you. Dwayne?

MR. SPRADLIN: I think there's extraordinary little chance that intermediaries that actually add value ever get displaced. I mean, it makes me think of about a year and a half ago I was advising a company that in the chemical trading industry was one of the world's largest providers of chemical trading services. And they were very, very concerned that the 26 or so chemical trading .coms that had started up were just about to completely displace them and eat their lunch. And I said I think you've got some time. And took that to heart, still very paranoid.

Today they're actually joining one of the chemical consortiums. But my point is this, I met up with one of the other companies in the -- one of these .com companies, you know, you've got to recognize that in this industry, when they started popping up, these were web front-ends and basically handshake deals with logistics providers in the back ends. That's what most of these .coms looked like when they started up a year and a half ago.

And I asked him what happened, because odds are that nobody on this panel can name one of these companies today. And he said well, this stuff is hard. These chemicals, some of them are dangerous. Right? I mean, the reality is most of these intermediaries were adding value, are adding value, they just need to figure out how to redeploy themselves to demonstrate that. I think it's extraordinarily unlikely that most of those that can demonstrate the value go anywhere.

MR. WROBLEWSKI: Okay, thank you. And, Chuck, I am going to leave you with the last word for the panel.

MR. PHILLIPS: Okay, thanks. Well, I just want to make a couple of small points. Is that one, I think some of the .coms just had simply unrealistic expectations, that, you know, I can't tell you the number of business plans I've seen about, you know, the next guy that you see in a ponytail who wants to change the entire auto industry single handedly.

It's just a very complex problem, and not leveraging the existing expertise in those industries doesn't seem to be a way to do it. And, so, there's no expectation or that's not too realistic, at least in our view.

And, secondly, a lot of the companies that we've seen that say, well, the small suppliers won't get the same branding as the large suppliers, because Dow Jones or Dow Chemical is known around the world. Well, they've earned that but for the last 50 years and that branding doesn't change just because you move it online. You can't instantly make someone who is unknown in India to have the same branding as Dow Chemical, but they can become discovered, and at least publish their services.

So, we still think it's a good deal for the small suppliers who wouldn't have been known at all otherwise, and at least they can list their services inside the marketplace, but branding is branding and it will be equally important on the web as it was in the old world.

MR. WROBLEWSKI: Okay, thank you. Thank you all very much, I hope you -- well, first of all, if you will give all the panelists a round of applause, we would appreciate it.

(Applause.)

MR. WROBLEWSKI: We start tomorrow at 9:00

a.m., the doors won't open until 7:30, so it doesn't really interest anyone to get here at 6:30 like this morning, and there will be some room probably, so it will be okay. And we will have an overflow room back at the FTC tomorrow as well, once again, on the hour and 15 minute delay. Thank you very much.

(Whereupon, at 5:40 p.m., the workshop was adjourned.)

\- - - - -

C E R T I F I C A T I O N O F R E P O R T E R

DOCKET/FILE NUMBER: P950101
CASE TITLE: B2B WORKSHOP
HEARING DATE: JUNE 29, 2000

I HEREBY CERTIFY that the transcript contained herein is a full and accurate transcript of the notes taken by me at the hearing on the above cause before the FEDERAL TRADE COMMISSION to the best of my knowledge and belief.

DATED:

Sally Jo Bowling

C E R T I F I C A T I O N OF P R O O F R E A D E R

I HEREBY CERTIFY that I proofread the transcript for accuracy in spelling, hyphenation, punctuation and format.

Sara J. Vance