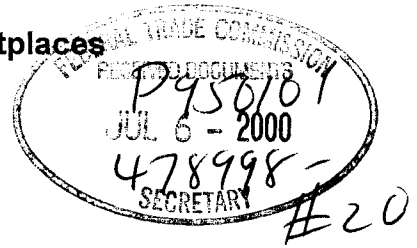


Competition Policy in the World of B2B Electronic Marketplaces
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Testimony of Hal Loevy
SGSonSITE

Ladies and Gentlemen, my name is Hal Loevy and I am the Vice President of Global Marketing and Partnerships for SGSonSITE, a division of SGS Societe Generale de Surveillance SA. I am indeed honored to be a participant in this FTC workshop concerning business-to-business electronic commerce, not only to explain what it is SGSonSITE does, but also to have an open and frank discussion about business-to-business, affectionately called, B2B, and its impact on the traditional marketplace.

First, however, I would like to give you a bit of background about SGS. Headquartered in Geneva, Switzerland, the SGS Group is the largest verification, testing and certification organization in the world. Founded in 1878, the Group offers independent third-party services for international trade in agricultural, mineral, petroleum and petrochemical, industrial and consumer products. As a global entity, SGS operates a network of over 30'000 full time experts in 140 countries.

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SGS has been instrumental in the establishment of a global consortium of B2B sites, called the **Forum for Trust in Online Trade**. The founding members of the Forum are: Fasturn, MeetChina.com, PaperExchange.com, Rebound and VLINX. The Forum is dedicated to reducing risk and building trust in the growing B2B eCommerce marketplace. By encouraging industry participation and promoting innovative solutions, the Forum seeks to facilitate on-line trade by informing the

general public of services that enhance confidence and build trust between buyers and suppliers worldwide.

As things stand today, both buyers and sellers simply cannot trust their anonymous counter-party at the other end of the transaction. Surprisingly, this lack of trust in the broad sense has received only scant attention, eclipsed by stories of viruses usurping the Internet. The fact is, viruses are only one of many trust-violating icebergs that must be avoided if our eCommerce ship is ever to come in.

Trust can be violated, knowingly and even unknowingly, at many different stages of a transaction. A solid chain of trust must be built link by link throughout all the various steps in an international transaction, from knowing the identities of the trading partners, to understanding how different cultures and languages might affect a customer's understanding of the goods being offered, to information privacy, to dealing with a lack of international legal recourse, to payment issues, to final delivery of goods as ordered.

The huge promise of B2B eCommerce is at risk, not because of antitrust issues, but because of the lack of confidence in trading on-line. In this respect, increased trust and confidence translates into increased competitiveness. Without trust, though, competitiveness is diminished. The Forum for Trust in Online Trade was formed to focus on this prerequisite.

Building a solid chain of trust means creating and gaining adoption of universally recognized B2B eCommerce standards. A range of trust-building services, now in

only embryonic stages must advance, be integrated and standardized. What's needed are digital certifications, joined to onsite inspection and verification companies, linked to insurers, joined to credit rating agencies, tied to legal systems—all functioning instantaneously and internationally.

Inevitably, the goal of the Forum (and of SGS) is to highlight the issue of the need to build online confidence *and* to start the process of creating B2B eCommerce standards that increase trust – standards which can be voluntarily developed and driven by the private sector which in the end seeks the resultant benefits. Standards that increase trust for everyone -- buyers and sellers of all sizes, wherever they are in the world – enables everyone to trade with confidence. Thus, trust online increases competitiveness online.

We are very excited about the Forum for Trust in Online Trade. We have sought out those like-minded B2B ventures who share in the belief that eCommerce and B2B will only succeed if the customer has trust in the medium of eCommerce and the service we offer of online B2B transactions. In September of this year the Forum will host its inaugural conference in San Francisco titled “Building Trust in the Global Market: Linking the Virtual to the Physical.” This conference will focus on the subject of trust and how to generate trust online. We invite you to visit our site to find out more about the conference (www.thetrustforum.com).

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From the silk road to the Internet, transactions have always depended on trust. As the Industrial Revolution was peaking in the latter part of the last century, there arose a need for independent third-party agents to represent the buyer, anywhere in the

world, to ensure that purchased goods met the buyer's requirements. SGS employees physically went to vendors' and shippers' locations and inspected goods – assuring that what the buyer ordered was of the quantity and quality he would eventually receive.

Thus, our business is based on the core value of bringing trust to business transactions. Whether it was in the days of the Industrial Revolution or in today's virtual eMarketplace, our commitment remains to bringing this trust to business transactions. SGS understands that B2B, whether in the 19th century or over the Internet in the 21st century, can only be successful if the parties involved trust one another.

There is no question that the impact of the Internet on business into the new millennium will be profound and nowhere more so than in global trade. The Internet is opening up direct global access to buyers and vendors, many of whom have a mere basic understanding of how B2B works and still others who have never traded internationally. Generally, a buyer will have no prior trading experience with the vendor and will be seeking to have quality non-conformance risk-managed at the source. In plain English, vendors want to use the Internet as a sales channel and buyers want to ensure that the goods they buy online are in the quantity and condition they require.

This is where SGS plays its well-established role as the independent third-party verifier; where trust is the nexus bringing all parties together.

The unique value proposition of SGS in this new trade environment is its neutrality, its knowledge of suppliers and its ability to provide trust along the value chain – from discovery to settlement. SGS enables buyers and vendors, who may not have had a prior business relationship, to conduct business.

With the advent of the Internet and the creation of a virtual B2B marketplace, SGS continues to have a worldwide physical presence to certify for the buyer that the products purchased meet their requirements. The Internet allows global business transactions to occur efficiently and in a matter of minutes; however, in the eMarketplace questions still remain about vendors' abilities to fulfill an order. SGS answers this question, with people on the ground who verify the quantity and quality of goods ordered. SGS puts trust in the bricks behind the clicks.

SGSonSITE links the “physical” world of trade and the “virtual” world of the Internet. Through its “Safe Internet Trade Environment” (SITE) services and the SGSonSITE brand, SGS provides assurance in online B2B transactions. Our assurances are two-fold; to bring trust to the marketplace and to create transparency so that buyers and vendors can make informed decisions

- for **Buyers** we reduce the risk of business transaction failure by providing detailed information so businesses can make informed decisions. This includes providing product and vendor information, providing independently drawn product samples and visually inspecting goods to add confidence and peace of mind in the transaction.

- for **Vendors** we offer an independent and continuous assessment of their ability to e-trade. We verify to what degree the vendor is complying with their announced product features and assure the reliability and capability to perform successful eBusiness transactions to buyers who might not otherwise consider the vendor's offer. Vendors thus gain the means to project third-party verified trust and credibility into the marketplace.
- for **eMarketplaces** SGS stabilizes B2B transactions by verifying trust in marketplace vendors to enable seamless transactions and enhance highly sought after liquidity. Thus, the new economy maintains its transparent classification of vendors based on objective quality and trust criteria.

There are a number of different verification programs the vendor can choose from depending on their requirements. To illustrate, I would like to walk you through our SGSonSITE Seal program and show you how we bring trust to the eMarketplace.

Our independent rating system takes the form of an "SGSonSITE Seal" which is posted on the eMarketplace at the point of sale and on the vendors' own website. The SGSonSITE seal is an instant visual identifier to buyers and trading e-business partners that provides an understanding of the amount of risk they may face and an indication of the vendor's commitment to successful online trading. Through our verification, the vendor establishes a trust differentiation factor.

This vendor rating program covers three key areas that allow vendors to demonstrate their ability to trade online: the legal existence of the vendor, their ability

to trade and their e-capacity. Our onsite assessment confirms that the vendor legally exists and is properly registered – the first step any business should undertake to avoid fraud. Next we review the vendor through physical audit of their ability to complete trade transactions by verifying the vendor's order processing, supply chain, delivery, invoicing and customer care. In addition, we audit randomly selected past transactions. Finally, we assess the vendor's technical capabilities to conduct business via the Internet. The in-depth industry and trade knowledge of our field staff, gathered over decades, enables us to carry out this task effectively, throughout the global geography.

The completion of our independent assessment, which utilizes internationally recognized standards, results in the calculation of a "Trust Factor" and the attribution of an SGSonSITE Seal that lets the buyer know exactly where the vendor is in our verification process. An "in progress seal" indicates that the vendor has started to obtain an SGSonSITE seal. Next are "Blue" and "Silver" seals to indicate increasing levels of capacity to conduct successful online B2B transactions. We are also working on the development of a "Gold" seal, which will qualify the vendor for a range of guaranteed services. An additional family of seals is offered to address concerns on environmental management, food hygiene and social accountability, all to established international standards; such as ISO, SQF2000 and SA8000 (CEPAA).

Once an SGSonSITE seal is obtained, the Trust Factor parameters are continuously analyzed. While seals are valid on a rolling 6-month basis, they may be positively or negatively impacted through our ongoing monitoring of a vendor's aggregate

transactions across eMarketplaces. Thus, buyers have an up-to-date outlook on the status of a vendor, using recognized standards that speak to a level of conduct and accountability that can be trusted.

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SGSonSITE is encouraged by events such as this one hosted by the FTC. Trust is not generated by waving a magic wand and having businesses suddenly have endearing trust for one another. Trust is built brick-by-brick, or in today's parlance, click-by-click.

SGSonSITE has over 120 years of building trust between businesses and we continue our 'tradition' of trust building into the new economy. The combination of open forums for discussion such as this, the conference we will host in September, and a program of educating businesses is a starting point. More importantly, those people involved in B2B have to understand their responsibility to their customers to generate trust. Without trust in the B2B eMarketplace, e-commerce will fail. There are infinite possibilities for the use of the Internet and we have only begun to scratch the surface of how electronic B2B will change the economy. Not just through cost-savings via efficiency, but also making the marketplace more transparent so that any business, whether in Manhattan or on Main Street, can compete in an open global economy.

The success of Internet B2B transactions will continue only if there is confidence among and between the participants in the transaction, in the goods exchanged and in the transaction process itself. Clearly, the need has been established to create trust and confidence in B2B to overcome anonymity, legal and cultural distinctions

and provide verifiable commercial principles, thus lowering the cost of B2B transactions and leveling the playing field to create a truly global marketplace in which all businesses can compete.